ROYAL LONDON

ANNUAL REPORT

Royal London UK Real Estate Fund
Annual Report for the year ended 31 December 2019

ASSET MANAGEMENT

FUND INFORMATION

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* The ACS Manager's report comprises these items.
\+ The Investment Adviser's Report includes a note on the Value Assessment.

Fund

Royal London UK Real Estate Fund

Registered office:
55 Gracechurch Street, London EC3V 0RL

Authorised Contractual Scheme Manager (the "ACS Manager")

The ACS Manager is Royal London Unit Trust Managers Limited

Place of business and Registered office:
55 Gracechurch Street, London EC3V 0RL

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

T: 020 3272 5000 F: 020 7506 6501

Directors of the ACS Manager

Directors: A.S. Carter, R.A.D. Williams, A. Hunt, R. Kumar, S. Spiller,
C.R. Read, J. Brett* (appointed 12 September 2019),
N. O'Mahony* (appointed 13 November 2019)

* Non-executive Director

Investment Adviser

Royal London Asset Management Limited

Place of business and Registered office:
55 Gracechurch Street, London EC3V 0RL

Authorised and regulated by the Financial Conduct Authority.

Depositary of the ACS

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.

The Administrator of the ACS

HSBC Bank plc
8 Canada Square, Canary Wharf, London E14 5HQ

Authorised and regulated by the Financial Conduct Authority.

Standing Independent Valuers

Cushman & Wakefield LLP
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
Atria One, 144 Morrison Street, Edinburgh EH3 8EX

REPORT OF THE ACS MANAGER

About the Fund

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 Fund.

Authorised Status

The ACS is 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 Fund.

The Financial Statements

We are pleased to present the annual report and financial statements for the year ending 31 December 2019.

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.

Changes to the Prospectus

There were several changes to the Prospectus of the ACS on 24 April 2019. The most significant was a note added to Appendix 1 in respect of the Annual Management Charge: 'The ACS Manager may alter or reduce to zero the Annual Management Charge on any existing or new unit class where that class is wholly owned for the benefit of Royal London Mutual Insurance Society Limited, one of its group companies or another such connected party, on request and at its discretion.' This addition was as a precursor to a potential change or movement away from a rebate model for Royal London Group mandates. The updated Prospectus was filed with and approved by the FCA.

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

(Director)

(Director)

6 May 2020

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);
- follow generally accepted accounting principles and applicable accounting standards;
- 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 accounts 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 AREF/MSCI UK Quarterly Property Fund Index. This index measures quarterly total returns on a net asset value basis.

Strategy

The main strategy of the ACS is to invest primarily in UK real estate across all major property sectors in a balanced portfolio. The portfolio will be significantly weighted toward London and the South East of England as a key driver to long-term returns, whilst also reducing the potential downside in a weak market. Diversification will also be provided by investing in key cities and locations across the UK to balance the risk profile of the portfolio and increase the running yield. Attention will be focused on securing prime properties in these strategic locations, to maintain exposure to assets with limited downside risk, plus strong asset management and development potential in a recovering market. The long-term investment philosophy of the ACS requires strategic planning and preparation of asset management opportunities through market cycles, thereby positioning them for exploitation as and when market conditions are favourable. New acquisitions will be sought where they add synergies to existing holdings.

As well as investing directly, the ACS's may invest in indirect UK property through collective investment schemes, REITs, other transferable securities and derivatives. The ACS may also invest in cash, money market instruments and collective investment schemes for cash management purposes and may also use derivatives for the purposes of Efficient Portfolio Management.

Performance

For the year ended 31 December 2019, the ACS generated a net return of 2.23%, compared to its benchmark, the All Balanced Funds component of the AREF/MSCI UK Quarterly Property Fund Index which showed a return for the same period of 1.59%.

The ACS's rate of capital growth over the 12 months period was negative, albeit more resilient than the benchmark. However, the ACS's property level income return on a like-for-like basis was actually lower than the benchmark.

This reflects the ACS's prime nature, with London assets tending to be lower yielding than the national average. However, the ACS has a relatively higher exposure to assets undergoing developments, which were therefore not income producing during the year.

Following its launch in October 2017, the ACS has seen very strong investment performance, in both absolute terms and in comparison to its benchmark. Since inception, the ACS has outperformed its benchmark by 264 basis points (14.16% v. 11.52%).

Market review

As the ACS enters a new decade, it is worth looking back over the last ten years in order to assess the current health of the UK commercial property market. In December 2010, average equivalent yields across all sectors, as measured by the MSCI UK Monthly Index stood at 7.4%. Today they are considerably lower at 6.0%, albeit up from 5.8% twelve months prior. Over the last ten years UK commercial property has on average delivered ungeared total returns of 9.5% per annum, comprised of income return providing 6.2%, along with capital growth of 3.2%. In isolation, these figures point towards a period of strong and sustained growth. The hunt for income has seen real estate become sought after as an asset class and the UK has benefitted from its safe haven status. This has led to strong demand for UK property from overseas investors. Since the EU referendum in 2016 though, debate around Brexit has dominated headlines. Market sentiment has been clouded by uncertainty and investment performance has moderated. In 2019, capital growth was negative, a combination of heightened political tension and also retail sector weakness.

Despite a cooling of momentum in 2019, industrial assets remained the best performing sector of the UK commercial property market. Industrial rental growth at the start of the year was running on average at +4.0% per annum, as reported by the MSCI UK Monthly Index. By November, this rate had fallen to +3.3%, its lowest level since February 2015. However, this rate of growth is still comfortably above the ten year industrial average of 2.0% and also is favourable when compared to the All Sector average which has been stubbornly flat all year, albeit skewed by falls in the retail sector.

Following a prolonged period of strong growth, rents in many parts of the country appear expensive by historical standards, and being cautious one could assume that they are approaching a ceiling. There are still grounds for optimism though.

The Greater London industrial market continues to experience a severe lack of supply. Significant volumes of stock have been removed from the capital due to demand for higher value land uses. Data by Montagu Evans estimates that London's industrial stock has reduced in size by approximately 10% in the last 10 years. Demand for last mile logistic locations continues, this coupled with a shortage of development activity could support further rental growth.

One area where development activity has seen a notable increase is in the larger logistics/distribution warehouse segment. Availability of space has risen, but take-up has been high which has prevented a surge in vacancy rates.

Looking at the retail sector, 2019 has been another difficult year for UK high street operators and recent headlines have done little to lift the mood. The British Retail Consortium (BRC) said total sales fell 0.1%, marking the first annual sales decline since 1995. Footfall dropped 2.5% in December, according to the latest figures from Springboard's footfall monitor and insights. The data provider notes though, that was in part due to Black Friday and Cyber Monday bringing Christmas trading forward. Nonetheless, positive trading reports and surprises on the upside have been in short supply of late. Some brands have done better than others, for example Greggs, Boohoo and Aldi have all reported very strong results.

UK consumers are now spending one in every £5 online and most analysts believe that the online share of the total will continue to grow. Further advances in technology will propel further change in consumer behaviour, particularly in attitudes and expectations. 2020 could be another challenging year. However, change in the retail sector is not a new phenomenon. It is a dynamic sector by its nature, one that requires business models to continually adapt.

The office occupational market exceeded expectations in 2019, driven by strong demand for new, high quality space and is proving resilient in the face of political uncertainty. Tenants are increasingly putting more emphasis on modern office accommodation with a high level of amenity space, the intensification of tech use, and on flexibility, all of which fuelled the continued growth of the serviced office providers.

The ways in which occupancy can be measured and the utilisation of space are changing at pace. Multi-purpose, reconfigurable spaces are in vogue. In a competitive labour market, employers recognise that workspace is becoming increasingly important in recruiting and retaining top talent. Environmental, social and governance (ESG) factors feed into this and are being used to differentiate and promote brands. These issues will increasingly influence decision making.

Portfolio review

As at 31 December 2019, the ACS had a net asset value of £2.97bn. The ACS held 91 direct properties including developments which were valued at £2.81bn and accounted for 95.21% of the portfolio value. The ACS also held 5.16% of its assets in collective investment schemes made up of indirect property and cash fund investments.

The geographical focus of the ACS remains overwhelmingly biased towards properties in strategic locations in London and South East to maintain exposure to assets with limited downside risk. These include 85% of the ACS's standard retail located in prime Central London. The ACS also invests in Central London Offices and Industrials.

As at 31 December 2019, the ACS's top 10 tenants included well-known corporate names such as Marks & Spencer, Dixons Carphone Warehouse and J Sainsbury PLC.

INVESTMENT ADVISER'S REPORT (CONTINUED)

Portfolio activities

Investments

There were three main property transactions during the year. The ACS completed the acquisition of Sita House, Maidenhead for £12.75m, complementing an existing ownership. The ACS completed the sale of 410 Thames Valley Park, Reading to Reading Borough Council on 2 April for around £33.2m. The asset had been recently refurbished and was fully let to pharmaceutical company Sanofi on a 10 year lease. This represented an increase of about £4.9m above its December 2018 valuation. In addition, the ACS completed the acquisition of the part freehold interest of 1-3 Uxbridge Road, Hayes for a price of £2.15m. The ACS previously held the multi-let industrial estate part freehold and part long leasehold. This acquisition means the ACS will own an unencumbered freehold interest of the whole estate.

The ACS has also invested £92.70m into The Royal London Cash Plus Fund and The Royal London Short Term Money Market Fund for an enhanced near cash return.

Developments

During the year there have been numerous development activities looking to enhance value from our portfolio. The ACS commenced the internal demolition of Castlewood House in London, beginning with the £134m redevelopment of the prime office and retail/restaurant project. The property is now vacant and the strip out of all fixtures and fittings has been completed and demolition is under way. The completed development will provide approximately 140,000 sq. ft. of office accommodation and 20,000 sq. ft. of retail. The building is due to reach practical completion in Q2 2022.

The ACS also continued construction works at The Distillery in Bristol; 92,000 square feet of Grade A office accommodation. Discussions are ongoing with a number of potential occupiers, ranging from interest in single floors to the whole of buildings A & B. The ACS is confident of pre-letting space prior to practical completion which is currently scheduled for August 2020.

Construction works continue on the pre-let of a 200 bed hotel with the concrete frame completed and external façade works commenced. Practical completion is due in Q4 2020 as planned.

Asset management and lettings

One important element of the ACS's strategy during year was to concentrate on keeping the portfolio void rate low – this ended the year at 4.8%. Lettings at Jermyn Street, Chelmsford and Kingston-upon-Thames have contributed to this. On Jermyn Street the ACS completed the leases of 1st floor West and 1st floor South on new five-year leases. Pleasingly, the ACS has also agreed to buy the freehold which the ACS believes will have a positive impact on the long-term investment prospects for this holding and align with the long term strategy for this property. Chelmsford relates primarily to a distribution facility which should be complete in spring 2020, where the ACS has already agreed a 25-year lease with DPD, while other units on the same site have also been successfully let in the second half of 2019.

Investment outlook

Sentiment in the real estate sector is contingent on many factors, but the underlying health of the economy plays a fundamental role.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets with travel restrictions implemented by many countries and commercial tenants have had to temporarily close operations. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. Faced with an unprecedented set of circumstances on which to base their judgments the Cushman and Wakefield and CBRE have therefore reported the valuation of the ACS's property assets as at 31 March 2020 on the basis of 'material valuation uncertainty' and recommended that the valuation of the ACS's property assets should be under frequent review.

Prior to this crisis, values of retail properties were already in decline, with the other main market sectors stable or rising, off the back of the December General Election result. However, across most sectors we now expect to see an increase in property yields and for asset valuations to fall, as a combination of investor uncertainty and near term occupier stress take hold.

We are no longer proceeding with a number of investment transactions and expect others to take stock and pause, whilst the ramifications of this global crisis become clearer.

Investment volumes will therefore be suppressed. There are signs that some private equity funds are still active and seeking opportunities, particularly in the industrial sector. Recent deals saw transactions completed last week achieve, and even exceed, asking prices. This demonstrates the view that despite current uncertainty, key industrial locations could benefit from the growth in online and last mile logistics. However, we expect these types of deal to be in fairly short supply.

As social distancing intensifies following the government's soft lockdown approach, the effects are already beginning to appear in economic indicators. One recent example, particularly pertinent to the property sector, saw this week's statistics indicating that certain London retail destinations have seen a 90% decline in footfall year-on-year. This is inevitable under the circumstances, but the effects are only beginning to emerge.

We are seeing a significant number of requests for a quarter's rent concession from retail and leisure tenants. These range from requests to pay monthly rather than quarterly, to occupiers seeking a rent free period. This has now spilled out to other sectors, with industrial based tenants requesting similar concessions, particularly those supplying restaurants and high street stores. Hotel operators are another area of concern. Without doubt, some operators won't survive and we've received multiple requests for landlord concessions and assistance. This situation will separate those well-run companies with robust balance sheets from the rest, a matter requiring considerable oversight over the coming weeks/months. To date the financial impact of these rent holidays is £6.38m. As at the 27 March, 63% of rents for the quarter 25 March 2020 – 23 June 2020 had been collected.

We have been proactive in engaging with our tenants and are trying to take into account the individual circumstances of each occupier. We are keeping in close contact with our managing agents and other landlords to gauge the stance others are taking, and understand themes as they emerge. We expect things to evolve quickly unless the government agrees to step in and underpin rents for affected occupiers.

These risks to near term income alongside weak investor sentiment, will lead to a sudden re-pricing of UK real estate. It is difficult to judge how far values will fall off the back of limited investor demand, and occupier pressures, combined with record low market sentiment; but it could be dramatic, in both quantum and speed. We would hope that in the short term, rents recover and yield increases reverse, as confidence returns and people revisit shops and leisure destinations – potentially just as dramatically on the upside.

Drew Watkins
Fund Manager
7 April 2020
Royal London Asset Management

This report covers investment performance, activity and outlook. For a wider look at the ACS, our Annual Value Assessment report will be completed to 31 March 2020 and published on https://www.royallondon.com/existing-customers/your-products/manage-your-isa-or-unit-trust/rlum-isa-overview/ from July 2020.

The views expressed are the author's own and do not constitute investment advice and are not an indication of future ACS performance. Portfolio holdings are subject to change, for information only and are not investment recommendations.

Source: RLAM, unless otherwise stated.

PORTFOLIO STATEMENT
AS AT 31 DECEMBER 2019

Investments	Holding	Tenure	Sector	31 December 2019 Market value (£'000)	Total net assets (%)
Direct Properties					
Direct Properties Market Values up to £25m – 22.23% (31/12/18 – 23.65%)					
Bedfont – Cargo 30		Freehold	Industrial		
Brighton – 1-8 Regent Hill and 188/191 Western Road		Freehold	Retail		
Cambridge – 30/31 Petty Cury		Freehold	Retail		
Chelmsford – 5 Springfield Business Park		Freehold	Industrial		
Chelmsford – 5 Springfield Business Park Phase 1 and 2		Freehold	Industrial		
Chelmsford – 5 Springfield Business Park Phase 3		Freehold	Industrial		
Chelmsford – Land at Springfield Business Park*		Freehold	Industrial		
Chester – 22/24 Eastgate Street and 30 Eastgate Row		Freehold	Retail		
Chichester – 9,10,11 East Street		Freehold	Retail		
Daventry – Distribution Centre		Freehold	Industrial		
Egham – Runnymede Centre		Freehold	Industrial		
Erdington – B&Q		Freehold	Retail		
Gatwick – 2 City Place		Freehold	Offices		
Guildford – 145-147 High Street		Freehold	Retail		
Guildford – Woodbridge Road		Freehold	Retail Warehouse		
Hayes – Pasadena Close		Freehold	Industrial		
Hedge End – Royal London Park		Freehold	Industrial		
Hemel – Robert Dyas		Freehold	Industrial		
Kingston-upon-Thames – 6/8a Church Street		Freehold	Retail		
Kingston-upon-Thames – 83/83a Clarence Street		Freehold	Retail		
Leeds – Phase 1 and 2 Manston Industrial Estate		Leasehold	Industrial		
Leeds – Queens Arcade		Freehold	Retail		
Leeds – Stourton Link Haigh Park Road		Freehold	Industrial		
Leicester – GP2002 Unit Grove Park		Freehold	Industrial		
London EC4 – 32/33a Farringdon Street		Freehold	Offices		
London NW10 – 1-11 Cumberland Avenue		Freehold	Industrial		
London SW3 – 124 Kings Road		Freehold	Retail		
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		
Manchester – Davenport Green		Freehold	Other Commercial		
Manchester – H&M – Kings Court		Leasehold	Retail		
Newcastle – Central Exchange Buildings		Freehold	Retail		
Newcastle – 102 Grey Street		Freehold	Retail		
Northampton – Units 1-5 Brackmills Industrial Estate		Freehold	Industrial		
Oxford – 43/44 Queen Street		Freehold	Retail		
Oxford – Centremead / Ferry Mills		Freehold	Industrial		
Redhill – Gatton Park Business Centre		Freehold	Industrial		
Richmond Upon Thames – 9-10 George Street		Freehold	Retail		
Southall – 169 Brent Road		Freehold	Industrial		
Southall – Brent Park Industrial Estate		Freehold	Industrial		
Southall – Bulls Bridge Trading Estate		Freehold	Industrial		
Southall – Units 3-6 Boeing Way		Freehold	Industrial		
Southampton – Southampton Mail Centre		Freehold	Industrial		
Staffordshire – Tamworth Audi Garage		Freehold	Other Commercial		
Tamworth – Cardinal Point Retail Park		Freehold	Retail Warehouse		
Tamworth – Plot 1 – Mini Car Showroom		Freehold	Other Commercial		
Tamworth – Plot 4 – BMW Car Showroom		Freehold	Other Commercial		
Tamworth – Unit 1, Cardinal Point		Freehold	Industrial		
Tamworth – Ventura Park Trading Estate		Freehold	Industrial		
Windsor – Minton Place and Consort House		Freehold	Offices		
York – 21/23 Coney Street		Freehold	Retail		
York – 29/31 Coney Street		Freehold	Retail		
Tunbridge Wells – Longfield Road Retail Park		Freehold	Retail Warehouse		
Total Direct Properties Market Values up to £25m				**659,370**	**22.23**

PORTFOLIO STATEMENT (CONTINUED)

AS AT 31 DECEMBER 2019

Investments	Holding	Tenure	Sector	31 December 2019 Market value (£'000)	Total net assets (%)
Direct Properties Market Values between £25m and £50m – 20.59% (31/12/18 – 19.48%)					
Bristol – 1-3 & 5-9 Broad Plain*		Freehold	Offices		
Chatham – Horsted Retail Park		Freehold	Retail		
Hayes – 1/3 Uxbridge Road		Freehold	Industrial		
Leeds – Colton Retail Park		Freehold	Retail Warehouse		
London EC1 – 14-21 Holborn Viaduct		Freehold	Offices		
London EC4 – Meridian House		Freehold	Offices		
London NW10 – Cumberland and Whitby Avenue		Freehold	Industrial		
London SE1 – Land at Six Bridges Trading Estate		Freehold	Industrial		
London SW6 – Hurlingham Retail Park		Freehold	Residential		
London WC2 – 20 and 1-3 Long Acre and 20 Garrick Street		Freehold	Offices		
Maidenhead – King's Gate		Freehold	Offices		
Norwich – Sprowston Retail Park		Freehold	Retail		
Preston – Capitol Leisure Park		Freehold	Leisure		
Preston – Capitol Retail Park		Freehold	Retail Warehouse		
Salford – Metroplex Business Park		Freehold	Industrial		
Watford – Century Retail Park		Freehold	Retail Warehouse		
Total Direct Properties Market Values between £25m and £50m				**610,935**	**20.59**
Direct Properties Market Values between £50m and £100m – 24.53% (31/12/18 – 27.63%)					
Brixton – Ellerslie Square Industrial Estate		Freehold	Industrial		
Greenford – Westway Shopping Park		Freehold	Retail		
London E1 – Eden House*		Freehold	Offices		
London EC3 – 62-63 Fenchurch Street		Freehold	Offices		
London EC4 – 1-3 St Pauls Churchyard		Freehold	Offices		
London SE18 – Westminster Industrial Estate		Freehold	Industrial		
London SW1 – 85/87 Jermyn Street		Leasehold	Offices		
London W1 – Frith & Dean Street and Soho Square		Freehold	Offices		
London W1 – 149 &151/151a Oxford Street		Freehold	Retail		
London WC1 – Castlewood House*		Freehold	Offices		
London WC2 – Trafalgar Buildings		Freehold	Offices		
Southall – International Trading Estate		Freehold	Industrial		
Total Direct Properties Market Values between £50m and £100m				**727,770**	**24.53**
Direct Properties Market Values greater than £100m – 27.86% (31/12/18 – 23.21%)					
London SW1 – Parnell House		Freehold	Offices		
London W1 – 120-122 New Bond Street		Freehold	Retail		
London W1 – Ham Yard Hotel		Freehold	Hotel		
London W1 – Kingsley House		Freehold	Offices		
London W1 – 470/482 Oxford Street and Granville Place		Leasehold	Retail		
London WC2 – 9-12 Bow Street and Hanover Place		Freehold	Retail		
Total Direct Properties Market Values greater than £100m				**826,671**	**27.86**
Collective Investment Schemes – 5.16% (31/12/18 – 5.52%)					
Industrial Property Investment Fund	47,845		Collectives	60,537	2.04
Royal London Cash Fund R Acc	51,518,801		Collectives	52,233	1.76
Royal London Short Term Money Market Fund R Acc	40,072,567		Collectives	40,470	1.36
Total Collective Investment Schemes				**153,240**	**5.16**
Portfolio of investments				**2,977,986**	**100.37**
Fair value adjustments**				**(14,333)**	**(0.49)**
Net other assests				**3,625**	**0.12**
Total net assets				**2,967,278**	**100.00**

* Bristol – 1-3 & 5-9 Broad Plain, Chelmsford – Land at Springfield Business Park, London E1 – Eden House, London W1 – 103/103a Oxford Street, London WC1 – Castlewood and London WC1 – Medius House are partly under development.

** Fair value adjustments include lease incentive, rent free debtor and finance lease payables. Please see note 21 on page 33 for more details.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

FOR THE YEAR ENDED 31 DECEMBER 2019

Significant Purchases

	Cost £'000
Royal London Short Term Money Market Fund R Acc	40,482
Maidenhead – King's Gate	12,750
Hayes – 1/3 Uxbridge Road	2,150
Subtotal	**55,382**
Total cost of purchases for the year	**56,606**

Significant Sales

	Net proceeds £'000
Royal London Enhanced Cash Plus R Acc	58,423
Reading – 410 Thames Valley Park	32,859
Leeds – Queens Arcade	1,000
Total proceeds from sales for the year	**92,282**

Significant Capital Expenditure

	Cost £'000
Bristol – 1-3 & 5-9 Broad Plain	20,186
Chelmsford – Land at Springfield Business Park	7,673
London WC1 – Castlewood House	6,245
Chatham – Horsted Retail Park	4,330
Daventry – Distribution Centre	1,896
Subtotal	**40,330**
Total capital expenditure for the year	**47,674**

The purchases, sales and top 5 capital expenditure detail the material changes in the portfolio during the year.

COMPARATIVE TABLES

Class W Gross Income

Change in net assets per unit	31/12/2019 (£)	31/12/2018 (£)	31/12/2017** (£)
Opening net asset value per unit	107.00	102.34	100.00
Return before operating charges*	3.74	9.71	3.59
Operating charges***	(0.81)	(1.54)	(0.26)
Return after operating charges*	2.93	8.17	3.33
Distribution on income units	(4.26)	(3.51)	(0.99)
Closing net asset value per unit	**105.67**	**107.00**	**102.34**
* after direct transaction costs of:	0.05	0.02	0.00
Performance			
Return after charges	2.74%	7.98%	3.33%
Other information			
Closing net asset value (£'000)	2,912,142	2,948,838	2,820,363
Closing number of units	27,558,517	27,558,517	27,558,517
Operating charges excluding property expenses***	0.19%	0.70%	0.70%
Property expenses	0.58%	0.76%	0.29%
Operating charges	0.77%	1.46%	0.99%
Direct transaction costs	0.05%	0.01%	0.00%
Prices			
Highest unit price	109.88	110.21	102.34
Lowest unit price	104.09	101.87	102.34

** Class W Gross Income share class launched on 1 October 2017.

*** From 1 April 2019 Class W – Gross Income Units no longer charge a Management fee.

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.

COMPARATIVE TABLES (CONTINUED)

Class Z Gross Income

Change in net assets per unit	31/12/2019 (£)	31/12/2018** (£)
Opening net asset value per unit	107.00	102.34
Return before operating charges*	3.75	9.71
Operating charges	(1.38)	(1.54)
Return after operating charges*	2.37	8.17
Distribution on income units	(3.70)	(3.51)
Closing net asset value per unit	**105.67**	**107.00**
* after direct transaction costs of:	0.05	0.02
Performance		
Return after charges	2.21%	7.98%
Other information		
Closing net asset value (£'000)	55,136	55,830
Closing number of units	521,767	521,767
Operating charges excluding property expenses	0.72%	0.70%
Property expenses	0.58%	0.76%
Operating charges	1.30%	1.46%
Direct transaction costs	0.05%	0.01%
Prices		
Highest unit price	109.88	110.21
Lowest unit price	104.09	101.87

** Class Z Gross Income share class launched on 2 January 2018.

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

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"), 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

6 May 2020

STANDING INDEPENDENT VALUER'S REPORT (CUSHMAN & WAKEFIELD)

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 2019 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 31 December 2019.

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 2019 is £1,673,080,500. 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 31 December 2019 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 ACS Manager.

Cushman & Wakefield Debenham Tie Leung Limited

31 January 2020

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 2019 in accordance with the Royal Institution of Chartered Surveyors ("RICS") Global Standards 2017 including the International Valuation Standards and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) 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 2019.

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 2019 is £1,151,665,000. 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 2019. 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 2007. This has been discussed and agreed with the ACS Manager.

CBRE Limited

29 January 2020

INDEPENDENT AUDITORS' REPORT TO THE UNITHOLDERS OF THE ROYAL LONDON UK REAL ESTATE FUND ("THE SCHEME")

Report on the audit of the financial statements

Opinion

In our opinion, Royal London UK Real Estate Fund's financial statements:

- give a true and fair view of the financial position of the Scheme and its sub-fund as at 31 December 2019 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 (the "Annual Report"), which comprise: the balance sheet as at 31 December 2019; 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

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the ACS Manager's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the ACS Manager has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Scheme's or the sub-fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

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.

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 THE ROYAL LONDON UK REAL ESTATE FUND (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 set out on page 4, 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 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 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.

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/ auditors' responsibilities. This description forms part of our auditors' report.

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
Edinburgh

6 May 2020

FINANCIAL STATEMENTS

Statement of Total Return

for the year ended 31 December 2019

	Note	£'000	31 December 2019 £'000	£'000	31 December 2018* £'000
Income					
Net capital (losses)/gains	5		(38,467)		127,877
Revenue*	6	154,507		156,233	
Expenses*	7	(35,257)		(57,781)	
Interest payable and similar charges*		1,077		1,418	
Net revenue before taxation*		120,327		99,870	
Taxation*	8	–		–	
Net revenue after taxation*			120,327		99,870
Total return before distributions			81,860		227,747
Distributions	9		(119,250)		(98,442)
Change in net assets attributable to unitholders from investment activities			**(37,390)**		**129,305**

Statement of Change In Net Assets Attributable To Unitholders

for the year ended 31 December 2019

	£'000	31 December 2019 £'000	£'000	31 December 2018 £'000
Opening net assets attributable to unitholders		**3,004,668**		**2,820,363**
Amounts receivable on issue of units	–		53,398	
Amounts payable on cancellation of units	–		–	
		–		53,398
Dilution adjustment		–		1,602
Change in net assets attributable to unitholders from investment activities		(37,390)		129,305
Closing net assets attributable to unitholders		**2,967,278**		**3,004,668**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

Balance Sheet

as at 31 December 2019

	Note	31 December 2019 £'000	31 December 2018* £'000
ASSETS			
Fixed assets:			
Land and buildings			
Investment property		2,613,363	2,805,272
Property under construction		197,050	19,085
Investments		153,240	165,765
Total Fixed Assets		2,963,653	2,990,122
Current assets:			
Debtors*	10	38,017	16,288
Cash and bank balances	11	42,853	76,563
Total current assets*		80,870	92,851
Total assets*		3,044,523	3,082,973
LIABILITIES			
Creditors:			
Other creditors*	12	38,925	41,275
Finance lease payable	13	8,210	9,292
Distribution payable		30,110	27,738
Total liabilities*		77,245	78,305
Net assets attributable to unitholders		**2,967,278**	**3,004,668**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

Statement of Cash Flows

for the year ended 31 December 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
Net cash inflow from operating activities	15	**96,015**	**97,361**
Servicing of finance			
Distribution paid to unitholders		(116,878)	(97,896)
Interest received	6	238	217
Interest paid		(5)	–
Net cash outflow from servicing of finance		**(116,645)**	**(97,679)**
Cash flows from investing activities			
Payments to acquire investments		(104,280)	(67,078)
Receipts from sale of investments		92,282	48,821
Net cash outflow from investing activities		**(11,998)**	**(18,257)**
Net cash outflow before financing activities		**(32,628)**	**(18,575)**
Cash flows from financing activities			
Amounts received from creation of units		–	55,000
Finance lease payments		(1,082)	(1,418)
Net cash (outflow)/inflow from financing activities		**(1,082)**	**53,582**
Net (decrease)/increase in cash during the year		**(33,710)**	**35,007**
Cash balance brought forward		76,563	41,556
Cash and bank balances at the end of the year		**42,853**	**76,563**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 United Kingdom Accounting Standards, including Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom 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 ACS Deed. 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.

The prior year comparatives of the ACS financial statements have been restated to incorporate changes in the presentation of finance lease amortisation within interest payable and similar charges in line with the SORP and FRS 102 and also due to an error in the presentation of recoverable service charges (see below). However, the opening balance of the ACS for the year ended 31 December 2018 has not been restated since the cumulative effect of the initial error in the presentation of recoverable service charges has no impact on the opening balances of the financial statements for the comparative year. Full details of the restatements and the impact on the financial statements are disclosed in note 22.

Going concern

The financial statements have been prepared on a going concern basis in accordance with the historical cost convention, as modified by the revaluation of investment property, and in accordance with applicable United Kingdom accounting standards, applicable UK Law and the ACS Deed.

Following the outbreak and spread of the Coronavirus (COVID-19) and the UK Government regulations announced in March 2020, businesses have restricted employee travel for work and commercial tenants have had to temporarily close operations, a number of whom have subsequently requested a 3-month deferral on their rental payments. The Prospectus allows the Depository to withhold any unpaid rent from the distribution which allows the ACS Manager to distribute effectively on a cash received only basis. In addition cash can be borrowed from capital proceeds from the subscription of units if necessary.

The ACS Manager has examined significant areas of possible financial risk and has not identified any material uncertainties which would cast significant doubt on the ACS's ability to continue as a going concern for a period of not less than twelve months from the date of the approval of the financial statements. The ACS Manager has satisfied themselves that the ACS has adequate resources to continue in operational existence for the foreseeable future.

Based on the above and after due consideration, the ACS Manager believes it is still appropriate to continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The Royal London Mutual Insurance Society Limited ("RLMIS") consolidated financial statements include the financial statements of the ACS on the basis that the ACS is a subsidiary of RLMIS by virtue of RLMIS's 98% ownership of shares of the ACS at 31 December 2019. The ultimate parent of RLMIS is the Royal London Group plc. The ACS is included in the consolidated financial statements of the Royal London Group plc which are publicly available.

Basis of valuation of investments

Fair value of investment property

Investment properties owned by the ACS which are classified under land and buildings 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 LLP or CBRE Limited in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation Global Standards 2017 ("The Red Book") on the basis of Fair Value in accordance with FRS102.

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. 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 transactions, together with evidence of demand within the vicinity of the subject property. With the benefit of such transactions, capitalisation rates have then been applied to the properties, taking into account size, location, terms, covenant and other material factors.

Land and buildings held under finance leases are recognised as investment properties of the ACS at their fair value after assessing the agreements that transfer the right of uses assets at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to the Statement of Total Return.

The ACS has historically used the equivalent yield as the incremental borrowing rate when calculating the present value of the finance lease obligation. This is the discount rate that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset, and any initial direct costs of the lessor. In their valuation of long leasehold properties, the standing independent valuers treat the head lease payments as rental deductions before capitalising the resulting net income receivable at a yield. The equivalent yields adopted are market based and are derived by having due regard to prime yields in the respective sectors and from analysis of open market transactions to substantiate those yields. Since different units will have different yields applied depending on various factors the equivalent yield is adopted on the whole long leasehold property interest.

The value at which the properties are stated in the Balance Sheet are reduced by the total of the unamortised incentives which are included as separate assets within debtors, and is increased by the total of the unamortised finance lease obligations which are included under liabilities as finance lease payables.

The difference between the fair value of an investment property at the reporting date and its carrying amount prior to remeasurement is included in the Statement of Total Return as a valuation gain or loss within the 'net capital (losses)/gains' note on page 27.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Disposal of an investment property is recognised where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Total Return in the period in which the property is derecognised as a realised gain or loss within the 'net capital (losses)/gains' note on page 27.

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.

1. Significant accounting policies – continued

Basis of valuation of investments – continued

Fair value of property under construction – continued

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.

The fair value is assessed by reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less an estimate of the time value of money to the date of completion. Development risks (such as construction and letting risks) are also taken into consideration when determining the fair value of properties under construction.

A property under construction is derecognised upon disposal or when it is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property is included in the Statement of Total Return in the period in which the property is derecognised within the 'net capital (losses)/gains' note on page 27. Disposal of a property under construction is recognised where, by the end of the accounting period, there is a legally binding, unconditional and irrevocable contract.

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.

Leased assets

At inception the ACS assesses agreements that transfer the right of use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

Finance leased assets

Leases of assets that transfer substantially all the risks and rewards incidental to ownership are classified as finance leases. 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

Leases of assets in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as 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 period in which termination takes place.

Lease incentives

Incentives received to enter into a finance lease reduce the fair value of the asset and are included in the calculation of present value of minimum lease payments. Incentives received to enter into an operating lease are credited to the Statement of Total Return account, to reduce the lease expense, on a straight-line basis over the period of the lease.

Financial instruments

The ACS has complied with Sections 11 and 12 of FRS 102 in respect of financial instruments.

Financial assets

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

Such assets are subsequently carried at amortised cost using the effective interest method.

The ACS assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence (such as significant financial difficulty of the tenant, breach of contract, or it becomes probable that the tenant debtor will enter bankruptcy), the asset is tested for impairment. The amount of the loss is measured as the difference between the asset's carrying amount and the estimated recoverable amount. The amount of the loss is recognised in the Statement of Total Return.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the ACS will not be able to collect all of the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Total Return.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

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 obligations to pay for goods or services that have been acquired in the ordinary course of operations from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. 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.

The ACS sometimes obtains deposits from tenants as a guarantee for returning the property at the end of the lease term in a specified good condition or for the lease payments for a period typically 12 months. Such deposits are treated as financial liabilities and they are initially recognised at fair value. The difference between fair value and cash received is considered to be part of the minimum lease payments received for the operating lease. The deposit is subsequently measured at amortised cost.

Units

Units are classified as equity. Incremental costs directly attributable to the issue of new units are shown in equity as a deduction, net of tax, from the proceeds.

Units have no par value and, within each Class subject to their denomination, are entitled to participate proportionally in the profits arising in respect of, and in the proceeds of, the winding up of the ACS. Units do not carry preferential or pre-emptive rights to acquire further units.

1. Significant accounting policies – continued

Taxation
As the ACS is a stand-alone ACS the ACS isn't subject to UK tax on income or capital gains.

Provisions
Provisions for legal claims are recognised when:

1. The ACS has a present legal or constructive obligation as a result of past events;

2. It is probable that an outflow of resources will be required to settle the obligation; and

3. The amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as finance cost.

The ACS makes an estimate of the recoverable value of trade and other debtors. When assessing impairment of trade and other debtors, management consider factors including the current credit rating of the debtor, the ageing profile of debtors and historical experience to make provisions for bad and doubtful debts.

Revenue recognition
Revenue includes rental income, insurance and service charges from investment properties.

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of returns, discounts and rebates allowed by the ACS and value added taxes.

The ACS recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the ACS retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to the each of ACS's sales channels have been met, as described below.

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 financial 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 accrual 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 up to the 31 May 2015, which have been let subject to an initial rent free period, or lease incentive, are accounted for on a straightline basis over the terms of the lease, or until the next review date in accordance with UITF 28. Rental income from properties where leases have been entered into on or after 1 June 2015, which have been let subject to an initial rent free period, or lease incentive, are accounted for on a straightline 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. As owner and proprietor of the properties, the ACS is legally responsible for the provision, management and administration of the service charges of its property portfolio and all invoices are addressed to the ACS who is the recipients of the service.

A managing agent is appointed to discharge the obligation to operate and account for the service charges in accordance with the terms of each tenant's lease. Under this arrangement, the managing agent maintains 2 separate bank accounts on behalf of the ACS – 1 for rent and 1 for service charge (including other monies from tenants of managed properties such as tenant recoverable expenses and sinking funds). Service charge monies are accounted for on a property by property basis in the monthly Client Statement produced by the managing agent and reported to the ACS against the service charge general ledger control accounts.

To generate service charge income, the managing agent produce an annual service charge budget for each applicable property prior to the commencement of the service charge year which is approved by the ACS subsequent to the charging of new "on accounts" contribution. Shortly after the end of the relevant service charge year, a full reconciliation is performed for each property and service charge certificates are issued by a chartered accountant together with a notification of any service charge shortfalls due from or excess due to the tenants.

The ACS property portfolio contains multiple service charge accounts and variable service charge year end dates that makes it unfeasible for all of the ACS's service charge accounts to be reconciled at any given point in time. Service charge income disclosed in Note 6 therefore represent the aggregate of all contributions from the tenants reported by the managing agent at year end to the ACS plus an accrual made to match the aggregate service charge expenses reported. This accrual is to ensure that there is no impact on the net revenue reported by the ACS as service charge expenses are fully funded.

Service charge income is recognised in the Statement of Total Return on an accrual basis.

Insurance income
Insurance income is recognised in the Statement of Total Return on an accrual basis. The insurance revenue receivable from tenants is based on the insurance premiums paid by the ACS as property owners on behalf of the tenants. The insurance revenue includes the commission levied by the ACS as a percentage of the premiums paid. There are no commission receivables in respect of void or vacant units or properties. Insurance revenue is recognised as receivable when the insurance renewal tenancy schedule is finalised with the insurance brokers. The insurance commission element of the insurance income is receivable by the ACS in arrears from monies recovered from the tenants with adjustments made for any voids during the year.

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

Dividend income
Dividend income is recognised when the right to receive payment is established.

Expenses recognition
Expenses are recognised when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses recognised on financial assets and liabilities are measured at fair value through Statement of Total Return.

Expenses are classified based on the nature of the expenses such as, audit, fund management or service charge. 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. Expenses relating to abortive purchases and sales are treated as revenue. Expenses relating to improvement of the portfolio which are not of capital in nature are treated as revenue. Irrecoverable operating expenses attributable to specific properties with the ACS are charged the Statement of Total Return.

1. Significant accounting policies – continued

Expenses recognition – continued

Write-offs

The ACS writes off a financial asset including bad debts when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings.

Financial assets written off may still be subject to enforcement activities under the ACS's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in Statement of Total Return.

Fund manager's fee

In payment for carrying out its duties and responsibilities the ACS Manager is entitled to take a fund manager's fee from the ACS's revenue as a percentage of the relevant value of the asset of each share class of the ACS. The fund manager's fee is calculated quarterly, accrued on a daily basis by reference to the net asset value of each class on that dealing day and the amount due for each quarter is payable the last working day of the following quarter.

From 1 January 2019 to 31 March 2019, the fund manager's fee was based on 0.70% of the net asset value of the previous quarter accrued on a daily basis across all 4 share classes (i.e. W Gross income, X Gross income, Y Net income and Z Gross income).

W Gross income is available for investment only by qualifying UK life companies within the Royal London Mutual Insurance Society Limited or its group of companies. X Gross income is available for investment only by UK pension schemes which are registered with HMRC under Part 4 of Finance Act 2004 and which are established in the United Kingdom ("Registered Pension Schemes"), for the purposes of the United Kingdom's relevant tax treaties, are treated as Registered Pension Schemes including tax transparent contractual schemes where the unitholders of the investing unit class are restricted to Registered Pension Schemes. Y Net income is available for any Unitholders not entitled to be paid UK rental income without basic rate income tax being deducted from it at source. Z Gross income is available for investment only by Royal London UK Real Estate Feeder Fund.

The ACS Manager may alter or reduce to zero the annual management charge on any existing or new unit class where that class is wholly owned for the benefit of Royal London Mutual Insurance Society Limited, one of its group companies or another such connected party, on request and at its discretion. From 1 April 2019, the W gross income share class no longer charges a manager's fee. Details of the current fund manager's fee can be found in the factfile on page 37.

Recoverable service charge expenses

Recoverable service charges expenses disclosed in Note 7 represent the aggregate of all service charge expenses incurred by the ACS's property portfolio and reported by the managing agent at year end.

Recoverable service charge expenses are recognised in the Statement of Total Return on an accrual basis.

Irrecoverable service charge expenses

In certain circumstances where service charges are not recoverable from the occupiers, for example, when the property is unoccupied or due to lease deficiencies, the ACS as the property owner will be required to reimburse such expenses. These are called irrecoverable service charges or void expenses.

Irrecoverable service charges are recognised in the Statement of Total Return on an accrual 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 Changes in Net Assets Attributable to Unitholders.

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 share 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 ASC Manager, separate disclosure is necessary to understand the effect of the transactions on the ACS's financial statements.

2. Critical accounting estimation uncertainty

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

Critical accounting estimates and assumptions

The ACS makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Fair value of investment property

Investment property is measured at fair value which represents a significant proportion of the ACS's net assets at 94.7% (31/12/18: 94.0%). 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 has been prepared by standing independent valuers using recognised valuation techniques in accordance with the RICS Valuation – Global Standards 2017 (incorporating the International Valuation Standards) and the UK national supplement 2018 (the "Red Book").

The valuation derived is only and 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.

The fair value of investment property is based on current prices in an active market for properties of a similar nature, condition or location – suitably adjusted. Recent prices for similar properties on less active markets, with suitable adjustments for differences, are also used for the estimation of the fair values.

Furthermore, investment property is valued using discounted cash flow projections if reliable estimates and reasonable assumptions (such as rental income and operating expenses) can be made, based on external evidence. Future expenditure that will improve the property is not included in the fair value.

The risk-adjusted discount rates used in the cash flow projections reflect the specific nature and location of the individual properties. The cash flows used in the projections are based on actual rental income on a sustainable basis. Cost is reflected in the cash flows based on actual and accrued expenditure approved by management. The cash flows include inflation.

In arriving at the valuation, the standing independent valuers have used the following assumptions:

- That the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion;

2. Critical accounting estimation uncertainty – continued

Fair value of investment property – continued

- That the Properties possess a good and marketable title free from any onerous or hampering restrictions or conditions;
- That the rental values quoted are those which have been adopted as appropriate in assessing the capital value and are not necessarily appropriate for other purposes nor do they necessarily accord with the definition of Market Rent;
- That the Properties are not contaminated and are not adversely affected by any existing or proposed environmental law;
- That there are no abnormal ground conditions, nor archaeological remains, present which might adversely affect the current or future occupation, development or value of the Properties; and the Properties are free from rot, infestation, structural or latent defect; and
- That all buildings comply with all statutory and local authority requirements including building, fire and health and safety and planning regulations are in place.

The ACS's properties are inspected annually but may not necessarily have been inspected since the last quarterly valuation. The portfolio is subject to an on-going rolling programme of inspection with all properties being inspected internally and externally each year. The remainder of the quarterly appraisals comprises a desktop update by the standing independent valuers.

Fair value of property under construction

The valuation 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.

Provision for bad and doubtful debt

A debtor impairment factor is sometimes specific to that tenant such as the tenant has been placed under liquidation or there is deterioration in the financial circumstances of the tenant such as poor trading, then the ACS makes a provision for bad and doubtful debt. Provisions for bad and doubtful debts are recognised for all tenant arrears outstanding for more than 90 days which the ACS considers as an indicator in determining whether the debts are impaired.

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 for the account of the relevant Class in respect of that period, and deducting the charges and expenses of the relevant Class 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 accrual 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 share class level, to the unitholders in accordance with the ACS's prospectus.

All share 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 share class prices.

Apportionment to share classes

The allocation of revenue and expenses to each share 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 such as UK properties. 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

Since the fair value of investment property represents a significant proportion of the ACS's net assets at 94.7% (31/12/18: 94.0%), property values are exposure to a number of risk factors which may affect the total return of the ACS. These factors include the change in general climate, local conditions, the physical characteristics of the building (apart from normal wear and tear, advances in technology or requirements of tenants may render a building less attractive over time), property management, competition on rental rates, length of the lease(s) (if a building is let to a good quality tenant for a long period of time then the value of the property will reflect this even if general economic conditions are more volatile), attractiveness and location of the properties (the attractiveness of a particular location may change over time), financial condition of tenants (the value of a building is a function of its rental income and therefore the creditworthiness of the underlying tenants, which may deteriorate over time), buyers and sellers of properties, quality of maintenance, insurance and management services and changes in operation costs.

Property valuation is a technical procedure of calculation based on interpreting comparable rental and yield evidence of completed sales in the market and applying that market information to form a judgement as to the likely sale price of the subject property. Therefore the value is based on the approach to the calculation, the quality and availability of market information and judgement in forming a view of the likely sale price.

Immovable property and immovable property-related assets are inherently difficult to value due to the individual nature of each property. As a result, valuations are subject to uncertainty and are a matter of an independent valuers' opinion. There is no assurance that the estimates resulting from the valuation process will reflect the actual sales price even where a sale occurs shortly after the valuation date.

Market risk is minimised through holding a geographically diversified portfolio that invests across various property sectors. The ACS adheres to the investment guidelines and investment and borrowing powers established in the Prospectus, ACS Deed and in the rules governing the operation of open ended investment companies.

While it is possible to identify the real estate sectors most exposed over the short term to the outbreak of the COVID-19 pandemic, there is no clear way to identify how significant the downside risks will be and therefore what the ultimate impact on real estate valuations will be.

Sensitivity analysis

The value of the investment properties are driven by their expected yield. At the year end, the ACS's portfolio had an effective yield of 5.03% (31/12/18: 5.00%). If the yield of every property within the portfolio increased by 0.50% (31/12/18: 0.50%) it is estimated that the net asset would fall by 10.12% (31/12/18: 9.88%). If the yield decreased by 0.50% (31/12/18: 0.50%) it is estimated that the net asset value would rise by 10.46% (31/12/18: 10.92%). The 0.50% benchmark has been used to measure sensitivity analysis as it is widely used in the fund management industry. These estimates are subject to the prevailing conditions at the year end.

4. Risk management policies – continued

Liquidity risk

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. If an asset cannot be liquidated in a timely manner then it may be harder to attain a reasonable price.

In normal circumstances, redemption requests will be processed under valid instructions to redeem units received before a redemption cut-off point by the ACS Manager which will be processed at the redemption price for the relevant unit class calculated at the applicable valuation point. In order for a redemption request to be dealt with at the above valuation point on any dealing day, the instruction must have been received at least 6 months prior to the relevant 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. The ACS Manager must give unitholders notice of the deferral no later than two calendar months prior to the original dealing day. The price at which such units will be redeemed will be the redemption price on the dealing day on which the units are actually redeemed. The ACS Manager may cancel the deferral (wholly or in part) by giving notice to Unitholders no later than one calendar month prior to the next dealing day. Where a deferral is cancelled the redemption will be settled on the dealing day immediately following the date of the notice of cancellation. Any deferred redemption will be processed on a first come, first served basis. Those redeeming unitholders at the front of the queue will be processed first. Requests for redemption that have been accepted at an earlier dealing day will be dealt with pro-rata prior to any requests for redemption that are accepted at a later dealing day. Requests for redemption may be deferred in whole or in part several times save that any such deferred request may only be deferred to a dealing day which is no more than 12 months after the original dealing day.

Neither the ACS Manager nor Investment Adviser is aware of any redemption requests pending or any indication that any of the unitholders intend to redeem units in the ACS in the near future.

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.

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.

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
2019	**£000**	**£000**	**£000**
Cash at bank	42,853	–	–
	%	**%**	**%**
% of unitholding that can be redeemed	–	–	100.00
% of Portfolio capable of being liquidated	5.15	94.85	–
2018	**£000**	**£000**	**£000**
Cash at bank	76,563	–	–
	%	**%**	**%**
% of unitholding that can be redeemed	–	–	100.00
% of Portfolio capable of being liquidated	5.55	94.45	–

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 £000	Over one year but not more than five years £000	Over five years £000
2019			
Distribution payable	30,110	–	–
Finance lease payable	398	1,594	36,070
Other creditors	38,925	–	–
	69,433	**1,594**	**36,070**
2018			
Distribution payable	27,738	–	–
Finance lease payable	456	1,826	91,337
Other creditors	41,275	–	–
	69,469	**1,826**	**91,337**

4. Risk management policies – continued

Credit and counterparty risk

The ACS is exposed to credit risk in the event of default by an occupational tenant. The ACS would suffer a rental shortfall and incur additional costs, including legal expenses, in maintaining, insuring and re-letting the property.

In managing credit risk, rental income from any one tenant or tenants 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 period 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.

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. The ACS Manager may pass cash or other assets to its counterparties as margin or collateral to an unlimited extent. Subject to the Regulations, at any one time, the ACS may be exposed to the creditworthiness of its counterparties in respect of all or part of such margin or collateral. In the event of the insolvency of a counterparty, the ACS Manager might not be able to recover cash or assets of equivalent value in full.

The ACS Manager and Investment Adviser have assessed the recoverability of its assets, including trade and other receivables, recorded as at 31 December 2019 at the date of issue of the financial statements and concluded no material adjustments were required.

Currency risk

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

The ACS may at certain times invest cash on deposit. The ACS held £42.9m (31/12/18: £76.6m) cash at the year end and has minimal exposure to interest rate risk. 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 has the ability to borrow up to 10% of the value of the ACS, but it did not take advantage of this.

The interest rate risk is insignificant for the ACS and therefore no sensitivity analysis has been performed.

Inflation risk

Inflation may, over time, reduce the value of your investments in real terms.

The inflation risk is low for the ACS and therefore no sensitivity analysis has been performed.

Leverage risk

In managing the assets of the ACS, the ACS Manager may from time to time use leverage, 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.

Economic and political risk

The performance of the ACS may be adversely affected by the impact of general economic conditions, by conditions in the property market, changes in occupancy practices or by the particular financial condition of parties doing business with the ACS.

The returns that are likely to be achieved on an investment in the ACS, which has its assets predominantly based in the UK, are likely to be materially affected by the political and economic climate in the UK. In particular, changes in rates of inflation may affect the ACS's income and capital value or the value of an investment. Changes in landlord and tenant, planning, trust or other law in the UK could also materially affect the investment returns.

Assessment of the risk relating to the UK exiting the European Union (Brexit)

The United Kingdom formally left the European Union on 31 January 2020. There is now a transition period which will last until 31 December 2020 while the UK and EU negotiate additional arrangements. During this period, the UK remains in the EU single market and customs union. However, the future trading relationship and implications of Brexit remain uncertain.

It is possible investments in the UK may be more difficult to value, to assess for suitability or risk, harder to buy or sell or subject to greater or more frequent rises and falls in value. In the event that the ACS Manager is unable to accurately value the assets of the ACS, or in the event of high levels of redemption, the ACS Manager may use certain liquidity management tools permitted by the FCA Handbook, including deferred redemptions, the implementation of fair value pricing or suspension of dealing in units of the ACS. In the longer term, there is likely to be a period of uncertainty as the UK seeks to negotiate its exit from the European Union. The UK's laws and regulations concerning funds may in future diverge from those of the European Union. This may lead to changes in the operation of the ACS or the rights of investors or the territories in which the Units of the ACS may be promoted and sold.

Meanwhile, the ACS Manager continues to prepare for a scenario where there is no deal or no financial service equivalence or recognition. This approach ensures that the ACS Manager and its investment adviser are well placed for any political eventuality. The ACS Manager identified all supplier relationships where services are provided from the EEA and have received confirmation from all suppliers that services will be unaffected in a no deal scenario. The ACS is intended for distribution to professional investors in the EEA so we are evaluating the local requirements on a country by country basis where the existing passport falls away.

For further details relating to the risk of UK exiting the European Union please refer to the ACS Prospectus or the Investment Adviser's Report on pages 5 and 6.

5. Net capital (losses)/gains

	31 December 2019 £'000	31 December 2018 £'000
The net capital (lossses)/gains during the year comprise:		
Non derivative securities realised gains	168	–
Non derivative securities unrealised gains	4,024	9,633
Investment property realised gains	5,109	9,041
Investment property unrealised (losses)/gains	(47,768)	109,203
Net capital (losses)/gains	**(38,467)**	**127,877**

6. Revenue

	31 December 2019 £'000	31 December 2018 £'000
Overseas income	1,745	1,609
Interest income from authorised funds	1,306	821
Property rental income	138,914	138,513
Property insurance commission	206	619
Service charge income*	12,098	14,454
Bank interest	238	217
Total revenue*	**154,507**	**156,233**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

7. Expenses

	31 December 2019 £'000	31 December 2018 £'000
Payable to the ACS Manager or associates of the ACS Manager and their agents:		
Manager's fee*	5,479	20,484
Payable to the Depositary, associates of the Depositary and their agents:		
Depositary's fee	249	248
Safe custody fee	2	1
	251	249
Other expenses		
Administration fee	80	80
Audit fee**	67	36
Insurance expense/(reclaim)	184	(95)
Legal and lettings fees	293	227
Registration fee	11	9
Surveyor's fee	4,182	5,396
Valuation fee	315	283
Property repairs and maintenance	1,648	5,997
Recoverable service charges***	12,098	14,454
Head rent	775	487
Void council tax	4,392	5,763
Irrecoverable service charges	4,252	2,870
Other	1,230	1,541
	29,527	37,048
Total expenses* **	**35,257**	**57,781**

* From 1 April 2019 Class W – Gross Income Units no longer charge a Management fee. This has significantly reduced the fee paid to the ACS in the current year.
** Audit fee £66,653 (31/12/18: £36,180) exclusive of VAT. The Audit fee includes £5,959 (31/12/18: £4,815) paid on behalf of the UK Real Estate Feeder Fund.
*** The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

8. Taxation

	31 December 2019 £'000	31 December 2018 £'000
Overseas tax	–	–
Total taxation	–	–

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

9. Distributions

	31 December 2019 £'000	31 December 2018 £'000
Interim distribution	89,140	70,704
Final distribution	30,110	27,738
Net distributions for the year	**119,250**	**98,442**

The difference between the net revenue after taxation and the distribution paid is as follows:

Net revenue after taxation*	120,327	99,870
Expenses charged/(recharged) to capital	5	(10)
Non distributable finance lease amortisation*	(1,082)	(1,418)
Net distributions for the year	**119,250**	**98,442**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

Details of the distribution per unit are set out on page 36.

10. Debtors

	31 December 2019 £'000	31 December 2018 £'000
Accrued income	421	391
Accrued interest	1	2
Rental income receivable	8,480	882
Managing agent	2,348	3,629
Lease incentive	6,010	698
Rent free debtor	16,533	7,613
Service charges receivable*	3,253	2,425
Sundry debtors	971	648
Total debtors*	**38,017**	**16,288**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

11. Cash and bank balances

	31 December 2019 £'000	31 December 2018 £'000
Cash and bank balances	42,853	76,563
Total cash and bank balances	**42,853**	**76,563**

12. Other creditors

	31 December 2019 £'000	31 December 2018 £'000
Deferred rent	26,890	22,646
Accrued expenses	574	5,473
Managing agent	–	384
VAT payable	2,756	6,897
Recoverable service charges payable*	3,253	2,425
Irrecoverable service charges payable	179	300
Development costs payable	3,231	893
Sundry creditors	2,042	2,257
Total other creditors*	**38,925**	**41,275**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

13. Finance lease payable

The following properties have finance lease commitments:-

London SW1 – 85/87 Jermyn Street

London W1 – 22 Old Bond Street

Leeds – Phase 1 and 2 Manston Industrial Estate

London W1 – 470/482 Oxford Street and Granville Place

The following property had a finance lease commitment in the prior year. In the current year the ACS purchased the freehold part of the estate.

Hayes – 1/3 Uxbridge Road

	31 December 2019 £'000	31 December 2018 £'000
Commitments in relation to finance leases are payable as follows:		
Not later than one year	398	456
Later than one year and not later than five years	1,594	1,826
Later than five years	36,070	91,337
Minimum lease payments	38,062	93,619
Future finance charges	(29,852)	(84,327)
Total lease liabilities	**8,210**	**9,292**
The present value of finance lease liabilites are as follows:		
Not later than one year	386	442
Later than one year and not later than five years	1,358	1,555
Later than five years	6,466	7,295
Minimum lease payments	**8,210**	**9,292**
Finance lease amortisation		
Brought forward at 1 January	9,292	10,710
Carried forward at 31 December	(8,210)	(9,292)
Finance lease amortisation	**1,082**	**1,418**

14. Operating leases

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

	31 December 2019 £'000	31 December 2018 £'000
Not later than one year	113,705	104,916
Later than one year and not later than five years	318,143	299,415
Later than five years	723,463	761,705
Total	**1,155,311**	**1,166,036**

15. Reconciliation of total return before distributions to net cash flow from operating activities

	31 December 2019 £'000	31 December 2018 £'000
Total return before distributions	81,860	227,747
Add: Net capital (losses)/gains	38,467	(127,877)
Less: Interest received	(238)	(217)
Add: Interest paid	5	–
Net income from operating activities	**120,094**	**99,653**
Increase in debtors*	(21,729)	(1,081)
Decrease in creditors*	(2,350)	(1,211)
Net cash inflow from operating activities	**96,015**	**97,361**

* The year 2018 comparatives have been restated. Full details of the restatements and the impact on the financial statements is disclosed in note 22.

16. Reconciliation of number of units

	Class W Gross Income	Class Z Gross Income
Opening units 01/01/19	27,558,517	521,767
Units issued	–	–
Units cancelled	–	–
Closing units at 31/12/19	**27,558,517**	**521,767**

17. 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 December 2019 £'000	31 December 2018 £'000
Bristol – 1-3 & 5-9 Broad Plain	21,167	16,769
Chatham – Horsted Retail Park	889	–
Chelmsford – 5 Springfield Business Park Phase 1 and 2	1,064	–
London WC1 – Castlewood House	2,725	70
London SE18 – Westminster Industrial Estate	61	141
Total commitments	**25,906**	**16,980**

Contingent liabilities

There were no contingent liabilities at the current Balance Sheet date (31/12/18: £nil).

18. 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'.

The ACS holds units in the following funds managed by the Authorised Contractual Scheme Manager in proportion to the ACS's assets as shown:

		31 December 2019		31 December 2018	
Fund	**Managed by**	**£'000**	**%**	**£'000**	**%**
Royal London Cash Fund	Royal London Unit Trust Managers Limited	52,233	1.76	51,591	1.72
Royal London Enhanced Cash Plus Fund	Royal London Unit Trust Managers Limited	–	–	57,294	1.91
Royal London Short Term Money Market Fund	Royal London Unit Trust Managers Limited	40,470	1.36	–	–
		92,703		**108,885**	

The investments income generated is disclosed in Note 6.

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 £97,955 (31/12/18: £5,244,000).

Safe custody fees and activity fees charged by HSBC Bank plc and their associates are shown in note 7. At the year end the balance due to HSBC Bank plc and their associates in respect of these transactions was £nil (31/12/18: £nil).

The Royal London Mutual Insurance Society, as a material unitholder, is a related party holding units comprising 98% (31/12/18: 98%) of the total net assets of the ACS as at 31 December 2019. The units were acquired on 1 October 2017 when The Royal London Mutual Insurance Society seeded the ACS with cash of £54m and an in-specie transfer of 96 direct and 2 indirect properties, at a cost of £2,755,852,000.

RLGPS Trustee Limited, as a material unitholder, is a related party holding units comprising 2% (31/12/18: 2%) of the total net assets of the ACS as at 31 December 2019.

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 2019, the Royal London UK Real Estate Feeder Fund was paid gross distributions totaling £1,928,000 (2018: £1,829,000).

Royal London UK Real Estate Feeder Fund as a feeder fund for the ACS holds units comprising 1.86% (31/12/2018: 1.86%) of the total net assets of the ACS.

19. 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 18. 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).

20. Portfolio transaction costs

For the year ended 31 December 2019

Analysis of total purchase costs	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%
Maidenhead – King's Gate	12,750	237	1.86	627	4.92
Hayes – 1/3 Uxbridge Road	2,150	9	0.42	97	4.51
Total	**14,900**	**246**		**724**	
Other purchases incurring no transaction costs	41,706				
Total purchases inclusive of commission, legal fees and taxes	**57,576**				

Analysis of total sales costs	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%
Reading – 410 Thames Valley Park	32,859	376	1.14	–	–
Leeds – Queens Arcade	1,000	19	1.90	–	–
Total	**33,859**	**395**		**–**	
Other sales incurring no transaction costs	58,423				
Total sales inclusive of commission, legal fees and taxes	**91,887**				

Commissions, taxes and fees as % of average net assets

Commissions and legal fees	0.0215%
Taxes	0.0242%

For the year ended 31 December 2018

	31 December 2018 £'000
There were no transaction costs on purchases for the year ended 31 December 2018	
Total purchases	55,959

Analysis of total sales costs	Value £'000	Commissions and legal fees £'000	%	Taxes £'000	%
London – 68-71 Fleet Street	26,830	233	0.88	–	–
Hayes – Chailey Industrial Estate	17,923	196	1.11	–	–
Nottingham – Unit 1, PC World	4,500	3	0.07	–	–
Total	**49,253**	**432**		**–**	
Total sales inclusive of commission, legal fees and taxes	**48,821**				

Commissions, taxes and fees as % of average net assets

Commissions and legal fees	0.0150%
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 Fund.

At the Balance Sheet date the portfolio dealing spread was 0.00% (31/12/18: 0.00%).

21. Fair value of investments

The primary financial instruments held by the ACS at 31 December 2018 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 18. 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 2019

Category	**1**	**2**	**3**	**Total**
Investments	**£'000**	**£'000**	**£'000**	**£'000**
Collective Investment Schemes	–	153,240	–	153,240
	–	**153,240**	**–**	**153,240**

For the year ended 31 December 2018

Category	**1**	**2**	**3**	**Total**
Investments	**£'000**	**£'000**	**£'000**	**£'000**
Collective Investment Schemes	–	165,765	–	165,765
		165,765	**–**	**165,765**

Reconciliation to Market Value

Reconciliation to Fair Value – Land and Buildings

	31 December 2019 £'000	**31 December 2018 £'000**
Cost		
At 1 January	2,646,321	2,669,781
Additions – acquisitions	14,900	830
Additions – subsequent expenditure	47,674	11,119
Disposals	(28,577)	(35,409)
At 31 December	**2,680,318**	**2,646,321**
Revaluation Surplus		
At 1 January	178,036	73,205
Revaluations in the year	(53,050)	95,790
Transferred to realised	5,109	9,041
At 31 December	**130,095**	**178,036**
At 31 December	**2,810,413**	**2,824,357**

Reconciliation to Market Valuation

Fair value at 31 December	2,810,413	2,824,357
Rent free debtor fair value adjustment	16,533	7,613
Capital lease incentive fair value adjustment	6,010	697
Finance lease fair value adjustment	(8,210)	(9,292)
Market value reported by valuers	**2,824,746**	**2,823,375**

22. Restatement

The financial statements for the year ended 31 December 2018 have been restated due to an error in the presentation of recoverable service charges. Service charge income and recoverable service charge expenses which were previously aggregated are now grossed up and presented individually in the Statement of Total Return under income and expenses. Also presented separately in the balance sheet is recoverable service charge receivables and recoverable service charge payables which were previously offset against each other. However, the opening balance of the ACS for the year ended 31 December 2018 has not been restated since the cumulative effect of the initial error in the presentation of recoverable service charge has no impact on the opening balances of the Statement of Changes in Net Assets Attributable to Shareholders for the comparative year.

Also, the financial statements for the year ended 31 December 2018 have been restated to incorporate changes in the presentation finance lease amortisation within interest payable and similar charges in line with the SORP and FRS 102.

Recoverable service charges

For the year ended 31 December 2018 service charge income and service charge expenses of £14,454,000, and service charge receivable and service charge payable of £2,425,000 are now shown separately in the financial statements. As the amounts have an equal and opposite effect this adjustment has had no impact on the net asset value of the ACS.

Finance Lease Amortisation

For the year ended 31 December 2018 the interest payable and similar charges are now restated to include finance lease amortisation of £1,418,000. This restatement has no impact to the balance in Net Assets attributable to Unitholders for the comparative year.

Effects of restatement

The effects of the restatements to the financial statements for the year ended 31 December 2018 are laid out below.

Statement of Total Return Extract

	Restated 31 December 2018 £'000	31 December 2018 £'000
Revenue	156,233	141,779
Expenses	(57,781)	(43,327)
Interest payable and similar charges	1,418	–
Finance lease amortisation	–	1,418

Balance Sheet Extract

	Restated 31 December 2018 £'000	31 December 2018 £'000
Debtors	16,288	13,863
Other creditors	41,275	38,850

23. Events after the end of the reporting period

The final distribution for the year ended 31 December 2019 was paid on 15 January 2020.

On 31 January 2020, the freehold interest of 85-87 Jermyn Street, London was purchased for £27.5m.

On 7 February 2020, 30/31 Petty Cury, Cambridge which was valued at £5.0m on 31 December 2019 was sold for proceeds of £5.15m. On 5 March 2020, 102 Grey Street, Newcastle was sold for £6.62m which was valued at £6.385m on 31 December 2019.

On March 11, 2020, the World Health Organisation declared the outbreak of the Novel Coronavirus (COVID-19) as a "Global Pandemic". There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19. The ultimate impact of the COVID-19 pandemic is highly uncertain and the full extent of the economic impacts on the financial performance of the ACS, its operations or the global economy as a whole is as yet unknown.

Given the outbreak and spread of COVID-19 occurred in 2020, it is not considered relevant to conditions that existed at the balance sheet date. Consequently COVID-19 is considered to be a non-adjusting post balance sheet event. The measurement of assets and liabilities in the accounts has not been adjusted for its potential impact. The impact of COVID-19 is uncertain and may be material and the ACS Manager together with the Investment Adviser will continue to monitor the situation.

Based on the property valuation at the year ended 31 December 2019, a decrease of between 5% and 10% in the value of the investment property would have resulted in a decrease in net assets attributable to unitholders of between £141,237,300 and £282,474,600. This information is provided solely to illustrate the impact on the net asset value of a change in the underlying assets of the ACS and is not an estimate or a forecast of the impact of COVID-19.

There have been no significant redemptions since the balance sheet date.

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 are authorised for issue is shown below:

	Price 31 December 2019 £	Price 31 March 2020 £	Movement %
Royal London UK Real Estate Fund, Class W Gross Income	105.67	103.80	(1.77)
Royal London UK Real Estate Fund, Class Z Gross Income	105.67	103.80	(1.77)

	31 December 2019 £'000	31 March 2020 £'000	Movement %
Royal London UK Real Estate Fund, Class W Gross Income	2,912,142	2,860,661	(1.77)
Royal London UK Real Estate Fund, Class Z Gross Income	55,136	54,161	(1.77)

DISTRIBUTION TABLES
FOR THE YEAR ENDED 31 DECEMBER 2019

Distribution in pence per unit

Class W Gross Income

Distribution period	Distribution per unit	Equalisation	Total distributions per unit 2019	Total distributions per unit 2018
March				
Group 1	106.0571		106.0571	77.3358
Group 2	106.0571	–	106.0571	77.3358
June				
Group 1	114.2701		114.2701	95.8199
Group 2	114.2701	–	114.2701	95.8199
September				
Group 1	97.8149		97.8149	78.6376
Group 2	97.8149	–	97.8149	78.6376
December				
Group 1	107.5767		107.5767	98.7803
Group 2	107.5767	–	107.5767	98.7803

Class Z Gross Income

Distribution period	Distribution per unit	Equalisation	Total distributions per unit 2019	Total distributions per unit 2018
March				
Group 1	106.0571		106.0571	77.3358
Group 2	106.0571	–	106.0571	77.3358
June				
Group 1	95.6530		95.6530	95.8199
Group 2	95.6530	–	95.6530	95.8199
September				
Group 1	79.0038		79.0038	78.6376
Group 2	79.0038	–	79.0038	78.6376
December				
Group 1	88.7953		88.7953	98.7803
Group 2	88.7953	–	88.7953	98.7803

All share 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 share class prices.

FACT FILE

Royal London UK Real Estate Fund

Launch date	Class W – Gross Income Units	1 October 2017
Launch date	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 Z – Gross Income Units	0.00%
	Annual management charge	
	Class W – Gross Income Units*	0.00%
	Class Z – Gross Income Units	0.70%

* From 1 April 2019 Class W – Gross Income Units no longer charge a Management fee.

REMUNERATION POLICY (UNAUDITED)

The Authorised Contractual Scheme Manager (the "ACS Manager") of the Royal London UK Real Estate Fund (the "ACS"). Royal London Unit Trust Managers Limited ("RLUTM") is authorised and regulated by the Financial Conduct Authority as an Alternative Investment Fund Manager ("AIFM") in accordance with the Alternative Investment Fund Managers Directive ("AIFMD"). 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, together "the Group". The Group maintains a "Group Remuneration Policy" that RLUTM has adopted which is consistent with and promotes sound and effective risk management. The Remuneration Policy adopts performance related pay, with salaries determined by reference to both individual performance and the external market. Compensation comprises of a mix of fixed remuneration (including base salary), and variable remuneration in the form of cash and non-cash 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 defines code staff and risk takers. 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 implications of remuneration policies across the Group, including for RLUTM and its funds.

RLUTM is also subject to the FCA's AIFM Remuneration Code. RLUTM complies with the AIFMD remuneration principles in a way and to the extent that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities. As part of this, RLUTM ensures that its remuneration process;

- is in line with the business strategy, objectives, values and interests of RLUTM;
- does not encourage excessive risk taking as compared to the investment policy of the ACSs; and
- enables RLUTM to align the interests of the ACS and their investors with those of the "identified staff", as defined in "ESMA's Guidelines on Sound Remuneration Policy under AIFMD, ESMA 2013/232" (the "ESMA Guidelines"), that manage the ACS, and to achieve and maintain a sound financial situation.

RLUTM must identify its code staff, whose professional activities have a material impact on the risk profiles of RLUTM and the ACS. Code 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 Directors of RLUTM have considered appointing a remuneration committee but due to the size, internal organisation and the nature, scope and complexity of its activities, the Directors do not consider it proportionate to apply the requirement to establish a remuneration committee.

RLUTM has a board of directors (the "Directors"). The Directors have waived their entitlement to receive a director's fee from RLUTM. RLUTM has no employees and therefore there are no other controlled functions, or senior management employed and paid by RLUTM. In addition, the ACS does not make any payments directly to any staff of the delegates. However, for the financial year ending 31 December 2019, total remuneration of £8,618,779 was paid to 15 individuals whose actions may have a material impact on the risk profile of RLUTM, of which £7,625,904 related to senior management. The fixed element of the total remuneration mentioned above is £3,498,447 and the variable element is £5,120,332.

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 U.K. 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 U.K. 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 shares 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 U.K. time at the Business Day, two full Business Days prior to the relevant Dealing Day. Redemption settlement is by 17:00 U.K. 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.

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.

GENERAL INFORMATION (CONTINUED)

UK Taxation – continued

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 Fund 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.

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SREP RLAM PD 0127