The M&G Secured Property Income Fund

Annual Investment Report and Consolidated Financial Statements (audited) for the year ended 30 June 2021

Contents

Manager's report

The Manager of The M&G Secured Property Income Fund (the 'Fund') presents the Annual Investment Report and Consolidated Financial Statements (audited) for the Fund for the year ended 30 June 2021.

Administration

Manager

M&G (Guernsey) Limited
Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 2HT, Channel Islands

Licensed by the Guernsey Financial Services Commission under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended).

Board of Directors of the Manager

Peter Mills (Chairman)
Peter Baxter
Timothy Cumming
Karen Donald
Steffan Francis
James Gilligan

Administrator, Registrar and Listing Sponsor

JTC Fund Solutions (Guernsey) Limited
Ground Floor, Dorey Court, Admiral Park, St Peter Port, Guernsey GY1 2HT, Channel Islands

Telephone: +44 (0)1481 712918

Investment Advisor

M&G Investment Management Limited
10 Fenchurch Avenue, London EC3M 5AG

Telephone: +44 (0)20 7626 4588

(Authorised and regulated by the Financial Conduct Authority)

Trustee

Northern Trust (Guernsey) Limited
PO Box 71, Trafalgar Court, Les Banques, St Peter Port, Guernsey GY1 3DA, Channel Islands

Licensed by the Guernsey Financial Services Commission under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended).

Independent Valuer

CBRE Limited
St Martin's Court, 10 Paternoster Row, London, EC4M 7HP

Independent Auditor

Ernst & Young LLP
Royal Chambers, St. Julian's Avenue, St Peter Port, Guernsey GY1 4AF, Channel Islands

Real Estate Asset Manager

M&G Real Estate Limited
10 Fenchurch Avenue, London EC3M 5AG

Legal Adviser to the Fund

as to Guernsey law

Carey Olsen (Guernsey) LLP
Carey House, Les Banques, St Peter Port, Guernsey GY1 4BZ, Channel Islands

Neither the Manager nor the Trustee are authorised under the United Kingdom Financial Services and Markets Act 2000. The investor protection provided by the United Kingdom regulatory system does not apply to the Fund.

Both the Manager and the Trustee are licensed by the Guernsey Financial Services Commission under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended).

Manager's report

Statements made in this report are, where appropriate, based on advice received by the Manager regarding present law and administrative practice. Every care has been taken in preparing the statements contained herein which are believed to be correct at the time of going to press, but the Manager does not take any responsibility for the accuracy of such statements or for the effect on them of any future changes in the law or in administrative practice. Investors who are in any doubt of what action to take are recommended to consult their professional advisers.

The Fund

The Fund (with its subsidiaries, together the 'Group') is an open ended unit trust constituted in Guernsey with unlimited duration by a Trust Instrument dated 2 May 2007 and amended and restated on 2 September 2020 (as further amended, restated, novated or supplemented from time to time), made between the Trustee and the Manager and governed by Guernsey law. The Fund is listed on The International Stock Exchange ('TISE'). The Fund has been authorised by the Guernsey Financial Services Commission ('GFSC') as an authorised Class B open-ended collective investment scheme under the Authorised Collective Investment Schemes (Class B) Rules 2013 (the 'Rules').

The GFSC has exercised the discretion permitted under the Rules to modify the requirement of the Rules for the disclosure of the value of individual properties held in the portfolio. The requirement is modified to show a portfolio statement specifying properties held in value bands at the end of the accounting period. This modification is consistent with industry practice.

Information Memorandum

The current Information Memorandum ('IM') of the Fund is dated 2 April 2021. There are no disclosures required to be made by the Manager to Unitholders in relation to any changes to the IM since 2 April 2021.

On 6 October 2020 the Manager and the Trustee declared a Market-Wide Non-Payment Event thereby allowing for the allocation of deferred or delayed income from prior periods (i.e. rental income not received in the quarter to which it relates) to the relevant Unitholders, until Normalisation is declared. The Market-Wide Non-Payment Event has been declared in light of lower collections of rental income as a result of COVID-19, for example in the leisure and hospitality sectors, for periods since Q2 2020. When received, such income is allocated to those Unitholders so entitled to it. An ad hoc distribution was made post year end as disclosed in note 24.

The Market-Wide Non-Payment Event will be kept under continual review by the Manager and Trustee, and Unitholders will be kept updated until a declaration of Normalisation is agreed.

Important information

The Manager and Investment Advisor continue to closely monitor the impact of COVID-19 on the Fund's rental collection and the credit worthiness and operational earnings of all tenants. Following the relaxation of lockdown measures conditions continue to normalise translating into improved market sentiment demonstrated by the fact that valuations have continued to recover since the COVID related valuation decline of the half year ended June 2020. On a like for like basis, valuations increased by c. 2.5% in the quarter to June 2021 reflecting a stabilising trading environment and continued demand for long lease property assets from investors.

The Fund's service providers showed resilience and responded effectively to the pandemic by continuing to serve the Fund effectively.

Manager's report

Manager's responsibilities

Statement of the Manager's responsibilities in respect of the Consolidated Financial Statements of the Fund

The Manager is responsible for preparing Consolidated Financial Statements for each financial year which give a true and fair view of the state of affairs of the Group and of the total return and cash flows of the Group for that period and are in accordance with the provisions of its Principal Documents and The Rules made under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended). In preparing those Consolidated Financial Statements the Manager is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom accounting standards have been followed subject to any material departures disclosed and explained in the Consolidated Financial Statements; and
- prepare the Consolidated Financial Statements on the going concern basis unless it is inappropriate to presume that the Fund and the Group will continue in operation.

The Manager confirms that it has complied with the above requirements in preparing the Consolidated Financial Statements.

The Manager is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Fund and the Group and to enable it to ensure that the Consolidated Financial Statements comply with the provisions of The Rules made under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended) and the Principal Documents.

The Manager is also responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

So far as the Manager is aware, there is no relevant audit information of which the Fund's auditor is unaware, and the Manager has taken all the steps to ensure it is aware of any relevant audit information and to establish that the Fund's auditor is aware of that information.

Statement of the Directors of the Manager

This report is signed in accordance with the requirements of The Authorised Collective Investment Schemes (Class B) Rules, 2013.

Peter Mills

Timothy Cumming
Directors of the Manager

20 October 2021

Investment objective

The Fund invests primarily in UK real estate, with the objective to deliver a secure long-term income stream with inflation-linked or fixed uplifts. Investment returns are optimised by combining systematic analysis of both tenant credit quality and real estate fundamentals.

As a consequence, this provides investors access to long-term liability matching cash flows through exposure to a diversified pool of inflation mitigated corporate revenue streams, backed by UK real estate assets.

Manager's report

Investment policy

The Fund aims to provide growing and secure income by investing in a diversified portfolio of UK real estate assets. The Fund seeks to add value through:

- strategic asset selection across the main sectors of the UK real estate market;
- analysis of each property's fundamentals and potential; and
- analysis of the credit quality of each tenant.

Security of investment returns will be achieved through maintaining an appropriate balance between tenant credit quality and the underlying real estate fundamentals (including vacant possession value), whilst income growth will be achieved by investing in assets with leases that incorporate regular rent reviews providing inflation linked or fixed uplifts.

Investment Advisor's report

For the year ended 30 June 2021

Investment highlights

- The non-GAAP Net Asset Value of the Fund was £4,774 million (an increase of £346 million over the year);
- The Fund delivered a total return of 8.90% for the 12-month period up to 30 June 2021 net of all costs and charges (1.11% for the 12-month period up to 30 June 2020);
- COVID-19 and the associated lockdown measures resulted in a reduced rent collection rate of 93.2%[a] (excluding amounts subsequently repaid) for the year ended 30 June 2021 (rent collection was 100% prior to the pandemic). Post-balance sheet date, the Fund's rent collection rate has improved to 99.5%;
- The annual net distribution yield of the Fund for the year ended 30 June 2021 (net income on an accrued basis as a percentage of the average NAV per Unit) was 3.87% (30 June 2020: 3.77%), or 3.55% (30 June 2020: 3.65%) on a cash distribution basis reflecting the reduced rent collection rate;
- Agreements are in place for the repayment of the majority of deferred income, and a special distribution was made to relevant Unitholders on 19 August for amounts already repaid;
- The weighted average lease expiry (WALE) of the Fund by income was 28.9 years (29.5 years as at 30 June 2020). If ground leases are capped at 50 years, the portfolio WALE stands at 23.1 years (23.3 years as at 30 June 2020);
- The Fund's contracted development fundings progressed over the year, with the Charterhouse Estate (Anglo American HQ) redevelopment reaching practical completion ('PC') in April 2021 and North Wharf Gardens (the Paddington hotel and aparthotel) development expected to reach PC in Q4 2021;
- New investor capital commitments of £138 million were received over the 12-month period up to 30 June 2021, bringing the investor capital queue to £279 million (vs. £402 million as at 30 June 2020).

[a] Calculated using the contracted rent following the Buzz Bingo company voluntary arrangement ('CVA') on 3 August 2020.

Fund performance

The Fund's performance recovered strongly over the year to 30 June 2021 – with a total return of 8.90% (net of all costs and charges) – demonstrating the resilience of the strategy and continued market demand for long lease property assets. Performance has predominantly been driven by capital value growth in the Fund's high quality office and supermarket holdings, with valuations across the remainder of the portfolio either stabilised or positive. The one year total return represents RPI +5.04% (RPI was 3.86% over the period), exceeding the Fund's medium to long term anticipated return of RPI + 3%, which remains unchanged.

The annual net distribution yield of the Fund (total net distributions on an accrued basis as a percentage of the average NAV per Unit) for the year ended 30 June 2021 was 3.87%, +9bps versus the previous year. However, on a cash distribution basis, the annual net distribution yield was 3.55%, -10bps versus 30 June 2020, reflecting the reduced rent collection rate. We report both measures given they are expected to converge over time as rent

Manager's report

collection rates recover and deferred amounts are repaid (agreements are in place for the repayment of the majority of deferred rent). The average monthly distribution per Unit for the year was £0.344, versus £0.357 in the previous financial year (on a cash distribution basis). Post-balance sheet date a special distribution of £0.01127 per Unit was made, reflecting rent recovered to date.

The Fund continues to offer a significant 'illiquidity premium' above similarly rated 'BBB' corporate credit, of 3.33% as at 30 June 2021 (vs. 3.78% as at 30 June 2020). The illiquidity premium remains above the historic average but has reduced over the year given the Fund has benefited from capital value growth, and long-dated Gilt yields have widened. This is calculated by forecasting the Fund's cash flows using the market breakeven inflation rate (adjusted for collars) and assumes no tenant defaults, no further transactions and no capital value growth from current valuations. The illiquidity premium demonstrates the relative value offered by the Fund and provides a degree of valuation protection should Gilt rates and/or credit spreads increase meaningfully.

Since inception, the Fund has delivered significantly stronger returns than the wider property market with a total annualised return of 5.61% (net of all costs and charges) versus 2.75% (as measured by the MSCI UK All Balanced Property Fund Index). This reflects a total return pick up of 2.86% per annum for a lower risk proposition (the Fund benefits from a higher average tenant credit rating, longer leases, contractual rental growth and higher quality real estate). We believe the Fund remains well positioned to deliver attractive risk-adjusted performance over the medium to long term.

COVID-19 update

The COVID-19 pandemic and associated government lockdown measures have caused major disruption to the real estate market. While the majority of the Fund's rent has been collected as normal, some of the Fund's Hotel and Leisure tenants have experienced short term cash flow and liquidity constraints, which has impacted their ability to service their various financial obligations, including rent. We remain in regular dialogue with all COVID-19 affected tenants and, where appropriate, have agreed rent deferral and repayment terms to protect the long term value of their businesses and the Fund's assets.

The Fund's rent collection rate has therefore been lower than the historic 100% collection rate (Q2 2021: 95%; Q1 2021: 90%; Q3 2020: 89%; Q4 2020: 99%). However, rent collection rates continue to recover (Q3 2021: 99.5%) and repayments of deferred rent have commenced.

Economic overview

With the government striving to 'keep life moving' and sticking to the 19 July deadline for relaxing social distancing rules, the UK economic outlook has brightened. The Delta variant continues to pose a threat with rising case numbers, but hospitalisation and death rates remain low given the UK's success in fully vaccinating over 80% of British adults to date.

Sentiment has continued to improve following a rapid turnaround in business and consumer spending, leading to six consecutive months of economic expansion by July 2021. There is optimism around the labour market, with employment generally increasing, job vacancies at beyond pre-COVID-19 levels and unemployment falling, boosted by a recovering hospitality and retail sector. We note that the 'Coronavirus Job Retention Scheme' ended on 30 September 2021 and with 1.6 million workers on the scheme as at July 2021 this may have a dampening effect on employment metrics.

Bottlenecks in supply chains, rising commodity prices and pent-up demand have seen cost inflation rising above the Bank of England's target rate in June, while RPI inflation reached 3.9% p.a., its highest level since early 2018. If higher inflation persists, this could result in monetary policy being tightened sooner than expected. However, the current volatility in prices is expected to remain short term in nature, suggesting that the Bank of England's interest rate will remain around historic lows while the economy continues to recover.

Manager's report

Market overview

UK commercial property performance has continued to accelerate as occupier and investor confidence improves, led by the industrial sector in particular. The rebound in total returns has been common across almost all Fund types. Having remained resilient throughout the pandemic, Long Income Property Funds continue to perform well, recording a total return of 7.3% p.a. over the year to June 2021 (as measured by the MSCI/AREF Quarterly Property Fund Index, Q2 2021). While now slightly lagging All Balanced Property Funds on a one-year basis (total returns of 8.5% p.a.), reflecting the less volatile and more defensive nature of long lease assets.

Whilst the impact of the pandemic has been felt across the whole of the economy, property market sectors have been affected to differing extents:

Intense demand from online retailers, coupled with low availability rates of good quality stock, continue to fuel the positive outlook for warehouses and industrial assets. Strong leasing activity for up and built prime stock bodes well for further near-term rental growth, particularly given build cost inflation could exacerbate the demand/supply imbalance. Poorer-quality stock unsuitable for last-mile deliveries or "stranded" assets – from the perspective of ESG credentials – are unlikely to experience further growth. Accordingly, we believe some parts of the industrial sector are edging towards the peak of the rental cycle.

The office sector is expected to see a cyclical recovery, albeit structural trends may temper this somewhat. A lack of oversupply in the market is helping to keep a lid on vacancy rates, which, whilst elevated, sit comfortably below the threshold for potentially widespread rental falls. Leasing activity has started to pick up, albeit selectively, with some tenants withdrawing office space from the market as they reconsider their requirements. Our outlook is for positive rental growth at the prime end of the office market, supported by occupier demand for modern, flexible, amenity-rich assets, which are well connected to major transport hubs and have the highest ESG credentials.

Economic factors are looking favourable to support a bounce back in 'bricks and mortar' retailing, though city centres continue to suffer from low footfall, as commuters and international tourist numbers remain below pre-pandemic levels. Retail warehouses are leading the recovery, as rental declines stabilise and yields start to compress. Supermarkets also continue to deliver attractive returns, as operators continue to benefit from higher sales than prior to the pandemic, despite the removal of restrictions on hospitality and eating out.

The housing market has shown significant polarisation over the course of the pandemic, with occupier and tenant demand having shifted towards suburban parts of cities and commuter towns – at the expense of more central locations. However, with more people returning to offices and the removal of restrictions on hospitality, we are seeing a renewed focus on city living. This will impact on the rental market in particular, with rents now looking more affordable in inner cities, and we expect these early signs of recovery to strengthen further as the year progresses.

Whilst the purpose built student accommodation ('PBSA') sector was hit by lower leasing levels over the 2020/21 academic year, student application numbers have reached new highs for the 2021/22 academic year. This is being partly driven by a rebound in domestic demand, as many applicants deferred their university place for a year in 2020/21, as well as a sharp rise in international (non-EU) demand.

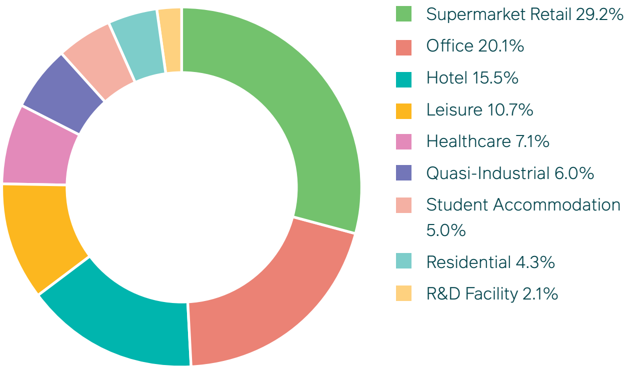
Boosted by the strong demand for industrial assets and a rebound in office trading, transaction volumes in the general UK property investment market recovered to pre-pandemic levels in the first half of 2021. Ongoing caution and concerns over the path of inflation have, however, continued to ensure elevated demand for assets with longer, inflation-linked cashflows; coupled with a lack of high quality investment stock this has led to competitive pricing and renewed downwards pressure on yields.

Manager's report

Portfolio structure

As at 30 June 2021, the Fund's NAV was £4,774 million (an increase of £346 million over the year) and comprised 238 individual assets across 49 holdings and 25 tenants. The Fund has a high security of income with all investments backed by long term leases subject to inflation-linked (91.1% of income) or fixed percentage (8.9% of income, weighted average 2.7% p.a.) rental increases, as well as ownership of the underlying real estate. As at year end, the Fund had an investment grade weighted average credit rating of 'BBB-' and the weighted average lease term by income of the portfolio was 28.9 years (23.1 years assuming ground leases are capped at 50 years), with the nearest lease expiry being 11.3 years.

Rental income by sector*



Source: M&G, as at 30 June 2021.

* Assuming all contracted developments were complete.

In terms of geographical allocation, the Fund's exposure by income stands at: 47.8% located in London, 10.2% in the South East and 42.0% in the rest of the UK.

The Fund will continue to grow with the completion of its development funding of North Wharf Gardens (the Paddington hotel and aparthotel) to be let to Premier Inn and Staycity at completion, expected in Q4 2021.

Liquidity

The Fund continues to be fully invested in UK property and aims to minimise its cash balance via the use of its investor capital queue system and short term debt facility (£100 million facility with RBSI, undrawn as at 30 June 2021). This limits any cash drag on performance whilst providing a liquidity mechanism for investors. Although the Fund does not have a cash balance target, it has not exceeded 2% of NAV over the year to 30 June 2021. Whilst the Fund has the ability to invest in property derivatives it does not currently hold any.

The Fund has continued to attract investor capital, with total investor commitments of £138 million in the 12 months to 30 June 2021, bringing the investor capital queue to £279 million. Post-balance sheet date, the Fund received a further £15 million commitment and made a £33m drawdown for the October dealing day, bringing the capital queue to £261m. We are currently guiding drawdown timings of 12-18 months for new commitments.

Transaction activity

The Fund made no acquisitions over the year to 30 June 2021 but continued to fund existing contracted development with £136m deployed over the year. Transactions volumes for long lease property assets (in particular sale and leasebacks) remain subdued as occupiers reconsider their long term property requirements. In addition, investor demand for long lease property assets remains very high, resulting in competitive pricing. Nevertheless, the Fund continues to actively seek new opportunities, though we believe selectivity and pricing discipline is key in the current environment. Post-balance sheet date, the Fund completed on the purchase of an Asda supermarket in Hemel Hempstead (details below), and is also under offer on a city centre hotel and is monitoring a variety of potential opportunities across a variety of sectors.

The Fund sold two Buzz Bingo sites, Castleford and Glenrothes in Q4 2020 and Q1 2021 respectively, for the combined price of £5.5 million.

Manager's report

Post-balance sheet date, the Fund entered into the following transactions:

- In September 2021, the Fund completed on the purchase of the freehold interest in an Asda supermarket located in Hemel Hempstead, Hertfordshire. The town centre property comprises a purpose built foodstore of 40k sqft, with a 256 space car park. The lease had been newly re-geared for a term of 20 years, at a passing rent of £13.50 psf, which is significantly below the estimated rental value of the property (c. £18.00 psf). At the net purchase price of £13.2 million, this reflects a reversionary yield of 5%.
- In July 2021, the Fund conditionally exchanged contracts on the sale of the Bingo Unit Trust (containing 37 assets), for a total of £71.5 million, with completion expected in October 2021. The agreed price is broadly in line with the portfolio's valuation as at 30 June 2021 and will result in a marginally positive holding period return (net of all transaction costs). Overall, we think this is a good outcome for the Fund as it represents a clean exit from a challenging portfolio. The Fund will retain ownership of the vacant Salisbury site (formerly a Buzz Bingo club) due to its residential redevelopment potential, for which we have received offers in excess of the current valuation.
- In September 2021, the Fund exchanged contracts on the sale of the Shiva Hotel (branded Hilton) at Heathrow Airport, Terminal 5, for a price of £27 million (a premium to current valuation, including arrears). Completion is delayed until March 2022 to align with the government's moratorium on lease forfeiture expiring and will deliver a holding period return of over 5% p.a. Shiva is the only tenant not currently paying rent and therefore the sale will result in the Fund returning to 100% rent collection.

Fund governance

The Fund continues to operate within all of its investment restrictions, none of which have been breached since the Fund's inception. This is reinforced by the strong governance framework within which the Fund operates, namely the level and range of experience on the Investment Advisor's Investment Committee (comprising senior staff members across M&G's Fixed Income and Real Estate divisions) and the Board of Directors of the Manager. Please see the below table for a summary of the Fund's position versus each of its investment restrictions as at 30 June 2021:

Investment restriction	Fund's position as at 30 June 2021
Borrowing maximum 30% (or if greater than 30% it must not last more than 3 months)	0.00% GAV
Any single counterparty (OTC Derivative), maximum 20% GAV	0.00% GAV
Any single body (Transferable Secs, Money Market), maximum 20% GAV	0.00% GAV
Any single body (Deposits), maximum 20% GAV	0.82% GAV
Leisure sector assets (excluding hotels), maximum 30% GAV	12.28% GAV
Under development or held vacant pending development, maximum 20% GAV	4.37% GAV*
Any single group of tenants (excl. UK Govt), maximum 35% Gross Income	12.68% of Gross Income**
Any single Real Estate Asset, maximum 30% GAV	6.63% of GAV***
Minimum Credit Rating (Deposits, excl. Trustee), minimum A-/A3 (Split Low)	Confirmed
Speculative Abortive Costs, maximum £100,000, without Board approval	Not exceeded in year to 30 June 2021

* Comprises the maximum commitment for North Wharf Gardens (the Paddington hotel/aparthotel development), expected to reach practical completion in October 2021.

** Tesco Plc

*** Charterhouse Estate, let to Anglo American plc.

Manager's report

Each and every transaction (sale or purchase), as well as material asset management initiatives, are reviewed by the Investment Committee (IC) of the Investment Advisor and presented to the Board of the Manager, which retains ultimate control of the Fund.

M&G's Long Lease Property team has strength in depth and breadth and draws on the combined resources of M&G's industry-leading Public and Private Credit teams and Real Estate business. The investment process and strategy remains unchanged. Post-balance sheet date, Mark Hutchinson, a Key Person in the Fund's Information Memorandum (dated 2 April 2021), has left M&G after more than 24 years. It is not intended to make a new Key Person addition to replace Mark.

The Investment Committee has experienced the following minor changes; the retirement of Mark Hutchinson and the departures of Jamil Farooqi and Peter Foldvari who have been replaced by Adam Koller and Iain MacDonald. We expect the Fund to continue to perform in line with expectations.

Outlook for the Fund

The easing of COVID-19 restrictions and the vaccine programme give cause for optimism, though we remain in close contact with the Fund's operational tenants given the potential for seasonal restrictions. We are pleased that the Fund has been able to demonstrate its resilience over the past year, with performance and rent collection rates recovering well. We remain confident that the impact of the pandemic remains primarily short term in nature, and that longer term structural drivers of demand remain positive across the majority of the portfolio. The Fund has already collected much of the deferred rent and we expect to collect the balance of deferred rent over the next 12 months.

Post-balance sheet date, the Fund has exchanged contracts on the sale of two of its weaker holdings and is well positioned to capitalise on high quality opportunities going forwards, supported by a healthy capital queue (£279 million as at 30 June 2021) and continued demand from investors.

Good improvement has been made across the Fund's ESG workstreams, demonstrated primarily by the 2021 GRESB improvement (84%, +14 points year on year, second in peer group of 79, 4-star 'Green Star' status). This workstream remains a key focus going forwards and we believe it is integral for supporting the portfolio's performance over the medium to long term.

The Fund's long term focus remains unchanged: generating long-term, above inflation performance for our clients whilst pursuing new opportunities at good relative value and maintaining the quality of the portfolio.

Lee McDowell and Holly Johnstone
M&G Investment Management Limited

20 October 2021

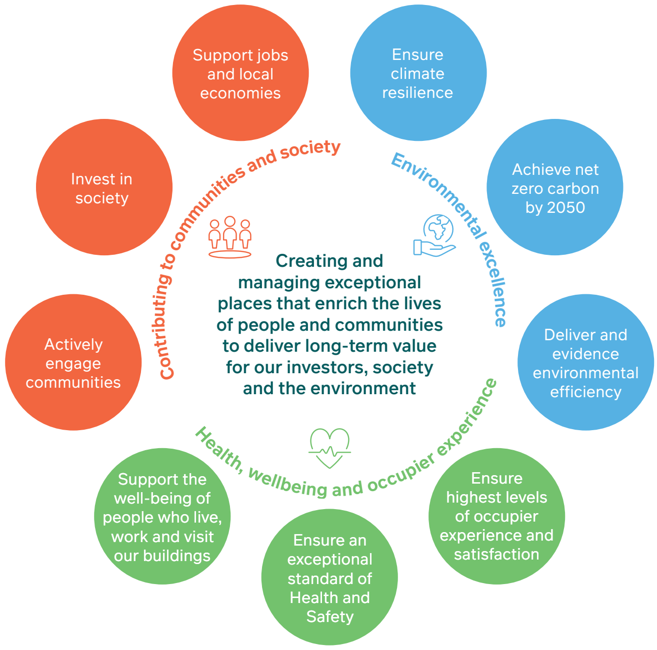
Lee McDowell and Holly Johnstone are employees of M&G FA Limited (formerly M&G Limited) which is an associate company of M&G (Guernsey) Limited.

Manager's report

Environmental, Social and Governance ('ESG')

M&G Real Estate's Responsible Property Investment strategy

Real estate investments can have wide-ranging social, environmental and economic impacts, both positive and negative. Environmental and social issues are already influencing real estate market fundamentals including obsolescence, rate of depreciation, voids, operational costs and liquidity. By being at the forefront of identifying and influencing the drivers of change, and shaping investment strategies accordingly, the Fund aims to deliver strong returns to Unitholders in the long term, while supporting the creation of positive environmental and social outcomes. M&G Real Estate, the Fund's appointed Real Estate Asset Manager, has an overarching approach to Responsible Property Investment (RPI) and an approach has been developed for the Fund in line with M&G Real Estate's RPI focus areas.



Responsible Property Investment objectives for the M&G Secured Property Income Fund

The table below shows the objectives and short term targets set for the Fund in order to ensure that a sector leading approach to RPI is maintained and continues to meet the needs of investors. Targets for 2022 will be agreed in Q4 2021 and published in subsequent reports.

	Long Term Objective	Short term targets (by end 2021 unless specified):	Current Status
Environmental excellence	Achieve net zero greenhouse gas emissions by 2050	• Net zero pathway for the Fund to be completed	• On track Initial net zero pathway model produced and reviewed by fund management team. Pilot net zero audits completed at two assets, further audits to be agreed.
	Ensure portfolio climate resilience	• Undertake work to assess risk and identify mitigation measures for material climate risk across our portfolio	• On track Climate related flood risk assessment complete for UK assets. M&G is trialling a number of climate risk models to support ongoing monitoring.
	Proactively drive and evidence environmental improvements at assets	• Seek green building certification on new development fundings; implement BREEAM In-Use Certification at ten of the Fund's assets • Proactively engage our occupiers on their environmental impacts, and endeavour to support their environmental programmes and initiatives; implement smart energy data capture on key assets	• On track Green building certification: 19% (by AUM as at 30 June 2021). Proceeding with roll-out of BREEAM In-Use. • On track Actively engaging with tenants on their environmental programmes. Energy data successfully collected for 92% of portfolio (based on floor area weighted valuation) in 2021.
Health, wellbeing and occupier experience	Promote and support wellbeing and inclusivity across the portfolio	• Seek opportunities to encourage adoption of health and wellbeing strategies by our occupiers	• Delayed due to Covid-19 Actively engaging with tenants to understand priorities on social issues; though a number of tenants have been focused on other priorities due to the impact of the pandemic. Introducing Sustainable Development & Refurbishment Framework which will support integration of health & wellbeing measures in new assets.
	Ensure an exceptional standard of Health & Safety	• Implement our H&S processes to ensure an exceptional standard of safety and security in all the working environments we control	• On track Implementation of global standard in relation to fire safety.
	Ensure highest levels of occupier experience and satisfaction	• Ensure ongoing improvements in our occupier engagement strategy (including an occupier satisfaction survey)	• On track Inaugural tenant experience survey completed in Q4 2020. Findings incorporated in asset action plans.
Contributing to communities and society	Actively engage communities	• Seek opportunities to encourage adoption of community engagement programmes by our occupiers and during development activities that we fund	• Delayed due to Covid-19 Actively engaging with tenants to understand priorities on social issues; though a number of tenants have been focused on other priorities due to the impact of the pandemic. Introducing Sustainable Development & Refurbishment Framework which will support integration of health & wellbeing measures in new assets.

Manager's report

GRESB (Global Real Estate Sustainability Benchmark)

Since 2013, the Fund has participated in the GRESB Real Estate Assessment on an annual basis – this is the Fund's ninth year of reporting. In 2021, we are pleased to report the Fund continued its year on year progress, with a score of 84, an improvement of 14 compared to the prior year (2020: 70), and also achieved a 4-star 'Green Star' status. The Fund ranked second in its peer group of 79 funds (United Kingdom/Diversified/Core/Tenant Controlled) and we are particularly pleased with our improved data collection from tenants, which has been an area of recent focus, and demonstrates the strong partnership and long-term nature of the Fund's tenant relationships. The Fund was delighted to achieve a 100% score on the Management Component. In the Performance Component the Fund outperformed the benchmark average in all nine sections of the survey, most notably in the areas of risk assessment, energy, greenhouse gas, water, waste and data monitoring & review.

M&G Real Estate has remained focused on driving ESG performance for the Fund, and it is in the process of reviewing the 2021 results in detail and developing an action plan to target areas of improvement. To maintain the Fund's strong performance going forward, we are commencing a significant green building certification programme using BREEAM In-Use – with a commitment to cover at least 75% of the Fund's assets (by value) by the end of 2023.

M&G Real Estate

M&G Secured Property Income Fund

GRESB **Standing Investments** Benchmark Report

2021

GRESB Real Estate Assessment

M&G Secured Property Income Fund
M&G Real Estate

2018	2019	2020	2021
67	68	70	84

Status: Non-listed
Strategy: Core
Location: United Kingdom
Property Type: Diversified

2nd – **United Kingdom | Diversified | Core | Tenant Controlled** – Out of 79

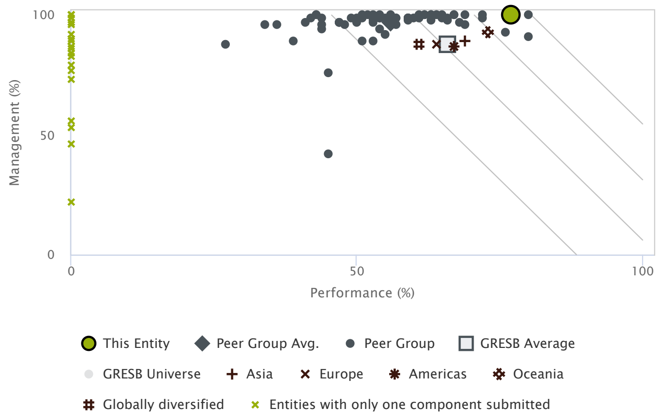
GRESB 2021 ★★★★

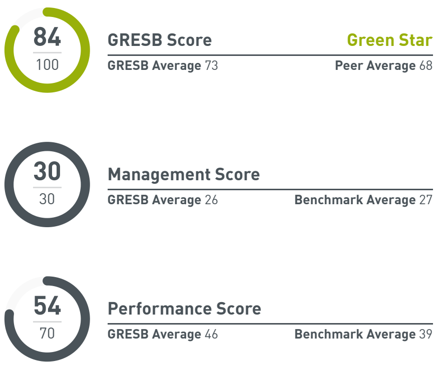
Rankings

23rd	**GRESB Score within Diversified / Europe**	Out of 210
50th	**GRESB Score within Diversified / Non-listed / Core**	Out of 246
87th	**GRESB Score within Europe / Non-listed / Core / Open end**	Out of 351
1st	**Management Score within Europe**	Out of 780
1st	**Management Score within Europe / Non-listed / Core**	Out of 517
1st	**Management Score within Europe / Non-listed / Core / Open end**	Out of 351
29th	**Performance Score within Diversified / Europe**	Out of 210
58th	**Performance Score within Diversified / Non-listed / Core**	Out of 246
94th	**Performance Score within Europe / Non-listed / Core / Open end**	Out of 351

Manager’s report

GRESB Model





Manager's report

Environmental Excellence

1. **Climate Resilience and Achieving net zero greenhouse gas emissions by 2050**
   We believe that climate change is the most important environmental issue facing the world today. The risks posed by climate change are multi-faceted and far reaching, and the implications on our environment and society are profound. It is likely that the world will warm by more than two degrees Celsius, and continued relative inaction will exacerbate the impact.

   M&G Real Estate has committed to net zero carbon by 2050 across its global real estate portfolio. This covers operational carbon, critically encompassing whole building performance including our tenants' activities, as well as embodied carbon of development, refurbishment and fit-out works.

   M&G Real Estate, in conjunction with the Investment Advisor, is in the process of developing net zero carbon pathways for the Fund. This will include interim targets and metrics to measure progress and communicate to investors in line with industry standards, including the Task Force on Climate-Related Financial Disclosure (TFCD) recommendations. It is also working with the Investment Advisor on integrating net zero considerations into investment processes and investment strategy.

   In 2020, the Fund embarked on the development of its net zero pathway strategy utilising external consultancy support. The pathway is a critical first step in the Fund's commitment of achieving net zero carbon by 2050. It provides a bespoke overview of current portfolio energy and carbon performance versus industry benchmarks (including the Carbon Risk Real Estate Monitor) and identifies the interventions required to deliver operational net zero performance outcomes at the portfolio and asset level.

   We are now in the process of providing in-depth appraisals on the model outputs through the commissioning of site based investigations. Two of these 'net zero audits' have been completed to date and were targeted on assets which were identified to be exposed to carbon asset stranding risk. The findings from the investigation have been presented to the tenant to progress conversations on improving asset environmental performance. The investigation process adds valuable context with regard to factors which will influence asset stranding risk: technical condition of assets, lease arrangements, existing planned works and specific asset investment strategy. Further site based investigations will be commissioned at selected assets to provide the Fund with a broader understanding of the approach to achieving its net zero carbon ambitions.

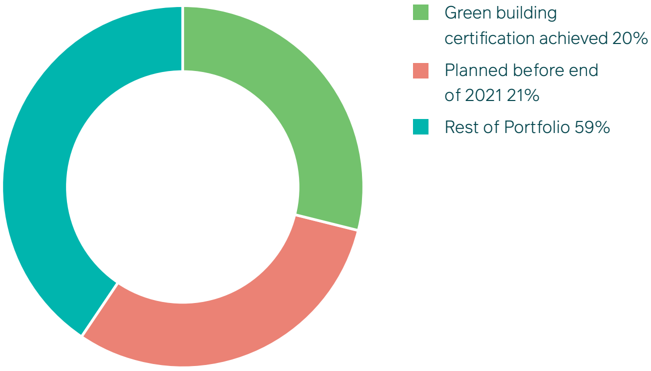
   We are also enhancing transition and physical risk monitoring in our ESG due diligence process. Investment Committee papers, which are prepared by the Investment Advisor (with input from the Real Estate Asset Manager) in relation to the acquisition and disposal of assets and presented to the Investment Committee, are required to include information on net zero operational performance, energy regulations (e.g. energy performance certificates) and physical climate risk exposure among other issues. We have also launched our updated Sustainable Development and Refurbishment Framework which sets new minimum build and practice standards for all our developments and refurbishments including funded developments.

2. **Proactively drive and evidence environmental improvements at assets**
   Currently, 19% of the Fund by value (as at 30 June 2021) has a green building certificate under a recognised scheme (e.g. BREEAM New Construction). We are continuing to seek opportunities to expand the number of green building certified assets held in the Fund. Initial planned rollout of BREEAM In-Use certification to existing assets in the portfolio was delayed due to the impact of the COVID-19 pandemic. However, we have since sought and gained Manager approval to expand the proportion of the Fund's portfolio with BREEAM In Use certification well beyond the

Manager's report

current 2021 target, to at least 75% of the Fund (by value) by the end of 2023. BREEAM In-Use provides an opportunity to measure the operational sustainability performance of existing assets and provide useful feedback to occupiers to support the development of their own management strategies.

Green building certification (by value)



We have also long sought to include green building certification requirements in forward funded developments, and the Fund's development of the new Anglo American London HQ building which achieved practical completion during the year has targeted BREEAM New Construction 'Excellent'. The Paddington hotel / aparthotel development which is anticipated to practically complete in Q4 2021 is also targeting a BREEAM New Construction 'Excellent' rating. Future adoption of certification in new assets will be supported through the implementation of our Sustainable Development and Refurbishment Framework which will apply to all new development deals.

The environmental and wider sustainability performance of all assets in the Fund is ultimately controlled and driven by our occupiers given that all leases are on a full repairing and insuring basis. We are committed to working with occupiers to improve performance wherever possible. During the past year we have extensively engaged with our occupiers to build a greater understanding of their corporate sustainability strategies to find opportunities to align with the Fund's own approach. We have also undertaken extensive data collection to measure the actual environmental (energy, greenhouse gas, water and waste) performance of assets. Further, we have received 'actual' energy performance data for 92% of the Fund (based on floor area weighted valuation), a significant uplift on the previous year, and have incorporated this information into the GRESB Real Estate Assessment disclosure.

A significant recent area of environmental performance review has centred around compliance the Minimum Energy Efficiency Standards ('MEES') legislation in the UK. M&G Real Estate monitors the Energy Performance Certificate (EPC) ratings of all assets in the portfolio. MEES made the granting of a new lease or lease renewal of any building with an EPC rating below 'E' illegal with effect from April 2018.

Through our asset planning process we are proactively seeking to manage any risk associated with these holdings well in advance of the 2023 backstop date. We are speaking with our occupiers to ensure that ratings below the minimum standard are addressed as a priority, we are also focused on ensuring that improvements made provide resilience against any future changes to EPC legislation. For existing EPC ratings, 90% of these as a proportion of estimated rental value (ERV) are EPC rating 'E' or above. We continue to monitor the EPC ratings of existing and new assets as they are acquired or developed.

The table overleaf provides an overview of environmental performance in relation to occupier activity over the past two years. We believe the impact of the Covid-19 pandemic on building occupancy is the leading cause in like for like reductions observed between 2019 and 2020.

Manager’s report

Environmental Performance Data

Impact area	Sustainability Performance Measure	Absolute		Like-for-like		
		2019	2020	2019	2020	% change
Energy use	Tenant-obtained electricity (MWh)	128,614	159,089	125,782	104,603	-17%
	Tenant-obtained fuels (MWh)	307,367	271,780	303,670	246,174	-19%
	Total tenant-obtained energy (MWh)	435,981	430,869	429,451	350,777	-18%
	Proportion of tenant energy data estimated (% MWh)	0.1%	0.4%	0.1%	0.5%	N/A
	Tenant energy disclosure coverage (% NLA)	73%	81%	65%	65%	N/A
Greenhouse gas emissions	GHG emissions; scope 3 (tonnes CO2e)	91,822	100,572	90,231	72,403	-20%
Renewable energy	Renewable energy generated and consumed on-site by tenant (MWh)	2,412	1,799	2,412	1,799	-25%
Water	Tenant-obtained water (m3)	1,399,474	10,051,486	1,363,976	900,198	-34%
	Proportion of tenant water data estimated (% m3)	0%	0%	0%	0%	N/A
Waste	Tenant water disclosure coverage (% NLA)	58%	66%	50%	50%	N/A
	Tenant waste (metric tonnes)	5,634	6,718	4,143	2,269	-45%
	Proportion of tenant waste diverted from landfill (%)	94%	96%	71%	33%	N/A
	Tenant waste disclosure coverage (% NLA)	42%	51%	34%	34%	N/A

The reporting period covers 1 January 2019 to 31 December 2020 and includes all assets owned. The Fund procured the services of a third party environmental data specialist, Verco Advisory Services (Verco), to undertake environmental data collection (energy, carbon, water, waste) from the assets. Verco verifies the data through a trend and variance analysis. The verification has been done in line with the following standards for the respective environmental data types and assurance standards: Energy: ISO 50002, Greenhouse Gases: ISO 14064-3, Water: ISO 14046, Waste/Water: ISO 19011. In accordance with the GHG Protocol the carbon footprint combines Scope 1, 2 and 3 emissions, there were no scope 1 or 2 emissions during the reporting years. Data qualifying notes and the underlying asset level data is available on request.

Manager's report

Case Study – Anglo American London HQ

The Fund purchased the £265m freehold acquisition of the Anglo American London HQ in June 2018, which was completely redeveloped by Anglo American and completed in April 2021. Anglo has a long heritage at the site in Farringdon having occupied the site since the 1970s, and sustainability was at the heart of the redevelopment, which comprised 146,000 sqft Grade A office space, 27 residential apartments and warehouse space. The existing building was stripped 'back to frame', which was retained rather than replaced, and the BREEAM 'Excellent' is now confirmed.

Anglo has committed to the asset for a term of 25 years (from June 2020) and the re-development was predicated on Anglo supporting the local community. Social initiatives include offering a rolling apprenticeship and work experience programme, the provision of business courses for local businesses and their employees, and also allowing local businesses to use meeting rooms and event space in the building.

Health, wellbeing & occupier experience & community engagement

Creating positive outcomes by developing high quality places where people want to be is a key focus area under the RPI Strategy. Our aim is to promote wellbeing, inclusivity and community engagement across the portfolio through our funded development activity and also through collaboration with our tenants.

We have recently launched our updated Sustainable Development and Refurbishment Framework which sets new minimum build and practice standards for all our developments and refurbishments including funded developments. The framework includes a number of minimum requirements to ensure health, wellbeing and community contribution is incorporated into projects. There are also a number of aspirational requirements where market context allows for these to be included to facilitate the delivery of class leading assets.

Through our discussions with tenants we are seeking opportunities to collaborate and support mutual social initiatives. We hope to realise a number of these opportunities as tenant businesses begin to return to normal conditions following the impact of the Covid-19 pandemic.

We are committed to creating a strong relationship with all of our occupiers based on integrity, team spirit and customer focus. By developing proactive relationships with our occupiers, we can better understand their business needs and property requirements, helping to enhance returns. In line with our strategy to engage with and understand our occupiers' needs we launched a tenant experience survey in Q4 2020 across the Fund. The survey demonstrated a very good overall satisfaction rating for the portfolio, with a high proportion giving approval of M&G's understanding of business needs, responsiveness, problem resolution and ease of doing business. Throughout the COVID-19 pandemic we increased our tenant engagements and offered additional support to those who needed it.

Manager's report

Strong foundations

Alongside the 2021 objectives for the Fund, there are ten Strong Foundations M&G believes must be in place to deliver the Fund's RPI objectives:

- Investor Reporting & Engagement – M&G provides investors with quarterly and annual updates on the RPI performance of the Fund. The Fund participates annually in the Global Real Estate Sustainability Benchmark assessment and is targeting improved performance in the next assessment. M&G Real Estate also undertakes extensive engagement with industry working groups on ESG to support the development of best practice and standardisation on key issues such as net zero.
- Risk Management & Regulatory Compliance – M&G seeks to minimise long-term exposure to material ESG risk by embedding consideration of these into investment decision making. M&G has embedded consideration of this risk into the acquisition and asset management processes. The Fund complies with ESG regulation and to the best of the Fund's knowledge, there were no legislative breaches during 2020.
- Acquisitions – Material RPI issues are integrated into acquisition due diligence processes, which ensures risks and opportunities have been appraised and priced accordingly. See above as well.
- Asset Planning & Prioritisation – Annual asset plans incorporate actions to manage and/or improve RPI performance through targeted tenant engagement, based on the risk, opportunities and initiatives planned for the asset. Asset plans are produced for all assets held.
- Leasing – M&G has been engaging with tenants on opportunities to improve the environmental, health and wellbeing performance of new developments assets. We are also exploring opportunities to enhance our lease contracts to facilitate greater collaboration and information sharing for RPI initiatives.
- Monitoring & Guidance Management systems and processes provide clear guidance on how to implement the RPI approach. An external consultant is engaged to support monitoring of environmental performance data. Collated tenant environmental performance data is held in a bespoke online platform. Data quality and analysis by the consultant and the platform ensures the highest levels of data coverage and accuracy. M&G Real Estate maintain an environmental management system for the UK which is independently certified to ISO 14001: 2015, the objective is to maintain certification in 2021. The systems principles are incorporated into the RPI Strategy for the Fund.
- Property Management – The third party property manager has sustainability requirements integrated into their contracts and Service Level Agreement. Annual KPIs are set and are monitored regularly to ensure that property managers and their supply chain are ensuring the delivery of RPI initiatives and targets where they are responsible for these.
- Development & Refurbishment – The Fund implements the M&G Real Estate Sustainable Development & Refurbishment Framework which includes minimum requirements.
- Supply Chain Management – RPI standards and requirements are provided to suppliers as appropriate to their services. Monitoring is in place to ensure that contractual requirements are adhered to.
- Employee Engagement All employees understand their role in the delivery of M&G's RPI Strategy through training and briefings, and receive regular updates on the RPI performance of portfolios and assets they work on. All employees across the M&G Investments business set a personal objective in relation to ESG.

Financial highlights

Investments

Portfolio statement

Property by Market Sector and Value Band as at 30 June Portfolio of investments	Location	2021 %	2020 %
Retail		**23.19**	**23.09**
Properties with value over £90 million up to £150 million		**4.27**	**2.34**
Sainsbury's, 45&33 Garratt Lane	London		
Sainsbury's, Otford Road[a]	Sevenoaks		
Properties with value over £50 million up to £90 million		**13.84**	**15.64**
Morrison's Supermarket, Coventry Road	Sheldon		
Sainsbury's, Treyew Road	Truro		
Tesco Supermarket, Hythe Road	Ashford		
Sainsbury's, Southgate	Huddersfield		
Tesco Supermarket, Culverhouse Cross	Cardiff		
Tesco Supermarket, Riverview Drive	Bedford		
Tesco Supermarket, Parc Troste	Llanelli		
Tesco Supermarket, Old Road	Royston		
Sainsbury's, Dog Kennel Hill	Dulwich		
Sainsbury's, William Hunter Way	Brentwood		
Properties with value over £20 million up to £50 million		**5.08**	**5.11**
Tesco Supermarket, Springlands Way	Sudbury		
Sainsbury's, Worthington Way	Wigan		
Morrisons Supermarket, Edgeley Road	Stockport		
Morrisons Supermarket, Plumpton Park	Harrogate		
Morrisons Supermarket, West Bailey	Killingworth		
Morrisons Supermarket, Limebrook Way	Maldon		
Office		**22.02**	**19.98**
Properties with value over £260 million		**12.60**	**5.97**
250 Bishopsgate	London		
17 Charterhouse Street, Farringdon[b]	London		
Properties with value over £150 million up to £260 million		**0.00**	**3.91**
Properties with value over £90 million up to £150 million		**7.70**	**8.28**
St Vincent Street	Glasgow		
Rose Court	London		
Southwark Bridge Road	London		

Financial highlights

Property by Market Sector and Value Band as at 30 June Portfolio of investments	Location	2021 %	2020 %
Properties with value over £50 million up to £90 million		**1.72**	**1.82**
Dorland House, Westbourne Terrace	London		
Leisure (including hotels)		**26.96**	**28.33**
Properties with value over £150 million up to £260 million		**3.44**	**0.00**
North Wharf Gardens, Paddington[c]	London		
Properties with value over £90 million up to £150 million		**4.25**	**4.73**
Premier Inn, Arrivals Road	Gatwick		
Premier Inn, Tothill Street	London		
Properties with value over £50 million up to £90 million		**0.00**	**2.23**
Properties with value over £20 million up to £50 million		**5.26**	**5.62**
Tennis Clubs Portfolio[d]	Various		
Travelodge Hotel, Povey Cross Road	Gatwick		
Premier Inn, 29-37 Red Lion Street	London		
Travelodge Hotel, 3 Harewood Row	London		
Hilton Hotel, Terminal 5	Heathrow		
David Lloyd, Royal Berkshire	Bracknell		
Clayton Hotel, St. Mary's Street	Cardiff		
David Lloyd, United Way	Colchester		
Properties with value up to £20 million		**14.01**	**15.75**
Tennis Clubs Portfolio[d]	Various		
Bingo Halls Portfolio[e]	Various		
Health Clubs Portfolio[f]	Various		
14-18 Noel Street	London		
Travelodge Hotel, 3 Waterloo Place	Edinburgh		
104-108 Bolsover Street	London		
Other		**15.01**	**15.76**
Properties with value over £150 million up to £260 million		**3.54**	**3.74**
Stratford, Halo	London		
Properties with value over £50 million up to £90 million		**4.78**	**4.92**
Aberfeldy New Village	London		
Syngenta's International R&D Centre, Jealotts's Hill	Berkshire		
Priory Group, Priory Lane	Roehampton		
Properties with value over £20 million up to £50 million		**6.37**	**6.26**
Priory Group, Stump Lane	Chelmsford		

Financial highlights

Property by Market Sector and Value Band as at 30 June Portfolio of investments	Location	2021 %	2020 %
Priory Group, The Bourne	North London		
Lyme Regis House	Bournemouth		
Dunaskin Street	Glasgow		
Bridewell Steet	Bristol		
Unite House, Frogmore Street	Bristol		
Priory Group, Health House Lane	Bristol		
Priory Group, Rappax Road	Altrincham		
Priory Group, Chobham Road[g]	Woking		
Properties with value up to £20 million		**0.32**	**0.84**
Okeford House	Bournemouth		
Chesil House	Bournemouth		
Other investments		**11.23**	**11.30**
99.95% holding in The Swansea Unit Trust (unconsolidated)			
40% holding in The Tesco Jade Unit Trust (unconsolidated)			
40% holding in Jade (GP) Limited (unconsolidated)			
50% holding in The Car Auctions Unit Trust (unconsolidated)			
50% holding in The Hotel 42 Unit Trust (unconsolidated)			
Total portfolio valuation		**98.41**	**98.46**
Derivatives		**0.00**	**0.00**
Net other assets		**1.59**	**1.54**
Net assets attributable to Unitholders and non-controlling interests (“NCI”)		**100.00**	**100.00**

[a] Sainsbury’s, Otford Road, Sevenoaks moved bands.

[b] 17 Charterhouse Street, Farringdon, London moved bands.

[c] North Wharf Gardens, Paddington, London moved bands.

[d] 45 (2020: 45) properties located in the United Kingdom ranging in value from £3,480,000 to £30,190,000.

[e] 38 (2020: 40) properties located in the United Kingdom ranging in value from £450,000 to £6,490,000.

[f] 39 (2020: 39) properties located in the United Kingdom ranging in value from £1,140,000 to £7,620,000.

[g] Priory Group, Chobham Road, Woking moved bands.

Financial highlights

Portfolio transactions

Acquisitions, development and refurbishment costs Property Name	Location	£'000
Acquisitions		
Total cost of acquisitions for the year		**–**
Total cost of acquisitions for the year as a percentage of NAV		**0.00%**
Development and refurbishment		
Development and refurbishment		
17 Charterhouse Street, Farringdon	London	
North Wharf Gardens, Paddington	London	
Total development and refurbishment costs for the year		**136,824**
Total development and refurbishment costs for the year as a percentage of NAV		**2.85%**

Disposals

Property Name	Location	£'000
Gala Bingo Hall, Castleford	Castleford	
Gala Bingo Hall, Glenrothes	Glenrothes	
Total for the year		**11,096**

Financial highlights

Fund performance

Long-term performance

	Year ended 30.06.21		3 years (p.a.)		Since inception (p.a.)	
	Capital %	Total Return %	Capital %	Total Return %	Capital[a] %	Total Return[a] %
Institutional 'A' Units	4.78	8.90	1.53	5.53	1.30	5.61

[a] Since launch on 1 August 2007.

Operating charges and transaction costs

We explain below the payments made to meet the ongoing costs of investing and managing the Fund, comprised of operating charges and portfolio transaction costs.

Operating charges

Operating charges include payments made to the Manager, its associates and independent service providers as follows:

- Manager's fee: Fee paid to M&G (Guernsey) Limited in its capacity as Manager of the Fund.
- Investment Advisory fee: Fee paid to M&G Investment Management Limited for investment advisory services.
- Administration fee: Fee paid to JTC Fund Solutions (Guernsey) Limited in its capacity as Administrator of the Fund.
- Trustee fee: Fee paid to Northern Trust (Guernsey) Limited in its capacity as Trustee of the Fund.
- Real Estate Asset Management fee: Fee paid to M&G Real Estate Limited in its capacity as Real Estate Asset Manager of the Fund.
- Other property expenses: Other costs associated with the management and operation of the property portfolio itself.

Financial highlights

Transaction costs

Portfolio transaction costs include the costs of acquiring or disposing, as the case may be, of all of the assets forming the Scheme Property, being agents' commissions, legal, fiscal and financial advisory fees and additionally in the case of acquisitions, surveyors' fees and taxes, including Stamp Duty Land Tax ('SDLT').

To protect existing investors, portfolio transaction costs incurred as a result of investors buying and selling Units in the Fund are recovered from those investors through a 'dilution adjustment' to the price they pay or receive. The following table shows direct portfolio transaction costs paid by the Fund before and after that part of the dilution adjustment relating to direct portfolio transaction costs.

Direct transaction costs

	2021 %	2020 %	2019 %
SDLT	0.00	4.36	4.57
Legal and survey fees	0.07	0.28	0.51
Agent fees	0.00	0.03	0.49
Investment Advisor acquisition fee	0.00	0.28	0.45
Other	(0.02)	0.22	0.10
Direct transaction costs before dilution adjustment	0.05	5.17	6.12
Dilution adjustment in respect of direct transaction costs	(4.13)	(4.29)	(4.25)
Direct transaction costs	**(4.08)**	**0.88**	**1.87**

The preceding table includes transaction costs incurred by subsidiaries and associates, as a percentage of the total purchase cost.

The impact of transaction costs related to the selling of property-related assets will be reduced by the dilution levy charged to redeeming investors where applicable.

Specific Unit class performance

The following table shows the performance of the Institutional 'A' Unit class based on the reported NAV.

Institutional 'A' Unit performance

The Unit class was launched on 1 August 2007.

Year ended 30 June Change in NAV per Unit	2021 £	2020 £	2019 £
Opening NAV per Unit	114.31	117.41	114.44
Return before operating charges and after direct transaction costs	6.30	(2.21)	3.70
Operating charges	(0.83)	(0.89)	(0.73)
Return after all charges and costs	5.47	(3.10)	2.97
Closing NAV per Unit	119.78	114.31	117.41
Direct transaction costs	**£**	**£**	**£**
Direct transaction costs per Unit	0.00	0.36	0.58
Performance and charges	**%**	**%**	**%**
Direct transaction costs	0.00	0.30	0.50
Operating charges	0.72	0.76	0.63
Return after all charges and costs	4.78	(2.64)	2.60
Distribution yield[a]	3.62	3.61	3.78

[a] In relation to Dealing NAV (NAV after taking into account any dilution adjustments).

Other information			
Closing reported NAV of the Fund (£'000)	4,773,530	4,427,384	4,293,270
Number of Units in issue	39,852,415	38,730,086	36,567,175
Highest dealing price per Unit (£)	124.727	123.918	122.398
Lowest dealing price per Unit (£)	118.826	119.218	119.256

Financial highlights

On 1 July 2021 and 2020, the Dealing Days immediately following the accounting reference dates, the Dealing Prices were as follows:

Dealing Price

	2021 £	2020 £
Institutional 'A' Units	124.727	119.218

Dealing Price history

	Calendar year	High £	Low £
Institutional 'A' Units	2018	121.141	117.466
	2019	123.368	121.263
	2020	123.918	118.826
	2021[a]	124.727	120.947

[a] To 30 June 2021.

Consolidated Financial Statements

Consolidated statement of total return

for the year ended 30 June	Note	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Income					
Net capital gains/(losses) on investments	5		193,321		(132,577)
Revenue	6	213,066		204,195	
Expenses	7	(31,806)		(32,668)	
Finance costs: Interest	9	(693)		(968)	
Net revenue			180,567		170,559
Total return before distributions			**373,888**		**37,982**
Finance costs: Distributions	9	(180,676)		(172,767)	
Change in net assets attributable to Unitholders and non-controlling interests from investment activities			**193,212**		**(134,785)**
Non-controlling interests		(719)		13	
Change in net assets attributable to Unitholders from investment activities			**193,931**		**(134,798)**

All items in the Consolidated statement of total return derive from continuing operations.

Consolidated statement of change in net assets attributable to Unitholders

for the year ended 30 June	2021 £'000	2021 £'000	2020 £'000	2020 £'000
Opening net assets attributable to Unitholders		**4,307,794**		**4,176,116**
Amounts received on issue of Units	273,864		265,019	
Amounts paid on cancellation of Units	(148,487)		(9,936)	
		125,377		255,083
Dilution adjustment		11,603		11,393
Change in net assets attributable to Unitholders from investment activities (see above)		193,931		(134,798)
Closing net assets attributable to Unitholders		**4,638,705**		**4,307,794**

Consolidated Financial Statements

Consolidated balance sheet

as at 30 June	Note	2021 £'000	2020 £'000
Fixed assets			
Investment property under construction	12	165,178	274,597
Investment property	12	4,014,959	3,616,383
Other investments	13	539,422	505,572
Net investment in finance leases	14	7,891	8,106
Lease inducement asset		5,641	5,908
		4,733,091	**4,410,566**
Current assets			
Lease inducement asset		268	268
Debtors	16	40,965	27,249
Cash and cash equivalents		146,356	126,128
		187,589	153,645
Total assets		**4,920,680**	**4,564,211**
Liabilities			
Creditors	19	50,272	49,200
Distributions payable	9	66,703	41,497
Total liabilities		**116,975**	**90,697**
Net assets attributable to Unitholders		**4,638,705**	**4,307,794**
Non-controlling interests		165,000	165,720
Net assets attributable to Unitholders and non-controlling interests		**4,803,705**	**4,473,514**
Reconciliation to Fund Balance Sheet			
Net assets attributable to Unitholders excluding non-controlling interests as per Fund Balance Sheet		4,773,530	4,427,384
Adjustment for estimated SDLT savings	1(d), 1(e)	(133,772)	(119,598)
Adjustment for capital expenses		8	8
Adjustment for fair value movement in finance lease		(1,061)	–
Net assets attributable to Unitholders excluding non-controlling interests in accordance with FRS 102		**4,638,705**	**4,307,794**

The Financial Statements on pages 26 to 62 were signed on behalf of the Board of Directors of M&G (Guernsey) Limited on 20 October 2021 by:

Peter Mills

Timothy Cumming
Directors of the Manager

Consolidated Financial Statements

Fund balance sheet

as at 30 June	Note	2021 £'000	2020 £'000
Assets			
Fixed assets			
Investments in subsidiaries	20	4,028,211	3,725,987
Other investments	13	539,422	505,572
Investment property		166,609	164,280
		4,734,242	**4,395,839**
Current assets			
Debtors	16	65,645	45,838
Cash and cash equivalents		43,848	34,879
		109,493	80,717
Total assets		**4,843,735**	**4,476,556**
Liabilities			
Creditors	19	8,495	9,043
Distributions payable		61,710	40,129
Total liabilities		**70,205**	**49,172**
Net assets attributable to Unitholders		**4,773,530**	**4,427,384**
Reconciliation to reported NAV			
Net assets attributable to Unitholders based on reported NAV		4,773,538	4,427,392
Adjustment for capital expenses		(8)	(8)
Net assets attributable to Unitholders		**4,773,530**	**4,427,384**

The Financial Statements on pages 26 to 62 were signed on behalf of the Board of Directors of M&G (Guernsey) Limited on 20 October 2021 by:

Peter Mills

Timothy Cumming
Directors of the Manager

Consolidated Financial Statements

Consolidated cash flow statement

for the year ended 30 June	Note	2021 £'000	2020 £'000
Net cash inflow from operating activities	10	141,072	130,573
Investing activities			
Distributions received		22,125	19,959
Interest received		5,444	4,266
Finance lease receipts		454	454
Purchase of investment property and investment property under construction		(136,824)	(161,481)
Purchase of investments in associates		(26)	(105)
Purchase of investments in joint ventures		–	(126,168)
Disposal of investments in joint ventures		892	–
Disposal of investment property		5,414	16,804
Disposal of unconsolidated subsidiaries		858	840
Net cash outflow from investing activities		**(101,663)**	**(245,431)**
Financing activities			
Amounts received on issue of Units		285,467	276,412
Amounts received on Units issued to NCI		–	20
Amounts paid on cancellation of Units		(148,487)	(9,936)
Amounts paid on cancellation of Units to NCI		–	(2)
Amounts received from banking facility		–	100,000
Amounts repaid on banking facility		–	(100,000)
Distributions paid		(153,148)	(168,032)
Distributions paid to NCI		(2,320)	(5,426)
Finance costs: Interest		(693)	(968)
Amounts paid to settle swap contract		–	(17,510)
Net (cash outflow)/cashflow from financing activities		**(19,181)**	**74,558**
Net increase/(decrease) in cash		**20,228**	**(40,300)**
Opening cash		**126,128**	**166,428**
Closing cash at bank and on deposit		**146,356**	**126,128**

Notes to the Consolidated Financial Statements

1 Accounting policies

a) Basis of accounting and going concern

These Consolidated Financial Statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland, including all subsequent amendments and in accordance with the Statement of Recommended Practice 'Financial Statements of Authorised Funds', issued by the Investment Association, in May, 2014 (the 'IA SORP') and amended in June 2017.

These Consolidated Financial Statements have been prepared under the historical cost convention, as modified for the revaluation of investment property, investment property under construction, other investments and derivatives.

The Manager has made an assessment of the Fund's ability to continue as a going concern and is satisfied that the Fund has sufficient resources to continue for the period to 31 December 2022. This assessment considers the Fund's significant areas of possible financial risk including liquidity, the non-collection of rent as a result of the COVID-19 pandemic, declines in global capital markets, investor intentions including known and estimated redemptions, ongoing operating expenses, funding commitments and key service providers' operational resilience. In arriving at its conclusion the Manager has specifically considered the areas as outlined below.

As at 30 September 2021 the Fund had sufficient liquid assets to meet its current obligations, with current liabilities of £117.0m and current assets of £187.6m. Ongoing operating expenses represent only 12.5% of annual contracted income.

The Manager and Investment Advisor continue to closely monitor the impact of COVID-19 on the Fund's rental collection and the credit worthiness and operational earnings of all tenants. Following the relaxation of lockdown continue to normalise translating into improved market sentiment. Consequently, rent collections are improving with a rent collection of 99.5% expected for September quarter 2021. The Investment Advisor also remains in regular discussions with the tenants to ensure rent recoverability. Where there have been concerns around recovery these are considered for bad debt provisioning. The bad debt expense recognised for the year ended 2021 amounts to £4.4m (2020: £4.2m).

As disclosed in note 23, the Fund has contractual development funding obligations totalling £128m, the majority of which is due at completion in October 2021. These will be funded via the capital queue.

At the date of issue of these Financial Statements the Fund has access to an undrawn revolving credit facility of £100m which expires in October 2022 and provides an efficient and flexible source of funding due to the margin of 1.6% and its ability to be drawn and repaid as often as required. The bank loan has relatively few covenants due to the low gearing nature of the facility; there is an LTV restriction of 30% but no interest cover covenants.

As at 30 September 2021 the undrawn investor queue was £261m. The Fund has paid redemptions for the year ended 30 June 2021 totalling £148.5m. Since year end, the Fund has received redemption requests totalling £76.4m, of which £6.5m has been paid and the remainder will be fulfilled on the 1 November Dealing Day. Whilst it is not possible to determine future investor redemption requests with a high degree of certainty, based on the investor profiles there is no expectation of significant redemptions over the next 12 months. As described in note 3 (a) the Manager has the ability to defer redemption requests if necessary.

Further cash inflow of c. £98m to the Fund will also be generated from the completion of the sale of the Bingo Unit Trust (£71.5m) and Shiva Hotel (branded Hilton) at Heathrow Airport, Terminal 5 (£27m) in October 2021 and March 2022 respectively.

As a result the Manager has concluded that the use of the going concern basis is appropriate in preparing these Financial Statements.

Notes to the Consolidated Financial Statements

b) Functional and presentational currency

The Consolidated Financial Statements are presented in Pounds Sterling (£), which is the Fund's functional and presentational currency.

c) Basis of consolidation

The Consolidated Financial Statements of the Group incorporate the financial statements of the Fund and its consolidated subsidiaries drawn up to 30 June 2021. Under FRS 102, Section 9 Consolidated and Separate Financial Statements, control is presumed when a parent owns more than half of the voting power of an entity.

Where subsidiaries hold investment property the IA SORP states that the Fund is required to consolidate such entities. Where a subsidiary holds investments that do not meet the definition of investment property, the entity is not consolidated and is held at fair value as it is held as a part of an investment portfolio.

The results of investment property holding subsidiaries acquired are consolidated from the date on which control passes. Acquisitions are accounted for under the acquisition method.

The results of investment property holding subsidiaries sold during the year are deconsolidated from the date on which control passes.

Non-controlling interests in the net assets of the consolidated subsidiaries are distinguished from the Group's net assets attributable to Unitholders therein and are classified as liabilities. Non-controlling interests consist of the amounts of those interests at the date of the original acquisition and the non-controlling interest's share of changes in net assets since the date of acquisition.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

d) Investments in unconsolidated subsidiaries

Investments in unconsolidated subsidiaries are initially recognised at cost.

Investments in unconsolidated subsidiaries are held as part of an investment portfolio and are subsequently measured at fair value, which is based on the net asset value of the relevant unconsolidated subsidiary as at the period end date. As unconsolidated subsidiaries are SDLT exempt entities, the valuation of the investment may include an uplift element which reflects the SDLT saving that would be achieved by disposing of the subsidiary rather than the property. These are included within 'other investments'.

e) Investments in associates and joint ventures

Investments in associated and joint ventures are initially recognised at cost. Investments in associates and joint ventures are held as part of an investment portfolio and are measured at fair value through the profit or loss. This is on the basis that their value to the Fund is through their marketable value, rather than as a medium through which the Fund carries out its business. The investments are carried at their net asset value and distributions are recognised on an accruals basis in the period to which they relate. Where the associate is a SDLT exempt entity, the valuation of the investment may include an uplift element which reflects a SDLT saving that would be achieved by disposing of the Fund's interest in the associate or joint venture rather than the property. These are included within 'other investments'.

Notes to the Consolidated Financial Statements

f) Investment properties and investment properties under construction

Property assets consist of investment property and, in the case of sites in the course of development, investment property under construction. Initially property assets are recognised at cost, including SDLT and other transaction costs, and reduced for amounts received from the vendor, associated with the purchase of the property asset. Acquisitions and disposals are accounted for on exchange of contracts or thereafter when all conditions have been met.

Property assets are subsequently measured at fair value and are valued by an independent valuer at fair value as defined in the Appraisal and Valuation Standards manual issued by the Royal Institution of Chartered Surveyors of the United Kingdom.

g) Investment in finance leases

Where leases transfer the significant risks and rewards of owning the asset to the tenant, the lease is accounted for as a finance lease in accordance with Section 20 of FRS 102. At lease inception the fair value of the asset is de-recognised from asset under construction and a finance lease receivable recognised, at the fair value of the asset.

Finance lease income is recognised over the period of the lease at a constant rate of return, using known amounts to be received at lease inception. The difference between the gross receivable and the present value of the receivable is recognised as finance income within Income over the lease term. Additional amounts received in future years which are not known at lease inception, such as those arising from inflation-linked rent reviews, are treated as additional income in the period which it relates to.

The finance leases are reviewed for impairment at the end of each reporting period.

h) Lease incentives

The Fund may agree to pay incentive fees to the lessee in connection with the lease contracts for the properties held by the Fund. These fees are capitalised and amortised over the lease term. Lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term.

i) Derivatives

Where derivative contracts are used to manage risk exposure, the derivative financial instruments are initially measured at fair value on the date on which a derivative contract is entered into.

Subsequently derivative contracts are measured at fair value through the Consolidated statement of total return and carried as assets when the fair value is positive or as liabilities when the fair value is negative.

j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and demand deposits with an original maturity of three months or less and other short term, highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

k) Bank loans and interest

Bank loans are recognised initially at fair value, net of transaction costs incurred and subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the Consolidated statement of total return over the period of the loan using the effective interest method. Interest expense is recognised within 'Finance costs: Interest' in the Consolidated statement of total return using the effective interest method.

Notes to the Consolidated Financial Statements

l) Unitholders' funds
In accordance with Section 22 of FRS 102 and the IA SORP 2014 paragraph 2.80, Fund Units are classified as equity instruments only when they meet all three of the following conditions: 1) The Fund is a stand-alone fund or is the sub-fund of an umbrella; 2) the Fund has only a single class of Units; and 3) the Fund is not obliged to distribute by way of cash (where, for example, only accumulation Units are in issue) any part of the total return to Unitholders. Since the third condition is not met, the Fund Units are classified as financial liabilities. Distributions on these Units are recognised in the Consolidated statement of total return as 'Finance costs: Distributions'.

m) Net capital gains and losses
Realised and unrealised gains or losses on disposal and revaluations of property assets and other investments are treated as movements on capital account and classified as 'Net capital gains or losses on investments' in the Consolidated statement of total return.

n) Recognition of income
All income is accounted for on an accruals basis net of VAT.

Rental income and contingent rents, being those that are not fixed at the inception of the lease, are recorded as income in the period in which earned. Changes arising from rent reviews are reflected as income, based on estimates, when it is reasonable to assume they will be received.

Interest receivable is accounted for on an effective interest rate basis.

Distributions receivable from investments are recognised on an accruals basis and accounted for in the Consolidated Statement of total return.

If it is expected that revenue receivable at the balance sheet date will not be received, a provision is recognised for the amount that is considered irrecoverable.

In doing so, each tenant is assessed individually with the aim of forming a conclusion on their financial profile and ability to meet obligations. This is done by considering the most recent available information such as verbal conversations, media reports and any other readily available financial data.

o) Expenses
For accounting purposes, all expenses (other than those relating to the purchase and sale of investments and SDLT) are charged against income for the period on an accruals basis.

Transaction costs associated with failed investment property acquisitions and disposals are charged as expenses to the Consolidated statement of total return in the period the transaction is aborted.

p) Loan facility fees
The direct issue costs of raising finance are amortised over the life of the loan facility.

q) Finance costs: Distributions
Distributions treated as finance costs are calculated in accordance with note 2 and recognised gross of any applicable withholding tax within the period to which they relate.

Notes to the Consolidated Financial Statements

2 Distribution policy

Income (which is defined as the income and other receipts and accruals of the Fund of an income nature) attributable to Unitholders belongs beneficially to the Unitholders and does not form part of the Scheme Property, in accordance with the Fund's status as a Baker Trust. Any Income distributed to Unitholders shall be after the deduction of Revenue Expenses (defined as permitted expenses pursuant to the accounting policies of the Fund) and any withholdings to be made by the Manager, Trustee, or any of their agents. It is the Fund's policy therefore to distribute all net income.

Income is not included in the calculation of the subscription and redemption prices of Units.

Income attributable to Unitholders, becomes available for distribution on the accounting reference date being the last day of each calendar quarter, and is allocated to those Investors who held Units at any time during that calendar quarter. This entitlement to a share of the net income of the Fund is calculated by reference to the Investor's holding of Units and its tenure in the Fund for the period, and is paid within 30 business days following the end of the relevant calendar quarter.

The amount available for distribution is calculated in accordance with the policy as set out above.

Any net proceeds received as a result of returns of capital, such as through disposals of investment property or finance lease receipts, can be distributed at the discretion of the Manager. Capital distributions become available for distribution when declared and are allocated to Investors who hold Units at that time. The total amount paid for capital distributions in a period shows as a movement through the Consolidated Statement of total return.

The Manager is not obliged to make distributions if it would render the Fund insolvent, or if the distribution may leave the Fund unable to meet any future obligations and liabilities.

Under the terms of the Information Memorandum, upon the occurrence of a Market Wide Non-Payment Event (defined as an event agreed by the Manager and the Trustee as having given rise to market conditions which cause a significant proportion of the Income accruing in respect of the Scheme Property to not be received in a timely manner, due to extraordinary circumstances affecting the markets in which the Fund invests) and until the subsequent Normalisation Date (the date at which the Manager and the Trustee agree that the Market-Wide Non-Payment Event has ceased to have a material impact on the timely receipt of Income), any Income received in a Distribution Period, which accrued in an earlier Distribution Period, but was not received in such earlier period due to the Market-Wide Non-Payment Event, shall on its receipt by the Trustee be distributed to the Unitholders appearing in the Register at the time that it was accrued. The Manager and the Trustee declared a Market-Wide Non-Payment Event on 6 October 2020 due to the impact of COVID-19 on rental income receipts. An ad hoc distribution was made post year end as disclosed in note 24.

3 Risk management policies

The Fund's overall investment objective is to deliver a secure long-term income stream with inflation-linked or fixed uplifts through investment primarily in UK real estate. The Group's activities expose it to various types of risk, particularly those associated with the property market. In addition, the Group holds cash and liquid resources as well as having debtors and creditors that arise directly from its operations.

The main risks arising from the Group's portfolio of financial instruments and investment property are liquidity risk, market price risk, credit risk, interest rate risk and development risk.

The Manager and Investment Advisor monitor and seek to manage these risks by using appropriate reporting mechanisms which identify risk activities and allow the Group to control or avoid risks identified.

The Manager operates a risk management framework containing five key steps:

Notes to the Consolidated Financial Statements

1. Risk Identification: new risks are identified and escalated to the Manager's Risk Director and included in the quarterly reporting cycle to the Board Directors of the Manager. Significant new risks may be escalated immediately by the Manager's Risk Director to the Board in exceptional circumstances.
2. Risk Assessment: risks are assessed against a Group-wide risk assessment scale and ratings are reviewed on a quarterly basis. Themed stress testing is carried out and the results are reported by the Manager's Risk Director to the Board of Directors of the Manager.
3. Risk Mitigation: a risk mitigation strategy for a new risk or a new mitigation for an existing risk is approved by the Board of Directors of the Manager following a recommendation from the Manager's Risk Director. Such mitigation strategy could be the addition of a new control, the amendment of an existing control, the avoidance of the risk by the cessation of the activity or the transfer of the risk by insuring or outsourcing the activity.
4. Risk Monitoring: all risks are reviewed by the Manager's Risk Director on a quarterly or more frequent basis, as required.
5. Risk Reporting: all risks are formally reviewed by the Board of Directors of the Manager on a quarterly basis.

a) Liquidity risk and capital management

Liquidity risk is the risk that the Fund may encounter in attempting to realise assets or otherwise raise funds to meet financial commitments as and when they fall due.

The Fund's liquidity can be affected by unexpected or high levels of Unit redemptions. In addition to investor commitments, the Manager reserves the right to defer accepted redemption requests for a period of up to six successive Dealing Days as defined in the Information Memorandum. At the end of this period, a minimum of 10% of the Units comprising each accepted redemption request will be redeemed on each successive Dealing Day until settlement has been made in full.

The Manager may borrow for the account of the Fund including for the purpose of meeting redemption requests and to meet timing differences in connection with the acquisition and disposal of investments. Cash is held to meet the Fund's short term liabilities. The Fund has a revolving credit facility with Royal Bank of Scotland International Ltd, as described in note 17.

The Group has long-term commitments to the developers under agreements and in relation to the Fund's investment in subsidiaries, as detailed in note 23. Meeting these requirements are managed in accordance with the capital structure.

The Manager considers that the Fund's capital consists of its net assets attributable to Unitholders together with the Fund's borrowing facilities and its capital queue. The Manager manages the Fund's capital to enable the Fund to continue as a going concern and meet its liabilities as they fall due and to minimise the cost of borrowing within the constraint of meeting liabilities as they fall due. When funding new developments or acquiring new assets the Manager assesses whether it is in the best interests of Unitholders as a whole to utilise existing borrowing facilities, negotiate new facilities or draw down from the capital queue. The Manager also considers whether it is in the best interests of Unitholders to use existing liquid assets or different sources of capital to meet redemption requests or to defer such redemptions.

The Fund is not subject to any regulatory capital requirements.

Notes to the Consolidated Financial Statements

b) Market price risk

Market price risk is primarily the risk that the Fund is exposed directly, and indirectly through investments in subsidiaries, to adverse real estate valuation movements. Real estate values of the Fund can be affected by a number of factors that are beyond the control of the Manager. These include, but are not limited to, changes to global or local economic conditions, local market conditions, the financial conditions of tenants, changes in interest rates, real estate tax rates and other operational expenses, environmental laws and regulations, planning laws and other governmental legislation, energy prices and the relative attractiveness of real estate types or locations. In addition, real estate is subject to long-term cyclical trends that give rise to significant volatility in values.

The risk is mitigated through strategic asset allocation, stock selection and asset management.

The value of investment properties and investment properties under construction is determined by the Independent Valuer, CBRE, and is therefore subjective. The Independent Valuer has acquired significant experience in the real estate sectors targeted by the Fund.

No assurance can be given that any given real estate asset could be sold at a price equal to the fair value ascribed to it. Valuation methodologies applied are outlined in note 4.

c) Credit risk

Credit risk is the risk that an issuer or counterparty in respect of rental income receivable, finance lease receivables, distributions receivable, development loans receivable and cash balances, will be unable or unwilling to meet a commitment that it has entered into with the Group. During the development phase, the credit risk exposure comes from the developer but on completion will shift to the tenant. In respect of the property portfolio, in the event of default by an occupational tenant, the Group will suffer an income shortfall and incur additional cost including legal expenses, maintaining, insuring and re-letting the property. This risk is reduced by investing in a diversified portfolio of properties. Additionally, the income from any one tenant or tenants within the same group must not exceed 35% of the aggregate income in relation to the property investments in any accounting period unless that tenant is the UK Government or guaranteed by the UK Government.

The Fund has policies in place to ensure that contracts are entered into only with lessees and developers with an appropriate credit history and that an appropriate balance exists between tenant credit quality and the underlying real estate fundamentals where appropriate, whilst achieving income growth by investing in assets with leases or other contracts that incorporate regular rent reviews providing inflation-linked or fixed uplifts.

The COVID-19 pandemic and associated government lockdown measures have caused major disruption to the real estate market. While the majority of the Fund's rent has been collected as normal (with a 100% collection rate for supermarkets, offices, residential, student accommodation, car auctions and healthcare), some of the Fund's hotel and leisure tenants have suffered as their revenue generating abilities have been severely disrupted. As a result, a small number of tenants have experienced short term cash flow and liquidity constraints, which has impacted their ability to service their various financial obligations, including rent. Regular dialogue has been in place with all impacted tenants and, where appropriate, rent deferral and repayment terms have been agreed to protect the long term value of their businesses and the Fund's assets. A portion of the deferrals have now been collected.

Credit risk arises from cash and cash equivalents held at banks. The Manager structures the levels of credit risk acceptable to the Fund by placing limits on exposure to a single counterparty, or groups of counterparties, and to geographical and industry segments. Such risks are subject to frequent reviews. Cash is placed on deposit with reputable financial institutions. The Manager has policies that limit the amount of credit exposure to any financial institution. The Group holds cash and cash equivalents for operational use with HSBC UK Bank plc and RBS International, each with Moody's ratings of A1 and Baa1 respectively (2020: Aa3 and Baa2 respectively).

Limits on the level of credit risk by category and territory are approved by the Manager. The utilisation of credit limits is regularly monitored.

d) Interest rate risk

The Fund is subject to interest rate risk in respect of cash deposits, as well as interest paid on overdrafts and bank loans held. Interest is earned and accrued based on bank base rates. Since the objective of the Fund is to deliver returns over the long term, transactions with the sole objective of realising short term returns are generally not undertaken. Finance leases, earning a fixed rate of interest, expose the Fund to market risk from adverse movements in rates.

e) Development risks

The development or redevelopment of properties carries a number of risks. During the development phase the risk partly lies with the developer not being able to deliver the property as agreed. Other risks associated with development or redevelopment include the risk that delays in the construction timetable result in real estate not reaching a stage where it is reasonably fit for occupancy and the risk of bad craftsmanship by contractors. Furthermore, should the project costs exceed budgeted costs, the Fund would incur additional monitoring and progress costs. Similarly, there may be planning risks arising from difficulties in obtaining planning consents and licences which delay the construction timetable. Development risks are substantially mitigated by provisions including lease pre-commitments, fixed price development contracts, guarantees from appropriate capitalised parties and contracted sunset dates.

These risk management policies have been consistently applied since the beginning of the financial year.

4 Critical accounting estimates and judgements

The preparation of Consolidated Financial Statements in conformity with FRS 102 requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, revenues and expenses. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the assets or the liabilities reflected in future periods.

In the process of applying the Fund's accounting policies, management has made various judgements. These judgements are considered to be in line with standard market practice and where relevant have been disclosed in the associated accounting policies (refer to notes 1(a), 1(d), 1(e) and 1(f)) and the appropriate disclosures have been made. The key estimates concerning the future and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Notes to the Consolidated Financial Statements

Trade receivables
Trade receivables are recognised at fair value and subsequently held at amortised cost, less any provision for impairment in respect of trade receivables.

Rents and service charges are often billed quarterly in advance, which results, initially, in deferred income being recognised in the balance sheet. Given the current unprecedented circumstances caused by pandemic restrictions, significant uncertainty persists over collectability of trade receivables. While this is the case, the Manager considers that it is more appropriate to only recognise deferred income to the extent it estimates that it is likely to materialise. This also applies to the corresponding trade receivables.

At the end of each reporting period, the Manager assesses whether there is objective evidence following a loss event that revenue receivable at the financial reporting date will not be received. If objective evidence is present then a provision is made for the relevant amount in the Consolidated statement of total return.

Objective evidence includes observable data that has come to the attention of the Manager about the following loss event:

a) significant financial difficulty of the issuer or tenant;

b) a breach of contract, such as a default or delinquency in interest or principal payments;

c) the Manager, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the Fund would not otherwise consider;

d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; and

e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

Other factors to be considered include significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the tenant operates.

For rent deferrals and non-payment, each tenant has been assessed individually with the aim of forming a conclusion on their financial profile and ability to meet obligations. This is done by considering the most recent available information such as verbal conversations, media reports and any other readily available financial data.

It must be noted that an exercise of this nature is highly judgemental in arriving at a decision on whether or not to provide for receivables. A bad debt expense totalling £4.428 million was charged to the Consolidated statement of total return for the year ended 30 June 2021 (2020: £4.238 million).

Fair value of investment properties, investment properties under construction and finance leases
Investment properties and investment properties under construction (note 12) are stated at fair value. Finance leases held in unconsolidated subsidiaries are uplifted to fair value through a NAV adjustment of the investment (note 13). For directly held finance leases (note 14), at lease inception a finance lease receivable is recognised at the fair value of the asset. Finance leases (note 17) are stated at amortised cost and the fair value of the Real Estate asset is used as key input into the Fund's impairment assessment.

Notes to the Consolidated Financial Statements

All fair values have been determined based on valuations performed by CBRE in their capacity as accredited independent valuers, as at 30 June 2021. CBRE has acquired significant expertise in valuing these types of investment properties, investment properties under construction and finance leases. The Valuer derives the fair value by applying the methodology and valuation guidelines as set out in the practice statements of the current Royal Institution of Chartered Surveyors' 'Appraisal and Valuation Manual' and the requirements of 'FRS 102'. The assets were valued in their entirety by the Independent Valuer as at 30 June 2021.

Fair value is estimated through application of valuation methods and procedures that reflect the nature of the property and the circumstances under which the given property would most likely trade in the market. The most common method used to estimate fair value of investment properties and finance leases is the sales comparison approach. The income capitalisation approach, including discounted cash flow (DCF) analysis, is then used to support and confirm the conclusions drawn from the sales comparison approach. The Valuer has regard for not only the vacant possession value of the sites but also the trading performance of the operational assets. The most common method used to estimate the fair value of investment properties under construction is the residual value method. For finance leases, as there is no residual value a greater reliance is placed on the cash flows.

The determined fair value of the investment properties and investment properties under construction is most sensitive to the estimated yield as well as the long term vacancy rate.

a) Sales/Direct Comparison Approach

The comparative approach considers the sales of similar or substitute properties and related market data, and establishes a value estimate by processes involving comparison. In general, a property being valued (a subject property) is compared with sales of similar properties that have been transacted in the market. Listings and offerings may also be considered.

This approach establishes limits on the fair value for real property by examining the prices commonly paid for properties that compete with the subject property for buyers. Sales are investigated to ensure that the parties to the transaction were typically motivated.

b) Income Capitalisation Approach

The income capitalisation approach considers income and expense data relating to the property being valued and estimates value through a capitalisation process. Capitalisation relates income (usually a net income figure) and a defined value type by converting an income amount into a value estimate. This process may consider direct relationships (known as capitalisation rates), yield or discount rates (reflecting measures of return on investment), or both.

The income capitalisation approach is particularly important for properties that are purchased and sold on the basis of their earnings capabilities and characteristics and in situations where there is market evidence to support the various elements incorporated into the analysis. The income capitalisation approach is based on the same principles that apply to other valuation approaches. In particular, it perceives value as created by the expectation of future benefits (income streams). Income capitalisation employs processes that consider the present value of anticipated future income benefits.

Notes to the Consolidated Financial Statements

c) Discounted Cash Flow (DCF) Analysis

DCF is a financial modelling technique based on explicit assumptions regarding the prospective cash flow to a property or business. As an accepted methodology within the income approach to valuation, DCF analysis involves the projection of a series of periodic cash flows either to an operating property, a development property, or a business. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property or business. In the case of operating real properties, periodic cash flow is typically estimated as gross income less vacancy and collection losses and less operating expenses/outgoings.

The series of periodic net operating incomes, along with an estimate of the reversion/terminal value, anticipated at the end of the projection period, is then discounted. The most widely used applications of DCF analysis are the Internal Rate of Return (IRR) and Net Present Value (NPV).

As with all other components of DCF analysis, the discount rate should also reflect market data, i.e., other market derived discount rates. Discount rates should be selected from comparable properties or businesses in the market. In order for these properties to be comparable, the revenue, expenses, risk, inflation, real rates of return, and income projections for the properties must be similar to those of the subject property. Present value calculations of cash flows are most often calculated using appropriate discount rates for each class of cash flows. A reversion/terminal value is capitalised at a terminal capitalisation rate, or reversion yield, and discounted to present value at an appropriate discount rate. In many instances, a single discount rate is used for all cash flows.

d) Residual value method

For the investment properties under construction, fair value has been determined using the residual value method. As part of this process the valuation specialist initially assesses the gross development value of the respective property based on the Estimated Rental Value ('ERV') that they assume for each asset upon completion and an equivalent yield that would be appropriate for the subject property. Various costs such as the estimates of capital outlay, construction costs and developer's profit then have to be deducted in order to arrive at the value of the property which is accurately reflecting its current construction status. In determining such costs the contractual commitments are taken into account.

The valuations of investment properties, investment properties under construction and finance leases are based upon estimates and subjective judgements that may vary from the actual values and sales prices that may be realised by the Group upon disposal.

Fair value of investments in unconsolidated subsidiaries and associates

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the reporting date.

For investments in unconsolidated subsidiaries and associates where there is no active market, fair value is determined based on the latest available net asset value of the unquoted investment as reported by the Administrator or Manager of the relevant investment.

As subsidiaries are SDLT exempt entities, the valuation of the investment may include an uplift element which reflects the SDLT saving that would be achieved by disposing of the subsidiary rather than the property. The uplift applied follows the Manager's policy on SDLT adjustments.

Notes to the Consolidated Financial Statements

5 Net capital gains on investments

	2021 £'000	2020 £'000
Realised (loss)/gain on sale of investment property	(5,682)	835
Realised gain on derivatives	–	5,665
Unrealised gain/(loss) on investment properties	156,944	(118,769)
Unrealised gain/(loss) on investment property under construction	6,485	(3,269)
Unrealised gain/(loss) on investments in associates	32,205	(11,767)
Unrealised gain on unconsolidated subsidiaries	1,570	1,079
Unrealised gain/(loss) on investments in joint ventures	1,799	(6,351)
Net capital gains/(losses)	**193,321**	**(132,577)**

6 Revenue

	2021 £'000	2020 £'000
Distributions from associates and unconsolidated subsidiaries	22,373	20,820
Interest on finance lease	240	247
Interest income	5,444	4,266
Other income	584	667
Rental income	184,692	178,463
Amortisation of lease inducement asset	(267)	(268)
Total revenue	**213,066**	**204,195**

Notes to the Consolidated Financial Statements

7 Expenses

	2021 £'000	2020 £'000
Payable to the Manager or Associates of the Manager		
Manager's fee	534	529
Investment Advisory fee	22,660	22,128
Real Estate Asset Management fee	357	356
	23,551	**23,013**
Payable to the Trustee or Associates of the Trustee		
Trustee fee	249	249
Other expenses		
Administration fee	906	872
Auditor's fee	371	272
Bad debts expense	4,428	4,238
Independent Valuer fee	371	555
Legal and professional fees	425	2,144
Listing fees	66	84
Loan facility set up costs	116	114
Service charges and other expenses	1,277	1,080
Taxation charges	46	47
	8,006	9,406
Total expenses	**31,806**	**32,668**

a) Manager's fee

The Manager receives a fee of £125,000 per annum, which accrues daily and is payable quarterly in arrears, and a fee of 0.01% of the Net Asset Value of the underlying subsidiaries.

b) Investment Advisory fee

The Investment Advisor receives a fee of 0.5% of Net Asset Value (NAV) per annum accrued monthly and payable quarterly. NAV is defined as the aggregate value of the assets of the Fund, excluding any and all net income whether accrued or received, but including any liabilities, calculated in accordance with the trust instrument.

The Investment Advisor also receives an acquisition fee of 0.25% of the acquisition price of the real estate asset payable from the capital of the Fund, provided that the aggregate of the acquisition fee and any sourcing fees payable to agents does not exceed 1% of the acquisition price of the asset. This acquisition fee amounted to £nil (2020: £733,500).

c) Real Estate Asset Management fee

The Real Estate Asset Manager receives an annual fee of £1,500 per material tenancy, calculated and paid quarterly in arrears. The fee is subject to indexation.

Notes to the Consolidated Financial Statements

d) Trustee fee

The Trustee receives a fee, calculated and paid quarterly in arrears, at the following rates (subject to a minimum fee of £10,000 per annum) and £5,000 per sub-trust:

Band	Fee
On the first £250 million of the NAV	0.015% pa
On the NAV of between £250 million and £500 million	0.0125% pa
On the NAV of between £500 million and £1 billion	0.01% pa
On the NAV over £1 billion	0.0075% pa

This variable fee is not applicable to the Fund's assets where the Trustee already acts as trustee to the underlying asset. Included in the acquisition costs of the properties is an amount of £nil (2020: £4,000) paid to the Trustee.

The Trustee is also entitled to a setup fee of £1,500 for each new sub-trust and a fixed fee of £2,500 per transaction.

e) Administration fee

The Administrator receives a fee, calculated and paid quarterly in arrears, at the following rates (subject to a minimum fee of £150,000 per annum):

Band Effective 1 April 2021	Fee
On the first £250 million of the NAV	0.0325% pa
On the NAV of between £250 million and £500 million	0.025% pa
On the NAV of between £500 million and £750 million	0.015% pa
On the NAV of between £750 million and £1 billion	0.013% pa
On the NAV of between £1 billion and £2 billion	0.011% pa
On the NAV over £2 billion	0.01% pa

Band to 31 March 2021	Fee
On the first £250 million of the NAV	0.0325% pa
On the NAV of between £250 million and £500 million	0.025% pa
On the NAV of between £500 million and £750 million	0.015% pa
On the NAV of between £750 million and £1 billion	0.013% pa
On the NAV of between £1 billion and £2 billion	0.011% pa
On the NAV of between £2 billion and £3 billion	0.0075% pa
On the NAV over £3 billion	0.007% pa

This variable fee is not applicable to the Group's assets where the Administrator already acts as the administrator to the underlying assets.

The Administrator also receives a setup fee of £5,000 for each new sub-trust, and an additional administration fee of £9,750 p.a. effective 1 April 2021 (to 31 March 2021: £8,000) per sub-trust.

Notes to the Consolidated Financial Statements

f) Legal and professional fees

£161,690 (2020: £1,802,316) of these fees relate to the change in trustee in the current year.

g) Bad debts*

Tenant	Unit Trust	Bad Debt Expense %	Bad Debt Expense Amount
Shiva[a]	Heathrow Unit Trust	90%	995,343

* The above table is for COVID-19 related bad debts, and the remaining bad debts balance are the bad debts incurred in the normal course of business.

[a] This tenant has not paid rent since the moratorium on eviction was actioned in April 2020 by H M Government. The tenant has made no attempt to negotiate a repayment plan or re-open the hotel leading us to assume a low probability of recovery and potentially an asset work-out scenario as the tenant has significant debt finance.

8 Taxation

The Fund principally invests in subsidiary unit trusts established under the laws of Guernsey ('sub-trusts'). The Fund and its sub-trusts are exempt from Guernsey taxation under The Income Tax (Exempt Bodies) (Guernsey) Ordinance, 1989. The Fund and its sub-trusts have applied for exempt status for the periods covered by these Financial Statements and will each be liable for a fixed fee of £1,200 (2020: £1,200) per annum.

The Manager has made an 'exemption election' for the Fund under the NRCGT legislation. This means that, provided certain conditions are continuously met, the Fund shall not be subject to UK tax on gains derived from sales of property (or other such chargeable events). Tax is instead levied on Unitholders in the Fund depending on their own tax status and linked to liquidity events at the Unitholder level.

Notes to the Consolidated Financial Statements

9 Finance costs: Distributions and other finance costs

The following distributions were made or became payable during the year:

	2021 £'000	2020 £'000
Quarterly distributions		
Quarter ended 30 September	45,226	42,916
Quarter ended 31 December	44,927	44,446
Quarter ended 31 March	44,873	43,908
Quarter ended 30 June	45,650[a]	41,497
Total quarterly distributions	**180,676**	**172,767**
Finance costs: Distributions	**180,676**	**172,767**
Interest on secured borrowing	71	389
Non-utilisation fee	622	579
Finance costs: Interest	**693**	**968**
Total finance costs	**181,369**	**173,735**
Net revenue per statement of total return	180,567	170,559
Capital expenses excluded from net income for income distribution purposes	109	2,208
Finance costs: Distributions	**180,676**	**172,767**
Comprising:		
Distributions to Unitholders	175,174	167,336
Distributions to non-controlling interests	5,502	5,431

[a] Distribution paid on 2 August 2021, net of cash withheld of £3,555,928. Total distributions payable at year end amounts to £66,703,342. An ad hoc distribution was made post year end as disclosed in note 24.

Notes to the Consolidated Financial Statements

10 Cash flow

	2021 £'000	2020 £'000
Reconciliation of total return before distributions to net cash flow from operating activities		
Total return before distributions	373,888	37,982
Distributions received	(22,373)	(20,820)
Interest income	(5,444)	(4,266)
Interest on finance lease	(240)	(247)
Net (gains)/losses on investments	(193,321)	132,577
Amortisation of Lease inducement asset	267	268
Finance costs: Interest	693	968
Movement in debtors	(13,468)	(14,464)
Movement in creditor	1,070	(1,425)
Net cash inflow from operating activities	**141,072**	**130,573**

Reconciliation of net debt	At 1 July 2020 £'000	Cash flows £'000	Other non cash charges £'000	At 30 June 2021 £'000
Net debt	(4,388,883)	38,718	(373,887)	(4,724,052)

Net debt comprises of cash, distributions payable and net assets attributable to Unitholders.

11 Units in issue

The following table shows the movement in Units in issue during the year.

Unit class:	Opening 01.07.20	Movement Issued	Movement Cancelled	Closing 30.06.21
Institutional 'A' Units	38,730,086	2,366,625	(1,244,296)	39,852,415

Notes to the Consolidated Financial Statements

12 Investment property and investment property under construction

	Investment property £'000	Investment property under construction £'000	Total £'000
Valuation as at 30 June 2020	3,616,383	274,597	3,890,980
Purchases of investment property and cost adjustments	–	–	–
Development costs	–	136,972	136,972
Disposal of investment property	(11,096)	–	(11,096)
Adjustment to cost	(148)	–	(148)
Movement in unrealised gain on revaluation during the period	156,944	6,485	163,429
Reclassification for completed investment property during the period	252,876	(252,876)	–
Valuation at 30 June 2021	4,014,959	165,178	4,180,137
Fair value as at 30 June 2021	**4,014,959**	**165,178**	**4,180,137**

	Investment property £'000	Investment property under construction £'000	Total £'000
Valuation as at 30 June 2019	3,655,482	212,078	3,867,560
Purchases of investment property and cost adjustments	95,857	–	95,857
Development costs	–	65,788	65,788
Disposal of investment property	(16,023)	–	(16,023)
Adjustment to cost	(164)	–	(164)
Movement in unrealised gain on revaluation during the period	(118,769)	(3,269)	(122,038)
Valuation at 30 June 2020	3,616,383	274,597	3,890,980
Fair value as at 30 June 2020	**3,616,383**	**274,597**	**3,890,980**

The Group's investment property assets were valued by the Independent Valuer, being a member of the Royal Institution of Chartered Surveyors, on 30 June 2021, at £3,848,349,000 (2020: £3,452,103,000). This excludes the directly held properties disclosed below. The valuations have been prepared in accordance with the RICS Valuation – Global Standards 2020 and the UK national supplement 2018 ('the Red Book').

Included in investment property are properties held directly by the Fund with a Fair Value as at 30 June 2021, of £166,610,000 (2020: £164,280,000). These properties were valued by the Independent Valuer, as of 30 June 2021.

Investment property also includes the values of the properties held by each sub-trust, as detailed in Note 20.

The Group's investment property under construction assets were valued by the Independent Valuer, as of 30 June 2021, at £165,178,000 (2020: £274,597,000).

Given the nature of the Fund, there are various leases in place that have a variety of contractual terms, including those that permit contingent rent, renewal/purchase options and escalation clauses and the option of sub-letting.

Notes to the Consolidated Financial Statements

The valuation has been primarily derived using comparable recent market transactions on arm's length terms. The valuation was also determined using cash flow projections based on estimates of current and future cash flows, supported by the terms of any existing lease and other contracts and by external evidence such as current market rents for similar properties in the same location and condition, and using capitalisation rates that reflect current market conditions.

The future rental rates were estimated depending on the actual location, type and quality of the property, and by taking into account market data and projections at the valuation date. In addition to the condition and repair of buildings and sites, certain assumptions were also made as to the tenure, letting, and local town planning in order to derive the valuation.

The below sensitivities illustrate the impact of changes in a key unobservable input (in isolation) on the fair value of the Group's property investments, analysed by sector in accordance with the Portfolio Statement:

Impact on valuation of 0.25% change in yield	Increase 2021 £'000	Decrease 2021 £'000
Retail	(56,720)	63,210
Office	(71,590)	81,980
Leisure (including hotels)	(86,728)	96,122
Other	(35,165)	39,785

Impact on valuation of 0.25% change in yield	Increase 2020 £'000	Decrease 2020 £'000
Retail	(49,160)	54,390
Office	(62,185)	70,635
Leisure (including hotels)	(83,597)	89,153
Other	(34,558)	39,092

Future minimum rentals receivable under non-cancellable operating leases within investment property are as follows:

	2021 £'000	2020 £'000
Not later than one year	185,702	193,042
Later than one year and not later than five years	747,658	773,684
Later than five years	5,329,915	5,549,326
Total	**6,263,275**	**6,516,052**

Notes to the Consolidated Financial Statements

13 Other investments

	Investments in associates £'000	Investments in joint ventures £'000	Investments in unconsolidated subsidiaries £'000	Total £'000
Valuation as at 30 June 2020	299,402	119,817	86,353	505,572
Purchases of investments	26	–	–	26
Disposal of investments	–	(892)	(858)	(1,750)
Movement in unrealised gain on revaluation during the period	32,205	1,799	1,570	35,574
Valuation at 30 June 2021	331,633	120,724	87,065	539,422
Fair value as at 30 June 2021	**331,633**	**120,724**	**87,065**	**539,422**

	Investments in associates £'000	Investments in joint ventures £'000	Investments in unconsolidated subsidiaries £'000	Total £'000
Valuation as at 30 June 2019	311,064	–	86,105	397,169
Purchases of investments	105	126,168	–	126,273
Disposal of investments	–	–	(831)	(831)
Movement in unrealised gain on revaluation during the period	(11,767)	(6,351)	1,079	(17,039)
Valuation at 30 June 2020	299,402	119,817	86,353	505,572
Fair value as at 30 June 2020	**299,402**	**119,817**	**86,353**	**505,572**

The cost and unrealised gain/(loss) on revaluation split of the other investments, excluding development loans, is as follows:

	2021 Cost £'000	Unrealised gains/(losses) on revaluation £'000	2021 Total £'000
The Car Auctions Unit Trust	137,461	80,096	217,557
The Hotel 42 Unit Trust	125,276	(4,552)	120,724
The Swansea Unit Trust	29,761	57,304	87,065
The Tesco Jade Unit Trust	96,564	17,447	114,011
Tesco Jade (GP) Limited	32	33	65
	389,094	**150,328**	**539,422**

Notes to the Consolidated Financial Statements

	2020 Cost £'000	Unrealised gains/(losses) on revaluation £'000	2020 Total £'000
The Car Auctions Unit Trust	137,461	56,242	193,703
The Hotel 42 Unit Trust	126,168	(6,351)	119,817
The Swansea Unit Trust	30,619	55,735	86,354
The Tesco Jade Unit Trust	96,538	9,105	105,643
Tesco Jade (GP) Limited	32	23	55
	390,818	**114,754**	**505,572**

The investments in associates relate to a 40% holding in The Tesco Jade Unit Trust and Tesco Jade (GP) Limited, and a 50% holding in The Car Auctions Unit Trust.

The investment in joint ventures relates to a 50% holding in The Hotel 42 Unit Trust.

Investments in unconsolidated subsidiaries relate to holdings in The Swansea Unit Trust. This subsidiary holds finance lease assets which do not meet the criteria of investment property and so are not consolidated.

14 Net investment in finance leases

As at 30 June	2021 £'000	2020 £'000
Amounts receivable under finance leases:		
Within one year	514	454
In the second to fifth year inclusive	1,816	1,816
After five years	8,834	9,288
	11,164	11,558
Less: unearned finance: Income	(3,273)	(3,513)
Present value of minimum lease payments receivable	7,891	8,045
Interest received in advance	–	61
Net investment in finance lease	7,891	8,106

The Aberfeldy Unit Trust entered into a lease in the 2016 financial year for the completed property with a third party tenant. The term of the finance lease is from 11 March 2016 (with the rent commencement date on 31 March 2016), and expires on 31 December 2045. The initial annual rent was £453,932. The principal rent is paid quarterly in advance and is increased from each rent review date in accordance with the lease agreement (using a formula for an RPI adjustment). The 1st rent review date was on 1 September 2016 with each rent review being on each anniversary of that date thereafter.

The fair value of the finance lease receivable at 31 March 2016, being inception of the lease, was £9,000,000.

The term of finance lease entered into is 30 years.

Unguaranteed residual values of assets held under finance leases at the balance sheet date are estimated at £nil (2020: £nil) due to the £1 buy back option given to the tenant as per the head lease agreement.

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The implied interest rate contracted approximates 3.01% (2020: 3.01%) per annum. Contingent rents are recognised within income.

Notes to the Consolidated Financial Statements

15 Portfolio transaction costs

	2021 £'000	2020 £'000
a) Acquisitions and Capital Additions		
Acquisitions excluding transaction costs	136,761	154,823
Agents' fees	–	75
Investment Advisory acquisition fee	–	734
Legal fees	124	234
Other costs	(26)	149
Stamp Duty Land Tax	–	5,366
Survey fees	(35)	96
Trustee's fees	–	4
Total transaction costs	63	6,658
Total acquisitions including transaction costs	**136,824**	**161,481**
b) Disposals		
Disposals excluding transaction costs	11,210	26,851
Other costs	–	1
Agent's fees	76	–
Legal fees	38	–
Total transaction costs	114	1
Total disposals net of transaction costs	**11,096**	**26,850**

16 Debtors

Group As at 30 June	2021 £'000	2020 £'000
Distributions receivable	4,677	4,429
VAT receivable	8,920	345
Other debtors and prepayments	27,368	22,475
Total	**40,965**	**27,249**

Fund As at 30 June	2021 £'000	2020 £'000
Distributions receivable	62,491	43,246
Other debtors and prepayments	3,154	2,592
Total	**65,645**	**45,838**

Notes to the Consolidated Financial Statements

17 Bank loans

During the financial year the Fund had a £100,000,000 (2020: £100,000,000) revolving credit facility with The Royal Bank of Scotland International Limited, as per the amended and restated agreement dated 18 October 2018. As at 30 June 2021, £nil (2020: £nil) of the facility was drawn down. For the portion that is used during the year, interest is charged on the daily balance at LIBOR, plus 1.60% (2020: 1.60%), per annum. On the remaining unused portion of the facility, interest is charged at 0.65% (2020: 0.65%) per annum. This loan is repayable on expiry of the facility, being 18 October 2022.

18 Derivative liability

The 250 Bishopsgate Unit Trust, a subsidiary, entered into a rental price swap agreement with Credit Suisse International on 5 June 2007. The purpose of the swap was to hedge rental income deriving from a lease agreement against RPI. The agreement with Credit Suisse International had a maturity date of 29 June 2035 and a floating rate based on RPI was paid to Credit Suisse International in order to receive a fixed amount per annum.

On 16 December 2019 the swap was closed out at a cost of £17,510,000.

19 Creditors

Group As at 30 June	2021 £'000	2020 £'000
Deferred rental income	40,969	39,813
Investment Advisor fees	5,928	5,668
Other creditors and accruals	3,375	3,719
Total	**50,272**	**49,200**

Fund As at 30 June	2021 £'000	2020 £'000
Investment Advisor fees	5,836	5,581
Other creditors and accruals	2,659	3,462
Total	**8,495**	**9,043**

Notes to the Consolidated Financial Statements

20 Investments in consolidated subsidiaries

The Fund held the following investments in subsidiaries:

	2021 Total £'000	2020 Total £'000
The 250 Bishopsgate Unit Trust	316,459	278,592
The 4M Supermarket Unit Trust	155,735	147,591
The Aberfeldy Unit Trust	80,202	78,549
The Ashford Unit Trust	62,200	57,473
The Bedford Unit Trust	73,665	68,093
The Bingo Unit Trust	76,270	105,368
The Bournemouth Unit Trust	35,167	41,925
The Brentwood Unit Trust	89,184	79,800
The Bridewell Unit Trust	41,675	39,869
The Cardiff Unit Trust	71,701	67,348
The Charterhouse Unit Trust	339,916	190,736
The Crown Unit Trust	134,036	130,720
The Dorland House Unit Trust	85,709	84,762
The Dulwich Unit Trust	84,933	74,416
The Dunaskin Unit Trust	40,251	39,500
The Gatwick Unit Trust	106,601	116,554
The Gatwick 2 Unit Trust	35,584	36,384
The Glasgow Unit Trust	149,680	156,526
The Health Clubs Unit Trust	127,962	128,437
The Heathrow Unit Trust	23,552	24,600
The Huddersfield Unit Trust	58,594	56,281
The Jealott's Hill Unit Trust	85,742	91,321
The Llanelli Unit Trust	59,304	57,665
The North Wharf Gardens Unit Trust	173,691	104,840
The P6 Unit Trust	247,742	244,955
The Rose Unit Trust	114,924	112,275
The Royston Unit Trust	68,686	64,594
The Sevenoaks Unit Trust	95,066	87,646
The Sheldon Unit Trust	61,256	56,070
The Stratford Unit Trust	178,413	175,820
The Student Accommodation Unit Trust	38,490	32,166

Notes to the Consolidated Financial Statements

	2021 Total £'000	2020 Total £'000
The Sudbury Unit Trust	44,754	40,862
The Tennis Unit Trust	341,757	343,357
The Truro Unit Trust	53,281	51,073
The Wandsworth Unit Trust	121,106	110,443
The Westminster Unit Trust	110,859	108,770
The Wigan Unit Trust	44,064	40,606
Total	**4,028,211**	**3,725,987**

The cost and unrealised gain/(loss) on revaluation of the investments in subsidiaries is as follows:

	2021 Cost £'000	Unrealised gain/(loss) on revaluation £'000	2021 Total £'000
The 250 Bishopsgate Unit Trust	248,530	67,929	316,459
The 4M Supermarket Unit Trust	149,732	6,003	155,735
The Aberfeldy Unit Trust	44,250	35,952	80,202
The Ashford Unit Trust	44,839	17,361	62,200
The Bedford Unit Trust	62,407	11,258	73,665
The Bingo Unit Trust	158,424	(82,154)	76,270
The Bournemouth Unit Trust	40,500	(5,333)	35,167
The Brentwood Unit Trust	81,415	7,769	89,184
The Bridewell Unit Trust	33,680	7,995	41,675
The Cardiff Unit Trust	69,112	2,589	71,701
The Charterhouse Unit Trust	281,158	58,758	339,916
The Crown Unit Trust	126,328	7,708	134,036
The Dorland House Unit Trust	58,869	26,840	85,709
The Dulwich Unit Trust	71,389	13,544	84,933
The Dunaskin Unit Trust	32,811	7,440	40,251
The Gatwick Unit Trust	82,647	23,954	106,601
The Gatwick 2 Unit Trust	36,626	(1,042)	35,584
The Glasgow Unit Trust	104,615	45,065	149,680
The Health Clubs Unit Trust	97,650	30,312	127,962
The Heathrow Unit Trust	22,363	1,189	23,552
The Huddersfield Unit Trust	54,204	4,390	58,594
The Jealott's Hill Unit Trust	78,310	7,432	85,742
The Llanelli Unit Trust	49,148	10,156	59,304

Notes to the Consolidated Financial Statements

	2021 Cost £'000	Unrealised gain/(loss) on revaluation £'000	2021 Total £'000
The North Wharf Gardens Unit Trust	167,259	6,432	173,691
The P6 Unit Trust	233,018	14,724	247,742
The Rose Unit Trust	101,837	13,087	114,924
The Royston Unit Trust	58,784	9,902	68,686
The Sevenoaks Unit Trust	76,403	18,663	95,066
The Sheldon Unit Trust	52,400	8,856	61,256
The Stratford Unit Trust	114,207	64,206	178,413
The Student Accommodation Unit Trust	22,462	16,028	38,490
The Sudbury Unit Trust	32,299	12,455	44,754
The Tennis Unit Trust	265,516	76,241	341,757
The Truro Unit Trust	51,790	1,491	53,281
The Wandsworth Unit Trust	82,778	38,328	121,106
The Westminster Unit Trust	108,521	2,338	110,859
The Wigan Unit Trust	41,029	3,035	44,064
Total	**3,437,310**	**590,901**	**4,028,211**

The financial statements of the Group consolidate the results, assets and liabilities of the subsidiary undertakings listed below:

	Country of establishment	Class of shares	% of Class held	Principal activity
The 250 Bishopsgate Unit Trust	Guernsey	Units	99.99%	Property investment
The 4M Supermarket Unit Trust	Guernsey	Units	99.99%	Property investment
The Aberfeldy Unit Trust	Guernsey	Units	99.96%	Property investment
The Ashford Unit Trust	Guernsey	Units	99.93%	Property investment
The Bedford Unit Trust	Guernsey	Units	99.95%	Property investment
The Bingo Unit Trust	Guernsey	Units	99.99%	Property investment
The Bournemouth Unit Trust	Guernsey	Units	99.95%	Property investment
The Brentwood Unit Trust	Guernsey	Units	99.98%	Property investment
The Bridewell Unit Trust	Guernsey	Units	99.94%	Property investment
The Cardiff Unit Trust	Guernsey	Units	99.96%	Property investment
The Charterhouse Unit Trust	Guernsey	Units	99.98%	Property investment
The Crown Unit Trust	Guernsey	Units	99.98%	Property investment
The Dorland Unit Trust	Guernsey	Units	99.91%	Property investment
The Dulwich House Unit Trust	Guernsey	Units	99.97%	Property investment
The Dunaskin Unit Trust	Guernsey	Units	99.94%	Property investment

Notes to the Consolidated Financial Statements

	Country of establishment	Class of shares	% of Class held	Principal activity
The Gatwick Unit Trust	Guernsey	Units	99.96%	Property investment
The Gatwick 2 Unit Trust	Guernsey	Units	99.92%	Property investment
The Glasgow Unit Trust	Guernsey	Units	99.97%	Property investment
The Health Clubs Unit Trust	Guernsey	Units	99.98%	Property investment
The Heathrow Unit Trust	Guernsey	Units	99.87%	Property investment
The Huddersfield Unit Trust	Guernsey	Units	99.94%	Property investment
The Jealott's Hill Unit Trust	Guernsey	Units	99.97%	Property investment
The Llanelli Unit Trust	Guernsey	Units	99.94%	Property investment
The North Wharf Gardens Unit Trust	Guernsey	Units	99.99%	Property investment
The P6 Unit Trust	Guernsey	Units	99.99%	Property investment
The Rose Unit Trust	Guernsey	Units	99.98%	Property investment
The Royston Unit Trust	Guernsey	Units	99.95%	Property investment
The Sevenoaks Unit Trust	Guernsey	Units	99.96%	Property investment
The Sheldon Unit Trust	Guernsey	Units	99.94%	Property investment
The Stratford Unit Trust	Guernsey	Units	99.98%	Property investment
The Student Accommodation Unit Trust	Guernsey	Units	99.87%	Property investment
The Sudbury Unit Trust	Guernsey	Units	99.91%	Property investment
The Tennis Unit Trust	Guernsey	Units	66.67%	Property investment
The Truro Unit Trust	Guernsey	Units	99.94%	Property investment
The Wandsworth Unit Trust	Guernsey	Units	99.96%	Property investment
The Westminster Unit Trust	Guernsey	Units	99.98%	Property investment
The Wigan Unit Trust	Guernsey	Units	99.93%	Property investment

21 Financial instruments

The policies applied in the management of financial instruments are set out in note 3.

Currency exposure

There was no significant currency exposure within the Group at the balance sheet date (2020: same).

Liquidity

The Fund's liquidity position is monitored by the Manager and the Investment Advisor.

A summary table with maturity of financial assets and liabilities presented below is used by the Manager to manage liquidity risks and is derived from managerial reports at individual Trust level. The amounts disclosed in the below tables are the contractual undiscounted cash flows. Undiscounted cash flows in respect of balances due within 12 months generally equal their carrying amounts in the Consolidated balance sheet as the impact of discounting is not significant.

Refer to note 23 for investor and capital commitments.

Notes to the Consolidated Financial Statements

The maturity analysis of financial assets/liabilities at 30 June 2021 is as follows:

	Demand and less than 1 year £'000	From 1 to 5 years £'000	Later than 5 years £'000	Total £'000
Assets				
Cash and cash equivalents	146,356	–	–	146,356
Other debtors	36,288	–	–	36,288
Distributions receivable	4,677	–	–	4,677
Investments in unconsolidated entities	–	–	539,422	539,422
Finance lease receivables	514	1,816	8,834	11,164
Liabilities				
Other creditors	9,303	–	–	9,303
Distributions payable	66,703	–	–	66,703
Net assets attributable to Unitholders*	4,773,530	–	–	4,773,530
Non-controlling interests	165,000	–	–	165,000

The maturity analysis of financial assets/liabilities at 30 June 2020 is as follows:

	Demand and less than 1 year £'000	From 1 to 5 years £'000	Later than 5 years £'000	Total £'000
Assets				
Cash and cash equivalents	126,128	–	–	126,128
Other debtors	22,820	–	–	22,820
Distributions receivable	4,429	–	–	4,429
Investments in unconsolidated entities	–	–	505,572	505,572
Finance lease receivables	454	1,816	9,288	11,558
Liabilities				
Other creditors	9,387	–	–	9,387
Distributions payable	41,497	–	–	41,497
Net assets attributable to Unitholders*	4,427,384	–	–	4,427,384
Non-controlling interests	165,720	–	–	165,720

* Based on reported NAV.

Notes to the Consolidated Financial Statements

Interest rate profile

The significant interest-bearing financial instruments of the Group are bank loans (nil balance but available facility as per note 17), on which interest is calculated at a variable rate. The majority of the Group's assets comprise properties which neither pay interest nor have a maturity date.

The interest rate profile of the Group and Fund at 30 June 2021 was:

Group	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	LIBOR + 1.60%	18.10.22

Fund	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	LIBOR + 1.60%	18.10.22

The interest rate profile of the Group and Fund's, assets and liabilities at 30 June 2020 was:

Group	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	LIBOR + 1.60%	18.10.22

Fund	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	LIBOR + 1.60%	18.10.22

Fair values

Financial instruments and investment properties carried at fair value are classified using the following hierarchy that reflects the significance of the inputs used in measuring their fair value:

Level 1: Fair value based on a quoted price for an identical instrument in an active market and will generally include equities, some highly liquid bonds and exchange traded derivatives.

Level 2: Fair value based on a valuation technique using observable market data and will generally include evaluated pricing techniques using inputs such as quoted prices for similar instruments, interest rates, yield curves or credit spreads.

Level 3: Fair value based on a valuation technique that relies significantly on non-observable market data and will include values not primarily derived from observable market data.

The determination of what constitutes 'observable' requires significant judgement by the Group. The Group considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

Notes to the Consolidated Financial Statements

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The following table provides fair value analysed by the level of the defined fair value hierarchy for investment property and investment property under construction as at 30 June 2021:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment property	–	–	4,014,959	4,014,959
Investment property under construction	–	–	165,178	165,178

Fair value analysed by level at 30 June 2020:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment property	–	–	3,616,383	3,616,383
Investment property under construction	–	–	274,597	274,597

The following table provides fair value analysed by the level of the defined fair value hierarchy for financial instruments carried at fair value at 30 June 2021:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments in associates and joint venture	–	–	452,357	452,357
Investments in unconsolidated subsidiaries	–	–	87,065	87,065
Net assets attributable to Unitholders	–	(4,638,705)	–	(4,638,705)

Fair value analysed by level at 30 June 2020:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments in associates and joint venture	–	–	419,219	419,219
Investments in unconsolidated subsidiaries	–	–	86,353	86,353
Net assets attributable to Unitholders	–	(4,307,794)	–	(4,307,794)

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (2020: same) and no transfers were made within the fair value hierarchy during the year.

Credit risk

The Group's maximum exposure to credit risk by class of financial asset is as follows:

	2021 £'000	2020 £'000
Trade receivables, net of provision for impairment where applicable		
Other debtors	36,288	22,820
Distributions receivable	4,677	4,429
Total debtors, net of impairment	40,965	27,249
Cash and cash equivalents	146,356	126,128

22 Related parties

The ultimate parent company of the Manager, a company incorporated in Guernsey, is M&G plc, which is incorporated in England and Wales and listed on the London Stock Exchange.

Northern Trust (Guernsey) Limited (the "Trustee"), a company incorporated in Guernsey, is a wholly-owned subsidiary of Northern Trust Corporation, headquartered in Chicago, Illinois. The Fund has no ultimate controlling party. Refer to note 7 for further information on related party transactions in the year, note 19 for amounts payable at year end and note 13 for investments in associates and unconsolidated subsidiaries.

As at the date of this report, one Director of the Manager held Units in the Fund, Mr Francis held 4,654.220 Units at 30 June 2021 (2020: 4,654.220).

Distributions to related parties are as follows:

	Prudential Assurance Company Limited £'000
Distributions paid for 2021 period	3
Distribution payable at 30 June 2021	1
Distributions paid for 2020 period	3
Distribution payable at 30 June 2020	1

Notes to the Consolidated Financial Statements

23 Capital commitments

The Fund has entered into a number of subscription agreements with its subsidiaries to fund future capital commitments incurred through development funding or forward commitment agreements as detailed below, which are authorised and contracted for, but for which no provision has been made in the Fund's Consolidated Financial Statements.

As at 30 June 2021	Outstanding commitments	Original commitments
The North Wharf Gardens UT	£46,641,404	£126,824,206
The Crown UT*	£81,419,263	£81,419,263
Total	**£128,060,667**	**£208,243,469**

* Subject to planning approval.

As at 30 June 2020	Outstanding commitments	Original commitments
The North Wharf Gardens UT	£105,736,580	£126,824,206
The Charterhouse UT	£73,044,110	£175,000,000
The Crown UT*	£81,419,263	£81,419,263
Total	**£260,199,953**	**£383,243,469**

* Subject to planning approval.

The Fund's holding of cash together with commitments from investors is sufficient to cover the full cost of all amounts contracted for and falling due within twelve months of 30 June 2021 amounting to c. £128m (2020: c. £134m)

The maturity analysis of the capital commitments at 30 June 2021 is as follows:

Outstanding commitments, falling due:

As at 30 June 2021	Demand and less than 1 year	From 1 to 5 years	More than 5 years	Total
The North Wharf Gardens UT	£46,641,404	–	–	£46,641,404
The Crown UT*	–	£81,419,263	–	£81,419,263
Total	**£46,641,404**	**£81,419,263**	**–**	**£128,060,667**

* Subject to planning approval.

As at 30 June 2020	Demand and less than 1 year	From 1 to 5 years	More than 5 years	Total
The North Wharf Gardens UT	£61,204,707	£44,531,874	–	£105,736,580
The Charterhouse UT	£73,044,110	–	–	£73,044,110
The Crown UT*	–	£81,419,263	–	£81,419,263
Total	**£134,248,817**	**£125,951,137**	**–**	**£260,199,953**

* Subject to planning approval.

Notes to the Consolidated Financial Statements

24 Events occurring after the balance sheet date

The Fund has issued Units to the value of £32,895,000 and redeemed Units to the value of £6,497,349 since the year end.

The Fund has subscribed for/(redeemed) additional units to the values listed below in the following sub-trusts.

Unit trust	Value of units issued/(redeemed)
The North Wharf Gardens UT	£10,861,532
The Charterhouse UT	(£15,018,722)

On 19 August 2021 the Fund made an ad-hoc distribution to Unitholders representing rental income originally withheld but subsequently recovered from the Fund's tenants. The distribution totalled £4,332,553.90 and was allocated to Unitholders as per the period the income arose under the terms of the Market Wide Non-Payment Event.

On 10 September 2021 the Fund completed on the acquisition of freehold interest in an Asda supermarket in Hemel Hempstead for a consideration of £13.2m.

On 8 July 2021, the Fund exchanged contracts on the sale of the The Bingo Unit Trust (containing 37 assets), for a total of £71.5 million, with completion expected in November 2021.

25 Distribution table

Accounting reference date	Payment dates	Distribution paid /payable[a] 2021 £
Institutional 'A' Units		
30 September	02.11.20	1.164
31 December	01.02.21	1.155
31 March	04.05.21	1.148
30 June	02.08.21	1.145

Accounting reference date	Payment dates	Distribution paid /payable[a] 2020 £
Institutional 'A' Units		
30 September	01.11.19	1.169
31 December	03.02.20	1.181
31 March	01.05.20	1.137
30 June	03.08.20	1.072

[a] As the Fund is a Baker Trust, there is no income tax, tax credit or equalisation applicable to the distributions. Refer to Distribution Policy note 2 and note 8 on Taxation.

Trustee's responsibilities and report

Trustee's responsibilities

Statement of the Trustee's responsibilities in respect of the Consolidated Financial Statements of the Fund

It is the duty of the Trustee to enquire into the conduct of the Manager in the management of the Fund in each accounting period and report thereon to the Unitholders.

The Trustee is also responsible for safeguarding the assets of the Fund.

Trustee's report

Report of the Trustee to the Unitholders of The M&G Secured Property Income Fund for the financial for the year ended 30 June 2021

We hereby state that in our opinion the Manager has managed the Fund for the year ended 30 June 2021 in accordance with the provisions of (i) the Scheme's Principal Documents (ii) Scheme Particulars and (iii) The Authorised Collective Investment Schemes (Class B) Rules 2013, made under The Protection of Investors (Bailiwick of Guernsey) Law, 1987 (as amended).

Northern Trust (Guernsey) Limited
20 October 2021

Independent Auditor's report

Independent Auditor's report to the Unitholders of The M&G Secured Property Income Fund

Opinion

We have audited the Consolidated Financial Statements of The M&G Secured Property Income Fund (the "Fund"), together with its subsidiaries ("the Group") (the "Consolidated Financial Statements") for the year ended 30 June 2021 which comprise the Consolidated statement of total return, Consolidated statement of change in net assets attributable to Unitholders, Consolidated balance sheet, Fund balance sheet, Consolidated cash flow statement, and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion the Consolidated Financial Statements:

- give a true and fair view of the state of the Group's affairs as at 30 June 2021 and of its total return for the year then ended; and
- have been properly prepared in accordance with United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

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 are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements, including the UK FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

- Making enquiries of the Trustee and Manager to determine the appropriateness of the going concern basis of accounting;
- Obtaining an understanding of and evaluating the appropriateness of the Manager's assessment of the Fund's ability to continue as a going concern;
- Obtaining the cash flow forecasts prepared by the Manager and testing the arithmetical accuracy of the models;
- Challenging the appropriateness of management's forecasts by assessing historical forecasting accuracy, verifying key inputs and challenging management's consideration of the most likely 'base case' and alternative 'worse case' scenarios; and

Independent Auditor's report

- Evaluating the disclosures made in the Consolidated Financial Statements regarding going concern to ascertain that they are in accordance with United Kingdom Accounting Standards.

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 Group's ability to continue as a going concern for a period up to 31 December 2022.

Our responsibilities and the responsibilities of the Manager with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

Key audit matters	• Fair value of investment properties including those in the course of development
	• Fair value of other investments including investments in unconsolidated subsidiaries, associates and joint ventures
	• Revenue recognition and recoverability of related receivables (rental income and distribution income)
Materiality	Overall materiality of £47.7 million which represents 1% of the Fund's Net assets attributable to Unitholders ("NAV") as at 30 June 2021.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Group. This enables us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. The Group consists of the consolidated entities as explained in note 20 to the Consolidated Financial Statements.

Key audit matters

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

Independent Auditor's report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Fair value of investment properties, including those in the course of development, may be misstated due to application of inappropriate methodologies or inputs to the valuations and/or inappropriate judgements. (£4.2bn, 2020: £3.9bn) Refer to accounting policies, Note 4 and Note 12 of the Consolidated Financial Statements The fair value may be materially misstated due to incorrect or inappropriate methodologies or inputs, judgements and assumptions being used to derive them. There is also a risk that management could override controls to manipulate estimates and present higher valuations. The uncertainties over the current economic environment caused by COVID-19 could have a material impact on the valuation of the investment properties.	We performed the following procedures: • Obtained an understanding of the process and controls surrounding property valuation by performing our walkthrough procedures and evaluating the implementation and design effectiveness of controls; • We engaged EY real estate valuation specialists to assess the methodology used and market-related inputs applied by management's Independent Valuer in determining the property values by corroborating to external sources and available market data on a sample basis; • We assessed the qualifications, experience, independence and scope of work performed by management's Independent Valuer by: checking both their professional membership credentials and recognised Valuer Status; ensuring that appropriate confirmations were included in their valuation report in respect of their independence; and reviewing the scope of work confirmed in their valuation report to ensure the valuation basis is appropriate for the financial reporting purposes; • We performed analytical procedures over the movements in the valuation of investment properties across the portfolio, focusing on correlations with movements in market data for similar assets and investigated any significant deviations; • With respect to key objective inputs to the valuation, comprising rental income and lease expiry dates, we agreed the inputs to lease agreements or rent review schedules on a sample basis; • We assessed the assumptions applied by the external valuers as a result of COVID-19 in respect of any tenant voids and rent concessions by corroborating the assumptions to external sources and available market data; • We selected a representative sample of investment properties and engaged EY real estate valuation specialists to assess the subjective assumptions used by corroborating to available market data, including comparable asset disposals, where applicable, and whether the reported value fell within a range of reasonable outcomes; and • We obtained the fair values determined by management's Independent Valuer and agreed the total to the portfolio value reported as investment property or investment property under construction in the consolidated financial statements;	Based on our procedures performed over the risk of misstatement in the fair value of investment properties, including those in the course of development, and the related financial statement disclosures, we identified no matters that we wanted to bring to the attention of the Audit Committee

Independent Auditor's report

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Investments in unconsolidated subsidiaries, associates and joint ventures are not fairly valued (£539m, 2020: £506m) Refer to accounting policies, Note 4 and Note 13 of the Consolidated Financial Statements The valuation of the other investments, comprising investments in unconsolidated subsidiaries, joint ventures and associates are based on their adjusted reported net asset values which depend primarily on the fair values of the underlying properties held and may be materially misstated. The uncertainties over the current economic environment caused by COVID-19 could have a material impact on the valuation of other investments.	With respect to other investments, which are held at fair value in accordance with United Kingdom accounting standards, including FRS 102, we performed the following procedures as part of our substantive audit approach: • We developed an understanding of the judgements and estimates involved in the valuation of other investments process, by performing walkthrough procedures and evaluating the implementation and design effectiveness of controls; • In relation to the valuation of the underlying properties held by the unconsolidated subsidiaries, associates and joint ventures we performed the same procedures as described above in "Fair value of investment properties including those in the course of development" • We challenged the assumptions and judgments applied by management with particular attention to the uplift element which reflects the SDLT (Stamp Duty Land Tax) saving that could be achieved by disposing of an SDLT exempt entity. Our procedures included evaluating the tax status of the underlying entity by obtaining tax exempt letters, understanding the basis of the likely exit mechanisms available to management and obtaining corroborating evidence that the assumptions are supported by comparable market data from external sources. • We assessed the assumptions applied by the external valuers as a result of COVID-19 in respect of any tenant voids and rent concessions by corroborating these to external market data.	Based on our procedures performed over the risk of misstatement in the fair value of other investments, including related financial statements disclosures, we identified no matters that we wanted to bring to the attention of the Audit Committee.
Revenue recognition and recoverability of related receivables (rental income and distribution income) **(Rental income £184m, 2020: £178m), Distribution income £22m, 2020: £21m), Receivables £27m, 2020: £22m)** Refer to accounting policies, Note 6 and Note 16 of the Consolidated Financial Statements The M&G Secured Property Income Fund receives income from underlying unit trusts and distributes the full amount to unit holders on a quarterly basis. Management may seek to overstate revenue generated from rental and other income as it is a significant metric and indicator of performance, giving rise to a higher risk of misstatement. Rental Income earned from the investment properties may be materially misstated. Distributions received from other investments may be materially misstated. As a result of COVID-19 there is an increased risk over the recoverability of receivables due to the lockdown measures enforced in the UK during the year with a resulting impact on certain rent collections.	With respect to revenue recognition and recoverability of the related receivable, we performed the following substantive procedures: • We developed an understanding of the rental and distribution income and recoverability processes, by performing walkthroughs of the processes and controls in place; • We performed analytical procedures by setting expectations in respect of rental income based on rent reviews in the period and comparing quarterly rents to those expectations; • We obtained explanations and supporting evidence for variances above our testing thresholds; • For a sample of leases, we obtained the lease agreements, along with any subsequent rent reviews and we agreed rental amounts to the lease accounting records; • We have tested the distribution income received by the Fund by agreeing the amounts received to the distributions paid by the underlying unit trusts; • We have obtained management's assessment of the recoverability of any overdue rent receivables. Where they were deemed recoverable we compared them to subsequent collections by inspecting available bank statements. Where receivables were written off we considered the creditworthiness of the counterparty by obtaining their credit ratings to corroborate management's view; and • Agreed rent deferrals recorded by the Fund to supporting documentation in place between the property owner and tenant.	Based on our procedures performed on the risk of the overstatement or inaccurate rental and distribution income recognition and related year-end receivables, we concluded that revenue and related year-end receivables are fairly stated. We concluded that the disclosures in the Consolidated Financial Statements relating to revenue and associated recoverability estimates are appropriate.

Independent Auditor's report

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

Materiality is the magnitude of omissions or misstatements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Consolidated Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £47.7 million (2020: £43 million) which is 1% (2020: 1%) of NAV. We believe that NAV provides us with an appropriate basis for audit materiality as this is a key published performance measure and is a key metric used by management in assessing and reporting on the overall performance of the Group.

During the course of our audit, we reassessed initial materiality and considered there to be no change from the basis determined at the audit planning stage, we have updated the value based on NAV as at 30 June 2021.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Fund's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £23.9 million (2020: £21.5 million). We have set performance materiality at this percentage so that it is equivalent to the pricing error guidance in Guernsey regulations.

Reporting threshold

The reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2.4 million (2020: £2.1 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual investment report other than the Consolidated Financial Statements and our auditor's report thereon. The Managers are responsible for the other information.

Our opinion on the Consolidated Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Consolidated Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated Financial Statements or our knowledge obtained in 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 there is a material misstatement in the Consolidated Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Independent Auditor's report

Responsibilities of the Manager

As explained more fully in the Manager's responsibilities statement set out on page 3, the Manager is responsible for the preparation of the Consolidated Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Manager determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated Financial Statements, the Manager is responsible for assessing the Group'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 Manager either intends to liquidate the Fund or to cease operations, or has 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 Consolidated 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 Consolidated Financial Statements.

Explanation as to what extent the audit was considered 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 irregularities, including fraud. 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 or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:
  - UK Financial Reporting Standard 102 (FRS 102);
  - The Authorised Collective Investment Schemes (Class B) Rules 2013; and
  - The Statement of Recommended Practice for Authorised Funds issued by the Investment Association in May 2014 (2014 SORP) and updated in June 2017.
- We understood how the Trustee and Manager are complying with those frameworks by making enquiries of the Trustee and Manager and those responsible for compliance matters of the Group and corroborated this by reviewing minutes of meetings of the Manager. We gained an understanding of the approach to governance from our review of the minutes of the meetings of the Manager.
- We assessed the susceptibility of the Group's Consolidated Financial Statements to material misstatement, including how fraud might occur by:
  - obtaining an understanding of entity-level controls and considering the influence of the control environment;
  - obtaining the Manager's assessment of fraud risks including an understanding of the nature, extent and frequency of such assessment documented in the Board's risk matrix;

Independent Auditor's report

  - making enquiries with those charged with governance as to how they exercise oversight of the Investment Manager and the Administrator's processes for identifying and responding to fraud risks and the controls established by management to mitigate specifically those risks the entity has identified, or that otherwise help to prevent, deter and detect fraud;
  - making enquiries with the Manager, Trustee and those charged with governance regarding how they identify related parties including circumstances related to the existence of a related party with dominant influence; and
  - making enquiries with the Investment Manager, administrator and those charged with governance regarding their knowledge of any actual or suspected fraud or allegations of fraudulent financial reporting affecting the Group.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified above. Our procedures involved a review of Board minutes and inquiries of the Investment Manager, Trustee and Administrator and those charged with governance including:
  - Through discussion, gaining an understanding of how those charged with governance, the Investment Manager, Trustee and Administrator identify instances of non-compliance by the Group with relevant laws and regulations;
  - Inspecting the relevant policies, processes and procedures to further our understanding;
  - Inspecting correspondence with the Guernsey Financial Services Commission; and
  - Obtaining relevant written representations from the Manager.

A further description of our responsibilities for the audit of the Consolidated Financial Statements is located on the Financial Reporting Council's website at https://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 Fund's Unitholders, as a body, in accordance Paragraph 4 .02(3) of the Authorised Collective Investment Schemes (Class B) Rules, 2013. Our audit work has been undertaken so that we might state to the Fund's Unitholders 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 Fund and the Fund's Unitholders as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP
Guernsey, Channel Islands

October 2021

Other regulatory disclosures

Alternative Investment Fund Manager's Directive (AIFMD)

The Directive, which was implemented by EU Member States in 2013, covers the management, administration and marketing of alternative investment funds ('AIFs'). Its focus is on regulating alternative investment fund managers ('AIFMs') established in the EU and prohibits such managers from managing any AIFs or marketing shares in such funds to investors in the EU unless an AIFMD authorisation is granted to the AIFM. The Fund is a non-EU AIF and the Manager is a non-EU AIFM for the purpose of the Alternative Investment Fund Managers Directive 2011/61/EU ('AIFMD').

As a non-EU AIFM, the Manager distributes the Units of the Fund within the EEA under the AIFMD National Private Placement Regime and will not be required to seek authorisation under the AIFMD. To comply with the private placement regime in an EU state it is generally necessary to register the non-EU AIF with, or obtain marketing authorisation for, the non-EU AIF from the regulator in that country. The Manager has retained responsibility for the collective portfolio management and risk management in relation to the Fund.

In accordance with the AIFMD we are required to report to investors on the 'leverage' of the fund and any 'special arrangements' that exist in relation to the Fund's assets.

Leverage and borrowing

Under AIFMD, leverage is defined as any method by which the Fund increases its exposure through borrowing or the use of derivatives. This exposure must be calculated in two ways, the 'gross method' and the 'commitment method'. The Fund must not exceed maximum exposures under both methods.

'Gross method' is calculated as the sum of all positions of the Fund (both positive and negative), that is, all eligible assets, liabilities and derivatives, including derivatives held for risk reduction purposes.

'Commitment method' exposure is also calculated as the sum of all positions of the Fund (both positive and negative), but after netting off derivative and security positions.

The total amount of leverage calculated as at 30 June 2021 is as follows:

Gross method: 99.18%
Commitment method: 99.18%

Remuneration

In line with the requirements of the Alternative Investment Fund Managers Directive ("AIFMD"), M&G (Guernsey) Limited (the "AIFM") is subject to a remuneration policy which is consistent with the principles outlined in the European Securities and Markets Authority guidelines on sound remuneration policies under the AIFMD.

The remuneration policy is designed to ensure that any relevant conflicts of interest can be managed appropriately at all times and that the remuneration of employees is in line with the risk policies and objectives of the alternative investment funds managed by the AIFM. Further details of the remuneration policy can be found here: https://www.mandgplc.com/our-business/mandg-investments/mandg-investments-business-policies. The remuneration policy and its implementation is reviewed on an annual basis, or more frequently where required, and is approved by the M&G plc Board Remuneration Committee.

The AIFM is required under the AIFMD to make quantitative disclosures of remuneration. These disclosures are made in line with M&G's interpretation of currently available guidance on quantitative remuneration disclosures. As market or regulatory guidance evolves, M&G may consider it appropriate to make changes to the way in which quantitative disclosures are calculated.

Other regulatory disclosures

The 'Identified Staff' of M&G (Guernsey) Limited are those who could have a material impact on the risk profile of M&G (Guernsey) Limited or the AIFs it manages (including The M&G Secured Property Income Fund) and generally includes senior management, risk takers and control functions. 'Identified Staff' typically provide both AIFMD and non-AIFMD related services and have a number of areas of responsibility. Therefore, only the portion of remuneration for those individuals' services which may be attributable to the AIFM is included in the remuneration figures disclosed. Accordingly the figures are not representative of any individual's actual remuneration.

The amounts shown below reflect payments made in respect of the financial year 1 January 2020 to 31 December 2020.

	Fixed remuneration £'000	Variable remuneration £'000	Total £'000
Senior Management	72	6	78
Other Identified Staff	180	0	180