

Manager Commentary
Peter Lowe



Total returns for the UK property market as measured by the Investment Property Databank (IPD) Quarterly Universe benchmark were 2.5 per cent in the third quarter of 2017. The annual total return improved to 9.6 per cent with capital values up 1.4 per cent over the quarter. The annual income return remained stable at 4.7 per cent over the year to September.

The quarter was characterised by a lack of substantive progress and continued uncertainty regarding the Brexit negotiations, with public division within the conservative party and weaker forecast growth giving the chancellor little room to manoeuvre in the annual budget. Monetary policy was unchanged over the quarter but the first upward adjustment in interest rates was made just post-period with inflation having risen to a five-year high. Economic growth has been supported by the depreciation of sterling, and resilient consumer spending, there are however signs that the latter may be fading as real incomes are squeezed. Gilt rates moved higher during the quarter but remain low by historic standards.

Property investment activity has recovered since the referendum-induced dip, with volumes above both the 2016 level and the long term average driven by overseas investors investing net £9bn in the first three quarters of 2017. Institutions remain net sellers and local authorities particularly acquisitive. Inflows to retail property funds were positive for most of 2017 but August saw net redemptions.

The Industrial and Distribution sectors have continued to drive market performance and remain the top performing subgroups over the year by some distance, followed by Alternatives. Offices outside London and the South East and Retail Warehousing recorded quarterly improvements with Shopping Centres still performing particularly poorly. Rental growth was unchanged from the previous quarter at 0.5 per cent for All Property, with strong outperformance by Industrials in the South East against offices and retail.

The Company portfolio returned 3.3 per cent over the quarter, with total returns of 11.2 per cent over the year (outperforming the IPD Quarterly Index of 9.6 per cent over the same period), driven by a top quartile annual income return of 5.8 per cent. Active management at the retail warehouse located at Northfields Park Rotherham and the central London mixed used property at 24 Haymarket resulted in these two assets being the top performers over the quarter. The Company's best performing assets over the year were the Industrials, exclusively located in the South East. The initial yield on the portfolio is 5.2 per cent

and the average weighted unexpired lease term is 6.3 years. The portfolio remains well-balanced both geographically and by sector split, with meaningful representation in the Manager's target markets including a 60 per cent weighting to the South East, and just over 30 per cent exposure to Industrials by sector.

During the quarter the Company completed the acquisition of a freehold industrial property located on Lister Road, Basingstoke, single let to a strong financial covenant for 9 years. The price of £9.56m reflected a yield of c.5.2 per cent. Post period the Company disposed of the single let shop unit at 100a Princess Street, Edinburgh for £3.35m, a small premium to valuation.

Generally there is a high level of equity in the market however there are signs that buyers are becoming far more discerning in stock selection. Long-term secure income remains prized by investors, as do Alternatives such as healthcare and hospitality with pricing in these markets reflecting the depth of demand.

Despite the political headwinds the UK Property Market has delivered a solid performance over the twelve months to September with total returns split broadly equally between income and capital. While there is undoubted a marked difference between the health and the prospects for the various subsectors pricing still offers an attractive yield margin against other asset classes and has been supported by historic low interest rates.

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: £349.54 million

Share price: 106.00p

NAV[†]: 102.69p

Discount/Premium (-/+): 3.22%

Dividend payment dates: Mar, Jun, Sep, Dec

Net dividend yield †: 4.72%

Net gearing^{}:** 29.34%

Vacant property: 3.90%

Weighted average lease length: 6.31 years

Management fee rate^{*}:** 0.60%

Ongoing charges^{**}:** 1.30%

Year end: 30 June

Sector: Property Direct - UK

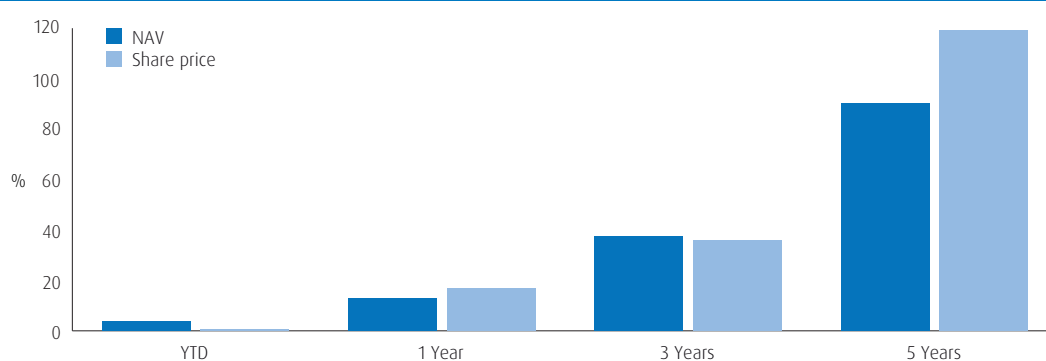
Currency: Sterling

Website:

www.fcrc.co.uk

www.fcrc.gg

Fund performance



Cumulative performance (%) as at 30.09.17

	3 Months	Year to date	1 Year	3 Years	5 Years
NAV	3.9	3.9	12.7	37.4	90.4
Share price	0.5	0.5	16.8	35.8	119.1

Discrete annual performance (%) as at 30.09.17

	2017	2016	2015	2014	2013
NAV	12.7	2.6	18.8	26.4	9.7
Share price	16.8	0.3	15.9	27.5	26.6

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.

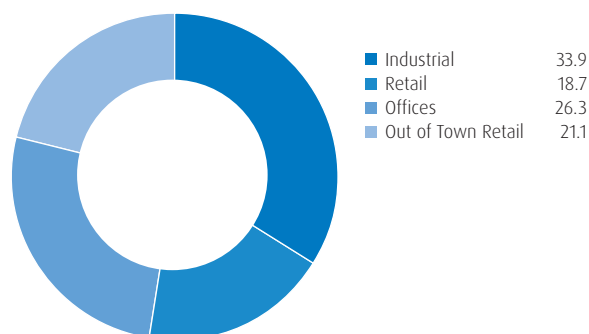
Past performance is not a guide to future performance.

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.

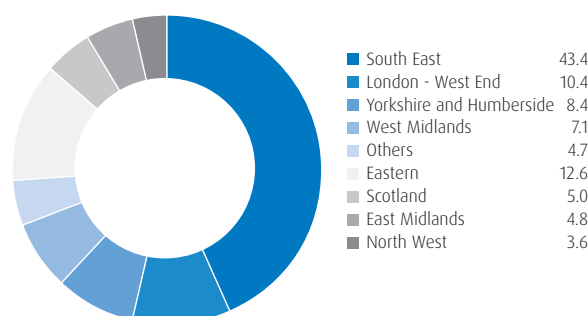
Trust codes	
Sedol	
FCRE - GBP	B012T52

Top 10 property investments (%)	
London W1, 14 Berkeley Street	7.9
Banbury, 3663 Unit, Echo Park	6.6
Colnbrook, Units 1-8 Lakeside Road	5.4
Eastleigh, Southampton International Park	4.4
Hemel Hempstead, Hemel Gateway	4.2
York, Clifton Moor Gate	3.6
Bracknell, 1/2 Network, Eastern Road	3.2
Leamington Spa, 30-40 The Parade & 47/59a Warwick Street	3.0
Edinburgh, 1-2 Lochside Way, Edinburgh Park	2.8
Andover, Keens House, Anton Mill Road	2.8
Total	43.9

Sector breakdown



Geographical breakdown



Net dividend distributions pence per share

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
March	1.80	1.80	1.80	1.80	1.80	1.80	1.25	1.25	1.25	1.25
June	1.80	1.80	1.80	1.80	1.80	1.80	1.25	1.25	1.25	1.25
September	1.80	1.80	1.80	1.80	1.80	1.25	1.25	1.25	1.25	1.25
December	1.80	1.80	1.80	1.80	1.80	1.25	1.25	1.25	1.25	
Total	7.20	7.20	7.20	7.20	7.20	6.10	5.00	5.00	5.00	3.75

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 September 2017, 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%.

Past performance is not a guide to future 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.

All data as at 30.09.17 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. (12/17) CM15167