

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

AEW REAL ESTATE INCOME FUND
Form N-CSR
April 01, 2004

=====

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number: 811-21206

AEW Real Estate Income Fund

(Exact name of registrant as specified in charter)

399 Boylston Street, Boston, Massachusetts 02116

(Address of principal executive offices) (Zip code)

John E. Pelletier, Esq.
CDC IXIS Asset Management Services, Inc.
399 Boylston Street
Boston, Massachusetts 02116

(Name and address of agent for service)

Registrant's telephone number, including area code: (617) 449-2801

Date of fiscal year end: January 31, 2004

Date of reporting period: January 31, 2004

=====

Item 1. Reports to Stockholders.

The Registrant's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

AEW Real Estate Income Fund

[LOGO] AEW

AEW Real Estate Income Fund
Annual Report
January 31, 2004

AEW Management and Advisors

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

AEW Real Estate Income Fund

Portfolio Profile

Objective:

High current income is a primary objective; capital appreciation is a secondary objective

Strategy:

Invests primarily in income-producing securities issued by real estate companies, including REITs

Inception Date: November 26, 2002

Portfolio Manager: Matthew A. Troxell, CFA AEW Management and Advisors, L.P.

Common shares

American Stock

Exchange Symbol: RIF

CUSIP Numbers

Common shares: 00104H107

Preferred shares: 00104H206

January 31, 2004

Market Value

Per Common Share: \$17.87

Net Asset Value

Per Common Share: \$19.70

Management Discussion

REITs turned in spectacular performance during the 12-month period, posting the best results since the start of the "modern REIT era" a decade earlier. They outperformed the two most common benchmarks for large-cap investing, the Standard & Poor's 500 Index and the Dow Jones Industrial Average, for the fourth consecutive year and also outdistanced the bond market, which had outpaced REITs in 2002. With a backdrop of increasing signs of an economic rebound and rising confidence levels, REITs during the past year trailed only the most economically sensitive asset classes, including small-cap, technology and cyclical stocks.

The strong performance came despite weakness in real estate market fundamentals related to the sluggishness of the domestic economy since 2000. Investors pushed aside those concerns and focused on the stable dividend yields and diversification advantages of REITs. Foreign investors, including Japanese institutions, recently have joined domestic investors in allocating increasing sums to the U.S. REIT sector.

Performance Facts

AEW Real Estate Income Fund performed well in a strong market for REITs. The fund's total return, based on the market price of common shares, was 37.45% for

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

the 12 months ended January 31, 2004. The fund's market price per common share rose from \$14.55 at the start of the fiscal year to \$17.87 per share on January 31, 2004, the end of the fiscal period. Changes in the market price of fund shares reflect investor demand and are not directly linked to changes in the fund's net asset value.

Based on the net asset value of common shares and reinvestment of distributions of \$1.00 per share in dividends and \$0.79 per share in capital gains, the AEW Real Estate Income Fund's total return was 56.84% for the 12 months ended January 31, 2004. During the same period, the fund's net asset value rose from \$14.03 per common share at the start of the fiscal year to \$19.70 per share on January 31, 2004. The fund had approximately 3.8 million common shares outstanding at the close of the fiscal year and net assets totaling \$75.5 million.

The fund's common stock holdings outperformed its preferred holdings during the 12-month fiscal period, although both areas provided solid total returns and attractive current yields, helping the fund attain its primary objective of high current income. Within the common stock portfolio, the strongest performance came from the retail and healthcare industries.

Consistent with the fund's emphasis on current income, we made minor adjustments to the portfolio during the period with the goal of strengthening the fund's cash flow. We added several new common and preferred stock holdings in a variety of property types and geographic regions in the United States. In February 2003, the fund completed its issuance of auction market preferred shares to complete the anticipated leverage of the fund, which proved beneficial to performance. Earnings from that leverage enabled the fund to support its dividend. In addition, price appreciation on the investments made with the leverage further boosted the Fund's net asset value by year end.

The fund may enter into interest rate swaps to reduce risk from an increase in short-term interest rates. The swaps entail the fund agreeing with a counterparty to pay a fixed rate payment in exchange for the counterparty paying the fund a variable rate payment. Interest rate swaps that were executed during the year, as insurance against the prospect of higher interest rates in the future, raised the fund's costs.

Outlook

We believe the flow of new investment capital into the REIT sector should remain strong, at least for the first half of 2004, both because of the competitive income streams of REITs and the benefits of diversification offered by real estate. In addition, we believe the flow of assets into the REIT sector should increase because of the addition of several individual REITs to various Standard & Poor's indexes.

1

AEW Real Estate Income Fund

Outlook Continued

While demand for REITs appears healthy, several potential risks do exist. Rising interest rates could increase the relative attractiveness of some alternative income-producing investments, including bonds. At the same time, an unexpected downturn in the economy could further weaken the property market.

The most favorable outlook for the REIT market is that capital flows into real

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

estate will remain strong, while the underlying fundamentals in the real estate industry recover with the rebound in the overall economy. This would allow the cash flows of individual properties to rise to levels consistent with the current values of REIT shares. While this scenario implies a period of somewhat lackluster returns, it also suggests that both public and private real estate returns are likely to remain strong, though perhaps not spectacular, in the near term.

Investment Results through January 31, 2004

Performance in Perspective

The chart comparing the fund's performance to a REIT index provides a general sense of how the fund performed for the period from the fund's inception through January 31, 2004. It may be helpful to understand the differences between the two. The fund's total returns for the periods shown below include fund expenses, such as management fees/1/. An index measures the performance of a theoretical portfolio. Unlike a fund, the index is unmanaged and does not have expenses that affect investment results. It is not possible to invest directly in an index. Few investors could purchase all of the securities necessary to match the index and would incur transaction costs and other expenses even if they could. AEW Real Estate Income Fund is a leveraged fund that invests in common and preferred shares of REITs, which makes a REIT index composed of purely common shares less than a direct comparison.

Portfolio as of January 31, 2004

Ten Largest REIT Sectors	% of Investments as of	
	1/31/04	7/31/03
Office	23.5	22.0
Shopping Centers	14.5	15.3
Apartments	12.3	13.6
Healthcare	11.2	10.0
Diversified	10.4	10.1
Regional Malls	8.0	7.4
Lodging/Resorts	7.7	7.3
Office/Industrial	6.2	7.8
Industrial	2.2	2.2
Specialty	1.6	2.0

Ten Largest Holdings*	% of Investments as of	
	1/31/04	7/31/03
Healthcare Realty Trust, Inc.	4.8	4.3
Senior Housing Properties Trust	3.3	2.8
iStar Financial, Inc.	3.3	3.3
HRPT Properties Trust	3.2	2.5
Urstadt Biddle Properties, Inc.	2.9	2.9
Gables Residential Trust	2.7	2.7
Camden Property Trust	2.7	2.6
Mack-Cali Realty Corp.	2.7	3.0
CarrAmerica Realty Corp.	2.6	2.0
Hospitality Properties Trust	2.6	2.1

* Common Shares except as noted

Total Returns -- January 31, 2004

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

	1 Year/1/	Since Inception/1/ (11/26/02)
Total return on market value	37.45%	28.47%
Total return on net asset value	56.84	44.79

Comparative Performance		
Morgan Stanley REIT Index/2/	46.78	36.54/3/

Notes to Chart

All returns represent past performance and do not guarantee future results. Share price and return will vary and you may have a gain or loss when you sell your shares. Recent returns may be higher or lower than those shown. All results include reinvestment of dividends and capital gains. The table represents past performance of the fund's common shares and does not reflect taxes shareholders might owe on any fund distributions or when they sell their shares.

Total return on market value reflects, for the periods indicated, changes in the fund's market price on the American Stock Exchange and the receipt and reinvestment of dividends. An investor may only purchase or sell shares of the fund based upon its market price. In general, the market price of the fund is determined by supply and demand. An investor's actual return will vary depending on the market price of shares on the date of purchase and/or sale. Total return on the net asset value reflects, for the periods indicated, changes in the fund's net asset value per share, and the receipt and reinvestment of dividends.

/1/ Fund performance has been increased by expense waivers, without which performance would have been lower.

/2/ Morgan Stanley REIT Index is an unmanaged index of stocks issued by real estate investment trusts (REITs). It is not possible to invest directly in the index.

/3/ The since-inception index comparison is calculated from 11/30/02.

 NOT FDIC INSURED MAY LOSE VALUE NO BANK GUARANTEE

2

 AEW Real Estate Income Fund -- Schedule of Investments

Investments as of January 31, 2004

Shares	Description	Value (a)

Common Stocks -- 95.5% of Total Net Assets		
	REAL ESTATE - 1.4%	
	Financial Services - 1.4%	
41,500	Municipal Mortgage & Equity LLC	\$ 1,047,045

	REAL ESTATE INVESTMENT TRUSTS - 94.1%	
	REITs - Apartments - 13.9%	
32,000	Apartment Investment & Management Co., Class A	1,125,760

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

52,000	Archstone Smith Trust	1,426,360
65,000	Camden Property Trust	2,827,500
78,500	Gables Residential Trust	2,833,850
40,000	Mid-America Apartment Communities, Inc.	1,380,400
39,000	Summit Properties, Inc.	900,120

		10,493,990

	REITs - Diversified - 9.4%	
55,000	Crescent Real Estate Equities Co.	990,000
62,400	First Potomac Realty Trust	1,254,240
85,000	iStar Financial, Inc.	3,401,700
70,000	Lexington Corporate Properties Trust	1,477,000

		7,122,940

	REITs - Factory Outlets - 1.1%	
20,000	Tanger Factory Outlet Centers, Inc.	838,000

	REITs - Healthcare - 13.6%	
32,500	Health Care Property Investors, Inc.	1,827,475
121,000	Healthcare Realty Trust, Inc.	4,967,050
190,500	Senior Housing Properties Trust	3,444,240

		10,238,765

	REITs - Industrial - 1.1%	
25,000	EastGroup Properties, Inc.	868,750

	REITs - Lodging/Resorts - 3.5%	
63,000	Hospitality Properties Trust	2,636,550

	REITs - Office - 24.2%	
77,000	Arden Realty, Inc.	2,387,000
65,000	CarrAmerica Realty Corp.	2,065,050
77,000	Glenborough Realty Trust, Inc.	1,494,570
90,000	Highwoods Properties, Inc.	2,457,000
311,300	HRPT Properties Trust	3,299,780
68,000	Mack-Cali Realty Corp.	2,758,760
50,000	Maguire Properties, Inc.	1,215,000
76,500	Prentiss Properties Trust	2,562,750

		18,239,910

	REITs - Office/Industrial - 6.5%	
70,000	Kilroy Realty Corp.	2,292,500
68,100	Liberty Property Trust	2,627,298

		4,919,798

	REITs - Regional Malls - 6.1%	
150,000	Borealis Retail REIT	1,368,778
62,000	Glimcher Realty Trust	1,561,780
35,000	Macerich Co. (The)	1,684,550

		4,615,108

	REITs - Shopping Centers - 12.6%	
125,000	Cedar Shopping Centers, Inc. (c)	1,650,000
110,000	Commercial Net Lease Realty, Inc.	2,013,000
30,000	Equity One, Inc.	546,000
88,000	Heritage Property Investment Trust	2,565,200

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

65,000	New Plan Excel Realty Trust	1,638,650
39,000	Ramco-Gershenson Properties Trust	1,069,380

		9,482,230

	REITs - Specialty - 2.1%	
26,000	Correctional Properties Trust	\$ 836,420
22,000	Entertainment Properties Trust	778,800

		1,615,220

	Total Real Estate Investment Trusts	71,071,261

	Total Common Stocks (Identified Cost \$53,352,987)	72,118,306

	Preferred Stocks - 40.3%	
	REAL ESTATE INVESTMENT TRUSTS - 40.3%	
	REITs - Apartments - 2.9%	
50,000	Apartment Investment & Management Co., Series G	1,389,000
29,400	Apartment Investment & Management Co., Series R	808,206

		2,197,206

	REITs - Diversified - 4.8%	
30,000	Capital Automotive Co., Class A	774,000
50,000	Colonial Properties Trust, Series D	1,329,000
54,800	Crescent Real Estate Equities Co., Series B	1,517,960

		3,620,960

	REITs - Healthcare - 1.7%	
50,000	Health Care Property Investors, Inc., Class F (c)	1,281,000

	REITs - Industrial - 1.9%	
52,000	Keystone Property Trust, Series D	1,419,600

	REITs - Lodging/Resorts - 7.0%	
75,000	Boykin Lodging Co., Series A	2,163,750
25,000	FelCor Lodging Trust, Inc., Series B	629,000
75,000	Hospitality Properties Trust, Series B	2,085,000
15,000	LaSalle Hotel Properties, Series A	423,750

		5,301,500

	REITs - Office - 7.9%	
100,000	CarrAmerica Realty Corp., Series E	2,690,000
30,000	Highwoods Properties, Inc., Series B	760,800
90,400	HRPT Properties Trust, Series B	2,523,064

		5,973,864

	REITs - Office/Industrial - 2.0%	
30,000	Bedford Property Investors, Inc., Series A, 144A	1,511,250

	REITs - Regional Malls - 4.8%	
75,000	Glimcher Realty Trust, Series F	1,996,500

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

35,500	Mills Corp. (The), Series B	972,700
25,000	Mills Corp. (The), Series E	677,250

		3,646,450

	REITs - Shopping Centers - 7.3%	
42,200	Developers Diversified Realty Corp., Series F	1,153,326
25,000	Developers Diversified Realty Corp., Series G	676,500
13,000	Federal Realty Investment Trust, Series B	352,950
12,500	Ramco-Gershenson Properties Trust, Series B	365,625
27,000	Urstadt Biddle Properties, Inc., Series C	2,960,720

		5,509,121

	Total Real Estate Investment Trusts	30,460,951

	Total Preferred Stocks (Identified Cost \$28,317,840)	30,460,951

3 See accompanying notes to financial statements.

 AEW Real Estate Income Fund -- Schedule of Investments (CONTINUED)

Investments as of January 31, 2004

Principal Amount	Description	Value (a)
	Short Term Investment -- 0.7%	
\$ 490,983	Repurchase Agreement with Investors Bank & Trust Co. dated 1/30/2004 at 0.75% to be repurchased at \$491,014 on 2/02/2004, collateralized by \$501,822 Federal National Mortgage Association Bond, 4.342% due 9/01/2032 valued at \$515,533	\$ 490,983

	Total Short Term Investment (Identified Cost \$490,983)	\$ 490,983

	Total Investments - 136.5% (Identified Cost \$82,161,810) (b)	103,070,240
	Auction Market Preferred Shares plus cumulative unpaid dividends (37.1)%	(28,004,079)
	Other assets less liabilities - 0.6%	437,070

	Total Net Assets - 100%	\$ 75,503,231
		=====

(a) See Note 2a of Notes to Financial Statements.

(b) Federal Tax Information:

At January 31, 2004, the net unrealized appreciation on investments based on cost of \$82,205,024 for federal

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

income tax purposes was as follows:

Aggregate gross unrealized appreciation for all investments in which there is an excess of value over tax cost	\$ 20,905,409
Aggregate gross unrealized depreciation for all investments in which there is an excess of tax cost over value	(40,193)

Net unrealized appreciation	\$ 20,865,216
	=====

At January 31, 2004, the components of distributable earnings, excluding unrealized appreciation/depreciation, disclosed on a tax basis consisted of \$0 in undistributed ordinary income and \$469,690 in undistributed long-term gains.

- (c) Non-income producing security.
 144A Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registrations, normally to qualified institutional buyers. At the period end, the value of these amounted to \$1,511,250 or 2.0% of net assets.

See accompanying notes to financial statements.

4

 Statement of Assets & Liabilities

January 31, 2004

ASSETS

Investments at cost	\$ 82,161,810
Net unrealized appreciation	20,908,430

Investments at value	103,070,240
Dividends and interest receivable	603,558
Receivable for open swap contracts	47,947

TOTAL ASSETS	103,721,745
	=====

LIABILITIES

Dividends payable	23,992
Management fees payable	38,540
Transfer agent fees payable	3,771
Accounting and administrative fees payable	6,250
Other accounts payable and accrued expenses	141,882

TOTAL LIABILITIES	214,435
	=====

AUCTION PREFERRED SHARES 1,120 shares outstanding at liquidation value plus cumulative unpaid dividends	28,004,079

NET ASSETS APPLICABLE TO COMMON SHARES	\$ 75,503,231
	=====

NET ASSETS CONSIST OF:

Common Shares, \$0.00001 par value; unlimited number of shares authorized, 3,833,390 shares issued and outstanding	\$ 38
Additional paid in capital	54,144,332

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Undistributed (overdistributed) net investment income	(23,992)
Accumulated net realized gain (loss) on investments, foreign currency transactions and interest rate swap contracts	426,476
Net unrealized appreciation (depreciation) of investments and swap contracts	20,956,377

NET ASSETS APPLICABLE TO COMMON SHARES	\$ 75,503,231
	=====
COMPUTATION OF NET ASSET VALUE PER COMMON SHARE:	
Net assets	\$ 75,503,231
	=====
Common Shares issued and outstanding	3,833,390
	=====
Net asset value per share	\$ 19.70
	=====
Market Value (closing price per share on American Stock Exchange)	\$ 17.87
	=====

5 See accompanying notes to financial statements.

Statement of Operations

For the Year Ended January 31, 2004

INVESTMENT INCOME	
Dividends	\$ 4,692,143
Interest	12,145
Less net foreign taxes withheld	(7,941)

	4,696,347

Expenses	
Management fees	728,534
Trustees' fees and expenses	52,208
Accounting and administrative	150,000
Custodian	37,711
Transfer agent fees	41,707
Audit and tax services	42,000
Legal	79,731
Reports to shareholders	34,660
Preferred stock auction	67,667
Rating agency fees	13,501
American Stock Exchange fees	14,527
Miscellaneous	16,539

Total expenses before waivers	1,278,785
Less waivers	(393,734)

Net expenses	885,051

Net investment income	3,811,296

REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FOREIGN CURRENCY TRANSACTIONS AND INTEREST RATE SWAPS	
Realized gain on:	
Investments - net	4,276,158

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Interest rate swap contracts - net	(472,930)
Foreign currency transactions - net	(6,281)
Change in unrealized appreciation (depreciation) of:	
Investments - net	21,858,756
Interest rate swap contracts - net	47,947

Net realized and unrealized gain (loss) on investments, foreign currency transactions and interest rate swaps	25,703,650

NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	29,514,946
LESS DISTRIBUTIONS TO PREFERRED SHAREHOLDERS	
Net investment income	(193,478)
Net realized short-term gain on investments	(122,163)
Net realized long-term gain on investments	(14,621)

	(330,262)

NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS APPLICABLE TO COMMON SHARES	\$ 29,184,684
	=====

See accompanying notes to financial statements.

6

Statement of Changes in Net Assets

	For the Year Ended January 31, 2004	For the Period November 26, 2002* to January 31, 2003
	-----	-----
FROM OPERATIONS:		
Net investment income	\$ 3,811,296	\$ 322,911
Net realized gain (loss) on investments, foreign currency transactions and interest rate swap contracts	3,796,947	53,343
Net change in unrealized appreciation (depreciation) of investments and interest rate swap contracts	21,906,703	(950,326)
	-----	-----
Increase (decrease) in net assets resulting from operations	29,514,946	(574,072)
	-----	-----
LESS DISTRIBUTIONS TO PREFERRED SHAREHOLDERS:		
Net investment income	(193,478)	--
Short-Term capital gain	(122,163)	--
Long-Term capital gain	(14,621)	--
	-----	-----
Increase (decrease) in net assets from operations applicable to common shares	29,184,684	(574,072)
	-----	-----
LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS:		
Net investment income	(3,820,972)	(328,168)
Short-Term capital gain	(2,753,072)	(14,018)
Long-Term capital gain	(291,479)	(39,698)
Return of capital	--	(58,796)

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

	(6,865,523)	(440,680)
INCREASE (DECREASE) IN NET ASSETS DERIVED FROM CAPITAL STOCK TRANSACTIONS:	9,467	54,790,542
Offering costs and preferred shares underwriting commissions	(601,187)	--
Total increase (decrease) in net assets	21,727,441	53,775,790
NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS		
Beginning of period	53,775,790	--
End of period	\$ 75,503,231	\$ 53,775,790
UNDISTRIBUTED (OVERDISTRIBUTED) NET INVESTMENT INCOME	\$ (23,992)	\$ --

* Commencement of operations.

7 See accompanying notes to financial statements.

Financial Highlights

For a share outstanding throughout each period.

	For the Year Ended January 31, 2004	For the Pe November 26, to January 31,
Net Asset Value, Beginning of Period (Common Shares)	\$ 14.03	\$
Income From Investment Operations:		
Net Investment Income (b)	0.99	
Net Realized and Unrealized Gain (Loss) on Investments	6.71	
Total From Investment Operations	7.70	
Less Distributions to Preferred Shareholders:		
Dividends From Net Investment Income	(0.05)	
Distributions From Net Realized Short-Term Gains	(0.03)	
Distributions From Net Realized Long-Term Gains	0.00 (f)	
Total From Investment Operations Applicable to Common Shareholders	7.62	
Less Distributions to Common Shareholders:		
Dividends From Net Investment Income	(1.00)	
Distributions From Net Realized Short-Term Gains	(0.72)	
Distributions From Net Realized Long-Term Gains	(0.07)	
Distributions From Paid In Capital	--	

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Total Distributions	(1.79)		
Common Shares Offering Costs Charged to Paid-In Capital	--		
Preferred Shares Underwriting Commissions and Offering Costs	(0.16)		
Net Asset Value, End of Period (Common Shares)	\$ 19.70	\$	
Market Value, End of Period (Common Shares)	\$ 17.87	\$	
Total Return on Market Value(%)	37.45		
Total Return on Net Asset Value(%) (i)	56.84		
Ratio of Expenses to Average Net Assets Applicable to Common Shares, Before Waivers(%) (e)	2.00		
Ratio of Expenses to Average Net Assets Applicable to Common Shares, After Waivers (%) (d) (e)	1.38		
Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares, Before Waivers(%) (e)	5.35		
Ratio of Net Investment Income to Average Net Assets Applicable to Common Shares, After Waivers(%)	5.97		
Portfolio Turnover Rate (%)	31		
Net Assets Applicable to Common Shares, End of Period (000)	\$ 75,503	\$	
Auction Market Preferred Shares			
Total Shares Outstanding	1,120		
Asset Coverage Per Share(g)	\$ 92,414	\$	
Involuntary Liquidation Preference Per Share(h)	\$ 25,000	\$	
Approximate Market Value Per Share	\$ 25,000	\$	

* Commencement of operations.

- (a) Net asset value at beginning of period reflects the deduction of the sales load of \$0.675 per share paid by the shareholder from the \$15.00 offering price.
- (b) Calculated using average common shares outstanding during the period.
- (c) Total return on net asset value is calculated assuming a purchase at the offering price of \$15.00 less the sales load of \$0.675 paid by the shareholder on the first day and the ending net asset value per share. Total return on market value is calculated assuming a purchase at the offering price of \$15.00 on the first day and a sale at the current market price on the last day of the period. Total return on net asset value and total return on market value are not computed on an annualized basis.
- (d) The investment adviser and the Fund's administrator agreed to waive a portion of their fees during the period. Without these waivers, expense ratios would have been higher.
- (e) Computed on an annualized basis for periods less than one year.
- (f) Amount rounds to less than \$0.01 per share.
- (g) Calculated by subtracting the Fund's total liabilities (not including the preferred shares) from the Fund's total assets, and dividing this by the number of preferred shares outstanding.
- (h) Plus accumulated and unpaid dividends.
- (i) Had certain expenses not been reduced during the period total return would have been lower.

See accompanying notes to financial statements.

8

Notes to Financial Statements

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

For the Year Ended January 31, 2004

1. Organization. AEW Real Estate Income Fund, (the "Fund") is registered under the Investment Company Act of 1940, as amended (the "1940 Act"), as a non-diversified closed-end management investment company. The Fund is organized under the laws of the Commonwealth of Massachusetts by an amended and restated Agreement and Declaration of Trust dated October 10, 2002. The Fund's primary investment objective is high current income; the Fund's secondary investment objective is capital appreciation. The Fund seeks to achieve its objective by concentrating its investments in the United States real estate industry.

2. Significant Accounting Policies. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The Fund's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America which require the use of management estimates that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

a. Security Valuation. Equity securities for which market quotations are readily available are valued at market price on the basis of valuations furnished to the Fund by a pricing service, which has been authorized by the Trustees. The pricing service provides the last reported sale price for securities listed on an applicable securities exchange or on the NASDAQ national market system, or, if no sale was reported and in the case of over-the-counter securities not so listed, the last reported bid price. Effective April 14, 2003, securities traded on the NASDAQ National Market are valued at the NASDAQ Official Closing Price ("NOCP"), or if lacking an NOCP, at the most recent bid quotation on the NASDAQ National Market. Short-term obligations with a remaining maturity of less than sixty days are stated at amortized cost, which approximates market value. All other securities and assets are valued at their fair value as determined in good faith by the Fund's investment adviser and officers, under the supervision of the Fund's Trustees. Fair valuation may also be used by the Board of Trustees if extraordinary events occur after the close of the relevant market prior to the close of the New York Stock Exchange.

The Fund may hold securities traded in foreign markets. Foreign securities are valued at the market price in the foreign market. However, if events occurring after the close of the foreign market (but before the close of regular trading on the New York Stock Exchange) are believed to materially affect the value of those securities, such securities are fair valued pursuant to procedures approved by the Board of Trustees. When fair valuing securities, the Fund may, among other things, use modeling tools or other processes that may take into account factors such as securities market activity and/or significant events that occur after the close of the foreign market and before the Fund calculates its net asset value.

b. Security Transactions and Related Investment Income. Security transactions are accounted for on trade date. Dividend income is recorded on ex-dividend date, or in the case of certain foreign securities, as soon as the Fund is notified, and interest income is recorded on an accrual basis. Dividend income received by the Fund from its investment in REITs may consist of ordinary income, capital gains and return of capital. Interest income is increased by the accretion of discount and decreased by the amortization of premium. Investment income is recorded net of foreign taxes withheld when recovery of such taxes is uncertain. In determining net gain or loss on securities sold, the cost of securities has been determined on an identified cost basis.

c. Foreign Currency Translation. The books and records of the Fund are maintained in U.S. dollars. The value of securities, currencies and other assets and liabilities denominated in currencies other than U.S. dollars are translated into U.S. dollars based upon foreign exchange rates prevailing at the end of the

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

period. Purchases and sales of investment securities, income and expenses are translated on the respective dates of such transactions.

Since the values of investment securities are presented at the foreign exchange rates prevailing at the end of the period, it is not practical to isolate that portion of the results of operations arising from changes in exchange rates from fluctuations arising from changes in market prices of the investment securities. Such changes are included with the net realized and unrealized gain or loss on investments.

Net realized foreign exchange gains or losses arise from: sales of foreign currency, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the Fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities at the end of the fiscal periods, resulting from changes in exchange rates.

d. Federal and Foreign Income Taxes. The Fund intends to meet the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute to its shareholders substantially all of its net investment income and any net realized capital gains at least annually. Accordingly, no provision for federal income tax has been made. The Fund may be subject to foreign taxes on income and gains on investments that are accrued based upon the Fund's understanding of the tax rules and regulations that exist in the countries in which the Fund invests. Foreign governments may also impose taxes or other payments on investments with respect to foreign securities, such taxes are accrued as applicable.

e. Dividends and Distributions to Shareholders. The Fund intends to make regular monthly cash distributions to common shareholders at a level rate based on the projected performance of the Fund. Distributions to common shareholders are recorded on the ex-dividend date. Distributions to preferred shareholders are recorded daily and are payable at the end of each dividend period. Each dividend period for Auction Market Preferred Shares ("AMPS") is generally seven days. For the year ended January 31, 2004, the dividend rates for AMPS ranged from 1.02% to 1.50%. The dividend rate for AMPS on January 31, 2004 was 1.05%. In addition, at least annually, the Fund intends to distribute net capital gains, if any. The timing and characterization of certain income and capital gains distributions are determined in accordance with federal tax regulations which may differ from accounting principles generally accepted in the United States of America. Permanent book and tax basis differences relating to shareholder distributions will result in reclassifications to the capital accounts. Distributions from net investment income and short-term capital gains are considered to be ordinary income for tax purposes.

9

Notes to Financial Statements (continued)

For the Year Ended January 31, 2004

f. Swap Agreements. The Fund may enter into swap agreements to manage its exposure to the financial markets. A swap is an agreement to exchange the return generated by one instrument for the return generated by another instrument. The Fund may enter into interest rate, total return and forward swap spread lock swap agreements to manage its exposure to interest rates. Interest rate swap

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

agreements involve the exchange by the Fund with another party of their respective commitments to pay or receive interest, e.g., an exchange of floating rate payments for fixed rate payments with respect to a notional amount of principal.

Swaps are marked to market daily based upon quotations from market makers and the change in value, if any, is recorded as unrealized gain or loss in the Statement of Operations. Payments received or made at the end of the measurement period are recorded as realized gain or loss in the Statement of Operations. These financial instruments are not actively traded on financial markets. The values assigned to these instruments are based upon the best available information and because of the uncertainty of the valuation, these values may differ significantly from the values that would have been realized had a ready market for these instruments existed, and the differences could be material. Entering into these agreements involves, to varying degrees, elements of credit, legal, market and documentation risk in excess of the amounts recognized on the Statement of Assets and Liabilities. Such risks involve the possibility that there will be no liquid market for these agreements, that the counterparty to the agreements may default on its obligation to perform or disagree as to the meaning of contractual terms in the agreements, or that there may be unfavorable changes in interest rates. See Note 7 for a summary of the open swap agreements as of January 31, 2004.

g. Repurchase Agreements The Fund, through its custodian, receives delivery of the underlying securities collateralizing repurchase agreements. It is the Fund's policy that the market value of the collateral be at least equal to 102% of the repurchase price, including interest. The Fund's investment adviser is responsible for determining that the value of the collateral is at all times at least equal to 102% of the repurchase price, including interest. Repurchase agreements could involve certain risks in the event of default or insolvency of the counterparty including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities.

3. Auction Market Preferred Shares The Fund is authorized to issue an unlimited number of preferred shares, \$0.00001 par value per share. On February 10, 2003, the Fund issued 1,120 shares of Series M AMPS with proceeds of \$28,000,000 in a public offering. Underwriting commissions and offering costs of \$601,187 (\$0.16 per common share) were incurred in connection with the offering and were charged directly to paid-in-capital of the common shares. Dividends on the AMPS are cumulative at a rate which was established at the offering of the AMPS and has been reset every seven days thereafter by an auction. The Fund pays annual fees equivalent to 0.25% of the preferred shares' liquidation value for the remarketing efforts associated with the preferred auctions as disclosed in the Statement of Operations.

The AMPS are redeemable at the option of the Fund, at a redemption price equal to \$25,000 per share, plus accumulated and unpaid dividends, on any dividend payment date. The AMPS may also be subject to mandatory redemption at a redemption price equal to \$25,000 per share, plus accumulated and unpaid dividends, if the Fund defaults on its asset maintenance requirements with respect to the AMPS and fails to cure such a default within the time permitted. If the dividends on the AMPS shall remain unpaid in an amount equal to two full years' dividends, the holders of the AMPS as a class have the right to elect a majority of the Board of Trustees. In general, the holders of the AMPS and the common shares have equal voting rights of one vote per share, except that the holders of the AMPS, as a separate class, have the right to elect at least two members of the Board of Trustees and to vote under certain other circumstances specified in the Fund's By-Laws. The AMPS have a liquidation preference of \$25,000 per share. The Fund is required to maintain certain asset coverage with respect to the AMPS as defined in the Fund's By-Laws.

4. Purchases and Sales of Securities. For the year ended January 31, 2004,

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

purchases and sales of securities (excluding short-term investments) were \$54,336,850 and \$27,158,711 respectively.

5. Management Fees and Other Transactions with Affiliates.

a. Management Fees. AEW Management and Advisors, L. P. ("AEW") serves as the investment adviser to the Fund. AEW is an affiliate of AEW Capital Management, L. P., a wholly owned subsidiary of CDC IXIS Asset Management North America, L.P. ("CDC IXIS North America"). Under the terms of the management agreement, the Fund pays a monthly management fee computed at the annual rate of 0.80% of the average daily managed assets of the Fund (which include the liquidation preference of any preferred shares and the principal amount of any borrowings used for leverage).

AEW has contractually agreed to waive a portion of its management fees in the amount of 0.25% of average daily managed assets during the first five years of the Fund's operations, 0.20% of average daily managed assets in year six, 0.15% of average daily managed assets in year seven, 0.10% of average daily managed assets in year eight, and 0.05% of average daily managed assets in year nine.

AEW has also agreed to waive an additional portion of its management fees in the amount of 0.10% of average daily managed assets. This waiver is voluntary and may be terminated by the investment adviser at any time without notice.

For the year ended January 31, 2004, the management fee and waiver for the Fund were as follows:

Gross Management Fee	Waiver of Management Fee	Net Management Fee	Percentage of Average Daily Managed Assets	
-----	-----	-----	Gross	Net
-----	-----	-----	-----	-----
\$ 728,534	\$ 318,734	\$ 409,800	0.80%	0.45%

b. Accounting and Administrative Expense. CDC IXIS Asset Management Services, Inc. ("CIS"), a wholly owned subsidiary of CDC IXIS North America, performs certain accounting and administrative services for the Fund and has subcontracted with Investors Bank & Trust Company ("IBT") to serve as subadministrator. The Fund pays CIS a fee for these services based on the Fund's average daily managed assets, or if higher, the minimum fee set forth below:

10

Notes To Financial Statements (continued)

For the Year Ended January 31, 2004

(1) Percentage of Eligible Average Daily Net Assets

First \$300 million	Over \$300 million
-----	-----
0.0600%	0.0575%

or

(2) An annual minimum fee of \$150,000.

CIS has currently agreed to voluntarily waive a portion of its administrative

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

services fee. This waiver is voluntary and may be terminated by CIS at any time without notice.

For the year ended January 31, 2004, the following was paid to CIS for accounting and administrative services:

Gross Accounting	Waiver of Accounting	Net Accounting	Percentage of Average Daily Managed Assets	
And Administrative	And Administrative	And Administrative	Gross	Net
-----	-----	-----	-----	-----
\$ 150,000	\$ 75,000	\$ 75,000	0.16%	0.08%

c. Trustees Fees and Expenses. The Fund does not pay any compensation directly to its officers or Trustees who are directors, officers or employees of CDC IXIS North America or its affiliates. Each other Trustee receives a retainer fee at the annual rate of \$2,000 and meeting attendance fees of \$375 for each meeting of the Board of Trustees attended. Each committee member receives an additional retainer fee at the annual rate of \$2,000 while each committee chairman receives a retainer fee (beyond the \$2,000 fee) at the annual rate of \$1,000. The retainer fees assume four Board or Committee meetings per year; Trustees are compensated for each additional Board and Committee meeting, in excess of four meetings per year, at the rate of \$375 and \$200, respectively. Trustees are reimbursed for travel expenses in connection with attendance at meetings.

d. Publishing Services. CIS performs certain desktop publishing services for the Fund. Fees for these services are presented in the Statement of Operations as shareholder reporting. For the year ended January 31, 2004, the amount paid to CIS as compensation for these services was \$859.

6. Shares of Beneficial Interest. The Agreement and Declaration of Trust permits the Fund's Trustees to issue an unlimited number of common shares, \$0.00001 par value per share. Transactions in common shares were as follows:

	Year Ended January 31, 2004		For the Period November 26, 2002 (a) to January 31, 2003	
	Shares	Amount	Shares	Amount
-----	-----	-----	-----	-----
Shares purchased				
by investment adviser	--	\$ --	7,000	\$ 100,275
Initial Public Offering on				
November 26, 2002 (b)	--	--	3,750,000	53,606,250
Purchase of additional shares by				
underwriters on January 13, 2003 (c)	--	--	75,000	1,074,000
Shares issued pursuant to the				
Fund's dividend reinvestment plan	676	9,467	714	10,017
Net increase	676	9,467	3,832,714	54,790,542
Increase derived from				
capital shares transactions	676	\$ 9,467	3,832,714	\$ 54,790,542
	=====	=====	=====	=====

(a) Commencement of operations

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

(b) After deduction of underwriting commissions and offering expenses of \$2,643,750.

(c) After deduction of underwriting commissions of \$51,000.

11

Notes To Financial Statements (continued)

For the Year Ended January 31, 2004

7. Swap Contracts.

Notional Amount	Expiration Date	Description	Unrealized Appreciation/ (Depreciation)
-----	-----	-----	-----
Interest Rate Swaps			
2,800,000 USD	3/1/2006	Agreement with Fleet National Bank dated 2/28/2003 to pay the notional amount multiplied by 2.345% and to receive the notional amount multiplied by the 1 week Floating Rate London Interbank Offering Rate ("LIBOR") adjusted by a specific spread.	\$ (11,803)
14,000,000 USD	3/3/2008	Agreement with Fleet National Bank dated 2/28/2003 to pay the notional amount multiplied by 3.104% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread.	12,372
8,400,000 USD	3/1/2010	Agreement with Fleet National Bank dated 2/28/2003 to pay the notional amount multiplied by 3.622% and to receive the notional amount multiplied by the 1 week Floating Rate LIBOR adjusted by a specific spread.	47,378
			----- \$ 47,947 =====

8. Other. On January 5, 2004, the Fund declared three monthly dividends of \$0.115 per common share for the months of January, February and March payable on January 30, February 27 and March 26, respectively.

12

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Report of Independent Auditors

To the Trustees and Shareholders of AEW Real Estate Income Fund:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of AEW Real Estate Income Fund (the "Fund") at January 31, 2004, and the results of its operations, the changes in its net assets and the financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit, which included confirmation of securities at January 31, 2004 by correspondence with the custodian and brokers, provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
Boston, Massachusetts
March 10, 2004

13

Dividend reinvestment plan

The Fund has a Dividend Reinvestment Plan (the "Plan") commonly referred to as an "opt-out" plan. Each Common Shareholder will have all distributions of dividends and capital gains automatically reinvested in additional Common Shares by EquiServe Trust Company, N.A., as agent for shareholders pursuant to the Plan (the "Plan Agent"), unless they elect to receive cash. The Plan Agent will either (i) effect purchases of Common Shares under the Plan in the open market or (ii) distribute newly issued Common Shares of the Fund. Shareholders who elect not to participate in the Plan will receive all distributions in cash paid by check mailed directly to the shareholder of record (or if the shares are held in street or other nominee name, then to the nominee) by the Plan Agent, as dividend disbursing agent. Shareholders whose Common Shares are held in the name of a broker or nominee should contact the broker or nominee to determine whether and how they may participate in the Plan.

The Plan Agent serves as agent for the shareholders in administering the Plan. After the Fund declares a dividend or makes a capital gain distribution, the Plan Agent will, as agent for the participants, either (i) receive the cash payment and use it to buy Common Shares in the open market, on the American Stock Exchange or elsewhere, for the participants' accounts or (ii) distribute newly issued Common Shares of the Fund on behalf of the participants. The Plan Agent will receive cash from the Fund with which to buy Common Shares in the open market if, on the determination date, the net asset value per share exceeds the market price per share plus estimated brokerage commissions on that date. The Plan Agent will receive the dividend or distribution in newly issued Common

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Shares of the Fund if, on the determination date, the market price per share plus estimated brokerage commissions equals or exceeds the net asset value per share of the Fund on that date. The number of shares to be issued will be computed at a per share rate equal to the greater of (i) the net asset value or (ii) 95% of the closing market price per share on the payment date.

Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. Such withdrawal will be effective immediately if received not less than ten days prior to a distribution record date; otherwise, it will be effective for all subsequent dividend record dates. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole Common Shares credited to his or her account under the Plan will be issued and a cash payment will be made for any fraction of a Common Share credited to such account. In the alternative, upon receipt of the participant's instructions, Common Shares will be sold and the proceeds sent to the participant less brokerage commissions and any applicable taxes.

The Plan Agent maintains each shareholder's account in the Plan and furnishes confirmations of all acquisitions made for the participant. Common Shares in the account of each Plan participant will be held by the Plan Agent on behalf of the participant. Proxy material relating to shareholders' meetings of the Fund will include those shares purchased as well as shares held pursuant to the Plan.

In the case of shareholders, such as banks, brokers or nominees, which hold Common Shares for others who are the beneficial owners, the Plan Agent will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholders as representing the total amount registered in the record shareholder's name and held for the account of beneficial owners who are participants in the Plan.

The Plan Agent's fees for the handling of reinvestment of dividends and other distributions will be paid by the Fund. Each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions. There are no other charges to participants for reinvesting dividends or capital gain distributions; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

The automatic reinvestment of dividends and other distributions will not relieve participants of any income tax that may be payable or required to be withheld on such dividends or distributions.

The Fund and the Plan Agent reserve the right to amend or terminate the Plan. All correspondence concerning the Plan should be directed to the Plan Agent by telephone at (800) 730-6001.

14

Trustees' Information

The Fund is governed by a Board of Trustees, which is responsible for generally overseeing the conduct of Fund business and for protecting the interests of shareholders. The trustees meet periodically throughout the year to oversee the Fund's activities, review contractual arrangements with companies that provide services to the Fund and review the Fund's performance.

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Name, Age and Address INDEPENDENT TRUSTEES	Position(s) Held with Fund/1/, Length of Time Served and Term of Office/1/	Principal Occupation(s) During Past 5 Years	Number Fund Other
Graham T. Allison, Jr. (63) 399 Boylston Street Boston, MA 02116 (Class I)	Trustee (2); Since Inception (October 2002)	Douglas Dillon Professor and Director for the Belfer Center of Science and International Affairs, John F. Kennedy School of Government, Harvard University	40; Director Inc.; B Inc.
Edward A. Benjamin (65) 399 Boylston Street Boston, MA 02116 (Class II)	Trustee (1); Less than 1 year	Retired; formerly, Partner, Ropes & Gray (law firm)	40; Director Investm Managem Precisi optics
Daniel M. Cain (59) 452 Fifth Avenue New York, NY 10018 (Class II)	Trustee, Committee Chairman (1); Since Inception (October 2002)	President and CEO, Cain Brothers & Company, Incorporated (investment banking)	40; Trustee Realty Director Healtho
Paul G. Chenault (70) 5852 Pebble Beach Way San Luis Obispo, CA 93401 (Class I)	Trustee (2); Less than 1 year	Retired; formerly, Trustee, First Variable Life (variable life insurance)	40; Director Product
Kenneth J. Cowan (71) 399 Boylston Street Boston, MA 02116 (Class II)	Trustee, Committee Chairman (2); Since Inception (October 2002)	Retired	40; None
Richard Darman (60) 399 Boylston Street Boston, MA 02116 (Class I)	Trustee (2); Since Inception (October 2002)	Partner, The Carlyle (investments); Chairman of the Board of Directors of AES Corporation (internat- ional power company); formerly, Professor, John F. Kennedy School of Government, Harvard University	40; Director AES Cor
Sandra O. Moose (62) 399 Boylston Street Boston, MA 02116 (Class III)	Trustee (1); Since Inception (October 2002)	President, Strategic Advisory Services; formerly, Senior Vice President and Director, The Boston Consulting Group, Inc. (management consulting)	40; Director Communi Director Company

15

Trustees' Information (continued)

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Name, Age and Address INDEPENDENT TRUSTEES (Continued)	Position(s) Held with Fund/1/, Length of Time Served and Term of Office/1/	Principal Occupation(s) During Past 5 Years	Number of Funds Other
John A. Shane (71) 200 Unicorn Park Drive Woburn, MA 01801 (Class III)	Trustee (2); Since Inception (October 2002)	President, Palmer Service Corporation (venture capital organization)	40; Director Corpora Overlan Directo Inc.
INTERESTED TRUSTEES			
Robert J. Blanding/3/ (56) 555 California Street San Francisco, CA 94104 (Class I)	Trustee; Less than 1 year	President, Chairman, Director, and Chief Executive Officer, Chief Loomis Sayles, Executive Officer - Loomis Sayles Funds II; President and CEO - Loomis Sayles Funds I	40; None
John T. Hailer/4/ (43) 399 Boylston Street Boston, MA 02116 (Class II)	President and Chief Executive Officer, Trustee; Since Inception (October 2002)	President and Chief Executive Officer, CDC IXIS Asset Management Distributors, L.P.; President, Loomis Sayles Funds II; Executive Vice President - Loomis Sayles Funds I, for-merly, Senior Vice President, Fidelity Investments	40; None
Peter S. Voss/5/ (57) 399 Boylston Street Boston, MA 02116 (Class III)	Chairman of the Board, Trustee; Since Inception (October 2002)	Director, President and Chief Executive Officer, CDC IXIS Asset Management North America, L.P.	40; Trustee Associa Trust/6

16

Trustees' Information (continued)

Name, Age and Address	Position(s) Held with Fund/1/, Length of Time Served and Term of Office/1/	Principal Occupation(s) During Past 5 Years	Number of Funds Other
OFFICERS			

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

<p>Nicholas H. Palmerino (38) 399 Boylston Street Boston, MA 02116</p>	<p>Treasurer; Not Applicable</p>	<p>Senior Vice President, CDC IXIS Asset Management Services, Inc.; Senior Vice President, CDC IXIS Asset Management Advisers, L.P.; formerly, Vice President, Loomis, Sayles & Company, L.P.</p>	<p>Not App None</p>
<p>John E. Pelletier (39) 399 Boylston Street Boston, MA 02116</p>	<p>Secretary, Chief Legal Officer; Not Applicable</p>	<p>Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Distribution Corporation; Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Asset Management Distributors, L.P.; Senior Vice President, General Counsel, Secretary and Clerk, CDC IXIS Asset Management Advisers, L.P.; Executive Vice President, General Counsel, Secretary, Clerk, and Director, CDC IXIS Asset Management Services, Inc.</p>	<p>Not App None</p>
<p>James J. Finnegan (43) 399 Boylston Street Boston, MA 02116</p>	<p>Chief Operating Officer; Not Applicable</p>	<p>General Counsel, Managing Director, Vice President and Clerk, AEW Management and Advisors, L.P.; General Counsel and Principal, for-merly, Assistant General Counsel and Vice President, AEW Capital Management, L.P.; Managing Director and Vice President, AEW Advisors, Inc.; Vice President and Assistant Clerk, AEW Investment Group, Inc.; Vice President and Assistant Clerk, AEW Real Estate Advisors, Inc.</p>	<p>Not App None</p>

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Name, Age and Address	Position(s) Held with Fund/1/, Length of Time Served and Term of Office/1/	Principal Occupation(s) During Past 5 Years	Number of Fund Other
OFFICERS (continued)			
Frank A. LoPiccolo (50) 399 Boylston Street Boston, MA 02116	Anti-Money Laundering Officer; Not Applicable	Senior Vice President, CDC IXIS Asset Management Services, Inc.	Not Applicable

(1) Member of Audit Committee.

(2) Member of Contract Review and Governance Committee.

1 The Trustees are divided into three Classes and serve staggered three-year terms, subject to their prior death, retirement, resignation, disqualification or removal from the Board. The terms of the Class I Trustees expire in 2006, the terms of the Class II Trustees expire in 2004, and the terms of the Class III Trustees expire in 2005. It is currently expected that, in accordance with the Board's current retirement policy, Mr. Cowan will retire as a Trustee prior to the 2007 Annual Meeting. The current retirement age is 72. Officers hold office at the pleasure of the Fund's Board and until their successors are appointed and qualified or until their earlier resignation or removal.

2 Mr. Blanding is deemed an "interested person" of the Fund because he holds the following positions with affiliated persons of the Fund: President, Chairman, Director and Chief Executive Officer of Loomis, Sayles & Company, L.P. ("Loomis Sayles").

3 Mr. Hailer is an "interested person" of the Fund because he holds the following positions with affiliated persons of the Fund: Director and Executive Vice President of CDC IXIS Asset Management Distribution Corporation; President and Chief Executive Officer of CDC IXIS Asset Management Distributors, L.P. ("CDC IXIS Distributors").

4 Mr. Voss is an "interested person" of the Fund because he holds the following positions with entities that may be considered to be affiliated persons of the Fund: Director of CDC IXIS Asset Management Services, Inc.; Director of CDC IXIS Asset Management Distribution Corporation; Director and Chairman of CDC IXIS Asset Management Associates, Inc.; Director of AEW Capital Management, Inc; Director of Harris Associates, Inc; Director of Loomis, Sayles & Company, Inc.; Member of Reich & Tang Asset Management, LLC; Director of Westpeak Global Advisors, Inc.; Director of Vaughan Nelson Investment Management, Inc.; Director, Hansberger Group, Inc.; Member, Board of Managers, Harris Alternatives L.L.C.; and Director and Member of Executive Board of CDC IXIS Asset Management.

5 As of December 31, 2003, Harris Associates Investment Trust has seven series that were overseen by its Board of Trustees.

18

Additional Information

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

It is currently anticipated that the Fund's 2005 annual meeting of Shareholders will be held in May 2005. Shareholders submitting any proposals for the Fund intended to be presented at the 2005 annual meeting must ensure that such proposals are received by the Fund, in good order and in compliance with all applicable legal requirements and the requirements of the Fund's Bylaws, no later than February 9, 2005 and not earlier than January 25, 2005. If a Shareholder who wishes to present a proposal fails to notify the Fund within these dates, the proxies solicited for the meeting will have discretionary authority to vote on the Shareholder's proposal if it is properly brought before the meeting. The submission by a Shareholder of a proposal for inclusion in the proxy materials does not guarantee that it will be included. Shareholder proposals are subject to certain requirements under the federal securities laws and must be submitted in accordance with the Fund's Bylaws. Shareholder proposals should be addressed to the attention of the Secretary of the Fund.

In accordance with Section 23(c) of the Investment Company Act of 1940, as amended, the Fund hereby gives notice that it may, from time to time, repurchase its shares in the open market at the option of the Board of Trustees and on such terms as the Board of Trustees shall determine.

Shareholder Meeting (unaudited). At the annual meeting (the "Meeting") of shareholders held on May 15, 2003, shareholders of the AEW Real Estate Income Fund voted for the following proposal:

1. ELECTION OF TRUSTEES

	For	Against	Abstained*	Total Votes
(01) Graham T. Allison	1,852,684	11,445	0	1,864,129
(02) Richard Darman	1,850,992	13,137	0	1,864,129
(03) Pendleton P. White	1,850,992	13,137	0	1,864,129

* Includes Broker Non-Votes (if any).

Messrs. Daniel M. Cain, Kenneth J. Cowan, John A. Shane, John T. Hailer and Peter S. Voss and Ms. Sandra O. Moose, Trustees of the Fund, each have terms of office as Trustee that continued after the Meeting. Messrs. Edward A. Benjamin, Paul G. Chenault and Robert J. Blanding became Trustees of the Fund in June 2003.

The statement of additional information includes additional information about Trustees of the Fund and is available, without charge, upon request, by calling (800) 862-4863.

Tax Information (unaudited)

Pursuant to Section 852 of the Internal Revenue Code, the Fund designated \$686,193 as capital gain dividends paid during the year ended January 31, 2004.

During the period ended January 31, 2004, the tax character of distributions paid was \$6,509,592 from ordinary income and \$686,193 from long-term capital gains.

19

Privacy Policy

CDC IXIS Asset Management Services, Inc.

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

AEW Real Estate Income Fund

Notice of Privacy Policies and Practices

We/1/ consider shareholder relationships to be the hallmark of our business and are dedicated to protecting the confidentiality of any nonpublic personal information provided by our customers/2/. We understand the trust that our customers place in us and are committed to earning that trust well into the future.

Types of Information Gathered

We collect personal information on applications, forms, documents, transaction histories and correspondence (electronic, written and telephonic) with customers. Through our Web sites we gather information about visitors and their needs submitted through answers to surveys, data input to calculators and information entered onto forms. This information includes but is not limited to name, postal address, e-mail address and social security number. Much of the data collected is statistical in nature and is not generally attributable to any specific customer.

How We Use the Information

We use the information gathered to service your account and to provide you with additional information about products and services. We do not disclose any nonpublic information about current or former customers to any unaffiliated third party except as permitted by law, or at the specific request of the customer. The information we collect, as described above, may be shared with our corporate affiliates in the financial services industry in order to enhance and improve customer communications, services, and products designed to meet our customers' needs. We may disclose some or all of the above information to affiliated and unaffiliated companies that perform marketing and other services (such as preparing and mailing prospectuses, reports and account statements, conducting research on client satisfaction, and gathering votes for shareholder proxies) on our or the Funds' behalf or to other financial institutions with whom we have joint marketing agreements. These parties that are not affiliated with us have agreed not to use this information for any other purpose.

Policies and Practices to Protect Confidential Information

Only those employees that have a business need for personally identifiable data about our customers are given access to that information. We maintain physical, electronic and procedural safeguards that comply with federal standards to protect your nonpublic personal information. For example, we take precautions to help keep our information systems secure, including the use of firewalls for our Internet-based systems. We also use, when appropriate, encryption technologies, user authentication systems and access control mechanisms.

/1/ For purposes of this notice the term "We" includes AEW Real Estate Income Fund and CDC IXIS Asset Management Services, Inc.

/2/ For purposes of this notice, the terms customer or customers include both shareholders of AEW Real Estate Income Fund and individuals who provide nonpublic personal information, but do not invest in the Fund.

20

This Page Intentionally Left Blank

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

This Page Intentionally Left Blank

[LOGO] AEW

Item 1. Reports to Stockholders.

The Registrant's semi-annual report transmitted to shareholders pursuant to Rule 30e-1 under the Investment Company Act of 1940 is as follows:

AEW Real Estate Income Fund

Item 2. Code of Ethics.

The Trust has adopted a code of Ethics that applies to the Trust's principal executive officer, principal financial officer and persons performing similar functions.

Item 3. Audit Committee Financial Expert.

The Board of Trustees of the Trust has established an audit committee. Ms. Sandra O. Moose, and Messrs. Edward A. Benjamin and Daniel M. Cain, all members of the audit committee, have been designated financial experts. Each of these individuals is also an Independent Trustee of the Trust.

Item 4. Principal Accountant Fees and Services.

Fees paid to Principal Accountant by the Funds. The table below sets forth fees billed by the principal accountant, PricewaterhouseCoopers LLP, for the past two fiscal years for professional services rendered in connection with a) the audit of the Trust's annual financial statements and services provided in connection with regulatory filings; b) audit-related services (including services that are reasonably related to the performance of the audit of the registrant's financial statements and but not reported under "Audit Fees"); c) tax compliance, tax advice and tax planning and d) all other fees billed for professional services rendered by the principal accountant to the Trust, other than the services provided reported as a part of (a) through (c) of this Item.

	Audit fees		Audit-related fees/1/		Tax fees/2/		All other fees	
	2002	2003	2002	2003	2002	2003	2002	2003
AEW Real Estate Income Fund	\$ 24,500	\$ 20,000	\$ 9,500	\$ 14,000	\$ 7,000	\$ 7,000	\$ 0	\$

1. The audit related fees for 2002 and 2003 consist of \$5,000 and 10,000 respectively, related to rating agency procedures reports. The remaining audit related fees for 2002 of \$4,500 related to review and consent related to preferred offering. The remaining audit related fees for 2003 of \$4,000 related to the performance of agreed-upon procedures relating to the Trust's semi-annual financial statements in accordance with SAS 100.
2. The tax fees consist of a review of the Trust's tax returns.

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

Aggregate fees billed to the Trust for non-audit services for 2003 and 2002 were \$21,000 and \$16,500, respectively.

Fees paid to Principal Accountant By Adviser and Control Affiliates. The following table sets forth the non-audit services provided by the Trust's principal accountant to CDC IXIS Asset Management Advisers, L.P. and entities controlling, controlled by or under common control with CDC IXIS Asset Management Advisers, L.P. that provide ongoing services to the Trust ("Control Affiliates") for the last two fiscal years.

	Audit-related fees/1/		Tax fees		All other fees	
	2002	2003	2002	2003	2002	2003
Control Affiliates	\$ 96,000	\$ 107,000	n/a	n/a	n/a	n/a

- The audit related fees consist of performing SAS 70 internal examinations for a Trust affiliate, review of anti-money laundering procedures for the investment adviser and review of 12b-1 expenditures for the Trust's distributor.

Aggregate fees billed to Control Affiliates for non-audit services during 2003 and 2002 were \$195,000 and \$184,000, respectively

None of the services described above were approved pursuant to (c) (7) (i) (C) of Regulation S-X.

Audit Committee Pre Approval Policies.

Annually, the Trust's Audit Committee reviews the audit, audit-related, tax and other non-audit services together with the projected fees, for services proposed to be rendered to the Trust and/or other entities for which pre-approval is required during the upcoming year. Any subsequent revisions to already pre-approved services or fees (including fee increases) and requests for pre-approval of new services would be presented for consideration quarterly as needed.

If, in the opinion of management, a proposed engagement by the Trust's independent accountants needs to commence before the next regularly scheduled Audit Committee meeting, any member of the Audit Committee who is an independent Board member is authorized to pre-approve the engagement, but only for engagements to provide audit, audit related and tax services. This approval is subject to review of the full Audit committee at its next quarterly meeting. All other engagements require the approval of all the members of the audit committee.

Items 5 and 6. [Reserved]

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

When voting proxies and responding to tender offers, AEW acts prudently, solely in the best interest of its clients, and for the exclusive purpose of maximizing value to its clients. AEW takes reasonable steps under the circumstances to assure that it has actually received all of the proxies for which it has voting authority. AEW considers those factors that would affect the value of its clients' investments and may not, unless specifically directed to do so by a

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

client, consider unrelated objectives, such as social considerations. In the event of any conflict of interest involving a proxy vote AEW will vote in accordance with recommendations provided by an independent party proxy service provider.

Item 8. [Reserved.]

Item 9. Controls and Procedures

The Trust's principal executive officer and principal financial officer have concluded that the Trust's disclosure controls and procedures are sufficient to ensure that information required to be disclosed by the Trust in this Form N-CSR was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, based upon such officers' evaluation of these controls and procedures as of a date within 90 days of the filing date of the report.

There were no significant changes or corrective actions that occurred during the Trust's last fiscal half-year with regard to significant deficiencies or material weaknesses in the Trust's internal controls or in other factors that have materially affected, or are reasonably likely to materially affect the Trust's internal controls subsequent to the date of their evaluation.

Item 10. Exhibits.

- (a) Code of Ethics.
- (b) Certifications of Principal Executive Officer and Principal Financial Officer.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AEW Real Estate Income Fund

By: /s/ JOHN T. HAILER

Name: John T. Hailer
Title: President and Chief Executive
Officer
Date: March 16, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ JOHN T. HAILER

Name: John T. Hailer
Title: President and Chief Executive
Officer
Date: March 16, 2004

Edgar Filing: AEW REAL ESTATE INCOME FUND - Form N-CSR

By: /S/ NICHOLAS H. PALMERINO

Name: Nicholas H. Palmerino

Title: Treasurer

Date: March 16, 2004

EXHIBIT INDEX

- (a) Code of Ethics of CDC Nvest Companies Trust I
- (b) (1) Certifications of principal executive officer and principal financial officer as required by Rule 30a-2 under the Investment Company Act of 1940
- (b) (2) Certifications of principal executive officer and principal financial officer as required by Section 906 of the Sarbanes-Oxley Act of 2002.