
Five stages of managing real estate responsibly

Real estate | August 2019



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Investing responsibly in real estate is complementary to our core objective of delivering strong risk-adjusted returns for clients. Here, we outline our approach to managing property assets and demonstrate how we apply these principles

Buildings are on the front line of the fight against climate change, as real estate consumes around 40% of the world's energy and contributes up to 30% of its annual greenhouse gas emissions.¹ With the UK committed to cutting its carbon emissions by 80% by 2050,² the country's real estate owners have an important part to play in achieving this reduction.

At Columbia Threadneedle Investments we are alert to this responsibility. We are committed to a responsible investment approach that creates sustainable long-term value, and we strive to be responsible stewards of our clients' assets within a framework of good governance and transparency. Being a responsible investor helps us generate better investment decisions and outcomes, is integral to our business proposition and defines how we act in the marketplace.

Risk mitigation and continuous improvement

Key to our approach is an understanding of the environmental and social risks posed by real estate assets. We focus on mitigating those risks and seeking continuous improvement by assessing the environmental and social impacts throughout the lifecycle of our property assets. This approach is ingrained within the day-to-day activities of our business, to the extent that we are a signatory of the United Nations-supported Principles for Responsible Investment (PRI), and as a result are assessed annually on how we incorporate environmental, social and governance (ESG) issues into investment practices across asset classes. As a business we were recently awarded a clean sweep of A and A+ ratings, with property receiving an A rating (versus a B last year), against an industry average of B.³

¹ Sustainable real estate investment: Implementing the Paris climate agreement – an action framework, PRI, 2016, <https://www.unpri.org/property/sustainable-real-estate-investment-implementing-the-paris-climate-agreement/138.article>

² Climate Change Act 2008, http://www.legislation.gov.uk/ukpga/2008/27/pdfs/ukpga_20080027_en.pdf

³ PRI Assessment Report 2019, Threadneedle Asset management Ltd

OUR FIVE-STAGE PROPERTY PROCESS

1. PROPERTY INVESTMENT (ASSET ACQUISITION)



Our fund managers carry out forensic due diligence and comprehensively survey all properties considered for acquisition. They look at factors including energy performance/MEES (minimum energy efficiency standards), environmental risks/impact (including flood risk), and areas for potential improvement in terms of sustainability performance.

2. STRATEGIC ASSET MANAGEMENT



Our asset managers develop unique strategies to add value to every building we manage. They consider areas including environmental, energy and water efficiency, waste management and sustainability best practices. They also look at ways to promote health and well-being and community engagement. Finally, our asset managers seek opportunities to promote information sharing and co-operation with tenants, to enable sustainability strategies to be jointly implemented by the occupier and the management team.

3. REFURBISHMENT AND BUILDING IMPROVEMENT



Refurbishments carried out by our asset managers offer the greatest potential to improve the environmental and social impact of our buildings. Our Refurbishment Guide promotes high sustainability standards, and construction projects incorporate a set of minimum requirements relating to: environmental management; building quality and flexibility; health and well-being; energy efficiency; transport; water; building materials; waste management; and ecology and pollution.

4. RISK AND GOVERNANCE



Columbia Threadneedle Investments' Property team benefits from rigorous risk and governance controls. We have an integrated Property Governance team providing "first line" risk and governance oversight. The team also has a liaison function with Group Investment and Operations Risk and Compliance ("second line" oversight), and with Audit ("third line") as required. Our investment and management process controls are also independently audited on an annual basis as part of our company's ISAE reporting obligations.

5. PROPERTY MANAGEMENT



We are active managers who seek to continually improve the day-to-day environmental impact of our buildings while maintaining high levels of occupier satisfaction and engagement. This is achieved by dedicated Oversight Managers who collaborate with third-party managing agents to deliver objectives aligned to clearly defined targets set out in our Sustainability Road Map (see below).

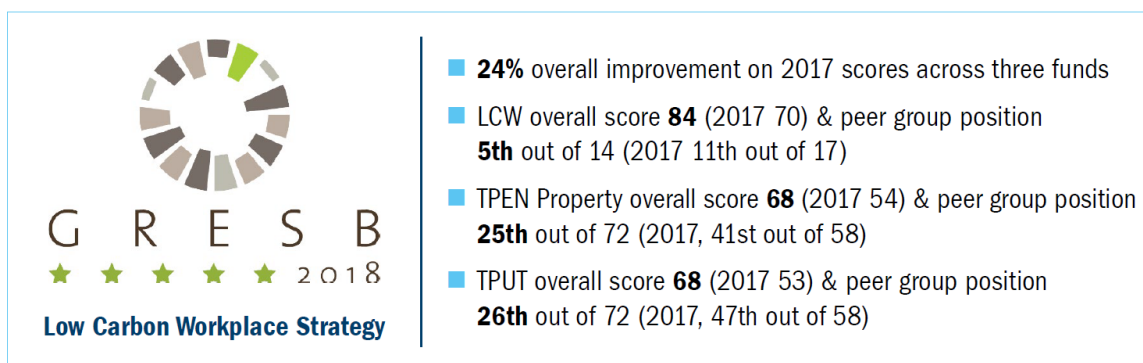
Our Sustainability Road Map targets

- **Energy management and reduction** A 10% reduction in energy use by 2024
- **Greenhouse gas reduction** A 15% decrease by 2024
- **Energy procurement** 95% of directly managed property to have green energy tariffs by end of 2019
- **Waste management** 95% of directly managed property to have zero waste to landfill by end of 2019
- **Community** Identify opportunities to positively impact communities and stakeholders (eg, supporting and hosting charity groups, monitoring “walkability” to properties)
- **Tenant engagement** Carry out regular occupier engagement and satisfaction surveys

We have an established ESG Working Group, comprised of members of the Real Estate team and Columbia Threadneedle’s global Responsible Investment team, which reports to the Property Committee. The working group ensures our responsible management approach is applied across our business. We also have a Responsible Property Investment Policy Statement which applies directly to all our real estate assets.

In order to benchmark our performance, the Threadneedle Pensions Limited Pooled Property Fund (TPEN Property), Threadneedle Property Unit Trust (TPUT), and the Low Carbon Workplace Fund (LCW) are independently assessed against the Global Real Estate Sustainability Benchmark. In 2018 we were delighted that all these funds achieved a green star rating, with the LCW achieving the maximum of five stars with an overall score of 84, while our two balanced institutional funds, TPEN Property and TPUT, both achieved three stars and a score of 68.⁴ We have also increased our fund participation in the GRESB Benchmark in 2019, adding our third-party segregated mandates and the Threadneedle UK Property Authorised Investment Fund.

2018 GRESB report highlights



⁴ 2018 GRESB Real Estate Results, <https://gresb.com>

Important Information.

For the Threadneedle Pensions Limited Pooled Property Fund (TPEN Property) Key risks: No Capital Guarantee. Positive returns are not guaranteed and no form of capital protection applies. Property Liquidity Risk: It may be difficult or impossible to realise an investment in the fund because the underlying property concerned may not be readily saleable. Property Valuation Risk: The value of a property is a matter of a valuer's opinion and the true value may not be recognised until the property is sold. Property Market Risk: The performance of the fund would be adversely affected by a downturn in the Property market in terms of capital value or a weakening of rental yields. Uninvested Cash: Due to the illiquid nature of property and the time it can take to buy or sell assets, under normal circumstances up to 20% of the fund's assets may be held in cash deposits. In exceptional circumstances, the level of cash held by the fund may be significantly higher. Holding high levels of cash will have an impact on the performance of the fund and its distributable income until the excess cash is invested in property assets. The Threadneedle Pooled Pension Funds Key Features Document (KFD) is available on the institutional site of www.columbiathreadneedle.co.uk. The KFD gives a summary of information about Threadneedle Pension Limited's pooled pension funds in order to help you decide if you want to invest in funds, as well as a full list of risk factors applying to the funds. Please refer to the 'Risk Factors' section of the Key Features Document for all risks applicable to investing in any fund and specifically this Fund. Threadneedle Pensions Limited. Registered in England and Wales, No. 984167. Registered Office: Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

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