

LEICESTERSHIRE CC

DISCUSSION DOCUMENT

CONFIDENTIAL AND PROPRIETARY
APRIL 2022



INTRODUCTIONS



Samuel Brice
Fund Manager
Joined DTZI in 2003



Jennifer Linacre
Head of Responsible Investment
Joined DTZI in 2000



Christopher Cooper
Chief Executive Officer
Joined DTZI in 1992

DTZ INVESTORS UK AT A GLANCE

A large UK real estate investment manager with specific expertise advising LGPS clients.



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SUB-FUND OVERVIEW



OUR RESPONSIBLE INVESTMENT PHILOSOPHY IS CENTRED ON THREE THEMES

We will focus capital in sustainable locations, diversify income risk and deliver outperformance through active management.



SUSTAINABLE LOCATIONS

We will not take location risk. Instead, we will concentrate capital on vibrant, urban locations where there is deep occupational demand and plan to hold for the long-term.

Sustainable locations are dynamic. They offer a 24/7 experience for people to live, work, shop and take their leisure. Our preferred locations are characterised by:

- Strong demographics;
- Good infrastructure;
- Skilled workforce;
- Supply constraints;
- A diverse tenant base;
- High alternative use value.



DIVERSIFIED INCOME

We will mitigate credit risk where possible by taking a high level of tenant diversification at both property and portfolio level.

At property level, this means we will principally follow a multi-let and mixed-use strategy. We will choose buildings that meet occupiers' needs now and can be adapted as they evolve in the future. Our Asset Improvement Plans ("AIPs") will be designed at the point of action and reviewed annually throughout the hold period..

At portfolio level, we seek low tenant concentration and low industry sector correlation. A diversified lease expiry profile mitigates income expiry concentration risk.



ASSET MANAGEMENT UPSIDE

We will prioritise tenant satisfaction, with metrics being defined by high tenant retention rates and low voids.

Maintaining strong tenant relationships and ensuring buildings remain fit for purpose will increase the odds that the tenants renew leases. We prioritise regular tenant interaction, rapid response to tenant concerns and we use information to adapt strategy.

Our staff are incentivised to deliver on the AIPs, that combine investment and environmental performance targets. We exploit untapped potential to enhance value and deliver ESG gains through active management.

LGPS CENTRAL SUB FUND – PORTFOLIO OBJECTIVES AND RESTRICTIONS

The investment objectives and restrictions favour a balanced portfolio with relatively low investment risk.



BENCHMARK: MSCI Quarterly UK Property Total Return Index.

PERFORMANCE OBJECTIVE: Benchmark +0.5%p.a. net of costs over a three-year rolling period.



SECTOR CONTROL RANGE:

- The Portfolio will be invested in the sectors defined in the Benchmark Index (Retail, Office, Industrial and Other, including hotels, leisure and care homes).
- The weighting of the portfolio to the Benchmark sectors shall be within +/- 20% of the Benchmark weighting.



INVESTMENT RESTRICTIONS:

- No single investment shall exceed 10% of the value of the portfolio*.
- Ground up development shall not exceed 10% of the value of the portfolio*.
- No more than 10% of the Portfolio value can be retained as cash for liquidity purposes.
- The Sub-fund is permitted to borrow up to 20% of the value of the portfolio for short term purposes such as liquidity, funding acquisitions; for the payment of other property related costs.

* This restriction does not apply in the Lock-in Period.

DTZI'S PROPOSED KEY PORTFOLIO METRICS AS AT Q2-2022

The stabilised portfolio will be orientated to assets with predominately core income, market growth and active income profiles.

KEY PORTFOLIO METRICS	Capital Allocation	£500m
	# of properties	20-25
	Average lot size	c.£20-25m
PORTFOLIO CONCENTRATIONS	Capital value weighting to largest asset	10% (£50m)
	Rental value weighting to largest tenant	7-10%
	Inflation linked income exposure	15-20%

TARGET LOCATION (% of AUM)	London	40-55%
	South East	10-20%
	Big Six Regional Cities	10-20%
SECTOR ALLOCATION (% of AUM)	Office	up to 20%
	Industrial	up to 30%
	Retail Warehouse	up to 30%
	Town Centre Retail	up to 20%
	Alternatives	up to 20%

RESPONSIBLE INVESTMENT	Portfolio GRESB Score.	3 star
	% of total rental value with an EPC rating of A-E.	95%
	NZC target date	2040
	Landlord (Tenant) carbon emission reductions by 2030	50% (25%)
	Landlord (Tenant) energy collection targets by 2030	100% (75%)
	Multi-let assets with Asset Improvement Plans (AIPs)	100%
	Assets with climate resilience modelling completed within 12 months of purchase	100%

PORTFOLIO INCOME	Portfolio Yield	4.5% - 5.0%
	Total Rent Roll	£23-25m
	# of tenancies	100-125
LEASING RISK	WAULT	6-10 years
	Vacancy Rate	5-8%
CREDIT	% of multi-let assets by capital value.	85%
	% of total rent roll to tenants with an S&P credit score of B- or better.	80%

PORTFOLIO REPORTS FOCUS ON INVESTMENT, ESG & FINANCIAL PERFORMANCE

We will provide standardised reporting on Pool investments complemented by customised reporting on any Legacy Portfolio(s) managed.

ANNUAL STRATEGY REPORT

INVESTMENT REPORT

ESG NOTIFICATIONS

DUE DILIGENCE CHECKLIST

ANNUAL ASSET PLAN

ASSET REPORTING

TRANSACTIONS REPORT

FINANCIAL REPORTING



02

RESPONSIBLE INVESTMENT

REAL ESTATE IS A TRANSPARENT ASSET CLASS FROM AN ESG PERSPECTIVE

Owners and managers can establish targets and have a direct influence on performance across a broad spectrum of initiatives.



ENVIRONMENTAL

- Achieve Net Zero Carbon status for portfolio and assets (where possible) by 2040.
- Complete long-term scenario modelling for portfolios under management by end of 2022.
- Asset Improvement Plans (AIP) held on every multi-let asset.
- Target BREEAM certification for all new construction and major refurbishments including undertaking life cycle analysis (LCA) assessments to inform more sustainable design options.
- Zero landlord-related breaches in environmental legislation.
- Zero Waste to Landfill & recycling rate of 75% by 2025.
- Reduction in water usage by 10% from a 2019 baseline by 2025.



SOCIAL IMPACT

- Embed social value commitments and targets across all portfolios and landlord procurement activities by 2023 through DTZ Investors and third party appointed Property Managers.
- Embed DTZ Investors' RI Development & Refurbishment Framework in all projects with external project managers.
- Engage all occupiers on environmental impact through data sharing and distribution of occupier guidance & tenant fit-out guidelines.
- All assets where public realm and placemaking is a strategic objective in the asset plan ensure there is a dedicated tenant and community engagement plan.



GOVERNANCE

- Integrate RI principles throughout our culture, business activities and processes and assign lines of responsibility.
- Collaborate with government, our peers and our clients to encourage adoption of RI best practices across the industry.
- Regularly disclose our RI targets and progress through our quarterly client reporting, annual corporate reporting and industry benchmarking.
- Retain accountability and ultimate responsibility for embedding and driving RI at Board level.
- Engage with our supply chain in vetting, in contract set up and during the contract to ensure RI embedded.
- Look to surpass minimum compliance standards with all relevant UK statutory requirements, EU directives and with local planning authorities.

WE RUN A FULLY INTEGRATED RESPONSIBLE INVESTMENT PROCESS

Environmental, Social and Governance factors are fully embedded in our investment approach.

OUR RESPONSIBLE INVESTMENT PROCESS



2021 RESPONSIBLE INVESTMENT ACHIEVEMENTS



Supporting the United Nations Sustainable Development Goals and prioritised five



Mental Health Awareness programmes and support platforms developed.



Head of Responsible Investment (RI) appointed.



Member of IIGCC



Achieved BREEAM Excellent accreditation for the refurbishment of our London offices



'A' 'A' rating for Strategy & Governance and Property



Wellbeing Committee established to support team health and wellbeing.



Public Supporter of TCFD



REACH programme launched; our commitment to invest time, money and expertise to generate social value.



8 funds participated in GRESB

WE WILL WORK WITH YOU TO DELIVER AN EFFECTIVE RI PROGRAMME

Targets are spread across Environmental, Social and Governance factors.



Develop an energy, utility and emissions baseline



Identify key assets and areas of improvement



Carry out detailed site audits to inform long term asset plans



Provide clear guidelines for onsite works to align with best practice



Implement asset level ESG implementation plans



Develop strong relationships with all tenants and communicate our RI approach



Ensure compliance with all legislation



Embed climate resilience and costing into business planning



Improve the social benefits of the asset



Implement regular tenant data collection and feedback process



Minimise risk and maximise returns



Provide clear and regular updates on performance



Achieve high benchmarking performance

Ongoing Outputs

- Refurbishment, fit out, redevelopment and new construction guidelines
- Tenant engagement
- Tenant fit out guidelines
- Green lease guidance
- Acquisition due diligence
- Net Zero planning and support

Quarterly Outputs

- Utility data reporting and reviews, including tenant data
- Quarterly investor committee reporting
- EPC reporting and updates
- Asset improvement plans
- Quarterly fund meetings

Annual Outputs

- Annual portfolio reporting
- PRI submission
- GRESB submission
- Net-zero review and business planning
- Tenant satisfaction surveys



DTZ Investors has been a member and participant to the Global Real Estate Sustainability Benchmark (GRESB) since 2015. The GRESB reporting framework has helped to develop DTZ Investors' approach to RI through peer benchmarking and analysis of performance annually.



DTZ Investors became a signatory to the United Nations Principles for Responsible Investment (PRI) in 2013. PRI is a voluntary framework for incorporating ESG into investment decision making and ownership practices.



DTZ Investors is committed to integrating the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD) into our responsible property investment approach and as such publicly supports it.

CASE STUDY – PRINTWORKS, MANCHESTER

Placemaking of a major UK city-centre mixed-use scheme



PROJECT OVERVIEW

Printworks was acquired by DTZ Investors on behalf of an LGPS client in 2017 as a large multi-let operational-style asset with the ambition to refurbish the physical environment, evolve the tenant-mix and be a responsible and engaged stakeholder within Manchester.



ASSET IMPROVEMENT PLAN

- **Environmental Impact:** Ongoing implementation of Sustainability Plan that is focused on decarbonisation, energy efficiency and travel management.
- **Tenant Engagement:** Tenant waste management has been centralised to drive efficiency at the scheme. Tenants are required to adhere to Printworks Occupier Handbook and Sustainability Fit-Out Guide.
- **Wellbeing Improvements:** Printworks maintains a biodiverse rooftop garden including bee-keeping (as the symbol of Manchester) which is accessible for educational purposes.
- **Community Engagement:** Printworks has forged links across the community through fund raising in support of local charities and with Salford University who offer educational tours of the rooftop garden.
- **Refurbishment Improvement:** Printworks is subject to a major refurbishment in 2022 which has been designed in accordance with the DTZ Investors Sustainability Guidelines.



ACTION AND OUTCOME

- Upgrade to LED lighting to all service areas has resulted in a 29% year-on-year reduction in energy usage.
- Centralised waste management has resulted in recycling of 65% of total waste with zero waste to landfill.
- Printworks has raised £153,000 for local charities in the last 5 years.
- Printworks has received recognition for its efforts including an international Green Apple Award for businesses who demonstrate environmental best practice.



AT A GLANCE



USE	Mixed-use
SIZE	370,000 sq ft
ASSET STYLE	Core Plus
LOT SIZE RANGE	£100m+

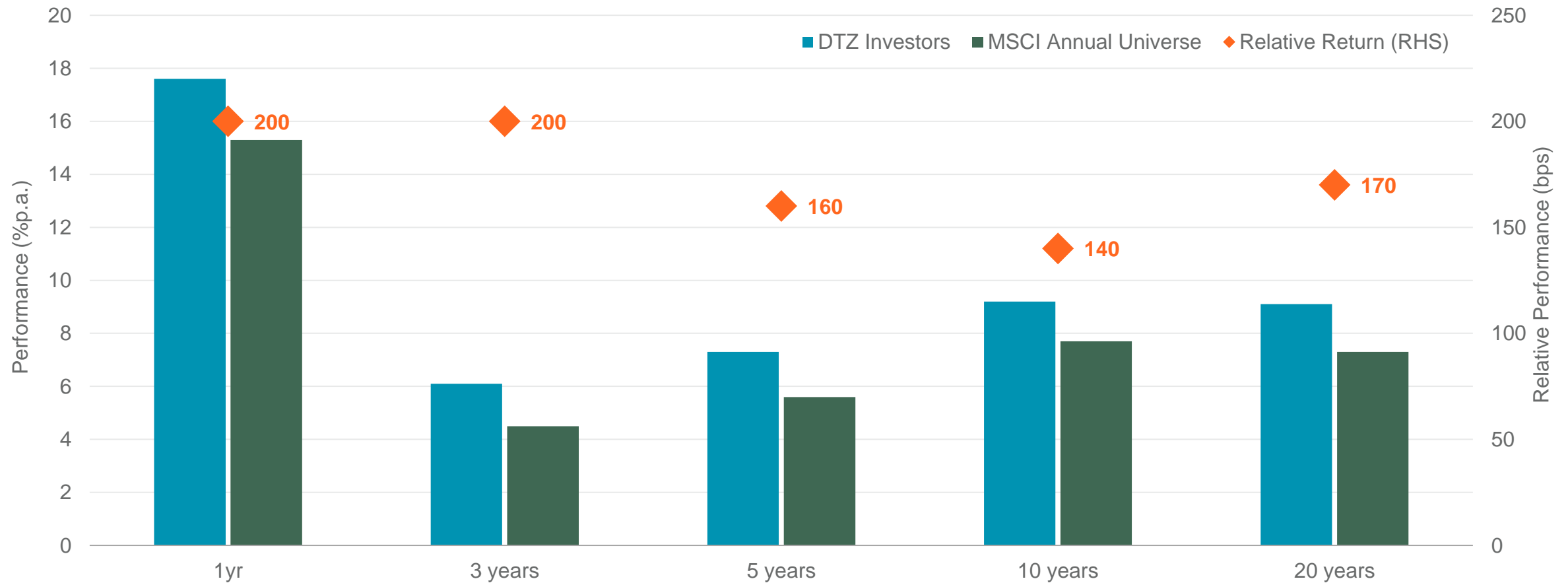
03

INVESTMENT PERFORMANCE

OUR PHILOSOPHY, PEOPLE AND PROCESS DELIVER LONG-TERM OUTPERFORMANCE

Outperformance is well established for all mandates at 140-200 bps annually, across the long-term.

DTZI HOUSE INVESTMENT PERFORMANCE TO DEC-21 (SOURCE: MSCI, DTZI)



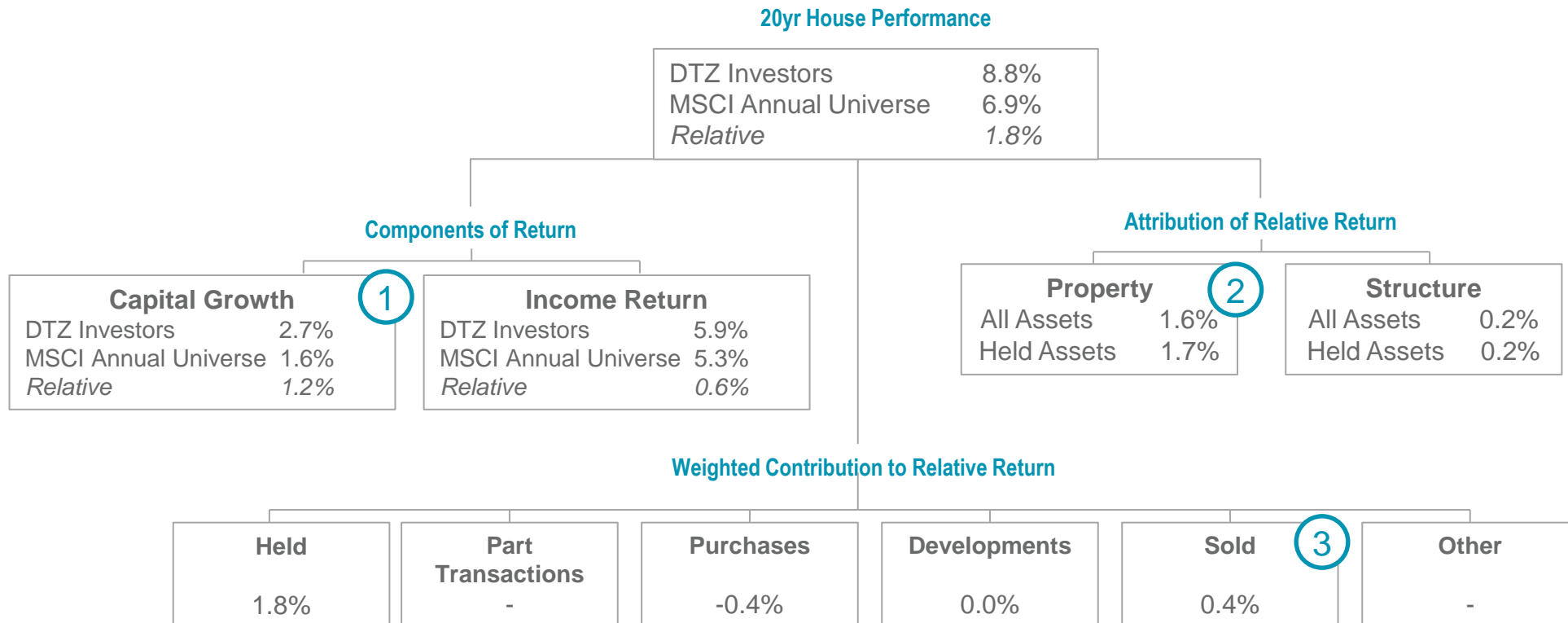
ATTRIBUTION ANALYSIS HIGHLIGHTS THE STRENGTH OF OUR INVESTMENT APPROACH

Stock selection, asset management and a good sell discipline have been key to delivering outperformance over the very long-term.

DTZI ESTIMATED HOUSE PERFORMANCE DISAGGREGATION (SOURCE: MSCI)

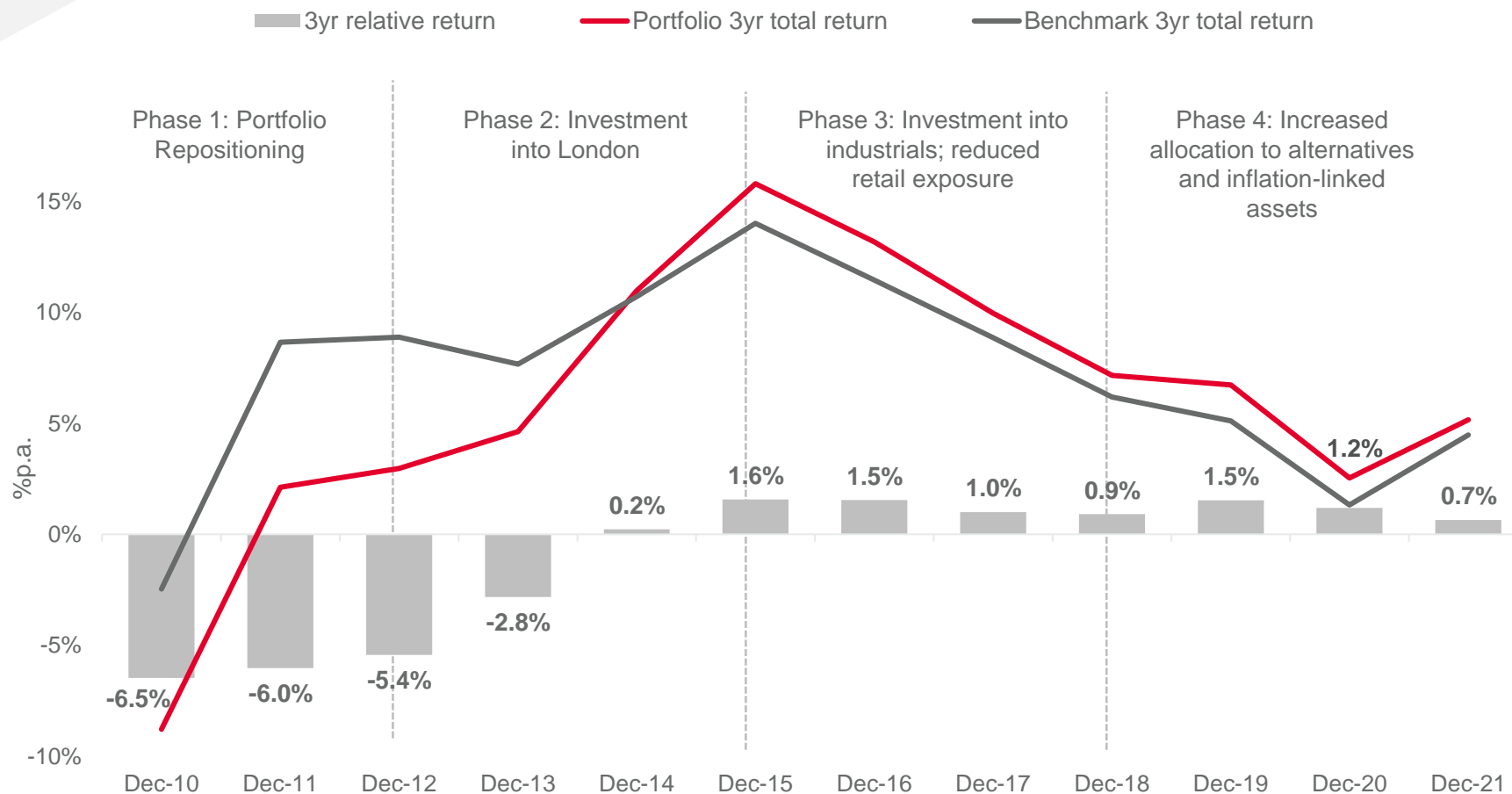
Attribution of DTZ Investors House performance (20yrs to Dec-20)

(Direct Investment Property Only)



PERFORMANCE OF A SIMILAR SINGLE LGPS MANDATE

The Fund has exceeded its investment performance objective over the past decade, whilst growing its allocation by >£1.5bn at the same time.



KEY COMMENTARY

- Grown to over **£2bn** through **£0.7bn of sales** and **£1.7bn of reinvestment**;
- Embedded an OJEU-compliant **supplier-vetting** system and public works tendering process whereby the manager acts as agent to the client;
- Developed an **RI framework** for the client that has led to submission to **GRESB** and the creation of a plan to **NZC**;
- **Managed key risks** – (positive impact on income yield, void rate, WAULT, location concentration, income diversification, EPC ratings etc).

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MARKET OUTLOOK



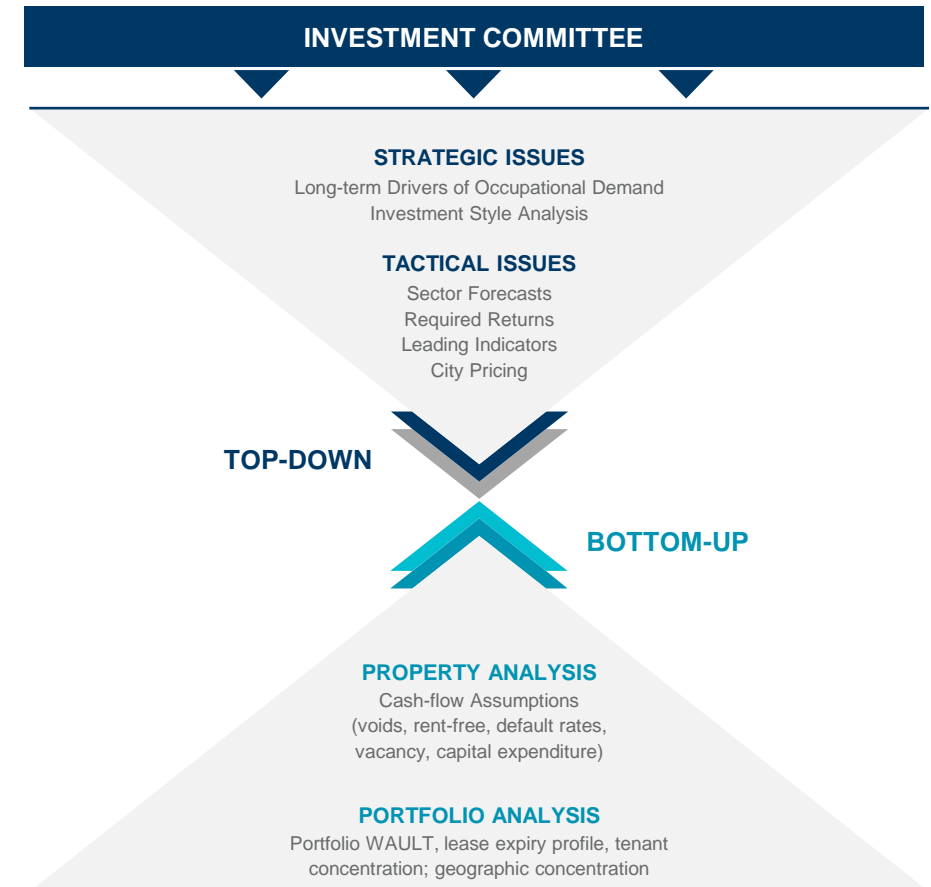
WE USE A MOSAIC OF RESEARCH TO DEVELOP OUR INVESTMENT STRATEGIES

We use extensive research resources and apply a mosaic approach to develop strategic ideas and investment strategy.

We use extensive resources and apply a mosaic approach to develop strategy.

MARKET RESEARCH (ECONOMY & PROPERTY MARKET)	OCCUPIER TRENDS	CAPITAL MARKETS	INVESTMENT DEALS
CAPITAL ECONOMICS	PMA	CW RESEARCH	CW AGENCY TEAMS
BLOOMBERG	MSCI	EXTERNAL RESEARCH HOUSES	RCA
EXTERNAL RESEARCH HOUSES	IPF	BROKER & ADVISOR RESEARCH	EXTERNAL AGENTS

We have an integrated strategy process.



FOUR MACRO FACTORS WILL HAVE THE GREATEST IMPACT ON FUTURE RETURNS

We focus on themes that will influence people and capital flows, urban planning and occupier demand.



1. DEMOGRAPHICS

- Population Growth
- Urbanisation
- Ageing population
- Student population
- Household structure



2. TECHNOLOGY

- Increased online shopping
- Increased online entertainment: social media & gaming
- Desire for convenience
- More flexible working practises, increased remote working



3. EXTERNALITIES

- Geo-political events
- Inflation / Stagflation
- Health Pandemics
- Levelling up



4. SOCIAL & ENVIRONMENTAL IMPACT

- Greater social conscience and accountability
- Increased importance of ESG & health and wellbeing
- Loneliness creating a desire for community
- Value experience over possessions

IMPLICATIONS FOR STRATEGY

LOCATIONS

- London & South East
- Big Six cities
- Oxford – Cambridge knowledge arc
- Regional logistics

SECTORS

- Convenience retail
- Junior/Senior living strategies
- Data centres
- Operational real estate

FACTORS

- BREEAM excellence
- Social inclusion
- Inflation protection
- Affordability

CASE STUDY – LINKWAY RETAIL PARK, CANNOCK

Comprehensive refurbishment of a retail warehouse park to aid re-letting of void units.



OVERVIEW AND BUSINESS PLAN

- A 100,000 sq ft retail warehouse scheme in an LGPS Client’s legacy portfolio.
- The park suffered from very low visitor numbers and a significant void of 37,000 sq ft.
- The buildings were outdated, with no capital investment programme for 20 years.



ACTION AND OUTCOME

- A £4m phased refurbishment and extension project to reposition the asset was completed.
- The units were reconfigured to meet modern occupational requirements.
- Energy efficiency of retail units was enhanced and the installation of EV charging points is under review.
- Leasing strategy resulted in an improved tenant line-up, extended the unexpired lease term and improved income diversity.
- Opportunity to further enhance the income profile through a letting to a supermarket operator.



INVESTMENT CASE

- The asset is located in a sustainable urban setting with strong occupational demand supported by the local demographic.
- Low passing rents provide the opportunity to grow income returns.
- The flexible nature of the asset has meant we are able to make improvements and alterations to meet modern occupational and environmental standards.
- The low site cover provides the opportunity to add value through further development.



AT A GLANCE

Park before refurbishment



Park post refurbishment



USE	RETAIL WAREHOUSE
SIZE	9,290 SQ M (100,000 SQ FT)
ASSET STYLE	OPEN A1 RETAIL WAREHOUSING
LOT SIZE RANGE	£10-20m

CASE STUDY – BRITISH CAR AUCTIONS, CORBY, UK

Off-market acquisition of industrial landbank opportunity underpinned by inflation-linked cashflows in the interim.



OVERVIEW AND BUSINESS PLAN

- A 121 acre site located in the Golden Triangle and used as a national car storage facility for BCA's growing online operation.
- The site is surfaced, lit and secure with 64,000 sq ft of ancillary accommodation, facilitating distribution, refurbishment, inspection and onward distribution throughout the UK.
- The site is let to BCA until June 2045 on a lease subject to index-linked reviews.



ACTION AND OUTCOME

- The investment opportunity was sourced and acquired off-market.
- Whilst the long dated index linked income was the primary rationale for investment we undertook extensive assessment of future alternative uses as part of our acquisition due diligence.



INVESTMENT CASE

- The asset provides exposure to the UK's Golden Triangle through a major landbank acquisition secured by long-dated index-linked income.
- The asset is located in a prime logistics market, in a sector subject to a supply demand imbalance resulting in significant rental and capital value growth.
- The income return secured against the asset represents an attractive premium to index-linked credit which is expected to perform well in a higher inflationary environment.
- The low land value paid per acre underpins future redevelopment in whole or in part.



AT A GLANCE



USE	STORAGE & LOGISTICS
SIZE	49 HA (121 ACRES)
ASSET STYLE	SINGLE-LET STORAGE & LOGISTICS FACILITY
LOT SIZE RANGE	£80-£90 MILLION

CASE STUDY – FORMER DEBENHAMS, MAGDALEN STREET, OXFORD

The repositioning of a former Debenhams department store in Oxford City Centre.



OVERVIEW AND BUSINESS PLAN

- A multi-let asset located in Oxford city centre incorporating a terrace of retail units and 120,000 sq. ft. unit formerly let to Debenhams.
- The Debenhams administration provides the opportunity to reposition the asset with a range of alternative uses available for the property's re-use.



ACTION AND OUTCOME

- In 2011 DTZI purchased the ground floor terrace of retail units. The upper parts, let to Debenhams were acquired at a later date, completing the ownership of the block.
- Opportunities to redevelop the upper parts are under review; there is strong demand from users across the hotel, office and life sciences sectors.



INVESTMENT CASE

- Oxford is a highly sustainable urban location where supply is constrained and demand from a wide range of competing uses is high.
- Located in the “Knowledge Arc” where occupational demand is driven by high tech and life science business that have spun out of the universities.
- Competing tenant demand provides a wide range of options for the redevelopment of the upper parts at a significant premium to the rent paid by Debenhams.
- The future development will be planned to meet high standards of environmental performance.



AT A GLANCE



USE	CITY-CENTRE MIXED-USE
SIZE	11,500 SQ M (120,000 SQ FT)
ASSET STYLE	RETAIL SHOPS IN DOMINANT LOCATIONS
LOT SIZE RANGE	£55-65 MILLION

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