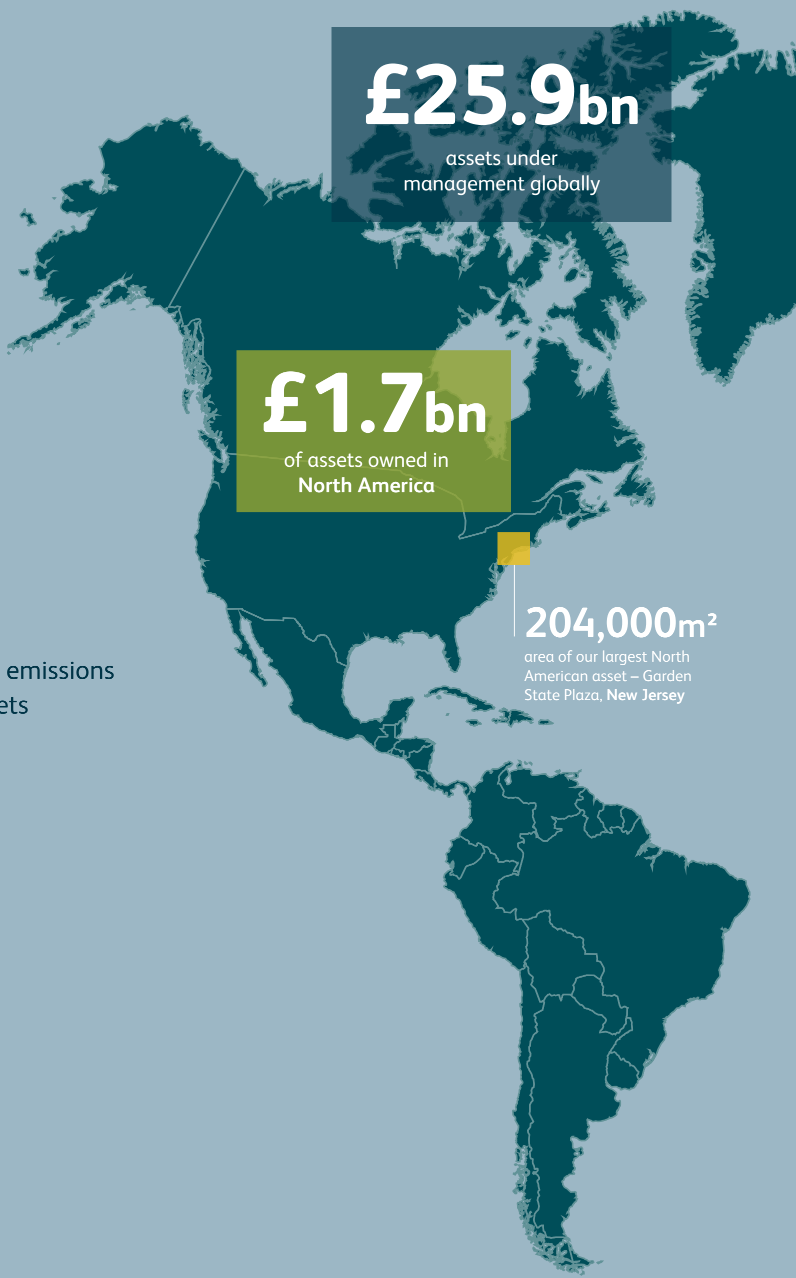
Responsible Property Investment 2016

About M&G Real Estate

M&G Real Estate, the property fund management arm of M&G, is a specialist investor in all major real estate sectors across the globe. We focus on generating long-term, income-driven returns through active management and offer institutional investors exposure to real estate through both pooled vehicles and segregated mandates.

This report provides an update on the progress we have made during 2015/16 in implementing our Responsible Property Investment (RPI) strategy as well as a summary of our activities. For more detailed data and other information, please see our website: www.mandg.com, where you can download our Supplementary Performance Report.



16% reduction in indexed, global energy consumption since 2012/13

11,380 tonnes reduction in CO_2 emissions 'Like-for-like' assets

98m kWh 'Green' electricity purchased

6 funds named GRESB 'Green Stars'

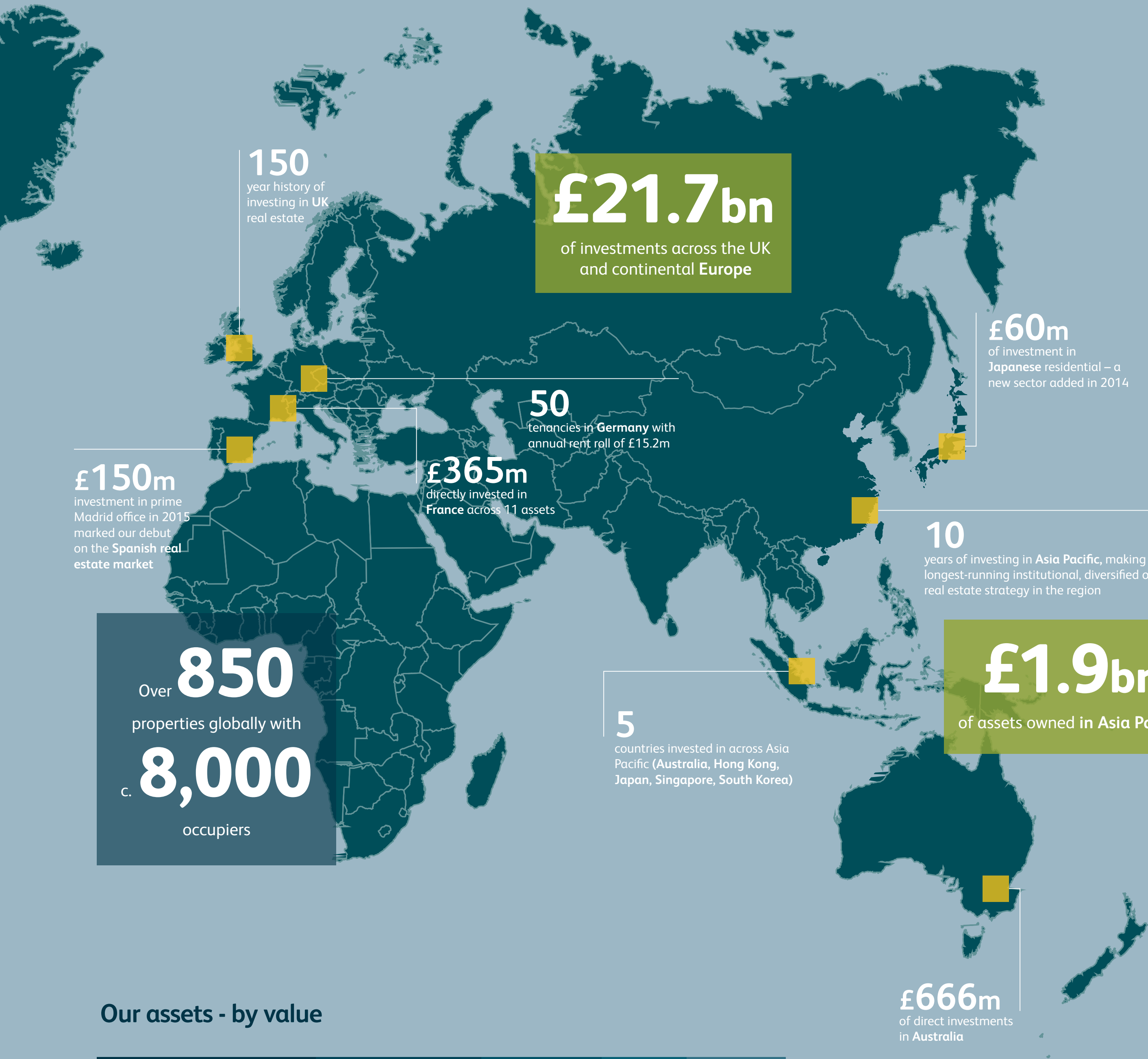
Our achievements

Scottish Property Awards 2016 Commercial and Public Property WINNER

Europe Property Awards WINNER 2016

Environmental performance data in this report is for the year 1 April 2015 to 31 March 2016.

Our global offices



150
year history of investing in **UK** real estate

£21.7bn
of investments across the UK and continental **Europe**

£60m
of investment in **Japanese** residential – a new sector added in 2014

50
tenancies in **Germany** with annual rent roll of £15.2m

£365m
directly invested in **France** across 11 assets

£150m
investment in prime Madrid office in 2015 marked our debut on the **Spanish real estate market**

10
years of investing in **Asia Pacific**, making the longest-running institutional, diversified open-end core real estate strategy in the region

Over **850**
properties globally with
c. **8,000**
occupiers

£1.9bn
of assets owned **in Asia Pacific**

5
countries invested in across Asia Pacific **(Australia, Hong Kong, Japan, Singapore, South Korea)**

£666m
of direct investments in **Australia**

Our assets - by value

Retail	Office	Industrial	Residential	Other
41%	33%	13%	5%	8%

Source: M&G Real Estate, all data as at 30 September 2016, unless otherwise stated
* Madrid office established in November 2016.

Welcome

> *"In this changing world, we need to be increasingly alive to the range of societal, environmental and, of course, economic challenges that could very rapidly impact the success of our funds and business"*

Welcome to M&G Real Estate's 2016 report on Responsible Property Investment (RPI) - our fourteenth. This has proven to be another busy year for us. Whilst the result of the UK's vote to leave the EU in July caused a great deal of uncertainty in our home market, we are able to meet the challenges head on and capitalise on the opportunities it presents, thanks to our strong global business and diverse holdings.

The strength of our performance was demonstrated by awards won, including the European Pensions Awards 2016 Property Manager of the Year and the Pensions Age Awards 2016 Property Manager of the Year, together with awards for our development projects at No. 1 Forbury Place, Reading (the OAS Development Awards 2016 – Best Development Outside London) and The Capitol, Aberdeen (a joint venture with Knight Property Group: the Scottish Property Awards 2016 – Property Funding Team of the Year and City Regeneration Project of the Year).

Sustainability continues to be well embedded into our investment activities. We were delighted that in the 2016 Global Real Estate Sustainability Benchmark Survey, six of our eight participating funds received Green Stars, meaning they are amongst the most highly-ranked for sustainability globally. We are increasingly – and rightly – being closely questioned on our sustainability credentials by informed investors, and this is one way in which we can demonstrate them.

In a changing world, we need to be increasingly alive to the range of societal, environmental, and of course, economic challenges that can very rapidly affect the success of our funds and business. Our proactive approach to responsible property investment is one way in which we protect our business and funds against shocks, and enables us to protect and enhance fund and asset performance for our clients. As one of the world's largest real estate investors, we are not only impacted by these changes, but are also able to influence the outcomes. Throughout this report, we provide numerous examples of such activities . We continue to drive significant environmental improvements throughout our global portfolio: reducing energy consumption by 10% at assets held continually for two years; delivering new assets with market leading sustainability credentials (page 19); as well as upgrading existing assets to higher green standards (page 9). For the first time, we have also sought to quantify the socio-economic contribution our activities make worldwide (pages 10-14). This demonstrates the scale of the positive impacts our activities can have both economically and on local communities. We intend to develop our reporting in this area, to better quantify the contribution we make.

While we are in some regards sailing into uncharted territory, I believe that M&G Real Estate's track record and strong RPI performance will continue to stand us in good stead to continue to deliver strong performance to our clients over the coming months and years.

I hope you enjoy reading this year's report. As always, our RPI team and I welcome your feedback.

Alex Jeffrey
Chief Executive

Responsible property investment
Strategy and governance

At M&G Real Estate, Responsible Property Investment (RPI) principles are embedded in our investment approach.

Our sector-leading approach to RPI enables us to manage and respond to the growing range of environmental and social issues that can impact property values, helping us protect and enhance fund and asset performance for our clients. Our strategy focuses on four areas:

Nina Reid
Director, Responsible Property Investment

For over a decade we have played an active role in the industry in the development of RPI:

Signatory of:

PRI Principles for Responsible Investment

BBP Better Buildings Partnership

IPF Investment Property Forum

IIGCC Institutional Investors Group on Climate Change

BPF British Property Federation

Revo Retail. Property. Community.

Ensuring portfolio resilience
Considering sustainability risks in stock selection and asset management to protect long-term returns

6

Driving environmental improvements
Investing efficiently to reduce operating costs, carbon emissions and the use of natural resources

16

Building strong relationships
Understanding the needs of our occupiers to maximise occupancy rates and enhance performance

20

Responsibility in our own operations
Applying the highest standards of conduct to our own business practices abd relationships with suppliers

21

Governance of our RPI strategy

We have three Responsible Property Investment Forums spanning our key operational areas – UK, continental Europe and Asia. These forums meet at least twice a year, with representatives from across our operations and provide strategic direction and oversight of our RPI strategy. These forums ultimately report to the M&G Real Estate Board and ensure that we have a strategy that is able to deliver our vision of being a leading sustainable real estate fund manager. Alongside this, regular updates are held with each of our fund managers to discuss fund specific initiatives.

Portfolio resilience

Actively managing RPI risk

Systematically identifying and managing environmental, social and economic risks in the stock we buy and hold ensures that funds have resilience to physical and societal changes as well as meeting increased regulatory requirements. By integrating these considerations into stock selection and asset management, we can protect long-term returns.

We believe that there are a range of environmental and social issues that, if not properly understood and managed, could impact fund and asset performance. For example, energy efficiency could fall below future mandatory standards and/or render an asset less attractive to occupiers, forcing us to make costly improvements, in turn stunting rental growth, hastening asset depreciation and reducing capital values. Ensuring that our investments are resilient to RPI risks requires that we understand what the risks are, monitor the portfolio to identify areas of weakness and have systems in place to resolve them.

We seek to manage and mitigate environmental impact throughout the entire investment process. This starts at acquisition, where we assess performance in relation to issues such as contamination and flood risk, energy performance and environmental certification – all of which can affect our decision to buy or how much we are willing to pay. Consideration of key environmental risk factors is also included in all annual asset plans, ensuring that we maintain an up-to-date awareness of asset-specific and portfolio-wide issues and the measures taken to address and mitigate them.

It's all about Minimum Energy Efficiency Standards (MEES)

To ensure continuing resilience to RPI risks in the UK, we have continued to focus on understanding and mitigating the risks to our portfolios posed by the incoming MEES legislation in England and Wales. This legislation will make it illegal to let private rented property in England and Wales which has an Energy Performance Certificate (EPC) rated F or G, affecting new leases from April 2018 and existing leases from April 2023 for commercial property or April 2020 for residential property.

Additionally, Scottish legislation known as Section 63 came into force in September 2016, and requires landlords of non-domestic buildings over 1,000 m² to have their buildings' energy performance assessed at sale or lease. They are then required to take steps to improve energy performance and reduce emissions within three years and six months.

We have developed strategies which take into account the many different aspects which can affect assets' exposure to these twin risks, including location, size, listed status, lease length as well as EPC ratings and dates. This complex undertaking generates risk profiles per fund and per asset class, enabling our Fund and Asset Managers to fully understand the implications.

We also developed a strategy for dealing with assets at risk, where actions include gap-filling missing EPCs, re-assessing assets with older EPCs, using modelling software to produce improvement reports for assets with at-risk EPCs, and including report recommendations in our asset planning process, all prioritised according to lease renewal dates. Additionally, consideration of MEES and Section 63 is included in refurbishment and fit out activities. At acquisition, we are also reviewing vendors' EPCs to ensure we can be confident in their quality and to generate costed improvement recommendations which we can then use as part of purchase negotiations. (See chart, page 7)

In this way we can be confident not only that our assets and Funds are ready to meet the challenge of the MEES and Section 63 legislation, but also that we are taking the necessary actions to improve the energy efficiency of the assets we manage.

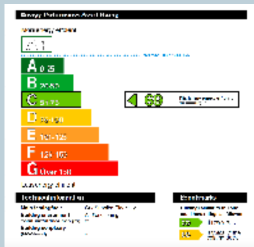
Process and strategy

Acquisition

EPC provided by vendor

Assessment of risk: if no EPC is provided, of if the EPC has a low rating, we commission independent assessors to produce a new EPC in order that we can understand the improvements needed, and their costs, and factor that into pricing

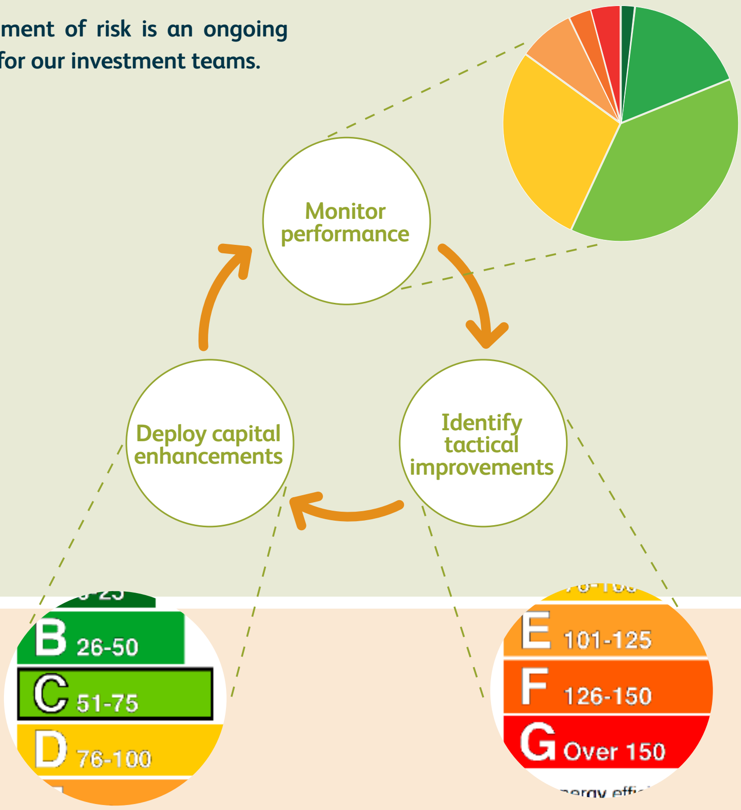
Proceed/price in/abort: EPC risk is flagged as part of the due diligence process, and where assets with a poor performance are purchased, the costs associated with improvement have clearly been considered.



An EPC report features costed measures for improving the rating

Portfolio management

Management of risk is an ongoing process for our investment teams.



Readiness for sale/disposal

Benchmarking our RPI performance

SIX

funds received

‘Green Stars’

in

GRESB 2016 survey

In order to benchmark our RPI performance, M&G Real Estate has been participating in the annual Global Real Estate Sustainability Benchmark (GRESB) survey since 2011, when we submitted two funds. Our participation has grown since then, and in 2016 eight funds were submitted, representing more than 80% of our total funds under management. We are pleased to say that six of them received the accolade of a Green Star rating, meaning that they are amongst the most highly-ranked for sustainability globally. Across the board (with one exception), overall scores have improved year on year since 2013, when GRESB’s calculation methodology changed. Our average overall score in the 2013 benchmark survey was 45%, and this has risen over the years to our 2016 average overall survey score of 70%.

GRESB assesses the sustainability performance of real assets around the globe, including real estate portfolios (public, private and direct). Globally, 759 property companies and funds, from 63 countries, representing over 66,000 assets with a Gross Asset Value (GAV) of $2.8 trillion participated in the 2016 GRESB survey.

Additionally, we participate in the Better Buildings Partnership’s annual benchmarking exercise, which examines more in detail the environmental performance of several of our major managed offices, comparing them with those of our competitors. The results of this survey were not available at the time this report was written.

M&G Real Estate fund performance in the 2016 GRESB survey

Responsible property investment in action

Delivering RPI in Asia Pacific

Since developing its region-specific RPI policy, our Asian portfolio has created a range of tools, processes and initiatives aimed at ensuring RPI is embedded in our investment thinking. We prepare an annual RPI asset plan for each asset that considers current performance and, where necessary, identifies improvements to be made such as independent green certification, better tenant engagement, capital investment measures. We provide two examples of how this process works below.

We continue to look for opportunities to certify our assets to independent green building standards. We were delighted that in 2016, we achieved our first LEED Gold® for Building Operations and Maintenance for the Northgate Building, Seoul, Korea. This 34,000 square meter office asset underwent a cost-effective programme of improvements which directly led to the creation of a safer, healthier and more environmentally efficient workplace for the occupiers, one of the country's leading law firms.

Actions included:

- Implementing low- and no-cost energy saving measures
- Introducing new 'green policies' such as a high performance green cleaning programme, including the purchase of sustainable cleaning products and materials
- Addressing occupier concerns about the air quality, the project team worked to identify and deliver cost effective improvements
- Reducing water consumption by over 50%, by retrofitting 104 toilets
- Installing a display unit in the building's lobby, providing real-time energy consumption data, recycling performance and information on responsible property management initiatives.

Other improvements requiring capital investment have been scheduled for consideration over the next five years. In the meantime, the payback period for the actions carried out to date is calculated at less than 2.5 years.

Refurbishment also provides us with significant opportunities to make environmental improvements. In late 2015, we closed Compass One, a 25,000 square meter shopping mall in Singapore, for a comprehensive refurbishment. The Building and Construction Authority (BCA) Green Mark certification was targeted as an integral part of the refurbishment, and Compass One underwent an energy efficiency assessment of its operating systems to identify risks and opportunities as part of the BCA Green Mark process. The findings were taken into account during the refurbishment, and efforts made to ensure environmental efficiency, sustainable operation of the asset, and good quality indoor environment. As a result, the shopping centre was awarded the BCA Green Mark Gold certification in September 2016, when it reopened for business.

Across the board, the assets' RPI plans are intended to drive improvements in the portfolio's overall environmental performance. Added to this, we have been focussing on conducting technical risk assessments, obtaining certifications as outlined above, and rolling out a tenant engagement programme. These steps are delivering a significant improvement in the sustainability performance of the portfolio, and we were delighted to receive external acknowledgement of our efforts when the fund was recognised as a Green Star in the 2016 Global Real Estate Sustainability Benchmark survey.

"The Northgate Building's environmental certification provides us with a safer, healthier and more environmentally efficient workplace for our staff and visitors, and affirmation of our commitment to minimising our environmental footprint."

Hak-Woon Lee, *Senior Manager, Kim & Chang, Occupiers*

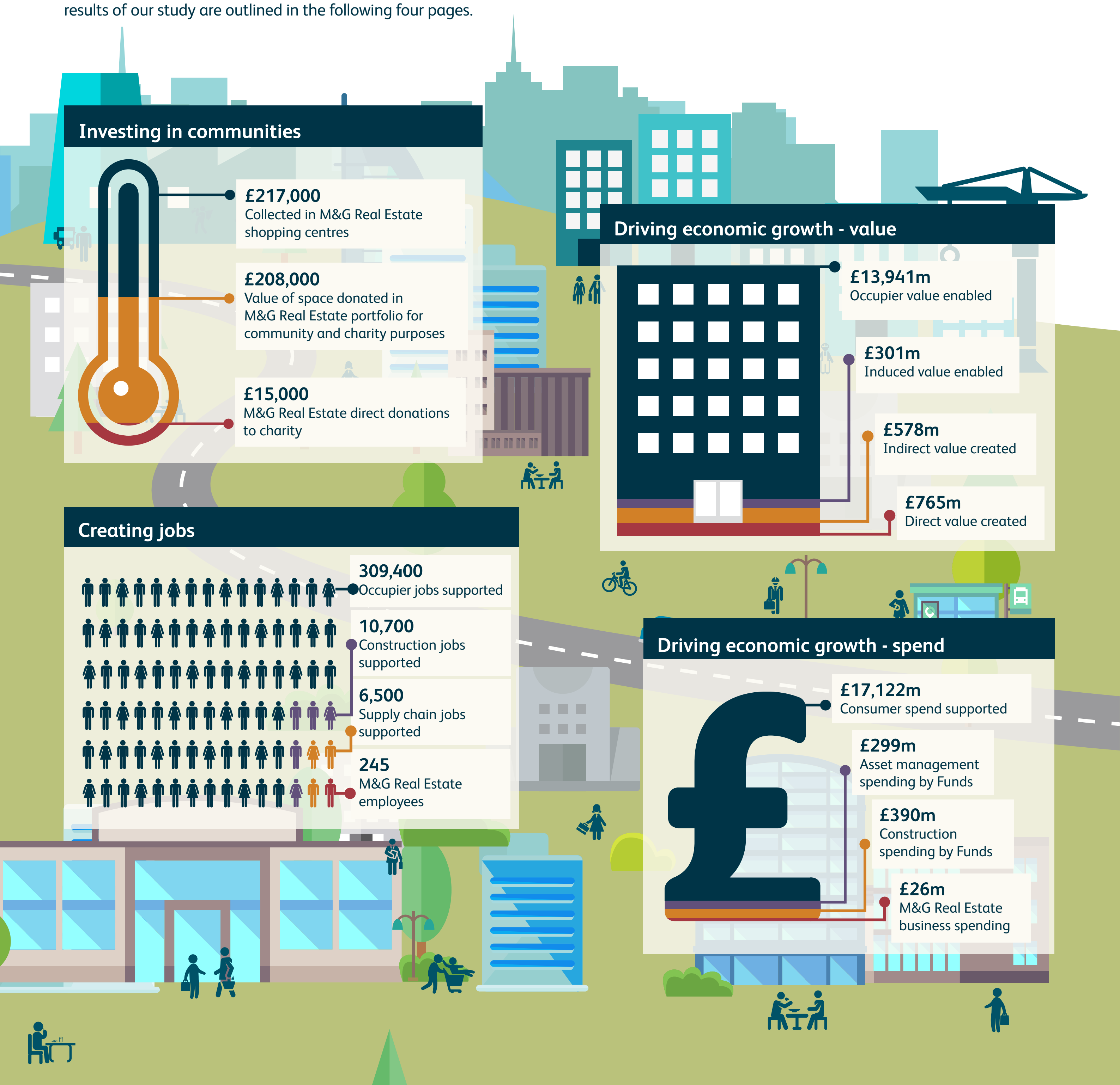
LEADERSHIP IN ENERGY & ENVIRONMENTAL DESIGN
LEED GOLD 2016

Responsible property investment in action

Assessing our socio-economic impact

As one of the world's largest real estate investors, with over 850 properties globally (as at 30 Sept 2016), we recognise that our investments make a significant contribution to the local communities where they are located, as well as to regional and national economies.

Through building and managing our properties, we can help to create and support jobs, develop a sense of community and stimulate key investment and regeneration activities. In 2016, we concluded a study to better understand and quantify our socio-economic impacts. The key results of our study are outlined in the following four pages.



Our socio-economic impacts

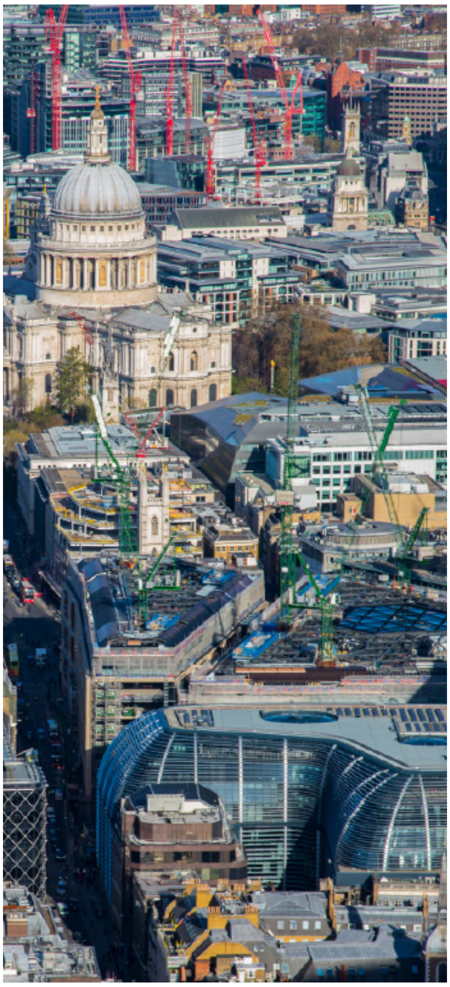
Through our investments across 26 countries, as at 30 September 2016, in Europe, Asia Pacific and North America, we add value, contributing to gross domestic product both directly and indirectly in a number of ways.

Driving economic growth

The effect of our expenditure is felt widely. As well as spending as a business, we spent nearly £300 million to ensure our standing assets operate smoothly, on everything from repairs to the supply of utilities, and from landscape maintenance to legal fees.

We also provide funding for new developments, both commercial and residential. Our study revealed that £390 million was spent on construction in the course of the year reviewed (2014/15), representing investment in many different asset classes: creating individual homes and building communities, providing living space for thousands of students and developing over 350,000 square meters of space for businesses of all types and sizes.

From this expenditure, our suppliers pay their employees' wages, pay taxes to Government and in turn pay other suppliers, creating a multiplier effect for every pound - or other currency - spent by M&G Real Estate or our funds. This 'indirect' value is calculated at £578 million for all M&G Real Estate staff, our expenditure in construction, and what we spend on ensuring our standing assets operate smoothly.



Driving economic value

We also measured the increase in employment and value added in the wider economy as a result of wages spent by M&G Real Estate employees, and those employed on construction on our behalf: a further 'knock on' effect of our business which we have calculated at £301 million.

Alongside this, we estimated the value that our occupiers create for the economy, which is facilitated by our provision of the properties in which they conduct their businesses, and using a recognised methodology, we have calculated this at nearly £14 billion.

And finally, we also calculated that the annual value of retail transactions conducted at our assets is in the region of £17 billion. This includes spending at shopping centres, high streets, retail parks and supermarkets.

Taken together, the economic impacts of our real estate fund management activities have a far-reaching beneficial effect, adding value and contributing to GDP.

Source: M&G Real Estate and JLL. All data on this page covers the period April 2014 to March 2015 unless otherwise indicated.

Creating and supporting jobs

As well as directly employing a 249 strong global workforce (as at 30 Sept 2016), M&G Real Estate is proud to support the employment of tens of thousands more people.

As part of our study of the socio-economic impacts of our global portfolio, we sought to measure the number of jobs created and supported.

M&G Real Estate itself directly employs 249 people at its offices in the UK, EU and Asia, including 104 property and investment professionals (as at 30 September 2016).

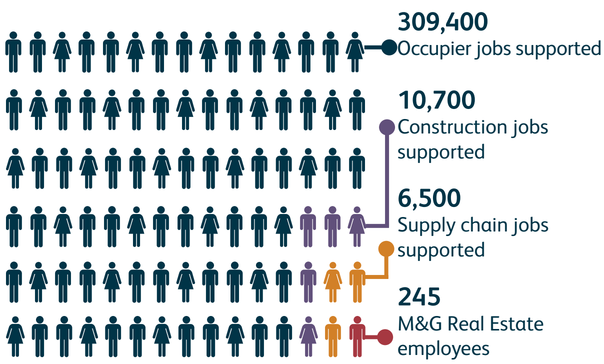
We have calculated that over the course of the year studied, our construction projects supported jobs for 10,700 people representing a multitude of roles such as planning, architecture and design, site preparation, construction, installations and services and the supply of materials. Our construction work largely took place in the UK, with projects from Aberdeen to Swansea, Bristol to Acton.

Continuing investment in skills is important to ensure that the construction industry is capable of continuing to meet demand. As part of our Sustainable Development and Refurbishment Framework, we require large projects to develop and implement an employment and training strategy, which should include targets for training and the proportion of construction roles to be based locally. At St Edward Homes, our joint venture with Berkeley Homes, we have set targets for the proportion of apprentices to be employed of the total workforce, and for training to be delivered. In this way our development projects are helping to tackle the construction skills shortage in the UK and investing in the industry's future.

Based on our supply chain spending at our standing assets, we have calculated the number of jobs supported at 6,500. This includes people employed in the provision of services (from catering to lift maintenance, security to waste collection) to the buildings and land which we manage.

Finally, we have calculated how many jobs our retail, office, industrial and hotel assets support. We provide the right space for all sorts of commerce, from sole traders and start-ups to multi-nationals, and we calculate that 309,000 people work in a M&G Real Estate property. We explore various ways to support the different industries that are our occupier customers, too. For example, at Chichester Retail Park, UK, we facilitated a visit by a group of Accountancy and Business students, in response to an approach from the local college, to find out more about the retail business: from why businesses choose a particular location to what retail channels they use to conduct business. Several of the park's retailers took part, hosting workshops and answering the students' questions and the feedback was overwhelmingly positive: students, teachers and retailers all found the experience beneficial.

Creating jobs



Source: M&G Real Estate and JLL. All data on this page covers the period April 2014 to March 2015 unless otherwise indicated.

Investing in communities

As a real estate fund manager, we create and support communities in a number of ways, including the buildings and infrastructure which we develop and own and the improvements we implement at those assets.

Indirectly, our investments support existing communities and help create new ones through the buildings and infrastructure which we develop and own, and through the improvements that we make to those assets, for example ensuring that our shopping centres offer the right mix of retailers and leisure facilities to meet the needs of the local residents.

At Guildford, UK, vacant land was leased to the Borough Council for use as a temporary "pop-up village", pending the full redevelopment of the site. The village uses 30 shipping containers to offer a low-cost alternative to traditional retail units, which will provide an opportunity for small local businesses and sole traders to try out their ideas without making a commitment to a longer term lease. The idea was warmly welcomed and before the first container was delivered, the council had received hundreds of expressions of interest.

Many of our residential assets are developed to support communities with amenities, public space and leisure facilities in addition to dwellings. For example, Kensington High Street, London, UK, is a residential development being undertaken by St Edward Homes, our JV with Berkeley Homes. The provision of a new primary school is an integral part of the development, and this opened its doors to 30 new students for the first time in September 2016. It is also planned that the school facilities will be available at competitive rates to local community groups. At other high-density residential developments, space at ground level is frequently provided for retailers, so that the local community can benefit from the convenience of, say, a small supermarket.

At some of our UK development sites, we provide employment and skills centres: places where local authorities provide free-to-use public facilities for residents to improve their employability and find work. Recent examples of this can be found at the redevelopment of the London Fruit and Wool Exchange, and at Sainsbury's in Wandsworth.

Many of our shopping centres are at the heart of the communities they serve and all take their connection with their shoppers seriously. They recognise that they provide more than just the opportunity to shop, and amenities from mobility scooters to children's carts make access easier for everyone. Even something as unglamorous as improving the toilet facilities can mean that a day out shopping becomes possible for a person with disabilities (page 18).

Additionally, our centres' programmes of events do more than just improve visitor numbers: they can support local entrepreneurs, promote good health and encourage literacy.

Charity and community support

We invest in communities directly through volunteering and staff fundraising activities, and indirectly, supporting the communities in and around the assets that we manage.

Support for charities and community groups is a very important part of our company culture and investment portfolio, and we deliver this in a number of ways. For example:

M&G Real Estate charitable activities

M&G Real Estate is a foundation partner of the property industry's charity, LandAid, which is working to end youth homelessness. In 2016, the fundraising year started with lunchtime briefing sessions at our Head Office, delivered by LandAid's Chief Executive, giving everyone the opportunity to find out about the charity's aims and how it spends the funds raised. Over the course of the year, we participated in many different fund raising activities, ranging from the physical challenges of the Mudathon and the LandAid 10k, to the cerebral challenge of our quiz nights, via our perennially popular bake sales and raffles. To support and encourage participation, corporate matched funding was available, and we were delighted to exceed our target with a total of over £13,000 delivered to support LandAid's valuable work. Together with M&G Real Estate's corporate donation to LandAid in 2016, our total donations exceeded £28,000. We were also pleased to be able to invite representatives from LandAid to meet the Lord Mayor of London and M&G's Chief Executive, Anne Richards, at an event hosted by M&G Investments to celebrate City Giving Day.

Data relating to our fundraising activities covers the period January to December 2016.

Charity support at our assets

Our shopping centres have an annual footfall of 178 million visitors annually, and so supporting charitable initiatives and collections in our shopping centres and other assets can have a massive impact. In the UK, for example, our shopping centres host annual 'eco-events', at which shoppers can explore ways to reduce their carbon footprint. At The Friary Centre in Guildford, UK, shoppers spending more than £75 received a Norway Spruce sapling, and for every 10 trees given away, the centre pledged to plant a tree in the local National Trust arboretum. The 'woodland' theme was incorporated into the centre's Christmas event programme, and early in 2016, a team from the centre planted 50 trees, creating a 'Friary Forest'.

Additionally, we donate space within our assets to community and charity projects – in the course of the year, more than 250 good causes were supported by space donations valued at over £208,000. For charities, community groups and local health services, getting free access to some of the millions of shopping centre visitors plays a vital part in raising awareness, or generating donations of cash and gifts. Our study calculated that donations worth over £217,000 were received from centre visitors. Harder to value is the number of lives saved by on-site blood pressure screening provided at some centres by the Stroke Association.

Data source: M&G Real Estate and JLL. Data relating to our shopping centres' activities covers the period April 2014 to March 2015, unless otherwise stated.

Environmental improvements

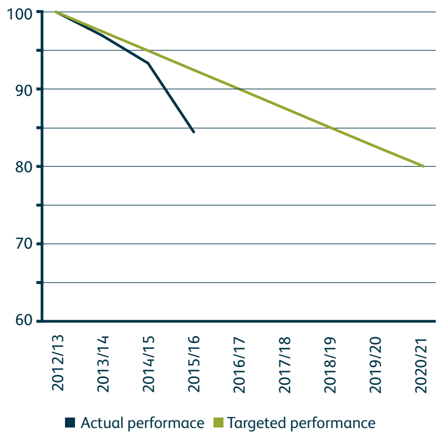
Driving operational efficiency

Driving environmental improvements at our assets reduces operating costs, carbon emissions and the use of natural resources. This helps attract and retain occupiers and ensures that we appropriately manage environmental risks. We continue to focus on driving environmental efficiency across our global portfolio, and here we provide a range of examples from across our portfolio on the work we have undertaken over the past year.

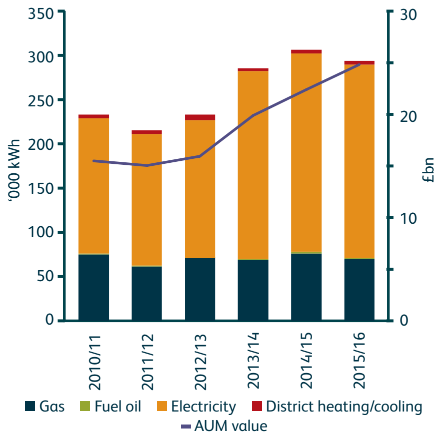
16%

Reduction in indexed, global energy consumption since 2012/13*

Indexed energy consumption (kWh/m²)



Absolute energy consumption



Legislation, taxation and the cost of utilities all continue to grow, and provide drivers for us to improve the environmental efficiency of our global portfolio. We work closely with our third party property managers to deliver reductions that will take us closer to our stretching medium-term goals which apply to all assets where we have management control.

Energy

We were delighted to achieve a further reduction in 2015/16, with global energy consumption falling by 16% against our 2012/13 baseline. Our target performance is calculated using an indexed methodology (full details in our Supplementary Performance Report), which enables us to take into account changes in our portfolio including sales and purchases, as well as operational changes.

We achieve these reductions in a number of ways: we continue to ensure that low and no cost improvements are carried out as a matter of course – and that performance is frequently monitored. Without enhanced monitoring it is all too easy for inefficient ways of working to resume. Additionally, we are deploying a range of new technologies which ensure that building performance is understood. We utilise different systems, depending on the complexity of the asset's energy supply, but with the same intention: to ensure that energy is not wasted.

As well as monitoring energy consumption, we have been introducing measures to reduce it. Recent improvements in LED technology mean that return on investment can now be less than two years, making it attractive at assets where tenants pay a service charge. We trialled LED lighting at two large office buildings in central London, and found that as well as reducing consumption, it provides better quality light, reduced light pollution and maintenance costs, and improved reliability. At Minster Court, the replacement lighting is projected to deliver a saving of £267,000 over five years, and a reduction of energy consumption of nearly 3 million kWh, as well as saving 1,559 tonnes of CO_2 over the same period. At Alder Castle, within five years the newly-installed LEDs will result in a saving of £76,000, 418 tonnes of CO_2 and 564,000 kWh.

Drawing on what we learnt, we are currently reviewing which assets in our UK portfolio would benefit from a lighting upgrade, and will roll out the installation of LED lighting where appropriate. We expect to see the results of this portfolio-wide rollout in future years' energy consumption data.

With focus both on the day-to-day operation of the assets as well as the medium- to long-term opportunities to reduce energy consumption, we are optimistic that we can achieve our target of a 20% reduction by 2021.

* Environmental performance is measured from April to March. Our baseline year therefore is 1 April 2012 to 31 March 2013. Our most recent performance data is from the year 1 April 2015 to 31 March 2016.

To ensure minimum environmental impacts, we specify low carbon electricity in the contract for our UK portfolio. This electricity is generated by water, wind and solar power, making it effectively 'zero carbon', and more than 98% of our UK electricity is delivered through this contract at a cost of nearly £7 million. Additionally, some of our assets have on-site generation capacity, which in 2015/16 were responsible for generating over 1.5 million kWh; we expect this to increase when the installation at the Galleries (page 18) goes live in 2017.

1.5million

kWh renewable electricity generated at our assets

Waste

We have set our target at a challenging 100% diversion from landfill at our UK assets, and are pleased to report that in 2015/16, over 99% of waste was diverted, saving over £1m in landfill tax from our occupiers' service charge bills. We ensure that new acquisitions are quickly added to our UK waste contract, which utilises recovery facilities that minimise waste sent to landfill, and our contractors are constantly seeking improvements to on-site recycling facilities and opportunities – for example at shopping centres, reviewing the positioning and type of bins in mall areas in order to improve waste segregation.

Water

Across our like-for-like portfolio, water consumption fell by 4% compared to the previous year – a reduction of over 52,000 m³. We are continuing to work to improve the quality of data we receive on water consumption, by ensuring meter reads are taken at regular and frequent intervals. Having a clearer understanding of actual consumption enables us to focus reduction efforts where they will have the greatest effect on consumption. This may include for example the installation of aerated taps or motion sensors at urinals. Unfortunately however this improvement in consumption was not reflected in our indexed performance against target, which showed a 7% deterioration over the 2012/13 baseline due to poor performance in some asset classes. The worst performing assets have been identified and work is under way to understand the reasons behind their consumption. Where appropriate, measures to reduce consumption are being introduced. For more detail on how our indexed performance is calculated, please see our Supplementary Performance Report, published separately, at www.mandg.com

Certification

We are continuing our global programme of green certification (see page 9 for some examples) and currently have over 1,000,000 square meters of space which is certified to internationally-recognised environmental ratings.

We utilise different standards according to asset class and geography: at commercial properties we have a number of certifications including Leadership in Energy and Environmental Design (LEED) Building Operations and Maintenance, Building Research Establishment Environmental Assessment Method (BREEAM) In Use and the National Australian Built Environment Rating System (NABERS) Energy and Water ratings. Many of our residential assets have Code for Sustainable Homes ratings.

As part of our ongoing certification programme, we are reviewing the suitability of a number of our office assets in mainland Europe to achieve BREEAM In Use, the results of which will inform our asset planning at these properties.

Additionally, the environmental management systems for 845,000 square meters of office and retail space in the UK are independently certified to the international standard ISO 14001.

More than

99%

of waste diverted from landfill at UK assets

Responsible property investment in action

The Galleries, Tyne and Wear, UK

As one of the asset classes with the greatest environmental and socio-economic footprints, our shopping centres have long been at the forefront of our improvement programmes.

The Galleries centre, in Washington, Tyne and Wear, UK, provides an outstanding example. The Galleries is a 75,000 square metre shopping centre, with an annual footfall of 13.5 million which is effectively the town centre for the surrounding community. We have owned the asset since 1998, and been active in efforts to mitigate its negative impacts and maximise its positive ones in a variety of ways over the years.

Measures to reduce energy consumption - such as lighting reviews and enhanced lighting controls, using energy efficient filters in air handling units and optimising boiler settings – have led to a fall in electricity of 20% and 45% in gas and as a result, GHG emissions fell by 23%. We have recently installed an enhanced energy monitoring system which will turn live data into a series of prioritised actions to address inefficiencies. In our continuing efforts to improve the carbon footprint of the building, we are installing 3,800 square meters of solar panels on the roof, which we anticipate will generate approximately 20% of the common parts energy requirement each year – the equivalent of enough electricity to power 68 UK households for a year. We believe this is the biggest single solar installation retrofitted to a UK shopping centre, and it will reduce the centre's CO_2 emissions by 165 tonnes.

The centre's Green Travel Plan actively promotes sustainable travel to work to Galleries staff, retailers and customers: championing local cycle routes, car share schemes and the benefits of walking or running to the centre.

In July 2016, following an investment of £60,000, the centre opened its new specialist toilet facility to serve profoundly disabled members of the community, allowing more people to visit the centre with the knowledge that the facilities can cater suitably to their needs, or those of their family.

Recognising its importance in creating a sense of community, the centre has a lively engagement programme, including:

- Working with the local library to host a range of events promoting child literacy to thousands of local youngsters, resulting in hundreds of new library members and the creation of the Washington Story-Telling Festival, a new event which runs every May half term holiday
- Offering shoppers reward vouchers for the local leisure centre, bowling arcade and bingo hall, to promote social interaction and fitness
- Promoting a local programme aimed at supporting long-term unemployed young people into work
- Hosting a cyber safety awareness event which gave 150 parents useful information for keeping their children safe online
- Hosting a blood pressure check day at which over a third of all participants were advised to visit their GP for further checks
- Regular charity collections, a Christmas Giving Tree and an Easter Egg appeal, which benefited local and national charities.

In the course of 2015/16, space at the centre to the value of over £10,000 was given free of charge, tens of thousands of pounds were donated in cash and goods, and hundreds of thousands of shoppers had the opportunity to find out about the charities and community groups.

Development projects

Decisions taken during development and refurbishment of assets will directly affect their environmental, social and economic performance in operation. Development and refurbishment, therefore, are critical stages in the asset lifecycle.

Currently, we have over £1 billion of new developments and refurbishments under way. This encompasses projects directly under our control, joint ventures and forward funding projects. In all instances, we seek to implement our Sustainability Framework which sets minimum standards for development and refurbishment projects.

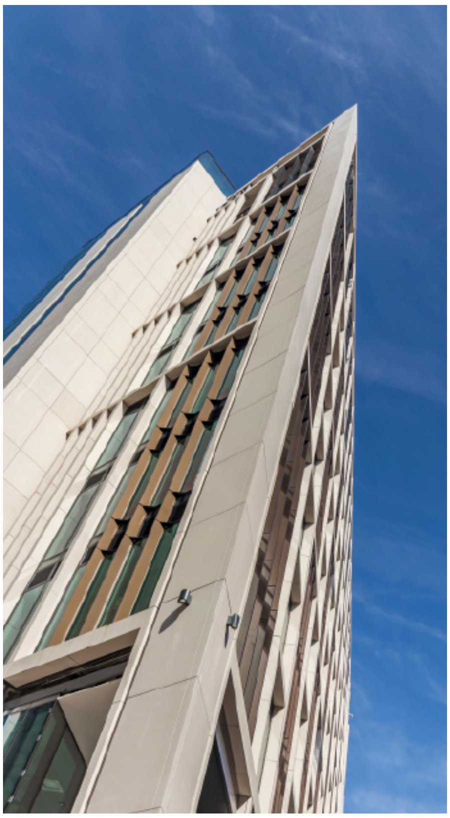
In Leeds, UK, our first BREEAM Outstanding development was completed in 2016. Central Square is a striking 42,000 square meter office building, the sustainability credentials of which were an important part of PwC's decision to relocate there. In order to achieve BREEAM's highest sustainability rating, the building features a range of technologies and approaches, such as:

- Hot water is provided by Combined Heat and Power technology (a wood chip boiler), powered by a renewable resource
- All lighting in the building is LED, providing a significant reduction in electricity consumption compared to other lighting types
- Charging points for 20 electric vehicles have been provided in the car park
- Storage facilities are available for bicycles, together with showers and lockers to encourage commuters to cycle
- Green walls in the reception lobby, giving a highly visual indication of the building's environmental credentials
- The ground floor Winter Garden is a public space, and there is a 9th floor Sky Garden for all occupiers to use, which will facilitate informal interaction between different tenants
- Enhanced monitoring is in place to ensure maximum energy efficiency, keeping service charges low
- Water conservation measures in place include dual flush, sensor flow toilets, waterless urinals and low flow showers.

Across the residential sector development projects which we are forward funding, we seek to provide environmentally sustainable homes with a sense of community. All new developments currently under way include cycle storage facilities and are targeting EPC ratings of A or B, meaning they are highly energy efficient. Each one will also provide shared social spaces such as lounges, gyms, communal fruit gardens, barbecue areas and even ping pong tables. In this way our developments enable residents to mix and communities to form, which we believe is part of what makes our developments more attractive to prospective tenants – a belief which is borne out by the occupation rates at our standing residential assets.

"Central Square sets the standard for the regions"

Christopher Richmond,
Head of Real Estate, PwC



Strong relationships

Building collaborative customer relationships

By developing proactive relationships with our occupiers, we can better understand their business needs and property requirements, helping to maximise occupancy rates and enhance returns. Local support is important to the long-term success of buildings and development projects; to ensure this we must develop good relationships with visitors and communities.

1,000

Individuals and businesses invited to participate in customer satisfaction surveys

RealService SERVICE EXCELLENCE GOLD 2015 Best Practice Index

RealService SERVICE EXCELLENCE BRONZE 2016 Service Charge Compliance Index

Our priority is to understand what is important to our occupier customers. Communication is key and our relationships with our customers are on-going, co-operative, and built for the long term. Our success comes from knowing what customers want so that we can focus our service delivery.

We believe in engaging directly with our customers, from the beginning of their relationship with us and throughout their journey as an occupier at one of our properties. Our engagement activities include welcome letters, relationship meetings, forums, participating in feedback studies and carrying out our own surveys in order to understand how we are performing and how we can improve.

We have a robust engagement programme which enables regular communication with our occupiers, allowing us to engage regularly on a range of topics including their RPI strategy as a business and for the portfolio of properties they occupy and helping us understand how M&G Real Estate as a landlord can support this. We are currently working with one of our key occupiers to assess how common area energy consumption can be reduced in order to reduce their overall energy footprint.

We are evolving our communication tools to include more information on RPI performance that affects our occupiers. In our residential guides we have added recycling guidelines and 'Green Tips' that can help save on energy and water use.

In 2015 we joined the Institute of Customer Service (ICS) to further demonstrate our ongoing commitment to understanding and fulfilling the needs of our customers. We are in the process of collating feedback from our key customers through the ICS's customer satisfaction programme which will then help us to put together a business strategy to maintain and improve the quality of service we provide to our customers who work and live within our properties.

We are also exploring opportunities to invest in training for our employees that will help build on our current relationships we have with our occupiers.

Alongside our customer engagement, we actively work with various occupier and industry groups. As members of the Real Service Best Practice Group, we participate in a number of annual service performance benchmarks. We are delighted to have achieved Service Excellence Gold in the Best Practice Index 2015 for demonstrating a number of positive engagement activities and sharing examples of best practice across the company and Service Excellence Bronze in the Customer Satisfaction Index 2016 for participation in our customer satisfaction benchmarking surveys across our portfolio.

Responsibility in our own operations

Integrity in all our partnerships

We believe that we should implement responsible investment principles in our own operations, driving environmental improvements in our own offices, engaging with staff and working in partnership with our suppliers and joint venture partners.

We believe we should apply the highest standards of conduct to our own business practices. By driving environmental improvements in our own offices we can reduce our own impacts and operating costs. Through engagement with our staff we can improve satisfaction, and attract and retain employees. Working in partnership with our suppliers and joint venture partners we can ensure that their operations are in line with our standards and principles.

Over the course of the year, we have carried out a number of activities towards these ends:

Staff engagement

A "pulse" style staff engagement survey was run in June 2016 and the results from the survey are now being developed into action plans at both a team and corporate level. We are proud that we have an overall engagement score of 84%, above the financial services benchmark and an increase on our last survey.

In the last survey , run in 2014, an area of focus was staff development opportunities, and this year's survey has provided a measure against this, illustrating that the actions developed and taken have had an impact, as scores in this area have positively increased by 10%.

Environmental

We are continuing our efforts to improve the environmental efficiency of the occupation of our head office. This year we set ourselves a target of a 15% reduction in paper consumption, compared to 2014/15. As well as encouraging staff to print as little as possible, we introduced 'follow-me' print technology which cuts down on the amount of unnecessary printing. We were disappointed therefore to record an increase in paper consumption of 32% compared to baseline, which when normalised by occupancy equated to a 25% increase. We are now targeting reduction messages at the teams with the highest print rate.

We have also worked to ensure that staff minimise our energy consumption, for example by switching off lights when they leave meeting rooms, and unplugging chargers and other devices when not in use. Despite this however, our energy performance deteriorated in 2015/16, largely as a result of weekend working. This, together with new equipment installed in the staff deli, meant consumption, normalised by occupancy, actually increased by 11% over our 2014/15 baseline. We have redoubled our efforts to reduce energy consumption in 2015/16, while at the same time recognising that savings made at this level are marginal, compared to larger-scale changes in working patterns.

Training

Learning and development opportunities are available to our staff based on M&G Real Estate's strategic objectives and the operational objectives of teams and individuals, and training is delivered in a number of different ways to ensure needs are met. From induction courses, secondments and e-learning, to courses, seminars and workshops, we seek to ensure that our staff have the skills and knowledge to carry out their roles. Training on issues relevant to the financial services sector, such as risk, anti-bribery and compliance are delivered to all staff annually, or as required.

To ensure that all M&G Real Estate staff have a clear understanding of the importance of responsible investment, and their role in delivering the RPI strategy, RPI training is delivered to all staff, adjusted to where they work, and the role that they carry out. An introduction to RPI is included in our online induction programme.

RPI training is frequently reviewed, and additional training is delivered as required – for example with the introduction of new legislation or new technologies, and changes in market practices. This way we can be sure that all staff have the tools to implement our strategy.

Formal training is delivered to teams according to their role. For example, a series of workshops on the implications of Minimum Energy Efficiency Standards was delivered to Asset Managers. Additional informal training and awareness-raising takes place via updates at internal forums and other events, and via email briefings and staff newsletters.

Charitable activities

M&G Real Estate staff are able to take up to two days a year to support a charity or other community organisation of their choice, and this option was exercised by 11% of UK staff in 2015/16. Organisations that benefited included local community centres, sports and kids' clubs.

We continue to support LandAid as our corporate charity partner, with staff participating in fundraising activities such as bake sales, fun runs, quiz nights, cricket tournament fundraisers, and even the Mudathon. For more details, see page 14.

We also join forces with colleagues at M&G to support nationwide fundraising events like the Macmillan Coffee Morning, Children in Need and Comic Relief.

And at Christmas each year, we organise a charity gift collection, enabling M&G Real Estate staff to donate toys to needy children or food to food banks.

Our performance

2015/16 Targets

In 2015, we set ourselves 12 Responsible Property Investment targets to achieve by the end of March 2016, and three which run until March 2021. Progress against each target has been established by an internal review of the evidence of achievement. In addition, Upstream Sustainability Services has independently verified selected environmental targets. As the table shows, we fully achieved 67% , partially achieved 13% and did not achieve 20%. For full details of progress against each target, please see our Supplementary Performance Report, available online at www.mandg.com. We assessed our progress on the targets as follows:

Portfolio resilience	✓
Ensure material RPI issues are considered as part of the acquisitions process and asset management strategy, and that asset management plans have actions to reduce any risks identified (global)	
Apply our new Sustainable Development and Refurbishment Framework to all directly funded projects, and where possible, seek to apply the principles to all other projects (UK)	
Continue to submit data to the Global Real Estate Sustainability Benchmarking (GRESB) initiative on an annual basis to benchmark the sustainability performance of our funds and communicate the outcomes to our investors (global)	
Review the opportunities to certify assets as green buildings using international best practice rating tools, and commit to move forward with certification where there is a clear business case to do so (global)	
Environmental efficiency	
By 2020/21: Achieve a 20% reduction in energy intensity and associated GHG emissions based on an indexed trend for all landlord procured energy based on a 2012/13 baseline (global)	✓
By 2020/21: Achieve a 10% reduction in water use based on an indexed trend for all landlord procured water based on a 2012/13 baseline (global)	✓
By 2020/21: Send zero waste to landfill arising from day to day operation of our assets (where we have control over the final disposal route of the waste) (UK)	✓
Increase the absolute quantity of on-site generated renewable energy (kWh) (global)	
Strong relationships	
Review how we communicate RPI performance with our customers and ensure that this enables them to understand and contribute to the improved performance of the building and their space (global)	
Continue to capture data on our community investment and engagement activities, with a view to expanding the scope of our reporting next year (global)	
Develop our customer engagement programmes and surveys to ensure they are delivered in the right language at the right time for our customers utilising enhanced technologies and tools to support delivery (UK)	
Own operations	
Develop RPI training strategy and undertake regular RPI training for all staff as required (global)	
Ensure that all suppliers are screened using M&G RE pre-qualification process which includes questions on H&S and sustainability competence (UK)	
Reduce paper consumption at our head office by 15% compared to 2014/15 (UK)	
Reduce energy consumption at our head office by 5% compared to 2014/15 (normalised kWh/average occupancy) (UK)	✓

Achieved or on track to achieve · Part achieved or on track to part achieve · Not achieved or not on track to achieve

✓ Indicates that the data for the performance target has been independently verified by Upstream Sustainability Services. For their verification statement, see page 24

Future targets

2016/17 Targets – and beyond

In order to continue to drive improvements, we have been setting targets across our full range of RPI activities for many years. Our environmental performance targets were set in 2014, for achievement by the end of March 2021, and other targets are set for March 2017. We report on all targets each year.

Portfolio resilience	
Undertake a review of our RPI strategy and use the outputs to develop fund-specific strategies which together form an interrelated global approach to RPI	Global
Continue to implement our strategies developed to address the incoming Minimum Energy Efficiency Standards legislation (including Section 63 legislation in Scotland)	UK
Continue to submit data to the Global Real Estate Sustainability Benchmarking (GRESB) initiative on an annual basis to benchmark the sustainability performance of our funds and communicate the outcomes to our investors	Global

Environmental efficiency	
By 2020/21: Achieve a 20% reduction in energy intensity and associated GHG emissions based on an indexed trend for all landlord procured energy based on a 2012/13 baseline	Global
By 2020/21: Achieve a 10% reduction in water use based on an indexed trend for all landlord procured water based on a 2012/13 baseline	Global
By 2020/21: Send zero waste to landfill arising from day to day operation of our assets (where we have control over the final disposal route of the waste)	UK
By 2020/21: Increase the absolute quantity of on-site generated renewable energy (kWh)	Global

Strong relationships	
Conduct a health and wellbeing pilot assessment at one of our assets	Global
Conduct an investor survey to better understand their requirements and ensure we are delivering our RPI message appropriately	Global
Incorporate RPI matters in our retail occupier customer engagement programme and explore opportunities to work in collaboration with occupiers to jointly improve environmental efficiency	UK

Own operations	
Reduce paper consumption at our head office by 15% compared to 2015/16	UK
Reduce energy consumption at our head office by 5% compared to 2015/16 (normalised kWh/average occupancy)	UK
Ensure all employees have an objective included in their annual appraisal in support of diversity and inclusion	UK & Europe
Review the sustainability training delivered to our third party property managers to ensure a satisfactory minimum standard is applied consistently in all geographies	Global

Performance assessment

Environmental targets and data verification statement

JLL

To the Stakeholders of M&G Real Estate,

Scope of work

Upstream Sustainability Services, (a division of JLL UK Ltd, hereafter referred to as Upstream), has been engaged by M&G Real Estate to provide limited verification of selected environmental targets for the April 2015 to March 2016 financial year.

Methodology

In order to complete the above Scope of Work, Upstream:

- Obtained details of the performance to be reported against the following targets:
    1. By 2020/21: Achieve a 20% reduction in energy intensity and associated GHG emissions based on an indexed trend for all landlord procured energy based on a 2012/13 baseline
    2. By 2020/21: Achieve a 10% reduction in water use based on an indexed trend for all landlord procured water based on a 2012/13 baseline
    3. By 2020/21: Send zero waste to landfill arising from day to day operation of our assets (where we have control over the final disposal route of the waste).
    4. Reduce energy consumption at our head office by 10% compared to 2013/14 (normalised kWh/average headcount)
- Discussed the verification process and its evidence requirements and implications with the relevant M&G Real Estate Sustainability Advisor;
- Identified, on a risk weighted basis, selected consumption and / or production amounts and obtained primary evidence such as energy and water invoices and waste management company records in order to verify these amounts;
- Reviewed, with M&G Real Estate, internal data verification and selection processes and verified selected non-invoiced energy and other consumption data back to its highest primary source, (e.g. supplier annual statements, meter read sheets, etc.);
- Performed limited testing of the data and calculations used to derive the reported performance against targets;
- Advised on any significant data or calculation discrepancies identified during the verification process to M&G Real Estate and checked that these had been corrected in the source data prior to the final reporting of performance in the Responsible Property Investment Report 2016.

Limitations and exclusions

The following limitations and exclusions apply:

- Data outside the defined reporting period of April 2015 to March 2016;
- Financial information related to any of the data or performance verified;
- Performance data not related to the targets, as outlined under Methodology;
- In absence of formal reporting methodology, assets excluded from the scope of this year's Report, as confirmed by M&G Real Estate.

Opinion

Based on the Scope of Work and Methodology outlined above, nothing has come to Upstream's attention that would indicate that M&G Real Estate's reported performance against the targets is not fairly stated. However, it is Upstream's opinion that M&G Real Estate should improve the availability of primary evidence from its third party property managers.

Management report

The verification opinion above is supported by a short management report to M&G Real Estate which details observations on M&G Real Estate's data quality, availability, data collection and calculation processes, supporting evidence, and makes recommendations on how these might be further developed or improved.

About Upstream

Upstream provides leading advice on sustainable property and environmental sustainability strategies. Its team has extensive experience in verifying environmental data, information, systems and processes. The team for this work was not involved in any other Upstream and/or JLL projects with M&G Real Estate. JLL's Code of Ethics outlines our commitment to maintaining the highest standards of ethics and integrity in all of our business dealings.

Marit van Rheenen
Associate Director, Upstream Sustainability Services, JLL

Photo details

P6: Kensington Road, London, UK (a St Edward Homes development)

P9: The Northgate Building, Seoul, Korea

p12: Michaelpuche / Shutterstock, Inc.

P13: Top – shoppers at Ayr Central, Ayr, UK

Middle – shipping containers being lowered into position near The Friary, Guildford, UK

Bottom – children at Kensington Primary Academy, London, UK

P14: Top: Anne Richards (M&G's Chief Executive) welcomes The Lord Mountevans (Lord Mayor of London) to M&G's head office as part of City Giving Day activities

Middle: M&G Real Estate's Mudathon team, post-event (L-R: Jennifer Collins, Lisa Smidmore, Monika Hawrot, Matt Peake, Emily Miller)

Bottom: Green Father Christmas with some of the saplings given to Friary Centre shoppers as part of the centre's eco-event

P15: Kensington Primary Academy, London, UK

P17: Solar panels at Westfield Fashion Square, California, USA

P18: All pictures: Galleries, Tyne & Wear, UK

P19: Both pictures: Central Square, Leeds, UK

P25 and Cover: Central Square, Leeds, UK

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