



83 Clerkenwell Road, London EC1

Q4 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

£262.0M		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 2022)	£216.4m (83%)	£45.5m (17%)		
Number of assets	23	10		
Target portfolio size	£180m ¹	£120m		
Value of purchases during quarter	-	£0.1m		
Value of sales during quarter	£0.1m	-		
Net initial yield (p.a.)	4.2%	4.4%		
Average unexpired lease term (to break)	10.5 years (8.7 years)	56.3 years (17.9 years)		
Combined Valuation				
Direct Property (Q4 2022 values)		£242.8m		
Indirect Assets (Q4 2022 values)		£19.2m		
TOTAL PORTFOLIO VALUATION		£262.0m		
Performance ²	Conventional	SLI	Combined	MSCI Quarterly Universe
Q4 2022	-14.5%	-9.3%	-13.6%	-11.9%
12 months	-10.4%	-7.5%	-9.8%	-8.9%
3 yrs p.a.	0.5%	1.3%	0.7%	1.3%
5 yrs p.a.	2.0%	-	2.1%	2.2%
7 yrs p.a.	3.5%	-	3.7%	3.5%
10 yrs p.a.	6.8%	-	6.9%	6.6%

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 Q4 2022 -13.0%, 12 months to December 2022 -12.5%, and 3 years -2.4% p.a. with LPI Q4 2022 at 3.7%, 12 months 5.0% and 3 years 3.7% p.a.

Economic and property update

- The UK economy experienced negative GDP in three months to November, likely already in the early stages of a recessionary period. Inflation remains high with prices rising by 10.5% in December. Monetary policy likely to tighten further with interest rates expected to reach 4.5% by mid 2023 and remaining at this level until early 2024.
- Economic outlook remains challenging in the short term with negative or flat GDP over the next year with recovery forecast in 2024 and GDP growth of 1.7%.
- Volatility in capital markets has subsided from the peak in October with debt costs moderating but still high. Q4 experienced lowest transactional activity since Q2 2009, with £4.9bn of assets transacted, an 80% decline relative to Q1 2021.
- Yields expected to stabilise in 2023 which should lead to increased investment activity in the industrial and residential sectors where occupier demand remains strong. Development activity remains subdued so no significant supply overhang. This lack of market supply should provide a floor to rents through the slowdown.
- Property market repricing was faster than expected. Yields moved out further than anticipated in 2022 and further repricing is expected in H1 2023 on a smaller magnitude to H2 2022 with yields stabilising in the second half of 2023 with inwards movement from 2024.
- Total returns are forecast to average 4.7% per annum in the period 2023-2027 and rental growth 1.6% p.a. (in line with forecasted CPI in the same period).

Conventional portfolio

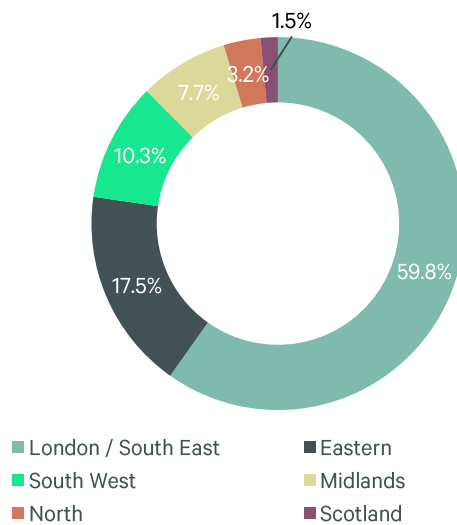
Portfolio information

KEY STATISTICS

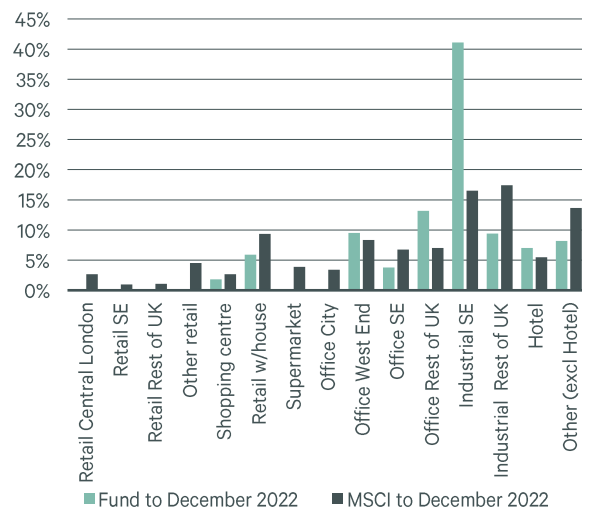
£197.3M Direct market value	£19.2M Indirect market value	£216.4M Total Conventional portfolio market value
23 (£9.9M) No. of assets (direct avg. value)	73 (£2.7M) No. of lettable units (direct avg. value)	23.7% (8.0%) Vacancy rate (MSCI Quarterly Universe)
10.5 yrs (8.7 yrs) Avg. unexpired direct lease term (to break)	4.2% Direct net initial yield (p.a.)	11.8% % of income direct RPI / index linked
11.4% Rent with +10 years remaining (% of direct rent)	6.2% Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

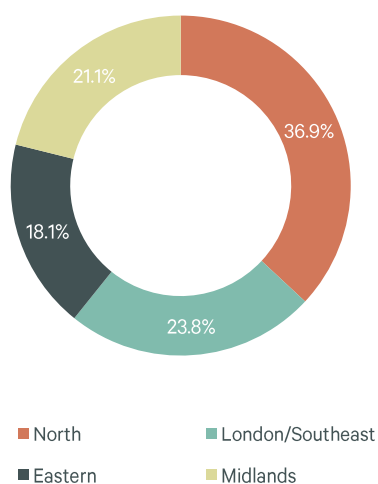
Portfolio information

KEY STATISTICS

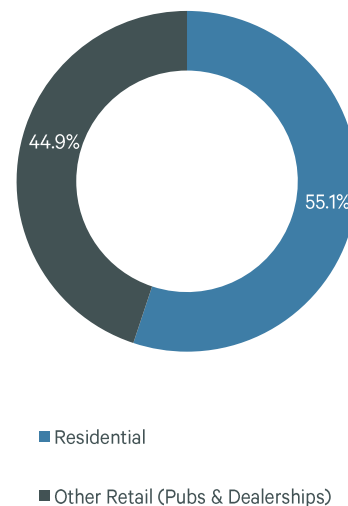
£45.5M Direct market value	£0.0M Indirect market value	£45.5M Total SLI portfolio market value
10 (£4.6M) No. of assets (avg. value)	14 (£3.3M) No. of lettable units (avg. value) ³	0% Vacancy rate (% ERV)
56.3 yrs (17.9 yrs) Avg. unexpired lease term (to break)	4.4% Net initial yield (p.a.)	79.1% % of 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)

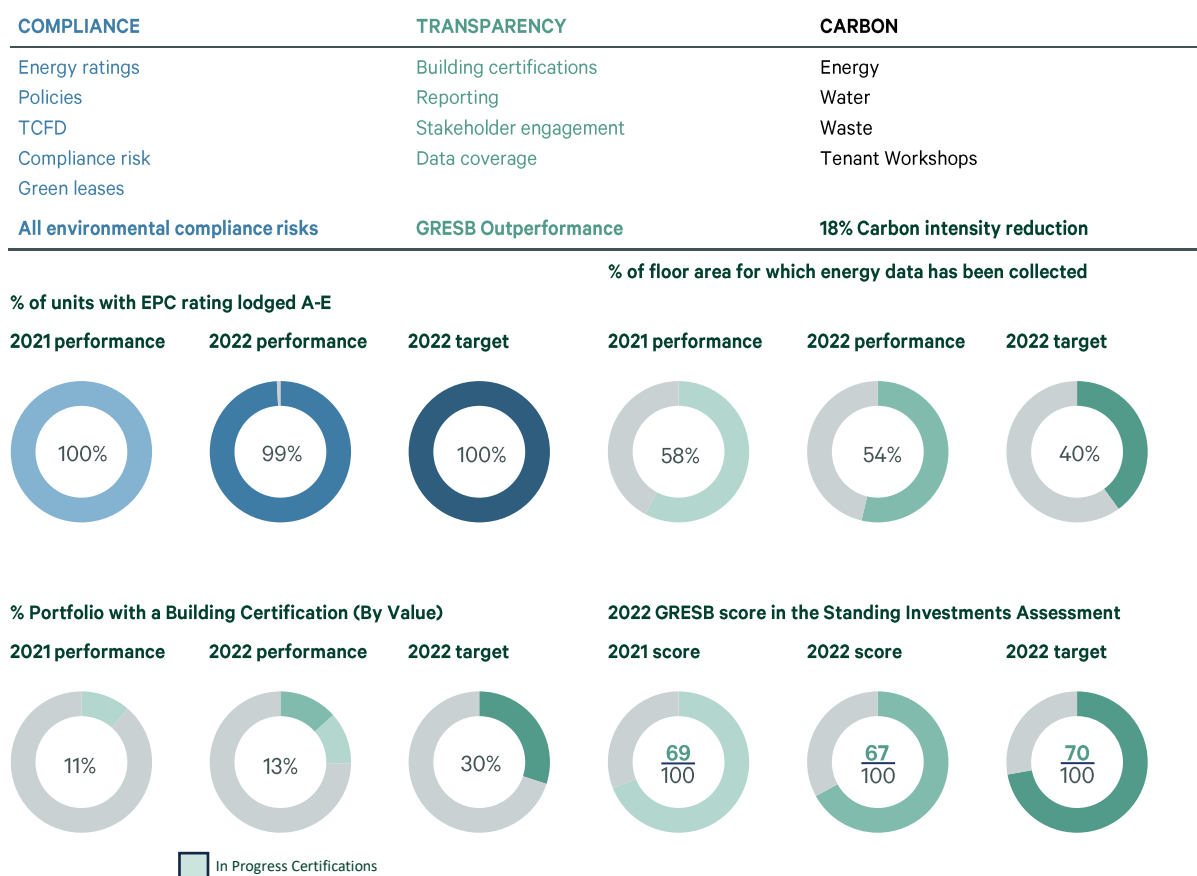


³ Assumes each residential portfolio is treated as a single lettable unit.

Environmental, Social, Governance

DCPF's ESG performance

Sustainability is fundamental to CBRE Investment Management's (the "Firm") value proposition where we seek to deliver sustainable investment solutions across real asset investing so that our clients, people and communities thrive.



Key actions completed in Q4 2022

Action	Outcome	Compliance	Transparency	Carbon
Tenant Satisfaction Survey	The portfolio has begun rolling out the GRESB aligned tenant satisfaction survey to all tenants managed by Workman.		x	
Revised Data Collection Strategy	An enhanced proptech enabled data collection strategy targeting 79% energy data coverage in 2023 was developed.		x	
EPCs	The portfolio has completed one EPC assessment in the last quarter. It has also ordered one MEES Asset Builder assessment.	x		
House-wide ISO14001 systems accreditation	ISO 14001 certification has been achieved for the Global CBRE Investment Management business.	x	x	

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