

CBRE

TEESSIDE PENSION FUND
Quarterly Portfolio Strategy Report

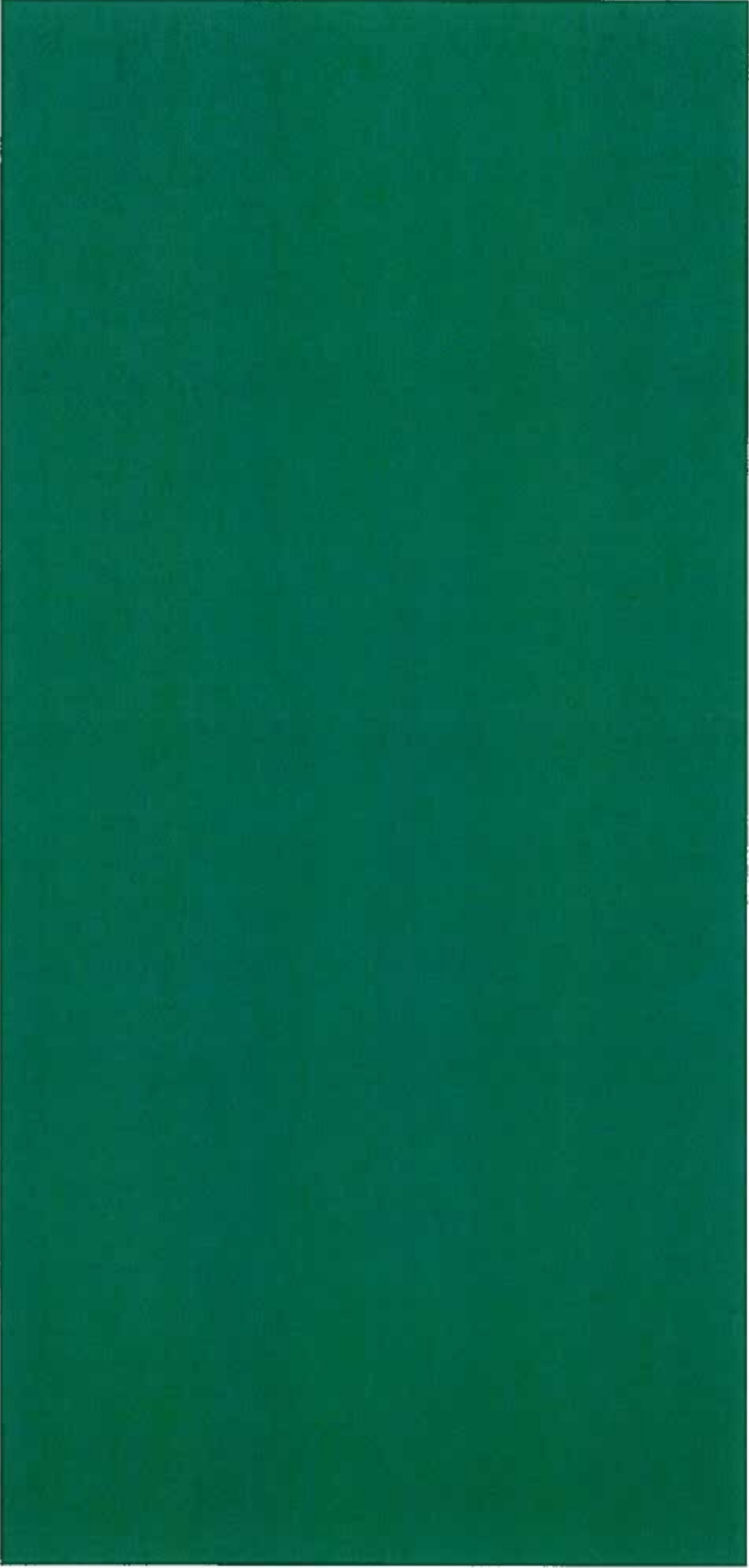
9TH AUGUST – 25TH OCTOBER 2017

PREPARED FOR



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1 EXECUTIVE SUMMARY

CBRE



EXECUTIVE SUMMARY

Portfolio Strategy

You have advised us of your objective to increase the property portfolio towards £250m over a 2-3 year period in a risk controlled manner.

CBRE Recommended Strategy

- To diversify the portfolio by spread of property types, unit sizes, occupier businesses, quality, income expiry and geographical regions.
- To make acquisitions and disposals to balance the lease expiries within the portfolio.
- Our strategy envisages a long term overweight position in industrial and retail. We also advocate an underweight position in offices.
- Acquire prime, well-let properties, together with some RPI linked assets targeting the industrial, retail and food store sectors.
- Keep the vacancy rate consistently lower than average whilst reducing income risk in particular years.

SECTOR	CURRENT	TARGET
Industrial	41.4%	25%
Retail Warehouse	34.8%	25%
High Street Retail	11.8%	25%
Long Income/ Supermarkets	8.7%	20%
Offices	3.3%	5%
	100%	100%

EXECUTIVE SUMMARY

Portfolio Profile

Current portfolio

- At 30th September 2017, the portfolio comprised 25 mixed-use properties located throughout the UK with a value of £225.02m. This reflects an overall Net Initial Yield of 5.31%, and an Equivalent Yield of 5.58%.
- The portfolio is principally in prime and good secondary assets. High Street retail, retail warehouse and industrial, comprise 88% of the portfolio by capital value. There are 62 demises and a total net internal area of 1,509,042 sq ft.
- The weighted average unexpired term is 9.3 years to the earlier of first break or expiry, and 10.5 years to expiry, ignoring break dates.
- The portfolio also has the following characteristics:
 - The vacancy rate is currently 1.0% of Estimated Rental Value, the portfolio is fully let. The 'IPD Quarterly Index Q2 2017' confirmed an average void rate of 8.1% by ERV.
 - The top ten tenants constitute 51.7% of the total gross annual income of the portfolio, while the top twenty tenants constitute 76.0%.
 - Current gross passing rent is £12,758,872 per annum, against a gross current market rent of £13,253,839 per annum.

EXECUTIVE SUMMARY

Portfolio Activity

Portfolio activity

Sales

- There were no sales in Q3 2017

Acquisitions

- The Fund recently completed the purchase of the Royal Mail Distribution Warehouse in Team Valley, Gateshead. The Fund purchased the property at 5.22% NIV, 5.78% EY, which equates to £16,150,000 net purchase price.

EXECUTIVE SUMMARY

Portfolio Activity And Strategy

Portfolio arrears at 17th October 2017

The total Collectable Arrears on the entire portfolio is £61,842.78 as at 17th October 2017. The Collectable Arrears exclude the following:

- Tenants that pay their quarterly rent in monthly instalments and are up to date with payments (Aurum Group Ltd, Multiyork Furniture Limited and J.F. Stone Investments Ltd).
- Tenants that are insolvent (99p Stores Limited at Cirencester, which on the 19th October 2017 amounted to £126,871 in isolated arrears).
- Tenants that have overall credit balances on their accounts.

Of the Collectable Arrears, 84.4% (£52,207.32) relate to the following 4 accounts:

- Pets at Home (Dorchester) – Total arrears of £18,481.23 (29.9% of Collectable Arrears). This relates solely to service charge which is disputed by Pets at Home. Freeeths are instructed and are liaising with the tenant to resolve the queries that they have raised.
- Pets at Home (Cirencester) – Total arrears of £17,002.69 (27.5% of Collectable Arrears). This relates to the latest monthly rent and quarterly service charge. Payment has been promised by the tenant and is being pursued.
- Nuffield Health (Guildford) – Total arrears of £10,467.50 (16.9% of Collectable Arrears). This relates solely to head landlord's service charges. Payment is being pursued.
- B&Q (Arbroath) – Total arrears of £6,255.90 (10.1% of collectable arrears). This solely relates to the quarterly service charge, which was due for payment on 28th February. It has been established that the service charge sum has been charged at the incorrect rate. This is about to be credited in full and re-raised for the sum of £5,545.94 at which point the tenant will make payment.

The remaining 15.6% of the Collectable Arrears (£9,635.46) relates to 12 different tenant accounts; all of which are being pursued.

EXECUTIVE SUMMARY

Rent Collection Statistics

Title	Rent Due 29 September	Collectable Rent	Targets				99.00% Week 4 up to and including 27/10/2017	Payment after 27/10/2017	Difference
			Quarter Date up to and including 29/09/2017	92.00% Week 1 up to and including 06/10/2017	96.00% Week 2 up to and including 13/10/2017	96.00% Week 3 up to and including 20/10/2017			
Non Collectable Total	3,334,390.97	3,240,320.97	2,842,305.89	114,649.58	58,564.00	224,790.39	0.00	0.00	11.11
Collections Including non collectables		94,070.00							
Collections Excluding non collectables			85.24%	88.68%	90.44%	97.18%	97.18%	97.18%	
			87.72%	91.26%	93.06%	100.00%	100.00%	100.00%	

These figures relate to rents that only became due on the September English Quarter Day (29th September 2017).

The non collectable sum (£94,070) relates to the three tenants who pay rent on a monthly basis.

They are fully up to date with all payments due.

2 ECONOMIC PERFORMANCE AND PROPERTY MARKET

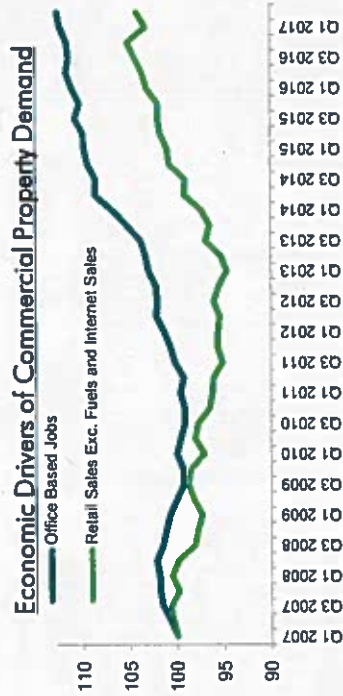
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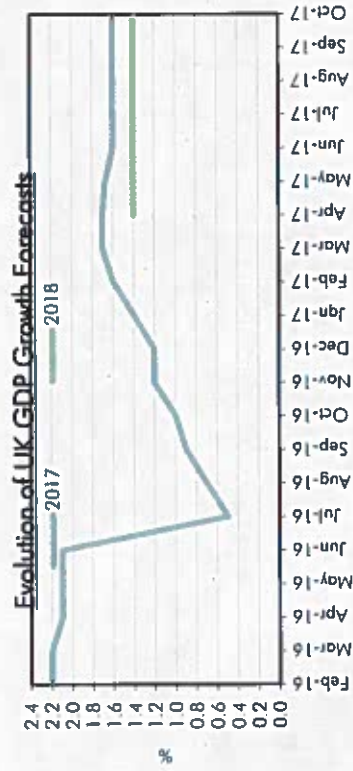
PROPERTY MARKET & SECTOR FORECASTS

Economic Performance Q3 2017

- The first half of 2017 was characterised by weak growth at 0.3% per quarter (down on the 0.5% per quarter achieved over 2015-16), largely due to weaker consumer demand. Evidence on third quarter growth is mixed, but an increase in retail sales is expected to drive an improvement in GDP growth to 0.4%, with full year growth of around 1.5% expected.
- Retail sales experienced month-on-month falls in the first half of 2017, but sales have been stronger in Q3, potentially a result of the weaker pound boosting international tourist spend. Retail sales volumes in the 3 months to August were just 2.4% higher than a year earlier.
- The labour market remains tight, with unemployment falling to an all-time low of 4.2%. The decline in the inactivity rate (not working and not seeking work) to its current low of 21.2% has added to labour supply. Wage growth has been modest but inflation has been rising, meaning real wage growth has exhibited a recent decline. Inflation now stands at 3.0% (September), which is higher than the government's target rate of 2%.



Source: CBRE, Oxford Economics, ONS



Source: HM Treasury Consensus

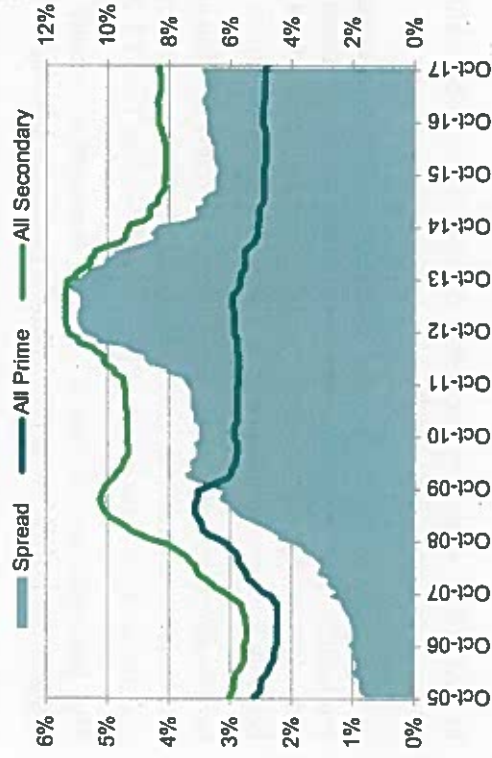


PROPERTY MARKET & SECTOR FORECASTS

Property Market Q3 2017

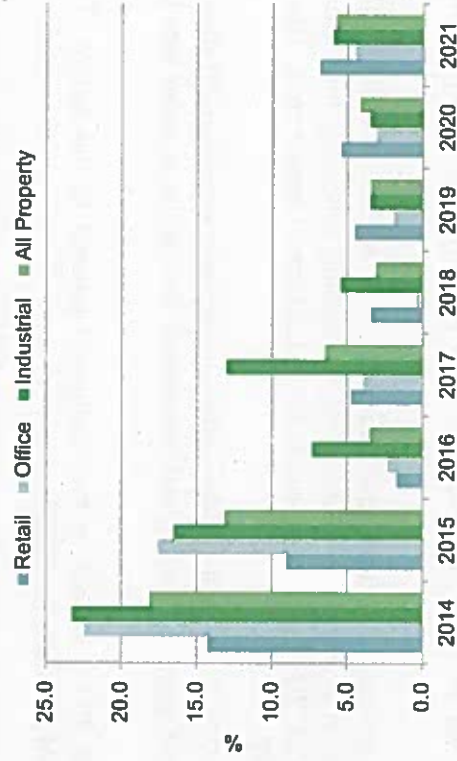
- Total Returns for All UK Property were 10.9% for the period Q3 2016 to Q3 2017*. Capital values for Q3 recorded a 1.4% increase over the quarter.
- Industrials again recorded a strong performance compared with other sectors in Q3 2017. Total return and capital value growth were 4.5% and 3.1% respectively for the quarter.
- Rental values increased by 0.4% in the third quarter of 2017. Rental value growth for the same period in 2016 was 0.2%. The highest rental value growth in Q3 was recorded for Industrials at 1.4%.

Prime Vs Secondary All Property Yields (excl. Central London)



Source: CBRE Monthly Yields, October 2017

Property Total Returns



Source: IPD, CBRE, July 2017

* Based on CBRE Monthly Index, all property total returns Sept 2017

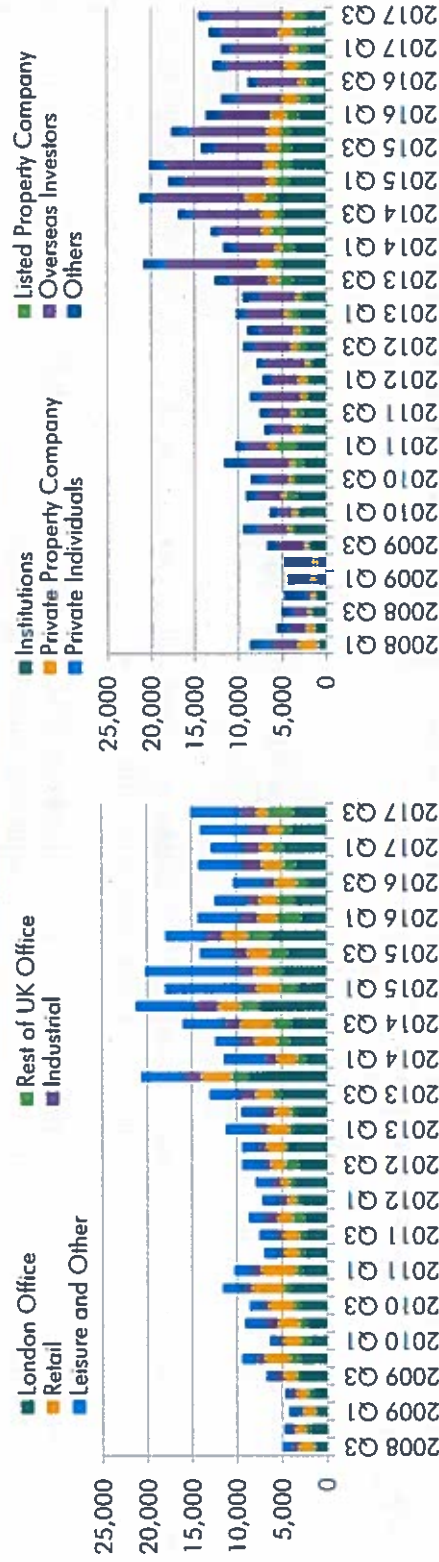


PROPERTY MARKET & SECTOR FORECASTS

Property Market Q3 2017 Transactions

- In Q3 2017 investors recorded a total transaction value for 'All Property' of £15.1bn. This performance is higher than any quarter since Q4 2015.
- In Q3, 58% of investors were overseas investors, representing an increase from last quarter's reported figure of 51%. The continuation of overseas investor interest has likely been driven in part by the devaluation of Sterling following the 'Brexit' vote. UK institutions recorded market participation of 14% in Q3 2017 which amounts to c. £2.0bn of investment. This is broadly in line with the previous Quarter's reported figure of 15%.
- Investment transactions for 'All Offices' totalled £7.3bn in Q3 2017. Central London office investment recorded £3.4bn in investment, accounting for c.55% of total office investment for the quarter. The highest investment during this quarter was the purchase of 20 Fenchurch St (the "Walkie-talkie") for £1.3bn.
- The Industrial sector saw £1.9bn in transaction activity in Q3 2017, reflecting the continued interest in this sector. The biggest deal of Q3 was Blackstone's purchase of a light industrial portfolio for £559m.
- Retail transactions totalled £1.5bn for the quarter, with Royal London Mutual purchasing a £155m stake in the Bluewater Shopping Centre.

Commercial Property Investment Transactions (£millions)



Source: CBRE, Property Data, October 2017

Source: CBRE, Property Data, October 2017



PROPERTY MARKET AND SECTOR FORECASTS

UK Returns Forecast

	Forecast *							
	2016	2017	2018	2019	2020	2021	2022	2018-2022
Total return: % per year								
Retail	1.7	6.4	3.3	3.4	4.6	6.4	7.0	4.9
Office	2.3	5.7	-0.3	0.4	2.7	5.3	6.8	3.0
Industrial	7.3	15.9	5.5	2.3	2.5	5.3	7.1	4.5
All Property	3.5	8.4	2.9	2.3	3.4	5.6	6.7	4.2
Income return: % per year								
Retail	5.2	5.2	5.2	5.2	5.2	5.3	5.2	5.2
Office	4.1	4.1	4.0	4.1	4.2	4.2	4.2	4.1
Industrial	5.3	5.2	5.0	5.0	5.1	5.2	5.2	5.1
All Property	4.9	4.8	4.6	4.7	4.7	4.8	4.7	4.7
Capital growth: % per year								
Retail	-3.3	1.2	-1.8	-1.7	-0.7	1.1	1.7	-0.3
Office	-1.7	1.6	-4.2	-3.5	-1.4	1.1	2.5	-1.1
Industrial	2.0	10.2	0.5	-2.6	-2.5	0.1	1.8	-0.6
All Property	-1.3	3.5	-1.6	-2.3	-1.2	0.8	1.3	-0.5
Nominal rental value growth: % per year								
Retail	1.0	1.1	0.2	0.4	1.1	2.1	2.8	1.3
Office	2.9	-0.5	-4.0	-2.2	-0.3	1.5	3.0	-0.4
Industrial	3.5	4.5	3.0	1.8	1.4	1.9	2.8	2.2
All Property	2.1	1.3	-0.4	0.0	0.7	1.8	2.7	1.0
Equivalent Yields - % at end year								
Retail	5.7	5.8	5.8	5.9	5.9	5.9	5.9	0.1
Office	6.0	6.0	6.0	6.1	6.1	6.1	6.1	0.1
Industrial	6.3	5.8	5.9	6.0	6.2	6.2	6.1	0.3
All Property	5.9	5.8	5.8	5.9	5.9	5.9	5.9	0.1

* Forecast figures based on Q2 2017 quarterly valuations

Source: CBRE, Aug 2017

2017 has surprised on the upside and may continue to do so for the rest of the year. However, future economic uncertainty will create downside risks. Our property forecasts are based on Oxford Economics' economic forecasts.

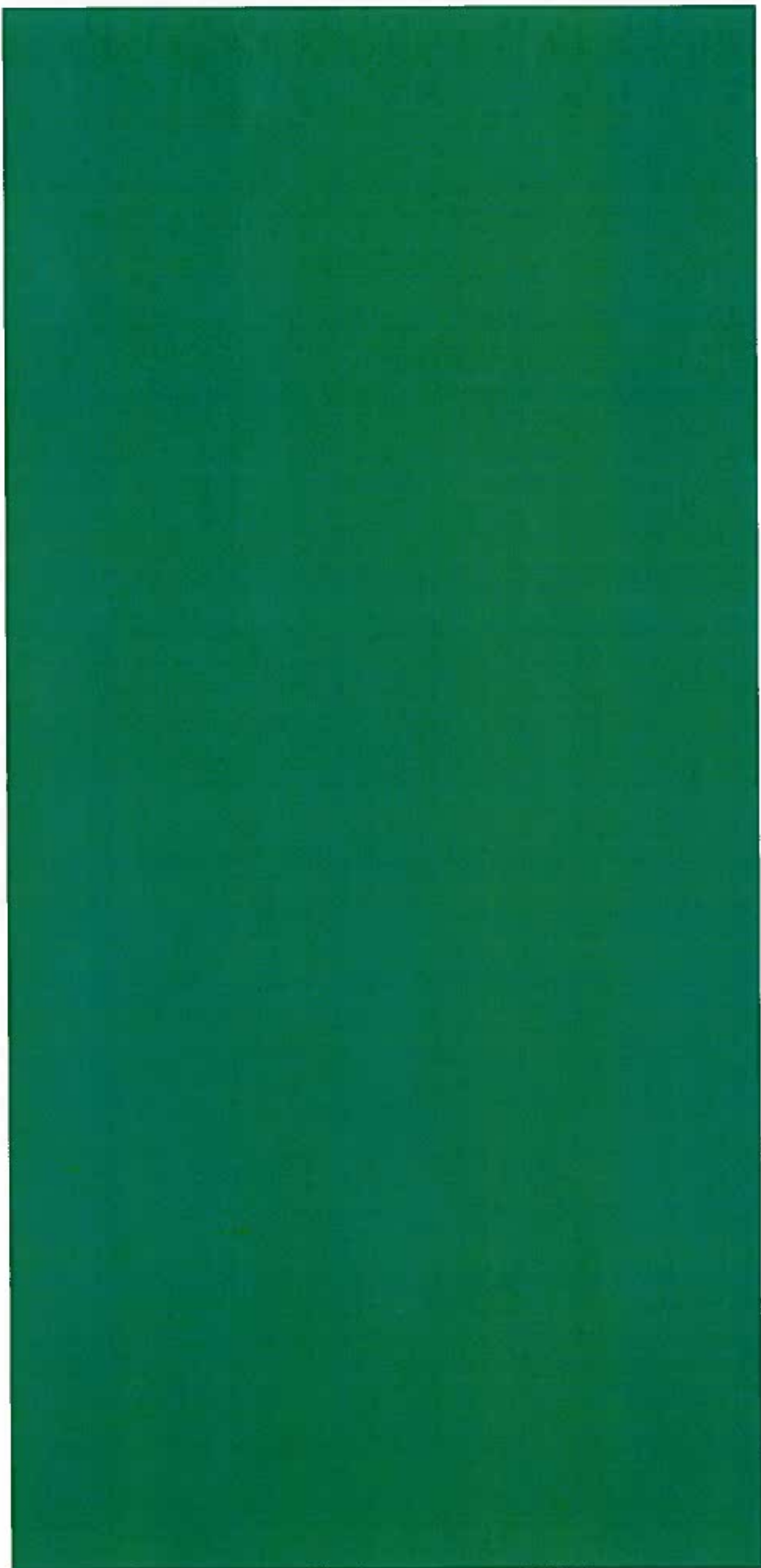
All Property Total Returns registered 3.5% in 2016. Our forecast for 2017 currently sits at 8.4% with the industrial sector being the significant driver of this performance. Performance from 2018 onwards is forecast to be moderate as values are expected to fall as yields rise.

Returns were positive in 2016 for all sectors, with the Industrial sector outperforming in part due to its values rising. Industrial is expected to outperform both both retail and office until 2019.

Rental growth falls are forecast in the office sector while industrial and retail rents hold up in nominal terms. There is heightened uncertainty around the forecasts but the later years have stronger economic activity which feeds into a broad improvement in rental growth outlook.



teesside pension fund



3 PORTFOLIO STRATEGY AND FORECASTING

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PORTFOLIO STRATEGY AND FORECASTING

Portfolio Strategy

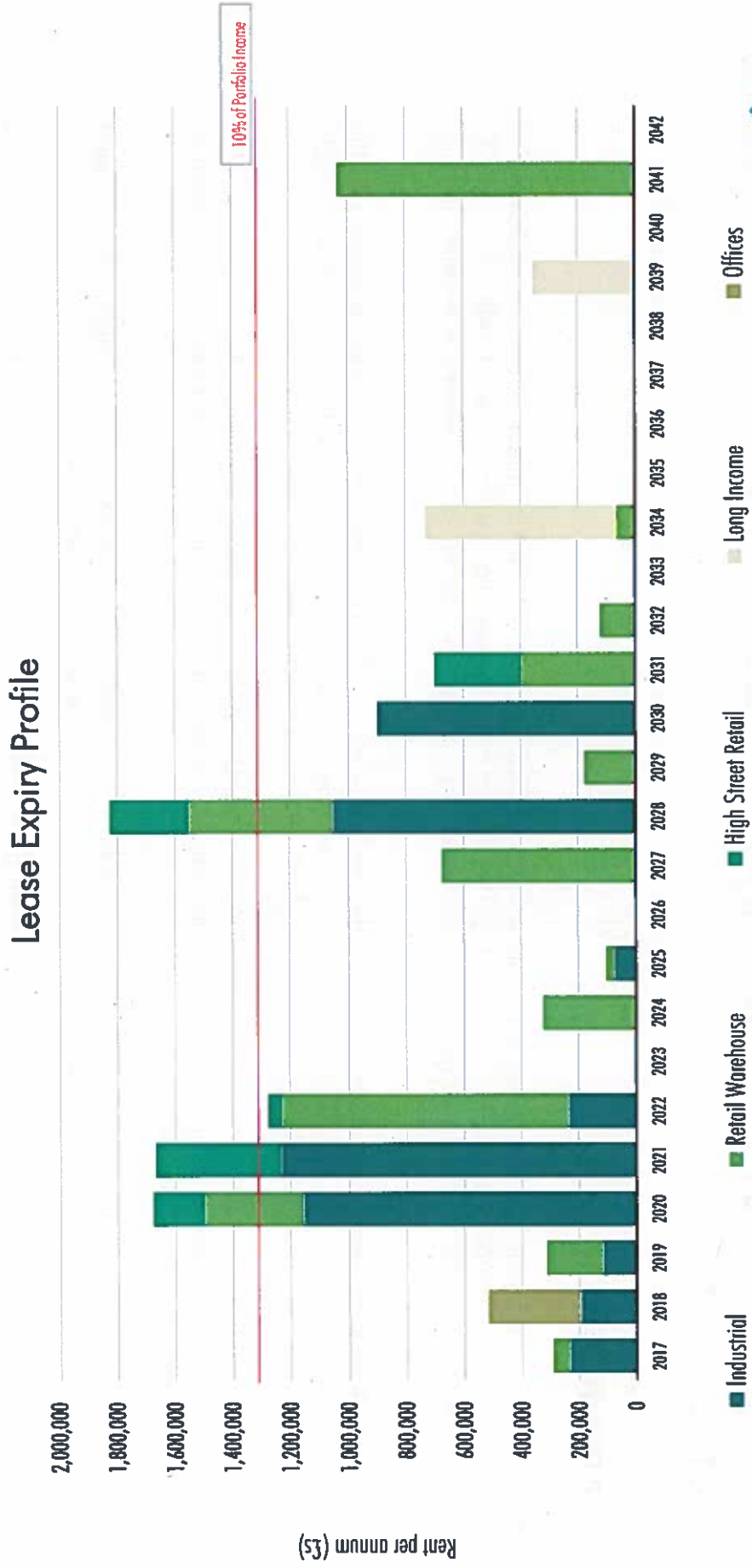
TOP DOWN STRATEGY

- The Teesside Pension Fund was valued at approximately £3.89bn (June 2017). The direct property portfolio held by the Fund was valued at £225.02m (Sept 2017). The indirect property portfolio was valued at £43.48m (June 2017). Therefore, the Fund's real estate exposure (6.9% of assets) is significantly underweight, compared with similar pension funds.
- We will seek to extend the weighted average unexpired lease term (WAULT) of the portfolio as well as diversifying the lease expiry profile. We have identified a high level of lease expiries between 2020 and 2022, as well as in 2028. We are seeking purchases with expiries which will both extend the WAULT and diversify lease expiries.
- In addition to recommendations on industrial and retail purchases, we may also recommend alternative investments that offer good covenants, attractive yields and long unexpired terms; these may include hotels, car showrooms, healthcare, leisure and student housing.
- Set against a backdrop of mediocre economic growth, we will seek to make purchases where supply and demand conditions are stronger. This will ensure that purchases are accretive to the portfolio's performance.
- As we continually assess all of the properties within the portfolio, we will also consider sales based on asset specific considerations.
- The key driver of the portfolio performance will come from effective asset management of the existing stock to maximise rental income and extend lease lengths.
- A graph showing the expiry profile, per sector, is shown overleaf.

PORTFOLIO STRATEGY AND FORECASTING

Portfolio Strategy

Graph Showing Portfolio Lease Expiry Profile Per Sector



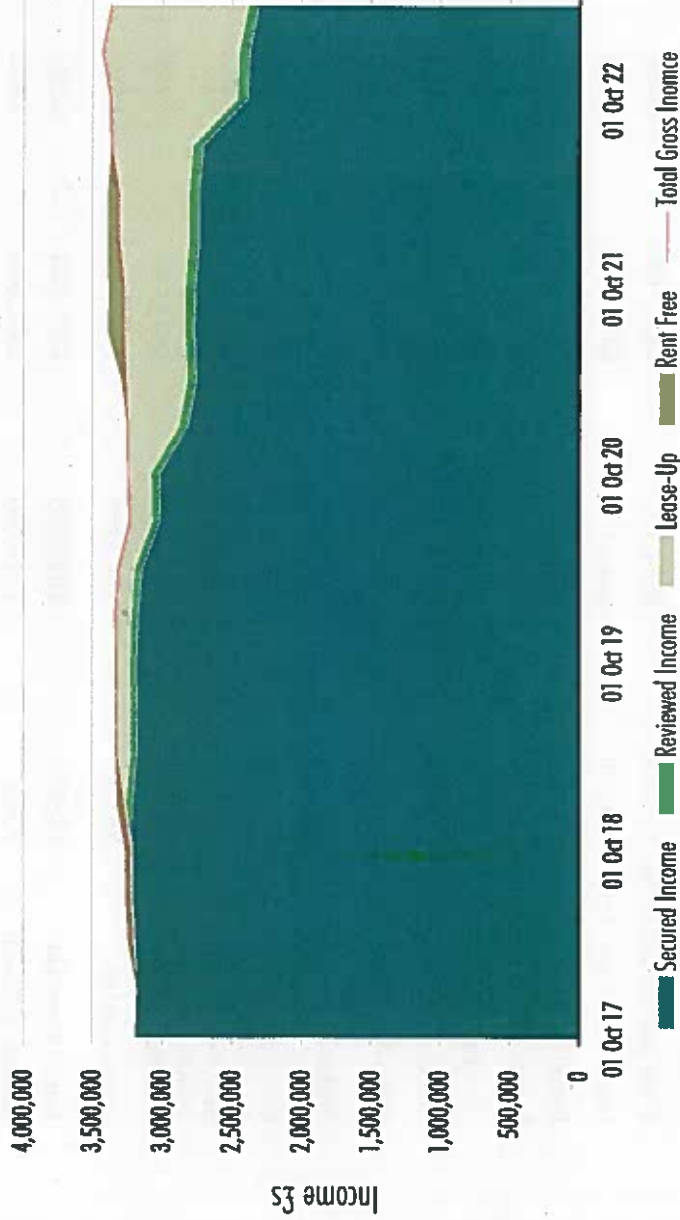
PORTFOLIO POSITIONING AND FORECASTING

Portfolio Analysis

The income forecast includes our current rental growth projections.

The CBRE forecasted rental growth figures have been taken as a starting point and have been adapted to more accurately reflect anticipated rental movement, based on the quality of individual assets and their estimated rental growth prospects.

Portfolio Income Profile



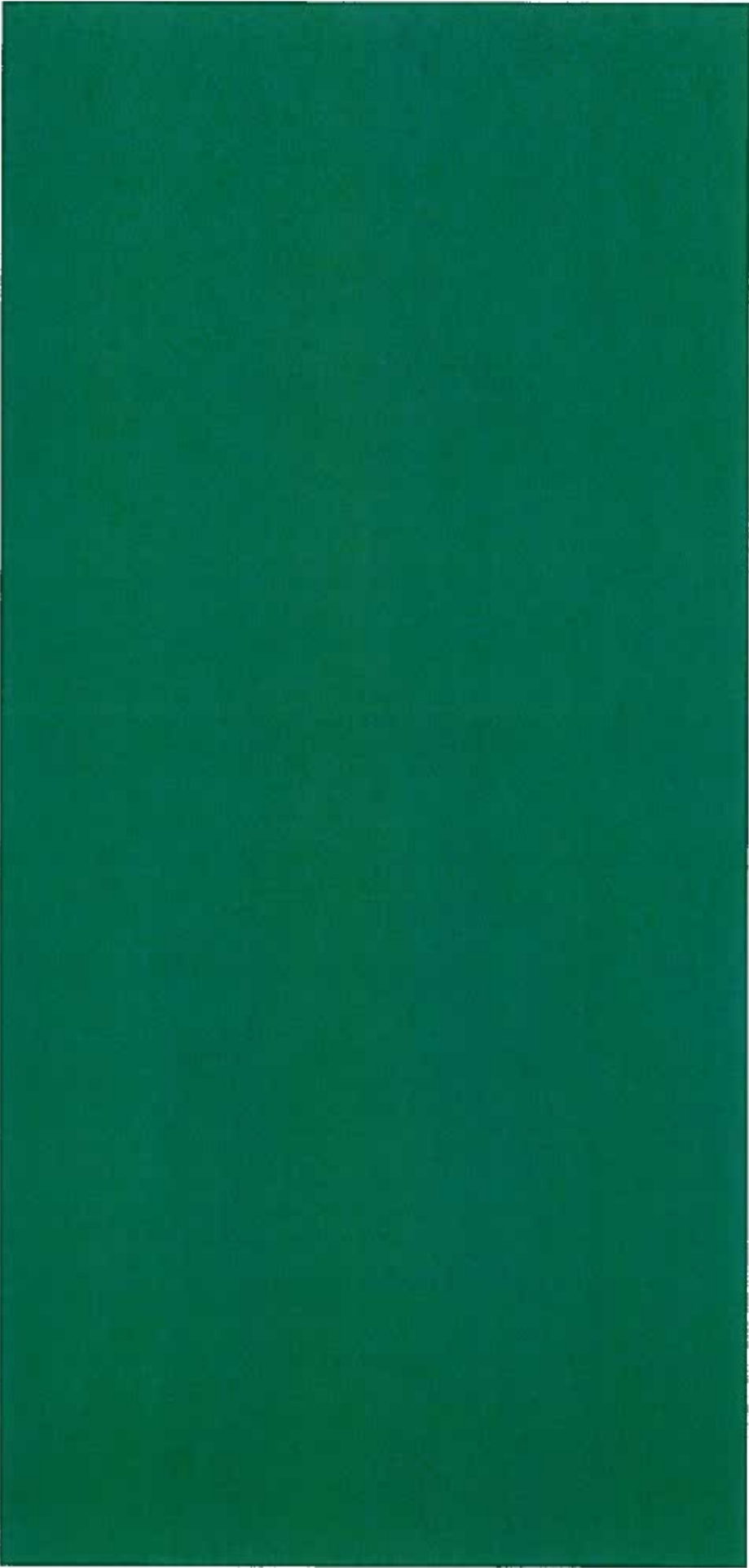
REGION	% OF PORTFOLIO CAPITAL VALUE
London	13.2%
South East	12.9%
South West	5.7%
East	9.6%
West Midlands	29.2%
North East	19.8%
North West	7.1%
Scotland	2.4%
Total	100%

SECTOR	% of Portfolio (rental value)
Industrial	41.9%
Retail Warehouse	38.7%
High Street Retail	9.7%
Long Income	6.8%
Offices	2.9%
Total	100%



TOP 20 TENANTS (BY CURRENT RENT)

TOP 20 TENANTS	TOTAL AREA	CURRENT RENT (£PA)	ERV (£PA)	% OF PORTFOLIO	NO. OF LEASES	FIRST LEASE EVENT
Libra Textiles	129,952	£1,035,000	£1,040,000	8.11%	1	04 April 2041
Royal Mail Group Limited	207,572	£899,161	£987,107	7.05%	1	23 September 2030
DHL Supply Chain Ltd.	146,138	£868,635	£875,000	6.81%	1	28 September 2021
Brunel Healthcare	136,342	£751,223	£650,000	5.89%	1	10 April 2028
Tesco Stores Limited	25,084	£664,016	£570,000	5.20%	1	28 July 2034
P&O Ferrymasters Limited	122,157	£662,000	£685,000	5.19%	1	25 December 2020
Matalan Retail Limited	51,753	£500,000	£500,000	3.92%	1	27 November 2028
HSBC Bank Plc	2,016	£440,000	£460,000	3.45%	1	18 October 2021
Wickes Building Supplies Limited	28,338	£396,750	£396,750	3.11%	1	28 September 2031
DSG Retail Limited (t/a Currys/PC World)	25,000	£375,000	£375,000	2.94%	1	28 September 2022
B&M Retail Limited (t/a B&M Homestore)	25,000	£375,000	£375,000	2.94%	1	28 September 2022
Nuffield Health	26,458	£354,715	£331,000	2.78%	1	04 April 2039
Homebase Ltd	25,000	£343,750	£362,300	2.69%	1	16 October 2027
Pets at Home Ltd	15,577	£325,825	£325,500	2.55%	2	05 January 2024
Institute of Cancer Research	9,502	£325,000	£370,000	2.55%	1	17 February 2018
Aurum Group Limited	1,440	£305,000	£305,000	2.39%	1	01 March 2031
Bonhams 1793 Ltd	38,722	£300,000	£465,000	2.35%	1	22 December 2028
River Island Clothing Co Ltd	1,270	£275,000	£280,000	2.16%	1	30 November 2028
B&Q plc	30,210	£252,000	£280,000	1.98%	2	31 January 2027
Speedy Assets Ltd.	20,492	£245,000	£255,000	1.92%	1	10 April 2021
TOTAL	1,068,023	£9,693,075	£9,887,657	76.0%	22	



4 PORTFOLIO ACTIVITY

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PORTFOLIO ACTIVITY

ASSET MANAGEMENT/TRANSACTION COMMENTARY



Gateshead

- The Fund have recently completed the purchase of the Royal Mail Distribution Warehouse in Team Valley, Gateshead. The Fund purchased the property at 5.22% NIY, 5.78% EY, which equates to £16,150,000 net purchase price.

Lutterworth (Magna Park)

- Rent review negotiations have completed, resulting in an uplift. The new terms are being documented.

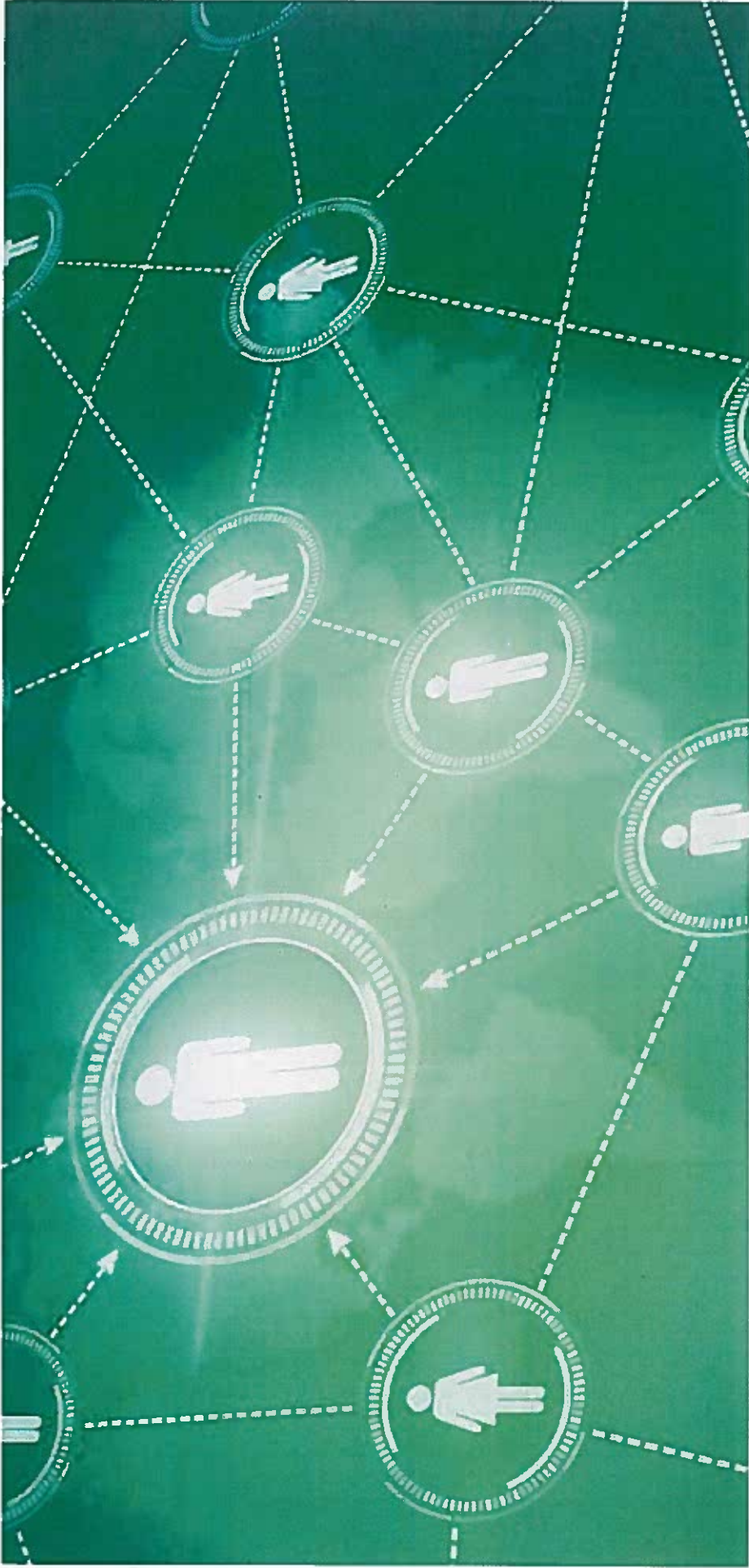
Cirencester

- 99p Stores, trading as Poundland, have closed their unit by placing the company into Administration. The process of securing a replacement tenant is ongoing.



Park Royal

- The sitting tenant has requested consent to sub-let their unit. Their proposed terms are currently being reviewed.



For more information regarding this presentation please contact:

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