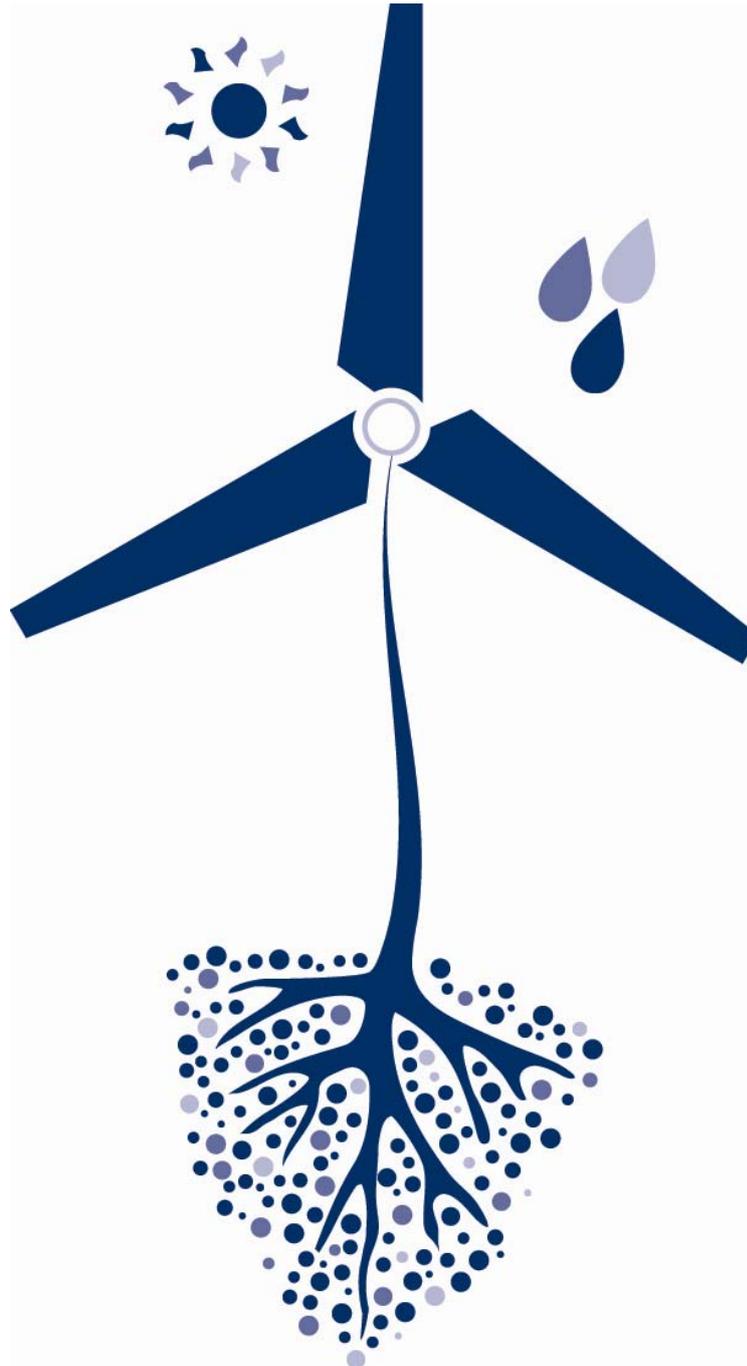


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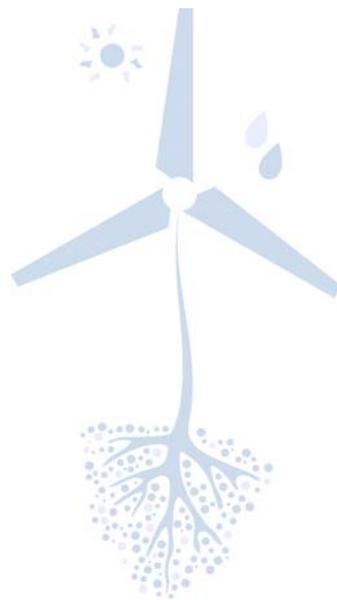
Responsible Property Investment



Introduction

Schroder Property is very experienced in the development and management of pooled property funds, managing property assets since 1971 with over £6.9 billion of gross property assets under management at 30 June 2009. Schroders manage a broad range of open and closed ended property funds offering investors exposure to both diversified and sector focused portfolios, single country funds, regional funds and global investments.

We have longstanding and extensive expertise of managing a varied range of property assets. We recognise the need to invest in a responsible manner due to the potential impact property investment activities may have on the environment and local communities. Analysis of factors influencing Responsible Property Investment (RPI) is integrated into Schroders' overall property investment process with the overriding objective of optimising financial returns for clients within specific investment and risk parameters.



Schroders plc commitment to corporate responsibility



The Schroders Group have a long standing commitment to corporate responsibility. The Schroder Property investment team seek to leverage this to enhance property specific policies. Below are a few examples of the work already undertaken by Schroders Group itself. Schroders have a dedicated Responsible Investment (RI) research team and in addition, members of Schroders' property research team analyse specific issues and trends.

- During 2008, Schroders made a number of key improvements to help minimise our environmental impact. Schroders continues to promote energy efficiency and waste avoidance throughout its operations. We have a history of measuring and managing the consumption of energy and production of waste and we remain committed to continuous improvement in this area and to the promotion of positive environmental practices.
- We were one of the first asset managers to fully recognise the importance of climate change and to launch a Global Climate Change equity fund, to capture what we believe to be one of the biggest single investment themes for the next 20 years.
- With the issue of climate change becoming ever more pressing, we have joined Green500, an initiative from the London Development Agency, which works with organisations to achieve carbon reduction goals as well as providing, in the future, independent verification of carbon savings.
- In 2009, for the fourth consecutive year, Schroders in London achieved a platinum award as part of the City of London's Clean City Awards Scheme. This placed us in the top 20 out of 1,300 buildings participating in the scheme that promotes the principles of reduce, reuse and recycle.
- We also continue to adopt and implement conservation measures in the design and use of buildings and equipment and continue to target the use of energy, the recycling of materials and reduction of consumables through office automation. We measure our performance in terms of waste management, energy usage and water usage.



The built environment



The built environment plays an important role in the world today. It is estimated that 90% of peoples' lives are spent in buildings and that the construction sector accounts for 10% of global GDP, and employs 7% of the world's working population. While there are obvious benefits offered by the construction sector through developing a country's infrastructure, providing employment and the ability to have a positive impact on the quality of life, there are also potential negative ramifications. In the UK the built environment accounts for almost 50% of all the UK's CO₂ emissions. Construction is responsible for almost 20% of commercial and industrial noise complaints. In developed countries the sector can account for almost 50% of all materials taken out of the earth by weight and major construction projects may raise high profile environmental issues. (Source: Schroders)

The benefits of Responsible Property Investment (RPI)

By factoring environmental, social and governance (ESG) considerations into the design, construction and operation of buildings we believe it may increase their long term market value, investment performance and reduce operational costs. Through managing environmental and social impacts, stakeholders can also reduce their exposure to risks such as obsolescence, energy wastage, reputation and legal penalties.

Schroders' approach to RPI

Schroders' primary investment objective is to achieve optimal financial returns for our clients within agreed risk parameters and investment constraints. We believe that this objective should be aligned with the development of a framework that allows a broader range of considerations, including ESG issues to be taken into account when selecting property partners and service providers, as well as investments. These issues are becoming an ever more important consideration in all aspects of our lives and legislation is continuing to demand stricter controls and improved standards. Schroders believes that by seeking to exceed current legislative requirements and by seeking to operate at a higher environmentally and socially sustainable level, we are more likely to deliver long term added value for our clients. A thorough understanding of non-financial criteria offers additional assistance in identifying winning investments and also avoiding likely underperformers. This analysis is fully integrated and considered in our investment approach.



The environment & sustainability – recent activities

Schroders' property team have been focused on issues relating to sustainability for a number of years, such as the impact on the environment from site pollution, strategies to clean up and reposition brownfield sites, matters relating to climate change and reducing a building's carbon footprint. We have been working with our occupiers to create strategies for waste recycling, reducing energy consumption and water conservation.

- Since 2007 we have worked with sustainability advisers Upstream to raise our awareness of the importance of sustainability. We have participated in their Third Dimension benchmarking service which measures a number of sustainability factors in Schroders' UK property funds against a universe of properties owned by other institutional investors. We are working with Upstream to see how this benchmark can be developed across the rest of Europe, recognising that, quite often, best practice is well established in continental Europe. This can then influence investment professionals in other markets.
- In November 2008 Schroders held a Sustainability Property Conference which brought together our pan European teams, partners and service providers to learn from each other and share best practice policy across Europe.
- In response to the Kyoto Protocol, the European Parliament introduced EPCs (Energy Performance Certificates). In the UK they have been compulsory for any building being sold or let in England and Wales from 1 October 2008. We recognise the introduction of EPCs as the first statement of government's intent to reduce carbon emissions from buildings, and our investment process already anticipates that DECs (Display Energy Certificates which indicate the energy efficiency of buildings whilst in operation) will become compulsory for commercial buildings in the near future.
- The Carbon Reduction Commitment (CRC) is a new mandatory emissions trading scheme that aims to improve the energy efficiency and reduce the amount of carbon dioxide emitted in the UK. It is set to become a vital part of the current UK government's target of reducing greenhouse gas emissions by 2050 by at least 80% compared to the 1990 baseline. CRC will affect large electricity consumers who will be required to participate in the scheme, monitor their emissions and purchase allowances sold by the Government, for each tonne of CO₂ they emit. The more CO₂ an organisation emits, the more allowances it will have to purchase, so there is a direct incentive to reduce emissions. This latest piece of legislation makes it clear that property investors would be failing in their fiduciary responsibility if, inter alia, the energy efficiency of property assets was not a key consideration when making buy/sell decisions.



The important issue of accelerating obsolescence

Intrinsic to the environmental/sustainability considerations that must be considered when investing in property, is the issue of accelerating obsolescence. We believe this to be the biggest impact in responsible property investing, and the potential threat to achieving the financial objectives required for our clients, as it lies at the centre of many of the underlying issues such as, thermal efficiency, energy saving and accessing good public transport links. A thorough understanding of these issues can help our fund managers effectively value an investment opportunity, potentially reduce risk in a portfolio, and importantly, attract better quality tenants which should help underpin and enhance investment returns.

Social impact / communities

We believe the future institutional investable universe should include the creation and ownership of whole communities with residential and social uses forming part of the mix, alongside more traditional commercial uses.

Creating an aspirational residential community either owning or privately renting within a vibrant and sustainable town centre is one of the new challenges facing the property industry. Schroders is establishing a strong role in thought leadership in this evolving area with its partnership with the developer Stanhope and major regeneration schemes in Bracknell and Croydon. Sustainable and eco-friendly mixed use property solutions are at the heart of our investment philosophy

Engaging with stakeholders

Schroder Property's investment process includes analysis into the sustainability, environmental and social stance of parties with whom it deals. While the primary focus of the dialogue with parties is financial, we shall also seek to assess non-financial factors in a structured and open manner.

Our prospective partners and service providers are subjected to broad scrutiny to ensure their policies on RPI issues are aligned with our own and that they show a commitment to delivering on these issues. We seek to influence and to raise standards across the property industry.

In certain circumstances, but acting in the best interests of our clients, Schroders' property team may engage with parties where the scope of environmental and social codes falls short of our expected standards. However we will seek to manage any risks to returns by seeking to influence a change to best practice within specified timeframes. Our aim is to encourage a move towards the adoption of industry best practice in both the standards applied and the level of commitment to achieve them.



Current & future development of RPI policy



Schroders' property team fully recognises the need as responsible property investors to minimise, wherever possible, the negative effects of investing, developing and managing property assets as well as seeking to raise standards across the property industry. However, our overriding objective remains to optimise financial returns for clients. Initiatives not mandatory by law must therefore be measured on their ability to add value, or at the very least not dilute value.

We will continue to build on the progress we have already made. Our next step will be to develop our reporting systems further to allow us to monitor effectively our performance on key RPI issues.

Whilst we will continue to codify investment practice into policy statements, our approach will remain one which is driven by the delivery of on-site solutions which effectively achieve our clients' objectives. At the same time Schroders' property team will continue to lobby for greater standardisation amongst industry practitioners against a background of competing benchmarks, questionnaires, and voluntary codes that conflict with regulatory methodologies. For example, there is currently no consistency of definitions and a lack of any agreement on how measurement of carbon emissions should be 'normalised' (e.g. measured per m², per desk space, etc) that would currently allow for meaningful comparison across properties and portfolios.

It is also clear that whilst a small number of property investors are leading the green debate, our view is that the general level of institutional awareness of these issues (as they apply to property investment) can be much improved by focusing on sustainability as part of Schroders' ongoing programme of client engagement.

Important information

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