QUARTERLY REPORT Q2 2015

CBRE GLOBAL INVESTORS DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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EXECUTIVE SUMMARY
Q2 2015

MARKET

Commercial property is performing in line with expectations identified at the beginning of the year: rental value growth is maintaining momentum while yield impact is accounting for a less pronounced share of the total return. This is still healthy by historical standards and indicative of double digit market-level returns for 2015 as a whole.

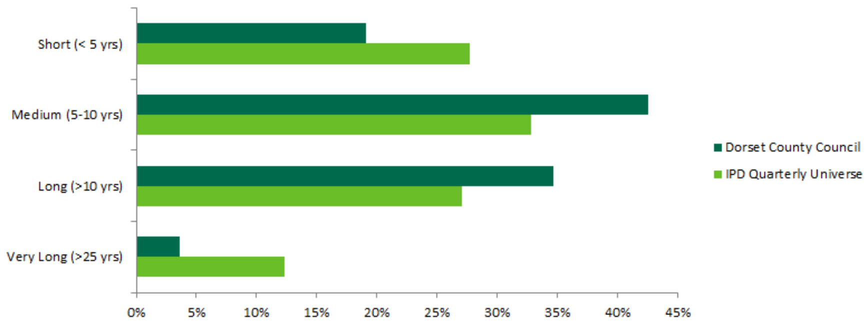
PORTFOLIO

There were no purchases or full property sales during Q2 2015. One house staircased from the Derwent Shared Ownership portfolio and another property from that portfolio was repossessed with proceeds (ahead of its valuation) remitted to Dorset.

PERFORMANCE

The portfolio performed in line with the IPD index this quarter. It remains comfortably ahead of the benchmark over 1, 3 and 5 years.

LEASE LENGTH



GEOGRAPHICAL STRUCTURE

London & SE	42%
Eastern	18%
South West	11%
Midlands	7%
North	12%
Rest of UK	10%

Overview

The target is 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.

Portfolio

	Value	Assets
UK Direct	£209.6m	25
UK Indirect	£24.2m	2
Total value of portfolio	**£233.8m**	

NIY / EY	5.1% / 6.3%
Vacancy rate	6.4%
AWULT to expiry (lease break)	10.9yrs (10.7yrs)
Largest asset	Cathedral Retail Park Norwich (£17.658m / 7.6% portfolio value)
Largest tenant	ACI Worldwide EMEA Ltd (£902,750 / 8.0% of portfolio rent)

Performance

	UK Portfolio	Benchmark	Relative
Q2 2015 %	3.5	3.5	0.0
1 Year % (2015)	16.4	15.7	0.6
3 Year % pa (2013-15)	13.2	12.2	0.8
5 Year % pa (2010-15)	10.9	10.2	0.6

Transactions

	Q2 2015
Money available	£0m
Purchases	£0m
Sales	£0.1m

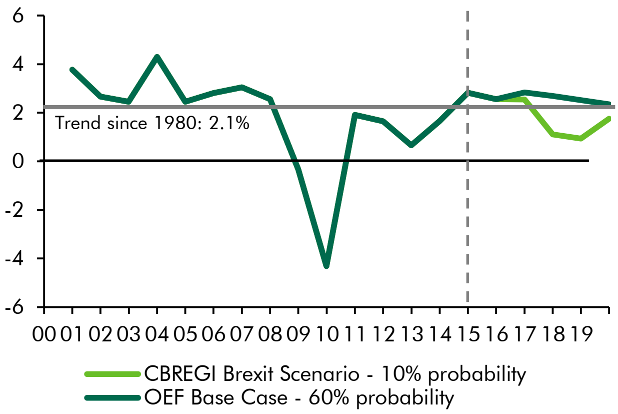
2.0 MARKET COMMENTARY

UK ECONOMIC OUTLOOK

One of the themes that is routinely being discussed at industry events these days is whether the UK economy and its property market are reaching their cyclical peak. After all, economic expansion seems to have tempered and the threats of 'GREXIT' and 'BREXIT' undeniably cloud the outlook. Commercial property too has delivered strong performance in recent years, which has taken pricing in certain segments of the market to historic highs. Unsurprisingly, our often-referred to temperature chart now indicates that relative to its own history property has become expensive. But peak of the market fears seem slightly over done. While it is always prudent to probe the environment we are operating in and position portfolios for an inevitable downturn, yet to reach a crescendo, the UK's economic cycle has momentum and above trend property performance is likely to endure for at least the coming 12-18 months.

The focus of our Research team for the first two weeks of July was largely dominated by the question, "what if?" What if Greece leaves the Eurozone? What if contagion spreads to global financial markets? What if 'BREXIT' actually happens? What if interest rates in the UK rise faster than anticipated? After contemplating these questions at length and running numerous scenarios, we are in fact sanguine about the threats these situations present to the UK. That is not to suggest that there will not be negative consequences for the economy, investor sentiment or property market performance if these events occur. But of the major economies in Europe, the UK is best placed to absorb exogenous shocks stemming from peripheral Europe. Britain leaving the European Union would have implications for near term growth prospects, but it would not be disastrous and the likelihood of such a scenario is in fact quite low (Figure 1). And while interest rate rises are moving closer, the Bank of England has made it abundantly clear that in the longer term the "new normal" for interest rates will be substantially lower than norms in the past.

Figure 1 UK GDP Forecasts, % y/y.



When viewed in conjunction with healthy business sector sentiment and accelerating wage growth, we feel that the UK economy is very well positioned to exceed a trend level of growth for a second year running. With the Summer Budget offering a smooth profile of government spending cuts, there is in fact scope for the easing of growth from 2016 to be quite modest. Over the medium term this should help spur business activity, bode well for investor confidence and drive demand for commercial space.

UK PROPERTY PERFORMANCE

Commercial property is performing in line with expectations identified at the onset of the year: rental value growth is maintaining momentum while yield impact is accounting for a less pronounced share of the total return. According to the IPD Monthly Index, the all property total return in the first half of the year was 6.8%. While a softer outturn than both H1 and H2 2014, this is still healthy by historical standards and indicative of double digit market-level returns for a third successive year. At a sector level, offices continue to outperform having delivered a half yearly return of 9.4%. Industrial performance was stronger than the all property average at 8.1%. While retails continue to be the relative laggard having produced a return of just 4.2%.

OCCUPIER MARKETS

Given the favourable economic backdrop and a dwindling supply of modern stock, occupier markets are arguably the healthiest that they have been in nearly a decade. There are more active requirements than a year ago and we are signing a lot of leases within our directly held portfolios. Regional office markets, in particular, are benefiting from a broad range of business sector activity including "Northshoring". Demand for industrial space across much of the UK remains robust as Britain's SMEs are in expansion mode and third party logistics operators (3PLs) respond to shifting retail patterns. On the back of this, tenant incentive packages continue to dissipate and rental growth assumptions are being raised for primer stock and locations. Given the vibrancy that many regional markets are demonstrating, speculative development has become a viable option. While big box industrial space still requires a high level of pre-letting to get out of the ground, office developers have recalibrated their tolerance for risk in recent quarters. Correspondingly supply threats are becoming a concern from 2017 in certain markets.

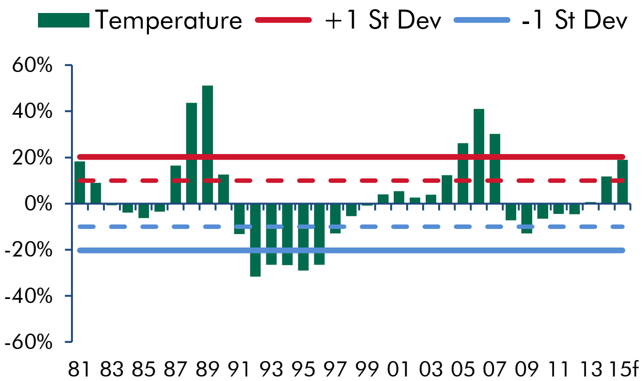
While performance from the retail sector has lagged the broader market, this phenomenon may slowly be reversing as real wage growth triggers consumer spending and property investors become comfortable with a new retailing paradigm. The situation on the high street is improving with vacancy rates having fallen to their lowest level since 2010. We are finding that with rents having rebased to economic levels, occupiers are willing to consider new space and renegotiate leases. While we are sceptical that relaxed Sunday trading announced in the Summer Budget and rates revaluations due in 2017 will be catalysts for rental growth, both have the potential to provide a stimulus to the sector. Internal experience suggests that the prognosis is not universal across retail formats. Rents are still under pressure in many retail warehouse parks and shopping centres with valuations having been flat in the first half of the year.

CAPITAL MARKETS

Real estate capital markets remain buoyant, however, cumulative deal volumes in Q2 2015 were softer than the previous three quarters. While events in China and Greece have disturbed investors' equilibrium, our experience suggests that this is more of a supply issue rather than demand as there is at least £40bn targeting London property alone. Within the past two months we have logged 20% fewer properties on our internal registration system than we did during the same period last year. An upshot to a paucity of stock is historically strong prices being paid for core investments and good secondary product attracting a real depth of demand from various equity and debt sources. It's important to emphasise that there isn't a great wall of what could be referred to as irrational money. For the most part, investors with buying requirements have remained discerning: poorer quality product is attracting scant interest unless it is packaged as a portfolio, and even then it is being priced conservatively.

As mentioned above, our all property Temperature Chart is indicating a market that can be perceived as expensive. While real rents are still modestly below their long-run trend, this is offset by low in-going yields. The result is that capital values in real terms are ca. 20% above their long run 'fair value' (Figure 2). It of course needs to be acknowledged that this measure does not address the "new normal" that both the Bank of England cite and many market participants now embrace. Our Temperature Chart only compares property values relative to their own history and takes no account of alternative asset pricing. With volatility weighing on global equity market momentum and allocations being rotated out of fixed income, UK property is likely to become more expensive according to this metric.

Figure 2 UK Property Temperature Chart.
Source: CBRE Global Investors



OUTLOOK

The UK property market continues to benefit from a period of historically low interest rates and inflation as well as a favourable supply/demand balance. Given the health of the economy and our view that the UK is not particularly vulnerable to a Greek fallout, we believe that 2015 will be another year of strong returns across most UK property segments. However, despite being rather positive about near term prospects, it is important to acknowledge the cyclicality of the UK property market and the inevitability of a market correction at some point in the future. Rising interest rates, Britain leaving the EU, bond market dislocation or, more ominously, a black swan event could all be triggers. This supports our view that now is an opportune time to make use of positive market sentiment and de-risk traditional property portfolios. This includes selling poorly performing assets, being mindful of lease expiries from 2018 and securing income delivered from bond-like property.

3.0 STRATEGY

Information in respect of the strategy for the Fund.

Size	▪ Target portfolio size £230 million . (Currently £233.8m, with a further £3.9m committed to the purchase of Henbury and Ingersley Buildings, Macclesfield).
Performance	▪ 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.
Income yield	▪ Maintain the portfolio income yield at a higher level than the IPD index net initial yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new acquisitions have strong rental growth prospects or a high income yield.

ALLOCATION

Property type	▪ Target core property holdings in good locations with a proportion of exposure to properties that will allow active management to generate outperformance. ▪ We anticipate maintaining a total of between 25 and 30 properties with an average lot size of c. £8m. ▪ Invest indirectly to gain exposure to sectors or lot sizes that the fund would be unable to achieve through direct investment e.g Shopping Centres.
Geographic allocation	▪ Diversified by location but with a bias towards London and the South East.
Sector allocation	▪ Diversified by sector with a maximum of 50% in any single sector. ▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other commercial. ▪ Source suitable HLV* investments that could be available in any sector.

*HLV Property stands for High Lease to Value Property. HLV Property generates long-term predictable cash-flows. It is characterised by long lease lengths (20+ years) often with a link to a reference rate (RPI).

OTHER RESTRICTIONS AND GUIDELINES

Investment size	▪ Target a maximum of 10% in any single asset
Tenants	▪ Maximum rent from any single tenant 10% of rental exposure. ▪ Target financial strength better than the benchmark.
Lease length portfolio	▪ Target new assets where the lease expiry profile fits with the existing profile of the fund. ▪ Seek to maintain expiries in any one year below 10% of the fund's lease income. ▪ Target an average unexpired lease term in excess of the benchmark.
Development	▪ Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it.
Debt	▪ Avoid debt exposure.
Environmental and Social Governance ("ESG")	▪ Energy performance: to improve EPC ratings where it is financially viable and, where applicable, apply for certification.

4.0 PORTFOLIO OVERVIEW

PORTFOLIO COMPOSITION

UK direct*	£209.6m	(89.6%)
UK indirect**	£24.2m	(10.4%)
Total value of portfolio	£233.8m	(100.0%)

*See **Appendix 3** for full property list and performance over the quarter by asset
See **Appendix 2 for more information on the indirect performance over the quarter.

RISK CONTROL MEASURES

	Fund	Aim
Number of assets	25	25-30
Number of tenancies*	72 with a further 6 units void	70-100
Net initial yield (direct property)	5.0% p.a. after rent-free periods	Above benchmark
Vacancy rate (% of rent)	6.4%	Below benchmark
Rent with +10 years remaining	38.3% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	13.5% of total rent	Minimum 10% of total rent
Largest property (% of value)	7.6% (Cathedral Retail Park, Norwich)	Below 10%
Largest tenant (% of rent)	8.0% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	78% freeholds	Minimum 70% freeholds

*The Derwent portfolio is classified as 1 tenancy albeit the underlying income is derived from multiple shared owners
The figures exclude indirect holdings of which the fund has a further two.

PROPERTY / TENANT DIVERSIFICATION

AIM – Maintain a diversified tenant base with individual tenancies providing rent rolls in excess of £25,000 pa.

The portfolio is currently well diversified with a range of tenants and a well balanced rental income stream.

ACTION – Continue to maintain a diversified tenant mix.

NET INITIAL YIELD

AIM – Maintain a net initial yield above the benchmark.

The portfolio net initial yield as measured by IPD is currently 0.1% above the Benchmark figure. It has reduced over the last year due to the rise in the vacancy rate together with the acquisition of a number of lower yield properties which deliver secure RPI linked income, such as the recent purchase of the Derwent Shared Ownership portfolio. This has added to the quality of the income stream from the portfolio.

ACTION – the portfolio's initial yield is marginally higher than Benchmark. However, in order to increase the gap further our ongoing focus is to enhance the portfolio income, principally by:

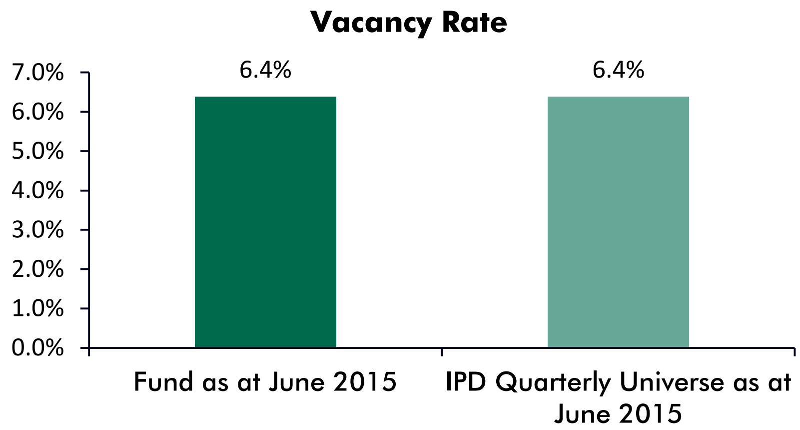
- letting vacant space;
- pursuing lease renewals with existing tenants at the earliest opportunity;
- settling rent reviews where there are outstanding reversions;
- closely monitoring non recoverable expenditure.

	Portfolio	IPD Quarterly Universe
Initial yield p.a.	5.1%	5.0%
Equivalent yield p.a.	6.3%	5.9%
Income return over quarter	5.6%	5.0%

VACANCY RATE

AIM – maintain a low void rate through letting vacant space and mitigating future expiry risks.

The Fund's void rate is now in line with the benchmark and remained broadly the same over the quarter at 6.4%. The letting of Unit 2, Sumner Road, Croydon completed post quarter end which will reduce the void rate by 0.2%. The completion of the sale of units 12a and 12b Euroway Industrial Estate, Swindon and the letting of Unit 1, Washford Mills Redditch, which is currently under offer, will further reduce the current void rate during Q3.

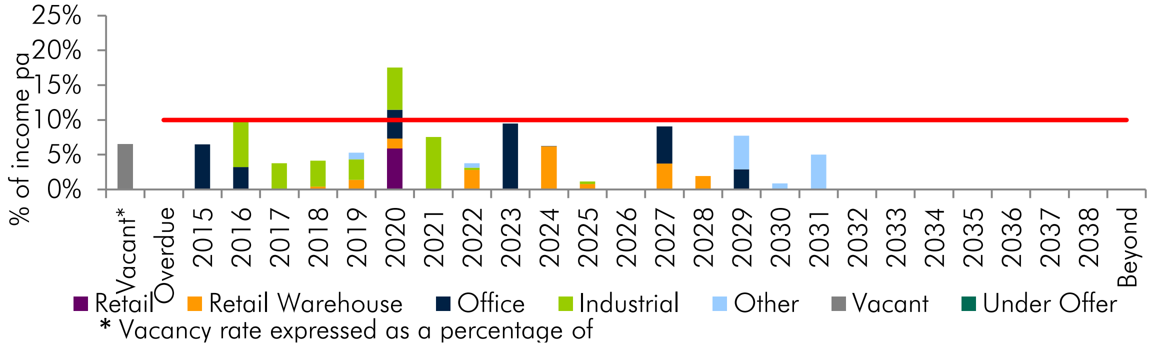


ACTION – seek to let vacant space through using best in class letting agents and proactively manging upcoming lease expiries (see Appendix 1 for the list of void properties).

LEASE LENGTH AND EXPIRY PROFILE

AIM – To maintain a well diversified lease expiry profile and keep the portfolio average lease length in excess of the benchmark lease length.

Following the purchase of the Derwent Shared Ownership Portfolio the fund now has an average lease length close to that of the benchmark at 10.2 years including all breaks, in comparison to 10.6 years for the benchmark. The Manager has identified the year 2015 as having a substantial lease expiry spike for a number of years. However it is confident that this can be dealt with through the active management of the portfolio in what is a very benign letting environment. It is anticipated that the majority of the tenants who were expected to vacate during 2015 have now gone and we are not anticipating further significant voids to occur through lease events this year.

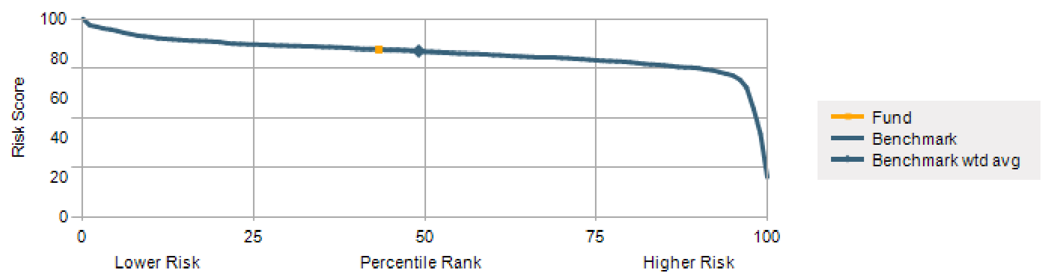


ACTION – seek to maintain the average lease length through the active management of lease events in the portfolio. Aim to create a "dumbbell" shaped expiry profile to allow short term asset management balanced by long term secure income.

TENANT FINANCIAL STRENGTH

AIM – maintain covenant strength better than the benchmark

The graph below compares the covenant risk score of the portfolio compared to the Benchmark as at 30th June 2015. The Fund is in the second quartile with a Weighted Risk Score on the 43.3rd percentile. This has decreased since the previous quarter (38th percentile). The portfolio remains in a good position however, with the Fund score ahead of the benchmark average.



ACTION – seek to improve the covenant risk profile of the portfolio through letting activity and ensuring tenants are properly classified by IPD.

INCOME/LEASE TYPE

AIM – maintain the weighting to HLV income in excess of 15% of total portfolio income.

Open market income – this is the standard rent review structure for UK direct property leases and makes up the majority of the portfolio income. It generally involves a five yearly open market rent review, which is upwards only.

HLV income – defined as properties let on leases with inflation-linked rent review structures and those which have defined uplifts (fixed increases) periodically. This type of income is effective in generating a consistent real return.

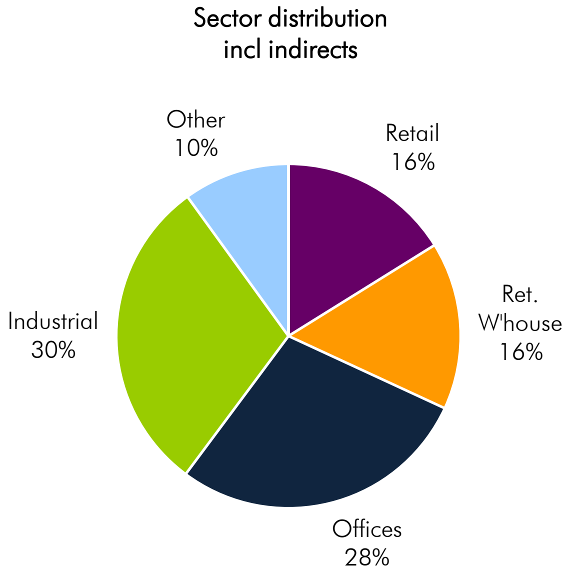
The portfolio is currently achieving the target and the amount of HLV income is expected to increase through the purchase of Henbury and Ingersley Buildings, Macclesfiled in Q4 2015/Q1 2016.

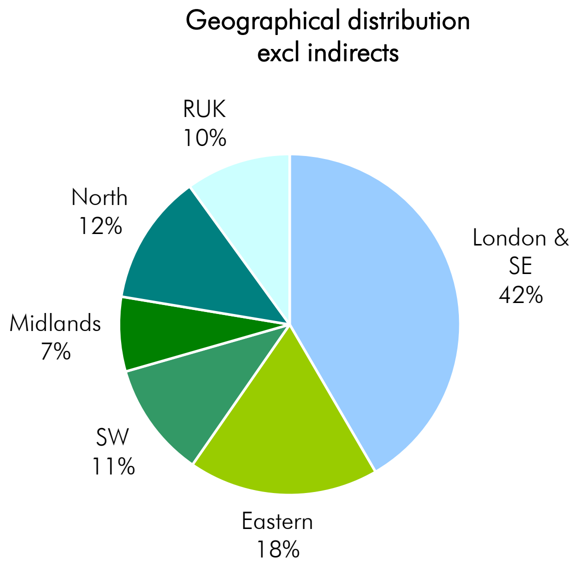
% of portfolio income	Q2 2015	Q2 2014
Open market income	84.3%	89.6%
RPI/Index linked income	15.7%	10.4%

ACTION – continue to monitor HLV ratio to Open Market income when considering purchases or sales.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM – to maintain a well diversified portfolio as part of our overall risk management strategy.





The portfolio is well diversified both by sector split and geographically at present. There is a large eastern weighting, however Cambridge falls into this sector but has hisotically performed more like the south east market. The retail weighting for the portfolio including the indirectly held shopping centre assets is well below the benchmark for retail, this has aided performance recently, with business space, the office and industrial sectors consistently outperforming the retail sector.

ACTION – Ensure that purchases and sales maintain the geographical and sector diversity within the portfolio having due regard to the current point in the economic cycle.

DEVELOPMENT

AIM – to maintain a development exposure below 10% of the value of the portfolio.

There is currently no speculative development ongoing within the portfolio. The proposed development at Cambridge Science Park is intended to proceed only on the basis of an Agreement for Lease with a tenant for the completed building with a fixed price building contract in place. This will mitigate two of the major risks associated with development.

ACTION – Development may be undertaken where the major risks can be mitigated and the risk/reward profile is sufficient to justify it having due regard to local supply/demand dynamics and the point in the economic cycle.

5.0 UK DIRECT PORTFOLIO ACTIVITY

Below are examples of key drivers of performance within the Fund:

Address	270 Cambridge Science Park, Cambridge
Sector	Office
Valuation Q2 2015	£11,400,000
IRR	4.19% pa (since purchase)

Planning permission is still awaited for the hybrid application submitted on the estate. The planning permission has been lodged with South Cambridge District Coucil who are the relevant authority for this area. Cambridge County have a holding objection on the planning application in relation to the densification of the estate, namely a concern over the road network around the Science Park and how it will manage the increased volume of traffic.

Post quarter end a meeting was held with both the Manager, South Cambridge District Council and Cambridge County in relation to the holding objection around granting the permission. Planning approval for Phase I of the masterplan development is anticipated during Q3 2015, and conditions are likely to be required for the further redevelopment of the remainder of the scheme.

Agreement with Worldpay (the proposed tenant for the new building) and the design specification for the development (Phase I) progressed well during the quarter. Planning is anticipated to be the real driver to consolidate the negotiations with Worldpay.

Address	The Logistics Centre, Feltham
Sector	Industrial
Valuation Q2 2015	£3,500,000
IRR	1.77% pa (since purchase)

Terms have been negotiated during the quarter with Royal Mail Group who are interested in taking a lease at the property. The unit has now been refurbished and there has been good interest from parties considering taking a lease of the unit, with Royal Mail at the forefront of these.

Demand and rental growth in and around Heathrow airport continue to be positive.

6.0 TRANSACTIONS

TRANSACTIONS OVER QUARTER

SALE

Address	1 Etruria Gardens, Derby
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed flat
Completion Date	18th June 2015
Price	£40,000
Valuation	£38,376

Address	1 Columbia Place, Sheffield
Sector	Residential – Derwent Portfolio
Transaction	Repossession of a 2 bed flat
Completion Date	18th June 2015
Price	£42,000
Valuation	£36,798

TRANSACTION PLAN

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 between £225m and £230m, with one further acquisition in the pipeline, the Manager will seek to use current market liquidity to sell any assets that are expected to underperform in a market downturn.

Our proposed 2015 sales are as follows:

Asset	Sector	Q2 2015 Value	Estimated Timescale	Status
Washford Mills, Redditch	Retail Warehouse	£7,150,000	Q4 2015	Letting vacant unit
Total		£7,150,000		

ONGOING TRANSACTIONS

PURCHASE

Address	Henbury & Ingersley Buildings, Macclesfield
Sector	Other
Price	£3,878,330
Net initial yield	5.5%

An Agreement to Purchase this property has been exchanged and the buildings are currently being converted to provide 36 flats which upon completion will be let to East Cheshire NHS Trust for a term of 21 years with rent reviews every 3 years on an upward only basis to uncapped RPI.

The development works are progressing with the larger Henbury building expected to complete in November 2015 whilst Ingersley building is expected to be completed early in 2016.

SALE

Address	Units 12a and 12b Euroway Industrial Estate, Swindon
Sector	Industrial
Price	£2,750,000
Net initial yield	0% (Vacant)

A disposal of units 12a and 12b has been agreed with the owner of the adjacent car showroom site, Dick Lovett who are effectively a special purchaser. The purchaser has paid a 10% non-refundable deposit to acquire the units which will be sold with vacant possession.

The sale price reflects a 20% premium to the June 2015 valuation. The sale will also reduce the portfolio void by 1.3%.

7.0 PERFORMANCE

PERFORMANCE OBJECTIVE

The target is 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.

2015 PERFORMANCE

Q2 2015	Portfolio	Benchmark	Relative
Capital growth	2.1%	2.3%	-0.1%
Income return	1.3%	1.2%	0.1%
Total return	**3.5%**	**3.5%**	**0.0%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio performed in line with the benchmark over the last three months. It is outperforming in respect of the income return and underperforming in terms of capital growth. This is in line with the longer term pattern. As capital growth is anticipated to slow over the next 12 months the fund's income return will become an increasingly important driver of performance.

12 months to Q2 2015	Portfolio	Benchmark	Relative
Capital growth	10.3%	10.3%	0.0%
Income return	5.6%	5.0%	0.6%
Total return	**16.4%**	**15.7%**	**0.6%**

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q2 2015	Portfolio	Benchmark	Relative
Capital growth	6.7%	6.5%	0.2%
Income return	6.1%	5.4%	0.7%
Total return	**13.2%**	**12.2%**	**0.8%**

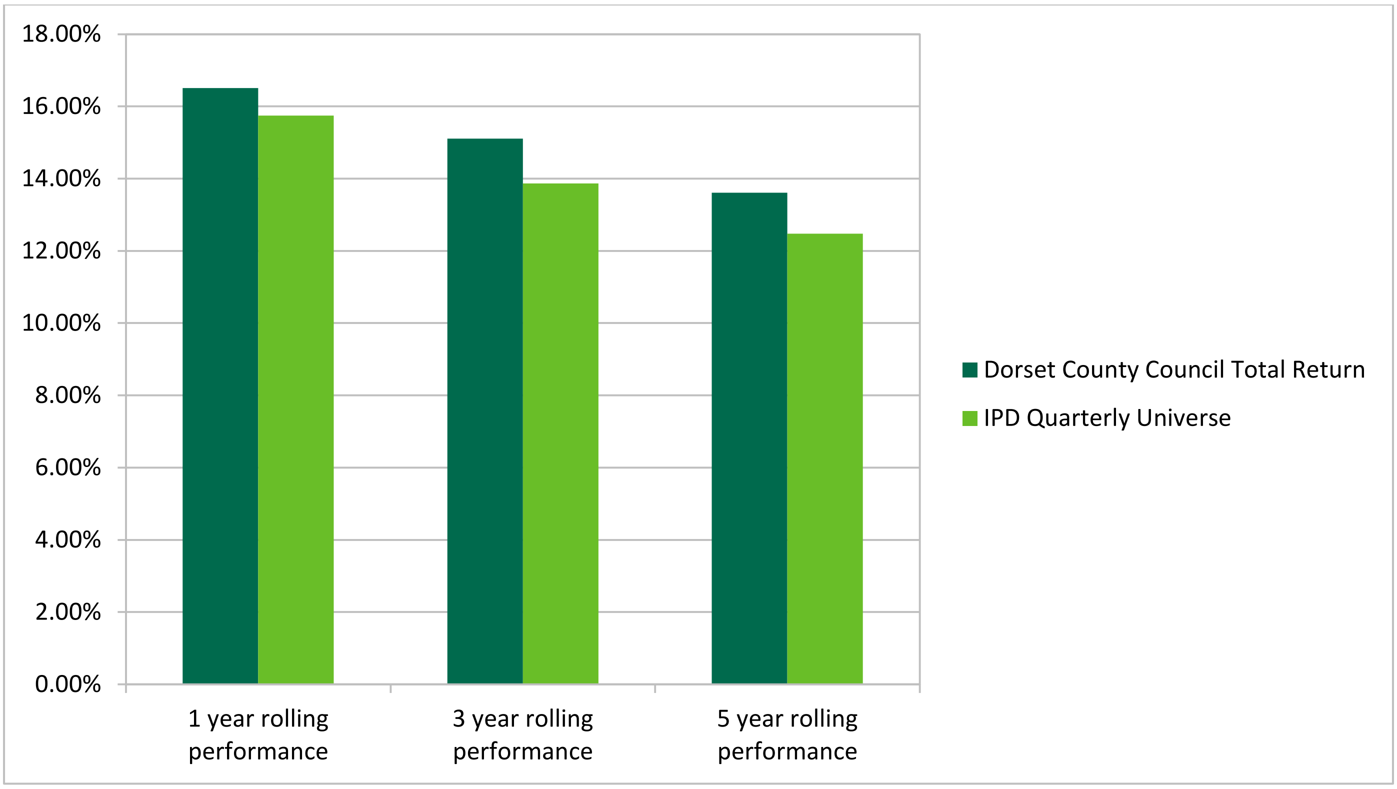
Source: CBREGI and IPD Quarterly Benchmark Report

5 yrs to Q2 2015	Portfolio	Benchmark	Relative
Capital growth	4.5%	4.4%	0.2%
Income return	6.1%	5.6%	0.4%
Total return	**10.9%**	**10.2%**	**0.6%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is outperforming the benchmark over the last 1, 3 and 5 years, driven by the income return from the portfolio as capital growth was broadly in line with the index. The longer term performance is of particular note given the amount of acquisitions made over the period. The figures also demonstrate the advantage over the longer term of running a higher income strategy, provided the quality of the properties within the portfolio is maintained.

ROLLING PERFORMANCE FIGURES



The portfolio is successfully outperforming the benchmark on all performance measures, that is a 1, 3 and 5 year rolling period. This chart includes all benchmarked assets, therefore comprising all direct and indirectly held assets during each time horizon.

The Fund is achieving its key objective on the five year rolling performance measure.

8.0 ACCOUNTING AND ADMINISTRATION

The three measures listed below; the arrears level, speed of rent collection and service charge account closure position, are designed to be "litmus" tests showing the health of the accounting and administration of the portfolio.

The targets are designed to be demanding, however, we would expect to hit GREEN a large proportion of the time.

ARREARS LEVEL (RENT, SERVICE CHARGE, INSURANCE OVER 3 MONTHS OLD)

Target:	GREEN	maximum £25,000, no single item over £10,000	
	AMBER	maximum £75,000	
	RED	above £75,000	
Result at:	30 June 2015	GREEN	£9,158.57
	31 March 2015	AMBER	£22,188.63
	31 December 2014	AMBER	£22,188.63
	30 September 2014	AMBER	£22,188.63

SPEED OF RENT COLLECTION

Target:	GREEN	90% of collectable rent banked by 6th working day after the quarter day, 95% by 15th working day	
	AMBER	80% by 6th working day, 90% by 15th	
	RED	worse than Amber	
Result at:	30 June 2015	AMBER	(92.3% collected in 6 days, 94.3% by 15th day)
	31 March 2015	AMBER	(90.5% collected in 6 days, 93.7% by 15th day)
	31 December 2014	AMBER*	(70.4% collected in 6 days, 89.1% by 15th day)
	30 September 2014	AMBER	(83.5% collected in 6 days, 84.6% by 15th day)

SERVICE CHARGES – ACCOUNT CLOSURE POSITION

Target:	GREEN	all service charge accounts closed within 3 months of the year end
	RED	any account not closed
Result at:	30 June 2015	RED (Three not closed)
	31 March 2015	RED (Two not closed)
	31 December 2014	RED (Two not closed)
	30 September 2014	GREEN

*31st December 2014 rent collection was poorer than average due to the change in accounting systems from Tramps to Yardi.

9.0 SUSTAINABILITY

STRATEGY

ESG Strategy	▪ Continually assess and mitigate ESG risks within the portfolio ▪ Improve sustainability credentials and EPC ratings. Where applicable, apply for certification ▪ Undertake sustainability improvements where financially viable

Wherever financially viable, bearing in mind the return target of the Fund, we aim to improve the sustainability credentials of the portfolio. We implement a portfolio wide ESG risk management strategy, mitigating risks and improving the sustainability performance of the assets through a combination of incorporating green intiatives into refurbishments, tenant engagement and through purchasing assets with low environmental risks and reasonable energy performance certificates.

LANDLORD INITIATIVES

ESG RISK MANAGEMENT

We have implemented a Fund wide project assessing and mitigating sustainability risks within the portfolio at an asset level. This evaluates the risks to the portfolio from the proposed Energy Performance Certificate legislation, whilst also going further to identify cost effective sustainability solutions across the portfolio. The chart below shows the properties that fall into the 'F' or 'G' categories where there is future letting or sale risk.

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 a separate rating system and legislation regarding EPC's.

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.

ACTIVITY PROPOSED IN 2015

Now that there are EPCs in place for all of the properties in the portfolio, a specialist was appointed during Q2 2015 to review the remaining risks that are in the portfolio. They are identifying, a programme of improvements that can be implemented for those properties where there are E, F and G rated EPCs. This can be done through both tenant liaisons where there are long leases in place and with the refurbishment of properties when they become vacant.

COMPLIANCE

CARBON REDUCTION COMMITMENT COMMITMENT (CRC)

The Carbon Reduction Commitment Energy Efficiency ("CRC") Scheme is a mandatory carbon trading scheme, requiring qualifying organisations to accurately report their carbon emissions and then purchase "allowances" for these each year.

CBRE Energy & Sustainability Services collate the relevant information and prepare an annual Evidence Pack to support the overall CRC Group's (Dorset County Council) Annual Report.

ENERGY SAVINGS OPPORTUNITY SCHEME (ESOS)

The Energy savings Opportunity Scheme (ESOS) is a mandatory initiative, requiring large companies to calculate their total energy consumption and conduct energy audits across 90% of this consumption to identify cost-effective energy saving opportunities.

We are currently seeking to establish whether Dorset County Council will fall within the 10% deminimus of the parent company's ESOS reporting. If it does, no energy audits will be required across the Fund's assests. CBRE Energy & Sustainability Services will work with the Fund and parent company to confirm this before the submission deadline in December 2015.

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Where funds are invested in property, investors may not be able to realise their investment when they want. Whilst property valuation is conducted by an independent expert, any such opinion is a matter of the valuer's opinion. Property is a specialist sector which may be less liquid and produce more volatile performance than an investment in broader investment sectors. CBRE Global Investors Limited is regulated by the Royal Institution of Chartered Surveyors (RICS). CBRE Global Investors (UK Funds) Limited is authorised and regulated by the Financial Conduct Authority (FCA).

APPENDIX 1- SCHEDULE OF VOID UNITS

VOIDS WITHIN THE PORTFOLIO – 30TH JUNE 2015

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Unit D, Woolborough Lane Industrial Estate, Crawley	40,145	2.26%	£311,100	On Market
The Logistics Centre, Green Lane, Heathrow	20,613	1.72%	£237,000	On Market
Unit 1, Washford Mills, Redditch	9,622	0.84%	£115,500	Under Offer
Unit 12a Euroway Industrial Estate, Swindon	29,700	0.97%	£133,650	Under offer to sell
Unit 12b Euroway Industrial Estate, Swindon	10,599	0.35%	£47,696	Under offer to sell
Unit 2, Sumner Road, Croydon	3,385	0.25%	£33,900	Letting completed post quarter end.
TOTAL PORTFOLIO VOID	114,604	6.39%	£878,346	

APPENDIX 2 – INDIRECT INFORMATION

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership returned 1.0% over the quarter and 14.8% 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% stake held by Lend Lease (the parent company) was sold in June 2014 for a price that was approximately 15% ahead of the prior valuation. This 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 3.3%.

The fund has a portfolio comprising two prime regionally dominant properties: Bluewater, Kent and Touchwood, Solihull. The valuation of both assets was held flat over the quarter.

The partnership is due to terminate in November 2017. To extend the life of the partnership, unanimous investor approval is required. During the previous quarter, the manager held a vote to insert a new option term in the fund's documentation to facilitate extension of the partnership in the event that the fund does not achieve 100% unanimity by allowing continuing unitholders to purchase outgoing unitholder's units at prevailing NAV less costs. Whilst this vote was passed in the first quarter of 2015, the vote was challenged by a minority of investors in the fund so it was decided that no change to the fund's documentation should take place. Throughout this quarter, the Fund's manager has been progressing discussions relating to a revised vote to facilitate an extension of the partnership's life. A second vote in Q3 2015 is proposed

STANDARD LIFE SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 2.0% over the quarter and 12.9% over the last 12 months.

The fund has underperformed its benchmark, the Shopping Centre component of the IPD Annual Index, on a quarterly and 12 month basis but has outperformed over three years, five years and since inception. The portfolio has outperformed the IPD Monthly Index - Shopping Centre Sub-sector since launch by 3.7% (on an annualised basis).

During the quarter, One Stop, Perry Barr was brought to the market at a quoting price of £87.5m with a number of parties conducting detailed work prior to offers being made by quarter end. No purchases took place during the quarter.

The asset management plans at Stirling, Wimbledon and Brighton were progressed with initiatives commencing to resize stores to meet requirements of either existing tenants or newly targeted occupiers. Over the quarter new lettings have been completed at Perry Barr, Enfield, Stirling, Wimbledon and Brighton. Detailed discussions on planning continued at both Brighton (Churchill Square) and at Brent Cross, in anticipation of proposed development works commencing in 2016.

During the quarter, the Trust's interest in Brent Cross was transferred to a Scottish Limited Partnership which provides a greater level of liquidity and allows for new equity to be injected in order to carry out the major planned extension works to the centre.

At the quarter end, the trust had a property portfolio valued at £1.515bn providing exposure to eight shopping centres across the UK. The fund remains ungeared with a portfolio weighted average unexpired lease term of 7.5 years and a void rate of 2.1% by estimated rental value. The trust's exposure to retailers in administration decreased over the quarter to 1.6% of passing rent. There were no retailer failures during the quarter.

APPENDIX 3 – PORTFOLIO VALUATION

Property	Valuation Jun 2015	Valuation Mar 2015	Qtr Total Return	Annual Income	OMRV	Net Initial Yield[2]
Offices						
Aberdeen, Pilgrim House	£10,400,000	£10,400,000	1.7%	£691,597	£704,214	6.3%
London EC1, 83 Clerkenwell Rd	£14,750,000	£14,250,000	4.4%	£477,200	£899,800	2.9%
London N1, 15 Ebenezer St & 25 Provost St	£7,950,000	£7,500,000	6.9%	£272,588	£617,700	3.2%
Watford, Clarendon Road	£15,500,000	£15,500,000	1.5%	£902,750	£999,000	5.5%
Cambridge, The Eastings	£3,500,000	£3,500,000	1.4%	£190,500	£226,000	5.1%
Cambridge, 270 Science Park	£11,400,000	£11,400,000	0.2%	£640,927	£892,927	5.3%
Total Offices	**£63,500,000**	**£62,550,000**	**2.6%**	**£3,175,562**	**£4,339,641**	**4.7%**
Retail Warehouse						
Rayleigh, Rayleigh Road	£3,550,000	£3,550,000	1.6%	£222,783	£222,783	5.9%
Redditch, Washford Mills	£7,150,000	£7,400,000	-2.3%	£431,689	£450,500	5.7%
Northampton, Becket Retail Park	£7,000,000	£7,000,000	1.5%	£431,000	£429,000	5.8%
Norwich, Cathedral Retail Park	£17,650,000	£17,650,000	1.3%	£985,500	£1,054,000	5.3%
Total Retail Warehouse	**£35,350,000**	**£35,600,000**	**0.6%**	**£2,070,972**	**£2,156,283**	**6.0%**

Property	Valuation Jun 2015	Valuation Mar 2015	Qtr Total Return	Annual Income	OMRV	Net Initial Yield[2]
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%**
Industrials						
Bristol, South Bristol Trade Park	£4,200,000	£4,100,000	3.8%	£231,643	£268,550	5.2%
Crawley, Woolborough IE	£13,400,000	£12,600,000	7.7%	£673,541	£1,120,305	4.8%
Croydon, 75/81, Sumner Road	£2,200,000	£2,000,000	10.9%	£101,000	£151,900	4.3%
Heathrow, Skylink	£3,500,000	£3,150,000	14.9%	£0	£237,000	0.0%
London, 131 Great Suffolk St	£3,300,000	£3,000,000	10.9%	£110,000	£269,600	3.2%
London, Apsley Centre	£3,000,000	£2,950,000	3.1%	£165,900	£168,700	5.2%
London, Phoenix Park, Apsley Way	£9,000,000	£8,650,000	5.3%	£449,301	£517,600	4.7%
Sunbury, Windmill Road	£10,700,000	£9,875,000	9.9%	£599,750	£653,250	5.3%
Swindon, Dunbeath Court	£4,400,000	£4,250,000	5.0%	£272,327	£331,716	5.9%
Swindon, Euroway IE	£13,250,000	£13,000,000	3.4%	£779,283	£999,235	5.6%
Total Industrial	**£66,950,000**	**£63,575,000**	**6.8%**	**£3,382,745**	**£4,717,856**	**5.4%**

Property	Valuation Jun 2015	Valuation Mar 2015	Qtr Total Return	Annual Income	OMRV	Net Initial Yield[2]
Other Commercial						
Leeds, The Calls	£7,250,000	£7,250,000	1.6%	£457,110	£510,100	6.0%
Glasgow, Mercedes	£9,550,000	£9,200,000	5.4%	£580,989	£566,600	5.7%
Newcastle, Charlotte House	£5,600,000	£5,600,000	1.6%	£365,587	£396,800	6.2%
Derwent Shared Ownership	£9,365,000	£8,925,000	6.5%	£408,946	£408,946	4.4%
Total Other Commercial	**£31,765,000**	**£30,975,000**	**4.2%**	**£1,812,632**	**£1,882,446**	**5.4%**
Total Direct Property [1]	**£209,565,000**	**£204,700,000**	**3.7%**	**£11,121,911**	**£13,776,226**	**5.1%**
Indirect Property						
Lend Lease Retail Partnership	£9,611,040	£9,574,500	1.0%	£225,074	-	2.2%
Standard Life Investments UK Shopping Centre Trust	£14,615,230	£14,499,554	2.0%	£552,475	-	3.6%
Total Indirect Property[2]	**£24,226,270**	**£24,074,054**	**1.4%**	**£777,549**	**-**	**3.0%**
GRAND TOTAL	**£233,791,270**	**£228,774,054**	**3.5%**	**£11,899,460**	**-**	**5.1%**

Notes:

1. Direct property total returns for the quarter to June 2015 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to June 2015 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). The total return figure stated for inProp is as reported by IPD this quarter following the disinvestment from the vehicle.
2. Net Initial Yields as reported by BNP Paribas and Allsop LLP (Independent Valuers for the Fund) in respect of the direct portfolio. Net Initial Yields as reported by CBRE Global Investors in respect of the indirect portfolio.
3. Valuation figures provided by CBRE Global Investors (UK Funds) Ltd (CBREGIF) are the May 2015 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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