



83 Clerkenwell Road, London EC1

Q1 Report

Dorset County Pension Fund

2024

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 7.2% of DCPF’s total assets,¹ which currently represents approximately £253m.

OVERVIEW

	£253.0m	31
	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 (Q3 2023)	£210.0m (83%)	£43.0m (17%)
Number of assets	21	10
Target portfolio size	£180m	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	£0.2m	-
Net initial yield (p.a.)	4.5%	5.1%
Average unexpired lease term (to break)	10.7 years (8.8 years)	61.0 years (16.3 years)
Combined Valuation²		
Direct Property (Q1 2024)		£235.6m
Indirect Assets (Q1 2024) ³		£17.4m
TOTAL PORTFOLIO VALUATION		£253.0m

CONVENTIONAL PORTFOLIO PERFORMANCE

	Q1 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	0.2	-2.3	-1.1	-2.2	-0.5
Income return	1.0	4.3	3.4	3.7	3.9
Total return	1.2	1.9	2.2	1.5	3.4
MSCI Quarterly Property Index	0.5	-1.0	1.1	0.8	2.6
Relative	0.6	3.0	1.1	0.6	0.7

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

	Q1 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-2.1	-5.3	-4.2	-2.5	-2.3
Income return	1.2	5.1	4.5	4.4	4.2
Total return	-0.9	-0.5	0.2	1.8	1.8
Target (LPI + 2.0% p.a.)	1.6	6.3	6.8	5.7	5.4
Relative	-2.5	-6.8	-6.6	-4.0	-3.6

Economic and property update

- Real gross domestic product (GDP) is estimated to have grown by 0.2% in the three months to February 2024, relative to the three months to November 2023. Services output was the main contributor, with a growth of 0.2% in this period, while production output rose by 0.7% and construction fell by 1.0%. Given both January and February recorded positive GDP growth, it is now likely the UK economy will exit a technical recession in Q1 2024. We expect economic growth to gain momentum through 2024, as both looser monetary policy and falling inflation provide tailwinds to economic activity. Our U.K. GDP growth expectation has improved since the end of last year (mostly in 2024 and 2025), with our five-year view at 1.4% p.a. over our forecast period.
- Inflation continued to decelerate in March, falling to 3.2% from 3.4% the previous month. The decline was smaller than market expectations and will feed into the expectation of fewer interest rate cuts in 2024. The largest downward contribution came from food prices, which saw a decline from 5.0% to 4.0% in March, the lowest annual increase since November 2021. There is a clear divergence between goods and services inflation, with goods inflation continuing to come down in contrast to services, which remained at 6.0% in March. This is partly on the back of continued rising labour costs, with vacancies, although falling, still above their pre-pandemic level.
- We are at or approaching the bottom of the cycle in most sectors. The March MSCI monthly index showed capital value declines at the All-Property level slowing to -0.2% from -0.4% in February. This was the smallest fall since May 2023, and second lowest fall since June 2022 (the peak of the market). Capital values have now fallen by 1% in the first three months of 2024.
- Total returns are expected to average 7.9% per annum over the 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

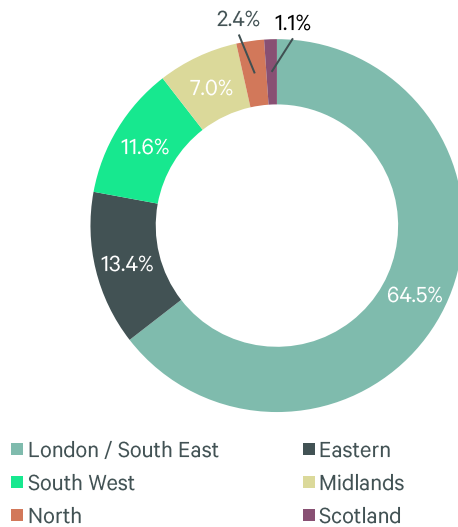
Portfolio information

KEY STATISTICS

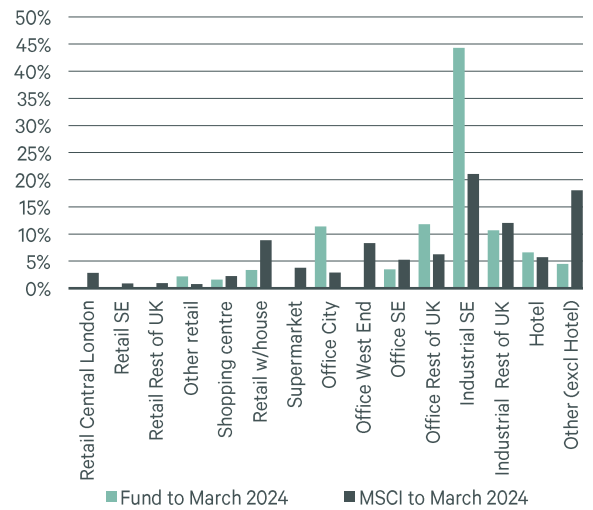
£192.7m Direct market value	£17.4m Indirect market value	£210.0m Total Conventional portfolio market value
21 (£11.7m) No. of direct assets (avg. value)	75 (£2.6m) No. of direct lettable units (avg. value)	3 No. of indirect holdings
6.9% (8.2%) Vacancy rate (MSCI Quarterly Universe)	10.4 yrs (8.5 yrs) Avg. unexpired direct lease term (to break)	4.8% Direct net initial yield (p.a.)
8.9% % of income direct RPI / index linked	14.2% Rent with +10 years remaining (% of direct rent)	9.5% Rent with +15 years remaining (% of direct rent)

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

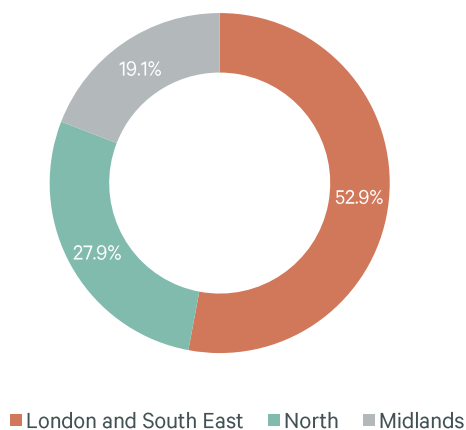
Portfolio information

KEY STATISTICS

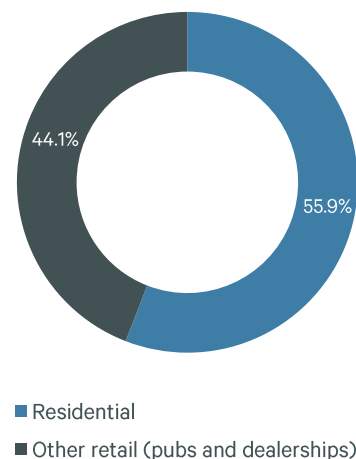
£43.0m Direct market value	£0.0m Indirect market value	£43.0m Total SLI portfolio market value
10 (£4.3m) No. of assets (avg. value)	14 (£3.1m) No. of lettable units (avg. value) ⁴	0% Vacancy rate (% ERV)
61.0 yrs (16.3 yrs) Avg. unexpired lease term (to break)	5.1% Net initial yield (p.a.)	79.8% % of income index linked
46.5% 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.

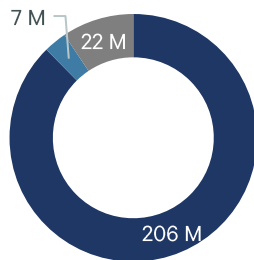
Key actions completed in Q1 2024

Action	Outcome	Climate	People	Influence
CRM Data Collection	The 2024 annual data collection process has begun, with data requests being sent out to CRM contacts to provide 2023 calendar year data.	x		x
PropTech Data Collection	The enhanced PropTech enabled data collection process targeting increased energy, water, and waste data coverage in 2024 has begun, with tenant contact details being requested from PMs required for LOAs.	x		
EPC	The portfolio has completed one EPC assessment in the last quarter.	x		

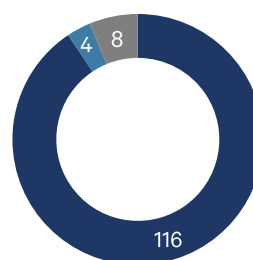
COMPLIANCE

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 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. 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 exempt
Unknown	■	Inaccurate or missing data

Action	Medium risk	High risk
High quality or modelled EPC	3	0
Action at lease end	1	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:

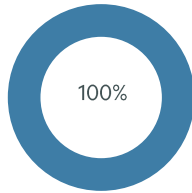
EPC compliance: clauses which support our compliance pillar, particularly regarding EPCs.

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

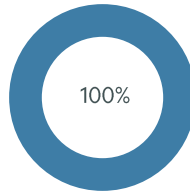
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

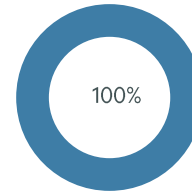
EPC Compliance



Data sharing

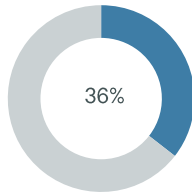


Collaboration

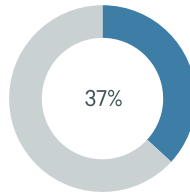


% of all portfolio leases which incorporate green lease clauses

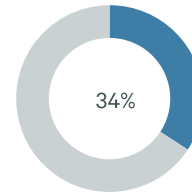
EPC Compliance



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	25
New trackers received in Q1 2024	2

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. The 'In progress & submitted certifications' table below includes any certifications that are currently ongoing and/or awaiting receipt of a final completion certificate. The 'Completed certifications' table below covers any certifications completed in the previous reporting year (2023) and in the current reporting year (2024).

In progress & submitted certifications

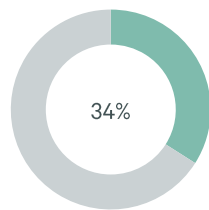
Property	Certification type	Rating	Status
Woolborough Lane IE, Crawley - (Unit A)	BREEAM Refurbishment	Very Good	Submitted – awaiting final certification from BRE
Astra House, Harlow	BREEAM In Use: Part 2	TBC	Submitted – awaiting re-submission to BRE

Completed certifications

Property	Certification type	Rating	Status	Year Awarded
Brownhills Motorhomes, Newark	BREEAM In Use: Part 1	Pass	Complete	2023
270 Cambridge Science Park	BREEAM In Use: Part 2	Good	Complete	2023

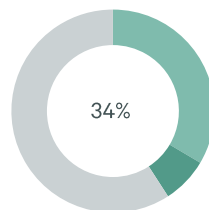
% Portfolio with a building certification (by value)

2023 performance



Completed certifications

2024 performance



In progress certifications

STAR STANDARDS

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. 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

	2022	2023	2024
★★★ Beyond best practice	2	1	0
★★ Best practice	0	0	0
★ Good practice	0	1	0
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 Fund's 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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