AEW UK REIT plc

Annual Report and Financial Statements
for the year ended 31 March 2021

Contents

Strategic Report

Financial Highlights

- Net Asset Value ('NAV') of £157.08 million and of 99.15 pence per share ('pps') as at 31 March 2021 (31 March 2020: £147.86 million and of 93.13 pps).
- Operating profit before fair value changes of £10.73 million for the year (year ended 31 March 2020: £14.47 million).
- Profit before tax ('PBT')* of £22.17 million and earnings per share ('EPS') of 13.98 pps for the year (year ended 31 March 2020: £3.65 million and of 2.40 pps).
- EPRA Earnings Per Share ('EPRA EPS')* for the year of 6.19 pps (year ended 31 March 2020: 8.67 pps).
- Total dividends of 8.00 pps declared for the year (year ended 31 March 2020: 8.00 pps).
- Shareholder Total Return* for the year of 33.72% (year ended 31 March 2020: -17.89%).
- NAV Total Return* for the year of 15.06% (year ended 31 March 2020: 2.55%).
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 83.20 pps as at 31 March 2021 (31 March 2020: 68.20 pps).
- As at 31 March 2021, the Company had drawn £39.50 million (31 March 2020: £51.50 million) of a £60.00 million (31 March 2020: £60.00 million) term credit facility with the Royal Bank of Scotland International Limited ('RBSi') and was geared to 25.15% of NAV (31 March 2020: 34.83%) (see note 14 on pages 96 and 97 for further details).
- The Company held cash balances totalling £17.45 million as at 31 March 2021 (31 March 2020: £9.87 million).
- The Company received three EPRA awards during the year: EPRA Gold Medal for Financial Reporting; EPRA Silver Medal for Sustainability Reporting and EPRA Most Improved Award for Sustainability Reporting. The Company has also been named Best UK Real Estate Investment Trust in the Citywire Investment Trust Awards based upon its strong three year track record.

Property Highlights

- As at 31 March 2021, the Company's property portfolio had a valuation of £179.00 million across 34 properties (31 March 2020: £189.30 million across 35 properties) as assessed by the valuer[1] and a historical cost of £173.28 million (31 March 2020: £197.12 million).
- The Company acquired one property during the year for a purchase price of £5.40 million, excluding acquisition costs (year ended 31 March 2020: none). The Company made two disposals during the year with total gross sale proceeds of £29.30 million (year ended 31 March 2020: none).
- The portfolio had an EPRA Vacancy Rate** of 8.96% as at 31 March 2021 (31 March 2020: 3.68%). Excluding vacancy contributed by Bath Street, Glasgow, which was exchanged to be sold with the condition of vacant possession, the vacancy rate was 5.58% (31 March 2020: 3.68%).
- Rental income generated in the year under review was £15.71 million (year ended 31 March 2020: £17.42 million). The number of tenants as at 31 March 2021 was 99 (31 March 2020: 91).
- EPRA Net Initial Yield ('NIY')** of 7.37% as at 31 March 2021 (31 March 2020: 8.26%).
- Weighted Average Unexpired Lease Term ('WAULT')* of 4.43 years to break (31 March 2020: 4.26 years) and 6.71 years to expiry (31 March 2020: 5.55 years).
- As at the date of this report, rent collection statistics for 2020 rental quarters and March 2021 quarter were as follows:

Quarter	%
March 2020	98
June 2020	98
September 2020	97
December 2020	97
March 2021	94

* See KPIs on pages 13 to 15 for definition of alternative performance measures.
** See Glossary on pages 129 to 132 for definition of alternative performance measures.
[1] The valuation figure is reconciled to the fair value under IFRS in note 11.

Chairman's Statement

Overview

I am pleased to present the audited annual results of AEW UK REIT plc for the year ended 31 March 2021. As at 31 March 2021, the Company owned a diversified portfolio of 34 commercial investment properties throughout the UK with a value of £179.00 million.

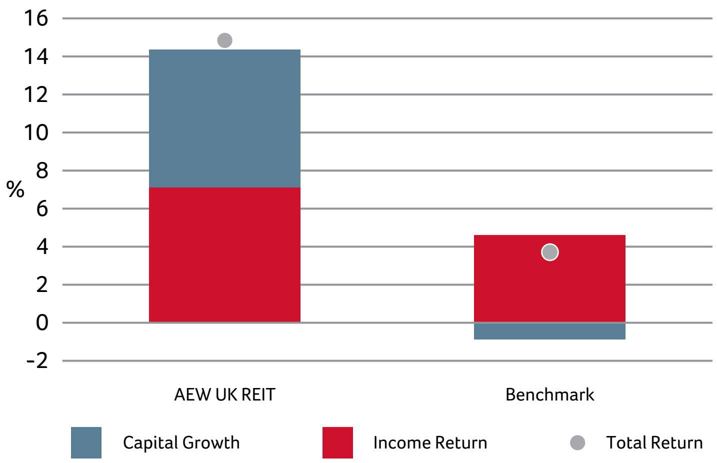
The financial year began with a period of unprecedented economic uncertainty due to the outbreak of COVID-19 and the associated measures to contain the spread of the virus. These measures continued throughout the year to varying degrees and have had a profound impact on certain sectors, most notably retail and leisure. To mitigate the increased risk posed by the uncertainty in the wider economic environment, the Company adopted a cautious approach to cash and debt management. Despite this, the Company has maintained its quarterly dividend payments at the target level of 8.00 pps per annum throughout the year and increased its NAV per share by 6.46%, providing a NAV total return of 15.06% (year ended 31 March 2020: 2.55%).

In May 2020, the Company disposed of 2 Geddington Road, Corby, for gross proceeds of £18.80 million, delivering an internal rate of return ('IRR') of 27%. This disposal allowed the effective management of the Company's risk profile, and in July 2020, £12.00 million of its RBSi loan facility was repaid in order to provide appropriate headroom against its borrowing covenants. Since the repayment, the Loan to NAV ratio has remained below 27% and was 25.15% as at 31 March 2021, against a soft covenant of 40% (triggering an increase in the margin) and a hard covenant of 55%.

This disposal, and the loss of the Company's largest tenant at the time, also resulted in a fall in rental income. The income profile from the remainder of the portfolio remained largely intact, with rent collection rates reaching at least 94% for all quarters since the onset of the pandemic. The majority of rents outstanding as at 31 March 2021 were attributable to tenants who were financially able, but unwilling, to pay. Post year-end, the Company announced the successful outcome of the legal action against two well-funded national tenants to recover unpaid rent. £0.52 million has been provided for as expected credit loss relating to these tenants in these financial statements and subsequent to the court ruling all rent arrears of these tenants have been received. The prudent policy for provision against expected credit losses contributed to a fall in EPRA EPS for the year to 6.19 pps (year ended 31 March 2020: 8.67 pps), providing a dividend cover of 77.4% (year ended 31 March 2020: 108.4%). Certain asset management initiatives are also temporarily reducing earnings potential. Remedial works are ongoing at Bank Hey Street, Blackpool, including the reinstatement of its cathodic protection system and comprehensive repairs to faience elevations and windows. The nature of these repair works means that costs are expensed to profit or loss as they are incurred, with a corresponding increase expected to be seen in the revaluation of the property. The Company has also exchanged to sell its property at Bath Street, Glasgow, with the condition of vacant possession, and this property will continue to operate at a high level of vacancy until the sale has completed.

The Company has benefitted from its defensively positioned portfolio, which achieved a total return of 14.8% over the year – an outperformance of 10.7% relative to the Benchmark. Relatively small lot sizes, geographical diversification and valuations that are underpinned by alternative use value have all contributed to limiting the downside during the period of unprecedented economic uncertainty in the first half of the financial year. The improved economic outlook in the second half of the year saw valuations recover and the Company generated an increase in fair value of its investment property of £5.32 million for the year, which has largely been driven by the strong performance of the Company's industrial assets. The pandemic has accelerated the trend towards online retail, and consequently sentiment towards the industrial and warehousing sector has improved. The Company benefits from a high weighting towards industrials, which made up 60.8% of the portfolio valuation as at 31 March 2021. Weightings in the retail and leisure sectors, which have been most negatively affected by the pandemic, remain low at 11.6% and 7.0% respectively.

AEW UK REIT plc Property Performance vs. Benchmark for 12 months to 31 March 2021



Source: MSCI 31 March 2021
* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

Chairman's Statement *(continued)*

Stock selection and active asset management continue to be key features of the Company's strategy and drivers of performance. This was evidenced in February 2021 by the completion of the sale of Sandford House, Solihull, for gross proceeds of £10.50 million. The asset was acquired in August 2015 for £5.40 million and the Company invested no further capital in the asset during its hold period. Significant value was gained from the completion of a 15-year lease in July 2020, with the existing tenant, the Secretary of State for Communities and Local Government, and the asset delivered an IRR in excess of 20% over the hold period. This demonstrates how shorter income assets in strong locations can be used to create value for shareholders.

As the economic outlook improves, the Investment Manager is seeing more attractive investment opportunities coming to the market, which the Company is well positioned to take advantage of with its available cash and debt. In October 2020, the Company acquired Westlands Distribution Park in Weston Super Mare for a purchase price of £5.40 million and post year-end acquired Arrow Point Retail Park, Shrewsbury, for a gross purchase price of £8.35 million and 15-33 Union Street, Bristol, for a gross purchase price of £10.19 million. The Company aims to make further acquisitions in order to increase its earnings and dividend cover.

The Company's share price was 83.20 pps as at 31 March 2021 (31 March 2020: 68.20 pps), representing a 16.1% discount to NAV. During the year, the Company experienced periods of significant discount in share price to NAV as a result of the conditions in the wider market. In light of this, during October and November 2020, the Company bought back 350,000 of its own shares for gross consideration of £262,995, which had a positive impact on the Company's NAV and EPRA EPS. Since the year end, the Company's share price has increased to 95.00 pps as at the date of approval of this report, representing a 4.19% discount to NAV.

We are delighted to announce that the Company has received three EPRA awards during the year: EPRA Gold Medal for Financial Reporting; EPRA Silver Medal for Sustainability Reporting and EPRA Most Improved Award for Sustainability Reporting. The Company has also been named Best UK Real Estate Investment Trust in the Citywire Investment Trust Awards based upon its strong three-year track record. These awards are a reflection of much hard work committed to the Company by the Investment Manager and the Board would like to thank the team at AEW and express its positivity and confidence in the Investment Manager's ongoing ability to implement the Company's strategy.

In September 2020, the Company passed a continuation vote at the Annual General Meeting ('AGM'), and shareholders voted in favour of an ordinary resolution to continue the Company's business as currently constituted. We are pleased shareholders support our belief in the Company's strategy and prospects for future performance.

Financial Results Summary

	Year ended 31 March 2021	Year ended 31 March 2020
Operating Profit before fair value changes (£'000)	**10,735**	14,472
Operating Profit (£'000)	**23,102**	5,072
Profit before Tax (£'000)	**22,172**	3,652
Earnings Per Share (basic and diluted) (pence)*	**13.98**	2.40
EPRA Earnings Per Share (basic and diluted) (pence)*	**6.19**	8.67
Ongoing Charges (%)	**1.36**	1.34
Net Asset Value per share (pence)	**99.15**	93.13

* See note 9 of the Financial Statements for calculation.

Chairman's Statement *(continued)*

Financing

The Company has a £60.00 million loan facility, of which it had drawn a balance of £39.50 million as at 31 March 2021 (31 March 2020: £60.00 million facility; £51.50 million drawn), producing the following measures of gearing:

	Year ended 31 March 2021 %	Year ended 31 March 2020 %
Loan to NAV	**25.15**	34.83
Gross Loan to GAV	**22.07**	27.21
Net Loan to GAV (deducts cash balance from the outstanding loan value)	**12.32**	21.99

The unexpired term of the facility was 2.6 years as at 31 March 2021 (31 March 2020: 3.6 years). The loan incurs interest at 3 month LIBOR +1.4%, which equated to an all-in rate of 1.44% as at 31 March 2021 (31 March 2020: 2.10%).

The Company is protected from a significant rise in interest rates and, as at the year end, had interest rate caps in effect with a notional value of £51.00 million (31 March 2020: £36.51 million), resulting in the loan being 130% hedged (31 March 2020: 71%). These interest rate caps are effective for the remaining period of the loan.

In June 2020, the Company completed an amendment to its loan facility allowing the part repayment of the loan without reducing the availability of the full £60.00 million facility, akin to a revolving credit facility. The Company subsequently repaid £12.00 million of the facility in July 2020. As at 31 March 2021, the Company had £15.48 million of the facility available up to the maximum 35.00% Loan to NAV at drawdown.

Dividends

The Company has continued to deliver on its target of paying dividends of 8.00 pps per annum. During the year, the Company declared and paid four quarterly dividends of 2.00 pence per Ordinary Share, in line with its target, which were 77.4% covered by the Company's EPRA EPS of 6.19 pence. It remains the Company's longer-term intention to continue to pay dividends in line with its dividend policy and this will be kept under review given the current COVID-19 situation. In determining future dividend payments, regard will be given to the circumstances prevailing at the relevant time, as well as the Company's requirement, as a UK REIT, to distribute at least 90% of its distributable income annually, which will remain a key consideration.

Chairman's Statement *(continued)*

Outlook

The Board and Investment Manager are pleased with the strong returns delivered to shareholders to date and with the resilience demonstrated under stressed conditions following the onset of the COVID-19 pandemic. The Company met its target dividends of 8.00 pps for the year and, although these were only 77.4% covered by EPRA EPS, significant gains were realised on the disposal of two assets during the year. These gains supplemented cash flows from its operating activities and allowed the dividend payments to be met while maintaining a comfortable cash and gearing position and without suffering an overall decline in NAV.

The lockdown period at the start of 2021 has reversed some of the UK's economic recovery seen in the second half of 2020. However, the general economic outlook is brighter for the second half of 2021, following the effective rollout of the vaccination programme and further easing of lockdown restrictions. We expect this to be reflected in the real estate market in terms of improved rent collection levels and the recovery of rental values and property valuations. However, many tenants will have benefitted from a range of government support schemes over the past year. As these protective measures are removed, we may yet see a significant surge in the number of corporate insolvencies, and so an element of caution should be retained.

The pandemic has accelerated certain structural shifts in the real estate market. We expect that this will present new challenges and opportunities in certain sectors. We believe that the Company is well placed to take advantage of these with its existing liquid resources available. Growth of the Company also remains a key objective and we hope that improved economic conditions and a return of the share price to trading at a premium to NAV, will enable this in the near future.

Mark Burton
Chairman

23 June 2021

Business Model and Strategy

Introduction

The Company is a real estate investment company listed on the premium segment of the Official List of the FCA and traded on the London Stock Exchange's Main Market. As part of its business model and strategy, the Company has, and intends to maintain, UK REIT status. HM Revenue and Customs has acknowledged that the Company has met the necessary qualifying conditions to conduct its affairs as a UK REIT and the Company intends to continue to do so.

Investment Objective

The investment objective of the Company is to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom.

Investment Policy

In order to achieve its investment objective the Company invests in freehold and leasehold properties across the whole spectrum of the commercial property sector (office properties, industrial/warehouse properties, retail warehouses and high street retail) resulting in a diversified tenant base.

Investment Restrictions

The Company invests and manages its assets with the objective of spreading risk through the following investment restrictions:

- the value of no single property, at the time of investment, will represent more than 15.00% of GAV;
- the Company may commit up to a maximum of 10.00% of its NAV (measured at the commencement of the relevant project) to development activities;
- the value of properties, measured at the time of each investment, in any one of the following sectors: office properties, retail warehouses, high street retail and industrial/warehouse properties will not exceed 60.00% of GAV;
- investment in unoccupied and non-income producing assets will, at the time of investment, not exceed 20.00% of NAV;
- the Company may commit up to a maximum of 10.00% of the NAV (at the time of investment) in the AEW UK Core Property Fund (the 'Core Fund'). The Company disposed of its last remaining units in the Core Fund in May 2017 and it is not the current intention of the Directors to invest in the Core Fund;
- the Company will not invest in other closed-ended investment companies; and
- if the Company invests in derivatives for the purposes of efficient portfolio and cash management, the total notional value of the derivatives at the time of investment will not exceed, in aggregate, 35.00% of GAV.

The Directors currently intend, at all times, to conduct the affairs of the Company so as to enable the Group to qualify as a REIT for the purposes of Part 12 of the Corporation Tax Act 2010 ('CTA') (and the regulations made thereunder).

The Company will at all times invest and manage its assets in a way that is consistent with its objective of spreading investment risk and in accordance with its published investment policy and will not, at any time, conduct any trading activity which is significant in the context of the business of the Company as a whole.

In the event of a breach of the investment policy and investment restrictions set out above, the Directors upon becoming aware of such breach will consider whether the breach is material, and if it is, notification will be made to a Regulatory Information Service.

Any material change to the investment policy or investment restrictions of the Company may only be made with the prior approval of shareholders.

Business Model and Strategy *(continued)*

Our Strategy

The Company exploits what it believes to be the compelling relative value opportunities currently offered by pricing inefficiencies in smaller commercial properties let on shorter occupational leases. The Company supplements this core strategy with asset management initiatives to upgrade buildings and thereby improve the quality of income streams. In the current market environment, the focus is to invest in properties which:

- typically have a value, on investment, of between £2.50 million and £15.00 million;
- have initial net yields, on investment, of typically between 7.5-10%;
- achieve across the whole portfolio an average weighted lease term of between three to six years remaining;
- achieve, across the whole portfolio, a diverse and broad spread of tenants; and
- have potential for asset management initiatives to include refurbishment and re-lettings.

How we add value

An Experienced Team

The investment management team averages 20 years working together, reflecting stability and continuity.

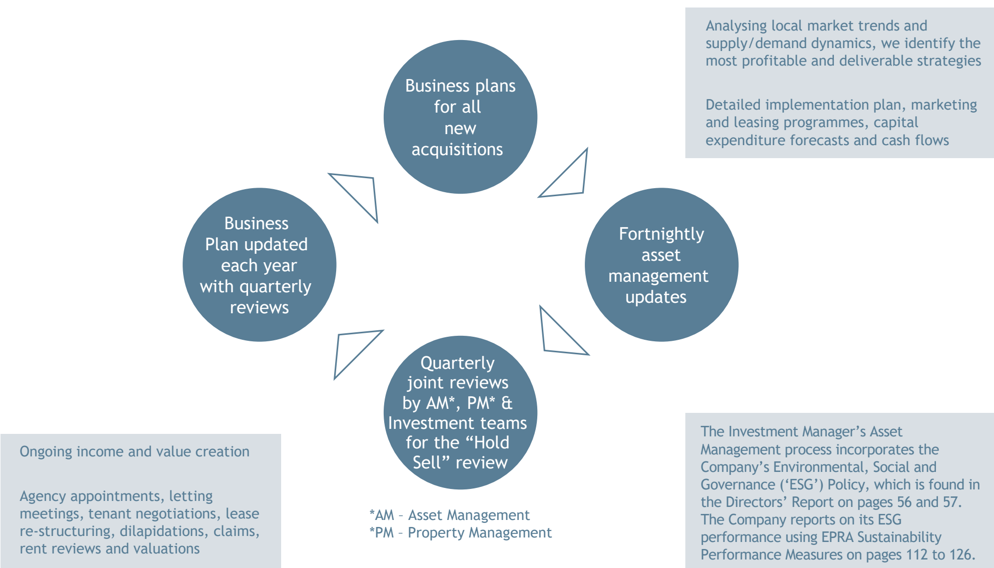
Value Investing

The Investment Manager's investment philosophy is based on the principle of value investing. The Investment Manager looks to acquire assets with an income profile coupled with underlying characteristics that underpin long-term capital preservation. As value managers, the Investment Manager looks for assets where today's pricing may not correspond to long-term fundamentals.

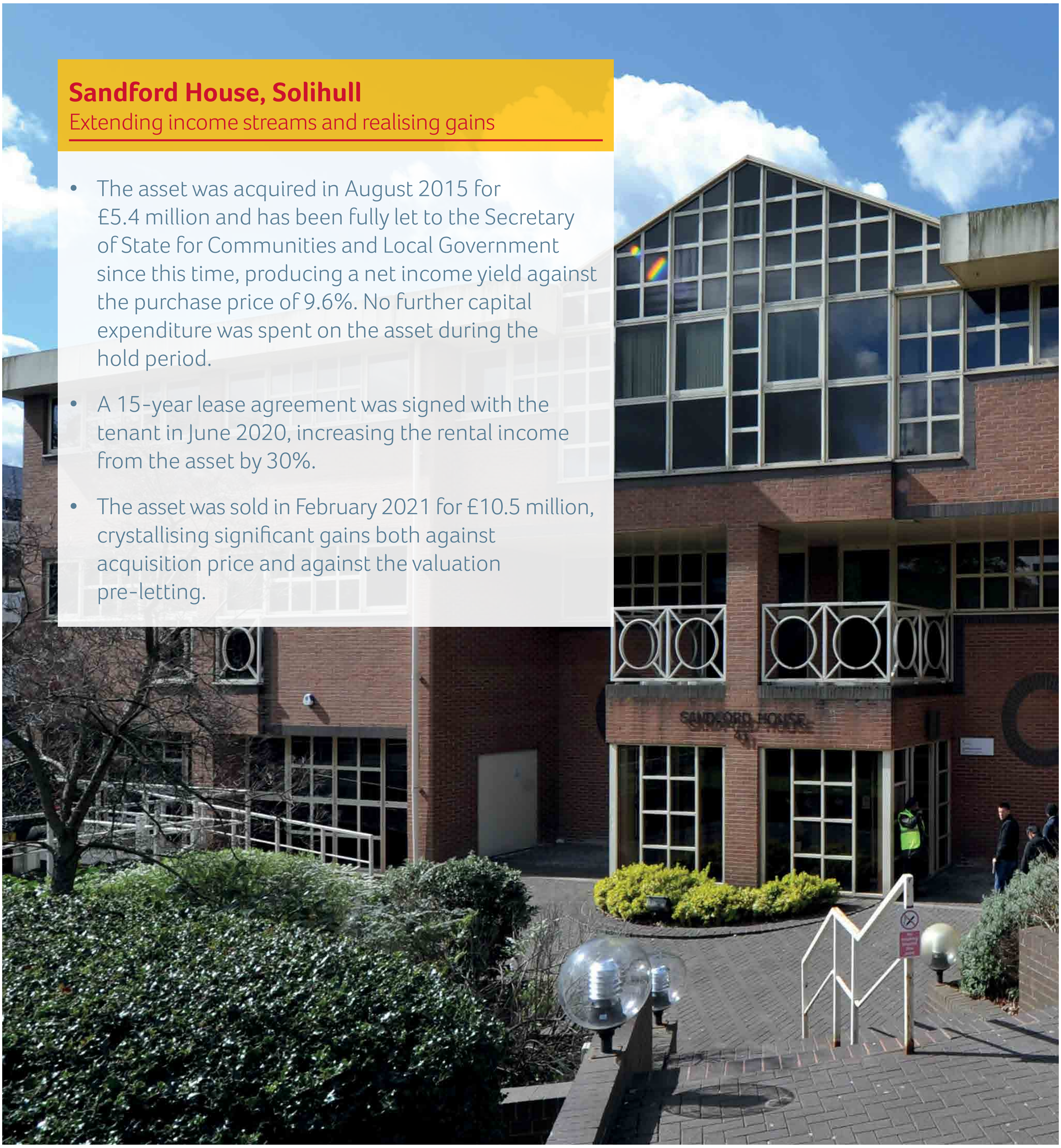
Active Asset Management

The Investment Manager has an in-house team of dedicated asset managers with a strong focus on active asset management to enhance income and add value to commercial properties.

Our Asset Management Process



Strategy in Action



Sandford House, Solihull

Extending income streams and realising gains

- The asset was acquired in August 2015 for £5.4 million and has been fully let to the Secretary of State for Communities and Local Government since this time, producing a net income yield against the purchase price of 9.6%. No further capital expenditure was spent on the asset during the hold period.
- A 15-year lease agreement was signed with the tenant in June 2020, increasing the rental income from the asset by 30%.
- The asset was sold in February 2021 for £10.5 million, crystallising significant gains both against acquisition price and against the valuation pre-letting.

Strategy in Action *(continued)*

Storeys Bar Road, Peterborough

Driving rental growth

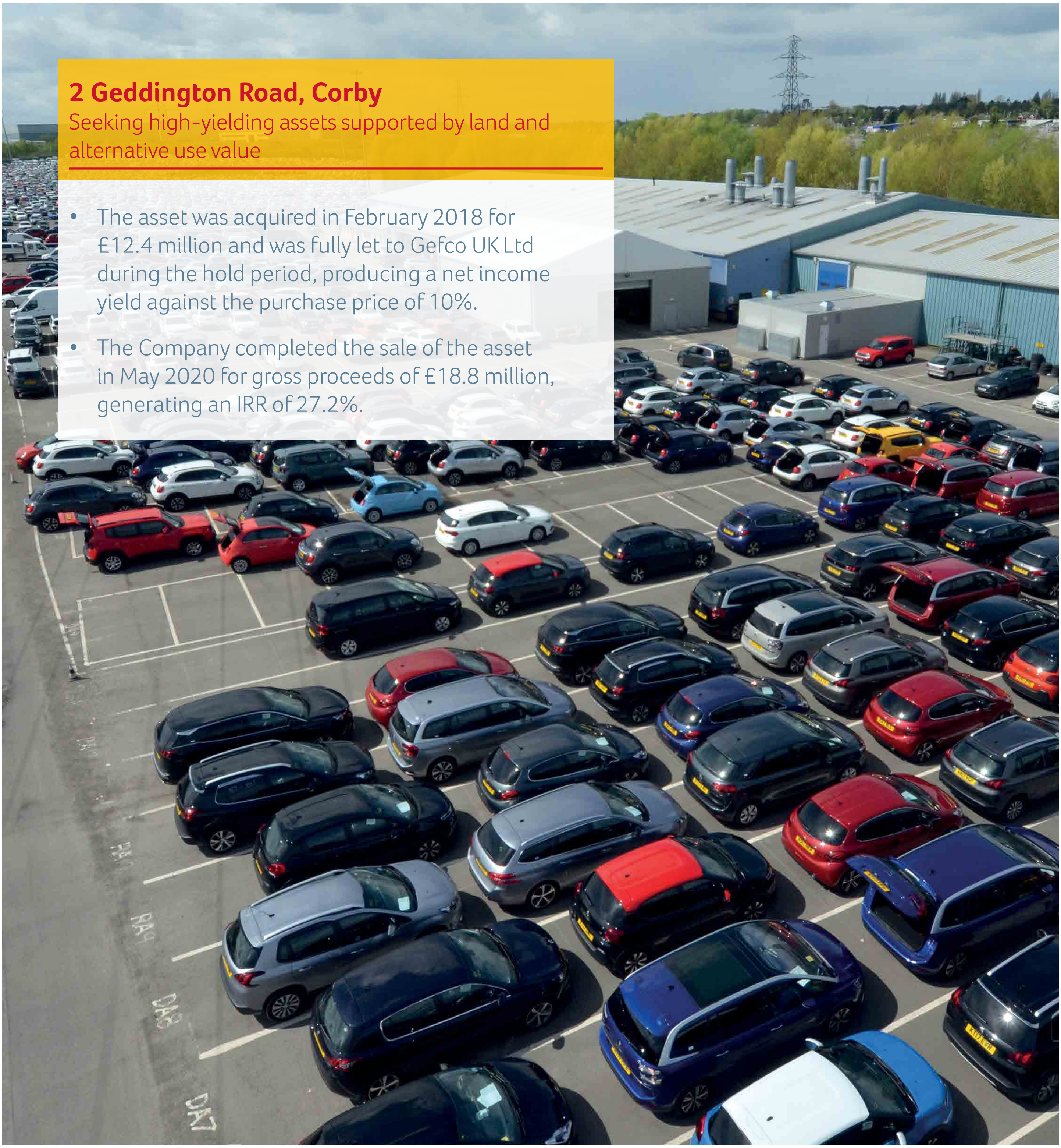
- In November 2020 the Company agreed a 15-year lease renewal with the existing tenant, Wyndeham Peterborough Ltd.
- The renewal achieved an uplift in rent from £2.95 per sq ft to £3.50 per sq ft, equating to an increase of £115,000 per annum.
- The like-for-like valuation as provided by the valuer increased by 20% over the year.

Strategy in Action *(continued)*

2 Geddington Road, Corby

Seeking high-yielding assets supported by land and alternative use value

- The asset was acquired in February 2018 for £12.4 million and was fully let to Gefco UK Ltd during the hold period, producing a net income yield against the purchase price of 10%.
- The Company completed the sale of the asset in May 2020 for gross proceeds of £18.8 million, generating an IRR of 27.2%.



Strategy in Action *(continued)*

Westlands Distribution Park, Weston-super-Mare

Acquiring assets with low capital value and potential to add value through asset management initiatives

- In November 2020, the Company completed the acquisition of the multi-let distribution park for a price of £5.4 million.
- This reflects a capital value of £175,000 per acre compared with nearby comparable land transactions which have ranged between £350,000 and £500,000 per acre for other commercial and residential uses.
- Short-term opportunities to add value through lettings and renewals.

Key Performance Indicators

KPI AND DEFINITION	RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
1. EPRA NIY A representation to the investor of what their initial net yield would be at a predetermined purchase price after taking account of all associated costs, e.g. void costs and rent free periods.	The Company's EPRA NIY demonstrates the ability to generate income from its portfolio in the short-term in order to meet its target dividend.	7.50 - 10.00%	**7.37%** at 31 March 2021 (31 March 2020: 8.26%)
2. True Equivalent Yield The average weighted return a property will produce according to the present income and estimated rental value ('ERV') assumptions, assuming the income is received quarterly in advance.	The Company's True Equivalent Yield demonstrates the Company's ability to generate income, both from its existing leases and its ERVs, in order to meet its target dividend.	7.50 - 10.00%	**8.15%** at 31 March 2021 (31 March 2020: 8.04%)
3. Reversionary Yield The expected return the property will provide once rack-rented.	A Reversionary Yield profile shows a potentially sustainable income stream that can be used to meet dividends past the expiry of a property's current leasing arrangements.	7.50 - 10.00%	**8.18%** at 31 March 2021 (31 March 2020: 7.90%)
4. WAULT to Expiry The average lease term remaining to expiry across the portfolio, weighted by contracted rent.	The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent-review mechanisms.	> 3 years	**6.71 years** at 31 March 2021 (31 March 2020: 5.55 years)

Key Performance Indicators *(continued)*

KPI AND DEFINITION	RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
5. WAULT to Break The average lease term remaining to break, across the portfolio weighted by contracted rent.	The Investment Manager believes that current market conditions present an opportunity whereby assets with a shorter unexpired lease term are often mispriced. As such, it is in line with the Investment Manager's strategy to acquire properties with a WAULT that is generally shorter than the benchmark. It is also the Investment Manager's view that a shorter WAULT is useful for active asset management as it allows the Investment Manager to engage in direct negotiation with tenants rather than via rent-review mechanisms.	> 3 years	**4.43 years** at 31 March 2021 (31 March 2020: 4.26 years)
6. NAV NAV is the value of an entity's assets minus the value of its liabilities.	Provides stakeholders with the most relevant information on the fair value of the assets and liabilities of the Company.	Increase year on year	**£157.08 million** at 31 March 2021 (31 March 2020: £147.86 million)
7. Leverage (Loan to NAV) The proportion of the Company's net assets that is funded by borrowings.	The Company has changed the measure of its Leverage KPI from 'Loan to Gross Asset Value ('GAV')' to 'Loan to NAV'. This is in line with the measure used in its banking covenants and so is considered to be more relevant to the Company's position. The target of 35% Loan to NAV, which is the gearing limit at drawdown under the RBSi facility, approximates to the previous target of 25% Loan to GAV, which is the measure used in the Company's Investment Guidelines. Gearing will continue to be monitored using both measures, but will be reported on the Loan to NAV basis.	35%	**25.15%** at 31 March 2021 (31 March 2020: 34.83%)
8. Vacant ERV The space in the property portfolio which is currently unlet, as a percentage of the total ERV of the portfolio.	The Company's aim is to minimise vacancy of the properties. A low level of structural vacancy provides an opportunity for the Company to capture rental uplifts and manage the mix of tenants within a property.	< 10.00%	**8.96%/5.58% excluding vacancy contributed by Glasgow*** at 31 March 2021 (31 March 2020: 3.68%)

* Glasgow has exchanged to be sold with the condition of vacant possession.

Key Performance Indicators *(continued)*

KPI AND DEFINITION	RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
9. Dividend Dividends declared in relation to the year. The Company targets a dividend of 8.00 pence per Ordinary Share per annum. However, given the current COVID-19 situation, regard will be had to the circumstances prevailing at the relevant time in determining dividend payments.	The dividend reflects the Company's ability to deliver a sustainable income stream from its portfolio.	8.00 pps	**8.00 pps** for the year ended 31 March 2021 (year ended 31 March 2020: 8.00 pps)
10. Ongoing Charges The ratio of total administration and operating costs expressed as a percentage of average NAV throughout the year.	The Ongoing Charges ratio provides a measure of total costs associated with managing and operating the Company, which includes the management fees due to the Investment Manager. The Investment Manager presents this measure to provide investors with a clear picture of operational costs involved in running the Company.	< 1.50%	**1.36%** for the year ended 31 March 2021 (year ended 31 March 2020: 1.34%)
11. Profit Before Tax ('PBT') PBT is a profitability measure which considers the Company's profit before the payment of income tax.	The PBT is an indication of the Company's financial performance for the year in which its strategy is exercised.	8.00 pps	**£22.17 million/ 13.98 pps** for the year ended 31 March 2021 (year ended 31 March 2020: £3.65 million/ 2.40 pps)
12. Shareholder Total Return The percentage change in the share price assuming dividends are reinvested to purchase additional Ordinary Shares.	This reflects the return seen by shareholders on their shareholdings through share price movements and dividends received.	8.00%	**33.72%** for the year ended 31 March 2021 (year ended 31 March 2020: -17.89%)
13. EPRA EPS Earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings. See note 9 of the financial statements.	This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.	8.00 pps	**6.19 pps** for the year ended 31 March 2021 (year ended 31 March 2020: 8.67 pps)

Investment Manager's Report

Alex Short and Laura Elkin – Portfolio Managers

Economic Review

A prolonged period of lockdown during Q1 2021 caused a contraction of 1.5% in UK economic growth for the quarter. However, the continued easing of restrictions throughout Q2 and a rapid rollout of the vaccination programme is expected to bring about relatively strong growth in the second half of 2021, with KPMG's Economic Outlook published in March 2021 forecasting UK GDP growth to be 4.6% for the whole year, compared with a 9.9% contraction in 2020. While rises in inflation rates are expected to accelerate along with the economic recovery, inflation is forecast to be lower than the Bank of England's 2% target by next year, allowing for a continued period of low interest rates. KPMG forecast the economic recovery to continue into 2022 with UK GDP growth of 5.6%.

Property Market Review

We take the view that UK real estate provides an attractive risk-adjusted reward longer term, compared with the very low risk-free rates on offer. Investors have largely held off from property investment over the last 12 months, partly due to disruption and changes to occupier behaviour due to the pandemic. However, as the occupier market recovers, the number of transactions is expected to increase. The pandemic has amplified the polarisation in performance between individual sectors, which was already in evidence beforehand.

Sector Review

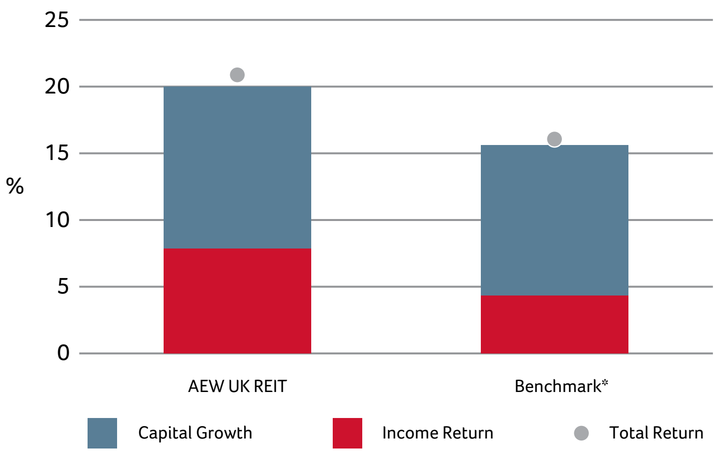
Industrial

The sector has been continuing to grow for a number of years due to the trend towards online shopping. Growth of this trend has continued at an even faster pace than predicted prior to the pandemic as social distancing has forced a change in shoppers' habits. Changes in shoppers' behaviour are expected to lead to increased take up of online sales, as a percentage of total sales, over the medium to long term in all retail sectors.

In terms of emerging trends, there is some expectation that the UK will begin to see an increase in localised production as a result of supply chain disruption experienced during the pandemic. If seen, this could further increase demand for industrial accommodation and would lead to increased take up outside of the currently favoured logistics sector instead being focused more on traditional manufacturing accommodation which has seen a decline in total stock over recent years.

The industrial sector represents the portfolio's largest sector holding, with 60.8% of the valuation, which leaves the Company well-placed to benefit from structural changes going forward. Our focus is on assets with low capital values in locations with good accessibility from the national motorway network.

AEW UK REIT Industrial Performance vs. Benchmark



Source: MSCI 31 March 2021
* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

The Company's industrial holding outperformed the Benchmark both in terms of income return, with a relative outperformance of 3.4%, and capital growth, with a relative outperformance of 0.8%.

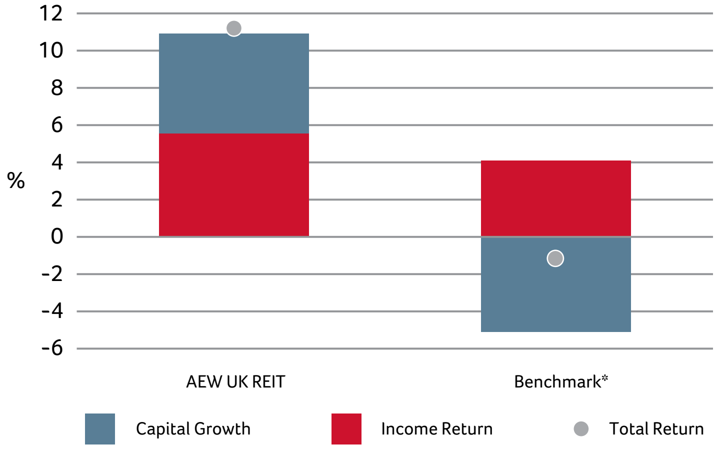
Investment Manager's Report *(continued)*

Office

Nationwide lockdowns have brought about substantial increases in remote working, with many companies indicating that they will move towards a more flexible working model in the future, which suggests that the physical office could become less important for some. KPMG forecasts the unemployment rate to increase in 2021 and again in 2022 as government support schemes are wound down. As such, the recovery in office demand and rental values in the sector are expected to remain subdued. We anticipate an acceleration in demand for offices with strong amenities post-pandemic as businesses try to entice workers back.

Our office assets represent the second largest sector holding, with 20.6% of the valuation. The focus has been on strong, regional centres and a preference for town or city centres rather than business park locations with weak surrounding amenity where demand has generally not kept up. This was the strongest performing sector relative to the Benchmark, achieving an outperformance of 12.5%, which was largely driven by capital growth of 5.4% resulting from key asset management transactions. In contrast, the office sector suffered capital losses of 5.1% across the Benchmark.

AEW UK REIT Office Performance vs. Benchmark



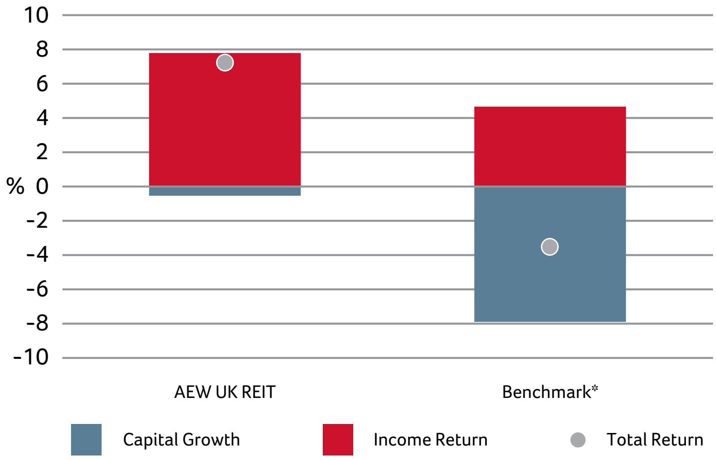
Source: MSCI 31 March 2021
* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

Alternatives

This is a sector in which AEW as Investment Manager has significant expertise and has seen a number of compelling opportunities in the market. The Company's current alternatives holding comprises assets within the leisure sector that have been selected due to their defensive, value protection characteristics as well as their high-income yield. As such, even though the income streams and valuations have suffered from the impact of the pandemic on this sector, the value of these assets is expected to be below their long-term value assessment when considering their value for alternative uses.

Assets held in alternative sectors comprise 7.0% of the 31 March 2021 valuation, all of which is within the leisure sector. The Company's high yielding alternatives generated an income return which outperformed by 3.0% relative to the Benchmark. Gains realised on the disposal of 2 Geddington Road, Corby, offset capital losses seen in the Company's leisure assets, meaning that capital returns achieved outperformance of 8.0% relative to the Benchmark.

AEW UK REIT Alternatives Performance vs. Benchmark



Source: MSCI 31 March 2021
* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

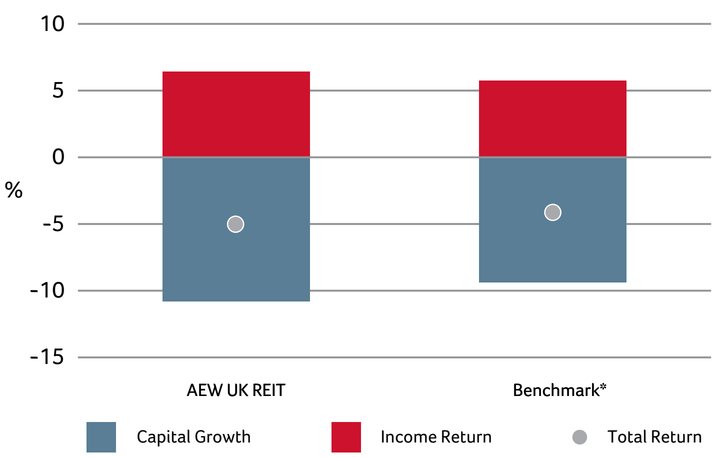
Investment Manager's Report *(continued)*

Retail

The retail sector has suffered greatly due to the pandemic and experienced an acceleration of trends already present in consumer habits prior to the onset. The rise in online retail is expected to continue, as retailers invest further in their online platforms and move a larger proportion of their sales online. Yields are expected to rise and changes in pricing are bringing about more opportunities for the repurposing of retail assets for alternative uses.

Retail represents 11.6% of the valuation and our retail assets have performed slightly weaker than the Benchmark, as Central London retail props up the Benchmark performance to some extent. The Company's strictly regional holdings have suffered valuation losses associated with the negative sentiment in the sector and issues caused by the pandemic.

AEW UK REIT Retail Performance vs. Benchmark



Source: MSCI 31 March 2021
* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

Property Portfolio

The Company made one acquisition during the year:

Westlands Distribution Park, Weston-super-Mare

In November 2020, the Company completed the acquisition of the multi-let Westlands Distribution Park in Weston-super-Mare for a purchase price of £5.4 million. The purchase price reflects a low capital value of £175,000 per acre, providing potential for future capital value growth based upon comparable land transactions for other commercial and residential uses. The established 323,437 sq ft estate is let to 15 tenants including North Somerset District Council who make up 30% of the income stream. It is located three miles from the M5 Motorway and 20 miles south of Bristol city centre.

The Company made the following acquisitions after the year end:

Arrow Point Retail Park, Shrewsbury

In May 2021, the Company acquired Arrow Point Retail Park in Shewsbury for a purchase price of £8.35 million. The established retail park is located on a busy commercial estate and is fully let. The estate provides a net initial yield of 8.7%, with low passing rents compared with competing locations. It comprises a modern purpose-built retail park constructed in 2007, arranged across nine units with 176 car parking spaces, and is prominently located within the main retail warehouse provision of Shrewsbury, approximately 2.5 miles north east of the town centre.

Investment Manager's Report *(continued)*

Bristol

In June 2021, the Company acquired 15-33 Union Street for a purchase price of £10.19 million. 15-33 Union Street occupies a prominent location in Bristol city centre, opposite The Galleries Shopping Centre and near Cabot Circus, Bristol's premier retail destination. Located on a busy thoroughfare for pedestrians, the 65,238 sq ft site experiences high footfall and is ideally suited for retail or leisure units. Constructed in 2001, the property currently comprises five purpose built split-level retail or leisure units over four floors and road access to both Union Street and Fairfax Street. Four of the five units are let to three household names and a successful local retailer. The remaining unit is currently vacant, with the vendor providing a 12 month guarantee. We are currently in discussions with a number of parties who are keen to occupy this space. The location of the site has been identified as a major regeneration area and it offers the ability for further growth through development.

The Company made two disposals during the year:

2 Geddington Road, Corby

In May 2020, the Company completed the sale of 2 Geddington Road, Corby, for a price of £18.8 million, achieving an IRR of 27.2%. The asset was acquired in February 2018 for £12.4 million and had been fully let to Gefco UK Limited during the hold period, producing a net income yield against the purchase price of 10%.

Sandford House, Solihull

In February 2021, the Company completed the sale of Sandford House, Solihull, for a price of £10.5 million, achieving an IRR of 19.5%. The asset was acquired in August 2015 for £5.4 million and had been fully let to the Secretary of State for Communities and Local Government since this time, producing a net income yield against the purchase price of 9.6%. The Company had invested no further capital in the asset during its hold period. A 15-year lease agreement was signed with the tenant in July 2020, which increased the asset's rental income by 30%.

Asset Management

The Company completed the following material asset management transactions during the period:

- **Bank Hey Street, Blackpool** – In May 2020, the Company signed a reversionary lease with existing tenant, JD Wetherspoon. This documents the removal of the tenant's break option in 2025 and provides an additional 10-year lease term taking the earliest expiry from 2025 to 2050. The annual rent payable by the tenant has reduced from £96,750 to £90,000 but the lease now provides five-yearly fixed increases reflecting 1% per annum.

  The Company is also continuing remedial works to its property in Blackpool, which include the overhaul and reinstatement of its cathodic protection system, and comprehensive repairs to faience elevations and windows. Works have been budgeted at a total cost to the Company of £1.7 million over two years. The nature of these repair works means that as the costs are incurred, they will be expensed to the Company's profit or loss, with a corresponding increase expected to be seen in the revaluation of the property, all else being equal. The works are expected to be completed by the end of 2021.

- **Bessemer Road, Basingstoke** – In July 2020, the Company completed a five-year lease renewal at its 58,000 sq ft industrial premises in Basingstoke. The lease has been granted with no rent free incentive given to the tenant and secures a rental income to the Company 6% ahead of independent valuer's estimated levels. The tenant has the benefit of a break option in year three.

- **Langthwaite Grange Industrial Estate, South Kirkby** – During August 2020, a lease renewal was signed with the Company's third largest tenant, Ardagh Glass. Rent payable under the new lease has been agreed 13% ahead of both independent valuer's estimated levels and the previous level of passing rent. The lease is for a five-year term and the tenant will benefit from four months' rent free and a tenant break option after three years.

Investment Manager's Report *(continued)*

- **Apollo Business Park, Basildon** – During September 2020, the Company completed a 5-year lease renewal on 35,300 sq ft of these multi-let industrial premises in Basildon. The lease secures a rental income to the Company 4% ahead of the independent valuer's estimated levels and 30% ahead of the previous rental level. The tenant will benefit from six months' rent free.
- **Wheeler Gate, Nottingham** – In September 2020, a five-year renewal lease was completed with Costa Coffee on a 1,400 sq ft retail unit located in central Nottingham. The reversionary lease documents the rebasing of Costa's rent from £110,000 to £52,000 per annum in line with its estimated rental value. The tenant benefits from nine months' rent free.
- **Bath Street, Glasgow** – During October 2020, the Company exchanged contracts to sell its 85,000 sq ft office holding at 225 Bath Street in Glasgow city centre to a subsidiary company of IQ Student Accommodation. The transaction is conditional upon various matters including the grant of planning permission for the development of a 480 bedroom student housing development and achieving vacant possession. Sale pricing will be determined following the approval of all conditions according to an agreed matrix ranging from £8.55 million to £9.30 million. Transaction pricing reflects 98% of pricing levels being discussed by the parties prior to the onset of the COVID-19 pandemic.
- **Moorside Road, Swinton** – Following the administration of the previous tenant, Nationwide Crash Repair Centres Ltd., a new letting was completed to HB Accident Repair Network Ltd. during November 2020. The lease is for a 10-year term and the starting rent of £122,500 per annum exceeds the rental level of the previous tenants by £11,000 per annum. The lease also provides for an RPI-linked review at year five if the tenant remains in occupation.
- **Storeys Bar Road, Peterborough** – In November 2020, the Company completed a 15-year lease renewal with its existing tenants, Wyndeham, achieving a net effective rental uplift from £2.95 per sq ft to £3.50 per sq ft, increasing the annual rent received from the asset by £115,000. The lease provides for tenant break options at the end of years three, six and nine and no incentives were granted to the tenant.
- **Sarus Court, Runcorn** – A new letting to Di-tec Power Ltd. was completed during December 2020 on 14,000 sq ft at this multi-let industrial estate. The new lease is for a 10-year term and includes an incentive of seven months' rent free. The rental level of £5.65 per sq ft proves a new high tone for the estate and exceeds the asset's previous estimated rental value level of £5.50 per sq ft.
- **Gresford Industrial Estate, Wrexham** – In March 2021, the Company exchanged contracts on the acquisition of a 2.76 acre plot of land adjacent to its industrial holding at Wrexham for a price of £60,200 and completed the purchase post year-end in April 2021. The freehold vacant land, being sold by administrators in auction, has rights over the Company's existing ownership. Therefore, the purchase of this land prevents any risks from third parties demanding access. Plastipak, the tenant of the existing property is potentially interested in expanding into this newly acquired piece of land.

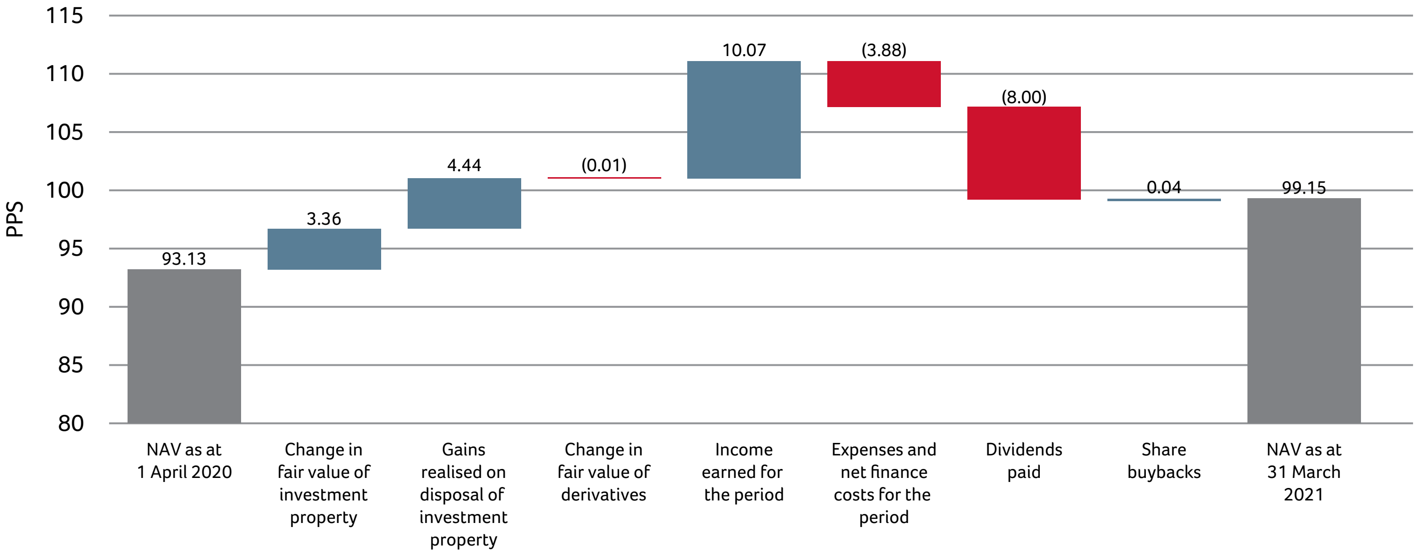
Vacancy

The portfolio's overall vacancy level now sits at 5.58%, excluding vacancy contributed by the asset at 225 Bath Street, Glasgow which, as discussed above, has now been exchanged for sale for alternative use redevelopment. As a condition of the sale agreement, full vacancy must be achieved in the building before the sale can be completed. Including this asset, overall vacancy is 8.96%.

Investment Manager's Report *(continued)*

Financial Results

The Company's NAV as at 31 March 2021 was £157.08 million or 99.15 pps (31 March 2020: £147.86 million or 93.13 pps). This is an increase of 6.02 pps or 6.46% over the year, with the underlying movement in NAV set out in the table below:



EPRA earnings per share for the year was 6.19 pps which, based on dividends paid of 8.00 pps, reflects a dividend cover of 77.4%.

Financing

As at 31 March 2021, the Company has a £60.0 million loan facility with RBSi, in place until October 2023, the details of which are presented below:

	31 March 2021	**31 March 2020**
Facility	**£60.00 million**	£60.00 million
Drawn	**£39.50 million**	£51.50 million
Gearing (Loan to NAV)	**25.15%**	34.83%
Interest rate	**1.44% all-in (LIBOR +1.4%)**	2.10% all-in (LIBOR +1.4%)
Notional Value of Loan Balance Hedged	**130.4%**	70.9%

In June 2020, the Company amended the terms of its facility, allowing the ability to make repayments and re-draw these amounts, akin to a revolving credit facility. In July 2020, the Company repaid £12.00 million of the facility.

Investment Manager's Report *(continued)*

Property Portfolio

Summary by Sector as at 31 March 2021

Sector	Number of assets	Valuation (£m)	Area (sq ft)	Vacancy by ERV (%)	WAULT to break (years)	Gross passing rental income (£m)	Gross passing rental income (£psf)	ERV (£m)	ERV (£psf)	Rental income (£m)	Like-for like rental growth (£m)	Like-for like rental growth %
Industrial	21	108.85	2,659,440	6.52	3.93	8.52	3.21	9.72	3.65	8.33	(0.29)	(3.44)
Offices	5	36.80	252,358	19.81	3.11	2.36	9.37	3.56	14.09	2.97	(0.38)	(13.48)
Alternatives	2	12.55	112,355	0.00	7.35	1.50	13.31	1.23	10.99	1.73	0.00	0.00
Standard Retail	5	15.20	168,917	9.48	4.59	2.06	12.17	1.51	8.96	2.07	(0.41)	(16.53)
Retail Warehouse	1	5.60	51,021	0.00	3.01	0.61	11.96	0.52	10.09	0.61	0.00	0.00
Portfolio	**34**	**179.00**	**3,244,091**	**8.96***	**4.43**	**15.05**	**4.64**	**16.54**	**5.10**	**15.71**	**(1.08)**	**(6.80)**

Summary by Geographical Area as at 31 March 2021

Geographical area	Number of assets	Valuation (£m)	Area (sq ft)	Vacancy by ERV (%)	WAULT to break (years)	Gross passing rental income (£m)	Gross passing rental income (£psf)	ERV (£m)	ERV (£psf)	Rental income (£m)	Like-for like rental growth (£m)	Like-for like rental growth %
Yorkshire and Humberside	8	38.17	1,027,801	4.93	2.84	3.23	3.14	3.64	3.53	3.20	(0.34)	(9.60)
South East	5	27.68	195,545	7.63	3.83	2.02	10.35	2.18	11.14	2.29	(0.35)	(13.26)
Eastern	5	22.05	344,885	11.57	3.04	1.85	5.36	2.05	5.94	1.66	(0.23)	(12.17)
South West	4	25.30	448,357	9.85	2.24	2.23	4.98	2.48	5.54	1.88	0.01	0.60
West Midlands	3	12.70	363,722	5.50	5.30	1.18	3.24	1.14	3.14	1.78	0.10	8.63
East Midlands	1	3.90	28,219	0.00	5.57	0.39	13.64	0.39	13.80	0.58	(0.11)	(21.57)
North West	4	16.35	302,061	0.00	4.52	1.40	4.64	1.36	4.51	1.35	(0.09)	(6.25)
Wales	2	16.10	376,138	0.00	8.08	1.25	3.31	1.39	3.69	1.31	0.00	0.00
Greater London	1	9.25	71,720	0.00	10.62	0.96	13.40	0.75	10.45	1.01	0.00	0.00
Scotland	1	7.50	85,643	51.07	1.31	0.54	6.33	1.16	13.54	0.65	(0.07)	(9.72)
Portfolio	**34**	**179.00**	**3,244,091**	**8.96***	**4.43**	**15.05**	**4.64**	**16.54**	**5.10**	**15.71**	**(1.08)**	**(6.80)**

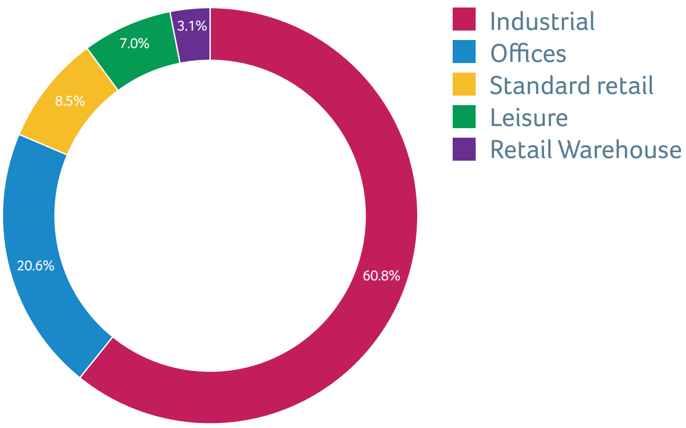
* excluding the vacancy from 225 Bath Street Glasgow, which has exchanged to be sold with the condition of vacant possession, the vacancy rate is 5.58%.

Investment Manager's Report *(continued)*

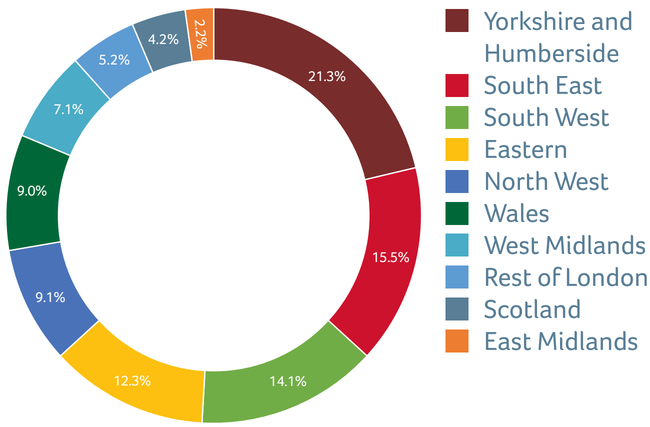
Property Portfolio *(continued)*

Properties by Market Value as at 31 March 2021

Sector weighting by valuation – high industrial weighting and low exposure to retail



Geographical weighting by valuation – highly diversified across the UK



Properties by Market Value as at 31 March 2021

	Property	Sector	Region	Market Value Range (£m)
	Top 10:			
1.	Eastpoint Business Park, Oxford	Offices	South East	10.0 – 15.0
2.	Gresford Industrial Estate, Wrexham	Industrial	Wales	10.0 – 15.0
3.	40 Queen Square, Bristol	Offices	South West	10.0 - 15.0
4.	London East Leisure Park, Dagenham	Leisure	Rest of London	7.5 – 10.0
5.	Langthwaite Grange Industrial Estate, South Kirkby	Industrial	Yorkshire and Humberside	7.5 – 10.0
6.	Lockwood Court, Leeds	Industrial	Yorkshire and Humberside	7.5 – 10.0
7.	Storeys Bar Road, Peterborough	Industrial	Eastern	7.5 – 10.0
8.	225 Bath Street, Glasgow	Offices	Scotland	7.5 – 10.0
9.	Sarus Court Industrial Estate, Runcorn	Industrial	North West	5.0 – 7.5
10.	Euroway Trading Estate, Bradford	Industrial	Yorkshire and Humberside	5.0 – 7.5

The Company's top 10 properties listed above comprise 49.7% of the total value of the portfolio.

Investment Manager's Report *(continued)*

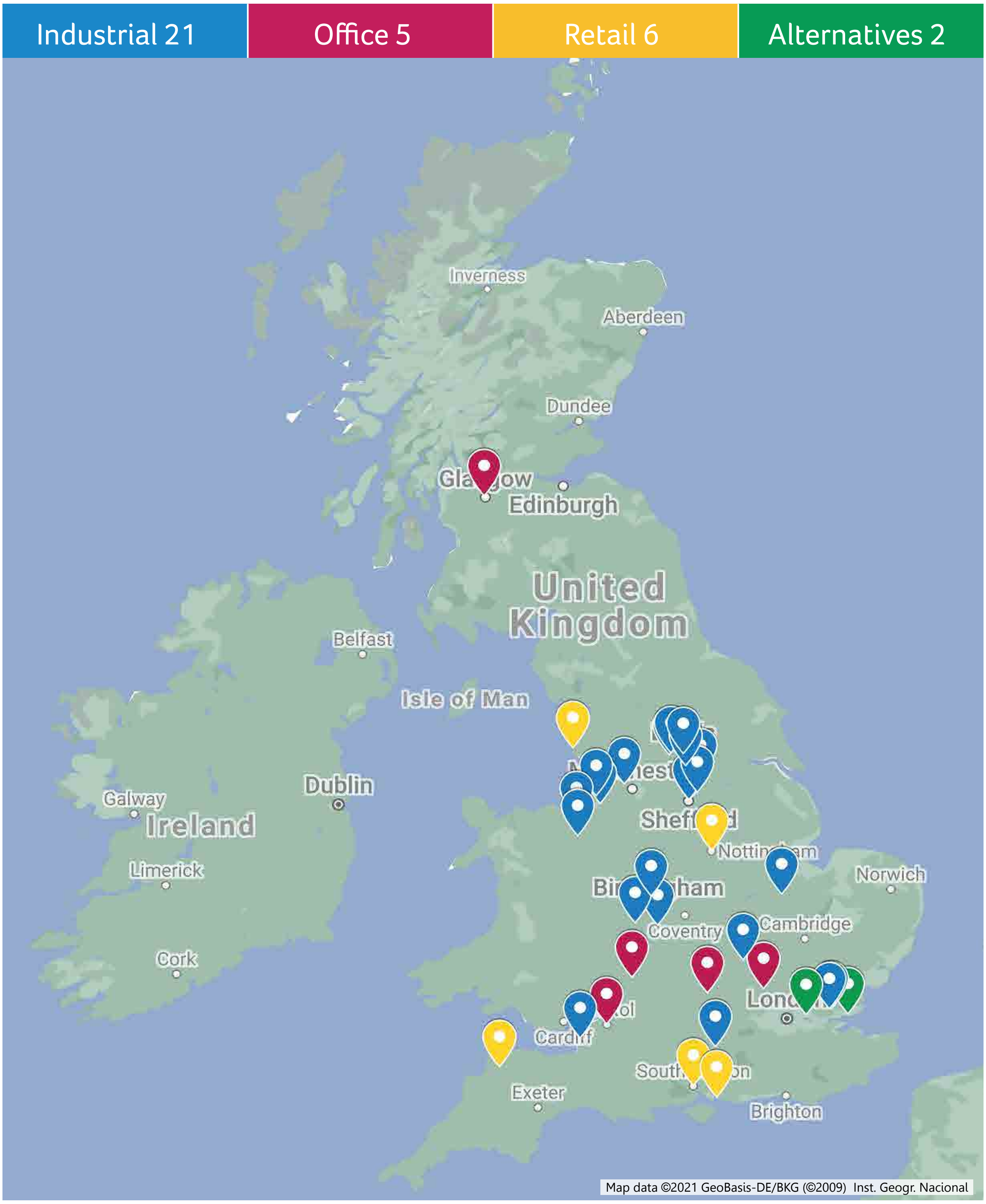
Property Portfolio *(continued)*

	Property	Sector	Region	Market Value Range (£m)
11.	Apollo Business Park, Basildon	Industrial	Eastern	5.0 – 7.5
12.	Brockhurst Crescent, Walsall	Industrial	West Midlands	5.0 – 7.5
13.	Barnstaple Retail Park	Retail Warehouse	South West	5.0 – 7.5
14.	Westlands Distribution Park, Weston	Industrial	South West	5.0 – 7.5
15.	Walkers Lane, St. Helens	Industrial	North West	< 5.0
16.	Diamond Business Park, Wakefield	Industrial	Yorkshire and Humberside	< 5.0
17.	Excel 95, Deeside	Industrial	Wales	< 5.0
18.	Cranbourne House, Basingstoke	Industrial	South East	< 5.0
19.	Oak Park, Droitwich	Industrial	West Midlands	< 5.0
20.	Pearl Assurance House, Nottingham	Standard Retail	East Midlands	< 5.0
21.	Brightside Lane, Sheffield	Industrial	Yorkshire and Humberside	< 5.0
22.	Above Bar Street, Southampton	Standard Retail	South East	< 5.0
23.	Commercial Road, Portsmouth	Standard Retail	South East	< 5.0
24.	Cedar House, Gloucester	Offices	South West	< 5.0
25.	Magham Road, Rotherham	Industrial	Yorkshire and Humberside	< 5.0
26.	Odeon Cinema, Southend	Leisure	Eastern	< 5.0
27.	Pipps Hill Industrial Estate, Basildon	Industrial	Eastern	< 5.0
28.	Bank Hey Street, Blackpool	Standard Retail	North West	< 5.0
29.	Eagle Road, Redditch	Industrial	West Midlands	< 5.0
30.	Clarke Road, Milton Keynes	Industrial	South East	< 5.0
31.	Knowles Lane, Bradford	Industrial	Yorkshire and Humberside	< 5.0
32.	Vantage Point, Hemel Hempstead	Offices	Eastern	< 5.0
33.	Moorside Road, Salford	Industrial	North West	< 5.0
34.	Fargate and Chapel Walk, Sheffield	Standard Retail	Yorkshire and Humberside	< 5.0

Investment Manager's Report *(continued)*

Property Portfolio *(continued)*

UK property locations as at 31 March 2021



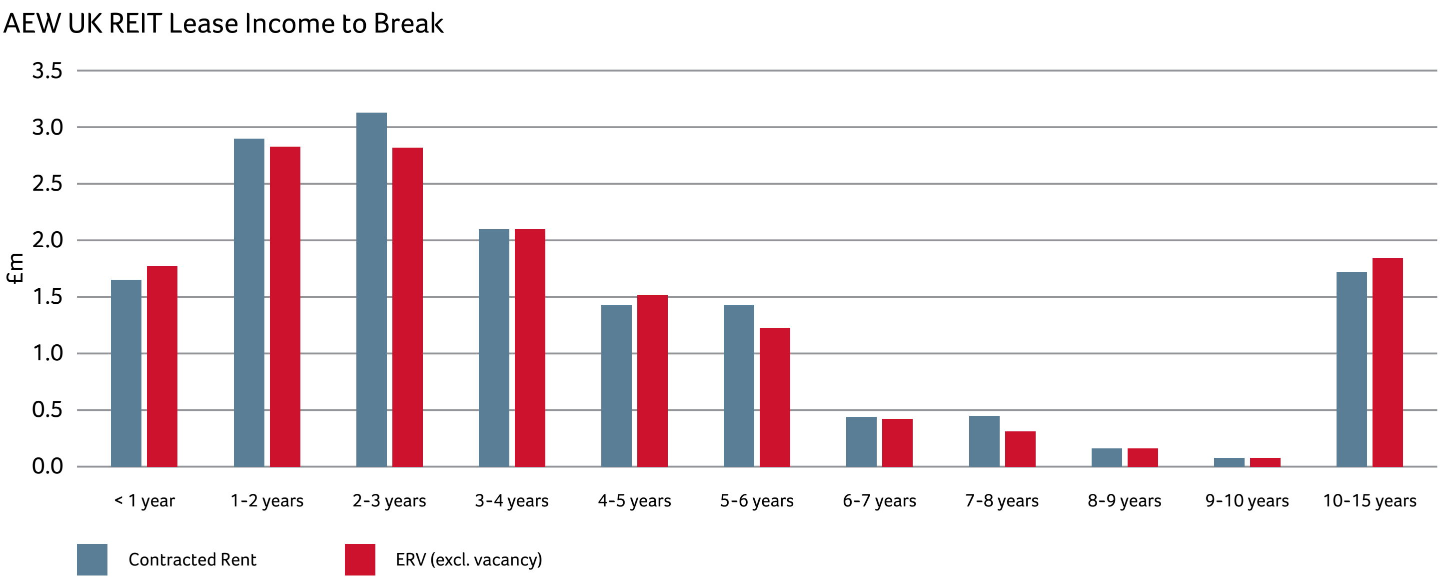
Investment Manager's Report *(continued)*

Top 10 Tenants as at 31 March 2021

	Tenant	Sector	Property	Passing Rental Income (£'000)	% of Portfolio Total Passing Rental Income
1.	Plastipak UK Limited	Industrial	Gresford Industrial Estate, Wrexham	883	5.7
2.	Ardagh Glass Limited	Industrial	Langthwaite Industrial Estate, South Kirkby	763	4.9
3.	Wyndeham Peterborough Limited	Industrial	Storeys Bar Road, Peterborough	644	4.2
4.	Mecca Bingo Limited	Leisure	London East Leisure Park, Dagenham	625	4.0
5.	Harrogate Spring Water	Industrial	Lockwood Court, Leeds	603	3.9
6.	Odeon Cinemas	Leisure	Odeon Cinema, Southend	535	3.5
7.	Sports Direct	Retail	Barnstaple Retail Park and Bank Hey Street, Blackpool	525	3.4
8.	Egbert H Taylor & Co Ltd	Industrial	Oak Park, Droitwich	500	3.2
9.	Advance Supply Chain (BFD) Ltd	Industrial	Euroway Trading Estate, Bradford	467	3.0
10.	HFC Prestige Manufacturing	Industrial	Cranbourne House, Basingstoke	460	3.0

The Company's top 10 tenants, listed above, represent 38.8% of the total passing rental income of the portfolio.

Lease Expiry Profile as at 31 March 2021



£1.65 million of the Company's current contracted income stream is subject to an expiry or break within the 12-month period commencing 1 April 2021.

Investment Manager's Report *(continued)*

Alternative Investment Fund Manager ('AIFM')

AEW UK Investment Management LLP is authorised and regulated by the FCA as a full-scope AIFM and provides its services to the Company.

The Company has appointed Langham Hall UK Depositary LLP ('Langham Hall') to act as the depositary to the Company, responsible for cash monitoring, asset verification and oversight of the Company.

Information Disclosures under the AIFM Directive

Under the AIFM Directive, the Company is required to make disclosures in relation to its leverage under the prescribed methodology of the Directive.

Leverage

The AIFM Directive prescribes two methods for evaluating leverage, namely the 'Gross Method' and the 'Commitment Method'. The Company's maximum and actual leverage levels are as per below:

	31 March 2021		31 March 2020	
Leverage Exposure	**Gross Method**	**Commitment Method**	Gross Method	Commitment Method
Maximum Limit	140%	140%	140%	140%
Actual	114%	125%	128%	135%

In accordance with the AIFM Directive, leverage is expressed as a percentage of the Company's exposure to its NAV and adjusted in line with the prescribed 'Gross' and 'Commitment' methods. The Gross method is representative of the sum of the Company's positions after deducting cash balances and without taking into account any hedging and netting arrangements. The Commitment method is representative of the sum of the Company's positions without deducting cash balances and taking into account any hedging and netting arrangements. For the purposes of evaluating the methods above, the Company's positions primarily reflect its current borrowings and NAV.

Investment Manager's Report *(continued)*

Remuneration

The AIFM has adopted a Remuneration Policy which accords with the principles established by AIFMD. AIFMD Remuneration Code Staff includes the members of the AIFM's Management Committee, those performing Control Functions, Department Heads, Risk Takers and other members of staff that exert material influence on the AIFM's risk profile or the AIFs it manages.

Staff are remunerated in accordance with the key principles of the firm's remuneration policy, which include:

(1) promoting sound risk management;

(2) supporting sustainable business plans;

(3) remuneration being linked to non-financial criteria for Control Function staff;

(4) incentivising staff performance over longer periods of time;

(5) awarding guaranteed variable remuneration only in exceptional circumstances; and

(6) having an appropriate balance between fixed and variable remuneration.

As required under section 'Fund 3.3.5.R(5)' of the Investment Fund Sourcebook, the following information is provided in respect of remuneration paid by the AIFM to its staff for the year ended to 31 December 2020.

	Year ended 31 December 2020
Total remuneration paid to employees during financial year:	
a) remuneration, including, where relevant, any carried interest paid by the AIFM	£2,893,979
b) the number of beneficiaries	25
The aggregate amount of remuneration of the AIFM Remuneration Code staff, broken down by:	
a) senior management	£767,350
b) members of staff	£2,126,629

	Fixed remuneration	**Variable remuneration**	**Total remuneration**
Senior management	£677,350	£90,000	£767,350
Staff	£1,590,629	£536,000	£2,126,629
Total	**£2,267,979**	**£626,000**	**£2,893,979**

Fixed remuneration comprises basic salaries and variable remuneration comprises bonuses.

AEW UK Investment Management LLP

23 June 2021

Principal Risks and Uncertainties

The Company's assets consist primarily of UK commercial property. Its principal risks are therefore related to the commercial property market in general, but also to the particular circumstances of the individual properties and the tenants within the properties.

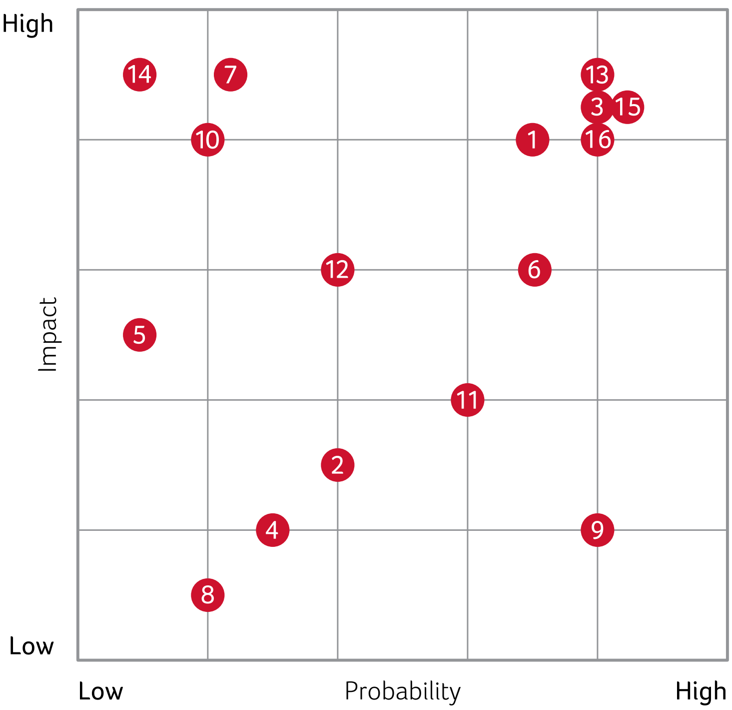
The Board has overall responsibility for reviewing the effectiveness of the system of risk management and internal control which is operated by the Investment Manager. The Company's ongoing risk management process is designed to identify, evaluate and mitigate the significant risks the Company faces.

At least twice a year, the Board undertakes a formal risk review with the assistance of the Audit Committee, to assess the adequacy and effectiveness of the Investment Manager and other service providers' risk management and internal control processes.

The Board has carried out a robust assessment of the principal and emerging risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.

An analysis of the principal risks and uncertainties is set out below. The risks below do not purport to be exhaustive as some risks are not yet known and some risks are currently not deemed material but could turn out to be material in the future.

Principal Risks



Key

1. Property market
2. Property valuation
3. Tenant default
4. Asset management initiatives
5. Due diligence
6. Fall in rental rates
7. Breach of borrowing covenants
8. Interest rate rises (short term)
9. Interest rate rises (long term)
10. Availability and cost of debt
11. Use of service providers
12. Dependence on the Investment Manager
13. Ability to meet objectives
14. Company REIT status
15. General political/economic environment
16. COVID-19

The matrix above illustrates the Company's assessment of the impact and probability of the principal risks identified.

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
REAL ESTATE RISKS		
1. Property market		
Any property market recession or future deterioration in the property market could, inter alia, (i) cause the Company to realise its investments at lower valuations; and (ii) delay the timings of the Company's realisations. These risks could have a material adverse effect on the ability of the Company to achieve its investment objective.	The Company has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.	**Probability:** Moderate to High **Impact:** High **Movement:** Decrease
2. Property valuation		
Property and property-related assets are inherently difficult to value due to the individual nature of each property. There may be an adverse effect on the Company's profitability, the NAV and the price of Ordinary Shares in cases where properties are sold whose valuations have previously been materially overstated.	The Company uses an independent external valuer (Knight Frank LLP) to value the properties at fair value in accordance with accepted RICS appraisal and valuation standards.	**Probability:** Moderate **Impact:** Low to Moderate **Movement:** Decrease
3. Tenant default		
Failure by tenants to fulfil their rental obligations could affect the income that the properties earn and the ability of the Company to pay dividends to its shareholders.	Comprehensive due diligence is undertaken on all new tenants. Tenant covenant checks are carried out on all new tenants where a default would have a significant impact. Asset management team conducts ongoing monitoring and liaison with tenants to manage potential bad debt risk.	**Probability:** High **Impact:** High **Movement:** Decrease
4. Asset management initiatives		
Asset management initiatives, such as refurbishment works, may prove to be more extensive, expensive and take longer than anticipated. Cost overruns may have a material adverse effect on the Company's profitability, the NAV and the share price.	Costs incurred on asset management initiatives are closely monitored against budgets and reviewed in regular presentations to the Investment Management Committee of the Investment Manager.	**Probability:** Low to Moderate **Impact:** Low to Moderate **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
REAL ESTATE RISKS *(continued)*		
5. Due diligence		
Due diligence may not identify all the risks and liabilities in respect of an acquisition (including any environmental, structural or operational defects) that may lead to a material adverse effect on the Company's profitability, the NAV and the price of the Company's Ordinary Shares.	The Company's due diligence relies on work (such as legal reports on title, property valuations, environmental and building surveys) outsourced to third parties who have expertise in their areas. Such third parties have professional indemnity cover in place.	**Probability:** Low **Impact:** Moderate **Movement:** No change
6. Fall in rental rates		
Rental rates may be adversely affected by general UK economic conditions and other factors that depress rental rates, including local factors relating to particular properties/locations (such as increased competition). Any fall in the rental rates for the Company's properties may have a material adverse effect on the Company's profitability, the NAV, the price of the Ordinary Shares and the Company's ability to meet interest and capital repayments on any debt facilities.	The Company builds a diversified property and tenant base with subsequent monitoring of concentration to individual occupiers (top 10 tenants) and sectors (geographical and sector exposure). The Investment Manager holds quarterly meetings with its Investment Strategy Committee and regularly meets the Board of Directors to assess whether any changes in the market present risks that should be addressed in the Company's strategy.	**Probability:** Moderate to High **Impact:** Moderate to High **Movement:** No change
FINANCIAL RISKS		
7. Breach of borrowing covenants		
The Company has entered into a term credit facility. Material adverse changes in valuations and net income may lead to breaches in the LTV and interest cover ratio covenants.	The Company monitors the use of borrowings on an ongoing basis through weekly cash flow forecasting and quarterly risk monitoring to monitor financial covenants.	**Probability:** Low to Moderate **Impact:** High **Movement:** Decrease
8. Interest rate rises (short term)		
The Company's borrowings through a term credit facility are subject to interest rate risk through changing LIBOR rates. Any increases in LIBOR rates may have an adverse effect on the Company's ability to pay dividends.	The Company uses interest rate caps on a significant notional value of the loan to mitigate the adverse impact of possible interest rate rises. The Investment Manager and Board of Directors monitor the level of hedging and interest rate movements to ensure that the risk is managed appropriately.	**Probability:** Low to Moderate **Impact:** Low **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
FINANCIAL RISKS *(continued)*		
9. Interest rate rises (long term)		
The Company's borrowings through a term credit facility are subject to interest rate risk through changing LIBOR rates. Any increases in LIBOR rates may have an adverse effect on the Company's ability to pay dividends.	The Company uses interest rate caps on a significant notional value of the loan to mitigate the adverse impact of possible interest rate rises. The Investment Manager and Board of Directors monitor the level of hedging and interest rate movements to ensure that the risk is managed appropriately.	**Probability:** High **Impact:** Low to Moderate **Movement:** No change
10. Availability and cost of debt		
The term credit facility expires in October 2023. In the event that RBSi does not renew the facility, the Company may need to sell assets to repay the outstanding loan. Any increase in the financing costs of the facility on renewal would adversely impact on the Company's profitability.	The Company maintains a good relationship with the bank providing the term credit facility. The Company monitors the projected usage and covenants of the credit facility on a quarterly basis.	**Probability:** Low to Moderate **Impact:** High **Movement:** No change
CORPORATE RISKS		
11. Use of service providers		
The Company has no employees and is reliant upon the performance of third party service providers. Failure by any service provider to carry out its obligations to the Company in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Company.	The performance of service providers in conjunction with their service level agreements is monitored via regular calls and face-to-face meetings and the use of key performance indicators, where relevant.	**Probability:** Moderate to High **Impact:** Moderate **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
CORPORATE RISKS *(continued)*		
12. Dependence on the Investment Manager		
The Investment Manager is responsible for providing investment management services to the Company. The future ability of the Company to successfully pursue its investment objective and investment policy may, among other things, depend on the ability of the Investment Manager to retain its existing staff and/or to recruit individuals of similar experience and calibre.	The Investment Manager has endeavoured to ensure that the principal members of its management team are suitably incentivised.	**Probability:** Moderate **Impact:** Moderate to High **Movement:** No change
13. Ability to meet objectives		
The Company may not meet its investment objective to deliver an attractive total return to shareholders from investing predominantly in a portfolio of smaller commercial properties in the United Kingdom. Poor relative total return performance may lead to an adverse reputational impact that affects the Company's ability to raise new capital.	The Company has an investment policy to achieve a balanced portfolio with a diversified asset and tenant base. The Company also has investment restrictions in place to limit exposure to potential risk factors. These factors mitigate the risk of fluctuations in returns.	**Probability:** High **Impact:** High **Movement:** No change
TAXATION RISKS		
14. Company REIT status		
The Company has a UK REIT status that provides a tax-efficient corporate structure. If the Company fails to remain a REIT for UK tax purposes, its profits and gains will be subject to UK corporation tax. Any change to the tax status or UK tax legislation could impact on the Company's ability to achieve its investment objectives and provide attractive returns to shareholders.	The Company monitors REIT compliance through the Investment Manager on acquisitions; the Administrator on asset and distribution levels; the Registrar and Broker on shareholdings and the use of third-party tax advisers to monitor REIT compliance requirements.	**Probability:** Low **Impact:** High **Movement:** No change

Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
POLITICAL/ECONOMIC RISKS		
15. General political/economic environment		
Political and macroeconomic events present risks to the real estate and financial markets that affect the Company and the business of its tenants. The level of uncertainty that such events bring has been highlighted in recent times, most pertinently the effects of the UK's exit from the EU in January 2021.	The Board considers the impact of political and macroeconomic events when reviewing strategy. The UK's exit from the EU is not considered to generate any risks specific to the Company and is not considered to have any material effect on the financial statements.	**Probability:** High **Impact:** High **Movement:** No change
16. COVID-19		
The economic disruption arising from the COVID-19 virus could impact rental income receipts from tenants, the ability to access funding at competitive rates, maintain the Company's dividend policy and its adherence to the HMRC REIT regime, particularly if the UK government restrictions are in place for a prolonged period.	The Investment Manager is in close contact with tenants. The Investment Manager has put in place social distancing measures as advised by the UK government. The Investment Manager has maintained a close relationship with RBSi to ensure continuing dialogue around covenants.	**Probability:** High **Impact:** High **Movement:** Decreasing

Stakeholder Engagement

s172 Statement

The Directors' overarching duty is to promote the success of the Company for the benefit of its shareholders, having regard to the interests of its stakeholders, as set out in section 172 of the Companies Act 2006 (the 'Act'). The Directors have considered each aspect of this section of the Act and consider that the information set out below is particularly relevant in the context of the Company's business as an externally managed investment company which does not have any employees or suppliers.

We set out in the table below our key stakeholders, the nature of their relationship with the Company and Board, their key interests and how we engage with those stakeholders.

Our relationships with stakeholders are factored into Board discussions and decisions made by the Board will consider the impact on the stakeholders, in accordance with s172 of the Act.

Stakeholder	Interests	Engagement
Investors Our shareholders are impacted directly by the financial performance of the Company through dividends and share price movements. They also play an important role in monitoring the governance of the Company.	– Sustainable growth of the Company and achieving target returns – Good relationship with the Company and Board – Effective structure and control framework – Impact of the Company on the wider community and environment – Reputation of the Company	– AGM, Annual Report, regulatory announcements – Quarterly update report and other key information published on the website – Roadshows, meetings and presentations via the Investment Manager
Service providers Key functions of the Company are outsourced to third-party suppliers, including investment management, property management, administration, company secretarial, registrar, depositary and legal services. It is important to develop strong long-term working relationships with these providers to enhance the efficiency of the Company's operations, as well as that of the providers themselves.	– Relationship with the Company and Board – Fair contract terms and service-level agreements – Reputation of the Company – The Company's performance and long-terms prospects	– Effective and regular communication – Service-level agreements – Formal tender processes where appropriate
Tenants The Company's strategy in relation to its individual assets will directly affect the tenants in occupation of those assets.	– Good communication and relationship with the Company as landlord – Fair lease terms – Long term strategy for the asset in line with the objectives of the tenant's activities	– Site visits and face to face meetings through the Investment Manager. – Formal negotiations – Ongoing communication through the property manager

Stakeholder Engagement *(continued)*

Stakeholder	Interests	Engagement
The wider community and environment The Company's physical real estate assets have a direct impact on their local communities depending on their primary use and on the environment through their emissions and energy usage.	– Impact of properties and their business plans on the local economy – Impact of properties on the attractiveness and appeal of the local area – Energy efficiency and greenhouse gas emissions	– Publishing of Sustainability Disclosure Report and Greenhouse Gas Emissions Statement – GRESB reporting – Communication with local authorities via Investment Manager

Principal decisions made by the Board

The principal decisions made by the Board during the year are summarised below.

Amendment to Investment Policy	The Board sought approval from shareholders for an amendment to the Company's investment policy, increasing the single sector limit from 50% to 60% of GAV, to enable the Company to acquire further assets in the industrial/warehouse sector should attractive opportunities arise.
Continuation vote	In accordance with the Company's Articles of Association, the Board considered continuation of the Company to be in the best interests of shareholders as a whole. The Company's strong portfolio of high-yielding assets, which have outperformed the Benchmark for the current year, has enabled the Company to consistently meet its dividend target, and deliver total returns to shareholders towards the top of its peer group.
Dividends	The Board is committed to delivering on its target of paying dividends of 8.00 pps per annum, continuing the Company's track record in paying dividends at this level.
Share buybacks	The Board approved a share buyback programme utilising cash available for this purpose. Details of shares bought back during the year are on page 57.
Continued focus on sustainability impact and GRESB score	The Board has continued its focus on responsible business practices. More details can be found in the Directors' Report on pages 55 to 57. The Investment Manager meets regularly with its ESG consultant, Evora, to consider initiatives to improve the Company's Global Real Estate Sustainability Benchmark ("GRESB") score.
Appointment of new Auditor	Following completion of a competitive tender process, the Board made the decision to appoint BDO LLP as Auditor of the Company for the year ending 31 March 2022 and for the period ending 30 September 2021.

Stakeholder Engagement *(continued)*

Principal decisions made by the Board *continued*

Oversight of Investment Manager and Review of Investment Activities	The Board is responsible for the ongoing review of investment activity and performance and the control and supervision of the Investment Manager. During the year, the following key investment activities were approved by the Board: – the disposal of 2 Geddington Road, Corby; – the amendment to the Company's loan facility to allow drawdown and subsequent repayment without penalty, akin to a revolving credit facility; – the acquisition of Westlands Distribution Park, Weston-super-Mare; – the disposal of Sandford House, Solihull; and – litigation strategy regarding tenants' arrears. Further details of the property transactions can be found in the 'Property Portfolio' section of the Investment Manager's Report.

Approval

The Strategic Report has been approved and signed on behalf of the Board by:

Mark Burton
Chairman

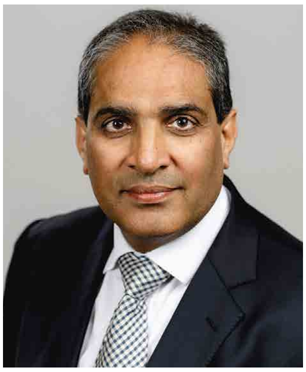
23 June 2021

Governance

Board of Directors

Mark Burton, non-executive Chairman
(aged 73)
Mr Burton currently serves as a board member of Value Retail plc and Atelier Capital Partners Limited. He also sits on the real estate advisory boards for Norges Bank Investment Management and is a member of the investment advisory council of Real Tech Ventures 1 and acts as an advisor to Citic Capital Real Estate. Mr Burton qualified as a Chartered Surveyor, has been a member of the UK Government Property Advisory Group and was formerly chairman of The Investment Property Forum and Urban Land Institute UK. In 2001, Mr Burton became chief investment officer of the real estate department at Abu Dhabi Investment Authority, subsequently performing the same role at Abu Dhabi Investment Council in 2007 from where he retired in 2010.

Appointed: 9 April 2015



Bimaljit ("Bim") Sandhu, non-executive Director
(aged 59)
Mr Sandhu is chief executive officer and owner of The Santon Group which has developed over £1.4 billion of property. The Santon Group has won a number of environmental awards and has been involved in a number of regeneration schemes. He is an independent non-executive director and chairman of the audit committee of Africa Logistics Properties Holdings Limited and non-executive director and member of the audit committee of The Conygar Investment Company PLC. Mr Sandhu was, until its sale in May 2021, a non-executive director of, and major investor in, Hyperdrive Innovation, a multiple award winning company, which seeks to provide more environmentally friendly energy solutions for clients in diverse industries. He is chairman of The Sandhu Charitable Foundation that supports a number of charities that have a social impact both in the UK and overseas. Mr Sandhu was a founder and chief executive officer of Raven Mount plc, a co-founder of Raven Property Group Limited (formerly Raven Russia Limited), which he helped to list on AIM raising over £450 million, and chief executive officer of the external fund manager to that company. In the 1990s, Mr Sandhu was managing director of the UK operations of the then publicly listed Australian developer Hudson Conway and represented their 50% interest as a director of the 5,000 strong pub unit, The Courage Pub Company plc. Mr Sandhu is a Fellow of the Institute of Chartered Accountants, having qualified as a Chartered Accountant with KPMG in London. Following qualification, he became secretary of the KPMG UK Property & Construction Group.

Appointed: 9 April 2015

Katrina Hart, non-executive Director
(aged 47)
Mrs Hart spent her executive career in corporate finance and equity research advising, analysing and commenting on a broad range of businesses operating in the wealth and asset management sectors. During this period, she accumulated an in-depth understanding of the dynamics and operational drivers of fund management and worked very closely with some of the most respected companies in the sector. Latterly, she was a highly rated financials analyst at HSBC, Bridgewell Group Plc and headed up the financials research team at Canaccord Genuity Inc. Mrs Hart was formerly a non-executive director of Premier Miton Group Plc and had served on the board of Miton Group Plc since 2011. Mrs Hart is a non-executive director of BlackRock Frontiers Investment Trust plc, Polar Capital Global Financials Trust plc and Keystone Positive Change Investment Trust plc.

Appointed: 5 June 2017

Corporate Governance Statement

This Corporate Governance Statement comprises pages 39 to 44 and forms part of the Directors' Report.

Statement of Compliance

The Company is committed to maintaining high standards of corporate governance and considers that reporting against the principles and recommendations of the AIC Code of Corporate Governance issued in February 2019 (the 'AIC Code'), provides better information to shareholders as it addresses all the principles set out in the 2018 UK Corporate Governance Code (the 'UK Code'), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts, and is endorsed by the Financial Reporting Council (the 'FRC'). The terms of the FRC's endorsement mean that AIC members who report against the AIC Code meet fully their obligations under the UK Code and the related disclosure requirements contained in the Listing Rules. The AIC Code is available from the AIC website at theaic.co.uk. A copy of the UK Code can be obtained at frc.org.uk.

The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate.

The UK Code includes provisions relating to:

- the role of the chief executive; and
- executive directors' remuneration.

For the reasons set out in the AIC Code, the Board considers these provisions not relevant to the position of the Company, being an externally managed REIT. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board has reviewed the principles and recommendations of the AIC Code and considers that the Company has complied with these throughout the year, except as disclosed below:

- given the size of the Board, it is not considered necessary to appoint a senior independent director.
- given the structure and size of the Board, the Board does not consider it necessary to appoint separate management engagement, nomination and remuneration committees. The roles and responsibilities normally reserved for these committees are matters for the Board.

The Board of Directors

Under the leadership of the Chairman, the Board of Directors is collectively responsible for the long-term sustainable success of the Company. It provides overall leadership, sets the strategic aims of the Company and ensures that the necessary resources are in place for the Company to meet its objectives and fulfil its obligations to shareholders within a framework of high standards of corporate governance and effective internal controls. The Directors are responsible for the determination of the Company's investment policy and investment strategy and have overall responsibility for the Company's activities, including the review of investment activity and performance, and the control and supervision of the Investment Manager.

The Board consists of three non-executive Directors. It seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, the Directors have substantial recent and relevant experience of the property sector, investment trusts, and financial and public company management.

The terms and conditions of the appointment of Directors are formalised in letters of appointment, copies of which are available for inspection from the Company's registered office. None of the Directors has a contract of service with the Company. On appointment, non-executive Directors undertake that they will have sufficient time to meet the expectations of the role. Directors are not entitled to any compensation for loss of office.

Corporate Governance Statement *(continued)*

Chairman

The Chairman leads the Board and is responsible for its overall effectiveness in directing the Company. He promotes a culture of openness and debate and facilitates constructive board relations and the effective contribution of all Directors. In liaison with the Company Secretary, he ensures that the Directors receive accurate, timely and clear information.

The Chairman was independent on appointment and is deemed by his fellow Board members to be independent in character and judgement and free of any conflicts of interest. He considers himself to have sufficient time to spend on the affairs of the Company. Mr Burton has no significant commitments other than those disclosed in his biography on page 38.

The document setting out the responsibilities of the Chairman is available on the Company's website. The Board's policy is that the Chairman will serve for a maximum of 9 years in order to be consistent with the requirement for regular board refreshment and diversity.

Board Operation

The Board has adopted a formal schedule of matters reserved for decision by the Board. These matters include:

- responsibility for the determination of the Company's investment objective and policy;
- overall responsibility for the Company's activities, including the review of investment activity, gearing, performance and the control and supervision of the Investment Manager;
- approval of annual and half-yearly reports and financial statements and accounting policies, prospectuses, circulars and other shareholder communications;
- raising new capital and approval of financing facilities;
- approval of the valuation of the Company's portfolio of assets;
- approval of the NAV of the Company;
- Board appointments and removals; and
- appointment and removal of the Investment Manager, Auditor and the Company's other service providers.

Board Meetings

The Company has four scheduled Board meetings a year with additional meetings held to approve NAVs and dividends and other meetings arranged as necessary. At each Board meeting, the Directors follow a formal agenda which is circulated in advance by the Company Secretary. The Company Secretary, the Administrator and the Investment Manager regularly provide the Board with financial information, together with briefing notes and papers in relation to changes in the Company's economic and financial environment, statutory and regulatory changes and corporate governance best practice. A description of the Company's risk management and internal control systems is set out on pages 43 and 44.

The Company's main functions are delegated to a number of service providers, each engaged under separate contracts. The management of the Company's portfolio is delegated to the Investment Manager, who manages the assets in accordance with the Company's objective and policies. At each Board meeting, representatives from the Investment Manager attend to present reports to the Directors covering the Company's current and future activities, portfolio of assets and its investment performance over the preceding period. The Board and the Investment Manager operate in a fully supportive, co-operative and open environment and communication with the Board is maintained between scheduled meetings.

Corporate Governance Statement *(continued)*

Board Committees

The Company has one Committee, the Audit Committee. Given the composition and the size of the Board, the roles and responsibilities normally reserved for the management engagement, nomination and remuneration committee are instead matters for the Board. The Audit Committee's delegated responsibilities are clearly defined in formal terms of reference, which are available on the Company's website.

The Audit Committee comprises all the non-executive Directors and is chaired by Mr Sandhu, who has recent and relevant financial experience. Given the size and nature of the Board, it is felt appropriate that all Directors are members of the Audit Committee. The Board is satisfied that the combined knowledge and experience of its members is such that the Committee discharges its responsibilities in an effective, informed and challenging manner. The Committee as a whole has competence relevant to the investment trust sector. Further details about this Committee and its activities can be found on pages 45 to 48.

Meeting Attendance

The table below sets out the number of Board and Committee meetings attended by each Director during the year ended 31 March 2021.

	Board meetings		**Audit Committee meetings**	
	Number of meetings	Number attended	Number of meetings	Number attended
Mark Burton	11	11	3	3
Bim Sandhu	11	11	3	3
Katrina Hart	11	11	3	3

Performance Evaluation

The Board has a formal process to evaluate its performance annually. The Chairman acts on the results of the evaluation by recognising the strengths and addressing any weaknesses of the Board, as appropriate. The evaluation of the Chairman is carried out by the other Directors of the Company, led by the Audit Committee Chairman. The evaluation covers:

- the performance of the Board and its committees, including how Directors work together as a whole;
- the balance of skills, experience, independence and knowledge of the Directors; and
- individual performance, particularly considering whether each Director continues to make an effective contribution.

The Board seeks to ensure that it has an appropriate balance of skills and experience, and considers that, collectively, it has substantial recent and relevant experience of investment trusts, the UK real estate sector, and financial and capital markets.

Directors' Independence

The Board considers and reviews the independence of each non-executive Director on an annual basis as part of the Directors' performance evaluation. In carrying out the review, consideration is given to factors such as their character, judgement, commitment and performance on the Board and Audit Committee. Following review, all Directors are considered to be independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of his or her independent judgement. The Board leads the appointment process for any new Directors.

Corporate Governance Statement *(continued)*

Diversity
The Board acknowledges the importance of diversity, including but not limited to gender diversity, for the Company and has established the following objectives for achieving diversity:

- all Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective;
- long lists of potential directors will include diverse candidates of appropriate merit; and
- when engaging with executive search firms, the Company will only engage with those firms who have signed up to the Voluntary Code of Conduct on gender diversity and best practice.

The Directors in office at 31 March 2021 and the date of this report are set out on page 38.

Director Induction and Training
All Directors receive an induction on joining the Board and other relevant training as necessary. As the business environment changes, it is important to ensure the Directors' skills and knowledge are refreshed and updated regularly. Accordingly, the Company Secretary ensures that updates on corporate governance, regulatory and technical matters are provided to Directors at Board meetings. In this way, Directors keep their skills and knowledge relevant so as to enable them to continue to fulfil their duties effectively. Each Director has access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

Directors' Conflicts of Interest
Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Board. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts and there is a procedure in place to deal with any actual or potential conflict of interest. The Board deals with each appointment on its individual merit and takes into consideration all relevant circumstances.

A register of conflicts is maintained by the Company Secretary and is reviewed at Board meetings to ensure that any authorised conflicts remain appropriate. The Directors are required to confirm at these meetings whether there has been any change to their position.

Election and Re-election of Directors
The Board recognises the value of regular refreshment of its composition and remains committed to ensuring that it has the right mix of skills and experience that are aligned with the evolution and strategic plans of the Company, while maintaining its independence of character and judgement.

In accordance with the requirements of the AIC Code, the Board has adopted a policy whereby all Directors will not serve for a period of more than nine years.

Under the Company's Articles of Association and in accordance with the AIC Code, Directors are subject to election by shareholders at the first AGM after their appointment. Thereafter, at each AGM, any Director who has not stood for re-election at either of the two preceding AGMs shall retire. In addition, one-third of the Directors eligible to retire by rotation shall retire from office at each AGM. Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's AGMs.

As a result of the performance evaluation process, the Board considers that all Directors continue to be effective, committed to their roles and have sufficient time available to perform their duties. The Board therefore believes that it is in the best interests of shareholders that each of the Directors is re-elected at the forthcoming AGM.

Corporate Governance Statement *(continued)*

Culture

The Directors are aware that establishing and maintaining a healthy culture amongst the Board and in its interaction with the Investment Manager, other service providers, shareholders and other stakeholders will support the delivery of its purpose, values and investment strategy. The Board seeks to promote a culture of openness, transparency and integrity through ongoing dialogue and engagement with its stakeholders, principally the Investment Manager.

The Company has a number of policies and procedures in place to assist with maintaining a culture of good governance including those relating to diversity, Directors' conflicts of interest and Directors' dealings in the Company's shares. The Board assesses and monitors compliance with these policies as well as the general culture of the Board regularly through Board meetings and in particular during the annual evaluation process.

The Board seeks to appoint the best possible service providers and evaluates their service on a regular basis as described on page 54. The Board considers the culture of the Investment Manager and other service providers, including their policies, practices and behaviour, through regular reporting from these stakeholders and in particular during the annual review of the performance and continuing appointment of all service providers.

Internal Control Review

The Board is responsible for the systems of internal controls relating to the Company, including the reliability of the financial reporting process, and for reviewing the systems' effectiveness. The Directors have reviewed and considered the guidance supplied by the FRC on risk management, internal control and related finance and business reporting and an ongoing process is in place for identifying, evaluating and managing the principal and emerging risks faced by the Company. This process, together with key procedures established with a view to providing effective financial control, was in place during the year under review and at the date of this report.

The internal control systems are designed to ensure that proper accounting records are maintained, that the financial information on which business decisions are made and which is issued for publication is reliable, and that the assets of the Company are safeguarded.

The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Company's objectives. It should be recognised that such systems can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the systems of internal control as they have operated over the period and up to the date of approval of the Annual Report and Financial Statements. There were no matters arising from this review that required further investigation and no significant failings or weaknesses were identified. The internal control systems do not eliminate risk and can only provide reasonable assurance against misstatement or loss.

Corporate Governance Statement *(continued)*

Internal Control Assessment Process

Robust risk assessments and reviews of internal controls are undertaken regularly in the context of the Company's overall investment objective.

The following are the key internal controls which the Company has in place:

- a risk register has been produced against which identified and emerging risks and the controls in place to mitigate those risks can be monitored;
- a procedure to monitor the compliance status of the Company to ensure that it can continue to be approved as a REIT;
- the Investment Manager and the Administrator prepare forecasts and management accounts which allow the Board to assess performance;
- the controls employed by the Investment Manager and other third party service providers, as evidenced by their ISAE 3402 or similar reports, are periodically reviewed by the Audit Committee; and there are agreed and defined investment criteria, specified levels of authority and exposure limits in relation to investments, leverage and payments.

The risks of any failure of internal controls are identified in the risk matrix, which is regularly reviewed by the Board through the Audit Committee and which also assesses the impact of such risks. The principal and emerging risks and uncertainties identified from the risk matrix can be found in the Strategic Report on pages 29 to 34.

Over and above the ongoing process, as part of the year-end reporting process, the Board receives letters of comfort from the Investment Manager, Company Secretary and Administrator regarding their internal controls, accompanied by their ISAE 3402, or equivalent reports, if available. Following the review of these submissions from service providers, the Board has determined that the effectiveness of the systems of internal control was satisfactory.

AGM

The Company's AGM will take place on 8 September 2021. The notice of this meeting will be circulated to shareholders in due course and will also be available on the Company's website.

Report of the Audit Committee

I am pleased to present the Report of the Audit Committee for the year ended 31 March 2021.

Meetings

The Audit Committee met three times during the year and once following the year end. Details of the composition of the Audit Committee are set out in the Corporate Governance Statement on page 41 along with details on how the Committee's evaluation process was conducted.

Role of the Audit Committee

The Audit Committee assists the Board in discharging its responsibilities with regard to financial reporting, external audit and internal controls, including:

- monitoring the integrity of the financial statements of the Company, including its annual and half-yearly reports, and reviewing significant financial reporting issues and judgements which they contain;
- reviewing the content of the Annual Report and Financial Statements and advising the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- keeping under review the adequacy and effectiveness of the Company's risk management systems; and reviewing and approving the statements to be included in the Annual Report concerning internal controls and risk management;
- reviewing the scope and effectiveness of the audit process undertaken by the Auditor;
- making recommendations to the Board in relation to the re-appointment or removal of the Auditor and approving its remuneration and terms of engagement;
- reviewing and monitoring the Auditor's independence, objectivity and effectiveness; and
- approving any non-audit services to be provided by the Auditor and monitoring the level of fees payable in that respect.

Matters Considered During the Year

The Audit Committee receives reports from external advisers and from the Investment Manager, as required, to enable it to discharge its duties.

The main activities undertaken during the year, and to the date of this Annual Report, were that the Audit Committee:

- reviewed the internal controls and risk management systems of the Company and its third party service providers;
- agreed the plan and fees with the Auditor in respect of the review of the half-yearly report for the six months ended 30 September 2020 and the statutory audit of the Annual Report for the year ended 31 March 2021, including the principal areas of focus;
- considered the impact of COVID-19 on the Company and its tenant-base;
- received and discussed with the Auditor its report on the results of the review of the half-yearly report and the year-end audit;
- reviewed the annual and half-yearly reports and recommended these to the Board for approval;
- reviewed the performance and effectiveness of the Auditor and considered its fees; and reviewed the non-audit services provided by the Auditor and the associated fees incurred; and
- conducted a competitive audit tender and made a recommendation to the Board.

Report of the Audit Committee *(continued)*

Significant Issues Considered by the Audit Committee

Valuation of Investment Properties
The Audit Committee determined that the key area of risk in relation to the financial statements of the Company was the valuation of the investment properties. The 34 properties in the portfolio as at 31 March 2021 are externally valued by qualified independent valuers, using the internationally accepted Royal Institution of Chartered Surveyors ('RICS') Valuation – Professional Standards, and whilst comparable market transactions provide valuation evidence, there are assumptions which involve significant levels of judgement. The Audit Committee considered the quarterly and year-end valuations of the Company's portfolio which were discussed with the Investment Manager and Auditor during the audit of the financial statements.

In addition, the Audit Committee considered the Company's short and medium-term cash flows, dividend cover and PID and non-PID distributions.

Internal Controls
The Audit Committee carefully considers the internal control systems by continually monitoring the services and controls of its third party service providers.

The Audit Committee reviewed and, where appropriate, updated the risk matrix during the year to take account of principal and emerging risks. It received reports on internal control and compliance from the Investment Manager and the Company's other service providers and no significant matters of concern were identified.

Internal Audit
The Company does not have an internal audit function. During the year, the Audit Committee reviewed whether an internal audit function would be of value and concluded that this would provide minimal additional comfort at considerable extra cost to the Company. While the Audit Committee believes that the existing system of monitoring and reporting by third parties remains appropriate and adequate, it will actively continue, on an annual basis, to consider possible areas within the Company's control environment which may need to be reviewed in detail.

Maintenance of REIT Status
The Audit Committee monitored the compliance status of the Company and considered the requirements for the maintenance of REIT status.

Going Concern and Long-term Viability of the Company
The Audit Committee considered the Company's financial requirements for the next 12 months and concluded that it has sufficient resources to meet its commitments. Consequently, the financial statements have been prepared on a going concern basis. The Audit Committee also considered the longer-term viability statement covering a five-year period, and the underlying factors and assumptions which contributed to the Committee deciding that this was an appropriate length of time to consider the Company's long-term viability. The Company's viability statement can be found on pages 53 and 54.

Audit Fees and Non-audit Services

The Audit Committee has sole responsibility for agreeing the audit fee in consultation with the Investment Manager, based on the scope of the audit. The total audit fees for the year ended 31 March 2021 can be found in note 5 to the financial statements. During the year ended 31 March 2021, the Audit Committee reviewed the policy on the engagement of the Auditor to supply non-audit services, taking into account the recommendations of the FRC. All non-audit services are reviewed by the Audit Committee, which makes recommendations to the Board for the provision of each non-audit service and ensures that the statutory auditor is not engaged to perform work that is prohibited under UK law.

Report of the Audit Committee *(continued)*

The Auditor is permitted to provide audit-related services where the work involved is closely related to the work performed in the audit.

These include:

- reviews of interim financial information;
- reporting on internal financial controls when required by law or regulation;
- reporting required by law or regulation to be provided by the Auditor; and
- prospectus/capital markets reporting.

The policy was reviewed and its application monitored by the Audit Committee during the year and it was agreed that the policy remained appropriate for the Company.

	Year ended 31 March 2021	Year ended 31 March 2020
Audit		
Statutory audit of Annual Report and Financial Statements	£110,000	£82,000
	£110,000	**£82,000**
Non-audit		
Review of Interim Report	£25,000	£24,000
	£25,000	**£24,000**
Total fees paid to KPMG LLP	**£135,000**	**£106,000**
Percentage of total fees attributed to non-audit services	**19%**	**23%**

Independence and Objectivity of the Auditor

It is the Audit Committee's responsibility to monitor annually the performance, objectivity and independence of the Auditor. In evaluating KPMG LLP's performance, the Audit Committee examined five main criteria – robustness of the audit process, independence and objectivity, quality of delivery, quality of people and service, and value-added advice.

Having carried out the above review, the Audit Committee was satisfied with the Auditor's performance and that the engagement of KPMG LLP to provide the non-audit services were appropriate, and did not compromise its objectivity and independence.

Report of the Audit Committee *(continued)*

External Audit Process

The Audit Committee reviews the effectiveness of the external audit carried out by the Auditor on an annual basis. At least twice a year, the Audit Committee meets with the Auditor, once at the planning stage before the audit and once after the audit at the reporting stage. The Auditor provides a planning report in advance of the annual audit, a report on the annual audit and a report on its review of the interim financial statements. The Audit Committee has an opportunity to question and challenge the Auditor in respect of each of these reports.

During the period under review, the Company saw the departure of Henry Todd, and welcomed Matthew Williams as audit director for the year ended 31 March 2021. The Chairman of the Audit Committee maintains regular contact with the audit director throughout the year. Unfortunately, due to COVID-19 restrictions the Chairman of the Audit Committee was unable to meet the audit director in person but nevertheless was able to discuss via video conferencing how the external audit was carried out and the audit findings prior to the finalisation of the 2021 audit. In addition, at least once a year, the Audit Committee has an opportunity to discuss any aspect of the Auditor's work with the Auditor in the absence of the Investment Manager. After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2021 audit concluded that the audit process had generally worked well. No significant issues were identified specifically in relation to the Company although there was a greater focus by the Auditors on the issue of going concern given the financial impact of the restrictions arising as a result of COVID-19 on the Company's tenants and the potential impact on their ability to pay rents. The Directors considered the Company to be in a strong financial position and this was seen to be more of an industry wide concern than an issue specific to the Company.

External Audit Tender

In Spring 2021, the Committee tendered the Company's external audit through a competitive tender. Following this process, a recommendation based on quality, knowledge and experience was made to appoint BDO LLP ("BDO") as the Auditor of the Company for the year ending 31 March 2022 and for the period ending 30 September 2021.

BDO, along with the Company's current Auditor, KPMG, and Mazars had taken part in the tender process which concluded with presentations to the Committee. The Committee agreed that the Company would benefit from having a rotation of audit firm as KPMG was appointed as the Auditor in respect of the Company's first financial period ended 30 April 2016. BDO had a large property audit department and offered a highly experienced REIT audit partner and team.

The Board accepted the recommendation which was free from influence by a third party and no contractual term was imposed on the Company during the process of the tender. The appointment is subject to approval by shareholders at the forthcoming AGM and a resolution to appoint BDO will be included in the Notice of AGM.

Bim Sandhu
Audit Committee Chairman

23 June 2021

Directors' Remuneration Report

This Report is prepared in accordance with Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

Statement from the Chairman

The Board is responsible for determining the remuneration of each Director and each Director abstains from voting on their own individual remuneration. Directors' fees from 1 July 2020 to 31 March 2021 were at a level of £35,000 per annum for the Chairman, £32,500 per annum for the Audit Committee Chairman and £27,500 per annum for the other Directors. No changes to the Directors' fees are proposed for the year ending 31 March 2022. Future increases to Directors' fees are currently limited to the prevailing Consumer Price Index ('CPI') as at the date of any decision.

The Company's Articles of Association permit the Company to provide pensions or similar benefits for Directors and employees of the Company. However, no pension schemes or other similar arrangements have been established and no Director is entitled to any pension or similar benefits. No Director is entitled to any other monetary payment or any assets of the Company. Accordingly, the Single Total Figure table on page 50 does not include columns for any of these items or their monetary equivalents.

The Directors' Remuneration Policy was last approved by shareholders at the AGM in 2020 and is available on the Company's website. No significant changes are proposed to the way in which the current Directors' Remuneration Policy approved by shareholders in 2020 will be implemented during the course of the next financial year.

An Ordinary resolution to approve the Directors' Remuneration Report will be put to shareholders at the forthcoming AGM to be held on 8 September 2021.

Voting at AGM

The Directors' remuneration report for the year ended 31 March 2020 and the Directors' remuneration policy were approved by shareholders at the AGM held on 12 September 2020. The results taken on a poll were as follows:

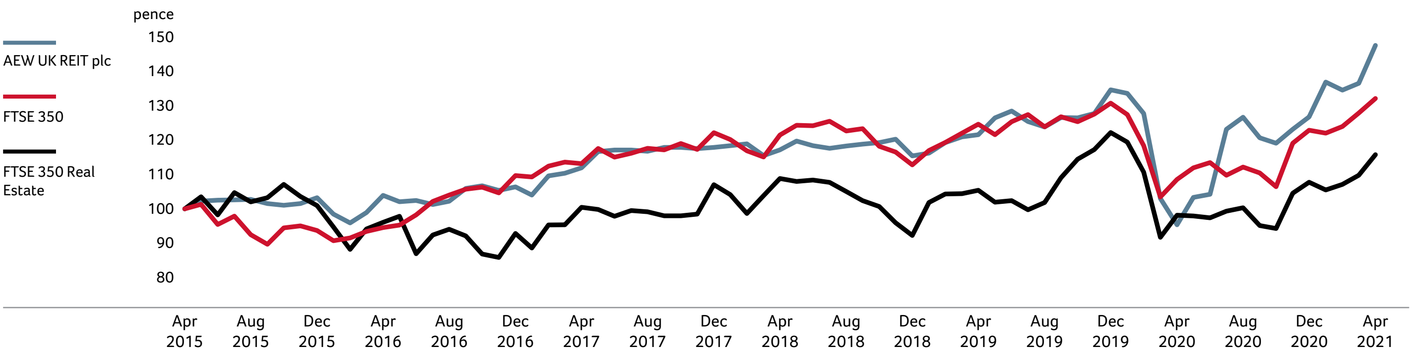
Remuneration Report 2020	
For – number of votes cast	50,766, 549
Against – number of votes cast	133,940
Total votes cast	50,900,489
Number of votes withheld	35,776

Remuneration Policy 2020	
For – number of votes cast	50,766,049
Against – number of votes cast	133,940
Total votes cast	50,899,989
Number of votes withheld	36,276

Performance of the Company

The chart below compares the share price total return (assuming all dividends re-invested) to shareholders compared with the total return on the FTSE 350 and FTSE 350 Real Estate Indices over the period since inception of the Company. These indices have been chosen as they are considered to be an appropriate benchmark against which to assess the relative performance of the Company.

Cumulative Share Price Total Return



Directors' Remuneration for the Year Ended 31 March 2021 (audited)

	Fees paid		Total	
Name of Director	**Year ended 31 March 2021**	Year ended 31 March 2020	**Year ended 31 March 2021**	Year ended 31 March 2020
Mark Burton	£35,000	£35,000	£35,000	£35,000
Bim Sandhu	£32,500	£32,500	£32,500	£32,500
Katrina Hart	£27,500	£27,500	£27,500	£27,500
James Hyslop (retired 12 September 2019)	–	£12,410	–	£12,410
	£95,000	**£107,410**	**£95,000**	**£107,410**

The Company is committed to ongoing shareholder dialogue and any views which are expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board when reviewing the Directors' Remuneration Policy and in the annual review of Directors' fees.

Directors' Remuneration Report *(continued)*

Relative Importance of Spend on Pay

The table below sets out, in respect of the year ended 31 March 2021:

(a) the remuneration paid to the Directors;

(b) the management fee and expenses which have been included to give shareholders a greater understanding of the relative importance of spend on pay; and

(c) distributions to shareholders by way of dividends.

	Year ended 31 March 2021	Year ended 31 March 2020
Directors' fees*	£95,000	£107,410
Management fee and expenses	£1,228,849	£1,308,301
Dividends paid	£12,690,980	£12,124,660

* As the Company has no employees, the total spend on remuneration comprises only the Directors' fees.

Statement of Directors' Shareholdings and Share Interests (audited)

Neither the Company's Articles of Association nor the Directors' Letters of Appointment require a Director to own shares in the Company. The interests of the Directors and their persons closely associated in the equity of the Company at 31 March 2021 are shown in the table below.

	Number of Ordinary Shares		**% of Total Voting Rights**	
Director	**2021**	2020	**2021**	2020
Mark Burton	75,000	75,000	0.05	0.05
Bim Sandhu	1,000,000*	825,000**	0.63	0.52
Katrina Hart	19,145	19,145	0.01	0.01

* 100,000 Ordinary Shares held in Mr Sandhu's spouse's name, Mrs Pardeep Sandhu, 425,000 Ordinary Shares held in The Santon Pension Fund (a small self-administered pension scheme ('SSAS') for him and his spouse), 350,000 Ordinary Shares held in The Sandhu Charitable Foundation and 125,000 Ordinary Shares held in his own name.

** 100,000 Ordinary Shares held in Mr Sandhu's spouse's name, Mrs Pardeep Sandhu, 300,000 Ordinary Shares held in The Santon Pension Fund (a small self-administered pension scheme ('SSAS') for him and his spouse), 300,000 Ordinary Shares held in The Sandhu Charitable Foundation and 125,000 Ordinary Shares held in his own name.

Approval

The Directors' Remuneration Report has been approved by the Board of Directors and signed on its behalf by:

Mark Burton
Chairman

23 June 2021

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the FCA's Listing Rules and Disclosure Guidance and Transparency Rules, comprises pages 52 to 59, and incorporates the Corporate Governance Statement on pages 39 to 44.

Results and Dividends

The interim dividends paid by the Company are set out in note 10 of the financial statements. A summary of the Company's performance during the year and significant events following the year end and future developments is set out in the Strategic Report on pages 2 to 28.

Directors

The Directors in office at 31 March 2021 and the date of this report are shown on page 38.

Power of Directors

The Directors' powers are determined by UK legislation and the Company's Articles of Association. The Articles of Association may be amended by a special resolution of the members. The Directors may exercise all of the Company's powers provided that the Articles of Association or applicable legislation do not stipulate that any such powers must be exercised by the members.

Indemnity Provisions

Save for such indemnity provisions in the Company's Articles of Association, there are no qualifying third party indemnity provisions in force. The Board has agreed to a procedure by which Directors may seek independent professional advice, if necessary, and at the Company's expense. The Company has also arranged for appropriate provision of Directors' and Officers' Liability Insurance.

Going Concern

The Directors have made an assessment of the Company's ability to continue as a going concern, which takes into consideration the uncertainty caused by the COVID-19 pandemic, as well as the Company's cash flows, financial position, liquidity and borrowing facilities.

As at 31 March 2021, the Company had a cash balance of £17.45 million and has subsequently acquired two properties, Arrow Point Retail Park, Shrewsbury, for a gross purchase price of £8.35 million and 15-33 Union Street, Bristol, for a gross purchase price of £10.19 million. The Company has also subsequently drawn £11.00 million of its loan facility.

The Company had sufficient headroom against its borrowing covenants when last reported in April 2020. The Company reported a Loan to NAV of 25.15%, so had room for a £69.17 million fall in NAV before reaching the maximum Loan to NAV of 45% per the covenant. This limit can be increased to 55% when the option is exercised by the Company and certain conditions are met, which would allow for a further £15.96 million fall in NAV i.e. a total fall of £85.13 million. The Company also passed its most recent interest cover ratio ('ICR') tests in April 2021, reporting more than double the cover required on both a historical and projected basis.

The Company benefits from a secure, diversified income stream from a tenancy profile which is not overly reliant on any one tenant or sector. The Company has now collected over 90% of rents for each collection quarter since the onset of the COVID-19 pandemic.

Taking this into consideration, the Directors have reviewed a number of scenarios over 12 months from the date of approval of these financial statements, including a worst case plausible downside scenario which makes the following assumptions:

- failure of 30-35% of tenants (by passing rent);
- collection of 75-80% of remaining rents, with remaining collection deferred for two quarters;
- no new lettings or renewals, other than those where terms have already been agreed;
- a 10% fall in valuations; and
- no new acquisitions or disposals other than those which have completed since the year end (Arrow Point Retail Park, Shrewsbury, and 15-33 Union Street, Bristol, as above).

Directors' Report *(continued)*

Going Concern *(continued)*

In the above scenario, the Company is forecast to generate a positive cash flow before dividend payments, however it would generate a cash flow much lower than its target dividend of 8 pps per annum. If no further drawdowns of the loan facility were made, the Company would maintain a gearing of 37% throughout the forecast period, meaning a headroom of over £43 million up to the 55% covenant with the option exercised. The Company's cash could be managed through the reduction and/or suspension of dividend payments, which would allow the existing cash resources of c. £7 million at the date of approval of the financial statements to be maintained.

In the above scenario, the Company is forecast to pass its ICR tests during the 12 month forecast period with a minimum cover of 7.6:1, compared with the lower limit of 5:1. assuming that no drawdowns or repayments of the facility were to be made. In the unlikely event that the Company were to breach its ICR covenant, it has the ability to cure the breach by placing cash on account with the bank. In the extremely unlikely event that the full balance of the facility was called in, the Company has certain liquid assets which could be realised quickly at, or close to, valuation. The Company could then continue to operate un-geared until it was able to refinance.

Given the Company's substantial headroom against its borrowing covenants, the Directors believe that the Company is well placed to manage its financing and business risks, including those associated with COVID-19, and the Directors are confident that the Company will have sufficient funds to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore the financial statements have been prepared on a going concern basis.

Viability Statement

The Directors have also assessed the prospects of the Company over a period longer than the 12 months required by the 'Going Concern' provisions. The Board has considered the nature of the Company's assets, liabilities and associated cash flows, and has determined that five years up to 31 March 2026 is the maximum timescale over which the performance of the Company can be forecast with a material degree of accuracy and so is an appropriate period over which to assess the Company's viability.

Considerations in support of the assessment of the Company's viability over a five-year period include:

- the current unexpired term under the Company's debt facility stands at 2.6 years, meaning that financing is secure for the majority of the period under consideration;
- the Company's property portfolio has a WAULT of 6.71 years to expiry, representing a secure income stream for the period under consideration;
- the Company benefits from a portfolio which is diversified in terms of sector and location, mitigating the risk of tenant default during the period;
- most leases contain a five-year rent review pattern and therefore an assessment over five years allows the Directors to assess the impact of the portfolio's reversion arising from rent reviews.

In assessing the Company's viability, the Board has carried out a thorough review of the Company's business model, including future performance, REIT compliance, liquidity, dividend cover and banking covenant tests over a five-year period.

The business model is subject to annual sensitivity analysis, which involves flexing a number of key assumptions underlying the forecasts both individually and in aggregate for normal and stressed conditions. The five-year review also considers whether financing facilities will be renewed as required.

Directors' Report *(continued)*

Viability Statement *(continued)*

The following scenarios were tested, both individually and combined, in an effort to represent a severe but plausible scenario, which might reasonably be expected to arise as a result of the outbreak of COVID-19, amongst other factors:

- reduced rent collection;
- portion of rent written off completely;
- fall in portfolio valuation; and
- increased periods of vacancy.

Based on the result of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period of their assessment.

Subsidiary Company

Details of the Company's subsidiary, AEW UK REIT 2015 Limited, can be found in note 18 to the financial statements.

Management Arrangements

AEW UK Investment Management LLP is the Company's Investment Manager and has been appointed as the AIFM. Under the terms of the Investment Management Agreement, the Investment Manager is responsible for the day-to-day discretionary management of the Company's investments subject to the investment objective and policy of the Company and the overall supervision of the Directors. The Investment Manager is entitled to receive a quarterly management fee in respect of its services calculated at the rate of one-quarter of 0.9% of the prevailing NAV (excluding uninvested proceeds from fundraisings). There is no performance fee. Any investment by the Company into the Core Fund is not subject to management fees or performance fees otherwise charged to investors in the Core Fund by the Investment Manager. The Investment Management Agreement may be terminated by the Company or the Investment Manager giving 12 months' notice.

Continuing Appointment of the Investment Manager

The Board has reviewed the appropriateness of the continuing appointment of the Investment Manager, ensuring the terms and conditions of the Investment Management Agreement align with the investment policy and investment objective of the Company. It is satisfied that the terms of the Investment Management Agreement remain fair and competitive, and in the best interests of shareholders.

In the opinion of the Directors, the continuing appointment of the Investment Manager is in the interests of shareholders as a whole. This is due to the Investment Manager successfully managing the Company's portfolio, and continuing to apply the Company's investment policy, thereby allowing the Company to continue paying dividends in accordance with the targeted investment objective.

Review of Service Providers

The Board reviews the ongoing performance and the continuing appointment of all service providers of the Company on an annual basis. The Board also considers any variation required to the terms of all service providers' agreements.

During the year, following a review of performance, the Board made the decision to change its Registrar to Link Group with effect from 19 July 2021. A review of all the other service providers was undertaken during the year which concluded that the services provided to the Company were satisfactory and that their continued appointments were in the best interests of the shareholders.

Financial Risk Management

The financial risk management objectives and policies can be found in note 21 to the financial statements.

Directors' Report *(continued)*

Social, Community and Employee Responsibility

The Company is an externally managed real estate investment trust and has no direct employees. The management of the portfolio has been delegated to the Investment Manager who provide the employees that support the Company.

The Investment Manager is an equal opportunities employer who respects and seeks to empower each individual and the diverse cultures, perspective, skills and experiences within its workforce.

For further information on the Investment Manager's principles in relation to people including diversity, gender pay, employee satisfaction surveys, wellbeing and retention, please refer to the ESG link within the Corporate Responsibility area at www.aewuk.co.uk/

The Company is not required to produce a statement on slavery and human trafficking pursuant to the Modern Slavery Act 2015 as it does not satisfy all the relevant triggers under that Act that required such a statement. The Company does, however, closely monitor the policies of its suppliers to ensure that proper provision is in place.

AEW UK Investment Management LLP, the Investment Manager to the Company, is part of the Natixis Group whose statement on Slavery and Human Trafficking has been published in accordance with the Modern Slavery Act 2015 (the 'Act'). https://www.natixis.com/natixis/en/modern-slavery-act-transparency-statement-in-2020-rqaz5_107684.html

How We Engage With Stakeholders

Investors

The Investment Manager maintains an open dialogue with shareholders and analysts. All feedback is provided to the Board on a regular basis.

The Company provides investors with regular updates on its business activity and financial performance. These quarterly factsheets are available, along with Annual/Interim accounts and London Stock Exchange RNS announcements, on the Company's website at www.aewukreit.com

Shareholders are encouraged to contact the Investment Manager to raise any matters of concern and to attend the AGM where possible to meet and discuss the Company's operations with the Board.

Shareholder engagement and investor meetings

During the year the Company held 19 meetings with c.25 potential and existing institutional shareholders. Due to the Coronavirus restrictions in place during the year these engagements were held via conference calls and virtual meetings and were attended by the Investment Manager and Liberum, Broker to the Company. The Company also engaged with its retail investors through virtual presentations held on the Investor Meet platform in July 2020 and December 2020.

2021 AGM

Arrangements for the AGM will be released in August and will take account of the latest Government guidance and advice.

The voting results of the AGM will be published on the Company's website www.aewukreit.com

MIFID II

As an externally managed Real Estate Investment Trust with a premium listing under Chapter 6 of the FCA's Listing Rules, the PRIIPS (Packaged Retail and Insurance-based Investment Products) regulation applies to the Company. The Company is required to publish a Key Information Document ('KID') that is updated on a semi-annual basis on the Company's website www.aewukreit.com

Directors' Report *(continued)*

Environmental, Social and Governance Policy

The Investment Manager is committed to creating long-term value for investors and adheres to a policy of sustainable and responsible investment ('SRI'). The Investment Managers SRI policy can be found within the Corporate Responsibility area on their website www.aewuk.co.uk. The Investment Manager reviews its Sustainability Policy on an annual basis and is approved by the Management Committee of the Investment Manager.

Over the coming years we believe that both occupiers and investors will increasingly focus on the way in which ESG issues are managed. In turn, this is expected to impact on building obsolescence, lettability, rates of lease renewals and ultimately the rental and capital values for individual assets. In recognition of this, the Board believes in open disclosure of ESG performance, including through participation in the annual Global Real Estate Sustainability Benchmark ('GRESB') survey.

GRESB is the dominant global standard for assessing ESG performance for real estate funds and companies. GRESB requires the Company to report against a wide array of ESG matters, and highlights areas from improvement and opportunities for growth. The Company uses the annual outcome from GRESB as a benchmark to assess its own sustainability performance.

The Company was awarded two stars from GRESB for 2020 and improved its score to 65 (peer group average 61) from the score of 62 recorded in 2019. However, direct comparison to previous years is not representative given the substantial changes introduced by GRESB during the 2020 assessment. With this in mind, it was particularly pleasing to increase our GRESB score.

A large portion of the GRESB score relates to data coverage; due to the high percentage of assets with tenant procured utilities, the Company does not score as well as funds with a smaller holding of single-let assets.

Within GRESB the Company is benchmarked against two dimensions:

(1) **Management** – relating to strategy and leadership management, policies, risk management and stakeholder engagement completed at an entity level.

The Company achieved a score of 29 out of 30. This section is dependent on fund level policies and initiatives which are directly applicable to the Company (e.g. Environmental, Governance and Employee Policies).

(2) **Performance** – relating to the measurement of the fund's asset portfolio performance.

The Company achieved a score of 37 out of 70. This score is representative of the fund composition as the Performance dimension is heavily influenced by the level of control landlords have across issues such as energy management, service charge budgets and access to environmental data.

The Investment Manager is in the process of submitting the Company's GRESB assessment for the year from 1 April 2020 to 31 March 2021 and we expect to receive the results of the assessment in September 2021.

The Company is committed to improving its transparency of ESG performance and has adopted the European Public Real Estate Association ('EPRA') Best Practice recommendations on Sustainability Reporting 2017.

The progress that the Company has made on ESG issues during the period has been recognised externally, most notably by being awarded the EPRA Sustainability Best Practice Recommendations Silver Award and receiving its Most Improved Award for 2020.

Directors' Report *(continued)*

Environmental, Social and Governance Policy *(continued)*

The full ESG disclosures for the Company can be found in the EPRA Sustainability Reporting Performance Measures on page 112 to 126.

Our fiduciary duty to shareholders will always come first in all investment decision-making. The Investment Manager offers clients long-term value-based real estate investment solutions. This is delivered via stock selection and asset management of UK commercial real estate. It is the Investment Manager's belief that this financial objective can be achieved simultaneously with a constructive engagement with environmental and social concerns.

The Board believes environmentally responsible fund management means being active, on the ground every day. As such, the Company operates an Environmental Management Systems ('EMS') which is designed to be aligned with ISO4001, to integrate sustainability objectives into the overall business strategy. Our property managers, Mapp, also apply their own internal EMS to all managed assets across the portfolio.

All members of the Investment Manager's team have a sustainability objective within their annual performance objectives.

Share Capital

Share Issues

At the Company's AGM held on 9 September 2020, the Company was granted the authority to allot Ordinary Shares up to an aggregate nominal amount of £158,774.74 on a non pre-emptive basis. No Ordinary Shares have been allotted under this authority during the year and the authority will expire at the conclusion of the 2021 AGM.

As at 31 March 2021, the Company had 158,424,746 Ordinary Shares in issue.

Purchase of Own Shares

At the Company's AGM on 9 September 2020, the Company was granted authority to purchase up to 14.99% of the Company's Ordinary Shares in issue. During the year, the Company purchased 350,000 Ordinary Shares of 1p each in the capital of the Company at a total cost of £265,000. These shares are held in treasury, representing 0.22% of the issued share capital at 31 March 2021, with an aggregate nominal value of £3,500.00. No shares were purchased during the year for cancellation. At 31 March 2021 and as at the date of this report, the Company has the authority to purchase 23,450,334 Ordinary Shares. This authority will expire at the conclusion of the Company's 2021 AGM where a resolution to renew this authority will be put to shareholders. Any purchase will be made in the market and prices will be in accordance with the terms laid out in the Notice of AGM (enclosed separately and available on the Company's website). The authority will be used where the Directors consider it to be in the best interests of shareholders.

Income Entitlement

The profits of the Company (including accumulated revenue reserves) available for distribution and resolved to be distributed shall be distributed in proportion to the amount paid up per share by way of interim and, where applicable, special or final dividends among the holders of Ordinary Shares.

Capital Entitlement

After meeting the liabilities of the Company on a winding-up, the surplus assets shall be paid to the holders of different classes of members and distributed among such holders rateably according to the amounts paid up or credited as paid up on their shares.

Directors' Report *(continued)*

Share Capital *(continued)*

Voting Entitlement
Each Ordinary shareholder is entitled to one vote on a show of hands and, on a poll, to one vote for every Ordinary Share held. The Notice of AGM and Form of Proxy stipulate the deadlines for the valid exercise of voting rights and, other than with regard to Directors not being permitted to vote their Ordinary Shares on matters in which they have an interest, there are no restrictions on the voting rights of Ordinary Shares.

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding restrictions on the transfer of securities or voting rights known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include specified information in a single identifiable section of the annual report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures required in relation to Listing Rule 9.8.4.

Substantial Shareholdings

As at 31 March 2021, the Company had been notified under Disclosure Guidance and Transparency Rule ('DTR') 5 of the following significant holdings of voting rights in its Ordinary Shares. These holdings may have changed since notification, however notification of any change is not required until the next applicable threshold is crossed.

Shareholder	Number of Ordinary Shares held	% of total voting rights
The Royal Bank of Scotland Group plc	13,570,464	8.56
Close Asset Management Limited	13,448,090	8.49
Old Mutual plc	11,087,801	7.00
Schroders plc	7,643,485	4.82
Seneca IM Limited	7,602,200	4.80
Investec Wealth & Investment Limited	4,813,400	3.04
NatWest Group plc	4,747,598	3.00

The Company has not been informed of any changes to the above interests between 31 March 2021 and the date of this report.

Related Party Transactions

Related party transactions during the year ended 31 March 2021 can be found in note 23 to the financial statements.

Post Balance Sheet Events

Post balance sheet events can be found in note 25 to the financial statements.

Directors' Report *(continued)*

Statement of Disclosure of Information to Auditor

So far as each Director is aware, there is no relevant audit information, which would be needed by the Company's Auditor in connection with preparing its audit report (on pages 61 to 70), of which the Auditor is not aware; and each Director, in accordance with section 418(2) of the Companies Act 2006, has taken all reasonable steps that they ought to have taken as a Director to make themselves aware of any such information and to ensure that the Auditor is aware of such information.

Auditor

KPMG will not seek re-appointment as the Company's Auditor at the forthcoming AGM. Approval will be sought from Shareholders to appoint BDO LLP as the Company's Auditor for the year ending 31 March 2022 and for the period ending 30 September 2021. Further details can be found in the Report of the Audit Committee on page 48, Resolutions proposing BDO's appointment and to authorise the Audit Committee to determine its remuneration will be put to Shareholders at the forthcoming AGM.

The Directors' Report has been approved by the Board of Directors and signed on its behalf by:

Mark Burton
Chairman

23 June 2021

Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006/UK-adopted international accounting standards and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 / UK-adopted international accounting standards;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

We consider the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Mark Burton
Chairman

23 June 2021

Independent Auditor’s Report to the Members of AEW UK REIT plc

1. Our opinion is unmodified

We have audited the financial statements of AEW UK REIT plc (“the Company”) for the year ended 31 March 2021 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company’s affairs as at 31 March 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Audit Committee.

We were first appointed as auditor by the Directors on 4 August 2015. The period of total uninterrupted engagement is for the six financial years ended 31 March 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: financial statements as a whole	£1 .9m (2020: £2.0m) 0.9% (2020: 1%) of total assets
Lower materiality applied to certain items	£0.72m (2020: £0.65m) Applied to rental income, property expenses, investment management’s fees, directors’ remuneration and finance expenses
Key audit matters	**risk vs 2020**
Recurring risks	Valuation of Investment Property ▼

Independent Auditor's Report to the Members of AEW UK REIT plc

(continued)

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

	The risk	Our response
Valuation of investment properties (£176 million; 2020: £187 million) Refer to page 45 (Report of the Audit Committee), page 75 (accounting policy) and pages 90 to 93 (financial disclosures).	**Subjective valuation** Investment properties represent 88% (2019: 92%) of the gross assets of the Company. The Investment properties are measured at fair value and this is estimated by an external qualified valuer. The fair value will be impacted by a number of factors including location, future rental income, quality and condition of the building, tenant covenant and market yields. Whilst comparable market transactions provide good valuation evidence, the individual nature of each property means that a key factor in the property valuations are individual assumptions which involve significant levels of judgement. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of investment properties has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount.	We performed the detailed tests below rather than seeking to rely on any of the Company's controls because the nature of the balance is such that we would expect to obtain audit evidence primarily through the detailed procedures described. Our procedures, assisted by our own property valuation specialist (for procedures 1, 2 and 3), included: 1. **Assessing the valuer's credentials:** assessing the external valuer's objectivity, professional qualifications and capabilities through discussions with the valuer and reading their valuation report and terms of engagement. 2. **Assessing methodology choice:** critically assessing whether the valuation report and the valuation methodology adopted is in accordance with the RICS Valuation Professional Standards 'the Red Book' and IFRS 13 Fair Value Measurements.

Independent Auditor's Report to the Members of AEW UK REIT plc
(continued)

	The risk	Our response
	Disclosure quality The financial statements (note 11) disclose the sensitivity estimated by the Company. The Directors' assessment of the extent of the disclosure is based on an evaluation of the inherent risks to the valuation, including the possible economic effect of the coronavirus pandemic. The risk for our audit is whether or not those disclosures adequately address the uncertainties within the valuation, and if so, whether those uncertainties are fundamental to the users' understanding of the financial statements.	3. **Challenging key valuation inputs:** for a sample of properties – selected using various criteria including the value of the property and its correlation with movements in market indices – we challenged the key assumptions upon which these valuations were based, in particular including those relating to market rents and yields. We informed our challenge using our understanding of the real estate market and industry benchmarks. We considered the evidence then provided to us. 4. **Considering adequacy of disclosure:** assessing whether the disclosures about the key assumptions – and sensitivity thereto – adequately reflects the assumptions made and the related risks. **Our results** We found the valuation of investment properties and the disclosure of the associated level of uncertainty to be acceptable (2020 result: acceptable).

We continue to perform procedures over going concern. However, following the decreased uncertainty over the impact of the coronavirus pandemic on tenant default, property valuation and compliance with loan covenants, we have not assessed this as a key audit matter in our current year audit and, therefore, it is not identified as a separate key audit matter this year.

In the prior year, we reported a key audit matter in respect of the impact of uncertainties due to the UK exiting the European Union. Following the trade agreement between the UK and the EU, and the end of the EU-exit implementation period, the nature of these uncertainties has changed. We continue to perform procedures over material assumptions in forward looking assessments however we no longer consider the effect of the UK's departure from the EU to be a separate key audit matter.

Independent Auditor's Report to the Members of AEW UK REIT plc
(continued)

3. Our application of materiality and an overview of the scope of our audit

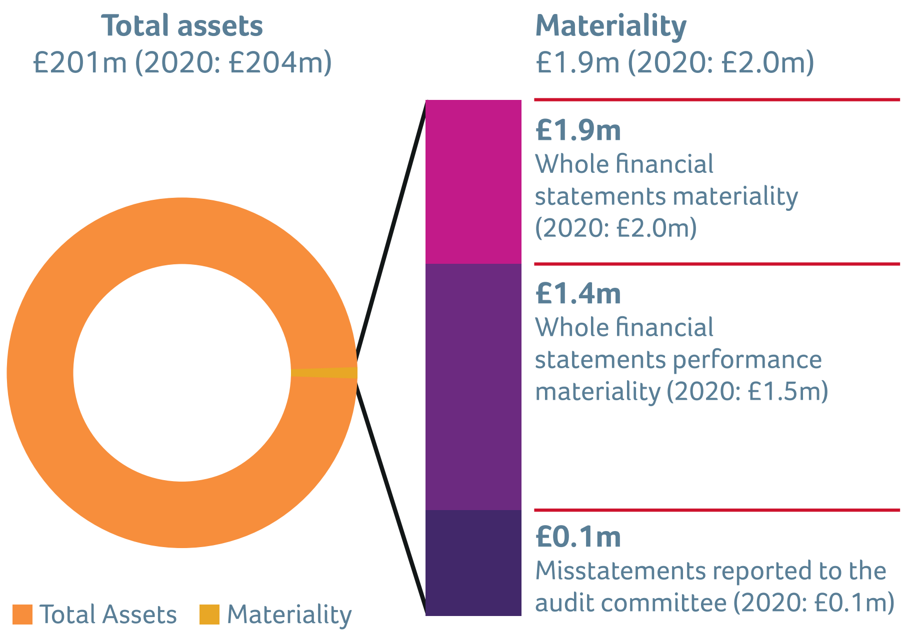
Materiality for the financial statements as a whole was set at £1.9 million (2020: £2.0 million), determined with reference to a benchmark of total assets, of which it represents 0.9% (2020: 1%).

In addition, we applied materiality of £0.72 million (2020: £0.65 million) to rental income, property expenses, investment management's fees, Directors' remuneration and finance expenses, for which we believe misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the Company's members' assessment of the financial performance of the Company.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole. Performance materiality was set at 75% (2020: 75%) of materiality for the financial statements as a whole, which equates to £1.4 million (2020: £1.5 million). We applied this percentage in our determination of performance materiality because we did not identify any factors indicating an elevated level of risk.

We agreed to report to the Audit Committee any uncorrected identified misstatements exceeding £0.1 million (2020: £0.1 million), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality and performance materiality levels specified above and was performed by a single audit team.



Independent Auditor's Report to the Members of AEW UK REIT plc *(continued)*

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Company, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Company's available financial resources and/or metrics relevant to debt covenants over this period were:

- tenant default and significant reduction in rent collections impacting cash flow and earnings;
- availability of borrowings and compliance with loan covenants; and
- significant reduction in property values.

We considered whether these risks could plausibly affect the liquidity or covenant compliance in the going concern period by assessing the level of available financial resources and covenants indicated by the Company's financial forecasts under severe but plausible downside scenarios that could arise from these risks individually and collectively.

We also considered the completeness and accuracy of the matters covered in the going concern disclosures and assessed whether they reflect the position of the Company's financing and the risks associated with the Company's ability to continue as a going concern.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.
- we have nothing material to add or draw attention to in relation to the directors' statement in note 2.4 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Company's use of that basis for the going concern period, and we found the going concern disclosure in note 2.4 to be acceptable; and
- the related statement under the Listing Rules set out on page 58 is materially consistent with the financial statements and our audit knowledge.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Independent Auditor's Report to the Members of AEW UK REIT plc
(continued)

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of the Directors as to the Company's high-level policies and procedures to prevent and detect fraud as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Considering remuneration incentive schemes and performance targets for management.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements such as valuation of investment property.

We did not identify any additional fraud risks.

On this audit we do not believe there is a fraud risk related to revenue recognition because the Company's income primarily arises from operating lease contracts with fixed, or highly predictable, periodic payments.

In determining our audit procedures, we took into account the results of our evaluation and testing of the operating effectiveness of the Company-wide fraud risk management controls.

We also performed procedures including identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included material post-closing journals.

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors (as required by auditing standards), and discussed with the Directors the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of noncompliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: landlord and tenant regulations, property laws, and building legislation, recognising the nature of the Company's activities.

Independent Auditor's Report to the Members of AEW UK REIT plc *(continued)*

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Directors' remuneration report

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Disclosures of emerging and principal risks and longer-term viability

We are required to perform procedures to identify whether there is a material inconsistency between the Directors' disclosures in respect of emerging and principal risks and the viability statement, and the financial statements and our audit knowledge.

Independent Auditor's Report to the Members of AEW UK REIT plc *(continued)*

Based on those procedures, we have nothing material to add or draw attention to in relation to:

- the Directors' confirmation within the viability statement on page 53 that they have carried out a robust assessment of the emerging and principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity;
- the Principal Risks and Uncertainties disclosures describing these risks and how emerging risks are identified, and explaining how they are being managed and mitigated; and
- the Directors' explanation in the viability statement of how they have assessed the prospects of the Company, over what period they have done so and why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to review the viability statement, set out on page 53 under the Listing Rules. Based on the above procedures, we have concluded that the above disclosures are materially consistent with the financial statements and our audit knowledge.

Our work is limited to assessing these matters in the context of only the knowledge acquired during our financial statements audit. As we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of anything to report on these statements is not a guarantee as to the Company's longer-term viability.

Corporate governance disclosures
We are required to perform procedures to identify whether there is a material inconsistency between the Directors' corporate governance disclosures and the financial statements and our audit knowledge.

Based on those procedures, we have concluded that each of the following is materially consistent with the financial statements and our audit knowledge:

- the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the section of the annual report describing the work of the Audit Committee, including the significant issues that the audit committee considered in relation to the financial statements, and how these issues were addressed; and
- the section of the annual report that describes the review of the effectiveness of the Company's risk management and internal control systems.

We are required to review the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified by the Listing Rules for our review. We have nothing to report in this respect.

Independent Auditor's Report to the Members of AEW UK REIT plc *(continued)*

7. We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 60, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at; www.frc.org.uk/auditorsresponsibilities.

Independent Auditor's Report to the Members of AEW UK REIT plc
(continued)

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Matthew Williams (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

23 June 2021

Financial Statements

Statement of Comprehensive Income
for the year ended 31 March 2021

	Notes	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Income			
Rental and other income	3	17,491	17,790
Property operating expenses	4	(3,754)	(1,324)
Impairment loss on trade receivables		(944)	(2)
Net rental and other income		**12,793**	**16,464**
Other operating expenses	5	(1,958)	(1,877)
Directors' remuneration	6	(100)	(115)
Operating profit before fair value changes		**10,735**	**14,472**
Change in fair value of investment properties	11	5,324	(9,444)
Realised gain on disposal of investment properties	11	7,043	44
Operating profit		**23,102**	**5,072**
Finance expense	7	(930)	(1,420)
Profit before tax		**22,172**	**3,652**
Taxation	8	–	–
Profit after tax		**22,172**	**3,652**
Other comprehensive income		–	–
Total comprehensive income for the year		**22,172**	**3,652**
Earnings per share (pps) (basic and diluted)	9	**13.98**	**2.40**

The notes on pages 75 to 105 form an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 March 2021

For the year ended 31 March 2021	Notes	**Share capital £'000**	**Share premium account £'000**	**Capital reserve and retained earnings* £'000**	**Buyback reserve £'000**	**Total capital and reserves attributable to owners of the Company £'000**
Balance at 1 April 2020		**1,587**	**56,578**	**89,698**	**–**	**147,863**
Total comprehensive income		–	–	22,172	–	22,172
Ordinary Shares bought back	19	–	–	–	(263)	(263)
Share buyback costs	19	–	–	–	(2)	(2)
Dividends paid	10	–	–	(12,691)	–	(12,691)
Balance at 31 March 2021		**1,587**	**56,578**	**99,179**	**(265)**	**157,079**

For the year ended 31 March 2020	Notes	Share capital £'000	Share premium account £'000	Capital reserve and retained earnings* £'000	Buyback reserve £'000	Total capital and reserves attributable to owners of the Company £'000
Balance at 1 April 2019		**1,515**	**49,770**	**98,171**	**–**	**149,456**
Total comprehensive income		–	–	3,652	–	3,652
Ordinary Shares issued	19/20	72	6,928	–	–	7,000
Share issue costs	20	–	(120)	–	–	(120)
Dividends paid	10	–	–	(12,125)	–	(12,125)
Balance at 31 March 2020		**1,587**	**56,578**	**89,698**	**–**	**147,863**

* The capital reserve has arisen from the cancellation of part of the Company's share premium account and is a distributable reserve.

The notes on pages 75 to 105 form an integral part of these financial statements.

Statement of Financial Position

as at 31 March 2021

	Notes	31 March 2021 £'000	31 March 2020 £'000
Assets			
Non-Current Assets			
Investment property	11	169,092	187,042
		169,092	**187,042**
Current Assets			
Investment property held for sale	11	7,251	–
Receivables and prepayments	12	6,977	7,351
Cash and cash equivalents		17,450	9,873
Other financial assets held at fair value	13	61	14
		31,739	**17,238**
Non-Current Liabilities			
Interest bearing loans and borrowings	14	(39,131)	(51,047)
Lease obligations	16	(635)	(635)
		(39,766)	**(51,682)**
Current Liabilities			
Payables and accrued expenses	15	(3,938)	(4,687)
Lease obligations	16	(48)	(48)
		(3,986)	**(4,735)**
Total Liabilities		**(43,752)**	**(56,417)**
Net Assets		**157,079**	**147,863**
Equity			
Share capital	19	1,587	1,587
Buyback reserve	19	(265)	–
Share premium account	20	56,578	56,578
Capital reserve and retained earnings		99,179	89,698
Total capital and reserves attributable to equity holders		**157,079**	**147,863**
Net Asset Value per share (pps)	9	**99.15**	**93.13**
EPRA Net Tangible Assets per share (pps)	9	**99.11**	**93.12**

The financial statements were approved by the Board of Directors on 23 June 2021 and were signed on its behalf by:

Mark Burton
Chairman
AEW UK REIT plc (Company number: 09522515)

The notes on pages 75 to 105 form an integral part of these financial statements.

Statement of Cash Flows
for the year ended 31 March 2021

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Cash flows from operating activities		
Profit before tax	22,172	3,652
Adjustment for non-cash items:		
Finance expenses	930	1,420
(Gain)/loss from change in fair value of investment property	(5,324)	9,444
Realised gain on disposal of investment properties	(7,043)	(44)
Decrease/(increase) in other receivables and prepayments	374	(2,882)
(Decrease)/increase in other payables and accrued expenses	(647)	1,424
Net cash flow generated from operating activities	**10,462**	**13,014**
Cash flows from investing activities		
Purchase of and additions to investment properties	(5,983)	(358)
Disposal of investment properties	29,049	44
Net cash used in investing activities	**23,066**	**(314)**
Cash flows from financing activities		
Proceeds from issue of Ordinary Share capital	–	7,000
Share buyback cash paid	(263)	–
Share issue costs	–	(120)
Share buyback costs	(2)	–
Loan (repayment)/drawdown	(12,000)	1,500
Arrangement loan facility fee paid	(13)	(39)
Premium for interest rate caps	(63)	–
Finance costs	(919)	(1,174)
Dividends paid	(12,691)	(12,125)
Net cash used in financing activities	**(25,951)**	**(4,958)**
Net increase in cash and cash equivalents	7,577	7,742
Cash and cash equivalents at start of the year	**9,873**	**2,131**
Cash and cash equivalents at end of the year	**17,450**	**9,873**

The notes on pages 75 to 105 form an integral part of these financial statements.

Notes to the Financial Statements
for the year ended 31 March 2021

1. Corporate information

AEW UK REIT plc (the 'Company') is a closed ended Real Estate Investment Trust ('REIT') incorporated on 1 April 2015 and domiciled in the UK. The registered office of the Company is 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

The Company's Ordinary Shares were listed on the Official List of the FCA and admitted to trading on the Main Market of the London Stock Exchange on 12 May 2015.

The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 1 to 37.

2. Accounting policies

2.1 Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs'). Following Brexit, the Company is required to use the UK adopted international accounting standards for financial years beginning after the 1 January 2021. These standards were identical as of the 1 January 2021 and for the remainder of the accounting period.

These financial statements have been prepared under the historical cost convention, except for investment property and interest rate derivatives that have been measured at fair value.

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000), except when otherwise indicated.

The Company is exempt by virtue of Section 402 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information solely about the Company as an individual undertaking.

New standards, amendments and interpretations

The Company has considered and applied the following new standards and amendments to existing standards which are required for the accounting period beginning on 1 April 2020:

- **Amendments to IFRS 16 COVID-19 Related Rent Concessions**, the amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The Company has not received any concessions for its ground rent costs and therefore accounting treatment has not been affected.

The following standards and amendments have been considered, but have had no impact on the Company for the reporting period:

- **Amendments to IFRS 3: Definition of a Business**, the amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all the inputs and processes needed to create outputs.

2. Accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

- **Amendments to IAS 1 and IAS 8 Definition of Material**, the amendments provide a new definition of material, the amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

- **Revised Conceptual Framework for Financial Reporting**, the Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

There are a number of new standards and amendments to existing standards which have been published and are mandatory for the Company's accounting periods beginning on or after 1 April 2021 or later. The Company is not adopting these standards early. The following are the most relevant to the Company:

- Interest Rate Benchmark Reform – Phase 2 (Amendments to various standards: IFRS 9 'Financial Instruments', IAS 39 'Financial Instruments; Recognition and Measurement', IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases')

- Amendments to IAS 1 'Presentation of Financial Statements (effective 1 January 2022)

- Amendments to IFRS 3 'Business Combinations' (effective 1 January 2022)

The Company does not expect the adoption of the new accounting standards issued but not yet effective to have a significant impact on its financial statements.

2.2 Significant accounting judgements and estimates

The preparation of financial statements in accordance with IFRS requires the Directors of the Company to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in the future.

There are not considered to be any judgements which have a significant effect on the amounts recognised in the financial statements, however, there is an estimate that will have a significant effect on the amounts recognised in the financial statements:

i) Valuation of investment property

The Company's investment property is held at fair value as determined by the independent valuer on the basis of fair value in accordance with the internationally accepted RICS Appraisal and Valuation Standards. Details of the considerations made in respect of the estimation are further detailed in note 11.

2.3 Segmental information

In accordance with IFRS 8, the Company considers each of its properties to be an individual operating segment, which are aggregated into one reporting segment, being investment in property in the UK.

2. Accounting policies *(continued)*

2.4 Going concern

The Directors have made an assessment of the Company's ability to continue as a going concern, which takes into consideration the uncertainty caused by the COVID-19 pandemic, as well as the Company's cash flows, financial position, liquidity and borrowing facilities.

As at 31 March 2021, the Company had a cash balance of £17.45 million and has subsequently acquired two properties, Arrow Point Retail Park, Shrewsbury, for a gross purchase price of £8.35 million and 15-33 Union Street, Bristol, for a gross purchase price of £10.19 million. The Company has also subsequently drawn £11.00 million of its loan facility.

The Company had sufficient headroom against its borrowing covenants when last reported in April 2020. The Company reported a Loan to NAV of 25.15%, so had room for a £69.17 million fall in NAV before reaching the maximum Loan to NAV of 45% per the covenant. This limit can be increased to 55% when the option is exercised by the Company and certain conditions are met, which would allow for a further £15.96 million fall in NAV i.e. a total fall of £85.13 million. The Company also passed its most recent interest cover ratio ('ICR') tests in April 2021, reporting more than double the cover required on both a historical and projected basis.

The Company benefits from a secure, diversified income stream from a tenancy profile which is not overly reliant on any one tenant or sector. The Company has now collected over 90% of rents for each collection quarter since the onset of the COVID-19 pandemic.

Taking this into consideration, the Directors have reviewed a number of scenarios over 12 months from the date of approval of these financial statements, including a worst case plausible downside scenario which makes the following assumptions:

- failure of 30-35% of tenants (by passing rent);
- collection of 75-80% of remaining rents, with remaining collection deferred for two quarters;
- no new lettings or renewals, other than those where terms have already been agreed;
- a 10% fall in valuations; and
- no new acquisitions or disposals other than those which have completed since the year end (Arrow Point Retail Park, Shrewsbury, and 15-33 Union Street, Bristol, as above).

In the above scenario, the Company is forecast to generate a positive cash flow before dividend payments, however would generate a cash flow much lower than its target dividend of 8 pps per annum. If no further drawdowns of the loan facility were made, the Company would maintain a gearing of 37% throughout the forecast period, meaning a headroom of over £43 million up to the 55% covenant with the option exercised. The Company's cash could be managed through the reduction and/or suspension of dividend payments, which would allow the existing cash resources of c. £7 million at the date of approval of the financial statements to be maintained.

In the above scenario, the Company is forecast to pass its ICR tests during the 12 month forecast period with a minimum cover of 7.6:1, compared with the lower limit of 5:1. assuming that no drawdowns or repayments of the facility were to be made. In the unlikely event that the Company were to breach its ICR covenant, it has the ability to cure the breach by placing cash on account with the bank. In the extremely unlikely event that the full balance of the facility was called in, the Company has certain liquid assets which could be realised quickly at, or close to, valuation. The Company could then continue to operate un-geared until it was able to refinance.

2. Accounting policies *(continued)*

2.4 Going concern *(continued)*

Given the Company's substantial headroom against its borrowing covenants, the Directors believe that the Company is well placed to manage its financing and business risks, including those associated with COVID-19, and the Directors are confident that the Company will have sufficient funds to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore the financial statements have been prepared on a going concern basis.

2.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

a) Presentation currency

These financial statements are presented in Sterling, which is the functional and presentational currency of the Company. The functional currency of the Company is principally determined by the primary economic environment in which it operates. The Company did not enter into any transactions in foreign currencies during the year.

b) Revenue recognition

i) Rental income

Rental income receivable under operating leases is recognised on a straight-line basis over the lease term.

Lease incentives, including rent free periods and payment to tenants, are also allocated to the Statement of Comprehensive Income on a straight-line basis over the lease term. The value of resulting accrued rental income is deducted from the valuation as provided by the valuer to arrive at the carrying value.

A modification to an operating lease in the form of a new lease incentive is accounted for as a new lease from the effective date of the modification. Any lease incentive existing on a modified lease will then be spread evenly over the new remaining life of the lease.

Contingent rental income is calculated based off actual turnover and is recognised when it is raised.

Amounts received from tenants to terminate leases or to compensate for dilapidations are recognised in the Statement of Comprehensive Income when the right to receive them arises.

Service charge income receivable under operating leases is charged based on budgeted service charge expenditure for a given property over a given service charge year. This income is recognised on a straight-line basis over the service charge year and any balance credits or charges on reconciliation following the end of the service charge year are recognised at the time they arise.

ii) Deferred income

Deferred income is any rental income that has been invoiced to the tenant but relates to future periods. It is reported as a current liability in the Statement of Financial Position.

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

c) Dividend income

Dividend income is recognised in profit or loss on the date the entity's right to receive a dividend is established.

d) Financing income and expenses

Financing income comprises interest receivable on funds invested. Financing expenses comprise interest and other costs incurred in connection with the borrowing of funds. Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method.

e) Investment property

Property is classified as investment property when it is held to earn rentals or for capital appreciation or both. Investment property is measured initially at cost including transaction costs. Transaction costs include transfer taxes and professional fees to bring the property to the condition necessary for it to be capable of operating. The carrying amount also includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met.

Subsequent to initial recognition, investment property is stated at fair value. Gains or losses arising from changes in the fair values are included in profit or loss.

Investment properties are valued by the independent valuer on the basis of a full valuation with physical inspection at least once a year. Any valuation of an immovable by the independent valuer must be undertaken in accordance with the current issue of RICS Valuation – Professional Standards (the 'Red Book').

The determination of the fair value is based upon the income capitalisation approach. This approach involves applying capitalisation yields to current and future rental streams net of income voids arising from vacancies or rent-free periods and associated running costs. These capitalisation yields and estimated rental values are based on comparable property and leasing transactions in the market using the valuer's professional judgement and market observation. Other factors taken into account in the valuations include the tenure of the property, tenancy details, capital values of fixtures and fittings, environmental matter and the overall repair and condition of the property.

For the purposes of these financial statements, the assessed fair value is:

- reduced by the carrying amount of any accrued income resulting from the spreading of lease incentives; and
- increased by the carrying amount of leasehold obligations.

Investment property is derecognised when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected after its disposal or withdrawal.

The profit on disposal is determined as the difference between the net sales proceeds and the carrying amount of the asset at the commencement of the accounting period plus capital expenditure in the period.

Any gains or losses on the retirement or disposal of investment property are recognised in the profit or loss in the year of retirement or disposal.

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

f) Investments in subsidiaries

AEW UK REIT 2015 Limited is the subsidiary of the Company. The subsidiary was dormant during the current and previous reporting period. The investment in the subsidiary is stated at cost less impairment and shown in note 18.

The Company has taken advantage of the exemption as permitted by Section 405 of the Companies Act 2006, therefore the subsidiary is not consolidated as its inclusion is not material for the purposes of giving a true and fair view.

g) Investment property held for sale

Investment property is classified as held for sale when it is being actively marketed at year end and it is highly probable that the carrying amount will be recovered principally through a sale transaction within 12 months.

Investment property classified as held for sale is included within current assets within the Statement of Financial Position and measured at fair value.

h) Derivative financial instruments

Derivative financial instruments, comprising interest rate caps for hedging purposes, are initially recognised at fair value and are subsequently measured at fair value, being the estimated amount that the Company would receive or pay to terminate the agreement at the period end date, taking into account current interest rate expectations and the current credit rating of the Company and its counterparties. Premiums payable under such arrangements are initially capitalised into the Statement of Financial Position.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs significant to the fair value measurement as a whole. Changes in fair value of interest rate derivatives are recognised within finance expenses in profit or loss in the period in which they occur.

i) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and short-term deposits with an original maturity of three months or less.

Notes to the Financial Statements *(continued)*
for the year ended 31 March 2021

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

j) Receivables

Rent and other receivables are initially recognised at fair value and subsequently at amortised cost. Impairment provisions are recognised based upon an expected credit loss model. The Company has made an assessment of expected credit losses at each period end, using the simplified approach where a lifetime expected loss allowance is always recognised over the expected life of the financial instrument. Any adjustment is recognised in profit or loss as an impairment gain or loss.

Expected credit losses are assessed based on the Company's historical credit loss experience, adjusted for factors which are specific to the tenant and current and forecast economic conditions in general. If confirmation is received that a trade receivable will not be collected, the carrying value of the asset will be written off against the associated impairment provision.

k) Capital prepayments

Capital prepayments are made for the purpose of acquiring future property assets and held as receivables within the Statement of Financial Position. When the asset is acquired, the prepayments are capitalised as a cost of purchase. Where a purchase is not successful, these costs are expensed within profit or loss as abortive costs in the period.

l) Other payables and accrued expenses

Other payables and accrued expenses are initially recognised at fair value and subsequently held at amortised cost.

m) Rent deposits

Rent deposits represent cash received from tenants at inception of a lease and are subsequently transferred to the rent agent to hold on behalf of the Company.

n) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Borrowing costs are amortised over the lifetime of the facilities through profit or loss.

When the lifetime of a floating rate facility is extended, and this is considered to be a non-substantial modification, the effective interest rate is revised to reflect changes in market rates of interest.

o) Provisions

A provision is recognised in the Statement of Financial Position when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

p) Dividend payable to shareholders

Equity dividends are recognised when they become legally payable.

q) Share issue costs

The costs of issuing or reacquiring equity instruments (other than in a business combination) are accounted for as a deduction from equity.

r) Leases

Leases where the Company is lessee are capitalised at the lease commencement, at present value of the minimum lease payments, and held as both a right-to-use asset and a liability within the Statement of Financial Position.

s) Taxes

Corporation tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case, it is recognised in equity.

As a REIT, the Company is exempt from corporation tax on the profits and gains from its investments, provided it continues to meet certain conditions as per REIT regulations.

Taxation on the profit or loss for the period not exempt under UK REIT regulations comprises current and deferred tax. Current tax is expected tax payable on any non-REIT taxable income for the period, using tax rates applicable in the period.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax that is provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the period end date.

t) European Public Real Estate Association

The Company has adopted European Public Real Estate Association ('EPRA') best practice recommendations, which it expects to broaden the range of potential institutional investors able to invest in the Company's Ordinary Shares. For the year to 31 March 2021, audited EPS and NAV calculations under EPRA's methodology are included in note 9 and further unaudited measures are included on pages 106 to 111

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

2. Accounting policies *(continued)*

2.5 Summary of significant accounting policies *(continued)*

u) Capital and reserves

Share capital

Share capital is the nominal amount of the Company's Ordinary Shares in issue.

Buyback reserve

Buyback reserve represents the cost of the Company's Ordinary Shares reacquired by the Company.

Share premium

Share premium relates to amounts subscribed for share capital in excess of nominal value less associated issue costs of the subscriptions.

Capital reserve

The capital reserve represents the cancelled share premium less dividends paid from this reserve. This is a distributable reserve.

Retained earnings

Retained earnings represent the profits of the Company less dividends paid from revenue profits to date. Unrealised gains on the revaluation of investment properties contained within this reserve are not distributable until they crystallise on the sale of the investment property. The cumulative unrealised losses contained within this reserve at 31 March 2021 is £5.44 million (31 March 2020: £10.76 million).

3. Revenue

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Rental income	15,714	17,418
Service charge income	1,535*	–
Dilapidation income received	197	372
Lease surrender income	45	–
Total revenue	**17,491**	**17,790**

* For the current year, service charge income has been presented gross to reflect the Company's role as principal in its agreements with whereas in comparative years they have been presented net. The gross service charge income for year ended 31 March 2020 was £1.82 million. The difference in presentation is considered to be immaterial and has no impact on profit.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

4. Property operating expenses

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Recoverable service charge expense	1,535[1]	–
Non-recoverable service charge expense	1,166[2]	436
Other property operating expenses	1,053	888
Total property operating expenses	**3,754**	**1,324**

[1] For the current year, recoverable service charge expenditure has been presented gross to reflect the Company's role as principal in its agreements with tenants whereas in comparative years they have been presented net. The gross service charge expenditure for year ended 31 March 2020 was £1.82 million. The difference in presentation is considered to be immaterial and has no impact on profit.

[2] Of the c. £1,166,000 non-recoverable service charge expenditure, c. £768,000 relates to Bank Hey Street, Blackpool which includes costs relating to the remedial works as detailed in the Investment Manager's Report.

5. Other operating expenses

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Investment management fee	1,229	1,308
Operating costs	594	463
Auditor remuneration	135	106
Total other operating expenses	**1,958**	**1,877**

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Audit		
Statutory audit of Annual Report and Financial Statements	110	82
	110	**82**
Non-audit		
ISRE 2410 review (interim review fee)	25	24
	25	**24**
Total fees paid to KPMG LLP	**135**	**106**
Percentage of total fees attributed to non-audit services	**19%**	**23%**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

6. Directors' remuneration

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Directors' fees	95	107
Tax and social security	5	8
Total remuneration	**100**	**115**

A summary of the Directors' remuneration is set out in the Directors' Remuneration Report on page 50.

There are no other members of key management personnel other than the Directors.

7. Finance expenses

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Interest payable on loan borrowings	722	1,108
Amortisation of loan arrangement fee	97	110
Commitment fees payable on loan borrowings	95	54
	914	1,272
Change in fair value of interest rate derivatives	16	148
Total	**930**	**1,420**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

8. Taxation

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Tax charge reconciliation:		
Analysis of tax charge in the year		
Profit before tax	22,172	3,652
Theoretical tax at UK corporation tax standard rate of 19% (2020: 19.00%)[1]	4,213	694
Adjusted for:		
Exempt REIT income	(1,863)	(2,488)
Non-taxable investment profit	(2,350)	1,786
Unrealised management expenses not recognised	–	8
Total tax charge	**–**	**–**

Factors that may affect future tax charges

Due to the Company's status as a REIT and the intention to continue meeting the conditions required to obtain approval as a REIT in the foreseeable future, the Company has not provided deferred tax on any capital gains and losses arising on the revaluation or disposal of investments.

[1] The Corporation Tax rate will remain at 19% for the next financial year. As announced by the Chancellor in the 2021 budget the tax rate will increase to 25% from April 2023.

9. Earnings per share and NAV per share

	Year ended 31 March 2021	Year ended 31 March 2020
Earnings per share:		
Total comprehensive income (£'000)	22,172	3,652
Weighted average number of shares	158,620,910	152,208,919
Earnings per share (basic and diluted) (pence)	**13.98**	**2.40**
EPRA earnings per share:		
Total comprehensive income (£'000)	22,172	3,652
Adjustment to total comprehensive income:		
Change in fair value of investment properties (£'000)	(5,324)	9,444
Realised gain on disposal of investment properties (£'000)	(7,043)	(44)
Change in fair value of interest rate derivatives (£'000)	16	148
Total EPRA Earnings (£'000)	9,821	13,200
EPRA earnings per share (basic and diluted) (pence)	**6.19**	**8.67**
Net assets (£'000)	157,079	147,863
Ordinary Shares in issue	158,424,746	158,774,746
NAV per share (pence)	**99.15**	**93.13**

Earnings per share ('EPS') amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of Ordinary Shares in issue during the year.

9. Earnings per share and NAV per share *(continued)*

	Current measures			Previous measures	
As at 31 March 2021	**EPRA NTA £'000**	**EPRA NRV £'000**	**EPRA NDV £'000**	**EPRA NAV £'000**	**EPRA NNNAV £'000**
IFRS NAV attributable to shareholders	157,079	157,079	157,079	157,079	157,079
Mark-to-market adjustment of derivatives	(61)	(61)	–	(61)	–
Real estate transfer tax and other purchasers' costs[1]	–	11,814	–	–	–
At 31 March 2021	157,018	168,832	157,079	157,018	157,079
Number of Ordinary Shares	158,424,746	158,424,746	158,424,746	158,424,746	158,424,746
NAV per share	**99.11p**	**106.57p**	**99.15p**	**99.11p**	**99.15p**

	Current measures			Previous measures	
As at 31 March 2020	**EPRA NTA £'000**	**EPRA NRV £'000**	**EPRA NDV £'000**	**EPRA NAV £'000**	**EPRA NNNAV £'000**
IFRS NAV attributable to shareholders	147,863	147,863	147,863	147,863	147,863
Mark-to-market adjustment of derivatives	(14)	(14)	–	(14)	–
Real estate transfer tax and other purchasers' costs[1]	–	12,494	–	–	–
At 31 March 2020	147,849	160,343	147,863	147,849	147,863
Number of Ordinary Shares	158,774,746	158,774,746	158,774,746	158,774,746	158,774,746
NAV per share	**93.12p**	**100.99p**	**93.13p**	**93.12p**	**93.13p**

[1] EPRA Net Tangible Assets ('EPRA NTA') and EPRA Net Disposal Value ('EPRA NDV') are calculated using property values in line with IFRS, where values are net of Real Estate Transfer Tax ('RETT') and other purchasers' costs. RETT and other purchasers' costs are added back when calculating EPRA Net Reinstatement Value ('EPRA NRV') and have been estimated at 6.6% of the net valuation provided by Knight Frank.

10. Dividends paid

Dividends paid during the year	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Represents four interim dividends of 2.00 pps each	**12,691**	12,125

Dividends relating to the year	**Year ended 31 March 2021 £'000**	Year ended 31 March 2020 £'000
Represents four interim dividends of 2.00 pps each	**12,684**	12,269

Dividends paid during the period relate to Ordinary Shares only.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

11. Investments

11.a) Investment property

	31 March 2021			
	Investment property freehold £'000	**Investment property leasehold £'000**	**Total £'000**	31 March 2020 Total £'000
UK investment property				
As at beginning of the year	147,400	41,900	189,300	197,605
Purchases and capital expenditure in the year	5,977	6	5,983	358
Disposals in the year	–	(22,006)	(22,006)	–
Revaluation of investment properties	7,373	(1,650)	5,723	(8,663)
Valuation provided by Knight Frank	**160,750**	**18,250**	**179,000**	**189,300**
Adjustment to carrying value for lease incentive debtor			(3,340)	(2,941)
Adjustment for lease obligations*			683	683
Total investment property			**176,343**	**187,042**
Classified as:				
Investment property held for sale#			7,251	–
Investment property			169,092	187,042
			176,343	**187,042**
Change in fair value of investment property				
Change in fair value before adjustments for lease incentives			5,723	(8,663)
Adjustment for movement in the year:				
in value of lease incentive debtor			(399)	(781)
			5,324	**(9,444)**
Gains on disposal of investment property				
Net proceeds from disposals of investment property during the year			29,049	44
Fair value at beginning of period			(22,006)	–
			7,043	**44**

* Adjustment in respect of minimum payment under head leases separately included as a liability within the Statement of Financial Position.

225 Bath Street, Glasgow, has been classified as held-for-sale as contracts to sell the property were exchanged in October 2020 and it is expected that the transaction will be completed within the next 12 months.

11. Investments *(continued)*

11.a) Investment property *(continued)*

Valuation of investment property

Valuation of investment property is performed by Knight Frank LLP, an accredited external valuer with recognised and relevant professional qualifications and recent experience of the location and category of the investment property being valued.

The valuation of the Company's investment property at fair value is determined by the external valuer on the basis of market value in accordance with the internationally accepted RICS Valuation – Professional Standards (incorporating the International Valuation Standards).

The determination of the fair value is based upon the income capitalisation approach. This approach involves applying capitalisation yields to current and future rental streams net of income voids arising from vacancies or rent-free periods and associated running costs. These capitalisation yields and estimated rental values are based on comparable property and leasing transactions in the market using the valuer's professional judgement and market observation. Other factors taken into account in the valuations include the tenure of the property, tenancy details, capital values of fixtures and fittings, environmental matter and the overall repair and condition of the property.

11.b) Fair value measurement hierarchy

The following table provides the fair value measurement hierarchy for investments:

	Quoted prices in active markets (Level 1) £'000	Significant observable inputs (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
Assets measured at fair value				
31 March 2021				
Investment property	**–**	**–**	**176,343**	**176,343**
31 March 2020				
Investment property	–	–	187,042	187,042

Explanation of the fair value hierarchy:

Level 1 – Quoted prices for an identical instrument in active markets;

Level 2 – Prices of recent transactions for identical instruments and valuation techniques using observable market data; and

Level 3 – Valuation techniques using non-observable data.

There have been no transfers between Level 1 and Level 2 during either period, nor have there been any transfers in or out of Level 3.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

11. Investments *(continued)*

11.b) Fair value measurement hierarchy *(continued)*

Sensitivity analysis to significant changes in unobservable inputs within Level 3 of the hierarchy

The significant unobservable inputs used in the fair value measurement categorised within Level 3 of the fair value hierarchy of the entity's portfolio of investment property are:

1) ERV

2) Equivalent yield

Increases/(decreases) in the ERV (per sq ft per annum) in isolation would result in a higher/(lower) fair value measurement. Increases/(decreases) in the discount rate/yield in isolation would result in a lower/(higher) fair value measurement.

The significant unobservable inputs used in the fair value measurement, categorised within Level 3 of the fair value hierarchy of the portfolio of investment property are as follows:

Class	Fair Value £'000	Valuation Technique	Significant Unobservable Inputs	Range
31 March 2021				
Investment property*	179,000	Income capitalisation	ERV Equivalent yield	£0.50 – £75.00 5.76% – 10.37%
31 March 2020				
Investment property*	189,300	Income capitalisation	ERV Equivalent yield	£0.50 – £105.00 5.71% – 10.54%

* Valuation per Knight Frank LLP.

Where possible, sensitivity of the fair values of Level 3 assets are tested to changes in unobservable inputs against reasonable alternatives.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at the end of the reporting period.

With regards to investment property, gains and losses for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, prior to adjustment for rent free debtor and rent guarantee debtor where applicable, are recorded in profit or loss.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

11. Investments *(continued)*

11.b) Fair value measurement hierarchy *(continued)*

	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Sensitivity analysis	**+5%**	**-5%**	**+5%**	**-5%**
31 March 2021				
Resulting fair value of investment property	**183,818**	**168,394**	**170,487**	**187,847**
31 March 2020				
Resulting fair value of investment property	197,146	180,075	179,906	199,956

	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Sensitivity analysis	**+10%**	**-10%**	**+10%**	**-10%**
31 March 2021				
Resulting fair value of investment property	**191,699**	**160,864**	**162,986**	**197,965**
31 March 2020				
Resulting fair value of investment property	205,933	171,723	171,241	211,640

	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
Sensitivity analysis	**+15%**	**-15%**	**+15%**	**-15%**
31 March 2021				
Resulting fair value of investment property	**199,642**	**153,345**	**156,136**	**209,264**
31 March 2020				
Resulting fair value of investment property	214,777	163,364	163,327	224,687

Given the current volatility in the property market, the above levels of sensitivity of unobservable inputs are considered to demonstrate plausible scenarios in the near future and a reasonable resulting range of movement in valuation.

12. Receivables and prepayments

	31 March 2021 £'000	31 March 2020 £'000
Receivables		
Rent debtor	3,252	2,579
Allowance for expected credit losses	(995)	(190)
Rent agent float account	724	1,486
Other receivables	627	115
Dilapidations receivable	–	372
	3,608	4,362
Lease incentive debtor	3,340	2,941
	6,948	**7,303**
Prepayments		
Property related prepayments	4	16
Other prepayments	25	32
	29	48
Total	**6,977**	**7,351**

The aged debtor analysis of receivables is as follows:

	31 March 2021 £'000	31 March 2020 £'000
Less than three months	3,416	4,317
Between three and six months	192	45
Between six and twelve months	–	–
Total	**3,608**	**4,362**

Expected credit losses have been assessed on receivables balances on an individual tenant-by-tenant basis. The risk of credit loss applied to each tenant is assessed based on information including, but not limited to: external credit ratings; financial statements; press information; previous experience of losses or late payment; discussions with the property manager and the tenant.

This assessment identified a number of receivables balances due from tenants known to be in financial difficulty or having already entered into a Company Voluntary Arrangement ('CVA') or administration. In these instances, a provision against the full balance of the receivable has been applied.

12. Receivables and prepayments *(continued)*

The assessment also identified receivables balances subject to dispute by tenants who are financially stable but unwilling to pay. The recoverability of these balances was subject to a decision by the Court, and as such, an assessment of the probability of a positive decision was made, and an appropriate provision rate was applied against these balances and other receivables balances which would have also been subject to application of the Court ruling. Post year-end, the Court ruled in favour of the Company and these balances were recovered in full.

The below table presents the exposure to these classes of identified credit risk and the associated provision made against the receivables balances:

	Receivables £'000	Rate %	Provision 31 March 2021 £'000	Provision 31 March 2020 £'000
Identified financial difficulties	415	100	415	190
Subject to Court ruling	972	60	580	–
No identified financial difficulties	6,556	–	–	–
Total	**7,943**		**995**	**190**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	31 March 2021 £'000	31 March 2020 £'000
At the beginning of the year	190	39
Remeasurement of loss allowance	805	151
At the end of the year	**995**	**190**

13. Interest rate derivatives

	31 March 2021 £'000	31 March 2020 £'000
At the beginning of the year	14	162
Interest rate cap premium paid	63	–
Changes in fair value of interest rate derivatives	(16)	(148)
At the end of the year	**61**	**14**

The Company is protected from a significant rise in interest rates as it currently has interest rate caps in effect which cap the interest rate at 1.00% on a notional value of £51.50 million. As a result, the loan was 130% hedged as at 31 March 2021 (31 March 2020: 71%).

Notes to the Financial Statements *(continued)*
for the year ended 31 March 2021

13. Interest rate derivatives *(continued)*

Fair value hierarchy

The following table provides the fair value measurement hierarchy for interest rate derivatives:

Valuation date	Quoted prices in active markets (Level 1) £'000	Significant observable input (Level 2) £'000	Significant unobservable inputs (Level 3) £'000	Total £'000
31 March 2021	–	61	–	61
31 March 2020	–	14	–	14

The fair value of these contracts are recorded in the Statement of Financial Position as at the year end.

There have been no transfers between Level 1 and Level 2 during the year, nor have there been any transfers between Level 2 and Level 3 during the year.

The carrying amount of all assets and liabilities, detailed within the Statement of Financial Position, is considered to be the same as their fair value.

14. Interest bearing loans and borrowings

	31 March 2021 £'000	31 March 2020 £'000
At the beginning of the year	**51,500**	**50,000**
Bank borrowings drawn in the year	–	1,500
Bank borrowings repaid in the year	(12,000)	–
Interest bearing loans and borrowings	**39,500**	**51,500**
Unamortised loan arrangement fees	(369)	(453)
At the end of the year	**39,131**	**51,047**
Repayable between 2 and 5 years	39,500	51,500
Undrawn facility at the year end	20,500	8,500
Total facility	**60,000**	**60,000**

The Company has a £60.00 million (31 March 2020: £60.00 million) credit facility with RBSi of which £39.50 million (31 March 2020: £51.50 million) has been utilised as at 31 March 2021.

Under the terms of the Prospectus, the Company has a target gearing equivalent to 35.00% Loan to NAV. As at 31 March 2021, the Company's gearing was 25.15% Loan to NAV (31 March 2020: 34.83%).

14. Interest bearing loans and borrowings *(continued)*

Under the terms of the loan facility, the Company can draw up to 35.00% Loan to NAV at drawdown. As at 31 March 2021, the Company could draw a further £15.48 million up to the maximum 35.00% (31 March 2020: £0.25 million).

Borrowing costs associated with the credit facility are shown as finance costs in note 7 to these financial statements.

	31 March 2021	31 March 2020
Facility	£60.00 million	£60.00 million
Drawn	£39.50 million	£51.50 million
Gearing (Loan to GAV)	22.07%	27.21%
Gearing (Loan to NAV)	25.15%	34.83%
Interest rate	1.44% all-in (LIBOR + 1.4%)	2.10% all-in (LIBOR + 1.4%)
Notional Value of Loan Balance Hedged	130.4%	70.9%

In line with recent announcements from the Bank of England and the FCA, UK borrowings will be transitioning from the London Interbank Offer Rate ('LIBOR') benchmark to Sterling Overnight Index Average ('SONIA') benchmark in due course. There is expected to be negligible cost involved in the borrowing facility transition.

Reconciliation to cash flows from financing activities

	31 March 2021 £'000	31 March 2020 £'000
Balance at the beginning of the year	51,047	49,476
Changes from financing cash flows		
Loan drawdown	–	1,500
Loan repaid	(12,000)	–
Loan arrangement fees	(13)	(39)
Total changes from financing cash flows	**(12,013)**	**1,461**
Other changes		
Amortisation of loan arrangement fees	97	110
Interest expense	722	1,108
Interest paid	(824)	(1,120)
Changes in loan interest payable	102	12
Total other changes	**97**	**110**
Balance at the end of the year	**39,131**	**51,047**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

15. Payables and accrued expenses

	31 March 2021 £'000	31 March 2020 £'000
Deferred income	2,567	2,906
Accruals	783	814
Other creditors	588	967
Total	**3,938**	**4,687**

16. Lease obligations as lessee

Leases as lessee are capitalised at the lease's commencement at the present value of the minimum lease payments. The present value of the corresponding rental obligations are included as liabilities.

The following table analyses the minimum lease payments under non-cancellable leases:

	31 March 2021 £'000	31 March 2020 £'000
Not later than one year	**48**	48
Later than one year but not later than five years	159	159
Later than five years	476	476
	635	**635**
Total	**683**	**683**

17. Guarantees and commitments

As at 31 March 2021, there were capital commitments of £67,667 (31 March 2020: £nil) relating to the purchase of land adjacent to the Company's existing holding at Gresford Industrial Estate, Wrexham.

Lease commitments – as lessor

The Company has entered into commercial property leases on its investment property portfolio. These non-cancellable leases have a remaining term of between zero and 24 years.

17. Guarantees and commitments *(continued)*

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2021 are as follows:

	31 March 2021 £'000	31 March 2020 £'000
Within one year	14,492	15,325
After one year but not more than five years	32,750	37,828
More than five years	22,726	24,596
Total	**69,968**	**77,749**

During the year ended 31 March 2021, there were contingent rents totalling £204,623 (year ended 31 March 2020: £188,872) recognised as income.

18. Investment in subsidiary

The Company has a wholly-owned subsidiary, AEW UK REIT 2015 Limited:

Name and company number	**Country of registration and incorporation**	**Principal activity**	**Ordinary Shares held**
AEW UK REIT 2015 Limited (Company number 09524699)	England and Wales	Dormant	100%

AEW UK REIT 2015 Limited is a subsidiary of the Company incorporated in the UK on 2 April 2015. At 31 March 2021, the Company held one share, being 100% of the issued share capital. AEW UK REIT 2015 Limited is dormant and the cost of the subsidiary is £0.01 (31 March 2020: £0.01). The registered office of AEW UK REIT 2015 Limited is 6th Floor, 65 Gresham Street, London, EC2V 7NQ.

19. Issued share capital

	31 March 2021 £'000	**31 March 2021 Number of Ordinary Shares**	31 March 2020 £'000	31 March 2020 Number of Ordinary Shares
Ordinary Shares (nominal value £0.01 per share) authorised, issued and fully paid				
At the beginning of the year	1,587	158,774,746	1,515	151,558,251
Issued on admission to trading on the London Stock Exchange on 28 February 2020	–	–	72	7,216,495
At the end of the year	1,587	158,774,746	1,587	158,774,746
Treasury Shares				
At the beginning of the year	–	–	–	–
Share buybacks on 14 October 2020	(154)	200,000	–	–
Share buybacks on 3 November 2020	(111)	150,000	–	–
At the end of the year	(265)	350,000	–	–
Total Ordinary Share capital excluding treasury shares	1,587	158,424,746	1,587	158,774,746

During the year, 350,000 (31 March 2020: nil) Ordinary Shares with a nominal value of £0.01 (31 March 2020: £nil) and representing 0.22% of the issued share capital, were bought back and placed in treasury for an aggregate consideration of £265,000 (31 March 2020: £nil). No Ordinary Shares were bought back for cancellation (31 March 2020: nil). No Ordinary Shares were cancelled from treasury during the year (31 March 2020: nil).

The allotted, called up and fully paid shares at 31 March 2021 consisted of 158,774,746 Ordinary Shares.

20. Share premium account

	31 March 2021 £'000	31 March 2020 £'000
The share premium relates to amounts subscribed for share capital in excess of nominal value:		
Balance at the beginning of the year	56,578	49,770
Issued on admission to trading on the London Stock Exchange on 28 February 2020	–	6,928
Share issue cost	–	(120)
Balance at the end of the year	**56,578**	**56,578**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

21. Financial risk management objectives and policies

21.1 Financial assets and liabilities

The Company's principal financial assets and liabilities are those derived from its operations: receivables and prepayments, cash and cash equivalents and payables and accrued expenses. The Company's other principal financial liabilities are interest bearing loans and borrowings, the main purpose of which is to finance the acquisition and development of the Company's property portfolio.

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments that are carried in the financial statements.

	31 March 2021		31 March 2020	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Receivables[1]	3,608	3,608	4,362	4,362
Cash and cash equivalents	17,450	17,450	9,873	9,873
Other financial assets held at fair value	61	61	14	14
Financial liabilities				
Interest bearing loans and borrowings	39,131	39,500	51,047	51,500
Payables and accrued expenses[2]	1,064	1,064	1,532	1,532
Lease obligations	683	683	683	683

1 Excludes lease incentive debtor and prepayments.

2 Excludes tax, VAT liabilities and deferred income.

21.1 Financial assets and liabilities *(continued)*

Interest rate derivatives are the only financial instruments classified as fair value through profit and loss. All other financial assets and financial liabilities are measured at amortised cost. All financial instruments were designated in their current categories upon initial recognition.

Fair value measurement hierarchy has not been applied to those classes of asset and liability stated above which are not measured at fair value in the financial statements. The difference between the fair value and book value of these items is not considered to be material.

21.2 Financing management

The Company's activities expose it to a variety of financial risks: market risk, real estate risk, credit risk and liquidity risk.

The Company's objective in managing risk is the creation and protection of shareholder value. Risk is inherent in the Company's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls.

21. Financial risk management objectives and policies *(continued)*

The principal risks facing the Company in the management of its portfolio are as follows:

Market price risk

Market price risk is the risk that future values of investments in direct property and related property investments will fluctuate due to changes in market prices. To manage market price risk, the Company diversifies its portfolio geographically in the United Kingdom and across property sectors.

The disciplined approach to the purchase, sale and asset management ensures that the value is maintained to its maximum potential. Prior to any property acquisition or sale, detailed research is undertaken to assess expected future cash flow. The Investment Management Committee of the Investment Manager meets twice monthly and reserves the ultimate decision with regards to investment purchases or sales. In order to monitor property valuation fluctuations, the Investment Manager meets with the independent external valuer on a regular basis. The valuer provides a property portfolio valuation quarterly, so any movements in the value can be accounted for in a timely manner and reflected in the NAV every quarter.

Real estate risk

The Company is exposed to the following risks specific to its investment property:

Property investments are illiquid assets and can be difficult to sell, especially if local market conditions are poor. Illiquidity may also result from the absence of an established market for investments, as well as legal or contractual restrictions on resale of such investments. In addition, property valuation is inherently subjective due to the individual characteristics of each property, and thus, coupled with illiquidity in the markets, makes the valuation in the investment property difficult and inexact.

No assurances can be given that the valuations of properties will be reflected in the actual sale prices even where such sales occur shortly after the relevant valuation date.

There can be no certainty regarding the future performance of any of the properties acquired for the Company. The value of any property can go down as well as up. Property and property-related assets are inherently subjective as regards value due to the individual nature of each property. As a result, valuations are subject to uncertainty.

Real property investments are subject to varying degrees of risk. The yields available from investments in real estate depend on the amount of income generated and expenses incurred from such investments.

There are additional risks in vacant, part vacant, redevelopment and refurbishment situations, although these are not prospective investments for the Company.

Credit risk

Credit risk is the risk that the counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Company by failing to meet a commitment it has entered into with the Company.

It is the Company's policy to enter into financial instruments with reputable counterparties. All cash deposits are placed with an approved counterparty, The Royal Bank of Scotland International Limited.

In respect of property investments, in the event of a default by a tenant, the Company will suffer a rental shortfall and additional costs concerning re-letting the property. The Investment Manager monitors tenant arrears in order to anticipate and minimise the impact of defaults by occupational tenants.

21. Financial risk management objectives and policies *(continued)*

Credit risk *(continued)*

The table below shows the Company's exposure to credit risk:

	As at 31 March 2021 £'000	As at 31 March 2020 £'000
Receivables (excluding incentives and prepayments)	3,608	4,362
Cash and cash equivalents	17,450	9,873
Total	**21,058**	**14,235**

Liquidity risk

Liquidity risk arises from the Company's management of working capital, the finance charges and principal repayments on its borrowings. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due, as the majority of the Company's assets are investment properties and therefore not readily realisable. The Company's objective is to ensure it has sufficient available funds for its operations and to fund its capital expenditure. This is achieved by continuous monitoring of forecast and actual cash flows by management.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

31 March 2021	**On demand £'000**	**< 3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**> 5 years £'000**	**Total £'000**
Interest bearing loans and borrowings	–	142	427	40,388	–	40,957
Payables and accrued expenses	–	1,064	–	–	–	1,064
Lease obligation	–	–	51	205	4,205	4,461
	–	**1,206**	**478**	**40,593**	**4,205**	**46,482**

31 March 2020	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	270	811	54,203	–	55,284
Payables and accrued expenses	–	1,532	–	–	–	1,532
Lease obligation	–	–	51	205	4,256	4,512
	–	**1,802**	**862**	**54,408**	**4,256**	**61,328**

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

22. Capital management

The primary objectives of the Company's capital management are to ensure that it continues to qualify for UK REIT status and complies with its banking covenants.

To enhance returns over the medium term, the Company utilises borrowings on a limited recourse basis for each investment or all or part of the total portfolio. The Company's policy is to target a borrowing level of 35.00% Loan to NAV and this is the maximum gearing permitted at drawdown under the terms of the facility.

Alongside the Company's borrowing policy, the Directors intend, at all times, to conduct the affairs of the Company so as to enable the Company to qualify as a REIT for the purposes of Part 12 of the CTA 2010 (and the regulations made thereunder). The REIT status compliance requirements include: 90% distribution test, interest cover ratio, 75% assets test and the substantial shareholder rule, all of which the Company remained compliant with in this reporting year.

The monitoring of the Company's level of borrowing is performed primarily using a Loan to NAV ratio and is reported to the lender on a quarterly basis against the financial covenants of the facility. At the year-end, the Company had a Loan to NAV ratio of 25.15% (31 March 2020: 34.83%).

Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. During the year under review, the Company did not breach any of its loan covenants, nor did it default on any of its other obligations under its loan agreements.

23. Transactions with related parties

As defined by IAS 24 Related Parties Disclosures, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

For the year ended 31 March 2021, the Directors of the Company are considered to be the key management personnel. Details of amounts paid to Directors for their services can be found within note 6, Directors' remuneration and the Director's remuneration report on page 50.

AEW UK Investment Management LLP is the Company's Investment Manager and has been appointed as AIFM. Under the terms of the Investment Management Agreement, the Investment Manager is responsible for the day-to-day discretionary management of the Company's investments subject to the investment objective and investment policy of the Company and the overall supervision of the Directors.

The Investment Manager is entitled to receive a quarterly management fee in respect of its services calculated at the rate of one-quarter of 0.9% of the prevailing NAV (excluding uninvested proceeds from fundraisings).

During the year, the Company incurred £1,228,849 (31 March 2020: £1,308,301) in respect of investment management fees and expenses, of which £315,825 (31 March 2020: £311,683) was outstanding as at 31 March 2021.

Notes to the Financial Statements *(continued)*

for the year ended 31 March 2021

24. Segmental information

The Board of Directors retains overall control of the Company but the Investment Manager (AEW UK Investment Management LLP) has certain authorities and fulfils the function of allocating resource to, and assessing the performance of the Company's operating segments and is therefore considered to be the Chief Operating Decision Maker ('CODM'). In accordance with IFRS 8, the Company considers each of its properties to be an individual operating segment. The CODM allocates resources, and reviews the performance of, the Company's portfolio on a property-by-property basis and discrete financial information is available for each individual property.

These operating segments have similar economic characteristics and, as such, are aggregated into one reporting segment, being investment in property and property-related investments in the UK.

25. Events after reporting date

Dividend

On 28 April 2021, the Board declared its fourth interim dividend of 2.00pps in respect of the period from 1 January 2021 to 31 March 2021. This was paid on 28 May 2021, to shareholders on the register as at 1 May 2021. The ex-dividend date was 29 April 2021.

Property acquisitions

In May 2021, the Company acquired Arrow Point Retail Park in Shrewsbury for a purchase price of £8.35 million. The established retail park is located on a busy commercial estate and is fully let. The estate provides a net initial yield of 8.7%.

In June 2021, the Company acquired 15-33 Union Street for a purchase price of £10.19 million. 15-33 Union Street occupies a prominent location in Bristol city centre, opposite The Galleries Shopping Centre and near Cabot Circus, Bristol's premier retail destination. Located on a busy thoroughfare for pedestrians, the 65,238 sq ft site experiences high footfall and is ideally suited for retail or leisure units. Constructed in 2001, the property currently comprises five purpose built split-level retail or leisure units over four floors and road access to both Union Street and Fairfax Street. Four of the five units are let to three household names and a successful local retailer. The remaining unit is currently vacant, with the vendor providing a 12 month guarantee. We are currently in discussions with a number of parties who are keen to occupy this space. The location of the site has been identified as a major regeneration area and it offers the ability for further growth through development.

Court ruling

Post year-end, the Company announced the successful outcome of the legal action against two well-funded national tenants to recover unpaid rent. £0.52 million has been provided for as expected credit loss relating to these tenants in these financial statements and subsequent to the court ruling all rent arrears of these tenants have been received.

EPRA Unaudited Performance Measures

EPRA disclosures are widely used across the listed property sector and, as such, have been presented below to aid comparison with other companies in this sector.

Detailed below is a summary table showing the EPRA performance measures of the Company

All EPRA performance measures have been calculated in line with EPRA Best Practices Recommendations Guidelines which can be found at www.epra.com.

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
1. EPRA Earnings Earnings for operational activities.	A key measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.	£9.82 million/6.19 pps EPRA earnings for year to 31 March 2021 (31 March 2020: £13.20 million/8.67 pps)
2. EPRA Net Tangible Assets ('NTA') Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.	The EPRA NAV set of metrics make adjustments to the NAV per the IFRS financial statements to provide stakeholders with the most relevant information on the fair value of the assets and liabilities of a real estate investment company, under different scenarios.	£157.02 million/99.11 pps EPRA NTA as at 31 March 2021 (31 March 2020 £147.85 million/93.12 pps)
3. EPRA Net Reinstatement Value ('NRV') Assumes that entities never sell assets and aims to represent the value required to rebuild the entity.		£168.83 million/106.57 pps EPRA NRV as at 31 March 2021 (31 March 2020 £160.34 million/100.99 pps)
4. EPRA Net Disposal Value ('NDV') Represents the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.		£157.08 million/99.15pps EPRA NDV as at 31 March 2021 (31 March 2020 £147.86 million/93.13pps)
5. EPRA Net Initial Yield ('NIY') Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with (estimated) purchasers' costs.	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	7.37% EPRA NIY as at 31 March 2021 (31 March 2020: 8.26%)

EPRA Unaudited Performance Measures *(continued)*

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
6. EPRA 'Topped-Up' NIY This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).	A comparable measure for portfolio valuations. This measure should make it easier for investors to judge themselves, how the valuation of portfolio X compares with portfolio Y.	8.12% EPRA 'Topped-Up' NIY as at 31 March 2021 (31 March 2020: 8.66%)
7. EPRA Vacancy Rate Estimated Market Rental Value ('ERV') of vacant space divided by ERV of the whole portfolio.	A 'pure' (%) measure of investment property space that is vacant, based on ERV.	8.96% EPRA Vacancy Rate as at 31 March 2021 (31 March 2020: 3.68%)
8. EPRA Cost Ratio Administrative and operating costs (including and excluding costs of direct vacancy) divided by gross rental income.	A key measure to enable meaningful measurement of the changes in a company's operating costs.	32.94% EPRA Cost Ratio (including direct vacancy costs) as at 31 March 2021 (31 March 2020: 18.75%) 22.58% EPRA Cost Ratio (excluding direct vacancy costs) as at 31 March 2021 (31 March 2020: 13.76%)
9. EPRA Capital Expenditure Property which has been held at both the current and comparative balance sheet dates for which there has been no significant development.	A measure used to illustrate change in comparable capital values.	£5.98 million for the year ended 31 March 2021 (31 March 2020: £0.36 million)
10. EPRA Like-for-like Rental Growth Net growth generated by assets which were held by the Company throughout both the current and comparable periods which there has been no significant development which materially impacts upon income.	A measure used to illustrate change in comparable income values.	-£1.08 million/-6.80% for the year ended 31 March 2021 (31 March 2020: £0.29 million/1.71%)

EPRA Unaudited Performance Measures *(continued)*

Calculation of EPRA NTA, EPRA NRV and EPRA NDV

In October 2019, EPRA issued new best practice recommendations (BPR) for financial guidelines on its definitions of NAV measures: EPRA Net Tangible Assets (NTA), EPRA Net Reinvestment Value (NRV) and EPRA Net Disposal Value (NDV). The Company has adopted these new guidelines and applies them in the Annual Report for the year ended 31 March 2021.

The Company considers EPRA NTA to be the most relevant NAV measure for the Company and we are now reporting this as our primary NAV measure, replacing our previously reported EPRA NAV and EPRA NNAV per share metrics. EPRA NTA excludes the cumulative fair value adjustments for debt-related derivatives which are unlikely to be realised.

	Current measures			Previous measures	
As at 31 March 2021	**EPRA NTA £'000**	**EPRA NRV £'000**	**EPRA NDV £'000**	**EPRA NAV £'000**	**EPRA NNNAV £'000**
IFRS NAV attributable to shareholders	157,079	157,079	157,079	157,079	157,079
Mark-to-market adjustment of derivatives	(61)	(61)	–	(61)	–
Real estate transfer tax and other purchasers' costs[1]	–	11,814	–	–	–
At 31 March 2021	157,018	168,832	157,079	157,018	157,079
Number of Ordinary Shares ('000)	158,425	158,425	158,425	158,425	158,425
NAV Per share	**99.11p**	**106.57p**	**99.15p**	**99.11p**	**99.15p**

	Current measures			Previous measures	
As at 31 March 2020	**EPRA NTA £'000**	**EPRA NRV £'000**	**EPRA NDV £'000**	**EPRA NAV £'000**	**EPRA NNNAV £'000**
IFRS NAV attributable to shareholders	147,863	147,863	147,863	147,863	147,863
Mark-to-market adjustment of derivatives	(14)	(14)	–	(14)	–
Real estate transfer tax and other purchasers' costs[1]	–	12,494	–	–	–
At 31 March 2020	147,849	160,343	147,863	147,849	147,863
Number of Ordinary Shares ('000)	158,775	158,775	158,775	158,775	158,775
NAV Per share	**93.12p**	**100.99p**	**93.13p**	**93.12p**	**93.13p**

1 EPRA NTA and EPRA NDV are calculated using property values in line with IFRS, where values are net of Real Estate Transfer Tax (RETT) and other purchasers' costs. RETT and other purchasers' costs are added back when calculating EPRA NRV, and have been estimated at 6.6% of the net valuation provided by Knight Frank.

EPRA Unaudited Performance Measures *(continued)*

Calculation of EPRA Net Initial Yield ('NIY') and EPRA 'topped-up' NIY

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Investment property – wholly-owned	179,000	189,300
Allowance for estimated purchasers' costs at 6.6%	11,814	12,872
Grossed-up completed property portfolio valuation (B)	**190,814**	**202,172**
Annualised cash passing rental income	15,051	17,361
Property outgoings	(993)	(670)
Annualised net rents (A)	**14,058**	**16,691**
Rent from expiry of rent-free periods and fixed uplifts*	1,439	826
'Topped-up' net annualised rent (C)	**15,497**	**17,517**
EPRA NIY (A/B)	**7.37%**	**8.26%**
EPRA 'topped-up' NIY (C/B)	**8.12%**	**8.66%**

* Rent-free periods expire by July 2021.

EPRA NIY basis of calculation

EPRA NIY is calculated as the annualised net rent, divided by the grossed-up value of the completed property portfolio valuation.

The valuation of the grossed-up completed property portfolio is determined by the Company's external valuers as at 31 March 2021, plus an allowance for estimated purchaser's costs. Estimated purchaser's costs are determined by the relevant stamp duty liability, plus an estimate by our valuers of agent and legal fees on notional acquisition. The net rent deduction allowed for property outgoings is based on the Company's valuers' assumptions on future recurring non-recoverable revenue expenditure.

In calculating the EPRA 'topped-up' NIY, the annualised net rent is increased by the total contracted rent from expiry of rent-free periods and future contracted rental uplifts.

Calculation of EPRA Vacancy Rate

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Annualised potential rental value of vacant premises (A)	1,482	641
Annualised potential rental value for the complete property portfolio (B)	16,538	17,420
EPRA Vacancy Rate (A/B)	**8.96%**	**3.68%**

EPRA Unaudited Performance Measures *(continued)*

Calculation of EPRA Cost Ratios

	Year ended 31 March 2021 £'000	Year ended 31 March 2020 £'000
Administrative/operating expense per IFRS income statement	5,221	3,319
Less: ground rent costs	(66)	(66)
EPRA costs (including direct vacancy costs) (A)	**5,155**	**3,253**
Direct vacancy costs (see Glossary on page 129 for further details)	(1,622)	(865)
EPRA costs (excluding direct vacancy costs) (B)	**3,533**	**2,388**
Gross rental income less ground rent costs (C)	**15,648**	**17,352**
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**32.94%**	**18.75%**
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**22.58%**	**13.76%**

The Company has not capitalised any overhead or operating expenses in the accounting years disclosed above.

Only costs directly associated with the purchase or construction of properties as well as all subsequent value-enhancing capital expenditure are capitalised.

Like-for-like rental growth

The table below sets out the like-for-like for rental growth of the portfolio, by sector, in accordance with EPRA Best Practices Recommendations.

Sector	**Rental income from like-for-like portfolio 2021 £m**	**Rental income from like-for-like portfolio 2020 £m**	Like-for like rental growth £m	Like-for-like rental growth %
Industrial	8.14	8.43	(0.29)	(3.44)
Office	2.44	2.82	(0.38)	(13.48)
Leisure	1.55	1.55	–	–
Standard Retail	2.07	2.48	(0.41)	(16.53)
Retail Warehouse	0.61	0.61	–	–
Total	**14.81**	**15.89**	**(1.08)**	**(6.80)**

The like-for-like rental growth is based on changes in rental income for those properties which have been held for the duration of both the current and prior reporting years. This represents a portfolio valuation, as assessed by the valuer, of £173.60 million (year ended 31 March 2020: £181.95 million).

EPRA Unaudited Performance Measures *(continued)*

Capital Expenditure

The table below sets out the capital expenditure of the portfolio in accordance with EPRA Best Practice Recommendations.

Sector	**2021 £'000**	2020 £'000
Acquisitions	5,778	–
Investment properties – no incremental lettable space	205	358
Total purchases and capital expenditure	**5,983**	**358**

EPRA Sustainability Performance Measures (unaudited)

The Company has chosen to disclose sustainability information where material in accordance with EPRA Best Practice Recommendations on Sustainability Reporting (sBPR) 2017.

EPRA use the following 28 performance measures as indicated, by code, in the table below.

Code	Performance Measure
Environmental	
Elec-Abs	Total electricity consumption
Elec-LfL	Like-for-like total electricity consumption
DH&C-Abs	Total district heating & cooling consumption
DH&C-LfL	Like-for-like district heating & cooling consumption
Fuels-Abs	Total fuel consumption
Fuels-LfL	Like-for-like total fuel consumption
Energy-LfL	Building energy intensity
GHG-Dir-Abs	Total direct greenhouse gas (GHG) emissions
GHG-Indir-Abs	Total indirect greenhouse gas (GHG) emissions
GHG-Int	Greenhouse gas (GHG) emissions intensity from buildings
Water-Abs	Total water consumption
Water-LfL	Like-for-like total water consumption
Water-Int	Building water intensity
Waste-Abs	Total weight of waste by disposal route
Waste-LfL	Like-for-like total weight of waste by disposal route
Cert-Tot	Type and number of sustainably certified assets
Social	
Diversity-Emp	Employee gender diversity
Diversity-Pay	Gender pay ratio
Emp-Training	Employee training and development
Emp-Dev	Employee performance appraisals
Emp-Turnover	New hires and turnover
H&S-Emp	Employee Health & Safety
H&S-Asset	Asset Health & Safety assessments
H&S-Comp	Asset Health & Safety compliance
Comty-Eng	Community engagement, impact assessment and development programs
Governance	
Gov Board	Composition of the highest governance body
Gov Selec	Process for nominating and selecting the highest governance body
Gov CoI	Process for managing conflicts of interest

EPRA Sustainability Performance Measures (unaudited)

(continued)

Sustainability Performance Measures (Environmental)

The Company has chosen to report GHG emissions using the 'Operational Control' approach for its reporting boundary (as opposed to 'financial control' or 'equity share'). 'Operational control' has been selected as the reporting boundary as this reflects the portion of the portfolio where the Company can influence operational procedures and, ultimately, sustainability performance. The operational control approach is the most commonly applied within the industry. This boundary includes owned assets where the Company, acting as the landlord, is directly responsible for electricity and/or gas supplies and/or has control of air conditioning equipment.

The Company has considered the seven main GHGs covered by the Kyoto protocol, including:

- Carbon dioxide (CO^2)
- Methane (CH^4)
- Nitrous oxide (N^2O)
- Hydrofluorocarbons (HFCs)
- Perfluorocarbons (PFCs)
- Sulphur Hexafluoride (SF^6)
- Nitrogen Trifluoride (NF^3)

Total GHG emissions are reported in terms of carbon dioxide equivalent (CO^2e). Conversion factors have been sourced from the UK Government's Greenhouse Gas Reporting Factors for Company Reporting (2020).

The following sources of emissions have been considered as part of this review:

Scope 1

- Direct emissions from controlled gas boilers (converted from kWh usage)
- Fugitive emissions from air conditioning systems under landlord control (converted from kg refrigerant releases). The Company's property manager, Mapp, have confirmed that no fugitive emission (through refrigerant gases) were reported in 2020/21.
- Business travel through company owned vehicles (not relevant as the Company does not own any vehicles)

Scope 2

- Indirect emissions from electricity purchased by the Company and consumed within real estate assets owned by the Company (converted from kWh usage)
- Greenhouse Gas (GHG) emissions from electricity (Scope 2) are reported according to the 'location-based' approach

EPRA Sustainability Performance Measures (unaudited)

(continued)

As a property company, the majority of the Company's emissions arise through assets that are owned and leased. At multi-let properties, the Company, acting as the landlord, has control and influence over the whole building and/or shared services (including refrigerant leakage), external lighting and void spaces. In this reporting year, the Company was responsible for Scope 1 and/or Scope 2 emissions at the following assets:

Asset name	Sector	Scope 1 – Gas	Scope 2 – Electricity	Included in like-for-like
225 Bath Street	Office	Yes	Yes	Yes
40 Queen Square	Office	Yes	Yes	Yes
Eastpoint Business Park – Meridian House	Office	No	Yes	Yes (Elec)
Pearl House	Office	Yes	Yes	Yes
Vantage Point	Office	Yes	Yes	Yes
11/15 Fargate	Retail	No	Yes	No
Pricebusters Building	Retail	No	Yes	No
Barnstaple Retail Park	Retail Warehouse	No	Yes	No
Diamond Business Park	Industrial	Yes	Yes	Yes
Apollo Business Park	Industrial	Yes	Yes	Yes
London East Leisure 1	Leisure	Yes	No	Yes (Elec)

Emission sources listed in the above table relate to the managed portfolio only and the following sources of energy consumption within each sector:

- Office; Whole building
- Retail; Tenant space
- Retail Warehouse; External lighting
- Leisure; External lighting, tenant space and common areas
- Industrial; Whole building and/or shared services

The Company was not responsible for emission from gas and/or electricity use at any other owned asset or for head office operations.

The Company is not directly responsible for any GHG emissions/energy usage at single let/FRI assets nor at multi-let assets where the tenant is counterparty to the energy contract. As these emissions are outside of our direct control, they form part of our wider value chain (i.e. 'Scope 3') emissions, which are not monitored at present.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Alongside GHG emissions/energy usage, the Company has chosen to report water and waste consumption for assets where the Company, acting as the landlord, is directly responsible for them.

Asset name	Sector	Water	Waste
225 Bath Street	Office	No	Yes
40 Queen Square	Office	No	Yes
Eastpoint Business Park – Meridian House	Office	No	No
Vantage Point	Office	Yes	Yes
Pearl House	Office	No	Yes
Diamond Business Park	Industrial	Yes	Yes

In addition to reporting relevant absolute GHG emissions (per scope and per sector), the Company has chosen to report intensity ratios, where appropriate.

The denominator determined to be most relevant to the business is metres squared of net lettable area. The intensity ratio is expressed as kilograms carbon dioxide equivalent per metre square (net lettable area) per year, or, kg $CO^2e/m^2/yr$.

Like-for-like intensity ratios have only been determined on relevant emissions, where each of the following conditions is met:

- No major renovation or refurbishment has taken place i.e. affecting more than 50% of the building by area or number of occupants
- At least 12 months data is available
- Meters serve the following areas:
  - Offices – Whole building energy consumption (divided by net lettable area (NLA m^2)).
  - Leisure – Common areas energy consumption (divided by common parts (NLA m^2)).
  - Industrial – Whole building energy consumption (divided by net lettable area (NLA m^2)).
  - Retail – Tenant space energy consumption (divided by net lettable area (NLA m^2)).

Intensity ratios have not been measured on the Retail sector as no assets meet the requirements.

Normalisation of intensity ratios has been completed to account for year-on-year changes in annual temperatures. Annual gas usage data has been compared to, and normalised against, the UK 20-year average degree day value. Degree days data are sourced from www.degreedays.net using the closest and most reliable weather station to each asset.

No further adjustments are considered for this annual report, however, further evaluation concerning occupancy and/or operation hours may be considered in the future, once a baseline year and / or target has been established.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Data has been sourced from the Company's property manager, Mapp. As an independent consultancy, EVORA can provide verification that GHG emissions have been calculated in accordance with the principles of ISO14064.

In summary, the applied process includes:

- Confirmation of asset location and scope of landlord impacts (Scopes 1 and 2)
- Input of Scope 1 and Scope 2 data (provided by Mapp)
- Completion of data accuracy checks (inbuilt function of SIERA with specialist consultant review)
- Verification of data against source evidence (invoices)
- Initial approval of data (by the Company and MJ Mapp)
- Verification of data and publishing of results

EVORA has reviewed the accuracy of data as determined by actual or estimated kWh usage. As a percentage of the total kWh reported, actual/estimated data was reported on the following basis for 2020/21:

- Scope 1 (gas) 96.6% actual data/0.4% estimated
- Scope 2 (electricity) 100% actual data/0% estimated

GHG Reporting Guidelines recommend establishing a target as a matter of good practice. Energy targets are typically measured via changes to KWh usage and/or greenhouse gas emissions (in the form of carbon dioxide equivalent) compared to a baseline. Energy targets help:

- Support identification of asset improvement opportunities
- Drive improvements in operational efficiency (and potentially lower costs)
- Futureproof asset against increased legislation and 'brown discounting' (on sale)
- Support overall good asset management
- Support GRESB

The Company has established absolute targets for energy, greenhouse gas emissions and waste covering the whole portfolio based on a 2018 baseline. The targets are outlined below:

- Energy consumption: 15% reduction in absolute energy by 2030 based on the 2018 baseline
- GHG emissions: 15% reduction in absolute energy by 2030 based on the 2018 baseline
- Waste: 100% waste diverted from landfill by 2020 based on the 2016 baseline

Environmental information in this report has been provided by EVORA Global, retained sustainability and energy management consultants to the Investment Manager.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Total energy consumption (Elec-Abs; Fuels-Abs, DH&C-Abs)

The table below sets out total landlord obtained energy consumption from the Company's managed portfolio by sector.

		Absolute Energy Usage (kWh)	
Asset name	**Energy Source**	**2020/21**	**2019/20**
Office	Gas	1,162,350	1,053,617
	Electricity	1,507,865	2,141,706
	Energy	2,670,215	3,195,323
Retail	Gas	-	–
	Electricity	168,296	117,603
	Energy	168,296	117,603
Retail Warehouse	Gas	-	–
	Electricity	8,081	9,133
	Energy	8,081	9,133
Leisure	Gas	-	–
	Electricity	46,335	40,464
	Energy	46,335	40,464
Industrial	Gas	1,351,189	1,357,423
	Electricity	545,703	700,792
	Energy	1,896,892	2,058,216
Total	Gas	2,513,539	2,411,040
	Electricity	2,276,280	3,009,698
	Energy	4,789,821	5,420,739

The Company does not hold any managed assets that consume energy from district heating or cooling sources. Therefore, the EPRA sBPR DH&C-Abs indicator is not applicable and not presented in this report.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Like for like energy consumption (Elec-LfL; Fuels-LfL; DH&C-LfL, Energy-Int)

The table below sets out the like-for-like landlord obtained energy consumption from the Company's managed portfolio by sector.

		Like-for-like/Degree Day Adj Usage (kWh)			Like-for-like/Degree Day Adj Intensity		
Sector	**Energy Source**	**2020/21**	**2019/20**	**% Change**	**2020/21**	**2019/20**	**% Change**
Office	Gas	1,138,390	1,050,198	8%	84.4	101.4	-17%
	Electricity	1,507,865	2,133,606	-29%			
	Energy	2,646,255	3,183,804	-17%			
Retail	Gas	–	–	–	–	–	–
	Electricity	–	–	–			
	Energy	–	–	–			
Retail Warehouse	Gas	–	–	–	–	–	–
	Electricity	–	–	–			
	Energy	–	–	–			
Leisure	Gas	–	–	–	8.8	6.3	39%
	Electricity	11,837	8,918	33%			
	Energy	11,837	8,918	33%			
Industrial	Gas	1,305,715	1,358,875	-4%	47.4	53.4	-11%
	Electricity	545,703	700,792	-22%			
	Energy	1,851,419	2,059,667	-10%			
Total	Gas	2,444,105	2,409,073	1%	–	–	–
	Electricity	2,065,405	2,843,316	-27%			
	Energy	4,509,511	5,252,389	-14%			

The Company does not hold any managed assets that consume energy from district heating or cooling sources. Therefore, the EPRA sBPR DH&C-LfL indicator is not applicable and not presented in this report.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Greenhouse gas emissions (GHG-Dir-Abs; GHG-Indir-Abs; GHG-Int)

The table below sets out the absolute, like-for-like and intensity of the GHG emissions per sector and for the Company overall.

		Absolute Tonnes of Carbon Dioxide Equivalent ($^tCO^2e$)		Like-for-like/Degree Day Adj Tonnes of Carbon Dioxide Equivalent ($^tCO^2e$)			Like-for-like Degree Day Adj Carbon Intensity ($kg/CO^2e/m^2$)		
Sector	**Scope**	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**% Change**	**2020/21**	**2019/20**	**% Change**
Office	Scope 1 – Gas	213.7	193.7	209.3	193.1	8%	17.8	23.4	-24%
	Scope 2 – Electricity	351.6	547.4	351.5	545.4	-36%			
Retail	Scope 1 – Gas	–	–	–	–	–	–	–	–
	Scope 2 – Electricity	39.2	30.0	–	–	–			
Retail Warehouse	Scope 1 – Gas	–	–	–	–	–	–	–	–
	Scope 2 – Electricity	1.9	2.3	–	–	–			
Leisure	Scope 1 – Gas	–	–	–	–	–	2.1	1.6	27%
	Scope 2 – Electricity	10.8	10.3	2.8	2.3	21%			
Industrial	Scope 1 – Gas	248.4	249.6	240.1	249.8	-4%	9.4	11.1	-15%
	Scope 2 – Electricity	127.2	179.1	127.2	179.1	-29%			
Total	Scope 1 – Gas	462.1	443.3	449.4	442.9	1%	–	–	–
	Scope 2 – Electricity	530.7	769.1	481.5	726.8	-34%			
	Total	**992.9**	**1,212.6**	**930.9**	**1169.7**	**-20%**			

Water (Water-Abs; Water-LfL; Water-Int)

The table below sets out the absolute, like-for-like and intensity value water consumption from the Company's managed portfolio by sector. No assets met the criteria for like-for-like analysis.

	Absolute Water Usage (m^3)		Like-for-like Water Usage (m^3)			Like-for-like Intensity		
Sector	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**% Change**	**2020/21**	**2019/20**	**% Change**
Office	1,226	694	–	–	–	–	–	–
Industrial	2,473	-	–	–	–	–	–	–
Total	**3,699**	**694**	**–**	**–**	**–**	**–**	**–**	**–**

EPRA Sustainability Performance Measures (unaudited)

(continued)

Waste (Waste-Abs; Waste-LfL)

The table below sets out the waste managed (absolute waste production and like-for-like) by the Company by disposal route and by sector. This does not include waste procured directly by tenants. Whilst zero waste is sent directly to landfill, a residual component of the 'recycled' and 'incineration with energy recovery' waste streams may end up in landfill.

		Absolute Waste (Tonnes)		Like-for-like (Tonnes)		
Sector	**Destination**	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**% Change**
Office	Incineration with energy recovery	27.9	43.6	24.2	30.3	-19.9%
	Recycled	71.2	100.3	63.8	74.7	-14.6%
	Anaerobic Digestion	8.0	9.2	8.0	9.2	-13.7%
Industrial	Incineration with energy recovery	2.0	2.0	2.0	2.0	–
	Recycled	4.7	4.7	4.7	4.7	–
	Anaerobic Digestion	–	–	–	–	–
Total	Incineration with energy recovery	29.9	45.6	26.3	32.3	-18.7%
	Recycled	75.9	105.0	68.5	79.4	-13.8%
	Anaerobic Digestion	8.0	9.2	8.0	9.2	-13.7%
	Total	**113.8**	**159.8**	**102.8**	**120.9**	**-15.1%**

We present property energy, greenhouse gas ("GHG"), water and waste data on both an absolute ("abs") and like-for-like ("LfL") basis, covering assets in our UK based portfolio.

Our organisational boundary for environmental disclosure is based on the principle of operational control, and therefore includes all property assets where we are responsible for the procurement of energy, water and waste services.

A total of 11 assets fell within the boundary for 2021 for GHG emissions (year ended 31 March 2020: 10 assets) and 6 assets for water and waste services (year ended 31 March 2020: 5 assets).

The reporting scope for energy consumption and Scope 1 and 2 GH emissions covers 32% of the portfolio (year ended 31 March 2020: 29%).

The reporting scope for water and waste covers 18% of the portfolio (year ended 31 March 2020: 14%).

During the year, the Company procured 4.8 million kWh of energy for use across the managed portfolio, which is 11.6% less energy use than in the prior year. The reduction is largely linked to the decrease in energy demand as a result of the impact of COVID-19 and reduced operational activity during this period. On a like-for- like basis our portfolio has seen a reduction of 14% energy use during the year.

The Scope 1 and 2 GH emissions for the year totalled 992.9 tonnes CO2e (2020: 1,212.6 tonnes CO2e). The absolute Scope 1 and 2 and the two year like-for-like emissions decreased by 18% and 20% respectively. These changes in the emissions footprint are strongly linked to the operational restrictions due to COVID-19, as well as the UK grid decarbonisation and the associated decrease in the electricity emission factors. The even larger decrease in Scope 2 market based emissions reflects the continued effort to transition to REGO backed electricity contracts.

During the period, the total managed and reported waste amounted to 113.8 tonnes (year ended 31 March 2020: 159.8 tonnes), of which none (year ended 31 March 2020: none) was sent directly to landfill.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Sustainability certification (Cert-Tot): Green building certificates

The Company does not have any developments or refurbishment projects in its property portfolio (year ending 31 March 2020: None) and therefore does not have the ability to deliver any projects that could be measured against BREEAM (the Building Research Establishment Environmental Assessment Methodology). The Company does not have any properties in its portfolio that could qualify for a Green building certificate (year ending 31 March 2020: None).

Sustainability certification (Cert-Tot): Energy performance certificates

The Minimum Energy Efficiency Standards (MEES) Regulations stem from the Energy Act 2011, which has made it unlawful from April 2018 to let or renew leases at non-domestic properties in England & Wales with an Energy Performance Certificate (EPC) rating lower than an E, subject to certain exemptions. This legislation is similar to regulations introduced in Scotland in September 2016. A 'hard backstop' which brings into the MEES standards existing leases will be introduced from 2023, again, subject to certain exemptions.

The below table sets out the EPC rating by Estimated Rental Value (ERV). An A rating reflects the most efficient rating with a G being the least efficient. All assets within the Companies portfolio have identified in-date EPCs, with 48% (by ERV) having efficient A-C EPC ratings. The Investment Manager is taking the necessary steps to address F to G rated EPCs (approximately 6% of ERV value) and remove MEES risk.

Energy performance certificate rating	Portfolio by ERV (%)	
	2020/21	2019/20
A-C	48%	49%
D	40%	39%
E	6%	6%
F	3%	3%
G	3%	3%
Exempt	0%	0%
No EPC	0%	0%
Coverage	100%	100%

- Energy Performance Certificate (EPC) records for the Company are provided as at 31 December 2020 by ERV.
- Data provided includes managed and non-managed assets (i.e. the whole portfolio).
- The information on EPCs is continuously reviewed and updated.
- The F EPCs relate to Oak Park, Droitwich (whole building) and Brockhurst Cresent, Walsall (Unit 3 Building 2). The G EPC relates to the Odeon Cinema, Southend. Feasibility studies are ongoing to improve the ratings of these properties at lease expiry.

Sustainability Performance Measures (Social)

EPRA's Sustainability Best Practices Recommendations Guidelines 2017 ("EPRA's Guidelines") include Social and Governance reporting measures to be disclosed for the entity i.e. the Company. The Company is an externally managed real estate investment trust and has no direct employees. A number of these Social Performance measures relate to entity employees and therefore these measures are not relevant for reporting at the entity level. The Investment Manager to the Company, AEW UK Investment Management LLP has responsibility for the employees that support the Company. The Company aims to comply with EPRA's Guidelines and therefore has included Social and Governance Performance Measure disclosures in this report.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Employee gender diversity (Diversity-Emp)

As at 31 March 2021 the Company Board comprised three members: 1 (33% female); 2 (67% male).

For further information on the Investment Manager's employee gender diversity please refer to the ESG link within the Corporate Responsibility area at *www.aewuk.co.uk/*

Gender pay ratio (Diversity-Pay)

The remuneration of the Company Board is set out on page 50 of this Annual Report.

For further information on the Investment Manager's gender pay ratio please refer to the ESG link within the Corporate Responsibility area at *www.aewuk.co.uk/*

Training and development (Emp-Training)

Please refer to the Director Induction and Training section in the Corporate Governance Statement (page 42) for details on training for the Company's Board members.

The Investment Manager requires employees to complete mandatory internal training and encourage all staff with professional qualifications to maintain the training requirements of their respective professional body.

All employees of the Investment Manager that work on the Company's activities hold professional qualifications and have completed the relevant CPD for their respective professional bodies.

The Investment Manager also provides training to its employees to ensure that they understand and abide by the Anti-Bribery, Insider Trading and GDPR regulations.

Employee performance appraisals (Emp-Dev)

The Investment Manager's performance appraisal process requires annual performance objective setting and reviews for all staff.

For further information on the Investment Manager's performance appraisal statistics please refer to the ESG link within the Corporate Responsibility area at *www.aewuk.co.uk/*

The Investment Manager confirms that performance appraisals were completed for 100% of staff relevant to the Company in 2021.

Employee turnover and retention (Emp-Turnover)

For further information on the Investment Manager's employee turnover and retention please refer to the ESG link within the Corporate Responsibility area at *www.aewuk.co.uk/*

There have been no changes in the Investment Manager's staff who work on the Company's activities during the year.

Employee health and safety (H&S-Emp)

For further information on the Investment Manager's employee health & safety (being the absenteeism rate) please refer to the ESG link within the Corporate Responsibility area at *www.aewuk.co.uk/*

Asset health and safety assessments (H&S-Asset)

All sites were inspected by Mapp during the reporting period and further Health & Safety audits were carried out at those sites that are multi-let.

Asset health and safety compliance (H&S-Comp)

No incidents of non-compliance with regulations/and or voluntary codes were identified during the reporting period.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Community engagement, impact assessments and development programmes (Comty-Eng)

The Company, in conjunction with Mapp, participated in the KidsOut Charity 'Giving Tree' initiative. This initiative aims to provide children living in local refuge homes with a present to open on Christmas Day. To facilitate this, decorative tags with a child's name, age and suggested gift are placed on Christmas Trees in the receptions of participating offices throughout the Company's portfolio. Tenants of the offices can then use the details given on the tags to make a donation (£5-£10) to the KidsOut charity.

Sustainability Performance Measures (Governance)

Composition of the highest governance body (Gov-Board)

The Board of the Company comprised 3 non-executive independent Directors (no executive board members) as at 31 March 2021.

- The average tenure of the three Directors to 31 March 2021 is 5 years and 3 months (31 March 2020 is 4 years and 3 months)
- The number of Directors with competencies relating to environmental and social topics is one and his experience can be seen in his biography (31 March 2020: one director)

Process for nominating and selecting the highest governance body (Gov-Select)

The Company does not have a separate nomination committee, this role being carried out by the whole Board as chaired by Mark Burton. The Board will consider and make recommendations on its composition so as to maintain an appropriate balance of skills, experience and diversity, including gender, and to ensure progressive refreshing of the Board.

Before the appointment of a new director, the Board prepares a description of the role and capabilities required for a particular appointment. Whilst the Board is dedicated to selecting the best person for the role, it aims to promote diversification and the Board recognises the importance of diversity. The Board agrees that its members should possess a range of experience, knowledge, professional skills and personal qualities as well as the independence necessary to provide effective oversight of the affairs of the Company.

Process for managing conflicts of interest (Gov-Col)

The Company maintains a Conflicts of Interest register that is managed by the Company Secretary and is reviewed at each quarterly Board meeting.

Please refer to the Director's Conflicts of interest section in the Corprorate Governance Statement (page 42) for further details.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Targets and progress

During the period we set the following long-term targets to support our strategic ESG objectives. Each year these will be reviewed, with progress being regularly reported to the Board by the Investment Manager.

Area of focus	Target	Metric of Measure	Year	Progress
Health & Safety	To ensure all incidents are resolved within the required timeframe.	Number of incidents per year.	2021/2022	Mapp track all instances via 'risk wise' with priority 1 issues being closed immediately.
Wellbeing	To promote health and wellbeing initiatives across all managed assets.	100% of managed assets to have a health and wellbeing tracker in year 1.	2021/2022	Wellbeing tracker in place.
Social Value	To develop a tenant and community engagement programme.	Number of managed assets to have community engagement programmes per year.	Yearly	AEW initiatives working towards giving up to 2 working days for community engagement for each AEW staff member
ESG Disclosure & Transparency	To achieve a Gold award for disclosure in line with EPRA sBPR.	Gold Rating EPRA.	2021	Silver in 2020.
	To continuously improve the GRESB rating year on year.	GRESB star rating and score.	Yearly	Achieved two star in 2020 GRESB assessment and improved score to 65.
	To strengthen alignment with the TCFD recommendations.	Align the TCFD by 2022 and provide full publication by 2023.	2022	Disclosed first table in this annual report.
Managing environmental impacts	To develop sustainability action plans for all managed assets.	100% of all managed assets to have a sustainability action plan by 2022.	2022	On track to achieve.
	To maintain renewable electricity for all landlord-controlled areas.	100% of all procured electricity to be from renewable sources.	2021	Achieved, all suppliers providing electricity from renewable sources.
	Energy consumption: To achieve a 15% reduction in absolute energy by 2030 based on the 2018 baseline.	15% reduction	2030	Currently 5.5%
	GHG emissions: To achieve a 15% reduction in absolute energy by 2030 based on the 2018 baseline.	15% reduction	2030	Currently 18%
	To improve the recycling rates on all managed assets.	70% recycling rates on all waste managed assets (Office). 55% recycling rates on all waste managed assets (Industrial).	Yearly	66.5% recycling rate at office managed assets. 70.0% recycling rate at industrial managed assets.
	To maintain zero waste to landfill on all waste managed.	100% of waste diverted from landfill on all waste managed assets.	Yearly	Currently 99.8%
	To ensure there are no properties in the portfolio with an EPC below an E rating.	All non compliant EPC's to be improved to a minimum E rating.	Yearly	There are currently two properties in the portfolio with an F EPC rating and one with a G rating. Feasibility studies are ongoing to improve the ratings of these properties at lease expiry.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Progress against Task Force on Climate-related Financial Disclosures ("TCFD")

The Company recognises the growing importance of reporting against the framework set out by the TCFD, and monitors its performance against the recommended disclosures with the objective of improving on these year-on-year. Progress made this year is shown in the table below

Governance

Describe the Board's (Company's) oversight of climate related risks and opportunities	The Investment Manager (AEW UK) oversees the Company's climate related risk, opportunities and mitigating actions. Climate related risks are listed in the Company's risk register and managed in line with the Company's risk management processes and are regularly reviewed by the Board.
Describe management's role in assessing and managing climate related risks and opportunities.	AEW has a European ESG+R Committee including the European CEO, the Head of Socially Responsible Investment, country and function representatives (including investment, asset management, portfolio management and fund financial management. In the UK, ESG+R risk is reviewed for the Company at the Portfolio Management Review Committee which includes Head of Investment, Head of Asset Management and Head of Operations and Risk Management. The Committee and staff of the Investment Manager engage with external consultants to receive advice on the sustainability strategy).

Strategy

Describe the climate related risks and opportunities the organisation has identified over the short, medium and long term.	The Company recognises that the potential impact of climate related risks are wide ranging and can lead to, amongst others things, increased operational costs or capital expenditure, reduced occupier demand and declining asset values.
Describe the impact of climate related risks and opportunities on the organisation's business, strategy and financial planning. Describe the resilience of the organisation's strategy, taking into consideration different climate related scenarios including a two degree or lower scenario.	The Investment Manager (AEW UK) regularly assesses the climate related risk and opportunities which may have an impact on the Company's operations across short, medium and longer term horizons. Examples of short term climate related risks include changes in regulation and requirements for Minimum Energy Efficiency Standards and climate risk disclosure. Medium and longer term risks identified include failure to maintain sustainable buildings, leading to stranded assets and reputational damage and physical risks including flooding and changes in weather patterns.

Risk management

Describe the organisation's processes for identifying, managing and assessing climate related risks.	Climate related risks are identified and discussed at the Investment Manager's ESG meetings. These meetings include representatives from all departments including investments, asset managers, investor relations and operations and therefore processes can quickly be implemented. Due diligence at acquisition includes the assessment of climate related investment risks. The assessment will continue to evolve.
Describe how processes for identifying, assessing and managing climate risks are integrated into the organisation's overall risk management.	We seek to standardise the identification, assessment of likelihood and impact potential of climate related risks and opportunities and ensure that our approach supports the business strategy and long term value creation.

EPRA Sustainability Performance Measures (unaudited)

(continued)

Metrics and targets

Disclose the metrics used by the organisation to assess the climate related risk and opportunities in line with its strategy and risk management process.	The Company aims to improve building operational performance and reduce the energy usage and associated greenhouse gas emissions across our managed portfolio. The energy performance of buildings is being monitored on an ongoing basis and reported to the Investment Manager.
Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks.	Disclosure of Scope 1 and 2 emissions can be found on pages 113 and 114.
Describe the targets used by the organisation to manage climate related risks and opportunities and performance against targets.	The Company is targeting an 15% reduction in energy intensity by 2030 and procuring 100% renewable electricity by 2021 (subject to availaibility) from certified renewable tariffs. All Energy Performance Certificates (EPCs) to be upgraded to a minimum rating of E on lease expiry.

Company Information

Share Register Enquiries

The register for the Ordinary Shares is maintained by Computershare Investor Services PLC. In the event of queries regarding your holding, please contact the Registrar on +44 (0)370 707 1341 or email: web.queries@computershare.co.uk. Please note that from 19 July 2021, the Company's Registrar will change to Link Group. Further information and details will be communicated at the appropriate time.

Changes of name and/or address must be notified in writing to the Registrar, at the address shown below. You can check your shareholding and find practical help on transferring shares or updating your details at www.investorcentre.co.uk. Shareholders eligible to receive dividend payments gross of tax may also download declaration forms from that website.

Share Information

Total Voting Rights	158,424,746
SEDOL Number	BWD2415
ISIN Number	GB00BWD24154
Ticker/TIDM	AEWU

Share Prices

The Company's Ordinary Shares are traded on the premium segment of the Main Market of the London Stock Exchange.

Frequency of NAV publication:

The Company's NAV is released to the London Stock Exchange on a quarterly basis and is published on the Company's website.

Annual and Half-Yearly Reports

Copies of the Annual and Half-Yearly Reports are available from the Company's website.

Financial Calendar

8 September 2021	Annual General Meeting
30 September 2021	Half-year end
November 2021	Announcement of half-yearly results
31 March 2022	Year end
June 2022	Announcement of annual results

Dividends

The following table summarises the amounts distributed to equity shareholders in respect of the period:

	£
Interim dividend for the period 1 April 2020 to 30 June 2020 (payment made on 28 August 2020)	3,175,495
Interim dividend for the period 1 July 2020 to 30 September 2020 (payment made on 30 November 2020)	3,171,495
Interim dividend for the period 1 October 2020 to 31 December 2020 (payment made on 28 February 2021)	3,168,495
Interim dividend for the period 1 January 2021 to 31 March 2021 (payment made on 28 May 2021)	3,168,495
Total	**12,683,980**

Company Information *(continued)*

Directors
Mark Burton (Non-executive Chairman)
Katrina Hart (Non-executive Director)
Bimaljit ("Bim") Sandhu (Non-executive Director)

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65 Gresham Street
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www.aewukreit.com

Investment Manager and AIFM
AEW UK Investment Management LLP
33 Jermyn Street
London SW1Y 6DN

Tel: 020 7016 4880
Website: www.aewuk.co.uk

Property Manager
Mapp
180 Great Portland Street
London W1W 5QZ

Corporate Broker
Liberum
Ropemaker Place
25 Ropemaker Street
London EC2Y 9LY

Legal Adviser
Gowling WLG (UK) LLP
4 More London Riverside
London SE1 2AU

Depositary
Langham Hall UK LLP
8th Floor
1 Fleet Place
London EC4M 7RA

Administrator
Link Alternative Fund Administrators Limited
Beaufort House
51 New North Road
Exeter EX4 4EP

Company Secretary
Link Company Matters Limited
6th Floor
65 Gresham Street
London EC2V 7NQ

Current Registrar (until 18 July 2021)
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

Registrar from 19 July 2021
Link Group
10th Floor
Central Square
29 Wellington Street
Leeds LS1 4DL

Current Auditor
KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL

Valuer
Knight Frank LLP
55 Baker Street
London W1U 8AN

Copies of the Annual Report and Financial Statements
Printed copies of the Annual Report will be sent to shareholders shortly and will be available on the Company's website.

National Storage Mechanism
A copy of the Annual Report and Financial Statements will be submitted shortly to the National Storage Mechanism ('NSM') and will be available for inspection at https://data.fca.org.uk/#/nsm/nationalstoragemechanism

Glossary

AEW UK Core Property Fund (the 'Core Fund')	AEW UK Core Property Fund, a property authorised investment fund ('PAIF') and a sub-fund of the AEW UK Real Estate Fund, an open-ended investment company.
AIC	Association of Investment Companies. This is the trade body for closed-ended Investment companies (www.theaic.co.uk).
AIC Code	The AIC Code of Corporate Governance, as published in February 2019. A framework of best practice guidance for investment companies.
AIFMD	Alternative Investment Fund Managers Directive.
AIFM	Alternative Investment Fund Manager. The entity that provides portfolio management and risk management services to the Company and which ensures the Company complies with the AIFMD. The Company's AIFM is AEW UK Investment Management LLP.
AIF	Alternative Investment Fund. Alternative Investment Funds are funds that are not regulated at EU level by the UCITS Directive.
Company	AEW UK REIT plc.
Company Secretary	Link Company Matters Limited.
Company website	www.aewukreit.com
Contracted rent	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
Covenant strength	The strength of a tenant's financial status and its ability to perform the covenants in the lease.
Direct vacancy costs	Property expenses that are directly related to the property including the following: rates/property taxes; service charge; insurance premiums; carbon tax; any other costs directly billed to the unit.
DTR	Disclosure Guidance and Transparency Rules, issued by the FCA.
Earnings Per Share ('EPS')	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
EPC	Energy Performance Certificate.
EPRA	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
EPRA cost ratio (including direct vacancy costs)	The ratio of net overheads and operating expenses against gross rental income (with both amounts excluding ground rents payable). Net overheads and operating expenses relate to all administrative and operating expenses.
EPRA cost ratio (excluding direct vacancy costs)	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
EPRA Earnings Per Share	Recurring earnings from core operational activities. A key measure of a company's underlying operating results from its property rental business and an indication of the extent to which current dividend payments are supported by earnings.
EPRA NAV	Net asset value adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business.
EPRA NNNAV	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.
EPRA Net Initial Yield ('EPRA NIY')	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the fair value of the property, increased with (estimated) purchasers' costs.

Glossary *(continued)*

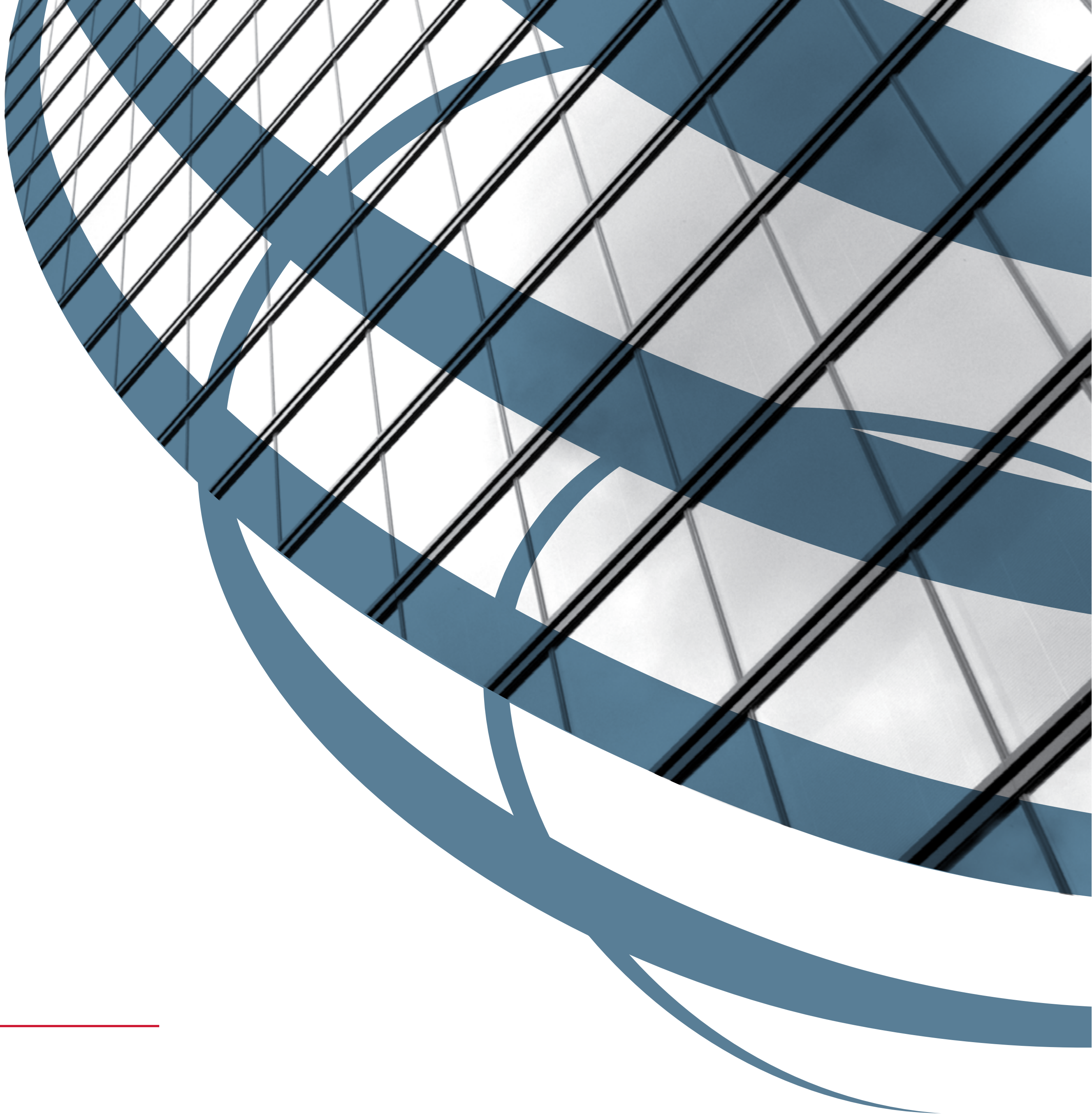
EPRA Topped-Up Net Initial Yield	This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).
EPRA Vacancy Rate	Estimated Rental Value ('ERV') of vacant space as a percentage of the ERV of the whole portfolio.
Equivalent Yield	The internal rate of return of the cash flow from the property, assuming a rise to ERV at the next review or lease expiry. No future growth is allowed for.
Estimated Rental Value ('ERV')	The external valuers' opinion as to the open market rent which, on the date of the valuation, could reasonably be expected to be obtained on a new letting or rent review of a property.
External Valuer	An independent external valuer of a property. The Company's External Valuer is Knight Frank LLP.
Fair Value	The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where parties had each acted knowledgeably, prudently and without compulsion.
Fair value movement	An accounting adjustment to change the book value of an asset or liability to its fair value.
FCA	The Financial Conduct Authority.
FRI lease	A lease which imposes full repairing and insuring obligations on the tenant, relieving the landlord from all liability for the cost of insurance and repairs.
Gross Asset Value	The aggregate value of the total assets of the Company as determined in accordance with IFRS.
Gross passing rental income	The rent receivable from the portfolio's leases at a particular reporting date. Allows the user to assess the cash receipts the Company is entitled to receive.
IASB	International Accounting Standards Board.
IFRS	International accounting standards in conformity with the requirements of the Companies Act 2006 ("Adopted IFRSs")
Investment Manager	The Company's Investment Manager is AEW UK Investment Management LLP.
IPD	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
IPO	The admission to trading on the London Stock Exchange's Main Market of the share capital of the Company and listing of Ordinary Shares to the premium segment of the Official List of the FCA, on 12 May 2015.
Lease incentives	Incentives offered to occupiers to enter into a lease. Typically this will be an initial rent-free period, or a cash contribution to fit-out. Under accounting rules, the value of the lease incentive is amortised through the Statement of Comprehensive Income on a straight-line basis until the lease expiry.
Lease surrender	An agreement whereby the landlord and tenant bring a lease to an end other than by contractual expiry or the exercise of a break option. This will frequently involve the negotiation of a surrender premium by one party to the other.
LIBOR	The London Interbank Offered Rate, a globally accepted key benchmark interest rate that indicates borrowing between banks.
Like-for-Like	The like-for-like valuation movement compares the valuation (as provided by the external valuer and before adjustments for lease incentives) of properties at the end of the period in question with the valuation at the start of the period. This measure only compares movements for those properties which were held at both the start and end of the period, so excludes the effects of acquisitions and disposals.
Loan to NAV	The loan balance drawn expressed as a percentage of the Company's Net Asset Value. Allows the user to assess the Company's gearing and is relevant, as this is the measure tested the Company's borrowing covenant.

Glossary *(continued)*

Loan to GAV (also Gross Loan to GAV)	The loan balance drawn expressed as a percentage of the combined value of the Company's investment property portfolio (as assessed by the valuer) and the Company's investments. Allows the user to assess the Company's gearing and is relevant, as this is the measure used under the Company's Investment Guidelines.
Loan-to-Value ('LTV')	The value of outstanding loans and borrowings (before adjustments for issue costs) expressed as a percentage of the combined valuation of the property portfolio (as provided by the External Valuer) and the fair value of other investments.
Net Asset Value ('NAV')	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
NAV per share	Equity shareholders funds divided by the number of ordinary shares in issue. This measure allows a comparison with the Company's share price to determine whether the Company's shares a trading at a premium or discount to its NAV calculated under IFRS.
NAV Total Return	The percentage change in NAV, assuming that dividends paid to shareholders are reinvested at NAV to purchase additional Ordinary Shares
Net equivalent yield	Calculated by the Company's External Valuers, net equivalent yield is the internal rate of return from an investment property, based on the gross outlays for the purchase of a property (including purchase costs), reflecting reversions to current market rent and items as voids and non-recoverable expenditure but ignoring future changes in capital value. The calculation assumes rent is received annually in arrears.
Net initial yield ('NIY')	The initial net rental income from a property at the date of purchase, expressed as a percentage of the gross purchase price including the costs of purchase.
Net Loan to GAV	Measure of gearing calculated as follows: (l-c)/v, where "l" is the loan balance drawn, "c" is the Company's cash and cash equivalents and "v" is the combined value of the Company's investment property portfolio (as assessed by the valuer) and the Company's investments. Allows the user to assess the potential effect on gearing of using the Company's cash to repay a portion of its loan balance.
Net rental income	Rental income receivable in the period after payment of ground rents and net property outgoings.
Non-PID	Non-Property Income Distribution. The dividend received by a shareholder of the Company arising from any source other than profits and gains of the Tax Exempt Business of the Company.
Ongoing charges	A measure, expressed as a percentage of NAV, of the regular, recurring costs of running an investment company which is calculated in line with AIC methodology.
Ordinary Shares	Ordinary Shares of £0.01 each in the capital of the Company. Ordinary Shares are the main type of equity capital issued by conventional Investment Companies. Shareholders are entitled to their share of both income, in the form of dividends paid by the Company, and any capital growth.
Over-rented	Space where the passing rent is above the ERV.
Passing rent	The gross rent, less any ground rent payable under head leases.
PID	Property Income Distribution. A dividend received by a shareholder of the Company in respect of profits and gains of the tax exempt business of the Company.
Rack-rented	Space where passing rent is the same as the ERV.
REIT	A Real Estate Investment Trust. A company which complies with Part 12 of the Corporation tax Act 2010. Subject to the relevant UK REIT criteria being met continually, the profits from the property business of a REIT, arising from both income and capital gains, are exempt from corporation tax.
RETT	Real Estate Transfer Tax. The tax payable by the buyer on the purchase of a property. The RETT payable is calculated at a rate depending on the consideration paid for the property.
Reversion	Increase in rent estimated by the Company's External Valuer, where the passing rent is below the ERV.
Reversionary Yield	The anticipated yield, which the initial yield will rise (or fall) to once the rent reaches the ERV.

Glossary *(continued)*

Share price	The value of a share at a point in time as quoted on a stock exchange. The Company's Ordinary Shares are quoted on the Main Market of the London Stock Exchange.
Total returns	The returns to shareholders calculated on a per share basis by adding dividends paid in the period to the increase or decrease in the share price or NAV. The dividends are assumed to have been reinvested in the form of Ordinary Shares or net assets.
Shareholder Total Return	The share price movement and dividends (pence per share) received during a period, expressed as a percentage of the opening share price for the period. Calculated as follows: (b - a + d)/a, where "a" is the opening share price, "b" is the closing share price and "d" is dividends per share.
SONIA	Sterling Overnight Index Average.
Under-rented	Space where the passing rent is below the ERV.
UK Corporate Governance Code	A code issued by the Financial Reporting Council which sets out standards of good practice in relation to board leadership and effectiveness, remuneration, accountability and relations with shareholders. All companies with a premium listing of equity shares in the UK are required under the Listing Rules to report on how they have applied the Code in their annual report and accounts.
Voids	The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.
Weighted Average Unexpired Lease Term ('WAULT')	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income.
Yield compression	Occurs when the net equivalent yield of a property decreases, measured in basis points.



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