

Threadneedle
UK Property Fund II ICVC
(formerly known as LV= UK Property Fund ICVC)

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Director's Report

The Authorised Corporate Director (ACD), Threadneedle Investment Services Limited has pleasure in presenting the Annual Report for Threadneedle UK Property Fund II ICVC (the "Company"; formerly LV= UK Property Fund ICVC) for the year ended 31st December 2011.

Threadneedle Asset Management Limited took over the investment management of the Company on behalf of the ACD, on 1st December 2011. The Company invested as per the investment objectives and policies stated in the prospectus throughout the year. The investment objectives and policies were unchanged during the year. The investment team continues to manage the Company actively in the pursuit of seeking risk-adjusted returns.

We hope that you find the report informative. Should you require any further information regarding any aspect of your investment, or about other Threadneedle products, we would be pleased to help. Alternatively, you may find it helpful to visit threadneedle.com for further information about Threadneedle.

Crispin Henderson

Director

Manager's Report

Investment Objective

The investment objective of the Company is to achieve long-term capital growth and income primarily through direct investment in, or exposure to, UK commercial property.

Investment Policy

The investment policy of the Company is to invest in UK commercial properties (including shops, offices, retail warehouses, leisure and industrial units), as favourable investment opportunities arise.

The Company may also invest in property related securities, regulated and unregulated collective investment schemes, debt instruments, and other transferable securities to gain exposure to the UK and other property markets. In addition, the Company may invest in money market instruments, deposits, and cash and near cash.

Review

This report covers the period from 1st January 2011 to 31st December 2011

Market Commentary

The fourth quarter Gross Domestic Product (GDP) figure illustrated further deterioration in the UK economy with a negative growth figure of -0.2% and the first quarter results of 2012 could potentially reveal the UK sliding back into recession. GDP forecasts were continuously revised downwards during 2011. At the start of 2011, forecasters were predicting economic growth of 1.7% in 2011 and over 2% in 2012, but the latest numbers reveal growth of 0.9% for 2011 with just 0.4% forecast for 2012 (Oxford Economics).

The continuing uncertainty in the Eurozone continues to act as the main drag on the UK economy as we move into 2012. The prospect of a break-up of the Eurozone is holding back business investment by cash rich corporates making credit difficult to obtain, limiting the export market for UK manufactured goods and badly affecting overall sentiment. Unemployment has risen to 8.3%, its highest level since the early 1990s. This, combined with a continued decline in real income growth has contributed to the lowest level of consumer confidence since 2008.

Turning to the UK property market; the Investment Property Databank (IPD) 'All Property' annual total return for the calendar year ended 2011 was +8.1%, having reduced 6.4% from the previous year (2010 calendar year: +14.5%). Rental income at 6.8%, formed the core element of total return for the year, supported by capital returns of 1.2%, with rental value growth providing just 0.1% of total returns. IPD reported office yields as the most expensive at the end of 2011 at 6.6%, followed by retail at 6.8% and industrial at 7.5%. Fourth quarter Investment volumes, traditionally one of the most active times of the year, fell by 16% in comparison with the third quarter, from £8.1bn to £6.8bn (Lambert Smith Hampton research/CoStar Group).

The majority of the investment in Central London offices in 2011 again came from overseas investors, who are now the majority owners of property in London's largest market, the City. The relative weakness of the pound against selected foreign currencies has prompted some investors to enter the London market for the first time. Overall, London remains the dominant UK investment market, accounting for 46% of total investment in the final quarter of 2011. This equates to four times the level of investment seen in the most active regional investment market; the South East. However, a reduction in the volume of Central London office investment transactions in the fourth quarter is perhaps an indication that pricing has started to plateau.

When compared to alternative asset class pricing, such as UK equities and Gilts, UK commercial property remains an attractive proposition and is considered to represent fair value. Continued concerns over the Eurozone debt crisis, the impact of spending cuts in parts of the public sector and a lack of available debt, have combined to have a negative impact on the market and 2012 is set to continue in a similar vein to 2011.

Market Outlook

With GDP growth of +0.4% forecast, output levels in 2012 are predicted to be low. Such low growth and output will undoubtedly hold back expansion in the occupier markets, which, coupled with a lack of available debt, will also act to limit activity levels in the investment markets. The issue of forced disposals through legacy debt issues will also be prominent, as the UK banks look to further deleverage balance sheet exposure. It is anticipated that a further £2.5bn of debt will come to the market in early 2012.

As a mitigating factor, inflation, which had been running at record levels through the second half of 2011, is forecast to fall quite substantially over the next six to nine months. There should be a return to real terms wage increases, which will ease some of the pressure on the consumer, and consequently the retailer, towards the second half of the year. There are also many sound predictions that the Bank of England will introduce a third round of quantitative easing in the first quarter of 2012; pumping another £75bn into the UK economy.

Despite the negative wider economic outlook for 2012, there remain areas of potential upside. Many large corporates are thought to have built up significant cash reserves that at some time will be utilised to accelerate hiring requirements and increase overall business investment. From a macro level this should ease the pressure on the consumer, helping to fill the employment gap left by the retrenchment in the public sector. However, the aforementioned is dependent on a significant improvement in sentiment, which will only be provided by a credible plan to solve the Eurozone debt crisis; something that looks unlikely at present.

With investors and financiers alike demonstrating a marked intolerance to risk, the UK property investment market remains

Manager's Report

(continued)

characterised by transaction volumes some 40% lower than in the 'boom years' of 2005-2007. Such volumes have remained broadly consistent at approximately £8bn per quarter since mid-2009, and the prevailing weak economic backcloth, combined with constrained bank lending, suggests any acceleration in property market activity in the short term is unlikely.

Although UK property fund inflows are currently at negligible levels, it is reported that, after record inflows in the period third quarter 2009 to fourth quarter 2010, institutional investors still hold significant un-invested cash balances, but remain wedded to a cautious investment approach. Institutional investors seeking to exploit the property sector's income yield advantage, relative to competing investment media, remain focussed upon the acquisition of core/core+ property assets, long-let to undoubted tenant covenants. Institutional investors currently have little appetite for entrepreneurial property risk.

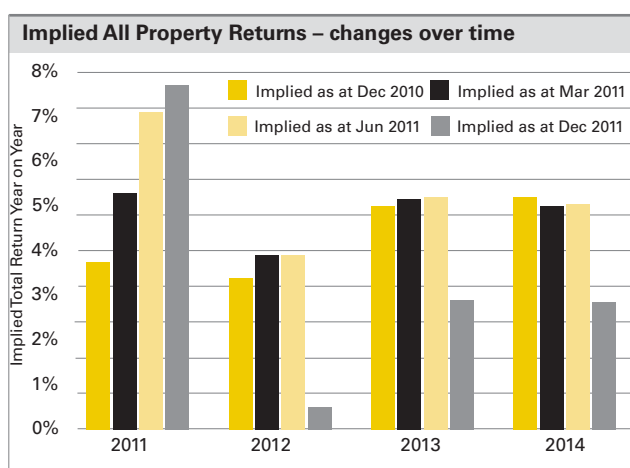
It is widely considered that, whilst values remain subdued outside of Central London, those investors with significant cash weightings continue to be in a privileged position to take advantage of comparatively low pricing on assets with robust underlying fundamentals.

The Portfolio

Threadneedle Investment Services Ltd became the ACD on 1st December 2011 and thereafter activity on the portfolio to the end of the period has been limited. The average weighted lease length across the entire portfolio of 19 properties and 25 tenancies is approximately 7.5 years, assuming all lease break options within the existing portfolio are exercised. The Company's directly held property generates a combined net initial income yield of 6.0% and has a vacancy rate of 9.4% of the portfolio's total rental value.

The chart below exemplifies the Company's ability to deliver future benchmark outperformance via income return alone. Returns will be enhanced by implementation of active asset management opportunities across the portfolio.

Derivatives pricing:



Source: CWBGC updated 04 January 2012.

Total property return includes both income yield, which tends to be reasonably predictable where occupancy levels are consistent, and also capital yield, which can be more volatile in challenging market conditions. The potential effect of capital yield on total returns needs to be borne in mind when considering the income yield.

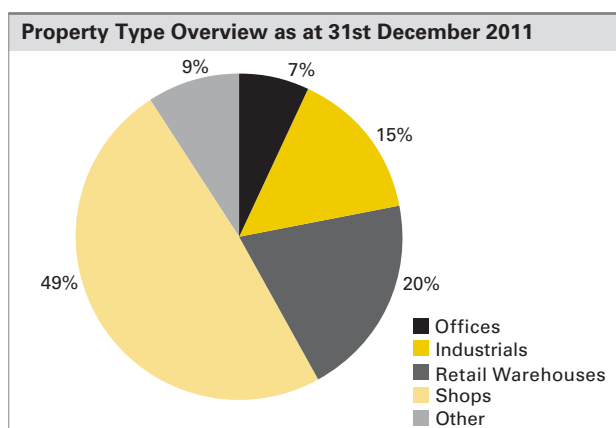
As with any forecast, the figures in the above graph are subject to change. Future expectations within derivatives markets alter according to market sentiment, and there are no guarantees regarding any level of performance in relation to property returns.

We have shown a sector breakdown of the portfolio below, which shows the Fund's position versus the IPD UK Monthly Index.

Sector breakdown – as at 31st December 2011

	Fund	Index	Active
Retail Warehouses	20%	25%	-5%
Shops	49%	22%	27%
Industrials	15%	17%	-2%
Offices	7%	31%	-24%
Other	9%	5%	4%

The Company maintains an overweight stance towards the High Street retail sector which currently offers historically attractive pricing as well as the long term virtues of high occupancy rates and low demands upon additional capital expenditure.



Performance

The benchmark against which the portfolio is measured is the Morningstar UK IMA OEIC Benchmark for Real Estate Trusts.

With reference to the Morningstar UK IMA OEIC Benchmark for Real Estate Trusts, the Threadneedle UK Property Fund II ICVC is ranked thirty fifth out of thirty eight over one year to the 31st December 2011. Since inception in mid 2007, Threadneedle UK Property Fund II ICVC is ranked ninth out of twenty nine to the 31st December 2011. The index measures are provided for information, to demonstrate performance relative to peer groups. However, please be reminded that the Fund is not managed with reference to any benchmark.

Manager's Report

(continued)

Strategy

Over the past 12 months the Company has completed the acquisition of 2 further properties with a combined total investment commitment of £12,605,475. The latest acquisitions have enabled the Company to acquire good quality assets whilst maintaining a high property income yield.

March 2011

B&Q Risbygate, Bury St Edmunds

The subject property occupies a prominent edge of town centre location on Risbygate and adjoins the new Parkway leisure scheme. The Arc Shopping Centre and town centre are a short walk to the east and the Robert Boby Retail Park is located to the immediate south. The property is let to B&Q until 17th November 2014 at £491,763 per annum equating to a low passing rent of £12.50psf. The purchase price of £6,656,920 reflects a net initial yield of 7% and provides an opportunity to add value via a number of active asset management initiatives.

November 2011

Unit KWE Mathisen Way, Poyle, Heathrow

The Fund completed on a forward purchase of a proposed high specification distribution warehouse and office development at an established commercial location approximately 1km from Junction 4 of the M25 motorway, 2.4km from Heathrow Terminal 5 and 4.4km from the Heathrow Cargo Terminal. On completion, the property will provide a new European headquarters for Kinetsu World Express for a term of 15 years with a tenant break option after 10 years at an initial rent of £440,550 per annum equating to £11.95 psf gross external area. The lease incorporates fixed upward only rent reviews every 5th year of the term, calculated at 2.5% compound growth per annum. The net purchase price of £5,948,555 reflects a net initial yield of 7% and increases the Fund's industrial weighting from 13% to 15%.

Property Portfolio

for the year ended 31st December 2011

Retail

Between £1 million and £2.5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Glasgow 109-113 Sauchiehall Street Heritable mid terrace building comprising ground floor retail unit with first and second floor ancillary accommodation. Property comprises 3,586 sq ft.	Everything Everywhere Limited	£178,500	N/A
Glasgow 115 Sauchiehall Street Heritable end of terrace building comprising ground floor retail unit with basement ancillary accommodation. Property comprises 2,505 sq ft.	Redcastle Limited	£128,500	N/A
Ilford 123-125 High Road Freehold mid terrace building comprising ground floor and part first floor retail unit with basement, part first and second floor ancillary accommodation. Property comprises 4,249 sq ft.	Monsoon Accessorize Limited	£193,000	N/A
Leeds 31 Commercial Street Freehold mid terrace building comprising ground floor retail unit with basement and first - fourth floor ancillary accommodation. Property comprises 4,490 sq ft.	Lush Retail Limited	£165,000	N/A
Worcester 35/36 High Street Freehold mid terrace building comprising ground and first floor retail unit with second floor ancillary accommodation. Property comprises 6,425 sq ft.	River Island Clothing Company Limited	£198,000	N/A

Property Portfolio *(continued)*

Retail *(continued)*

Between £2.5 million and £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Brighton 30/31 Western Road Freehold mid terrace building comprising ground floor retail unit with basement and first floor ancillary accommodation and 4 self-contained residential units on second and third floors. Property comprises 4,454 sq ft. excluding flats.	Ann Summers Limited	£175,000	March 2014
Nottingham 28-30 Listergate Freehold mid terrace building comprising ground and first floor retail unit with second floor ancillary accommodation. Property comprises 4,921 sq ft.	A Jones & Sons Limited	£160,000	September 2016
Peterborough 3 Cathedral Square Freehold end of terrace building comprising ground floor retail unit with basement, first and second floor ancillary accommodation. Property comprises 5,479 sq ft.	HSBC Bank Plc	£150,000	December 2012
Reading 9/10 Broad Street Freehold mid terrace building comprising ground floor retail unit with first floor ancillary accommodation. Property comprises 3,050 sq ft.	East Limited	£190,000	October 2013
Reading 114/115 Broad Street Freehold mid terrace building comprising ground floor retail unit with basement first and second floor ancillary accommodation. Property comprises 4,005 sq ft.	Phones 4 U Limited	£211,850	March 2012
Worcester 53-54 High Street Freehold corner building comprising ground floor banking unit with basement ancillary accommodation and first and second floor offices. Property comprises 7,467 sq ft.	Barclays Bank Plc	£262,000	December 2016

Over £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Truro 93/94 Pydar Street Freehold mid terrace building comprising ground floor retail unit with first floor ancillary accommodation. Property comprises 18,902 sq ft.	Boots the Chemist Limited	£397,500	N/A

Property Portfolio *(continued)*

Retail Warehouse

Over £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Bury St. Edmunds 46/48 Risbygate Freehold detached retail warehouse. Property comprises 39,925 sq ft.	B&Q Plc	£491,763	N/A
Worthing Lyons Farm Retail Park Freehold detached retail warehouses. Property comprises 17,741 sq ft.	Argos Limited Pets at Home Limited	£285,000 £213,750	February 2012 March 2012

Offices

Between £2.5 million and £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
London 19 Buckingham Gate Freehold mid terrace office building arranged on lower ground, ground and five uppers floors. Property comprises 7,518 sq ft.	The Communication Group Plc	£286,630	June 2012

Industrial

Between £2.5 million and £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Crawley Manor Gate Freehold terrace of three (units B-D) and single detached (unit A) industrial units. Property comprises 70,094 sq ft.	Preseigne Charter Limited Rossetts (UK) Limited	£106,176 £85,000	June 2016 December 2012
Leamington Spa Heathcote Way Freehold detached industrial units. Property comprises 55,508 sq ft.	Dennis Eagle Limited Loomis Technical Limited	£167,725 £120,177	April 2015 N/A

Property Portfolio *(continued)*

Car Showroom

Over £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
London Hyde Estate Road Freehold purpose built detached car showroom with mezzanine floor and ancillary workshop. Property comprises 24,972 sq ft.	Honda Motor Europe Ltd	£370,000	September 2014

Property in the course of development

Between £2.5 million and £5 million in Value	Principal Tenants	Rental Income per annum	Next Rent Review
Poyle Mathisen Way Freehold 0.54 hectare development site. Proposed development of circa 36,900 sq ft. warehouse and ancillary offices.	Pre-let to Kintetsu World Express UK Inc	N/A	N/A

Financial Report

STATEMENT OF TOTAL RETURN

for the year ended 31st December 2011

	Note	£'000	2011 £'000	£'000	2010 £'000
Income					
Net capital losses	2		(10,242)		(171)
Revenue	3	4,920		4,197	
Expenses	4	(1,093)		(870)	
Net revenue before taxation		3,827		3,327	
Taxation	5	(772)		(600)	
Net revenue after taxation			3,055		2,727
Total return before distributions			(7,187)		2,556
Finance costs: distributions	6		(3,956)		(3,327)
Change in net assets attributable to shareholders from investment activities			(11,143)		(771)

CASH FLOW STATEMENT

for the year ended 31st December 2011

	Note	£'000	2011 £'000	£'000	2010 £'000
Net cash inflow from operating activities	15		3,369		3,671
Corporation tax paid			(957)		(232)
Income distributions			(35)		(5)
Capital expenditure and financial investments:					
Purchase of investments		(1,362)		(20,357)	
Expenses paid from capital		(159)		(92)	
Disposal of investments		2,508		15	
			987		(20,434)
Financing:					
Amounts received on creation of shares		36,916		28,028	
Amounts paid on cancellation of shares		(34,762)		(10,099)	
			2,154		17,929
Increase in cash in the year			5,518		929

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO SHAREHOLDERS

for the year ended 31st December 2011

	£'000	2011 £'000	£'000	2010 £'000
Opening net assets attributable to shareholders		93,160		72,660
Amounts receivable on creation of shares	36,274		27,998	
Less: Amounts payable on cancellation of shares	(34,362)		(10,152)	
		1,912		17,846
Stamp duty reserve tax		(34)		(61)
Change in net assets attributable to shareholders from investment activities (see above)		(11,143)		(771)
Retained distribution on accumulation shares		3,882		3,486
Closing net assets attributable to shareholders		87,777		93,160

BALANCE SHEET

as at 31st December 2011

	Note	£'000	2011 £'000	£'000	2010 £'000
Assets					
Investment assets			81,215		84,237
Debtors	8	1,133		564	
Cash and bank balances	9	6,970		10,251	
Total other assets			8,103		10,815
Total assets			89,318		95,052
Liabilities					
Creditors	10	(1,490)		(1,880)	
Distribution payable on income shares		(51)		(12)	
Total liabilities			(1,541)		(1,892)
Net assets attributable to shareholders			87,777		93,160

AUTHORISED CORPORATE DIRECTOR'S STATEMENT

We hereby approve the Report and Financial Statements of Threadneedle UK Property Fund II ICVC for the year ended 31st December 2011 on behalf of Threadneedle Investment Services Limited in accordance with the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority.

C J Henderson
Director
9th March 2012

T N Gillbanks
Director
9th March 2012

Financial Report

(continued)

DISTRIBUTION TABLES

for the year ended 31st December 2011

Retail Accumulation Shares

Distribution Period	Net Revenue	Equalisation	Distribution Payable 2011	Distribution Paid 2010
Group 1				
01/01/11 to 30/06/11	1.8637	–	1.8637	1.8061
01/07/11 to 31/12/11	1.9572	–	1.9572	1.8391
Group 2				
01/01/11 to 30/06/11	1.1248	0.7389	1.8637	1.8061
01/07/11 to 31/12/11	0.5680	1.3892	1.9572	1.8391
Total Distributions in the period			3.8209	3.6452

Second Retail Accumulation Shares

Distribution Period	Net Revenue	Equalisation	Distribution Payable 2011	Distribution Paid 2010
Group 1				
01/01/11 to 30/06/11	2.2644	–	2.2644	2.1288
01/07/11 to 31/12/11	2.3825	–	2.3825	2.2259
Group 2				
01/01/11 to 30/06/11	1.4035	0.8609	2.2644	2.1288
01/07/11 to 31/12/11	1.4284	0.9541	2.3825	2.2259
Total Distributions in the period			4.6469	4.3547

Second Retail Income Shares

Distribution Period	Net Revenue	Equalisation	Distribution Payable 2011	Distribution Paid 2010
Group 1				
01/01/11 to 30/06/11	2.0461	–	2.0461	2.1253
01/07/11 to 31/12/11	2.1256	–	2.1256	2.0537*
Group 2				
01/01/11 to 30/06/11	1.1314	0.9147	2.0461	2.1253
01/07/11 to 31/12/11	1.2360	0.8896	2.1256	2.0537**
Total Distributions in the period			4.1717	4.1790

Institutional Accumulation Shares

Distribution Period	Net Revenue	Equalisation	Distribution Payable 2011	Distribution Paid 2010
Group 1				
01/01/11 to 30/06/11	1.8817	–	1.8817	1.8649
01/07/11 to 31/12/11	1.9929	–	1.9929	1.8355
Group 2				
01/01/11 to 30/06/11	1.2092	0.6725	1.8817	1.8649
01/07/11 to 31/12/11	0.9214	1.0715	1.9929	1.8355
Total Distributions in the period			3.8746	3.7004

Institutional Income Shares

Distribution Period	Net Revenue	Equalisation	Distribution Payable 2011	Distribution Paid 2010
Group 1				
01/01/11 to 30/06/11	1.9542	–	1.9542	–
01/07/11 to 31/12/11	2.0404	–	2.0404	1.9591***
Group 2				
01/01/11 to 30/06/11	0.6409	1.3133	1.9542	–
01/07/11 to 31/12/11	1.8305	0.2099	2.0404	1.9591****
Total Distributions in the period			3.9946	1.9591

Group 2: Shares purchased during a distribution period.

* Second Retail Income launched 15th December 2009: Group 1 shares purchased during the fixed offer period to 15th December 2009

** Second Retail Income launched 15th December 2009: Group 2 shares purchased after 15th December 2009 to 30th June 2010

*** Institutional Income launched 29th June 2010: Group 1 shares purchased on or before 30th June 2010

**** Institutional Income launched 29th June 2010: Group 2 shares purchased after 30th June 2010 to 31st December 2010

Financial Report

(continued)

Notes to the Financial Statements

for the year ended 31st December 2011

1 ACCOUNTING POLICIES

(a) Basis of accounting

The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the Statement of Recommended Practice (the "SORP") for Financial Statements of Authorised Funds, issued by the Investment Management Association (IMA) in October 2010.

(b) Revenue

Revenue is included in the Statement of Total Return on the following basis:

Rental income consists principally of rentals receivable from tenants in the period. Rental income received in advance is deferred and recognised in the period to which it relates. In accordance with the Accounting Standards Board's Urgent Issues Task Force, Abstract 28 'Operating lease incentives' (UITF 28), rental income from properties which have been subject to a rent free period or inducement, is accounted for on a straight line basis over the period of the lease (or until the first rent review/break option, if earlier). The valuation of investment properties is adjusted by all unamortised lease incentives.

Dividends, interest and other revenue receivable include any withholding taxes but exclude any other taxes such as attributable tax credits.

Dividends are recognised when the security is quoted ex-dividend. Equalisation on distributions received is treated as a repayment of capital and deducted from the cost of the investment.

Interest on bank and short-term deposits is recognised on an earned basis and interest on interest bearing securities is determined on an effective interest rate basis.

(c) Expenses

Expenses are charged to the capital property of the Fund and are recognised on an accruals basis.

(d) Deferred taxation

Deferred taxation liabilities are provided for in full, and deferred tax assets are recognised to the extent that they are considered recoverable, in respect of all items for which recognition falls in different accounting periods for accounting and taxation purposes.

(e) Investments

Property that is held for long-term rental income or for capital appreciation or both, and that is not occupied by the Fund, is classified as investment property.

Investment property is measured initially at cost, including related transaction costs, on the date of acquisition or the date of unconditional exchange, if earlier. After initial recognition, investment property is carried at open market value, after the deduction of unamortised lease incentives. Revaluation gains and losses are recognised in the Statement of Total Return.

Valuations are performed by Colliers International (UK) Plc who are professional, third party, independent Chartered Surveyors, at the period end in accordance with RICS Appraisal and Valuation Standards. The valuations were in accordance with the requirements of SSAP19, Accounting for Investment Properties. Colliers International (UK) Plc hold recognised and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Open market value is based on active market information, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods are used, such as recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices, or discounted cash flow projections. The principal assumptions underlying the estimation of open market value are those related to the receipt of contractual rentals, expected future market rentals, void periods, lease incentives, maintenance requirements and appropriate yields/discount rates.

These valuations are regularly compared to actual market yield data and actual transactions by the Fund and those reported by the market. The expected future market rentals are determined on the basis of the current market rentals for similar properties in the same location and condition.

Disposals of investment properties are recognised upon legal completion.

Development property is appraised and carried at open market value, after the deduction of costs to date. Revaluation gains and losses are recognised in the Statement of Total Return.

(f) Indirect Property

The financial investments of the Fund are valued at bid-market prices at 2pm on the last business day of the accounting period. The valuation of unlisted investments is based on the ACD's assessment of their estimated fair value. Suspended securities are valued initially at the suspended price but are subject to constant review.

(g) Exchange rates

Assets and liabilities in foreign currencies are translated into sterling at the exchange rates ruling at 2pm, being the valuation point on the last working day of the accounting period.

Revenue and expenses denominated in foreign currency are translated into sterling at the exchange rates at the date of the transaction.

(h) Distribution policy

Where the revenue from investments exceeds the expenses and taxation for any share class, a distribution will be made to that share class. Should expenses exceed revenue for any share class, there will be no distribution for that share class and the shortfall will be transferred to capital where applicable. Distributions to shareholders are paid bi-annually. Revenue attributable to accumulation shareholders is retained at the end of each distribution period and represents a reinvestment of revenue. Within expenses, non-recoverable expenses relate primarily to property maintenance, provision for bad and doubtful debts and ground rent. Where fees cannot be recovered from tenants, they are deducted from income for the purposes of calculating distributions.

2 NET CAPITAL LOSSES

The net capital losses comprise:

	2011	2010
	£'000	£'000
Gains on non-derivative securities	(389)	1,567
Losses on investments in direct property	(9,853)	(1,738)
	<u>(10,242)</u>	<u>(171)</u>

3 REVENUE

	2011	2010
	£'000	£'000
Rental revenue	4,345	3,653
Interest on debt securities	249	231
Property income distributions from UK REITs	235	64
Overseas dividends	55	36
Interest on bank and term deposits	23	21
UK dividends	10	191
Interest on rental revenue	3	1
Total revenue	<u>4,920</u>	<u>4,197</u>

Financial Report

(continued)

Notes to the Financial Statements

(continued)

4 EXPENSES

	2011 £'000	2010 £'000
Payable to the ACD, associates of the ACD and the agents of either of them: ACD periodic charge	635	530
Payable to the Depository or associates of the Depository, and agents of either of them: Depository fee	26	22
Safe custody fee	4	5
	<u>30</u>	<u>27</u>
Payable to other related parties and third parties: Professional fee	156	53
Administration fee	97	97
Expenses incurred on vacant units	78	63
Valuation fee	63	57
Audit fee	22	27
General maintenance	12	15
Report & accounts printing costs	–	1
	<u>428</u>	<u>313</u>
Total expenses	<u>1,093</u>	<u>870</u>

5 TAXATION

	2011 £'000	2010 £'000
a) Analysis of charge in the year		
Corporation tax	752	620
Prior period adjustment – capital allowances 2010/2009	(7)	(20)
Current tax charge (note 5b)	745	600
Deferred tax (note 5c)	27	–
Total Taxation	<u>772</u>	<u>600</u>

b) Factors affecting current tax charge

The tax assessed for the year is lower than the standard rate of corporation tax in the UK for an open-ended investment company (20%). The differences are explained below:

	2011 £'000	2010 £'000
Net revenue before taxation	3,827	3,327
Corporation tax at 20% (2010: 20%)	765	665
Effects of:		
UK dividend income not subject to corporation tax	(2)	(38)
Overseas dividend revenue not subject to corporation tax	(11)	(7)
Prior period adjustment – capital allowances 2010/2009	(7)	(20)
Current tax charge (note 5a)	<u>745</u>	<u>600</u>

c) Provision for deferred taxation

As at 31st December 2011 there was a deferred tax liability at the year end of £27,271 in relation to Capital Allowances (2010: none).

6 FINANCE COSTS

Distributions

The distributions take account of revenue received on the creation of shares and revenue deducted on the cancellation of shares, and comprise:

	2011 £'000	2010 £'000
Interim dividend distribution	1,945	1,676
Final dividend distribution	2,010	1,827
	<u>3,955</u>	<u>3,503</u>
Add: Revenue deducted on cancellation of shares	307	142
Deduct: Revenue received on creation of shares	(306)	(318)
Net distribution for the year	<u>3,956</u>	<u>3,327</u>
Total finance costs	<u>3,956</u>	<u>3,327</u>

Details of the distributions per share are set out on page 11.

7 MOVEMENT BETWEEN NET REVENUE AND DISTRIBUTIONS

	2011 £'000	2010 £'000
Net revenue after taxation	3,055	2,727
Add expenses paid from capital	1,093	750
Deduct: tax relief on capital fees	(219)	(150)
Deferred tax on capital allowances	27	–
	<u>3,956</u>	<u>3,327</u>

8 DEBTORS

	2011 £'000	2010 £'000
VAT recoverable	550	–
Accrued rental revenue	434	49
Accrued revenue	93	97
Amounts receivable for creation of shares	53	386
Prepaid expenses	3	32
Total debtors	<u>1,133</u>	<u>564</u>

9 CASH AND CASH EQUIVALENTS

	2011 £'000	2010 £'000
Cash and bank balances	1,345	1,452
Cash on deposit	5,625	–
Time deposits	–	8,800
Net uninvested cash	<u>6,970</u>	<u>10,251</u>

10 CREDITORS

	2011 £'000	2010 £'000
Rent received in advance	587	743
Corporation tax	367	607
Accrued expenses	168	80
VAT payable	143	118
Amounts payable for cancellation of shares	103	195
Retention monies due to developer	50	85
Accrued ACD's periodic charge	45	52
Deferred tax provision	27	–
Total creditors	<u>1,490</u>	<u>1,880</u>

Financial Report

(continued)

Notes to the Financial Statements

(continued)

11 RELATED PARTY TRANSACTIONS

With effect from 1st December 2011, Threadneedle Investment Services Limited, as ACD, is a related party and acts as principal in respect of all transactions of shares in the Fund.

The aggregate monies received through issues and paid on cancellations are disclosed in the Statement of Change in Net Assets Attributable to Shareholders.

Until 1st December 2011, Liverpool Victoria Portfolio Managers Limited (ACD) was regarded as the controlling party of the Company in respect of the operations of the Company.

Liverpool Victoria Portfolio Managers Limited was a related party and acted as principal on all transactions of shares in the Company.

All transactions have been entered into in the ordinary course of business on normal commercial terms.

The amount due to and from Threadneedle Investment Services Limited in respect of share transactions at the end of the accounting period is disclosed in Notes 8 and 10.

Amounts payable to Threadneedle Investment Services Limited in respect of Fund management and registrar services are disclosed in Note 4. At the year end date, 93.9% (2010: 88.2%) of the shares in the Fund were held by the Liverpool Victoria group of companies.

12 SHAREHOLDERS' FUNDS

This Fund has three retail share classes and two institutional share classes. The annual ACD charge on each share class is as follows:

Retail Accumulation	1.00%
Second Retail Accumulation	1.50%
Second Retail Income	1.50%
Institutional Accumulation	0.60%
Institutional Income	0.60%

The net asset value of each share class, the net asset value per share and the number of shares in each class are given in the comparative table on page 19. The distribution per share class is given in the distribution tables on page 11. All share classes within the Fund have the same rights on winding up.

13 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The main risks arising from the Fund's financial instruments are credit, foreign currency, interest rate, liquidity, market price, credit and counterparty risks.

Credit risk – The Fund holds bonds issued by companies. The borrower receives from the Fund a principal amount. The Fund will then receive interest based on the coupon rate of the bond and repayment of the initial principal amount on the bond's maturity date. Any impairment to the borrower's ability to repay amounts due may result in changes to the tradable value of the bond and the amount to be received upon maturity of the bond. The ability of the borrower to repay not only the principal value but also any interest due on the bond, referred to as the borrower's credit rating, is monitored by the ACD. The ACD may undertake its own research of the borrower's financial position in order to assess the ability of the borrower to repay amounts due.

Counterparty risk – The risk of entering into an arrangement with a counterparty, which is itself subject to financial risks which may affect its ability to trade as a going concern. The Investment Manager maintains a list of approved counterparties. The list is regularly monitored and revised for changes based on the counterparty credit-worthiness, market reputation and expectations of future financial performance. Transactions will only be opened with financial intermediaries on the approved counterparties list.

Foreign currency risk

The Fund's financial assets and liabilities are all denominated in Sterling. As a result, the Fund has no exposure to currency movement.

Interest rate risk

The revenue of the Fund may be affected by changes to interest rates relevant to particular securities or as a result of the Manager being unable to secure similar returns on the expiry of contracts or sale of securities. The value of debt securities may be affected by interest rate movements or the expectation of such movements in the future. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations in interest rates.

The interest rate profile of the Fund's financial assets was:

	Floating rate financial assets	Fixed rate financial assets	Financial assets on which no interest is paid	Direct property	Total
	£000	£000	£000	£000	£000
Currency 2011					
Sterling	6,970	4,335	9,547	68,466	89,318
Currency 2010					
Sterling	10,251	4,110	11,931	68,760	95,052

The floating rate financial assets earn interest which is based on the London Inter Bank Offer Rate (LIBOR).

Financial assets on which no interest is paid in both years comprised equity shares and freehold and feuhold properties that have no maturity date and short term debtors and creditors.

The interest rate profile of the Fund's financial liabilities was:

	Floating rate financial liabilities	Fixed rate financial liabilities	Financial liabilities on which no interest is paid	Total
	£000	£000	£000	£000
Currency 2011				
Sterling	–	–	1,541	1,541
Currency 2010				
Sterling	–	–	1,892	1,892

Liquidity risk

Properties such as those in which the Fund may invest are relatively illiquid. Such illiquidity may affect the Fund's ability to vary its portfolio or dispose of or liquidate part of its portfolio in a timely fashion and at satisfactory prices in response to the changes in economic, real estate market or other conditions. It may therefore be difficult to deal in such investments or to obtain reliable information about their true value. At the year end there was no vacant space for any of the properties. All properties were fully let during the accounting year. As at 31st December 2011 the initial yield was 6.02% (2010: 5.89%) .

Market price risk

Market price risk arises from the Fund's financial instruments, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate movement.

The ACD meets regularly to consider the asset allocation of the portfolio in order to minimise the risk associated with particular industry sectors whilst continuing to follow the investment objective. An individual fund manager has the responsibility for monitoring the existing portfolio selected in accordance with the overall asset allocation parameter and seeks to ensure that individual permitted asset classes also meet a risk reward profile that is acceptable.

Fair value of financial assets and liabilities

There is no difference between the value of financial assets and liabilities as shown in the balance sheet and their fair value.

Financial Report

(continued)

Notes to the Financial Statements

(continued)

14 CONTINGENT LIABILITIES AND COMMITMENTS

There are no contingent liabilities outstanding as at 31st December 2011 (2010: Nil). The Company had outstanding commitments of £3.2m as at 31st December 2011 spread over the development contract subject to construction milestones (2010: Nil).

15 RECONCILIATION OF NET REVENUE TO NET CASH FLOW

	2011	2010
	£000	£000
Net revenue before taxation	3,827	3,327
Increase in debtors	(395)	(111)
(Decrease)/increase in creditors	(63)	455
Net cash inflow from operating activities	<u>3,369</u>	<u>3,671</u>

16 PORTFOLIO TRANSACTION COSTS

	2011	2010
	£'000	£'000
Direct property		
Purchases in year before transaction costs	8,400	14,865
Development	700	–
Stamp duty land tax	431	595
Agent fees	59	33
Legal fees	40	3
Building & environmental survey fees	15	2
Valuation fees	4	3
Land registry fees	4	2
Retention payment	–	85
Total purchase costs	<u>1,253</u>	<u>723</u>
Direct property purchase total	<u>9,653</u>	<u>15,588</u>
Indirect property		
Purchases in the year before transaction costs	61	4,783
Commissions	–	3
Taxes	–	4
Total purchase costs	<u>–</u>	<u>7</u>
Indirect property purchase total	<u>61</u>	<u>4,790</u>
Gross purchase total	<u>9,714</u>	<u>20,378</u>
Gross sales before transaction costs	2,494	1
Commissions	(5)	–
Total sales net of transaction costs	<u>2,489</u>	<u>1</u>
	<u>12,203</u>	<u>20,379</u>

17 ANALYSIS OF CHANGE IN DEBT

	2011	2010
	£000	£000
Cash and bank balances at the start of the year	1,452	523
Net cash flows	5,518	929
Cash and bank balances at the end of the year	<u>6,970</u>	<u>1,452</u>

Statement of Authorised Corporate Director's (ACD) Responsibilities in relation to the Financial Statements of the Company

The Open-Ended Investment Companies Regulations 2001 and the Collective Investment Schemes Sourcebook (COLL), as issued (and amended) by the Financial Services Authority (FSA), require the ACD to prepare financial statements for each annual accounting period which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial position of the Company and its net revenue/(expenses) and the net gains/(losses) on the property of the Company for the period. In preparing the financial statements the ACD is required to:

- select suitable accounting policies and then apply them consistently;
- comply with the disclosure requirements of the Statement of Recommended Practice relating to Authorised Funds issued by the Investment Management Association (IMA) in October 2010;
- follow generally accepted accounting principles and applicable accounting standards;
- keep proper accounting records, which enable it to demonstrate that the financial statements as prepared comply with the above requirements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in operation for the foreseeable future.

The ACD is required to keep proper accounting records and to manage the Company in accordance with the Collective Investment Schemes Sourcebook, the Instrument of Incorporation and the Prospectus. The ACD is responsible for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of the Depositary's Responsibilities In Respect of the Scheme

The depositary is responsible for the safekeeping of all of the property of the Company (other than tangible moveable property) which is entrusted to it and for the collection of revenue that arises from that property.

It is the duty of the depositary to take reasonable care to ensure that the Company is managed in accordance with the Financial Services Authority's Collective Investment Scheme Sourcebook ("The Sourcebook"), the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228) (the OEIC Regulations) and the Company's Instrument of Incorporation and Prospectus, in relation to the pricing of, and dealings in, shares in the Company; the application of revenue of the Company; and the investment and borrowing powers of the Company.

Report of the Depositary to the Shareholders of the Threadneedle UK Property Fund II ICVC ("the Company") for the period ended 31st December 2011

Having carried out such procedures as we consider necessary to discharge our responsibilities as depositary of the Company, it is our opinion, based on the information available to us and the explanations provided, that in all material respects the Company, acting through the Authorised Corporate Director:

- (i) has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Company's shares and the application of the Company's revenue in accordance with the Sourcebook and, where applicable, the OEIC Regulations, the instrument of incorporation and Prospectus of the Company, and
- (ii) has observed the investment and borrowing powers and restrictions applicable to the Company.

JP Morgan Trustee and Depositary Company Limited
London

9th March 2012

Independent Auditors report to the Shareholders of Threadneedle UK Property Fund II ICVC

We have audited the financial statements of the Threadneedle UK Property Fund II ICVC (the "Company") for the year ended 31st December 2011 which comprise the Statement of Total Return, Statement of Change in Net Assets Attributable to Shareholders, Balance Sheet, Cash Flow, related notes 1 to 17 and the Distribution Tables. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, pursuant to Paragraph 4.5.12 of the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Authorised Corporate Director ("ACD") and auditor

As explained more fully in the ACD's responsibilities statement set out on page 16, the ACD is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the ACD; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company as at 31st December 2011 and of the net revenue and the net losses on the scheme property of the Company for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Opinion on other matters prescribed by the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority

In our opinion:

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice relating to Authorised Funds, the rules of the Collective Investment Schemes Sourcebook of the Financial Services Authority and the Instrument of Incorporation;
- the information given in the ACD's report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- there is nothing to indicate that proper accounting records have not been kept or that the financial statements are not in agreement with those records; and
- we have received all the information and explanations which, to the best of our knowledge and belief, are necessary for the purposes of our audit

Ernst & Young LLP
Statutory Auditor
Edinburgh
9th March 2012

Additional Information

Portfolio Statement

as at 31st December 2011

	Holding or Nominal Value	Market Value £'000	Percentage of Net Assets %		Holding or Nominal Value	Market Value £'000	Percentage of Net Assets %
DIRECT PROPERTY – 78.00% (73.81%)				Corporate Bond – 4.94% (4.41%)			
Car Showroom – 7.29% (7.30%)				Delamare 5.5457% 2029	1,000,000	1,109	1.26
Hyde Estate Road, London		6,400	7.29	Hammerson 6.875% 2020	750,000	861	0.98
Industrial – 8.68% (10.10%)				Meadowhall Finance 'A1'			
Heathcote Way, Leamington Spa		3,288	3.75	4.986% 2037	714,206	775	0.88
Manor Gate, Manor Royal, Crawley		4,332	4.93	Segro 6.75% 2021	700,000	787	0.90
		7,620	8.68	Tesco Property Finance			
				5.744% 2040	747,783	804	0.92
Offices – 5.61% (5.88%)						4,336	4.94
19 Buckingham Gate, London		4,925	5.61	Investment assets		81,215	92.52
Retail – 37.68% (41.73%)				Net other assets		6,562	7.48
9–10 Broad Street, Reading		3,250	3.70	Net assets		87,777	100.00
114–115 Broad Street, Reading		3,500	3.99				
3 Cathedral Square, Peterborough		2,575	2.93				
31 Commercial Street, Leeds		1,900	2.17				
123–125 High Road, Ilford		1,750	1.99				
35–36 High Street, Worcester		2,450	2.79				
53–54 High Street, Worcester		4,125	4.70				
28–30 Lister Gate, Nottingham		2,971	3.39				
93–94 Pydar Street, Truro		5,400	6.15				
109–113 Sauchiehall Street, Glasgow		1,350	1.54				
115 Sauchiehall Street, Glasgow		1,075	1.22				
30–31 Western Road, Brighton		2,725	3.11				
		33,071	37.68				
Retail Warehouse – 15.66% (8.80%)							
Lyons Farm, Worthing		7,250	8.26				
*Risbygate, Bury Street, Edmonds		6,500	7.40				
		13,750	15.66				
Development Properties – 3.08% (0.00%)							
*Mathisen Way, Poyle		2,700	3.08				
<i>*Bought in 2011.</i>							
INDIRECT PROPERTY – 14.52% (16.61%)							
Financials – 9.58% (12.20%)							
Berkeley Group 'B'	112,605	1,429	1.63				
British Land	224,661	1,037	1.18				
Great Portland Estates	697,169	2,252	2.56				
Hammerson	209,533	754	0.86				
iShares II UK Property	304,370	1,052	1.20				
Metric Property Investments	431,818	367	0.42				
Shaftesbury	325,807	1,522	1.73				
		8,413	9.58				

All indirect property investments are admitted to official stock exchange listings unless otherwise stated.

Unless otherwise stated, all direct properties are freehold or feuhold.

The valuation of properties is reduced by the total of the unamortised capital contribution and any lease incentives in place at the time.

The comparative percentage figures in brackets are at 31st December 2010.

Additional Information

(continued)

The additional information provided in this section complies fully with the minimum and best practice guidelines as outlined in the Code of Practice (version November 2009) as issued by the Association of Real Estate Funds. A table detailing the compliance with the guidelines can be found on page 22.

Comparative Tables

	Net Asset Value (£)	Net Asset Value pence per Share	No. of Shares in Issue	Calendar Year	Net income per Share (pence)	Highest Offer (pence)†	Lowest Bid (pence)†
for the year ended 31st December 2008				2007			
Retail Accumulation Shares	4,333	86.66	5,000	¹ Retail Accumulation Shares	–	100.75	98.17
Institutional Accumulation Shares	28,196,516	86.84	32,469,070	² Institutional Accumulation Shares	–	100.74	98.17
for the year ended 31st December 2009				2008			
Retail Accumulation Shares	134,127	89.40	150,029	Retail Accumulation Shares	4.3440	98.53	88.55
Second Retail Accumulation Shares	1,009,089	109.01	925,691	Institutional Accumulation Shares	4.5448	98.55	88.72
Second Retail Income Shares	1,034	103.40	1,000	2009			
Institutional Accumulation Shares	71,515,663	89.88	79,568,264	Retail Accumulation Shares	2.3557	88.78	81.68
for the year ended 31st December 2010				³ Second Retail Accumulation Shares	1.5375	106.07	99.74
Retail Accumulation Shares	747,537	92.87	804,942	⁴ Second Retail Income Shares	–	100.55	100.00
Second Retail Accumulation Shares	3,972,975	112.77	3,522,977	Institutional Accumulation Shares	2.6299	88.97	81.99
Second Retail Income Shares	541,834	101.44	534,157	2010			
Institutional Accumulation Shares	87,835,954	93.65	93,787,541	Retail Accumulation Shares	3.6452	103.00	89.87
Institutional Income Shares	61,791	97.27	63,528	Second Retail Accumulation Shares	4.3547	124.10	109.57
for the year ended 31st December 2011				Second Retail Income Shares	4.1790	117.50	103.89
Retail Accumulation Shares	294,283	86.02	342,095	Institutional Accumulation Shares	3.7004	103.70	90.35
Second Retail Accumulation Shares	2,947,716	104.09	2,831,971	⁵ Institutional Income Shares	1.9591	109.80	101.90
Second Retail Income Shares	615,809	90.69	679,048	2011			
Institutional Accumulation Shares	82,374,135	87.08	94,599,248	Retail Accumulation Shares	3.8209	105.60	84.01
Institutional Income Shares	1,545,183	86.68	1,782,653	Second Retail Accumulation Shares	4.6469	126.90	101.70
				Second Retail Income Shares	4.1717	114.80	90.64
				Institutional Accumulation Shares	3.8746	106.80	85.02
				Institutional Income Shares	3.9946	110.40	86.60

† From 1st March 2010 the Fund moved to dual pricing. Prior to this date the Fund valued on a single price basis.

¹ Retail Accumulation shares launched 7th September 2007.

² Institutional Accumulation shares launched 7th September 2007.

³ Second Retail Accumulation shares launched 12th June 2009.

⁴ Second Retail Income shares launched 15th December 2009.

⁵ Institutional Income shares launched 29th June 2010.

Total Expense Ratio (TER)

The TER of the Fund was:	2011	2010
Retail Accumulation Shares	1.15%	1.19%
Second Retail Accumulation Shares	1.65%	1.69%
Second Retail Income Shares	1.65%	1.69%
Institutional Accumulation Shares	0.75%	0.79%
Institutional Income Shares	0.75%	0.79%

The total expense ratios (TER) for the Fund in this report have been prepared in accordance with the Financial Services Authority's regulatory guidelines COLL 4 Annex 2.

Property Expense Ratio (PER)

The PER of the Fund was:	2011	2010
Retail Accumulation Shares	0.32%	0.23%
Second Retail Accumulation Shares	0.32%	0.23%
Second Retail Income Shares	0.32%	0.23%
Institutional Accumulation Shares	0.32%	0.23%
Institutional Income Shares	0.32%	0.23%

A property expense ratio (PER) is shown which takes into account expenses that are associated with the day to day maintenance of the property assets and excludes costs associated with operating the Fund.

Additional Information

(continued)

Summary of Fund Performance

Fund Performance

Fund Name and Share Class	Year to 31st December 2011	Year to 31st December 2010	Year to 31st December 2009
Retail Accumulation shares	(12.40)	10.76	(1.97)
Second Retail Accumulation shares	(11.91)	9.24	N/A
Second Retail Income shares	(14.31)	5.59	N/A
Institutional Accumulation shares	(12.07)	11.09	(1.65)
Institutional Income shares	(15.40)	N/A	N/A
UK IMA Property Meidan Performance (OEIC Benchmark for Real Estate Trusts)	(4.20)	11.62	18.92

Source: Threadneedle. Bid to bid prices are quoted (i.e. not including any initial charge) with net income reinvested for the UK basic rate tax payer. Performance data is quoted in sterling. OEIC Benchmark for Real Estate Trusts refers to the IPD UK Monthly Index since 30th September 2007.

Share Turnover (all classes)

For the period ending 31st December 2011	Number of units	Net asset value of Shares as at period end (£)	Percentage of total net asset value of the Fund as at start of period (%)	Percentage of total net asset value of the Fund as at end of period (%)
Share creations	37,081,755	32,472,982	34.86%	36.99%
Share redemptions	35,559,885	31,140,261	33.43%	35.48%

Share Analysis (all classes)

As at 31st December 2011 ownership band	Number of Shareholders	% NAV
1% or greater but less than 2%	24	3.27
2% or greater but less than 4%	2	2.83
4% or greater but less than 8%	–	–
Greater than 8% of Shares in issue	3	93.90
Grand Total	29	100.00
Total number of Shares in issue		100,235,015
Internal Investors		0.00
External Investors		100.00
Total		100.00
		%
Largest Investor		60.42
Largest 3 Investors		93.90
Largest 5 Investors		96.73
Largest 10 Investors		99.15

Additional Information

(continued)

Finance Costs: Distributions per Unit

For the period ending 31st December 2011	Opening offer price (pence)	Closing offer price (pence)	Distribution accrued (pence)	Yield on closing NAV price (%)	Yield on closing offer price (%)
Retail Accumulation Shares	102.00	93.71	3.82	4.44	4.08
Second Retail Accumulation Shares	122.70	112.30	4.65	4.46	4.14
Second Retail Income Shares	109.80	91.06	4.17	4.59	4.58
Institutional Accumulation Shares	102.90	94.86	3.87	4.45	4.08
Institutional Income Shares	106.90	96.62	3.99	4.61	4.13

Additional Information

(continued)

AREF Compliance Checklist:

AREF Code Requirements	In Compliance		If not in minimum Compliance – please state reason
Governance of the Fund	A	B	
1. Fund Structure and Objectives	✓	✓	
2. Management structure and accountability	✓	✓	
3. Reporting	✓	✓	
Operating the Fund	A	B	
1. Valuations	✓	✓	
2. Cash and Money Market Instruments	✓	✓	
3. Gearing	✓	✓	
4. Use of Derivatives	✓	✓	
5. Distributions	✓	✓	
6. Management Fees & other expenses	✓	✓	
7. Insurance & Service Charge Rebates	✓	✓	
8. Disaster Recovery	✓	✓	
Share Dealing and Performance	A	B	
1. Dealing (subscriptions and redemptions)	✓	✓	
2. Secondary Market	✓	✓	
3. Share Turnover	✓	✓	
4. Investor Analysis	✓	✓	
5. Historical Performance	✓	✓	
6. Benchmarks	✓	✗	The Fund's benchmark is Morningstar. This provides a consistent and appropriate comparative measure for the Fund.
Fund Classification		OU	Open Ended
Key			
✓ In Compliance: A. Minimum. B. Best Practice.			
✗ Do not comply with AREF requirements in this area.			

Additional Information

(continued)

Minimum Holdings and Transactions

	Monthly	Lump sum	Subsequent Investment	Minimum Shareholding
Retail Shares	£100	£1,000	£500	£500
Second Retail Shares	£100	£1,000	£500	£500
Institutional Shares	–	£500,000	£100,000	£100,000

Subscription Days

Shares may be purchased or sold on any business day. The price of shares is calculated daily. A forward pricing basis is used. Prices are published on our website (www.threadneedle.com) or can be obtained by telephone on 0845 113 0273. Calls may be recorded for training and monitoring purposes.

Selling Shares

Shareholders may offer all their shares for sale to the ACD. Alternatively, they may offer a lesser number for sale, provided they retain at least the minimum holding referred to above. All sale instructions must be made to the ACD in writing. The shares will be purchased from the shareholder at the next valuation point and a contract note confirming the sale will be sent.

Stamp Duty Reserve Tax (SDRT)

The liability for payment of this duty lies with the Company. The regulations that govern Open-Ended Investment Companies permit this duty to be paid from the property of the Fund. Accordingly, SDRT will generally be charged as an expense to the capital account of the Fund. The regulations also allow for the ACD to levy an additional charge (called an SDRT provision) against the individual purchase and sale of shares. An SDRT provision would, if imposed, increase the cost of buying shares and lessen the proceeds of sales by the investor up to a maximum of 0.5%. It is not the ACD's intention generally to levy an SDRT provision, but the ACD reserves the right to do so in the following circumstances:

- On unusually large deals whether single or aggregate (for example, purchases or redemptions of shares for more than 2% of the size of the Fund); or
- In any other case where the ACD is of the opinion that the interests of shareholders require the imposition of an SDRT provision.

As an SDRT charge is directly related to the inflows and outflows of monies from the Fund it is not possible to accurately predict whether an SDRT charge will occur at any future point in time. Consequently it is also not possible to accurately predict how frequently the ACD will need to make such an SDRT provision.

Charges

Certain charges are levied to cover the operating costs of the ACD.

	Initial Charge	Annual Management Charge
Retail Shares	5%	1.0%
Second Retail Shares	4%	1.5%
Institutional Shares	5%	0.6%

An initial charge may be levied when Retail Shares or Institutional Shares are created, all or part of which may be waived at the discretion of the ACD.

An annual management charge is also levied as a percentage of the Net Asset Value represented by relevant share class. In addition each Fund pays expenses for the professional services they receive such as safe custody, audit, regulatory and fund management advice. These charges are deducted daily from the capital of the Fund.

Accumulation

Revenue is accumulated by a transfer to the capital account of the Fund on the day following the record date, being the last day in each accounting period.

Reports

The simplified short report is sent to all shareholders on a half-yearly basis. The full long form report and accounts are available on request from Threadneedle Investment Services Limited, PO Box 10033, Chelmsford, CM99 2AL.

Taxation

The Company will pay any distributable income as dividend distributions (which will be automatically retained in the case of accumulation shares) on each relevant distribution date.

Dividend distributions will be received by UK resident individual taxpayers with a 10% tax credit.

Basic rate taxpayers will be liable to income tax on their dividend income at the rate of 10%. Therefore the 10% tax credit on dividend distributions will satisfy the liability to UK income tax of basic rate taxpayers. A basic rate taxpayer will have no further tax liability.

Shareholders liable to UK income tax at the higher or additional rate must account to HM Revenue & Customs for any further tax due on the gross amount of the income that is the distribution plus the tax credit.

Higher rate taxpayers will be liable to income tax on their grossed up dividend income of 32.5% but may offset the 10% tax credit against this liability. In other words, higher rate taxpayers will be liable to pay income tax equivalent to 25% of their net receipt.

Additional rate taxpayers are subject to income tax on their grossed up dividend income at the rate of 42.5%, against which

Additional Information

(continued)

the tax credit can also be offset, therefore the income tax due will be equivalent to approximately 36% of the amount received.

Non-taxpayers may not reclaim the tax credits on dividend distributions paid.

Any gains arising on a disposal of shares by an individual shareholder who is resident or ordinarily resident in the UK are, depending on the shareholder's personal circumstances, subject to capital gains tax. Once an individual's aggregate chargeable gains for a tax year exceed the annual exempt amount for the year, the balance will be subject to capital gains tax at the applicable rate.

Part of any increase in value of accumulation Shares represents accumulated income (including income equalisation). These amounts may be added to the acquisition cost when calculating the capital gain realised on their disposal.

Individual Shareholders will find further information in the HM Revenue & Customs Help Sheets for the capital gains tax pages of their tax returns.

It is possible to check HM Revenue and Customs up-to-date figures on Capital Gains Tax rates at www.hmrc.gov.uk

Prospectus

Further details concerning the Funds are contained in the Simplified Prospectus or Full Prospectus, which is available on request from the ACD.

Changes to the Prospectus

During the year 1st January 2011 to 31st December 2011 the significant changes to the Prospectus of the Company are as follows:

- the change of name of the Company from LV= UK Property Fund ICVC to Threadneedle UK Property Fund II ICVC;
- the change of Authorised Corporate Director to Threadneedle Investment Services Limited and Investment Manager to Threadneedle Asset Management Limited.

Changes to the Instrument of Incorporation

During the year 1st January 2011 to 31st December 2011 the significant change to the Instrument of Incorporation of the Company was the change of name of the Company from LV= UK Property Fund ICVC to Threadneedle UK Property Fund II ICVC.

Application for Shares

Your first investment into the Company must be made using our standard application form or by telephone. You can make additional investments by letter or telephone, provided you include your full name and investment details for registration purposes. Applications and additional investments can only be

made by post to Threadneedle Investment Services Limited, PO Box 10033, Chelmsford, CM99 2AL. Applications will only be effective when they are received by us at the administration address above.

Buying and selling shares – shares are bought or sold on your behalf in the Company on a forward pricing basis. This means, if we receive your full instructions in writing to invest, switch or cash in money before 2 p.m. on a business day, you will get the share price calculated that day. After 2 p.m. or on days which are not business days, you will get the price calculated on the next business day.

Equalisation

Equalisation applies only to shares purchased during the distribution period (Group 2 shares). It is the average amount of income included in the purchase price of all Group 2 shares and is refunded to the holders of these shares as a return of capital. Being capital it is not liable to income tax but must be deducted from the cost of shares for capital gains tax purposes. This deduction does not apply to shares held within an Individual Savings Account which are not subject to capital gains tax.

Social Responsibility

At Threadneedle we are active investors committed to maximising our investment returns through the pursuance of good governance and socially responsible investment practices. We are signatories to the United Nations Principles for Responsible Investment (UN PRI).

We believe that the analysis of governance, social, ethical and environmental factors should be incorporated into stock selection to impact returns. Consequently, management of the risks and opportunities presented by these factors is integral to our investment decision-making process.

Important Information

Past performance is not a guide to future returns. The value of investment may fall as well as rise and investors may not get back the original investment.

The annual management charge and other expenses are taken from capital which may constrain or erode capital.

It may be difficult or impossible to realise an investment in the Fund because the underlying property concerned may not be readily saleable. The value of property is a matter of a valuer's opinion and the true value may not be recognised until the property is sold.

The performance of the Fund would be adversely affected by a downturn in the Property market in terms of capital value or a weakening of rental yields.

Exchange rate movements may cause the underlying value of investments to fluctuate.

Additional Information

(continued)

References in this document to the Fund do not constitute an offer or invitation to subscribe to shares in the Fund. Subscriptions to the Fund may only be made on the basis of the current Prospectus or Simplified Prospectus and the latest annual or interim reports, which can be obtained free of charge.

Website Publication

The financial statements are published at threadneedle.com, which is a website maintained by Threadneedle Investment Services Limited. The maintenance and integrity of the website maintained by Threadneedle Investment Services Limited, so far as it relates to the Threadneedle UK Property Fund II ICVC, is the responsibility of Threadneedle Investment Services Limited. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

Management and Administration

Company

Threadneedle UK Property Fund II ICVC
(formerly LV= UK Property Fund ICVC)
Registered Number IC577

Registered Office

60 St Mary Axe, London EC3A 8JQ
(with effect from 1st December 2011)
County Gates, Bournemouth, BH1 2NF
(until 1st December 2011)

Director

There is a sole director, the Authorised Corporate Director ("ACD"), which with effect from 1st December 2011 is Threadneedle Investment Services Limited. Until 1st December 2011, the ACD was Liverpool Victoria Portfolio Managers Limited.

Board of Directors of the current ACD

Chairman and Chief Executive

C J Henderson

Other Directors

C D Fleming
T N Gillbanks
P J W Reed
N J Ring

Independent Auditors

Ernst & Young LLP
10 George Street
Edinburgh
EH2 2DZ

Registrar and Transfer Agency

International Financial Data Services (UK) Limited
IFDS House
St Nicholas Lane
Basildon
SS15 5FS

Investment Adviser

Threadneedle Asset Management Limited
*(Authorised and regulated by the
Financial Services Authority (FSA))*
60 St Mary Axe
London
EC3A 8JQ

Legal Advisers

Eversheds LLP
1 Wood Street
London
EC2V 7WS

Standing Independent Valuer

Colliers International UK Plc
9 Marylebone Lane
London
W1U 1HL

Depository

J.P. Morgan Trustee and Depository Company Limited
12 Chaseside
Bournemouth
BH7 7DA

Property Manager

Montagu Evans LLP
Clarges House
6-12 Clarges Street
London
W1J 8HB

Customer Administration

PO Box 10033
Chelmsford
CM99 2AL

Please ensure all correspondence includes the full name of the registered holder and the account number. Telephone: +44 (0) 845 113 0273 (calls may be recorded for training and monitoring purposes).

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