HERMES INVESTMENT MANAGEMENT

Excellence. Responsibility. Innovation.

June 2016

Hermes Real Estate

From climate risks to positive impacts: time for action.

Responsible Property Investment Report 2016

For professional investors only

www.hermes-investment.com

Contents

Report Coverage

Report coverage, material aspects and boundaries
The purpose of The Hermes Real Estate's 2016 Responsible Property Investment report (RPI), is to describe our approach to RPI governance, strategy and management within our portfolio. We focus on the areas of operations that we identify as material to our business activities and those of our stakeholders. The materiality assessment is carried out by the Head of RPI and reviewed by the Director with responsibility for RPI. We report our responsible investment governance, strategy, risk assessment and management processes for our whole portfolio through a narrative approach. This narrative covers our directly managed assets, and our indirect assets that we have influence over, in the UK and internationally for the period June 2014 to May 2015. We engage with and monitor the sustainability performance of our indirectly held property portfolios through active engagement and by using the GRESB survey responses. We report key environmental and social performance indicators for our UK assets over which we had management control for the period January 2006 to December 2014. This year we report positive impacts beyond our usual narrative approach and quantitative KPIs approach. There are no significant changes in the materiality assessment, the scope and the boundaries of our reporting compared to last year's report published in June 2015. For one asset we have corrected the floor area wrongly reported in 2014.

We take an active stance on stakeholder's engagement. Our stakeholders include: upstream the asset owners we manage money on behalf of; downstream: our subcontractors contracted through direct service agreements; the occupiers of the assets we manage, and the communities that live in the places our properties are located in. Finally we engage with EU and UK policy makers and selected real estate and financial sector organisation, to enable us to help transform the industry in which we operate. All our new suppliers in the UK are screened for environmental, social and human rights criteria. We have found no potential negative impacts on society in our directly controlled supply chain, and we work to mitigate the impacts of environmental pollution created through our activities, see section 'Measuring positive impacts'.

For more details and question on our Responsible property investment programme visit:
www.hermes-investment.com/ukw/capabilities/real-estate/responsible-property-investment/

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SECTION 1

Who we are:
a strong culture of responsibility

Hermes Real Estate

Established:

30

30 years investing in Real Estate

Offering:

Client-focused, property investment solutions

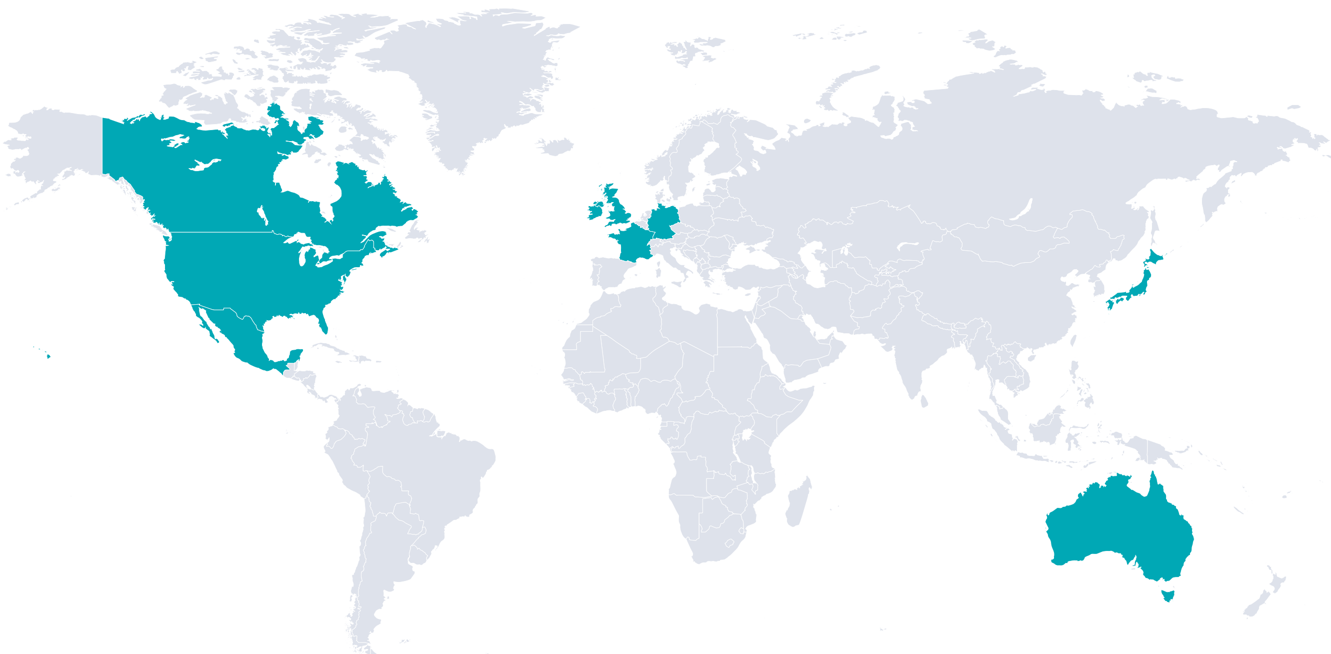
Team:

23 → 20

property professionals with... years average industry experience

Geographical coverage:

UK headquarter, investments in UK, Europe, Americas, Asia Pacific



Strong culture of responsibility: Every employee and contractor

Hermes Real Estate is part of Hermes Investment Management, a global investment management firm focused on delivering superior, sustainable, risk adjusted returns for our clients, responsibly.

At Hermes Investment Management our ambition is to be regarded as the leading provider of holistic returns for savers, thereby creating value for all stakeholders throughout the financial system. At the heart of this ambition is a focus on providing high value-add, sustainable investment returns, delivered responsibly and at a competitive price. To deliver on these goals Hermes has a set of behaviours embedded in its culture that contribute to the success of the business:

Excellence

We aspire to excellence in everything we do. This manifests itself in our investment performance, where 100% of our funds by number beat their performance benchmarks over the three years under review and 91% of strategies outperformed their benchmarks over one year.

Responsibility

We have a strong culture of responsibility, which we have continued to foster since our inception in 1983. Our commitment to behaving responsibly, while not limited to the way we manage money for our clients, includes a strong integration of environmental, social and governance ("ESG") issues in our investment process, throughout equities, fixed income, infrastructure and real estate. Hermes EOS engages with companies globally on such matters for many of the world's largest asset owners. We also participate extensively in industry and sector initiatives to develop best practice for both companies and investors.

Innovation

We seek to create an investment management firm that is different from the norm. In doing so, we define innovation more broadly than our industry's traditional focus on new products.

Good corporate citizens

We strive to make a difference within the community in which we operate through a diverse programme of grassroots projects. We have a strong community engagement programme in which many of our personnel participate. Staff volunteer through our corporate programme or with other charities that are close to their hearts, taking part in lunchtime reading sessions with young people, renovating local schools and gardens, or supporting those more vulnerable within the London borough of Tower Hamlets, which is one of the most deprived communities in Western Europe and also right on our doorstep.

Every employee and contractor has a responsibility to act in a way that upholds these core behaviours through their day to day activities. They are supported by two key instruments:

Our Code of Ethics

Sets out the minimum expectations that Hermes has for its employees, partners and directly engaged contractors. Employees are expected to conduct the firm's business in full compliance with both the letter and the spirit of the law and any other policies and procedures that may be applicable.

Hermes Pledge of Responsibility and Transparency

Created in 2015, expresses the commitment of each of us individually to always put the interests of our clients and their beneficiaries at the heart of what we do. Through pay awards we look to ensure that the aspirations we articulate in the Hermes Pledge are reinforced. In annual appraisals, all Hermes staff are judged equally on their behaviours and on their technical performance.

> Responsible investment requires a leap of faith on the part of institutional investors. They need to anticipate change. A big hurdle here lies in the fact that the conventional fund manager's approach to investment involves looking back on past performance. But if we are to think about the future, rather than benchmark against the past, then as an industry we need to change our approach to investment. The demand from clients is there: as an industry we need to meet this.

Chris Taylor, CEO Real Estate
Head Private Markets Hermes Investment Management –
In "Responsible Capitalism", Hermes Oct 2015

Real Estate:
Responsible investment style & philosophy

In Hermes Real Estate we are committed to act consistently and clearly as stewards of the assets in which we invest, with the aim to deliver investment excellence. With a strong focus on the income component of total returns and a disciplined approach to risk, we seek to consistently out-perform on a risk adjusted basis to deliver robust and repeatable performance in line with our fiduciary responsibility to our clients.

> We see environmental, social and governance (ESG) risks as business critical to our funds and are committed to embedding responsible investment principles across our investment practices.

David Price, Director of Asset Management at Hermes Investment Management

With a preference for directly held real estate our investment philosophy is to aim to secure liquid stock with strong performance characteristics, and focus on stock picking and deal-led investments to exploit market opportunity. We target marginally higher income yield but supported by strong underlying fundamentals. Our exit strategy is executed in the context of the macroeconomic position. Our strategy draws on a clear understanding of the drivers of future performance, including an in-depth understanding of how occupiers assess real estate, the needs of communities and of the evolving regulatory framework. We comply with all current legislation and demonstrate preparedness for forthcoming regulatory requirements. This approach enables us to actively manage buildings that anticipate and respond to market demands and to maintain a market reputation for delivery.

Case study: Driving change at Royal Victoria Park shopping centre at Tunbridge Wells: Having embarked on an innovative programme to tackle high energy consumption at the centre, the new centre manager has delivered electricity reductions of 36% since 2012. The centre has been awarded a Green Apple award 2014 and the Green World Ambassador Award 2014 for 'Helping Others to Help the Environment' in recognition for its waste segregation drive jointly with 'Ready Steady Green' campaign leading to recycling rates up to 86%. Finally they have gained ISO1401 accreditation in January 2014.

Responsibility:
Corporate objectives

To implement our responsible property investment (RPI) policy and strategy, we have set overarching corporate objectives in the following key areas:

Leadership
To be at the forefront of thinking and research in the responsible property investment and sustainability arena, to ensure we provide the best strategic advice to our clients.

Risk management
To understand, evaluate and manage the impacts of sustainability on future performance to enable us to manage risks effectively and create real sustainable investment returns for our clients.

Strategy
To acquire, develop, manage and dispose of property assets, taking into consideration the environmental and socio-economic risks and opportunities which contribute to the properties' potential to deliver long term investment performance.

Management Systems
To have appropriate systems and procedures in place to ensure that RPI principles and objectives can be effectively implemented. These will be supported by performance evaluation systems designed to incentivise the delivery of long-term investment value by those responsible.

Compliance
To ensure that we and the property assets we are responsible for comply with all current legislative and regulatory requirements, and demonstrate preparedness for any forthcoming legislation.

Good Practice
- To ensure that our property assets make a positive long-term contribution to the protection of the local and global environment.
- To develop and manage our property assets with consideration for their impact on local communities and to support local communities in improving their quality of life.
- To ensure we engage with our supply chain on responsibility principles in their activities.
- To develop effective relationships with all stakeholder groups and facilitate the sharing of good practice.
- To ensure that all staff are aware of our RPI policy and objectives.

Responsibility:
Governance in Real Estate

To ensure that our RPI objectives can be achieved, we have put in place the following governance procedures:

Responsibility

A Board Director of Hermes Real Estate has overall responsibility for matters related to RPI.

Implementation

The Hermes RPI Steering Group is responsible for the continuous evolution of RPI strategy and for overseeing its effective implementation. The Steering Group is chaired by a Board Director and consists of representatives from across the Hermes Real Estate business. The Steering Group meets (at least) twice a year.

Performance Targets

Each year we will review our series of management and performance targets to ensure that we are best placed to measure our progress and drive continuous improvement. Each investment professional has specific Responsibility Objectives in their annual performance objectives.

Engagement

An active stakeholder engagement programme is in place to ensure that Hermes' staff and business partners are aware of our policy and targets. This enables us to work together to achieve our objectives. An active public policy engagement programme helps us to influence sustainability regulation and private investment in sustainable and low carbon buildings.

Reporting

We publicly report progress on our RPI policy, objectives and targets on an annual basis.

Hermes Real Estate: Products and performance

Segregated and unitised solutions

HPUT

- Exempt Unauthorised UK Property Unit Trust
- Appointed as Manager in 2001
- Strong long-term track record
- Balanced UK portfolio
- Approx. 117 investors: UK local authority, corporate pension funds and charities
- Gross Asset Valuation: £1.3bn
- Net Asset Value: £1.3bn

Regeneration

- Market leading UK regeneration
- 67 acre Kings Cross redevelopment. One of the largest mixed use urban regeneration projects in Europe
- Anticipated End Gross Asset Value £2.5bn
- 20 acres NOMA Manchester. Sympathetic regeneration into a new smart, digital and sustainable neighbourhood
- 17 acres at Paradise Circus in the heart of Birmingham city centre to be transformed into a vibrant mixed use development

Vista

- Pan UK residential investment vehicle
- JV with Countrywide, UK's leading estate agency business
- Target initial capital raising of £0.25bn, with objective to grow to £1bn over medium term
- Target distributable cash yield of 5%
- Focus on regional towns and cities with strong underlying economics
- Predominantly modern purpose built stock, or forward commitments with no planning and construction risk
- Target maximum Greater London exposure of 30% with focus on regional towns and cities with strong underlying economies

MEPC

- Specialist investment into commanding mixed use business estates: Milton Park, Silverstone Technology Park
- Acquired in 2000
- 10 million sq ft mixed office/industrial and production space
- Gross Asset Valuation £0.7bn
- Net Asset Value £0.5bn

HUH

- Specialist investment into US real estate
- JV with Hampshire and UOB
- Established 2011
- Focus on East Coast income-producing assets
- Initial commitments from partners of £125m (US$200m) with $101.8m committed by third party investors

Real Estate Debt

- UK focus with a bias towards London & South East
- Focus on lower risk, senior debt secured on core office, retail &industrial mandate
- 'Cherry-pick' transactions with strong borrowers & attractive long-term real estate fundamentals
- £400m cornerstone investment committed
- Bias towards working in club lending partnership with banks and alternative debt providers
- Target risk adjusted returns in excess of Libor +2% margin p.a.
- In-depth risk assessment of underlying real estate fundamentals by HREIM team

Central London

- JV with Canada Pension Plan Investment Board
- Focus on core plus and value add central London offices
- Current portfolio of 9 assets totalling £0.9bn
- Target portfolio size of £0.8bn

Central Milton Keynes

- JV with Australian Super
- Major regional shopping centre
- Current portfolio size £650mi.

Financial performance

Assets under management:

£8bn gross asset value (GAV)[1]

Deal flow exceptionally strong:

£5.7bn of transactions over the last 5 years[2]

Out-performance being generated in client mandates:

For **Real Estate UK Core and International Strategies**, for the five years to end year 2015, relative performance was 1.4% and 7.5% respectively delivering top quartile performance.[3]

The **Hermes Property Unit Trust** outperformed its benchmark for the five years to end year 2015 by 2% placing it top quartile within the Other Balanced Property Funds Index and the top fund over the five and ten year periods.

The newly launched **Real Estate Debt strategy** has outperformed its target 3mth Libor + 2% by 0.9% on a gross IRR basis for the period 1 April 2015 to 31 December 2015.

In addition, the new **Residential Real Estate strategy** underperformed its target -1.9% YTD to 30 September 2015, however this was due to various acquisition costs incurred on setup.

The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Past performance is not a reliable indicator of future results and targets are not guaranteed.

Awards

Hermes Real Estate Property Manager of the Year at the UK Pensions Awards 2016

These awards recognise investment managers that offer the highest level of innovation, performance and service to occupational pension schemes and their members, and have done the most to improve over the past year (the 12 months to October 31 2015). The awards are judged by a panel of senior scheme managers, trustees and advisers.

Hermes real estate funds awarded **5 GRESB Green Stars 2015**, Global Real Estate Sustainability Benchmark

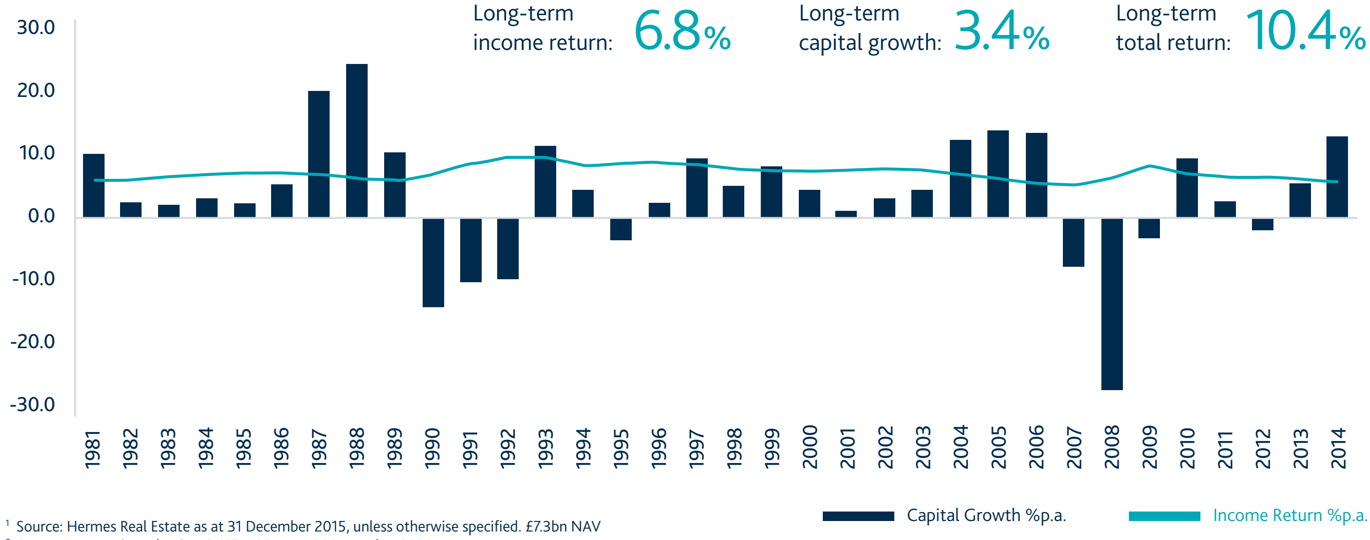
- **thecentre:mk**, 3rd amongst UK retail peers
- **Hermes Central London**, 5th amongst UK office peers
- **BTPS Real Estate**, 8th Amongst UK diversified peers
- **Hermes Property Unit Trust**, 5th amongst UK diversified peers
- **Metro Property Unit Trust**, 3rd amongst UK office/industrial peers

Delivering income return

Long-term income return: 6.8%

Long-term capital growth: 3.4%

Long-term total return: 10.4%



[1] Source: Hermes Real Estate as at 31 December 2015, unless otherwise specified. £7.3bn NAV
[2] Source: Hermes introduction Q415 – IPD as at 31 December 2014
[3] Source: Hermes Real Estate as at 31 December 2015. Performance in GBP net of fees.

SECTION 2

Paris Climate Agreement: Changing the direction of travel

In December 2015 'History was made'. This might sound like yet another overstatement, however a significant historical step was taken in Paris. 175 countries came together supported by representatives of civil society, industry and in an unusually large number of representatives from the financial sector to reach the Paris Climate Agreement.

Christiana Figueres explained that reaching a common direction of travel was possible because the various parties to this Agreement, government, industry and civil society, saw strong economic advantages and national benefits for them in the process. This was possible by adopting a bottom up approach where every country was asked to put forward in national action plans, known as INDCs, what they felt was possible and necessary within the boundaries and characteristics of their economies and cultures.

This broad participation and new engagement based approach enabled the parties to reach a high ambition goal to limit average warming to well below 2 degrees Celsius above pre-industrial levels. Figueres's transformative optimism attitude created the momentum required which eventually spread into a viral trend.

> ...nations were ready to begin to converge onto a common path, onto a common direction of travel that is going to take us probably several decades, but over those several decades is going to take us into the new economy, into a decarbonized, highly resilient economy.
>
> Now we have all countries of the world contributing with different intensities from different approaches in different sectors, but all of them contributing to a common goal and along a path with environmental integrity.

Christiana Figueres
Executive Director UN Framework Convention on Climate Change, TED talk, February 2016

What it means for real estate investors: Time for action

From the perspective of investors, this agreement fits into the broader agenda of responsible engagement by the investment industry. Indeed, for the last few years, the investment industry actively supported and contributed to the political process through the Global Investor Coalition on Climate Change and supporting regional bodies[3]. Its latest 'Global investor statement on climate change' first presented in the UN Climate leaders' summit in New York in September 2014, has since been signed by over 400 investors from 40 countries representing more than US$24 trillion in assets. An Investor platform for climate action was created which showcases actions already undertaken by the sector and calls for more to be done.

The Paris climate agreement delivered outcomes beyond what was hoped for and asked by institutional investors, as set by the Global Investor Coalition on Climate Change. And while direct impacts on investors might not be felt in the short term, it is clear however that an important shift in perceptions has taken place among the institutional investment community. There is now a real sense among institutional investors that to finance the necessary transition to a low carbon economy and the adaptation to the physical effects of climate change requires a significant re-allocation and scaling up of current private efforts. The examples provided in the investor platform are a witness to the willingness to address these long term risks and to capture the opportunities that such a radical economic transition represents. Already this is reflected in the number of institutional investors carrying out detailed risk assessments and making their climate risk strategies more explicit. This trend is now bound to continue as the Paris Agreement and the national plans are embedded in national regulations and as disruptive technologies become more competitive.

For real estate this is particularly relevant as buildings consume around 40% of the world's energy and contribute up to 30% of its annual GHG emissions, and as the sector – valued globally at around US$50 trillion – offers among the most cost effective opportunities to implement low carbon solutions. Thus, real estate investors will be particularly affected by this change in direction and the regulatory impacts over time. It has become both a fiduciary duty and an opportunity for managers of real estate assets to play a vital role to support the emissions reduction goals set out in the Paris Agreement.

Investor ask	Paris agreement and decision
↓2°C High ambition level	Temperature goal tightened to well below 2 degrees, striving for 1.5 degrees
ZERO Long-term goal	Net zero emissions in the second half of the century
5 Ratchet	National plans will be updated every five years. Each subsequent national climate plan will be a progression.
£100BN Progress on climate finance	£100bn p.a. from public private and alternative sources as a floor from 2020
CO_2 Carbon pricing	Recognised

> The Paris Agreement was a historic moment that gave an unequivocal signal to investors. Across Europe investors will now have the confidence to do much more to address the risks arising from high carbon assets and to seek opportunities linked to the low carbon transition already transforming the world's energy system and infrastructure.

Stephanie Pfeifer, CEO, Institutional Investors Group on Climate Change

http://investorsonclimatechange.org

3 AIGCC Asia http://aigcc.asria.org/, IGCC Australia , IGCC Europe, INCR Ceres US, PRI, UNEPFI

Below are selected sector initiatives Hermes has contributed to and that investors can join to become active players in the transition to a low carbon and sustainable economy:

Fiduciary duty

The fiduciary duty report launched in 2015 by the UNEP FI and PRI – based on empirical results of case studies across jurisdictions and reflecting the views of leading investors across the globe – states that today failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty.

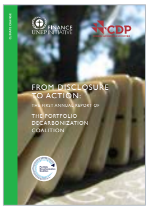
The report points to examples of how across jurisdictions investors have increasingly taken actions to integrate these broader considerations into their investment processes. In parallel, at the legislative level, a growing number of countries have introduced regulations and codes requiring institutional investors to explain how they take account of ESG issues in their investment decision-making and encouraging active ownership practices – for example the Stewardship Codes introduces in the UK and Japan.

The report acknowledges that, despite significant progress, many investors have yet to fully integrate ESG issues into their investment decision-making processes, and notes that in many cases there are structural barriers as well as cultural issues which are preventing this transformation in practice. To address these barriers, phase 2 of the project is mapping and calling on regulators to clarify the scope of fiduciary duty. Such that investors have a positive duty to incorporate environmental, social and governance risks in their investment practices and proactively engage with companies on these issues. Investors are being called to contribute to this follow up project enabling them a voice in the definition of the policy framework.

> “Sustainability is an important factor in the long-term success of a business. Therefore as with any other issue related to the prudent management of capital, considering sustainability is not only important to upholding fiduciary duty, it is obligatory.”

Al Gore and David Blood, Generation IM

www.unepfi.org/fileadmin/documents/fiduciary_duty_21st_century.pdf



The rise of portfolio decarbonisation and climate risk disclosure

The ‘Portfolio Decarbonisation Coalition’ is a multi-stakeholder initiative that seeks to reduce global greenhouse gas emissions by mobilising a critical mass of institutional investors committed to gradually decarbonising their portfolios. Generally this refers to systematic efforts by investors to align their investment portfolios with the goals of a low carbon economy. It includes, but is not limited to, efforts to reduce the carbon footprint of investment portfolios, to increase investment in areas such as renewable energy, to withdraw capital from high energy consumption activities and to encourage companies and other entities to reduce their emissions and support the transition to a low carbon economy.

Within this scope, the portfolio decarbonisation coalition calls all type of investors to join. Not to implement a defined one size fits all approach, rather it asks for a willingness to engage in a dialogue to exchange best practice and promote the cross- fertilisation of different ideas that fit investors’ specific portfolios and strategies.

In parallel, the pressure on investors to be more transparent on how they assess and manage climate and ESG risks is growing across jurisdictions. At the beginning of 2016, led by the French government and the Head of the Bank of England Mark Carney, the G20 Financial Stability Board (FSB) established a new Task Force on Climate-Related Financial Disclosures (TCFD). The aim of the taskforce is to develop clearer and consistent reporting criteria for climate related financial risks for use by companies and investors. This work should clarify investor’s disclosure requirements on climate risks in the near future.

There is an opportunity for investors to contribute their views and ensure that the disclosure requirements are broad ranging and cover not only quantitative indicators, such as carbon footprints, but also more qualitative disclosure of the mitigation strategies put in place by companies and investors to respond to the risks.

> “Portfolio decarbonisation is about investors’ systematically integrating carbon information into portfolio design and capital allocation in ways that not only reduce investors’ exposure to carbon-related risks, but that also put their portfolios at the service of the low-carbon economic transition.”

Mats Andersson, CEO AP4 – Chair Portfolio Decarbonisation Coalition

http://unepfi.org/pdc/

G20 energy efficiency task force: Countries, banks and investors

Investors managing close to USD 4 trillion support the G20 Energy Efficiency Investor Statement

Investments in energy efficiency and green buildings form a significant part of the solution to move from today's business as usual situation to a world limited to an average temperature increase below 2 degree Celsius above pre-industrial levels by 2030[4]. Strikingly, of all the measures that must be implemented to reach this goal, energy efficiency represent almost 50% of these investment opportunities globally. Applied to buildings this data shows that only 20% of energy efficiency cost economic measures have been achieved in buildings today. The remaining 80% offer a major investment opportunity for all type of real estate investors, estimated to represent about US$300bn per year between now and 2030 (UNEP Finance Initiative).

To help bridge this investment gap the G20 energy efficiency taskforce was established. It first developed 'Voluntary Energy Efficiency Investment Principles for G20 Participating Countries', which were welcomed by G20 Energy Ministers and attached to the G20 Leaders' Communique in November 2015. Following this it put forward an investor statement on energy efficiency. This statement, supported by Hermes early on, aims to demonstrate the interest of investors in energy efficiency finance and the need for an enabling regulatory framework to scale up current levels of investments. Investors managing USD 4 trillion of assets and over 100 banks have already shown their support.

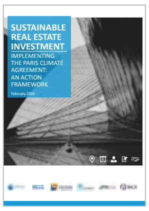
The G20 statement is still open for investors to join, with the G20 taskforce aiming of doubling the signatories in time for the next UN climate conference in November 2016 in Marrakesh. The aim is to send a positive signal from the investor community on the importance of developing the appropriate policy framework for energy efficiency investment in G20 countries.

> The G20 provides an important platform to promote supportive policy frameworks to scale-up private investments in energy efficiency. We welcome the commitment of leaders like Hermes and encourage investors to join and increase energy efficiency investments in their portfolios as it represents close to 50% of all the measures needed to reach the global goal of limiting temperature rise to 2 degrees.

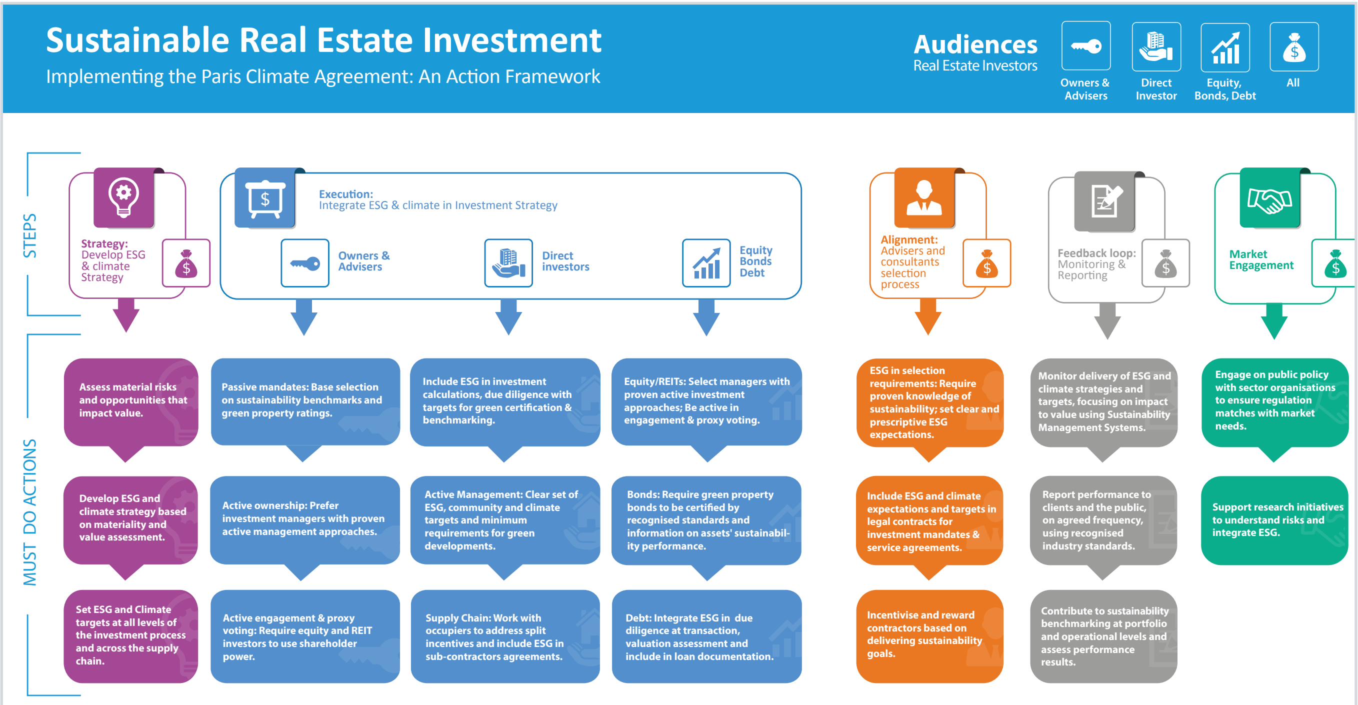
Eric Usher, Head of UNEP Finance Initiative

www.unepfi.org/fileadmin/documents/EnergyEfficiencyStatement.pdf

4 As stated by the International Partnership for Energy Efficiency Cooperation (IPEEC) based on evidence from the International Energy Agency (IEA), 2016.



Integrating climate and ESG:
An action framework for real estate investors



> This timely and well-designed framework will become a recommended guide that we will encourage Principles for Responsible Investment (PRI) signatories who invest in or manage real estate to use as a routine part of their work to meet their reporting obligations to the PRI.

Fiona Reynolds, Managing Director of the Principles for Responsible Investment – an international network of investors representing over $59 trillion in assets under management.

www.unpri.org
www.unepfi.org/work-streams/property/sustainablerei/

Given the major role that real estate investors can play to drive the transition to a low carbon economy, and in the process better protect the future value of real estate investments, a coalition of six leading investors organisations – UNEP Finance Initiative, PRI, RICS and investor groups from Europe (IIGCC), North America (INCR Ceres) and Australasia (IGCC)[5] – published a practical framework for real estate investors and their professional advisors defining a clear set of steps and the actions they need to take to integrate climate and environmental, social and governance (ESG) risks and opportunities within their standard business processes.

With this framework now available, real estate investors have no reason to delay taking concrete steps to transform their routine business practice so that it addresses the climate and ESG challenge across the investment supply chain.

5 IIGCC Europe www.iigcc.org, INCR Ceres US www.ceres.org/investor-network/incr PRI https://unpri.org, UNEP FI www.unepfi.org and RICS www.rics.org/uk.

Managing climate risks and opportunities: Hermes approach

Carbon risk is more of an issue for investors today than it has ever been. However, while many investors are aware of the long-term societal challenge, most are less sure how to translate it into shorter-term risk assessment, and as a consequence many investors fail to take it properly into account in their investment processes today. At Hermes, while we recognise the time frames mismatch is a challenge it is clear to us that our fiduciary duty requires us to try to understand and mitigate the risks carbon represents over the next 20 to 30 years. In response, at Hermes we are exploring and developing a range of decarbonisation activities that are relevant to the various asset classes we invest in and the investment strategies of different funds and portfolios. Selected Hermes initiatives to manage climate change risks, capture the associated opportunities in our Real Estate portfolios, and influence market transformation across the real estate sector are described below.

Turning down the heat: Hermes approach to managing carbon risks

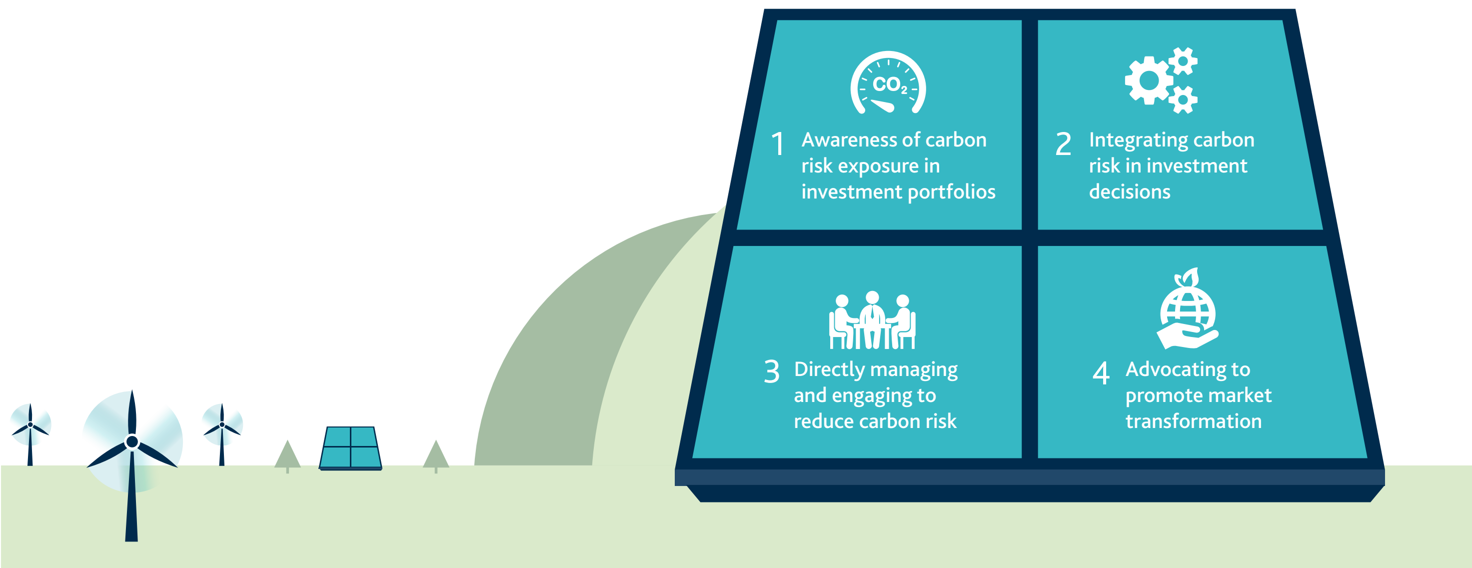
As part of our engagement with the Global Coalition of Investors on Climate Change, Hermes has worked to define more explicitly the approach our teams are taking to address climate change risks. In all asset classes including real asset we have implicit carbon risk process and strong due diligence processes to assess and mitigate risks. In Hermes report "Turning down the heat" published in December 2015, we describe the risks that carbon poses to investment portfolios and we outline the four elements of Hermes' strategy to manage these risks. As a result of this work we have been able to join the Portfolio Decarbonisation Coalition and the Montreal pledge to disclose portfolio carbon footprints.

These elements are: Portfolio managers must be aware of the carbon in their portfolios, which investments are the largest contributors and what are the associated carbon risks. They need to explicitly make portfolio and specific investment decisions using this data as another measure of risk. Where funds hold assets with significant carbon risk exposure, it is crucial that we manage directly-owned assets, and engage with companies, to mitigate carbon risk. Finally we recognise our responsibility to engage with public policymakers and sector organisations to support the wider market transformation of the industry.

> It is crucial that we create the right outcomes from our investment decisions. In just 20 years, if circumstances don't change, we will already be approaching dangerous levels of warming. Reducing carbon risk ensures better returns for our beneficiaries by minimizing potential expenditure incurred by negative factors later on. We also have a better chance of leaving to our children and our grandchildren a world they can live in.

Saker Nusseibeh, CEO, Chief Executive, Hermes Investment Management

www.hermes-investment.com/uki/perspectives



Promoting responsibility: Policy and sector advocacy

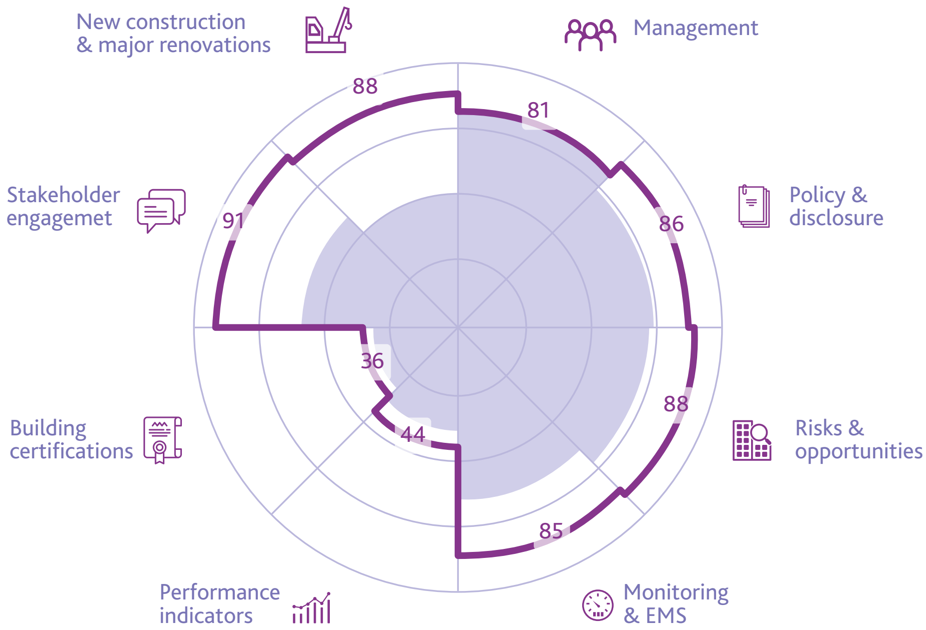
As part of our responsibility philosophy, we continue to challenge investment orthodoxy and improve the contribution of financial services to society. We do this because we believe that influencing companies and public policy in this way produces better and greater holistic returns for shareholders, investors and ultimately our beneficiaries. We seek to achieve this through an extensive programme of public policy advocacy and sector engagement work. Below is a summary of Hermes engagement activities and of the outcomes delivered by these organisation during the past year to influence the real estate investment industry in the UK, Europe and globally.

Contribution to sector organisations	Outcomes
Principles of Responsible Investing (PRI): • Hermes is a founder, • Chair of the drafting committee, • Active member. www.unpri.org	The PRI with investors representing over US$60tr AUM, is the leading standard to guide global investors to implement responsible investment practices. A deliberative process is now underway within the PRI to consider measures to ensure signatories are committed to implementing its six principles, with possible sanctions being considered including the risk of losing signatory status if commitment cannot be demonstrated.
Institutional Investors Group on Climate Change (IIGCC) and UNEP Finance Initiative (UNEP FI): • Member of the Global Investor Coalition on Climate Change, • Chair of IIGCC is BTPS trustee Donald MacDonald, • Hermes Chair of the property programme and member Corporate Programme of Institutional Investors Group on Climate Change, • Member of Investment Committee and Chair the Property Programme of the UNEP Finance Initiative, • Hermes joined Portfolio Decarbonisation Coalition, • Hermes CEO and key employees attended Paris Climate Conference. www.iigcc.org & www.unepfi.org	**Climate:** Delivered effective global and European policy advocacy for investors action on climate change, green buildings and energy efficiency, available at “Investors Platform for Climate Actions”; Investors contributed to the success of the Paris Climate Agreement, as recognized by Christiana Figueres, Executive Secretary of UNFCCC. **Investors Engagement:** Contributed to seminal report “Fiduciary Duty in the 21 Century”, which reinforced the clear requirements for investors to assess and manage ESG risks; Lead development of “Aiming for A coalition”, bringing together investors on corporate engagement and providing guidance on expectation from investors by corporate sector. **Buildings and Energy Efficiency:** Hermes was lead author of report by a coalition of global investors on how to implement the Paris Agreement in Real Estate, launched in Feb 2016 and successfully disseminated in North America, EU, Australia, and soon to be in Asia; Influenced EU buildings and energy policy, lead latest publication “Transforming the sustainability of Europe’s buildings stock”.
EU Energy Efficiency Finance Institutions Group (EEFIG) and Building Performance Institute Europe (BPIE): • Member of EEFIG, • Sitting on the advisory Board of the BPIE. www.eefig.eu & bpie.eu	We contributed to the delivery of the EEFIG report with over 100 representatives of EU finance organizations on how to scale up Energy Efficiency Finance, with its recommendations adopted by EU institutions and included in Energy Union address.
British Property Federation (BPF): • Hermes Real Estate CEO President of the British Property Federation, • Hermes sit on policy and sustainability committees. www.bpf.org.uk	We contributed to policy advocacy on the important role of real estate to deliver economic and social regeneration; We provided input to policy consultations on key real estate and regulatory frameworks ensuring fit for purpose policies that enable scaling up of investments in sustainable regeneration and real estate.
Better Buildings Partnership and Global Real Estate Sustainability Benchmark: • Member of the Better Buildings Partnership, • Member of advisory board of GRESB. www.betterbuildingspartnership.co.uk & www.gresb.com	Successful development and dissemination of real estate sustainability benchmarks in the last 5 years increasing market transparency and enabling investor dialogue; the “Global Real Estate Sustainability Benchmark” now used by investors representing US$6tri AUM to monitor and report performance to asset owners. The BBP “Real Estate Environmental Benchmark” is unique in benchmarking operational performance of over 1000 properties in the UK.

Client engagement: Benchmarks and carbon disclosure

As presented in the "Real Estate Sustainable Investment Action Framework" report (see page 14) there are now a large number of resources available to investors to integrate ESG and climate risks in their investment process. Among these the monitoring and benchmarking of real estate investors' sustainability processes and performance has enabled a more in-depth dialogue and engagement between asset owners and their investment managers. We see this engagement as a key step enabling the necessary alignment along the complex supply chains of real estate investment which should over time to move from inquiry and disclosure by asset owners to prescriptive requests focusing on performance.

Hermes GRESB scorecard



> The GRESB scorecard enables a more detailed level of discussion between owners and their managers on the sustainability performance of real estate funds along 7 aspects of their investment process. Hermes was awarded 5 Green Stars in 2015.

Tatiana Bosteels, Director for Responsibility and Head of Responsible Property investment, Hermes Investment Management

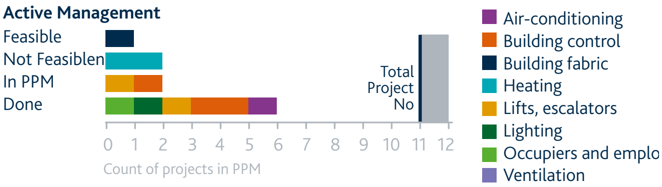
At Hermes we have integrated ESG risk analysis and sustainability performance summaries as part of our quarterly client reporting. In parallel we have contributed to the development of sector wide benchmarks to enable an assessment of our approaches and performance compared to our peers in the market. Among these the GRESB global benchmark assesses the ESG integration process of over 700 investment institutions representing over US$6 trillion AUM. The GRESB scorecard enables a detailed level of discussion between owners and their managers on the sustainability performance of real estate funds across 7 aspects of their investment process. We use the GRESB results and the score card as a tool to initiate dialogue on our responsibility processes and performance. Hermes was awarded Green Stars for 5 of its real estate funds in 2015 (see 'Who we are' section).

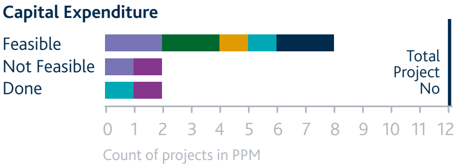
As investors in joint ventures (JV) and third party funds we also use GRESB as a tool to engage with our indirect partners to assess progress in their integration of ESG integration in their processes. As part of our responsible property management programme for BTPS international portfolio we monitor the sustainability performance and engage with our international investment through the survey results. We request our JV partners and indirect investment managers to contribute to GRESB and share their score card reports back with us. Among our JV funds which responded to GRESB, 5 out of 10 were awarded a GRESB green star in 2015.

Existing buildings:
Putting energy efficiency regulation to work

The Energy Services Obligation is a regulatory requirement that aims to encourage larger organisations to take a more active approach to energy management. It requires large undertakings in the UK to do energy efficiency audits. Faced with the new regulation Hermes chose to take advantage of this requirement. Building on a number of initiatives implemented over the last few years through our responsible property management programme, and through additional audits carried out for new properties, we were able to carry out assessments and define energy efficiency plans for all the major energy consuming buildings in our portfolio.

Sovereign House, Reading



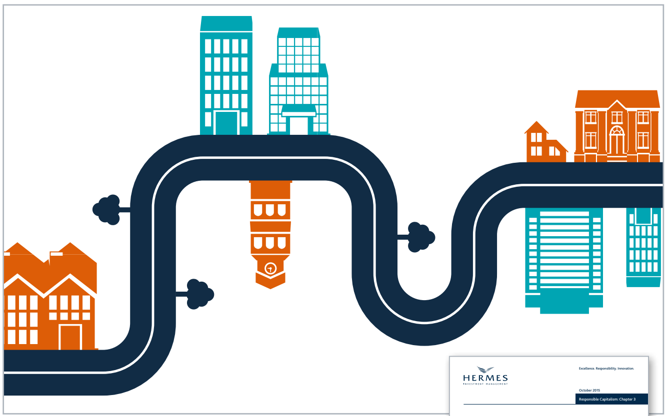


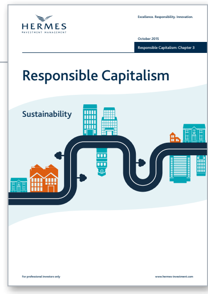
Example of energy efficiency opportunities through active management and capital expenditure identified for Sovereign House Reading.

We set up a systematic process to assess which of a series of 23 typical energy saving opportunities were relevant and cost effective to implement in the largest energy consuming assets, which represented 90% of our energy consumption. We assessed whether each opportunity was feasible and aligned with the buildings business plan. We then ran a number of workshops with our property managers and assets managers to discuss findings and ways to take action. The assessment has enabled us to identify a range of cost effective opportunities and we are in the process of integrating these in the business plan in accordance with the investment life cycle of each asset.

Urban regeneration:
Sustainable place making for the future

Climate mitigation and adaption is naturally applicable applies to real estate as we invest in the development of urban infrastructure. Through such developments we can ensure that we encompass the needs of today's local communities as well as those of future users of the places we build and the wider environment. Integrating climate mitigation and adaptation measures as part of the development process offer the best way to future-proof both urban infrastructure and long term investment returns.





'Responsible Capitalism, Ch 3: Sustainability'

The way to future-proof buildings – for the benefit of our investors – is to make sure they are in a sustainable, socially inclusive environment. It's not the building that's important but the amenity value of its location in terms of infrastructure and public realm. You need only look at the great estates of London to understand that they have endured because the integrity of the estate has been maintained, as much as the buildings.

Chris Taylor, CEO Real Estate,
Head private Markets Hermes Investment Management

Indirect investment:
JV engagement on ESG strategy

Beyond our direct real estate investments in the UK is important that we engage with our international JV partners to ensure climate and ESG risks are properly integrated to future proof our investments and to assess investment opportunities. Thus, following the establishment of our latest JV in the US (LHREV) working with our partners Lionstone, a process was set in early 2015 to develop an ESG programme for the JV venture.

One Bunker Hill, Los Angeles.

This process was led by Lionstone, building on their internal processes and on Hermes Responsible Property Investment Strategy and tools. Phase 1 of this process included a detailed evaluation of Portfolio, a review of market views on ESG, and an analysis of the value of investing in ESG. This has led to the development of detailed ESG Program. Based on their findings and having defined the plan, they have now initiated phase 2 of the programme focused on implementing the ESG programme to take place during 2016 and 2017.

Material climate related findings from the study include:

100% of Hermes/LHREV Portfolio is ENERGY STAR Certified (expires annually)

50% 50% of Hermes/LHREV Portfolio is LEED Certified (expires every 5 years)

Debt mandates:
Integrating ESG and climate risks

Since 2013 we have been contributing to the Better Building Partnership's lending working group which aims to lead on the integration of sustainability risk into real estate debt. The group has developed guidance on principal element of the debt investment process: For new loans, due diligence and underwriting processes for acquisitions and loan documentation; For existing loan books, best practice to review impacts on valuations, cash flows, capex, obsolescence and impact on loan structuring.

BBP: developed guidance on principal element of the debt investment process

Early in 2015 we launched the Hermes Real Estate Debt fund with a strategy to cherry-pick' transactions with strong borrowers & attractive long-term real estate fundamentals. Our key strength is a focus on in-depth risk assessment of underlying real estate fundamentals, which is made possible by the expertise of our direct real estate team. As part of our processes and expertise, and as with the rest of our investment portfolios, we have integrated our responsible property investment principles and programme into the debt investment procedures.

Being a new fund with no historical book of loans, the focus of our responsibility programme is on ensuring a strong due diligence process including assessments of ESG and climate risks and opportunities before agreeing new loans. Typical elements assessed include energy performance and green building certification, flood risks and regulatory risks. Moreover, with 30% of our fund focused on adding value through new refurbishment, we are in a position to influence the refurbishment plans and ensure material sustainability and climate mitigation opportunities are captured at this crucial time in the building's investment life cycle.

SECTION 3

Continuous performance:
Measuring positive impacts

A critical element of our understanding of responsibility at Hermes is a recognition that our duty to clients is twofold. In any contract, our clients and their ultimate beneficiaries, the pensioners can expect their investment objectives to be achieved. In addition we aim equally to invest for the benefit of the broader society in which we operate. We have these additional responsibilities because our activities will have impacts on the world in which our beneficiaries live and work today as well as the one in which they will retire into tomorrow. A principle which guides our actions is thus the aim to deliver holistic returns.

For real estate this means that as well as achieving a nominal financial return we also seek to deliver and manage sustainable cities, communities and buildings, communities which have positive social impact through education and job opportunities and energy efficiency and low carbon buildings.

> Pension beneficiaries don't only want a good return on investment, they also want a decent and affordable economy to spend it in.

Leon Kamhi, Hermes Head of Responsibility

This approach is part of a growing awareness in the investment industry, that requires responsible investors to go beyond standards key performance indicators (KPI) and to develop qualitative processes to assess the wider socio economic impacts of their investment programmes. Since 2006 we have been reporting our environmental performance using KPIs that we measure and monitor on a continuous basis. We have also reported on the socio economic impacts through a narrative approach based on case studies. Here we aim to expand our reporting boundaries to provide more specific qualitative and quantitative details on the positive social, economic and environmental impacts of some of our investments, whether large urban regeneration or through community engagement in existing buildings.

King's Cross Site Aerial Built Looking West

As part of our legal duties and responsibility commitments we are in the process of implementing Hermes' approach to complying with the requirements of the Modern Slavery Act 2015. Given the type of activities and degree of control we have over our indirect funds and suppliers, this requires assessing and defining the boundaries of our supply chain that we can control and those we can influence. This is particularly topical in real estate where we have a greater degree of management control over our assets. The assessment covers our sub-contractors, property managers and refurbishment teams.

Measuring socio economic impacts: Narrative reporting

Kings Cross Central regeneration in London

Since 2008 with our Kings Cross partners, and through BTPS's investment of £175m, we have led the transformation of the former "railway lands" into a new neighbourhood for London with new public parks, housing, offices and education facilities for the local communities. The positive impacts of this development are varied and numerous:

Infrastructure development:

50
new buildings

1,900
new homes, around 35% affordable

20
new streets

10
10 new public parks and squares

67 acres, 10 Heritage buildings refurbished to date,
26 acres of open space – used by ~30,000 people a day.

Four Pancras Square

Education:

4,000 Students and school pupils welcomed to the site

Central Saint Martins, Kings Cross Academy,
Frank Barnes School for Deaf Children.


Central Saint Martins


Frank Barnes School for Deaf Children

Skills and Employment:

Construction Skills Centre
400 NVQ achievers

Over 250 appointments facilitated by KX Recruit – a recruitment firm focused on local people.

Environmental sustainability:

99%
Heat demand met and...

79%
power demand off-set by CHP engines on site in the energy centre

3 BREEAM outstanding office buildings on site; c9000 sqm delivered or planned Green roofs; Over 700 public cycle spaces available.

Health and well being:

26
acres of new parks and open space

Granary Square; King's Cross Pond Club; Gasholder Park; The Skip Garden; Lewis Cubitt Square; Lewis Cubitt Park; Handyside Gardens; Regent's Canal; Camley Street Natural Park; Pancras Square; Wharf Road Gardens.

NOMA regeneration in Manchester

The sympathetic regeneration of the NOMA estate focuses on 20 acres of land in Manchester's Central Business District. It aims to create a new smart, digital and sustainable neighbourhood, building on Manchester's leading edge on creative and digital industries, its heritage and the contribution it has made to the world in industry, science, ideas and culture. The new neighbourhood is being designed with people in mind.

Creating places:

Sadler's Yard" at the heart of Noma

In 2015 the programme of works focused on improving the utilities and infrastructure, streetscapes and the opening of a new public square "Sadler's Yard" at the heart of NOMA, and improving existing public parkland at Angel Meadow Park and Angel Gardens public realm – delivered in partnership with Manchester Council and with support from the European Development Fund (ERDF). Utilities works have included the provision of heat network trenches to enable NOMA to benefit from the creation of a city-wide heat network in the future. These initiatives have already started to give the area a distinctive and unique character that contributes to the social and economic development of the neighbourhood.

Preserving our heritage:

Hanover House

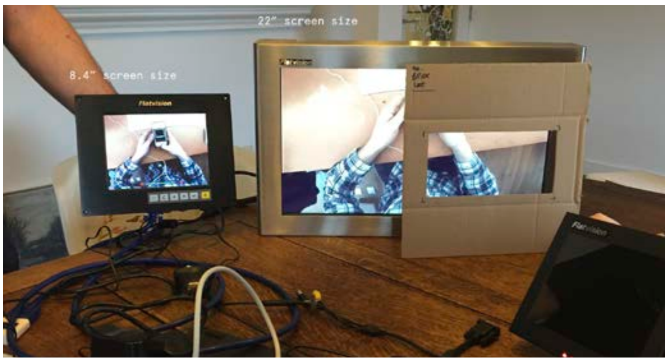
The regeneration is driven by the desire to protect and enhance the remarkable heritage of the listed estate and area. The buildings were built by the Co-operative Wholesale Society (CWS), at the turn of the 20th century. The city block, completed by the opening of Hanover House in 1909, is the first set of buildings on the Listed Estate to undergo major refurbishment in 2015. The development builds on the site's historic characteristics whilst integrating leading environmental technologies and standards for urban development. A particular effort was made to understand the heritage elements and analyse options to preserve the building's remarkable characteristics.

Community led development, The Pilcrow Pub:

The Pilcrow Pub

2015 saw the start of a truly unique construction project at NOMA: a pub, to be built by hand by the people of Manchester and a team of traditional master craftspeople. It will be delivered over 9 months through a series of workshops across the city and onsite at NOMA. The sessions will be hosted by specialist designers and makers to drive a genuinely iterative design process that involves the community at every stage of its design and build. In doing so, it will return a host of specialist skills back to the community. The pub is currently under construction with an opening planned for September 2016.

Connected community:



Making NOMA the 'best connected' city location

NOMA's digital strategy 'dotNOMA' also forms part of the strategic approach to place-making. DotNOMA seeks to define ways that digital can be used to enhance building design and infrastructure, service provision, user experience and the creation of a connected community.

Existing buildings: Driving positive impacts in our communities

Through active management of the existing properties within our portfolio, we focus on delivering continuous and long term sustainability performance. Our active responsible property management programme ensures that we contribute to a healthier environment for office workers, socio economic and wellbeing opportunities for local communities and to the minimisation of longer term environmental impacts caused by our actions as users of buildings, whether offices, shopping centres or industrial estates

This work includes our extensive community programme across our retail and offices assets. It focuses on 4 priorities: Governance, Skills, Safety, Culture and Wellbeing. We implement and monitor our community engagement programme by adopting minimum requirements for our property managers together with a supporting tool the 'community engagement tool', which provides best practice advice and guidance in each of the 4 priorities. To reward good practice and performance improvement every year we select the winner of Hermes Responsible Property Investment awards, providing recognition and visibility and ensuring the seeding of ideas across our service providers throughout our portfolios.

thecentre:mk @ Milton Keynes

Royal Victoria Place @ Tunbridge Wells

Sustainability initiatives in our shopping centres

CBRE, the property manager of Hermes BTPS retail assets, won the RPI property manager of the year, as they delivered the following positive social and environmental impacts in the 3 large and energy intensive shopping centre they manage: Royal Victoria Place in Tunbridge Wells, thecentre:mk in Milton Keynes & Castle Court in Belfast. Royal Victoria Place also won the Green Apple award 2014 and the green World Ambassador Award for 'Helping Others to help the Environment.

Exemplary implementation of Community Engagement Tool

A number of varied initiatives we implemented to boost company engagement around the community including:

Education:

- 'Community Cuddles' the MK College Festival
- 'The Gift theatre' '@ Belfast' children festival
- 'Read On' 'Young at Art'
- 'Kids space' Belfast

Charity support:

- 'Charity Charter'
- Community zone'
- 'Craig Dance'
- Olympics fund raising

Community well being:

- 'Love where you live'
- 'Healthy cities'
- 'Beat it, Beat it'
- 'Disable Go'
- Bird watch

Environmental impact mitigation

Improving energy intensive assets, the outstanding achievements across the retail properties were achieved through the implementation of initiatives such as:

- Promotion of Earth Hour
- Carbon neutralising roof

Led to **18%** reduction in carbon emissions

- BMS optimisation
- LED lighting installation
- Passive infrared system (PIR) lighting upgrades.

Led to **21%** electricity consumption reduction

- Christmas shut down to define minimum energy consumption benchmark
- Decommissioning calorifiers
- Over door heater replacement

Led to **84%** gas consumption reduction

- Chemical conundrum
- 'Ready Steady Green' campaign
- Recycling bins and education programme, 'Close to home'.

Led to **80%** average on and off site reuse and recycling rate

Environmental performance: Quantitative impacts

Environmental targets

↓40%
reduction in absolute CO_2 emissions of standing portfolio by 2020 compared to 2006*

↓20%
water consumption reduction by 2020 compared to 2006

↓5%
reduction in CO_2 emissions intensity of standing portfolio per year

↓5%
reduction in absolute CO_2 emission per year* on a like-for-like basis

↓80%
on and off site waste re-use and recycling and energy recovery per year

↓92%
risk and safety improvement requirements completed on time**

Financial savings

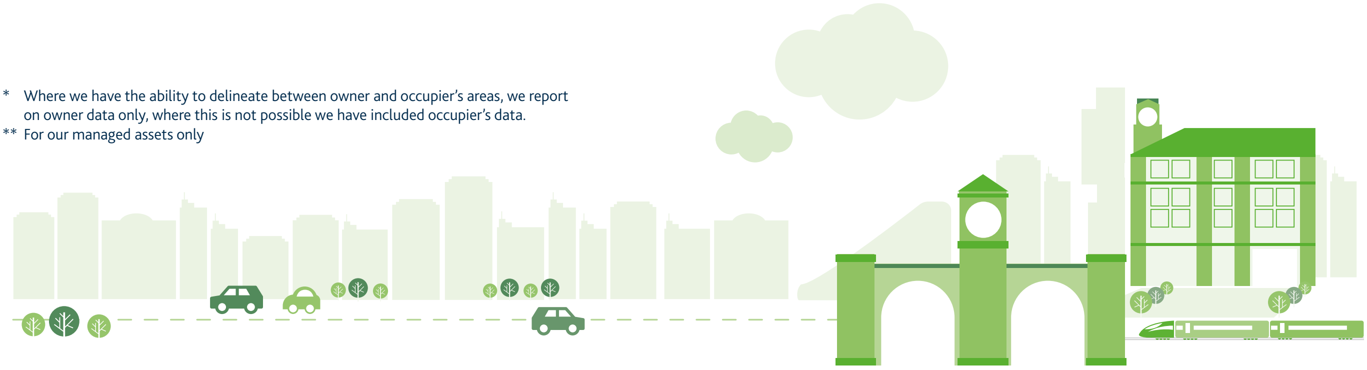
2015: £260k
Energy savings from our property management activities

2015: £830k Environmental impact mitigation
Averted direct landfill tax from all managed waste

Risk and safety performance

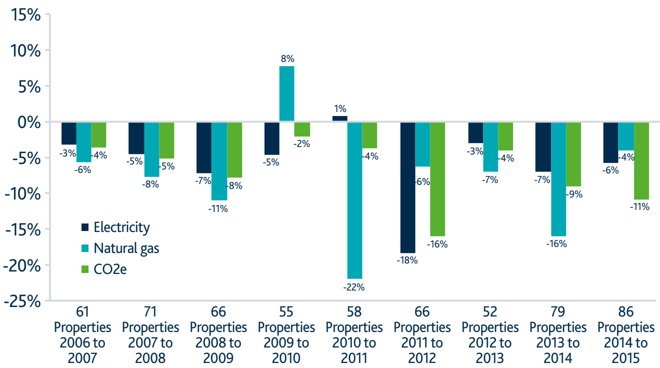
2015: 85%
risk and safety improvement requirements completed on time

* Where we have the ability to delineate between owner and occupier's areas, we report on owner data only, where this is not possible we have included occupier's data.
** For our managed assets only

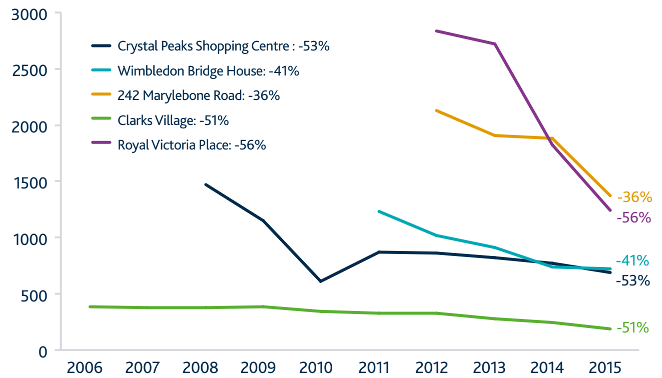


Environmental performance

Annual change in carbon emissions on a like-for-like basis for eight rolling quarters adjusted for heating degree days (%)



Changes in absolute carbon emissions for selected landlord controlled properties across the portfolio that have delivered efficiency savings following acquisition and active management by Hermes (tonnes CO_2e/year). Percentage figures below compare 2015 with the acquisition year.



Figures:

9	straight years with like-for-like emissions reductions
↓11%	emissions reductions across the like-for-like portfolio
↓7%	average emissions reduction per year over the past 8 years

Since the baseline year in 2006, Hermes' like-for-like portfolios have achieved annual carbon emissions reductions, an average, of 7% per year. This year in particular, the like-for-like portfolio has seen an 11% reduction in emissions. With electricity reduction down 6% and natural gas consumption, when normalised for weather conditions accounting that 2015 was a colder year on average than 2014, has seen a decrease of 4% in 2015 compared to 2014. The results were achieved partially through continued reductions in consumption due to active energy management and also given to a decrease in electricity and natural gas annual emissions factor representing an increased carbon efficiency of the grid.

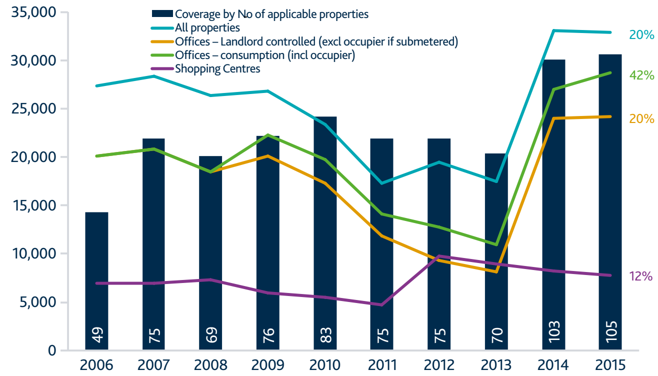
NOTE: In 2015 the official Defra emissions factor for grid electricity in the UK decreased by 6% compared to 2014, this has played a part in the decrease of reported emissions for the year.

Figures:

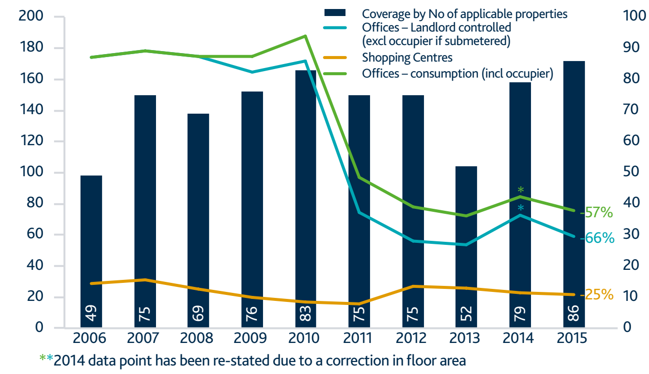
5	buildings showing successful energy efficiency improvements
↓41%	absolute emissions reductions for the 5 properties since 2012
2,950	$kgCO_2e$ saved since 2012 due to pro-active energy management

These 5 buildings are a cross section of the varied property types in the Hermes RPM programme that demonstrate the success of effectively implementing an active management programme. Previously these properties were energy intensive assets, now through the engagement with occupiers and active property management by our property managers, significant reductions in operational demand has followed. Since 2012, collectively these properties have exhibited a 41% reduction in emissions equating to a saving of 2,950 $kgCO_2e$.

Changes in absolute carbon emissions (scope 1 and 2) for landlord controlled standing portfolio between 2006 and 2015 (tonnes CO_2e/year). Percentage figures below compare 2015 with 2006 baseline.



Changes in energy intensity for like-for-like portfolio of shopping centres and offices between 2006 and 2015 (kg CO_2e/m2/year). Percentage figures below compare 2015 with 2006 baseline



Figures:

↓1%	2015 emissions reduction compared to 2014 despite absolute increase in portfolio size
↑20%	absolute increase against 2006 baseline

Figures:

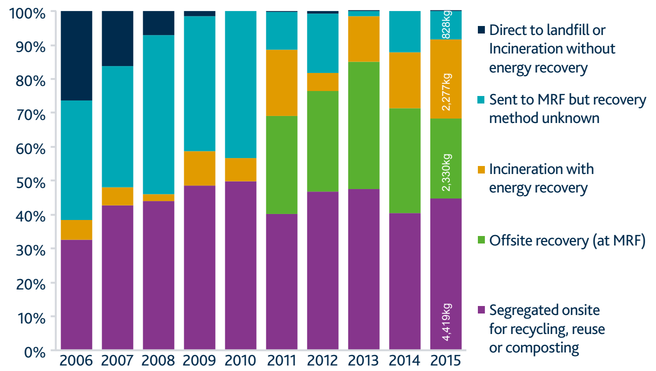
↓66%	reduction in offices since 2006
↓57%	reduction in offices including occupier since 2006
↓25%	reduction in shopping centres since 2006

There has been fewer movements within the portfolio compared with the high acquisition number in 2013/2014. In 2015, with a growing total of 105 directly managed properties, the acquisitions of high energy intensive properties such as 1 Croydon and 26-28 Hammersmith Grove were offset with the sale of Finsbury Tower and 100 New Oxford Street. The overall movements across the portfolio has led to a reduction in landlord controlled emissions of 1% in the standing portfolio and only a 1% increase when including occupier emissions between 2014 and 2015. Offices account for 68% of overall portfolio emissions, compared with 30% for Shopping Centres. Other retail and industrial account for 2%.

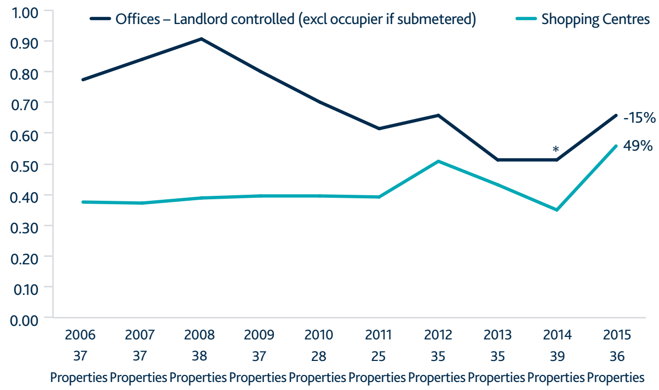
Hermes energy intensity metric adjusted to lettable area highlights the changes in efficiency on site and is a useful tool for managing assets. In 2014 Aldgate House and 242 Marylebone Road were two of the most energy intensive offices within the portfolio, however due to active energy management and site improvements there has been significant reductions in energy intensity year on year, with a collective reduction of 23% in 2015 for those two assets. Moreover over 50% of the portfolio has seen a decrease in energy intensity from 2014 to 2015.

Data Re-statement
*2014 office data point has been re-stated due to a correction in floor area.

Proportion of waste by disposal route for standing portfolio measuring waste by mass year on year (%). Weight (kg) is presented in 2015.



Changes in water intensity for landlord controlled like-for-like portfolio between 2006 and 2014 (m3/m2/year)



Figures:

69%	recycled, re-used or composted on and off site
92%	recycled and re-use, including for energy recovery, on and off site

Figures:

↓15%	decrease in water efficiency in offices since 2006
↑49%	increase in water efficiency in shopping centres since 2006**

** partly due to data collection issues at thecentre:mk.

On and off-site recycling reached 69% of total waste stream, below our 85% target. However this reflects a change in our waste management strategy, as when including incineration with energy recovery with have achieved an 92% rate of waste re-use or recycling. Moreover, the portfolio has seen a 5% increase in on-site recycling. The positive waste performance is attributed to the successful implementation of waste management programmes on site through tenant and employee engagement, renegotiation with waste management providers, and an increase in data quality, across many properties in the portfolio in 2014 and 2015. Abbey Gardens and Castle Court Shopping Centre in 2015 continued to have excellent recycling rates with over half their waste being recycled on site with the addition of composting and Royal Victoria Place achieving 86.6% recycling rates.

Water intensity has seen an increase in both offices and shopping centres, with the latter in particular showing a significant increase. thecentre:mk, which in previous years has performed very well against water intensity, has been excluded because of a data issue. Due to thecentre:mk's size this has had a significant impact on the resulting average water intensity of the remaining shopping centres. Portfolio movements in office buildings has led to a few low intensity properties being excluded, and higher intense properties being introduced into the Like-for-Like analysis such as Sovereign House, Reading and CIS Tower. Individual properties have continued to reduce water consumption due to active management, with 8-10 George Street, Black House Tower and Aldgate House together improving consumption by 22% on 2014.

Data Re-statement

*2014 Office data point has been re-stated due to a correction in floor area

Benchmarking operational performance

Monitoring and reporting the impact of our investment initiatives it is also useful to assess and compare the relative effectiveness of our programme compared to a peer group of UK real estate investors. Through the Better Buildings Partnership Real Estate Environmental Benchmark (REEB) we are able to analyse the actual energy performance of our assets compared to similar peers in the sector. This adds further granularity to the analysis of our in house operational building performance assessment and of our management approaches. For our office portfolio we were third in the BBP REEB league table in 2015 and our average benchmark was more efficient than the REEB good practice benchmark. The detailed benchmark also enables us to analyse our performance asset by asset and concentrate on the lowest performing assets.

League Table: Current energy intensity against Real Estate Environmental Benchmark

Position		Organisation	Last year's position	% of office portfolio better than good practice benchmark	% of office portfolio better than typical practice benchmark
▭	1	G	-	100%	100%
▭	2	N	-	100%	100%
↓	3	Hermes Real Estate	2	62%	86%
↑	4	F	17	50%	75%
↑	5	H	17	50%	100%
↑	6	L	8	50%	50%
▭	7	T	-	50%	100%
▭	8	U	-	50%	50%
↓	9	S	5	47%	84%
▭	10	R	10	47%	67%
↓	11	A	5	45%	74%
↓	12	B	1	44%	67%
▭	13	D	-	38%	52%
↓	14	Reeb Group	9	36%	60%
↓	15	C	13	36%	57%
↓	16	V	14	35%	65%
▭	17	J	-	33%	50%
↓	18	X	3	33%	48%
↓	19	O	7	31%	54%
↓	20	K	11	20%	40%
↓	21	W	12	8%	38%
↓	22	Q	16	6%	28%
↓	23	E	14	0%	71%

GRI G4 content index

GRI G4 materiality assessment

G4 General Standard Disclosures

Indicator	Include?	Description	Reporting Boundary	Page	Section
STRATEGY AND ANALYSIS					
G4-1	Yes (Mandatory)	Statement from the most senior decision-maker about the relevance of sustainability	Portfolio wide	5	CEO Statement
G4-2	Yes (Mandatory)	Description of key impacts, risks and opportunities	Portfolio wide	10	Climate risks & Positive impacts sections
ORGANISATIONAL PROFILE					
G4-3	Yes (Mandatory)	Name of the organisation	Portfolio wide	4	Who we are
G4-4	Yes (Mandatory)	Primary brands, products and services	Portfolio wide	8	Who we are
G4-5	Yes (Mandatory)	Location of the organisation's headquarters	Portfolio wide	4	Who we are
G4-6	Yes (Mandatory)	Countries in which the organisation operates	Portfolio wide	4	Who we are
G4-7	Yes (Mandatory)	Nature of ownership and legal form	Portfolio wide	5	Who we are
G4-8	Yes (Mandatory)	Markets served	Portfolio wide	4	Who we are
G4-9	Yes (Mandatory)	Scale of the organisation	Portfolio wide	9	Who we are
G4-10	Yes (Mandatory)	Employment profile	Portfolio wide	–	not reported
G4-11	Yes (Mandatory)	Percentage of total employees covered by collective bargaining agreements	Portfolio wide	–	0%
G4-12	Yes (Mandatory)	Description of the supply chain	Portfolio wide	2	Report coverage
G4-13	Yes (Mandatory)	Significant changes during the reporting period	Portfolio wide	2	Report coverage
G4-14	Yes (Mandatory)	Report whether and how the precautionary approach or principle is addressed	Portfolio wide	5	Who we are
G4-15	Yes (Mandatory)	Externally developed economic, environmental and social principles that are supported	Portfolio wide	5	Who we are
G4-16	Yes (Mandatory)	Memberships of associations and national or international advocacy organisations	Portfolio wide	16	Hermes approach
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES					
G4-17	Yes (Mandatory)	Entities included and excluded in the consolidated financial statements	Portfolio wide	9	Who we are
G4-18	Yes (Mandatory)	Process for defining the report content and the aspect boundaries	Portfolio wide	2	Report coverage
G4-19	Yes (Mandatory)	Material aspects identified in the process for defining report content	Portfolio wide	2	Report coverage
G4-20	Yes (Mandatory)	Material aspects and boundaries within the organisation	Portfolio wide	2	Report coverage
G4-21	Yes (Mandatory)	Material aspects and boundaries outside the organisation	Portfolio wide	2	Report coverage
G4-22	Yes (Mandatory)	Any restatements of information provided in previous reports	Portfolio wide	2	Report coverage
G4-23	Yes (Mandatory)	Significant changes from previous reporting periods in the scope and Aspect Boundaries	Portfolio wide	2	Report coverage
STAKEHOLDER ENGAGEMENT					
G4-24	Yes (Mandatory)	Stakeholder groups engaged	Directly managed portfolio	17& 21	Managing climate risks – hermes approach & Measuring positive impacts
G4-25	Yes (Mandatory)	Basis for identification and selection of stakeholders with whom to engage	Directly managed portfolio	2	Report coverage
G4-26	Yes (Mandatory)	Approach to stakeholder engagement	Directly managed portfolio	2	Report coverage
G4-27	Yes (Mandatory)	Key topics and concerns that have been raised	Directly managed portfolio	17& 21	Managing climate risks – hermes approach & Measuring positive impacts
REPORT PROFILE					
G4-28	Yes (Mandatory)	Reporting period for information provided	Portfolio wide	2	Report coverage
G4-29	Yes (Mandatory)	Date of most recent previous report	Portfolio wide	2	Report coverage
G4-30	Yes (Mandatory)	Reporting cycle	Portfolio wide	2	Report coverage
G4-31	Yes (Mandatory)	Contact point for questions regarding the report or its contents	Portfolio wide	2	Report coverage
G4-32	Yes (Mandatory)	The 'in accordance' option the organisation has chosen and reference to the External Assurance Report	Portfolio wide	2	Report coverage
G4-33	Yes (Mandatory)	Policy and current practice with regard to seeking external assurance for the report	Portfolio wide	2	Report coverage
GOVERNANCE					
G4-34	Yes (Mandatory)	Governance structure of the organisation	Portfolio wide	6	Who we are
G4-35	Yes (Optional)	Process for delegating responsibility for economic, environmental and social topics	Portfolio wide	7	Who we are
G4-36	Yes (Optional)	Whether an executive-level position has responsibility for economic, environmental and social topics	Portfolio wide	7	Who we are
G4-37	Yes (Optional)	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	Portfolio wide	7	Who we are
G4-38	Yes (Optional)	Composition of the highest governance body and its committees	Portfolio wide	7	Who we are
G4-39	Yes (Optional)	Whether the chair of the highest governance body is also an executive officer	Portfolio wide	7	Who we are
G4-41	Yes (Optional)	Processes for the highest governance body to ensure conflicts of interest are avoided and managed	Portfolio wide	7	Who we are
G4-47	Yes (Optional)	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities	Portfolio wide	7	Who we are
G4-48	Yes (Optional)	Highest committee or position that formally reviews and approves the organisation's sustainability report, and ensures that all material aspects are covered	Portfolio wide	7	Who we are

GRI G4 materiality assessment

G4 General Standard Disclosures continued					
Indicator	Include?	Description	Reporting Boundary	Page	Section
ETHICS AND INTEGRITY					
G4-56	Yes (Mandatory)	Describe the organisation's values, principles, standards and norms of behaviour, such as codes of conduct and ethics	Portfolio wide	5	Who we are – Code of Ethics and Pledge
Specific Standard Disclosures					
DISCLOSURES ON MANAGEMENT APPROACH					
G4-DMA	Yes	Management Approach	Portfolio wide	6	Investment style and philosophy
Category: economic					
G4-EC1	Yes	Direct economic value generated and distributed	Portfolio wide	9 & 24	Climate risks & Positive impacts sections
G4-EC2	Yes	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Portfolio wide	15	Climate risks
G4-EC7	Yes	Development and impact of infrastructure investments and services supported	Portfolio wide	20	Measuring positive impacts
G4-EC8	Yes	Significant indirect economic impacts, including the extent of impacts	Portfolio wide	20	Measuring positive impacts
CATEGORY: ENVIRONMENTAL					
G4-EN1		Materials used by weight or volume	Directly managed portfolio	–	Not recorded
G4-EN2		Percentage of materials used that are recycled input materials	Directly managed portfolio	–	Not recorded
G4-EN3	Yes	Energy consumption within the organisation	Directly managed portfolio	25	Environmental performance
G4-EN4	Yes	Energy consumption outside the organisation	Directly managed portfolio	25	Environmental performance
G4-EN5	Yes	Energy intensity	Directly managed portfolio	25	Environmental performance
G4-EN6	Yes	Reduction of energy consumption	Directly managed portfolio	25	Environmental performance
G4-EN8	Yes	Total water withdrawal by source	Directly managed portfolio	27	Environmental performance (m3/m2!)
G4-EN11	Yes	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	Directly managed portfolio	–	No such areas identified in portfolio
G4-EN12	Yes	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	Directly managed portfolio	–	N/a as per above.
G4-EN13	Yes	Habitats protected or restored	Directly managed portfolio	–	Not measured
G4-EN15	Yes	Direct greenhouse gas (GHG) emissions (Scope 1)	Directly managed portfolio	25	Environmental performance
G4-EN16	Yes	Energy indirect greenhouse gas (GHG) emissions (Scope 2)	Directly managed portfolio	25	Environmental performance
G4-EN23	Yes	Total weight of waste by type and disposal method	Directly managed portfolio	27	Environmental performance
G4-EN32	Yes	Percentage of new suppliers that were screened using environmental criteria	Portfolio wide	2	Report coverage
G4-EN33	Yes	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Portfolio wide	2	Report coverage
CATEGORY: SOCIAL – LABOUR PRACTICES AND DECENT WORK					
G4-LA5	Yes	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs	Portfolio wide	–	100%
G4-LA6	Yes	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Portfolio wide	–	lost day rate: 2.1 per year per employee average; Absentee Rate (exc Long Term Sickness): 0.79%
G4-LA9	Yes	Average hours of training per year per employee by gender, and by employee category	Portfolio wide	–	not available
G4-LA14	Yes	Percentage of new suppliers that were screened using labor practices criteria	Portfolio wide	–	100%
G4-LA15	Yes	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken	Portfolio wide	–	none
G4-LA16	Yes	Number of grievances about labor practices filed, addressed, and resolved through formal grievance mechanisms	Portfolio wide	–	none
CATEGORY: SOCIAL – HUMAN RIGHTS					
G4-HR10	Yes	Percentage of new suppliers that were screened using human rights criteria	Portfolio wide	2	Report coverage
CATEGORY: SOCIAL – SOCIETY					
G4-SO2	Yes	Operations with significant actual and potential negative impacts on local communities	Portfolio wide	20	Measuring positive impacts
G4-SO9	Yes	Percentage of new suppliers that were screened using criteria for impacts on society	Portfolio wide	2	Report coverage
G4-SO10	Yes	Significant actual and potential negative impacts on society in the supply chain and actions taken	Portfolio wide	2	Report coverage
CATEGORY: SOCIAL – PRODUCT RESPONSIBILITY					

CarbonNeutral.com

Hermes Investment Management has achieved the CarbonNeutral® company certification by working with The CarbonNeutral Company, a world-leading provider of carbon reduction solutions, to measure and reduce its CO_2 emissions from its day to day operations and its business travel. This means that for every one tonne of GHG emissions that Hermes Investment Management generates, it purchases a verified carbon offset which guarantees an equivalent amount of GHG emissions is reduced from the atmosphere. Projects invested in are the clean technology project energy insulation and efficient stoves in Mongolia and the Habitat offset project for reforestation and avoided deforestation and in support of communities in surrounding areas.

GRI G4 guidelines

This report has been prepared in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines at the Core level. A detailed GRI index for material indicators is provided in pages 29-30.

Advisor statement

"Carbon Credentials continued to support Hermes Real Estate in the delivery of their Responsible Property Investment programme in 2015. As in previous years, this included the collation, validation and reporting of sustainability performance data and property characteristics. The greenhouse gas emissions and energy data in this report has passed ISO 14064-3 greenhouse gas verification, as performed by the independent assurance team within Carbon Credentials.

The Hermes responsible property management (RPM) programme has continued to mature throughout the year with property managers fully realising the benefits of the reporting cycle. Through successful collaboration Hermes' RPM strategy has been widely disseminated amongst property managers leading to effective improvements in energy management at asset level. The inherent feedback loop in the programme ensures that key learnings are shared across the portfolio, systematically driving performance improvements across the asset classes. The RPM programme has focused on all directly managed properties covered within the BTPS, HCLP, HFO, HPUT, Metro PUT funds. The like-for-like portfolio has seen a 11% decrease in absolute scope 1 and 2 emissions, this decrease is a testament to the success that pro-active energy management can have on performance in buildings."

Joe Pigott, Senior Consultant, Carbon Credentials

Excellence. Responsibility. Innovation.

Hermes Investment Management

Hermes Investment Management is focused on delivering superior, sustainable, risk-adjusted returns – responsibly.

Hermes aims to deliver long-term outperformance through active management. Our investment professionals manage equity, fixed income, real estate and alternative portfolios on behalf of a global clientele of institutions and wholesale investors. We are also one of the market leaders in responsible investment advisory services.

Our investment solutions include:

Private markets

International real estate, UK commercial real estate, UK private rental sector real estate, infrastructure and private equity

High active share equities

Asia, global emerging markets, Europe, US, global, and small and mid cap

Credit

Absolute return credit, global high yield bonds, multi strategy credit, real estate debt and direct lending

Multi asset

Multi asset inflation

Responsible Investment Services

Corporate engagement, intelligent voting and public policy engagement

Why Hermes EOS?

Hermes EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. Hermes EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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