ROYAL LONDON

INTERIM REPORT

Royal London UK Real Estate Fund Interim Report for the six month period ended 30 June 2020 (unaudited)

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

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Authorised Contractual Scheme Manager (the "ACS Manager")

The ACS Manager is Royal London Unit Trust Managers Limited

Place of business and Registered office:
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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 interim report and financial statements covering the period from 1 January 2020 to 30 June 2020.

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

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

For and behalf of Royal London Unit Trust Managers Limited

ACS Manager

A.S. Carter (Director)

R Kumar (Director)

24 August 2020

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 six month period ended 30 June 2020, the ACS generated a net return of -2.42% outperforming 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 –3.25%.

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 350 basis points (11.40% v 7.90%).

Market review

Retail sector

Prior to the COVID-19 pandemic, a significant part of the retail sector was already in structural decline. With the exception of prime, central London locations, rental values had declined on average by around 5% during 2019.

The first half of 2020 saw an already under pressure retail market head into uncharted waters. The lockdown announced by the UK Government meant that all non-essential retailers were forced to close on 23 March. Although approximately one third of UK retail stores were permitted to continue to trade, only 50% or so of those did, as fears for the safety of staff and customers led many retailers to remain closed.

The lockdown has caused an unprecedented decline in retail spending. In March, the ONS reported the sharpest decline in retail sales volume since the tracker began, down 5.8% year on year. Food stores sales were boosted by panic buying but non-food store sales dipped significantly. April saw another record fall with 14% of stores recording zero turnover. It is too early to tell how sales will rebound now that non-essential stores are permitted to reopen. Evidence from some of our own assets has been encouraging, however footfall data suggest numbers are a little over half of the level seen in the same period last year.

Spending online has increased significantly in lockdown and reached its highest level at 30.7% of total sales. Overall, demand for physical floorspace is expected to reduce, stores to close and void levels to rise. Some retailers will continue to focus on bricks and mortar and could expand their portfolios but this is likely to be the exception and focused on the value end, which does not lend itself as well to online.

With an increased level of void in many locations, maintaining rental tone is likely to be very challenging. Referring to the MSCI UK Monthly Index, retail rental values fell by 3.0% during Q2, the pace of decline increasing from Q1. Over the last twelve months retail rental values have fallen on average by 7.2% and we expect this trend to continue.

Industrial sector

The industrial sector experienced a cooling of momentum during 2019, yet remained the best performing sector of the UK commercial property market, underpinned by strong occupier demand and a shortage of good quality stock. Vacancy rates were low and rental growth prospects continued to pull in a range of investor types. 2020 looks set to be a more challenging year.

At the start of the pandemic, the investment market for industrial assets was holding up well. Deals were still taking place and prime assets such as Perivale Park in West London, were attracting bids significantly above asking price. As the crisis worsened, transactions have slowed. With material uncertainty clauses inserted into valuations, this has meant that many UK institutions have seen funds suspend, making transactions more problematic to complete.

Economic indicators linked to the industrial sector have highlighted the impact of the pandemic. Office for National Statistics (ONS) data showed that industrial output fell by a record 20.3% month on month in April. This was the result of many factories having to close under the lockdown measures. The IHS Markit/CIPS UK Manufacturing PMI fell to a record-low of 32.6 in April, but has since recovered back to 50.1 by the end of June. This implies that operating conditions have begun to stabilise and as lockdown restrictions begin to ease, production levels should begin to improve.

The industrial sector is not solely reliant on manufacturing though. The pandemic has emphasised the importance of logistics and supply chains. We have witnessed record growth in ecommerce and this is reflected in recent take-up statistics. Focusing on distribution warehouses, Savills report that take-up for H1 2020 has reached 22.4m square feet. This is the best H1 performance ever recorded and is 38% above 2019 and 66% above the long-term average. The data is skewed by Amazon who accounted for 36% of that total, but nonetheless it demonstrates the resilience of occupier demand, in spite of turmoil caused by COVID-19.

Going into the crisis, availability of industrial and logistics units were at historic lows and upon recovery, we feel that the sector should be in a stronger position relative to other property sectors. The latest monthly MSCI index shows that growth in industrial market rents was marginally positive in June at +0.2. Rental growth across all industrial sub-sectors stood at 0.8% on a year to date basis. Yields across the sector on average, have been relatively stable.

Office sector

We were expecting Central London investment volumes to increase during 2020 due to strong occupational fundamentals and a large amount of overseas equity targeting the country. The general election in Q4 2019 provided the certainty that investors were looking for and at the start of the year there was a shortage of openly marketed stock and a depth to demand from buyers which was beginning to result in yield compression. The COVID-19 pandemic has inevitably stalled the market.

This global crisis is expected to drive a fundamental change in how everyone works. The previous way of doing things and what has been considered best practice (or acceptable) has had to dramatically change and this change has raised questions over the need for offices as we currently experience them. The future could mean a very different workplace experience.

INVESTMENT ADVISER'S REPORT (CONTINUED)

Market review – continued

Office sector – continued

Changes to the office workspace were taking place pre-pandemic as progressive businesses (largely in the tech sector) gave thought to the most efficient and productive ways of working in conjunction with recruitment and retention of staff in the 'War for Talent'. This was at a time when ESG, Sustainability and Wellbeing were all moving up everyone's agenda – corporate and personal. The COVID-19 crisis will rapidly accelerate these changes and should encourage a much wider range of businesses to improve the workplace experience of the future.

For businesses to attract and retain quality staff and property owners to attract businesses at high rents it seems clear that the quality of many offices buildings and office fit-outs will need to improve. Such a move was already happening, particularly on the larger new schemes in London but it will have to become much more widespread in terms of location and adapting older buildings.

In terms of what this means for near term investment performance, we have seen that the prime end of the office market, particularly central London appears to have been more resilient in terms of pricing, so too offices with longer term, secure income and it is expected this trend will continue with yields hardening for these assets, over the next 12 months, as investment activity begins to pick up again. Referring to the MSCI UK Monthly Index, values across the office sector on average have fallen by -3.7% this year. Focusing on Central London offices the decline over the same period has only been -2.6%.

According to Colliers, UK office investment volumes stood at just under £5bn at the end of H1 2020, down from £6.8bn in H1 2019 and around 50% below the five-year average of £10.2bn. However, Colliers believe that there is upwards of £1.5 billion in agreed deals that are understood to be pending completion, delayed by the COVID-19 lockdown. The speed and level at which these transaction complete will serve to demonstrate the state of investor sentiment.

When looking at the occupier market, Colliers state that vacancy has begun to rise slowly across the London office market, it still remains below average. They expect 'grey' or 'tenant marketed' space to be key the driver of any rises in vacancy throughout the remainder of 2020 and note that it is still over 20% below the 10-year average. They expect that many occupiers will retain space to accommodate offices redesign strategies in the short- to medium-term, helping to smooth the release of excess space.

Alternative sector

The full effect of COVID-19 pandemic on the alternative sector won't be clear for some time. While the immediate effects are around rent, valuations and a return to tenant trading, future consumer behaviour is not yet known. Customer attitudes toward things such as staying in a hotel, changing residential accommodation, spending money on a new car and where they spend their leisure time will ultimately determine how "alternative" property types will be impacted going forward. An understanding of customer behaviour post crisis will in turn inform operator business models and investor appetite.

Capital Economics note that for hotels, in the short- to medium-term, domestic travel is more likely to revive, but the prospects for overseas travel are less clear. The shock to the travel industry has been severe and there are question marks about future capacity. Given the success of video conferencing during lockdowns, there could be dramatic changes in international business travel in the future.

Investors have been drawn to the alternative sector for a range of reasons. It offers diversification from the traditional sectors. There are structural and demographic drivers, opportunities for both defensive and growth strategies and potentially enhanced returns through operational exposure. Furthermore, many of these property types benefit from longer income streams, not typically available in retail, office and industrial sectors. These attributes are likely to remain popular post-crisis, and so should see the alternative sector continue to attract investors in the medium term.

Portfolio review

As at 30 June 2020, the ACS had a net asset value of £2.85bn. The ACS held 89 direct properties including developments which were valued at £2.76bn and accounted for 96.83% of the portfolio value. The ACS also held 2.15% of its assets in collective investment schemes made up of indirect property investment.

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.

As at 30 June 2020, the ACS's top 10 tenants included well-known corporate names such as Marks & Spencer, Dixons Carphone Warehouse and J Sainsbury PLC.

Portfolio activities

Investments

There were three main property investment transactions for the period.

Petty Cury, Cambridge
In February the ACS completed on the sale of a retail unit in Cambridge to a private investor for £5.15m. The offer received from the buyer was slightly above the Q4 2019 valuation.

102 Grey Street, Newcastle
In March the ACS sold a retail unit in Newcastle for £6.63m to a private investor. The property offered minimal asset management opportunities in the near term, as it is let as a whole to Lloyds TSB on a lease expiring in June 2026.

85–87 Jermyn Street, London SW1
The ACS has bought-in the freehold of 85–87 Jermyn Street from the Maudsley Charitable Trust for £27.51m following two rounds of best bids. The ACS's ownership was by virtue of a 99 year unexpired long leasehold interest with a rent payable of 15% of rents received.

During the period, the ACS also fully divested £52.40m from The Royal London Cash Plus Fund and £40.48m from The Royal London Enhanced Cash Plus Fund.

Developments

The ACS's strategic objective is to identify those assets with development or refurbishment potential and exploit those opportunities to the full to produce enhanced performance beyond standing investment returns whilst at the same time managing and mitigating the development risk wherever possible.

Castlewood House, London
The completed development will provide approximately 140,000 sq. ft. of office accommodation and 20,000 sq. ft. of retail. Despite the COVID-19 pandemic and a slight pause to construction works whilst the appropriate Health and Safety measures were reviewed and implemented, progress has been good during the period. The Castlewood House structure has now been completely demolished. New construction (sub structure) is now underway and the first pile has been installed.

Medius House, London
Medius House demolition is ongoing and all archaeological works are now completed and approved by the relevant authorities. Due to the uncertainty around the pandemic, Q4 2022 is the anticipated practical completion date for the entire development.

Glassfields, Bristol
Construction for the 85,000 sq. ft. hotel, pre-let to Jurys Hotel Management UK Ltd, is ongoing with limited impact from the pandemic. Completion was originally scheduled for December 2020 and a revised completion date is estimated for January 2021. We are also onsite building 90,000 sq. ft. of speculative office space which prior to the pandemic was due to complete in August 2020.

INVESTMENT ADVISER'S REPORT (CONTINUED)

Portfolio activities –continued

Developments – continued

103 Oxford Street, London

This property comprises a retail unit over lower ground and ground floors with 5 floors of offices above. It is situated to the east of Oxford Circus at the corner of Oxford Street and Great Chapel Street, immediately adjacent to the new Crossrail station. The retail unit is poorly configured, the office entrance lacks prominence and the offices benefitted from a restrictive use as a language school.

Planning consent was granted in 2019 for a redevelopment to create a modern retail unit over lower ground, ground and first floors with five floors of offices above, thus increasing the height of the building by the addition of a new floor. The office entrance will be moved from Oxford Street to Great Chapel Street. Vacant possession was obtained with a view to starting on site earlier this year. However, the project was delayed by neighbourly issues and the need to agree site servicing with the Local Authority.

Asset management and lettings

Horsted Retail Park, Chatham

The final Unit F Aldi Food Store Shell and Core was completed on 17 February 2020 thus completing the building works. The tenant fit out of Home Bargains has been completed and they are now successfully trading. The tenants of the remaining units were due to commence their fit outs and with the new forecourt will offer a refreshed smart retail experience for new and existing customers.

Garden House 57/59 Long Acre, London WC2

The ACS has completed a re-gear with Lululemon of their office lease. The break option on 04/08/2020 has been removed and the rent review, due on the same date, has been settled. The rent review saw an increase from the passing rent of £68 per sq. ft. to £80 per sq. ft. This compares to the valuers ERV of £68 per sq. ft. The successful negotiation has secured a term certain of 5 years, improved the income stream and had a positive impact on the capital value of the asset.

Springfield Park, Chelmsford

The completion and occupation of the DPD development at Chelmsford in April has been very positive and the increasing demand for this type of facility with the increase in e-commerce has fully vindicated our decision to proceed with the development of this building having agreed a pre-letting 12 months ago. There has been additional positive progress at this Chelmsford holding; at Unit 1 Boreham 5 terms have been provisionally agreed with A&M Forklifts Ltd to take a new 15 year lease with rent reviews in years 5 and 10. This deal reflects the lack of local supply and the prime location of the holding adjacent to the A12.

1- 3 St Pauls Churchyard

The rent review from August 2018 with Genesis Oil and Gas has completed at a rent of £3,061,000 pa up from a passing rent of £2,889,685 pa and ahead of the valuation ERV.

Queens Arcade, Leeds

The ACS has now completed a new 10 year lease to The North Face on 76 Briggate. The lease included a tenant only break at the end of year five. No incentives were given albeit the unit was handed over in a 'ready for fit out' condition. The transaction has had a positive impact on the net income and capital value of the property.

DIRFT unit at Daventry

We also completed a letting to support the NHS in April. This is a 240,000 sq. ft. refurbished distribution building. The NHS contract is run by Clipper logistics that had a specific budget for the project at that time. Clipper needed to establish a new supply chain for personal protective equipment (PPE) products for the NHS to distribute to those facilities in most need. The letting is for 9/12 months at a rent of £750k pa. Although this is below the current ERV of the building, it is supporting our national effort in fighting this pandemic and we will have the added benefit of saving significant empty building rates and security costs.

Hayes 180, 1/3 Uxbridge Road

Terms have also been agreed to let the last remaining vacant unit at Hayes. A ten year lease (break at year 5) has been agreed on the 64,000 sq. ft. The proposed tenant, a medical research company, is planning for occupation in October. Although this scheme has taken longer to fully let than we had expected, we have achieved higher rents than those set out in our initial development appraisal and this has provided significant additional profit for the ACS.

Units 5 & 6 Redbourne Park, Northampton

The ACS is planning a major refurbishment of the industrial units to commence following agreement of the specification and the completion of a tender process. The target completion date for the project is Q4 2020 with the letting agents targeting rents of c £7.50psf (above the ERV £7psf).We feel that in the current market, with limited supply and many developments and refurbishments on hold, the timing of this refurbishment should fit well with the demand dynamics in the area.

New Bond Street Estate

The ACS owns a large mixed use site towards the top of New Bond Street close to the proposed new Crossrail station. This is a prime and incredibly rare piece of real estate. We have for some time been considering ways to improve the asset to maximise value. Until recently it has been fully let. However, we had concerns over the longevity of some of the leisure and retail operators and therefore began a master planning exercise to create a long term plan for the asset. Pre-application discussions were held with the Local Authority last year in respect of a proposed redevelopment scheme for part of the holding.

2 City Place, Gatwick

The ACS has completed a new 10 year lease to Shearwater Geoservices Ltd on 12,800 sq. ft. of the Ground Floor suite. The tenant previously occupied 9,300 sq. ft. and through active engagement with the tenant terms were reached to accommodate an additional 3,700 sq. ft. and restructure their existing lease arrangements. The terms on the original lease remained broadly the same; however we were able to negotiate a revised rent on the new space reflecting £27 psf. which represented an 11% increase in rent since the last transaction in August 2019.

Responsible Property Investment (RPI)

The ACS continually monitors the progress of its RPI strategy against the annual targets and objectives that are set. We have recently begun a review of the strategy to ensure it continues to be market leading. This will lead to the creation of a new strategic framework and policy, with an Action Plan and KPIs to guide delivery.

The ACS is also assessing the impact of signing up to a ground breaking commitment to tackle the growing risks of climate change through the delivery of a net zero carbon real estate portfolio. The commitment highlights the need for buildings to be net zero carbon by 2050 and commits signatories to publish their own pathways to achieving this. These pathways will cover new and existing buildings, both operational carbon and embodied carbon, and critically, include the impact of the energy consumed by the buildings' occupiers. Signatories will also report annually on the progress against their pathways and disclose the energy performance of their portfolios, demonstrating a clear intention to improve transparency within the market.

A new Energy Performance Certificate (EPC) procedure has been accepted by the ACS, this has now gone live. This considers the implications of the changing requirements of the Minimum Energy Efficiency Standards (MEES) regulations in 2023. As a result of this, and the monitoring programme that is in place, the ACS is in a very good position.

INVESTMENT ADVISER'S REPORT (CONTINUED)

Investment outlook

Economic overview

We are at an interesting point in the recovery. Incoming data releases continue to suggest that the early stages of recovery have been strong (i.e. May and June in Europe and the US), but more recently, at least some of the US high frequency data has started to wobble a bit. If recovery momentum falters somewhat, it wouldn't be much of a surprise considering the US COVID-19 case numbers, which continue to worsen.

The US hasn't been the only reminder that this virus (and its consequences for the economy) very much remains a threat. Australia, which had got case numbers down to very low levels, saw Melbourne go back into lockdown as the outbreak in Victoria has progressed. Even in the UK, we've had a localised lockdown in Leicester.

Against lingering fear of the virus and more generalised worries around 'second waves' in the autumn/winter, at least two things are worth noting as far as the global economy goes:

First, fear matters for economic activity. New lockdowns have generally been localised (as in Australia) or partial (as in some US states which have partially re-imposed social distancing measures). This likely lessens the economic impact. However, some recent research supports the view that there is much more to economic damage than government-ordered lockdowns. Household consumption in Sweden was still down 10.7% year on year in April and South Korea's unemployment rate hit a 10-year high in May in the absence of UK-style lockdowns in both cases.

Second, a second wave of government and central bank policy stimulus may be less impressive than the first wave. Central banks have already cut rates dramatically the world over (where there was room to do so) and rates are at, or close to zero in developed economies (the Bank of England continues to review the case for negative rates). Asset purchase programmes are already widespread. As for fiscal policy, it will likely be hard to agree to new support packages when government deficits are already at, or heading rapidly towards, double digits as a percentage of GDP. In the UK, the £30bn package of time-limited measures announced by Chancellor Sunak in early July was welcome, but the bigger part of the first wave of fiscal support – the coronavirus job retention (or furlough) scheme – is still set to wind down over the period between August and October.

Despite all this, it is worth recognising that much of the data relating to activity in May and June in the US and Europe surprised to the upside. This has included significantly stronger-than-expected ISM business surveys in the US. Non-farm payrolls and the unemployment rate surprised positively again too. China's recovery also appears to have remained solid, judging by the strong PMI business surveys for June.

More policymakers have also been highlighting the better-than-feared early stage recovery, from BoE Chief Economist Haldane ("so far, so V") to the ECB's Schauble and De Guindos. That does not mean that central banks are anywhere close to reversing course. However, just as fear will likely hold back the recovery, so growing confidence in the early stage of recovery can bolster that recovery through its effects on markets and consumer and business behaviour.

However, until any of the following conditions are true: COVID-19 numbers are low and staying low; authorities have proved they can quash any new outbreaks quickly; or a vaccine is ready – and in most of the world, we simply aren't there yet on any of these fronts – the recovery will remain vulnerable to a resurgence of fear. This recovery is set to take some time yet.

UK commercial property

The extra £30bn worth of fiscal measures announced on 8 July by Chancellor Rishi Sunak provides much needed support to the economic recovery. Data had initially signalled towards a solid start to the recovery phase but despite strong retail sales numbers, overall GDP growth in May was only +1.8%, a long way below consensus expectations. This coupled with a weakening underlying labour market suggest an economy in need of further policy support.

The range of measures included a "Job Retention Bonus" of £1,000 for employers for each employee they bring back from the furlough scheme, a cut in VAT from 20% to 5% for the hospitality and tourism sector until 12 January 2021 and the "Eat Out to Help Out" scheme that provides a 50% discount at participating restaurants during August this year. These elements, in particular, should offer some relief to the hospitality sector, as it faces up to the challenge of reopening. Trading conditions will be extremely difficult in the near term, as lockdown restrictions are eased, but not removed entirely.

Footfall in UK shopping centres bounced in the week beginning 6 July, up nearly 10% on the previous week. Overall, retail footfall to all UK destinations rose by almost 5%. Footfall in London's West End remains subdued however. It was circa 25% of the level seen in the same period in 2019 in the first full week of opening and by the end of week three is still at this level. Overall however, UK retail footfall is still down approximately 48% year on year.

If fears of the virus persist, then people won't want to go out and spend whatever the price but the latest announcements have been welcomed by the hospitality industry and are designed to encourage a pick-up in spending and prevent widespread business failures. Whether the measures are successful remains to be seen. These are incredibly uncertain times but it is clear the government is prepared to borrow more and suggested that the next phase of spending, which will be laid out in the Budget and Spending Review late this year, would involve more investment in public services, national infrastructure and the regions.

Market sentiment in the property sector remains cautious, although there are signs that conditions are stabilising and confidence is beginning to turn a corner. The most recent investment performance indicator available is the MSCI UK Monthly Index which saw values decline on average by only -0.7% in June. This decline is the gentlest since the onset of the crisis, and largely confined to retail assets.

Data from Savills shows that Q2 2020 investment volumes were at their weakest ever level over a quarter. However, month-on-month trends showed a marked rise in turnover in June, which suggests we are past the worst and offers grounds for some optimism. Savills believe the outlook might be for yield hardening on West End offices, industrial multi-lets and distribution, implying a turning point.

In the central London office market, Savills note that the lack of openly available stock is the main reason for the low levels of transactional activity to date in 2020. With very little outward sign of distress (as yet) there are no forced sellers unlike in previous downturns. They anticipate investment activity to remain comparatively subdued in the short term and over the summer, but note that signs of increased market activity are emerging. Material Uncertainty Clauses inserted into valuations at the onset of the crisis have now been removed from the industrial sector and from central London offices, reflecting the increase in recent transaction activity.

Drew Watkins
Portfolio Fund Manager
30 June 2020
Royal London Asset Management

This report covers investment performance, activity and outlook. For a wider look at the ACS Manager, refer to the annual RLUTM Assessment of Value report as at 31 March 2020 published on http://www.rlam.co.uk/RLAM/RLUTM Assessment of Value Report 2020 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 30 JUNE 2020

Investments	Holding	Tenure	Sector	30 June 2020 Market value (£'000)	Total net assets (%)
Direct Properties					
Direct Properties Market Values up to £25m – 21.21% (31/12/19 – 22.23%)					
Bedfont – Cargo 30		Freehold	Industrial		
Brighton – 1-8 Regent Hill and 188/191 Western Road		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		
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		
Tunbridge Wells – Longfield Road Retail Park		Freehold	Retail Warehouse		
Windsor – Minton Place and Consort House		Freehold	Offices		
York – 21/23 Coney Street		Freehold	Retail		
York – 29/31 Coney Street		Freehold	Retail		
Total Direct Properties Market Values up to £25m				**603,960**	**21.21**

PORTFOLIO STATEMENT (CONTINUED)

AS AT 30 JUNE 2020

Investments	Holding	Tenure	Sector	30 June 2020 Market value (£'000)	30 June 2020 Total net assets (%)
Direct Properties Market Values between £25m and £50m – 22.63% (31/12/19 – 20.59%)					
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 E1 – Eden House		Freehold	Offices		
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				**644,430**	**22.63**
Direct Properties Market Values between £50m and £100m – 24.84% (31/12/19 – 24.53%)					
Brixton – Ellerslie Square Industrial Estate		Freehold	Industrial		
Greenford – Westway Shopping Park		Freehold	Retail		
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		Freehold	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				**707,525**	**24.84**
Direct Properties Market Values greater than £100m – 28.15% (31/12/19 – 27.86%)					
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				**801,750**	**28.15**
Collective Investment Schemes – 2.15% (31/12/19 – 5.16%)					
Industrial Property Investment Fund	47,845		Collectives	61,231	2.15
Total Collective Investment Schemes				**61,231**	**2.15**
Portfolio of investments				**2,818,896**	**98.98**
Fair value adjustments**				**(27,644)**	**(0.97)**
Net other assests				**56,755**	**1.99**
Total net assets				**2,848,007**	**100.00**

* Bristol – 1-3 & 5-9 Broad Plain, London W1 – 103/103a Oxford Street, London WC1 – Castlewood and London WC1 – Medius House are partly under development.

** Fair value adjustments include lease incentives, rent free debtors and finance lease payables.

SUMMARY OF MATERIAL PORTFOLIO CHANGES

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

Significant Purchases

	Cost £'000
London SW1 – 85/87 Jermyn Street	27,510
Royal London Enhanced Cash Plus R Acc	231
Total cost of purchases for the period	**27,741**

Significant Sales

	Net proceeds £'000
Royal London Enhanced Cash Plus R Acc	52,395
Royal London Cash Fund R Acc	40,482
Newcastle – 102 Grey Street	6,548
Cambridge – 30/31 Petty Cury	5,087
Total proceeds from sales for the period	**104,512**

Significant Capital Expenditure

	Cost £'000
Bristol – 1-3 & 5-9 Broad Plain	11,503
London WC1 – Castlewood House	7,208
London SW6 – Hurlingham Retail Park	2,355
London SW1 – 85/87 Jermyn Street	1,954
Chelmsford – Land at Springfield Business Park	1,450
Subtotal	**24,470**
Total capital expenditure for the period	**30,693**

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

COMPARATIVE TABLES

Class W Gross Income

Change in net assets per unit	30/06/2020 (£)	31/12/2019 (£)	31/12/2018 (£)	31/12/2017** (£)
Opening net asset value per unit	105.67	107.00	102.34	100.00
Return before operating charges*	(1.97)	3.74	9.71	3.59
Operating charges***	(0.21)	(0.81)	(1.54)	(0.26)
Return after operating charges*	(2.18)	2.93	8.17	3.33
Distribution on income units	(2.07)	(4.26)	(3.51)	(0.99)
Closing net asset value per unit	**101.42**	**105.67**	**107.00**	**102.34**
* after direct transaction costs of:	0.08	0.05	0.02	0.00
Performance				
Return after charges	(2.06)%	2.74%	7.98%	3.33%
Other information				
Closing net asset value (£'000)	2,795,087	2,912,142	2,948,838	2,820,363
Closing number of units	27,558,517	27,558,517	27,558,517	27,558,517
Operating charges excluding property expenses***	0.02%	0.19%	0.70%	0.70%
Property expenses	0.40%	0.58%	0.76%	0.29%
Operating charges	0.42%	0.77%	1.46%	0.99%
Direct transaction costs	0.08%	0.05%	0.01%	0.00%
Prices				
Highest unit price	106.92	109.88	110.21	102.34
Lowest unit price	99.90	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	30/06/2020 (£)	31/12/2019 (£)	31/12/2018** (£)
Opening net asset value per unit	105.67	107.00	102.34
Return before operating charges*	(1.97)	3.75	9.71
Operating charges	(0.58)	(1.38)	(1.54)
Return after operating charges*	(2.54)	2.37	8.17
Distribution on income units	(1.71)	(3.70)	(3.51)
Closing net asset value per unit	**101.42**	**105.67**	**107.00**
* after direct transaction costs of:	0.08	0.05	0.02
Performance			
Return after charges	(2.41)%	2.21%	7.98%
Other information			
Closing net asset value (£'000)	52,920	55,136	55,830
Closing number of units	521,767	521,767	521,767
Operating charges excluding property expenses	0.73%	0.72%	0.70%
Property expenses	0.40%	0.58%	0.76%
Operating charges	1.13%	1.30%	1.46%
Direct transaction costs	0.08%	0.05%	0.01%
Prices			
Highest unit price	106.92	109.88	110.21
Lowest unit price	99.90	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.

FINANCIAL STATEMENTS

Statement of Total Return

for the six month period ended 30 June 2020

	£'000	30 June 2020 £'000	£'000	30 June 2019 £'000
Income				
Net capital losses		(126,323)		(10,877)
Revenues	95,000		97,382 *	
Expenses	(37,071)		(35,606)*	
Interest payable and similar charges	7,052		(2)*	
Net revenue before taxation	64,981		61,774	
Taxation	–		–	
Net revenue after taxation		64,981		61,774
Total (loss)/return before distributions		(61,342)		50,897
Distributions		(57,929)		(61,771)
Change in net assets attributable to unitholders from investment activities		**(119,271)**		**(10,874)**

Statement of Change In Net Assets Attributable To Unitholders

for the six month period ended 30 June 2020

	£'000	30 June 2020 £'000	£'000	30 June 2019 £'000
Opening net assets attributable to unitholders		**2,967,278**		**3,004,668**
Amounts receivable on issue of units	–		–	
Amounts payable on cancellation of units	–		–	
		–		–
Change in net assets attributable to unitholders from investment activities		(119,271)		(10,874)
Closing net assets attributable to unitholders		**2,848,007**		**2,993,794**

* The period ended 30 June 2019 comparatives have been restated. Service charge income and service charge expenses of £21,170,000 are now shown separately in the financial statements. There is also a presentation change to show finance lease amortisation of £3,000 within interest payable and similar charges. As the amounts have an equal and opposite effect these adjustments have had no impact on the net asset value of the ACS.

Balance Sheet

as at 30 June 2020

	30 June 2020 £'000	31 December 2019 £'000
ASSETS		
Fixed assets:		
Land and buildings		
Investment property	2,588,391	2,613,363
Property under construction	141,630	197,050
Investments	61,231	153,240
Total Fixed Assets	2,791,252	2,963,653
Current assets:		
Debtors	66,534	38,017
Cash and bank balances	59,777	42,853
Total current assets	126,311	80,870
Total assets	2,917,563	3,044,523
LIABILITIES		
Creditors:		
Other creditors	41,043	38,925
Finance lease payable	1,158	8,210
Distribution payable	27,355	30,110
Total liabilities	69,556	77,245
Net assets attributable to unitholders	**2,848,007**	**2,967,278**

FINANCIAL STATEMENTS (CONTINUED)

Statement of Cash Flows

for the six month period ended 30 June 2020

	30 June 2020 £'000	30 June 2019 £'000
Net cash inflow from operating activities	**38,542**	**25,072**
Cash flows from servicing of finance		
Distribution paid to unitholders	(60,684)	(57,519)
Interest received	40	126
Net cash outflow from servicing of finance	**(60,644)**	**(57,393)**
Cash flows from investing activities		
Payments to acquire investments	(58,434)	(26,517)
Receipts from sale of investments	104,512	33,861
Net cash inflow from investing activities	**46,078**	**7,344**
Net cash inflow/(outflow) before financing activities	**23,976**	**(24,977)**
Cash flows from financing activities		
Finance lease payments	(7,052)	(3)
Net cash outflow from financing activities	**(7,052)**	**(3)**
Net increase/(decrease)in cash during the period	**16,924**	**(24,980)**
Cash balance brought forward	42,853	76,563
Cash and bank balances at the end of the period	**59,777**	**51,583**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

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 the period and all the years presented, unless otherwise stated.

Basis of preparation

The financial statements of the ACS have been prepared in compliance withthe 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 Statement of Total Return for six month period ended 30 June 2019 has been restated to present service charge income and recoverable service charge expenses individually under revenues and expenses, and incorporate change in the presentation of finance lease amortisation within interest payable and similar charges in line with the SORP and FRS 102.

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 units of the ACS at 30 June 2020. 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 re-measurement is included in the statement of total return as a valuation gain or loss within the 'net capital losses' note on page 13.

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' note on page 13.

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' note on page 13. 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 chosen to adopt the 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 preemptive 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 period, 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 period.

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

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 unit 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.

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. Details of the current fund manager's fee can be found in the factfile on page 24.

Recoverable service charge expenses

Recoverable service charges expenses represent the aggregate of all service charge expenses incurred by the ACS's property portfolio and reported by the managing agent at period 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 unit price, which could have a dilutive effect. Normally the ACS will only charge such a levy on a sub-fund experiencing large levels of net purchases or net redemptions relative to its size. Any dilution levy is charged at the discretion of the ACS Manager.

Related party transactions

The ACS discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the 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 accounting period 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 95.9% (31/12/19: 94.7%). 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").

Due to ongoing restrictions in market activities resulting from the outbreak of the Covid-19 pandemic, the valuations supplied on 30 June 2020 by the independent valuers were issued on the basis of 'material valuation uncertainty' in accordance with the RICS Red Book with the exception of the Industrial sector. The valuers have also noted that there is 'less uncertainty' with valuations in the Central London Office.

The inclusion of the Material Valuation Uncertainty Clause does not mean that the valuations cannot be relied upon. Rather, the clause is used for clarity and transparency that in the current extraordinary circumstances less certainty can be attached to the valuations than would otherwise be the case and to serve as a precaution and therefore does not invalidate the valuations. Given the continuing impact the outbreak is having on the property market it is recommended by the valuers that property valuations should be kept under frequent review.

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

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.

2. Critical accounting estimation uncertainty – continued

Fair value of investment property – continued

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'slength transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion;

- 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 debt

The ACS has elected to apply the recognition and measurement criteria of IFRS 9 to make provisions for the potential non-recovery of tenant arrears. The approach being used by the ACS in estimating bad debt provisions requires the application of objective evidence on the collectability of tenant receivables by using observable data about the debtors' specific financial profile as well as on the general market conditions and economic environment that would result in bad debt using a provision matrix of ageing default rates and property sector risks as well as predetermined probability of default for specific tenant circumstances.

Due to the effects of current material uncertainty and the significant government support measures being undertaken to assist businesses, the ACS has adjusted its application of IFRS 9 as permitted by FRS 102 in estimating our bad debt provision by adopting a debt ageing profile with a more lagging criterion of over 120 days for full default. The ACS considers this to be a more appropriate assumption in light of current circumstances than the presumption used until now that full default doesn't occur later than 90 days past due.

Bad debts are written off or derecognised when they become uncollectable and are therefore considered to be losses to the ACS. There is guidance as to when a debt can be written off and include insolvency and unenforceable. Bad debts are written off at the discretion of the ACS Manager following recommendation by the managing agent.

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. If in a subsequent period the amount of the provision for bad debt decreases and the decrease can be related objectively to an event occurring after the loss was recognised, the previously recognised loss is reversed in the Statement of Total Return.

3. Distribution policies

Basis of distribution

Revenue is generated by the ACS's investments during each accounting period. The amount available for distribution in any accounting period is calculated by taking the aggregate of the income received or receivable of the relevant unit class and deducting the charges and expenses paid or payable out of income in respect of that accounting period. The ACS Manager then makes such other adjustments as it considers appropriate in relation to Taxation, income unlikely to be received, income which should not be accounted for on an 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 unit class level, to the unitholders in accordance with the ACS's prospectus.

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

Apportionment to share classes

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

Expenses

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

4. Risk management policies

In accordance with its investment objective, the ACS holds financial instruments 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 95.9% (31/12/19: 94.7%), property values are exposure to a number of risk factors which may affect the total return of the ACS. These factorsinclude the change in general climate, local conditions, the physical characteristics of the building (apart from normal wear and tear, advances in technology orrequirements of tenants may render a building less attractive over time), propertymanagement, 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), attractivenessand 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.

4. Risk management policies – continued

Market price risk and valuation of property – continued

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 period end, the ACS's portfolio had an effective yield of 4.86% (31/12/19: 5.03%). If the yield of every property within the portfolio increased by 0.50% (31/12/19: 0.50%) it is estimated that the net asset would fall by 8.83% (31/12/18: 10.12%). If the yield decreased by 0.50% (31/12/19: 0.50%) it is estimated that the net asset value would rise by 10.85% (31/12/19: 10.46%). 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 period end.

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
30 June 2020	**£000**	**£000**	**£000**
Cash at bank	59,777	–	–
	%	**%**	**%**
Unitholding that can be redeemed	–	–	100
Portfolio capable of being liquidated	2.17	97.83	–
31 December 2019	**£000**	**£000**	**£000**
Cash at bank	42,853	–	–
	%	**%**	**%**
Unitholding that can be redeemed	–	–	100
Portfolio capable of being liquidated	5.15	94.85	–

4. Risk management policies – continued

Liquidity risk – continued

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
30 June 2020			
Distribution payable	27,355	–	–
Finance lease payable	93	303	762
Other creditors	41,043	–	–
	68,491	**303**	**762**
31 December 2019			
Distribution payable	30,110	–	–
Finance lease payable	398	1,594	36,070
Other creditors	38,925	–	–
	69,433	**1,594**	**36,070**

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 30 June 2020 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 £59.8m (31/12/19: £42.9m) cash at the period 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 redemptions, 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.

DISTRIBUTION TABLES
FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2020

Distribution in pence per unit

Class W Gross Income

Distribution period	Distribution unit	Equalisation	Total distributions per unit 2020	Total distributions per unit 2019
March				
Group 1	109.2235		109.2235	106.0571
Group 2	109.2235	–	109.2235	106.0571
June				
Group 1	97.7526		97.7526	114.2701
Group 2	97.7526	–	97.7526	114.2701

Class Z Gross Income

Distribution period	Distribution per unit	Equalisation	Total distributions per unit 2020	Total distributions per unit 2019
March				
Group 1	90.8320		90.8320	106.0571
Group 2	90.8320	–	90.8320	106.0571
June				
Group 1	79.6863		79.6863	95.6530
Group 2	79.6863	–	79.6863	95.6530

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.

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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