

Zurich Investment Foundation – Immobilien Europa Direkt (IED) Sustainability Report 2018

Sustainability Report 2018

The Investment Committee and the Investment Manager believe that a successful responsible investment programme should deliver enhanced returns to investors, improved business performance to tenants and tangible benefits to local communities and wider society.

The importance of environmental and social issues are investment factors that Schroders must understand to protect our clients' assets from depreciation.

Offering occupiers resource-efficient and flexible space is critical to ensure our investments are fit for purpose and sustain their value over the long term. As a landlord, we have the opportunity to help reduce running costs for our occupiers, increase employee productivity and well-being, and contribute to the prosperity of a location through building design and management. Ignoring these issues when considering asset management and investments would risk the erosion of income and value as well as missing opportunities to enhance investment returns.

Through its construction, use and demolition, the built environment accounts for more than one-third of global energy use and is the single largest source of greenhouse gas emissions in many countries.

The industry's potential to cost-efficiently reduce emissions and the consumption of depleting resources, combined with the political imperative to tackle issues such as climate change, means the property sector will remain a prime target for policy action. This presents new challenges and opportunities for the real estate industry with profound implications for both owners and occupiers.

A good investment strategy must incorporate environmental and social issues alongside traditional economic considerations. At Schroders we believe a complete approach should be rewarded by improved investment decisions and performance.

Further information on Schroder Real Estate's Sustainable Investment approach can be found at <https://www.schroders.com/en/uk/realestate/products--services/sustainability/>

Environmental management system

This year Schroder Real Estate, led by its Head of Sustainability, has continued to work with sustainability and energy management consultancy Evora Global to develop its Environmental Management System ("EMS"). The EMS is aligned with the internationally recognised standard ISO 14001. The EMS provides the framework for how sustainability principles (environmental and social) are managed throughout all stages of its investment process including acquisition due diligence, asset management, property management provided by third parties, refurbishments and developments, through to disposal. Schroder Real Estate reviews its Sustainability Policy annually which is approved by the Investment Committee. Key aspects of the Policy and its objectives are set out below.

Property manager sustainability requirements

Property managers play an integral role in supporting the sustainability program. Schroder Real Estate has established a set of Sustainability Requirements for Property Managers to adhere to in the course of delivering their property management services. These requirements are discussed and established with the property managers responsible for the Investment Group's (or fund's) properties as required. The aim is to improve the understanding of each asset's sustainability credentials and manage opportunities for improvement. The requirements include a set of key performance indicators to help improve the property managers sustainability related services to the fund and which are assessed on a six-monthly and annual basis.

Energy and Greenhouse Gas Emissions

Energy is an important element of landlord's responsibilities for buildings where the landlord has operational control. A key part of Schroders approach is to improve energy efficiency and reduce energy consumption. This will benefit tenants' occupational costs and should help tenant retention and attracting new tenants. Schroder Real Estate has continued to develop the monitoring of the fund's energy usage and efficiency as well as water and waste with analysis and reporting six monthly and annually. The energy management program includes setting targets on a country basis to improve sustainability effectiveness. Currently, the country specific energy targets include:

- Germany – 3% reduction to 2020/21 (2017/18 baseline)
- UK – 18% reduction to 2020/21 (2015/16 baseline)
- Finland / Sweden – 7.5% reduction to 2020/21 (2017/18 baseline)
- Belgium / France / Spain – Energy and carbon targets to be defined in 2019, as required.

The UK also has a greenhouse gas emissions reduction target of 32 to 2020/21 (2015/16 baseline), and which is inclusive of decarbonisation of the UK electricity grid over recent years.

Over the 12 months to 31 December 2018 a 1% increase in like for like energy consumption is reported.

The Energy Performance Certificate profile for the portfolio is set out within the Environmental Data Report.

Improvements, refurbishments and green building certifications

Schroder Real Estate seeks to carry out improvements and deliver refurbishments to sustainable standards and enhance operational performance. Where appropriate, buildings will be certified to the international BREEAM (the Building Research Establishment Environmental Assessment Methodology, an environmental assessment method and rating system for buildings) or LEED (Leadership in Energy and Environmental Design) standards.

Water

Schroder Real Estate monitors water consumption where the landlord has supply responsibilities and encourages asset-level improvements. Over the period a 6% increase in water consumption is reported.

Waste

Waste management and disposal activities are responsible for considerable negative environmental and societal impact. As a result, waste should be minimised and disposal should be as sustainable as possible. To this end, Schroder Real Estate has set an objective to send zero waste to landfill and to achieve optimal recycling over the period no waste to landfill was reported.

Environmental data

This year the Sustainability Report has been aligned with the INREV Sustainability Reporting Guidelines 2016 and therefore includes an Environmental Data report for the portfolio presented in line with GRESB (Global Real Estate Sustainability Benchmark).

Global real estate sustainability benchmark

The fund participated in the annual Global Real Estate Sustainability Benchmark ("GRESB") survey for the second time in 2018 and again achieved a Green Star. This rating is achieved where scores for the two dimensions of Management and Policy and Implementation and Measurement are at least 50 out of 100 points. GRESB is the dominant global standard for assessing Environmental Social and Governance performance for real estate funds and companies.

Schroder Real Estate intends to participate in the survey for the fund in 2019.

Health, wellbeing and productivity

The real estate industry is beginning to gain a new perspective on the importance of the built environment on human health, wellbeing and productivity. A number of schemes have emerged which seek to identify the impacts of spaces and places on people and provide new ways of certifying buildings. Case studies demonstrate the benefit of reflecting wellbeing in good design. Schroder Real Estate is working to embed this aspect into its investment process especially in relation to refurbishments and developments.

Stakeholder engagement and community

Schroder Real Estate seeks active engagement with tenants to ensure a good occupational experience to help retain and attract tenants. As the day-to-day relationship is with the property manager, Schroder Real Estate's Property Manager Sustainability Requirements include a key performance indicator on tenant engagement.

Schroder Real Estate believes in the importance of understanding a building's relationship with the community and its contribution to the well-being of society. Positively impacting on local communities helps create successful places that foster community relationships, contribute to local prosperity, attract building users and ultimately, lead to better, more resilient investments. Schroder Real Estate looks to understand and develop the community relationship to ensure investments provide sustainable social solutions for the long term.

Industry participation

Schroder Real Estate is a member of a number of industry bodies including the European Public Real Estate Association (EPRA), INREV (European Association for Investors in Non-Listed Real Estate Vehicles), British Council for Offices and the British Property Federation. It was a founding member of the UK Green Building Council in 2007 and in 2017 became a member of the Better Buildings Partnership and a Fund Manager Member ofGRESB.

Employees

The investment foundation is an externally managed real estate investment trust and has no direct employees. Schroder Real Estate is part of Schroders plc which has responsibility for the employees that support the fund. Schroders believes diversity of thought and an inclusive workplace are key to creating a positive environment for their people. Schroder Real Estate's real estate team have a sustainability objective within their annual objectives.

Further information on Schroders' principles in relation to people including diversity, gender pay gap, values, employee satisfaction survey, wellbeing and retention can be found at page 30 of Schroders Annual Report and Accounts 2018.

<https://www.schroders.com/en/sysglobalassets/digital/global/annual-report/documents/annual-report-full.pdf>

Corporate responsibility

Schroders' commitment to corporate responsibility is to ensure that its commitment to act responsibly, support clients, deliver value to shareholders and make a wider contribution to society is embedded across its business in all that it does.

Full information on Schroders Corporate Responsibility approach including its economic contribution, environmental impacts and community involvement, can be found at

<https://www.schroders.com/en/about-us/corporate-responsibility/>

Slavery and human trafficking statement

Schroder Real Estate the Investment Manager to the fund is part of Schroders plc and whose statement on Slavery and Human Trafficking has been published in accordance with the Modern Slavery Act 2015 (the 'Act'). It sets out the steps that Schroders plc and other relevant group companies ('Schroders' or the 'Group') have taken during 2018 and will be taking in 2019 to prevent slavery and human trafficking from taking place in its supply chains or any part of its business. Schroder Real Estate is part of the Schroders Group.

Schroders' statement can be found at <https://www.schroders.com/en/about-us/corporate-responsibility/slavery-and-human-trafficking-statement/>