

## Our investment strategy

The principal purpose of our investment strategy is to take a high-level view of our portfolio and consider its overall strategic direction. The Crown Estate continues to be a very resilient business and has outperformed its targets despite the economic downturn. We continue to look beyond short-term market volatility and concentrate on our medium to long-term view.

Our partnership investments have this year provided working capital for the business to continue reinvestment across our portfolios' core areas, where we benefit from competitive advantage and critical mass.

The three principal themes underlying the approach to our strategy are:

# 1:

### ***Rebalance the portfolio to focus on our key sectors***

*These are: central London, prime regional retail, offshore renewable energy and strategic land opportunities on our Rural and Coastal portfolio.*

# 2:

### ***Provide adequate working capital for reinvestment in the business***

*This includes major redevelopment programmes in Regent Street and St. James's totalling £1.5 billion and over £100 million of investment in the nascent offshore energy industry.*

# 3:

### ***Continue to develop our business model towards a modern asset management style***

*After a period of considerable change, our portfolios are well balanced, being both comparatively low risk whilst still containing substantial asset management opportunities.*

## Material issues affecting our business

Our adoption of integrated reporting has required us to assess all the business issues that are material to the success of The Crown Estate. Sustainability forms a key element of each of those. Integrated reporting has taken those sustainability issues into the body of our annual report, where previously we reported it separately. Sustainability is where it should be – at the core of what we do and a driving factor in our growing business.

Optimisation of our portfolio and its expert management is characterised by a variety of objectives, which may broadly be defined as those relating to commercial delivery, our people, our governance and our success in embedding sustainability into business delivery.

### Our approach

Working with specialist advisers, we designed a structured process for identifying and prioritising the material issues which could potentially impact our ability to deliver on our core objectives. What is material is defined as an issue that would impact our Board and committee decisions. Each issue was scored on a scale of 1–5 across three areas, namely:

- its economic impact on the business;
- the degree to which our primary stakeholders are concerned with it; and
- the extent to which it is likely to grow in significance and impact in the future.

The scoring identified 14 material issues which underpin our business. We articulated why each issue is important to our success and whether it is an operating essential, enabler or differentiator to our future business.


Identifying the most material issues enables us to focus our management time and attention where it really matters and thereby drive business growth which at its core is sustainable in the short, medium and long term.



**Vivienne King**  
Director of corporate affairs  
and general counsel, legal







**Sustainability is where it should be – at the core of what we do and a driving factor in our growing business.**




 **Principal corporate risks and opportunities**  
See page 86





















 **Key performance indicators**  
See page 20

## Material issues affecting our business continued





















	 <b>Sustained and profitable growth</b>	 <b>Optimisation of the portfolio for long-term total return</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Our ability to continue to grow our revenue surplus (profit), increasing our contribution to the Treasury	<ul style="list-style-type: none"> <li>• Outperforming our peer group at our total return level</li> <li>• Maintaining the UK's position in attracting investment in the low carbon economy</li> </ul>
What are we doing about it?	Implementing our Investment strategy and tactical decision-making whilst keeping costs under control  <i>Our investment strategy</i> See page 14	Implementing our Investment strategy and tactical decision-making  <i>Our investment strategy</i> See page 14
How do we measure performance?	<ul style="list-style-type: none"> <li>• Net income surplus (profit) year-on-year growth (KPI)</li> </ul>	<ul style="list-style-type: none"> <li>• Total return compared to IPD bespoke benchmark (KPI)</li> <li>• Capital growth compared to IPD benchmark (KPI)</li> </ul>













  

	 <b>Attraction, nurturing and retention of best talent</b>	 <b>Attraction of suitable commercial partners and investors</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Ensuring that we attract and retain the best available talent to drive strong business performance and our ability to reward at market levels	<ul style="list-style-type: none"> <li>• Strategic partnerships with those who share our values to provide working capital that enables us to continue to reinvest</li> <li>• Attracting investors in UK's low carbon opportunities</li> </ul>
What are we doing about it?	Designing a clear vision and people strategy for the business	High quality people, high quality reporting and maintaining key relationships internationally
How do we measure performance?	<ul style="list-style-type: none"> <li>• Employee turnover</li> <li>• Training hours per employee</li> <li>• Employee salary ratios by gender</li> <li>• Employee surveys</li> </ul>  <i>Finance director's review</i> See page 62	<ul style="list-style-type: none"> <li>• Reputation</li> <li>• Ability to attract and maintain partnerships</li> </ul>  <i>Review of our portfolios</i> See page 24

	 <b>Health and safety</b>	 <b>Maintaining effective stewardship</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Creating a positive culture towards health and safety that enables the business to operate in a safe and sustainable manner	Responsible long-term management and enhancement of the assets we look after on behalf of the nation
What are we doing about it?	Growing and improving our safety, health and wellbeing programme	Reviewing existing stewardship activity and developing a new framework for a more comprehensive approach across our entire business
How do we measure performance?	<ul style="list-style-type: none"> <li>Working hours without a reportable incident (KPI)</li> <li>Accident frequency, severity and incident rates</li> </ul>  <i>Finance director's review</i> See page 63	<ul style="list-style-type: none"> <li>Percentage of net revenue surplus (profit) invested in stewardship projects (KPI)</li> <li>Percentage of Sites of Special Scientific Interest (SSSIs) in 'favourable' and 'recovering' condition</li> </ul>  <i>Review of our portfolios</i> See page 24
	 <b>Reputation</b>	 <b>Successful placemaking and creating amenity value</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	External recognition of the leadership we demonstrate through how we conduct our business	Creating successful places where people want to be
What are we doing about it?	Delivering our strategy, focusing on creating value across our portfolio	Continuing to embed this into all projects and over time developing principles for successful placemaking
How do we measure performance?	External, independent recognition as a leader in: <ul style="list-style-type: none"> <li>Managing strategic Urban, Rural and Coastal property assets</li> <li>Enabling the development of offshore low carbon energy projects</li> <li>Being the partner of choice</li> </ul>  <i>Review of our portfolios</i> See page 24	<ul style="list-style-type: none"> <li>Number of projects achieving BREEAM 'excellent' rating</li> <li>Visitor numbers</li> <li>Public realm projects undertaken</li> <li>Awards for excellence</li> </ul>  <i>Review of our portfolios</i> See page 24

## Material issues affecting our business continued

	 <b>Effect of climate change</b>	 <b>Availability of natural resources</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Climate change presents physical, financial and regulatory risk and opportunity to our business and society as a whole	Limited natural resources to supply increasing demand – impacting cost and stretching supply chains
What are we doing about it?	Focusing on mitigation, adaptation and enabling the development of low carbon energy	Managing the resources we are responsible for sustainably and exploring the true value of the natural resources we depend upon and potential alternatives
How do we measure performance?	<ul style="list-style-type: none"> <li>Greenhouse gas emissions intensity indexed trend (KPI)</li> <li>GW of renewable energy capacity installed (KPI)</li> <li>Absolute emissions</li> </ul>  <i>Finance director's review</i> See page 64	<ul style="list-style-type: none"> <li>Operational and development waste diverted from landfill</li> <li>Absolute water consumption</li> </ul>  <i>Web link</i> <a href="http://www.thecrownestate.co.uk/sustainability">www.thecrownestate.co.uk/sustainability</a>
	 <b>Customer focus</b>	 <b>Organisational and management structure</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Our ability to provide appropriate service to our customers and tenants in order to satisfy their needs	It is essential that we have the right organisational structure and processes in place to drive our business forward
What are we doing about it?	Delivering value to customers as part of our core proposition through a customer focus group	Ensuring robust governance through our processes and procedures
How do we measure performance?	<ul style="list-style-type: none"> <li>Vacancy rates on the Urban portfolio (KPI)</li> <li>Successfully compete to attract investment in offshore low carbon projects</li> </ul>  <i>Review of our portfolios</i> See page 24	 <i>Governance report</i> See page 71

	 <b>Health of UK economy</b>	 <b>Government policy</b>
Why is it important?	 Operating essential  Differentiator  Enabler	 Operating essential  Differentiator  Enabler
What is it about?	Our performance is influenced by the UK's economy – as economic conditions improve so do the opportunities for us	Anticipating and being responsive to changes to government policy that impact on our business
What are we doing about it?	Understanding, measuring and improving our Total Contribution to UK plc	Participating in reviews where we have relevant expertise, flexing our business operations and helping shape policy where appropriate as a trusted adviser
How do we measure performance?	<ul style="list-style-type: none"> <li>• Direct employment</li> <li>• Direct total contribution to the Treasury               <div>  <i>Finance director's review</i> See page 60             </div> </li> <li>• UK's energy portfolio expanded to reduce energy imports               <div>  <i>Review of our portfolios</i> See page 35             </div> </li> <li>• Our Total Contribution               <div>  <i>Web link</i> <a href="http://www.thecrownestate.co.uk/about-us/total-contribution">www.thecrownestate.co.uk/about-us/total-contribution</a> </div> </li> </ul>	<ul style="list-style-type: none"> <li>• Regular review of policy impacts on our business operations</li> <li>• Active participation in key policy reviews, openly communicated through corporate channels               <div>  <i>Web link</i> <a href="http://www.thecrownestate.co.uk/about-us">www.thecrownestate.co.uk/about-us</a> </div> </li> </ul>