

# TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

The Board and senior management of Orchard Street understand the severity and urgency of the climate crisis. As a relatively small and privately owned entity, we choose to publish a Task Force on Climate-related Financial Disclosures (TCFD) response because understanding climate-related risks is imperative for our business, investors, occupiers and other stakeholders. We are a supporter of the TCFD and this is our third disclosure. We are also a signatory of the BBP Climate Commitment. As we continue to enhance our climate risk reporting, we note the latest TCFD and FCA guidance and BBP recommendations and are working towards full alignment for our 2023 disclosure.

## GOVERNANCE

Our Board has strategic oversight of climate-related risks and opportunities. The Board delegates management of these issues to our Managing Partner, who is supported in this by the Responsible Investment Committee. The Committee meets monthly and reports on climate-related risk to the Board on a quarterly basis. Climate risk is a formal item in Board reporting papers and discussed by the Board as needed.

The Responsible Investment Committee identifies and assesses climate-related risks, implements controls and updates our climate risk register every six months, assigning risk ownership across the business. The Responsible Investment Committee works with the Investment Committee to ensure that climate-related risks and opportunities are also assessed at every stage of the property lifecycle, including pre-acquisition. Climate-related

considerations identified during due diligence are included in asset business planning following acquisition.

The Audit Risk and Compliance Committee assists the Management Board in discharging its oversight and governance responsibilities for financial, risk, audit and compliance matters. On matters relating to ESG and responsible investment, the Audit, Risk and Compliance Committee is advised by the Responsible Investment Committee.

We continue to build capabilities and accountability for climate-related risks at all levels of our business. For example, climate-related metrics are included in the performance objectives for all employees in investment and asset management. These performance objectives in turn influence variable remuneration.



## STRATEGY

In 2020, JLL Upstream Sustainability Consulting, advised us on identifying and assessing climate-related risks. Our top three physical risks due to climate change were identified as:

- Flood vulnerability
- Extreme weather events
- Heat stress

Changing legislation and stakeholder expectations are the drivers behind our top transition risks. These include:

- Increasingly stringent climate-related building standards
- Growing demand for on-site renewables

In the table overleaf, we detail these risks and their primary impact as well as when these risks will likely become material using the following timeframes:

- Short term – 1 to 5 years
- Medium term – 5 to 10 years
- Long term – lifetime of investment

A series of overarching controls help us mitigate climate-related risks across our business. In addition, specific controls are in place for each key risk. Both overarching and risk-specific controls are outlined overleaf.



Transition to net zero and build climate resilience



Enrich biodiversity and increase circularity



Provide high quality buildings



Promote inclusive and fair business practices



## Overarching controls of climate risk

- **Project Sustainability Principles** - These provide guidance on climate resilience measures for minor and major refurbishments
- **Net zero carbon pathway** - This roadmap includes targets for green certifications and on-site renewables
- **Climate change resilience strategy** - Building on our decarbonisation and climate risk mitigation, we will establish a climate change resilience strategy in 2023
- **MSCI Climate Value at Risk** - We are trialling this tool for a subset of assets in 2023
- **Valuers' pre-acquisition appointments** - Consideration of climate related risks was enhanced in 2021

Risk Type	Primary Impacts	Time Frame	Risk-Specific Mitigating Controls
<b>Physical Risks</b>			
<b>Flood vulnerability</b>	Valuation impacts. The cost of asset repair and business interruption - reflected in increased insurance costs.	Short-term (1-5 years)	Internal flood risk review of all assets identified none with current high flood risk. Asset business planning in 2023 will incorporate recommendations from external forward-looking flood risk review in 2022.  Pre-acquisition due diligence includes flooding, with climate-related flood risk to 2050 and 2100 assessed if current risk is higher than low.  Regular meetings to discuss insurance implications with brokers.
<b>Extreme weather events</b>	Losses from assets where extreme weather leads to repairs, business interruption, increased insurance premiums or lower rents (where occupiers are responsible for maintenance). Closely linked to other physical risks.	Medium-term (5-10 years)	Property and facilities managers manage impact of weather-related damage.  Pre-bid due diligence considers physical climate-related risks.
<b>Heat stress</b>	Increased costs of installing and operating active cooling systems, passive measures and replacing equipment that malfunctions at higher temperatures. Potentially lower occupier demand for buildings with poor thermal comfort controls.	Medium-term (5-10 years)	Property and facilities managers maintain landlord-controlled M&E heating and cooling systems.  Pre-acquisition survey reports include flooding and other physical risks to 2050.

Risk Type	Primary Impacts	Time Frame	Risk-Specific Mitigating Controls
<b>Transition Risks</b>			
<b>Increasingly stringent building standards</b>	Cost of upgrading assets to comply with proposed MEES regulation - that properties hold a minimum B EPC rating by 2030 - and potential impact on valuations for clients.  Cost of refurbishing assets to achieve green certifications in sectors where occupier and institutional investor preferences impact value and income projections.	Short-term (1-5 years)	Reviewed EPC ratings of all assets in 2022 and improved EPC ratings on 10% of units. <sup>27</sup>  EPC ratings of all assets monitored quarterly and included in annual business planning.  Investment Committee papers must address how lettings, renewals, acquisition and capital expenditure proposals will affect current EPC and progress towards B rating or above by 2030.
<b>Growing demand for on-site renewables</b>	Capital cost of installing solar PV.  On-site renewables influence MEES compliance as part of EPC rating calculations.	Short-term (1-5 years)	Programmes underway to install solar PV and EV charging on new and existing assets with Solar PV Taskforce managing roll-out and potential issues.  Renewable energy feasibility study completed on all standing assets.  Investment Committee papers must address renewable energy income and opportunities for lettings, renewals, acquisitions and capital expenditure.

Our top climate-related opportunities include offering on-site renewables, EV charging and potential for a green premium due to sustainability credentials.

Opportunity	Potential Impacts	Time Frame	Actions Taken
<b>On-site renewables</b>	Enhanced income and valuations.	Short-term (1-5 years)	883 kW of capacity installed since October 2019.
<b>EV charging</b>	Enhanced income and valuations.	Short-term (1-5 years)	In 2021/22, we installed 48 new electric vehicle charging points.  16 super-rapid charging spaces at two retail sites are to be installed in 2023.  Allowances for EV charging included in acquisition pricing.
<b>Customer demand for sustainable space leads to green premium</b>	Enhanced income and valuations.	Short-term (1-5 years)	Improved EPC letter ratings for 10% of all units in 2022, with 6% of all units increasing their score to a B or above. <sup>27</sup>

27. Excluding properties purchased/sold during period

## Scenario analysis

To understand how risks and opportunities could evolve over uncertain climate futures, JLL undertook qualitative scenario analysis in 2020 on our behalf and we plan to update this analysis in 2023.

In line with TCFD recommendations, two plausible climate scenarios were studied, one aligned with a below 2°C pathway:

- IPCC RCP 4.5 – Climate policies gradually become more stringent with a good chance of limiting warming to below 2°C
- IPCC RCP 8.5 – Policy action fails to limit warming which may exceed 4°C by 2100

Climate-related risks will likely materialise over the medium to long-term. JLL therefore assessed the likely evolution of our top climate-related risks and opportunities across uncertain future climate pathways between now and 2100. This allowed us to prioritise risks and controls based on likelihood, impact and whether the risk is rising, stable or decreasing.

As could be expected, transitional risks topped the list in RCP 4.5 and physical risks in RCP 8.5. Since the future is unknown, we must manage both sets of risks.

Since flooding had been identified as a top risk, we subsequently conducted in-depth reviews of flood risk. Following an internal review of current flood risk at all assets, we commissioned a forward-looking flood risk review in 2022. This focused on the few assets with elevated current flood risk profiles, studying their exposure to future flood risk, conducting climate change analysis for surface water and sea level risk and assessing their climate resilience. In 2023, the resilience recommendations will be considered as part of annual business planning. Assessing our exposure to physical risks of extreme weather and heat stress is more complex. We will explore these during our trial of MSCI's Climate Value at Risk (VaR) model and as part of our forthcoming resilience strategy.

## Mitigating risks

For each top-rated risk and opportunity, we have implemented risk mitigation programmes, including:

- EPC ratings – We are improving ratings before the proposed increase in MEES to require assets to achieve a minimum of a B rating by 2030. During 2022, we upgraded the EPC letter rating of 10% of all units, with 6% of units increasing their score to B or above.<sup>27</sup> EPC improvements are integrated into our net zero carbon pathway, with EPC targets included in our acquisitions process, as well as proformas for lettings, renewals, regears and capital expenditure.
- On-site renewables – Since occupiers increasingly demand on-site renewable energy, this represents both a major risk if we do not provide it and an opportunity if we do. We have installed and commissioned 883 kW of solar PV capacity between 1 October 2019 through 30 September 2022. A significant pipeline is instructed for 2023 and we aim to install a total of 4 MW of capacity by September 2025.
- Refurbishment – Our Sustainability Principles provide guidance on addressing emissions, energy and climate resilience in relation to major and minor refurbishments.
- EV charging – In a pilot programme with GridServe, installation of super-rapid EV charging is planned at two retail sites in 2023.
- Occupier sustainability – Working with managing agents and occupiers, we increased coverage of occupier data from 3% in 2021 to 18% in 2022. In addition, we have streamlined green lease clauses to encourage occupier acceptance and improved monitoring of negotiation and adoption of these clauses. Our guide for sustainable retail fit-outs aims to help retail occupiers reduce GHG emissions and other environmental impacts.

- Smart meters – In 2021, we began a strategic roll-out of smart meters on standing assets to improve management of landlord-procured energy and water. We have also set a three-year water intensity target at multi-let offices, responsible for 59% of landlord water use in 2022.
- Biodiversity – In 2022, 12 assets were assessed by ecologists for potential net gain. We are working with managing agents to integrate recommendations from our biodiversity assessments into Asset Sustainability Action Plans. In addition, we have delivered training to asset managers on biodiversity. In 2023, we will set a quantified target to increase biodiversity value.
- Transition planning – With transition plans set to become a future reporting requirement, we will

develop a climate change resilience plan in 2023 based on the BBP's Climate Change Resilience Guide, a document we helped to co-create.

We also participate in industry initiatives, helping to develop sector guidance and standards in response to climate-related legislation and changing market expectations. For example, we participate in BBP working groups, contributing to its Green Lease Toolkit update, annual Real Estate Environmental Benchmark and 2022 Climate Resilience Guide. Our net zero carbon pathway is aligned with both the Net Zero Asset Owner Alliance (NZAO) and NZAMI.

## RISK MANAGEMENT

Our **Responsible Investment Policy** underpins our approach to climate-related risk management: how we identify, assess and manage risks and opportunities in line with our fiduciary duty to deliver client value and meet our responsibilities as landlord and developer. The policy is reviewed annually and approved by the Managing Partner.

Climate-related risks are identified and assessed by the Responsible Investment Committee, which implements controls and assigns risk ownership. These risks are assessed at every stage of the property lifecycle including pre-acquisition. Climate-related matters that arise in due diligence are included in asset business planning following acquisition.

The Responsible Investment Committee assesses our climate risk register twice a year for materiality based on likelihood and impact. This is aligned to our overall risk management framework and based on current expectations of climate trajectories and global action. Our annual Climate Risk Review ensures that our assessment of physical and transition risks and opportunities is up to date. We are working to fully integrate climate-related risk into our overall risk management.

## Embedding climate-related risks

Our net zero carbon pathway is key to driving down our GHG emissions and managing climate-related risks. With net zero targets of 2030 for landlord, refurbishment and corporate emissions and 2040 for occupier emissions and fit-outs, our roadmap includes targets and guidance for embodied carbon, operational emissions, increased on-site renewables and off-site renewable energy procurement. These targets are part of every relevant asset management decision. We are also adding other controls to manage risk and capture opportunities, such as EV charging and biodiversity net gain assessments.

In addition to risk mitigation programmes outlined above/overleaf, we have integrated climate-related risk into key business processes. These include:

- **Responsible Investment Policy**
- Responsible investment strategy and targets
- Investment Committee papers
- Acquisition checklist
- Asset Sustainability Action Plans
- Business planning
- Sustainability Principles
- Service provider selection

27. Excluding properties purchased/sold during period

# METRICS AND TARGETS

Rigorous data management and ambitious target-setting are essential to reach net zero and build resilience. We report performance using industry metrics and our performance is externally assured. We continue to enhance the metrics we use in investment decision-making. For example, we will develop metrics as part of developing our climate resilience strategy and trialling the MSCI VaR tool in 2023.

Our net zero carbon pathway includes detailed targets and metrics for driving down Scope 1, 2 and 3 emissions, which we report using the Greenhouse Gas Protocol. Since occupiers account for the bulk of emissions, we are rolling out smart meters for gas, electric and water to improve data collection and management. By September 2022, landlord-controlled energy meters monitored 62% of landlord energy use (gas and electricity) and we

are targeting 90% coverage in 2023. This is critical to achieving our 2030 target of reducing whole building energy intensity by 16%, including occupier and landlord-procured energy, across all assets under management.

EPCs and other green building certifications are important metrics for mitigating climate risk and meeting changing market and legislative demands. In 2022, 38% of units by value (ERV) were rated EPC B or above, compared to 28% in 2021. At a property level, the percentage of properties with an average EPC rating of B or above or a BREEAM or WELL certification is 44% (versus 36% in 2021).

Below are metrics and targets based on the latest TCFD guidance. Calculation methodologies are described in the **Environmental Data Annex**, which also includes more climate-related performance data.

Emissions, Risks and Opportunities	Metrics	2022 Performance	2021 Performance	2025 Targets
<b>GHG emissions and Energy</b>				
<b>Absolute emissions - Scope 1, 2 and 3</b>	tCO <sub>2</sub> e	Scope 1: 1,603 Scope 2 (location-based): 4,181 Scope 2 (market-based): 0 Scope 3 (location-based): 51,861	Scope 1: 2,030 Scope 2 (location-based): 4,613 Scope 2 (market-based): 0 Scope 3 (location-based): 58,418	In our view, intensity targets are more appropriate to our business, where the assets under management can increase or decrease significantly over time
<b>Emissions (location-based) intensity Scope 1, 2 and 3</b>	kgCO <sub>2</sub> e/m <sup>2</sup>	54.9	61.9	25% reduction in Scope 1, 2 and 3 carbon intensity by 2025 (vs 2018/19) <sup>28</sup>
<b>Energy usage</b>	kWh	29,739,457	32,816,436	50% of actual occupier energy data to be collected by 2025 (by floor area)
<b>Energy intensity</b>	kWh/m <sup>2</sup>	36	40	An energy intensity target of -16% has been set for 2030
	kWh/m <sup>2</sup>	62% of landlord energy use (gas and electricity) covered by smart energy meters	60% of landlord energy use (gas and electricity) covered by smart energy meters	We will continue to progress towards a target of 90% smart meter coverage for landlord-controlled energy supply

Emissions, Risks and Opportunities	Metrics	2022 Performance	2021 Performance	2025 Targets
<b>Transition risks</b>				
<b>Increasing stringency of climate-related building legislation</b>	% of assets by value where value weighted average of EPC is B or above	38%	23%	Expected minimum of B EPC in 2030
	% of assets by value that are green certified <sup>29</sup>	44%	36%	50% by 2025
<b>On-site renewables</b>	MW of capacity installed and commissioned	0.337	0.324	Install 4 MW of renewable energy generation capacity from October 2019 to September 2025
<b>Physical risks</b>				
<b>Risks include fluvial, extreme weather events and heat stress</b>	Metrics under review	Forward-looking flood risk review completed	Internal flood risk review completed	Incorporate flood risk recommendations into 2023 business planning
	Metrics under review	Resilience measures integrated into refurbishment planning in line with Sustainability Principles	Sustainability Principles developed	Develop climate change resilience strategy in 2023
<b>Opportunities</b>				
<b>On-site renewables</b>	MW of solar capacity installed and commissioned	0.337	0.324	Install 4 MW of renewable energy generation capacity from October 2019 to September 2025
<b>Electric vehicle charging</b>	Number of electric vehicle charging points installed	48	Not measured	
<b>Internal Carbon Pricing</b>	N/A	We intend to explore options for an Internal Carbon Pricing mechanism to support our net zero target in the future		
<b>Remuneration</b>	% of variable remuneration	Climate-related metrics are part of every investment and asset management employee's performance objectives which, in turn, influence variable remuneration. Risk management, including climate-related risks, is also considered		

28. Achievement of this target will be measured from 1 October 2024 - 30 September 2025

29. Green certified includes building certifications such as BREEAM, WELL, NABERS or equivalent and EPCs of B or above. The letter rating of an EPC has been used for calculating this metric. Unit level certifications and associated value have been considered when calculating the property level average EPC