RESPONDING TO THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Here we set out our response to the Task Force for Climate-related Financial Disclosures (TCFD) framework following the comprehensive analysis we completed in 2020.

Governance

Our Board has full oversight of climate-related risks and opportunities. The Board has delegated management of climate-related risks to the Managing Partner. The Managing Partner has established the Responsible Investment Committee, accountable for all climate-related matters, which provides updates to the Board on a quarterly basis.

The Responsible Investment Committee is responsible for the ongoing monitoring and management of climate-related risk. The Chair of the Responsible Investment Committee is a Board Member and a Member of the Orchard Street Investment Committee.

The Responsible Investment Committee advises the Managing Partner and Orchard Street's Investment Committee on climate-related risks. The Investment Committee is responsible for all the Investment and Asset Management decisions taken in the management of our clients' assets.

At pre-acquisition stage, the Investment Committee ensures that the relevant protocols have been followed and any possible sustainability risks are highlighted. Once an asset has been acquired, the Investment and Asset Management teams complete a handover to review pre-acquisition due diligence. A member of the Responsible Investment Committee and an Investment Head-of-Sector will then liaise to discuss sustainability KPIs, risks and potential opportunities for the asset.

Within our existing portfolio, the Responsible Investment Committee manages our ESG asset tracker to monitor the effective implementation of sustainability activities.

Strategy

This year we conducted a comprehensive climate risk assessment. Both a two-degree (RCP4.5) and four-degree (RCP8.5) emissions scenario was applied using leading climate and market research to test a range of likely outcomes and identify material climate-related risks. The former scenario is consistent with the transition to a lower carbon economy and the latter is characterised by increased physical risk.

The scenarios were used to inform the risk assessment, where the likelihood and impact of a risk was assessed, incorporating factors such as frequency, duration, velocity and financial impact. The risks were assessed against the two scenarios and in relation to our business and portfolio strategies, with due consideration of our portfolio asset allocation. High impact opportunities were also identified in relation to our business strategy.

As a result, we have identified the most material issues, when they are likely to materialise and their potential impacts. The risks identified include a potential for costly damage to assets due to physical climate events; fines and void periods due to legislative non-compliance; increased operating costs related to heating, cooling, disrupted supply chains and reduced availability of resources; a loss of footfall to our assets; and an overall loss of rental and capital values due to the occurrence or perception of these risks.

With a holistic understanding of how climate risks could impact our business, we will continue to implement a robust ongoing risk management and monitoring process over the next year.

Risk Management

Our comprehensive review of climate-related risks, along with their likelihood and impact, has enabled us to determine those most material to our business and prioritise investment and implementation of adaptation and mitigation measures.

Climate-related risks are managed by an ESG asset tracker, used to monitor sustainability actions as well as setting baselines, identifying inefficiencies and establishing targets. We have developed a climate risk register that will assist the Responsible Investment Committee to maintain oversight of material risks, the associated mitigation actions and the parties responsible for implementing them. The Committee updates the Board on a quarterly basis on ESG matters, including climate risk.

Processes throughout the property lifecycle also help us to identify, assess and manage climate-related risks. At pre-acquisition stage, several checks are carried out which incorporate such risks including those for on-site renewable energy generation and legislative compliance. At the post-acquisition stage, asset managers are responsible for developing asset plans that incorporate sustainability KPIs, which property managers are annually assessed against. This ensures there is responsibility for managing climate risks and opportunities at the asset level.

Going forwards, we are currently updating our processes to ensure all climate risks are formally addressed throughout the property lifecycle and will continue to monitor and inform management of relevant legislation and regulations that could affect our business.

Metrics & Targets

This year, we have reported our Scope 1 and 2 carbon emissions from directly managed assets (see from page 28 and 29). We have calculated our organisational carbon footprint, including Scope 3 emissions to support the development of our carbon reduction target.

As well as providing opportunities for efficiency improvements across our managed assets, understanding our footprint will allow us to report our Scope 1, 2 and 3 emissions, on both an absolute and intensity basis, giving clear and comparable carbon metrics for our stakeholders to evaluate.

In 2020, we enhanced our environmental performance data collection process to more efficiently and accurately report on our emissions. This is supported by our ESG asset tracker which records the kg of CO_2e saved per initiative. To supplement our quantitative metrics, we also track key qualitative measures such as EPC ratings and building certifications to build a holistic view of each asset's performance.