For professional clients only, not suitable for retail investors.

Royal London UK Real Estate Fund

Annual Report

For the year ended 31 December 2022

ROYAL LONDON
ASSET MANAGEMENT

Contents

* The ACS Manager's report comprises these items.

+ The Investment Adviser's report includes a note on The Value Assessment.

ACS Information

Authorised Contractual Scheme (the "ACS")

Royal London UK Real Estate Fund

Registered office:
80 Fenchurch Street, London EC3M 4BY

Authorised Contractual Scheme Manager (the "ACS Manager")

The ACS Manager is Royal London Unit Trust Managers Limited.

Place of business and Registered office:
80 Fenchurch Street, London EC3M 4BY

Authorised and regulated by the Financial Conduct Authority; a member of The Investment Association (IA).

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Directors of the ACS Manager

R.A.D. Williams

A.L. Hunt

R. Kumar

S. Spiller

J.M. Brett (Non-executive Director)

H.I. Georgeson

J.M. Jackson (Non-executive Director, appointed 1 April 2022)

Investment Adviser

Royal London Asset Management Limited

Place of business and Registered office:
80 Fenchurch Street, London EC3M 4BY

Authorised and regulated by the Financial Conduct Authority.

Depositary of the ACS Manager

HSBC Bank plc

8 Canada Square, Canary Wharf, London E14 5HQ

Authorised and regulated by the Financial Conduct Authority.

Registrar and Transfer Agents

HSBC Bank plc

8 Canada Square, Canary Wharf, London E14 5HQ

Authorised and regulated by the Financial Conduct Authority.

Administrator of the ACS Manager

HSBC Bank plc

8 Canada Square, Canary Wharf, London E14 5HQ

Authorised and regulated by the Financial Conduct Authority.

Standing Independent Valuers

Cushman & Wakefield Debenham Tie Leung Limited

43/45 Portman Square, London W1A 3BG

CBRE Limited

Henrietta House, Henrietta Place, London W1G 0BN

Property Manager

Jones Lang LaSalle Limited (JLL)

30 Warwick Street, London W1B 5NH

Legal Advisers to the ACS Manager

Eversheds Sutherland (International) LLP

One Wood Street, London EC2V 7WS

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

7 More London Riverside, London SE1 2RT

Report of the ACS Manager

We are pleased to present the Annual Report and Financial Statements covering the year from 1 January 2022 to 31 December 2022.

About the ACS

Royal London UK Real Estate Fund (the "ACS") is an authorised contractual scheme in co-ownership form under section 235A of the Financial Services and Markets Act 2000 and was authorised by the FCA with effect from 3 February 2017. The FCA's product reference number (PRN) for the ACS is 769047.

As a consequence of being constituted as an authorised co-ownership scheme, the ACS is treated as tax-transparent in the UK. The structure was designed with the intention of its being regarded as tax-transparent elsewhere. Unitholders which are resident for tax purposes in the UK or in any other jurisdiction which recognises the tax-transparency of the ACS will be treated as receiving their appropriate proportion of the net income arising from the Scheme Property as it arises.

The unitholders are not liable for the debts of the ACS.

Authorised status

The ACS is a single sub-fund and a stand-alone Collective Investment Scheme as defined in the Financial Services and Markets Act 2000. The ACS was authorised by the Financial Conduct Authority (FCA) on 3 February 2017. The ACS is a Qualified Investor Scheme (QIS) and qualifies as an Alternative Investment Fund within the meaning of Alternative Investment Fund Managers Directive ("AIFMD") for the purposes of the FCA Rules.

Royal London UK Real Estate Feeder Fund, a stand-alone open-ended investment company with variable capital (ICVC) with a Property Authorised Investment Fund (PAIF) status dedicated to investment in units of the ACS was launched for those investors unable to invest directly in the ACS.

The Financial Statements

The information for Royal London UK Real Estate Fund (the "ACS") has been included in these financial statements. We have provided a detailed description of the strategy that was adopted during the year under review.

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook as issued and amended by the Financial Conduct Authority.

For and behalf of Royal London Unit Trust Managers Limited

ACS Manager

R. Kumar (Director)

S.Spiller (Director)

25 April 2023

Statement of ACS Manager's Responsibilities in Relation to the Financial Statements of the ACS

The FCA Collective Investment Schemes Sourcebook (COLL) requires the ACS Manager to prepare financial statements for each accounting year which give a true and fair view of the financial position of the ACS for the year.

The financial statements are prepared on the basis that the ACS will continue in operation unless it is inappropriate to assume this. In preparing the financial statements the ACS Manager is required to:

- select suitable accounting policies and apply them consistently;
- make adjustments and estimates that are reasonable and prudent;
- comply with the requirements of the Statement of Recommended Practice for Authorised Funds issued by The Investment Association in May 2014 and amended in June 2017 (the 2014 SORP);
- follow UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland;
- comply with the disclosure requirements of the prospectus and the provisions of the Co-Ownership Deed and Supplemental Co-Ownership Deed (ACS Deed);
- keep proper accounting records which enable it to demonstrate that the financial statements as prepared comply with the above requirements; and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The ACS Manager is responsible for the management of the ACS in accordance with its Prospectus, the FCA's rules, provisions of the ACS deed and to use monitoring controls to enable preparation of financial statements free from material misstatements or error.

Investment Adviser's report

Objective

The investment objective of the Royal London UK Real Estate Fund (the "ACS") is to outperform the 12 month total return of the ACS's benchmark, the All Balanced Funds component of the MSCI/AREF UK Quarterly Property Fund Index. This index measures quarterly total returns on a net asset value basis.

Strategy

The ACS will invest in UK real estate across all major property sectors in a balanced portfolio with a strong emphasis towards prime assets in London and the South East. Stock selection will be paramount in acquisition decisions, and to exploit assets through active management and selective developments, while managing risks and void exposure.

Performance

Over the 12 months to 31 December 2022, the ACS delivered total returns of -5.43% (2021: +20.63%) finishing ahead of the All Balanced Funds component of the MSCI/AREF UK Quarterly Property Fund Index by 403 basis points at -9.46% (2021: +19.14%).

On an annualised basis over the last five years, the ACS has delivered a total return of 4.70% per annum, which compares favourably to the benchmark level of 2.92% per annum, a margin of 178 basis points.

Outperformance during the last 12 months has been a function of successfully leasing agreements at key development initiatives as well as more resilient capital value movements in the face of an uncertain economic backdrop and weaker investor demand, which has seen yields rise and values fall. The ACS also benefitted from holding a higher cash weighting in the second half of the year than the benchmark.

Since the ACS was launched in October 2017, it has delivered consistent outperformance against the All Balanced Funds component of the MSCI/AREF UK Quarterly Property Fund Index, delivering outperformance in each calendar year and beating the benchmark by 175 basis points on an annualised basis. Since inception, the ACS is ranked in the top decile, with an annualised total return (net of fund management fees) of 5.12%. Of the larger funds in its benchmark (those with a NAV greater than £1bn), the ACS is ranked first.

Market review

At the start of 2022, we were relatively optimistic about the outlook for the global economy which appeared well placed to regain the lost ground from two years of disruption caused by the pandemic. At the time, we identified three risks from geopolitical risk, inflation, and elevated asset prices. Nonetheless we had hoped that positive economic momentum would continue and provide a spur to the growth prospects of UK commercial property.

As the year progressed, economic conditions gradually deteriorated, and discussions on the economic outlook are centred around the length and scale of a recession. The war in Ukraine has produced a rapid and sustained rise in inflation and central banks have responded by aggressively tightening monetary policy. Increased volatility has returned to financial markets and prices across many asset classes have seen significant movements over the past twelve months.

At the start of the year, 10-year UK government bond yields were at 1.0%. By October, at the height of the chaos surrounding Liz Truss' brief premiership, they had risen to a high of 4.5%. By the end of the year, they had recovered to 3.7% and at the time of writing were back down to 3.3%. Nonetheless, this represents a profound and sudden shift with ramifications across many areas, including corporate debt and mortgage markets, hitting both business and consumer confidence.

UK commercial property has not been immune to these impacts, with the last 12 months witnessing a clear turnaround in market sentiment. In December 2021, the MSCI UK Monthly Index, which monitors the performance of ungeared real estate investment, saw its highest ever monthly rate as total returns peaked at +3.9%, month-on-month. Strong investor demand was the main driver of this with many sectors – especially industrial and logistics – seeing yields driven to record lows. Momentum inevitably cooled in the first half of 2022 but returns stayed positive. Set against the backdrop of rapidly rising borrowing costs, though, those yields levels proved unsustainable, and since June, investor sentiment has reversed quickly, with allocators reappraising the asset class. Coupled with a more uncertain economic outlook, this has seen the pool of active buyers reduce substantially and those that remain adopting a far more cautious approach.

The latest data from RCA shows that UK investment volumes were £8.8bn in Q4 2022, representing a 64% fall when compared with Q4 2021. All sector yields, as measured by MSCI, have moved out by 108 basis points over the last three months, and have risen by 140 basis points in aggregate, since their lows in Q2. Compared with previous downturns the pace of the correction has been much faster although we might have started to see this slowing as capital values fell by -3.7% in December, marking an improvement from November (-6.0%) and October (-6.8%).

The low levels of recent investment volumes suggest that pricing might fall further the first few months. If forecasters are correct about the UK entering a recession during 2023, then investor sentiment will be dampened by weaker occupational demand as job losses start coming through. The first sign of weaker occupational demand has already emerged, which could lead to rental falls, although we expect prime assets to be much more resilience.

Investment Adviser's report (continued)

Market review – continued

Encouragingly, the latest economic indicators have been more positive than anticipated. Stock markets have had a positive start to the year as signs of an easing in inflationary pressures spurred hopes that we're close to the peak in interest rates and of a soft landing. UK GDP rose unexpectedly in November, up 0.1% month-on-month, after a 0.5% rise in October. Several UK retailers have reported good Christmas sales data. That reduces the chance that the UK is already in a technical recession.

Nevertheless, the UK economy still faces several challenges: household incomes are forecast to fall as earnings fail to keep pace with prices. Against the backdrop of a weaker economic outlook, consumer confidence remains very weak. Recent large increases in mortgage rates are compounding cost of living pressures and reducing activity in the housing market. Fiscal policy will be tightening over coming years, as well as ongoing challenges around Brexit.

Portfolio and activity review

Performance in 2022 was dominated by the declines in value seen during the second half of the year, as yields rose rapidly. The ACS's portfolio was impacted by this wider market trend, but reassuringly demonstrated resilience in comparison to its benchmark. The rate of capital growth across of the entire portfolio average -8.45% over the year, which compares favourably with the benchmark level of -12.97%.

Income return over the year was lower than the benchmark, a function of the prime nature of the portfolio and the regional bias towards London, where yields are typically lower. Vacancy rate in the ACS increased over the 12 months from 8.9% as at December 2021 up to 10.3% as at December 2022, which brings the ACS in line with the market average.

Performance varied across the different market segments, with retail assets on average faring better than offices, which in turn tended to be more resilient than industrial assets, which saw the largest falls in valuation in the second half of the year. The sector hierarchy for ACS did not follow this pattern though, as office returns were boosted by development success at The Earnshaw, London. The structure of the ACS's retail exposure differs significantly with a bias towards Central London unit shops, whereas the market has proportionally more retail exposure from Retail Warehousing, which outperformed in 2022. The ACS's industrial returns were also boosted by very strong returns in the first half of the year from its London portfolio.

Compared to its benchmark the retail portfolio underperformed in 2022 with total returns of -9.13% compared to -5.27%. Much of this shortfall though was down to structural allocation, rather than weak stock selection. The ACS's Central London unit shop portfolio was marginally ahead of the benchmark (-12.61% vs -13.65), but accounts for c.56% of the ACS overall retail weighting, whereas the benchmark equivalent weighting is closer to 12%. Retail warehousing returns in 2022 were relatively robust at -3% over the year. This was marginally behind the benchmark at -1.39%.

Overall the ACS's performance was aided greatly by the agreement for lease with GSK at The Earnshaw, which delivered a total return of 48.84% over the year and in doing so, became the largest asset across the entire portfolio. As a result of this deal, office sector total returns during 2022 outperformed by a wide margin (-4.31% vs -9.40).

The industrial portfolio also delivered returns in excess of the benchmark average, with capital values declining by -7%, compared to -16.46%. The London portfolio was particularly robust and actually saw marginally growth over the 12 month period, whereas assets in the wider South East and Rest of UK markets saw declines more in line with the market average at around -16%.

Rent collection

The ACS has a collection rate to date of 97.44% (2021: 95.53%) of the rent demanded for the year. The remainder is subject to either ongoing discussions with tenants, agreements that have been reached or potential legal action to pursue recovery.

Balance Sheet management

As at the 31 December 2022, the ACS held £122.88m (2021: £98.33m) in cash (ex. distribution) equating to 3.75% (2021: 2.92%) of the ACS's NAV. A further £151.81m (2021: £nil) of cash is invested in Royal London cash funds for an enhanced near cash return.

The ACS currently has no gearing.

Acquisition

In June, the ACS acquired 0.24 acres of land, adjacent to its existing holding at International Trading Estate Southall, for £5m. The land benefits from a historic right of way over all the estate roads, so by purchasing the land the ACS will be able to extinguish these rights of way. The purchase is the last remaining part of the wider estate, so provides the ACS with an unfettered development site.

Disposals

In February, the ACS completed the sale of Hurlingham Retail Park for £59.35m. In the years leading up to the lease expiry planning permission was obtained to facilitate development for residential and riverside commercial use. With the benefit of that planning permission contracts were exchanged in late September 2021 for a sale to a residential developer. The sale price was significantly in excess of the value of the property as a retail park and demonstrates the strength of the ACS's strategy of investing in core assets with a long term investment and active management philosophy.

Investment Adviser's report (continued)

Portfolio and activity review – continued

Disposals – continued

In October, the ACS completed the sale of Central Exchange, Newcastle for £12.68m. The property comprises a Listed Victorian block of high street shops with a central arcade which was very asset management intensive. It would also have been costly and difficult to improve its sustainability credentials.

In November, the ACS completed the sale of two high street shops (22/24 Eastgate Street and 30 Eastgate Row, Chester) within a Grade II listed building for £2.42m. One unit was let to Mappin & Webb (Watches of Switzerland) with the other being vacant.

Asset management and lettings

Industrial

Six Bridges Industrial Estate, London: Six Bridges Industrial Estate is an established trade and industrial estate located in a prominent position along Old Kent Road in Southwark. The ACS has successfully completed the letting of Unit C1 to Glum Tortoise Ltd. The Unit was formally occupied by Jayhawk Ltd, on a lease expiring in 2025, paying significantly less than market rent. The former tenant wished to assign their lease and submitted an application for landlords consent. The ACS saw this as an opportunity to capitalise on the lack of supply in the Central London industrial market, which has led to very strong rental growth. It negotiated a suitable surrender with the former tenant and took vacant possession in Q1 2022.

The ACS then undertook a 3 month refurbishment programme to return the unit to a lettable condition and to improve the EPC rating to a B. Within 3 months of the unit becoming vacant, it went under offer to Glum Tortoise Ltd at a rent of £28 psf, on an 8 year lease, 5th year tenant break and rent review with 4 months' rent free. The newly agreed rent was 37% higher than the last letting undertaken on the estate and as a result of this transaction, the valuation saw a 12% increase on the quarter. The ACS also retained flexibility to achieve vacant possession in July 2027 in order to bring forward an industrial led, mixed use development if it wished.

Westminster Industrial Estate, London: The ACS completed on a new lease of an 11,000 sq ft unit to Deliveroo in Q3. Deliveroo had previously exchanged an agreement for lease, which was subject to the ACS refurbishing the unit. Deliveroo have taken a 10-year lease with a break at year 5. The rent achieved was £165,000 pa (£15.00 psf), which is the second deal at this level for this size of unit. This cements the rental tone at this level and provides valuable evidence, which will assist on other lease renewals and rent reviews.

Retail

Colton Retail Park, Leeds: Unit 4 became vacant in early 2022 when the former tenant, Argos, elected not to renew its lease and vacated. The unit was marketed, and interest was received from The British Heart Foundation. Terms were agreed for a new five-year lease at a rent of £140,350 pa. The rent agreed was 12.9% above the ERV previously being adopted by the valuers. An agreement for lease has been exchanged and the lease will be completed following completion of the landlord's works. A contractor has been appointed and the work has commenced. The property is now fully let.

Capitol Leisure Park, Preston: Unit 8 has been vacant since the start of 2021 when the former tenant, The Restaurant Group, vacated the unit following it undertaking a CVA. The unit was marketed with little initial interest due to the impact of the pandemic. Terms were then agreed with Majestic Wine Warehouse and an agreement for lease was exchanged in Q3 2022. Following completion of the landlord's work, a new 15-year lease has now been entered into with a tenant only break option at the end of year 10. The rent is subject to five-yearly upward only review based on changes in CPI collared and capped at 2% and 4%. The property is now fully let.

Offices

21 Holborn Viaduct, 32 and 34 Farringdon Street, London: The Agreement for Lease with Hogan Lovells International LLP on this 267,000 sq ft redevelopment scheme exchanged during Q1. The transaction is conditional on a number of matters – a Road Closure being the last condition to be cleared.

The Road Closure Stopping Up Order was issued on 26 May and the Judicial Review period finished on 26 July. No application for Judicial Review was received and the Agreement for Lease went unconditional and therefore completed on 3 August.

Over the course of the year, three of the last five tenants, namely Hogan Lovells, Tesco and Subway vacated as planned. It was agreed with Business Law that they would vacate early in mid-September and Willmott Dixon brought forward their date to leave from the longstop date of 16 January to 31 October. Erith, the StripOut and Demolition contractor, were provided early access in May to undertake various surveys and begin the soft strip. Early access has enabled us to get ahead of the programme. The Stage 3 detailed design process completed and the Stage 4 Design process has commenced. The first stage tender documentation is being drawn up and three Tier 1 contractors being Lendlease, Mace and Multiplex have been selected to tender for the construction contract.

Investment Adviser's report (continued)

Portfolio and activity review – continued

Asset management and lettings – continued

Offices – continued

The Earnshaw, London: This property is located on a prominent corner site in a prime West End location, benefitting from excellent connectivity and a vast array of amenities. Planning consent was obtained to replace an obsolete 1950s building of 85,000 sq ft with a new 'Best in Class' Office development of 155,000 sq ft. The ACS has completed an Agreement for Lease to let the entire building upon completion to Glaxo Smith Kline for 17 years on FRI terms at a market-leading rent. Completion is due July 2023. The development cash flow appraisal for the project shows a development profit of £76.9m (PoC 28.1%) an IRR of 14.0% and a gross development value of £401.3m.

Responsible Property Investment (RPI)

In 2022, the ACS's focus has been on implementing our Responsible Property Investment strategy (RPI) and Net Zero Carbon pathway which were both launched in 2021. Throughout the year, we have undertaken a significant number of projects, enabling us to embed these strategies.

- Initiated Net Zero Carbon audits across five of the ACS's multi-let offices. These audits analyse the performance of the buildings in comparison to the 1.5-degree pathway set out by the Carbon Risk Real Estate Monitor (CRREM). This identifies the interventions required to meet likely decarbonisation targets and energy reduction targets out to 2035.
- Commenced a solar photovoltaic (PV) feasibility study across the ACS's retail parks and industrial assets to determine where we can maximise onsite renewable energy generation. This is key to fulfilling our aim of generating 9.5 GWh of onsite renewable energy by 2040.
- Continued expansion of our smart logger programme to collect utility and water consumption data cross our single-let units, along with the deployment of Automatic Meter Readers (AMRs) across all developments and refurbishments.
- Began our programme of undertaking Energy Performance Certificate (EPC) Improvement Cost Assessments across all units with an EPC rating of C, D or E. This is in response to potential legislation requiring all commercial buildings to achieve an EPC B rating by 2030.
- Developed our new Sustainable Acquisition Checklist to ensure that potential investments meet the Investment Adviser's commitments to RPI. This more stringent process helps to mitigate Environmental, Social & Governance (ESG) risks and maximise opportunities for adding value, whilst enhancing sustainability performance.

In 2022, the ACS received excellent results across a range of ESG benchmarks and certifications.

- Maintained our rating of four stars within the annual GRESB assessment. GRESB is the leading ESG global benchmark for real estate and infrastructure investments. The ACS achieved a score of 82 out of 100, an increase of two points from 2021, ranking 3rd out of 80 peers. The ACS also maintained its four star rating across the GRESB development section, achieving a score of 92 out of 100, an increase of two points from 2021, and 5th out of 12 peers.
- Received five Green Apple Awards, highlighting environmental best practice at the asset-level. The ACS achieved two Gold, one Silver and two Bronze Green Apple Award. Awards were also received for biodiversity initiatives including the installation of bird boxes and bug hotels, along with an innovative energy saving solution and LED upgrades.
- Achieved a five star rating in the real estate module of the United Nations Principles of Responsible Investment (UNPRI) assessment, scoring 98%, against a median score of 69%.
- Maintained compliance with the ISO 14001 Standard across eight of the ACS's largest commercial properties within the Environmental Management System (EMS).

The ACS also continues to be active members participating and contributing to the Better Buildings Partnership (BBP), the UK Green Building Council (UKGBC), the British Property Federation (BPF) and the Investment Property Forum (IPF) Sustainability Interest Group.

Economic overview

Business surveys suggest that Q4 2022 was another period of weak global economic activity. Growth in developed economies was constrained by high inflation and central bank tightening, while China's economy continued to be disrupted by Covid outbreaks. However, by the end of the year, surveys reported improving business optimism, likely helped by lower inflation and natural gas prices, improving supply chain problems and the abandonment of China's zero-Covid tolerance policies.

Against this backdrop December's global composite PMI business survey improved to 48.2, but remained at relatively weak levels and still among the weakest readings seen for 15 years (excluding the pandemic). Taken at face value, that signals very subdued global GDP growth in Q4 overall.

Inflation remained at extremely high levels across many developed economies throughout Q4 but showed increasing signs of peaking, especially in the US where headline CPI inflation fell every month in 2022 from June onwards. However, compared with headline inflation, core inflation and services inflation in the G7, which remains a major concern of central banks, showed fewer convincing signs of peaking.

Investment Adviser's report (continued)

Economic overview – continued

Central banks continued to hike rates. Q4 saw 125bps of interest rate hikes in the US, with more signalled for 2023. The ECB raised rates 125bps over the same period and signalled further "significant" rate increases to come. The Bank of England also hiked rates another 125bps over Q4.

After falling in Q3, real UK GDP rebounded in October and rose unexpectedly in November which might have kept the UK out of recession in Q4 2022. However, the UK economic performance on average over the second half of 2022 was relatively poor. Business surveys pointed to a modest decline in private sector output in December; the UK PMI composite headline measure ended the year at 49.0. However, that was off the lows reached in October during the aftermath of the mini-Budget.

UK consumer price inflation peaked in Q4 in October after a large rise in household energy bills. Energy inflation fell in November and December, as did 'core' goods inflation (likely helped by lower commodity prices and easing supply chain problems). Business surveys pointed to lower input and output price inflation. However, by December, core inflation was only slightly weaker than it was in October and services inflation had risen. Headline regular pay growth recorded 6.4% 3M/Y in November, extraordinarily strong by post-financial crisis standards. All that leaves domestically driven inflation still looking strong at the end of 2022 and is a key reason UK economists expect more rate hikes in 2023 from the Bank of England. We forecast that the base rate will peak at 4.5% although it may peak lower should earnings growth moderate faster than anticipated.

Unemployment rates remained at exceptionally low levels in the US, UK and Euro area and businesses continued to report difficulties in recruitment. However, there were more signs of marginally less tightness. In the UK, for example, job vacancies continued to fall (albeit from still extremely high levels).

UK recession remains a concern in the face of multiple challenges heading into 2023. Cost of living pressures remain intense. The government (under a new Chancellor and Prime Minister) increased the amount of fiscal policy tightening planned for coming years in November's Autumn Statement. Mortgage rates may be off their mini-Budget highs, but by the end of 2022 remained elevated by the standards of recent years. The housing market appeared to slow over Q4. Consumer confidence remained very weak at the turn of the year. Strikes become more disruptive for the economy in Q4, and a poorly performing health service may be dragging on potential growth, alongside Brexit challenges. Against this backdrop, we expect the UK economy will contract by 0.8% in 2023, returning to growth in 2024 with 2.6% penciled in.

Our outlook

As we look ahead into 2023, our expectation is that investment sentiment toward property will remain weak. We are continuing to see relatively low levels of investment volumes, which suggests to us that pricing has further to fall. Compounding this negative investor sentiment will be weaker occupational demand as a domestic and global recession fully takes hold and job losses start coming through. We are already seeing some early signs of weaker occupational demand which will lead to rental falls although we expect prime assets to show more resilience.

To borrow a football analogy, we see 2023 as a year of two halves. The first half should see a continuation of those sentiment-based trends experienced over the last few months, as investors draw back further. However, we expect to see some form of stabilisation in values as we move towards the latter part of the year or the early part of 2024.

There are several themes within property markets that will help lead this recovery phase, where we expect to see increased demand for new, high quality space, against a backdrop of limited supply of such space. For example, the demand for good quality office space will continue to gather momentum. Post-pandemic, employers have sought to encourage their workforce back to the office by improving the office environment in a process that has been described as 'magnetising the workplace'. This has involved giving employees a higher quality space to work in, making space more flexible and adaptable, enhancing wellness features such as light, air and opportunities for activity, and improving internal connectivity within a building. These outcomes are best delivered through a new or refurbished building.

The growing importance of ESG and commitment to net zero carbon targets are translating through to the demand for higher quality and efficient space. For office occupiers, their choice of building is closely aligned with their ESG strategy and is a crucial consideration when seeking to recruit and retain staff. Occupiers now expect buildings to be able to satisfy their firm's corporate responsibility strategies and demonstrate their sustainability and environmental credentials from an operational perspective. This theme is playing out across all sectors and is best satisfied through high quality prime buildings. Investors are similarly focused on investing responsibly with investment decisions guided by ESG global benchmarks such as GRESB.

Investment Adviser's report (continued)

Our outlook – continued

This is partially being reflected in premium pricing as investors look to 'future-proof' new investments. This is only likely to become more critical as we move through the current cycle.

Urbanisation remains another core theme. We believe that major UK cities, including Manchester, Birmingham and Bristol, as well as London, will continue to see their economies outperform relative to the rest of the UK. Agglomeration effects – whereby clusters of business activity and people thrive due to proximity to one another – are one of the main drivers of productivity and economic growth. The competitive advantages of these knowledge hubs will persist and serve as one of the key drivers of outperformance of larges cities over the rest of the UK.

Drew Watkins
Portfolio Fund Manager
Royal London Asset Management Limited
25 April 2023

This report covers investment performance, activity and outlook. For a wider look at the ACS, our Annual Value Assessment report is available on www.rlam.com. Portfolio holdings are subject to change, for information only and are not investment recommendations.

The views expressed are the author's own and do not constitute investment advice and are not an indicator of future the ACS's performance.

Source: Royal London Asset Management Limited, unless otherwise stated.

Portfolio Statement

As at 31 December 2022

Investments	Holding	Tenure	Sector	31 December 2022 Market value (£'000)	Total net assets (%)
Direct Properties					
Direct Properties Market Values up to £25m – 16.19% (31/12/21 – 15.26%)					
Bedfont – Cargo 30		Freehold	Industrial		
Chelmsford – 5 Springfield Business Park Phase 1		Freehold	Industrial		
Chelmsford – 5 Springfield Business Park Phase 2		Freehold	Industrial		
Chelmsford – 5 Springfield Business Park Phase 3		Freehold	Industrial		
Chelmsford – Land at Springfield Business Park*		Freehold	Industrial		
Eastleigh – Royal London Park		Freehold	Industrial		
Egham – Runnymede Centre		Freehold	Industrial		
Gatwick – 2 City Place		Freehold	Offices		
Guildford – Woodbridge Road		Freehold	Retail Warehouse		
Hayes – Pasadena Close		Freehold	Industrial		
Kingston-upon-Thames – 6/8a Church Street		Freehold	Retail		
Leeds – Phase 1 and 2 Manston Industrial Estate		Leasehold	Industrial		
Leeds – Stourton Link Haigh Park Road		Freehold	Industrial		
Leicester – GP2002 Unit Grove Park		Freehold	Industrial		
London W1 – 103/103a Oxford Street		Freehold	Retail		
London W1 – 22 Old Bond Street		Leasehold	Retail		
London WC1 – Medius House*		Freehold	Offices		
London WC2 – 2-4 Bucknall Street and 12 Dyott Street		Freehold	Offices		
Maidenhead – 68 Lower Cookham Road, Whitebrook Park		Freehold	Offices		
Maidenhead – Beach House		Freehold	Offices		
Maidenhead – King's Gate		Freehold	Offices		
Manchester – Davenport Green		Freehold	Other Commercial		
Manchester – H&M – Kings Court		Leasehold	Retail		
Northampton – Units 1-5 Brackmills Industrial Estate		Freehold	Industrial		
Oxford – Centremead / Ferry Mills		Freehold	Industrial		
Preston – Capitol Leisure Park		Freehold	Leisure		
Redhill – Gatton Park Business Centre		Freehold	Industrial		
Southall – 169 Brent Road		Freehold	Industrial		
Southall – Bulls Bridge Trading Estate		Freehold	Industrial		
Southall – Units 3-6 Boeing Way		Freehold	Industrial		
Southampton – Southampton Mail Centre		Freehold	Industrial		
Tamworth – Audi Garage, Cardinal Point		Freehold	Other Commercial		
Tamworth – Cardinal Point Retail Park		Freehold	Retail Warehouse		
Tamworth – Distribution Unit, Winchester Road		Freehold	Industrial		
Tamworth – Plot 1- Mini Car Showroom		Freehold	Other Commercial		
Tamworth – Plot 4 – BMW Car Showroom		Freehold	Other Commercial		
Tamworth – Ventura Park Trading Estate		Freehold	Industrial		
Tunbridge Wells – Longfield Road Retail Park		Freehold	Retail Warehouse		
Windsor – Minton Place and Consort House		Freehold	Offices		
Total Direct Properties Market Values up to £25m				**530,265**	**16.19**
Direct Properties Market Values between £25m and £50m – 17.73% (31/12/21 – 17.42%)					
Chatham – Horsted Retail Park		Freehold	Retail		
Daventry – Distribution Centre		Freehold	Industrial		
Hemel Hempstead – Robert Dyas		Freehold	Industrial		
Leeds – Colton Retail Park		Freehold	Retail Warehouse		
London EC1 – 14-21 Holborn Viaduct*		Freehold	Offices		
London EC3 – 62-63 Fenchurch Street		Freehold	Offices		
London NW10 – 1-11 Cumberland Avenue		Freehold	Industrial		
London NW10 – Cumberland and Whitby Avenue		Freehold	Industrial		
London W1 – 149 &151/151a Oxford Street		Freehold	Retail		
London WC2 – 20 and 1-3 Long Acre and 20 Garrick Street		Freehold	Offices		
London WC2 – Trafalgar Buildings		Freehold	Offices		
Norwich – Sprowston Retail Park		Freehold	Retail		
Preston – Capitol Retail Park		Freehold	Retail Warehouse		
Southall – Brent Park Industrial Estate		Freehold	Industrial		
Watford – Century Retail Park		Freehold	Retail Warehouse		
Total Direct Properties Market Values between £25m and £50m				**580,705**	**17.73**

Portfolio Statement (continued)

As at 31 December 2022

Investments	Holding	Tenure	Sector	31 December 2022 Market value (£'000)	Total net assets (%)
Direct Properties Market Values between £50m and £100m – 29.21% (31/12/21 – 33.04%)					
Bristol – 1-3 & 5-9 Broad Plain		Freehold	Offices		
Brixton – Ellerslie Square Industrial Estate		Freehold	Industrial		
Greenford – Westway Shopping Park		Freehold	Retail		
Hayes – 1/3 Uxbridge Road		Freehold	Industrial		
London EC4 – 1-3 St Pauls Churchyard		Freehold	Offices		
London SE1 – Land at Six Bridges Trading Estate		Freehold	Industrial		
London SE18 – Westminster Industrial Estate		Freehold	Industrial		
London SW1 – 85/87 Jermyn Street		Freehold	Offices		
London SW1 – Parnell House		Freehold	Offices		
London W1 – Frith & Dean Street and Soho Square		Freehold	Offices		
London W1 – 470/482 Oxford Street and Granville Place		Leasehold	Retail		
London WC2 – 9-12 Bow Street and Hanover Place		Freehold	Retail		
Salford – Metroplex Business Park		Freehold	Industrial		
Total Direct Properties Market Values between £50m and £100m				**956,875**	**29.21**
Direct Properties Market Values greater than £100m – 27.06% (31/12/21 – 29.64%)					
London W1 – 120-122 New Bond Street		Freehold	Retail		
London W1 – Ham Yard Hotel		Freehold	Hotel		
London W1 – Kingsley House		Freehold	Offices		
London WC1 – The Earnshaw, New Oxford Street, London*		Freehold	Offices		
Southall – International Trading Estate		Freehold	Industrial		
Total Direct Properties Market Values greater than £100m				**886,575**	**27.06**
Collective Investment Schemes – 6.79% (31/12/21 – 2.62%)					
Industrial Property Investment Fund	47,845		Collectives	70,614	2.16
Royal London Short Term Fixed Income Fund	48,791,865		Collectives	50,531	1.54
Royal London Short Term Money Market Fund	98,490,146		Collectives	101,285	3.09
Total Collective Investment Schemes				**222,430**	**6.79**
Portfolio of investments				**3,176,850**	**96.98**
Adjustments to Fair Value**				**(26,559)**	**(0.81)**
Net other assets				**125,363**	**3.83**
Total net assets				**3,275,654**	**100.00**

* Chelmsford – Land at Springfield Business Park, London WC1 – The Earnshaw, New Oxford Street, London, London WC1 – Medius House and London EC1 – 14-21 Holborn Viaduct are under construction.

** Adjustments to Fair Value include lease incentives, rent free debtors and finance lease payables.

Summary of Material Portfolio Changes

For the year ended 31 December 2022

Significant Purchases

	Cost £'000
Royal London Short Term Money Market Fund	100,000
Royal London Short Term Fixed Income Fund	50,000
Southall – International Trading Estate	5,000
Total purchases for the year	**155,000**

Significant Sales

	Net proceeds £'000
London SW6 – Hurlingham Retail Park	59,350
Newcastle – Central Exchange Buildings	12,680
Chester – 22/24 Eastgate Street and 30 Eastgate Row	2,419
Total proceeds from sales for the year	**74,449**

Significant Capital Expenditure

	Cost £'000
London WC1 – The Earnshaw, New Oxford Street, London	41,029
London EC1 – 14-21 Holborn Viaduct	12,741
Bristol – 1-3 & 5-9 Broad Plain	3,264
Chelmsford – 5 Springfield Business Park Phase 1	2,428
Gatwick – 2 City Place	1,876
London SW6 – Hurlingham Retail Park	1,218
Subtotal	**62,556**
Total capital expenditure for the year	**72,650**

The purchases, sales and top 6 capital expenditure detail the material changes in the portfolio during the year.

Significant Valuation Movements

	Valuation Changes £'000
London WC1 – The Earnshaw, New Oxford Street, London	120,500
Southall – International Trading Estate	36,475
Southall – Brent Park Industrial Estate	17,405
London W1 – 470/482 Oxford Street and Granville Place	(22,325)
London W1 – 120-122 New Bond Street	(25,600)
London EC1 – 14-21 Holborn Viaduct	(41,200)
Subtotal	**85,255**

Comparative Tables

Class W Gross Income

Change in net assets per unit	31/12/22 (£)	31/12/21 (£)	31/12/20 (£)
Opening net asset value per unit	119.98	102.48	105.67
Return before operating charges*	(6.28)	21.71	1.26
Operating charges	(0.63)	(0.16)	(0.77)
Return after operating charges*	(6.91)	21.55	0.49
Distribution on income units	(1.93)	(4.05)	(3.68)
Closing net asset value per unit	111.14	119.98	102.48
* after direct transaction costs of:	0.03	0.03	0.10
Performance			
Return after charges	(5.76)%	21.03%	0.46%
Other information			
Closing net asset value (£'000)	3,062,888	3,306,449	2,824,172
Closing number of units	27,558,517	27,558,517	27,558,517
Operating charges excluding property expenses	0.01%	0.01%	0.02%
Property expenses	0.50%	0.14%	0.74%
Operating charges	0.51%	0.15%	0.76%
Direct transaction costs	0.03%	0.03%	0.10%
Prices			
Highest unit price	136.59	123.58	106.92
Lowest unit price	109.47	101.89	99.13

Class V Gross Income

Change in net assets per unit	31/12/22*** (£)
Opening net asset value per unit	132.84
Return before operating charges*	(20.21)
Operating charges	(0.54)
Return after operating charges*	(20.75)
Distribution on income units	(0.95)
Closing net asset value per unit	111.14
* after direct transaction costs of:	0.03
Performance	
Return after charges	(15.62)%
Other information	
Closing net asset value (£'000)	154,776
Closing number of units	1,392,603
Operating charges excluding property expenses	0.01%
Property expenses	0.42%
Operating charges	0.43%
Direct transaction costs	0.03%
Prices	
Highest unit price	136.59
Lowest unit price	109.47

*** Class V Gross Income share class launched on 31 March 2022.

Class Z Gross Income

Change in net assets per unit	31/12/22 (£)	31/12/21 (£)	31/12/20 (£)
Opening net asset value per unit	119.98	102.48	105.67
Return before operating charges*	(5.82)	21.71	1.26
Operating charges	(1.52)	(0.90)	(1.49)
Return after operating charges*	(7.34)	20.81	(0.23)
Distribution on income units	(1.50)	(3.31)	(2.96)
Closing net asset value per unit	111.14	119.98	102.48
* after direct transaction costs of:	0.03	0.03	0.10
Performance			
Return after charges	(6.12)%	20.31%	(0.22)%
Other information			
Closing net asset value (£'000)	57,990	62,601	53,470
Closing number of units	521,767	521,767	521,767
Operating charges excluding property expenses	0.73%	0.71%	0.72%
Property expenses	0.50%	0.14%	0.74%
Operating charges	1.23%	0.85%	1.46%
Direct transaction costs	0.03%	0.03%	0.10%
Prices			
Highest unit price	136.59	123.58	106.92
Lowest unit price	109.47	101.89	99.13

It should be remembered that past performance is not a reliable indicator of future performance and that the value of units, and the income derived from them, can vary.

Direct transaction costs are stated after deducting the proportion of the amounts collected from dilution adjustments that relate to direct transaction costs.

Statement of Depositary's Responsibilities to the Unitholders of the Royal London UK Real Estate Fund (the "Scheme")

The Depositary must ensure that the Scheme is managed in accordance with the Financial Conduct Authority's Collective Investment Schemes Sourcebook, the Investment Funds Sourcebook, the Financial Services and Markets Act 2000, as amended, the Collective Investment in Transferable Securities (Contractual Scheme) Regulations 2013 (together "the Regulations") and the ACS Deed and Prospectus (together "the Scheme documents") as detailed below.

The Depositary must in the context of its role act honestly, fairly, professionally, independently and in the interests of the Scheme and its investors.

The Depositary is responsible for the safekeeping of all custodial assets and maintaining a record of all other assets of the Scheme in accordance with the Regulations.

The Depositary must ensure that:

- the Scheme's cash flows are properly monitored and that cash of the Scheme is booked in cash accounts in accordance with the Regulations;
- the sale, issue, repurchase, redemption and cancellation of units are carried out in accordance with the Regulations;
- the values of units of the Scheme are calculated in accordance with the Regulations;
- any consideration relating to transactions in the Scheme's assets are remitted to the Scheme within the usual time limits;
- the Scheme's income is applied in accordance with the Regulations; and
- the instructions of the Alternative Investment Fund Manager ("the AIFM") are carried out (unless they conflict with the Regulations).

The Depositary also has a duty to take reasonable care to ensure that the Scheme is managed in accordance with the Scheme documents and the Regulations in relation to the investment and borrowing powers applicable to the Scheme.

Report of the Depositary to the Unitholders of the Royal London UK Real Estate Fund

Having carried out such procedures as we consider necessary to discharge our responsibilities as Depositary of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Scheme, acting through the AIFM:

(i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's income in accordance with the Regulations and the Scheme documents; and

(ii) has observed the investment and borrowing powers and restrictions applicable to the Scheme in accordance with the Regulations and Scheme documents of the Scheme.

This report is given on the basis that no breaches are subsequently advised to us before the distribution date. We therefore reserve the right to amend the report in light of such circumstances.

HSBC Bank plc

25 April 2023

Standing Independent Valuer's Report (Cushman & Wakefield Debenham Tie Leung Limited)

Cushman & Wakefield Debenham Tie Leung Limited, acting in its capacity as appointed standing External Valuer to Royal London UK Real Estate Fund (the "ACS"), has valued the immoveables held by the ACS as at 31 December 2022 in accordance with the RICS Valuation – Global Standards which incorporate the international Valuation Standards ("IVS") and the RICS UK Valuation Standards (the "RICS Red Book") edition current at the Valuation Date. It follows that the valuations are compliant with "IVS" and are in accordance with 8.4.13R of the Collective Investment Schemes sourcebook.

The immoveables have been valued on the basis of Fair Value as defined in the RICS Valuation – Professional Standards subject to existing leases. Royal London Unit Trust Manager, as the ACS Manager, has been provided with a full valuation certificate dated 3 January 2023.

We have been provided with information from the ACS's property managers including tenancy schedules and floor areas. We have assumed that the ACS's interests in the immoveables are not subject to any onerous restrictions, to the payment of any unusual outgoings or to any changes, easements or rights of way, other than those to which we have referred in our reports. We rely upon the property managers to keep us advised of any changes that may occur in the investments. We are not instructed to carry out structural surveys or test any of the service installations. Our valuations therefore have regard only to the general condition of the immoveables evident from our inspections. We have assumed that no materials have been used in the construction or subsequent alteration of the buildings which are deleterious, hazardous or likely to cause structural defects. We are not instructed to carry out investigations into environmental contamination which might affect the immoveables and our valuations assume the immoveables are not adversely affected by any environmental contamination.

In our opinion the aggregate value of the market values of the immoveables owned by the ACS as at 31 December 2022 is £1,280,970,000. This figure represents the aggregate of the individual values attributable to the individual immoveables and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot. This report should be read in conjunction with the full valuation certificate dated 3 January 2023 which sets out all assumptions and relevant caveats.

No allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. The immoveables are considered as if free and clear of all mortgages or other charges which may be secured thereon. Valuations are prepared and expressed exclusive of VAT. Pending clarity in the market's response to the International Property Measurement Standard (IPMS), we have continued to use floor areas as defined by the RICS Code of Measuring Practice 6th Edition 2007. This has been discussed and agreed with the ACD.

Cushman & Wakefield Debenham Tie Leung Limited

31 December 2022

Standing Independent Valuer's Report (CBRE)

CBRE Limited, acting in its capacity as appointed standing independent valuer to Royal London Real Estate Fund (the "ACS"), has valued the immoveables held by the ACS as at 31 December 2022 in accordance with the current edition of the Royal Institution of Chartered Surveyors ("RICS") Global Standards including the International Valuation Standards and the RICS Valuation – Global Standards 2017 – UK national supplement and in accordance with 8.4.13R of the Collective Investment Schemes sourcebook. The immoveables have been valued on the basis of Fair Value as defined in the RICS Valuation – Professional Standards subject to existing leases. Royal London Unit Trust Manager, as the ACS Manager, has been provided with a full valuation certificate dated 31 December 2022.

We have been provided with information from the ACS's property managers including tenancy schedules and, where we have not measured the immoveables ourselves, floor areas. We have assumed that the ACS's interests in the immoveables are not subject to any onerous restrictions, to the payment of any unusual outgoings or to any changes, easements or rights of way, other than those to which we have referred in our reports. We rely upon the property managers to keep us advised of any changes that may occur in the investments. We are not generally instructed to carry out structural surveys or test any of the service installations. Our valuations therefore have regard only to the general condition of the immoveables evident from our inspections. We have assumed that no materials have been used in the construction or subsequent alteration of the buildings which are deleterious, hazardous or likely to cause structural defects. We are not instructed to carry out investigations into environmental contamination which might affect the immoveables and our valuations assume the immoveables are not adversely affected by any environmental contamination.

In our opinion the aggregate value of the fair values of the immoveables owned by the ACS as at 31 December 2022 is £1,673,450,000. This figure represents the aggregate of the individual values attributable to the individual immoveables and should not be regarded as a valuation of the portfolio as a whole in the context of a sale as a single lot.

No allowances are made for any expenses of realisation, or for taxation, which might arise in the event of a disposal. The immoveables are considered as if free and clear of all mortgages or other charges which may be secured thereon. Valuations are prepared and expressed exclusive of VAT. The 16 March 2016 Budget issued by UK Government and enacted as part of the Finance Act on 15 September 2016 changed the basis of assessing Stamp Duty Land Tax in England and Wales to a tiered approach and this has been adopted in the valuation as at 31 December 2022. Pending clarity in the market's response to the new International Property Measurement Standard (IPMS), we have continued to use floor areas as defined by the RICS Code of Measuring Practice 6th Edition 2015. This has been discussed and agreed with the ACS Manager.

CBRE Limited

14 February 2023

Independent Auditors' Report to the Unitholders of Royal London UK Real Estate Fund

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of Royal London UK Real Estate Fund (the "Scheme"):

- give a true and fair view of the financial position of the Scheme and its sub-fund as at 31 December 2022 and of the net revenue and the net capital losses on the scheme property of the Scheme and its sub-fund for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), the Statement of Recommended Practice for UK Authorised Funds, the Collective Investment Schemes sourcebook and the ACS Deed.

Royal London UK Real Estate Fund is an Authorised Contractual Scheme with a single sub-fund. The financial statements of the Scheme comprise the financial statements of its sub-fund. We have audited the financial statements, included within the Annual Report, which comprise: the Balance Sheet as at 31 December 2022; the Statement of Total Return, the Statement of Change in Net Assets Attributable to Unitholders and the Statement of Cash Flows for the year then ended; the Distribution Tables; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Scheme in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Scheme's ability to continue as a going concern for a period of at least twelve months from the date on which the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the ACS Manager's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Scheme's ability to continue as a going concern.

Our responsibilities and the responsibilities of the ACS Manager with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The ACS Manager is responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

Based on our work undertaken in the course of the audit, the Collective Investments Schemes sourcebook requires us also to report certain opinions as described below.

ACS Manager's Report

In our opinion, the information given in the ACS Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Unitholders of Royal London UK Real Estate Fund (continued)

Report on the audit of the financial statements – continued

Responsibilities for the financial statements and the audit

Responsibilities of the ACS Manager for the financial statements

As explained more fully in the Statement of ACS Manager's Responsibilities in relation to the financial statements of the ACS, the ACS Manager is responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The ACS Manager is also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the ACS Manager is responsible for assessing the Scheme's and its sub-fund's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the ACS Manager either intends to wind up or terminate the Scheme or its sub-fund, or has no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Scheme/industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of the Collective Investment Schemes sourcebook, and we considered the extent to which non-compliance might have a material effect on the financial statements, in particular those parts of the sourcebook which may directly impact on the determination of amounts and disclosures in the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or to increase the net asset value of the Scheme and the judgements and assumptions made by management in their significant accounting estimates. Audit procedures performed included:

- Discussions with the ACS Manager, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing relevant meeting minutes, including those of the ACS Manager's board of directors;
- Identifying and testing journal entries, specifically any journals with unusual account combinations or unusual timing and journals posted as part of the financial year end close process;
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing; and
- Challenging assumptions and judgements made by management in their significant accounting estimates, for example in relation to the valuation of investment properties.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Independent Auditors' Report to the Unitholders of Royal London UK Real Estate Fund (continued)

Report on the audit of the financial statements – continued

Use of this report

This report, including the opinions, has been prepared for and only for the Scheme's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Opinion on matter required by the Collective Investment Schemes sourcebook

In our opinion, we have obtained all the information and explanations we consider necessary for the purposes of the audit.

Collective Investment Schemes sourcebook exception reporting

Under the Collective Investment Schemes sourcebook we are also required to report to you if, in our opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 April 2023

Financial Statements

Statement of Total Return

For the year ended 31 December 2022

	Note	£'000	31 Dec 2022 £'000	£'000	31 Dec 2021 £'000
Income					
Net capital (losses)/gains	5		(278,111)		491,484
Revenue	6	131,995		129,121	
Expenses	7	(31,284)		(15,746)	
Interest payable and similar charges	8	1		–	
Net revenue before taxation		100,712		113,375	
Taxation	9	–		–	
Net revenue after taxation			100,712		113,375
Total (deficit)/return before distributions			(177,399)		604,859
Distributions	10		(100,997)		(113,451)
Change in net assets attributable to unitholders from investment activities			**(278,396)**		**491,408**

Statement of Change in Net Assets Attributable to Unitholders

For the year ended 31 December 2022

	£'000	31 Dec 2022 £'000	£'000	31 Dec 2021 £'000
Opening net assets attributable to unitholders		**3,369,050**		**2,877,642**
Amounts receivable on issue of units	179,612		–	
Amounts payable on cancellation of units	–		–	
		179,612		–
Dilution adjustment		5,388		–
Change in net assets attributable to unitholders from investment activities		(278,396)		491,408
Closing net assets attributable to unitholders		**3,275,654**		**3,369,050**

Balance Sheet

As at 31 December 2022

	Note	31 Dec 2022 £'000	31 Dec 2021 £'000
Assets			
Fixed assets:			
Tangible assets			
Investment property		2,591,461	3,036,400
Property under construction		336,400	149,250
Investments		222,430	88,369
Total fixed assets		3,150,291	3,274,019
Current assets:			
Debtors	11	72,262	80,736
Cash and bank balances	12	122,883	98,329
Total current assets		195,145	179,065
Total assets		3,345,436	3,453,084
Liabilities			
Creditors:			
Other creditors	13	44,266	53,302
Finance lease payable	14	1,156	1,157
Distribution payable		24,360	29,575
Total liabilities		69,782	84,034
Net assets attributable to unitholders		**3,275,654**	**3,369,050**

Financial Statements (continued)

Statement of Cash Flows

For the year ended 31 December 2022

	Note	31 Dec 2022 £'000	31 Dec 2021 £'000
Net cash inflow from operating activities	16	**98,284**	**112,978**
Distribution paid to unitholders		(106,212)	(107,904)
Interest received	6	1,865	2
Interest paid		–	(1)
Net cash (used in)/generated from operating activities		**(6,063)**	**5,075**
Cash flows from investing activities			
Payments to acquire investments and capital expenditure		(228,563)	(56,186)
Receipts from sale of investments		74,180	52,116
Net cash (outflow)/inflow from investing activities		**(154,383)**	**(4,070)**
Net cash (outflow)/inflow before financing activities		**(160,446)**	**1,005**
Cash flows from financing activities			
Amounts received from creation of units		179,612	–
Dilution adjustment		5,388	–
Net cash inflow from financing activities		**185,000**	**–**
Net increase in cash during the year		**24,554**	**1,005**
Cash balance brought forward		98,329	97,324
Cash and bank balances at the end of the year		**122,883**	**98,329**

Notes to the Financial Statements

For the year ended 31 December 2022

1. Significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the ACS have been prepared in compliance with the FCA's Collective Investment Schemes Sourcebook ("COLL") and in accordance with the UK Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the UK and the Republic of Ireland'' (''FRS 102''), the Statement of Recommended Practice (SORP) for Financial Statements of Authorised Funds issued by The Investment Association in May 2014 and amended in June 2017 (the "2014 SORP") and the Prospectus and the Co-ownership and Supplemental Co-ownership Deed in respect of the ACS. These financial statements are prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of land and buildings and certain financial assets and liabilities measured at fair value through profit or loss.

Going concern

The ACS Manager has undertaken a detailed assessment and continues to monitor the ACS's ability to meet its liabilities as they fall due, including liquidity, declines in global capital markets and investor redemption levels. Based on this assessment, the ACS continues to be open for trading and the ACS Manager is satisfied the ACS has adequate financial resources to continue in operation and meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, it is appropriate to adopt the going concern basis in preparing the financial statements.

Basis of valuation of investments

Fair value of investment property

Investment properties owned by the ACS are held either to earn rental income or for capital appreciation or both. Investment properties are measured initially on acquisition at their costs, including transaction costs. Acquisitions of investment properties are recognised where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract. Additions to investment properties consist of costs of a capital nature.

Subsequent to initial recognition, investment properties are valued individually on a quarterly basis by either Cushman & Wakefield Debenham Tie Leung Limited or CBRE Limited on the basis of "Fair Value" as defined in the International Valuation Standards of the ('RICS') Valuation Global Standards 2017 (the "RICS Red Book") and in accordance with FRS 102.

Fair value represents the figure that would appear in a hypothetical contract of sale between a willing buyer and a willing seller and is a product of rent and yield derived using comparison techniques.

The ACS's properties are subject to an on-going rolling programme of internal and external inspection by the standard independent valuers each year.

Fair value of property under construction

Property under construction owned by the ACS for such purposes which are classified are measured initially on acquisition at its cost, including transaction costs. The fair value of the property under construction for continuing use as investment property has been determined on the same basis as the investment property taking into consideration costs for construction and development as well as capital expenditure outlays using recognised valuation techniques.

Fair value of collective investment schemes

Units in collective investments schemes are valued at bid-price if dually priced as provided by the relevant fund managers. The fair value of single priced collective investment schemes is their single price.

The ACS considers the availability and punctuality of the valuation of units in collective investments schemes by the fund manager, which is based on the net asset value and, if necessary, can adjust it to obtain the best estimates of fair value at the reporting date. The fair value assigned to the collective investment schemes are based on a fair value pricing methodology as determined by the ACS Manager.

Finance leased assets

Finance leases are capitalised at commencement of the lease as assets at the fair value of the leased asset or, if lower, the present value of the minimum lease payments calculated using the equivalent yield. Incremental direct costs incurred in negotiating and arranging the lease, are included in the cost of the asset. The capital element of lease obligations is recorded as a liability on inception of the arrangement. Lease payments are apportioned between capital repayment and finance charge, using the effective interest rate method, to produce a constant rate of charge on the balance of the capital repayments outstanding.

Lessor operating leases

Payments made under operating leases (net of any incentives received from the lessor) are taken to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the year in which termination takes place.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

1. Significant accounting policies – continued

Basis of valuation of investments – continued

Provision for bad and doubtful debts

It is the policy of the ACS to make provision for bad and doubtful debts which are based on objective evidence of impairment using available information to determine whether it has become probable, for example, that a debtor will enter bankruptcy. The amount of the loss is measured as the difference between the asset's carrying amount and the estimated recoverable amount and is recognised in the Statement of Total Return.

Cash and bank balances

Cash is cash in hand and at bank. Bank overdrafts are shown within borrowings in current liabilities where held.

Financial liabilities

Basic financial liabilities, including trade and other payables are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the credit instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

Units

Units are recognised as financial liabilities and are measured based on the NAV per unit for each relevant unit class as set out within the comparative tables.

Taxation

For both UK income tax and corporation tax purposes, the ACS will be treated as transparent with regards to income. Consequently, its income and expenses (i.e., net income) are treated for UK tax purposes as arising or accruing to each Unitholder in proportion to the value of the Units beneficially owned by that Unitholder as if the net income had arisen or accrued to that Unitholder directly.

Revenue recognition

Revenue includes rental income, insurance, service charges from investment properties and distributions from collective investment schemes.

All dividends (including distributions from collective investment schemes) on investments marked ex-dividend up to the accounting date are included in revenue inclusive of any tax deductions at source and net of attributable tax credits.

Distributions from collective investment schemes and dividends received from quoted equity and non-equity shares are credited to revenue when the security is quoted ex-dividend. Accumulation of revenue relating to accumulation units or shares held in underlying funds is recognised as revenue and included in the amount available for distribution.

Revenue received from investments in authorised collective investment schemes, which are purchased during the year, will include an element of equalisation which represents the average amount of revenue included in the price paid for shares or units. Equalisation received and accrued from distributions or accumulations on units or shares in underlying investments is treated as capital and deducted from the cost of investment.

Rental income

Rental income is accounted for on an accruals basis. Rental income received in advance are deferred and recognised in the year to which it relates. Rental income from properties where leases have been entered into, which have been let subject to an initial rent free period, or lease incentive, are accounted for on a straight-line basis over the life of the tenancy in accordance with FRS 102. Additional rental income arising from rent reviews will be recognised once the review is complete.

Service charge income

The service charge is operated by the ACS on a self-funding basis by collecting and disbursing service charge income to cover service charge expenses. Service charge income is recognised in the Statement of Total Return on an accruals basis.

Interest income

Interest income from bank balances and deposits is recognised on an accruals basis.

Expenses recognition

Expenses are charged against revenue based on the nature of the expenses such as, audit, fund management, service charge or other operating expenses. Expenses relating to or incidental to the purchase and sale of land and buildings and property under construction and stamp duty land tax are treated as capital.

All expenses are recognised in the Statement of Total Return in the year in which they are incurred (on an accruals basis).

Fund manager's fee

The fund manager's fee is calculated quarterly, accrued on a daily basis by reference to the net asset value of each share class on that dealing day and the amount due for each quarter is payable the last working day of the following quarter.

Service charge expenses

Service charges expenses represent the aggregate of all service charge expenses incurred by the ACS's property portfolio and reported by the managing agent at the year end.

Service charge expenses are recognised in the Statement of Total Return on an accruals basis.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

1. Significant accounting policies – continued

Distribution to unitholders

Dividends and other distributions to ACS's unitholders are recognised as a liability in the financial statements in the year in which the dividends and other distributions are approved by the ACS's Depositary. These amounts are recognised in the Statement of Total Return.

Dilution levy

In certain circumstances the ACS Manager may charge a dilution levy on the sale or repurchase of units. The levy is intended to cover certain dealing charges not included in the value of the ACS used in calculating the unit price, which could have a dilutive effect. Normally the ACS will only charge such a levy on a share class experiencing large levels of net purchases or net redemptions relative to its size. Any dilution levy is charged at the discretion of the ACS Manager.

Related party transactions

The ACS discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the ACS Manager, separate disclosure is necessary to understand the effect of the transactions on the ACS's financial statements.

2. Estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Estimation of fair value of investment property

Investment property is measured at fair value which represents a significant proportion of the ACS's net assets at 89.38% (31/12/21: 94.56%). Therefore, the estimates and assumptions made to determine their carrying value during valuation are critical to the ACS's financial position and performance.

The valuation derived is only an opinion and is a product of rent and yield derived using comparison techniques. In undertaking the valuation of properties under this method, an assessment has been made on the basis of a collation and analysis of appropriate comparable investment, rental and sale transaction, together with evidence of demand within the vicinity of subject property.

Sensitivity analysis

The values of investment properties are driven by their rental yield. At the year end, the ACS's portfolio had an equivalent yield of 4.94% (31/12/21: 4.41%). If the yield of every property within the portfolio increased by 0.25% (31/12/21: 0.50%) it is estimated that the net asset would fall by 4.44% (31/12/21: 9.45%). If the yield decreased by 0.25% (31/12/21: 0.50%) it is estimated that the net asset value would rise by 4.96% (31/12/21: 12.17%). The 0.25% benchmark has been used to measure sensitivity analysis as the ACS Manager believes that it is a good indicator of materiality in yield movements. These estimates are subject to the prevailing conditions at the year end.

The current equivalent yield by sector is shown in the following table, along with the potential impact to values if all the properties in the sector increased or decreased by 0.25%.

Sector	Weighted average equivalent Yield	Yield shift by Sector	Change in value if decrease in yield	NAV impact	Change in value if increase in yield	NAV impact
Industrial	4.80%	0.25%	53,896,000	1.65%	(48,396,000)	(1.48)%
Offices	5.09%	0.25%	52,916,000	1.62%	(47,427,000)	(1.45)%
Retail	4.92%	0.25%	46,869,000	1.43%	(41,712,000)	(1.27)%
Others	5.05%	0.25%	8,865,000	0.27%	(7,992,000)	(0.24)%

Estimation of fair value of property under construction

Valuations of property under construction have been based on the assumption that all works of construction have been satisfactorily carried out in accordance with the building contract and specifications, current British Standards and any relevant codes of practice. The assumption has also been made that a duty of care and all appropriate warranties are available from the professional team and contractors, which will be assignable to third parties.

Critical judgements in applying the ACS's accounting policies

The ACS makes assessments on whether it requires any critical judgements in applying accounting policies. There were no critical judgements applied to any of the ACS's accounting policies for the current year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

3. Distribution policies

Basis of distribution

Revenue is generated by the ACS's investments during each accounting period. The amount available for distribution in any accounting period is calculated by taking the aggregate of the income received or receivable of the relevant unit class and deducting the charges and expenses paid or payable out of income in respect of that accounting period. The ACS Manager then makes such other adjustments as it considers appropriate in relation to Taxation, income unlikely to be received, income which should not be accounted for on an accruals basis because of lack of information as to how it accrues, transfers between the income and capital account and other matters.

In order to conduct a controlled distribution flow to unitholders, interim distributions will be made at the ACS Manager's discretion, up to a maximum of the distributable income available for the period. All remaining income is distributed, at unit class level, to the unitholders in accordance with the ACS's Prospectus.

All unit classes of the ACS are priced and distributed on a quarterly basis therefore there are no group 2 units at the end of each distribution period and therefore no equalisation is applied to unit class prices.

Apportionment to share classes

The allocation of revenue and expenses to each unit class is based on the proportion of the ACS's assets attributable to each share class on the day the revenue is earned, or the expenses are suffered.

Expenses

In determining the net revenue available for distribution, expenses that are deemed to be capital in nature or are related to the purchase and sale of investments are ultimately charged to the capital of the ACS.

4. Risk management policies

In accordance with its investment objective, the ACS holds financial instruments which may comprise:

- UK property and shares in collective investment schemes; and
- Cash, liquid resources and short-term debtors and creditors that arise directly from the ACS's operations; and

The risks set out below do not purport to be exhaustive and the ACS may be exposed to risks of an exceptional nature from time to time.

Market price risk and valuation of property

Market risk is the risk of loss resulting from fluctuations in the market value of the ACS's investments including, but not limited to, adverse property valuation movements.

Since the fair value of investment property represents a significant proportion of the ACS's net assets at 89.38% (31/12/21: 94.56%), property values are exposed to a number of risk factors which may affect the total return of the ACS. These may be attributable to changes to global or local economic and geo-political conditions; local market conditions such as the price volatility of the UK commercial property markets or performance of individual properties; the financial conditions of tenants; changes in interest rates or exchange rates; real estate tax rates and other operational expenses; environmental laws and regulations; planning laws and other governmental legislation; energy prices and the relative attractiveness of real estate types or locations. In addition, real estate is subject to long-term cyclical trends that give rise to significant volatility in values.

Market price risk is minimised through holding a regionally diversified portfolio that invests across various property sectors.

The ACS Manager may make use of Efficiency Portfolio Management techniques to reduce risk and/or costs in the ACS and to produce additional capital or income in the ACS in a manner which is economically appropriate and with an acceptable level of risk. Techniques used by the ACS Manager may include using derivatives for hedging against price or currency fluctuations, engaging in securities lending and reverse repurchase transactions.

The ACS adheres to the investment guidelines and investment and borrowing powers established in the Prospectus, Co-ownership and Supplemental Co-ownership Deed in respect of the ACS and in the rules governing the operation of open ended investment companies.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

4. Risk management policies – continued

Liquidity risk

Liquidity risk is the risk that cash cannot be raised, or investments sold at limited cost or in an adequate time frame to meet financial commitments such as redemptions.

Since the ACS invests mainly in immovable property, which is relatively illiquid and more difficult to realise than most equities or bonds, it can be exposed to liquidity risk surrounding its capacity to maintain sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet its obligations to fund its distribution payments and redemptions.

Included in the ACS Manager's responsibilities for managing and monitoring the liquidity risk of the ACS is to maintain liquidity risk management policies and procedures. The liquidity risk management policies and procedures include the management, implementation and maintaining of appropriate liquidity limits for the ACS and monitoring and assessing the policies and procedures of the Investment Adviser for the ACS in managing the ACS's liquidity limits. In determining its risk management policies, the ACS Manager has taken into account the nature, scale and complexity of its activities including those of the delegated Investment Adviser, and has liquidity risk profiles that are consistent with those required for a well-functioning and robust system including the requirement to meet redemption requests from unitholders on each dealing day.

In exceptional circumstances, such as market uncertainty, the ACS Manager may defer redemptions where the ACS Manager considers it to be in the best interests of the unitholders. The deferral period for any redemption request is a maximum of 12 months from the original dealing day when the request for redemption would otherwise have been processed. When deemed appropriate by the ACS Manager, acting in the best interests of the unitholders, redemption will be deferred in whole or in part by the ACS Manager within this timeline.

Also, during periods of uncertainty or volatile markets, the Investment Adviser may choose to hold a substantial proportion of the property of the ACS in money-market instruments and/or cash deposits, provided that the ACS satisfies all the rules in the COLL on the types of permitted investments.

The following table provides a profile of the ACS's liquidity.

	Within three months	Over three months but not more than one year	Over one year
31 December 2022	**£'000**	**£'000**	**£'000**
Cash at bank	122,883	–	–
	%	%	%
Unitholding that can be redeemed	–	100.00	–
Portfolio capable of being liquidated	8.33	81.65	10.02
31 December 2021	**£'000**	**£'000**	**£'000**
Cash at bank	98,329	–	–
	%	%	%
Unitholding that can be redeemed	–	100.00	–
Portfolio capable of being liquidated	4.64	85.48	9.88

The following table provides a maturity analysis of the ACS's financial liabilities showing the remaining contractual maturities on an undiscounted basis.

	Within one year	Over one year but not more than five years	Over five years
31 December 2022	**£'000**	**£'000**	**£'000**
Distribution payable	24,360	–	–
Finance lease payable	98	394	7,725
Other creditors	44,266	–	–
	68,724	**394**	**7,725**
31 December 2021	**£'000**	**£'000**	**£'000**
Distribution payable	29,575	–	–
Finance lease payable	98	394	7,824
Other creditors	53,229	–	–
	82,902	**394**	**7,824**

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

4. Risk management policies – continued

Credit and counterparty risk

Credit risk is the risk that counterparty including occupational tenant will default on their contractual obligations resulting in financial loss to the ACS. The ACS will be subject to the risk of the inability of any counterparty to perform with respect to transactions, whether due to insolvency, bankruptcy or other causes.

Concentration of credit risk refers to disproportionally large risk exposure to specific credit risks, such as, certain individual tenants, specific industry sectors and or regions of the counterparty. The ACS could be subject to significant losses if it holds a large position in a particular investment that declines in value or is otherwise adversely affected, including default of the counterparty.

In managing counterparty and concentration of credit risk, rental income from any one tenant or tenants, specific industry sectors and or regions within the ACS is monitored so that it does not exceed a certain threshold of the aggregate revenue in relation to the property investments in any accounting year as determined from time to time by the ACS Manager. Rent is collected from tenants in advance, usually quarterly. Cash is placed on deposit with reputable financial institutions and is subject to limits as disclosed in the Prospectus.

In the event of the insolvency of a counterparty, the ACS might not be able to recover cash or assets of equivalent value in full. The ACS has been closely monitoring the ability of tenants to pay their rent and adjusting bad debt provision accordingly. The ACS also works with the tenants to determine any rent concessions on a case-by-case basis.

There are no significant concentrations of credit risk, whether through exposure to certain individual tenants, specific industry sectors and or regions. The credit ratings of the investments are monitored frequently for credit deterioration. By diversifying the portfolio, where this is appropriate and consistent with the ACS's objectives, the risk that a significant change in the credit risk or quality of certain individual tenants, particular sector, specific industry and or regions will have a material impact on the Net Asset Value of the ACS is minimised. The investment concentrations within the portfolio are disclosed in the portfolio statement by investment type.

The ACS adhere to regulatory and fund management guidance and investment strategy and that mitigates any risk of excessive exposure to any particular type of sector or tenant type.

The ACS's cash and short term deposits at 31 December 2022 amounted to £122.9m (31/12/21: £98.3m). Deposits and interest rate deposits were placed with financial institutions with BBB+ or better credit ratings.

At 31 December 2022, taking into consideration any offset arrangements, the largest combined credit exposure to a single counterparty arising from money market deposits, liquid investments and derivatives was £122.88m (31/12/21: £98.33m). This represents 3.75% (31/12/21: 2.92%) of gross assets of the ACS.

The deposit exposures are with UK banks.

Currency risk

Currency of foreign exchange risk is a financial risk that exists when a financial transaction is denominated in a currency other than the domestic currency of the ACS.

All financial assets and financial liabilities of the ACS are in sterling thus the ACS has no exposure to currency risk at the Balance Sheet date.

Interest rate risk

Interest receivable on bank deposits or payable on bank overdrafts held by the ACS will be affected by fluctuations in interest rates. In times of low nominal interest rate, there may be no, negative or low interest paid on these holdings. In such circumstances, the ACS could be subject to losses especially after charges are deducted. The ACS continuously reviews interest rates and the assessment of this may result in a change in investment strategy. The ACS held £122.88m (31/12/21: £98.33m) cash at the year end and has minimal exposure to interest rate risk since it has no gearing.

The ACS assesses the interest rate risk as being low and therefore no sensitivity analysis has been performed.

Inflation risk

Inflationary risk is the risk that the future value of an investment, asset, or income stream, in real terms, will be reduced by unanticipated inflation.

A key to the effectiveness of managing inflationary risk associated with the fall in real income or returns lies in the ACS's ability to raise rents in markets with low vacancy rates, thus outpacing rising inflation and potentially increasing income distribution to unitholders. The ACS also use built- in rent escalators that are tied to inflation that can directly drive rental income which protects the income-generation of existing leases. The ACS also allows new leases to capitalise on rising market rents when the leases are being agreed. In general, Property investment has served as a hedge against inflation over the long term and tend to be less sensitive to inflationary risk and may even benefit from unanticipated inflation.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

4. Risk management policies – continued

Inflation risk – continued

The ACS Manager address inflationary risk associated with increased costs by adjusting its cash flows for inflation to prevent changes in purchasing power especially in relation to capital expenditure such as construction and refurbishment costs. The ACS Manager and the Investment Adviser employ various risk management measures such as, the use of fixed price contract sums; inflation contingency in budgets and in appraisals; early procurement of risk packages; and protection against amendments in construction contracts where the contractor may seek to include an exclusion related to material inflation or supply chain issues.

The ACS assesses the inflation risk as being low and therefore no sensitivity analysis has been performed.

Leverage risk

Leverage risk is the uncertainty introduced by the method by which the ACS finances parts of its investments through borrowing.

In managing the assets of the ACS, the ACS Manager may from time to time use leverage of up to 20% of the net asset value, either in the form of borrowings (for example, for the purposes of funding acquisitions in anticipation of receiving subscriptions or to meet redemption requests as part of the liquidity management of the ACS).

Currently the ACS has no borrowings of cash or securities as it does not believe it is needed at this time and as such no disclosure is required under the AIFM Directive.

Climate risk

Climate risk is the risk that asset valuations and the wider economy are negatively impacted by the transition to a low-carbon economy, as well as the physical risk to asset holdings as a result of severe weather events and longer-term shifts in climate.

The built environment is particularly susceptible to the effects of climate change. It affects the exposure of our assets to physical risks, such as flooding. It influences transition risks, such as divestment away from high-risk assets. It contributes to urban heat islands and impacts the health and wellbeing of occupants and local communities.

The ACS has reviewed the carbon footprint and emissions trajectory of its property portfolio for the coming decades. Based on this review, it has developed an informed pathway to decarbonise the property portfolio and achieve net zero carbon. This pathway is aligned with the latest industry guidance and principles for the built environment on how to reduce and compensate for its emissions meaningfully and accountably.

A key element of the ACS's risk mitigation strategy is set out within its new Responsible Property Investment (RPI) framework which covers four strategic focus areas:

- Investing in a resilient portfolio
- Developing for the future
- Managing assets for positive impact
- Responsible decision making.

Ten material Environmental, Social & Governance (ESG) issues form the foundation of the RPI framework, of which one was identified as the 'Transition to net zero carbon'. A set of Key Performance Indicators (KPIs) will be developed to track quantitative performance against achieving net zero carbon and actions will be undertaken as necessary to ensure fulfilment of the ACS's goals.

Economic and geopolitical risk

The performance of the ACS may be adversely affected by the impact of geopolitical and general economic conditions under which the ACS operates.

Political risks include changes in landlord and tenant, planning, trust or other law in the UK could also materially affect the investment returns.

Geopolitical risk feeds through into real economic activity because uncertainty over future economic conditions, particularly when caused by a large-scale war, causes firms and consumers to adopt a 'wait and see' approach, cutting back on investment and consumption plans.

Russia's invasion of Ukraine continues to carry huge risks for a world economy that's yet to fully recover from the pandemic shock. The ACS has no exposure to Russian companies as commercial tenants or investment. The UK has few direct economic links to Russia since trade between the two is small relative to the size of either economy. Moreover, Russia is not closely integrated in the global financial system.

However, sanctions imposed on Russia as a response by the UK and its allies have had a significant impact on the UK economy due to the disruption to the supply of energy to Europe which has affected wholesale prices in the UK to a greater extent than implied by direct trade links. The full economic impact of the war on Western economies including the UK with higher inflation, volatile financial markets and adverse economic environment will depend on the extent to which the conflict, and therefore the severity of sanctions and economic disruption, escalates and how long it lasts.

The returns that are likely to be achieved on an investment in the ACS, which has its assets predominantly based in the UK, are not likely to be materially affected by the situation in Ukraine but by the political and economic climate in the UK.

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

5. Net capital (losses)/gains

	31 Dec 2022 £'000	31 Dec 2021 £'000
The net capital (losses)/gains during the year comprise:		
Non derivative securities realised losses	–	–
Non derivative securities unrealised (losses)/gains	(16,851)	26,777
Investment property realised losses	(427)	(716)
Investment property unrealised (losses)/ gains	(260,833)	465,423
Net capital (losses)/gains	**(278,111)**	**491,484**

6. Revenue

	31 Dec 2022 £'000	31 Dec 2021 £'000
Overseas income*	2,156	1,827
Interest income from authorised funds	912	–
Property rental income	114,370	116,166
Property insurance commission	320	311
Service charge income	12,372	10,815
Bank interest	1,865	2
Total revenue	**131,995**	**129,121**

* There is no (2021: none) FX impact to overseas income as the income received is wholly due to the ACS's investment in the Industrial Property Investment Fund. This is a Jersey based entity and income is paid in pounds sterling.

7. Expenses

	31 Dec 2022 £'000	31 Dec 2021 £'000
Payable to the ACS Manager or associates of the ACS Manager and their agents:		
Manager's fee	465	388
Payable to the Depositary, associates of the Depositary and their agents:		
Depositary's fee	286	250
Safe custody fee	2	–
	288	250
Other expenses		
Administration fee	80	80
Audit fee*	90	86
Registration fee	10	10
Bad and doubtful debts**	623	(5,054)
Insurance expense	459	43
Legal and lettings fees	1,568	1,681
Surveyor's fee	2,003	1,982
Valuation fee	282	342
Property repairs and maintenance	144	280
Recoverable service charges	12,315	10,815
Head rent	132	122
Void council tax	3,310	2,037
Irrecoverable service charges	7,335	1,802
Other	2,180	882
	30,531	15,108
Total expenses	**31,284**	**15,746**

* Audit fee £81,646 (31/12/21: £86,606) net of VAT. The Audit fee includes £7,931 (31/12/21: £7,296) paid on behalf of the UK Real Estate Feeder Fund and an additional £nil (31/12/21: £5,000) was paid in relation to prior year overruns.

** Prior year includes write down of bad debt provision (see note 11).

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

8. Interest payable and similar charges

	31 Dec 2022 £'000	31 Dec 2021 £'000
The interest payable and similar charges comprise:		
Finance charge on leased asset	(1)	(1)
Interest payable	–	1
Total interest payable and similar charges	**(1)**	**–**

9. Taxation

	31 Dec 2022 £'000	31 Dec 2021 £'000
Overseas tax	–	–
Total taxation	**–**	**–**

As the ACS is a stand alone ACS, the ACS is not subject to UK tax on income or capital profits.

10. Distributions

	31 Dec 2022 £'000	31 Dec 2021 £'000
Interim distribution	76,637	83,876
Final distribution	24,360	29,575
Net distributions for the year	**100,997**	**113,451**

The difference between the net revenue after taxation and the distribution paid is as follows:		
Net revenue after taxation	100,712	113,375
Expenses charged to capital	286	77
Non distributable finance lease amortisation	(1)	(1)
Net distributions for the year	**100,997**	**113,451**

Details of the distribution per unit are set out on page 38.

11. Debtors

	31 Dec 2022 £'000	31 Dec 2021 £'000
Accrued income	438	413
Accrued interest	33	–
Rental income receivable*	16,088	29,643
Managing agent	15,510	8,678
Lease incentive	4,993	5,534
Rent free debtor	22,721	22,668
Service charges receivable	8,497	7,556
Sundry debtors**	3,982	6,244
Total debtors	**72,262**	**80,736**

* Rental income receivable is shown after deducting a provision for bad and doubtful debts of £1,997,896 (31/12/21: £3,729,747) The provision for doubtful debts is calculated based on the incurred loss model in accordance with FRS 102. The charge to the Statement of Total Return in relation to write-offs and provisions made against doubtful debts was £623,000 expense (31/12/21: £5,054,000 income).

** Sundry debtors includes £3,350,000 (31/12/21: £2,587,000) insurance income receivable, £489,000 (31/12/21: £3,449,000) amounts receivable from Managing Agent and £143,000 (31/12/21: £208,000) from other debtors.

12. Cash and bank balances

	31 Dec 2022 £'000	31 Dec 2021 £'000
Cash and bank balances	122,883	98,329
Total cash and bank balances	**122,883**	**98,329**

13. Other creditors

	31 Dec 2022 £'000	31 Dec 2021 £'000
Deferred rent	22,408	24,721
Accrued expenses	845	651
VAT payable	1,594	7,873
Service charges payable	8,497	7,556
Development costs payable	6,571	5,229
Sundry creditors	4,351	7,272
Total other creditors	**44,266**	**53,302**

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

14. Finance lease payable

The following properties have finance lease commitments:

London W1 – 22 Old Bond Street

Leeds – Phase 1 and 2 Manston Industrial Estate

London W1 – 470/482 Oxford Street and Granville Place

	31 Dec 2022 £'000	31 Dec 2021 £'000
Commitments in relation to finance leases are payable as follows:		
Not later than one year	98	98
Later than one year and not later than five years	394	394
Later than five years	7,725	7,824
Minimum lease payments	8,217	8,316
Future finance charges	(7,061)	(7,159)
Total lease liabilities	**1,156**	**1,157**
The present value of finance lease liabilities are as follows:		
Not later than one year	93	93
Later than one year and not later than five years	303	303
Later than five years	760	761
Minimum lease payments	**1,156**	**1,157**
Finance lease amortisation		
Brought forward at 1 January	1,157	1,158
Release of finance lease commitment	–	–
Carried forward at 31 December	(1,156)	(1,157)
Finance lease amortisation	**1**	**1**

15. Operating leases

The future aggregate minimum rentals receivable under non-cancellable operating leases are as follows:

	31 Dec 2022 £'000	31 Dec 2021 £'000
Not later than one year	98,266	108,792
Later than one year and not later than five years	259,687	288,980
Later than five years	1,140,731	1,097,809
Total	**1,498,684**	**1,495,581**

16. Reconciliation of total (deficit)/return before distributions to net cash flow from operating activities

	31 Dec 2022 £'000	31 Dec 2021 £'000
Total (deficit)/return before distributions	(177,399)	604,859
Add: Net capital losses/(gains)	278,111	(491,484)
Less: Interest received	(1,865)	(2)
Add: Interest paid	–	1
Less: Finance lease payments	(1)	(1)
Net income from operating activities	98,846	113,373
Decrease/(increase) in debtors	8,474	(2,308)
(Decrease)/increase in creditors	(9,036)	1,913
Net cash inflow from operating activities	**98,284**	**112,978**

17. Reconciliation of number of units

	Class W Gross Income	Class V Gross Income
Opening units 01/01/22	27,558,517	–
Units issued	–	1,392,603
Units cancelled	–	–
Closing units at 31/12/22	**27,558,517**	**1,392,603**

	Class Z Gross Income
Opening units 01/01/22	521,767
Units issued	–
Units cancelled	–
Closing units at 31/12/22	**521,767**

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

18. Contingent liabilities and outstanding commitments

Commitments

At the Balance Sheet date the ACS had entered into forward funding and capital expenditure commitments on various assets in the property portfolio. These undertakings are variable, dependent on a number of outcomes and independent valuations.

Property	31 Dec 2022 £'000	31 Dec 2021 £'000
Bristol – 1-3 & 5-9 Broad Plain	760	760
Chelmsford – 5 Springfield Business Park Phase 1 and 2	1,430	124
London EC1 – 14-21 Holborn Viaduct	2,438	–
London WC1 – The Earnshaw, New Oxford Street, London*	27,048	56,662
Total commitments	**31,676**	**57,546**

* This property was previously called Castlewood House. That building has now been demolished, The Earnshaw, New Oxford Street, London is the new name for the development.

Contingent liabilities

There were no contingent liabilities at the current balance sheet date (31/12/21: £nil).

19. Related party transactions

The ACS's Authorised Contractual Scheme Manager and Royal London Unit Trust Managers Limited are related parties to the ACS as defined by Financial Reporting Standard 102 section 33 'Related Party Disclosures'.

Manager fees charged by Royal London Unit Trust Managers Limited are shown in note 7 and details of units issued and cancelled by Royal London Unit Trust Managers Limited are shown in the Statement of change in unitholders' net assets. At the year end the balance due to Royal London Unit Trust Managers Limited in respect of these transactions was £117,406 (31/12/21: £103,572).

RLGPS Trustee Limited, as a material unitholder, is a related party holding units comprising 2% (31/12/21: 2%) of the total net assets of the ACS as at 31 December 2022.

The Royal London UK Real Estate Feeder Fund, which invests solely into the Royal London UK Real Estate Fund, is part of the same group as the ACS Manager of the Royal London UK Real Estate Fund. During the year to 31 December 2022, the Royal London UK Real Estate Feeder Fund was paid gross distributions totalling £1,355,000 (2021: £1,635,000).

Royal London UK Real Estate Feeder Fund as a feeder fund for the ACS holds units comprising 2% (31/12/21: 2%) of the total net assets of the ACS.

20. Financial instruments

The policies applied to the management of the financial instruments are set out in note 4. The fair values of the ACS's assets and liabilities are represented by the values shown in the Balance Sheet on page 22. There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

The ACS's financial assets comprise cash, on which interest is receivable. However, no interest is receivable or payable on the ACS's other assets (debtors) or liabilities (creditors).

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

21. Portfolio transaction costs

For the year ended 31 December 2022

Analysis of total purchase costs	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%	Total £'000
Royal London Short Term Money Market Fund	100,491	–	–	–	–	100,491
Royal London Short Term Fixed Income Fund	50,422	–	–	–	–	50,422
Southall – International Trading Estate	5,000	38	0.76	240	4.80	5,278
Total	**155,913**	**38**		**240**		**156,191**

Analysis of total sales cost	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%	Total £'000
London SW6 – Hurlingham Retail Park	59,350	453	0.76	–	–	59,803
Newcastle – Central Exchange Buildings	12,680	170	1.34	–	–	12,850
Chester – 22/24 Eastgate Street and 30 Eastgate Row	2,419	37	1.53	–	–	2,456
Total	**74,449**	**660**		**–**		**75,109**

Commissions, taxes and fees as % of average net assets

Commissions and legal fees	0.0191%
Taxes	0.0066%

For the year ended 31 December 2021

There were no purchases for the year ended 31 December 2021

Analysis of total sales cost	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%	Value £'000
London E1 – Eden House	50,190	752	1.50	–	–	50,942
York – 21/23 Coney Street	1,971	35	1.78	–	–	2,006
Total	**52,161**	**787**		**–**		**52,948**

Commissions, taxes and fees as % of average net assets

Commissions and legal fees	0.0264%
Taxes	0.0000%

Portfolio transaction costs are commissions and legal fees paid to agents and advisers, and transfer taxes and duties associated with investment transaction on the ACS.

At the Balance Sheet date the portfolio dealing spread was 0.00% (31/12/21: 0.00%).

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

22. Fair value of investments

The primary financial instruments held by the ACS at 31 December 2022 were property related investments, cash, short term assets and liabilities to be settled in cash. The ACS did not hold, and was not a counterparty to, any derivative instruments either during the year or at the year end.

The policies applied to the management of the financial instruments are set out in note 1. The fair values of the ACS's assets and liabilities are represented by the values shown in the Balance Sheet on page 22. There is no material difference between the value of the financial assets and liabilities, as shown in the Balance Sheet, and their fair value.

The fair value of investments has been determined using the following hierarchy:

Category 1 The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.

Category 2 Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Category 3 Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

For the year ended 31 December 2022

Category	1 £'000	2 £'000	3 £'000	Total £'000
Investments				
Collective Investment Schemes	–	151,816	70,614	222,430
Total	**–**	**151,816**	**70,614**	**222,430**

For the year ended 31 December 2021

Category	1 £'000	2 £'000	3 £'000	Total £'000
Investments				
Collective Investment Schemes	–	–	88,369	88,369
Total	**–**	**–**	**88,369**	**88,369**

At the current and prior year end, the level 3 asset held was the Industrial Property Investment Fund (IPIF). This asset has been classified as level 3 due to redemptions being capped at 10% for the year.

Reconciliation to Market Value

	31 Dec 2022 £'000	31 Dec 2021 £'000
Reconciliation to Fair Value – Land and Buildings		
Cost		
At 1 January	2,645,117	2,652,154
Additions – acquisitions	5,000	–
Additions – subsequent expenditure	72,650	56,186
Disposals	(77,369)	(63,223)
At 31 December	**2,645,398**	**2,645,117**
Revaluation Surplus		
At 1 January	540,533	64,720
Revaluations in the year	(257,643)	476,529
Transferred to realised	(427)	(716)
At 31 December	**282,463**	**540,533**
At 31 December	**2,927,861**	**3,185,650**
Reconciliation to Market Valuation		
Fair value at 31 December	2,927,861	3,185,650
Rent free debtor fair value adjustment	22,722	22,668
Capital lease incentive fair value adjustment	4,993	5,534
Finance lease fair value adjustment	(1,156)	(1,157)
Market value reported by valuers	**2,954,420**	**3,212,695**

Notes to the Financial Statements (continued)

For the year ended 31 December 2022

23. Events after the end of reporting year

The final distribution for the year ended 31 December 2022 was paid on 13 January 2023.

The impact of the volatility on the ACS's NAV between the end of the reporting period and the date of which the financial statements were authorised for issue are shown below:

	Price 31 Dec 2022 (£)	Price 31 Mar 2023 (£)	Movement (%)
Royal London UK Real Estate Fund, Class W Gross Income	111.14	110.83	(0.28)
Royal London UK Real Estate Fund, Class V Gross Income	111.14	110.83	(0.28)
Royal London UK Real Estate Fund, Class Z Gross Income	111.14	110.83	(0.28)

On 16 March 2023, the ACS completed the sale of Egham – Runnymede Centre for £13.5m.

On 17 March 2023, the ACS completed the sale of Preston, Capitol Retail Park and Preston, Capitol Leisure Park for £27.9m and £23.6m respectively.

Distribution Tables

For the year ended 31 December 2022

Class W Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2022	Total distribution per unit 2021
March				
Group 1	98.2051		98.2051	104.3407
Group 2	98.2051	–	98.2051	104.3407
June				
Group 1	94.9339		94.9339	92.6154
Group 2	94.9339	–	94.9339	92.6154
September				
Group 1	72.7047		72.7047	102.7578
Group 2	72.7047	–	72.7047	102.7578
December				
Group 1	83.0517		83.0517	105.6902
Group 2	83.0517	–	83.0517	105.6902

Class V Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2022	Total distribution per unit 2021
March				
Group 1	–		–	–
Group 2	–	–	–	–
June				
Group 1	94.9339		94.9339	–
Group 2	94.9339	–	94.9339	–
September				
Group 1	72.7047		72.7047	–
Group 2	72.7047	–	72.7047	–
December				
Group 1	83.0517		83.0517	–
Group 2	83.0517	–	83.0517	–

Class Z Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2022	Total distribution per unit 2021
March				
Group 1	77.4963		77.4963	86.6525
Group 2	77.4963	–	77.4963	86.6525
June				
Group 1	72.4250		72.4250	74.5621
Group 2	72.4250	–	72.4250	74.5621
September				
Group 1	49.3064		49.3064	83.9101
Group 2	49.3064	–	49.3064	83.9101
December				
Group 1	60.5501		60.5501	85.8399
Group 2	60.5501	–	60.5501	85.8399

All unit classes of the ACS are priced and distribute on a quarterly basis therefore there are no group 2 units at the end of each distribution period and therefore no equalisation is applied to unit class prices.

Fact File

Royal London UK Real Estate Fund

Launch date	Class W – Gross Income Units	1 October 2017
	Class V – Gross Income Units	31 March 2022
	Class Z – Gross Income Units	2 January 2018
Accounting end dates	31 December (Final)	
	30 June (Interim)	
Distribution dates	15 January (Final)	
	15 April	
	15 July	
	15 October	
Minimum investment	£50m	
Management charges	Preliminary charge	
	Class W – Gross Income Units	1.25%
	Class V – Gross Income Units	1.25%
	Class Z – Gross Income Units	0.00%
	Annual management charge	
	Class W – Gross Income Units	0.00%
	Class V – Gross Income Units	0.00%
	Class Z – Gross Income Units	0.70%

Remuneration Policy (unaudited)

The Authorised Contractual Scheme Manager ("ACS Manager") of the Royal London UK Real Estate Fund, Royal London Unit Trust Managers Limited ("RLUTM"), is subject to remuneration policies, procedures and practices (together, the "Remuneration Policy"), as required under the UCITS Directive ("UCITS V"). RLUTM has appointed Royal London Asset Management Limited ("RLAM") as the Investment Adviser to the ACS.

RLUTM and RLAM are wholly owned subsidiaries of The Royal London Mutual Insurance Society, "the Group". The Group maintains a "Group Remuneration Policy" that RLUTM has adopted which is consistent with and promotes sound and effective risk management. It is designed so that risk-taking is not encouraged where this is inconsistent with the risk profiles or the instrument constituting the fund or the prospectus, as applicable, of the UCITS it manages. The Group has appointed a Remuneration Committee which is made up of Non-Executive Directors and is advised by independent remuneration consultants. The Committee considers the advice by independent remuneration consultants and the implications of remuneration policies across the Group, including for RLUTM.

The Remuneration Policy is in line with the business strategy, objectives, values and the interests of the ACS Manager and the interests of the Royal London UK Real Estate Fund and includes measures to avoid conflicts of interest. The Remuneration Policy adopts performance related pay, with salaries determined by reference to both individual performance and the external market. Total Remuneration comprises of a mix of fixed remuneration (including base salary and benefits), and variable remuneration in the form of incentives. The ratio between fixed and variable pay (both short-term and long-term incentives) is set by the Group to ensure that there is appropriate balance between the fixed and variable remuneration components. The Group Remuneration Policy applies to staff of the ACS Manager whose professional activities have a material impact on the risk profile of the ACS Manager or the ACS and ensures that an individual cannot be involved in determining or approving their own remuneration. The UCITS Directive requires RLUTM to identify employees whose professional activities have a material impact on the risk profile of the RLUTM and the ACS. Identified staff includes senior management, risk takers, control functions, and any employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers.

The Remuneration Policy is updated annually and reviewed and approved by the Remuneration Committee. The most recent review include increases to the maximum incentive opportunities for executive directors of the Group, updates to reflect the Financial Conduct Authority's (FCA) Consumer Duty principle and supporting rules which comes into effect in July 2023, as well as minor wording changes to improve clarity. Details of the Remuneration Policy (provided in the form of the "UCITS Summary Remuneration Policy"), includes a description on the purpose of the policy, how remuneration and benefits are calculated and the identity of persons responsible for awarding the remuneration and benefits. The UCITS Summary Remuneration Policy will be made available for inspection and a paper copy may be obtained, free of charge, at the registered office of the ACS Manager, upon request.

RLUTM has a board of directors (the "Directors"). The Directors of the Company who are also employees of the Group do not receive any remuneration in respect of their services as directors of RLUTM. The other Non-Executive Directors receive fixed remuneration in respect of their services which is set at a level determined by the Group and is not performance related. None of the Directors are currently in receipt of variable remuneration in respect of their services as Directors of RLUTM. RLUTM has no employees and therefore there are no other controlled functions, or senior management employed and paid by RLUTM. However, for the financial year ending 31 December 2022, total remuneration of £27,513,761 was paid to 50 individuals whose actions may have a material impact on the risk profile of RLUTM, of which £6,685,030 related to senior management. The fixed element of the total remuneration mentioned above is £10,370,339 and the variable element is £17,143,422. In addition, the ACS does not make any payments directly to any staff of the delegates.

In accordance with the Remuneration Policy and the requirements of UCITS V, staff working for RLAM are not remunerated by the ACS Manager but they are subject to remuneration requirements which are equally as effective as those in place under the UCITS Directive. RLAM is also subject to the Financial Conduct Authority's Remuneration Codes.

General Information

Pricing and dealing

For the purposes of determining the prices at which Units may be purchased from or redeemed by the ACS Manager, the ACS Manager will carry out a valuation of the Fund's Property at 23:59 UK time each Dealing Day (the "valuation point") on the last Business Day (a day on which the London Stock Exchange Limited is open for business) of each calendar quarter, unless otherwise agreed by the Depositary. However, the ACS Manager may, at its discretion, value the Fund at any other time. The valuation shall exclude any income in respect of the interim accounting period ending on that Dealing Day.

Dealing in Units are conducted on a quarterly basis; on the last calendar day of each calendar quarter (i.e. the 31 March, 30 June, 30 September and 31 December) (a Dealing Day), between 9:00 and 17:00 UK time.

Subscription of units

In order for an application to be dealt with at the above Valuation Point on any Dealing Day, an investor should complete an application form available from the ACS Manager and returned by 17:00 UK time on the last Business Day that is at least three months prior to the Dealing Day. Instructions received after this point will be dealt with on the next Dealing Day. In respect of the initial offer of Units only, the ACS Manager may, at its discretion, accept certain applications for Units which are received after the Subscription Cut-off Point. On acceptance of the application, Units will be sold at the relevant sale price, and a contract note confirming the sale price and the number of units sold together with, in appropriate cases, a notice of the applicant's right to cancel, will be issued. An order for the purchase of Units will only be deemed to have been accepted by the ACS Manager once it is in receipt of cleared funds for the application.

Redemption of units

To redeem units, an investor should provide a written instruction by 17:00 UK time on the last Business Day that is at least six months prior to the relevant Dealing Day to the ACS Manager at its administration centre with instructions to redeem the relevant number (if known) or value of units. Instructions received after this point will be dealt with on the next applicable Dealing Day. The units will be repurchased at the price calculated at the valuation point on the appropriate Dealing Day. Proceeds of redemption (less, if the proceeds are to be remitted abroad, the cost of such remittance) will be paid no later than the close of business on the fourth Business Day following receipt of a signed form of renunciation.

Settlements time

Subscription settlement is by 17:00 UK time at the Business Day, two full Business Days prior to the relevant Dealing Day. Redemption settlement is by 17:00 UK time at the Business Day, three full Business Days prior to the relevant Dealing Day.

Distribution dates

Distribution of income is on the 15th calendar day following the end of the relevant accounting period.

UK taxation

The ACS is transparent and is not a taxable entity for UK tax purposes. As such, it is not subject to tax in the UK on income or gains arising on underlying investments. Distributions to Unitholders in the Gross Class will not be subject to UK withholding tax, but distributions to any investors in the Net Class will be made with a tax credit for the basic rate income tax withheld from the distributions.

The following applies to Unitholders which are resident in the UK. It does not apply to Unitholders holding Units as trading assets, or subject to particular tax regimes.

Income tax: For both UK income tax and corporation tax purposes, the ACS will be treated as transparent with regard to income. Consequently, its income and expenses (i.e. net income) are treated for UK tax purposes as arising or, as the case may be, accruing to each Unitholder in proportion to the value of the Units beneficially owned by that Unitholder as if the net income had arisen or, as the case may be, accrued to that Unitholder directly.

Unitholders who are exempt from tax on income will be treated as receiving their proportionate share of the net income of the ACS in which they invest, regardless of whether the net income is distributed to them. As the income will retain its original character in the hands of Unitholders, Unitholders exempt from tax on income should be able to benefit from their proportionate share of any tax credits for UK tax withheld at source and to reclaim such amounts from HMRC.

Any Unitholders liable to tax on income will be liable on their proportionate share of the net income of the ACS, regardless of whether the net income is distributed to them. Such income will retain its original character in the hands of Unitholders, and its nature will determine whether any tax credits are available for Unitholders generally and whether Unitholders that are subject to corporation tax can benefit from the dividend exemption. The ACS Manager intends to ensure that an appropriate share of the capital allowances are available to taxpaying Unitholders. In the case of Unitholders in the Net Class, UK taxpaying Unitholders should be able to offset the tax withheld against their UK tax liability on the income.

General Information (continued)

UK taxation – continued

Unitholders will require detailed information about the income they receive from the ACS, and the ACS Manager intends to supply the necessary information to them in an appropriate form and a timely manner.

Chargeable gains: For the purposes of UK tax on chargeable gains only, the Units in the ACS will be deemed to be chargeable securities and the underlying assets not to be chargeable assets with the result that Unitholders will not be liable to tax on chargeable gains realised by the ACS. Any Unitholders liable to tax on chargeable gains will be liable on their proportionate share of such gains arising from the redemption of Units depending on their own UK tax position.

Stamp taxes: No UK SDLT, stamp duty reserve tax (SDRT) or stamp duty will be due on initial subscriptions for Units. Surrenders (i.e. the redemption or Switching) of Units are not subject to UK SDLT, SDRT or stamp duty provided the surrender does not form part of arrangements of which the main purpose, or one of the main purposes, is the avoidance of stamp tax.

SDLT or SDRT will be payable on the purchase in the market by the ACS of property in England and Northern Ireland or UK equities respectively. This will be accounted for from the ACS on behalf of Unitholders. In the event that the ACS acquires and holds property in Scotland then Scottish Land and Buildings Transaction Tax (LBTT) will be due on the purchase of units (whether by subscription or transfer). LBTT will be due on a proportionate part of market value (at the time of unit purchase) of the Scottish Property held by the ACS.

For the first contribution of property to the ACS there was a 100% 'seeding relief' from SDLT. However should any seeding investor reduce its interest in the ACS below the value for which relief was obtained at any time during a three year period following completion of the initial property contribution into the ACS, then the ACS will be subject to a proportionate withdrawal of the seeding relief. In this event the seeding investor will be required to compensate the ACS for this cost.

LBTT will also be payable on the purchase by the ACS of any Scottish property.

Similarly, Welsh Land Transaction Tax (LTT) will be payable on the purchase by the ACS of any Welsh property.

Authorisation

The ACS was authorised by the Financial Conduct Authority on 3 February 2017.

ACS Manager reports and Prospectus

Copies of the latest yearly and half yearly financial statements and copies of the Prospectus may be obtained from Royal London Unit Trust Managers Limited upon request.

Contact Us

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