

DORSET COUNTY PENSION FUND

QUARTERLY REPORT

Q4 2020

Dorset County ('DC') property fund provides diversified exposure to good quality real estate located throughout the UK, across a range of sectors including offices, industrial, retail and other. The allocation to property has recently been reduced from 11% to 9% of DC's total assets which represents approximately £270m. The strategy is to transition the portfolio gradually to a 50/50 split between Secure Long Income ("SLI") and Conventional properties, with SLI properties within the Conventional portfolio counting towards the total.

£291.8m
Capital Value
(Combined Dorset Portfolios)

36
Assets

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Q3 2020)	£254.1m (87%)	£37.7m (13%)
Number of assets	27	9
Target portfolio size	£160m*	£110m
Value of purchases during quarter	-	-
Value of sales during quarter	-	-
Net initial yield (p.a.)	4.5%	3.9%
Average unexpired lease term (to break)	9.3 years (8.1 years)	66.8 years (18.5 years)

* The Conventional portfolio includes SLI assets (c.15%), therefore the total SLI allocation is 50%.

COMBINED VALUATION

Direct Property (Q4 2020 values)	£263.0m
Indirect Assets (Q4 2020 values)	£28.8m
Total Portfolio Valuation	£291.8m

PERFORMANCE****	CONVENTIONAL	SLI	COMBINED	MSCI QUARTERLY UNIVERSE
Q4 2020	0.4%	-1.2%	0.3%	1.0%
12 months	-2.3%	1.4%	-1.7%	-2.0%
3 yrs p.a.	2.1%	-	2.3%	1.8%
5 yrs p.a.	4.2%	-	4.4%	3.8%

** Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q4 -0.8% and 12 months to December 2020 2.6% with RPI Q4 0.4% and 12 months 1.2%.

ECONOMIC AND PROPERTY UPDATE

- 2021 looks set to be a year of two halves for the UK economy. All parts of the UK are again subject to lockdown restrictions and GDP will inevitably decline in Q1, although the contraction should be less severe than in 2020.
- The pace of the vaccine rollout will ultimately determine when restrictions can be lifted and consequently when the recovery can begin. We expect a robust mid-year rebound, as reopening drives a surge in consumption, supported by easy policy and the build-up of household savings through the pandemic.
- The latest Oxford Economics forecasts show GDP growth of 4.5% in 2021 (previously 7.5%) and 6.4% in 2022 (previously 4.5%). Renewed job creation will lag the upturn in economic activity, meaning the recovery in the real economy will be felt in 2022.
- Over the five-year forecast horizon 2021-25, UK property is expected to deliver an annualised total return of c.6% p.a.

STRATEGY

Size	<ul style="list-style-type: none"> ▪ Target size £270m – current size £291.8m. DC has recently reduced its allocation to property from 11% to 9% of total assets which represents approximately £270m. ▪ 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	<ul style="list-style-type: none"> ▪ 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 MSCI (formerly 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	<ul style="list-style-type: none"> ▪ Target is for the Conventional portfolio income return to exceed the MSCI benchmark income return. ▪ Continue to focus on reducing the vacancy rate and maintaining 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	<ul style="list-style-type: none"> ▪ 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 £25m 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	<ul style="list-style-type: none"> ▪ Diversified by location but with a bias towards London and the South East.
Sector allocation	<ul style="list-style-type: none"> ▪ 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.

CONVENTIONAL PORTFOLIO INFORMATION

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	Q4 2020
Direct market value	£225.3m
Indirect market value	£28.8m
Total Conventional Portfolio market value	£254.1m
No. of assets (direct avg. value)	27 (£9.4m)
No. of lettable units (direct avg. value)	79 (£2.9m)
Vacancy rate (% direct ERV)	2.5% (13.5%)*
Avg. unexpired direct lease term (to break)	9.3 years (8.1 years)
Direct net initial yield (p.a.)	4.5%
% of income direct RPI / index linked	9.8%
Rent with +10 years remaining (% of direct rent)	18.3%
Rent with +15 years remaining (% of direct rent)	7.4%
Largest Tenant	WorldPay Limited £1.2m p.a. (9.8% of direct income)

*Vacancy rate plus active development projects, which represent 11% of ERV



Euroway Industrial Estate, Swindon

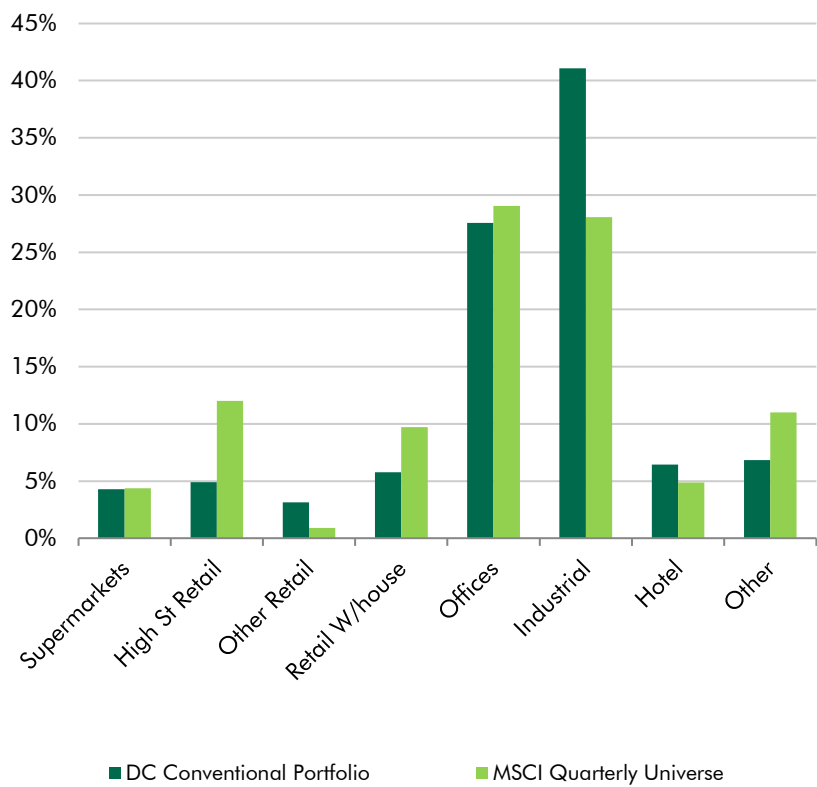
TRANSACTIONS

Purchases	£0m
Disposals	£0m
Target portfolio size	£160m

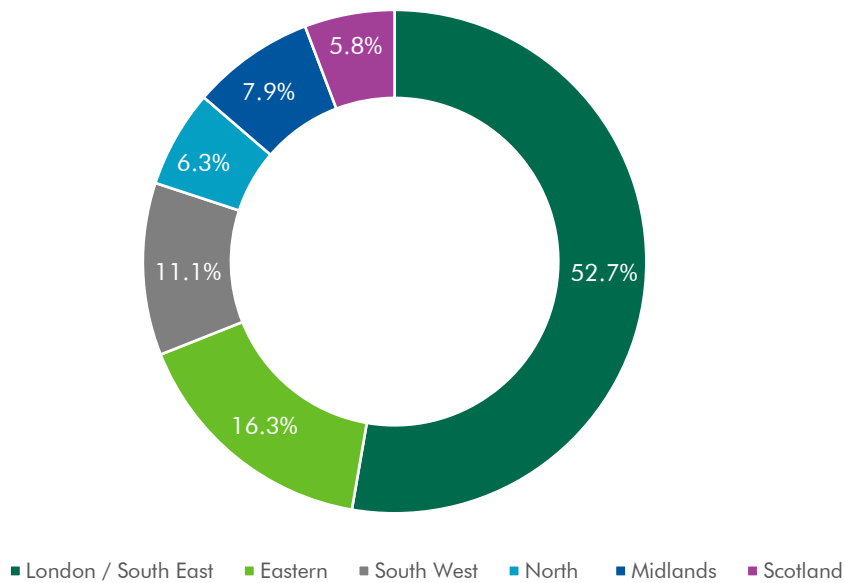
CONVENTIONAL PORTFOLIO ANALYSIS



SECTOR BREAKDOWN INCLUDING INDIRECT HOLDINGS



GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECT HOLDINGS



SLI PORTFOLIO INFORMATION

SLI PORTFOLIO INFORMATION

	Q4 2020
Direct market value	£37.7m
Indirect market value	£0m
Total SLI Portfolio market value	£37.7m
No. of assets (avg. value)	9 (£4.2m)
No. of lettable units (direct avg. value)*	13 (£2.9m)
Vacancy rate (% ERV)	0%
Avg. unexpired direct lease term (to break)	66.7 years (18.3 years)
Net initial yield (p.a.)	3.9%
% of income index linked	71.8%
Rent with 15+ years remaining (% of rent)	65.6%
Largest Tenant	Mears Plc £0.4m p.a. (27.7% of contracted income)

*Assumes each residential portfolio is treated as a single lettable unit.

TRANSACTIONS

Purchases	£0m
Disposals	£0m
Target Portfolio Size	£110m



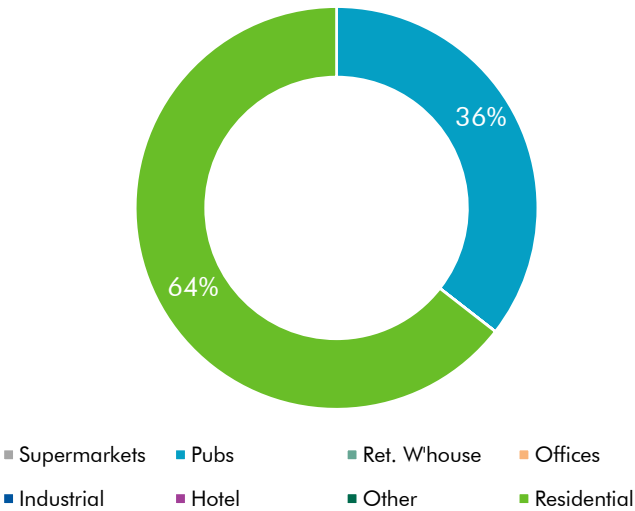
Red Lion, London SW1

SLI PORTFOLIO ANALYSIS



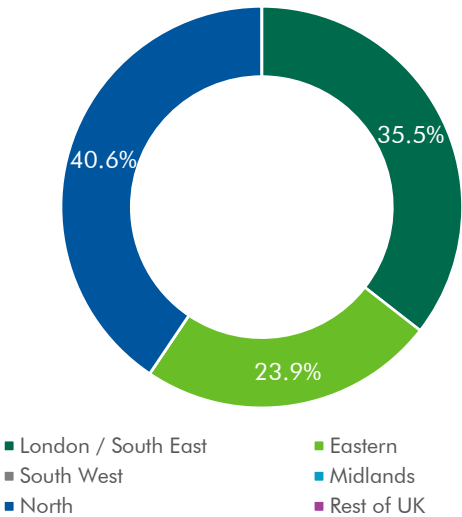
Elgin Bar & Grill, London W9

SECTOR BREAKDOWN (% OF TOTAL VALUE)



Ingersley Building, Macclesfield

GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



ENVIRONMENTAL, SOCIAL, GOVERNANCE

Responsible ESG practices are fundamental to Dorset County Pension Fund's strategy and we are targeting a Gold ambition level. We focus on three key pillars and the targets to 2022 are set out in each of these below.



COMPLIANCE

- Energy ratings
- Policies
- TCFD
- Compliance Risk
- Green Leases

All Environmental Compliance Risks



TRANSPARENCY

- Building certifications
- Reporting
- Stakeholder engagement
- Data coverage

GRESB Outperformance



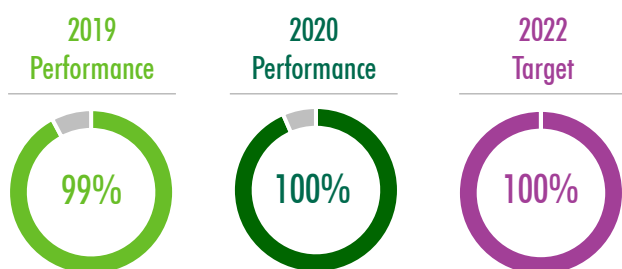
CARBON

- Energy
- Water
- Waste
- Tenant Workshops

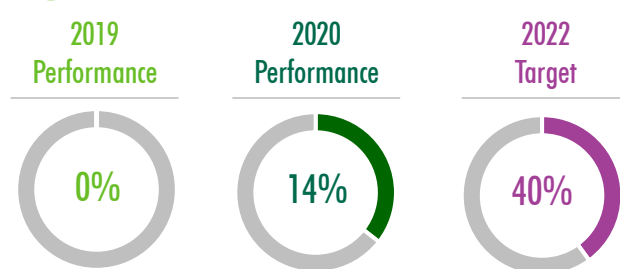
18% Carbon Intensity Reduction



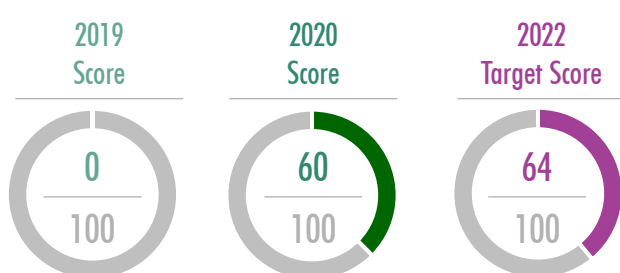
% of units with EPC rating lodged A-E



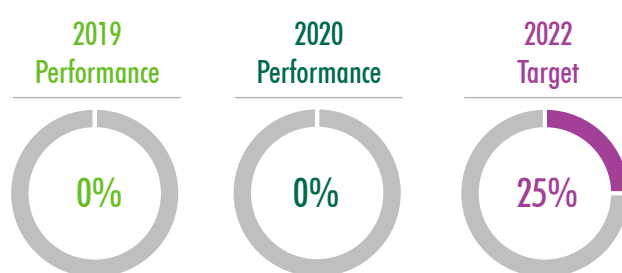
% of floor area environmental data has been collected



GRESB score in the Standing Investments Assessment



% Portfolio Covered by Workshops by Asset Value



KEY FUND ACTIONS COMPLETED IN Q4 2020

ACTION	OUTCOME			
BREEAM In Use	A BREEAM In Use assessment has been proposed to the Fund for the supermarket investment.	x	x	x
GRESB	The portfolio's GRESB results were received in November 2020 and analysed. Potential improvements to the Fund's strategy are under review.	x	x	x
Tenant Survey	A tenant satisfaction survey was issued in December 2020.			x

LEGISLATION UPDATE

In Q4 2020 there were three key developments in global climate change policy: China publicly committed to net zero by 2060, the outcome of the US elections signalling its return to global climate change commitments and increased focus on climate action from the UK Government. These items put the forthcoming 26th Conference of the Parties to the UNFCCC in a strong positive context.

The conference is scheduled to take place in Glasgow in November 2021 under the UK's leadership. A credible domestic strategy is key the UK's efficacy. This combined with the recent Energy White Paper and "ten point plan for a green industrial revolution" provide early signs suggesting that 2021 will be a year of substantial progression in UK climate legislation and leadership.

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