Real Estate ESG Report 2022

December 2023

Federated Hermes
Private Markets

www.hermes-investment.com
For professional investors only

Contents

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Welcome

Welcome

At Federated Hermes, we believe real estate has the power to deliver incredible ESG impacts in real life – a view that has informed our approach to sustainable wealth creation ever since our origin in 1983.

From our assets and occupiers to the communities where we invest, we understand that the built environment is closely connected with the wellbeing of people and the planet. For us, acting responsibly is not only the right thing to do, but it also genuinely leads to improved risk management and significantly enhances returns.

That's why ESG has always been deeply embedded into our assets, forming an essential part of the decision-making process across our entire real estate portfolio.

We know there's no fixed, single pathway when it comes to ESG – and that with rapid advances in technology, what we're doing today may no longer be applicable tomorrow. We also recognise that creating lasting impact takes time and that we can't do it alone.

Which is why we're investing in partnerships, helping people to power up for the future and working collaboratively to create positive change right across the industry – constantly evolving and trialling new approaches to reflect a world and market that's changing fast.

We remain on track to achieving net zero in our operations and developments by 2035, and by pioneering bold new ways of implementing ESG, we are committed to delivering real estate projects that remain relevant and resilient long into the future.

Chris Taylor
CEO Real Estate &
Head of Private Markets

Executive summary

Who we are

Federated Hermes is a global leader in active, responsible investment management, guided by the conviction that investing responsibly is the best way to create long-term wealth. Our Real Estate team forms part of our Private Markets business and manages a range of investment solutions for our clients.

What we do

As a fund manager, we oversee performance at fund level, including investment transactions, portfolio management, risk management, governance and delivery of client-led real estate solutions for our investors.

As an asset and investment manager, we oversee performance at property level, including operational strategy, tenant leasing transactions, and capital expenditure, refurbishment and active management programmes.

As a development manager, we build meaningful places that deliver positive environmental, social and economic impact.

Why we do it

We know that investing responsibly over the long term is the best way to protect asset value, sustain outperformance and contribute to the most beneficial outcomes for investors, companies, society and the environment, which is why we have been proactively embedding ESG across our real estate portfolio ever since our formation four decades ago.

Today, our world is facing a series of critical social and environmental challenges. With approximately 40% of global carbon emissions coming from the built environment[1] and social inequality on the rise across the UK, we're committed to ensuring our assets are part of the solution.

Where we work

Our investments and assets are diverse and geographically spread to help reduce risk and optimise returns, with a balanced portfolio that includes commercial and industrial real estate, as well as retail, residential properties and science and technology parks.

We're behind some of the biggest place-making and regeneration schemes in a number of the UK's largest cities including Birmingham, Manchester, Bristol and Leeds, but our commitment to responsibility isn't limited to our flagship initiatives – we're also creating positive change across our operational assets right across the country.

As a purpose led investor, we have set ambitious ESG targets including our commitment to meet net zero carbon by 2035. Our progress in 2022 shows that we can make significant advancements despite a rapidly changing environment. We recognise that no one organisation can solve these challenges alone, which is why we're committed to long term partnerships and a joined-up approach. In 2022, our focus included progressing decarbonisation, strengthening our ESG delivery capacity and enhancing the communities we operate in. We're dedicated to making meaningful interventions and look forward to creating even more positive change in 2023.

Katerina Papavasileiou
ESG and Responsibility director

Our portfolio at a glance

- **£8.22 billion of real estate assets (GAV)***
- **Place-making schemes** across major UK cities
- **A diverse portfolio** of industrial, commercial, office and residential assets, plus shopping centres and science and technology retail parks
- **Our portfolio is managed** by in-house investment managers in partnership with external property managers
- **ESG is integrated** throughout our entire asset lifecycle, from acquisition to management to disposal
- **ESG is implemented** through strong collaboration with our property management teams, supply chain and expert consultancies

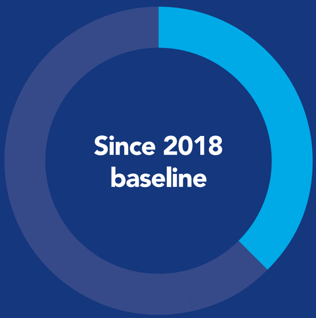
*This includes BTPS portfolio, FHPUT fund, MetroPUT fund, King's Cross and the debt portfolio.

[1] Source: UN Environment Programme: Finance Initiative, 2022.

Progress

Progress

Scope 1 and 2 carbon emissions



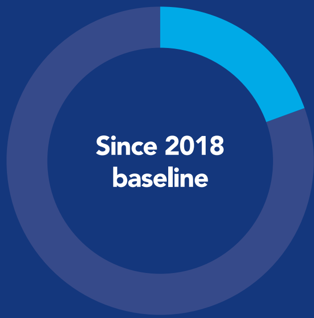
Absolute Reduction: **37.5%**

Like-for-like Reduction: **8.9%**

Absolute Reduction: **17.0%**

Like-for-like Reduction: **5.5%**

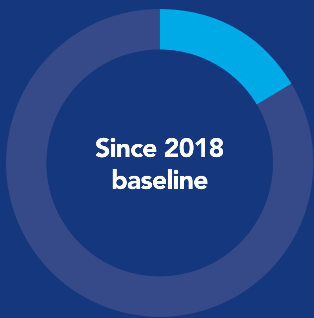
Energy use



Absolute Reduction: **19.6%**

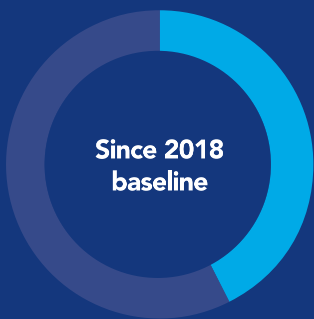
Like-for-like Reduction: **3.4%**

Water use



Absolute Reduction: **16.6%**

Waste production



Absolute Reduction: **42.6%**

367,817kWh
on-site renewables produced in 2022 – a 33% increase from 2021

98%
of landlord procured electricity from renewable sources – a 15.4% increase from 2021

UN Principles for Responsible Investing (UNPRI) Reporting Framework

A+

Green Certifications

BREEAM In-Use: **29** assets

BREEAM in construction and refurbishment: **28** assets

Fitwel: **7** assets

ActiveScore: **8** assets

Global Real Estate Sustainability Benchmark (GRESB)

All our AUM are entered into GRESB. In 2022 this included **11** operational and **7** development funds

100/100 Our Wellington Place and NOMA developments achieved 100/100 in 2022

83% of GRESB entries scored higher in 2022 than in 2021

66% of GRESB entries outperformed peer groups

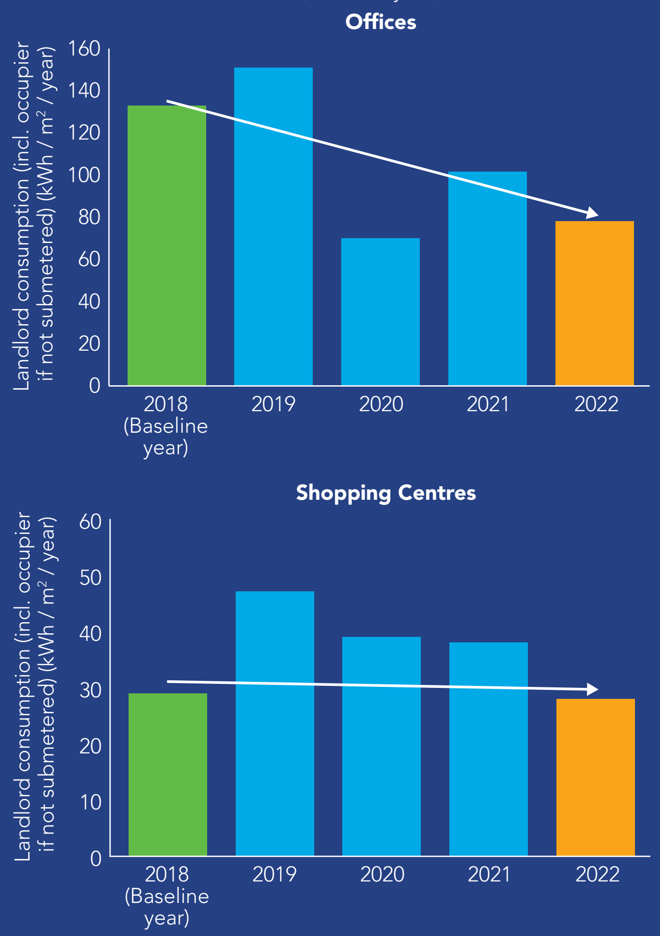
Climate Resilience

100% coverage on flood risk assessments

100% coverage for transition and physical climate risk

100% of new developments complete an embodied carbon and life cycle analysis

Figure 1: Changes in energy intensity for shopping centres and offices between 2018 and 2022 (kWh/m2/year)

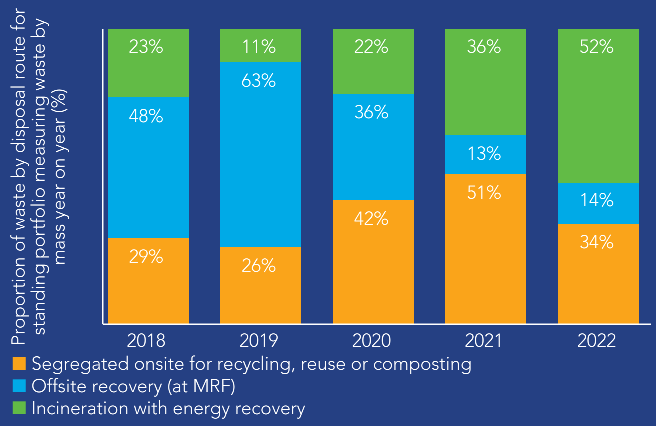


Source: Accenture, as of December 2022.

Figure 2: Changes in absolute carbon emissions (Scope 1 and 2) for landlord-controlled standing portfolio between 2018 and 2022 (tonnes CO_2e/year)

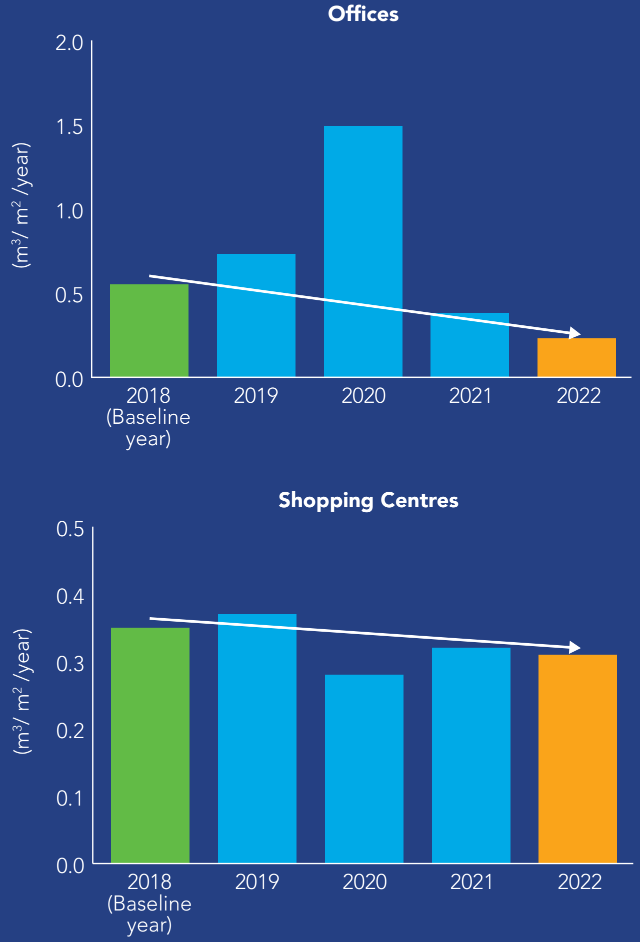
Source: Accenture, as of December 2022.

Figure 3: The proportion of waste by disposal route for standing portfolio measuring waste by mass year on year (%). Weight (kg) is presented in 2022



Source: Accenture, as of December 2022.

Figure 4: Changes in water intensity for the landlord-controlled like-for-like portfolio between 2018 and 2022 (m3/ m2 /year)



Source: Accenture, as of December 2022.

Approach & Objectives

Experience

With 40 years' experience of responsible investing behind us, and backed by the Federated Hermes pledge which places integrity and transparency at our core, we're not afraid to do things differently – continuously trialling new ideas and rolling out what works to relevant parts of our portfolio and beyond.

In this way, we're constantly expanding the limits of what's possible in our own investment process as well as driving our partners and the wider industry forward.

Innovation

We don't believe in adopting a fixed, one-size-fits-all ESG strategy. Instead, we apply an innovative and highly bespoke approach. This means we consider issues holistically, identifying areas we can make a lasting difference and using our resources and networks most effectively.

Breaking new ground might mean there are sometimes things we aren't as familiar with, but by being open about the challenges and using our experience and expertise to address them, we create space for innovation to happen and fresh ideas and solutions to emerge.

Impact

All our real estate investments and developments are backed by sophisticated analytics tools, enabling us to proactively monitor our impact with a view of continuously improving.

We work with independent consultants specialising in topics such as biodiversity and social impact, meaning we have access to the best advice the industry has to offer. We believe that engaging with external experts and working collaboratively is key in solving the critical challenges of our time.

We also recognise that acting responsibly is becoming increasingly important to our occupiers and we're committed to positively influencing their approach, learning from them and ensuring ESG considerations are high on their agenda.

Combining the agility of a boutique investment manager with the weight of a well-established global company, we create genuine ESG impact and achieve significantly enhanced, risk-adjusted returns.

Pioneering Innovation: NABERS Design for Performance

NABERS Design for Performance is a voluntary scheme where developers commit to designing offices to the highest energy standards.

NABERS
UNITED KINGDOM

4 ANGEL SQUARE, MANCHESTER

4 Angel Square, a 200,000 sq. ft. commercial office building, is the first in Manchester to secure a five-star NABERS Design for Performance rating and is one of the first operationally net zero office buildings in the north west.

Utilising an energy-efficient heating system of air source heat pumps and benefitting from energy generated from the building's own photovoltaic panels, this smart building's additional features include over 200 bike spaces, more than 50 parking spaces – half of which have electric charging points – and a tenth-floor green terrace.

4 Angel Square really sets the benchmark for energy-efficient, smart-enabled, high-quality office space.

– Dan Hyde, Development Director and Asset Manager

11 & 12 WELLINGTON PLACE, LEEDS

As one of the most exciting and energy-efficient office buildings in Leeds, 11 & 12 Wellington Place is setting new standards for sustainable development in the UK.

Run entirely on renewable electricity, the building meets the requirements of the UK Green Building Council's net zero carbon operational energy standard, saving a forecasted 407 tonnes of CO_2 annually. It will generate the equivalent annual electricity of more than 42 homes from 7,500 sq. ft. of roof mounted photovoltaic panels.

We're incredibly proud to have achieved the first NABERS Design Reviewed Target Rating of Five Stars or above for an office development outside London.

– Paul Pavia, Head of Development

Our three objectives

Nature Positive | Lasting Impact | Connected Approach

Nature Positive

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

- Targeting net zero in our developments and operations by 2035.
- Achieving a net-positive impact on biodiversity throughout our operations, development and where possible, supply chain.
- Promoting adaptability and ensuring our assets are fully utilised, reused and repurposed while possible.
- Incorporating circular economy principles in our developments and operational assets.

ENHANCING BIODIVERSITY IN BIRMINGHAM

Bees and bee-friendly planting were established at Birmingham's Paradise development in 2021 as part of a Federated Hermes initiative to encourage greater biodiversity.

Now with more than 360,000 bees collecting nectar and turning it into honey onsite, Paradise provides opportunities for occupiers, local residents, schools and community groups to discover the vital job bees carry out and their role at the heart of many ecosystems, including urban ones.

Our Paradise bees are a welcome addition not just to the city centre, but to the development and its efforts to help with sustainability and wildlife retention and expansion. By playing our small part – just like the industrious worker bee – we contribute to something larger and more impactful than if we work alone.

– Caroline Rudge, Commercial Manager at Paradise

The presence of honeybees in Paradise is helping raise awareness of pollinators' role in supporting biodiversity, which often leads people towards other conservation efforts. From beehives and living wall herb gardens to vegetable and wildflower beds, I'm really impressed with the range of measures being taken at Paradise – which not only protect biodiversity but are helping to engage and educate the local community.

– John Beavan, Chief Beekeeper

360,000
bees making honey onsite

Lasting 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 solutions to some of the major societal challenges we face, which is why we prioritise action on:

- Creating opportunities for all.
- Supporting the development of skills required for a just transition.
- Promoting health and wellbeing in the spaces we manage and develop.
- Procuring responsibly and sustainably.


Partnering with local schools at Wellington Place in Leeds

PROMOTING SOCIAL INCLUSION IN LEEDS

Wellington Place in Leeds has been transformed into one of the UK's most successful city-centre regeneration projects.

From educational partnerships focused on social mobility to a year-round programme of participatory events, the development is bringing people together in meaningful ways.

Since 2018, we have collaborated with the Ahead Partnership to engage students from across Leeds that face barriers, disadvantage and under-representation.

We aim to show students the varied career opportunities available at Wellington Place, showcasing the innovative environment and encouraging them to start thinking about their own future careers.

The schools we work with have been specially selected to achieve maximum social impact, with a higher than national average percentage of students eligible for free school meals, and/or a high percentage of students with English as an additional language.

Feedback from students who took part in our 2022 Wellington Place events programme:

- **100%** said it improved their understanding of different careers
- **82%** said it helped them think about their own career goals
- **98%** said it increased their confidence

Assessing Social and Local Economic Value

In partnership with Social Value Portal, we assessed the social value contribution being generated at Wellington Place between 2019-2022 to help create a baseline and inform future strategy.

Our research showed that during this time, the development had:

- created over **1,500** jobs
- facilitated nearly **600** volunteering hours
- provided nearly **270** apprenticeship weeks
- generated over **£5,000** in charity donations
- planted **2,000** trees in Leeds

This contributed towards an estimated social value of £339,370 and a local economic value of £44,172,288.

These figures reflect the benefits Wellington Place delivers to society and environment beyond regulatory compliance and business-as-usual activity.

Connected Approach

We believe the social and environmental issues our world is facing cannot be solved without collaboration and long-lasting partnerships, which is why we use our expertise and assets to support research and help drive the ESG agenda across the real estate industry. We commit to:

- Creating impactful partnerships and working with different stakeholders to mutually support our sustainability journeys.
- Developing strong communication with occupiers.
- Deploying our assets and expertise to unlock ESG progress in real estate.
- Sharing lessons learnt with the industry and allowing our intellectual and physical property to contribute towards solving the biggest challenges of our times.

DEVELOPING IMPACTFUL PARTNERSHIPS

Paradise, Birmingham

From the outset, the regeneration of the Paradise development in Birmingham – a public-private partnership between Birmingham City Council, Federated Hermes and our development and asset management arm, MEPC – has been viewed as an opportunity to deliver both financial and social returns for the city and on behalf of our investors.

The 17-acre site is seamlessly bringing together culture and commerce, combining contemporary new workspace with some of the city's most celebrated listed buildings, delivering a new destination for Birmingham that's rich in both heritage and innovation.

The partnership will significantly bolster Birmingham's standing as a major economic hub, creating a truly mixed-use environment that offers the high-quality jobs, skills and opportunities the city and region needs to meet the challenges of today and tomorrow.

– Ross Fittall, Senior Development Manager at Paradise

ENGAGING PURPOSEFULLY WITH OCCUPIERS

Milton Park, Oxfordshire

At Milton Park, a science and technology park in Oxfordshire, The Greener Workplace Forum is engaging the development's 250+ occupiers on a range of sustainability topics.

The Forum enables businesses operating in Milton Park to work collaboratively – sharing best practice, innovation and sustainability challenges – with the aim of reducing emissions and waste, increasing recycling, enhancing biodiversity and making a positive impact on local communities and the environment.

The group's achievements to date include a shift in single-occupancy private car use towards more sustainable modes of travel, with cycling up 4% in 2022 and bus use doubling in the last two years.

Collaborative lobbying has also led to improvements to local cycling infrastructure and bus services, as well as the purchase and installation of a polystyrene compactor to improve on-site segregation of waste.

The Forum is a great example of how working together can make a significant and measurable difference, helping to reduce carbon emissions and tackle the ESG issues that our occupiers really care about.

– Veronica Reynolds, Sustainability and Community Advisor at Milton Park

Implementation

At Federated Hermes, ESG forms an essential part of our decision-making process. We implement it into everything we do – from the pre-investment phase to our major place-making and development schemes and across our operational portfolio.

Pre-investment

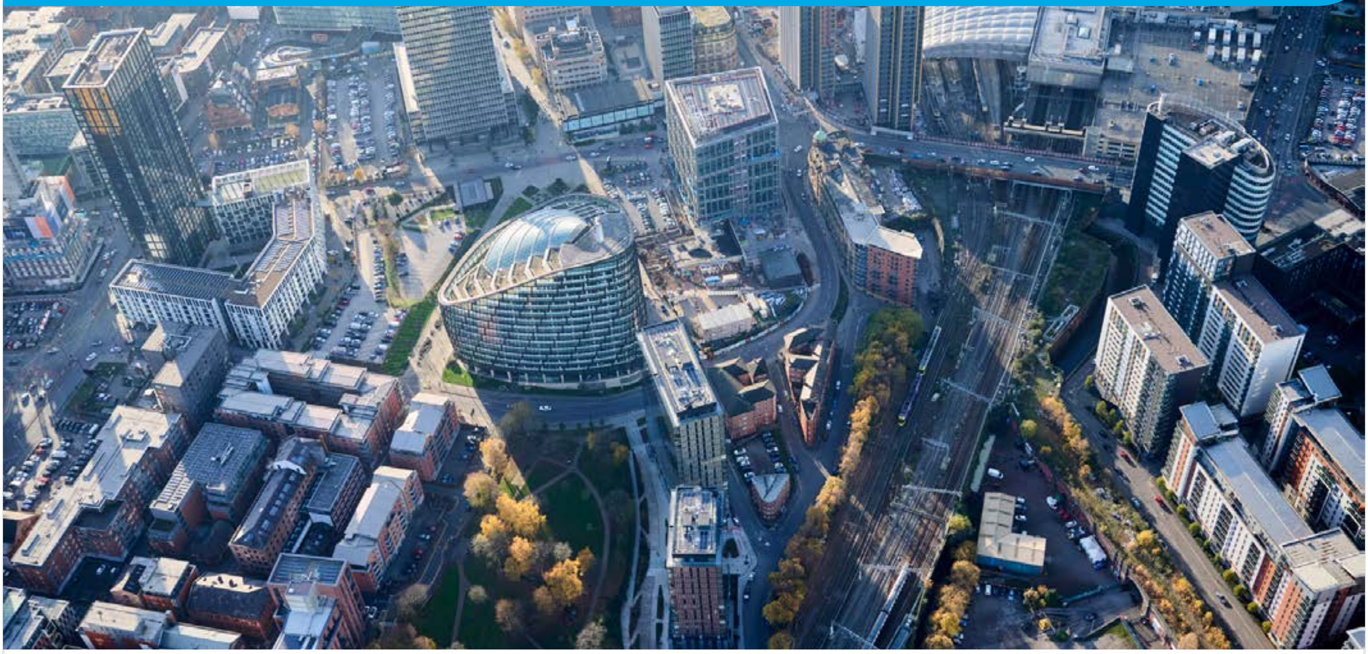
Our investment managers conduct ESG due diligence risk assessments for all new assets joining our managed funds. This involves a pre-screening process to determine whether an asset is eligible to be included in our portfolio, based on our ESG targets and Net Zero Pathway. The aim of this pre-screening is not necessarily to exclude assets based on their current performance, but to review their ESG credentials and identify future potential.

Place-making

We recognise that our place-making schemes shape the lives of the communities we operate in – and that they offer significant opportunities to deliver financial, social and environmental benefit.

That's why we take a responsible and long-term approach, working closely and collaboratively with local councils and expert consultants to ensure our interventions are bespoke to local needs.

PLACE-MAKING IN THE HEART OF MANCHESTER – NOMA



NOMA is a carefully curated, community-focused neighbourhood in Manchester city centre and the largest redevelopment project in the North West.

The 20-acre masterplan is creating new homes, offices, hotels, shops, restaurants and bars around vibrant urban spaces and public realm, whilst championing the idea that places are better when people are involved in making them.

NOMA is committed to creating an innovative, commercially-driven and responsibly designed neighbourhood that offers outstanding connectivity, embraces a rich history and keeps people and community firmly at its heart.

2022 saw the launch of Plant, an exciting initiative that aims to inspire a new generation of urban gardeners and bring more biodiversity and beneficial green spaces to Manchester. In partnership with The National Trust, Manchester Metropolitan University and The Prince's Trust, Plant delivered 100 days of community gardening workshops, planted 160 trees and engaged 563 city children in nature-based activities during its first year.

Plant set out with the mantra: "this city is a garden". We recognised that everything is interconnected in a garden, just like in a city. To date the project has had many benefits on our more-than-human world, including an increase in biodiversity equivalent to 54%.

– Ben Young, Informal Urbanist, Altogether Otherwise at NOMA

Real placemaking spans further than the physical public realm and Plant is a great example of this. Positively impacting people's day-to-day lives through gardening in the city, the initiative has created something that everyone can enjoy and benefit from, even if they are not directly participating. Plant is an exemplar of an innovative social impact initiative which creates positive impact alongside positive returns."

– Dominique Murray, Head of Customer Experience and Marketing Manager, MEPC

CREATING LASTING IMPACT IN EDINBURGH – LAURISTON FARM

At Federated Hermes, we aim to change investment for better, forever, for all.

That's why we're investing in Lauriston Farm – an urban farming scheme offering a local, nature-based response to the combined challenges of climate change, biodiversity collapse and the lack of access for all to healthy, fresh and affordable food.

By helping to remove carbon from the atmosphere, providing restored ecosystems for a range of wildlife, and engaging the diverse local community in a number of land-based initiatives, the farm is providing multiple benefits to people, nature and the wider environment whilst creating a blueprint for sustainable impact investment.

Work on the farm began in 2021 with tree planting and habitat enhancement. Community plots and market gardens soon followed, enabling the team to start building partnerships with local schools and developing links with the community.

Biodiversity initiatives have since emerged, such as a bird census and efforts to start recording biodiversity baseline data. The educational programmes include 'Grow your Own' workshops, as well as a summer arts programme and Harvest Festival celebration.

To date, almost 10,000 trees and 12 community allotments have been planted, with 10,160 portions of vegetables being produced with support from over 600 volunteers.

Operational Assets

We're fully aware that real estate assets are at risk of becoming stranded if they are unable to meet ESG regulatory requirements such as reaching net zero.

To ensure our assets remain a relevant and resilient investment for sustainable growth, we are applying the following key workstreams across our operational portfolio:

- Net zero transition plans
- Biodiversity action plans
- Social impact assessments
- Photovoltaic panel (PV) feasibility studies

USING DECARBONOMICS™ TO ADDRESS NET ZERO TRANSITION RISK

Decarbonising large property portfolios can be time consuming and disruptive.

Building-by-building approaches also fail to exploit the opportunities presented by portfolio-level investment decisions and economies of scale. With this in mind, we piloted Decarbonomics™ on our Milton Park and Federated Hermes Property Unit Trust (FHPUT) portfolios to benchmark performance and develop roadmaps for decarbonisation.

Benchmark

The first step was to create a baseline to establish the current carbon position, using DecarbonomicsTM Carbon Data Insights to plug material data gaps. A five-day, non-intrusive survey representative of the wider estate was then conducted to validate the data.

Roadmap

From the carbon baseline, a fully costed roadmap to achieve our 2035 net zero target was generated for each portfolio. To ensure the roadmap was realistic and achievable, Decarbonomics™ combines machine learning analysis with the expertise of building services engineers, whilst taking tenant requirements into consideration.

Deliver

We realise that roadmaps are only good if we deliver against them and demonstrate progress through robust monitoring and verification over the course of asset improvement works. This pilot project provided clarity around our asset investment decisions and demonstrated the effectiveness of tools like Decarbonomics™ in supporting our net zero transition plans and decarbonising our portfolios at scale.

ASSESSING SOCIAL IMPACT IN PARTNERSHIP WITH CBRE

As part of our commitment to delivering lasting social impact, this year we carried out an innovative new pilot project in partnership with CBRE.

Six assets from different classes were analysed across the following ten categories:

- **Climate**
- **Community and Culture**
- **Connectivity**
- **Diversity & Inclusion**
- **Economic Regeneration**
- **Education**
- **Employment**
- **Environment**
- **Health**
- **Security and Safety**

The resulting scores for each asset were mapped against local area needs, producing a detailed picture of the asset's existing social value and where future improvements might be made.

A suite of possible interventions was then plotted across each asset, with the investment required calculated against the social value delivered, leading to an overall Social Return on Investment (SROI) score.

This process has enabled us to develop highly bespoke social impact strategies for each asset that took part in the pilot project, and we are now rolling out this industry-leading approach across our portfolio.

Net Zero Pathway

Progress on our BBP Climate Commitment

Federated Hermes joined the Better Building Partnership (BBP) Climate Commitment[4] in 2019 to recognise our role in accelerating the global transition to net zero, whilst providing full transparency to our clients and stakeholders. A detailed breakdown of our progress can be viewed in Appendix D.

Key milestones in 2022

1

Enhancing data quality

We are in the process of automating data collection and visualisation to support our reporting and decision making, with the roll-out of smart meters across our UK managed assets already resulting in a 20% increase in actual data during 2022.

2

Establishing embodied carbon targets for our office and residential sectors

We have established achievable carbon reduction targets for these sectors, which we will review again in 18 months when further project data becomes available.

3

Developing a net zero strategy for our residential portfolio

We have developed a stand-alone net zero strategy for our Built-to-Rent platform Hestia. Focusing on four key pillars of activity – decarbonisation, delivering energy efficiency, stakeholder engagement and utilising offsetting opportunities – we are set to achieve net zero in our UK residential portfolio by 2030.

4

Eliminating fossil fuel consumption in our assets and construction processes

Removing fossil fuel from our assets is a key part of our journey to achieve net zero by 2035 and we are committed to including fossil fuel free requirements in our lease agreements and tenant engagement campaign.

[4] https://www.betterbuildingspartnership.co.uk/member-climate-commitment

Fund level reviews

Since 2021, we have been carrying out detailed fund level reviews to set individual net zero pathways aligned with our portfolio-level commitments. This includes the BTPS Fund, the Federated Hermes Property Unit Trust (FHPUT) Fund, Build to Rent (BTR), our Debt and International portfolios.

Desktop modelling has been carried out to understand the decarbonisation potential of each fund in comparison to the Carbon Risk Real Estate Monitor (CRREM) and UK Green Building Council (UKGBC) methodologies. This has helped us understand the scale of investment required to reach net zero, as well as investment priorities, key risks and opportunities.

Asset level deep-dives

Asset level net zero carbon audits are being undertaken across our portfolio, to help us consider the interventions that might be applied to deliver performance at, or close to, emerging net zero carbon and energy use intensity standards.

These deep dives take 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.

Overall, at the end of 2022, thirteen net zero carbon audits were completed, identifying key measures and CAPEX required to meet Carbon Risk Real Estate Monitor (CRREM) V2 targets and achieve net zero carbon by 2035.

BTPS Portfolio: performance at a glance

- Portfolio value: £6.69bn
- Asset types: commercial and residential
- Whole fund baseline operational carbon footprint: 56,271 tCO_2e[5] (a decrease from 107,190 tCO_2e in 2018)

A full review of our BTPS Portfolio can be viewed in Appendix D.

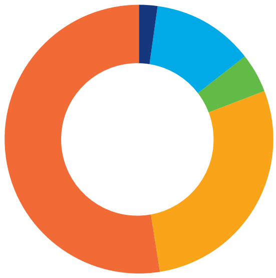
2022 BTPS emissions split by scope

FHPUT Fund: performance at a glance

- Portfolio value: £1.18bn
- Asset types: commercial
- Whole fund baseline operational carbon footprint: 18,515 tCO_2e[6] (a decrease from 57,975 tCO_2e in 2018)

A full review of our FHPUT Fund can be viewed in Appendix D.

2022 FHPUT emissions split by scope



Delivering Net Zero: Build-to-Rent

In 2022 we developed a standalone net zero strategy for our Built-to-Rent residential capability and operational platform Hestia, setting a commitment to achieve net zero carbon by 2030.

As an emerging leader in the residential sector, we currently have circa £106m under management, with an additional £460m under construction at various phases. We recognise the responsibility and opportunity this provides in reducing carbon emissions, both in development and in the operating assets.

Taking a market-leading approach to fossil fuel divestment, our BTR operating assets are now fully electrified, and all new assets are to be fossil fuel free, with any acquisitions being transitioned away from fossil fuels at the earliest possible intervention point.

A full review of our BTPS Portfolio, FHPUT fund and Build-to-Rent assets can be viewed in Appendix D.

[5] The carbon footprint covers any landlord emissions (Scope 1 and 2) as well as some Scope 3 (downstream leased assets from tenant operations, Investments (Kings Cross), and purchased goods and services). Other Scope 3 categories, such as carbon from waste and water have not been included in this analysis.

[6] The carbon footprint covers any landlord emissions (Scope 1 and 2) as well as some Scope 3 (downstream leased assets from tenant operations and purchased goods and services). Other Scope 3 categories, such as carbon from waste and water have not been included in this analysis.

Next steps

To deliver our Net Zero Pathway and align with the upcoming UK Net Zero Carbon Buildings Standard (UK NZCBS), we will:

1. Continue to focus on increasing awareness of the actual energy consumption across our assets, with a target to achieve 50% actual data by 2025 and 100% by 2030.

2. Continue to roll out our smart meter installation programme across our managed assets. We will also establish an automated ESG data platform in 2024 to improve data collection processes and visibility.

3. Launch an engagement campaign with priority tenants to enhance data visibility and promote carbon reduction.

4. Keep eliminating on-site use of fossil fuel, prioritising air source heat pumps as a gas boiler replacement alternative and including fossil fuel elimination requirements in our tenant engagement programmes.

5. Adopt NABERS UK for our UK-based offices and use a 5* Design for Performance target up to 2030 for new build to ensure UK NZCBS and CRREM levels are achieved.

6. Continue net zero audits of high-risk assets to inform and develop action plans, with priorities aligned with our Net Zero Pathway.

7. Continue building net zero carbon knowledge across the company via regular training and workshops.

8. Produce activity data such as embodied carbon assessments, with product and supplier-specific Environmental Product Declarations, early in the design stage to identify and implement savings and at as-built stage to give a final embodied carbon value.

9. Progress our renewable energy project.

10. Develop a credible offsetting strategy following the latest UK Green Building Council guidance release, including development of an internal cost of carbon to support low-carbon procurement.

11. Trial and roll out the use of smart innovative technology to run buildings more efficiently, reducing operational energy consumption and costs.

Industry Participation

Working in partnership to help transform the wider Real Estate industry

Memberships

- Better Buildings Partnership (BBP)
- Institutional Investors Group on Climate Change (IIGCC) – Real Estate Working Group
- International Corporate Governance Network (ICGN)
- Natural Capital Investment Alliance (NCIA)
- UK Green Building Council (UKGBC)
- Climate Action 100+
- 30% Club
- Investor Alliance for Human Rights
- Real Estate Balance (REB)
- UN Guiding Principles Reporting Framework

Pledges and Commitments

- BBP Climate Change Commitment
- Net Zero Asset Manager Initiative (NZAMI)
- Principles for Responsible Investment (PRI)
- UN Environment Programme Finance Initiative (UNEP FI)
- UN Sustainable Development Goals (SDGs)
- Montreal Climate Pledge
- Portfolio Decarbonisation Coalition (PDC)
- Task Force on Climaterelated Financial Disclosures (TCFD)
- UN Global Compact (UNGC)

Governance

Ensuring a culture of effective stewardship

We believe that creating long-term wealth sustainably through active investment and ownership delivers the best outcomes for our clients. We have therefore taken several actions to ensure our investment beliefs, strategy and culture enable effective stewardship and that this remains at the heart of our work.

In Real Estate, our Responsibility Office and Governance Committee support and hold our Real Estate team accountable with regards to its ESG commitments. The team has also created the following governance structure to embed effective stewardship across Real Estate.

Building our ESG capability: Annual training is in place for all employees in the Real Estate team, utilising internal specialists and external partners.

Responsibility: Our Real Estate Directors oversee the integration of our ESG programme and monitor progress at quarterly meetings. An Executive Director has overall responsibility for matters related to ESG and our ESG team has responsibility for implementing the programme.

Stewardship: Two working groups–our ESG Working Group and Net Zero Working Group–meet monthly to share updates, best practice and implementation challenges. Everyone in the Real Estate team is responsible for progressing ESG and each investment professional has specific ESG targets.

ESG Integration: Integrating ESG insights into our investment processes enables us to develop a comprehensive view of the risks and opportunities a company is exposed to and we factor this into valuations and investment decisions. External assurance has concluded that we have exceeded regulatory requirements and best practices for our Real Estate stewardship and ESG integration activities.

Monitoring: 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 this Real Estate ESG report which is available to the public. All data used in our Real Estate ESG reporting is verified and assured by a third party in accordance with relevant industry standards.

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 including carbon emissions, energy intensity, biodiversity, waste management and social value as appropriate.

Looking Ahead

We believe that the real estate industry and wider business community need to take urgent action on sustainability – which is why we're committed to trialling new approaches, constantly adapting to change and never growing complacent.

Water management, social impact and biodiversity are among the key themes for our future investment strategies, and we're currently developing ever more sophisticated data and KPIs to demonstrate the impact we're having.

Having committed to net zero by 2035, and by driving responsibility and sustainability throughout our portfolio, we are set to remain a global leader in active, responsible investment.

Appendices

Appendices

Click the titles below or above to navigate easily between sections.

Appendix A: GRESB scores

Global Real Estate Sustainability Benchmark (GRESB) scoring results for 2022 are tabulated below.

Fund	Score	Peer group average score	Peer group comparison	GRESB Rating	GRESB Peer group
STANDING INVESTMENTS					
BTPS Direct Real Estate portfolio	85	64	1/12	★★★★	United Kingdom of Great Britain and Northern Ireland | Diversified | Value-added
Federated Hermes Property Unit Trust (FHPUT)	75	73	53/113	★★	United Kingdom of Great Britain and Northern Ireland | Diversified | Core
Hermes Central London (HCLLP)	85	86	4/6	★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate: Mid-Rise Office | Non-listed
Metro Property Unit Trust	76	64	3/9	★★★	United Kingdom of Great Britain and Northern Ireland | Diversified – Office/Industrial | Non-listed | Tenant Controlled
Centre:MK	92	74	1/9	★★★★★	United Kingdom of Great Britain and Northern Ireland | Retail: Retail Centres | Non-listed
Hestia (UK Residential)	89	70	2/16	★★★★★	United Kingdom of Great Britain and Northern Ireland | Residential: Multi-Family | Non-listed
NOMA	76	81	9/12	★★★	Northern Europe | Diversified – Office/Retail | Value-added
Paradise	82	82	6/10	★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate | Value-added
Silverstone Park	69	65	3/6	★★	United Kingdom of Great Britain and Northern Ireland | Industrial: Industrial Park | Non-listed
Milton Park	71	64	5/12	★★	United Kingdom of Great Britain and Northern Ireland | Diversified | Value-added
Wellington Place	92	86	1/6	★★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate: Mid-Rise Office | Non-listed
DEVELOPMENTS					
BTPS	96	83	3/15	★★★★★	Europe | Diversified – Office/ Residential | Non-listed
HESTIA (UK Residential)	88	78	7/14	★★★	United Kingdom of Great Britain and Northern Ireland | Residential: Multi-Family | Non-listed
Milton Park	92	92	5/9	★★★★	United Kingdom of Great Britain and Northern Ireland | Office | Value-added
NOMA	100	92	1/8	★★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate | Value-added
Paradise	92	92	5/9	★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate: Mid-Rise Office | Non-listed
Silverstone Park	84	89	9/11	★★	United Kingdom of Great Britain and Northern Ireland | Industrial | Non-listed
Wellington Place	100	83	1/8	★★★★★	United Kingdom of Great Britain and Northern Ireland | Office: Corporate: Mid-Rise Office | Non-listed

Appendix B: Reporting Methodology

Report coverage, material aspects and boundaries

Our 2022 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 2022. We report key environmental and social data for UK assets over which we have management control for the same period.

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

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

Appendix C: 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	Areas	Scope of application	Section Title
102-1	Name of the organisation	Portfolio wide	Executive Summary
102-2	Activities, brands, products and services	Portfolio wide	Welcome
102-3	Location of headquarters	Portfolio wide	End Statement
102-4	Location of operations	Portfolio wide	End Statement
102-5	Ownership and legal form	Portfolio wide	End Statement
102-6	Markers served	Portfolio wide	Welcome
102-7	Scale of the organisation	Portfolio wide	Welcome
102-8	Information on employees and other workers	Portfolio wide	Welcome
102-9	Supply chain	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-10	Significant changes to the organisation and its supply chain	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-11	Precautionary principle or approach	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-12	External initiatives	Portfolio wide	Throughout report
102-13	Membership of associations	Portfolio wide	Industry Participation
102-14	Statement from senior decision maker	Portfolio wide	Welcome
102-15	Key impacts, risks and opportunities	Portfolio wide	Approach & Objectives
102-16	Values, principles, standards, and norms of behaviour	Portfolio wide	Approach & Objectives
102-19	Delegating authority	Portfolio wide	Approach & Objectives
102-40	List of stakeholder groups	Direct managed portfolio	Welcome
102-41	Collective bargaining agreements	Portfolio wide	Not reported
102-42	Identifying and selecting stakeholders	Direct managed portfolio	Not reported
102-43	Approach to stakeholder engagement	Direct managed portfolio	Approach & Objectives
102-44	Key topics and concerns	Direct managed portfolio	Not reported
102-45	Entities included in the consolidated financial statements	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-46	Defining report content and topic boundaries	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-47	List of material topics	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-49	Changes in reporting	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-50	Reporting period	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-51	Date of most recent report	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-52	Reporting cycle	Portfolio wide	Report Coverage, Material Aspects and Boundaries
102-53	Contact point for questions regarding the report	Portfolio wide	Federated Hermes
102-54/55/56	Claims of reporting in accordance with the GRI standard, GRI content index, external assurance	Portfolio wide	GRI Index
102-56	External assurance	Portfolio wide	Advisors Statement
103-1	Explanation of the material topic and its boundary	Portfolio wide	Report Coverage, Material Aspects and Boundaries
103-1/2/3	Explanation of the material topic and its boundary, the management approach and its components, evaluation of the management approach	Portfolio wide	Report Coverage, Material Aspects and Boundaries
103-2	Management approach and its components	Portfolio wide	Not reported
203-1	Infrastructure investments and service supported	Portfolio wide	Not reported
203-2	Significant indirect economic impacts	Portfolio wide	Not reported
301-1	Materials used by weight or volume	Portfolio wide	Progress
301-2	Recycled input materials used	Portfolio wide	Progress
302-1	Energy consumption within the organisation	Portfolio wide	Reported in FHL annual report
302-2	Energy consumption outside of the organisation	Portfolio wide	Progress
303-3	Energy intensity	Portfolio wide	Progress
303-4	Reduction of energy consumption	Portfolio wide	Progress
303-1	Water withdrawal by source	Direct managed portfolio	Progress

Section	Areas	Scope of application	Section Title
BIODIVERSITY			
304-1	Operational sites owned, leased, managed in or adjacent to protected areas and areas of high biodiversity value outside protected areas.	Direct managed portfolio	Not reported
304-2	Significant impact of activities, products and services on biodiversity	Direct managed portfolio	Not reported
304-3	Habitats protected or restored	Direct managed portfolio	Not reported
305-1	Direct (Scope 1) GHG emissions	Direct managed portfolio	Progress
305-2	Indirect (Scope 2) GHG emissions	Direct managed portfolio	Progress
306-2	Waste by type and disposal method	Direct managed portfolio	Progress
308-1	New suppliers screened using environmental criteria	Portfolio wide	Not reported
308-2	Negative environmental impacts in the supply chain and actions taken	Portfolio wide	Not reported
403-1	Workers' representation in formal joint management-worker health and safety committees	Portfolio wide	Not reported
403-2	Types and rates of injury, occupational diseases, lost days and absenteeism, and number of work-related fatalities	Portfolio wide	Not reported
404-1	Average hours of training per employee per year	Portfolio wide	Not reported
413-2	Operations with significant, actual and potential impacts on the local community	Portfolio wide	Implementation
414-1	New suppliers screened using social criteria	Portfolio wide	Report Coverage, Material Aspects and Boundaries
414-2	Negative social impacts in the supply chain and actions taken	Portfolio wide	Not reported

Appendix D: BBP Climate Commitment

Progress on our commitments in 2022

Commitment	Target date	Progress	Status
Publish Pathway commitment	2020	In December 2020, we published our commitment to achieve Net Zero in our real estate portfolio.	COMPLETE
Publish Net Zero Strategy	2021	In October 2021, we published a detailed Net Zero Pathway with key and interim targets. Further fund-level pathways have been developed to better understand challenges in implementing Net Zero within individual funds.	COMPLETE
FHL Asset Standards: Design innovation standard (DIS) and Responsible Property Management Refurbishment Guide (RPM)	2021	We developed a set of tools and processes to help deliver our Net Zero strategy.	COMPLETE
Establish embodied carbon targets	2022	We have established embodied carbon targets for our office and residential sectors and will focus further on other asset types (retail, industrial, hotels).	IN PROGRESS
Residential Pathway	2022	We have developed a standalone Net Zero approach for our BTR portfolio.	COMPLETE
International Pathway	2022	We are developing a standalone Net Zero approach for our international portfolio, which is due to be completed in Q4 2023.	IN PROGRESS
Debt Pathway	2022	We have finalised the approach and completed our Debt Net Zero pathway works.	COMPLETE
Tenant engagement strategy	2022	Works to establish an approach to tenant engagement are underway. Initial tenant engagement workshops have been carried out.	IN PROGRESS
Reduction in energy intensity, based on 2018 baseline	First interim target of 25% by 2025	We have developed pathways for UK directly managed assets. Further asset-level modelling has been carried out to determine Net Zero cost, identify technical potential and identify high risk assets. In 2022, thirteen deep dive audits were undertaken for priority assets on the basis of the risk assessment and for assets at key intervention points, e.g. planned refurbishments, redevelopments or end-of-life of major plant.	IN PROGRESS
100% coverage of zero carbon electricity for landlord areas	2025	At the time of writing, 96.3% of landlord areas within the scope of this pathway procure zero carbon electricity.	IN PROGRESS
Tenants zero carbon electricity	2030	As part of our tenant engagement strategy, we are increasing data coverage and engaging with our tenants over energy procurement.	IN PROGRESS
Onsite renewable energy targets	2030	We have undertaken initial workshops on PV strategy and all new developments are required to maximise renewable energy provision. Our approach to PV installation is to work with expert consultancies to complete feasibility studies and we are prioritising assets with the most potential.	IN PROGRESS
Develop credible offsetting strategy in line with the recent UKGBC guidance	2025	We are engaging with key stakeholders to get a consistent view of offsetting requirements. We will then develop an offsetting strategy to align with our natural capital solutions and existing Trees for Cities programme. In addition, we will set up an internal carbon pricing mechanism.	IN PROGRESS
Establish automated ESG Data Platform	2024	We are focused on establishing our new ESG data platform in 2024 to actively monitor asset performance, enhance reporting and facilitate decision making.	IN PROGRESS
Develop approach to zero fossil fuel consumption at assets and at construction processes	2023	We will ensure that heating and hot water generation is fossil fuel free for all our new developments and major refurbishments for which construction contracts have not been tendered by the end of Q1 2023.	COMPLETE

BTPS Portfolio Net Zero Review

Portfolio performance against key targets for net zero alignment

Target metrics	BTPS		
	2018 (Baseline year)	2021	2022
1. Percentage of fossil fuel free assets in the portfolio	16%	19%	15%
2. Percentage of renewables (on-site) already and estimated potential for PVs:			
2.1. % number of assets with PV already	2%	4%	6%
2.2. % of total kWh electricity from PV already	0.1%	0.1%	0.2%
2.3. % of total kWh electricity from PV estimated potential	27%	20%	22%
3. Percentage of portfolio that meets EUI targets	0%	0%	4%

Notes

- The carbon footprint above includes purchased goods and service emissions, using a revised methodology since 2021 with updated and more granular spend factors. These were used in the most recent analysis and to recalculate the baseline, which reduced our scope 3 and overall emissions by 9,337 tCO_2e in 2018.
- Purchased goods and service emissions were estimated in 2022 using 2021 data due to difficulties in data accessibility.
- Our emissions targets henceforth will be based on this updated figure, where we can see a 48% reduction in emissions between the baseline and 2022. Despite remaining changes to business-as-usual asset use post-pandemic, this is a significant reduction from our baseline and shows we are on track to achieve our Net Zero target by 2035.
- One of the best-performing assets in 2022 compared to 2018 baseline is Chiswick Tower, which saw a 60% drop in electricity consumption.
- Our net zero planning has identified that the 2022 BTPS Portfolio has the technical potential to reduce its overall energy demand by 50%. When opportunities for onsite energy generation are added to this, the potential reduction in grid energy consumption rises to 61%.

Progress on scope 1, 2 and 3 emissions in 2022

GHG Protocol Scope	2021 GHG emissions		2022 GHG emissions	
	tCO_2e	%	tCO_2e	%
Scope 1	11,312	19.2%	9,200	16.3%
Scope 1 – Landlord	9,157	15.6%	6,485	11.5%
Scope 1 – Tenant unassigned	2,154	3.7%	2,715	4.8%
Scope 2	23,439	39.8%	23,211	41.2%
Scope 2 – Landlord	7,034	12.0%	7,093	12.6%
Scope 2 – Tenant unassigned	16,405	27.9%	16,119	28.6%
Scope 3	24,078	40.9%	23,859	42.4%
Purchased goods and services	746	1.3%	746	1.3%
Capital goods (Refurb)	10,341	17.6%	10,341	18.4%
Capital goods (Dev)	0	0.0%	0	0.0%
Fuel and energy related activities + Water	3,731	6.3%	3,691	6.6%
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	8,151	13.9%	7,552	13.4%
Investments	1,108	1.9%	1,529	2.7%
Total	**58,829**	**100%**	**56,271**	**100%**

[7] £5.83bn value without King's Cross assets

[8] The carbon footprint covers any landlord emissions (Scope 1 and 2) as well as some Scope 3 (downstream leased assets from tenant operations, Investments (Kings Cross), and purchased goods and services). Other Scope 3 categories, such as carbon from waste and water have not been included in this analysis.

FHPUT Fund Net Zero Review

Fund performance against key targets for net zero alignment

Target metrics	FHPUT		
	2018 (Baseline year)	2021	2022
1. Percentage of fossil fuel free assets in the portfolio	13%	13%	14%
2. Percentage of renewables (on-site) already and estimated potential for PVs:			
2.1. % number of assets with PV already	0%	1%	3%
2.2. % of total kWh electricity from PV already	0.0%	0.0%	0.1%
2.3. % of total kWh electricity from PV estimated potential	29%	59%	58%
3. Percentage of portfolio that meets EUI targets	1%	0%	0%

Notes

- The carbon footprint above includes purchased goods and service emissions, using a revised methodology since 2021 with updated and more granular spend factors. These were used in the most recent analysis and to recalculate the baseline. This reduced our scope 3 and overall emissions by 5,129 tCO_2e in 2018.
- Our emissions targets henceforth will be based on this updated figure, where we can see a 68% reduction in emissions between the baseline and 2022. Despite remaining changes to business-as-usual asset use post-pandemic, this is a significant reduction from our baseline and shows we are on track to achieve our Net Zero target by 2035.
- One of the best-performing assets, Boundary House, saw a 67% drop in electricity consumption and 50% drop in gas consumption in 2022 from the 2018 baseline year.
- Our net zero planning has identified that the 2022 FHPUT fund has the technical potential to reduce its overall energy demand by 45%. When opportunities for onsite energy generation are added to this, the potential reduction in grid energy consumption rises to 79%.

Progress on scope 1, 2 and 3 emissions in 2022

GHG Protocol Scope	FHPUT 2021 GHG emissions		FHPUT 2022 GHG emissions	
	tCO_2e	%	tCO_2e	%
Scope 1	4,017	17.5%	2,409	13.0%
Scope 1 – Landlord	1,169	5.1%	390	2.1%
Scope 1 – Tenant unassigned	2,848	12.4%	2,018	10.9%
Scope 2	7,643	33.4%	5,507	29.7%
Scope 2 – Landlord	1,321	5.8%	788	4.3%
Scope 2 – Tenant unassigned	6,322	27.6%	4,718	25.5%
Scope 3	11,244	49.1%	10,600	57.2%
Purchased goods and services	148	0.6%	148	0.8%
Capital goods (Refurb)	4,688	20.5%	4,688	25.3%
Capital goods (Dev)	0	0.0%	0	0.0%
Fuel and energy related activities + Water	1,260	5.5%	914	4.9%
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	5,148	22.5%	4,849	26.2%
Investments	0	0.0%	0	0.0%
Total	**22,904**	**100%**	**18,515**	**100%**

[9] The carbon footprint covers any landlord emissions (Scope 1 and 2) as well as some Scope 3 (downstream leased assets from tenant operations and purchased goods and services). Other Scope 3 categories, such as carbon from waste and water have not been included in this analysis.

Debt Portfolio Net Zero Review

Fund performance against key targets for net zero alignment

Target metrics	Debt	
	2021	2022
1. Percentage of fossil fuel free assets in the portfolio	10%	8%
2. Percentage of renewables (on-site) already and estimated potential for PVs:		
2.1. % number of assets with PV already	29%	28%
2.2. % of total kWh electricity from PV already	2%	3%
2.3. % of total kWh electricity from PV estimated potential	38%	34%
3. Percentage of portfolio that meets EUI targets	14%	4%

Notes

- As of 2022, the whole fund emissions scaled by loan-to-value ratio in compliance with the Partnership for Carbon Accounting Financials' (PCAF) commercial real estate debt methodology amounted to 4,497 tCO_2e, a reduction from 6,841 tCO_2e in 2021. This was the result of a combination of disposal of high emission assets, grid decarbonisation, increased renewable energy from assets, and updates to LTVs due to increased detail and modifications of loans.
- Whilst some assets saw large increases in gas consumption due to the post-Covid rebound, the overall EUI of the portfolio weighted by loan value decreased in 2022 from 253 kWh/m^2 to 244 kWh/m^2.
- Overall energy data coverage has increased significantly from 28% coverage in 2021 to 48% coverage in 2022. This represents good progress towards the target of achieving 50% actual data by 2025, and 100% by 2030.

Build-to-Rent (BTR) Portfolio Net Zero Review

- **Portfolio value:** £401m
- **Asset types:** residential

Notes

- In 2021, our BTR portfolio set out target requirements for both EUIs of standing assets and future developments, as well as embodied carbon of developments.
- Two standing assets are held within the fund, Pomona Wharf and Cargo. These assets have already been included within the BTPS emissions assessments and overall EUI.
- Hestia aims to reach average EUI across the standing portfolio of 60 kWh/m^2 by 2030.
- Currently the EUIs for Pomona Wharf and Cargo building are 69 kWh/m^2 NLA and 82 kWh/m^2 NLA respectively. This produces a current weighted average for 2022 consumption of 78 kWh/m^2 NLA.
- Work is still required on these assets to reach the target EUI in 2030.
- No update is available on the development (embodied carbon) targets due to there being no asset completions within the analysis year 2022. We are continuing to review these and will update on progress when data becomes available.

[9] The carbon footprint covers any landlord emissions (Scope 1 and 2) as well as some Scope 3 (downstream leased assets from tenant operations and purchased goods and services). Other Scope 3 categories, such as carbon from waste and water have not been included in this analysis.

Key challenges

During 2022 our key challenges included:

1. Data availability

Our portfolio, particularly FHPUT, has seen rapid change in the last few years with a high turnover and significant disposal of assets, highlighting the issue of tenant data availability for assets sold part way through the year. As this data is collected at year's end, we are seeing estimated data for assets sold, potentially impacting our overall actual data figures as well as the overall EUI. In future, we will pro rata these proportions from previous years' tenant data. We are continuing to improve our overall data collection across our portfolios, implementing submeters and engaging tenants. Risks around this may occur when new assets are acquired, or new tenants lease our spaces, which will reduce our visibility in these spaces in the short term.

2. A changing industry

The impact of Covid-19 and cost-of-living crisis are having a significant effect on the real estate industry, from changing office and retail use to vacancies from companies going bankrupt. It can now be difficult to say what the new normal operational use is for some of our assets. Furthermore, due to the nature of real estate changing year-on-year, individual asset EUIs (and consequently fund-level weighted average EUIs) may be impacted by significant loads or voids within certain years. This may mean that each year is not entirely representative of the standard asset demand, but is rather a snapshot in time of energy used by the owner and tenants that year.

Methodology, assumptions and data availability

All available data was used in our analysis. Where data was not available, we used estimation to gap fill the remaining floor areas based on BEES benchmarks for the appropriate asset type breakdown. Where floor areas were not provided, assumptions were made on the breakdown of each asset based on its overall GRESB asset type.

Several assets that fall under the Laboratory/Life sciences category were in previous years categorised as offices. However, due to the activities undertaken within and large quantities of high intensity equipment present, this has been updated to use healthcare CRREM targets with a matching benchmark where no data is available. We believe this better suits the asset type and will more accurately predict current position and potential progress.

Our methodology includes the assumptions that where energy consumption covered:

- **<30%** of the floor area, this covered common parts and all tenant data was estimated
- **between 30-90%**, this covered all base build areas of the appropriate asset type
- **90%+** of the floor area, this covered the whole building

The changing proportions of actual data can be seen below. These are based on two different arrangements: consumption and area.

BTPS	2018 (Baseline year)	2021	2022
Consumption basis	28%	41%	64%
Area basis	24%	45%	58%

FHPUT	2018 (Baseline year)	2021	2022
Consumption basis	14%	30%	23%
Area basis	13%	27%	32%

Debt (LTV scaled)	2021	2022
Consumption basis	26%	48%
Area basis	28%	60%

Consumption basis shows the percentages of actual and estimated data out of the overall energy usage of each portfolio, while the area basis shows the proportion of overall area that has actual vs estimated data.

To ensure a conservative approach, where the heating type was not known we assumed gas boilers.

For emissions breakdowns, lease types were used to understand whose responsibility emissions fell under. If an asset was sub metered or an FRI, tenant data fell entirely within scope 3 downstream leased asset boundary, otherwise where unknown this was included within tenant unassigned sections of scope 1 and 2. If lease types were identified as 'Single net lease'[10], all consumption was assigned to Landlord scope 1 and 2.

[10] A single net lease is where tenants pay for property plus rent, whilst the Landlord pays for utilities.

Appendix E: Detailed GHG emission source

Detailed GHG emission source scoping for direct managed UK assets

	BTPS		FHPUT		Whole Portfolio	
Commitment	**GHG Emissions t CO_2e**		**GHG Emissions t CO_2e**		**GHG Emissions t CO_2e**	
Scope 1 (Location approach)	24606	46.70%	424698	34.36%	449304	34.87%
%Scope 2	21303	40.43%	468354	37.90%	489657	38.00%
Scope 3	6778	12.86%	342634	27.72%	349412	27.12%
Total	**52687**		**1235686**		**1288373**	

Appendix F: Adviser statement

Accenture continued to support the international business of Federated Hermes' ESG programme during the reporting period. This work included collating, validating and reporting ESG performance data and property characteristics for 2022. 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 2022, Federated Hermes achieved a 15% reduction in absolute carbon emissions (Scope 1 and 2). This is due to the concerted energy efficiency drive by Federated Hermes, property managers and site teams.

In previous years we have also partnered with Federated Hermes to install smart building optimisation programmes on directly and indirectly managed assets. For example, we engaged with tenants at Church Street to obtain previously unavailable data.

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

Oliver Light
Director, Accenture

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Federated Hermes
Limited

Federated Hermes

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

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

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns and, where possible, 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** or connect with us on social media: