

# **AEW UK REIT plc**

Annual Report and Financial Statements  
for the year ended 31 March 2024



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UK PROPERTY TRUST  
AEW REIT

# Strategic Report

## Financial Highlights

- Net Asset Value ('NAV') of £162.75 million and 102.73 pence per share ('pps') as at 31 March 2024 (31 March 2023: £167.10 million and 105.48 pps).
- NAV Total Return for the period of 4.98% (31 March 2023: -5.93%).
- Operating profit before fair value changes of £13.36 million for the year (year ended 31 March 2023: £11.10 million).
- Profit before tax ('PBT')\* of £9.09 million and earnings per share ('EPS') of 5.71 pps for the year (year ended 31 March 2023: loss before tax of £11.33 million and EPS of -7.15 pps). PBT includes a £4.35 million loss arising from changes to the fair values of investment properties in the year (year ended 31 March 2023: £30.00 million loss).
- EPRA Earnings Per Share ('EPRA EPS')\* for the year of 7.29 pps (year ended 31 March 2023: 5.70 pps). See page 108 for the calculation of EPRA EPS.
- Total dividends of 8.00 pps declared for the year (year ended 31 March 2023: 8.00 pps), consistently paid since Q1 2016 (34 consecutive quarters).
- Shareholder total return\* for the year of 1.85% (year ended 31 March 2023: -16.44%).
- The price of the Company's Ordinary Shares on the Main Market of the London Stock Exchange was 85.80 pps as at 31 March 2024 (31 March 2023: 92.10 pps).
- As at 31 March 2024, the Company had drawn £60.00 million (31 March 2023: £60.00 million) of a £60.00 million (31 March 2023: £60.00 million) term credit facility with AgFe and was geared to 28.97% of GAV (31 March 2023: 28.06%) (see note 16 on pages 118 and 119 for further details).
- The Company held cash balances totalling £11.40 million as at 31 March 2024 (31 March 2023: £14.32 million).

## Property Highlights

- As at 31 March 2024, the Company's property portfolio had a valuation of £210.69 million across 33 properties (31 March 2023: £213.83 million across 36 properties) as assessed by the Valuer<sup>1</sup> and a historical cost of £214.66 million (31 March 2023: £224.03 million).
- Over the year, the Company's portfolio delivered outperformance against the MSCI/AREF PFI Balanced Funds Quarterly Property Index of 7.0%. Outperformance of the Company's assets against the benchmark was also seen in each main property sector.
- The Company also won the Citywire investment trust award in the 'UK Property' category for the fourth successive year, as well as winning the 'Property' category at the Investment Week Investment Company of the Year awards.
- The Company acquired two properties during the year for a total purchase price of £21.52 million, excluding acquisition costs (year ended 31 March 2023: five properties for a purchase price of £32.05 million).
- The Company made five disposals during the year with total gross sale proceeds of £26.95 million (year ended 31 March 2023: five disposals with total gross sale proceeds of £44.41 million).
- The portfolio had an EPRA Vacancy Rate\*\* of 6.38% as at 31 March 2024 (31 March 2023: 7.83%).
- Rental income generated in the year under review was £19.89 million (year ended 31 March 2023: £17.71 million). The number of tenants as at 31 March 2024 was 133 (31 March 2023: 145).
- EPRA Net Initial Yield ('NIY')\*\* of 8.02% as at 31 March 2024 (31 March 2023: 7.65%).
- Weighted Average Unexpired Lease Term ('WAULT')\* of 4.27 years to break (31 March 2023: 3.05 years) and 5.60 years to expiry (31 March 2023: 4.33 years).

\* See KPIs on pages 14 to 16 for definition of alternative performance measures.

\*\* See Glossary on pages 150 to 153 for definition of alternative performance measures.

<sup>1</sup> The valuation figure is reconciled to the fair value under IFRS in note 13.

# Chairman's Statement

## Overview

The year to 31 March 2024 was a challenging period for the UK economy, which continued to impact the commercial property investment market. The higher interest rate environment has suppressed investor demand, contributing to downward pressure on valuations. This has been exacerbated by low transaction volumes and distressed sales, leading to a lack of evidence on which valuers can base their valuations. Data from Knight Frank suggests that UK commercial property transaction volumes for 2023 were approximately £38.0 billion, a reduction of 38% from £61.3 billion in 2022, and the weakest year since 2011. This culminated in UK commercial property suffering an average decline in capital value of -4.8% during the year, compared to -0.6% experienced by the Company's portfolio. The expectation is for UK commercial property transaction volumes to remain subdued in the short-term ahead of the General Election on 4 July, but to pick up in tandem with the cooling of the inflationary environment and corresponding rate cuts expected later in the calendar year.

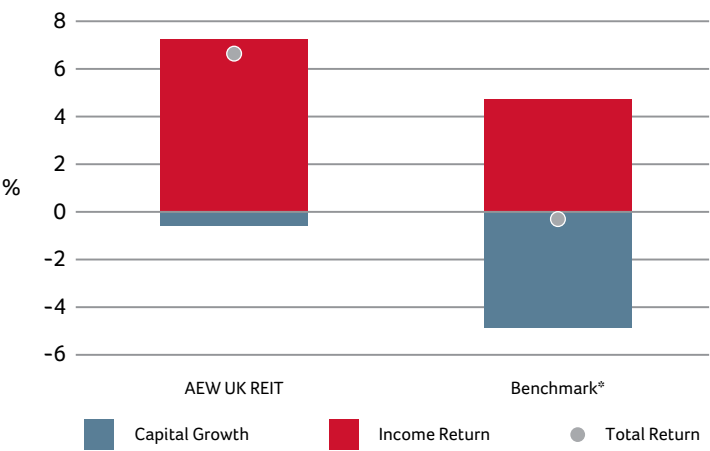
There are, however, already signs of some green shoots, with commercial property yields across the UK Monthly MSCI index stabilising. In March 2024, 61% of MSCI sector yields were stable on a three-month rolling average basis, the highest proportion of stable yields since April 2022. Meanwhile, 16% of net initial yields in the index were compressing in March 2024, the highest level since December 2023, signalling that the bottom of the market may be behind us.

During the year, the Company delivered an annual NAV total return to its shareholders of 4.98%. Considering this testing backdrop, the Company's relative performance is testament to its value-focused strategy of investing in mispriced assets where our Manager believes income can be grown and value created through active asset management, which continues to be the beating heart of the Company's philosophy.

With market participants deliberating on the timing of long-awaited interest rate cuts, share price weakness amongst listed property companies has persisted. The Company's shares traded at an average discount to NAV of 8.6% during the year, compared to the UK diversified REIT peer group average of 28.9%. Although the Company's shares produced a subdued shareholder total return of 1.85% for the year, they traded at the narrowest average discount among the UK diversified REIT peer group. We expect that the Company's long-term track record of NAV outperformance, coupled with its dividend record, will aid its share price recovery once market sentiment improves.

Subdued markets can present opportunities for the Company's actively managed value strategy. During the first half of the year, three industrial assets were sold at levels that maximised their value over the short to medium term. These sales included two assets in Leeds and Bradford, sold as a package for a blended initial yield of 6.2%, at a weighted average premium to purchase price of 31.2%. The Company was subsequently able to recycle the resulting capital from these sales into two assets in Bath and York at an average purchase yield of 8.6%, with both offering reversionary yields greater than 10%. Accessing these quality assets in core urban locations at such favourable pricing demonstrates the Company's ability to crystallise asset management gains via the sale of lower yielding assets and recycling the capital into earnings-accretive, higher yielding ones. Corresponding capital profits have also been used, where necessary, to supplement the Company's market-leading dividend, which has been maintained for 34 consecutive quarters.

AEW UK REIT plc Property Performance vs. Benchmark for 12 months to 31 March 2024



Source: MSCI 31 March 2024  
\* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

## Chairman's Statement *(continued)*

During the year, the Company made good progress in rebuilding its income stream. Active asset management resulted in many leasing transactions that have supported earnings through a combination of void cost mitigation and rental income enhancement. Recently, three new lettings at the Company's retail warehousing holding in Coventry have augmented annual rental income by £535,000, contributing to circa 20% year-on-year rental growth for the property. The Company also settled two office rent reviews at each of its mixed-use assets in Bath, increasing annual rental income by £141,586 per annum, thus demonstrating that counter-cyclical growth can be captured in this testing sector. Occupational activity was present across all sectors in the Company's portfolio, evidencing the Investment Manager's conviction in stock selection and highlighting the effectiveness of its active asset management strategy. Quarterly earnings have increased from 1.75 pps in financial Q1 2024 to 1.88 pps in financial Q4 2024, resulting in dividend cover for the year of 91%; a significant increase from the 71% cover in FY 2023. This quarterly earnings growth was particularly encouraging, given the increase in the Company's ongoing charges ratio, which arose due to the ongoing inflationary environment and downward pressure on property valuations. The Company's portfolio retains further income growth potential, as is evidenced by its year end reversionary yield of 8.8% markedly exceeding its initial yield of 8.0%. Further asset management transactions in the coming quarters are expected to assist realisation of this reversionary potential, thereby continuing to improve earnings performance.

### Financial Results Summary

	Year ended 31 March 2024	Year ended 31 March 2023
Operating profit before fair value changes (£'000)	13,363	11,096
Operating profit/(loss) (£'000)	10,861	(9,164)
Profit/(loss) before Tax (£'000)	9,090	(11,325)
Earnings/(loss) Per Share (basic and diluted) (pence)*	5.71	(7.15)
EPRA Earnings Per Share (basic and diluted) (pence)*	7.29	5.70
Ongoing Charges (%)	1.60	1.37
Net Asset Value per share (pence)*	102.73	105.48
EPRA Net Tangible Assets per share (pence)*	102.73	105.48

\* See note 11 of the financial statements for calculation.

### Financing

The Company had a £60.00 million loan facility, which was fully drawn as at 31 March 2024 (31 March 2023: £60.00 million facility; fully drawn), producing the following measures of gearing:

	Year ended 31 March 2024 %	Year ended 31 March 2023 %
Loan to NAV	36.87	35.91
Gross Loan to GAV	28.97	28.06
Net Loan to GAV (deducts cash balance from the outstanding loan value)	23.47	21.37



## Chairman's Statement *(continued)*

### Awards

I am delighted that the Company's performance and business practices were recognised in four awards during the year. The Company has once again been awarded by EPRA, the European Public Real Estate Association, a gold medal for its high standard of financial reporting and a silver medal for standards of sustainability reporting. During the year, the Company won the Citywire investment trust award in the 'UK Property' category, an award given to the trust displaying the highest NAV returns over a three-year period. The Company won this award in 2020, 2021 and 2022, so we are thrilled to receive it for a fourth consecutive year. The Company also won the 'Property' category at the Investment Week Investment Company of the Year awards. We are delighted that these awards and nominations recognise the hard work and dedication put into running the Company by both my colleagues on the Board and the Company's Investment Manager, AEW.

### ESG+R

AEW, as Investment Manager of the Company, has committed to abide by the UN Principles for Responsible Investment (PRI), where these are consistent with operating guidelines, as outlined in its Socially Responsible Investment Policy. The Investment Manager continually looks to improve its processes relating to environmental, social, governance and resilience (ESG+R) factors in line with sector best practices as they evolve. As a result, within this Annual Report, the Company provides voluntary reporting against the Task Force on Climate-related Financial Disclosures ('TCFD') for the fourth time. In recent periods, the Investment Manager made progress by improving the integration of ESG+R into its investment, asset management and operations processes. The Company continues to undertake greater analysis and scoring of assets at the time of purchase, along with a more comprehensive assessment of the asset's specific climate resilience.

During 2018, AEW established sustainability targets across its managed portfolio which, comprises service charged assets and vacant accommodation, whose utilities the Company operationally controls. These targets include the reduction of Scope 1 and 2 greenhouse gas emissions and waste disposal. As at December 2023, absolute energy usage had reduced by 26.5% and emissions had reduced by 40.8% versus the 2018 baseline. Waste transferred to landfill had reduced to zero within the managed portfolio. We would like to thank the Company's very committed managing agents, Mapp, for their assistance in achieving these improvements. As a result of the Company's accomplishments against these targets, new targets have been set out within this report against current levels of performance that the Company hopes will lead to further improvement in the sustainability of its activities.

GRESB is a global real estate benchmark that assesses Environmental, Social and Governance performance. The Company achieved two stars out of five in its eighth submission year, maintaining its 2022 score to achieve an overall score of 67 out of 100, versus a peer group average of 65. Much of the GRESB score relates to data coverage and due to the high percentage of assets in the Company's portfolio with tenant-procured utilities, the Company does not score as well as peers given its larger holding of multi-let managed assets.

### Minimum Energy Efficiency Standards (MEES)

AEW is committed to ensuring compliance with MEES regulations which first came into effect from April 2018, when it became unlawful to grant new leases of commercial property with an EPC of below an 'E' rating. From 1 April 2023, existing leases certified with an 'F' or 'G' rating also became unlawful, even if the lease was granted prior to the MEES Regulations coming into effect.

As at the end of the period, the Company had five units with draft EPC 'G' ratings, with almost all of the Company's assets being MEES compliant. Three of these five draft G-rated units are anticipated to become MEES compliant once M&E works have been undertaken at a non-material cost to the Company. The remaining two units are currently vacant and are therefore not be in breach of MEES or EPC regulations.

To mitigate future MEES risk, the Company will continue to undertake its gap analysis, identifying assets that fall below the MEES regulations, and will either need an improvement plan implemented to achieve an 'E' rating or better, or an exemption lodged, where applicable.

The Company regards its relatively short WAULT (to break and expiry) as an opportunity to proactively engage with its existing tenants at lease events to improve the energy performance of its assets, as well as in the event of a vacancy.

## Chairman's Statement *(continued)*

### Succession Planning

As announced previously, I am very pleased to have made the appointments of Mr Robin Archibald and Mrs Liz Peace as independent Non-Executive Directors to the Board of the Company, effective 1 October 2023. As part of orderly succession planning, Robin has been appointed as Chairman-elect and will succeed as Chairman of the Board upon my retirement at the Company's 2024 AGM. I am delighted that Robin and Liz have joined the Board as their experience and range of skills will complement and further strengthen the Board. Their collective extensive knowledge and experience in investment companies has already been of great benefit and I am working closely with Robin to ensure a smooth handover in September 2024.

As also previously announced, Mr Bim Sandhu retired from the Board as Chairman of the Audit Committee on 30 September 2023, having reached the end of his nine-year tenure as a Director of the Company. As first announced on 10 November 2022, Mr Mark Kirkland was appointed as Chairman-designate of the Audit Committee and has now succeeded Mr Sandhu as Audit Committee Chairman. On behalf of the Board, I thank Mr Sandhu for his invaluable contribution since IPO of the Company and wish him well for his future endeavours.

Mrs Katrina Hart will assume the role of Chair of JPMorgan UK Small Cap Growth & Income plc with effect from 27 November 2024. As a result of this additional commitment, it is currently anticipated that she will retire as a Non-Executive Director of the Company at the AGM in September 2025.

### Outlook

The Board and Investment Manager believe that the Company is both defensively and opportunistically positioned to take advantage of and withstand the current market conditions. We are pleased by the resilience that the portfolio exhibited during a period of uncertainty versus the performance that was achieved across the commercial property market as a whole. We also believe that the Company's investment strategy is well placed to benefit from current market conditions that allow it to be nimble in making cross sector and often counter-cyclical moves that can deliver optimal value to our shareholders.

Earnings performance will be a continued focus over coming quarters. Lettings currently underway at assets such as Union Street, Bristol, and The Railway Centre, Dewsbury, should enhance earnings in the future. There is also the likelihood of continued capital recycling from sales of select lower yielding assets, or properties where asset management initiatives have been concluded, into higher yielding assets which present stronger potential for value and income enhancement.

There has been considerable corporate activity within the listed property sector recently. The Board and Investment Manager will continue to seek out potential opportunities to grow the Company, but it goes without saying that it is paramount that any opportunity explored must be to the benefit of the Company's existing shareholders.

In the near term, the Board and Investment Manager will continue to take a prudent approach towards the management of the Company, given the ongoing economic uncertainty and upcoming General Election. Although the outlook for commercial property values is now more positive than during the previous 12 months, the Investment Manager and the Board will continue to monitor economic conditions closely.

**Mark Burton**  
**Chairman**

1 July 2024



# Business Model and Strategy

## Introduction

The Company is a real estate investment trust 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

As a real estate investment trust, the Company's purpose is expressed in its investment objective, which 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 (offices, industrial/warehouses, retail warehouses, high street retail and alternatives) 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: offices, industrial/warehouse, retail warehouses, high street retail and alternatives 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 Plus 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 Company 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 7.50-10.00%;
- 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;
- have potential for asset management initiatives to include refurbishment and re-lettings; and
- have values underwritten by vacant possession, residual and alternative use values.

## How we add value

### An Experienced Team

The Investment Management team has over 10 years working together, reflecting stability and continuity.

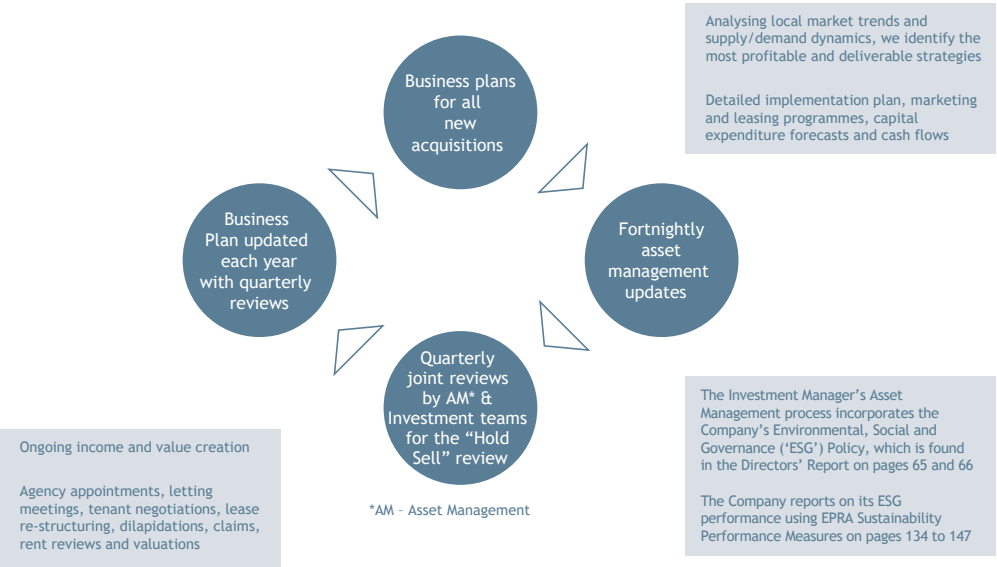
### Value Investing

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

### Central Six Retail Park, Coventry (retail warehousing)

Driving rental income and enhancing tenant mix

- Acquired in November 2021 with 24% vacancy and a WAULT to expiry of 4.3 years.
- Three new lettings to Aldi, MyDentist and The Food Warehouse, as well as two lease renewals and a lease regear, completed in the year.
- Net operating income increased by circa 50% (£744,517 pa) and an improved WAULT to expiry of 7.6 years.



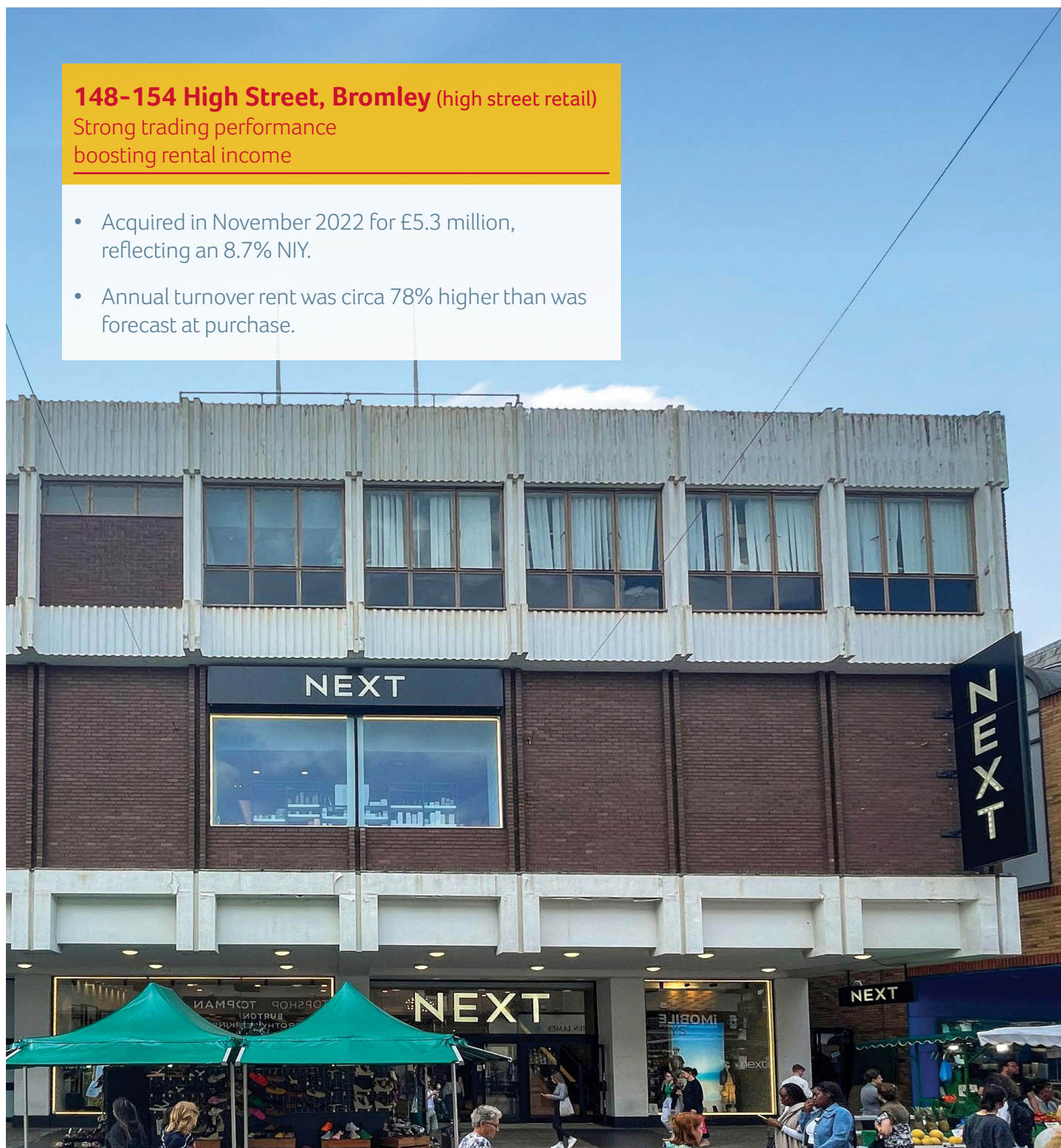


## Strategy in Action *(continued)*

### **148-154 High Street, Bromley** (high street retail)

Strong trading performance  
boosting rental income

- Acquired in November 2022 for £5.3 million, reflecting an 8.7% NIY.
- Annual turnover rent was circa 78% higher than was forecast at purchase.



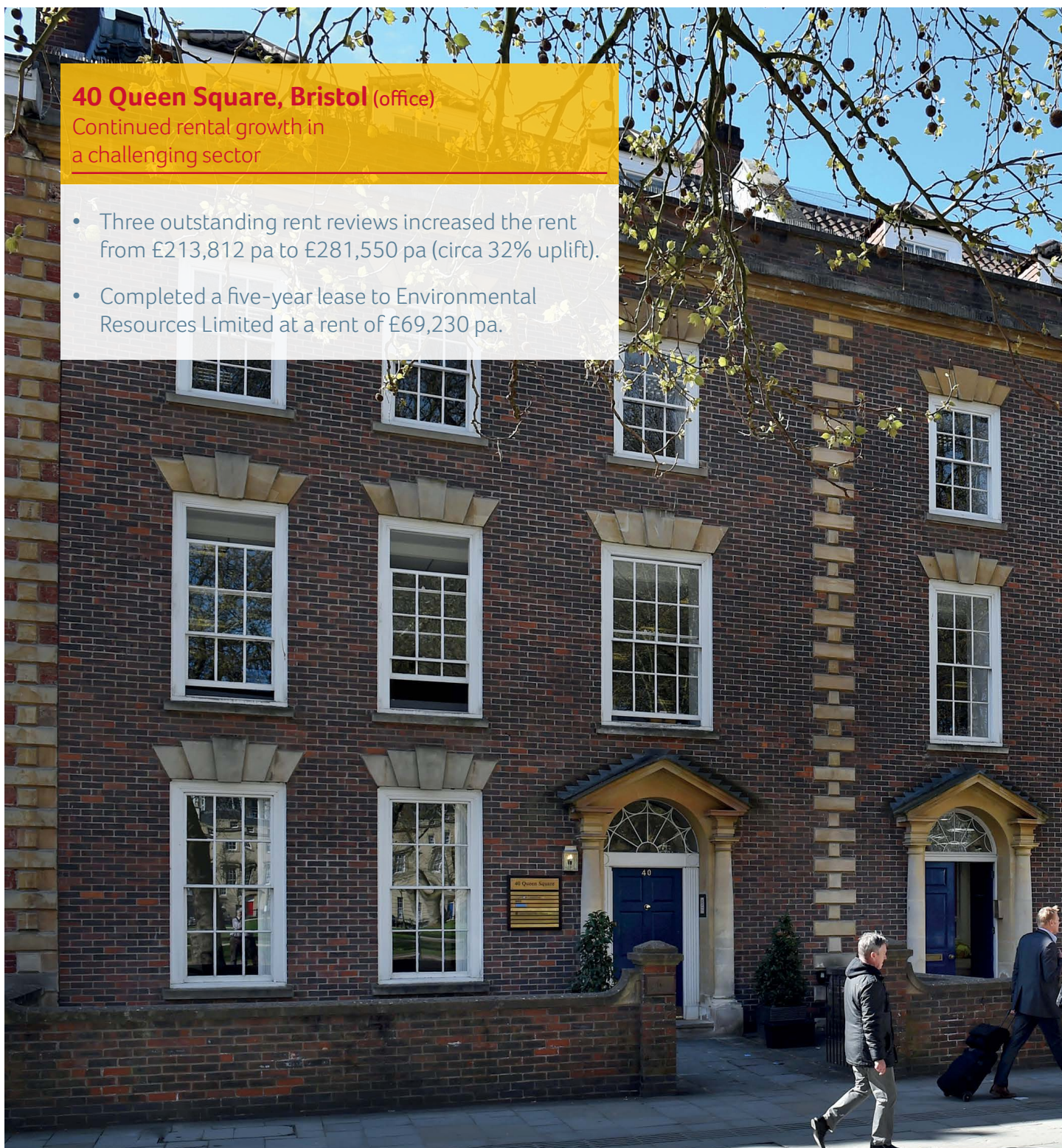


## Strategy in Action *(continued)*

### 40 Queen Square, Bristol (office)

Continued rental growth in a challenging sector

- Three outstanding rent reviews increased the rent from £213,812 pa to £281,550 pa (circa 32% uplift).
- Completed a five-year lease to Environmental Resources Limited at a rent of £69,230 pa.





## Strategy in Action *(continued)*

### Northgate House, Bath (mixed-use)

Prompt realisation of  
reversionary yield

- Acquired in November 2022 for £13.0 million, reflecting an 8.5% NIY.
- Settlement of a backdated 2022 rent review with The Regus Group at £491,400 pa, reflecting an increase of £96,811 pa.





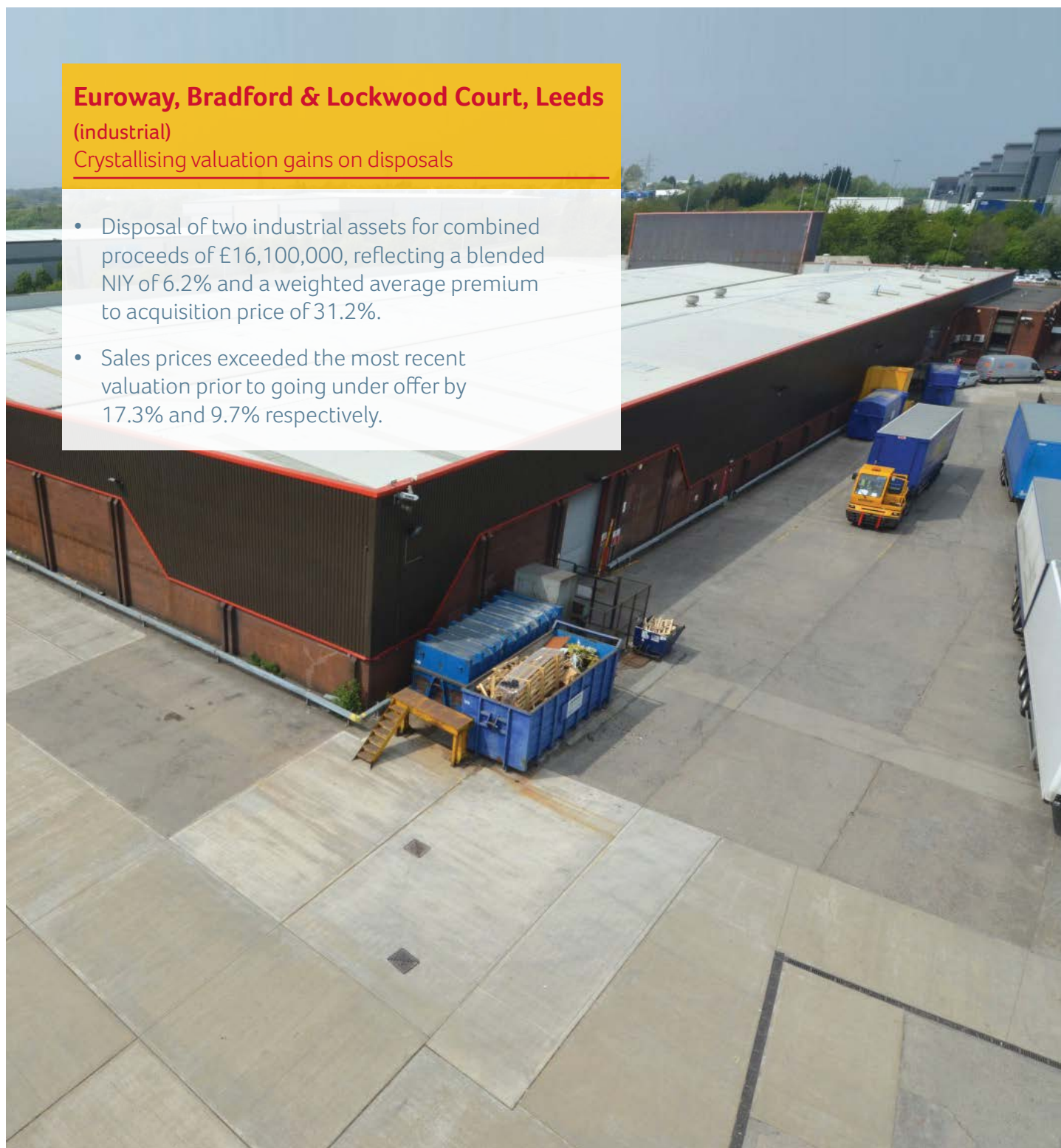
## Strategy in Action *(continued)*

### **Euroway, Bradford & Lockwood Court, Leeds**

(industrial)

Crystallising valuation gains on disposals

- Disposal of two industrial assets for combined proceeds of £16,100,000, reflecting a blended NIY of 6.2% and a weighted average premium to acquisition price of 31.2%.
- Sales prices exceeded the most recent valuation prior to going under offer by 17.3% and 9.7% respectively.



## Key Performance Indicators

KPI AND DEFINITION	PURPOSE AND RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
<b>1. EPRA NIY<sup>A</sup></b> 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%	<b>8.02%</b> at 31 March 2024 (31 March 2023: 7.65%)
<b>2. True Equivalent Yield<sup>A</sup></b> 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%	<b>8.91%</b> at 31 March 2024 (31 March 2023: 8.89%)
<b>3. Reversionary Yield<sup>A</sup></b> 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%	<b>8.77%</b> at 31 March 2024 (31 March 2023: 8.75%)
<b>4. WAULT to Expiry<sup>A</sup></b> 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	<b>5.60 years</b> at 31 March 2024 (31 March 2023: 4.33 years)
<b>5. WAULT to Break<sup>A</sup></b> 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. 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	<b>4.27 years</b> at 31 March 2024 (31 March 2023: 3.05 years)

## Key Performance Indicators *(continued)*

KPI AND DEFINITION	PURPOSE AND RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
<b>6. NAV</b> 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	<b>£162.75 million</b> at 31 March 2024 (31 March 2023: £167.10 million)
<b>7. Leverage (Loan to GAV)<sup>A</sup></b> The proportion of the Company's total assets that are funded by borrowings.	The Company intends to utilise borrowings to enhance returns. A target of 25% Loan to GAV is stated in the Company's Investment Guidelines.	25%	<b>28.97%</b> at 31 March 2024 (31 March 2023: 28.06%)
<b>8. Vacant ERV<sup>A</sup></b> 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%	<b>6.38%</b> at 31 March 2024 (31 March 2023: 7.83%)
<b>9. Dividend<sup>A</sup></b> 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 general economic uncertainty, 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	<b>8.00 pps</b> for the year ended 31 March 2024 (year ended 31 March 2023: 8.00 pps)
<b>10. Ongoing Charges<sup>A</sup></b> 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%	<b>1.60%</b> for the year ended 31 March 2024 (year ended 31 March 2023: 1.37%)

## Key Performance Indicators *(continued)*

KPI AND DEFINITION	PURPOSE AND RELEVANCE TO STRATEGY	TARGET	PERFORMANCE
<b>11. Profit/(Loss) Before Tax ('PBT'/'LBT')</b> PBT/LBT is a profitability measure which considers the Company's profit/(loss) before the payment of income tax.	The PBT/LBT is an indication of the Company's financial performance for the year in which its strategy is exercised.	8.00 pps	<b>£9.09 million/ 5.74 pps</b> for the year ended 31 March 2024  (year ended 31 March 2023: -£11.33 million/-7.15 pps)
<b>12. Shareholder Total Return<sup>A</sup></b> 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%	<b>1.85%</b> for the year ended 31 March 2024  (year ended 31 March 2023: -16.44%)
<b>13. EPRA EPS<sup>A</sup></b> 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 11 of the financial statements.	This reflects the Company's ability to generate earnings from the portfolio which underpins dividends.	8.00 pps	<b>7.29 pps</b> for the year ended 31 March 2024  (year ended 31 March 2023: 5.70 pps)

<sup>A</sup> Alternative Performance Measure

This report provides Alternative Performance Measures ("APMs") which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important information on our business. Further explanation of APMs and why we use them is set out in EPRA unaudited performance measures.

# Investment Manager's Report



**Laura Elkin**  
Portfolio Manager



**Henry Butt**  
Assistant Portfolio Manager

## Economic Backdrop and Outlook

The UK continues to navigate a challenging economic climate as it recovers from a technical recession in late 2023. The UK recorded two consecutive quarters of negative growth in Q3 and Q4 of last year, being -0.1% and -0.3% respectively. As a result, GDP growth for the whole of 2023 remained subdued at just 0.1%. Nonetheless, economic activity is expected to pick-up in 2024, as demonstrated by recent monthly GDP data. UK GDP rose by 0.2% month-on-month in February 2024, the highest level since September 2023, with increases in February and March 2024. Therefore, Oxford Economics ("OE") projects UK GDP to increase to 0.6% by 2024 year-end.

Despite this modest growth, disinflation in the UK continues largely due to restrictive monetary policy. Headline inflation fell to 3.2% in March 2024, in part owing to recent declines in energy, food and core goods prices. OE projects inflation to fall further to 2.3% by 2024 year-end. Having receded markedly, markets now expect a sharper fall in interest rates. For now, the Bank of England ("BoE") has kept policy rates unchanged at 5.25%, to ensure inflation returns to its 2% target in a timely manner.

The timing of a potential rate cut is highly dependent on developments in the labour market. This is starting to show some signs of cooling, as the unemployment rate continued to rise to 4.4% in the three months to April 2024. This is primarily due to inactivity and a reduction in vacancies. Whilst strong wage growth, a key factor in determining rate cuts, has slightly weakened, the BoE requires a more meaningful decline before lowering rates. A rate cut would strengthen near-term growth prospects and potentially accelerate a recovery in living standards.

## Property Market Backdrop and Outlook

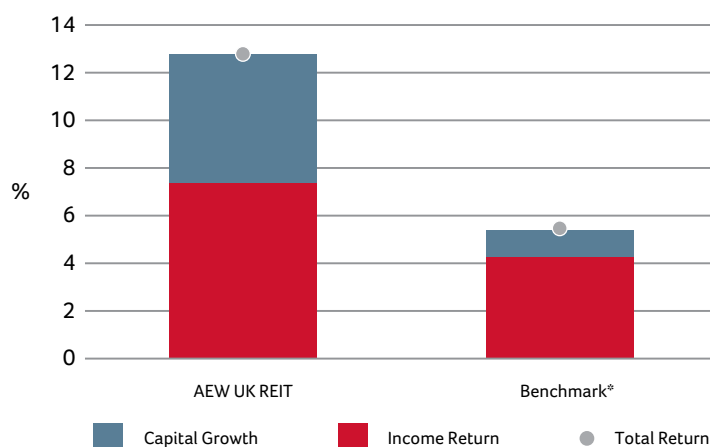
The period was dominated by low investment volumes and less pricing transparency, as macroeconomic headwinds and a consolidation of core capital into thematic sectors, such as prime logistics and residential, suppressed commercial valuation movements across all sectors. Whilst we have seen a pause in the hiking of interest rates, with the BoE's base rate reaching 5.25% in August 2023, the expectation is that rates will remain elevated going into the second half of the calendar year. As debt costs start to reduce, this will eliminate a significant barrier to transactional activity, thus encouraging investment volumes to gradually increase, as well as acting as a catalyst for positive valuation movements. In April 2024, UK commercial real estate rental values increased at the all property level. Low levels of development starts in 2023 and 2024 will put downward pressure on vacancy rates in all sectors, and this will in turn deliver further rental growth and a more sustainable story around occupational markets going forwards.

## Industrial

Investment volumes are expected to improve throughout 2024, as stabilised values give buyers and sellers more comfort around new price levels. Deal activity growth, however, will continue to be gradual. The equivalent yield hardened slightly in March 2024, by 1bps, to 6.23%. Over the past year, however, yields have softened 26bps, from 5.97% in March 2023.

The Company completed three sales from the sector over the period, with two of them for a blended net initial yield of 6.2%. Where sales yields can be compressed significantly compared to pipeline assets, select recycling of assets took place.

*AEW UK REIT Industrial Performance vs. Benchmark*



Source: MSCI Year to 31 March 2024

\* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.



## Investment Manager's Report *(continued)*

### Property Market Backdrop and Outlook *(continued)*

Average rents continue to grow, with the rate of annual growth in the year to March 2024 being 6.9%. Annual rental growth, however, has been slowing since August 2022 when it reached a peak of 13.2%. While the month-on-month growth can be volatile, the monthly MSCI figures so far this year show an acceleration, with 0.26% in January 2024, followed by 0.33% in February 2024 and 0.54% in March 2024. According to the latest Q1 2024 forecasts from RealFor, UK industrial rents are expected to increase by 4.7% this year. This marks an upward revision from their Q4 2023 forecasts when 4.2% rental growth was anticipated. We believe that the Company's industrial portfolio, with an average passing rent of £3.52 per sq. ft., will be well placed to benefit from this trend. The Company's industrial reversionary yield, as of March 2024, is 8.74%, compared with its initial yield of 7.68%.

The vacancy rate continues to soften due to a combination of development completions and second-hand space returning to the market. Preliminary figures point to a vacancy rate of circa 6.4% at the end of Q1 2024, up from 5.5% at the end of last year. However, development completions are slowing, and this will limit any further softening in vacancy.

The industrial sector is the portfolio's largest sector holding, with 37.4% of the valuation. The Company's industrial holding outperformed the Benchmark, both in terms of income return, with a relative outperformance of 3.1%, and capital growth, with a relative outperformance of 4.3%.

### Retail

With a surge in inflation and the cost-of-living crisis eating away at consumers' buying power, UK retail sales volumes remained below their 2019 (pre-Covid) levels throughout 2023. Despite this, 2023 annual sales grew a notable 5.1%, surpassing the 10-year average (+3.5%), demonstrating that subdued consumer spending, which was widely anticipated, failed to materialise. Sales figures are continuing to show signs of improvement, a trend that is forecast to accelerate as 2024 progresses. This is illustrated at the Company's high street asset in Bromley, where an annual turnover top-up rent for the year to 28 September 2023 was agreed with Next at circa 78% higher than what was forecast when the property was purchased in November 2022.

The proportion of retail sales conducted online peaked during the pandemic at 37%, with these now having broadly returned to pre-pandemic levels at around 25%. Profit margins are set to remain under pressure in the year ahead, with occupiers encouraging consumers to utilise their physical store network to maximise profitability, which bodes well for the Company's holdings.

Despite Wilko, one of the Company's retail tenants, entering administration in August, the 2023 calendar year saw the lowest number of stores affected by CVA or administration since 2015. This trend, however, was short-lived, with a spate of distress among well-known brands, such as the Body Shop and Ted Baker in Q1 2024. The Company has made good progress in reletting the former Wilko store, with it currently under offer to two prospective leisure tenants.

Retail warehousing won favour from consumers, operators and investors alike, with fundamentals of affordability, adaptability and accessibility driving performance. The vacancy rate improved for the tenth consecutive quarter in Q1 2024 to reach 7.5%. These trends have been mirrored by the Company's holding in Coventry, where a number of asset management transactions completed during the year, and in its immediate aftermath, have taken the property to full occupancy for the first time since its acquisition.

AEW UK REIT Retail Performance vs. Benchmark



Source: MSCI Year to 31 March 2024

\* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.



## Investment Manager's Report *(continued)*

### Property Market Backdrop and Outlook *(continued)*

Retail pricing will remain attractive versus other commercial sectors in the year ahead. We believe that the sector offers select investment opportunities where tenant trade is robust and values are underpinned by alternative uses, such as the Company's acquisition of mixed-use (retail and office) Cambridge House in Bath, which completed in September 2023.

Retail represents the portfolio's second largest sector holding, with 37.3% of the valuation. The Company's retail holding outperformed the Benchmark, both in terms of income return, with a relative outperformance of 1.2%, and capital growth, with a relative outperformance of 2.4%.

### Office

Excluding London and the South East, prime office yields registered further softening for the majority of UK cities during Q1 2024, with a year-on-year decline between 75bps and 200bps. Pricing, however, is now much closer to buyer and seller expectations, which should improve transaction values moving forward. With a dearth of investment activity and pricing transparency, mispricing continues to be a theme for the sector, which we see as a potential buying opportunity. An example of this is Cambridge House in Bath which the Company bought on 12 September 2023 for an attractive net initial yield of 8.0% and a capital value of £223 per sq. ft. The Manager subsequently settled an outstanding 2021 rent review at £362,400 per annum, representing an increase of £44,775 per annum (circa 14%).

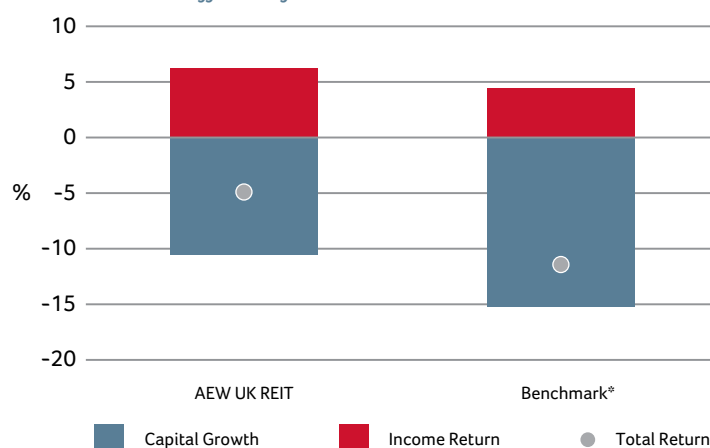
Occupational uncertainty remains across the sector, as businesses continue to transition to new working patterns. Tenants have also become more discerning in recent years, with occupiers now wishing to benefit from strong sustainability credentials, as well as surrounding amenities and top-quality space. This is particularly the case for large corporate tenants, but it is increasingly becoming a key factor for smaller businesses too.

Across the regions, the limited supply of best-quality stock is creating a supply and demand imbalance. Despite the rising occupier preference for new grade A space, it accounted for only 50% of take-up in the first quarter of 2024, in line with the total of 2023, signalling that further development is necessary to meet the current level of occupier demand. Consequently, we have seen prime rental increases in the sector, with this trend expected to continue in 2024.

In March this year, updated Permitted Development Rights came into effect, providing more flexibility to convert office buildings into residential use. The floorspace threshold of 15,000 sq. ft. and the need to demonstrate vacancy for three months prior to making an application have been removed, thereby promoting conversion. This planning change could prove useful in the event of alternative uses being actively pursued.

Offices are the portfolio's smallest sector holding, with 11.9% of the valuation. The Company's office holding outperformed the Benchmark, both in terms of income return, with a relative outperformance of 1.8%, and capital growth, with a relative outperformance of 4.7%.

*AEW UK REIT Office Performance vs. Benchmark*



Source: MSCI 31 Year to 31 March 2024

\* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

# Investment Manager’s Report *(continued)*

## Property Market Backdrop and Outlook *(continued)*

### Alternatives

Across the alternative sectors, such as leisure, hotels and healthcare, visibility of performance in trading updates is key to investor demand. Where these have remained robust, investment volumes have held up, despite the squeeze on consumer discretionary spend and an increase in operating costs, with Q1 2024 volumes higher (£71m) than the five-year quarterly average (£66m), according to RCA data. Prime leisure park yields stood at 8% at the end of the year, with secondary yields as soft as 15%, according to Knight Frank.

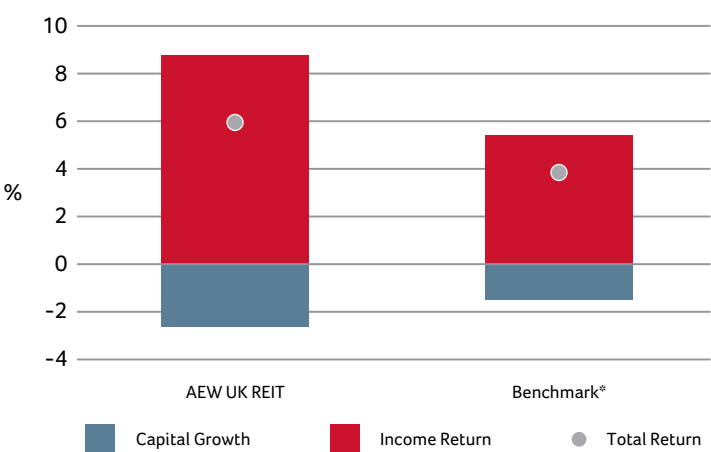
Leisure has historically fared relatively defensively during periods of economic uncertainty. Operators carrying unsustainably high levels of debt are seen as a concern.

Many operators remain in a fragile state, but inflation improvements saw operating challenges ease and site closures moderate, giving grounds for cautious optimism heading into 2024. Barclaycard data showed good year-on-year spending growth across the hospitality and leisure segment, predominantly led by bars, pubs and clubs. This is evidenced by the progress that the Company has made in reletting the former Mecca Bingo, Dewsbury, and the former Wilko, Bristol, to three prospective leisure operators.

We find the sector attractive on a selective basis, particularly for assets that offer a superior income return and occupy larger land holdings, or sites in urban areas that can often be underpinned by alternative use values, most likely residential as evidenced by the Company’s acquisition of Tanner Row, a mixed-use asset within York city centre for £10.02 million, reflecting an attractive net initial yield of 9.3%.

Alternatives represent the portfolio’s second smallest sector holding, with 13.5% of the valuation. The Company’s alternative holdings outperformed the Benchmark in terms of income return, with a relative outperformance of 3.3%, but underperformed the benchmark in capital return terms, with a relative underperformance of 1.1%.

AEW UK REIT Alternatives Performance vs. Benchmark



Source: MSCI Year to 31 March 2024  
\* the Benchmark refers to MSCI/AREF PFI Balanced Funds Quarterly Property Index.

# Investment Manager's Report *(continued)*

## Property Portfolio

### Investment Update

The Company made two property acquisitions during the year:



#### Tanner Row, York (mixed)

In July 2023, the Company completed the acquisition of Tanner Row, York, a mixed-use asset within York city centre for £10.02 million, reflecting an attractive net initial yield of 9.3%.

The 99,769 sq ft asset is multi-let to five tenants. 74% of the income is received from National Car Parks Ltd ("NCP"), who have occupied the 297-space car park since 2005 and have a further nine years remaining on their lease. The lease benefits from a 2027 rent review which will increase rent payable in line with the Retail Price Index, uncapped, resulting in a forecast reversionary yield in excess of 10%. NCP is one of the UK's largest car park operators with an estate of approximately 189,000 spaces over 642 sites. Another four tenants occupy the ground and first floor retail and office accommodation fronting onto George Hudson Street.

The site totals 0.8 acres and is located inside the York City Wall, bordering the historic centre of the city, within the Micklegate Quarter. It is situated in a prominent corner position on George Hudson Street and Tanner Row, within a ten-minute walk of key visitor attractions, including York Minster, the Yorkshire Museum and the York Dungeon. York's key retail provisions at Coppergate Shopping Centre, Coney Street, Davygate and Parliament Street are all within a seven-minute walk.



#### Cambridge House, Bath (office)

In September 2023, the Company acquired Cambridge House, Bath, a mixed-use asset in Bath city centre for £11.50 million, reflecting an attractive net initial yield of 8.0% and a capital value of £223 per sq ft.

The property comprises a rare freehold island site totalling circa 0.4 acres and is located immediately adjacent to the South Gate Shopping Centre which forms part of the city's core retail provision. Bath Spa Train Station is less than a five-minute walk from the property, with other key tourist attractions such as Bath Cathedral, the Roman Baths and Pulteney Bridge within a short distance.

The 51,632 sq ft asset is multi-let across office and retail accommodation. Income levels are expected to improve via rent reviews in the short-term and through lease renewals and re-lettings over the medium-term. Light refurbishment may also be considered in order to fully capitalise on the building's prime location and prominence. We expect market conditions to remain favourable in this location given the low level of available and consented supply, coupled with strong demand for well-specified and well-located accommodation.

## Investment Manager's Report *(continued)*

### Property Portfolio *(continued)*

The Company made four property disposals during the year:



#### **Excel 95, Deeside (industrial)**

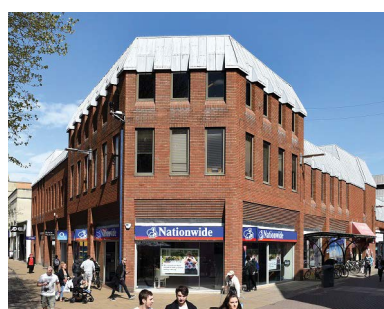
In May 2023, the Company completed the sale of its industrial holding in Deeside for £4.75 million, reflecting a capital value of circa £49 per sq ft. The vacant asset was sold to an owner-occupier, with the price reflecting an 8.0% premium to the 31 March 2023 valuation. By disposing of the asset, the Company also avoided a speculative refurbishment project costing approximately £1.00 million.



#### **Lockwood Court, Leeds & Euroway Trading Estate, Bradford (industrial)**

In June 2023, the Company completed the sale of two industrial assets, being Euroway Trading Estate, Bradford and Lockwood Court, Leeds, for combined proceeds of £16.10 million, reflecting a blended net initial yield (NIY) of 6.2%.

Both sales realised significant profit for the Company's shareholders. For Euroway Trading Estate and Lockwood Court respectively, their sales prices exceeded the most recent valuation prior to going under offer by 17.3% and 9.7%, as well as their acquisition prices by 30.3% and 31.8%.



#### **Commercial Road, Portsmouth (retail)**

In October 2023, the Company completed the sale of its freehold high-street retail holding at 208-220 Commercial Road and 7-13 Crasswell Street, Portsmouth, for £3.90 million, reflecting a net initial yield of 9.9% and a capital value of £251 per sq ft. A sale at this price reflected a 21.9% premium to the 30 June 2023 valuation of £3.20 million.

Following the completion of two new lettings to Kokoro and Specsavers, the property was fully let. This, coupled with the risk of the main tenant, Nationwide Building Society, being significantly overrented, prompted the decision to sell. The value of the asset was likely to deteriorate as Nationwide's lease becomes shorter, with the threat of the tenant leaving on expiry in 2029 creating the possibility of a long-term void.



#### **Pricebusters Building, Blackpool (retail)**

In March 2023, the Company completed the sale of its holding on Bank Hey Street in Blackpool for £2.20 million, reflecting a net initial yield of 10.3%. The decision to sell the property followed the service of Sports Direct's break notice which is due to create approximately 70,000 sq. ft. of vacant space within the building's upper parts. In addition, the building's condition and unconventional layout became challenging for reletting or alternative uses, especially without significant capital expenditure being incurred.

## Investment Manager's Report *(continued)*

### Asset Management Update

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

**Central Six Retail Park, Coventry (retail warehousing)** – the Company also completed a reversionary lease with existing tenant, Boots UK Limited, for Unit 7. The tenant entered into a new five-year lease with effect from 28 February 2024 at a rent of £259,293 per annum, equating to £14.25 per sq ft. The letting also includes seven and a half months' rent free taken under the existing lease.

The Company completed the acquisition of the freehold interest in units 1-11, which had previously been held by way of long leasehold from Friargate JV Projects Limited. The acquisition of the freehold interest is expected to increase the liquidity of the asset in case of its future sale and also removes user restrictions within the long lease which are restrictive to lettings. In exchange for the freehold interest, the Company granted to Friargate JV Projects an option to acquire the Company's long leasehold interest in units 12 A & B over a five-year period, commencing in two years' time.

The Company completed a new 20-year lease to Aldi Stores Limited, following the completion of the agreement for lease in October 2022. The lease provides an annual rent of £270,166 per annum, reflecting £13 per sq ft, to be reviewed every five years based on compounded annual RPI, collared and capped at 1% and 3% respectively. The lease provides Aldi with a 12-month rent-free incentive and a tenant break option at year 15.

The Company completed a lease with new tenant, Iceland Foods Limited, trading as The Food Warehouse, for Units 6a & 6b (now combined as one unit). The tenant has entered a new 11-year lease at a rent of £250,000 per annum, reflecting £16.51 per sq ft. The letting includes a three-month rent-free period and a £812,500 cash incentive.

The Company completed a lease regear with tenant, TJX UK, trading as TK Maxx, for Unit 1. The tenant entered a new lease, providing a term certain until March 2034, at a rent of £234,527 per annum (£16.37 per sq ft.), which is to be reviewed in September 2029 at open market value, capped at £269,706 per annum. The renewal includes a 12-month rent free incentive, effective from September 2024.

The Company exchanged an agreement for lease with a new tenant, Salvation Army Trading Company Ltd, for Unit 12. The tenant will enter into a new lease expiring on 2 November 2032 with a tenant only break in year five at a rent of £140,000 per annum, reflecting £13.97 per sq ft. The letting includes nine months' rent free. The letting is subject to the landlord securing vacant possession (now secured), as the unit was occupied by Oak Furnitureland, who were paying an annual rent of £25,000 per annum, and carrying out Landlord works at a contract cost of £79,178, plus fees. The lease completed post year-end.

The Company completed a lease with new tenant Whitecross Dental Care Limited, trading as MyDentist, for vacant Unit 4. The tenant will enter into a new 15-year lease with a 10-year tenant break option, at a rent of £145,000 per annum, reflecting £14.29 per sq ft, to be reviewed every five years based on open market value (upward only). The letting includes a £217,500 cash incentive and is subject to landlord works at a contract cost of £213,394, plus fees.

**Barnstaple Retail Park, Barnstaple (retail warehousing)** – the Company completed an eight-year reversionary lease with B&Q from 29 September 2024 at the current passing rent of £348,000 per annum (£9.75 per sq ft). In return, the tenant has been granted a six-month rent-free period.

**40 Queens Square, Bristol (office)** – the Company settled three outstanding rent reviews at the building dating back to 2021 and 2022 with the following tenants: Leonard Curtis Recovery Limited, Chapman Taylor LLP and Turley Associates. The outcome of the reviews sees the annual rent from the three tenant's increase from £213,812 per annum to £281,550, reflecting a 32% uplift.

The Company also completed a new five-year ex-Act lease to Environmental Resources Limited with a tenant break option at the end of the third year at a rent of £69,230 per annum (£35 per sq ft). The tenant has the benefit of an initial six-month rent-free period, with a further four months' incentive if they do not serve their break option.

## Investment Manager's Report *(continued)*

### Asset Management Update *(continued)*

**Arrow Point Retail Park, Shrewsbury (retail warehousing)** – the Company completed a three-year lease to Universal Consumer Products Limited at a rent of £110,000 per annum (£8 per sq ft). The previous passing rent was £95,844 (£7 per sq ft). No lease incentive was given.

**Oak Park, Droitwich (industrial)** – the Company completed a new three-year ex-Act lease on units 266-270 to Roger Dyson at a stepped rent starting at £123,000 per annum in year one, £135,000 per annum in year two and £148,000 per annum in year three. There is a mutual break option on the expiry of the second year. The tenant was granted a one-month rent free period.

The Company also completed a new three-year ex-Act lease to Adam Hewitt Ltd at units 263 and 265 at a rent of £70,000 per annum. There is a tenant break option after the first year. No rent incentive was given.

Lastly, the Company completed a letting at units 272 and 273 to J Warwick Holdings Ltd for a new 15-year term, with rolling tenant break options every three years at a rent of £79,000 per annum. The tenant has the benefit of a six-month rent-free period. The property is now fully let.

**Diamond Business Park, Wakefield (industrial)** – the Company completed the settlement of an open market rent review with Tasca Tankers, dating back to June 2022. The review will see the rent received increase from £209,000 to £229,900 per annum, reflecting an uplift of 10%.

The Company settled Compac UK's July 2023 RPI rent review at £53,517 per annum, representing an £11,517 per annum (circa 27%) increase. The unit is still considered under-rented, with an ERV of £4.00 per sq ft, compared to the new passing rent of £3.90 per sq ft.

The Company also settled Economy Packaging Ltd's August 2023 open market rent review at £79,065 per annum, representing a £26,565 per annum (circa 50%) increase. This letting equates to £3.75 per sq ft and will provide good evidence for further asset management activity.

**Northgate House, Bath (retail)** – the Company completed a new five-year ex-Act lease to Dimension Vintage limited at a rent of £40,000 per annum. Four months' rent-free has been granted.

The Company also settled Bath Northgate House Centre Limited's (The Regus Group) outstanding 2022 rent review at £491,400 per annum (£26.98 per sq ft), representing an increase of £96,811 per annum (circa 25%).

Having held over since June 2022, the Company completed Oska Ludlow Limited's lease renewal on a 10-year term with a tenant break in year five. The rent agreed is £40,000 per annum. The renewal included a three-month rent-free incentive.



## Investment Manager's Report *(continued)*

### Asset Management Update *(continued)*

**The Railway Centre, Dewsbury (leisure)** – Mecca Bingo, whose lease expired on 24 December 2023, surrendered their lease early on 29 September 2023, paying all their rent, service charge and insurance to lease expiry. In doing so, the Company settled Mecca's dilapidations at £285,000. The full and final combined settlement totalled £365,126. The Company is in the process of agreeing terms with an incoming tenant where landlord enabling works will be required.

**Westlands Distribution Park, Weston-Super-Mare (industrial)** – the Company completed a lease renewal with JN Baker who extended their occupation of Unit 2A for a further two years from April 2023, with a mutual break option exercisable after nine months. The agreed rent is £159,000 per annum, inclusive of insurance.

The Company has settled three outstanding April 2022 rent reviews with North Somerset Council at units 2, 5 and 6. The combined rental increase is £35,864 per annum (circa 20%).

The Company settled Ford Fuels Ltd's rent review at £27,500 per annum (£46,600 per acre), representing an increase of £13,600 per annum (circa 41%).

**London East Leisure Park, Dagenham (leisure)** – the Company completed a rent review with The Original Bowling Company Limited's, trading as Hollywood Bowl, with effect from September 2022 at £287,922 per annum (£9.38 per sq. ft.), representing an increase of £27,142 per annum (circa 10%).

**Carr Coatings, Redditch (industrial)** – the Company settled Carrs Coatings Ltd's August 2023 annual uncapped RPI rent review at £294,348 per annum (£7.75 per sq ft), representing a £24,385 per annum (circa 9%) increase. The unit is single-let to Carrs Coatings Ltd until August 2028. The lease was entered into as a sale and leaseback in 2008 at an initial starting rent of £170,300 per annum (£4.50 psf).

**Cambridge House, Bath (office)** – following arbitration, the Company settled Novia Financial plc's outstanding 2021 rent review at £362,400 per annum (£21.96 per sq ft), representing an increase of £44,775 per annum (circa 14%).

Post year-end, the Company completed a lease with new tenant, ITX UK Ltd, who will utilise the space for retail storage to support the main Zara store within the nearby Southgate Shopping Centre. The tenant entered a new lease expiring in August 2038, with tenant only break options on the expiry of years two, five and eight, at a rent of £60,000 per annum (£16.22 per sq. ft). The letting includes a six-month rent-free incentive.

**Next, Bromley (retail)** – the Company agreed Next's annual turnover top-up rent for the year to 28 September 2023 at £195,505, in addition to the base rent of £350,000 per annum. This is £85,505 per annum (circa 78%) higher than what was forecast when the property was purchased in November 2022.

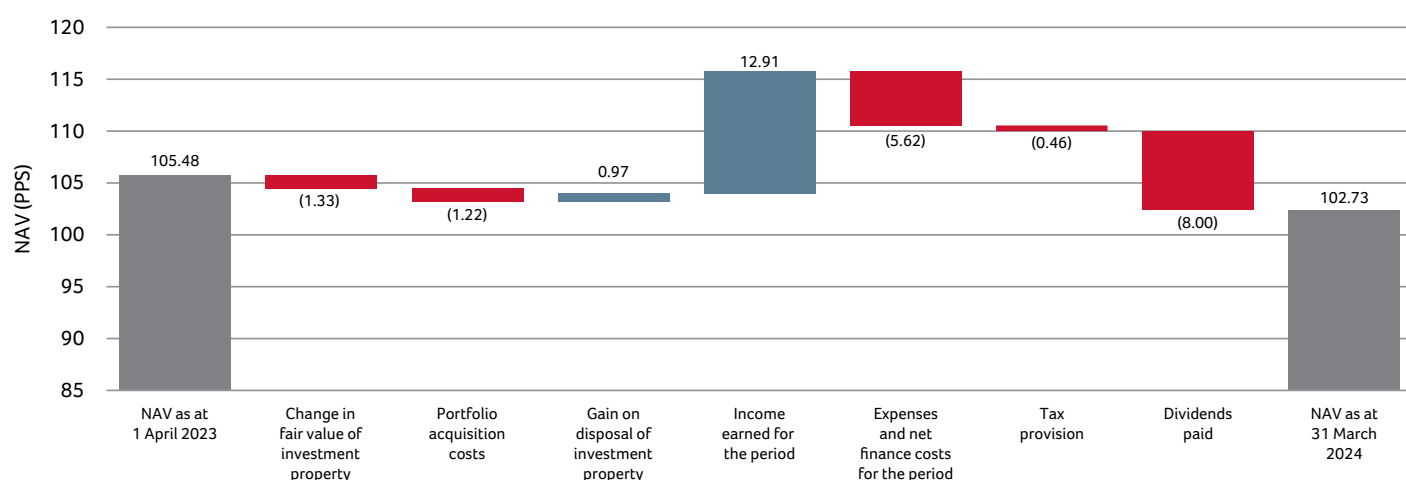
### Vacancy

As at year-end, the portfolio's overall vacancy was 6.38%.

## Investment Manager's Report *(continued)*

### Financial Results

The Company's NAV as at March 2024 was £162.75 million or 102.73 pps (31 March 2023: £167.10 million or 105.48 pps). This represents a decrease of 2.75 pps or 2.6% over the 12-month period, with the underlying movement in NAV set out in the chart below:



EPRA EPS for the year was 7.29 pence which, based on dividends paid of 8.00 pps, reflects a dividend cover of 91.13%. The increase in dividend cover compared to the prior 12-month period has largely arisen due to the Company recycling proceeds from the sale of lower yielding properties into higher yielding ones. Earnings have also benefitted from numerous asset management initiatives across the portfolio, most notably at Central Six Retail Park, Coventry.

The focus of the Company's investment strategy continues to be building earnings towards full dividend cover. Income across the tenancy profile has remained robust, despite the challenging macroeconomic environment.

## Investment Manager's Report *(continued)*

### Financing

As at 31 March 2024, the Company has a £60.00 million loan Facility with AgFe, in place until May 2027, the details of which are presented below:

	31 March 2024	31 March 2023
Facility	<b>£60.00 million</b>	£60.00 million
Drawn	<b>£60.00 million</b>	£60.00 million
Gearing (Loan to GAV)	<b>28.97%</b>	28.06%
Gearing (Loan to NAV)	<b>36.87%</b>	35.91%
Interest rate	<b>2.959%</b>	2.959%
	<b>fixed</b>	fixed
Notional Value of Loan Balance Hedged	<b>N/A</b>	N/A

### Property Portfolio

The following tables illustrate the composition of the portfolio in relation to its properties, tenants and income streams:

#### Summary by Sector as at 31 March 2024

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	14	78.72	1,881,201	4.21	3.30	6.63	3.52	7.98	4.24	6.94	0.43	6.86
Retail Warehouse	5	46.80	444,973	9.18	4.09	3.73	8.38	4.38	9.85	4.16	(0.13)	(3.98)
Standard Retail	6	31.70	243,960	3.52	3.88	3.23	13.24	3.34	13.69	4.33	(0.01)	(0.54)
Alternatives	5	28.42	197,491	0.00	7.10	3.04	15.39	2.48	12.53	2.72	0.04	2.26
Office	3	25.05	125,318	17.49	2.75	2.06	16.49	2.73	21.79	1.74	0.15	14.56
<b>Portfolio</b>	<b>33</b>	<b>210.69</b>	<b>2,892,943</b>	<b>6.38</b>	<b>4.27</b>	<b>18.69</b>	<b>6.46</b>	<b>20.91</b>	<b>7.23</b>	<b>19.89</b>	<b>0.48</b>	<b>3.39</b>

## Investment Manager's Report *(continued)*

### Property Portfolio *(continued)*

Summary by Geographical Area as at 31 March 2024

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 (%)
South West	7	56.10	635,587	13.42	3.40	4.53	7.13	6.19	9.74	5.11	0.16	5.25
West Midlands	5	44.45	605,465	0.00	3.32	4.00	6.62	3.94	6.51	3.92	0.15	3.98
Yorkshire and Humberside	7	32.37	570,563	13.51	4.26	2.87	5.04	3.60	6.31	2.96	0.22	15.38
Eastern	4	21.07	326,419	0.82	2.79	1.92	5.87	2.05	6.27	1.75	(0.15)	(7.89)
North West	3	18.05	235,268	0.00	5.47	1.33	5.65	1.69	7.18	1.95	0.04	4.76
Wales	2	14.40	319,010	0.00	8.98	1.28	4.00	1.29	4.06	1.25	0.00	0.00
Rest of London	1	10.35	71,720	0.00	7.89	1.00	13.90	0.78	10.94	1.04	0.06	6.12
South East	2	8.10	74,351	0.00	1.53	1.13	15.27	0.77	10.32	1.30	0.00	0.00
East Midlands	1	3.70	28,219	0.00	3.16	0.41	14.56	0.38	13.44	0.40	0.00	0.00
Scotland	1	2.10	26,341	0.00	4.17	0.22	8.26	0.22	8.26	0.21	0.00	0.00
<b>Portfolio</b>	<b>33</b>	<b>210.69</b>	<b>2,892,943</b>	<b>6.38</b>	<b>4.27</b>	<b>18.69</b>	<b>6.46</b>	<b>20.91</b>	<b>7.23</b>	<b>19.89</b>	<b>0.48</b>	<b>3.39</b>

\* Like-for-like rental growth is for the year ended 31 March 2024.

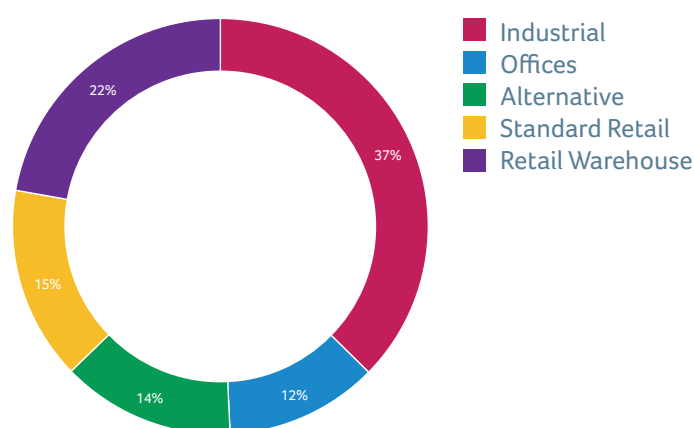
Source: Knight Frank/AEW, 31 March 2024.

## Investment Manager's Report *(continued)*

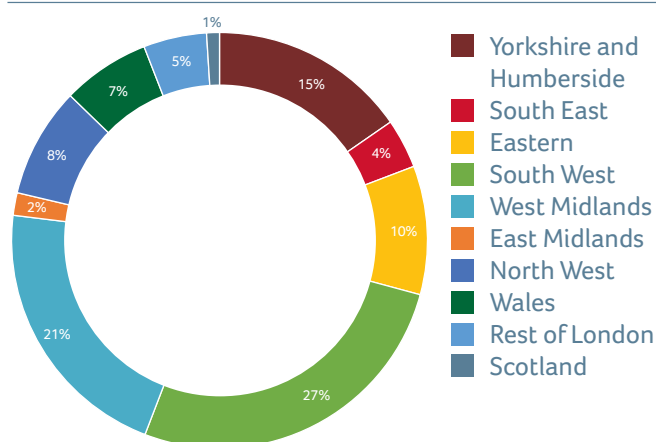
### Property Portfolio *(continued)*

Properties by Market Value as at 31 March 2024

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



Geographical weighting by valuation –  
highly diversified across the UK



Properties by Market Value as at 31 March 2024

Property	Sector	Region	Market Value Range (£m)
<b>Top 10:</b>			
1. Central Six Retail Park, Coventry	Retail warehouses	West Midlands	20.0 – 25.0
2. Northgate House, Bath	Standard retail	South West	10.0 – 15.0
3. Gresford Industrial Estate, Wrexham	Industrial	Wales	10.0 – 15.0
4. Cambridge House, Bath	Offices	South West	10.0 – 15.0
5. 40 Queen Square, Bristol	Offices	South West	10.0 – 15.0
6. London East Leisure Park, Dagenham	Other	Rest of London	10.0 – 15.0
7. Tanner Row, York	Other	Yorkshire and Humberside	10.0 – 15.0
8. Arrow Point Retail Park, Shrewsbury	Retail warehouses	West Midlands	7.5 – 10.0
9. Apollo Business Park, Basildon	Industrial	Eastern	5.0 – 7.5
10. Wyndeham, Peterborough	Industrial	Eastern	5.0 – 7.5

The Company's top ten properties listed above comprise 53.1% of the total value of the portfolio.

## Investment Manager's Report *(continued)*

### Property Portfolio *(continued)*

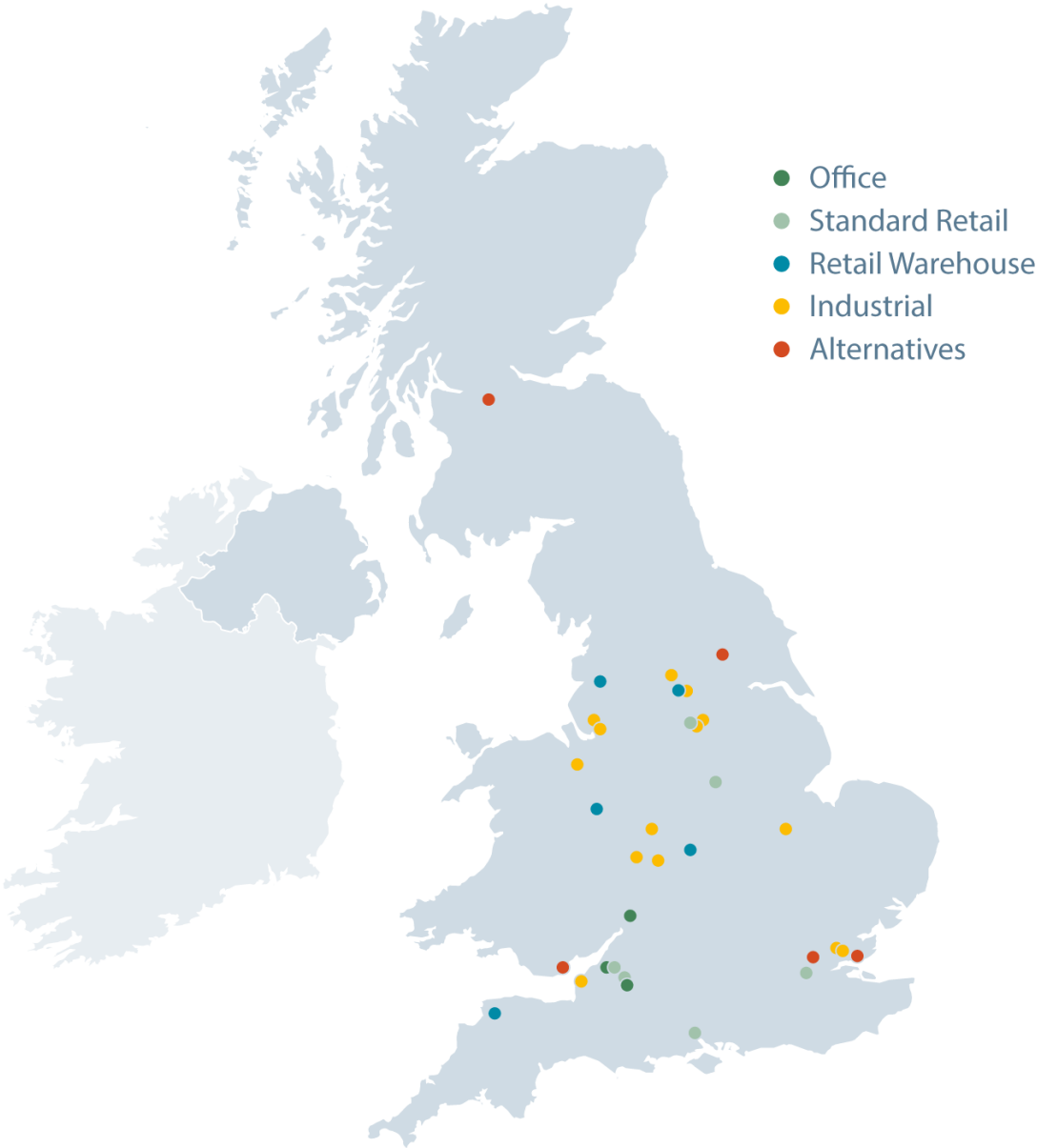
	Property	Sector	Region	Market Value Range (£m)
11.	15-33 Union Street, Bristol	Standard retail	South West	5.0 – 7.5
12.	Cuerden Way, Preston	Retail warehouses	North West	5.0 – 7.5
13.	Barnstaple Retail Park, Barnstaple	Retail warehouses	South West	5.0 – 7.5
14.	Units 1001-1004, Sarus Court	Industrial	North West	5.0 – 7.5
15.	Mangham Road, Rotherham	Industrial	Yorkshire and Humberside	5.0 – 7.5
16.	Brockhurst Crescent, Walsall	Industrial	West Midlands	5.0 – 7.5
17.	Westlands Distribution Park, Weston Super Mare	Industrial	South West	5.0 – 7.5
18.	Walkers Lane, St Helens	Industrial	North West	5.0 – 7.5
19.	Diamond Business Park, Wakefield	Industrial	Yorkshire and Humberside	5.0 – 7.5
20.	Next, Bromley	Standard retail	South East	5.0 – 7.5
21.	Oak Park, Droitwich	Industrial	West Midlands	< 5.0
22.	710 Brightside Lane, Sheffield	Industrial	Yorkshire and Humberside	< 5.0
23.	Odeon Cinema, Southend	Other	Eastern	< 5.0
24.	Pearl House, Nottingham	Standard retail	East Midlands	< 5.0
25.	The Railway Centre, Dewsbury	Retail warehouses	Yorkshire and Humberside	< 5.0
26.	Cedar House, Gloucester	Offices	South West	< 5.0
27.	Pipps Hall Industrial Estate, Basildon	Industrial	Eastern	< 5.0
28.	Eagle Road, Redditch	Industrial	West Midlands	< 5.0
29.	69-75 Above Bar Street, Southampton	Standard retail	South East	< 5.0
30.	Bridge House, Bradford	Industrial	Yorkshire and Humberside	< 5.0
31.	JD Gyms, Glasgow	Other	Scotland	< 5.0
32.	PRYZM, Cardiff	Other	Wales	< 5.0
33.	11/15 Fargate, Sheffield	Standard retail	Yorkshire and Humberside	< 5.0



# Investment Manager’s Report *(continued)*

## Property Portfolio *(continued)*

UK property locations as at 31 March 2024



## Investment Manager's Report *(continued)*

### Property Portfolio *(continued)*

Top 10 Tenants as at 31 March 2024

	Tenant	Sector	Property	Passing Rental Income (£'000)	% of Portfolio Total Passing Rental Income
1.	Plastipak UK Ltd	Industrial	Gresford Industrial Estate, Wrexham	975	5.2
2.	NCP	Car Park	Tanner Row, York	733	3.9
3.	Next	Retail	Various	697	3.7
4.	Matalan Ltd	Retail Warehouse	Cuerden Way, Preston	651	3.5
5.	Wyndeham Peterborough Ltd	Industrial	Wyndeham, Peterborough	644	3.4
6.	TJX UK Ltd	Retail	Various	608	3.3
7.	Mecca Bingo Ltd	Leisure	London East Leisure Park, Dagenham	584	3.1
8.	Odeon Cinemas	Leisure	Odeon Cinema, Southend-on-Sea	535	2.9
9.	Bath Northgate House Centre Ltd	Office	Northgate House, Bath	491	2.6
10.	Poundland Ltd	Retail	Various	486	2.6

The Company's top ten tenants, listed above, represent 34.8% of the total passing rental income of the portfolio.

Source: Knight Frank valuation report as at 31 March 2024.

### ESG Update

The Company has maintained its two stars Global Real Estate Sustainability Benchmark ('GRESB') rating for 2023 and maintained its score of 67. A large portion of the GRESB score relates to performance data coverage, where, due to the high percentage of single-let assets with tenant procured utilities, the Company does not score as well as Funds with a smaller holding of single-let assets and a higher proportion of multi-let managed assets where the owner is responsible for the utilities and can therefore gather the relevant data.

We continue to implement our plan to improve overall data coverage and data collection for all utilities through increased tenant engagement at our single-let assets and by installing automated meter readers ('AMR') across the portfolio. So far, we are in the process of installing AMRs in several of our multi-let properties. We are also in discussions with the tenants of our top ten single-let FRI assets (in terms of floor area) regarding the installation of AMR.

We endeavour, where the opportunity presents itself through a lease event, to include green clauses in leases, covenanting landlord and tenant to collaborate over the environmental performance of the property. Green clauses seek to improve data coverage by ensuring tenants provide regular and appropriate utility consumption data. Alongside this, the Fund has engaged Perse, a third-party provider, who specialises in data collection from tenant controlled and operated assets in the UK by obtaining data from centralised energy administration platforms. This will be key to ensure the maintenance of GRESB data coverage scores and support external reporting.

We continue to assess and strengthen our reporting and alignment against the framework set out by the TCFD, with further disclosure to be provided in the FY 25 Annual Report and accounts. We are pleased to report that the Company has maintained its EPRA Silver rating for Sustainability Best Practice Recommendations (sBPR) for ESG disclosure and transparency.

## Investment Manager's Report *(continued)*

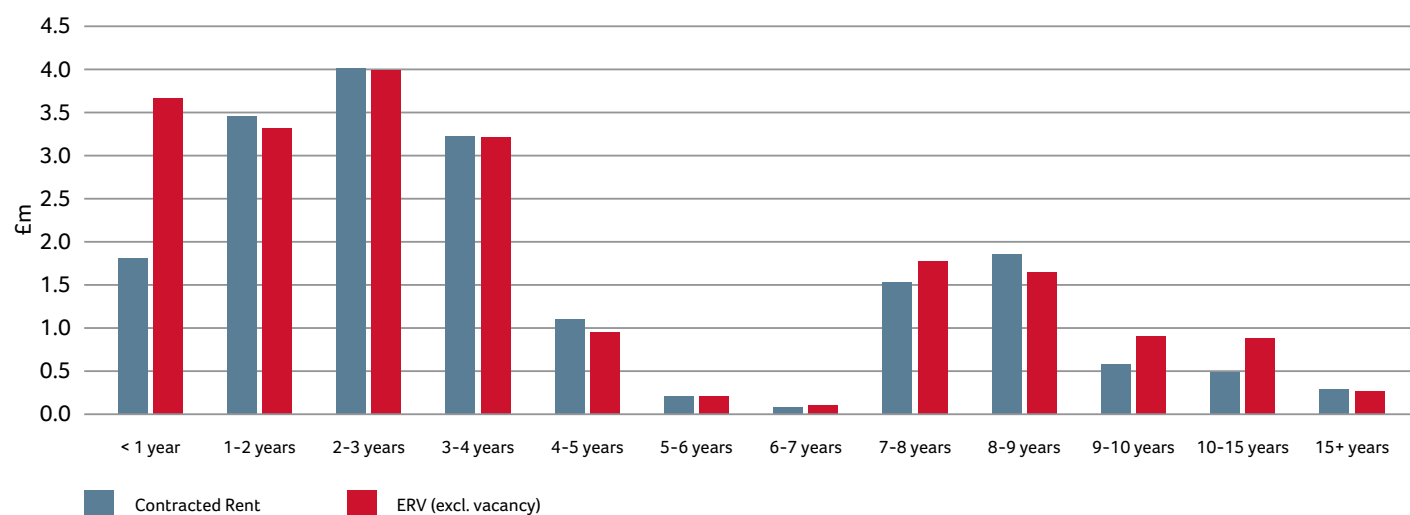
### Property Portfolio *(continued)*

Each asset within the Company has an individual Asset Sustainability Action Plan (ASAP). This document tracks ESG initiatives across the portfolio on an asset-by-asset basis for targeted/relevant and specific implementation of ESG improvements. All managed assets and units have been contracted to High Quality Green Tariffs, ensuring the electricity supply is from renewable sources. All void and vacant unit supplies have also been transferred to High Quality Green Tariffs.

We have implemented a number of initiatives across our portfolio, including new landscaping/biodiversity programmes at our retail sites in Barnstaple, Coventry and Dewsbury. This included replacing the existing plants and shrubs with a greater diversity of appropriate species, which in turn will attract a wider variety of insects and wildlife to the property. Our work at Barnstaple earned us a Green Apple award, recognising the improvements made to biodiversity of the local area. Furthermore, we are actively engaging with tenants to seek opportunities to decarbonise the portfolio. This includes ongoing conversations regarding the installation of solar PV at Dewsbury.

### *Lease Expiry Profile as at 31 March 2024*

#### AEW UK REIT Lease Income to Break



Source: Knight Frank valuation report as at 31 March 2024.

Approximately £1.81 million of the Company's current contracted income stream is subject to an expiry or break within the 12-month period commencing 1 April 2024. The Company is proactively looking to renew leases or to complete new lettings.

### 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.

## Investment Manager's Report *(continued)*

### 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:

Leverage Exposure	31 March 2024		31 March 2023	
	Gross Method	Commitment Method	Gross Method	Commitment Method
Maximum Limit	140%	140%	140%	140%
Actual	130%	137%	127%	136%

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.

#### 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.

## Investment Manager's Report *(continued)*

### Information Disclosures under the AIFM Directive *(continued)*

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 2023.

	<b>Year ended 31 December 2023</b>		
Total remuneration paid to employees during financial year:			
a) remuneration, including, where relevant, any carried interest paid by the AIFM:			£9,371,369
b) the number of beneficiaries			82
The aggregate amount of remuneration of the AIFM Remuneration Code staff, broken down by:			
a) senior management			£3,214,604
b) members of staff			£6,156,765
	<b>Fixed remuneration</b>	<b>Variable remuneration</b>	<b>Total remuneration</b>
Senior management	£1,788,918	£1,425,686	£3,214,604
Staff	£5,213,543	£943,222	£6,156,765
<b>Total</b>	<b>£7,002,461</b>	<b>£2,368,908</b>	<b>£9,371,369</b>

Fixed remuneration comprises basic salaries and variable remuneration comprises bonuses.

**AEW UK Investment Management LLP**

1 July 2024

# Principal Risks and Uncertainties

The Company’s assets consist 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.

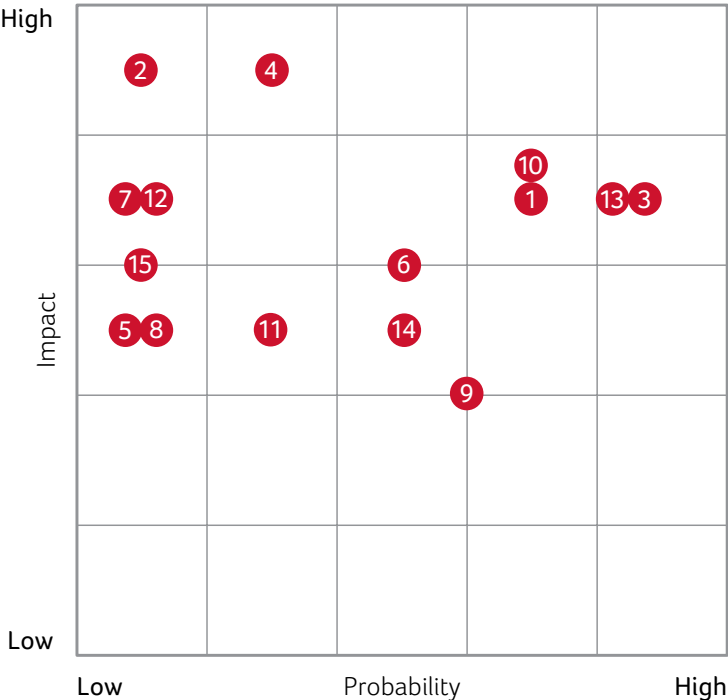
At least twice a year, the Board undertakes a formal risk review with the assistance of the Audit Committee, to assess the adequacy and effectiveness of the Investment Manager and other service providers’ risk management and internal control processes. The Audit Committee is responsible for reviewing the principal and emerging risks facing the Company and, in liaison with the Investment Manager, advises the Board on these risks. Stated movements in the probability or impact of risks is in comparison to the prior year end.

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. Availability and cost of debt
- 9. Dependence on the Investment Manager
- 10. Failure to meet objectives
- 11. Business interruption
- 12. Company REIT status
- 13. General political/economic environment
- 14. Environmental transition risk
- 15. Physical risk to buildings

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
<b>REAL ESTATE RISKS</b>		
<b>1. Property market</b>		
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.	The Company has investment restrictions in place to invest and manage its assets with the objective of spreading and mitigating risk.	<b>Probability:</b> High <b>Impact:</b> Moderate to High <b>Movement:</b> No change
These risks could have a material adverse effect on the ability of the Company to achieve its investment objective.		
<b>2. Property valuation</b>		
Property and property-related assets are inherently difficult to value due to the individual nature of each property.	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.	<b>Probability:</b> Low <b>Impact:</b> High <b>Movement:</b> No change
There may be an adverse effect on the Company's profitability, NAV and the price of Ordinary Shares in cases where property valuations have been materially misstated.		
<b>3. Tenant default</b>		
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.	<b>Probability:</b> High <b>Impact:</b> Moderate to High <b>Movement:</b> Increase
The asset management team conducts ongoing monitoring and liaison with tenants to manage potential bad debt risk.		
<b>4. Asset management initiatives</b>		
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.	<b>Probability:</b> Low to Moderate <b>Impact:</b> High <b>Movement:</b> 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 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

**Impact:** Moderate to High

**Movement:** No change

#### BORROWING RISKS

##### 7. Breach of borrowing covenants

Material adverse changes in valuations and net income may lead to breaches in the Loan to Value ('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.

It is acknowledged that significant headroom currently exists for both loan covenants.

The Investment Manager will maintain a close relationship with its loan finance provider, AgFe, to ensure continuing dialogue around covenants.

**Probability:** Low

**Impact:** Moderate to High

**Movement:** No change

## Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
<b>BORROWING RISKS</b> <i>(continued)</i>		
<b>8. Availability and cost of debt</b>		
In tandem with any future growth of the Company, additional debt funding would be considered. It is acknowledged that the current interest rate environment may constrain the availability and financial viability of further debt funding.	<p>The Company maintains a good relationship with the lender providing the term credit facility.</p> <p>The Company monitors the projected usage and covenants of the credit facility on an ongoing basis.</p> <p>The Company actively monitors the loan term and engages in loan extension negotiations far in advance of expiry.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>
<b>CORPORATE RISKS</b>		
<b>9. Dependence on the Investment Manager</b>		
The Company has no employees and is reliant upon the performance of its Investment Manager and other third party service providers. Failure by the Investment Manager and/or 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 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.	<p>The Investment Manager has endeavoured to ensure that the principal members of its management team are suitably incentivised.</p> <p>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.</p>	<p><b>Probability:</b> Moderate to High</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>

## Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
<b>CORPORATE RISKS</b> <i>(continued)</i>		
<b>10. Failure to meet objectives</b>		
<p>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.</p> <p>Poor relative total return performance may lead to an adverse reputational impact that affects the Company's ability to raise new capital.</p> <p>The Company may not pay its target dividend.</p>	<p>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. The Investment Manager has extensive experience in navigating market volatility.</p> <p>The Company has the ability to pay dividends from current year revenue as well as revenue reserves and realised capital.</p>	<p><b>Probability:</b> High</p> <p><b>Impact:</b> Moderate to High</p> <p><b>Movement:</b> No change</p>
<b>11. Business interruption</b>		
<p>Cyber attacks on the Investment Manager's and/or other service providers' IT systems could lead to disruption, reputational damage, regulatory (including GDPR) or financial loss to the Company.</p>	<p>The Investment Manager and other service providers' staff are capable of working remotely for an extended time period.</p> <p>The Investment Manager's and other service providers' IT systems are protected by anti-virus software and firewalls that are updated regularly.</p> <p>Fire protection and access security procedures exist at all the Company's managed properties, along with the offices of its Investment Manager and other service providers.</p>	<p><b>Probability:</b> Low to Moderate</p> <p><b>Impact:</b> Moderate</p> <p><b>Movement:</b> No change</p>

## Principal Risks and Uncertainties *(continued)*

Principal risks and their potential impact	How risk is managed	Risk assessment
<b>TAXATION RISKS</b>		
<p><b>12. Company REIT status</b></p> <p>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.</p> <p>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.</p>	<p>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.</p>	<p><b>Probability:</b> Low</p> <p><b>Impact:</b> Moderate to High</p> <p><b>Movement:</b> No change</p>
<b>POLITICAL/ECONOMIC RISKS</b>		
<p><b>13. General political/economic environment</b></p> <p>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 Ukraine war.</p> <p>In addition, the current inflationary environment continues to drive-up energy and commodity prices.</p> <p>This might further damage consumer and investor sentiment as real income and wealth levels are reduced.</p>	<p>The Board considers the impact of political and macroeconomic events when reviewing strategy.</p>	<p><b>Probability:</b> High</p> <p><b>Impact:</b> Moderate to High</p> <p><b>Movement:</b> No change</p>

## Principal Risks and Uncertainties *(continued)*

### Principal risks and their potential impact

### How risk is managed

### Risk assessment

#### **POLITICAL/ECONOMIC RISKS** *(continued)*

##### **14. Environmental transition risk**

Failure to identify and mitigate the transition risk for climate change could lead to the Company holding stranded assets and lead to a negative impact on its reputation. Failure by the Company to meet required regulatory standards could lead to increased stakeholder concern and negative feedback.

The Company has engaged specialist environmental consultants to advise the Board on compliance with regulatory requirements and adopting best practice where possible. All prospective acquisitions and asset management initiatives are influenced by environmental assessments undertaken by the Company, such as ensuring they are in conformance with the Minimum Energy Efficiency Standard ('MEES') Regulations. All assets have an Asset Sustainability Action Plan ('ASAP') initiative, which tracks environmental initiatives across the portfolio on an asset-by-asset basis for targeted, relevant and specific implementation of environmental improvements.

**Probability:** Moderate

**Impact:** Moderate

**Movement:** No Change

##### **15. Physical risk to properties**

The risk of physical damage to properties as a result of environmental factors such as flooding and natural fires. In the long-term, changes in climate and/or weather systems may mean properties become unviable to tenants.

The Company obtains environmental surveys for all acquisitions, which mitigate the short-term risk of climate-related damage to properties owned. The Investment Manager's asset management team perform regular site visits to the Company's properties in order to continually assess the physical risk posed to them. This includes climate resilience assessments.

**Probability:** Low

**Impact:** Moderate to High

**Movement:** No Change

# Stakeholder Engagement

## s172 Statement

The Directors' overarching duty is to promote the success of the Company for the benefit of its stakeholders, having regard to the interests of its other 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
<b>Investors</b> <p>Our shareholders are impacted directly by the financial performance of the Company through dividends and share price movements.</p> <p>They also play an important role in monitoring the governance of the Company.</p>	<ul style="list-style-type: none"> <li>– Sustainable growth of the Company and achieving target returns</li> <li>– Good relationship with the Company and Board</li> <li>– Effective structure and control framework</li> <li>– Impact of the Company on the wider community and environment</li> <li>– Reputation of the Company</li> </ul>	<ul style="list-style-type: none"> <li>– AGM, Annual Report, regulatory announcements</li> <li>– Quarterly update report and other key information published on the website</li> <li>– Roadshows, meetings and presentations via the Investment Manager</li> </ul>
<b>Service providers</b> <p>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.</p>	<ul style="list-style-type: none"> <li>– Relationship with the Company and Board</li> <li>– Fair contract terms and service-level agreements</li> <li>– Reputation of the Company</li> <li>– The Company's performance and long-term prospects</li> </ul>	<ul style="list-style-type: none"> <li>– Effective and regular communication</li> <li>– Service-level agreements</li> <li>– Formal tender processes where appropriate</li> </ul>

## Stakeholder Engagement *(continued)*

Stakeholder	Interests	Engagement
<b>Tenants</b> The Company's strategy in relation to its individual assets will directly affect the tenants in occupation of those assets.	<ul style="list-style-type: none"> <li>– Good communication and relationship with the Company as landlord</li> <li>– Fair lease terms</li> <li>– Long-term strategy for the asset in line with the objectives of the tenant's activities</li> </ul>	<ul style="list-style-type: none"> <li>– Site visits and face-to-face meetings through the Investment Manager</li> <li>– Formal negotiations</li> <li>– Ongoing communication through the property manager</li> </ul>
<b>The wider community and environment</b> 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.	<ul style="list-style-type: none"> <li>– Impact of properties and their business plans on the local economy</li> <li>– Impact of properties on the attractiveness and appeal of the local area</li> <li>– Energy efficiency and greenhouse gas emissions</li> </ul>	<ul style="list-style-type: none"> <li>– Publishing of Sustainability Disclosure Report and Greenhouse Gas Emissions Statement</li> <li>– Global Real Estate Sustainability Benchmark ('GRESB') reporting</li> <li>– Communication with local authorities via Investment Manager</li> </ul>
<b>Principal decisions made by the Board</b> The principal decisions made by the Board during the year are summarised below.		
<b>Dividends</b>	The Board considered the Company's target dividend of 8.00 pps per annum and approved payment of it, continuing the Company's track record in paying dividends at this level.	
<b>Continued focus on sustainability impact and GRESB score</b>	The Board has continued its focus on responsible business practices. More details on sustainability impact and GRESB score can be found in the Directors' Report on pages 65 to 78. The Investment Manager meets regularly with MAPP and Evora, its ESG consultants, to consider initiatives to improve the Company's GRESB score.	



## Stakeholder Engagement *(continued)*

### Principal decisions made by the Board *continued*

<b>Oversight of Investment Manager and Review of Investment Activities</b>	<p>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 reviewed by the Board:</p> <ul style="list-style-type: none"><li>– The acquisition of Tanner Road, York;</li><li>– The acquisition of Cambridge House, Bath;</li><li>– The disposal of Excel 95, Deeside;</li><li>– The disposal of Lockwood Court, Leeds &amp; Euroway Trading Estate, Bradford</li><li>– The disposal of Commercial Road, Portsmouth; and</li><li>– The disposal of Pricebusters Building, Blackpool.</li></ul> <p>Further details of the property transactions can be found in the ‘Property Portfolio’ section of the Investment Manager’s Report.</p>
<b>Appointment of Non-Executive Directors</b>	<p>On 1 October 2023, as part of ongoing succession planning, the Board appointed Ms Liz Peace as Non-Executive Director and Mr Robin Archibald as Non-Executive Director and Chairman designate, following an extensive search, interview and recruitment process.</p> <p>With the assistance of Trust Associates, the Board shortlisted and interviewed potential candidates and concluded that both Ms Peace and Mr Archibald were exceptional candidates given their backgrounds and experience.</p>

Further information on the Company’s engagement with stakeholders and its ESG policy can be found on pages 65 and 66.

### Approval

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

**Mark Burton**  
**Chairman**

1 July 2024

# Governance

## Board of Directors

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***Mark Burton, non-executive Chairman  
(aged 75)***

Mr Burton currently sits on the real estate advisory board for Norges Bank Investment Management. 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

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***Robin Archibald, non-executive Director/Chairman designate  
(aged 65)***

Mr Archibald was formerly Head of Corporate Finance and Broking at Winterflood until April 2014 when he retired from his executive roles. He is a Chartered Accountant and worked as a Corporate Financier with a number of leading city firms, including SG Warburg Securities and NatWest Markets. Robin has concentrated for much of his career on advising and managing transactions in the UK closed-ended funds sector. He is currently Audit Chair and SID of Capital Gearing Trust, Shires Income Trust and Henderson European Focus Trust, having been Chair of Albion Technology Venture Capital Trust and former Audit Chair and SID of Ediston Property Investment Trust, roles he retired from early in 2023.

Appointed: 1 October 2023

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***Katrina Hart, non-executive Director  
(aged 50)***

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 commercial dynamics and operational drivers of asset 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, Bridgeway Group Plc and headed up the financials research team at Canaccord Genuity Inc. Mrs Hart is Chairman of BlackRock Frontiers Investment Trust plc, Senior Independent Director of Keystone Positive Change Investment Trust plc, Chair designate of J.P. Morgan UK Small Cap Growth and Income plc and a non-executive Director of Montanaro Asset Management Limited. Mrs Hart was formerly a non-executive Director of Premier Miton Group Plc and Polar Capital Global Financials Trust plc.

Appointed: 5 June 2017

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# Notes

## Board of Directors *(continued)*

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**Mark Kirkland, non-executive Director  
(aged 56)**

Mr Kirkland qualified as a Chartered Accountant with PricewaterhouseCoopers in London and has extensive corporate experience gained over 30 years, having held several senior roles in both public and private companies. Mr Kirkland's initial career was in corporate finance, predominately with UBS Limited. He has been CFO of several public and private companies and latterly was CEO of Delin Property, a pan-European logistics developer, investor and manager. He is currently an Executive Director of Kelso Group Holdings plc, Non-Executive Director of Strix Group Holdings plc and TheWorks.co.uk plc.

Appointed: 9 November 2022

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**Liz Peace, non-executive Director  
(aged 71)**

Ms Peace spent her early career in Government in the Ministry of Defence, eventually becoming a key player in the creation of QinetiQ plc in 2001. She then moved into the private sector, becoming Chief Executive of the British Property Federation where she played a significant role in the creation of the UK's Real Estate Investment Trust structure. She was awarded a CBE in 2008 for services to the property industry. Ms Peace has a non-executive portfolio career primarily focused on real estate, including NED roles at Howard de Walden Estates Ltd, Greencore Homes Ltd, the Connected Places Catapult and the Royal Institution of Chartered Surveyors where she is the Senior Independent Governor. She is chair of the Greater London Authority's Old Oak and Park Royal Development Corporation and of the University of Cambridge Property Board. She is also chair of the Churches Conservation Trust, a secular organisation looking after 358 redundant Church of England churches.

Appointed: 1 October 2023

# Corporate Governance Statement

This Corporate Governance Statement comprises pages 48 to 53 and forms part of the Directors' Report.

## Statement from the Chairman

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 fully meet 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](http://theaic.co.uk). A copy of the UK Code can be obtained at [frc.org.uk](http://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; and
- 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 determining 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 supervision of the Investment Manager.

The Board consisted of four non-executive Directors up to Mr Sandhu's retirement on 30 September 2023 and consisted of five Directors following the appointment of Mr Archibald and Ms Peace on 1 October 2023. 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 46.

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 nine 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, a copy of which is available on the Company's website. 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 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 NAV announcements 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 Administrator, Investment Manager and the Company Secretary 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 page 53.

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 investment objective and policy. 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 Kirkland, who has recent and relevant financial experience. Mr Sandhu chaired the Committee until his retirement on 30 October 2023. 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 54 to 57.

### **Meeting Attendance**

The table below sets out the number of scheduled Board and Committee meetings attended by each Director during the year ended 31 March 2024. The Board met on a number of occasions during the year, outside the normal cycle of board meetings, to discuss corporate issues affecting the Company.

	Board meetings		Audit Committee meetings	
	Number of meetings	Number attended	Number of meetings	Number attended
Mark Burton	4	4	2	2
Bim Sandhu*	4	2	2	1
Katrina Hart	4	4	2	2
Mark Kirkland	4	4	2	2
Liz Peace**	4	2	2	1
Robin Archibald**	4	2	2	1

\* Retired on 30 October 2023. Mr Sandhu attended all meetings he was eligible to attend.

\*\* Appointed on 1 October 2023. Ms Peace and Mr Archibald attended all meetings they were eligible to attend.

### **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 the Audit Committee, including how Directors work together as a whole;
- the balance of diversity, 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 via the use of an independent search firm.

## Corporate Governance Statement *(continued)*

### Diversity

#### Board Diversity

The Board's policy on diversity is to ensure that the Directors on the Board have a broad range of experience, skills and knowledge, with diversity of thinking, background and perspective. Appointments to the Board are made on merit against objective criteria, having regard to the benefits of diversity and the current and future needs of the business and the other factors set out in the AIC Code.

Diversity, including, but not limited to, gender, social background, ethnicity, age, sexual orientation, disability and professional and industry specific knowledge, is an important consideration in ensuring that the Board and its committees have the right balance of skills, experience, independence and knowledge necessary to discharge their responsibilities. The Board notes the FCA rules on diversity and inclusion on company boards, namely, that from accounting periods starting on or after 1 April 2022:

- (a) At least 40% of individuals on the Board to be women;
- (b) At least one senior Board position to be held by a woman; and
- (c) At least one individual on the Board to be from a minority ethnic background.

The Board continues to develop its succession planning in line with these recommendations. In accordance with Listing Rule 9 Annex 2.1, the below tables, in prescribed format, show the gender and ethnic background of the Directors at the date of this Report.

	Number of Board members	Percentage on the Board	Number of senior positions on the Board
Men	3	60%	1
Women	2	40%	–
Not specified/prefer not to say	–	–	–

	Number of Board members	Percentage on the Board	Number of senior positions on the Board
White British or other White (including minority white groups)	5	100%	1
Mixed/Multiple ethnic groups	–	–	–
Asian/Asian British	–	–	–
Black/African/Caribbean/Black British	–	–	–
Other ethnic group, including Arab	–	–	–
Not specified/prefer not to say	–	–	–

The data in the above tables was collected through self-reporting by the Directors.

As at 31 March 2024 the Board comprised of five members. The gender breakdown is as follows: 2 female (40%); 3 male (60%). Each Board member is also a Director of the Company's subsidiary, AEW UK REIT 2015 Limited.



## Corporate Governance Statement *(continued)*

### *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. Ms Peace and Mr Archibald were appointed to the Board on 1 October 2023 and were provided with a full induction programme. The programme covered the Company's investment strategy, policies and practices. Ms Peace and Mr Archibald were also given key information on the Company's regulatory and statutory requirements, including information on the role of the Board, matters reserved for its decision, the terms of reference for the Board Committees, the Company's corporate governance practices and procedures and the latest financial information.

### *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.

### *Re-election and Tenure 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 stand for annual re-election and no Director will serve for a period of more than nine years.

On the basis 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.

### *Succession Planning*

The composition of the Board and succession planning are kept under review by the Board and reviewed annually as part of the Board evaluation process in order to ensure an orderly refreshment of the Board. Succession planning was a key focus of the Board during the year following its assessment of the tenure of current Board members. During the year under review, the Board engaged Trust Associates, an independent external search consultancy, with no connection to the Company or its Directors, to assist with recruitment. With the assistance of Trust Associates, and following an extensive external search, the Board appointed Liz Peace and Robin Archibald as Non-Executive Directors with effect from 1 October 2023. Mr Archibald was appointed Chairman designate and will become Chairman of the Board upon Mr Burton's retirement at the 2024 AGM. The Board shortlisted and interviewed potential candidates and concluded that both Liz Peace and Robin Archibald were exceptional candidates given their backgrounds and experience. Mrs Katrina Hart will assume the role of Chair of JPMorgan UK Small Cap Growth & Income plc with effect from 27 November 2024. As a result of this additional commitment, it is currently anticipated that she will retire as a Non-Executive Director of the Company at the AGM in September 2025.

### *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 the Company's 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.

## Corporate Governance Statement *(continued)*

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 services on a regular basis as described on page 64. 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.

### 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 maintained against which identified and emerging risks, as well as the controls in place to mitigate those risks, can be monitored. 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 the impact of such risks is also assessed. The principal and emerging risks and uncertainties identified from the risk matrix can be found in the Strategic Report on pages 36 to 42;
- 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; and
- the controls employed by the Investment Manager and other third party service providers, as evidenced by their ISAE 3402 or equivalent 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.

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, Administrator and Registrar 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 4 September 2024. The notice of this meeting and details of the resolutions to be put to the AGM are contained in the circular sent to shareholders with this report and are 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 2024.

### Meetings

The Audit Committee met twice 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 50 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, prospects, business model and strategy;
- keeping under review the adequacy and effectiveness of the Company's risk management systems, reviewing the principal and emerging risks facing the Company; 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;
- conducting the tender process and making recommendations to the Board in relation to the appointment, 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
- reviewing 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 2023 and the statutory audit of the Annual Report for the year ended 31 March 2024, including the principal areas of focus;
- 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;
- reviewed the non-audit services provided by the Auditor and the associated fees incurred; and
- reviewed Knight Frank's valuation of investment properties.

## 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 33 properties in the portfolio as at 31 March 2024 were 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 the Auditor during the audit of the financial statements.

#### *Internal Controls*

The Audit Committee carefully considers the internal control systems by regularly 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, including all applicable tax legislation.

#### *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 going concern statement and the viability statement can be found on pages 62 and 63.



## Report of the Audit Committee *(continued)*

### 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 2024 can be found in note 5 to the Financial statements. During the year ended 31 March 2024, 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.

The Auditor is permitted to provide non-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 2024	Year ended 31 March 2023
<b>Audit</b>		
Statutory audit of Annual Report and Financial Statements	£190,000	£168,000
	<b>£190,000</b>	<b>£168,000</b>
<b>Non-audit</b>		
ISRE 2410 (interim review fee)	£36,000	£31,000
	<b>£36,000</b>	<b>£31,000</b>
<b>Total fees paid to BDO LLP</b>	<b>£226,000</b>	<b>£199,000</b>
<b>Percentage of total fees attributed to non-audit services</b>	<b>16%</b>	<b>16%</b>

## Report of the Audit Committee *(continued)*

### **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 BDO LLP's ('BDO') 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 BDO to provide the non-audit services was appropriate, and did not compromise its objectivity and independence.

### **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 year under review BDO carried out the half year review for the Company. The Chairman of the Audit Committee maintains regular contact with the audit partner throughout the year. 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 2024 audit concluded that the audit process had generally worked well and no significant issues were identified specifically in relation to the Company.

We consider that the audit team assigned to the Company by BDO has a good understanding of the Company's business which enables it to produce a detailed, high-quality, in-depth audit and permits the team to scrutinise and challenge the Company's financial procedures and significant judgments. We asked the Auditor to explain the key audit risks and how these have been addressed. We also considered BDO's internal quality control procedures and transparency report and found them to be sufficient. Overall, the Committee is satisfied that the audit process is transparent and of good quality and that the Auditor has met the agreed audit plan.

**Mark Kirkland**  
**Audit Committee Chairman**

1 July 2024

# Directors' Remuneration Report

## Statement from the Chairman

Given the structure and size of the Board, the Board does not consider it necessary to appoint a separate Remuneration Committee. The Board consists entirely of non-executive Directors and the Board as a whole 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 2023 to 31 March 2024 were at a level of £38,000 per annum for the Chairman, £35,000 per annum for the Audit Committee Chairman and £30,000 per annum for the other Directors. The Directors' remuneration is considered on an annual basis.

The Board met on 19 June 2024 and considered the level of Directors' remuneration for the year ended 31 March 2025. No changes were proposed to the levels of remuneration.

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. The Directors are not entitled to any compensation for loss of office. No Director is entitled to any other monetary payment or any assets of the Company. Accordingly, the Single Total Figure table on page 59 does not include columns for any of these items or their monetary equivalents.

An ordinary resolution to approve the Directors' remuneration report will be put to shareholders at the forthcoming AGM to be held on 4 September 2024. No significant changes are proposed to the way in which its current Directors' Remuneration Policy, approved by shareholders in 2023, will be implemented during the course of the next financial year.

## Voting at AGM

The Directors' remuneration report for the year ended 31 March 2023 and the Directors' remuneration policy were approved by shareholders at the AGM held on 14 September 2023. The results taken on a poll were as follows:

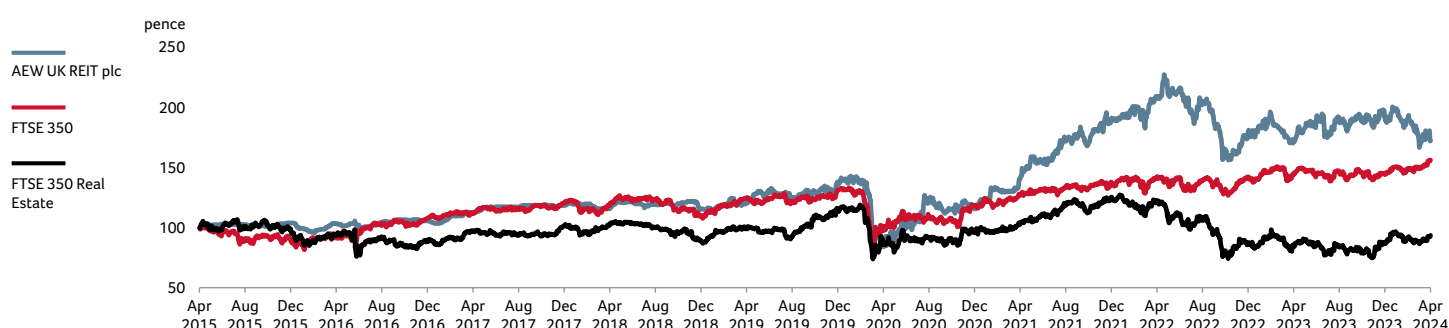
Remuneration Report 2023	Number of votes cast	Percentage of votes cast
For	28,883,800	99.06
Against	274,328	0.94
Total votes cast	29,158,128	
Number of votes withheld	114,384	
Remuneration Policy 2023		
For	28,871,860	99.02
Against	286,268	0.98
Total votes cast	29,158,128	
Number of votes withheld	114,384	

## Directors' Remuneration Report *(continued)*

### 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 the 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



Source: Bloomberg

### Directors' Remuneration for the Year Ended 31 March 2024 (audited)

Name of Director	Fees paid		Total		% change in Directors' fees
	Year ended 31 March 2024	Year ended 31 March 2023	Year ended 31 March 2024	Year ended 31 March 2023	
Mark Burton	£38,000	£35,000	£38,000	£35,000	8.57
Bim Sandhu*	£17,500	£32,500	£17,500	£32,500	N/A
Katrina Hart	£30,000	£27,500	£30,000	£27,500	9.09
Mark Kirkland**	£32,500	£10,894	£32,500	£10,894	N/A
Robin Archibald***	£15,000	N/A	£15,000	N/A	N/A
Liz Peace***	£15,000	N/A	£15,000	N/A	N/A
	<b>£148,000</b>	<b>£105,894</b>	<b>£148,000</b>	<b>£105,894</b>	

\* retired on 30 September 2023.

\*\* appointed on 9 November 2022.

\*\*\* appointed on 1 October 2023.

There are no further fees to disclose as the Company has no employees or executive directors. The figures detailed in the Directors' Remuneration Report disclose Director remuneration only. There are no variable elements payable to the Directors.

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)*

### Annual percentage change in Directors' remuneration

The following table sets out the annual percentage change in Directors' fees for the previous four years to 31 March 2024.

Director	Year ended 31 March 2024	Year ended 31 March 2023	Year ended 31 March 2022	Year ended 31 March 2021	% Change in total remuneration between 2023 and 2024	% Change in total remuneration between 2022 and 2023	% Change in total remuneration between 2021 and 2023
Mark Burton	£38,000	£35,000	£35,000	£35,000	8.57	–	–
Bim Sandhu*	£17,500	£32,500	£32,500	£32,500	N/A	–	–
Katrina Hart	£30,000	£27,500	£27,500	£27,500	9.09	–	–
Mark Kirkland**	£32,500	£10,894	N/A	N/A	N/A	–	–
Robin Archibald***	£15,000	N/A	N/A	N/A	N/A	N/A	N/A
Liz Peace***	£15,000	N/A	N/A	N/A	N/A	N/A	N/A

\* retired 30 September 2023.

\*\* appointed 9 November 2022.

\*\*\* appointed 1 October 2023.

### Relative Importance of Spend on Pay

The table below sets out, in respect of the year ended 31 March 2024:

- (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 2024	Year ended 31 March 2023
Directors' fees	£148,000	£105,894
Management fee and expenses	£1,391,335	£1,548,059
Dividends paid	£12,673,980	£12,673,980

Note: the items listed in the table above are as required by the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 ss.20, with the exception of the management fee and expenses, which has been included because the Directors believe that it will help shareholders' understanding of the relative importance of the spend on pay. The figures for this measure are the same as those shown in note 5 to the financial statements.

## Directors' Remuneration Report *(continued)*

### 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 2024 are shown in the table below:

Director	Number of Ordinary Shares		% of Total Voting Rights	
	2024	2023	2024	2023
Mark Burton	75,000	75,000	0.05	0.05
Katrina Hart	19,145	19,145	0.01	0.01
Mark Kirkland	–	–	–	–
Robin Archibald	–	–	–	–
Liz Peace	–	–	–	–

The Company has not been informed of any changes to the above interests between 31 March 2024 and the date of this report. Both Mr Archibald and Ms Peace have indicated to the Board their intention to acquire shares in the Company when it is practical to do so.

### Approval

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

**Mark Burton**  
Chairman

1 July 2024



## 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 62 to 80 and incorporates the Corporate Governance Statement on pages 48 to 53.

### Dividends

The Company pays dividends on a quarterly basis.

The interim dividends paid by the Company are set out in note 12 of the financial statements. No final dividend is being proposed.

### Directors

The Directors of the Company are listed on pages 46 and 47. All served throughout the year under review, with the exception of Mr Archibald and Ms Peace who were appointed on 1 October 2023. Mr Sandhu retired from the Board on 30 September 2023.

### 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 assessed the Company's ability to continue as a going concern, which takes into consideration current economic uncertainty, as well as the Company's cashflows, financial position, liquidity and borrowing facilities.

As at 31 March 2024, the Company had £11.40 million of cash at bank. The Company's loan is held with AgFe and is a £60.00m facility with a five-year term. This is priced as a fixed rate loan with a total interest cost of 2.959% and associated 10% projected debt yield and 60% loan to value ("LTV") covenants. The Company reported an LTV of 31.99% at year-end. This provides room for an £87.57 million fall in portfolio valuation before breaching the 60% hard LTV covenant. Moreover, based on the £60.00m of debt drawn as at year-end, the Company had a projected debt yield of 26.82%, comfortably in excess of the 10% covenant.

The Company benefits from a secure, diversified income stream from a tenancy profile which is not overly reliant on any one tenant or sector, which reduces risk. The Directors also noted that:

- The Company's rent collection has been strong, with 98% of contracted rent either having been collected, or payment plans agreed, for the March 2024 quarter.
- Based on the contracted rent as at 31 March 2024, a reduction of 62.71% in net rental income could be accommodated before breaching the debt yield covenant in the Company's re-financed debt arrangements.
- Based on the property valuation at 31 March 2024, the Company had room for an £87.57 million fall in portfolio valuation before breaching the maximum LTV hard covenant in the Company's re-financed debt arrangements.
- The Company's cash flow can also be significantly managed through the adjustment of dividend payments, to the extent that this does not breach the REIT regime requirements for distributions.

## Directors' Report *(continued)*

### Going Concern *(continued)*

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:

- a reduction in net rental income of 30%;
- no new lettings or renewals, other than those where terms have already been agreed;
- a 20% fall in property valuations; and
- no new acquisitions or disposals.

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. Moreover, the Company is forecast to pass the debt yield covenant during the 12-month period with a minimum projected yield of 18%, compared with the limit of 10%, assuming that no repayments of the facility were to be made.

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. 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 2029 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 Company's loan is held with AgFe and is a £60.00m facility with a five-year term, maturing in May 2027. This is priced as a fixed rate loan with a total interest cost of 2.959%;
- the Company's property portfolio has a WAULT of 5.58 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; and
- 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.

The following scenarios were tested, both individually and combined, in an effort to represent a severe but plausible scenario:

- a reduction in net rental income of 30%;
- a 20% 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.

## Directors' Report *(continued)*

### Subsidiary Company

Details of the Company's dormant subsidiary, AEW UK REIT 2015 Limited, can be found in note 20 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' written 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.

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 23 to the financial statements.

### Social, Community and Employee Responsibility

The Company is an externally managed REIT and has no direct employees. The management of the portfolio has been delegated to the Investment Manager who provides the employees that support the Company. All other functions of the Company have also been outsourced and as the Company has no employees, there is no further reporting in respect of these provisions.

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.aewukreit.com](http://www.aewukreit.com).

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 provisions are 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. <https://www.im.natixis.com/uk/resources/slavery-and-human-trafficking-statement>.

## Directors' Report *(continued)*

### 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/Half Year accounts and London Stock Exchange RNS announcements, on the Company's website at [www.aewukreit.com](http://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.

The Chairman is available to meet with shareholders to understand their views on governance and the Company's performance where they wish to do so. With assistance from the Investment Manager, during the year the Chairman sought meetings with shareholders who wished to meet with him.

#### *Tenants*

The Investment Manager, more specifically the Asset Management team, maintain an ongoing dialogue with tenants either directly or through its appointed property manager. The property manager issues an annual satisfaction survey to all tenants which provides qualitative feedback on their relationship with the property manager and Investment Manager.

#### *Shareholder engagement and investor meetings*

During the year, the Company held 8 meetings with approximately 24 potential and existing institutional shareholders. These engagements were attended by the Investment Manager and Liberum, Broker to the Company. Quarterly, the Company also engaged with its retail investors through virtual presentations held on the Investor Meet Company platform.

#### *2024 AGM*

The Company's AGM will take place on 4 September 2024. The notice of this meeting and details of the resolutions to be put to the AGM are contained in the circular sent to shareholders with this report and are available on the Company's website. The voting results of the AGM will be published on the Company's website [www.aewukreit.com](http://www.aewukreit.com).

#### *MIFID II*

As an externally managed REIT 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](http://www.aewukreit.com).

### Environmental, Social and Governance Policy

The Investment Manager is committed to creating long-term value for shareholders and adheres to a policy of sustainable and responsible investment ('SRI'). The Investment Manager's SRI policy can be found within the Corporate Responsibility area on the Company's website [www.aewukreit.com](http://www.aewukreit.com). The Investment Manager reviews its Sustainability Policy on an annual basis and it 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 for improvement and opportunities for growth.

## Directors' Report *(continued)*

### Environmental, Social and Governance Policy *(continued)*

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 2023, maintaining its score of 67 (peer group average 65).

A large portion of the GRESB score relates to data coverage. Due to the high percentage of single-let assets with tenant procured utilities, the Company does not score as well as funds with a larger holding of managed multi-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 39 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 2023 to 31 March 2024 and expects to receive the results of the assessment in September 2024.

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. This was awarded in addition to the EPRA Gold Medal for Financial Reporting received in the year.

Further information on the Company's engagement with stakeholders can be found on pages 43 to 45 and the full ESG disclosures for the Company, including Streamlined Energy and Carbon Reporting disclosures, can be found in the EPRA Sustainability Performance Measures on pages 134 to 147.

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.

### Greenhouse Gas Emissions

Refer to the EPRA Sustainability Performance Measures on pages 134 to 147 for Greenhouse Gas Emissions disclosures.



# Directors' Report (continued)

## Taskforce on Climate-Related Financial Disclosures

The Board and the Investment Manager recognise the importance of understanding the risks and opportunities presented by climate change, including the potential impact on its business and the value of investments under its management. The following disclosures are intended to provide decision-useful information in a manner consistent with the TCFD. Accordingly, the disclosures are organised thematically, addressing Governance, Strategy, Risk Management, Metrics and Targets. In future reporting periods the Board and the Investment Manager will seek to incorporate TCFD sector-specific guidance.

This is the Company's third year of voluntary reporting against the TCFD framework; we remain committed to further improvements, in terms of both the quality of disclosures and degree of alignment with the TCFD recommendations. In future reporting periods the Board and the Investment Manager expect that the Company's TCFD framework will demonstrate continual refinement of climate-related assessments, as well as integrating more sophisticated and comprehensive risk management practices in day-to-day operations.

### 1. Governance

#### Board oversight of climate-related risks and opportunities

The Board is ultimately responsible to stakeholders for the Company's activities and for oversight of climate-related risks and opportunities. The Board receives quarterly updates from the Investment Manager regarding climate-related issues, activities and initiatives, and progress reports against climate related goals and targets.

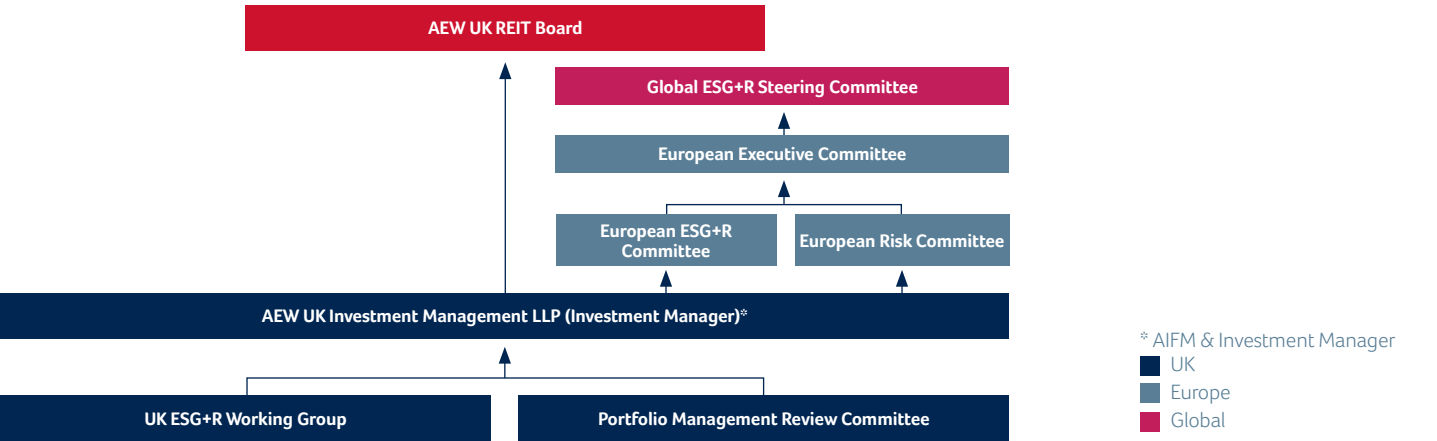
As part of the Audit Committee's review of ongoing performance and continuing appointment of key service providers, consideration is given to key service providers' ESG credentials and expertise. The Audit Committee remains responsible for reviewing and approving the content of the Company's TCFD disclosure. Following Mark Kirkland's appointment as non-Executive Director on 9 November 2022, the Board nominated him as the Board's "ESG Champion". The ESG Champion will regularly meet with the Investment Manager to discuss ESG issues including climate-related risks and opportunities facing the Company and will report back to the wider Board as necessary.

The knowledge of the Board on ESG-related matters continues to be enhanced through interaction with the Investment Manager and training. In January 2023, the Board undertook further TCFD training provided by the Investment Manager and AEW's Head of Sustainable Responsible Investment in Europe to support their understanding of climate change, climate resilience assessment and other ESG risks and opportunities.

#### The Investment Manager's role in assessing and managing climate-related risks and opportunities

##### AEW Global Governance:

AEW's approach to Environmental, Social, Governance and Resilience issues ("ESG+R"), which includes climate-related risks and opportunities, is integrated into its broader governance practices. AEW's governance relies on a committee structure where responsibility for oversight of AEW's operations has been delegated to senior management teams that meet on a regular and formalised basis. The organisation chart below illustrates how the AEW group integrates climate-related considerations at a UK, European and global level.



The Global ESG+R Steering Committee and its subcommittee structure play a central role in assessing and managing climate-related risks and opportunities for AEW, both at the enterprise level and within investment activities.



## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 1. Governance *(continued)*

##### *European Governance:*

AEW's European Executive Committee ("ExCom") is ultimately responsible for climate-related risks at the European level and delegates to a number of sub-committees including:

- European ESG+R Committee ("ESG+R Com") – responsible for delivering the sustainability strategy in Europe, the coherence of policies relating to climate risks and the implementation climate risk policy. ESG+R Com meets every two months.
- European Risk Committee ("ERC") – the principal European-wide risk management forum, where all sustainability risks can be considered according to an established framework. ERC meets quarterly.

The ERC and ESG+R Com includes senior-level employees such as the European CEO, Head of Socially Responsible Investment, country and function representatives (investment, asset management, portfolio management, fund financial management, legal, compliance and risk). Individual members are allocated responsibility for specific climate risks and resilience matters, including physical risks, regulatory risk, market risk, insurance risk and reputational and liability risk.

The ESG+R Com and the ExCom receive periodic reports on the status of defined indicators in order to monitor the progress of the climate policy objectives and targets.

##### *UK Governance (Investment Manager Board's oversight of climate-related risks and opportunities)*

The Investment Manager's Board is responsible for assessing climate-related risks and opportunities for the Investment Manager and its fund mandates. The Investment Manager Board membership is as follows: two independent non-executive directors; AEW Europe CEO; Head of AEW UK; Head of Operations and Risk Management; Head of Separate Accounts.

At each meeting the Investment Manager's Board receives updates on the firm's activities, initiatives and progress against climate-related goals from sub-committees and working groups including:

- Portfolio Management Review Committee ("PMRC") – this is the principal UK-focused risk management forum, where all sustainability risks can be considered according to an established framework.
- UK ESG+R Working Group ("WG") – which oversees ESG+R projects and management of climate-related risks and opportunities in the UK, to ensure risk management objectives are met and aligned with the overall risk management framework.

The Investment Manager's Board undertakes regular training on ESG-related matters including TCFD and climate resilience assessment to support their understanding of climate change and other ESG risks and opportunities. The Investment Manager will have regard for climate-related issues when considering the Fund's business model and strategy and risk management policies.

The Investment Manager's approach to the governance and management of environmental impacts is outlined within its Climate Adaptation Policy. The WG works closely with the European ESG+R Committee membership and acts as a body to ensure the Fund identifies and considers climate-related risks and opportunities. In light of emerging trends and new regulations, the WG or sub-group evaluates targets and advises on actions to help mitigate climate-related risks.

Climate-related issues and risks are reviewed for the Fund at the PMRC, which includes Head of Operations and Risk Management, Head of Compliance and Head of AEW UK. The PMRC reports to the Investment Manager's Board and Investment Management Committee, with any material matters escalated to the ERC and ExCom. Through the work of PMRC, WG and third-party specialist climate consultants, the Investment Manager ensures it needs with respect to training and professional advice are met.

The Investment Manager is responsible for monitoring trends and developments in climate related issues. The Investment Manager reports quarterly to the Company's Board on ESG matters.

## Directors' Report (continued)

### Taskforce on Climate-Related Financial Disclosures (continued)

#### 2. Strategy

*Strategy – disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material*

The Investment Manager anticipates that investors and valuers will increasingly factor climate-related risks into market pricing if transition and physical risks are not appropriately managed. We will therefore increasingly assess climate-related impacts on liquidity and market pricing as a consequence of environmental obsolescence and depreciation. The Investment Manager assesses climate-related risks and opportunities against short-term (3 years or less), medium-term (3 to 7 years) and long-term (over 7 years) time horizons to align with the proposed changes to Minimum Energy Efficiency Standards (MEES).

In accordance with TCFD, the Investment Manager identifies the two principal categories of risks associated with climate change as:

- **Transition Risk** – associated with the transition to a low carbon economy e.g. policy, legal, technological and market changes to address mitigation and adaptation requirements.
- **Physical Risk** – this includes acute (event driven e.g. more severe floods) and chronic (longer-term shifts such as sustained higher temperatures causing chronic heatwaves) risks.

Climate-related risks and opportunities the organisation has identified over the short, medium and long term:

Risks	Specific Risk	Potential Financial Impact	Strategy	Time Horizon
<b>Policy &amp; Legal – EPC Compliance</b>	The Minimum Energy Efficiency Standards Regulations ("MEES") proposed changes to mandate increasing the minimum Energy Performance Certificate ("EPC") rating to 'E' by 2023, 'C' by 2027 and to 'B' by 2030.  MEES would prevent the Company from leasing non-compliant space, potentially resulting in an asset becoming 'stranded' or requiring significant capital expenditure.	Loss of revenue for unlettable space or lower rental income.  Impact on valuation.  Increase in capital expenditure to meet minimum requirements.  Non-compliance fines are potentially significant.	Risk monitoring of EPC ratings across the portfolio, contributing to the development of Asset Sustainability Action Plans ("ASAPs") quantifying capital expenditure requirements or the existence of relevant MEES exemptions.	Short to medium term risk
<b>Policy &amp; Legal – Carbon Pricing</b>	Costs could increase as carbon pricing is factored into construction and operating costs (from embodied carbon and costs of carbon intensive energy for occupiers).	Direct costs associated with emissions pricing.  Increased capex costs during construction and refurbishment.	Develop calculation of carbon footprint for the portfolio and implement action plan to reduce GHG emissions.	Medium to long term

## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

Risks	Specific Risk	Potential Financial Impact	Strategy	Time Horizon
<b>Market – Occupier</b>	Occupiers may vacate assets that are unable to meet their energy efficiency or greenhouse gas (“GHG”) emission tolerance.	Increased void costs. Increased capital expenditure. Impact on valuation.	Occupier engagement to ascertain occupier’s commitment to transition to low carbon economy and net zero targets. EPC management, asset sustainability action plans (ASAPs) to improve resilience and energy efficiency of assets.	Medium term
<b>Market – Energy costs</b>	High energy and utility consumption may increase exposure to energy price fluctuations exacerbated by climate change.	Potential impact on service charge affordability for tenants.	Occupier engagement particularly for assets with energy-intensive use.  Engage regularly with occupiers to identify low-carbon solutions which may reduce energy consumption, costs and improve energy performance.  Pilot on-site renewable energy generation and storage project with selected tenants.	Short to medium term

## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

Risks	Specific Risk	Potential Financial Impact	Strategy	Time Horizon
<b>Market – Investors</b>	<p>Investors and valuers may price less energy efficient assets more conservatively to reflect the potential cost and risks.</p> <p>Existing and prospective Company investors may attach onerous conditions on the Investment Manager and Company to meet their own standards, regulations and requirements.</p>	<p>Impact on valuation.</p> <p>Impact on the Company's ability to raise new or retain existing capital.</p>	<p>Continual review of asset business plans with consideration to lease expiry, EPC ratings and opportunity to implement energy efficiency solutions.</p> <p>AEW will assess the additional costs and benefits of climate-related initiatives with respect to liquidity and pricing.</p> <p>Focus on investor engagement, develop improved communication and presentation of ESG strategy.</p> <p>In 2024/25 the Company will assess further the pathway to net zero and will report this to investors in future reporting periods.</p>	Medium term
<b>Technology – Lower emissions</b>	<p>UK Government requirement to transition to lower GHG emissions technology (e.g. from natural gas boilers to low-carbon heating technologies such as air and ground source heat pumps).</p>	<p>Potential material capital expenditure to meet requirements.</p>	<p>AEW will continue to assess the additional costs of climate-related issues compared to any assessment of reduced liquidity and market pricing due to environmental obsolescence and depreciation.</p> <p>EPC management and asset sustainability action plans to improve resilience and energy efficiency over time.</p>	Medium term

## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

Risks	Specific Risk	Potential Financial Impact	Strategy	Time Horizon
<b>Reputational – Occupiers and Investors</b>	<p>Fall in demand from tenants for properties with inefficient building performance or concern over the Company's reputation with regard to climate risks.</p> <p>Increased stakeholder concern and poor investor relations.</p>	<p>Potential risk of stranded assets, leading to reduced valuation.</p> <p>Impact on the Company's ability to raise new or retain existing capital.</p>	Focus on key stakeholder engagement, develop improved communication and presentation of ESG strategy (and the effective delivery of it).	Medium term
<b>Acute (floods, windstorms, cold weather, heatwaves)</b>	<p>Increased frequency and intensity of extreme weather events leading to property damage, increased maintenance and repair costs.</p> <p>Requirement for protection measures – e.g. flood protection and drainage measures.</p>	<p>Cost of maintaining and repairing assets.</p> <p>Increased insurance costs.</p> <p>Impact on valuation and potential inability to sell or lease property.</p>	Undertake asset-level climate resilience audits and develop pre-investment due diligence process to identify vulnerable investments.	Short to medium term
<b>Chronic (sustained higher or lower temperatures)</b>	<p>Rising temperatures leading to increased utility costs and investment in cooling equipment and solutions.</p> <p>Reduced thermal comfort of occupiers resulting in lack of demand from potential occupiers.</p>	<p>Potential impact on service charge affordability for tenants.</p> <p>Cost of installing cooling and heating equipment and solutions.</p> <p>Loss of revenue for unlettable space or lower rental income.</p> <p>Impact on valuation.</p>	Incorporate climate change scenarios within investment framework that are suitable for real estate investment strategies.	Medium to long term
<b>Chronic (rising sea levels and water stress)</b>	<p>Risk of sustained flooding and requirement for protection measures – e.g. flood mitigation and drainage projects.</p> <p>Risk asset becomes stranded.</p>	<p>Cost of installing, maintaining and repairing assets.</p> <p>Increased insurance costs or asset becoming uninsurable.</p> <p>Loss of revenue for unlettable space or lower rental income.</p> <p>Impact on valuation.</p>	Incorporate climate change scenarios within investment framework that are suitable for real estate investment strategies.	Medium to long term

## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

Risks	Specific Risk	Potential Financial Impact	Strategy	Time Horizon
<b>Resource efficiency</b>	Reduce energy and water use.	Potential material capital expenditure.	To commission EPC+ reports on selected assets, energy efficiency audits and net zero pathway assessments on selected assets.  Where appropriate, prepare larger buildings to become subject to public disclosure framework.	Short to medium term
	Reduce carbon emissions and improve energy efficient buildings e.g. installation of LED lighting.	Reduce operating expenditure through efficiency gains.		
	Improve occupier resilience and efficiency alongside comfort and well-being.	Reduce GHG emissions and possible future carbon taxes.		
<b>Energy source</b>	Investment in lower emissions sources of energy and use of new technologies.	Potential material capital expenditure.	Deploy where possible on-site renewable energy generation and storage assets in partnership with tenants.  In the short term this will include pilot projects with tenants prior to undertaking feasibility studies on other assets.	Short to medium term
	Investment in on-site renewable energy generation and storage e.g. installation of solar PV and batteries.	Additional revenue through sale of renewable energy to customers and the grid.		
		Protect against energy cost volatility for our tenants.  Cost of improvement.		
<b>Products and Services</b>	Improve building amenities (e.g. EV charging, install LED lights).	Improve the marketability of a property including rental value and valuation.	Continued review and development of ASAPs.  Engagement with tenants to understand their requirements.	Short to medium term
<b>Resilience</b>	The development of net zero carbon assets could future-proof the portfolio against tightening regulation e.g. MEES standards.	Increased market value of properties through resilience planning.	To consider further during 2023/24 the potential pathway to net zero. Consider adopting net zero target and pathway.	Medium to long term



## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

##### *Describe the impact of climate-related risks and opportunities on the organisation's business, strategy and financial planning*

Having identified relevant risks and opportunities, the Board and the Investment Manager describe below how these influence and are incorporated into strategic and financial planning. With respect to its business activities, the Investment Manager is seeking to improve investment, asset management and risk monitoring processes to avoid transition and physical risks having unforeseen impacts on real estate portfolios. Similarly, the Investment Manager seeks to capitalise on any advantages that can be obtained from optimising its decision-making, which necessarily must take account of climate-related impacts on markets. It should be noted that, once strategies have been agreed, we work with a range of specialist advisors to ensure their timely delivery. During the period, our UK efforts were focused principally on transition risk related to MEES/EPC compliance and adapting to the physical risks of climate disruption.

With respect to the latter, climate risks are now systematically integrated into AEW UK's investment process. We have incorporated a comprehensive ESG+R acquisition assessment into our due diligence process for reviewing and evaluating the potential risks and opportunities of our assets. Material ESG+R due diligence findings, if any, will be referred back to the Investment Management Committee ("IMC") for further consideration.

With the exception of MEES, where an EPC provides a measurable data point, our approach in assessing the potential impact of climate-related risks and opportunities remains qualitative. We aim to enhance our assessment for future reporting periods to be more quantitative as more data and information becomes available. We assess climate resilience with a climatologist, having undertaken a review of the entire portfolio in 2022 and are undertaking climate resilience audits on selected assets where potential material risks are present. The resilience audit findings will be used to assess the potential impact of the risk and cost to reduce the vulnerabilities of identified buildings.

In relation to the MEES/EPC regime, during the period the Investment Manager undertook a gap analysis of the portfolio to identify any assets posing a non-compliance risk. Those investments were then re-assessed and action plans created where necessary. Assessment continues to progress for all lease expiries by Estimated Rental Value ("ERV") within each EPC grade boundary to understand the risk and potential cost to achieve the next MEES minimum requirements of 'C' by 2027 and a 'B' by 2030. Where EPC certificates expire or fall below the MEES 2027 or 2030 requirements, analysis will be undertaken to ascertain the cost of remedial works. As Investment Manager we will actively engage on an ongoing basis with tenants in properties with EPC certificates below a 'C' rating to identify opportunities where EPC improvement works can be undertaken. The Investment Manager will also consider whether some properties can benefit from an exemption where that can be done responsibly.

Determining the impact of climate-related risks and opportunities on the business, strategy and financial planning will be an iterative process over future reporting periods. We will utilise the findings of on-going projects and assessments, EPC improvement plans and climate resilience audits to quantify impacts on specific assets and to inform our qualitative assessment of physical and transition risk and opportunities.

Climate-related opportunities are considered to be principally connected with resource efficiency, energy sourcing, property services and resilience. The Investment Manager is tasked with developing these opportunities through on-going asset management initiatives and assessment of opportunities through Asset Sustainability Action Plans.

## Directors' Report *(continued)*

### Taskforce on Climate-Related Financial Disclosures *(continued)*

#### 2. Strategy *(continued)*

*Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2 degree Celsius or lower scenario*

The ESG+R Com considered various climate scenarios and determined AEW's approach is currently to consider the high emissions scenario of 'Business as Usual' Representative Concentration Pathway ("RCP") 8.5 and assess portfolio resilience on this basis. The RCP 8.5 scenario refers to the concentration of carbon that delivers global warming at an average of 8.5 watts per square meter across the planet.

The RCP 8.5 pathway delivers a temperature increase of about 4.3°C by 2100, relative to pre-industrial temperatures. It should be noted that this is not aligned with the TCFD requirement to at least model the impact of a 2 degree Celsius or lower scenario as we have focused our efforts on the higher risk scenario which has the greater potential impact on the portfolio. In future reporting periods the Investment Manager intends to disclose its interpretation of both 2 degree Celsius and RCP 8.5 scenarios.

AEW has worked with the Climate Company to qualitatively assess the climatic risks exposure of all portfolio assets on an urban micro-scale for the next two decades. The assessment includes qualitative assessment against thresholds of:

- thermal situation (temperature rise, heat and cold waves)
- hydrological situation (flood risks (river and runoff))
- precipitation risk (average evolution, extreme)
- marine submersion risk (sea level rises)
- drought risk (episodes and tendency)
- wind situation (windstorm and average evolution)
- urban situation (heat islands)

Certain assets within the portfolio exceeded one or more of the thresholds. We have selected a sample of assets to subject to further climate resilience audits and to develop action plans and quantify costs, if appropriate, to reduce their vulnerability. The results of these audits will be used in future reporting periods to inform AEW and the Board of potential vulnerability of the portfolio and potential costs.

#### 3. Risk management

*Describe the organisation's processes for identifying and assessing climate-related risks*

AEW brings a disciplined, holistic approach to risk monitoring and control. Our risk management process is designed to identify, evaluate, manage and mitigate (rather than eliminate) the significant risks we face. The Investment Manager maintains a risk register which includes the principal climate-related risks of (i) Transition risks associated with the transition to a low or ultra-low economy and (ii) Physical risks associated with tangible impacts of climate change.

As both occupiers and investors increasingly focus on the environmental impact and energy efficiency of assets, this will increasingly impact building obsolescence, lease renewals and ultimately the rental values for individual assets. As Investment Manager, we therefore consider and assess the risks of the additional costs compared to the risks of reduced liquidity and market pricing due to environmental obsolescence and depreciation.

The ESG+R Com allocates responsibility to individual members for specific climate risks and resilience matters, including physical risks, regulatory risk, market risk, insurance risk and reputational and liability risk. Members assess risks at the European level through pilot studies and work with third-party specialists. The UK Risk Manager works closely with members of the ESG+R Com and the European SRI team to identify relevant risks and determine appropriate strategies to assess the risk UK real estate assets are exposed to.

In addition to the governance framework described above, the Portfolio Manager is responsible for managing climate-related risks at the fund and asset level with the support of the asset management team. All investment staff are engaged in consideration of ESG+R risks and opportunities alongside other financial value drivers. The Portfolio Manager is supported by the Risk Manager and UK ESG Working Group in the management of climate-related risks.

## Directors' Report (continued)

### Taskforce on Climate-Related Financial Disclosures (continued)

#### 3. Risk management (continued)

##### *Describe the organisation's processes for managing climate-related risks*

The Investment Manager's IMC approves all acquisitions and any material climate-related due diligence findings, if any, will be referred back to the IMC for further consideration. The PMRC considers portfolio-level assessments of environmental and energy issues and evaluates these assessments and climate-related risks as part of the bi-annual review of the Company. Any material findings are escalated at the local level to the Investment Manager's UK Board and the Company's Board. The Company's Board and the Investment Manager's Board needs to be informed of all material risks and issues so as to be in a position to approve the appropriate course of action to ensure that these risks are mitigated. Where a particular climate-related risk is deemed to have a potentially material adverse impact then this would be further escalated to AEW's ERC, ESG+R Com and ExCom as well as the Company's Board.

##### *Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management*

AEW recognises the importance of identifying, assessing and managing climate-related risks. Indeed, as an FCA-authorised Alternative Investment Fund Manager, it is a core regulatory requirement to engage meaningfully with risks. Risk assessment is therefore a vital aspect of AEW's investment operating model and it takes place on a continuous basis.

Climate-related risk is integrated into AEW's risk management process; this includes monitoring and reporting to the AEW UK Board, European Committees and participation in the wider Enterprise Compliance Programme operated by its parent company Natixis Investment Managers. This programme seeks to foster a comprehensive risk management and control environment to limit operational and non-compliance risk, as follows:

- First level of control where risk management controls are integrated into the operating processes of the Investment Manager and formalised in clearly defined and documented procedures which are reviewed by a number of committees.
- Second level of control carried out by the compliance department through the permanent control programme.
- Third level of control carried out by the annual internal audit programme undertaken with Natixis Investment Manager's internal audit department and their independent external consultants.
- Fourth level of control carried out through audits undertaken by Natixis and the BPCE Group's internal audit teams together with independent external consultants.

The Board considers climate change a principal risk to the Company and assesses transition and physical risk as part of the Board's formal risk review with the assistance of the Audit Committee.

#### 4. Metrics and targets

A core requirement of TCFD is to establish and develop suitable metrics and targets. The Investment Manager's focus in 2023/24 was:

- Continued reduction of landlord-controlled greenhouse gas emissions and energy usage.
- Undertaking initial portfolio climate resilience assessment using a "business as usual" warming scenario.
- EPC management across the portfolio.
- Review of metrics and targets.

In 2024/25, the Investment Manager's focus will be:

- Continued reduction of landlord-controlled greenhouse gas emissions and energy.
- Climate resilience audits at selected assets.
- Climate opportunity projects at selected assets.
- Continuing to develop our assessment of the potential impact of the identified climate-related risks and opportunities on the Company's business operations, strategy and financial performance.
- Continued enhancement of risk assessment as improved data and metrics enable us to move from qualitative to quantitative assessment over time.

## Directors' Report (continued)

### Taskforce on Climate-Related Financial Disclosures (continued)

#### 4. Metrics and targets (continued)

The table below summarises key metrics and targets used to assess climate-related risks and opportunities:

Metric Category	Metric	Previous Target	2024 Data	Current Target
GHG emissions	Absolute Scope 1 GHG Emissions	15% reduction in Scope 1 GHG emissions within the Managed Portfolio by 2030 as compared to the 2018 baseline	223.0 tonnes (19% reduction vs. 2018 baseline (275.7 tonnes))	40% reduction in absolute Scope 1 GHG emissions within the Managed Portfolio by 2030 as compared to the 2018 baseline
	Absolute Scope 2 GHG Emissions	15% reduction in Scope 2 GHG emissions within the Managed Portfolio as compared to the 2018 baseline	417.9 tonnes (50% reduction vs. 2018 baseline (841.61 tonnes))	40% reduction in absolute Scope 2 GHG emissions within the Managed Portfolio by 2030 as compared to the 2018 baseline
Renewable energy	Percentage of landlord-controlled assets with renewable electricity supplies	100% (with exception of new acquisitions during first 12 months of ownership)	100%	100% (with exception of new acquisitions during first 12 months of ownership)
Transition risk	Percentage of assets with EPC A-C (by ERV)	N/A	62.5%	100% EPC to at least C grade by 2027 and to B by 2030 (unless exempt)
Physical risks	Percentage of assets with climate resilience assessment	100%	100% for existing Portfolio completed	100%
	Number of assets with a specific climate resilience audit and plan	N/A	3	3 to be completed during 2023/24
	Number assets with a net zero assessment pathway	N/A	6	2 assets selected for net zero assessment pathway during 2023/24
Climate related opportunities	On-site renewable energy generation and storage projects	N/A	N/A	2 assets selected subject to additional feasibility and tenant engagement during 2023/24

## Directors' Report *(continued)*

### **Taskforce on Climate-Related Financial Disclosures** *(continued)*

#### **4. Metrics and targets** *(continued)*

As a Real Estate Investment Trust, the majority of the Company's emissions arise through assets that are owned and leased. At multi-let properties, the Company (in its capacity as landlord) has control and influence over the whole building and/or shared services (including refrigerant leakage), external lighting and void spaces. The position with FRI leases is significantly different, as described in the GHG disclosure section.

These metrics, however, will evolve over time as for example, in relation to Scope 3 GHG emissions, given a landlord has limited operational control, the Investment Manager will initially focus on improving data collection. Over time the Company, via the Investment Manager, will actively engage with tenants to reduce their GHG emissions, with improvement plans aiming to increase a building's operational performance, reduction in energy usage and feasibility of on-site renewable energy generation or storage.

Metrics for climate-related opportunities focus on projects e.g. trialling of on-site renewable energy generation (and potentially storage), with results requiring further assessment and feasibility studies before targeting further assets. As we transition to a low carbon economy the targets and metrics for the Company will be reviewed and may be amended annually as the Investment Manager's strategy for managing climate-related risks and opportunities evolves. The PMRC and the UK ESG Working Group and sub-committees monitor progress against targets.

#### **Disclose Scope 1, Scope 2 and if appropriate, Scope 3 greenhouse gas emissions and the related risk**

Emissions sources listed on page 136 relate to the managed portfolio only and the following sources of energy consumption within each sector:

- Office: whole building
- Retail, High Street: whole building, tenant space and common areas
- Retail, Warehouse: tenant space and external lighting
- Leisure: external lighting, tenant space and common areas
- Industrial: tenant space, common areas and external lighting

#### **Emissions outside of operational control:**

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 the Company's direct control, they form part of the wider value chain (i.e. 'Scope 3') emission, which are not monitored at present.

#### **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets**

The Company has reviewed the existing targets and is in the process of setting new targets in consultation with its external advisors. Targets are reviewed at least annually and will be amended where appropriate as our management of climate related risks and opportunities evolves over future reporting periods.

Targets are reported in table on page 77, where no targets had previously been set this is reported as N/A.

## Directors' Report *(continued)*

### Share Capital

#### *Share Issues*

At the Company's AGM held on 14 September 2023, the Company was granted the authority to allot Ordinary Shares up to an aggregate nominal amount of £158,424.74 on a non pre-emptive basis. The Company was also granted authority to allot further Ordinary Shares up to an aggregate nominal amount of £158,424.74 on a non pre-emptive basis. No Ordinary Shares have been allotted under either authority during the year and both authorities will expire at the conclusion of the 2024 AGM. A resolution to renew the Company's authority to allot Ordinary Shares up to an aggregate nominal amount of £158,424.74 on a non pre-emptive basis will be put to shareholders at the 2024 AGM alongside a resolution to allot further Ordinary Shares up to an aggregate nominal amount of £158,424.74 on a non pre-emptive basis.

As at 31 March 2024, and the date of this report, the Company had 158,774,746 Ordinary Shares in issue, of which 350,000 (2023: 350,000) were held in treasury and therefore the total voting rights attaching to Ordinary Shares are 158,424,746.

#### *Purchase of Own Shares*

At the Company's AGM on 14 September 2023, the Company was granted authority to purchase up to 23,747,869 Ordinary Shares (being 14.99% of the Company's Ordinary Shares in issue). No shares have been bought back under this authority during the year, which expires at the conclusion of the Company's 2024 AGM. A resolution to renew the Company's authority to purchase (either for cancellation or for placing into treasury) up to 23,747,869 Ordinary Shares (being 14.99% of the issued Ordinary Share capital (excluding treasury shares) as at the date of this report), will be put to shareholders at the 2024 AGM. 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.

#### *Rights attached to Ordinary Shares*

##### *a) 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.

##### *b) 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.

##### *c) 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.



## Directors' Report *(continued)*

### Substantial Shareholdings

As at 31 March 2024, 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	8.6
Old Mutual plc	11,087,801	7.0
Momentum Global Investment Management Limited	7,856,028	5.0
Close Asset Management Limited	7,836,451	4.9
Schroders plc	7,643,485	4.8
Seneca IM Limited	7,602,200	4.8
Investec Wealth & Investment Limited	4,813,400	3.0
NatWest Group plc	4,747,598	3.0

The Company has not been notified of any changes to the above interests between 31 March 2024 and the date of this report. The Board is aware that a significant proportion of the Company's shares are owned by private investors through investor platforms.

### Related Party Transactions

Related party transactions during the year ended 31 March 2024 can be found in note 25 to the financial statements.

### Post Balance Sheet Events

Post balance sheet events can be found in note 27 to the financial statements.

### 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 83 to 91), 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

BDO LLP has expressed its willingness to continue as the Company's Auditor. As outlined in the Report of the Audit Committee on page 54, resolutions proposing the Auditor's re-appointment and to authorise the Audit Committee to determine its remuneration will be proposed at the forthcoming AGM.

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

**Mark Burton**  
Chairman

1 July 2024

## 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 UK adopted international accounting standards and applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Company's financial statements in accordance with UK adopted international accounting standards. 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 the profit or loss for the Company 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 accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

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 the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for ensuring 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 performance, prospects, business model and strategy.

### Website publication

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## Statement of Directors' Responsibilities in respect of the Annual Report and Financial Statements *(continued)*

### **Directors' responsibilities pursuant to DTR4**

The Directors confirm to the best of their knowledge:

- The financial statements have been 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.
- The Annual Report includes a fair review of the development and performance of the business and the financial position of the Company, together with a description of the principal risks and uncertainties that it faces.

The Directors consider that this 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.

This Statement of Responsibilities was approved by the Board and signed on its behalf by:

**Mark Burton**  
**Chairman**

1 July 2024

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

## Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 31 March 2024 and of its profit for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of AEW UK REIT plc (the 'Company') for the year ended 31 March 2024 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

## Basis for opinion

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

## Independence

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 8 September 2021 to audit the financial statements for the year ended 31 March 2022 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2022 to 31 March 2024. We remain independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services prohibited by that standard were not provided to the Company.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- using our knowledge of the Company and its market sector together with the current general economic environment to assess the Directors' identification of the inherent risks to the Company's business and how these might impact the Company's ability to remain a going concern for the going concern period, being the period to 1 July 2025, which is at least 12 months from when the financial statements are authorised for issue;
- obtaining an understanding of the Directors' process for assessing going concern including an understanding of the key assumptions used;
- obtaining the Directors' going concern assessment and:
  - assessing the Company's forecast cash flows with reference to historic performance and challenging the Directors' forecast assumptions in comparison to the current performance of the Company;
  - agreeing the key inputs into the forecasts to supporting documentation for reasonableness based on contractual agreements, where available;
  - agreeing the Company's available borrowing facilities and the related terms and covenants to loan agreements;
- obtaining forecast covenant calculations to check for any potential future covenant breaches;

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

(continued)

- analysing the sensitivities applied by the Directors’ stress testing calculations and challenging the assumptions made using our knowledge of the business and of the current economic climate, to assess the reasonableness of the downside scenarios selected;
- considering board minutes, and evidence obtained throughout the audit and challenging the Directors on the identification of any contradictory information in the forecasts and the impact on the going concern assessment;
- analysing the Directors’ stress testing calculations and challenging the assumptions made using our knowledge of the business and of the current economic climate, to assess the reasonableness of the downside scenarios selected and the appropriateness of the Directors’ mitigating actions; and
- reviewing the disclosures in the financial statements relating to going concern to check that the disclosure is consistent with the circumstances.

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

In relation to the Company’s reporting on how it has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors’ statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

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

## Overview

Coverage	100% (2023: 100%) of profit before tax 100% (2023: 100%) of revenue 100% (2023: 100%) of total assets		
Key audit matters	Valuation of investment properties	2024 ✓	2023 ✓
Materiality	Company financial statements as a whole £2.32m (2023: £2.34) based on 1% (2023: 1%) of total assets		

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the Company and its environment, including the Company’s system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

### Climate change

Our work on the assessment of potential impacts on climate-related risks on the Company’s operations and financial statements included:

- enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the Annual Report;
- our own qualitative risk assessment taking into consideration the sector in which the Company operates and how climate change affects the real estate sector; and
- review of the minutes of board and audit committee meetings and other papers related to climate change and performed a risk assessment as to how the impact of the Company’s commitment as set out in pages 67 to 78 may affect the financial statements and our audit.

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

(continued)

We challenged the extent to which climate-related considerations, including the expected cash flows from the initiatives and commitments have been reflected, where appropriate, in the Directors' going concern assessment and viability assessment.

We also assessed the consistency of management's disclosures included as 'other information' on pages 128 to 147 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks and related commitments.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, 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. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

#### Valuation of investment properties

As detailed in note 13 to the financial statements, the Company owns a portfolio of investment properties which are held at their fair value.

The Company's accounting policy for these properties is described in note 2.5 to the financial statements.

The key judgements and estimates in arriving at the fair values are set out in notes 2.2 and 13 to the financial statements.

The Company has an investment property portfolio of commercial property across a number of sectors in the United Kingdom. This comprises completed investment property which is let, or available to let and is valued using the income capitalisation method, in accordance with RICS methodology and IFRS 13 Fair Value Measurement.

The valuation of investment property requires significant judgement and estimates by the Directors and their independent external valuer and is therefore considered a significant risk due to the subjective nature of certain assumptions inherent in each valuation.

### How the scope of our audit addressed the key audit matter

Our audit procedures included the following:

#### Experience of valuer and relevance of their work

We obtained the valuation report prepared by the independent external valuer and with the assistance of our internal real estate experts, discussed the basis of the valuations with them, read the valuation reports and confirmed that all valuations had been prepared in accordance with applicable valuation guidelines and the requirements of the applicable accounting standards (IFRS 13 Fair Value Measurement) and were therefore appropriate for determining the carrying value in the Company's financial statements.

We assessed the external valuer's competence and qualifications and read their terms of engagement with the Company, to identify any matters that could have affected their independence and objectivity or imposed scope limitations upon them.

We obtained a copy of the instructions provided to the independent valuer and reviewed these for any limitations in scope or for evidence of management bias.

#### Data provided to the valuer

We validated the underlying data provided to the valuer by Investment Manager. This data included inputs such as current rent and lease term, which we agreed on a sample basis to the executed lease agreements as part of our audit work.



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

(continued)

**Key audit matter**

Any input inaccuracies or unreasonable bases used in the valuation judgements (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Company’s financial statements.

There is also a risk of fraud that the Directors may influence the judgements and estimates in respect of property valuations in order to achieve property valuations and other performance targets to meet market expectations.

The valuation of investment properties was therefore considered to be a key audit matter.

**How the scope of our audit addressed the key audit matter**

**Assumptions and estimates used by the valuer**

With assistance from BDO in-house RICS qualified valuers, we developed yield expectations on each property using available independent industry data, reports and comparable transactions in the market around the period end. Our in-house valuers also attended the audit meetings with the Company’s valuers to assist us in assessing that explanations provided were appropriate and in line with market knowledge.

We compared the key valuation assumptions against our independently formed market expectations (by reference to market data based on the location and specifics of each property).

We discussed the assumptions used and the valuation movement in the period with the independent valuer. Where the valuation was outside of our expected range we challenged the independent valuer on specific assumptions and reasoning for the yields applied and corroborated their explanations where relevant, including agreeing to third party documentation.

**Key observations**

Based on the procedures performed, we did not identify any indicators to suggest that the judgements and estimates made in the valuation of the Company’s investment properties were inappropriate.

**Our application of materiality**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

(continued)

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Company financial statements 2024	Company financial statements 2023
<b>Materiality</b>	£2.32 million	£2.34 million
<b>Basis for determining materiality</b>	1% of Total Assets	
<b>Rationale for the benchmark applied</b>	We determined that total assets would be the most appropriate basis for determining overall materiality as we consider it to be one of the principal considerations for users of the financial statements in assessing the financial performance of the Company.	
<b>Performance materiality</b>	£1.74 million	£1.64 million
<b>Basis for determining performance materiality</b>	75% of Materiality	
	Overall performance materiality for the Company has been set at 75% (2023: 70%) of materiality. This was on the basis of our risk assessment, together with our assessment of the Company's overall control environment and the expected total value of known and likely misstatements and the level of transactions in the year.	

## Specific materiality

We also determined that for other account balances and classes of transactions that impact the calculation of European Public Real Estate Association ("EPRA") earnings a misstatement of less than materiality for the financial statements as a whole, specific materiality, could influence the economic decisions of users. We consider EPRA earnings to be a key performance measure of the Company. EPRA earnings excludes the impact of the net surplus on revaluation of investment properties, profit on disposal of investment properties and changes in the fair value of interest rate derivatives. As a result, we determined specific materiality for these items to be £0.58m (2023: £0.45m), based on 5% of EPRA earnings (2023: 5%). We further applied a performance materiality level of 75% (2023: 70%) of specific materiality to ensure that the risk of errors exceeding specific materiality was appropriately mitigated.

## Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £115,000 (2023: £70,000) and for those items impacting the calculation of EPRA earnings £29,000 (2023: £13,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

## Corporate governance statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit.

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### Going concern and longer-term viability

- The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified on pages 62 and 63; and
- The Directors' explanation as to their assessment of the Company's prospects, the period this assessment covers and why the period is appropriate on page 63.

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### Other Code provisions

- Directors' statement on fair, balanced and understandable pages 81 and 82;
  - Board's confirmation that it has carried out a robust assessment of the emerging and principal risks on pages 36 to 42;
  - The section of the annual report that describes the review of effectiveness of risk management and internal control systems on page 53; and
  - The section describing the work of the audit committee on pages 54 to 57.
- 

## Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

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### Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report or the Directors' report.

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### Directors' remuneration

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

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

(continued)

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## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
  - the Company 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.
- 

## Responsibilities of Directors

As explained more fully in the statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's and 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 the Directors either intend to liquidate the Company or the Company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

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

### *Extent to which the audit was capable of detecting irregularities, including fraud*

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

### *Non-compliance with laws and regulations*

Based on:

- our understanding of the Company and the industry in which it operates;
- discussion with management and those charged with governance; and
- obtaining an understanding of the Company's policies and procedures regarding compliance with laws and regulations;

we considered the significant laws and regulations to be UK company law, UK tax legislation (including the REIT regime requirements) and the UK Listing Rules, and we considered the extent to which non-compliance might have a material effect on the Company's financial statements.

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

Our procedures in respect of the above included:

- agreeing the financial statement disclosures to underlying supporting documentation where relevant;
- reviewing legal expenditure accounts to understand the nature of expenditure incurred;
- the review of Board and Committee meeting minutes and enquiries with management and the Directors as any known or suspected instances of non-compliance with laws and regulations; and
- in order to address the risk of non-compliance with the REIT regime, considering a report from the Company's external adviser, detailing the actions that the Company has undertaken to ensure compliance. This paper was reviewed, and the assumptions challenged, with the assistance of our own internal valuations expert.

### **Irregularities including fraud**

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- enquiry with Directors and those charged with governance regarding any known or suspected instances of fraud;
- obtaining an understanding of the Company's policies and procedures relating to:
  - detecting and responding to the risks of fraud; and
  - internal controls established to mitigate risks related to fraud.
- review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- discussion amongst the engagement team as to how and where fraud might occur in the financial statements; and
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud.

Based on our risk assessment, we considered the areas most susceptible to fraud to be potential manipulation of journals affecting revenue, investment property valuations, and management override of controls.

Our procedures in response to the above included:

- analysing and substantively testing unusual journals combinations to revenue to determine if they were appropriate;
- work performed in the investment property balance which is set out in the key audit matters section above; and
- testing a sample of journal entries processed during the year which met a defined risk criteria, agreeing to supporting documentation and evaluating whether there was evidence of bias by management or the Directors that represented a risk of material misstatement due to fraud.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were deemed to have the appropriate competence and capabilities, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

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.

**Richard Levy (Senior Statutory Auditor)**  
**For and on behalf of BDO LLP, Statutory Auditor**  
**London, United Kingdom**

1 July 2024

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).



# Financial Statements

## Statement of Comprehensive Income

for the year ended 31 March 2024

	Notes	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
<b>Income</b>			
Rental and other income	3	24,345	20,724
Property operating expenses	4	(6,861)	(6,911)
Impairment loss on trade receivables		(1,208)	(214)
<b>Net rental and other income</b>		<b>16,276</b>	<b>13,599</b>
Other operating expenses	5	(2,751)	(2,386)
Directors' remuneration	6	(162)	(117)
<b>Operating profit before fair value changes</b>		<b>13,363</b>	<b>11,096</b>
Change in fair value of investment properties	13	(4,350)	(30,004)
Realised gains on disposal of investment properties	13	1,848	9,744
<b>Operating profit/(loss)</b>		<b>10,861</b>	<b>(9,164)</b>
Realised loss on disposal of interest rate derivatives		–	(88)
Change in fair value of financial assets through profit and loss	7	(12)	45
Finance income	8	177	–
Finance expense	9	(1,936)	(2,118)
<b>Profit/(loss) before tax</b>		<b>9,090</b>	<b>(11,325)</b>
Taxation	10	(42)	–
<b>Profit/(loss) after tax</b>		<b>9,048</b>	<b>(11,325)</b>
Other comprehensive income		–	–
<b>Total comprehensive income/(loss) for the year</b>		<b>9,048</b>	<b>(11,325)</b>
<b>Earnings/(loss) per share (pence per share) (basic and diluted)</b>	11	<b>5.71</b>	<b>(7.15)</b>

The notes on pages 96 to 127 form an integral part of these financial statements.

## Statement of Changes in Equity

for the year ended 31 March 2024

For the year ended 31 March 2024	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
<b>Balance at 1 April 2023</b>		<b>1,587</b>	<b>56,578</b>	<b>109,201</b>	<b>(265)</b>	<b>167,101</b>
Total comprehensive income		–	–	9,048	–	9,048
Other distribution	10	–	–	(723)	–	(723)
Dividends paid	12	–	–	(12,674)	–	(12,674)
<b>Balance at 31 March 2024</b>		<b>1,587</b>	<b>56,578</b>	<b>104,852</b>	<b>(265)</b>	<b>162,752</b>

For the year ended 31 March 2023	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
<b>Balance at 1 April 2022</b>		<b>1,587</b>	<b>56,578</b>	<b>133,200</b>	<b>(265)</b>	<b>191,100</b>
Total comprehensive loss		–	–	(11,325)	–	(11,325)
Dividends paid	12	–	–	(12,674)	–	(12,674)
<b>Balance at 31 March 2023</b>		<b>1,587</b>	<b>56,578</b>	<b>109,201</b>	<b>(265)</b>	<b>167,101</b>

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

The notes on pages 96 to 127 form an integral part of these financial statements.

# Statement of Financial Position

as at 31 March 2024

	Notes	31 March 2024 £'000	31 March 2023 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Investment property	13	181,040	206,240
Receivables and prepayments	14	3,267	2,997
		<b>184,307</b>	<b>209,237</b>
<b>Current assets</b>			
Investment property held for sale	13	26,086	4,400
Receivables and prepayments	14	10,625	5,805
Other financial assets held at fair value	15	–	12
Cash and cash equivalents		11,397	14,315
		<b>48,108</b>	<b>24,532</b>
<b>Total assets</b>		<b>232,415</b>	<b>233,769</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	16	(59,663)	(59,553)
Lease obligations	18	(174)	(174)
		<b>(59,837)</b>	<b>(59,727)</b>
<b>Current liabilities</b>			
Payables and accrued expenses	17	(9,813)	(6,928)
Lease obligations	18	(13)	(13)
		<b>(9,826)</b>	<b>(6,941)</b>
<b>Total liabilities</b>		<b>(69,663)</b>	<b>(66,668)</b>
<b>Net assets</b>		<b>162,752</b>	<b>167,101</b>
<b>Equity</b>			
Share capital	21	1,587	1,587
Buyback reserve	21	(265)	(265)
Share premium account	22	56,578	56,578
Capital reserve and retained earnings		104,852	109,201
<b>Total capital and reserves attributable to equity holders</b>		<b>162,752</b>	<b>167,101</b>
<b>Net Asset Value per share (pps)</b>	11	<b>102.73</b>	<b>105.48</b>
<b>EPRA Net Tangible Assets per share (pps)</b>	11	<b>102.73</b>	<b>105.48</b>

The financial statements were approved by the Board of Directors on 1 July 2024 and were signed on its behalf by:

**Mark Burton**  
**Chairman**

AEW UK REIT plc (Company number: 09522515)

The notes on pages 96 to 127 form an integral part of these financial statements.

# Statement of Cash Flows

for the year ended 31 March 2024

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
<b>Cash flows from operating activities</b>		
Profit/(loss) before tax	9,090	(11,325)
<b>Adjustment for non-cash items:</b>		
Finance income	(177)	–
Finance costs	1,936	2,118
Loss/(gain) from change in fair value of other financial assets	12	(45)
Loss from change in fair value of investment property	4,350	30,004
Realised gains on disposal of investment properties	(1,848)	(9,744)
Realised loss on disposal of interest rate derivative	–	88
Increase in other receivables and prepayments	(3,458)	(1,884)
Increase in other payables and accrued expenses	1,821	608
<b>Net cash flow generated from operating activities</b>	<b>11,726</b>	<b>9,820</b>
<b>Cash flows from investing activities</b>		
Purchases and capital expenditure	(25,135)	(36,714)
Disposal of investment properties	24,528	43,652
Finance income	177	–
<b>Net cash (used in)/generated from investing activities</b>	<b>(430)</b>	<b>6,938</b>
<b>Cash flows from financing activities</b>		
Net loan drawdown	–	60,000
Loan repayment	–	(54,000)
Arrangement loan facility fee paid	–	(513)
Collateral paid	–	(870)
Received on sale of interest rate cap	–	743
Finance costs	(1,823)	(1,619)
Dividends paid	(12,391)	(12,953)
<b>Net cash flow used in from financing activities</b>	<b>(14,214)</b>	<b>(9,212)</b>
Net (decrease)/ increase in cash and cash equivalents	(2,918)	7,546
<b>Cash and cash equivalents at start of the year</b>	<b>14,315</b>	<b>6,769</b>
<b>Cash and cash equivalents at end of the year</b>	<b>11,397</b>	<b>14,315</b>

The notes on pages 96 to 127 form an integral part of these financial statements.

# Notes to the Financial Statements

for the year ended 31 March 2024

## 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 Central Square, 29 Wellington Street, Leeds LS1 4DL.

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 2 to 45.

## 2. Accounting policies

### 2.1 Basis of preparation

These financial statements are prepared and approved by the Directors in accordance with UK adopted international accounting standards.

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 2023:

- Amendments to IAS 1 and IFRS Practice Statement 2 Presentation of Financial Statements clarifies that significant accounting policies has been replaced with material accounting policies;
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies the distinction between accounting policies and accounting estimates and also replaces the definition of accounting estimates. Under the new definition, estimates are "monetary amounts in financial statements that are subject to measurement uncertainty";
- Amendments to IFRS 16 Lease Liability in a Sale and Leaseback specifies the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction, to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains.

There were no material effects from the adoption of the above-mentioned amendments to IFRS effective in the period.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.1 Basis of preparation *(continued)*

There are no other standards that are not yet effective that would be expected to have a material impact on the Company in the current or future reporting periods and on the foreseeable future transactions.

### 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 external 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 13.

### 2.3 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.

### 2.4 Going concern

The Directors assessed the Company's ability to continue as a going concern, which takes into consideration current economic uncertainty, as well as the Company's cashflows, financial position, liquidity and borrowing facilities.

As at 31 March 2024, the Company had £11.40 million of cash at bank. The Company's loan is held with AgFe and is a £60.00m facility with an initial five-year term, which expires in 2027. This is priced as a fixed rate loan with a total interest cost of 2.959% and associated 10% projected debt yield and 60% loan to value ("LTV") covenants. The Company reported an LTV of 31.99% at year-end. This provides room for an £87.57 million fall in portfolio valuation before breaching the 60% hard LTV covenant. Moreover, based on the £60.00m of debt drawn as at year-end, the Company had a projected debt yield of 26.82%, comfortably in excess of the 10% covenant.



# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.4 Going concern *(continued)*

The Company benefits from a secure, diversified income stream from a tenancy profile which is not overly reliant on any one tenant or sector, which reduces risk. The Directors also noted that:

- The Company's rent collection has been strong, with 98% of contracted rent either having been collected, or payment plans agreed, for the March 2024 quarter.
- Based on the contracted rent as at 31 March 2024, a reduction of 62.71% in net rental income could be accommodated before breaching the debt yield covenant in the Company's re-financed debt arrangements.
- Based on the property valuation at 31 March 2024, the Company had room for an £87.57 million fall in portfolio valuation before breaching the maximum LTV hard covenant in the Company's re-financed debt arrangements.
- The Company's cash flow can also be significantly managed through the adjustment of dividend payments, to the extent that this does not breach the REIT regime requirements for distributions.

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:

- a reduction in net rental income of 30%;
- no new lettings or renewals, other than those where terms have already been agreed;
- a 20% fall in property valuations; and
- no new acquisitions or disposals.

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. Moreover, the Company is forecast to pass the debt yield covenant during the 12-month period with a minimum projected yield of 18%, compared with the limit of 10%, assuming that no repayments of the facility were to be made.

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. 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material 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. A rental adjustment is recognised from the rent review date in relation to unsettled rent reviews, where the Directors are reasonably certain that the rental uplift will be agreed.

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 tenant reported actual turnover and is recognised when the “rental demand” 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.

Insurance income is recognised in the accounting period in which the services are rendered.

##### 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material accounting policies *(continued)*

#### c) 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.

#### d) 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 recognise 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 external valuer on the basis of a full valuation with physical inspection at least once a year, 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material accounting policies *(continued)*

#### **e) 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 20.

The Company has taken advantage of the exemption as permitted by Section 402 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.

#### **f) 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.

#### **g) 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 operating costs in profit or loss in the period in which they occur.

#### **h) 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 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material accounting policies *(continued)*

#### i) 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 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.

#### j) 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.

#### k) Other payables and accrued expenses

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

#### l) 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.

#### m) 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.

#### n) 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material accounting policies *(continued)*

#### **o) Dividend payable to shareholders**

Equity dividends are recognised when they become legally payable.

#### **p) 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.

#### **q) Leases**

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

#### **r) 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.

#### **s) 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 2024, audited EPS and NAV calculations under EPRA's methodology are included in note 11 and further unaudited measures are included on pages 128 to 147.



# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 2. Accounting policies *(continued)*

### 2.5 Summary of material accounting policies *(continued)*

#### t) 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 including directly attributable transaction costs. This reserve is not distributable.

##### **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 loss contained within this reserve at 31 March 2024 is £7.47 million (31 March 2023: cumulative unrealised loss of £3.12 million).

## 3. Rental and other income

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Rental income	19,888	17,709
Service charge income	2,899	1,895
Insurance income	1,171	923
Dilapidation income received	323	81
Lease surrender income	55	44
Other property income	9	72
<b>Total Revenue</b>	<b>24,345</b>	<b>20,724</b>

All rental and other income is derived from within the UK. No single tenant accounts for more than 10% of rental income.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 4. Property operating expenses

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Recoverable service charge expense	2,899	1,895
Other property expenses	1,802	3,440
Recoverable insurance expense	1,171	923
Non-recoverable service charge expense	989	653
<b>Total property operating expenses</b>	<b>6,861</b>	<b>6,911</b>

## 5. Other operating expenses

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Investment management fee	1,391	1,548
Operating costs	1,134	639
Audit remuneration	226	199
<b>Total other operating expenses</b>	<b>2,751</b>	<b>2,386</b>

Details on how the investment management fees are calculated are disclosed in note 25.

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
<b>Audit</b>		
Statutory audit of Annual Report and Financial Statements	190	168
	<b>190</b>	<b>168</b>
<b>Non-audit</b>		
ISRE 2410 review (interim review fee)	36	31
	<b>36</b>	<b>31</b>
<b>Total fees paid to BDO LLP</b>	<b>226</b>	<b>199</b>
<b>Percentage of total fees attributed to non-audit services</b>	<b>16%</b>	<b>16%</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 6. Directors' remuneration

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Directors' remuneration	148	106
Tax and social security	14	11
<b>Total remuneration</b>	<b>162</b>	<b>117</b>

A summary of the Directors' remuneration is set out in the Directors' Remuneration Report on page 59.

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

## 7. Change in fair value of other financial assets

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Change in fair value of other financial assets	(12)	45
<b>Total</b>	<b>(12)</b>	<b>45</b>

## 8. Finance income

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Income receivable from cash and short-term deposits	177	–
<b>Total</b>	<b>177</b>	<b>–</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 9. Finance expenses

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Interest payable on loan borrowings	1,780	1,729
Amortisation of loan arrangement fee	127	355
Bank charges	1	2
Commitment fees payable on loan borrowings	–	4
	<b>1,908</b>	<b>2,090</b>
Interest expense on lease liabilities	28	28
<b>Total</b>	<b>1,936</b>	<b>2,118</b>

## 10. Taxation

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
<b>Tax charge comprises:</b>		
Corporation tax paid on interest received	<b>42</b>	–
<b>Analysis of tax charge in the year</b>		
Profit/(loss) before tax	9,090	(11,325)
Theoretical tax at UK corporation tax standard rate of 25.00% (31 March 2023: 19.00%)	2,273	(2,152)
Adjusted for:		
Exempt REIT income	(2,898)	(1,698)
Non taxable investment losses	625	3,850
Corporation tax paid on interest received	42	–
<b>Total tax charge</b>	<b>42</b>	–

### Other distribution

During the year, the Company identified that certain historic dividends had been declared as ordinary dividends when they should have been declared as Property Income Distributions (“PIDs”). A provision for notional withholding tax of £723,000 has therefore been included in shareholder reserves for the charges it may suffer as a result. The Investment Manager has (without admission of liability) agreed to fully indemnify the Company in return for an assignment of any claims the Company has against other parties. However, the benefit of the indemnity is not reflected in this year’s net asset value, as it was entered into following the year-end and, as such, will be reflected in next year’s net asset value. Due to the Investment Manager agreeing to indemnify the Company, the Company’s NAV will not ultimately be impacted.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 10. Taxation *(continued)*

### 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.

## 11. Earnings per share and NAV per share

	Year ended 31 March 2024	Year ended 31 March 2023
<b>Earnings per share:</b>		
Total comprehensive income/(loss) (£'000)	9,048	(11,325)
Weighted average number of shares	158,424,746	158,424,746
<b>Earnings/(loss) per share (basic and diluted) (pence)</b>	<b>5.71</b>	<b>(7.15)</b>
<b>EPRA earnings per share:</b>		
Total comprehensive income/(loss) (£'000)	9,048	(11,325)
<b>Adjustment to total comprehensive income/(loss):</b>		
Change in fair value of investment properties (£'000)	4,350	30,004
Realised gain on disposal of investment properties (£'000)	(1,848)	(9,744)
Realised loss on disposal of interest rate derivatives	–	88
Total EPRA Earnings (£'000)	11,550	9,023
<b>EPRA earnings per share (basic and diluted) (pence)</b>	<b>7.29</b>	<b>5.70</b>
Net assets (£'000)	162,752	167,101
Ordinary Shares in issue	158,424,746	158,424,746
<b>NAV per share (pence)</b>	<b>102.73</b>	<b>105.48</b>

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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 11. Earnings per share and NAV per share *(continued)*

As at 31 March 2024	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
IFRS NAV attributable to shareholders	162,752	162,752	162,752
Real estate transfer tax and other purchasers' costs <sup>1</sup>	–	13,906	–
Adjustment for the fair value of bank borrowings	–	–	(4,641)
<b>At 31 March 2024</b>	<b>162,752</b>	<b>176,658</b>	<b>158,111</b>
Number of Ordinary Shares	158,424,746	158,424,746	158,424,746
<b>NAV per share</b>	<b>102.73p</b>	<b>111.51p</b>	<b>99.80p</b>
As at 31 March 2023	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
IFRS NAV attributable to shareholders	167,101	167,101	167,101
Real estate transfer tax and other purchasers' costs <sup>1</sup>	–	14,112	–
Adjustment for the fair value of bank borrowings	–	–	(4,771)
<b>At 31 March 2023</b>	<b>167,101</b>	<b>181,213</b>	<b>162,330</b>
Number of Ordinary Shares	158,424,746	158,424,746	158,424,746
<b>NAV per share</b>	<b>105.48p</b>	<b>114.38p</b>	<b>102.47p</b>

<sup>1</sup> 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.

## for the year ended 31 March 2024

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# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 13. Investment property

### 13.a) Investment property

	31 March 2024			31 March 2023		
	Investment property freehold £'000	Investment property leasehold £'000	Total £'000	Investment property freehold £'000	Investment property leasehold £'000	Total £'000
<b>UK investment property</b>						
As at beginning of the year	156,325	57,500	213,825	196,500	43,675	240,175
Purchases in the year	22,984	–	22,984	34,134	–	34,134
Capital expenditure in the year	380	1,771	2,151	1,061	1,537	2,598
Disposals in the year	(24,300)	–	(24,300)	(33,212)	–	(33,212)
Revaluation of investment properties	(1,049)	(2,921)	(3,970)	(29,158)	(712)	(29,870)
<b>Valuation provided by Knight Frank</b>	<b>154,340</b>	<b>56,350</b>	<b>210,690</b>	<b>169,325</b>	<b>44,500</b>	<b>213,825</b>
Adjustment to carrying value for lease incentive debtor			(3,751)			(3,372)
Adjustment for lease obligations*			187			187
<b>Total investment property</b>			<b>207,126</b>			<b>210,640</b>
<b>Classified as:</b>						
Investment property held for sale**			26,086			4,400
Investment property			181,040			206,240
			<b>207,126</b>			<b>210,640</b>
<b>Change in fair value of investment property</b>						
Change in fair value before adjustments for lease incentives			(3,970)			(29,870)
Adjustment for movement in the year: in value of lease incentive debtor			(380)			(134)
			<b>(4,350)</b>			<b>(30,004)</b>
<b>Gains on disposal of the investment property</b>						
Net proceeds from disposals of investment property during the year***			26,148			42,956
Fair value at the beginning of period			(24,300)			(33,212)
<b>Realised gain on disposal of investment property held for sale</b>			<b>1,848</b>			<b>9,744</b>

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

\*\* Central Six Retail Park, Coventry and Oak Park, Droitwich have been classified as held for sale as at 31 March 2024.

\*\*\* Net proceeds include deductions for topped up rents and rent free periods of £555,000 (31 March 2023: £654,000).

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 13. Investment property *(continued)*

### 13.a) Investment property *(continued)*

#### Valuation of investment property

Valuation of investment property is performed by Knight Frank LLP, an accredited external independent 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.

### 13.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
<b>Assets measured at fair value</b>				
<b>31 March 2024</b>				
Investment property	–	–	207,126	207,126
<b>31 March 2023</b>				
Investment property	–	–	210,640	210,640

#### 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 2024

## 13. Investment property *(continued)*

### 13.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:

Sector	Fair Value	Significant Unobservable Inputs	
	£'000	ERV range (per sq ft per annum)	Equivalent Yield range
As at 31 March 2024			
Industrial	78,720	£0.50 – £10.00	6.81% – 10.94%
Retail	78,500	£4.00 – £85.00	6.93% – 11.34%
Alternatives	28,420	£4.50 – £41.00	7.60% – 9.77%
Office	25,050	£8.50 – £40.00	8.57% – 8.92%
Portfolio*	210,690	£0.50 – £85.00	6.81% – 11.34%
As at 31 March 2023			
Industrial	94,600	£0.50 – £10.00	6.38% – 10.88%
Retail	83,800	£4.00 – £85.00	6.80% – 11.13%
Alternatives	20,125	£8.00 – £29.60	7.75% – 9.69%
Office	15,300	£8.50 – £40.00	7.74% – 8.73%
Portfolio*	213,825	£0.50 – £85.00	6.38% – 11.13%

\* 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 2024

## 13. Investment property *(continued)*

### 13.b) Fair value measurement hierarchy *(continued)*

	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
<b>Sensitivity analysis</b>	<b>+5%</b>	<b>-5%</b>	<b>+5%</b>	<b>-5%</b>
<b>31 March 2024</b>				
Resulting fair value of investment property	219,442	202,048	199,884	222,599
31 March 2023				
Resulting fair value of investment property	223,280	205,317	204,098	225,214
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
<b>Sensitivity analysis</b>	<b>+10%</b>	<b>-10%</b>	<b>+10%</b>	<b>-10%</b>
<b>31 March 2024</b>				
Resulting fair value of investment property	228,232	193,461	190,083	235,859
31 March 2023				
Resulting fair value of investment property	232,439	196,550	194,983	237,533
	Change in ERV		Change in equivalent yield	
	£'000	£'000	£'000	£'000
<b>Sensitivity analysis</b>	<b>+15%</b>	<b>-15%</b>	<b>+15%</b>	<b>-15%</b>
<b>31 March 2024</b>				
Resulting fair value of investment property	237,129	184,959	181,139	250,684
31 March 2023				
Resulting fair value of investment property	241,600	187,803	186,663	251,301

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.

### 13.c) Real estate risk

The Company has considered the risks specific to its investment property within note 23.2 Financing Management.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 14. Receivables and prepayments

### – Non Current

	31 March 2024 £'000	31 March 2023 £'000
<b>Receivables</b>		
Lease incentive debtor	3,267	2,997
<b>Total</b>	<b>3,267</b>	<b>2,997</b>

### – Current

	31 March 2024 £'000	31 March 2023 £'000
<b>Receivables</b>		
Rent agent float account	2,505	1,712
Completion proceeds due on sale of property	2,175	–
Rent receivable	1,956	1,437
Recoverable service charge receivable	1,427	1,271
Recoverable insurance debtor	1,408	356
Other receivables	989	980
Allowance for expected credit losses	(2,177)	(969)
	8,283	4,787
Lease incentive debtor*	484	375
	<b>8,767</b>	<b>5,162</b>
<b>Prepayments</b>		
Property related prepayments	1,818	596
Other prepayments	40	47
	1,858	643
<b>Total</b>	<b>10,625</b>	<b>5,805</b>

\* Lease incentive asset amounting to £3,372,000 as at 31 March 2023 (2022: £3,238,000) was previously classified as a current asset rather than allocated between current and non-current assets in line with their expected recovery.

The comparatives have been represented accordingly to present the allocation between current and non-current assets. As such, £2,997,000 of these amounts are classified as non-current assets and £375,000 as current assets as at 31 March 2023 (2022: £2,984,000 and £254,000 respectively). There is no effect on the profit or net assets in any period presented.

The lease incentive debtor recognised from rent smoothing adjustments are not considered to be financial assets as the amounts are not yet contractually due. As such, the requirements of IFRS 9 (including the expected credit loss assessment) are not applicable to these balances. The credit risk associated with the tenant is considered in the determination of the fair value of the related property.

The carrying value of trade and other receivables classified at amortised cost approximates fair value.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 14. Receivables and prepayments

### – Current *(continued)*

The aged debtor analysis of receivables is as follows:

	31 March 2024 £'000	31 March 2023 £'000
Less than three months	7,797	4,091
Between three and six months	486	696
Between six and twelve months	–	–
<b>Total</b>	<b>8,283</b>	<b>4,787</b>

The Company applies the IFRS 9 simplified approach to measuring expected credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are assessed 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.

The expected loss rates are based on the Company's historical credit losses experienced over the three-year period prior to the year-end. The historical loss rates are then adjusted for current and forward-looking information on macroeconomic factors affecting the Company's customers. The expected credit loss provision as at 31 March 2024 was £2.2 million (31 March 2023: £1.0 million). The reason for the large year-on-year increase in the expected credit loss provision is due to a small number of tenants entering administration during the year, most notable of which was Wilko at the Company's asset on Union Street, Bristol. No reasonably possible changes in the assumptions underpinning the expected credit loss provision would give rise to a material expected credit loss.

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

	31 March 2024 £'000	31 March 2023 £'000
Opening provision for impairment of trade receivables	969	756
Increase during the year	1,552	345
Receivable written off during the year as uncollectible	(331)	(132)
Unused amounts reversed	(13)	–
Movement in provision for impairment during the year	1,208	213
<b>At the end of the year</b>	<b>2,177</b>	<b>969</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 15. Other financial assets at fair value

	31 March 2024 £'000	31 March 2023 £'000
Other financial assets at FVTPL	–	12
<b>At the end of the year</b>	<b>–</b>	<b>12</b>

### 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 2024	–	–	–	–
31 March 2023	–	–	12	12

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.



# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 16. Interest bearing loans and borrowings

	31 March 2024 £'000	31 March 2023 £'000
At the beginning of the year	60,000	54,000
Bank borrowings drawn in the year	–	60,000
Bank borrowings repaid in the year	–	(54,000)
<b>Interest bearing loans and borrowings</b>	<b>60,000</b>	<b>60,000</b>
Unamortised loan arrangement fees	(337)	(447)
<b>At the end of the year</b>	<b>59,663</b>	<b>59,553</b>
Repayable between two and five years	60,000	60,000
Undrawn facility at the year-end	–	–
<b>Total facility</b>	<b>60,000</b>	<b>60,000</b>

The Company has a £60.00 million credit facility with AgFe, a leading independent asset manager specialising in debt-based investments. As of 31 March 2024, the Company had utilised £60.00 million (31 March 2023: £60.00 million). The loan is a fixed rate loan with a total interest cost of 2.959% and has a 5 year term maturing in May 2027.

The Company has a target gearing of 35% Loan to NAV. As at 31 March 2024, the Company's gearing was 36.87% Loan to NAV (31 March 2023: 35.91%).

Borrowing costs associated with the credit facility are shown as finance costs in note 9 to these financial statements.

Borrowing costs associated with the credit facility are shown as finance costs in note 9 to these financial statements.

	31 March 2024	31 March 2023
Facility	£60.00 million	£60.00 million
Drawn	£60.00 million	£60.00 million
Loan at fair value	£55.36 million	£55.23 million
Gearing (Loan to GAV)	28.97%	28.06%
Gearing (Loan to NAV)	36.87%	35.91%
Interest rate	2.959%	2.959%
	fixed	fixed
Notional Value of Loan Balance Hedged	N/A	N/A

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 16. Interest bearing loans and borrowings *(continued)*

### Reconciliation to cash flows from financing activities

	31 March 2024 £'000	31 March 2023 £'000
Balance at the beginning of the year	59,553	53,757
<b>Changes from financing cash flows</b>		
Loan draw down	–	60,000
Loan repayment	–	(54,000)
Interest paid	(1,793)	(1,607)
Loan arrangement fees	–	(513)
<b>Total changes from financing cash flows</b>	<b>(1,793)</b>	<b>3,880</b>
<b>Other changes</b>		
Amortisation of loan arrangement fees	127	355
Interest expense	1,780	1,729
Changes in loan interest payable	13	(122)
Release of prepaid arrangement fee	(17)	(46)
<b>Total other changes</b>	<b>1,903</b>	<b>1,916</b>
<b>Balance at the end of the year</b>	<b>59,663</b>	<b>59,553</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 17. Payables and accrued expenses

	31 March 2024 £'000	31 March 2023 £'000
Deferred income	5,403	3,739
Other creditors	2,070	1,138
Accruals	1,199	1,341
Recoverable insurance payable	863	33
Recoverable service charge payable	278	677
<b>Total</b>	<b>9,813</b>	<b>6,928</b>

## 18. 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 2024 £'000	31 March 2023 £'000
Current	13	13
Non Current	174	174
<b>Total</b>	<b>187</b>	<b>187</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 19. Lease obligations 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 27 years.

Future minimum rentals receivable under non-cancellable operating leases as at 31 March 2024 are as follows:

	31 March 2024 £'000	31 March 2023 £'000
Within one year	13,249	16,829
After one year but not more than five years	25,000	37,734
More than five years	8,571	20,943
<b>Total</b>	<b>46,820</b>	<b>75,506</b>

During the year ended 31 March 2024, there were contingent rents totalling £400,233 (year ended 31 March 2023: £146,289) recognised as income.

## 20. 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 2024, 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 2023: £0.01). The registered office of AEW UK REIT 2015 Limited is Central Square, 29 Wellington Street, Leeds LS1 4DL.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 21. Issued share capital

	31 March 2024		31 March 2023	
	£'000	Number of Ordinary Shares	£'000	Number of Ordinary Shares
<b>Ordinary Shares (nominal value £0.01 per share) authorised, issued and fully paid</b>				
At the beginning of the year	1,587	158,774,746	1,587	158,774,746
<b>At the end of the year</b>	<b>1,587</b>	<b>158,774,746</b>	<b>1,587</b>	<b>158,774,746</b>
<b>Treasury Shares</b>				
At the beginning of the year	(265)	350,000	(265)	350,000
<b>At the end of the year</b>	<b>(265)</b>	<b>350,000</b>	<b>(265)</b>	<b>350,000</b>
<b>Total Ordinary Share capital excluding treasury shares</b>	<b>1,587</b>	<b>158,424,746</b>	<b>1,587</b>	<b>158,424,746</b>

The allotted, called up and fully paid shares at 31 March 2023 consisted of 158,774,746 Ordinary Shares.

## 22. Share premium account

	31 March 2024 £'000	31 March 2023 £'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	56,578
<b>Balance at the end of the year</b>	<b>56,578</b>	<b>56,578</b>

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 23. Financial risk management objectives and policies

### 23.1 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 2024		31 March 2023	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
<b>Financial assets</b>				
Receivables <sup>1</sup>	8,283	8,283	4,787	4,787
Cash and cash equivalents	11,397	11,397	14,315	14,315
Other financial assets held at fair value	–	–	12	12
<b>Financial liabilities</b>				
Interest bearing loans and borrowings	59,663	55,359	59,553	55,229
Payables and accrued expenses <sup>2</sup>	3,886	3,886	2,691	2,691
Lease obligations	187	187	187	187

1 Excludes lease incentive debtor and prepayments.

2 Excludes tax, VAT liabilities and deferred income.

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.

### 23.2 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 23. 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 risk is the risk that the fair values of financial instruments will fluctuate because of changes in market prices. The financial instruments held by the Company that are affected by market risk are principally the Company's cash balances and bank borrowings.

The Company entered into a fixed rate 5 year loan with AgFe in May 2022, with a total interest cost of 2.959% mitigating the market risk associated with bank borrowings.

### **Real estate risk**

Real estate 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.

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.



# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 23. Financial risk management objectives and policies *(continued)*

### 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 which has an A3 long term credit rating.

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.

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

	As at 31 March 2024 £'000	As at 31 March 2023 £'000
Receivables (excluding incentives and prepayments)	8,283	4,787
Cash and cash equivalents	11,397	14,315
<b>Total</b>	<b>19,680</b>	<b>19,102</b>

### 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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 23. Financial risk management objectives and policies *(continued)*

### Liquidity risk *(continued)*

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

31 March 2024	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	443	1,333	63,750	–	65,526
Payables and accrued expenses	–	3,886	–	–	–	3,886
Lease obligation	–	–	14	56	1,708	1,778
	–	4,329	1,347	63,806	1,708	71,190

31 March 2023	On demand £'000	< 3 months £'000	3–12 months £'000	1–5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	444	1,331	65,866	–	67,641
Payables and accrued expenses	–	2,691	–	–	–	2,691
Lease obligation	–	–	14	56	1,722	1,792
	–	3,135	1,345	65,922	1,722	72,124

## 24. 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.

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 and 75% assets test, 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 Value 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 Value ratio of 31.99% (31 March 2023: 32.73%).

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.

# Notes to the Financial Statements *(continued)*

for the year ended 31 March 2024

## 25. 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 2024, 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 59. During the year the Directors who served in the year received £47,765 gross in dividend payments (31 March 2023: £87,999).

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 £1,391,335 (31 March 2023: £1,548,204) in respect of investment management fees and expenses, of which £339,647 (31 March 2023: £349,351) was outstanding as at 31 March 2024.

## 26. 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.

## 27. Events after reporting date

### Dividend

On 14 May 2024, the Board declared its fourth interim dividend of 2.00 pps in respect of the period from 1 January 2024 to 31 March 2024. This was paid on 14 June 2024, to shareholders on the register as at 24 May 2024. The ex-dividend date was 23 May 2024.

### Property sale

In May 2024, the Company exchanged on the sale of Oak Park, Droitwich, for £6.30 million. The sale is expected to complete in July 2024.

# 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](http://www.epra.com).

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
<b>1. EPRA Earnings</b> 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.	£11.55 million/7.29 pps  EPRA earnings for year to 31 March 2024 (31 March 2023: £9.02 million/5.70 pps)
<b>2. EPRA Net Tangible Assets ('NTA')</b> Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.		£162.75 million/102.73 pps  EPRA NTA as at 31 March 2024 (31 March 2023: £167.10 million/105.48 pps)
<b>3. EPRA Net Reinstatement Value ('NRV')</b> Assumes that entities never sell assets and aims to represent the value required to rebuild the entity.	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.	£176.66 million/111.51 pps  EPRA NRV as at 31 March 2024 (31 March 2023: £181.21 million/114.38 pps)
<b>4. EPRA Net Disposal Value ('NDV')</b> 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.		£158.11 million/99.80 pps  EPRA NDV as at 31 March 2024 (31 March 2023: £162.33 million/102.47 pps)
<b>5. EPRA Net Initial Yield ('NIY')</b> 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.	8.02%  EPRA NIY as at 31 March 2024 (31 March 2023: 7.65%)

# EPRA Unaudited Performance Measures *(continued)*

MEASURE AND DEFINITION	PURPOSE	PERFORMANCE
<b>6. EPRA 'Topped-Up' NIY</b> 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.	8.30%  EPRA 'Topped-Up' NIY as at 31 March 2024 (31 March 2023: 8.07%)
<b>7. EPRA Vacancy Rate</b> 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.	6.38%  EPRA Vacancy Rate as at 31 March 2024 (31 March 2023: 7.83%)
<b>8. EPRA Cost Ratio</b> 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.	34.57%  EPRA Cost Ratio (including direct vacancy costs) as at 31 March 2024 (31 March 2023: 37.46%)  26.67%  EPRA Cost Ratio (excluding direct vacancy costs) as at 31 March 2024 (31 March 2023: 26.45%)
<b>9. EPRA Capital Expenditure</b> 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.	£25.13 million for the year ended 31 March 2024 (31 March 2023: £36.73 million)
<b>10. EPRA Like-for-like Rental Growth</b> 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.	£0.48 million/3.39% for the year ended 31 March 2024 (31 March 2023: £0.12 million/ 0.98%)
<b>11. EPRA Loan to Value</b> Debt divided by the market value of property.	A measure to assess the gearing of shareholder equity of a real estate company.	22.63% for the year ended 31 March 2024 (31 March 2023: 21.18%)

# EPRA Unaudited Performance Measures *(continued)*

## Calculation of EPRA NTA, EPRA NRV and EPRA NDV

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.

	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
<b>As at 31 March 2024</b>			
IFRS NAV attributable to shareholders	162,752	162,752	162,752
Real estate transfer tax and other purchasers' costs <sup>1</sup>	–	13,906	–
Adjustment for the fair value of bank borrowings	–	–	(4,641)
<b>At 31 March 2024</b>	<b>162,752</b>	<b>176,658</b>	<b>158,111</b>
Number of Ordinary Shares ('000)	158,424,746	158,424,746	158,424,746
<b>NAV Per share</b>	<b>102.73p</b>	<b>111.51p</b>	<b>99.80p</b>
	EPRA NTA £'000	EPRA NRV £'000	EPRA NDV £'000
<b>As at 31 March 2023</b>			
IFRS NAV attributable to shareholders	167,101	167,101	167,101
Real estate transfer tax and other purchasers' costs <sup>1</sup>	–	14,112	–
Adjustment for the fair value of bank borrowings	–	–	(4,771)
<b>At 31 March 2023</b>	<b>167,101</b>	<b>181,213</b>	<b>162,330</b>
Number of Ordinary Shares ('000)	158,424,746	158,424,746	158,424,746
<b>NAV Per share</b>	<b>105.48p</b>	<b>114.38p</b>	<b>102.47p</b>

<sup>1</sup> 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 2024 £'000	Year ended 31 March 2023 £'000
Investment property – wholly-owned	210,690	213,825
Allowance for estimated purchasers' costs at 6.6%	13,906	14,112
<b>Grossed-up completed property portfolio valuation (B)</b>	<b>224,596</b>	<b>227,937</b>
Annualised cash passing rental income	18,694	18,399
Property outgoings	(674)	(960)
<b>Annualised net rents (A)</b>	<b>18,020</b>	<b>17,439</b>
Rent from expiry of rent-free periods and fixed uplifts*	612	949
<b>'Topped-up' net annualised rent (C)</b>	<b>18,632</b>	<b>18,388</b>
<b>EPRA NIY (A/B)</b>	<b>8.02%</b>	<b>7.65%</b>
<b>EPRA 'topped-up' NIY (C/B)</b>	<b>8.30%</b>	<b>8.07%</b>

\* Rent-free periods expire by July 2024.

## 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 2024, 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 2024 £'000	Year ended 31 March 2023 £'000
Annualised potential rental value of vacant premises (A)	1,334	1,671
Annualised potential rental value for the complete property portfolio (B)	20,912	21,343
<b>EPRA Vacancy Rate (A/B)</b>	<b>6.38%</b>	<b>7.83%</b>



# EPRA Unaudited Performance Measures *(continued)*

## Calculation of EPRA Cost Ratios

	Year ended 31 March 2024 £'000	Year ended 31 March 2023 £'000
Administrative/operating expense per IFRS income statement	6,912	6,810
Less: ground rent costs	(56)	(282)
<b>EPRA costs (including direct vacancy costs) (A)</b>	<b>6,856</b>	<b>6,528</b>
Direct vacancy costs (see Glossary on page 150 for further details)	(1,567)	(1,918)
<b>EPRA costs (excluding direct vacancy costs) (B)</b>	<b>5,289</b>	<b>4,610</b>
Gross rental income less ground rent costs (C)	<b>19,832</b>	<b>17,427</b>
<b>EPRA Cost Ratio (including direct vacancy costs) (A/C)</b>	<b>34.57%</b>	<b>37.46%</b>
<b>EPRA Cost Ratio (excluding direct vacancy costs) (B/C)</b>	<b>26.67%</b>	<b>26.45%</b>

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 2024 £m	Rental income from like-for-like portfolio 2023 £m	Like-for-like rental growth £m	Like-for-like rental growth %
Industrial	6.70	6.27	0.43	6.86
Retail Warehouse	3.14	3.27	(0.13)	(3.98)
Standard Retail	1.83	1.84	(0.01)	(0.54)
Alternatives	1.81	1.77	0.04	2.26
Office	1.18	1.03	0.15	14.56
<b>Total</b>	<b>14.66</b>	<b>14.18</b>	<b>0.48</b>	<b>3.39</b>

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 comparative reporting. This represents a portfolio valuation, as assessed by the valuer of £159.97 million (31 March 2023: £159.03 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	2024 £'000	2023 £'000
Acquisitions	23,214	34,147
Investment properties – no incremental lettable space	1,921	2,585
<b>Total purchases and capital expenditure</b>	<b>25,135</b>	<b>36,732</b>

## EPRA Loan to Value

The table below sets out the loan to net value in accordance with EPRA Best Practice Recommendations:

EPRA Loan-to-Value	31 March 2024 £'000	31 March 2023 £'000
Borrowings from financial institutions	60,000	60,000
Cash and cash equivalents	(11,397)	(14,315)
<b>EPRA Net debt (A)</b>	<b>48,603</b>	<b>45,685</b>
Investment properties at fair value	210,690	213,825
Net receivables	4,079	1,874
<b>Total property value (B)</b>	<b>214,769</b>	<b>215,699</b>
<b>EPRA LTV (A/B)</b>	<b>22.63%</b>	<b>21.18%</b>
<b>Net receivables comprises</b>		
Receivables and prepayments	13,892	8,802
Payables and accrued expenses	(9,813)	(6,928)
<b>Total</b>	<b>4,079</b>	<b>1,874</b>

# 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
<b>Environmental</b>	
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	Life-for-like total weight of waste by disposal route
Cert-Tot	Type and number of sustainably certified assets
<b>Social</b>	
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
<b>Governance</b>	
Gov Board	Composition of the highest governance body
Gov Selec	Process for nominating and selecting the highest governance body
Gov Col	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 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 2023/24.
- 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

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
40 Queen Square	Office	Yes	Yes	Yes
69-75 Above Bar Street	Retail	No	Yes	Yes
11/15 Fargate	Retail	No	Yes	No
Pricebusters Building	Retail	No	Yes	Yes
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	No	Yes	Yes
15-33 Union Street	Retail	No	Yes	No
Railway Station Centre	Retail	No	Yes	No
Central Six Retail Park	Retail Warehouse	Yes	Yes	No
Westlands Distribution Park	Industrial	No	Yes	Yes
Arrow Point Retail Park	Retail Warehouse	No	Yes	No
Northgate House	Office	No	Yes	No

# EPRA Sustainability Performance Measures (unaudited)

## (continued)

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 and common areas (1 asset)
- Retail; Whole building, tenant space and common areas
- Retail Warehouse; Tenant space and external lighting
- Leisure; External lighting, tenant space and common areas
- Industrial; Tenant space, common areas and external lighting

### Emissions outside of operational control

The Company was not responsible for emissions 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.

### Water Consumption & Waste Production

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

Asset name	Sector	Water	Waste
40 Queen Square	Office	Yes	Yes
Diamond Business Park	Industrial	Yes	Yes
London East Leisure 1	Leisure	Yes	No
Westlands Distribution Park	Industrial	Yes	No
Central Six Retail Park	Retail Warehouse	No	Yes

### Intensity Ratios

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 the area served by the meter. The intensity ratio is expressed as kilograms carbon dioxide equivalent per metre square (of area served by the meter) per year, or, kg CO<sub>2</sub>e/m<sup>2</sup>/yr.

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

- An asset was in ownership for 24 months from 1st April 2022 to 31st March 2024
- 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 at meter level in both years

# EPRA Sustainability Performance Measures (unaudited)

## *(continued)*

Assets excluded from the like-for-like analysis include:

- Northgate House
- Units A-H Arrowpoint Retail Park

Assets disposed during the 2022/2023 reporting period and are therefore excluded from any 2023/2024 absolute and like-for-like data, but are included in 2022/2023 absolute figures:

- Pearl House
- 225 Bath Street
- Eastpoint Business park – Meridian House
- Eastpoint Business Park – Orion House
- Vantage Point

### Company Targets

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: 40% reduction in absolute energy by 2030 based on the 2018 baseline
- GHG emissions: 40% reduction in absolute energy by 2030 based on the 2018 baseline
- Waste: 100% waste diverted from landfill was achieved by 2020. The fund aims to maintain this target

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

EVORA's consultant statement is included below:

EVORA Global Limited has been appointed by the Company to collate and report energy consumption data, greenhouse gas (GHG) emissions, water and waste data presented within this report.

# EPRA Sustainability Performance Measures (unaudited)

*(continued)*

## Methodology

Utility data is reported to EVORA by the Company's property manager (MAPP) based on invoiced data.

EVORA checked the Sustainability Performance Data using our proprietary software tool SIERA. In summary, the following steps were applied:

Step 1: Confirmation of asset set up (data coverage and responsibility for procurement)

Step 2: Input of asset characteristics and utility data (e.g. energy kWh)

Step 3: Initial data reliability checks were performed in the SIERA tool to identify:

- Consumption / tonnage data gaps
- Periods of overlapping consumption/tonnage data
- Significant consumption/tonnage variance between comparable periods

Step 4: Check of data and results utilising the inbuilt function of SIERA with specialist EVORA consultant review. Like-for-like analysis was used to assess, review and quantify year-on year performance changes. Variances of +/- 10% were identified and reviewed by EVORA consultants.

## About EVORA

EVORA is an independent, pan-European sustainability consultancy and software provider, specialising in the commercial real estate sector.

**Rebecca Mastrogriannis**

**Managing Consultant, EVORA Global Ltd**

1 July 2024



# 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.

Sector	Energy Source	Absolute Energy Usage (kWh)	
		2023/24	2022/23
Office	Gas	144,356	326,910
	Electricity	267,747	492,832
	Energy	<b>412,103</b>	<b>819,742</b>
Retail	Gas	–	145,178
	Electricity	390,840	403,083
	Energy	<b>390,840</b>	<b>548,261</b>
Retail Warehouse	Gas	–	–
	Electricity	135,983	119,883
	Energy	<b>135,983</b>	<b>119,883</b>
Leisure	Gas	–	–
	Electricity	35,177	35,983
	Energy	<b>35,177</b>	<b>35,983</b>
Industrial	Gas	1,074,441	671,372
	Electricity	1,188,379	1,218,922
	Energy	<b>2,262,820</b>	<b>1,890,294</b>
Total	Gas	1,218,797	1,143,460
	Electricity	2,018,126	2,270,703
	Energy	<b>3,236,923</b>	<b>3,414,163</b>

The Company does not have any responsibility over any managed assets that consume energy from district heating or district 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.

Sector	Energy Source	Like-for-like (kWh)			Like-for-like Intensity (kWh/m <sup>2</sup> )		
		2023/24	2022/23	Change	2023/24	2022/23	Change
Office	Gas	144,356	130,338	11%	32	29	11%
	Electricity	267,747	271,306	(1%)	60	60	(1%)
	<b>Total</b>	<b>412,103</b>	<b>401,644</b>	<b>3%</b>	<b>92</b>	<b>89</b>	<b>3%</b>
Retail	Gas	N/A	N/A	N/A	N/A	N/A	N/A
	Electricity	277,840	293,012	(5%)	16	17	(5%)
	<b>Total</b>	<b>277,840</b>	<b>293,012</b>	<b>(5%)</b>	<b>16</b>	<b>17</b>	<b>(5%)</b>
Retail Warehouse	Gas	N/A	N/A	N/A	N/A	N/A	N/A
	Electricity	101,861	96,615	5%	145	137	5%
	<b>Total</b>	<b>101,861</b>	<b>96,615</b>	<b>5%</b>	<b>145</b>	<b>137</b>	<b>5%</b>
Leisure	Gas	N/A	N/A	N/A	N/A	N/A	N/A
	Electricity	35,177	35,983	(2%)	26	27	(2%)
	<b>Total</b>	<b>35,177</b>	<b>35,983</b>	<b>(2%)</b>	<b>26</b>	<b>27</b>	<b>(2%)</b>
Industrial	Gas	1,074,441	671,372	60%	55	34	60%
	Electricity	1,188,379	1,218,922	(3%)	53	54	(3%)
	<b>Total</b>	<b>2,262,820</b>	<b>1,890,294</b>	<b>20%</b>	<b>108</b>	<b>88</b>	<b>20%</b>
<b>Total</b>	Gas	1,218,797	801,710	52%	50	33	52%
	Electricity	1,871,003	1,915,837	(2%)	40	41	(2%)
	<b>Energy</b>	<b>3,089,800</b>	<b>2,717,547</b>	<b>14%</b>	<b>90</b>	<b>74</b>	<b>14%</b>

The Company does not have any responsibility over 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.

Sector	Scope	Absolute Tonnes of Carbon Dioxide Equivalent (tCO <sub>2</sub> e)		Like-for-like Tonnes of Carbon Dioxide Equivalent (tCO <sub>2</sub> e)			Like-for-like Carbon Intensity (kg/CO <sub>2</sub> e/m <sup>2</sup> )		
		2023/24	2022/23	2023/24	2022/23	Change	2023/24	2022/23	Change
Office	Scope 1 – Gas	26.4	59.7	26.4	23.8	11%	5.9	5.3	11%
	Scope 2 – Electricity	55.4	95.3	55.4	52.5	6%	12.4	11.7	6%
Retail	Scope 1 – Gas	N/A	26.5	N/A	N/A	N/A	N/A	N/A	N/A
	Scope 2 – Electricity	80.9	77.9	43.1	56.7	(24%)	3.3	4.3	(24%)
Retail Warehouse	Scope 1 – Gas	N/A	–	N/A	N/A	N/A	N/A	N/A	N/A
	Scope 2 – Electricity	28.2	23.2	21.1	18.7	13%	15.4	13.7	13%
Leisure	Scope 1 – Gas	N/A	–	N/A	N/A	N/A	N/A	N/A	N/A
	Scope 2 – Electricity	7.3	7.0	7.3	7.0	5%	4.5	4.3	5%
Industrial	Scope 1 – Gas	196.5	122.5	196.5	122.5	60%	8.8	5.5	60%
	Scope 2 – Electricity	246.1	235.7	246.1	235.7	4%	11.0	10.5	4%
Total	Scope 1 – Gas	223	208.7	223.0	146.7	52%	8.3	5.4	52%
	Scope 2 – Electricity	417.9	439.1	373.0	370.5	1%	8.7	8.6	(1%)
	<b>Total</b>	<b>640.9</b>	<b>647.8</b>	<b>596.0</b>	<b>517.2</b>	<b>15%</b>	<b>13.9</b>	<b>12.0</b>	<b>15%</b>

## Emissions Factors

- All energy consumption and GHG emissions reported occurred at the Company's assets all of which are located in the UK.
- Energy consumption data is reported according to automatic meter reads, manual meter reads or invoice estimates. Historic energy and consumption data have been restated where more complete and or accurate records have become available.
- The Company's GHG emissions are calculated according to the principles of the Greenhouse Gas (GHG) Protocol Corporate Standard.
  - The Company's Greenhouse Gas Emissions are reported as tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e), which includes the following emissions covered by the GHG Protocol (where relevant and available greenhouse gas emissions factors allow): carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), hydrofluorocarbons ('HFCs'), nitrous oxide (N<sub>2</sub>O), perfluorocarbons ('PFCs'), sulphur hexafluoride (SF<sub>6</sub>) and nitrogen trifluoride (NF<sub>3</sub>).
  - GHG emissions from electricity (Scope 2) are reported according to the 'location-based' approach.

# EPRA Sustainability Performance Measures (unaudited)

(continued)

The following greenhouse gas emissions conversion factors and sources have been applied:

Utility Type	Year	GHG Emissions Factor per kWh	Emissions Factor Data Source
Electricity	2022	0.19338	UK BEIS, Greenhouse gas reporting: conversion factors 2022
Gas	2022	0.1825	
Electricity	2023	0.207074289	UK BEIS, Greenhouse gas reporting: conversion factors 2023
Gas	2023	0.182928926	

## 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.

Sector	Absolute Water Usage (m <sup>3</sup> )		Like-for-like Water Usage (m <sup>3</sup> )			Like-for-like Intensity		
	2023/24	2022/23	2023/24	2022/23	Change	2023/24	2022/23	Change
Office	792.1	2,314.8	792.1	725.5	9%	0.18	0.16	9%
Industrial	23,945.4	27,897.7	23,945.4	27,897.7	(14%)	0.48	0.55	(14%)
Leisure	97.2	108.8	97.2	108.8	(10%)	0.01	0.01	(10%)
<b>Total</b>	<b>24,834.7</b>	<b>30,321.3</b>	<b>24,834.7</b>	<b>28,732.0</b>	<b>(16%)</b>	<b>0.40</b>	<b>0.46</b>	<b>(14%)</b>

# 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. Absolute waste production figures are estimated using a bespoke waste estimation tool that takes bin size and number of collections to calculate the amount of waste produced. The waste estimation tool has been externally validated and is accepted as evidence for GRESB submissions. This does not include waste disposal services 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. The approach taken follows guidance provided by EPRA Best Practice Recommendations on Sustainability Reporting 2017.

Sector	Destination	Absolute Waste (Tonnes)		Like-for-like (Tonnes)		Change
		2023/24	2022/23	2023/24	2022/23	
Office	Landfill	–	–	–	–	n/a
	Anaerobic Digestion	8.9	4.8	8.9	4.8	86%
	Incineration with energy recovery	13.5	22.7	13.5	13.6	0%
	<b>Recycled</b>	<b>18.2</b>	<b>27.5</b>	<b>18.2</b>	<b>18.3</b>	<b>0%</b>
Industrial	Landfill	–	–	–	–	n/a
	Anaerobic Digestion	–	–	–	–	n/a
	Incineration with energy recovery	2.0	2.1	2.0	2.1	(2%)
	<b>Recycled</b>	<b>5.8</b>	<b>4.8</b>	<b>5.8</b>	<b>4.8</b>	<b>21%</b>
Retail, Warehouse	Landfill	–	–	–	–	n/a
	Anaerobic Digestion	–	–	–	–	n/a
	Incineration with energy recovery	20.8	20.8	20.8	20.8	0%
	<b>Recycled</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>	<b>(1%)</b>
<b>Total</b>	Landfill	–	–	–	–	n/a
	Anaerobic Digestion	8.9	4.8	8.9	4.8	86%
	Incineration with energy recovery	36.3	45.5	36.3	36.4	0%
	<b>Recycled</b>	<b>25.2</b>	<b>33.5</b>	<b>25.2</b>	<b>24.3</b>	<b>4%</b>
	<b>Total</b>	<b>70.4</b>	<b>83.8</b>	<b>70.4</b>	<b>65.5</b>	<b>8%</b>
	<b>Recycling Rate %</b>	<b>36%</b>	<b>40%</b>	<b>36%</b>	<b>37%</b>	<b>(4%)</b>

We present property energy, greenhouse gas ("GHG"), water and waste data on both an absolute ("abs") and life-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 14 assets in the portfolio reported GHG emissions for the 2023/2024 reporting period (year ended 31 March 2023: 16 assets). 4 assets reported water consumption for the 2023/2024 reporting period, and 3 assets reported waste services (year ended 31 March 2023: 8 assets).

AEW has set a target to reduce absolute Scope 1 GHG emissions by 40% within the Managed Portfolio by 2030 as compared to the 2018 baseline. Additionally, a target has been set to reduce absolute Scope 2 GHG emissions by 40% within the Managed Portfolio by 2030 as compared to the 2018 baseline. This target is inclusive of the decarbonisation of the UK electricity grid over recent years.

# EPRA Sustainability Performance Measures (unaudited)

(continued)

The reporting scope for electricity consumption covers 100% of the portfolio on a floor area basis (Gross Internal Area) across 2022/2023 and 2023/2024. Scope 1 GHG emissions were reported for 27% of the portfolio, and Scope 2 GHG emissions were reported for 100% of the portfolio (year ended 31 March 2023: 44%).

During the reporting year, the company procured 3.1 million kWh (year ended 31 March 2023: 3.5 million kWh) of like-for-like energy for use across the managed portfolio, which is 14% more like-for-like energy use than the prior year.

The Scope 1 and 2 GHG emissions for the year totalled 640 tonnes CO<sub>2</sub>e (2023: 664.1 tonnes CO<sub>2</sub>e). The absolute Scope 1 and 2 decreased by 1% from 2022/2023 to 2023/2024 and the two year like-for-like emissions increased by 15% respectively.

During the period, the total reported waste amounted to 70 tonnes (year ended 31 March 2023: 83.6 tonnes), of which none (year ended 31 March 2023: none) was sent directly to landfill. In like-for-like terms, the amount of waste generated increased from 2022/2023 to 2023/2024 by 7.6%, and the recycling rate decreased by 3.5%.

## Sustainability certification (Cert-Tot): Green building certificates

The Company has chosen not to pursue certification of any of its assets under measures such as BREEAM (the Building Research Establishment Environmental Assessment Methodology) or Green building certification. This decision will be reviewed periodically on an ongoing basis in the course of the Company's usual asset management activity.

## 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. A 'hard backstop' which brings into the MEES standards existing leases will be introduced from 2024, 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. 63% (by ERV) of the assets within the Companies portfolio have efficient A-C EPC ratings:

Energy performance certificate rating	Portfolio by ERV (%)	
	2023/24	2022/23
A-C	63%	72%
D	25%	13%
E	8%	8%
F	–	–
G	–	–
Exempt	3.6%	–
No EPC/Expired	0.4%	7%
Coverage	100%	100%

# EPRA Sustainability Performance Measures (unaudited)

## (continued)

### 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.

### Employee gender diversity (Diversity-Emp)

As at 31 March 2024 the Company Board comprised five members: 2 (40%) female; 3 (60%) 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.aewukreit.com/](http://www.aewukreit.com/)<sup>1</sup>.

### Gender pay ratio (Diversity-Pay)

The remuneration of the Company Board is set out on page 59 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.aewukreit.com/](http://www.aewukreit.com/)<sup>1</sup>.

### Training and development (Emp-Training)

Please refer to the Director Induction and Training section in the Corporate Governance Statement (page 52) 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.aewukreit.com/](http://www.aewukreit.com/)<sup>1</sup>.

The Investment Manager confirms that performance appraisals were completed for 100% of staff relevant to the Company in 2024.

### 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.aewukreit.com/](http://www.aewukreit.com/)<sup>1</sup>.

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

<sup>1</sup> For direct link use: <https://www.aewukreit.com/~media/Files/A/AEW-UK-Reit/documents/aew-esg-flyer.pdf>

# EPRA Sustainability Performance Measures (unaudited)

*(continued)*

## 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.aewukreit.com/](http://www.aewukreit.com/)<sup>1</sup>.

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

All sites were inspected by MAPP's 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.

## 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 4 non-executive independent Directors (no executive board members) as at 31 March 2023.

- The average tenure of the five Directors to 31 March 2024 is 3 years and 8 months (31 March 2023 average tenure of four Directors is 5 years and 6 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 2023: 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 Corporate Governance Statement (page 52) for further details.

<sup>1</sup> For direct link use: <https://www.aewukreit.com/~media/Files/A/AEW-UK-Reit/documents/aew-esg-flyer.pdf>



# 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.	Yearly	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.	Yearly	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.	2023	Silver in 2023.
	To continuously improve the GRESB rating year on year.	GRESB star rating and score.	Yearly	Achieved two stars in 2023 GRESB assessment and improved score from 65 in 2021 to 67.
	To strengthen alignment with the TCFD recommendations.	Align the TCFD by 2023 and provide full publication by 2024.	2024	Updated in this Annual Report in alignment with TCFD recommendations. See pages 67 to 78.
Managing environmental impacts	To develop sustainability action plans for all managed assets.	100% of all managed assets to have a sustainability action plan by 2023.	Yearly	Completed for all existing assets. Target for new assets.
	To maintain renewable electricity for all landlord-controlled areas.	100% of all procured electricity to be from renewable sources.	Yearly	Achieved, all suppliers providing electricity from renewable sources.
	Energy consumption: To achieve a 40% reduction in absolute energy by 2030 based on the 2018 baseline.	40% reduction	2030	See page 140.
	GHG emissions: To achieve a 40% reduction in absolute energy by 2030 based on the 2018 baseline.	40% reduction	2030	See page 142.
	To improve the recycling rates on all managed assets.	Sum of waste recycled as opposed to incinerated with energy recovery.	Yearly	65% recycling rates on all office managed assets (2023: 57%). 74% recycling rates on all industrial managed assets (2023: 70%).
	To maintain zero waste to landfill on all waste managed.	100% of waste diverted from landfill on all waste managed assets.	Yearly	Currently 100%.
	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	Five units have no valid EPC (due to recent expiries). All of these units are expected to be G rated. However, all are currently subject to ongoing improvement plans to achieve MEES compliance.

# Company Information

### Share Register Enquiries

The register for the Ordinary Shares is maintained by Link Group. In the event of queries regarding your holding, please contact the Registrar on +44 (0)371 664 0391 or email: [shareholderenquiries@linkgroup.co.uk](mailto:shareholderenquiries@linkgroup.co.uk).

Changes of name and/or address must be notified in writing to the Registrar, at the address shown on page 149. You can check your shareholding and find practical help on transferring shares or updating your details at [www.signalshares.com](http://www.signalshares.com). 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

4 September 2024	Annual General Meeting
30 September 2024	Half-year end
November 2024	Announcement of half-yearly results
31 March 2025	Year-end
June 2025	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 2023 to 30 June 2023 (payment made on 31 August 2023)	3,168,495
Interim dividend for the period 1 July 2023 to 30 September 2023 (payment made on 28 November 2023)	3,168,495
Interim dividend for the period 1 October 2023 to 31 December 2023 (payment made on 20 February 2024)	3,168,495
Interim dividend for the period 1 January 2024 to 31 March 2024 (payment made on 7 June 2024)	3,168,495
<b>Total</b>	<b>12,673,980</b>

# Company Information *(continued)*

## **Directors**

Mark Burton (Non-executive Chairman)  
Katrina Hart (Non-executive Director)  
Mark Kirkland (Non-executive Director)  
Liz Peace (Non-executive Director)  
Robin Archibald (Non-executive Director)

## **Registered Office**

Central Square  
29 Wellington Street  
Leeds LS1 4DL

## **Company Website**

[www.aewukreit.com](http://www.aewukreit.com)

## **Investment Manager and AIFM**

AEW UK Investment Management LLP  
8 Bishopsgate  
London EC2N 4BQ

Tel: 020 7016 4801

Website: [www.aew.com](http://www.aew.com)

## **Property Manager**

MAPP  
180 Great Portland Street  
London W1W 5QZ

## **Corporate Broker**

Liberum Capital Limited  
Ropemaker Place  
25 Ropemaker Street  
London EC2Y 9LY

## **Legal Adviser**

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

## **Depository**

Langham Hall UK LLP  
8<sup>th</sup> Floor  
1 Fleet Place  
London EC4M 7RA

## **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>.

## **Administrator**

Link Alternative Fund Administrators Limited  
(A Waystone Group Company)  
Broadwalk House  
Southernhay West  
Exeter EX1 1TS

## **Company Secretary**

Link Company Matters Limited  
Central Square  
29 Wellington Street  
Leeds LS1 4DL

## **Registrar**

Link Group  
10<sup>th</sup> Floor  
Central Square  
29 Wellington Street  
Leeds LS1 4DL

## **Auditor**

BDO LLP  
55 Baker Street  
London W1U 7EU

## **Valuer**

Knight Frank LLP  
55 Baker Street  
London W1U 8AN

# Glossary

<i>AEW UK Core Plus Property Fund (the 'Core Fund')</i>	AEW UK Core Plus Property Fund, a property authorised investment fund ('PAIF') and a sub-fund of the AEW UK Real Estate Fund, an open-ended investment company.
<i>AIC</i>	Association of Investment Companies. This is the trade body for closed-ended Investment companies ( <a href="http://www.theaic.co.uk">www.theaic.co.uk</a> ).
<i>AIC Code</i>	The AIC Code of Corporate Governance, as published in February 2019. A framework of best practice guidance for investment companies.
<i>AIFMD</i>	Alternative Investment Fund Managers Directive.
<i>AIFM</i>	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.
<i>AIF</i>	Alternative Investment Fund. Alternative Investment Funds are funds that are not regulated at EU level by the UCITS Directive.
<i>Company</i>	AEW UK REIT plc.
<i>Company Secretary</i>	Link Company Matters Limited.
<i>Company website</i>	<a href="http://www.aewukreit.com">www.aewukreit.com</a>
<i>Contracted rent</i>	The annualised rent adjusting for the inclusion of rent subject to rent-free periods.
<i>Covenant strength</i>	The strength of a tenant's financial status and its ability to perform the covenants in the lease.
<i>Direct vacancy costs</i>	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.
<i>DTR</i>	Disclosure Guidance and Transparency Rules, issued by the FCA.
<i>Earnings Per Share ('EPS')</i>	Profit for the period attributable to equity shareholders divided by the weighted average number of Ordinary Shares in issue during the period.
<i>EPC</i>	Energy Performance Certificate.
<i>EPRA</i>	European Public Real Estate Association, the industry body representing listed companies in the real estate sector.
<i>EPRA cost ratio (including direct vacancy costs)</i>	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.
<i>EPRA cost ratio (excluding direct vacancy costs)</i>	The ratio calculated above, but with direct vacancy costs removed from net overheads and operating expenses balance.
<i>EPRA Earnings Per Share</i>	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.
<i>EPRA Loan to Value ('EPRA LTV')</i>	The ratio of net debt (including net payables) divided by the market value of property operating (including net receivables).
<i>EPRA NAV</i>	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.
<i>EPRA NNAV</i>	EPRA NAV adjusted to reflect the fair value of debt and derivatives and to include deferred taxation on revaluations.

# Glossary (continued)

<b>EPRA Net Initial Yield ('EPRA NIY')</b>	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.
<b>EPRA Net Disposal Value ('EPRA NDV')</b>	This measure 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.
<b>EPRA Net Reinstatement Value ('EPRA NRV')</b>	NAV adjusted to assume that entities never sell assets and aims to represent the value required to rebuild the entity.
<b>EPRA Net Tangible Asset ('EPRA NTA')</b>	NAV adjusted to assume that entities buy and sell their assets, thereby crystallising certain levels of unavoidable deferred tax.
<b>EPRA Topped-Up Net Initial Yield</b>	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).
<b>EPRA Vacancy Rate</b>	Estimated Rental Value ('ERV') of vacant space as a percentage of the ERV of the whole portfolio.
<b>Equivalent Yield</b>	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.
<b>Estimated Rental Value ('ERV')</b>	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.
<b>External Valuer</b>	An independent external valuer of a property. The Company's external valuer is Knight Frank LLP.
<b>Fair Value</b>	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.
<b>Fair value movement</b>	An accounting adjustment to change the book value of an asset or liability to its fair value.
<b>FCA</b>	The Financial Conduct Authority.
<b>FRI lease</b>	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.
<b>GRESB</b>	Global Real Estate Sustainability Benchmark.
<b>Gross Asset Value</b>	The aggregate value of the total assets of the Company as determined in accordance with IFRS.
<b>Gross passing rental income</b>	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.
<b>Group BPCE</b>	Ultimate owner of AEW
<b>IASB</b>	International Accounting Standards Board.
<b>IFRS</b>	International accounting standards in conformity with the requirements of the Companies Act 2006 ('Adopted IFRSs').
<b>Investment Manager</b>	The Company's Investment Manager is AEW UK Investment Management LLP.
<b>IPD</b>	Investment Property Databank. An organisation supplying independent market indices and portfolio benchmarks to the property industry.
<b>IPO</b>	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.

## Glossary (continued)

<i>Lease incentives</i>	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.
<i>Lease surrender</i>	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.
<i>LIBOR</i>	The London Interbank Offered Rate, a globally accepted key benchmark interest rate that indicates borrowing between banks.
<i>Like-for-like</i>	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.
<i>Loan to NAV</i>	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.
<i>Loan to GAV (also Gross Loan to GAV)</i>	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.
<i>Loan-to-Value ('LTV')</i>	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.
<i>MEES</i>	Minimum Energy Efficiency Standard.
<i>Net Asset Value ('NAV')</i>	Net Asset Value is the equity attributable to shareholders calculated under IFRS.
<i>NAV per share</i>	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 are trading at a premium or discount to its NAV calculated under IFRS.
<i>NAV total return</i>	The percentage change in NAV, assuming that dividends paid to shareholders are reinvested at NAV to purchase additional Ordinary Shares. This is an alternative performance measure that the Company tracks, as it is a direct indicator of the value produced by the Company's operations.
<i>Net equivalent yield</i>	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.
<i>Net initial yield ('NIY')</i>	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.
<i>Net Loan to GAV</i>	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.
<i>Net Operating Income ('NOI')</i>	The Company's gross operating income minus its operating expenses.
<i>Net rental income</i>	Rental income receivable in the period after payment of ground rents and net property outgoings.
<i>Non-PID</i>	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.

# Glossary (continued)

<i>Ongoing charges</i>	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.
<i>Ordinary Shares</i>	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.
<i>Over-rented</i>	Space where the passing rent is above the ERV.
<i>Passing rent</i>	The gross rent, less any ground rent payable under head leases.
<i>PID</i>	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.
<i>Projected debt yield</i>	Measure of risk, calculated by dividing the projected 12 month net operating income by the outstanding principal balance of the debt secured by the Company.
<i>Rack-rented</i>	Space where passing rent is the same as the ERV.
<i>REIT</i>	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.
<i>RETT</i>	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.
<i>Reversion</i>	Increase in rent estimated by the Company's external valuer, where the passing rent is below the ERV.
<i>Reversionary yield</i>	The anticipated yield, which the initial yield will rise (or fall) to once the rent reaches the ERV.
<i>Share price</i>	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.
<i>Shareholder total return</i>	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.
<i>SRI</i>	Socially Responsible Investment.
<i>SONIA</i>	Sterling Overnight Index Average.
<i>Total returns</i>	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.
<i>Under-rented</i>	Space where the passing rent is below the ERV.
<i>UK Corporate Governance Code</i>	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.
<i>Voids</i>	The amount of rent relating to properties which are unoccupied and generating no rental income. Stated as a percentage of ERV.
<i>Weighted Average Unexpired Lease Term ("WAULT")</i>	The average lease term remaining for first break, or expiry, across the portfolio weighted by contracted rental income.
<i>Yield compression</i>	Occurs when the net equivalent yield of a property decreases, measured in basis points.





## AEW Offices

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United Kingdom  
8 Bishopsgate  
London  
EC2N 4BQ

+44 20 7016 4801  
[www.aew.com](http://www.aew.com)

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France  
22 rue du Docteur Lancereaux  
75008 Paris  
France

+33 1 78 40 92 00  
[www.aew.com](http://www.aew.com)

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United States of America  
Two Seaport Lane  
Boston MA 02210  
United States

+1 617 261 9334  
[www.aew.com](http://www.aew.com)

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