Henbury and Ingersley Buildings, Hope Park, Victoria Road, Macclesfield

QUARTERLY REPORT Q4 2016

CBRE GLOBAL INVESTORS DORSET COUNTY COUNCIL PENSION FUND

CBRE GLOBAL INVESTORS

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Q4 2016

MARKET

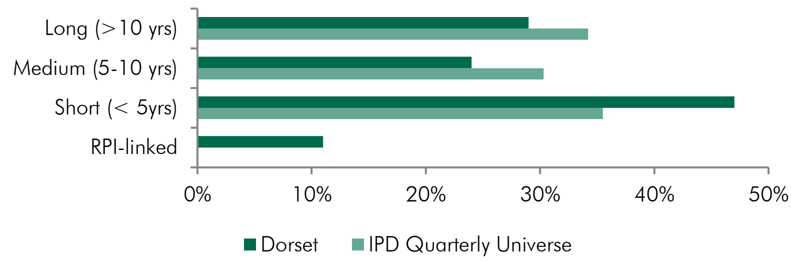
The UK economy and property market enter 2017 in a much stronger position than anticipated just six months ago. However, rules of engagement between Britain and the EU are only beginning to be drawn and it will be a further two years, at best, before a clearer picture exists. Acrimony, volatility and uncertainty are likely to cloud the outlook and complicate investment decisions in the interim.

It is anticipated that all property performance in 2017 will be broadly comparable to 2016 with modest capital value falls and income driving returns. Against this backdrop we will continue to focus on proactively managing income and lengthening leases, to continue to improve the defensive quality of the portfolio.

PORTFOLIO

Over the quarter, two lease renewals completed achieving rental growth between 17% and 20%. The low void rate has been maintained at 2.6%. A void rate at this level is unsustainably low in the long term, however, coupled with a long AWULT (9.3 yrs to break) and the strategic increase in the exposure to secure index-linked income streams, this provides a robust income profile to help weather anticipated market turbulence. During Q4 2016 there were no purchases or sales. Three properties staircased from the Derwent Shared Ownership portfolio during the quarter.

LEASE LENGTH



GEOGRAPHICAL STRUCTURE

London & SE	43%
Eastern	16%
South West	10%
Midlands	8%
North	14%
Rest of UK	9%

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	£215.0m	25
UK Indirect	£24.2m	2
Total value of portfolio	**£239.2m**	

NIY / EY	5.0% / 6.0%
Vacancy rate	2.6%
AWULT to expiry (to lease break)	9.7 yrs (9.3 yrs)
Largest asset	Woolborough Lane IE, Crawley (both £18.2 / 8.4% direct portfolio)
Largest tenant	ACI Worldwide EMEA (£1,070,000 / 7.9% of portfolio rent)

Performance

	Portfolio	Benchmark	Relative
Q4 2016 %	1.4%	2.2%	-0.8%
1 Year % (2015-2016)	4.7%	3.6%	1.1%
3 Year % pa (2013-16)	12.3%	11.4%	0.8%
5 Year % pa (2011-2016)	10.4%	9.5%	0.8%

Transactions

	Q4 2016
Money available	£20.0m
Purchases	£0.0m
Sales	£0.2m
Committed Equity (Cambs)	£12.7m

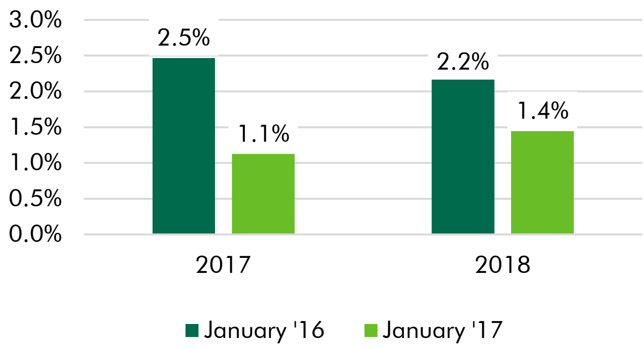
2.0 MARKET COMMENTARY

UK ECONOMIC OUTLOOK

We find ourselves in a most perplexing operating environment. Over the past year political uncertainty has changed so often and in such a pronounced manner. Domestic economic activity is surprising to the upside, due in part to low expectations but also the powerful buffering effect of a depreciating currency. While property markets have become rather boring: what little distress existed during "peak fear" in July saw an orderly resolution and both yields and vacancy rates have remained remarkably stable.

We are coming to accept that Brexit may no longer be the greatest threat to the UK economy and property market. However, this is hardly a consolation as focus now shifts to the numerous potentially destabilising forces elsewhere in the world today. On the domestic front, mounting consumer credit, a burgeoning current account deficit and the fall in Sterling have the potential to coalesce in a particularly painful fashion. This translates to a growth outlook in 2017-18 which is approximately half of what it was a year ago (Figure 1). Looking further afield, Europe's 2017 election cycle could easily see a repeat of last's year's populist successes, ushering in further market volatility and dislocating capital markets. Geopolitical tensions too have taken on a new-found animation. Whilst we believe the UK is generally well-positioned on the world stage and will remain a fundamentally sound place to invest in commercial real estate, any urgency to do so now has receded.

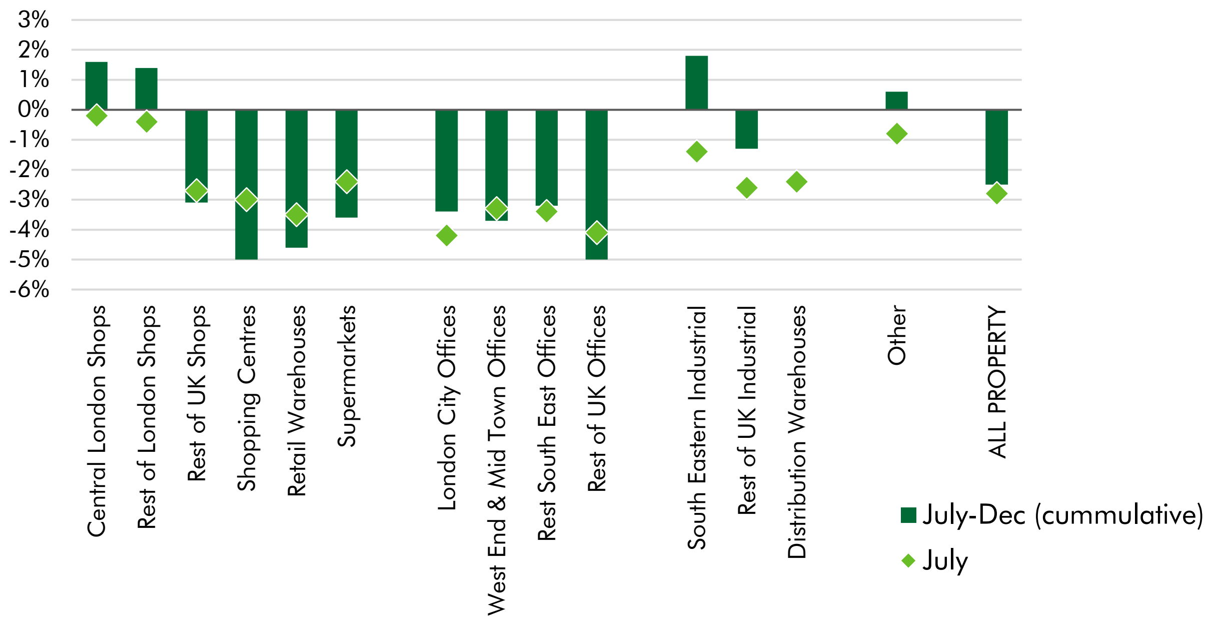
Figure 1 Comparative UK GDP forecasts, % p.a.
Source: Oxford Economics



UK PROPERTY PERFORMANCE

It may be easy to paint many pessimistic scenarios which could have negative repercussions for UK property, but for the time being performance is holding up reasonably well. In fact capital values actually rose in multiple property sectors in the final months of the year (Figure 2). According to the MSCI monthly index, the all property total return in Q4 2016 was 2.6%, nearly reversing the previous quarter's decline. Given the increase to stamp duty and flat

Figure 2 Capital value movements since the 2016 EU Referendum, %



capital values earlier in the year, the annual total return was coincidentally 2.6% as well. As has been a reoccurring theme, industrials proved to be the most resilient sector, delivering a quarterly return of 4.2%. Retail and offices both underperformed the broader market delivering returns of 1.9% and 2.2%, respectively.

Occupier Markets

The sound economic backdrop remains supportive of occupier markets throughout much of the country. Underpinned by a lack of modern supply, the physical vacancy rate at an all property level was static in the second half of 2016. The South East industrial market is arguably best positioned. Existing stock is being replaced with higher value land uses and eCommerce is providing a strong structural uplift to demand.

The London office market is holding up well after a notable pause during the middle of last year. While rental growth is clearly decelerating on the MSCI index, we are seeing new enquiries for space in both central and fringe locations. Despite recent activity, we continue to feel that London offices are vulnerable to Brexit-related uncertainty and a slower growth environment. This is already being reflected at the very prime end of the market where the negotiating position is shifting in favour of the tenant and headline rents are under pressure.

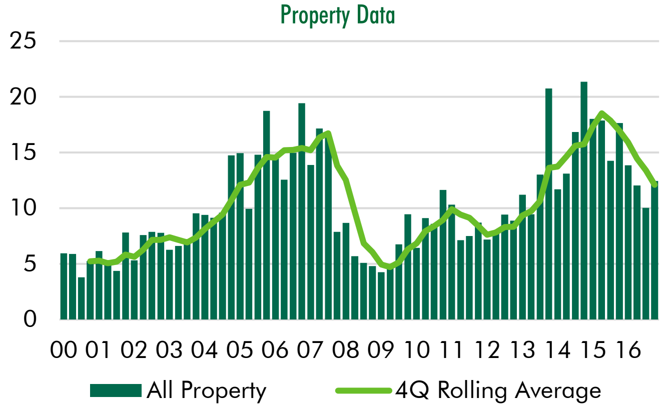
The retail sector continues to see the most polarising tenant activity. Demand for well-configured in-town units in top quartile towns such as Brighton, Guildford and York has been robust, while certain retail formats are genuinely benefiting from retailers linking up and offering mutually beneficial click-and-collect services. This is contrasted by demand for more prosaic retail formats, which the UK has an oversupply of. We hold a cautious stance toward retail warehousing. There have been no new entrants of scale in recent years and all too often available unit sizes rarely meet the few requirements that exist in the market.

As flagged in previous commentaries, the impending business rates revaluation is beginning to register with tenants. Taking effect from April of this year, the impact will be not be symmetrical across UK property markets: London, top-tier retailing pitches and supermarkets will see the greatest uplift and benefit less from transitional relief. New entrants to London and low margin food and beverage operators, in particular, have begun to voice concerns about punitive occupational costs.

Capital Markets

Property investor appetite returned in Q4 after an understandable mid-year lull. With £12.4bn transacted, quarterly volumes were comparable to post-GFC levels, though nearly 30% off of 2015's historic outturn (Figure 3). Continuing a recent trend, and consistent with our house activity, domestic institutions, have been net sellers; overseas capital remained highly selective and focused on London while private property companies created liquidity for secondary assets.

Figure 3 Overall Market Transactions by Sector, £bn. Source: Property Data



The London commercial property market is doing well though it does feel somewhat fragile. With no forced sellers, motivated one-off buyers are propping up historically high values. Led by Asian investors, CBRE reports that more international capital is targeting London now than a year ago. While this could continue to have a stabilising effect on prime yields, recent evidence suggests that these investors will be discerning. We are however encouraged by the fact that investors from around the world are compelled to London. We can categorically say that Brexit has not resulted in the city losing its standing as a preeminent destination to invest in property.

The hottest sector at the moment is South East industrials, which is underpinned by a compelling structural story. However, a lack of available supply has resulted in institutional investors bidding down yields to what in some cases are record low levels. This may present an opportunity during the coming year to sell into such enthusiasm.

Commensurate with direct property markets, the indirect funds space is faring better. The valuation penalties that were placed on open-ended retail property funds in the weeks after the EU referendum vote have now been removed, some have posted marginal net capital inflows, while at least one is making new acquisitions. Institutional funds have proven relatively unscathed by Brexit. Modest discounts to underlying NAVs are evaporating, there were no meaningful redemptions in Q4 and consultants appear keen to allocate to UK balanced funds.

Outlook

The UK economy and its property market enter 2017 in a much better position than we would have anticipated just six months ago. In large part this is because Brexit is proving more of a political construct rather than dictating business decisions. But that lies ahead. The rules of engagement between Britain and the EU are only beginning to be drawn and it will be a further two years, at best, before a clearer picture exists. Acrimony, volatility and uncertainty will cloud the outlook and complicate investment decisions.

Against this backdrop we remain risk off: the strategic focus over the coming year should be proactively managing income and lengthening leases, selling wisely into perceived irrational exuberance and having a strong structural story for new acquisitions. We anticipate all property performance in 2017 to be broadly comparable to last year with modest capital value falls and income being the primary driver of returns. But 2017 is also likely to be a year of price discovery, which could mean that compelling buying opportunities begin to arise sooner than is currently anticipated. However, we feel that it is too early to be contrarian.

3.0 STRATEGY

Information in respect of the strategy for the Fund.

Size	▪ Target portfolio size £260 million. (Currently £239.2m).
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 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*	£215.0m	(90%)
UK indirect**	£24.2m	(10%)
Total value of portfolio	£239.2m	(100%)

*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 (Direct property only)	Aim
Number of assets	25	25-30
Number of tenancies*	76 with a further 3 units void	70-100
Net initial yield	5.0% p.a.	Above benchmark
Vacancy rate (% of rent)	2.6%	Below benchmark
Rent with +10 years remaining	26.1% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	8.2% of total rent	Minimum 10% of total rent
Largest property (% of value)	8.4% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of rent)	9.3% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	80% / 20%	Minimum 70% freeholds

*The Derwent portfolio is classified as 1 tenancy albeit the underlying income is derived from multiple shared owners.

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 IPD Quarterly Universe net initial yield is 4.9% as at Q4 2016. The portfolio net initial yield as measured by IPD is currently 5.0%. The margin over the benchmark has stayed the same during the quarter. The portfolio yield has reduced in general over the last year due to stronger market conditions and the acquisition of a lower yielding property which delivers secure RPI linked income. This has added to the quality of the income stream from the portfolio. In addition, moving Charlotte House, Newcastle to a direct let basis has reduced the income from this asset.

ACTION – the portfolio's initial yield currently is 10 basis points above the Benchmark IPD Quarterly Universe. In order to improve the yield gap further our ongoing focus is to enhance the portfolio income, principally by:

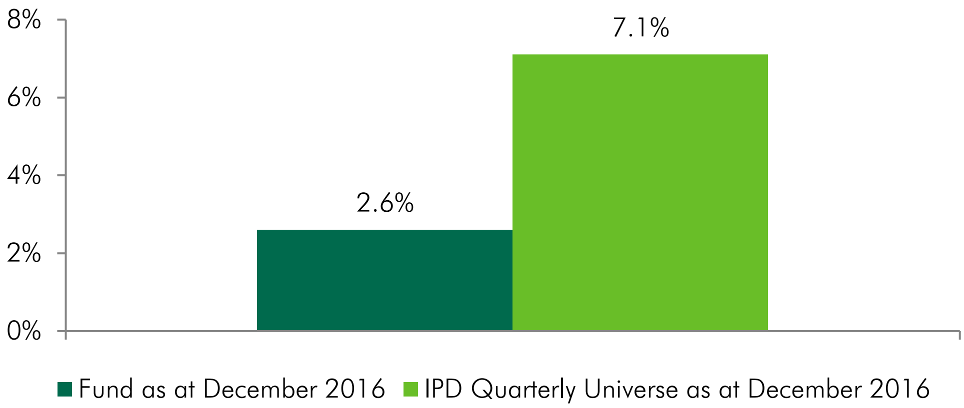
- letting vacant space;
- pursuing lease renewals with existing tenants at the earliest opportunity;
- settling rent reviews where there are outstanding reversions;
- closely monitoring non recoverable expenditure.

	Portfolio	IPD Quarterly Universe
Initial yield p.a.	5.0%	4.9%
Equivalent yield p.a.	6.0%	5.9%
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 vacancy rate currently amounts to 2.6% of ERV, less than half the amount in the benchmark. There were no additional vacancies during the quarter. The portfolio's void rate comprises an industrial unit and service yard at Phoenix Park (Unit 7) and two office floors at Pilgrim House, Aberdeen.



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

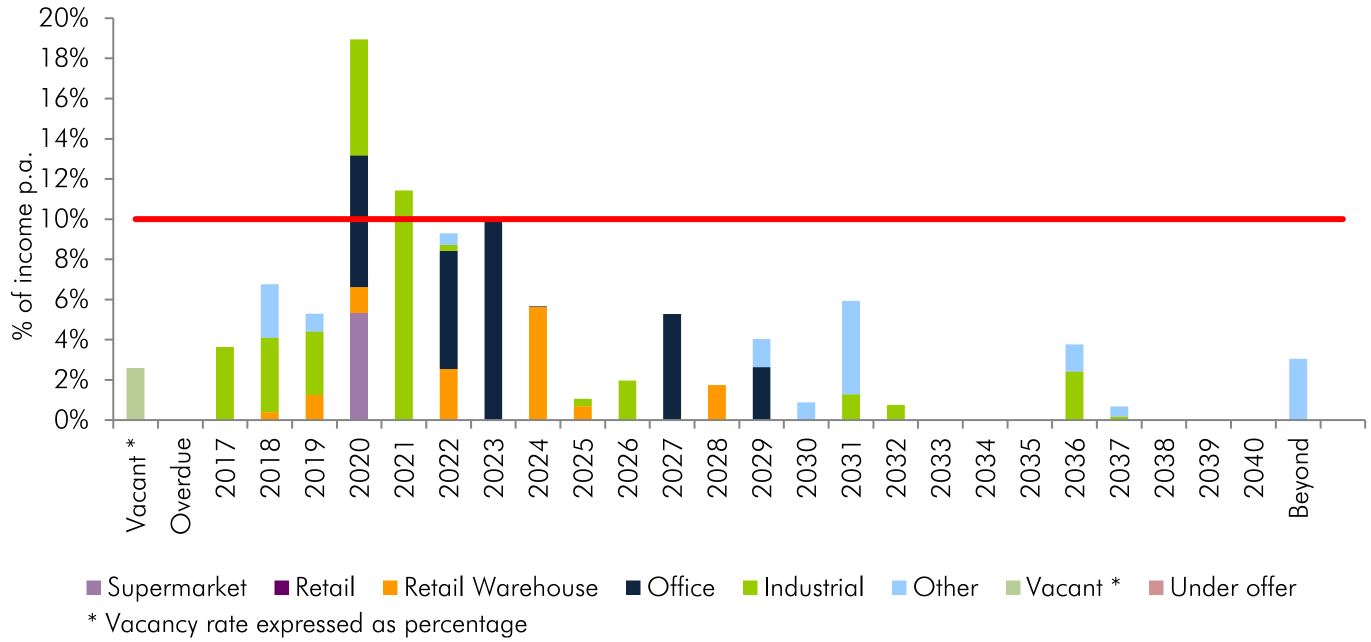
AIM – To maintain a well diversified lease expiry profile and keep the portfolio average lease length in excess of the benchmark lease length.

Unexpired lease term, years

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.7	9.3	9.8
Benchmark	12.4	11.5	12.8

*Breaks are assumed to be executed if the lease is overrented and the break is at the option of the tenant or mutual.

The average lease length of the Fund using the PAS assumption is in a reasonable potision in comparison to the benchmark. The lease expiry spike that had presented itself in 2015 has moved to 2020 following a number of lease renewals and asset management initiatives. The vast majority of the expiries in 2020 are already being discussed. Neogtiations are progressing with Tesco to agree a lease regear on their unit in Sheffield. Their lease currently expires in October 2020 but we are discussing options for a reversionary lease of either fifteen or twenty years. This represents 5.3% out of the 18.9% of income currently expiring in 2020.

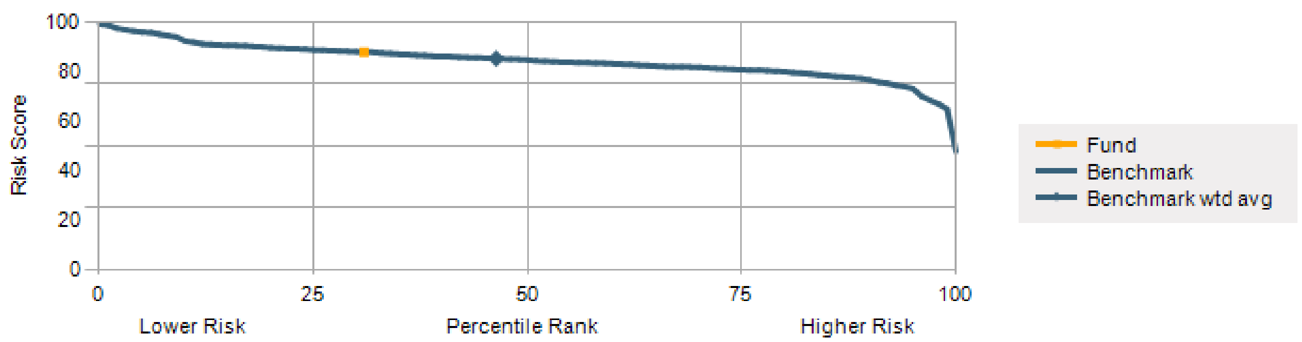


ACTION – seek to extend the average lease length through the active management of lease events in the portfolio. Aim to establish a "dumbbell" shaped expiry profile to allow short term asset management to be balanced by long term secure income.

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 31 December 2016. The Fund is in the second quartile with a Weighted Risk Score on the 30.9th percentile. The score has improved since Q3 (34.3th percentile) and is ahead of the benchmark, demonstrating that the covenant risk of the portfolio is below the average benchmark risk. IPD IRIS risk weightings are as at December 2016.



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

INCOME AND 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.

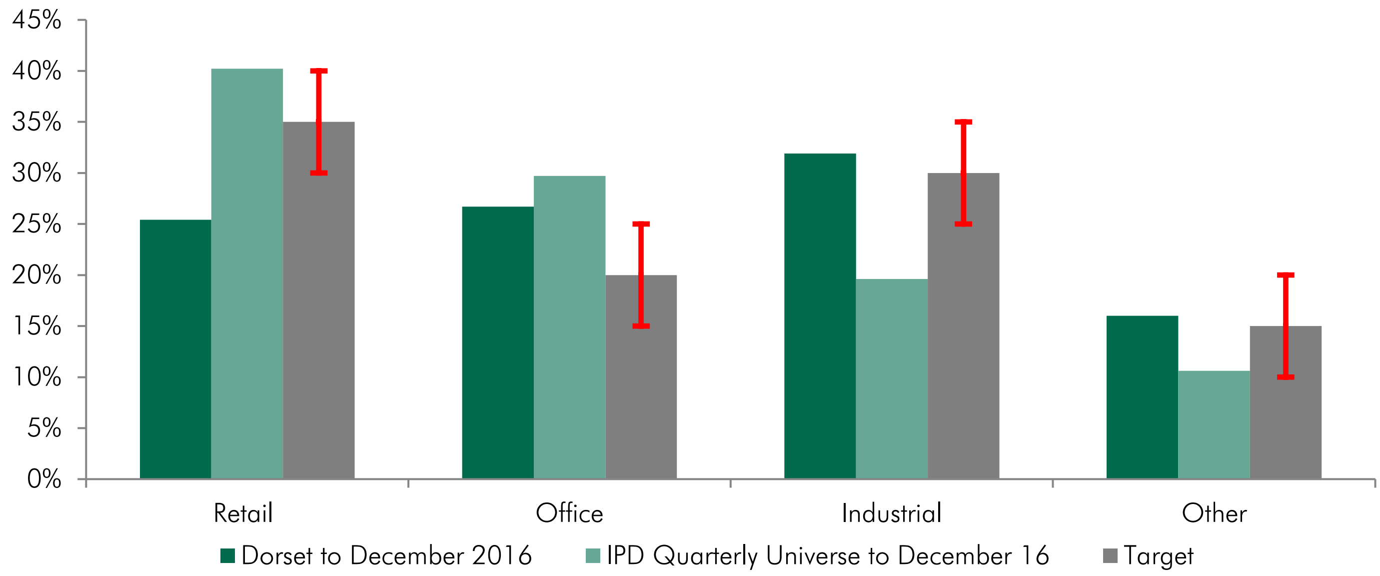
The portfolio was reaching this target, but during Q3 the amount of HLV income decreased. This was due to the forfeiture of the lease at Charlotte House, Newcastle so the rent is now on a direct let basis and therefore subject to fluctuations. At an appropriate time with any additional capital sums the manager will seek to increase the portfolio weighting to RPI/ Index linked income. However at 14% this is still a good proportion of the portfolio income providing some form of index linkage.

% of portfolio income	Q4 2016
Open market income	86%
RPI/Index linked income	14%

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 sector weightings are displayed above in comparison to the benchmark with a target range depicted in red in line with houseview recommendations. The portfolio sector split has continued to be beneficial with the low retail weighting, given that overall retail has continued to be the poorest performing sector over the past 12 months. Over the longer term proceeds of sales from the office sector may be redistributed into retail, industrial or the other sector. The geographical split as shown on page 1 is well diversified at present. There is a large London and South East weighting which has particularly aided performance over the last year. There is also a large eastern weighting; Cambridge falls into this region albeit it has historically performed more like the South East market and therefore is therefore considered a positive risk when compared to the Index.

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 preparation for development at Cambridge Science Park is proceeding. During Q4 the headlease with Trinity College was re-geared to allow the development. A contractor has been appointed for the fixed building contract, and second stage tender pricing was received during Q4 2016 with pricing now to be finalised by the end of February 2017. During Q1 2017 the Minor Material Ammendments Application and variation to the S106 Agreement with the local authority is expected to be completed which will allow the build contract to be signed and development works to commence on site.

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 over the last quarter:

Address	Phoenix Park, Apsley Way, Staples Corner
Sector	Industrial
Valuation Q4 2016	£10,900,000
Net Initial Yield	4.0%
Total Return Q4	8.0%

This property was the best performing asset in the portfolio this quarter, providing a 0.25% relative weighted contribution to the Fund's performance. It continues to perform very strongly due to strong rental growth improving the valuation of the property. It delivered a total return of 8.0% in Q4 2016.

Two lease renewals completed this quarter, at Units 4 and 8. A new lease for a term of 15 years was completed at Unit 4 with an uplift in passing rent of 20%. A lease renewal at Unit 8 was also completed, for a new 10 year lease with an uplift in passing rent of 17%. This has improved the rental tone on the estate from £11.50-£12.00 psf in Q3 to £12.50 to £13.00 psf.

The marketing of Unit 7 is ongoing with strong interest from a range of tenants.

Address	Henbury and Ingersley Buildings, Macclesfield
Sector	Residential
Valuation Q4 2016	£5,900,000
Net Initial Yield	3.8%
Total Return Q4	7.4%

This property was the second best performing asset in the portfolio this quarter, providing a 0.12% relative weighted contribution to the Fund's performance.

The Henbury and Ingersley Buildings have seen an increase in valuation from £4.0m at purchase in Q4 2015 to £5.9m in Q4 2016- an increase of 48% in the year. The attractive lease for a term of 20 with three yearly rent reviews to uncapped RPI delivers exactly what many investors are currently seeking, leading to a significant yield shift over the year. The property provided a total return of 7.4% this quarter.

6.0 TRANSACTIONS

TRANSACTIONS OVER QUARTER

There were no purchases during Q4.

SALES

Address	1 Comfrey Close, Littleover, Derby DE23 3UF
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed house
Completion Date	2nd November 2016
Dorset's Purchase Price*	£45,622 (gross of all fees)
Net Dorset Sale Receipt*	£68,614

*The values reported are for the Fund's 50% share.

Address	7 Welland House, Leicester Road, Lutterworth LE17 4PL
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed flat
Completion Date	5th December 2016
Dorset's Purchase Price*	£38,638 (gross of all fees)
Net Dorset Sale Receipt*	£56,608

*The values reported are for the Fund's 50% share.

Address	29 Etruria Gardens, City Road, Derby, DE1 3RL
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed house
Completion Date	8th December 2016
Dorset's Purchase Price*	£38,779 (gross of all fees)
Net Dorset Sale Receipt*	£56,608

*The values reported are for the Fund's 50% share.

TRANSACTION PLAN

The key objectives are as follows:-

- Maintain exposure to quality assets with a suitable risk profile across all sectors. The focus for 2017 is to ensure that the portfolio remains in a strong position to capture rental growth.
- During 2017 the Manager will review the situation in respect of Charlotte House, Newcastle, following the forfeiture of the lease with the tenant, Charlotte House Limited. This has led to the building becoming a direct let student accommodation block which will take some investment and time to reposition within the market. With this in mind the Manager may seek to dispose of the property if a suitable price can be realised.
- In addition, the two indirect holdings will continue to be monitored and if an opportunity arises to reduce the Fund's holdings at a sensible price, this will be pursued. It is not however the intention of the Manager to fully divest.

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.

2016 PERFORMANCE

Q4 2016	Direct	Indirect	Portfolio	Benchmark	Relative
Capital growth	0.3%	-1.1%	0.1%	1.0%	-0.9%
Income return	1.3%	0.8%	1.2%	1.2%	0.1%
Total return	**1.6%**	**-0.3%**	**1.4%**	**2.2%**	**-0.8%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio has underperformed the benchmark over the last three months, with a total return of 1.4% against the benchmark return of 2.2%. This was partially driven by the underperformance of the indirect assets and underperformance of capital growth of the direct portfolio following a strong previous quarter. Pilgrim House, Aberdeen for example contributed -0.3% to the overall total return driven by a fall in capital value of -7.5%, due to market conditions caused by continuing depressed oil prices. The income return from the portfolio was in line with the benchmark at 1.2%. With capital performance anticipated to slow further over the next 12 months the Fund's income return will remain a key driver of performance.

12 months to Q4 2016	Portfolio	Benchmark	Relative
Capital growth	-0.3%	-1.1%	-0.9%
Income return	5.0%	4.7%	0.3%
Total return	**4.7%**	**3.6%**	**1.1%**

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q4 2016	Portfolio	Benchmark	Relative
Capital growth	6.6%	6.2%	0.3%
Income return	5.4%	4.9%	0.5%
Total return	**12.3%**	**11.4%**	**0.8%**

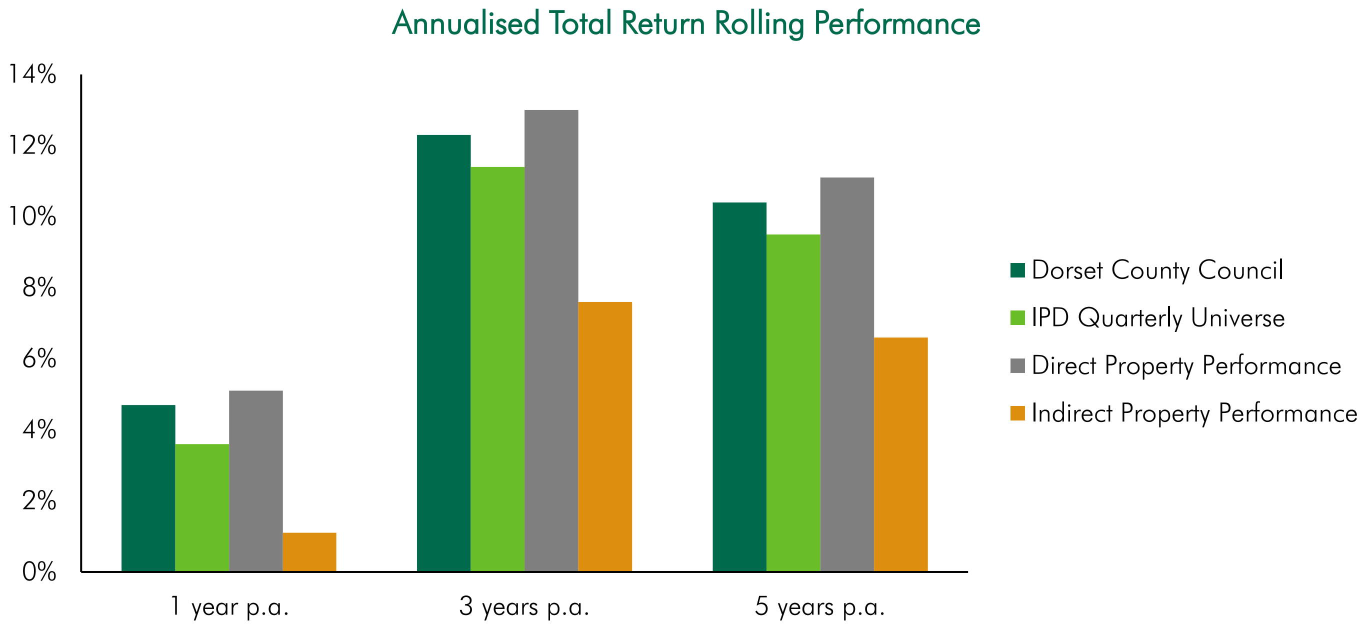
Source: CBREGI and IPD Quarterly Benchmark Report

5 yrs to Q4 2016	Portfolio	Benchmark	Relative
Capital growth	4.4%	4.1%	0.3%
Income return	5.8%	5.2%	0.5%
Total return	**10.4%**	**9.5%**	**0.8%**

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio continues to outperform the benchmark over 1, 3 and 5 year rolling periods. This outperformance has been delivered both by the strong income return and capital growth. The longer term performance is of particular note given the amount of acquisition activity over this time frame. 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 comfortably outperforming over 1, 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 direct property performance has continued to outperform the benchmark over the rolling timeframes shown above. The indirect property performance over the past year has been weaker across the timeframes shown. The indirect property holdings comprise Shopping Centre exposure; the assests in these vehicles are generally very prime and provide access to a market that we would not purchase directly for a Fund of this size given their scale. The portfolio's indirect holdings are considered to be defensive within the portfolio in the event of a weaker economic climate.

The Fund continues to achieve its key objective on the five year rolling performance measure.

7.0 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:	31 December 2016	RED	£131,515.46
	30 September 2016	RED	£153,788.03
	30 June 2016	RED	£189,663.92
	31 March 2016	RED	£79,235.00

The arrears position is skewed due to £131,515 of arrears at Charlotte House, Newcastle. The lease was forefeited during Q3 through legal action and the arrears are in the process of being recovered, and have been reduced during Q4. A liquidation notice was submitted post quarter end, in an attempt to recover further arrears. The Manager will continue to seek to secure the outstanding arrears at Newcastle. Excluding Charlotte House, Newcastle from the arrears the results are "green".

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:	31 December 2016	AMBER	(85.13% collected in 6 days, 94.74% by 15th day)
	30 September 2016	GREEN	(97.7% collected in 6 days, 100% by 15th day)
	30 June 2016	GREEN	(96.5% collected by 6 days, 98.69% by 15th day)
	31 March 2016	AMBER*	(88.7% collected by 6 days, 98.0% 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

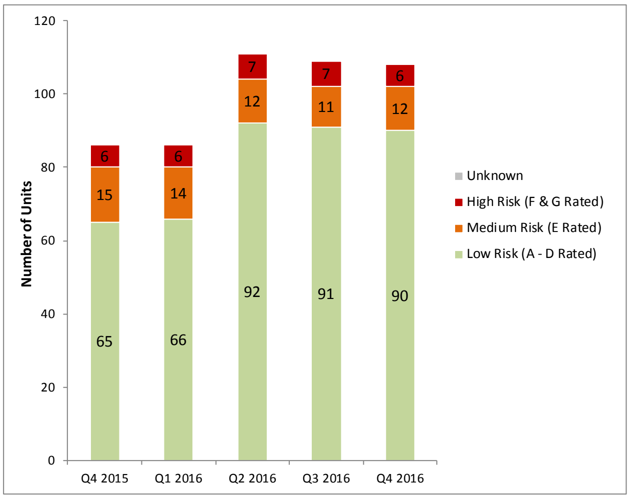
Result at:	31 December 2016	GREEN (None currently outstanding/overdue)
	30 September 2016	RED*
	30 June 2016	GREEN (None currently outstanding)
	31 March 2016	GREEN (None currently outstanding/overdue)

*Will be closed on receipt of VAT election certificate for Pilgrim House, Aberdeen. No other accounts were overdue.

8.0 SUSTAINABILITY

The ESG Risk Mitigation Programme has been designed to address the risk presented by the Energy Act 2011 which stipulates that from 2018, it will be prohibited to lease a building with poor energy performance.

CHANGE IN RISK LEVEL



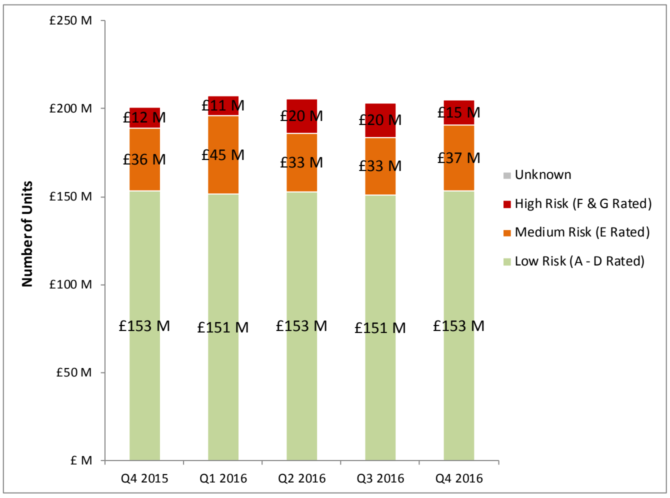


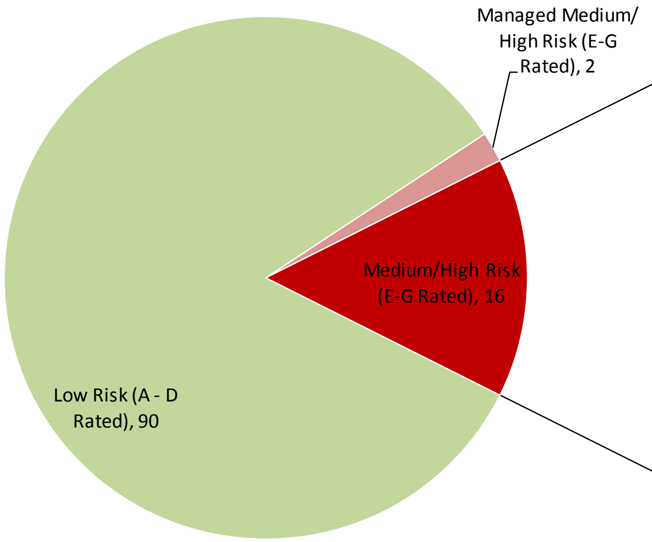
Figure 1: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q2 of each year.

COMPLETED PROJECTS: Q4 2016

Site/Tenant	Unit	Action	Outcome
Charlotte House, Newcastle Upon Tyne	Whole site	Review tenant work specification for recently completed refurbishment	No energy efficiency projects have been identified. No further action will be taken in completing a revised EPC.
Euroway Industrial Estate	Unit 14	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants.
Euroway Industrial Estate	Unit 1-5	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants.
Dunbeath Court, Swindon	Unit 7	Tenant Engagement	Discussions with tenant on potential energy efficiency projects as part of lease renewal discussions.
All	All	Identifying key targets for tenant engagement	Identified priority sites and tenants to engage with over the next 6 months to increase energy efficiency in the selected properties.
All	All	Engaging with solicitors to incorporate green lease clauses	Discussions have taken place with Dorset's solicitors to determine strategy for the uptake of basic and intermediate green clauses into new leases.

AGREED ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 2 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.



Action	Number of Units
High quality EPC	0
Scottish action plan	2
Monitor - potential sale	0
Tenant Engagement	13
Consult on current works	1

Figure 2: Strategy for risk mitigation for remaining medium and high risk units

RISK MITIGATION PROCESS

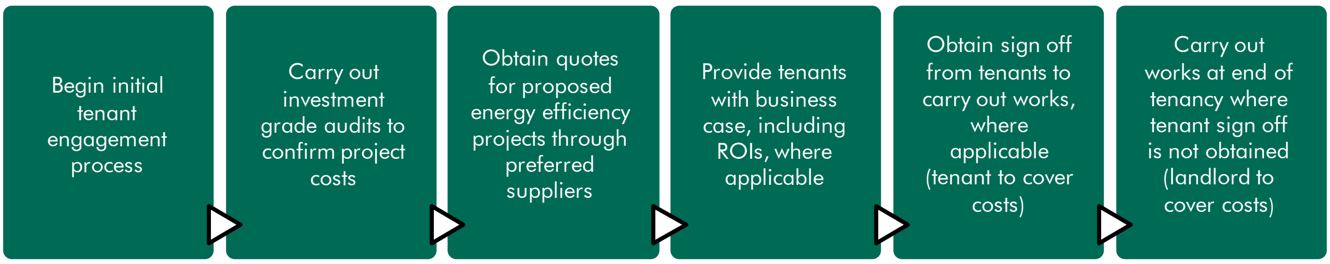


Figure 3: Process for carrying out risk mitigation actions

PLANNED PROJECTS: Q1 2017

Site/Tenant	Unit	Action	Aim
Charlotte House	Upper floors	Modelled EPC	Investigate the most appropriate improvements to improve on the unit's current F rating.
Euroway Industrial Estate	Units 1-5, Unit 14	Tenant Engagement	Continue to engage with tenant & confirm their interest in funding energy efficiency projects.
75-81 Sumner Road	4 Units	Tenant Engagement	Work with tenants & property managers to implement energy efficiency projects to improve EPC rating.
Cathedral Retail Park, Norwich	2 Units	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants. Work with tenants & property managers to implement energy efficiency projects to improve EPC rating.
Dunbeath Court, Swindon	2 Units	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants. Work with tenants & property managers to implement energy efficiency projects to improve EPC rating.

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 2015 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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APPENDIX 1 – SCHEDULE OF VOID UNITS

VOIDS WITHIN THE PORTFOLIO – 31 DECEMBER 2016

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
1st and 2nd floor, Pilgrim House, Aberdeen	13,805	2.1%	£289,900	Marketing
Unit 7, Phoenix Park, Staples Corner, London	5,131	0.5%	£66,700	Marketing
Service Yard, Phoenix Park, Staples Corner, London	n/a	0.0%	£2,500	Marketing – likely to be combined with unit 7 letting
TOTAL PORTFOLIO VOID		2.6%	£359,100	

APPENDIX 2 – INDIRECT INFORMATION

Portfolio Composition

The Dorset portfolio is invested in the following funds and as at 31 December 2016 had a value of £24.2 million.

The performance of the Dorset indirect portfolio was -0.3% over the last quarter and 1.1% over the last 12 months. This return is based on November prices. The table below reflects the valuations based on these reporting cut-off dates.

Fund Name	Manager	Sector	LTV	Value (£m)
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	-	9.783
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres	-	14.407
Total			-	**24.190**

Investment Activity

There was no transactional activity during the quarter.

Commentary

The Dorset indirect property portfolio has two indirect holdings. These are specialist funds that provide the portfolio with exposure to the shopping centre sector. The combined indirect investments have a value of £24.2 million and nil look through exposure to gearing.

Lend Lease Retail Partnership

Lend Lease Retail Partnership produced a total return of -0.9% over the quarter and 2.0% over the year.

Performance in the last quarter was dragged by a 1.6% fall in NAV as a result of shopping centre yields moving out following the outcome of the EU referendum. The fund continues to provide a stable annualised income return of 3.3% which has been the primary contributor to returns over the past quarter and 12 months.

Lend Lease Retail Partnership is a core specialist fund, providing exposure to the prime UK shopping centre market. The fund is ungeared. It has a portfolio comprising two prime regionally dominant properties: Bluewater, Kent (25% stake) and Touchwood, Solihull (100% owned).

During the quarter, the manager continued with asset management initiatives at the two schemes. At Bluewater, the manager agreed five new lettings and one lease renewal, whilst at Touchwood three lease renewals, one new letting and two rent reviews were concluded. As a result of the positive leasing activity at Touchwood, the rental tone at the Crescent Arcade has increased over the quarter.

As part of the proposed Touchwood extension, the manager purchased adjacent high street units, The Square and 146-158 The High Street, under the CPO (compulsory purchase order) process. Further work on land assembly for the project is ongoing, in preparation for the construction phase of this planned project. The manager is discussing the proposed extension with investors.

The fund has an expiry in 2017 with a fund life extension proposed by the manager to 2024. Following consultation with investors, the manager held a vote on 31 October 2016 for investors to approve fund modernization subject to an efficient rotation of capital whereby investors requiring an exit or partial exit are matched by new investors to the fund. This resolution was passed with 96% investor support. The manager is now marketing the fund and is targeting liquidity for approximately £500m for exiting investors. Further updates on the equity rotation process by the manager and its advisors are expected at the end of Q1 2017.

Standard Life UK Shopping Centre Fund

Standard Life UK Shopping Centre Trust produced a total return of 0.2% over the quarter and 0.9% over the last 12 months.

Over the quarter, the return was driven by income, offsetting a 0.7% decline in the Fund's NAV. At quarter end, the trust had a property portfolio valued at £1.5bn providing exposure to seven shopping centres across the UK. The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 6.8 years and a distribution yield of 4.0%.

At the quarter end, the void rate increased from 3.4% (by ERV) to 4.3% (by ERV) primarily as a result of three new voids at Brent Cross. Retailers in administration represented 0.9% of passing rent. The manager secured new lettings at the fund's assets in Brighton, Enfield, Brent Cross and Wimbledon. In addition a number of rent reviews and lease renewals were also completed during the quarter. The surrender of BHS lease at Brighton resulted in an increase in vacancy and loss of income in the portfolio, however, the space has been successfully re-let to Zara at an improved ERV.

In December 2016, the sale of One Stop, Perry Barr, Birmingham was completed for £69.3m (7.0% NIY), slightly below the book value of the asset as at September 2016. This asset had been identified for sale by the manager as part of the Trust's business plan due to its weak performance and outlook.

The portfolio has two development opportunities in the form of major extensions at Brent Cross and Churchill Square, Brighton with the business plan for Brent Cross at a more advanced stage. The manager is seeking joint venture partners to fund the scheme and is reaching out to the major investors in the Fund before marketing the opportunity more widely through Morgan Stanley (appointed as capital advisors in Q4 '16). Further detail on development strategy and equity raise is likely to be presented to investors in early 2017.

APPENDIX 3 – PORTFOLIO VALUATION

Property Address		Dec-16	Qtr Total Return [1]		Annual Income		OMRV	Net Initial Yield [2]
OFFICES								
Aberdeen, Pilgrim House	£	7,400,000	-6.8%	£	318,862	£	544,114	4.1%
Cambridge, The Eastings	£	3,450,000	1.4%	£	190,500	£	226,000	5.2%
Cambridge, 270 Science Park	£	11,500,000	0.9%	£	641,616	£	952,616	5.2%
London EC1, 83 Clerkenwell Rd	£	17,650,000	1.2%	£	836,000	£	1,034,000	4.4%
London N1, 15 Ebenezer St & 25 Provost St	£	8,650,000	0.8%	£	272,588	£	673,100	3.0%
Watford, Clarendon Road	£	15,250,000	1.5%	£	902,750	£	1,070,000	5.6%
TOTAL OFFICES	£	63,900,000		£	3,162,316		£4,499,830	4.6%
RETAIL WAREHOUSE								
Northampton, Becket Retail Park	£	6,200,000	-0.7%	£	431,000	£	417,700	6.5%
Norwich, Cathedral Retail Park	£	16,350,000	-0.8%	£	1,074,000	£	1,054,000	6.2%
Rayleigh, Rayleigh Road	£	3,500,000	1.6%	£	222,783	£	222,783	6.0%
TOTAL RETAIL WAREHOUSE	£	26,050,000		£	1,727,783		£1,694,483	6.2%
SUPERMARKET								
Tesco, Sheffield	£	10,600,000	1.6%	£	680,000	£	680,000	6.0%
TOTAL SUPERMARKET	£	10,600,000		£	680,000	£	680,000	6.0%
INDUSTRIAL								
Bristol, South Bristol Trade Park	£	4,350,000	1.3%	£	228,757	£	282,137	4.9%
Crawley, Woolborough IE	£	18,150,000	3.5%	£	760,605	£	1,238,100	3.9%
Croydon, 75/81, Sumner Road	£	2,700,000	7.3%	£	137,000	£	165,600	4.8%
Heathrow, Skylink	£	4,550,000	7.2%	£	125,478	£	251,000	2.6%
London, Phoenix Park, Apsley Way	£	10,900,000	8.0%	£	467,138	£	604,400	4.0%
London, Apsley Centre	£	3,500,000	3.7%	£	165,900	£	195,000	4.5%
London, 131 Great Suffolk St	£	4,350,000	0.6%	£	110,000	£	297,500	2.4%
Sunbury, Windmill Road	£	10,700,000	1.6%	£	659,750	£	699,350	5.8%
Swindon, Dunbeath Court	£	4,800,000	3.9%	£	333,716	£	337,300	6.5%
Swindon, Euroway IE	£	12,050,000	1.8%	£	803,422	£	817,935	6.3%
TOTAL INDUSTRIAL	£	76,050,000		£	3,791,766		£4,888,322	4.6%
OTHER								
Derwent Shared Ownership	£	9,810,000	0.8%					
Glasgow, Mercedes	£	10,400,000	1.4%	£	594,936	£	566,600	5.4%
Leeds, The Calls	£	7,350,000	0.3%	£	476,110	£	484,750	6.1%
Macclesfield, Hope Park	£	5,900,000	7.4%	£	236,964	£	236,964	3.8%
Newcastle, Charlotte House	£	4,900,000	-3.8%	£	115,178	£	339,639	2.2%
TOTAL OTHER	£	38,360,000		£	1,423,188	£	1,627,953	4.7%
TOTAL DIRECT PROPERTY	£	214,960,000		£	10,785,053	£	13,390,588	5.0%
INDIRECT PROPERTY								
Lend Lease Retail Partnership	£	9,782,760	-0.9%	£	259,098			
Standard Life Investments UK Shopping Centre Trust	£	14,407,567	0.2%	£	515,902			
TOTAL INDIRECT PROPERTY	£	24,190,327		£	775,000			
GRAND TOTAL	£	239,150,327		£	11,560,053	£	13,390,588	5.0%

Notes:

1. Total returns for both the direct and indirect properties for the quarter to 2016 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to December 2016 as reported by CBRE Global Investors (UK Funds) Ltd (CBREGIF) / CBRE Global Investors in respect of the indirect portfolio.
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 December 2016 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

APPENDIX 4 – AFFILIATED SERVICES

FEES PAID TO CBRE DURING QUARTER

Property	Fee	Service
Portfoio	£3,700.00	ESG Risk Management – Q1 and Q2 2016
Portfoio	£4,108.91	RCA project
Q4 2016 TOTAL	£7,808.91	

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