

SUSTAINABLE FUND & ASSET MANAGEMENT



This document describes some notable examples of sustainability actions undertaken by our Fund and Asset Managers in 2008.

IMPROVER PORTFOLIO: EXAMINING THE LINK BETWEEN ENVIRONMENTAL IMPACT AND INVESTMENT RETURNS

We established an internal Improver Portfolio in March 2007, consisting of 22 properties drawn from all sectors, worth approximately £300 million. The main objective of this Portfolio is to examine ways in which we can reduce a 'typical' property portfolio's environmental impact whilst maintaining or even enhancing investment returns.

This is a pioneering project for the UK property industry and, since its launch, our asset managers for the properties comprising the Improver Portfolio have been making a series of low and no-cost investments to reduce the environmental impact of the portfolio. Griffin Industrial Estate and Waterside Shopping Centre provide examples of the work undertaken in the Improver Portfolio:

GRIFFIN INDUSTRIAL ESTATE, SOUTHAMPTON

Actions	Outcomes
<p>At Griffin Industrial Estate which was built in the 1980s, we completed a substantial refurbishment of a parade of derelict industrial units totalling over 3,300m². During the refurbishment we incorporated a number of low and no-cost green initiatives including the use of recycled carpeting, organic paints and sustainable timber. We also installed energy efficient devices including T5 light fittings, and increased the natural lighting of the warehouses by 15% by increasing the skylight provision and improving surface finishes.</p>	<p>The results of the refurbishment works were very well received by external parties and potential tenants. As a result, prior to the completion works we achieved long-term lettings for the whole parade to high-quality covenants such as Tomy UK Limited, raising the market rent for the asset.</p> <p>Furthermore, since occupying their warehouse in May 2008, Tomy have been able to operate without the need for internal artificial lighting, saving approximately 60 tonnes of CO₂. This has had a considerable positive impact on the company's operating costs and business margins.</p>



Griffin Industrial Estate, Southampton

WATERSIDE SHOPPING CENTRE, LINCOLN

Actions	Outcomes
<p>Our teams recognised that there were a number of improvements that could be made at Waterside (a relatively modern shopping centre, built in 1991) to maximise resource efficiency. For example we have:</p> <p>Launched an Energy Awareness and Staff Engagement Programme.</p> <p>Installed a new segregated waste management system and a compactor system for cardboard and plastics.</p>	<p>Lighting was reduced through the use of bright paints, timers and energy efficient T5 light fittings.</p> <p>Natural ventilation of the centre was improved by maximising the use of roof vents and main entrances. All air handling units are now permanently switched off.</p> <p>These improvements have reduced electricity consumption, saving approximately 82 tonnes of CO₂.</p> <p>The segregated waste management system improved recycling rates to 44%, with a 50% reduction in waste handling costs.</p>



Waterside Shopping Centre, Lincoln

Occupier engagement represents a major challenge and opportunity in reducing carbon emissions of the buildings within the Improver Portfolio. In April 2008 we held a workshop on occupier engagement for Management Surveyors with properties in this portfolio, to provide them with the tools and information required to engage with occupiers on environmental issues.

"Climate change is a key area where both landlord and tenant have the same aims and can work together for their mutual benefit."

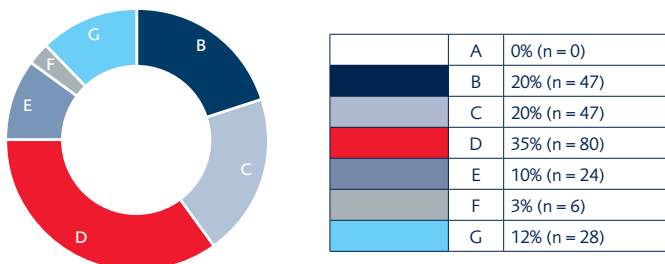
Tony Bennett, Asset Manager for the Improver Portfolio, PRUPIM

In these challenging market conditions the stock in the Improver Portfolio has matched performance in the wider market over the period 2007-2008. We are now rolling out the early findings to all our investment and asset management teams and we have issued a 'Top Tips to Reduce Carbon Footprint' guide for all our Property Managers, Shopping Centre Managers and occupiers.

IMPLEMENTATION OF ENERGY PERFORMANCE CERTIFICATES (EPC)

We were one of the first real estate investors to undertake energy ratings across our managed portfolio in advance of the regulatory requirements. PRUPIM started working with Royal & Sun Alliance and Charterhouse Energy in October 2007 to ensure that the necessary data and processes were implemented in advance of the introduction of EPCs in April 2008. Furthermore, we have taken a policy decision not to pass any of the associated costs (totalling approximately £700,000 in 2008) on to our occupiers. As at the end of 2008, we had EPCs for 243 managed assets and the ratings of these are presented in the chart below. The recommendations arising from the EPC rating process will be used to inform investment decisions and we have committed to incorporating cost-effective recommendations from EPC reports into our property asset plans.

40% of properties received an energy efficiency rating of C or above.



THOUGHT LEADERSHIP; PAUL MCNAMARA

Paul joined PRUPIM in 1987 and is now Head of Property Research & Information. In May 2008, Paul was awarded the Outstanding Industry Contribution Award at the IPE Real Estate Investor Awards, in recognition, amongst other things, of his exemplary work in the area of sustainability. This award is based on nominations from the investment and pensions industry throughout Europe, and represented the highest accolade on the night. Paul has shown enormous dedication to both advancing our own responsible property investment programme and campaigning on the issue globally through his work with the United Nations and the Institutional Investors Group on Climate Change (IIGCC).

Paul is co-chair of the Property Working Group of the UNEP Finance Initiative (UNEP FI). The UNEP FI is a global partnership between UNEP and the financial sector, who are working together to understand the impacts of environmental and social considerations on financial performance. The purpose of the Property Working Group is to encourage property investment and management practices that achieve the best possible environmental, social and financial results. As co-chair, Paul has overseen the publication of various tool kits and publications. Recent examples include 'What the Leaders Are Doing' and 'Building Responsible Property Portfolios' which highlight the impact that improving the sustainability performance of existing buildings can have on financial returns.

Paul also sits on the steering committee of IIGCC. In this role he assists in overseeing the activities of the IIGCC and coordinates the work of the IIGCC's property work stream, as well as co-writing their 2008 publication: 'A Changing Climate for Property Investment: A Trustee's Guide', which shows how incorporating climate change factors into investment decision processes is consistent with Trustees' fiduciary responsibilities. The IIGCC is a forum for collaboration between pension funds and other institutional investors on issues related to climate change. It seeks to promote a better understanding of climate change within the investment community and encourage companies to shift to a lower carbon economy.

"Properties are places where a significant proportion of CO2 emissions are generated. Hence, there is a need for concerted thought and action to be given to finding ways to reduce the environmental impacts of the existing built stock. There are a wide range of opportunities that exist for institutional investors who want to take positive action and apply the principles of responsible investment to their property assets. However, the complexities surrounding how properties are owned, leased and occupied are such that this requires specialist attention."

Dr. Paul McNamara, OBE
Director, Head of Property Research & Information Team, PRUPIM



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