31 March 2023

Caledonian Trust plc

("Caledonian Trust", the "Company" or the "Group")

Unaudited interim results for the six months ended 31 December 2022

Caledonian Trust plc, the Edinburgh-based property investment holding and development company, announces its unaudited interim results for the six months ended 31 December 2022.

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CHAIRMAN'S STATEMENT

Introduction
The Group made a pre-tax profit of £353,000 in the six months to 31 December 2022 compared with a pre-tax loss of £196,000 for the same period last year. The profit per share for the six months to 31 December 2022 was 3.00p and the NAV per share as at 31 December 2022 was 200.3p compared with a loss per share of 1.66p and a NAV per share of 206.7p last year. The Group's emphasis will continue to be to secure, improve and realise the value in our property portfolios.

Review of Activities
I provided a comprehensive review of activities in my December statement accompanying our audited results for the year ended 30 June 2022.

On 24 February we released an announcement to the market, stating that, as a result of strong interest, we had set a closing date for indicative offers for St. Margaret's House ("SMH") on 23 February 2023 and had received non-binding proposals from three separate parties. Careful consideration and analysis of each of the proposals has led us to select a preferred bidder and enter into an exclusivity agreement with them to enable them to undertake their necessary due diligence and agree formal terms for the purchase by the end of April 2023 with the intention that any such agreement entered into would be conditional, *inter alia*, on the purchaser obtaining the required amendments to the planning consent at SMH. Whilst the Board is hopeful of a satisfactory outcome, there can be no certainty that a sale of SMH will proceed, nor on its terms or the timing of any sale.

A further announcement will be made when a formal sale agreement has been entered into or the Company will otherwise provide an update in relation to SMH in due course.

In the meantime, SMH continues to be fully let at a nominal rent, presently just over £1.50/ft^2 of occupied space, to a charity, Edinburgh Palette, who have reconfigured and sub-let all the space to over 200 artists, artisans and galleries.

At Brunstane we completed the construction of the third phase of development, comprising five new houses over 8,650ft^2 forming the Steading Courtyard, at the beginning of July 2021 and this development was completed in September 2022. We completed the sale of three of the houses in October and November 2022 for an aggregate £2m and a fourth in March 2023 for £725,000. Knight Frank are marketing the remaining house at a fixed price of £700,000. The application for 11 new houses (c.20,000ft^2), “Upper Brunstane”, in the Stackyard field to the east of the steading was granted in November 2022. We intend to prepare the site for development, take up the planning consent and secure the requisite building warrant with a view to undertaking the development as soon as appropriate. We have made an application to modify the consent for “Plot 10”, lying between Phase 3 and Upper Brunstane, by replacing the single large (3,500ft^2) house with two smaller houses of similar combined size which will complete the small courtyard leading into Upper Brunstane.

At Wallyford we are currently finalising several minor but important variations to the planning consent for six detached houses and four semi-detached houses over 13,350ft^2 and we have received detailed tender prices, but are reviewing when to start construction in light of current conditions. The site lies within 400m of the East Coast mainline station, is near the A1/A720 City Bypass junction and is contiguous with a completed development of houses. To the south of Wallyford a very large development of new houses is being built at St Clement’s Wells on ground rising to the south, affording extensive views over the Forth estuary to Fife. Wallyford, no longer a mining village, is rapidly becoming another leafy commuting Edinburgh suburb in the fertile East Lothian coastal strip.

Economic Prospects

Winter came this Spring – a sudden icy blast. The economic winter too has proved unseasonal, but is it, too, deferred? Economic prospects, major world events excepted, depend upon whether a long recession has been avoided or merely deferred, like Winter.

The economic Winter has been unexceptionally mild and GDP is 0.8% higher than the OBR forecast in November 2023, having narrowly avoided the forecast recession in December 2022, as output was unchanged in Q4 2022 following the 0.2% contraction in Q3 2022. After the Covid lockdown in late 2021 there was a robust recovery of 4.2% in Q1 2022 followed by growth of 0.2% in Q2 resulting in growth of 4.10% in 2022, but GDP is still 2.0% below the pre-Covid level in 2019.

In 2023 the OBR expects GDP to contract 0.4% in Q1, to be nil in Q2, but to rise 0.1% in each of Q3 and Q4, and to be -0.2% lower overall in 2023. This forecast of -0.2% is 1.2 percentage points higher than the OBR November forecast for 2023. A 0.5 percentage point rise over the OBR’s November 2022 forecast is forecast for 2024, but subsequent years are marked down 0.2, 0.3 and 0.4 percentage points respectively, resulting in the November 1.7 percentage point rise forecast changed to only 0.8% over five years. The March forecast has reduced forecast growth and effectively re-distributed it forward, such a change in timing being convenient for the 2024 election.

While the OBR’s forecast is that GDP will return to the pre-Covid 2019 level in late 2024, real living standards – RHDI – real household disposable income – per person does move in proportion with GDP and is forecast to fall by 5.7% over the financial years 2022-23 and 2023-24, the largest two-year fall on record. In 2027-28 real living standards are expected to be 0.4% lower than the pre-Covid level and are not expected to rise above that level until 2029.

The UK’s poor economic performance can be traced back to the financial crisis of 2007/08 followed by an injudicious austerity policy, then by Covid, and then quickly by the Ukraine war. Had the growth rate experienced until 2007/08 continued at the same rate until 2023, GDP per head would now have been 38.9% higher. Moreover, the UK’s economic recovery post Covid is strikingly poor, as by 2025 the UK economy is forecast to have recovered only to the pre-Covid level, whereas the EU area is forecast to have grown 6.0% and the US 9.0%. From 1980 until the 2007/08 Great Recession the UK enjoyed the highest annual real growth in GDP in the G7, but since 2016 it has had the second poorest performance of about 0.5%pa, just above Japan’s 0.3%.

Other commentators' forecasts are less optimistic than the OBR's forecast of a cumulative growth of 1.6% by December 2024 and of 8.1% by December 2027 (6.2% by 2026). In contrast the mean of "new" forecasts by economists surveyed in March by HMT is for a much lower growth of 0.3% by end 2024. The NIESR's forecast of 6.4% growth by 2027 is the highest of the other longer term forecasts. The Bank's forecast until the end 2024 is even more pessimistic at minus 1.0%, a pessimism that persists as it forecasts growth at only 0.1% by end 2026, compared to 4.5%, NIESR, and 6.2%, OBR.

While the Bank's current forecast is pessimistic, it is considerably better than its November 2022 forecast, only three months ago, of a depression with a fall of 3.0% and a return to the pre-depression output level only after 21 quarters. Now the Bank forecasts a depression of less than 1.0% and a return to the pre-depression level in 13 quarters.

The Bank's reduced pessimism is based on important reductions in gas futures prices of over a third and, most significantly, in Bank Rate, as implied by financial market interest rates (i.e. not interest rates assumed or forecast by the Bank, but market" rates), falling compared to their November report by 0.8 percentage points to 4.4% in 2023, by 0.7 percentage points in 2024 to 3.7%, and by 0.3 percentage points in 2025 to 3.4%. Unlike the Bank, the OBR is not constrained in its forecasts of future bank rate, forming their own estimates rather than using the implied market rates. Over the next three years its forecasts are based on interest rates of 0.25 percentage points lower than those of the Bank in February 2023. Such lower interest rates would account for an important part of the difference between the Bank and the OBR forecasts.

The implied interest rate used by the Bank and the forecast rate used by the OBR are both likely to prove to be too high. The interest rate rise (prior to the recent 0.25% rise) is unprecedented – from 0.1% to 4.0% in 14 months. The cash cost of an increase in interest from say 0.1% to 4.0% and from 4% to 7.9% is the same. However, with low interest rates many organisations are likely to have increased gearing, and if the gearing has been increased so that the interest paid as a percentage of sales is the same, then the effect of the same percentage point increase in interest rates is quite different. If, for instance, interest costs are 10% of revenue and the bank margin is 2.9%, then, with a gross margin of 20%, a 3.9% percentage point rise in interest costs results in a gross margin of 7%. If, however, in the higher interest environment with the same interest cost of 10% of revenue when the interest payable is 6.9% the gross margin is 20%, a 3.9% percentage point rise in interest costs results in a gross margin 14.5%, a much lower reduction in gross margin. Thus, for the same interest cost as a proportion of sales, the same increase in rate from a low base has much larger effect on profitability. Thus, the effect of the same percentage point rises in interest costs will have a larger impact on the economy than it would have had from a higher base, and to the extent such an effect may be unrecognised the extent of an interest rate rise required to bring a given effect on the economy may be overstated. This effect will only operate where low interest rates have induced higher gearing, the likelihood of which will increase with the length of time low interest rates have operated and been expected to continue to do so, as has widely been the case in the UK.

There is another major uncertainty concerning the effect of interest rate rises. There is a time lag before the full effect of any interest rate rise becomes evident in the economy, typically reaching its maximum only after a year, or even two, a phenomenon dubbed by Milton Friedman as the "long and variable lags" of interest rate policy. Some recent research suggests that, due to the current more rapid transmission of central bank intentions, the strongest impact may come after nine months. In that case, interest rises from the late Spring may be exerting their full effect now, but rate rises above 2.0% are now only six months old and the most recent rise to 4.25% occurred only last week. Thus, even if rapid transmission is now more likely, the majority of the full effect of rate rises is yet to be reflected in the economy.

The Bank risks "overkill" if interest rates are raised in line with the 4.4% for 2023 implied by the forward market interest rates used by the MPC. Three months have already passed with interest rates at 4% or 3.5%, the average of the remaining nine months would have to 4.6% to reach the 4.4% level implied by the forward markets.

A review of the causes of the high inflation suggests that not only has the inflation rate just peaked, but it is likely to return to "acceptable" levels. Firstly, commodity prices have fallen both recently and over

a year: the Economist all-items sterling index is down 0.7% on the month and 11.2% on the year; the dollar indices all-items are down 17.5%; food 16.4%; and non-food agriculturals 36.3%. Brent oil has fallen to $77.5, 21.9% lower than last year and the price of gas, now $2.35 per MM Btu, is down from $5.41 last year and from a peak price of $9.77. Secondly, the supply shortages induced by the rapid recovery from Covid and the production dislocation of Covid have reversed and, for example, there is now a surplus, not a dire shortage, of "chips". Thirdly, supply chains have adjusted and shipping rates returned to normal. Fourthly, price rises caused by shortages of basic industrial imports caused prices to rise throughout the economy "spilling" the rises generally – interestingly even into second hand cars, for instance. Fifthly, the flush of demand extended into the re-opening service industries which, being short staffed, had a reduced supply capability and so increased their prices, while, more generally, the sudden demand for "labour" of all types raised wages. However, prices in all sectors, including oil, have since stabilised with the exception of wages where unemployment rates in the G7 countries, apart from Italy, are the lowest or close to the lowest for 25 years. Clearly economies have adequate supplies of goods at current prices but not of labour. Labour shortages are partly due to a reduction in the labour force because of the large increase in those employable not seeking employment, and, of course, a very low rate of increased productivity augments such a shortage. Unfortunately, until the supply shortages are resolved, demand must be reduced if inflation is to be controlled. The delay in the moderation of wages may be due to the lag effect of interest rate rises, but the extent of the wage rises achieved or in contemplation may be due to the increased political pressure for rises after the particularly high inflation levels experienced by those below the median wage, a pressure reinforced by the minimal improvement in such living standards over many years.

A cardinal tenet of the models used by central banks to forecast inflation is the level of employment and of vacancies: put more simply, if the demand for labour is high, the price is unlikely to fall. Fortunately, recent figures indicate a downturn in employment and falling vacancies. As wage inflation is a lag indicator, the effects of rising interest rates may now be being seen.

One dramatic effect of interest rate rises has just become evident, being the reduced value Tier 1 equity, an early warning of the possible wide effects on stability of large, sudden interest rate rises on the banking sector over and above inflation. Financial stability supersedes "normal" inflationary concerns and ensuring stability may be a major determinant of future interest rate changes. The rise in interest rates has caused a corresponding drop in the value of all fixed interest securities, which form a substantial part of many banks' assets. In the case of the Silicon Valley Bank, the USA's 16th largest bank, they comprised so high a proportion that SVB's Tier 1 equity fell from 12% to almost 0%. This bank, and others have crashed as a consequence, throwing doubt on the integrity of the whole banking sector. Even "strong" banks like Bank of America's Tier 1 capital has halved to 6%, and Credit Suisse has just been rescued by the Swiss National Bank and then taken over for a relatively nominal amount by UBS. The crisis in the banking sector would be worsened if rates were increased further, but greatly ameliorated if the trend in rates was seen to have peaked. This overriding consideration for stability will, at least, moderate any further rate increase. I re-affirm my December 2022 statement that rates should peak at or about 4%, but decline slowly to stabilise at around 3% over the next few years.

The failure of SVB, a bank outside the criterion of banks considered "too big to fail", but with the rescue of its depositors, has proved both that regulation must be extended and the quality of the banks' executives must be improved or even controlled. As I noted in my 2022 statement, of the many depressions since the 14th century, financial policies or irregularities have been responsible for a large proportion of them. Recently many pension funds have had to be rescued when, after securing their long-term bond holdings against equity investments, the bond value fell leaving the security uncovered and the consequent margin requirement unmet. These lacunae follow those revealed in the Great Depression of widespread weak governance, notably in the largest bank in the world, the RBS. These recent financial crises originate because of a disregard of the basic tenet of banking: when long-term lending is funded, even in part, by short-term deposits, depositors must have confidence in the liquidity of the bank. The Bank of England notes carried the statement "… promise to pay the bearer on demand …". True, but what the Bank meant was, "provided not too many other people require payment at the same time".

Writing in the FT, Martin Wolf put the position pithily: "The marriage of risky and often illiquid assets with liabilities that have to be safe and liquid within undercapitalised, profit-seeking and bonus-paying

institutions regulated by politically subservient and often incompetent public sectors is a calamity waiting to happen. Banking needs radical change."

Possibly, a more limited change in management might be recommended also for the Bank whose timing of interest rate changes both before the 2007 Recession and before the current inflationary crisis has been suspect.

In Scotland, in contrast to previous forecasts, I close by forecasting that the economic climate will improve significantly over the next few years. The SNP has cracked: its aura of integrity, its halo of purity, its selflessness in the common cause and its solidarity are strewn publicly in pieces. In its place are unedifying evidences of malfeasance, perverting the course of justice, self-aggrandisement, undemocratic practices, the manifold "sins" of all older parties. Thus, the cause of independence has suffered a blow that may prove mortal. This benefit is complemented by a possible "stay of execution" for the oil and gas sector, Scotland's major non-state employer, and maybe assisted by a possible reduction in the power of the Green alliance where a tiny minority of MSPs has been responsible for obstructing economically productive investments in Scotland at an economic and social cost that far outweighs any measured benefit. Thus, I forecast confidence in Scotland, its future and its economy will be greatly improved, so lowering the cost of capital, increasing investment and asset values and, most importantly, living standards.

Property Prospects

I reviewed property prospects comprehensively in my statement to the year ended 30 June 2022 based on the forecasts made in the autumn, but by December 2022 the forecast returns for 2022 had deteriorated very considerably. The Investment Property Forum (IPF) All Property return for 2022, previously forecast at 6.4%, is now estimated at -2.3%, due almost entirely to forecast Capital Value growth dropping from 2.3% to -6.4% and only the Retail Warehouse sector is estimated to produce a positive return of 5.2%, although down from 12.3%, but all other sectors are estimated to have negative returns of from -1.9% (Shopping Centres) to -3.9% (City Offices).

The MSCI[2] Monthly Property Index reported an even larger negative return of -10.4% for 2022. The changes in capital value reflect the spike in interest rates to over 5%, following the economic and tax proposals made during the very brief period of Liz Truss' leadership.

The IPF February forecast for 2023 forecasts a Total All Property return of -0.6%, an improvement on the November forecast of -2.4%. The only sector forecast to have a positive Total return is Industrials (0.4%) and Offices are forecast to have a Total return of -2.7% within which City Offices, with a -3.5% return, are the worst performing sub-sector. All sectors, with the exception of Industrials (2.9% gain), are forecast to have declines in rental value of which Shopping Centres are forecast to have the greatest fall of 2.8%, and Standard Retail 2.3% and City Offices 2.0%. Capital value contraction is forecast as 5.5% with all sectors falling in value. The IPF conducts its research in January (6 contributors) and February (11) and the figures quoted are averages of these contributors. The January forecasts were for a Capital Value growth of -6.6%, but the February forecasts were for a Capital Value growth of -5.0%; reflecting a cautious return of confidence following the establishment of the new Government.

Forecasts for later years are for a recovery to a Total return of 7.2% in 2024 and of 8.0% in 2025. In 2024 average rental value growth is only 1.0% but Shopping Centres and City Office sectors are forecast to continue to decline in rental value. Shopping Centres are forecast to decline also in Capital Value growth in 2024, but the Industrial sector is forecast to increase by 3.8%, the largest rise in Capital Value, which averages 2.2%. In 2025 all sectors are forecast to have higher Rental and Capital Value growth than in 2024 to give an improved All property return of 8.0%. The poor returns forecast for 2023 reduce the five year 2023/27 forecast Total return to 5.6% per annum.

The IPF forecasts are based on the mean of normally 20 forecasts evenly divided into two groups – Property Advisors and Fund Managers, whose individual forecasts are widely dispersed. Until recently there has been little difference between the forecasts of these two groups, but for 2023 there is a sharp distinction. Whereas the nine Property Advisors mean forecast for total return is -0.2%, the Fund Managers participating forecast was for -1.6%. The total returns for subsequent years between the two groups of forecasters had no similar disparities.

Colliers provide comprehensive forecasts which, interestingly, as there is no averaging, normally have been very similar to the IPF means. But currently, the Colliers forecasts are markedly different to the IPF's forecasts, particularly for 2023 where the total return is forecast as 5.3% in contrast to the IPF's -0.6% with a corresponding difference of 5 percentage points for Industrial and Office returns and 7.7 percentage points difference in the Retail return (8.5% cf 0.8%). There is a similar disparity in the five-year return forecast where Colliers forecast about a 3 percentage point increased return in all sectors. Exceptionally, Colliers forecast Total return for Industrials is 10.5% whereas IPF forecast 6.5%. In general, Colliers expect a higher growth in rentals than the IPF, forecasting five-year rental growth of 4.3%pa for Industrials (IPF 2.6%), 1.7% for Retail Warehouses (0.6%) and Offices "averaging" 1.4% ("averaging" 0.7%). For Standard Retail the forecasts agree: no increase in rental value over five years!

Patently, returns as forecast by Colliers are greatly to be desired, but consideration of the prospects for the individual sectors gives little comfort. Most forecasters tend to project a continuation of recent changes and very unusually are turning points accurately forecast. Colliers forecasts, being less pessimistic, may correctly be forecasting such an inversion!

However, both forecasts agree on the forecast for Standard Retail: more of the same! They both forecast the Industrial / Logistics sector as having the highest returns, based largely on the expected continuing rise in online sales and the demand for distribution facilities to meet demand. Online sales were 20.5% of all retail sales in the three months before the Covid crisis in late March 2020, rose considerably during that crisis, and in January 2023 were 26.6% of all retail sales, having peaked at 37.8% in January 2021. The average for the 12 months to January 2023 was 25.8%.

Online sales administration and the associated distribution services appear to be becoming even more convenient and efficient. However, several factors militate against a further expansion of their proportion of retail sales: the "easiest", the low lying fruit has been harvested; goods' returns are rising and are probably increasingly expensive to resell, especially of "personal" goods; working from home, while established, is declining; existing retailers are adopting a hybrid system of online / collection / in-store services; and retail services are becoming increasingly "personal", for example, in areas of health and beauty, services which cannot be delivered online! While online sales will continue to expand, no significant change in their percentage of retail sales seems likely. Although the retail sector is adjusting to the extent of online sales, the total growth in retail sales will be limited by low expected growth in Real Household Disposable Income.

In 2022 there were 3,365 net store closures compared to 7,902 in 2021 and to a peak of 11,319 in 2020, but closures are expected to increase slightly over the next two years before falling to 2,600 in 2025, in line with expected improvements then in the economy. The 3,365 net closures in 2022 included net openings of 904 leisure units and 430 convenience units and the net closure of 2,308 service units and 2,391 comparison units. The fastest declining categories were Banks 676, Hairdressers 527 and Newsagents, Bookies and Recruitment, each 268, and fastest growing categories were Fast Food, Takeaways, Beauty Salons and Convenience Stores each increasing by about 425, and "Bars" 347 units. The retail sector is adapting quickly to changed economic circumstances, but, although the rate of decline in shop units slows, returns to the retail sector will be severely restricted, especially as the vacancy rate of 18.2% remains above the pre-Covid level of 14.4%.

The office sector also faces reducing demand for its existing premises, apart from the effect of the continuing slow growth in the economy. Demand for existing offices has been significantly diminished because of the changing work routines, especially "work from home", which, however disadvantageous for some work categories, seems likely to persist. Symptomatic of the change is the recent announcement that Abrdn is closing its 100,000ft^2 office in St. Andrews Square, Edinburgh and consolidating its offices, and, anecdotally, it is reported that the Registers of Scotland's 125,00ft^2 office in Edinburgh is currently only 20% occupied. The office sector will suffer, not only from a reduced demand but, from a different demand as a result of energy pricing and ESG policies rendering much existing office stock outdated or redundant and therefore effectively worthless. Thus, while values will be high for the limited high-quality space, values will be greatly impaired for all other space.

The industrial sector is the only main property sector where demand continues to increase, a surprising volte-face from the traditional position where it traded on low nearly static rents and consistently high yields.

The prospects for Commercial Property are poor and depend primarily on rental returns while capital values remain static. The OBR, comparatively optimistic in economics prospects, forecasts that "Commercial Property Prices" will decline 4.8% this year and grow less than 0.5% pa for the next five years. The OBR forecasts CPI to be 18.1% over the next five years, resulting in the real value of Commercial Property falling by about 15%. The poor performance of commercial property since 2007 will continue.

The anomalously high house price rises that I reported last year, unsurprisingly, halted late last summer when monthly falls became widely reported, the extent varying among surveys. In the year to February 2023 rises were reported by Halifax 2.1%, Acadata (E&W) 4.7%, Acadata (Scotland) 4.6% (January), Knight Frank 5.3% and ESPC 2.2%, but a fall was reported by Nationwide of 1.1%. The divergence between Halifax and Nationwide is anomalous because their figures are both derived from their own mortgages for properties that are of similar values (10% approximately higher for Halifax). The difference between these figures and Acadata figures is also anomalous as both mortgage-based surveys are for a "standardised" house product and include an upward Winter seasonal adjustment. Acadata figures are actual figures including both cash and mortgage sales, and therefore include more expensive properties in the result. It seems likely more "expensive" properties have been less affected by the more difficult mortgage market and have continued to rise in value. Acadata report that, while overall rises have continued, the rate of growth has slowed for six months, and that prices in London have fallen.

Higher price rises continue to take place outside London and the South-East: quite exceptionally in Blaenau Gwent prices have risen 30.3% - a narrow market! In Scotland where, in January, prices fell 0.9%, there was a noticeable difference between house types as flat values fell 2.0%, terraces 1.6%, and semi-detached houses 0.6%, while detached houses maintained their value. Acadata say, "expensive detached properties tend to attract wealthy and more resilient buyers who are less impacted by the rising cost of mortgage finance".

The general decline in prices is reflected specifically in new house sales in East Lothian (Wallyford) near one of the Company's prospective development sites where, over the last few months, prices generally have been reduced (or incentives given) equivalent to 5% or occasionally to nearly 10% of the quoted price.

Recent surveyed price changes provide a background for forecasts of changes in 2023. In January the Times newspaper summarised 13 forecasts from surveyors, economic research groups and the OBR, and these ranged from -1%, Chestertons, to -10%, Savills. The OBR, using fiscal not calendar years, forecast that prices would fall 4.6% in the year to April 2024 and would only grow about 1% by end 2027/28. This poor forecast is, however, higher than the equivalent -7.8% OBR forecast in November 2022.

Comprehensive forecasts are given by Savills covering the next five years. Mainstream UK prices are forecast to fall 10% in 2023 but rise 6.2% over the four years to 2027, but in London prices are forecast to lose 1.7% over five years. Areas outside London and the South-East have much improved five-year forecasts of over 10% for Northern regions and Wales and of 9.5% for Scotland. In all cases the greatest growth occurs in 2026 of 7.5% except in London and the South-East and South-West. Prime UK prices are forecast not to have as large price falls as the mainstream with English regional values falling 6.5% in 2027 but rising by 9.9% over 5 years and Scottish prime prices, while falling 5.0% in 2023, rise 12.7% over five years, a better expected performance than Scottish "mainstream".

The main determinants of the rate of change of house prices will be how quickly interest rates fall and whether a recession occurs that causes a severe rise in unemployment and a consequent increase in "fire sales" and repossessions. On average the equity content of mortgaged houses is now much greater than in previous downturns and the resilience of mortgagors much higher due to MMR and other financial controls. Thus, I expect any increase in forced sales to be minimal. The forecast for interest rates is

only for a gradual fall to a level far above the abnormally low levels prevailing since the 2008 Great Recession and this will moderate the prospective rise in house prices.

I conclude that the current house price falls will not persist. I forecast that, while over the short-term prices will fall, over the next few years prices will be stable and then rise. In the long term the major determinant of prices will revert to supply, primarily land supply. The land supply is determined by centrally set rules and regulations based on social and political objectives, interpreted locally, which invariably restricts the supply of land, raising its price. These supply restrictions are deeply entrenched and closely guarded with considerable political influence and thus, without equivocation, I repeat my previous forecast: "the key determinant of the long-term housing market will be a shortage of supply, resulting in higher prices".

Conclusion

The UK economy teeters on the cliff edge of a recession. Will the delayed effect of the rise in interest rates push the economy over that edge. Or, will the Bank, panicking that it has not raised rates sufficiently to quell inflation, undermine the economy by raising rates too far, causing the cliff to collapse, or, will a standstill in rates prove ineffective in the short-term and lead to even higher interest rate rises later, causing a landslide? My conclusion is that a further rate rise above 4.25% would not be optimal, as inflation is due to fall sharply as energy and food inflation will drop out of the calculation as the base date changes. The rise to 4% will allow the residual inflation to be brought down and controlled at an acceptable level – say 2.5% to 3.5%. Many commentators consider that the 2.0% target rate of inflation is not more beneficial than a slightly higher target rate of inflation. Such higher target rates would allow a more rapid and less behaviourally difficult adjustment to changing economic circumstances and, in a recession, allow a greater range of cuts before becoming progressively less effective, and so are more advantageous than the current 2.0% target. A return to economic stability would be very welcome, but an unexciting one as living standards would continue to lag expectations which depend on improved economic growth.

Higher economic growth than has occurred since 2007 is a function of many independent changes, but would be severely limited by recurring recessions. While wars, plagues and famine are often a common, largely unavoidable (wars at times excepted) cause of recession, economic or financial mismanagement has often been the cause. Financial or economic mismanagement caused or accentuated the post WWI recession, the Great Depression, Black Wednesday, the Great Recession, the post-Covid recession and the recession now threatening and, most recently, the UK pensions crisis and the failure of the SVB and associated banks and Credit Suisse. To remedy such unnecessary economic setbacks, change in regulation is required. With a change in regulation perhaps a change in regulators is required as evidenced by the Bank's decision to put up interest rates on the eve of the Great Depression and then to maintain low interest rates into the current "Great Inflation".

The obviation of unnecessary causes of stagnation or recession by improved financial management would remove a recurring impediment to growth for which the vitally important requirement is improved productivity. Since 2015/16 UK productivity has increased only by about 5.0% or 0.8% per year. Prior to 2008 productivity improved by about 2.25% pa, about 1.5 percentage points above the post 2008 level, and had it been maintained at the 2.25% pre-2008 level, would have resulted in current output being around 25% higher than at present. In its analysis of productivity the NIESR concludes:-

"The UK has one of the poorest productivity performances among the OECD's 38 advanced economies and this has been made worse by Covid-19. If policymakers return to the same economic structures post-pandemic that failed to resolve the productivity problem pre-pandemic, then the UK is set for another decade of a low-growth, low-productivity and low-wage economy". Of this Martin Wolf says "The biggest problem for the UK remains its dismal underlying productivity growth". This is dramatically illustrated by the NIESR's recent analysis of Public Sector productivity – where it says: "inputs rising by 19% since 2019 and output by only about half that".

The downturn in the economy delayed a possible sale of St. Margaret's House but, being in one of the very few sectors where demand is growing and supply is limited, prospects for its sale have, in the Board's view, greatly improved.

The Steading phase of the Brunstane development has sold well with three houses above the UK House Price Index level (HPI), one at HPI level and the fifth remaining on the market. The market for houses near the City Centre remains strong as this segment of the market is less effected by finance affordability and availability. We now have permission for the next 12 houses there at Upper Brunstane which, even at current prices, provides a very attractive development which we will undertake once all remaining regulatory hurdles are cleared.

Our development at Wallyford, although sufficiently profitable at current costs and prices, has been delayed to allow the pursuit of opportunities likely to provide higher returns. The delay to our Belford Road development is not caused by market conditions but by the continuing delay in obtaining suitable non-material variations to planning to meet changed insulation, servicing and building control requirements and by the time being taken to obtain desirable changes to the internal layout to meet market requirements and to effect small changes to the facade to improve the appearance of the building and an enhancement to the already high amenity of the area.

The development opportunities in our existing portfolio have continued to improve and I conclude, as previously, "In our existing portfolio, most development properties are valued at cost, usually based on existing use, and when these sites are developed or sold, I expect their considerable upside will be realised. Some investment properties also have considerable development value, as we expect to realise eventually at St Margaret's".

I D LOWE
Chairman
30 March 2023

Consolidated income statement for the six months ended 31 December 2022

	Note	**6 months ended 31 Dec 2022 £000**	6 months ended 31 Dec 2021 £000	Year ended 30 Jun 2022 £000
Revenue				
Revenue from development property sales		**1,990**	-	-
Gross rental income from investment properties		**195**	167	306
Total Revenue		**2,185**	167	306
Cost of development property sales		**(1,393)**	-	-
Property charges		**(35)**	(47)	(90)
Cost of Sales		**(1,428)**	(47)	(90)
Gross Profit		**757**	120	216
Administrative expenses		**(294)**	(254)	(887)
Other income		**-**	-	8
Net operating profit/(loss) before investment property disposals and valuation movements		**463**	(134)	(663)
Valuation gains on investment properties	5	**-**	-	190
Valuation losses on investment properties	5	**-**	-	(690)
Net (losses) on investment properties		**-**	-	(500)
Operating profit/(loss)		**463**	(134)	(1,163)
Financial expenses		**(110)**	(62)	(139)
Profit/(loss) before taxation		**353**	(196)	(1,302)
Income tax	6	**-**	-	-
Profit/(loss) and total comprehensive income for the financial period attributable to equity holders of the parent Company		**353**	(196)	(1,302)
Earnings per share				
Basic and diluted earnings per share (pence)	7	**3.00p**	(1.66p)	(11.05p)

Consolidated statement of changes in equity as at 31 December 2022

	Share Capital £000	Capital redemption reserve £000	Share premium account £000	Retained earnings £000	Total £000
At 1 July 2022	2,357	175	2,745	17,976	23,253
Profit and total comprehensive income for the period	-	-	-	353	353
At 31 December 2022	**2,357**	**175**	**2,745**	**18,329**	**23,606**
At 1 July 2021	2,357	175	2,745	19,278	24,555
Loss and total comprehensive expenditure for the period	-	-	-	(196)	(196)
At 31 December 2021	2,357	175	2,745	19,082	24,359
At 1 July 2021	2,357	175	2,745	19,278	24,555
Loss and total comprehensive expenditure for the period	-	-	-	(1,302)	(1,302)
At 30 June 2022	2,357	175	2,745	17,976	23,253

Consolidated balance sheet as at 31 December 2022

	Note	**31 Dec 2022 £000**	31 Dec 2021 £000	30 Jun 2022 £000
Non-current assets				
Investment property	8	**16,610**	17,110	16,610
Plant and equipment		**10**	11	8
Investments		**1**	1	1
Total non-current assets		**16,621**	17,122	16,619
Current assets				
Trading properties		**9,840**	9,896	10,672
Trade and other receivables		**159**	121	134
Cash and cash equivalents		**2,367**	2,322	1,317
Total current assets		**12,366**	12,339	12,123
Total assets		**28,987**	29,461	28,742
Current liabilities				
Trade and other payables		**(1,001)**	(722)	(1,109)
Interest bearing loans and borrowings		**(360)**	(360)	(360)
Total current liabilities		**(1,361)**	(1,082)	(1,469)
Non-current liabilities				
Interest bearing loans and borrowing		**(4,020)**	(4,020)	(4,020)
Total liabilities		**(5,381)**	(5,102)	(5,489)
Net assets		**23,606**	24,359	23,253
Equity				
Issued share capital	10	**2,357**	2,357	2,357
Capital redemption reserve		**175**	175	175
Share premium account		**2,745**	2,745	2,745
Retained earnings		**18,329**	19,082	17,976
Total equity attributable to equity holders of the parent Company		**23,606**	24,359	23,253
NET ASSET VALUE PER SHARE		**200.3p**	206.7p	197.3p

Consolidated cash flow statement for the six months ended 31 December 2022

	6 months ended 31 Dec 2022 £000	6 months ended 31 Dec 2021 £000	Year ended 30 Jun 2022 £000
Cash flows from operating activities			
Profit/(loss) for the period	**353**	(196)	(1,302)
Adjustments for:			
Net loss/(gain) on revaluation of investment properties	**-**	-	500
Depreciation and Loss on sale of fixed assets	**-**	-	5
Net finance expense	**110**	62	139
Operating cash flows before movements in working capital	**463**	(134)	(658)
Decrease/(increase) in trading properties	**832**	(583)	(1,359)
(Increase)/decrease in trade and other receivables	**(25)**	14	1
(Decrease)/increase in trade and other payables	**(218)**	73	574
Cash generated from/(absorbed by) operations	**1,052**	(630)	(1,442)
Interest paid	**-**	(60)	(251)
Net cash inflow/(outflow) from operating activities	**1,052**	(690)	(1,693)
Investment activities			
Proceeds from sale of investment properties	**-**	-	-
Proceeds from sale of fixed assets	**-**	-	-
Acquisition of plant and equipment	**(2)**	(8)	(10)
Cash flows (absorbed by) investing activities	**(2)**	(8)	(10)
Net increase/(decrease) in cash and cash equivalents	**1,050**	(698)	(1,703)
Cash and cash equivalents at beginning of period	**1,317**	3,020	3,020
Cash and cash equivalents at end of period	**2,367**	2,322	1,317

1 This interim statement for the six-month period to 31 December 2022 is unaudited and was approved by the directors on 30 March 2023. Caledonian Trust PLC (the "Company") is a company incorporated in England and domiciled in the United Kingdom. The information set out does not constitute statutory accounts within the meaning of Section 434 of the Companies Act 2006.

2 Going concern basis

The Group and parent Company finance their day to day working capital requirements through related party loans and bank and other funding for specific development projects. The directors have assessed the group cash flow forecasts and expect that current rental streams and property sales in the normal course of business will provide sufficient cash inflows to allow the Group to continue to trade. In addition, the related party lender has indicated its willingness to continue to provide financial support and not to demand repayment of its principal loan during 2023.

Accordingly, the directors continue to adopt the going concern basis in preparing this interim statement.

3 Basis of preparation

The consolidated interim financial statements of the Company for the six months ended 31 December 2022 are in respect of the Company and its subsidiaries, together referred to as the "Group". The financial information set out in this announcement for the year ended 30 June 2022 does not constitute the Group's statutory accounts for that period within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 June 2022 are available on the Company's website at www.caledoniantrust.com and have been delivered to the Registrar of Companies. The accounts for the year ended 30 June 2022 have been prepared in accordance with UK-adopted International Accounting Standards. The auditors have reported on those financial statements; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under Section 498 (2) or (3) of the Companies Act 2006.

The financial information set out in this announcement has been prepared in accordance with International Accounting Standard IAS34 "Interim Financial Reporting". The financial information is presented in sterling and rounded to the nearest thousand.

The interim financial statements have been prepared based UK-adopted International Accounting Standards that are expected to exist at the date on which the Group prepares its financial statements for the year ending 30 June 2023. To the extent that IFRS at 30 June 2023 do not reflect the assumptions made in preparing the interim statements, those financial statements may be subject to change.

In the process of applying the Group's accounting policies, management necessarily makes judgements and estimates that have a significant effect on the amounts recognised in the interim statement. Changes in the assumptions underlying the estimates could result in a significant impact to the financial information. The most critical of these accounting judgement and estimation areas are included in the Group's 2022 consolidated financial statements and the main areas of judgement and estimation are similar to those disclosed in the financial statements for the year ended 30 June 2022.

4 Accounting policies

The accounting policies used in preparing these financial statements are the same as those set out and used in preparing the Group's audited financial statements for the year ended 30 June 2022.

5 Valuation (losses)/gains on investment properties

	31 Dec 2022 £000	31 Dec 2021 £000	30 Jun 2022 £000
Valuation gains in investment properties	**-**	-	190
Valuation losses on investment properties after transaction costs	**-**	-	(690)
Net valuation (losses)/gains on investment properties	**-**	-	(500)

6 Income tax

Taxation for the six months ended 31 December 2022 is based on the effective rate of taxation which is estimated to apply to the year ending 30 June 2023. Due to the tax losses incurred there is no tax charge for the period.

In the case of deferred tax in relation to investment property revaluation surpluses, the base cost used is historical book cost and includes allowances or deductions which may be available to reduce the actual tax liability which would crystallise in the event of a disposal of the asset. At 31 December 2022 there is a deferred tax asset which is not recognised in these accounts.

7 Profit or loss per share

Basic profit or loss per share is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period as follows:

	6 months ended 31 Dec 2022 £000	6 months ended 31 Dec 2021 £000	Year ended 30 Jun 2022 £000
Profit/(loss) for financial period	**353**	(196)	(1,302)
	No.	No.	No.
Weighted average no. of shares: For basic and diluted profit or loss per share	**11,783,577**	11,783,577	11,783,577
Earnings per share	**3.00p**	(1.66p)	(11.05p)
Earnings per share	**3.00p**	(1.66p)	(11.05p)

8 Investment Properties

	31 Dec 2022 £000	31 Dec 2021 £000	30 Jun 2022 £000
Valuation			
Opening valuation	**16,610**	17,110	17,110
Revaluation in period	**-**	-	(500)
Closing valuation	**16,610**	17,110	16,610

The fair value of investment property at 31 December 2022 was determined by the directors' taking cognisance of the independent valuation by Montagu Evans, Chartered Surveyors as at 30 June 2022 having made adjustments for changes in leases and market conditions.

9 Financial instruments

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	31 Dec 2022		31 Dec 2021		30 Jun 2022	
	Fair value £000	**Carrying amount £000**	Fair value £000	Carrying amount £000	Fair value £000	Carrying amount £000
Trade and other receivables	**144**	**144**	86	86	103	103
Cash and cash equivalents	**2,367**	**2,367**	2,322	2,322	1,317	1,317
	2,511	**2,511**	2,408	2,408	1,420	1,420
Loans from related parties	**4,380**	**4,380**	4,380	4,380	4,380	4,380
Trade and other payables	**992**	**992**	722	722	1,100	1,100
	5,372	**5,372**	5,102	5,102	5,480	5,480

Estimation of fair values

The following methods and assumptions were used to estimate the fair values shown above:

Trade and other receivables/payables – the fair value of receivables and payables with a remaining life of less than one year is deemed to be the same as the book value.

Cash and cash equivalents – the fair value is deemed to be the same as the carrying amount due to the short maturity of these instruments.

Other loans – the fair value is calculated by discounting the expected future cashflows at prevailing interest rates.

10 Issued share capital

	31 Dec 2022		31 Dec 2021		30 Jun 2022	
	No.		No.		No.	
	000	**£000**	000	£000	000	£000
Issued and Fully paid						
Ordinary shares of 20p each	**11,784**	**2,357**	11,784	2,357	11,784	2,357

11 Seasonality

Investment property sales by the Group are not seasonal and sales of completed houses on development sites are driven more by completion of construction projects than by season.