Woolborough Lane Industrial Estate, Crawley

QUARTERLY REPORT Q2 2013

CBRE GLOBAL INVESTORS
DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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DORSET COUNTY COUNCIL PENSION FUND

SECTION I – KEY PERFORMANCE FIGURES

The Fund Manager's report is produced by CBRE Global Investors (UK) Ltd and CBRE Global Investors (UK Funds) Ltd (CBREGIF) in respect of any opinion given on indirect investments.

FUND OBJECTIVE

To achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

	Quarter	12 months	3-Year p.a.	5-Year p.a.
Dorset Total Portfolio (measured by IPD)	2.6%	6.2%	7.0%	0.2%
Dorset Direct Portfolio (standing investments)	3.2%	7.3%	7.7%	4.5%
IPD Quarterly Universe (the new benchmark)	1.9%	4.8%	6.4%	2.3%
FTSE All Share	-2.0%	15.7%	12.2%	6.1%
5 to 15 Year Gilts	-4.4%	-2.2%	6.0%	8.4%

Source: IPD Quarterly Universe Benchmark Report.

Portfolio Key Facts	June 2013	Mar 2013	Dec 2012	Sept 2012
Market Value of Properties	£127.46m	£125.38m	£125.21m	£125.06m
Indirect Portfolio	£34.82m	£36.68m	£36.49m	£36.42m
Exposure to debt [1]	0.69%	0.68%	0.75%	0.76%
Void rate [2]	1.04%	0.98%	1.12%	1.18%
Average Lot Size	£7.08m	£6.97m	£6.59m	£6.58m
No. of Properties Direct	18	18	19	19
Passing Rent (pa) [3]	£8.61m	£9.17m	£9.41m	£9.31m
Open Market Rental Value [3]	£9.41m	£9.36m	£9.49m	£9.43m
Net Initial Yield [4]	6.4%	6.8%	7.1%	7.1%
Equivalent Yield [4]	6.9%	7.0%	7.1%	7.1%
Reversionary Yield [4]	7.0%	7.0%	7.1%	7.1%

Notes:
1. Exposure to debt is based on the indirect vehicle's holdings with debt (Hercules Unit Trust).
2. Void rate is based on the total ERV of the Fund's directly held properties.
3. Passing rent and OMRV exclude income from the Fund's indirect holdings. The drop in rent is due to the rent free period given at 83 Clerkenwell Road, London.
4. Information provided by BNP Paribas, independent valuers to the Fund. These figures exclude the Fund's indirect holdings.

SECTION II – ECONOMIC AND PROPERTY MARKET OVERVIEW

UK PROPERTY MARKET OUTLOOK, QUARTER 3 2013

UK ECONOMIC OUTLOOK

Over the last quarter a raft of economic news offers proof that a recovery is beginning to finally assert itself. Output growth in Q1 was reaffirmed to be positive and for the first time since 2010 economic expansion was not attributed to one-off factors. Business surveys are rising, compellingly so in the services sector. Consumers are less negative than a year ago due to both stabilising employment and rising house prices. Even with the sell-off in global equity markets in late May, the FTSE is up year to date with select large diversified listed property companies trading at or slightly above NAV. Notwithstanding these encouraging developments, we continue to hold the view that the economic recovery will be bumpy and that sub-trend growth will be a persistent theme over the forecast horizon.

The recent spate of optimism has meant that the bad news – of which there has certainly been some – is being overlooked. We are mindful that average earnings growth is well below headline inflation, net business lending is at relatively low levels and youth unemployment is precariously high. These factors coupled with high private-sector indebtedness and a dysfunctional banking sector suggest that more austerity measures will likely be necessary after the next parliament. Whilst the Economist Intelligence Unit – the macro-economic forecasting service used to inform CBRE Global Investors' House View – has upgraded its forecasts of UK economic growth since our last commentary, the result is marginal. Output growth is now expected to remain at a subdued 1.1% in 2013 and average just 1.2% in 2014-17.

One of the more notable developments over the last quarter has been the sell-off in global bond markets. Recent declines stem from the U.S. Federal Reserve's signal that it will begin to taper its quantitative easing program. But, volatility has also been exacerbated by China's transition to a lower growth economy. Both events are unprecedented and have manifested in a sharp rise of risk aversion across markets. In terms of the implications for the UK, the rise in gilt yields by around 80bps over the course of Q2 is unlikely to negatively impact the UK economy. It is important to note that at 2.5% bond yields are still very low and at the margin, the bond sell-off may have increased the chances of further quantitative easing. Furthermore, recent bond yield movements will not send the commercial property market into a tailspin. Arguably, it may take some heat out of London and other segments of the market that have been priced to perfection off suppressed gilt yields, while also catalysing investor interest in regional or secondary markets - both of which we interpret as potentially positive outcomes.

On the inflation front, changes to the targeting policy framework are likely under the new Bank of England Governor, such as more explicit "forward guidance" on policy decisions and adoption of threshold rules. The likely outcome is that the BoE will officially have scope to look through, or better stated, ignore its 2% inflation target. In conjunction with recent rises in gilt yields, we believe that multi-asset investors will remain focused on secure income producing assets, which should continue to include UK property.

UK PROPERTY PERFORMANCE AND OUTLOOK

The performance of UK commercial property continues to meet expectations identified at the beginning of the year. At an all property level, total returns have been improving incrementally on a monthly basis. Rents have stabilised and capital values appear to have culminated their downward dribble, an important milestone in a market having experienced declines over the preceding 18 months. Furthermore, given the rich property data in the UK, we are able to confidently say that the once prevailing theme of a widening gap between prime and secondary asset pricing is now dissipating. There is value to be had in this market, specifically in the regions, and intention surveys suggest that investors are ready to pursue such opportunities.

According to the June 2013 IPD Monthly Index, capital value growth improved modestly for the second consecutive month at an All Property level. Total returns were 0.8% month-on-month, or 2.9% for the first half of the year. An interesting development during the second quarter of 2013 is that while Central London continues to be a key driver of performance, regional advances are helping tip the balance and leading to an overall improvement in market values. At the sector level, capital growth for offices was positive at +0.5%, mainly driven by Central London offices, as rest of UK offices posted further, albeit less precipitous, declines. The industrial sector, buoyed by performance in the South East, saw the strongest monthly improvement of capital values in over three years at 0.5% month-on-month. Capital value growth for retail was slightly negative, with continued falls witnessed by shopping centres and rest of UK standard retail. Recent index results, though encouraging at a market level, highlight that growth is by no means uniform and that valuers remain cautious. However as sentiment in the market continues to improve, so too will property performance.

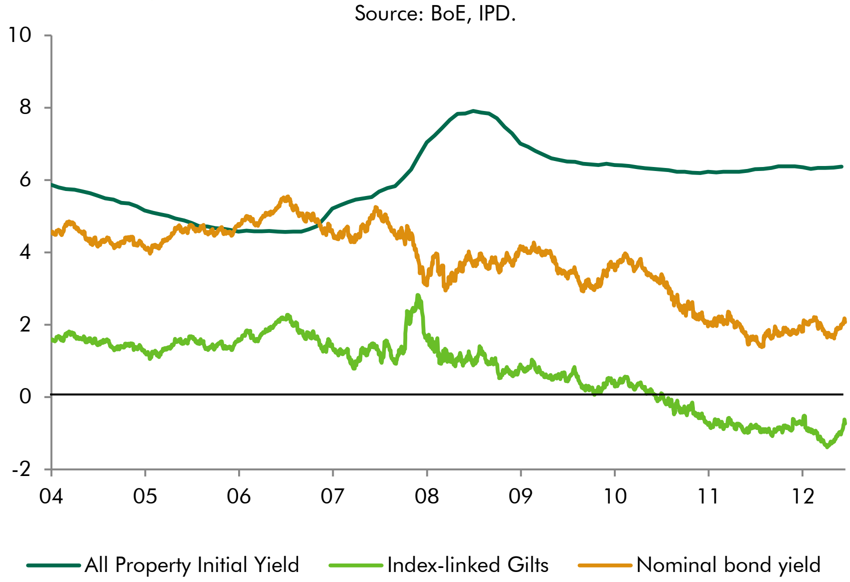
Specifically regarding the prime versus secondary yield gap, we note three developments over the previous quarter which suggest that this phenomenon will soon be much less pronounced. First, smaller lot size secondary assets are often trading ahead of recent valuations. Second, yields are sufficiently high to attract all-cash offers with seemingly less restrictive underwriting assumptions. And finally, there is a weight of money jostling to target segments of the market that some investors perceive to be an historic opportunity. These factors are reflected in our improved All Property capital value outlook for 2013: we now expect year-on-year *declines* between 0% and 1%. As we have likely seen, value falls have been front-ended; a stabilisation is expected in the second half of this year with a gradual improvement coming in 2014.

Broadly speaking, occupational markets outside of London have gradually improved in the first half of the year: new lettings are taking place, incentives packages are reducing and rents appear to have reached a floor in most segments of the market. We are most encouraged by occupational resilience in the multi-let industrial sector. Voids have been trending downward and, in contrast to other sectors, there doesn't appear to be a strong geographical bias in terms of activity. We are mindful that this slice of the commercial property market encompasses a wide range of UK industry so resilience in this sector is potentially a powerful forward looking indicator, one which could challenge the economic assumptions that contribute to our house view.

In terms of direct property investment, transactions in H1 2013 were slightly stronger than the same period last year. Due in part to large lot sizes, Central London offices and shopping centres saw the heaviest volumes. While a lack of prime stock has somewhat dampened volumes recently, we note that we are in a 'sweet spot' of sorts, with assets outside of the South East, offering a decent income-profile, able to trade ahead of expectations. Increasingly positive sentiment is likely to bring more saleable stock to the market in the second half of the year. International investors remain a dominant force, with many still quite keen to gain exposure to London, a market which remains attractive vis-à-vis many European cities. As UK-domiciled investors begin to shift out of gilts, commercial property stands to benefit. Assets with long lease durations offering bond-like income are likely to see the greatest interest. Also, the positive run in global equity markets means that the "denominator effect" has returned. With some investors now technically underweighted to property, we expect net allocations to increase. Due to these factors, direct investment volumes should remain buoyant for the remainder of 2013, ending up at a slightly higher level than the previous two years.

We continue to have the view that UK property offers good value relative to its history as well as to other asset classes: even with the volatility in gilt markets during Q2, the spread between property's net initial yield and "safe money" remains historically attractive (Figure 1), while our proprietary All Property temperature chart signals "fair value." Admittedly macro-environment risks are still elevated, but we feel that prime property is able to deliver attractive real income. Secondary assets can offer compelling pricing, but their returns will be more susceptible to sentiment swings in both occupational and investment markets over the near term.

Figue 1 10 year UK gilts, linkers & IPD All Property Initial Yield, %.
Source: BoE, IPD.



SECTION III – SOURCES OF FUND PERFORMANCE

The graph overleaf shows the sources of the Fund's relative return for the quarter. The weighted contribution of the properties in each sector is shown, with positive contributions above the line and negative contributions below the line.

The Fund significantly outperformed the IPD Quarterly Universe benchmark at a Fund level with a total return of 2.6% for the quarter, against the benchmark total return of 1.9%, a relative outperformance of 0.7%*. All of the sectors performed in line with or outperformed the benchmark this quarter, the only exception being unattributed indirects which marginally under-performed the benchmark on a relative basis.

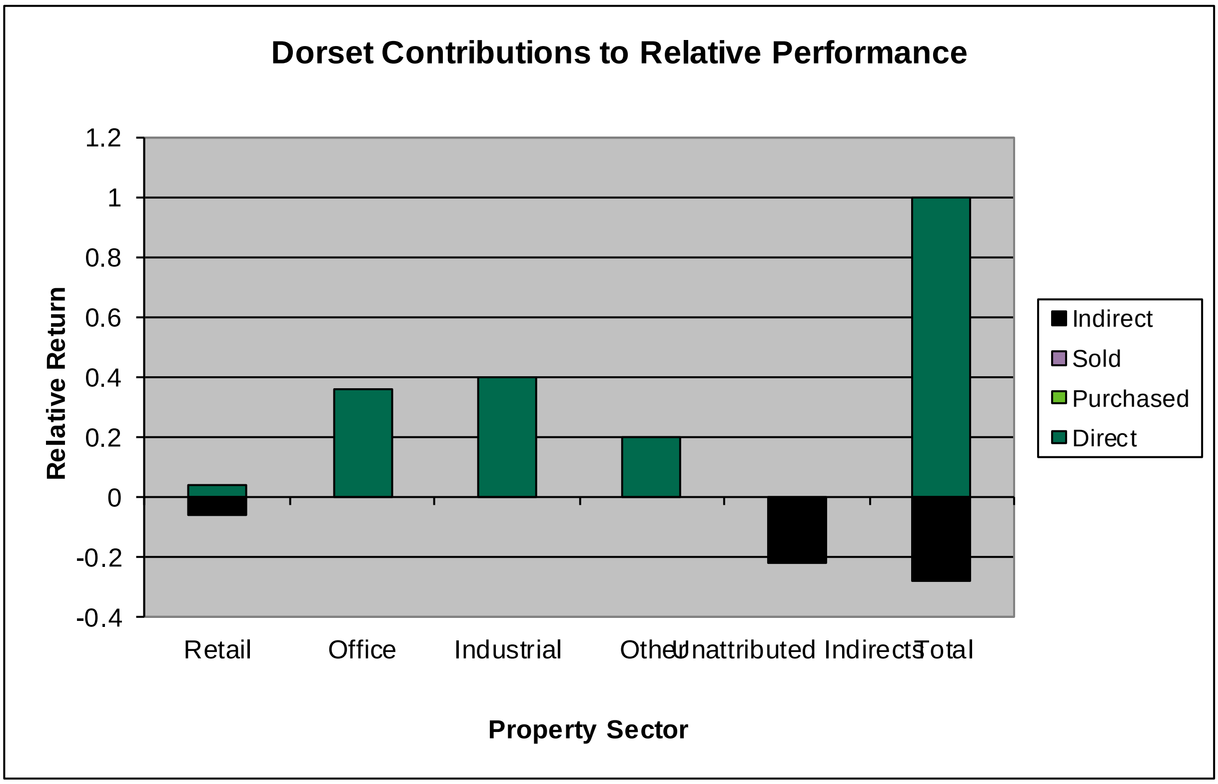
The Fund's retail holdings performed in line with the benchmark with a total return of 1.9%, a 0.3% relative outperformance as the retail element of benchmark provided a total return of 1.6%. This sector delivered a weighted contribution to the relative return of 0.0%. The retail warehouses in the portfolio outperformed this quarter with a total return of 2.5% against the benchmark retail warehouse total return of 1.2%. However the other retail holdings in the portfolio performed less well, meaning that overall retail performed in line with the benchmark.

The Fund's office holdings outperformed the benchmark with a total return of 4.6% in comparison to the office benchmark total return of 2.5%. This provided a relative weighted contribution of 0.3%. The outperformance was driven by 83 Clerkenwell Road, London, purchased in Q1 2013, which provided a return of 8.3% for the quarter in contrast to the standard Office West End and Midtown sector that provided a total return of 3.3%.

The Fund's industrial holdings outperformed the benchmark with a total return of 3.2% over the quarter in comparison to 2.2% delivered by the benchmark. This was a relative outperformance of 1.0%. The industrial outperformance was displayed in all regions and provided a relative weighted contribution of 0.4%.

The Other Commercial sector, comprising Glasgow, Mercedes Benz Dealership and Newcastle Charlotte House provided a total return of 4.6% over the quarter in comparison to the Other Commercial benchmark total return of 1.7%, a relative outperformance of 2.9%. This was a relative weighted contribution of 0.2%.

The Unattributable Indirects provided a total return of -0.7% for the quarter, unattributed indirects are not included in the benchmark as a separate sub-sector, so the return is relative to all benchmarked assets. The Unattributable Indirect assets provided a relative contribution of -0.2%.



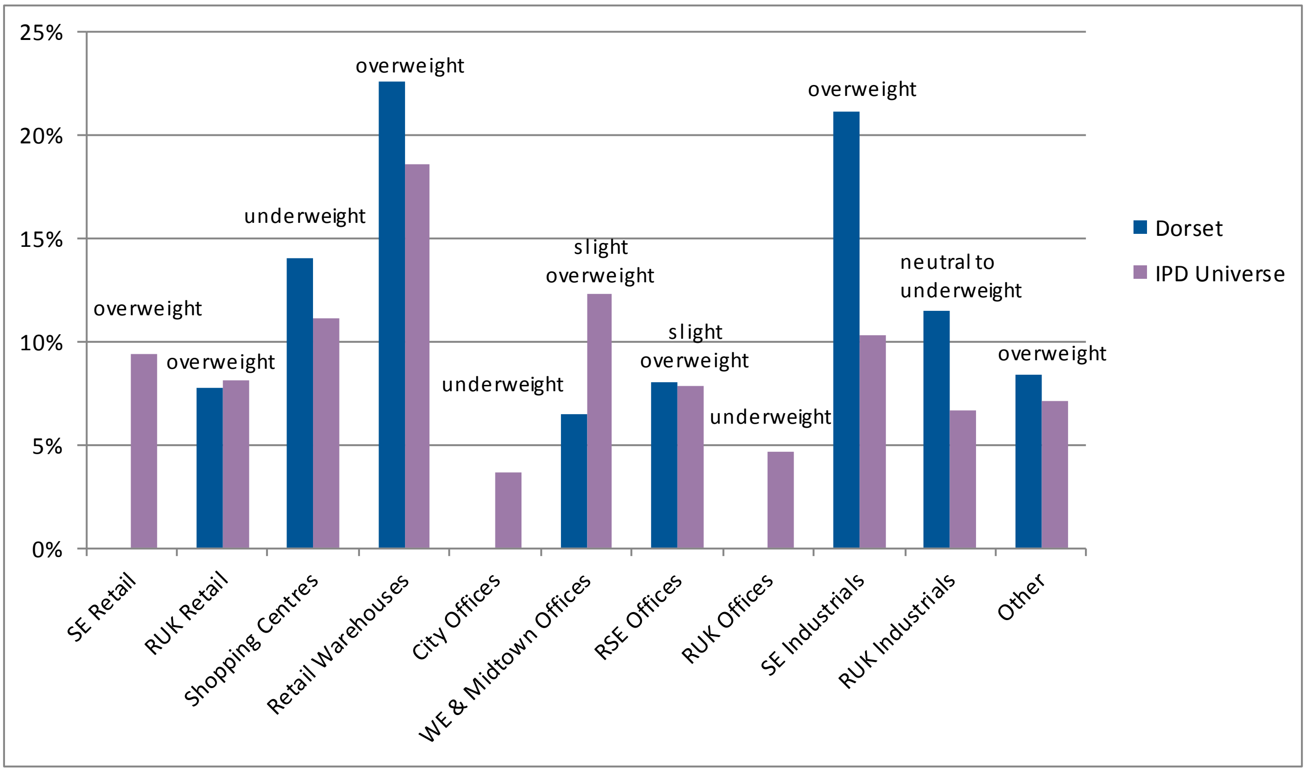
*Relative return is defined as the ratio of the return achieved by the portfolio, segment or individual asset, to that of the chosen benchmark, expressed as a percentage. ((1+Fund TR) / (1+ Benchmark TR) – 1)*100

SECTION IV – FUND STRATEGY

The underlying strategy is to ensure that the structure of the Portfolio provides an advantage relative to the market by overweighting and underweighting specific sectors over the long term. These weightings are designed to optimise performance whilst reducing risk.

SECTOR WEIGHTING ANALYSIS

The graph below shows the Dorset sector weightings as at 30th June* vs. IPD Universe with target weightings above.



*Excludes non sector specific indirect investments (CBRE (UK) Property (Value Added Fund) and inProp UK Commercial Property Fund).

The Fund completed the purchase of 83 Clerkenwell Road a Midtown office in Q1 2013, which improved in value this quarter. However the portfolio remains underweight to Central London Offices. The Fund therefore remains at risk of underperformance relative to its benchmark if Central London offices continue to outperform the benchmark. Notwithstanding this, as has been highlighted to Dorset previously, the Manager does not feel that acquiring expensive Central London property merely to close out benchmark risk is the most appropriate strategy. However, if further office assets in Central London become available at prices that provide sufficient return to the Fund, these will be pursued.

The portfolio is currently invested in a range of assets with a good lease expiry profile and a conservative level of covenant risk. Over the last 12 months the Manager has purchased three properties that will complement the existing asset base in terms of both covenant strength and lease expiry profile. Another key aim has been to raise the net initial yield of the portfolio which has been achieved through the acquisition of two higher yielding assets. The Fund completed the purchase of a highly reversionary Central London office asset during Q1 2013 which it is intended will be a long term hold to benefit from the ongoing infrastructure improvements close by. This is expected to drive future rental growth. The Manager understands that there is a further c. £30m that has been made available for investment in property during 2013 and is currently pursuing a range of opportunities to invest this cash. £2.85m was invested in a Cambridge office post quarter end.

There were no portfolio sales during Q2, however £1.68m was received as a capital distribution from the CBRE (UK) Property Fund (Diversified Value Add Fund) following the sale of one of the two remaining assets in this vehicle. A further capital distribution has been received post quarter end following the sale of the final asset in the vehicle.

The Manager continues to focus on improving the portfolio's income, whilst seeking to maximize its quality and longevity through active management. Within 14 days of the quarter day, 94.8% of collectable rent was collected, this is a slight drop from last quarter. At 28 days post quarter day, however, 100% of the rent had been collected. Economic conditions continue to be difficult so tenant's trading positions continue to be monitored closely.

INDIRECT STRATEGY

Indirect assets will be held where they provide the Fund with exposure to a sector or lot size that it would be unable to achieve through direct investment.

Over the quarter, the Fund's indirect holdings underperformed the wider market returning 0.7%. The main contributor to the underperformance was the CBRE (UK) Property (Value Added Fund) which despite a large capital distribution receipt during the quarter saw a capital value fall during the quarter.

The performance of the indirect portfolio over the quarter is detailed in section VI of this report.

SALES & ACQUISITIONS

The key objectives are as follows:-

- Obtain an exposure to quality assets across all sectors. The focus for 2013 is to continue to increase exposure to direct property.

- Assets may be sold during the remainder of 2013 where business plans have been completed to be replaced by either more prime properties or "value add" opportunities. However, sales will not be made before suitable replacement assets have been identified and the c. £30m available equity is invested.
- The aim is to maintain an appropriate balance and risk profile across the sectors.

ACQUISITIONS

- No acquisitions were made during the quarter. Post quarter end the purchase of The Eastings, 190-192 East Road, Cambridge completed. The property is an office which was acquired for £2.85m, reflecting a net initial yield of 6.3%.

- Post quarter end terms were agreed to buy the 999 year leasehold interest in The Calls, Leeds. This is a leisure property let to five tenants on six different leases in central Leeds. The property comprises three bars, three restaurants and a gym. Terms are agreed to purchase the property at £5.345m, reflecting a net initial yield of 7.9%.

SALES

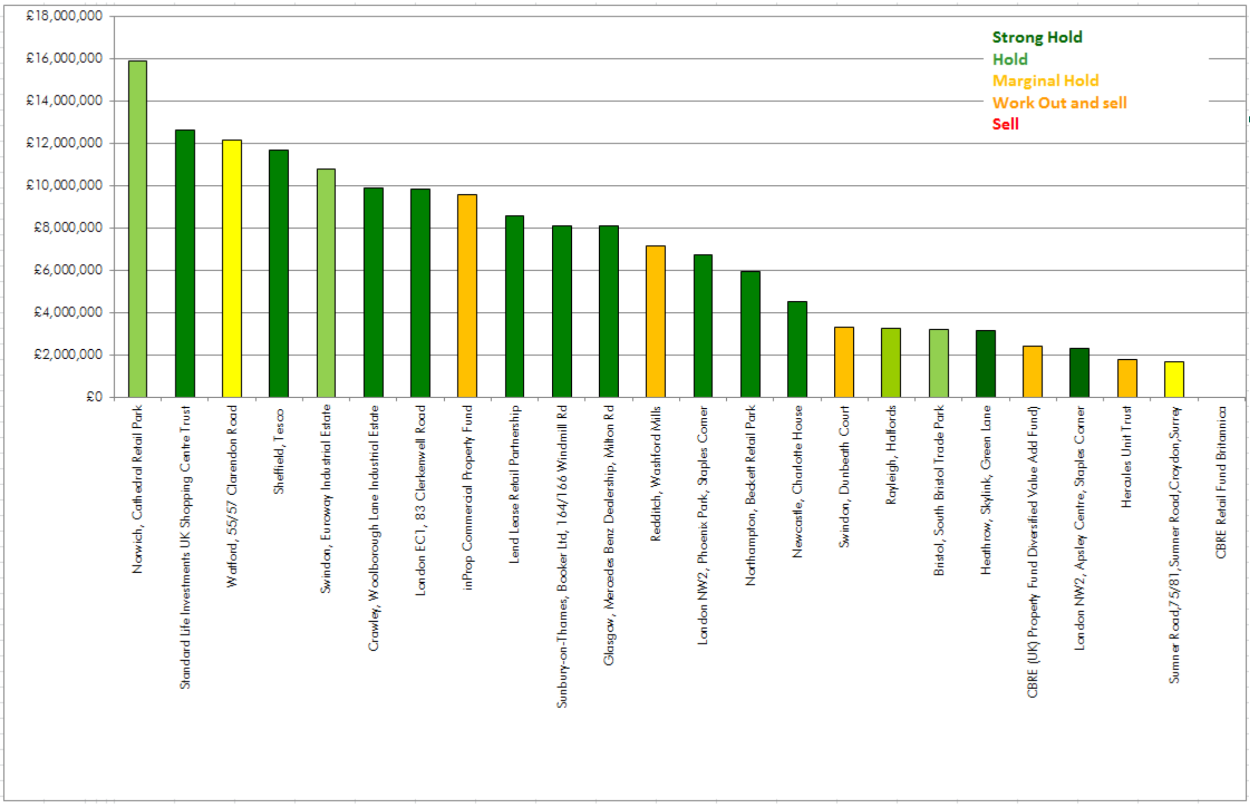
- There were no sales made during the quarter.

BAD DEBTS/WRITE OFFS

No bad debts are proposed for write off this quarter.

PORTFOLIO HOLD/SELL ANALYSIS

The graph below shows the Dorset proposed hold sell analysis for each of the portfolio holdings including indirects as at 30th June.



SECTION V – ASSET MANAGEMENT

HIGHLIGHTS

- **83 Clerkenwell Road, London:** the property was purchased in Q1 2013 for £9.02m reflecting a 5.0% net initial yield. During Q2 2013 a deed of variation completed which removed the tenant option to break the lease in 2015. As part of these negotiations the covenant strength of the tenant was improved as the lease was assigned to the ultimate parent company WPP Group (UK) Ltd. In return for this the tenant benefited from six months rent free . As a result of this deal the value increased to £9.8m.
- **Northampton, Becket Retail Park:** The property was purchased in Q2 2012. During the acquisition it was noted that there was some cut edge corrosion to the roofs on site and a £40,000 reduction from the purchase price was agreed to cover the cost of the works that are the Landlords responsibility, namely unit 5 where the repairing obligation falls on the landliord and the vacant unit 6. During the quarter these works were instructed, and are set to complete in Q3. These works enabled the letting of the vacant unit 6 which will reduce the vacancy rate of the portfolio further to 0.51%.
- **Swindon, Euroway Industrial Estate:** terms were agreed during the quarter for a new lease to the sub tenant of unit 11 Ecosigns. The new rent is to be £71,000 per annum (£5.00 psf) for a term of 5 years. The tenant will benefit from a capital contribution of £10,000 on completion of the lease which will be used for security measures to the service yard, and a reduced rent in the first year of £40,000 per annum. The combined incentive of rent free and reduced rent reflects approximately 7 months rent free.
- **Rent Collection:** 94.8% of the June quarter's rent was collected within 14 days of the quarter day. Within 28 days of the quarter day 100% of the rent had been collected.

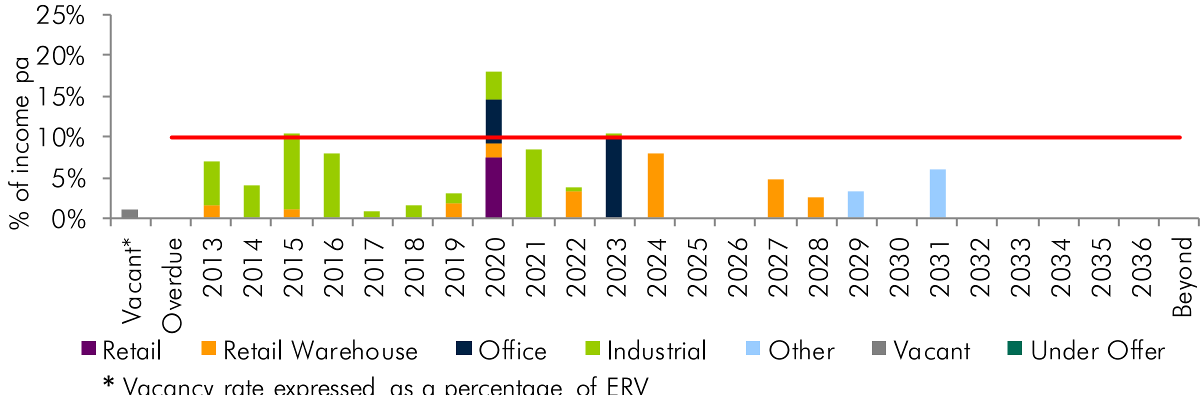
VOIDS WITHIN THE PORTFOLIO – 30TH JUNE 2013

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Unit 6, Becket Retail Park, Northampton	3,994	0.53%	£50,000	Under Offer
Unit 5, Phoenix Park, London	4,533	0.51%	£47,600	On Market
TOTAL PORTFOLIO VOID	**8,527**	**1.04%**	**£97,600**	

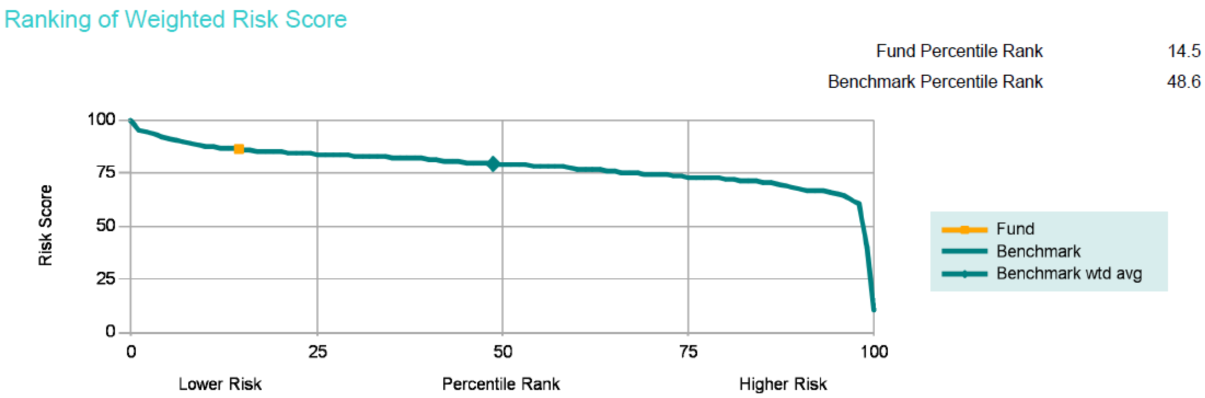
The Fund's void rate has remained broadly unchanged this quarter at 1.04% of ERV. This remains significantly lower than the IPD Monthly Index rate which at the end of June increased to 11.9%.

LEASE EXPIRY PROFILE FOR THE PORTFOLIO – 30TH JUNE 2013

The chart below shows the percentage of income expiring in each year as a percentage of portfolio income.



TENANTS' FINANCIAL STRENGTH



The graph above compares the Ranking of Weighted Risk Score of the Benchmark and DCC as at 30th June 2013. The Fund is in the top quartile with a Weighted Risk Score in the 14.5th percentile against the Benchmark Weighted Risk Score in the 48.6th percentile. This is an improvement on the previous quarter (21.5th percentile).

ACTIVE MANAGEMENT PROJECTS

Key Objective: To actively manage the portfolio, identifying new opportunities to increase the performance and add value.

Property	Unit & Activity	Forecast Outcome
Redditch, Washford Mills	DSG - Re-gear	The tenant has begun to respond to lease renewal negotiations for the first time in two years. DSG are seeking flexible lease terms where possible. During the quarter the tenant's solicitors responded to the section 25 notice that was served previously and now brings to a close the lease on 30th October. Negotiations have continued post quarter end.
Norwich, Cathedral Retail Park	Unit B - Re-gear	Following the lease regear that completed with TK Maxx last quarter the tenant completed their fit out works and redecoration of the store. We are now awaiting a request from the tenant for the remaining capital contribution of £175,000 as agreed with the lease regear.
Northampton, Becket Retail Park	Unit 1 – HSS	The tenant HSS Hire Service Group Limited (HSS) have applied to assign their lease on Unit 1 to National Tyre Service Limited. HSS will continue to trade from Unit 2. This assignment is expected to complete in Q3.
	Unit 6 - Marketing	During the quarter, terms were agreed with Premier Kitchens to take a new 10 year lease with a break notice by either the landlord or tenant in the 5th year. The new rent is to be £50,000 per annum (£14.95 psf).
South Bristol Trade Park, Bristol	Unit 4 – Tenant option to Break	The tenant did not serve its option to determine the lease by 30th June 2013. Therefore the rent of £55,309 per annum (£9.50 psf) has been secured for an additional four years in with the next tenant option to determine the lease on 30th June 2017.
Croydon, 75/81,Sumner Road	Unit 2 – Lease Renewal	A Section 25 notice has been served upon the tenant, Belron UK Limited t/a Autoglass bringing to an end their lease on 13th November 2013. The tenant is amalgamating a few businesses and has identified larger premises where these will be combined. A terminal schedule of dilapidations has been served upon the tenant, and a letting agent has been lined up in readiness to start marketing the unit in September.
	Unit 3 – Rent Free	As part of the lease regear with BEW Electrical in 2012, the tenant was to benefit from a three month rent free period in Q2 2013. This completed and now the estate is again fully income producing.
London, Apsley Centre	Unit B & C Rent Uplift	A stepped rental increase to £57,500 per annum (£11 psf) took place during the quarter. This was a rental increase of 4.5%.

Property	Unit & Activity	Forecast Outcome
London, Phoenix Park, Apsley Way	Units 7, 8 and Service Yard	During the quarter rent reviews dated 24th June 2011 completed at an uplift. The rent on unit 7 increased from £50,500 per annum (£9.84 psf) to £53,773 per annum (£10.48 psf), and on unit 8 £91,900 per annum (£9.81 psf) to £96,782 per annum (£10.33 psf) with a nil increase on the service yard. These rent review settlements are ahead of the current ERV for the estate.
Swindon, Dunbeath Court	Unit 3 & 10 - Break Notice & New Lease	Dormen Foods Ltd currently who occupied units 3 & 10 (comprising 19,183 sq ft), served their option to break the current lease. The passing rent was £115,090 per annum (£6.00 per sq ft). A new lease on unit 10 completed during the quarter. The new lease will expire on 14th July 2017 at the current passing rent for that unit £69,100 per annum (£5.25 psf). A dilapidations settlement was agreed in relation to unit 3 at £50,000 which covers the cost of professional fees and removing some partitioning in the unit. Discussions have already commenced with Swindon Plumbing Supplies who are interested in expanding into this unit. Swindon Plumbing Supplies currently occupy units 1 and 2 on the estate.
	Unit 3 – Marketing	Following the serving of the break notice by Dormen Foods, unit 3 will be vacant next quarter adding 0.34% to the void rate. Negotiations of terms with Swindon Plumbing Supplies who are in occupation of units 1 & 2 are at an advance stage.
Swindon, Euroway IE	Units 1, 2, 3 & 5 – Rent Increase	There was a fixed rental increase during the quarter with the tenant Wasdale Packaging Limited from £89,793 per annum (£1.97 psf) to £179,586 per annum (3.95 psf).
	Unit 4 – Lease Renewal	A lease renewal has been agreed and is with solicitors due to complete in Q3. This will be a new ten year lease with a break in the 6th year. The rent will be £48,279 per annum (£4.75 psf), with two years at half rent. In the event the tenant does not break the lease in the 6th year a further 12 months half rent will be given.
Newcastle, Charlotte House	Whole Property	The tenant has been approached by the Council in respect of HMO licencing. Under HMO legislation rooms are required to be "of an adequate size" and the Council have currently stated that some of the living accommodation, bedrooms, bathrooms and living space ratios do not meet its HMO standards. This is due to the Council's interpretation that the accommodation is above two floors of retail (Richer Sounds trade from a part of the basement). In light of this the Council have indicated that the tenant should remove four bedrooms from use and convert this to additional living space. The Manager is working with the tenant to resolve this as a loss of bedrooms affects the tenants profitability and the value of underlying asset.

GREEN INITIATIVES

At the end of 2011, the UK Government introduced legislation that will prohibit landlords from letting properties that do not meet minimum standards of energy performance. This legislation will be effective from 2018 and therefore it is important to assess and mitigate this risk before any impacts are felt. It is understood that from 2018 'F' and 'G' rated commercial units in England and Wales will be prohibited from being either sold or let. The Energy Performance Certificate (EPC) rating and sustainability measures relating to a property is considered as part of all acquisitions, disposals and large asset management projects. It is a requirement to provide an EPC on the sale or new letting of any property. Below is a table identifying the (EPC) ratings across the portfolio as at 31st March 2013.

EPC Rating	No. Of Units
A	0
B	5
C	20
D	20
E	11
F	4
G	2
no EPC	4

The table below shows the 'F' and 'G' rated units across the portfolio. These ratings are predominantly as a result of the tenant fit out in these units which is incorporated as part of the rating. In the event of lease expiry the Manager would seek to reinstate the units to a standard that will enable them to be re-let or sold. Where there are no EPC ratings on units in the portfolio, these will be instructed at the appropriate time.

TOWN	PROPERTY		RATING	NUMERIC
CROYDON	Sumner Road	Unit 4	F	134
GLASGOW*	134 Milton Street	Car Showroom	G (Scotland)	145
LONDON NW2	Apsley Centre	Unit B	F	131
NEWCASTLE	Charlotte House	Whole	F	136
SWINDON	Euroway Industrial Park	Units 1-3	F	130
SWINDON	Euroway Industrial Park	Unit 5	G	168

*Scotland has separate rating system and legislation regarding EPC's.

ACTIVITY DURING 2013

- Disposal of Bristol, Howard House which had an 'F' rated EPC.
- Disposal of Hertford, Mead Lane Industrial Estate two of the units had 'F' rated EPC's.
- Acquisition of 83 Clerkenwell Road, London EC1 which has a 'D' rated EPC.
- Additional EPCs were obtained for a further five units in Q2 2013, reducing the number of units with no EPC from 9 to 4.
- The four remaining EPCs required on the portfolio were instructed during Q2 2013.

SECTION VI – INDIRECT INVESTMENTS

A REPORT BY CBRE GLOBAL INVESTORS (UK FUNDS) LTD (CBREGIF)

DEALING RESTRICTIONS ON CBRE FUNDS

Dealing by CBREGIF in House funds on behalf of a Client may be subject to restrictions intended to prevent CBREGIF dealing when it has or might be considered to have information about a House Fund that is not available to others in the market. The restrictions may vary depending on particular circumstances. Dealing in Unregulated Investment Schemes will normally be restricted to a period of 10 business days following the publication of a unit price. In the case of a fund that is priced monthly, the dealing period will be reduced to 5 days. In the case of a listed security, the restrictions will prevent dealing during a period of 60 days prior to the publication of the company's annual and interim results and, in addition, where a company announces a quarterly net asset value, during a period commencing 14 days before the end of the quarter and ending on the announcement of the net asset value. Additional restrictions may be operated at other times. CBREGIF allow for and take account of such restrictions when recommending a stock for purchase or sale.

Name of Vehicle	Number of Units Held	Total Equity Commitment (£)	Current Valuation (£)	Quarter to June 2013 Total Return	12 months to June 2013 Total Return
Hercules Unit Trust	2,755	1,976,095	1,760,445	1.4%	-0.2%
CBRE Retail Fund Britannica	4,855.925	5,000,000	0	0.0%	0.0%
Lend Lease Retail Partnership	60	7,014,056	8,562,540	1.1%	9.1%
CBRE (UK) Propery Fund (Diversified Value Add Fund)	7,000	3,241,678	2,375,380	-5.3%*	11.4%*
Standard Life Investments UK Shopping Centre Trust	13,853.43	10,000,000	12,586,672	1.7%	5.8%
inProp UK Commercial Property Fund	100,050.03	10,000,000	9,537,769	2.9%	6.0%

*The returns are calculated taking into account the equity distribution of £1,680,000 in Q2 2013 and £280,000 in Q3 2012.

Past performance is not a reliable indicator of future results.

Hercules Unit Trust (Specialist Retail Warehouse Fund)*

3 Months %	12 Months %	3 Years % p.a.
+1.4%	-0.2%	+0.2%

- The Hercules Unit Trust returned 1.4% over the quarter and -0.2% over the past 12 months. Portfolio valuations remained stable during the second quarter of 2013 and so return is driven by the income distribution yield, which has now risen to 4.8% over the last 12 months. The initial yield of the fund remains stable at 5.4%.
- The fund's portfolio comprises 21 property assets of which 18 are retail parks. The void rate remains low at 2.3%, although this rises to 6.2% when tenants in administration are included. The tenant base is well diversified, with the top ten tenants comprising 42.6% of rental income. The fund has an average unexpired lease term (to first break) of 8.0 years. At the quarter end, the fund had a LTV ratio of 41.9%.
- Leasing activity improved during the quarter, driven by food and beverage and leisure operators. The fund managed to decrease its vacancy rate by 1.0% over the quarter by completing eight new lettings. Despite this new letting activity, we expect rental growth to be constrained over the short-term until the units in administration as a result of the retailer failures in second half of 2012 are fully re-assigned or re-let.

CBRE Retail Fund Britannica (Specialist Secondary Shopping Centre PUT)

3 Months %	12 Months %	3 Years % p.a.
0.0%	0.0%	n/a

- The CBRE Retail Fund Britannica was breaching its LTV covenant due to value declines of secondary shopping centres over the past few years, particularly those in the regional locations. As such the fund went into administration during 2012 with all income swept by the lending bank with transfer of management rights from the advisors and managers of the fund to the administrators.
- The assets were brought to market for sale, with some success, the Mars Pension Scheme managed by LaSalle acquired Church Square, St Helens in Merseyside in May for £30m with the sale proceeds repaid to the lenders. Additionally, Kennedy Wilson exchanged contracts with the administrators, Grant Thornton, to acquire the remaining seven assets for £250m, a sub-9% yield at the end of the quarter.
- Following the announced contract for sale, Kennedy Wilson are due to revert with their decision as to whether they will acquire the fund structure or purely the assets. Although no meaningful value is likely to be attributed to unitholders, there is potential for a small amount (1% of the sale consideration) to be realised from stamp duty savings in lieu of transferring of units in the fund to the lending bank(s). The manager will continue regular dialogue with the administrator to progress and maximise the realisation of equity on behalf of investors.

Lend Lease Retail Partnership (Specialist Prime Shopping Centre Fund)*

3 Months %	12 Months %	3 Years % p.a.
+1.1%	+9.1%	+9.9%

- The Lend Lease UK Retail Partnership returned 1.1% over the quarter and 9.1% over the last 12 months. The relatively weaker return over the quarter was primarily driven by Dwell going into administration and Disney vacating their store at lease expiry at Touchwood. The loss of income resulted in a loss in valuation for the asset and for the overall fund. The valuation for Bluewater was marginally up to £457.5m by £250,000, despite Dwell going into administration, as a number of other leases were re-geared. The valuation of Touchwood decreased to £265.2m from £270.8m over the last quarter. At fund level there has been further success with the completion of a number of rent reviews during the quarter
- The fund has a portfolio of two prime regionally dominant properties: Bluewater, Kent and Touchwood, Solihull; both assets continue to perform well despite a challenging retailer market. The portfolio vacancy rate remained stable at c.4%.
- During the quarter, the development scheme at Bluewater achieved initial outline planning with the Secretary of State confirming that the application will not be called. The extension scheme is expected to deliver a 330,000 sq ft extension to the West Village of Bluewater. Furthermore heads of terms for the land assembly required for the Touchwood II extension progressed further this quarter.
- Lend Lease Retail Partnership is a core specialist fund, providing exposure to the prime UK shopping centre market. The fund is ungeared.

Standard Life Investments UK Shopping Centre Trust (Specialist Core Shopping Centre Fund)*

3 Months %	12 Months %	3 Years % p.a.
+1.7%	+5.8%	+6.9%

- Over the quarter, the portfolio value remained broadly unchanged at £1,347.5m. The Trust produced a total return of 1.7% which was driven by the income return together with some capital growth. The property portfolio itself returned 1.7% with the initial yield drifting out to 5.6% whilst the equivalent yield also moved 10bps in to 6.0%. The investment markets busy first quarter of 2013 has continued through Q2, resulting in a healthy volume of shopping centres being transacted in the first half of 2013 (circa £1.9bn, against £808m for the same period in 2012). Sentiment in the investment market has remained overwhelmingly positive with demand exceeding supply. A continued increase in pricing tension will likely result in modest yield compression particularly in the dominant/good secondary sector. The Trust's annualised distribution yield remained at 4.9%.
- The portfolio returns were supported by a number of lettings and rent-reviews concluded across the portfolio. The largest tenant by passing rent (H&M) remains below 5%. At quarter end, the void rate was 3.12% of ERV with retailers in administration accounting for a further 2.79% by passing rent, a modest decrease of 0.1% overall during the quarter. The Trust's exposure to Q2 administrations was limited to a single unit let to Internacionale in Stirling, with a passing rent of £175,000. The weighted average unexpired lease term over the quarter reduced from 7.1 years to 6.8 years.
- The Trust exchanged unconditional contracts to sell Whiteleys Shopping Centre, London W2 to an overseas SPV with completion due in August 2013. This off market transaction, pending disposal has resulted in an inward yield movement from 5.9% to 5.75% with the initial deposit monies reflected in the May 2013 valuation with further positive impact on the July NAV and full sale proceeds to be reflected in the August 2013 valuation.

- The Trust's manager continues to explore asset management initiatives to add value to the portfolio, in particular at Brighton and Brent Cross. At Brighton, discussions remain focussed on the conference centre with the Brighton & Hove Council and potential events operators. At Brent Cross, the JV partners (including the Trust) have prepared a revised scheme layout to that which obtained planning permission and are working closely with Barnet Council and Transport for London whilst a public consultation period commenced on 22nd June 2013.

CBRE (UK) Property Fund (Diversified Value Add Fund)*

3 Months %	12 Months %	3 Years % p.a.
-5.3%	11.4%	19.3%

- The CBRE (UK) Property produced a total return of -5.3% over the quarter. There was a fall in the valuation of the remaining property in Glasgow.
- During the quarter the sale of the office property, Iceni at Warwick Technology Park, Warwick completed and sale proceeds were distributed to investors. The remaining asset in Glasgow was subject to sale negotiations as at the quarter end. The property was subsequently sold post the quarter end in July 2013, concluding the Fund's property disposal strategy.
- Following completion of sale transactions in 2013 the Manager's intention is to wind up the trust at the earliest opportunity and make a final distribution to investors.

inProp UK Commercial Property Fund*

3 Months %	12 Months %	3 Years % p.a.
+2.9%	+6.0%	n/a

- The inProp fund was launched in September 2010, and is managed by some of the most experienced property derivative operators in the market. inProp seeks to deliver UK commercial property market returns (in terms of both capital growth and income return) with greater efficiency and liquidity than is possible using traditional direct property or property fund approaches. inProp provides entirely synthetic commercial property exposure in a collateralised structure utilising government bonds, providing increased liquidity and flexibility than typical unlisted real estate funds.
- At the end of Q2 2013, the fund produced total returns of 2.9% and 6.0% over the past 12 months producing relative performance alpha of 1.5% and 0.9% respectively against the interim benchmark, the IPD UK Annual Index Estimate ("Annual Estimate") returns of 0.7% and 5.1% over the same periods. Total return for the quarter comprised an income return of 1.5% with a capital return of 1.4%.
- inProp's total return since launch, 4.5% (p.a.), has remained behind IPD, which has produced a return of 6.0% (p.a.) albeit shorter term relative performance over 1, 3, 6 and 12 months has shown a marked improvement with outperformance YTD of 0.6%, the lowest of all four measures. Property derivative pricing has rallied on the back of improving sentiment in the property market. Additionally, the fund's returns have significantly outperformed the AREF/IPD UK QPFI All Balanced Property Fund Index total returns of 1.4% and 1.7% over the past 3 and 12 months respectively.
- Over the quarter, inProp's NAV increased from £125.8m to £127.5m, no new subscriptions or redemptions occurred during the quarter. Dorset's investment is held in B class shares for the duration of the investment holding period and receives preferential terms such as a 50% discount on management fees with no performance or redemption fees applicable to the other share classes.

- The property derivatives community continues to explore the possibility of moving the settlement of futures contracts to the Quarterly Index reducing year-end uncertainty and to enable earlier derivative settlement, further detail in due course.

** Returns shown are the returns published by the Index and may differ to the actually return received by an investor*

Past performance is not a reliable indicator of future results.

APPENDIX I – PORTFOLIO VALUATION

Property	Valuation June 2013	Valuation Mar 2013	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Offices						
83 Clerkenwell Road, London EC1	£9,800,000	£9,050,000	8.3%	£0	£626,000	0.0%
Clarendon Road, Watford	£12,150,000	£12,150,000	1.9%	£902,750	£902,750	7.0%
Total Offices	£21,950,000	£21,200,000	4.6%	£902,750	£1,578,750	3.9%
Retail Warehouse						
Rayleigh Road, Rayleigh	£3,250,000	£3,250,000	1.7%	£222,783	£222,783	6.5%
Redditch, Washford Mills	£7,150,000	£7,150,000	2.0%	£578,689	£551,100	7.7%
Northampton, Becket Retail Park	£5,900,000	£5,750,000	4.2%	£381,000	£369,300	6.1%
Norwich, Cathedral Retail Park	£15,900,000	£15,650,000	2.2%	£1,054,000	£1,054,000	6.3%
Total Retail Warehouse	£32,200,000	£31,800,000	2.5%	£2,236,472	£2,197,183	6.3%
Industrials						
Bristol, South Bristol Trade Park	£3,200,000	£3,100,000	5.3%	£252,757	£244,314	7.5%
Crawley, Woolborough IE	£9,850,000	£9,850,000	2.0%	£757,239[3]	£924,505	7.3%
Croydon, 75/81,Sumner Road	£1,675,000	£1,650,000	3.5%	£129,965	£128,100	7.3%
Heathrow, Skylink	£3,150,000	£3,150,000	1.9%	£231,750	£231,900	6.3%

Property	Valuation June 2013	Valuation Mar 2013	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
London, Apsley Centre	£2,300,000	£2,250,000	4.1%	£162,000	£164,100	6.7%
London, Phoenix Park, Apsley Way	£6,700,000	£6,600,000	3.0%	£443,845	£493,705	6.3%
Sunbury-on-Thames, 164/168 Windmill Road	£8,100,000	£7,800,000	5.8%	£599,750	£599,650	7.0%
Swindon, Dunbeath Court	£3,300,000	£3,300,000	2.1%	£299,440	£319,137	8.6%
Swindon, Euroway IE	£10,750,000	£10,750,000	2.5%	£1,055,023	£978,121	9.3%
Total Industrial	£49,025,000	£48,450,000	3.2%	£3,931,769	£4,083,532	7.6%
Supermarkets						
Tesco, Sheffield	£11,685,000	£11,685,000	1.2%	£680,000	£680,000	5.5%
Total Supermarkets	£11,685,000	£11,685,000	1.2%	£680,000	£680,000	5.5%
Other Commercial						
Glasgow, Mercedes	£8,100,000	£7,750,000	6.3%	£552,820	£566,600	6.5%
Newcastle, Charlotte House	4,500,000	£4,500,000	1.7%	£304,077	£304,077	6.4%
Total Other Commercial	£12,600,000	£12,250,000	4.6%	£856,897	£870,677	6.4%
Total Direct Property [1]	£127,460,000	£125,385,000	1.3%	£8,607,888	£9,410,142	6.4%

Property	Valuation June 2013	Valuation Mar 2013	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Lend Lease Retail Partnership	£8,562,540	£8,577,600	1.1%	£298,264	-	3.3%
Hercules Unit Trust	£1,760,445	£1,743,915	1.4%	£112,552	-	6.0%
CBRE Retail Fund Britannica	£0	£0	0.0%	£0	-	n/a
CBRE (UK) Propery Fund (Diversified Value Add Fund)	£2,375,380	£4,281,410	-5.3%	£0	-	0.0%
Standard Life Investments UK Shopping Centre Trust	£12,586,672	£12,526,271	1.7%	£705,417	-	5.3%
inProp UK Commercial Property Fund	£9,537,769	£9,546,774	2.9%	£565,169	-	5.6%
Total Indirect Property[2]	£34,822,807	£36,675,970	0.7%	£1,681,402	-	4.6%
GRAND TOTAL	**£162,282,807**	**£162,060,970**	**2.6%**	**£10,289,290**	**-**	**6.1%**

Notes:

1. Direct property total returns for the quarter to June 2013 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to June 2013 as reported by CBRE Global Investors (UK Funds) Ltd (CBREGIF) / CBRE Global Investors in respect of the indirect portfolio (returns stated reflect returns reported by the Manager and may differ to actual returns achieved due to transactional activity undertaken during the holding period).
2. Net Initial Yields as reported by BNP Paribas (Independent Valuers for the Fund) in respect of the direct portfolio. Net Initial Yields as reported by CBRE Global Investors in respect of the indirect portfolio.
3. The rent at Crawley, Woolborough Lane Industrial Estate is assumed as £811,541 in the valuation as the rent was topped up by the vendor on acquisition. Therefore the net initial yield of 7.3% assumes the property is fully income producing now. The annual income figure stated reflects the rent actually received.

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