Principal Risks and Uncertainties

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

We aim to operate in a low-risk environment, focusing on a single subsector of the UK real estate market to deliver an attractive, growing and secure income for Shareholders, together with the opportunity for capital appreciation. The Board recognises that effective risk management is important 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, manage 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.

At least twice a year, the Board undertakes a formal risk review, with the assistance of the Audit & Risk 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. During the year the Company increased its exposure to land and options over land. We have a limit within our Investment Policy which we adhere to and for which the Board has overall responsibility, which allows our exposure to land and unlet development to be up to 15% of gross asset value, of which up to 5% can be invested in speculative development.

Principal risks and uncertainties
Further details of our principal risks and uncertainties are set out on pages 76 to 79. They have the potential to materially affect our business. 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 principal risks are the same as detailed in the 2018 Annual Report, with the key changes relating to the increase in land following the acquisition of Tritax Symmetry in February 2019.

Emerging risks
As well as the principal risks, the Directors have identified a number of emerging risks, encompassing those that are presently either immaterial due to appropriate mitigation, or do not pose a material threat to the Company in the short-term. This could, however, change depending on how these risks evolve over time. These risks could impact the Company's performance and cover a range of subjects which include but are not restricted to climate change, sustainability and technological advancement. Furthermore, and more recently, the Board has identified the added risk that the developing worldwide health concerns over coronavirus could cause a slow down to the global economy. The full effects of this are currently unknown, but this has the potential to become a significant risk over a period of time.

The Board considers these net risks have increased since last year

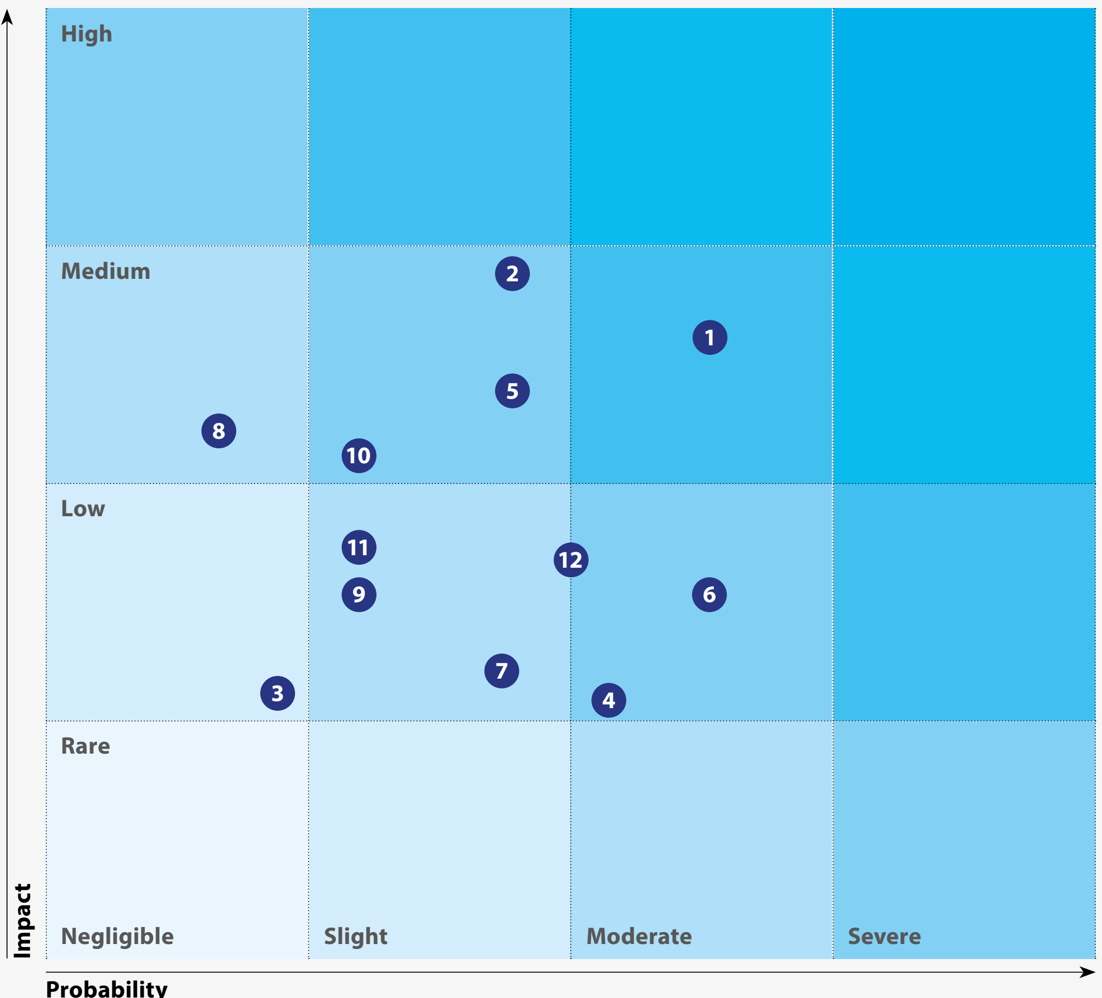
1. Tenant default
5. Execution of development business plan
6. The exposure to land and land options

The Board considers these net risks to be broadly unchanged from last year

2. Portfolio strategy
4. Performance will depend on the performance of the UK retail sector, specifically the continued growth of online retail
7. Variable rate debt
9. Debt covenant compliance
10. We rely on the continuance of the Manager
11. UK REIT status
12. Disruptive Brexit

The Board considers these net risks have decreased since last year

3. Competition for investment in properties in the Big Box sector
8. Debt financing



Property Risks

1. Tenant default – The risk around one or more of our tenants defaulting

Net probability	Impact	Mitigation
Moderate	Medium – The default of one or more of our tenants would immediately reduce revenue from the relevant asset(s). If the tenant cannot remedy the default and we have to evict the tenant, there may be a continuing reduction in revenues until we are able to find a suitable replacement tenant, which may affect our ability to pay dividends to Shareholders. This may also affect our ability to meet our debt servicing covenants. Similarly, a default of one or more tenants will impact on the NAV of the Company and will result in an increase in LTV (also refer to covenant compliance risk below).	The Investment Policy limits our exposure to any one tenant to 20% of gross assets or, where tenants are members of the FTSE, up to 30% each for two such tenants. This prevents significant exposure to a single Customer. To mitigate geographical shifts in tenants' focus, we invest in assets in a range of locations. Before investing, we undertake thorough due diligence, particularly over the strength of the underlying covenant and the group of the covenants. We typically select assets with strong property fundamentals (good location, modern design, sound fabric), which should be attractive to other tenants if the current tenant fails. We continually monitor and keep the strength of our tenant covenants under review. We typically focus on assets let to tenants of good financial covenant strength at the time of purchase and assets that are strategically important to the tenant's business. Our maximum exposure to any one tenant (calculated by contracted rental income) is 13.1% as at 31 December 2019. Please refer to page 46 for our top tenants.

2. Portfolio strategy – The ability of the Company to execute on its strategy and deliver performance

Net probability	Impact	Mitigation
Slight	Medium – An adverse change in the performance of our property portfolio may lead to lower returns for Shareholders or a breach of our banking covenants. Market conditions may lead to a reduction in the revenues we earn from our property assets, which may affect our ability to pay dividends to Shareholders. A severe fall in values may result in a fall in our NAV as well as a need to sell assets to repay our loan commitments.	The Group is focused on a single sector of the commercial property market, which is benefiting from structural change in consumer shopping habits following the continued impact of e-commerce on the retail market. The property portfolio is 99% let, with long weighted average unexpired lease terms and a largely institutional-grade tenant base. All the leases contain upward-only rent reviews, which are either fixed, RPI/CPI linked or at open market value. These factors help support our asset values and overall portfolio performance. We undertake ongoing reviews of asset performance along with a review over the balance of our portfolio, split between Foundation, Value Add, Growth and Land. We monitor covenant, location and building type and its suitability to meet a tenant's evolving requirements. We constantly monitor our covenant headroom on LTV and interest cover. This headroom is currently substantial. The Company has an LTV policy of borrowing up to 40% against gross asset values.

3. Competition for investment in the Big Box sector

Net probability	Impact	Mitigation
Negligible	Low – Competitors in the sector may be better placed to secure property acquisitions, as they may have greater financial resources, thereby partly restricting the ability to grow our NAV and further diversify the portfolio.	We have extensive contacts in the sector and often benefit from off-market transactions. We also maintain close relationships with a number of investors and developers in the sector, giving us the best possible opportunity to secure future acquisitions. We are not exclusively reliant on acquisitions to grow the portfolio. Since the Tritax Symmetry acquisition, we now own and control one of the largest development land banks in the UK. This acquisition significantly reduces the risk that competition will impact our ability to grow as we will seek to develop our own assets. Our leases contain upward-only rent review clauses and we have a number of current asset management initiatives within the portfolio, which means we can generate additional income and value from the existing portfolio.

4. Performance of the UK retail sector and the continued growth of online retail

Net probability	Impact	Mitigation
Moderate	Low – Our focus on the Big Box sector means we directly rely on the distribution requirements of UK retailers and manufacturers. Insolvencies and CVAs among the larger retailers and online retailers could affect our revenues and property valuations.	The diversity of our institutional-grade tenant base means the impact of default for any one of our tenants is low (other than Amazon, where our contracted rental income exposure is 13.1%). In addition to our due diligence on tenants before an acquisition or letting, we regularly review the performance of the retail sector, the position of our tenants against their competitors and, in particular, the financial performance and position of our tenants. We have increasingly been diversifying our tenant exposure to various sub-sectors of the retail sector, i.e. online, food, homeware, fashion, other. Whilst retailers are vacating units on the high street, this is partly as a result of increasing e-commerce spending. This is, generally speaking, positive for our assets and in many instances the logistics supply chain is integral to a tenant's online strategy whilst also supplying direct to stores.

Property Risks

5. Execution of development business plan – There may be a higher degree of risk within our Development portfolio

Net probability	Impact	Mitigation
Slight	Medium – Our development activities are likely to involve a higher degree of risk than is associated with standing assets. This could include general construction risks, delays in the development or the development not being completed, cost overruns or developer/contractor default and general financing risk. For Forward Funded Developments we are reliant on third-party developers to undertake and complete development. We are also reliant on the Tritax Symmetry management team in respect of execution of the development strategy on land within our control. If any of the risks associated with our developments materialise, this could affect the value of these assets or result in a delay to lease commencement. Following the acquisition of Tritax Symmetry we are reliant on the development expertise of the Tritax Symmetry management team for the performance of the Tritax Symmetry portfolio.	At the year end, only three of the Company's assets were pre-let and in the course of development, whilst another two assets are under speculative development from within the Tritax Symmetry portfolio. These assets represent a small element of our total portfolio by floor area 0.5%. 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 over-runs. Our appetite for speculative development is low and we have a limit of 5% of GAV exposed to speculative developments within our Investment Policy. Having acquired the development expertise of Tritax Symmetry from February 2019, the risk of cost overruns is mitigated by our experienced development team which includes a thorough procurement and tender process on all contracts. Tritax Symmetry senior management are incentivised through holding of B and C Shares in Tritax Symmetry Limited and therefore their interests are, in many respects, aligned with that of the Company. We undertake thorough covenant analysis and ongoing review of our contractors and secure guarantees in relation to construction contracts where possible.

Land Risks

6. Land exposure – The exposure to land or options over land may involve a higher degree of risk than that associated with existing and built investments or development activities

Net probability	Impact	Mitigation
Moderate	Low – The failure to obtain planning consent could lead to a planning appeal with associated costs and/or to the land being held or sold prior to any development. The value of the land may be reduced due to the refusal of planning consent and the costs incurred to that date could be significant and may be irrecoverable. This would reduce the Company NAV. This also applies to options over land, whilst any costs in respect of the option or associated planning and appeal costs may have to be written off. If the Company fails to attract a suitable pre-let it is unlikely to proceed with the development of a larger scale big box. This would impact on the potential future development profit and revenues the Company could make from the land and failure to secure a pre-let may have a negative effect on the valuation. The Company may choose to develop smaller scale buildings on a speculative basis if it makes sense to do so. The land may be subject to an environmental risk which requires significant investment to remediate prior to commencing the development works. The costs associated with developing land may fluctuate over the course of the development due to market conditions.	The purchase of land and funding of speculative development is subject to a maximum level of 15% of GAV, at the time of purchase. Within this total, the Company can only undertake limited speculative development of buildings subject to a maximum level of 5% of GAV. It can also undertake land preparation works but the Company will continue, in most cases, to seek a pre-let prior to commencing the vertical construction of a larger scale big box. Following the acquisition of Tritax Symmetry, this has provided the Company with access to one of the UK's largest strategic land portfolios held via direct land holdings and options over land. The Tritax Symmetry assets have been subject to due diligence, but prior to the exercise of land draw down under an option agreement, the Company will carry out extensive due diligence to limit exposure to environmental risks and other hazards. The Company also undertakes due diligence over the surrounding power and highways infrastructure, the surrounding environment and the state of the market to assess the viability of the scheme ahead of acquiring the options over land. The Company takes expert advice from local planning specialists over the likelihood of timing of achieving planning consent.

Financial Risks

7. Variable rate debt – Our use of floating rate debt will expose the business to underlying interest rate movements

Net probability	Impact	Mitigation
Slight	Low – Interest on some of our debt facilities is payable based on a margin over Libor. Any adverse movements in Libor could impact our profitability and ability to pay dividends to Shareholders.	The Company has entered into interest rate derivatives to hedge our direct exposure to movements in Libor. These derivatives cap our exposure to Libor rises and have terms coterminous with the loans. We aim, where reasonable, to minimise the level of unhedged debt with Libor exposure, by taking out hedging instruments with a view to keeping the drawn levels of variable rate debt approximately 90%+ hedged. As at 31 December 2019, 64% of the Group's drawn borrowings were fixed rate loans.

8. Debt financing and liquidity – A lack of debt funding at appropriate rates may restrict our ability to grow and deliver attractive returns

Net probability	Impact	Mitigation
Negligible	Medium – Without sufficient debt funding, we may be unable to pursue suitable investment opportunities in line with our investment objectives. If we cannot source debt funding at appropriate rates, either to increase the level of debt or re-finance existing debt, this may impair our ability to maintain our targeted dividend level and deliver attractive returns to Shareholders.	The Group has diversified sources of long-term unsecured borrowings in the form of £500 million in public Bonds and £400 million in unsecured private Loan Notes. We also have £550 million of flexible bank finance available split across two revolving credit facilities. This helps keep lending terms competitive. This access to multiple debt markets should enable the Group to raise future liquidity in a more efficient and effective manner via an unsecured platform at competitive rates. The Board keeps our liquidity and gearing levels under review. We have headroom of £500 million of undrawn debt commitments, within our credit facilities at 31 December 2019.

9. Debt covenant compliance – We must be able to operate within our banking covenants

Net probability	Impact	Mitigation
Slight	Low – If we were unable to operate within our banking covenants, this could lead to default and our bank funding being recalled. This may result in us selling assets to repay loan commitments, or be forced to sell assets, possibly resulting in a fall in NAV.	We continually monitor our banking covenant compliance, to ensure we have sufficient headroom and to give us early warning of any issues that may arise. We have an LTV policy of up to 40%, with LTV and Gearing covenants substantially higher than this. We enter into interest rate caps to mitigate the risk of interest rate rises. We operate with a predominantly fixed rate debt platform. This will mitigate the effect on the Group from interest rate rises. We invest in assets let to institutional-grade tenants and we also seek to maintain a long WAULT, which should reduce the volatility in our property values.

Corporate Risk

10. We rely on the continuance of the Manager

Net probability	Impact	Mitigation
Slight	Medium – We continue to rely on the Manager's services and its reputation in the property market. As a result, the Company's performance will, to a large extent, be underpinned by the Manager's abilities in the property market and its ability to asset manage and develop its property portfolio. Termination of the Investment Management Agreement would significantly affect the Company's ability effectively to manage its operations and may have a negative impact on the share price of the Company.	Unless there is a default, either party may terminate the Investment Management Agreement by giving not less than 24 months' written notice. The Management Engagement Committee regularly reviews and monitors the Manager's performance. In addition, the Board meets regularly with the Manager, to ensure we maintain a positive working relationship.

Taxation Risk

11. UK REIT status – We are a UK REIT and have a tax-efficient corporate structure, which is advantageous for UK Shareholders. Any change to our tax status or in UK tax legislation could affect our ability to achieve our investment objectives and provide favourable returns to Shareholders.

Net probability	Impact	Mitigation
Slight	Low – If the Company fails to remain a REIT for UK tax purposes, our property profits and gains will be subject to UK corporation tax.	The Board is ultimately responsible for ensuring we adhere to the UK REIT regime. It monitors the REIT compliance reports provided by: – the Manager on potential transactions; – the Administrator on asset levels; and – our Registrar and broker on shareholdings. The Board has also engaged third-party tax advisers and auditors to help monitor REIT compliance requirements.

Political Risk

12. Disruptive Brexit

Net probability	Impact	Mitigation
Moderate	Low – The UK departed from the EU with effect from 31 January 2020. There will now be a transition period from 31 January 2020 to 31 December 2020. Economic volatility is not a new risk for the Group; however, until the terms of Brexit become clearer the exact outcome on the business remains difficult to predict at this stage.	The Group operates with a focus in the UK Big Box market which has a supply shortage against current levels of demand, which, along with the structural shift to online retailing will assist in supporting portfolio performance. We have regular engagement with key occupiers to understand how Brexit is affecting their businesses and whether this is affecting their need for logistics space. If the outcome is a 'hard Brexit', this is likely to put greater barriers in the form of freedom of movement across our borders. This could lead to further distribution space required in the UK to stock more inventory onshore. The Group is currently well positioned with long and secure leases and a diverse blue chip tenant line up, with a focus on tenants with financial strength, which are well positioned to withstand any uncertainty in the UK economy.