DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q1 2017

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DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q1 2017

MARKET

The UK property market has begun 2017 much as it ended the final quarter of 2016. The economic and political risks reflected at the end of last year, remain most notably Brexit, where the direction of travel is exepcted to become clearer after the General Election. At present in spite of the political uncertainty the economy continues to hum along quite nicely and the property market is holding up well.

Over the quarter, our assessment of property market conditions hasn't changed materially. We have grown to accept heightened uncertainty but property remains at historically keen yields and we are late in the economic cycle. We feel strongly that the strategic focus over the coming quarters should be proactively managing income and lengthening leases, advancing sales of assets that will struggle to deliver adequate performance in difficult economic conditions and ensuring a strong structural story for any new purchases.

PORTFOLIO

Over the quarter, one lease renewal completed and three rent reviews were settled achieving an average rental growth for the units of 10%. The void rate has improved marginally to 2.5%. A void rate at this level is unsustainably low in the long term, however, coupled with a good AWULT (9.3 yrs to break) and the strategic increase in the exposure to secure index-linked income streams, the fund remains well placed for any market turbulence. During Q1 2017 there were no purchases or sales. Five properties staircased from the Derwent Shared Ownership portfolio during the quarter.

Figure 1 Lease Length

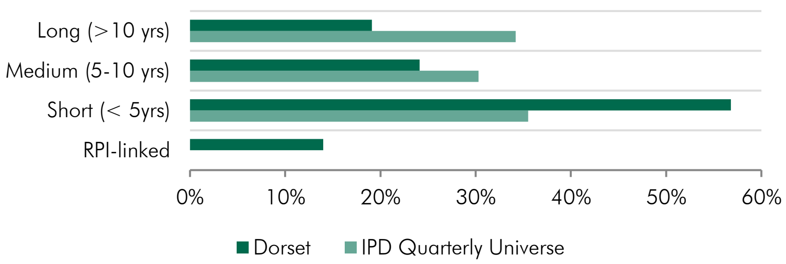


Figure 2 Geographical Structure

London & SE	45%
Eastern	16%
South West	10%
Midlands	7%
North	13%
Rest of UK	8%

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	£216.8m	25
UK Indirect	£24.3m	2
Total value of portfolio	**£241.1m**	

NIY/EY	4.7%	5.5%
Vacancy rate	2.5%	
AWULT to expiry (lease to break)	9.3yrs	(8.9yrs)
Largest asset	Woolborough Lane, Crawley (£19.0m/8.8% of portfolio value)	
Largest tenant	ACI Worldwide EMEA (£1,070,000/9.2% of portfolio rent)	

Performance

Target: To achieve a return on Assets at least equal to the average IPD Quarterly Universe.

	Portfolio	Target	Relative
Q1 2017 %	2.0	2.2	-0.1
1 Yr %	4.7	4.6	0.1
3 Yr % p.a. (2015-2017)	11.8	10.9	0.8
5 Yr % p.a. (2013-2017)	10.7	9.8	0.8

Transcations

	Q1 2017
Money available	£20.0m
Purchases	£0.0m
Sales	£0.3m

2. MARKET COMMENTARY

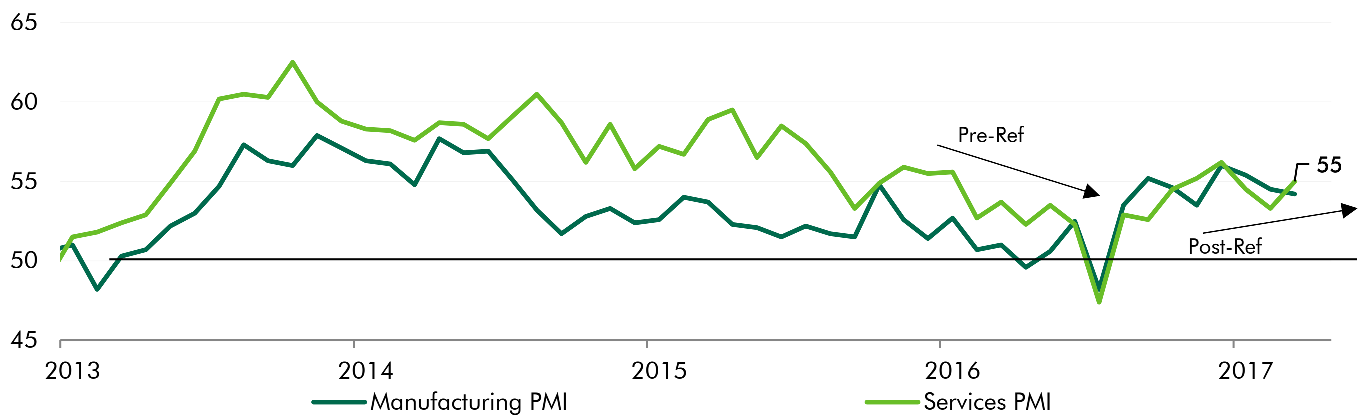
UK ECONOMIC OUTLOOK

The UK economy and property market are surprisingly better positioned than many would have expected nine months ago, with the positive momentum generated at the end of last year continuing into 2017. In large part this is because Brexit has, thus far, proven more of a political construct rather than a material factor adversely dictating business decisions. On the contrary Britain's dominant service industry is humming along rather nicely (Figure 3) and UK CFOs, as read by Deloitte's quarterly survey, have become less risk averse. This translates to an improved near term growth outlook and a property industry which has become less pessimistic about the near term prospects for the asset class.

However, the triggering of Article 50 solidifies that Brexit will indeed happen and a general election in early June is being used by the current government to achieve a mandate to negotiate its position. 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 emerges of how this new-found relationship will work. Political rancour and subsequent financial market volatility undoubtedly cloud the outlook and will complicate investment decision making.

As if that were not enough, it is now widely accepted that another independence referendum is inevitable in Scotland. Local property performance and transactional volumes have struggled to bounce back since the September 2014 plebiscite and we expect that investor skittishness will supress activity for the foreseeable future. Owners of Scottish property have not appeared willing to accept discounts for sales, which has limited price discovery. We appreciate that giving up relatively high yielding assets is a difficult proposition, but we also feel that the risk of being out of the Scottish market is less than being overly exposed to it. The corollary is that our Oversight Committee is scrutinising all of our Scottish holdings closely.

Figure 3 UK PMI Surveys, Balance Of Responses



UK PROPERTY PERFORMANCE

Despite well-documented risks, the UK property market is holding up well. At a market level, capital values rose for a second successive quarter in Q1 2017 with all segments measured by CBRE's Monthly Index delivering a positive outturn. The all property total return in Q1 2017 was 2.7%, a modest improvement compared to the final quarter of 2016. As has been a reoccurring theme, industrials proved to be the most resilient sector, delivering a quarterly return of 4.7%. Offices and retail both underperformed the broader market delivering returns of 2.2% and 2.0%, respectively.

OCCUPIER MARKETS

Occupier markets remain satisfactory throughout much of the country owing to a favourable supply and demand balance. Rents have now grown for 15 successive quarters at an all property level and the physical vacancy rate is stable. We are however cognisant that both of these metrics are backward looking. Economic uncertainty, business rates, rising inflation expectations and the national living wage are increasingly at the forefront of tenants' minds. Here are some of the occupational themes that we have observed over the past quarter:

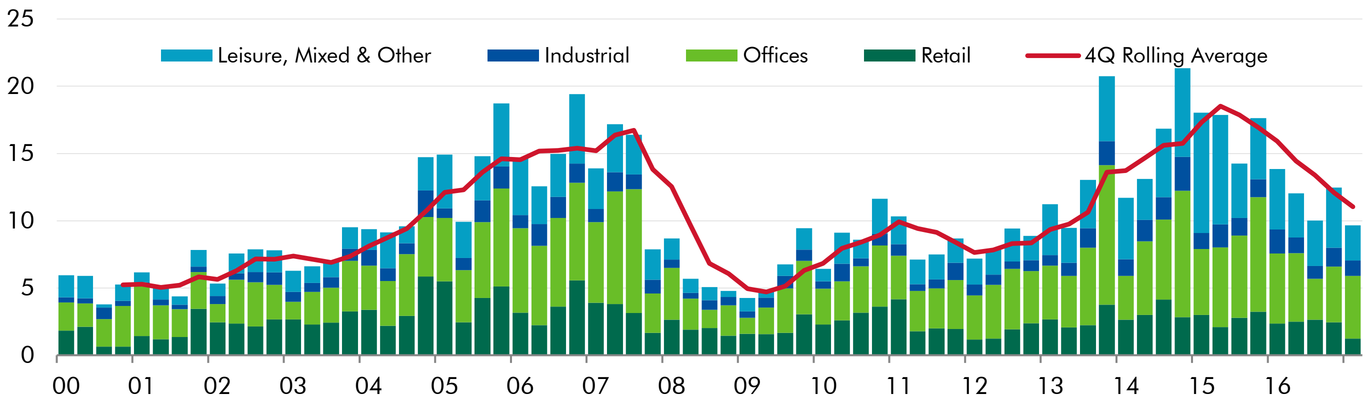
The Central London office market has become rather patchy of late and prime rents are being dropped in the best buildings. We are signing new leases in regional cities but terms are shortening and we are seeing more tenant space coming back on the market. The big box logistics market is underpinned by a resilient structural story, but a recent lack of modern space has triggered the return of speculative development and is creating more choice. But it has yet to hamper recently strong rental growth.

With notably fewer new A3 (restaurants and cafés) entrants than a year ago, we feel this segment of the market has peaked. Anecdotal evidence suggests that headline rents in top quartile towns have fallen since the start of the year and churn within the sector has diminished. It goes without saying that the retail sector continues to see the most polarising activity. The UK has an oversupply of prosaic offerings that most retailers already have exposure to and an undersupply of retail formats that are able to transcend ever-evolving consumer expectations. While clearly a nuanced picture across much of the market, we feel that over the coming quarters the bargaining position will shift from landlord to tenant.

CAPITAL MARKETS

UK transaction volumes have noticeably subsided from the heady levels of 2014 and 2015 (Figure 4). Many investors have come to accept a higher degree of uncertainty, but there is little pressure to invest and few obvious alternatives to recycle capital. There are few motivated sellers and, with interest rates so low, servicing debt is a non-issue. The increase in stamp duty in last year's Budget creates a further disincentive to trade assets due to the punitive round trip costs of buying and selling (c.9%).

Figure 4 Overall Market Transactions By Sector, £Bn.



Source: Property Data, latest Q1 2017.

The majority of activity is occurring in those sectors where investors feel most compelled, namely South East industrials, long income and trophy assets. Demand for this type of stock far exceeds supply, which continues to support historically keen yields being paid. Continuing a recent trend, and consistent with our House activity, UK institutions have been net sellers; overseas capital remains highly discerning and focused on London while local authorities, somewhat paradoxically, are able to borrow cheaply to acquire assets often at historically strong prices.

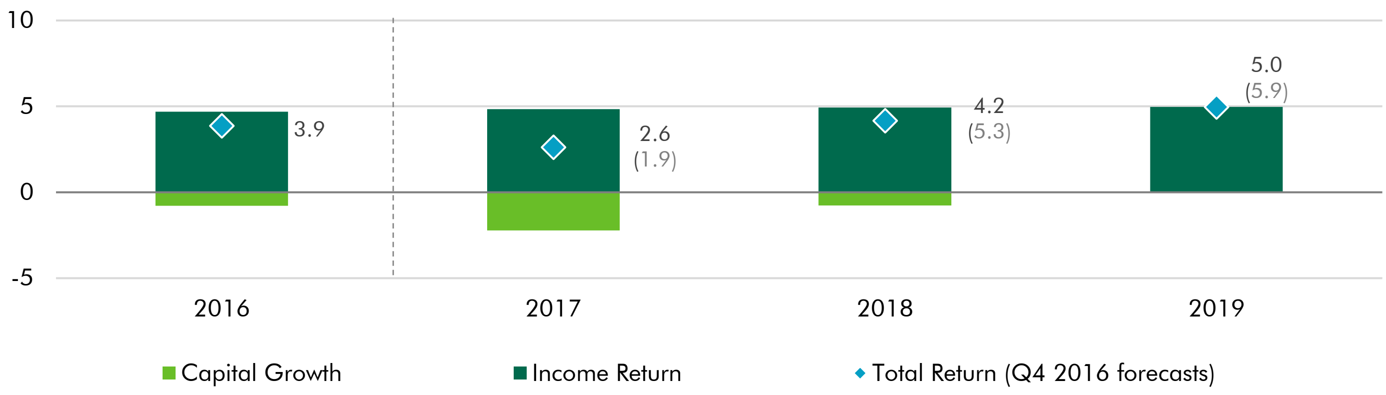
OUTLOOK

Over the previous quarter, our assessment of conditions hasn't changed materially. We have grown to accept heightened uncertainty but see little impetus for aggressively acquiring property at historically keen yields late in the economic cycle. We feel strongly that the strategic focus over the coming quarters should be proactively managing income and lengthening leases, advancing sales of assets that will struggle to deliver adequate performance in difficult economic conditions and ensuring a strong structural story for any new purchases.

Our forecasts of 2017 property performance have improved marginally over the quarter, and we expect an outturn not too dissimilar to last year with income eclipsing modest capital value falls (Figure 5). Accepting an eventual albeit slight increase in interest rates and below trend rental growth, we anticipate that the market will be able deliver a nominal total return of c. 4%

p.a. over the coming three years. While this is a fairly dull outturn relative to history, property's income advantage, in particular, and the prospect of less volatile returns going forward positions it favourably against other assets classes. There is a tug of war between investors' search for yield and the myriad risks we are all alert to. At the moment yield, even at historically dear levels, is winning.

Figure 5 All Property Total Return Forecast, 2017-19, % P.A.



Source: MSCI, CBRE Global Investors, H1 2017.

3. STRATEGY

Size	▪ Target portfolio size £260 million. Currently £241.1m.
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	▪ Remain diversified while seeking to increase the average lot size and tenancy size via sales and purchases 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 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. PORTFOLIO OVERVIEW

UK direct*	£216.8m	90%
UK indirect**	£24.3m	10%
Total value of portfolio	£241.1m	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)	2.5%	Below benchmark
Rent with +10 years remaining	24.4% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	6.3% of total rent	Minimum 10% of total rent
Largest property (% of value)	8.8% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of rent)	9.2% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	80% / 20%	Minimum 70% freeholds

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:
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 Q1 2017. The portfolio net initial yield as measured by IPD is currently 5.0%. The margin over the benchmark has stayed broadly 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 and the sale of a higher yielding retail warehouse. The transactions have added to the quality of the income stream from the portfolio.

ACTION
The portfolio's initial yield currently is 15 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:

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

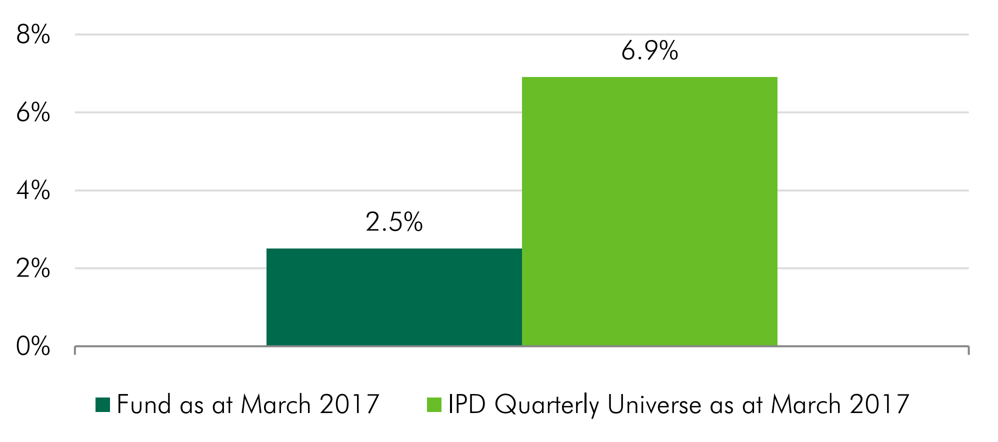
	Portfolio	IPD Quarterly Universe
Initial yield p.a.	5.0%	4.9%
Equivalent yield p.a.	5.9%	5.8%
Income return over quarter	1.2%	1.2%

VACANCY RATE

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

The vacancy rate currently amounts to 2.5% 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 at Phoenix Park (Unit 7) and two office floors at Pilgrim House, Aberdeen.

Figure 10 Vacancy Rate



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.

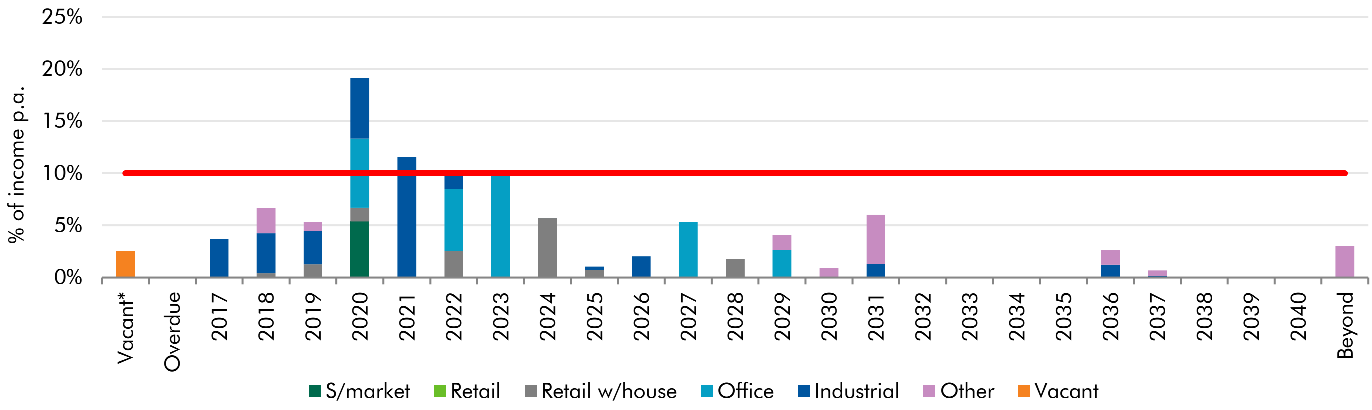
UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.6	9.1	9.6
Benchmark	12.2	11.4	12.7

*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 main risk is the 2020 expiry spike. The vast majority of these are already being discussed with tenants. 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.

Figure 11 Lease Expiry Profile



*Vacancy expressed as percentage of ERV

ACTION

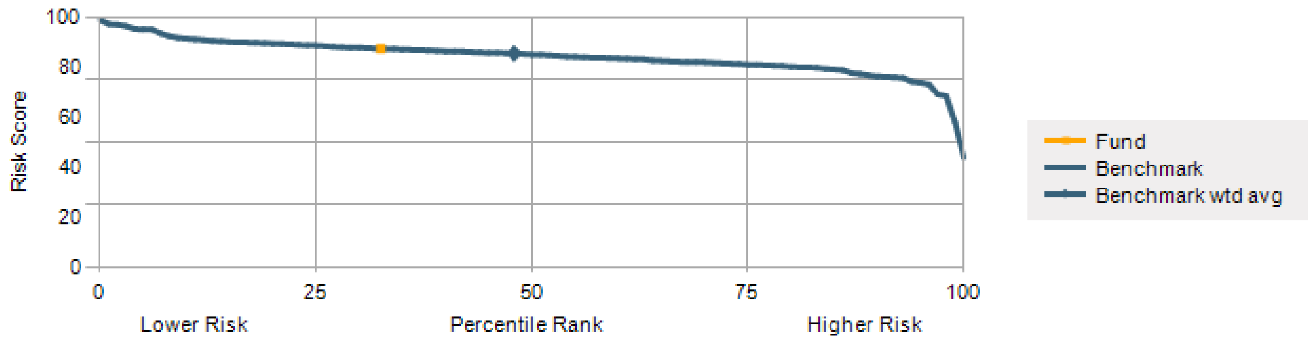
Seek to extend the average lease length through the active management of lease events in the portfolio. Aim to establish a "dumbbell" shaped expiry profile to allow short term asset management to be balanced by long term secure income.

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 March 2017. The Fund is in the second quartile with a Weighted Risk Score on the 32nd percentile. The score has decerased marginally since Q4 2016 (30.9th percentile), but remains ahead of the benchmark (47.9th, demonstrating that the covenant risk of the portfolio is below the average benchmark risk. IPD IRIS risk weightings are as at March 2017

Figure 12 Ranking Of Weighted Risk Score



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 the second half of 2016 the amount of HLV income decreased due to the forfeiture of the lease at Charlotte House, Newcastle. The rent herre is now on a direct let basis and therefore subject to fluctuations. At 14% the HLV component of the income means a good proportion of the portfolio providing some form of index linkage.

% of portfolio income	Q1 2017
Open market income	86%
RPI/Index linked income	14%

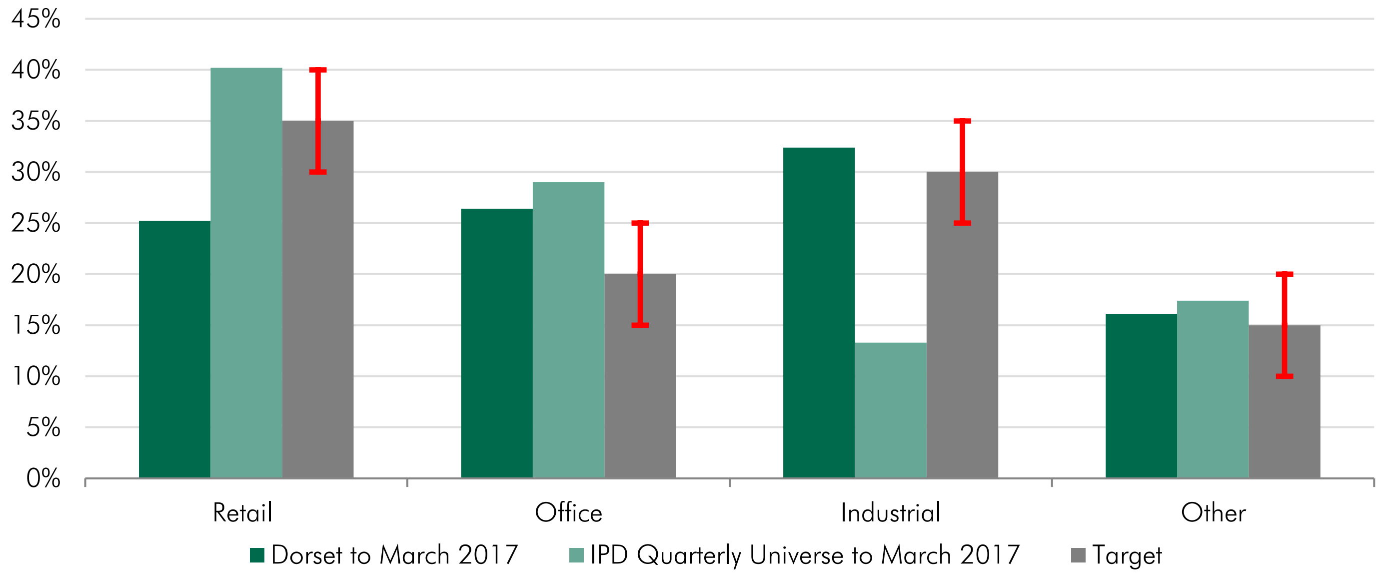
ACTION

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.

Figure 13 Portfolio Sector Weightings



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 and elow benchmark weighting to offices, given that overall these two sectors have been the poorest performing sectors 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 Q1 the Minor Material Ammendments Application and variation to the S106 Agreement with the local authority was progressed and is expected to be completed in Q2 2017 which will allow the build contract to be signed and development works to commence on site. The planning position has been delayed as we have sought the sign off of all pre-commencement conditions by the local planning authority at the same time.

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. UK DIRECT PORTFOLIO ACTIVITY

Below are examples of key drivers of performance within the Fund over the last quarter:

- The April 2016 rent review was settled with the tenant during the quarter.
- The previous rent passing was £590,000 which equates to £8.26 psf. The new rent has been agreed at £650,000, equating to £9.10 psf.
- The uplift of £60,000 reflected rental growth of 10.1% over the five year review period.
- The uplift drove the performance of the property which delivered a 4.2% total return during the quarter and a weighted contribution of 0.09% to fund performance.

Address	Booker Cash & Carry 164-168 Windmill Road, Sunbury
Sector	Industrial
Valuation Q1 2017	£11.0m

- The July 2016 rent review was settled with Hermes Parcelnet during the quarter.
- The previous rent passing was £292,936 which equates to £6.50 psf. The new rent has been agreed at £380,000, equating to £8.43 psf.
- The uplift of £87,064 reflected rental growth of 29.7% over the five year review period.
- This significant uplift helped the property to be the top performer in the portfolio delivering a 5.8% total return during the quarter and a weighted contribution of 0.27% to fund performance.

Address	Woolborough Industrial Estate, Crawley
Sector	Industrial
Valuation Q1 2017	£19.0m

6. TRANSACTIONS

There were no purchases in Q1 2017

SALES – STAIRCASINGS FROM THE DERWENT PORTFOLIO

Address	4 Columbia Place, 77 Fornham Street, Sheffield
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 2 bed flat
Completion Date	6th February 2017
Dorset's Purchase Price*	£38,019 (gross of all fees)
Net Dorset Sale Receipt*	£50,602

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

Address	4 Welland House, Leicester Road, Lutterworth LE17 4PL
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed flat
Completion Date	24th February 2017
Dorset's Purchase Price*	£38,638 (gross of all fees)
Net Dorset Sale Receipt*	£56,599

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

Address	11 Rymill Drive, Oakwood, Derby DE21 2UW
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 3 bed house
Completion Date	30th January 2017
Dorset's Purchase Price*	£49,424 (gross of all fees)
Net Dorset Sale Receipt*	£67,411

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

Address	14 Buscott Parkway, Daventry NN11 8AT
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 1 bed flat
Completion Date	22nd March 2017
Dorset's Purchase Price*	£28,829 (gross of all fees)
Net Dorset Sale Receipt*	£39,796

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

Address	29 Alexandra Mill, Great Northern Road, Derby DE1 1LW
Sector	Residential – Derwent Portfolio
Transaction	Full staircasing of a 2 bed flat
Completion Date	17th January 2017
Dorset's Purchase Price*	£17,108 (gross of all fees)
Net Dorset Sale Receipt*	£19,626

*The values reported are for the Fund's 25% 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.
- The Manager is continuing to 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 is seeking to dispose of the property if a suitable price can be realised.
- During Q2 2017 the manager will seek to dispose of 131 Great Suffolk Street, London SE1, following the departure of the tenant in April. This asset was purchased as a relatively short term hold in 2014. Following strong capital growth since purchase, we are can either crystalise the capital uplift or undertake an extensive refurbishment and re-letting of the property. At present the market appears to be under pricing the refurbishment risk which offers the fund the opportunity to exit at an attractive price now without taking on this risk. It is being marketed for offers in excess of £4.5m. The Q1 valuation is £4.35m.
- During Q1 2017 the opportunity has arisen to invest in a club deal with other CBRE Global Investors clients. The proposed Unit Trust which is being set up will invest in a Park Plaza branded hotel in Waterloo, London SE1 for £160m (see below for details of the deal). This proposed acquisition will increase the portfolio weighting to assets delivering an element of RPI linked income and will provide exposure to a different sector of the market within the "Other" category.
- 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. See Appendix 2 for further information about the indirect holdings.

ONGOING TRANSACTIONS

PURCHASES

Address	Waterloo Park Plaza, London SE1
Sector	Hotel
Purchase price	£15.0m (contribution)
Conventional / HLV	High Lease Value

- CBRE Global Investors have agreed terms to acquire the freehold for the recently developed Park Plaza hotel, in Waterloo, for a total consideration of £160m, equating to a net initial yield of 3.25% p.a.
- The transaction has been structured as a sale and leaseback with Park Plaza, for a lease term of 199 years, at a starting rent of £5.6m p.a.
- The proposed purchase price equates to 65% of day one vacant possession value and the starting rent equates to 54% of the property's estimated rental value.
- The lease will allow for annual rent reviews in line with the RPI (collared at 2% and capped at 4%).
- The investment will be held by a Guernsey Property Unit Trust, whereby a number of CBRE Global Investors' clients will be allocating capital. We have provisionally agreed a contribution from Dorset County Council of £15m (plus purchaser's costs).
- Income from the investment (and the associated costs of the vehicle) will be divided proportionately between the co-invested parties, based upon their initial capital allocation.
- Redemptions from the vehicle will be available after the first seven years, and five yearly thereafter. However, we expect that the parties invested in the vehicle at the outset will hold the investment for the long term.
- We are negotiating the lease with the vendor and exchanging of the property acquisition is expected to take place in mid-June. We forecast that the investment will realise a real return of 3.0% p.a. over the long term.

7. UK DIRECT 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.

Q1 2017	Portfolio	Benchmark	Relative
Capital growth	0.8%	1.0%	-0.2%
Income return	1.2%	1.2%	0.1%
Total return	2.0%	2.2%	-0.1%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio has marginally underperformed the benchmark over the last three months, with a total return of 2.0% against the benchmark return of 2.2%. This was mainly driven by the underperfromance of the office and retail assets. Pilgrim House, Aberdeen was again the worst performing asset in the portfolio contributing -0.2% to the overall total return driven by a fall in capital value of -4.1%, 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 again over the next 12 months the Fund's income return will remain a key driver of performance.

12 months to Q1 2017	Portfolio	Benchmark	Relative
Capital growth	-0.3%	-0.1%	-0.2%
Income return	5.0%	4.7%	0.3%
Total return	4.7%	4.6%	0.1%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q4 2016	Portfolio	Benchmark	Relative
Capital growth	6.1%	5.8%	0.4%
Income return	5.3%	4.8%	0.4%
Total return	11.8%	10.9%	0.8%

Source: CBREGI and IPD Quarterly Benchmark Report

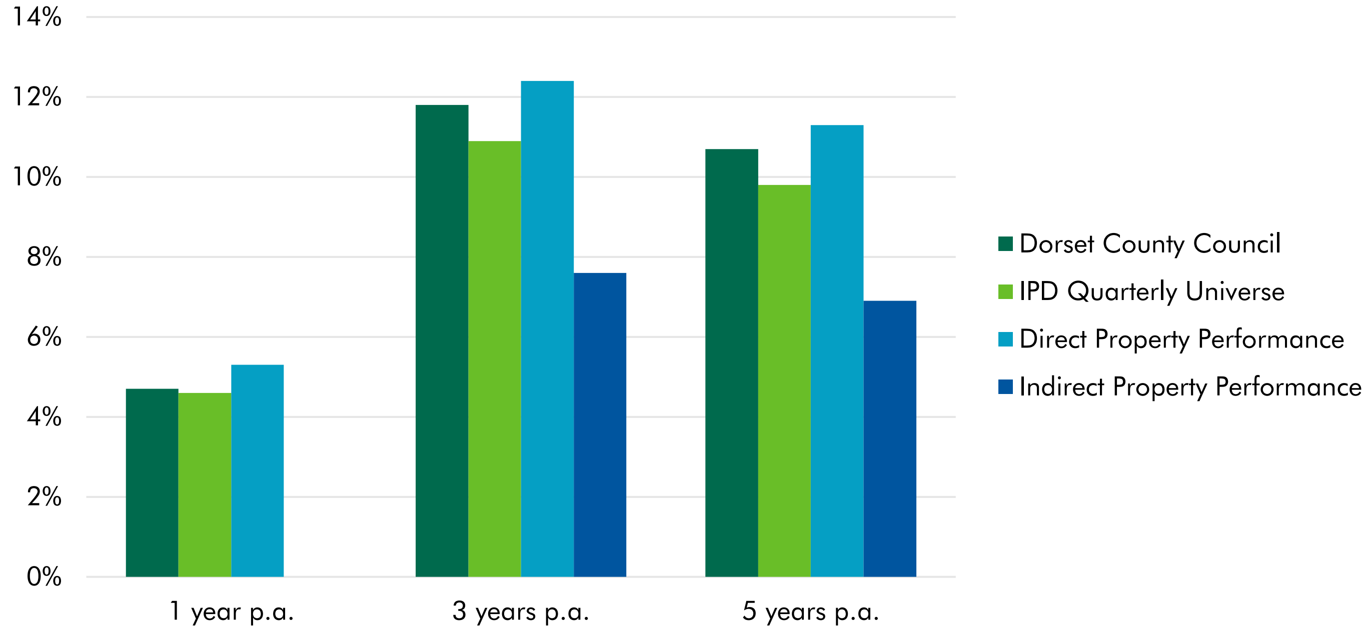
5 yrs to Q4 2016	Portfolio	Benchmark	Relative
Capital growth	4.7%	4.4%	0.3%
Income return	5.7%	5.2%	0.5%
Total return	10.7%	9.8%	0.8%

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 over the longer time periods. 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

Figure 14 Annualised Total Return Rolling Performance



The portfolio is 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 has been weaker than the direct holdings 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.

8. ACCOUNTING AND ADMINISTRATION

RENT COLLECTION AND ARREARS

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 THREE MONTS OLD)

Target	
GREEN	Max. £25,000, no single item over £10,000
AMBER	Max. £75,000
RED	Above £75,000

RESULT	**31 March 2017**	RED	**£137,023.02**
	31 December 2016	RED	£131,515.46
	30 September 2016	RED	£153,788.03
	30 June 2016	RED	£189,663.92

The arrears position is skewed due to £134,408.78 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 were 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	**31 March 2017**	GREEN	**(99.3% collected by 6 days, 98.0% by 15th day)**
	31 December 2016	AMBER	(85.1% collected in 6 days, 94.7% 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)

SERVICE CHARGES – ACCOUNT CLOSURE POSITION

Target	
GREEN	all service charge accounts closed within 3 months of the year end
RED	any account not closed

9. 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.

Figure 15 Change in level of risk across all units (left) and value (right) within the Fund

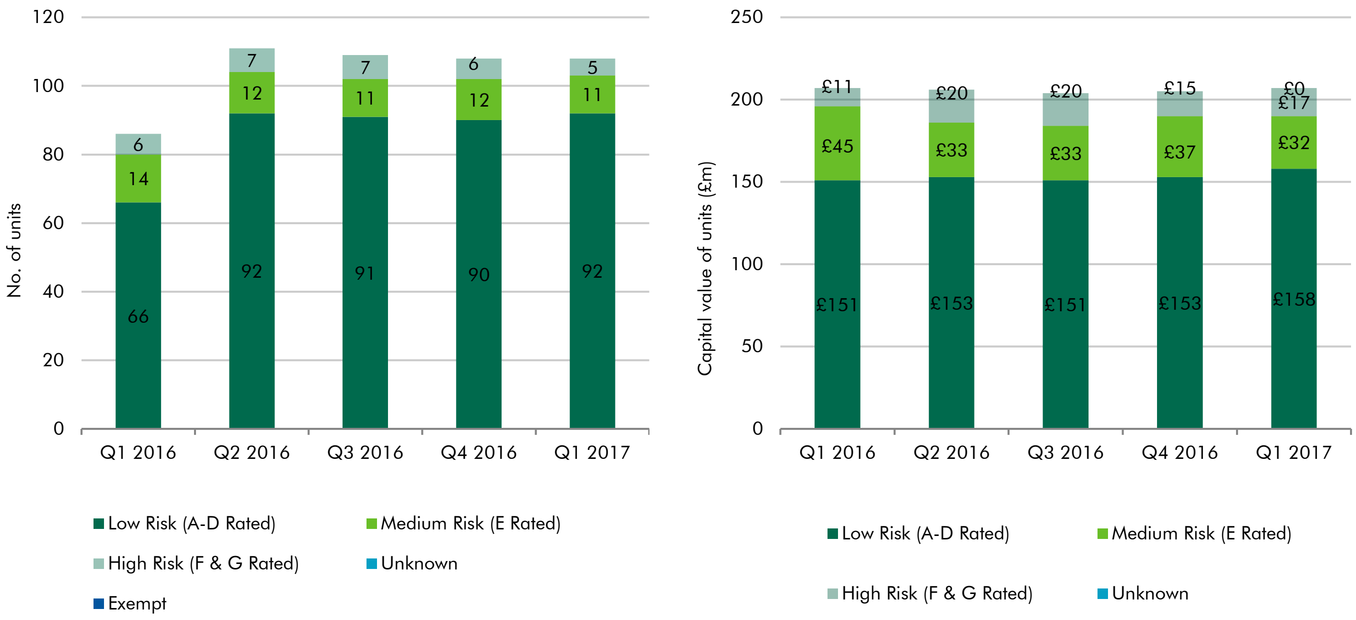


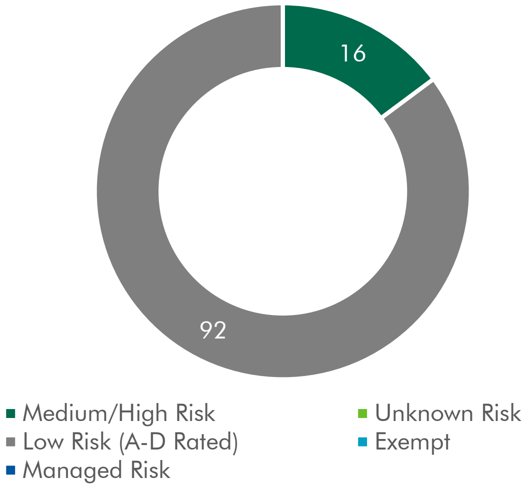
Figure 15: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q2.

COMPLETED PROJECTS: Q1 2017

Size	Unit	Action	Outcome
Euroway Industrial Estate	Unit 1-3	EPC	Improvement in the EPC rating from a high risk item into low risk.
Euroway Industrial Estate	Unit 5	EPC	Improvement in the EPC rating from a high risk item into low risk.

ACTIONS FOR MITIGATING RISK ACROSS THE PORTFOLIO

Figure 16 Strategy For Risk Mitigation For Remaining Medium And High Risk Units



Action plan for Medium / High Risk units	Number of units
Carry out high quality EPC	1
Scottish properties	2
Tenant engagement	11
Monitor – potential sale	0
Consult on current works	2

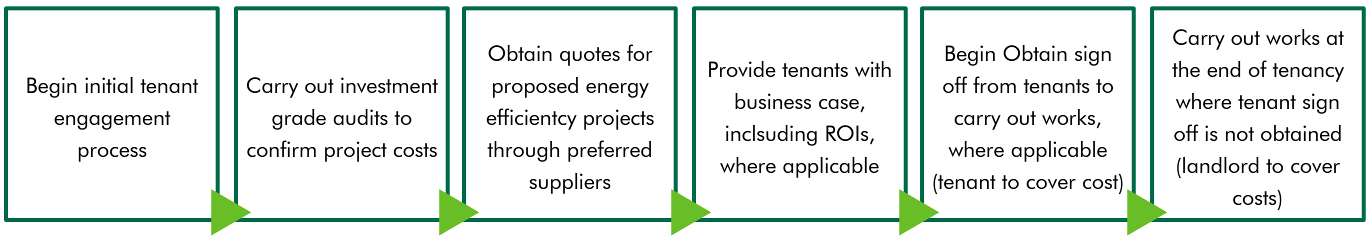
Figure 16 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

RISK MITIGATION PROCESS

Where possible, tenants will be engaged to help spread the cost of investment and mitigate risk.

Figure 17 illustrates the process that will be undertaken throughout the year to engage with tenants.

Figure 17 Process For Carrying Out Risk Mitigation Actions



PLANNED PROJECTS: Q2 2017

Size	Unit	Action	Outcome
The Aspley Building	Unit B	Modelled EPC	To confirm tenant engagement with suggested improvements
South Bristol Trade Park	Unit 3B	Modelled EPC	Modelled EPC to provide improvement measures in order to move the unit into medium/low risk categories.
Dunbeath Court, Swindon	2 Units	Tenant Engagement	Electronic version of tailored pamphlet distributed to key tenants. Work with tenants and property managers to implement energy efficiency projects to improve EPC rating.
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.

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APPENDIX 1

SCHEDULE OF VACANCIES

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
1st and 2nd floor, Pilgrim House, Aberdeen	13,805	2.0%	£276,100	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 – will need to be combined with unit 7 letting
TOTAL PORTFOLIO VOID		2.5%	£345,300	

APPENDIX 2

INDIRECT INFORMATION

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds and as at 31 March 2017 had a value of £24.3 million.

The performance of the Dorset indirect portfolio was 1.4% over the last quarter and 0.0% over the last 12 months. This return is based on February prices. The table below reflects the valuations based on these reporting cut-off dates.

Fund Name	Manager	Sector	LTV	Value (£m)
CBRE Retail Property Fund Britannica Unit Trust	CBRE Global Investors	Shopping Centres	-	-
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	-	9.650
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres	-	14.631
Total			**-**	**24281**

INVESTMENT ACTIVITY

There was no transactional activity during the quarter.

COMMENTARY

The Dorset indirect property portfolio has three indirect holdings, although the holding in CBRE Retail Property Fund Britannica Unit Trust has no value and is in wind down. These are specialist funds that provide the portfolio with exposure to the shopping centre sector. The combined indirect investments have a value of £24.3 million and nil look-through exposure to gearing.

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership produced a total return of -0.3% over the quarter and -1.0% over the year.

Performance in the last quarter was dragged by a 1.4% fall in NAV, driven by an outward yield shift for Touchwood, Solihull (an asset that represents approximately 33% of the fund's portfolio value). The valuers moved the yields out by 20bps due to a reduced certainty around the execution of the extension at Touchwood resulting from an impending fund wind-down and potential sale of the assets.

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

During the quarter, the manager continued with asset management initiatives at the two schemes:

- At Bluewater, the manager agreed one new letting, one lease renewal and completed three rent reviews. Further work on extension of MSUs and repositioning of 'Glow' from an events venue to a leisure destination continued as lettings to a cinema operator, restaurants and a trampoline operator were concluded.

- At Touchwood two lease renewals were concluded. There are only two vacancies at the asset. As part of the proposed Touchwood extension, the manager purchased adjacent high street units under the CPO (compulsory purchase order) process.

The fund has a wind-down period commencing from November 2017. Following a consultation with investors, the manager held a vote on 31 October 2016 seeking investor approval for a fund modernization and extension of the fund life to 2024. This was 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.

During the quarter, the manager reported that it was unable to achieve the required equity rotation process that was approved in Q3 2016. As such the manager is considering options for the future of LLRP including an early wind-down of the fund commencing with the sale of its 25% stake in Bluewater, Kent.

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 2.6% over the quarter and 0.7% over the last 12 months.

Over the quarter, the return was driven by both capital and income performance. At quarter end, the trust had a net asset value of £1.6 billion with the portfolio providing exposure to six shopping centres across the UK (following sale of One Stop, Perry Barr). The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 7.4 years.

As at quarter end, the void rate remained at 4.3% (by ERV) however this would fall to c. 2.7% if the pre-letting of the former BHS unit in Brighton to Zara (relocating within the centre) was assumed as let. The Zara unit has received strong interest from three occupiers; the letting of this unit is expected to complete during Summer 2017. At Brent Cross the Waitrose lease was re-geared for an additional 10 years, an agreement for lease was signed with Zara (regarding the former Gap unit), and the re-letting of the All Saints store to JD Sports also completed. The manager secured several new lettings at the Fund's other assets in Wimbledon and Stirling.

As noted last quarter, the Trust completed the sale of One Stop Perry Barr, Birmingham for £69.3m / 7.0% NIY, in line with the Trust's strategy to focus of dominant shopping centres. Following this sale, there is now c. £90m of cash (5.6% by NAV) in the Trust, being held for capital expenditure and other working capital required to deliver asset management initiatives across the portfolio.

The Manager is in discussions with a number of capital sources interested in funding the extension to Brent Cross. Further engagement with unitholders will commence during Q2/Q3 2017, when more details will then be made available.

APPENDIX 3

PORTFOLIO VALUATION

Valuation Schedule (UK Property)
Q1 2017

Property Address	March 2017	Qtr Total Return [1]	Annual Income	OMRV	Net Initial Yield [2]
OFFICES					
Aberdeen, Pilgrim House	£7,100,000.00	-3.3%	£318,862.00	£517,414.00	4.23%
Cambridge, The Eastings	£3,500,000.00	2.8%	£190,500.00	£226,000.00	5.11%
Cambridge, 270 Science Park	£11,500,000.00	-0.3%	£641,616.00	£952,616.00	5.23%
London EC1, 83 Clerkenwell Rd	£17,650,000.00	1.2%	£836,000.00	£1,034,000.00	4.44%
London N1, 15 Ebenezer St & 25 Provost St	£8,650,000.00	0.8%	£272,588.00	£673,100.00	2.95%
Watford, Clarendon Road	£15,250,000.00	1.8%	£902,750.00	£1,070,000.00	5.55%
TOTAL OFFICES	**£63,650,000.00**	**0.6%**	**£3,162,316.00**	**£4,473,130.00**	**4.59%**
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£6,200,000.00	1.7%	£431,000.00	£417,700.00	6.52%
Norwich, Cathedral Retail Park	£16,100,000.00	0.1%	£1,074,000.00	£1,054,000.00	6.25%
Rayleigh, Rayleigh Road	£3,500,000.00	1.6%	£222,783.00	£222,783.00	6.01%
TOTAL RETAIL WAREHOUSE	**£25,800,000.00**	**0.7%**	**£1,727,783.00**	**£1,694,483.00**	**6.26%**
SUPERMARKET					
Tesco, Sheffield	£10,600,000.00	1.6%	£680,000.00	£680,000.00	6.01%
TOTAL SUPERMARKET	**£10,600,000.00**	**1.6%**	**£680,000.00**	**£680,000.00**	**600.00%**
INDUSTRIAL					
Bristol, South Bristol Trade Park	£4,550,000.00	6.0%	£258,106.00	£282,137.00	5.32%
Crawley, Woolborough IE	£19,000,000.00	5.8%	£917,932.00	£1,238,100.00	4.53%
Croydon, 75/81, Sumner Road	£2,950,000.00	10.6%	£137,000.00	£169,800.00	4.36%
Heathrow, Skylink	£4,650,000.00	2.9%	£125,478.00	£256,300.00	2.53%
London, Phoenix Park, Apsley Way	£11,150,000.00	3.1%	£487,469.00	£604,413.00	4.10%
London, Apsley Centre	£3,500,000.00	1.7%	£165,900.00	£195,000.00	4.45%
London, 131 Great Suffolk St	£4,350,000.00	0.6%	£110,000.00	£297,500.00	2.37%
Sunbury, Windmill Road	£11,000,000.00	4.2%	£659,750.00	£699,350.00	5.62%
Swindon, Dunbeath Court	£4,800,000.00	1.7%	£333,716.00	£337,300.00	6.52%
Swindon, Euroway IE	£12,050,000.00	1.8%	£803,422.00	£817,935.00	6.25%
TOTAL INDUSTRIAL	**£78,000,000.00**	**3.8%**	**£3,998,773.00**	**£4,897,835.00**	**4.61%**
OTHER					
Derwent Shared Ownership	£9,740,000.00	0.3%	£382,837.00	£382,837.00	3.93%
Glasgow, Mercedes	£10,500,000.00	2.4%	£597,453.00	£566,600.00	5.36%
Leeds, The Calls	£7,450,000.00	3.0%	£476,110.00	£484,750.00	5.99%
Macclesfield, Hope Park	£6,350,000.00	8.7%	£236,964.00	£236,964.00	3.50%
Newcastle, Charlotte House	£4,700,000.00	-3.5%	£115,178.00	£304,800.00	2.30%
TOTAL OTHER	**£38,740,000.00**	**2.2%**	**£1,808,542.00**	**£1,975,951.00**	**4.22%**
TOTAL DIRECT PROPERTY	**£216,790,000.00**	**2.1%**	**£11,377,414.00**	**£13,721,399.00**	**5.00%**
INDIRECT PROPERTY					
Lend Lease Retail Partnership	£9,650,100.00	-0.3%	£259,098.00		
Standard Life Investments UK Shopping Centre Trust	£14,630,884.49	2.6%	£515,902.00		
TOTAL INDIRECT PROPERTY	**£24,280,984.49**	**1.4%**	**£775,000.00**		
GRAND TOTAL	**£241,070,984.49**	**2.0%**	**£12,152,414.00**	**£13,721,399.00**	**5.00%**

Notes:

1. Total returns for both the direct and indirect properties for the quarter to March 2017 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 March 2017 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

APPENDIX 4

AFFILIATED SERVICES

Property	Fee	Service
Norwich, Barn Road	£175	Flood risk screening project
Q1 2017 Total	**£175**	