RISKS AND MITIGATIONS

The Board sets out below the principal risks and uncertainties that the Directors consider could impact the business.

ECONOMIC RISK MANAGEMENT

ECONOMIC RISK	IMPACT	MITIGATION	LINK TO STRATEGY
Slowdown in the economies of the UK and Poland	Could lead to: • falls in the value of commercial property; • reduction in overall rent levels and occupier's ability to pay their rental commitments.	The Group closely monitors economic reports of the markets in which it operates and acts pre-emptively in accordance with its proactive property management policy. The Group endeavours to ensure it and the funds it manages have a well-diversified spread of property interests classified by region, by property type, by lot size and by sector classification (tenant mix).	
National epidemic or global pandemic	Restrictions on people's movements adversely affects all trade. Consequent reductions in GDP could adversely affect tenants' ability to meet their rental commitments for business premises.	The Group closely monitors debts owed by tenants, aided by maintaining close dialogue with all tenants. Maintaining liquidity in the funds and the property-owning companies is a priority.	
Weakening in the Euro and Polish Zloty against Sterling	Nearly all revenue from the Group Properties division is earned in foreign currencies and overseas profits are converted to Sterling (the reporting currency) on remission to the UK. Sterling strength therefore leads to a reduction in reported profits.	The Group closely monitors both movements and forecasts in the pertinent foreign exchange rates against its budgeted rates. Wherever possible, overseas investment is financed and matched in the local currency so that exposure to currency markets is limited. Under the Group's foreign currency risk management policy, hedging instruments can be used to hedge a proportion of specific items as specified in IAS 39.	
Extended period of interest rate tightening in the EU	Prolonged interest rate tightening could decrease equity returns due to higher debt servicing costs and may result in breaches of Debt Service Covenant Ratios (DSCR) which could require additional funds to remedy.	The Board regularly reviews property market forecasts and where possible adjusts it's geared strategy according to these changing market conditions. The Board also regularly reviews the Group's cash forecasts and the adequacy of available facilities to meet its cash requirements. The Board regularly monitors and reports on its DSCRs against its relevant bank covenants so that it can act in a pre-emptive manner. Interest rate fixes and caps are used to mitigate risk.	
Political risk including the war in Ukraine	Political events, such as the war in Ukraine, can lower business confidence and weaken economies.	The Board considers geopolitical and macro-economic conditions when setting strategy and making its investment decisions.	

OPERATIONAL RISK MANAGEMENT

OPERATIONAL RISK	IMPACT	MITIGATION	LINK TO STRATEGY
Rent void periods	Could lead to longer void periods, higher vacancy rates, reduced occupier retention, payment arrears and defaults.	Our asset managers are focused on income generation and maintain close contact with tenants to ensure they fully understand their current business performance and future plans. A proactive approach to asset management is taken with regular interaction with tenants.	
Credit risk	Could lead to the tenants defaulting on their rental obligations.	Creditworthiness checks of potential occupiers are carried out prior to letting. Payments of rent and service charge are monitored closely. This ensures early detection of likely tenant defaults thereby enabling swift remedial action. Our asset managers maintain close contact with tenants.	
Liquidity risk	Most loans are subject to covenant restrictions. If covenants are breached this could result in financial penalties, additional cash demands to remedy the breach, a forced sale of the property or in some cases foreclosure of the loan.	Long-term loans are taken out in the same currency used to value the property, thus ensuring a natural hedge. The Group prepares monthly budgets, cash flow analyses and forecasts, which enable the Directors to assess the levels of borrowings required in future periods. This detail is used to ensure that appropriate facilities are in place to finance future planned operations. The Group is structured whereby investment properties are held in special purpose vehicles so that the lender has no recourse to the parent entity. The Board regularly monitors and reports its LTV ratios against the relevant bank covenant so that it can act in a pre-emptive manner.	
Cyber security risk	A major cyber attack on the Group's computer systems could lead to theft of sensitive data and periods of down time leading to reputational damage and consequent loss of future fund mandates.	The Group has implemented the recommendations of an independent review of its IT operations to enhance the robustness of its security protection and the effectiveness of its disaster recovery plan. The Group retains the services of an IT specialist service provider, part of whose role is to ensure that protections against data theft and corruption are in place and effective, by utilising the latest anti-viral software and technologies.	

The Strategic Report was approved by the Board of Directors on 17 August 2022 and signed on its behalf by:

LAURA JAMES
GROUP FINANCE DIRECTOR