CBRE Investment Management

83 Clerkenwell Road, London EC1

Q3 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 7.1% of DCPF's total assets,[1] which currently represents approximately £249m.

OVERVIEW

£249.3m	29
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 2024)	£206.9m (83%)	£42.4m (17%)
Number of assets	19	10
Target portfolio size	£180m	£120m
Value of purchases during quarter	-	-
Value of sales during quarter	£3.2m	-
Net initial yield (p.a.)	4.4%	5.1%
Average unexpired lease term (to break)	10.1 years (8.2 years)	59.5 years (15.8 years)

Combined Valuation[2]	
Direct Property (Q3 2024)	£233.1m
Indirect Assets (Q3 2024)[3]	£16.2m
TOTAL PORTFOLIO VALUATION	**£249.3m**

CONVENTIONAL PORTFOLIO PERFORMANCE

	Q3 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-0.2	-1.5	-2.7	-1.9	-1.0
Income return	1.2	4.9	3.5	3.7	3.9
Total return	1.0	3.4	0.7	1.8	2.9
MSCI Quarterly Property Index	1.4	2.1	0.4	1.2	2.3
Relative	-0.4	1.2	1.0	0.6	0.6

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

SLI PORTFOLIO PERFORMANCE

	Q3 2024	12 months (%)	3 years (%) p.a.	5 years (%) p.a.	7 years (%) p.a.
Capital return	-0.8	-3.7	-5.9	-3.0	-2.5
Income return	1.4	5.3	4.8	4.5	4.3
Total return	0.7	1.4	-1.4	1.4	1.7
Target (LPI + 2.0% p.a.)	0.8	4.7	6.2	5.7	5.5
Relative	-0.1	-3.3	-7.6	-4.3	-3.8

Economic and property update

- Inflation rose by 1.7% in the 12 months to September 2024, a little lower than expectations. This compares favourably with a year ago when CPI was running at 7.3%, and the fall towards the Bank of England's 2% target has already been sufficient for the Monetary Policy Committee to cut rates once by 25bps. We expect a further 25bps cut before year end, four more 25bps cuts in 2025, and for the policy rate to eventually settle back at 2.25% by the end of 2027.
- UK capital value growth has undeniably returned to positive territory; of the main sectors in the MSCI Monthly Index it is only offices where values continue to decline, albeit at a fast-reducing rate. Capital value growth has been neutral or positive for two consecutive three month periods in retail, industrial and residential, and over the most recent three months at the All Property level.
- This recent downturn is unique in that it has been entirely yield driven – while previous downturns may have been mainly pricing related they all also saw some decline in rents, at least in nominal terms. Yet rental growth has been positive at the UK All Property level since the beginning of 2021. With rental growth now outweighing outward yield drift (and in the case of retail being complimented by nascent yield compression, particularly in retail parks as highlighted above), value growth is gathering momentum.
- All Property total returns are forecast to be 8.1% p.a. over the five-year period, broadly in line with the long-term average. Variations at the sector level closely reflect relative expectations of rental growth and yield shift with logistics, residential and retail warehousing outperforming other main sectors.

Conventional portfolio

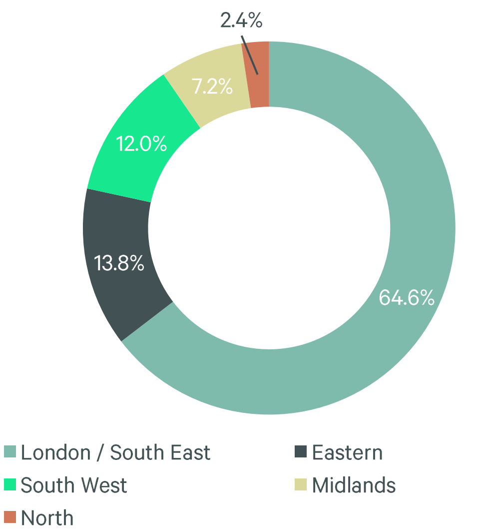
Portfolio information

KEY STATISTICS

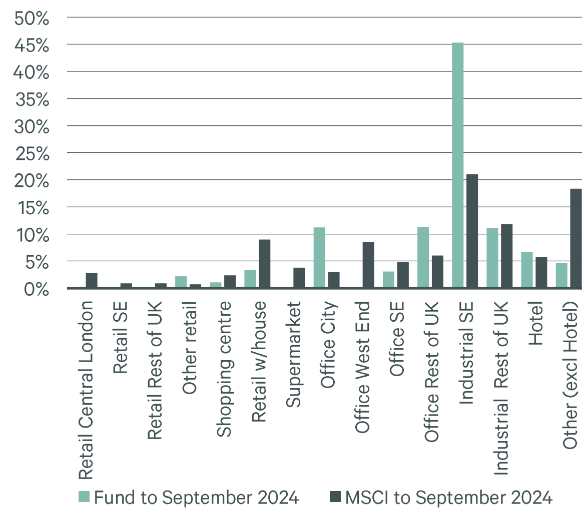
£190.7m Direct market value	**£16.2m** Indirect market value	**£206.9m** Total Conventional portfolio market value
17 (£12.2m) No. of direct assets (avg. value)	**71 (£2.7m)** No. of direct lettable units (avg. value)	**2** No. of indirect holdings
3.3% (9.0%) Vacancy rate (MSCI Quarterly Universe)	**10.1 yrs (8.2 yrs)** Avg. unexpired direct lease term (to break)	**4.4%** Direct net initial yield (p.a.)
5.3% % of income direct RPI / index linked	**20.0%** Rent with +10 years remaining (% of direct rent)	**9.3%** Rent with +15 years remaining (% of direct rent)

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown



Sector breakdown



Secure long income portfolio (SLI)

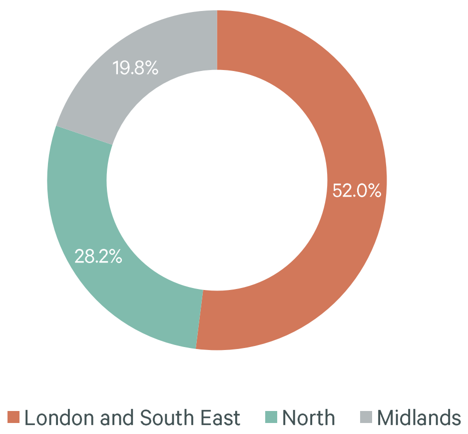
Portfolio information

KEY STATISTICS

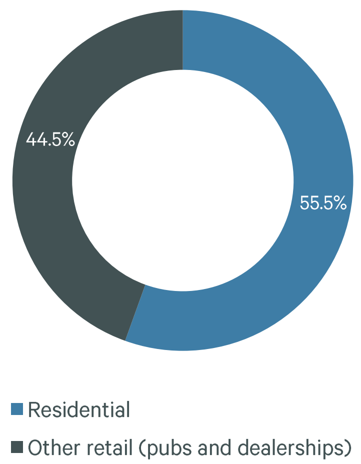
£42.4m Direct market value	£0.0m Indirect market value	£42.4m Total SLI portfolio market value
10 (£4.2m) No. of assets (avg. value)	14 (£3.0m) No. of lettable units (avg. value)[4]	0% Vacancy rate (% ERV)
59.5 yrs (15.8 yrs) Avg. unexpired lease term (to break)	5.1% Net initial yield (p.a.)	80.3% % of income index linked
46.7% Rent with >15 years remaining (% of contracted rent)		

GEOGRAPHICAL AND SECTOR EXPOSURE

Geographical breakdown (% of total value)



Sector breakdown (% of total value)



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.

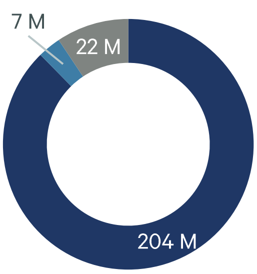
Key actions completed in Q3 2024

Action	Outcome	Climate	People	Influence
BREEAM In Use 2024 Assessments	The portfolio is currently undertaking one BREEAM In-Use assessment, which commenced in Q3 2024.	x	x	x
GRESB	The portfolios 2024 GRESB submission has been completed. The portfolio scored 79/100, 3 Star in the Standing Investments Assessment.	x	x	x
GRESB 2025 Improvement Plan	The portfolio is developing an Improvement Plan for GRESB 2025, following the detailed analysis of the 2024 final results, which will include specific recommendations for future improvement.	x		
EPC	The portfolio has completed one EPC assessment in the last quarter. It has also ordered one MEES Asset Builder assessment.	x		

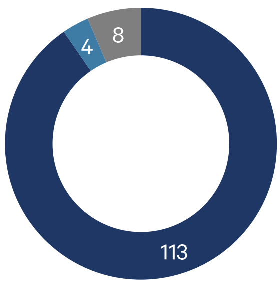
COMPLIANCE

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 exem
Unknown	■	Inaccurate or missing

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 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:

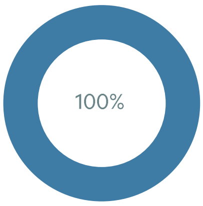
EPC compliance: clauses which support our compliance pillar, particularly with regard to EPCs.

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

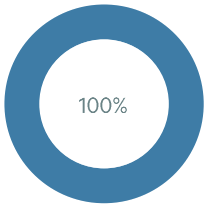
Collaboration: clauses in which we agree with the tenant to collaborate to improve a building's ESG performance.

% of leases completed since January 2019 incorporating green lease clauses

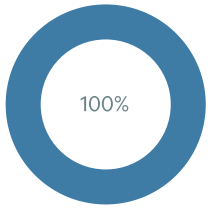
EPC Compliance



Data sharing

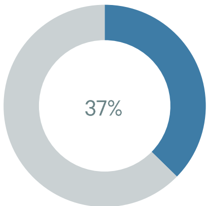


Collaboration

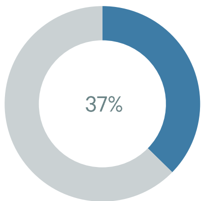


% of all portfolio leases which incorporate green lease clauses

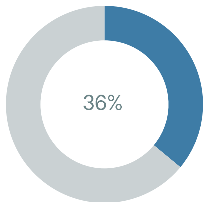
EPC Compliance



Data sharing



Collaboration



■ Green leases clause present in lease

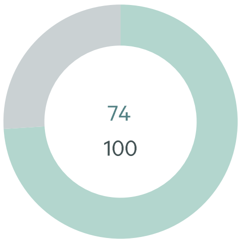
Green lease tracking	
% of portfolio with a green lease tracker (excluding vacant units)	100%
Trackers received since Q1 2019	26
New trackers received in Q3 2024	1

GRESB

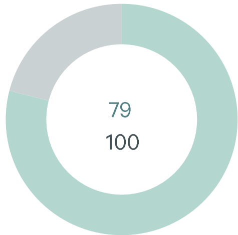
CBRE Investment Management views GRESB as a key component of understanding the success of our ESG strategy. The GRESB Real Estate Assessment also allows us to benchmark portfolio performance against our peer group. The 2024 assessment was the portfolio's fifth year of participating in the annual GRESB Real Estate Assessment.

2024 GRESB score in the Standing Investments Assessment

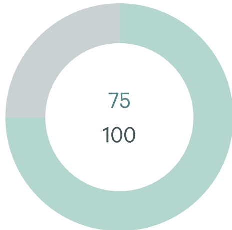
2023 Performance



2024 Performance



2024 Target



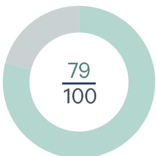
The Portfolio scored 79 out of 100 on the GRESB Standing Investments Assessment – a five-point increase on the Score in 2023 (74). All aspects are above peer group average with particularly strong results in the following Performance Component Aspects: Building Certifications, Waste, Data Monitoring & Review and Risk Assessment.

As a result, the Portfolio has achieved GRESB Three Star, up from Two Stars in 2023, despite significant changes to the GRESB scoring methodology making it more difficult for entities to score points on certain key indicators such as Energy, GHG, Water, Waste and Building Certifications. These changes include, but are not limited to, a shift towards country level benchmarking and an asset first methodology when calculating scores, resulting in a more competitive benchmark, which the Portfolio has still been able to outperform. As such, the Portfolio has met CBRE IM's GRESB Three Star Rating target for the Standing Investments assessment in its proprietary ESG Scorecard. The Portfolio has also achieved the GRESB Green Star and exceeded the peer average score of 75 by 4 points.

Next year, we expect the Portfolio score to continue to improve due to greater like-for-like scores in data coverage, with anticipated full calendar year data coverage through Proptech. Beyond that the continued implementation of renewables and focus on decarbonisation will become key to pushing the GRESB score higher. We expect Waste and Water data coverage to continue to be challenging.

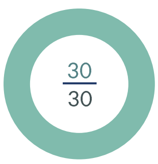
Figure 1: Portfolio 2024 Standing Investments score by aspect

Total score



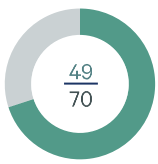
Peer Group average: 75

Management



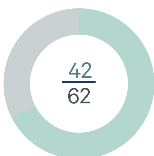
GRESB average: 27

Performance



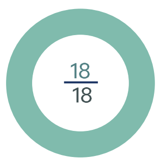
GRESB average: 49

Environmental



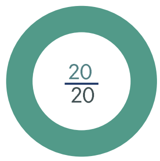
GRESB average: 42

Social



GRESB average: 16

Governance



GRESB average: 18

TRANSPARENCY

Building certification strategy

CBRE Investment Management aim to acquire or forward fund buildings with certifications. Green Building Certifications are important for the portfolios 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

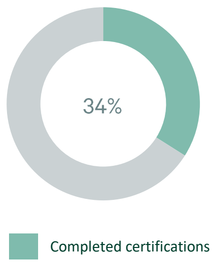
Property	Certification type	Rating	Status
Astra House – (Whole Building)	BREEAM In Use: Part 2	TBC	Submitted
Oldfield Lane, London – (Unit 1)	BREEAM In Use: Part 1	TBC	Submitted

Completed certifications

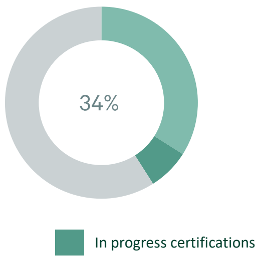
Property	Certification type	Rating	Status	Year Awarded
CIC2 Science Park, Cambridge	BREEAM In Use: Part 2	Good	Complete	2023
Newark, Brownills Motorhomes	BREEAM In Use: Part 1	Pass	Complete	2023

% Portfolio with a building certification (by value)

2023 performance



2024 performance



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

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 2024 Annual ESG Report. The portfolio's 2024 Annual ESG Report will be issued using data assured to AA1000AS, taken from the portfolio's GRESB 2024 submission, which required a stringent third-party assurance process.

2023 calendar year data collection via CRM data requests and enhanced proptech enabled data collection methods has been completed. Landlord energy data has also been reviewed and inputted into the portfolios 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. 2024 calendar year data collection is now in progress, in preparation for the portfolio's GRESB 2025 submission.

The utility data uploaded to the Measurabl platform has undergone a comprehensive audit to ensure data quality. Each assigned utility meter is error-free, and all outliers have been investigated and addressed. Issues, if any, are promptly raised with the utility provider and data platform manager. The resolution of each issue is documented for full transparency. Furthermore, the audit of the Measurabl platform has included the portfolio's Projects, Audits, Refurbishments and Certifications (PARC) data, as well as valuations data and property-type assignment. Consequently, the data in its current state is up to date and will continue to be subjected to checks throughout the coming business year.

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