

Schroders

Schroders Real Estate Investment Management Limited

TCFD AM entity-level disclosures



1. Introduction and Compliance Statement

This report is published by Schroder Real Estate Investment Management Limited (**'SREIM'**) in compliance with the requirements set out in chapter 2 of the Financial Conduct Authority's Environmental, Social and Governance sourcebook (**'ESG Sourcebook'**) that requires SREIM to publish an entity level disclosure consistent with the Task Force on Climate-related Financial disclosures (**'TCFD'**).

SREIM is the principal provider of real estate investment management and advisory services within the Schroders Group. SREIM provides direct and indirect solutions for real estate investment.

As the SREIM approach towards climate risks and opportunities is generally aligned with the broader Schroders Group, where relevant this report relies on and cross-refers to the Group level disclosure in the Climate Report 2023 published by Schroders plc (which is the ultimate parent company of SREIM (**'Group Climate Report 2023'**), available [here](#)).

This report also summarises any material differences between the group-level approach to climate risks and opportunities described in the Group Climate Report 2023 and the approach taken by SREIM.

This report has been approved by Sophie van Oosterom (Global Head of Real Estate) and confirms the disclosures comply with our obligations under the ESG Sourcebook. Any information provided by third parties is believed to be reliable, but has not necessarily been verified by Schroders.

Signature: 

2. Governance

As SREIM's governance framework for climate risks and opportunities is generally consistent with the Group-level governance framework, please see the 'Governance' section of the Group Climate report 2023.

The Head of Private Assets sits on the SREIM board of directors (**'SREIM Board'**) and provides input on wider Private Assets and Schroders Group level climate-related risks and opportunities, commitments and activity. During the previous year the SREIM Board received updates on climate-related risks and opportunities, in addition to wider ESG goals and ambitions, from the Schroders Capital real estate (**'SCRE'**) Head of Sustainability & Impact Investment as part of an annual meeting. The SCRE Head of Sustainability & Impact Investment attends the Private Assets Sustainability & Impact working group, which discusses core climate-related topics, requirements and research with the intention of improving consistency across platforms and embedding Schroders Group level best practices and requirements where possible.

The climate-related risks and opportunities related to SREIM's investment management services at the asset and fund level are primarily identified by the SCRE Sustainability & Impact Team (**'SCRE S&I Team'**). Responsibility for assessment and management of climate-related risk and opportunity is delegated to investment managers. Investment managers are supported by the SCRE S&I Team including the 'Climate Lead' and 'Energy & Carbon Lead'. Opportunities to mitigate identified risks or reduce exposure of portfolios through asset-level investment and improvements are determined using a combination of Schroders tools which for direct investment include Impact and Sustainability Reviews, ESG Scorecard, Impact and Sustainability Action Plans (**'ISAPs'**), Fund Sustainability Objectives and net zero audits and analysis. The use of these tools may vary, by fund or asset, and are applied at varying stages of the investment cycle. Investment managers prepare and submit annual asset business plans which identify potential capital expenditure needs in relation to decarbonisation and transition risk management (e.g. UK Minimum Energy Efficiency Scheme (**'MEES'**) risks and Net Zero Carbon targets). Supported by physical and transition risk analysis, investment managers report on progress against targets and risk mitigation activities in annual Fund Strategy Statements, which are presented to and approved by the Investment Committees. Physical risk and transition risk metrics are also presented to the Investment Committees during the due diligence stages of an acquisition, supported by analysis from the SCRE S&I Team.

SCRE operates two separate Investment Committees for all direct and indirect mandates which are sub-committees of the regulated SREIM Board. The Direct Investment Committee is chaired by the Global Head of Real Estate and the Indirect Investment Committee is chaired by an independent non-executive. Both Investment Committees include senior management from across the real estate business, including Heads of Risk, Research and country investment heads, and review proposed investments and strategies according to a robust investment decision making and governance framework (review of risks versus envisaged returns and compliance with mandate objectives). In addition, oversight of risk is provided by the Schroders Group Investment Risk team.

3. Strategy

The SREIM strategy for the consideration of climate risks and opportunities is generally consistent with the Group-level strategy for Private Markets, as set out in the Strategy section of the Group Climate Report. Additional detail on the entity's approach is provided below, given the nature of investment in real assets.

SREIM and its real estate assets under management are not currently included in the Group Science-Based Targets initiative ('SBTi') aligned target and is therefore not included in the temperature alignment targets set for 2030 and 2040.

The Group level analysis of climate risk includes a high-level interpretation of physical and transitional risks, across a number of investment sectors and time horizons, which includes the global real estate sector. However, climate-related risks and opportunities for real asset investments in SREIM are assessed through several additional analyses and processes as detailed below.

SREIM provides direct and indirect real estate investment solutions. The process for climate-related risk and opportunity analysis differs across these solutions and is more developed for the direct portfolio.

Risks and opportunities are identified as part of a 'Materiality Review' process (which forms part of the ISO 14001:2015 certified Environmental Management System for asset management of directly held assets in the UK and Europe), overseen by the SCRE Head of Sustainability & Impact Investment. This informs the overall Sustainability & Impact policy for SCRE, which is reviewed and approved by the SCRE Direct Investment Committee and RE S&I Governance Committee. Fund level risks and opportunities are identified as part of the annual Fund Sustainability Objectives process, part of the annual Fund Strategy Statement reviewed by the SCRE Direct Investment Committee, with responsibility for assessment and prioritisation of risks assigned to the investment managers.

The approach SREIM applies to its indirect portfolio differs for its SCRE partnership funds ('**Partnership Funds**'), where SREIM acts as the fund manager and investment manager and the asset advisory function is outsourced to what we consider best-in-class specialist managers, and externally managed funds. For externally managed funds, engagement and risk assessments for climate-related risks and opportunities are primarily managed through the deployment of an ESG Survey, and engagement with fund managers to collect, monitor and report on climate-related topics. For Partnership Funds, the approach to climate-related risks and opportunities is aligned to that of the direct real estate portfolio and third party managers are requested to adhere to the procedures and commitments of the SCRE S&I Policy. The indirect portfolio approach is captured within the Schroders Real Estate Capital Partners sustainability policy which is approved by the SCRE Indirect Investment Committee.

4. Transaction Risks

Policy and regulation risk across the UK and Europe is identified through third-party review and status updates, received on a bi-annual basis, from Longevity Partners. This identifies relevant regulatory mechanisms that pose a risk to real estate investors across several environmental and governance categories and ranks these risks on a 'Low' – 'High' scale, based on potential impact to real estate investment activities. For direct real estate funds, exposure to relevant regulatory risks is identified and monitored through the setting of fund-level sustainability objectives, determined by the SCRE S&I Team and approved by the Direct Investment Committee. Responsibility for fund and asset performance and setting of targets, is delegated to investment managers, and topics include:

- Regulatory mechanisms (i.e., MEES in the U.K.)
- Net zero energy and carbon targets
- Coverage of Green Building Certifications
- Proportion of renewable energy purchased/generated

SCRE has committed to achieving Net Zero Carbon by 2050 or sooner across direct and indirect investments. This includes investments managed within SREIM. Risks associated with the transition to a low carbon economy are currently assessed through development of asset and fund level Net Zero Carbon (NZC) targets across 36% of SREIM's direct real estate investment mandates (by AUM). The initial analysis was conducted in 2021, and was updated in 2023 to align with the science-based Carbon Risk Real Estate Assessment Monitor ('**CRREM v2**') 1.5C pathway, using a Sectoral Decarbonisation Approach ('**SDA**'), and based on a 2019 baseline year. These pathways address operational (in-use) emissions only. The SDA uses the overall carbon budget assigned to the Real Estate sector up to 2050 and determines a Greenhouse Gas ('**GHG**') intensity pathway for the sector to achieve in order to limit global warming to 1.5C. These pathways are determined for each asset class in each country. This approach allows for the determination of a 'stranding year' for an individual asset, meaning the point in time at which it is anticipated that an asset will exceed the required GHG intensity of that asset class within that country. By identifying a 'stranding year', an annual Carbon Value at Risk ('**CvaR**') can be determined out to 2050 based on assumptions on carbon cost within the CRREM model.

SCRE have used the 1.5C CRREM v2 pathway only for scenario analysis, as this represents the industry standard for decarbonisation assessment and NZC strategy development and represents a more intensive emissions reduction effort than aligning with a 2C pathway. The CRREM tool requires whole building level energy consumption and carbon emissions data in order to determine a decarbonisation pathway and expected stranding year. This presents challenges in data collection for assets which are wholly tenant-controlled, or where only data relating to landlord procured utilities is available. Where whole building energy and carbon data was not available, in order to determine fund-level targets, asset performance was benchmarked using CRREM 1.5C pathway intensity figures.

The first assessment against the SCRE NZC targets and an update for CRREM v2 (released in January 2023) was completed in Q1 2023, with support from third-party consultancy Evora Global, which resulted in a re-evaluation of projected stranding years and potential CvaR values. These results were reviewed by investment managers and the SCRE S&I Team, alongside third-party property managers, to enable appropriate actions to be identified and the findings used to influence decision-making for energy and carbon performance improvement measures within portfolio assets' ISAPs and annual business plans. SREIM has also implemented detailed NZC audits for a sample of assets across the direct real estate portfolio, starting in 2023, to determine appropriate risk mitigation activities at asset level and their associated cost, value and impact on stranding years and CvaR. The findings of these NZC audits are reviewed at the property-level and recommendations for energy and carbon efficiency measures will be integrated into annual business plans where feasible. SREIM has procured the services of a new consultant Verco to restate fund and asset net zero energy and carbon targets for 2024.

5. Physical Risk

SREIM has assessed physical climate risks across the direct and indirect partnership funds using Verisk Maplecroft's GRiD tool. This assesses the exposure of assets across 23 chronic and acute physical climate risks, natural hazard vulnerabilities and climate modelling uncertainty, for existing and future scenarios. Asset level risk profiles are aggregated to fund level, and weighted-averages of each risk determined using Gross Asset Value in order to determine the most important risks to a fund. The physical climate risk analysis is currently limited as it does not determine the financial impact to the business as a result of expected risk profiles. Qualitative analysis supplements the risk profiles at fund level, and these are presented to the Direct and Indirect Investment Committees as part of annual Fund Strategy Statements. These statements include commentary identifying potential financial and operational risk considerations, in addition to adaptation and resilience options to be considered. At present, these options are limited to high-level recommendations for future assessments (e.g. reviews of potential recycled water/rainwater systems, minimising irrigation needs, overheating analysis, increased energy and water utility costs). As the data for physical risks and opportunities improves the recommendations for adaptation and resilience will become more focussed and relevant to individual assets, and site-specific adaptation strategies will be developed where appropriate.

In terms of scenario analysis, the physical risk screening of assets within SREIM varies depending on the risk index assessed. Heat stress, water stress, flood hazard, heating degree days and cooling degree days are presented as both current and future risk scenarios allowing for interpretation of increasing or decreasing exposure of the portfolio. These are aligned either with RCP4.5 or RCP8.5 scenarios, and range in timeframes from 2030, 2060 and 2100. Natural hazard vulnerability risks are present day assessments. The most material physical risks affecting our portfolio are typically flood risk, heat stress, water stress, drought and heating/cooling degree days. This varies by geography, with southern European and Mediterranean assets typically exposed to heat stress and water pollution/water stress more so than northern European assets. UK and northern European sites are typically more exposed to flood risk, extra-tropical storms and sea level rise risks than southern European assets. Due to the limitations of the physical risk scenario analysis it is not possible to determine the changes in exposure to some risks over different time horizons. Due to the nature of real assets, flood risk is a particular focus of our climate-related risk analysis. All UK and European assets are assessed for flood risk, on an annual basis and as part of standard acquisition due diligence processes, which may have a direct impact on risk premium costs.

To further develop our understanding of methodologies to determine quantitative CVaR and associated wider financial impacts of transition risks, SREIM (through the SCORE S&I Team) are directly engaged and a sponsor of the ULI C-Change project which aims to determine sector-level definitions and best practices in accounting for transitional risk cost implications for asset valuations and inclusion of costs within business plan discounted cash flows.

The SREIM climate strategy is generally consistent across the various investment strategies provided by SREIM. However, for certain investment strategies, the strategy differs as follows:

The portfolio level target of NZC by 2050 or sooner, and the associated interim targets, apply to direct and indirect investments across SREIM's products. However, individual fund targets and associated tracking of alignment to the CRREM 1.5C science-based pathway have not been determined across the entire direct portfolio, or the indirect (Partnership Fund) portfolio to date. To facilitate future inclusion of the indirect investment portfolio and its assessment against the CRREM 1.5C pathway, ESG questionnaires are utilised to encourage the collection of utility consumption data across third-party managed funds and combined with data outputs obtained through funds' submissions to the Global Real Estate Sustainability Benchmark ('GRESB'). It is planned to use collected performance data, combined with contextual asset information, to establish NZC baselines for the indirect portfolio, and establish potential transition risks and exposure related to stranding of assets and associated CVaR.

6. Risk Management

The SREIM approach to identifying, monitoring and managing climate risks is consistent with the group level risk framework described in the 'Risk Management' section of the Group Climate Report 2023. However, at an entity level the following risk management controls, policies and procedures are in place which supplement the Group level controls.

As part of SCORE's ISO 14001:2015 accredited Environmental Management System ('EMS'), a materiality review is undertaken annually to identify the most significant ESG and climate-related risks and opportunities applicable to real estate investment. Third party regulatory risk reviews from Longevity Partners are provided bi-annually, which are reviewed by the SCORE S&I Team and presented to investment managers. Asset and fund level NZC progress reports, aligned to CRREM 1.5C scenarios, are used to determine stranding risk and a potential Carbon Value at Risk. Progress reports support the prioritisation of asset improvement initiatives through ISAPs which subsequently feed into asset business plans.

Ownership of assessment and management of climate-related risks is with investment managers. Using the outputs of the various internal and external tools and risk assessments, transitional and physical risk analyses are included within annual business plans at the asset level and aggregated at fund-level through Fund Strategy Statements, which are presented to the Investment Committees for review. These are considered in relation to wider financial key performance indicators and expected potential performance of the assets and funds. The SREIM Board also receive at least annual updates on ESG risks from the SCORE Head of Sustainability & Impact Investment.

For the indirect portfolio, engagement with external third-party funds is typically achieved through annual ESG Surveys. Surveys include sustainability and climate-related questions seeking to increase disclosure of environmental performance information. This includes determining the presence of NZC targets, availability and sharing of utility consumption and carbon emissions data, assessment of climate and flood risk and consideration of wider transition risks (e.g. EPC performance and green building certifications). Surveys were not issued during the 2023 calendar year however direct queries were issued to third party managers to support data collection and understanding of net zero carbon approaches.

7. Metrics and Targets

SREIM use the same metrics to assess climate related risks and opportunities at an entity level as the approach outlined for real estate within the Group Climate Report 2023 (specific real estate climate-related targets and metrics are captured on p.71). These metrics and targets will be applied across all the products managed and services provided by SREIM, where applicable.

The metrics disclosed in the Group Climate Report 2023 for real estate cover a proportion of the total SCORE portfolio, which includes assets managed by SREIM. Emissions data in the Group report is reported as annual figures as at March 2023, as the most recent available data at the time of disclosure. For SREIM, emissions are split by direct and indirect investments. For direct investments, emissions are reported as annual values at December 2023. For indirect investments, emissions are reported as annual values at March 2023 due to the challenges in obtaining data from third party managers and reliance on reported emissions. Combined, emissions are reported for £8.2 billion of SREIM's directly and indirectly invested UK and European discretionary mandates (AUM as at December 2023):

Direct real estate emissions

Reporting scope		CY 2023 Total (Direct)	CY 2022 Total (Direct)
Absolute emissions	Scope 1 (tCO ₂ e)	4,896	5,499
	Scope 2 (tCO ₂ e)	14,616	14,981
	Scope 3 (tCO ₂ e)	72,983	52,493
	Scope 1 and 2 (tCO ₂ e)	19,512	20,480
	Total	92,495	72,973
Emissions intensity	Scopes 1 and 2 (kgCO ₂ e/m ²)	10.1	10.8
	All scopes (kgCO ₂ e/m ²)	29.4	27.8
Coverage	% coverage (Total AUM)	53	45

Indirect real estate emissions

Reporting scope		FY 2023 Total (Indirect)	FY 2022 Total (Indirect)
Absolute emissions	Scope 3 (tCO ₂ e)	12,774	11,574
Emissions intensity	All scopes (kgCO ₂ e/m ²)	15.2	15.3
Coverage	% coverage (Total AUM)	13	11

Performance data is not currently available for the remainder of SREIM's direct or indirect assets under management.

The increase in total emissions and associated emissions intensity for the direct investments is driven primarily by the increase in scope 3 emissions data collection from occupiers of real assets. This value will vary year on

year as it currently relies on data provision from third parties. SREIM are actively seeking opportunities to increase scope 3 data collection and support our occupiers in collecting and sharing their data.

SREIM held total assets under management of £12.4 billion as at 31 December 2023. The reported AUM is calculated on traditional GAV basis for mandates where SREIM is responsible for portfolio management and where SREIM may hold responsibility for the management of UK assets delegated from another Schroders entity.

8. Data Gaps, Estimates and Assumptions

SREIM applies a different approach to data collection and reporting for carbon emissions to the Group approach. The underlying environmental performance datasets that are used to determine carbon emissions for direct property portfolios were collected by external property managers based on, where possible, actual utility consumption. Utility consumption data was recorded via utility meters, invoices, or Automatic Meter Reading technologies installed at the asset level. Data was reported into an externally-managed online ESG data platform and reviewed and analysed by external consultants, supplemented by commentary and review from external property managers, investment managers, and the SCRE S&I Team.

Where gaps in reported utility data were identified, missing data was estimated in accordance with accepted sector-level reporting frameworks and protocols, including the GHG Protocol and GRESB, which in turn comply with The European Public Real Estate Association (EPRA) and European Investors in Non-Listed Real Estate (INREV) guidelines. For energy and water data estimates, missing data is pro-rated at the meter-level using a combination of techniques including historic period gap-filling, regression analysis of average historical data accounting for heating and cooling degree days, and interpolation of average historic consumptions. Data is then aggregated to utility level in order to apply carbon emissions values.

For reported carbon emission absolute values, carbon emission factors were applied to primary utility consumption using country-specific published reference materials, including International Energy Agency, DEFRA (for UK assets) and CRREM v2 risk assessment tools. Where country-specific utility emissions factors were not available from published datasets, proxy factors were used from neighbouring countries with similar energy mixes. No benchmarks were applied to reported absolute emissions as this does not align with best practice reporting procedures (e.g. EPRA, GRESB). However, to determine NZC targets and associated annual performance, for landlord-controlled assets where no consumption data was available, benchmark consumption profiles from the CRREM v2 model are used. This enabled a more accurate representation of exposure to transition risks and potential CVaR across funds to enable decision making by investment managers. Where actual data becomes available for an asset, this will replace benchmarked data in future reports.

SREIM aims to improve data collection for Scope 3 emissions of its direct portfolio through increased engagement with tenants and will review the inclusion of wider Scope 3-related emissions sources such as the embodied carbon of developments/refurbishment, energy transmission and distribution losses, in future reporting cycles. SREIM will continue to improve the use of its proprietary ESG Surveys for its indirect portfolio to enhance understanding and visibility of emissions data and Net Zero Carbon targets and strategies, and to seek to align strategies with the direct portfolio approach as far as possible through active engagement and support.

9. Methodology

Please see the section entitled 'Our methodology and approach' in the 'Metrics and targets' section of the Group Climate Report 2023 for a description of our approach regarding metrics and targets (specific methodology for SREIM targets and metrics are captured on p.71). Further details on the specific approach to using the CRREM v2.0 pathways are outlined in the 'Strategy' section above, and the process for handling data challenges is outlined in the 'Data Gaps, Estimates and Assumptions' section above.

10. Notes on Data Limitations

Please see the section entitled 'Data limitations' in the 'Metrics and targets' section of the Group Climate Report 2023.

11. Delegation

Please see the section entitled 'Supply chain and engagement' and 'Our approach in Private Markets' in the 'Strategy' section of the Group Climate Report 2023 for a description of how our climate strategy has influenced our decision-making and process by which we (i) delegate functions, (ii) select delegates, and (iii) rely on services, strategies or products offered or employed by third parties including delegates.

12. Materiality

Our approach to materiality is set out on page 9 of the Group Climate Report 2023.