



83 Clerkenwell Road, London EC1

# Q2 Report

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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 assets<sup>1</sup>, which currently represents approximately £300m. The strategy has been 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. As at Q2 2023, this strategy is under review.

## OVERVIEW

	<b>£259.5m</b>		<b>31</b>	
	Capital value (Combined DCPF portfolio)		Assets	
	<b>Conventional</b>		<b>SLI</b>	
Mandate	Commenced 1993		Commenced 2017	
Performance objective	MSCI Quarterly Universe over five years		LPI +2% per annum	
Capital Value (Q1 2023)	£215.1m (83%)		£44.4m (17%)	
Number of assets	21		10	
Target portfolio size	£180m <sup>2</sup>		£120m	
Value of purchases during quarter	-		-	
Value of sales during quarter	£6.3m		-	
Net initial yield (p.a.)	4.1%		4.7%	
Average unexpired lease term (to break)	Commenced 1993		Commenced 2017	
<b>Combined Valuation</b>				
Direct Property (Q2 2023 values)			£241.0m	
Indirect Assets (Q2 2023 values)			£18.5m	
<b>TOTAL PORTFOLIO VALUATION</b>			<b>£259.5m</b>	
Performance <sup>3</sup>	Conventional	SLI	Combined	MSCI Quarterly Universe
Q2 2023	1.1%	-1.0%	0.7%	0.2%
12 months	-13.9%	-11.0%	-13.5%	-15.0%
3 yrs p.a.	2.9%	0.7%	2.6%	2.5%
5 yrs p.a.	2.0%	2.3%	2.0%	1.6%
7 yrs p.a.	3.7%	4.3%	3.7%	3.3%
10 yrs p.a.	6.8%	-	6.8%	6.3%

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

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

<sup>3</sup> Conventional, Combined, and SLI are nominal returns. The SLI portfolio’s real returns are: Q2 2023: -3.0%; 12 months to June 2023: -15.6%; 3 years: -3.8% p.a.; 5 years: -1.2% p.a.; 7 years: 0.8% p.a. RPI, the underlying index of LPI, was 2.5% as at Q2 2023. LPI was 4.6%, 4.5%, 3.5% and 3.5% over 12-months, 3-years, 5-years, and 7-years, respectively.

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# Economic and property update

- The UK economy has broadly flatlined over the past 18 months. Although avoiding a recession to date, GDP growth has been anemic, with May's GDP falling by 0.1 %, mainly due to the extra bank holiday. Looking more broadly, GDP grew 0.1% in the three months to April, with services falling by 0.1% in the same period, and production and construction growing 0.2% and 1.6% respectively.
- The June 2023 MSCI monthly index recorded negative capital value growth at the all-property level. Within sectors, only industrial recorded positive capital value growth (0.3%), its fourth consecutive monthly gain. Both retail and residential turned negative in June, with erosion of real wages and higher mortgage costs adversely impacting both sectors. Offices recorded the largest fall of -2.2%, the sector's 12<sup>th</sup> consecutive monthly decline. For industrial, retail, and residential, current capital values are -26.5%, -15.2% and -1.5% below their respective peaks.
- To date, there has been limited impact on the occupier side, with rental growth remaining resilient in Q2 2022, particularly in sectors underpinned by structural and demographic trends, such as logistics and residential.
- In the short term, market volatility 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% and 7.2% p.a. respectively over the forecast period. We retain a strong conviction that superior income growth will lead to the logistics and residential sectors outperforming over the long term.

# Conventional portfolio

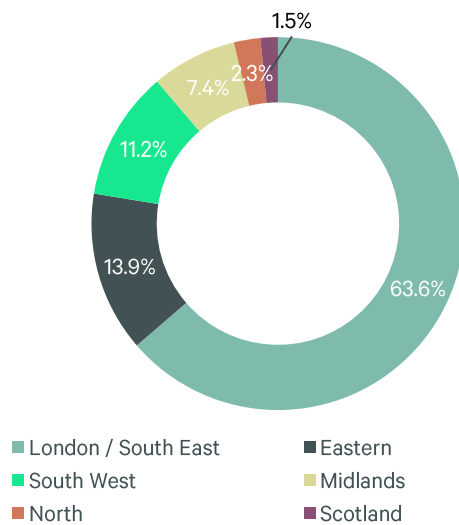
## Portfolio information

### KEY STATISTICS

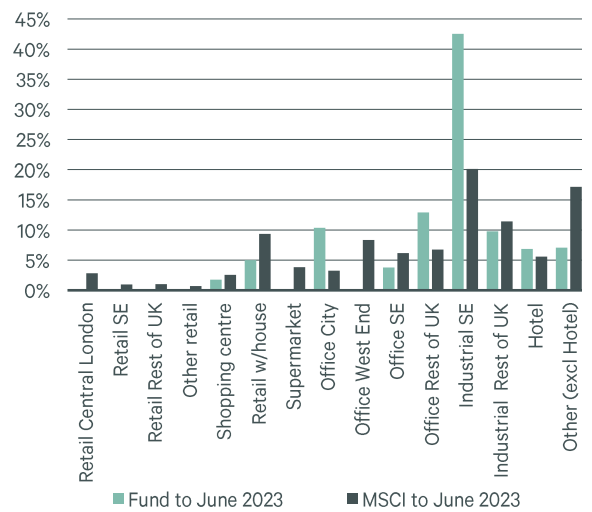
<b>£196.6m</b> Direct market value	<b>£18.5m</b> Indirect market value	<b>£215.1m</b> Total Conventional portfolio market value
<b>21 (£10.9m)</b> No. of assets (direct avg. value)	<b>71 (£2.8m)</b> No. of lettable units (direct avg. value)	<b>10.6% (8.2%)</b> Vacancy rate (MSCI Quarterly Universe)
<b>11.0 yrs (9.1 yrs)</b> Avg. unexpired direct lease term (to break)	<b>4.1%</b> Direct net initial yield (p.a.)	<b>9.2%</b> % of income direct RPI / index linked
<b>16.7%</b> Rent with +10 years remaining (% of direct rent)	<b>9.7%</b> Rent with +15 years remaining (% of direct rent)	

### GEOGRAPHICAL AND SECTOR EXPOSURE

#### Geographical breakdown



#### Sector breakdown



# Secure long income portfolio (SLI)

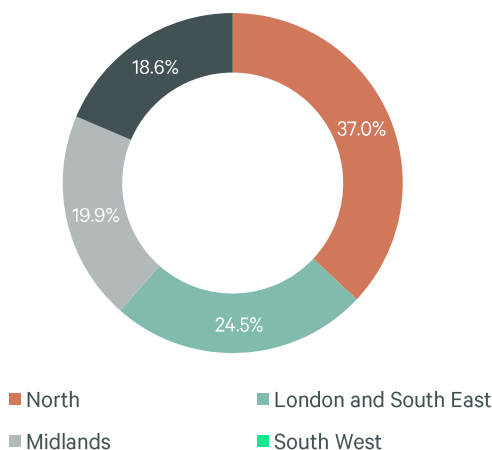
## Portfolio information

### KEY STATISTICS

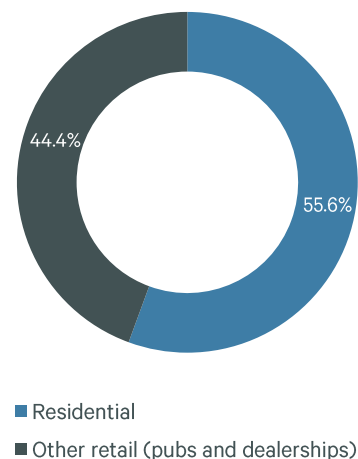
<b>£44.4m</b> Direct market value	<b>£0.0m</b> Indirect market value	<b>£44.4m</b> Total SLI portfolio market value
<b>10 (£4.4m)</b> No. of assets (avg. value)	<b>14 (£3.2m)</b> No. of lettable units (avg. value) <sup>4</sup>	<b>0%</b> Vacancy rate (% ERV)
<b>59.4 yrs (17.4 yrs)</b> Avg. unexpired lease term (to break)	<b>4.5%</b> Net initial yield (p.a.)	<b>79.6%</b> % of income index linked
<b>41.5%</b> Rent with >15 years remaining (% of contracted rent)		

### GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



<sup>4</sup> 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.

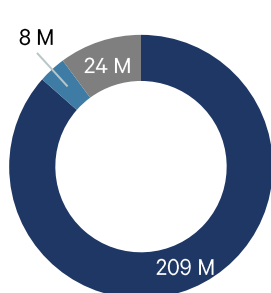
### Key actions completed in Q2 2023

Action	Outcome	Compliance	Transparency	Carbon
BREEAM In Use 2023 Assessments	The portfolio has approved three BREEAM In Use assessments, which have commenced in Q3 2023.	x	x	
GRESB	The portfolios 2023 GRESB submission has been completed. This portfolio submitted to the Standing Investments & Development Projects assessments. Environmental performance data was assured to AA1000AS.		x	
Tenant Data Collection	Collection of energy, water and waste data from tenants for the 12 months ended 31 <sup>st</sup> December 2022 has been completed. This portfolio achieved 67% energy data coverage.		x	x
Letter of Authority Data Collection	There is an ongoing review of the Letter of Authority data collection requests, which may potentially be rolled out across the remainder of 2023, to help increase the granularity of tenant data collected per asset.		x	x
EPC	The portfolio has completed two EPC assessments in the last quarter.	x		

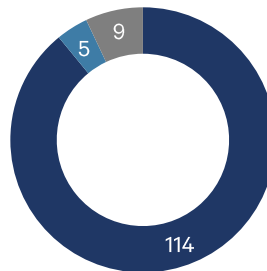
## COMPLIANCE

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 1<sup>st</sup> 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 EPC
Exempt	■	MEES regulation exem
Unknown	■	Inaccurate or missing I

Action	Medium risk	High risk
High quality or modelled EPC	3	0
Action at lease end	2	0
Refurbishment	0	0
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:

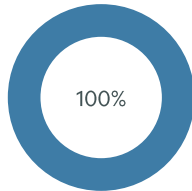
**EPC compliance:** clauses which support our compliance pillar, particularly with regard to EPCs

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

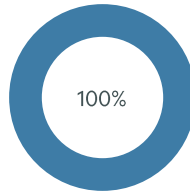
**Collaboration:** clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

**% of leases completed since January 2019 incorporating green lease clauses**

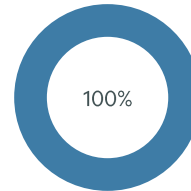
**EPC Compliance**



**Data sharing**

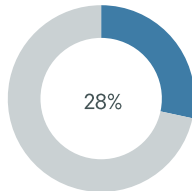


**Collaboration**

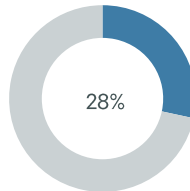


**% of all portfolio leases which incorporate green lease clauses**

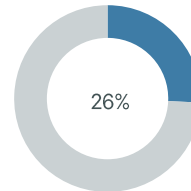
**EPC Compliance**



**Data sharing**



**Collaboration**



■ Green leases clause present in lease

### Green lease tracking

% of portfolio with a green lease tracker (excluding vacant units)	93%
Trackers received since Q1 2019	17
New trackers received in Q2 2023	0

## TRANSPARENCY

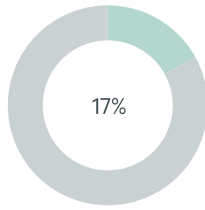
### Building certification strategy

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.

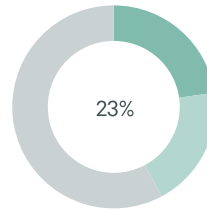
Property	Certification type	Rating	Status
Woolborough Lane Industrial Estate, Crawley – (Unit A)	BREEAM Refurbishment	Very Good	Submitted
CIC2 Science Park, Cambridge - (Building A)	BREEAM In Use: Part 2	TBC	In Progress
Newark, Brownills Motorhomes - (Sales Building)	BREEAM In Use: Part 1	TBC	In Progress
Astra House - (Whole Building)	BREEAM In Use: Part 2	TBC	In Progress

### % Portfolio with a Building Certification (By Value)

2022 performance



2023 performance



In Progress Certifications

## 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	1
Star Standards Lite – Small Projects	0	0	0

Asset	Unit	Targeted Star Standard	Estimated completion date	Project Notes
Unit C1-C4, Woolborough, Crawley	Unit C1-C4	3*	Jun 2023	Awaiting final ESG information for reporting purposes

## 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 calendar year data has been collected via CRM data requests and enhanced proptech enabled data collection methods. Landlord energy data has also been reviewed and inputted into the funds data management system (Measurabl). This data has been assured and submitted as part of the annual GRESB submission in June 2023 as per normal practice. Full information on the portfolio's 2022 GHG emissions will then become available once the results have been received in October 2023.



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