

# DORSET COUNTY PENSION FUND

QUARTERLY REPORT  
Q2 2021

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 reflects 9% of DC's total assets, which represents approximately £300m. 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. Sales of £11.6m were made from the Conventional portfolio during the quarter.

**£284.8m**  
Capital Value  
(Combined Dorset Portfolios)

**34**  
Assets

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Q2 2021)	£246.3m (86%)	£38.5m (14%)
Number of assets	25	9
Target portfolio size	£175m*	£125m
Value of purchases during quarter	-	-
Value of sales during quarter	£11.6m	-
Net initial yield (p.a.)	4.3%	3.8%
Average unexpired lease term (to break)	8.7 years (7.5 years)	66.4 years (17.8 years)

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

## COMBINED VALUATION

Direct Property (Q2 2021 values)**	£258.8m
Indirect Assets (Q2 2021 values)***	£26.0m
Total Portfolio Valuation	£284.8m

PERFORMANCE	CONVENTIONAL	SLI**	COMBINED	MSCI QUARTERLY UNIVERSE
Q2 2021	3.8%	0.8%	3.7%	3.4%
12 months	6.8%	1.4%	6.6%	6.5%
3 yrs p.a.	2.7%	2.3%	2.9%	2.3%
5 yrs p.a.	4.7%	-	4.8%	4.3%

\*\* Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q2 3.2%, 12 months to June 2021 5.3% and 3 years 4.9% with RPI Q2 2.4%, 12 months 3.9% and 3 years 2.6%.

# ECONOMIC AND PROPERTY UPDATE

- Economic activity rebounded strongly as Covid restrictions lifted and businesses reopened during Q2. Assuming no further restrictions are required and the strong consumer-led recovery continues, Oxford Economics now expect GDP to grow by 7.7% in 2021.
- Demand for labour already appears to be recovering strongly and the risk of a large pick-up in joblessness when the furlough scheme ends in September looks low.
- Strong base effects and higher energy prices have driven inflation higher in recent months, with CPI reaching 2.5% in June. It is likely to remain above the Bank of England's 2% target through H2 2021 and into 2022.
- All Property capital values have returned to growth more quickly than expected and the total return of 3.1%, pencilled in for 2021 now looks likely to be exceeded. This has been driven by the rapid vaccine rollout and the economy reopening. Despite performance being pulled forward, we do not expect a significant change to the five-year All Property total return forecast of 5.4% p.a.

## STRATEGY

Size	<ul style="list-style-type: none"><li>▪ Target size £300m – current size £284.8m. DC's allocation to property is 9% of total assets, which represents approximately £300m.</li><li>▪ 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.</li></ul>
Performance objectives	<ul style="list-style-type: none"><li>▪ Conventional and SLI portfolios' have had distinct benchmarks since 1<sup>st</sup> April 2018.</li><li>▪ Conventional portfolio: <i>"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."</i></li><li>▪ Secure Long Income Portfolio: <i>"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."</i></li></ul>
Income yield	<ul style="list-style-type: none"><li>▪ Target is for the Conventional portfolio income return to exceed the MSCI benchmark income return.</li><li>▪ Continue to focus on reducing the vacancy rate and maintaining a resilient income yield.</li><li>▪ Ensure SLI held properties / new acquisitions have strong rental growth prospects, long leases and an element of indexation.</li></ul>

## ALLOCATION

Property type	<ul style="list-style-type: none"><li>▪ 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.</li><li>▪ We anticipate maintaining a total of between 15-20 assets with an average lot size of between £8m and £11m.</li><li>▪ 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.</li></ul>
Geographic allocation	<ul style="list-style-type: none"><li>▪ Diversified by location but with a bias towards London and the South East.</li></ul>
Sector allocation	<ul style="list-style-type: none"><li>▪ Diversified by sector with a maximum of 50% in any single sector.</li><li>▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other Commercial.</li><li>▪ Source suitable SLI investments that could be available in any sector.</li></ul>

# CONVENTIONAL PORTFOLIO INFORMATION

## CONVENTIONAL PORTFOLIO INFORMATION

	Q2 2021
Direct market value	£220.3m
Indirect market value	£26.0m
<b>Total Conventional Portfolio market value</b>	<b>£246.3m</b>
No. of assets (direct avg. value)	25 (£10.0m)
No. of lettable units (direct avg. value)	68 (£3.2m)
Vacancy rate (% direct ERV)	3.2% (15.5%)*
Avg. unexpired direct lease term (to break)	8.6 years (7.5 years)
Direct net initial yield (p.a.)	4.3%
% of income direct RPI / index linked	10.6%
Rent with +10 years remaining (% of direct rent)	13.8%
Rent with +15 years remaining (% of direct rent)	5.2%
Largest Tenant	WorldPay Limited £1.2m p.a. (10.6% of direct income)

\*Vacancy rate plus active development projects, which represent 12.3% of ERV



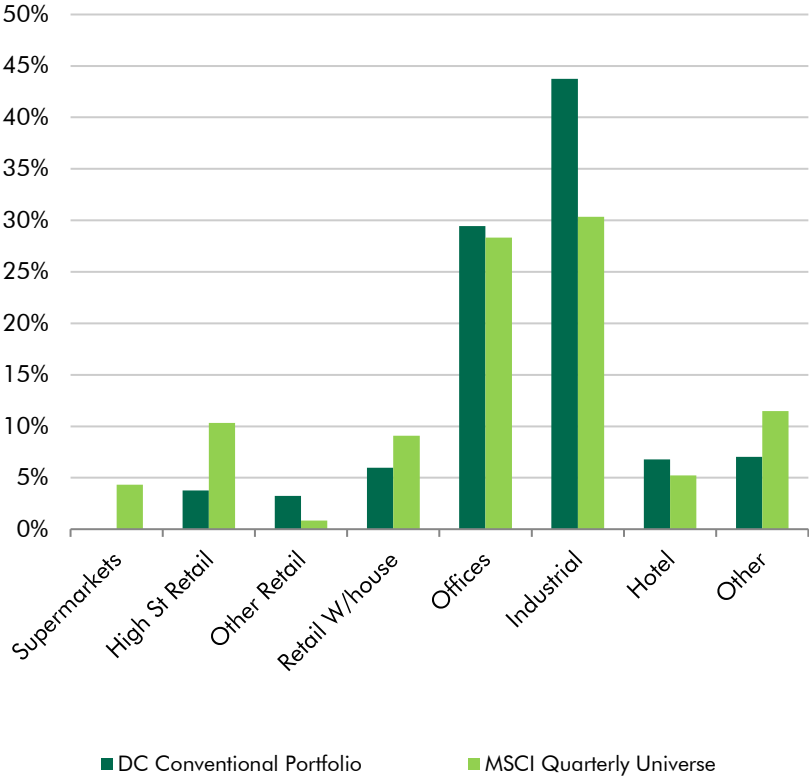
## TRANSACTIONS

Purchases	£0m
Disposals	£11.6m
Target portfolio size	£175m

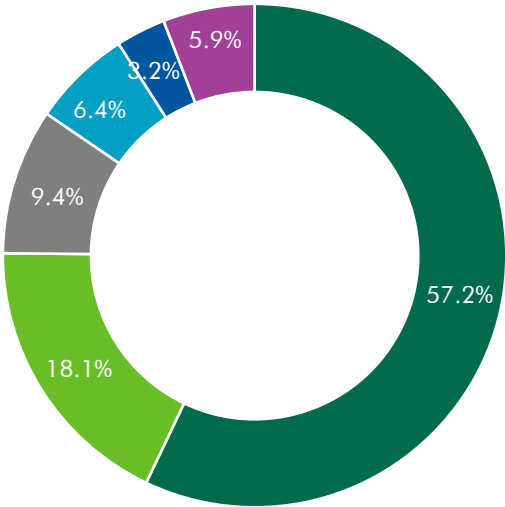
# CONVENTIONAL PORTFOLIO ANALYSIS



SECTOR BREAKDOWN INCLUDING INDIRECT HOLDINGS



GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECT HOLDINGS



■ London / South East 
 ■ Eastern 
 ■ South West 
 ■ North 
 ■ Midlands 
 ■ Scotland

# SLI PORTFOLIO INFORMATION

## SLI PORTFOLIO INFORMATION

	Q2 2021
Direct market value	£38.5m
Indirect market value	£0m
<b>Total SLI Portfolio market value</b>	<b>£38.5m</b>
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)	66.4 years (17.8 years)
Net initial yield (p.a.)	3.8%
% of income index linked	72.0%
Rent with 15+ years remaining (% of rent)	65.7%
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

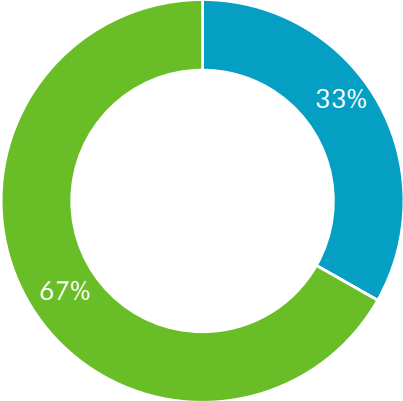
Purchases	£0m
Disposals	£0m
Target Portfolio Size	£125m



# SLI PORTFOLIO ANALYSIS



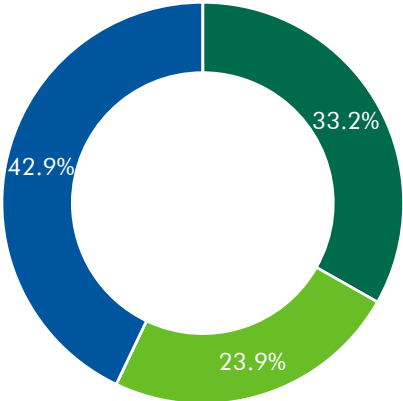
SECTOR BREAKDOWN (% OF TOTAL VALUE)



- Supermarkets
- Pubs
- Ret. Whouse
- Offices
- Industrial
- Hotel
- Other
- Residential



GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



- London / South East
- Eastern
- South West
- Midlands
- North
- Rest of UK

# 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



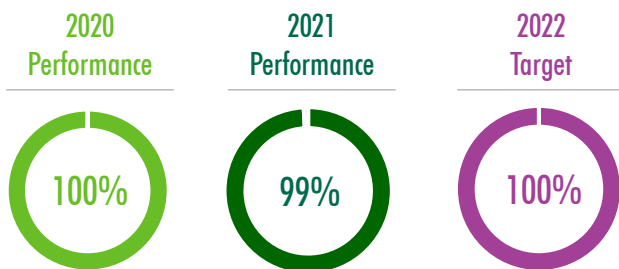
## CARBON

- Energy
- Water
- Waste
- Tenant Workshops

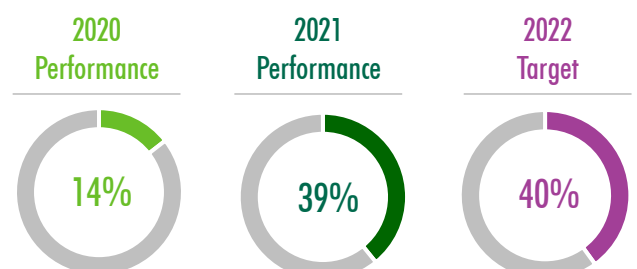
18% Carbon Intensity Reduction



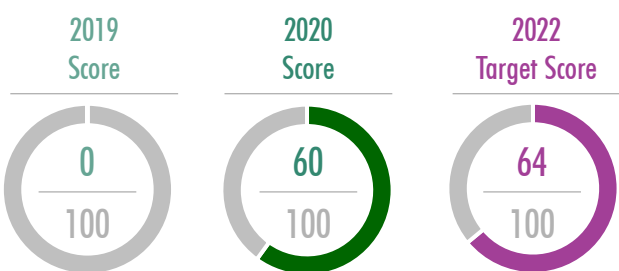
% of units with EPC rating lodged A-E



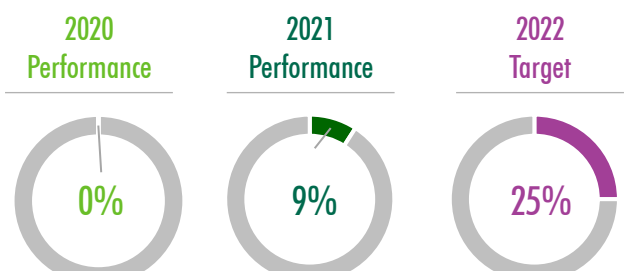
% of floor area for which tenant energy data has been collected



GRESB score in the Standing Investments Assessment



% Portfolio Covered by Workshops by Asset Value



### KEY FUND ACTIONS COMPLETED IN Q2 2021



ACTION	OUTCOME	COMPLIANCE	CARBON
Tenant Data Collection	This year’s tenant data collection process has been completed. The portfolio achieved 39% tenant energy data coverage by floor area.	x	x
Third Party Data Assurance	The Energy, Greenhouse Gas (GHG, aka. Carbon) and Water data for this portfolio has been assured to the AA1000AS standard.	x	x
GRESB	The portfolio submitted to the GRESB 2021 assessment. GRESB are expected to issue the results in October and we will provide analysis of the findings.	x	x

### CBRE GLOBAL INVESTORS SUSTAINABILITY VISION

Our [Sustainability Vision](#) has been published. It sets out ambitious targets for the next two decades, including a corporate commitment to achieve many of our aspirations by 2040. This work is the product of extensive engagement with our stakeholders, including many of our clients and employees who are deeply passionate about sustainability. As a guiding principle, we are using recognised industry measures whenever possible.

The ESG programme for this portfolio will be updated in line with our Sustainability Vision before the end of the year. Our aim is for all portfolios to fully integrate ESG considerations by a date appropriate to the investors ESG strategy. Key performance indicators and targets will be updated to support this aim.

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