

OUTCOMES  
BEYOND  
PERFORMANCE }

# INTENTIONALITY & OUTCOMES

Responsible Property Investment, Hermes Real Estate  
July 2017

For professional investors only

[www.hermes-investment.com](http://www.hermes-investment.com)

  
**HERMES**  
INVESTMENT MANAGEMENT

# Contents

## Report Coverage

The purpose of The Hermes Real Estate 2017 Responsible Property Investment report (RPI) is to describe our approach to integrating responsible property investment within our portfolio, covering governance, strategy and management. We focus on the areas of operations that we identify as material to our business activities and those of our stakeholders. The materiality assessment is carried out by the head of RPI and reviewed by the Director with responsibility for RPI and the RPI steering group. There are no significant changes in the materiality assessment, the scope, and the boundaries of our reporting compared to last year's report published in June 2016.

We report our responsible investment governance, strategy, risk assessment and management processes for our whole portfolio through a narrative approach. This narrative covers our directly managed assets, and our indirect assets that we have influence over, in the UK and internationally for the period July 2015 to June 2016. We engage with and monitor the sustainability performance of our directly held property portfolios through active engagement and by using the GRESB survey responses. We report key environmental and social performance indicators for our UK assets over which we had management control for the period January 2006 to December 2016. Continuing to build on our approach from last year, we report positive impacts beyond our usual narrative approach and quantitative KPIs approach.

We take an active stance on stakeholder's engagement. Our stakeholders include: upstream, the asset owners we manage money on behalf of; downstream, our subcontractors contracted through direct service agreements; the occupiers of the assets we manage, and the communities that live in the places our properties are located in. Finally, we engage with EU and UK policy makers and selected real estate and financial sector organisations in order to enable us to help transform the industry in which we operate. All of our new suppliers in the UK are screened for environmental, social, and human rights criteria. We have found no potential negative impacts on society in our directly controlled supply chain, and we work to mitigate the impacts of environmental pollution created through our activities, and to enhance our social impact on the communities and tenants located in and near our assets. See section 'Positive impact investing' for more information on this.

For more details and contacts on our Responsible Property Investment programme visit:  
[www.hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/](http://www.hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/)

## SECTION 1

4

## Who we are: outcomes beyond performance

Hermes Investment Management	4
Hermes Real Estate	5
Our Responsible Property Investment strategy	5
Responsible property investment in practice	6
Real Estate awards	6
Financial performance	7
Segregated and unitised solutions	8



## SECTION 2

9

## Advocacy: improving the pricing of risks

EU Energy Union: making energy efficiency first	10
EU Capital Market Union and Sustainable Finance	10
Climate action after engaging with G20 and National Governments	11
Market Transformation: De-risking Energy Efficiency Investments	13



## SECTION 3

15

## Positive impact investing: Applying it to Real Estate

Positive impact finance principles	15
Making sense of positive impact in Hermes real estate investments	16
Setting RPI targets across investment process	17
Measuring impacts and outcomes through case studies	19
Benchmarking performance against peers	28
Measuring qualitative environmental performance	29
GRI G4 materiality assessment	32
Advisor statement	35





## SECTION 1

# Who we are: Outcomes beyond performance



## Hermes Investment Management

We are an asset manager with a difference. We believe that while our primary purpose is helping beneficiaries to improve their retirement by providing world-class active investment management and stewardship services, our role goes further. We believe we have

a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial to consider the impact our decisions have on society, the environment and the wider world. Our goal is to help people invest better, retire better and create a better society for all.

**At the heart of Hermes is a deeply held belief that we have a duty to generate outcomes for savers and beneficiaries that go beyond investment performance to include the impact on companies, individuals and society as a whole. This belief permeates everything that we do as a business and is reflected in the Hermes Pledge, which is voluntary, and has been signed by 98% of our employees.**

Saker Nusseibeh, CEO Hermes Investment Management

# £30.8bn

We manage £30.8bn on behalf of institutional and retail investors around the world\*

# £264bn

We help asset owners and asset managers actively engage on their investments, which total over £264bn

# 398

We employ 398 talented individuals, and are owned by the BT Pension Scheme

\*Please note the total AUM figure includes £6.0bn/US\$7.5bn/€7.0bn of assets managed or under an advisory agreement by Hermes GPE LLP ("HGPE"), a joint venture between Hermes Fund Managers Limited ("HFM") and GPE Partner Limited. HGPE is an independent entity and not part of the Hermes group. £0.1bn/US\$0.1bn/€0.1bn of total group AUM figure represents HFM mandates under advice. Source: Hermes as at 31 March 2017 with the exception of one portfolio totalling £10.6m/US\$13.2m/€12.4m valued as at 28 February 2017.

## Hermes Real Estate

In Hermes Real Estate we are committed to acting consistently and clearly as stewards of the assets in which we invest, with the aim of delivering investment excellence. With a strong focus on the income component of total returns and a disciplined approach to risk, we seek to consistently outperform on a risk-adjusted basis to deliver robust and repeatable performance in line with our fiduciary responsibility to our clients. We see environmental, social and governance (ESG) risks as business critical to our funds, and are committed to embedding responsible investment principles across our investment practices.

With a preference for directly-held real estate, our investment philosophy is to aim to secure liquid stock with strong performance characteristics, and to focus on stock picking and deal-led investments in order to exploit market opportunity. We target

marginally higher income yield which is supported by strong underlying fundamentals. We actively manage the assets and our exit strategy is executed in the context of the macroeconomic position. This strategy draws on a clear understanding of the drivers of future performance, including an in-depth understanding of how occupiers assess real estate, the needs of communities and of the evolving regulatory framework. We comply with all current legislation, and demonstrate preparedness for forthcoming regulatory requirements. This approach enables us to anticipate and respond to market demands, and to maintain a market reputation for delivery.

## Our responsible property investment strategy

At Hermes, we have long recognised that responsible investment practices are changing real estate market conditions. Regulatory drivers and growing market demand indicate that sustainable portfolio and building characteristics affect real estate investment's fundamentals: it creates reduced risk of obsolescence and depreciation, enhances tenant retention, reduces void periods and lowers operating costs.

Throughout 2016 we integrated responsibility principles across our investment and asset management processes, including: investment, development, property management, and occupier and community engagement. We continue to work with the real estate industry to develop tools and methods to that effect. Each step of the process is described in Figure 1 below.

**At Hermes we seek to build on long term value and are absolutely committed to delivering not just financial but also positive impact on society and the environment. If you can create places where people want to work and live and play, you have a better chance of attracting global talent, and global capital has an increasing propensity to gravitate to where talent resides, while creating a real sense of civic pride in the urban infrastructure and public realm we are delivering.**



Chris Taylor,  
Hermes Head of Real Estate  
and Private Markets

## Responsible property investment in practice

Sustainability and responsible investment tools are integrated throughout our investment and asset management processes and sustainability data is shared and connected between the various organisational levels of our investment and asset management processes.

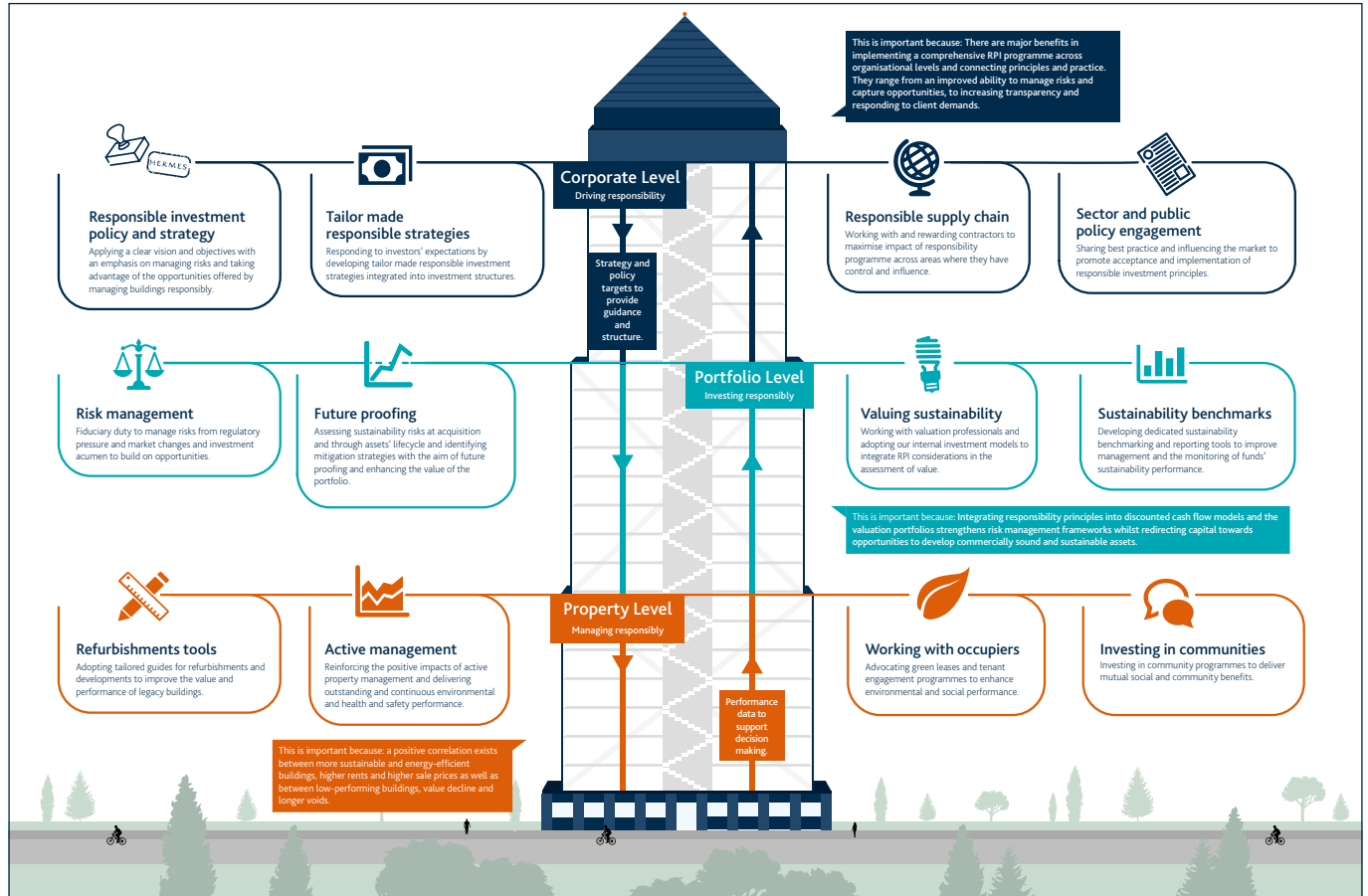


Figure 1: Responsible property investment in practice at Hermes Real Estate. More at [www.hermes-investment.com/uki/wp-content/uploads/sites/81/2015/08/Hermes\\_RPI\\_Report\\_2015\\_Interactive.pdf](http://www.hermes-investment.com/uki/wp-content/uploads/sites/81/2015/08/Hermes_RPI_Report_2015_Interactive.pdf)

## Real estate awards

UK Pensions Awards 2016 – Property Manager of the year

MSCI IPF UK Property Investment Awards - Winner 2016

Pensions and Investment Provider Awards (PIPA) 2017 – UK Property

GRESB global benchmark - 5 Green Stars ratings in 2016 (See pg. 28)

## Financial performance

### KEY FACTS\*

- £8.5bn assets under management, gross asset value (GAV)\*
- Exceptionally strong deal flow: In excess of £4.6bn of transactions over the last 5 years
- Outperformance being generated in client mandates\*\*

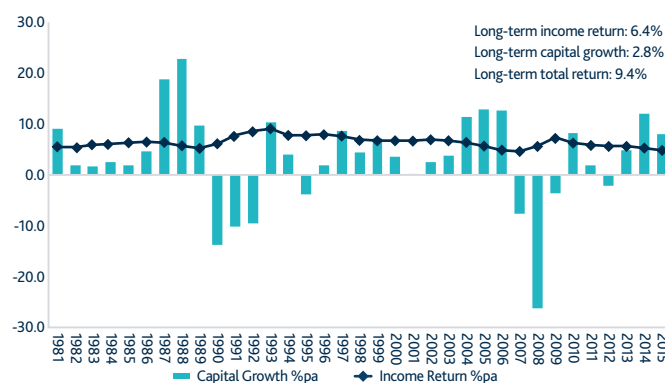
For Real Estate UK Core and International strategies, 2016 relative performance was 2.0% and -0.5% respectively.

The Hermes Property Unit Trust for the full year 2016 outperformed its benchmark by 2.6%, placing it top quartile within the Other Balanced Property Funds Index, and over the five and ten-year periods it achieved top spot.

The Real Estate Debt strategy has outperformed its target, which was three-month Libor +2%, by 1% in 2016 and 0.8% on a since-inception annualised gross internal rate of return basis. The strong performance of the strategy can be attributed to all loans achieving interest rates in excess of the target.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Past performance is not a reliable indicator of future results and targets are not guaranteed.

### Delivering income return



Source: IPD as at 31 December 2016.



\*Hermes Real Estate as at 31 March 2017, unless otherwise specified. £7.9bn NAV.

\*\*Based on 3 year track record for HPUT and segregated mandates as at 31 March 2017. Past performance is not a reliable guide to future performance.

## Segregated and unitised solutions

<b>HPUT</b>	<ul style="list-style-type: none"> <li>• Exempt Unauthorised UK Property Unit Trust</li> <li>• Appointed as Manager in 2001</li> <li>• Strong long-term track record</li> <li>• Balanced UK portfolio</li> <li>• Approx. 113 investors: UK local authority, corporate pension funds and charities</li> <li>• Gross Asset Valuation: £1.4bn</li> <li>• Net Asset Value: £1.4bn</li> </ul>
<b>Regeneration</b>	<ul style="list-style-type: none"> <li>• Market-leading UK regeneration</li> <li>• 67 acre Kings Cross redevelopment. One of the largest mixed use urban regeneration projects in Europe</li> <li>• Anticipated End Gross Asset Value £2.5bn</li> </ul>
<b>Central London</b>	<ul style="list-style-type: none"> <li>• JV with Canada Pension Plan Investment Board</li> <li>• Focus on core plus and value-add central London offices</li> <li>• Current portfolio of 7 assets totalling £0.9bn</li> <li>• Target portfolio size of £0.9bn</li> </ul>
<b>MEPC</b>	<ul style="list-style-type: none"> <li>• Specialist investment into commanding mixed-use business estates</li> <li>• Acquired in 2000</li> <li>• 10 million sq. ft. mixed office/industrial and production space</li> <li>• Gross Asset Valuation £0.8bn</li> <li>• Net Asset Value £0.6bn</li> </ul>
<b>Real Estate Debt</b>	<ul style="list-style-type: none"> <li>• Investment in UK commercial mortgages</li> <li>• Target floating-rate LIBOR plus margin returns</li> <li>• Focus on senior loans across real estate sub-sectors</li> <li>• Ability to cherry pick transactions with strong borrowers and attractive long-term real estate fundamentals</li> <li>• Strong focus on bilateral loans provides maximum lender control in both loan negotiations and ongoing management</li> <li>• More than £300m capital drawn from cornerstone investor</li> <li>• In-depth risk assessment of underlying real estate fundamentals by HREIM team</li> </ul>
<b>HUH</b>	<ul style="list-style-type: none"> <li>• Specialist investment into US real estate</li> <li>• JV with Hampshire and UOB</li> <li>• Established 2011</li> <li>• Focus on East Coast income-producing assets</li> <li>• Strong pipeline of assets</li> <li>• Initial commitments from partners of £125m (US\$200m) with \$101.8m committed by third party investors</li> </ul>



## SECTION 2

## Advocacy: Improving the pricing of risks



Hermes' mission is to be the world's leading provider of long-term holistic returns for savers, thus creating value for all stakeholders in the financial system. To us, Holistic Returns means delivering excellent long-term investment performance, but doing so with an appreciation of the wider impacts that our investment decisions will have on the economy, environment and society – and thus ultimately on clients and the beneficiaries they represent.

### Our goal is to help people invest better, retire better and create a better society for all.

As part of our Holistic Returns approach, we believe it is our responsibility to lead and participate in discussion and debate about the fiduciary responsibilities of institutional investors to their clients, their stakeholders and society at large. To that effect, we are active contributors in public policy and sector engagement through a broad advocacy agenda directed towards promoting responsible investment and ownership practices, and more pertinently advocating for a global financial system that operates in the interests of its ultimate beneficiaries.

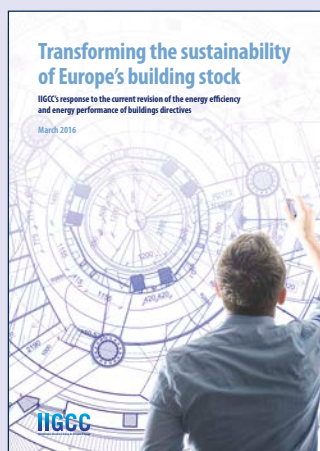
We are in a phase of transition, and there are a number of megatrends that will influence the real estate investment sector in the near future, including seismic shifts in geopolitics, demographics and technology. These, as well as changes in population concentrations, uncertainty in the financial system and environmental concerns such as climate change, are factors which pose significant risk to the real estate sector, and could fundamentally alter its operations.

### We focus our attention on issues most material to the real estate sector and analysing whether markets are pricing sustainability risks accurately, including externalities, in their measurement of real estate values and worth.

During 2016/17 this has included the role of real estate in achieving a transition to a low carbon economy, and in particular the role it can play in scaling up finance for energy efficiency. Energy efficiency represents 50% of the measures that will enable the EU to deliver the Paris Climate Agreement objectives, and of these it is estimated by the IEA that 75% of cost effective measures are not yet implemented. Real estate also has an important role in helping to meet the UN's sustainable development goals, and we strongly believe that developing and disseminating Positive Impact Finance approaches will be an important delivery mechanism.

Therefore, as part of actively promoting responsibility, in the last year we have been working with UK, EU and G20 policy makers and regulators, as well as with our industry peers. We have actively contributed to selected investor associations working on responsible property investment, including the UNEP Finance Initiative (UNEP FI), the Institutional Investors Group on Climate Change (IIGCC), the Principles of Responsible Investment (PRI), the Royal Institution of Chartered Surveyors (RICS), and in the UK the British Property Federation (BPF) and the Better Building Partnership (BBP), to support the following initiatives.

## EU ENERGY UNION: MAKING ENERGY EFFICIENCY FIRST



Transforming the sustainability of Europe's building stock, IIGCC, March 2016

During 2016 and ongoing in 2017, the revision of two EU Directives related to energy efficiency and buildings provides a vital opportunity to drive radical improvements in the energy efficiency performance of Europe's existing building stock. As Chair of the Institutional Investor Group on Climate Change (IIGCC) Property Programme, Hermes have taken an active role in public policy engagement. IIGCC's growing recognition among EU institutions allows investors' voices to be heard more effectively by European institutions.

The revisions and public consultations led to the European Commission's new Clean Energy Package proposals, published in November 2016. We welcome the Commission proposal, which places energy efficiency at the front and centre of EU efforts to meet their emissions reductions targets. With these proposals, at least a 30% EU-level binding energy efficiency target, national renovation strategies and the extension of the energy saving obligation\* beyond 2020 the Commission seeks to bring the Energy Efficiency Directive in line with the EU 2030 climate and energy framework. This important acknowledgment sends a strong signal of the EU's commitment to energy efficiency and its multiple benefits, and sets a robust pathway for the uptake and finance of energy efficiency and decarbonisation objectives across the EU. However, the release in June

2017 of the Council position signals tough tripartite negotiations ahead in the autumn of 2017.

Additional requirements made by the IIGCC include a call for the EU to consider setting a binding goal and strengthen the governance proposal measures to employ 10-year national energy and climate plans alongside Energy Performance of Buildings Directive (EPBD) long-term national renovation strategies in order to decarbonise the entire EU's building stock by 2050. In particular, we have called for the inclusion of specific investment plans to deliver them. These additional requirements offer a significant opportunity to ensure the EU is and remains aligned with the Paris Agreement's long-term decarbonisation objectives and monitoring processes. The principle of 'continuous improvement' should be used to drive the retrofitting and refurbishment of existing building stock by transforming energy performance certificates from a static into a dynamic tool. Energy performance certificates should be upgraded to a dynamic electronic format that records, and more frequently updates, both the design and operational performance of property, and which becomes the foundation of an electronic building passport.

- **Transforming the sustainability of Europe's building stock, IIGCC, March 2016**  
[www.iigcc.org](http://www.iigcc.org)
- **Letters to Commissioners, Members State and Members of EU Parliament**  
[www.iigcc.org/publications/publication/iigcc-letter-to-eu-energy-ministers](http://www.iigcc.org/publications/publication/iigcc-letter-to-eu-energy-ministers)

## EU CAPITAL MARKET UNION AND SUSTAINABLE FINANCE

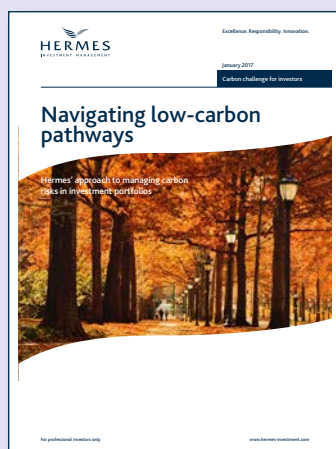
By listening to the voice of investors on the consultation on the review of the Capital Markets Union, through engagement initiatives led by E3G and IIGCC and supported by Hermes, the EU recognised that work was still required to improve the sustainability of the European financial system. As a result, during 2016 the European Commission took two important steps.

First, it announced that it will double the financial capacity and duration of the European Fund for Strategic Investment (EFSI) to provide at least €500bn of investments by 2020, of which at least 40% will be dedicated to climate action.

Secondly, the Commission announced a Capital Market Union (CMU) refresh. As part of their review, in Jan 2017 they also launched a high-level expert group to develop a comprehensive strategy on sustainable finance. The high-level expert group will be publishing its first recommendation in July 2017 for consultation with the industry and society during the second half of the year.

- **Improving the pricing of risk: Aligning the EU financial system and climate change, IIGCC, Sept 2016**  
[www.iigcc.org/publications](http://www.iigcc.org/publications)
- **Investor letter EU sustainable finance strategy E3G, Oct 2016 – Building on E3G work**  
[www.e3g.org/library/sustainable-finance-plan-for-the-eu](http://www.e3g.org/library/sustainable-finance-plan-for-the-eu)
- **High level expert group on Sustainable Finance, DG FISMA**

## CLIMATE ACTION AFTER PARIS ENGAGING WITH G20 AND NATIONAL GOVERNMENTS



Navigating low carbon pathways.  
Hermes approach to  
carbon risks, 2017

### Global Investors' climate call to G20

In the year after the Paris Agreement on climate change, we have seen a number of unexpected outcomes. While the EU, China and the BRIC countries continue to voice strong support, in early June 2017 Donald Trump announced the US Government will withdraw from the Paris Climate accord. While the impact of this announcement has made world headlines as a landmark symbolic gesture, there will be limited impact in practice in the short term, and it could potentially focus more attention on the benefits arising from transitioning to a low carbon economy. The announcement has raised both strong condemnation and statements of support from a number of US states, cities, large corporations and investors, some of which are forming coalitions aimed at taking actions in alignment with the Paris Accord US national action plan.

Climate and carbon risks management remains a key priority in the economic transition towards a low carbon economy, in particular through investment opportunities that can deliver new growth areas and job creation. At Hermes, we will continue to both identify and implement carbon risk management and opportunities to improve the long-term financial performance of our assets. We will also maintain

our public policy engagement with the UK and European government, which calls for a clear policy framework to enable the scaling up of low carbon and energy efficiency investments.

To that effect, we have worked with the IIGCC and the Global Investor coalition to engage the G20 and G7 member states on their climate change positions. Our actions included sending a number of letters calling for climate change to be explicitly acknowledged as a priority of the G20, and pointing to the importance of the public and private sectors working closely together to get the right level of financing in place. We are pleased that Germany has made climate a priority of the G20 Summit in July 2017, and while noting the US decision to withdrawn the final communique of G19 countries clearly states that the accord was "irreversible".

Every year we publish an update on Hermes carbon risk management approach, focusing on progress and coverage across all of our investment funds.

- Letter from global investors to governments of the G7 and G20 nations", Global Investors Coalition- May 2017  
[www.iigcc.org/publications/category/global-climate-policy](http://www.iigcc.org/publications/category/global-climate-policy)
- Navigating low carbon pathways. Hermes approach to carbon risks  
[www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/01/Hermes-Corporate-Low-Carbon-Pathways-26.01.17.pdf](http://www.hermes-investment.com/ukw/wp-content/uploads/sites/80/2017/01/Hermes-Corporate-Low-Carbon-Pathways-26.01.17.pdf)
- Real Estate Climate Risks Report, Willis Tower Watson, April 2017  
[www.willistowerswatson.com/en-GB/insights/2017/04/real-estate-climate-risk-report-2017](http://www.willistowerswatson.com/en-GB/insights/2017/04/real-estate-climate-risk-report-2017)

**We need to challenge the current economic and financial models used by the investment industry if we are to ensure that the world does not breach the scientifically guided objectives we have set for ourselves on climate change.**

Tatiana Bosteels, Director for Responsibility



FSB Taskforce Climate  
Related Financial Disclosure  
Recommendations, 2017

## G20 FSB climate related financial disclosure taskforce recommendations

Having made his statement on the risks of climate change on financial stability, Mark Carney, as head of the Financial Stability Board G20 Central Banks, initiated the Climate Related Financial Disclosure Taskforce. Hermes contributed to the consultation on the task force recommendations through its EOS engagement team and IIGCC.

The taskforce released its final recommendations in June 2017, and we welcome the recommendations. We believe the report has taken the correct approach in being forward looking: the focus is on businesses' future strategic risks rather than historic track records of emissions, which can often be less relevant to those businesses which are exposed to long-term risks via their products, e.g. oil, gas, and automotive producers.

A critical element of the recommendations is the requirement for companies to explain the financial

materiality of climate change under a range of low carbon scenarios. This will encourage both companies and investors to deploy new mitigation strategies, preserving value for long-term investors and improving the lives of beneficiaries. We are currently in the process of assessing the implications for our own and our investee companies' disclosures, with a focus on how to implement low carbon scenario analysis.

- **IIGCC consultation on FSB Climate Related Disclosure Taskforce**  
[www.iigcc.org/publications/category/european-climate-and-energy-policy](http://www.iigcc.org/publications/category/european-climate-and-energy-policy)
- **FSB Climate Related Disclosure taskforce recommendations**  
[www.fsb-tcfd.org/publications/final-recommendations-report/](http://www.fsb-tcfd.org/publications/final-recommendations-report/)



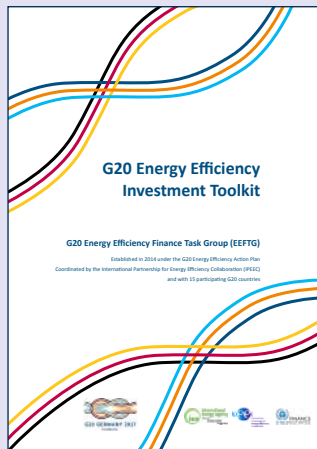
An Investable UK Emissions  
Reduction Plan, IIGCC, 2017

## An Investable UK Emissions Reduction Plan

To meet the Paris Climate Agreement targets, we recognise it is important to work with national governments. We supported the effort of the IIGCC, which was asked by the UK Government's Department of Business, Energy & Industrial Strategy to suggest how the UK should develop a sustainable national plan to cut greenhouse gas emissions. The IIGCC produced a report which sets out a number of core principles that a country should employ when developing an emissions reduction plan to deliver their Paris Agreement commitments, including developing a comprehensive 2050 decarbonisation strategy, and applies them in the UK context. The report provides specific measures on three key sectors: power generation, buildings/heat, and transport.

**An Investable UK Emissions Reduction Plan" IIGCC, March 2017**  
[www.iigcc.org/publications/category/european-climate-and-energy-policy](http://www.iigcc.org/publications/category/european-climate-and-energy-policy)

## MARKET TRANSFORMATION: DE-RISKING ENERGY EFFICIENCY INVESTMENTS



G20 Energy Efficiency Investment Toolkit, IPEEC et al, 2017

### G20 energy efficiency investment toolkit

Energy efficiency has often been side lined in energy and climate debates and regulations, and so we are pleased to see the growing recognition of its importance in delivering both energy savings and energy security outcomes, as well as the associated economic growth, jobs and health benefits. The growing energy efficiency market now represents USD 221bn worth of opportunities, but further G20 collaboration is needed to match the scale of the investment challenge, which should be five times larger than today. We have been active contributors to the G20 Energy Efficiency Investment Task Force under the Climate and Energy ministerial.

The G20 energy efficiency investment toolkit, to which Hermes was the private investor contributor, launched in May 2017 after three years of efforts. It has been acknowledged by the G20 energy and climate working groups as an important element in facilitating dialogue between investors and G20 members. The toolkit provides

a set of voluntary options for policy makers to scale up energy efficiency policies and financing tools, and outlines current practices from 122 banks, over USD 4 trillion of institutional investors, leading public financial institutions and insurance companies.

As an outcome, the important role of energy efficiency has been recognised in the final G20 Hamburg Climate and Energy Action Plan for Growth agreed at the G20 2017 final summit. Where the G20 Energy Efficiency Investment Toolkit is acknowledged as an integrated approach to enhancing capital flows towards energy efficiency.

#### G20 Energy Efficiency Investment Toolkit", IPEEC AND UNEP FI, May 2017

[www.unepfi.org/news/themes/climate-change/energy-efficiency/g20-energy-efficiency-investment-toolkit-highlights-us-221-billion-investment-opportunities/](http://www.unepfi.org/news/themes/climate-change/energy-efficiency/g20-energy-efficiency-investment-toolkit-highlights-us-221-billion-investment-opportunities/)

#### • G20 Hamburg Climate and Energy Action Plan for Growth

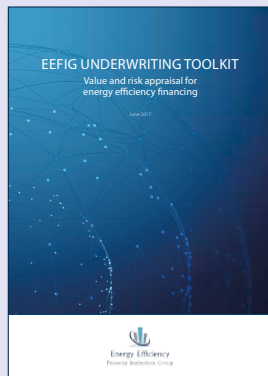
[www.g20.org/Content/DE/\\_Anlagen/G7\\_G20/2017-g20-climate-and-energy-en.pdf?\\_\\_blob=publicationFile&v=4](http://www.g20.org/Content/DE/_Anlagen/G7_G20/2017-g20-climate-and-energy-en.pdf?__blob=publicationFile&v=4)

**As stewards of significant amounts of capital and as major real assets investors, institutional investors can play a key role in driving energy efficiency in their own public stocks and real holdings. They can also encourage investee companies through active engagement to improve their competitive position and the long-term investment value delivered to investors by maximising energy productivity.**

Saker Nusseibeh, Chief Executive of Hermes Investment Management



## EEFIG energy efficiency de-risking tools



EEFIG Underwriting Toolkit,  
2017

The Energy Efficiency Financial Institutions Group (EEFIG) was established by the European Commission Directorate-General for Energy (DG Energy) and United Nations Environment Program Finance Initiative (UNEP FI), in 2013 to discuss how to scale up energy efficiency investment in Europe through market-based solutions and an enabling regulatory

framework, and to make policy and market recommendations. The group brings together private financial institutions, development banks, sector organisation representatives and policy-makers, as well as project developers. Hermes was one of the initial investor members, and has taken an active role in supporting the development of the EEFIG's activities.

The EEFIG's recommendations were first published in Feb 2015 following a 2 year, consensus-based process among the 100 EEFIG participants and extensive stakeholder consultations. In the last couple of years, many of the EEFIG's recommendations have been taken on board by the Commission in its review of the Energy Union, including the smart finance for smart building package. They have been embedded into European Investment Bank (EIB) lending and investment activity, and have led to a number of market transformation initiatives funded under the EU Horizon 2020 programme.

During 2016/17, the EEFIG focused its attention on de-risking energy efficiency projects for banks, and developing an evidence based platform of the value of energy efficiency investments. The DEEP database platform was launched in Nov 2016. This platform is an open source database for energy efficiency investments performance monitoring and benchmarking. It also visually presents information about the current number of energy efficiency projects, median payback, and median avoidance cost for buildings and industry projects for European countries. More recently, in June 2017, the "Underwriting Toolkit" was launched. This toolkit aims to assist financial institutions to scale up their deployment of capital into energy efficiency by clarifying the valuation and risk assessment process for energy efficiency projects.

- **EEFIG DEEP database**  
[www.eefig.com/index.php/deep](http://www.eefig.com/index.php/deep)
- **EEFIG Underwriting Toolkit. Value and risk appraisal for energy efficiency financing, June 2017**  
[www.eefig.com/index.php/underwriting-toolkit](http://www.eefig.com/index.php/underwriting-toolkit)
- Other selected initiatives inspired by the EEFIG recommendations include:
  - **RENO Value:** Funded by the Intelligent Energy Europe Programme, this RICS project aims to train property valuation professionals to integrate energy efficiency performance information, as well as renewables into property valuation. <http://renovalue.eu/>
  - **EU Investor Confidence Project:** The Investor Confidence Project are developing investor-ready energy efficiency project certification in order to encourage standardisation and effective communication between providers of capital, project developers and project hosts, with the aim of reducing transaction costs. <http://europe.eepperformance.org/>
  - **Green Mortgages Initiative by the EMF-ECBC:** The European Mortgage Federation / European Covered Bond Council have recently won Horizon 2020 funding to scale up green mortgages in the European Union. The underlying concept is that mortgage lenders in the EU will offer households the possibility of a preferential interest rate and/or additional funds at the time of origination of the mortgage/re-mortgage in return for measurable, energy efficient improvement in their property. <https://hypo.org/ecbc/market-initiative/emf-ecbc-energy-mortgages-initiative/>
  - **Climate Bonds Initiative – Green property bonds:** The Climate Bonds Standard is a screening tool for investors and governments which allows them to easily prioritise climate and green bonds with confidence that the funds are being used to deliver climate change solutions. The Low Carbon Buildings criteria set out what property assets are eligible for certification including commercial & residential buildings and upgrade projects. [www.climatebonds.net/standard/buildings](http://www.climatebonds.net/standard/buildings)
  - **Real Estate Debt and Sustainability – Better Buildings Partnership:** The report outlines the drivers and opportunities to lenders by showcasing best-practice examples including improved borrower engagement, new lending products and deep integration of sustainability practices in real estate debt funds. [www.betterbuildingspartnership.co.uk/beyond-risk-management-how-sustainability-driving-innovation-commercial-real-estate-finance](http://www.betterbuildingspartnership.co.uk/beyond-risk-management-how-sustainability-driving-innovation-commercial-real-estate-finance)

## SECTION 3

# Positive Impact Investing: How to apply it to Real Estate



## Positive impact finance principles

While responsible or sustainable real estate investment has grown steadily over the last few years, the positive impact investment approach is considerably less mature, with only a handful of impact funds currently focusing on real estate.

Discussions on positive impact investment in real estate so far have tended to focus more on financing of social initiatives, e.g. affordable housing, ageing and education, while the creation of environmental benefits has received considerably less attention. Indeed, most of the initial work has been done by impact investing funds with strong contribution from private markets.

Following on from the launch of the positive impact finance principles by UNEP FI and PRI, it is relevant to seek a better understanding of what positive impact means for investors, and how the principles can be implemented in Real Estate Investments. The Principles for Positive Impact Finance define Positive Impact Finance as:

**Positive impact finance is that which serves to finance positive impact business. It is that which serves to deliver a positive contribution to one or more of the three pillars of sustainable development (economic, environmental and social), once any potential negative impacts to any of the pillars have been duly identified and mitigated. By virtue of this holistic appraisal of sustainability issues, Positive Impact Finance constitutes a direct response to the challenge of financing the Sustainable Development Goals.**

(UNEP FI, 2017), [www.unepfi.org/positive-impact/positive-impact/](http://www.unepfi.org/positive-impact/positive-impact/)



## Making sense of positive impact in Hermes real estate investments

At Hermes, while not labelling our real estate activities as impact investment, we have been exploring how to apply the UNEP FI positive impact principles, and can argue that we follow the three key principles in regards to our climate and energy efficiency investment practices.

As part of our active responsible property investment programme (see Figure 1 pg 6) Responsible Property Investment in Practice, we have been assessing what Positive Impact Investment would mean for each step of our investment process. We believe that a Positive impact Investing framework should be based on three key elements: 1) Intentionality – the objectives in terms of real-world impacts, and the targets and indicators we will use to do that; 2) Monitoring the outcomes 3) Developing trust in the industry on these issues through transparency, including through verification and certification. Engagement with REIT, real estate companies and debt funds is also an essential way to achieve positive impacts as a real estate investor.












Recognising that this is work in progress, we are working with the industry through the UNEP FI positive impact working group, developing common definitions and frameworks, and assessment methodologies and impact measurement indicators. In particular we are working on a framework for real estate investments.

In our view, a typical Positive Impact Framework for real estate would follow these key steps:



## Setting RPI targets across investment process

Setting a clear intention to deliver specific outcomes through our responsible property investment programme since 2006, we have maintained a number of environmental, social and governance targets throughout all of our investment processes. Our targets cover our directly managed properties over which we have management control, these represent 60% of our portfolio. These targets, and the tools and instruments to implement and monitor the outcomes, are reviewed on a regular basis by the Hermes RPI Steering Group. We report on performance against these targets on an annual basis.

RPI targets	Progress
<b>Corporate Targets</b>	
Ensure uptake of our supply chain policy by all of our direct suppliers and share best practice.	Achieved 
<b>Investment Targets</b>	
Ensure that our RPI acquisition due diligence is carried out on all potential acquisitions, and the results are integrated in the property management programme when a transaction is finalised.	Achieved 
Survey and assess RPI performance of all joint venture partners and indirect investment on RPI issues.	Achieved 
<b>Development Targets</b>	
BREEAM ratings: Ensure that all new developments and refurbishments in excess of £3m (construction cost) have independent BREEAM assessments completed, with the intention of obtaining at least an 'Excellent' rating. Ensure that all refurbishments in excess of £1m (construction cost) have independent BREEAM assessments completed, with the intention of obtaining at least a 'Very Good' rating.	In progress 
EPC: Ensure that all new developments and refurbishments in excess of £3m (construction cost) have independent audits and achieve at least an Energy Performance Certificate rating of 'C'. Ensure that all refurbishments in excess of £100,000 (construction cost) have independent audits and achieve at least an Energy Performance Certificate rating of 'D'.	Achieved 
Monitoring: Collect and record data against appropriate KPIs for all directly managed development and refurbishment projects.	In progress 
<b>Management Targets</b>	
Distribute annually updated Responsible Property Management (RPM) Programme to Property Manager and tools to all Property Managers	Achieved 
Property Managers to comply with contractual RPM requirements	Achieved 
<b>Risk and Safety</b>	
Ensure 92% of Risk Improvement Requirements arising from the Health & Safety risk management audit process are completed on time.	Achieved 
Flood risks: Review flood plans annually for assets at a high risk of flooding based on the environmental agency flood maps and guidance.	Achieved 
Review Energy Performance Certificates (EPC) risk exposure annually by portfolio and identify a mitigation strategy where relevant.	Achieved 

Environmental Targets	Progress
<b>CO2 emissions standing portfolio</b>	
Reduce landlord-controlled absolute carbon emissions by 40% of our directly managed standing portfolio by 2020 compared to our 2006 baseline*.	Achieved 
Reduce landlord-controlled emissions relative to floor area by 40% of our directly managed standing portfolio by 2020 compared to our 2006 baseline*.	Achieved 
<b>CO2 and energy like for like</b>	
Reduce by 5% the annual carbon emissions and the total energy consumption of our directly managed portfolio, adjusted for weather on a like-for-like basis.	Achieved 
Reduce by 5% the annual carbon emissions and the energy intensity of our directly managed portfolio adjusted for weather on a like-for-like basis.	Achieved 
<b>Water</b>	
Reduce landlord-controlled water consumption adjusted to level of occupancy by 20% across our directly managed portfolio for our standing portfolio by 2010 compared to our 2006 baseline.	Achieved 
<b>Waste</b>	
Achieve an 80% recycling rate, following on-site segregation, documented MRF recycling, or incineration with energy recovery, across our directly managed portfolio of properties which measure waste by weight.	Achieved 
<b>Transport</b>	
Implement individual site travel plans at all Cat 1 properties.	Achieved 
Incorporate direct transport emissions into the reporting framework.	In-progress 
<b>Occupiers</b>	
Engage with all occupiers during lease negotiations with the intention of including sustainability clauses in all lease agreements.	Achieved 
Engage with the top 5 occupiers in our retail and commercial sectors with regards to RPI.	Achieved 
<b>Communities</b>	
Ensure that all offices and shopping centres which are directly managed comply with Hermes' minimum standards for community engagement, as outlined in our Community and Occupiers Stakeholder Engagement Programme.	Achieved 

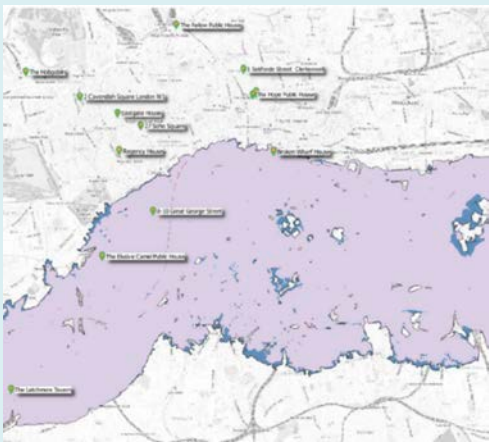
\*Where we have the ability to delineate between owner and occupier's areas, we report on owner data only, where this is not possible we have included occupier's data.



# Measuring Impacts and Outcomes through Case Studies

For the last couple of years, we have been reporting our impact on a narrative basis through case studies of specific assets, and on a qualitative basis through our performance review (see pg 29).

## HERMES PORTFOLIOS' CLIMATE RISKS ASSESSMENT



### Flood risks maps

Flood risk poses significant threat to the long-term sustainability of an asset. Hermes are conscious of the ever-increasing risk of flooding, and seek to mitigate the effects through regular assessment of flood risk mapping.

Utilising the Environment Agency flood map, Hermes undertakes an annual analysis for each asset within each of its managed portfolios of the flood zone, the proximity of flood defences, and the level of

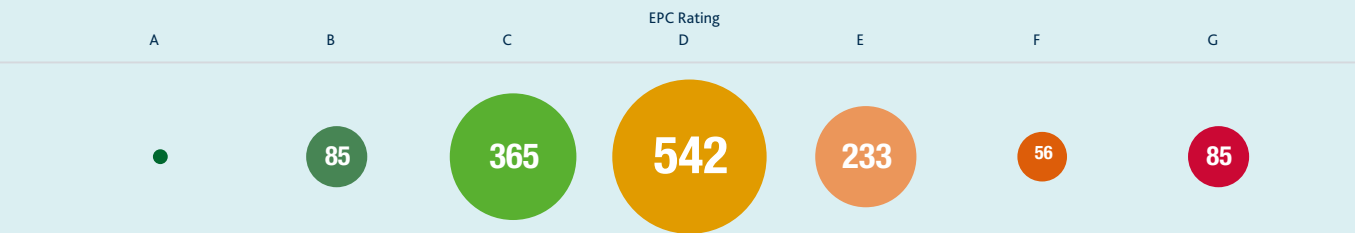
flooding risk. Those assets, totalling four across the whole of Hermes managed assets, are indirectly managed and so are encouraged to develop a flood risk action plan.

In total, four assets are at high risk of flooding, five assets at medium risk, 48 at low risk and 128 at very low risk. This annual assessment of flood risk ensures Hermes are aware of the shifting risk that flooding poses and have action plans in place to mitigate.

### Minimum energy efficiency standards

The minimum energy efficiency standards come into effect in April 2018 and prevent the renewal of existing tenancies or granting of new tenancies if the asset has less than the minimum energy performance certificate (EPC) rating of E. Recognising the impact this could have on Hermes Real Estate's operations, a full review and

analysis of EPC ratings across the portfolio has been undertaken. Hermes Real Estate has under 150 EPC ratings lower than an E, and has developed a clear remediation plan to mitigate the risk of these assets on the portfolio, through either planned and preventive maintenance improvements, refurbishment, or expected sales.



## ENERGY EFFICIENCY & OCCUPIER ENGAGEMENT: 2 CAVENDISH SQUARE

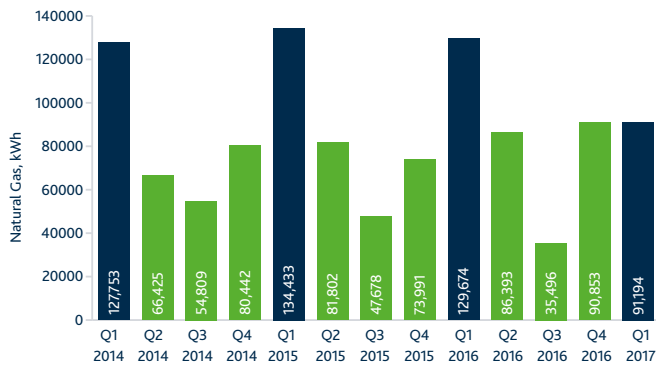
Cavendish Square has been in the portfolio for a number of years and was identified as a high consumer against its peers according to the Better Buildings Partnership (BBP) benchmark. Despite active energy management as part of the Responsible Property Management (RPM) programme, there was a clear opportunity to realise energy performance improvements. JLL, as the managing agent, worked in tandem with Carbon Credentials to implement the Collaborative Asset Performance Programme (CAPP).

The CAPP focuses on the optimisation of technology and the engagement of people to achieve quick-win, low-cost energy savings. The solution utilises BMS data acquisition technology to collect building plant equipment data, in order to deliver improved outcomes through the optimisation of current technology in buildings, and overcoming the social challenge of organising multiple stakeholders in a building.

The multiple benefits are clear; cost and carbon savings, reduction in maintenance and asset costs and, importantly, better engagement and improved occupant comfort.

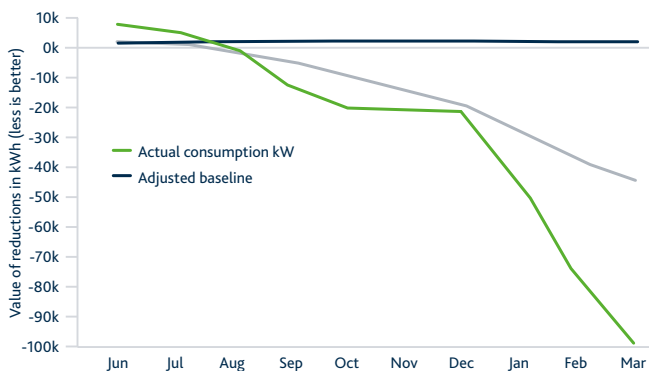


Since its inception in June 2016, the CAPP has led to verified savings in both electricity and natural gas, with gas demonstrating an impressive **30% reduction** from the baseline.



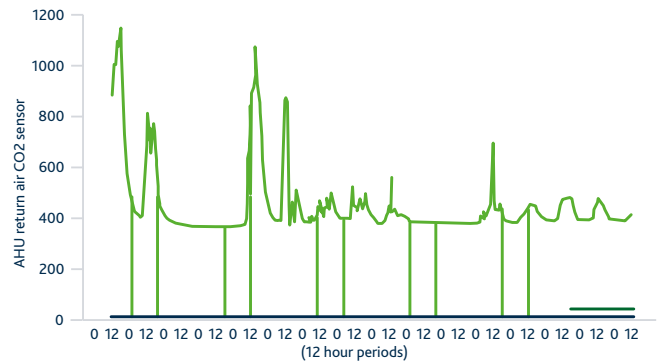
As shown in graph above, 2 Cavendish Square has been a persistent high user of natural gas, especially during the January to March period (blue column in chart). The CAPP has delivered significant savings during this time, despite these being traditionally the coldest months in the calendar, whilst maintaining occupiers' comfort levels.

### Cumulative Reductions Against the Baseline (kWh)



Indeed, an additional benefit from the detailed monitoring undertaken at 2 Cavendish Square was the visibility of factors affecting tenants' comfort. CO2 levels could be monitored, and equipment managed effectively to ensure these levels did not rise to a level that impacted productivity.

### Example CO2 monitoring



Due to the success of the CAPP at 2 Cavendish Square, it won the Hermes RPI award for best environmental initiative and Hermes have now implemented a phased rollout across a number of Hermes high-consuming assets.

# CO2

levels monitoring to improve occupier productivity

## ENERGY EFFICIENCY & OCCUPIER ENGAGEMENT: ROYAL VICTORIA PLACE

Royal Victoria Place is a key retail asset in the BTPS fund with over 100 retail and catering tenants on three floors, and an annual footfall of over 10.5 million. As an energy intensive asset when Hermes acquired the 100% ownership and management control in 2012, it has since undertaken a number of energy efficiency measures, including a centre-wide LED light replacement programme as well as a initiatives in collaboration with occupiers. These have contributed to the impressive reductions the site has demonstrated over its time in the managed portfolio, with **over 64% reductions in absolute carbon emissions** in landlord control from 2012 to 2016 (see graph case study in performance data section pg 29). This has led to the asset being a nominee to the Hermes RPI award for best RPI property in 2016.

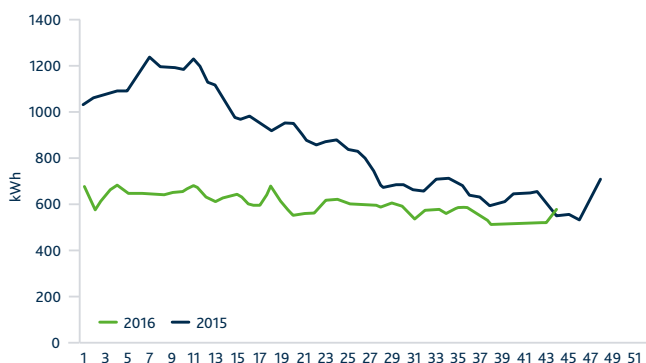
In mid-2015 the shopping centre undertook a rewarding initiative that went beyond installing more efficient technology and engaged the on-site staff to shut down, as far as possible, the building every night.



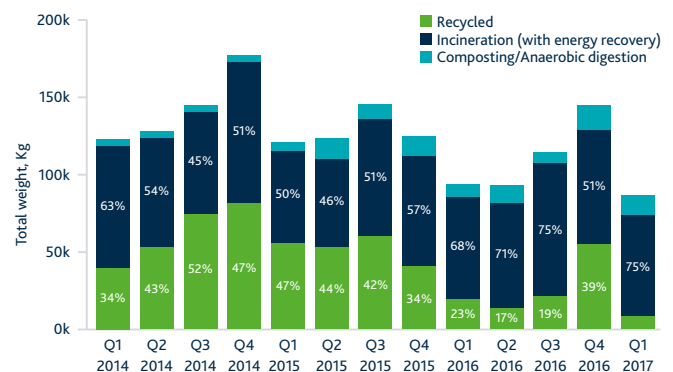
The outcomes of this initiative benefit not only the environment but also all parties involved, with multiple benefits including:

- the cleaning team no longer work throughout the night but instead in a concentrated time frame immediately after trade, while not being out of pocket;
- the security team have additional tools to ensure the safety of the building;
- the maintenance teams have fewer call outs for plant that has not started outside of normal working hours;
- the tenants see a saving on service charges without experiencing a drop in service.

Evidence of the energy reduction is clear in the night-time meter readings below.



In addition to reducing energy, RVP has also maintained a continued focus on the volume of waste generated, steadily reducing the total amount produced at the centre every year.



**64%** absolute carbon emissions reductions since 2012



## ENERGY EFFICIENCY & COMMUNITY ENGAGEMENT: CRYSTAL PEAKS



Crystal Peaks shopping centre was the winner of Best RPI Property at the Hermes Responsible Property Investment Awards in 2016.

The centre was recognised for its good energy management, which resulted in 56% GHG reductions between 2008 and 2016 (see case study graph pg29), and reductions in electricity and

gas consumption of 10% and 26% respectively during 2016, but also for its engagement with the local community.

One particularly eye-catching initiative was the centre's involvement in the Herd of Sheffield. This was a mass-participation arts event, and for ten weeks during summer 2016, 58 individually designed and crafted elephant sculptures were displayed around Sheffield's streets, open spaces, and parks.

Crystal Peaks shopping centre engaged with both occupiers and the local community to maximise exposure of the event. In addition to housing one of the elephants, the centre also had a mini trail around the centre, where customers had to find soft toy elephants, ran three free elephant-themed craft activities. Centre staff were also the first team to visit all 58 elephants around Sheffield utilising public transport.

The whole project is estimated to have generated well over £500,000 for charity, and Crystal Peaks made a huge contribution to the success of the project, which undoubtedly benefitted the local community.

**56%** GHG reductions  
between 2008  
and 2016

**£500,000** raised for charity  
with large contribution from  
Crystal Peaks

## SUSTAINABLE REFURBISHMENT & ENERGY EFFICIENCY: SOUTH BANK TOWER



South Bank Central comprises the refurbishment of the 1970s Kings Reach Tower on Stamford Street, Southwark, to Cat 'A' standard. It won the Hermes RPI award for Best Refurbishment 2016.

South Bank Central is a mixed-use scheme of retail, office and residential units, work on which involved the extensive refurbishment and extension of three separate buildings.. It now provides circa 270,000 sq. ft. of office and retail accommodation, alongside 220,000 sq. ft. of residential accommodation, all sold off plan.

The entire site has been refurbished to an impressive specification, and the project delivered the following outcomes:

- Followed and monitored the Hermes Responsible Refurbishment Guide;
- BREEAM "Excellent" rating in respect of the Office Accommodation with score of 75 and a BREEAM "Very Good" in respect of the Retail Accommodation. The completed fit out has received an EPC rating of "B" for both the Podium and Tower;
- Used the features of the existing building by exposing original columns for aesthetic effect, and reduced material consumption. Site Waste Management shows that 99% of the waste from site was diverted from landfill and recycled;
- A combined heat and power (CHP) system installed as part of the Base Build Contract has been extended under the Fit-Out Contract to supply Low Temperature Hot Water (LTHW) to the fan coil units thereby providing a cost-efficient and sustainable heating source for tenants;
- Provision of a roof garden and local garden which encourages biodiversity.

Risk mitigation and prevention, particularly fire management, is key to its design. The infrastructure contains several modern fire management engineering solutions, including a fixed fire suppression system, automatic heat and smoke detector heads with incorporated fire alarm sounders, emergency lighting throughout the common areas, and automatic smoke extraction at basement level. Fire compartmentation throughout the building is continuously monitored. The main fire alarm panel for the system is located within a combined security and fire command centre.

Close liaison between the CBRE, who manage the commercial areas, and London Residential Management, who manage the 191 residential units, is maintained to ensure all areas of the building are included in a whole-building strategy, and procedures are regularly reviewed and updated as building occupancy increases.

# 99%

of the waste from site  
was diverted from landfill  
and recycled;

# 191

residential units, are maintained  
to ensure all areas of the building  
are included in a whole-building  
strategy



## SUSTAINABLE REFURBISHMENT & TENANT WELLBEING: ALDGATE HOUSE

Aldgate House has been in the RPM programme since the end of 2013 and has been subject to rigorous energy management over that time as it was a high energy consumer on acquisition. Since implementation of the active management programme we have seen absolute carbon emissions go down by 37% between 2013 and 2016 (see case study graph pg29). In 2016, further reductions were realised, with gas and electricity reducing by 13% and 4% respectively.

Aldgate House also underwent major refurbishment resulting in a BREEM Very Good rating and an EPC rating 'B', while being occupied by the tenants.

Following the completion of the strip-out phase contractors engaged with the tenants early on in order to head off any potential issues that may have arisen as a result of the works. The tenant engagement work focused on demonstrating what the end product would look like upon completion and focused on the comfort, health and well-being benefits for the tenants: new reception area complete with lounge and break out area, refurbished toilets and brand new cycle storage complete with changing rooms, showers and towel service. As the project unfolded the project manager and a dedicated liaison manager were available to respond to any queries or concerns that arose in an efficient, professional and timely manner.



Key environmental features were designed into the project, including thermal comfort measures, a low carbon design, and utility monitoring. The newly refurbished offices and reception areas have had new dimmable lighting installed, allowing all areas that benefit from natural light to be daylight-linked. This has both saved energy and decreased the amount of artificial lighting when there is sufficient ambient light available.

Electricity is metered on the refurbished floors, allowing the BMS to monitor and target resource efficiency, as well as facilitating major leak detection. This has given building managers the capability to monitor usage, drive improvements and communicate results.

Aldgate House has also taken the opportunity to improve the health and wellbeing of its tenants by upgrading the cycle facilities. 226 new cycle spaces and 18 showers have been installed, all aimed at encouraging tenants to commute by bicycle.

The tenant engagement initiative delivered a number of outcomes:

- A better and more congenial working environment has now been established for tenants.
- Contractors were able to continue work without delays due to addressing tenant concerns.
- Contractors have been able to transfer lessons learnt to other sites, improving the overall service they offer.
- Improved relationship between landlord and tenants due to increased dialogue over issues highlighted.

# 226

new cycle spaces and 18 showers have been installed, all aimed at encouraging tenants to commute by bicycle.

# 37%

decrease seen in absolute carbon emissions between 2013 and 2016 due to implementation of active management programme

## CONSERVATIVE REFURBISHMENT FOCUSED ON TENANT ENGAGEMENT & WELLBEING: 33 GLASSHOUSE STREET

33 Glasshouse Street is a prime asset occupying an enviable position, dominating a corner block on Regent Street. The property extends to 25,597 sq. ft. of office space and 28,198 sq. ft. of retail space at ground, first, and second floor levels pre-refurbishment.

During the due diligence process, the property was identified as having 'Regent Street disease', which was understood to require remediation immediately post purchase. The challenge was to ensure that the major structural issues identified at purchase were fully addressed, with consideration made to the building's fully-occupied status and frontage on to one of the UK's busiest retail streets. A conservative repair philosophy was therefore adopted, in accordance with Historic England best practice guidance, and was successfully implemented.

Coordination of the tenants and the works in liaison with the appointed Project Manager, Workman, was key. Throughout this the property manager JLL worked closely with the Project Manager to ensure flow of information to the remaining retail tenant and manage their expectations. JLL hosted frequent and regular meetings with tenants and the scheme Project Manager, coordinating the communication of the phasing and progress of the works. Through a proactive occupier engagement programme, the necessity for the works was clearly demonstrated, and agreement for its funding satisfactorily agreed between all parties.



The overall project has taken a strategically-located flagship asset with huge commercial potential from purchase through to office refurbishment, with additional potential now to be realised. As an outcome, it has delivered a significant financial advantage for the Hermes Central London Limited Partnership fund. A superb office scheme has been delivered with a high standard of management and health and safety in spite of the challenges in place. JLL facilitated a very successful building launch, which occurred immediately after partial completion (PC) of the office scheme.

Following the refurbishment, the offices have achieved an EPC rating of B and a BREEAM rating of very good. The sustainability elements of the refurbishment included:

- Listed Building Consents and Planning Approvals and The Crown Estate head landlord approvals secured;
- Effective engagement with stakeholders: The Crown Estate, Regent Street Management, tenants, adjoining occupiers, building owners, members of the public;
- Installation of new double-glazed windows for improved thermal and acoustic performance, whilst retaining the special architectural and historic interest in the building;
- Replacement of inefficient radiators and comfort cooling, and installation of new building services including high-efficiency VRF system with underfloor air distribution and heat recovery;
- New high-efficiency boilers and domestic hot-and-cold-water services incorporating energy saving;
- New energy-efficient lighting system with intelligent controls combined with daylight/PIR sensors;
- New electrical infrastructure with energy and utility meter monitoring via the BMS;

- Provision of roof terrace with green space to provide an ecological outside amenity space;
- Provision of showering facilities and lockers on all floors promoting a green commute;
- Responsible sourcing of materials; Recycling of construction and operational waste;
- Hybrid procurement route to achieve risk management and service charge recharging objectives.

As part of the active management programme of the newly refurbished building, the Collaborative Asset Performance Programme (CAPP) has been installed at 33 Glasshouse Street to ensure that new plant equipment is baselined. A thorough assessment of plant equipment operating in the vacant space provides a unique opportunity to understand the minimum levels of energy required to operate. This will allow the building manager to minimise energy waste once the building is fully let and operational.

Hermes has also commissioned a RESET certification. RESET is the first building standard that assesses the health performance of an indoor area. This certification demonstrates a commitment to health and wellbeing, ensuring that air quality within the office space is of a high standard – this is particularly important to tenants working on Regent Street.

**RESET** air quality health  
and well being  
certification

## PARADISE REGENERATION SCHEME IN BIRMINGHAM, ARGENT



The transformative regeneration of the former Paradise Circus site focuses on 1.8 million sq ft of space at Birmingham's heart representing one of the biggest development schemes Birmingham has seen for a generation. With the first phase already underway, when

completed, the £700 million scheme, will deliver a dynamic mixed use development comprising commercial retail, leisure and hotel space, driving significant economic benefits to surrounding business and the city as a whole.

An emphasis on sustainability runs through the very heart of the project, at each and every stage; from the sensitive design that merges heritage and modern, through careful connectivity planning putting the pedestrian at the scheme's heart, to the methodical approach to redeveloping this incredibly complex scheme.

By the very nature of the site, which was once home to the Library of Birmingham together with leisure and retail facilities in Paradise Forum, careful demolition has been required to remove the original buildings. 60,000 tonnes of concrete building waste and earth has been removed from the site since demolition started in spring 2015, and 100% of this waste has been recycled, whilst a significant proportion of original stone has been used within the foundations of the new buildings.

Community building and place-making continue to be central to the approach at Paradise as we share the story of the development's dramatic transformation. At the heart of any place-making exercise are the people we engage with. Throughout the project, we have delivered regular site talks during demolition, conducted tours with members of the public including young construction fanatic, Oscar, as well as engaging with people who have a shared history in the scheme – even renovating an old bench from Paradise Forum on which a local man proposed to his girlfriend – it was subsequently presented to his new wife at their wedding.

As momentum builds and the development takes shape we have also led a number of engagement programmes in the city centre as part of our CSR commitments, including a schools education programme, Make the Grade, and sponsorship of both a bear and a local primary school as part of Birmingham Children's Hospital Charity's highly anticipated Big Sleuth 2017 trail of bears across the city.

**1.8m** sq ft of space at Birmingham's heart representing one of the biggest development schemes Birmingham has seen for a generation



## SUSTAINABLE PLACE MAKING AT WELLINGTON PLACE LEEDS, MEPC



Wellington Place is perfectly located with exceptional transport links, offering flexible office accommodation, outstanding amenities and green spaces. The landscaping of the built environment and the grassed open spaces of the site represent a stunning use of land in the centre of Leeds.

2016 saw the completion of 5 Wellington Place (75,000 sq. ft.– completed July 2016) and 6 Wellington Place (106,000 sq. ft.– completed in January 2016), together with Tower Square and the wide boulevards to match demand of Grade A office space in Leeds.

Community engagement is an integral part of Wellington Place's efforts to bring together business and the local community to form long-lasting and meaningful connections. The ongoing initiatives and events, together with the biodiverse public spaces, directly benefit the community and the companies onsite by helping them to attract and retain a healthy, happy work force, thereby assisting in the creation of a sustainable local economy.

The newly constructed 5 & 6 Wellington Place buildings have been key to this engagement. The surrounding public square and open spaces showcase MEPC Limited's commitment to sustainable development, meeting the needs for economic development while minimising impact on the environment. The market responded and clearly showed the demand for sustainable place, with 6 Wellington Place fully let within three months of practical completion and Building 5 partially let with serious interest in the remaining space.

The range of community and environmental initiatives delivered at the site has led to the asset being a nominee for the Hermes RPI award for Best RPI Refurbishment and Community Initiatives 2016. The key objectives of this development were delivered:

A new occupier communication meeting has been launched, a wellbeing week implemented, and a charity summer barbecue held with 1500 attendees;

- Construction Skills Certification Scheme (CSCS) and Prefabricated Access Suppliers' and Manufacturers' Association (PASMA) training were delivered at training centres across the region;
- Certified BREEAM Excellent with a score of 73.1%; High energy performance achieved through the Energy Action Plan, B rated EPC;
- Water use on site has been minimised, resulting in 55.5% reduction in water use compared to baseline;
- The waste management plan led the contractor to minimise waste to exemplary levels, with 3.88t/100m<sup>2</sup> of waste being generated, and 92.8% of waste being diverted from landfill;
- Soft landing with extensive commissioning, including air pressure tests and thermographic surveys, seasonal commissioning and aftercare support with detailed handover documentation;
- Consideration of the risks businesses which fail to either adopt or adapt to automation could face;
- Stunning public square and open boulevards with biodiverse planting, adding to the community and outside space for community events.

**1500** attendees to charity  
summer barbecue

## Benchmarking Performance against Peers

In monitoring and reporting the impact of our investment initiatives it is also important to assess and compare the relative effectiveness of our programme compared to a peer group of UK real estate investors.

### Principle for Responsible Investment

Hermes Investment Management is a founding member and signatory to the Principles for Responsible Investment (PRI). In 2017 Hermes Investment Management has been awarded an A+ score for its overall strategy and governance. In the property module, that looks at responsible investment implementation during fundraising, pre- and post-investment processes, Hermes Real Estate has scored an A rating, sitting on the top 25% of respondents.



rating of Hermes'  
PRI property module

### GRESB

The GRESB real estate benchmark is an investor-driven organisation, which enables the monitoring, reporting, and assessment of environmental, social and governance (ESG) performance of real assets globally, including real estate portfolios and infrastructure assets.

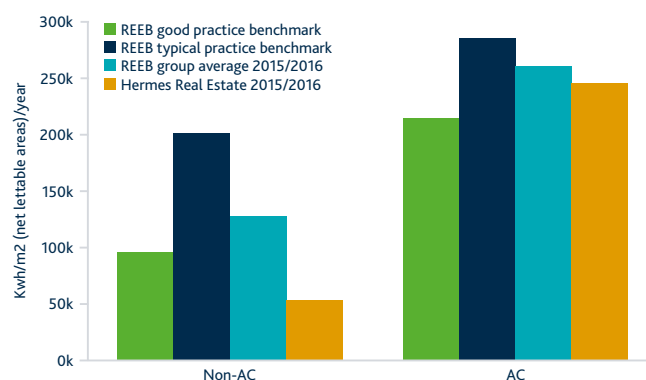
GRESB has 250+ members, of which about 60 are pension funds and their fiduciaries. GRESB has assessed nearly 1,000 property companies and funds, jointly representing more than USD 7.5 trillion in assets under management, as well as almost 200 infrastructure assets and funds, on behalf of close to 60 institutional investors.

Hermes submits GRESB surveys for all its funds annually and reports on its performance to clients, using the survey results as an engagement tool. We review all the GRESB benchmark reports for our international indirectly managed funds and in 2016 we were one of 47 funds globally to submit our debt strategy to GRESB.

### Benchmarking operational performance

Hermes was one of the active contributors to the development and growth of the Better Buildings Partnership Real Estate Environmental Benchmark BBP REEB.

Through the Real Estate Environmental Benchmark (REEB) we are able to analyse the actual energy performance of our assets compared to similar peers in the sector. This adds further granularity to the analysis of our inhouse operational building performance assessment, and of our management approaches. For our office portfolio, we were fifth in the BBP REEB league table in 2016 and our average benchmark was more efficient than the REEB good practice benchmark. The detailed benchmark also enables us to analyse our performance asset by asset and to then concentrate on the lowest performing assets.



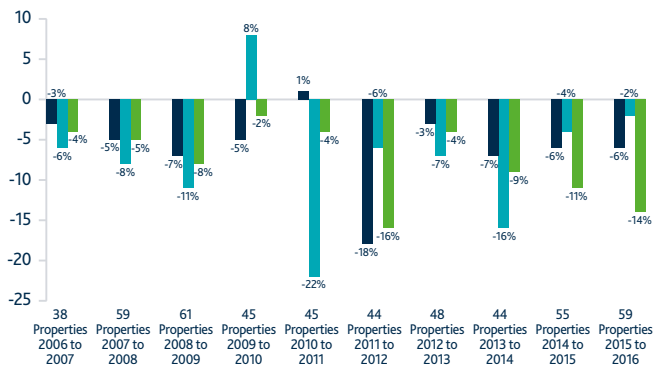
Portfolio energy intensity performance: offices

Fund	2016 score	Peer comparison	Peer group	GREEN STAR
HPUT	76	7th out of 47	United Kingdom/ Diversified / Non-listed	Green Star
BTPS	77	6th out of 47	United Kingdom/ Diversified / Non-listed	Green Star
HCLP	82	5th out of 20	United Kingdom/Office/ Non-listed	Green Star
Centre MK	79	6th out of 16	United Kingdom/Retail/ Non-listed	Green Star
Metro PUT	68	13th out of 47	United Kingdom/ Diversified/Non-listed	Green Star
Debt	60	5th out of 18	Debt Global	Not applicable



## Measuring quantitative environmental performance

Annual change in carbon emissions on a like-for-like basis for eight rolling quarters adjusted for heating degree days (%).



Figures:

10

straight years with like-for-like carbon emissions reductions

↓14%

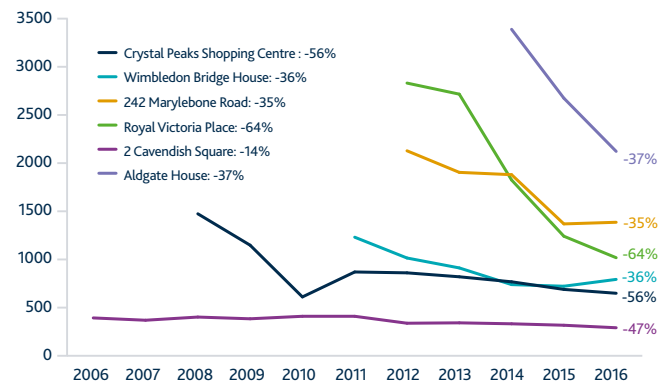
carbon emissions reductions across the like-for-like portfolio

↓8%

average carbon emissions reduction per year over the past 8 years

Since the baseline year in 2006, Hermes' like-for-like portfolio has achieved a reduction in emissions every year, at an average of 8% per year. For 2016, the like-for-like portfolio has seen a 14% reduction in emissions, also explained by an 11% decrease in electricity emissions factor relative to the previous year. While there has been an absolute increase of 5% in natural gas, when normalising for weather based on Heating Degree Days there has been a decrease of 2% on 2015. This shows the continued reductions in consumption due to active energy management across the portfolio and decarbonisation of the energy grid.

Changes in absolute carbon emissions for selected case studies of landlord-controlled properties across the portfolio that have delivered efficiency savings between 2006 and 2016 (tonnes CO<sub>2</sub>e/year). Percentage figures below compare 2016 with the acquisition year.



Figures:

6

case study buildings showing successful energy efficiency improvements

↓43%

emissions reductions across these properties since 2012

3,108

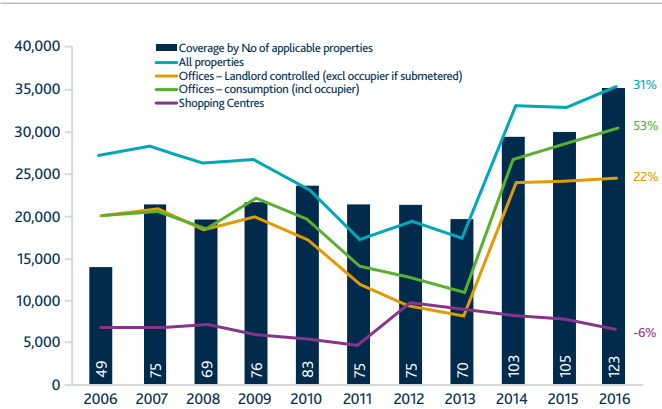
tonnes CO<sub>2</sub>e saved since 2012 due to pro-active energy management

These 6 buildings are a cross section of the varied property types in the Hermes RPM programme that demonstrate the continued success of effectively implementing an active management programme. When these properties were first acquired they were identified as energy-intensive assets. Through engagement with property managers and occupiers, significant reductions in operational demand have been made. For details on how this has been achieved see the case studies section on pgs 19-27.

Since 2012, collectively these properties have exhibited a 43% reduction in emissions, equating to a saving of 3,108 tonnes CO<sub>2</sub>e.

In 2016 the official Defra emissions factor for grid electricity in the UK decreased by 11%, contributing to the decrease of reported emissions for the year.

Changes in absolute carbon emissions (scope 1 and 2) for landlord-controlled standing portfolio between 2006 and 2016 (tonnes CO<sub>2</sub>e/year). Percentage figures below compare 2016 with 2006 baseline.



Figures:

↑ 31%

carbon emissions increase against baseline in offices and shopping centres, largely due to an increase in portfolio size since 2006

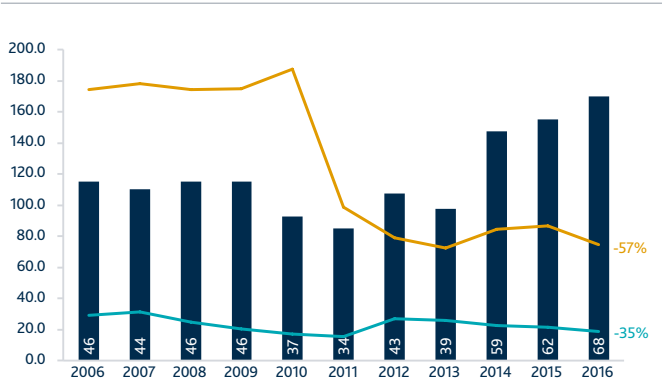
↓ 6%

absolute carbon emissions decrease for shopping centre assets since 2006

The growing number of office properties, 123 in 2016 compared to 49 in 2006, in our various portfolios explains the absolute increase in carbon emissions since 2006. The increase of 18 properties in 2016 compared to 2015 is due in part by number of office acquisitions, including South Bank Central, One America Square, Fleets Corner and Fareham Reach, contributing to 14% of the portfolio by emissions in 2016, partially offset by the sale of a number of high consuming properties, and in part a proportion of sites with no landlord supplies coming back into Hermes responsibility during the year, such as Capital House Edinburgh and Midpoint.

We have delivered reduced carbon emissions in our shopping centre assets following active property management (see the case studies section pg21 for more details). Offices account for 66% of overall portfolio emissions, compared with 24% for shopping centres. Other retail and industrial assets account for 10% of overall portfolio emissions.

Changes in carbon emissions intensity for like-for-like portfolio of shopping centres and offices between 2006 and 2016 (kg CO<sub>2</sub>e/m<sup>2</sup>/year). Percentage figures below compare 2016 with 2006 baseline.



Figures:

↓ 57%

reduction in carbon emissions intensity in offices since 2006

↓ 35%

reduction in carbon emissions intensity in shopping centres since 2006

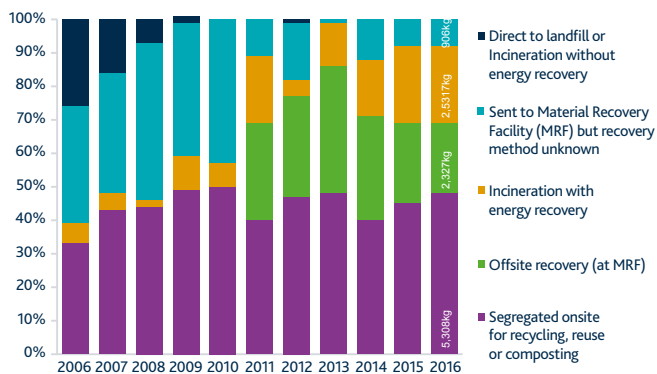
↓ 14%

reduction in carbon emissions intensity in offices (incl. occupier) since 2015

Carbon intensity by lettable floor area is an important metric to monitor the progress made in sustainable lettings across the portfolio. 2016 has continued on the same downward trend in intensity for offices and shopping centres, with a 14% year on year reduction. Of the like-for-like portfolio between 2015 and 2016, 75% of the properties have seen a decrease in carbon intensity.

Note: Only assets with a full years' worth of consumption are included in this chart.

The proportion of waste by disposal route for standing portfolio, measuring waste by mass year on year (%). Weight (kg) is presented in 2016.



Figures:

**92%** on-and-off-site waste reuse and recycling and energy recovery

**48%** recycled, reused or composted on site

**21%** recycling off site

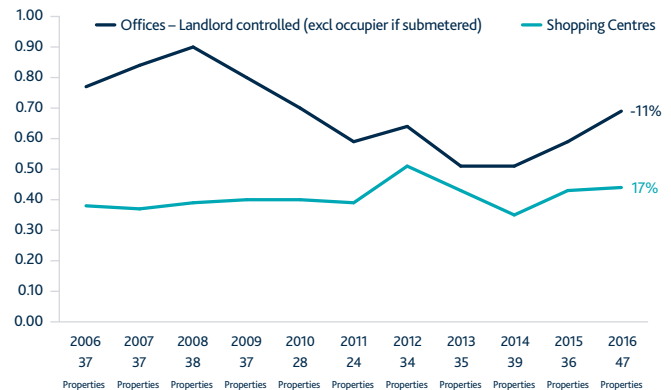
**23%** incineration with energy recovery

On-and-off-site reuse, recycling, and energy recovery was above our 80% target. Moreover, the portfolio has seen a 3% increase in on-site recycling against a 13% increase in absolute waste due to the acquisition of large office and industrial sites. The increase in on-site recycling can be attributed to improvements in asset-specific waste management programmes at the Centre MK and Castle Court Shopping Centre.

Many properties in the portfolio have excellent recycling rates, with over half of their waste being recycled on site with the addition of composting, and the remaining going to Mixed Recycling Facilities (MRF) with a >80% recovery rate.

Waste management programmes continue to improve through tenant and employee engagement and ever-improving data quality.

Changes in water intensity for landlord-controlled like-for-like portfolio between 2006 and 2016 (m<sup>3</sup>/m<sup>2</sup>/year).



Figures:

**↓11%** decrease in water intensity in offices since 2006

**↑17%** increase in water intensity in shopping centres since 2006

Water intensity has seen a yearly consumption intensity increase in both offices and shopping centres from 2015. Shopping centres, in particular, have seen an increase of 17% from the 2006 baseline. It should be considered, though, that water consumption at shopping centres is directly dependent on footfall and tenant type. Christopher Place alone has reported a 38% increase in water consumption against 2015 due to both a recognised increase in footfall of 27% in 2016 (vs 2015) and the addition of a new restaurant tenant contributing significantly to water consumption.

Offices have seen an increase of 16% year on year. This can in part be attributed to changes in occupancy, either due to tenant changes or refurbishment. 242 Marylebone and Baskerville are two high-consuming properties which have exhibited a large increase in intensity due to these reasons.

Individual properties have continued to reduce water consumption thanks to active management, with Abbey Gardens improving consumption by 32% on 2014.

## GRI G4 materiality assessment

### G4 General Standard Disclosures

Indicator	Include?	Description	Reporting Boundary	Page	Section
<b>STRATEGY AND ANALYSIS</b>					
G4-1	Yes (Mandatory)	Statement from the most senior decision-maker about the relevance of sustainability	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-2	Yes (Mandatory)	Description of key impacts, risks and opportunities	Portfolio Wide	2	Report Coverage
<b>ORGANISATIONAL PROFILE</b>					
G4-3	Yes (Mandatory)	Name of the organisation	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-4	Yes (Mandatory)	Primary brands, products and services	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-5	Yes (Mandatory)	Location of the organisation's headquarters	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-6	Yes (Mandatory)	Countries in which the organisation operates	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-7	Yes (Mandatory)	Nature of ownership and legal form	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-8	Yes (Mandatory)	Markets served	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-9	Yes (Mandatory)	Scale of the organisation	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-10	Yes (Mandatory)	Employment profile	Portfolio Wide		Not reported
G4-11	Yes (Mandatory)	Percentage of total employees covered by collective bargaining agreements	Portfolio Wide		0%
G4-12	Yes (Mandatory)	Description of the supply chain	Portfolio Wide	2	Report Coverage
G4-13	Yes (Mandatory)	Significant changes during the reporting period	Portfolio Wide	2	Report Coverage
G4-14	Yes (Mandatory)	Report whether and how the precautionary approach or principle is addressed	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-15	Yes (Mandatory)	Externally developed economic, environmental and social principles that are supported	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-16	Yes (Mandatory)	Memberships of associations and national or international advocacy organisations	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
<b>IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES</b>					
G4-17	Yes (Mandatory)	Entities included and excluded in the consolidated financial statements	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-18	Yes (Mandatory)	Process for defining the report content and the aspect boundaries	Portfolio Wide	2	Report Coverage
G4-19	Yes (Mandatory)	Material aspects identified in the process for defining report content	Portfolio Wide	2	Report Coverage
G4-20	Yes (Mandatory)	Material aspects and boundaries within the organisation	Portfolio Wide	2	Report Coverage
G4-21	Yes (Mandatory)	Material aspects and boundaries outside the organisation	Portfolio Wide	2	Report Coverage
G4-22	Yes (Mandatory)	Any restatements of information provided in previous reports	Portfolio Wide		No restatements
G4-23	Yes (Mandatory)	Significant changes from previous reporting periods in the scope and Aspect Boundaries	Portfolio Wide	2	Report Coverage
<b>STAKEHOLDER ENGAGEMENT</b>					
G4-24	Yes (Mandatory)	Stakeholder groups engaged	Directly Managed Portfolio	9-14	Advocacy: Improving the Pricing of Risks
G4-25	Yes (Mandatory)	Basis for identification and selection of stakeholders with whom to engage	Directly Managed Portfolio	2	Report Coverage
G4-26	Yes (Mandatory)	Approach to stakeholder engagement	Directly Managed Portfolio	2	Report Coverage
G4-27	Yes (Mandatory)	Key topics and concerns that have been raised	Directly Managed Portfolio	9-14 15-16	Advocacy: Improving the Pricing of Risks, Positive Impact Investing: How to Apply it to Real Estate
<b>REPORT PROFILE</b>					
G4-28	Yes (Mandatory)	Reporting period for information provided	Portfolio Wide	2	Report Coverage
G4-29	Yes (Mandatory)	Date of most recent previous report	Portfolio Wide	2	Report Coverage
G4-30	Yes (Mandatory)	Reporting cycle	Portfolio Wide	2	Report Coverage
G4-31	Yes (Mandatory)	Contact point for questions regarding the report or its contents	Portfolio Wide	2	Hermes Report Website: <a href="http://www.hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/">www.hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/</a>
G4-32	Yes (Mandatory)	The 'in accordance' option the organisation has chosen and reference to the External Assurance Report	Portfolio Wide	35	
G4-33	Yes (Mandatory)	Policy and current practice with regard to seeking external assurance for the report	Portfolio Wide	2	Report Coverage
<b>GOVERNANCE</b>					
G4-34	Yes (Mandatory)	Governance structure of the organisation	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-35	Yes (Optional)	Process for delegating responsibility for economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-36	Yes (Optional)	Whether an executive-level position has responsibility for economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-37	Yes (Optional)	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-38	Yes (Optional)	Composition of the highest governance body and its committees	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-39	Yes (Optional)	Whether the chair of the highest governance body is also an executive officer	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
<b>STRATEGY AND ANALYSIS continued</b>					
G4-41	Yes (Optional)	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance

## GRI G4 materiality assessment

### G4 General Standard Disclosures

Indicator	Include?	Description	Reporting Boundary	Page	Section
G4-42	Yes (Optional)	Report the highest governance body's and senior executives' roles	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-43	Yes (Optional)	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-44	Yes (Optional)	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-45	Yes (Optional)	Highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-46	Yes (Optional)	Highest governance body's role in reviewing the effectiveness of the organisation's risk-management processes for economic, environmental and social topics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-47	Yes (Optional)	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-48	Yes (Optional)	Highest committee or position that formally reviews and approves the organisation's sustainability report, and ensures that all material aspects are covered	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance

### ETHICS AND INTEGRITY

G4-56	Yes (Mandatory)	Describe the organisation's values, principles, standards and norms of behaviour, such as codes of conduct and ethics	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
-------	-----------------	---	----------------	-----	--

### Specific Standard Disclosures

#### DISCLOSURES ON MANAGEMENT APPROACH

G4-DMA	Yes	Management Approach	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
--------	-----	---------------------	----------------	-----	--

#### CATEGORY: ECONOMIC

G4-EC1	Yes	Direct economic value generated and distributed	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance
G4-EC2	Yes	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Portfolio Wide	9-14 15-17	Advocacy: Improving the pricing of risks, Positive Impact Investing: How to Apply it to Real Estate
G4-EC7	Yes	Development and impact of infrastructure investments and services supported	Portfolio Wide	9-14 15-27	Advocacy: Improving the pricing of risks, Positive Impact Investing: How to Apply it to Real Estate
G4-EC8	Yes	Significant indirect economic impacts, including the extent of impacts	Portfolio Wide	4-8	Who we are: Outcome Beyond Performance, Advocacy: Improving the pricing of risks,

#### CATEGORY: ENVIRONMENTAL

G4-EN1		Materials used by weight or volume	Directly Managed Portfolio		Not recorded
G4-EN2		Percentage of materials used that are recycled input materials	Directly Managed Portfolio		Not recorded
G4-EN3	Yes	Energy consumption within the organisation	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN4	Yes	Energy consumption outside the organisation	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN5	Yes	Energy intensity	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN6	Yes	Reduction of energy consumption	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN8	Yes	Total water withdrawal by source	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN11	Yes	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Directly Managed Portfolio		No such areas identified in portfolio
G4-EN12	Yes	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Directly Managed Portfolio		N/A as per above
G4-EN13	Yes	Habitats protected or restored	Directly Managed Portfolio		Not measured
G4-EN15	Yes	Direct greenhouse gas (GHG) emissions (Scope 1)	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN16	Yes	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN23	Yes	Total weight of waste by type and disposal method	Directly Managed Portfolio	29-31	Measuring Qualitative Environmental Performance
G4-EN32	Yes	Percentage of new suppliers that were screened using environmental criteria	Portfolio Wide	2	Report Coverage
G4-EN33	Yes	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Portfolio Wide	2	Report Coverage

#### CATEGORY: SOCIAL – LABOUR PRACTICES AND DECENT WORK

G4-LA5	Yes	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Portfolio Wide		100%
G4-LA6	Yes	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Portfolio Wide		lost day rate: 2.21 per year per employee average; absentee rate (exc Long Term Sickness): 0.85%
G4-LA9	Yes	Average hours of training per year per employee by gender, and by employee category	Portfolio Wide		Not available
G4-LA14	Yes	Percentage of new suppliers that were screened using labor practices criteria	Portfolio Wide		None
G4-LA15	Yes	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	Portfolio Wide		None
G4-LA16	Yes	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Portfolio Wide		None

#### CATEGORY: SOCIAL – HUMAN RIGHTS

G4-HR10	Yes	Percentage of new suppliers that were screened using human rights criteria	Portfolio Wide	2	Report Coverage
---------	-----	--	----------------	---	-----------------

#### CATEGORY: SOCIAL – SOCIETY

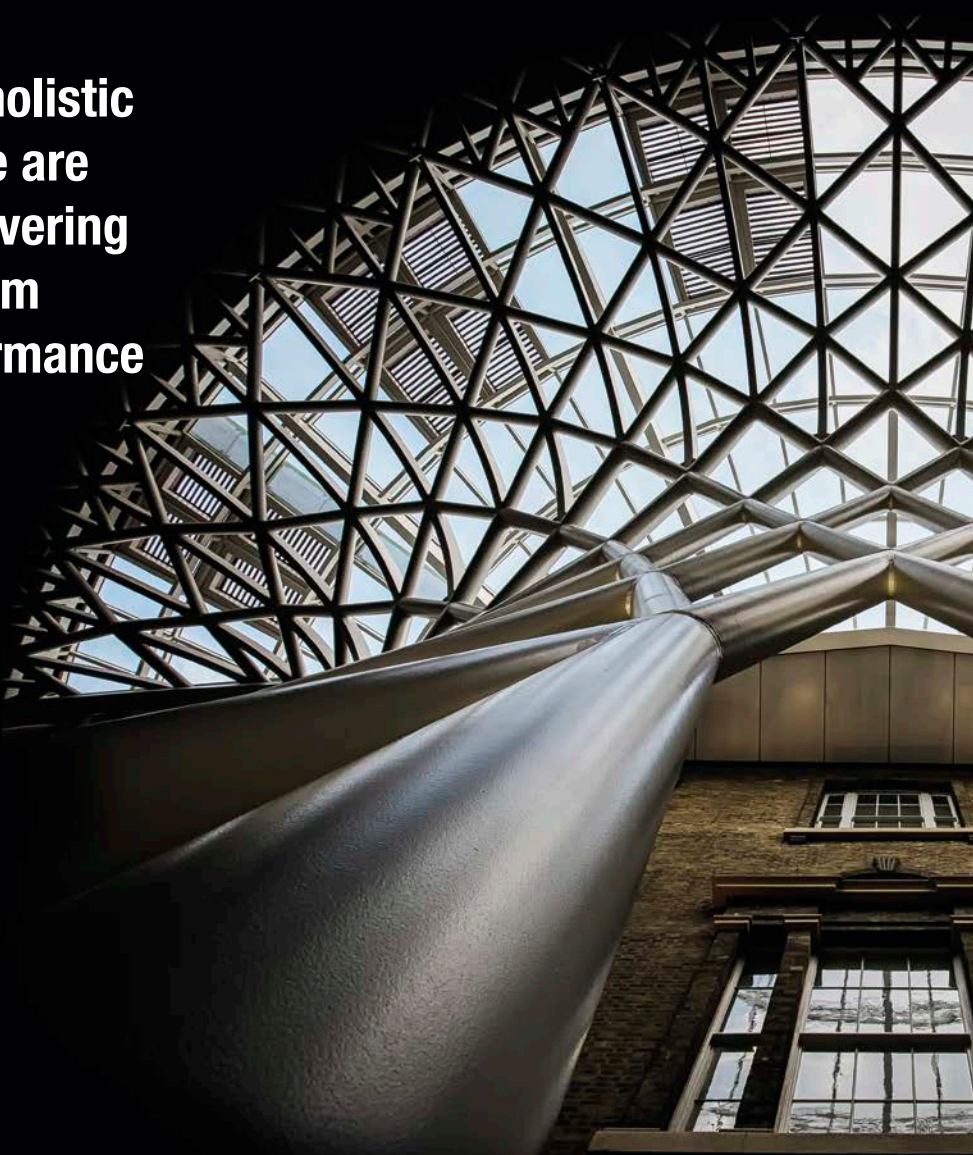


GRI G4 materiality assessment

G4 General Standard Disclosures

Indicator	Include?	Description	Reporting Boundary	Page	Section
G4-SO2	Yes	Operations with significant actual and potential negative impacts on local communities	Portfolio Wide	15-27	Positive Impact Investing: How to Apply it to Real Estate
G4-SO9	Yes	Percentage of new suppliers that were screened using criteria for impacts on society	Portfolio Wide	2	Report Coverage
G4-SO10	Yes	Significant actual and potential negative impacts on society in the supply chain and actions taken	Portfolio Wide	2	Report Coverage

**Our approach to holistic returns means we are committed to delivering excellent long-term investment performance and stewardship, while improving the lives of many.**





**CarbonNeutral.com**

Hermes Investment Management has offset its operational carbon emissions by working with Trees for Cities. For every one tonne of GHG emissions that Hermes Investment Management generates from its day-to-day operations and its business travel, it purchases verified carbon offset from Trees for Cities, which guarantees an equivalent amount of GHG emissions is reduced from the atmosphere. The offsets have been generated by planting 3,159 trees in the open meadow known as Marnham Fields in Greenford owned by Ealing council.

#### GRI G4 guidelines

This report has been prepared in accordance with, and aligned to the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines at the Core level. A detailed GRI index for material indicators is provided on pg 32-34

#### Advisor Statement

Hermes Responsible Property Investment programme was supported by Carbon Credentials in 2016-17. As in previous years, Carbon Credentials collated, validated and reported the RPI sustainability performance data and property characteristics for 2016. Carbon Credentials' independent audit team have verified to ISO 16064-3 standard the greenhouse gas emissions and energy and water data presented within this report.

Carbon Credentials has supported the continuing maturity of the RPI programme as it refines its structure and ambition to ensure greatest value along the investment process. To enable a high functioning RPI programme, clarity on the strategy and policy underpinning the programme is paramount. The RPI programme has continued to effectively disseminate this information along the supply chain whilst also providing a feedback loop to increase access of performance information at management level. This feedback loop ensures fund and asset managers are well equipped to make informed decisions by providing information to management that it is enriched with greater context and more valuable insight. This process also enables action to be taken at an asset level resulting in demonstrable energy savings at an individual site basis.

This year has seen a significant increase in large consuming assets being included into the portfolio. Whilst this has led to an overall absolute increase in energy consumption, the structure and success of the RPI programme means that there is high potential for energy and management improvements at each of these sites.

Joe Pigott, Senior Consultant, Carbon Credentials

**This document is for Professional Investors.** Any investment products referred to in this document are only available to such clients. Investing with Hermes may be restricted in other countries and as such, any person who receives this document is required to make themselves aware of their respective jurisdictions and observe any restrictions.

This document does not constitute a solicitation or offer to any person to buy or sell any related securities or financial instruments; nor does it constitute an offer to purchase securities to any person in the United States or to any U.S. Person as such term is defined under the US Securities Exchange Act of 1933. It pays no regard to the investment objectives or financial needs of any recipient. No action should be taken or omitted to be taken based on this document. Tax treatment depends on personal circumstances and may change. This document is not advice on legal, taxation or investment matters so investors must rely on their own examination of such matters or seek advice. Before making any investment (new or continuous), please consult a professional and/or investment adviser as to its suitability.

The Hermes Property Unit Trust ("HPUT") is constituted by an amended and restated trust deed between the Appointments Committee, the Trust Manager and the Trustee. The Trust Manager, Hermes Alternative Investment Management Limited ("HAIML"), is the legal operator of HPUT. It is authorised and regulated by the Financial Conduct Authority and has been appointed by the Appointments Committee to undertake all portfolio and risk management activities. The Trust Manager has formed a special committee, known as the HPUT Committee, through which it considers certain matters on behalf of Unit Holders. Each of the members of the HPUT Committee is a member of the Appointments Committee. Each person is Financial Conduct Authority approved in respect of the activities they perform through the HPUT Committee. The Trust Manager delegates certain of its property portfolio activities to Hermes Real Estate Investment Management Limited. HPUT is only available to UK investors and the information is provided to demonstrate Hermes' track record.

**Any opinions expressed may change. The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed. Property is an illiquid investment and may result in deferment of redemption of units. The value of the property is a matter of a valuer's opinion rather than fact.** All figures, unless otherwise indicated, are sourced from Hermes. For more information please read any relevant Offering Documents or contact Hermes.

Issued and approved by Hermes Investment Management Limited ("HIML") which is authorised and regulated by the Financial Conduct Authority. Registered address: Lloyds Chambers, 1 Portsoken Street, London E1 8HZ. HIML and HAIML currently carry out regulated activities associated with Hermes Real Estate Investment Management Limited ("HREIML"). HIML is a registered investment adviser with the United States Securities and Exchange Commission ("SEC"). Telephone calls may be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation will not be available under the United Kingdom Financial Services Compensation Scheme.

## HERMES INVESTMENT MANAGEMENT

We are an asset manager with a difference. We believe that, while our primary purpose is to help savers and beneficiaries by providing world class active investment management and stewardship services, our role goes further. We believe we have a duty to deliver holistic returns – outcomes for our clients that go far beyond the financial – and consider the impact our decisions have on society, the environment and the wider world.

Our goal is to help people invest better, retire better and create a better society for all.

### Our investment solutions include:

#### Private markets

Infrastructure, Private Debt, Private Equity, Commercial and residential real estate

#### High active share equities

Asia, global emerging markets, Europe, US, global, and small and mid cap

#### Credit

Absolute return, global high yield, multi strategy, global investment grade, real estate debt and direct lending

#### Multi asset

Multi asset inflation

#### Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

### Offices

London | New York | Singapore

### Why Hermes Real Estate?

Hermes Real Estate is one of the largest real estate investment managers in the UK, with over £7.9bn Gross Asset Value (GAV)<sup>1</sup> of assets under management in both UK and International portfolios. It offers client-focused, property investment solutions through segregated and pooled structures.

<sup>1</sup> Hermes Real Estate as at 31 March 2017

### Contact information



#### Business Development

<b>United Kingdom</b>	+44 (0)20 7680 2121	<b>Africa</b>	+44 (0)20 7680 2205	<b>Asia Pacific</b>	+65 6850 0670
<b>Australia</b>	+44 (0)20 7680 2121	<b>Canada</b>	+44 (0)20 7680 2205	<b>Europe</b>	+44 (0)20 7680 2121
<b>Middle East</b>	+44 (0)20 7680 2205	<b>United States</b>	+44 (0)20 7680 2205		

Enquiries [marketing@hermes-investment.com](mailto:marketing@hermes-investment.com)