

Real Estate ESG Report 2021

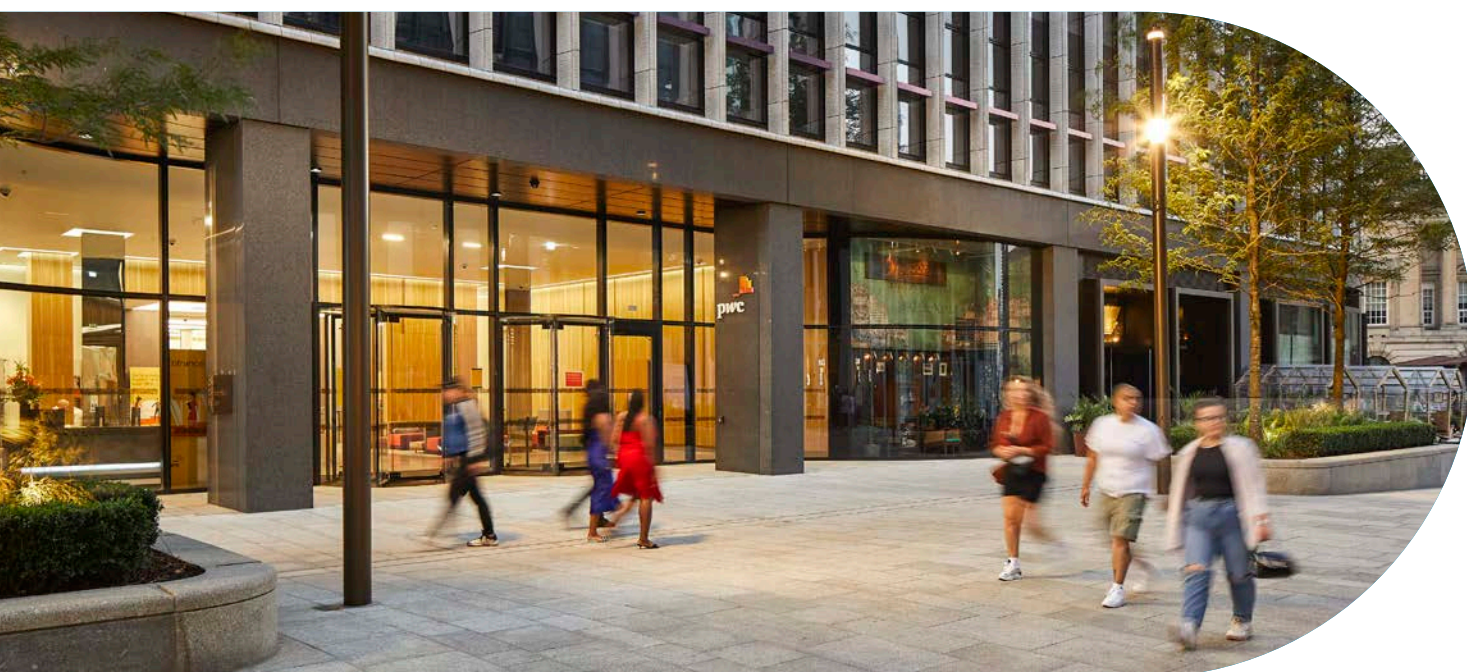


December 2022



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Paradise, Birmingham
Photo: Hufton+Crow.

Cover photo credit: Hufton+Crow.

Welcome

For Federated Hermes Limited, sustainable wealth creation has been our purpose since our 1983 origin. We are convinced that ESG-integrated investing delivers better – and more sustainable – risk-adjusted returns. In Real Estate, we have a long history of responsible investing, and this gives us the foundations to set ambitious commitments for our path ahead.

In our existing building portfolio, we are pragmatically leveraging every opportunity to create environmental and social value. We follow an active management approach to drive our ESG implementation strategy, which includes initiatives ranging from increasing renewable energy generation onsite to small scale biodiversity improvements in our industrial estate. Our regeneration schemes present a great opportunity to us to create carbon free spaces with purpose and high social value, places that improve the lives of the local communities and enhance the local environment.

We acknowledge that one company alone cannot solve the big challenges that planet and humanity are currently facing. That is why we have been following an open and collaborative approach working with industry, offering lessons learnt and sharing expertise in ESG integration in order to make our assets part of the solution. We seek to engage with both the public sector and increasingly

academia to ensure closer collaboration between all stakeholders on the pivotal role that our real estate industry can play as a conduit for delivering positive societal and environmental outcomes for all. We are also committed to support our occupiers and supply chain in their journey to become more sustainable.

As we move through our ESG journey it is exciting to see the innovative approach our team can take, particularly with the opportunities and challenges presented through both our large regeneration projects and existing properties. The impact that Real Estate makes on its communities is huge, and we ensure that the impact our Real Estate makes is positive. We use our Real Estate to change the environment that we invest in for the better, forever and for all.



Chris Taylor
Head of Private Markets

Executive summary

Who we are

We believe that investing responsibly is the best way to sustain long-term outperformance and contribute to beneficial outcomes for investors, companies, society and the environment. Since our business began in 1983, responsibility has been at our heart and shapes any decision we take to support positive change in the wider world.

Federated Hermes Limited is a global leader in active, responsible investment and as a company we are guided by the conviction that responsible investing is the best way to create long-term wealth.

Federated Hermes Limited is a global leader in active, responsible investment and as a company we are guided by the conviction that responsible investing is the best way to create long-term wealth. In 2020, Federated Hermes Inc. acquired MEPC Limited ("MEPC") (a fully owned development and asset management subsidiary) and the team from Argent Birmingham (the team working on the Paradise, Birmingham Real Estate scheme). The Real Estate team is part of our Private Markets business and 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 a fund level, including investment transactions, portfolio management, governance and regulatory oversight and risk management. As asset managers, we are accountable for performance at the 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 impact.

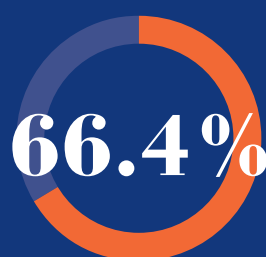


ESG highlights

Our pathway to Net Zero focuses on

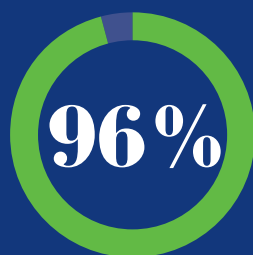
£4.05bn

of our managed assets in the UK, which represents



of our AUM

We procure



of our electricity from renewable sources¹

Renewable energy production in 2021

276

MWh
enough to drive to the moon over



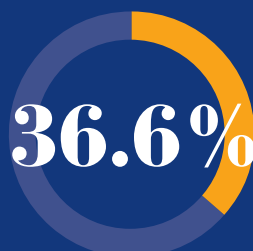
Energy reduction

2021 vs 2018



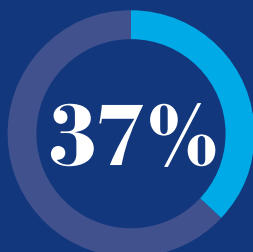
Carbon reduction

in Scope 1 and 2 in 2021 vs 2018²



Water reduction

in 2021 vs 2018



Waste

100%

diverted from landfill

3

Biodiversity projects across our portfolio



Real Estate received 5 stars and scored 100/100 at PRI Reporting Framework



Green certifications

BREEAM in use

43

assets (25% of NLA)

BREEAM refurb

7

 assets

12

 assets are BREEAM certified

fitwel

7

 assets



G R E S B

11

 surveys submitted

100%

portfolio coverage on climate risk assessments

¹ Where we have operational control.

² Absolute, assets we manage directly.

Industry participation

Working with partners to transform the wider Real Estate Industry



Federated Hermes Limited is an active participant in the following:

- BBP
- UKGBC
- Climate Action 100+,
- Principles for Responsible Investment and chair of the drafting committee that created in PRI in 2006
- "A+" for Strategy and Governance from the UN Principles for Responsible Investment
- The Institutional Investors Group on Climate Change – Real Estate Working Group
- UN Guiding Principles Reporting Framework
- Investor Alliance for Human Rights
- International Corporate Governance Network
- 30% Club
- Natural Capital Investment Alliance (NCIA)
- Federated Hermes ranks first out of 500 global asset management firms for genuine commitment to sustainable investment



Pledges and Commitments

- Montreal Pledge
- PRI signatory
- TaskForce on Climate-related Financial Disclosures (TCFD)
- Signed the commitment to end Deforestation at COP26 World Leaders Summit
- UN Environment Programme Finance Initiative
- UN Global Compact
- UN Sustainable Development Goals
- Portfolio Decarbonisation Coalition
- BBP Climate Change Commitment
- Net Zero Asset Manager Initiative (NZAMI)

Achieving integration at our core

In 2021, our focus in the Real Estate team was on reviewing our existing procedures to ensure that the right processes are in place to support us in achieving our new commitments. Although we have fully integrated ESG factors in the investment and asset management process, there was a need to create new tools and procedures to help govern the implementation of the net zero pathway in an efficient manner. We rigorously worked on evaluating and updating our existing processes to continue to exceed the minimum sustainability requirements. Specifically, we have new ways of working and developed tools that support investment managers and fund managers in considering ESG elements across an asset's life cycle, including investment, development, property management and occupier engagement.

Building our ESG capability has been our priority during this journey and in order to do so we have invested in training for every member of the real estate team.

Building our ESG capability has been our priority during this journey and in order to do so we have invested in training for every member of the real estate team. Our investment team participated in BBP's ESG training, for instance, which focuses on how real estate professionals address material risks and opportunities across the investment life cycle. In order to make sure that everyone in the team understands the practical implementation of our ESG strategy, monthly sessions have been organised which address the main sustainability areas such as net-zero carbon, embodied carbon in development, and social value.

Governance:



Principles: the precautionary principle and a materiality assessment of risks and opportunities are 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 implementation of our ESG strategy is the responsibility of the ESG team and of the fund managers. Two working groups, the ESG Working Group and the Net Zero Working Group, meet monthly to oversee the integration of environmental and social factors across the asset management. The working group consists of all key members from the FHL Real Estate team including the ESG team, Investment teams, Board members, Fund representatives and external delivery partners.



Monitoring: a comprehensive monitoring programme is in place to measure, monitor and report on our ESG performance. The results are published annually in our Real Estate ESG report, which is available to the public. All data used in real estate ESG reporting is verified and assured by a third party in accordance with relevant industry standards. The ESG team of Federated Hermes Real Estate has the overall responsibility of monitoring the progress of the programme. Our quarterly environmental performance reports enable our investment managers to identify carbon risks in the assets we manage and monitor how our assets progress against environmental targets.



Commitments and performance targets: each investment professional has specific responsibility behaviour targets as outlined in their annual performance objectives.



Dedicated tools supporting integration:

- **ESG principles checklist in the investment process:** during indirect and international investments, we carry out active engagement on governance matters and on ESG policies and strategies with property developers, property management teams, tenants, lawyers and agents. We also include commitments to develop a joint ESG strategy on acquisitions for jointly managed assets.
- **Due Diligence Checklist:** this is used to ensure ESG factors are considered when acquiring new assets. The checklist includes a section on climate change, with a particular focus on flood risk and mitigation.
- **Design Innovation Standard:** in 2021 we developed a new standard that sets the sustainability requirements for all developments and major refurbishments. The standard follows the key RIBA stages BREEAM principles. This also includes sustainability requirements with which construction contractors are expected to comply, such as minimum requirements on pollution, sustainable materials, waste, energy, water and biodiversity.

- **Responsible Property Management Standard** for our directly managed assets, covering the following: water efficiency requirements, energy efficiency requirements, energy generation from on-site renewable sources, waste management plans at sites, and occupier health and wellbeing requirements.
- The need for a specific set of tools to help deliver and embed the requirements of Net Zero was identified early on and this led to the development of Zero Building Passport and Net Zero Carbon asset alignment tool.

Design Innovation Standard:
in 2021 we developed a new standard that sets the sustainability requirements for all developments and major refurbishments.



WORKING COLLABORATIVELY WITH PROPERTY MANAGERS

We work closely with our property management agents to accelerate progress on achieving our ESG commitments and to meet our interim net-zero targets.

The agents are selected following a rigorous process that incorporates ESG considerations, while ESG requirements and targets are included in their contractual service agreements.

The team's holistic approach to ESG integration considers ESG factors within all day-to-day property management. The agents are selected following a rigorous process that incorporates ESG considerations, while ESG requirements and targets are included in their contractual service agreements.

The performance of property manager agents – and any other agents appointed for work on activities such as rent reviews, lease renewals, transactions, property maintenance, health and safety, and environmental issues – is closely monitored by our internal asset managers.

The property managers are contractually responsible for implementing the ESG programme and health and safety measures, as stated in their service agreements. Their requirements include risk management, refurbishment and development, utilities measurement and reporting, ESG business plans, energy management, water management, waste management, transport, procurement and supply chain, environmental risk management, stakeholders (occupiers and community) and quarterly monitoring of progress against targets.



FULLY INTEGRATING ESG IN ALL OF OUR DECISION MAKING AT A BUSINESS PARK



Located in Poole, Federated Hermes' Fleets Corner Business Park is one of the most significant assets of its type in Southern England, and is home to many recognised names such as Lush, Starbucks, Travelodge and CityFibre, alongside local businesses.

Spanning 560,000 sq.ft., Fleets Corner offers a range of new and comprehensively refurbished industrial accommodation, accounting for 320,000 sq ft of the site, the largest amount in Dorset. Alongside industrial units, the business park offers 40,000 sq ft of refurbished office space, and has a range of amenities onsite, including the newly built Starbucks drive-thru and the brand new 81-bed Travelodge hotel.

Fleets Corner Business Park is managed in accordance with the Responsible Property Investment programme, which seeks to deliver holistic outcomes by generating positive societal and environmental impacts in addition to meeting financial return targets. Federated Hermes' is committed to reducing its environmental impact, creating carbon savings, and supporting the climate transition by seeking to meet high-performance criteria for both new-build and existing projects.

Federated Hermes Limited has sought to meet the highest sustainability performance at Fleets Corner, and all new builds include the following accreditation and specification: BREEAM Excellent, EPC A, solar PV panels, PIR lighting sensors, external cycle racks, shower facilities, external biodiversity and tree-planting programmes, and an attractive built environment to promote the end-user experience. Refurbishment projects at Fleets Corner have sought to improve energy performance as well as promote the end users' overall experience, and includes the features below:

- HVLS destratification fans saving up to 20% energy used in heating refurbished industrial units
- New thermal rated fenestration (where appropriate)
- Toilet refurbishments
- Enhanced building management systems and boiler sequencing
- External cycle racks
- New shower facilities
- Automatic electric water heaters
- Rainwater harvesting to supply WCs
- Flow restrictors on water outlets to reduce water usage
- Leak detection
- Health and safety are front of mind, ensuring building standards are kept up to date.

Working collaboratively with CBRE, its property management partner, Federated Hermes has sought to reduce energy consumption and carbon emissions and promote a more sustainable basis to service provision on site:

- The landlord's electricity is 100% renewable
- BREEAM In Use rating for existing office accommodation
- No communal waste is sent to landfill
- LED estate lighting – energy consumption reduction of 90%
- PIR sensor lighting in building communal places
- Green travel plan for occupiers
- Access to bike share scheme

Our journey to Net Zero

Our commitment

At Federated Hermes Limited, we have set our proposed pathway to achieve net zero in our managed assets included within our £6.1bn RE portfolio in the UK by 2035.

In 2019, we joined the Better Building Partnership (BBP) Climate Change Commitment³ where we publicly committed to achieving net-zero emissions across our real estate portfolios by 2050.

In 2019, we joined the Better Building Partnership (BBP) Climate Change Commitment³ where we publicly committed to achieving net-zero emissions across our real estate portfolios by 2050. In 2021 we published our pathway which, on behalf of our clients, sets out both the targets and approach to reaching net-zero emissions across the managed assets. Our portfolio includes approximately £4.05bn worth of assets out of a £6.1bn UK real estate portfolio.

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The four pillars of our pathway are:

1 Decarbonisation

Remove the use of fossil fuels, increased energy efficiency, use of green tariffs and reduced embodied carbon in our new developments and in any major refurbishments.

2 Deliver energy efficiency

Setting targets to reduce energy-use intensity by 66% in the lead up to 2035, against a 2018 baseline.

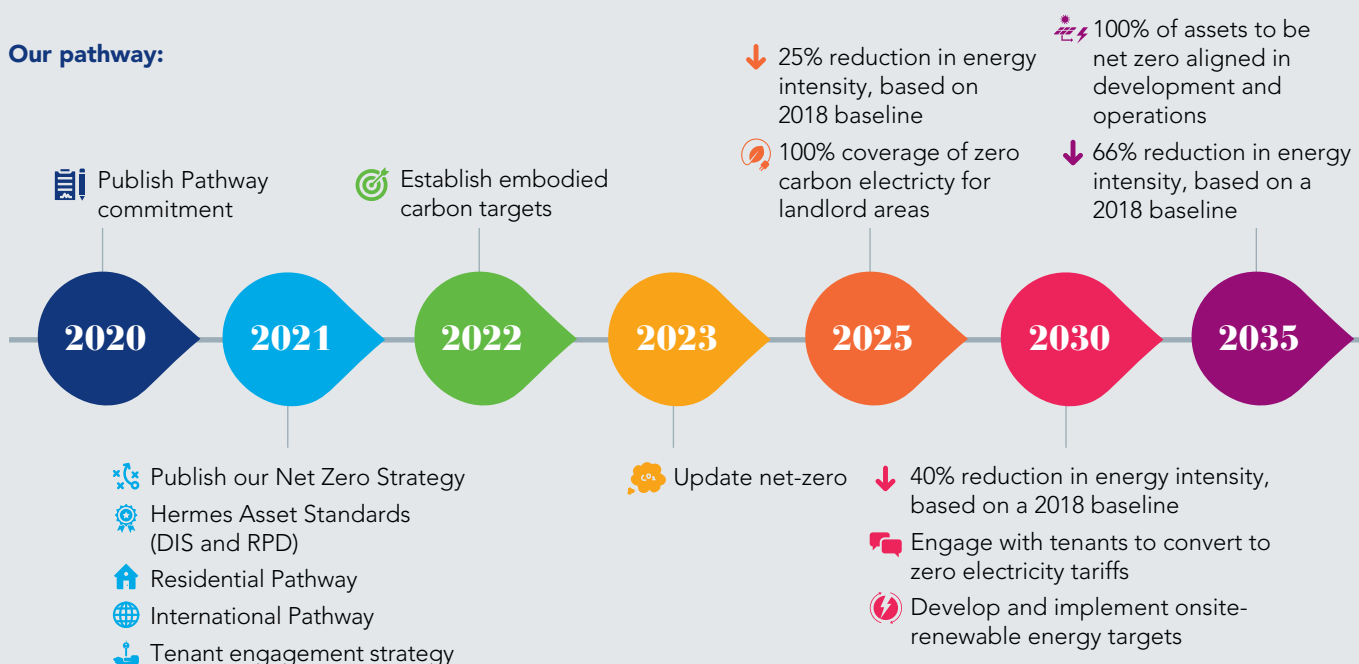
3 Stakeholder engagement

Work with occupiers, suppliers and other stakeholders to successfully transition to net-zero alignment.

4 Utilise offset opportunities

Use credible, permanent carbon-removal methodologies for residual carbon utilising schemes, such as natural-capital solutions for carbon sequestration to address embodied carbon. We have developed this pathway using the UK Green Building Council's Advancing NetZero Framework, aligning the 2035 target with our clients' stated objectives and targets.

Our pathway:



Source: Federated Hermes Limited, as at 31 December 2021.

³ <https://www.betterbuildingspartnership.co.uk/member-climate-change-commitment>.



OUR JOURNEY TO NET ZERO FOR IN REAL ESTATE DEBT

In November 2020, we completed a loan to fund the development of two logistics properties located in Northampton and Leighton Buzzard, totalling 100,000 sqm of logistics space.

The credit fundamentals of the loan were very attractive but even more attractive was the Sponsor's credible business plan to have net-zero embodied carbon in the construction and to design the properties to minimise operational carbon emissions.

The two loans totalled £53m (€45m) and represented a 54% LTV or 63% loan to construction costs in both cases.

During construction the contractor tried to minimise carbon emissions. To off-set the remainder of carbon emissions from construction that were unavoidable, 18,000 trees were planted off-site. This was the first deal that Federated Hermes had completed with net-zero embodied carbon.

Some of the energy efficiency and carbon reduction measures to reduce operation performance were:

- Electrical vehicle (EV) charging on site, as well as dedicated bicycle racks to enable low carbon methods of travel to the buildings
- Energy is generated on site from photovoltaic panels on the roof
- Transparent roof and door panels to allow sunlight in, reducing the need for electric lighting
- Both properties were rated BREEAM "Very Good" and EPC rating "A".

The loans were repaid in March 2022 due to an early sale generating IRRs of 9.5% and 14.6% for the two loans respectively against an anticipated IRR of 6.7%. The greater than expected IRRs reflect the attractiveness of the real estate fundamentals of these assets.

During construction every effort was made to minimise carbon emissions. To account for the unavoidable level involved in the construction, 18,000 trees were planted off-site by the contractor to off-set.

Transitioning our portfolio to Net Zero building by building

As a part of our fight against global climate crisis we have committed to reach net zero carbon in our real estate portfolio by 2035.

The transition to a net zero carbon (NZC) portfolio requires strong governance and both a top-down approach – to help set up the overall policy and processes for real estate assets – and a bottom-up approach to help address specific challenges of individual assets.

Figure 1: SDGs Targeted By Real Estate Net Zero Carbon Portfolio Pathway



Source: UN Sustainable Development Goals

The top-down process: To implement the NZC pathway, a net zero working group was set up consisting of all decision makers and delivery partners. This group provides governance for the pathway development, sign-off for key commitments and support during implementation.

Furthermore, several internal guidance documents have been developed to provide support for assets during their lifecycle, including an acquisition checklist, design innovation guide, refurbishment guide and net zero score card. These documents will help embed key net zero requirements and review climate risks during decision making and in everyday operations of the assets.

To provide a consistent delivery approach across the portfolio, a principal contractor, Verco Global, has been appointed to work as our real estate delivery partner and to help develop consistent overarching processes for the NZC implementation.

To implement the NZC pathway, a net zero working group was set up consisting of all decision makers and delivery partners.

The bottom-up process: While the top-down process was under development, several assets reached a key intervention point due to lease expiry, lease renewal, planned maintenance and refurbishment. Asset level NZC deep dives are being carried out to identify opportunities, risks, remediation measures, capital cost and timescales. At asset level, other initiatives like solar photo voltaic, electric vehicle, smart optimisation in buildings, circular economy, water efficiency and nature-based solutions are also being implemented.

Furthermore, we signed up to the BBP Design for Performance (DfP) pioneer project⁴ and London Energy Transformation Initiative (LETI) pioneer project⁵. The success of the NZC pathway will hinge on engagement with various internal and external stakeholders, in particular our tenants.

⁴<https://www.betterbuildingspartnership.co.uk/our-projects/design-performance/pioneer-projects>.

⁵<https://www.leti.london/leti-pioneers>.

Progress⁶

In 2021, we focused our efforts in getting processes in place to kick start our journey towards a net zero carbon portfolio. Further to this, Federated Hermes joined the Net Zero Asset Managers initiative in July 2021⁷ to further demonstrate our commitment to accelerate the transition to global net zero emissions. The targets within the commitment are based on the 2018 performance of the current RE portfolio and are aligned with the UK Green Building Council (UKGBC)'s Paris Proof approach. Our pathway has been developed using the UKGBC Advancing Net Zero framework⁸. Figure 2 shows our roadmap to net zero.

Table 1: FHL Progress against targets 2021-2022

Commitment	Target date	Outcome	Status
Publish Commitment to net zero	2020	In December 2020, we publicly committed in becoming net zero for our Real Estate portfolio by 2035.	Complete
Publish our Net Zero Pathway	2021	A detailed Net Zero Pathway with key targets and interim targets was published in October 2021. Further fund level pathways have been developed to better understand challenges within individual funds in implementing net zero.	Complete
Update internal standards and processes	2021	A set of tools and processes were developed to help deliver the Net Zero strategy such as Design Innovation Standards, Responsible Property Management Standard, Net Zero Implementation guide.	Complete
Establish embodied carbon targets	2022	Works to establish embodied carbon targets are underway and are due to be complete by Q4 2022. We have established a sub-working group to help review pilot projects and set targets for all new developments and major refurbishments in the portfolio.	In Progress
Net Zero Pathway for Residential portfolio	2022	A standalone Net Zero approach is currently being drafted for the BTR portfolio and is due to be completed in Q4 2022.	In Progress
Net Zero Pathway for International Portfolio	2022	A standalone Net Zero approach is currently being drafted for the international portfolio and is due to be completed in Q4 2022.	In Progress
Net Zero Pathway for Debt	2022	Debt net zero pathway works have been completed and approach finalised.	Complete
Occupier engagement action plan	2022	Works to establish an approach to occupier engagement is underway and will be complete by Q4 2022. Initial engagement workshops have been carried out.	In Progress
Reduction in energy intensity, based on 2018 baseline	1st interim target of 25% by 2025	We have developed pathways for UK directly managed assets. Asset-level modelling has been carried out to determine net zero cost, identify technical potential of assets and to identify high risk assets. Further, deep dive audits have also been undertaken for priority and/or high-risk assets.	In Progress
100% coverage of zero carbon electricity for landlord areas	2025	At the time of writing this report 96.3% of landlord area within the scope of this pathway procure zero carbon electricity.	In Progress
Occupier zero carbon electricity	2030	As a part of the occupier engagement plan, we are increasing data coverage and engagement of energy procurement with our occupier.	In Progress
Onsite renewable energy targets	2030	Initial workshops on PV strategy has been undertaken and all new developments are required to maximise renewable energy provision. A portfolio wide approach will be developed in due course.	In Progress

Embodied Carbon targets

We have also established our embodied carbon targets which are:

- All new office developments and refurbishments to include a design stage target of **<600 kgCO₂e/m² GIA** upfront embodied carbon excluding sequestration from 2025 onwards.
- As-built upfront embodied carbon of **<600 kgCO₂e/m² GIA** excluding sequestration taken as an average across all office developments and major refurbishments completed in the 12 months before end of 2030.
- Targets for new residential developments to be set by end of Q1 2023 and for all other asset types by end of 2023.

⁶ This update reflects the position mid-way into 2022 and the progress update below includes both targets achieved and outlines our progress against other targets set until 2035. As of 2022 there are no changes to the initial scope of the published Net Zero Pathway.

⁷ <https://www.hermes-investment.com/uk/en/intermediary/insights/sustainable/the-international-business-of-federated-hermes-joins-net-zero-asset-managers-initiative/>

⁸ <https://www.ukgbc.org/wp-content/uploads/2020/01/UKGBC-Net-Zero-Carbon-Energy-Performance-Targets-for-Offices.pdf>

Fund Pathways

In 2021, we began the process of carrying out detailed fund level reviews to set individual Fund level pathways aligned with the portfolio level commitments. This included the BT Pension Scheme (BTPS) Fund, Federated Hermes Property Unit Trust (FHPUT) Fund, Hestia which is the Build to Rent (BTR) Fund, Debt Fund and International Fund.

The intention was to carry out desktop modelling to understand the decarbonisation potential of the Fund in comparison to the Carbon Risk Real Estate Monitor (CRREM) and UK Green Building Council (UKGBC) methodologies. Further, it helped us understand the scale of investment required to get to Net Zero, investment priorities, key risks and opportunities. Below in Figure 3 shows a detailed GHG emission source scoping for UK directly managed assets.

Asset Level Deep-Dive

Asset level deep dive net zero carbon audits are being undertaken across the portfolio. These are being prioritised on the basis of the risk assessment conducted as part of the desktop modelling as described in section 5, and near-term key intervention points e.g., planned refurbishments, redevelopments or end of life of major plant. The key aim of the net zero audits is to provide critical asset net zero review to our investment teams to help with decision making during key asset lifecycle stages.

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The key aim of the net zero audits is to provide critical asset net zero review to our investment teams to help with decision making during key asset lifecycle stages.

Carrying out such audits help us consider the interventions that might be applied to an asset in order to deliver performance at or close to emerging standards that represent “net zero” or “Paris-proof” carbon and energy use intensity. The study takes a wider view of asset performance than a traditional energy audit, including high cost and long payback actions such as the upgrade and replacement of building fabric, or wholesale replacement of major plant items.

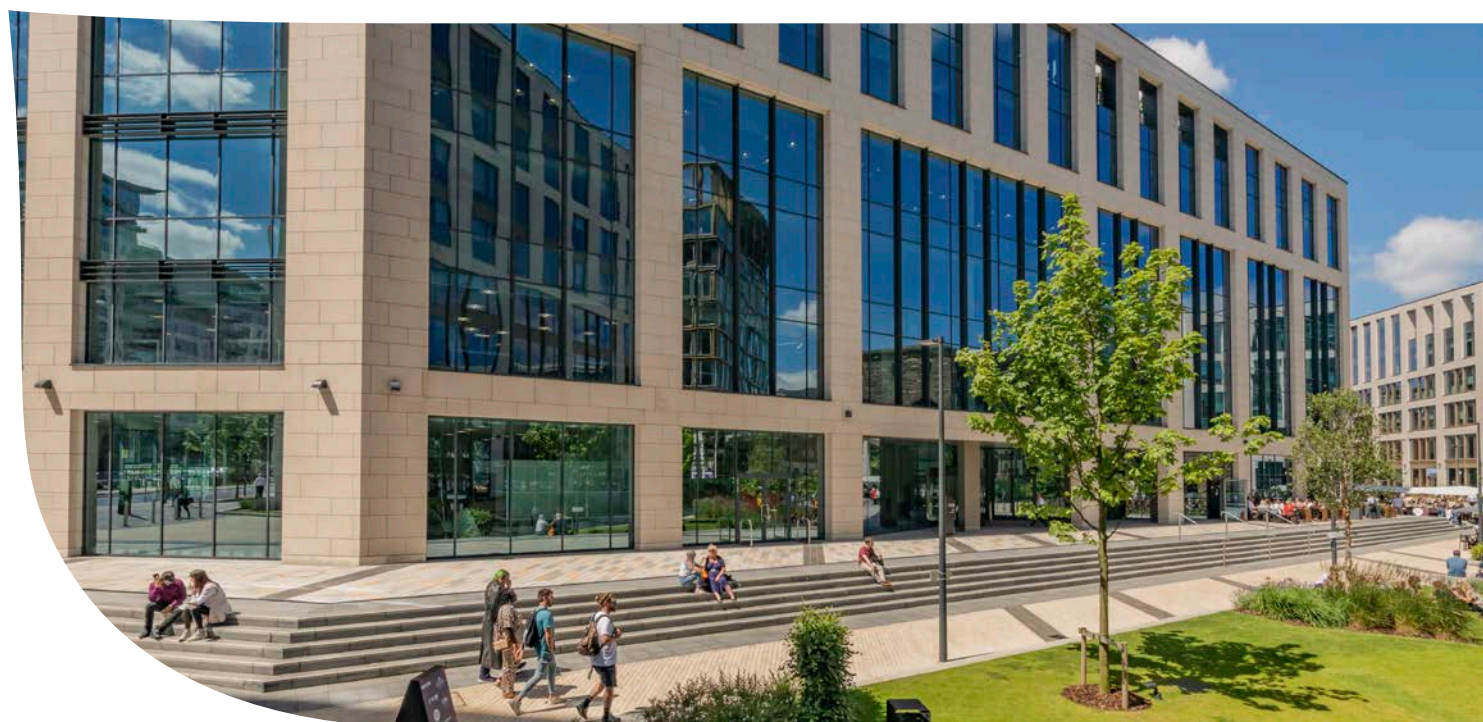
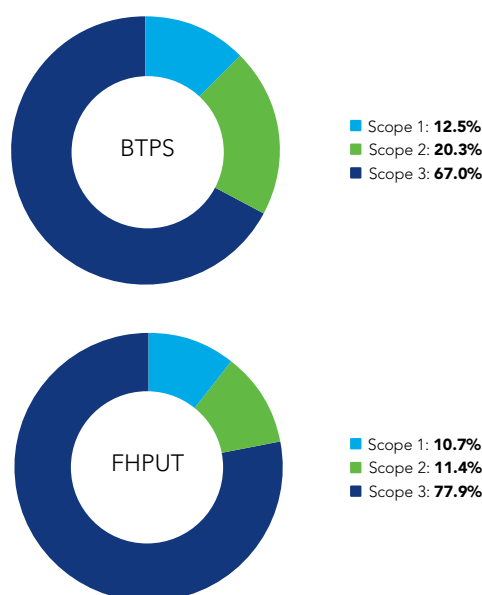


Photo: Bevan Cockerill.



ST JOHN STREET, LONDON

This entailed refurbishment work of a former warehouse in Spitalfields, London.

The refurbishment made use of the existing building fabric, which was enhanced (cleaned, re-patched, re-pointed and painted) to retain not only the building's character and historic significance, but the embodied carbon within the existing materials as well. Significant work was carried out to make this 19th Century building fit for modern purpose, with a new front entrance, lifts, toilets and showers with improved access and different levels of office space ranging between CAT A+, A and B fit-outs. The exposed building services mean that there is accessibility for enhancements to be carried out in the future without the need for intrusive work.

During the refurbishment process, the wider community was considered, with noise agreements made with neighbours and hours on-site controlled to reduce the impact. Attention was also paid to better improve the internal health and wellbeing of the building, with natural lighting, thermal comfort and acoustic upgrades made to provide a better working space for occupiers. The space is located close to the new Elizabeth line and is in close proximity to numerous cycle routes to encourage reduction in vehicle emissions.

Environmental improvements saw the EPC raised from a G to a C, with work done to improve the air tightness, solar gain reduction, and powered blinds on the 3rd and 4th floors to further decrease heat stress on the internal space and reduce the amount of air conditioning required. Separate utility sub-metering has been installed to cover the space heating, domestic hot water, small power, and lighting usage. Additionally, the occupier space is covered by sub meters to enable the calculation of Scope 3 emissions in the future. A green roof has been included which will not only increase biodiversity and act to retain rainwater, but also keep the building cool during warmer weather.

During the refurbishment process, the wider community was considered, with noise agreements made with neighbours and hours on-site controlled to reduce the impact.

Climate resilience is another key factor, with thermal modelling being undertaken for various future-weather scenarios and water use reduced to lessen the burden on local water supplies. A full flood risk survey was also undertaken and used to inform the design with no net increase in impermeable surfaces created.

The resulting refurbishment has led to the rejuvenation of a building which that lies at the heart of the local community, and now benefits from improved environmental and health and wellbeing credentials.



SOHO SQUARE



This pre-war mid-rise office block located in the middle of London shows how it is possible to use modern smart technology to greatly decrease the amount of energy required to run a modern office within an older building shell.

Since acquisition, the plant's efficiency has been increased through smart technology used to analyse energy usage and streamline consumption, while work on the air handling units (AHUs) includes outside air temperature controls has also been undertaken.

Within the last 9 years since acquisition the building has seen a 63% reduction in energy use which equates to 140kwh/m2/year placing it on the current UKGBC energy use intensity pathway for net zero by 2035 in line with our target. This has been coupled with a move to landlord sourced renewable electricity which has reduced the assets carbon emissions from over 300t CO₂e per year in 2012 to 43t CO₂e per year in 2021.

The future proofing of the site is set to continue with the move from fossil fuel heating to onsite renewables incorporating climate resilience through the moving of important plant from a basement location to a roof top solution, which further reduces the risk of flooding and prolongs the buildings life span. This approach demonstrates that the building type is not a barrier to the reduction of the energy consumed and the carbon emissions from the built environment.

Utilising our assets to create change

At Federated Hermes Real Estate, we recognise that our assets and place-making schemes shape the lives of the communities we operate in. It is our responsibility to ensure that we contribute to the development and opportunities of those communities. Our approach starts with understanding the ESG opportunities of our assets and pushing to meet our potential for positive impact on the environment and society. We are committed to using our expertise and assets to drive definitive action on material environmental and social factors. We use our expertise to support research and be active in the industry to drive the implementation agenda. Therefore, at Federated Hermes Real Estate we take every opportunity to utilise our assets to create change on the small scale on biodiversity, health and wellbeing, circular economy and social value.

Health and Wellbeing

Health and Wellbeing is a priority for the assets we manage and our focus is on certifying our assets with Fitwel certifications. Fitwel certification adds value to the asset and demonstrates to tenants that their home supports their individual health and wellbeing. As a result, the scheme will be rolled out to further asset types in our portfolio.

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 this work. One City Place marks the first asset to be certified in the northwest of England.



HOW WE COMMIT TO NATURE IN OUR INDUSTRIAL ASSETS



As a global leader in active, responsible investment, Federated Hermes Limited published its biodiversity white paper, 'Our Commitment to Nature', in February 2021.

This highlights the value of biodiversity, makes the case for its protection and outlines Federated Hermes' expectations for sectors with high biodiversity impacts, such as real estate and construction. To help combat the biodiversity crisis, we wanted to test the power of small-scale investment, combined with property management changes, to create a net-positive impact on biodiversity at existing industrial assets. We decided to work closely with the JLL at Erdington Industrial Park⁹, a well-established industrial estate with mature trees and a large grass area, situated next to the Birmingham & Fazeley Canal, to prove the power of small-scale ecology upgrades on existing assets as a means of enhancing biodiversity and benefitting occupiers. Simple changes, including the introduction of bird boxes, bug hotels and a wildflower meadow, are providing a boost to local wildlife and creating a diverse environment for occupiers. The team is now exploring opportunities to expand initiatives across additional industrial assets.

To help combat the biodiversity crisis, we wanted to test the power of small-scale investment, combined with property management changes, to create a net-positive impact on biodiversity at existing industrial assets.

In the summer of 2021, the team implemented the following ecology upgrades, which were recommended by our landscaping partner (Nurture), with the aim of boosting wildlife:

- A baseline survey of birds and insect life was carried out
- Installation of bug hotels to the front of the park
- Bird boxes were fitted to mature trees
- Wildflowers were sown across a large grass area
- By allowing wildflowers and grasses to bloom for longer, Erdington Industrial Park provides a vital source of nectar for bees and other pollinators.

The team engaged with Canal & River Trust Birmingham about potential future collaborations, such as installing educational panels and information sharing with occupiers. The ecology upgrades at Erdington Industrial Park build on earlier sustainability improvements, which include upgrading all street lighting with energy efficient LEDs, introducing electric vehicle charging points, and procuring all electricity via renewable sources.

⁹ Better Building Partnership, 'Small Steps Make a Big Biodiversity Impact on Industrial Park' (2022)



EMBEDDING CIRCULARITY IN A SHOPPING CENTRE

We have been actively managing Crystal Peaks Shopping Centre in Sheffield which welcomes over 11 million visitors a year¹⁰, empowering the team to minimise its negative impact on the environment through improved waste management solutions and sharing best practice principles.

The aim is to achieve 100% waste diversion from landfill. The shopping centre team have been engaging with the supply chain to identify ways to minimise waste pollution. Specifically, they have worked closely with the waste management contractor to increase the volume of waste being recycled.

While the property was already achieving zero-waste to landfill, both by recycling materials and by diverting general waste to an Energy from Waste (EfW) facility,

the next goal was to minimise the general waste sent to EfW from 40% to 60%. By engaging with the contractor, general waste was reduced significantly as a result of correct recyclable and non-recyclable separation. This in turn increased the amount of recyclable and reusable materials on site.

Within 12 months, the recycling rate increased from 33% to 89%, exceeding the initial target of 60%. However, more can be done to apply the circular economy principles on operations and reduce the shopping centre's impact on the environment even further. The Federated Hermes Real Estate team will continue to support the centre to find solutions on hard-to-recycle materials such as coat hangers and plastic bottles.



USING OUR REAL ESTATE TO SUPPORT LOCAL CHARITIES



The team at 26-28 Hammersmith Grove supported the charity Centre for Policy on Ageing (CPA) by offering them space at a peppercorn rent. The CPA charity works on behalf of older people and owns a unique library collection focusing on issues relating to ageing.

The CPA was previously located in Tavis House, Tavistock Square, and was unexpectedly given notice to vacate as the building had been sold. The library collection contains approximately 60,000 items (books, reports, journals & grey literature) and forms the basis of their well-used information services.

Challenge

- The charity was desperately seeking temporary space to set up their library in order to remain active and stop the destruction of the collection ahead of their move to Newcastle University.
- CPA's grant income had been badly impacted by Covid-19 because projects were cancelled during lockdown, meaning they were unable to afford commercial rates.
- The charity have a small number of staff and, despite their best efforts, they were unable to find affordable space.

Action

- Federated Hermes liaised with the charity to discuss square footage to see which void unit would be most applicable to their requirements.
- Peldon Rose helped to transport and re-shelve over 20,000 books and thousands of journals in classified order.
- We granted them a six-month rent-free lease on a void floor.

Result

- The CPA are currently occupying a vacant floor on a short-term lease at a peppercorn rate and are contributing a small sum towards void costs. With the help of CBRE, they have applied for rates relief from the Council, and the fund pays the remainder.
- They were able to save the library collection which can continue to be used by charity workers to improve the lives of elderly people, and which also allowed the charity to focus their attention ahead of their move to Newcastle University knowing they will be able to stay active during this period.
- This gave the charity sufficient time to financially recover from the impact of Covid-19.

¹⁰ ACM, 'Case study: Crystal Peaks Shopping Centre' (2021)

Helping UK towns to thrive

The UK Government published the [Levelling Up](#)¹¹ report at the beginning of 2022, which explained what is required to end geographical inequality in the UK. Among others, the report aims to boost productivity and living standards, restore a sense of community and local pride, and empower local leaders and communities. Specifically, it states that “to end the geographical inequality which is such a striking feature of the UK [...] it needs to begin by improving economic dynamism and innovation to drive growth across the whole country, unleashing the power of the private sector to unlock jobs and opportunity for all”.

At Federated Hermes Limited, we believe that we can support and help communities to thrive. We aim to create meaningful places in which people will want to live and foster a sense of belonging. Our focus is to leave a legacy and create a deep, long-lasting impact on the communities we help to develop.

Our ‘impactful intent’ approach in our developments aims to identify the ESG potential and utilise the available resources to create a positive environmental and social outcome in a particular place or market as a core focus of our responsible investment strategy, in addition to strong risk-adjusted financial returns. Our purposeful framework has three main pillars:

- Meaningful placemaking that creates civic pride.
- Healthy, engaged, and productive communities that drive desirable social and environmental outcomes.
- Climate and resource efficiency and achieving a just transition to a low-carbon, circular economy to help prevent further adverse climate change and resource scarcity.



MEANINGFUL PLACE-MAKING IN PRACTICE

Leeds

The Real Estate team manages and developed an historic area in Leeds, amounting to £300m AUM across 116,610m² of lettable space.

Wellington Place is a hub of state-of-the-art offices, independent restaurants and landscaped gardens steeped in history, next to Leeds railway station. For this scheme, historically important sites have been repurposed, maintaining the link between the present and the past. The investment in the Wellington Place scheme has provided new employment opportunities across over 30 companies. With the development of an old retail warehouse site built on the former railway goods yard, this has brought a previously redundant area back into prominence, with new public areas, restaurants and employment opportunities. The provision of brand-new buildings that offer high specification space allows the whole of Leeds to attract important long-term employers, enhancing the opportunities for job creation, retention and growth.

Our team manages the **Marshall’s Mill & Round Foundry**, which includes an 18th century Mill. The Mill has been repurposed to high specification office space and the area has become a creative hub for games developers, filmmakers and advanced manufacturing. The place is a “neighborhood of collaboration” supporting independent businesses and the local community.



Wellington Place

Photo: Bevan Cockerill.

Both Wellington Place and Marshall’s Mill & Round Foundry schemes have developed spaces both for the occupiers and the public with new routes and green spaces to linger. Looking to the future, Federated Hermes Limited continues to support the development of Leeds with the continuation of these schemes and the development of new housing in the East of the city.

¹¹ HM Government, ‘Levelling Up the United Kingdom – Executive Summary’ (2022)



ST MARY LE PORT – BRISTOL

Our Real Estate team has also integrated nature-related risk management throughout its investment decision-making and asset-management processes.

St Mary Le Port (SMLP) is a proposed redevelopment of 1.15 hectares site in Bristol City Centre. The redevelopment includes demolition of current derelict buildings, construction of three new buildings for office and retail uses, extensive public realm improvements, new internal street layout, tree planting, rich soft landscaping, rooftop terraces and biodiverse green roofs.

Figure 2: A view of Mary Le Port Street building



Source: Federated Hermes Limited.

The scheme is currently subject to a planning application and has carried out Natural Capital Assessment (NCA) to assess the impacts of the proposals on natural assets and its potential Environmental Net Gain (ENG).

Figure 3: SDGs targeted by SMLP redevelopment



Source: UN Sustainable Development Goals, Federated Hermes Limited.

The vision for this redevelopment revolves around the SMLP Sustainability Charter¹² set at the inception of the project and the current and proposed legislations – both of which promote implementation of ENG working with various stakeholders and long-term stewardship of the natural environment to benefit wildlife and ensure its welfare benefits.

Natural capital is to be understood as acting in combination with human to ensure society's health, wealth and wellbeing. The NCA work for SMLP follows relevant guidance from the Natural Capital Committee (NCC) workbook which provides a five-step model to protect and improve local environment and natural capital and provide a sustainable flow of benefits. Based on this and given the urban context of the site the following four objectives were identified:

1. Ensure biodiversity net gain
2. Reduce the carbon footprint and improve air quality
3. Promote the circular economy and reduce waste
4. Enhance recreational, landscape and welfare value.

The proposed ENG on the development site will lead to long-term and sustainable gains in biodiversity in the area, by providing better, bigger and more habitats, which would enable better connections with other habitats. This would allow the maintenance of existing habitats, and the reproduction of new habitats in the wider area through pollination, wildlife population control and seed dispersal.

The scheme is expected to achieve a Biodiversity Net Gain score of 85%.¹³ This is expected to support reduction in carbon emissions, potential decrease in air pollutants, welfare benefits to people through enhanced landscape encouraging physical and recreational activities that could improve physical as well as mental health and wellbeing. Providing habitats to protected birds and other species could encourage tourism in the area for wildlife watching and offer educational opportunities.

¹² Hoare Lea (2020) St Mary le Port Sustainability Charter

¹³ The assessment methodology builds on the guidance outlined in the NCC's workbook.

Our Environmental Performance

Federated Hermes – 2021 annual reporting commentary

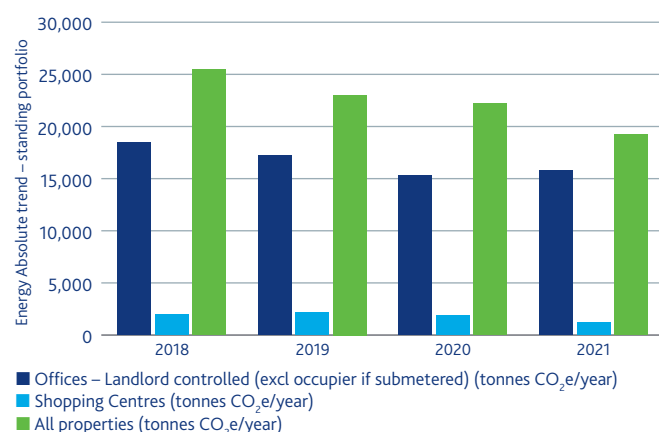
Figure 4. Changes in energy intensity for shopping centres and offices between 2018 and 2021 (kWh/m²/year)

	2018	2019	2020	2021	% change 2018 to 2021
Offices	133	101.5	70.0	101.5	-23%
Shopping Centre	29	38	39	38	32%

Landlord consumption (incl occupier if not submetered) (kWh / m² / year).
Source: Carbon Intelligence, as at December 2021

The picture of energy use mirrors the carbon emission story with a pick up in office use as lockdowns came to an end and workers returned to the office resulting in the use of energy increasing both for the complex building systems (cooling, lifts and heating) and within the occupier space (lighting, office equipment and kitchens). Shopping centres have not seen this peak as the spaces remained open during lockdown and therefore there was limited change between the two periods. Although there has been a dramatic increase in the use of energy compared to last year this is the rebound effect as lockdowns ceased and occupation of the real estate portfolio increased leading to increased use of buildings and their systems including heating, chilling and infrastructure. The majority of use can be seen to be natural gas for heating.

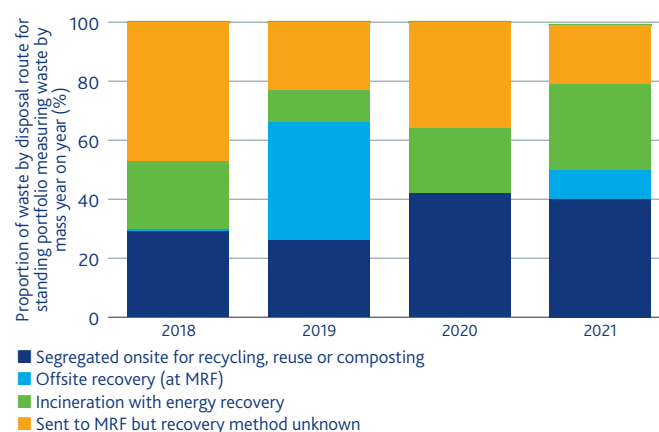
Figure 5. Changes in absolute carbon emissions (Scope 1 and 2) for landlord-controlled standing portfolio between 2018 and 2021 (tonnes CO₂e/year)



Landlord consumption (incl occupier if not submetered) (kWh / m² / year).
Offices account for 82% of overall portfolio emissions, compared with 6% for Shopping Centres. Other retail and industrial account for 12%. Source: Carbon Intelligence, as at December 2021

During 2021 we experienced further periods of lockdown. Our teams continuously ensured that assets were run efficiently and within the government guidance around health and wellbeing. We also noted a decrease in the emission factors that play a big role in calculating our carbon footprint.

Figure 6. The proportion of waste by disposal route for standing portfolio measuring waste by mass year on year (%). Weight (kg) is presented in 2021



Source: Carbon Intelligence, as at December 2021

On and off-site recycling has remained below the target of 80%, with the combined level being 45%. The portfolio has seen a 3% increase in on-site recycling. A key focus for the Federated Hermes Responsible Property Management programme in 2022 is improving the granularity of data associated with MRFs and their recovery rates. This will enable a greater understanding of our overall impact and will ensure we continue to improve our portfolio waste management.

Figure 7. Changes in water intensity for the landlord-controlled like-for-like portfolio between 2018 and 2021 (m³/ m² /year)

	2018	2019	2020	2021	% change 2018 to 2021
Offices	0.55	0.73	1.49	0.38	-31%
Shopping Centre	0.35	0.37	0.28	0.32	-9%

Source: Carbon Intelligence, as at December 2021

With footfall at shopping centres recovering post Covid we have seen, but the consumption still remains low comparing to the baseline year.

Appendices

Appendix A: Targets for 2021 – 2022 and Progress

Appendix B: GRESB scores

Appendix C: Reporting methodology

Appendix D: Real Estate mandates

Appendix E: GRI table

Appendix F: External statement

Appendix G: Detailed GHG emission source

Appendix A: Targets for 2021 – 2022 and Progress

Target	Progress
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.	Ongoing
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'. 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 updated Responsible Property Management (RPM) standards and tools to all property managers.	Achieved
Property managers to comply with contractual RPM standard.	Achieved
Climate Risk	
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	
Energy	
Reduce energy intensity by 25% based on 2018 baseline	In progress
100% coverage of zero carbon electricity for landlord areas by 2025	In progress
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
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
Waste	
Achieve an 100% diversion from landfill	Achieved
Occupiers	
Engage with all occupiers during lease negotiations with the intention of including sustainability clauses in all lease agreements.	Achieved
Develop an occupier engagement plan and engage with the top five occupiers in our retail and commercial sectors.	In progress
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.	In progress

Appendix B: GRESB scores

The GRESB scoring results for the 2021 survey are tabulated below.

Fund	Score 2021	Peer group average	Peer comparison	2021 GRESB star	Green star	GRESB peer group
Centre:MK	95	84	1/6	5	Green Star	UK/ Retail Shopping Centres/Non-listed
BTPS	87	63	1/8	5	Green Star	UK/Diversified /Value-added
MetroPUT	71	72	7/9	2	Green Star	UK/Diversified Office/Industrial/Core
HCLLP	86	84	6/8	4	Green Star	UK/Office Corporate/Mid-Rise Office/Non-listed
FHPUT	75	68	13/79	3	Green Star	UK/Diversified/Core/ Tenant controlled
Hestia	95	73	2/8	5	Green Star	UK/Residential/Multi-family/Non-listed
MEPC Silverstone	69	65	5/9	2	Green Star	United Kingdom Industrial – Non-listed
MEPC Milton Park	66	63	3/8	2	Green Star	UK/Diversified /Value Added
MEPC Wellington Place	91	84	3/8	5	Green Star	UK/Diversified /Value Added

Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries

Our 2021 ESG Annual Report for Real Estate 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 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 2021. 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.

Appendix D: Real estate mandates¹⁴

Real Estate current mandates¹⁵

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		
Pooled Fund	Federated Hermes Property Unit Trust (FHPUT)	Exempt Unauthorised UK Property Unit Trust Clients: > 110 UK institutional clients: UK local authority, corporate pension funds and charities Gross Asset Valuation: > £1.5bn Federated Hermes' Role: Fund and Asset Manager Asset Classes: Office, Retail, Industrial, Leisure, Other Geography: Pan UK
Segregated mandate	Global Real Estate Mandate	Client: UK Pension scheme Gross Asset Valuation: <£5.0bn Federated Hermes' Role: Fund and Asset Manager Asset Classes: Office, Retail, Industrial, Residential Geography: International
Joint Venture	Hermes Central London	Clients: CPPIB and BT Pension Scheme Gross Asset Valuation: > £0.5bn Federated Hermes' Role: Fund and Asset Manager Asset Class: Office Geography: City-specific
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

¹⁴ Disclaimer: Capital at risk. 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.

¹⁵ Source: Federated Hermes Real Estate, as of 31 December 2020, unless otherwise specified.

Appendix E: GRI Index

This report has 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	4	Executive summary
102-2	Yes (mandatory)	Activities, brands, products and services	Portfolio wide	4	Executive summary
102-3	Yes (mandatory)	Location of headquarters	Portfolio wide	4	Executive summary
102-4	Yes (mandatory)	Location of operations	Portfolio wide	4	Executive summary
102-5	Yes (mandatory)	Ownership and legal form	Portfolio wide	22	Appendix D: Real estate mandates
102-6	Yes (mandatory)	Markets served	Portfolio wide	22	Appendix D: Real estate mandates
102-7	Yes (mandatory)	Scale of the organisation	Portfolio wide	22	Appendix D: Real estate mandates
102-8	Yes (mandatory)	Information on employees and other workers	Portfolio wide	22	Appendix D: Real estate mandates
102-9	Yes (mandatory)	Supply chain	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-10	Yes (mandatory)	Significant changes to the organisation and its supply chain	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-11	Yes (mandatory)	Precautionary principle or approach	Portfolio wide	4	Executive summary
102-12	Yes (mandatory)	External initiatives	Portfolio wide	5	ESG Highlights
102-13	Yes (mandatory)	Membership of associations	Portfolio wide	6	Industry participation
102-14	Yes (mandatory)	Statement from senior decision maker	Portfolio wide	3	Welcome
102-15	Yes (mandatory)	Key impacts, risks and opportunities	Portfolio wide	3	Welcome
102-16	Yes (mandatory)	Values, principles, standards and norms of behaviour	Portfolio wide	3, 7	Welcome Achieving integration at our core
102-18	Yes (optional)	Governance structure	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-19	Yes (mandatory)	Delegating authority	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-20	Yes (optional)	Executive-level responsibility for economic, environmental and social topics	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-21	Yes (optional)	Consulting stakeholders on economic, environmental and social topics	Portfolio wide	3	Welcome
102-22	Yes (optional)	Composition of highest governance body and its committees	Portfolio wide	22	Appendix D: Real estate mandates
102-23	Yes (optional)	Chair of highest governance body	Portfolio wide	22	Appendix D: Real estate mandates
102-25	Yes (optional)	Conflicts of interest	Portfolio wide	22	Appendix D: Real estate mandates
102-26	Yes (optional)	Role of highest governance body in setting purpose, values and strategy	Portfolio wide	22	Appendix D: Real estate mandates
102-27	Yes (optional)	Collective knowledge of highest governance body	Portfolio wide	22	Appendix D: Real estate mandates
102-28	Yes (optional)	Evaluating the governance body performance	Portfolio wide	22	Appendix D: Real estate mandates
102-29	Yes (optional)	Identifying and managing economic, environmental and social impacts	Portfolio wide	8, 9, 11, 14-18	Case Studies
102-30	Yes (optional)	Effectiveness of risk management process	Portfolio wide	4, 7	Executive summary Achieving integration at our core

Section	Required	Areas	Scope of application	Page	Section title
102-31		Review of economic, environmental and social topics	Portfolio wide	4, 7	Executive summary Achieving integration at our core
102-32	Yes (optional)	Highest governance body's role in sustainable reporting	Portfolio wide	4, 7	Executive summary Achieving integration at our core
102-40	Yes (mandatory)	List of stakeholder groups	Direct managed portfolio	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-41	Yes (mandatory)	Collective bargaining agreements	Portfolio wide	N/A	Not reported
102-42	Yes (mandatory)	Identifying and selecting stakeholders	Direct managed portfolio	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-43	Yes (mandatory)	Approach to stakeholder engagement	Direct managed portfolio	21	Appendix C: Reporting Methodology: 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	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-46	Yes (mandatory)	Defining report content and topic boundaries	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-47	Yes (mandatory)	List of material topics	Portfolio wide	19	Data
102-49	Yes (mandatory)	Changes in reporting	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-50	Yes (mandatory)	Reporting period	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-51	Yes (mandatory)	Date of most recent report	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-52	Yes (mandatory)	Reporting cycle	Portfolio wide	21	Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
102-53	Yes (mandatory)	Contact point for questions regarding the report	Portfolio wide	27	Federated Hermes
102-54/55/56	Yes (mandatory)	Claims of reporting in accordance with the GRI standard, GRI content index, external assurance	Portfolio wide	23	GRI Index
102-56	Yes (mandatory)	External assurance	Portfolio wide	26	Adviser Statement
MANAGEMENT APPROACH					
103-1	Yes (mandatory)	Explanation of the material topic and its boundary	Portfolio wide	21	Appendix C: Reporting Methodology: 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	21	Appendix C: Reporting Methodology: 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	19	Data
201-2	Yes	Financial implications and other risks and opportunities due to climate change	Portfolio wide	5	ESG Highlights

Section	Required	Areas	Scope of application	Page	Section title
INDIRECT ECONOMIC IMPACTS					
203-1	Yes	Infrastructure investments and service supported	Portfolio wide	3, 4, 7	Welcome Executive summary Achieving integration at our core
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	19	Data
301-2	Yes	Recycled input materials used	Portfolio wide	19	Data
ENERGY					
302-1	Yes	Energy consumption within the organisation	Portfolio wide	19	Data
302-2	Yes	Energy consumption outside of the organisation	Portfolio wide	19	Data
303-3	Yes	Energy intensity	Portfolio wide	19	Data
303-4	Yes	Reduction of energy consumption	Portfolio wide	19	Data
WATER					
303-1	Yes	Water withdrawal by source	Direct managed portfolio	19	Data
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	15	Utilising our assets to create change
EMISSIONS					
305-1	Yes	Direct (Scope 1) GHG emissions	Direct managed portfolio	19	Data
305-2	Yes	Indirect (Scope 2) GHG emissions	Direct managed portfolio	19	Data
EFFLUENT AND WASTE					
306-2	Yes	Waste by type and disposal method	Direct managed portfolio	19	Data
SUPPLIER ENVIRONMENTAL ASSESSMENT					
308-1	Yes	New suppliers screened using environmental criteria	Portfolio wide	15,16, 21	Utilising our assets to create change Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
308-2	Yes	Negative environmental impacts in the supply chain and actions taken	Portfolio wide	15,16, 21	Utilising our assets to create change Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries
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	15,16, 21	Utilising our assets to create change Appendix C: Reporting Methodology: Report coverage, material aspects and boundaries

Section	Required	Areas	Scope of application	Page	Section title
SUPPLIER SOCIAL ASSESSMENT					
414-1	Yes	New suppliers screened using social criteria	Portfolio wide	21	Appendix C: Reporting Methodology: 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

Appendix F: Adviser statement

Carbon Intelligence continued to support the Federated Hermes Limited ESG programme during the reporting period. This work included collating, validating and reporting ESG performance data and property characteristics for 2021. 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 2021, Federated Hermes achieved 17% reduction in absolute carbon emissions (Scope 1 and 2) for their landlord-controlled standing portfolio (vs 2018 baseline), which equates to 3,553 tonnes of CO₂e. This is due to the concerted energy efficiency drive by Federated Hermes, property managers and site teams.

The smart building technology programme that Ci delivers to Federated Hermes across various assets 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.

The BREEAM In-Use certification continues to be 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

Appendix G: Detailed GHG emission source

Figure 8: Detailed GHG emission source scoping for UK direct managed assets.

Commitment	GHG emissions		GHG emissions	
Scope 1	14,601	12.5%	6,741	10.7%
Scope 2	23,711	20.3%	7,193	11.4%
Scope 3	78,214	67.1%	49,170	77.9%
Purchased goods and services	11,817	10.1%	7,176	11.4%
Capital goods (Refurb)	4,558	3.9%	3,998	6.3%
Capital goods (Dev)	3,662	3.1%	0	0.0%
Fuel and energy related activities + Water	4,787	4.1%	1,640	2.6%
Waste generated from operations	0	0.0%	0	0.0%
Business travel	0	0.0%	0	0.0%
Employee Commuting	0	0.0%	0	0.0%
Downstream leased assets	53,390	45.8%	36,356	57.6%
Investments	0	0.0%	0	0.0%
Total	116,526	100%	63,104	100%

BTPS includes HCL LP, CMK LP, Hestia LP, NOMA, SMLP, HCP, LP, HOCW LP, MEPC
Operational control approach is agreed to be followed

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

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