

# Real Estate ESG Policy

December 2022

## Introduction

We aim to change investment for better, forever, for all.

Federated Hermes Limited is a global leader in active, responsible investment. We are guided by the conviction that responsible investing is the best way to create long-term, sustainable wealth for our clients and their beneficiaries. We provide specialized capabilities across equity, fixed income and private markets, in addition to multi-asset strategies and proven liquidity -management solutions. Our goals are to help individuals invest and retire better, to help clients achieve better risk adjusted returns, and where possible, to contribute to positive outcomes in the wider world.

This policy sets out the approach to ESG (Environmental, Social and Governance factors) of Federated Hermes Limited ("Federated Hermes") for Real Estate which includes our operational assets, place-making and developments schemes. Federated Hermes Real Estate offers client-focused property investment solutions through segregated and pooled structures, seeking to maximise risk-adjusted returns. Federated Hermes Real Estate is one of the largest real estate managers in the UK, with £7.1 billion of assets under management (GAV) in both UK and international portfolios.

We believe that a responsible, sustainable approach to real estate investment management is the only strategy which both protects and enhances the value of our clients' assets, now and in the future. This policy explains our ESG approach, commitments and how we integrate ESG factors and risks in the investment process and in every stage of an asset's life cycle.

## Our approach to ESG

We have developed a sophisticated and agile ESG framework that is based on a holistic understanding of the environmental and social challenges and opportunities our assets are facing. As we are entering the era of implementation, progress needs to be made at pace if climate crisis and social inequality are to be tackled successfully. Therefore, our approach to ESG is outcome-focused, action-led and based on targets to achieve progress in a consistent way.

## Real Estate team

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 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.

## Governance

To accelerate progress in Real Estate, we have internally developed the following governance structure and processes. The Responsibility Office and the Governance Committee of Federated Hermes support and hold the Real Estate team accountable with regards to its ESG commitments.

- 1 Responsibility: The Real Estate Investment Committee of Federated Hermes Limited oversees the integration of the ESG programme. An Executive Director has overall responsibility for matters related to ESG and the ESG team is responsible for the implementation of the programme.
- 2 Building our ESG capability: Annual training is in place for all employees in the Real Estate team to deliver the ESG programme, utilising internal specialists and external partners. We aim for 100% of our team to attend two sustainability training sessions a year and for 100% of our investment team to attend an external verified ESG training course.
- 3 Stewardship: The implementation of our ESG strategy is the responsibility of the ESG team and 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 asset management. Progress on our ESG agenda is everyone's role in the Real Estate department and everyone in the Investment team takes ownership and is accountable for meeting the targets in the assets they manage. Each investment professional has specific responsibility for behaviour objectives in their annual performance objectives.
- 4 ESG Integration: We fully integrate ESG factors in our investment and asset management processes where these are material to the long-term value and risk of the assets. The performance of environmental (such as carbon emissions emitted, climate risk and biodiversity net gain) and social (such as social value and impact) drivers are part of the core objectives in our investment strategy. We have established procedures and developed tools that support Investment Managers and Fund Managers in considering ESG elements across assets' life cycle, including investment, development, property management and occupier engagement. Examples of this include Net Zero Carbon audits and WLCA's for developments and major refurbishments which support to generate an evidence base for the pathway to achieve Net Zero Carbon. Our responsible approach in how we manage our assets benefits different stakeholders from our occupiers and the local community to the end investor. Integrating ESG considerations' insights into our investment processes enables us to develop a more comprehensive view of both the risk and opportunities a company is exposed to and to factor this into valuations and investment decisions. External assurance has concluded that Federated Hermes

Limited has exceeded regulatory requirements and current best practices for their stewardship and ESG integration activities across Real Estate.

- 5 Commitments and targets: A process to set targets at fund level, development-level, and asset level is in place to continuously track our progress. We set targets on a range of ESG considerations and more specifically on carbon emissions, energy intensity, biodiversity, waste to landfill and social value.
- 6 A comprehensive monitoring programme is in place to measure, monitor and report on our ESG performance against our targets. The results are published annually in our Real Estate ESG report, available to the public. All data used in Real Estate ESG reporting are 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 ESG risks in the assets we manage and monitor how our assets have been progressing against their environmental targets.

The Real Estate team is guided by the policies and procedures of Federated Hermes Limited. The following policies and disclosures are in place, among others:

- Our Sustainability Risks Policy.
- We are signatories of the UN Global Compact, and report annually on our implementation of these principles.
- We are founding signatories of the UN Principles of Responsible Investment and report annually using the Reporting Framework.
- We publish an annual climate-related financial disclosures report in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).
- We are a signatory of several stewardship codes, including the Financial Reporting Council's UK Stewardship Code.
- We comply with the UK Modern Slavery Act (2015).
- Federated Hermes Limited has signed up to the Net Zero Asset Managers initiative<sup>1</sup>.
- Federated Hermes commitment to deforestation and biodiversity. Specifically, Federated Hermes Limited committed to contribute to the goal of USD 10 billion in investment products aligned to natural capital themes by the end of 2022 and share best practices with other Sustainable Market Initiative members.

### Our commitments to the environment and society

At Federated Hermes Real Estate, we recognise that our assets and place-making schemes shape the lives of the communities we operate in. As part of our fiduciary duty to the underlying investors of the funds we manage, it is our responsibility to ensure that we contribute to the development and opportunities of those communities. Our approach starts with understanding the ESG risks and pushing to meet our potential for positive impact on the environment and society. Specifically, we commit to:

#### 1 Nature positive impact

We are ambitious but practical with our environmental commitments and we are aiming to achieve a positive impact on nature by:

- i. Becoming net zero by 2035 in developments and operations<sup>2</sup>.
- ii. Achieving a net-positive impact on biodiversity throughout operations, development and where possibly supply chain.
- iii. Incorporating circular economy principles in our developments and operational assets.

#### 2 Lasting social impact

We build and manage our assets with purpose in mind. Our place-making schemes and asset management practices promote societal inclusion, prioritise health and wellbeing and support a sustainable supply chain. We understand that our assets can provide the solutions to major societal challenges we face, therefore, we prioritise action on:

- i. Creation of opportunities for societal inclusion.
- ii. Support for the development of skills that are required for transitioning to a net zero economy.
- iii. The prioritisation of health and wellbeing in the spaces we manage and develop by incorporating principles from international standards.
- iv. Working with our supply chain for responsible procurement.

#### 3 Unlocking our ESG potential through partnerships

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. The ESG issues our world is facing cannot be solved without collaboration and long-lasting partnerships. Overcoming the climate crisis and reaching social equality require collaboration and increased connections to share expertise and best practices. Therefore, at Federated Hermes Real Estate we see our assets as part of the solution, and we commit to:

- i. Developing impactful partnerships to support the acceleration such as working with academia and non-for-profit organisations to drive change.
- ii. Actively participating in the industry. We actively support various organisations to support market-leading initiatives and government policy. We are an active member of the Institutional Investors Group on Climate Change, the UK Green Building Council, and the Better Buildings Partnership.

<sup>1</sup> Net Zero Asset Managers initiative <https://www.netzeroassetmanagers.org/>

<sup>2</sup> Federated Hermes Net Zero pathway <https://www.hermes-investment.com/uploads/2022/02/14111363f613035ef2b0c9a4a98307e9/0011783-fh-real-estate-net-zero-pathway-2021.pdf>

- iii. Working with our occupiers to identify common ground to ensure that we support each other's journey to Net Zero.

### Deforestation commitment

We understand that halting and reversing deforestation will be essential to mitigate climate change and biodiversity loss. According to the Intergovernmental Panel on Climate Change (IPCC), 11% of global anthropogenic greenhouse gas emissions come from global deforestation and land conversion. The real estate and construction sector has an impact on deforestation due to its dependence on timber as a raw material. Therefore, for our Real Estate business, it is one of our priorities to assess our exposure to deforestation risk and potential impacts on deforestation, and to take steps to reduce this.

### Impact on deforestation from our operations and developments

The WWF report on "Deforestation and social risks in the UK's commodity supply chains"<sup>3</sup> indicates that deforestation is largely driven by commercial agriculture and forestry, including such industries as soy, palm oil, timber, pulp & paper, beef & leather, rubber, and cocoa. The UK imports significant quantities of all the above commodities, and therefore puts people and forests at risk.

We have assessed our Real Estate fund and asset management activities for exposure to deforestation risk. In terms of forest-risk commodities, we have identified exposure to pulp & paper and timber. The latter is material for our business as it is widely used in construction, including in flooring (solid wood; laminate or parquet blocks), window frames, doors and doorframes, skirting, decking, garden buildings and fencing. In terms of our activities, our developments and major refurbishment projects are at highest risk of exposure to deforestation due to the amount of timber sourced. This assessment has informed our deforestation policy for Real Estate.

### Commitments:

#### 1 New developments and major refurbishments:

- a. As timber is the most material 'forest-risk' agricultural commodity for our Real Estate portfolio, we commit that by 2023 we will mandate that all timber and wood products used for structural work and fittings in our new developments and major refurbishments must only come from legal and sustainable sources. We will accept the below four certification schemes:
  - FSC®- Forest Stewardship Council
  - CSA - Canadian Standards Association
  - PEFC - Programme for Endorsement of Forest Certification schemes
  - SFI - North American Sustainable Forest Initiative
- b. We commit to mapping the source of all the timber and wood product used in our developments and major refurbishments by 2025 by implementing a supply chain due diligence process. This includes, for example, furniture and packaging.
- c. We commit to pilot innovative materials that could reduce deforestation by 2025 in our developments and major refurbishments.
- d. We will engage our supply chain (tier 1 contractors) on further ways to minimise our exposure to deforestation risk.

#### 2 Management of existing assets:

- a. For management of existing assets, we have exposure to pulp and paper. Therefore, we commit to introduce guidelines for our property managers on how to reduce the risk of exposure to deforestation by 2024.

#### 3 We will disclose progress against these commitments annually.

### ESG risks

Federated Hermes is guided by the conviction that responsible investing is the best way to create sustainable long-term wealth. Focusing on wealth creation at the expense of the planet and society – the very future for which investors are saving – is counterproductive over the longer term. Therefore, our investment decisions and asset management practices are shaped by long-term ESG risks. Factoring sustainability risks in at every stage of our assets' life cycle helps the Real Estate team to reach a more holistic view of the risk profile of an asset they invest in and operate. We assess, monitor and manage the environmental and social risks that are material at asset level. The analysis of the risks may also identify the ESG potential of the assets we own and reveal opportunities in improving our environmental and social practices.

### Climate Risk

We undertake annually comprehensive assessments of climate change risks and opportunities within our portfolio by assessing the level of exposure on physical and regulatory risks. We assess our portfolio for coastal flooding, fluvial flooding, tropical cyclones, extreme heat and extreme cold. We also assess the transition risk for our portfolio which relates to decarbonization path and reduction requirements for each asset to be Paris-aligned. We classify the assets based on the risk of becoming stranded. Defined by CRREM, stranded assets in the build environment are properties that will be increasingly exposed to the risk of early economic obsolescence due to climate change because they will not meet (potential) future regulatory efficiency standards or market expectations.

<sup>3</sup> Risky Business - October 2017.pdf (wwf.org.uk)

## Progress and Reporting

The Real Estate team report on progress externally on their ESG commitments annually and internally quarterly.

- Better Building Partnership Climate Change Commitment – We have signed the BBP Climate Change Commitment, and we annually report progress on our commitment to meet Net Zero by 2035.
- GRESB – The Real Estate team reports on ESG performance at all of our assets under management and developments.
- ESG Real Estate Annual Report - This report highlights our efforts to operate environmentally responsible and sustainable real estate investments while managing our business. The report is prepared in accordance with Global Reporting Initiative (GRI).
- Quarterly reporting - Quarterly fund reports and the property managers environmental performance reports.
- Principles for Responsible Investment – Federated Hermes is one of the founding signatories of the UN PRI<sup>4</sup>. We report annually on our progress in achieving compliance with PRI.

<sup>4</sup> <https://www.unpri.org/about-us/about-the-pri>

## 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

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

