QUARTERLY REPORT Q3 2015

CBRE GLOBAL INVESTORS DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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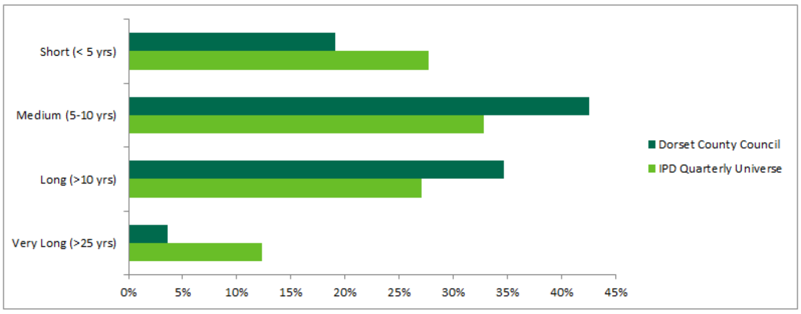
EXECUTIVE SUMMARY
Q3 2015

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 Q3 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 outperformed the IPD index this quarter. It it marginally behind over a 1 year time frame, but comfortably ahead of the benchmark over 3 and 5 years.

LEASE LENGTH



GEOGRAPHICAL STRUCTURE

London & SE	44%
Eastern	16%
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	£215.4m	25
UK Indirect	£24.4m	2
Total value of portfolio	**£239.8m**	

NIY / EY	5.0% / 5.8%
Vacancy rate	6.2%
AWULT to expiry (lease break)	10.5yrs (10.4yrs)
Largest asset	Cathedral Retail Park Norwich (£17.65m / 7.6% portfolio value)
Largest tenant	ACI Worldwide EMEA Ltd (£902,750 / 8.0% of portfolio rent)

Performance

	UK Portfolio	Benchmark	Relative
Q3 2015 %	3.8%	3.3%	0.5%
1 Year % (2015)	14.3%	14.5%	-0.2%
3 Year % pa (2013-15)	14.5%	13.2%	1.2%
5 Year % pa (2010-15)	11.3%	10.4%	0.8%

Transactions

	Q3 2015
Money available	£0.0m
Purchases	£0.0m
Sales	£0.1m

2.0 MARKET COMMENTARY

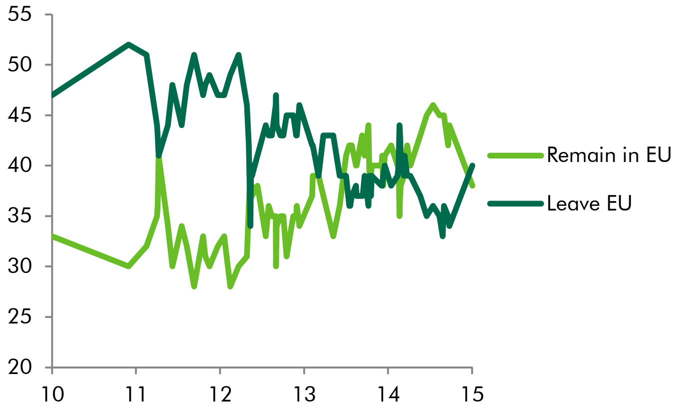
UK ECONOMIC OUTLOOK

In many ways, the UK economy continues to enjoy a sweet spot. A low interest rate, low inflationary environment has spurred both business and consumer activity. Employment has risen to historical levels, which coupled with productivity gains means that real wage growth is accelerating. The fall in oil prices has boosted households' discretionary spending power and credit conditions are improving. While manufacturing and service sector sentiment levels have moderated in recent months, they are still indicative of healthy near term growth. Taken together, we have conviction that the UK's economic cycle has momentum and above trend property performance is very likely to continue into 2016.

As we enter the final quarter of the year, the volatility that dictated global equity markets in August and September has dissipated. This stems from the fact that central banks have made it abundantly clear that monetary policy will remain lower for an even longer period of time but also the acknowledgement that uncertainty associated with equity market turbulence in China did not warrant contagion fears. While the possibility of Greece leaving the Eurozone remains a possibility, as well as our base case economic assumption, the likelihood appears to have subsided somewhat during the quarter.

In terms of the UK domestic situation, a development that we are mindful of is the narrowing in opinion polls as to whether Britain should leave the European Union (Figure 1). In fact some recent surveys even find a majority of Britons wanting to leave. For commercial real estate occupiers this has broadly been ignored. Investors are acutely aware of the situation, though it has yet to curtail transactional activity. While the uncertainty associated with a potential exit from Europe would not bode well for confidence, we take the view that the UK will remain business friendly and among the world's most attractive environments for foreign investors irrespective of the outcome of a referendum vote. Commercial property will continue to benefit from market transparency, liquidity, rule of law and favourable lease structures.

Figure 1 In a referendum on Britain's membership of the European Union, how would you vote? Source: YouGov



UK PROPERTY PERFORMANCE

Consistent with the health of the economy, commercial property continues to deliver attractive returns. Capital value growth remains strong, driven by a fairly equal mixture of yield movement and rental value growth. According to the IPD Monthly Index, the all property total return in the year to September 2015 was 15.3%. While decelerating since Q4 2014, this is still healthy by historical standards and indicative of above trend market-level returns for a third successive year. At a sector level, offices continue to outperform, having delivered a return of 20.5% in the year to September 2015. Industrial performance was a close second at 19.7%. Retails continue to be the relative laggard having produced a return of 9.5%.

OCCUPIER MARKETS

Given the favourable economic backdrop and a dwindling supply of modern stock, occupier markets remain buoyant. The number of company insolvencies have fallen steadily to below trend levels and Britain's SMEs are showing a willingness, and more importantly have been able, to take on more credit. Correspondingly, there are more active requirements than a year ago and rental values are rising strongly in the office and industrial sectors.

Regional office markets, in particular, are benefiting from a broad range of business sector activity. The TMT sector is not bound to London's Silicon Roundabout: Manchester and Newcastle have proven real nodes of innovation. Birmingham and Leeds have proven adept at attracting financial and business service occupiers with a regional orientation. Demand for industrial space across much of the UK remains healthy as private sector businesses are in expansion mode and third party logistics operators 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. The speed with which regional office supply has ramped up has been remarkable. Correspondingly supply threats are legitimately a concern from 2017 in certain markets.

While performance from the retail sector continues to lag the broader market, we believe that the sector's recovery has been delayed, rather than denied. This will be helped by the reappearance of real wage growth, an improvement in credit conditions, ebullient retailer confidence (currently at a 27 year high) as well as limited new supply.

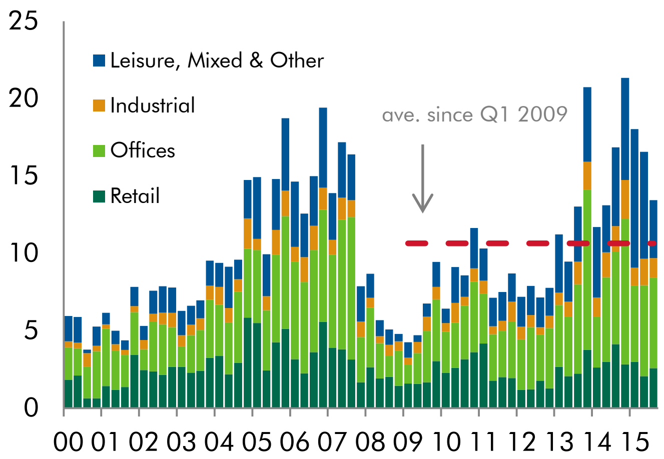
The situation on the high street is admittedly mixed. At a UK level, the sector is still characterised by net retailer closures although vacancy rates have fallen to 2010 levels. This suggests that obsolete retail space is being successfully repurposed into other uses. We are finding that with rents having rebased to economic levels, occupiers are willing to consider new space and renegotiate leases, though not necessarily at higher rental levels. There is competition when units in better towns are available and we are seeing rental value growth in towns like Guildford, Reading and York. An improved rental outlook is not universal across all retail formats, however yields have not fallen as far as other sectors of the property market so the retail sector should be less susceptible to a change in sentiment towards the wider property market.

CAPITAL MARKETS

Real estate capital markets remain buoyant, however, the cumulative UK deal volume in Q3 2015 was softer than the preceding four quarters (Figure 2). While our sense is that the moderation of investment activity is more of a supply issue, exogenous macroeconomic events have selectively disrupted investors' equilibrium.

During Q3 a number of high profile large lot size deals in London have fallen away as prospective international investors have had to grapple with domestic issues. The burning question is if Far Eastern and sovereign wealth fund capital leaves London who will replace these investors at current pricing? We suspect that the weight of money from UK institutions and listed players as well as North American private equity is deep enough, particularly for sub-£50mn lot sizes, though it remains to be seen whether there is universal comfort at today's pricing for trophy product.

Figure 2 Overall Market Transactions by Sector, £bn. Source: Property Data, Latest Q3 2015



An upshot to the limited amount of quality investment-grade stock is historically strong prices being paid for core investments and good secondary product attracting a depth of demand from various equity and debt sources. There are still more buyers than sellers, with most investments continuing to attract multiple offers and several rounds of negotiation. As the yearend push draws near, it is not surprising that more stock across quality bands is coming to market. The packaging of portfolios is both a barometer of where we are in the property cycle as well as indicative of 2015 being a record year for deal volumes.

OUTLOOK

As the UK economy continues to enjoy a period of historically low interest rates and inflation as well as an orientation to growing global markets, property is benefiting from a favourable supply/demand balance. While the UK average property yield is low by historical standards, an income return of c.5% p.a. remains attractive relative to other asset classes. With rental values rising by 3% p.a. in real terms, we believe that the next 12-18 months will be a period of above trend returns across the majority of UK property segments.

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, uncertainty around the prospect of Britain leaving the EU, a global 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 to de-risk traditional property portfolios. This includes selling poorly performing assets, being mindful of lease expiries in years 2018-2020 and continuing to secure income delivered from high lease value properties.

3.0 STRATEGY

Information in respect of the strategy for the Fund.

Size	▪ Target portfolio size £230 million. (Currently £239.8m, with a further £3.9m committed to the purchase of Henbury and Ingersley Buildings, Macclesfield. £2.75m sale proceeds identified by part sale of Euroway Industrial Estate, Swindon).
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*	£215.4m	(89.8%)
UK indirect**	£24.4m	(10.2%)
Total value of portfolio	£239.8m	(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*	73 with a further 5 units void	70-100
Net initial yield (direct property)	5.0% p.a. after rent-free periods	Above benchmark
Vacancy rate (% of rent)	6.2%	Below benchmark
Rent with +10 years remaining	28.6% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	12.4% of total rent	Minimum 10% of total rent
Largest property (% of value)	7.4% (Cathedral Retail Park, Norwich)	Below 10%
Largest tenant (% of rent)	8.0% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	79.6% 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 thea higher 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:

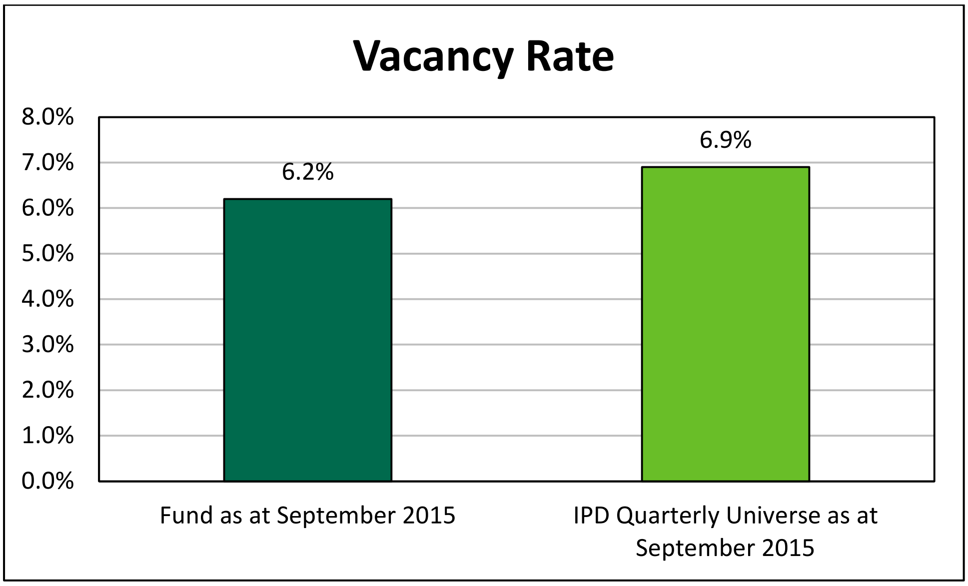
- letting vacant space;
- pursuing lease renewals with existing tenants at the earliest opportunity;
- settling rent reviews where there are outstanding reversions;
- closely monitoring non recoverable expenditure.

	Portfolio	IPD Quarterly Universe
Initial yield p.a.	5.0%	4.9%
Equivalent yield p.a.	5.8%	5.8%
Income return over quarter	1.2%	1.2%

VACANCY RATE

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

The Fund's void rate remains below the benchmark following the letting of unit 2, Sumner Road, Croydon during the quarter. Post quarter end the sale of units 12a and 12b Euroway Industrial Estate, Swindon and the letting of Unit 1, Washford Mills Redditch, completed, reducing the void rate by c.2.1% further.

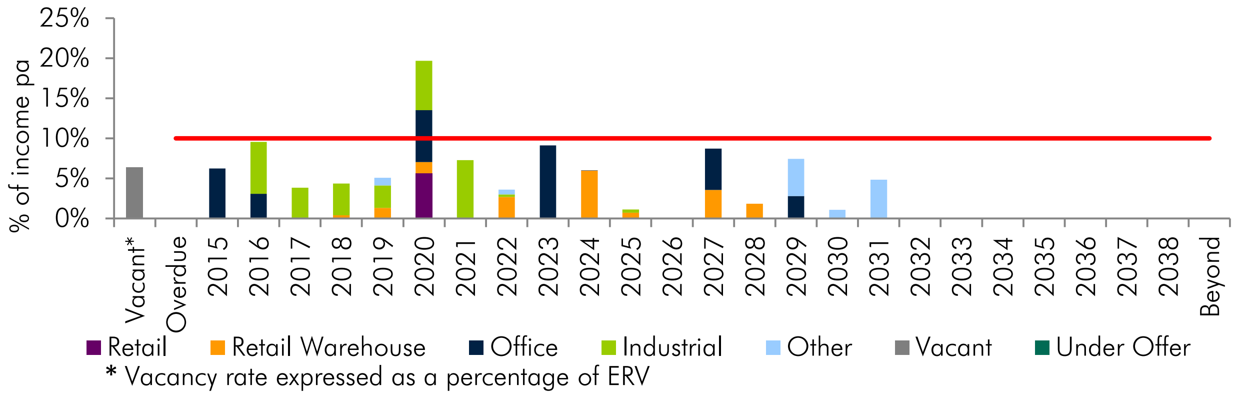


ACTION – seek to let vacant space through using best in class letting agents and proactively manging upcoming lease expiries (see Appendix 1 for the list of void properties).

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.

The average lease length of the Fund has improved recently, the average lease length is now close to that of the benchmark at 10.2 years including all breaks, in comparison to 11.8 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.

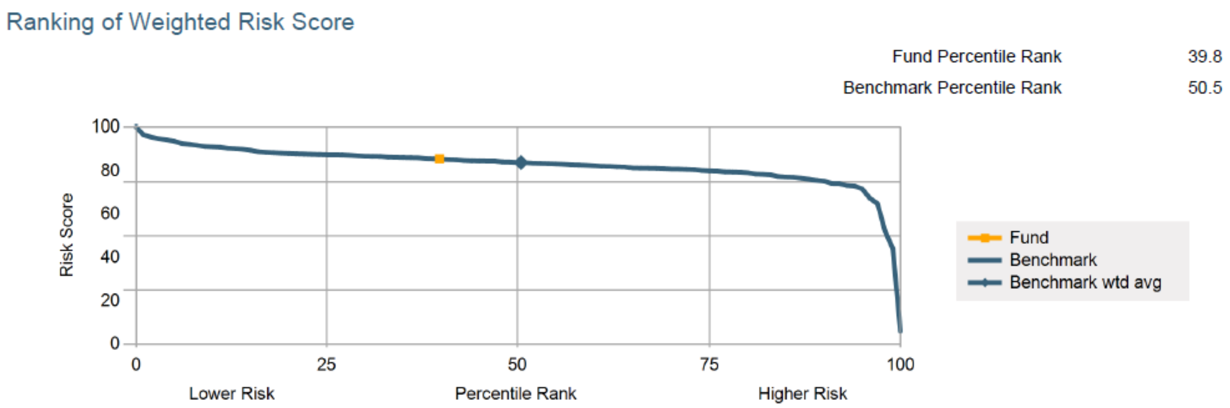


ACTION – seek to maintain the average lease length through the active management of lease events in the portfolio. Aim to create a "dumbbell" shaped expiry profile to allow short term asset management balanced by long term secure income.

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 September 2015. The Fund is in the second quartile with a Weighted Risk Score on the 39.8th percentile. This has improved since the previous quarter (42nd 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.

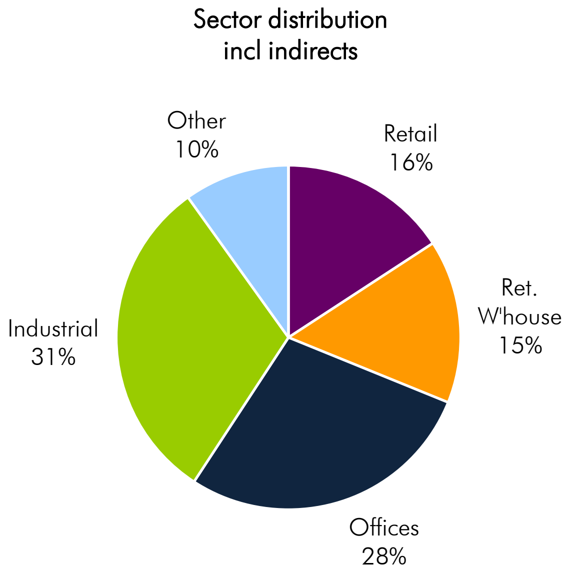
The portfolio is currently achieving the target and the amount of HLV income is expected to increase through the purchase of Henbury and Ingersley Buildings, Macclesfiled in Q4 2015/Q1 2016.

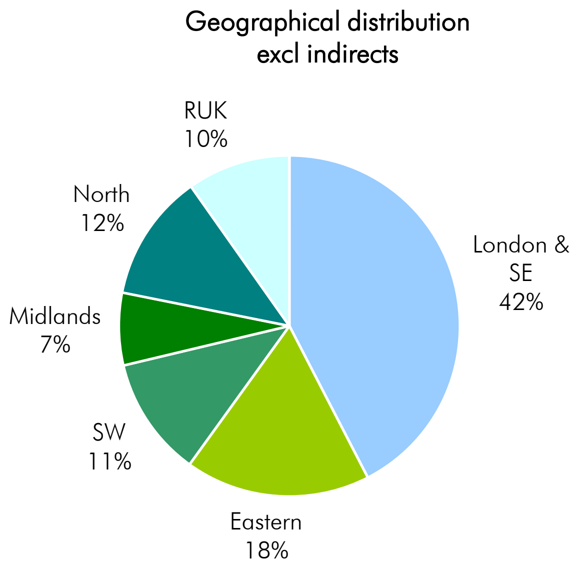
% of portfolio income	Q3 2015
Open market income	88%
RPI/Index linked income	12%

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 Q3 2015	£11,400,000
IRR	3.75% pa

Formal planning permission is still awaited for the hybrid application submitted on the estate. Conditions have been received and Section 106 requirements were awaited at the point of print.

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	Sumner Road, Croydon
Sector	Industrial
Valuation Q3 2015	£2,550,000
IRR	2.8% pa

During the quarter a new letting complete with Tapi Carpets at a £36,000 pa (£10.64 psf). This was a significant improvement on previously agreed rents and therefore improved the rental value for the estate.

The property had a positive weighted contributed to the Fund return for the quarter by 0.12%.

6.0 TRANSACTIONS

TRANSACTIONS OVER QUARTER

SALE

Address	8 Bankside Court, Tamworth
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed flat
Completion Date	31st July 2015
Price	£58,750
Valuation	£55,000

Address	1 Columbia Place, Sheffield
Sector	Residential – Derwent Portfolio
Transaction	Repossession of a 2 bed flat
Completion Date	21st September 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 2016 sales are as follows:

Asset	Sector	Q2 2015 Value	Estimated Timescale	Status
Washford Mills, Redditch	Retail Warehouse	£7,150,000	Q1 20156	Letting vacant unit complete post quarter end
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 Ingersley building having issued practical completion post quarter date in November 2015 whilst Henbury building is expected to be completed early in 2016.

The Manager is trying to work with the vendor to part complete on the purchase; that is just purchasing the Ingersley building in Q4 2015 with the Henbury building completing in Q1 or Q2 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%.

The sale completed post quarter end in Q4 2015.

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

Q3 2015	Portfolio	Benchmark	Relative
Capital growth	2.6%	2.1%	0.5%
Income return	1.2%	1.2%	0.0%
Total return	**3.8%**	**3.3%**	**0.5%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio outperformed the benchmark over the last three months. The longer term pattern is for income return to be stronger than capital growth, however this quarter the capital growth was 50 basis points ahead of the benchmark. Capital growth is anticipated to slow over the next 12 months therefore the Fund's income return will become an increasingly important driver of performance.

12 months to Q3 2015	Portfolio	Benchmark	Relative
Capital growth	8.5%	9.2%	-0.6%
Income return	5.3%	4.8%	0.5%
Total return	**14.3%**	**14.5%**	**-0.2%**

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q3 2015	Portfolio	Benchmark	Relative
Capital growth	8.0%	7.5%	0.5%
Income return	6.0%	5.3%	0.6%
Total return	**14.5%**	**13.2%**	**1.2%**

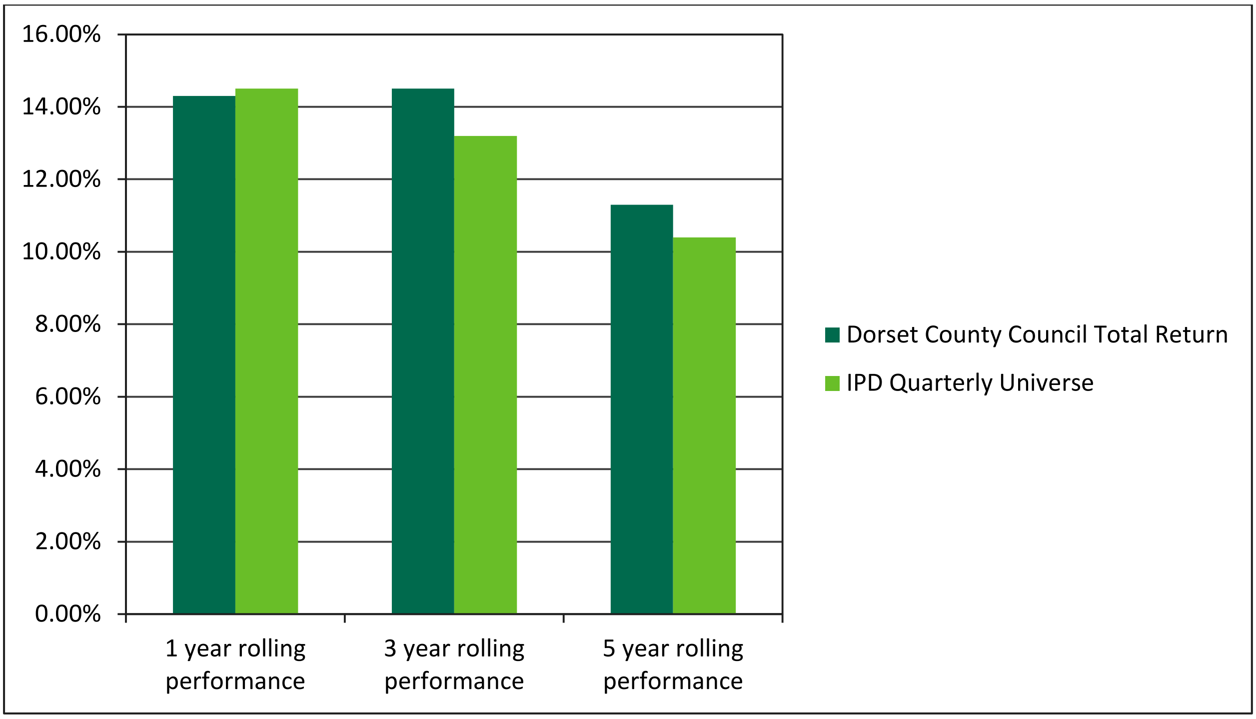
Source: CBREGI and IPD Quarterly Benchmark Report

5 yrs to Q3 2015	Portfolio	Benchmark	Relative
Capital growth	5.0%%	4.6%	0.4%
Income return	6.0%	5.5%	0.5%
Total return	**11.3%**	**10.4%**	**0.8%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is marginally underperforming over 1 year, with outperformance over the last 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 marginally underperforming on a 1 year rolling period -0.2%, but comfortably outperforming over longer term 3 and 5 year rolling periods. 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 September 2015	GREEN	£5,285.20
	30 June 2015	GREEN	£9,158.57
	31 March 2015	AMBER	£22,188.63
	31 December 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 September 2015	GREEN	(96.4% collected in 6 days, 97.2% by 15th day)
	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)

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 September 2015	RED (Three not closed)
	30 June 2015	RED (Three not closed)
	31 March 2015	RED (Two not closed)
	31 December 2014	RED (Two not closed)

*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. Data collection and initial studies are taking place initially with further progress anticipated in Q4 2015 – early 2016.

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 have been advised that Dorset County Council meets the definition of a contracting authority as set out in the Public Contracts Regulations 2015m that is that "the State, regional or local authorities, bodies governed by public law or associations formed by one or more such authorities or one or more such bodies governed by public law, and includes central government authorities, but does not include Her Majesty in her private capacity". Therefore Dorset County Council is not required to participate in ESOS.

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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 SEPTEMBER 2015

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Unit D, Woolborough Lane Industrial Estate, Crawley	40,145	2.4%	£341,200	Under Offer
The Logistics Centre, Green Lane, Heathrow	20,613	1.7%	£242,200	On Market
Unit 1, Washford Mills, Redditch	9,622	0.8%	£115,500	Under Offer
Unit 12a Euroway Industrial Estate, Swindon	29,700	1.0%	£133,650	Under offer to sell (sale complete post quarter end)
Unit 12b Euroway Industrial Estate, Swindon	10,599	0.3%	£47,696	Under offer to sell (sale complete post quarter end)
TOTAL PORTFOLIO VOID	**110,679**	**6.2%**	**£880,246**	

APPENDIX 2 – INDIRECT INFORMATION

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership returned 1.8% over the quarter and 5.3% over the last year.

The performance during the quarter was attributable to income and a slight value increase of the fund's asset in Bluewater, Kent.

Lend Lease Retail Partnership is a core specialist fund, providing exposure to the prime UK shopping centre market. The fund is ungeared and currently has an annualised distribution yield of 3.3%.

The fund has a portfolio comprising two prime regionally dominant properties: Bluewater, Kent (25% stake) and Touchwood, Solihull (100% owned). The valuation of Touchwood 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 quarter, the manager proposed voting on the following Extraordinary Resolutions: (i) allow for amendments to the fund documentation on a super majority basis (i.e. removal of unanimous consent); (ii) to approve Partnership Assets to be sold to a "successor" fund on a winding up of the Partnership; and (iii) to permit costs of up to £185k to be borne by investors (on a pro-rata basis) should any disputes arise.

The resolution was approved, although challenged by a minority of investors. The fund manager is now progressing discussion with investors regarding options for the Partnership and has engaged an advisor to assist in this process.

STANDARD LIFE SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 1.3% over the quarter and 7.8% 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 3.6% (on an annualised basis).

The manager has made good progress on the redemption process as a result of volume trades, with the last lot of residual redemption units being taken up by an existing investor. This trade would mark the successful completion of the redemption process.

One Stop Perry Barr was brought to the market last quarter at an asking price of £87.5m. Marketing has continued throughout Q3 during which time the income profile of the asset has worsened with DSG and McDonalds vacating. The sector has also experienced softening in investor demand for non-prime assets. Three parties continue to monitor the asset. No purchases have been competed this quarter.

Major asset management projects remain in the pipeline at the fund's properties in Brighton, Wimbledon and Stirling. Detailed discussions on planning continued at both Brighton (Churchill Square) and at Brent Cross, in anticipation of proposed development works commencing in 2016.

At the quarter end, the trust had a property portfolio valued at £1.638bn providing exposure to eight shopping centres across the UK. The fund remains ungeared with a portfolio weighted average unexpired lease term of 7.7 years and a void rate of 2.2% by estimated rental value. The trust's exposure to retailers in administration decreased over the quarter to 0.6% of passing rent. There were no retailer failures during the quarter.

APPENDIX 3 – PORTFOLIO VALUATION

Property	Valuation Sep 2015	Valuation Jun 2015	Qtr Total Return	Annual Income	OMRV	Net Initial Yield[2]
Offices						
Aberdeen, Pilgrim House	£10,200,000	£10,400,000	-0.4%	£691,597	£704,214	6.4%
London EC1, 83 Clerkenwell Rd	£15,900,000	£14,750,000	9.1%	£477,200	£976,500	2.7%
London N1, 15 Ebenezer St & 25 Provost St	£8,000,000	£7,950,000	1.5%	£272,588	£617,700	3.2%
Watford, Clarendon Road	£15,650,000	£15,500,000	2.4%	£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	0.9%	£641,616	£892,927	5.3%
Total Offices	**£64,650,000**	**£63,500,000**	**3.1%**	**£3,176,251**	**£4,416,341**	**4.6%**
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	£7,150,000	1.1%	£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	1.4%	£985,500	£1,054,000	5.3%
Total Retail Warehouse	**£35,350,000**	**£35,350,000**	**1.4%**	**£2,070,972**	**£2,156,283**	**5.7%**

Property	Valuation Sep 2015	Valuation Jun 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	£4,250,000	£4,200,000	2.7%	£252,757	£268,550	5.6%
Crawley, Woolborough IE	£14,200,000	£13,400,000	6.5%	£673,541	£1,192,300	4.5%
Croydon, 75/81, Sumner Road	£2,550,000	£2,200,000	16.3%	£137,000	£162,200	3.7%
Heathrow, Skylink	£3,800,000	£3,500,000	4.6%	£0	£242,200	0.0%
London, 131 Great Suffolk St	£3,725,000	£3,300,000	13.7%	£110,000	£293,500	2.8%
London, Apsley Centre	£3,150,000	£3,000,000	6.4%	£165,900	£168,700	5.0%
London, Phoenix Park, Apsley Way	£9,550,000	£9,000,000	7.5%	£497,001	£526,900	4.9%
Sunbury, Windmill Road	£10,800,000	£10,700,000	2.3%	£599,750	£653,250	5.3%
Swindon, Dunbeath Court	£4,750,000	£4,400,000	9.6%	£316,067	£331,716	6.3%
Swindon, Euroway IE	£14,350,000	£13,250,000	9.8%	£779,283	£999,235	5.3%
Total Industrial	**£71,125,000**	**£66,950,000**	**7.2%**	**£3,531,298**	**£4,838,551**	**4.7%**

Property	Valuation Sep 2015	Valuation Jun 2015	Qtr Total Return	Annual Income	OMRV	Net Initial Yield[2]
Other Commercial						
Leeds, The Calls	£7,250,000	£7,250,000	1.8%	£457,110	£510,100	6.0%
Glasgow, Mercedes	£9,950,000	£9,550,000	5.7%	£580,989	£566,600	5.5%
Newcastle, Charlotte House	£5,600,000	£5,600,000	1.6%	£365,587	£396,800	6.2%
Derwent Shared Ownership	£9,455,000	£9,365,000	3.1%	£403,985	£403,985	4.3%
Total Other Commercial	**£32,255,000**	**£31,765,000**	**3.3%**	**£1,807,671**	**£1,877,485**	**5.5%**
Total Direct Property [1]	**£215,380,000**	**£209,565,000**	**4.0%**	**£11,266,193**	**£13,968,660**	**5.0%**
Indirect Property						
Lend Lease Retail Partnership	£9,702,300	£9,611,040	1.8%	£320,985	-	3.1%
Standard Life Investments UK Shopping Centre Trust	£14,670,228	£14,615,230	1.3%	£545,271	-	3.5%
Total Indirect Property[2]	**£24,372,528**	**£24,226,270**	**0.0%**	**£866,256**	**-**	**3.4%**
GRAND TOTAL	**£239,752,528**	**£233,791,270**	**3.8%**	**£12,132,448**	**-**	**4.7%**

Notes:

1. Direct property total returns for the quarter to September 2015 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to September 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 August 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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