Highcroft Investments PLC

("Highcroft" or the "Company")

The following questions were submitted prior to the Annual General Meeting held on Wednesday 18 May 2022 and the answers given during the meeting are set out below.

1. Do you think the portfolio has reached the peak of its valuation and can you purchase more properties without increasing debt and/or equity?

I will start by providing you with a summary of how our property portfolio has progressed over time. In December 2016 it was valued at £66 million. By December 2021, its valuation had increased to £87.6 million, a compound annual growth rate of 5.8%. Throughout this period, a key aspect of the Board's strategy has been to take action to reposition our portfolio ahead of expected market trends, all with a view to achieving an acceptable risk-weighted return on capital employed and ultimately enhancing shareholder value. For example, over this period, we reduced our exposure to high street retail as shopping patterns were changing and increased our weighting in the industrial / warehousing category.

Over this period, we have benefited from the significant improvement in yields in industrial / warehousing because these assets performed exceptionally over the period and drove a significant proportion of the increase in our portfolio value. This contrasted with other sectors such as high-street retail.

As ever, the market constantly evolves and investor focus shifts to other areas, notably retail warehousing where we retain a good level of exposure, with 28% of our portfolio valuation at 31 December 2021 represented here. Neither we nor anybody else can accurately predict the top of the market; however, the general consensus appears to be that industrial / warehousing has reached its peak. Accordingly, we are reassessing our portfolio to take account of these ongoing shifts. In the industrial space, for example, rather than acquiring new assets, our focus will be on developing existing assets and on securing favourable rent reviews, aiming to safeguard the value created in recent years.

Overall, whilst the current macro-economic picture is uncertain, we remain optimistic about the prospects for the Company and its ability to meet its strategic objectives in the medium and long term. This includes our long-term objective of growing the commercial property portfolio with a bias towards the south of England and Wales, increasing the average lot size to £5 million, and seeking growth opportunities within our property asset base.

Turning to the second part of the question, we take a cautious approach to managing our portfolio, with our focus on maintaining low levels of gearing and healthy levels of cash. We are also mindful of the income distribution requirements to maintain our REIT status. Our risk appetite, which as a Board is reasonably low, reflects these factors.

In the near-term, we intend to fund our plans through existing cash resources (cash and cash equivalents as at 31 December 2021 were £5.7 million) which include part of the proceeds received from the sale of our Andover property in 2021 for £3.6 million. We have just refinanced our £7.5 million term loan that matured this week with a new 7-year, £7.5 million term loan. We do not, at present, therefore, see the need to take on further funding to deliver our plans for the business.

2. What are your thoughts on further debt and equity?

As at 31 December 2021, we had headroom of £2.8 million with Handelsbanken plc. Our appetite for risk is reasonably low and as we wish to maintain only a medium level of gearing, and conservative capital structure, we would not wish to take on significant further debt.

We monitor equity market conditions with our advisers on an ongoing basis. As a general point, we are mindful of the ongoing discount of the share price to NAV at 31 December 2021, currently at 24%, which means that an equity raise would be significantly dilutive and therefore unattractive. Any larger equity raise would also require the support of both Concert Parties since they account for over 60% of the shares in issue.

Again, we are also mindful of our distribution requirement as a REIT and one of our primary objectives is to ensure that the Company continues to be in a strong position to deliver at least the REIT required dividends to its shareholders.

Overall, as per the answer to the first question, we do not, at present, see the need to take on further funding to deliver our plans for the business.

3. If you cannot continue to increase NAV, and the increasing cost base is going to deplete shareholder value and potential future dividends, have you considered

a) Selling the assets and distributing the proceeds to shareholders; or

b) Merging with another company to benefit from economies of scale on the cost base and purchasing power in the debt markets along with potential reduction of the NAV to share price discount?

The board is aware of the increasing cost of regulation arising from our status as a premium main market listed entity. Equally, one of the strict criteria that we are required to satisfy to maintain our UK REIT status is to remain a listed entity. Maintaining this REIT status enables the Company to benefit from favourable income and capital gains tax treatment.

More generally, the Board regularly reviews its strategy for the business, as set out in our Annual Report, in conjunction with our advisers, in order that we can adapt appropriately to changing market conditions as well as to the wider macro environment and the concerns of shareholders.

This includes reviewing our property portfolio strategy as well as our wider strategy to maximise shareholder returns, the latter covering options and opportunities, such as those in your question, that arise from time to time.

As is our duty as a Board, we always give such opportunities due consideration. We also note that any material corporate event would need the support of shareholders. As we state in our Annual Report, we always seek the opportunity to consult with our shareholders on matters such as the Board's strategy for the business, so that we can understand shareholder views as the owners of the business. We welcome communication with any of our shareholders on these matters at any point.

4. **If you cannot take the business any further is there a risk that Simon and Roberta will decide to move on leaving the Company searching for a new executive team?**

Simon and Roberta have been in post for 9 and 12 years respectively, and they have overseen a period of strong growth in net assets and income returns.

Addressing retention of the existing team is a key aspect of the role of any publicly listed company's remuneration committee, and the Board recognises the need to drive job satisfaction for the executive team. The Board believes that the executive directors are appropriately motivated and rewarded financially through a combination of salary, bonus and equity-linked incentives, which ensures that their interests are aligned with the Company's strategy. Indeed, it was our recognition of the need for attractive medium-term equity incentives that led the Board to implement its Incentive plan in 2019.

The Board also attaches significant importance to non-financial aspects, including general well-being, such that there is an appropriate environment in which the executive team can perform their roles. The non-executive directors are in regular and open dialogue with the executive team and are keen to promote communication with the wider shareholder base, which the Board believes would further enhance the executive team's job satisfaction.

More formally, succession planning, and Board composition are regularly reviewed by the Company's nomination committee.