For release 28 September 2018

F&C UK Real Estate Investments Limited (‘the Company’)
Annual results to 30 June 2018

Outperformance of benchmark over the year and longer term

F&C UK Real Estate Investments Limited (‘the Company’), which is managed by BMO Global Asset Management’s specialist real estate investment manager, BMO Real Estate Partners, today announces its annual results for the year ended 30 June 2018.

Financial Highlights

- NAV total return* of 13.6%
- Portfolio ungeared total return* of 11.7%
- Outperformance of the MSCI IPD UK Quarterly Property Index (the benchmark) by 210 bps over the year, to 30 June 2018; the portfolio has sustained its track record of having outperformed the IPD Quarterly Index over one, three, five, 10 and since inception on 1 June 2004
- Outperformance in both Capital and Income, with an income return* of 5.3% over the period
- Dividend of 5.0 pence per share for the year, giving a yield* of 5.0% on the year-end share price
- Dividend cover* increased to 95.7% for the year from 94.4%

Operational and Portfolio Highlights

- Selective sales strategy has delivered a positive contribution to returns
- Acquisition of further industrial exposure in the South East in the form of Unit K60 Lister Road, Basingstoke, let to Bunzl, for £9.6 million, a yield of 5.2%
- Two assets sold over the reporting period including high street retail asset at 100a Princes Street, Edinburgh, and office asset The Clock Tower, Brookwood, for a combined value of £9.2m
- Low portfolio void rate of 4.6%, well below the IPD Quarterly Index average of 7.2%
- Retail portfolio outperformed the IPD Index over the year, delivering a 7.1% return
- Office assets outperformed the IPD Index over the year, returning 11.2%
- The Company’s largest asset, an office on Berkeley Street, W1, delivered 11.6%, ahead of the market as a whole and the West End offices sub sector
- Industrials and logistics properties returned 17.3%, lagging the IPD Index, but an overweight position delivered meaningful contribution to overall outperformance

* See Alternative Performance Measures

Commenting, Vikram Lall, Chairman, said: “The outlook continues to be dominated by the political and economic uncertainties surrounding Brexit, and this is likely to become even more pronounced as the March 2019 deadline approaches. The difficulties affecting the retail sector are an area of concern, as is pricing in some areas of the market. Whilst remaining cautious in these uncertain times, we believe that the Company’s balanced portfolio offers relatively attractive defensive characteristics, a strong income return, combined with some value enhancement opportunities.”

Commenting, Peter Lowe, fund manager at BMO Real Estate Partners, said: “Despite headwinds for the retail portfolio in particular, and a period likely to be characterised by mid to low single digit returns, the portfolio is well placed to deliver solid relative performance, led by exposure to desirable areas of the market, the completion of selected asset management initiatives and a dependable income return.”

-Ends-

Notes to Editors:

The full results statement is below.

Past performance should not be seen as an indication of future performance.

The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The value of directly held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment."

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned.

For Further information

Media contacts:

Campbell Hood
campbell.hood@bmogam.com
Tel: +44 (0)20 7011 4243

bmo@fticonsulting.com
Tel: +44 (0) 20 3727 1888

About F&C UK Real Estate Investments Limited:

The Company's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for capital and income growth from investing in a diversified UK commercial property portfolio.

The Company was previously named IRP Property Investments Limited. On 11 April 2013, enlarged by the acquisition of the ISIS Property Trust, the Trust was renamed F&C UK Real Estate Investments Limited.

F&C UK Real Estate Investments Limited is managed by Peter Lowe at BMO Real Estate Partners in London.

About BMO Real Estate Partners

BMO Real Estate Partners is a specialist real estate investment manager firm with £6 billion of AUM[1] across core European markets, employing more than 140 staff, including more than 20 investment managers and over 25 asset managers overseen by a highly experienced and well-regarded management team.

It offers investors a broad suite of products specialising in core / core+ strategies with a focus on delivering superior income returns and a track record of performance against key benchmarks throughout market cycles. BMO Real Estate Partners has a strong localised presence with offices in London, Paris and Munich, as well as on-the-ground reach in core European markets including Spain and Italy.

While it retains an independent, agile and entrepreneurial approach to its investment activity, BMO Real Estate Partners is able to call on the support structure and expertise of BMO Financial Group's £195 billion[2] Global Asset Management business, which provides deep seated insight into institutional investment landscape and facilitates the adoption of best in class corporate governance and sustainability principles.

[1] Assets Under Management (AUM) reported is as at 30.06.2018 and includes both discretionary and non-discretionary assets.
[2] Assets Under Management (AUM) reported is as at 30.06.2018 and includes both discretionary and non-discretionary assets.

About BMO Global Asset Management

BMO Global Asset Management is a global investment manager with offices in more than 25 cities in 14 countries, delivering service excellence to clients across five continents.

Our four major investment centres in Toronto, Chicago, London and Hong Kong are complemented by a network of world-class specialist managers strategically located across the globe: BMO Real Estate Partners, LGM Investments, Pyrford International Ltd. BMO Global Asset Management is a signatory of the United Nations-supported Principles for Responsible Investment initiative (UNPRI).

BMO Global Asset Management is a part of BMO Financial Group, a highly diversified financial services provider based in North America with total assets of CDN $744 billion as of 30 April 2018, and over 45,000 employees.

To: RNS
Date: 28 September 2018
From: F&C UK Real Estate Investments Limited

- Portfolio ungeared total return* of 11.7 per cent for the year

- NAV total return* of 13.6 per cent for the year

- Dividend of 5.0 pence per share for the year, giving a yield* of 5.0 per cent on the year-end share price

- Dividend cover* increased to 95.7 per cent for the year from 94.4 per cent

* See Alternative Performance Measures

Chairman's Statement

The Group's net asset value ('NAV') total return* for the year was 13.6 per cent with a NAV per share as at 30 June 2018 of 108.5 pence, up from 100.1 pence per share at the prior year-end.

Despite the strong underlying performance, the share price reflects continued market uncertainty. The share price total return* for the year was -1.9 per cent with the shares trading at 99.8 pence per share at the year-end, a discount* of 8.0 per cent to the NAV. It is disappointing that the share price has fallen but it is not believed that this is a reflection of the underlying portfolio when compared against the peer group.

Property Market

The UK commercial property market delivered a total return of 9.4 per cent as measured by the Investment Property Databank ('IPD') UK Quarterly Index for all assets in the year to 30 June 2018. Performance was positive throughout the year, although the latter part of the year saw some moderation in total returns. Capital values recorded 4.7 per cent annual growth and the annual income return was 4.5 per cent. As in the previous year, performance was driven by Industrial and Distribution property and by Alternative assets, which included student accommodation, healthcare and hotels. Compared with a year earlier, most parts of the market recorded an improved performance, with Industrials pulling further ahead, but Retail did encounter headwinds, and shopping centres delivered a negative total return.

In the year to 30 June 2018, open market rental value growth at the all-property level was 1.7 per cent, led by a 7.3 per cent increase for South East Industrials, but the structural weakness of regional Retail persisted and rental growth for this segment remained negative. Yields edged slightly lower over the year, helped by stronger investment demand.

Portfolio

The Group's property portfolio produced an ungeared return* of 11.7 per cent over the year to 30 June 2018, outperforming the IPD Quarterly Index by 210bps. Performance was driven by a combination of capital growth of 6.1 per cent and an above market income return of 5.3 per cent. Continuing the main theme from the last reporting period, positive sentiment for the Industrial sector led to the portfolio's Industrial and Distribution assets again being the key contributors to Company performance. Encouragingly, performance of the portfolio was more consistently broad based than in previous periods with the Company's Retail and Office assets outperforming their benchmark peers at the sector level, although the South-East Retail assets struggled on a relative basis. Retail Warehousing was a particular bright spot although the Manager continues to monitor this sub-sector closely, with significant time being devoted to the management of the assets in light of specific tenant risk.

The portfolio continues to deliver an above market income yield, with the void rate reducing to 4.6 per cent following the successful completion of asset management initiatives. There has been minimal impact upon the portfolio from Company Voluntary Arrangements ('CVA's') and administrations widely reported in the retail market place as at 30 June 2018, however post period there will be some impact from the CVA of Homebase, recently approved by creditors. As detailed in the Manager's Review, plans are already in place to mitigate any potential negative impact and to realise opportunity where appropriate. Average unexpired lease length has fallen over the period to approximately 6 years on a weighted basis.

The Company's strategy continues to be the retention of an overweight position to Industrial and Warehouse property with the Company's Retail portfolio under continual review given the difficulties currently being experienced by this sector. There was a further sale from the High Street portfolio of 100a Princes Street, Edinburgh and also an Office building at The Clock Tower, Brookwood. The Company's sole purchase was an Industrial asset in Basingstoke.

Despite the Company's shares trading at a premium to NAV for a proportion of the year the Board has maintained a cautious approach to raising new equity. This policy is complemented by the Manager's measured approach to the purchase of property in what is a highly competitive marketplace. Therefore, the primary focus has been on the disposal of non-core and secondary assets and the active management of retained assets.

Cash Resources

The Group had £15.0 million of cash available and an undrawn facility of £7 million at 30 June 2018 and acquisition opportunities are constantly under review. There is no undue pressure to invest with the near-term focus being to concentrate available capital on worthwhile, cost effective asset management initiatives within the standing portfolio. Opportunistic sales may also be considered, with disposals in the reporting year offering a valuable aggregate premium to valuations.

Borrowings

The Group currently has in place a secured £90 million non-amortising term loan facility with Canada Life Investments, repayable in November 2026 and a £20 million 5-year revolving credit facility agreement with Barclays Bank plc, £13 million of which was drawn down at the year-end. This facility is available until November 2020.

The Group's gearing* level, net of cash, represented 26.2 per cent of investment properties at 30 June 2018. The weighted average interest rate (including amortisation of refinancing costs) on the Group's total current borrowings was 3.2 per cent. The Company continues to maintain a prudent attitude to gearing.

Dividends and Dividend Cover

Three interim dividends of 1.25 pence per share were paid during the year with a fourth interim dividend of 1.25 pence per share to be paid on 28 September 2018. This gives a total dividend for the year ended 30 June 2018 of 5.0 pence per share, a yield* of 5.0 per cent on the year-end share price. In the absence of unforeseen circumstances, it is the intention of the Group to continue to pay quarterly interim dividends at this rate.

The level of dividend cover* for the year was 95.7 per cent, compared to 94.4 per cent for the previous year.   There was exceptional income received of £4.4 million relating to a surrender premium received from a tenant and when adjusted for this, dividend cover was 132.0 per cent.

Responsible Property Investment

The Company has continued to take measures to strengthen its approach to responsible property investment. An outline of the main milestones reached and further actions is included in the Manager's Review.

Change of Company Name

In 2014 the Company's investment manager, F&C Investment Business Limited, was acquired by BMO ('Bank of Montreal'). BMO has recently announced its intention to transition all remaining F&C branded products and funds to BMO later in the year. Its savings plans, through which many of our shareholders invest, will also align to the BMO brand. The Board is therefore recommending that the Company changes its name from F&C UK Real Estate Investments Limited to BMO Real Estate Investments Limited and is seeking shareholder approval at the Annual General Meeting. If approved, it is anticipated that this renaming will take effect early in 2019.

Outlook

The outlook continues to be dominated by the political and economic uncertainties surrounding Brexit, and this is likely to become even more pronounced as the March 2019 deadline approaches. Economic growth has been positive, but modest, and consensus forecasts have been revised lower. The Bank of England raised interest rates after the end of this reporting period, and further gradual increases are anticipated. However, the property yield premium remains attractive against the risk-free rate.

The difficulties affecting the Retail sector are an area of concern, as is pricing in some areas of the market. We believe that in an environment of low growth and of market uncertainty, investors will prioritise income protection and the security of a long-term contracted income stream. We expect property to continue to deliver positive total returns, underpinned by the income return.

Whilst remaining cautious in these uncertain times, we believe that the Company's balanced portfolio offers relatively attractive defensive characteristics, a strong income return, combined with some value enhancement opportunities.

Vikram Lall
Chairman

* See Alternative Performance Measures

Manager's Review

Property Highlights over the year

- Outperformance of the MSCI IPD Quarterly Index (the benchmark) of 210 bps over the year to June 2018 driven by a relatively high weighting to Industrials. The portfolio has now outperformed the index over 1, 3, 5, 10 and 14 years since inception.

- Outperformance in both Capital and Income, with an income return* of 5.3 per cent over the period.

- Selective sales strategy has delivered a positive contribution to returns.

- Acquisition of further industrial exposure in the South East in the form of Unit K60 Lister Road, Basingstoke, let to Bunzl, for £9.56 million.

- Low void rate of 4.6 per cent well below the IPD Quarterly Index rate of 7.2 per cent.

Property Market

The UK commercial property market delivered a total return of 9.4 per cent in the year to 30 June 2018 as measured by the Investment Property Databank ("IPD") all Quarterly and Monthly Funds Index ('IPD Quarterly Index'). Performance was driven by an annual income return of 4.5 per cent, with capital values rising by 4.7 per cent.

The market recorded consistently positive total returns at the all-property level throughout the year but with a slight deceleration in pace in the second half of the reporting period. The income return reduced from 4.7 per cent a year earlier, reflecting higher capital values, with capital growth consistently positive during the reporting period.

The UK economy has continued to see modest positive GDP growth. Inflation remains above target, in part reflecting the lagged effect of the depreciation of sterling and higher oil prices. Despite an improving labour market, wage growth remains modest. The Bank of England raised its official rate in November 2017 and again after the end of the reporting period. Gilt yields edged up marginally in the reporting year, but with ten-year yields at 1.38 per cent, they remain at very low levels by historic standards. The Brexit negotiations and the consequent economic and political ramifications remain a major concern for investors with progress at the time of writing seemingly having stalled. The growth of protectionism globally and concern about tariff wars has been a further factor affecting sentiment though it has not to this point fed through in to pricing.

Against this backdrop, property investment activity has been resilient, helped by strong investment flows from overseas and by purchases from local authorities taking advantage of low borrowing costs. Institutions were net investors in property taking the year as a whole, while the open-ended retail funds saw net inflows resume following the outflows experienced in the aftermath of the vote to leave the European Union in H2 2016. The year to June 2018 saw more than £64 billion invested in property versus £52 billion in the previous year. The increase was most marked for non-London offices, industrials and alternatives but investment in town centre retail moved out of favour. Central London was resilient with some very large transactions concluding towards the period end. The banks have remained restrained in their new lending to commercial property, both for standing investments and development.

There has been sustained depth of demand in the market, with investors generally favouring core product benefitting from long-term secure income. Initial yields compressed further, to

4.5 per cent at the end of the reporting period, compared with 4.8 per cent a year earlier. The hardening of yields was seen across most parts of the market but was most marked for provincial offices and industrials.

Performance by segment broadly maintained the pattern seen after the referendum. Industrial and distribution property delivered significant returns of 20.4 per cent driven by both yield compression and rental growth, which were prevalent in London, particularly for multi let terraces inside the M25. The logistics and distribution market, as distinct from certain manufacturing and production supply chains is seen as being more resilient to Brexit related risks and for the right stock, a beneficiary of both technological change and a structural change in retailing. Offices recorded a 7.9 per cent total return. Rest of UK offices and City offices out-performed South East offices and West End offices but all segments under-performed the all-property average. Risks undoubtedly remain, however to date the central London Office market continues to defy dour post referendum predictions with take up close to the 15-year average and vacancy rates stable, despite a recent slow-down in the pace of rental growth. While serviced office occupiers are a larger proportion of take up than was historically the case, the occupier base remains broad. There has been an uptick in South-East availability, though regional office markets showed solid leasing activity over the period, buoyed by a number of large corporate and government acquisitions and grade A availability falling.

The retail segment has had a difficult year, buffeted by significant and much documented structural headwinds, and marked by Company Voluntary Arrangements ("CVAs"), administrations and store portfolio rationalisation, particularly in the second half of the period. Total returns were 4.5 per cent and all the IPD retail segments under-performed the all-property average while total returns for shopping centres were negative. Sentiment towards the sector, alongside the continued appetite for industrials, has had the effect of reversing the traditional yield hierarchy, with Industrials (5.4 per cent) now offering lower equivalent yields than both Offices (5.7 per cent) and Retail (5.5 per cent) at the standing investment level. Despite relatively robust consumer spending, rental growth has now remained weak over a prolonged period, save for London and the South East, a disconnection with trend. Similarly, low vacancy rates within the retail warehouse sector have not been enough to generate meaningful rental growth. Alternatives, including healthcare, hotels and hospitality and student accommodation, out-performed the all-property average and are now a growing part of the IPD data set, reflecting the weight of capital pursuing the sector and delivering a 9.9 per cent total return.

Open market rental growth was 1.7 per cent at the all-property level, representing a slight deceleration from the pace seen in the previous reporting period. Rental growth eased for retail and offices but improved for industrials and alternatives.

The property market has stabilised following the EU referendum result but there is polarisation both by sector and within sectors, and considerable uncertainty remains with both investors and occupiers displaying caution. The yield premium over gilts remains attractive and an all-property annual income return of 4.5 per cent on relatively long-term contracted income may continue to look appealing when compared against other asset classes.

Portfolio

Total Portfolio Performance		
	June 2018	**June 2017**
No of properties	42	43
Valuation (£'000)	353,625	335,350
Average Lot Size (£'m)	8.4	7.8
Net Initial Yield	4.74%	5.36%
	Portfolio (%)	**Benchmark (%)**
Portfolio Capital Return*	6.1	4.7
Portfolio Income Return*	5.3	4.5
Portfolio Total Return*	11.7	9.4

Source: BMO REP Property Management Limited, MSCI Inc

The Company's property portfolio produced an ungeared total return* of 11.7 per cent over the year to June 2018 versus the IPD Quarterly Index of 9.4 per cent, outperformance of 210 basis points. Performance was driven by both an above market income return* and above market capital growth of 5.3 per cent and 6.1 per cent respectively. The portfolio has delivered an annualised ungeared total return* of 8.4 per cent per annum over three years and 11.3 per cent over five years. The portfolio has outperformed the IPD quarterly Index over one, three, five, ten and fourteen years since inception.

The market remains competitive for quality assets, driving yields to historic lows. Despite cash availability at the Company level, the Manager continues to be selective in deployment. One asset was acquired over the year, a single let industrial asset located in Basingstoke, for £9.56 million, a yield of 5.2 per cent.

Whilst the portfolio has not required any wholesale repositioning, the priority has been to continue the success of the recent sales programme. Six assets have been disposed of over the previous two years to address the non-core tail of legacy, predominantly retail assets, selling into a well bid investment market at a net premium to valuation. Two further assets were sold over the reporting period. The high street retail asset at 100a Princes Street, Edinburgh was disposed of to crystallise the recent asset management plan and pursue a continued down weighting to the subsector. There was also the disposal of an office asset known as The Clock Tower, Brookwood. The sale was completed in advance of the lease expiry, where we considered there to be not inconsequential re-letting risk, to a special purchaser at a significant premium to valuation.

The portfolio's above market income yield of 5.3 per cent, low void rate of 4.6 per cent (reduced further since the end of the reporting period by completion of additional asset management initiatives), and a weighted average unexpired lease term of approximately 6 years remain the bedrock of the portfolio identity. The strategic decision to maintain a comparatively high exposure to the South East by geography and the Industrial and Logistics market by sector have been key factors in portfolio performance. As in the previous period, portfolio turnover and the burden of associated transaction costs were relatively low, as were the non-recoverable costs linked to below benchmark property voids.

Retail

Retail Portfolio Performance		
	June 2018	**June 2017**
No of properties	23	24
Valuation (£'000)	134,775	139,840
Net Initial Yield	5.01%	5.54%
	Portfolio (%)	**Benchmark (%)**
Retails Capital Return*	1.8	-0.4
Retails Income Return*	5.2	5.0
Retails Total Return*	7.1	4.5

Source: BMO REP Property Management Limited, MSCI Inc

The Retail portfolio outperformed the IPD Index over the year delivering 7.1 per cent. Performance was driven by a particularly strong showing from the retail warehouse assets which delivered 9.8 per cent. A further factor in the relative outperformance against IPD was the lack of any shopping centres within the portfolio.

Some headwinds remain for the sector with rental values falling and a series of structural developments continuing to negatively impact sentiment. Strategically, the Company's direction of travel has been clear, with disposals from the High Street portfolio leaving the Company better placed structurally to tackle the challenges from reduced store portfolios and prospects for falling rents in off prime, over-shopped or marginalised locations. Opportunistic sales are likely to continue; however, a higher proportion of the portfolio's high street assets are now located amongst the primer towns in the more established shopping locations which continue to benefit from more defendable tenant demand.

The portfolio itself is subject to some tenant specific considerations, in the form of Homebase, which requires further attention. Following on from West Farmers sale of the business earlier this year to restructuring specialists Hilco, the directors of Homebase have now received approval from creditors to place the business into a CVA. Given recent sales performance and a number of well publicised management and operational issues this is not entirely surprising and had been anticipated for some time. Under these proposals none of the Company's assets are earmarked for closure, however there will be some disruption to near term income. Longer term, business plans are in place to address potential consequences at the three retail warehouse assets affected and the Manager remains confident in successfully negotiating a satisfactory outcome.

Offices

Offices Portfolio Performance		
	June 2018	**June 2017**
No of properties	10	11
Valuation (£'000)	89,200	89,545
Net Initial Yield	4.93%	5.76%
	Portfolio (%)	**Benchmark (%)**
Offices Capital Return*	5.0	3.9
Offices Income Return*	5.9	3.9
Offices Total Return*	11.2	7.9

Source: BMO REP Property Management Limited, MSCI Inc

Office assets outperformed the IPD Index over the year returning 11.2 per cent. Pleasingly given underperformance in previous periods, Offices made a valuable contribution to portfolio returns over the period and this was broadly spread, with all subsectors in which the Company has representation, West End, South East Offices and Rest of UK Offices, delivering in excess of IPD.

Stand out assets were Edinburgh Park, where the removal of the tenant break to HSBC delivered notable capital uplift, and The Clock Tower, Brookwood, where an opportunistic sale in advance of lease expiry was conducted to a special purchaser in excess of valuation. Furthermore, the Company's largest asset at Berkeley Street, W1, delivered 11.6 per cent over the year, ahead of both the market as a whole and the West End offices sub sector. This was attributable to continued positive investor sentiment and encouraging leasing activity. The low yielding nature of this asset does leave its prospects more muted in the short term given a moderation of rental growth expectations. Nevertheless, the multi-let, mixed use nature of the property continues to offer opportunity for active management through the cycle, particularly on the retail element which has yet to be fully realised on timing grounds. The portfolio retains a weighting of c.10 per cent of assets to central London.

Vacancy remains at both Standard Hill, Nottingham and 14 Berkeley Street, London but at the time of writing terms are agreed to let all 28,000 sq ft at Nottingham and the 1,350 sq ft 5th floor suite at Berkeley Street. Completion of these initiatives would make a meaningful impact upon portfolio income.

Industrial and Logistics

Industrial & Logistics Portfolio Performance		
	June 2018	**June 2017**
No of properties	9	8
Valuation (£'000)	129,650	105,965
Net Initial Yield	4.33%	4.76%
	Portfolio (%)	**Benchmark (%)**
Industrials Capital Return*	11.9	15.1
Industrials Income Return*	5.0	4.6
Industrials Total Return*	17.3	20.4

Source: BMO REP Property Management Limited, MSCI Inc

The industrial and logistics properties returned 17.3 per cent during the year, which lagged the IPD index. However, the portfolio's overweight position continued to deliver meaningful contribution to the outperformance. This is the fifth year in a row that industrial holdings have led the portfolio's returns, being exclusively located in the supply constrained South East where tenant demand remains strong, and competition for land alongside a restrictive planning regime and a relatively inelastic supply response continues to drive rents. The fact that the Company's sole purchase over the year hails from both this sector and geography shows a continued commitment to this space, however we remain wary of the compressing of yields for all industrial assets, with stock selection, as ever, key. The Manager continues to focus on mid box clusters as the basis for the portfolio exposure, located in the key distribution locations and infrastructure hubs with both the site and the accommodation built for purpose but flexible enough to allow for long term ownership.

The portfolio has limited exposure to the multi-let Greater London terraces which we observe have been a major driver of market performance for the sector, with London Industrials delivering 26.7 per cent over the year. Key contributions to performance from the industrial sector came from the two multi-let assets at Eastleigh where rental growth in the open market was combined with successful asset management to crystallise income growth. Further returns came from Echo Park, Banbury, reflecting the strength of sentiment towards South East logistics, and Lakeside Industrial Estate, Colnbrook where both leasing success and investor appetite for south east multi-lets located close to infrastructure and population centres delivered capital value growth.

Much focus remains on unlocking the growth potential from the industrial portfolio. Despite traditionally elastic supply, there is suggestion that even in light of rising construction starts, industrial developers are struggling to keep up with active tenant demand. Even allowing for an improvement in supply pipeline, much of this promise relates to the 'last mile' conundrum for delivery and distribution businesses. For these occupier's location is king, particularly the proximity to market or end user. Weightings towards key urban centres, particularly London and the South East should continue to deliver attractive risk adjusted returns for the portfolio.

Borrowings

The Company refinanced in 2015 to secure a new £90 million 11 year non-amortising term loan facility agreement with Canada Life Investments and a £20 million 5 year revolving credit facility agreement with Barclays Bank plc. The fixed interest rate applicable to the loan with Canada Life Investments is at the all-in rate of 3.36 per cent per annum and the rate payable in respect of the revolving credit facility with Barclays Bank plc is 1.45 per cent per annum over 3-month LIBOR.

The Company continues to adopt a prudent approach to borrowing, with net gearing* of 26.2 per cent at 30 June 2018.

Outlook

Despite headwinds for the retail portfolio in particular, and a period likely to be characterised by mid to low single digit returns, the Manager believes that the portfolio is well placed to deliver solid relative performance, led by exposure to desirable areas of the market, the completion of selected asset management initiatives and a dependable income return. Given the level of competition for core, defensive assets, the objective remains to approach both acquisitions and disposals on an opportunistic basis, but to continue to prioritise exiting the diminishing tail of smaller non-core assets that are less likely to offer attractive risk adjusted contributions to the Company objective. Plenty of value-add opportunities exist amongst the Company's held assets which may well prove a more appropriate use of the Company's cash resources at this time than new purchases, with the associated drag of acquisition costs.

Brexit and its economic and political repercussions will inevitably be a major factor influencing investors for several years. The consensus economic outlook is for sustained but fairly modest economic growth and some moderation in inflation. In this environment, we would expect investors to continue to favour core product and prioritise the longevity of a secure income stream. The other major factor is the likely path of interest rates. The Bank of England has indicated that long term central bank interest rates may be lower than in the past and while some further rate increases are anticipated by the market, this may act to reduce upward pressure on property yields as rates rise, though a weakening of rental growth may justify a softening of capital values for selected sub markets. Despite marginally higher yields in UK core markets than comparable European counterparts, the scope for further yield compression to drive performance looks to be limited. We would therefore continue to expect income to be the major driver of performance over the coming years.

Peter Lowe
BMO Rep Property Management Limited

* See Alternative Performance Measures

F&C UK Real Estate Investments Limited

Consolidated Statement of Comprehensive Income

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Revenue		
Rental income	**19,134**	19,191
Other income	**4,375**	-
Total revenue	**23,509**	19,191
Gains on investment properties		
Gains on sale of investment properties realised	**1,568**	781
Unrealised gains on revaluation of investment properties	**14,851**	2,008
	39,928	21,980
Expenditure		
Investment management fee	**(2,156)**	(2,013)
Other expenses	**(1,619)**	(1,966)
Total expenditure	**(3,775)**	(3,979)
Net operating profit before finance costs and taxation	**36,153**	18,001
Net finance costs		
Interest receivable	**2**	4
Finance costs	**(3,550)**	(3,598)
	(3,548)	(3,594)
Net profit from ordinary activities before taxation	**32,605**	14,407
Taxation on profit on ordinary activities	**(295)**	(306)
Profit for the year	**32,310**	14,101
Basic and diluted earnings per share	**13.4p**	5.9p

All items in the above statement derive from continuing operations.

All of the profit for the year is attributable to the owners of the Company.

F&C UK Real Estate Investments Limited

Consolidated Balance Sheet

	30 June 2018 £'000	30 June 2017 £'000
Non-current assets		
Investment properties	**349,268**	330,834
Trade and other receivables	**3,692**	3,894
	352,960	334,728
Current assets		
Trade and other receivables	**1,282**	1,291
Cash and cash equivalents	**15,037**	16,565
	16,319	17,856
Total assets	**369,279**	352,584
Non-current liabilities		
Interest-bearing bank loans	**(102,299)**	(105,061)
Trade and other payables	**(291)**	(352)
	(102,590)	(105,413)
Current liabilities		
Trade and other payables	**(5,279)**	(6,023)
Tax payable	**(294)**	(306)
	(5,573)	(6,329)
Total liabilities	**(108,163)**	(111,742)
Net assets	**261,116**	240,842
Represented by:		
Share capital	**2,407**	2,407
Special distributable reserve	**177,161**	177,161
Capital reserve	**77,693**	61,274
Revenue reserve	**3,855**	-
Equity shareholders' funds	**261,116**	240,842
Net asset value per share	**108.5p**	100.1p

F&C UK Real Estate Investments Limited

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 July 2017	2,407	177,161	61,274	-	240,842
Profit for the year	-	-	-	32,310	32,310
Total comprehensive income for the year	-	-	-	32,310	32,310
Dividends paid	-	-	-	(12,036)	(12,036)
Transfer in respect of gains on investment properties	-	-	16,419	(16,419)	-
At 30 June 2018	**2,407**	**177,161**	**77,693**	**3,855**	**261,116**

For the year ended 30 June 2017

	Share Capital £'000	Special Distributable Reserve £'000	Capital Reserve £'000	Revenue Reserve £'000	Total £'000
At 1 July 2016	2,387	175,367	58,485	503	236,742
Profit for the year	-	-	-	14,101	14,101
Total comprehensive income for the year	-	-	-	14,101	14,101
Issue of ordinary shares	20	1,965	-	-	1,985
Dividends paid	-	-	-	(11,986)	(11,986)
Transfer in respect of gains on investment properties	-	-	2,789	(2,789)	-
Transfer to revenue reserve	-	(171)	-	171	-
At 30 June 2017	**2,407**	**177,161**	**61,274**	**-**	**240,842**

F&C UK Real Estate Investments Limited

Consolidated Statement of Cash Flows

	Year ended 30 June 2018 £'000	Year ended 30 June 2017 £'000
Cash flows from operating activities		
Net profit for the year before taxation	**32,605**	14,407
Adjustments for:		
Gains on sale of investment properties realised	**(1,568)**	(781)
Unrealised gains on revaluation of investment properties	**(14,851)**	(2,008)
Decrease in operating trade and other receivables	**211**	1,829
Decrease in operating trade and other payables	**(805)**	(497)
Interest received	**(2)**	(4)
Finance costs	**3,550**	3,598
	19,140	16,544
Taxation paid	**(306)**	(284)
Net cash inflow from operating activities	**18,834**	16,260
Cash flows from investing activities		
Purchase of investment properties	**(10,190)**	(450)
Capital expenditure	**(1,067)**	(1,257)
Sale of investment properties	**9,242**	7,460
Interest received	**2**	4
Net cash (outflow)/inflow from investing activities	**(2,013)**	5,757
Cash flows from financing activities		
Shares issued (net of costs)	**-**	1,985
Dividends paid	**(12,036)**	(11,986)
Bank loan interest paid	**(3,313)**	(3,382)
Bank loan repaid, net of costs – Barclays Loan	**(3,000)**	(4,000)
Net cash outflow from financing activities	**(18,349)**	(17,383)
Net (decrease)/ increase in cash and cash equivalents	**(1,528)**	4,634
Opening cash and cash equivalents	**16,565**	11,931
Closing cash and cash equivalents	**15,037**	16,565

Principal Risks and Risk Management

The Group's assets consist of direct investments in UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also the particular circumstances of the properties in which it is invested and their tenants. More detailed explanations of these risks and the way in which they are managed are contained under the headings of Credit Risk, Liquidity Risk, Interest Rate Risk and Market Price Risk. The Manager also seeks to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential tenants before entering into any new lease agreements. All of the properties in the portfolio are insured.

Other risks faced by the Group include the following:

- Market – the Group's assets comprise of direct investments in UK commercial property and it is therefore exposed to movements and changes in the market.

- Investment and strategic – poor investment processes and incorrect strategy, including sector and geographic allocations and use of gearing, could lead to poor returns for shareholders.

- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.

- Tax structuring and compliance – changes to the management and control of the Group or changes in legislation could result in the Group no longer being a tax efficient investment vehicle for shareholders.

- Financial – inadequate controls by the Manager or third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of regulations. Breaching Guernsey solvency test requirements or loan covenants could lead to a loss of shareholders' confidence and financial loss for shareholders.

- Reporting – valuations of the investment property portfolio require significant judgement by valuers which could lead to a material impact on the net asset value. Incomplete or inaccurate income recognition could have an adverse effect on the Group's net asset value, earnings per share and dividend cover.

- Credit – an issuer or counterparty could be unable or unwilling to meet a commitment that it has entered into with the Group. This may cause the Group's access to cash to be delayed or limited.

- Operational – failure of the Manager's accounting systems or disruption to the Manager's business, or that of third party service providers through error, fraud, cyber attack or business continuity failure could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.

- Environmental – inadequate attendance to environmental factors by the Manager, including those of a regulatory and market nature and particularly those relating to energy performance, flood risk and environmental liabilities, leading to the reputational damage of the Company, reduced liquidity in the portfolio, and/or negative asset value impacts.

The Board seeks to mitigate and manage these risks through continual review, policy-setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Group's property portfolio.

The Manager seeks to mitigate these risks through active asset management initiatives and carrying out due diligence work on potential tenants before entering into any new lease agreements.

The principal risks encountered during the year, how they are mitigated and actions taken to address these are set out in the table below.

Principal Risk	Mitigation	Actions taken in the year
Valuers have difficulty in valuing the property assets due to lack of market evidence or market uncertainty. Error in the calculation/ application of the Company Net Asset Value ('NAV') leads to a material misstatement. *Risk unchanged in the year under review.*	Professional external valuers are appointed to value the portfolio on a quarterly basis. There is regular liaison with the valuers regarding all elements of the portfolio. There is attendance by one or more Directors at the valuation meetings and the Auditors attend the year end valuation meeting.	Valuing properties was challenging in the aftermath of the Brexit vote in June 2016. There has been more transactional based market evidence this year which the valuers have used to assist them in producing the quarterly valuations. There was attendance by one or more Directors at the valuation meetings throughout the year.
Unfavourable markets, poor stock selection, inappropriate asset allocation and under-performance against benchmark and/or peer group. This risk may be exacerbated by gearing levels. Risk unchanged throughout the year under review.	The underlying investment strategy, performance, gearing and income forecasts are reviewed with the Investment Manager at each Board Meeting. The Company's portfolio is well diversified and of a high quality. Gearing is kept at modest levels.	The Board review the Manager's performance at quarterly Board Meetings against key performance indicators and is satisfied that the Manager's long-term performance is in line with expectations.
The retail market has witnessed a number of company voluntary arrangements, profit warning announcements and administrations in recent months. There is an increased risk of tenant defaults in this sector which could put the level of dividend cover at risk. *Risk increased in the year under review.*	The Manager provides regular information on the expected level of rental income that will be generated from the underlying properties. The Portfolio is well diversified by geography and sector and the exposure to individual tenants is monitored and managed to ensure there is no over exposure.	The portfolio was lightly impacted as at 30 June 2018. Post year-end Homebase, a tenant in three of the portfolio's properties, placed the business into a CVA. Business plans are in place to address potential consequences on the assets affected and the Manager remains confident in successfully negotiating a satisfactory outcome.

Viability Assessment and Statement

The Board conducted this review over a 5 year time horizon, a period thought to be appropriate for a commercial property Investment Company with a long-term investment outlook; borrowings secured over an extended period and a portfolio with a weighted average unexpired lease length of 5.9 years. The assessment has been undertaken taking into account the principal risks and uncertainties faced by the Group which could threaten its objective, strategy, future performance, liquidity and solvency.

The major risks identified as relevant to the viability assessment were those relating to a downturn in the UK commercial property market and its resultant effect on the valuation of the investment portfolio, the level of rental income being received and the effect that this would have on cash resources and financial covenants. The Board took into account the illiquid nature of the Company's portfolio, the existence of the long-term borrowing facilities, the effects of any significant future falls in investment values and income receipts on the ability to repay and re-negotiate borrowings, maintain dividend payments and retain investors. These matters were assessed over an initial period to September 2023, and the Directors will continue to assess viability over five year rolling periods, taking account of foreseeable severe but plausible scenarios.

In the ordinary course of business, the Board reviews a detailed financial model on a quarterly basis, incorporating market consensus forecast returns, projected out to the maturity of its principal loan of £90 million which is due to mature in 2026. This model uses prudent assumptions and factors in any potential capital commitments. For the purpose of assessing the viability of the Group, the model has been adjusted to look at the next five years and is stress tested with projected returns comparable to the commercial property market crash experienced between 2007 and 2009. The model projects a worst case scenario of an equivalent fall in capital and income values over the next two years, followed by three years of zero growth. The model demonstrated that even under these extreme circumstances the Company remains viable.

Based on their assessment, and in the context of the Group's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 5 year period to September 2023.

Financial Instruments and Investment Property

The Group's investment objective is to provide ordinary shareholders with an attractive level of income together with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Consistent with that objective, the Group holds UK commercial property investments. In addition, the Group's financial instruments comprise cash, receivables, interest-bearing loans and payables that arise directly from its operations.

The Group is exposed to various types of risk that are associated with financial instruments. The most important types are credit risk, liquidity risk, interest rate risk and market price risk. There was no foreign currency risk as at 30 June 2018 or 30 June 2017 as assets and liabilities are maintained in Sterling.

Credit risk

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Group.

In the event of default by an occupational tenant, the Group will suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property until it is re-let. The Board receives regular reports on concentrations of risk and any tenants in arrears. The Manager monitors such reports in order to anticipate, and minimise the impact of, defaults by occupational tenants.

The Group has a diversified tenant portfolio. The maximum credit risk from the rent receivables of the Group at 30 June 2018 is £664,000 (2017: £502,000). It is the practice of the Group to provide for rental debtors greater than three months overdue unless there is certainty of recovery. As at 30 June 2018 the provision was £40,000 (2017: £136,000). Of this amount £nil was subsequently written off and £8,000 has been recovered.

All of the cash is placed with financial institutions with a credit rating of A or above. Bankruptcy or insolvency may cause the Group's ability to access cash placed on deposit to be delayed or limited. Should the credit quality or the financial position of the banks currently employed significantly deteriorate, the Manager would move the cash holdings to another financial institution.

The Group can also spread counterparty risk by placing cash balances with more than one financial institution. The Directors consider the residual credit risk to be minimal.

Liquidity risk

Liquidity risk is the risk that the Group will encounter in realising assets or otherwise raising funds to meet financial commitments. The Group's investments comprise UK commercial property.

Property in which the Group invests is not traded in an organised public market and may be illiquid. As a result, the Group may not be able to liquidate quickly its investments in these properties at an amount close to their fair value in order to meet its liquidity requirements.

The Group's liquidity risk is managed on an ongoing basis by the Manager and monitored on a quarterly basis by the Board. In order to mitigate liquidity risk the Group aims to have sufficient cash balances (including the expected proceeds of any property sales) to meet its obligations for a period of at least twelve months.

In certain circumstances, the terms of the Group's bank loans entitle the lender to require early repayment, for example if covenants are breached, and in such circumstances the Group's ability to maintain dividend levels and the net asset value attributable to the Ordinary Shares could be adversely affected.

Interest rate risk

Some of the Group's financial instruments are interest-bearing. These are a mix of both fixed and variable rate instruments with differing maturities. As a consequence, the Group is exposed to interest rate risk due to fluctuations in the prevailing market rate.

The Group's exposure to interest rate risk relates primarily to the Group's borrowings. Interest rate risk on the £90 million Canada Life term loan is managed by fixing the interest rate on such at 3.36 per cent until maturity on 9 November 2026.

In addition, tenant deposits are held in interest-bearing bank accounts and the interest rate on these accounts was nil at the year end. Interest accrued on these accounts is paid to the tenant.

Market price risk

The Group's strategy for the management of market price risk is driven by the investment policy. The management of market price risk is part of the investment management process and is typical of commercial property investment. The portfolio is managed with an awareness of the effects of adverse valuation movements through detailed and continuing analysis, with an objective of maximising overall returns to shareholders. Investments in property and property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to substantial uncertainty. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where such sales occur shortly after the valuation date. Such risk is minimised through the appointment of external property valuers.

Going Concern

In assessing the going concern basis of accounting the Directors have had regard to the guidance issued by the Financial Reporting Council. They have reviewed detailed cash flow, income and expense projections in order to assess the Company's ability to pay its operational expenses, bank interest and dividends. The Directors have examined significant areas of possible financial risk including cash and cash requirements and the debt covenants, in particular those relating to loan to value and interest cover. The Directors have not identified any material uncertainties which cast significant doubt on the Company'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 financial statements. The Board believes it is appropriate to adopt the going concern basis in preparing the financial statements.

Directors' Responsibilities in Respect of the Annual Report & Consolidated Accounts

In accordance with International Financial Reporting Standards as adopted by the EU and applicable law, we confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and comply with The Companies (Guernsey) Law, 2008 (as amended);

- the Strategic Report and the Directors' Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that it faces;

- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and

- the financial statements and Directors' Report includes details of related party transactions.

On behalf of the Board

V Lall
Chairman
27 September 2018

F&C UK Real Estate Investments Limited

Notes to the Consolidated Financial Statements
for the year ended 30 June 2018

1. The audited results of the Group which were approved by the Board on 27 September 2018 have been prepared on the basis of International Financial Reporting Standards as adopted by the EU, interpretations issued by the IFRS Interpretations Committee, applicable legal and regulatory requirements of the Companies (Guernsey) Law, 2008 (as amended) and the Listing Rules of the UK Listing Authority as well as the accounting policies set out in the statutory accounts of the Group for the year ended 30 June 2018.

2. The fourth interim dividend of 1.25p will be paid on 28 September 2018 to shareholders on the register on 14 September 2018. The ex-dividend date was 13 September 2018.

3. There were 240,705,539 Ordinary Shares in issue at 30 June 2018. The earnings per Ordinary Share are based on the net profit for the year of £32,310,000 and on 240,705,539 Ordinary Shares, being the weighted average number of shares in issue during the year.

4. These are not full statutory accounts. The full audited accounts for the year ended 30 June 2018 will be sent to shareholders in September 2018, and will be available for inspection at Trafalgar Court, Les Banques, St. Peter Port, Guernsey, the registered office of the Company. The full annual report and consolidated accounts will be available on the Company's websites: fcre.co.uk or fcre.gg

5. The Annual General Meeting will be held on 21 November 2018.

Alternative Performance Measures

The Company uses the following Alternative Performance Measures (‘APMs’). APMs do not have a standard meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other entities.

Discount or Premium – The share price of an Investment Company is derived from buyers and sellers trading their shares on the stock market. If the share price is lower than the NAV per share, the shares are trading at a discount. This usually indicates that there are more sellers than buyers. Shares trading at a price above the NAV per share, are said to be at a premium.

Dividend Cover – The percentage by which Profits for the year (less Gains/losses on investment properties) cover the dividend paid.

A reconciliation of dividend cover is shown below:

		30 June 2018	30 June 2017
		£'000	£'000
Profit for the year		32,310	14,101
Less:	Realised gains	(1,568)	(781)
	Unrealised gains	(14,851)	(2,008)
	Other income	(4,375)	-
Profit before investment gains and losses		11,516	11,312
Dividends		12,036	11,986
Dividend Cover percentage		95.7%	94.4%

Dividend Yield – The annualised dividend divided by the share price at the year-end.

Net Gearing – Borrowings less net current assets divided by value of investment properties.

Ongoing Charges – All operating costs incurred by the Company, expressed as a proportion of its average Net Assets over the reporting year. The costs of buying and selling investments and derivatives are excluded, as are interest costs, taxation, non-recurring property costs and the costs of buying back or issuing Ordinary Shares.

		30 June 2018	30 June 2017
		£'000	£'000
Total expenditure		3,775	3,979
Less non-recurring costs		(793)	(1,126)
Total	(a)	2,982	2,853
Average net assets	(b)	251,751	234,917
Ongoing charges (c=a/b)	(c)	1.2%	1.2%

Portfolio (Property) Capital Return – The change in property value during the period after taking account of property purchase and sales and capital expenditure, calculated on a quarterly time-weighted basis.

Portfolio (Property) Income Return – The income derived from a property during the period as a percentage of the property value, taking account of direct property expenditure, calculated on a quarterly time-weighted basis.

Portfolio (Property) Total Return – Combining the Portfolio Capital Return and Portfolio Income Return over the period, calculated on a quarterly time-weighted basis.

Total Return – The return to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the Share Price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or Net Assets, respectively, on the date on which they were quoted ex-dividend.

All enquiries to:
Peter Lowe
Scott Macrae
F&C Investment Business Limited
Tel: 0207 628 8000

The Company Secretary
Northern Trust International Fund Administration Services (Guernsey) Limited
PO BOX 255
Trafalgar Court
Les Banques
St Peter Port
Guernsey GY1 3QL
Tel: 01481 745001