DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q3 2017

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DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q3 2017

MARKET

Though at odds with a decelerating economic environment, UK property continues to deliver strong returns relative to history. The IPD Quarterly Index recorded a nominal total return of 2.5% in Q3 2017.

Investor demand remains strong for most types of property. As has been a recurring theme for the past year, industrials remain the best performing sector, delivering a quarterly return of 4.3% (IPD Quarterly Index). Retail and offices achieved more modest, though still healthy, returns of 1.7% and 2.0% respectively.

With yields historically low in many segments, we remain concerned about the absolute level of pricing though we recognise that property's income advantage and the prospect of a relatively stable return profile are attractive when compared to other asset classes.

We expect performance will begin to decelerate from recent levels as a slowing economy and increased political uncertainty begin to weigh on occupational markets. Our forecast is an income-driven nominal return of approximately 4.5% p.a. over the next five years. Income protection remains our priority.

PORTFOLIO

The portfolio's void rate increased to 5.2% over the quarter, but remains well below the market average (6.8%). Since the end of the quarter it has reduced to 4.0% and will decrease further following the sale of Great Suffolk Street in December. The purchase of £15.75m of units in the vehicle holding Park Plaza Waterloo was completed. Since the end of the quarter, we have exchanged contracts to purchase an industrial estate in Greenford, Greater Lonodn for £8.4m and exchanged contracts for the sale of Great Suffolk Street for £4.95m. One property staircased from the Derwent Shared Ownership portfolio during the quarter.

During the quarter you have allocated a further 2% of your overall portfolio for us to acquire property assets with secure long income attributes. We are now seeking oportunities in which to invest this capital.

Figure 1 Lease Length

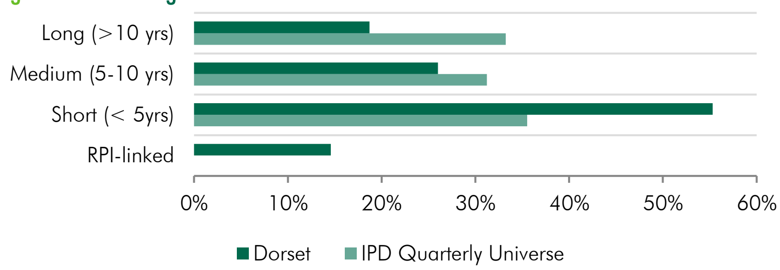


Figure 2 Geographical Structure

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	£226.3m	25
UK Indirect	£40.0m	3
Total value of portfolio	£266.3m	
NIY/EY	4.7%	6.0%
Vacancy rate	5.2%	
AWULT to expiry (lease to break)	8.7yrs	(8.2yrs)
Largest asset	Woolborough Lane, Crawley (£21.6/9.5% of portfolio value)	
Largest tenant	ACI Worldwide EMEA (£1,070,000/9.5% of portfolio rent)	

Performance

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

	Portfolio	Target	Relative
Q3 2017 %	2.2	2.5	-0.3
1 Yr %	9.2	9.6	-0.3
3 Yr % p.a. (2015-2017)	9.9	9.4	0.4
5 Yr % p.a. (2013-2017)	11.7	10.7	1.0

Transcations

	Q3 2017
Money available	£58.7m
Purchases	£15.8m
Sales	£0.0m

2. MARKET COMMENTARY

UK ECONOMIC OUTLOOK

The good news for the UK economy is that it is performing in line with expectations (Figure 1). However, these expectations are being lowered as we begin to feel the effects of last year's EU referendum. UK business profitability has softened; insolvencies have jumped; retail sales growth has moderated due to high inflation; and house prices are stagnating at a national level and falling slightly in London. Whilst we continue to believe that the UK will avoid a recession, due in large part to the buffering impact of weak Sterling, heightened uncertainty brought about by Brexit negotiations suggests that expectations for future growth will be adjusted downward. This will ultimately hamper property performance.

Figure 1 Citi Economic Surprise Index - UK.
Source: Thomson Reuters Datastream

For the time being interest rates remain at historical lows, however a clear change in tone by the Monetary Policy Committee over the past quarter underscores that this could change soon. The implied 25bps hike that has occurred only takes interest rates back to pre-EU referendum levels, but it does suggest that the cost of capital could diverge from other regions. The threat of rising interest rates does not appear to be unduly impacting investor attitudes to the asset class. However, the resultant strengthening in Sterling and persistent volatility may begin to deter activity from currency-minded investors. Notwithstanding, we believe that unforeseen increases to borrowing costs threaten an indebted consumer-driven economy.

UK PROPERTY PERFORMANCE

Though at odds with a decelerating economic environment, UK property continues to deliver strong returns. At a market level, capital value growth saw its strongest result since Q4 2015, having improved by 1.3% on the IPD Monthly Index, with all main sectors delivering a positive outturn. The All Property total return in Q3 2017 was 2.7%, which is on par with the previous three quarters. As has been a reoccurring theme for the past year, industrials were the best performing sector, delivering a quarterly return of 4.8%. Retail and offices achieved comparatively healthy returns of 1.9% and 2.0% respectively.

OCCUPIER MARKETS

Despite the positive results in Q3, we feel that the bargaining position is shifting from landlord to tenant in most segments of the market. Well located prime assets have proved resilient as evidenced by new tenant enquiries and low void rates. While this has generally helped maintain headline rents, incentives are becoming more generous. This has been most felt in Central London offices which have seen rent-free packages double during the past year.

South East industrials are undeniably underpinned by a strong structural story however, in the span of just a couple years, the sector has evolved from one favoured for its ability to deliver steady income to becoming a growth play. Whilst we see healthy medium term rental prospects for the sector, low yields more than reflect this thesis and we are using cautious underwriting for purchases this late in the business cycle.

As we have been commenting, retail faces myriad headwinds with ample supply, waning demand and a lack of new entrants willing to pay top rents. Insolvencies are likely to accelerate on the back of a forecasted slowdown in consumer spending and the spectre of rising interest rates.

Leisure is facing similar struggles. Rampant expansion and increased cost pressures for occupiers is translating to dwindling new requirements and the closure of units by once leading food and beverage brands. While the hotel sector is benefiting from rising international tourist numbers and the advent of the staycation due to weak Sterling, construction pipelines have been ramping up. Supply threats are growing in London, Edinburgh and the budget sector more broadly, which are all areas of the hotel market that have seen strong investment activity in recent years; again we are reflecting this in our underwriting.

CAPITAL MARKETS

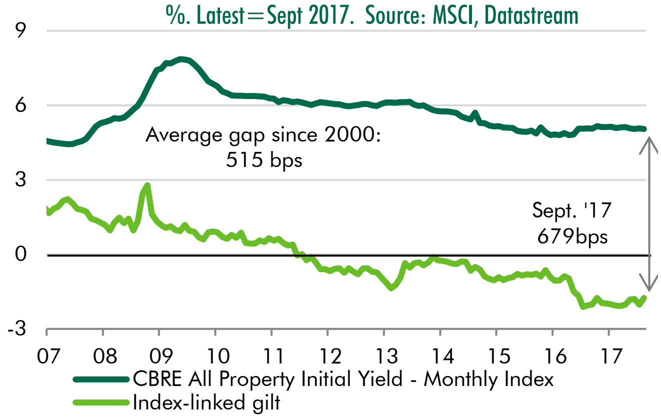
UK property investors have seemingly been inured to shocks: political, economic or otherwise. Many accept a higher degree of uncertainty though still desire a better return vis-à-vis other expensive asset classes. There are few motivated sellers of property and even fewer viable alternatives to redeploy capital. This is why total investment volumes have remained consistent for the past year at about £13bn per quarter. Admittedly, this figure masks a divergence in activity.

The majority of buying interest has been from: Chinese and Hong Kong capital sources targeting trophy City towers; UK institutions hunting for industrials, particularly in the South East; and liability-matching investors looking to secure inflation-linked income. Until recently, demand for this type of stock has far exceeded supply, which has had an obvious impact for pricing. However, the typically frenetic final quarter of the year has seen large portfolios of varying calibre and at least £9bn worth of London offices come to market. Given concerns about the continuity of Chinese capital flows as well as the advanced stages of the property market, there is a risk that not all of these investments will achieve their vendors' aspirations by year end.

OUTLOOK

Our medium term outlook for UK property has not changed materially over the past quarter. We continue to have concerns about the absolute level of pricing in most segments though we recognise that property's income advantage, and the prospect of a relatively stable return profile is compelling (Figure 2). However, we expect performance will begin to decelerate from recent levels as a slowing economy and increased political and regulatory uncertainty begin to impact occupational markets and weigh on rents. The corollary is that such an economic environment should necessitate a flexible approach to monetary policy, which will keep gilt yields at relatively low levels and prevent property yields from rising significantly. As weight of money has always had a bigger impact on property performance than occupier markets, our expectation is an income-driven return of circa 4.5% p.a. at an all property level over the coming five years.

Figure 2 All Property Initial Yield and Index Linked Gilt yield, %. Latest=Sept 2017. Source: MSCI, Datastream



3. STRATEGY

Size	▪ Target portfolio size £325m – split £270m conventianal portfolio and £55m new allocation. Currently £266.3m. ▪ New allocation for 2% of Dorset's overall portfolio, which equates to approximately £55m to target properties with secure long income streams.
Performance	▪ Coventional portfolio: 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. ▪ New allocation: Benchmark to be confirmed.
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, long leases and an element of indexation.

ALLOCATION

Property type	▪ Coventional portfolio: 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 assets with an average lot size of between £8m and £10m. ▪ 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. ▪ New allocation: Targeting lot sizes between £3m and £20m with an average lease length in excess of 15 years with approximately 70% of the portfolio having index linked rent reviews.
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 SLI* investments that could be available in any sector.

*SLI stands for Secure Long Income property. SLI property generates long-term predictable cash-flows. It is characterised by long lease lengths (15+ 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*	£226.3m	85%
UK indirect**	£40m	15%
Total value of portfolio	£266.3m	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*	75 with a further 3 units void	70-100
Net initial yield	4.7% p.a.	Above benchmark
Vacancy rate (% of rent)	5.2%	Below benchmark
Rent with +10 years remaining	24.5% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	7.5% of total rent	Minimum 10% of total rent
Largest property (% of value)	9.5% (Woolborough Lane IE, Crawley)	Below 10%
Largest tenant (% of rent)	9.5% (ACI Worldwide EMEA Ltd, Watford)	Below 10%
Tenure (Freehold/Leasehold)	81% / 19%	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 4.8% as at Q2 2017. The portfolio net initial yield as measured by IPD is currently 4.7%. The yield slipped below the benchmark during the quarter due to the rise in void rate. The portfolio yield has reduced during the year due to stronger market conditions and the acquisition of a lower yielding property which delivers secure RPI linked income and the rise in void rate. The transactions have added to the quality of the income stream from the portfolio.

ACTION

The portfolio's initial yield is currently 10 basis points below the Benchmark IPD Quarterly Universe. In order to improve the yield gap further our focus is to enhance the portfolio income 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;
5. Complete the sale of 131 Great Suffolk Street, London SE1 which is currently vacant.

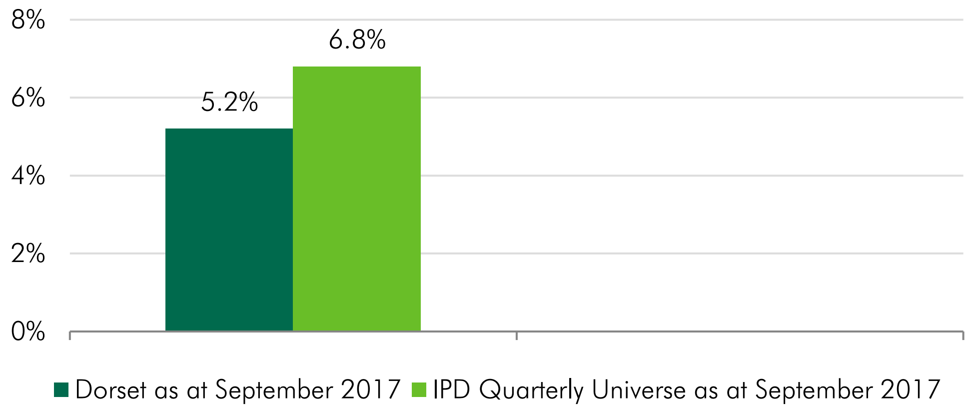
	Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.7%	4.8%
Equivalent yield p.a.	6.0%	5.7%
Income return over quarter	1.1%	1.1%

VACANCY RATE

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

The vacancy rate currently amounts to 5.2% of ERV, which is below the market average (6.8%). The portfolio's void rate comprises two office floors at Pilgrim House, Aberdeen, 131 Great Suffolk Street, London and Unit C at Cathedral Retail Park, Norwich. The vacancy rate has reduced to 4.0% since the end of the quarter following the letting of the unit at Cathedral Retail Park. It will decrease by a further 2.0% once the sale of Great Suffolk Street completes in December.

Figure 10 Vacancy Rate



ACTION

Seek to let vacant space through using best in class letting agents and proactively manage 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's average lease length in excess of the benchmark lease length.

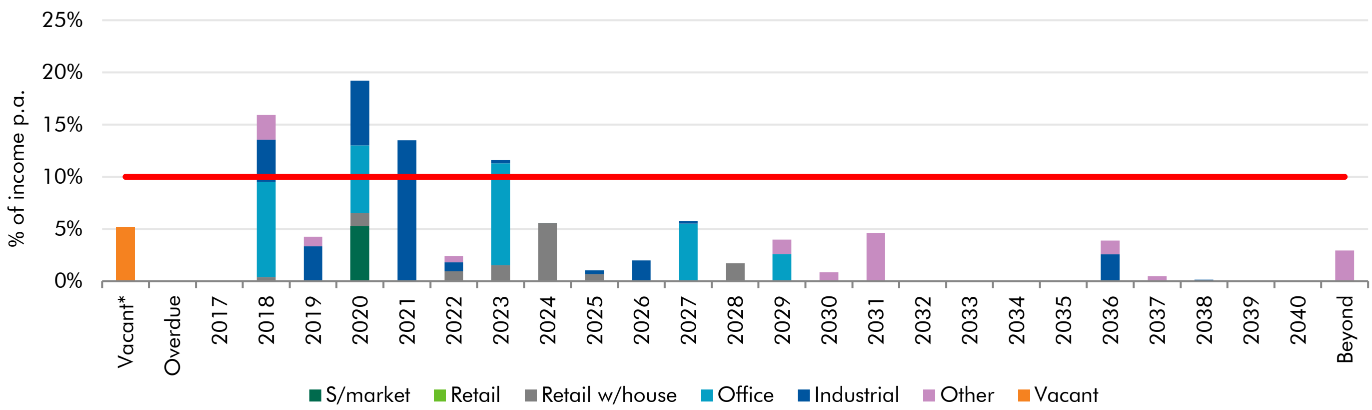
UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	9.2	8.7	9.2
Benchmark	12.4	11.5	12.9

*Breaks are assumed to be executed if the lease is overrented and the break is at the option of the tenant or mutual. The figures exclude indirect assets. The new Park Plaza hotel indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 14 years.

The average lease length of the Fund using the PAS assumption is in a reasonable position relative to the benchmark. The main risk is the 2020 expiry spike. We are already talking to the majority of tenants with leases that expire that year. Neogtiations continue with Tesco to agree a new lease on their unit in Sheffield. Their existing lease 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 19.2% of income currently expiring in 2020. Terms have also been agreed with Majestic Wine to extend their lease at Beckett Retail Park, Northampton.

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.

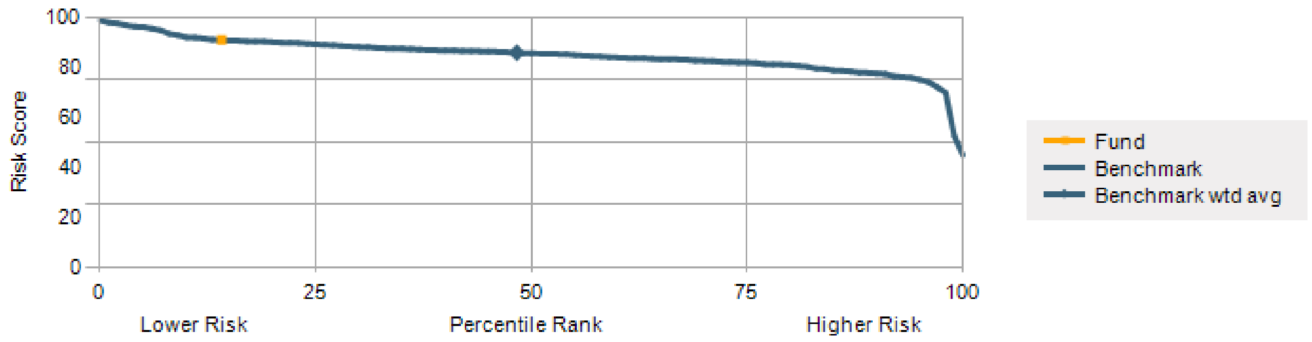
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2040 increases to 6.1%.

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 30 September 2017. The Fund is now in the top quartile with a Weighted Risk Score on the 14th percentile. The score has improved since Q2 2017 (24th percentile) and remains well ahead of the benchmark (48.3) demonstrating that the covenant risk of the portfolio is below the average benchmark risk. IPD IRIS risk weightings are as at September 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 SLI* income within the conventional portfolio in excess of 15% of that portfolios 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.

***SLI income** – defined as properties let on long 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 meets this target. At 18% the SLI component of the income means a good proportion of the portfolio provides some form of index linkage. This has increased from 15% with the inclusion of the income from Park Plaza, Waterloo.

% of DIRECT portfolio income	Q3 2017
Open market income	85%
RPI/Index linked income	15%

% of TOTAL portfolio income	Q3 2017
Open market income	82%
RPI/Index linked income	18%

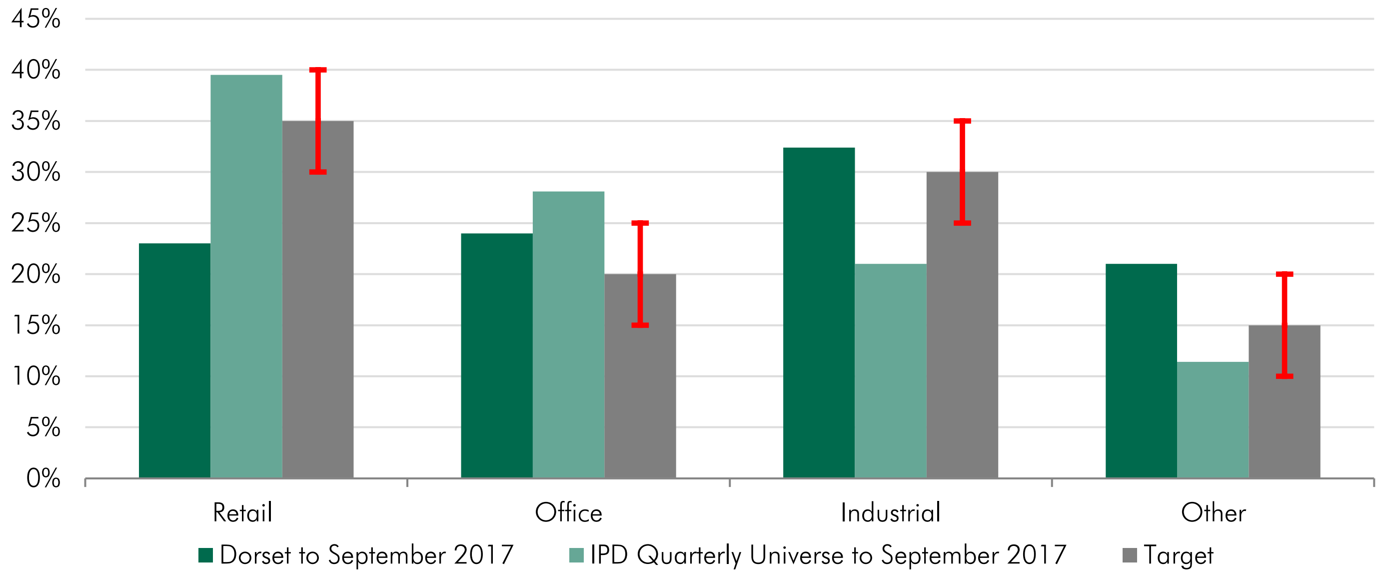
ACTION

Continue to monitor SLI 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 below 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.

The Other sector has increased to over 20% of the portfolio this quarter, with the acquisition of the indirect holding in the Park Plaza hotel in Waterloo, London.

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 development at Cambridge Science Park progressed during Q3 with no major issues. Further details can be found in Section 5.

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 asset management activity within the Fund over the last quarter:

Address	Phoenix Park, London
Sector	Industrial
Valuation Q2 2017	£12.65m

- During the quarter, we completed the letting of Unit 7 to the Hire Supply Company for a term of 10 years with a tenant option to break on 5th anniversary of the lease start at a rent of £71,800 p.a (£14.00 psf).
- The letting reflects rental growth of 19.7% over the previous rent of £11.25psf. It sets a new rental tone for the estate.

Address	Cambridge Science Park, Cambridge
Sector	Office
Valuation Q2 2017	£13.2m

- Works have progressed well in respect of the new car park and the development is currently two weeks ahead of schedule. Completion of this element is expected in November 2017. This will be subject to the completion of a network power agreement with UKPN.
- Post quarter end, the licence to use some of the adjoining occupier's car parking spaces has been completed removeing a key risk to the project.
- The corner of the car park has been redesigned to remove the need for approval from Anglia Water in respect of the intersection of their wayleave. A variation to the section 106 agreement is currently being documented.

6. TRANSACTIONS

PURCHASES

Address	Waterloo Park Plaza, London SE1
Sector	Hotel
Purchase price	£15.725m (contribution)
Conventional / SLI	Secure Long Income

- During the quarter CBRE Global Investors has completed the acquisition of the freehold of the recently developed Park Plaza hotel, in Waterloo, for a total consideration of £160m, equating to a net initial yield of 3.27% 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 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 allows for annual rent reviews in line with the RPI (collared at 2% and capped at 4%).
- The investment is held by a Guernsey Property Unit Trust, whereby a number of CBRE Global Investors' clients have allocated capital.
- Income from the investment (and the associated costs of the vehicle) has been 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.
- The deal completed in early July. We forecast that the investment will realise a real return of 3.0% p.a. over the long term.

SALES – STAIRCASINGS FROM THE DERWENT PORTFOLIO OVER THE QUARTER

Address	8 Buscot Parkway, Daventry
Sector	Residential – Derwent Portfolio
Transaction	Full Staircasing of a 1 bed flat
Dorset's Purchase Price*	£28,514 (gross of all fees)
Net Dorset Sale Receipt*	£44,359

*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 the quarter, the Fund invested £15.725m into the new vehicle set up to acquire Park Plaza, Waterloo. This purchase increased the portfolio weighting to assets delivering an element of RPI linked income and provides exposure to a different sector of the market within the "Other" category.
- Following the end of the quarter, the Fund has exchanged contracts to purchase an industrial estate in Greenford, Greater London for £8.4m. Completion is expected to take place during November 2017.
- During Q3 2017 the manager sought 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. The asset was marketed for offers in excess of £4.5m. However, post quarter end contracts have been exchanged to sell the property for £4.95m, completion is scheduled for the 6 December. The Manager now has 24 hour security in place until the sale completes to prevent squatters, the cost of which will be met by the purchaser.
- In addition, the two shopping centre indirect holdings will continue to be monitored. Lend Lease is expected to wind down during 2018 as the fund life is not anticipdated to be extended at the vote on 12 November. It is not however the intention of the Manager to fully divest from shopping centre indirect exposure as will retain the holding in Standard Life. See Appendix 2 for further information about the indirect holdings.

TRANSACTIONS EXCHANGED POST QUARTER END

PURCHASES

- Since the end of the quarter, contracts have been exchanged for the purchase of 401-409 Oldfield Lane, Greenford, Middlesex.
- This industrial Estate comprises four units extending to 38,367 sq ft let to three tenants at rents equating to between £8.90 psf and £9.50 psf
- The site extends to 1.4 acres and is adjacent to the Grand Union Canal. It is opposite a new 2,000 residential unit scheme being built by Greystar.
- The property is being purchased for £8.4m which reflects a net initial yield of 3.9% p.a. and a reversionary yield of 5.5%

Address	401-409 Oldifeld Lane, Greenford, Middlesex UB6)HE
Sector	Industrial
Purchase price	£8.4m
Conventional / SLI	Conventional

SALES

- Since the end of the quarter, contracts have been exchanged for the sale of 131 Great Sufflolk Street, London SE1.
- The property was purchased in 2014 for £2.35m as a short term hold because we felt that it was undervalued.
- The industrial unit extends to 8,000 sq ft over two floors and was formerly occupied by a printers. It was vacated in April 2017.
- The property is being sold for £4.95m, which reflects £619 psf.
- Completion is scheduled to take place on 6th December 2017.
- The sale price is 111% above the purchase price and the property was income producing between acquisition and April 2017.

Address	131 Great Suffolk Street, London SE1
Sector	Industrial
Sale price	£4.95m
Conventional / SLI	Conventional

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.

Q3 2017	Portfolio	Benchmark	Relative
Capital growth	1.1%	1.4%	-0.3%
Income return	1.1%	1.1%	0.0%
Total return	2.2%	2.5%	-0.3%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio underperformed the benchmark over the last three months, with a total return of 2.2% against the benchmark return of 2.5%. The underperformance was the result of significant capital expenditiure at the Cambridge Science Park (£1.4m), which diluted the the portfolio's return by approximately 60 basis points. The portfolio's industrials were the best performing assets with a total return of 4.4% over the quarter, which was in line with the industrials in the IPD Quarterly Universe. The robust performance of industrials reflects the high investor demand for the sector. The strongest individual asset was the Booker cash and carry in Sunbury on Thames, which recorded a totat return of 8.2% over the quarter, driven by capital growth of 6.7%.

12 months to Q3 2017	Portfolio	Benchmark	Relative
Capital growth	4.1%	4.7%	-0.5%
Income return	4.9%	4.7%	0.2%
Total return	9.2%	9.6%	-0.3%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q3 2017	Portfolio	Benchmark	Relative
Capital growth	4.6%	4.5%	0.1%
Income return	5.1%	4.7%	0.3%
Total return	9.9%	9.4%	0.4%

Source: CBREGI and IPD Quarterly Benchmark Report

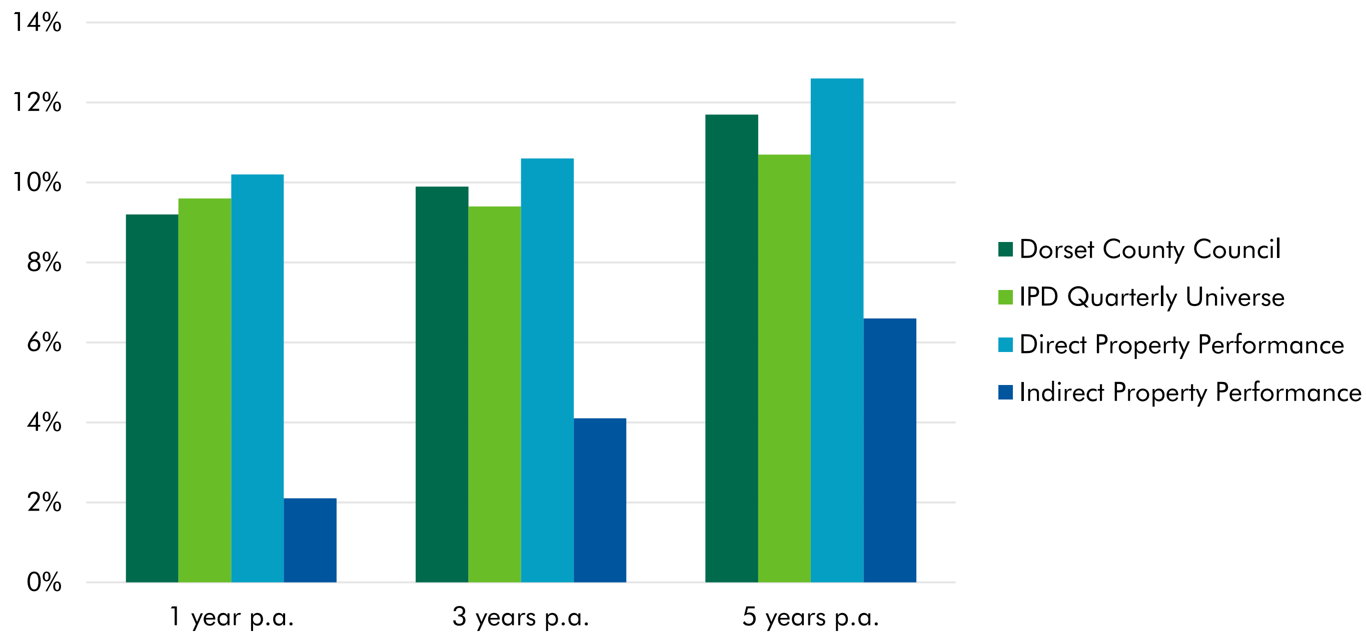
5 yrs to Q3 2017	Portfolio	Benchmark	Relative
Capital growth	5.9%	5.3%	0.5%
Income return	5.6%	5.1%	0.5%
Total return	11.7%	10.7%	1.0%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is slightly behind the benchmark over 1 year to the end of September (9.2% against 9.6%) mainly as a result of the underperformance of the Fund's offices, in particular, Aberdeen and the indirect Shopping Centre assets. However, the portfolio continues to outperform the benchmark over 3 and 5 year 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 slightly behind over 1 year, but outperforming over 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	30 September 2017 RED £161,035.34 30 June 2017 RED £138,472.92 31 March 2017 RED £131,467.29 31 December 2016 RED £131,515.46 The arrears over 90 days have increased slightly due to the back rent effective from 31st May 2017 at Ebenezer Street could only be raised following the signing of the rent review memorandum. £134,408.78 of the arrears relate to Charlotte House, Newcastle where the tenant has gone into liquidation. A write-off request for this amount has been submitted to Dorset. Notwithstanding this, the tenant did leave furniture valued at £75,000 which is currently being used and which can be off-set againt the write off amount requested.

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	30 September 2017 GREEN (99.3% collected in 6 days, 99.3% by 15th day) 30 June 2017 GREEN (95.5% collected by 6 days, 98.7% by 15th day) 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)

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	GREEN

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

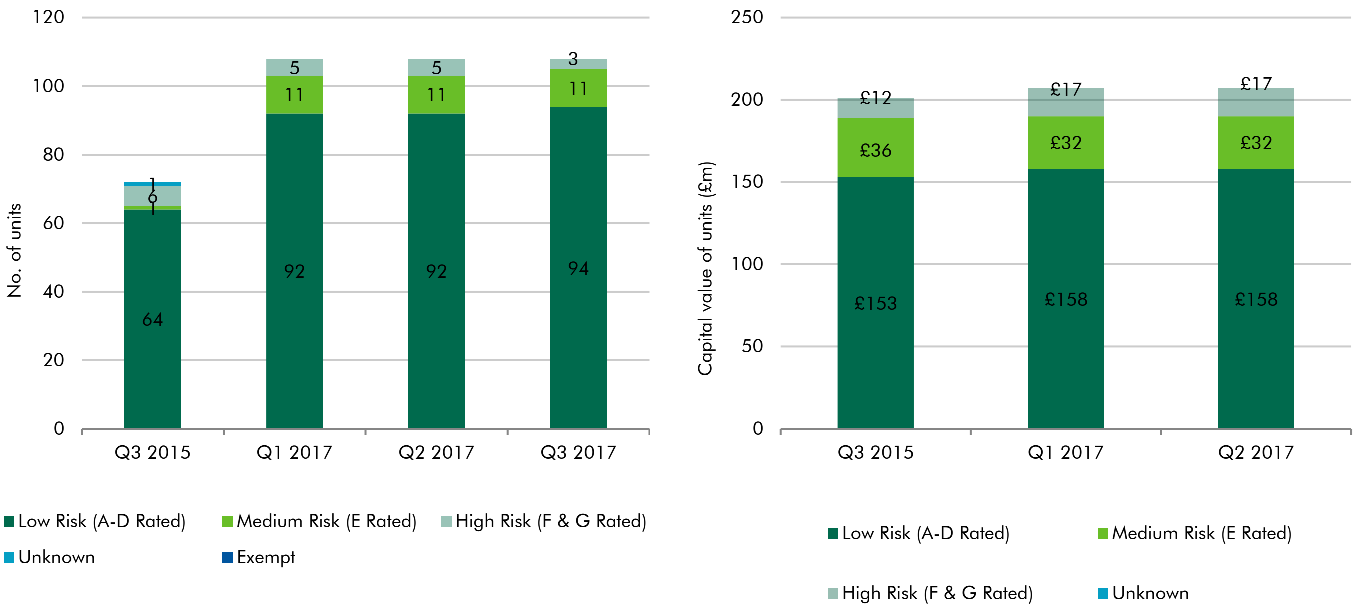


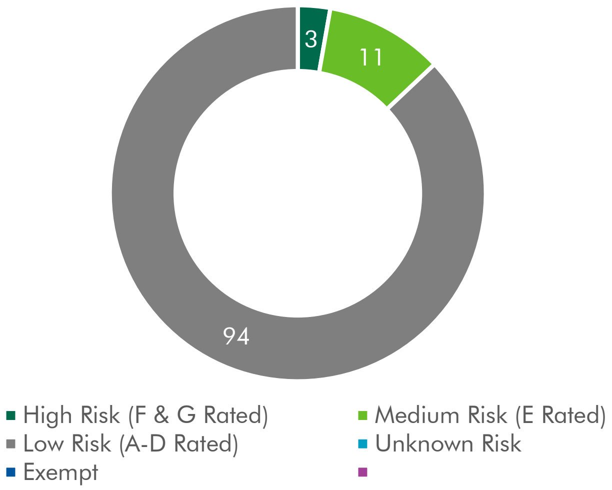
Figure 15: Change in level of risk across all units (left) and value (right) within the fund; Valuation data is updated annually in Q1.

COMPLETED PROJECTS: Q3 2017

Size	Unit	Action	Outcome
Phoenix Park, London	Unit 7 & 8	EPC	Both units identified as low risk EPC ratings.
All	All	Tenant engagement	Identified priority sites and tenants to engage with over the next 6 months to increase energy efficiency in the selected properties.
Annual Report	All Units	Reporting	The annual reports have been issued which identify the fund's performance against various Environmental Social and Governance (ESG) criteria.

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	10
Monitor – potential sale	0
Consult on current works	1

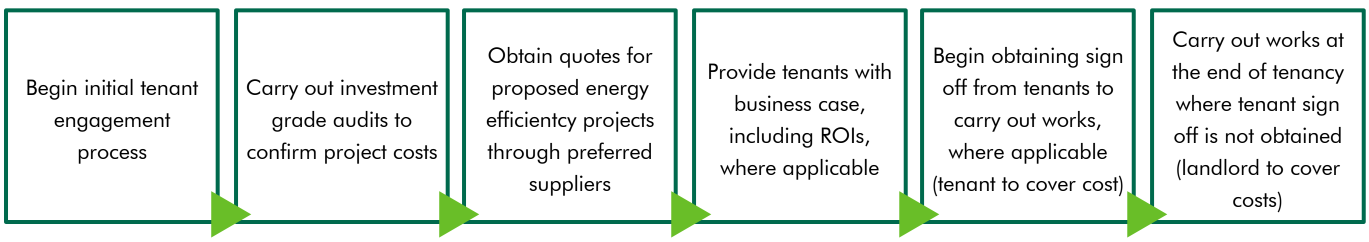
Figure 16 outlines the actions that have been identified to improve the EPC ratings of all units with E, F, or G ratings. Managed risk refers to all units that will be upgraded at the end of current tenancies, prior to the legislation taking effect.

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: Q4 2017

Size	Unit	Action	Outcome
Dunbeath Court, Swindon	All	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 ratings.
Sumner Road, Croydon	All	Tenant Engagement	Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC ratings.
Cathedral Retail Park, Norwich	All	Tenant Engagement	Engagement with retail tenants for possible upgrades to lighting systems. Identify payback periods and financial structure for each tenant. Measures will affect the energy efficiency of the assets and improve EPC ratings.
Various	Various	EPCs	Confirmation of estimated low risk sites to ensure quality EPCs have been carried out for each unit within portfolio.
Green Refurbishment Guide	All	Launch Event	Launch of the Green refurbishment and fit out guidance document in the coming quarter.

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APPENDIX 1

SCHEDULE OF VACANCIES

Property	Sq.ft. to let	% of Portfolio ERV	Total Void Rent	Status
Great Suffolk Street, London	8,000	2.0%	£297,500	Sale exchanged, to complete in Dec
Pilgrim House, Old Ford Road, Aberdeen	8,863	1.9%	£276,100	Continue to market
Cathedral Retail Park, Norwich	13,805	1.2%	£170.200	Let to Peacocks post quarter end
TOTAL PORTFOLIO VOID		**5.2%**	**£743,800**	

APPENDIX 2

INDIRECT PORTFOLIO

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds which as at 30 September 2017 had a value of £40 million.

The performance of the Dorset indirect shopping centre portfolio was -0.5% over the last quarter and 2.3% over the last 12 months. This return is based on August 2017 prices. The new investment in the Hotel sector produced a return of 2.2% over the quarter which was an excellent result as this included the negative impact of acquisition costs. The table below reflects the valuations based on these reporting cut-off dates.

Fund Name	Manager	Sector	Value (£m)
CBRE UK Long Income Property Club No.1 Unit Trust	CBRE Global Investors	Hotels	16,074
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	9.369
Standard Life UK Shopping Centre Trust	Standard Life	Shopping Centres	14.553
Total			**39,996**

INVESTMENT ACTIVITY

The fund acquired 15,725 units in the CBRE UK Long Income Property Club No.1 Unit Trust which equates to 9.25% of the value of the Unit Trust. Further details are set out below.

COMMENTARY

The Dorset indirect property portfolio has three indirect holdings. These are specialist funds that provide the portfolio with exposure to the shopping centre sector and the hotel sector. The combined indirect investments have a value of £40 million. The Shopping Centre holdings havea combined 0.9% look-through exposure to gearing (excluding cash).

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership produced a total return of -2.0% over the quarter and -2.6% over the year.

The negative return over the quarter was primarily a result of a 5% decline in the value of the fund's 25% holding in the Bluewater Shopping Centre, Kent as a result of an outward yield shift. The valuers for the fund factored in a 25 basis points outward yield shift at Bluewater taking into account a 7.5% share in the asset which recently traded at c.10% discount to book value. The value of the fund's other asset, Touchwood in Solihull, remained broadly flat over the quarter.

The manager is pursuing an early wind-down with the fund's 25% interest in Bluewater Shopping Centre put on the market for sale, ahead of the formal commencement of the fund's wind-down from November 2017. This stake is being marketed in conjunction with GIC's 17.5% interest in the asset. We expect progress to be made before the end of 2017. The manager is also considering sale options for Touchwood in which the fund holds a 100% interest.

During the quarter, the manager continued with asset management initiatives at the two schemes: at Bluewater, the manager completed / exchanged on eleven new lettings, one lease renewal and four rent reviews. Additionally planning was granted to accommodate a new MSU unit for Primark where the works include combining six new units and an extension. Primark is expected to take occupation in January 2019 on a 20-year lease. The valuer has applied a 50 bps outward yield shift on the unit reflecting risks associated with the cost of works.

At Touchwood two new lettings were completed. A lease renewal on the first floor helped to improve the rental tone in this part of the scheme.

The fund has low leverage of 2.3% and a distribution yield of 3.4% p.a.

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of 0.6% over the quarter and 3.9% over the last 12 months.

Over the quarter, performance was driven by income with valuations remaining broadly flat. At the 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. The trust remains ungeared and the portfolio has a weighted average unexpired lease term of 8.0 years.

As at quarter end, the void rate increased to 6.1% (by ERV) largely driven by the new vacancy of the former H&M Kids at Brent Cross (ERV £1.0m). However, this will fall back to 4.4% when taking into consideration the impact of the signed agreement for lease with Zara at Brent Cross, which is due to complete in Q4 2017. The trust's income is diversified across the portfolio with over 600 underlying tenants and no individual tenant paying more than 4% of total passing rent.

At Brent Cross, new lettings have been agreed with North Face, Skinny Dip and Orla Keily. In regards to the Brent Cross extension, anchor pre-lettings to M&S and John Lewis Partnership are both in solicitors' hands and the trust is in detailed discussions with a cinema operator and Fenwicks. Equity raising activity for the Brent Cross extension is progressing with interested parties and a further unitholder update is anticipated in Q4 2017.

At Churchill Square, Brighton, the trust completed a letting to HMV for the balance of the old BHS unit. A lease re-gear was also agreed with H Samuel, adding five years to the term. Other successful activity across the trust included lease renewals at Centre Court, Wimbledon and Palace Gardens, Enfield.

There were no acquisitions or sales over the quarter. However the manager's strategy is to dispose of weaker, generally smaller assets that are likely to underperform. Subject to further sales advice, Palace Gardens, Enfield has been shortlisted as a potential sale candidate.

Regarding development opportunities, the trust is looking to retain a long-term exposure to both Brent Cross and Brighton (where development is planned) and to participate in the development of both assets. The trust has an available cash balance of £80.9m which is being held for capital expenditure and other working capital required to deliver asset management initiatives across the portfolio.

CBRE UK LONG INCOME PROPERTY CLUB NO.1 UNIT TRUST ('CBRE UK LIPC NO.1 UT')

CBRE UK Long Income Property Club No 1 Unit Trust was established for the purpose of investing in Park Plaza Hotel, 6 Hercules Road, London through a Guernsey Property Unit Trust. The property was purchased in July 2017 for a net price of £161.523m, plus acquisition costs, equating to a net initial yield of 3.3% before costs of administering the Unit Trust.

The property is managed by CBRE Global Investors Limited and investment in the Unit Trust is exclusive to CBRE Global Investors' UK institutional clients. The Unit Trust's objective is to distribute an income net of all costs of 3% p.a. rising each year in line with inflation, subject to a maximum annual increase of 4%.

THE PROPERTY

Park Plaza Hotel, 6 Hercules Road is located in London Waterloo, opposite Lambeth North Underground Station (Bakerloo Line) and to the south west of Waterloo Train Station. It is well positioned for many of London's main tourist attractions including the London Eye and the Houses of Parliament. The property comprises a 494 bedroom, 4 star plus full service hotel which partially opened in December 2016 and became fully operational in July 2017. The hotel has a full range of amenities including restaurant, swimming pool, fitness centre, spa, executive lounge and business centre.

The property is owned freehold by the Unit Trust and is leased to a Dutch company, Waterloo Hotel Holding BV, which is 100% owned by Park Plaza Hotels and Resorts Ltd. The property is Park Plaza's third hotel close to Waterloo, each serving a slightly different market. The lease has been granted on a full repairing and insuring basis, for a term of 199 years, with annual rent reviews in line with the UK Retail Price Index – subject to a collar of 2% and cap of 4% in any one year. Park Plaza Hotels and Resorts Ltd are owned by Carlson Residor Hotel Group, however it is important to note that the lease does not have any guarantees from the parent companies.

PERFORMANCE

CBRE UK LIPC No.1 UT has produced a nominal total return of 2.2% since inception in July 2017. As at 30 September 2017 Gerald Eve valued the property at £175.000m, equating to 8.3% capital growth on the net purchase price and 2.2% capital growth on the gross (including purchaser's costs) for the period since July. There has been no income return in Q3 2017 as the first quarters rent was accounted for within the completion money paid on the purchase.

CBRE UK LIPC No.1 UT Performance – Q3 2017 *	Quarter **	12 Months	Three years (p.a.)	Five years (p.a.)
Total Return	2.2%	-	-	-
Income Return	0.0%	-	-	-
Capital Growth	2.2%	-	-	-

** calculated by CBRE Global Investors, October 2017*
*** since inception, in July 2017*

HOTEL KEY PERFORMANCE INDICATORS

The hotel has exceeded Park Plaza's forecasts since opening, with an occupancy rate of 89.5% year-to-date and revenue generation at 2% above budget. It is difficult to compare the property's performance year-to-date with that of the wider market, as the hotel is in its first year of trading. Promisingly however, despite trade being in build-up phase, occupancy has been better than the wider London hotel average, and revenue generation per available room ('RevPAR') has been in line with the market average.

KPIs – YTD August 2017	Park Plaza, Waterloo	London Hotel Market
Occupancy	89.5%	81.1%
Average Daily Rate	£133	£146
RevPAR	£119	£119

** Park Plaza, September 2017*
*** STR Global, September 2017*

FUND INFORMATION

Allowing for cash held at the bank and for costs and income accrued, the Unit Trust had a Net Asset Value of £173.771m as at 30 September 2017.

Fund Information – Q3 2017	
Market Value	£175.000m
Cash	£0.561m
Net Asset Value	£173.771m
No. of investors	10
No. of investments	1
No. of tenants	1
Income p.a.	£5.603m
Estimated Rental Value p.a.	£10.300m
Void rate	0.0%
Avg. unexpired lease term	199 years

Fees & Pricing	
Management fee p.a.	0.20%
Pricing	Quarterly
Redemptions	First redemption on seventh anniversary of fund inception
Distributions frequency	Quarterly

APPENDIX 3

PORTFOLIO VALUATION

Valuation Schedule (UK Property)
Q3 2017

Property Address	September 2017	Qtr Total Return [1]	Annual Income	OMRV	Net Initial Yield [2]
OFFICES					
Aberdeen, Pilgrim House	£5,900,000.00	-1.0%	£318,862.00	£517,414.00	5.1%
Cambridge, The Eastings	£3,550,000.00	2.8%	£190,500.00	£230,600.00	5.0%
Cambridge, 270 Science Park	£13,200,000.00	-2.8%	£341,616.00	£1,070,616.00	2.4%
London EC1, 83 Clerkenwell Rd	£17,700,000.00	1.5%	£836,000.00	£1,034,000.00	4.4%
London N1, 15 Ebenezer St & 25 Provost St	£8,725,000.00	0.9%	£304,175.00	£712,700.00	3.3%
Watford, Clarendon Road	£15,250,000.00	1.8%	£902,750.00	£1,189,000.00	5.5%
TOTAL OFFICES	**£64,325,000.00**	**0.4%**	**£2,893,903.00**	**£4,754,330.00**	**4.2%**
RETAIL WAREHOUSE					
Northampton, Becket Retail Park	£6,550,000.00	5.7%	£431,000.00	£429,700.00	6.2%
Norwich, Cathedral Retail Park	£15,950,000.00	0.5%	£914,500.00	£1,076,700.00	5.4%
Rayleigh, Rayleigh Road	£3,625,000.00	1.5%	£222,783.00	£222,783.00	5.8%
TOTAL RETAIL WAREHOUSE	**£26,125,000.00**	**1.9%**	**£1,568,283.00**	**£1,729,183.00**	**6.2%**
SUPERMARKET					
Tesco, Sheffield	£10,600,000.00	1.6%	£680,000.00	£680,000.00	6.0%
TOTAL SUPERMARKET	**£10,600,000.00**	**1.6%**	**£680,000.00**	**£680,000.00**	**6.0%**
INDUSTRIAL					
Bristol, South Bristol Trade Park	£5,150,000.00	7.5%	£263,839.00	£318,779.00	4.8%
Crawley, Woolborough IE	£21,550,000.00	3.7%	£917,962.00	£1,294,100.00	4.0%
Croydon, 75/81, Sumner Road	£3,400,000.00	10.1%	£137,000.00	£169,800.00	3.8%
Heathrow, Skylink	£5,050,000.00	1.6%	£125,478.00	£256,300.00	2.3%
London, Phoenix Park, Apsley Way	£12,650,000.00	7.7%	£487,469.00	£639,713.00	3.6%
London, Apsley Centre	£4,150,000.00	8.9%	£165,900.00	£210,000.00	3.8%
London, 131 Great Suffolk St	£4,950,000.00	-6.3%	£0.00	£297,500.00	0.0%
Sunbury, Windmill Road	£12,000,000.00	8.2%	£659,750.00	£735,650.00	5.2%
Swindon, Dunbeath Court	£5,000,000.00	1.6%	£333,716.00	£339,800.00	6.3%
Swindon, Euroway IE	£12,250,000.00	1.7%	£803,422.00	£817,935.00	6.1%
TOTAL INDUSTRIAL	**£86,150,000.00**	**4.4%**	**£3,894,536.00**	**£5,079,577.00**	**4.4%**
OTHER					
Derwent Shared Ownership	£10,560,000.00	4.1%	£380,510.00	£236,964.00	3.6%
Glasgow, Mercedes	£10,500,000.00	1.4%	£597,453.00	£566,600.00	5.4%
Leeds, The Calls	£7,500,000.00	2.3%	£487,724.00	£487,950.00	6.1%
Macclesfield, Hope Park	£6,350,000.00	0.9%	£236,964.00	£236,964.00	3.5%
Newcastle, Charlotte House	£4,200,000.00	0.3%	£115,178.00	£236,964.00	2.6%
TOTAL OTHER	**£39,110,000.00**	**2.1%**	**£1,817,829.00**	**£1,765,442.00**	**4.4%**
TOTAL DIRECT PROPERTY	**£226,310,000.00**	**2.4%**	**£10,854,551.00**	**£14,008,532.00**	**5.0%**
INDIRECT PROPERTY					
Lend Lease Retail Partnership	£9,369,420.00	-2.0%	£67,774.44		
Standard Life Investments UK Shopping Centre Trust	£14,553,305.28	0.5%	£128,975.00		
CBRE UK Long Income Property Club No.1 Unit Trust	£16,073,823.99	2.2%	£442,030.16		
TOTAL INDIRECT PROPERTY	**£39,996,549.27**	**0.4%**	**£638,779.60**		
GRAND TOTAL	**£266,306,549.27**	**3.4%**	**£11,493,330.60**	**£14,008,532.00**	**5.0%**

Notes:

1. Total returns for both the direct and indirect properties for the quarter to September 2017 as reported by IPD (Direct Property Standing Investments). Indirect Funds Total returns for the quarter to September 2017 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 August 2017 valuations; these are always marginally in arrears due to early reporting deadlines required by IPD.

APPENDIX 4

AFFILIATED SERVICES

Property	Fee	Service
Portfolio	£1,850.00	ESG – Q1 2017
Portfolio	£1,850.00	ESG – Q2 2017
Q2 2017 Total	**£3,700.00**	