

Real Estate

Responsible Property Investment

Strategy & Policy

April 2018



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Responsible Property Investment Strategy and Policy

Hermes Real Estate¹, part of Hermes Investment Management², are an active asset manager working to deliver excellent, long-term, performance – responsibly. We aim to lead the debate and contribute to the transformation of the investment industry, to the benefit of our clients, their stakeholders and, ultimately, society at large.

Our culture and values – delivering holistic returns

Formed in 1983, Hermes was originally owned by and acted as the principal investment manager for the BT Pension Scheme – the UK's largest corporate pension fund. Our ownership by the scheme and our duty to serve its pensioners has resulted in a strong sense of fiduciary responsibility which is embedded throughout the firm and which informs the decisions we make and the actions we take. It also gives us an unrivalled insight into the long-term needs of savers and helps us develop investment strategies that will enable them to meet their goals. This sense of duty remains a key strategy for Hermes.

Our primary purpose is helping beneficiaries retire better by providing world class active investment management and stewardship services. We believe this purpose includes 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.

We recognise that as fiduciaries, entrusted with the savings of millions of individuals, we have responsibilities which go beyond those defined in any contract - these are to our clients and their ultimate beneficiaries. We have these responsibilities because our decisions will have impacts on the world in which beneficiaries live and work today as well as the one in which they will retire into tomorrow. Our goal is to help people invest better, retire better and to create a better society for all.

Aiming to deliver holistic returns also means using our influence to improve the behaviour of those companies and assets in which we have invested; the operations of the assets that we directly manage, and advocating for improvements to the financial system in which we participate. Starting actions at home, we have a strong corporate social responsibility programme that is focused on helping the communities in which we live and work, we adhere to the London living wage and have ISO14001 accreditation for our operations.

Achieving this mission will mean putting the interests of our clients and their ultimate beneficiaries' front and centre of all that what we do. This is a commitment that all Hermes employees are committed to and is embodied in our Pledge of Responsibility.

Hermes Real Estate integrating responsible investment

Hermes Real Estate's investment style and philosophy are clear: we believe that a responsible, sustainable approach to real estate investment management is the only strategy that both protects and enhances the value of our clients' assets, now and into the future. Therefore our principles of Responsible Property Investment (RPI) are fully embedded in our investment process. Our investment process adopts top-down portfolio risk

¹ Assets under management: £7.8bn gross asset value (GAV), as at 31 December 2017.

² On behalf of our clients, we have a value of £30.8bn/US\$41.3bn/€34.9bn of assets under management (AUM). A leader in stewardship, with £317.1bn/US\$424.9bn/€359.7bn in assets under advice. Please note the total AUM figure includes £6.0bn/US\$8.0bn/€6.8bn 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. £76.3m/US\$102.4m/€86.6m of total group AUM figure represents HFM mandates under advice. Source: Hermes as at 30 September 2017 with the exception of two portfolios totalling £12.5m/US\$16.8m/€14.2m valued as at 30 June 2017.

management and bottom-up property selection to target assets that are highly competitive in their local markets and have sustainable income streams.

Our strategy draws on understanding how occupiers assess real estate and the needs of communities, which enable us to actively manage buildings that anticipate and respond to market demands. We have a clear understanding of the drivers of future performance, including an in-depth understanding of how occupiers assess real estate and of the evolving regulatory framework. We comply with all current legislation and demonstrate preparedness for forthcoming regulatory requirements.

Hermes Real Estate offers both segregated and unithesed solutions to investors through a business that is organised along client-focused investment and asset management specialisms, supported by a central team providing robust risk management oversight, research and corporate finance support. Hermes Real Estate also works in partnership through joint ventures and related companies to deliver a better overall offering to clients. We manage a direct real estate portfolio with a balanced asset allocation and active stock diversification strategy, and we have a strong market presence with global reach and appeal and robust investment performance. In 2015 we launched the Hermes Real Estate Debt strategy, which cherry-picks transactions with strong borrowers and attractive long-term real estate fundamentals. Integrating responsible property investment (RPI).

Over the years we have integrated responsibility principles throughout our investment and asset management processes, including: investment, development, property management, and occupier and community engagement. We also continue to work with the industry to develop tools and methods to that effect. Each step of the process is described in Figure 1.

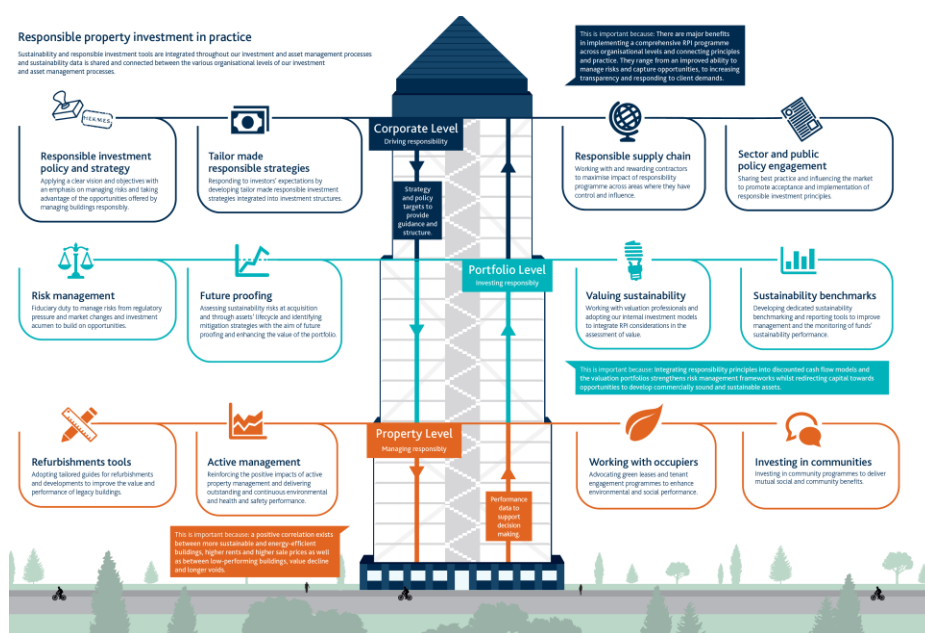


Figure 1: Hermes responsible property investment strategy and approach

“Place making is crucial in delivering successful real estate investment. Real estate investment will gravitate globally to those markets which are able to demonstrate they are best able to attract and retain global and local talent in order to drive growth in employment by creating an appealing environment, great infrastructure, retail, leisure, culture, education and accessible housing facilities.”

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

RPI Governance

In order to ensure that these objectives can be achieved, we have put in place the following governance procedures:

- **Responsibility:** A Board Director of Hermes Real Estate has overall responsibility for matters related to RPI.
- **Implementation:** The Hermes RPI Steering Group is responsible for the continuous evolution of RPI strategy and for overseeing its effective implementation. The Steering Group is chaired by a Board Director and consists of representatives from each of the Hermes Real Estate business. The Steering Group meets once a year.

Training: Ensure that all employees working on the HIML / HREIM account are suitably aware and trained as appropriate to deliver the relevant RPI programme requirements

Performance Targets: Each year we will review our series of management and performance targets to ensure that we can measure our progress and drive continuous improvement.

Each investment professional has specific Responsibility Behaviour Objectives in their annual performance objectives.

- **Engagement & Advocacy:**

An active stakeholder engagement programme is in place to ensure that Hermes' staff and business partners are aware of our Policy and Targets, enabling us to work together to achieve our objectives.

An active public policy engagement programme enables us to influence sustainability regulation enables private investment in sustainable and low carbon buildings.

We have an active engagement role with the following organisations: Institutional Investors Group on Climate Change (board member, property, policy and corporate groups); UN Environment Programme Finance Initiative (Chair Investment Commission), Portfolio Decarbonisation Coalition (Member and member steering group committee), and Positive Impact Finance WG (Steering group member); UK Green Building Council (Gold member) British Property Federation (Policy & Sustainability Committee); Better Buildings Partnership (Member); GRESB (Debt Advisory Board);
- **Reporting:** We will publicly report progress on our RPI Policy, Objectives and Targets on an annual basis. See:

www.hermes-investment.com/uki/capabilities/real-estate/responsible-property-investment/
- **Review:** The Hermes RPI Policy will be reviewed annually.

RPI corporate objectives

In order to implement our RPI vision and strategy, we have set overarching corporate objectives under the following key areas:

- **Leadership:** To be at the forefront of thinking and research in the responsible property investment and sustainability arena, in order to ensure we can provide the best strategic advice to our client and support market transformation.
- **Risk management:** To understand, evaluate and manage the impacts of sustainability on future performance to enable us to manage risks effectively and create real sustainable investment returns for our clients. To ensure appropriate approaches are in place to manage the properties and to devise

strategies, policies and procedures and then implement such policies to ensure that all legal obligations and duties are being properly discharged and that any risks arising are being properly managed.

- **Strategy:** To acquire, develop, manage and dispose of property assets, taking into consideration the social, environmental and socio-economic risks and opportunities which contribute to the properties' potential to deliver long term investment performance.
- **Management Systems:** To implement the processes and programmes contained in Hermes RPI and RPM strategy and programmes, including (without limitation) the following: the sustainability benchmarks, the responsible refurbishment guide, the stakeholder engagement programme, the responsible property management programme. To do so, to maintain the systems and procedures in place which ensure that RPI can be effectively implemented. These will be supported by performance evaluation systems designed to incentivise the delivery of long-term investment value by those responsible.
- **Compliance:** To ensure that we and the property assets we are responsible for complying with all current legislative and regulatory requirements, and demonstrate preparedness for any forthcoming legislation. We will seek to include a provision in any written appointments of any contractors and their sub-contractors working on the Hermes accounts, stating that such contractors and sub-contractors shall comply with applicable law and regulation, including the Bribery Act 2010 and the Modern Slavery Act 2015.
- **Good Practice:** To ensure that our property assets make a positive long-term contribution to society and to the protection of the local and global environment.
 - To develop and manage our property assets with consideration for their impact on local communities and to support local communities in improving their quality of life.
 - To ensure we engage with our supply chain on responsibility principles in their activities.
 - To develop effective relationships with all stakeholder groups and facilitate the sharing of good practice.
 - To ensure that all staff are aware of our RPI policy and objectives.

RPI programme priorities for 2018

Our Responsible property investment and management programme focuses on the three pillars of environmental, social, health and well-being and governance.

Specifically our strategy and underlying programmes on environmental risks and opportunities covers: Energy consumption/management; GHG emissions/management, Climate risks, opportunities, Resilience and adaptation; Biodiversity and habitat; Materials, waste, water, sustainable procurement and the circular economy.

Our social approach encompasses a broad range of issues affecting a range of people: Employee's from occupational safety, diversity and equal opportunity to career development; Stakeholder engagement, tenant's well-being and safety, communities' socio economic development; Supply chain's worker rights, modern slavery, child labour, and sustainable procurement.

Our governance approach focuses on board independence and diversity, long term performance rewards, acting on behalf of client and beneficiaries benefits.

Every year we review our strategy and identify priorities for action to deliver continuous improvements across our portfolios. Thus, as part of to implementing our responsible property investment programme, for 2018 we have identified the following issues as important elements we need to focus on and integrate more explicitly and deeply within our processes:

Tenant engagement activities:

- Tenant selection & lease agreement: occupier due diligence to include ESG risk assessment covering sustainability policy, modern slavery act, supply chain policies.
- Increase the depth and coverage of our occupier engagement and performance data, (issues: occupier willingness to share / indirect control because of FRI leases.
- Further roll out fit out guides throughout funds and portfolios
- Occupier engagement to increase coverage of occupier performance data.

Well-being & Responsible Property management

- Work with experts in the industry to develop new and innovative ways of improving the work environment for occupiers, utilising new technology, and certifications such as RESET
- Our CAPP + and WELL BEING initiatives are key elements of our continuous improvement programme and are being rolled out across Hermes managed assets.
- Focus on building certifications through BREEAM in use and EPC coverage
- Track improvements over life cycle, e.g. through case studies
- Continuous improvements on operational performance are at the core of our active RPM programme, led by the Property Manager with a strong monitoring and support by HRE.

Projects and Development

- Dissemination of responsible property refurbishment and development guide to wider range of projects
- Continuous improvement of monitoring ESG performance during refurbishment and development projects
- Formal monitoring and engagement with project team

Place-making & Social impacts

- Focus on impact of place making and regeneration
- Transfer learning from Kings Cross social and economic outcomes to measure social value of regeneration places across our portfolios.
- Inform integration of holistic return into real estate fair value analysis

Sector and public policy engagement

- Working with industry, develop process to measure positive impacts of Real Estate investments
- EU and UK sustainable finance, green growth and energy policies
- Positive impact finance
- Climate disclosure TCFD recommendations for Real Estate
- Soft landings and operational green certification