DORSET COUNTY COUNCIL PENSION FUND

QUARTERLY REPORT
Q4 2018

Dorset County Council ('DCC') property portfolio provides diversified exposure to good quality real estate located throughout the UK, across a range of sectors including offices, industrial, retail and alternatives. The allocation to property has increased from 10% to 11% of DCC's total assets which represents approximately £330m. The new allocation is to target Secure Long Income ('SLI') property beyond which the intention is to transition the portfolio gradually to a 50/50 split between SLI and Conventional properties.

£317.5M Capital Value (Combined Dorset Portfolios)

37 Assets

£12.5M To Invest

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	IPD Quarterly over 5 years	LPI +2% p.a.
Capital Value (Dec 2018)	£284.5m	£33.0m
Number of assets	28	9
Number/value of purchases during quarter	-	2 (£3.1m)
Number/value of sales during quarter	£0.2m	-
Net initial yield (p.a.)	4.4%	3.9%
Average unexpired lease term (to break)	8.8 years (8.2 years)	44.3 years (21.8years)

COMBINED VALUATION	
Direct Property (Dec 2018 values)*	£277.7m
Indirect Assets (Dec 2018 values)**	£39.8m
Total Portfolio Valuation	£317.5m

PERFORMANCE***	CONVENTIONAL	SLI	COMBINED	IPD QUARTERLY UNIVERSE
Q4 2018	1.7%	0.6%	1.6%	0.9%
12 months to Dec 2018	6.9%	-	6.1%	6.2%
3 yrs to Dec 2018 (p.a.)	7.2%	-	7.1%	6.6%
5 yrs to Dec 2018 (p.a.)	10.7%	-	10.7%	10.1%

CBRE GLOBAL INVESTORS

ECONOMIC AND PROPERTY UPDATE

UK ECONOMIC OUTLOOK

The UK economy has lost momentum since mid-2018. In November, the three-monthly rate of GDP growth was 0.3%, half the rate of growth recorded through Q3. GDP growth is expected to be 1.3% for 2018 as a whole, the weakest rate of growth in almost a decade. It is not all bad news however. The economy continues to create jobs and tightening labour markets are leading to improved wage growth. The recent sharp fall in the oil price will help inflation to ease back, supporting consumer spending power, and following October's Budget, there will also be a looser fiscal stance.

Of course, the outlook is heavily dependent on the outcome of Brexit negotiations. Our 'base case' is that a Withdrawal Agreement, in some form, will be approved by the UK government allowing the UK to leave the EU in an orderly manner and trade to continue on current terms during a transition period to end-2020, or beyond. However, the chances of an extension to the Article 50 deadline being required to achieve this have increased. Whilst not our base case, a disorderly "no deal" Brexit still cannot be ruled out.

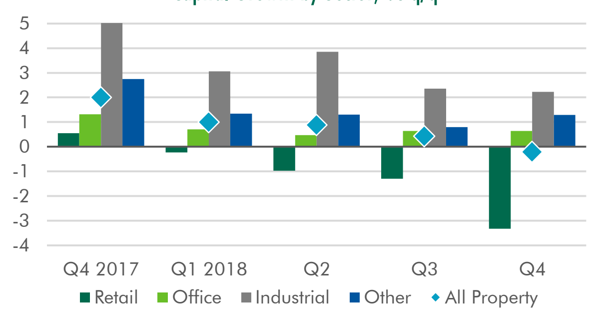
UK PROPERTY PERFORMANCE

Capital values, at the All Property level, fell marginally in Q4 2018, the first fall since the aftermath of the EU referendum in 2016. All Property rental growth also turned modestly negative in Q4, the first quarterly fall since 2012. The weaker economic backdrop and political uncertainty have both played a part in this, but at present there is such variety in the conditions facing each sector that talking about commercial property in aggregate is somewhat misleading.

It is **retail** rents that have dragged the All Property average into negative territory. Rental values in the retail sector fell by 1.5% q/q in Q4, a clear deterioration from the falls of c.0.5% q/q seen in the previous two quarters. Although Christmas trading was not as bad as some had feared, retailer profitability remains under pressure. We should expect further CVAs and administrations, with a few sizeable retailers looking precarious. Against this backdrop retail rents will continue to fall and liquidity in the investment market will remain limited. Until recently, retail yields varied significantly depending on the quality of location, but latterly fear has spread to the wider market. As a result, clearing prices are now falling regardless of quality and this will slowly feed through to valuations. As this unfolds there will be mispriced opportunities. There is still sustainable occupier demand in some retail locations, although establishing which is a challenge.

By contrast, **office** rents grew by 0.6% q/q in Q4, an improvement from rates of c.0.3% q/q recorded earlier in the year. This growth was led by markets outside of London and the South East, which appear least exposed to Brexit-specific risks and where new development has been limited. In fact, 2018 was amongst the strongest years on record for office leasing activity across the regional cities. This is not benefitting all office property equally however, with tenants increasingly discerning and focussed on well specified space. This can be seen in availability statistics for the 'big 6' regional cities. The total amount of available office space across these markets has been trending down since 2012, and in the latest data just 15% of this space was new, compared to an average of 26% over the past 10 years. The same trend is apparent in the Central London office market, and consequently we expect to see a greater divergence in performance dependent upon asset quality.

Capital Growth by Sector, % q/q

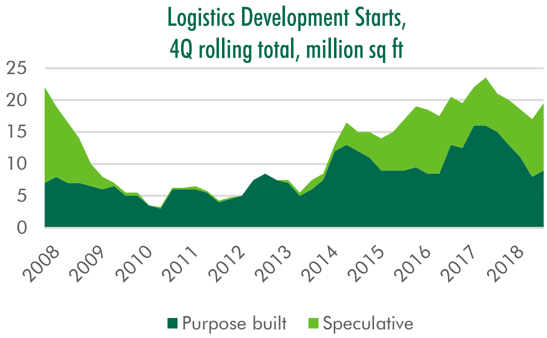


Source: MSCI Monthly Index.

ECONOMIC AND PROPERTY UPDATE

The **industria**l sector remains the stand out performer. Rental growth stood at 1.1% q/q in Q4, a slight acceleration from Q3 and a return to the rates seen in H1 2018. It is striking just how widespread rental growth continues to be, across geographies and size bands. We expect growth to slow through 2019, particularly for large logistics warehouses where there has been a supply response (see chart). Occupier demand will moderate as ecommerce continues to be a positive for the sector, but manufacturers and the UK's small businesses face headwinds. Where there is competition from other land uses acting as a constraint on new supply, this shift need not cause too much concern. However, where supply does respond there will be a gradual realisation that ambitious rental growth expectations may not be met. We have already seen a softening of investor demand for secondary industrial assets in recent weeks.

Overall investment activity slowed slightly in 2018, but the 'other' sector bucked the trend, with volumes higher than 2017. The strength of investment activity in the 'other' sector reflects perceived structural trends benefiting certain asset types, often 'beds' related, and demand for secure long income streams. This is increasingly pushing investors into other non-traditional parts of the market, but the impact is also visible in the retail market. Retail yields were almost universally moving out in Q4, but for supermarkets with long index-linked leases there was yield compression. The latest data available from the CBRE Long Income Index (Q3 2018) shows long income property has continued to outperform the wider commercial property market, as it has done since the EU referendum. With economic uncertainty persisting and index-linked gilt yields falling back in recent months, this outperformance is likely to continue.

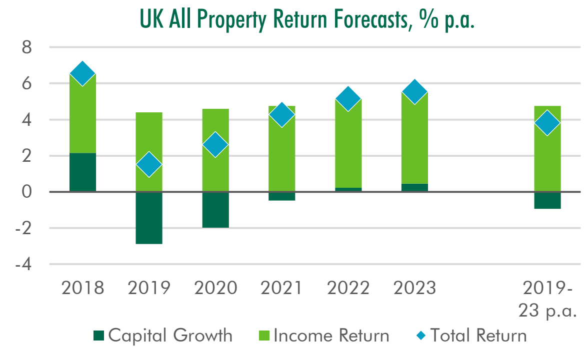


Source: Gerald Eve.

PROPERTY MARKET OUTLOOK

Our forecasts are unchanged from last quarter, although it is worth reiterating that they are dependent on a Brexit deal being agreed and the UK leaving the EU in an orderly way in 2019. We expect modest All Property capital value falls in 2019/20 driven by declining rents and weaker investor sentiment. The retail sector is leading in this process, with capital values down more than 5% in 2018. Some segments of the market may continue to see values increase in 2019, industrial and some parts of the 'other' sector for example, but we expect the late cycle to catch up with them in 2020. In this environment good quality buildings in strong locations will prove most resilient.

Through this period of uncertainty attractive investment opportunities are likely to emerge, with some assets discounted unfairly. We should remain patient when deploying capital and focus on long-term sustainable income in the interim. We are projecting UK property to deliver an average annual total return of 3.8% over the period 2019-23. Income returns will continue to be the mainstay of performance, so quality of income and underlying occupier appeal will be critical.



Sources: MSCI, CBRE Global Investors.

STRATEGY

Size	▪ Target size £330m – current size £317.5m. DCC has increased its allocation to property from 10% to 11% of total assets which represents approximately £330m. ▪ The new allocation is targeting Secure Long Income. ▪ The longer term intention is to transition the portfolio gradually to a 50/50 split between Conventional property and SLI, the SLI property held within the Conventional portfolio is to be included in the 50:50 allocation.
Performance objectives	▪ Conventional and SLI portfolios' have had distinct benchmarks since 1st April 2018. ▪ Conventional 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 return to exceed the IPD benchmark income return. ▪ Continue to focus on maintaining a low void rate and a resilient income yield. ▪ Ensure SLI held properties / new 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 15-20 assets with an average lot size of between £8m and £11m. ▪ SLI portfolio: target lot sizes between £3m and £20m with an average lease length in excess of 15 years at purchase with at least 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 Alternatives. ▪ Source suitable SLI investments that could be available in any sector.

OTHER RESTRICTIONS AND GUIDELINES

New IMA being drafted to reflect the revised target of 50% Conventional 50% SLI with the transition to take place over a medium term time horizon. The restrictions below are taken from the existing IMA.

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.

DORSET COUNTY COUNCIL CONVENTIONAL PORTFOLIO

QUARTERLY REPORT
Q4 2018

The DCC Conventional mandate commenced in 1993 and 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. The portfolio provides diversified exposure to good quality commercial real estate located throughout the UK across a range of sectors.

PERFORMANCE

Q4 2018 (%)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	0.7	-0.2	0.9
Income return	1.0	1.1	-0.1
Total return	1.7	0.9	0.9

12 months to Dec 2018 (%)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	2.4	1.7	0.8
Income return	4.4	4.4	-0.1
Total return	6.9	6.2	0.7

3 years to Dec 2018 (% p.a.)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	2.4	2.0	0.4
Income return	4.7	4.6	0.1
Total return	7.2	6.6	0.6

5 years to Dec 2018 (% p.a.)	Portfolio All Assets	IPD Quarterly Universe	Relative
Capital return	5.4	5.1	0.3
Income return	5.1	4.8	0.3
Total return	10.7	10.1	0.6

The Conventional portfolio outperformed the IPD Quarterly Universe by 0.9% over the last three months of 2018, with a total return of 1.7% against 0.9% for the Benchmark. The direct properties performed strongly, with a total return of 2.1% over the quarter, while the indirect holdings dampened performance with a return of -0.3%.

The key driver of direct performance was the new office development in Cambridge, which provided a total return of 11.0% and made a weighted contribution of 0.6% to the portfolio over the quarter. This however effectively counteracted a poor Q3 for the asset, which was the first time the valuers had split the asset into two separate holdings. Work to the new building has completed since quarter end, and we expect more performance to come in 2019.

Stripping out Cambridge, the direct standing investments (properties held throughout the year, ignoring transactions and developments) had a healthy quarter, outperforming the Benchmark by 0.6% with a total return of 1.4% against 0.8%.

Industrials continued to be the market's best performing assets over the quarter while retail was again the weakest given the significant challenges facing the sector. Reflecting the wider market, the portfolio's industrials were the best performing assets with 2.1% while the retail had the lowest return with -1.5%.

The portfolio's indirect underperformance was the result of valuation falls at the shopping centres which make up the Lend Lease and Standard Life holdings. The NAV of both fell by approximately 1.6% over the quarter.

The portfolio is outperforming the Benchmark over 1, 3 and the target 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.

CBRE GLOBAL INVESTORS

CONVENTIONAL PORTFOLIO INFORMATION

PORTFOLIO INFORMATION (DIRECT PROPERTY ONLY)

	Q4 2018	Aim
Direct value	£244.7m	
No. of properties (avg. value)	25 (£9.8m)	15-20
No. of lettable units (direct avg. value)	81 (£3.0m)	45-80
Vacancy rate (% ERV)	2.1%	Below benchmark
Avg. unexpired lease term (to break)	8.8 years (8.2 years)	Exceed benchmark
Net Initial yield (p.a.)	4.4%	Below benchmark
Rent with +10 years remaining	20.3% of total rent	Minimum 20% of total rent
Rent with +15 years remaining	9.4% of total rent	Minimum 10% of total rent
Largest Asset	Woolborough Lane IE, Crawley (9% of portfolio value)	Below 10%
Largest Tenant	ACI Worldwide (9% of direct rent)	Below 10%
Tenure (Freehold/Leasehold)	86% / 14%	Minimum 70% freeholds

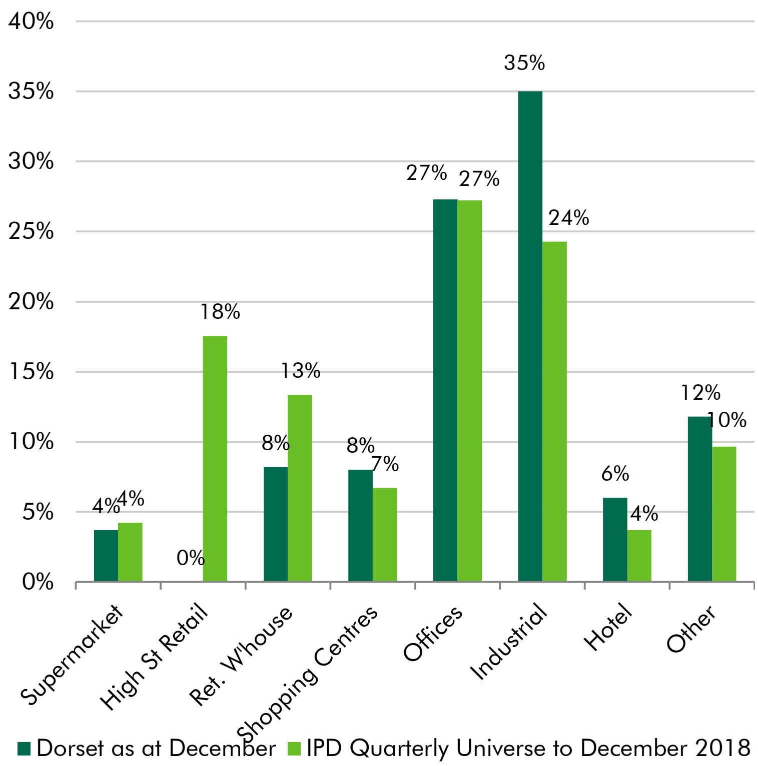
Dunbeath Court, Swindon

TRANSACTIONS

Q4 2018	
Direct Purchases	£0m
Direct Disposals	£0.2m
Money available to invest	£0m

CONVENTIONAL PORTFOLIO ANALYSIS

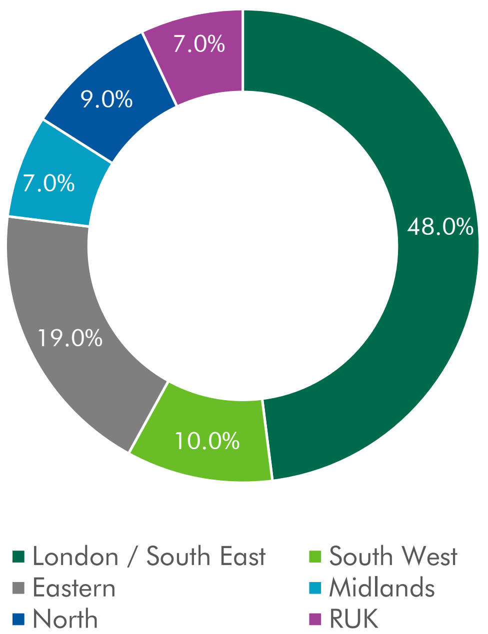
PORTFOLIO SECTOR WEIGHTINGS – ALL ASSETS



The Conventional portfolio's sector weightings are shown in comparison to the Benchmark. The portfolio's sector split has continued to be beneficial with low exposure to retail, while it has an overweight weighting to the industrial, hotel and alternative sectors which have all been performing strongly. The relative weighting to offices is broadly neutral.

We plan to maintain these weightings as we gradually transition the portfolio to 50% Conventional/ 50% SLI.

GEOGRAPHICAL STRUCTURE – DIRECT ONLY



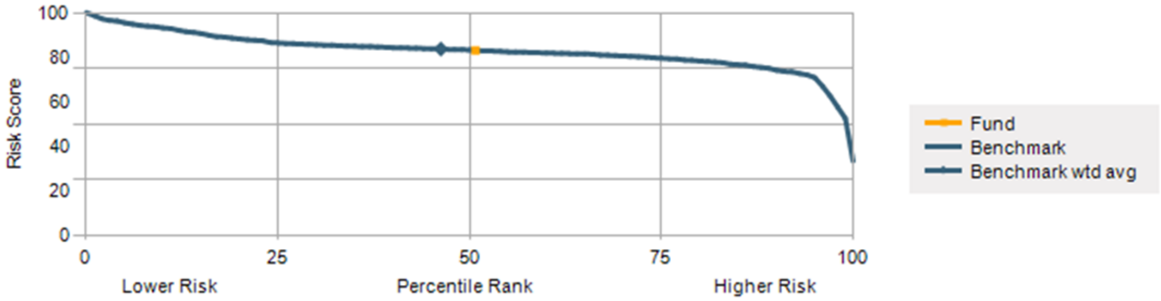
The geographical split of the Conventional portfolio is also well diversified, with a bias towards London and the South East where there is the greatest demand for land. There is also a large Eastern weighting; Cambridge falls into this region, although it has historically performed more like the South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

CONVENTIONAL PORTFOLIO INCOME QUALITY

TOP 5 TENANTS BY SIZE OF RENT	CURRENT RENT P.A.	% OF TOTAL RENT	TERM CERTAIN REMAINING (YRS)	IPD IRIS Risk Band
ACI Worldwide Ld	£1,020,000	9.0%	5.2	Negligible
WPP Group Ltd	£836,000	7.2%	1.8	Negligible
Tesco Ltd	£680,000	5.8%	16.5	Low
Booker Ltd	£659,750	5.6%	2.5	Negligible
Reg Vardy (Property Management) Limited	£633,835	5.4%	6.0	Negligible

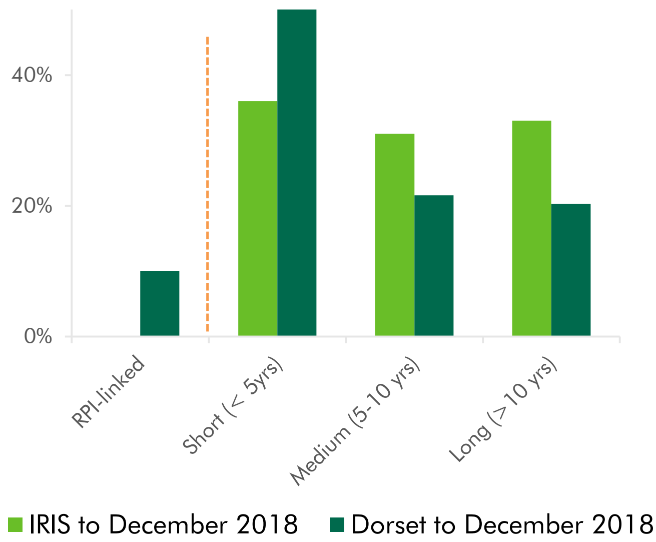
The five largest tenants in the portfolio are considered by IPD IRIS to be strong, with a rating of either Negligible or Low risk.

The graph below compares the covenant risk score of the Conventional portfolio with the Benchmark as at 30 December 2018. The portfolio has a Weighted Risk Score on the 51st percentile and is currently behind the Benchmark (46th) showing that the covenant risk of the portfolio is marginally above the average Benchmark risk. The graph is relatively flat however, with small movements in risk profile dramatically impacting the rise score. The portfolio has improved from 59th last quarter, largely due to the renewal of Tesco's lease in Sheffield (5.8% of total rent).



INCOME STRUCTURE

LEASE LENGTH (% OF TOTAL PORTFOLIO INCOME)



% of Conventional portfolio income	Q4 2018
Open market income	87%
SLI	13%

CONVENTIONAL PORTFOLIO INCOME MANAGEMENT

8.8 YEARS

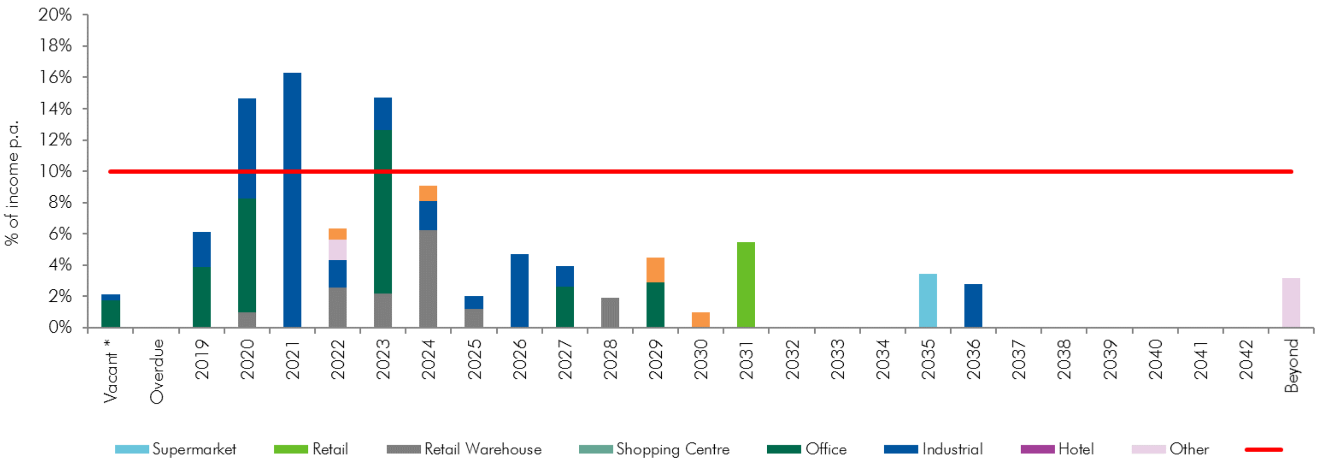
Average unexpired lease term to expiry
(IPD benchmark is 13.4 years to expiry)

8.2 YEARS

Average unexpired lease term to break
(IPD benchmark is 12.1 years to break)

The average lease length of the Fund is in a reasonable position relative to the Benchmark. These figures exclude indirect assets. The Park Plaza in Waterloo indirect asset, if included, would increase the average unexpired lease term of the portfolio to over 15 years.

DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

The main risks are the expiry spikes in 2020, 2021 and 2023. The risks in these years are however well diversified across a number of different units and properties. In 2020, the risk is spread across 9 units at 8 properties. We are already speaking with the majority of tenants with leases that expire that year.

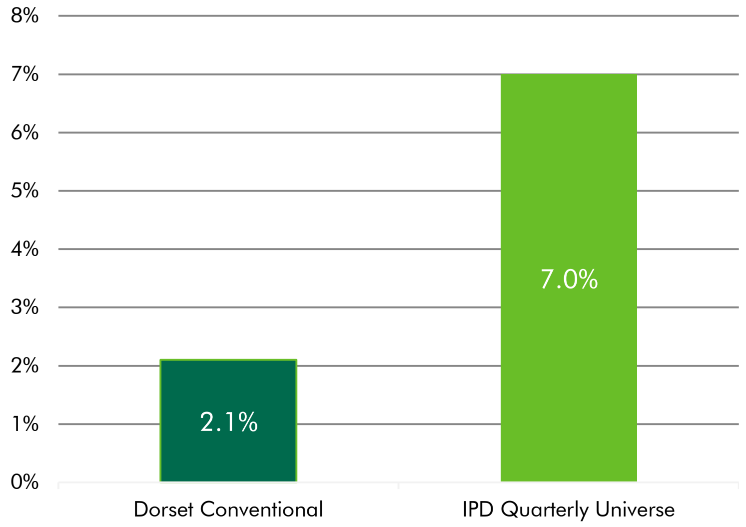
In 2019, the leases on 6 units are due to expire accounting for 6.1% of total rent. The table below shows the 5 largest of these ranked by rent and at this stage, we are only expecting WorldPay to vacate (3.9% of total rent), whilst we are currently unsure of the intentions of Star-Images Enterprises Ltd (0.4%).

2019 TOP 5 LEASE EXPIRIES		TYPE	CURRENT RENT P.A.	% OF INCOME
WorldPay Ltd	🔴	Lease Expiry	£450,000	3.9%
Business Installations Limited	🟢	Lease Expiry	£63,440	0.5%
Youngs Extract Supplies Ltd	🟢	Lease Expiry	£50,996	0.4%
Star-Images Enterprises Ltd	🟠	Lease Expiry	£48,500	0.4%
The BSS Group Plc	🟢	Break	£48,279	0.4%

🟢 Likely to stay 🟠 May vacate 🔴 Likely to leave

CONVENTIONAL PORTFOLIO INCOME MANAGEMENT

VACANCY RATE AS AT DECEMBER 2018



The portfolio's vacancy rate decreased to 2.1% from 2.6% of rental value over the quarter following a letting at the industrial estate in Croydon. It continues to be well below the market average of 7.0%, as measured by IPD/MSCI.

The vacancy rate comprises two floors at the office building in Aberdeen (1.8%) and an industrial unit at the Aspley Centre in Staples Corner (0.3%).

The vacancy rate is set to rise however following the administrations of Toys R Us and Maplin last year accounting for a total prospective 4.2% increase in the void rate.

CURRENT VACANCIES

VACANCIES	SECTOR	% OF TOTAL RENTAL VALUE	RENTAL VALUE P.A.	COMMENTS
Pilgrim House, Aberdeen	Office	1.8%	£276,100	Marketing two floors
The Apsley Centre, London	Industrial	0.3%	£54,400	Marketing – good interest
Total		2.1%	£330,500	

DORSET COUNTY COUNCIL
SECURE LONG INCOME PORTFOLIO

QUARTERLY REPORT
Q4 2018

The SLI portfolio commenced in 2017 and 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. SLI property means assets which feature average unexpired lease terms of at least 15 years at the time of purchase with financial security by virtue of the financial strength of the tenant and the property's underlying value.

PERFORMANCE

Q4 2018	Nominal total return	RPI	Real total return	Nominal IPD Quarterly Universe
SLI Portfolio	0.6%	0.5%	0.1%	0.9%

This is the third quarter that the SLI portfolio has been reported separately from the Conventional portfolio.

The SLI portfolio generated a nominal total return of 0.6% over the quarter, equating to a real return of 0.1% (RPI was 0.5%). Returns are likely to be subdued while we build up the portfolio given the impact of transaction fees. This was evident during Quarter 4, where the transaction fees associated with the purchase of shared ownership and social rented units dragged performance by -0.4%. The standing investments (ignoring transactions) produced a nominal return of 1.0% over the quarter, equating to 0.5% real.

SLI PORTFOLIO INFORMATION

FUND INFORMATION

	Q4 2018	Aim
Market value	£33.0m	50% all assets
No. of properties (avg. value)	9 (£3.7m)	15-20
No. of lettable units (avg. value)	12 (£2.8m)	25+
Vacancy rate (% ERV)	0%	Below market average
Avg. unexpired lease term (to break)	44.3 years (21.8 years)	15 years+
Net Initial yield (p.a.)	3.9%	3.0%+
Largest Asset	Astra House, Harlow - £9.0m (27.3% of portfolio value)	Below 15%
Largest Tenant	EI Group Plc (32.6% of portfolio rent)	Below 15%

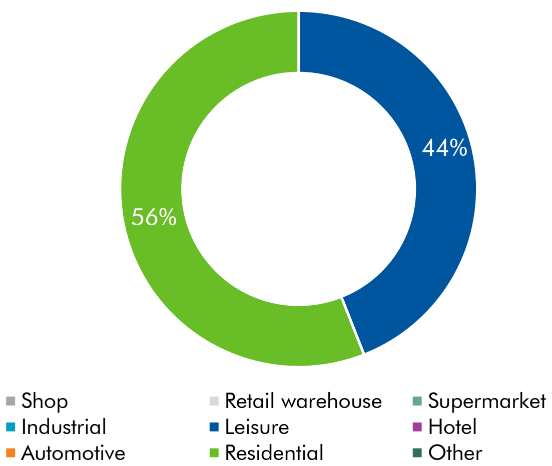

Red Lion, London SW1

TRANSACTIONS

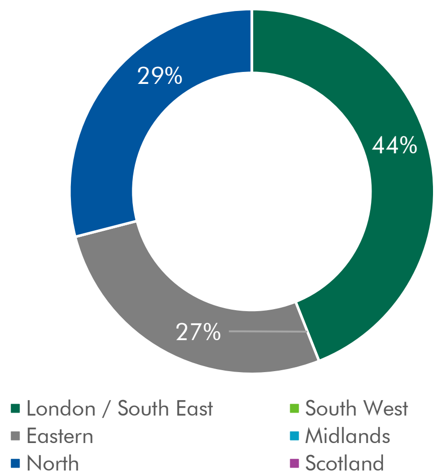
Q4 2018	
Direct Purchases	£3.1m
Direct Disposals	£0m
Money available to invest	£12.5m

GEOGRAPHICAL AND SECTOR BREAKDOWN

SECTOR WEIGHTING (% OF TOTAL VALUE)



GEOGRAPHICAL STRUCTURE (% OF TOTAL VALUE)



100% of the portfolio currently comprises alternative use properties, with public houses, a restaurant, shared ownership and social rented housing. Just under half the total value is located in the London and the South East, where there is the greatest demand for land.

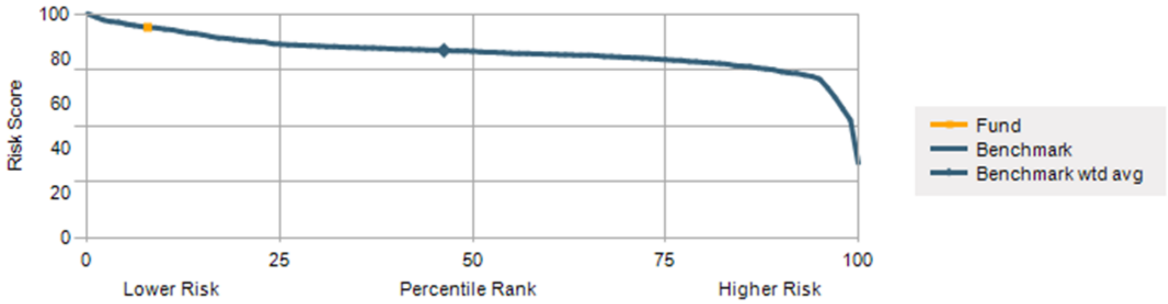
SLI PORTFOLIO INCOME MANAGEMENT

TOP 5 TENANTS BY SIZE OF RENT	CURRENT RENT P.A.	% OF TOTAL RENT	LEASE TYPE	TERM CERTAIN REMAINING (YRS)	IPD IRIS Risk Band
Ei Group Plc	£445,000	32.6%	Market Rent	16.0	Negligible
Mears Housing Management Ltd	£437,000	32.0%	CPI	19.7	Low
East Cheshire National Health Service Trust	£253,346	18.6%	RPI	17.9	Negligible
Plexus Housing Association (Tranche 2 only)*	£113,543	8.4%	CPI	21.9	n/a
Casa Cruz London Ltd	£93,885	6.9%	RPI	15.6	Low

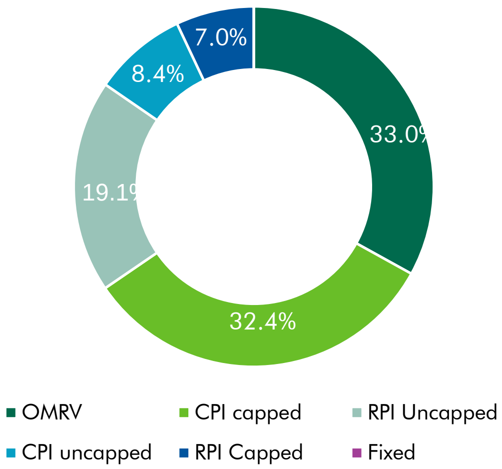
*Plexus also have a lease over the shared ownership in Tranche 1, which represents 1.5% of total rent. This lease has just under 250 years remaining and RPI linked reviews but the income is derived from the individual sub-lessees.

The five largest tenants in the portfolio are ranked above by % of total rent. Four out of the five are considered by IPD IRIS to be strong, with a rating of either Negligible or Low risk. IRIS does not provide a rating for Plexus, but we understand the housing association to be a reasonable covenant.

The graph below compares the covenant risk score of the SLI portfolio with the IPD Quarterly Universe as at 30 December 2018. The Weighted Risk Score on the 8th percentile and is well ahead of IPD (46th) demonstrating that the covenant strength of the portfolio is very strong.



Weighting by review structure (% of total value)



Our objective is for the SLI 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. We plan to have at least 70% of the portfolio's income index linked once fully invested.

33% of the portfolio's income is subject to reviews to Market Rent. These relate to the four London public houses, where historic rental growth has outpaced inflation and we expect this trend to continue; 32.4% is subject to CPI linked reviews with a cap and collar of 3.5% p.a. and 0.5% p.a. respectively; 19.1% of the income is subject to uncapped reviews in line with RPI; 8.4% is uncapped CPI and the remaining 7.0% is tied to a rent review linked to the higher of Market Rent or RPI but capped at 3.5% p.a. with a collar at 1.5% p.a.

SLI PORTFOLIO INCOME MANAGEMENT

44.3 YEARS

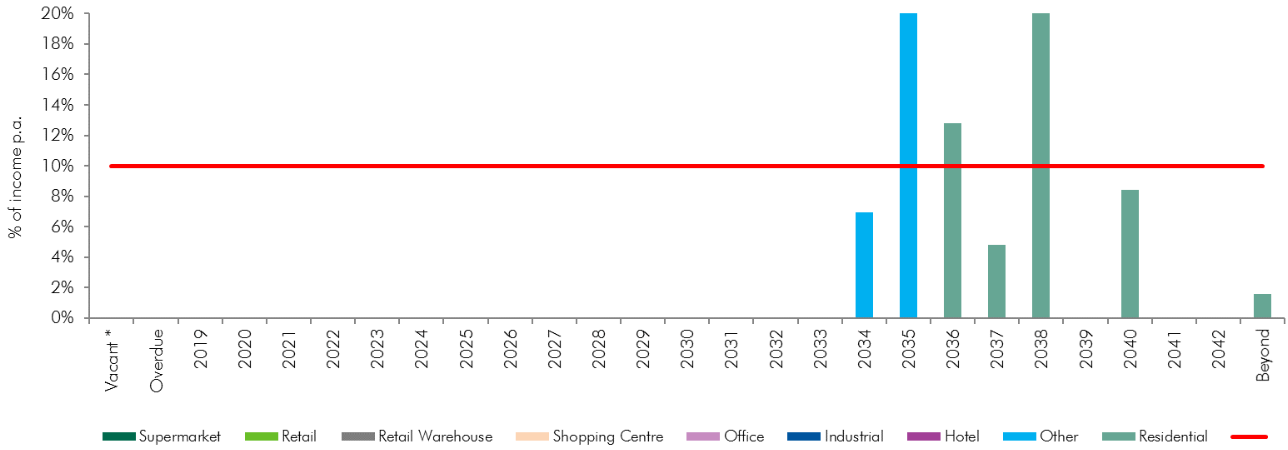
Average unexpired lease term to expiry

21.8 YEARS

Average unexpired lease term to break

The average lease length of the Fund is 44.3 years to expiry and 21.8 years to break. We plan to maintain an average unexpired lease term for the portfolio of at least 15 years.

DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

ESG PROGRAMME

The Dorset County Council (Fund) has developed an enhanced ESG+ strategy framed around three key Environmental, Social and Governance (ESG) material issues: Carbon, Compliance and Transparency. ESG+ builds on the long-standing Core ESG programme and will be delivered over a three-year implementation period starting in Q1 2019 with a target of attaining CBRE Global Investors (CBRE GI) Silver status.

AMBITION

The Fund has proposed an ESG strategy to achieve Silver status on CBRE Global Investors proprietary scale by 2021.

TRANSPARENCY

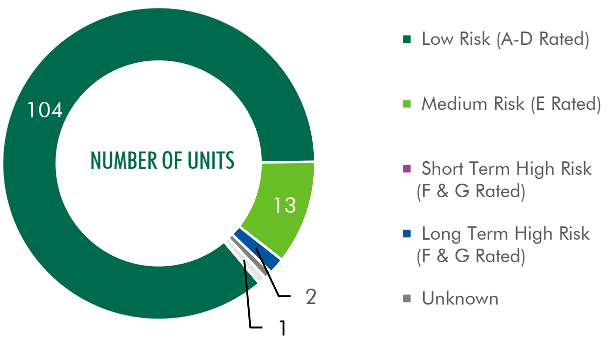
The three ESG Pillars of Carbon, Compliance and Transparency, further underpinned with related 'second tier' issues, form our key performance indicators (KPI).

These are now included as appropriate in our Investor, Investment Committee and Oversight reports, as well in the dedicated ESG reports published on our website.

COMPLIANCE

Our long-running risk management programme is incorporated within the Compliance Pillar, future-proofing our portfolio.

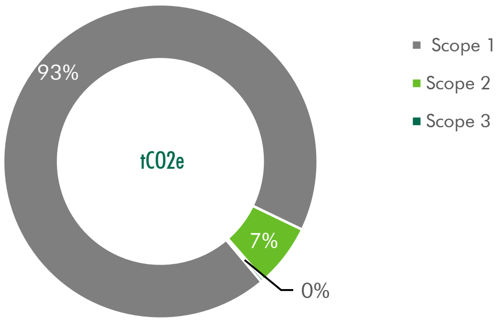
COMPLIANCE RISK PROFILE



CARBON

Carbon actions are focused on our key assets, improving their performance, delivering reduced operational costs and increasing marketability.

CARBON FOOTPRINT



Scopes 1 and 2 come from direct operations under landlord control, such as on-site plant and purchased energy respectively. Scope 3 above relates to water and waste under landlord control.

ACTION PLAN 2019

ACTION	PORTFOLIO-LEVEL	ASSET-LEVEL			
ESG Reporting: separate annual aggregated ESG Report	x		x		
Green Leases: audit, implementation and monitoring	x	x	x	x	x
Green Refurbishment and Fit-Out (RFO) Guide: implementation and monitoring	x	x		x	x
Tenant Engagement: satisfaction survey, data collection, information leaflets and advice	x		x		x
Energy Performance Assessment: high quality and modelled EPCs, and ESG audits		x		x	x
Sustainable Buildings: improvement projects and certification, and carbon footprinting	x	x	x	x	x

2 Modelled EPCs were produced for this portfolio

1 asset has been improved through refurbishment and fit-out

1 asset has been removed from high risk causing an overall reduction of 1%

5 new EPCs have been produced; the current coverage is 100%

Total scope 1 and scope 2 carbon emissions were 163.10 tCO2e

ESG STRATEGY

CBRE Global Investors (CBRE GI) 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. Responsible Environment, Social and Governance (ESG) practices are fundamental to our business strategy.

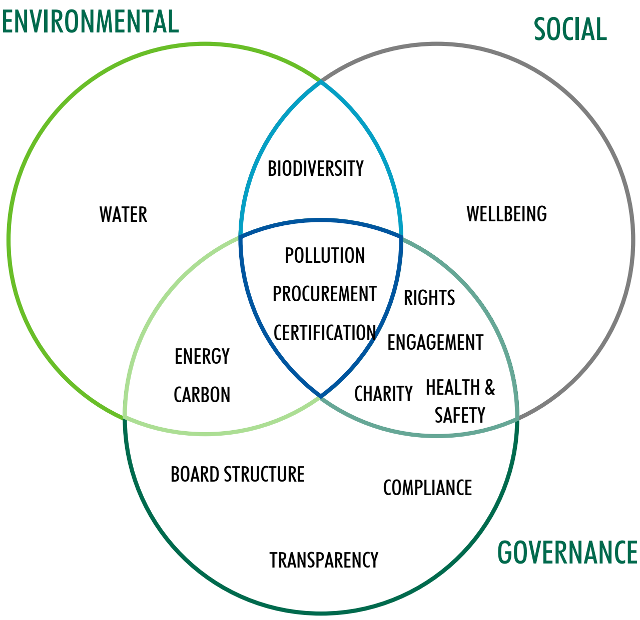
ESG AMBITION

Embedding ESG strategies into the heart of our business benefits our investors, key stakeholders and the wider community whilst enhancing financial returns and preserving the value of the underlying investments.

The Dorset County Council (Fund) has updated and enhanced its individual ESG strategy to ensure that we continue to make progress in this area. We refer to our enhanced ESG strategy as ESG+, and our proposed ambition is to reach CBRE GI Silver status by end of 2021, targeting industry best practice in order to futureproof the portfolio from ESG non-compliance risk.

At the start of the ESG+ process, CBRE GI outlined its ambition to become a leader in the ESG arena. This strategy assumes that our competitors will also continue to improve and therefore we have ambitious yet realistic plans for implementation.

The Fund has identified its material ESG issues through collaboration with its key stakeholders, culminating in the materiality matrix below. This matrix was developed in line with Global Reporting Initiative (GRI) guidance.



CBRE GLOBAL INVESTORS ESG AMBITION FRAMEWORK

Through the ESG materiality assessment, CBRE Global Investors have identified several issues of particular interest to our stakeholders on a UK house level: Rights (human, employee and consumer), Health and Safety, and Procurement.

As part of our drive for continual improvement and to ensure we continue to employ first-class responsible investment practices, relevant procedures and policies will be reviewed and enhanced in the coming years.

While a materiality matrix has been used to formulate our Fund strategy, it is important to note that ESG issues are inter-connected and inter-dependent; therefore, positive action will bring positive results across the spectrum.

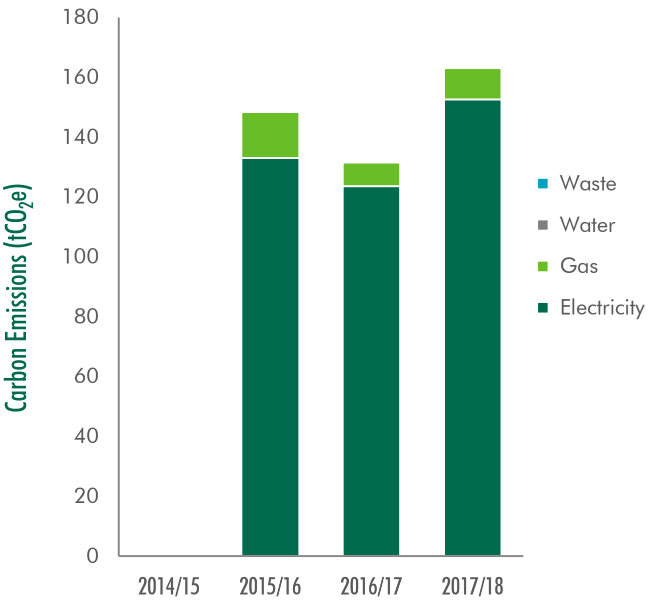
Finally, our ESG+ strategy is clear to all stakeholders. It has ambitious targets, but also has the flexibility to accommodate internal or external changes, such as asset type mix or regulatory shifts respectively.

ESG PILLAR	KEY PERFORMANCE INDICATORS
Carbon	Energy, Water, Waste, Tenants (Scope 1, 2 and 3)
Compliance	Energy Ratings, Green Leases, Health and Safety Policy, Procurement Policy
Transparency	Building Certifications, Stakeholder Engagement including Wellbeing, Data Coverage, Benchmarking and Reporting

CARBON

With the world, including the global real estate sector, committed to rapidly reducing and ultimately eliminating carbon emissions by the end of the century, we as a responsible investor have our part to play. The CBRE Global Investors ESG strategy will ensure that we align ourselves to the best available scientific advice on transitioning to a low-carbon economy.

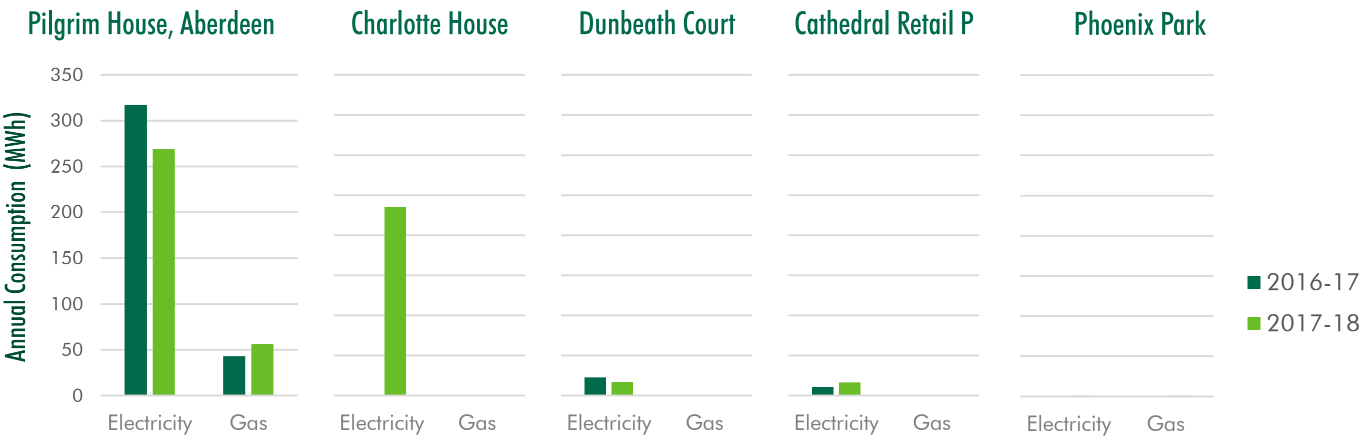
LANDLORD'S TOTAL ANNUAL CARBON FOOTPRINT



SUPPLY	SCOPE	CONSUMPTION	CARBON EMISSIONS (TCO_{2E})	% ANNUAL CHANGE
Gas	1	57	10.54	32%
Electricity	2	539	152.56	23%
Water	3	474	0.50	12%
Waste	3	0	0	0%
TOTAL			163.60	

Scopes 1 and 2 come from direct operations under landlord control, such as on-site plant and purchased energy respectively. Scope 3 relates to upstream and downstream indirect operations, such as tenant-controlled energy use or operational waste. Data is reported for the fiscal year (1st April to 31st March) in line with The Carbon Reduction Commitment (CRC) taxation scheme. Carbon footprints are calculated using the location based emissions factors provided by the Department for Environment, Food and Rural Affairs (DEFRA).

Only landlord's consumption data is included in the carbon footprint calculation. The landlord is often responsible for energy supply either to tenants as part of the service charge, or to vacant units. Water and waste trends show discrepancies due to lower quality of the available data, which is usual for the industry. Only waste data provided by waste management contractors is reported, this is only available from 2016/17 and so waste data is absent from the 2014/15 and 2015/16 carbon footprints.



Pilgrim House has the largest landlord consumption due to the fact that it is a large office space and as the space is multi-let tenancy the common areas will all be paid for by the landlord as well as vacant units during the reporting year. The gas increase from 2016-17 is linked with the colder winter months and the increased heating requirements.

The remaining top consuming sites have seen minimal changes in consumption between reporting years.

Building on the above long-term data collection and reporting, the next step involves analysis of the Dorset County Council's historic Scope 1 and 2 carbon footprint using Science Based Targets Sectoral Decarbonisation Approach modelling tools and verifying our targets. We will also undertake a full Scope 3 feasibility study including boundary setting.

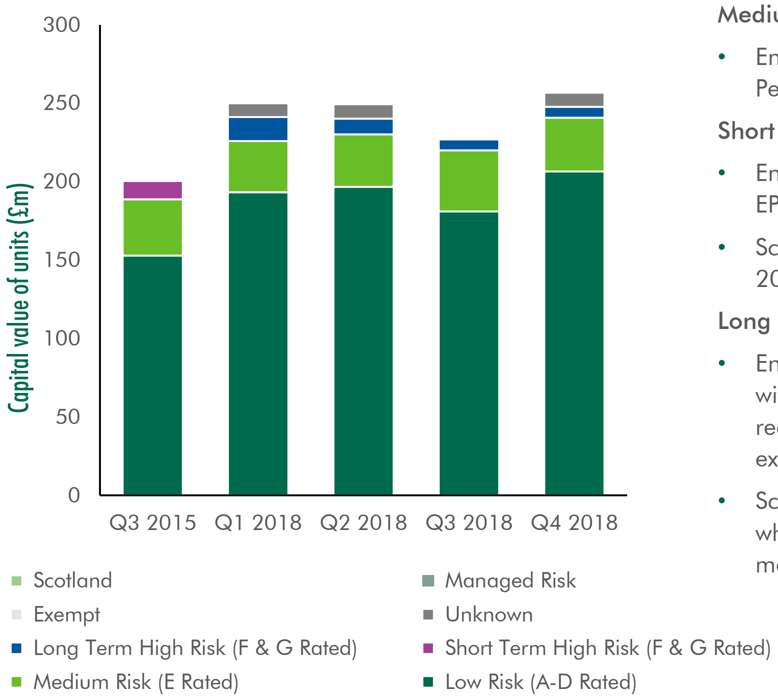
COMPLIANCE

CBRE GI is firmly committed to conducting business with the highest integrity and in compliance with the letter and spirit of the law. We recognise our responsibilities in relation to national and European legislative requirements and aim to ensure 100% compliance with relevant and changing legislation, such as the CRC Energy Efficiency Scheme and ESOS.

ENERGY PERFORMANCE

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 GI's ESG approach includes a comprehensive risk management programme, with a focus on MEES compliance.

CHANGE IN LEVEL OF RISK BY VALUE



Medium Risk

- England and Wales – units with E rated Energy Performance Certificates (EPC)

Short Term High Risk

- England & Wales – units with unknown, F or G rated EPCs, requiring action before 2023 due to lease events
- Scotland – units or sites over 1,000m^2 which do not meet 2002 Building Regulations

Long Term High Risk

- England & Wales - units with unknown EPC rating, units with F or G rated EPCs which are scheduled for redevelopment or sale before 2023, or have a lease expiry after 2023 without breaks
- Scotland – adjacent units over 1,000m2 when combined which the fund does not intend to sell and which do not meet 2002 building regulations.

RISK MITIGATION STRATEGY FOR MEDIUM / HIGH RISK UNITS

	Medium Risk	Short Term High Risk	Long Term High Risk
ACTION	No. of units		
High Quality EPC	0	0	0
Modelled EPC / Tenant Engagement	13	0	1
Refurb / Sale Planned	0	0	1

GREEN LEASES

Green leases are essential in protecting against future environmental risks, reflecting market practice and improving the sustainability credentials of the portfolios. During 2017 CBRE GI, in partnership with our legal and sustainability advisors, have developed our own set of green lease clauses.

In line with our overall strategy, the green lease categories follow the Bronze-Silver-Gold grading: starting from the risk management approach, to the aspirational tenant/landlord collaboration on sustainability performance.

The Dorset County Council will undertake an audit of historic leases to identify green clauses and will continue to monitor ongoing progress. In line with our Silver ESG ambition, we will aim for Silver green leases, while maintaining Bronze as a minmum standard for all new and renewed leases.

TRANSPARENCY

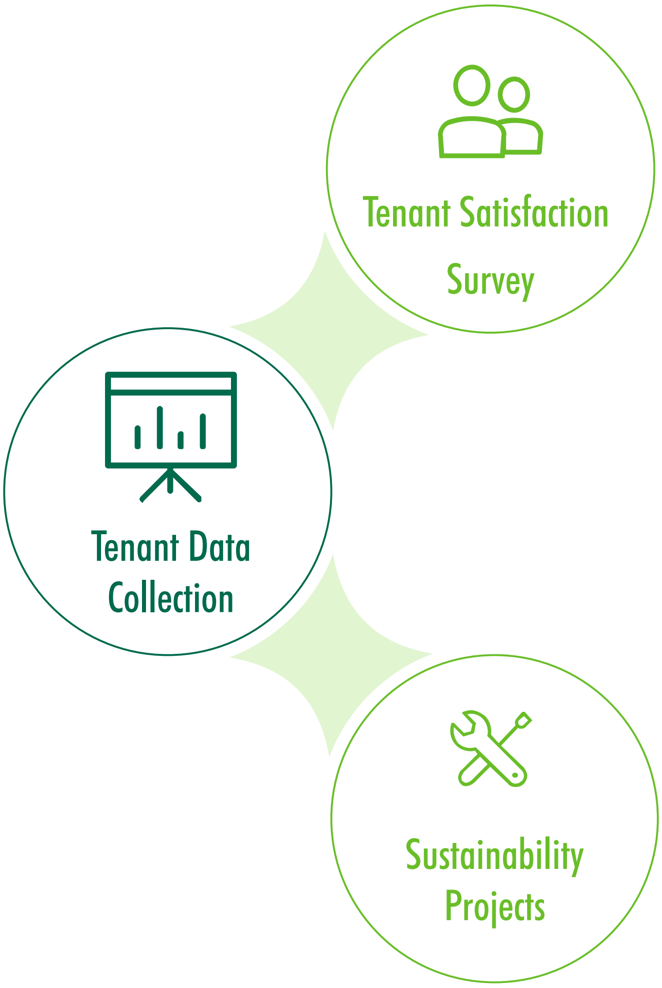
VOLUNTARY REPORTING

Voluntary Reporting is a key element of our ESG programme. Fund-level ESG reports are produced on a quarterly and annual basis, communicating our ESG performance to our key stakeholders and contributing to ESG performance disclosure improvement across the industry.

Communicating our ESG strategy and actions is not only important reputationally, but also drives improvements and provides confidence to the management, trustees, potential investors, tenants and other stakeholders. In addition to this first annual UK Separate Accounts report, we account for the ESG performance of each of our funds in regular fund-level reporting.

Regular reporting ensures that fund managers are 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 enabling increased stakeholder engagement with ESG performance.

CAMBRIDGE SCIENCE PARK



STAKEHOLDER ENGAGEMENT

Along with investors, the tenants are key stakeholders to our business. It is therefore imperative to develop and maintain a positive and collaborative relationship with this stakeholder group. By facilitating relationships between the property managers and tenants, and recognising the importance of factors such as lease events, a tenant's business priorities and running costs, these stakeholders' needs can be better understood. We complement these findings with satisfaction surveys and performance data collection, so that we can provide accurate advice that is bespoke to each asset and tenant's individual requirements.

Our stakeholder engagement approach takes three key paths to provide a holistic and well-rounded interaction with all tenants:

- **Tenant Satisfaction Survey** - A survey aligned to relevant industry best practice is sent out at least biannually to better understand the tenant's overall experience and identify any issues and opportunities.
- **Tenant Data Collection** – To identify improvement areas, it is important to gather not only the landlord data, but also as much as information as possible from our tenants. This will ensure that trends and patterns in consumption data are identified.
- **Projects** – Projects that are fully or part funded by tenants must have an appropriate return on investment and a solid business case. Recommendations and costing are provided, as well as funding advice.

APPENDIX

ESG INITIATIVES 2018

ACTION	NUMBER	EXAMPLES			
Energy Performance Assessment: high quality and modelled EPCs, and ESG audits	5	EPC surveys completed at units to confirm actual EPC rating and identify improvement measures where required.	x		
Green Refurbishment and Fit-Out (tenanted sites)	1	LED lighting projects with sensors/timers completed in common areas at several sites.	x		x
Sustainable Buildings including green building certification	1	BREEAM rating identifies a number of ESG criteria throughout assets which must meet standards in order to become certified.	x	x	x

CASE STUDY

ASSET DETAILS

Location	Apsley Centre (Unit D)
Sector	Industrial
Tenancy	Multi-let
Area	14,174 ft^2

SUSTAINABILITY

Energy rating	EPC D
Certification	N/A
Lighting and HVAC	LED and heating upgrades

CHALLENGE

The industrial units were in a condition that required some upgrades and with the EPC's due to expire later in 2019 it was seen as an opportunity to improve the assets and secure a low risk rating for a further 10 years until 2029.

SOLUTION

As part of upgrades across the site Unit D required extensive works which was agreed with the tenant. As part of the ongoing works the energy and sustainability team were brought in to identify improvement opportunities which would improve the EPC rating of the asset.

RESULT

Works have now been completed in line with the advice that the team provided and we are due to have a revised EPC carried out in Q1 2019 to confirm the rating and ensure the risk of non compliance is mitigated.

ACTIONS COMPLETED IN Q4 2018

SITE	UNIT	ACTION	OUTCOME
Pendragon, Glasgow	Unit 1	Modelled EPC	The modelled EPC will outline the requirements for the unit to be upgraded to a minimum E rating and ensure compliance.
Pendragon, Glasgow	Unit 2	Modelled EPC	The modelled EPC will outline the requirements for the unit to be upgraded to a minimum E rating and ensure compliance.
Apsley Centre	Unit D	Refurbishment ongoing	The ongoing refurbishment at unit D should improve the rating of the asset and secure a low risk rating.
ESG+ Signoff	All Sites	Signoff off ESG+	Signoff of the ESG+ proposal will provide a great platform to begin works and put together a schedule of works for 2019-21.

ACTIONS PLANNED IN Q1 2019

SITE	UNIT	ACTION	OUTCOME
Apsley Centre	Unit D	EPC	A revised EPC to confirm the rating is required post refurbishment
Tesco, Sheffield	Whole Site	Tenant Engagement	An ongoing relationship with workman provides an opportunity to get in front of the tenant and engage with Tesco's to improve the asset as part of their corporate social responsibilities.
All Sites	All	ESG+ Strategy	ESG+ Strategy proposal to be agreed ahead of 2019 implementation

CBRE
GLOBAL
INVESTORS