



OUTCOMES  
BEYOND  
PERFORMANCE

# IMPACTFUL FRAMEWORK

## A new structuring principle

2019 Responsible Property Investment report


Hermes Real Estate  
September 2019

For professional investors only

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



**HERMES**  
INVESTMENT MANAGEMENT



## Report coverage, material aspects and boundaries

The Hermes Real Estate 2019 Responsible Property Investment (RPI) report describes how we integrate responsible investing within our portfolio, covering governance, strategy and management.

In particular, the report highlights operational areas that have a material impact on the business activities of both Hermes Real Estate and our stakeholders – as assessed by the Head of RPI along with the Director of Sustainability. The Director of RPI and the RPI steering group further review the materiality assessment.

We have made no significant changes to the scope of the materiality assessment since publishing the last annual RPI report in December 2018.

As well as providing a range of key performance indicators (KPIs), the report adopts a narrative approach to illustrate how Hermes weaves responsible investment into strategy, risk assessment and management across our entire global property portfolio. The narratives span both directly managed property and indirectly held assets in our UK and offshore real-estate portfolios from July 2018 to October 2019.

Furthermore, we rely on the Global Real Estate Sustainability Benchmark (GRESB) survey responses to garner an independent view of the responsible investment performance of our indirectly held property assets, using the resource to both monitor and engage with the relevant parties.

For our directly managed UK assets we also report environmental and social KPIs based on data collected from January 2006 to December 2018.

Collectively, the quantitative KPIs and detailed narratives offer unique insights into how our responsible investment approach has created positive results both for investors and as measured against broader sustainability goals.

This report also details our active engagement approach on responsible investment with all stakeholders, including:

- upstream – the asset owners we manage money on behalf of;
- downstream – the subcontractors we appoint through direct service agreements; and,
- occupants – the individuals, communities and businesses that live and work in properties we have ownership interests in.

For example, we screen all our new suppliers in the UK across environmental, social, human rights and modern slavery criteria. To date, those efforts have shown no evidence of potential social harm in our directly controlled supply chain.

At the same time, we are working strenuously to mitigate and limit the impact of any negative environmental side effects produced by our activities. We also specifically target programmes that demonstrably improve social conditions for our tenants and surrounding communities.

Finally, we are making efforts to lift the overall responsible investment performance of the property sector by engaging with European and UK policymakers as well as key real estate and financial industry organisations.

For more details on our RPI programme, please visit:

<https://www.Hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/>



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## SECTION 1

## WHO WE ARE

Outcomes beyond performance



■ We are an asset manager with a difference, seeking to deliver holistic returns and outcomes for our clients that go beyond the purely financial. We consider the positive impact that our investment decisions can have on society and the wider environment and each year seek to advance our holistic approach to real-estate investment and delivering sustainable returns. Today, we are harnessing the rewards for the adoption of our impactful intent framework, which has been applied across eight major urban-regeneration schemes across the UK, spanning a total of 19m square feet and commanding an estimated end capital value of £13bn. With this framework we can measure, and therefore sustainably manage, our impactful approach to delivering positive societal and environmental externalities as well as attractive financial returns. There exists an exciting opportunity to engender a sense of civic pride in these major conurbations and we aim to create great and accessible places, world-class infrastructure and a tangible link to the past through heritage buildings and culture. Ultimately, we want to create a platform for the 'meaningful city' and a sense of belonging for the citizens living beyond the immediate estate boundaries. ■■

Chris Taylor, Head Private Markets and CEO Real Estate at Hermes Investment Management

## Hermes Investment Management

## KEY FACTS

£34.1bn

assets under management (AUM).  
We invest in a broad range of asset classes, from equities and fixed income to real estate.<sup>1</sup>

£451bn

assets under stewardship. In Hermes EOS, our stewardship team, we have one of the industry's leading engagement resources, advising on £451bn of assets.

216

investment and stewardship professionals.

<sup>1</sup>The total AUM figure includes \$8.1bn / £6.2bn / €7.2bn 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. \$30.4m / £23.4m / €27.1m of the group's total AUM represents HFM mandates under advice. Source: Hermes as at 31 March 2019.

## Hermes Real Estate KEY FACTS



### Hermes Real Estate: value proposition

- We have an award-winning investment team that works with an exceptional asset-management team in conjunction with specialist development operators MEPC and Argent to deliver outstanding performance.
- We provide exemplary client services to more than 120 institutional clients – including the BT Pension Scheme (BTPS), AustralianSuper and the Canada Pension Plan Investment Board (CPPIB) – across a range of investment solutions.
- Our size and structure allows us to be flexible in executing investment strategy and responsive to our clients, while working within best-in-class governance frameworks.
- Our investment style seeks to anticipate market cycles as well as structural themes affecting occupational demand, such as technology, urbanisation, demographic and lifestyle changes and climate risk.
- As a recognised leader in developing RPI, our focus goes beyond investment management and embraces environmental, social and governance (ESG) principles.
- Since 2008, we have integrated RPI across our investment and asset-management processes, including: investment, development, property management and occupier and community engagement.
- Through sector engagement and public-policy advocacy, we continuously work with the real-estate industry to support the positive transformation of the market, by aiming to further best practice and challenging established views.

### Hermes Real Estate manages a range of investment solutions for our clients.

#### Our roles include:

- Fund manager – responsible for performance at a fund level, including investment transactions, portfolio management, governance and regulatory oversight and risk management.

- Asset manager – responsible for performance at a property level, including property strategy, tenant-leasing transactions and managing capital-expenditure programmes.
- Development manager – working with communities and the public sector to deliver new buildings and great places.

### Our RPI governance structure and procedures

- Principles: the precautionary principle and a materiality based assessment of risks and opportunities are being used as defining principles in the definition of our RPI programme.
- Responsibility: an Executive Director of Hermes Real Estate has overall responsibility for matters related to RPI. The Head of Responsible Property Investment is responsible for development, implementation and delivery of the RPI programme.
- Implementation: the Hermes RPI Working Group is responsible for the continuous evolution of RPI strategy and for overseeing its effective implementation. It has responsibility for integrating economic, environmental and social topics across the investment process and reviews risks and opportunities once a year. The Working Group is chaired by a Hermes Real Estate Investment Management (HREIM) Executive Director and consists of representatives from each of the Hermes Real Estate business. The Working Group meets once a year. The head of RPI formally reviews and approves the organisation's sustainability report, and ensures that all material aspects are covered.
- Monitoring: the Hermes Responsibility Committee oversees and monitors the performance of the RPI programme. It has responsibility for ensuring conflicts of interest are avoided and managed. The Responsibility Committee is chaired by a Hermes Executive Director. The committee meets every quarter.
- Training: all employees working on the Hermes Investment Management Limited / HREIM account are to be suitably aware and trained as appropriate to deliver the relevant RPI programme requirements.
- Performance targets: each investment professional has specific responsibility behaviour objectives in their annual performance objectives.

<sup>1</sup> As at 31 March 2019.

## Real estate current mandates<sup>2</sup>

Hermes Real Estate manages segregated mandates, pooled funds and joint ventures for a range of institutional clients across asset classes in the UK and international markets.

### Selected examples

<b>Pooled fund</b>	<b>Hermes Property Unit Trust (HPUT)</b>	Unauthorised, tax exempt, open-ended property unit trust Clients: more than 110 UK institutional clients, including local authorities, corporate pension funds and charities GAV: more than £1.5bn Hermes' role: fund and asset manager Property sectors: office, retail, industrial, leisure and others Geography: pan-UK Performance: 8.4% return a year on average since its inception in January 2001 until 31 March 2019, outperforming the MSCI benchmark by 1.9% a year
<b>Segregated mandate</b>	<b>Global Real Estate Mandate</b>	Client: UK pension scheme GAV: more than £5bn Hermes' role: fund and asset manager Property sectors: office, retail, industrial and residential Geography: international Performance: 13.5% return a year on average from its inception until 31 March 2019, outperforming the MSCI benchmark by 1.2% a year
<b>Joint venture</b>	<b>Hermes Central London</b>	Clients: CPPIB and the BTPS GAV: more than £500m Hermes' role: fund and asset manager Property sectors: office Geography: city-specific Performance: 15.3% return a year on average from inception to 30 September 2018, outperforming the MSCI benchmark by 2% a year

### All current mandates

<b>Segregated mandates</b>	UK pension scheme – global mandate, GAV £5bn	Multi sector
	• UK, GAV <£3.5bn	Pan-UK commercial multi sector
	• International, GAV >£1bn	International commercial multi asset
	• UK senior debt, GAV <£500m	Senior debt
<b>Funds</b>	Hermes Property Unit Trust, GAV >£1.5bn	Pan-UK commercial multi asset
	Metro Property Unit Trust, GAV >£300m	Pan-UK commercial multi asset
<b>Joint ventures</b>	Central London Partnership, GAV <£500m	Offices
	Paradise Circus, Birmingham, gross development value (GDV) £800m	Regeneration
	Wellington Place, Leeds, GDV of £500m	Regeneration
	Milton Park, Oxfordshire, GAV >£500m	Life sciences business park
	Centre:MK, Milton Keynes, GAV >£500m	Retail
<b>Further strategies</b>	Silverstone, Northamptonshire, GDV of £500m	Innovation business park
	NOMA, Manchester, GDV £800m	Regeneration
	UK Regional PRS Assets <£100m	Residential
	King's Cross, London, GDV £2.2bn	Regeneration

<sup>3</sup> As at 31 March 2019 (unless specified otherwise).

## Awards



### Professional Pensions UK Pensions Awards: Hermes won ESG Manager of the Year and Property Manager of the Year.

These achievements were based on the excellence we have demonstrated over the past 12 months, highlighting our integration of ESG across property sectors, our alignment to the Sustainable Development Goals (SDGs) and our commitment to delivering outcomes beyond performance.

Hermes was recognised for the successful regeneration of the Hanover Building in Manchester with three prestigious awards:

**The Refurbished/Recycled Workplace Award, at the British Council for Offices Northern Awards**

**Building Conservation Award at the RICS Awards, North West**

**Development of the Year Award at the Insider Awards, North West**

## Financial performance

# KEY FACTS<sup>4</sup>

**£7.3bn**

AUM, GAV

**£5.5bn**

Exceptionally strong deal flow:  
excess of £5.5bn (GAV) in  
transactions over the last five years

Outperformance generated  
in client mandates<sup>4</sup>

## Hermes UK annualised performance

Figure 1. Hermes UK real-estate strategies: annualised performance

	Blended Hermes UK Return <sup>5</sup>	UK Quarterly All Property <sup>6</sup>	Relative difference
10 year	11.1%	9.8%	1.2%
7 year	11.2%	9.0%	2.0%
5 year	11.4%	9.4%	1.9%
3 year	7.7%	6.3%	1.3%
1 year	5.8%	4.4%	1.3%

- Over one, three, five and seven-year periods, Hermes has outperformance the UK property benchmark
- 10-year performance is impacted by the leverage incurred during the 2008-2011 downturn, which has since been reduced

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. This portfolio contains illiquid assets. Due to the nature of these assets, being typically private, unique and bespoke, these portfolio investments will not be as easily sold in the market as publicly traded securities. Ability to redeem from this investment is limited and may be significantly deferred.

<sup>4</sup> Source: Hermes as at 31 March 2019.

<sup>5</sup> Total returns gross of fees. Includes direct property, indirect investment vehicles, leverage and transaction fees.

<sup>6</sup> Total returns gross of fees. Direct property standing investments only (exclusion of transactions and leverage).



## SECTION 2

# IMPLEMENTING OUR IMPACT FRAMEWORK

## Impactful intent: a new structuring principle for RPI



Just a year on from launching our 'impactful intent' framework, Hermes is already seeing concrete results from the groundbreaking RPI strategy.

As outlined in the 2018 Hermes RPI report, the impact framework provides a new, robust set of structuring principles that guide our real-estate investment practices.

Hermes built the new framework on the back of our previous efforts to develop common definitions, guidelines and assessment methodologies that describe 'impact' for real-estate investors. We also had significant input into the creation of industry-wide impact metrics as chair of the Property Working Group of the United Nations Environment Programme Finance Initiative (UNEP FI) and as a member of the Positive Impact Investment Initiative (PIII).

We designed our impact framework to increase the intentionality, additionality and transparency of our approach to sustainable investment. We believe that investors deserve both high and sustainable financial returns, as well as measurable impact aligned with clear social, economic, fiscal and environmental goals. These are the holistic returns that we aim to deliver. We target positive social and environmental outcomes alongside strong financial returns, thus meeting the sustainable-return requirements of our clients. Indeed, Hermes invests on behalf of many pension funds where the underlying investors depend on strong financial returns to fund their post-retirement incomes.

In our 2018 report, we detailed how the evolved Hermes RPI strategy initially focused on three impactful investment themes:

- Meaningful placemaking;
- Climate and resource efficiency; and,
- Health and wellbeing.

Over the ensuing 12 months, we began translating this impact blueprint into constructive action for each of the investment strategies and unit trusts in the Hermes Real Estate universe.

We aim to map the specific characteristics of each fund or investment mandate against our impactful investment themes.

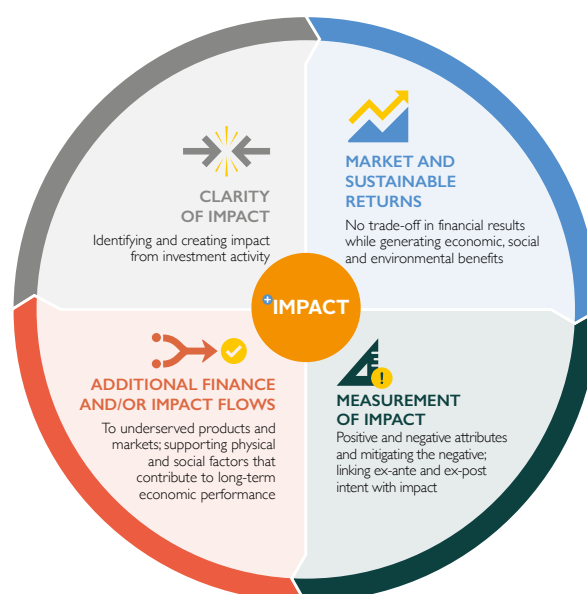
At a broader level, we start with a screening process to identify appropriate overarching socioeconomic and environmental impact targets for our entire portfolio.

The initial screening process gives weight to regional needs and local social and economic contexts, including statistical analysis of health and living standards.

Based on these high-level outcomes – such as employment opportunities, labour-skills development or resource efficiency – we then evaluate these priority themes against the targets underpinning the SDGs.

After ensuring the impact framework is on sound footing, we can then assign specific, measurable targets to each fund or mandate, according to their respective investment strategies. In the four case studies below, we illustrate how the new Hermes framework has played out as intended in real-world projects – delivering material impacts and solid financial returns.

**Figure 1: Positive-impact framework for real estate investment**



Source: 'Positive Impact Real Estate Investment Framework', published by UNEP FI et al in November 2018.



## Future spaces: where meaningful placemaking fits in

As substantial property investors, Hermes can have a significant influence on the future success of the places and spaces where we choose to allocate capital. Indeed, a commitment to meaningful placemaking is a cornerstone of our real-estate investment philosophy, as laid out in the impact framework.

And given most of Hermes' property investment is concentrated in readily accessible urban areas, it follows that how we manage those developments will have a deep and long-lasting effect on the cities where our projects dwell. By our definition, 'meaningful cities' are places that people want to work and live in and which, in turn, foster a sense of civic pride and a sense of belonging among inhabitants.

**Over the last six years, Hermes has undertaken eight large urban-regeneration developments across the UK, spanning a combined 19m square feet and £13bn of capital value.**

Meaningful cities provide the well-functioning backdrop that allows citizens to participate freely in social, economic, leisure and community-based activities. Cities designed around such holistic principles create a virtuous cycle, which flows on to benefits for individuals, communities, businesses and local and regional government authorities, while helping preserve 'natural capital' and ensuring the historic continuity of built environments. In turn, meaningful cities can likely sustain higher economic growth by attracting and retaining talent and capital, which provides a better return on capital for investors: a true win-win.

Over the last six years, Hermes has undertaken eight large urban-regeneration developments across the UK, spanning a combined 19m square feet and £13bn of capital value. The sites provide perfect opportunities to showcase our meaningful placemaking concept in action.



But rather than relying on in-house perceptions, we engaged independent economic researcher Hatch Regeneris in 2018 to provide an objective view on Hermes' placemaking performance.

Hatch Regeneris's series, focused on social and economic stories, detail how our meaningful placemaking efforts have translated in the delivery of social value and economic benefits to local businesses and communities.

To access the report at Wellington Place and NOMA, go to: [www.wellingtonplace.co.uk/community/read-our-economic-and-social-story/](http://www.wellingtonplace.co.uk/community/read-our-economic-and-social-story/) and [www.noma-manchester.com](http://www.noma-manchester.com)



## Benchmarking social outcomes: pilot study

The report has also served as the basis for a pilot-benchmarking study that will throw further light on how the Hermes placemaking process brings positive change at different development phases – including design, construction and occupation – at both individual fund and site levels.

We road-tested our benchmark using the sustainable outcomes measured in the reports for three of our flagship RPI developments: King's Cross in London, NOMA in Manchester and Wellington Place in Leeds. These sites differ significantly in terms of size and overall spend and represent diverse socioeconomic regions of the UK with a wide variance of market prices, rents, risk premia and environmental challenges among the three sites.

The pilot benchmark study aims to normalise social outcomes in order to enable a comparative analysis of the three projects. One way this is done is by including a measure of average wages for each respective region in the analysis.

The quantitative results of our social-performance-outcomes benchmarking is provided on page 22.

From that perspective, we can more accurately measure where we have achieved the highest impact intensity across the targeted social and economic factors. The research also offers an insight into the additionality of the social outcomes we contribute to as an investor in a particular community.

## The pilot benchmarking study has already delivered some surprising results, including the unexpected finding that wage rates at our NOMA site in Manchester are higher than those at King's Cross in London.

Furthermore, benchmarking our impact performance in a consistent manner provides Hermes with a more nuanced view of the day-to-day 'lived experience' of the sites we develop – and consequently we gain a better understanding of how impactful intent actually affects the people who live in, work at and visit our projects.

For instance, the surrounding communities in each of our development sites feature a range of different cultures, age profiles and histories. We believe that our sites should similarly reflect the diverse community contexts in which they operate, ensuring that all stakeholders benefit from the developments.



The pilot benchmarking study has already delivered some surprising results, including the unexpected finding that wage rates at our NOMA site in Manchester are higher than those at King's Cross in London. NOMA employees, in fact, earn a staggering 45% – or roughly £12,000 – more than the average worker in Greater Manchester.

This NOMA 'earnings bonus' might function as a rough proxy for the additionality delivered by Hermes through our tenant selection, engagement and placemaking processes. The result suggests that our activities have helped improve the socioeconomic value in regions of the UK historically associated with post-industrial underinvestment: something aligned with our impact strategy.

Our benchmarking report also revealed some interesting data on the various events held across the three sites in the pilot study. Again, after controlling for size and spend, we found that one of the sites featured irregular but highly attended events; another hosted frequent events but had fewer attendees overall.

Both sites therefore delivered a similar artistic, cultural and wellbeing events 'intensity' – but for different reasons. Our analysis showed that one site preferred festival-style 'happenings' while the other embedded regular community events into day-to-day routines. We found that the stark contrast in community engagement styles between the two sites reflected both cultural differences and the relative development stages of the two projects: understanding these subtleties has enabled us to better tailor our projects according to local needs.







Wellington Place

**We believe the addition of quantitative social targets to the long-established environmental metrics in our property portfolio-management toolkit has reinforced the power of placemaking.**

At a site level, we have found that a meaningful placemaking approach can often deliver results greater than the sum of its parts, with additional benefits including:

- restoring a sense of civic pride and belonging, often in regions of the UK that may have historically suffered from underinvestment, thereby bringing the 'meaningful city' concept to life;
- creating mixed-use and multi-occupier sites that offer job opportunities and training across the employment spectrum, which increases the pool of technical and vocational skills in specific industries identified by the local authorities and regional enterprise partnerships we work with. The growing cluster of high-skilled workers typically attracts further capital investment and talent to the area, spreading waves of socioeconomic growth across the region – or a 'halo' effect of catalytic development. But our sites also provide entry-level employment to ensure that the places we make remain inclusive and diverse, and;

- introducing mixed-use and accessible urban spaces that function as a community and cultural 'mosaic'. In addition to creating employment opportunities and environmentally future-fit engineering, Hermes also respects the heritage of the sites we develop. In shared spaces we aim to conserve the local area's link with the region's history and ensure it exists in harmony alongside modern educational, commercial, technological, residential and wellbeing structures.

At its heart, meaningful placemaking is about attracting people to productive and positive urban spaces that were previously neglected. To deliver on the placemaking promise, we must tap into local cultures and understand how those different communities want to use the spaces we develop.

As our pilot benchmarking study has shown, by carefully evaluating site-specific socioeconomic factors, Hermes can gain invaluable insight into how those developments affect the ultimate long-term users of the properties – providing a positive feedback loop that informs construction decisions. We believe the addition of quantitative social targets to the long-established environmental metrics in our property portfolio-management toolkit has reinforced the power of placemaking.

We intend to provide access to our innovative placemaking techniques to encourage meaningful change across the real-estate investment industry.

**At its core, this shift is driven by the desire for places of work and pleasure that reflect the values of those that work and reside within them: flexibility, sustainability and purpose.**



## CASE STUDY

### Respecting the past, expecting the future: how NOMA mixes heritage with high-tech

When it opened in 1907, Hanover House in Manchester represented the epitome of modern construction techniques with a design that melded more than 1.5m locally sourced red bricks, tonnes of polished granite and sandstone into a stunning example of Edwardian Baroque architecture – all for just £50,000 (about £5.2m in today's money).

But modernity doesn't last forever. As Hermes and our development partners took over the site in 2013 as part of the NOMA project, the still (outwardly) handsome Grade II listed building was, unsurprisingly, in dire need of an upgrade after 100-plus years of wear and tear.

Our aim at the outset was not to recreate the Hanover House of old but to re-engineer the building for the future while respecting its historical legacy. In effect, the Hermes-led restoration project paid homage to the building's original construction process, which used the most up-to-date design, engineering and materials available at the time.

Over the ensuing five years, the eight-storey building was stripped back to its bones, revealing many original architectural features that were painstakingly restored on a like-for-like basis. At the same time, upgrades to the building fabric, internal layout, operational systems and energy performance have created a high-specification, ultra-modern structure ready for the next phase in its life as the north-England headquarters of one of the world's biggest companies, Amazon.

Undoubtedly, once Amazon and other tenants (one being another high-profile tech name, WeWork) move in, the restored Hanover House will spur high-skilled employment opportunities in the region and further grow the UK's research and development base.

The NOMA Hanover House project was completed in late 2018, transforming the building into a beautiful, Grade A, energy-efficient contemporary office building ready to feature in another 100 years or more of history.

Notable accolades for the Hanover restoration, to date, include:

- ✓ BREEAM Sustainability Rating: Very Good;
- ✓ Energy Performance Certificate (EPC): B;
- ✓ 100% of offices let upon completion;
- ✓ Amazon's new north-England HQ

“The sympathetic and sustainable regeneration of the NOMA estate is driven by the desire to protect and enhance the remarkable heritage of the area. To that aim, Hanover House builds on historic characteristics while integrating leading environmental technologies and standards for urban development.”

Chris Taylor, Head of Private Markets at  
Hermes Investment Management





### Five finer details: inside the Hanover makeover

As explained above, the Hanover project targeted more than a bricks-and-mortar facelift. The multiple design goals ranged from rejuvenating its historical architectural features to installing climate-friendly energy technology and creating human-scale social spaces. Some of the major achievements across five key design areas include:

#### Heritage

- Retaining and restoring the original façade and internal design features, including carved stone details, glazed tiles, sandstone window surrounds and coffered plastered ceilings;
- Reopening a reception area that had been closed off for decades and reinstating the upper floors of an area that had been lost to a fire.

#### Health and wellbeing

- Creating a large open atrium to enable breakout and leisure spaces for occupiers. This glazed atrium spans the courtyard, connecting the two buildings via link bridges at each level, with a social space and walkway at ground floor;
- Secure cycle spaces, shower facilities and changing rooms for occupiers;
- Remodelled roof design, adding roof lights to maximise natural light indoors and reusing original slates where possible; and
- Indoor air quality improved by only using products with low or zero volatile organic compounds (VOCs).

**Over 40% of the workforce employed during construction lived within 10 miles of the building, and more than 40 apprentices and trainee employees gained experience on the project.**

#### Energy

- Internal double glazing installed to improve air-tightness, thermal performance and acoustic values;
- Existing roofing dismantled, insulated and relaid;
- Heating and cooling systems served by down-flow units, which distribute conditioned air below the floor;
- Electricity, heat and cooling consumption metering to all office areas and retail units that ensures the spaces can be monitored and managed to reduce energy usage. This system can also be used to bill occupiers for their actual electricity, heat and cooling usage if areas are multi-let, encouraging tenants to be energy efficient;
- The office ventilation system incorporates variable-speed drives and a heat-recovery capability, so that heat can be extracted from the exhaust air and used to warm incoming fresh air; and



- Energy-saving features in the building management system (BMS) include:

- The heating and cooling system can be controlled to operate only during pre-programmed set points for individual office areas and retail units;
- The heating system is weather-compensated, based on outside air temperatures and controlled by the BMS;
- Natural ventilation in the atrium dissipates excess heat once the internal temperature rises above a predetermined point, via the smoke ventilation louvre at a high level;
- The perimeter heating system and heaters over the entrance door use outside air sensors, so they do not function when the external air reaches an acceptable temperature; and
- The energy loop has a deadband, so the main heating and heat rejection plant operate less frequently.

#### Social

- Over 40% of the workforce employed during construction lived within 10 miles of the building and more than 40 apprentices and trainee employees gained experience on the project;
- Successful community engagement with local residents at the adjacent Sadler's Yard, along with monthly pop-up markets, an arts festival and outdoor cinema; and
- Tours during construction included students from Salford University and the University of Central Lancashire.

#### Water, waste, natural capital and circular-economy drivers

- More than 95% of construction waste was recycled and diverted from landfill;
- Low-flow sanitary fittings used throughout, reducing water use;
- Water-leak sensors alert the BMS if there is excessive usage, out-of-hours usage or continuous usage, which could indicate a leak;
- External fabric wholly reused in situ and new materials selected with energy-management certificates for the supply-chain process;
- Ecological assessments to establish local wildlife needs, resulting in bat boxes at roof level; and
- Future proofing, with large, open floorplates that can be adapted by occupiers to suit their needs without significant building-form alteration – for example, floors designed to split easily into two or four separate premises.

## CASE STUDY

### Win-win on Great George Street: where tenants and the planet breathe easier

Office buildings consume vast amounts of energy to both operate the business functions they accommodate as well as maintain the health and comfort of the people using them. In today's world, however, spiralling costs and climate-change-driven pressure to reduce carbon emissions is pushing office owners to develop energy-efficient solutions.



But reducing energy consumption needn't result in discomfort for tenants.

For example, as the Hermes-led improvements at 8-10 Great George Street in London have shown, a lower carbon footprint can go hand-in-hand with healthier conditions for building occupants.

In 2016, Hermes and managing agent Jones Lang LaSalle (JLL) engaged sustainability consultants, Carbon Credentials, to implement an energy-efficient and tenant-friendly programme across our portfolio. The so-called Collaborative Asset Performance Programme (CAPP) aimed to optimise technology while engaging with stakeholders to cut energy use and improve the comfort levels of building occupants.

In 2018, we broadened those goals to integrate both the industry-standard BREEAM In-Use green-building certification and the RESET air-quality certification to form a process dubbed CAPP+. Sam Carson, Director of Sustainability Innovation at Carbon Credentials, said that CAPP+ was underpinned by "an insightful data-driven approach".<sup>7</sup>

The project team applied the CAPP+ process to our Great George Street property, a prominent and long-established office building in the heart of Westminster. To date, the integrated CAPP+ programme and BMS optimisation has led to lower internal CO<sub>2</sub> levels and a significant improvement in energy performance.

Looking ahead, the CAPP+ project will continue to monitor air quality and communicate data on an ongoing basis to promote transparency and facilitate social equity among building occupants, as required by the RESET Air Standard.

Since applying the CAPP+ programme, the Great George Street building has won several awards and certifications, including:



Green Apple Silver Award in 2018



Green World Silver Award in 2018



RESET air quality certification 2018



RPI Award: 'Best Property', Highly Commended, in 2018



BREEAM In-Use certification 2018

“We initially found some issues with CO<sub>2</sub> levels, but the building analytics which we've been using for energy efficiency highlighted the opportunity to reduce the amount of air recirculated. This solved the CO<sub>2</sub> problems immediately and we were able to proceed to certification. The RESET analysis has since helped us tune the energy performance of the building without reducing the quality of the tenants' experience.”<sup>7</sup>

– Liam Rock, Senior Energy Performance Engineer, Carbon Credentials.

<sup>7</sup> Great George Street achieves RESET Air Certification', published by Carbon Credentials

## Trialling BREEAM In-Use certification

During 2018, Hermes trialled and secured BREEAM In-Use certification for seven buildings.

The assessment focuses on three key aspects: asset performance, building management and occupier management. It enables stakeholders to drive sustainability improvements in buildings by highlighting where gains in operational efficiency can be made. BREEAM In-Use enables us to identify where energy efficiency can be improved and is an important consideration for the GRESB global sustainable benchmark certification: in the 2018 GRESB results, building certifications were one of the weakest global factors evaluated. By targeting this aspect, we are striving to improve UK green-building certification and encourage others to use BREEAM In-Use.

## About the RESET Air Building Standard

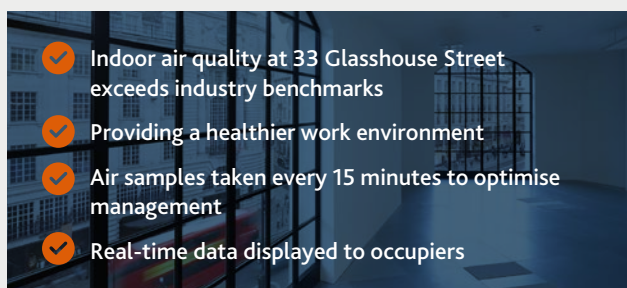
This is the world's first sensor-based, performance-driven building certification programme where indoor air quality is observed, measured and reported using continuous monitoring.

Buildings and interior spaces are required to consistently maintain indoor air-quality thresholds as outlined in the standard in order to be certified. The standard requires the following pollutants to be monitored: particulate matter (PM<sub>2.5</sub>)  $\leq 35 \mu\text{g}/\text{m}^3$ ; total VOCs  $< 500 \mu\text{g}/\text{m}^3$ ; CO<sub>2</sub>  $< 1000 \text{ppm}$ ; temperature and relative humidity.

## CASE STUDY

### 33 Glasshouse Street achieves European first for air quality

Hermes Investment Management, JLL and Carbon Credentials have collaborated to bring RESET Air to Europe. In 2018, 33 Glasshouse Street in London became the first Certified RESET™ Air – Core & Shell project in Europe and the third in the world. This empowers the facilities team to identify ongoing opportunities to improve indoor air quality and certifies it to an international standard.



#### Situation

33 Glasshouse Street consists of office space above 100 Regent Street, on the north side of John Nash's iconic curve, just north of Piccadilly Circus. The building underwent a major refurbishment in 2015-2016, redeveloping the entire office core, including a new central plant.

The offices notably sit above an area of continuous high traffic density, in a zone which is often perceived as having an elevated level of local air pollution. This made the site an ideal location to pilot RESET as an engagement tool with building occupiers.

RESET™ Air – Core & Shell tracks and communicates the health performance of buildings using real-time data monitoring. This helps owners attract occupiers, maintain asset value, and reduce the potential liability associated with underperforming buildings.

#### Actions

RESET certification has been identified as best practice in Hermes' 'Development and Refurbishment Sustainability Requirements' since 2016. It is a part of a wider programme of innovative but practical health and wellbeing collaborations across the portfolio, including a programme with JLL and Carbon Credentials using wellbeing initiatives to increase occupier engagement at four other multi-occupier sites.

RESET ensures that the air provided by the central plant to occupiers of the building meets high performance standards. It does this by monitoring and reporting levels of PM<sub>2.5</sub>, CO<sub>2</sub> and VOCs in the outside air supply and comparing these to the air supplied from the central plant to internal spaces, ensuring they are not at a level where they would adversely affect human health and wellbeing, or potentially even productivity.

To maintain RESET Air – Core & Shell, the air is actively monitored with samples taken every 15 minutes. This data is analysed by Carbon Credentials' ADAPt data platform, with alarms sent to facilities managers if any issues are detected so that they can respond quickly. There are two multi-sensors at 33 Glasshouse Street, monitoring the various indoor air quality indicators. They are located close to the main air-handling unit, to meet the RESET standard for sensor arrangement.

RESET Air – Core & Shell works in conjunction with CAPP, where settings and controls in the BMS are actively monitored. Linking the latest sensor technology to the BMS and ADAPt data platform makes this landmark office space a positive example of smart buildings in action.

Carbon Credentials has invested in becoming RESET cloud compliant with the ability to deliver the sensor and communications hardware, performance analytics, public dashboards and engagement services to make indoor air quality and wellbeing a successful part of its data-enabled building performance programmes.

## 33 Glasshouse Street (continued)



## Financials

Typical costs for RESET are about £10,000-£50,000 per building, covering RESET certification and maintenance and the support of a RESET accredited professional such as Carbon Credentials, along with sensors and other hardware and software. Each project is relatively bespoke, based on the size of the building, complexity of the heating, ventilation and air-conditioning plant and the number of air-handling units, which affects the number of sensors needed.

## Benefits

With an increasing focus on healthier work environments, RESET provides a certification which is operational and demonstrates quality management in buildings, using real-time data on an ongoing basis.

Sitting above Regent Street, particulates were an area of interest at 33 Glasshouse Street. Data from November highlights how indoor air quality significantly outperforms standard industry benchmarks, used by both RESET and the WELL Building Standard (see figure 2).

“Indoor air quality is a complicated issue in buildings and it can be challenging to provide excellent conditions for occupants. RESET provides active monitoring of the performance of indoor air quality and verifying to best practice, making sure that tenant areas are healthy spaces. In commissioning the first RESET Air - Core & Shell project in Europe, Hermes Investment Management continues to demonstrate pragmatic leadership in sustainability in commercial real estate. We are proud to be able to support this project and collaborate with JLL to achieve this standard.”<sup>8</sup>

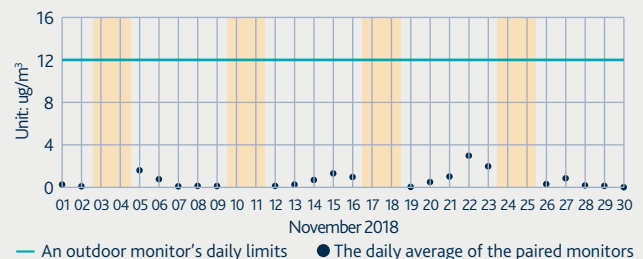
– Paul Lewis, CEO, Carbon Credentials

“This certification demonstrates Hermes’ holistic approach to active property management where ongoing monitoring ensures a quality environment for our occupiers. We are proud to lead the market by being the first in Europe to be able to use this certification to demonstrate our commitment to wellbeing.”

– Chris Taylor, Head of Private Markets,  
Hermes Investment Management

Figure 2: PM2.5 indoor daily average<sup>9</sup>

For a Core & Shell project, PM2.5 readings must be  $\leq 12 \mu\text{g}/\text{m}^3$ , or if the average outdoor PM2.5 is  $>48 \mu\text{g}/\text{m}^3$ ,  $\leq 25\%$ .



Source: RESET Data Audit report, published November 2018.

## Challenges and achievements

## IMPROVEMENT

## How to improve indoor air quality?

At 33 Glasshouse Street, indoor air-quality data is gathered through sensors that measure CO<sub>2</sub>, particulate matter, total VOCs, temperature and relative humidity. Results stream to the cloud, where they can be viewed by the property team in real time from any computer or mobile device. This gives the property team insights into opportunities to improve air quality. RESET sets a benchmark which the introduced air should achieve and, informed by the sensors and monitoring, the property team can make sure it meets these levels. For instance, they improved CO<sub>2</sub> levels by optimising air recirculation for heat recovery based on actual data rather than standardised calculations.

## DATA

## How to display real-time air-quality data to occupiers?

To show live data at 15-minute intervals, the data flow needs to be very robust, with no gaps in data handling. Hardware and data-transfer systems must also be detailed and have resilience. This requires the sensors, data transfer and calculation to be tested. At 33 Glasshouse Street, real-time air-quality data will be available to occupiers via a screen in the reception area. This is a positive way of engaging with occupiers on air quality and demonstrating quality management in their building. The data process also includes routine transfers to RESET's online systems to maintain certification.

For more information about the RESET standard:  
<https://reset.build>

<sup>8</sup> '33 Glasshouse Street achieves first for air quality', published by Carbon Credentials.

<sup>9</sup> Induct monitors are paired with outdoor monitors.



## CASE STUDY

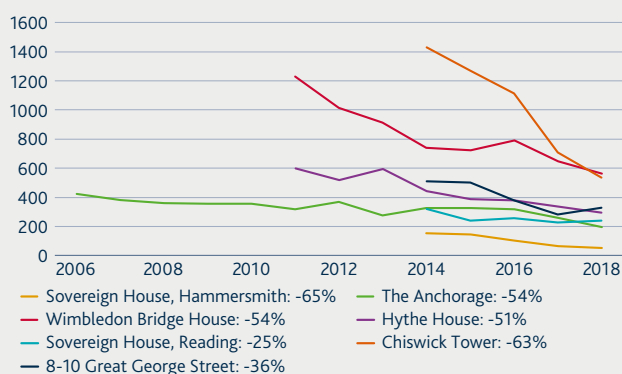
### Success by seven: how active property management supports the climate transition.

Hermes is by no means a passive investment house. Our active approach applies to how we invest in and manage properties through to RPI in equal measures. Here we highlight seven buildings that experienced dramatic improvements on a number of measures following our hands-on application of RPI (see figure 3).

When these properties first entered the portfolio, they were identified as energy-intensive assets. However, our RPI focus has driven significant change at the sites through positive engagement with property managers and owners as well as by implementing the CAPP+ programme.

Since 2014, these properties have collectively achieved a 44% reduction in emissions, equating to a saving of 1,720 tonnes of CO<sub>2</sub>. The figure includes a 19% fall in emissions across the entire UK electricity grid in 2018, as reported by the Department for Environment, Food and Rural Affairs (Defra).

**Figure 3: Change in absolute carbon emissions for landlord-controlled properties across the portfolio, tonnes of CO<sub>2</sub> emissions per year.**



Source: Hermes, as at August 2019.

#### 1 Sovereign House, Hammersmith

In Q4 2018 we completed an LED upgrade at Sovereign House, resulting in a 4% reduction in electricity consumption compared to the previous year. We replaced lighting on the front and rear stairs and installed passive infra-red sensors at a relatively low cost.

#### 2 Wimbledon Bridge House

We upgraded the lighting at this property in May 2017 to a more efficient LED system. With LED lighting present for the whole of 2018, energy consumption has continued to fall. Our long-term active management was the key driver in achieving energy savings at the site.

#### 3 The Anchorage

We reviewed and adjusted plant times during Q3 2018, actively reducing electricity consumption by 10% relative to 2017. A milder second half of 2018 also accounted for a 15% reduction in natural-gas consumption year-on-year.

#### 4 Hythe House

Overall, since we invested in this property, we have driven a 51% reduction in emissions by actively managing plant times and engaging with tenants.

#### 5 Sovereign House, Reading

Energy consumption at Sovereign House fell by 25% from the time we took control of the building. However, we seek further improvements after emissions crept up slightly in 2018. We expect to see a significant reduction in energy use this year following the implementation of the CAPP+ programme.

#### 6 Chiswick Tower

Winning the RPI Award for Best Property in 2018, Chiswick Tower is a great example of effective and proactive building management. In 2018, we refurbished the lift lobby and added passive infrared sensors. We also installed LEDs, which contributed to a 7% reduction in energy consumption compared with the previous 12-month period. In addition to ongoing technical improvements, the site team also run multiple tenant and community engagement programmes.

#### 7 8-10 Great George Street

Despite a slight increase in emissions in 2018 following a harsher winter and unexpected change to plant operating times, 8-10 Great George Street has been a prime example of the CAPP+ programme's success. The central London office building has produced 36% fewer emissions since entering our portfolio and has attracted global recognition after gaining a prestigious Green Apple Award in 2018.



## SECTION 3

# PERFORMANCE REVIEW

Setting RPI targets and benchmarking our performance against outputs and outcomes



## RPI targets and performance review

	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 have independent BREEAM assessments completed, with the intention of obtaining at least a 'very good' rating.	In progress
<b>Energy Performance Certificate (EPC):</b> ensure that all new developments and refurbishments in excess of £3m have independent audits and achieve at least an EPC rating of 'C'. Ensure that all refurbishments in excess of £100,000 have independent audits and achieve at least an EPC rating of 'D'.	Achieved
<b>Monitoring:</b> 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 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 and safety risk management audit process are completed on time.	Achieved
<b>Flood risks:</b> Review flood plans annually for assets at a high risk of flooding based on the environmental agency flood maps and guidance.	Achieved
Review EPCs of asset risk exposures annually by portfolio and identify a mitigation strategy where relevant.	Achieved

	Progress
<b>Environmental Targets</b>	
CO <sub>2</sub> emissions standing portfolio Reduce the landlord-controlled absolute carbon emissions of our directly managed standing portfolio by 40% in the years to 2020, compared to our 2006 baseline.*	Not achieved due to increased size of portfolio
Reduce the landlord-controlled absolute carbon emissions of our directly managed standing portfolio by 40% in the years to 2020, compared to our 2006 baseline.*	Achieved
CO <sub>2</sub> and energy, like-for-like comparison Reduce the annual carbon emissions and the energy intensity of our directly managed portfolio by 5%, adjusted for weather on a like-for-like basis.	Achieved
Reduce the annual carbon emissions and the energy intensity of our directly managed portfolio by 5%, adjusted for weather on a like-for-like basis.	Achieved
<b>Water</b> Reduce the landlord-controlled water consumption (adjusted for level of occupancy) of our directly managed standing portfolio by 20% in the years to 2020, compared to our 2006 baseline.	Partially achieved
<b>Waste</b> Achieve an 80% recycling rate following on-site segregation, documented recycling through a materials-recovery facility, 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 category-one 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-five occupiers in our retail and commercial sectors about 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 occupiers' areas, we report on owner data only. Where this is not possible, we have included occupier data.

## Benchmarking sustainability performance against peers

When 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.



## Principles for Responsible Investment

Hermes is a founding member and signatory of the PRI. In 2019, Hermes was rated A+ across the board, including on strategy and governance, which placed the property module by Hermes Real Estate in the top 10% of respondents. This positions us as a leading organisation in the management of the environmental and social performance of clients' portfolios.

Performance of strategies stated is in sterling and gross of fees. Past performance is not a reliable indicator of future results and targets are not guaranteed.

## GRESB ratings

Under GRESB ratings, Hermes Real Estate gained a five-star rating for two of its directly managed strategies, with our real-estate debt capability judged to be a regional leader. For all other strategies, we have seen improvements compared to historical scores.

Fund	Score 2018	Peer-group average	Peer comparison	2018 GRESB star rating	GREEN STAR	GRESB peer group
Centre:MK	77	74	12/16	4	Green Star	UK/retail/non-listed
BTPS	81	67	4/22	4	Green Star	Diversified – office-retail/UK/non-listed
MetroPut	68	47	2/10	3	Green Star	Diversified – office/industrial/UK/non-listed
HCLP	89	77	2/14	5	Green Star	Diversified – office/industrial/UK/non-listed
HPUT	76	63	10/72	4	Green Star	UK/diversified/non-listed
Real Estate Debt	82	55	1/8	5	Not applicable	Real estate debt

The indirect and joint-venture funds that we are involved with and are submitted to GRESB have continued to perform well. With four of these funds now rated five stars, Lionstone was ranked a regional leader for 2018.

## Portfolio overview

Entity name	Score	MP score	IM score	Green-star?	GRESB rating	Performance v benchmark	Performance v peer group	Peer group
Selection-weighted average	75	85	72	8/9	★★★★★		N/A	N/A
Lionstone Hermes Real Estate Ventures	92	91	92	Yes	★★★★★			United States office
Lionstone Investments								
Dexus Wholesale Property Fund Dexus	91	100	87	Yes	★★★★★			Australia diversified – office/retail
BlackRock Asia Property Fund III L.P. BlackRock	88	86	88	Yes	★★★★★			Asia office
Nippon Building Fund Inc. Nippon Building Fund Management Ltd.	87	88	87	Yes	★★★★★			Japan office
M&G Asia Property Fund M&G Real Estate	81	96	75	Yes	★★★★★			Asia diversified
Centre:MK LP Hermes Real Estate	77	93	71	Yes	★★★★★			United Kingdom retail
Hercules Unit Trust British Land Company Plc	67	88	60	Yes	★★★★★			United Kingdom retail
Gotham Segregated Account I Sentinel	53	51	54	Yes	★★★★★			United States residential



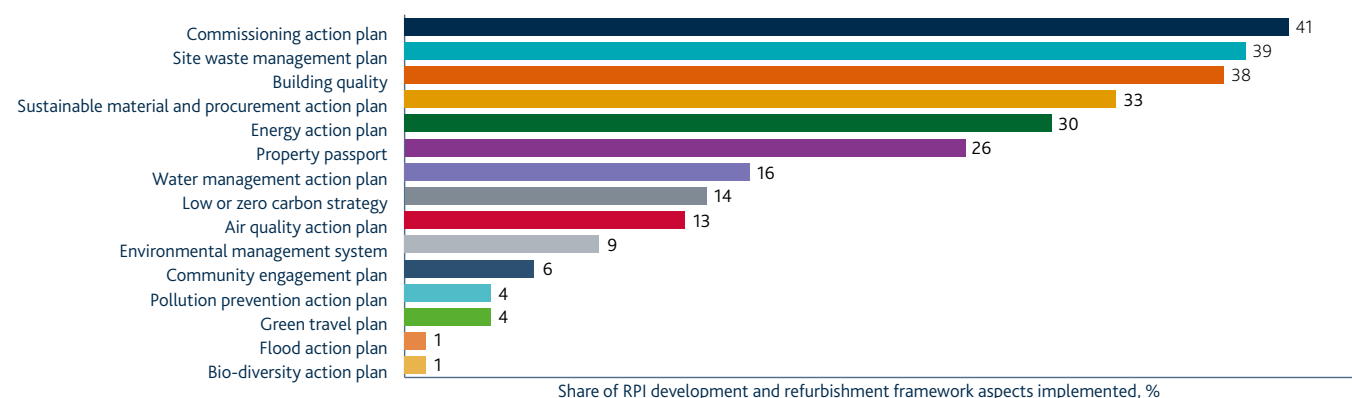
## Responsible property refurbishment action plans

We have extended the coverage of our Responsible Property Development (RPD) Guidance to cover all new development refurbishment and small projects. Working with a small team of key project managers, all capital-investment projects are managed according to our published Responsible Refurbishment Guide and close monitoring of key sustainability deliverables is undertaken. Mandatory completion of both Initial and Final RPD Action Plans is expected and monitored. This process looks for confirmation that these deliverables have been considered in the design stage, draws up appropriate plans and strategies and then seeks confirmation that they have been completed. Additionally, the Sustainable Material and Procurement Action Plan enables us to determine the embodied carbon being bought into the asset.

### Number of development and refurbishment projects in 2019

Project status	Fund	Number of projects	% of projects with initial action plan	% of projects with final action plan	% of projects with action plan evidence uploaded
Completed	BTPS	17	94	100	53
	CMK	2	100	100	100
	HPUT	13	77	100	62
	MetroPUT	1	100	100	100
Ongoing	BTPS	25	84	100	84
	CMK	4	50	100	100
	HCLP	1	0	100	100
	HPUT	12	92	100	83
	MEPC	3	0	100	100
	MetroPUT	7	100	100	100
	Vista	1	100	100	100

Figure 4: Number of development and refurbishment projects in 2019



Source: Hermes, as at August 2019.

## Benchmarking social performance outcomes

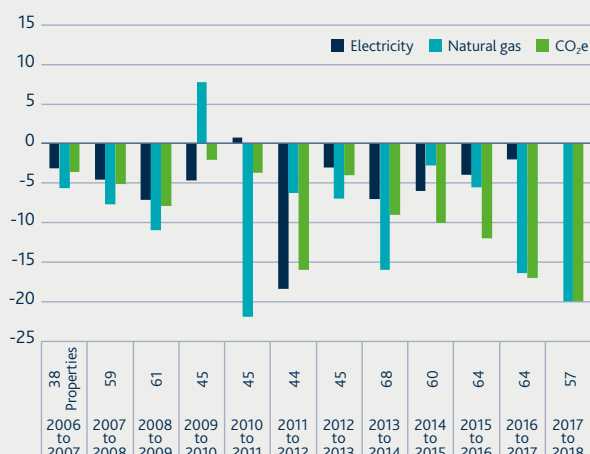
We have road-tested our social-performance benchmark using the sustainable outcomes measured in the reports for three of our flagship RPI developments: King's Cross in London, NOMA in Manchester and Wellington Place in Leeds.

	Measurement	Total
<b>Area</b>	Office space delivered (m <sup>2</sup> )	455,000
	Retail and leisure space delivered (m <sup>2</sup> )	50,000
	Public realm delivered (m <sup>2</sup> )	115,000
	Size of estate (m <sup>2</sup> )	411,139
	% public realm	17.77
<b>Construction</b>	Total value of construction contracts placed	£3.3bn
	Total number of construction workers	2,758
	Workers receiving on-the-job training, % of total	14.67
	Number of workers receiving on-the-job training	1,000
	Employees from the local area, % of total	40.67
	Number of workers from the local area	1,700
	Construction spend in the local area, % of total	43.78
	Value of construction spend in the local area	£766.5m
	Number of construction apprentices and national-vocation qualifications (NVQS)	1,230
	Societal benefit from apprentices, NVQS and construction training	£2.6m
	Local GVA from construction jobs with multiplier impacts	£26m
	Individual lifetime value from apprenticeships	£2,760m
	GVA from local construction employment	£33m
	Lifetime earnings from apprenticeship	£6.1m
<b>FTE</b>	Salary of employees on site	£598.2m
	Tax paid by employees – health	£23.8m
	Tax paid by employees – education	£14.4m
	Tax paid by employees – security and police	£5.1m
	Tax paid by employees – welfare	£22.7m
	Tax paid by employees – pensions	£28.4m
	Tax paid by employees – public transport	£5.1m
	GVA of employees on site	£1.060bn
	Multiplier jobs created by employees on site	1,020
	Wider GVA of multiplier jobs	£25m
	Total employees on site	17,900
	Average salary (modelled – mean)	£33,733
	Number of local jobs supported	680
	Office occupancy rate, %	87.33
	Council income from business rates	£6.708m

	Measurement	Total
REGIONAL	Council spending on highways	£462,000
	Council spending on environmental operations	£184,800
	Council spending on public sports and wellbeing facilities	£451,020
	Council spending on culture and arts	£177,240
	Council spending on regeneration of schools, hospitals, transport	£772,800
	Council spending on social housing	£567,000
	Council spending on children's services	£1,827,113
	Council spending on welfare	£609,444
	Council spending on vulnerable adults and older people	£440,154
	Council spending on education	£586,872
	Average inter-regional salary	£29,445
	Office occupancy rate, %	94.3
Placeshaping	Number of events held	1,713
	Number of event attendees	375,000
	Number of art exhibitions	20
	Number of volunteers	2,000
	GVA from each visitor	£510m
	Number of schoolchildren visited and/or engaged	5,300
	Number of schools engaged	100
	Societal benefit from health and wellbeing exercise	£3.18m
	Willingness to pay for public realm	£215,000
Social value	Number of people placed into employment	1,199
	Number of people received training and upskilling	256
	Sponsored desk spaces	13
	Value from volunteering	£6.25m
	Social value generated	£4.5m
	Community funding awarded	£35,000
	Number of community groups funded	23
	Number of community group members	31,700

## Environmental performance and outputs

Figure 5: Annual change in CO<sub>2</sub> emissions on a like-for-like basis over eight rolling quarters, adjusted for heating degree days, %



Source: Hermes, as at August 2019.

**11**

consecutive years where emissions are reduced on a like-for-like basis

**↓20%**

reduction in emissions across the like-for-like portfolio

**↓9%**

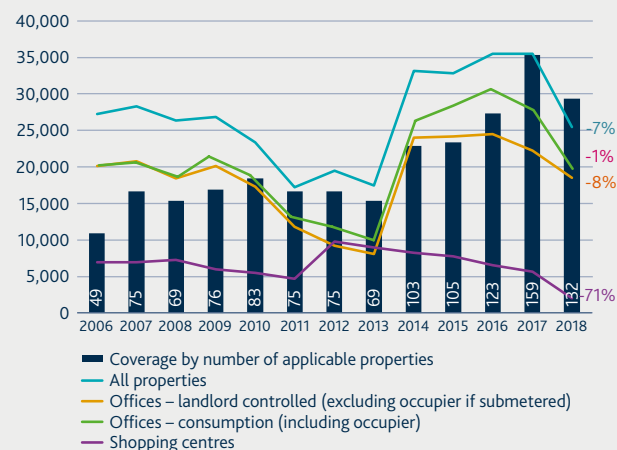
average emissions reduction every year since 2006

The emissions of Hermes' like-for-like portfolio have fallen every year since the 2006 baseline, at an average of 9% a year. Emissions fell by 20% in 2018, in part due to the fall in electricity and natural-gas emissions. The implementation of numerous efficiency projects also played a part, including the CAPP programme at 100 Regent Street, 8-10 Great George Street and No.1 Croydon, which continues to deliver large reductions.

These larger expenditure projects have also been coupled with several lower cost measures such as the systematic and widespread implementation of LEDs at Sovereign House in Hammersmith, Northside House and Churchwood House, Black Horse Tower and Holbrook. These properties have reduced emissions by 4%, 11% and 7% respectively over two years.

When using heating-degree days to normalise for weather, natural-gas consumption fell by 20% compared to 2017, while electricity consumption remained at the same level.

Figure 6: Change in absolute carbon emissions (scope 1 and 2) for the landlord-controlled standing portfolio between 2006 and 2018 (tonnes CO<sub>2</sub>e/year). Percentage figures compare 2018 with the 2006 baseline.



Source: Hermes, as at August 2019.

**↓7%**

fall in emissions against the baseline

**↓28%**

reduction in emissions compared to 2017, largely because of the fall in the size of the portfolio

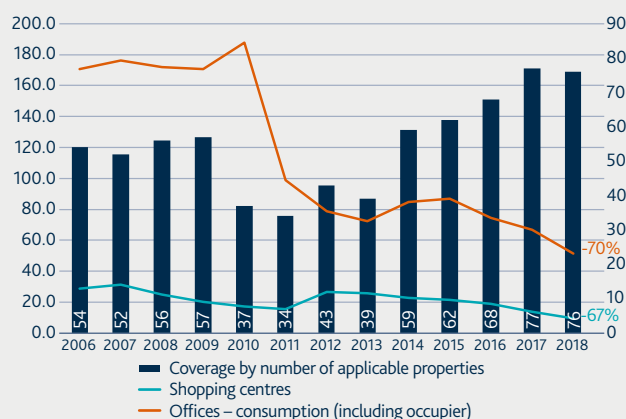
Over the course of 2018, several high-profile properties with heavy energy consumption were sold, contributing significantly to the decrease in emissions compared to 2017. These included the Hermes factory-outlets assets (which were in the portfolio for part of 2017, but not in 2018), Royal Victoria Place, Cavendish Square, 242 Marylebone Road and Aldgate House.

We acquired few properties with heavy energy consumption, which meant we saw an overall fall in emissions. This was also accompanied by the continued implementation and development of energy-saving initiatives across the portfolio. As one of the largest consumers in the portfolio, Centre:MK has reduced its natural-gas consumption by 35%, which contributed to the overall portfolio's declining emissions. Several meters have been decommissioned and heating equipment was switched off in line with seasonal changes and reduced demand.

Offices account for 73% of overall portfolio emissions, compared with 8% for shopping centres. Other types of retail, as well as industrial properties, account for 19%.



Figure 7: Change in carbon intensity for shopping centres and offices between 2006 and 2018 (kg CO<sub>2</sub>e/m<sup>2</sup>/year). Percentage figures compare 2018 with the 2006 baseline.\*



Source: Hermes, as at August 2019.

**↓70%** fall in the carbon intensity of offices since 2006

**↓67%** decline in the carbon intensity of shopping centres since 2006

Measuring carbon intensity by lettable floor area is a good way of monitoring the progress made in sustainable lettings. The metric has fallen for offices and shopping centres over the past three years, declining by 15% year-on-year in 2017. In 2018, 51% of properties in the like-for-like portfolio recorded a decrease in carbon intensity.

The CAPPs we have implemented at 14 of our offices continue to show year-on-year savings. Shifting our focus to wellbeing and implementing the RESET air-quality-monitoring system at 100 Regent Street and 8-10 Great George Street has also increased tenant engagement, which in turn means that energy reduction has become a more important part of occupiers' agendas.

Figure 8: Standing-portfolio waste by disposal route, %

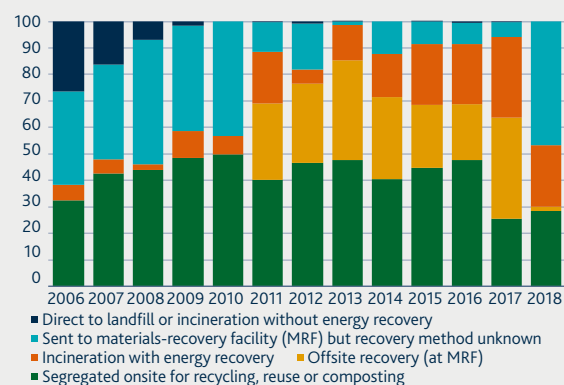
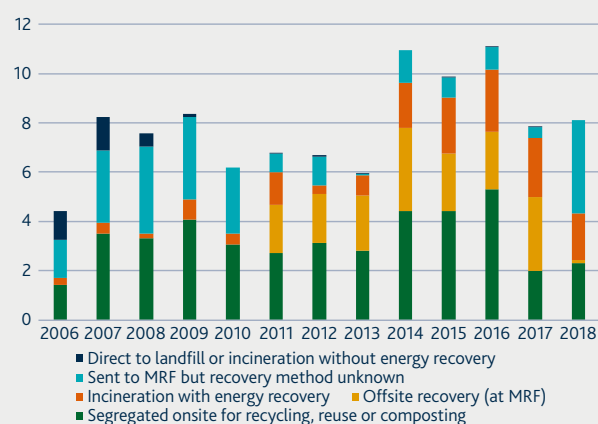


Figure 9: Standing-portfolio waste by weight, tonnes



Source: Hermes, as at August 2019.

**29%** recycled, reused or composted on site

**23%** Incineration with energy recovery

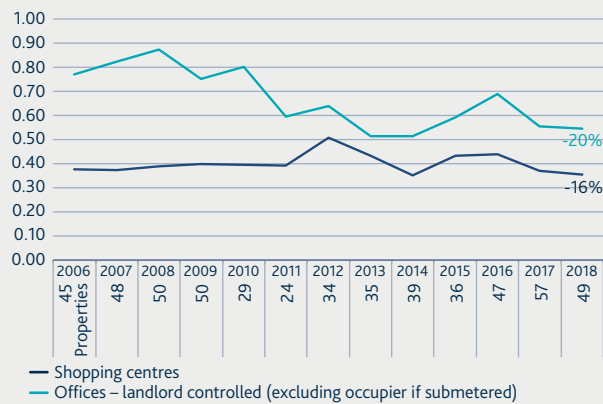
The share of waste that is recycled both on- and off-site is 64% of the total, below our target of 80%. The portfolio has seen a 3% rise in on-site recycling, which has helped offset the 3% increase in absolute waste production.

We have developed initiatives at Centre:MK and the site has achieved its 80% recycling-rate target, supported by a programme of tenant engagement and education. The site has also changed its waste broker to improve the accuracy of waste data and audit waste streams. This is something that can be replicated across the portfolio.

Waste management is increasingly important. It has continued to improve at our properties, supported by proactive management and progress in challenging the quality of data.

\* Only assets with a full year of consumption are included.

Figure 10: Change in water intensity for the landlord-controlled like-for-like portfolio between 2006 and 2018 (m³/m²/year)



Source: Hermes, as at August 2019.

**↓20%** decline in the water intensity of offices since 2006

**↓16%** fall in water intensity of shopping centres since 2006

Water intensity has fallen in both offices and shopping centres relative to 2016, with a decline of 20% in offices since 2006. Several of our assets have also reduced their water intensity – Sovereign House, Reading has cut it by 13% and Chiswick Tower by 35% – which underlines the importance of occupier engagement in active management.

At Chiswick Tower, there has been a drive to maximise water efficiency by replacing taps with lower-pressure units and upgrading toilet flushes. Elsewhere, in Hythe House – which has reduced intensity by 2% – meters have been replaced and upgraded to allow for more accurate monitoring and billing. This should enable the team to target efficiency measures more constructively.

Shopping centres have reduced water intensity by 5% year-on-year. In 2018, Christopher Place saved 23% year-on-year, mainly due to changes in occupancy. Changes in retail practice and occupation presents continual opportunities to engage with new occupiers in order to promote efficient energy use.

Many other portfolio assets have also continued to improve their water performance through active management. Erdington Industrial reduced water intensity by 7%, installing AMR meters which have helped to identify and repair long-standing leaks. A similar story can be seen at Horndon Industrial Estate, where consumption – coming predominantly from tenants – has been optimised over the past seven years by proactively installing water-flow efficiency systems.

## SECTION 4

REPORTING AND  
CERTIFICATION

## Global Reporting Initiative (GRI) assessment

This report has both been prepared in accordance with and is aligned to the GRI Sustainability Reporting Guidelines at the core level. A detailed GRI index for material indicators is provided below.

## GRI Standards Content Index

Indicator (GRI standards)	Included?	Description	Reporting boundary	Page number	Section
<b>GENERAL DISCLOSURES</b>					
102-1	Yes (mandatory)	Name of the organisation	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-2	Yes (mandatory)	Activities, brands, products, and services	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-3	Yes (mandatory)	Location of headquarters	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-4	Yes (mandatory)	Location of operations	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-5	Yes (mandatory)	Ownership and legal form	Portfolio wide	4-	Who we are: outcomes beyond performance
102-6	Yes (mandatory)	Markets served	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-7	Yes (mandatory)	Scale of the organisation	Portfolio wide	4-7, 22-23	Who we are: outcome beyond performance, benchmarking social performance outcomes.
102-8	Yes (mandatory)	Information on employees and other workers	Portfolio wide	22-23	Benchmarking social performance outcomes
102-9	Yes (mandatory)	Supply chain	Portfolio wide	2	Report coverage
102-10	Yes (mandatory)	Significant changes to the organisation and its supply chain	Portfolio wide	2	Report coverage
102-11	Yes (mandatory)	Precautionary principle or approach	Portfolio wide	5	Who we are: outcomes beyond performance
102-12	Yes (mandatory)	External initiatives	Portfolio wide	8-12	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
102-13	Yes (mandatory)	Membership of associations	Portfolio wide	8-12	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
102-14	Yes (mandatory)	Statement from senior decision maker	Portfolio wide	4, 8-12	Who we are: outcomes beyond performance, implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
102-15	Yes (mandatory)	Key impacts, risks, and opportunities	Portfolio wide	2, 8-12	Who we are: outcomes beyond performance, implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
102-16	Yes (mandatory)	Values, principles, standards, and norms of behavior	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-18	Yes (mandatory)	Governance structure	Portfolio wide	5	Who we are: outcomes beyond performance
102-19	Yes (optional)	Delegating authority	Portfolio wide	5	Who we are: outcomes beyond performance
102-20	Yes (optional)	Executive-level responsibility for economic, environmental, and social topics	Portfolio wide	5	Who we are: outcomes beyond performance
102-21	Yes (optional)	Consulting stakeholders on economic, environmental, and social topics	Portfolio wide	2	Report coverage
102-22	Yes (optional)	Composition of the highest governance body and its committees	Portfolio wide	5	Who we are: outcomes beyond performance
102-23	Yes (optional)	Chair of the highest governance body	Portfolio wide	5	Who we are: outcomes beyond performance
102-25	Yes (optional)	Conflicts of interest	Portfolio wide	5	Who we are: outcomes beyond performance
102-26	Yes (optional)	Role of highest governance body in setting purpose, values, and strategy	Portfolio wide	5	Who we are: outcomes beyond performance

Indicator (GRI standards)	Included?	Description	Reporting boundary	Page number	Section
<b>GENERAL DISCLOSURES</b>					
102-27	Yes (optional)	Collective knowledge of highest governance body	Portfolio wide	5	Who we are: outcomes beyond performance
102-28	Yes (optional)	Evaluating the highest governance body's performance	Portfolio wide	5	Who we are: outcomes beyond performance
102-29	Yes (optional)	Identifying and managing economic, environmental, and social impacts	Portfolio wide	8-12	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
102-30	Yes (optional)	Effectiveness of risk management processes	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-31	Yes (optional)	Review of economic, environmental, and social topics	Portfolio wide	5	Who we are: outcomes beyond performance
102-32	Yes (optional)	Highest governance body's role in sustainability reporting	Portfolio wide	5	Who we are: outcomes beyond performance
102-40	Yes (mandatory)	List of stakeholder groups	Directly managed portfolio	2	Report coverage
102-41	Yes (mandatory)	Collective bargaining agreements	Portfolio wide	N/A	Not reported
102-42	Yes (mandatory)	Identifying and selecting stakeholders	Directly managed portfolio	2	Report coverage
102-43	Yes (mandatory)	Approach to stakeholder engagement	Directly managed portfolio	2	Report coverage
102-44	Yes (mandatory)	Key topics and concerns raised	Directly managed portfolio	N/A	Not reported
102-45	Yes (mandatory)	Entities included in the consolidated financial statements	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-46	Yes (mandatory)	Defining report content and topic boundaries	Portfolio wide	4-7	Who we are: outcomes beyond performance
102-47	Yes (mandatory)	List of material topics	Portfolio wide	2	Report coverage
102-48	Yes (mandatory)	Restatements of information	Portfolio wide	N/A	No restatements
102-49	Yes (mandatory)	Changes in reporting	Portfolio wide	2	Report coverage
102-50	Yes (mandatory)	Reporting period	Portfolio wide	2	Report coverage
102-51	Yes (mandatory)	Date of most recent report	Portfolio wide	2	Report coverage
102-52	Yes (mandatory)	Reporting cycle	Portfolio wide	2	Report coverage
102-53	Yes (mandatory)	Contact point for questions regarding the report	Portfolio wide	32	Hermes Investment Management
102-54/55/56	Yes (mandatory)	Claims of reporting in accordance with the GRI standards, GRI content index, external assurance	Portfolio wide	27	Reporting and certification
102-56	Yes (mandatory)	External assurance	Portfolio wide	30	Adviser statement
<b>MANAGEMENT APPROACH</b>					
103-1	Yes (mandatory)	Explanation of the material topic and its boundary	Portfolio wide	2	Report coverage
103-1	Yes (mandatory)	Explanation of the material topic and its boundary	Portfolio wide	2	Report coverage
103-1/2/3	Yes	Explanation of the material topic and its boundary, the management approach and its components, evaluation of the management approach	Portfolio wide	2	Report coverage
103-2	Yes	The management approach and its components	Portfolio wide	N/A	Not reported
<b>ECONOMIC PERFORMANCE</b>					
201-1	Yes	Direct economic value generated and distributed	Portfolio wide	4-7	Who we are: outcome beyond performance
201-2	Yes	Financial implications and other risks and opportunities due to climate change	Portfolio wide	8-17 18-26	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI Performance review: setting RPI targets across our performance outputs and outcomes
<b>INDIRECT ECONOMIC IMPACTS</b>					
203-1	Yes	Infrastructure investments and services supported	Portfolio wide	8-17 18-26	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI Performance review: setting RPI targets across our performance outputs and outcomes
203-2	Yes	Significant indirect economic impacts	Portfolio wide	N/A	Not reported
<b>MATERIALS</b>					
301-1	Yes	Materials used by weight or volume	Directly managed portfolio	18-26	Performance review: setting RPI targets and benchmarking our performance outputs and outcomes
301-2	Yes	Recycled input materials used	Directly managed portfolio	26	Environmental performance and outputs
<b>ENERGY</b>					
302-1	Yes	Energy consumption within the organisation	Directly managed portfolio	24-26	Environmental performance and outputs
302-2	Yes	Energy consumption outside of the organisation	Directly managed portfolio	24-26	Environmental performance and outputs
302-3	Yes	Energy intensity	Directly managed portfolio	24-26	Environmental performance and outputs
302-4	Yes	Reduction of energy consumption	Directly managed portfolio	24-26	Environmental performance and outputs



Indicator (GRI standards)	Included?	Description	Reporting boundary	Page number	Section
<b>WATER</b>					
303-1	Yes	Water withdrawal by source	Directly managed portfolio	24-26	Environmental performance and outputs
<b>BIODIVERSITY</b>					
304-1	Yes	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Directly managed portfolio	N/A	Not reported
304-2	Yes	Significant impacts of activities, products, and services on biodiversity	Directly managed portfolio	N/A	Not reported
304-3	Yes	Habitats protected or restored	Directly managed portfolio	N/A	Not reported
<b>EMISSIONS</b>					
305-1	Yes	Direct (scope 1) GHG emissions	Directly managed portfolio	24-26	Environmental performance and outputs
305-2	Yes	Energy indirect (scope 2) GHG emissions	Directly managed portfolio	24-26	Environmental performance and outputs
<b>EFFLUENTS AND WASTE</b>					
306-2	Yes	Waste by type and disposal method	Directly managed portfolio	24-26	Environmental performance and outputs
<b>SUPPLIER ENVIRONMENTAL ASSESSMENT</b>					
308-1	Yes	New suppliers that were screened using environmental criteria	Portfolio wide	8-17	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
308-2	Yes	Negative environmental impacts in the supply chain and actions taken	Portfolio wide	8-17	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
<b>OCCUPATIONAL HEALTH AND SAFETY</b>					
403-1	Yes	Workers representation in formal joint management-worker health and safety committees	Portfolio wide	N/A	Not reported
403-2	Yes	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	Portfolio wide	N/A	Not reported
<b>TRAINING AND EDUCATION</b>					
404-1	Yes	Average hours of training per year per employee	Portfolio Wwide	N/A	Not reported
<b>LOCAL COMMUNITIES</b>					
413-2	Yes	Operations with significant actual and potential negative impacts on local communities	Portfolio wide	8-17	Implementing Hermes' impactful framework: impactful intent framework as a new structuring principle for RPI
<b>SUPPLIER SOCIAL ASSESSMENT</b>					
414-1	Yes	New suppliers that were screened using social criteria	Portfolio wide	2	Report coverage
414-1	Yes	New suppliers that were screened using social criteria	Portfolio wide	2	Report coverage
414-1	Yes	New suppliers that were screened using social criteria	Portfolio wide	2	Report coverage
414-2	Yes	Negative social impacts in the supply chain and actions taken	Portfolio wide	N/A	Not reported
414-2	Yes	Negative social impacts in the supply chain and actions taken	Portfolio wide	N/A	Not reported

## ADVISER STATEMENT

■ Hermes' RPI programme was supported by Carbon Credentials in 2018-2019. Carbon Credentials continued to collate, validate and report RPI sustainability-performance data and property characteristics for 2018.

Carbon Credentials' independent audit team have verified to ISO 16064-3 standard the greenhouse-gas emissions, energy and water data presented in this report.

A significant focus this year has been health and wellbeing. A notable highlight was 33 Glasshouse Street achieving the first RESET Air – Shell & Core certification in Europe. The second certification has already been achieved at 8-10 Great George Street and further ones are being planned. The data captured during the process has been integrated into the wider RPI program and complements the information we have tracked on community and tenant engagement. This will also be a focus in 2019 and we already have a number of initiatives in operation.

In addition, asset-level data supported a successful pilot of BREEAM In-Use. Seven sites in the portfolio achieved part one of BREEAM In-Use, resulting in greater understanding of asset performance. The information gathered has been integrated into our asset-improvement plans and a wider rollout is planned for 2019.

Consumption has been reduced across the portfolio this year, in part due to the continued focus of the RPI programme and the extension of the CAPP, which continues to provide greater insights into the portfolio's largest-consuming assets and delivers significant energy savings beyond those achieved through excellent building management. In 2019, we expect to utilise this technology in some of the lower-consuming assets in order to unlock further energy savings. ■■

**This year has seen a reduction in greenhouse-gas consumption across the portfolio, in part due to the continued focus of the RPI programme.**



**Oliver Light,**  
Senior Consultant,  
Carbon Credentials

# THE THREE SITES

## Verified carbon offsetting with Trees for Cities

In 2018 Hermes Investment Management offsetted its operational carbon emissions by working with Trees for Cities.

For every tonne of greenhouse-gas emissions that Hermes 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 greenhouse-gas emissions are reduced in the atmosphere. In 2018, our offsets of 834.5 tonnes of CO<sub>2</sub>e were generated by planting 2,229 trees in order to ensure that 557 trees, the amount required to offset the specified quantity of CO<sub>2</sub>e, are in a healthy condition after 100 years. The planting took place over three sites and, in addition to offsetting carbon emissions, provides important environmental benefits, including increased biodiversity, improved resilience to changes in climate, flood alleviation and mitigation of air pollution.

## The sites

Roding Valley, near Onslow Gardens in London, in collaboration with Redbridge Borough Council to make improvements to outdoor green spaces across the borough on a site that has been a high-priority area for woodland planting.

Odda Bank Quarry in Hawthorn, Leeds, on the border between Leeds and Bradford. Planting at this site will regenerate the former quarry and increase canopy cover in this area of urban fringe.

Rush Green Recreation Ground at Clacton-on-Sea, in partnership with Tendring District Council. Rush Green is widely used by local residents for recreation and the complex includes a bowling green, rugby and football pitches. Planting at this site will regenerate a section of amenity grassland that has been established on a former landfill site.

Offset by:



Verified by:



## 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, small and mid-cap and impact

#### Credit

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

#### Stewardship

Active engagement, advocacy, intelligent voting and sustainable development

### Offices

London | Denmark | Dublin | Frankfurt | New York | Singapore

### Why Hermes Real Estate?

Hermes Real Estate is one of the largest real estate investment managers in the UK, with £7.3bn 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

For more information, visit [www.Hermes-investment.com](http://www.Hermes-investment.com) or connect with us on social media:



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