280 Cambridge Science Park

Q4 report

Dorset County Pension Fund

2021

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 9% of DCPF's total assets, which currently 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.

£300.0M	33
Capital value (Combined DCPF portfolio)	Assets

	Conventional	**SLI**
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% per annum
Capital Value (Q4 2021)	£260.3m (87%)	£39.7m (13%)
Number of assets	24	9
Target portfolio size	£180m[1]	£120m
Value of purchases during quarter	-	£0.2m
Value of sales during quarter	£0.2m	-
Net initial yield (p.a.)	3.9%	3.8%
Average unexpired lease term (to break)	8.4 years (6.9 years)	66.7 years (17.0 years)

Combined Valuation	
Direct Property (Q4 2021 values)	£274.7m
Indirect Assets (Q4 2021 values)	£25.3m
TOTAL PORTFOLIO VALUATION	**£300.0m**

Performance[2]	Conventional	SLI	Combined	MSCI Quarterly Universe
Q4 2021	6.1%	1.9%	5.5%	6.2%
12 months	15.9%	9.6%	15.0%	16.3%
3 yrs p.a.	4.9%	6.6%	5.1%	4.9%
5 yrs p.a.	6.4%	-	6.4%	6.2%
7 yrs p.a.	7.0%	-	7.1%	6.8%
10 yrs p.a.	8.3%	-	8.4%	7.9%

[1] The Conventional portfolio includes SLI assets (c.12%), therefore the total SLI allocation will be 50%.
[2] Conventional, Combined and SLI are Nominal returns. SLI's Real returns for Q4 -1.0%, 12 months to December 2021 2.1%, and 3 years 3.0% with RPI Q4 2.9%, 12 months 7.5% and 3 years 3.6%.

Economic and property update

- Strong expansion saw the UK economy exceed its pre-pandemic size for the first time in November 2021.
- However, the subsequent emergence of the Omicron variant put the brakes on growth through heightened consumer caution, reduced activity in social consumption sectors, and widespread self-isolation disrupting labour supply.
- Despite the Omicron-related uncertainties, the outlook for inflation remains the key question facing the economy. We expect a relatively mild monetary policy tightening cycle to be sufficient to bring inflation back under control as external factors fade and domestic demand growth eases through 2022.
- We regard 2022 as a year of transition, with GDP growth slowing to 4.4% from the reopening-driven 7.2% expected for 2021. As the economic tailwinds fade, GDP growth of 2.8% is projected in 2023, before settling around a trend rate of 1.5-1.75% thereafter.
- Over the coming five years we expect All Property total returns to average 5.5% p.a. This will likely be front-loaded as real estate benefits from the strong economic recovery, before rising interest rates and weaker economic growth cause capital growth to fade later in the period.

Conventional portfolio

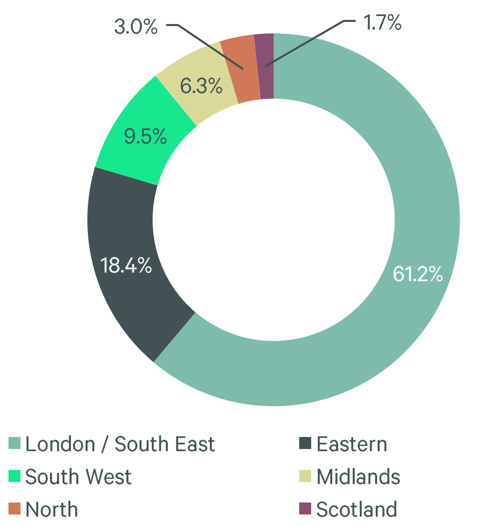
Portfolio information

KEY STATISTICS

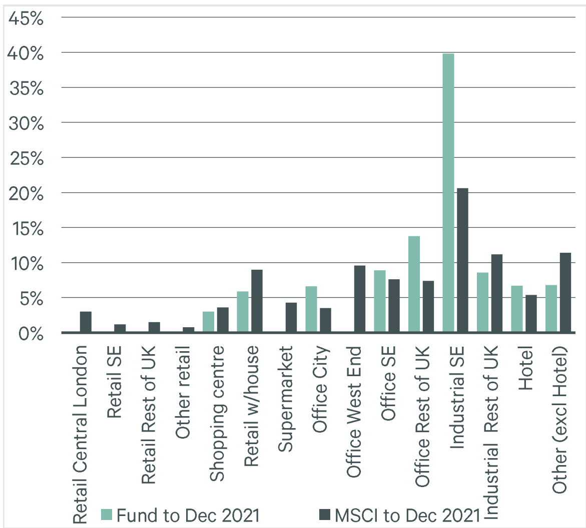
£235.1M Direct market value	**£25.3M** Indirect market value	**£260.3M** Total Conventional portfolio market value
24 (£11.2M) No. of assets (direct avg. value)	**67 (£3.5M)** No. of lettable units (direct avg. value)	**8.7% (17.1%)** Vacancy rate[3]
8.4 yrs (6.9 yrs) Avg. unexpired direct lease term (to break)	**3.9%** Direct net initial yield (p.a.)	**10.5%** % of income direct RPI / index linked
9.1% Rent with +10 years remaining (% of direct rent)	**5.4%** Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



[3] Vacancy rate plus active development projects, which represent 8.4% of ERV.

Secure long income portfolio (SLI)

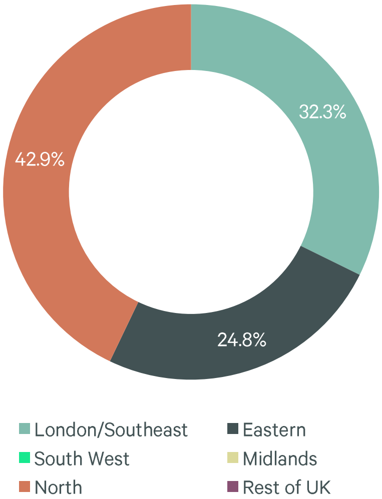
Portfolio information

KEY STATISTICS

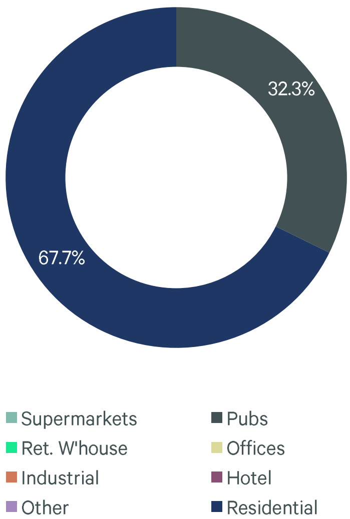
£39.7M Direct market value	**£0.0M** Indirect market value	**£39.7M** Total SLI portfolio market value
9 (£4.4M) No. of assets (avg. value)	**13 (£3.1M)** No. of lettable units (avg. value)[4]	**0%** Vacancy rate (% ERV)
66.7 yrs (17.0 yrs) Avg. unexpired lease term (to break)	**3.8%** Net initial yield (p.a.)	**72.5%** % of income index linked
53.7% Rent with +15 years remaining (% of rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



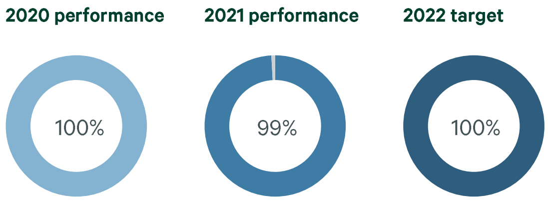
[4] Assumes each residential portfolio is treated as a single lettable unit.

Environmental, Social, Governance

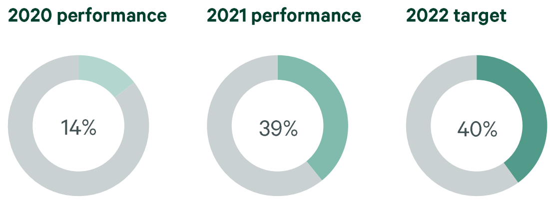
DCPF’s ESG performance

COMPLIANCE	TRANSPARENCY	CARBON
Energy ratings	Building certifications	Energy
Policies	Reporting	Water
TCFD	Stakeholder engagement	Waste
Compliance risk	Data coverage	Tenant Workshops
Green leases		
All environmental compliance risks	**GRESB Outperformance**	**18% Carbon intensity reduction**

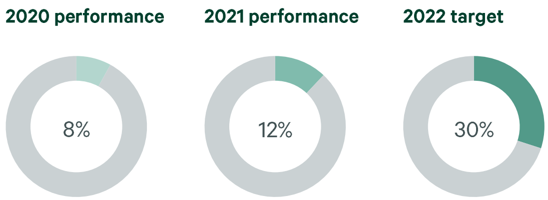
% of units with EPC rating lodged A-E



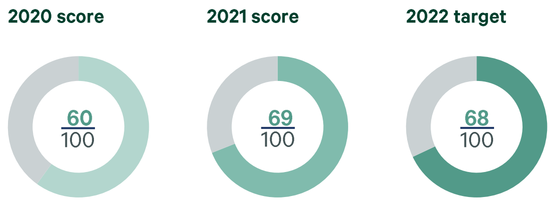
% of floor area for which energy data has been collected



% Portfolio with a Building Certification (By Value)



2021 GRESB score in the Standing Investments Assessment



Key actions completed in Q4 2021

Action	Outcome	Compliance	Transparency	Carbon
TCFD Implementation	The portfolio identified key sites for further assessment to fully understand their climate transition and physical risks.	x		x
Building certification	The portfolio has completed two BREEAM In Use in 2021, these will be reported in its 2022 GRESB submission and used to inform improved ESG management at the respective properties.	x	x	x
EPC	The portfolio has completed one EPC assessments in the last quarter. It has also completed two EPC+ model assessments.	x		

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