Pilgrim House, Old Ford Road, Aberdeen

QUARTERLY REPORT Q4 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)	3.9%	19.5%	11.5%	11.5%
Dorset Direct Portfolio (standing investments)	4.3%	20.5%	12.8%	12.4%
IPD Quarterly Universe (the new benchmark)	4.1%	17.9%	10.4%	10.8%
MSCI All Share	-0.4%	0.5%	9.5%	7.7%
5 to 15 Year Gilts	5.1%	11.8%	3.5%	7.1%

Source: IPD Quarterly Universe Benchmark Report.

Portfolio Key Facts	Dec 2014	Sept 2014	June 2014	Mar 2014
Market Value of Properties	£192.80m	£176.99m	£164.40m	£155.45m
Indirect Portfolio	£34.46m	£34.29m	£32.17m	£31.65m
Exposure to debt [1]	0.0%	0.0%	0.0%	0.0%
Void rate [2]	3.15%	3.75%	1.96%	1.79%
Average Lot Size	£8.03m	£7.70m	£7.47m	£7.40m
No. of Properties Direct	24	23	22	21
Passing Rent (pa) [3]	£11.23m	£10.49m	£10.05m	£10.24m
Open Market Rental Value [3]	£13.08m	£12.27m	£11.51m	£10.99m
Net Initial Yield [4]	5.5%	5.6%	5.8%	6.3%
Equivalent Yield [4]	6.1%	6.3%	6.4%	6.6%
Reversionary Yield [4]	6.5%	6.6%	6.6%	6.7%

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

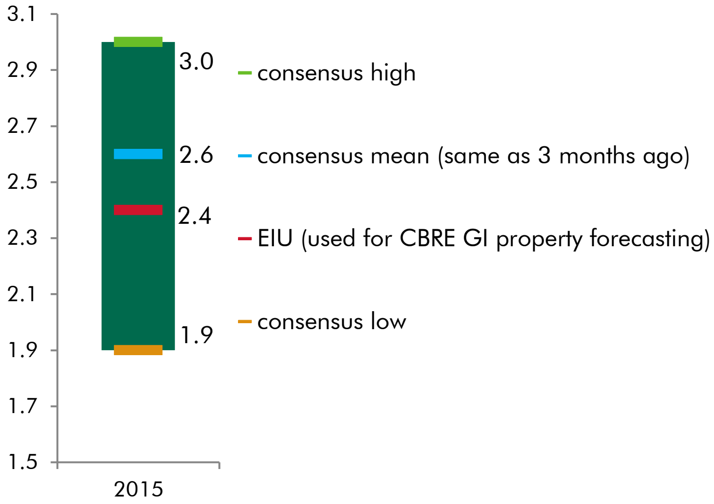
UK PROPERTY MARKET OUTLOOK, QUARTER 1 2015

UK ECONOMIC OUTLOOK

The UK economy rebounded in a meaningful fashion in 2014, contributing to historically strong commercial property performance. Yet while 2014 was a break out year both in terms of absolute and relative economic growth, recent high frequency data points to a moderating pace of expansion. The latest set of national accounts with downward revisions to recent rates of growth suggest that the economic recovery is looking more fragile than it had appeared. On the back of softer net investment, the revisions mean that the annual growth rate in 2014 looks set to be about 2.6% and not 3%+ as had been widely expected.

Despite a drearier assessment of recent economic activity, there are still reasons to be optimistic about the growth outlook. The recent sharp fall in oil prices and rising wages should ensure that households' real incomes pick up, providing more sustainable foundations for further growth in spending. Meanwhile, the strength of corporate surveys and firms' balance sheets suggests that the recovery in business investment has further to run. And with exports still competitively priced in foreign markets despite recent currency volatility, net trade should support growth. Owing to all of this, consensus forecasts expect the UK to grow again by 2.6% this year (Figure 1), a level which should continue to support demand for commercial real estate.

Figure 1 Range of 2015 UK GDP forecasts. %. Source: January 2015 Consesnus Economics, EIU.



Interest Rates

Given the strength of the economy, signs of wage growth but inflation testing historic lows, the Bank of England clearly has its work cut out for itself in terms of the interest rate path. While our working assumption is that monetary policy remains loose, 2015 is likely to be a year when the Bank of England begins to raise rates. Despite an imminent hike, we still expect a fairly benign bond market backdrop, against which UK property should continue to offer attractive relative value.

Risks to the Outlook

The key risks to the outlook at the onset of 2015 are remarkably similar to those last year: sharp unforeseen adjustments to monetary policy, geopolitical shocks or prolonged deflation in Europe.

If interest rate tightening in the U.S. or UK occurs sooner or at a sharper rate than is currently expected, the resultant impact on government bond yields and currency movements has the potential to quickly hinder property market momentum with riskier strategies susceptible to sentiment swings. While such risks are likely to be most acute in developing economies, global capital flows to UK property would surely be impacted.

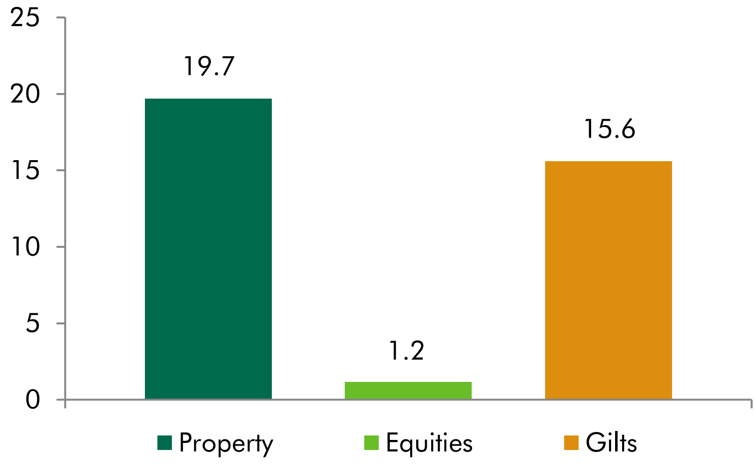
Geopolitical shocks are notoriously difficult to predict, but ongoing tensions in some of the world's hot spots, mean that the potential for unforeseen flare ups has unfortunately not diminished. Closer to home, uncertainty about the outcome of the May UK general election and a potential EU referendum may be cited by property occupiers and investors as a reason to curtail activity. Irrespective of the outcome, we take the view that the UK will remain business friendly and among the world's most attractive environments for foreign investors.

Admittedly prolonged deflationary threats are less acute in the UK as they are in Europe, but the fact that the Eurozone is Britain's largest trading partner clearly has the potential to slow trading activity within the region. A low growth, low inflationary environment in Europe affords the ECB an ability to keep interest rates lower for longer as well as implement other forms of monetary policy to stimulate the economy. The experience from both the U.S. and UK suggests that real asset prices can be positively impacted.

UK PROPERTY PERFORMANCE

UK property had a phenomenal 2014, both compared to its own history as well as against other asset classes. According to the latest CBRE monthly index, returns for all property were 19.7% in 2014, driven by capital value growth of 12.9%. This is the highest recorded total return on the fifteen year old index and reflects a higher return than both UK equities or gilts (Figure 2). Significant improvements were seen in the rate of rental value growth across all UK property, which comfortably exceeded inflation during the year at 2.7%. Encouragingly, performance has become less polarised. While London has continued to deliver strong performance, the regional story has sustained momentum. Admittedly, the components driving performance have been different. In the regions, yield shift is by far the biggest contributor to capital value growth. In contrast, rental value growth is making a notable contribution in London and the South East. At a sector level, offices delivered the strongest return at 22.7%. Industrial performance was marginally softer than the all property average at 19.3%. While retails were the relative laggard delivering a return of 15.4%.

Figure 2 Annualised Total Returns, %. Source: 2014 CBRE index, Thomson Reuters Datastream.



Occupational Markets

Occupational markets are benefiting from both a strengthening economy and a general lack of modern supply. This has been most pronounced in office markets across the country where Grade A space is dwindling on the back of renewed demand from a variety of sectors. The scale of change in Central London has been fundamental. Led by office occupiers who are no longer bound to core locations, pre-committed space has reached a cyclical high. In the City, we have seen some tenants willing to pre-agree rent reviews while in the West End vacancy rates have slid to near all-time lows as office stock is converted into residential use. Regional office markets like Birmingham, Leeds and Manchester are in full recovery mode. Diminishing rent free periods imply that real rental growth will soon follow suit.

Demand for industrial space in the South East and Midlands has intensified over the previous quarter as Britain's SMEs are finally in expansion mode after years of retrenchment. Within our direct portfolios, we are not only signing more leases but able to demonstrate rental growth on more estates. The logistics sector has been attracting our attention of late due to shifting retail patterns and the need for 'last mile' delivery. A lack of modern logistics space in key distribution locations has made speculative development a viable option for those investors with a tolerance for risk.

The retail sector very much remains a mixed bag. Many retailers are still incredibly cost conscious and are having difficulty keeping margins up. While the situation on the high street is not as bad as popular media would have you believe, vacancy rates have yet to subside to their long run trend. However, we are finding that with rents having rebased to economic levels occupiers are 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.

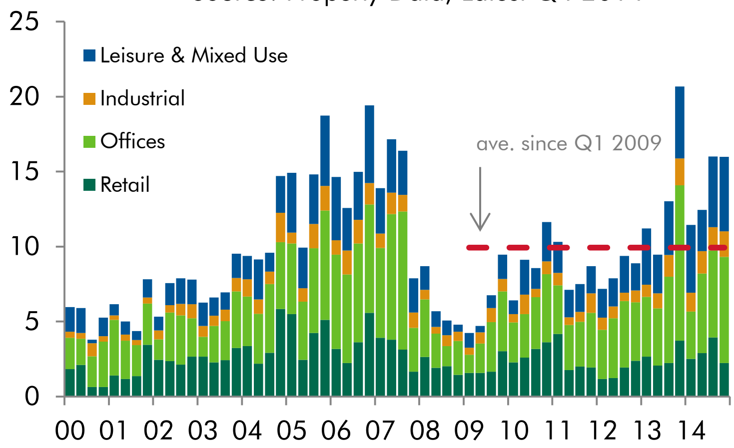
Supermarkets clearly require attention. Over the past quarter the flow of negative news from UK food store operators has intensified. Confirmation that some of the chains are actively trimming their current and planned property portfolios suggests that the sector will underperform over the coming years, potentially with elevated short-term downside risks. Stores with open market rental review lease structures are likely to see yields drift out and capital values fall. Over the past two years, supermarket rental value growth has averaged just 0.4%y/y, less than a quarter of the 1.7% average rate enjoyed in the preceding two years. And it is hard to see any recovery in the near future.

Whilst a weight of money has kept yields down on indexed-linked supermarket income streams, this slice of the market is not immune from a shift in sentiment. The investment criteria of the annuity funds that have aggressively targeted this type of product is rigid, typically requiring a spread of covenant exposure. A credit rating downgrade to an operator will likely result in it being stricken from a 'buy' list. In certain scenarios, funds may even be obliged to sell existing holdings. On a more positive note, cut-backs in store openings will keep a lid on supply, helping preserve existing catchments. This should limit the downside risks to rental values of stores we already hold. We take the view that now is the wrong time to prune supermarket holdings. Rather we see the potential for lease negotiations with operators or to opportunistically buy well-located, profit-making stores off of negative sentiment.

Capital Markets

2014 was a year of substantial change in UK real estate capital markets. The total value of direct investment activity was similar to 2013 at about £55 billion (Figure 3), but with a notable geographic shift. Activity reduced in Central London, but increased in the rest of the UK as investors perceived value in an improving economy. Debt markets also opened up substantially with a much higher level of lending and significant falls in margins, even for properties with more risk. While this evolution is suggestive of a market that is finally normalizing, the pace of change has been pronounced and is certainly one reason for the competitive bidding that we noted in our last commentary. Our continued sense is that inward yield shift needs to pause, giving time for the underlying occupier market and rents to catch up. While many market participants speak of the proverbial pause for breath in January, commercial sensibility as well as the compelling relative yield spread with other asset classes may dictate otherwise.

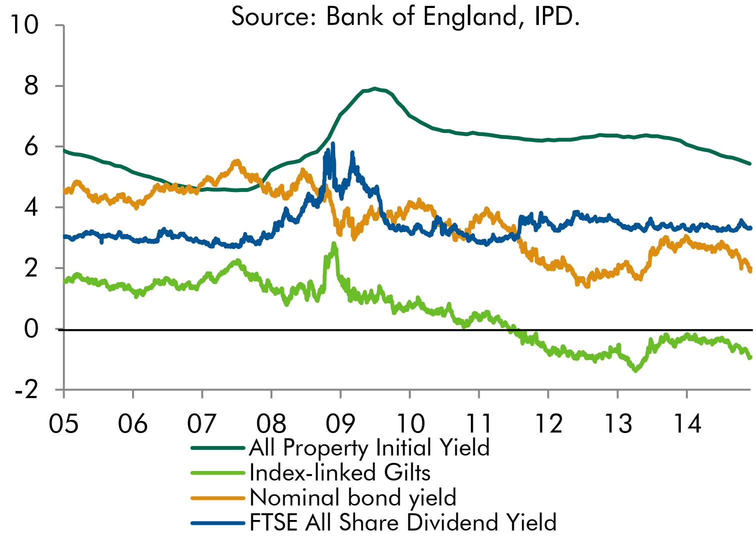
Figure 3 Direct market transactions by sector, £bn. Source: Property Data, Latest Q4 2014



Outlook

If 2014 was the year of exploiting the prime vs. secondary yield gap, then 2015 looks to be one where the "relative argument" dominates. With global growth weighing on equity market momentum and monetary policy and geopolitical uncertainties sustaining low gilt yields, UK property looks very well placed (Figure 4).

Figure 4 10 year UK gilts, linkers & IPD All Property Initial Yield, %. Latest=Nov. 2014. Source: Bank of England, IPD.



Following a phenomenal year for total returns, we expect 2015 to be one of more sustainable, trend-like level of growth across most property sectors. Election-related uncertainty may induce some stasis to the market early in the year and yield compression is likely to wane. But the fact remains that a 5% income return in an low inflationary environment with rental growth as upside is a pretty attractive proposition. Even buying off of low yields where there is the potential for rental growth still should prove a successful strategy. In terms of our top picks, regional offices and industrials and the broad category that is "other" are expected to offer the most exciting opportunities, admittedly meeting different risk/return objectives.

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 underperformed the IPD Quarterly Universe benchmark at a Fund level with a total return of 3.9% for the quarter, against the benchmark total return of 4.1%, a relative weighted performance of -0.2%*. The office and industrial holdings in the portfolio performed above the line which is in line with the benchmark which saw both those sectors performing the best this quarter. Retail, other commercial and the indirectly held assets in the portfolio performed below the line at a sector level.

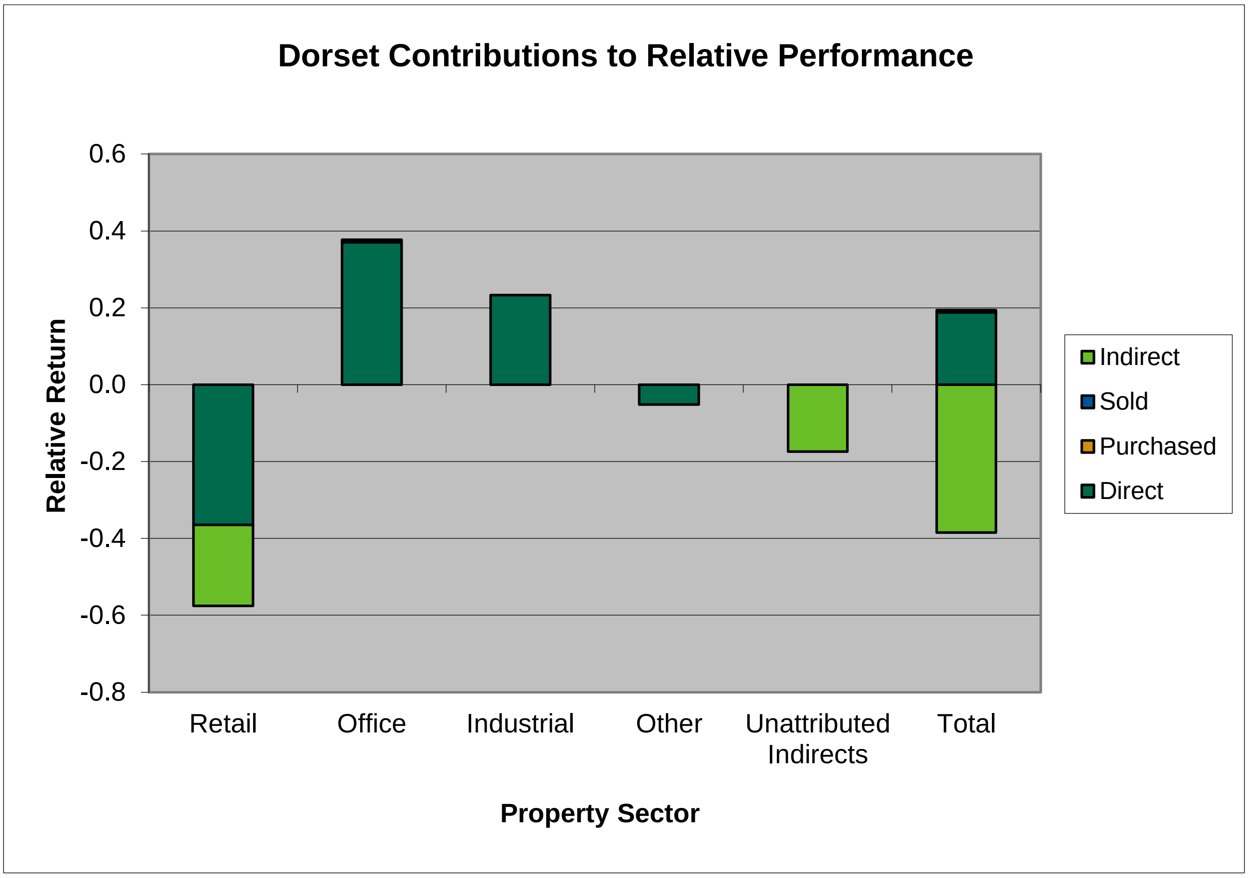
The Fund's retail holdings provided a total return of 2.2% against the benchmark total return of 2.8%, the weighted contribution to relative return was -0.6%. The retail underperformance was driven by both the directly held retail warehousing and indirectly held shopping centre assets in the portfolio. Retail was the worst performing sector of the benchmark this quarter, and the majority of the retail holdings in the portfolio performed below the line. The Fund does however have a lower retail weighting to the benchmark by 11.7% which was structurally advantageous this quarter.

The Fund's office holdings provided the strongest relative weighted contribution to the Funds outperformance this quarter of 0.4%. The office sector provided a total return of 5.6% against the benchmark return of 5.5%. The portfolio is underweight in comparison to the benchmark in terms of office weighting which this quarter provided a -0.1% relative weighted drag to performance. However, that was balanced by the property selection in the portfolio which provided a 0.1% relative advantage. Therefore there was a neutral position overall. The top two performing assets from the portfolio were in the office sector – namely, 15 Ebenezer Street and 83 Clerkenwell Road. Both contributing 0.2% to the Funds relative performance respectively.

The Fund's industrial holdings also outperformed the overall index this quarter, delivering a total return of 5.0%. Within the benchmark however, industrials delivered a return of 5.5%. Despite this being a relative underperformance at a sector level, the portfolio's overweight position to the industrial sector meant the sector delivered a 0.2% relative weighted outperformance. Amongst the top five properties to positively contribute to the portfolio performance, three were industrial assets; namely 131 Great Suffolk Street, London, Phoenix Park, London and Woolborough Lane, Crawley.

The Other Commercial sector, comprising Glasgow, Newcastle and The Calls Leeds, provided a total return of 3.5% over the quarter in comparison to the Other Commercial benchmark total return of 3.1%, a relative outperformance of 0.4% at a sector level. However on a relative weighted basis this equated to -0.1% as the Other sector underperformed the benchmark total return for the quarter.

The Unattributable Indirects provided a total return of 0.4% for the quarter, unattributed indirects are not included in the benchmark as a separate sub-sector, so the return is relative to all benchmarked assets. The Unattributable Indirect assets provided a relative contribution of -0.2%. The only remaining Unattributable Indirect in the Dorset portfolio is the inProp UK Commercial Property Fund.



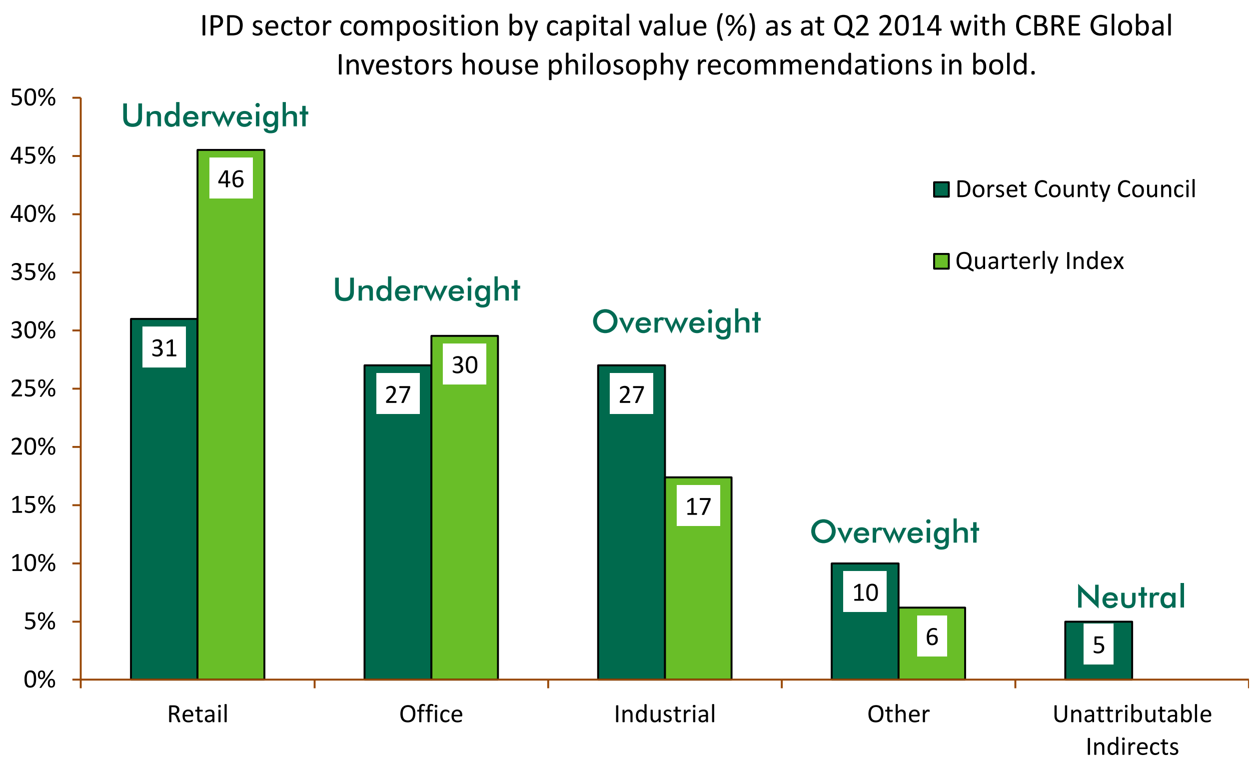
*Relative return is defined as the ratio of the return achieved by the portfolio, segment or individual asset, to that of the chosen benchmark, expressed as a percentage. ((1+Fund TR) / (1+ Benchmark TR) – 1)*100

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 31st December vs. IPD Quarterly Index with target weightings above.



Source: IPD Quarterly Index Q4 2014

The portfolio target size of £210m has been surpassed this quarter following the purchase of Pilgrim House, Aberdeen and capital improvements. The total portfolio size is now £227.3m. Post quarter end the Fund received sale proceeds of c.£10.4m following the disinvestment from inProp Commercial Class B Shares. A further sale of part of Euroway Industrial Estate, Swindon is being progressed with a target completion date of 25th March 2015. Assuming the target of £210m remains the ideal portfolio size, with further acquisitions in the pipeline namely Henbury and Ingersley Buildings, Macclesfield (£3.9m), and the Derwent Shared Ownership Portfolio (9.0m), further sales can be recommended.

The above segment breakdown chart including indirects now looks well balanced against the Quarterly Universe. The portfolio weighting to Offices increased this quarter following the acquisition of Pilgrim House, Aberdeen. The portfolio now reflects the Manager's target positions against the benchmark at a broad sector level. The target weightings principally reflect that the portfolio should be underweight to retail sector, overweight to the industrial sector, underweight to offices and overweight to the other sector. These strategic positions by the Manager, are due to concerns about the ongoing changes to the retail sector as a result of the internet, which is driving changes in shopping habits; and stronger investor and occupational sentiment as well as a higher yield for the industrial sector.

The initial yield on the portfolio remains in a strong position with a 40 basis points advantage over the benchmark at 5.5% versus 5.1%. This is principally due to the low vacancy rate and the higher industrial weighting.

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 driving future performance. During the quarter the Manager also exchanged on the forward commit to purchase Henbury & Ingersley Buildings, Macclesfield (£3.9m) this will fall into the Other sector. During 2015 the purchase of the Shared Ownership Portfolio (£9m) is also anticipated to complete.

A redemption notice for the inProp Commercial Property Fund was submitted during the quarter, as the portfolio had reached target size and the asset was anticipated to underperform. This asset was purchased as a relatively short term hold to provide a proxy for property returns during the build-up of the portfolio to its target weight. The proceeds of £10.4m were returned on 13th January 2015.

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. Rent collection this quarter looks weaker than usual; accounting systems and banking details were changed by the Managing agents and therefore a number of tenants paid into incorrect accounts. Within 14 days of the quarter day, 89.1% of collectable rent was collected, and within 28 days 89.5% of the collectable rent was collected. At the point of print 98.8% had been collected, the remaining 1.2% relates to tenants on a payment plan and will be pursued. 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.

In Q4 the portfolio remained exposed to one Unattributed indirect vehicle; inProp UK Commercial Property Fund (Class B Shares). As already noted above, a redemption notice was served during the quarter, and the proceeds were returned to the Fund on 13th January 2015. The amount returned was £10,398,199.62.

Over the quarter, the Fund's indirect holdings underperformed the wider market returning 1.5%.

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:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. The focus for 2015 is to ensure that the portfolio is in a strong position to capture rental growth.
- Now that the Fund has reached the target size of £210m, with further acquisitions in the pipeline, the Manager will seek to use current market liquidity to sell assets that are expected to underperform in a market downturn.

ACQUISITIONS

- During the quarter, 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).

- During the quarter the Fund exchanged on the forward commit to purchase Henbury & Ingersley Buildings, Macclesfield. These two buildings are 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 in Q3 2015 for £3,878,330, reflecting a net initial yield of 5.5%.

- Post quarter end the Fund is also set to complete the purchase of the Derwent Shared Ownership portfolio for £8.9m (4.3% NIY). The portfolio comprises 218 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.

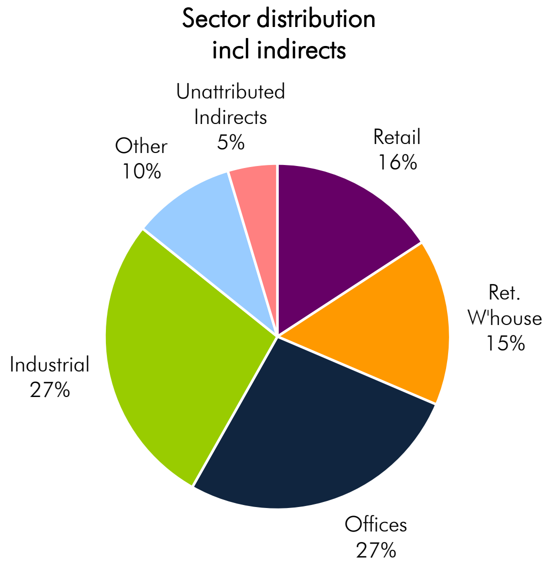
SALES

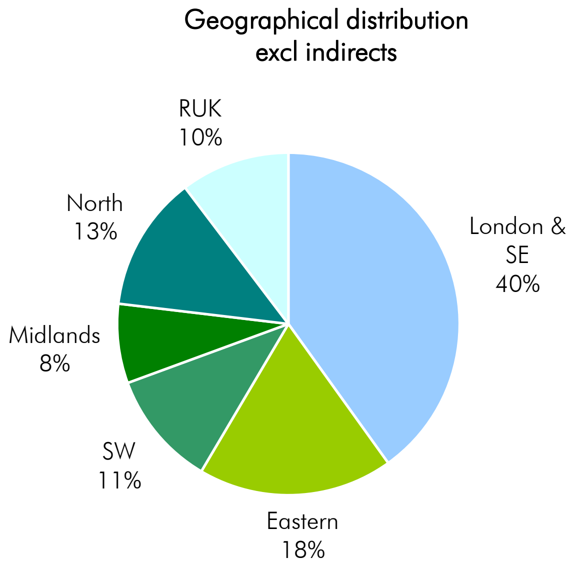
- There were no direct property sales made during the quarter.

- As already noted, during Q4 a redemption notice was submitted to disinvest from inProp as the Dorset property portfolio is now ahead of the target portfolio size of £210m and is expected to increase with further committed acquisitions and capital growth. inProp was forecast to lag property performance going forward, so on an asset specific basis the recommendation was to disinvest.

- Terms for the sale of part of Euroway Indsutrial Estate, Swindon were agreed during the quarter. The part disposal comprises units 12a and 12b, which are let to Redcastle Limited until 24th March 2015. The tenant has in turn sub-let and only the smaller of the sub tenants wishes to stay in occupation post 24th March 2015. An offer was received from the adjoining landowner, Dick Lovett, who operate the Ferrari garage adjacent. They are looking to open a new car showroom facility from the unit. Alternative options including re-letting the unit have been evaluated, and it is considered that a sale at £2.62m reflects the best realisation for the Fund. A disposal at this level reflects an 11.5% IRR per annum since purchase.

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



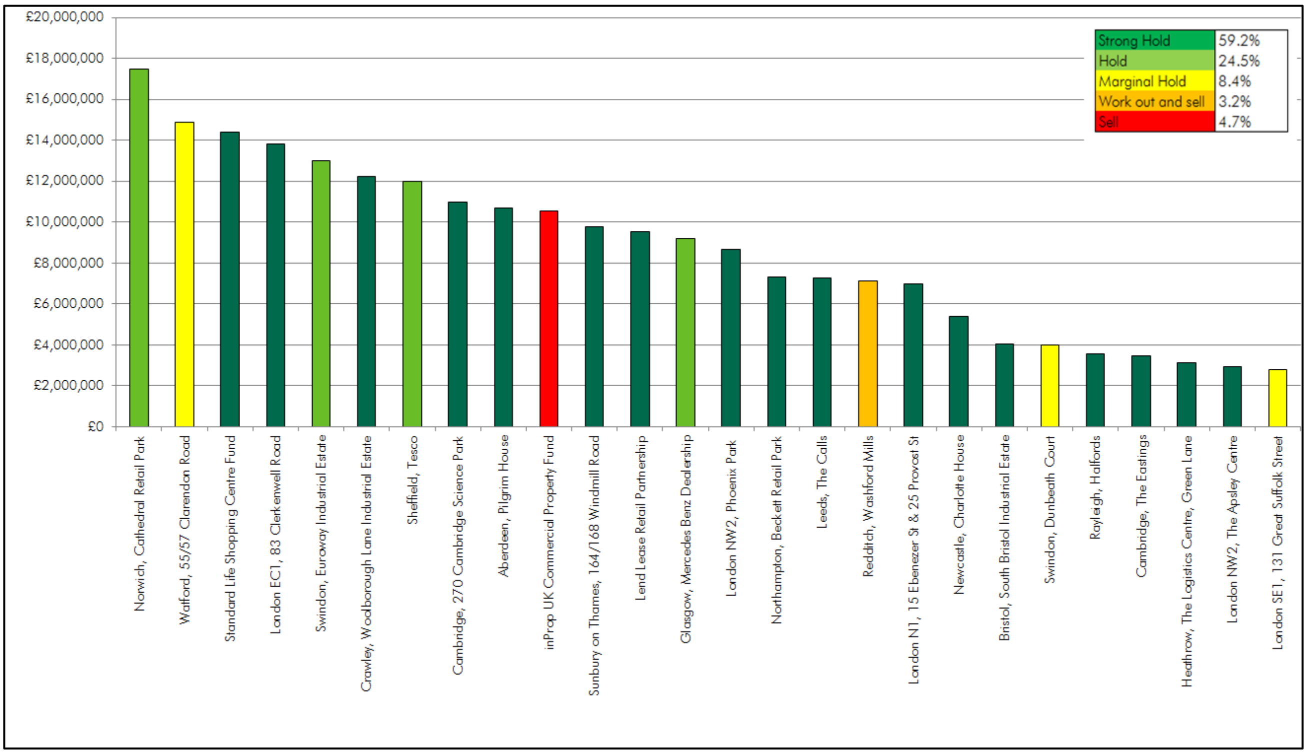


BAD DEBTS/WRITE OFFS

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 31st December 2014.



SECTION V – ASSET MANAGEMENT

HIGHLIGHTS

- **Cambridge Science Park:** further work has been carried out during the quarter to formulate a planning application for a new 40,000 sq ft office on the site. During the quarter the Manager met with both the South Cambridgeshire Design Panel who report into the planning authority in respect of the designs put forward and also the proposed tenant Worldpay who are interested in taking a lease of the full 40,000 sq ft building. Significant progress has been made and the planning application is anticipated to be submitted during Q1 2015 with a decision likely in June 2015.
- **London, Phoenix Park Industrial Estate:** a letting of the vacant unit 5 on the estate completed during the quarter to an existing tenant on the estate, Youngs Extract Supplies. The unit had been under offer to two different parties previously who both failed to complete post negotiating the lease, so letting the unit is very good news for the estate. The letting demonstrates a new high headline rent of £11.25psf for a term of 5 years with 4 months' rent free.
- **Bristol, South Bristol Trade Park:** The tenant Hilti in unit 3B did not action their option to break during the quarter which would have terminated their lease in April 2015. The Manager has seen an increase in the occupational demand from trade counter operators for units on the estate. This along with the more positive investor sentiment for good quality industrial estates such as this resulted in strong performance from the asset which delivered a total return of 9.1% over the quarter.

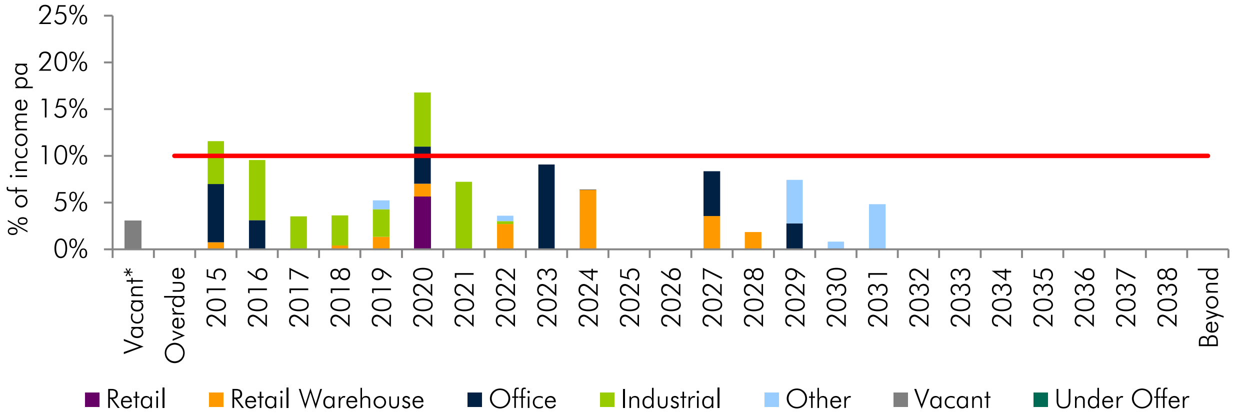
VOIDS WITHIN THE PORTFOLIO – 31ST DECEMBER 2014

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
The Logistics Centre, Green Lane, Heathrow	20,613	1.77%	£231,900	Vacant
Unit 1, Washford Mills, Redditch	9,622	1.14%	£149,100	Vacant
Unit 2, Sumner Road, Croydon	3,385	0.24%	£31,500	Vacant
TOTAL PORTFOLIO VOID	**33,620**	**3.15%**	**£412,500**	

The Fund's void rate reduced from 3.75% to 3.15% this quarter as a result of letting unit 1, Phoenix Park, London NW2. Two floors in Pilgrim House, Aberdeen are vacant, however the vendor is covering a rent and all associated costs until May 2016, these floors account for 2.85% of the portfolio ERV. The void remains significantly lower than the IPD Monthly Index rate which at the end of December was 9.5%.

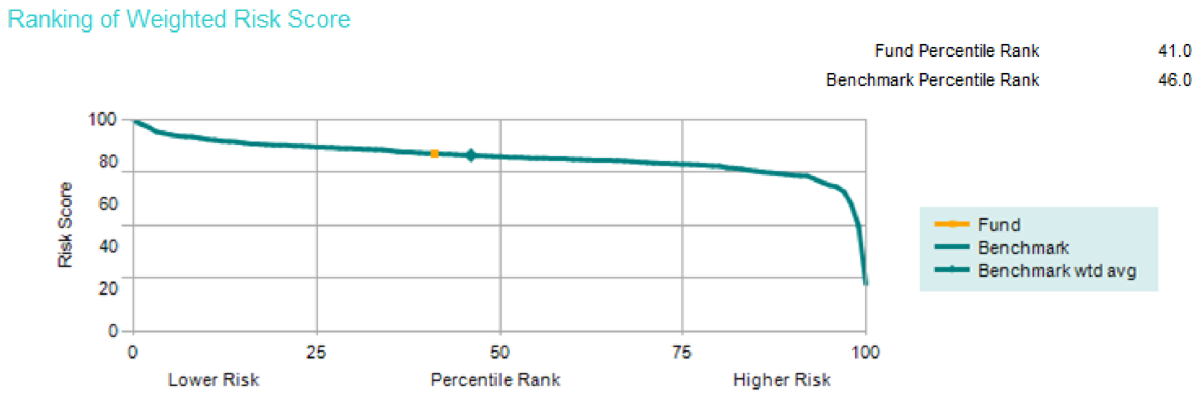
LEASE EXPIRY PROFILE FOR THE PORTFOLIO – 31ST DECEMBER 2014

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 31st December 2014. The Fund is in the second quartile with a Weighted Risk Score in the 41.0st percentile against the Benchmark Weighted Risk Score in the 46th percentile. This has marginally decreased from the previous quarter (37.4th percentile). A couple of tenants namely Maplin who occupy a unit at Northampton, Becket Retail Park, and Red Smoque who occupy a unit at Leeds, The Calls were downgraded this quarter, accounting for the slight drop in the overall portfolio covenant strength. The portfolio remains in a good position with the Fund score ahead of the benchmark.

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
Aberdeen, Pilgrim House	Whole – Purchase	*The property was purchased during the quarter.*
Redditch, Washford Mills	Vacant Unit	Interest from Steinhoff Group t/a Bensons for Beds who requested terms for the vacant unit during the quarter. Terms have been provided and the occupier is reviewing.
Norwich, Cathedral Retail Park	TK Maxx – rental uplift	Following the regear with the tenant the unit became fully income producing during the quarter at a rent of £200,000 per annum.
	Farm Foods – lease renewal	The tenant has a lease expiring 23rd June 2015. During the quarter the tenant requested proposed terms for a lease renewal, this has been provided and they are reviewing their options.
Crawley, Woolborough Lane I/E	Unit D – Lease expiry	The tenant Alpha Flight UK Limited have a lease expiring 24th March 2015. During the quarter the tenant vacated the unit and dilapidations negotiations have commenced. Letting agents have also been appointed and have commenced marketing the unit. Post expiry the unit will be refurbished for a new occupier.
Croydon, 75/81, Sumner Road	Unit 2 – Vacant	The refurbishment of the unit following the previous tenant vacating completed during the quarter. A number of viewings with potential occupiers has taken place and there has been strong interest.
	Unit 4 – Rent Revew	The rent review dated 5th December 2014 was agreed during the quarter. A good uplift was achieved as the rent increased from £33,500 per annum (£8.90 psf) to £35,000 per annum (£9.30 psf).
Heathrow, The Logistics Centre	Whole – Vacant	The refurbishment of the property completed during the quarter. The property continues to be marketed by the agents and strong interest from potential occupiers has been received.
Swindon, Dunbeath Court	Units 8 & 9 – Lease Renewal	During the quarter terms for a lease renewal with DHL who are in occupation of units 8 & 9 were agreed for a new 5 year term with a 3 year break at £40,572 per annum for unit 8 and £46,908 per annum for unit 9 (£6.00 psf). The incentive reflected 3 months' rent free followed by 3 months half rent. The leases completed post quarter end.
Swindon, Euroway Industrial Estate	Unit 9 – Rent Review	The rent review dated 29th September 2013 was documented during the quarter at nil increase.
	Unit 12 a & b – Sale	*These units are under offer for sale.*

Property	Unit & Activity	Forecast Outcome
Leeds, The Calls	Unit 2 – Rent Review	The rent review dated 24th June 2014 continues to be negotiated with the tenant, Ask Restaurants t/a Zizzi.
	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 as two different fasciae from these units; Jake's Bar and Oporto.
Glasgow, Mercedes Car Showroom	Whole – Rent Review	The annual rent review dated 22nd December was enacted during the quarter. The rent is reviewed to the lower of 2.7% or RPI. For the first quarter since the Fund purchased the asset, RPI was the lower and the rent increased accordingly. The property continued to deliver a positive contribution to the Fund performance with a 5.0% total return for Q4 2014.

GREEN INITIATIVES

At the end of 2011, the UK Government introduced legislation that will prohibit landlords from letting properties that do not meet minimum standards of energy performance. This legislation will be effective from 2018 and therefore it is important to assess and mitigate this risk before any impacts are felt. It is understood that from 2018 'F' and 'G' rated commercial units in England and Wales will be prohibited from being either sold or let. The Energy Performance Certificate (EPC) rating and sustainability measures relating to a property is considered as part of all acquisitions, disposals and large asset management projects. It is a requirement to provide an EPC on the sale or new letting of any property. Below is a table identifying the (EPC) ratings across the portfolio as at 31st June 2014.

No of Properties	24
No Of Units	74
a	0
b	6
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.
- The new purchase of Aberdeen, Pilgrim House is a B 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 Dec 2014 Total Return	12 months to Dec 2014 Total Return
Lend Lease Retail Partnership	60	7,014,056	9,544,860	1.2%	14.7%
Standard Life Investments UK Shopping Centre Trust	13,853.43	10,000,000	14,385,263	2.6%	16.5%
inProp UK Commercial Property Fund	100,050.03	10,000,000	10,531,266	0.0%	13.1%

*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.
1.2%	14.7%	9.3%

- The Lend Lease Retail Partnership returned 1.2% over the quarter and 14.7% over the last year.
- The performance during the quarter was attributable to income. The annual performance has been driven by the upwards revaluation of the dominant asset in the fund's portfolio, Bluewater Shopping Centre in Kent after a 30% ownership stake held by Lend Lease (the parent company) was sold 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 3.4%.
- The fund has a portfolio of two prime regionally dominant properties: Bluewater, Kent and Touchwood, Solihull. The fund's other asset, Touchwood in Solihull, saw a 1.4% increase in value over the quarter as the development management agreement for the extension of the centre was finalised.
- The fund has been investigating alternative options for the Glow conference/convention centre at Bluewater. After poor operating performance the manager has closed the centre and will reposition this for leisure use. The fund is proposing to install an IMAX cinema, catering and leisure facilities and will commence repositioning works in Q1 2015.

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

3 Months %	12 Months %	3 Years % p.a.
2.6%	16.5%	9.2%

- The Standard Life UK Shopping Centre Trust produced a total return of 2.6% over the quarter, underperforming the benchmark return of 3.6%. Despite this short term underperformance, the fund outperformed over the year having delivered 16.5% against a benchmark shopping centre return of 14.2%. The portfolio continues to outperform the IPD Monthly Index – Shopping Centre Sub-sector by 4.2% (annualised) since inception. The fund provided a 4.1% annual distribution yield whilst the quarterly return is attributable to the property portfolio value increase of 2.1%.
- During the quarter, subject to landlord approval to assign, the fund exchanged contracts to acquire the strategic addition of the long leasehold interest in a 536 space multi-storey car park to the immediate south of Churchill Square in Brighton for a consideration of £13.3m, an initial yield of 5.5% and equivalent yield of 6.75%.
- 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, with a portfolio WAULT of 7.1 years and a void rate of 0.8% by ERV. Exposure to retailers in administration decreased over the quarter to 1.5% of passing rent. There were no retailer failures in the quarter.
- Work continues to progress for the longer term development initiatives, at Churchill Square in Brighton, the council agreed to close the existing Conference Centre, relocating a new events venue to the Marina and to enter a Development Agreement to sell the existing site to the Trust. At Brent Cross, Heads of Terms for restructuring with Hammerson are close to agreement.

- Following completion of the fund extension last quarter, 12.5% of the units in issue (c. £190m) remain subject to a redemption request, the manager is formalising their liquidity strategy over the coming quarters, the long stop for satisfying the redemptions is Sep 2016.

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

3 Months %	12 Months %	3 Years % p.a.
0.0%	13.1%	8.0%

- inProp UK Commercial Property Fund was launched in September 2010 with a strategy to deliver UK commercial property market returns (in terms of both capital growth and income return) with superior 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 Q4 2014, the fund produced total returns of 0.0% and 13.1% over the past three and 12 months respectively. The fund underperformed it's interim benchmark, the IPD UK Annual Index Estimate ("Annual Estimate"), which returned 4.3% and 18.7% over the quarter and 12 months respectively. For reference, the IPD UK Quarterly Index, which accounts for approx. 90% of the IPD UK Annual Index returned 17.9% in 2014. The underperformance over the year was driven by the cost of acquiring the 2014 calendar year property futures contract at a significant premium to par, reflecting the desire for investors wanting to gain immediate exposure to the UK commercial property market.
- Over the quarter, inProp's NAV decreased to £138.7m (from £140.5m). In December, a full redemption request was lodged on behalf of Dorset. Post quarter, the redemption was satisfied based on 31 December 2014 NAV resulting in £10.4m being repatriated on 13 January 2015 together with the final income distribution of £132k on 21 January 2015. On 26 January 2015, following notification of other investors' intentions to also redeem, the manager has decided to liquidate the fund with a view to return capital to investors in April once the 2014 contract matures at the end of March. Investors desire to redeem was driven by the 'cost' of acquiring the 2015 calendar year contract, at an 8% premium to par, essentially locking into an 8% underperformance to the IPD UK Annual Index return for 2015.

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 Dec 2014	Valuation Sept 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Offices						
Aberdeen, Pilgrim House	£10,700,000	*Purchased £10,000,000*	2.8%	£708,183	£720,800	6.3%
London EC1, 83 Clerkenwell Rd	£13,800,000	£13,000,000	7.1%	£477,200	£773,000	3.0%
London N1, 15 Ebenezer St & 25 Provost St	£7,000,000	£6,400,000	10.5%	£272,588	£578,100	3.7%
Watford, Clarendon Road	£14,900,000	£14,700,000	2.9%	£902,750	£999,000	5.7%
Cambridge, The Eastings	£3,450,000	£3,350,000	4.4%	£190,500	£221,400	5.2%
Cambridge, 270 Science Park	£11,000,000	£10,500,000	6.0%	£640,927	£873,527	5.5%
Total Offices	£60,850,000	£47,950,000	5.6%	£3,192,148	£4,165,827	5.0%
Retail Warehouse						
Rayleigh, Rayleigh Road	£3,550,000	£3,500,000	3.0%	£222,783	£222,783	5.9%
Redditch, Washford Mills	£7,150,000	£7,150,000	1.5%	£431,689	£553,200	5.7%
Northampton, Becket Retail Park	£7,300,000	£7,100,000	4.5%	£431,000	£429,000	5.6%
Norwich, Cathedral Retail Park	£17,475,000	£17,350,000	2.3%	£1,074,000	£1,054,000	5.8%
Total Retail Warehouse	£35,475,000	£35,100,000	2.6%	£2,159,472	£2,258,983	5.8%
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%

Property	Valuation Dec 2014	Valuation Sept 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Industrials						
Bristol, South Bristol Trade Park	£4,025,000	£3,750,000	9.1%	£252,757	£255,500	5.9%
Crawley, Woolborough IE	£12,250,000	£11,750,000	6.0%	£811,541	£1,055,005	6.3%
Croydon, 75/81, Sumner Road	£2,000,000	£2,000,000	-0.1%	£101,000	£142,000	4.8%
Heathrow, Skylink	£3,150,000	£3,150,000	-2.2%	£0	£231,900	0.0%
London, 131 Great Suffolk St	£2,800,000	£2,450,000	15.5%	£110,000	£243,900	3.7%
London, Apsley Centre	£2,950,000	£2,800,000	6.8%	£162,000	£168,700	5.2%
London, Phoenix Park, Apsley Way	£8,650,000	£8,200,000	6.8%	£447,005	£517,600	4.9%
Sunbury, Windmill Road	£9,800,000	£9,685,000	2.7%	£599,750	£599,750	5.8%
Swindon, Dunbeath Court	£4,000,000	£3,900,000	4.5%	£301,787	£321,336	7.1%
Swindon, Euroway IE	£13,000,000	£12,800,000	3.6%	£1,017,276	£999,235	7.4%
Total Industrial	£62,625,000	£60,485,000	5.0%	£3,803,116	£4,534,926	5.7%
Other Commercial						
Leeds, The Calls	£7,250,000	£7,250,000	1.6%	£453,360	£510,300	5.9%
Glasgow, Mercedes	£9,200,000	£8,900,000	5.0%	£580,989	£566,600	6.0%
Newcastle, Charlotte House	£5,400,000	£5,300,000	3.6%	£365,587	£365,587	6.4%
Total Other Commercial	£21,850,000	£21,450,000	3.5%	£1,399,936	£1,442,487	6.1%
Total Direct Property [1]	£192,800,000	£176,985,000	4.3%	£11,234,672	£13,082,223	5.5%

Property	Valuation Dec 2014	Valuation Sept 2014	Qtr Total Return	Annual Income	OMRV	Net Initial Yield [2]
Lend Lease Retail Partnership	£9,544,860[3]	£9,528,600[3]	1.2%	£404,898	-	4.0%
Standard Life Investments UK Shopping Centre Trust	£14,385,263[3]	£14,133,131[3]	2.6%	£485,883	-	3.2%
inProp UK Commercial Property Fund	£10,531,266[3]	£10,623,312[3]	0.0%	£517,010	-	4.6%
Total Indirect Property[2]	£34,461,389	£34,285,043	1.5%	£1,407,791	-	3.9%
GRAND TOTAL	**£227,261,389**	**£211,270,043**	**3.9%**	**£12,642,463**	**-**	**5.3%**

Notes:

1. Direct property total returns for the quarter to December 2014 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to December 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 November 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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