Drum Income Plus REIT (LSE: DRIP LN)

Price / NAV estimate (p)	106.0 / 95.1
Premium to NAV	+10.4%
Target dividend	5.25p/share (2016)
	at least 5.5p/share (2017)
	at least 6.0p/share (2018)
Market cap (£m)	35

Objective: to provide an attractive level of income together with the potential for capital growth by investing in UK commercial property

Listing / Domicile	Main Market / UK
Fund inception	29 May 2015
Fund manager	Bryan Sherriff
Ann. mgmt fee	1.15% of NAV up to £150m
	and 1.0% of NAV over £150m
Total expense ratio	capped at 2.0% of NAV
Loan to value	0% (target 40%, max. 50%)

GBP TR %	since inception
DRIP NAV	-2.9
DRIP Price	6.0
Morningstar IT Property	4.2
IPD UK All Property	8.0

Source: Morningstar.
All data as of 22 Jan 2016 unless otherwise stated

Key portfolio metrics (as at 31 Dec 2015)

Avg acquisition yield	**7.65%**
Occupancy rate	**96%**
Weighted avg. lease (to break)	**6.25 years**
Weighted avg. lease (to expiry)	**7.56 years**

Source: Drum Income Plus REIT

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Banging the drum about regional income

Drum Income Plus ("DRIP") is a UK Real Estate Investment Trust ("REIT") with an income-focused strategy which targets regional UK commercial property in order to achieve attractive total returns for shareholders. The manager of DRIP takes an entrepreneurial yet prudent approach to real estate investing, with a focus on acquiring high quality assets across the UK which provide good value, healthy cash flow and significant capital and income growth potential. By filling a niche in the sector and taking advantage of what they perceive as mispricing in the market for regional, smaller-sized lots, we believe that DRIP provides investors with access to a differentiated asset class which should be able to deliver a target yield of almost 6%** and double-digit annualised returns over the long term.

Real estate value investing – buying "B" buildings in "A" locations

DRIP's investment strategy targets regional assets in the UK commercial property space, with a bias toward smaller lot sizes of £2m - £15m, where the manager believes the value opportunities are greatest. The typical DRIP asset may be best described as a "B" building in an "A" location – for example, a retail/office building that may not be the newest or most glamorous, but which is situated in the centre of a major UK city with good footfall and/or transport links.

Future fundraisings should be transformative

DRIP currently consists of 5 assets with an average value of c.£6m each (see page 6, but also has a deal pipeline which could more than double the size of the portfolio. The board are exploring further equity raisings to help fund pipeline acquisitions which, in our opinion, would transform the trust by improving risk diversification, lowering the total expense ratio and offering other economies that come with scale.

Exploiting the pricing inefficiencies of smaller properties to deliver 5%+ yield

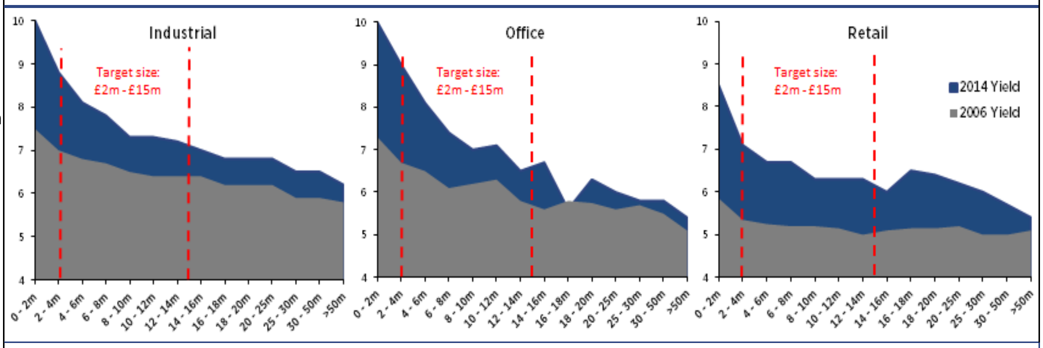
The manager of DRIP argues that UK commercial properties at the smaller end of the price spectrum present investors with the greatest opportunity because they are often overlooked by overseas and institutional investors who prefer/require larger assets. As a result, these properties typically command yield premiums (see below) even though they are often in the same/similar locations to much larger, more expensive assets. DRIP's portfolio currently has a net initial yield of 7.65% and targets an initial dividend of 5.25p/share, paid quarterly, rising to at least 6.0p/share by 2018.

Drum Income Plus REIT focuses on the smaller end of the UK commercial property market, targeting lot sizes of £2m - £15m.

This segment of the market tends to trade on a significant yield premium to larger, more expensive assets. Furthermore, this yield premium has widened even more since the UK property market last peaked (2006/07).

***Target returns only and not a profit forecast. There can be no assurance that these targets will be met and they should not be taken as an indication of expected or actual current or future results.*

UK commercial property, rental yields (%) vs. asset size (£m), by sub-sector



Source: IPD UK, Drum Income Plus REIT, Cantor Fitzgerald Europe

Return profile – income + capital growth model

Drum Income Plus REIT does not have a total return target or a formal performance benchmark, however, it does currently target a dividend of 5.25p/share (rising to at least 6.0p/share by 2018) which, as we illustrate below, should be well covered by the operating income generated. We also believe that DRIP should benefit from growth in the income and capital values of the assets over the long term, driven in equal measure by inflation and the value added by active management of the portfolio.

In aggregate, we believe DRIP's forecast income return, combined with a conservative estimate for capital growth, should mean that investors could reasonably achieve returns of 13.5% p.a. in the long term** – a figure that would exceed the average targeted/achieved returns of other listed UK property trusts and the historical long-term performance of the IPD UK All Property Index, adjusted for gearing (c.10% p.a.).

** Illustrative returns only. Please refer to page 8 for a list of key investment risks.

The net administrative costs of DRIP are higher than the industry average at present, in large part because of its relatively small market cap. **With subsequent fundraisings and capital growth costs should fall toward the 1.5% p.a.** industry average and boost NAV total returns.

The assumptions on potential rental and capital growth have been marked at more conservative levels to reflect the risks typically associated with regional UK commercial property, but if DRIP's investment thesis is correct and there is convergence between "prime" and "secondary" assets, growth could surprise to the upside.

Drum Income Plus REIT – income + capital growth model

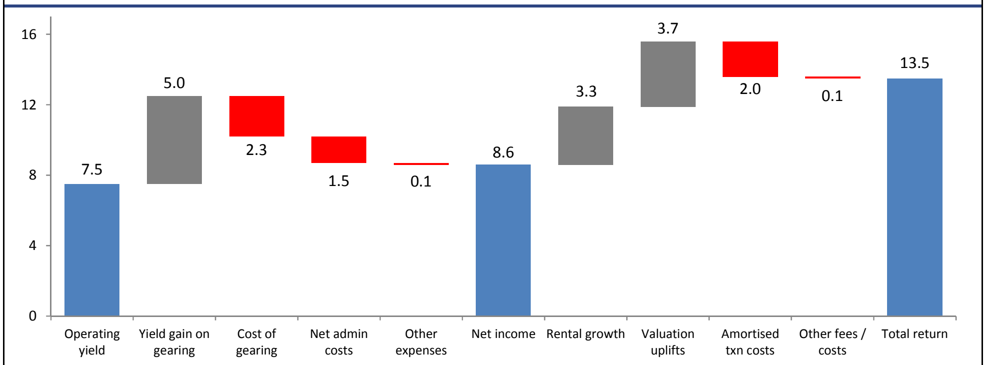
Item	Description	% of NAV
Operating yield (ungeared)	Target c.7.5% net initial yield on portfolio	7.5
Yield gained on gearing	40% LTV assumed; DRIP's target level of gearing	+5.0
Cost of gearing	Long-term interest of c.3.5% p.a. assumed (on the basis of loan terms achieved by comparable REITs)	-2.3
Operational assets return		**10.2**
Net administrative costs	Management fees + other costs projected to fall to avg. c.1.5% p.a. as AUM grows (but currently c.2% p.a.)	-1.5
Other expenses		-0.1
Net income return	Distributable as dividends	**8.6**
Rental growth	Average rental growth of c.2% p.a. on portfolio assets, boosted by gearing of 40% LTV assumed.	+3.3
Valuation uplifts	Assume yield compression of 50bps – 100bps on disposals, avg. exit at 6.75% net initial yield, resulting in c.20% uplift. Assume average 5-year holding period.	+3.7
Total return (before costs)		**15.6**
Amortised transaction costs	Typical total transaction costs of c.6%, comprised of 4% stamp duty, agents' fees and other costs. Amortise evenly over typical holding period of 5 years.	-2.0
Other fees & costs		-0.1
Net total return		**13.5**

Source: Cantor Fitzgerald Europe, Drum Income Plus REIT

The yields on DRIP's regional property assets are high – the manager expects the portfolio to average c.7.5%, which is further boosted with the help of gearing (target c.40% LTV). This should comfortably fund a 6% p.a. dividend, with margin for error.

Investors in DRIP should also benefit from rental growth and yield compression as leases are renewed and undervalued buildings are sold at premiums to which they were bought. In our illustrative model (see chart opposite), we have made fairly conservative assumptions about both drivers of growth.

Drum Income Plus REIT – illustration of potential long-term total returns (% p.a.)

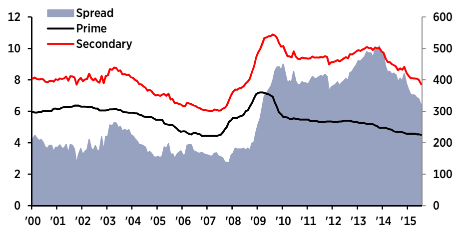


Source: Cantor Fitzgerald Europe

The investment case for smaller regional property

Secondary vs. Prime

UK Prime vs. Secondary yields (%), spread (bps)



Source: Savills Global Research

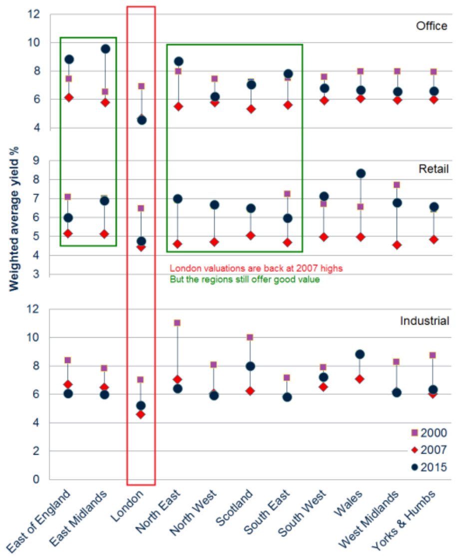
Secondary yields are more attractive on an absolute and relative basis

Property yields in the "secondary" segment of the UK commercial property market are significantly more attractive than those in "prime" and this is both on an absolute (c.8.0% vs. c.4.5% respectively) and a relative basis (c.350bps vs. c.200bps historically).

Yields in both segments have fallen in recent years as investors in search of yield have put more money into the UK commercial property market. The compression has been most noticeable in the secondary market, where average yields have fallen sharply from their post-crisis highs of c.10% to their current c.8% level.

Regional vs. London

UK weighted average rental yields (%), by region



Source: Savills Global Research

Time warp: for London it's like 2007 again

It is also noteworthy how the different UK regions across various sub-sectors have performed over the long term and, indeed, the relative value they offer today. In prime areas like London, for example, prices have rebounded strongly since the 2008 financial crisis and, as a result, yields are back near their 2007 lows (see chart to the left) across all commercial property sub-sectors – office, retail and industrial. While there may be good fundamental reasons to support these levels, this leaves little room for further capital gains and we suspect investors will invariably question the richness of current prime valuations.

Regional assets offer pockets of value

In contrast, the yields on regional assets in general remain significantly higher than they were at the last market peak in 2007 (see chart to the left) although, as previously highlighted, the yield spread between secondary (mainly regional) and prime (mainly London) assets has been compressing in recent years.

That said, it is worth noting that there is significant divergence between the various regions and sub-sectors: for example, yields on industrial assets (e.g. logistics, warehouses) have generally narrowed at the expense of retail assets (e.g. high street shops) due to the proliferation of e-Commerce, while office assets in certain regions have fared much better than others.

Small vs. Large

Smaller lot sizes yield disproportionately more

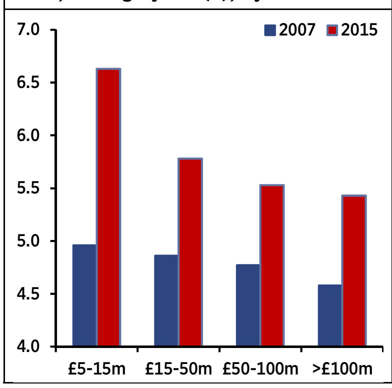
As the graphs below illustrate, there are significant inefficiencies in the pricing of, and thus the yields on, smaller lot sizes. Overseas and institutional investors that operate in the UK typically target a small portfolio of larger assets, and are reluctant to manage a large portfolio of smaller assets – which forms the basis of DRIP's investment case.

Smaller lot sizes have always commanded a yield premium to larger assets, but that gap has widened substantially since 2007.

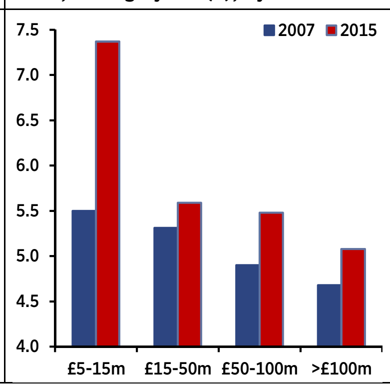
DRIP's investment strategy is to focus on the smaller end of the market to exploit these yield and valuation differentials over time.

Source: Savills Global Research

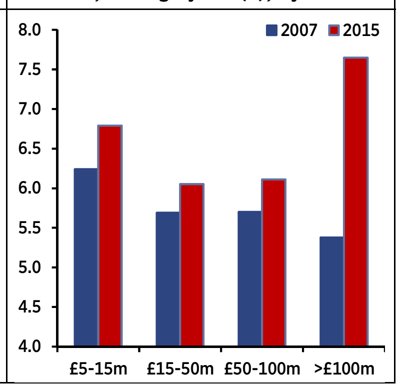
Retail, average yield (%), by lot size



Office, average yield (%), by lot size



Industrial, average yield (%), by lot size



The investment strategy

Portfolio construction

Income is key to the DRIP investment approach and it is important to the manager to be able to maintain what should eventually be a fully covered dividend of at least 6p/share.

Buying the right asset for the right price

The manager emphasises that income is key to DRIP's investment approach and reiterates the importance of maintaining a fully covered dividend for shareholders who will have invested on that basis. Although there are other criteria to fulfil as well before an asset can be considered for the portfolio, the net rental yield (and the ability to sustain and grow that over time) is arguably the most important of them all.

In order to achieve this objective, it is absolutely imperative to buy the right assets for the right price, since this will determine the net initial yield of the property as well as the sustainability and potential growth of that income, in the manager's view.

DRIP is mindful not to sacrifice quality for yield and the largest tenants in the current portfolio are FTSE 100 constituents such as Sainsbury's and Worldpay.

Smaller lot sizes, higher yields but solid covenants

As highlighted in the investment case (see page 3), the manager believes that there is substantial mispricing in the smaller end of the property market due to overcrowding in the larger lot sizes from overseas and institutional demand. By spending the time to identify good quality smaller assets and investing the money/effort needed to manage a portfolio of them, DRIP in essence aims to arbitrage the yield premium being offered relative to size (c.100 – 200bps difference in yield, depending on the sub-sector) and history (the yield premium for smaller assets has widened c.100bps since 2007).

Despite the high yield, the manager points out that the quality of the tenant register does not need to be compromised, and indeed is a key consideration when doing due diligence on potential acquisitions. The current portfolio, for example, counts FTSE 100 constituents Sainsbury's and Worldpay among its largest tenants (see page 6).

The manager reiterates that, when it comes to real estate investing, the property does not have to be the most visually appealing, but location is of utmost importance.

"ABBA" – name of the game

The "secondary" market for UK commercial property, characterised by higher yielding, more attractively valued assets, is broadly comprised of two types – "A" class buildings in "B" locations, or "B" class buildings in "A" locations (summed up by the acronym ABBA). According to the manager, DRIP's investment style favours the latter because location, as the adage goes, is everything. The average DRIP asset is an old building that would benefit from updating or renovation, but situated in a prime city/town centre location with high pedestrian traffic and/or good transport links – this leaves room for the team to add value via asset management.

Portfolio management

In the manager's view, with the macro-economic and political environment unlikely to provide further windfall gains from these levels (as we near the end of extraordinarily loose fiscal and monetary policy), investors can expect returns to be driven by income growth and value added from active management going forward.

Adding value through active management

The Drum Property team seek to add value for DRIP investors by actively managing the portfolio assets. This involves initiatives including, but not limited to:

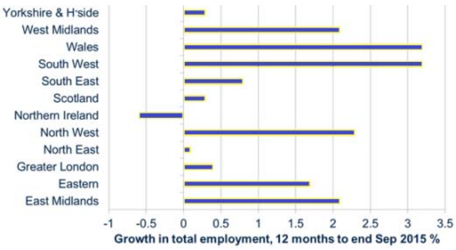
- Refurbishment – the manager may invest time and money to physically alter and/or improve the buildings they own if their research indicates that doing so would significantly enhance their income and capital value.
- Tenant management – the manager proactively engages with their tenants to raise rents, extend leases and, where appropriate, secure new lettings. All of this is done with a view to maximising income growth and security.
- Efficiency gains – apart from working to boost top-line revenue growth, the manager is also constantly seeking to reduce the irrecoverable costs and maximise bottom-line net income.

Ongoing reviews, opportunistic disposals

While the manager approaches each investment with a view to long-term income generation and growth, the progress of each asset is reviewed on a regular basis and disposals are considered opportunistically, as long as the valuations being offered and market conditions justify a sale and re-investment of shareholder capital.

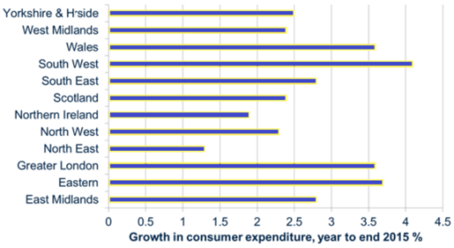
Investment outlook

UK Employment growth, by region (%)



Source: ONS, Savills

UK consumer spending growth, by region (%)



Source: Oxford Economics, Savills

Optimistic about the outlook for the regions

The manager is optimistic about the outlook for regional commercial property, where DRIP primarily operates. Real estate brokerage Savills note in their latest research report (see web-link on page 7) that, after years of London outperforming the rest of the UK, the regions are finally expected to catch up in 2016 as policy changes and macro-economic shifts provide a tailwind.

Notably, all of the UK regions have now returned to positive GDP growth; in contrast, the period post financial crisis was characterised by a recovery that was largely constrained to London and the South East. Total employment growth in all regions (except N. Ireland) was positive in 2015 (see chart to the left).

Regional consumption growth has also recovered strongly, and the manager of DRIP therefore believes that the combination of rising employment and consumption will drive rising demand for retail, office and industrial property, broadly speaking.

UK commercial property as a sector still has significant room for gains

The manager points out that, according to data provider MSCI, the first half of 2015 was the first time since 2008 that average rental growth in all three commercial property sub-sectors had been positive. Rents across the sector fell sharply in the wake of the global financial crisis, in 2009 and 2010, but investors have seen a steady recovery in rental growth since then.

This recovery in rental growth is in part being driven by tenant demand for property as a result of the economic recovery, allowing landlords to raise rental rates. However, in the manager's view, a larger contributor is the sharp rise in occupancy levels, or the falling void rate. A lack of new development activity in recent years, owing to the severity of the 2008/2009 recession as well as the changing regulations and attitudes toward risk, has meant that void rates (expressed as a % of total income) are now lower than their ten year average in both the retail and industrial sectors, and falling quickly in the office sector (see charts below).

UK commercial property, average annual rental growth, % yoy

Source: MSCI, Savills

UK commercial property void rate (estimated % of total income)

Source: MSCI, Savills

Investment conclusions

The manager believes that the data illustrates there is growing investor demand for assets outside London, and that this is being driven by two factors: a) the desire to capture the recovery in the UK economy more broadly and the commercial property market in particular; and b) the yield spread between London and the rest of the country (see page 3, "secondary vs. prime").

This recovery, combined with evolving corporate trends such as north-shoring (see page 7, Savills' report), should see increasing tenant demand for commercial property of all types outside London, and thus DRIP has positioned itself to capture what the manager believes will be a longer-term trend.

Portfolio breakdown

Property Portfolio – as at 31 December 2015

Property	Sector	Gross Rent (£'000) Current	Gross Rent (£'000) Estimated	Acqn Yield	Purchase Price	Market Value	Notes
Gosforth Shopping Centre, Newcastle	Retail	949	1,004	7.3%	£12.25m	£12.5m	Anchored by Sainsbury's, whose lease expires 2032; upward only rent reviews.
Montieth House, Glasgow	Multi-Let Office	465	460	7.6%	£5.75m	£5.75m	c.80% of contracted rent is secured to business entities related to Scottish Govt.
Lakeside 5500, Manchester	Multi-Let Office	453	453	7.8%	£5.25m	£5.25m*	Tenanted to US tech bellwethers Agilent and Micron, both S&P 500 constituents. Acqusition completed 22 January 2016.
Duloch Park, Dunfermline	Retail	355	363	7.4%	£4.5m	£4.5m	Fully let under 12 separate leases. Major tenants include British Red Cross.
Mayflower House, Gateshead	Multi-Let Office	257	259	9.3%	£2.6m	£2.6m	Anchored by WorldPay, a FTSE 100 constituent.
Total / Weighted Avg.		**2,479**	**2,539**	**7.65%**	**£30.5m**	**£30.7m**	

Source: Drum Income Plus REIT. Market values as at 31 December 2015.

* - Lakeside 5500 reflected at cost as acquisition was done post year-end valuation.

Tenant quality

The DRIP portfolio has a diversified, high quality tenant register, with the majority of them being large listed companies that are also constituents of global equity benchmarks (e.g. FTSE 100 index, S&P 500 index), or pseudo-government organisations.

Top 5 tenants – as at 31 December 2015

Name	Sector	Rent (p.a.)	% Total	Description
Sainsbury's	Retail (Cons. Staples)	£386k	16%	UK's second largest supermarket chain. FTSE 100 constituent.
Agilent Technologies	Healthcare	£299k	12%	Leading US provider of bio-analytical equipment for the healthcare industry. S&P 500 constituent.
Scottish Network & Tourist Board	Government	£235k	10%	Scotland's national tourism organisation.
WorldPay	Technology	£158k	6%	Global online payments service provider. FTSE 100 constituent.
Micron	Technology	£153k	6%	Largest US manufacturer of memory chips. S&P 500 constituent.
Total		**£1,230k**	**50%**	

Source: Drum Income Plus REIT

Pipeline assets

DRIP has a immediate pipeline of potential asset acquisitions with a total value of over £40m and an average net initial yield of c.8.1%.

This should allow DRIP to deploy any monies raised from equity fundraisings relatively quickly and on economic terms that would be broadly income enhancing to the DRIP portfolio.

Future pipeline

Geography	Sector	Gross. Rent (£'000)	Purchase Price	Net Initial Yield	Transaction Type
North West	Office	350	c.£4.4m	c.7.0%	Off-market
North West	Retail	426	c.£5.2m	c.7.8%	Off-market
South West	Retail Warehouse	470	c.£5.3m	c.8.4%	Off-market
Diversified Portfolio (5 assets)	Office	2,200	c.£26m	c.8.0%	Off-market
Total		**3,446**	**c.£40m**	**c.8.1%**	

Source: Drum Income Plus REIT

Appendix: Savills – key themes for UK real estate

Savills World Research recently released a report examining the outlook for the UK real estate market in 2016. We have included below a number of excerpts from the report relevant to the UK commercial property sector, and highlighted notable points in bold. The full version is publicly available and can be found on the Savills website here (http://www.savills.co.uk/research_articles/173549/197642-0).

Back to fundamentals – Income is king

"Institutional investors are increasingly focused on the income-producing aspects of commercial real-estate as an asset class, and we expect to see a rise in demand for longer-income, asset management and alternative asset classes in 2016.

However, there are still opportunities out there for opportunistic and short-cycle investors, particularly outside London. Two examples of areas where capital values are yet to correct significantly are small lot sizes across all sectors, and retail property in general.

***Typically the average yield on lots of £5m-£15m is 100-200bps higher than it was in 2000 and 2007**, and we believe that this is a reflection of a perception that smaller lots are higher risk or lower return. **We expect this margin to close in 2016**, driven by opportunistic investors buying smaller lots to combine into larger portfolios for eventual sale to an institution."*

Retail therapy – The high street is not dead

"Retail property outside London is probably the segment of the market that has seen least yield hardening over the recent recovery. On average retail property yields outside London are just under 200bps higher than they were back in 2007.

***Clearly there has been some structural change in this sector due to the rise of internet retailing, but we believe that the risks have generally been overstated.** Retailers will experience a strong omni-channel Christmas this year, and the number of new stores being opened by existing retailers and new entrants to the UK market is likely to rise in 2016.*

*Furthermore, the rents in many of the UK's town and cities have now rebased down to a level where retailers can trade profitably, and this means that the **rental growth outlook may well be more solid than some investors imagine.**"*

Beyond London – The regions now provide the best prospects

"Towns and regions outside London generally look like a strong story for 2016, with recovering local economies, "north-shoring" of jobs from London, and low levels of development likely to combine to deliver better than normal rental growth over the next two to three years.

For office investors we expect the best prospects to be the top seven major city markets, with opportunities both for refurbishment and redevelopment, and for industrial investors the best prospects will remain in the under-supplied middle of the country. Local market differentials will be significant, with the best locations for investors being those that combine a low availability of good quality property and a solid and expanding labour force.

*Investors in commercial property are undoubtedly going to have to be more forensic in their stock-picking from 2016, and **a deep understanding of local supply and demand fundamentals will be the key to outperformance.**"*

Key risks

If DRIP fails to achieve the targeted yields on their investments, the income returns to shareholders could be reduced and the level of dividends paid to shareholders, or the level of dividend cover, would also be materially adversely affected. There is no guarantee that the expected dividends will be paid.

The underperformance or the departure of key skilled professionals from the Asset Manager could have a material adverse effect on DRIP's business, financial condition and results of operations.

DRIP cannot guarantee that it will maintain continued compliance with all of the REIT Eligibility Conditions in future periods. If DRIP were to leave the REIT regime within ten years of joining, HMRC has wide powers to direct how it would be taxed which could have a material impact on the financial condition of the company.

The performance of DRIP would be adversely affected by a downturn in the property market in terms of market value or a weakening of rental yields.

Investments in property are relatively illiquid. Such illiquidity may affect DRIP's ability to vary its portfolio or dispose/liquidate part of its portfolio in a timely fashion and at satisfactory prices. This could have an adverse effect on DRIP's financial condition and results of operations.

The value of property and property related assets is inherently subjective due to the individual nature of each property. As a result valuations are subject to substantial uncertainty. There can be no assurances that the estimates resulting from the valuation process will reflect actual realisable sale prices.

DRIP incurs certain fixed costs on the acquisition of properties, including stamp duty land tax which will reduce the Net Asset Value per share immediately following any acquisitions. There is no guarantee that the value of the properties will increase to an amount in excess of these costs.

Competition for appropriate investment opportunities may increase and may lead either to an over-supply of commercial premises through over-development or to prices for existing properties or land for development being driven up through competing bids by potential purchasers. The existence of such competition may have a material adverse impact on DRIP's ability to secure tenants for its properties at satisfactory rental rates and on a timely basis and/or satisfactory prices.

The market value of, and the income derived from, DRIP shares can fluctuate. The market value of the shares, as well as being affected by their Net Asset Value and prospective Net Asset Value, also takes into account their dividend yield and prevailing interest rates.

Although DRIP is listed on the Official List and traded on the Main Market, DRIP has a relatively small market capitalisation and does not have as wide a shareholder base as other listed companies. Accordingly it is possible that there may not be as much liquidity in DRIP's shares as in other companies on the Main Market. Therefore, DRIP's shares may trade at a discount and shareholders may have difficulty selling them.

While the Board seeks to spread risk relating to tenant concentration, there is the risk, from time to time that DRIP has a concentrated number of tenants and material exposure to the financial strength and the operational performance of those tenants.

DRIP intends to use borrowings to acquire further properties and those borrowings may not be available at the appropriate time or on suitable terms, including interest rates. If borrowings are not available on suitable terms or at all, or if the interest rates increase from current levels this will have a material adverse impact on the returns to shareholders and in particular the level of dividends paid.

About Drum Income Plus REIT

The Company

The Drum Income Plus Real Estate Investment Trust ("DRIP") is an income focused real estate fund investing in regional or secondary commercial property assets. DRIP has a single class of ordinary shares in issue, which listed on 29 May 2015 on the premium segment of the Official List and trades on the main market of the London Stock Exchange.

Investment objective

DRIP aims to pay a fully covered dividend of 6% p.a. once fully invested, whilst also delivering annual capital growth for investors. This is achieved by investing in UK commercial property where there is an opportunity to increase income and capital returns via proactive asset management and risk-controlled development.

Investment policy

DRIP pursues its investment objective by investing:

- in a diversified portfolio of UK commercial properties,
- principally in three commercial property sectors: office, retail (including retail warehouses) and industrial, without regard to a traditional property market relative return benchmark,
- predominantly in income producing investments.

Investment decisions are based on the analysis of, among other factors:

- prospects for future income and capital growth,
- sector and geographic prospects,
- tenant covenant strength,
- lease length,
- initial and equivalent yields,
- the potential for active asset management of the property.

DRIP does not invest in other investment companies or funds. However, DRIP may hold property through special purpose vehicles and is permitted to invest up to 25 per cent. of its total assets at the time of investment in joint ventures which hold real estate directly.

Risk management

Investment risk is spread through investing in a range of geographical areas and sectors, and through letting properties, where possible, to low risk tenants.

Although DRIP has not set any formal limits or constraints on the maximum geographic exposure or maximum weightings in any of the principal property sectors, it may invest no more than 25 per cent of total assets, at the time of investment, in other sectors such as leisure, residential, student residential, healthcare and hotels.

DRIP is permitted to forward fund purchases of properties on a pre-let or a non pre-let basis and obtain options over properties. However, speculative development (i.e. properties under construction which have not been pre-let) is restricted to a maximum of 10 per cent of total assets at the time of investment or commencement of the development. Development, other than speculative development, is also restricted to a maximum of 10 per cent. of total assets at the time of investment or commencement of the development.

With effect from the later of a) DRIP being fully invested (including drawdown of available debt facilities) or b) 30 September 2016, no single property may exceed 20 per cent of total assets at the time of investment.

Gearing policy

Gearing, calculated as borrowings as a percentage of DRIP's gross assets, will not be allowed to exceed 50 per cent at the time of drawdown. In normal market conditions, the Board intends to target gearing of approximately 40 per cent. of gross assets.

On 25 January 2016 the company announced that it had entered into an 18-month, £20 million revolving credit facility agreement. The margin is 1.1% over 3M GBP LIBOR for the period of the loan. DRIP will use the facility to pursue its pipeline of attractive investment opportunities. It remains DRIP's intention to refinance the debt within the 18-month period with longer term debt, which should give investors greater certainty over the long-run cost of leverage.

Senior management team

The REIT is managed by Drum Real Estate Investment Management ("DREIM"), the investment arm of Drum Property Group. The key personnel are:

Bryan Sherriff is a Fellow of the Royal Institution of Chartered Surveyors (FRICS) with over 23 years' experience in UK commercial property, and has lead responsibility for sourcing and managing assets for the Property Portfolio.

Previously, Bryan held the position of Head of Property with Stockland UK, with responsibility for an investment and development portfolio worth in excess of £1.5bn spread across all commercial property sectors throughout the UK. Bryan has considerable experience of all UK commercial and retail sectors and an established track record of intensive asset and development management – having acted for a wide portfolio of institutional investors and advised various lenders regarding distressed situations.

Graeme Bone is the founder and principal shareholder of Drum Property Group, and has over twenty years' experience in the financing and delivery of complex land assembly, development and investment projects for blue-chip national and International occupiers. The award-winning Group currently has projects under development throughout the UK across the business space, retail, industrial and residential sectors with an end value of over £1bn, as well as being one of the largest residential landlords in Scotland.

Stuart Oag qualified as a Chartered Accountant with KPMG, Stuart has over twenty years' of finance and property experience with particular experience in the setting and implementation of corporate strategy, finance, company and property acquisitions and disposals. Stuart has secured over £500 million of finance over that period, with all the major banking groups, and the institutional market and was responsible for a significant number of acquisitions and disposals across both the property and corporate sectors, ranging from £500,000 to over £70m in scope.

Fife Hyland has over twenty years' experience in communications, brand marketing, HR and event management, having worked for several marketing services groups, as well as owning and running his own communications agency. Fife oversees Drum Property Group's communication and operations activity, and will have a particular focus on the REIT's stakeholder liaison and communication programme. He has been a Fellow of the Marketing Society (Scotland) since 2008.

Management fees

Under the terms of the management agreements among DRIP, R&H Fund Services (Jersey) Limited (the “AIFM”) and Drum Real Estate Investment Management Limited (the “Investment Manager”), DRIP historically paid to the AIFM a total management fee of 1.25% p.a. of net assets.

With effect from 1 January 2016, this total management fee was reduced to 1.15% per annum of DRIP’s net assets up to £150m and 1% of net assets over £150m.

The annual expenses of DRIP are capped at 2.0% of net assets. The Investment Manager has agreed to reduce its portfolio management fee under the AIFM agreement to the extent necessary to ensure that the annual expenses are capped at 2.0% of net assets.

Dividend policy

DRIP has announced an interim dividend of 1.3125p per share for the period from the launch of DRIP to 31 December 2015. This dividend is to be paid on 26 February 2016 to shareholders on the register at the close of business on 5 February 2016. The ex. dividend date has been set at 4 February 2016.

In the absence of unforeseen circumstances, DRIP intends to pay dividends of 1.3125p per share in respect of each of the quarters ending 31 March 2016, 30 June 2016 and 30 September 2016*.

Furthermore, the Board of DRIP is targeting fully covered aggregate quarterly dividends of at least 5.5p per share in respect of the year ending 30 September 2017 and at least 6.0p per share in respect of the year ending 30 September 2018*.

**Target returns only and not a profit forecast. There can be no assurance that these targets will be met and they should not be taken as an indication of expected or actual current or future results.*

In accordance with the REIT conditions, it is expected that a significant proportion of dividends will be paid in the form of Property Income Distributions.

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