Royal London UK Real Estate Fund

Interim Report

For the six month period ended 30 June 2023 (unaudited)

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)

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 interim report and financial statements covering the period from 1 January 2023 to 30 June 2023.

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 period 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)

21 August 2023

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 its 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

Since the ACS was launched, the strategy has remained consistent: assets are acquired, managed and developed with a 'best in class' philosophy to reduce risk in an economic downturn whilst using that period to position the assets to maximise the potential for active management and growth in the upturn.

Performance

Over the 6 months to 30 June 2023, the ACS delivered total returns of 0.78% (30/06/22: 11.80%) finishing ahead of the All Balanced Funds component of the MSCI/AREF UK Quarterly Property Fund Index by 62 basis point at 0.16% (30/06/22: 9.78%).

On an annualised basis over the last five years, the ACS has delivered a total return of 3.95% per annum, which compares to 2.16% per annum, a margin of 178 basis points.

Outperformance during the last 6 months has been a function of more resilient capital value movement across the portfolio. This has been assisted by relatively strong performance of the retail warehouse portfolio, the successfully leasing agreements at the Distillery, Bristol and the disposal of Trafalgar buildings, London.

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 170 basis points on an annualised basis. Since inception, the ACS is ranked first, with an annualised total return (net of fund management fees) of 4.81%.

Market review

2023 has so far been quite a difficult period to fathom, with the global economic outlook becoming more mixed as the year has progressed. There have been moments of optimism and it is fair to say that conditions have not been quite as bad as many forecasters feared. That said, there have also been strong headwinds and, of late, these challenges are threatening to blow the recovery off track. The UK has experienced persistently high rates of inflation, with the Bank of England rising rates in response, but further hikes are still anticipated. The UK has so far avoided a technical recession, but real GDP has barely grown at all since late 2021. Furthermore, the lags of monetary policy mean that a substantial chunk of the economic pain from those rate hikes has yet to be felt.

The most recent economic news has surprised on the upside though, with CPI inflation falling to 7.9% year-on-year in June, coming down faster than the 8.2% drop economists were expecting. This comes at a welcome time for the property sector, which had seen confidence erode in recent months as inflation proved more sticky than previous anticipated. Borrowing costs and swap rates rose rapidly, back up to levels last seen during Liz Truss' fleeting premiership. Expectations of higher rates for longer had seen sharp increases in current and expected short-term interest rates and had also caused long-term interest rates to increase. The 10-year gilt yield (as of 7 June 2023) had risen by over 50bps since the beginning of the year, from around 3.70% to close to 4.50%.

Against this backdrop of rising debt costs and a much tighter credit market, investors in real estate have become more cautious again and sentiment which was improving at the end of Q1 is more subdued. This is reflected in activity, with buyers pausing transactions or stepping back from the market. The latest investment deal volumes data from MSCI points towards a UK aggregate of c. £6.9bn completed during Q2, which is down by around 30% from the previous quarter and at levels not seen since the global financial crisis.

Echoing the quiet investment market, the UK commercial property performance over the last quarter was subdued. Total returns measured by the MSCI UK Monthly Index were positive at +1.0%, but capital values on average across all sectors fell by -0.4%. Notably, performance has deteriorated for three consecutive months, with total returns in the month of June flat at 0.0%. This reverses the trend seen in Q1, where we had seen five consecutive months of positive momentum. Beneath the headline figures though, there remains a variance across the sub sectors of the market. Beset by concerns around hybrid working and capex requirements to meet ESG requirements, offices have been marked down during Q2, with yields drifting out and values falling by -4.1%. In contrast, retail and industrial sectors have held up better, with both showing positive capital growth over the quarter (at +0.3% and +1.2% respectively), albeit with signs that momentum is slowing.

Occupational markets are faring slightly better though. A shortage of available space at the prime end is driving positive rental growth. There remains strong demand from tenants looking for better quality, more efficient space with greater pressure and emphasis on corporate occupiers to deliver on net zero carbon targets.

Looking ahead, a recovery in either investment volumes or capital values could be uneven, with investors currently exhibiting more appetite for residential, logistics and operational assets. We also anticipate a divergence in the fortunes of prime versus secondary quality assets across most sectors, with concerns around obsolescence and the costs of repurposing/redeveloping stranded assets likely to impair value more at the secondary end. Recent interest rate increases, and wider economic concerns have stalled the nascent recovery

Investment Adviser's Report (continued)

Market review – continued

in investor sentiment. As inflationary pressures begin to ease though, investors will be looking for the turning point and we expect confidence to return quickly and investment volumes to bounce back although not until 2024.

Portfolio review and activity

Performance for the year to date has seen an improvement in momentum, following the market weakness seen during Q4 2022. Capital values across the portfolio have fallen by -0.56% in aggregate over the last six months, which compares favourably with the benchmark level of -1.63%.

There has been considerable variance across the different market segments, with offices seeing the largest valuation falls so far this year, whereas other market sectors have been more resilient and fared better. The ACS's office portfolio has seen values decline by -3.3%, which compares favourably against the benchmark at -6.2%. Performance was boosted by strong relative returns at The Earnshaw, London and at The Distillery, Bristol as well as the sale of Trafalgar Buildings ahead of valuation.

Attribution of relative return shows that the structure/sector allocations of the ACS have been a drag on year to date performance. An underweight position to both industrials and alternatives has been detrimental. However, this has been offset by strong selection scores, with the portfolio outperforming in each of the Retail, Office and Alternative sectors.

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 has been relatively stable over the 6 months from 9.8% as at December 2022 up marginally to 9.9% as at June 2023.

Rent collection

The ACS had a collection rate to date of 99.64% (30/06/22: 92.41%) of the rent demanded for the half year ending 30 June 2023. 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 30 June 2023, the ACS held £70.74m (30/06/22: £159.13m) in cash (ex. distribution) equating to 2.17% (30/06/22: 7.20%) of the ACS's NAV. A further £300.15m (30/06/22: £151.81m) of cash is invested in Royal London cash funds for an enhanced near cash return.

There is no pending redemption as at 30 June 2023.

The ACS currently has no gearing.

Portfolio review and activity

Disposals

In March 2023, the ACS simultaneously exchanged and completed the sale of this industrial asset in Runnymede, Egham for £13.50m. The disposal aligns with the ACS's strategy to dispose of assets exposed to environmental risks that have the ability to impact on letting prospects and ultimately liquidity going forward. The property has a history of flooding.

Also in March 2023, the ACS simultaneously exchanged and completed the sale of Capitol Retail and Leisure Parks in Preston for a combined price of £51.50m. During the time that the assets were under offer, the pricing was improved, which set against our increasing concerns over the flood risk and the leisure element, especially the cinema.

In April 2023, the ACS simultaneously exchanged and completed the sale of Lidl in Guildford for £17.25m. The disposal aligns with the ACS's strategy to dispose of assets exposed to environmental risks that have the ability to impact letting prospects and ultimately liquidity going forward. The property was situated in Flood Zone 3 and experienced significant flooding risk from both river and surface water.

In May, the ACS disposed of Trafalgar Buildings in London to a hotel operator for a price of £47.50m, which was substantially ahead of market value. Trafalgar Buildings was a fully consented retained facade office redevelopment. The construction issues were significantly higher risk than a traditional office development. Located on a tight site on Trafalgar Square with underground tunnels, challenging neighbourly matters and higher construction risk as a result of the Grade II listed façade being dismantled before rebuilding, a disposal was considered the optimum strategy.

Acquisitions

The ACS did not acquire any investments in the period.

Asset management and lettings

Industrial

Unit 6 Centre Mead, Osney Mead, Oxford: The ACS is currently undertaking a significant refurbishment of several units at the estate with a contract value of c.£3m. The refurbishment includes achieving a B EPC rating having carried out a full redecoration of the internal and external elements, new double-glazed windows, new LED lighting with smart lighting technology PIR sensors and water saving fixtures and fittings in the WC's. Unit 11 was the first to PC and was relet on the same day as completion of the works. The unit was leased to Energy Store Limited who are an existing tenant on the estate at £9 psf having signed up for a 10-year term with a break.

Investment Adviser's Report (continued)

Portfolio review and activity – continued

Asset management and lettings – continued

Industrial – continued

Unit 219B, Westminster Industrial Estate, Woolwich, Greater London: The ACS has successfully completed the lease renewal of unit 219B. The unit is occupied by Delitalia Limited, an Italian food and beverage distributer. The new lease is for a term of 10 years at a rent of £143,190pa (£15psf) which reflects a 60% uplift on the previous passing rent (£89,541pa). The tenant benefits from a break option on the 5th anniversary of the term. No rent free was granted as part of the renewal. The newly agreed rent is approximately 6% ahead of the valuers ERV (£135,000pa, £14psf).

Sprowston Retail Park, Norwich and Colton Retail Park, Leeds: Further to previous reports, we can now report the successful completion of the two Costa Drive Thru developments, at Sprowston Retail Park, Norwich and Colton Retail Park, Leeds. Both buildings were handed over to Costa this quarter and the tenant has since commenced fitting out

Retail

103 Oxford Street, London: The property comprises a retail unit at ground floor and basement levels with five floors of offices above. Both elements are vacant. An Agreement for Lease has been exchanged with Rituals Cosmetics for the ground floor retail unit. A new 10 year term with a break at the end of the 5th year has been agreed at a rent of £375,000 pa. The tenant was granted an 18 month rent free period. The tenant took the building in its current condition and no landlords works were required. The lease completed subsequent to the end of the period.

Unit E1, Horsted Retail Park, Chatham: An Agreement for Lease was exchanged this quarter with JD Gyms Limited on a unit that has been vacant for a number of months. This is for a new 15-year full repairing and insuring lease, commencing on the earlier of the lease completion date or the date the tenant takes access to the premises. There is a tenant only break at the end of the 10th year. The rent is £275,000 pa (£15.00 psf). There are five yearly upwards only rent reviews based on the lower of open market rental value or 2.5% pa compounded. The first rent review increase will therefore be capped at £311,137 pa. The ACS is contributing a capital sum of £100,000 towards the fit out and the tenant will benefit from a 12 month rent free period. The unit is to be used as a gym and the tenant plans to sublet part of the space to a swimming pool.

Offices

60 Fenchurch Street, London: 60 Fenchurch Street comprises a Grade A office building of 58,000 sq ft across basement, ground and eleven upper floors located adjacent to Fenchurch Street Station in London. Following HSBC vacation of the part ground and basement floors, the ACS is undertaking a reconfiguration and refurbishment of the ground and basement floors to deliver a redesigned reception and enhanced amenity.

The new enlarged reception will provide break out and dwell space for occupiers and visitors. At basement level new cycle and shower facilities will be provided with a separate dedicated cycle entrance. The works will reposition the building and maximise occupier engagement and existing tenant retention. By undertaking the works it will drive rental values on the office floors and align the building with the wider competition. The 4th floor which is vacant is also being refurbished to include CAT plus (fully fitted with furniture). For floorplates of this size, occupier demand is high for fully fitted office space and the void period for the 4th floor is expected to reduce significantly by delivering the space fitted. Works are expected to commence in Q2.

The Distillery, Glassfields, Bristol: Distillery Bristol comprises of an office development totalling 92,000 sq ft across two buildings. Two lettings have been completed over the quarter to PA Consulting and SNC on the 1st and 2nd floors at Distillery 1 respectively. The 2nd floor was delivered fully fitted and the tenant required yearly break options and a higher headline rent of £60 per sq ft (psf) was achieved to reflect these benefits. PA Consulting took a lease of the 1st floor at a rent of £40 psf for a term of five years with a tenant break at the 3rd year. Additionally, the 5th floor in Distillery 1 is under offer to Ramboll at a rent of £41.50 psf for a five year term. This takes the Distillery to 84% let or under offer.

86 Jermyn Street, St James's, London: 86 Jermyn Street is a Grade A mixed use office building located in the prime area of St James's, in London's West End. The ACS has delivered high quality fit outs of the three vacant office suites, two of which are now let. Rithm Capital has taken the 3rd floor suite, paying a rent of £107.50 psf (£367,005 pa), and Guggenheim have taken the 2nd floor smaller suite at £99.67 psf. These lettings created an upside of £1,775,00 in the June valuation and secure income to the redevelopment Block Date of April 2027. We are in serious negotiations on the final remaining suite.

Investment Adviser's Report (continued)

Responsible Property Investment (RPI)

For the year to date 30 June 2023, the ACS's commitment to achieving our net zero carbon targets within the designated timeframe remained a top priority, as we strived to improve the operational performance of our assets and identify necessary interventions to achieve our targets. Significant progress continues to be made in gathering utility consumption data from occupiers across all assets, particularly across our single-let units where data is more challenging to receive. Understanding the ACS's operational performance data is critical to tracking progress towards our net zero carbon commitments.

To gather our occupier utility consumption data, we have been implementing various initiatives. We have been targeting our largest single-let units to install utility loggers which only require written agreements from the occupiers making it a relatively simple process. As part of this, we have engaged with occupiers across the ACS to educate them on our net zero carbon commitments and explained what data we are collecting and what we are using it for, as well as how they can benefit from the information, we collate from the utility loggers.

Secondly, the installation of Automatic Meter Reading (AMR) devices is of increased focus, particularly across our managed assets within the ACS, providing us with automated utility consumption data. Across our single-let assets, a signed Letter of Authority (LOA) from an occupier is required. Therefore, we have been proactive in identifying any void units where we can install an AMR device, along with looking to engage with our top retailers in signing a LOA to allow the installation of an AMR device to facilitate automatic data sharing.

Finally, the ACS has engaged with Arbnco who have access to the national energy database, allowing us to obtain anonymous aggregated energy data at a building-level. We have selected over 100 units to source utility consumption data through Arbnco.

We are pleased to report that we have successfully collected data across approximately 51% of our units by floor area within the ACS thus far and are actively expanding these initiatives to cover additional assets. This ongoing effort will further strengthen our understanding of consumption patterns and enable us to implement targeted strategies for reducing emissions.

Furthermore, by leveraging this comprehensive data collection approach, we are gaining a clearer picture of the environmental impact of the Fund, allowing us to identify areas of improvement and prioritise interventions that align with our net zero carbon targets.

Economic overview

Business surveys suggest that Q2 2023 was a period of positive global activity growth, but with some softening by the end of the quarter. The June 2023 Global PMI composite business survey measure dropped to 52.7 from 54.4, the lowest since February. The PMI indicators remained particularly weak for manufacturers, who continued to reduce inventories. Economists remained concerned that tighter monetary policy could lead to further slowing in global growth; central banks raised interest rates again in Q2. Following the collapse of SVB, data releases in Q2 confirmed some tightening of bank lending conditions in the US. Headline inflation also fell significantly in some major economies over the quarter, coming in softer than expected in the US and Euro area for June.

Inflation has remained at extremely high levels across many developed economies throughout Q2 but at headline level generally fell. As of the June 2023 data, US headline year-on-year CPI inflation had fallen to 3.0% (y-o-y) from a peak of 9.1% from a year earlier. In the UK, headline CPI fell to 7.9% year-on year in June, down from 8.7%.

Central banks continued to hike rates. Q2 saw 25bp of interest rate hikes in the US. At the June meeting, US central bank policymaker forecasts suggested that they are not done yet and their forecasts were consistent with a couple more 25bp rate hikes in 2023. The ECB raised rates 50bp over the same period. At the June meeting, the ECB signalled a further hike in July against a backdrop of sticky inflation and with the staff CPI forecasts revised up. The Bank of England hiked rates another 75bp over Q2 to 5.00% (including a larger than expected increase of 50bp in June in response to concerns about inflation).

Unemployment rates remained at exceptionally low levels in the US, UK, and Euro area. However, there were some further signs of marginally less tightness. Unemployment rates rose a touch over the quarter in the US and UK. In the UK, job vacancies continued to fall (albeit from still remarkably high levels) and there was a further fall in inactivity.

Meanwhile the economic growth remains relatively static. After rising 0.1% (q-o-q) in Q1 2023 again, UK real GDP rose 0.2% (m-o-m) in April but fell 0.1% (m-o-m) in May (when the UK also had an additional bank holiday). Overall, the UK economy has grown little since late 2021. GDP as of May was only 0.2% above pre-pandemic levels. Although weakening over the quarter, the PMI composite business survey measure was consistent with increasing private sector output in June – recording 52.8 by June.

Investment Adviser's Report (continued)

Economic overview

UK recession remains a concern, where the UK economy faces several challenges. Inflation remains very high; strike action impacted some areas of the economy and mortgage rates were still significantly higher than pre-pandemic levels and continued to rise over the quarter. According to Bloomberg consensus figures UK forecasters no longer expect a central case recession in 2023 (or 2024).

Stephanie Hacking
Portfolio Fund Manager
Royal London Asset Management Limited
26 July 2023

Stephanie Hacking replaced Drew Watkins as Portfolio Fund Manager in July 2023.

This report covers investment performance, activity and outlook. The ACS' Annual Assessment of Value report is available on www.rlam.com. Portfolio holdings are subject to change, for information only and are not investment recommendations.

The Task Force on Climate-related Financial Disclosures Report for Property Funds can be found on our website, at https://www.rlam.com/uk/institutional-investors/our-capabilities/property/responsible-property-investment/. This report has been prepared in accordance with the recommendations of the TCFD, which aims to help the investment community build a more in-depth and consistent picture of the impact of climate change.

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 30 June 2023

Investments	Holding	Tenure	Sector	30 June 2023 Market value (£'000)	Total net assets (%)
Direct Properties					
Direct Properties Market Values up to £25m – 14.05% (31/12/22 – 16.19%)					
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		
Gatwick – 2 City Place		Freehold	Offices		
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		
Redhill – Gatton Park Business Centre		Freehold	Industrial		
Southall – 169 Brent Road		Freehold	Industrial		
Southall – Bulls Bridge Trading Estate		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				**457,820**	**14.05**
Direct Properties Market Values between £25m and £50m – 14.00% (31/12/22 – 17.73%)					
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		
Norwich – Sprowston Retail Park		Freehold	Retail		
Southall – Brent Park Industrial Estate		Freehold	Industrial		
Total Direct Properties Market Values between £25m and £50m				**456,400**	**14.00**
Direct Properties Market Values between £50m and £100m – 30.96% (31/12/22 – 29.21%)					
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		
Watford – Century Retail Park		Freehold	Retail Warehouse		
Total Direct Properties Market Values between £50m and £100m				**1,009,200**	**30.96**

Portfolio Statement (continued)

As at 30 June 2023

Investments	Holding	Tenure	Sector	30 June 2023 Market value (£'000)	Total net assets (%)
Direct Properties Market Values greater than £100m – 28.39% (31/12/22 – 27.06%)					
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				**925,475**	**28.39**
Collective Investment Schemes – 11.51% (31/12/22 – 6.79%)					
Industrial Property Investment Fund	47,845		Collectives	74,965	2.30
Royal London Short Term Fixed Income E Fund	95,045,740		Collectives	99,709	3.06
Royal London Short Term Fixed Income Fund	48,791,865		Collectives	51,621	1.58
Royal London Short Term Money Market Fund	141,820,583		Collectives	148,816	4.57
Total Collective Investment Schemes				**375,111**	**11.51**
Portfolio of investments				**3,224,006**	**98.91**
Adjustments to Fair Value**				**(26,175)**	**(0.80)**
Net other assets				**61,460**	**1.89**
Total net assets				**3,259,291**	**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 six month period ended 30 June 2023

Significant Purchases

	Cost £'000
Royal London Short Term Money Market Fund	146,822
Royal London Short Term Fixed Income E Fund	100,000
Royal London Short Term Fixed Income Fund	850
Total purchases for the period	**247,672**

Significant Sales

	Net proceeds £'000
Royal London Short Term Money Market Fund	100,000
London – Trafalgar Buildings 1-6 Northumberland Avenue/ Whitehall WC2N 5BW	47,500
Preston – Capitol Retail Park, London Road, Walton le Dale PR5 4AW	27,949
Preston – Capitol Leisure Park, London Road, Walton le Dale PR5 4AW	23,551
Guildford – Woodbridge Road GU1 1EF	17,250
Egham – Runnymede Centre, The Avenue TW20 2AB	13,500
Total proceeds from sales for the period	**229,750**

Significant Capital Expenditure

	Cost £'000
London WC1 – The Earnshaw, New Oxford Street, London	18,883
London EC1 – 14-21 Holborn Viaduct	14,955
Hayes – Pasadena Close	2,079
Leeds – Phase 1 and 2 Manston Industrial Estate	940
Leeds – Colton Retail Park	870
Chelmsford – 5 Springfield Business Park Phase 2	856
Subtotal	**38,583**
Total capital expenditure for the period	**44,832**

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

Significant Valuation Movements

	Valuation Changes £'000
London WC1 – The Earnshaw, New Oxford Street, London	24,400
London SE1 – Land at Six Bridges Trading Estate	5,675
London EC3 – 62-63 Fenchurch Street	(8,050)
London EC4 – 1-3 St Pauls Churchyard	(8,950)
London W1 – Kingsley House	(12,700)

Comparative Tables

Class W Gross Income

Change in net assets per unit	30/06/23 (£)	31/12/22 (£)	31/12/21 (£)	31/12/20 (£)
Opening net asset value per unit	111.14	119.98	102.48	105.67
Return before operating charges*	1.53	(6.28)	21.71	1.26
Operating charges**	(0.28)	(0.63)	(0.16)	(0.77)
Return after operating charges*	1.25	(6.91)	21.55	0.49
Distribution on income units	(1.80)	(1.93)	(4.05)	(3.68)
Closing net asset value per unit	110.59	111.14	119.98	102.48
* after direct transaction costs of:	0.02	0.03	0.03	0.10
Performance				
Return after charges	1.12%	(5.76)%	21.03%	0.46%
Other information				
Closing net asset value (£'000)	3,047,588	3,062,888	3,306,449	2,824,172
Closing number of units	27,558,517	27,558,517	27,558,517	27,558,517
Operating charges excluding property expenses	0.01%	0.01%	0.01%	0.02%
Property expenses	0.49%	0.50%	0.14%	0.74%
Operating charges	0.50%	0.51%	0.15%	0.76%
Direct transaction costs	0.02%	0.03%	0.03%	0.10%
Prices				
Highest unit price	114.16	136.59	123.58	106.92
Lowest unit price	108.93	109.47	101.89	99.13

Class V Gross Income

Change in net assets per unit	30/06/23 (£)	31/12/22** (£)
Opening net asset value per unit	111.14	132.84
Return before operating charges*	1.53	(20.21)
Operating charges	(0.28)	(0.54)
Return after operating charges*	1.25	(20.75)
Distribution on income units	(1.80)	(0.95)
Closing net asset value per unit	110.59	111.14
* after direct transaction costs of:	0.02	0.03
Performance		
Return after charges	1.12%	(15.62)%
Other information		
Closing net asset value (£'000)	154,003	154,776
Closing number of units	1,392,603	1,392,603
Operating charges excluding property expenses	0.01%	0.01%
Property expenses	0.49%	0.42%
Operating charges	0.50%	0.43%
Direct transaction costs	0.02%	0.03%
Prices		
Highest unit price	114.16	136.59
Lowest unit price	108.93	109.47

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

Comparative Tables (continued)

Class Z Gross Income

Change in net assets per unit	30/06/23 (£)	31/12/22 (£)	31/12/21 (£)	31/12/20 (£)
Opening net asset value per unit	111.14	119.98	102.48	105.67
Return before operating charges*	1.53	(5.82)	21.71	1.26
Operating charges	(0.66)	(1.52)	(0.90)	(1.49)
Return after operating charges*	0.87	(7.34)	20.81	(0.23)
Distribution on income units	(1.42)	(1.50)	(3.31)	(2.96)
Closing net asset value per unit	110.59	111.14	119.98	102.48
* after direct transaction costs of:	0.02	0.03	0.03	0.10
Performance				
Return after charges	0.78%	(6.12)%	20.31%	(0.22)%
Other information				
Closing net asset value (£'000)	57,700	57,990	62,601	53,470
Closing number of units	521,767	521,767	521,767	521,767
Operating charges excluding property expenses	0.71%	0.73%	0.71%	0.72%
Property expenses	0.49%	0.50%	0.14%	0.74%
Operating charges	1.20%	1.23%	0.85%	1.46%
Direct transaction costs	0.02%	0.03%	0.03%	0.10%
Prices				
Highest unit price	114.16	136.59	123.58	106.92
Lowest unit price	108.93	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.

Financial Statements

Statement of Total Return

For the six month period ended 30 June 2023

	£'000	30 Jun 2023 £'000	£'000	30 Jun 2022 £'000
Income				
Net capital (losses)/ gains		(16,276)		354,605
Revenue	68,684		66,426	
Expenses	(15,827)		(11,215)	
Interest payable and similar charges	(1)		–	
Net revenue before taxation	52,856		55,211	
Taxation	–		–	
Net revenue after taxation		52,856		55,211
Total return before distributions		36,580		409,816
Distributions		(52,943)		(55,330)
Change in net assets attributable to unitholders from investment activities		**(16,363)**		**354,486**

Statement of Change in Net Assets Attributable to Unitholders

For the six month period ended 30 June 2023

	£'000	30 Jun 2023 £'000	£'000	30 Jun 2022 £'000
Opening net assets attributable to unitholders		**3,275,654**		**3,369,050**
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		(16,363)		354,486
Closing net assets attributable to unitholders		**3,259,291**		**3,908,536**

Balance Sheet

As at 30 June 2023

	30 Jun 2023 £'000	31 Dec 2022 £'000
Assets		
Fixed assets:		
Tangible assets		
Investment property	2,456,670	2,591,461
Property under construction	366,050	336,400
Investments	375,111	222,430
Total fixed assets	3,197,831	3,150,291
Current assets:		
Debtors	59,336	72,262
Cash and bank balances	70,740	122,883
Total current assets	130,076	195,145
Total assets	3,327,907	3,345,436
Liabilities		
Creditors:		
Other creditors	39,668	44,266
Finance lease payable	1,156	1,156
Distribution payable	27,792	24,360
Total liabilities	68,616	69,782
Net assets attributable to unitholders	**3,259,291**	**3,275,654**

Financial Statements (continued)

Statement of Cash Flows

For the six month period ended 30 June 2023

	30 Jun 2023 £'000	30 Jun 2022 £'000
Net cash inflow from operating activities	**58,917**	**54,910**
Distribution paid to unitholders	(49,511)	(57,043)
Interest received	2,267	475
Interest paid	–	–
Net cash used in operating activities	**11,673**	**(1,658)**
Cash flows from investing activities		
Payments to acquire investments and capital expenditure	(292,504)	(181,887)
Receipts from sale of investments	228,688	59,350
Net cash outflow from investing activities	**(63,816)**	**(122,537)**
Net cash outflow before financing activities	**(52,143)**	**(124,195)**
Cash flows from financing activities		
Amounts received from creation of units	–	185,000
Net cash inflow from financing activities	**–**	**185,000**
Net (decrease)/increase in cash during the period	**(52,143)**	**60,805**
Cash balance brought forward	122,883	98,329
Cash and bank balances at the end of the period	**70,740**	**159,134**

Notes to the Financial Statements

For the six month period ended 30 June 2023

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 periods/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 United Kingdom Generally Accepted Accounting Practice, 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 under land and buildings 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 six month period ended 30 June 2023

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 and 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 period 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 period 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.

Notes to the Financial Statements (continued)

For the six month period ended 30 June 2023

1. Significant accounting policies – continued

Expenses recognition – continued

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 period end.

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

Distribution to unitholders

Dividends and other distributions to ACS's unitholders are recognised as a liability in the financial statements in the period 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 sub-fund 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 86.61% (31/12/22: 89.38%). 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 4.96% (31/12/22: 4.94%). If the yield of every property within the portfolio increased by 0.25% (31/12/22: 0.25%) it is estimated that the net asset would fall by 4.27% (31/12/22: 4.44%). If the yield decreased by 0.25% (31/12/22: 0.25%) it is estimated that the net asset value would rise by 4.77% (31/12/22: 4.96%). 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 period 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	4.88%	0.25%	52,224,000	1.60%	(47,006,000)	(1.44)%
Offices	5.23%	0.25%	49,279,000	1.51%	(44,249,000)	(1.36)%
Retail	4.73%	0.25%	46,219,000	1.42%	(41,065,000)	(1.26)%
Other	5.07%	0.25%	7,625,000	0.23%	(6,904,000)	(0.21)%

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 period.

Notes to the Financial Statements (continued)

For the six month period ended 30 June 2023

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 unit 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;
- Cash, liquid resources and short-term debtors and creditors that arise directly from the ACS's operations; and
- Short term borrowings used to finance investments activity.

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 86.61% (31/12/22: 89.38%), 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 risk is minimised through holding a geographically diversified portfolio that invests across various property sectors.

The ACS Manager may make use of Efficient 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.

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

Notes to the Financial Statements (continued)

For the six month period ended 30 June 2023

4. Risk management policies – continued

Liquidity risk – continued

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
30 June 2023	**£000**	**£000**	**£000**
Cash at bank	70,740	–	–
	%	%	%
Unitholding that can be redeemed	–	100.00	–
Portfolio capable of being liquidated	11.26	78.42	10.32
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

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
30 June 2023	**£000**	**£000**	**£000**
Distribution payable	27,792	–	–
Finance lease payable	98	394	7,677
Other creditors	39,668	–	–
	67,558	**394**	**7,677**
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**

Credit and counterparty risk

Credit risk is the risk that counterparty will default on its 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 to 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.

Notes to the Financial Statements (continued)

For the six month period ended 30 June 2023

4. Risk management policies – continued

Credit and counterparty risk – continued

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 adheres to regulatory and fund management guidance and investment strategy 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 30 June 2023 amounted to £70.74m (31/12/22: £122.88m). Deposits and interest rate deposits were placed with financial institutions with BBB+ or better credit ratings.

At 30 June 2023, taking into consideration any offset arrangements, the largest combines credit exposure to a single counterparty arising from money market deposits, liquid investments and derivatives was £70.74m (31/12/22: £122.88m). This represents 2.17% (31/12/22: 3.75%) 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 £70.74m (31/12/22: £122.88m) 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/shareholders. 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 allow 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.

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 and has determined that inflation risk is 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 and as such no disclosure is required under the AIFM Directive.

Notes to the Financial Statements (continued)

For the six month period ended 30 June 2023

4. Risk management policies – continued

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 political 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.

Distribution Tables

For the six month period ended 30 June 2023

Class W Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2023	Total distribution per unit 2022
March				
Group 1	85.6731		85.6731	98.2051
Group 2	85.6731	–	85.6731	98.2051
June				
Group 1	94.6408		94.6408	94.9339
Group 2	94.6408	–	94.6408	94.9339

Class V Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2023	Total distribution per unit 2022
March				
Group 1	85.6731		85.6731	–
Group 2	85.6731	–	85.6731	–
June				
Group 1	94.6408		94.6408	94.9339
Group 2	94.6408	–	94.6408	94.9339

Class Z Gross Income

Distribution in pence per unit

Distribution period	Distribution per unit	Equalisation	Total distribution per unit 2023	Total distribution per unit 2022
March				
Group 1	66.4898		66.4898	77.4963
Group 2	66.4898	–	66.4898	77.4963
June				
Group 1	75.2980		75.2980	72.4250
Group 2	75.2980	–	75.2980	72.4250

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%

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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