



83 Clerkenwell Road, London EC1

Q1 Report

Dorset County Pension Fund

2023

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 8% of DCPF’s total assets¹, 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

| | £264.9m | | 32 | |
|---|---|-------|-------------------------|-------------------------|
| | Capital value (Combined DCPF portfolio) | | Assets | |
| | Conventional | | SLI | |
| Mandate | Commenced 1993 | | Commenced 2017 | |
| Performance objective | MSCI Quarterly Universe over five years | | LPI +2% per annum | |
| Capital Value (Q1 2023) | £219.5m (83%) | | £45.4m (17%) | |
| Number of assets | 22 | | 10 | |
| Target portfolio size | £180m ² | | £120m | |
| Value of purchases during quarter | - | | - | |
| Value of sales during quarter | £2.0m | | - | |
| Net initial yield (p.a.) | 4.1% | | 4.5% | |
| Average unexpired lease term (to break) | 10.9 years (9.1 years) | | 59.8 years (17.7 years) | |
| Combined Valuation | | | | |
| Direct Property (Q1 2023 values) | | | £245.9m | |
| Indirect Assets (Q1 2023 values) | | | £19.0m | |
| TOTAL PORTFOLIO VALUATION | | | £264.9m | |
| Performance ³ | Conventional | SLI | Combined | MSCI Quarterly Universe |
| Q1 2023 | 2.9% | 0.9% | 2.5% | 0.1% |
| 12 months | -12.2% | -8.2% | -11.6% | -12.6% |
| 3 yrs p.a. | 2.3% | 1.6% | 2.3% | 1.9% |
| 5 yrs p.a. | 2.2% | 2.7% | 2.3% | 1.9% |
| 7 yrs p.a. | 3.7% | 4.7% | 3.8% | 3.4% |
| 10 yrs p.a. | 7.0% | - | 7.0% | 6.5% |

¹ Based on Dorset County Pension Fund’s total asset value as at the end of March 2022 (£3.7bn).

² The Conventional portfolio includes SLI assets (c.12%), therefore the total SLI allocation will be 50%.

³ Conventional, Combined, and SLI are nominal returns. The SLI portfolio’s real returns are: Q1 2023: -1.0%; 12 months to March 2023: -13.2%; 3 years: -2.2% p.a.; 5 years: -0.6% p.a.; 7 years: 1.4% p.a. RPI, the underlying index of LPI, was 1.9% as at Q1 2023. LPI was 5.0%, 3.8%, 3.3% and 3.3% over 12-months, 3-years, 5-years, and 7-years, respectively.

Economic and property update

- The UK economy has remained stable over the past six months, with GDP growth of 0.1% in Q4 2022 and mildly positive growth forecast for Q1 2023. Inflation is beginning to decline, recording 10.1% in March down from 10.4% in February. Monetary policy was tightened further in May 2023, with interest rates now at 4.5% and expected to remain at this level until 2024.
- Capital value growth turned positive after eight consecutive months of decline as outward yield expansion slowed significantly, with growth of 0.8% and 0.7% recorded in the retail and industrial sectors, respectively. There is growing evidence that since the start of 2023, yields in some parts of the market have either stabilised or started to move in, reflecting the possibility of an overshoot in negative investor sentiment.
- To date, there has been limited impact on the occupier side, with rental growth remaining resilient, particularly in sectors underpinned by structural and demographic trends such as logistics and residential.
- In the short term, rapid repricing and a drying up of cheap credit will produce opportunities, as will the potential for yields to overshoot at the market or asset level. Industrial and residential are forecast to outperform the wider market, with total returns averaging 7.1% and 7.0% p.a., respectively, over the five-year forecast period.
- Total returns are forecast to average 6.1% per annum over the five-year period (up from 5.3% in our previous forecast), accelerating from 2024 onwards to an average of 6.9% per annum in the last four years of our forecast period.

Conventional portfolio

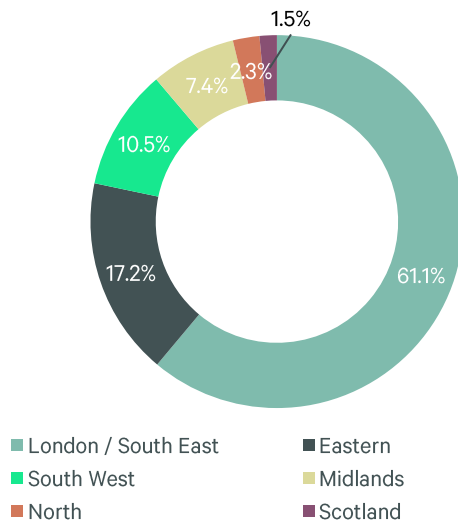
Portfolio information

KEY STATISTICS

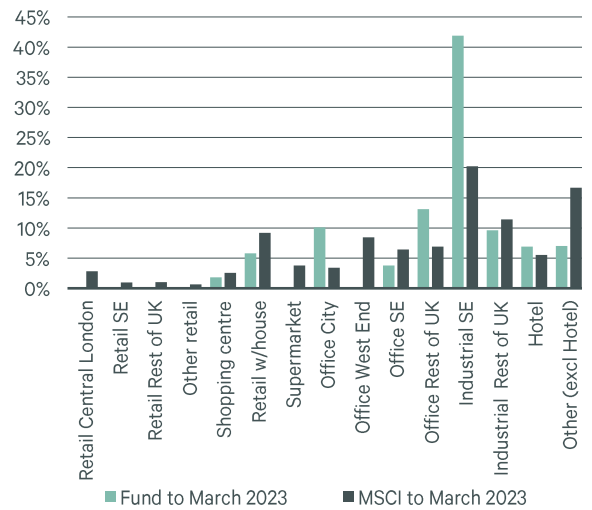
| | | |
|--|---|---|
| £200.5m Direct market value | £19.0m Indirect market value | £219.5m Total Conventional portfolio market value |
| 22 (£10.6m) No. of assets (direct avg. value) | 72 (£2.8m) No. of lettable units (direct avg. value) | 14.6% (8.1%) Vacancy rate (MSCI Quarterly Universe) |
| 10.9 yrs (9.1 yrs) Avg. unexpired direct lease term (to break) | 4.1% Direct net initial yield (p.a.) | 9.1% % of income direct RPI / index linked |
| 16.4% Rent with +10 years remaining (% of direct rent) | 11.7% Rent with +15 years remaining (% of direct rent) | |

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

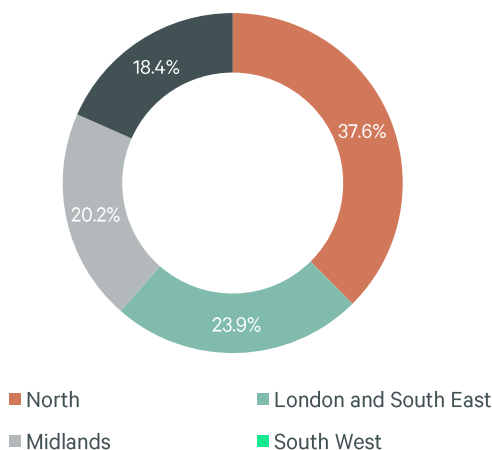
Portfolio information

KEY STATISTICS

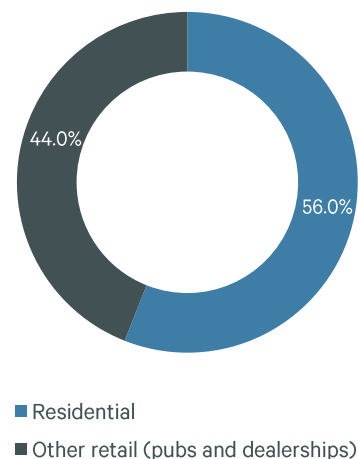
| | | |
|---|--|---|
| £45.4m Direct market value | £0.0m Indirect market value | £45.4m Total SLI portfolio market value |
| 10 (£4.5m) No. of assets (avg. value) | 14 (£3.2m) No. of lettable units (avg. value) ⁴ | 0% Vacancy rate (% ERV) |
| 59.8 yrs (17.7 yrs) Avg. unexpired lease term (to break) | 4.5% Net initial yield (p.a.) | 79.4% % of income index linked |
| 62.2% Rent with >15 years remaining (% of contracted 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

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.

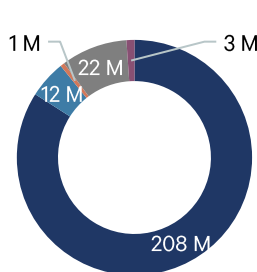
Key actions completed in Q1 2023

| Action | Outcome | Compliance | Transparency | Carbon |
|--------------------------------|--|------------|--------------|--------|
| BREEAM In Use 2023 Assessments | The portfolio has proposed three BREEAM In Use assessment(s) to be undertaken in 2023. | x | x | |
| Tenant Satisfaction Survey | The portfolio successfully completed a GRESB aligned tenant satisfaction survey. | | x | |
| CRM Data Collection | The 2022 annual data collection process has begun, with data requests being sent out to CRM contacts to provide 2022 data. | | x | x |
| Proptech Data Collection | The enhanced proptech enabled data collection process targeting increased energy, water and waste data coverage in 2023 has begun, with tenant contact details being requested from PMs required for LOAs. | | x | x |
| EPC | The portfolio ordered two MEES Asset Builder assessments. | x | | |

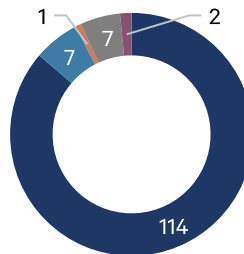
COMPLIANCE

A key part of the ESG strategy is the Energy Performance Risk Mitigation Program, where we seek to improve the sustainability performance of assets through improving the Energy Performance Certificate ratings. We have updated our approach to EPC risk to remove the distinction between "Short-Term" and "Long-Term" High Risk as the 1st April 2023 compliance date for "F" and "G" ratings on existing leases has passed. Units are included in the "High Risk" category if the "F" or "G" rating is draft, expired or lodged. The status of the EPC is explained in the EPC appendix at the end of this ESG update. We expect to further update the definitions to respond to the expected EPC B by 2030 MEES requirements in England & Wales in the coming quarters.

EPC risk by value (m)



EPC risk by unit



| MEES Risk Rating | Key | Criteria |
|------------------|-----|------------------------|
| High | ■ | F or G rated valid EPC |
| Medium | ■ | E rated valid EPC |
| Low | ■ | A+ to D rated valid EP |
| Exempt | ■ | MEES regulation exerr |
| Unknown | ■ | Inaccurate or missing |

| Action | Medium risk | High risk |
|---|-------------|-----------|
| High quality or modelled EPC | 3 | 0 |
| Action at lease end | 3 | 0 |
| Refurbishment | 1 | 1 |
| Planned redevelopment or considering sale | 0 | 0 |
| Review tenant fitout | 0 | 0 |

Green leases

Green leases support us in protecting the portfolio from future environmental risks, reflecting market practice and improving the sustainability credentials of the portfolios. We group our green lease clauses into three categories:

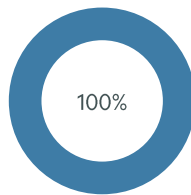
EPC compliance: clauses which support our compliance pillar, particularly with regard to EPCs

Data sharing: clauses which support the sharing of ESG data for reporting and facilitate performance improvement

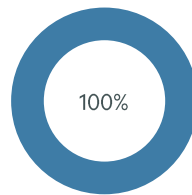
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

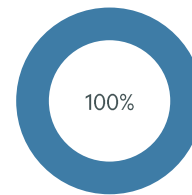
EPC Compliance



Data sharing

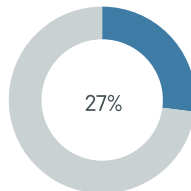


Collaboration

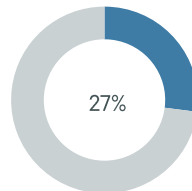


% of all portfolio leases which incorporate green lease clauses

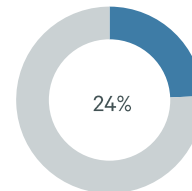
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

Green lease tracking

| | |
|--|-----|
| % of portfolio with a green lease tracker (excluding vacant units) | 96% |
| Trackers received since Q1 2019 | 16 |
| New trackers received in Q1 2023 | 0 |

TRANSPARENCY

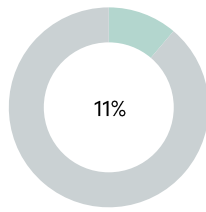
Building certification strategy

CBRE Investment Management aim to acquire or forward fund buildings with certifications. Green Building Certifications are important for the Fund's GRESB Performance in the short term and achievement of its ESG Vision in the long term. Specifically, Green Building Certifications account for 10.5% of the GRESB Standing Investment score and by instructing new or renewing certifications, the portfolio aims to outperform the peer group in this category.

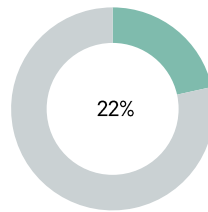
| Property | Certification type | Rating | Status |
|--|----------------------|-----------|-----------|
| Woolborough Lane Industrial Estate, Crawley - (Unit A) | BREEAM Refurbishment | Very Good | Submitted |

% Portfolio with a Building Certification (By Value)

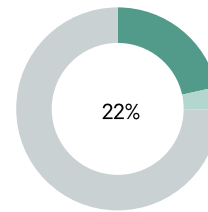
2021 performance



2022 performance



2023 performance



 In Progress Certifications

The percentage given in the 2023 chart includes completed certifications only. The “in progress certifications” will increase coverage by a further four percentage points.

STAR STANDARDS

The Star Standards is a bespoke rating system that has been developed by CBRE ESG Consultancy to drive and track sustainable improvements delivered during refurbishment works. All refurbishments undertaking the Star Standard will seek to improve their operational performance, portfolio level targets and GRESB reporting potential. Refurbishments will be assessed against the Star Standards and awarded a rating once all the sustainability improvements have been evidenced. Embedding the Star Standards into refurbishment projects will improve their operational performance, portfolio level targets and GRESB reporting potential. The Star Standards methodology and guidance is currently being updated within the house team to ensure relevance with current best practice and potential incoming regulations changes.

Refurbs completed to Star Standards

| | 2021 | 2022 | 2023 |
|--------------------------------------|------|------|------|
| ★★★ Beyond best practice | 0 | 2 | 0 |
| ★★ Best practice | 0 | 0 | 0 |
| ★ Good practice | 0 | 0 | 0 |
| Star Standards Lite – Small Projects | 0 | 0 | 0 |

| Asset | Unit | Targeted Star Standard | Estimated completion date | Project Notes |
|-------------------------------------|------------|------------------------|---------------------------|----------------------------|
| Units 10, Euroway Industrial Estate | Unit 10 | 1* | Jan 2023 | Awaiting final EPC |
| Unit C1-C4, Woolborough, Crawley | Unit C1-C4 | 3* | Est. Q4 2023 | Works yet to start on site |

CARBON

Carbon emission figures are being prepared to be reported in a standalone annual report in line with Streamlined Energy and Carbon Reporting requirements within the 2022 Annual ESG Report. The portfolio’s 2022 Annual ESG Report will be issued using data assured to AA1000AS, as it is taken from the portfolio’s GRESB 2022 submission, which required a stringent third-party assurance process.

Furthermore, 2022 data is currently being collected via CRM data requests and enhanced proptech enabled data collection methods. Landlord energy data is also being reviewed and analysed on the funds data management system (Measurabl), in order to flag and address any discrepancies. This data is due to be assured and submitted as part of the annual GRESB Report in July 2023 as per normal practice. Once this process has been completed, full information on the fund’s 2022 GHG emissions will then become available once the results have been received in October 2023.

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