Schroders

Schroder Real Estate Investment Trust Limited

Interim Report and Consolidated Financial Statements

For the period 1 April 2019 to 30 September 2019

About Us

Schroder Real Estate Investment Trust Limited aims to provide shareholders with an attractive level of income together with the potential for income and capital growth through investing in UK commercial real estate.

Company summary

Schroder Real Estate Investment Trust Limited (the 'Company' and together with its subsidiaries the 'Group') is a real estate investment company with a premium listing on the Official List of the UK Listing Authority and whose shares are traded on the Main Market of the London Stock Exchange (ticker: SREI).

The Company is a real estate investment trust ('REIT') and benefits from the various tax advantages offered by the UK REIT regime. The Company continues to be declared as an authorised closed-ended investment scheme by the Guernsey Financial Services Commission under section 8 of the Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended and the Authorised Closed-ended Collective Investment Schemes Rules 2008.

Objective

The Company aims to provide shareholders with an attractive level of income and the potential for income and capital growth as a result of its investments in, and active management of, a diversified portfolio of UK commercial real estate.

The Company's dividend policy is to pay a sustainable level of quarterly dividends to shareholders. It is intended that successful execution of the Company's strategy will enable a progressive dividend policy to be adopted.

The portfolio is principally invested in the three main UK commercial real estate sectors of office, industrial and mixed-use, and may also invest in other sectors including, but not limited to, residential, leisure, healthcare and student accommodation. Over the property market cycle the portfolio aims to generate an above average income return with a diverse spread of lease expiries.

A prudent level of gearing is used to enhance income and total returns for shareholders with the level dependent on the property cycle and the outlook for future returns.

Investment strategy

The current investment strategy is to grow income and enhance shareholder returns through a disciplined approach to acquisitions, proactive asset management and selling smaller, lower-yielding properties on completion of asset business plans. The issuance of new shares will also be considered if it is consistent with the strategy.

Our objective is to own a portfolio of larger properties in Winning Cities and Regions with high growth diversified local economies, sustainable occupational demand and favourable supply and demand characteristics. These properties should offer good long-term fundamentals in terms of location and specification and be let at affordable rents with the potential for income and capital growth from good stock selection and asset management.

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Highlights for the Period to 30 September 2019

Highlights

Sustained relative outperformance of real estate portfolio vs. MSCI Benchmark

2.5%

NAV total return, including dividends paid

1.3%

Total disposals since the beginning of calendar 2019

£95m

Interest saving per annum

£2.5m

Post period end

Dividend increase from 1 October 2019

19%

Company funding capacity

£90m

Loan to Value ('LTV'), net of all cash, adjusted for post period end refinancing and disposals

22%

- Sustained outperformance of real estate portfolio with a total return of 2.5% over the period versus the MSCI/IPD Benchmark Index of 1.0%
- NAV total return, including dividends paid, of 1.3% (30 September 2018: 3.0%)
- £45 million of disposals during and post the period end, reflecting a 15% net premium to the valuation at the start of the period, taking the total disposals since the beginning of 2019 to £95 million at an average net initial yield of 3.0%
- Post period end refinancing capitalises on low long-term interest rates reducing the cost of the long-term debt from 4.4% to 2.5% and extending the term from 8.5 years to an average 16.5 years. The interest saving of £2.5 million per annum will be paid to shareholders by way of an approximate 19% dividend increase from 1 October 2019
- Following the refinancing, the Company has funding capacity of approximately £90 million on completion of contracted disposals providing the potential for delivery of further sustainable net income growth
- Loan to Value ('LTV'), net of all cash, of 23.1% (31 March 2019: 22.1%), which adjusted for post period end refinancing and disposals decreases to approximately 22%

Highlights for the Period to 30 September 2019 continued

Strategic

Portfolio by value located in higher growth regions[1]

96%

(March 2019: 93%)

NAV total return, including dividends paid

1.3%

(30 September 2018: 3.0%)

Underlying property portfolio total return

2.5%

(MSCI/IPD Benchmark Index of 1.0%)

Underlying property portfolio reversionary income yield[2]

7.2%

(MSCI/IPD Benchmark Index of 5.3%)

1 Winning Cities defined as higher growth regions. Source: Oxford Economics/Schroders.
2 Source: MSCI property level returns gross of fees on a like-for-like basis including direct and indirect property investments. Past performance is not a guide to future performance and may not be repeated.
3 This includes the assets that were unconditionally exchanged for disposal during the period, but not completed at period end, and the Company's share of joint venture properties at City Tower in Manchester and Store Street in London.
4 Adjusted EPRA Earnings.

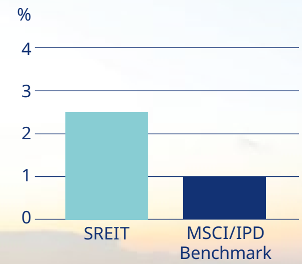
Performance

Portfolio total return[2]

Six months

2.5%

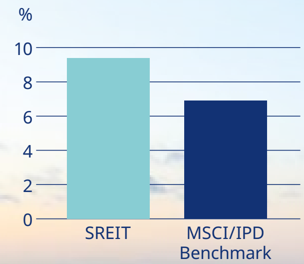
(MSCI/IPD Benchmark Index of 1.0%)



Three years

9.4%

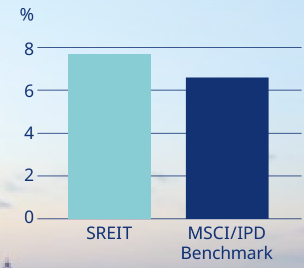
(MSCI/IPD Benchmark Index of 6.9%)



Since IPO in 2004

7.7%

(MSCI/IPD Benchmark Index of 6.6%)

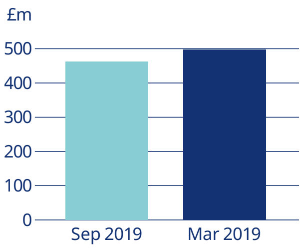


Financial

Value of property assets and joint ventures[3]

£462.7m

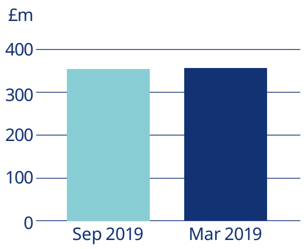
(31 March 2019: £496.7m)



Net asset value ('NAV')

£354.3m

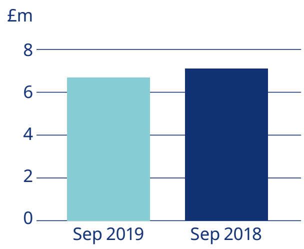
(31 March 2019: £356.4m)



Underlying earnings[4]

£6.7m

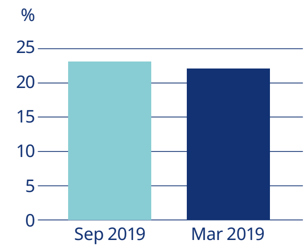
(30 September 2018: £7.1m)



Loan to value, net of all cash

23.1%

(31 March 2019: 22.1%)



Performance Summary

Financial summary

	30 September 2019	30 September 2018	31 March 2019
NAV	£354.3m	£357.7m	£356.4m
NAV per ordinary share (pence)	68.3	69.0	68.7
EPRA NAV[1]	£354.3m	£357.7m	£356.4m

Capital values

	30 September 2019	30 September 2018	31 March 2019
NAV total return[1]	1.3%	3.0%	4.5%
Profit for the period	£4.6m	£10.6m	£15.9m
EPRA earnings[1]	£6.7m	£3.9m	£12.0m
Adjusted EPRA earnings	£6.7m	£7.1m[2]	£15.2m[2]

Share price and index

	30 September 2019	30 September 2018	31 March 2019
Share price (pence)	55.4	59.9	55.4
Share price discount to NAV	(18.9%)	(13.2%)	(19.4%)
FTSE All-Share Index	4,061.74	4,127.91	3,978.28
FTSE EPRA/NAREIT UK Real Estate Index	1,749.83	1,731.76	1,710.33

Earnings and dividends

	Six months to 30 September 2019	Six months to 30 September 2018	Year to 31 March 2019
IFRS earnings per share (pence)	0.9	2.0	3.1
EPRA earnings per share (pence)[1]	1.3	0.8	2.3
Adjusted EPRA earnings per share (pence)	1.3	1.4[2]	2.9[2]
Dividends paid per share (pence)[3]	1.30	1.24	2.53
Annualised dividend yield on 30 September/31 March share price[1]	4.7%	4.1%	4.6%

Bank borrowings

	30 September 2019	30 September 2018	31 March 2019
On-balance sheet borrowings[4]	£129.6m	£160.1m	£158.6m
Loan to value ratio, net of cash[5]	23.1%[6]	29.2%	22.1%

Ongoing charges

	Six months to 30 September 2019	Six months to 30 September 2018	Year to 31 March 2019
Ongoing charges (including fund only expenses)[7]	1.4%	1.0%	1.1%
Ongoing charges (including fund and property expenses)[8]	2.3%	2.0%	2.2%

1 This is an Alternative Performance Measure ('APM') as defined in the glossary.
2 Adjusted for one-off refinancing costs.
3 Based on the dividends paid during the period.
4 On-balance sheet borrowings reflect the loan facilities with Canada Life and RBS excluding the deduction of finance costs.
5 Cash excludes rent deposits, service charges and floats held with managing agents.
6 Adjusting for the refinancing and post period end disposals, the Loan to Value ratio, net of cash, is approximately 22%.
7 Ongoing charges calculated in accordance with AIC recommended methodology, as a percentage of average NAV during the year. Fund only expenses exclude all property operating expenses, valuers' and professional fees in relation to properties.
8 Ongoing charges exclude all exceptional costs, when incurred, and interest during the period.

Chairman's Statement

Focussed activity to improve shareholder returns and strengthen the balance sheet

Overview

The strategy during the interim period was focused on delivering sustainable income growth and maximising total returns through active asset management, the refinancing of the Canada Life debt facility and the further crystallising of profits from low-yielding disposals. This focus mitigated the impact of ongoing market uncertainty, with a total return from the underlying portfolio of 2.5% compared with the MSCI Benchmark of 1.0%.

A 0.4% decline in the value of the underlying portfolio led to a 0.6% decline in the Net Asset Value ('NAV') as at 30 September 2019 to £354.3 million, or 68.3 pence per share ('pps'). Dividends of £6.7 million, or 1.3 pps, were paid during the period which resulted in a NAV total return of 1.3%.

Following the period end, the Company completed a significant refinancing to reduce the Company's cost of debt compared with prevailing market rates and capitalise on historically low long-term interest rates. The interest saving of £2.5 million per annum is to be paid directly to shareholders via an approximate 19% dividend increase with effect from 1 October 2019, further building on the 5% dividend increase delivered in the financial year to March 2019.

Following the refinancing, and post period end disposals, the Company has approximately £90 million of funding capacity which provides valuable operational flexibility including the ability to take advantage of lower asset pricing in the market with acquisitions.

Strategy

The Company has a clear investment strategy focused on delivering a sustainable income return from a diversified portfolio located in Winning Cities which are expected to generate higher levels of economic growth. This strategy, combined with active asset management, has generated 1.1% per annum of relative outperformance of the underlying portfolio compared with its MSCI peer group Benchmark since IPO in 2004.

The extended economic and real estate market cycle, combined with the current political uncertainty, is leading to weaker overall returns from UK real estate, with average capital values falling by 1.1% over the period. As expected, structural changes are having the greatest impact on real estate returns, with unprecedented polarisation between the sectors. To illustrate, retailer failure and weaker consumer spending led to average retail values falling 5.3% over the period. This was in contrast to the industrial sector, where robust occupier demand led to rental growth and capital values increasing by 1.1%. The Company's low weighting to retail, and higher weighting to office and industrial compared to the Benchmark, continues to positively contribute to relative performance.

Lower returns are now expected across all real estate sectors as investors downgrade growth expectations. Whilst the extent of any pricing correction may depend on the outcome of next month's UK general election, average values are forecast to fall in the remainder of 2019 and 2020. Against this backdrop the Company has capitalised on late cycle demand to sell £95 million of assets since the beginning of 2019 at an average net initial yield of 3.0%, with £45 million of disposals during the period and since the period end. As a result, the Company has significant capacity of approximately £90 million in cash and undrawn debt facilities to take advantage of any market correction with opportunistic reinvestment.

In addition to making disposals, the Manager has continued to invest in the existing portfolio in order to maximise returns and improve its defensive qualities. Our capital expenditure programme is being predominantly targeted at multi-let office and industrial refurbishments to increase rental values and support pre-let activity where tenants are committing to long leases offering fixed or inflation linked rental increases. The Gym Group 15-year letting at the mixed-use Headingley Central in Leeds is an example of this, achieving a 16% premium above the previous apportioned office rent and the occupier will further enhance the tenant mix. The Manager's Report includes further detail on a growing pipeline of income-generating capital expenditure initiatives.

Environmental, Social and Governance ('ESG') considerations are an increasingly important focus. In September 2019, the Company secured its second consecutive GRESB Benchmark Green Star in recognition of the portfolio's sustainability performance. The annual GRESB Benchmark assesses governance as well as implementation of relevant initiatives and encouragingly the Company improved its rating on both measures. The Manager is also focused on ensuring that its activities deliver a positive social impact, illustrated in the Manager's Report by the collaborative working approach with the Council at City Tower in Manchester.

Debt

During the period, proceeds from recent disposals were used to repay the revolving credit facility with the Royal Bank of Scotland. This facility matures in July 2023 and has a margin of 1.6%, as well as the ability to be repaid and redrawn as often as required. The Company uses interest rate caps to mitigate against potential rising interest rates.

As noted above, on 15 October 2019 the Company refinanced its £129.6 million term loan with Canada Life and extended its maturity with 50% of the loan maturing in 13 years and 50% of the loan maturing in 20 years. The transaction reduces the interest cost on the loan from 4.4% to approximately 2.5%, resulting in interest savings of approximately £2.5 million per annum. The interest savings will be used to increase the dividend by approximately 19%, starting at the period 1 October 2019. The refinancing incurred a negotiated break cost, and related fees, of approximately £26.1 million.

Chairman's Statement continued

Based on the period end valuation, and adjusting for refinancing and post period end disposals, the Company remains conservatively geared with a net Loan to Value ratio of approximately 22%. Our long-term target leverage range of 25% to 35% remains unchanged.

Auditor

Following a formal and competitive tender process, Ernst & Young LLP agreed to take up the position on 6 November 2019. The Board would like to thank KPMG for its professional service to the Company throughout its tenure in office. Shareholder approval to reappoint Ernst & Young LLP as the Company's auditor will be sought at the Company's next Annual General Meeting to be held in the autumn of 2020.

Outlook

This has been another busy period for the Company with a focus on activity that has improved shareholder total returns and strengthened the balance sheet. This should support future returns during a period of greater market uncertainty. Whilst the disposals of lower yielding assets will result in a temporary decline in net income prior to reinvestment, the Board is comfortable with this approach as the Company has approximately £90 million of funding to take advantage of more attractively priced investment opportunities supporting the delivery of a fully covered, sustainable and growing dividend policy.

Lorraine Baldry
Chairman
Schroder Real Estate Investment Trust Limited

25 November 2019

Investment Manager's Report

Strategy to deliver continued, sustainable growth in net income

The Company's Net Asset Value ('NAV') as at 30 September 2019 was £354.3 million, or 68.3 pence per share ('pps'), compared with £356.4 million, or 68.7 pps, as at 31 March 2019. This reflected a decrease of 0.4 pps, or 0.6%, with the underlying movement in NAV per share set out in the table below:

	Pence per share ('pps')
NAV as at 31 March 2019	68.7
Unrealised change in valuation of direct real estate portfolio and joint ventures	(0.3)
Capital expenditure	(0.5)
Realised gains on disposal	0.3
Net revenue[1]	1.3
Dividends paid	(1.3)
Others	0.1
NAV as at 30 September 2019	**68.3**

The underlying portfolio, including capital expenditure, decreased in value by 0.4% over the period. Profitable disposals contributed positively to returns and reduced the overall portfolio capital value decline to 0.4%. This compared favourably with the MSCI Benchmark on a like-for-like basis at -1.1%.

Our disposal programme resulted in a reduction in income over the period but this was mitigated by new lettings and rental growth of 0.2% compared with the MSCI Benchmark of -0.1%. Net revenue therefore totalled £6.7 million or 1.3 pps. The NAV total return including dividends paid of 1.3 pps was 0.5%.

On 15 October 2019, the Company refinanced its £129.6 million long-term debt with Canada Life. The transaction reduced the cost of this debt from 4.4% to 2.5%, representing a £2.5 million per annum interest saving, and extended the term from 8.5 years to an average 16.5 years (50% of the loan maturing in 13 years and 50% of the loan maturing in 20 years). The interest saving will be paid to shareholders as an increased dividend of £16 million per annum with effect from 1 October 2019. This is a 19% increase on the previous dividend and follows the 5% increase announced during the financial year to March 2019. The negotiated break cost and associated fees paid totalled £26.1 million which, together with a write off of £1.4 million of previously unamortised loan costs, result in a pro forma NAV of £326.8 million or 63.0 pps.

Strategy

The strategy over the period remained focused on the following key objectives:

- Delivering sustainable net income growth;
- Focusing activity on higher growth Winning Cities and Regions;
- Owning assets with strong fundamentals in terms of location and specification;
- The profitable realisation of assets to crystallise gains following completion of asset management initiatives; and
- A disciplined approach to leverage, actively managing cost and using the operational flexibility of the revolving credit facility.

Continued progress has been made executing this strategy which has delivered the following:

- Post period end the refinancing of the principal loan facility capitalises on low long-term interest rates and generates an immediate interest saving of £2.5 million per annum. The interest saving will be paid to shareholders as a 19% dividend increase with effect from 1 October 2019;
- £45 million of disposals during the period and since the period end, reflecting a 15% net premium over the valuations at the start of the period;
- Flexible debt and equity with funding capacity of approximately £90 million on completion of contracted disposals which enables the dividend to be sustained and capitalise on weaker market conditions and deliver sustainable further income growth;
- Outperformance of the underlying real estate portfolio with a total return of 2.5% compared with the MSCI Benchmark of 1.0%. The underlying portfolio has outperformed over six months, one, three, five, ten years and since the Company's IPO;
- 96% of the portfolio located in higher growth cities and towns[2] with an overweight to high-quality regional offices and multi-let industrial estates with no City of London offices or shopping centre assets;
- A portfolio income return of 5.5% and reversionary income yield of 7.2%.[3] This compared with 4.8% and 5.3% for the MSCI/IPD Benchmark respectively. The higher reversion should lead to stronger relative returns against the backdrop of slowing capital growth; and
- Active management of the portfolio provides visibility of new long leases on completion of refurbishments at St. John's Retail Park in Bedford, Headingley Central in Leeds and City Tower in Manchester.

Market overview

UK real estate capital values peaked in October 2018 and have subsequently fallen by 3.0% to the end of the period. This masks significant polarisation between the sectors with, for example, shopping centre values falling 21.5% from their peak in November 2017 to the end of September 2019. This is in contrast with average industrial values that increased 17.3% over the same period. Further capital value declines are expected but the structural changes leading to this polarisation are expected to intensify meaning that we expect a dislocation in the cycles driving underlying real estate sectors.[4]

1 Net revenue is defined as profit less capital items.
2 Source: Oxford Economics/Schroders.
3 Like-for-like with MSCI i.e. ignoring standard acquisition costs.
4 All figures source CBRE UK Monthly Index.

Investment Manager's Report continued

This slowdown in returns follows an unusually long period of sustained growth. The outlook for UK real estate markets in 2020 may be negatively impacted by political risks as well as macroeconomic factors. A risk of the UK leaving the EU without a deal could lead to a recessionary environment as companies delay investment decisions. An orderly Brexit transition should lead to continued growth with real assets benefiting from a low interest rate environment. This more uncertain outlook has driven a disciplined approach to selling low-yielding assets on completion of asset management initiatives.

In general, office markets appear to be relatively well placed to withstand a period of economic weakness. Take-up was steady through 2019 with tech, media and serviced office providers offsetting reduced demand from financial services. In strong regional centres vacancy rates are close to their low point before the financial crisis and new building is limited. Cities such as Manchester, Leeds and Bristol are capturing higher levels of growth and diversified economies with constrained supply are performing well.

The City of London office market is arguably most exposed to a hard Brexit which could cut demand from financial services occupiers. Serviced office providers such as WeWork have also been an important source of demand in certain London sub-markets and it is unclear how resilient they would be in a downturn. The Company has minimal exposure to the serviced office sector and no exposure to the City of London.

Industrial rental growth has eased to 3% this year from 5% in 2018, in part reflecting weaker demand from manufacturers who account for a quarter of space. Increased speculative development of large distribution units and retailer insolvencies have also added to supply. Rents on well-located, multi-let industrial estates are expected to rise further but at a slower rate, particularly in London following a 40% increase since 2014. This led the Company to sell low-yielding industrial assets such as the Booker Unit in Acton where the price reflected a net initial yield of 3.5%.

The retail sector is weakening and while 2019 has seen fewer administrations than in 2018, several retailers have announced store closures and retailers are increasingly asking for reductions in rent. Average retail rents could fall over 20% as online sales are forecast to increase from 19% to 30% over five years. Lower rents are encouraging some retailers and leisure operators to expand and whilst this will benefit assets with good fundamentals, many retail assets will become functionally obsolete. The Company's retail exposure is resilient as it includes no shopping centres and a high proportion of mixed-use assets whose retail benefits from convenient locations. This has facilitated value enhancing capital expenditure initiatives such as the Lidl letting at St. John's Retail Park and The Gym letting at Headingley Central.

Real estate portfolio

As at 30 September 2019, the portfolio comprised 44 properties valued at £462.7 million. This includes the assets that were unconditionally exchanged for disposal during the period, but not completed at period end, and the Company's share of joint venture properties at City Tower in Manchester and Store Street in London.

The portfolio generates a rental income of approximately £26.7 million per annum, reflecting a net initial income yield of 5.4% which compares with the MSCI Benchmark (the 'Benchmark') at 4.8%. The portfolio also benefits from fixed contractual annual rental uplifts of £1.9 million over the next 24 months. The independent valuers' estimate that the current rental value of the portfolio is £33.0 million per annum, reflecting a reversionary income yield of 7.1%, which compares favourably with the Benchmark at 5.3%. 26 new lettings, rent reviews and renewals completed during the period for an additional £1.1 million of rent. This activity combined with disposals during and post the period end have maintained a stable void rate of 7.3%.[1] The data tables below summarise the portfolio information as at 30 September 2019.

	Weighting (% of portfolio)	
Sector weightings by value	SREIT	Benchmark
City	0.0	3.2
Mid-town and West End	7.9	5.6
Rest of South East	6.7	9.3
Office Rest of UK	21.5	7.1
Offices	**36.1**	**25.1**
South Eastern	12.9	16.9
Industrial Rest of UK	20.2	9.3
Industrial	**33.1**	**26.2**
South East	1.0	7.1
Rest of UK	11.3[2]	5.3
Shopping centres	0.0	4.8
Retail warehouse	11.8	12.3
Retail	**24.1**	**29.4**
Other	**6.7**	**19.3**
Regional weightings by value	SREIT	Benchmark
Central London[3]	7.9	13.4
South East excluding Central London	22.4	39.0
Rest of South	6.7	15.3
Midlands	28.2	11.2
North	29.7	14.4
Wales	1.3	1.7
Scotland	3.8	5.0

1 Calculated as percentage of Estimated Rental Value.
2 49% of the 11.3% comprises retail as part of mixed-use assets such as City Tower in Manchester and Headingley Central in Leeds.
3 Central London is defined by MSCI as City, Mid-Town, West End and Inner London.

The top ten properties comprised 59.5% of the portfolio value as at 30 September 2019:

Top ten properties		Value (£m)	(% of portfolio)
1	Manchester, City Tower (25% share)	43.1	9.3
2	London, Store Street, Bloomsbury (50% share)	36.8	7.9
3	Milton Keynes, Stacey Bushes Industrial Estate	36.6	8.2
4	Leeds, Millshaw Industrial Estate	34.5	7.5
5	Leeds, Headingley Central	28.7	6.2
6	Bedford, St. John's Retail Park	28.0	6.1
7	Acton, Allied Way Industrial Estate[1]	18.9	4.1
8	Uxbridge, 106 Oxford Road	18.0	3.9
9	Norwich, Union Park Industrial Estate	17.6	3.8
10	Luton, The Galaxy	12.0	2.6
	Total as at 30 September 2019	**274.2**	**59.5**

The top ten tenants represented 28% of the portfolio as a percentage of annual rent as at 30 September 2019:

Top ten tenants		Rent p.a. (£000)	(% of portfolio)
1	University of Law Limited	1,578	5.9
2	Buckinghamshire New University	1,152	4.3
3	Recticel Limited[2]	731	2.8
4	Sportsdirect.com Retail	722	2.8
5	The Secretary of State	715	2.7
6	Booker Limited[3]	700	2.6
7	TJX UK Limited T/A Homesense	505	1.9
8	Jupiter Hotels Limited T/A Mercure	461	1.7
9	Cine UK Limited	451	1.7
10	Premier Inn Hotels Limited	421	1.6
	Total as at 30 September 2019	**7,436**	**28.0**

Portfolio performance

A high level of asset management has led to continued outperformance of the underlying property portfolio compared with the MSCI Benchmark. The table below shows the performance to 30 September 2019 with the portfolio ranked on the 17th percentile of the Benchmark since inception in 2004:

	SREIT total return p.a. (%)			MSCI/IPD Benchmark total return p.a. (%)			Relative p.a. (%)		
Period	Six months	Three years	Since IPO[4]	Six months	Three years	Since IPO	Six months	Three years	Since IPO
Office	2.4	8.9	8.3	2.1	7.0	7.8	0.2	1.8	0.4
Industrial	6.3	19.6	9.7	3.3	14.8	8.9	2.9	4.2	0.7
Retail	(1.9)	1.8	4.9	(2.7)	1.1	4.1	0.8	0.7	0.8
Other	3.2	3.3	3.6	3.0	8.7	8.2	0.2	(5.0)	(4.2)
All sectors	**2.5**	**9.4**	**7.7**	**1.0**	**6.9**	**6.5**	**1.4**	**2.4**	**1.1**

1 This asset sale unconditionally exchanged on 16 May 2019 with completion on 15 November 2019 for £18.875 million.
2 Single tenant of a distribution building in Alfreton which was sold on 8 October 2019.
3 Single tenant of a cash and carry warehouse in Acton which was sold on 15 November 2019.
4 The Company listed in July 2004.

Investment Manager's Report continued

Asset management

City Tower, Manchester (Office/Mixed-use – 25% share)

Asset strategy
To continue to improve the office accommodation to take advantage of good levels of occupational demand and reposition the retail and leisure offer.

Asset description and valuation
610,000 sq ft of office, retail, leisure and hotel accommodation on a three-acre island site in Manchester city centre. £43.1 million at 30 September 2019 reflecting a net initial income yield of 5.1% and a reversionary yield of 6.8%. During the period the property delivered a 2.2% total return.

Key activity

– Ongoing office refurbishment resulting in 30,000 sq ft of new lettings and regears with Jon Matthews Architects, TopDesk, Essential Consulting, Vision Direct, London School of Commerce and Plexus Law. Healthy new tenant interest in remaining vacant space totalling 73,500 sq ft with a rental value of £415,000 per annum.

– Ancillary retail and leisure tenant mix, and income security, improved through the surrender with Nobles Amusements and new lettings to Lidl (ten years), Freshly Chopped salads (ten years) and Gong Cha Bubble Tea (21 years).

– Jupiter Hotels Limited (hotel) and National Car Parks (parking) provide a diverse, long income profile with inflation-linked rent reviews and expiries in 2060 and 2043 respectively.

– Ongoing focus to enhance the sustainability credentials of the asset, including collaboration with the local council on public realm improvements, enhanced building efficiency through removal of historic plant, upgrading lighting to LED during office refurbishments and creation of improved tenant co-working facilities.

Asset management

Millshaw Industrial Estate, Leeds (Industrial)

Asset strategy
To refurbish units to drive further rental income growth and progress planning for higher value alternative uses given the prominent site frontage to the Leeds ring road.

Asset description and valuation
460,000 sq ft multi-let industrial estate comprising 27 units. Strategically located two miles south of Leeds city centre, the property is adjacent to White Rose Office Park and benefits from close proximity to the M62 and M621 motorways. £34.5 million at 30 September 2019 reflecting a net initial income yield of 4.8% and a reversionary yield of 6.3%. During the period the property delivered an 8.7% total return.

Key activity

– New lease completed to JD Sport Gyms at a rent of £201,800 per annum following change of planning use and landlord works.

– Refurbished four units and completed four new lettings at record rents of up to £7.25 per sq ft which compares to the estate's average rent and rental value of £4.36 per sq ft and £5.00 per sq ft respectively.

– Rent reviews completed with Group HES and DHL, resulting in rental uplifts of 14.2% and 26.7% respectively, reflecting a combined increase in rent of £38,878 per annum.

– The estate is fully let with the opportunity to grow rents further due to limited supply of industrial space in Leeds, particularly for units above 20,000 sq ft.

– Ongoing refurbishment programme results in building energy efficiency improvements in particular through installation of LED lighting and efficient heating systems. The addition of JD Gyms to the scheme also provides a health and well-being amenity for existing tenants.

Asset management

Leeds, Headingley Central (Retail/Mixed-use)

Asset strategy
To improve tenant mix and to convert the upper floor offices to alternative uses which are complementary to the ground floor retail and leisure to create a vibrant and sustainable scheme.

Asset description and valuation
Mixed-use 90,000 sq ft town centre scheme anchored by core convenience retail and leisure operators including Premier Inn Hotels, Sainsbury's and Boots with a new pre-let to The Gym Group. £28.7 million at 30 September 2019 reflecting a net initial income yield of 3.7% and a reversionary yield of 6.0%. During the period the property delivered a 1.2% total return.

Key activity
- The first phase of the asset strategy involved converting an eight storey office into a Premier Inn hotel that completed in 2017 increasing the previous income of £45,000 per annum to £421,400 per annum with CPI-linked reviews.
- In August the remaining offices, totalling 33,500 sq ft, were vacated by the tenant which had a rent of £327,360 per annum. An agreement for lease for 21,000 sq ft has been exchanged with The Gym Limited, one of the UK's largest gym operators. The lease is for a 15-year term without break option at a rent of £240,000 per annum. The lease has fixed uplifts of 10% at years five and ten and the tenant will receive nine months rent free.
- Planning consent for gym use has been received and the agreement is subject to carrying out refurbishment works at a cost of approximately £1.8 million. This has been offset by a dilapidations payment received during the period from the outgoing office tenant of £750,000 (i.e. a net refurbishment cost of £1.05 million).
- The letting further improves tenant mix and footfall which will benefit the retail and leisure tenants that include Sainsbury's, Boots, Costa Coffee and Pizza Express. The remaining 12,500 sq ft of vacated office space is being marketed for office and alternative uses.
- Units 30–31 have been let to Heavenly Desserts on a ten-year lease, without breaks, at £32,500 per annum. The tenant received a 22.5 months tenant incentive. The remaining three vacant retail units are being marketed with a rental value of £220,000 per annum.
- These lettings support the recent rebranding of the asset from the Arndale Centre to Headingley Central to enhance asset perception and continued efforts to create a mixed-use, sustainable scheme.
- Ongoing sustainability initiatives include the installation of EV car charging, LED lighting and new bicycle bays. The Company is committed to community engagement working closely with local action groups and charities including the Headingley Development Trust ('HDT') and Sunshine & Smiles. The Company is proud to sponsor Headingley Wonder Day and an anti-graffiti initiative led by HDT.

Investment Manager's Report continued

Disposals overview

Since the beginning of 2019, the Company has completed, or contracted to complete, on disposals totalling £95 million at an average net initial yield of 3.0 %. These disposals have crystallised profits from asset management and supported performance. The table below sets out the disposals that have contracted during the period, and since the period end, at a combined premium of 15% net of capex over the period:

Completion date	Address	Sector	March 2019 valuation (£m)	Net sale price (£m)
1 October 2019	Edinburgh, Haston House	Office	5.5	6.5
8 October 2019	Alfreton, Recticel Unit	Industrial	10.2	10.4
15 November 2019	Acton, Allied Way Industrial Estate	Industrial	17.2	18.9
22 November 2019	Hinckley, Coventry Road[1]	Land	2.0	2.2
12 December 2019	Peterborough, Finmere Park[1]	Industrial	3.8	7.0
	Total		**38.7**	**45.0**

Finance

As noted above, on 15 October 2019, the Company refinanced its principal £129.6 million loan with Canada Life to take advantage of low long-term interest rates.

The Company also has a £52.5 million revolving credit facility with Royal Bank of Scotland ('RBS') that matures in July 2023. The RCF is an efficient and flexible funding source with a margin of 1.6% and the ability to be repaid and redrawn as often as required. The Company uses interest rate caps to mitigate the potential of rising interest rates.

The table below provides the details for both loans adopting the portfolio valuation as at 30 September 2019, utilising the refinancing terms:

Lender	Loan (£m)[2]	Maturity	Interest rate (%)	LTV ratio[3] (%)	LTV ratio covenant (%)	Interest cover ratio[4] (%)	ICR ratio covenant (%)	Forward looking ICR ratio[5] (%)	Forward looking ICR ratio covenant (%)
Canada Life	129.6	50%: 15/04/2032 50%: 15/10/2039	2.5[6]	43.3	65	269	185	473	185
RBS	0.0	03/07/2023	2.4[7]	0.0	65[8]	1,155	185	1,675	250

Following the Canada Life refinancing, and taking into account the post period end disposals, the Company's consolidated net loan to value is approximately 22%.

Responsible investing with impact

The Board and the Manager believe corporate social responsibility is key to long-term future business success. A successful sustainable investment programme should deliver enhanced returns to investors, improved business performance to occupiers and deliver tangible positive impacts to local communities, the environment and wider society.

Schroder Real Estate's sustainability programme is continually evolving reflecting progression with industry sustainability targets, available technologies and the regulatory environment. Our programme looks to continually improve the sustainability credentials of the Company's portfolio. In 2019, the Company's work has again been recognised with the achievement of a Green Star in the annual Global Real Estate Sustainability Benchmark survey and an EPRA Best Practise Sustainability Reporting Gold Award for the year-end accounts.

Schroder Real Estate is evolving its investment philosophy to incorporate impact investing at the heart of its investment management activities. Impact investing involves proactively taking action to improve social and environmental outcomes. Schroders has identified four pillars of impact and mapped these to the UN Sustainable Development Goals.

1 These assets unconditionally exchanged post period end.
2 Balance as at 30 September 2019; post period end £5 million drawn from the RBS facility.
3 Loan to Value ('LTV') is the loan balance divided by the property value as at 30 September 2019.
4 For the quarter preceding the Interest Payment Date ('IPD'), ((rental income received – void rates, void service charge and void insurance)/interest paid).
5 For the four quarters following the IPD, ((rental income to be received – void rates, void service charge and void insurance)/interest paid).
6 Fixed total interest rate for the loan term.
7 Total interest rate as at 30 September 2019 comprising 3 month LIBOR and the margin of 1.6% at an LTV below 60% and a margin of 1.90% above 60% LTV.
8 This covenant drops to 60% after year three of the five-year term.

We are working to understand the opportunities and deliver positive impact through our activities within the built environment to communities and the environment. In relation to the environment, positive action is needed as the built environment is generally accepted to be responsible for 40% of global carbon emissions. In recognition of the role and responsibilities of the real estate industry and property owners, Schroder Real Estate signed the Better Buildings Partnership Climate Commitment in September. This initiative supports the drive to net zero carbon in buildings and the first stage of this is to set out our pathway to net zero in 2020.

This commitment is a natural extension of Schroder Real Estate's sustainability programme which includes targets to reduce energy consumption and greenhouse gas emissions. Please refer to the Company's Annual Sustainability Report for more information on the sustainability strategy. We will report on the Company's progress with this impact programme in next year's Annual Report.

Outlook

The outlook for the UK real estate market remains uncertain given slowing economic growth and current political situation. Recent activity has improved the Company's defensive characteristics as well as increased shareholder total returns through profitable disposals and the higher dividend.

Importantly, the activity during the interim period leaves the Company in a strong position with a low borrowing ratio and operational flexibility. There is additional investment capacity of approximately £90 million ahead of an expected market correction. Selectively deploying this capital over the course of 2020 into Winning Cities at higher yields should mean the Company is well-placed to deliver continued, sustainable growth in net income.

Duncan Owen
Schroder Real Estate Investment Management Limited

25 November 2019

Responsibility Statement of the Directors in respect of the Interim Report

We confirm that to the best of our knowledge:
- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*; and
- the interim management report (comprising the Chairman's and the Investment Manager's Report) includes a fair review of the information required by:

  (a) DTR 4.2.7R of the *Disclosure Guidance and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

  (b) DTR 4.2.8R of the *Disclosure Guidance and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

We are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, and for the preparation and dissemination of financial statements. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Lorraine Baldry
Chairman

25 November 2019

Independent Review Report to Schroder Real Estate Investment Trust Limited

Introduction
We have been engaged by Schroder Real Estate Investment Trust Limited (the 'Company'), to review the Unaudited Condensed Consolidated Financial Statements ('Interim Financial Statements') in the Interim Report and Consolidated Financial Statements for the six months ended 30 September 2019 which comprise the Unaudited Condensed Consolidated Statement of Comprehensive Income, Unaudited Condensed Consolidated Statement of Financial Position, Unaudited Condensed Consolidated Statement of Changes in Equity, Unaudited Condensed Consolidated Statements of Cash Flows, and related notes 1 to 15. We have read the other information contained in the Interim Report and Consolidated Financial Statements and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Interim Financial Statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) ('ISRE 2410') 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities
The Interim Report and Consolidated Financial Statements are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the Interim Report and Consolidated Financial Statements in accordance with the Disclosure Guidance and Transparency Rules ('DTR') of the United Kingdom's Financial Conduct Authority ('FCA'). As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'.

Our responsibility
Our responsibility is to express to the Company a conclusion on the Interim Financial Statements in the Interim Report and Consolidated Financial Statements based on our review.

Scope of Review
We conducted our review in accordance with ISRE 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review nothing has come to our attention that causes us to believe that the Interim Financial Statements in the Interim Report and Consolidated Financial Statements for the six months ended 30 September 2019 are not prepared, in all material respects, in accordance with International Accounting Standard 34 and the DTR of the United Kingdom's FCA.

Ernst & Young LLP
Guernsey, Channel Islands

25 November 2019

Condensed Consolidated Statement of Comprehensive Income

	Notes	**Six months to 30/09/2019 £000 (unaudited)**	Six months to 30/09/2018 £000 (unaudited)	Year to 31/03/2019 £000 (audited)
Rental income		11,755	12,528	25,278
Other income		1,089	39	1,339
Property operating expenses		(1,237)	(1,040)	(2,375)
Net rental and related income, excluding joint ventures		**11,607**	**11,527**	**24,242**
Share of net rental income in joint ventures		1,290	1,512	3,311
Net rental and related income, including joint ventures		12,897	13,039	27,553
Profit on disposal of investment property	5	**1,536**	**2**	**2,156**
Net valuation (loss)/gain on investment property	5	**(3,507)**	**7,286**	**1,556**
Expenses				
Investment management fee	2	(1,802)	(1,551)	(3,363)
Valuer's and other professional fees		(849)	(726)	(1,633)
Administrator's fee	2	(60)	(60)	(120)
Auditor's remuneration		(66)	(66)	(128)
Directors' fees		(75)	(75)	(150)
Other expenses		(42)	(140)	(202)
Total expenses		**(2,894)**	**(2,618)**	**(5,596)**
Net operating profit before net finance costs		**6,742**	**16,197**	**22,358**
Refinancing costs	9	–	(3,128)	(3,128)
Finance costs payable		(3,323)	(3,369)	(6,807)
Net finance costs		**(3,323)**	**(6,497)**	**(9,935)**
Share of net rental income in joint ventures	6	1,290	1,512	3,311
Share of net valuation (loss)/gain in joint ventures	6	(94)	(617)	167
Profit and total comprehensive income for the period attributable to the equity holders of the parent		**4,615**	**10,595**	**15,901**
Basic and diluted earnings per share	3	**0.9p**	**2.0p**	**3.1p**

All items in the above statement are derived from continuing operations. The accompanying notes 1 to 15 form an integral part of the condensed interim financial statements.

Condensed Consolidated Statement of Financial Position

	Notes	**30/09/2019 £000 (unaudited)**	30/09/2018 £000 (unaudited)	Restated 31/03/2019 £000 (audited)
Investment property	5	331,695	417,783	352,186
Investment in joint ventures	6	80,071	78,381	80,165
Non-current assets		**411,766**	**496,164**	**432,351**
Trade and other receivables	7	49,360	18,067	49,689
Cash and cash equivalents	8	23,348	8,881	21,042
Investment property held for sale[1]	5	8,373	2,000	18,911
Current assets		**81,081**	**28,948**	**89,642**
Total assets		**492,847**	**525,112**	**521,993**
Issued capital and reserves		380,703	384,187	382,828
Treasury shares		(26,452)	(26,452)	(26,452)
Equity		**354,251**	**357,735**	**356,376**
Interest-bearing loans and borrowings	9	127,406	157,973	156,230
Lease liability	5	2,655	–	–
Non-current liabilities		**130,061**	**157,973**	**156,230**
Trade and other payables	10	8,535	9,404	9,387
Current liabilities		**8,535**	**9,404**	**9,387**
Total liabilities		**138,596**	**167,377**	**165,617**
Total equity and liabilities		**492,847**	**525,112**	**521,993**
Net Asset Value per ordinary share	11	68.3p	69.0p	68.7p

1 Please see note 5 for details of the reclassification in the 31 March 2019 figures.

The financial statements on pages 16 to 27 were approved at a meeting of the Board of Directors held on 25 November 2019 and signed on its behalf by:

Lorraine Baldry
Chairman

The accompanying notes 1 to 15 form an integral part of the condensed interim financial statements

Condensed Consolidated Statement of Changes in Equity

For the period from 1 April 2018 to 30 September 2018 (unaudited)

	Notes	Stated capital £000	Treasury share reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2018		**219,090**	**(26,452)**	**160,932**	**353,570**
Profit and total comprehensive income for the period		–	–	10,595	10,595
Dividends paid	4	–	–	(6,430)	(6,430)
Balance as at 30 September 2018		**219,090**	**(26,452)**	**165,097**	**357,735**

For the year ended 31 March 2019 (audited) and for the period from 1 April 2019 to 30 September 2019 (unaudited)

	Notes	Stated capital £000	Treasury share reserve £000	Revenue reserve £000	Total £000
Balance as at 31 March 2018		**219,090**	**(26,452)**	**160,932**	**353,570**
Profit and total comprehensive income for the year		–	–	15,901	15,901
Dividends paid	4	–	–	(13,095)	(13,095)
Balance as at 31 March 2019		**219,090**	**(26,452)**	**163,738**	**356,376**
Profit and total comprehensive income for the period		–	–	4,615	4,615
Dividends paid	4	–	–	(6,740)	(6,740)
Balance as at 30 September 2019		**219,090**	**(26,452)**	**161,613**	**354,251**

The accompanying notes 1 to 15 form an integral part of the condensed interim financial statements.

Condensed Consolidated Statement of Cash Flows

	Six months to 30/09/2019 £000 (unaudited)	Six months to 30/09/2018 £000 (unaudited)	Year to 31/03/2019 £000 (audited)
Operating activities			
Profit for the period/year	4,615	10,595	15,901
Adjustments for:			
Profit on disposal of investment property	(1,536)	(2)	(2,156)
Net valuation (loss)/gain on investment property	3,507	(7,286)	(1,556)
Share of profit of joint ventures	(1,195)	(895)	(3,478)
Net finance cost	3,323	3,369	9,935
Operating cash generated before changes in working capital	**8,714**	**5,781**	**18,646**
(Increase)/decrease in trade and other receivables	328	(3,664)	(179)
Increase/(decrease) in trade and other payables	(852)	648	1,105
Cash generated from operations	**8,190**	**2,765**	**19,572**
Finance costs paid	(3,189)	(3,298)	(6,541)
Net cash from operating activities	**5,001**	**(533)**	**13,031**
Investing activities			
Proceeds from sale of investment property	34,378	–	12,447
Additions to investment property	(2,623)	(1,142)	(2,761)
Acquisition of investment property	–	(22,377)	(23,191)
Investment in joint ventures	–	(1,250)	(2,250)
Net income distributed from joint ventures	1,290	1,512	3,311
Net cash (used in)/from investing activities	**33,045**	**(23,257)**	**12,444**
Financing activities			
Repayment of external debt	(29,000)	–	–
Additions to debt	–	9,883	8,500
Refinancing fees paid	–	–	(4,168)
Dividends paid	(6,740)	(6,430)	(13,095)
Net cash from/(used in) financing activities	**(35,740)**	**3,453**	**(8,763)**
Net (decrease)/increase in cash and cash equivalents for the period/year	**2,306**	**(20,337)**	**(8,176)**
Opening cash and cash equivalents	**21,042**	**29,218**	**29,218**
Closing cash and cash equivalents	**23,348**	**8,881**	**21,042**

The accompanying notes 1 to 15 form an integral part of the condensed interim financial statements.

Notes to the Interim Report

1. Significant accounting policies

Schroder Real Estate Investment Trust Limited (the 'Company') is a closed-ended investment company incorporated in Guernsey. The condensed interim financial statements of the Company for the period ended 30 September 2019 comprise the Company, its subsidiaries and its interests in joint ventures (together referred to as the 'Group').

Statement of compliance

The condensed interim financial statements have been prepared in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority and IAS 34 Interim Financial Reporting. They do not include all the information required for the full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 March 2019. The condensed interim financial statements have been prepared on the basis of the accounting policies set out in the Group's annual financial statements for the year ended 31 March 2019. The financial statements for the year ended 31 March 2019 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board. The Group's annual financial statements refer to new standards and interpretations. Management's assessment of IFRS 16 has resulted in an adjustment in the recognition of the fair value of a head lease relating to The Galaxy, Luton which can be seen in note 5.

Going concern

The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular the Loan to Value covenants and interest cover ratios on the loans with Canada Life and Royal Bank of Scotland ('RBS'). As at the period end, the undrawn capacity of the RBS facility was £52.5 million. The RCF is an efficient and flexible source of funding due to the margin of 1.6% and the ability to be repaid and redrawn as often as required. Following the September period end, in October 2019 the Group completed a refinancing activity relating to the facility held with Canada Life. This £129.6 million fixed rate loan will now attract a total interest rate of 2.5% per annum, compared to a previous 4.4%, resulting in an immediate interest saving of £2.5 million per annum.

The Directors have not identified any material uncertainties which would cast significant doubt on the Group's ability to continue as a going concern for a period of not less than 12 months from the date of the approval of the condensed interim financial statements. The Directors have satisfied themselves that the Group has adequate resources to continue in operational existence for the foreseeable future.

After due consideration, the Board believes it is appropriate to adopt the going concern basis in preparing the condensed interim financial statements.

Use of estimates and judgments

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. There have been no changes in the judgements and estimates used by management as disclosed in the last Annual Report and financial statements for the year ended 31 March 2019.

Segmental reporting

The Directors are of the opinion that the Group is engaged in a single segment of business, being property investment and in one geographical area, the United Kingdom. There is no one tenant that represents more than 10% of Group revenues. The chief operating decision maker is considered to be the Board of Directors who are provided with consolidated IFRS information on a quarterly basis.

2. Material agreements

Schroder Real Estate Investment Management Limited is the Investment Manager to the Company. The Investment Manager is entitled to a fee, together with reasonable expenses incurred in the performance of its duties. The fee is payable monthly in arrears and shall be an amount equal to one twelfth of the aggregate of 1.1% of the NAV of the Company. The Investment Management Agreement can be terminated by either party on not less than 12 months' written notice or on immediate notice in the event of certain breaches of its terms or the insolvency of either party. The total charge to profit during the period was £1,802,000 (year to 31 March 2019: £3,363,000) (six months to 30 September 2018: £1,551,000). At the period end £497,000 (31 March 2019: £287,000; 30 September 2018: £581,000) was outstanding.

The Board appointed Northern Trust International Fund Administration Services (Guernsey) Limited as the Administrator to the Company with effect from 25 July 2007. The Administrator is entitled to an annual fee equal to £120,000 of which £30,000 (31 March 2019: £30,000; 30 September 2018: £30,000) was outstanding at the period end.

3. Basic and diluted earnings per share

The basic and diluted earnings per share for the Group is based on the profit for the period of £4,615,000 (31 March 2019: £15,901,000; 30 September 2018: £10,595,000) and the weighted average number of ordinary shares in issue during the period of 518,513,409 (31 March 2019: 518,513,409; 30 September 2018: 518,513,409)

EPRA earnings reconciliation

As recommended by the European Public Real Estate Association ('EPRA'), EPRA performance measures are disclosed in the section below.

	Six months to 30/09/2019 £000	Six months to 30/09/2018 £000	Year to 31/03/2019 £000
Profit after tax	4,615	10,595	15,901
Adjustments to calculate EPRA earnings exclude:			
Profit on disposal of investment property	(1,536)	(2)	(2,156)
Net valuation (gain)/loss on investment property	3,507	(7,286)	(1,556)
Share of valuation loss/(gain) in joint ventures	94	617	(167)
EPRA earnings	**6,680**	**3,924**	**12,022**
Company adjustments[1]	–	3,128	3,128
Adjusted EPRA earnings	**6,680**	**7,052**	**15,150**
Weighted average number of ordinary shares	518,513,409	518,513,409	518,513,409
EPRA earnings per share (pence)	**1.3**	**0.8**	**2.3**
Adjusted EPRA earnings per share (pence)	**1.3**	**1.4**	**2.9**

1 The Company adjustments relate to one-off costs.

EPRA earnings per share reflects the underlying performance of the Group calculated in accordance with the EPRA guidelines. EPRA earnings represents the net income generated from the operational activities of the Group. It excluded all capital components not relevant to the underlying net income performance of the portfolio, such as the realised and unrealised fair value gains or losses on investment properties.

4. Dividends paid

In respect of	Number of ordinary shares	**Rate (pence)**	**01/04/2019 to 30/09/2019 £000**
Quarter ended 31 March 2019 (paid 7 June 2019)	518.51 million	0.65	3,370
Quarter ended 30 June 2019 (paid 16 August 2019)	518.51 million	0.65	3,370
		1.30	**6,740**

In respect of	Number of ordinary shares	Rate (pence)	01/04/2018 to 30/09/2018 £000
Quarter ended 31 March 2018 (paid 31 May 2018)	518.51 million	0.62	3,215
Quarter ended 30 June 2018 (paid 31 August 2018)	518.51 million	0.62	3,215
		1.24	**6,430**

Notes to the Interim Report continued

4. Dividends paid continued

In respect of	Number of ordinary shares	Rate (pence)	01/04/2018 to 31/03/2019 £000
Quarter ended 31 March 2018 (paid 31 May 2018)	518.51 million	0.62	3,215
Quarter ended 30 June 2018 (paid 31 August 2018)	518.51 million	0.62	3,215
Quarter ended 30 Sept 2018 (paid 5 December 2018)	518.51 million	0.64	3,295
Quarter ended 31 Dec 2018 (paid 15 March 2019)	518.51 million	0.65	3,370
		2.53	**13,095**

A dividend for the quarter ended 30 September 2019 of 0.65p (£3.4 million) was approved on 25 November 2019 and will be paid on 18 December 2019.

5. Investment property and investment property held for sale

For the period 1 April 2018 to 30 September 2018 (unaudited)

	Leasehold £000	Freehold £000	Total £000
Fair value as at 1 April 2018	37,180	351,796	388,976
Acquisitions of investment property	–	22,377	22,377
Additions	52	1,090	1,142
Realised gain on disposals	–	2	2
Net valuation (loss)/gain on investment property	(81)	7,367	7,286
Fair value as at 30 September 2018	**37,151**	**382,632**	**419,783**

The balance above includes:

	Leasehold £000	Freehold £000	Total £000
Investment property	37,151	380,632	417,783
Investment property held for sale	–	2,000	2,000
Fair value as at 30 September 2018	**37,151**	**382,632**	**419,783**

For the year 1 April 2018 to 31 March 2019 (audited)

	Leasehold £000	Freehold £000	Total £000
Fair value as at 1 April 2018	37,180	351,796	388,976
Reclassification between freehold and leasehold	5,600	(5,600)	–
Additions	88	25,864	25,952
Gross proceeds on disposals	–	(47,543)	(47,543)
Realised gain on disposals	–	2,156	2,156
Net valuation (loss)/gain on investment property	(3,046)	4,602	1,556
Fair value as at 31 March 2019	**39,822**	**331,275**	**371,097**

The balance above includes:

	Leasehold £000	Freehold £000	Total £000
Investment property	39,822	312,364	352,186
Investment property held for sale	–	18,911	18,911
Fair value as at 31 March 2019	**39,822**	**331,275**	**371,097**

5. Investment property and investment property held for sale continued

For the period 1 April 2019 to 30 September 2019 (unaudited)

	Leasehold £000	Freehold £000	Total £000
Fair value as at 1 April 2019	39,822	331,275	371,097
Additions	31	2,592	2,623
Gross proceeds on disposals	–	(34,336)	(34,336)
Realised gain on disposals	–	1,536	1,536
Fair value leasehold adjustment[1]	2,655	–	2,655
Net valuation (loss)/gain on investment property	(1,405)	(2,102)	(3,507)
Fair value as at 30 September 2019	**41,103**	**298,965**	**340,068**

1 Further to the new IFRS 16 requirements, there has been an adjustment to include the fair value of the leasehold element of The Galaxy, Luton. The corresponding lease liability is included on the balance sheet under non-current liabilities.

The balance above includes:

	Leasehold £000	Freehold £000	Total £000
Investment property	41,103	290,592	331,695
Investment property held for sale	–	8,373	8,373
Fair Value as at 30 September 2019	**41,103**	**298,965**	**340,068**

Two of the investment properties have been determined to meet the criteria of a held for sale asset at the period end with a total value of £8,373,000 (31 March 2019: £18,911,000; 30 September 2018: £2,000,000). The 31 March 2019 held for sale balance has been restated. The held for sale assets were previously included in investment property and therefore the statement of financial position has been restated accordingly.

The fair value of investment property, as determined by the valuer, totals £376,425,000 (31 March 2019: £417,550,000; 30 September 2018: £431,475,000). Of this amount, £18,875,000 is in relation to the unconditional exchange of contracts for Allied Industrial Estate, Acton and £10,400,000 is in relation to the unconditional exchange of contracts for The Reticel Unit, Alfreton (March 2019: £36,100,000 in relation to the unconditional exchange of contracts for Victory House, Brighton). As at 30 September 2019, £9,737,000 (31 March 2019: £10,352,000; 30 September 2018: £11,692,000) in connection with lease incentives is included within trade and other receivables and a further adjustment of £2,655,000 is included in non-current liabilities (31 March 2019: £nil; September 2018: £nil) relating to the fair value of the leasehold.

The fair value of investment property has been determined by Knight Frank LLP, a firm of independent chartered surveyors, who are registered independent appraisers. The valuation has been undertaken in accordance with the RICS Valuation – Global Standards 2017, which incorporates the International Valuation Standards, and the RICS National Supplement effective from January 2019, issued by the Royal Institution of Chartered Surveyors (the 'Red Book').

The properties have been valued on the basis of 'Fair Value' in accordance with the RICS Valuation – Professional Standards VPS4(7.1) Fair Value and VPGA1 Valuations for Inclusion in Financial Statements which adopt the definition of Fair Value used by the International Accounting Standards Board.

The valuation has been undertaken using appropriate valuation methodology and the Valuer's professional judgement. The Valuer's opinion of Fair Value was primarily derived using recent comparable market transactions on arm's length terms, where available, and appropriate valuation techniques (The Investment Method).

The properties have been valued individually and not as part of a portfolio.

All investment properties are categorised as Level 3 fair values as they use significant unobservable inputs. There have not been any transfers between Levels during the year. Investment properties have been classed according to their real estate sector. Information on these significant unobservable inputs per class of investment property is disclosed:

Notes to the Interim Report continued

5. Investment property and investment property held for sale continued

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 30 September 2019 (unaudited)

		Industrial	Retail (incl. retail warehouse)	Office	Other	Total
Fair value (£000)		153,125	106,500	96,700	20,100	376,425
Area (000 sq ft)		1,737	556	463	177	2,933
Net passing rent psf per annum	Range	£0 – £11.45	£0 – £38.50	£6.15 – £29.10	£6.65 – £13.00	£0 – £38.50
	Weighted average	£4.75	£11.30	£14.71	£7.82	£7.75
Gross ERV psf per annum	Range	£3.75 – £13.00	£7.40 – £37.75	£9.75 – £27.00	£8.18 – £13.00	£3.75 – £37.75
	Weighted average	£5.60	£14.49	£16.66	£8.46	£9.21
Net initial yield[1]	Range	0% – 6.59%	0% – 9.02%	2.10% – 8.74%	4.73% – 7.54%	0% – 9.02%
	Weighted average	5.05%	5.53%	6.60%	6.46%	5.66%
Equivalent yield	Range	4.05% – 7.03%	5.08% – 9.95%	5.65% – 9.08%	4.73% – 8.04%	4.05% – 9.95%
	Weighted average	5.82%	6.49%	7.17%	6.71%	6.41%

1 Yields based on rents receivable after deduction of head rents, but gross of non-recoverables.

Quantitative information about fair value measurement using unobservable inputs (Level 3) as at 31 March 2019 (audited)

		Industrial	Retail (incl. retail warehouse)	Office	Leisure	Total
Fair value (£000)		146,350	111,450	139,500	20,250	417,550
Area (000 sq ft)		1,737	553	634	177	3,101
Net passing rent per sq ft per annum	Range	£0 – £10.84	£0 – £38.50	£0 – £25.72	£0 – £13.00	£0 – £38.50
	Weighted average	£4.58	£12.63	£11.50	£7.92	£7.62
Gross ERV per sq ft per annum	Range	£3.75 – £12.77	£7.40 – £38.50	£9.50 – £27.50	£8.18 – £13.00	£3.75 – £38.50
	Weighted average	£5.58	£14.73	£16.46	£9.07	£9.64
Net initial yield[1]	Range	0% – 6.75%	0% – 9.54%	0% – 8.98%	4.73% – 7.68%	0% – 8.98%
	Weighted average	5.09%	5.87%	4.89%	6.49%	5.30%
Equivalent yield	Range	4.44% – 8.05%	5.35% – 10.09%	5.15% – 10.53%	4.73% – 7.83%	4.44% – 10.53%
	Weighted average	5.95%	6.38%	6.75%	6.59%	6.36%

1 Yields based on rents receivable after deduction of head rents, but gross of non-recoverables.

Sensitivity of measurement to variations in the significant unobservable inputs

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the Group's property portfolio, together with the impact of significant movements in these inputs on the fair value measurement, are shown below:

Unobservable input	Impact on fair value measurement of significant increase in input	Impact on fair value measurement of significant decrease in input
Passing rent	Increase	Decrease
Gross ERV	Increase	Decrease
Net initial yield	Decrease	Increase
Equivalent yield	Decrease	Increase

There are interrelationships between the yields and rental values as they are partially determined by market rate conditions.

5. Investment property and investment property held for sale continued

The sensitivity of the valuation to changes in the most significant inputs per class of investment property are shown below:

Estimated movement in fair value of investment properties at 30 September 2019 (unaudited)

	Industrial £000	**Retail £000**	**Office £000**	**Other £000**	**Total £000**
Increase in ERV by 5%	7,383	4,626	4,133	665	16,807
Decrease in ERV by 5%	(7,147)	(4,504)	(4,087)	(406)	(16,144)
Increase in net initial yield by 0.25%	(7,229)	(4,607)	(3,529)	(749)	(15,930)
Decrease in net initial yield by 0.25%	7,983	5,044	3,807	809	17,403

Estimated movement in fair value of investment properties at 31 March 2019 (audited)

	Industrial £000	Retail £000	Office £000	Other £000	Total £000
Increase in ERV by 5%	7,147	5,236	6,003	549	18,935
Decrease in ERV by 5%	(6,860)	(4,490)	(5,846)	(526)	(17,722)
Increase in net initial yield by 0.25%	(6,846)	(4,550)	(6,781)	(750)	(18,799)
Decrease in net initial yield by 0.25%	7,552	4,955	7,512	811	20,659

6. Investment in joint ventures

For the period 1 April 2018 to 30 September 2018 (unaudited)

	£000
Opening balance as at 1 April 2018	77,748
Purchase of units in City Tower Unit Trust to fund capital expenditure	1,250
Share of profit for the period	895
Distributions received	(1,512)
Amounts recognised as joint ventures at 30 September 2018	**78,381**

For the year 1 April 2018 to 31 March 2019 (audited)

	£000
Opening balance as at 1 April 2018	77,748
Purchase of units in City Tower Unit Trust to fund capital expenditure	2,250
Share of profit for the period	3,478
Distribution received	(3,311)
Amounts recognised as joint ventures at 31 March 2019	**80,165**

For the period 1 April 2019 to 30 September 2019 (unaudited)

	£000
Opening balance as at 1 April 2019	80,165
Share of profit for the period	1,196
Distributions received	(1,290)
Amounts recognised as joint ventures at 30 September 2019	**80,071**

Notes to the Interim Report continued

7. Trade and other receivables

	Six months to 30/09/2019 £000	Six months to 30/09/2018 £000	Year to 31/03/2019 £000
Rent receivable	2,609	1,873	866
Sundry debtors and prepayments	12,966	16,194	12,604
Receivable relating to disposals	33,785	–	36,219
	49,360	**18,067**	**49,689**

Sundry debtors and other receivables includes £9,737,000 (31 March 2019: £10,352,000; 30 September 2018: £11,692,000) in respect of lease incentives.

8. Cash and cash equivalents

As at 30 September 2019, the Group had £23.3 million in cash (31 March 2019: £21.0 million; 30 September 2018: £8.9 million) of which £3.6 million is held within the Canada Life security pool. (31 March 2019: £0.3 million; 30 September 2018: £nil).

9. Interest-bearing loans and borrowings

The Group entered into a £129.6 million loan facility with Canada Life on 16 April 2013 that had 20% of the loan maturing on 15 April 2023 and with the balance of 80% maturing on 15 April 2028, with a fixed interest rate of 4.77%. On 2 July 2018, the 20% of the Canada Life loan maturing on 15 April 2023 was refinanced extending the maturity date, increasing the length of the loan to that of the 80%, maturing on the 15 April 2028 making it coterminous with the 80% balance. The interest rate for this element of the loan was amended to 3.00% from 4.77%.

On 2 July 2018, the Company refinanced its existing £20.5 million revolving credit facility with Royal Bank of Scotland. The RCF with RBS was increased from £20.5 million to £32.5 million. In January 2019, the RCF limit was further increased from £32.5 million to £52.5 million. As at 30 September 2019 this facility was completely undrawn following a repayment of the balance of £29 million on 4 July 2019.

The existing RCF had been due to expire in July 2019, but was extended and now expires in July 2023. The interest rate is based on the Loan to Value ratio as below:
- LIBOR + 1.60% if Loan to Value is less than or equal to 60%
- LIBOR + 1.85% if Loan to Value is greater than 60%

During the period the loan to value has remained less than 60%. Since this loan has variable interest, an interest rate cap for 100% of the loan was entered into, which comes into effect if GBP 3 month LIBOR reaches 1.5%. As at the reporting date GBP 3 month LIBOR has not reached 1.5%.

As at 30 September 2019, the Group has a loan balance of £129.6 million and £2.2 million of unamortised arrangement fees (31 March 2019: £158.6 million and £2.4 million of unamortised arrangement fees; September 2018: £160.1 million and £2.1 million of unamortised arrangement fees).

Fair values are based on the present value of future cash flows discounted at a market rate of interest. Issue costs are amortised over the period of the borrowings. As at 30 September 2019, the fair value of the Group's £129.6 million loan with Canada Life was £150.6 million (31 March 2019: £143.3 million; 30 September 2018: £145.3 million).

10. Trade and other payables

	Six months to 30/09/2019 £000	Six months to 30/09/2018 £000	Year to 31/03/2019 £000
Rent received in advance	3,998	4,938	4,532
Rental deposits	1,276	1,105	1,193
Interest payable	1,254	1,391	1,391
Other payables and accruals	2,007	1,970	2,271
	8,535	**9,404**	**9,387**

11. NAV per ordinary share
The NAV per ordinary share is based on the net assets of £354,251,000 (31 March 2019: £356,376,000; 30 September 2018: 357,735,000) and 518,513,409 ordinary shares in issue at the Statement of Financial Position reporting date (31 March 2019: 518,513,409; 30 September 2018: 518,513,409).

12. Financial risk factors
The Directors are of the opinion that there have been no significant changes to the financial risk profile of the Group since the end of the last annual financial reporting period ended 31 March 2019 of which it is aware.

The main risks arising from the Group's financial instruments and properties are market price risk, credit risk, liquidity risk and interest rate risk. The Group is only directly exposed to sterling and hence is not exposed to currency risks. The Board regularly reviews and agrees policies for managing each of these risks.

13. Related party transactions
Material agreements are disclosed in note 2. The Directors' remuneration for the period for services to the Group was £75,000 (31 March 2019: £150,000; 30 September 2018: £75,000). Transactions with joint ventures are disclosed in note 6.

14. Capital Commitments
At 30 September 2019, the Group had capital commitments for capital expenditure of £9.9 million (31 March 2019: £9.4 million; 30 September 2018: £2.0 million).

15. Post balance sheet events
Since the end of the period the Group has completed on the sale of four properties and has exchanged to sell one other.

On 1 October, Haston House, Edinburgh was sold for £6.5 million; on 8 October, the Recticel Unit, Alfreton was sold for £10.4 million; on 15 November, the Allied Industrial Estate, Acton was sold for £18.9 million; and on 22 November, Coventry Road, Hinckley was sold for £2.2 million.

On 18 November, Finmere Park, Peterborough exchanged for £6.9 million with completion set for 12 December 2019.

On 14 October, an amount of £5.0 million was drawn down on the revolving credit facility with RBS. The remaining balance of £47.5 million remains undrawn.

On 15 October, the loan of £129.6 million with Canada Life was refinanced. A break cost inclusive of fees of £26.1 million was paid and a sum of £1.4 million of previously unamortised loan costs was written off.

Glossary

Alternative performance measure ('APM')	alternative performance measure.
Annualised dividend yield	being the dividend paid during the period annualised and expressed as a percentage of the period end share price.
Articles	means the Company's Articles of Incorporation, as amended from time to time.
Companies Law	means The Companies (Guernsey) Law, 2008.
Company	is Schroder Real Estate Investment Trust Limited.
Directors	means the Directors of the Company as at the date of this document.
Disclosure Guidance and Transparency Rules	means the disclosure guidance and transparency rules contained within the FCA's Handbook of Rules and Guidance.
Earnings per share ('EPS')	is the profit after taxation divided by the weighted average number of shares in issue during the period. Diluted and Adjusted EPS are derived as set out under NAV.
Estimated rental value ('ERV')	is the Group's external valuers' reasonable opinion as to the open market rent which, on the date of valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
EPRA	is European Public Real Estate Association.
EPRA earnings	is the earnings excluding all capital components not relevant to the underlying net income performance of the portfolio, such as the realised and unrealised fair value gains or losses on investment properties.
EPRA earnings per share	is the EPRA earnings divided by the weighted average number of shares in issue during the period.
EPRA NAV	is the NAV calculated under IFRS adjusted to reflect the fair value of financial instruments, debt and deferred taxation.
FCA	is the UK Financial Conduct Authority.
Gearing	is the Group's net debt as a percentage of adjusted net assets.
Group	is the Company and its subsidiaries.
Initial yield	is the annualised net rents generated by the portfolio expressed as a percentage of the portfolio valuation.
Interest cover	is the number of times Group net interest payable is covered by Group net rental income.
Listing Rules	means the listing rules made by the FCA under Part VII of the UK Financial Services and Markets Act 2000, as amended.
Market Abuse Regulation	means regulation (EU) No.596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.
MSCI	(formerly Investment Property Databank or 'IPD') is a Company that produces an independent benchmark of property returns.
Net Asset Value or NAV	is shareholders' funds divided by the number of shares in issue at the period end.
NAV total return	is calculated taking into account both capital returns and income returns in the form of dividends paid to shareholders.
Net rental income	is the rental income receivable in the period after payment of ground rents and net property outgoings.
REIT	is Real Estate Investment Trust.
Reversionary yield	is the anticipated yield, which the initial yield will rise to once the rent reaches the estimated rental value.

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