CBRE Investment Management

280 Cambridge Science Park

Q2 report

Dorset County Pension Fund

2022

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.

OVERVIEW

£316.1M		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 (Q2 2022)	£263.9m (83%)	£52.2m (17%)
Number of assets	23	10
Target portfolio size	£180m[1]	£120m
Value of purchases during quarter	-	£11.1m
Value of sales during quarter	-	-
Net initial yield (p.a.)	3.4%	3.9%
Average unexpired lease term (to break)	9.7 years (8.0 years)	58.7 years (18.5 years)

Combined Valuation	
Direct Property (Q2 2022 values)	£293.4m
Indirect Assets (Q2 2022 values)	£22.7m
TOTAL PORTFOLIO VALUATION	**£316.1m**

Performance[2]	Conventional	SLI	Combined	MSCI Quarterly Universe
Q2 2022	3.1%	2.1%	2.9%	3.0%
12 months	18.6%	9.0%	17.2%	19.1%
3 yrs p.a.	7.3%	6.5%	7.2%	7.3%
5 yrs p.a.	7.0%	-	6.8%	6.9%
7 yrs p.a.	7.3%	-	7.3%	7.0%
10 yrs p.a.	9.1%	-	9.0%	8.6%

[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 Q2 2022 -2.9%, 12 months to June 2022 4.0%, and 3 years 3.2% p.a. with LPI Q2 2022 at 5.0%, 12 months 5.0% and 3 years 3.3% p.a.

Economic and property update

- The economic environment has changed considerably through the first half of 2022. The rapid rise of inflation and higher inflation expectations have been the dominant factor in a changing UK outlook.

- The cost-of-living squeeze is increasingly weighing on consumer demand. This is despite tight labour market conditions driving regular wage growth (excluding bonusses) of 4.2% y/y, which would be considered healthy in more normal times.

- The Bank of England has responded to higher inflation with five successive interest rate rises, taking the policy rate to 1.25% in June. Further rises are expected in H2 2022, although the peak this cycle remains uncertain. The UK economy is essentially expected to stagnate for the coming 12 months before activity picks up in H2 2023, when inflation is projected to cool allowing real household incomes to begin to recover.

- In response to the rapidly changing economic backdrop, we updated our property forecasts in May. We are now forecasting an All Property total return of 4.8% p.a. over the period 2022-26, a downgrade from 5.3% p.a. in our previous forecasts. The sector hierarchy remains similar, with residential expected to be most resilient and average quality offices facing the greatest headwinds.

- With UK inflation currently running at a 40 year high, it is worth considering the outlook for performance in real terms. While property has performed well over the last 5 years, future near-term performance is likely to fall short of inflation. This is illustrated by our revised All Property total return forecasts of 8.5% for 2022 and 2.2% in 2023 which compare to RPI forecasts of c.11% and c.4% at the respective year-ends. The extent of this short-term underperformance will vary between portfolios, particularly according to whether their targets are based on LPI (as is the case for the SLI portfolio) or uncapped RPI/CPI. LPI is defined as the percentage change in RPI, capped at 5% p.a. and with a floor of 0% p.a.

Conventional portfolio

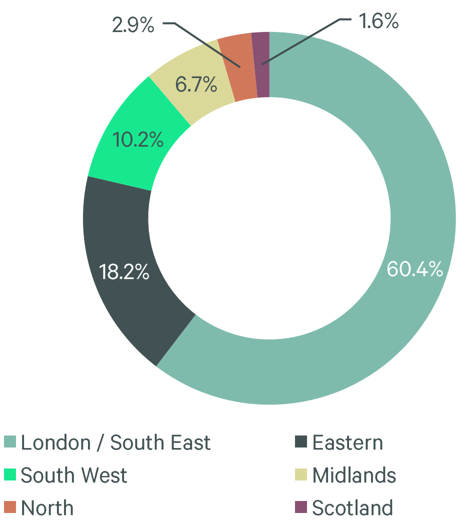
Portfolio information

KEY STATISTICS

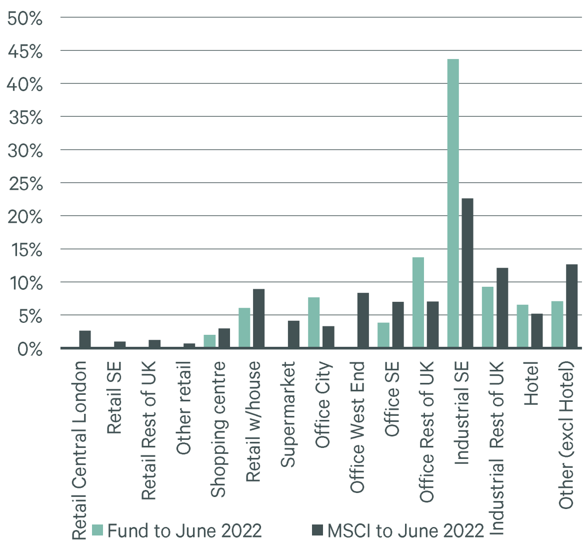
£241.2M Direct market value	**£22.7M** Indirect market value	**£263.9M** Total Conventional portfolio market value
23 (£12.1M) No. of assets (direct avg. value)	**67 (£3.6M)** No. of lettable units (direct avg. value)	**22.5% (7.8%)** Vacancy rate[3] (MSCI Quarterly Universe)
9.7 yrs (8.0 yrs) Avg. unexpired direct lease term (to break)	**3.4%** Direct net initial yield (p.a.)	**12.0%** % of income direct RPI / index linked
11.5% Rent with +10 years remaining (% of direct rent)	**6.2%** Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



[3] Core vacancy rate plus active development projects, which represent 10.1% of ERV.

Secure long income portfolio (SLI)

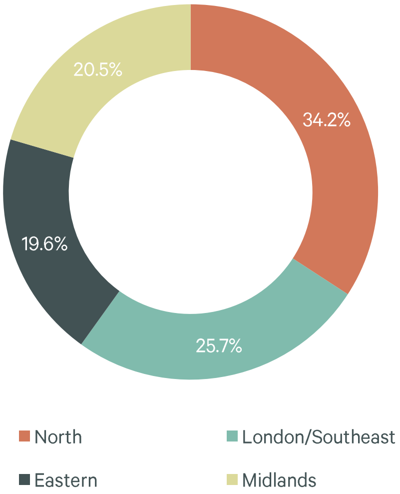
SLI portfolio information

KEY STATISTICS

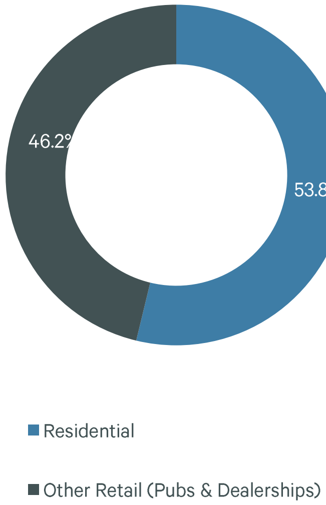
£52.2M Direct market value	**£0.0M** Indirect market value	**£52.2M** Total SLI portfolio market value
10 (£5.2M) No. of assets (avg. value)	**14 (£3.7M)** No. of lettable units (avg. value)[4]	**0%** Vacancy rate (% ERV)
58.7 yrs (18.5 yrs) Avg. unexpired lease term (to break)	**3.9%** Net initial yield (p.a.)	**79.1%** % of income index linked
61.4% 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.

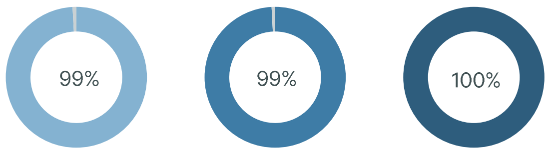
Environmental, Social, Governance

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**

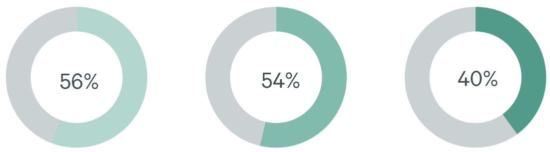
% of units with EPC rating lodged A-E

2021 performance | **Q2 2022 performance** | **2022 target**



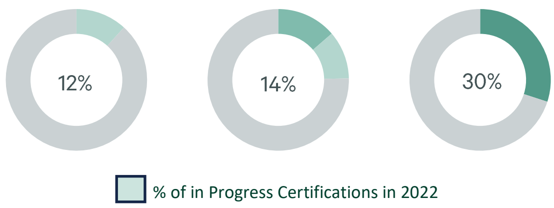
% of floor area for which energy data has been collected

2021 performance | **2022 performance** | **2022 target**



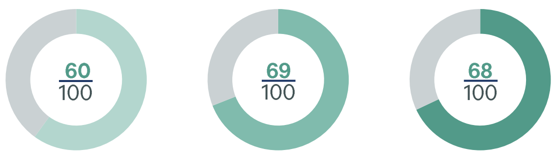
% Portfolio with a Building Certification (By Value)

2021 performance | **Q2 2022 performance** | **2022 target**



2021 GRESB score in the Standing Investments Assessment

2020 score | **2021 score** | **2022 target**



Key actions completed in Q2 2022

Action	Outcome	Compliance	Transparency	Carbon
Data Collection	Collection of energy, water and waste data from tenants for the 12 months ended 31st December 2021 has been completed. This portfolio achieved 54% energy data coverage.		X	X
GRESB	The portfolios 2022 GRESB submission has been completed. This portfolio submitted to the Standing Investments and Development Projects assessments. Environmental performance data was assured to AA1000AS.		X	
EPC	The portfolio has completed two EPC assessments in the last quarter.	X		

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