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ESG Report 2018

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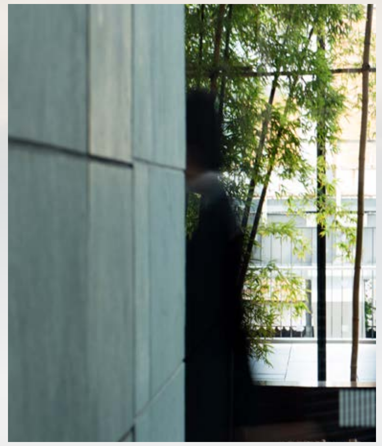

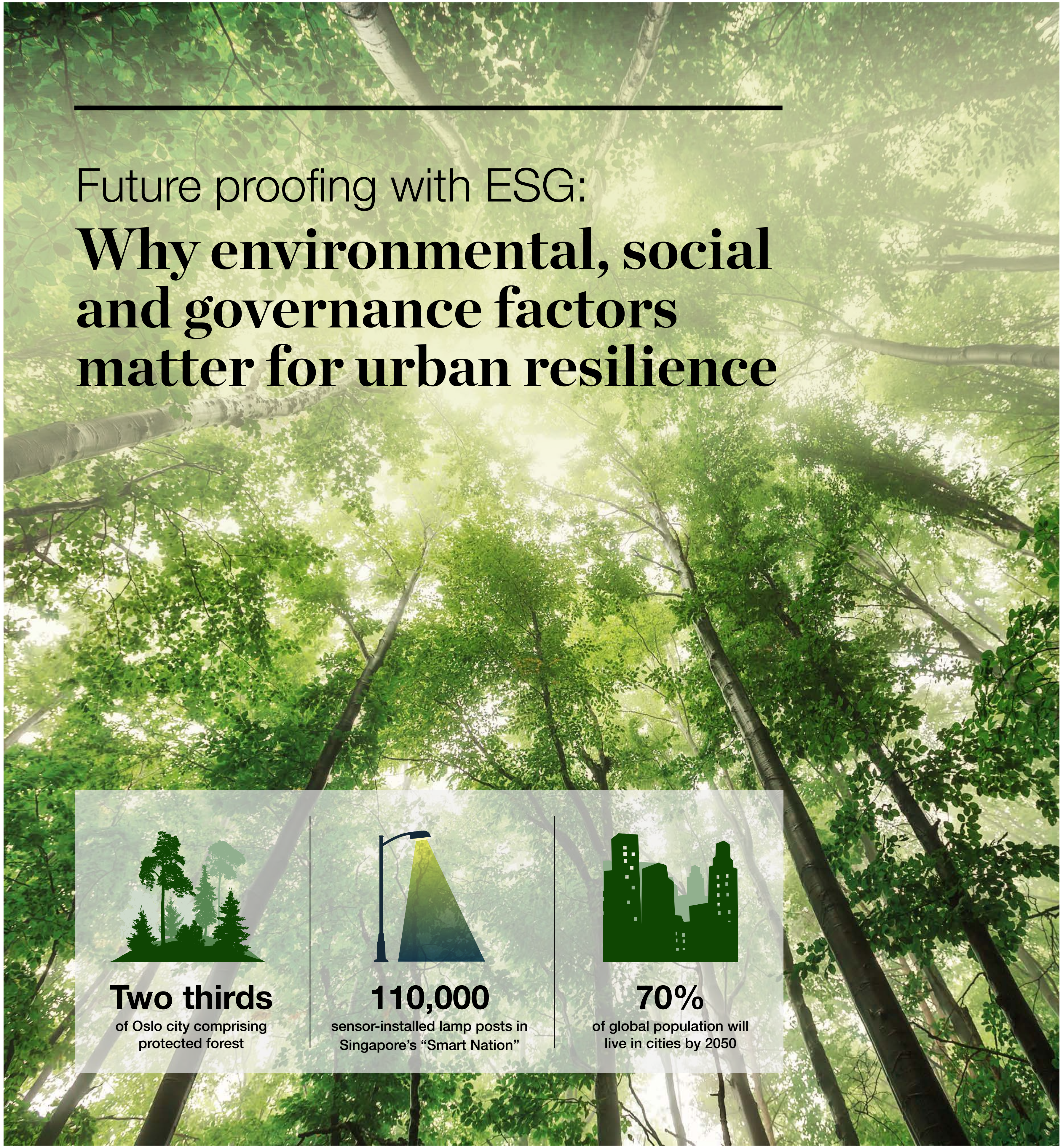

Future proofing with ESG:

Why environmental, social and governance factors matter for urban resilience

Two thirds
of Oslo city comprising protected forest

110,000
sensor-installed lamp posts in Singapore's "Smart Nation"

70%
of global population will live in cities by 2050

Greater population and real estate density in cities mean that many environmental problems effecting cities and their citizens are specific to urban spaces and affected by the ESG performance of real estate. Certain ESG risks are greater in cities than in rural counterparts due to the sheer number of people and systems competing for resources in one area – resources such as land, space, air, water, food and other amenities.

But cities aren't all about overcrowding, resource scarcity and pollution. Over the last generation policy makers, private and public-sector institutions are changing the way we think about cities: from the post-industrial notion of cities as places of filth and poverty, to a brighter more optimistic vision of the places where we citizens work, rest and play.

We now talk about **Green cities** like London which in 2019 is launching the London National Park City program to make the city "greener, healthier and wilder". Or Oslo which was named as the European Commission's European Green Capital for 2019, with two thirds of the city comprising protected forest, which the Commission reports is frequently visited by 75% of Oslo's citizens.

We talk of **Smart cities** like Singapore where the national government has developed the "Smart Nation" initiative to harness technology networks and big data to empower its citizens, including a network of 110,000 sensor-installed lamp posts to collate data for incident response and better decision making in urban planning and maintenance. Or Stockholm, where the city-owned Stokab dark fibre system delivers a universal fibre optic network across the city.

In 2018, Savills Investment Management's annual **Dynamic Cities** index ranked the top European cities which are best positioned to handle future economic and population growth trends in a sustainable way: www.dynamiccities.savillsim.com.

And then there are **Resilient cities** like those in the Rockefeller Foundation's Global 100 Resilient Cities (100RC) program (www.100resilientcities.org) which helps cities become more resilient to the physical, social and economic challenges which are a growing part of the 21st century. As weather events become more extreme, frequent and unpredictable, ensuring cities and real estate are climate change-resilient becomes increasingly important. The 100RC also speaks of the "Resilience Dividend" – the net social, economic and physical benefits achieved when urban planning decisions are forward-looking, risk aware, inclusive and integrated; traits which also drive ESG integration in the management and redevelopment of real estate assets.

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Changing how we think about cities is changing what we expect from real estate, particularly in urban areas. In 2015 the United Nations (UN) introduced the first urban sustainable development goal on *Sustainable Cities and Communities*, showing that buildings and urban spaces are key to ensuring the UN's global vision of how sustainable development is achieved, particularly if we consider their estimate that c.70% of global population will live in cities by 2050.

It is increasingly important for real estate assets to be resource efficient, resilient to the effects of climate change, and promote biodiversity and social integration. In this brochure we look at Savills Investment Management's ongoing mission to measure, monitor and improve the environmental and social impact of the real estate portfolios assets we manage on behalf of our clients.

As a PRI signatory since 2014 we are committed to the six principles for responsible investment, including transparency and reporting of ESG performance. In this report we track Savills Investment Management's ESG performance including our improving PRI and Global Real Estate Sustainabiltiy Benchmark scores. The brochure also includes discussions from global investment and research teams on how ESG is shaping future trends in property investment and development. UK Portfolio Manager, Lucy Winterburn examines how integrating ESG in the redevelopment of logistics assets can help us redefine industrial asset use. CEO of Europe and Head of Italy, Giuseppe Oriani and Cristiano Ronchi discusses the opportunities and challenges of more ESG data from buildings in continental Europe, and Benedict Lai from Savills Investment Management's Asia-Pacific Research team discusses the ESG trends shaping the Asian real estate market.

We hope you find the report useful and beneficial. We strongly believe that future proofing your real estate with an ESG focus can have positive impacts on the urban environment, providing the resilience it needs for ongoing sustainability.

UK development

Redefining industrial asset use with ESG

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It is widely accepted that environmental, social and governance (ESG) is firmly on the agenda when designing new office, retail, leisure or residential space in the UK. The planning process increasingly requires new buildings to achieve a number of stringent ESG targets with BREEAM accreditation a standard measure of sustainability and end users increasingly buying into the benefits.

These sustainable enhancements are eminently feasible in most central business districts and residential developments where we live, work and play. But can the same be said for the lowly industrial shed often located in out of town locations where operational resilience and functionality is key?

It's tempting to pigeon hole the industrial sector from an ESG perspective as the poor relation - a low cost, basic specification, functional area of the real estate market with little regard for future proofing and sustainable innovation and negligible regard for social benefit. But this position could be set to change. With industrial occupiers recognising the benefits of environmentally resilient buildings, we ask: how can ESG help industrial assets to stay relevant to a changing occupier market?

In the following case study, Lucy Winterburn Director of Investment and Portfolio Manager for a corporate pension mandate managed by Savills Investment Management talks about how incorporating ESG in the redevelopment of industrial assets, above and beyond planning requirements, can help us rethink current and future use of industrial space to fit changing tenant requirements and drive socially and environmentally conscious development.

Case study

Health and Well-being in logistics development

in Didcot, Oxfordshire, UK

Savills Investment Management's proposal to develop two industrial buildings totalling 300,000 sq. ft in Didcot, Oxfordshire includes ambitious standards of innovative design and environmental sustainability.

The assets have been designed to achieve BREEAM New Construction "Very Good" as a minimum and include photo-voltaic-ready roofs and rainwater harvesting technology. This will achieve the minimum criteria set by the Local Authority to achieve planning consent and so in isolation, is very little to shout about.

What stands out with this case study is that the buildings will also be developed to prioritise social requirements such as health and well-being, which are becoming increasingly important to tenants – even those who occupy industrial warehouse space. Whilst the buildings will suit modern occupier's operational needs – dedicated gatehouses, 12.5m clear eaves height, 50m yards, dock and level access doors, ample HGV and car parking provision - we will also incorporate an enhanced glazed main elevation enclosing a defurbished office component. To defurbish the office space is to deliver it in a relatively raw state – gone are suspended ceilings, carpeted raised floors and plaster-boarded walls. Cellular offices are replaced with collaborative spaces and the fabric of the building is proudly exposed. The aesthetic is current, flexible and functional.

> *"This is a new and exciting concept*

> *"Landscaped gardens, woodland walking routes, outdoor seating and a grass-covered amphitheater*

> *"This is a step change from the basic office specification one might expect*

This is a step change from the basic office specification one might expect to find in modern warehouses ironically providing an authentic "industrial look" in an industrial building. We embrace this defurbished specification in our offices, retail, leisure and residential spaces, why hide it in its home?

Externally, the wider Didcot development has been designed to include green and social spaces to encourage exercise and promote employee health and well-being. Attenuation ponds will provide a dual purpose

1) a functional surface water management system and

2) the sustainable optimisation of on-site biodiversity.

Attractive landscaped gardens, woodland walking routes, outdoor seating and even a grass covered amphitheatre provide common areas where employees can meet and take time out from their shift work.

This is an example of Savills Investment Management testing the standard concept that an industrial occupier only wants space to be functional. Bringing lessons learnt through our experience in retail, office and residential development on a measured basis, we see no reason why the ESG drivers for an industrial tenant should be fundamentally different to any other commercial or residential tenant or end user.

The focus on quality of space, health and well-being in industrial assets is a new and exciting concept, but one we feel makes perfect commercial sense in light of an occupier market where ESG aspects, and particularly social elements are increasingly material.

ESG data in European real estate

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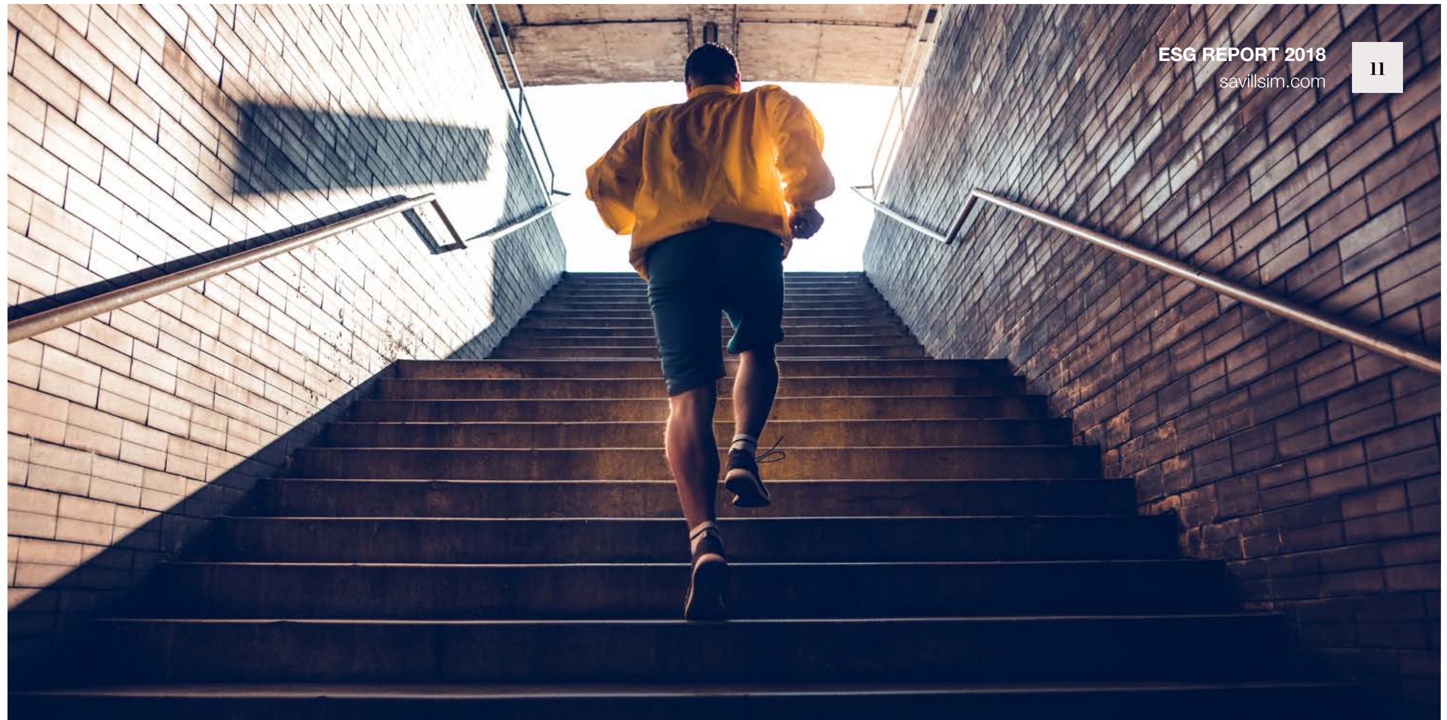
Innovation, green technology and the digitalisation of European real estate is increasing the amount of ESG data available for built assets. Innovative technology such as automatic meter readings (AMRs), building management systems (BMS) and sensors, provide real-time data on everything from building temperature, indoor air quality, waste production volumes and desk availability. This is creating assets which are smarter, more energy efficient, and better suited to tenant requirements. The integrity and importance of ESG data in real estate is therefore growing.

Giuseppe Oriani, CEO Europe and Cristiano Ronchi, Head of Italy for Savills Investment Management Italy, talk here about the opportunities and challenges created by an increase in ESG data from technology in buildings, which can lead real estate investment managers to make more data driven decisions and improve asset efficiency, leading to enhanced environmental benefits and reduced running costs.

Collecting and analysing ESG data for our built assets is a crucial challenge for the real estate industry. Despite the buildings we own and occupy, there are social and governance benefits for measuring the environmental and social impact awareness of the places where we live, work and play. Understanding the ESG impact of real estate is relatively challenging compared to other industries and asset classes because collecting ESG data relies not only on how we use the technology, but also on the relationship with tenants which, in many cases, own and control asset ESG data.

To facilitate better ESG data collection across Savills Investment Management Italian Funds, since 2016 we've included mandatory green clauses in lease contracts which oblige tenants to report to us their energy, waste, water and greenhouse gas (GHG) consumption data. We've invested in the necessary technology to enhance our ESG data through collecting capabilities and upgraded the BMS across our portfolios via a series of refurbishment projects, in a push to increase the number of assets which are LEED or BREAM certified within our portfolios.

Last year we enhanced the BMS in a 12,000 sqm, multitenant office building in Assago. Combined with green lease clauses for all 10 tenants to share their energy, waste, water and GHG data with us, and our insistence that all our property and facility managers conform to ESG data collection requirements, this has resulted to greater coverage of ESG data across our portfolio, reflected in a 13% increase in Performance Indicator data score in this years' GRESB survey.



More ESG data: CHALLENGES *and* OPPORTUNITIES

If we apply the mantra that "you can only improve what you can measure" it's clear that the measurement of certain ESG metrics can lead to improvements in resource consumption and the environmental impact a building has on the surrounding environment.

However, as managers we need to be aware that as more ESG data becomes available – and expected – there is an increased requirement for innovation and new methods of measuring ESG performance. This raising of the bar is reflected by the evolution of the Global Real Estate Sustainability Benchmark (GRESB) survey which uses scored indicators to reflect market ESG practice, and benchmarks participants against their peers. In 2009 when the survey began, participants were asked whether they collected ESG data from their assets: yes or no. But the survey, in reflection of market sentiment on the importance of ESG data, has moved on significantly since then.

The GRESB survey now requires the precise input of energy, waste, water and greenhouse gas emissions for each asset within a portfolio detailing the asset type, floor area and percentage of portfolio coverage, as a way of measuring a portfolio's reduction in like for like consumption. Granular ESG data is now a regular investor demand which managers must consider. GRESB also weights the score for performance data indicators higher than other indicators within the survey, indicating the market sentiment that measuring a portfolio's ESG impact, using precise quantitative data, is paramount.

Constantly raising the bar of how much ESG data is expected can lead to environmental benefits, but it also keeps pressure on the industry to find new and innovative ways to keep up with and outperform investor ESG expectations.

There is also the question of quantitative over qualitative measures. In a real estate market where more numerical data is available to indicate asset resource efficiency and environmental performance, it's important to remember that whilst data can be a useful tool for indicating, for example, like for like reduction of energy consumption in an asset, it may not tell the full story of the building. Measuring the number of kilowatt hours of energy consumed, or kg of waste produced by an asset may not reflect the true social or governance performance of an asset to those factors which are more qualitative in nature. It is important that, as more and more ESG data becomes available the industry players are not blinded by an abundance of data but continue to scrutinise how we use ESG metrics to feed into responsible investment management decisions.

ESG Trends *shaping the Asian investment market*

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ESG factors are becoming increasingly important investment considerations across the investment management landscape. Megatrends in the Asia-Pacific region such as urbanisation, population growth and an aging population in many markets, together with climate change are transforming sustainability into a material issue for companies and investors alike.

Over the past two decades, investors in the Asia-Pacific region – which consists of multiple emerging markets that have made economic growth a priority – have typically taken a shorter view on investments i.e. the pursuit of financial profitability far supersede ESG factors. Coupled with a lack of government initiatives to drive sustainable investing, Asian investors and their fund managers have lagged behind their Western counterparts in embracing ESG principles and policies. Until recently, ESG policies were often considered as secondary or even minimal importance for some Asia-based general partners (GPs) given their primary focus on maximising returns, the practical difficulties of implementation and the need to account for cultural differences and local practices.

However, limited partners (LPs) investing in Asia are now putting a greater emphasis on ESG issues and are pressuring GPs to adhere to sound ESG principles and invest responsibly or risk losing the relationship and even commitments. Empirical studies show that there is a premium on 'green' property investments, which helps to reduce operating expenditure while reducing carbon footprint. (table 1). The UN-backed Principles for Responsible Investment (PRI) noted that the ESG-related opportunities lie predominantly in real estate, infrastructure, energy transition and agriculture. Specific products include green bonds, whose issuance has grown dramatically over the last three years but still insufficient to meet demand in the institutional market. Other products include pooled investment funds, with some form of government-supported risk mitigation as well as thematic investment funds.

Table 1: Overview of research studies analysed

Segment Key: Residential Office

	Author/ source	Year	Sample period	Location	Segment	Sample size (number of objects)	Scheme	Sales or rental yields	Price increase/ decrease	Magnitude Sales	Magnitude Rents
A	Fuerst, McAllister, Nanda, Wyatt	2013	1995-2011	UK	Residential	325,950	EPC	Sales	Positive	6-14%	-
B	Kok, Kahn	2012	2007-2012	US	Residential	1,604,879	EnergyStar, GreenPoint Rated, LEED	Sales	Positive	9%	-
C	Deng, Li, Quigley	2012	2000-2010	Singapore	Residential	74,278	Green Mark	Sales	Positive	4% (to 11%)	-
D	Yoshida, Sugiura	2014	2002-2010	Japan	Residential	41,560	Tokyo Green Building Program	Sales	Mixed	-5% to +17%	-
E	Fuerst, McAllister	2011	1999-2008	US	Office	24,479	Energy Star, LEED	Both	Positive	25-26%	4-5%
F	Kok-Jennen	2012	2005-2010	Netherlands	Office	1,072	EPC	Rents	Positive	-	6.5% (to 12%)
G	Newell, Macfarlane, Walker	2014	2011	Australia	Office	366	NABERS	Both	Mixed	-1% to +9%	-1% to +7%

Source: Allianz Global Investors

[1] South China Morning Post
[2] Eurekahedge Research
[3] Allianz Global Investors and Asia Pacific Real Estate Association (APREA)

Compared to 20 years ago,

more countries now recognise the benefits of ESG considerations in real estate, namely that economic development is linked to environmental and socioeconomic issues. Since then, governments have embarked on several ESG initiatives and ESG trends in the Asia-Pacific (APAC) region are on the rise. Here, Benedict Lai in Savills Investment Management's APAC Research team looks at some of the ESG trends are being adopted in the region

The Australian and New Zealand

real estate markets have retained their position as regional market leaders of sustainable investments, according to the 2018 GRESB survey results. The GRESB survey is the global benchmark for the ESG performance of real assets. A high level of transparency, collaboration and knowledge-sharing, as well as accountability for sustainable solutions, have helped both countries stand out among their global peers.

Mainland China

Mainland China has seen a growing demand for green buildings as the country shifts towards a green economy and increases its efforts to address the potential environmental impact of its buildings. In comparison to many developed Western economies that have stringent regulatory frameworks in place, China lacks formal regulatory mechanisms requiring investors (particularly asset owners) to take ESG factors into account in their investment processes. However, China has improved the previous lack of ESG guidance for investors by publishing guidelines to establishing a 'green financial system' in 2016.

Singapore

The Singaporean government joined the green building movement by launching the Building Construction Authority Green Mark scheme in 2005, which serves as a benchmark for evaluating environmental sustainability in buildings and aims to have at least 80% of buildings achieve 'green' status by 2030. A green financing trend is also emerging. In August 2018, a listed Singapore developer secured a 'green' bridging loan – the first of its kind – from HSBC to acquire a LEED Platinum pre-certified and BREEAM Excellent rating London commercial development (Ropemaker Place) .

Japan's government

Japan's Government Pension Investment Fund (GPIF), the world's largest pension fund, is using ESG as a better beta strategy, to improve the market as a whole rather than to seek excess returns. The pension fund wants to promote ESG investments by reducing the negative impacts of corporate activities on the environment and society to improve long term portfolio returns.

These examples illustrate improvement in ESG awareness in the Asia-Pacific region, which is consistent with broader trends in global financial services and taxation regulation. The global financial crisis, for example, has shed light on the need for more stringent corporate governance and disclosure requirements to help protect investors' interests. Developments such as the European Alternative Investment Fund Managers Directive, the US Foreign Account Tax Compliance Act and the Dodd Frank/Volcker Rule reforms in the United States have had an important and ongoing influence on global markets.

With global business and investing moving toward a more sustainable model, institutional investors need to position themselves for a different future. Indeed, institutional demand for ESG factors to be included as part of the investment process is certainly growing. We expect to see more fund managers recognising the benefits brought by ESG from a corporate governance and investor acceptability point of view.

Incorporating ESG into existing practices will undoubtedly be challenging, especially in a region where credible ESG data is lacking. However, through improving market transparency and wider acceptance of global trends such as sustainability, we think the outlook ahead for ESG adoption in the Asia-Pacific region looks promising. After all, a successful corporation is not only defined by its business needs and achievements, but also by the positive role that it can play in the community and conducting business in a responsible and sustainable manner.

Tracking our ESG *IMPACT*

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Measure, monitor, improve:
Savills Investment Management understands that these are the foundational steps of improving the environmental, social and governance impact of our investment and business operations.

When we measure our ESG impact, we can fully understand our environmental and social impact and identify ESG opportunities and risks, for portfolio improvement.

Our commitment to accountability and transparency is demonstrated through our becoming a signatory of the UN-supported Principles for Responsible Investment (PRI), which we joined in 2014. Since becoming a signatory we have continually improved our scores in both the Strategy and Governance, and Property modules every year, and this year maintained our score of A across both sections. Each year we use the PRI Assessment Report process and identify opportunities where we can improve our ESG performance across our business and become a more responsible investor.

In line with the 6th principle to report our responsible investment activities, below are the key results from our PRI Assessment Reports and the Global Real Estate Sustainability Benchmark (GRESB): the organisation committed to measuring and reporting the ESG performance of real estate portfolios across the globe. We have voluntarily measured up to eight of our Funds against the benchmark since 2012 and this year demonstrated our continued commitment to monitoring and transparently reporting the ESG performance of our funds by joining GRESB as a member.

PRI Principles for Responsible Investment

Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

Principle 6

We will each report on our activities and progress towards implementing the Principles.

2018	A/A	*2016*	B/B
2017	A/A	*2015*	B/B

GRESB

EUR **4,373** billion — AUM submitted in 2018

25% of global AUM reported to GRESB

8 UK and Pan-European Funds

Corporate Pension Mandate maintained Green Star status

101% average score increase since 2012

Corporate social *responsibility*

We know that being a responsible investment manager means walking the green walk and demonstrating social and environmental impact in how we operate as a global business, as well as measuring and improving the ESG impact of our investment activities.

In 2018 Savills Investment Management committed to reducing our waste impact and enhancing our positive community impact on local communities. In 2018 so far, we have progressed this objective in the following ways:

Globally

400 reusable coffee cups have been provided to Savills Investment Management staff across out global offices. This equates to 246,000 fewer single-use, unrecyclable, polyethene-lined cups being produced, which would otherwise have been sent to landfill. The initiative has also meant CO_2 savings of 27,044.16 kg – equivalent to providing electricity for the average home for 4 years.

400 reusable coffee cups

Source: US Environmental Protection Agency Greenhouse Gas Equivalencies Calculator

LONDON

In our largest office, in London, general waste bins were replaced with recycling facilities, leading to a

50% reduction in waste to landfill

75% of all waste produced by Savills Investment Management's London office is now recycled.

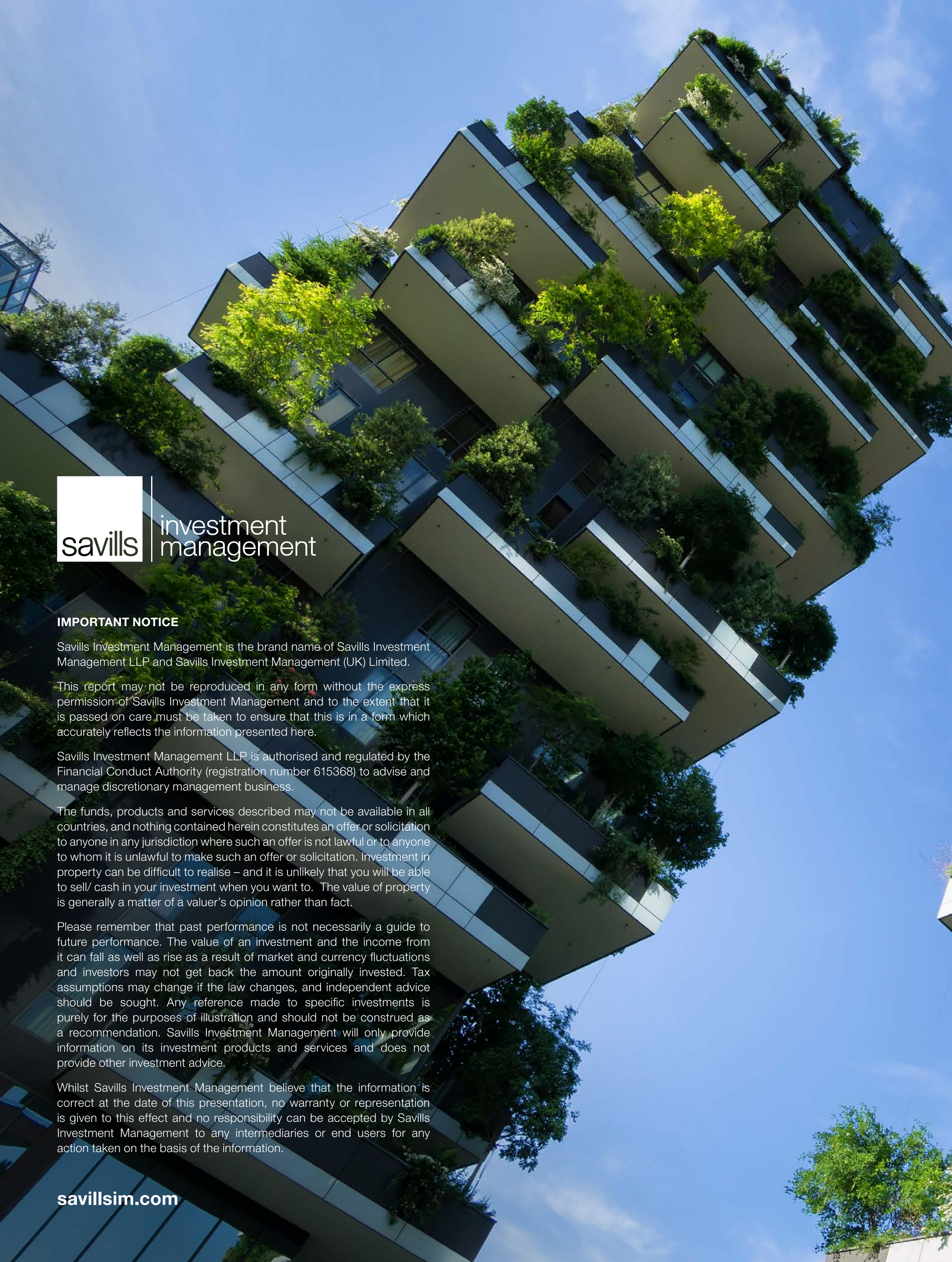
In August, our staff volunteered 76 hours of their time to clean the London canal in collaboration with the Canal & River Trust. Savills Investment Management volunteers spent a day litter picking, cutting back vegetation and cleaning locks to improve local waterway and towpath environment, and enhance community experience in the area. The Canal & River Trust looks after 2,000 miles of canals, rivers, docks and reservoirs across the UK and plays a vital role in protecting and maintaining the UK's waterway environment.

Milan

Our Milan office has pledged to go plastic free by the end of 2018 by installing drinking water filter taps and providing reusable drinking bottles for staff, in replacement of disposable, plastic water cooler refill bottles.

The initiative results in 12,000 plastic water bottles being diverted from landfill and reduced running costs for the business.

12,000 bottles diverted from landfill



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