DORSET COUNTY PENSION FUND

QUARTERLY REPORT
Q3 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.

£293.1M
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)	£254.7m (87%)	£38.4 (13%)
Number of assets	27	9
Target portfolio size	£160m*	£110m
Value of purchases during quarter	-	-
Value of sales during quarter	£0.1m	-
Net initial yield (p.a.)	4.2%	3.8%
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 (Q3 2020 values)	£263.0m
Indirect Assets (Q3 2020 values)	£30.1m
Total Portfolio Valuation	£293.1m

PERFORMANCE**	CONVENTIONAL	SLI	COMBINED	MSCI QUARTERLY UNIVERSE
Q3 2020	0.5%	1.1%	0.7%	0.1%
12 months	-2.6%	3.5%	-1.7%	-2.9%
3 yrs p.a.	2.9%	-	3.1%	2.4%
5 yrs p.a.	4.7%	-	5.0%	4.2%

** Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q3 1.6% and 12 months to September 2020 4.6% with RPI Q3 0.5% and 12 months 1.1%.

ECONOMIC AND PROPERTY UPDATE

- As the UK economy adapts to a prolonged period with social distancing measures in place, the recovery has entered a tougher and weaker phase.
- Having rebounded strongly in June and July, the pace of growth has slowed and the new Covid-19 restrictions will further increase pressure on businesses particularly in light of the Government's announcement of a month's national lockdown in November.
- The latest forecasts from Oxford Economics suggest that employment will continue to fall in 2021, even as GDP growth hits c.8% y/y.
- Our latest UK property market forecasts were finalised in September. These include an All Property capital value decline of 10% this year, as rents fall and yields soften. This hit to values would be the sharpest since 2008, but much smaller than the c.40% seen following the 2008 Global Financial Crisis. We expect values to find their floor in mid-2021, before a gradual resumption of capital value growth.
- Over the five-year forecast horizon 2021-25, UK property is expected to deliver an annualised total return of 6.2% p.a.

STRATEGY

Size	▪ Target size £270m – current size £293.1m. 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	▪ 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	▪ 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	▪ 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	▪ 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.

CONVENTIONAL PORTFOLIO INFORMATION

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	Q3 2020
Direct market value	£224.6m
Indirect market value	£30.1m
Total Conventional Portfolio market value	**£254.7m**
No. of assets (direct avg. value)	27 (£9.4m)
No. of lettable units (direct avg. value)	80 (£2.8m)
Vacancy rate (% direct ERV)	3.5% (13.8%)*
Avg. unexpired direct lease term (to break)	9.3 years (8.1 years)
Direct net initial yield (p.a.)	4.2%
% of income direct RPI / index linked	10.7%
Rent with +10 years remaining (% of direct rent)	16.4%
Rent with +15 years remaining (% of direct rent)	11.0%
Largest Tenant	WorldPay Limited £1.2m p.a. (11.7% of direct income)

*Vacancy rate plus active development projects, which represent 10.3% of ERV


Euroway Industrial Estate, Swindon

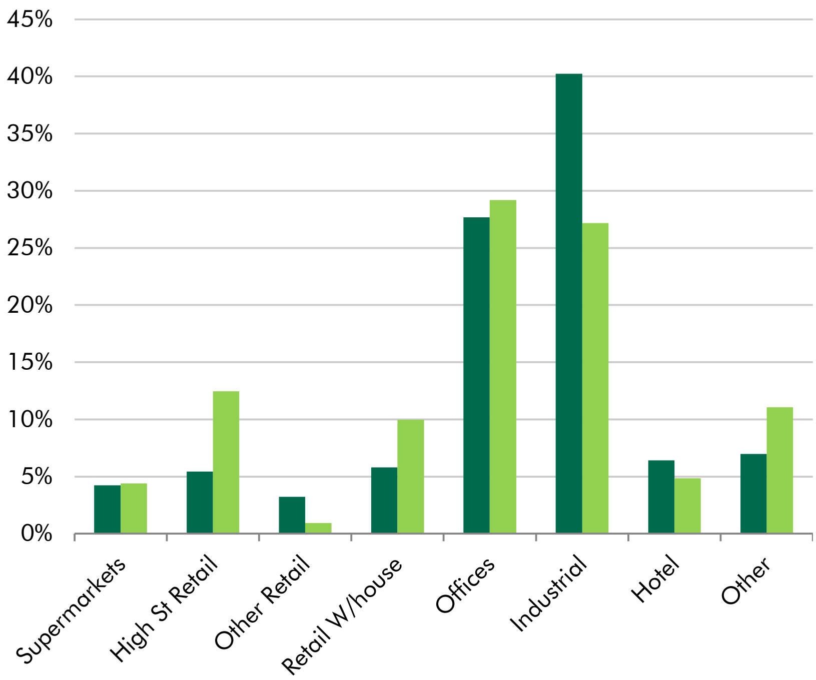
TRANSACTIONS

Purchases	£0m
Disposals	£0.1m
Target portfolio size	£160m

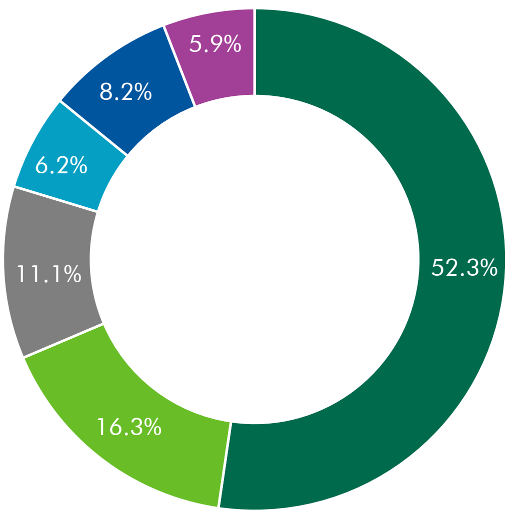
CONVENTIONAL PORTFOLIO ANALYSIS

Cambridge Science Park

SECTOR BREAKDOWN INCLUDING INDIRECT HOLDINGS



GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECT HOLDINGS



SLI PORTFOLIO INFORMATION

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	Q3 2020
Direct market value	£38.4m
Indirect market value	£0m
Total SLI Portfolio market value	**£38.4m**
No. of assets (avg. value)	9 (£4.3m)
No. of lettable units (direct avg. value)*	13 (£3.0m)
Vacancy rate (% ERV)	0%
Avg. unexpired direct lease term (to break)	66.8 years (18.5 years)
Net initial yield (p.a.)	3.8%
% of income index linked	71.8%
Rent with 15+ years remaining (% of rent)	72.3%
Largest Tenant	Mears Plc £0.4m p.a. (27.7% of contracted income)

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


Red Lion, London SW1

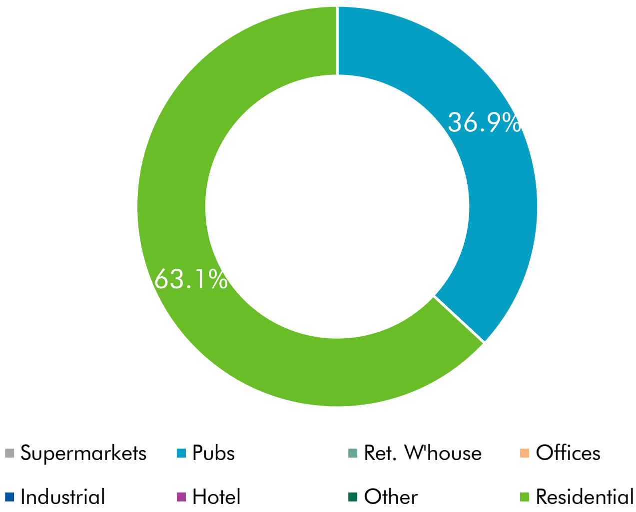
TRANSACTIONS

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

SLI PORTFOLIO ANALYSIS

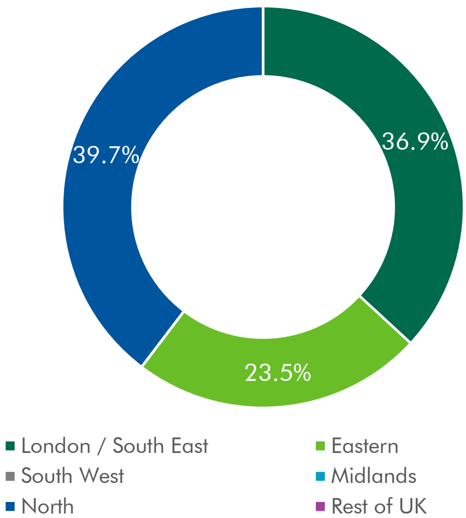
Elgin Bar & Grill, London W9

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

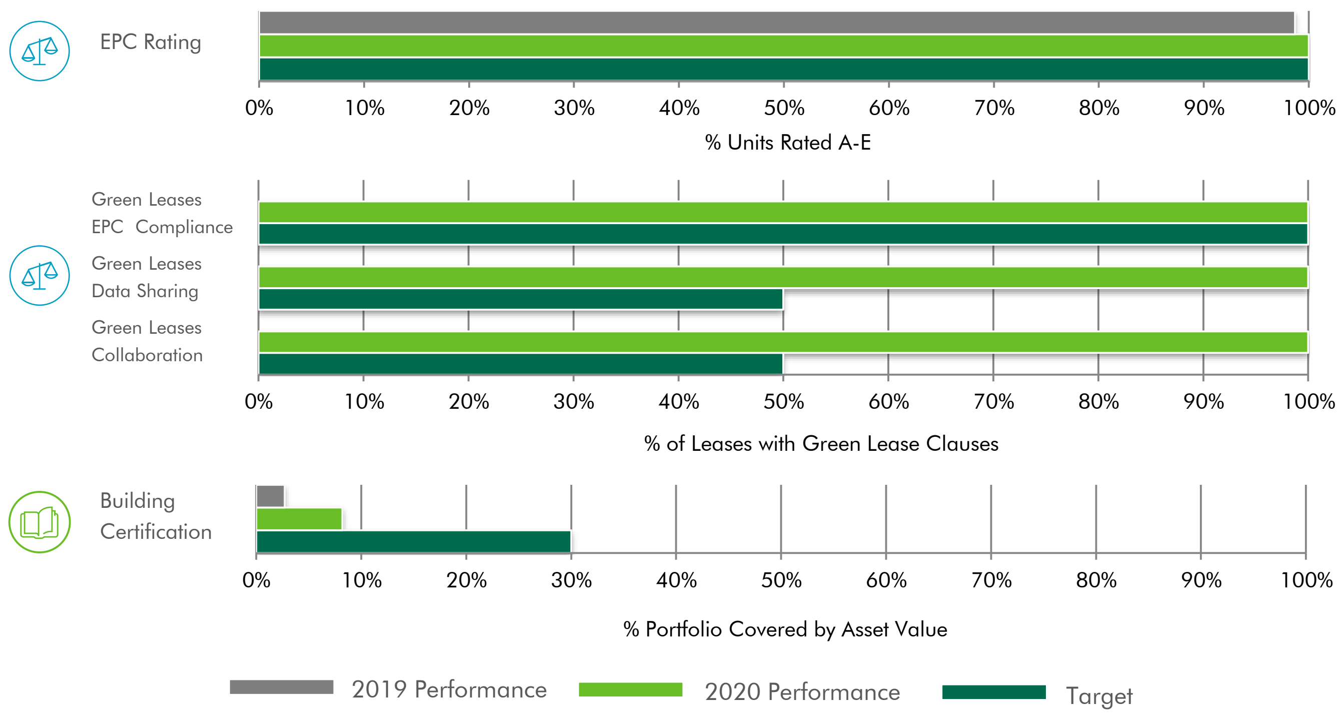
GRESB Outperformance

CARBON

- Energy
- Water
- Waste
- Tenant Workshops

18% Carbon Intensity Reduction

Figures 1 - Performance against KPI actions (additional KPIs will be added as and when data becomes available)



KEY FUND ACTIONS COMPLETED IN Q3 2020

ACTION	OUTCOME			
Annual Report	The fund has released its Annual ESG Report for 2019. The report reviews the funds position against all its 2022 KPIs.	x	x	x
GRESB	The GRESB submission took place ahead of the deadline on 1st August. The provisional results have now been published and are being reviewed by the CBRE ESG team. We are awaiting final results to be published on 16th November before conducting a final analysis and reporting on DC's score. We expect to disclose the results in the Q4 2020 report.	x	x	x
Star Standards	The CBRE ESG team has developed the Star Standards guide which is now being implemented across the DC portfolio for all refurbishments. This is to ensure that a minimum standard is achieved during a refurbishment, helping the Fund meet its KPI targets.	x	x	x

LEGISLATION UPDATE

The Environment Bill 2020 was added to the parliamentary schedule this quarter. Its goal can be summarised as 'Protecting and improving the natural environment using market forces'.

The Bill intends to set new legally binding targets in four priority areas of the natural environment: air quality; waste and resource efficiency; water and nature that will be reviewed on a five-yearly basis. This includes: an ambitious and legally binding target for particulate matter, internalising biodiversity within the economic system, greater scrutiny and collaboration on the sustainability of the water system, and moving towards a circular economic model with much increased producer responsibility.

CBRE GLOBAL INVESTORS