M&G Investments

The M&G Secured Property Income Fund

Annual Investment Report and Consolidated Financial Statements (audited) for the year ended 30 June 2023

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 2023.

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, 2020.

Board of Directors of the Manager

Peter Mills (Chairman)
Peter Baxter
Timothy Cumming
Karen Donald
Steffan Francis
Joanne Peacegood

Administrator, Registrar and Listing Sponsor

JTC Fund Solutions (Guernsey) Limited
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Telephone: +44 (0)1481 712918

Investment Advisor

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

Telephone: +44 (0)20 8162 1845

(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, 2020.

Independent Valuer

CBRE Limited
Henrietta House, Henrietta Place, London W1G 0NB

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.

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 May 2023 (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 and Guidance, 2021 (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 Information Memorandum ('IM') of the Fund is dated 2 May 2023. There are no disclosures required to be made by the Manager to Unitholders in relation to any changes to the IM since 2 May 2023.

In respect of the Market-Wide Non-Payment Event declared on 6 October 2020 it was resolved to declare Normalisation on 30 November 2022. The proposal was made in light of all arrears from the Market-Wide Non-Payment Event having been recovered from tenants and distributed to Unitholders in accordance with the unitholding at the time the income arose.

Important information

The Manager and Investment Advisor continue to closely monitor the impact of market conditions and increased volatility with regard to the Fund's rental collection and the operational earnings of all tenants. The Manager and Investment Advisor have noted that generally rent cover is stable with rent collection at 100%.

On 24 February 2022 Russian armed forces invaded Ukraine, which had an immediate and negative impact on equity markets globally but most particularly in Russia and Ukraine. Subsequently, economic sanctions have been imposed on Russia, and both the conflict and the sanctions continue as at the date of these financial statements. The Fund does not have any investments in Russia or Ukraine and has not been impacted as a result of the conflict and the sanctions. The events in Ukraine continue to bring uncertainty. The Manager and Investment Advisor continue to monitor any potential associated risks that are posed to the Fund.

In line with the Fund's Information Memorandum and Trust Instrument, and following the Manager's decision to defer redemption requests received for the 1 November 2022 Dealing Day, all redemption requests for subsequent Dealing Days continue to be deferred. All redemption requests are now deferred for a period of up to eighteen successive Dealing Days under the terms of the revised Information Memorandum and restated Trust Instrument effective 2 May 2023, to allow for appropriate asset sales to be completed in an orderly manner. This is intended to protect the interests of investors in the Fund as a whole, by enabling sufficient time for fair value to be realised.

Following the introduction of deferral of redemption requests in November 2022, a number of trusts and assets have been sold and redemptions partially paid. Deferral of redemptions continues to be monitored by the Manager and the Investment Advisor on a monthly basis. Investors will be informed once redemption requests are no longer being deferred.

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, 2020. 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, 2020 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 and Guidance, 2021.

Peter Mills

Timothy Cumming
Directors of the Manager

26 October 2023

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.

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.

Manager's report

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.

Compliance by the Fund with the Sustainable Finance Disclosure Regulations ('SFDR') and the EU Taxonomy Regulations

Pursuant to EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, the Fund is classified as an Article 8 SFDR product which means that it promotes, among other characteristics, environmental or social characteristics or a combination thereof.

Pursuant to EU Regulation (EU) 2020/852 (Taxonomy) on the establishment of a framework to facilitate sustainable investment (the 'Taxonomy Regulation'), the Fund is also required to provide disclosure on taking into account the EU criteria for environmentally sustainable economic activities. While the Fund promotes environmental characteristics within the meaning of Article 8 of the SFDR, it does not currently commit to investing in any 'sustainable investment' within the meaning of the SFDR or the Taxonomy Regulation. Accordingly, it should be noted that the Fund does not take into account the EU criteria for environmentally sustainable economic activities within the meaning of the Taxonomy Regulation and its portfolio alignment with such Taxonomy Regulation is not calculated. Therefore, the 'do no significant harm' principle does not apply to any of the investments of the Fund, albeit the Manager pays keen attention to the ESG credentials of investments.

Information related to environmental and social characteristics promoted by the Fund required to be disclosed under SFDR is available on page 86 in Annex 1.

The Fund has also introduced a number of measures in the Information Memorandum in order to be compliant with SFDR Level 2 and the EU Taxonomy Regulation requirements. All changes became effective on 1 January 2023.

Investment advisor's report

For the year ended 30 June 2023

Investment highlights

- The non-GAAP Net Asset Value ('NAV') of the Fund was £3,662 million (a decrease of £1,546 million over the year). The decrease in NAV is a function of capital value declines and redemption settlements;
- The Fund delivered a total return of -18.59% for the 12-month period up to 30 June 2023 net of all costs and charges (30 June 2022: 11.01%), driven by capital value declines (-22.06%) in response to rapidly rising interest rates;
- Forecast returns are attractive as a result of the repricing, currently 7–9% pa over the medium to long term, based on conservative assumptions;
- The underlying portfolio continues to perform well with 100% occupancy and rent collection, no gearing, and no development risk;
- The annual net distribution yield (net income on an accrued basis as a percentage of the average NAV per Unit) increased to 4.34% (30 June 2022: 3.49%), or 4.42% (30 June 2022: 3.81%) on a cash distribution basis reflecting actual rent collection and ad hoc distributions of subsequently collected rent;
- The final ad hoc distribution was made to relevant Unitholders on 29 November 2022, following collection of the remaining Covid deferred rental payments;
- The weighted average lease expiry (WALE) of the Fund by income was 27.6 years (30 June 2022: 27.3 years), increasing as a result of sales of assets with shorter lease terms. If ground leases are capped at 50 years, the portfolio WALE stands at 21.5 years (30 June 2022: 22.1 years);

Manager's report

- The prevailing trend of capital outflows resulted in the Manager 'swinging' the Dealing Price on the 1 August 2022 Dealing Day from 'net creation' to 'net redemption' mode (NAV plus 4.03% to NAV minus 1.21%);
- Owing to significant government bond yield volatility in September and October 2022, there was an unexpected increase in redemption requests received for the November 2022 Dealing Day. The Manager deferred redemptions from and including the 1 November Dealing Day to allow for an orderly sale of assets enabling fair value to be realised;
- The Fund held an EGM on 26 April 2023 proposing changes to the redemption and deferral terms, which passed with a high level of support from investors – the participation rate was 81%, of which 96% of votes were in favour;
- The Fund has made good progress selling assets over the financial year, raising £405 million of liquidity, with further sales totalling £352 million completed post balance sheet date. The Fund has made targeted asset sales to meet redemptions and in the process has been focussed on upgrading the average portfolio quality.

Fund performance

As a result of significant yield movement in H2 2022, all fixed-rate risk assets have subsequently repriced, which resulted in large capital declines for the Fund. The Fund's total return over the year to 30 June 2023 was -18.59% (net of all costs and charges). The average income return per Unit (on an accrued basis) has increased over the year due to inflation-linked rent reviews (£0.39 vs. £0.36), contributing 4.33% to total returns (30 June 2022: 3.49%). However, the majority of annual performance has been driven by capital valuation declines (-22.06% over the year, with the largest monthly correction of -6.25% taking place in September 2022, reflecting peak gilt yield volatility). Most of the capital value decline took place in H2 2022 as a result of an adjustment to the new interest rate environment (long-dated UK government bond yields rose from c. 1.2% at the start of 2022 to c. 4.0% at the end of 2022, peaking at c. 5% in October 2023.

In its fight against inflation, the Bank of England ('BoE') has raised the base rate consecutively in 14 Monetary Policy Committee meetings to 5.25% post balance sheet date and held at this level in September 2023. The Fund's fixed income like qualities – long-term, contractual cashflows from high quality tenants – make the Fund's valuations sensitive to interest rate changes, despite the underlying assets performing well and no change to the contractual rental cashflows. Valuations mostly stabilised in H1 2023 and are expected to remain stable in H2 2023, subject to further gilt market volatility. We are confident valuations have adjusted sufficiently for the current rate environment, supported by the transaction evidence in the wider real estate market and a positive 'illiquidity premium' over corporate credit in forecast future returns (details below).

Inflation (CPI/RPI) peaked during the year at 11.1%/14.2% in October 2022, marking a 40 year high. It is still elevated versus the BoE's CPI target of 2%, but has started to show signs of easing, with CPI/RPI running at 7.9%/10.7% respectively as at 30 June 2023, and further declines post balance sheet date. Whilst the Fund benefits from inflation-linked rent reviews, the majority are subject to an annual cap (average inflation cap is 4.6% pa). Accordingly, the current inflationary environment, coupled with valuation declines, has caused the Fund's real returns to turn negative in the short term (still positive over 10 years at 0.51% pa).

Since inception (August 2007), the Fund continues to offer a return premium of 0.83% pa versus the wider UK property market (as measured by the MSCI UK All Balanced Property Fund Index), demonstrating its continued attractive risk-adjusted return profile.

There has been some divergence in capital value movements by investment type – income strips and ground rents have seen the largest declines as they are more interest rate sensitive – and also by sector specific factors, eg unwinding of growth assumptions of

Manager's report

industrial properties and withdrawal of key buyers in the supermarkets space. The office sector remains subject to negative sentiment due to post-Covid working from home trends and strong ESG credentials becoming a requirement. The Fund's office portfolio is high quality thus the Fund's office valuations have declined less than the wider sector, and we would expect potential further valuation corrections for weaker office locations.

In addition, all Covid-deferred rent payments have been collected and distributed, with the final special distribution payment of £3.2 million paid to relevant investors on 29 November 2022.

Economic overview

Elevated inflation levels have been at the forefront of the challenges that the UK economy has been experiencing over the past 12 months. Whilst the latest data (31 August 2023) suggests that inflation has started to ease, CPI/RPI at 6.7%/9.1% respectively, it still remains at historically high levels. Core annual inflation has proven to be stickier than initially expected despite dropping from a three-decade high of 7.1% to 6.2%. As a consequence, the monetary tightening cycle is expected to continue, with rates remaining higher for longer.

In response to high inflation and other economic uncertainty, gilt yields rose rapidly over the course of 2022 and have remained volatile in 2023, with longer duration gilts ranging between c 3.0–5.0% during the financial year. High levels of gilt issuance, credit spread ranges, banking sector volatility, stickiness of inflation and the BoE's base rate response all point towards continued uncertainty over the remainder of 2023.

Despite recession worries, June 2023 consumer confidence was at the highest reading since the Russian invasion of Ukraine last year. This increase is largely driven through the tight labour market and robust wage growth. The UK labour market continues to remain tight with unemployment rates remaining close to historical lows, and job vacancies still above average. Whilst the job market continues to provide some cushion for household incomes, there is potential risk that this could drive persistent inflation due to a labour shortage and accelerating wage growth across various industries.

UK real estate market overview

UK commercial property performance deteriorated over the 12-month period to June 2023 as a result of higher gilt yields, increased costs of debt and a weaker economic outlook. The MSCI UK Long Income Open-Ended Property Fund Index demonstrated the biggest declines in Q3 and Q4 2022 (-4.4%/-11.6%) followed by marginally negative performance in Q1 and Q2 2023 (-0.7% each quarter). Real estate transaction activity continues to be limited, suggesting the potential for further valuation declines across the wider market before transaction volumes recover.

UK real estate market yields have widened during the year, albeit some sectors are already showing signs of stability after corrections. Investors' flight to high quality properties and tenants has widened the gap between the performance of prime and poor quality assets. Real estate assets with sustainable rental growth, such as industrials, remain well positioned despite being the quickest to reprice. Occupational demand for the residential sector, purpose-built student accommodation in particular, remains strong, and continues to attract investors as it offers rental growth supported by a supply/demand imbalance. On the other hand, demand for offices remains muted, but we are seeing a continued willingness from occupiers to pay a premium for grade A space, highlighting the bifurcation of 'the best versus the rest'.

Portfolio summary

As at 30 June 2023, the Fund's GAV ('non-GAAP NAV') was £3,662 million (30 June 2022: £5,208 million) and comprised 183 individual assets across 43 holdings and 25 tenants. The Fund has high security of income with all investments backed by long-term leases from high quality tenants, subject to contractual inflation-linked (91.2% of income) or fixed percentage (8.8% of income, average 2.52% pa) 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 27.6 years, with the shortest lease expiry within the portfolio at 8.5 years.

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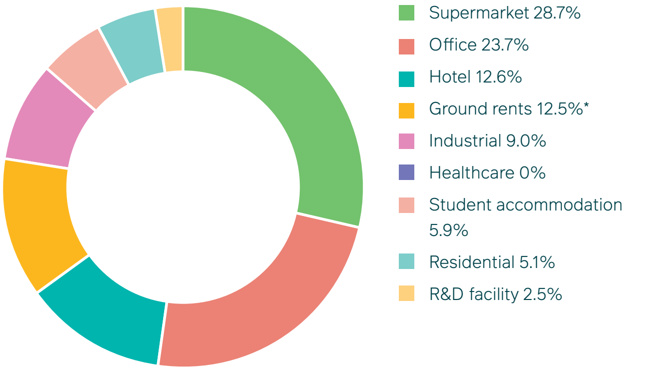
The Fund comprises hard to replicate, prime and business critical assets, diversified across a range of sectors and has a London and South East bias. The Fund's geographical exposure by income stands at: 41.2% London, 19.1% South East and 39.7% rest of the UK. The Fund's only retail exposure is supermarkets (28.7% by income), with Sainsbury's and Tesco the largest tenants by income. The Fund's office portfolio (23.7%) is high quality with all tenants being large listed corporates and the buildings comprising well-located (central London and Glasgow), modern Grade-A space with good ESG credentials.

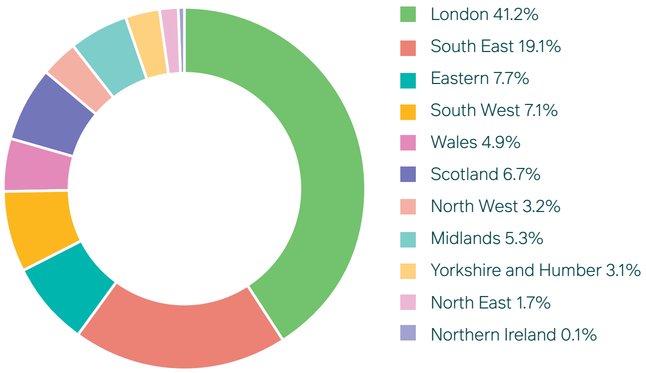
Rental income by sector



Source: M&G, as at 30 June 2023.

* Includes two David Lloyd assets held on a sale and leaseback basis (1.3% of Fund by income).

Rental income by geography



Source: M&G, as at 30 June 2023.

Illiquidity premium

The Fund's 'illiquidity premium' has been volatile over the 12-month period to 30 June 2023, reflecting the volatility in UK government bond yields and corporate credit spreads. The Fund's positive illiquidity premium was restored in H1 2023 following capital value declines in H2 2022, and ended the year at +86bps (30 June 2022: +70bps), assuming constant capital values until lease expiry (noting this is 22.06% lower than the prior year and thus a conservative assumption). Historically, the Fund's illiquidity premium was excessively high and we held the view that it would need to contract either through yield compression (capital value increases) or a normalisation of the rate environment.

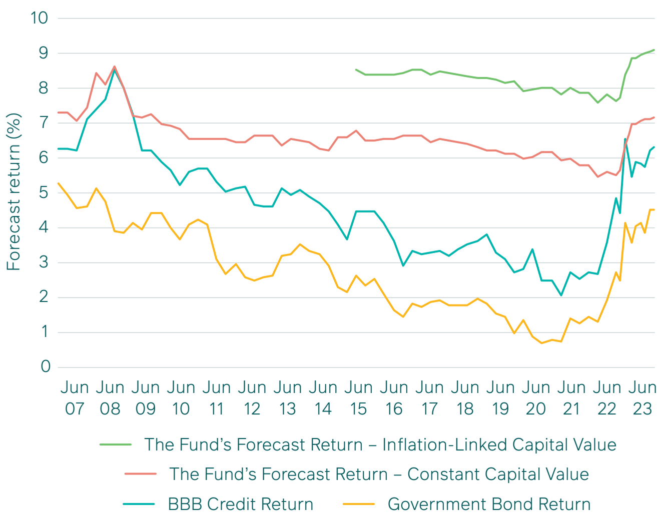
If the current inflationary environment continues, we would expect this to be reflected in property valuations due to increases in building replacement costs, hence we have introduced a second forecast return scenario for the Fund, whereby the property residual values grow with inflation (ie a constant yield scenario). Based on this scenario, the Fund's illiquidity premium increases to +234bps. Over the medium to long term, we anticipate a likely outcome somewhere between the constant capital and inflation-linked capital value scenarios (+86bps to +234bps).

Following rate corrections, corporate bonds are showing attractive yields compared to historical rates but the positive illiquidity premium demonstrates the investment case for the Fund on a relative value basis, with added benefits of inflation-linked income and asset backing.

Manager's report

Please see below the chart detailing the Fund's 'illiquidity premium' since inception:

The Fund's Illiquidity Premium since inception



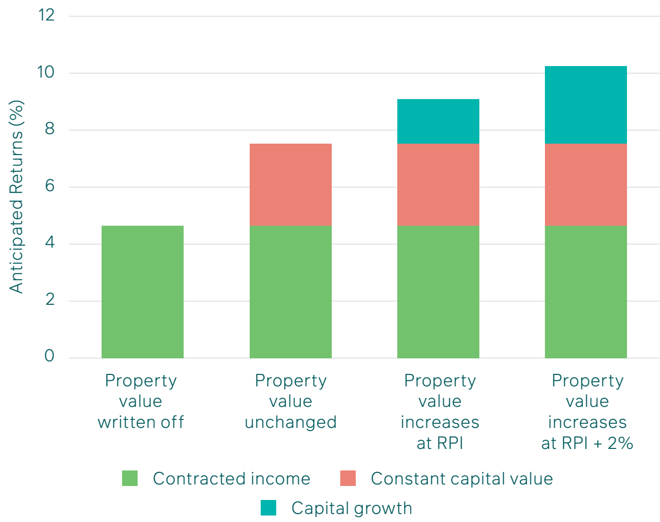
Source: M&G, Iboxx, as at 30 June 2023.

Performance outlook

As a consequence of the Fund's valuation adjustments, its forecast total returns look increasingly attractive. Current guidance is 7-9% pa (ungeared), conservatively assuming no capital growth or a constant yield scenario, ie where capital values increase proportionally with inflation-linked rents. Therefore, it is expected that the Fund will restore its premium over RPI in the medium to long term based on current market derived inflation expectations (c. 3.40% pa).

Please see the below chart detailing the Fund's anticipated forward-looking returns:

Comparison of anticipated returns to 2073*



Source: M&G, 30 June 2023. RPI assumption = 3.4%.

* Forecasts are not a reliable indicator of future performance. Modelled until lease expiry for each asset up to 50 years (accounting for ground leases). Returns are calculated gross of fees. Historically the funds TER has been c. 60 bps, commission, fees and other charges are subject to change.

Capital position

The Manager decided to 'swing' the price of the Fund to reflect the prevailing trend of capital flows, resulting in a change to the Dealing Price: from NAV per Unit + 4.03% (average cumulative acquisition costs for the portfolio, 1 July 2022) to NAV per Unit -1.21% (estimated average disposal costs of the portfolio, 1 August 2022). As of 2 May 2023, the dilution adjustment has been updated to -1.07%, to reflect actual sales costs, representing an attractive entry point for investors seeking a discount of almost 8% versus buying property directly (standard purchasers' costs are 6.8%).

The Fund will remain in net cancellation mode until such time as the prevailing trend of capital flows changes to there being, on a net basis, more capital inflows (investors joining the capital queue) than redemptions.

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The Fund experienced a spike in redemptions for the November 2022 Dealing Day as rapidly rising gilt yields accelerated defined benefit pension scheme de-risking, as well as the denominator effect (investors rebalancing illiquid exposure as public market valuations fell) and investor liquidity needs (to meet Liability driven investment ('LDI') margin calls). Under the terms of the Trust Instrument, the Manager elected to defer redemptions from and including the November 2022 Dealing Day and any subsequently received redemption request has been correspondingly deferred.

The Fund held an EGM to amend the Fund's redemption and deferral terms on 26 April 2023, which passed with an 81% participation rate, of which 96% of votes were in favour. The amendments came into effect on 2 May 2023 and are summarised below:

- Increased the redemption notice period to three clear calendar months to better align with asset liquidity.
- Retained the same redemption settlement priority order but removed the minimum 10% per month settlements, to allow for sale proceeds to be paid out upon receipt.
- Deferral period also increased from 16 months to 18 months.
- Sale proceeds are allocated to each redemption vintage based on an accruals calculation, whereby each monthly vintage will accrue 10% per month, with redemption amounts being allocated to the accrued amounts on a pro rata basis.

Following the vote, the Fund settled a significant portion of the redemption queue in May 2023 (£361 million). Further settlements have been made post balance sheet date: August 2023 (£140 million) and September 2023 (£257.25 million). Total outstanding redemptions now stand at c. £236 million with a number of further sales processes underway. The Fund remains in deferral to allow for an orderly disposal of properties to meet outstanding redemption requests, whilst protecting the interests of all investors.

Revolving Credit Facility

The Fund renewed its revolving credit facility ('RCF') with the Royal Bank of Scotland International ('RBSi') ahead of expiry in October 2022, for a new four year term (expiring July 2026). Whilst the Fund is a structurally un-geared strategy, the RCF is available to bridge certain short term financial obligations such as recoverable VAT funding, completion on a transaction ahead of drawing investor capital and development funding instalments. The core facility size was increased to £150 million (from £100 million) in line with average transaction size. As at 30 June 2023, the RCF was undrawn and even if fully drawn would only result in gearing of less than 4% of NAV.

The RCF also includes three ESG Key Performance Indicators ('KPIs'), which align to the Fund's ESG policy and targets and will determine the applicable margin (165bps +/- 2.5bps depending on the number of KPIs met):

	Margin (bps)
0 KPIs and/or failure to produce an ESG Compliance Certificate	167.50
1 KPI met	165.00
2 KPIs met	163.75
3 KPIs met	162.50

The KPIs are defined as follows:

1. Global Real Estate Sustainability Benchmark ('GRESB') peer group score to be top 12.5% at all times.

Manager's report

The Fund's GRESB peer group score is defined as 'UK, Diversified, Core, Tenant Controlled'. In 2023, the Fund placed first out of 100 (top 1%) in its peer group (2022: 2nd out of 80, top 3%).

2. Percentage of Fund by value with green building certification (Building Research Establishment Environmental Assessment Method ('BREEAM') New Construction, BREEAM In-Use or similar):

	Minimum threshold	30 June 2023
Year 1	60%	65.7% by value

3. Percentage of Fund by value with an Energy performance Certificate ('EPC') of 'B' or better:

	Minimum threshold	30 June 2023
Year 1	40%	40.8% by value

Accordingly the Fund currently meets 3 KPIs and would therefore be subject to a margin of 162.5bps if it were to utilise its RCF, a saving of 2.5bps.

Further details on the Fund's ESG performance and strategy can be found in Annex 1: Sustainable Finance Disclosure Regulation to the financial statements on page 86.

Transaction activity

To enable the aforementioned redemption settlements, the Fund has completed on a number of disposals over the financial year, targeting properties with shorter leases, weaker credit or poor ESG credentials. Further sales totalling c. £170m remain under offer at the date of issue of this report.

Asset	Date sold	Sale price	Remaining lease term
Tesco, Llanelli	September 2022	£50-£75m	12 years
Priory portfolio	December 2022	>£200m[a]	22 years
Premier Inn, Red Lion Street	December 2022	£25-50m	21 years
Travelodge, Edinburgh	February 2023	<£25m	23 years
Morrisons 4M Portfolio	February 2023	£100-150m	17 years
Travelodge, Gatwick	April 2023	£25-50m	26 years
BCA x4	April 2023	<£25m	9 years
Tesco Cardiff & Sainsbury's Wigan	July 2023	£75-100m	13/14 years
BCA Derby	August 2023	<£25m	9 years
NatWest, 250 Bishopsgate	August 2023	>£200m	12 years
Total		**£862m**	

[a] Sale price includes vendor loan: 2 years, 45% LTV.

Manager's report

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 Private and Public Credit and Real Estate teams) 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 2023:

Investment restriction	Fund's position as at 30 June 2023
Borrowing maximum 30% (or if greater than 30% it must not last more than 3 months)	0.00% GAV[a]
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	0.37% GAV
Leisure sector assets (excluding hotels), maximum 30% GAV	12.08% GAV
Under development or held vacant pending development, maximum 20% GAV	0.00% GAV
Any single group of tenants (excl. UK Govt), maximum 35% Gross Income	14.03% of Gross Income[b]
Any single Real Estate Asset, maximum 30% GAV	6.55% of GAV[c]
Minimum Credit Rating (Deposits, excl. Trustee), minimum A-/A3 (Split Low)	Confirmed

[a] Non-GAAP NAV.

[b] Sainsbury's.

[c] NatWest HQ, 250 Bishopsgate, London – sold post-balance sheet date.

Each and every transaction (disposal or purchase), as well as material asset management initiatives, are reviewed by the Investment Committee 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 remain unchanged.

Lee McDowell and Holly Johnstone

M&G Investment Management Limited

26 October 2023

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

Manager's report

Environmental, Social and Governance (ESG) strategy

Real estate investments can have wide-ranging social, environmental, and economic impacts, both positive and negative. These, in turn, can influence real estate market fundamentals such as 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.

The ESG strategy and targets set are considerate of existing commitments, regulatory requirements and investment strategy of the Investment Advisor. These targets are set by the Investment Advisor in conjunction with the dedicated ESG team of the Real Estate Asset Manager and reviewed and approved annually by the Manager. Progress against the targets is reviewed at the Investment Committee and presented to the Manager at least biannually.

Through our ESG strategy we seek to deliver[a]:

Environmental Excellence	Social benefit	Good Governance
• Aim for all operational carbon to be Paris-aligned by 2030, all carbon to be net zero by 2050[b] • Develop a net zero operational carbon assessment strategy and target tracking by June 2025 • Develop an improvement plan for all assets with EPC 'D' or below by June 2025 and work with occupiers[c] to deliver energy efficiencies • Ensure at least 50% of AUM to be certified at all times[d] and best practice to be shared with occupiers • Ensure portfolio resilience through climate-related risk assessment and management	• Continue to advance occupier engagement strategy, implement action plans to improve satisfaction following feedback from occupiers • Contribute to occupier and community health & wellbeing through asset initiatives, where feasible • Achieve exemplar Safety and Security achieved by the consistent application of our 'Global Minimum Requirements' (GMRs)	• Aim for all new leases to include green clauses to drive data sharing and cooperation • Increase collection of tenant utility data and reduce the proportion of estimated data • Aim for all assets to have a sustainability asset plan • Apply occupier exclusions (Controversial weapons, UN Global Norms, Thermal Coal) • Target a minimum GRESB 4-star rating

Key to delivering the Fund's ESG strategy is proactive occupier engagement and, where feasible, to support and align with their ESG initiatives

[a] Key sustainability objectives are shown – a wider set of targets are in place to support the delivery of the goals. Where year dates are listed the target deadline is considered to be the year end unless otherwise stated.

[b] Operational Carbon emissions refers to Scope 1, 2 and 3 emissions (energy used by tenants) associated with the standing investment portfolio. Paris-aligned refers to reducing GHG emissions such that global warming is limited to 1.5°C by 2050; the 2030 target aims for net zero pathway alignment. 2050 target covers all Scope 1, 2 and material Scope 3 emissions (including embodied carbon), method for tracking to be finalised over the next 12 months and aligned to the Net Zero Asset Manager's Commitment.

[c] Acknowledging control remains with tenants under Full Repairing & Insuring (FRI) lease terms.

[d] Measurement includes assets where certification is planned and underway. When certifying we apply a 'sampling strategy' aimed at identifying ESG interventions applicable across similar buildings.

Manager’s report

Progress against the 2022 ESG targets

Environmental Excellence

1. **Seek to meet net zero by 2050**

   Achieved

   Net zero carbon (‘NZC’) audits incorporated into acquisition processes for new investments

   M&G Sustainable Development & Refurbishment Framework (SDRF) introduced to set standard on new projects

   Engaged with tenants to understand net zero commitments; advanced discussions on improvements with a smaller group

   Greenhouse gas performance measured annually (see TCFD aligned disclosure)

   In progress

   Refresh Climate Risk Real Estate Monitor (CRREM) portfolio analysis using revised 2023 decarbonisation trajectories

   Identify assets that are not aligned with the 1.5°C Paris Climate Goals

   Net zero carbon audits to be commissioned on a ‘sampling basis’

   Continue engagement with tenants to identify alignment on net zero commitments

   Decarbonisation intervention to be identified and aligned with occupiers ESG strategy where financially feasible

2. **Ensure portfolio resilience to physical climate risk**

   Achieved

   A multi-peril physical climate related risk assessment conducted (see TCFD aligned disclosure)

   High-risk assets identified; findings reflected in the assets hold/sale strategy

   In progress

   Enhancement to due diligence processes for new investments

3. **75% of AUM certified using green building certification (GBC) by end of 2023 and findings shared with occupiers. Maintain a minimum of 50% AUM certified at all times**

   In progress

   As at 30 June, 65.7% of the Fund’s assets by value had GBC, with a further 7.9% submitted to the BRE for certification.

   Recent assets sales have reduced the completed percentage held by the Fund, with others still underway.

   Asset-specific ‘Optimisation Reports’ have been commissioned across recently certified assets.

   A ‘minimum GBC standard’ on sustainable investment has been set at BREEAM ‘very good’ or better (see SFDR Annex for details).

   The GBC target has been adjusted in 2023 given:

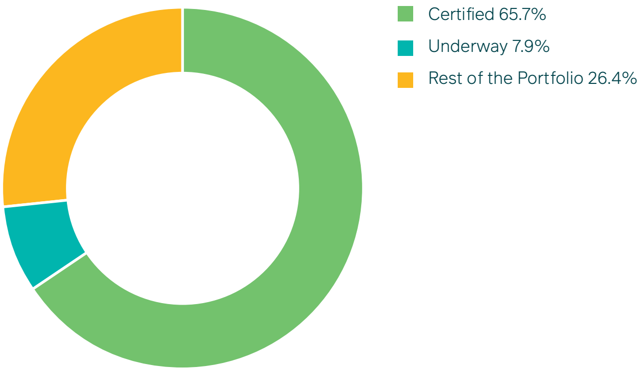
   1) The Fund’s capital position and resulting sales programme has resulted in sales of some assets with GBC

   2) It is proving more cost and time effective to certify a sample of assets within our large, homogenous portfolios (eg, 47 David Lloyd clubs), whilst retaining the same information benefits

   A cost-benefit analysis of prospective interventions from the ‘Optimisation reports’ to be shared with occupiers as part of the ongoing engagement strategy. Agreed actions to be incorporated into asset plans.

Manager’s report

Green Building Certification by Fund Value



4. **Proactively engage our occupiers on their environmental impacts, and endeavour to support their environmental programmes and initiatives**

   Achieved

   Regular ESG engagement with all occupiers in place

   Acting on opportunities to facilitate improvements and/or co-invest with occupiers where financially feasible

   In progress

   Set targets & further develop tenant engagement strategy across the entire portfolio to improve tenant data coverage & facilitate carbon reduction alignment.

Social benefit

1. **Enhance occupier engagement strategy. Implement action plans to improve satisfaction rating**

   Achieved

   Introduced SIERA platform to support asset and property managers in planning initiatives

   BREEAM In-Use assessments completed in cooperation with tenants, recommendations for improving health & wellbeing delivered to tenant sustainability contacts

2. **Promote adoption of asset-level health, wellbeing and community initiatives by our occupiers, where feasible**

   Achieved

   The Fund continues to support and facilitate tenant initiatives via M&G plc Community Funding allocations, with four initiatives funded to date totalling £13,100 and we are in discussions on a further eight initiatives.

3. **Exemplar safety and security is achieved through the application of our ‘Global Minimum Requirements’, effective oversight of suppliers and continual examination of legislation**

   Achieved

   Implementation of Global Minimum Requirements policy which incorporates leading requirements on building and fire safety.

Manager's report

Examples of M&G plc Community Funding

M&G plc, the Youth Hostel Association ('YHA') (a charity and a tenant of the Fund), and Helping Kids Achieve ('HKA') and Bolton Young Carers providing a safe and structured environment for children to 'become the best versions of themselves'.

The Fund facilitated an application to the M&G plc Community Fund, resulting in 2 x £3,000 of funding, enabling 25 young people to stay at the YHA Ilam Hall in the Peak District.

Positive social outcomes:

- New experiences in a safe environment away from their normal home
- Participation in activities to increase confidence and a feeling of self-worth, including: orienteering, night walks, outdoor cooking, climbing, and canoeing
- Reflection on the effects of anti-social behaviour
- M&G plc, Poplar HARCA (a housing association and a tenant of the Fund) and Women's Environmental Network ('WEN') charity

The Fund supported WEN in making an application to the M&G plc Community Funding resulting in secured £4,000 of funding (20% of the annual running cost of The Food Store).

'The Food Store' is a community pantry on the Burdett Estate, near to the Fund's Aberfeldy New Village asset. It is a Tower Hamlets Food Partnership project, funded by the Council and WEN, and managed by Burdett Football Club. It aims to increase household stability by offering low-cost food and sustainable solutions to improve participants' finances, wellbeing and debt management.

Positive social outcomes:

- The Food Store has assisted more than 120 families since opening in November 2020 and helped clear approximately £24,000 worth of members' debts.
- The membership fee of £3.50 per week gives families access to food and other items worth up to £30.
- M&G plc, Dalata Hotels plc (a tenant of the Fund) and Food Cardiff

Food Cardiff, is a city-wide partnership of individuals and organisations, including Dalata Hotels, promoting healthy, environmentally sustainable and ethical food.

A successful application to the M&G Plc Community Fund resulted in £3,100 of funding to support long term solutions for tackling food poverty through foodbanks, pantries and food co-ops, which currently serve more than 2,000 households in Cardiff.

Manager's report

Good Governance

1. **Sustainable Finance Disclosure Regulation (SFDR) Article 8**

   Achieved

   Compliance with SFDR Level 2 regulation (see SFDR Annex for details)

   Exposure to Principle Adverse Impacts (PAIs) monitored on regular basis from June 2023

2. **GRESB – target at least a 4-star rating; top 20% vs. peer group**

   Achieved

   The 2023 GRESB score improved by 2 points to 86 and the 4-star rating was maintained (see GRESB update section)

   For the first time, the Fund was ranked 1st within its peer group of 100 (previously 2nd of 80) – United Kingdom | Diversified | Core | Tenant Controlled.

3. **100% of assets to have complete sustainability due diligence (DD) checklist**

   Achieved

   Sustainability considerations and due diligence checklists mandatory for all new acquisitions, reviewed at Investment Committee

   Funded developments reviewed against the M&G Sustainable Development & Refurbishment Framework (SDRF)

   Additional SFDR compliance due diligence checklist introduced in January 2023

4. **100% of assets to have a sustainability asset plan**

   Achieved

   A large number of sustainability initiatives have been identified following regular occupier engagement

   Further interventions have been identified as a result of GBC Optimisation Reports

   In progress

   Identify opportunities to support or co-invest with occupiers where financially feasible, prioritisation of net zero carbon aligned initiatives

   ESG interventions to be budgeted for and reviewed annually

5. **Apply occupier exclusions (listed companies involved in controversial weapons, UNGC violators)**

   Achieved

   No ESG exclusion principles breached.

6. **Compliance with the Minimum Energy Efficiency Standards ('MEES') – Energy Performance Certificates (EPCs)**

   MEES applies to all assets in England and Wales with an original lease term of less than 99 years. The threshold for compliance increased to a minimum EPC rating of 'E' from 1 April 2023.

   All non-compliant assets in scope of MEES (ie, 'F' or 'G' rated) have been recertified achieving ratings of 'E' or better, with the exception of one building (rated 'F'), at a British Car Auctions ('BCA') site. The whole site represents 0.2% of the Fund by value. A solution has been identified to address this with BCA (replacement of the heating system) and works are currently out for tender.

Manager’s report

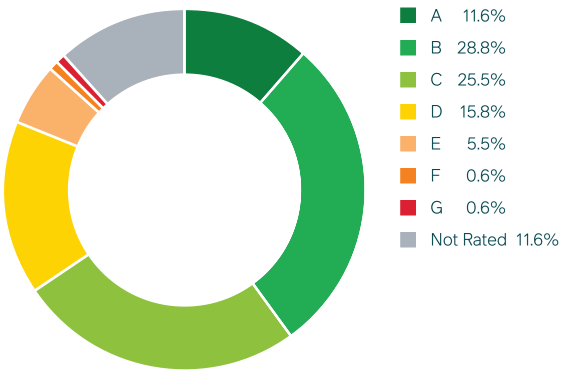
Previously reported as non-compliant due to a legacy EPC rating of ‘G’, 1 Southwark Bridge Road (let to WPP and undergoing a major redevelopment) relates to a data centre that sits outside of the Fund’s ownership. Upon completion of the redevelopment (expected summer 2024), WPP is targeting a minimum EPC of ‘B’ and BREEAM New Construction ‘Outstanding’.

18.7% of the Fund by value is not captured by MEES (ie, Scottish assets and those with lease terms >99 years). Nevertheless, these are also being reviewed in order to reduce the Fund’s exposure to energy inefficient assets.

Phase 1 recertification: Q2 2023 most EPCs expiring in 2023/2024 have been instructed for recertification or requested for quotes. As at the balance sheet date, 229 EPCs have been recertified and a further 90 EPCs are pending recertification.

Phase 2 recertification: planned for Q4 2023 and focused on ‘E’ rated assets in order to develop an improvement plan, together with our occupiers, mitigating future MEES risks (expected MEES threshold to be ‘C’ by 2027 and ‘B’ by 2030).

EPC rating, % of value



Manager's report

Global Real Estate Sustainability Benchmark (GRESB)

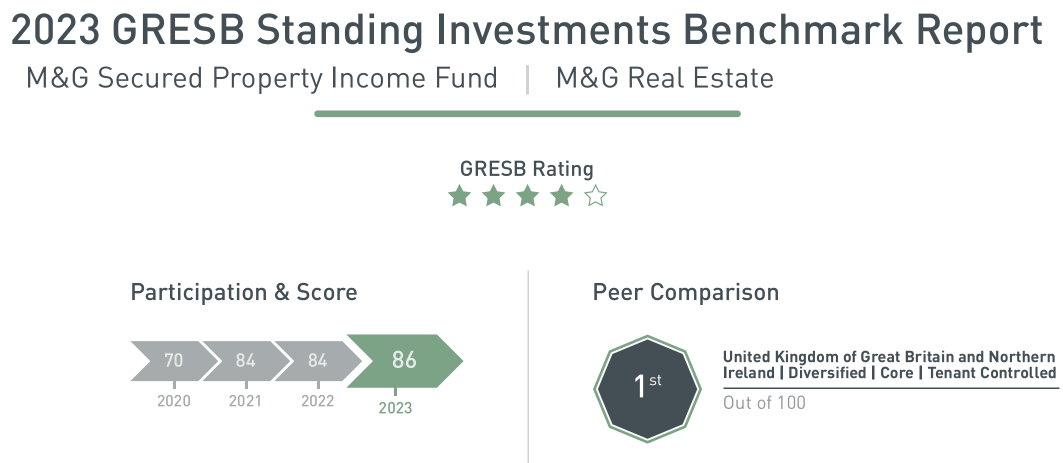
The Fund's ESG performance has been benchmarked against the annual GRESB since 2013.

In the 2023 Real Estate Assessment the Fund improved its overall GRESB score by 2 points to 86 and maintained a 4-star rating, placing it 1st out of 100 in its peer group ('United Kingdom | Diversified | Core | Tenant Controlled'). This is the first time the Fund has ranked first, having been second for the two years prior, underlining its market leading ESG credentials.

The Fund outperformed the benchmark in all 14 sections of the survey. High scores can be attributed to the focus on environmental data coverage (89% by floor area) as well as the rollout of operational GBC across a significant proportion of the portfolio.

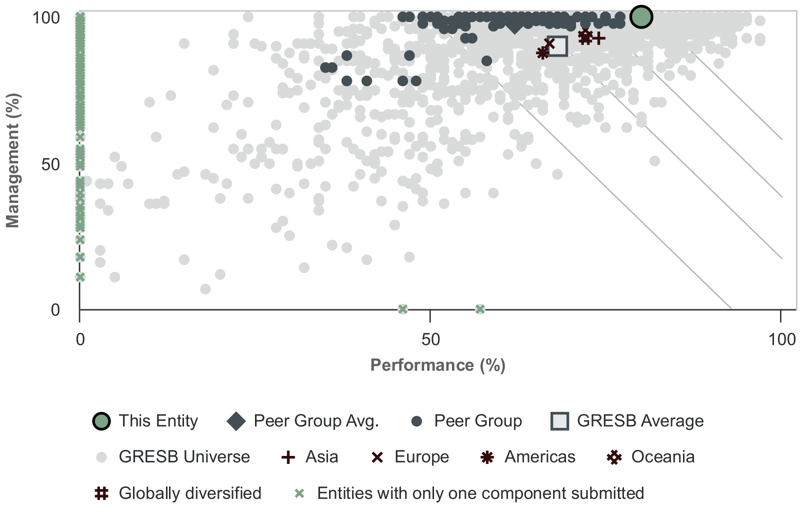
We are confident that activity being completed under the ESG objectives will support further enhancement to the GRESB score.

GRESB
REAL ESTATE



Manager's report

GRESB Model



86 / 100 — **GRESB Score** — **Green Star**
GRESB Average 75 — Peer Average 73

30 / 30 — **Management Score**
GRESB Average 27 — Benchmark Average 28

56 / 70 — **Performance Score**
GRESB Average 48 — Benchmark Average 43

Rankings

37th GRESB Score within Diversified / Europe — Out of 262	**48th** GRESB Score within Diversified / Non-listed / Core — Out of 311	**124th** GRESB Score within Europe / Non-listed / Core / Open end — Out of 450
1st Management Score within Europe — Out of 1013	**1st** Management Score within Europe / Non-listed / Core — Out of 616	**1st** Management Score within Europe / Non-listed / Core / Open end — Out of 456
42nd Performance Score within Diversified / Europe — Out of 262	**54th** Performance Score within Diversified / Non-listed / Core — Out of 311	**134th** Performance Score within Europe / Non-listed / Core / Open end — Out of 451

Manager's report

Task Force on Climate-Related Financial Disclosures (TCFD) recommendations

Net zero and climate resilience

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 profound. To limit the global average temperature rise to well below 2°C above pre-industrial levels, in line with the Paris Agreement, will require no further greenhouse gas (GHG) emissions, from 2050. Achieving this will only be possible with material changes in behaviour, as well as investment to transition to a low-carbon economy.

The Fund aims to address climate related risk through some of its ESG investment objectives: ensuring portfolio climate resilience and achieving net zero carbon by 2050.

Our approach incorporates the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations, outlined in the table below.

Note: The product level TCFD disclosure should be read in conjunction with the M&G plc 2022 Sustainability Report.

M&G Secured Property Income Fund's approach to climate-related risk and opportunity

	Governance	Disclose the organisation's governance around climate-related risks and opportunities
	TCFD Recommendations	**Recommended Disclosure**
1	Describe the Board's oversight of climate-related risks and opportunities	The Manager, M&G (Guernsey) Limited, has ultimate responsibility for ESG matters relating to the Fund including climate-related risk. Responsibility for the delivery of the ESG strategy for the Fund rests with the Investment Advisor and Real Estate Asset Manager, M&G Investment Management Limited and M&G Real Estate Limited, who provide periodic reports to the Manager on the plans for, and outcomes from, the implementation of the Fund's ESG strategy which incorporates climate-related risk objectives. The Manager is updated regularly on the progress being made against the ESG strategy and policy, including climate targets.
2	Describe management's role in assessing and managing climate-related risks and opportunities	The Investment Advisor and Real Estate Asset Manager are responsible for assessing and managing climate-related risk and opportunities. They are also responsible for the setting and delivery of the ESG strategy and targets, subject to the Manager's approval, including the climate-related risk specific objectives of net zero carbon by 2050 and ensuring portfolio climate resilience. The dedicated ESG team of the Real Estate Asset Manager supports the management of climate-related risk and opportunities in relation to the Fund.

Manager’s report

	Strategy TCFD Recommendations	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning Recommended Disclosure
3	Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term	The following climate-related risks and opportunities have been identified in relation to the Fund by the Investment Advisor and Real Estate Asset Manager: **Short term to Medium term (1-10 years)** • Increasingly stringent Government regulation and market defined standards on building energy and carbon efficiency to be reflected in asset valuations increasing the potential for asset stranding risk • Changing occupier requirements on building carbon and energy performance increases the potential for asset stranding risk and higher rate of asset depreciation • Assets may be exposed to acute physical climate-related risks (eg, flash flooding) impacting on building operation and insurability, increasing the potential for financial risk • Unitholders climate-related risk requirements are rapidly evolving. There is significant opportunity to demonstrate a leading approach to addressing climate-related risk, but equally failure to meet these requirements increases the potential for reputational and financial risk **Long term (10+ years)** • Assets may suffer increased physical damage as a result of acute and chronic physical climate-related risks and become uninsurable as a result of repeat damage events. This increases the potential for asset stranding risk and higher rate of asset depreciation • Assets may suffer premature obsolescence due to poor energy and carbon performance if they are unable to meet regulatory, market and occupier demands. This increases the potential for asset stranding risk and higher rate of asset depreciation

Manager’s report

	Strategy (continued) TCFD Recommendations	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning Recommended Disclosure
4	Describe the impact of climate-related risks and opportunities on the organisation’s businesses, strategy and financial planning	The Manager and the wider M&G Real Estate business have committed to achieving net zero greenhouse gas emissions by 2050 and ensuring portfolio climate resilience. Details of the M&G plc commitments and organisational approach can be found within the M&G plc Annual Report and Sustainability Reporting. Significant steps have been taken to integrate the consideration of climate-related risk and opportunity into business strategy and financial planning: **Acquisition:** ESG due diligence requirements include consideration of physical (primarily flooding risk), and transition risks (primarily energy and carbon efficiency). By evaluating these issues at the point of investment, the financial cost of maintaining climate resilience and achieving net zero carbon can be better understood, underwritten and managed. Challenges do exist in integrating these requirements, for example, there is not an agreed market definition of net zero carbon. **Development funding:** The Fund has worked with Arup Partners to create a Sustainable Development & Refurbishment Framework. The Framework prescribes minimum standards and aspirational targets for a range of ESG issues, including operational carbon, embodied carbon performance and physical resilience in the development of new assets as well as for refurbishment to existing assets. The Fund will apply the Framework in all funded development activity. **Portfolio management:** Due to the nature of the Fund’s long lease investment strategy, all assets held are under the operational control of tenants via Full Repairing and Insuring (FRI) leases where the decision to act on improvement or mitigation measures is held by tenants. The strategy of the Investment Advisor and Real Estate Asset Manager is therefore to engage with the tenants to: • Ensure that they are aware of the Fund’s strategic priorities in relation to climate-related risk and opportunities • Influence the tenant’s decision-making process in relation to the asset, and in particular highlight any areas where ESG performance (for example, Energy Performance Certificates) may be below the expected level • To identify opportunities by which the Fund and tenant organisations can collaborate on common ESG goals As a minimum this is fulfilled through regular engagement meetings as well as a request for access to environmental performance data (energy, water and waste utility usage). In more advanced cases where tenants have set out their own climate-related risk and opportunities strategies, discussion has progressed to review asset level recommendations on improvements (for example, installation of alternative heating equipment and on-site renewable energy). The engagement programme has been supported through the use of both internal and external analysis on the portfolio. The Real Estate Asset Manager has been conducting a review of Energy Performance Certificate ratings to identify assets which exhibit lower energy and carbon efficiency to aid occupier strategy, as well as a phased re-certification programme. A certification target has been set and is reviewed periodically, to ensure at least 50% of AUM remain certified (GBC) at all times and improvement plans produced by assessors aid asset business plans. The green building certification assessments provide an independent view of asset level energy efficiency as well as physical risk resilience (primarily flooding).

Manager’s report

	Strategy (continued) TCFD Recommendations	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation’s businesses, strategy, and financial planning Recommended Disclosure
5	Describe the resilience of the organisation’s strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario	**Transition Climate Risk Scenario Analysis** In 2020, the Real Estate Asset Manager undertook an operational desktop net zero carbon ‘pathway model’ of the Fund to assess stranding risks within the portfolio, covering Scope 1, 2 and Scope 3 downstream leased assets emissions and mapped it against the decarbonisation pathways provided by the Carbon Risk Real Estate Monitor (CRREM) tool, 1.5°C and 2°C climate future scenarios. Given the changes in the composition of the portfolio since 2020 and the 2023 update to the CRREM model, the Fund is planning to revisit the analysis. Following on from this assessment, a sample of assets will be selected for NZC audits. A full scope 1, 2, 3 carbon footprint has been produced on an annual basis for the Fund. In 2021/22, focus was placed on improving access to tenant energy usage data for standing investments, as well as whole life cycle assessments for funded developments. Improving the accuracy of these data inputs will help to refine the outputs from the CRREM analysis and focus attention on assets that may experience higher ‘stranded asset’ risk. In the Fund’s most recent disclosure to the GRESB Real Estate Assessment, emission-related data coverage was achieved for 91% of the portfolio (by floor area). The Real Estate Asset Manager is currently preparing to re-run the CRREM analysis using this improved emission dataset, as well as adopting the revised emission pathways introduced by CRREM in version 2 of the tool (released in January 2023). Results obtained will continue to inform asset planning and hold/sell strategy. Further steps are being taken to ensure that ‘on-demand’ analysis using the CRREM tool can be undertaken by asset managers using specialised software. **Physical Climate Risk Scenario Analysis** The physical risk posed by eight climate-related perils (river flood, surface water flood, coastal flood, windstorm, wildfire, freeze-thaw, heat-stress and soil movement) was assessed for all assets in the Fund. The analysis was completed by the insurance and risk specialist, Marsh, and climate scenario modelers XDI. It assessed the portfolio against two future climate change warming scenarios: an Orderly scenario (RCP 2.6: ~1.5°C) and Hot House scenario (and RCP 8.5 ≥3°C). 2020 was chosen as the base year for the purpose of modelling, the nearest complete dataset. The model was extended across the two climate warming scenarios to 2050 and 2100 years, at which point the modelled damage severity outputs were generated to quantify the likelihood of a severe event and the expected financial impact this might have on a given asset. The calculated output was used to place assets into high, medium or low risk categories, the threshold for each category was defined by Marsh. The dataset accounts for changes in the portfolio composition; sales are removed – purchases added. The scenario analysis has identified that climate-related flooding is the principal physical climate-related risk which may impact the portfolio in the longer term. It is acknowledged that all models have limitations and as part of our commitment to iteratively improving our scenario analysis, the dedicated ESG team of the Real Estate Asset Manager will continue to explore additional or alternative models to best understand climate-related risks, and to find ways to account for local improvements in national defences, and other resilience measures not accounted for within the current datasets. Where hot spots have been identified, the Fund will undertake further analysis to evaluate risk at the asset level in order to plan mitigation measures and build resilience. It should also be noted that the scenario modelling undertaken relates to direct impacts only and has not yet reached a level of sophistication to enable quantification of indirect risks, such as those that may impact the operation of third parties (for example tenants) or asset obsolescence (eg, damage to local infrastructure).

Manager's report

	Risk TCFD Recommendations	Disclose how the organisation identifies, assesses, and manages climate-related risks Recommended Disclosure
6	Describe the organisation's processes for identifying and assessing climate-related risks	Assets within the portfolio have undergone physical and transition risk scenario analysis, which has informed our understanding of current and potential future climate-related risk. We will continue to enhance our analysis to understand key drivers of risk to enable risk mitigation and resilience measures.
7	Describe the organisation's processes for managing climate-related risks	The Investment Advisor and the Real Estate Asset Manager is using the carbon pathway model and physical climate-related risk reviews to inform the creation of milestone targets, supporting progress towards the targets: net zero carbon by 2050 (aligned to a 1.5°C warming scenario) and ensuring portfolio climate resilience. It will seek to integrate findings into investment decision-making processes, enhancing the steps already taken (see Recommendation 4). Additionally, the Real Estate Asset Manager is introducing additional data management tools to support the tracking of operational carbon performance.
8	Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	The ESG Risk Management approach is defined under the Investment and Asset Managers' Risk Management Framework and the 'Three Lines of Defence' (3LoD) model. Refer to the M&G plc 2022 Sustainability Report TCFD disclosure.
	Metrics and Targets **TCFD Recommendations**	**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities** **Recommended Disclosure**
9	Disclose the metrics used by the organisation to assess climate-related risks and opportunities	For transition climate-related risk, we track the Green House Gas emissions and additional Environmental Performance Data (Energy Use, Water consumption, Waste and Energy/Water/GHG intensities per floor space) available upon request. For physical climate-related risk exposure, we track 'total modelled cost of damage.' This is a measure of potential average annualised loss which is calculated on the basis of modelled exposure to direct physical impacts and estimated cost of repair.

Manager's report

	Strategy	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
	TCFD Recommendations	**Recommended Disclosure**
10	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions, and the related risks	**Green House Gas (GHG) monitoring** 2022 greenhouse gas footprint of the portfolio covers Scope 1 and 2, all material Scope 3 emission activity, and all direct investments in the Fund at 31 December 2022. Overall, the GHG emissions of the Fund decreased in 2022 by ~5%, with a decline in capital spent on development leading to a drop in carbon emission from capital goods, offsetting an increase in Scope 3 tenant carbon emissions. The 2022 Fund Scope 3 Downstream carbon emissions increased due to a recovery in activity post Covid (in particular the reopening of gyms), the inclusion of emissions from assets purchased towards the end of 2021 and completed developments becoming operational.

GHG Protocol Scope	Source	Category	2021 (tCO_2e)	2022 (tCO_2e)	Variance %
Total			**158,038**	**150,352**	**-5%**
Scope 1			**0**	**0**	
	Landlord-Procured Fuels	LL Fuels	0	0	
	Landlord-Procured Refrigerants	LL Ref	0	0	
Scope 2			**0**	**0**	
	Landlord-Procured Energy	LL Energy	0	0	
Scope 3			**158,038**	**150,352**	**-5%**
Upstream	Purchased Goods & Services	Cat.1	316	273	-14%
	Capital Goods	Cat.2	65,736	47,923	-27%
	Embodied Carbon	Cat.2	0	0	
	Fuel & Energy Related Activities	Cat.3	0	0	
	Waste Generated in Operations	Cat.5	0	0	
	Water Supply & Waste Water	Wat.1	0	0	
Downstream	Downstream Leased Assets	Cat.13	91,986	102,156	+11%
	Indirect investments	Cat.15	0	0	

GHG Protocol Scope	Source	% Actual	% Estimated
Scope 1&2	Landlord Procured Energy	0	0
Scope 3	Tenant Procured Energy	66%	34%

Source: EVORA GLOBAL, based on 2022 calendar year data.

Manager's report

	Strategy (continued) TCFD Recommendations	Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning Recommended Disclosure
10	Disclose Scope 1, Scope 2, and if appropriate, Scope 3 greenhouse gas emissions, and the related risks (continued)	**Physical risk screening** The physical risk screening covers all assets held as at 30 June 2023*. The portfolio was assessed against two future climate change warming scenarios: an Orderly scenario (RCP 2.6: ~1.5°C) and Hot House scenario (and RCP 8.5 ≥3°C). The results provide a view of current and future predicted 'total modelled cost of damage' driven by one or more of the eight damaging hazard events expressed as a proportion of total Assets Under Management (AUM). Note, these figures do not account for indirect losses such as business disruption or devaluations, neither for asset and country level mitigation (for example national defences) or adaptation measures which may reduce the likelihood and or severity of physical impacts. High risk properties typically have substantial predicted exposure to severely damaging hazard events such as high flooding or coastal inundation, as opposed to heat stress, which may cause less damage or where probabilities of loss remain small. Low risk properties have lower predicted exposure to severely damaging hazards although some risk may still be present. The scenario analysis has identified that climate-related flooding is the principal physical climate-related risk which may impact the portfolio in the longer term Current exposure to 'total modelled cost of damage' is just over 0.2% pa of total Fund capital value. Assets with high & medium risk include those located around the Thames Valley. The data below should be read in context of the modelling limitations identified in TCFD Recommendation 5. It should also be noted that all real estate assets may exhibit some exposure to climate-related risks irrespective of the modelled output.

		Climate VaR – Physical risk, % of total Fund AUM*, pa		
Climate Scenarios	**Hazard Category**	**2020**	**2050**	**2100**
~1.5°C (Orderly)	High Risk	0.21%	0.69%	1.03%
	Medium Risk	0.01%	0.01%	0.02%
	Low Risk	0.01%	0.01%	0.01%
~3.0°C (Hothouse)	High Risk	0.23%	1.18%	1.98%
	Medium Risk	0.01%	0.01%	0.01%
	Low Risk	0.01%	0.01%	0.01%

Source: Marsh, *Portfolio composition and valuations at 30 June 2023. Tesco Jade excluded. Sample includes 184 assets valued at ~£3.3bn. 2050 – High risk – 10 assets/medium risk – 12 assets.

11	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	See 2023 and 2022 ESG Targets on Environmental Excellence section for reference.

Manager's report

Environmental performance and intensity

Operational changes and unwinding of COVID-19 restrictions (improved occupancy/re-opening of buildings) across the Fund's leisure, supermarket and office assets, which together make up more than half of the portfolio, led to an increase in like-for-like energy and water consumption. While energy consumption increased over the past 12 months, the intensity readings remain within comparable ranges of the UK Real Estate Environmental Benchmark (REEB) or the EVORA Global internal benchmarks, close to the 'business as usual' levels.

	Performance Metrics		Absolute		Like-for-like		
			2021	2022	2021	2022	% change
Energy use	Electricity (MWh)	Tenant Procured	168,863	169,695	128,816	147,720	15%
		Electricity from off-site renewable source (%)	70%	68%	68%	68%	
		Electricity from on-site renewable source (%)	1%	4%	<1%	<1%	
	Fuels (MWh)	Tenant Procured	268,396	281,854	241,457	253,741	5%
		Fuels from off-site renewable source (%)	0%	0%	0%	0%	
	Total (MWh)	Tenant Procured	437,259	451,550	370,273	401,461	8%
	Estimated Data (%)	Tenant Procured	0%	0%	0%	0%	
	Data Coverage (% of Total GIA)	Total Electricity	85%	88%	73%	73%	
		Total Fuels	89%	89%	76%	76%	
Water	Consumption (m^3)	Tenant Procured	1,589,514	1,851,038	1,437,402	1,661,968	16%
		Reused/Recycled (%)	0%	0%	0%	0%	
	Estimated Data (%)	Tenant Procured	-	-	-	-	
	Data Coverage (% of Total GIA)	Total	62%	74%	54%	54%	
Waste	Waste Produced (Tonnes)	Tenant Controlled	2,890	11,591	651	1,112	71%
		Recycled (%)	26%	48%	32%	37%	
		Diverted from Landfill (%)	69%	100%	88%	100%	
	Data Coverage (% of Total GIA)	Total	23%	39%	14%	14%	
	Estimated Data (%)	Tenant Procured	0%	0%	0%	0%	

Source: Evora Global, based on calendar year data. Like-for-like analysis exclude assets purchased, sold, refurbished, had significant data gaps or subject to a significant change in the scope of reported data during the two-year reporting period.

Manager’s report

Strong foundations:

There are ten strong foundations we believe must be in place to deliver our ESG objectives, alongside the 2023 objectives for the Fund.

Strong foundations		
1	Investor reporting & engagement	Unitholders are provided with quarterly and annual updates on the ESG credentials, performance and tenant engagement programme of the portfolio. The Fund participates annually in the Global Real Estate Sustainability Benchmark (GRESB). 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. The disclosure on climate-related risk follows the TCFD recommendations.
2	Risk management & regulatory compliance	The Fund seeks to minimise long-term exposure to material ESG risk by embedding consideration of these into investment decision-making. The Fund monitors the EPC ratings of all assets in the portfolio which provides a measure of the energy performance of the portfolio and enables any risk posed by changes to the Minimum Energy Efficiency Standards legislation in England and Wales to be managed.
3	Acquisitions	Material ESG issues are integrated into acquisition due diligence processes, which ensures risks and opportunities have been appraised and priced accordingly. The Fund has enhanced and continues to focus on the integration of ESG factors in due diligence processes.
4	Asset planning & prioritisation	Annual asset plans incorporate actions to manage and/or improve ESG performance through targeted tenant engagement, based on the risk, opportunities and initiatives planned for the asset. Asset plans are produced for all assets held.
5	Leasing	M&G Real Estate Limited has been engaging with tenants on opportunities to improve the environmental, health and wellbeing performance of new development assets . We are also seeking to introduce green lease clauses into lease agreements where possible to facilitate greater collaboration and information sharing on ESG initiatives.
6	Monitoring & guidance	Management systems and processes provide clear guidance on how to implement the ESG approach. An external party, Evora Global, is engaged to support monitoring of environmental performance data using the SIERA data management system. Property managers input environmental performance data into Evora’s online platform. Data quality and analysis by Evora and the platform ensures the highest levels of data coverage and accuracy. M&G Real Estate maintains an environmental management system which is independently certified to ISO 14001: 2015, maintained in 2023.
7	Property management	Third party property managers have sustainability requirements integrated into their contracts and Service Level Agreements. Annual KPIs are set and are monitored regularly to ensure that property managers and their supply chain are ensuring the delivery of ESG initiatives and targets where they are responsible for these.
8	Development & refurbishment	All developments in the Fund have strong sustainability credentials. Minimum requirements and aspirational targets are set out in the Sustainable Development and Refurbishment Framework which is a key tool for the Fund’s engagement with development partners.
9	Supply chain management	ESG standards and requirements are provided to suppliers as appropriate to their services. Monitoring is in place to ensure that contractual requirements are adhered to.
10	Employee engagement	All employees understand their role in the delivery of M&G’s ESG Strategy through training and briefings, and receive regular updates on the ESG performance of portfolios and assets they work on. All investment colleagues across the M&G Investments business are set a personal objective in relation to ESG.

Financial highlights

Investments

Portfolio statement

Portfolio of investments Property by Market Sector and Value Band as at 30 June	Location	2023 %	2022 %
Retail		**22.01**	**23.06**
Properties with value over £90 up to £150 million		**2.67**	**7.86**
Sainsbury's, 45&33 Garratt Lane	London		
Properties with value over £50 million up to £90 million[a]		**14.57**	**11.32**
Sainsbury's, Otford Road[b]	Sevenoaks		
Sainsbury's, Dog Kennel Hill[c]	Dulwich		
Sainsbury's, William Hunter Way[d]	Brentwood		
Tesco Supermarket, Hythe Road	Ashford		
Sainsbury's, Southgate	Huddersfield		
Tesco Supermarket, Culverhouse Crosse[e]	Cardiff		
Tesco Supermarket, Riverview Drive	Bedford		
Tesco Supermarket, Old Road	Royston		
Properties with value over £20 million up to £50 million[f]		**4.77**	**3.88**
Morrisons Supermarket, Coventry Road[g]	Sheldon		
Sainsbury's, Treyew Road[h]	Truro		
Tesco Supermarket, Springlands Way[i]	Sudbury		
Sainsbury's, Worthington Way[j]	Wigan		
Office		**23.49**	**21.41**
Properties with value over £260 million		**0.00**	**12.11**
Properties with value over £150 up to £260 million		**12.52**	**2.95**
250 Bishopsgate[k]	London		
17 Charterhouse Street, Farringdon[l]	London		
Properties with value over £90 million up to £150 million		**9.07**	**6.35**
St Vincent Street[m]	Glasgow		
Rose Court	London		
Southwark Bridge Road	London		
Properties with value over £50 million up to £90 million		**1.90**	**0.00**
Dorland House, Westbourne Terrace[n]	London		

Financial highlights

Portfolio of investments Property by Market Sector and Value Band as at 30 June	Location	2023 %	2022 %
Leisure (including hotels)		**28.36**	**26.00**
Properties with value over £260 million		**0.00**	**3.98**
Properties with value £150 million up to £260 million		**4.58**	**0.00**
North Wharf Gardens, Paddington	London		
Properties with value over £90 million up to £150 million		**5.42**	**4.13**
Premier Inn, Arrivals Road	Gatwick		
Premier Inn, Tothill Street	London		
Properties with value over £20 million up to £50 million[o]		**3.36**	**5.62**
Tennis Clubs Portfolio[p]	Various		
Travelodge Hotel, 3 Harewood Row	London		
David Lloyd, Royal Berkshire	Bracknell		
Clayton Hotel, St. Mary's Street	Cardiff		
Properties with value up to £20 million[q]		**15.00**	**12.27**
Tennis Clubs Portfolio[p]	Various		
Health Clubs Portfolio[r]	Various		
14-18 Noel Street	Noel Street		
104-108 Bolsover Street	London		
David Lloyd, United Way	Colchester		
Asda, Hemel Hempstead	Hemel Hempstead		
Other		**13.47**	**16.65**
Properties with value over £150 million up to £260 million		**0.00**	**3.36**
Properties with value over £90 million up to £150 million		**3.86**	**3.89**
Stratford, Halo[s]	London		
Properties with value over £50 million up to £90 million[t]		**5.53**	**2.87**
Peterborough 736- Amazon, Kingston Park[u]	Peterborough		
Syngenta's International R&D Centre, Jealotts's Hill[v]	Berkshire		
Aberfeldy New Village	London		
Properties with value over £20 million up to £50 million[w]		**3.22**	**5.90**
Dunaskin Street	Glasgow		
Bridewell Street	Bristol		
Unite House, Frogmore Street	Bristol		

Financial highlights

Portfolio of investments Property by Market Sector and Value Band as at 30 June	Location	2023 %	2022 %
Properties with value up to £20 million		**0.86**	**0.63**
Okeford House	Bournemouth		
Chesil House	Bournemouth		
Lyme Regis House	Bournemouth		
Other investments		**11.30**	**10.87**
99.95% holding in The Swansea Unit Trust (unconsolidated subsidiary)			
40% holding in The Tesco Jade Unit Trust (unconsolidated investment in associate)			
40% holding in The Jade (GP) Limited (unconsolidated investment in associate)			
50% holding in The Car Auctions Unit Trust (unconsolidated investment in associate)			
50% holding in The Hotel 42 Unit Trust (unconsolidated investment in joint venture)			
Total portfolio valuation		**98.63**	**97.99**
Net other assets		**1.37**	**2.01**
Net assets attributable to Unitholders and non-controlling interest ('NCI')		**100.00**	**100.00**

[a] Tesco Supermarket, Parc Troste, Llanelli was disposed of during the year.

[b] Sainsbury's, Otford Road, Sevenoaks moved bands.

[c] Sainsbury's, Dog Kennel Hill, Dulwich moved bands.

[d] Sainsbury's, William Hunter Way, Brentwood moved bands.

[e] Tesco Supermarket, Culverhouse Cross, Cardiff was disposed of post the balance sheet date.

[f] Morrisons Supermarket, Edgeley Road, Stockport, Morrisons Supermarket, Plumpton Park, Harrogate, Morrisons Supermarket, West Bailey, Killingworth and Morrisons Supermarket, Limebrook Way, Maldon were disposed of during the year.

[g] Morrisons Supermarket, Coventry Road, Sheldon moved bands.

[h] Sainsbury's, Treyew Road, Truro moved bands.

[i] Tesco Supermarket, Springlands Way, Sudbury moved bands.

[j] Sainsbury's, Worthington Way, Wigan was disposed of post the balance sheet date.

[k] 250 Bishopsgate, London moved bands and was disposed of post the balance sheet date.

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

[m] St Vincent Street, Glasgow moved bands.

[n] Dorland House, Westbourne Terrace, London moved bands.

[o] Travelodge Hotel, Povey Cross Road, Gatwick was disposed of during the year.

[p] 45 (2022: 45) properties located in the United Kingdom ranging in value from £3,210,000 to £27,180,000.

[q] Travelodge Hotel, 3 Waterloo Place, Edinburgh and Salisbury – Gala Bingo – Heritage was disposed of during the year.

[r] 39 (2022: 39) properties located in the United Kingdom ranging in value from £690,000 to £6,840,000.

[s] Stratford, Halo, London moved bands.

[t] Priory Group, Priory Lane, Roehampton was disposed of during the year.

[u] Peterborough 736- Amazon, Kingston Park, Peterborough moved bands.

[v] Syngenta's International R&D Centre, Jealotts's Hill, Berkshire moved bands.

[w] The Priory Group (various locations) were disposed of during the year.

Financial highlights

Portfolio transactions

Acquisitions and additions Property Name	Location	£'000
Acquisitions		–
Additions		
North Wharf Gardens, Paddington	London	
17 Charterhouse Street, Farringdon	London	
Total cost of acquisitions and additions for the year		**3,259**
Total cost of acquisitions and additions for the year as a percentage of NAV		**0.09%**
Development and refurbishment		
Total development and refurbishment costs for the year		**–**
Total development and refurbishment costs for the year as a percentage of NAV		**0.00%**

Disposals Property Name	Location	£'000
Travelodge Hotel, Povey Cross Road	Gatwick	
Morrisons Supermarket, Edgeley Road	Stockport	
Morrisons Supermarket, Plumpton Park	Harrogate	
Morrisons Supermarket, West Bailey	Killingworth	
Morrisons Supermarket, Limebrook Way	Maldon	
Priory Group, Priory Lane	Roehampton	
Priory Group, Stump Lane	Chelmsford	
Priory Group, The Bourne	North London	
Priory Group, Health House Lane	Bristol	
Priory Group, Rappax Road	Altrincham	
Priory Group, Chobham Road	Woking	
Tesco Supermarket, Parc Troste	Llanelli	
Premier Inn, 29-37 Red Lion Street	London	
Travelodge Hotel, 3 Waterloo Place	Edinburgh	
Salisbury – Gala Bingo – Heritage	Salisbury	
Total for the year		**524,597**

Financial highlights

Fund performance

Long-term performance

	Year ended 30.06.23		3 years (pa)		Since inception (pa)	
	Capital %	Total Return[a] %	Capital %	Total Return[a] %	Capital[b] %	Total Return[a,b] %
Institutional 'A' Units	(22.06)	(18.59)	(4.34)	(0.53)	0.01	4.23

[a] Returns are calculated based on the net asset value per Unit and accrued income.

[b] 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

Transcation 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.

See note 15 for details of transaction costs paid by the Fund in relation to purchases and sales before and after dilution adjustments relating to direct portfolio transaction costs.

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

Refer to the 'Capital Position' section in the Manager's Report with respect to the dilution adjustment applied by the Manager on a NAV per Unit basis. This dilution adjustment applied to the NAV is at the discretion of the Manager, per the Information Memorandum, whose priority it is to treat current and prospective investors fairly.

The dilution adjustment will continue to be monitored by the Investment Advisor and the Manager.

Specific Unit class performance

The following table shows the performance of the Institutional 'A' Unit class based on the reported NAV. Page 38 shows a reconciliation to reported NAV, Fund NAV and the consolidated GAAP NAV.

Institutional 'A' Unit performance

The Unit class was launched on 1 August 2007.

Year ended 30 June Change in NAV per Unit	2023 £	2022 £	2021 £
Opening NAV per Unit	128.41	119.78	114.31
Return before operating charges and after direct transaction costs	(27.64)	9.43	6.30
Operating charges	(0.69)	(0.80)	(0.83)
Return after all charges and costs	(28.33)	8.63	5.47
Closing NAV per Unit	100.08	128.41	119.78
Direct transaction costs	**£**	**£**	**£**
Direct transaction costs per Unit	0.10	0.24	0.00
Performance and charges	**%**	**%**	**%**
Direct transaction costs	0.09	0.18	0.00
Operating charges	0.64	0.64	0.72
Return after all charges and costs	(22.06)	7.20	4.78
Distribution yield[a]	4.43	3.62	3.62

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

Financial highlights

Other information	2023	2022	2021
Closing reported NAV of the Fund (£'000)	3,661,658	5,208,327	4,773,538
Number of Units in issue	36,587,068	40,560,465	39,852,415
Highest dealing price per Unit (£)	124.737	133.890	124.727
Lowest dealing price per Unit (£)	99.015	125.575	118.826

On 1 July 2023 and 2022, the Dealing Days immediately following the accounting reference dates, the Dealing Prices were as follows:

Dealing Price

	2023 £	2022 £
Institutional 'A' Units	99.015	133.584

Dealing Price history

	Calendar year	High £	Low £
Institutional 'A' Units	2020	123.918	118.826
	2021	130.223	120.947
	2022	133.890	101.892
	2023[a]	101.652	99.015

[a] 1 January 2023 to 30 June 2023.

Consolidated Financial Statements

Consolidated statement of total return

for the year ended 30 June	Note	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Income					
Net capital (losses)/gains on investments	5		(1,098,838)		361,242
Revenue	6	222,115		217,617	
Expenses	7	(26,415)		(31,621)	
Finance costs: Interest	9	(817)		(771)	
Net revenue			194,883		185,225
Total return before distributions			**(903,955)**		**546,467**
Finance costs: Distributions	9		(190,971)		(181,374)
Change in net assets attributable to Unitholders and non-controlling interests from investment activities			**(1,094,926)**		**365,093**
Non-controlling interests			41,217		(24,774)
Change in net assets attributable to Unitholders from investment activities			**(1,053,709)**		**340,319**

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	2023 £'000	2023 £'000	2022 £'000	2022 £'000
Opening net assets attributable to Unitholders		**5,070,098**		**4,638,705**
Amounts received on issue of Units	123,913		263,612	
Amounts paid on cancellation of Units	(540,627)		(183,209)	
		(416,714)		80,403
Dilution adjustment		4,418		10,671
Retained distributions on accumulation of units		1,373		–
Change in net assets attributable to Unitholders from investment activities (see above)		(1,053,709)		340,319
Closing net assets attributable to Unitholders		**3,605,466**		**5,070,098**

Consolidated Financial Statements

Consolidated balance sheet

as at 30 June	Note	2023 £'000	2022 £'000
Fixed assets			
Investment property	12	3,141,155	4,574,562
Other investments	13	407,559	580,351
Net investment in finance leases	14	7,440	7,669
Loan receivable	16	105,031	–
Lease inducement asset		5,105	5,373
		3,666,290	**5,167,955**
Current assets			
Lease inducement asset		268	268
Debtors	17	18,353	27,076
Cash and cash equivalents		167,515	177,701
		186,136	205,045
Total assets		**3,852,426**	**5,373,000**
Liabilities			
Creditors	19	51,790	61,060
Distributions payable	9	46,911	52,092
Total liabilities		**98,701**	**113,152**
Net assets attributable to Unitholders		**3,605,466**	**5,070,098**
Non-controlling interests	20	148,259	189,750
Net assets attributable to Unitholders and non-controlling interests		**3,753,725**	**5,259,848**
Reconciliation to Fund Balance Sheet			
Net assets attributable to Unitholders excluding non-controlling interests as per Fund Balance Sheet		3,661,026	5,208,296
Adjustment for estimated SDLT savings	1(d), 1(e)	(57,380)	(136,491)
Adjustment for capital expenses		31	31
Adjustment for fair value movement in finance lease		1,789	(1,738)
Net assets attributable to Unitholders excluding non-controlling interests in accordance with FRS 102		**3,605,466**	**5,070,098**

The Financial Statements on pages 36 to 75 were signed on behalf of the Board of Directors of M&G (Guernsey) Limited on 26 October 2023 by:

Peter Mills

Timothy Cumming
Directors of the Manager

Consolidated Financial Statements

Fund balance sheet

as at 30 June	Note	2023 £'000	2022 £'000
Assets			
Fixed assets			
Investments in subsidiaries	20	2,970,214	4,367,773
Other investments	13	407,559	580,351
Loan receivable	16	105,031	–
Investment property	12	114,140	191,000
		3,596,944	**5,139,124**
Current assets			
Debtors	17	45,860	53,013
Cash and cash equivalents		71,305	75,144
		117,165	128,157
Total assets		**3,714,109**	**5,267,281**
Liabilities			
Creditors	19	7,691	9,818
Distributions payable		45,392	49,167
Total liabilities		**53,083**	**58,985**
Net assets attributable to Unitholders		**3,661,026**	**5,208,296**
Reconciliation to reported NAV			
Net assets attributable to Unitholders based on reported NAV		3,661,658	5,208,327
Adjustment for capital expenses		(31)	(31)
Adjustment for loan carried at amortised cost		(601)	–
Net assets attributable to Unitholders		**3,661,026**	**5,208,296**

The Financial Statements on pages 36 to 75 were signed on behalf of the Board of Directors of M&G (Guernsey) Limited on 26 October 2023 by:

Peter Mills

Timothy Cumming
Directors of the Manager

Consolidated Financial Statements

Consolidated cash flow statement

for the year ended 30 June	Note	2023 £'000	2022 £'000
Net cash inflow from operating activities	**10**	**160,801**	**183,474**
Cash flows from Investing activities			
Distributions received		24,187	23,028
Interest received		10,206	4,206
Finance lease receipts		454	454
Purchase of and additions to investment property		(3,871)	(173,398)
Investments in associates		(34)	(26)
Disposal of investments in joint ventures		931	911
Capital distributions received from investments in associates		15,812	–
Disposal of investment in subsidiary		148,541	70,752
Disposal of investment property		239,772	26,744
Disposal of unconsolidated subsidiaries		907	882
Net cash inflow/(outflow) from investing activities		**436,905**	**(46,447)**
Cash flows from Financing activities			
Amounts received on issue of Units		122,451	274,283
Amounts paid on cancellation of Units		(534,747)	(183,209)
Amounts received from banking facility		–	100,000
Amounts repaid on banking facility		–	(100,000)
Finance costs: Distributions paid		(188,702)	(190,266)
Finance costs: Distributions paid to NCI		(6,077)	(5,719)
Finance costs: Interest paid		(817)	(771)
Net cash outflow from financing activities		**(607,892)**	**(105,682)**
Net (decrease)/increase in cash		**(10,186)**	**31,345**
Opening cash		**177,701**	**146,356**
Closing cash at bank and on deposit		**167,515**	**177,701**

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 Fund balance sheet is an additional voluntary disclosure. It is provided to give further details of the movement in the Fund.

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 its operation until at least 31 December 2024. This assessment considers the Fund's significant areas of possible financial risk including liquidity, the potential of non-collection of rent, present market trends, high inflation rates, investors' 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.

On 24 February 2022 Russian armed forces invaded Ukraine, which had an immediate and negative impact on equity markets globally but most particularly in Russia and Ukraine. Subsequently, economic sanctions have been imposed on Russia, and both the conflict and the sanctions continue as at the date of these financial statements. The Fund does not have any investments in Russia or the Ukraine and has not been impacted as a result of the conflict and the sanctions.

As at 30 September 2023 the Fund had sufficient liquid assets to meet its current obligations, with current liabilities of £98.7m and current assets of £186.1m. Ongoing operating expenses represent 13.7% of annual contracted income. The Manager and Investment Advisor continue to closely monitor the Fund's rental collection and the credit worthiness and operational earnings of all tenants. The Investment Advisor remains in regular discussions with the tenants to ensure rent recoverability and for the year ending June 2023 rent collection was 100%.

At the date of issue of these Financial Statements the Fund has access to an undrawn revolving credit facility of £150m which expires in July 2026 and provides an efficient and flexible source of funding due to the margin of 1.65% 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 a covenant that requires the NAV to be more than £3,000,000,000 but no interest cover covenants.

As at 18 October 2023 the undrawn investor queue was nil. The Fund has paid redemptions for the year ended 30 June 2023 totalling £360.9m and, subsequent to the year end, a further £397.4m. In line with the Fund's Information Memorandum and Trust Instrument, and following the Manager's decision to defer redemption requests received for the 1 November 2022 Dealing Day, all redemption requests for subsequent Dealing Days continue to be deferred. All redemption requests are now deferred for a period of up to eighteen successive Dealing Days beginning on the Relevant Dealing Day under the terms of the Information Memorandum and amended and restated Trust Instrument effective 2 May 2023 to allow for appropriate asset sales to be completed in an orderly manner. Notwithstanding these provisions, the Manager, subject to maintaining sufficient liquidity in the Fund at all times, will endeavour to make settlement on a timely basis and before expiry of the deferral period. The Manager has decided to exercise the right to adjust the basis for subsequent redemptions that now have a 3 month notice period attached making the total period to pay redemptions 21 months for all redemptions. The Manager and Investment Advisor have established a sales programme to raise capital to meet the deferred Redemption Requests.

Whilst it is not possible to determine future investor redemptions with a high degree of certainty, deferral of redemptions will continue to be monitored by the Manager and the Investment Advisor on a monthly basis.

Despite recent redemption requests, the Fund remains well positioned to meet its investment objective with a high quality portfolio of assets and tenants, it continues to benefit from long-term, inflation-linked cashflows and there is no gearing, vacancy or development exposure.

As a result the Manager has concluded that the use of the going concern basis is appropriate in preparing these 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 2023. 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'.

Notes to the Consolidated Financial Statements

e) Investments in associates and joint ventures

Investments in associates 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. Distributions are recognised on an accruals basis in the period to which they relate. Where the associate or joint venture 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'.

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 commencement 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 plus any initial direct costs.

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. The impairment is recognised as impairment losses in the Consolidated statement of total return in the reporting period, and the income and capital returns of the finance lease investment will be amortised accordingly.

If the assessment of the tenant improves subsequently a reversal or partial reversal of the impairment is possible. Impairment losses are reflected in the Consolidated statement of total return in the relevant reporting period and in the income and capital returns.

The reversal of the impairment cannot exceed the original impairment amount. A reversal is necessary even if the cashflows are eventually recovered from the tenant over a longer period than originally anticipated.

Notes to the Consolidated Financial Statements

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) 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.

j) Loans receivable

Loans are initially recognised at cost, being the fair value of the consideration received, including any transaction costs.

Interest earned on loans is recognised in the Consolidated statement of total return. The business model for the loan is to hold until maturity.

As the loan is not held for trading, the loan will subsequently be measured at amortised cost using the effective interest method. The effective interest method allocates interest and transaction costs at a constant rate over the length of the loan based on the carrying value at the end of each period.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Fund neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control of the financial asset.

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.

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.

Notes to the Consolidated Financial Statements

n) Recognition of income

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

Rental income is recognised over the lease term on a straight-line basis. Contingent rents, being those that are not fixed at the inception of the lease, are recorded as income in the period in which they are earned. Changes arising from rent reviews are reflected as income, once they have been agreed by all parties, when it is reasonable to assume they will be received. The Fund acts as the principal in these transactions.

Where a lease has known periodic fixed future rental uplifts, this additional rental income is recognised over the life of the lease and is shown as accrued rental income at the period end.

Interest receivable is accounted for on an effective interest basis.

Income 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.

r) Contingent assets

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are disclosed (not recognised) when an inflow of economic benefits is considered probable.
A contingent asset will only become a recognised asset in the Consolidated financial statements if its receipt is virtually certain.

s) Provisions, contingent liabilities and commitments

A provision is recognised when there is a present legal or constructive obligation because of past events where it is probable that there will be a transfer of economic benefits to settle the obligation which can be estimated reliably. A contingent liability is either a possible but uncertain obligation or a present obligation that is not recognised because a transfer of economic benefits is not probable, or the amount cannot be estimated reliability. A contingent liability is only disclosed within the financial statements. A 'capital commitment' is the projected capital expenditure the Trust commits to spend on non-current assets over a period, this is provided in the Consolidated financial statements in the determination of fair value for Investment Properties under construction using the residual method.

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. Undistributed income includes the accrued rental income on the long term tenant leases as at 30 June 2023 which is not currently due in cash from the tenants. This is carried as accrued rental income at the balance sheet date.

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.

On 19 August 2021 and 31 May 2022 in the prior year, the Fund made ad hoc distributions to Unitholders representing rental income originally withheld but subsequently recovered from the Fund's tenants. The distributions totalled £4,332,553 and £11,615,465 respectively, and were allocated to Unitholders as per the period the income arose under the terms of the Market Wide Non-Payment Event. The final ad hoc distribution of £3,179,817 to Unitholders was made on 29 November 2022 and the remaining income of £1,373,093 was converted into trust capital. It was resolved to declare Normalisation on 30 November 2022.

Notes to the Consolidated Financial Statements

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:

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 of 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 all redemptions requests are subject to a three-month notice period and, the Manager reserves the right to defer accepted redemption requests for a period of up to eighteen successive Dealing Days as defined in the Information Memorandum.

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 The Royal Bank of Scotland International Ltd, as described in note 18.

Notes to the Consolidated Financial Statements

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.

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, investment properties under construction and finance leases held directly or indirectly in unconsolidated subsidiaries, associates and joint ventures are 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, 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.

Notes to the Consolidated Financial Statements

The Fund has policies in place to ensure that contracts are entered into only with lessees, developers and counterparties with an appropriate credit history and/or 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.

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 Bank plc and Lloyds Banking Group plc, with a Moody's rating of A1 and A3 respectively (2022: HSBC Bank plc and NatWest Group plc, with Moody's ratings of A1 and A3 respectively).

£50,703,000 (2022: £nil) of the £167,515,000 (2022: £177,701,000) cash and cash equivalent balance at year end, is held in a Northern Trust Asset Management Global Liquidity Fund money market account. The Northern Trust Company has a Moody's rating of Aa2.

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, loans receivable, as well as any 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.

Notes to the Consolidated Financial Statements

4 Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with FRS 102 and the IA SORP 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. 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.

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. In the prior years, significant uncertainty over the collectability of trade receivables persisted as a result of the pandemic restrictions. Rent collection improved drastically during the years ended 30 June 2023 and 2022, easing the pressure on the 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.

Notes to the Consolidated Financial Statements

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. The bad debts expense of £1,237,000 charged to the Consolidated statement of total return in the prior year related to unpaid rent by the tenant of the Shiva Hotel near Heathrow airport. The Heathrow asset was disposed of for a gross price of £27 million during the prior financial year. No bad debts were incurred in the year ended 30 June 2023.

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. For directly held finance leases (note 14), at lease commencement a finance lease receivable is recognised at the fair value of the asset. Finance leases are stated at amortised cost and the fair value of the Real Estate asset is used as an input into the Fund's impairment assessment.

All fair values have been determined based on valuations performed by CBRE in their capacity as accredited independent valuers, as at 30 June 2023. CBRE has acquired significant expertise in valuing these types of investment properties, investment properties under construction and finance leases. The Independent 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 2023.

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 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 Independent 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.

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.

c) Discounted Cash Flow (DCF) Analysis

DCF analysis 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, ie, 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.

Notes to the Consolidated Financial Statements

Fair value of investments in unconsolidated subsidiaries, associates and joint ventures

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.

For investments in unconsolidated subsidiaries, associates and joint ventures 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. Finance leases held in unconsolidated subsidiaries are uplifted to fair value through a NAV adjustment of the investment (note 13).

As subsidiaries and associates 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 or associate rather than the property. The uplift applied follows the Manager's policy on SDLT adjustments.

Lease Impairment Risk Assessment

A lease impairment risk assessment has been adopted by the Manager and Investment Advisor to decide if an impairment for finance leases has emerged on an ongoing basis and if so apply the accounting requirements within the Fund. Finance leases are financial instruments measured at amortised cost. The impairment requirements apply to derecognition and impairment of receivables recognised by a lessor. The Fund assesses the financial assets individually for impairment on the basis of credit risk characteristics.

In the impairment risk assessment, an asset impairment for finance leases occurs if there is 'objective evidence' of a loss event according to one of five specific criteria similar to the trade receivables assessment of 'objective evidence' and 'other factors'.

Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates.

The impairment risk assessment is based on a set of criteria ranging variously from payment default, material arrears or winding up petition, Company Voluntary Arrangement, credit-rating change, dilution of rent coverage, material decrease in the external valuation discounted cash flow ('DCF'), and other information sourced either internally or from relevant sources.

If a tenant shows objective evidence of impairment resulting from the change in credit risk/cash flow assumptions, then a new finance lease schedule for the remaining period of the lease, will be prepared with the cashflows discounted at the original effective interest rate. The amount of the impairment is calculated based on the difference between the carrying value and the expected impaired cashflow.

If the impaired value results in an amount which is lower than the vacant possession value of the asset, the carrying value will be impaired only down to the vacant possession value. If the vacant possession value falls below the carrying value then the carrying value should be used.

In a subsequent period, if the amount of an impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the tenants' credit rating), the entity shall reverse the previously recognised impairment loss in the Consolidated statement of total return.

The reversal of impairment shall not result in a carrying value for the net investment in finance lease that exceeds what the amount would have been if the impairment was not previously recognised.

Notes to the Consolidated Financial Statements

5 Net capital (losses)/gains on investments

	2023 £'000	2022 £'000
Realised gains on sale of investment property	5,821	4,449
Realised losses on sale of subsidiaries	(37,414)	(87,564)
Unrealised (losses)/gains on investment properties	(912,069)	398,242
Unrealised gain on investment property under construction	–	3,419
Unrealised (losses)/gains on investments in associates	(88,378)	36,296
Unrealised losses on unconsolidated subsidiaries	(23,871)	(3,090)
Unrealised (losses)/gains on investments in joint ventures	(42,927)	9,490
Net capital (losses)/gains	**(1,098,838)**	**361,242**

6 Revenue

	2023 £'000	2022 £'000
Distributions from associates and unconsolidated subsidiaries	24,824	22,604
Interest on finance lease	227	234
Interest income[a]	11,598	4,206
Service charge income	577	601
Other income	–	33
Rental income	185,156	190,206
Amortisation of lease inducement asset	(267)	(267)
Total revenue	**222,115**	**217,617**

[a] Included in interest income is £3,099,000 (2022: £nil) interest earned on the loan issued as part of the financing arrangement of the Priory group sale. Refer to note 16 for further details.

Notes to the Consolidated Financial Statements

7 Expenses

	2023 £'000	2022 £'000
Payable to the Manager or related parties of the Manager		
Manager's fee	515	579
Investment Advisory fee	21,386	25,201
Real Estate Asset Management fee	281	286
	22,182	**26,066**
Payable to the Trustee or related parties of the Trustee		
Trustee fee	259	256
Other expenses		
Administration fee	979	1,088
Auditor's fee	337	278
Bad debts expense	–	1,237
Independent Valuer fee	359	432
Legal and professional fees	643	200
Listing fees	78	69
Loan facility set up costs	202	117
Service charges and other expenses	1,332	1,832
Taxation exemption fees (see note 8)	44	46
	3,974	5,299
Total expenses	**26,415**	**31,621**

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 (2022: £700,500).

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 (2022: £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	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

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 £7,000 (2022: £7,000) for each new sub-trust, and an additional administration fee of £9,750 per annum (2022: £9,750) per sub-trust.

f) Bad debts[1]

Tenant	Unit Trust	Bad Debt Expense %	Bad Debt Expense Amount
For the year ended 30 June 2022			
Shiva[a]	Heathrow Unit Trust	100%	1,237,061

[1] The above table was for COVID-19 related bad debts in the prior year, and the remaining bad debts balance were the bad debts incurred in the normal course of the business. No bad debts were incurred in the year ended 30 June 2023.

[a] This tenant did not pay rent since the moratorium on eviction was actioned in April 2020 by H M Government. The tenant made no attempt to negotiate a repayment plan or re-open the hotel which led us to assume a low probability of recovery and potentially an asset work-out scenario as the tenant has significant debt finance. As a result, on 1 April 2022, the Shiva Hotel asset near Heathrow airport was sold for a gross price of £27 million and all the outstanding rent was written off as bad debts.

Notes to the Consolidated Financial Statements

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 (2022: £1,200) per annum.

The Manager has made an 'exemption election' for the Fund under the UK Non-Resident Capital Gains Tax ('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.

9 Finance costs: Distributions and other finance costs

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

	2023 £'000	2022 £'000
Quarterly distributions		
Quarter ended 30 September	46,964	45,805
Quarter ended 31 December	48,110	47,156
Quarter ended 31 March	49,306	42,590
Quarter ended 30 June[a]	46,591	45,823
Total quarterly distributions	**190,971**	**181,374**
Finance costs: distributions	**190,971**	**181,374**
Interest on secured borrowing	–	189
Non-utilisation fee	817	582
Finance costs: Interest	**817**	**771**
Total finance costs	**191,788**	**182,145**
Net revenue per statement of total return	194,883	185,225
Capital expenses/(income) excluded from net income for income distribution purposes	202	(42)
Lease smoothing excluded from net income for income distribution purposes[b]	(4,121)	(4,477)
Other expenses excluded from net income for income distribution purposes	7	668
Finance costs: distributions	**190,971**	**181,374**
Comprising:		
Distributions to Unitholders	184,898	175,662
Distributions to non-controlling interests	6,073	5,712

[a] Total distributions payable by the Group at year end amounted to £46,910,914 (2022: £52,092,001) which included the distributions pertaining to the quarter ended 30 June 2023 and non-controlling interest (2022: distributions pertaining to the quarter ended 30 June 2022 and non-controlling interest, as well as the distributions withheld).

[b] This is income that is earned but income that has not been received for the year ended 30 June 2023.

Notes to the Consolidated Financial Statements

10 Cash flow

	2023 £'000	2022 £'000
Reconciliation of total return before distributions to net cash flow from operating activities		
Total return before distributions	(903,955)	546,467
Distribution income	(24,824)	(22,604)
Interest income	(11,598)	(4,206)
Interest on finance lease	(227)	(234)
Net capital losses/(gains) on investments	1,098,838	(361,242)
Amortisation of Lease inducement asset	267	267
Finance costs: Interest	817	771
Movement in debtors	10,752	13,466
Movement in creditors	(9,269)	10,789
Net cash inflow from operating activities	**160,801**	**183,474**

Reconciliation of net debt	At 1 July 2022 £'000	Cash flows £'000	Other non cash charges £'000	At 30 June 2023 £'000
Net debt	(5,134,239)	596,889	904,229	(3,633,121)

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

11 Units in issue

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

Unit class:	Opening 1 July 2022	Movement Issued	Movement Cancelled	Closing 30 June 2023
Institutional 'A' Units	40,560,465	1,009,689	(4,983,086)	36,587,068

Notes to the Consolidated Financial Statements

12 Investment property and investment property under construction

	Investment property £'000	Investment property under construction £'000	Total £'000
Carrying value as at 1 July 2022	4,574,562	–	4,574,562
Purchases of investment property and cost adjustments	3,347	–	3,347
Disposal of investment property	(337,340)	–	(337,340)
Disposal of investment property on sale of subsidiary	(187,257)	–	(187,257)
Adjustment to cost	(88)	–	(88)
Movement in unrealised loss on revaluation during the period	(912,069)	–	(912,069)
Carrying value as at 30 June 2023	3,141,155	–	3,141,155
Fair value as at 30 June 2023	**3,141,155**	–	**3,141,155**

	Investment property £'000	Investment property under construction £'000	Total £'000
Carrying value as at 1 July 2021	4,014,959	165,178	4,180,137
Purchases of investment property and cost adjustments	131,054	–	131,054
Development costs	–	42,788	42,788
Disposal of investment property	(22,370)	–	(22,370)
Disposal of investment property on sale of subsidiary	(158,264)	–	(158,264)
Adjustment to cost	(438)	(6)	(444)
Movement in unrealised gain on revaluation during the period	398,242	3,419	401,661
Reclassification	211,379	(211,379)	–
Carrying value as at 30 June 2022	4,574,562	–	4,574,562
Fair value as at 30 June 2022	**4,574,562**	**–**	**4,574,562**

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 2023, at £3,027,015,000 (2022: £4,383,562,000). 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 2023, of £114,140,000 (2022: £191,000,000). These properties were valued by the Independent Valuer, as of 30 June 2023.

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

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 2023 £'000	Decrease 2023 £'000
Retail	(33,720)	36,850
Office	(43,985)	48,685
Leisure (including hotels)	(53,810)	60,350
Other	(20,525)	22,835

Impact on valuation of 0.25% change in yield	Increase 2022 £'000	Decrease 2022 £'000
Retail	(65,915)	74,015
Office	(71,650)	82,400
Leisure (including hotels)	(107,285)	103,355
Other	(45,085)	51,325

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

	2023 £'000	2022 £'000
Not later than one year	163,978	193,739
Later than one year and not later than five years	661,198	782,625
Later than five years	4,824,019	5,221,684
Total	**5,649,195**	**6,198,048**

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

13 Other investments

	Investments in associates £'000	Investments in joint ventures £'000	Investments in unconsolidated subsidiaries £'000	Total £'000
Carrying value as at 1 July 2022	367,955	129,303	83,093	580,351
Additions to investments	34	–	–	34
Capital distributions	(15,812)	(931)	(907)	(17,650)
Movement in unrealised loss on revaluation during the period	(88,378)	(42,927)	(23,871)	(155,176)
Carrying value as at 30 June 2023	263,799	85,445	58,315	407,559
Fair value as at 30 June 2023	**263,799**	**85,445**	**58,315**	**407,559**

	Investments in associates £'000	Investments in joint ventures £'000	Investments in unconsolidated subsidiaries £'000	Total £'000
Carrying value as at 1 July 2021	331,633	120,724	87,065	539,422
Additions to investments	26	–	–	26
Capital distributions	–	(911)	(882)	(1,793)
Movement in unrealised gain/(loss) on revaluation during the period	36,296	9,490	(3,090)	42,696
Carrying value as at 30 June 2022	367,955	129,303	83,093	580,351
Fair value as at 30 June 2022	**367,955**	**129,303**	**83,093**	**580,351**

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

	2023 Cost £'000	Unrealised gains/(losses) on revaluation £'000	2023 Total £'000
The Car Auctions Unit Trust	121,651	41,715	163,366
The Hotel 42 Unit Trust	123,434	(37,989)	85,445
The Swansea Unit Trust	27,972	30,343	58,315
The Tesco Jade Unit Trust	96,622	3,738	100,360
Tesco Jade (GP) Limited	32	41	73
	369,711	**37,848**	**407,559**

Notes to the Consolidated Financial Statements

	2022 Cost £'000	Unrealised gains on revaluation £'000	2022 Total £'000
The Car Auctions Unit Trust	137,461	109,234	246,695
The Hotel 42 Unit Trust	124,365	4,938	129,303
The Swansea Unit Trust	28,879	54,214	83,093
The Tesco Jade Unit Trust	96,590	24,597	121,187
Tesco Jade (GP) Limited	32	41	73
	387,327	**193,024**	**580,351**

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 a 99.91% holding 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	2023 £'000	2022 £'000
Amounts receivable under finance leases:		
Within one year	454	454
In the second to fifth year inclusive	1,816	1,816
After five years	7,926	8,380
	10,196	**10,650**
Less: unearned finance income	(2,812)	(3,039)
Present value of minimum lease payments receivable	**7,384**	**7,611**
Interest received in advance	56	58
Net investment in finance leases	**7,440**	**7,669**

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 first 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 (2022: £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% (2022: 3.01%) per annum.

Notes to the Consolidated Financial Statements

15 Portfolio transaction costs

The following tables show portfolio transactions and their associated transaction costs for the Fund, its subsidiaries and associates. For more information about the nature of the costs please see 'Operating charges and transaction costs' in the 'Financial highlights' section. Total direct portfolio transaction costs are stated before dilution adjustments.

	2023 £'000	% of transaction	2022 £'000	% of transaction
a) Acquisitions and additions				
Acquisitions and additions excluding transaction costs	3,335		165,703	
Agents' fees	–	–	999	0.60
Investment Advisory acquisition fee	–	–	701	0.42
Legal fees	9	0.27	141	0.09
Other costs	(88)[a]	(2.64)	(317)	(0.19)
Stamp Duty Land Tax	–	–	6,190	3.74
Survey fees	3	0.09	(12)	(0.01)
Trustee's fees	–	–	(7)	–
Total transaction costs	(76)		7,695	
Total acquisitions including transaction costs	**3,259**		**173,398**	
b) Disposals				
Disposals excluding transaction costs	528,519		182,213	
Agents' fees	(1,510)	0.29	(200)	0.11
Legal fees	(2,383)	0.45	(1,379)	0.76
Other costs	(29)	0.01	–	–
Total transaction costs	(3,922)		(1,579)	
Total disposals net of transaction costs	**524,597**		**180,634**	

[a] Relates to cost accrual adjustments.

Notes to the Consolidated Financial Statements

	2023 £'000	% of average NAV	2022 £'000	% of average NAV
c) Direct portfolio transaction costs				
Agents' fees	1,510	0.04	1,199	0.02
Investment Advisory acquisition fee	–	–	701	0.01
Legal fees	2,392	0.05	1,520	0.03
Other costs	(59)[a]	–	(317)	(0.01)
Stamp Duty Land Tax	–	–	6,190	0.13
Survey fees	3	–	(12)	–
Trustee's fees	–	–	(7)	–
Transaction costs before dilution adjustments	3,846	0.09	9,274	0.18
Dilution adjustments	(4,418)	(0.11)	(10,671)	(0.21)
Total direct portfolio transaction costs	**(572)**	**(0.02)**	**(1,397)**	**(0.03)**

[a] Relates to cost accrual adjustments.

In line with the requirements of the 2014 Statement of Recommended Practice for authorised funds, direct transaction costs are stated after the proportion of the amounts collected from dilution adjustments in relation to direct transaction costs. These costs on a percentage basis, might appear positive or negative depending on the timing of investment activity within the Fund. The current negative percentage reflects the fact that the Fund has collected a dilution adjustment but has not yet incurred all costs for making investments or divesting the portfolio.

Please see 'Capital Position' section in the Manager's Report for more information with respect to the dilution adjustment applied by the Manager on a NAV per Unit basis. This dilution adjustment applied to the NAV is at the discretion of the Manager, per the Information Memorandum, whose priority it is to treat current and prospective investors fairly. The dilution adjustment will continue to be monitored by the Investment Advisor and the Manager.

16 Loans receivable

On 12 December 2022, the Fund sold the six properties held as part of the Priory Group (from within The P6 unit Trust) located at various locations for £233,000,000.

Of this amount, £105,031,000 (includes transaction costs) was not received in cash, but offered to the buyer as a financing arrangement with the terms listed below:

- the facility agreement that governs the loan is dated 9 December 2022, with a 2-year period until maturity,
- the loan accrues interest at a fixed rate of 5.25% which is payable by the buyer at each quarter end date, and
- at maturity, the final payment includes an element of interest.

The loan has been recognised at amortised cost and the effective interest rate has been calculated at 5.14%.

During the year ended 30 June 2023, £3,099,000 (2022: £nil) interest was earned (see note 6) of which £1,391,000 (2022: £nil) remains receivable at year end.

Notes to the Consolidated Financial Statements

17 Debtors

Group As at 30 June	2023 £'000	2022 £'000
Distributions receivable	4,890	4,253
Interest receivable[a]	1,392	–
Accrued rental income	8,920	4,513
Rent receivable	2,337	16,881
Other debtors and prepayments	814	1,429
Total	**18,353**	**27,076**

Fund As at 30 June	2023 £'000	2022 £'000
Distributions receivable	43,166	50,915
Interest receivable[a]	1,392	–
Other debtors and prepayments	1,302	2,098
Total	**45,860**	**53,013**

[a] Included in interest receivable is £1,391,000 (2022: £nil) interest receivable on the loan issued as part of the financing arrangement of the Priory group sale. Refer to note 16 for further details.

18 Bank loans

On 28 July 2022 the Fund renewed and extended its revolving credit facility with The Royal Bank of Scotland International Limited to £150,000,000 (2022: £100,000,000), as per the amended and restated agreement dated 28 July 2022. £nil was drawn down during the year ended 30 June 2023 (2022: £100,000,000 on 20 December 2021 and subsequently repaid on 7 January 2022 and 7 February 2022). As at 30 June 2023, £nil (2022: £nil) of the facility was outstanding. Up to 27 July 2022, for the portion that is used during the year, interest is charged on the daily balance at SONIA, plus 1.60% per annum (2022: up to 15 October 2021: LIBOR, plus 1.60% and from 15 October 2021 onwards: SONIA, plus 1.60%). From 28 July 2022 onwards, interest is charged on the daily balance at SONIA, plus 1.65% per annum. On the remaining unused portion of the facility, interest is charged at 0.65% (2022: 0.65%) per annum. This loan is repayable on expiry of the facility, being 28 July 2026.

Notes to the Consolidated Financial Statements

19 Creditors

Group As at 30 June	2023 £'000	2022 £'000
Deferred rental income	39,223	45,052
Investment Advisor fees	4,838	6,610
VAT payable	5,894	6,530
Other creditors and accruals	1,835	2,868
Total	**51,790**	**61,060**

Fund As at 30 June	2023 £'000	2022 £'000
Deferred rental income	1,773	2,487
Investment Advisor fees	4,790	6,529
Other creditors and accruals	1,128	802
Total	**7,691**	**9,818**

20 Investments in consolidated subsidiaries

The Fund held the following investments in subsidiaries:

	2023 Total £'000	2022 Total £'000
The 250 Bishopsgate Unit Trust	239,863	344,419
The 4M Supermarket Unit Trust	–	159,064
The Aberfeldy Unit Trust	66,082	79,321
The Ashford Unit Trust	58,863	69,415
The Bedford Unit Trust	66,017	77,786
The Bournemouth Unit Trust	31,079	32,938
The Brentwood Unit Trust	78,265	97,541
The Bridewell Unit Trust	38,997	47,117
The Cardiff Unit Trust	60,774	72,489
The Charterhouse Unit Trust	227,455	329,818
The Crown Unit Trust	120,031	140,975
The Dorland House Unit Trust	67,737	98,790
The Dulwich Unit Trust	71,033	95,967
The Dunaskin Unit Trust	37,386	44,826
The Gatwick Unit Trust	98,427	110,195
The Gatwick 2 Unit Trust	–	37,103

Notes to the Consolidated Financial Statements

	2023 Total £'000	2022 Total £'000
The Glasgow Unit Trust	128,502	165,953
The Health Clubs Unit Trust	98,982	142,578
The Heathrow Unit Trust	–	697
The Huddersfield Unit Trust	54,652	64,801
The Jealott's Hill Unit Trust	74,570	99,821
The Llanelli Unit Trust	–	64,391
The North Wharf Gardens Unit Trust	171,116	225,357
The P6 Unit Trust	–	251,299
The Peterborough Unit Trust	71,134	117,617
The Rose Unit Trust	96,109	116,719
The Royston Unit Trust	61,775	74,139
The Sevenoaks Unit Trust	84,658	106,339
The Sheldon Unit Trust	46,555	63,355
The Stratford Unit Trust	142,603	185,714
The Student Accommodation Unit Trust	39,719	49,336
The Sudbury Unit Trust	40,718	49,949
The Tennis Unit Trust	307,978	392,266
The Truro Unit Trust	48,104	57,759
The Wandsworth Unit Trust	98,810	134,620
The Westminster Unit Trust	105,451	121,466
The Wigan Unit Trust	36,769	45,833
Total	**2,970,214**	**4,367,773**

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

	2023 Cost £'000	Unrealised gain/(loss) on revaluation £'000	2023 Total £'000
The 250 Bishopsgate Unit Trust	248,529	(8,666)	239,863
The Aberfeldy Unit Trust	43,803	22,279	66,082
The Ashford Unit Trust	44,839	14,024	58,863
The Bedford Unit Trust	62,408	3,609	66,017
The Bournemouth Unit Trust	40,500	(9,421)	31,079
The Brentwood Unit Trust	81,415	(3,150)	78,265
The Bridewell Unit Trust	33,680	5,317	38,997
The Cardiff Unit Trust	69,861	(9,087)	60,774

Notes to the Consolidated Financial Statements

	2023 Cost £'000	Unrealised gain/(loss) on revaluation £'000	2023 Total £'000
The Charterhouse Unit Trust	266,139	(38,684)	227,455
The Crown Unit Trust	126,017	(5,986)	120,031
The Dorland House Unit Trust	58,869	8,868	67,737
The Dulwich Unit Trust	71,389	(356)	71,033
The Dunaskin Unit Trust	32,811	4,575	37,386
The Gatwick Unit Trust	82,647	15,780	98,427
The Glasgow Unit Trust	104,615	23,887	128,502
The Health Clubs Unit Trust	98,099	883	98,982
The Huddersfield Unit Trust	54,204	448	54,652
The Jealott's Hill Unit Trust	78,310	(3,740)	74,570
The North Wharf Gardens Unit Trust	212,397	(41,281)	171,116
The Peterborough Unit Trust	116,820	(45,686)	71,134
The Rose Unit Trust	101,613	(5,504)	96,109
The Royston Unit Trust	58,784	2,991	61,775
The Sevenoaks Unit Trust	76,403	8,255	84,658
The Sheldon Unit Trust	52,400	(5,845)	46,555
The Stratford Unit Trust	114,206	28,397	142,603
The Student Accommodation Unit Trust	22,463	17,256	39,719
The Sudbury Unit Trust	32,300	8,418	40,718
The Tennis Unit Trust	265,516	42,462	307,978
The Truro Unit Trust	51,790	(3,686)	48,104
The Wandsworth Unit Trust	82,778	16,032	98,810
The Westminster Unit Trust	108,521	(3,070)	105,451
The Wigan Unit Trust	40,280	(3,511)	36,769
Total	**2,934,406**	**35,808**	**2,970,214**

Notes to the Consolidated Financial Statements

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

	Country of incorporation	Class of shares	% of Class held	Principal activity
The 250 Bishopsgate Unit Trust	Guernsey	Units	99.99%	Property investment
The 4M Supermarket Unit Trust[a]	Guernsey	Units	–	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 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	99.99%	Property investment
The Crown Unit Trust	Guernsey	Units	99.98%	Property investment
The Dorland House 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
The Gatwick Unit Trust	Guernsey	Units	99.96%	Property investment
The Gatwick 2 Unit Trust[a]	Guernsey	Units	–	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[b]	Guernsey	Units	–	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 Trustt[b]	Guernsey	Units	–	Property investment
The North Wharf Gardens Unit Trust	Guernsey	Units	99.99%	Property investment
The P6 Unit Trust[b]	Guernsey	Units	–	Property investment
The Peterborough Unit Trust	Guernsey	Units	99.98%	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 Accommodation 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

Notes to the Consolidated Financial Statements

	Country of incorporation	Class of shares	% of Class held	Principal activity
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

[a] Unit trusts sold during the year.

[b] Unit trusts liquidated during the year.

Tennis Unit Trust holds 33.33% (2022: 33.33%) of the NCI balance at 30 June 2023.

21 Financial instruments and fair value of investment properties

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 (2022: 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.

The maturity analysis of financial assets/liabilities at 30 June 2023 is as follows:

	On 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	167,515	–	–	167,515
Other debtors	13,420	–	–	13,420
Loan receivable	–	105,031	–	105,031
Distributions receivable	4,890	–	–	4,890
Investments in unconsolidated entities	–	–	407,559	407,559
Finance lease receivables	454	1,816	7,926	10,196
Liabilities				
Other creditors	6,673	–	–	6,673
Distributions payable	46,911	–	–	46,911
Net assets attributable to Unitholders[a]	3,661,658	–	–	3,661,658
Non-controlling interests	148,259	–	–	148,259

Notes to the Consolidated Financial Statements

The maturity analysis of financial assets/liabilities at 30 June 2022 is as follows:

	On 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	177,701	–	–	177,701
Other debtors	22,765	–	–	22,765
Distributions receivable	4,253	–	–	4,253
Investments in unconsolidated entities	–	–	580,351	580,351
Finance lease receivables	454	1,816	8,380	10,650
Liabilities				
Other creditors	9,478	–	–	9,478
Distributions payable	52,092	–	–	52,092
Net assets attributable to Unitholders[a]	5,208,327	–	–	5,208,327
Non-controlling interests	189,750	–	–	189,750

[a] Based on reported NAV.

Interest rate profile

The significant interest-bearing financial instruments of the Group are bank loans (nil balance but available facility as per note 18), on which interest is calculated at a variable rate. Apart from the loan receivable as disclosed in note 16, 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 2023 was:

Financial assets

Group	Amount £'000	Effective interest rate %	Maturity
Loan receivable	105,031	5.14	8.12.24

Group	Amount £'000	Weighted effective interest rate %	Maturity
Cash and cash equivalents	167,515	1.95	Current

Financial liabilities

Group	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	SONIA + 1.65[a]	28.07.26

Notes to the Consolidated Financial Statements

Financial assets

Fund	Amount £'000	Effective interest rate %	Maturity
Loan receivable	105,031	5.14	8.12.24

Fund	Amount £'000	Weighted effective interest rate %	Maturity
Cash and cash equivalents	71,305	1.37	Current

Financial liabilities

Fund	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	SONIA + 1.65%[a]	28.07.26

[a] For the period 1 July 2022 to 27 July 2022, SONIA + 1.60% (see note 18).

The interest rate profile of the Group and Fund at 30 June 2022 was:

Financial assets

Group	Amount £'000	Effective interest rate %	Maturity
Cash and cash equivalents	177,701	0.16	Current

Fund	Amount £'000	Weighted effective interest rate %	Maturity
Cash and cash equivalents	75,144	0.30	Current

Financial liabilities

Group	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	SONIA + 1.60%[a]	18.10.22

Fund	Amount £'000	Weighted average interest rate %	Maturity
Bank loans	–	SONIA + 1.60%[a]	18.10.22

[a] For the period 1 July 2021 to 14 October 2021, LIBOR + 1.60% (see note 18).

Notes to the Consolidated Financial Statements

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 an unadjusted quoted price in an active market for identical instruments 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.

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 at 30 June 2023:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment property	–	–	3,141,155	3,141,155

Fair value analysed by level at 30 June 2022:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investment property	–	–	4,574,562	4,574,562

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 2023:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments in associates and joint venture	–	–	349,244	349,244
Investments in unconsolidated subsidiaries	–	–	58,315	58,315
Net assets attributable to Unitholders	–	(3,605,466)	–	(3,605,466)

Fair value analysed by level at 30 June 2022:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Investments in associates and joint venture	–	–	497,258	497,258
Investments in unconsolidated subsidiaries	–	–	83,093	83,093
Net assets attributable to Unitholders	–	(5,070,098)	–	(5,070,098)

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (2022: 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:

	2023 £'000	2022 £'000
Trade receivables, net of provision for impairment where applicable		
Other debtors	13,420	22,765
Distributions receivable	4,890	4,253
Total debtors, net of impairment	18,310	27,076
Finance lease receivables	10,196	10,650
Loan receivable	105,031	–
Cash and cash equivalents	167,515	177,701

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, investment in joint ventures and unconsolidated subsidiaries.

As at the date of this report, two (2022: two) Directors of the Manager held Units in the Fund, Mr Francis held 4,654.220 (2022: 4,654.220) and Mr Baxter held 2,420.168 (2022: 2,321.206) Units at 30 June 2023.

Total fees paid to the Manager for the year ended 30 June 2023 were £515,000 (2022: £579,000) of which £118,000 (2022: £148,000) remains payable at year end.

Distributions to related parties are as follows:

	Prudential Assurance Company Limited (subsidiary of M&G plc) £'000
Distributions paid for 2023 period	3
Distribution payable at 30 June 2023	1
Distributions paid for 2022 period	3
Distribution payable at 30 June 2022	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 2023	Outstanding commitments	Original commitments
The Crown Unit Trust[a]	£81,419,263	£81,419,263
Total	**£81,419,263**	**£81,419,263**

[a] Subject to planning approval.

As at 30 June 2022	Outstanding commitments	Original commitments
The Crown Unit Trust[a]	£81,419,263	£81,419,263
Total	**£81,419,263**	**£81,419,263**

[a] Subject to planning approval.

While the Manager continues to defer redemption requests, it has access to the RBSi debt facility to enable the Fund to meet upcoming commitments, which is sufficient to cover the full cost of all amounts contracted for and falling due within twelve months of 30 June 2023 amounting to c.£81m (2022: £81m).

The maturity analysis of the capital commitments at 30 June 2023 is as follows:

Outstanding commitments, falling due:

As at 30 June 2023	On demand and less than 1 year	From 1 to 5 years	More than 5 years	Total
The Crown Unit Trust[a]	£81,419,263	–	–	£81,419,263
Total	**£81,419,263**	**–**	**–**	**£81,419,263**

[a] Subject to planning approval.

As at 30 June 2022	On demand and less than 1 year	From 1 to 5 years	More than 5 years	Total
The Crown Unit Trust[a]	–	£81,419,263	–	£81,419,263
Total	**–**	**£81,419,263**	**–**	**£81,419,263**

[a] Subject to planning approval.

Notes to the Consolidated Financial Statements

24 Events occurring after the balance sheet date

There were redemption payments to Unitholders of £140,057,753 on 10 August 2023 and £257,250,511 on 12 September 2023.

On 7 July 2023 the sale of the Wigan Unit Trust, which owned a Sainsbury's store in Wigan completed with proceeds of £36,800,000.

On 7 July 2023 the sale of the Cardiff Unit Trust, which owned a Tesco store in Cardiff completed with proceeds of £61,200,000.

On 1 August 2023 the sale of the BCA Derby completed by Car Auction Unit trust (Fund ownership 50%) with proceeds of £5,600,000.

On 4 August 2023 the sale of the 250 Bishopsgate office, London let to NatWest completed with proceeds of £251,000,000.

25 Distribution table

Accounting reference date	Net income 2023 £	Payment dates	Distribution paid/payable[a] 2023 £
Institutional 'A' Units			
30 September	1.127	01.11.22	1.125
31 December	1.163	01.02.23	1.164
31 March	1.190	02.05.23	1.190
30 June	1.232	01.08.23	1.196

Accounting reference date	Net income 2022 £	Payment dates	Distribution paid/payable[a] 2022 £
Institutional 'A' Units			
30 September	1.113	01.11.21	1.113
31 December	1.145	01.02.22	1.143
31 March	1.007	03.05.22	1.012
30 June	1.092	03.08.22	1.091

[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 year ended 30 June 2023

We hereby state that in our opinion the Manager has managed the Fund for the year ended 30 June 2023 in accordance with the provisions of (i) the Scheme’s Principal Documents (ii) Information Memorandum and (iii) The Authorised Collective Investment Schemes (Class B) Rules and Guidance, 2021 made under The Protection of Investors (Bailiwick of Guernsey) Law, 2020.

Northern Trust (Guernsey) Limited
26 October 2023

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 2023 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 2023 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 Consolidated 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
- Evaluating the disclosures made in the Consolidated Financial Statements regarding going concern to ascertain that they are in accordance with United Kingdom Accounting Standards including FRS 102 “The Financial Reporting Standard applicable in the UK and Republic of Ireland”.

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 2024.

Independent Auditor's report

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
	• Fair value of other investments including investments in unconsolidated subsidiaries, associates and joint ventures
	• Revenue recognition (rental income and distribution income)
Materiality	Overall materiality of £36.1 million which represents 1% of the Fund's Net assets attributable to Unitholders ("NAV") as at 30 June 2023.

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.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Fund. The Fund has determined that the most significant future impacts from climate change on its operations will be from 2050. These are explained on pages 20 to 26 in the required Task Force for Climate related Financial Disclosures, which form part of the "Other information," rather than the audited financial statements. Our procedures on these disclosures therefore consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appear to be materially misstated.

As explained on page 12, governmental and societal responses to climate change risks are still developing, and are interdependent upon each other, and consequently financial statements cannot capture all possible future outcomes as these are not yet known. The degree of certainty of these changes may also mean that they cannot be taken into account when determining asset and liability valuations and the timing of future cash flows under the requirements of FRS 102.

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, may be misstated due to application of inappropriate methodologies or inputs to the valuations and/ or inappropriate judgements. (£3.14bn, 2022: £4.57bn) *Refer to accounting policies, Note 4 and Note 12 of the Consolidated Financial Statements* The fair value of investment properties 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.	We performed the following procedures: • Obtained an understanding of the process and controls surrounding valuation of investment properties by performing our walkthrough procedures and evaluating the implementation and design effectiveness of controls; • We engaged the EY real estate valuation team 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 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 selected a representative sample of investment properties and engaged the EY real estate valuation team 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; • We obtained the fair values determined by management's Independent Valuer and agreed the total to the portfolio value reported as investment property in the consolidated financial statements; and • Our EY real estate valuation team challenged the assumptions made by management's Independent Valuer based on recent transactions noted for comparable asset disposals, where applicable.	Based on our procedures performed over the risk of misstatement in the fair value of investment properties, 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

<table>
<tr><th>Risk</th><th>Our response to the risk</th><th>Key observations communicated to the Audit Committee</th></tr>
<tr><td>

Other Investments, being those in unconsolidated subsidiaries, associates and joint ventures, are not fairly valued (£407.6m, 2022: £580.4m)

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, is based on their net asset values which depend primarily on the fair values of the underlying properties. The fair values of the underlying properties are based on judgements, estimates and assumptions that may be materially misstated. These are calculated using subjective inputs and may not be valued appropriately.

</td><td>

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"
- Where sales occurred during the year and post balance sheet date, we reviewed the realised value against the carrying value inclusive of the SDLT uplift, to assess whether management's judgements were supported. We challenged the assumptions and judgements 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.

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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.

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<tr><td>

Revenue recognition (rental income and distribution income).

(Rental income £185.2m, 2022: £190.2m), Distribution income £24.8m, 2022: £22.6m)

Refer to accounting policies and Note 6 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 on the investment properties may be incorrectly recognised and materially misstated.

Distribution income received from the underlying unit trusts is significant and may be materially misstated.

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With respect to revenue recognition, we performed the following substantive procedures:

- We developed an understanding of the rental and distribution income 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 tested the distribution income received by the Fund by agreeing the amounts received to the distributions paid by the underlying unit trusts.

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Based on our procedures performed over the risk of overstatement or inaccuracy of rental and distribution income recognition, we concluded that revenue is fairly stated.

We concluded that the disclosures in the Consolidated Financial Statements relating to revenue are appropriate and we identified no matters that we wanted to bring to the attention of the Audit Committee.

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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 £36.1 million (2022: £52.6 million) which is 1% (2022: 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 2023.

Performance materiality

Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount that reduces 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% (2022: 50%) of our planning materiality, namely £18 million (2022: £26.3 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 £1.8 million (2022: £2.6 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 Manager is 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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether 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:
  - United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland";
  - The Authorised Collective Investment Schemes (Class B) Rules 2021; 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 of 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 of 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 of 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 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 4.2(4) of the Authorised Collective Investment Schemes (Class B) Rules, 2021. 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

27 October 2023

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 2023 is as follows:

Gross method: 98.25%
Commitment method: 98.25%

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: 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 2022 to 31 December 2022.

	Fixed remuneration £'000	Variable remuneration £'000	Total £'000
Senior Management	320	0	320
Other Identified Staff	592	926	1,518

Annex 1: Sustainable Finance Disclosure Regulation

Periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product Name: The M&G Secured Property Income Fund
Legal Entity Identifier: 549300LSD2DVF20P2E74

Environmental and/or social characteristics

Did this financial product have a sustainable investment objective?

☐ Yes	☒ No
☐ It made **sustainable investments with an environmental objective**:	☒ It **promoted Environmental/Social (E/S) characteristics** and while it did not have as its objective a sustainable investment, it had a proportion of 18.5% of sustainable investments
☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy	☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☒ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
	☐ with a social objective
☐ It made **sustainable investments with a social objective**:	☐ It promoted E/S characteristics, but **did not make any sustainable investments**

To what extent were the environmental and/or social characteristics promoted by this financial product met?

As per the SFDR Level 2 Pre-Contractual Disclosure commitment, the Fund aims to invest in buildings which either have high environmental standards or the Manager seeks to improve the environmental footprint of the building. Continuous improvement in environmental and social performance of the assets is driven through the Fund's ESG targets.

The Fund will not invest in activities that are considered to be harmful to the society or the environment. It will not invest in real estate assets that have significant tenants that are listed companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption, or any tenants that are listed companies involved in the controversial weapons. Those exclusions are applied at the time of investment and upon new lettings where the Manager or its delegate has control. Significant tenants are defined as tenants whose rent constitutes 20% or more of overall rental income of the real estate asset.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics.

Review of sustainability indicators demonstrates that within the reference period the environmental and/or social characteristics promoted by this financial product have been met. Please refer to the sustainability indicator data table which is included as the answer to the question "How did the sustainability indicators perform". Based on the sustainability indicators the following attainment outcomes have been determined.

In regards to the promotion of environmental and social characteristics which relate to the investments in buildings which either have high environmental standards or which the Manager seeks to improve the environmental footprint of the buildings, this has been met and is demonstrated through:

- Indicators 1 and 2 demonstrate that 73.5% of direct real estate assets (>50% of assets) at the end of the reference period had Green Building Certification or plan to achieve it within three years. This confirms that the binding elements of the investment strategy used to attain the environmental characteristic being promoted by the Fund has been met.

- Indicator 3 shows that 41.5% of direct real estate assets held at the end of the reference period had a Green Building Certification level of BREEAM Very Good or equivalent which reflects good to best practice in the market and therefore positively contributed to environmental characteristics promoted by the Fund. The proportion of assets that have achieved this level are considered to be appropriate to the investment strategy in the understanding the certification is being sought retrospectively and that ultimate control on asset environmental performance remains with tenants under Full Repairing & Insuring (FRI) lease terms.

  Indicator 4 has recorded that 40.0% of direct real estate assets have met the definition of energy-efficient real estate assets. Note the measurement of energy-efficient real estate has been based on the Principle Adverse Indicator (PAI) formula for energy-inefficient real estate as defined in the Annex I of European Union (EU) Commission Delegated Regulation 2022/1288.

  The Manager has undertaken regular monitoring of portfolio Energy Performance Certificate (EPC) ratings and pro-actively engaged with tenants to identify opportunities to improve energy efficiency. In funded development and refurbishment projects, the Manager seeks to apply a minimum EPC rating threshold of 'B' where feasible. For 2024, the Fund has set an aspirational target to develop improvement plans for all assets with EPC rating of 'D' or below by June 2025, and work with occupiers to deliver energy efficiencies, acknowledging that ultimate control remains with tenants under Full Repairing & Insuring (FRI) lease terms.

In regards to promotion of environmental and social characteristics through the Manager's evaluation of each potential investment against the relevant ESG criteria, as well as annual ESG targets the Fund has set for its assets that it is measured against and progress driven through asset plans, this has been met and is demonstrated through:

- Indicator 5 demonstrates 85%, of the Fund's ESG targets set out in the 2022 ESG Investment Policy were on track or achieved at the end of the reference period.

  Further detail on progress against targets is incorporated into the ESG section of the Annual Investment Report & Consolidated Financial Statements for the year ended 30 June 2023.

In regards to promotion of environmental and social characteristics through the achievement of the GRESB Real Estate Assessment Rating:

- Indicator 6 records that the Fund has completed an independent review of ESG criteria via use of the GRESB Real Estate Assessment. The Fund met its aspirational target to hold at least a 4 GRESB Star rating and be in the top 20% of its peer group. In the 2023 GRESB Real Estate Assessment, the Fund improved its rating by 2 points and achieved 4 Star status. This not only places it within the top 40% of all GRESB participants worldwide, but also 1st in its peer group of 100 (Peer Group: UK/Diversified/Core/Tenant Controlled).

In regards to promotion of environmental and social characteristics which relates to the Manager's exclusion of harmful activities, this has been met and is demonstrated through:

- Indicators 7 and 8 which demonstrates that at the end of the reference period the Fund has 2.3% exposure to fossil fuel related activities, this is petrol stations at supermarket assets. The Manager considers these to be an incidental activity in the context of the wider purpose of the assets. In addition, all tenants were compliant with the Fund's exclusion principles.

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

- **How did the sustainability indicators perform?**
  Sustainability indicators as at the end of the reference period (30 June 2023). Direct assets measured on basis of capital value.

Sustainability indicator	Measured performance
As at - 30 June 2023	
% of investments with Green Building Certification achieved	65.7% of direct real estate assets (61.3% on gross asset value basis)
% of investments with Green Building Certification achieved or planned and underway	73.5% of direct real estate assets (68.6% on gross asset value basis)
% of investments with Green Building Certification BREEAM Very Good or above (or equivalent)	41.5% of direct real estate assets (38.7% on gross asset value basis)
% of investments in energy-efficient real estate assets (Energy Performance Certificate B or above, or met Nearly Zero-Energy Building requirements if built after 2020)	40.0% of direct real estate assets in scope of EPC or NZEB requirements met the definition of energy-efficient real estate assets
% of all ESG targets (as set out in the Fund's ESG Investment Policy) achieved or on track	85% of all ESG targets (as set out in the Fund's ESG Investment Policy) achieved or on track
GRESB Real Estate Assessment star rating:	The Fund received a GRESB 4 star rating in the 2023 Real Estate Assessment
% of investments in real estate assets that are not involved in the extraction, storage, transport or manufacture of fossil fuels	97.7% of direct real estate assets (91.2 % on gross asset value basis)
% of Estimated Rental Value with tenants compliant with fund exclusion principles	100% Estimated Rental Value was compliant with the exclusion principles

- **...and compared to previous periods?**
  The Fund is not yet able to provide comparison to a previous reporting period as this is the Fund's first SFDR Level 2 Periodic Report. The Fund will provide historic comparison in the next Periodic Report.

- **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?**

The objective was to invest in economic activities that are environmentally sustainable. Sustainable investments that the Fund makes is comprised of real estate assets which meet high environmental standards and thus contribute to the environmental objective. Assets that are considered to be sustainable investments must also pass the following Do No Significant Harm test defined by the Manager, these are detailed further in the following question and answer responses in this disclosure.

The Manager has defined that high environmental standards which contribute to the Fund's environmental objective is demonstrated by attainment of a given level of Green Building Certification.

The minimum level has been set as Green Building Certification which is equivalent to BREEAM 'Very Good' rating or above. Green Building Certification is a consistent and comparable way to verify environmental performance for real estate assets and therefore considered to be an appropriate metric for environmental and or social contribution measurement. The level of certification required to pass the test has been determined based on professional judgement of the Manager's ESG subject matter experts, taking into account the following factors:

• That the certification level reflects good to best practice in the market, thus reflecting the intention that the building positively contributes to the environmental objective.
• That the certification scheme provides comprehensive coverage of multiple environmental issues, thereby providing a sufficiently holistic picture of asset impact on the environment.

As at 30 June 2023, fourteen assets representing 41.5% of direct real estate assets (38.7% of Gross Asset Value, GAV), had achieved the required level primarily through BREEAM In-Use. A portion of these assets did not pass the Do No Significant Harm test for sustainable investment defined by the Manager due to exposure to energy-inefficiency.

Therefore, the actual portion of sustainable investments at the end of the reference period was 18.5% GAV. This is above the Fund's minimum commitment to maintain 10% sustainable investments.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?**

Before investment and over the life of the asset, Principle Adverse Impact (PAI) indicators are assessed and monitored for each sustainable investment to ascertain that it does not cause significant harm. Four PAI indicators described below applicable to real estate assets, as defined in the Annex I of EU Commission Delegated Regulation 2022/1288, are considered as part of the Manager's Do No Significant Harm test for sustainable investment.

As at 30 June 2023 eight assets, 18.5% of Gross Asset Value (GAV), achieved the Do No Significant Harm test for sustainable investment defined by the Manager. Therefore, actual % sustainable investments was 18.5% GAV. This is above Fund's minimum commitment of 10% sustainable investments.

The Manager's definition of Do No Significant Harm covered the following:

Adverse sustainability indicator 17: Exposure to fossil fuels through real estate assets

The Investment Advisor and Asset Manager has conducted ongoing monitoring to determine where petrol/ refuelling stations were present within the direct real estate asset portfolio as at the end of the reference period. The Investment Advisor and Asset Manager considers these activities to be the most relevant and likely exposure to fossil fuel-related activities in the Fund's real estate assets. Where such activities were identified, the associated proportion of capital value has been removed from the eligible pool of direct assets which could be measured as sustainable investments.

In cases where fossil fuel is a minor or incidental activity (for example, a petrol station that is part of a much larger real estate asset that otherwise meets the sustainable investment definition), the proportion of the capital value of the asset associated with fossil fuel activity was excluded from the eligible pool of direct assets which can be measured as sustainable investments. Where the assets capital valuation did not provide a separate valuation for the relevant part containing the fossil fuel activity, an estimation of the value was calculated based on the proportion of estimated rental value attributed to the relevant tenant.

Adverse sustainability indicator 18: Exposure to energy-inefficient real estate assets
The Investment Advisor and Asset Manager has conducted ongoing monitoring of Energy Performance Certificate (EPC) and Nearly Zero Energy Building (NZEB) information for the portfolio where data allowed it to be assessed against the energy-inefficient definition (as per Annex I of EU Commission Delegated Regulation 2022/1288). Where direct assets were identified as energy-inefficient based on the definition, the associated proportion of capital value has been removed from the eligible pool of direct assets which could be measured as sustainable investments. The Manager will seek to improve the availability of EPC and NZEB data, as well as develop its methodology for assessing exposure to energy-inefficient real estate in preparation for future disclosure.

Climate And Other Environment-Related Indicators 18: Greenhouse gas emissions
High environmental standards with regards to greenhouse gas emissions in sustainable investments are demonstrated by attaining a Green Building Certification under a scheme of appropriate quality. The Green Building Certification schemes required for sustainable investments have been reviewed by the Manager and are known to incorporate minimum and aspirational requirements in regards to greenhouse gas emission reduction for real estate assets as core components of the assessment and scoring process. Therefore, where direct real estate assets did not achieve Green Building Certification under a valid scheme, the associated proportion of capital value would have been removed from the eligible pool of direct real estate assets which could be measured as sustainable investments. All assets identified as sustainable investments are deemed to have passed this test.

Climate And Other Environment-Related Indicators 19: Energy consumption intensity
High environmental standards with regards to energy consumption intensity in sustainable investments are demonstrated by attaining a Green Building Certification under a scheme of appropriate quality. The Green Building Certification schemes required for sustainable investments have been reviewed by the Manager and are known to incorporate minimum and aspirational requirements in regards to energy efficiency (including energy consumption intensity) for real estate assets as core components of the assessment and scoring process. Therefore, where direct real estate assets did not achieve Green Building Certification under a valid scheme, the associated proportion of capital value would have been removed from the eligible pool of direct real estate assets which could be measured as sustainable investments. All assets identified as sustainable investments are deemed to have passed this test.

- **How were the indicators for adverse impacts on sustainability factors taken into account?**
Thresholds are established for PAI indicators related to fossil fuel exposure and energy-inefficient real estate (as per Annex I of EU Commission Delegated Regulation 2022/1288).

PAI indicators related to greenhouse gas emissions and energy consumption intensity have been considered through the requirements of the Green Building Certification. All sustainable investments have been retrospectively evaluated against these PAIs for the purpose of this Periodic Report, and from 1st January 2023, as part of due diligence and periodically thereafter. Assets that breach established PAI thresholds have not been recorded as sustainable investments.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:**
All real estate assets qualified as sustainable investments have been screened for significant tenants against a list of listed companies that were assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption. Investments were not qualified as sustainable if they were assessed to be in breach of the UN Guiding Principles on Business and Human Rights or OECD Guidelines for Multinational Enterprises. No such breaches were recorded in the portfolio during the reference period and therefore no investments have needed to be excluded from sustainability investments on this basis.

Note the SFDR Level 2 Pre-Contractual Disclosure commitments on exclusions came into effect on 1st January 2023 in alignment with the SFDR Level 2 regulatory deadline. The exclusions do not apply retrospectively as per the Pre-Contractual Disclosure wording. At launch, the Fund applied exclusions in relation to cluster munitions and anti-personnel mines only. From 1st January 2023, the policy was expanded to cover significant tenants that are listed companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption, as well as any tenants that are listed companies involved in controversial weapon activities.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

How did this financial product consider principal adverse impacts on sustainability factors?
At the product level, the Fund considered Principal Adverse Impacts (PAIs) through retrospectively assessing and monitoring the four PAIs indicators applicable to the Fund. The following has been identified through the ongoing monitoring:

Adverse sustainability indicator 17: Exposure to fossil fuels through real estate assets
Review of the portfolio has identified fifteen assets which had fossil fuel exposure relating to a petrol stations in supermarkets. The proxy method described above was used to determine the portion of capital value associated with the petrol stations.

The Manager considers these to be an incidental activity in the context of the wider purpose of the assets. In addition, all tenants were compliant with the Fund's exclusion principles. The capital valuation of the assets did not provide separate valuation for the relevant part containing the fossil fuel activity, therefore an estimation of the value was calculated based on the proportion of estimated rental value attributed to the relevant tenant. The calculated portion of value, 2.3% of direct real estate assets, was excluded from the pool of direct assets which could be measured as sustainable investments.

The Fund will consider fossil fuel exposure as part of the due diligence process when acquiring new assets in the future in order to manage potential changes in the level of exposure.

Adverse sustainability indicator 18: Exposure to energy-inefficient real estate assets
The Investment Advisor and Asset Manager has conducted ongoing monitoring of Energy Performance Certificate (EPC) and Nearly Zero Energy Building (NZEB) information for the portfolio where data allowed it to be assessed against the energy-inefficient definition (as per Annex I of EU Commission Delegated Regulation 2022/1288).

Review of the portfolio has identified that 59.6% of direct assets may be considered to be energy-inefficient according to the definition. Within this portion of the portfolio there are a number of cases where assets cannot be assessed as they do not hold EPC ratings as there is no legal requirement to have one in place. In these instances, the relevant assets have been recorded as energy-inefficient as it is not possible to evidence otherwise according to the regulatory definition.

Through the Fund's ESG strategy it is also seeking to improve the environmental footprint of existing buildings, particularly where EPC and NZEB ratings are known to be below the defined thresholds.

Climate And Other Environment-Related Indicators 18 & 19: Greenhouse gas emissions and energy consumption Intensity

The Fund has engaged with a third-party specialist consultant to support in the monitoring and reporting of the Fund's greenhouse gas emissions and energy consumption intensity. The programme includes annual gathering of asset level greenhouse gas activity and energy usage data from the occupying tenants through direct tenant engagement.

The Investment Advisor and Asset Manager undertake an annual review of performance to help inform the development of the Fund's ESG strategy. Through the Fund's ESG strategy it is seeking to improve the environmental footprint of buildings which have high levels of greenhouse gas emissions as well as energy intensity, acknowledging that ultimate control remains with tenants under Full Repairing & Insuring (FRI) lease terms.

The list includes the investments constituting **the greatest proportion of investments** of the financial product during the reference period which is: 01/07/2022 to 30/06/2023

What were the top investments of this financial product?

Largest investments	Sector	% Assets	Country
250 BISHOPSGATE, London	Office	6.43%	United Kingdom
THE CHARTERHOUSE, London	Office	5.90%	United Kingdom
PADDINGTON, London	Hotel	4.60%	United Kingdom
OPAL COURT & RUBY COURT, London	Residential	3.80%	United Kingdom
SCOTTISH POWER, Glasgow	Office	3.34%	United Kingdom
1 SOUTHWARK BRIDGE, London	Office	3.18%	United Kingdom
TESCO JADE, Various	Retail	2.74%	United Kingdom
HUB BY PREMIER INN, London	Hotel	2.71%	United Kingdom
PREMIER INN, Gatwick	Hotel	2.63%	United Kingdom
SAINSBURY'S SUPERSTORE, London	Retail	2.62%	United Kingdom
ROSE COURT, London	Office	2.55%	United Kingdom
SAINSBURY'S SUPERSTORE, Sevenoaks	Retail	2.25%	United Kingdom
SAINSBURY'S, Brentwood	Retail	2.08%	United Kingdom
INTERNATIONAL RESEARCH CENTRE, Bracknell	Other	1.97%	United Kingdom
SAINSBURY'S, Dulwich	Retail	1.89%	United Kingdom

What was the proportion of sustainability-related investments?

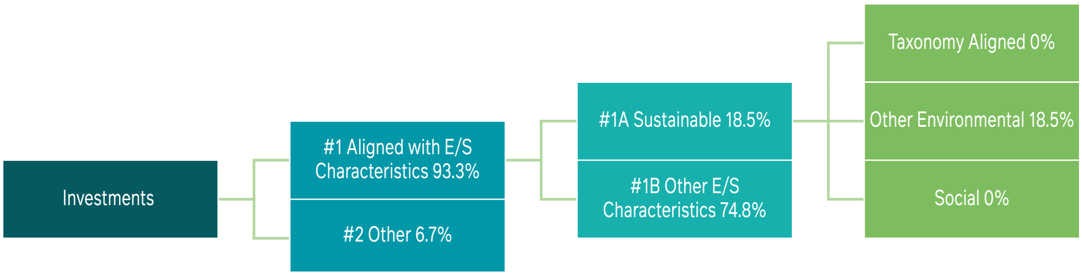
In the SFDR Level 2 Pre-Contractual Disclosure (annex to the Fund's Investment Memorandum) the Fund has committed to a minimum of 70% of the Fund's assets to be aligned to the environmental or social characteristics promoted. This includes a minimum 10% of the assets that are qualified as sustainable investments with an environmental objective. A minimum of 0% of the Fund's assets are other investments not aligned to the environmental or social characteristics.

Asset allocations below are expressed as a percentage of Gross Asset Value (GAV). The Actual proportion of investments that were aligned to the environmental or social characteristic promoted was 93.3% GAV as at 30 June 2023, this is above the 70% minimum commitment.

This was composed of 18.5% GAV relating to sustainable investments which was above the 10% minimum threshold, and the remaining 74.8% GAV related to investments with other environmental and or social characteristics. None of the sustainable investments were expected to be aligned to EU Taxonomy because the Fund does not currently take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy regulation. They are therefore recorded as other environmentally sustainable investments.

Asset allocation describes the share of investments in specific assets.

- **What was the asset allocation?**
  The graphic below provides an overview of the asset allocation.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.

- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

In which economic sectors were the investments made?

The investment breakdown is expressed as a % of Gross Asset Value (GAV) as at 30 June 2023

Economic sector	% Assets
Direct Real Estate Assets	93.35%
Cash	2.41%
Other Investments	4.24%

To what extent were sustainable investments with an environmental objective aligned with the EU Taxonomy?

The Fund did not take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy Regulation. The Fund did not target investment in taxonomy-aligned assets as part of its investment policy and therefore recorded that 0% of the Fund's investments were aligned with the environmental objectives under the Taxonomy Regulation during the reference period.

The Fund intends to develop its approach to the EU Taxonomy Regulation, any amendments to strategy will be disclosed by way of update to the SFDR Level 2 Pre-Contractual Disclosure.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy1?

☐ Yes:

☐ In fossil gas ☐ In nuclear energy

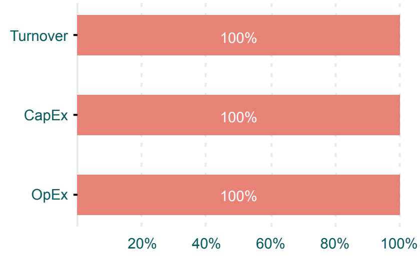
☒ No

[1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objectives -see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflects the "greenness" of investee companies today.
- **capital expenditure** (CapEx) shows the green investments made by investee companies, relevant for a transition to a green economy.
- **operational expenditure** (OpEx) reflects the green operational activities of investee companies.

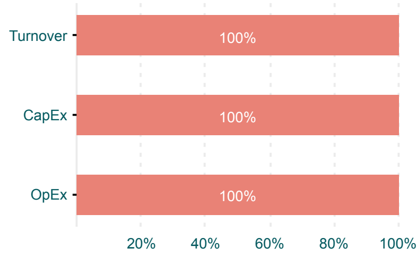
The graphs below show the percentage of investments that were aligned with the EU Taxonomy. As there is no appropriate methodology to determine the taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.

1. Taxonomy-alignment of investments **including sovereign bonds***



- Taxonomy aligned investments
- Other investments

2. Taxonomy-alignment of investments **excluding sovereign bonds***



- Taxonomy aligned investments
- Other investments

This graph represents 100% of the total investments.

**For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures*

- **What was the share of investments made in transitional and enabling activities?**

  The Fund did not set a minimum share of investments in transitional and enabling activities and therefore has not recorded any such activities in the reference period. Therefore 0% of the Fund's investments were in transitional and enabling activities.

- **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?**

  The Fund is not yet able to provide comparison to a previous reporting period as this is the Fund's first SFDR Level 2 Periodic Report. The Fund will provide historic comparison in the next Periodic Report.

are sustainable investments with an environmental objective that **do not take into account** the criteria for environmentally sustainable economic activities under Regulation (EU) 2020/852.

What was the share of sustainable investments with an environmental objective that were not aligned with the EU Taxonomy?

18.5% of Gross Asset Value (GAV) as at 30 June 2023. This is above the minimum commitment of 10% of sustainable investments with an environmental objective not aligned with the EU Taxonomy. None of those assets were expected to be aligned to EU Taxonomy because the Fund does not currently take into account the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy.

What was the share of socially sustainable investments?

The Fund did not make sustainable investments with a social objective.

What investments were included under "other", what was their purpose and were there any minimum environmental or social safeguards?

Investments included in "#2 Other" consisted of cash and cash equivalents, investments held for hedging purposes, investments for diversification purposes, and direct real estate assets which did not align to the promoted environmental and or social characteristics including those for which there is insufficient data.

For non-aligned investments including those for which there was insufficient data and investments for diversification purposes, minimum safeguards include exclusion of any real estate assets that have significant tenants that are listed companies assessed to be in breach of the United Nations Global Compact principles on human rights, labour, environment protection and anti-corruption.

For the other ancillary assets, including cash, cash equivalents and hedging instruments, no minimum environmental or social safeguards have been put in place.

What actions have been taken to meet the environmental and/or social characteristics during the reference period?

The Fund applied its ESG Investment Policy to support the delivery of environmental and/or social characteristics during the reference period. Further detail on progress against targets is incorporated into the ESG section of the Annual Investment Report & Consolidated Financial Statements for the year ended 30 June 2023.

How did this financial product perform compared to the reference benchmark?

No reference benchmark was designated to determine whether this fund is aligned with the environmental and social characteristics that it promotes.

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- **How did the reference benchmark differ from a broad market index?**
  No reference benchmark was designated to determine whether this fund is aligned with the environmental and social characteristics that it promotes.

- **How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?**
  No reference benchmark was designated to determine whether this fund is aligned with the environmental and social characteristics that it promotes.

- **How did this financial product perform compared with the reference benchmark?**
  No reference benchmark was designated to determine whether this fund is aligned with the environmental and social characteristics that it promotes.

- **How did this financial product perform compared with the broad market index?**
  No reference benchmark was designated to determine whether this fund is aligned with the environmental and social characteristics that it promotes.

Independent practitioner's assurance report

To the Board of Directors of M&G (Guernsey) Limited as Manager of the M&G Secured Property Income Fund

Scope

We have been engaged by the Board of Directors of M&G (Guernsey) Limited as Manager of The M&G Secured Property Income Fund ("the Board of Directors") to perform a 'limited assurance engagement', as defined by International Standards on Assurance Engagements ("ISAE 3000"), hereafter referred to as the engagement, on the SFDR Periodic Report of the M&G Secured Property Income Fund ("the Fund") as of 30 June 2023 (the "Subject Matter") prepared in accordance with the provisions of the Regulatory Technical Standards ("RTS") criteria of the Sustainable Finance Disclosure Regulation ("SFDR"), Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, specifically with Annex IV – Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852.

Other than as described in the preceding paragraph, which sets out the scope of our engagement, we did not perform assurance procedures on the remaining information included in the Report, and accordingly, we do not express a conclusion on this information.

Criteria applied by the Board of Directors

In preparing the SFDR disclosures of the Fund's SFDR Periodic Report as of 30 June 2023, the Board of Directors of M&G (Guernsey) Limited as Manager of the M&G Secured Property Income Fund applied the Regulatory Technical Standards criteria of the Sustainable Finance Disclosure Regulation, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, specifically with Annex IV – Template periodic disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852 (the "Criteria").

Responsibilities of the Board of Directors

The Board of Directors is responsible for selecting the Criteria, and for presenting the SFDR Periodic Report of the Fund as of 30 June 2023 in accordance with that Criteria, in all material respects. This responsibility includes establishing and maintaining internal controls, maintaining adequate records and making estimates that are relevant to the preparation of the subject matter, such that it is free from material misstatement, whether due to fraud or error.

EY's responsibilities

Our responsibility is to express a conclusion on the presentation of the Subject Matter based on the evidence we have obtained.

We conducted our engagement in accordance with the International Standard for Assurance Engagements Other Than Audits or Reviews of Historical Financial Information ('ISAE 3000 (Revised)'), and the terms of reference for this engagement as agreed with the Fund on 26 October 2023. Those standards require that we plan and perform our engagement to express a conclusion on whether we are aware of any material modifications that need to be made to the Subject Matter in order for it to be in accordance with the Criteria, and to issue a report. The nature, timing, and extent of the procedures selected depend on our judgement, including an assessment of the risk of material misstatement, whether due to fraud or error.

We believe that the evidence obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Our independence and quality management

We have maintained our independence and confirm that we have met the requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, and have the required competencies and experience to conduct this assurance engagement.

Independent practitioner's assurance report

EY also applies International Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services engagements, which requires that we design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Description of procedures performed

Procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Our procedures were designed to obtain a limited level of assurance on which to base our conclusion and do not provide all the evidence that would be required to provide a reasonable level of assurance.

Although we considered the effectiveness of management's internal controls when determining the nature and extent of our procedures, our assurance engagement was not designed to provide assurance on internal controls. Our procedures did not include testing controls or performing procedures relating to checking aggregation or calculation of data within IT systems.

A limited assurance engagement consists of making enquiries, primarily of persons responsible for preparing the Subject Matter and related information, and applying analytical and other appropriate procedures.

Our procedures included:

- Assessment of the consistent application of the Criteria;
- Interviews with relevant staff to gain an understanding of the sustainable investment strategy and policies in place, as well as the implementation of the latter;
- Interviews with the relevant staff to gain an understanding of the processes in place to monitor, manage and report the required information;
- Interviews with relevant staff responsible for data capture and preparation of SFDR-related information for the Subject Matter;
- Review of the processes for gathering and consolidating SFDR-related information in the Subject Matter;
- Review of the SFDR-related information of the Subject Matter against the Criteria;
- Review of material qualitative statements in the Subject Matter with regard to consistency and plausibility;

We also performed such other procedures as we considered necessary in the circumstances.

Conclusion

Based on our procedures and the evidence obtained, we are not aware of any material modifications that should be made to SFDR-related information disclosed in the Periodic Report of the Fund as of 30 June 2023, in order for it to be in accordance with the Criteria.

Restricted use

This report is intended solely for the information and use of the Board of Directors of M&G (Guernsey) Limited as Manager of The M&G Secured Property Income Fund for providing limited assurance over SFDR-related information disclosed in the Periodic Report of The M&G Secured Property Income Fund as of 30 June 2023, as per the scope described above, and is not intended to be and should not be used by anyone other than those specified parties.

Ernst & Young LLP
Guernsey, Channel Islands

27 October 2023