83 Clerkenwell Road, London EC1

Q3 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

£304.9M

Capital value (Combined DCPF portfolio)

30

Assets

	Conventional	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% per annum
Capital Value (Q3 2022)	£254.1m (83%)	£50.8m (17%)
Number of assets	20	10
Target portfolio size	£180m[1]	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	-	-
Net initial yield (p.a.)	3.3%	4.0%
Average unexpired lease term (to break)	10.0 years (8.1 years)	58.4 years (18.2 years)

Combined Valuation	
Direct Property (Q3 2022 values)	£283.1m
Indirect Assets (Q3 2022 values)	£21.8m
TOTAL PORTFOLIO VALUATION	**£304.9m**

Performance[2]	Conventional	SLI	Combined	MSCI Quarterly Universe
Q3 2022	-3.2%	-1.8%	-3.0%	-4.2%
12 months	11.2%	4.0%	10.2%	9.7%
3 yrs p.a.	5.9%	5.1%	5.8%	5.7%
5 yrs p.a.	5.9%	-	5.7%	5.5%
7 yrs p.a.	6.3%	-	6.3%	5.9%
10 yrs p.a.	8.7%	-	8.7%	8.0%

[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 Q3 2022 -4.0%, 12 months to September 2022 -1.0%, and 3 years 1.5% p.a. with LPI Q3 2022 at 2.2%, 12 months 5.0% and 3 years 3.6% p.a.

Economic and property update

- The economic backdrop has further changed through the second half of 2022. September's 'mini-budget' of unfunded tax cuts led to extreme market volatility. However, the market seems to have calmed following the new Chancellor's policy reversals and economic and interest rate expectations have gone back to August levels.

- Inflation remains a serious concern as levels increased to 10.1% in September, well above the Bank of England's target rate of 2%. High inflation and increased mortgage rates are further exacerbating the cost-of-living crisis, reflected in the decline in retail spending and historically low levels of consumer confidence.

- The Bank of England's interest rate expectations rose sharply in response to the more inflationary aspects of Trussomomics, although interest rate hikes may be less aggressive now that some of these policies have been cancelled. The BoE raised the rate by 75bps to 3% in November and it is expected to reach over 5% in early 2023. Latest GDP forecasts indicate UK economic growth is still expected to stagnate for the coming 12 months. We are forecasting annual GDP growth of 3.6% (up from 2.5%) and 0.1% in 2023.

- Q2 2022 looks likely to be the peak of the UK real estate market in terms of capital values for this cycle. Capital values declined 4.1% at the All-Property level over Q3. Investment volumes fell 66% between Q3 and Q2, to £1.9bn. This is compared to average quarterly volumes of £5.4bn in the 12 months to March 2022. This is likely to further fall in Q4 as the increase in debt costs limit the pool of active buyers in the market and the spike in 10 year government gilts will continue to apply upward pressure on property yields.

- Our latest forecast period of 2023-2027 was published before the 'mini-budget'. Overall, our All-Property forecast decreased from 1.8% p.a. to 1.6% p.a. for 2023-27, which is in line with anticipated inflation (CPI of 1.6% p.a.) over the same period. We expect that events of the last month will amplify the repricing and rebound that we had already forecasted, but not change the direction of travel.

Conventional portfolio

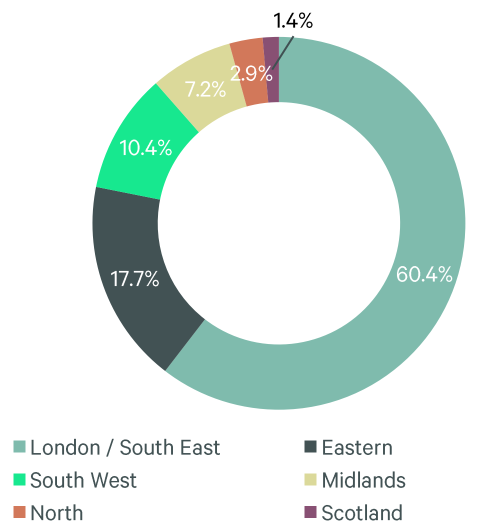
Portfolio information

KEY STATISTICS

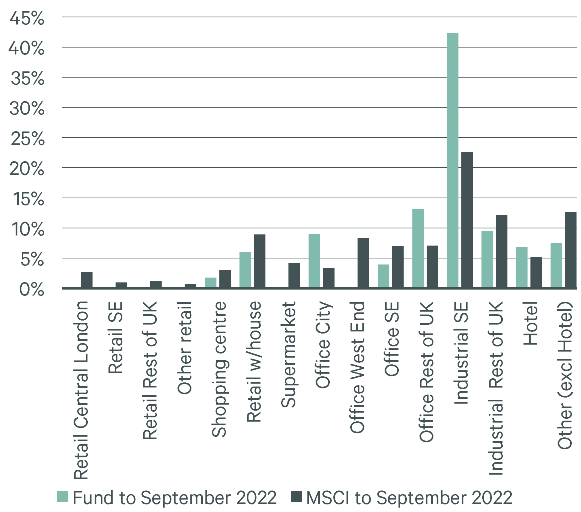
£232.3M Direct market value	**£21.8M** Indirect market value	**£254.1M** Total Conventional portfolio market value
20 (£11.6M) No. of assets (direct avg. value)	**72 (£3.2M)** No. of lettable units (direct avg. value)	**23.7% (8.0%)** Vacancy rate (MSCI Quarterly Universe)
10.0 yrs (8.2 yrs) Avg. unexpired direct lease term (to break)	**3.3%** Direct net initial yield (p.a.)	**11.8%** % of income direct RPI / index linked
11.4% Rent with +10 years remaining (% of direct rent)	**6.3%** Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

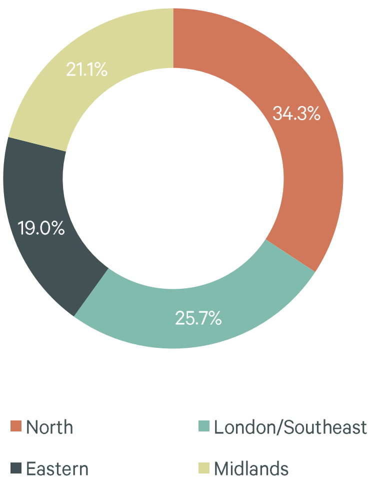
Portfolio information

KEY STATISTICS

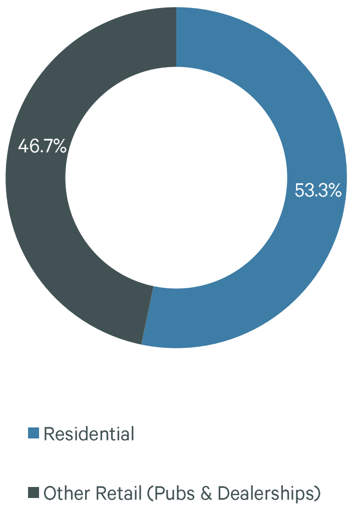
£50.8M Direct market value	**£0.0M** Indirect market value	**£50.8M** Total SLI portfolio market value
10 (£5.1M) No. of assets (avg. value)	**14 (£3.6M)** No. of lettable units (avg. value)[3]	**0%** Vacancy rate (% ERV)
58.4 yrs (18.2 yrs) Avg. unexpired lease term (to break)	**4.0%** Net initial yield (p.a.)	**79.2%** % of income index linked
61.7% Rent with +15 years remaining (% of rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



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

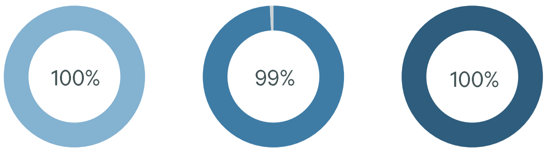
Environmental, Social, Governance

DCPF's ESG performance

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

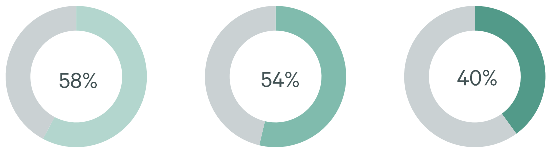
% of units with EPC rating lodged A-E

2021 performance | **Q3 2022 performance** | **2022 target**



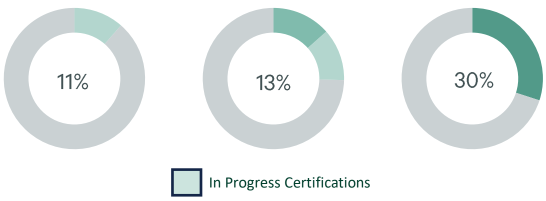
% of floor area for which energy data has been collected

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



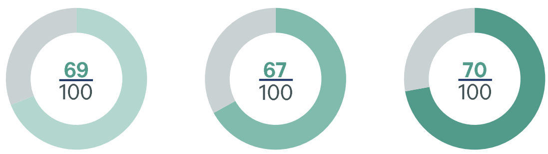
% Portfolio with a Building Certification (By Value)

2021 performance | **Q3 2022 performance** | **2022 target**



2022 GRESB score in the Standing Investments Assessment

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



Key actions completed in Q3 2022

Action	Outcome	Compliance	Transparency	Carbon
BREEAM In Use	The portfolio has completed Two BREEAM In Use certifications.		x	
GRESB	The portfolios 2022 GRESB submission has been completed. The portfolio scored 67/100, Two Star in the Standing Investments Assessment and 90/100, Four Star in the Development Projects Assessment.		x	
EPC	The portfolio has completed two EPC assessments in the last quarter. It has also ordered one MEES Asset Builder report.	x		

Important information

The information contained herein must be treated in a confidential manner and may not be reproduced, used or disclosed, in whole or in part, without the prior written consent of CBRE Investment Management.

Acceptance and/or use of any of the information contained in this document indicates the recipient's agreement not to disclose any of the information contained herein. This document does not constitute any form of representation or warranty on the part of CBRE Investment Management, investment advice, a recommendation, or an offer or solicitation, and it is not the basis for any contract to purchase or sell any security, property or other instrument, or for CBRE Investment Management to enter or arrange any type of transaction. CBRE Investment Management expressly disclaims any liability or responsibility therefore.

This document should not be regarded as a substitute for the exercise by the recipient of its, his or her own judgement. The figures in this document have not been audited by an external auditor. This document does not purport to be a complete description of the markets, developments or securities referred to in this report. The value of an investment can go down as well as up and an investor may not get back the amount invested. Past performance is not a guide to future performance. Forecasts of future performance are not an indicator of future performance. All target or projected "gross" internal rates of return ("IRRs") do not reflect any management fees, incentive distributions, taxes, transaction costs and other expenses to be borne by certain and/or all investors, which will reduce returns. "Gross IRR" or "Gross Return" shall mean an aggregate, compound, annual, gross internal rate of return on investments. "Net IRR" or "Net Returns" are shown after deducting fees, expenses and incentive distributions. There can be no assurance that the mandate will achieve comparable results, that targeted returns, diversification or asset allocations will be met or that the investment strategy and investment approach will be able to be implemented or that the mandate will achieve its investment objective. Actual returns on unrealised investments will depend on, among other factors, future operating results, the value of the underlying assets and market conditions at the time of disposition, foreign exchange gains or losses which may have a separate and uncorrelated effect, legal and contractual restrictions on transfer that may limit liquidity, any related transaction costs and the timing and manner of sale, all of which may differ from the assumptions and circumstances on which the valuations used in the prior performance data contained herein are based. Accordingly, actual returns may differ materially from the returns indicated herein. The value of any tax benefits described herein depends on your individual circumstances. Tax rules may change in the future.

Each fund/investment was presented for illustrative purposes only and should not be considered a recommendation or investment advice. Each fund/investment was selected based on attributes which can illustrate our investment process. It should not be assumed that an investment in these funds was or will be profitable. The returns presented herein include all returns generated by reinvested capital and profit.

CBRE Investment Management and its affiliates accept no liability whatsoever for any direct, consequential or indirect loss of any kind arising out of the use of this document or any part of its contents.

Where funds are invested in property, investors may not be able to realise their investment when they want. Whilst property valuation is conducted by an independent expert, any such opinion is a matter of the valuer's opinion. Property is a specialist sector which may be less liquid and produce more volatile performance than an investment in broader investment sectors. CBRE Investment Management Limited and CBRE Investment Management (UK) Limited are regulated by the Royal Institution of Chartered Surveyors (RICS). CBRE Investment Management (UK Funds) Limited is authorised and regulated by the Financial Conduct Authority (FCA). The indirect property portion of this portfolio is managed by CBRE Investment Management Indirect Limited which is authorised and regulated by the Financial Conduct Authority in the United Kingdom. In accordance with the restrictions on the promotion of non-mainstream pooled investments, the communication of this document in the United Kingdom is only made to persons defined as professional client or eligible counterparties, as permitted by COBS 4.12.5R (Exemption 7) and the Collective Investment Scheme (Exemptions) Order 2001.