

# BMO UK Property Fund – Responsible Property Investing

2018 review and targets for 2019



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Telephone calls may be recorded.

The fund is continuing to make progress with its responsible property investment strategy, culminating with the publication of the fund's inaugural Annual Responsible Property Investment (RPI) report.

The report presents an overview of our approach and provides a greater degree of transparency of performance and granularity of key ESG characteristics of the portfolio in respect of the annual reporting period to 28th February 2019. This note provides a summary of the report's highlights. If you would like to read the report in full, please download it [here](#).

## Key statistics

### Key risks

Past performance is not a guide to future performance.

The value of your investments and any income from them can go down as well as up and you may not get back the original amount invested.

The value of directly-held property reflects the opinion of valuers and is reviewed periodically. These assets can also be illiquid and significant or persistent redemptions may require the manager to sell properties at a lower market value adversely affecting the value of your investment.



**100%**  
of new leases on standing assets contain green lease clauses



**2** new BREEAM certified properties in 2018



**236** solar panels in the portfolio



**26%** improvement in GRESB score between 2017 and 2018



**95%** of assets have energy efficiency ratings of D or above

**1st**

real estate fund to receive real living wage accreditation



Source: BMO Real Estate Partners

## 1 Effective Leadership

The fund became accredited as a Living Wage Employer in June 2018 and is a market leader in this respect, being the first property fund to gain this acknowledgement from the Living Wage Foundation. See the full article at [www.bmogam.com/gb-en/institutional/news-and-insights/living-wage-accreditation](http://www.bmogam.com/gb-en/institutional/news-and-insights/living-wage-accreditation). Since June 2018 we are the first fund to put living wage clauses in leases, encouraging occupiers to apply similar principles.

Furthermore, we have been successfully introducing ‘green lease’ clauses into all new leases on standing assets since 2016, encouraging occupiers to manage and use the fund’s buildings in an environmentally efficient manner, as well as supporting the sharing of energy, water and waste use data to enable increased oversight of fund’s portfolio.



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## 2 Investment Process

Detailed RPI appraisals are undertaken for every investment opportunity in relation to factors which could potentially be considered material to future investment performance, including energy performance certificate (EPC) ratings, green building certifications and flood risk, ensuring that ESG is integral to the investment decision-making process. Once the fund acquires an asset, these RPI appraisals provide targets for annual business plans.

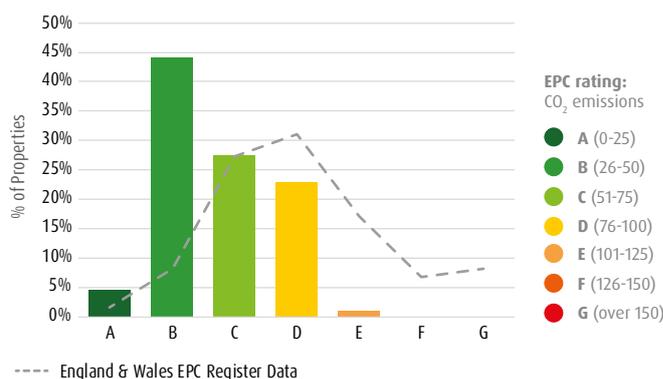
### EPCs & MEES risk

- The fund has no risk from the current Minimum Energy Efficiency Standards; all Energy Performance Certificate ratings in England are between A and E.
- 95% of Energy Performance Certificates are rated between A and D.
- As the chart in the next column shows, the fund is performing better than the market overall; 49% of the fund’s ratings are A and B, versus the market at 10%.

### Green building certifications

- In 2018 the fund acquired the Apollo in Birmingham and Minerva House in Leeds – both BREEAM accredited properties rated ‘very good’ and ‘excellent’ respectively.

**Distribution of Portfolio EPC Ratings against England & Wales Database**



Source: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-energy-performance-of-buildings-certificates>

### Flood assessments

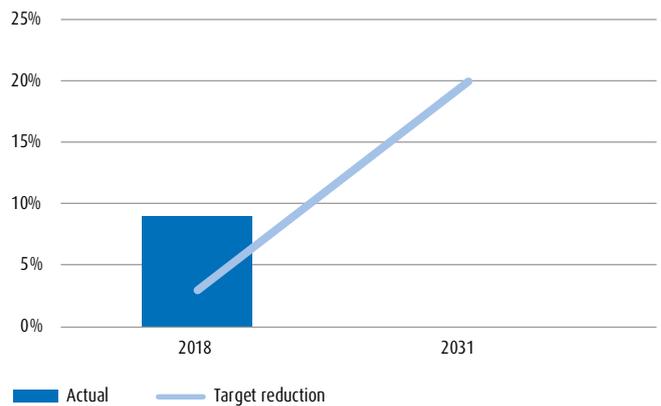
- 42% of the portfolio has negligible risk of flooding in all flood categories.
- 15% of the portfolio (compared to 31% of properties at risk in England) has a ≥1% annual probability of flooding from sea and rivers.

**3 Portfolio**

The fund constantly monitors ESG performance and risk factors across the portfolio. Where the property management team has direct operational control, both short and long-term targets have been set in respect of energy consumption, carbon emissions, water usage and waste management:

- As confirmed through external verification of energy consumption, the fund saw a 9% reduction (against a target of 3%) in like-for-like energy intensity in this reporting period. This is positive progress towards the fund’s goal of 20% reduction by 2031 against 2016 baseline. This can be broken down to a 5% reduction in like-for-like electricity usage and 3% increase in like-for-like natural gas usage.
- As the fund obtains 100% of landlord-procured energy from renewable sources, its net operational greenhouse gas emissions are effectively nil. The UK continues to expand its renewable energy network and while it does so the fund manager recognises that the less electricity and gas it consumes, the more renewable energy is available for others, hence the commitment to reduce our consumption year on year.
- There is ongoing engagement on environmental data sharing with occupiers with response rate by floor area having increased from 5% in 2016 to 17% in 2018.
- The fund is on track for zero waste to landfill by December 2020; 95% of waste was diverted in 2018.

**Like-for-like energy intensity reduction target**



Source: BMO Real Estate Partners

Where the property management team doesn’t have direct control, we can make a positive contribution during major refurbishments where a sustainability guide has been created and adopted by project teams. We are also looking at opportunities to take energy reduction across the portfolio one step further with the installation of on-site renewable energy and low-carbon technologies on suitable properties. For example, following the recent acquisition of Cambridge House in Bath, an opportunity arose to fund the installation of photovoltaic panels. Altogether the fund has 236 solar panels equating an approximate reduction of emissions by 18 tonnes (measured by carbon dioxide equivalent) per annum, as well as three sites with electric vehicle charging points.

**100%** of landlord-procured energy from renewable sources

The fund is on track for zero waste to landfill by **December 2020**

**95%**  
landlord-managed waste diverted from landfill

**9%**  
reduction\* (against a target of 3%) in like-for-like energy intensity

\*reduction occurred in a 12 month period  
Source: BMO Real Estate Partners

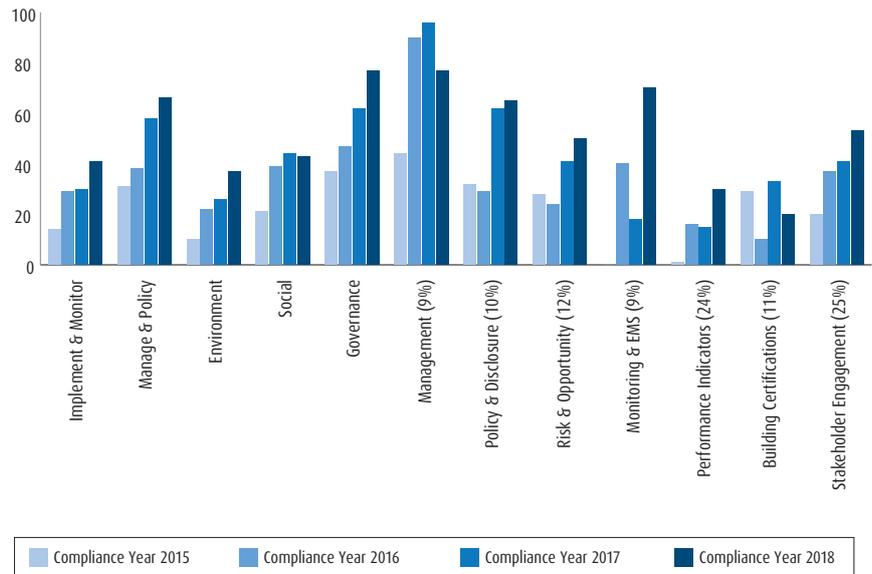
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Transparency

We already provide regular updates to investors on ESG performance, however a greater degree of transparency and granularity will now be provided to investors through the publication of annual RPI reports. Within this, the Fund has released its first statement in line with the recommendations of the Task Force for Climate-related Financial Disclosures.

Furthermore, the fund manager is pleased with the fund’s annual GRESB (Global Real Estate Sustainability Benchmark) year-on-year progress. Submission year 2018 saw an increase in overall score from 19% in 2015 to 48% (representing a 1 star rating out of 5), and the fund is aiming to achieve a 2 star rating in 2019. A summary of prior GRESB results can be seen in the chart opposite and full results can be made available on request.

GRESB score progression



Source: BMO Real Estate Partners

Final note

We hope that this note provides an interesting summary into the progress reporting and governance concerning the fund’s RPI strategy, as well as an update on successes the fund has achieved over the past year. We thank you for your ongoing support, and if you have any further questions concerning RPI initiatives then please do not hesitate to get in touch.



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