83 Clerkenwell Road, London EC1

Q3 Report

Dorset County Pension Fund

2023

Executive summary

Dorset County Pension Fund ("DCPF") 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 reflects 8% of DCPF's total assets[1], which currently represents approximately £300m. The strategy has been 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. As at Q3 2023, this strategy is under review.

OVERVIEW

£257.7m	31
Capital value (Combined DCPF portfolio)	Assets

	Conventional	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly Universe over five years	LPI +2% per annum
Capital Value (Q1 2023)	£213.7m (83%)	£44.0m (17%)
Number of assets	21	10
Target portfolio size	£180m[2]	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	-	-
Net initial yield (p.a.)	4.5%	4.8%
Average unexpired lease term (to break)	10.5 years (8.7 years)	60.3 years (18.2 years)

Combined Valuation	
Direct Property (Q3 2023 values)	£240.1m
Indirect Assets (Q3 2023 values)	£17.6m
TOTAL PORTFOLIO VALUATION	**£257.7m**

Performance[3]	Conventional	SLI	Combined	MSCI Quarterly Universe
Q3 2023	-0.1%	0.4%	0.0%	-0.7%
12 months	-11.2%	-9.0%	-10.8%	-12.0%
3 yrs p.a.	2.7%	0.3%	2.4%	2.3%
5 yrs p.a.	1.8%	2.5%	1.9%	1.2%
7 yrs p.a.	3.7%	4.0%	3.7%	3.3%
10 yrs p.a.	6.4%	-	6.5%	5.9%

[1] Based on Dorset County Pension Fund's total asset value as at the end of March 2022 (£3.7bn).
[2] The Conventional portfolio includes SLI assets (c.12%), therefore the total SLI allocation will be 50%.
[3] Conventional, Combined, and SLI are nominal returns. The SLI portfolio's real returns are: Q3 2023: -0.1%; 12 months to September 2023: -12.6%; 3 years: -4.2% p.a.; 5 years: -0.9% p.a.; 7 years: 0.6% p.a. RPI, the underlying index of LPI, was 0.5% as at Q3 2023. LPI was 5.0%, 4.5%, 3.4% and 3.4% over 12-months, 3-years, 5-years, and 7-years, respectively.

Economic and property update

- The latest monthly GDP growth figure showed an increase of 0.2% in August, following a 0.6% fall in July. Looking at the broader picture, GDP increased by 0.3% in the three months to August, bringing the annual figure to 0.4%. The low growth trajectory is unlikely to accelerate in the short term, as the impact of the Bank of England's (BoE) monetary tightening policy will continue to dampen growth via both higher household and business borrowing costs.
- The September 2023 MSCI monthly index recorded negative capital value growth at the all-property level for the fifth consecutive month (-0.7%). Within sectors, only industrial managed to record positive capital value growth (0.2%), its seventh consecutive monthly gain. Retail recorded its largest monthly capital value fall since Dec-22 (-1.4%) and continued high mortgage rates are feeding through into residential capital values, recording a fall of -0.4%. Offices recorded the largest fall of -1.8%, the sector's 15th consecutive monthly decline, with capital values now -25.1% below their June-22 peak. For industrial, retail, and residential, current capital values are -26.1%, -17.1% and -1.2% below their respective peaks.
- The recovery looks less likely to be linear and we could have a W-shaped, rather than V-shaped, bounce back as stubborn inflation and higher interest rates prevail. Total returns are expected to average 8.0% p.a. over the 5-year forecast period, up from 6.1% p.a. Returns accelerate starting in 2024, averaging 8.6% p.a. when Q4 2023 is excluded.
- We retain a strong conviction that superior income growth will lead to the logistics and residential sectors outperforming over the long-term. The ongoing shift to online retailing, coupled with the reorganisation of supply chains, is a strong driver of tenant demand for logistics assets, while tight land availability should limit a strong supply-side response, supporting rental growth.

Conventional portfolio

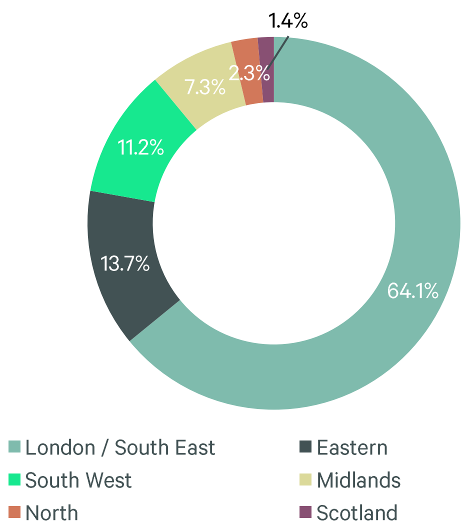
Portfolio information

KEY STATISTICS

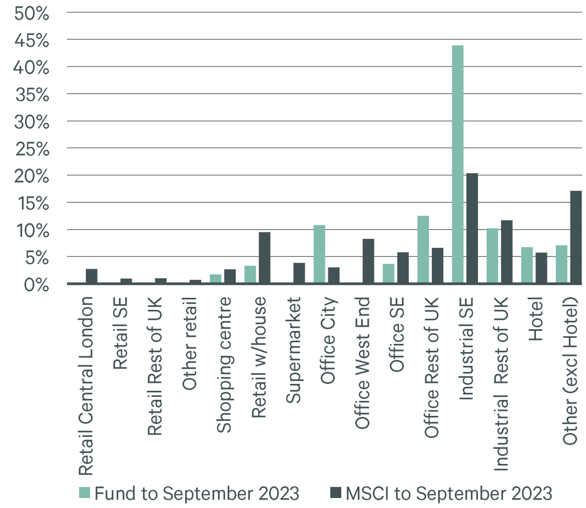
£196.1m Direct market value	**£17.6m** Indirect market value	**£213.7m** Total Conventional portfolio market value
21 (£10.9m) No. of assets (direct avg. value)	**71 (£2.8m)** No. of lettable units (direct avg. value)	**7.3% (8.3%)** Vacancy rate (MSCI Quarterly Universe)
10.5 yrs (8.7 yrs) Avg. unexpired direct lease term (to break)	**4.5%** Direct net initial yield (p.a.)	**8.8%** % of income direct RPI / index linked
16.3% Rent with +10 years remaining (% of direct rent)	**9.3%** Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

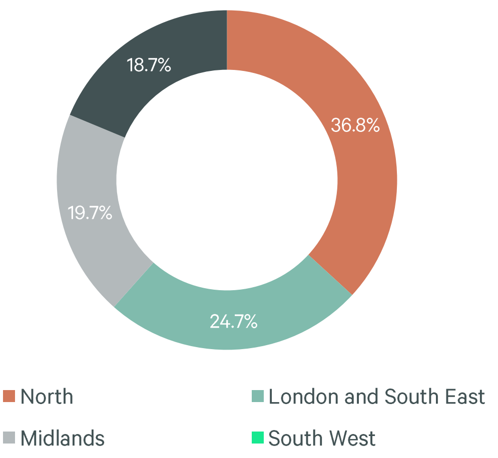
Portfolio information

KEY STATISTICS

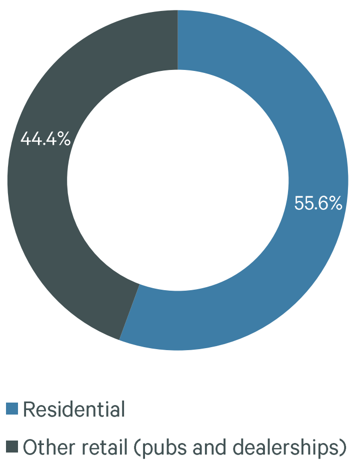
£44.0m Direct market value	**£0.0m** Indirect market value	**£44.0m** Total SLI portfolio market value
10 (£4.4m) No. of assets (avg. value)	**14 (£3.1m)** No. of lettable units (avg. value)[4]	**0%** Vacancy rate (% ERV)
60.3 yrs (18.2 yrs) Avg. unexpired lease term (to break)	**4.8%** Net initial yield (p.a.)	**79.9%** % of income index linked
41.4% Rent with >15 years remaining (% of contracted rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



[4] Assumes each residential portfolio is treated as a single lettable unit.

Environmental, social, governance

DCPF's ESG performance

Sustainability is fundamental to CBRE Investment Management's (the "Firm") value proposition where we seek to deliver sustainable investment solutions across real asset investing so that our clients, people and communities thrive.

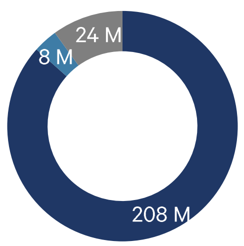
Key actions completed in Q3 2023

Action	Outcome	Compliance	Transparency	Carbon
BREEAM In Use Assessments	The portfolio has successfully submitted three BREEAM In Use assessments, which were completed in Q3 2023, with results due before year end.		x	
GRESB	The portfolio's 2023 GRESB submission has been completed. The portfolio scored 74/100, 2 Star in the Standing Investments Assessment and 91/100, 4 Star in the Development Projects Assessment.		x	
GRESB 2024 Improvement Plan	The portfolio is developing an Improvement Plan for GRESB 2024, following the detailed analysis of the 2023 results, which will include specific recommendations for future improvement.		x	x
EPC	The portfolio has completed two EPC assessments in the last quarter.	x		

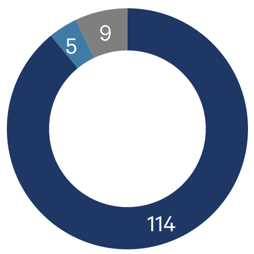
COMPLIANCE

A key part of the ESG strategy is the Energy Performance Risk Mitigation Program, where we seek to improve the sustainability performance of assets through improving the Energy Performance Certificate ratings. We have updated our approach to EPC risk to remove the distinction between "Short-Term" and "Long-Term" High Risk as the 1st April 2023 compliance date for "F" and "G" ratings on existing leases has passed. Units are included in the "High Risk" category if the "F" or "G" rating is draft, expired or lodged. The status of the EPC is explained in the EPC appendix at the end of this ESG update. We expect to further update the definitions to respond to the expected EPC B by 2030 MEES requirements in England & Wales in the coming quarters.

EPC risk by value (m)



EPC risk by unit



MEES Risk Rating	Key	Criteria
High	■	F or G rated valid EPC
Medium	■	E rated valid EPC
Low	■	A+ to D rated valid EP
Exempt	■	MEES regulation exem
Unknown	■	Inaccurate or missing

Action	Medium risk	High risk
High quality or modelled EPC	3	0
Action at lease end	2	0
Refurbishment	0	0
Planned redevelopment or considering sale	0	0
Review tenant fit out	0	0

Green leases

Green leases support us in protecting the portfolio from future environmental risks, reflecting market practice, and improving the sustainability credentials of the portfolios. We group our green lease clauses into three categories:

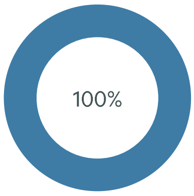
EPC compliance: clauses which support our compliance pillar, particularly with regard to EPCs

Data sharing: clauses which support the sharing of ESG data for reporting and facilitate performance improvement

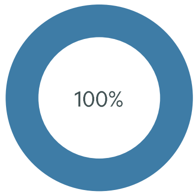
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance

% of leases completed since January 2019 incorporating green lease clauses

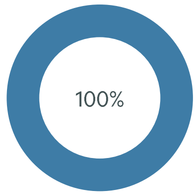
EPC Compliance



Data sharing

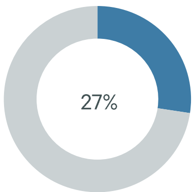


Collaboration

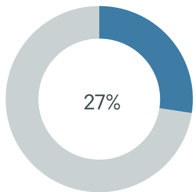


% of all portfolio leases which incorporate green lease clauses

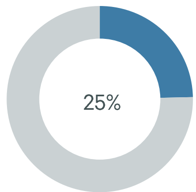
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

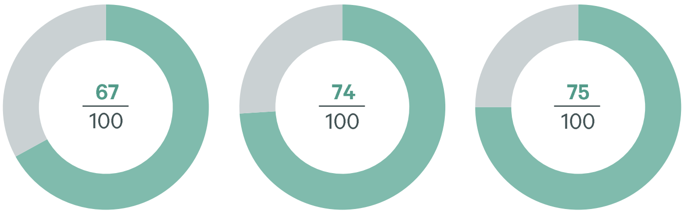
Green lease tracking	
% of portfolio with a green lease tracker (excluding vacant units)	93%
Trackers received since Q1 2019	17
New trackers received in Q3 2023	0

GRESB

CBRE Investment Management views GRESB as a key component of understanding the success of our ESG strategy. The GRESB Real Estate Assessment also allows us to benchmark portfolio performance against our peer group. The 2023 assessment was the portfolio's fourth year of participating in the annual GRESB Real Estate Assessment.

2023 GRESB score in the Standing Investments Assessment

2022 Performance **2023 Performance** **2023 Target**



The Portfolio scored 74 out of 100 on the GRESB Standing Investments Assessment – a seven-point increase on the Score in 2022 (67). The majority of aspects are above peer group average with particularly strong results in the following Performance Component Aspects: Targets, Data Monitoring & Review and Waste.

As a result, the Portfolio has maintained its GRESB Two Star rating. The Portfolio has also achieved the GRESB Green Star and exceeded the peer average score of 73 by 1 point The Star Rating boundaries have shifted higher this year, whereby this year's score of 74 would have achieved Three Star last year (73 minimum score required). However, despite our projections that 74 would be enough to achieve Three Star this year, other portfolios in the peer group have improved quickly and subsequently impacted Dorset's star rating, preventing it from narrowly reaching the Three Star boundary (76 minimum score required).

Next year, we expect the Portfolio score to continue to improve due to greater like-for-like scores in data coverage, with anticipated full calendar year data coverage through PropTech. Beyond that the continued implementation of renewables and focus on decarbonisation will become key to pushing the GRESB score higher. We expect Waste and Water data coverage to continue to be challenging.

Figure 1: Portfolio 2023 Standing Investments score by aspect

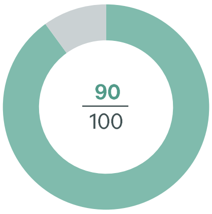
Total score **Management** **Performance** **Environment** **Social** **Governance**

Peer group average: 73 **GRESB average: 27** **GRESB average: 48** **GRESB average: 41** **GRESB average: 16** **GRESB average: 18**

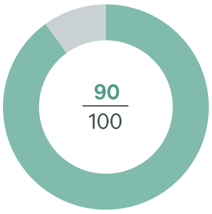
The GRESB Real Estate Assessment generates two benchmarks: The GRESB Real Estate Benchmark and the GRESB Development Benchmark. This portfolio also participated in the GRESB Development Projects Assessment, to help us understand how the portfolio's approach to Major Refurbishments and New Construction projects compares to peers and industry expectations.

2023 GRESB Score in the Development Projects Assessment

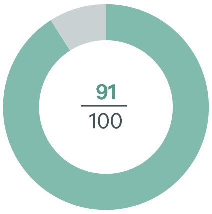
2021 Performance



2022 Performance



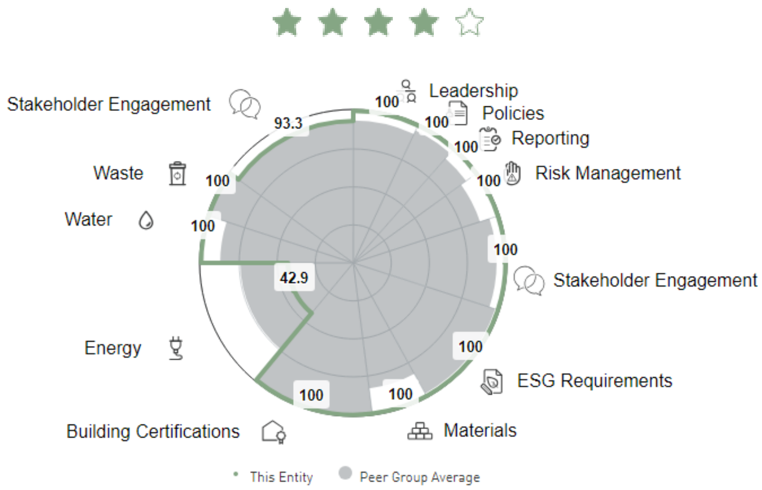
2023 Performance



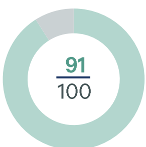
The Development Projects assessment benchmarks the portfolio's efforts to address ESG-issues during the design, construction, and renovation of assets. This component is suitable for portfolios involved in new construction (building design, site selection and/or construction) and/or major renovation projects, with on-going projects or completed projects during the reporting year.

The Portfolio's Development performance has also increased from 90 in 2022 to 91 in the 2023 submission, achieving a GRESB Four Star rating. This is due to the integration of BREEAM Certifications undertaken across the Portfolio. The Portfolio should continue to embed these in future projects to maintain its very strong performance in the Development component.

Figure 2: Portfolio 2023 Development score by aspect

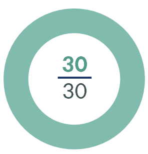


Total score



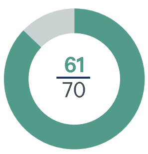
Peer group average: 93

Management



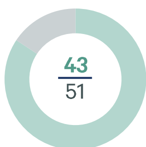
GRESB average: 27

Development



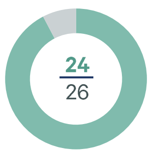
GRESB average: 56

Environment



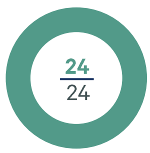
GRESB average: 40

Social



GRESB average: 22

Governance



GRESB average: 21

TRANSPARENCY

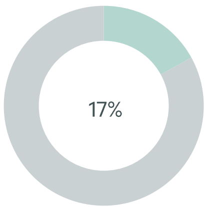
Building certification strategy

CBRE Investment Management aim to acquire or forward fund buildings with certifications. Green Building Certifications are important for the Fund's GRESB Performance in the short term and achievement of its ESG Vision in the long term. Specifically, Green Building Certifications account for 10.5% of the GRESB Standing Investment score and by instructing new or renewing certifications, the portfolio aims to outperform the peer group in this category.

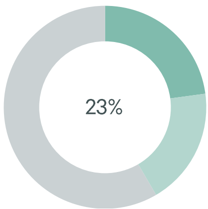
Property	Certification type	Rating	Status
Brownhills Motorhomes, Newark	BREEAM In Use: Part 1	TBC	Submitted
CIC2 Science Park, Cambridge	BREEAM In Use: Part 2	TBC	Submitted
Astra House, Harlow	BREEAM In Use: Part 2	TBC	Submitted
Woolborough Lane Industrial Estate, Crawley - (Unit A)	BREEAM Refurbishment	Very Good	Submitted

% Portfolio with a Building Certification (By Value)

2022 performance



2023 performance



In Progress Certifications

STAR STANDARDS

The Star Standards is a bespoke rating system that has been developed by CBRE ESG Consultancy to drive and track sustainable improvements delivered during refurbishment works. All refurbishments undertaking the Star Standard will seek to improve their operational performance, portfolio level targets and GRESB reporting potential. Refurbishments will be assessed against the Star Standards and awarded a rating once all the sustainability improvements have been evidenced. Embedding the Star Standards into refurbishment projects will improve their operational performance, portfolio level targets and GRESB reporting potential. The Star Standards methodology and guidance is currently being updated within the house team to ensure relevance with current best practice and potential incoming regulations changes.

Refurbs completed to Star Standards

		2021	2022	2023
★★★	Beyond best practice	0	2	0
★★	Best practice	0	0	0
★	Good practice	0	0	1
	Star Standards Lite – Small Projects	0	0	0

Asset	Unit	Targeted Star Standard	Estimated completion date	Project Notes
Unit C1-C4, Woolborough, Crawley	Unit C1-C4	3*	Jun 2023	Awaiting final ESG information for reporting purposes

CARBON

Carbon emission figures are being prepared to be reported in a standalone annual report in line with Streamlined Energy and Carbon Reporting requirements within the 2022 Annual ESG Report. The portfolio's 2022 Annual ESG Report will be issued using data assured to AA1000AS, as it is taken from the portfolio's GRESB 2022 submission, which required a stringent third-party assurance process.

2022 calendar year data collection via CRM data requests and enhanced PropTech enabled data collection methods has been completed. Landlord energy data has also been reviewed and inputted into the funds data management system (Measurabl). This data has been assured and submitted as part of the annual GRESB submission in June 2023 as per normal practice. 2023 calendar year data collection is now in progress, in preparation for the portfolio's GRESB 2024 submission.

The utility data uploaded to the Measurabl platform has undergone a comprehensive audit to ensure data quality. Each assigned utility meter is error-free, and all outliers have been investigated and addressed. Issues, if any, are promptly raised with the utility provider and data platform manager. The resolution of each issue is documented for full transparency. Furthermore, the audit of the Measurabl platform has included the portfolio's Projects, Audits, Refurbishments and Certifications (PARC) data, as well as valuations data and property-type assignment. Consequently, the data in its current state is up to date and will continue to be subjected to checks throughout the coming business year.

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