

The Ethical Property Family's Quintessentials

The Quintessentials are the Ethical Property family's definition of how it aspires to conduct its business and how it makes itself accountable for ethical performance. They are founded on Ethical Property's purpose, vision and values.

Ethical Property's purpose

Ethical Property promotes a more just, equitable and sustainable society through the provision of property and support services to organisations, communities and individuals who share the same objectives; the demonstration and advocacy of our Triple Bottom Line model, which equally values our financial, social and environmental return; and the provision of an investment vehicle for ethical investors.

Ethical Property's vision

Ethical Property will be a worldwide exemplar for how property can be used in the best interests of society which is considered fairer for the planet, employees, users and investors. Our buildings will offer excellent quality space and provide an outstanding property management service. In the longer term we will be the provider of choice for organisations working for a more just, equitable and sustainable society and will inspire others so that the type of buildings we provide will be available to all.

Ethical Property's values

- **Equity and fairness** - through provision of property we support organisations that are striving to create a more equal and just society.
- **Sustainability** - we support physical and social structures that lead to a sustainable lifestyle with a positive environmental impact that uses only our fair share of the planet's resources.
- **Responsibility** - every decision we make will take account of financial, environmental and social impacts.
- **Collaboration and partnership** - we believe that the world's problems are better solved by people working together rather than alone.
- **Learning** - we will implement a process of continual learning, with regular evaluations of our services and practices to ensure we constantly evolve the way we do business with the aim of ensuring best practice.

Ethical Property's Quintessentials

The Quintessentials are the five core principles of governance and management which apply to all property companies within the Ethical Property family. These principles give clear guidance for members of the Ethical Property family on how to operate their businesses in accordance with the vision, purpose and values of the family and define the measures that demonstrate ethical practice.

In order to join the Ethical Property family and to benefit from the Ethical Property name and expertise, an organisation must make a formal commitment to adhere to the Quintessentials and to improve its performance over a defined period of time in areas where it does not yet meet the Performance Standards.

1. **The Triple Bottom Line** - investment in Ethical Property offers investors a financial, social and environmental return.
2. **Ethical client criteria** - property and services are provided to organisations that meet the ethical

criteria.

3. **Ethical management** - Ethical Property manages its business in a way that demonstrates its ethicality.
4. **Ethical governance** - Ethical Property maintains a high standard of governance, transparency and honesty in their business, and has governance procedures in place which safeguard its ethicality.
5. **Transparent reporting** - Ethical Property's social, environmental and financial performance is reported clearly, openly and honestly to stakeholders.

How the Quintessentials are managed

The organisation entrusted with protecting the Ethical Property name is termed the Guardian. The role of the Guardian is to ensure that the members of the Ethical Property family exercise their responsibilities effectively and efficiently. The Guardian is responsible for:

- Defining the Quintessentials and reviewing them at regular intervals, at least every three years
- Receiving reports from Ethical Property family members on their plans and achievements in relation to the Quintessentials.
- Notifying any family member of a breach of the Quintessentials and taking appropriate action should a breach of the Quintessentials not be remedied in good time.

The appointed Guardian is currently The Ethical Property Company in the UK (through its Audit Committee). The Guardian commits to exercising its authority in collaboration with other family members. Any change in The Guardian would be approved by Ethical Property Company.

How adherence to the Quintessentials is assessed

The Quintessentials not only describe the business practices which Ethical Property family members must commit to follow but also set hard, quantifiable standards against which their performance will be measured and published year by year.

The structure of the Quintessentials is as follows:

Principles: a description of the broad range of business practices which must be followed. These are summarised above but are presented in full in the second part of this document.

Performance indicators: a set of measurable indicators which together demonstrate that an organisation is putting into practice the principles enshrined in the Quintessentials. These are set out in the table at the end of this document.

Performance standards: absolute standards which family members should meet, in each of the areas covered by the Performance Indicators. These are also set out in the table at the end of this document.

Critical indicators: Five of the Performance Indicators are defined as Critical Indicators. Collectively they distinguish an Ethical Property organisation from other property companies:

1. A mission highlighting that, through property, the organisation promotes a more just, equitable and sustainable society.
2. Measurement and annual publication of the organisation's performance against the Performance Standards. This should be audited by an accredited and independent Social Auditor; however this requirement may be waived for emerging companies, at the discretion of the Guardian.
3. Measurable and time-specific plans for achievement of the Performance Standards where not yet attained.
4. The Ethical Criteria are met by at least 80% of customers within the whole organisation.
5. A financial model that ensures good value for money for the relevant client group and acknowledged as such.

Each family member is expected to achieve the Performance Standard for all the Critical Indicators each year.

Non-critical Indicators: It is understood that family members are at different stages of development and operate in different environments; therefore the remaining Indicators are defined as non-critical. A family member's performance will be judged to be satisfactory in a particular year provided that:

1. It has achieved the Performance Standard for **all** the Critical Indicators
2. It has achieved or demonstrated movement towards the Performance Standard in at least **60%** of the Non-critical Indicators.

How the Quintessentials are enforced

Each family member must report on their performance against the Standards and Targets to the Guardian each year. The Guardian will notify all members in writing of the results of its performance review; advise members on necessary improvements; and organise support for achievement where appropriate.

In the event that a member is unable or unwilling to resolve issues, then the Guardian may choose to consider the Quintessentials breached; and has the right to award or withdraw membership of the Ethical Property family, including rights to use the Ethical Property identity, logo, company name domain name and any other intellectual property.

How the Quintessentials are reviewed

The Quintessentials can from time to time be varied or updated. Members of the family can propose amendments to the Quintessentials. The Guardian may review the Quintessentials at any time. Review will include consultation with family members.

Any changes to the Quintessentials will be posted to the website of all family members within six weeks of them being agreed. In addition, shareholders of all family members will be notified of any changes to the Quintessentials once a year as part of the notification of the AGM.

QUINTESSENTIAL 1: THE TRIPLE BOTTOM LINE

Investment in Ethical Property offers investors a financial, social and environmental return. Over the long term, Ethical Property aims to give equal value to financial, social and environmental returns. In the short or medium term different economic environments may require an Ethical Property member to focus on one return over another.

1. **Social Returns.** Family members should aim to optimise the social returns offered to shareholders and report these returns in Annual Reports. The social aims of any Ethical Property family member include:
 - To support and strengthen a diverse range of social change organisations through the provision of property.
 - To make a positive contribution to tackling inequality, by investing in deprived areas, making properties as accessible as possible and being an outstanding equal opportunities employer.
 - To be honest and transparent to all stakeholders.
2. **Environmental Returns.** Family members should aim to optimise the environmental returns offered to shareholders and report these returns in Annual Reports. The environmental aims are to minimise adverse environmental impact, in particular greenhouse gases, through energy-efficient refurbishment and good property management.

Social and environmental returns are expected to support and/or complement financial returns in the long term and not to detract from them.

3. **Financial Returns.** Financial returns accrue to investors through dividends and interest, and any rise in the share price. Ethical Property family members should aim to offer a fair return to investors each year. Over a five year period, family members should achieve at least a 3% return per year, measured as dividend as a proportion of share price, where applicable or as determined by the Board. Financial returns should support and/or complement social and environmental returns. However it is recognised that Ethical Property companies must be financially sustainable in order to survive and achieve their other objectives.

Property Portfolio. Ethical Property family members should value their property portfolio (if held) sufficiently often that shareholders are able to buy or sell shares at a price that reflects its true value as closely as possible. The family members should always maintain their property adequately to avoid any detriment to the long-term value of the property.

Dividends. The Ethical Property family member's business will be strengthened if it pays a dividend each year. The company should pay any dividend in accordance with a dividend policy agreed by the Board, which takes into account both shareholder returns and the long-term interests of the business.

Dividend Waivers. Where it is legally possible, all shareholders should be entitled to waive their dividends in order that they can be used by the company to develop further its social and environmental objectives.

- Dividends waived should be held in a balance sheet fund and not distributed as dividends to other shareholders.
- Use of the dividend waiver fund must be fully reported in the Annual Report.

Shares. Ethical Property family members should have a mechanism by which current and potential shareholders can determine the value of their shareholding. This mechanism should be stated in a written pricing policy available to all shareholders. Where investment capital is required Ethical Property family members should strive to create a market in their shares, so that shareholders can buy and sell shares when they want to.

QUINTESSENTIAL 2: ETHICAL CLIENT CRITERIA

Property and services are provided only to organisations that meet ethical criteria.

1. Ethical Criteria - for tenants

Ethical Property family members provide property and services to organisations that meet the following ethical criteria:

- Have a defined social purpose that accords with Ethical Property's purpose of building a more just, equitable and sustainable society through the promotion of social change
- Be a charitable or non-profit organisation, a social enterprise, an ethical business, or an organisation of strong local benefit to the regeneration of an area.
- Have transparent funding sources and accept money only from ethical organisations.
- Be a good mix with other groups in the centre.
- Work positively to tackle diversity issues and treat all stakeholders without discrimination.
- Be an organisation which has objectives broader than the promotion of one particular faith or philosophy.
- Have credibility amongst stakeholders.
- Have employment practices which treat staff fairly and without exploitation.

2. Ethical Criteria for Property Management Clients

Customers of our Property Management services must be willing to adhere to, or be willing to work towards adhering to, the Ethical Management principles contained within the Quintessentials.

3. Definitions

Social change

Ethical Property recognises that certain problems within society are structural, and that we need to work to solve them by changing an aspect of society. The change could be in law; in political or economic systems; and/or in societal behaviour or attitude.

Organisations of strong benefit to a local area

Ethical Property defines strong benefit to a local area as contributing to sustainable development by:

- Furthering the sense and practice of local ownership amongst the people in the area;
- Providing local jobs that are reasonably paid and that contribute to building self-esteem;
- Providing a useful local service known to be of need to the local community and that stands to lead to a better quality of life for that community;
- Building a sense of local community by creating a positive local identity and breaking down barriers between different sectors of the community.

Religious organisations

We welcome the opportunity to work with organisations which are inspired by their faith to contribute to building a sustainable society or a sustainable environment.

However, we do not generally offer tenancies or provide services to organisations which benefit only followers of a particular faith or philosophy, nor to organisations that actively promote their faith as part of their activities. We make an exception to this rule in the case of tenants or property owners whose aim is to provide culturally appropriate social support, such as life-skill classes, or to counteract discrimination or disadvantage suffered by individual members of that faith group in wider society. We are also happy to work with owners of religious buildings to make

their facilities available to members of the wider community, for example through hall lettings, provided that these activities are clearly separated from their religious practices.

Cultural/ethnic organisations

We do not generally work with organisations which benefit only members of a particular ethnic or cultural group, but will do so if their aim is to provide culturally appropriate social support or to counteract discrimination or disadvantage suffered by individual members in wider society.

Political parties

Ethical Property does not have a blanket rule about political parties. Each application from a political party or other political organisation is assessed against the criteria on a case by case basis, based on the law and circumstances involved in each country.

Unacceptable tenants or clients

Ethical Property will not work with organisations who are directly involved in the tobacco industry, pornography or in the sales or production of weapons. This does not apply to organisations that have clients/funders in the restricted areas.

Any doubt about the acceptability of a particular tenant should be referred to the senior management team or the Board.

4. How criteria are enforced

Tenants

Ethical Property assesses applicants on the basis of their web-site (if available) and their description of their work. If the potential tenant is not known to Ethical Property references may be sought from known organisations. In the case of doubt, the final decision on suitability rests with the Managing Director. On taking occupancy, tenants must sign an agreement that requires them to:

- provide Ethical Property with information about their aims, activities and finances on request.
- complete a questionnaire once a year as part of the annual Social Accounts.
- comply with Ethical Property's reasonable regulations set out in the Tenant Handbook.

If tenants are considered to no longer meet the ethical criteria, action should be taken for their removal either by mutual agreement or by cause of infringement of the agreement.

Other clients and business partners

Ethical Property assesses potential clients and business partners on the basis of their web-site (if available) and their description of their work. If the organisation is not known to Ethical Property references may be sought. In the case of doubt, the final decision on the suitability of an organisation rests with the Directors.

QUINTESSENTIAL 3: ETHICAL MANAGEMENT

Ethical Property manages its operations in a way that demonstrates its ethicality.

The following details should be seen as broad indications of best practice that can be applied internationally:

- 1. Rental Principles:** Ethical Property aims to set charges which are perceived to be fair and good value by our target client group.
- 2. Lease Principles:** Ethical Property lease terms are at least as favourable to the tenant as a standard commercial lease, and more so in areas where the law might be considered unreasonable or weighted heavily in favour of the landlord. They are designed to offer tenants long term stability, predictability of costs and flexibility.

Ethical Property leases also put obligations on tenants to provide information about their activities, to behave in a respectful way towards our staff and to work cooperatively with the building owner and other tenants in building management and environmental sustainability.

- 3. Property Management Principles:** Ethical Property prioritises client satisfaction in managing services to tenants and other clients that increase the viability of social change organisations by:
 - Supporting clients' development as social change organisations, by providing well-managed, good quality office space and other facilities at affordable costs, with flexible and supportive contract arrangements.
 - Providing facilities and services that will strengthen clients' operations.
 - As far as is possible within the terms of the property, contract and business plan, making premises sustainable, ecologically sound and energy efficient, healthy and secure, accessible to all, and beneficial to the surrounding community.

Ethical Property offers high quality of service in terms of security, health and safety, energy and water efficiency, waste minimisation, green commuting, Internet and Communications Technology (ICT), and sharing and co-operation between tenants.

Ethical Property meets and aims to exceed legal standards for fire, security, environmental performance, property and plant maintenance, cleaning, ventilation, temperature, noise and equality of access.

Each Ethical Property family member must have a professionally prepared 10 year maintenance strategy for each building it owns, or for which it is responsible for the maintenance. Ethical Property will work with ethical suppliers wherever possible, prioritising those areas where expenditure is high.

- 4. Communication Principles.** Ethical Property properties and services are managed transparently. Ethical Property keeps an open dialogue with clients at all times. Management is available to clients to ensure issues and complaints are dealt with promptly. Fora are held in which clients can meet, air views, and discuss service developments and management issues.
- 5. Staff Principles**
Involvement: Employees are enabled to and encouraged to participate in Ethical Property's strategic direction. All employees are enabled and encouraged to understand the values and apply them.

Pay and terms of employment: Staff salaries should be at least equal to the going rates paid by

comparable charities; where private sector rates are higher, salaries should be between the charity and the private sector rates. In addition:

- Ethical Property will pay an hourly rate of pay which at least matches the local basic cost of living, given local employment practices.
- There will be a maximum ratio between the highest and lowest members of staff, dependent on the size of the company.

All employment contracts should promote job security, provision for sickness and old age and sustainable travel choices, as appropriate to the country of operation. Similar benefits should be available to all levels of staff and benefits should not be offered except on the basis of merit.

6. Communication Principles. Ethical Property invests in the way it is regarded by the media and the general public to ensure that its image reflects its values; and that it is not subject to unfair criticism.

7. Supplier and Partner Principles. Ethical Property monitors its supply chain to ensure it uses the most ethical suppliers that are affordable. A 'best of sector' approach is adopted, i.e. for each category of service the most ethical supplier in that category is used.

Ethical Property chooses to work with partners that share its values; any agreements drawn up with partners commit the company to a relationship with that partner only in so far as it shares Ethical Property values. Where Ethical Property chooses to form a closer link to any particular organisation, for example through a joint venture, it considers how that organisation meets the Quintessentials.

Banks are among Ethical Property's most important suppliers. Wherever possible, borrowing is from the bank with the strongest ethical policies and with a management philosophy most similar to that of Ethical Property. Diversified borrowing is preferred, to reduce dependency on any one bank.

QUINTESSENTIAL 4: ETHICAL GOVERNANCE

Ethical Property maintains a high standard of governance, transparency and honesty in their business, and has governance procedures in place which safeguards ethicality.

1. **Corporate Governance Principle.** Ethical Property family members meet or exceed the codes of good corporate governance for a public company in their country.

2. Shareholders principles

Diversity of shareholders. An organisation, individual or group of individuals with controlling or influencing interest might push Ethical Property off its ethical path. Ethical Property seeks to avoid any single shareholder or group of shareholders acquiring undue influence in the company by striving to achieve limits on:

- The proportion of shares held by any individual; normally not more than 10% of share capital.
- The proportion of shares held by institutions; apart from members of the Ethical Property family, no shareholders should hold more than 30% of share capital.

Communication with shareholders. Shareholders can play a role in safeguarding ethicality; therefore Ethical Property encourages all stakeholders to understand and support its purpose, vision and values and keeps all shareholders informed about its plans and performance.

Shareholders' opinions are sought through AGMs; through other events held at least each year; and through a questionnaire at least every five years.

3. Board Principles

Composition. Ethical Property strives to maintain diversity in its Boards. There should be more Non-Executive Directors than Executive Directors on the Board and more Independent Directors than Non-Independent Directors on the Board.

Ethical Property Non-Executive Directors are required to retire is and stand for re-election at least every three years.

Ethical Property maintains procedures for planning succession of Managing Director, Chair and Board members.

Ethical Property appoints non-executive Board members for a three years term with a maximum of three terms

Directors' shares. All Board members are invited to purchase shares in the company; but they are not bound to purchase shares.

Remuneration of Directors. Fees are paid to Ethical Property Non-Executive Directors. They are calculated on the basis of normal consultancy day rates for a non-profit organisation, for the expected days committed in a year.

QUINTESSENTIAL 5: TRANSPARENT REPORTING

Ethical Property's social, environmental and financial performance is reported clearly and honestly to stakeholders.

- **Transparency principles.** Ethical Property family members report clearly, openly and transparently on their adherence to the Quintessentials. They publish Social Accounts with their annual reports and financial statements. The Social Accounts include reports on failure as well as on success; and include plans for improvement.

Ethical Property members report annually to the Guardian on:

- A qualitative report on each of the Quintessentials.
 - Quantitative Performance Indicators as defined by the Guardian.
1. **Social and Environmental Accounts.** Ethical Property family members undertake an external, independent audit of their Social Accounts every year. The level of detail of the audit will depend on the size of the company.

The format of the report follows that prescribed by The Guardian. Currently, the reporting format is that of the report of the Ethical Property Company in the UK.

Performance compared to all standards targets is stated in the Social Accounts. Reasons for not meeting any standard or target are explained. Plans for improvement are explained.

THE ETHICAL PROPERTY STANDARDS

Performance Indicators demonstrate adherence to the Quintessentials. Critical Indicators are in bold.

| REPORTING AREA | PERFORMANCE INDICATOR | STANDARD TO BE ACHIEVED EACH YEAR |
|---|--|---|
| Governance | | |
| Mission | Mission Statement | Mission to promote a more just, equitable and sustainable society through the provision of property and support services |
| Board composition | Executive v. Non-executive members | non-executive >50% |
| | Independent members | independent >50% |
| Reporting | Annual publication of performance against performance standards, audited by an accredited, independent social auditor | Publication achieved |
| Planning | Measurable plan to achieve performance standards | Plan in place |
| Shareholder communication | Interim reporting | At least once per year |
| Employees | | |
| Salary range | Ratio of highest paid : lowest paid | No more than 5:1 if under 50 FTE employees No more than 7:1 if between 50 and 250 FTE employees |
| Employee rights and benefits | Pension | At least 6% employer contribution (if local state system inadequate) and a broad take-up across the employee hierarchy. |
| | Holidays | At least 25 days p.a. (excl. statutory) |
| Equal opportunities (employees and Board members) | Implement an equal opportunities policy aimed at achieving an age, gender, education level, sexual orientation, religion and ethnic mix reflective of the working age population in the relevant country | Written equal opportunities policy in place, actively operated and evidence of improvement in year to year |
| Travel during work hours | Employee travel by car, motor bike, air | <5% of journeys 0% plane travel |
| Business Relationships | | |
| List and description of clients | They meet ethical criteria | 80% |
| Tenant satisfaction | Annual satisfaction survey for all tenants, on a five point scale | Average rating of at least four on all satisfaction questions |
| | Satisfaction with value for money of charges | Average rating of at least four |
| Property | | |
| Location of new investments | % in government defined deprived areas | 50% of buildings in most deprived 25% of areas |
| | Must be close to public transport | 100% |
| Maintenance | 10 year costed maintenance plan in place for each building, designed to maintain or improve long-term value of building | Plan in place |
| | | Achievement of planned works for the year |
| Environmental Performance | | |
| Environmental improvement | Five year costed environmental improvement plan in place, designed to reduce fuel use, carbon emissions and water use. | Plan in place Achievement of planned works for the year |
| Electricity supply | Supplier's fuel mix | 100% renewable, if achievable at less than 10% premium on standard electricity prices (otherwise as low carbon emissions as can be achieved affordably) |
| Electricity and Gas use | Reducing target of consumption / m ² of floor area | Consumption in accordance with published target |
| Renewable energy | % of energy consumed generated by the company | >10% |
| Carbon emissions | Kg of CO ₂ / m ² of floor area per year | Less than or equal to 11.0 (based on supplier mix electricity) |

| | | |
|------------------------------|--|--|
| Water use | Water-saving equipment fitted | All cisterns, urinals, taps and showers to have water-saving features |
| Waste and recycling | Recycling what can be recycled | Provision of all recycling facilities that are affordably available in a particular location |
| Financial performance | | |
| Dividends | Dividend policy in place | Paid in accordance with dividend policy |
| | Clear encouragement and support for the dividend waiver policy | >10% |
| Asset value | Shareholders' funds divided by shares issued | In line with long term strategy |
| Share trading | Mechanism for trading shares | Effective mechanism in place |
| | % (by number of shares) sold: | |
| | - within six months of being placed on the market | 75% |
| | - Within 12 months of being placed on the market | 100% |

As approved by the Board - 6th February 2014