



83 Clerkenwell Road, London EC1

Q4 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 7.4% of DCPF’s total assets¹, which currently represents approximately £260m. 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. Since Q2 2023, this strategy has been under review.

OVERVIEW

	£253.9m	31
	Capital value (Combined DCPF portfolio)	Assets
	Conventional	
Mandate	Commenced 1993	Mandate
Performance objective	MSCI Quarterly Universe over five years	Performance objective
Capital Value (Q3 2023)	£210.0m (83%)	Capital Value (Q3 2023)
Number of assets	21	Number of assets
Target portfolio size	£180m	Target portfolio size
Value of purchases during quarter	-	Value of purchases during quarter
Value of sales during quarter	£0.2m	Value of sales during quarter
Net initial yield (p.a.)	4.5%	Net initial yield (p.a.)
Average unexpired lease term (to break)	10.7 years (8.8 years)	Average unexpired lease term (to break)
Combined Valuation²		
Direct Property (Q4 2023 values)		Direct Property (Q4 2023 values)
Indirect Assets (Q4 2023 values) ³		Indirect Assets (Q4 2023 values)
TOTAL PORTFOLIO VALUATION		TOTAL PORTFOLIO VALUATION

CONVENTIONAL PORTFOLIO PERFORMANCE

	Q4 2023	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-1.7	-0.5	-0.9	-2.2	-0.5
Income return	1.5	4.1	3.4	3.7	3.9
Total return	-0.2	3.7	2.5	1.4	3.5
MSCI Quarterly Property Index	-1.1	-1.5	1.5	0.8	2.9
Relative	0.9	5.2	0.9	0.6	0.6

¹ Based on Dorset County Pension Fund’s total asset value as at the end of March 2023 (£3.5bn).

² See Appendix 2 for full property list and performance over the quarter by asset.

³ See Appendix 1 for more information on the indirect holdings.

SLI PORTFOLIO PERFORMANCE

	Q4 2023	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-0.2	-3.6	-3.4	-1.7	-1.0
Income return	1.2	5.0	4.5	4.4	4.2
Total return	1.0	1.3	0.9	2.6	3.1
Target (LPI + 2.0% p.a.)	0.7	7.0 ⁴	7.0 ⁴	5.7	5.6
Relative	0.3	-5.7	-6.1	-3.1	-2.5

⁴ Assumes the 5.0% LPI cap is applied.

Economic and property update

- The latest monthly GDP growth figure showed an increase of 0.3% in November, following a 0.3% fall in October. The main take away from the latest release is that the monthly series is very noisy and should be handled with care. The bigger picture is that the economy has flatlined since early-2022 but 2024 should be the year that breaks that pattern, with a sharp fall in inflation set to boost household spending power and generate a steady pickup in momentum.
- Inflation rose to 4.0% y/y in December, an increase from 3.9% y/y in November. This was the first increase for 10 months, in line with both the Eurozone and the US. This could cause increased uncertainty on the timing of interest rate cuts but given the trend of steadily falling inflation, we believe the MPC will eventually rein back its “higher for longer” rhetoric.
- UK capital values decreased by 0.9% in December according to the latest MSCI monthly index. It was the eighth consecutive monthly decline, with the last positive growth recorded in April 2023. Capital values in the three months to December decreased by -2.6% driven by Office and Retail which recorded capital value falls of -3.5% and -5.5%, respectively, in the three months to December 2023. Industrial values fell by -0.4% on the month and -0.7% on the quarter.
- Total returns are expected to average 7.9% per annum over our five-year forecast period, marginally down from 8.0% per annum in the previous round. Returns accelerate starting in Q2 2024. We believe that superior capital growth will lead to the logistics and residential sectors outperforming, alongside the healthcare and leisure sectors, which are mainly boosted by the strong income growth.

Conventional portfolio

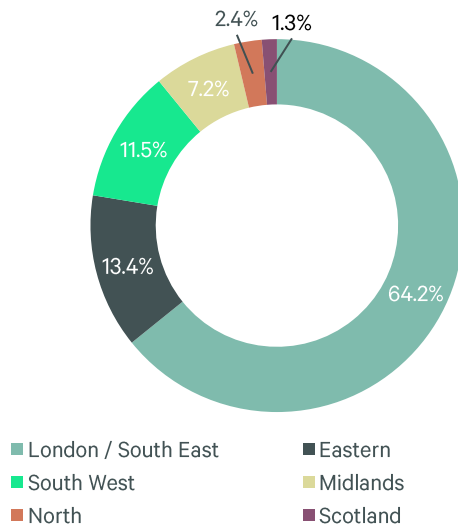
Portfolio information

KEY STATISTICS

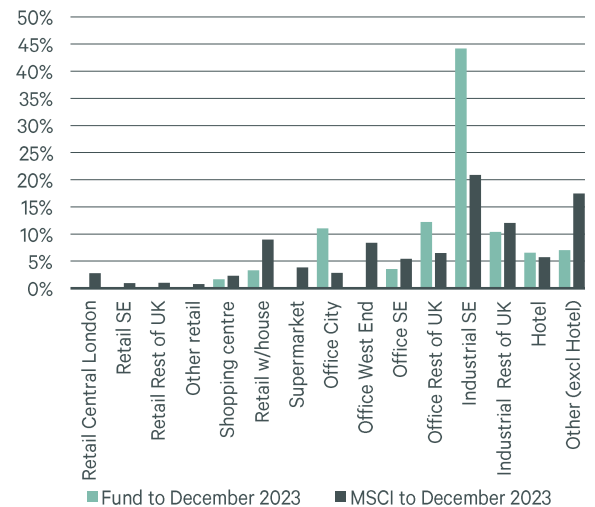
£192.6m Direct market value	£17.4m Indirect market value	£210.0m Total Conventional portfolio market value
21 (£10.7m) No. of assets (direct avg. value)	71 (£2.7m) No. of lettable units (direct avg. value)	7.1% (8.3%) Vacancy rate (MSCI Quarterly Universe)
10.7 yrs (8.8 yrs) Avg. unexpired direct lease term (to break)	4.5% Direct net initial yield (p.a.)	8.7% % of income direct RPI / index linked
19.8% Rent with +10 years remaining (% of direct rent)	9.2% Rent with +15 years remaining (% of direct rent)	

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

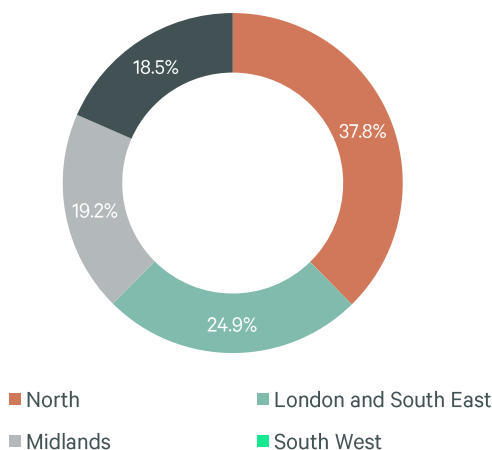
Portfolio information

KEY STATISTICS

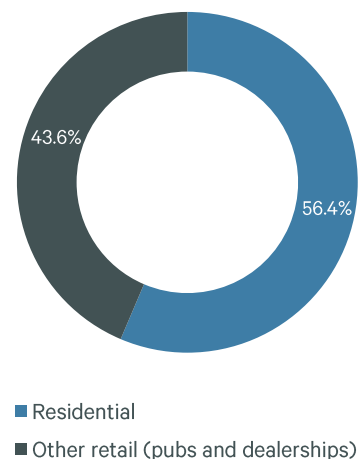
£43.9m Direct market value	£0.0m Indirect market value	£43.9m Total SLI portfolio market value
10 (£4.4m) No. of assets (avg. value)	14 (£3.1m) No. of lettable units (avg. value) ⁵	0% Vacancy rate (% ERV)
59.1 yrs (17.4 yrs) Avg. unexpired lease term (to break)	4.8% Net initial yield (p.a.)	79.9% % of income index linked
46.0% Rent with >15 years remaining (% of contracted rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



⁵ 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.

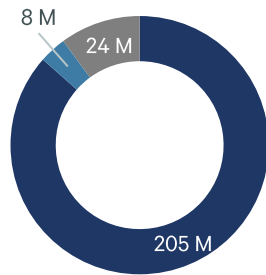
Key actions completed in Q4 2023

Action	Outcome	Climate	People	Influence
BREEAM In Use Assessments	The portfolio successfully completed two BREEAM In Use assessments in 2023, which will be eligible for inclusion in the GRESB 2024 submission.	x	x	
GRESB 2024 Improvement Plan	The portfolio has developed an Improvement Plan for GRESB 2024 following detailed analysis of the 2023 results, which includes specific recommendations for enhanced score improvements.	x	x	
EPC	The portfolio has ordered two MEES Asset Builder assessments.	x		

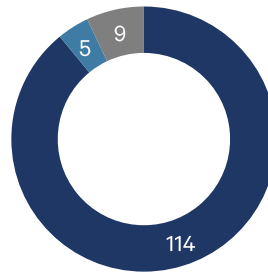
COMPLIANCE

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 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 fit out	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:

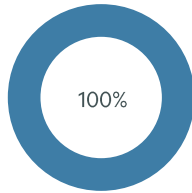
EPC compliance: clauses which support our compliance pillar, particularly regarding EPCs.

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

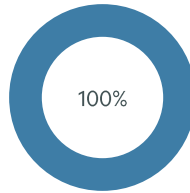
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

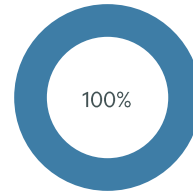
EPC Compliance



Data sharing

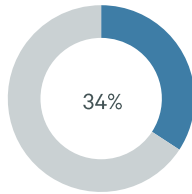


Collaboration

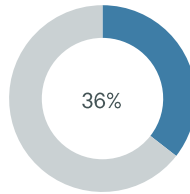


% of all portfolio leases which incorporate green lease clauses

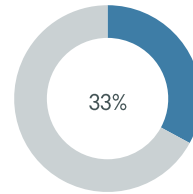
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

Green lease tracking

% of portfolio with a green lease tracker (excluding vacant units)	99%
Trackers received since Q1 2019	24
New trackers received in Q4 2023	7

TRANSPARENCY

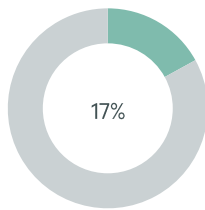
Building certification strategy

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.

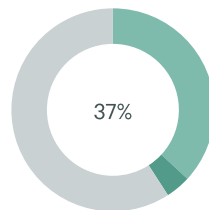
Property	Certification type	Rating	Status
Woolborough Lane Industrial Estate, Crawley - (Unit A)	BREEAM Refurbishment	Very Good	Submitted – awaiting final certificate from BRE

% 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
N/A - No Star Standards Undertaken				

CARBON

2023 calendar year data collection via CRM data requests and enhanced PropTech enabled data collection methods is in progress. Landlord energy data is being reviewed and inputted into the funds data management system (Measurabl). This data will be assured and submitted as part of the annual GRESB submission in June 2024 as per normal practice.

The 2023 utility data uploaded to the Measurabl platform will undergo a comprehensive audit to ensure data quality. Each assigned utility meter will be error-free, and all outliers investigated and addressed. Issues, if any, will be promptly raised with the utility provider and data platform manager. The resolution of each issue will be documented for full transparency. Furthermore, the audit of the Measurabl platform will include the portfolio's Projects, Audits, Ratings and Certifications (PARC) data, as well as valuations data and property-type assignment. The data will continue to be subjected to checks throughout the coming quarters ahead of the portfolio's GRESB 2024 submission.

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