Climate Resilience

Real Estate

December 2024

For professional investors only

Contents

Introduction

Federated Hermes (FHL) prides itself on being an early pioneer in sustainable investment and has continued to prioritise creating and implementing sustainable solutions across its assets over the years. Sustainable decisions have been implemented across the asset lifecycle to form an integral part of our investment, development and management process.

This document outlines FHL Real Estate to climate resilience and includes the team's to net zero and adaptation plans to physical risk.

What is climate resilience

A working definition for a climate resilient real estate business, developed by the BBP's Climate Resilience Working Group. The definition is as follows:

'A climate resilient business has a strategy in place to;

1) Mitigate the worst impacts of climate change by becoming 'net zero' carbon before 2050;
2) Adapt to operating in a world in which climate-driven disruption is more frequent and severe and;
3) Disclose climate related information to investors, regulators and other stakeholders in a useful and timely way.'[1]

We are approaching climate resilience in the below three ways:

Mitigation: We have published our Net Zero Pathway[2] in 2021 to mitigate the worst impacts of climate change through reducing carbon emissions at the assets we invest in, manage and develop. FHL Real Estate is committed to achieving net zero carbon for its direct investments by 2035.

Adaptation: We assess our exposure to physical risk annually and we aim to create adaptation plan. The plans will help to adapt properties to ensure financial losses are minimised and harm to people and the environment is prevented.

Disclosure: We ensure that crucial climate-related information is disclosed to key stakeholders to help build transparency. We communicate our progress to climate resilience annually as part of the BBP climate resilience commitment, on TCFD and GRESB.

[1] BBP Climate Resilience for Commercial Real Estate.pdf

[2] Federated Hermes Real Estate Net Zero Pathway

Our approach

1. Adaptation

A core component of our climate resilience strategy is a Climate Adaptation Plan, which seeks to address the steps FHL Real Estate team will take to be able to operate in a world with increasingly impactful climate change related issues. To support the creation of our Climate Adaptation Plan, in 2024 we deployed a tool to provide qualitative climate risk data by combining science and econometrics to deliver climate risk analytics at portfolio and asset levels.

a. Assess physical risk

Physical risks relate to an asset's ability or inability to adapt to climate change related impacts such as extreme weather and increasing temperatures.' They are frequently categorised into 'acute' and 'chronic' risks. 'Acute' risks are single events in time such as flooding, cyclones, hurricanes or wildfires. 'Chronic' risks are those which are ongoing and increasingly prevalent over time, such as rising temperatures or sea level. It is essential not only to assess the costs and implications the risks pose but also to mitigate the impact of these risks on our assets and protect them in the future. In addition, we have a duty to ensure our real estate does not contribute to the frequency of climate change related events.

We carry out assessments to analyse current and future impacts from climate-related events across all assets as part of the climate resilience plan. It allows us to evaluate the future impact of climate related risks at an asset level and determine where interventions are necessary. These results inform the asset management and related intervention steps which should be taken with a portfolio wide flood mitigation assessment deployed focusing on individual asset methodology. The metrics are used to inform decisions on both acquisitions and standing operations allowing us to focus on the risk factors and the work necessary to mitigate them. The transition risks are prioritised alongside our Net Zero Carbon commitment with both carbon reduction and energy use intensity. These priorities are assessed by appointed specialists to identify asset level action plans with costs and timings to plan interventions across the asset's lifecycle.

MSCI CVAR Tool

We use the MSCI CVAR tool to benchmark our performance against other managers in relation to our risks to climate related impacts. Annual assessments are carried out on the exposure of assets to both transition and physical risks and an additional review of current risks such as flooding and natural hazards.

Climate resilience assessments

In 2024, we deployed a climate risk platform, Climate X, to provide us climate risk assessments and risk ratings for all assets under management. The information provided gives a location specific risk-rating which allows us to assess our assets resilience to climate risk based on historic likelihood, severity of damage and physical risk. In addition, this tool enables us to identify assets which are at risk from physical impacts and assess the probability and severity of climate related events taking place at or nearby the assets.

Climate related scenarios are considered for all assets at different Representative Concentration Pathways (RCP). This data will influence asset management decision making. The real estate team will use RCP 2.6 and RCP 6.0 for physical risk and for transition risk CRREM 1.5 will be utilised. The approach is centred around reviewing different scenarios (RCPs 2.6, 4., 6.0 and 8.5) over different time periods until 2100. The methodology behind calculating the physical risk losses follows the IPCC Disaster Framework and involves assessing the exposure and vulnerability of the building (e.g. size, age, region), understanding the building costs, damage and loss functions. This enables us to understand the value at risk, in terms of the financial impact of risks materialising, the impact on occupiers and the subsequent infrastructure.

FHL Real Estate team will also be assessing where business disruption is likely to be identified by impacts to transport infrastructure within the surrounding area. The 'percentage disruption' is based on assessing historic severity and likelihood of these events taking place and is used to estimate a turnover reduction based on revenue contribution per asset.

Having assessed the impacts and associated value at risk, we assign the risk ratings based on probability and severity of each location for each scenario. Those properties presenting a high risk will be analysed in depth to be able to provide a plan of action and implement measures to reduce risk and improve resilience at our managed assets.

b. Adaptation Plans

Flooding has been identified as the main climate risk that impacts our UK portfolio and 100% of our portfolio have flood resilience plans. We have also developed Business Continuity Plans and Emergency Continuity Plans at asset level. Flood risk assessments are carried out as part of due diligence pre-acquisition. Apart from flooding, other climate risk factors such as high wind speed and overheating are also modelled where feasible or deemed a significant risk. As with transition risks, physical risks are prioritised using the same methodology of short, medium and long-term categorisation. chronic stressors linked to climate change and other natural hazards fall into the long-term category (those that will pose more of a risk in 5+ years).

2. Mitigation

FHL Real Estate is committed to reaching net zero carbon for direct real estate holdings by 2035[3]. The commitment outlines how the business will drive down greenhouse gas emissions across the portfolio. For completeness, we have adopted the BBP's definition of net zero: 'when the carbon emissions emitted as a result of all activities associated with the servicing and ownership of a building are zero (or negative)'. The Net Zero Carbon pathway is intended to reduce carbon emissions and in doing so assist with mitigating the potential impacts of Climate Change.

a. Assess Transition Risk

Transition risk relates to an asset's ability to decarbonise. Transition risk includes emissions from all stages of a building's lifecycle, such as the construction and refurbishment of buildings through to their operation and maintenance. Establishing the extent of these risks is crucial to determining when and how to address them.

[3] Federated Hermes Real Estate Net Zero Pathway

b. Progress on decarbonisation

This 2024 progress update includes both targets achieved and outlines progress against other targets set until 2035. As of 2024, there are no changes to the initial scope of emissions in the original published Net Zero Pathway.

Segregated portfolio performance at a glance[4]:

- Portfolio Value: £1.539 bn
- Asset Type: Commercial and Residential
- Whole fund baseline operational carbon footprint: 64,630 tCO_2e

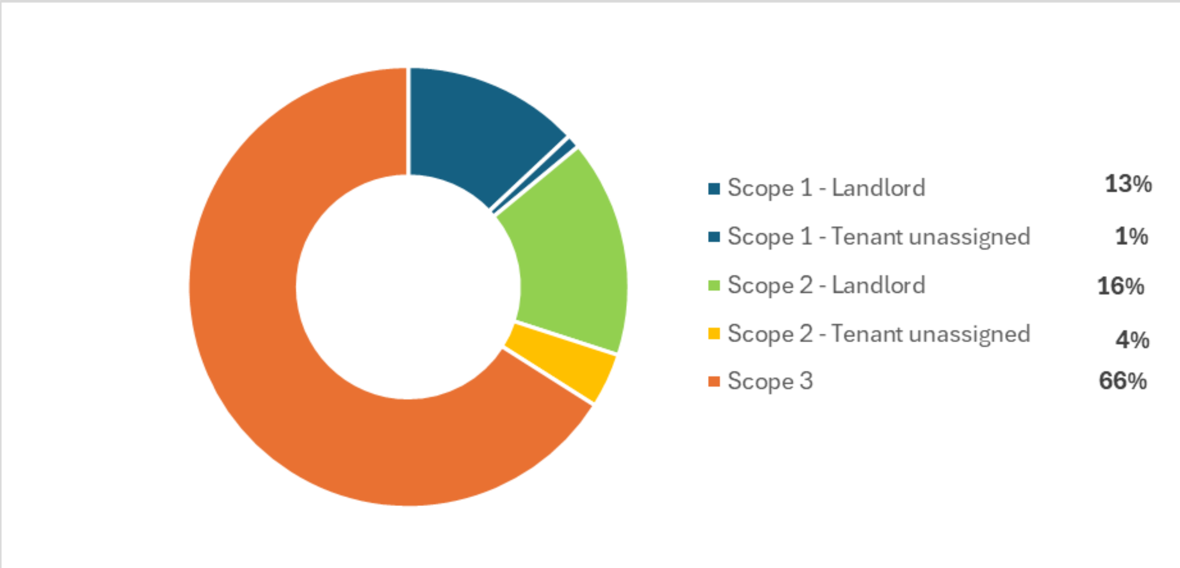

Chart 1: Absolute carbon emissions for scope 1,2 and 3 as of December 2023.

Please note that there was an increase in the absolute carbon emissions in 2023 vs 2018 due to the increase of the scope 3 data coverage.

Table 1: Portfolio Performance against key targets for net zero alignment:

Target metrics	Year		
	2018	2022	2023
1. Percentage of fossil fuel free assets	16%	15%	39%
2. Percentage of renewables (on-site) already and estimated potential for PVs			
2.1. % number of assets with existing PV	2%	6%	7%
2.2. % of total kWh electricity from existing PV	0.1%	0.2%	7.3%
2.3. % of total kWh electricity from PV estimated potential	27%	22%	23%
3. Percentage of portfolio that meets EUI targets	0%	4%	8%

[4] As of December 2023

Table 2: Progress on Scope 1, 2 and 3 emissions

GHG Protocol Scope	2022 GHG Emission		2023 GHG Emission	
	tCO_2e	%	tCO_2e	%
Scope 1	**9,200**	**16**	**9,272**	**14**
Scope 1 - Landlord	6,485	11.5	8,429	13.1
Scope 1 - Tenant unassigned	2,715	4.8	843	1.3
Scope 2	**23,211**	**41**	**12,750**	**20**
Scope 2 - Landlord	7,093	12.6	10,366	16.1
Scope 2 - Tenant unassigned	16,119	28.6	2,384	3.7
Scope 3	**23,859**	**43**	**42,544**	**66**
Purchased goods and services	*746*	*1.3*	*536*	*0.8*
Capital goods (Refurb)	*10,341*	*18.4*	*7,611*	*11.8*
Capital goods (Dev)	*0*	*0*	*0*	*0*
Fuel and energy related activities + Water	*3,691*	*6.6*	*2,617*	*4.1*
Waste generated from operations	*0*	*0*	*0*	*0*
Business travel	*0*	*0*	*0*	*0*
Employee Commuting	*0*	*0*	*0*	*0*
Downstream leased assets	*7,552*	*13.4*	*28,421*	*44.0*
Investments	*1,529*	*2.7*	*3,358*	*5.2*
Total	**56,271**	**100**	**64,630**	**100**

FHPUT Performance at a glance:

- Portfolio Value: £1.112 bn
- Asset Type: Commercial
- Whole fund baseline operational carbon footprint: 12,730 tCO_2e

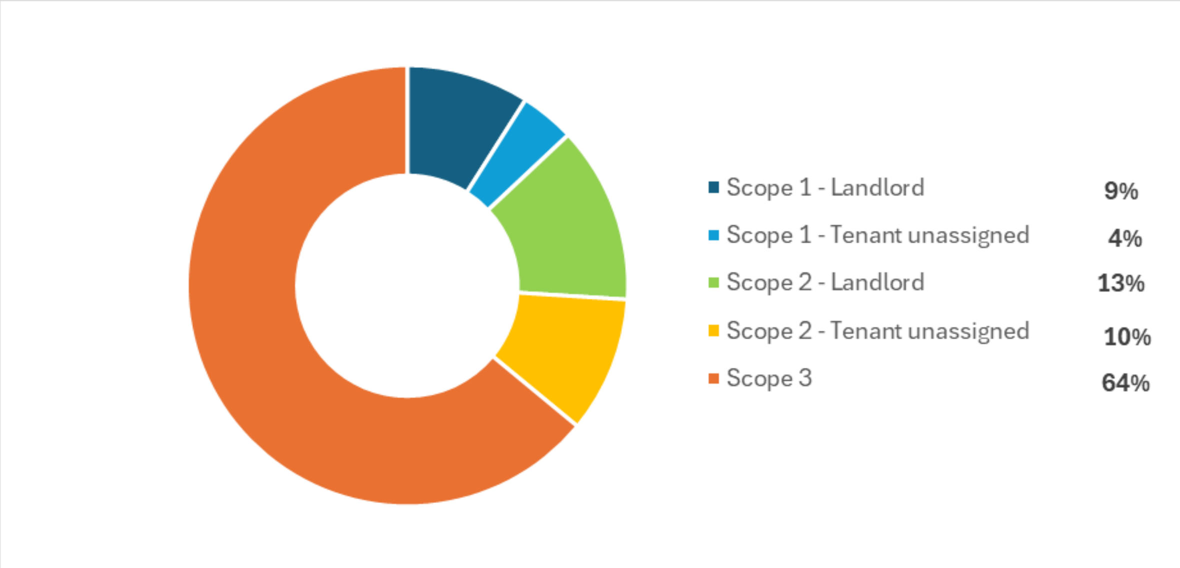

Chart 2: Absolute carbon emissions for scope 1,2 and 3 as of December 2023.

Please note that there was an increase in the absolute carbon emissions in 2023 vs 2018 due to the increase of the scope 3 data coverage.

Table 3: Portfolio Performance against key targets for net zero alignment

Target metrics	Year		
	2018	2022	2023
1. Percentage of fossil fuel free assets in the portfolio	13%	14%	31%
2. Percentage of renewables (on-site) already and estimated potential for PVs:			
2.1. % number of assets with existing PV	0%	3%	5%
2.2. % of total kWh electricity from existing PV	0.0%	0.1%	0.2%
2.3. % of total kWh electricity from PV estimated potential	29%	58%	39%
3. Percentage of portfolio that meets EUI targets	1%	0%	6%

Table 4: Progress on Scope 1, 2 and 3 emissions

GHG Protocol Scope	2022		2023	
	GHG Emission		GHG Emission	
	tCO_2e	%	tCO_2e	%
Scope 1	**2,409**	**13**	**1,637**	**13**
Scope 1 - Landlord	390	2.1	1,158	9.1
Scope 1 - Tenant unassigned	2,018	10.9	480	3.8
Scope 1 - Landlord Refrigerants				
Scope 2	**5,507**	**30**	**2,935**	**23**
Scope 2 - Landlord	788	4.3	1,711	13.4
Scope 2 - Tenant unassigned	4,718	25.5	1,224	9.6
Scope 3	**10,600**	**57**	**8,158**	**64**
Purchased goods and services	*148*	*0.8*	*354*	*2,8*
Capital goods (Refurb)	*4,688*	*25.3*	*783*	*6.1*
Capital goods (Dev)	*0*	*0.0*	*0*	*0.0*
Fuel and energy related activities + Water	*914*	*4.9*	*539*	*4.2*
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	*4,489*	*26.2*	*6,483*	*50.9*
Investments	*0*	*0.0*	*0*	*0.0*
Total	**18,515**	**100**	**12,730**	**100**

Progress

The table below describes our progress against our commitments in 2024.

Table 5: Progress on our commitments in 2024

Commitment	Target date	Progress	Status
Publish Pathway commitment	2020	FHL Real Estate team published a commitment to achieve Net Zero in December 2020 for the RE Portfolio	Completed
Publish Net Zero Strategy	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.	Completed
Internal Guides and Standards	2021	A set of tools and processes were developed to help deliver the Net Zero strategy, including an update of the Design Innovation Standard	Completed
Establish embodied carbon targets	2022	Embodied carbon targets for offices and residential sectors have been established.	Completed
Residential Pathway	2022	A standalone Net Zero approach has been developed for the BTR portfolio	Completed
International Pathway	2022	A standalone Net Zero approach has been completed and approach finalised	Completed
Debt Pathway	2022	Debt net zero pathway works have been completed and approach finalised.	Completed
Tenant engagement plan	2022	Works to establish an approach to tenant engagement is underway. Initial tenant engagement workshops have been carried out.	Completed
Develop approach to zero fossil fuel consumption at assets and at construction processes	2023	FHL Real Estate team will ensure that heating and hot water generation is fossil fuel free for all its new developments and major refurbishments for which construction contracts have not been tendered by the end of Q1 2023.	Completed

Reduction in energy intensity, based on 2018 baseline	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, to identify technical potential and to identify high risk assets.	In Progress
Update of Design Innovation Standard	2024	Updated in 2024.	Completed
Establish automated ESG Data Platform	2024	A platform has been introduced to collect ESG data and monitor our performance. We have enhanced reporting in place to facilitate decision making on decarbonisation and energy management.	Completed
100% coverage of zero carbon electricity for landlord areas	2025	At the time of writing this report 97.8% of landlord area within the scope of this pathway procure zero carbon electricity.	In Progress
Tenants zero carbon electricity	2030	As a part of the tenant engagement strategy, we are increasing data coverage and engagement about energy procurement with our tenants.	In Progress
Onsite renewable energy targets	2030	Initial workshops on PV strategy have 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
Develop credible offsetting strategy in line with the recent UKGBC guidance	2025	We are engaging with key stakeholders to get a consistent view on offsetting requirements. We then will develop an offsetting strategy and will set up an internal carbon pricing mechanism.	In progress

Governance

We have been embedding climate resilience management at the house, fund and asset level. We allocated dedicated resource in the asset management team to assess the current process, identify and enhance the way we track and assess climate risk with the support of external independent consultants. Assurance is undertaken by all three lines of defence, with the Responsibility Office also overseeing that our business continues to, authentically and accurately, disclose our ESG objectives and activities in order to manage the associated reputational risks and enhance our approach to internal assurance. The Risk team has integrated sustainability risk within the existing risk management framework to enable the business to identify and manage material ESG factors that impact our business taking an 'outside in' perspective, across our value chain. This includes embedding sustainability and climate change risks into our risk taxonomy, embedding ESG into emerging risk identification and reporting.

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.
3. Launch an engagement campaign with 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 developing Net Zero Transition Plans (NZTP).
7. Continue building net zero carbon knowledge across the company via regular training and workshops.
8. Produce activity data such as embodied carbon assessments, product and services with 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 figure.
9. Progress on increasing renewable energy generation on our assets,
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
12. energy consumption and costs.

Common Challenges to achieve Net Zero Carbon

Any subject matter evolving at such pace will inevitably be met with a number of challenges. The Real Estate team have identified the following:

- **Definitions:** the definition around net zero has been debated for some time. It is particularly difficult to decide which definition to align to, with each having a slight nuance. The new UK Net Zero Building Standard could be a solution to this problem.
- **Greenwashing:** there is a growing need to ensure organisations are not misleading others and presenting an environmentally responsible public image when not ethical to do so.
- **Data:** Crucial to any net zero implementation is the recording of data to enable the business to be able to improve on the existing records. Moreover, understanding how to obtain data and accurately present it is an additional issue.
- **Influence on emissions:** there is a risk that in attempting to achieve net zero, there can be a subsequent, indirect impact which can lead to an uptick in emissions and in doing so, negatively impact the initial intentions.
- **Delivery Framework at Company level and Fund level:** our real estate business is global and is made up of both segregated and pooled Funds. Whilst we aim to achieve net zero policies which can be adapted and rolled out across all parts of the business, we recognise that there are some areas which will be more challenging to do so.
- **Policy:** there continues to be a lag between the scientific evidence and government policy, particularly at a global level. As a result, voluntary groups have created standards which, whilst most companies are willing to adopt, is not compulsory and therefore creates a division between those groups who are implementing sustainability measures and those companies who do not.

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Private Markets

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