



83 Clerkenwell Road, London EC1

Q2 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

	£253.3m	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)	£210.6m (83%)	£42.8m (17%)
Number of assets	21	10
Target portfolio size	£180m	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	£0.0m	-
Net initial yield (p.a.)	4.9%	5.1%
Average unexpired lease term (to break)	10.2 years (8.3 years)	59.8 years (17.0 years)
Combined Valuation²		
Direct Property (Q2 2024)		£236.0m
Indirect Assets (Q2 2024) ³		£17.3m
TOTAL PORTFOLIO VALUATION		£253.3m

CONVENTIONAL PORTFOLIO PERFORMANCE

	Q2 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	0.2	-2.2	-1.9	-2.0	-0.8
Income return	1.2	4.6	3.4	3.7	3.9
Total return	1.4	2.3	1.4	1.7	3.1
MSCI Quarterly Property Index	1.3	0.1	0.4	1.0	2.5
Relative	0.1	2.2	1.0	0.7	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

	Q2 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-0.6	-3.8	-5.1	-2.7	-2.4
Income return	1.3	5.2	4.6	4.5	4.3
Total return	0.7	1.2	-0.6	1.7	1.7
Target (LPI + 2.0% p.a.)	1.6	4.9	6.3	5.6	5.4
Relative	-0.9	-3.8	-6.9	-3.9	-3.7

Economic and property update

- The UK general election has yielded a new government, with Labour securing a large parliamentary majority. Political stability, combined with promised supply side reforms should benefit both economic sentiment and growth.
- The UK economy seems to have turned a corner as monthly GDP accelerated in May and recorded its fifth consecutive month of positive growth. Although volatile, the monthly GDP series is a useful early indicator on economic activity. All three components of GDP growth – services, production, and construction – increased in May, with construction GDP growth recording its highest value in a year. Added to this, the Purchasing Managers Index (PMI – leading economic activity survey) has also remained well above 50 (indicating economic expansion) for the past six consecutive months. Simultaneously, the rise in real household income due to falling inflation, and the recent improvement in consumer sentiment will feed into increased momentum as we progress through H2 2024.
- Inflation remained unchanged in June, at 2.0% y/y. Although we expect inflation to remain around the 2% range over the short to medium term, price volatility month to month is still a risk. The divergence between goods and services' prices remains, with goods' inflation either flat or negative, whilst prices continue to rise within the service sectors, namely in the food and leisure segments. This is being driven by a relatively tight labour market (vacancies are still above their pre-pandemic level), which in turn is feeding into robust wage growth.
- UK real estate has also turned a corner, with the latest MSCI monthly index showing positive capital value growth of 0.2% m/m in June at the All-Property level for the third consecutive month and Q2 2024 recording positive capital value growth of 0.1%. Monthly capital values fell for 19 out of the 21 months to April 2024. All sectors outside of offices recorded positive capital value growth. Retail capital value growth accelerated in June, increasing by 0.6% from 0.3% the previous month, industrial values increased by 0.3%, and office values continued to fall (-0.6%).
- Total returns are expected to average 8.1% p.a. over the forecast period (Q3 2024–Q2 2029), up from 7.9% p.a. previously. Given we are at a cyclical high for yields in most segments, we expect yield compression over the next five years to varying degrees, with industrial seeing the most and office the least. There is a clear divergence in performance, with logistics and residential outperforming other main sectors.

Conventional portfolio

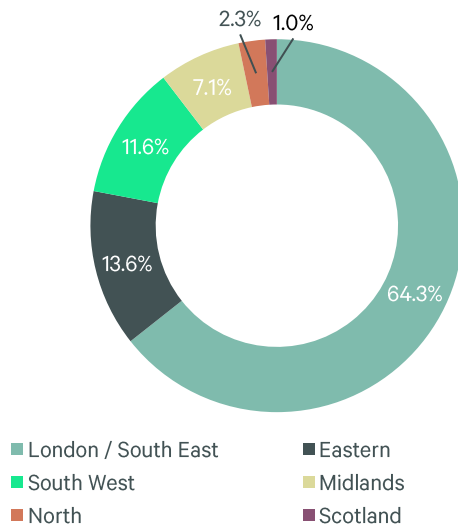
Portfolio information

KEY STATISTICS

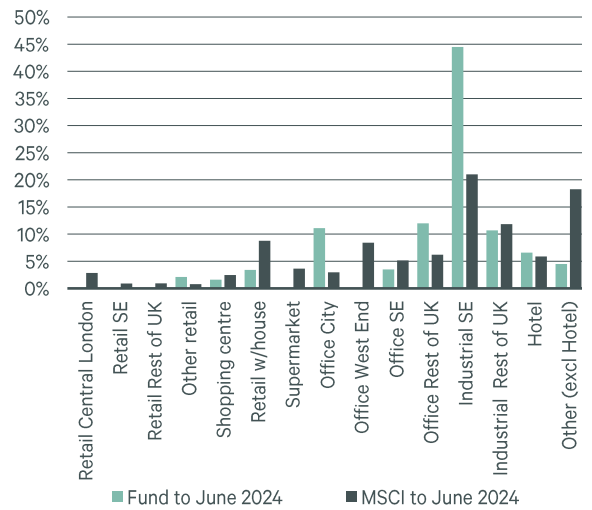
£193.3 Direct market value	£17.3m Indirect market value	£210.6m Total Conventional portfolio market value
21 (£11.7m) No. of direct assets (avg. value)	75 (£2.6m) No. of direct lettable units (avg. value)	3 No. of indirect holdings
5.1% (8.9%) Vacancy rate (MSCI Quarterly Universe)	10.2 yrs (8.3 yrs) Avg. unexpired direct lease term (to break)	4.9% Direct net initial yield (p.a.)
5.1% % of income direct RPI / index linked	19.4% Rent with +10 years remaining (% of direct rent)	9.1% Rent with +15 years remaining (% of direct rent)

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

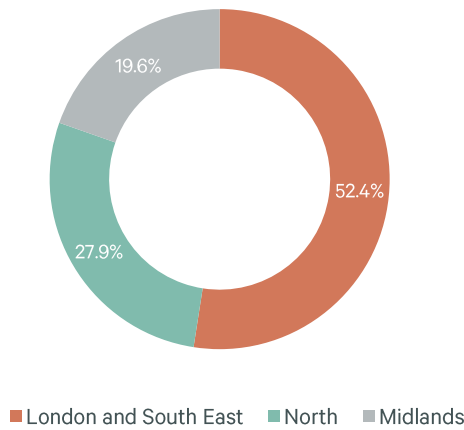
Portfolio information

KEY STATISTICS

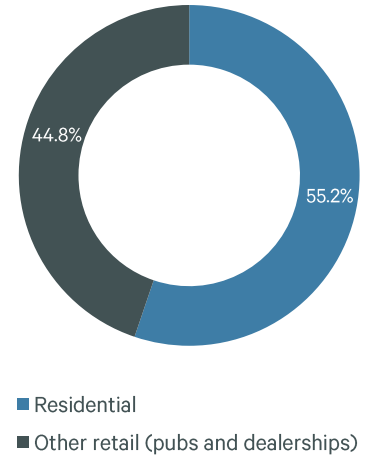
£42.7m Direct market value	£0.0m Indirect market value	£42.7m Total SLI portfolio market value
10 (£4.3m) No. of assets (avg. value)	14 (£3.1m) No. of lettable units (avg. value)*	0% Vacancy rate (% ERV)
59.8 yrs (16.1 yrs) Avg. unexpired lease term (to break)	5.1% Net initial yield (p.a.)	80.4% % of income index linked
47.0% Rent with >15 years remaining (% of contracted rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



* 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.

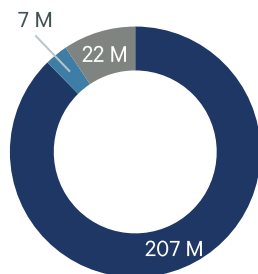
Key actions completed in Q2 2024

Action	Outcome	Climate	People	Influence
BREEAM In Use 2024 Assessments	The portfolio received a proposal for one BREEAM In-Use assessment, which will commence in Q3 2024 following approval.	x	x	x
GRESB	The portfolios 2024 GRESB submission has been completed. This portfolio submitted to the Standing Investments (SI) assessment. Environmental performance data was assured to AA1000AS.	x	x	x
Tenant Data Collection	Collection of energy, water, and waste data from tenants for the 12 months ended 31 st December 2023 has been completed. This portfolio achieved 81% energy data coverage.	x		
Letter of Authority Data Collection	There is an ongoing review of the Letter of Authority data collection requests, which will be rolled out across the remainder of 2024, to help increase the granularity of tenant data collected per asset.	x		
EPC	The portfolio has completed one EPC assessment in the last quarter.	x		
Estimated 25% Common Areas	An estimated 25% common area was added for all office assets to increase GRESB reporting accuracy. The majority of assets did not have common area assignments inputted into Measurabl, resulting in inaccurate Energy Use Intensity (EUI) figures for these types of assets. It is crucial to have accurate EUI values to determine the actual energy consumption of the buildings. This information is vital for assessing retrofitting measures and achieving higher scores on GRESB reporting.	x		

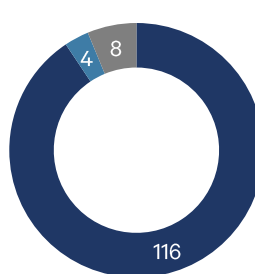
COMPLIANCE

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 exempt
Unknown	■	Inaccurate or missing information

Action	Medium risk	High risk
High Quality or Modelled EPC	2	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:

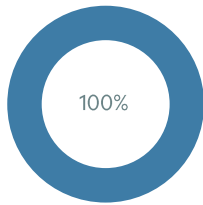
EPC compliance: clauses which support our compliance pillar, particularly with regard to EPCs.

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

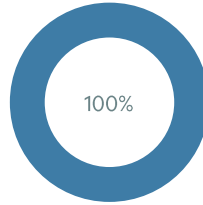
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

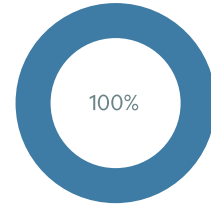
EPC Compliance



Data sharing

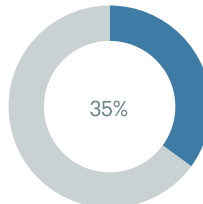


Collaboration

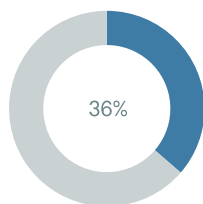


% of all portfolio leases which incorporate green lease clauses

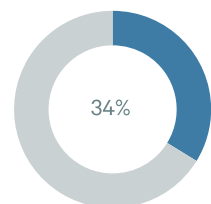
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

Green lease tracking

% of portfolio with a green lease tracker (excluding vacant units)	97%
Trackers received since Q1 2019	25
New trackers received in Q2 2024	1

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

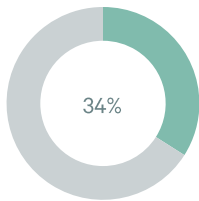
Property	Certification type	Rating	Status
Woolborough Lane Industrial Estate, Crawley (Unit A)	BREEAM Refurbishment	Very Good	Submitted – awaiting final certification from BRE
Astra House (Whole Building)	BREEAM In Use: Part 2	TBC	Submitted – undergoing resubmission to BRE, targeting a Good rating

Completed certifications

Property	Certification type	Rating	Status	Year Awarded
CIC2 Science Park, Cambridge (Building A)	BREEAM In Use: Part 2	Good	Complete	2023
Newark, Brownills Motorhomes (Sales Building)	BREEAM In Use: Part 1	Pass	Complete	2023

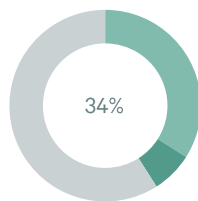
% Portfolio with a building certification (by value)

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. Embedding the Star Standards into refurbishment projects will improve their operational performance, portfolio level targets and GRESB reporting potential.

Refurbishments 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

Ongoing Star Standard refurbishments

Asset	Unit	Targeted Star Standard	Estimated completion date	Project Notes
N/A - No ongoing Star Standard refurbishments				

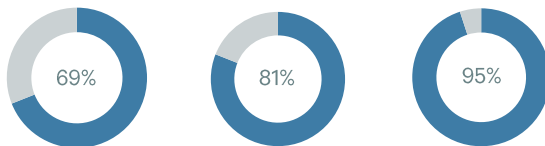
CARBON

2023 calendar year data collection via CRM data requests and enhanced PropTech enabled data collection methods has been completed. Landlord energy data has been reviewed and inputted into the portfolio's data management system (Measurabl). This data has been assured and submitted as part of the annual GRESB submission in June 2024 as per normal practice. Full information on the portfolio's 2023 GHG emissions will become available once the results have been received on 1st October 2024.

N.B. – Data coverage figures provided below are based on the previous calendar year's data, and floor area is measured by Gross Internal Area (GIA) in square feet. Data coverage figures are taken from CBRE IM's Measurabl platform, which is used for reporting. These figures may vary from the final GRESB results report issued on 1st October 2024, due to differing methodologies used between Measurabl and GRESB to calculate data coverage percentages. For the avoidance of doubt, GRESB applies both area and time aggregated data coverage for the reporting year, subsequently producing a typically slightly lower figure when compared with Measurabl.

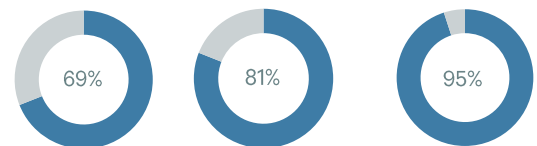
% of floor area for which energy data has been collected

2023 performance 2024 performance 2025 target



% of floor area for which GHG data has been collected

2023 performance 2024 performance 2025 target



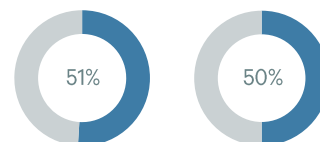
% of floor area for which water data has been collected

2023 performance 2024 performance



% of floor area for which waste data has been collected

2023 performance 2024 performance



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