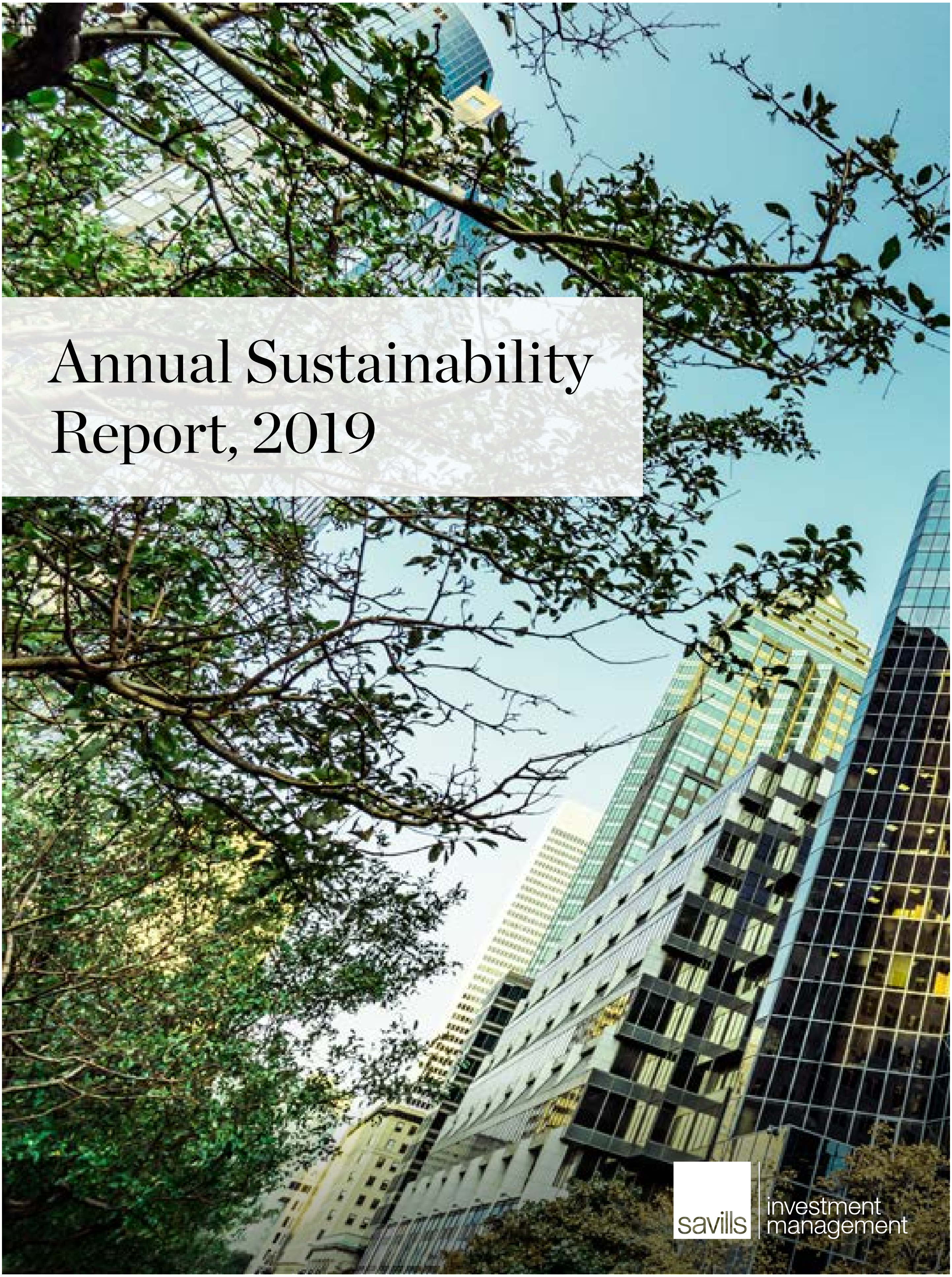
Annual Sustainability Report, 2019



savills | investment management

Introductory statement

Alex Jeffrey
Global Chief Executive
Savills Investment Management LLP

At Savills Investment Management (Savills IM), our approach to sustainability encompasses managing our business in an environmentally and socially responsible way. It likewise entails integrating environmental, social and governance criteria, or ESG into our portfolio management decisions in an investment landscape where sustainability topics look to be on the rise and unstoppable.

Corporate responsibility examines the environmental and social impact that our business operations have on our people, the environment and the communities where we operate. We know that operating our business in an environmentally and socially responsible way enables us to give back to our local communities, attract and retain the best talent and helps our teams work more inclusively together.

Savills IM supports staff in donating their time to charities by making sure every member of staff is able to take a paid charitable leave day throughout the year. To date, this has allowed our staff to raise funds for individual charity projects. From 2020 we have formalised our commitment to creating a positive social impact on our people, the environment and the local communities where we operate. We promise to commit 0.5% of profits to further our philanthropic goals, each year.

We know that transparency and disclosure are a crucial part of operating in a responsible way. Having been a signatory of the Principles for Responsible Investment since 2014, in 2019 we are proud to have increased our grade in Strategy and Governance to an A+ and maintained our A grade in the Direct: Property module. With transparency in mind, this year's Savills Investment Management Annual Sustainability Report details our sustainability goals and the progress we made towards them in 2019.

Resource scarcity, a changing climate and rising levels of inequality pose increasingly material and urgent global concerns to real estate investment managers as custodians of the assets we manage on our clients' behalf. With environmental concerns becoming an increasingly regulated topic, the rise of civic action through global movements such as Extinction Rebellion and multiple national governments declaring net zero carbon commitments, Savills IM understands that integrating environmental and social criteria into our business models is increasingly consequential. With this rapidly changing situation in mind, we have sought investors' views on the significance of environmental, social and governance concerns. The results are discussed in the Insight section of this report.

Contents

Our sustainability vision and values

At the core of a robust sustainability approach is knowing our environmental, social and governance (ESG) vision and values: guiding principles by which we operate as a business and integrate into our investment decisions.

In April 2019 we convened a participatory working group of global staff who work across functions which are material to our sustainability approach – management, investment, risk management, development and client relations. Representing different business functions and geographies in which we operate, the group worked together to define Savills Investment Management (Savills IM)'s core ESG values.

Insight

Taking the temperature of investors' engagement with ESG

Investor demands for greater environmental and societal responsibility are now prevalent in the asset management industry. This is part of a worldwide movement driven by policymakers, public campaigners and many investors alike, calling for more ethical corporate behaviour and portfolio management to promote social justice and protect natural capital. It is finding expression in shareholder activity, international agreements and increasingly in global public demonstrations.

The real estate asset management industry has a key role to play in promoting environmental, social and governance (ESG) issues, not least because of the impact that buildings have on the environment and society. Buildings consume 70% of generated electrical power in the developed world and are responsible for 40% of carbon dioxide (CO2) emissions.[1] Policy targeting emissions will therefore almost certainly have an impact on the real estate industry.

The EU Sustainable Finance Taxonomy also suggests that there will be a policy response specifically from the financial sector, with policymakers estimating that human activity over the next decade will be crucial to our ability to limit global warming in line with the Paris Agreement. Real estate investment managers – whose activity overlaps with that of the financial world – are therefore likely to encounter sweeping sustainability-related regulatory changes in coming years.

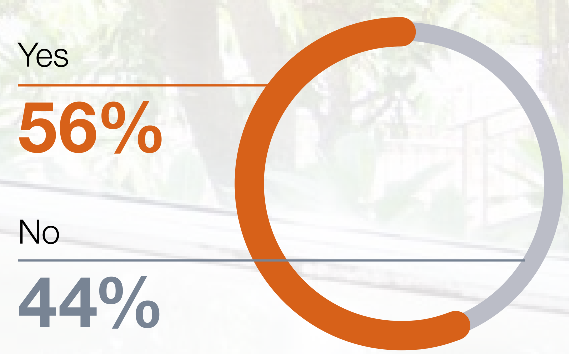
The challenge will be for the real estate industry to keep up with these changes. This challenge is compounded by the varied definitions of how to value environmental and climate risks and measure positive social impact. In order to provide some clarity around this increasingly important theme, Savills IM has commissioned research among institutional investors for a temperature check on their thoughts around ESG, thereby promoting the importance of ESG engagement to stakeholders in the investment management sector (broadly aligned to INREV Sustainable Reporting Guideline ESG-LTS / ESG-ANN 2.1 Best Practice: Industry participation. See the 'Reporting our sustainability performance during 2019' section this report for details). The following analysis explores how important ESG is to investors in relation to real estate, how they are assessing it and how they want it to be applied by their asset management partners.

[1] Improving energy efficiency in the built environment, UNECE, 2016

Research results and analysis

Between 24 June and 26 August 2019, we polled institutional investors involved in commercial real estate across EMEA, North America and APAC, using PollRight. The 111 received responses show that ESG issues are clearly climbing up the agenda for institutional investors: More than half (56%) say their organisation now has an ESG policy (figure 1). However, 44% do not. While this illustrates that most institutional investors are embracing ESG, it is still some way from becoming mainstream within the industry.

FIGURE 1. Investment institutions with an ESG policy



ESG plays a significant role in asset manager selection

Even if investor organisations do not have a formal policy, ESG is certainly a significant consideration driving their selection of asset manager partners and investment opportunities. Nearly two-thirds (64%) of investors say that ESG is a factor in their selection rationale, one-third (33%) of whom say it is of high importance (figure 2). For 31% it is an 'average' consideration, but still on the agenda. Nonetheless, while 6% consider it of extremely high importance, double that percentage do not consider it at all important.

Green leases are pivotal

The inclusion of 'green clauses' in leases is an effective method by which to convert ESG principles into action on the ground within the real estate industry today. Doing so obliges the owners and occupiers of a building to ensure specific environmental standards are maintained during occupation and to share emissions data, which is crucial to implementing resource efficiency strategies and furthering carbon reduction targets.

With the collection of emissions data still a key challenge for real estate investment managers, green leases are likely to become increasingly common over the next few years. The point at which they become universally implemented between tenants and investment managers will mark a watershed moment in the real estate industry. On average, institutional investors believe this will happen in just over seven years' time (figure 3). Most (73%) believe it will happen within 10 years.

This consensus prediction of between 7 and 10 years is only slightly behind claims made by the United Nations (UN)–supported Principle for Responsible Investment (PRI) Investible Policy Response project.[2] The industry initiative anticipates that governments globally will significantly step up their policy responses to tackle climate change from 2025 onwards in a way that is likely to be 'forceful, abrupt, and disorderly' because of the delay in climate-related action from industry stakeholders. The project aims to highlight to investors the portfolio risks associated with financial markets' failure to adequately price in these likely near-term policy responses, within which compulsory green leases would be a highly effective instrument.

[2] Principles for Responsible Investment, Vivid Economics and Energy Transition Advisors

FIGURE 2: Importance of ESG in selecting investment managers and opportunities

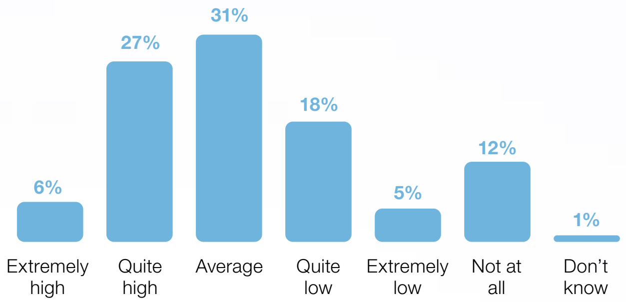
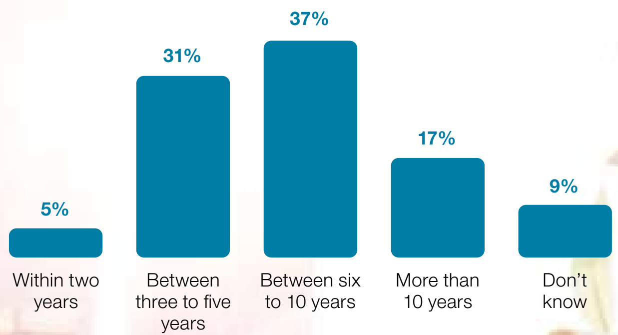


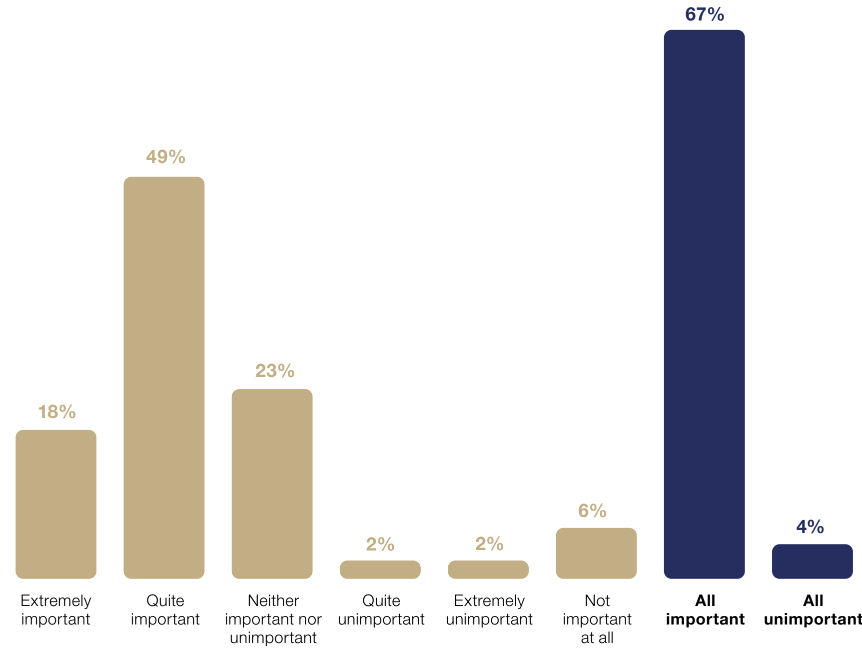
FIGURE 3: Expectations of green lease clauses becoming universally implemented between tenants and real estate investment managers



AVERAGE: 7.2 YEARS

Note: Figures may not add up to 100% due to rounding

FIGURE 4: Importance of real estate investment managers leveraging technological innovations to assess the environmental standards of their property assets



An important aspect of green leases is that successful implementation requires a substantial amount of data on built assets. Green technology and digitisation have increased the volume of data that can be collected. Automatic meter readings, building management systems and sensors can provide an accurate profile of a building's temperature, air quality, waste production, water consumption, desk availability and so on. This means asset managers can provide buildings that are more energy efficient and technologically smart, which are increasingly in demand by tenants.

Investors appreciate the importance of real estate investment managers leveraging innovations such as automatic meter readings and building sensors to assess buildings. Two in three institutional investors (67%) believe it is important to do so, including 18% who say it is 'extremely important' (figure 4).

Despite the obvious benefits, however, the collection of ESG data for built assets is a challenge for the real estate industry because it relies not only on technology use but also on the relationship with tenants, who own and control the data. The green leases that facilitate data collection must be negotiated with tenants. Engagement with owners and occupiers is a fundamental tool to implementing ESG principles in asset management. For this to become standard practice, a step-change in real estate managers' behaviour is required, especially for those managers with a light-touch approach to tenant engagement.

Stakeholders driving ESG policies

Given that the consideration of ESG factors is becoming increasingly important, what are the strongest drivers behind the views and policies that institutions are implementing? Nearly half (45%) of institutional investors say the views of underlying investors and beneficiaries, such as pension scheme members, are the strongest drivers (figure 5).

This illustrates the strength of public sentiment relating to ESG concerns, which have found expression in such global movements as the Extinction Rebellion in 2019. For example, ESG issues are highly prioritised by younger generations of pension fund holders who would like to know how their money is invested. They are scrutinising the environmental and social rankings in their portfolios as well as the financial returns, applying bottom-up pressure that is likely to increase over time.

Yet our research also reveals top-down pressure: The second strongest driver of an institution's ESG policies and views is its board and senior management, cited by 22% of institutional investors. A majority (52%) also see board and senior management as the ones most responsible for driving ESG adoption in investment decisions (figure 6).

While boards and senior management will no doubt have consciences and wish to do the right thing, it would also seem that they are responding to pressures from below, as well as governance legislation. Reporting the gender pay gap between male and female employees, for example – considered an indicator of good governance – since 2017 it has been a requirement for companies in the UK with 250 or more employees.[3]

FIGURE 5: Strongest drivers of institutional investors' ESG views

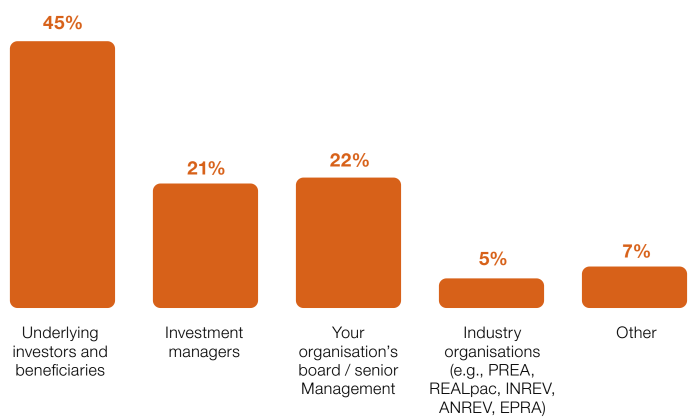


FIGURE 6: Parties seen as responsible for driving ESG adoption in investment decisions by institutions*

*Respondents could select more than one answer

[3] Gender pay gap reporting: overview, Advisory, Conciliation and Arbitration services; Government Equalities Office, 2017

Applying ESG principles

While the global pressures for responsible investment have powerful momentum, the full integration of ESG principles into investment processes is, for many, at an early stage of development, with standardisation and industry best practices still taking shape. Investors are still having to navigate through a myriad of interpretations, approaches, frameworks and methods. More than half (58%) of institutional investors believe that difficulty in valuing the risks and benefits of ESG factors is a valid reason for poor adoption of them in investment decisions. Indeed, 7 out of 10 believe that adoption of ESG principles in investment decisions would improve with better understanding of ESG risks and opportunities.

The uncertainty among investors extends to the relationship between ESG principles and investment returns: 37% of institutional investors believe that ESG considerations are incompatible with short-term investment returns, while 33% disagree. Although there is clearly a substantial knowledge gap in the real estate investment industry, a growing amount of ESG material is coming through to help fill it. Studies examining the correlation between corporate sustainability strategies and investor returns - such as conducted by Harvard Business School as far back as 2014 - deduced that corporations that systematically measure, manage and report their ESG risks and opportunities in the 1990s outperformed peers over the next 18 years.

But our research also shows that institutional investors want more information and tools to benchmark and monitor their responsible investments: 62% of respondents believe that benchmarking is an essential tool by which to measure and monitor ESG data in a meaningful way. This result is reflected in the rapid rise in adoption of the Global Real Estate Sustainability Benchmark (GRESB), which since its inception 10 years ago has risen from covering the ESG performance of 193 global real estate funds to over 1,500 reporting entities, equating to USD 4.5 trillion AUM.[4]

FIGURE 7: Adoption of ESG principles by institutional investors*

	Strongly agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know	All agree**	All disagree***
Difficulty in valuing ESG risks / benefits is a valid reason for poor adoption of ESG in investment decisions	11%	47%	17%	19%	4%	2%	58%	23%
Adoption of ESG in investment decisions would improve with better understanding of ESG risks and opportunities	17%	53%	18%	9%	2%	1%	70%	11%
Benchmarking is an essential tool to measure and monitor ESG data in a meaningful way	12%	50%	24%	8%	5%	2%	62%	13%
ESG considerations are incompatible with short-term investment returns	12%	25%	28%	23%	10%	2%	37%	33%

*Figures may not add up to 100% due to rounding
** 'All agree' is summation of 'Strongly agree' and 'Agree' columns
***'All disagree' is total of 'Strongly agree' and 'Agree' columns

[4] GRESB, 2019

Benchmarking ESG

Drilling further down into investors' processes, our research shows the most common mechanisms used to formulate investment decisions around ESG.

50% of institutional investors cited analysing investment managers' reports as the most influential mechanism in helping them make investment allocation and manager selection decisions (figure 8). This figure is likely to increase as ESG reporting becomes a standard requirement within the investment community. For shareholders, for example, ESG factors are becoming a standard metric to measure portfolio performance alongside financial returns.

However, the differing nature of 'E,' 'S' and 'G' criteria means the measurement of each also differs, with impacts on the environment being traditionally much easier to quantify. For example, the tonnage of CO2 emissions saved by modernising a building is readily calculated. Measures of social impacts are more challenging. Although numerous frameworks to assess quantitative social metrics – such as the number of people provided access to supportive or social housing – are emerging, understanding true social impact requires frameworks that accommodate the highly context-specific and qualitative nature of social impacts.

As real estate investors seek more rigour in the assessment of ESG portfolio performance, the need for comparable standards is being met by the establishment of benchmarks and quality hallmarks. The PRI for example benchmarks ESG policies and performance at the corporate level; whilst GRESB benchmarks ESG performance at the portfolio level; and regional, asset level certification such as the Building Research Establishment Environmental Assessment Method (BREEAM), German Sustainable Building Certificate (DGNB) and Development Bank of Japan (DBJ) Green Building Certification indicate high levels of environmental sustainability at asset-level.

Asset-level certification has expanded in the past five years to include not only environmental but also social certification such as the WELL Standard, which promotes occupants' health and well-being.[5] Pressure will only grow on investment managers to report transparently and accurately. Most, if not all, of the mentioned benchmarks will be crucial criteria by which to do so.

[5] International Well Building Institute, 2019

FIGURE 8. Mechanisms used by institutional investors to make ESG-based investment decisions*

*Respondents could select up to three options

Climate change concerns increasingly material

There is now intense focus globally on the impacts of climate change on real assets, which is influencing investors. Despite the 2015 Paris Agreement recommending that global temperatures increase no more than two Degrees Celsius (o C) above pre-industrial levels, the Intergovernmental Panel for Climate Change's (IPCC) 2018 Special Report goes further to recommend that policies must target limiting global temperature increases to no more than 1.5o C above pre-industrial levels to avoid catastrophic consequences.[6]

However, the latest figures from the World Meteorological Organization indicate we are currently on track for a 3-5o C rise in the next 80 years. Furthermore, the global temperature rise appears to be accelerating, having risen by 0.2o C between 2011 and 2015 alone versus 1.1o C in total since 1850.[7]

This growing concern is reflected in our research, with climate change resilience ranked as the most important environmental concern among institutional investors (61%) (figure 9). The related factor of energy efficiency is cited by 49%, reflecting investor sentiment that climate change mitigation – that is, reducing the real estate sector's impact on global warming by reducing emissions – is also highly material.

Climate change also presents a major risk factor in terms of returns for real estate investors. With extreme weather events and changes to the environmental regulatory landscape increasing, climate concerns are beginning to impact liquidity prospects in the near to mid-term. For example, an inefficient building might fail to meet environmental standards.

FIGURE 9: Environmental issues that are 'highly important' to institutional investors*

61% Climate change resilience	20% Sustainable development / fit-out
49% Energy efficiency	17% Green building certification
49% Water efficiency	14% Biodiversity
39% Waste management	10% Indoor air quality
39% Innovation / green technology	2% Mandatory green lease clauses
20% Sustainable property management	7% Other

*Respondents could select up to three options

Employees' well-being an established priority

Social issues are important to responsible real estate investors. Given the global trend in urbanisation, sustainability and socio-economic issues around the built environment in which we work, live and play are becoming increasingly important.

Those involved in the real estate sector must think more about what is happening to the people using buildings and those in the surrounding communities. One area in which real estate investors are beginning to recognise their ability to make a positive social impact is investing in affordable, social and supportive housing.

Nonetheless, institutional investors have other expectations too: Our research shows that the social issues of most importance to them is worker well-being (60%) and health and safety (60%). Other issues of importance include human rights (50%), community impact (46%), stakeholder engagement (32%) and talent management (17%).

The working population now includes the millennial generation who expect their investments to provide – a better working environment that offers the flexibility required for a better work-life balance. There is increasing consciousness of the fact that it is not just the ESG credentials of tenants that need to be questioned, but also an examination of the whole supply from which they might procure supplies.

FIGURE 10: Social issues that are 'highly important' to institutional investors*

60%	Worker wellbeing
60%	Health and safety
50%	Human rights
46%	Community impact
32%	Stakeholder engagement
17%	Talent management
6%	Other

*Respondents could select up to three options

[6] Special Report on Global Warming of 1.5 °C, IPCC, 2018

[7] United in Science, compiled by the World Meteorological Organization under the auspices of the Science Advisory Group of the UN Climate Change Summit 2019, September 2019

Governance is a bedrock issue for managers

Governance is extremely important in real estate investment due to the fiduciary responsibility, duty of care and regulated nature of the industry, where certain performance information must be supplied to clients and shareholders. Failure to provide this information, which increasingly includes ESG elements alongside financial performance, creates regulatory and reputational risks with potentially serious commercial implications that investment managers must control.

An emerging issue in the responsible investing arena is that questions are being raised about whether companies really are as ethical as their ESG scores would suggest. Investors are increasingly switched on to 'greenwashing,' used to describe investment products and strategies which claim to be more sustainable than their performance would show them to be, in reality.

Institutional investors are aware of this, and our research shows that the most important governance issue to them, by some distance, is transparency, which was cited by approximately three in four (74%) of our respondents. This was followed by risk management (64%), ethical investment (48%), equality and diversity (42%), the gender pay gap and equal pay (27%) as well as maintaining a responsible supply chain (25%).

FIGURE 11: Governance issues that are 'highly important' to institutional investors*

*Respondents could select up to three options

Investors' ESG demands will only increase

Institutional investors' demands for more responsible real estate investments will only become more exacting. They accept that they still have much to learn and are still largely unsure of methodologies and approaches. But they are determined that their real estate investments will play a positive role in the global movement towards meeting environmental and social justice goals, not least because of the pressure they are already seeing from more environmentally and socially conscious generations of workers and shareholders. This means they will want to see investment managers who truly walk the walk – rather than just talk the talk – of ESG, and those who look to close the gaps between sustainable policy and performance.

Responsibly invested real estate portfolios are no longer a 'nice to have'. Investment managers are increasingly expected to provide full transparency around the ESG goals they target and how positive social and environmental progress may be achieved. Nor is ESG separate from investment, reputational and business risk. Rather, it is increasingly necessary for managers to integrate ESG into risk management policies and processes. This is indicated by the Task Force for Climate-related Financial Disclosure (TCFD) framework, created in response to increasing demand for consistent, comparable, actionable disclosure from companies on the financial impact of climate change and how they are building climate resilience into their operating models. The TCFD Framework aims to develop 'voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to stakeholders'.[8]

Falling short of regulatory environmental or social standards and/or societal expectations could be punished by fines and failure to lease or sell assets. As such, the questions investors are asking of investment managers are more involved than ever before. They are no longer satisfied with case studies providing cherry-picked evidence of conformity with ESG standards. Instead, comprehensive reporting is increasingly required, with performance measured in more than just annualised percentage returns but also in terms of ESG scores.

While there might currently be a significant knowledge gap among institutional investors around ESG issues, this is closing fast. Going forwards, they have shown a desire to partner with those investment managers who have the experience and networks to source a pipeline of assets that meet their ESG goals – and have the expertise and technological abilities to manage and report on those assets in a fully transparent manner.

[8] Task Force for Climate Related Financial Disclosure; Financial Stability Board, 2017

Reporting our 2019 sustainability performance

Scope and purpose of this report

This section of our report details our progress against our sustainability goals, alignment with the Sustainable Development Goals and the 2016 INREV Sustainable Reporting Guidelines. The progress reported against our ESG targets covers the 12-month period ending 31 December 2019, unless specified otherwise

As a signatory of the UN-aligned Principles for Responsible Investment, since 2014 we have also reported transparently against the PRI reporting framework. Savills IM's 2019 Transparency report is available here: https://www.unpri.org/signatories/savills-investment-management/1743.article, and may be read in conjunction with this report. The PRI assessment methodology is available here: https://www.unpri.org/signatories/about-pri-assessment. This year we are proud to have achieved the maximum score grade to an A+ for Strategy and Governance (improved from an A in 2018), and maintained an A for the Property module, in the latest PRI Assessment report. Our 2019 Assessment report is available on request.

✓ ESG-LTS 1.1 Requirement

Best practice reporting: INREV Sustainable Reporting Guidelines

This ESG report is aligned with the 2016 INREV Sustainability Reporting Guidelines and includes elements to comply with the mandatory reporting requirements as well as elements representing best practice recommendations of the INREV Sustainability Reporting Guidelines. This report specifies compliance against the mandatory requirements and best practice elements of the INREV Sustainability Reporting Guidelines framework, however, the Guidelines include references to other industry standards which are implemented in the non-listed real estate industry; PRI, GRESB, GRI and EPRA. Full details of how the 2016 INREV Sustainability Reporting Guidelines align to other industry standards refer can be found in section 8.4 Alignment with Industry Standards, of the full guidelines here: https://www.inrev.org/guidelines/modulea/sustainability#inrev-guidelines.

INREV Guidelines Compliance Statement

The European Association for Investors in Non-Listed Real Estate Vehicle (INREV) published the revised INREV Guidelines in 2014 incorporating industry standards in the fields of Corporate Governance, Reporting, Property Valuation, Performance Measurement, INREV NAV, Fees and Expense Metrics, Liquidity and Sustainability Reporting. The Assessments follow these guidelines.

INREV provides an Assessment Tool to determine a vehicle compliance rate with the INREV Guidelines as a whole and its modules in particular. These guidelines were designed for application at vehicle-level reporting, therefore an element of judgement has been used to ensure the questions are relevant when applied for this report, which discloses ESG performance at a corporate level for Savills Investment Management LLP.

Sustainability goals and our progress towards them

Savills IM's overall approach to setting a long term ESG strategy acknowledges that we have a duty to our clients, partners and stakeholders within the broader communities in which we operate to consider how environmental, social and governance aspects of our investment and business activities impact vehicle performance, alongside financial returns.

As such, our corporate ESG strategy incorporates the feedback of identified stakeholders to shape the policy, processes and methods used to manage ESG across the portfolios which Savills IM owns and manages on behalf of our clients. The strategy is documented in an annually reviewed roadmap which includes the specific medium and long-term objectives and targets within a specified one to three-year timeframe, which furthers *ESG-ANN 1.1 Requirement.*

		Goal	Geographic Coverage	Timescale	SDG alignment	INREV Sustainable Guideline alignment	Progress (ESG-POR 1:1 Requirement; ESG-POR 2:1 Best Practice)
1. Environmental	1.1	Develop process to identify improvements to asset efficiency via technical energy, water, waste and health and well-being audits.		Dec - 2019	3, 12	ESG-LTS 1.1 Requirement (Strategy to reduce and/ or measure GHG emissions and water and waste management)	Process to systematically identify assets for technical audits established and available to global investment teams via company intranet.
	1.2	Measure and store resource and energy consumption data for at least 80% of directly managed assets* in an ESG data platform.		Dec - 2020	7, 13	ESG-ANN 1.1 Requirement (Reduce/ measure energy, GHG emission, water, waste management)	On track. By the end of 2019, asset level information required to collect the data in 2020 has been assimilated.
	1.3	Identify a net zero carbon pathway, outlining Savills IM's trajectory towards net zero carbon for new and existing buildings; set initial like-for-like reduction targets that support this commitment and report on progress annually.		Dec - 2020	12, 13	ESG-ENV 1.1 Requirement ESG-ANN 1.1 Requirement (Reduce/ measure energy, GHG emission, water, waste management)	On track; the completion of this objective will be facilitated by objective 1.2.
	1.4	Develop a process to systematically identify buildings for certification at asset level.		July 2019	13	ESG-ANN 1.1 Requirement (Green building certification)	Complete. By year-end 2019, assets in portfolios managed by Savills IM have been awarded 60 environmental and health and well-being certificates.
	1.5	Increase participation in Global Real Estate Sustainability Benchmark (GRESB) and improve scores across participating entities.		Dec 2019	13, 17	ESG-LTS / ESG-ANN 2.1 Best Practice (Participation in the GRESB survey or/and development of GRESB scores)	Complete. For more detailed reporting on Savills IM's GRESB performance see the 'Benchmarking our portfolio sustainability' section of this report.
	1.6	Enhance tenant engagement and understanding by conducting tenant engagement surveys to understand sustainability materiality and identify opportunities for collaboration.		3-year period, 2017-2020	13, 17	ESG-LTS 2.1 Best Practice (Stakeholder activities)	On track. In 2018, engagement surveys and tenant sustainability guides were sent to tenants in portfolios equating to 50% of AUM managed on behalf of by Savills IM clients, in the UK.
	1.7	Develop processes to manage climate-related risks in alignment with the Task Force for Climate-related Financial Disclosure (TCFD) framework.		2022	11, 13		On track. An independent sustainability consultant has been commissioned to review Savills IM's current climate risk-related processes. A recommendation report and detailed TCFD roadmap has been delivered to management. As a PRI signatory, from March 2020 we will be reporting our alignment against the TCFD framework in the Annual Transparency Report.

		Goal	Geographic Coverage	Timescale	SDG alignment	INREV Sustainable Guideline alignment	Progress (ESG-POR 1:1 Requirement)
2. Social	2.1	Develop and implement a health and well-being strategy for funds, applicable at asset level.		Dec 2019	3		Technical audit identification process in objective 1.1 includes conducting Health and Well-being audits at the asset level.
	2.2	Upskill and educate staff by delivering an ESG training program.		Dec 2020	4, 8		On track. From Q4 2019 an online sustainability training module was available for all Savills IMstaff and part of induction training for new starters. In 2020, technical ESG training will be developed. Over the reporting period, 220 hours of staff ESG training was delivered to 71 staff, across our global offices.
	2.3	Develop a global corporate social responsibility program to scale up the positive social and environmental impact of Savills IM's corporate operations.		Dec 2020	3		On track. Savills IM staff are present on the Savills PLC CSR Committee, ensuring alignment to our parent company as a fully owned subsidiary. For a detailed report on Savills IM's 2019 CSR see the 'Corporate Responsibility' section of this report.
3. Governance	3.1	Senior management to have ESG related KPIs.		Dec 2018 and ongoing	17	ESG-LTS / ESG-ANN 2.1 Best practice (employee KPIs for ESG)	From the start of 2019, all members of the Global Executive Committee (GEC) have had an objective to embed ESG into the culture and fabric of Savills IM's business.
	3.2	Disclose corporate ESG strategy, targets and progress in annual ESG report, broadly aligned with best-practice industry sustainability reporting guidelines.		Dec 2019	17		This annual ESG report, broadly aligned to 2016 INREV Sustainable Reporting Guidelines, demonstrates fulfillment of objective 3.2.
	3.3	Implement and continue to manage Savills IM's corporate ESG policy, including track goals and progress towards them, via an Environmental Management System.		Mar 2019 and ongoing	17	ESG-LTS / ESG-ANN 2.1 Best practice (Environmental Management System)	Savills IM's corporate ESG roadmap, as detailed in this section of the report, demonstrates fulfillment of objective 3.3.
	3.4	Review ESG policies and processes to ensure they reflect current best-practice in relation to ESG integration in acquisition, procurement, tenant fit-out, refurbishment, tenant sustainability guidance and stakeholder engagement policies and processes.		Dec 2019	12, 16	ESG-LTS 2.1 Best Practice (Supply chain management strategy, tenant engagement) ESG-ANN 2.1 Best Practice (Supply chain management strategy, tenant engagement) ESG-LTS / ESG-ANN 1.1 Requirement (New build / Refurbishment and Acquisition) ESG-LTS / ESG-ANN 2.1 Best Practice (Description of how policies are developed)	In 2019 a suite of ESG policies and processes relating to acquisition, procurement, tenant fit-out, refurbishment, tenant sustainability guidance and stakeholder engagement were updated in collaboration with our independent sustainability consultant. The feedback of relevant global staff has been integrated into the policies following workshops, reflecting the participatory stakeholder engagement integral to Savills IM's ESG policy development.
	3.5	Define and document Savills IM's core ESG values.		Jun 2019	17		In April 2019, a workshop was conducted in which senior and global Savills IM staff defined core ESG values. These are available in the first section of this report and on our website: http://www.savillsim.com/responsible-investment/#. The values are supported by SMART ESG objectives, targeted for integration into staff appraisal management from 2020.
	3.6	Conduct a review of current ESG-related legislation to scope possible business risk and preparedness for any future legislation over next 12 months.		Dec 2019	8, 12, 16	ESG-LTS 1.2 Requirement ESG-ANN 1.2 Requirement ESG-POR 1.2 Requirement	In 2019, Savills IM's internal Risk and Compliance function completed a review of the materiality of ESG-related regulatory risks in the UK and continental Europe, such as the impacts of the EU Sustainable Finance Taxonomy. As a PRI signatory who are required to report our alignment to the TCFD framework in March 2020, in Q4 2019 Savills IM mandated a sustainability consultant to conduct a review of current climate-risk related processes, to ensure preparedness for alignment to the framework.
	3.7	Complete disclosure of responsible investment policies and performance against the PRI reporting framework; aim to maintain annual Assessment Report score		Mar 2019	17		As a signatory of the PRI since 2014, Savills IM transparently disclosed its responsible investment policies and practices for the fifth year running. We maintained our score of A in the Direct: Property module and improved to A+ in Strategy and Governance.

*Within designated measurement parameters

Benchmarking our portfolio sustainability

In 2019, Savills IM monitored and reported like-for-like and absolute water, waste, energy and GHG emissions data for assets under the manager's control to the Global Real Estate Sustainability Benchmark (GRESB) for eleven funds and mandates, equating to EUR 5.56 billion of assets under management.

In 2019, six participating funds and mandates achieved Green Star Status, indicating above 50% in both Management and Policy, and Implementation and Management modules.

All participating entities improved their overall score in 2019. On average, Savills IM's participating entities increased their overall GRESB score by 12 percentage points year on year, 2018-2019, against a 5 percentage point change in GRESB average score.

Entity-level GRESB scores and environmental data can be requested via the GRESB online reporting portal.

✓ ESG-ENV 1.1 Requirement

✓ ESG-ENV 2.1 Best Practice

Corporate Responsibility

We understand that it is our role as a responsible investor and business to do what we can to positively impact the environment, our people and the local communities in which we operate. Alongside our ESG policy which focuses on the environmental, social and governance performance of the portfolios we manage and own on behalf of our clients, Savills IM operates a Corporate Responsibility policy which furthers social and environmental goals in relation to these three pillars.

Savills IM supports staff to give their time for charitable fundraising or volunteering, via paid Charity Leave.

In 2019, Savills IM staff volunteered, fundraised and made contributions-in-kind equating to over GBP 25,000, supporting 20 different charities over the 12-month period.

Below is a snapshot of some of the philanthropic initiatives supported by Savills IM over this time.

GBP 25,000

20 different charities

over 12-months

Local community

On 16 October 2019, Savills IM staff seconded to Savills Malaysia supported World Food Day by taking part in the Clean Plate Challenge, diverting food from landfill and raising enough money for the Lost Food Project to feed 3,510 people in need, in Malaysia. The Lost Food Project is Malaysia's leading food bank and rescues quality, nutritious surplus food that would otherwise end up in landfill, redistributing it to those who need it most regardless of religion, gender, age, disability or ethnic group. Since launching in April 2016, the Project has rescued enough surplus food for almost 2 million meals for those in need and prevented over 1 million kilograms of carbon emissions from entering the atmosphere.

> **"IT IS OUR ROLE AS A RESPONSIBLE INVESTOR AND BUSINESS TO DO WHAT WE CAN TO POSITIVELY IMPACT THE ENVIRONMENT, OUR PEOPLE AND THE LOCAL COMMUNITIES IN WHICH WE OPERATE.**

In Germany, staff volunteered at a home for people with special needs close to our Hamburg office, carrying out improvements to create a more welcoming outside space for residents and visitors by cleaning the terrace, cutting back hedges, removing weeds and felling trees. In Frankfurt, staff volunteered with local kindergarten and children's education groups, improving playgrounds and taking groups to Frankfurt Zoo.

Our people

Training and communication are an important component of how Savills IM fulfils our role as a responsible company. On 4 April 2019 Savills IM hosted a sustainability breakfast for our staff at the Siemens Crystal in London – one of the worlds' most sustainable buildings. The key note speaker was sustainability expert and practicing architect Michael Pawlyn, who hosted a lecture and Q&A on 'Biomimicry: Mimicking Nature's Genius' which was shared online across our global offices. Michael is a published author and TED Talk speaker, and specializes in how business professionals can learn from nature to develop sustainable solutions, known as biomimicry. Michael was also one of the principle architects for the transformative Eden Project, in the UK.

Savills IM know that diversity and inclusion are important principles which enhance our ability to make inclusive decisions, by ensuring different points of view are heard. As such we are aligned to the Savills Group Equality and Diversity Policy and are working to create a working environment where we embrace agile working and offer flexible work opportunities allowing our staff to better balance work and outside-work commitments and enhancing professional opportunities in particular for those with childcare responsibilities.

Our principles of diversity and inclusion extend to our investment management activities: in 2019, staff from Savills IM committed to inspiring more young women into the Property Investment Management industry by organizing tours and presentations at development sites for A level students at a London girls' school. In Luxembourg, staff volunteered their time for Dress for Success: a charity which empowers women to achieve economic independence and thrive in work and home life by providing them with a support network, professional clothing and crucial development tools.

Environment

In the UK, staff continued an ongoing contribution to the Canal and River Trust by donating their time to clean London's waterways, picking litter, maintaining the tow path and cutting back vegetation to improve the local waterway and towpath environment. The Canal and River trust looks after 2,000 miles of canals, rivers, docks and reservoirs across the UK, visited by an estimated 18–20 million people each year, 4.3 million of whom visit regularly, making them one of the UK's largest free-to-access cultural spaces. The Trust plays a vital role in protecting and maintaining the UK's waterway environmental. Staff across all three of our German offices donated their time to maintaining the enhancing their local environment. A team in Munich improved the grounds of a local educational support centre for young people by clearing leaves, weeding, pruning and laying bark mulch to improve soil condition. In Frankfurt staff re-laid a local a playground by distributing several man-high sacks of mulch around in the area.

At the end of 2019, we have collected electricity consumption data across nine of the 16 offices occupied by Savills IM and will work towards more complete disclosure in future reporting. The total absolute electricity consumption reported across these nine offices in 2019 was 300,001kWh*.

To allow for future annual comparisons, based on the seven assets occupied for the full 12 months of 2019 with reported data, the electricity intensity of Savills IM occupied offices was 152kWh/m2 in the 2019 calendar year.

*Data has been included where data was available for at least nine months of the year, with extrapolation to cover the full 12 months of 2019 where applicable. Where offices have only been occupied for less than 9 months of the year, absolute data has not been extrapolated and covers the period of occupancy only

Third party assurance statement

EVORA Global Limited ("EVORA") was engaged by the directors of Savills Investment Management LLP ("Savills IM") to provide Type 2 Moderate Assurance of Savills IM's 2019 ESG report for the year ending 31 December 2019 in accordance with AccountAbility's AA1000 Assurance Standard 2008 with 2018 Addendum (AA1000AS) and the 2016 INREV Sustainability Reporting Guidelines.

EVORA's scope of assurance covered a series of indicators and assertions contained in the report including:

- Electricity Consumption (absolute) of Savills IM Offices
- Global Electricity Intensity of Savills IM Offices
- Investor Survey Results
- Progress against Savills IM Sustainability Goals
- Charitable Leave Policy
- Percentage of profits dedicated to philanthropic goals
- PRI Grade (2019 and 2018)
- Alignment with INREV Sustainability Reporting Guidelines
- GRESB 2019 Summary Benchmarking Data

Nothing came to our attention that causes us to believe that the preparation of the 2019 ESG Report is not in accordance with the AA1000 Accountability Principles 2018. Furthermore, nothing has come to our attention that causes us to believe that the Savills IM 2019 ESG report is not prepared in accordance with the 2016 INREV Sustainability Reporting Guidelines and the AA1000 Assurance Standard 2008 (with 2018 Addendum), in all material respects, for the year ending 31 December 2019.

A copy of EVORA's assurance statement is available upon request.

Date of Assurance: 14 February 2020.

IMPORTANT NOTICE

ABOUT SAVILLS INVESTMENT MANAGEMENT

Savills Investment Management is an international real estate investment manager with offices in Australia, France, Germany, Italy, Japan, Luxembourg, Malaysia, the Netherlands, the Nordics, Poland, Singapore, Spain and the UK.

Savills Investment Management manages real estate worth circa EUR 18.9 billion worldwide (as of Q3 2019). Savills Investment Management offers comprehensive real estate asset and fund management services in the form of individual mandates and fund solutions for a broad spectrum of investors, including insurance companies, pension funds, foundations and family offices. The investment styles range from core to opportunistic.

Savills Investment Management is part of the Savills group, whose parent company, Savills plc, is a London-listed global real estate services company.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