DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT Q2 2018

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DORSET COUNTY COUNCIL PENSION FUND

1. EXECUTIVE SUMMARY: Q2 2018

MARKET

- Our return forecasts are unchanged from last quarter's commentary, with commercial property expected to deliver an average annual total return of 4.2% over the period 2018-22.

- With limited capital value movement anticipated, total returns are expected to be broadly in line with income returns.

- Although this outlook may appear underwhelming given the strong run of returns we have become accustomed to in recent years, it still represents an attractive return in the context of historically low interest rates and fixed-income yields.

STRATEGY

You have confirmed that you would like to increase your allocation to property from 10% to 11% of total assets which represents approximately £330m. The new allocation of approximately £55m is to target Secure Long Income ("SLI"), beyond which the intention is to transition the portfolio gradually to a 50/50 split between Conventional properties and SLI. We will report on our proposed strategy to achieve this in due course.

We have agreed with you a benchmark for the SLI portfolio to achieve a return at least equal to LPI + 2.0% p.a. from 1st April 2018, with the Conventional portfolio's benchmark remaining unchanged.

In this report and going forwards, we will update you on the two portfolios' in parallel.

VALUE

The Conventional portfolio was valued at the end of Q2 at £278.5m, comprising £239.3m of direct property and £39.2m of indirect assets. The SLI portfolio was valued at £20.9m.

The portfolio's overall value as at the end of Q2 was therefore £299.4m (93% Conventional/ 7% SLI), leaving approximately £30m remaining to invest to reach the target size of £330m.

PERFORMANCE

The Conventional portfolio continues to perform well, broadly in line with the IPD Benchmark over 1 year and exceeding it over the Quarter, 3 and 5 years. The future prospects are robust, with good quality properties and a favourable sector mix of low retail and high industrial weightings.

The SLI portfolio has recorded its first quarter's performance since being measured separately from the Conventional portfolio. It produced a total return of -0.2% real over the quarter (0.9% nominal, RPI 1.1% over the quarter). Returns will be dampened by transaction fees (of approximately 6.8%) while the portfolio is in build up.

Overview

The allocation to property has recently increased from 10% to 11% of Dorset Pension Fund's total assets which represents approximately £330m. The new allocation of approximately £55m is to target SLI property beyond which the intention is to transition the portfolio gradually to a 50/50 split between SLI and Conventional properties.

Total Portfolio Value

	Value*	Assets
UK Direct	£260.2m	30
Indirect	£39.2m	3
Total value of portfolio	**£299.4m**	
Largest asset	Woolborough Lane Ind Estate Crawley	
Largest tenant	ACI Worldwide EMEA Ltd	

*UK Direct as at June 2018, Indirects as at May 2018.

'Conventional' Portfolio

Value	£278.5m
NIY	4.4%
Vacancy rate	2.6%
AWULT to expiry (to break)	8.6yrs (7.9 yrs)

'Secure Long Income' Portfolio

Value	£20.9m
NIY	3.5%
Vacancy rate	0%
AWULT to expiry (to break)	23.1 yrs (17.4 yrs)

Performance Target

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

CONVENTIONAL	Portfolio	Target	Relative
Q2 2018 %	1.8	1.7	0.1
1 Yr %	9.3	9.4	0.0
3 Yr % p.a. (2016-2018)	8.6	8.0	0.5
5 Yr % p.a. (2014-2018)	11.8	11.2	0.6

'Secure Long Income': To achieve a return at least equal to LPI + 2.0% p.a.

TRANSACTIONS

We completed the purchase of the feuhold (freehold) of Pilgrim House in Aberdeen for £0.47m during the quarter. We are under offer for a total of £15.6m for the SLI portfolio.

INCOME

The Conventional portfolio has an income yield of 4.4% p.a. net of purchase costs, with 4.8% from direct property and 2.4% for the indirect assets. The vacancy rate for the direct portfolio was 2.6% of rental value at the end of Q2.

The Secure Long Income portfolio has an income yield of 3.6% p.a. net of purchase costs. There are no vacancies in the SLI portfolio.

SLI	Nominal	RPI	Real
Q2 2018 %	0.9	1.1	-0.2

Transcations

	Q2 2018
Money available	£30.0m
Purchases	£0.5m
Sales	£0.1m

2. MARKET COMMENTARY

UK MARKET COMMENTARY, Q2 2018

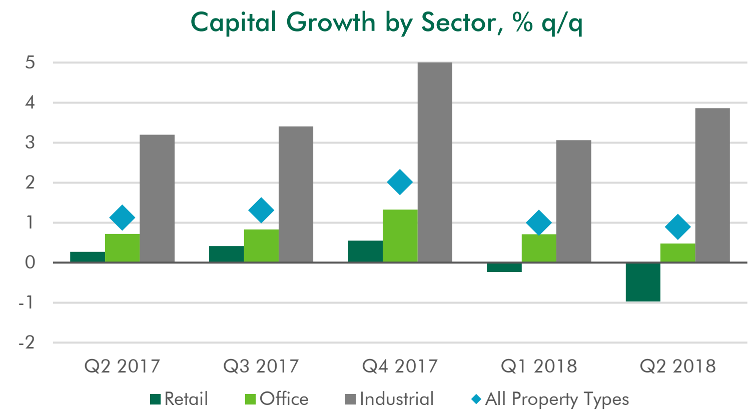
UK ECONOMIC OUTLOOK

The UK economy has rebounded somewhat from a sluggish start to the year, although the rate of growth continues to lag its long-run trend. A broad range of economic data showed improvement in Q2 but it was consumer spending that led the uptick, despite the continued negative news flow around the retail sector. Retail sales grew by more than 2% in Q2, following a fall in Q1. As the year progresses consumer spending should receive more support as inflation fades and the squeeze on incomes eases. Wage growth is yet to pick up meaningfully despite robust job creation. In the three months to April the economy added almost 150,000 jobs, taking annual employment growth to 1.4%, its fastest pace since 2016. Taken together it is no surprise that the Bank of England decided to raise interest rates at their August meeting.

In terms of politics, government wrangling over Brexit has dominated the news headlines. However, these public disagreements are really just a distraction from the deadline, the EU summit in October, which is quickly approaching. The risk of no deal being reached, although not our base case, is increasing, and would likely see UK economic growth come to a standstill. This has prompted a number of businesses to come out publicly in support of a 'soft' Brexit in recent weeks.

UK PROPERTY PERFORMANCE

The softer economic growth seen in 2018 has begun to be reflected in some parts of the property market, with the well-established sectoral differences becoming increasingly accentuated. The MSCI Monthly Index shows that capital values grew by 0.9% during Q2, with the industrial sector remaining, by a considerable margin, the star performer. Values rose by 3.9% in Q2 supported by both rental growth and yield compression. By contrast, retail values fell for the second consecutive quarter, with shopping centres being particularly weak. We expect this trend to continue as retail valuations lag market pricing quite considerably. Finally, in aggregate, office capital growth lost momentum in Q2, but this hides regional differences. West End office values were virtually flat while regional offices saw quarterly value growth accelerate to 0.7%.



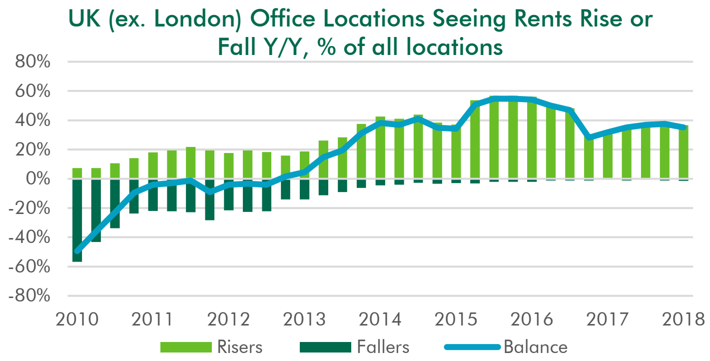
Source: MSCI/IPD.

OCCUPIER MARKETS

Retail rents are falling (quarter-on-quarter) across all segments of the market, with the largest declines coming in regional shops, retail warehouses and shopping centres. With the recent spate of retailer CVAs and administrations, as well as ongoing consolidation from stable retailers, it is no surprise that landlords are seeing weak demand for all but the best retail space. At face value, the picture is not as bad as one might expect. 75 of the 500 shopping locations tracked by CBRE have seen rental growth over the past year. However, data inevitably lags reality as it takes time for the landlord to regain control of the space, a replacement occupier be identified and a new (lower) rental level to be established. We expect rental declines to accelerate over the next few quarters.

Logistics take up was incredibly strong at the start of 2018, with Q1 greater than would typically be seen over 6 months. E-commerce retailers are a significant driver of demand, typically looking for new purpose built assets which continue to dominate transactions. Rents continue to rise strongly, but we should remember that the sector has not historically been associated with strong rental growth as it is relatively easy and quick to develop space. We are beginning to see supply respond again. CBRE reports that 18m sq ft is under construction across England, equivalent to 6% of existing stock. Although only a third of this space is being delivered speculatively, it will still increase availability and weigh on rental growth. New supply of 'last mile' facilities in urban locations is more constrained, which should make rental growth more sustainable. With yields historically low, stock selection is crucial.

In the office sector there is more variation. The Central London office occupier market remains finely balanced, although we maintain our conviction that rents have further to fall. Take-up continues to be robust, with the H1 total slightly ahead of both the H1 2017 figure and the 10-year average. Despite this, the Q2 vacancy rate, at 4.6%, was 30 bps up from the 2017 year-end figure. This is likely to increase further with 3.8m sq ft of new and refurbished space set to be delivered in H2.



Source: CBRE.

Outside of the capital, rental growth has ticked up in recent months, with Q1 take-up in 5 of the 'Big 6' markets higher than a year earlier and availability continuing to fall. The positive story is not limited to the 'Big 6' markets either. CBRE tracks 150 locations (excluding Central London) and rents are growing (year-on-year) in around 50 of these locations and falling in fewer than 5.

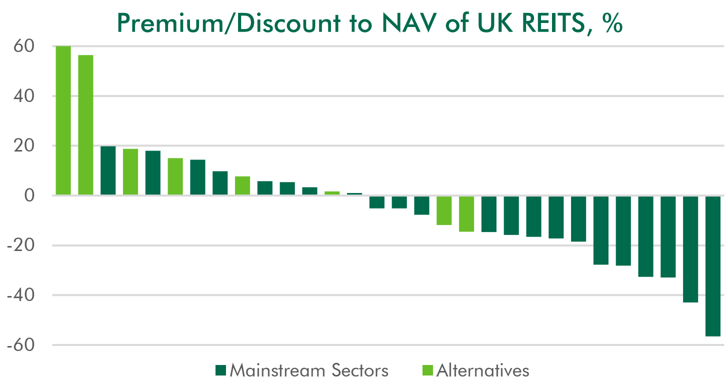
CAPITAL MARKETS

Activity in the regional office investment market remains strong, with H1 volumes approximately 20% higher than during the same period a year earlier. The same is not true of Central London where volumes were 10% lower. While the Central London office market will always provide liquidity, recent pricing has been short of expectations and a number of assets have been pulled from sale. This suggests the pool of buyers, especially for larger assets, has thinned. Asian investors continue to dominate though hedging has become less attractive in 2018.

There is limited liquidity in the retail sector. Concerns around the occupier market are deterring investors and, with yields softening, would-be buyers are in no rush to deploy their capital. This is especially true of larger lot sizes, while there is still some demand for smaller, repriced assets. There is a considerable stock of retail property which owners would seek to exit, but their pricing aspirations – driven by historic book values – are disconnected from market conditions. Capital values have further to fall.

In stark contrast, industrial prices continue to rise from historic highs. Expectations of further rental growth are key to this, and investors seem unconcerned by the increasing development pipeline. It is prudent for us to ask if these growth expectations have become unrealistic. We believe this will prove to be the case with regards to many secondary assets, and have spoken in previous commentaries of the lack of differentiation between industrial assets of different quality.

Investor appetite for the 'alternative' sectors remains strong. This can be observed in direct property transaction volumes, and is also evident in the premium/discounts to NAV being paid in the public market. UK REITS in aggregate trade at a circa 15% discount to NAV, according to EPRA, but of the largest 10 REITs focussed on the alternative sectors, 8 are trading at premiums.



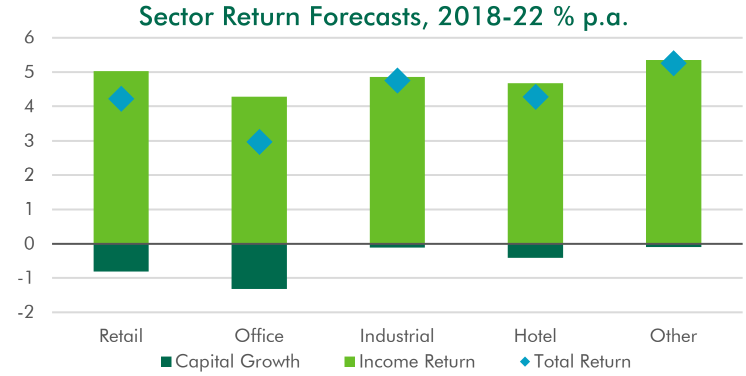
Source: EPRA.

Competition for secure long income property is fierce. CBRE's Long Income Index shows that the long income sector continues to outperform the wider property market, as it has done since the EU referendum. In the year to March 2018 the Long Income Index recorded a total return of 13%, compared to the MSCI Monthly Index All Property total return of 11.3%. What really sets the long income sector apart is the low volatility of returns. The volatility of long income returns is roughly half that for all commercial property in aggregate. In uncertain economic times investors will continue to be willing to pay for this degree of stability.

OUTLOOK

Our return forecasts are unchanged from last quarter's commentary, with commercial property expected to deliver an average annual total return of 4.2% over the period 2018-22. With limited capital value movement anticipated, total returns are expected to be broadly in line with income returns. Although this outlook may appear underwhelming given the strong run of returns we have become accustomed too in recent years, it still represents an attractive return in the context of historically low interest rates and fixed-income yields.

In this environment there is limited dispersion in the return outlook between different subsectors. Since no part of the market looks obviously better value than any other, investments should be assessed primarily on location and asset-specifics rather than top-down sector allocation. The exception to this is the 'alternative' sectors where we have confidence in strong structural or demographics trends, such as affordable housing. Overall, we continue to advocate sticking to good quality buildings in strong locations that will produce income even through periods of economic uncertainty. As we approach the various Brexit-related deadlines uncertainty is likely to increase further before it subsides.



Source: CBRE Global Investors.

3. STRATEGY

Size	▪ Target size £330m – current size £299.3m. You have confirmed that you would like to increase your allocation to property from 10% to 11% of total assets which represents approximately £330m. ▪ The new allocation of approximately £55m is to target Secure Long Income. ▪ The longer term intention is to transition the portfolio gradually to a 50/50 split between Conventional proeprty and SLI. We are preparing a paper outlining our proposed strategy. ▪ Conventional and SLI portfolios' to have distinct benchmarks with effect from 1st April 2018.
Performance objectives	▪ 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." ▪ Secure Long Income Portfolio: "To achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018."
Income yield	▪ Strive for the Conventional portfolio income yield to exceed the IPD index income yield. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure held properties / new SLI acquisitions have strong rental growth prospects, long leases and an element of indexation.

ALLOCATION

Property type	▪ Conventional portfolio: Remain well diversified as the portfolio transitions to a 50/50 split to SLI, with 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 20 and 30 assets with an average lot size of between £8m and £12m. ▪ 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. ▪ Secure Long Income portfolio: target 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 once fully invested.
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.

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. ▪ SLI properties to have a lease with at least 15 years unexpired on acquisition.
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

VALUATION

Portfolio structure (Q2 2018)		
Direct portfolio (June 2018 Values)*	**£260.1m**	86.9%
Conventional portfolio	£239.3m	
Secure Long Income portfolio	£20.9m	
Indirect assets (June 2018 Values) **	**£39.2m**	13.1%
Total value of portfolio	**£299.4m**	**100%**

**See Appendix 1 for more information on the indirect performance over the quarter.

The direct property portfolio was valued independently by BNP Paribas on 30 June.

During the quarter, we completed the purchase of the feuhold of Pilgrim House in Aberdeen and two properties staircased in the Derwent portfolio. Both of these assets are in the Conventional portfolio. Allowing for these transactions, the direct portfolio has a value of £260.1m, an increase of 1.1% over the quarter.

The indirect assets are valued at £39.2m (including the Fund's investment in Park Plaza, Waterloo), a fall of 0.9% over the quarter.

The overall value of the portfolio now stands at £299.4m, with approximately £30m remaining to invest to reach the target size of £330m.

RISK CONTROL MEASURES

In this section we present the structure of the Conventional and Secure Long Income portfolios separately.

THE CONVENTIONAL PORTFOLIO

Portfolio structure – (Direct property only)		Aim
Number of properties	24	15-25
Number of tenancies	77 with a further 3 units void	45-80
Net initial yield	4.4% p.a.	Above benchmark
Vacancy rate (% of rent)	2.6%	Below benchmark
Rent with +10 years remaining	19.5% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	5.0% of total rent	Minimum 10% of total rent
Largest property (% of direct value)	Yes	Below 10%
Largest tenant (% of direct rent)	Yes	Below 10%
Tenure (Freehold/Leasehold)	86% / 14%	Minimum 70% freeholds

PROPERTY / TENANT DIVERSIFICATION

AIM: To ensure portfolio has an appropriate number of properties and tenants to dilute asset specific risk.

The Conventional portfolio is well diversified with 24 properties and 80 lettable units. The largest direct property investment in the portfolio is Woolborough Lane Industrial Estate, Crawley and the largest tenant is ACI Worldwide EMEA Ltd.

ACTION: To maintain a diversified property and tenant mix.

NET INITIAL YIELD ("NIY")

AIM: To maintain a net initial yield above the benchmark.

The IPD Quarterly Universe NIY is 4.5% p.a. as at Q2 2018. The Conventional portfolio NIY as measured by IPD is currently 4.4% p.a.

	Conventional Portfolio	IPD Quarterly Universe
Initial yield p.a.	4.4%	4.5%
Equivalent yield	5.6%	5.5%
Income return over quarter	1.1%	1.1%

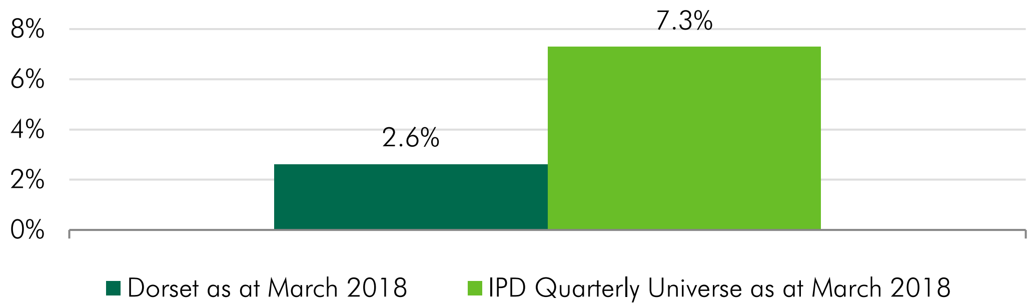
ACTION: The portfolio's NIY is currently 10 basis points below the IPD Quarterly Universe benchark. In order to reduce the yield gap our focus is to enhance the Conventional portfolio income by:

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.

VACANCY RATE

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

Figure 5 Vacancy Rate



The portfolio's vacancy rate increased during the quarter from 1.8% to 2.6% of rental value, but remains well below the market average of 7.3%. It comprises two Greater London industrial units and two floors at the office building in Aberdeen. Terms have been agreed on one of the London untils at a rent higher than the previous tenant was paying.

The vacancy rate is set to rise further following the adminstrations of Toys R Us and Maplin earlier this year accounting for a total prospective 4.5% increase in the void rate.

ACTION: To let vacant space through using best in class letting agents and proactively manage upcoming lease expiries.

LEASE LENGTH AND EXPIRY PROFILE

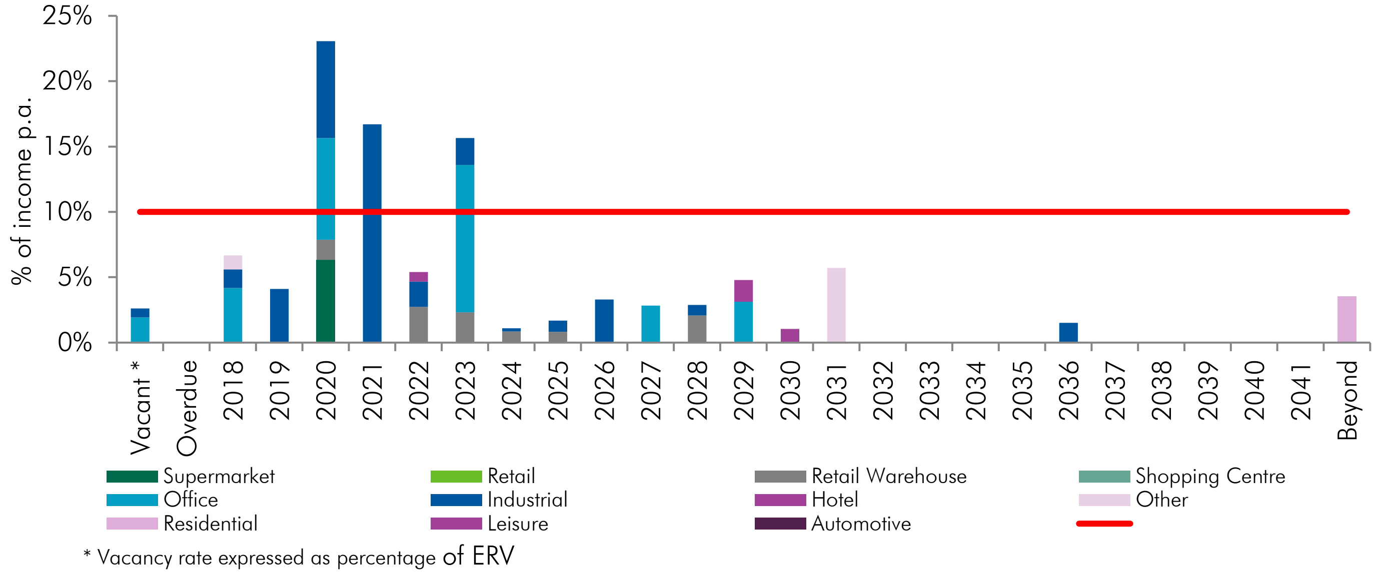
AIM: To maintain a well diversified lease expiry profile and keep the portfolio's average lease length in excess of the benchmark lease length.

UNEXPIRED LEASE TERM, YEARS

	PAS assumption*	Incl All Breaks	Excl. all breaks
Fund	8.5	7.8	8.6
Benchmark	12.5	11.6	13.0

*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 Park Plaza hotel in Waterloo indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 15 years.

Figure 6 Lease Expiry Profile



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. The risk is however well diversified across 12 different units and we are already talking to the majority of tenants with leases that expire that year. Terms have been agreed for a new lease relating to 6.0% out of the 23.1% of income currently expiring in 2020.

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

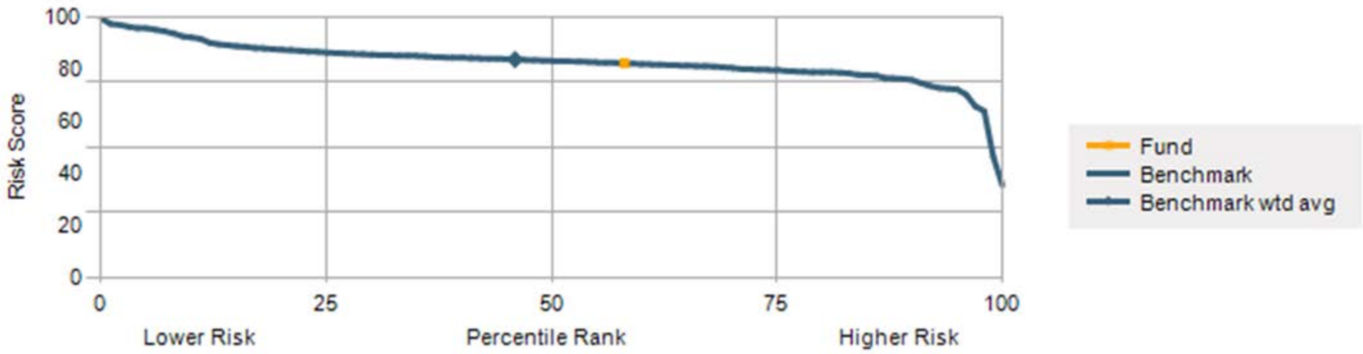
With the inclusion of Waterloo in the graph the proportion of income expiring beyond 2041 increases to 6.9%.

TENANT FINANCIAL STRENGTH

AIM: To maintain covenant strength better than the benchmark.

The graph below compares the covenant risk score of the Conventional portfolio compared to the Benchmark as at 30 June 2018. The portofio is now in the mid quartile with a Weighted Risk Score on the 58th percentile and is now behind the benchmark (45.9) demonstrating that the covenant risk of the portfolio is marginally above the average benchmark risk. However as can be seen from the graph below the risk weighting line is relatively flat with small movements in risk profile dramtically impacting the risk score.

Figure 7 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: To maintain the weighting to Secure Long income within the Conventional portfolio in excess of 15% of that portfolio's 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, usually with inflation-linked rent review structures and those which have defined uplifts (fixed increases) periodically, or property types where open market rental growth is expected to keep up with inflation. This type of income is effective in generating a consistent real return.

The proportion of SLI within the Conventional portfolio is currently 12% of total income, this increases to 15% including Park Plaza, Waterloo. These figures have reduced from last quarter now that the SLI portfolio is reported separately.

% of Conventional portfolio income	Q2 2018
Open market income	88%
SLI	12%

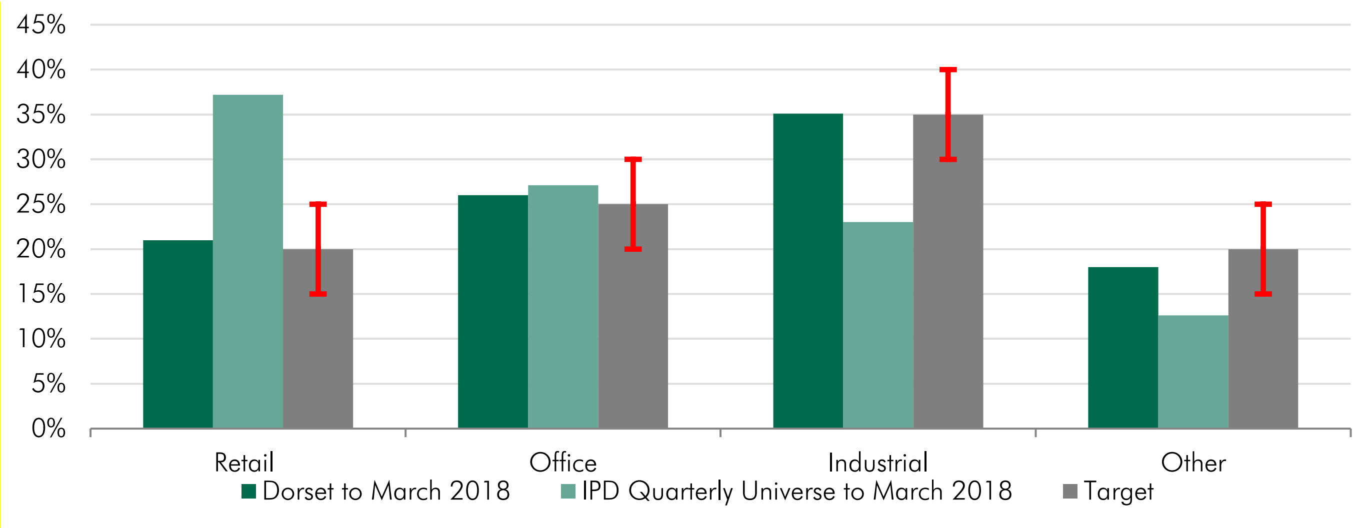
% of Conventional portfolio income – including Park Plaza, Waterloo	Q2 2018
Open market income	85%
SLI	15%

ACTION: Continue to monitor SLI ratio to Open Market income when considering transition towards 50/50 split of all assets between Conventionl property and SLI.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM: To maintain a well diversified portfolio as part of our overall risk management strategy.

Figure 8 Portfolio Sector Weightings



The Conventional portfolio's sector weightings are displayed above in comparison to the benchmark with a target range shown in red reflecting our house view recommendations. The portfolio's sector split has continued to be beneficial with the low retail weighting and relatively low weighting to offices, given that overall these two sectors have been the poorest performing sectors over recent years. We plan to broadly maintain these weightings as we gradually transition the portfolio to 50% Conventional / 50% Secure Long Income.

Figure 9 Geographical Structure

London & SE	50.2%
Eastern	16.5%
South West	9.1%
Midlands	6.6%
North	11.0%
Rest of UK	6.7%

The geographical split of the Conventional portfolio is also well diversified, with a bias towards London and the South East where there is the greatest demand for land. There is also a large Eastern weighting; Cambridge falls into this region although it has historically performed more like the South East market and is therefore considered a positive risk when compared to the Index.

ACTION: Ensure that transactions maintain the geographical and sector diversity within the Conventional portfolio having due regard to the current point in the economic cycle.

DEVELOPMENT

AIM: To maintain development exposure below 10% of the value of the portfolio.

There is currently no speculative development taking place within the portfolio. The development at Cambridge Science Park progressed during Q2 with no major issues.

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.

THE SECURE LONG INCOME PORTFOLIO

	Fund	Aim
Number of properties	6	15-25
Number of tenancies	8	25+
Net initial yield	3.5%	2.5%+
Vacancy rate (% of rent)	0%	Below market average
Rent with +15 years remaining	100%	70%+
Largest property (% of direct value)	No	Below 10%
Largest tenant (% of direct rent)	No	Below 10%
Tenure (Freehold/Leasehold)	100% / 0%	Minimum 70% freeholds

PROPERTY / TENANT DIVERSIFICATION

AIM: To ensure the portfolio has an appropriate number of properties and tenants to dilute asset specific risk.

The SLI portfolio currently has 6 properties and 8 lettable units. We plan to have between 15 and 25 properties once fully invested with over 25 lettable units to ensure the portfolio is sufficiently diversified. The largest property in the portfolio is Hope Park, Macclesfield and the largest tenant is Ei Group. These percentages will fall as further capital is invested.

ACTION: To maintain a diversified property and tenant mix.

INDEXATION

AIM: For the portfolio's income to grow in line with LPI (defined as the percentage change in RPI, capped at 5% and collared at 0% p.a.) and to achieve the total real return objective of LPI + 2% p.a.

58% of the SLI portfolio's income is subject to reviews to open market rental value. 31% of the income is subject to uncapped reviews in line with RPI and the remainder is tied to a rent review linked to the higher of open market or RPI but capped at 3.5% p.a. with a collar at 1.5% p.a.

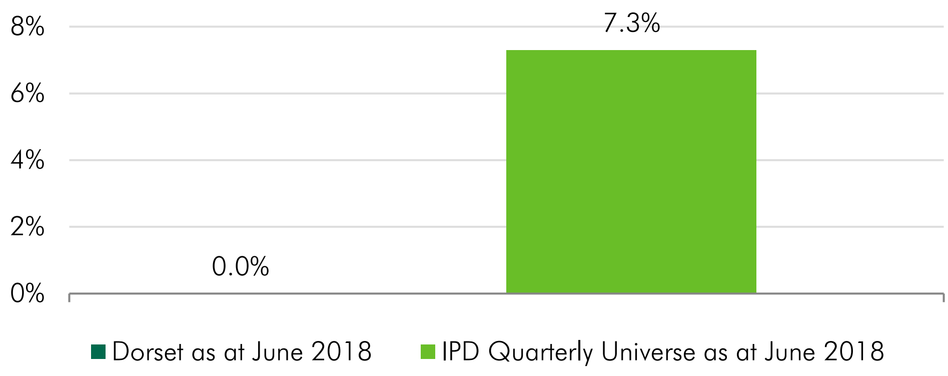
ACTION: To ensure the portfolio's income grows in line with LPI, to achieve the target real return and for at least 70% of the portfolio's income to be index linked once fully invested.

VACANCY RATE

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

The SLI portfolio currently has no vacancies. We carefully monitor all the tenants and will appoint letting agents where we suspect an upcoming vacancy.

Figure 10 Vacancy Rate



ACTION: Proactively manage upcoming lease expiries.

LEASE LENGTH AND EXPIRY PROFILE

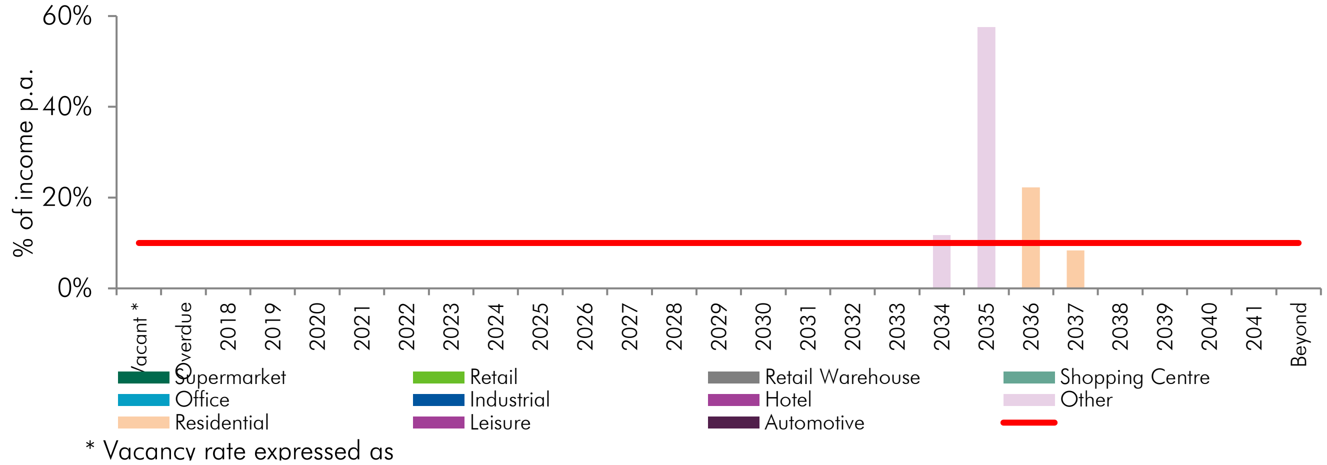
AIM: To maintain an average unexpired lease term for the portoflio of at least 15 years.

UNEXPIRED LEASE TERM, YEARS

	Incl All Breaks	Excl. all breaks
Fund	17.4	23.1

The average unexpired lease length for the portfolio is 17.4 years to tenant breaks and 23.1 years to lease expiry.

Figure 11 Lease Expiry Profile



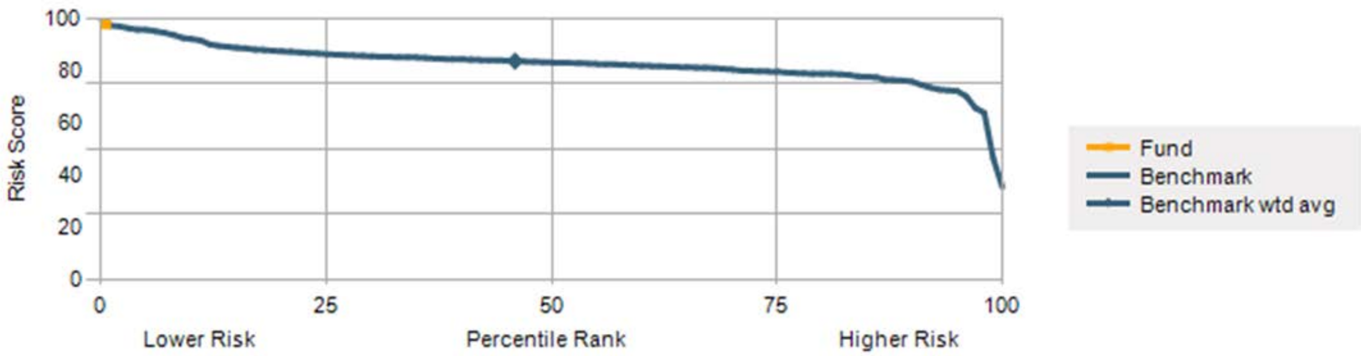
ACTION: Ensure the average unexpired lease term for the portoflio is at least 15 years.

TENANT FINANCIAL STRENGTH

AIM: To maintain covenant strength better than the IPD Quarterly Universe.

The graph below compares the covenant risk score of the SLI portfolio to the IPD Quarterly Universe as at 30 June 2018. The Weighted Risk Score is on the 1st percentile and is well ahead of IPD (45.9) demonstrating that the covenant strength of the portfolio is very strong.

Figure 12 Ranking Of Weighted Risk Score



ACTION: To maintain the low risk score of the portfolio with new purchases.

SECTOR AND GEOGRAPHICAL STRUCTURE

AIM: To ensure appropriate diversification by sector and geography.

100% of the portfolio is currently composed of alternative use properties, with public houses, a restaurant and a keyworker housing investment.

Figure 13 Geographical Structure

London & SE	69.6%
Eastern	0.0%
South West	0.0%
Midlands	0.0%
North	30.4%
Rest of UK	0.0%

70% of the SLI portfolio is in London, providing long term security and good prospects for higher value alternative uses in the future.

ACTION: To ensure appropriate diversificaiton with new purchases.

5. DIRECT PERFORMANCE - CONVENTIONAL PORTFOLIO

PERFORMANCE OBJECTIVE

The target for the Conventional portfolio 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.

Q2 2018	Portfolio	Benchmark	Relative
Capital growth	0.7%	0.6%	0.1%
Income return	1.1%	1.1%	0.0%
Total return	1.8%	1.7%	0.1%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio outperformed the IPD Quarterly Universe by 0.1% over the last three months, with a total return of 1.8% against 1.7% for the Benchmark. The direct portfolio outperformed by 0.5% with a total return of 2.2% while the indirect holdings were a drag on performance with a total return of -0.3%, 2.0% behind the IPD Quarterly Universe. The direct standing investments (properties held throughout the year, ignoring transactions) were further ahead with 2.3% over the quarter, 0.6% higher than the IPD Quarterly Universe.

Industrials continued to be the market's best performing assets over the quarter while retail was the poorest given the challenges facing the sector. With a total return of 1.7% over the quarter, the industrials were the portfolio's best performing assets. The portfolio's retail recorded the lowest return delivering -0.8% over the quarter, reflecting the difficult market conditions.

12 months to Q2 2018	Portfolio	Benchmark	Relative
Capital growth	4.7%	4.7%	0.0%
Income return	4.5%	4.5%	0.0%
Total return	9.3%	9.4%	0.0%

Source: CBREGI and IPD Quarterly Benchmark Report

3 yrs to Q2 2018	Portfolio	Benchmark	Relative
Capital growth	3.6%	3.2%	0.3%
Income return	4.8%	4.6%	0.2%
Total return	8.6%	8.0%	0.5%

Source: CBREGI and IPD Quarterly Benchmark Report

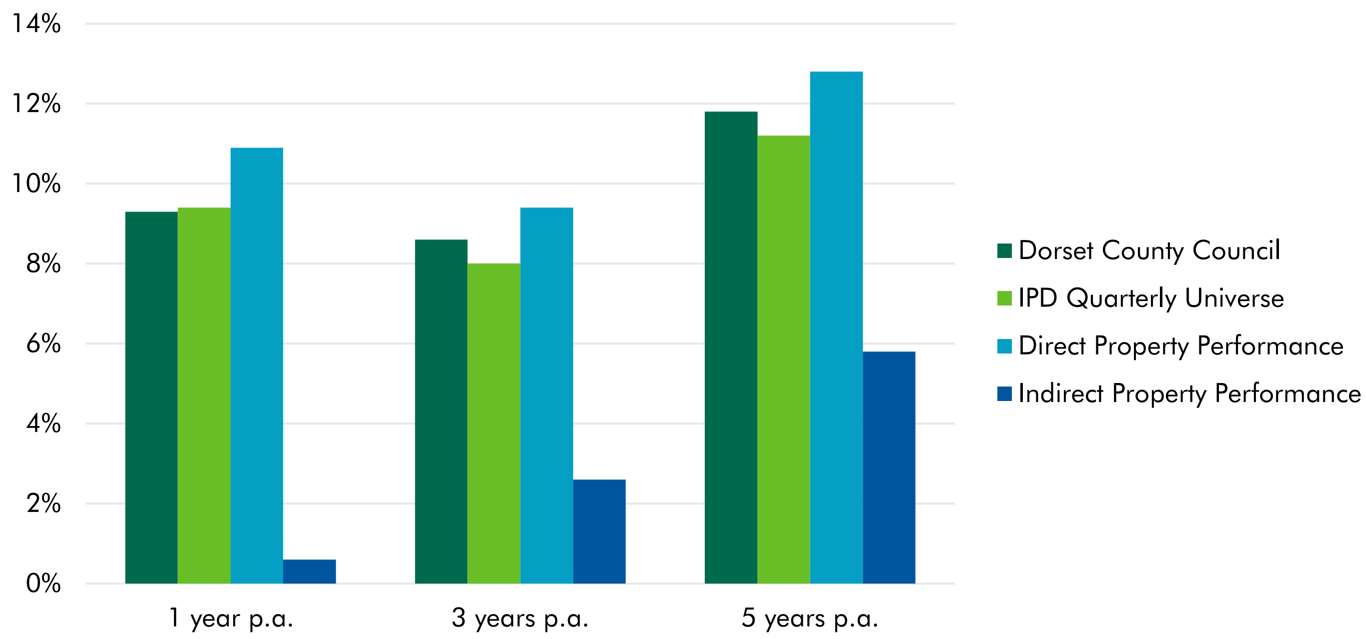
5 yrs to Q2 2018	Portfolio	Benchmark	Relative
Capital growth	6.2%	6.0%	0.2%
Income return	5.3%	4.9%	0.4%
Total return	11.8%	11.2%	0.6%

Source: CBREGI and IPD Quarterly Benchmark Report

The portfolio is broadly in line with the Benchmark over 1 year and outperforming over 3 and 5 year periods. Performance has been driven by both the strong income return and capital growth over the longer time periods. The longer term performance is of particular note given the amount of purchase 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 9 Annualised Total Return Rolling Performance



The portfolio is broadly in line over 1 year and 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 owned over these timeframes comprise Shopping Centre exposure; the assests in these vehicles are generally prime and provide access to a market that we would not purchase directly for a Fund of this size given their scale. However, shopping centres have dragged performance given the well documented problems in the retail sector. We are seeking to divest from one of these holdings to reduce the weighting to the indirect retail sector.

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

DIRECT SLI PERFORMANCE

PERFORMANCE OBJECTIVE

The target is to achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018.

Q2 2018	Nominal total return	RPI	Real total return	Nominal IPD Quarterly Universe
SLI Portfolio	0.9	1.1%	-0.2%	1.7%

Source: CBREGI and IPD Quarterly Benchmark Report

This is the first quarter that the Secure Long Income portfolio has been reported separately from the Conventional portfolio. We have agreed with you a performance target to at leaset equal LPI plus 2.0% p.a. over the long run.

The SLI portfolio generated a nominal total return of 0.9% over the quarter, equating to a real return of -0.2%. There was no capital growth with the performance coming from the income return of 0.9%. Returns are likely to be subdued while we build up the portfolio given the impact of transaction fees.

6. 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 2018	RED	£192,101.84*
	31 December 2017	RED	£126,060.19**
	30 September 2017	GREEN	£4,022.88
	30 June 2017	RED	£161,035.34

* Due to the inclusion of administration arrears.

** Due to the inclusion of administration arrears.

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 June 2018	AMBER	(88.78% collected in 6 days, 98.31% by 15th day)
	31 March 2018	GREEN	(93.09% collected in 6 days, 97.0% by 15th day)
	31 December 2017	GREEN	(93.9% collected in 6 days, 99.7% by 15th day)
	30 September 2017	GREEN	(99.3% collected in 6 days, 99.3% 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	30 June 2018	RED	A payment outstanding due to query on deduction of completion monies.
	31 March 2018	GREEN	None currently outstanding.
	31 December 2017	GREEN	None currently outstanding.
	30 September 2017	GREEN	None currently outstanding.

7. ESG PROGRAMME

Environmental Compliance

With relevant and changing legislation, such as the CRC and ESOS.

Performance & Risk Mitigation

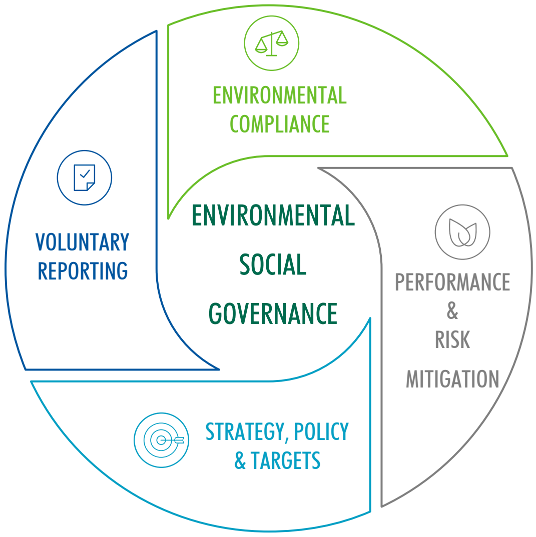
Managing strategic risks and enhancing value through improving low energy performance.

Strategy, Policy & Targets

Establishing portfolio wide policies & specific Fund targets and strategies.

Voluntary Reporting

Reporting on the Fund's progress against ESG objectives.



1. PERFORMANCE AND RISK MITIGATION

The Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 introduced Minimum Energy Efficiency Standards (MEES) in line with Energy Act 2011, and came into force on 1st April 2018. From April 2023, the scope will extend to existing leases. CBRE Global Investors' ESG approach includes a comprehensive risk management programme, with a focus on MEES compliance.

Figure 1 Change in level of risk across all units (left) and value (right) within the Dorset County Council

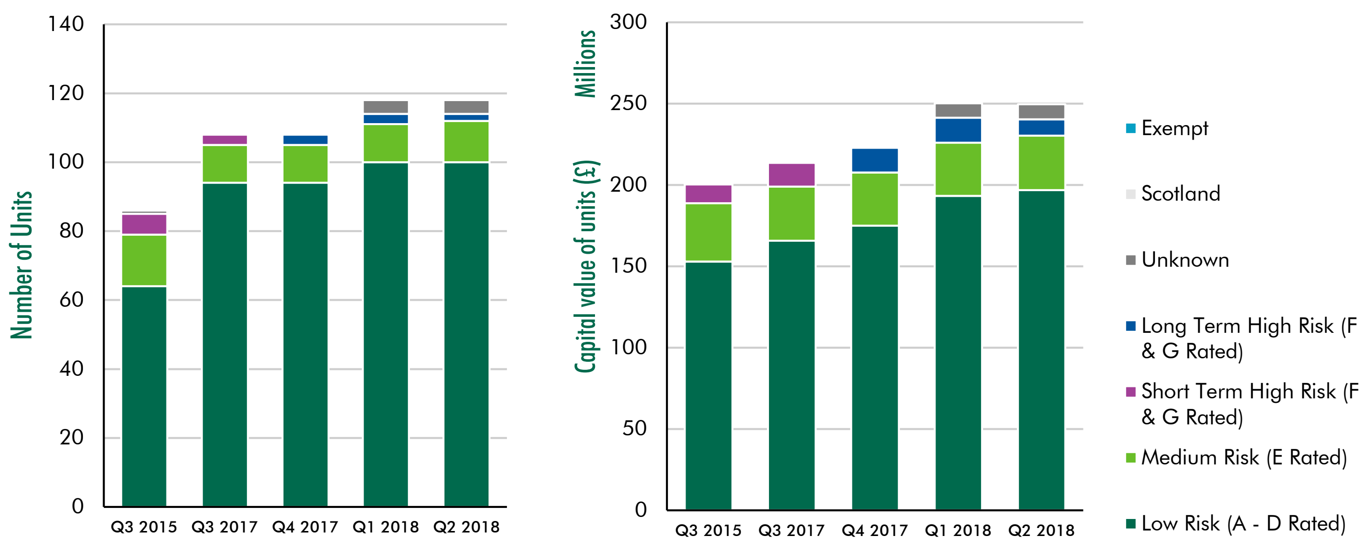
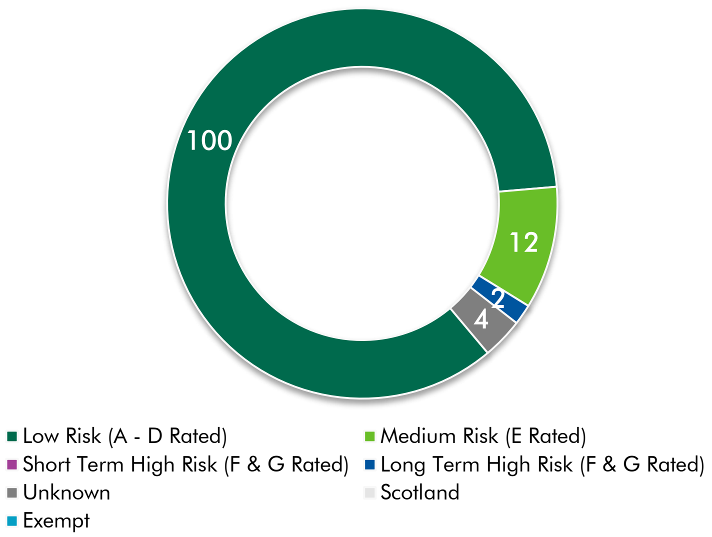


Table 1 Actions completed in Q2 2018

Portfolio/Asset	Unit	Action	Outcome
All Sites	All	Green Leases	Working with solicitors to update green leases clauses. This is following analysis conducted on common issues that solicitors are having on getting specific clauses accepted
All Sites	All	ESG +	Developed 3 year ESG + strategy for the fund. Awaiting sign off before delivering work
All Sites	All Units	CRC	Electricity and gas consumption obtained and collated into evidence pack for 2017-18 CRC reporting
New Lease	Whole Site	Tenant Engagement	Talks are ongoing with the tenant to improve their site to a higher standard as part of their ongoing task to improve their impact on the environment.

Figure 2 Fund Risk Management Action Plan



Action plan	Medium Risk	Unknown	Long Term High Risk
	No. of units		
High quality EPC		4	
Modelled EPC / tenant engagement	12		2
Refurbishment planned			
Redevelopment planned			
Considering sale			

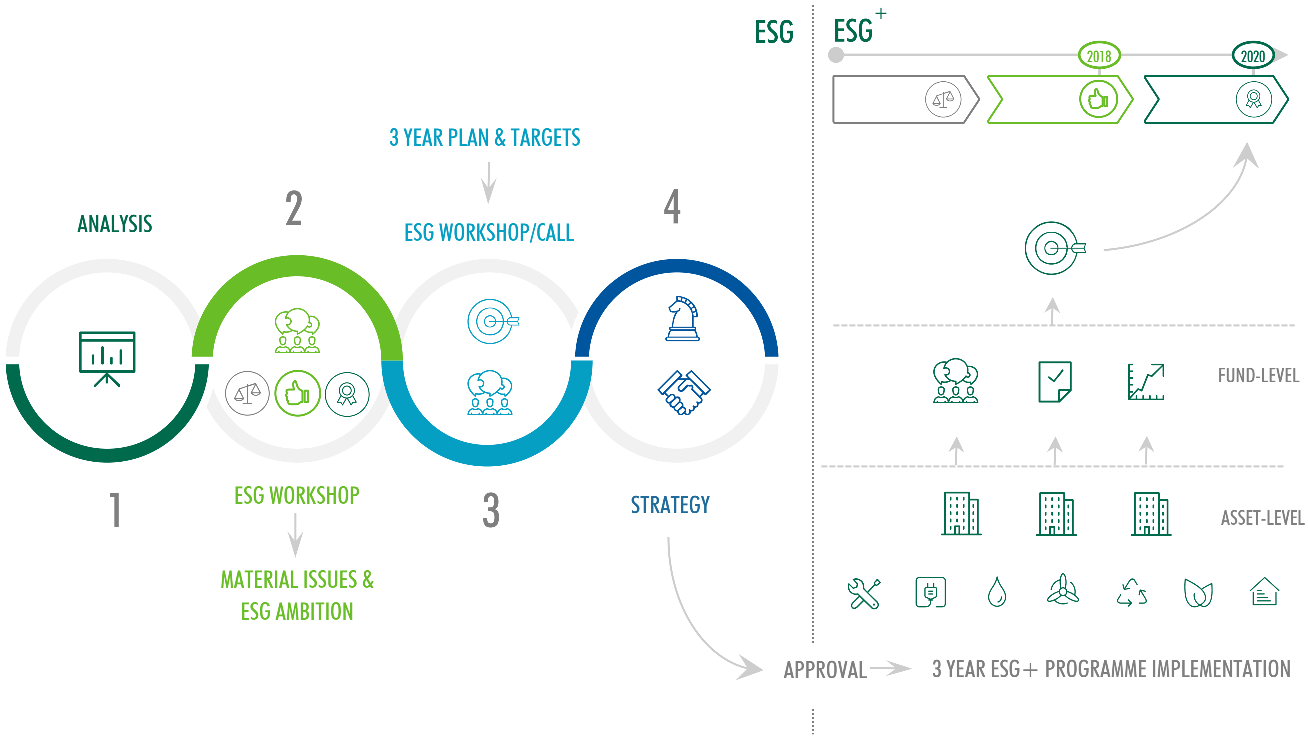
Table 2 Actions planned in Q3 2018

Portfolio/Asset	Unit	Action	Outcome
All Sites	All	Annual Report	Data collection to begin for annual reporting cycle, including water and waste data collection
All Sites	All	Green Leases	Implement new green leases clauses and update previous trackers to reflect each leases risk category accurately
Oldfield Lane, London	Units 1-4	EPCs	We have not yet been able to locate the EPCs for the site our aim is to have EPCs carried for 4 newly acquired units.

ESG⁺ STRATEGY

CBRE Global Investors seeks to be the global leader in the real estate investment management industry by offering a broad and deep investment platform that consistently delivers world-class investment results and exceptional Client service. We are currently updating and enhancing our strategy to ensure that we continue to make progress in this area and are developing our three-year ESG programme with the aim of achieving and maintaining a market leading position at a house level.

We refer to our enhanced ESG strategy as ESG⁺. This enhanced ESG strategy operates using the same decentralized model that has been successful thus far. In doing so we ensure that each of our funds has a tailored ESG strategy which is appropriate to its stakeholders, assets, and investment strategy, whilst still aligning with the "house-level" ESG ambition." Our ESG⁺ process consists of four main steps.



Dorset County Council is currently in Stage 1 of the ESG⁺ process, and is set to have a workshop in the coming month this will determine the set target and ambition for 2020.

1. Materiality and Ambition setting. Through collaborating with key stakeholders, the material ESG issues are determined for each fund within the programme. This step is completed in line with Global Reporting Initiative materiality standards. Fund ambition is also established, using our Basic-Intermediate-Leader scale and the level of medium-term development goals is determined.

2. Targets and Key Performance Indicators setting. Based on identified material issues and ambition, appropriate targets and measurements are set, ensuring that each target is applicable and achievable over the course of the three-year ESG strategy implementation.

3. Strategy Action Plan setting. A specific action plan is set, at both fund and asset level, to improve asset value, manage risk and maximise ESG results.

4. Implementation. The action plan is applied over three years, and reviewed annually to ensure the fund is protected against future market and/or regulatory trends. Progress is reported quarterly and annually.

VOLUNTARY REPORTING

To ensure our ESG strategy is working effectively, reports for each fund are produced on a quarterly and annual basis. This ensures that fund managers are regularly and consistently updated on the ESG performance of their funds and the actions that are recommended for the forthcoming period. It also facilitates effective communication of ESG performance to investors, thereby facilitating increased stakeholder engagement with ESG performance.

Once the ESG+ process is completed, and targets and key performance indicators approved by the Fund, the quarterly and annual ESG reporting will be enhanced to track the initiatives and progress towards set objectives.

In addition, CBRE Global Investors are in the process of joining Better Buildings Partnership (BBP). Their Real Estate Environmental Benchmark (REEB) is a publicly available anonymised operational benchmark of environmental performance (energy, carbon, water, and waste) for commercial property in the UK. This benchmark will also serve to compare the environmental performance of Fund’s assets and identify areas for improvement.

Dorset County Council did not participate in this year’s Global Real Estate Sustainability Benchmark (GRESB) survey. This is something that may be considered in future as the results from GRESB provide independent verification and peer benchmarking of our ESG+ process and strategy. The results of this year’s GRESB survey are expected in early September.

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APPENDIX 1

INDIRECT PORTFOLIO

PORTFOLIO COMPOSITION

The Dorset portfolio is invested in the following funds and as at 30 June 2018 had a value of £39.2 million.

Holding	Manager	Sector	Leverage (Debt/GAV)	Value (£m)
Lend Lease Retail Partnership	Lend Lease	Shopping Centres	2.5%	N/A
Standard Life UK Shopping Centre Trust	Aberdeen Standard Investments	Shopping Centres	-	N/A
CBRE UK Long Income Property Club No.1 Unit Trust	CBRE Global Investors	Hotel	-	N/A
Total				**39.2**

INVESTMENT ACTIVITY

Over the quarter, the dissolution of CBRE Retail Property Fund Britannica Unit Trust completed.

LEND LEASE RETAIL PARTNERSHIP

Lend Lease Retail Partnership ("LLRP") returned -2.4% over the quarter and -8.5% over the last year.

Weak performance over the quarter was a result of a 1.8% decrease in the value of fund's 25% holding in the Bluewater shopping centre and a 3.9% decline in the value of Touchwood, Solihull. Over the last 12 months, the combined value of the two assets declined by c. 10%.

At quarter end the fund had a net asset value of £738.9 million with the portfolio providing exposure to two shopping centres across the UK. The fund did have drawn debt of £7m. However, the loan has been repaid in full post quarter end, in July 2018, and the facility has been cancelled. The manager has been retaining distributions until this facility has been repaid or refinanced.

The manager has been pursuing a wind-down strategy since November 2017, with the fund's 25% interest in Bluewater shopping centre put on the market for sale. However, discussions with a prospective purchaser for Bluewater have ended. The liquidation provisions of the partnership require that the manager needs to implement the sale program irrespective of prevailing market conditions. The manager is now considering the sale options for the fund's interest in Bluewater as well as its 100% interest in Touchwood. In terms of Touchwood, the manager is in discussions to extend a lease with John Lewis Partnership.

During the quarter, the manager progressed a number of management initiatives at the two schemes:

- At Bluewater, the manager completed/ exchanged on six new lettings and one lease renewal during the quarter. Rent frees on a number of units have expired. Works on the new MSU unit for Primark have been progressing on program with £3.5m spent on capex. Primark is expected to take occupation in January 2019 on a 20-year lease.

- At Touchwood, two lease renewals were completed/ agreed during the quarter while two units became vacant

STANDARD LIFE UK SHOPPING CENTRE TRUST

Standard Life UK Shopping Centre Trust produced a total return of -0.1% over the quarter and 2.4% over the last 12 months. Over the quarter, the weaker performance was driven by a negative capital return, with three of the five assets in the portfolio witnessing outward yield shifts and all five assets experiencing capital falls. The development capital expenditure at Brent Cross has also hindered performance.

At quarter end, the fund had a net asset value of £1.5 billion with the portfolio providing exposure to five shopping centres across the UK. The fund remains ungeared and the portfolio has a weighted average unexpired lease term of 7.5 years and a void rate of 4.4%.

A number of asset management initiatives completed over the quarter including:

- Brent Cross, London – New letting to Mango; rent review settled with Boots; and lease renewal completed with Whistles
- Churchill Square, Brighton – Reviews settled with Juice Boost and Pandora
- Centre Court, Wimbledon – M&S Simply Food renewal completed
- The Thistles, Stirling – Castlegait Mall works progressing
- Brent South Shopping Park, London – Rent review settled on the Café Pod (Costa)

Regarding development opportunities, the fund is looking to retain a long-term exposure to both Brent Cross and Churchill Square, Brighton. However, post quarter end, Hammerson have decided to halt the development works of Brent Cross for the time being citing turbulent retail market conditions. According to press, the scheme still forms a key part of Hammerson's business plans and it is likely that the projected completion date of 2022 will fall back to 2023. The manager is due to meet with Hammerson after which we expect to receive a full update. Hammerson currently hold c. 40% of the Brent Cross alongside the fund (c. 60%). SLSCT will not fund the extension works and therefore its' stake in the enlarged Brent Cross shopping centre will be diluted over time as and when the planned development works are underway. Expansion plans for Churchill Square are a few years away but the fund manager continues to work on a development agreement for the scheme. As at 30th June 2018, the available cash held in the trust was £112.4m, which will be retained to finance capital expenditure across the portfolio as well as future redemptions at the next liquidity window in 2020.

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

As at 30 June 2018 Gerald Eve valued the property at an unchanged value from the end of Q1 valuation. The Unit Trust delivered an income return of 0.8% in Q2 2018.

Since inception in July 2017, capital growth on the gross purchase price (including purchaser's costs) has been 2.2%. Allowing for income, CBRE UK LIPC No.1 UT has produced a nominal total return of 5.1% since inception.

CBRE UK LIPC No.1 UT Performance – Q2 2018 *	Quarter	12 Months	Three years (p.a.)	Five years (p.a.)	Since inceptin (p.a)
Total Return	0.8%	-	-	-	5.1%
Income Return	0.8%**	-	-	-	2.9%
Capital Growth	0.0%	-	-	-	2.2%

** calculated by CBRE Global Investors, July 2018 ** calculated on an accruals basis (N.B. distributed income equates to 0.8%*

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