

Schroders

Schroder Real Estate

Sustainability Policy:
Real Estate with Impact

March 2021



Marketing material
for professional investors or advisors only.

Sustainability Policy: Real Estate with Impact

At Schroders we see ourselves as long-term stewards of our clients' capital, and this philosophy leads us to focus on the long-term prospects for the assets in which we invest. It is central to our investment process to analyse each investment's ability to create, sustain and protect value to ensure that it can deliver returns in line with our clients' objectives.

Real estate investment is focussed on the built environment which provides the building blocks of sustainable economies, supporting society and the environment. The world experience of climate change, societal change and the technology revolution is ever-changing and these issues are reshaping our planet and society's response. Real estate investing therefore carries the responsibility to identify, understand and manage environmental, social and economic impacts, positive and negative, to deliver resilient investment returns for the long term and manage exposure to impacts of financial and non-financial risks.

At Schroder Real Estate, understanding these issues and their impacts is integral to our investment process and applies to all aspects of real estate investment including acquisition due diligence, asset management, property management provided by third parties, refurbishments and developments. Understanding and improving the impacts of real estate investment to the environment and society sits alongside our priority to maximise returns for our clients in a manner consistent with our funds' risk profiles.

Our sustainability approach "Real Estate with Impact" is founded on four pillars of impact – People, Planet, Place and Prosperity. These pillars are referenced to the UN Sustainable Development Goals¹: 8 Decent Work and Economic Growth; 11 Sustainable Cities and Communities; 13 Climate Action, recognising the contribution of the built environment and our responsibilities as real estate investors to society, the environment and economies.

We believe an investment programme which is sustainable should deliver enhanced returns to investors, improved business performance to tenants and tangible positive impacts to local communities, the environment and wider society for the long term.

This document describes our sustainability commitments and how sustainability risk considerations are factored into our investment management processes demonstrating that our investment teams focus on delivering returns and incorporate sustainable investing in a way that seeks to support investment returns in a risk-adjusted context.

This Policy applies to Schroder Real Estate which incorporates Direct Real Estate, Hotels, and Real Estate Capital Partners ("SRECaP"). The approach taken by the SRECaP team reflects the principles of this Policy although the execution of their approach to investing in third party-managed funds will differ from the Direct Real Estate and Hotel team's approach to investing in buildings: in addition to seeking to understand the sustainability credentials and risks of the real estate portfolios in which they invest they also seek to understand the third party managers' approach to incorporating sustainability considerations and risks in their investment processes.

¹ In 2015, all United Nations Member States recognised the range of issues we all face by adopting the UN Sustainable Development Goals ('SDGs') as part of the 2030 Agenda for Sustainable Development. These SDGs provide a common framework for public and private organisations to present the impacts of their activities and report on the outcomes they achieve. <https://sdgs.un.org/goals>

Our Commitments

In order to fulfil the aims of our Real Estate with Impact approach Schroder Real Estate has defined the following commitments which are implemented in our investment process:

- We recognise the built environment's contribution to global carbon emissions and are a signatory to the Better Buildings Partnership Member Climate Change Commitment² ("Commitment"). The Commitment and our progress against it is as follows:
 - o We will develop our Net Zero Pathway for our portfolios directly holding real estate investments during 2020 and annually disclose our progress towards our net zero carbon pathway,
 - We published our Net Zero Pathway in December 2020 and have begun implementing the strategy this sets out to establish net zero pathways for our assets under management.
 - Our Net Zero Pathway is available [here](#)
 - We will set new energy and carbon targets, to include interim milestones, for our direct real estate products by 2022 and report against these targets annually - recognising our existing country energy and greenhouse gas targets come to an end in March 2021, and our net zero commitment.
 - We will seek to achieve the energy and carbon targets by implementing improvement measures for assets, where feasible, with the aim to reduce energy consumption, improve energy efficiency and reduce carbon emissions. Such improvement measures may for example include building management systems, LED, solar PV and technical building audits and performance assessments.
 - o We will publicly disclose the energy performance of our portfolios, where we have permission to do so, as a minimum at a portfolio level by geography, and ideally at a property level, and support efforts to develop consistent industry performance disclosure and benchmarks,
 - We prepare annual sustainability reports for our funds, we include these within annual report and accounts for our funds and publish these where it is appropriate for to do so. These reports are available on request.
 - o We will seek to optimise renewables in particular for landlord procured energy across portfolios.
 - We have a target to procure 100% landlord procured electricity on renewable tariffs by 2025 and will report on our progress for each product annually

² Details of the BBP Climate Change Commitment including the commitment wording, signatories, the BBP Net Zero Carbon Framework guidance, and referred to as the BBP Commitment throughout this document, can be found at BBP Climate Change Commitment | Better Buildings Partnership <https://www.betterbuildingspartnership.co.uk/node/877>

- We will develop comprehensive climate change resilience strategies for our portfolios and work together to develop consistent industry disclosure on climate change risks in line with industry standards, including the Task Force on Climate Related Financial Disclosure (TCFD)³.
 - We included TCFD statements in our fund reporting for 2020 reporting years and intend to develop these statements as we evolve our management of climate risk
 - We are working to assess transition and physical climate risks across our portfolios
- The full wording of the BBP Commitment is at <http://www.betterbuildingspartnership.co.uk/node/877>
- We will seek to meet and, where appropriate, intend to exceed legislative and other requirements which include global, national and corporate commitments, investor/partner and other stakeholder expectations, and pledges made to meet industry best practice standards across our business activities.
- We shall support compliance with internationally recognised human rights across our business activities. Schroders has committed to the UN Global Compact, the world's largest sustainability initiative.
- We are committed to continual improvement and protection of the environment, including prevention of pollution, sustainable resource use, climate change mitigation, and enhancing biodiversity and green/blue spaces through application of best practice. To mitigate the impacts of climate change, our long-term energy and greenhouse gas (GHG) emissions efficiency targets are aligned with ratified EU targets, where appropriate.
- We are committed to supporting the health, safety, security, wellbeing, inclusivity, heritage, prosperity and productivity needs of our employees, customers, suppliers, communities and places.
- We will seek to develop our strategies for customer service and sustainable procurement recognising the changing needs and responsibilities of occupiers and suppliers and our responsibilities.
- We will maintain a process to identify, manage and report sustainability risks across our real estate investment activities with monitoring provided independently of Schroder Real Estate by Schroders Risk Team:
 - Please see the section Integration of Sustainability Risks below
- Our employees, responsible for governing our commitments and ensuring they are implemented, will undertake sustainability focused training to ensure they are competent to deliver our sustainability programme and all investment staff have sustainability objectives defined and tracked as part of formal annual performance review processes.
- We shall disclose sustainability performance for funds in line with industry guidelines and regulatory requirements, where appropriate.

³ Details of the TCFD Initiative can be found at <https://www.unepfi.org/climate-change/tcfd/>

- We will maintain an environmental management system (EMS), certified to the international standard ISO 14001⁴ (2015), for the asset management of direct real estate in the UK and Europe, to help identify and manage the deliverable actions of our Real Estate with Impact strategy.
- We shall continuously review the effectiveness of our Real Estate with Impact approach to ensure it delivers asset and portfolio performance and risk management commensurate with our investment objectives.

Integration of Sustainability Risks Considerations

In accordance with the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) or “SFDR”, which is part of the EU Action Plan on sustainable finance, that aims to reorient investment towards a more sustainable economy, imposing new sustainability related disclosures and reporting requirements on various Schroders entities and their products, we are required to demonstrate how sustainability risk are integrated in our investment decision-making processes.

The manner in which Sustainability Risks are integrated into investment decisions

Schroders overall risk management processes include the consideration of Sustainability Risks (as defined below) alongside other factors.

A sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment and the returns of a fund (a “Sustainability Risk”).

Sustainability Risks could arise at any stage of the real estate investment lifecycle including acquisition, ownership, renovation and construction. Sustainability Risks that could negatively affect the value of a particular real estate asset or portfolio of real estate investments might include:

- Environmental: extreme weather events and physical climate risks such as flooding, production of waste and greenhouse gas emissions, pollution incidents, damage to biodiversity;
- Social: materials and construction safety issues, health and safety incidents such as injuries or fatalities;
- Governance: failure to identify and understand new regulations, taxes or industry standards, including related transition risks, to protect or encourage sustainable real estate lifecycle activities and practices such as minimum energy efficiency and energy reduction requirements which may be introduced.

Schroder Real Estate is required to consider such potential Sustainability Risks as part of its mandatory pre-acquisition due diligence review process. Sustainability Risks continue to be considered through the real estate investment lifecycle with support from external property manager(s) and sustainability adviser(s) as appropriate.

⁴ ISO 14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organization can follow to set up an effective environmental management system <https://www.iso.org/iso-14001-environmentalmanagement.html>

In addition, Schroder Real Estate operates an Environmental Management System (EMS), externally certified to ISO14001⁵, which provides the framework for managing its environmental responsibilities in the asset management of direct real estate in the UK and Europe.

Independent oversight of Sustainability Risks is also provided by the Schroders Group Investment Risk function across the Schroders Group investment range more generally, with reporting and escalation to Real Estate Risk and Performance Committee and Investment Manager boards as appropriate.

More details on the management of Sustainability Risks and Schroder Real Estate's approach to sustainability are available on the internet site:

<https://www.schroders.com/en/uk/realestate/products--services/sustainability/>

Any references to the integration of sustainability considerations therein are made in relation to the processes of the investment manager or the Schroders Group and are not specific to any Fund.

Sustainable Finance Disclosure Regulation Definitions

Sustainability risk means an environmental, social or governance event or conditions that, if it occurs, could cause an actual or a potential material negative impact on the value of investments.

Integration of Sustainability Risk Considerations explicitly and systematically includes analysis of a range of risks and opportunities related to environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone.

Sustainable Investments as defined under SFDR means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, In particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;

⁵ ISO 14001 is an internationally agreed standard that sets out the requirements for an environmental management system.

Other Risks associated with Real Estate investing

- The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested.
- Investments in real estate are relatively illiquid and more difficult to realise than equities or bonds. Yields may vary and are not guaranteed.
- The value of real estate is a matter of a value's opinion rather than fact.

This Policy

This Policy will be reviewed annually and is actively communicated with our internal stakeholders and key suppliers. Our employees and supply chain partners are responsible for implementation of this Policy.



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