

Principal Risks and Uncertainties

The Board has overall responsibility for risk management and internal controls, with the Audit Committee reviewing the effectiveness of the risk management process on our behalf.

We aim to operate in a low-risk environment, focusing on the continental European logistics real estate sector to deliver an attractive capital return and secure income for Shareholders. The Board recognises that effective risk management is key to the Group's success. Risk management ensures a defined approach to decision-making that decreases uncertainty surrounding anticipated outcomes, balanced against the objective of creating value for Shareholders.

Approach to managing risk

Our risk management process is designed to identify, evaluate and mitigate (rather than eliminate) the significant risks we face. The process can, therefore, only provide reasonable, and not absolute, assurance. As an investment company, we outsource key services to the Manager, the Administrator and other service providers, and rely on their systems and controls. The Manager has established its own Risk Committee which ensures consistency and transfer of best practice in reporting, monitoring and controlling risk.

At least three times a year, the Board undertakes a formal risk review, with the assistance of the Audit Committee, to assess the effectiveness of our risk management and internal control systems. During these reviews, the Board has not identified or been advised of any failings or weaknesses which it has determined to be material.

Risk appetite

We have a specific Investment Policy, which we adhere to and for which the Board has overall responsibility.

Our risk appetite is low, and in particular, we do not undertake any speculative development. We have high-quality tenant partners, with a portfolio of modern buildings and one of the longest unexpired lease terms in the sector, coupled with an average term to maturity on our debt of four years, most of which is subject to interest rate derivative caps.

Principal risks and uncertainties

Further details of our principal risks and uncertainties are set out on pages 41 to 45. They have the potential to affect our business materially, either favourably or unfavourably. Some risks are currently unknown, while others that we currently regard as immaterial, and have therefore not included here, may turn out to be material in the future. The Board also continually reviews and assesses emerging risks, and has a process in place to decide their inclusion as Principal risks.

Risk management framework



Principal risks

The matrix below illustrates our assessment of the impact and probability of the principal risks identified, the rationale for which is contained within the commentary for each risk category.

Covid-19 risks

1. The Covid-19 pandemic could severely impact the global economy and financial markets, with consequences for the Company's commercial and financial situation.

Property risks

- 2. Default of one or more tenant partners.
- 3. The performance and valuation of the property portfolio.
- 4. Our ability to grow the portfolio may be affected by the availability of suitable assets at acceptable prices.
- 5. Concentration of risk, in particular, exposure to country risk.
- 6. Development activities are likely to involve a higher degree of risk than investment in standing investments.

Operational risks

7. We rely on the continuance of the Manager.

Financial risks

- 8. Our use of floating rate debt will expose the Group to underlying interest rate movements.
- 9. A lack of debt funding at appropriate rates may restrict our ability to grow.
- 10. We must be able to operate within our debt covenants.

Taxation risks

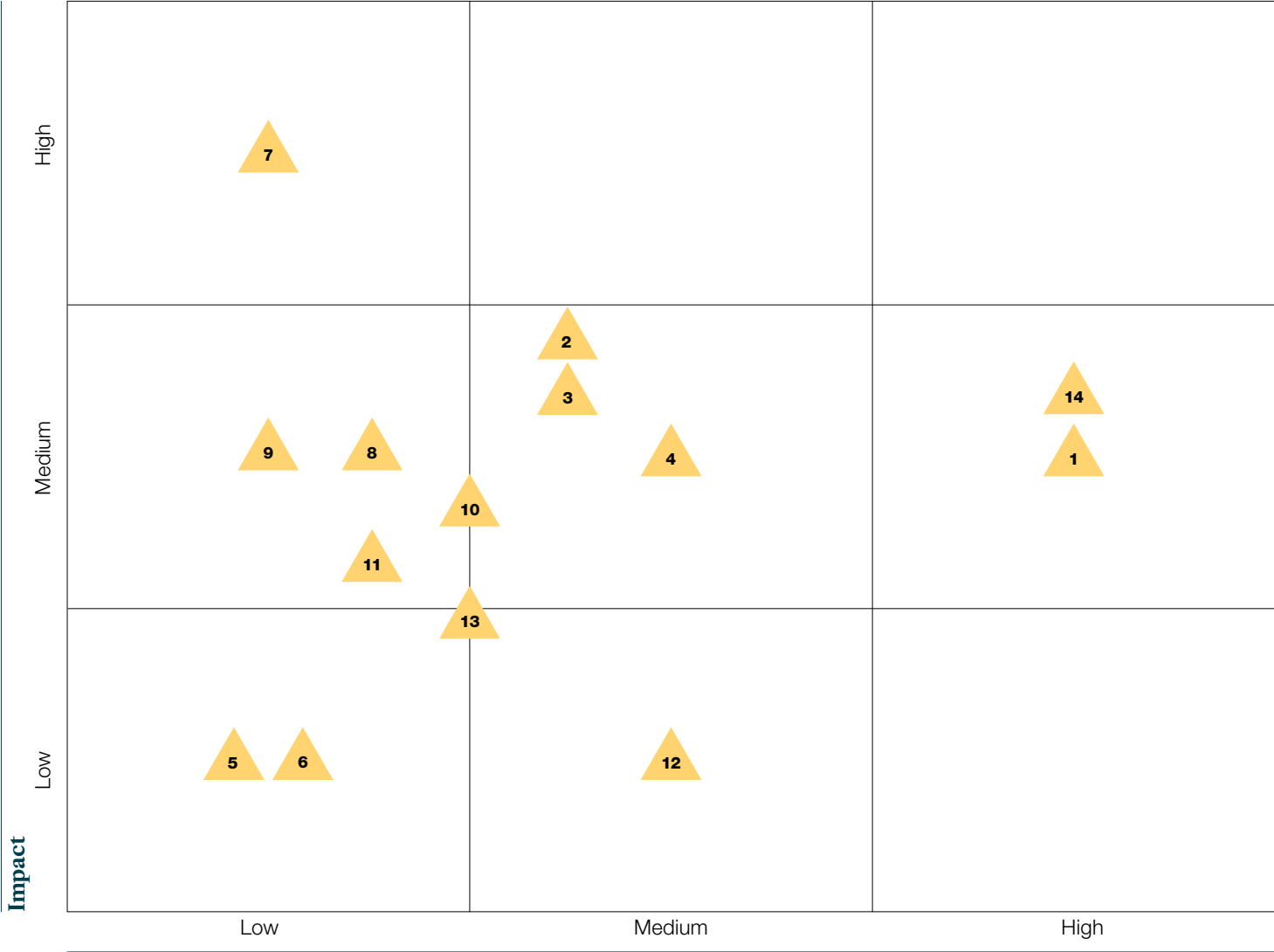
- 11. Maintenance of Investment Trust status.
- 12. Changes to local tax legislation in countries in which the Company has investments.

Political risks

13. The UK leaving the EU could have an ongoing negative effect on the performance of the Company, due to political and/or economic uncertainty.

ESG risks

14. ESG risks and inability to capitalise on the opportunities could lead to loss of competitive advantage, higher vacancies and higher operating costs for the Company and its tenants.



Probability

Covid-19 risks

1. The Covid-19 pandemic could severely impact the global economy and financial market, with consequences for the Company's commercial and financial situation

Probability	Impact	Mitigation
High	<p>Medium</p> <p>The global economy and financial markets are currently being severely impacted by the Covid-19 pandemic. This is likely to have an adverse effect on the magnitude and/or likelihood of several of the principal risks and may have the following consequences:</p> <ul style="list-style-type: none"> – a potential impact on the short-term operations of the business due to staff working remotely or potential absences because of the virus. This includes the operation of the Company, the Manager, our asset managers and tenant partners, whose staff could be at a health and safety risk. There is also an increased risk in cyber-crime due to remote working; – an overall reduction in revenue due to the default of one or more of our tenant partners, which could affect our ability to pay dividends to Shareholders and/or lead to a breach in our banking covenants; – tenant partners requesting rent deferrals and therefore impacting the Company's capacity to pay its target dividend in the current period; – an adverse change in our property valuations, which may lead to a decrease in our Net Asset Value and affect our ability to meet our target returns. The significant volatility in equity markets could cause a decrease in the share price, potentially causing a breach in banking covenants, which may force us to sell assets to repay loan commitments. 	<p>Health and safety guidelines have been issued by the Manager, our asset managers and tenant partners to all employees, to ensure they are in a safe working environment and that they are aware of all relevant symptoms of the virus. The Manager conducted checks to confirm they were able to work from home remotely, to safeguard the uninterrupted continued operation of the business and training has been undertaken by all employees to make them aware of the potential increased risk in cyber-crime.</p> <p>The Company has sufficient liquid assets to endure the impact of Covid-19 for the foreseeable future. There were no unexpected arrears from tenants as at 30 September 2020 and the Company is well within its banking covenant limits. We expect property valuations to remain stable, albeit with the uncertainty as to how Covid-19 will impact investment volumes and yields.</p> <p>The logistics sector has been deemed "system critical" across most European countries and has few restrictions, which has allowed it to be robust and withstand the impact of the pandemic. The material uncertainty clause is no longer applicable to valuations in the logistics sector.</p> <p>The long-term impact of Covid-19 is difficult to estimate at this stage but remains a focus for the Manager and the Company.</p>

Property risks

2. One or more of the tenant partners may default

Probability	Impact	Mitigation
Low to Medium	<p>Medium</p> <p>The default of one or more of our tenant partners would reduce revenue from the relevant asset(s). There may be a continuing reduction in revenues until we find a suitable replacement tenant, which may affect our ability to pay dividends to Shareholders and/or lead to a breach in our banking covenants.</p>	<p>We select assets with strong property fundamentals (location close to population centres, access to infrastructure and energy supply), which should be attractive to other tenants if the current tenant partner fails. In addition, while we focus on tenant partners with strong financial covenants, we also negotiate various guarantees or deposits, to enable us to cover income while looking for a new tenant.</p> <p>While there is no restriction on the Group's exposure to any one tenant partner, our Investment Policy requires us to deliver a high-quality, diversified portfolio.</p>

3. The valuation of the property portfolio may fluctuate		
Probability	Impact	Mitigation
Low to Medium	<p>Medium</p> <p>Property valuation is inherently subjective and uncertain, and the appraised value of our properties may not accurately reflect the current or future value of the Group's assets.</p> <p>In particular, the valuer has issued the 31 March 2020 valuation based on a RICS material uncertainty clause, due to the effect of Covid-19.</p> <p>In addition, our due diligence may not identify all risks and liabilities in respect of a property acquired, leading to, among other things, an adverse change in the future valuation of that asset.</p> <p>An adverse change in our property valuation may lead to a decrease in our Net Asset Value and affect our ability to meet our target returns. In an extreme scenario, it could also lead to a breach of our banking covenants, which may force us to sell assets to repay loan commitments.</p>	<p>As at 30 September 2020, our property portfolio was 100% cash generating from leases, and rental guarantees, with long unexpired weighted average lease terms of 9.1 years and a strong tenant partner base. 95% of leases (by income) include rent indexation (with different features in each country). Combined with the fact that we focus on the best locations, where land supply is tight, and undertake significant due diligence using the services of relevant third parties, we believe these factors reduce the risk of significant adverse property valuation movements.</p>
4. The growth of the portfolio may be affected by the availability of suitable assets at acceptable prices		
Probability	Impact	Mitigation
Medium	<p>Medium</p> <p>The fundamentals of the prime logistics locations in continental Europe mean that the availability of land suitable for large logistics properties is limited. In addition, the Big Box sector currently attracts a lot of new investors. This results in acquisition yields that are currently at record lows.</p> <p>This may restrict our ability to secure suitable logistics real estate assets in targeted countries in Continental Europe, in order to grow our portfolio while maintaining our target returns.</p>	<p>Our business model is based on undertaking predominantly off-market transactions, sourced through the Manager's network of contacts across Europe, and through our partnership with local development companies.</p> <p>The Manager has also developed strong relationships with a number of vendors and tenants in the industry. Our reliability, experience and speed of execution gives us an edge over many other potential investors.</p> <p>In addition, the increase in the capital value of our portfolio as a result of both the market dynamics and our asset management initiatives, is expected to have a positive impact on returns for Shareholders.</p>
5. Concentration of risk, in particular, exposure to country risk		
Probability	Impact	Mitigation
Low	<p>Low</p> <p>Our Investment Policy does not include restrictions relating to the Group's exposure to individual assets or tenant partners and includes only limited restrictions relating to our exposure to individual countries. Significant economic and/or political changes affecting a country that the Group has invested in, or the Eurozone, generally, could have an adverse impact on the income derived from investments within that country, and hence, on the valuation of those assets. This could lead to weaker overall portfolio performance, both in terms of revenue generation and value.</p>	<p>Our Investment Policy requires us to deliver a high-quality, diversified portfolio of assets. While we adopt a "bottom up" approach in the selection of real estate investments, we also consider the impact on the concentration of risk within our portfolio, including the Group's exposure to any single country (considering its economic and political stability) at the time of investment. Specifically, the Investment Policy restricts our ability to invest more than 20% of Gross Assets (in aggregate) in Austria, Czech Republic, Portugal and Slovakia.</p>
6. Development activities are likely to involve a higher degree of risk than investment in standing investments		
Probability	Impact	Mitigation
Low	<p>Low</p> <p>Any forward funded developments are likely to involve a higher degree of risk than is associated with standing investments. This could include general construction risks, delays in the development or the development not being completed, cost overruns or developer/contractor default.</p> <p>If any of the risks associated with our developments materialised, this could reduce the value of these assets and our portfolio.</p>	<p>None of our investments are a forward funded development asset as at 30 September 2020, although there are potential commitments to forward fund projects in the future. Any risk of investment into forward funded projects is minimal, as the developer takes on a significant amount of construction risk and the risk of cost overruns. Funds for forward funded developments remain with us and are only released to the developer on a controlled basis, subject to milestones as assessed by our independent project monitoring surveyors.</p>

Operational risks

7. Reliance on the continuance of the Manager

Probability	Impact	Mitigation
Low	<p>High</p> <p>We continue to rely on the Manager's services and its reputation in the property market, as well as the performance and reputation of the asset managers appointed by the Manager (currently LCP and Dietz).</p> <p>As a result, the Group's performance will, to a large extent, depend on the Manager's abilities to source adequate assets, and to actively manage these assets, relying on the local knowledge of the asset manager, where necessary. Termination of the Investment Management Agreement would severely affect our ability to manage our operations and may have a negative impact on the Company's share price.</p>	<p>Unless there is a default, either party may terminate the Investment Management Agreement by giving not less than 24 months' written notice, which may not be served before 9 July 2021.</p> <p>The Management Engagement Committee monitors and will regularly review the Manager's performance, including the performance of the key third-party service providers to the Group. In addition, the Board meets regularly with the Manager to ensure it maintains a positive working relationship.</p>

Financial risks

8. Interest rates may fluctuate

Probability	Impact	Mitigation
Low to Medium	<p>Medium</p> <p>Interest on our RCF is payable based on a margin over Euribor. Any adverse movement in Euribor could affect our profitability and ability to pay dividends to Shareholders.</p>	<p>The Company has entered into interest rate derivatives to hedge our direct exposure to movements in Euribor. These derivatives cap our exposure to the level to which Euribor can rise and have terms coterminous with the loans. We aim to minimise the level of unhedged debt whilst also considering the average level of draw down on the RCF.</p>

9. Debt funding at appropriate rates may not be available

Probability	Impact	Mitigation
Low	<p>Medium</p> <p>Without sufficient debt funding, we may be unable to pursue suitable investment opportunities in line with our investment objectives. This may impair our ability to reach our targeted returns and our ability to grow.</p>	<p>Last financial year, we secured long-term unsecured debt with five major financial institutions. This demonstrates the capacity of the Manager to source adequate debt, and the appetite from lenders (refer to page 37).</p> <p>As the Group grows, we anticipate that it will reach a size that enables an investment-grade debt rating. This would facilitate significant additional debt opportunities.</p>

10. Debt covenants may be breached

Probability	Impact	Mitigation
Low to Medium	<p>Medium</p> <p>If we were unable to operate within our debt covenants, this could lead to a default and our debt funding being recalled. This may result in us selling assets to repay loan commitments.</p>	<p>We continually monitor our debt covenant compliance and perform stress tests. We have significant headroom before there is a risk of a breach and our covenants have a soft breach feature, which enables the Manager to act and remedy in case of breach.</p>

Taxation risks

11. Maintenance of Investment Trust status

Probability	Impact	Mitigation
Low to Medium	<p>Medium</p> <p>If the Company fails to maintain approval as an Investment Trust, its income and gains will be subject to UK corporation tax and it will be unable to designate dividends as interest distributions.</p>	<p>The Board is ultimately responsible for ensuring we adhere to the UK Investment Trust regime and we monitor strict adherence to the relevant regulations. We have also engaged top-tier third-party tax advisers to help monitor our compliance requirements.</p>

12. Changes to local tax legislation in countries in which the Company has investments

Probability	Impact	Mitigation
Medium	<p>Low</p> <p>A change in local taxation status or tax legislation in any of the countries we invest in may lead to increased taxation of the Group and have a negative impact on the Company's profits and returns to Shareholders.</p>	<p>The Board relies on top-tier third-party providers to advise on any tax changes in every country in which we invest. In addition, the Group has been structured on a conservative basis, with reasonable internal debt ratios, in line with international transfer pricing requirements.</p>

Political risks

13. The UK leaving the EU could have an ongoing negative effect on the performance of the Company, due to political and/or economic uncertainty

Probability	Impact	Mitigation
Low to Medium	<p>Low to Medium</p> <p>The UK departed from the EU with effect from 31 January 2020 and the current transition phase will end on 31 December 2020. Economic volatility is not a new risk for the Company; however, until the terms of any potential new deal between the UK and the EU become clearer, the exact outcome on the business remains difficult to predict. Any new deal or the failure of the UK to agree a new deal at all may have the following consequences:</p> <ul style="list-style-type: none"> – we expect to lose our AIFMD passporting rights, which will affect our ability to raise further equity from investors in certain EU member states; – the Company may no longer be able to benefit from EU taxation directives which may increase the amount of tax payable by the Group on returns from underlying investments and reduce the amounts available to distribute to investors accordingly; – there may be significant volatility in equity markets, which could have an impact on our share price; and – the economy in Europe may be impacted or demand for European property may decrease, hence leading to potentially lower valuations. 	<p>Notwithstanding the potential loss of AIFMD passporting rights, we believe that investors in key jurisdictions would continue to be able to participate in equity fundraisings and we would seek legal advice at the time with a view to facilitating this.</p> <p>The Company was established in 2018 after the UK had voted to leave the EU. Since incorporation, therefore, the Company and its advisers have been aware of the potential tax consequences associated with the UK leaving the EU and they have taken those risks into account when considering potential investments. They have also structured investments to minimise, so far as possible, any additional tax costs which may result from the Company no longer being able to benefit from EU taxation directives. In particular, the Company should be able to benefit from double tax treaties which the UK has in place with the countries across Europe in which the Company invests. We saw limited to no impact on the Company's share price on the exit date itself, but it remains to be seen how the market will react to the outcome of the trade deal negotiations and the end of the transition phase on 31 December 2020.</p>

ESG risks

14. ESG risks and inability to capitalise on the opportunities could lead to loss of competitive advantage, higher vacancies and higher operating costs for the Company and its tenants

Probability	Impact	Mitigation
High	<p>Medium</p> <p>The World Economic Forum (WEF) listed ESG risks as fourth out of its top five risks in 2020.</p> <p>There are several ESG risks potentially impacting the Company.</p> <p>Climate change and biodiversity loss are the principle environmental risks affecting the Company's long-term ability to operate in its markets; the ability for our tenants to source and retain the right labour skills and mitigating modern slavery in our supply chains, are the key social risks; and the ability to be transparent and agile in managing the evolving governance risks, such as diversity and human capital management.</p>	<p>The Company's sustainability strategy addresses all the key risks for the Company in its operations. It provides guidance to the Board and Manager to reduce ESG risks to create value for all its stakeholders, including investing in more ESG focused assets, delivering lower operating costs for tenants and more secure returns for investors.</p> <p>We ensure the assets we invest in are well located for labour supply and the Company is developing initiatives to support local employment opportunities.</p> <p>The Board of Directors and the Manager have undertaken ESG training to ensure they have the right awareness and skills to manage ESG risks and opportunities.</p>