Woolborough Lane Industrial Estate, Crawley

QUARTERLY REPORT Q2 2014

CBRE GLOBAL INVESTORS
DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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DORSET COUNTY COUNCIL PENSION FUND

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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)	5.4%	17.3%	9.2%	13.4%
Dorset Direct Portfolio (standing investments)	5.9%	19.3%	10.6%	13.8%
IPD Quarterly Universe (the new benchmark)	4.8%	16.7%	8.6%	11.7%
MSCI All Share	3.4%	12.3%	8.3%	13.7%
5 to 15 Year Gilts	0.9%	1.5%	5.0%	5.3%

Source: IPD Quarterly Universe Benchmark Report.

Portfolio Key Facts	June 2014	Mar 2014	Dec 2013	Sept 2013
Market Value of Properties	£164.40m	£155.45m	£152.50m	£138.84m
Indirect Portfolio	£32.17m	£31.65m	£33.21m	£32.74m
Exposure to debt [1]	0.00%	0.00%	0.60%	0.65%
Void rate [2]	1.96%	1.79%	0.74%	0.80%
Average Lot Size	£7.47m	£7.40m	£7.26m	£6.64m
No. of Properties Direct	22	21	21	20
Passing Rent (pa) [3]	£10.05m	£10.24m	£10.28m	£9.26m
Open Market Rental Value [3]	£11.51m	£10.99m	£10.92m	£10.14m
Net Initial Yield [4]	5.8%	6.3%	6.4%	6.3%
Equivalent Yield [4]	6.4%	6.6%	6.6%	6.8%
Reversionary Yield [4]	6.6%	6.7%	6.8%	6.9%

Notes:
1. Exposure to debt is based on the indirect vehicle's holdings with debt.
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 passing rent will increase as the tenant Halfords, in Rayleigh is benefitting from a rent free for a reversionary lease documented in 2010.
4. Information provided by BNP Paribas, independent valuers to the Fund. These figures exclude the Fund's indirect holdings.

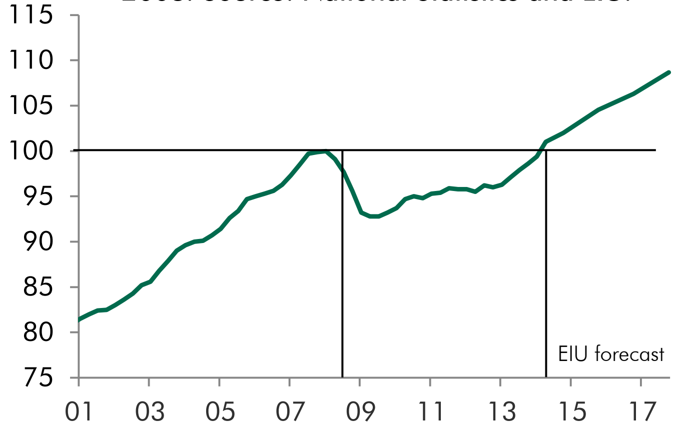
SECTION II – ECONOMIC AND PROPERTY MARKET OVERVIEW

UK PROPERTY MARKET OUTLOOK, QUARTER 3 2014

UK ECONOMIC OUTLOOK

The UK economy has entered the third quarter of 2014 with the strongest fundamentals in recent memory. Not only has it officially surpassed its previous peak level of output, last achieved in Q1 2008 (Figure 1), but it is positioned to deliver the strongest annual rate of growth amongst major developed economies. This underscores both the success of structural reforms brought about through austerity Budgets and the dynamism of many segments of the economy. Reassuringly, the grounds for growth are becoming broad-based. The recovery is receiving considerable support from investment. This is affirmed in sentiment surveys from the services and manufacturing sectors, which offers promise for commercial real estate occupational demand. The consumer has good reason to be chipper. Household spending is being bolstered by employment growth, improving credit availability and the wealth effects of accelerating house price rises. With a benign inflation outlook and monetary policy likely to remain loose, at least over the near term, conditions are ripe for this positive momentum to continue.

Figure 1 Real GDP rebased to 100 at Q1 2008. Source: National Statistics and EIU.



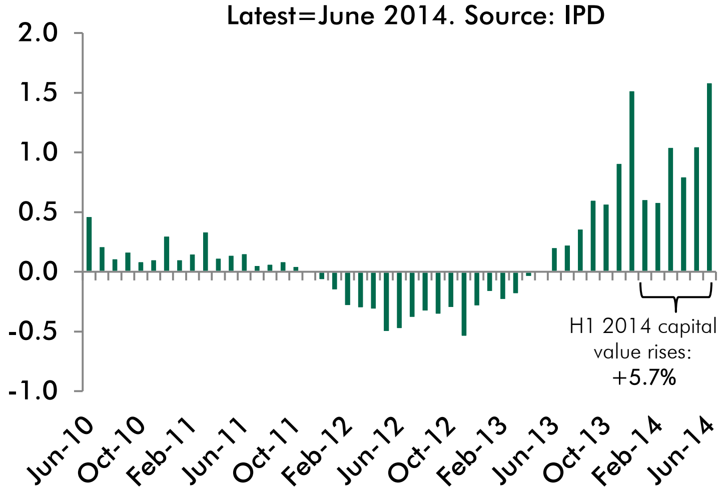
Notwithstanding the current vigour of economic activity, we subscribe to the view that the prospects for a sustained recovery remain uncertain over the medium term. After all, the economy is still significantly reliant on an indebted household sector that has been running its savings down and is vulnerable to interest-rate increases. In addition, households face a prolonged period of sluggish real earnings growth if weak productivity trends are not reversed. Owing to these countervailing forces we continue to adopt a cautious view about the sustainability of the recovery, one that is evident in our property market forecasts.

Clearly a risk to the near term sustainability of economic momentum in the UK is the looming independence vote in Scotland. The Economist Intelligence Unit, the forecasting bureau used to colour our House View, expects the constitutional status quo to be upheld, but acknowledges that a period of upheaval cannot be ruled out. As much of the commercial property industry has chosen to do, we too are not advancing an opinion on the independence debate. We do however, acknowledge that if Scotland were to exit the UK it could be hugely disruptive to commercial property, overturning institutional arrangements and assumptions that have been in place for decades. To date, we have not seen Scottish assets negatively impacted in valuations, though recent activity in the market has been quieter than earlier in the year as property owners choose not to bring stock to the market. We are neither strategically buying or selling Scottish assets in light of the referendum. We continue to buy fundamentally good real estate and seek an exit from fundamentally poor real estate regardless of its position relative to the Anglo-Scottish border.

UK PROPERTY PERFORMANCE

The economic backdrop in the UK remains supportive for commercial property. According to the June 2014 CBRE monthly index, total returns for All Property were 8.8% in the first half of the year, with capital values having increased by 5.7% (Figure 2). While London has been able to deliver sustained strong performance, the regional story is growing more compelling. Admittedly, the components driving performance are different. In the regions, yield shift is by far the biggest contributor to capital value growth. While this phenomenon has been particularly pronounced over the last six months, we believe that there is scope for further inward movement. In contrast, rental value growth is making a notable contribution in London and the South East.

Figure 2 **UK Property Capital Values, % m/m. Latest=June 2014. Source: IPD**



Occupational markets are finally demonstrating momentum. Buoyed by greater optimism in the domestic outlook, UK businesses are taking decisions on space requirements that they had previously found reasons to postpone. Within our own directly held portfolios, we are signing more leases and offering fewer incentives to do so. The scale of change in Central London has been fundamental. Led by a diverse lot of office occupiers who are no longer wedded to traditional locations, the number of under offers has reached a post-crisis high. Regional offices are moving from strength to strength. Grade A vacancy rates are falling quickly in a host of regional centres and rent free periods are drifting in. Taken together, we can assert that a landlord's market is finally returning.

While regional industrials have yet to see meaningful rental growth, deals are getting done and so voids at a UK level are subsiding to long term trend levels. With values underpinned by other uses in the South East, both the occupational and investment story remains strong. In terms of the high street, it is certainly not as bad as newspaper headlines would have you believe. With rents having rebased to affordable levels in some big regional centres occupiers are increasingly willing to consider new space. To be fair, the occupational story is not universal across geographies and sectors. Locations in the North East are still fairly desolate in terms of activity and we are aware of multiple retail warehouse operators who are aggressively "right-sizing" their units.

Activity in UK REIT market and the non-listed funds space over the last quarter paints a slightly diverging picture. While many balanced property unit trusts are seeing queues form and trading at premiums to underlying NAVs, pricing of listed real estate equities has recently drifted backwards. Correspondingly, the EPRA/NAREIT UK index has subsided from the recent cyclically high premiums to underlying net asset values. As the UK listed market tends to lead direct property indices by 6-9 months, we are monitoring price movements carefully. For the time being, however, we believe that commercial property's recovery still has some legs.

UK capital markets have proven rather buoyant in recent quarters as an increasingly diverse pool of buyers target the market. The recently announced sale of the 30% stake in the Bluewater Shopping Centre offers proof of just how much capital is deployable at the moment. There were at least five credible all cash offers vying for this stake, implying over £8bn of dry powder. Competition for more digestible lot sizes also remains fierce. This has been most pronounced for South East offices, multi-let industrials and assets with inflation-linked income streams—segments of the market appealing to different return profiles. With property investors keener for a bit of risk, debt financing becoming more attractive and property's still-attractive spread to the risk free rate, 2014 is on track to be the most active year in terms of transactions since 2007.

Given the anticipated weight of capital vying to enter the market, the potential for heady property performance exists over the coming 6-12 months. The appearance of rental growth that is increasingly being priced into asset underwriting will determine if performance continues with such vigour beyond 2015. Driven by leisure, London offices, South East offices and industrial property, we are forecasting a rental value recovery over the coming two years. Coupled with yield impact, capital values could rise in the high single digits, meaning total returns are on track to deliver mid-teen total returns this year—admittedly with upside risks to this view.

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 outperformed the IPD Quarterly Universe benchmark at a Fund level with a total return of 5.4% for the quarter, against the benchmark total return of 4.8%, a relative performance outperformance of 0.6%*. The office and industrial sectors contributed positively to the Fund's relative outperformance for the quarter, with the Retail sector performing under the line.

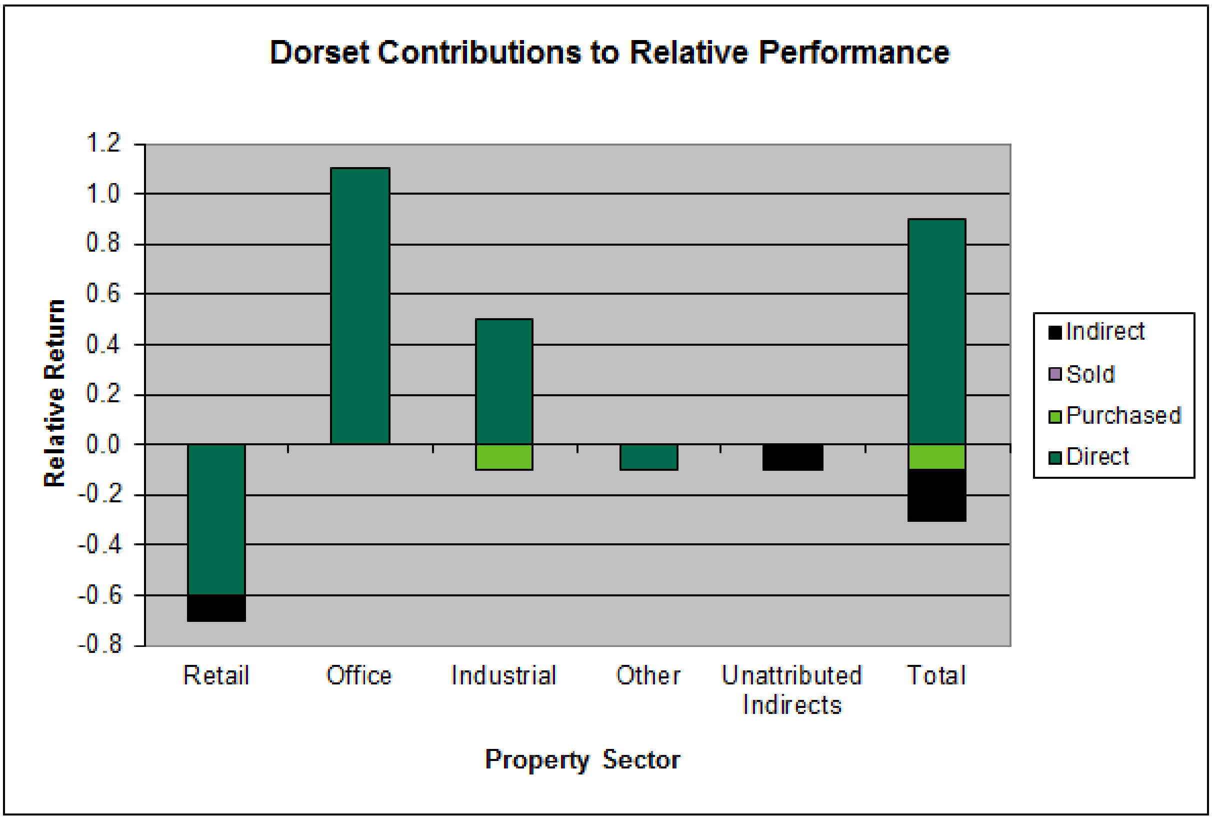
The Fund's directly held retail holdings provided a total return of 2.6% against the benchmark total return of 4.5%, the weighted contribution to relative return was -0.7%. The -0.7% was the combination of -0.4% retail warehouse, -0.2% supermarket and -0.1% indirect sector, therefore all sub-sectors contributing negatively to the Fund's relative return.

The Fund's office holdings were the key driver for outperformance this quarter, with a total return of 10.5% in comparison to the benchmark return of 5.2% a relative outperformance of 5.0%. On a relative weighted contribution this equated to a 1.1% outperformance. The outperformance was driven by all sub sectors of the office holdings, with 0.4% relative weighted outperformance from the West End and Midtown office sub sector, comprising 83 Clerkenwell Road, 0.5% positive relative weighted contribution from South East offices, comprising Clarendon Road, Watford, and 0.2% positive weighted contribution being driven from the Office Parks sub-sector, comprising Cambridge Science Park.

The Fund's industrial holdings provided a total return of 6.5% over the quarter in comparison to 5.4% delivered by the benchmark. This was an outperformance of 1.0%. On a relative weighted basis this accounted for a 0.5% outperformance. As anticipated with purchase costs the London Industrial sub sector was impacted by the acquisition of 131 Great Suffolk Street, London SE1 returning -0.1%. However the South East industrial sub sector and Rest of UK industrial sub sector provided a positive relative weighted contribution which more than outweighed the effect of the London Industrials and purchase costs.

The Other Commercial sector, comprising Glasgow, Newcastle and The Calls Leeds, provided a total return of 3.7% over the quarter in comparison to the Other Commercial benchmark total return of 3.3%, a relative outperformance of 0.3% at a sector level. While an it delivered outperformance in terms of total return, on a relative weighted return basis, the Other Commercial sector marginally dragged the Fund performance by -0.1%.

The Unattributable Indirects provided a total return of 2.8% 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 -0.1%.



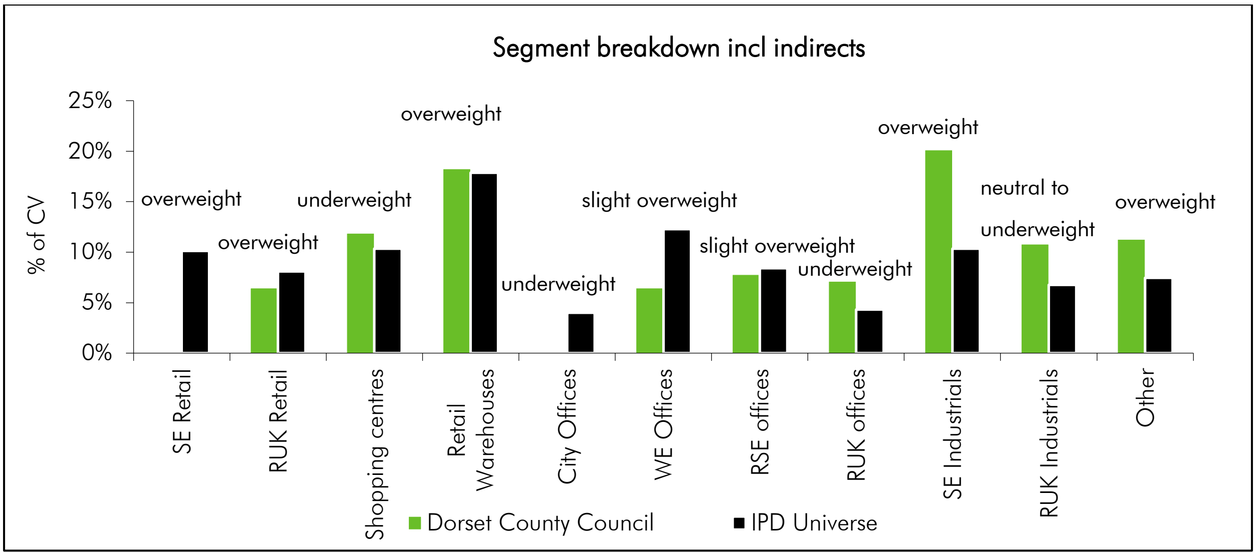
*Relative return is defined as the ratio of the return achieved by the portfolio, segment or individual asset, to that of the chosen benchmark, expressed as a percentage. ((1+Fund TR) / (1+ Benchmark TR) – 1)*100

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 inProp UK Commercial Property Fund

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. During the quarter contracts were exchanged on 15 Ebenezer Street, London N1, (£6m), which currently benefits from an index linked rent review structure, with the underlying open market rental value being far in excess or the current passing rent. Completion for this purchase is set for 20th August 2014 and it will fall into the City Office sub sector. Therefore the Fund is increasing its exposure to Central London offices, and reducing its underweight position against the benchmark.

The portfolio is currently invested in a range of assets with a good lease expiry profile and a conservative level of covenant risk. The recent acquisitions have complimented the existing asset base in terms of covenant strength and lease expiry profile. Some of the recent acquisitions have been further up the risk curve in light of the strengthened economic outlook with a view to drive future performance. Contracts were also exchanged during the quarter for the purchase of Pilgrim House, Aberdeen (£10m) a forward commit to purchase an office which is set to complete in September 2014. The Manager notes that there is potentially further cash available for investment in property with a target Fund size of £210m, a range of opportunities continue to be explored in order to meet this goal.

Once the target Fund size is achieved or overinvested, the Manager will seek to disinvest from inProp where a redemption notice of only one month is required.

There were no direct property sales during Q4.

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, 94.0% of collectable rent was collected, this is a increase from last quarter. At 28 days post quarter day, 99.8% of the rent had been collected, the remainder is due from the tenant at Charlotte House, Newcastle which is on a monthly payment plan. Economic conditions are improving but we continue to monitor tenant's trading positions 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. Indirect investment is limited to Lend Lease Retail Partnership and Standard Life Shopping Centre Trust, providing the portfolio with prime shopping centre exposure that would not be possible directly due to lot size barriers.

During the quarter the final capital distribution was received from CBRE (UK) Property (Value Added Fund), amounting to £183,657.57. Therefore the final unattributed indirect vehicle held is inProp UK Commercial Property Fund (Class B Shares), which as mentioned above, can be redeemed on a month's notice and therefore provides the Fund with a liquidity buffer.

Over the quarter, the Fund's indirect holdings underperformed the wider market returning 3.4%.

More detailed analysis of 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 exposure to quality assets across all sectors. The focus for 2014 is to continue to increase exposure to direct property.
- The investment of the available capital remains the priority. New purchases will either be more prime properties, RPI linked income streams or "value add" opportunities. However, the Manager may use the current market liquidity to sell assets that could be expected to substantially underperform in a market downturn.
- The aim is to maintain an appropriate balance and risk profile across the sectors.

ACQUISITIONS

- During the quarter 131 Great Suffolk Street, London SE1 was purchased for £2.35m (4.4% NIY). The property is single let to Ripping Image, a printing company until 2017. The tenant's lease is contracted outside the Security of Tenure provisions of the Landlord and Tenant Act 1954 and therefore there is no right of renewal at lease expiry. The tenant is paying an extremely low rent of £13.75psf. The ERV once refurbished is considered to be £27.50psf on the ground floor and £32.50psf on the first. Therefore there is strong reversionary potential. The projected IRR is 10.5% per annum over the hold period of 5 years.

- The Fund also exchanged contracts to purchase an office investment in Aberdeen. Pilgrim House is currently under construction and is due to complete in September 2014 when the agreed purchase price of £10,000,000 will be due and the deal will complete. Half of the office building is let to the Scottish Ministers

for a 15 year term who will operate as the Food Standards Agency. The remaining space is being marketed and the vendor is responsible for guaranteeing the rent and associated void costs for 18 months post completion. Hurdle rates for a new letting have been set at no less than £27psf and a 10 year term certain. In the event that better leasing terms are agreed then there is a calculation for a top up due to the vendor in order to incentivise them to achieve the best deal for the Fund. The purchase price of £10,000,000, reflects a net initial yield of 6.5% (including rental top-up).

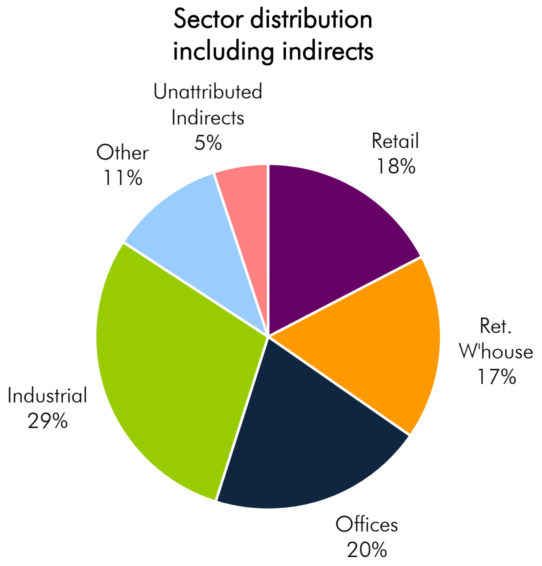
- During the quarter, the Fund also exchanged contracts on 15 Ebenezer Street, London N1 for £6.0m (4.3% NIY). The property is single let to Islington and Shoreditch Housing Trust on a lease expiring in 2027. The tenant is not in occupation of the property and has sub-let to Moorfields Eye Hospital who have a lease expiring in 2018. The passing rent reflects £17.21 psf. The Market Rent for the property is £36.00 psf. The lease has five yearly rent reviews to RPI and the base case forecast returns an 8.4% IRR, with further upside if the lease is surrendered and the property refurbished earlier than the current lease expiry.

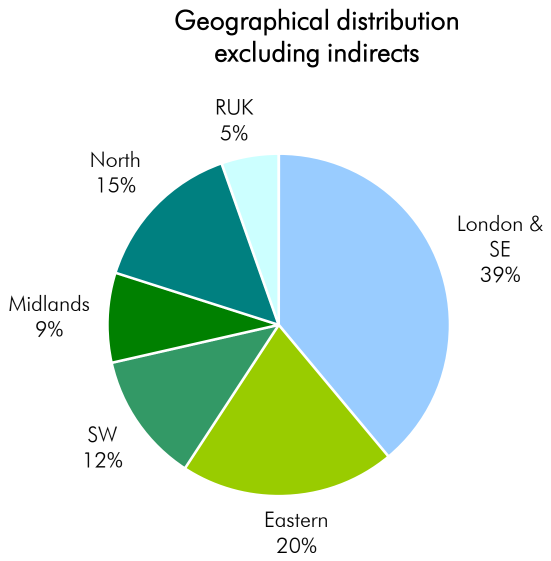
- Terms were also agreed in Q2 to purchase a shared ownership portfolio for £9.26m (4.2% NIY). The portfolio comprises 230 properties. Each unit has a leaseholder that has equity in their property bought through a shared ownership scheme. The tenant pays a rent on the part of the property they do not own which grows annually at RPI +0.5%. Each individual tenant also has the right to buy further equity in the property by "staircasing" at any time. Staircasing provides an additional revenue stream as Dorset CC is purchasing its element at a discount to the open market vacant possession value. Over a 25 year hold period the portfolio is projected to provide an 8.3% IRR.

SALES

- There were no direct property sales made during the quarter.
- The final capital distribution was received from CBRE (UK) Property (Value Added Fund) during the quarter on the 11th May 2014. This amounted to £183,657.57 which it is intended will be reinvested into directly held assets.

Following the acquisition this quarter, below are the current weightings by sector (including indirect holdings) and geography (excluding indirect holdings) of the portfolio.



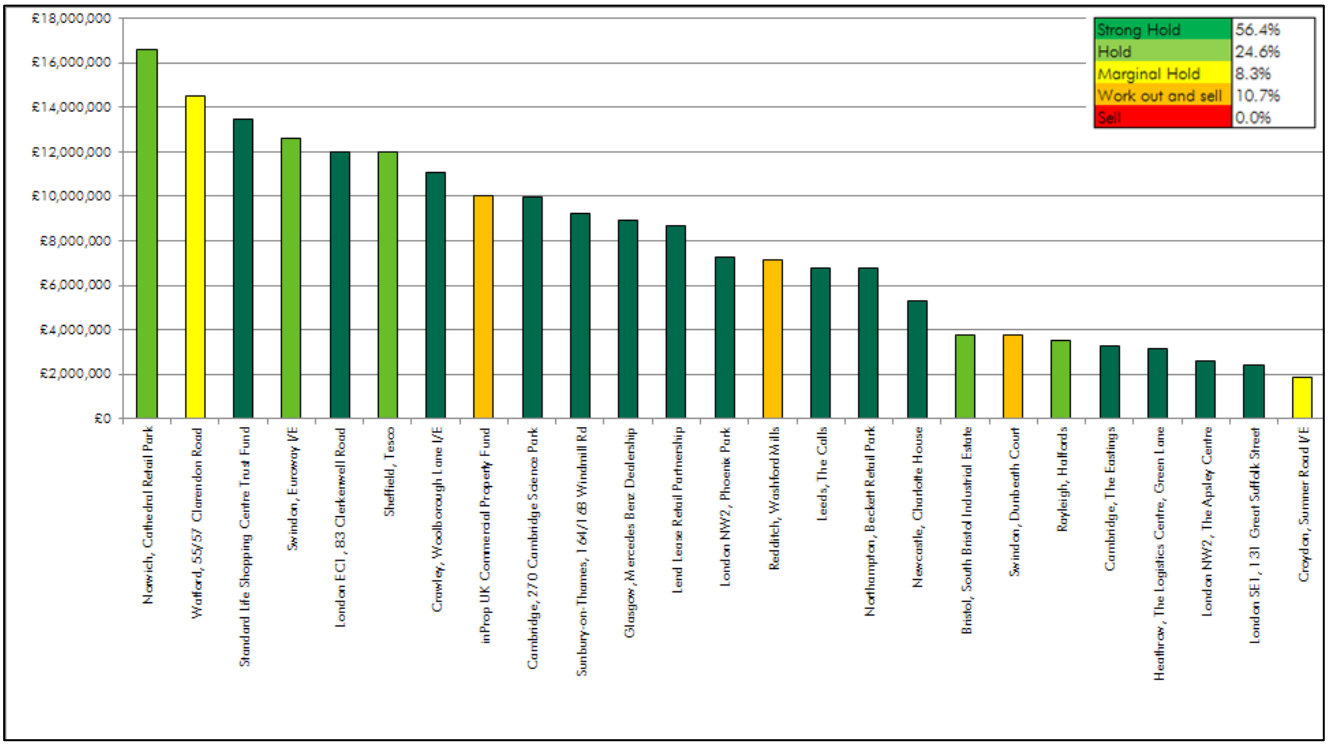


BAD DEBTS/WRITE OFFS

It is proposed that there is one write off this quarter in relation to A.J.L Dunkley who formerly traded from a food van in a car parking space at Redditch, Washford Mills. A breakdown of this arrear is annexed to the report.

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

- **Clarendon Road, Watford:** The property delivered a very strong total return of 10.8% over the quarter, the strongest return by relative weighted contribution to performance this quarter. The uplift in value was delivered as a result of rental value growth following recent transactions in Clarendon Road which had a strong uplift on the capital growth of 9.0% for the quarter. The full rental value can be realised at rent review which is dated December 2016.
- **London, 83 Clerkenwell Road:** this property delivered a very strong total return of 11.7% over the quarter, the second most positive asset to the Fund's relative weighted contribution for the quarter. The uploft in the quarter was driven by capital growth, with the adjacent building; The Lever Building, 85 Clerkenwell Road, London being marketed for sale during the quarter and achieving well in excess of asking. This sale is anticipated to complete during 2014 and will provide positive evidence for the valuation of 83 Clerkenwell Road.
- **Cambridge, 270 Cambridge Science Park:** The OJEU process is being progressed for the asset as it is intended that a planning application for a new building on the site is submitted post year end. The pre-qualification questionnaires for the project team were reviewed and invitations to tender sent out during the quarter. The project is currently on schedule in order to submit a planning application by year end.

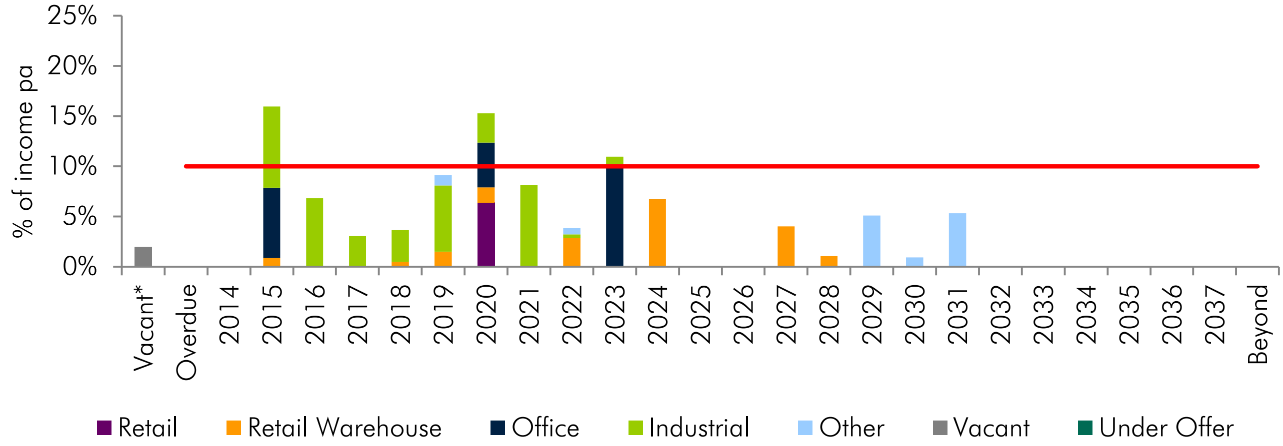
VOIDS WITHIN THE PORTFOLIO – 30TH JUNE 2014

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Unit 1, Washford Mills, Redditch	9,622	1.30%	£149,100	Vacant
Unit 5, Phoenix Park, London	4,533	0.41%	£47,600	Vacant
Unit 2, Sumner Road, Croydon	3,385	0.25%	£28,800	Vacant
TOTAL PORTFOLIO VOID	**17,540**	**1.96%**	**225,500**	

The Fund's void rate increased from 1.79% to 1.96% this quarter as a result of the lease on a unit in Croydon expiring. There will be an additional vacancy in Q3 2014 as Virgin, at Skylink, Heathrow has decided to consolidate into other premises. This unit currently accounts for 2.02% of the portfolio ERV. The void remains significantly lower than the IPD Monthly Index rate which at the end of June increased to 10.9%.

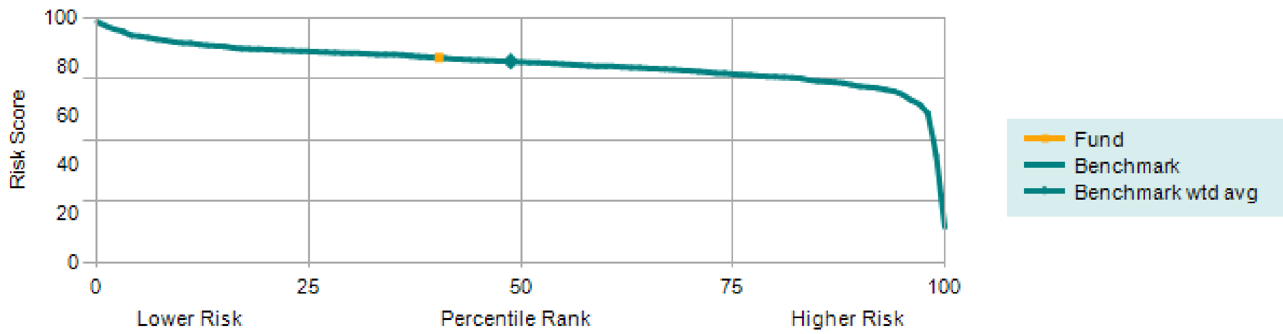
LEASE EXPIRY PROFILE FOR THE PORTFOLIO – 30TH JUNE 2014

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



* Vacancy rate expressed as a percentage of ERV

TENANTS FINANCIAL STRENGTH



The graph above compares the covenant risk score of the portfolio compared to the Benchmark as at 30th June 2014. The Fund is in the second quartile with a Weighted Risk Score in the 40.3rd percentile against the Benchmark Weighted Risk Score in the 49th percentile. This is a decrease from the previous quarter (16.6th percentile) The main reason for this movement is a downgrade to the Toys R Us credit rating from Negligible to Low Medium risk of default. This tenant accounts for 6.12% of the portfolio rent. The Manager will continue to monitor this tenant closely. Ripping Image the tenant at the newly purchased Great Suffolk Street also represents a high risk of tenant default and represents 1.07% of the portfolio income. However this property is significantly under rented so if the tenant defaults the Fund can take the property back and realise an earlier rental value uplift.

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	Vacant Unit	Letting agents continue to market the vacant unit.
Crawley, Woolborough Lane I/E	Unit A – Tenant option to break	The tenant Alpha Flight UK Limited had a tenant option to break their lease on the 1st April 2015. Post quarter end this was not actioned, therefore the tenant will now remain in occupation of the unit until 1st April 2020. The positive valuation impact that this has will be reflected in Q3 2014 valuation.
Croydon, 75/81, Sumner Road	Unit 2 – vacant	The tenant Belron UK Limited t/a Autoglass vacated unit 2 on the 24th June 2014. Dilapidations are being negotiated. The unit is being marketed by letting agents.
Heathrow, The Logistics Centre	Whole	The tenant Virgin Atlantic vacated the unit post quarter end. Joint letting agents have been appointed and a number of viewings have already taken place. Planning advisors are reviewing the property as there is currently a restriction on 24 hour use of the property, however current occupiers will require access and use of the property at all times. A financial settlement regarding dilapidations is being negotiated.
London SE1, 131 Great Suffolk Street	Whole	The property was purchased during the quarter.
London, Phoenix Park, Apsley Way	Unit 5 – Marketing	During the quarter, an offer was received from a proposed tenant MH Costa to take a lease of the unit at £48,730 per annum, reflecting £10.75 psf. Post quarter end another offer was received from a carpeting company. Terms will be discussed with both occupiers with a view to securing the best tenant for the estate.
	Unit 6 – Lease Renewal	Terms for a new lease with the tenant Star Images Enterprises Limited were agreed during the quarter for a term of 5 years with a tenant only break at the end of the 2nd and 3rd years. The rent is to be £48,500 per annum (£10.60 psf). The new lease is being documented by the Fund's solicitors and completion is anticipated in Q3 2014.
Swindon, Dunbeath Court	Units 8 & 9 – Lease Renewal	During the quarter negotiations regarding a lease renewal with DHL who are in occupation of units 8 & 9 continued. Lease renewal proceedings are being followed and post quarter end acknowledgements of service were served with the court regarding the renewals.

Property	Unit & Activity	Forecast Outcome
Leeds, The Calls	Unit 2 – Rent Review	The rent review dated 24th June 2014 is being negotiated and an uplift in rent passing is being sought.
	Unit 5 & 31-33 Call Lane	The rent reviews dated 20th September 2014 were actioned during the quarter, these will be negotiated post quarter end. The tenant Gerard Feltham trades under two different entities from these units; Jake's Bar and Oporto.

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 30th June 2014.

No of Properties	22
No Of Units	72
a	0
b	5
c	24
d	20
e	15
f	4
g	2
no EPC	0

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. All units requiring EPCs have been instructed and received across the portfolio.

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 2014

- There are now EPC's for all units in the portfolio. The most recently obtained EPCs relate to Crawley Industrial Estate and were commissioned recently.
- The Manager is reviewing with Savills Energy team the opportunity to install solar panels on the roofs of units in the portfolio, namely with the largest occupier of Euroway Industrial Estate in Swindon – Wasdale Packaging Limited who have expressed interest in the opportunity.

SECTION VI – INDIRECT INVESTMENTS

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

DEALING RESTRICTIONS ON CBRE FUNDS

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Name of Vehicle	Number of Units Held	Total Equity Commitment (£)	Current Valuation (£)	Quarter to June 2014 Total Return	12 months to June 2014 Total Return
Lend Lease Retail Partnership	60	7,014,056	8,658,480	11.3%	14.2%
CBRE (UK) Propery Fund (Diversified Value Add Fund)	0	N/A	0	n/a	n/a**
Standard Life Investments UK Shopping Centre Trust	13,853.43	10,000,000	13,466,919	8.3%	15.8%
inProp UK Commercial Property Fund	100,050.03	10,000,000	10,049,025	4.2%	12.9%

*The figures are to the latest available as reported by CBRE Global Investors UK Funds Ltd (CBREGIF) / CBRE Global Investors

**A final capital distribution was received during the quarter amounting to £183,658

Past performance is not a reliable indicator of future results.

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

3 Months %	12 Months %	3 Years % p.a.
11.3%	14.2%	9.5%

- The Lend Lease Retail Partnership returned 11.3% over the quarter and 14.2% over the last year. The performance during the last quarter reflects significant valuation uplift reflecting the price achieved on the June 2014 sale by Lend Lease Corporation, the Australian property and construction company, of its 30% holding in Bluewater Shopping Centre.
- Lend Lease Corporation sold Bluewater to Land Securities for £696 million, representing a 4.11% net initial yield. The sale, which includes the freehold and management rights, was approximately 15% ahead of valuation.
- LLRP is a core specialist fund, providing exposure to the prime UK shopping centre market. The fund is ungeared and has an annualised distribution yield of 2.8%.
- The fund has a portfolio of two prime regionally dominant properties: Bluewater, Kent and Touchwood, Solihull. The portfolio vacancy increased slightly to 5.8% over the quarter, although 2 significant new lettings at Bluewater are expected to subsequently reduce this figure.
- The fund has continued to investigate alternative options for the Glow conference centre at Bluewater, after poor operating performance, and is evaluating the possibility of converting the facility to leisure or further retail uses.

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

3 Months %	12 Months %	3 Years % p.a.
8.3%	15.8%	8.6%

- The Standard Life UK Shopping Centre Trust produced a total return of 8.3% and 15.8% over the past three and 12 months, outperforming its benchmark of 4.1% and 12.2% over the quarter and last 12 months respectively. The quarterly return is attributable to the property portfolio value increase of 8.4%, in addition to a stable annualised distribution yield of 4.3%. The fund's assets have benefitted from inward yield shift as transactional evidence was created by the sale of the 30% stake in Bluewater referred to above. The portfolio continues to outperform the IPD Monthly Index – Shopping Centre Sub-sector by 4.3% (annualised) since inception.
- During the quarter, work continues on the delivery of the Apple and Victoria's Secret stores at Brent Cross. The works on the new Top Shop at Churchill Square, Brighton were completed in June with trading due to commence in September. Furthermore, at Centre Court, Wimbledon, Monsoon opened its new concept store

following the amalgamation of two smaller units. A number of rent reviews and new lettings were completed during the quarter, with increased rental levels on the Marks & Spencer unit at Palace Gardens, Enfield and a number of units in Brighton.

- Following the successful leasing activity, the WAULT on the portfolio increased to 7.1 years (from 6.2 years). The void rate for the portfolio has marginally increased to 1.5% from 1.1% by ERV over the quarter whilst retailers in administration remains static over the quarter at 1.1% of passing rent. Retailer failures this quarter have been limited to Jane Norman, with whom the funds lease expired by the quarter end.
- At the end of the quarter, the Trust's property portfolio was valued at £1.4bn, providing exposure to eight assets across the UK. The fund remains ungeared.
- The fund's life expires in June 2015 and the manager has proposed to extend the fund, with a vote scheduled for September 2014. The proposed terms include an extension of the life of the fund by 10 years to June 2025, with a liquidity event in 2020. At the point of the extension, non-continuing unit holders shall have the opportunity to redeem units in the fund, with redemptions to be met within 24 months of the vote.

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

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

- During the quarter the vehicle was wound up and a final capital distribution was received amounting to £183,657.57 against the valuation in March 2014 of £175,770.

inProp UK Commercial Property Fund (Derivative - Core Diversified Fund)

3 Months %	12 Months %	3 Years % p.a.
4.2%	12.9%	5.9%

- 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 2014, the fund produced total returns of 4.2% and 12.9% over the past three and 12 months respectively. These returns represent underperformance of 0.6% and 4.2% over the quarter and the year respectively against the interim benchmark, being the IPD UK Annual Index Estimate ("Annual Estimate"). The Annual Estimate returns were 4.8% and 17.1% over the corresponding time periods. The total return for the quarter comprised an income return of 1.4% with a capital return of 2.8%.
- The fund performed strongly in April and June, beating the benchmark by 0.4% and 0.5% respectively over those months, but suffered in May due to a quiet derivatives market, giving 0% return, thereby underperforming the benchmark by 1.5%. The strong June performance was positively impacted by an increase in interest in property derivatives, with more transactions and interests being expressed through banks and brokers than prior months.
- Over the quarter, inProp's NAV increased 2.8% to £135.7m (Q1 2014: £132.0m), with no new subscriptions or redemptions occurring during the quarter. The investment continues to be held in 'B-class' and receives preferential terms such as a 50% discount on management fees together with a waiver on any performance fees and redemption fees that are applicable to the other share classes.

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

APPENDIX I – PORTFOLIO VALUATION

Property	Valuation June 2014	Valuation Mar 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Offices						
83 Clerkenwell Road, London EC1	£12,000,000	£10,850,000	11.7%	£477,200	£697,700	3.8%
Clarendon Road, Watford	£14,500,000	£13,300,000	10.8%	£902,750	£984,800	5.9%
The Eastings, Cambridge	£3,300,000	£3,100,000	8.0%	£190,500	£212,200	5.5%
270 Cambridge Science Park, Cambridge	£9,950,000	£9,250,000	9.4%	£640,927	£794,927	6.1%
Total Offices	£39,750,000	£36,500,000	10.5%	£2,211,377	£2,689,627	5.6%
Retail Warehouse						
Rayleigh Road, Rayleigh	£3,500,000	£3,500,000	0.8%	£111,392	£222,783	3.0%
Redditch, Washford Mills	£7,150,000	£7,150,000	1.4%	£431,689	£553,200	5.7%
Northampton, Becket Retail Park	£6,800,000	£6,500,000	6.3%	£431,000	£401,700	6.0%
Norwich, Cathedral Retail Park	£16,600,000	£16,600,000	1.6%	£1,054,000	£1,054,000	6.0%
Total Retail Warehouse	£34,050,000	£33,750,000	2.4%	£2,028,081	£2,231,683	5.2%
Industrials						
Bristol, South Bristol Trade Park	£3,750,000	£3,450,000	10.6%	£252,757	£254,314	6.4%
Crawley, Woolborough IE	£11,050,000	£10,250,000	9.9%	£811,541	£1,022,405	6.9%

Property	Valuation June 2014	Valuation Mar 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Croydon, 75/81,Sumner Road	£1,850,000	£1,850,000	1.3%	£99,500	£130,900	5.1%
Heathrow, Skylink	£3,150,000	£3,150,000	1.6%	£0	£231,750	0.0%
London, 131 Great Suffolk St	£2,400,000	*Purchased £2,350,000*	-3.3%	£110,000	£110,000	4.3%
London, Apsley Centre	£2,600,000	£2,550,000	3.6%	£162,000	£164,100	5.9%
London, Phoenix Park, Apsley Way	£7,250,000	£7,000,000	4.9%	£443,845	£493,705	5.8%
Sunbury-on-Thames, 164/168 Windmill Road	£9,200,000	£8,700,000	7.5%	£599,750	£599,650	6.2%
Swindon, Dunbeath Court	£3,750,000	£3,650,000	4.1%	£282,564	£319,137	7.1%
Swindon, Euroway IE	£12,600,000	£12,000,000	7.2%	£986,276	£999,235	7.6%
Total Industrial	£57,600,00	£52,600,000	6.5%	£3,748,233	£4,453,746	6.1%
Supermarkets						
Tesco, Sheffield	£12,000,000	£12,000,000	1.4%	£680,000	£680,000	5.4%
Total Supermarkets	£12,000,000	£12,000,000	1.4%	£680,000	£680,000	5.4%
Other Commercial						
The Calls, Leeds	£6,800,000	£6,400,000	8.1%	£453,360	£520,700	6.3%
Glasgow, Mercedes	£8,900,000	£8,900,000	1.6%	£568,133	£566,600	6.0%
Newcastle, Charlotte House	£5,300,000	£5,300,000	1.7%	£365,587	£365,586	6.5%
Total Other Commercial	£21,000,000	£20,600,000	3.7%	£1,387,080	£1,452,886	6.2%
Total Direct Property [1]	£164,400,000	£155,450,000	5.8%	£10,054,771	£11,507,942	5.8%

Property	Valuation June 2014	Valuation Mar 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Lend Lease Retail Partnership	£8,658,480[3]	£8,600,160	11.3%	£250,994	-	2.7%
Hercules Unit Trust	£0	*(Sold £1,688,815)*	n/a	£56,533	-	0.0%
CBRE (UK) Propery Fund (Diversified Value Add Fund)	*(Sold £183,658)*	£175,770	n/a	£0	-	0.0%
Standard Life Investments UK Shopping Centre Trust	£13,466,919[3]	£12,957,667	8.3%	£687,684	-	4.8%
inProp UK Commercial Property Fund	£10,049,025[3]	£9,919,960	4.2%	£565,636	-	5.3%
Total Indirect Property[2]	£32,174,424	£31,653,558	3.4%	£1,560,848	-	4.6%
GRAND TOTAL	**£196,574,424**	**£187,103,558**	**5.4%**	**£11,615,618**	**-**	**5.6%**

Notes:

1. Direct property total returns for the quarter to June 2014 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to June 2014 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. Valuation figures provided by CBRE Global Investors (UK Funds) Ltd (CBREGIF) are the May 2014 valuations, these are always marginally in arrears due to early reporting deadlines required by IPD. The total return figures for the indirect investments relate to the full quarter.

APPENDIX 2 – BAD DEBTS AND WRITE OFFS

Property	Unit Description	Tenant / Debtor	Reason for Write Off	Rent	VAT	Service Charge	VAT	Insurance	VAT	Gross Write Off Amount
Washford Mills, Redditch	Food Van	A.J.L. Dunkley	Following regular debt chasing, legal proceedings and asset search of Mr Dunkley was commenced. It was established there were no substantive assets in Mr Dunkley's name and therefore it was deemed not cost effective to continue legal action for this level of debt.	£3,033.38	£606.62	£0.00	£0.00	£0.00	£0.00	£3,640.00

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