DORSET COUNCIL PENSION FUND

QUARTERLY REPORT
Q1 2019

Dorset Council ('DC') property fund provides diversified exposure to good quality real estate located throughout the UK, across a range of sectors including offices, industrial, retail and other commercial. The allocation to property has increased from 10% to 11% of DC's total assets which represents approximately £330m. The new allocation is to target Secure Long Income ('SLI') property beyond which the intention is to transition the portfolio gradually to a 50/50 split between SLI and Conventional properties.

£320.3M Capital Value (Combined Dorset Portfolios)

37 Assets

£9.7M To Invest

	CONVENTIONAL	SLI
Mandate	Commenced 1993	Commenced 2017
Performance objective	MSCI Quarterly over 5 years	LPI +2% p.a.
Capital Value (Mar 2019)	£284.4m (89%)	£35.9m (11%)
Number of assets	28	9
Value of purchases during quarter	-	£2.0m
Value of sales during quarter	£0.1m	-
Net initial yield (p.a.)	4.4%	3.8%
Average unexpired lease term (to break)	8.6 years (7.6 years)	57.3 years (19.8years)

COMBINED VALUATION

Direct Property (Mar 2019 values)	£281.5m
Indirect Assets (Mar 2019 values)	£38.9m
Total Portfolio Valuation	£320.3m

PERFORMANCE*	CONVENTIONAL	SLI	COMBINED	MSCI QUARTERLY UNIVERSE
Q1 2019	0.9%	3.4%	1.2%	0.4%
12 months	5.5%	1.6%	5.4%	4.6%
3 yrs p.a.	7.0%	-	6.9%	6.4%
5 yrs p.a.	10.2%	-	10.3%	9.4%

* Conventional & Combined are Nominal returns and SLI are Real returns. SLI's Nominal returns for Q1 3.2% and 12 months to March 2019 4.0% with RPI Q1 -0.2% and 12 months 2.4%.

CBRE GLOBAL INVESTORS

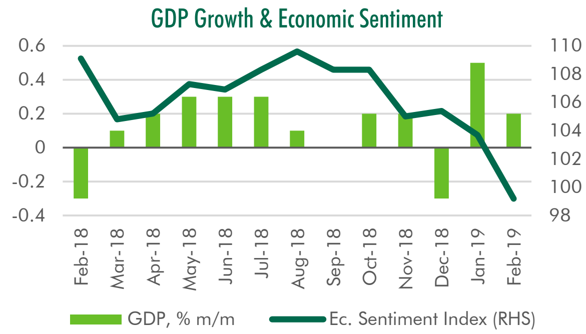
ECONOMIC AND PROPERTY UPDATE

UK ECONOMIC OUTLOOK

Faced by the dual headwinds of intense Brexit uncertainty and a soft patch in global economic activity, the UK economy has proved resilient in the early months of 2019. Surveys of sentiment and business activity have deteriorated, but the 'hard data' has been far more upbeat. This divergence between data and sentiment is typical of periods of heightened uncertainty.

In February the 3-monthly rate of GDP growth was 0.3% and quarterly growth could end Q1 slightly higher at around 0.5%. Surveys suggest that manufacturer stockpiling ahead of the original Brexit deadline may have provided a temporary boost, but this would only account for a small fraction of overall growth. The economy created 179,000 new jobs in the 3 months to February, keeping the unemployment rate at 3.9%, its lowest level since 1975. This is putting upwards pressure on wages; annual earnings growth reached 3.5% its highest since 2008.

Brexit-related uncertainty intensified as the March deadline to leave the EU approached. The deadline extension to October means the risk of a 'no deal' Brexit has subsided for the time being, although it adds little clarity about the final outcome. The longer Brexit endgame means a further drag on the economy and we are unlikely to see growth accelerate in 2019. We still believe an orderly Brexit is the most likely outcome, which would see the UK economy continue to grow through 2019/20 albeit at a below-trend rate.

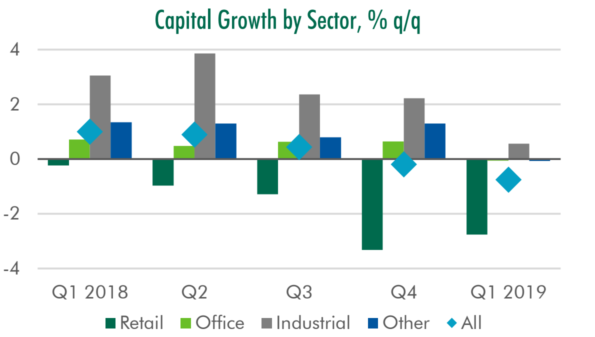


Sources: ONS, Thomson Reuters.

UK PROPERTY PERFORMANCE

Property performance in Q1 was more reflective of heightened uncertainty and fragile sentiment than the underlying resilience of the economy. At the All Property level, capital values recorded a small fall for the second consecutive quarter. The deterioration was driven by the investment market, as yields rose, causing a negative yield impact on capital values for the first time since the aftermath of the EU referendum. Strikingly yield impact was negative across all sectors, albeit ranging from just -0.1% for the industrial sector to -1.9% for retail. In contrast, rents recorded modest growth across most parts of the market, with retail the exception.

With Brexit dominating the headlines, investors have adopted a wait-and-see approach so far in 2019. In Q1 the total volume of investment transactions was c.30% lower than a year earlier and c.20% lower than the 10-year Q1 average. Since 2012, quarterly volumes have only dropped below the rolling 10-year average on one other occasion, in Q3 2016, immediately following the EU referendum. On that occasion, investors returned to the market relatively quickly, but it is likely that the quiet period will continue until we have more clarity around Brexit. Once there is clarity, we would expect the focus to shift back to relative pricing, both to other asset classes and international property markets, as well as robust market fundamentals, which maintain the case for investing in UK commercial property.



Source: MSCI Monthly Index.

ECONOMIC AND PROPERTY UPDATE

Retail continues to suffer from illiquidity. Less retail property transacted in Q1 than in any quarter since 2000, with shopping centre transactions particularly few and far between. The lack of transaction evidence also clouds recent valuation movements. Both rental values and capital values fell in Q1, but by less than in Q4. Although recent retail sales growth has been robust and there have been fewer new retailer CVAs and administrations than a year ago, it is still too soon to say that we are past the worst for the sector. Debenhams' administration and continued speculation around the plans of Arcadia have sustained pessimism around the prospects for bricks and mortar retail. Valuations have further to fall.

Office investment volumes had a quiet start to the year, both in comparison to 2018 and the 10-year average, although agents reported a considerable amount of stock was under offer at the end of Q1 suggesting a possible rebound in Q2. Occupier market conditions are little changed from last quarter with rental growth at a similar rate. With tenants increasingly discerning and focussed on well specified space, a greater divergence in performance dependent upon asset quality is likely.

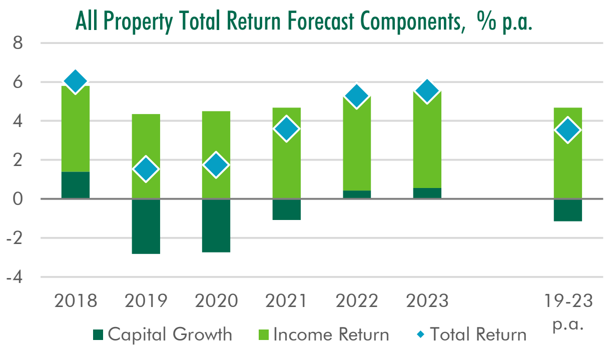
Industrial rental growth moderated in line with our expectations in Q1, but still continues to exceed other parts of the market. Detailed data for Q1 is not yet available but it appears that rental growth slowed most sharply outside of London and the South East. As we have mentioned in previous commentaries, the sustainability of rental growth will be determined by the ease with which new supply can be delivered. We continue to focus on locations where new supply is restricted by competing land uses.

The 'other' sector defied the uncertain backdrop with investment activity continuing unabated in Q1. Investment volumes were c.5% higher than a year earlier and c.40% above the 10-year Q1 average. Consequently, investment in the alternative sectors accounted for a record-breaking 53% of total investment. These figures reflect investors' focus on structural trends benefiting certain asset types, offering diversification from the more cyclical sectors of the property market, as well as strong demand for secure long income streams. Long income property continues to outperform the wider market, recording a total return of 9.2% in 2018 according to the CBRE Long Income Index.

PROPERTY MARKET OUTLOOK

Our UK property market forecasts, still underpinned by the assumption that the UK leaves the EU in an orderly way in 2019, have been revised since our last quarterly commentary. The impact has been a small downgrade to the 5-year All Property total return outlook, primarily driven by a more cautious outlook for the retail sector and a weaker 2020, as the economy rebounds from Brexit uncertainty more slowly. We are projecting UK property will produce an average annual total return of 3.5% over the period 2019-23.

Within this outlook, we expect modest All Property capital value falls in 2019/20 as a consequence of declining rents and weaker investor sentiment. In this environment good quality buildings in strong locations will prove most resilient. Attractive investment opportunities are likely to emerge from the coming uncertainty, so we should continue to remain patient when deploying capital and focus on long-term sustainable income in the interim.



Sources: MSCI, CBRE Global Investors.

STRATEGY

Size	▪ Target size £330m – current size £320.3m. DC has increased its allocation to property from 10% to 11% of total assets which represents approximately £330m. ▪ The new allocation is targeting Secure Long Income. ▪ The longer term intention is to transition the portfolio gradually to a 50/50 split between Conventional property and SLI, the SLI property held within the Conventional portfolio is to be included in the 50:50 allocation.
Performance objectives	▪ Conventional and SLI portfolios' have had distinct benchmarks since 1st April 2018. ▪ Conventional portfolio: *"To achieve a return on Assets at least equal to the average IPD Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006."* ▪ Secure Long Income Portfolio: *"To achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018."*
Income yield	▪ Strive for the Conventional portfolio income return to exceed the IPD benchmark income return. ▪ Continue to focus on maintaining a low vacancy rate and a resilient income yield. ▪ Ensure SLI held properties / new acquisitions have strong rental growth prospects, long leases and an element of indexation.

ALLOCATION

Property type	▪ Conventional portfolio: Remain well diversified as the portfolio transitions to a 50/50 split to SLI, with holdings in good locations with a proportion of exposure to properties that will allow active management to generate outperformance. ▪ We anticipate maintaining a total of between 15-20 assets with an average lot size of between £8m and £11m. ▪ SLI portfolio: target lot sizes between £3m and £20m with an average lease length in excess of 15 years at purchase with at least 70% of the portfolio having index linked rent reviews once fully invested.
Geographic allocation	▪ Diversified by location but with a bias towards London and the South East.
Sector allocation	▪ Diversified by sector with a maximum of 50% in any single sector. ▪ Target a lower than average weighting to Offices and Retail and a higher than average weighting to Industrial and Other Commercial. ▪ Source suitable SLI investments that could be available in any sector.

OTHER RESTRICTIONS AND GUIDELINES

New IMA being drafted to reflect the revised target of 50% Conventional 50% SLI with the transition to take place over a medium term time horizon. The restrictions below are taken from the existing IMA and house guidelines.

Investment size	▪ Target a maximum of 10% in any single asset.
Tenants	▪ Maximum rent from any single tenant 10% of rental exposure. ▪ Target financial strength better than the benchmark.
Lease length portfolio	▪ Target new assets where the lease expiry profile fits with the existing profile of the Fund. ▪ Seek to maintain expiries in any one year below 10% of the Fund's lease income. ▪ Target an average unexpired lease term in excess of the Benchmark.
Development	▪ Development may be undertaken where the major risks can be mitigated and the risk/ reward profile is sufficient to justify it.
Debt	▪ Avoid debt exposure.
Environmental and Social Governance ("ESG")	▪ Energy performance: to improve EPC ratings where it is financially viable and, where applicable, apply for certification.

DORSET COUNCIL CONVENTIONAL PORTFOLIO

QUARTERLY REPORT
Q1 2019

DC Conventional portfolio began in 1993 and provides diversified exposure to good quality real estate located throughout the UK across a range of sectors including offices, industrial, retail and other. The objective is to achieve a return on Assets at least equal to the average MSCI Quarterly Universe Portfolio Return including Transactions and Developments for a rolling five year period commencing 1 January 2006.

PERFORMANCE

Q1 2019 (%)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	-0.1	-0.7	0.6
Income return	1.0	1.1	-0.1
Total return	0.9	0.4	0.5

12 months (%)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	1.2	0.1	1.1
Income return	4.3	4.4	-0.1
Total return	5.5	4.6	0.9

3 years (% p.a.)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	2.2	1.7	0.5
Income return	4.6	4.6	0.1
Total return	7.0	6.4	0.6

5 years (% p.a.)	Portfolio All Assets	MSCI Quarterly Universe	Relative
Capital return	5.0	4.5	0.5
Income return	5.0	4.7	0.2
Total return	10.2	9.4	0.7

- The Conventional portfolio outperformed the MSCI Quarterly Universe by 0.5% over the quarter to 31 March 2019, with a total return of 0.9% compared to 0.4% for the Benchmark.
- The portfolio is outperforming over 12 months (+0.9%), 3 (+0.6% p.a.) and 5 (0.7% p.a.) years.
- The portfolio's direct property performed strongly with a total return of 1.3%, while its indirects dragged performance with a total return of -1.5%, reducing the overall return by -0.4%.
- Industrials produced the highest quarterly total return in the MSCI Quarterly Universe at 1.7%, followed by 'other commercial' at 1.2%, offices at 1.1% and retail at -1.3%.
- For the portfolio, offices generated the highest total return at 2.7%, industrials at 1.8%, 'other commercial' at -0.5% and retail at -1.7%.
- The key driver of performance over the quarter was the new development at Cambridge Science Park, which completed during the quarter and produced a total return of 7.7% contributing +0.5% to overall portfolio performance.
- By contrast, the portfolio's weakest performers over the quarter were the retail park in Norwich (-1.9% total return / -0.1% drag on overall portfolio performance), Standard Life Shopping Centre Trust (-3.7% / -0.2%) and the car showroom in Glasgow (-6.4% / -0.3%).

CBRE GLOBAL INVESTORS

CONVENTIONAL PORTFOLIO INFORMATION

CONVENTIONAL PORTFOLIO INFORMATION

	Q1 2019
Direct market value	£245.6m
Indirect market value	£38.9m
Total Conventional Portfolio market value	**£284.4m**
No. of assets (avg. value)	28 (£10.2m)
No.of lettable units (direct avg. value)	81 (£3.0m)
Vacancy rate (% direct ERV)	2.1%
Avg. unexpired direct lease term (to break)	8.6 years (7.6 years)
Direct net initial yield (p.a.)	4.4%
% of income direct RPI / index linked	11%
Rent with +10 years remaining (% of direct rent)	25.5%
Rent with +15 years remaining (% of direct rent)	7.6%
Largest Asset	Woolborough Lane IE, Crawley £24.2 m (8.5% of portfolio value)
Largest Tenant	ACI Worldwide £1.0m p.a. (8.8% of contracted income)

Dunbeath Court, Swindon

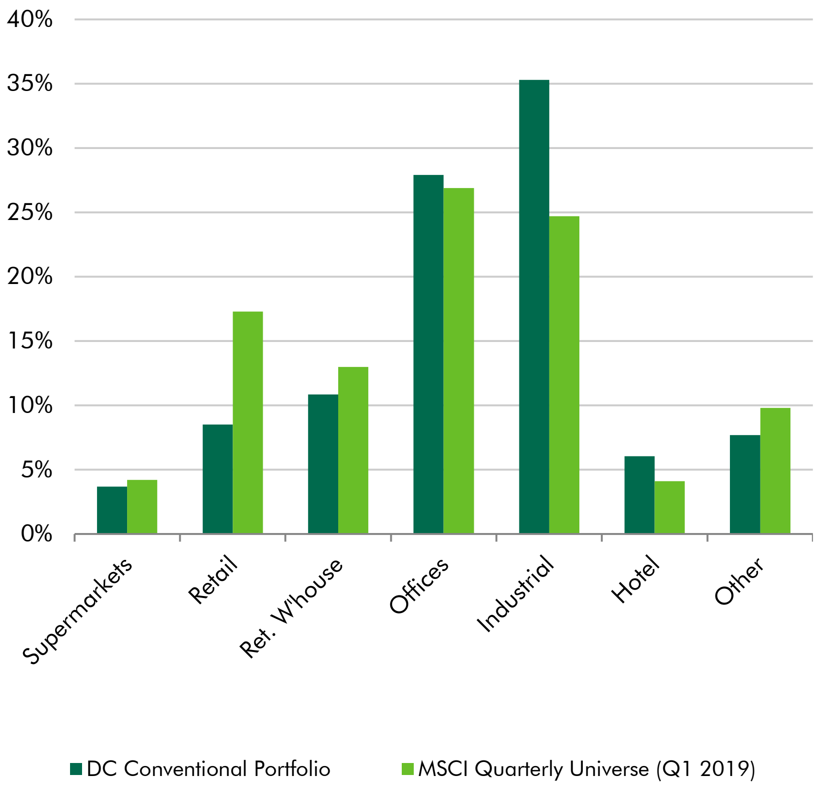
TRANSACTIONS

Purchases	£0m
Disposals	£0.1m
Money available to invest	£0m

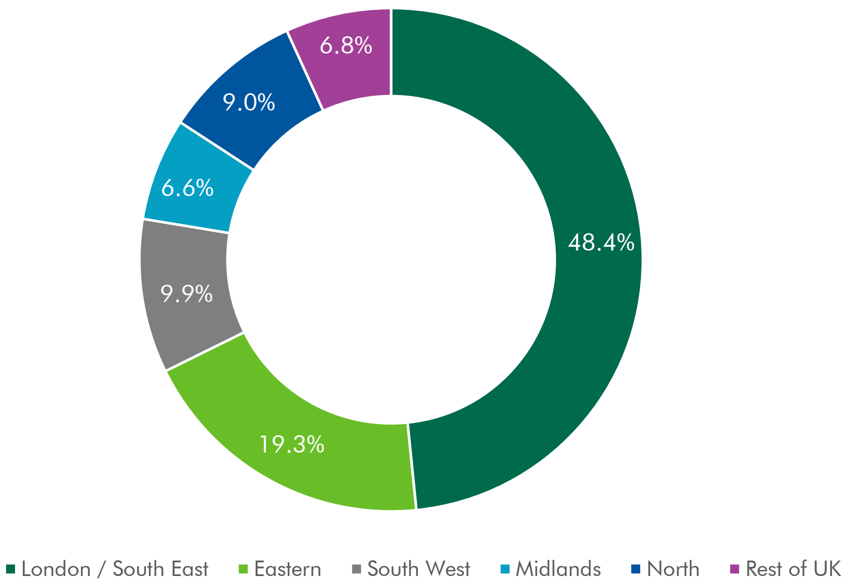
CONVENTIONAL PORTFOLIO ANALYSIS

Cambridge Science Park

SECTOR BREAKDOWN INCLUDING INDIRECTS



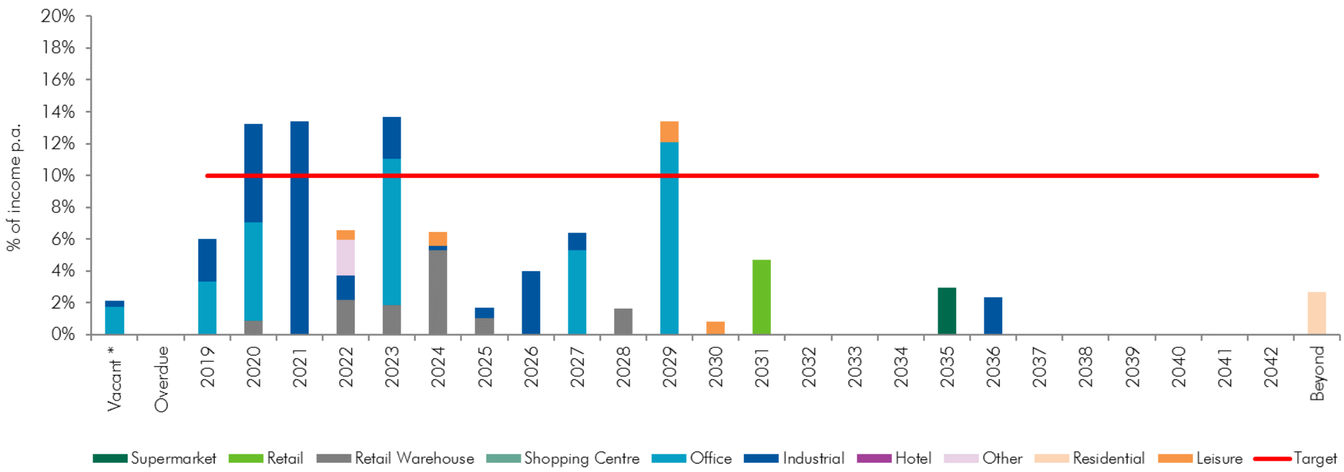
GEOGRAPHICAL BREAKDOWN EXCLUDING INDIRECTS



CONVENTIONAL PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

TOP 5 TENANTS	CURRENT RENT P.A.	% OF DIRECT INCOME	Weighted Expiry	MSCI IRIS Risk Band
ACI Worldwide Ld	£1,020,000	8.8%	Dec 2023	Negligible
WPP Group Ltd	£836,000	7.2%	Jul 2020	Negligible
Booker Ltd	£659,750	5.7%	Apr 2021	Negligible
Reg Vardy (Property Management) Limited	£633,835	5.5%	Dec 2031	Negligible
Toys R Us Limited	£626,000	5.4%	Sep 2024	Maximum

DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

In 2019, a total of 6.0% of the direct Conventional portfolio income is due to expire or is subject to tenants' break options; this risk is attributable to 6 leases. The portfolio's weighted average unexpired lease term, including break options, is 7.6 years.

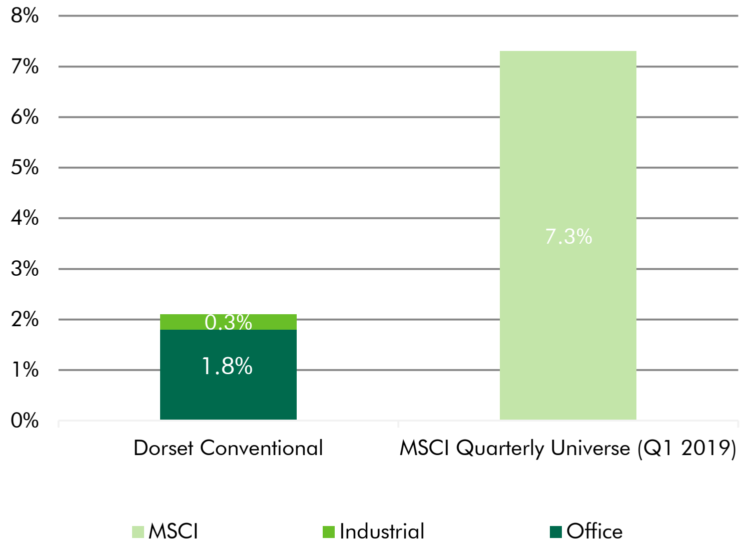
HOLDING OVER/ 2019 TOP 5 LEASE EXPIRIES	CURRENT RENT P.A.	% OF DIRECT INCOME	WILL TENANT STAY
WorldPay Ltd	£450,000	3.9%	
Saint Gobain Ltd	£152,500	1.3%	
Youngs Extract Supplies Ltd	£50,996	0.4%	
Star-Images Enterprises Ltd	£48,500	0.4%	
Vineham Engineering Limited	£47,282	0.4%	

2020 TOP 5 LEASE EXPIRIES	CURRENT RENT P.A.	% OF DIRECT INCOME	WILL TENANT STAY
WPP Group (UK) Ltd	£836,000	7.2%	
Alpha Flight UK Limited	£272,000	2.3%	
Wasdell Packaging Limited	£241,335	2.1%	
Maplin Electronics Limited	£115,000	1.0%	
German Swedish and French Car Parts Ltd	£74,870	0.6%	

Likely to stay May vacate Likely to leave

CONVENTIONAL PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

VACANCY RATE



The portfolio's vacancy rate remained at 2.1% of rental value over the quarter and continues to be well below the market average of 7.3%, as measured by MSCI.

The vacancy rate comprises two floors at the office building in Aberdeen (1.8%) and an industrial unit at the Aspley Centre in Staples Corner (0.3%).

The vacancy rate is set to rise however following the administrations of Toys R Us and Maplin last year accounting for a total prospective 4.2% increase in the void rate. Find more details in Appendix 1.

CURRENT VACANCIES

VACANCIES	SECTOR	% OF TOTAL RENTAL VALUE	RENTAL VALUE P.A.	COMMENTS
Pilgrim House, Aberdeen	Office	1.8%	£276,100	Marketing two floors
The Apsley Centre, London	Industrial	0.3%	£54,400	Marketing – good interest
Total		2.1%	£330,500	

DORSET COUNCIL
SECURE LONG INCOME PORTFOLIO

QUARTERLY REPORT
Q1 2019

DC SLI portfolio began in 2017 and targets assets which feature average unexpired lease terms of at least 15 years at the time of purchase with financial security by virtue of the financial strength of the tenant and the property's underlying value. The objective is to achieve a total return greater than, or equal to, Limited Price Inflation ("LPI") plus 2.0% p.a. measured over the long run (7-10 years) commencing 1 April 2018.

PERFORMANCE

Q1 2019 (%)	Nominal total return	RPI	Real total return	MSCI Quarterly Universe (nominal)
SLI Portfolio	3.2	-0.2	3.4	0.4

12 months (%)	Nominal total return	RPI	Real total return	MSCI Quarterly Universe (nominal)
SLI Portfolio	4.0	2.4	1.6	4.6

- This is the fourth quarter that the SLI portfolio has been reported separately from the Conventional portfolio.
- The portfolio generated a real total return of 3.4% over the quarter to 31 March 2019 (3.2% nominal + RPI at -0.2%).
- Over 12 months to 31 March 2019 (from inception), the portfolio has produced an real return of 1.6% (4.0% nominal, RPI 2.4%), 0.4% behind the target of LPI plus 2.0%.
- Returns are being dampened while we build up the portfolio as a result of transaction fees, which typically reflect approximately 6.8% of the purchase price of each new investment.
- The largest individual contribution towards performance over the quarter was the Step Forward portfolio Tranche 1, which despite transaction fees produced a real total return of 27.8% and contributed +1.5% to overall portfolio performance.
- Another strong performer over the quarter was the NHS investment in Macclesfield, which following settlement of an RPI linked rent review, generated a real total return of 5.9% and contributed +1.0% to overall portfolio performance.
- By contrast, the lowest total return recorded over the quarter was produced by the second Step Forward Portfolio, Tranche 2, as a consequence of transaction fees. This investment generated a real total return of -0.9% and made a negative contribution of -0.1% to overall portfolio performance.

CBRE GLOBAL INVESTORS

SLI PORTFOLIO INFORMATION

SLI PORTFOLIO INFORMATION

	Q1 2019
Direct market value	£35.9m
Indirect market value	£0m
Total SLI Portfolio market value	**£35.9m**
No. of assets (avg. value)	9 (£4.0m)
No.of lettable units (direct avg. value)*	13 (£2.8m)
Vacancy rate (% ERV)	0%
Avg. unexpired direct lease term (to break)	57.3 years (19.8 years)
Net initial yield (p.a.)	3.8%
% of income RPI / index linked	69.8%
Rent with 15+ years remaining (% of rent)	100%
Largest Asset	Astra House, Harlow £9.0 m (25.1% of portfolio value)
Largest Tenant	Ei Group Plc £0.4m p.a. (30.2% of contracted income)

*Assumes each residential portfolio is treated as a single lettable unit.

Red Lion, London SW1

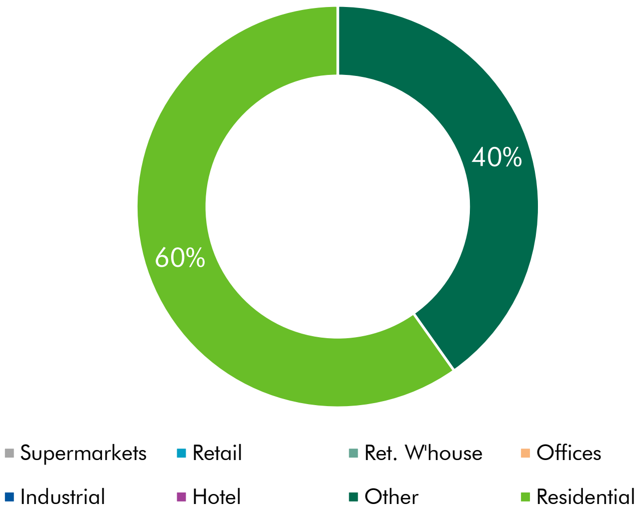
TRANSACTIONS

Purchases	£2.0m
Disposals	£0m
Money available to invest	£9.7m

SLI PORTFOLIO ANALYSIS

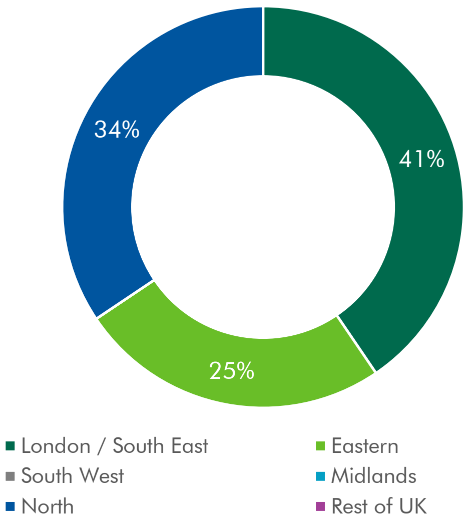
Elgin Bar & Grill, London W9

SECTOR BREAKDOWN (% OF TOTAL VALUE)




Ingersley Building, Macclesfield

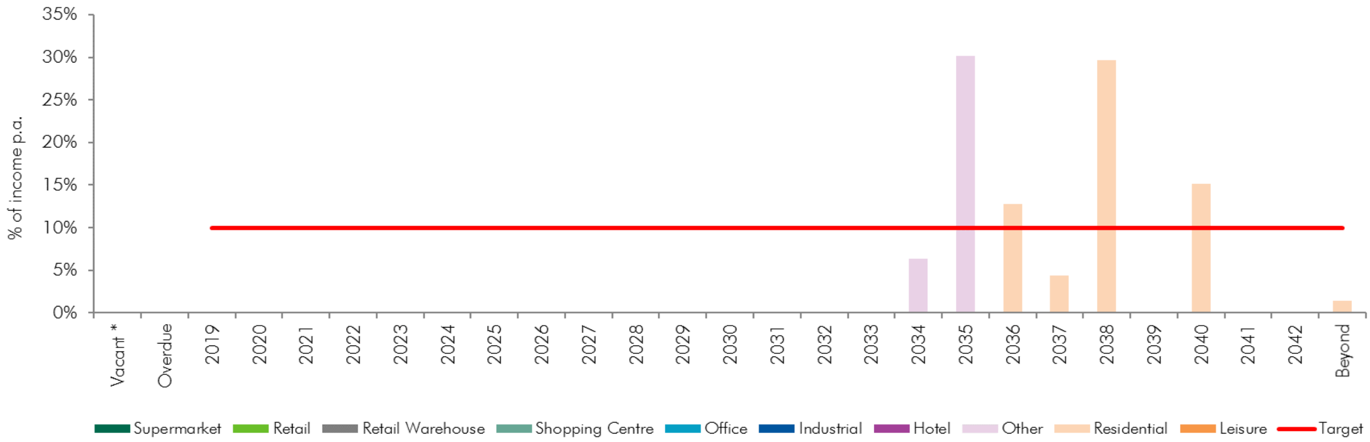
GEOGRAPHICAL BREAKDOWN (% OF TOTAL VALUE)



SLI PORTFOLIO INCOME STRUCTURE AND MANAGEMENT

TOP TENANTS	CURRENT RENT P.A.	% OF INCOME	LEASE TYPE	TERM CERTAIN REMAINING (YRS)	MSCI IRIS Risk Band
Mears Group Plc	£681,150	46.2%	CPI	20.3	Low
Ei Group Plc	£445,000	30.2%	Market Rent	15.8	Negligible
East Cheshire National Health Service Trust	£253,346	17.2%	RPI	17.6	Negligible
Casa Cruz London Limited	£93,885	6.4%	RPI	15.4	Negligible

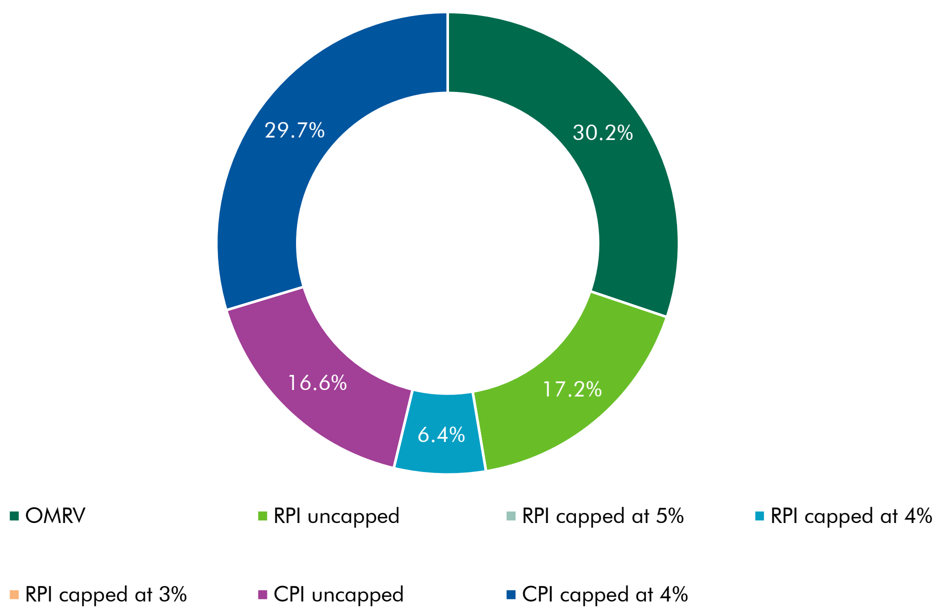
DISTRIBUTION OF PORTFOLIO'S LEASE EXPIRIES (PERCENTAGE OF INCOME PER ANNUM)



* Vacancy rate expressed as percentage of ERV

The average lease length of the Fund is 57.3 years to expiry and 19.8 years to break. We plan to maintain an average unexpired lease term for the portfolio of at least 15 years.

Weighting by review structure (% of total value)

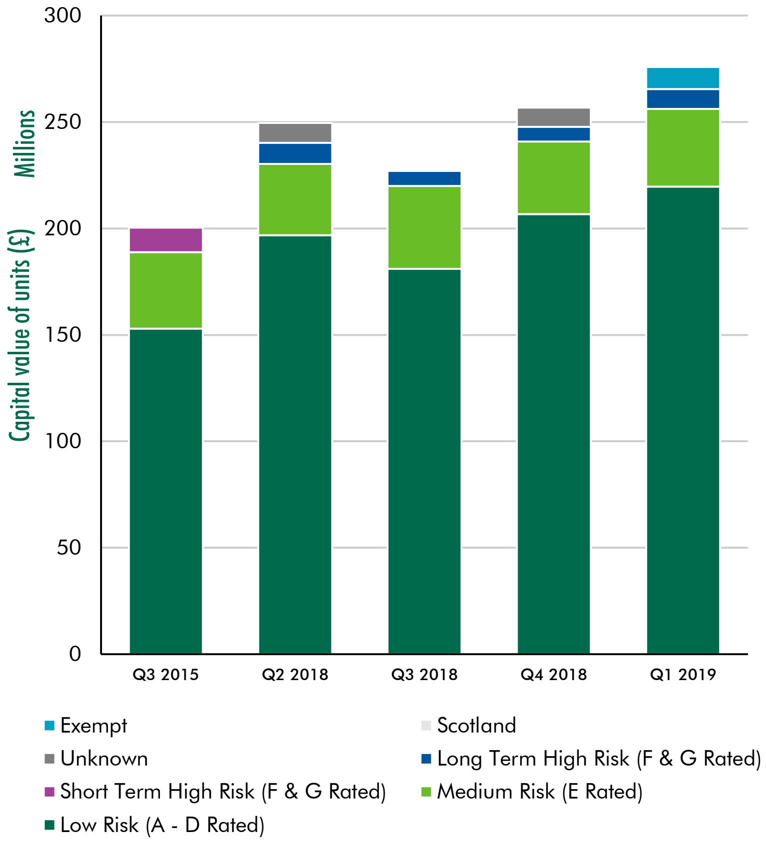


Our objective is for the SLI portfolio's income to grow in line with LPI (defined as the percentage change in RPI, capped at 5% and collared at 0% p.a.) and to achieve the total real return objective of LPI + 2% p.a. We plan to have at least 70% of the portfolio's income index linked once fully invested.

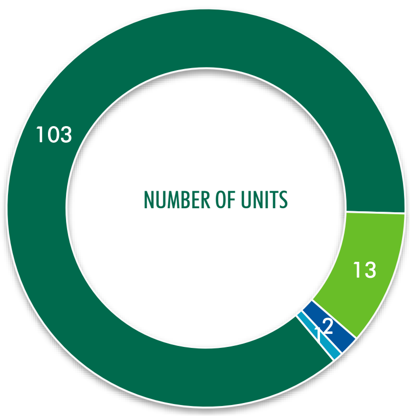
ENVIRONMENTAL, SOCIAL, GOVERNANCE

Dorset Council Pension Fund has developed an enhanced ESG+ strategy framed around three key Environmental, Social and Governance (ESG) material issues: Carbon, Compliance and Transparency. ESG+ builds on the long-standing Core ESG programme and will be delivered over a three-year implementation period starting in Q1 2019 with a target of attaining CBRE Global Investors Silver status.

CHANGE IN LEVEL OF RISK BY VALUE



COMPLIANCE RISK PROFILE



	Medium Risk	Short Term High Risk	Long Term High Risk
		No. of units	
High quality EPC	0	0	1
Modelled EPC	0	0	0
Tenant Engagement	13	0	0
Refurbishment	0	0	0
Planned Redevelopment	0	0	0
Considering Sale	0	0	1

ACTIONS COMPLETED IN Q1 2019

SITE	UNIT	ACTION	OUTCOME
Whole Portfolio	Whole Portfolio	Annual Report	Annual report delivered, providing detailed update on fund ESG performance in 2018.
Whole Portfolio	Whole Portfolio	Data Collection	Landlord energy data was collected for the fund to report its carbon emissions to CRC.
Whole Portfolio	Whole Portfolio	ESG+ Sign-off	The E&S team amended the ESG+ proposal based on recommendations from the fund management team and was signed off
Milton Street, Glasgow	Units 1 & 2	High Quality EPC	Two new EPCs were ordered to replace the existing outdated EPCs and reduce high-risk rating.

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