

Manager Commentary
Peter Lowe



Total returns for the UK property market, as measured by the Investment Property Databank (IPD) Quarterly Universe, were 1.7% in the second quarter of 2018. The annual total return was 9.4%, with capital values up 0.6% over the quarter and 4.7% over the year.

Performance eased further in the second quarter of 2018 on account of moderating yield impact and lower rental growth at the all-property level. Investment activity was broadly in line with the long-term average. Overseas buying was substantial but countered by a high level of sales, such that net investment was barely positive. Institutions were net investors over the quarter, in part reflecting a lower level of sales, with local authorities still particularly active. Private property companies continued to be net sellers of property. Property funds recorded positive inflows from retail investors. Investors remained focused on industrial assets, alternatives and long income, while sentiment towards retail turned increasingly negative following a spate of administrations and the continued rationalisation of store portfolios.

The economy continued to deliver modestly positive gross domestic product growth. Inflation remained above target as fuel costs moved higher. There were also some concerns about a slowing of growth globally, the impact of higher tariffs and its potential impact on the UK. There were no major changes to fiscal or monetary policy in the quarter, although the official rate was raised after the period-end. The Brexit negotiations remained challenging, with little consensus within the government and still much to be negotiated with the EU. However, the market expects slower growth rather than major dislocation following the March 2019 deadline.

The market became increasingly polarised during the quarter. Industrials pulled further ahead, delivering a 4.8% total return, while the retail sector weakened to show a marginal 0.1% total return. The quarterly total return for offices was 1.5% and 1.9% for alternatives. Within the segments, South East industrials outperformed the regions, although both were well above the all-property average. In retail, total returns for standard retail outside the South East and for shopping centres was negative. Open market rental value growth eased further to 0.2% at the all-property level, affected by a negative performance for retail.

The June 2018 quarter saw some moderation in performance, with the market likely to be moving into a mature phase of the cycle. The asset class generally is expected to be supported by its attractive income return.

The Company portfolio returned 2.5% over the quarter, with total returns of 11.7% over the year (outperforming the IPD Quarterly Index of 9.4% over the same period), driven by above-index capital growth and an annual income return of 5.3%.

The portfolio continues to derive structural benefit from its overweight to the industrial sector (37% by value), aided by both offices and retail outperforming their respective peer groups within the Quarterly Index over the year to June. The initial yield on the portfolio is 4.8% with a c.60% weighting to the South East. The void rate at the quarter end was 4.6% by estimated recovery value, with lettings post period having reduced this and terms agreed and solicitors instructed on over 95% of the remaining vacancy.

The political climate remains uncertain and we expect investor sentiment to become increasingly focused on Brexit, for better or worse, as the March 2019 deadline approaches. We believe overseas investment could experience a softening of sentiment as capital taxation changes come into effect in 2019, though the direction of travel for sterling will also be a key factor. Investors are still expecting interest rates to rise, but the Bank of England's announcement that the neutral interest rate for monetary policy may be lower than in the past may limit the extent of the increase. This could increase the longevity of the cycle. The banking system is in better order than at the last market peak and new supply of development stock is constrained, providing further protection on the downside. With that in mind, we continue to expect a period of single digit total returns, driven by income.

Key facts

Trust aims: To provide ordinary shareholders with an attractive level of income with the potential for income and capital growth from investing in a diversified UK commercial property portfolio.

Fund type: Investment Trust

Launch date: 1 June 2004

Total assets: £369.28 million

Share price: 99.80p

NAV*: 108.48p

Discount/Premium (-/+): -8.00%

Dividend payment dates: Mar, Jun, Sep, Dec

Net dividend yield †: 5.01%

Net gearing:** 26.21%

Vacant property: 4.64%

Weighted average lease length: 5.93 years

Management fee rate*:** 0.60%

Ongoing charges**:** 1.20%

Year end: 30 June

Sector: Property Direct - UK

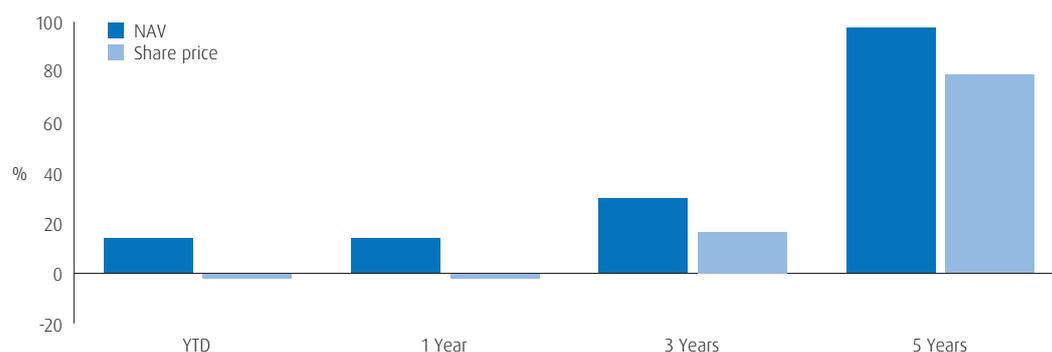
Currency: Sterling

Website:

www.fcrc.co.uk

www.fcrc.gg

Fund performance



Cumulative performance (%) as at 30.06.18

	3 Months	Year to date	1 Year	3 Years	5 Years
NAV	2.7	13.6	13.6	29.7	97.3
Share price	1.0	-1.9	-1.9	16.3	78.9

Discrete annual performance (%) as at 30.06.18

	2018	2017	2016	2015	2014
NAV	13.6	6.1	7.5	22.7	23.9
Share price	-1.9	26.8	-6.5	24.9	23.2

Past performance is not a guide to future performance. Source: Lipper and F&C. Basis: Percentage growth, total return, bid to bid price with net income reinvested in sterling. Basis in accordance with the regulations of the Financial Conduct Authority.

Telephone calls may be recorded

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Key risks

Stock market movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. Changes in rates of exchange may have an adverse effect on the value, price or income of investments. If markets fall, gearing can magnify the negative impact on performance.

The value of property related securities are likely to reflect valuations determined by professional valuers. Such valuations are the opinion of valuers at a particular point in time and are likely to be revised and movements may cause the value of investments and the income from them to fall as well as rise and investors may not get back the amount originally invested. Property and property related assets can sometimes be illiquid. A fund investing in a specific country carries a greater risk than a fund diversified across a range of countries. If markets fall, gearing can magnify the negative impact on performance.

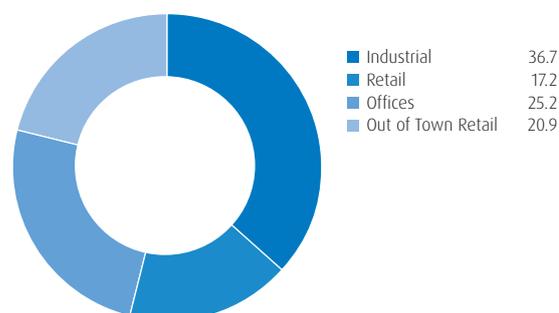
Trust codes

Sedol	
FCRE - GBP	B012T52

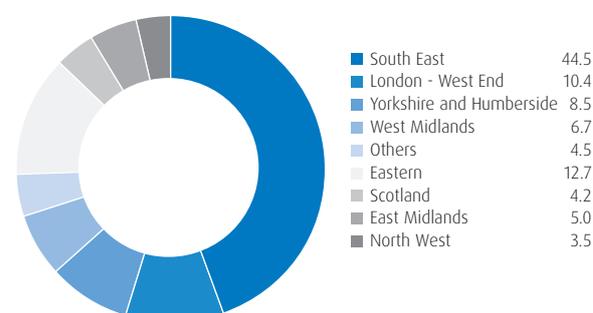
Top 10 property investments (%)

London W1, 14 Berkeley Street	8.0
Banbury, 3663 Unit, Echo Park	6.9
Colnbrook, Units 1-8 Lakeside Road	5.8
Eastleigh, Southampton International Park	5.0
Hemel Hempstead, Hemel Gateway	4.5
York, Clifton Moor Gate	3.7
Bracknell, 1/2 Network Bracknell, Eastern Road	3.4
Edinburgh, 1-2 Lochside Way, Edinburgh Park	3.1
Leamington Spa, 30-40 Parade	2.9
Eastleigh, Wide Lane	2.9
Total	46.2

Sector breakdown



Geographical breakdown



Net dividend distributions pence per share

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
March	1.8	1.8	1.8	1.8	1.8	1.8	1.25	1.25	1.25	1.25	1.25
June	1.8	1.8	1.8	1.8	1.8	1.8	1.25	1.25	1.25	1.25	1.25
September	1.8	1.8	1.8	1.8	1.8	1.25	1.25	1.25	1.25	1.25	
December	1.8	1.8	1.8	1.8	1.8	1.25	1.25	1.25	1.25	1.25	
Total	7.2	7.2	7.2	7.2	7.2	6.1	5	5	5	5	2.5

Structure

At launch on 1 June 2004, the Company had a capital structure comprising approximately 60 per cent Ordinary Shares and 40 per cent bank debt.

Ordinary shareholders are entitled to all dividends declared by the Company and to all the Company's assets after repayment of its borrowings. As at 30 June 2018, borrowings consisted of loans drawn down of £103 million: £90 million fixed term facility from Canada Life due to expire in November 2026 and £13 million of the revolving credit facility from Barclays due to expire in November 2020. The weighted average interest rate on the Group's current borrowings is 3.2%.

All data as at 30.06.18 unless otherwise stated.

All information is sourced from F&C unless otherwise stated. * The NAV is calculated under International Financial Reporting Standards. † Calculated with reference to projected annual dividends of 5.0 pence per share. ** Bank Debt (less net current assets) divided by investment properties. *** Please refer to the latest annual report as to how the fee is structured. **** Ongoing charges are total expenses (excluding direct property expenses) as a percentage of average net assets. The share price may either be below (at a discount) or above (at a premium) the NAV. Discounts and premiums vary continuously. Performance information excludes any product charges which can be found in the Key Investor Document ("KID") for the relevant product. The factsheet is issued and approved by F&C Management Limited authorised and regulated in the UK by the Financial Conduct Authority. (09/18)