

# Securing income

## WHO WE ARE

Gladstone Global Advisory As an independent, fee-only advisory firm providing comprehensive, long-term financial planning, Gladstone strives to provide service excellence through an uncompromising commitment to the happiness of our clients and staff. Clients can expect one-on-one delivery of information and personal attention to their portfolio and life planning needs.

Since our founding in 1974, it has been our mission to deliver unbiased and independent advice, while building client loyalty through trust, integrity and unsurpassed service. Gladstone team of seasoned investment, tax and financial planning professionals provide customized, attentive service that is unsurpassed in the industry.

## WHAT WE DO

Our investment objective is to provide shareholders with an attractive level of income together with the prospect of income and capital growth

## FOCUSSED REGIONAL APPROACH

The portfolio contains properties located throughout the regions of the UK. While the Company's investment policy does not preclude investment in London, the current low yields on offer do not sit well with our focus on income.

In constructing the portfolio we have avoided the herd mentality of many investors and selected assets we believe are right for our strategy, without being forced into stiff pricing competition. The outcome is a well located, diversified portfolio of quality assets which offer a robust income stream but with opportunities to enhance and improve it.

Gladstoneglobaladvisory.com

## KEY FINANCIAL FACTS AT 30 JUNE 2019

### Portfolio Value

£326.8m

### EPRA NAV per share

111.03p

### Market capitalisation

£198.2m

### Share Price

93.8p

### EPRA Vacancy Rate

3.4%\*

\*If rental guarantees are considered, the vacancy falls to 2.9%.

### Annualised dividend per share

5.75p

### Annualised dividend yield

6.1%

### NAV total return

2.3%

12 months to 30 June 2019

### WAULT

6.2 years

### Gearing (debt to total assets)

31.7%

## DISCLAIMER

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**QUARTER OVERVIEW**

The structural changes occurring in the retail market and the negative sentiment towards the sector as a whole (from which the retail warehouse sub-sector has not been immune), have resulted in a small decline of 1.05% in the NAV in the quarter. The NAV is now 111.03 pence. However, the impact was reduced as a result of successful asset management.

**ASSET MANAGEMENT ACTIVITY**

During the quarter, we completed a lease extension with B&Q plc (B&Q) at Clwyd Retail Park in Rhyl. B&Q is the anchor tenant on the park and has underscored its commitment to the location by signing a lease extension which will expire in June 2029. B&Q will continue to pay £508,644 per annum and received a 13-month rent free period to facilitate the deal.

**RESILIENT INCOME**

Despite the negativity and changes in the retail sector, the Company's contracted income has remained resilient and was £21.6m at the quarter end, the same as it was in December 2017. Over the same period, the annual contracted rent in the retail warehouse portfolio has been maintained at £16.3m. The dividend remains fully covered, with cover at the quarter end of 117%.

The Company has not been immune to tenant CVAs, with 10 units being affected. However only one unit has become vacant which is just 0.4% of

the Company's annual contracted rent. Where rent reductions have been imposed or opportunities to break leases have been inserted into leases via the CVA process, we have been proactive in securing the best outcome for the Company. We have either renegotiated lease terms with occupiers or have secured vacant possession of the unit to re-let them to better quality tenants.

We have been able to do this as the Company has assets in locations where tenants trade well and rents are affordable; the average rent for the Company's retail warehouse units is £15.50 per sq. ft., which provides a good base for lease negotiations.

**ARCADIA CVA**

As was widely reported by the media, Arcadia completed a CVA during the period. We have two units let to Arcadia group companies, one in Hull and one in Widnes. Both will remain open under the terms of the CVA, albeit the Company has had to accept a rent reduction which represents 0.63% of the rent roll of the Company.

Under the terms of the CVA we are entitled to break Arcadia's leases and secure vacant possession of each unit, should we wish to do so. We believe there are good prospects of reletting the units to new tenants.

The CVA process continues to present difficulties to landlords with some concern that it is one sided and

is being unfairly exploited by retailers. However, with the aforementioned break clauses in place, we are in a stronger position than we would be if dealing with an administration, giving us flexibility to aggressively manage our portfolio in the best interest of our shareholders.

**MARKET OUTLOOK**

As reported last quarter, political uncertainty continues to act as a brake on investment activity, as investors seek clarity on the key issues before making investment decisions. Investment volumes for the year to date are down on the same period of last year.

This period of inertia could result in further valuation declines, but the extent of these will vary not just by sector, but also by the fundamentals of each asset. Intensive asset management will help to moderate any valuation downside, will minimise vacancy and will secure income for the Company.

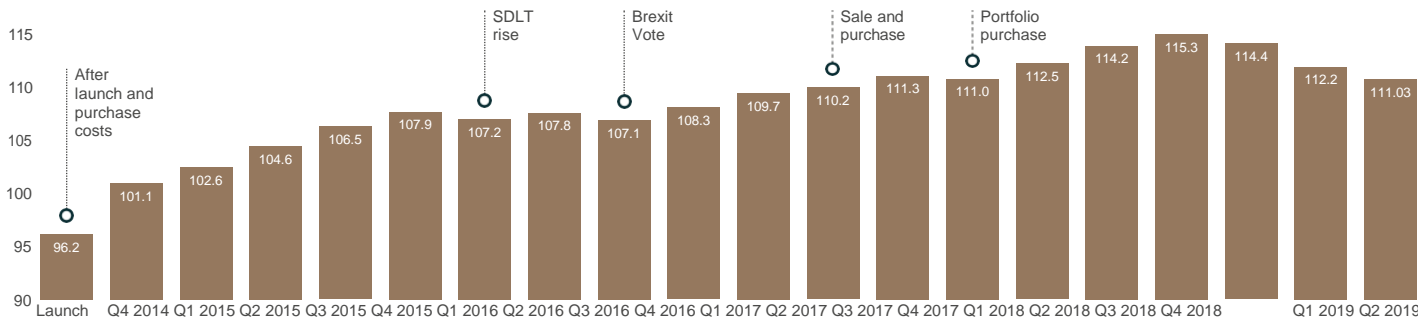
**PERFORMANCE**

As at 30 June 2019, the Fair Value independent valuation of the property portfolio was £326.8 million, a decrease of 0.6% on the 31 March 2019 valuation.

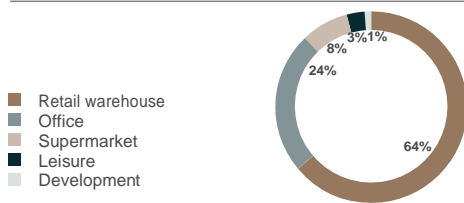
The NAV total return (including dividends) for the quarter was 0.2%, resulting in a NAV total return for the year to 30 June 2019 of 2.3%.

The dividend yield, based on the closing share price of 93.8 pence at the period end, is 6.1%.

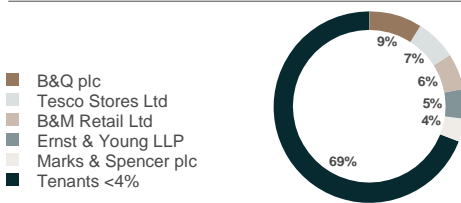
**NAV progression**



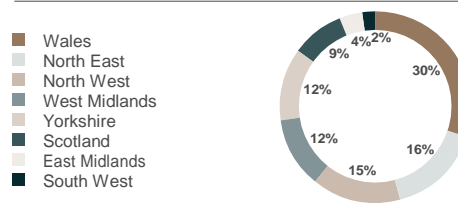
**Sector exposure at 30 June 2019**



**Tenant exposure at 30 June 2019**



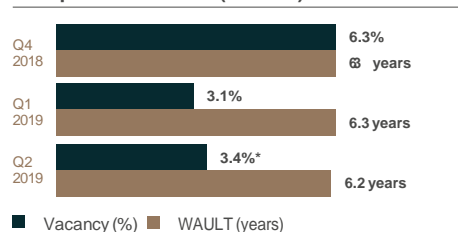
**Location exposure at 30 June 2019**



**PROPERTY PORTFOLIO AS AT 30 JUNE 2019**

Location	Name	Sub-sector	Market Value Range (£)	Tenure
Birmingham	St Philips Point	Office – Rest of UK	35-40m	Freehold
Newcastle	Citygate II	Office – Rest of UK	20-25m	Leasehold
Edinburgh	145 Morrison Street	Office – Rest of UK	10-15m	Heritable
Bath	Midland Bridge House	Office – Rest of UK	5-10m	Freehold
Prestatyn	Prestatyn Shopping Park	Retail Warehouse (54%) Supermarket (46%)	50m+	Freehold
Widnes	Widnes Shopping Park	Retail Warehouse	45-50m	Leasehold
Hull	Kingston Retail Park	Retail Warehouse	25-30m	Freehold
Sunderland	Pallion Retail Park	Retail Warehouse	25-30m	Freehold
Wrexham	Plas Coch Retail Park	Retail Warehouse	20-25m	Freehold
Coatbridge	B&Q	Retail Warehouse	15-20m	Heritable
Rhyl	Clwyd Retail Park	Retail Warehouse	15-20m	Freehold
Barnsley	Barnsley East Retail Park	Retail Warehouse	10-15m	Freehold
Daventry	Abbey Retail Park	Retail Warehouse	10-15m	Leasehold
Telford	Mecca Bingo	Leisure	0-5m	Freehold
Liverpool	Mecca Bingo	Leisure	0-5m	Freehold
Hartlepool	Mecca Bingo	Leisure	0-5m	Freehold
Haddington	Site	Development	0-5m	Heritable

**EPRA vacancy rate and weighted average unexpired lease term (WAULT)**



\* If rental guarantees are factored in, the vacancy falls to 2.9%.

**Lease expiries illustrating revenue impact on portfolio at 30 June 2019**

