# ESG Report 2020

Real Estate

Federated Hermes Limited

www.hermes-investment.com
For professional investors only

# Contents

# Foreword

At Federated Hermes, we believe that responsible investing is the only way to create long-term sustainable wealth. We achieve this through integration of ESG considerations throughout all of our investment processes and this helps us to achieve better risk-adjusted returns for our clients and ensures we contribute to positive external outcomes. To deliver these results in our real estate portfolio, we recognise that property has an impact on the surrounding environment and communities so we focus on understanding the environmental and social impacts of our assets in particular. We ensure that the impacts are managed effectively to maximise positive benefits for tenants and local communities while actively managing negative externalities of our operational and construction activities.

The overriding challenge for 2020 has been the COVID-19 pandemic but the focus on delivering against our ESG aspirations has remained. We highlight in this report how we continue to respond to the challenges of ESG. In 2020, we continued our urban regeneration programmes across a number of UK city centres ensuring a focus on ESG, we supported our tenants responsibly through the pandemic and we continued to focus on energy efficiency and reduction.

In December 2020 we signed up to the Better Building Partnership net zero commitment to publish our net zero carbon pathway and delivery plan. We set an ambitious target to reach net zero on our managed portfolio by 2035 and we are working on the pathway to achieve this.

We endeavour to deliver enhanced risk-adjusted returns for our clients through our ESG activity and are excited at the prospect of what we can deliver in both our existing portfolios and through some of the UK's most exciting urban regeneration projects.

The returns and outcomes we deliver go beyond the purely financial. Our holistic approach to real estate investment is designed to generate a positive impact on society and the natural environment. To date, we have applied our Impactful Intent framework across eight major urban regeneration schemes in the UK which count for an estimated end capital value of £13 billion.

Federated Hermes aims to create great places, a platform for the 'meaningful city'. Our buildings must be accessible to all. They should also create a sense of pride and belonging among occupants and local community alike. Lastly, they should offer a tangible link to the past through heritage buildings and culture.

**Chris Taylor, CEO of Real Estate & Head of Private Markets, Federated Hermes Limited**

# Report coverage, material aspects and boundaries

Our 2020 ESG Report is designed to show how we integrate responsibility throughout our portfolio, including governance, strategy, risk assessment and management. We focus on issues which are material to both our business and our stakeholders. We actively engage with investors on the sustainability performance of our indirectly held property portfolios and incorporate feedback from the Global Real Estate Sustainability Benchmark (GRESB).

We have made no significant changes to the scope of the materiality assessment since publishing the last annual report in September 2019.

In this report, we describe both directly managed assets and indirectly held assets in our portfolio globally for the period from 1 January to 31 December 2020. We report key environmental and social data for UK assets over which we have management control for the same period.

Engaging with stakeholders and supply chain is critical to our success. These stakeholders include the investors who own the assets, the contractors we appoint through direct service agreements to work on our properties, the tenants that occupy our assets and the wider communities in which our properties are based. We also screen all our new suppliers in the UK across environmental, social, human rights and modern slavery criteria. To date, we have no evidence of potential social harm in our directly controlled supply chain. We also work with selected real estate and financial sector organisations to help transform the industry and engage with policymakers in the UK and the European Union.

For more details on our ESG activities, please visit: **www.hermes-investment.com.**

# Who we are

## Key facts

**Established:** Investing since 1983

**Offering:** Client-focused property investment solutions

**Assets under management:** £6.9bn gross asset value (GAV)[1]

**Headquarters:** UK with investments in the UK, Europe, Americas, and Asia Pacific

**Our approach:** We embed responsible investment principles and seek to deliver consistent outperformance on a risk-adjusted basis.

## Our ESG governance structure and procedures:

- **Principles:** the precautionary principle and a materiality assessment of risks and opportunities are being used in the development of our ESG programme.
- **Responsibility:** an Executive Director of Federated Hermes Limited has overall responsibility for matters related to ESG.
- **Implementation:** the ESG Working Group oversees the integration of environmental and social topics across the asset management and investment process.
- **Monitoring:** The ESG team of Federated Hermes Real Estate has the overall responsibility of monitoring the progress of the programme.
- **Performance targets:** each investment professional has specific responsibility behaviour objectives in their annual performance objectives.

## Federated Hermes Real Estate value proposition

Our award-winning investment team is supported by an outstanding asset management team, along with our in-house specialist development and asset manager, MEPC. We provide excellent service to more than 120 institutional clients. These clients include the BT Pension Scheme, AustralianSuper and Canada Pension Plan Investment Board as well as Local Government and Corporate Defined Benefit Pension Schemes in the UK.

The size and structure of our business allow us the agility to be responsive to client needs in a fast-changing environment, while still operating within best-in-class governance frameworks. We anticipate market cycles and how broader themes could impact occupier demand, from urbanisation, demographic and lifestyle changes to climate risk and technology.

As a leader in responsible and sustainable property investment, we go beyond simple investment management. Instead, we are integrating environmental, social and governance (ESG) principles across our investment and asset management processes, including investment, development, property management and occupier and community engagement. We also work with others to help transform the wider real estate industry, partnering with the Better Building Partnership and the UK Green Building Council, for example.

Federated Hermes Real Estate manages a range of investment solutions for our clients. In doing so, we perform various roles. As fund managers, we are responsible for performance at fund level, including investment transactions, portfolio management, governance and regulatory oversight and risk management. As asset managers, we are accountable for performance at property level, including property strategy, tenant leasing transactions and managing capital expenditure programmes while as development managers we are responsible for building meaningful places that deliver positive societal and environmental impacts.

[1] Source: Federated Hermes, as of 31 December 2020

# Our achievements

We have continued to build on the foundations we created over the past decade, ensuring that our approach focuses on the most pressing issues, meets stakeholder expectations and reflects industry best practice. In 2020 we have maintained the highest rating of "A+" for Strategy and Governance from the UN Principles for Responsible Investment We also reached our ambitious target of a 40% reduction in carbon emissions in a like-for-like portfolio in 2018, two years ahead of schedule, achieving a further 23% reduction in 2020. We recognise that this reduction was mainly the result of lower occupancy due to national Covid-19 restrictions and we expect an increase in energy consumption in 2021 as business activity returns to normal conditions.

In 2020, we were also a GRESB / BREAAM finalist for our HCLLP fund. BREEAM In-Use continues to be a major certification scheme in use across all funds. We have certified 14 assets in BTPS, 11 assets in FHPUT, seven in Metro PUT and two in our HCLLP portfolio. In 2020 we achieved the first international BREEAM In-Use certification for two of our residential properties.

We also set out our intention to reach net zero across the portfolio by 2035 and have been working on how we will achieve this. Our initial focus has been on driving down carbon emissions and energy usage across the portfolio.

Additionally, we are working to certify our existing portfolio to Fitwel, the leading standard for supporting health and wellbeing in commercial real estate. In 2020, one asset in our FHPUT portfolio was certified and we plan to roll out assessment to more assets in 2021. We have also looked at various assets across all funds for a number of different climatic issues on different RCPs[2] scenarios for example precipitation, drought, wind speed, sea level rise and forest fire.

Due to the pandemic, we were unable to continue some aspects of our social value measurement and reporting activity but we did continue work on this, adapting our approach to the restrictions caused by the pandemic. We also worked to support our tenants, as well as the local communities in which our assets are located.

The case studies below showcase our efforts to integrate sustainability considerations into our portfolio.

## Case study: Enhancing biodiversity at key assets

Traditionally, shopping centres and business parks have had limited focus on supporting biodiversity. Given the alarming loss of nature, we are working to enhance biodiversity in key assets. Not only does this support local wildlife but it can also improve the health and wellbeing of occupants and community.

To increase biodiversity on its 17,611m2 site, the **Maybird Shopping Park** has implemented a range of measures. Bird boxes, bat boxes, bug hotels and beehives have been placed in strategic locations across the site while 210m2 have been planted up with perennial wildflowers. We have begun to engage the community, with a tour for a local primary school to see these measures, as well as our solar panels, electric vehicle charging points and LED lighting.

Similarly, at the 4,923m2 business park **Alpha Court Metro**, initiatives to increase biodiversity are underway. Pollinator-friendly plants and autumn bulbs have been planted, while grass-cutting has been reduced, with some areas left uncut altogether to be more wildlife-friendly. Bug hotels and bird boxes have been placed around the developing wildflower meadow while external seating allows occupiers and visitors the chance to rest and experience nature.

## Case study: Reducing energy consumption while improving working conditions

The asset **8-10 Great George Street** is a complex office with heat and power systems of various ages and configurations. To modernise the property, the on-site team needed solutions that intelligently reduced energy use and carbon emissions while also improving conditions for tenants. By changing the settings of the asset's air handling units (AHUs) to respond to demands from internal floors, we expect to avoid an annualised 70 tonnes of carbon compared to the baseline year due to reduced energy consumption while also generating over £33,000 worth of annualised savings. In addition, new IoT (Internet of things) sensors monitor temperature, humidity and lux levels. These changes have resulted in cost savings for tenants as well as providing more comfortable working conditions.

## Case study: Reducing carbon emissions in older office blocks

Reducing carbon emissions in pre-war and post-war office blocks can be a challenge. Typically, these buildings have centralised heating and cooling plants, with electricity supplied to landlord areas and tenants sourcing their own supply. Although buildings have been modernised over the years, the core and shell were not designed with carbon reduction in mind. Following acquisition, we therefore undertake projects to swiftly reduce an asset's emissions.

- **Chiswick Tower** is a post-war high-rise office block. Since acquisition, initiatives to reduce the asset's carbon emissions have included installing LED lighting and switching the landlord's electricity supply to a renewable source.

[2] RCPs are trajectories of the evolution of emissions and concentrations of greenhouse gases adopted by the IPCC and are used for climate modelling and research.

- **Soho Square** is an older pre-war build mid-rise office block. Since acquisition, the plant's efficiency has been increased through smart technology to analyse energy usage and streamline consumption, while work on the air handing units (AHUs) includes outside air temperature controls. Again, the landlord's electricity supply was moved to a renewable source, further reducing the asset's carbon emissions.
- **Sovereign House, Hammersmith** is another common type of a 1980s build low-rise office block found throughout the UK. Smart technology has now been deployed to analyse and limit energy consumption. Using variable speed drive controls and cold water temperature pumps allows the system to respond only on demand, rather than run constantly.

## Case study: Fitwel certification reflects commitment to health and wellbeing

As part of promoting wellness in design, development and operations, we have now gained International Fitwel certification at our Chester asset **One City Place**. This third-party verification provides a snapshot of the asset's current standing and shows the work needed to increase the health and wellbeing offering, as well as a timescale for the work. One City Place marks the first asset to be certified in the north west of England.

The Fitwel Scorecards address 55+ evidence-based design and operational strategies that aim to enhance buildings. These are grouped under seven themes: promoting occupant safety; instilling feelings of wellbeing; increasing physical activity; reducing morbidity and absenteeism; enhancing access to healthy foods; supporting social equity for vulnerable populations; and positively impacting the health of the surrounding community. Fitwel certification adds value to the asset and demonstrates to tenants that the building supports their health and wellbeing. The scheme will next be rolled out to further asset types in our portfolio.

## Case study: meaningful placemaking yields positive social outcomes

Over the last six years, we have undertaken eight large urban regeneration developments across the UK, representing a combined 19 million square feet and £13 billion of capital value. To gain an objective view of the social and economic impacts of our meaningful placemaking approach, we engaged independent economic consultants Hatch to carry out benchmarking studies at three flagship developments: King's Cross in London, NOMA in Manchester and Wellington Place in Leeds.

Hatch explored a range of measures, including employment opportunities, skills development and community engagement. Analysis of average wage measures revealed that people employed by occupiers at King's Cross, NOMA and Wellington Place earn around 14% – or over £4,000 – more than average annual salaries in the local area. This 'earnings bonus' functions as a rough proxy for the additionality we deliver through our occupier selection, engagement and meaningful placemaking approach.

The research also offered insight into the additionality of the social outcomes we contribute as an investor. King's Cross, NOMA and Wellington Place are surrounded by communities which include a diversity of cultures, age profiles and histories. The studies improved our understanding of the social value generated by different types of engagement, allowing us to tailor projects to local needs. The studies also identified how our placemaking process can spark positive change at different phases of development, from design and construction to occupation. During construction, all three sites generated significant value in developing skills for the future. Some 1,230 apprentices and NVQs were involved in the construction of King's Cross, NOMA and Wellington Place, generating £2.6m in societal benefit.

The benchmarking studies revealed that our meaningful placemaking approach often delivers results greater than the sum of its parts, including:

- Generating economic value in UK regions historically associated with post-industrial under-investment.
- Creating job opportunities and training, growing clusters of highly-skilled workers that can attract further investment and talent to an area and providing entry-level roles that contribute to inclusive and diverse places.
- Restoring a sense of civic pride and belonging, bringing the 'meaningful city' concept to life.
- Conserving local heritage and ensuring it exists in harmony with modern structures.
- Introducing accessible urban spaces that function as a community hub and a cultural mosaic. For example, the new public square at NOMA hosts diverse events including outdoor fitness sessions, music and arts festivals and pop-up markets. The square is also home to The Pilcrow, a pub built by 500 volunteers who made everything from stools to beer pump handles, encouraging local people to feel part of the NOMA community. In addition, the Old Bank Residency is a new space for creative practices to experiment, collaborate and grow.

Building on the success of the benchmarking studies, we are now looking to carry out studies at additional locations.

## Case study: Supporting tenants during COVID-19

A clear example of how our purpose and investment beliefs have guided our decision-making during 2020 is the way in which our Real Estate team stewarded and managed our assets during the crisis. The pandemic has emphasised the need for wellbeing in the built environment and our team has focused on providing the necessary support to tenants to ensure safe re-occupancy for staff.

Since the start of the national lockdown in March 2020, we negotiated with our insurers to make £300,000 worth of funds available through a Risk Management Bursary (RMB) fund to pay for various risk mitigation measures, including extra security for empty buildings, clear protective screens for receptions, stand-alone hand-sanitiser units and directional signs to ensure social distancing. The cost of such items would normally be charged back to tenants through the service charge, but reimbursing costs through the RMB fund instead allowed us to avoid doing so at this very difficult financial time for tenants.

Since April, we have instituted a 'buddy' system in our residential properties to support vulnerable or self-isolating residents. Organised by our site management teams, this allows housebound residents to reach out to a 'buddy' when they need supplies. The buddies also act as the first point of contact in an emergency and can notify site teams. There are 46 buddies at our Cargo building in Liverpool and 29 at Pomona Wharf in Manchester. The system has also helped to open up communication channels to reduce the risks of isolation. In addition, on-site mental-health practitioners have been issuing mental-health awareness kits to residents suffering from anxiety and other mental health concerns.

We also worked with the British Property Federation – which advises the UK government – to develop guidance for landlord and tenants, including how to approach rental payments when national restrictions are in place. We remain mindful of this guidance when carrying out our own real-estate operational activities and assess the appropriate course of action for each case. Our managing agents have worked on a one-to-one basis with our occupiers to understand their financial situations and to reach resolution when occupiers face financial difficulties. Finally, we are in the process of developing a design and operational brief for wellbeing in buildings to improve air quality, access to outdoor space and mental wellbeing in a post-pandemic world.

# Data

## Real estate mandates[3]

## Real estate current mandates[4]

Federated 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[5] | | |
|---|---|---|
| **Pooled Fund** | Federated Hermes Property Unit Trust (FHPUT) | Exempt Unauthorised UK Property Unit Trust<br>Clients: > 110 UK institutional clients: UK local authority, corporate pension funds and charities<br>Gross Asset Valuation: > £1.5bn<br>Federated Hermes' Role: Fund and Asset Manager<br>Asset Classes: Office, Retail, Industrial, Leisure, Other<br>Geography: Pan UK<br>Performance: Over the 2020 period the trust recorded a total return of -1.4%.<br>Over three and five years to 31 December 2020 the Trust recorded a total return of 3.1% and 5.4% per annum respectively, both above the MSCI AREF UK Quarterly Property Fund Index benchmark. |
| **Segregated mandate** | Global Real Estate Mandate | Client: UK Pension scheme<br>Gross Asset Valuation: <£5.0bn<br>Federated Hermes' Role: Fund and Asset Manager<br>Asset Classes: Office, Retail, Industrial, Residential<br>Geography: International<br>Performance: Over the 2020 period the Portfolio recorded a total return of -1.1%. Over three and five years to 31 December 2020, the Portfolio delivered 2.0% and 4.3% per annum respectively. |
| **Joint Venture** | Hermes Central London | Clients: CPPIB and BT Pension Scheme<br>Gross Asset Valuation: > £0.5bn<br>Federated Hermes' Role: Fund and Asset Manager<br>Asset Class: Office<br>Geography: City-specific<br>Performance: The Hermes Central London Limited Partnership delivered a total return of -17.6% over one year and -5.9% per annum over 3 years to 31 December 2020. |

[3] Past performance is not a reliable indicator of future performance.
[4] Source: Federated Hermes Real Estate, as of 31 December 2020, unless otherwise specified.
[5] Performance returns are on net basis.

| All current mandates | | |
|---|---|---|
| **Segregated Mandates** | UK Pension Scheme Global Mandate (GAV <£5.0bn) | Multi asset class |
| | UK (GAV <£3.5bn) | Pan-UK commercial multi asset |
| | International (GAV >£1.0bn) | International commercial multi asset |
| | UK Senior Debt (GAV <£500m) | Senior debt |
| **Funds** | Federated Hermes Property Unit Trust (GAV >£1.5bn) | Pan UK commercial multi asset |
| | Metro Property Unit Trust (GAV >£300m) | Pan UK commercial multi asset |
| **Joint Ventures** | Central London Partnership (GAV >£500m) | Offices |
| | Paradise Circus, Birmingham (GDV £800m) | Regeneration |
| | Wellington Place, Leeds (GDV £500m) | Regeneration |
| | Milton Park, Oxfordshire (GAV >£500m) | Life Sciences Business Park |
| | Centre:MK, Milton Keynes (GAV >£500m) | Retail |
| **Further strategies** | Silverstone, Northamptonshire (GDV £500m) | Innovation Business Park |
| | NOMA, Manchester (GDV £800m) | Regeneration |
| | UK Regional PRS Assets (<£100m) | Residential |
| | King's Cross, London (GDV £2.2bn) | Regeneration |

## Financial performance
## Key facts

- £5.5bn assets under management, gross asset value (GAV)
- Long term outperformance being generated in client mandates[6]

Source: Federated Hermes as of 31 December 2020

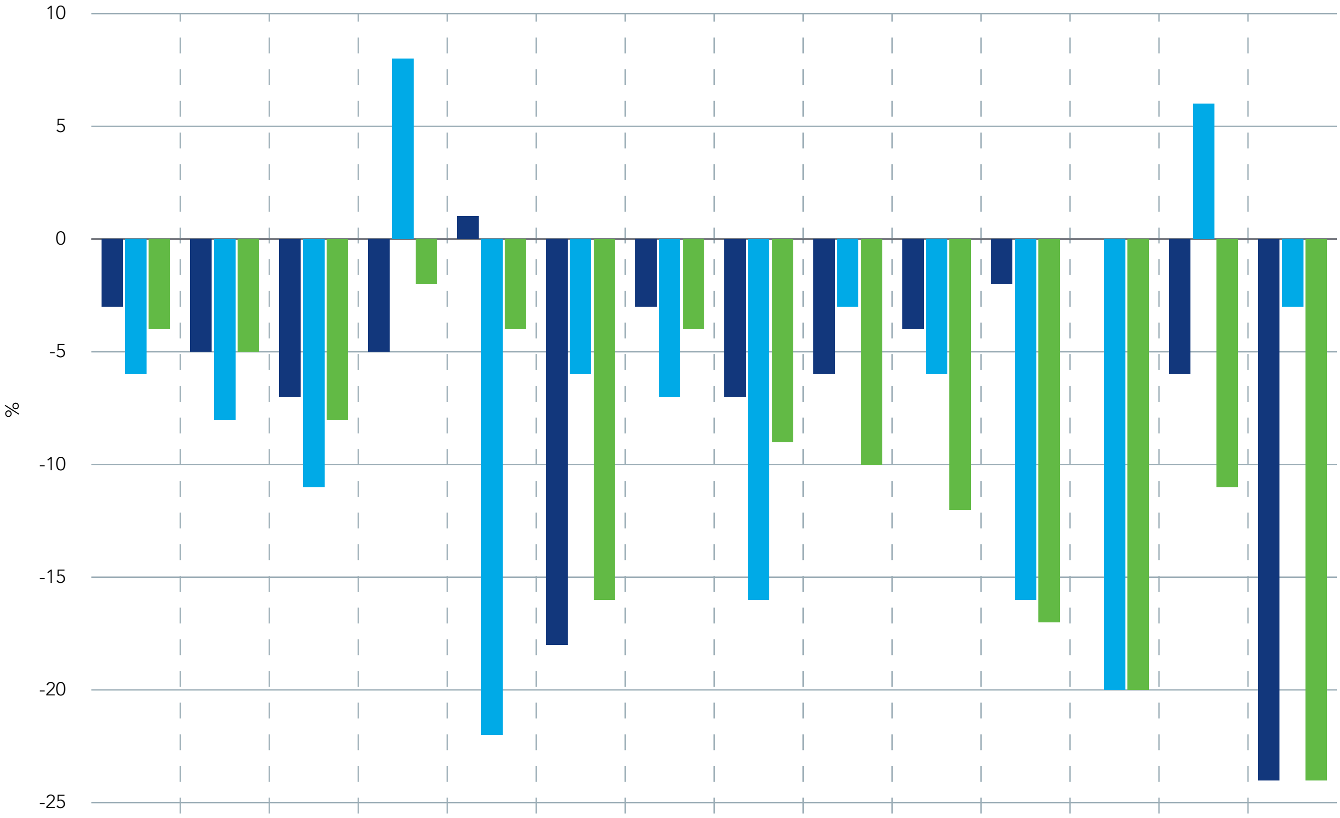
[6] Based on three-year track record for FHPUT and segregated mandates as of 31 December 2020. Past performance is not a reliable guide to future performance.

# Environmental performance and outputs

## Federated Hermes – 2020 annual reporting commentary

### Energy and $CO_2$

**Figure 1.** Annual change in $CO_2$ emissions on a like-for-like basis over eight rolling quarters, adjusted for heating degree days (%)




| | 2006-2007 | 2007-2008 | 2008-2009 | 2009-2010 | 2010-2011 | 2011-2012 | 2012-2013 | 2013-2014 | 2014-2015 | 2015-2016 | 2016-2017 | 2017-2018 | 2018-2019 | 2019-2020 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property count | 38 | 59 | 61 | 45 | 45 | 44 | 45 | 68 | 60 | 64 | 64 | 57 | 69 | 98 |
| Electricity | -3% | -5% | -7% | -5% | 1% | -18% | -3% | -7% | -6% | -4% | -2% | 0% | -6% | -24% |
| Natural gas | -6% | -8% | -11% | 8% | -22% | -6% | -7% | -16% | -3% | -6% | -16% | -20% | 6% | -3% |
| $CO_2e$ | -4% | -5% | -8% | -2% | -4% | -16% | -4% | -9% | -10% | -12% | -17% | -20% | -11% | -24% |

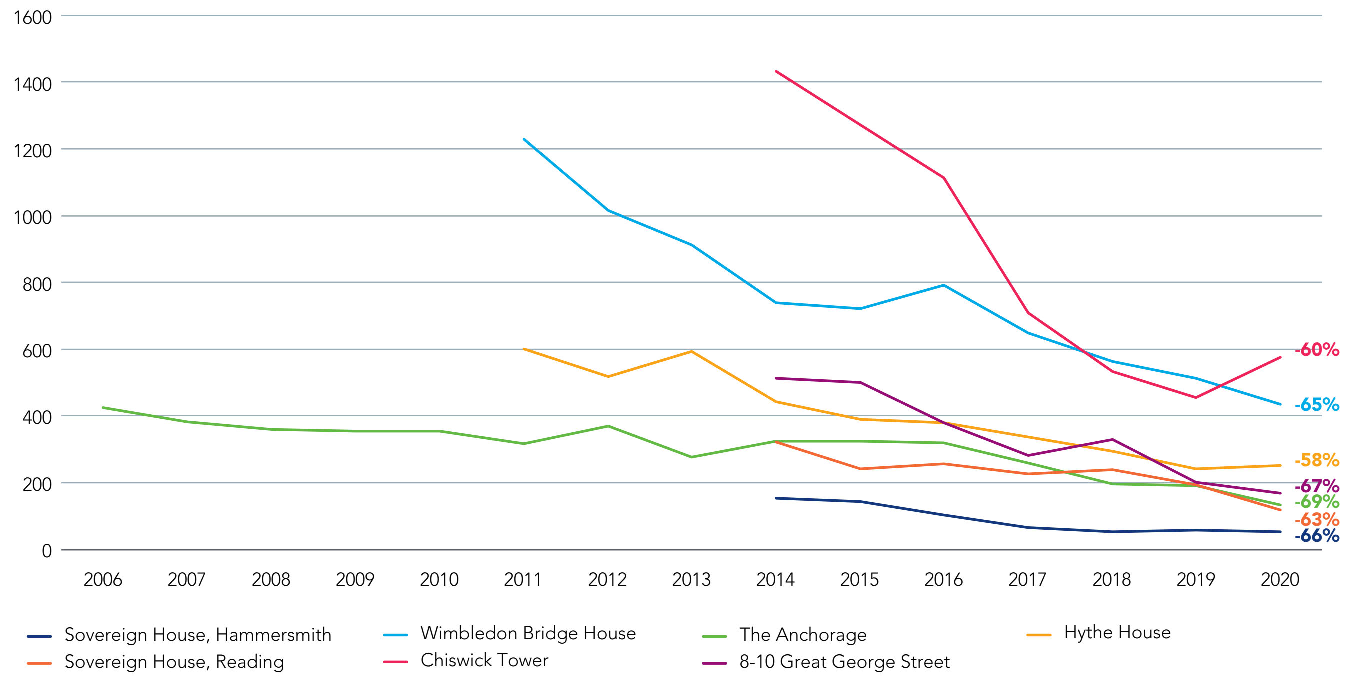
Source: Carbon Intelligence, as of December 2020

## Figures:

- 14 consecutive years with like-for-like emissions reductions
- 23% reduction in emissions across the like-for-like portfolio

Efficiency projects across the portfolio have contributed to this significant reduction, although it is important to note that the emissions factor for electricity and natural gas has also dropped. Recent efficiency projects include the Collaborative Asset Performance Programme (CAPP) at 100 Regent St, 8/10 Great George Street and No. 1 Croydon. At other sites, concerted efforts to improve on-site fixtures and equipment have led to savings. LED upgrade works continue to be a cost-effective way to drive down energy. For example, Abbeyview saw a 25% reduction in 2020, while other reductions include Perivale Industrial Park (22%) and The Great Hall, Canterbury (15%). Based on Heating Degree Days, there was a 24% reduction in electricity consumption in 2020.

**Figure 2.** Changes in absolute carbon emissions for landlord-controlled properties across the portfolio that have delivered efficiency savings between 2006 and 2020 (tonnes $CO_2$e/year)
Percentage figures below compare above seven assets acquired before or during 2014 against 2020 consumption




Source: Carbon Intelligence, as of December 2020

## Figures:

- 56% reduction in emissions since 2014
- 2,195 tonnes of $CO_2$e saved since 2014 due to proactive energy management

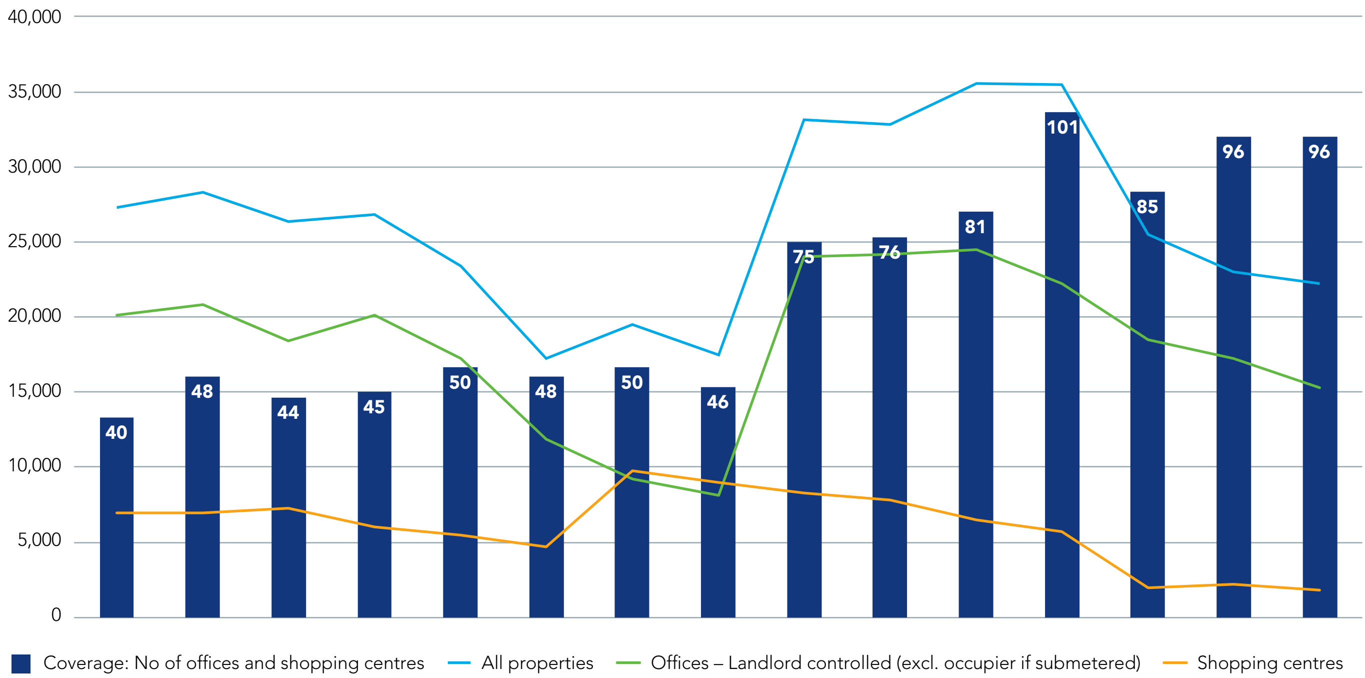
The seven buildings in the chart above are a cross-section of assets in the Hermes RPM programme. When these properties first entered the portfolio, they were identified as energy-intensive assets. Through engagement with property managers and occupiers, significant reductions in operational demand have been made. These properties have collectively exhibited a 56% reduction in emissions since 2014, a saving of 2,195 tonnes of $CO_2$e. Although our active management programme was a key factor in this it is important to also note that the official Defra emissions factor for grid electricity in the UK decreased by 9%, contributing to the decrease in reported emissions for the year. The COVID-19 pandemic also had a significant global impact, changing working patterns and the way in which assets are used.

More detail on how each of the seven properties reduced energy consumption and carbon emissions can be found below:

- **Sovereign House, Hammersmith** – In 2020, the continued reduction in energy usage was largely driven by proactive management during the COVID-19 pandemic. The building was mostly vacant during the first national lockdown from March until June and the site team were quick to ensure non-essential equipment was switched off and energy usage was kept to a minimum.
- **Wimbledon Bridge House** – Similar to Sovereign House, Hammersmith, the first COVID-19 lockdown in 2020 meant that occupancy greatly reduced from March to June. The site team responded swiftly, reducing plant run times at the onset of lockdown and switching the chillers off completely. A lasting positive change is that these measures showed that chillers are not essential to comfortable running of the asset. As a result, they remained off even during re-occupancy and were only run for servicing.
- **The Anchorage** – This asset also continued a downward trend in energy usage, in part due to COVID-19 with occupancy significantly reduced during Q2 2020. This was the primary driver behind the continued reduction in energy consumption, but low occupancy also allowed the site team to complete on-site refurbishment and maintenance, improving efficiency measures and conducting a full lift refurbishment.
- **Hythe House** – Since entering the portfolio, Hythe House has achieved a 58% reduction in emissions due to effective and active management, including adjustment of plant times. In 2020, the site saw a slight increase in energy consumption, caused by increased running of the plant in alignment with the COVID-19 health and wellbeing guidelines.
- **Sovereign House, Reading** –The Collaborative Asset Performance Programme (CAPP) has been implemented at this site with energy reductions since 2014 now reaching 63%. While the most significant changes were made to the plant and BMS in 2019, the use of CAPP allowed the site to act swiftly during lockdown, monitoring its consumption and targeting any equipment left running. Overall, this resulted in a 39% reduction on consumption versus 2019.

- **Chiswick Tower** – Proactive management has reduced energy consumption by 60% since this asset was purchased. The site has successfully coupled property efficiency works with occupier engagement, which has amplified the impact of those works. In 2020, the site saw an increase in consumption, driven by the post-COVID-19 lockdown response, which promoted fresh air circulation through constant running of AHUs and other plant equipment.
- **8/10 Great George Street** – This is another site where the Collaborative Asset Performance Programme (CAPP) has delivered continuous energy savings. The site has now reduced its consumption by 67% since it entered the portfolio in 2014, while COVID-19 led to a further 16% reduction in usage between 2019 and 2020.

**Figure 3.** Changes in absolute carbon emissions (Scope 1 and 2) for landlord-controlled standing portfolio between 2006 and 2020 (tonnes $CO_2$e/year)
Percentage figures below compare 2020 emissions with consumption during the previous year and the 2006 baseline.




Source: Carbon Intelligence, as of December 2020

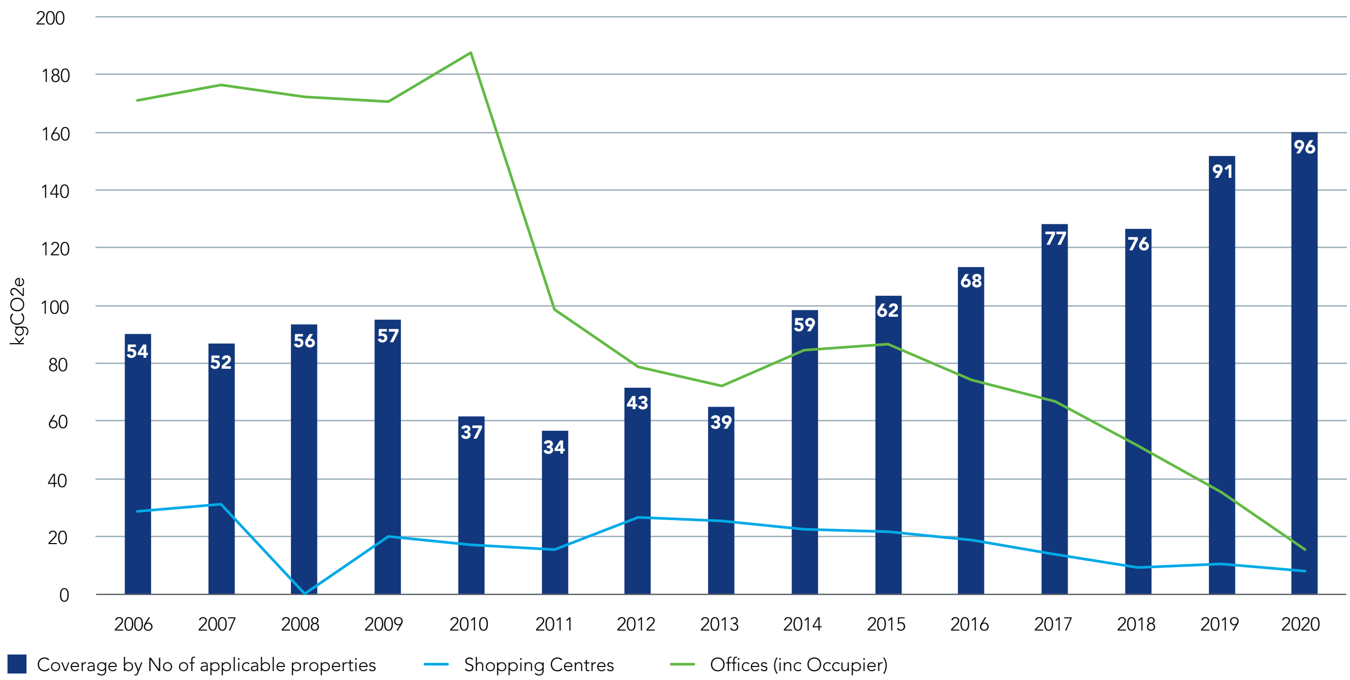
## Figures:

- 19% emissions decrease against baseline
- 4% decrease since 2019

Over the course of 2020, proactive property management helped to ensure that absolute carbon emissions continued to fall. This was supplemented by the continued decarbonisation of the UK grid and the national lockdowns during the COVID-19 pandemic, with the most severe one lasting between March and June. The lockdown efforts by site teams typified the Responsible Property Management (RPM) programme's approach to energy reduction and, on average, a 17% reduction in energy usage was seen during the first two weeks of the first COVID-19 lockdown.

Offices account for 69% of overall portfolio emissions, compared with 8% for shopping centres. Other retail and industrial account for 23%.

**Figure 4.** Changes in carbon intensity for shopping centres and offices between 2006 and 2020 (kg $CO_2$e/m2/year)
Percentage figures below compare 2020 with 2006 baseline.




Source: Carbon Intelligence, as of December 2020

## Figures:

- 91% reduction in carbon intensity by lettable floor area in offices since 2006
- 72% reduction in carbon intensity by lettable floor area in shopping centres since 2006

Carbon intensity by lettable floor area is an important metric as it signifies the progress made in sustainable lettings across the portfolio. 2020 continued to show the same downward trend in intensity for offices and shopping centres, with 91% and 72% reductions respectively when compared to the 2006 baseline.

While proactive management has continued and interventions such as the Collaborative Asset Performance Programme (CAPP) have driven down emissions at sites in the office portfolio, the predominant reason for this decrease is the COVID-19 pandemic. Many offices were unoccupied across the portfolio from March to June 2020 and then again in November and parts of December, with UK government guidance ruling that people should work from home where possible.

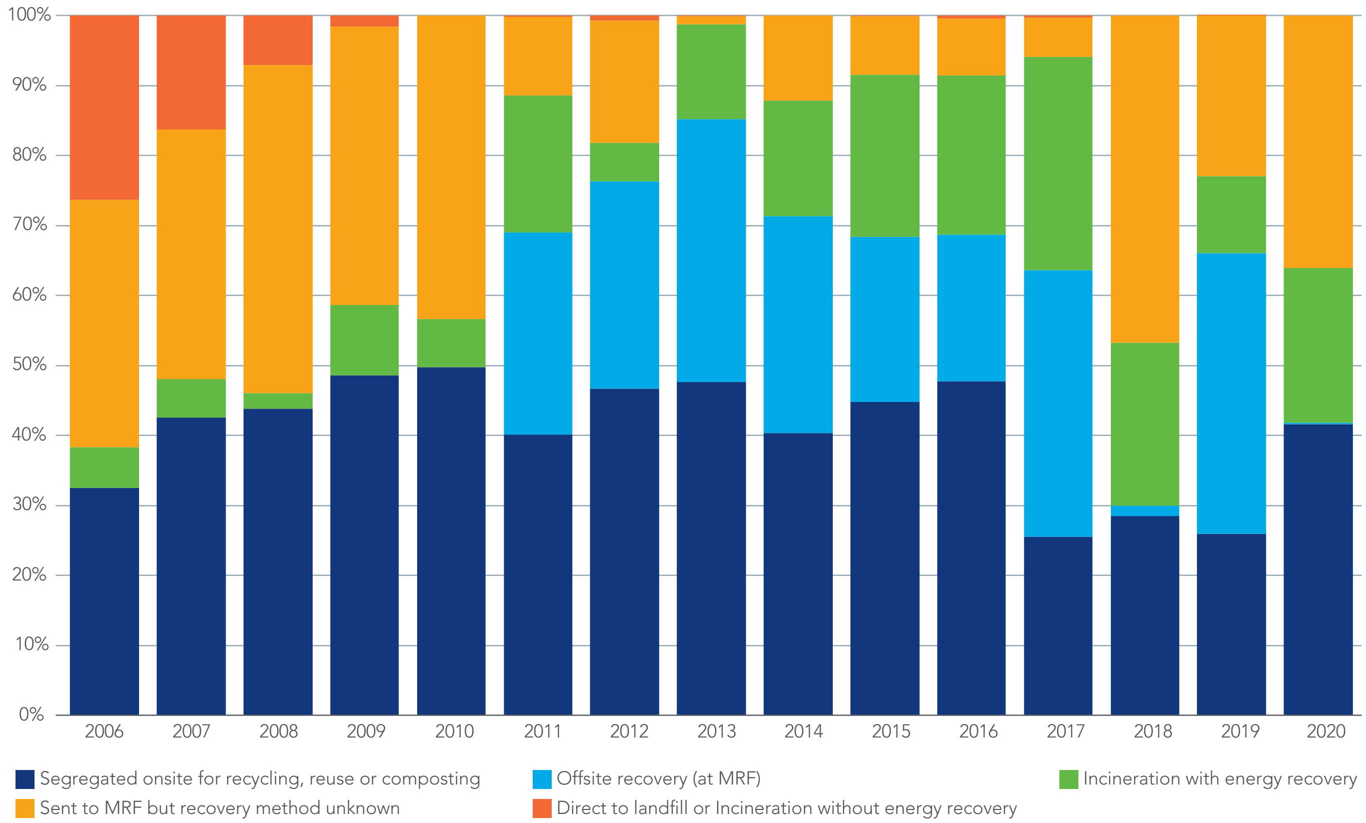
The story is similar for the shopping centre portfolio, where non-essential retail tenants were forced to close during national lockdown periods. Footfall greatly reduced over the year, with Centre:MK only running essential equipment for much of the period between March and June.

Proactive management remained at the core of the Responsible Property Management programme despite COVID-19 disruption. The programme's annual forum focused on actions property managers could take to ensure their buildings reduced energy consumption throughout national lockdowns. The programme also identified assets where energy usage was not decreasing during lockdown, with interventions to assist site teams and ensure non-essential equipment was turned off where possible.

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

**Waste**

**Figure 5.** Proportion of waste by disposal route for standing portfolio, measuring waste by mass year on year (%) Weight (kg) is presented in 2020.




Source: Carbon Intelligence, as of December 2020

## Figures:

- 42% of waste recycled, re-used or composted on site
- 22% of waste incinerated with energy recovery

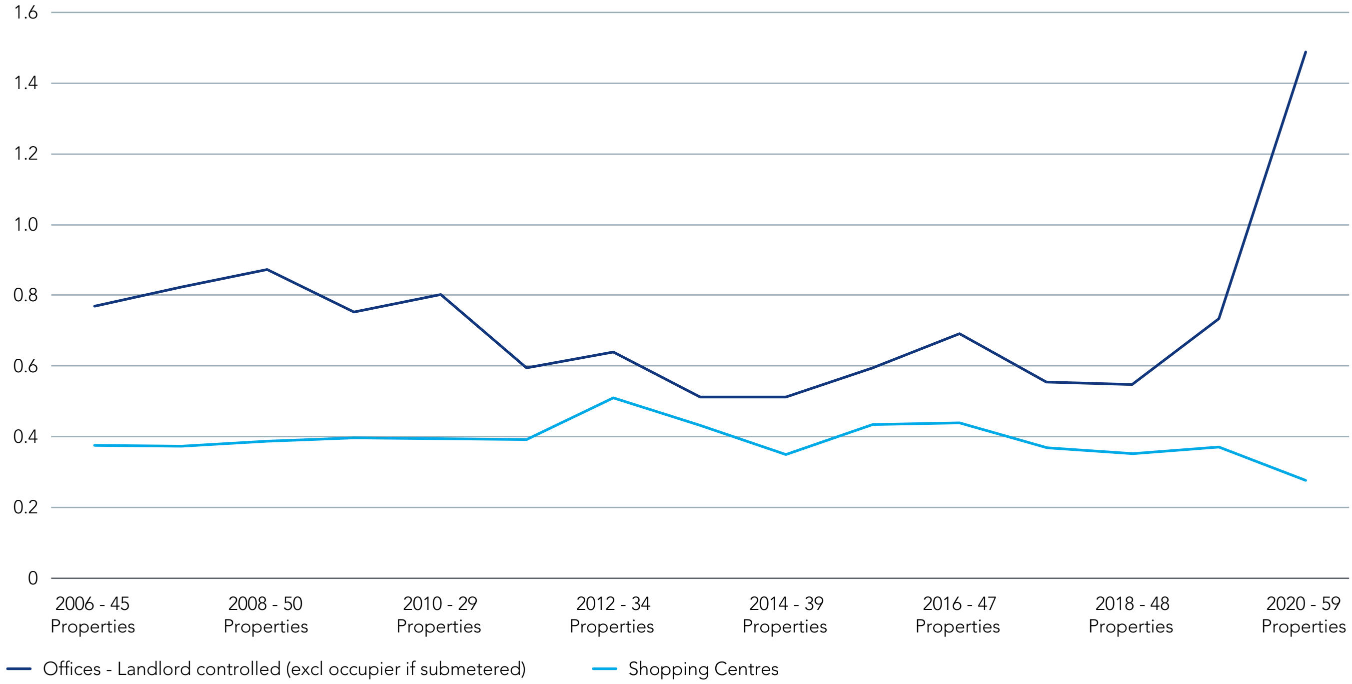
On- and off-site recycling have remained below the target of 80%, with a combined rate of 42%. The portfolio has seen a 16% increase in on-site recycling which, against the backdrop of the COVID-19 pandemic, is positive. The pandemic itself led to an absolute reduction in waste production of 70% in 2020. With reduced occupancy rates during the national lockdowns, this was to be expected but is nonetheless positive.

Between lockdowns, several assets continued to roll out waste awareness programmes. For example, The Anchorage worked with occupiers to help reduce their total waste and promote correct recycling.

A key focus for the Federated Hermes Responsible Property Management programme in the future will be to improve the granularity of data associated with materials recovery facilities (MRFs) and their recovery rates. This will enable greater understanding of our overall impact and ensure we continue to improve our portfolio waste management.

## Water

**Figure 6.** Changes in water intensity for the landlord-controlled portfolio between 2006 and 2020 (m3/ m2/year)
Percentage figures below compare 2020 with 2006 baseline.




Source: Carbon Intelligence, as of December 2020

## Figures:

- 157% increase in water intensity in offices since 2006
- 15% decrease in water intensity in shopping centres since 2006

Water intensity has shown one of the most interesting COVID-19 trends across the portfolio. Initially, most sites reported a decrease in water usage as the pandemic led to reduced occupancy and closure of on-site facilities. This was then reversed as occupancy began to pick up and 2020 saw a significant increase in the water intensity of offices, where re-occupancy focused on water-intensive cleaning processes to ensure that workspaces were safe.

By contrast, water intensity continued to decrease in shopping centres. In 2020, we reached a 15% reduction in water intensity against the 2006 baseline. Again, this can be explained by COVID-19, since all the portfolio's shopping centres saw greatly reduced footfall throughout the year. With intermittent lockdowns forcing the closure of non-essential shops, the facilities of most shopping centres saw much less usage than in previous years.

Looking ahead to 2021, it is anticipated that water intensity levels will return to more stable pre-pandemic levels as the COVID-19 situation improves. The RPM programme will continue to look at where water efficiency can be improved.

## GRESB scores

The GRESB scoring results for the 2020 survey are tabulated below.

| Fund | Score 2020 | Peer group average | Peer comparison | 2020 GRESB star rating | Green star | GRESB peer group |
|---|---|---|---|---|---|---|
| **Centre:MK** | 93 | 77 | 1/12 | 5 | Green Star | UK/ Retail Shopping Centres/Non-listed |
| **BTPS** | 83 | 65 | 2/14 | 4 | Green Star | UK/Diversified -Office/Retail/Non-listed |
| **Metro** | 68 | 66 | 5/8 | 2 | Green Star | UK/Diversified Office/Industrial/Non-listed |
| **HCLLP** | 82 | 74 | 5/9 | 4 | Green Star | UK/Office/Non-listed |
| **FHPUT** | 73 | 64 | 10/59 | 3 | Green Star | UK/Diversified/Non-listed |
| **Hestia** | 68 | 70 | 5/7 | 2 | Green Star | UK/Residential/Multi-family/Non-listed |
| **MEPC Silverstone** | 69 | 66 | 5/11 | 3 | Green Star | United Kingdom \| Diversified - Office/Industrial \| Non-listed |
| **MEPC Milton Park** | 61 | 62 | 5/7 | 2 | Green Star | UK/Diversified /Value Added |
| **MEPC Wellington Place** | 80 | 61 | 3/8 | 5 | Green Star | UK/Diversified /Value Added |

## International (Segregated Mandates)

| Fund | Score 2020 | Peer group average | Peer comparison | 2020 GRESB star rating | Green star | GRESB peer group |
|---|---|---|---|---|---|---|
| **Dexus Wholesale Property Fund** | 90 | 84 | 1/6 | 5 | Green Star | Australia / Diversified - Office/ Retail/ Core |
| **Gotham Account** | 63 | 60 | 4/6 | 2 | Green Star | United States of America / Residential: Multi-Family: Mid-Rise Multi Family / Non-listed |
| **Lionstone** | 90 | 83 | 3/19 | 5 | Green Star | United States of America/ Office/ Corporate /Core |
| **M&G Asia property Fund** | 83 | 72 | 1/9 | 4 | Green Star | Asia/Diversified / Core |

## Fund targets vs outcomes

| Target | Progress |
|---|---|
| **Corporate Target** | |
| Ensure uptake of our supply-chain policy by all our direct suppliers and share best practice. | Achieved |
| **Investment Target** | |
| Ensure that the ESG acquisition due diligence is carried out on all potential acquisitions and the results are integrated in the property-management programme when a transition is finalised. | Ongoing |
| Survey and assess ESG performance of all joint-venture partner and indirect investment on ESG issues. | Achieved |
| **Development Target** | |
| 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. | Ongoing |
| Energy Performance Certificate (EPC): ensure that all new developments and refurbishments in excess of £3m have independent audits completed and achieve at least an EPC rating of 'C' rating. Ensure that all refurbishments in excess of £100,000 have independent audits and achieve at least an EPC rating of 'D'. | Ongoing |
| Monitoring: Collect and record data against KPIs for all direct managed developments and refurbishment projects. | Ongoing |
| **Management Targets** | |
| Distribute annually updated Responsible Property Management (RPM) Programme and tools to all property managers. | Achieved |
| Property managers to comply with contractual RPM requirements. | Achieved |
| **Risk and Safety** | |
| Ensure 92% of risk improvement requirements arising from health and safety risk management audit processes are completed on time. | Achieved |
| Flood Risk: Review flood plans annually for assets at a high risk of flooding based on environmental agency flood maps and guidance. | Achieved |
| Review EPC of asset risk exposure annually by portfolio and identify any mitigation strategy where relevant. | Achieved |
| **Environmental Targets** | |
| **$CO_2$ emissions standing portfolio** | |
| Reduce the landlord controlled absolute carbon emissions by 40% by 2020 compared to our 2006 baseline. | Achieved |
| Reduce the landlord controlled carbon emissions relative to floor area by 40% by 2020 compared to our 2006 baseline. | Achieved |
| **$CO_2$ and energy like-for-like comparison** | |
| Reduce the annual carbon emissions and the total energy consumption of our direct managed portfolio by 5% adjusted for weather on a like-for-like basis. | Achieved |
| Reduce the annual carbon emissions and energy intensity of our direct managed portfolio by 5% adjusted for weather on a like-for-like basis. | Achieved |
| **Water** | |
| Reduce the landlord-controlled water consumption (adjusted for level of occupancy) of our direct standing portfolio by 20% by 2020 compared to our 2006 baseline. | Not Achieved[7] |
| **Waste** | |
| 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 |
| **Transport** | |
| Implement individual site travel plans at all category-one properties. | Achieved |
| Incorporate direct transport emissions into the reporting framework. | Ongoing |
| **Occupiers** | |
| 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 RPM | Achieved |
| **Communities** | |
| Ensure that all offices and shopping centres which are directly managed comply with Federated Hermes' minimum standards for community engagement, as outlined in our Community and Occupiers Stakeholder Engagement Programme. | Achieved |

[7] We have identified the following reasons for not having achieved our water target. Firstly, we have increased the data coverage for water over the period 2006 – 2020 to cover 90% more floor area across 25 additional assets meaning that the absolute consumption has increased since 2006. Secondly, the additional cleaning requirements during the pandemic in order to keep assets open and trading resulted in an increase of normalised consumption by 94%. We are expecting a falling consumption pattern as the situation returns to a new normal and new operational practices and procedures are implemented.

## GRI Index

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.

| Section | Required | Areas | Scope of Application | Page | Section Title |
|---|---|---|---|---|---|
| 102-1 | Yes (mandatory) | Name of the organisation | Portfolio wide | 3 | Foreword |
| 102-2 | Yes (mandatory) | Activities, brands, products and services | Portfolio wide | 5<br>10 | Key Facts,<br>Data |
| 102-3 | Yes (mandatory) | Location of headquarters | Portfolio wide | 5 | Key Facts |
| 102-4 | Yes (mandatory) | Location of operations | Portfolio wide | 5 | Key Facts |
| 102-5 | Yes (mandatory) | Ownership and legal form | Portfolio wide | 5<br>10 | Key Facts,<br>Data |
| 102-6 | Yes (mandatory) | Markets served | Portfolio wide | 5<br>10 | Key Facts,<br>Data |
| 102-7 | Yes (mandatory) | Scale of the organisation | Portfolio wide | 5<br>10 | Key Facts,<br>Data |
| 102-8 | Yes (mandatory) | Information on employees and other workers | Portfolio wide | 5 | Key Facts |
| 102-9 | Yes (mandatory) | Supply chain | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-10 | Yes (mandatory) | Significant changes to the organisation and its supply chain | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-11 | Yes (mandatory) | Precautionary principle or approach | Portfolio wide | 5 | Who we are |
| 102-12 | Yes (mandatory) | External initiatives | Portfolio wide | 6 | Our Achievements |
| 102-13 | Yes (mandatory) | Membership of associations | Portfolio wide | 5 | Key Facts |
| 102-14 | Yes (mandatory) | Statement from senior decision maker | Portfolio wide | 3 | Foreword |
| 102-15 | Yes (mandatory) | Key impacts, risks and opportunities | Portfolio wide | 5<br>10 | Key Facts,<br>Data |
| 102-16 | Yes (mandatory) | Values, principles, standards and norms of behaviour | Portfolio wide | 5<br>6<br>10 | Key Facts,<br>Our Achievements<br>Data |
| 102-18 | Yes (optional) | Governance structure | Portfolio wide | 5 | Report coverage, material aspects and boundaries |
| 102-19 | Yes (mandatory) | Delegating authority | Portfolio wide | 5 | Report coverage, material aspects and boundaries |
| 102-20 | Yes (optional) | Executive-level responsibility for economic, environmental and social topics | Portfolio wide | 5 | Report coverage, material aspects and boundaries |
| 102-21 | Yes (optional) | Consulting stakeholders on economic, environmental and social topics | Portfolio wide | 4<br>6 | Summary<br>Our Achievements |
| 102-22 | Yes (optional) | Composition of highest governance body and its committees | Portfolio wide | 6 | Key Facts |
| 102-23 | Yes (optional) | Chair of highest governance body | Portfolio wide | 6 | Key Facts |
| 102-25 | Yes (optional) | Conflicts of interest | Portfolio wide | 6 | Key Facts |
| 102-26 | Yes (optional) | Role of highest governance body in setting purpose, values and strategy | Portfolio wide | 6 | Key Facts |
| 102-27 | Yes (optional) | Collective knowledge of highest governance body | Portfolio wide | 6 | Key Facts |
| 102-28 | Yes (optional) | Evaluating the governance body performance | Portfolio wide | 6 | Key Facts |
| 102-29 | Yes (optional) | Identifying and managing economic, environmental and social impacts | Portfolio wide | 7-15 | Case Studies |
| 102-30 | Yes (optional) | Effectiveness of risk management process | Portfolio wide | 6 | Key Facts |
| 102-31 | | Review of economic, environmental and social topics | Portfolio wide | 6 | Key Facts |
| 102-32 | Yes (optional) | Highest governance body's role in sustainable reporting | Portfolio wide | 6 | Key Facts |
| 102-40 | Yes (mandatory) | List of stakeholder groups | Direct managed portfolio | 4 | Report Coverage, Material Aspects and Boundaries |
| 102-41 | Yes (mandatory) | Collective bargaining agreements | Portfolio wide | N/A | Not reported |

| Section | Required | Areas | Scope of Application | Page | Section Title |
|---|---|---|---|---|---|
| 102-42 | Yes (mandatory) | Identifying and selecting stakeholders | Direct managed portfolio | 4 | Report Coverage, Material Aspects and Boundaries |
| 102-43 | Yes (mandatory) | Approach to stakeholder engagement | Direct managed portfolio | 4 | Report coverage, material aspects and boundaries |
| 102-44 | Yes (mandatory) | Key topics and concerns | Direct managed portfolio | N/A | Not reported |
| 102-45 | Yes (mandatory) | Entities included in the consolidated financial statements | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-46 | Yes (mandatory) | Defining report content and topic boundaries | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-47 | Yes (mandatory) | List of material topics | Portfolio wide | 10 | Data |
| 102-49 | Yes (mandatory) | Changes in reporting | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-50 | Yes (mandatory) | Reporting period | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-51 | Yes (mandatory) | Date of most recent report | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-52 | Yes (mandatory) | Reporting cycle | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 102-53 | Yes (mandatory) | Contact point for questions regarding the report | Portfolio wide | 34 | Federated Hermes |
| 102-54/55/56 | Yes (mandatory) | Claims of reporting in accordance with the GRI standard, GRI content index, external assurance | Portfolio wide | 22 | GRI Index |
| 102-56 | Yes (mandatory) | External assurance | Portfolio wide | 33 | Adviser Statement |
| **MANAGEMENT APPROACH** | | | | | |
| 103-1 | Yes (mandatory) | Explanation of the material topic and its boundary | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 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 | 4 | Report coverage, material aspects and boundaries |
| 103-2 | Yes | Management approach and its components | Portfolio wide | N/A | Not reported |
| **ECONOMIC PERFORMANCE** | | | | | |
| 201-1 | Yes | Direct economic value generated and distributed | Portfolio wide | 10 | Data |
| 201-2 | Yes | Financial implications and other risks and opportunities due to climate change | Portfolio wide | 6 | Our Achievements |
| **INDIRECT ECONOMIC IMPACTS** | | | | | |
| 203-1 | Yes | Infrastructure investments and service supported | Portfolio wide | 6 | Our Achievements |
| 203-2 | Yes | Significant indirect economic impacts | Portfolio wide | N/A | Not reported |
| **MATERIALS** | | | | | |
| 301-1 | Yes | Materials used by weight or volume | Portfolio wide | 13 | Environmental Performance and Outputs |
| 301-2 | Yes | Recycled input materials used | Portfolio wide | 13 | Environmental Performance and Outputs |
| **ENERGY** | | | | | |
| 302-1 | Yes | Energy consumption within the organisation | Portfolio wide | 13 | Environmental Performance and Outputs |
| 302-2 | Yes | Energy consumption outside of the organisation | Portfolio wide | 13 | Environmental Performance and Outputs |
| 303-3 | Yes | Energy intensity | Portfolio wide | 13 | Environmental Performance and Outputs |
| 303-4 | Yes | Reduction of energy consumption | Portfolio wide | 13 | Environmental Performance and Outputs |
| **WATER** | | | | | |
| 303-1 | Yes | Water withdrawal by source | Direct managed portfolio | 13 | Environmental Performance and Outputs |

| Section | Required | Areas | Scope of Application | Page | Section Title |
|---|---|---|---|---|---|
| **BIODIVERSITY** | | | | | |
| 304-1 | Yes | Operational sites owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas. | Direct managed portfolio | N/A | Not reported |
| 304-2 | Yes | Significant impact of activities, products and services on biodiversity | Direct managed portfolio | N/A | Not reported |
| 304-3 | Yes | Habitats protected or restored | Direct managed portfolio | N/A | Not reported |
| **EMISSIONS** | | | | | |
| 305-1 | Yes | Direct (Scope 1) GHG emissions | Direct managed portfolio | 13 | Environmental Performance and Outputs |
| 305-2 | Yes | Indirect (Scope 2) GHG emissions | Direct managed portfolio | 13 | Environmental Performance and Outputs |
| **EFFLUENT AND WASTE** | | | | | |
| 306-2 | Yes | Waste by type and disposal method | Direct managed portfolio | 13 | Environmental Performance and Outputs |
| **SUPPLIER ENVIRONMENTAL ASSESSMENT** | | | | | |
| 308-1 | Yes | New suppliers screened using environmental criteria | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 308-2 | Yes | Negative environmental impacts in the supply chain and actions taken | Portfolio wide | 7 | Our Achievements |
| **OCCUPATIONAL HEALTH AND SAFETY** | | | | | |
| 403-1 | Yes | Workers' representation in formal joint management-worker health and safety committees | Portfolio wide | N/A | Not reported |
| 403-2 | Yes | Types and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities | Portfolio wide | N/A | Not reported |
| **TRAINING AND EDUCATION** | | | | | |
| 404-1 | Yes | Average hours of training per employee per year | Portfolio wide | N/A | Not reported |
| **LOCAL COMMUNITIES** | | | | | |
| 413-2 | Yes | Operations with significant, actual and potential impacts on the local community | Portfolio wide | 6 | Our Achievements |
| **SUPPLIER SOCIAL ASSESSMENT** | | | | | |
| 414-1 | Yes | New suppliers screened using social criteria | Portfolio wide | 4 | Report coverage, material aspects and boundaries |
| 414-2 | Yes | Negative social impacts in the supply chain and actions taken | Portfolio wide | N/A | Not reported |

# Adviser statement

Carbon Intelligence continued to support the international business of Federated Hermes' ESG programme during the reporting period. This work included collating, validating and reporting ESG performance data and property characteristics for 2020. In addition, our independent audit team has verified data for Federated Hermes' greenhouse gas emissions, energy, water and waste to ISO 14064-3 standard. We also support the company's ambitious net zero target and pathway, helping to gather more data and act on the resulting findings.

During this reporting period, there continued to be a strong reduction in energy consumption. In 2020, Federated Hermes achieved a further 19% reduction in absolute carbon emissions (Scope 1 and 2) for their landlord-controlled standing portfolio (vs 2006 baseline), which equates to 3,762 tonnes of $CO_2e$. This is due to the concerted energy efficiency drive by Federated Hermes, property managers and site teams.

Rollout of the Collaborative Asset Performance Programme (CAPP) continued during the year and the programme is now operational in 12 assets. Using smart building technology, the programme helps to identify opportunities for operational improvements in the building which can result in reduced emissions, greater energy efficiency and, as a result, reduced utilities costs. Since the programme has started in 2017 Federated Hermes has saved £1.3 million which equates to 16 million kWh.

We also partnered with Federated Hermes to install this technology on indirectly managed assets. For example, we engaged with tenants at Church Street to obtain previously unavailable data. Federated Hermes also continues to employ technology to track and monitor data on health and wellbeing using the RESET standards and assessments tools which consists of five stand-alone standards: Materials, Air, Water, Energy and Circularity.

Following a successful pilot, BREEAM In-Use certification has been further rolled out with an increased number of sites being certified and asset-level data collection supporting this process. Data gathering continues and is used in our asset improvement plans and for other fund reporting, such as GRESB.

**Oliver Light**
**Director, Carbon Intelligence**

Federated Hermes
Limited

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes Investment Management are now undertaken by Federated Hermes Limited (or one of its subsidiaries). We still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important strategies from the entire group.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

## Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

For more information, visit **www.hermes-investment.com** or connect with us on social media:



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