

Manager Commentary
Peter Lowe



Total returns for the UK property market, as measured by the Investment Property Databank (IPD) Quarterly Universe, were 1.9% in the first quarter of 2018. The annual total return was 10.1%, with capital values up 0.8% over the quarter and 5.3% over the year. The annual income return was 4.6%.

Performance eased in the first quarter of the year, after a strong final quarter in 2017. Investment activity was more subdued across most segments compared with the same period of 2017, but volumes were broadly in line with the quarterly average for the period since 2010. Overseas net investment was still positive but was only around two-thirds of the long-term average. Local authority investment reached record levels in the quarter, and private individuals and listed property companies were also net investors. Property funds have continued to record positive inflows from retail investors. However, institutions became net sellers again in the quarter, as were private property companies. There is still a level of equity in the market searching for industrial assets, alternatives and long income.

The quarter saw some moderation in economic growth, in part affected by the weather, with the consensus gross domestic product estimate for the year being slightly downgraded. There are also measured concerns about a slowing of growth globally and its impact on the UK. There were no major changes to fiscal or monetary policy in the quarter. Brexit negotiations remain difficult, although the prospect of a transitional period is welcomed.

Industrials continued to drive performance, delivering a 4.0% total return, against 1.6% for offices and 1.0% for retail. The quarter was notable for a number of business failures and rationalisation in the retail sector, which continued to affect sentiment, especially towards shopping centres, where total returns turned negative. Open market rental value growth also moderated and was 0.3% at the all-property level, with only industrials and alternatives seeing positive growth, while retail and office rental growth was flat.

The quarter saw some moderation in performance, following a strong 2017 out-turn. As an asset class, property is expected to be supported by its attractive income return. However, the market may be reaching a mature phase of the cycle.

The Company portfolio returned 2.6% over the quarter, with total returns of 12.0% over the year (outperforming the IPD Quarterly Index of 10.1% over the same period), assisted by a top quartile annual income return of 5.5%.

The portfolio continues to derive structural benefit from its overweight to the industrial sector (35% by value), all assets being located within the wider South East. These assets delivered 4.7% over the quarter and 20.0% over the year. The initial yield on the portfolio is 4.9% with a c.60% weighting to the South East. The void rate is 4.1% by estimated recovery value.

The medium-term outlook continues to be influenced by Brexit, although the immediate sentiment surrounding its impact on the UK has seen some improvement. However, the political situation remains uncertain, with the government suffering internal stress and the opposition being viewed as potential beneficiaries. The strength of overseas investment could also experience a softening of sentiment as capital taxation changes come into effect in 2019.

Although investors are still expecting interest rates to rise, the weakness of growth and a fall in the rate of inflation may slow the pace of change and 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.

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: £365.60 million

Share price: 100.00p

NAV*: 106.82p

Discount/Premium (-/+): -6.38%

Dividend payment dates: Mar, Jun, Sep, Dec

Net dividend yield †: 5.00%

Net gearing:** 27.68%

Vacant property: 4.10%

Weighted average lease length: 5.93 years

Management fee rate*:** 0.60%

Ongoing charges**:** 1.30%

Year end: 30 June

Sector: Property Direct - UK

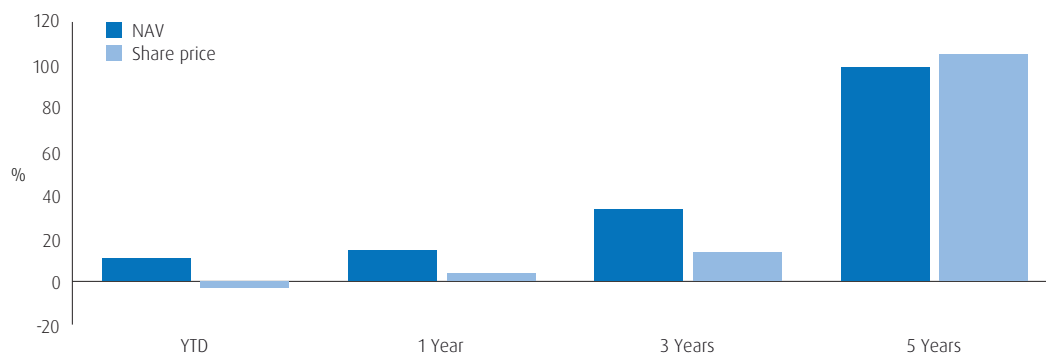
Currency: Sterling

Website:

www.fcrc.co.uk

www.fcrc.gg

Fund performance



Cumulative performance (%) as at 31.03.18

	3 Months	Year to date	1 Year	3 Years	5 Years
NAV	3.0	10.6	14.1	33.0	98.8
Share price	-2.0	-2.9	3.3	13.2	104.6

Discrete annual performance (%) as at 31.03.18

	2018	2017	2016	2015	2014
NAV	14.1	4.4	11.7	23.4	21.1
Share price	3.3	9.0	0.5	33.7	35.2

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

0800 136420

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.

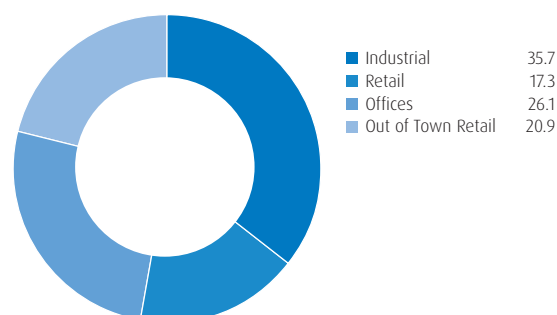
Trust codes

Sedol	
FCRE - GBP	B012T52

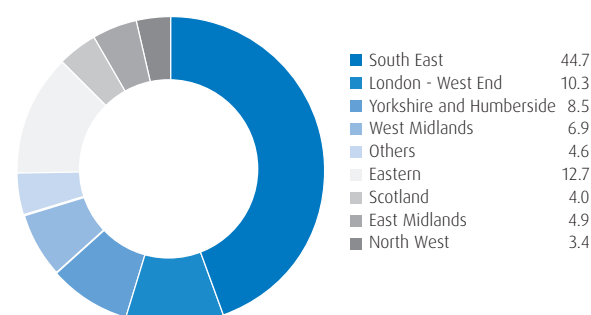
Top 10 property investments (%)

London W1, 14 Berkeley Street	7.9
Banbury, 3663 Unit, Echo Park	6.7
Colnbrook, Units 1-8 Lakeside Road	5.5
Eastleigh, Southampton International Park	4.9
Hemel Hempstead, Hemel Gateway	4.5
York, Clifton Moor Gate	3.7
Bracknell, 1/2 Network Bracknell, Eastern Rd	3.3
Leamington Spa, 30-40 Parade	3.0
Eastleigh, Wide Lane	2.8
Edinburgh, 1-2 Lochside Way, Edinburgh Park	2.8
Total	45.1

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	
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	1.25

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 31 March 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 31.03.18 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. (05/18)