The Hines European Core Fund (HECF) is a Luxembourg domiciled investment fund sponsored by Hines that pursues core acquisitions and manages a diversified portfolio across Europe. Since its inception in July 2006, the fund has acquired 23 assets, and sold four. It is today invested in 15 cities located in eight European countries: France, Germany, the UK, Italy, Spain, Ireland, Denmark and the Netherlands.

19 assets
99.5% occupancy
€1.31 billion GAV (fund level)

“As a global investor in real estate, we collaborate with fund managers who are able to exceed the average, not only in terms of risk and return dynamics, but also on environmental performance and impact on society.

The professionalism, thoroughness and consistency of Hines’ ESG approach makes them a valuable partner in our efforts to exceed the average.”

René Rijk
Portfolio Manager Alternative Investments
TKPI European Real Estate Fund
The Hines Pan-European Core Fund is committed to executing its role as an owner and operator of real estate, and its responsibility to HECF clients and partners, by including sustainability practices that align with the Fund’s overall business strategy.

HECF has developed sustainability objectives and targets to reduce risk, enhance value and improve environmental reporting in the long and short term.

During 2018, HECF set out to achieve the following objectives:

- Incorporate sustainability into due diligence for all acquisitions.
- Incorporate a review of sustainability opportunities within major landlord refurbishments and tenant fit outs.
- Develop and include sustainability objectives in asset business plans, outlining opportunities to improve sustainability performance for directly managed assets.
- For directly managed assets obtain energy audits where they have not yet been obtained or seek to update energy audits where there is a positive business case to do so.
- Progress towards utility consumption improvement targets for reductions in energy, water and waste in directly managed assets, where feasible.
- Identify assets where it makes economic sense to obtain or maintain a sustainability certificate.
- Survey various stakeholders to gauge their satisfaction and interest in sustainability (tenants and investors).
- Participate in the GRESB survey in July 2018, based on 2017 calendar year.
- Seek to achieve transfer to 100% renewable energy in our buildings.

During 2019, the Fund will continue to apply these objectives and seek to achieve continual improvement, including an update and extension to the portfolio-wide energy consumption and greenhouse gas emission reduction targets, which have both been achieved and surpassed after just two years. The energy and greenhouse gas emissions targets were as follows:

- 10% reduction in landlord-controlled energy consumption within the like-for-like portfolio by 2020 against a 2016 baseline year. 12% cumulative reduction already achieved in 2018.
- 8% reduction in landlord-controlled greenhouse gas emissions within the like-for-like portfolio by 2020 against a 2016 baseline year. 19% cumulative reduction already achieved in 2018.

The HECF management team and local asset management teams develop a sustainability strategy for each asset at the beginning of the year, which is followed by quarterly update meetings between the HECF Management team, local asset managers and appointed property managers to assess performance against targets. HECF utilises various sources of information to identify strategically important sustainability issues, including, but not limited to:

- Asset level energy reduction programmes
- Hines Asset Management reports
- Energy / sustainability audits
- Data management and metering outputs
- Energy Performance Certificates
- Sustainability Certificates

Updates of strategic importance are discussed by the HECF senior management team on an ongoing basis.

1. Like-for-like portfolio from the baseline year 2016. Assets include Caleido, Metropolitan, Schlossstrasse, Domikaskaden, Princes Street and Atlas House.
HECF achieved the highest possible rating of five Green stars out of five in the GRESB Real Estate Assessment (formerly Global Real Estate Sustainability Benchmark) for the second year in a row. For two consecutive years, HECF was named GRESB Global Sector Leader and ranked first among European diversified office/retail portfolios. HECF also ranked first among 367 European non-listed vehicles and seventh globally among 874 vehicles that participated in the survey in 2018. Notably, the fund also ranked first globally in the optional “Health & Well-Being” and “Resilience” modules.

GRESB is a voluntary, exhaustive assessment of a portfolio’s sustainability performance in terms of environmental, social and governance issues. It has emerged as a market leader in benchmarking an investment portfolio’s sustainability performance and is a requirement by a growing number of investors. In 2018 GRESB assessed a record 904 real estate funds, property companies and developers. The Assessment now covers more than 79,000 assets across 64 countries and represents over USD 3.6 trillion in gross asset value.

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Daniel Chang
Hines Managing Director and responsible for HECF Asset Management

“We are thrilled to have achieved the Global Sector Leader award in both 2017 and 2018 as we continue to work towards improving the sustainability standards of our growing portfolio. We view sustainability as a key indicator of the quality of our portfolio.”

Hasnain Naqvi, HECF Fund Analyst and Daniel Chang, MD Asset Management
In 2018, the Fund achieved the maximum available points in five out of the seven categories in the survey, having outperformed both its peer group average and the GRESB average in every category. HECF also made improvements against its 2017 scores, in three GRESB categories. Two areas where HECF will focus on making further improvements are the Monitoring & Environmental Management System (EMS) and Performance Indicators categories, where HECF continues to make progress through specific initiatives such as the optimization of energy consumption.

In 2018 HECF also obtained two new BREEAM In-Use certificates for its latest acquisitions – Noortse Bosch and Chatham & King - which received ratings of “Good” and “Very Good” respectively. In addition, 11 existing BREEAM In-Use certificates were renewed.

As a result, by area, 98% of the portfolio holds green building certifications.

Energy audits have been carried out on 89% of HECF assets and 100% of the buildings that are not fully occupied and managed by the tenant. In 2018 energy audits were carried out for Noortse Bosch and Chatham & King.

90% of the portfolio base building electricity is sourced from renewable sources.1

In the past year, HECF has continued to further raise the level of its sustainability performance by switching landlord-controlled consumption to 100% renewable electricity supply, where the trade-off between the environmental and financial impacts made it feasible. As of the end of 2018, nine buildings in the portfolio had switched to 100% renewable electricity sources, and a further four buildings were switched in the first quarter of 2019.

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1 As of Q1 2019 by area.
HECF has chosen to report on environmental data where it has ‘operational control’ and where it acts as the landlord and is responsible for procuring utilities and/or waste management services for 2017 and 2018.

For electricity, this typically includes consumption in common areas and/or as part of a shared service (i.e. operation of central plant). Electricity procured directly by the tenant for any directly managed assets is excluded from the environmental data reported below. For gas, district heating and water, reported data covers consumption across the whole building.

The following assets fall within the selected scope that are included in the analysis and are classified by sector (according to Global Real Estate Sustainability Benchmark (GRESB) guidance based on size in sqm):

- **Office**: Eurosquare, Domkaskaden, Marienbogen, Metropolitan, Atlas House and Noortse Bosch
- **Retail**: Schlossstrasse, ViaTorino
- **Mixed Use**: Caleido, Princes Street and Chatham & King

**12%**

12% reduction of portfolio level landlord-controlled energy consumption against 10% target.

The Fund has achieved this reduction in 2018, two years ahead of schedule with 2016 as baseline year.

This has resulted in a cumulative reduction of **19%** in greenhouse gas emissions from the baseline year of 2016, compared to an 8% reduction target until 2020.

The results below show the 2017 to 2018 year-on-year environmental performance for the assets categorized as office, retail and mixed-use above. Adjustments to data have been made to account for variables such as occupancy and external weather, and is reported on a like-for-like basis.

### CONSUMPTION AND WASTE DATA

#### ENERGY

The overall portfolio energy use has decreased by 4% on a like-for-like basis. The sector with the largest decrease was offices with a 9% reduction in energy use; both electricity and district heating decreased by 7% and 21% respectively, whereas fuels increased by 5%.

#### WATER

Total like-for-like water consumption decreased by 1,232 cubic meters (3%). This trend was driven by the mixed-use buildings with the largest decrease of 13% on a like-for-like basis.

#### GREENHOUSE GAS (GHG) EMISSIONS

GHG emissions decreased by 8% on a like-for-like basis. This trend was mainly driven by a decrease in Scope 2 emissions by 11%.

#### WASTE

The proportion of waste sent for recycling increased 6%. 100% of portfolio waste was diverted from landfill.
HCF’S APPROACH TO COMMUNITY ENGAGEMENT

LOCAL PARTNERSHIPS

- Hines has a track record of making contributions beyond our buildings to create a positive community impact. HCF’s programme involves leveraging our membership of Business Improvement Districts (BIDs) with an objective to enhance and contribute to communities associated with our operations. Example 2018 activities/projects and their scope include:
  - Community concerns – HCF is kept informed through the Heart of London (HoL) BID e-communications and meetings that empower the Fund to respond where appropriate.
  - Employment – The Cheapside BID enables the Fund to contribute towards a local employment programme that facilitated employability skills training for over 120 candidates.
  - Health and Well-Being – The Cheapside BID membership allows HCF to support green initiatives in the community, such as celebrating Air Quality day and the lunch time E-bike events.
  - Safer local communities - As a member of the We are Dublin Town BID, HCF is able to contribute in making Dublin a safer place to work, shop and live.

TENANT ENGAGEMENT

- HECF supports events and initiatives among tenants to engage in the local and wider community. Building on the success of last year’s event, during the summer break a family event was organized in the courtyard of the Eurosquare building in Paris to entertain the employees’ children.

- The Hines Green Office Tenant Guide is a voluntary program created to encourage sustainability within tenant spaces – designed to help tenants find ways to improve how they are operating their spaces as well as positively impact the environment and the health and well-being of their employees. The Guide provides opportunities to help tenants and their employees to set sustainability related goals and improve performance in their leased spaces as well as in the building.

- HECF has shared the Hines Green Office Tenant Guide with its tenants and provided training sessions in order to encourage its adoptability and a successful implementation.

- The Fund has also been working on the Hines Green Retail Tenant Guide in order to positively engage with its retail tenants and assist them with their sustainability goals.
Hines proudly supports the American Heart Association’s signature women’s initiative, Go Red for Women, a platform to increase women’s heart health awareness and improving the lives of women globally.

As in previous years, Hines offices in Europe and across the globe participated in Go Red for Women in February 2018 by wearing red and illuminating their buildings in red to increase awareness of cardiovascular disease and empower women and men to reduce their risk.
SUSTAINABILITY REVIEW

Hines is a capable, diverse workforce that includes people from many cultures. People truly are the firm’s greatest asset. Hines employees reflect the firm’s honesty and integrity, innovation and entrepreneurial spirit. We are growing our firm with diversity and inclusion at the forefront of our efforts to attract and retain the best workforce in real estate. And as the most important asset at Hines, we are also committed to developing our employees, creating opportunities and enhancing their well-being.

Hines committed to performing its role as an owner and operator of real estate, and as a fiduciary to our clients and partners, with the highest ethical standards. We strive to create value through real estate investments that improve the quality of the built environment and enhance the communities in which we operate. While doing so, we engage our tenants, partners, suppliers and employees in sustainable practices to improve asset performance, conserve energy and reduce greenhouse gas emissions. Specifically, we:

- Operate with the highest level of ethical standards, with governance in place to ensure that these standards are followed;
- Operate as a fiduciary and diligently work to meet stakeholders’ mutually agreed business objectives;
- Engage employees, clients and partners to understand the needs of each and the contribution they make to Hines’ business practices;
- Create a work environment that values a capable, diverse workforce, provides challenging opportunities for employees, rewards performance and is respectful of work/life balance;
- Enhance and contribute to the communities in which we operate;
- Encourage respect for the environment, identify and implement ways to limit green house gas emissions, reduce energy consumption, limit water use, and minimize waste;
- Encourage vendors and suppliers to engage in sustainable practices and consider those who do so when selecting contractors and vendors.

57 number of Hines investment funds/programs sponsored since 1991
32 number of countries represented by investors
200+ institutional investor clients/partners
600+ high-net-worth investors
120K+ retail investors
COMPLIANCE AND METHODOLOGY

Reporting Standard - INREV Compliance

The HECF sustainability strategy and key environmental performance data (e.g. energy and water consumption) presented in this report has been compiled in line with the INREV Sustainability Reporting Guidelines. As permitted by these guidelines, environmental data is developed and presented in line with GRESB (formerly Global Real Estate Sustainability Benchmark).

HECF has chosen to report environmental data where it has ‘Operational Control’ and where, acting as the landlord, it was responsible for procurement of utilities and / or waste management services. This scope is applicable to ‘directly managed’ (multi-let) assets, i.e. where HECF has the authority to introduce and implement operating policies. The reporting process has been supported by the sustainability consultancy firm EVORA and has used a proprietary sustainability software tool, SIERA.

Additionally, HECF commissioned Ernst & Young S.A. (EY) who undertook a limited assurance engagement of reported environmental data.

This report is a snapshot of the Hines Pan-European Core Fund as of 31 December 2018. For a comprehensive disclosure of INREV compliant sustainability data, please refer to the Hines’ Pan-European Core Fund’s full Annual Report audited by Ernst and Young which is available upon request from Daniel Chang at daniel.chang@hines.com.

Methodology

Like-for-like energy, water and GHG emissions performance compares the consumption and emissions data of assets held in both 2017 and 2018, excluding any assets held for less than 24 months, or assets that underwent major refurbishment during this time. Like-for-like performance data have been normalized to remove the impact of external factors on consumption, as relevant. Normalization for external factors has considered occupancy changes and weather patterns (through reference to ‘heating degree days’). Only gas, district heating (and for one asset electricity) and related GHG were normalized for degree days. Degree day information has been sourced from www.degreedays.net using the closest weather station to each asset.

Normalization adjustments for occupancy and weather patterns are standard practice in sustainability reporting; however, we acknowledge that a linear approach – including the ones applied – here do not reflect the true relationship between these external factors and building operation. Clearly, all buildings and tenants are different and blanket assumptions such as those applied here are limited in their ability to reflect all such nuances. Over the coming year we intend to engage directly with this sector-wide issue and to explore a more sophisticated approach that we can feed into future reporting.

In pursuit of this goal, we will complete our own internal investigations but also engage with external parties and industry associations, as appropriate.
This report is a snapshot of the Hines Pan-European Core Fund as of 31 December 2018. For a comprehensive disclosure of INREV compliant sustainability data, please refer to the Hines’ Pan-European Core Fund’s full Annual Report audited by Ernst and Young which is available upon request from Daniel Chang at daniel.chang@hines.com.