15 Ebenezer St & 25 Provost St, London N1

# QUARTERLY REPORT Q3 2014

## 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) | 5.7% | 20.0% | 10.9% | 13.4% |
| Dorset Direct Portfolio (standing investments) | 5.3% | 20.9% | 11.5% | 12.2% |
| IPD Quarterly Universe (the new benchmark) | 4.4% | 18.3% | 9.4% | 11.9% |
| MSCI All Share | -0.9% | 6.0% | 13.0% | 9.0% |
| 5 to 15 Year Gilts | 2.9% | 4.4% | 3.1% | 5.6% |

Source: IPD Quarterly Universe Benchmark Report.

| Portfolio Key Facts | Sept 2014 | June 2014 | Mar 2014 | Dec 2013 |
|---|---|---|---|---|
| Market Value of Properties | £176.99m | £164.40m | £155.45m | £152.50m |
| Indirect Portfolio | £34.29m | £32.17m | £31.65m | £33.21m |
| Exposure to debt [1] | 0.00% | 0.00% | 0.00% | 0.60% |
| Void rate [2] | 3.75% | 1.96% | 1.79% | 0.74% |
| Average Lot Size | £7.70m | £7.47m | £7.40m | £7.26m |
| No. of Properties Direct | 23 | 22 | 21 | 21 |
| Passing Rent (pa) [3] | £10.49m | £10.05m | £10.24m | £10.28m |
| Open Market Rental Value [3] | £12.27m | £11.51m | £10.99m | £10.92m |
| Net Initial Yield [4] | 5.6% | 5.8% | 6.3% | 6.4% |
| Equivalent Yield [4] | 6.3% | 6.4% | 6.6% | 6.6% |
| Reversionary Yield [4] | 6.6% | 6.6% | 6.7% | 6.8% |

Notes:
1. Exposure to debt is based on the indirect 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.
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 4 2014

### UK ECONOMIC OUTLOOK

The near term outlook for the UK economy and its property market has improved yet again since our last commentary. Not only has growth been surpassing trend for the previous five quarters, but it is positioned to be amongst the strongest performing major developed economies in 2014. While accommodative monetary policy unquestionably lends a hand, the current economic vigor is also a function of successful structural reforms brought about through austerity budgets and the relative dynamism of many segments of the economy.

Reassuringly, the grounds for growth are becoming broad-based. This is affirmed in business sentiment surveys, and offers promise for commercial real estate occupational demand. The consumer has ample reasons to be sprightly. 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 momentum to continue.

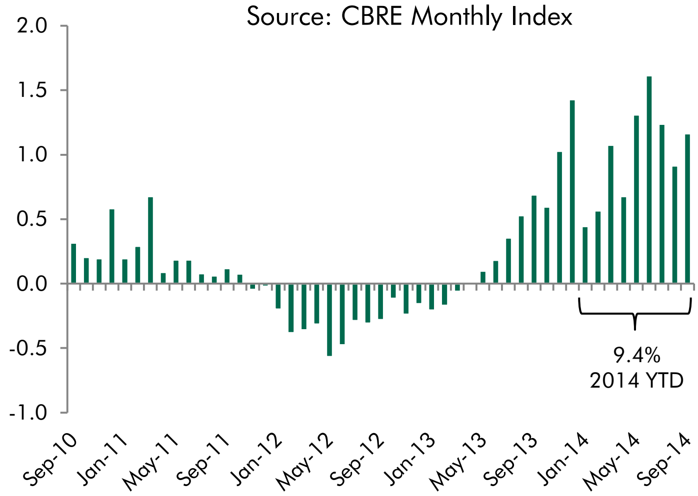
Despite all of this, our assessment of the medium term growth outlook has not wavered over the quarter. We subscribe to the view that the prospects for a sustained recovery are questionable and that 2014 will likely be the peak year for growth. After all, there has been a lack of progress at shifting the balance of the economy away from private consumption and towards private-sector investment and exports. This is of particular concern given that an indebted household sector has been running its savings down and is vulnerable to interest-rate increases. Furthermore, a prolonged period of sluggish real earnings growth is likely if weak productivity trends are not reversed. Owing to these countervailing forces we adopt a cautious view about the growth potential in the outer years of the forecast horizon, one that is evident in our property market forecasts from 2016.

In terms of interest rates, markets are pricing in an interest rate tightening cycle in synch with that of the U.S. However, because of the gross indebtedness of UK households the Bank of England will be cautious about how far and fast to raise rates. While years of extremely accommodative policy are drawing to a close, we still expect a fairly benign monetary policy and bond market backdrop. In the hunt for income, property investors may well be willing to accept lower returns from the asset class, growing increasingly comfortable bidding down property yields.

## UK PROPERTY PERFORMANCE

According to the September 2014 CBRE monthly index, total calendar returns for All Property were 14.3% through Q3, with capital values having increased by 9.4% (Figure 1). While London has continued to deliver sustained strong performance, the regional story has moved from strength to strength. 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 since the beginning of the year, we believe that there is still scope for further inward movement. In contrast, rental value growth is making a notable contribution in London and the South East.

Figure 1 UK Property Capital Values, % m/m. Source: CBRE Monthly Index




### Occupational Markets

Occupational markets continue to strengthen. We are signing more leases than a year ago and viewings and offers are being made on challenging space. Whether this improved activity turns out to produce meaningful rental growth remains to be seen. The sustainability of property's recovery unquestionably hinges on a strengthening occupational story. Pricing would suggest that this is happening; the data, which is lagging, doesn't. While we share a consensus view that demand for commercial space will improve, the difficulty is capturing rental growth, because we are bound by lease expiry and rent review dates.

At a sector level, lettings are occurring in regional industrial markets. The Midlands has seen a flurry of activity in recent quarters, while at a UK level voids have retreated to long term trend. With values underpinned by other uses in the South East, escalating demand continues to squeeze constrained Grade A supply. As a result, speculative construction is now becoming more viable.

In terms of the high street, it is certainly not as bad as popular media would have you believe. Vacancy rates are subsiding and recently announced administrations are being met with interest from retailers in expansion mode. With rents having rebased to economic levels occupiers are increasingly willing to consider new space and renegotiate leases. While a comparable story exists for shopping centres and retail warehouses, those tenants willing to take larger format space still have the upper hand in rent negotiations.

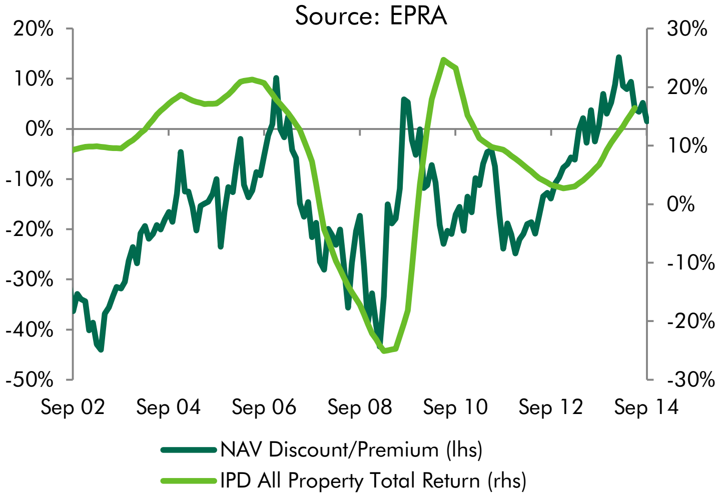
The scale of change in Central London has been fundamental. Led by diverse office occupiers who are no longer wedded to traditional locations, pre-committed space has reached a cyclical high. In the City, we have seen some tenants willing to pre-agree 2015 rent reviews while in the West End vacancy rates have slid to near all-time lows as office stock is converted into residential and hotel uses. Many regional office markets are in full recovery mode with Grade A vacancy rates falling quickly in Aberdeen, Birmingham and Leeds. With rent free periods now drifting in, the prospect of rental growth is the best that it has been in recent memory.

To be fair, the letting story is not universal across geographies and sectors. Occupational markets in Scotland have not rebounded post-referendum, potentially suggesting concerns about the country's enduring role within the UK. Locations in the North East are still fairly desolate in terms of activity, food store operators are in a state of flux and we are aware of multiple retail warehouse operators who are actively "right-sizing" their units.

### Listed & Indirect Markets

As last quarter, activity in the UK REIT market and non-listed funds space paints a somewhat mixed picture. While many balanced property unit trusts are sustaining queues and trading at premiums to underlying NAVs, pricing of listed real estate equities has drifted sideways. Correspondingly, the EPRA/NAREIT UK index has receded from the recent cyclically high premiums to underlying net asset values (Figure 2). As UK REITs have traditionally lead direct property indices by 6-9 months, we are monitoring price movements carefully. While we believe that commercial property's recovery still has some steam, current activity in the listed space paints a more subdued picture for 2015. This is consistent with the nascent derivatives market, which is currently pricing 2015 total return contracts at 7.5%.

Figure 2 EPRA UK Index - NAV Discount/Premium, % y/y, Latest=Sept. 2014, Source: EPRA



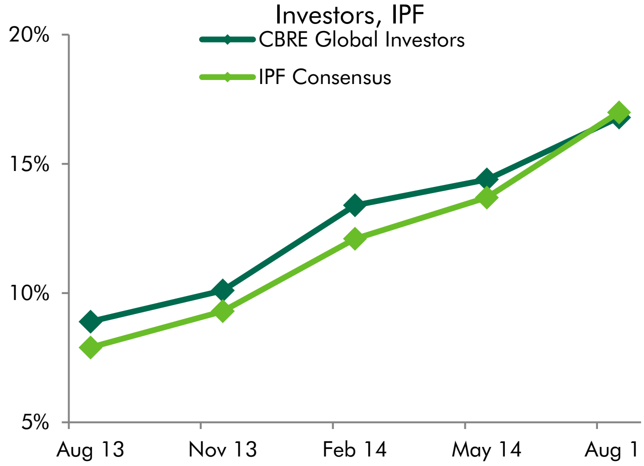

### Capital Markets

UK transactional volumes have continued to be the most active in Europe as an increasingly diverse pool of investors sense opportunity in the market. There were at least 200 expressions of interest for 30 St. Mary Axe (The Gherkin) while the looming sale of the 8 Canada Square (HSBC Tower) in Canary Warf is likely to draw credible bids from a host of capital sources new to the UK. Competition for more prosaic assets outside of London has similarly intensified. This has been most acute for South East multi-let industrials, retail warehousing with open-A1 consent, prime high street shops in Cathedral towns, and assets with inflation-linked income streams—segments of the market satisfying different return profiles. The competitive bidding that we have begun to see in recent weeks for certain assets is slightly worrisome. Our sense is that inward yield shift needs to pause, giving time for the underlying occupier market and rents to catch up.

### Outlook

Strong capital inflows and improving occupier demand will produce a spike in UK commercial property performance in 2014. Driven by capital value growth, total returns at an all property level will likely be in the high teens, a far cry from what the market anticipated a year ago (Figure 3). A mounting concern, however, is that the market is getting multiple years' worth of performance in one go. With yields well below trend we are now entirely reliant on above trend rental growth to produce acceptable absolute performance. A moderation in economic activity after next year's election, supply concerns in some segments of the market and the uncertainty associated with a possible 2017 EU referendum could make this difficult. More than ever, our stock selection needs to be all about strong property fundamentals and identifying markets with attractive supply and demand characteristics.

Figure 3 Evolution of 2014 IPD Total Return Forecast. Source: CBRE Global Investors, IPF



# 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 5.7% for the quarter, against the benchmark total return of 4.4%, a relative weighted outperformance of 1.3%*. The majority of sectors contributed positively to the Fund's relative outperformance for the quarter, with only the portfolio Other Commercial sector performing under the line.

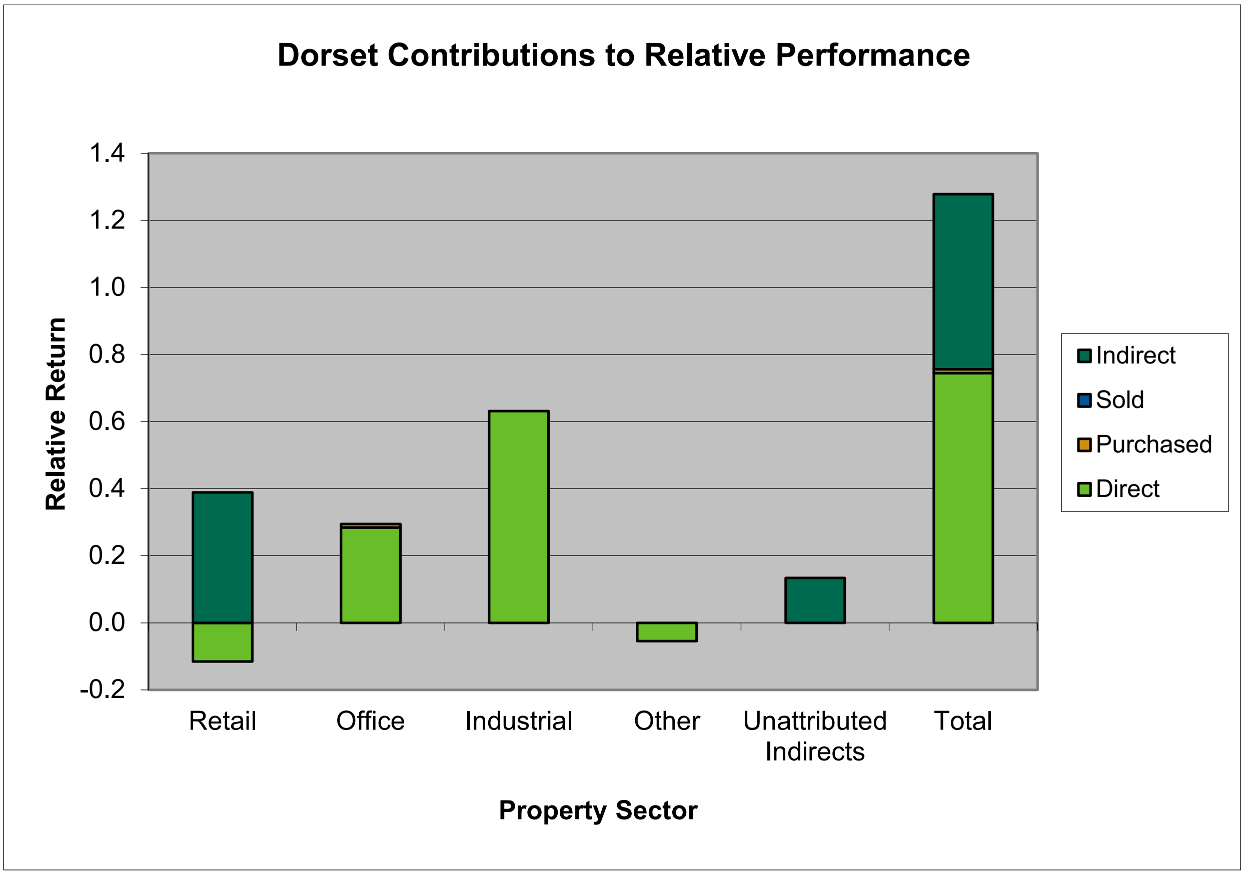
The Fund's directly held retail holdings provided a total return of 5.2% against the benchmark total return of 3.6%, the weighted contribution to relative return was 0.3%. The retail outperformance was driven by the indirectly held retail shopping centre assets which delivered a total return of 8.0% against the benchmark shopping centre return which was 3.1%, a relative weighted contribution of 0.4%. The Fund's directly held retail holdings provided a relative weighted contribution of -0.1%.

The Fund's office holdings also outperformed this quarter, delivering a total return of 5.8% against the benchmark return of 5.0%, a relative weighted contribution of 0.3%. The outperformance was mostly delivered from the Funds holding in the West End & Midtown office sector, namely comprising 83 Clerkenwell Road, London. This sub-sector delivered a total return of 9.4% against the benchmark return of 5.0%, a relative weighted contribution of 0.3%.

The Fund's industrial holdings provided the strongest relative weighted contribution to the Fund's outperformance this quarter of 0.6%. The industrial sector provided a total return of 6.6% against the benchmark return of 5.6% The outperformance was broadly delivered by the south east industrial sub-sector which delivered a total return of 9.4% against the benchmark return of 6.0%, a relative weighted contribution of 0.7%. The strongest performing property this quarter was Phoenix Park, London NW2 which is in the South East Industrial sub sector. This asset delivered a relative weighted contribution of 0.4%.

The Other Commercial sector, comprising Glasgow, Newcastle and The Calls Leeds, provided a total return of 3.8% over the quarter in comparison to the Other Commercial benchmark total return of 3.5%, a relative outperformance of 0.4% at a sector level, however on a relative weighted basis this equated to -0.1%.

The Unattributable Indirects provided a total return of 7.1% 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%. This sector now only comprises the inProp UK Commercial Property Fund.



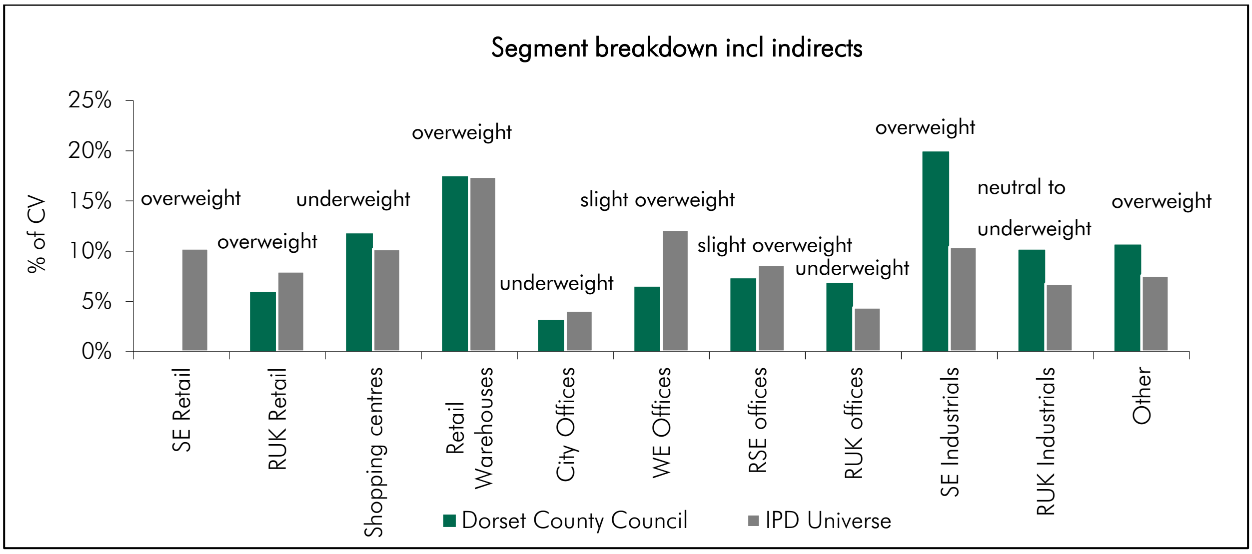

*Relative return is defined as the ratio of the return achieved by the portfolio, segment or individual asset, to that of the chosen benchmark, expressed as a percentage. ((1+Fund TR) / (1+ Benchmark TR) – 1)*100

# 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 September* vs. IPD Universe with target weightings above.




*Excludes non sector specific indirect inProp UK Commercial Property Fund

The portfolio target size of £210m has been reached this quarter through the purchase of 15 Ebenezer Street, London N1 and capital improvements. The total portfolio size is now £211.3m. Assuming the target of £210m remains, with further acquisitions in the pipeline namely Pilgrim House, Aberdeen (£10m), Henbury and Ingersley Buildings, Macclesfield (£3.9m), and the Derwent Shared Ownership Portfolio (9.0m), it is recommended that the Fund disinvest from its non-sector specific indirect holding in inProp UK Commercial Property Fund (£10.6m) in order to re-weight, post completion of one of the above deals.

The above segment breakdown chart including indirects now looks well balanced against the IPD Universe. The portfolio weighting to Central London Offices increased this quarter following the acquisition of 15 Ebenezr Street, London N1 which is accounted for under City Offices. The portfolio still remains underweight to Central London offices relative to its benchmark, and therefore remains at risk if they continue to outperform the benchmark. However, this risk has been reduced with the latest acquisition.

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. Post quarter end two further acquisitions were set to complete; Pilgrim House, Aberdeen (£10m) and Shared Ownership Portfolio (£9m). Now that the target Fund size is achieved, the Manager is recommending a disinvestment from inProp where a redemption notice of only one month is required.

There were no direct property sales during Q3.

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, 99.6% of collectable rent was collected, this is an improvement on last quarter. Due to a change in accounting systems from Tramps to Yardi, the 28 day rent collection statistics are unavailable at the point of print. 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. 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.

The portfolio is exposed to one unattributed indirect vehicle; 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. Given that the portfolio is now at target and with further acquisition and capital value improvements anticipated, it is considered that now is a good time to serve a redemption notice from the vehicle.

Over the quarter, the Fund's indirect holdings outperformed the wider market returning 7.7%.

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.
- Now that the Fund has reached the target size of £210m, with further acquisitions in the pipeline, the Manager will seek to use the current market liquidity to sell assets that could be expected to underperform in a market downturn.
- The aim is to maintain an appropriate balance and risk profile across the sectors.

## ACQUISITIONS

- During the quarter the Fund completed on the off-market purchase of 15 Ebenezer & 25 Provost Street, London N1 for £6.0m (4.3% NIY). The property is 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 sub-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 anticipated if the lease is surrendered and the property refurbished earlier than the current lease expiry. There was a capital value uplift realised in the Q3 2014 valuation immediately post purchase.

- Post quarter end in Q4, the Fund completed the purchase of an office investment Pilgrim House, Aberdeen for £10,000,000. 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).

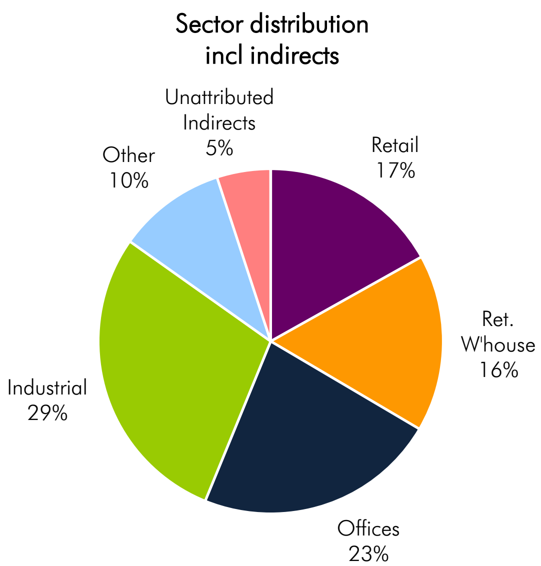
- Post quarter end the Fund is also set to complete the purchase of the Derwent Shared Ownership portfolio for £8.95m (4.2% NIY). The portfolio comprises 223 properties. Each unit has a leaseholder that has equity in their property bought through a shared ownership scheme. The tenant pays a rent on the part of the property they do not own which grows annually at RPI or in excess of RPI depending on the individual lease terms. At a portfolio level the rent will increase at RPI + 0.3% pa. Each individual tenant also has the right to buy further equity in their 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 a 7.6% IRR. The returns are however, hedged against inflation.

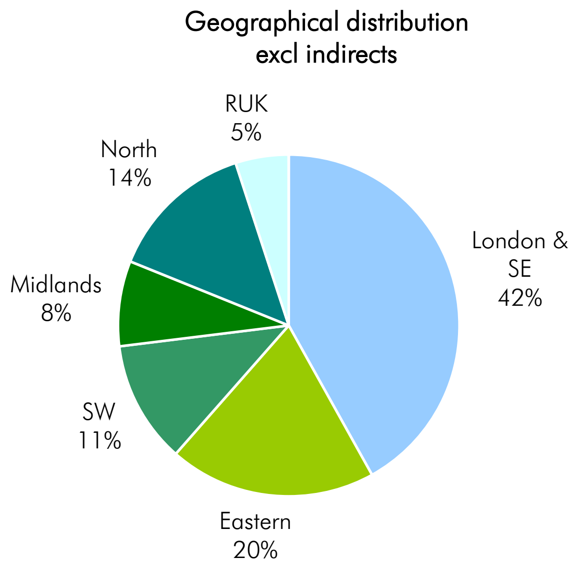
- Also anticipated post quarter end is the exchange of Henbury & Ingersley Buildings, Macclesfield. This is a forward commit to purchase two buildings let to the East Cheshire NHS Trust for a term of 21 years with rent reviews every 3 years on an upward only basis to uncapped RPI. This acquisition is set to complete Q3 2015 for £3,878,330, reflecting a net initial yield of 5.5%.

## SALES

- There were no direct property sales made during the quarter.
- During Q4 a recommendation will be submitted to disinvest from inProp as the Dorset property portfolio is now at the target value of £210m and is expected to increase with further committed acquisitions and capital growth.

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



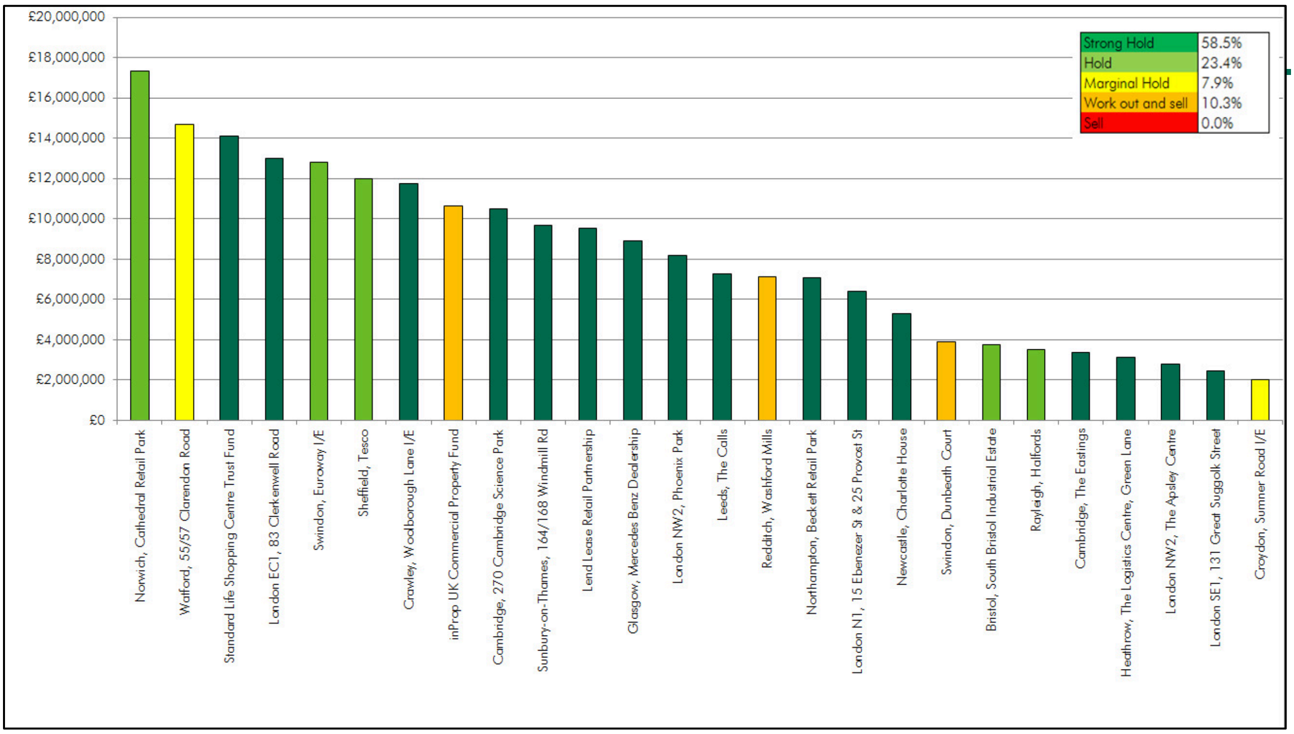




## BAD DEBTS/WRITE OFFS

There are no proposed bad debts/write offs 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 September 2014.



# SECTION V – ASSET MANAGEMENT

## HIGHLIGHTS

- **London, Phoenix Park:** this property delivered the strongest total return for the quarter at 14.5%, a relative weighted contribution of 0.35%. The total return was mostly driven by capital growth of 13.1% with the valuation increasing from £7,250,000 to £8,200,000 this quarter alone. London industrials continue to be very sought after in the investment market, and during the quarter occupationally a number of interested occupiers sought to take a lease on the vacant unit at the scheme resulting in increasing the Market Rent for all of the units on the estate.
- **London, 83 Clerkenwell Road:** this property delivered a very strong total return of 9.4% over the quarter, the second strongest return by relative weighted contribution to performance this quarter. The uplift in the quarter was driven by capital growth, the valuation increased by £1,000,000 this quarter alone. Further strong rental and investment evidence continues to be set having a positive impact upon the yield of the property.
- **Crawley, Woolboroguh Lane Industrial Estate:** This asset was the third highest performing direct asset that contributed to the relative outperformance of the portfolio this quarter, delivering a total return of 8.2%. The tenant Alpha Flight UK in occupation of unit A did not action the tenant option to determine during the quarter, therefore ensuring the unit is income producing until 2020.
- **Norwich, Cathedral Retail Park:** the property was the fourth highest contributor of a direct asset to the relative outperformance of the portfolio this quarter, delivering a total return of 6.1%. The property increased in value by the third largest amount this quarter demonstrating a £750,000 increase over the quarter.

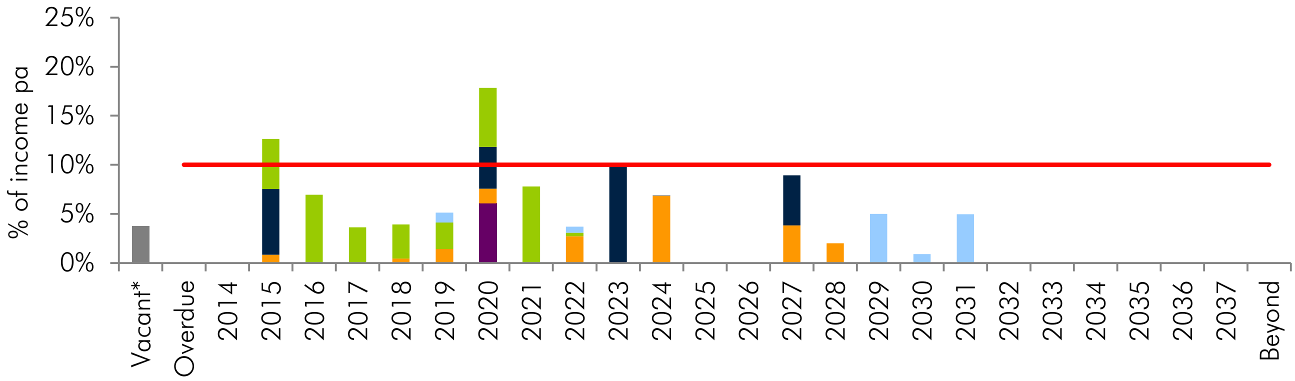
## VOIDS WITHIN THE PORTFOLIO – 30TH SEPTEMBER 2014

| Property | Sq.ft. to let | % of Portfolio ERV | Total Void Rent | Status |
|---|---|---|---|---|
| The Logistics Centre, Green Lane, Heathrow | 20,613 | 1.89% | £231,900 | Vacant |
| Unit 1, Washford Mills, Redditch | 9,622 | 1.21% | £149,100 | Vacant |
| Unit 5, Phoenix Park, London | 4,533 | 0.40% | £48,700 | Under offer |
| Unit 2, Sumner Road, Croydon | 3,385 | 0.25% | £30,500 | Vacant |
| **TOTAL PORTFOLIO VOID** | **38,153** | **3.75%** | **£460,200** | |

The Fund's void rate increased from 1.96% to 3.75% this quarter as a result of the lease on The Logistics Centre, Heathrow expiring. The void remains significantly lower than the IPD Monthly Index rate which at the end of September was 10.5%.

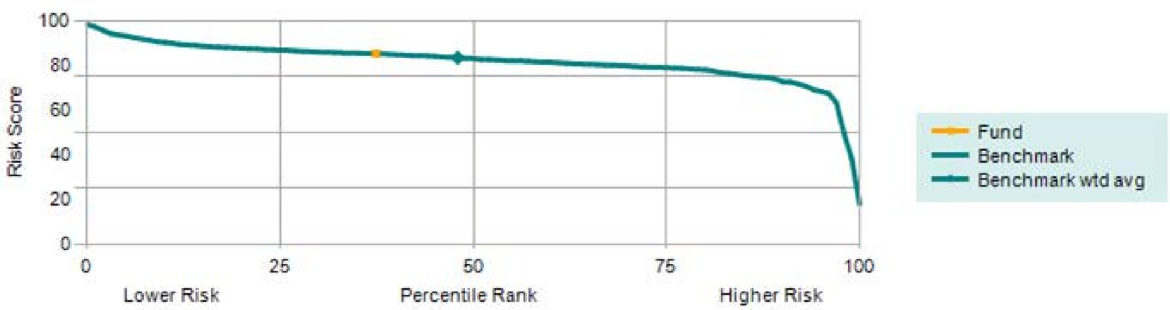
## LEASE EXPIRY PROFILE FOR THE PORTFOLIO – 30TH SEPTEMBER 2014

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 September 2014. The Fund is in the second quartile with a Weighted Risk Score in the 37.4th percentile against the Benchmark Weighted Risk Score in the 48th percentile. This is an improved score from the previous quarter (40.3rd percentile). A tenant that has a medium-high risk as calculated by IPD IRIS is Worldpay Limited, who account for 7.1% of the income, however the Manager has reviewed accounts closely and it is not clear why the score is viewed so poorly by IPD.

## 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 |
|---|---|---|
| London N1, 15 Ebenezer & 25 Provost Street | Whole | The property was purchased during the quarter |
| Rayleigh, Rayleigh Road | Whole - Halfords | A lease extension was agreed with Halfords and consequently they had a half rent for 12 months from 26th July 2013. This became fully income producing again this quarter and the lease now expires on 26th July 2028. |
| 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 did not action their tenant option to break the lease during the quarter. Therefore the break dated 1st April 2015 has been missed. The lease is now set to expire 1st April 2020. |
| | Unit D – Lease Expiry | The tenant, also Alpha Flight UK Limited, have a lease expiring 24th March 2015 and the tenant have informed us that they do not wish to renew after this time. Building surveyors have been appointed to deal with the dilapidations claim for the unit and refurbishment for future alternative occupiers. Letting agents have also been appointed and have commenced marketing the unit. |
| Croydon, 75/81, Sumner Road | Unit 2 – Vacant | A dilapidations settlement with the previous tenant Belron UK Limited was agreed and settled during the quarter, and refurbishment of the unit has commenced which is set to complete during Q4.<br>The unit is being fully marketed for new occupiers. |
| | Unit 3 – Tenant option to break | The tenant BEW Electrical did not action the tenant option to break during the quarter dated 28th February 2015, therefore they are now in occupation until 16th January 2018. |
| | Unit 4 – Rent review | An increase in rent for the review dated 17th January 2013 was agreed during the quarter at £35,000 p.a. (£9.31 psf) an increase from the previous passing rent of £33,500 pa (£8.91 psf). |
| Heathrow, The Logistics Centre | Whole | The tenant Virgin Atlantic vacated the property during the quarter and are still negotiating the dilapidations settlement. Refurbishment works have commenced and continued post quarter end.<br>The unit continues to be marketed with further traction now following refurbishment works on site and the resolution of the planning issue (see below). |

| Property | Unit & Activity | Forecast Outcome |
|---|---|---|
| Heathrow, The Logistics Centre | Planning | There was a use restriction on the title of the property which only allowed hours of operation from the unit from 9am to 5pm Monday to Thursday. This was a significant deterrent for a number of logistics companies who could take the premises, as they would need to be able to operate 24hours a day, 7 days a week. The restriction was appealed during the quarter and post quarter end this restriction was lifted. |
| London NW2, Phoenix Park | Unit 3 – Lease renewal | The lease to Eurosat London Limited was renewed during the quarter. The lease was set to expire on 27th April 2015. The term was extended by an additional 5 years to 27th April 2020 and the tenant will benefit from 4 months rent free and remain at the current passing rent of £48,700 pa (£10.75psf). |
| | Unit 5 – Marketing Unit | The unit was under offer to MH Costa during the quarter for a new 5 year lease with 6 months rent free at a rent of £51,000 pa (£11.25 psf). Post quarter end the tenant retracted their offer to take a lease of the unit due to cashflow issues, so the unit was immediately remarketed. Subsequently it has been put under offer to the tenant in the adjoining unit Youngs Extract Supplies Ltd at the same rent previously offered but with only 4 months rent free. |
| | Unit 6 – Lease renewal | Following lengthy lease renewal negotiations, the lease renewal with Star-Images Enterprises in unit 6 completed during the quarter. There is a new 5 year term at a rent of £48,500 pa (£10.60 psf) an increase from £43,500 pa (£10.00psf). The tenant has the right to break the lease on the 2nd and 3rd anniversary of the lease. There was no incentive for the deal. |
| Swindon, Dunbeath Court | Unit 1 & 2 – Stepped Rent | The incentive period for the lease renewal to Swindon Plumbing Supplies Ltd expired during the quarter and now the tenant is paying the full contractual rent; unit 1: £22,640 pa (£5.85 psf), and unit 2: £15,807 pa (£5.85 psf). |
| | Units 8 & 9 – Lease Renewal | During the quarter negotiations regarding a lease renewal with DHL who are in occupation of units 8 & 9 continued. |
| Swindon, Euroway Indsutrial Estate | Unit 10 – Stepped Rent | During the quarter the unit let to Business Installations Limited became income producing, the tenant benefitted from 2 months rent free following the lease renewal, and will now benefit from 10 months at half rent. |
| | Unit 11- Stepped Rent | During the quarter the rent incentive period expired on the unit let to Eco Signs Swindon Limited, the tenant is now paying the full contractual rent of £71,000 pa (£5.00psf), an increase from £40,000 pa (£2.82psf). |
| Leeds, The Calls | Unit 1 – Unit extension | During the quarter a deed of variation with Red Smoque trading as Reds Barbeque completed. This incorporated additional floor area that has now been rentalised and is coterminous with the tenant's existing lease. The extra area accounts for £1,750 pa. |
| | Unit 2 – Rent Review | The rent review dated 24th June 2014 is currently being negotiated with the tenant Ask Restaurants t/a Zizzi. |

| Property | Unit & Activity | Forecast Outcome |
|---|---|---|
| Leeds, The Calls | Unit 5 & 31-33 Call Lane – Rent Review | The rent reviews dated 20th September 2014 continue to be negotiated with the tenant Gerard Feltham who 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 | 23 |
|---|---|
| No Of Units | 73 |
| a | 0 |
| b | 5 |
| c | 20 |
| d | 27 |
| 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 across the portfolio now have them.

| 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 EPC's for all units in the portfolio
- The new purchase 15 Ebenezer Street and 25 Provost Street London is a D rated EPC.

# 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 Sept 2014 Total Return | 12 months to Sept 2014 Total Return |
|---|---|---|---|---|---|
| Lend Lease Retail Partnership | 60 | 7,014,056 | 9,528,600 | 0.9% | 14.3% |
| Standard Life Investments UK Shopping Centre Trust | 13,853.43 | 10,000,000 | 14,133,131 | 3.4% | 16.5% |
| inProp UK Commercial Property Fund | 100,050.03 | 10,000,000 | 10,623,312 | 4.8% | 16.2% |

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

*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. |
|---|---|---|
| 0.9% | 14.3% | 9.3% |

- The Lend Lease Retail Partnership returned 0.9% over the quarter and 14.3% over the last year.
- The performance during the quarter was driven by income generated from the fund's portfolio, with the capital values of the fund's portfolio unchanged over the 3 month period. The fund has a portfolio of two prime regionally dominant properties: Bluewater, Kent and Touchwood, Solihull. Bluewater and Torchwood were valued at 4.4% and 5.1% equivalent yield respectively throughout the quarter.
- This is following the significant valuation uplift seen in the previous quarter, which was driven by the sharp upward re-pricing of the dominant asset in the fund's portfolio, Bluewater, following the sale of a 30% ownership stake held by Lend Lease (the parent company) in June 2014 for a price that was approximately 15% ahead of valuation. The asset is nearly fully let and accounts for two-thirds of the partnership's gross property assets.
- Lend Lease Retail Partnership 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 3.1%.
- The fund has been investigating alternative options for the Glow conference/convention centre at Bluewater, after poor operating performance, and has decided to close the centre after the final Christmas events in December 2014, and commence reconfiguration works in February 2015. The fund is proposing to install an IMAX cinema, catering and leisure facilities. Post quarter-end, the development management agreement for the 115,000 sqft extension of Touchwood was finalised, providing 25 new shops and restaurants and forecast to open in 2018.

**Standard Life UK Shopping Centre Trust (Specialist Core Shopping Centre Fund)* (Q3 2014)**

| 3 Months % | 12 Months % | 3 Years % p.a. |
|---|---|---|
| 3.4% | 16.5% | 9.1% |

- The Standard Life UK Shopping Centre Trust produced a total return of 3.4% and 16.5% over the past three and 12 months, outperforming its benchmark of 3.3% and 13.9% over the respective corresponding periods. The fund provided a 4.1% annual distribution yield whilst the quarterly return is attributable to the property portfolio value increase of 3.1%. The funds' assets have continued to benefit from improving investment market sentiment towards UK shopping centres, with investors risk appetite increasing for reasonable quality secondary assets. The portfolio continues to outperform the IPD Monthly Index – Shopping Centre Sub-sector by 4.2% (annualised) since inception.
- Work continues to progress for the longer term initiatives for key retailers such as the delivery of the Apple and Victoria's Secret stores at Brent Cross and Top Shop at Churchill Square, Brighton. At Brent Cross, outline planning consent has been secured; following a six week judicial review period that passed without any objections. Furthermore, commercial terms of the development agreement with Barnet council have been broadly agreed.
- Following the successful leasing activity, the WAULT on the portfolio marginally decreased to 7.0 years (from 7.1 years). The void rate for the portfolio decreased to 1.2% from 1.5% by ERV over the quarter whilst retailers in administration increased over the quarter to 2.6% of passing rent following retailer failures of Phones4U and La Senza. The fund has rental guarantees on three of the four Phones4U units within the portfolio whilst one of the two La Senza stores has already been surrendered and re-let. Additionally, the effect of the Mamas & Papas CVA over the quarter has been reflected in the valuation of Brent Cross.

- At the end of the quarter, the trust has a property portfolio valued at £1,448m; providing exposure to eight assets across the UK. The fund remains ungeared.
- During the quarter, the manager completed its fund extension process, extending the fund maturity to June 2025, with a 15% liquidity window in June 2020. As part of the extension process, investors were given the opportunity to serve redemptions (the manager has 24 months to satisfy); 12.5% of the units in issue (c. £190m) are subject to a redemption request, the manager will be formalising their liquidity strategy over the coming quarters.

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

| 3 Months % | 12 Months % | 3 Years % p.a. |
|---|---|---|
| 4.8% | 16.2% | 8.1% |

- 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 Q3 2014, the fund produced total returns of 4.8% and 16.2% over the past three and 12 months respectively. Whilst the fund outperformed against the interim benchmark, being the IPD UK Annual Index Estimate ("Annual Estimate") over the quarter by 0.4%, the fund has underperformed over the past 12 months by 2.6%. The Annual Estimate returns were 4.4% and 18.8% over the corresponding time periods. The total return for the quarter comprised an income return of 1.1% with a capital return of 3.7%. Income has fallen in line with the benchmark as property yields continue to move inwards due to accelerating capital values.
- The fund performed strongly in both July and August, beating the benchmark by 1.1% and 0.6% respectively over those months, but was pegged back in September due to investor appetite for liquid real estate exposure via futures having driven pricing upwards ahead of the benchmark in the first two months of the quarter, in anticipation of further strong performance from IPD over the remainder of the calendar year. The manager will shortly be looking to gain exposure to the 2015 calendar year IPD All Property contracts.
- Over the quarter, inProp's NAV increased 3.5% to £140.5m (Q2 2014: £135.7m), the fund had no new subscriptions or redemptions 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.

Past performance is not a reliable indicator of future results.

** 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 Sept 2014 | Valuation June 2014 | Qtr Total Return | Annual Income | OMRV | Net Initial Yield [2] |
|---|---|---|---|---|---|---|
| **Offices** | | | | | | |
| London EC1, 83 Clerkenwell Rd | £13,000,000 | £12,000,000 | 9.4% | £477,200 | £763,300 | 3.5% |
| London N1, 15 Ebenezer St & 25 Provost St | £6,400,000 | *Purchased £6,000,000* | 1.9% | £272,588 | £570,200 | 4.0% |
| Watford, Clarendon Road | £14,700,000 | £14,500,000 | 3.0% | £902,750 | £999,000 | 5.8% |
| Cambridge, The Eastings | £3,350,000 | £3,300,000 | 3.0% | £190,500 | £216,800 | 5.4% |
| Cambridge, 270 Science Park | £10,500,000 | £9,950,000 | 6.8% | £640,927 | £834,227 | 6.8% |
| Total Offices | £47,950,000 | £39,750,000 | 5.8% | £2,483,965 | £3,383,527 | 4.9% |
| **Retail Warehouse** | | | | | | |
| Rayleigh, Rayleigh Road | £3,500,000 | £3,500,000 | 1.6% | £222,783 | £222,783 | 6.0% |
| Redditch, Washford Mills | £7,150,000 | £7,150,000 | 1.5% | £431,689 | £553,200 | 5.7% |
| Northampton, Becket Retail Park | £7,100,000 | £6,800,000 | 6.1% | £431,000 | £429,000 | 5.7% |
| Norwich, Cathedral Retail Park | £17,350,000 | £16,600,000 | 6.1% | £1,054,000 | £1,054,000 | 5.7% |
| Total Retail Warehouse | £35,100,000 | £34,050,000 | 4.7% | £2,139,472 | £2,258,983 | 5.8% |
| **Industrials** | | | | | | |
| Bristol, South Bristol Trade Park | £3,750,000 | £3,750,000 | 1.7% | £252,757 | £255,500 | 6.4% |
| Crawley, Woolborough IE | £11,750,000 | £11,050,000 | 8.2% | £811,541 | £1,055,005 | 6.5% |

| Property | Valuation Sept 2014 | Valuation June 2014 | Qtr Total Return | Annual Income | OMRV | Net Initial Yield [2] |
|---|---|---|---|---|---|---|
| Croydon, 75/81, Sumner Road | £2,000,000 | £1,850,000 | 9.3% | £99,500 | £138,800 | 4.7% |
| Heathrow, Skylink | £3,150,000 | £3,150,000 | -0.2% | £0 | £231,900 | 0.0% |
| London, 131 Great Suffolk St | £2,450,000 | £2,400,000 | 3.2% | £110,000 | £238,400 | 4.2% |
| London, Apsley Centre | £2,800,000 | £2,600,000 | 9.3% | £162,000 | £164,100 | 5.5% |
| London, Phoenix Park, Apsley Way | £8,200,000 | £7,250,000 | 14.5% | £447,005 | £501,948 | 5.2% |
| Sunbury, Windmill Road | £9,685,000 | £9,200,000 | 6.9% | £599,750 | £599,650 | 5.9% |
| Swindon, Dunbeath Court | £3,900,000 | £3,750,000 | 6.1% | £301,787 | £319,137 | 7.3% |
| Swindon, Euroway IE | £12,800,000 | £12,600,000 | 3.6% | £1,017,276 | £999,235 | 7.5% |
| Total Industrial | £60,485,000 | £57,600,00 | 6.6% | £3,801,616 | £4,503,675 | 5.9% |
| **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** | | | | | | |
| Leeds, The Calls | £7,250,000 | £6,800,000 | 8.3% | £453,360 | £510,300 | 5.9% |
| 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 | £21,450,000 | £21,000,000 | 4.0% | £1,387,080 | £1,442,486 | 6.1% |
| Total Direct Property [1] | £176,985,000 | £164,400,000 | 5.3% | £10,492,133 | £12,268,671 | 5.6% |

| Property | Valuation Sept 2014 | Valuation June 2014 | Qtr Total Return | Annual Income | OMRV | Net Initial Yield [2] |
|---|---|---|---|---|---|---|
| Lend Lease Retail Partnership | £9,528,600[3] | £8,658,480[3] | 0.9% | £323,793 | - | 3.2% |
| Standard Life Investments UK Shopping Centre Trust | £14,133,131[3] | £13,466,919[3] | 3.4% | £607,564 | - | 4.0% |
| inProp UK Commercial Property Fund | £10,623,312[3] | £10,049,025[3] | 4.8% | £556,478 | - | 5.0% |
| Total Indirect Property[2] | £34,285,043 | £32,174,424 | 7.7% | £1,484,834 | - | 4.1% |
| **GRAND TOTAL** | **£211,270,043** | **£196,574,424** | **5.7%** | **£11,976,967** | **-** | **5.4%** |

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 August 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.

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