Responding to the Task Force on Climate-related Financial Disclosures

We are embedding climate resilience across our organisation and reporting annually in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This year we have made significant strides towards meeting our climate-related ambitions. We have structured our response around the four key pillars of TCFD: Governance, Strategy, Risk Management, and Metrics & Targets. This helps us detail the ways in which we govern, identify, assess, and manage climate-related risks, and report on the metrics we use to track our performance against climate-related targets.

Governance

Board and management oversight of climate-related issues

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.

This year, we formalised the Responsible Investment Committee's responsibilities into our Responsible Investment Committee Charter, including the ongoing monitoring of climate-related risks and the implementation of risk management actions. The Committee reviews our climate risk register and is responsible for updating it every six months and ensuring risk ownership is assigned to appropriate people. The Responsible Investment Committee and Investment Committee work together to ensure climate-related considerations are considered at all stages of the property lifecycle, including pre-acquisition. Once acquired, Investment and Asset Management teams are responsible for ensuring that any climate-related issues raised in acquisition due diligence are reviewed.

For more detail on how responsible investment is governed at Orchard Street, visit our Responsible Investment Policy and see the governance chart on page 29.

Strategy

Understanding climate-related risks against two climate scenarios

To understand physical and transition climate-related risks to our business, in 2020 we instructed JLL Upstream Sustainability Services, a real estate specialist sustainability consultancy, to conduct qualitative climate scenario analysis. JLL's climate scenario analysis research used credible climate literature from, but not limited to, the Environment Agency, World Bank, International Energy Agency, Bloomberg Green and Bank of England. We considered the IPCC RCP 4.5 and RCP 8.5 scenarios, in alignment with TCFD recommendations to analyse distinct scenarios, one of which aligns with a pathway to keep the average global temperature rise below 2°C. RCP 4.5 represents a scenario aligned with the Paris Agreement to keep average temperatures below 2°C of warming, while RCP 8.5 is a high emissions scenario where policy action has been insufficient to limit warming, leading to increased physical risk. The literature covered time horizons between now and 2100, with milestones of 2030 and 2050, accounting for the fact that climate-related risks materialise over the medium to long term.

By considering two distinct RCP scenarios, we were able to understand a breadth of climate risks across uncertain future climate pathways. We have identified the most material risks to our business, assessed their implications and identified actions to mitigate these.

Our top physical risks identified were fluvial flooding, extreme weather events and heat stress, which pose implications of increased insurance costs, increased capital expenditure costs to repair damage from physical climate events, resulting in reduced rental or asset values. In 2021, we reviewed the current flood risk of all assets under management. No high flood risk properties were identified by this internal review. Measuring exposure to extreme weather and heat stress is more complicated than flooding, we will be looking at this in the context of a climate change resilience strategy.

As we look to strengthen our understanding of our assets' exposure to climate risks, we have set a target to undertake a forward-looking flood risk review for a sample of properties in the coming year. We plan to further enhance our management of climate risks through the development of a climate change resilience strategy in 2022.

Our top transitional risks identified were increasingly stringent climate-related building standards and the increased demand for on-site renewables. Demand for on-site renewables is also a significant opportunity for enhanced income and valuations. The potential implications of these risks were identified as fines and void periods due to legislative non-compliance, reputation damage or reduced asset values for assets that lag sector performance standards and increased operational energy costs.

In order to mitigate these risks, we set ambitious targets for our net zero carbon pathway, conducted a renewable energy feasibility study on 100% of standing assets and developed Project Sustainability Principles with green certification targets for minor and major refurbishments. We reviewed the current Energy Performance Certificate (EPC) ratings of all assets under management. Fourteen non-exempt units in England or Wales were identified with F or G EPCs and these will be improved before the 2023 Minimum Energy Efficiency Standards for non-domestic properties in England and Wales. A different EPC calculation and regulatory regime applies in Scotland so these are not fully comparable. When we commission new Energy Performance Certificates in Scotland we specify the inclusion of an English equivalent rating to increase comparability across our portfolios going forwards. We also updated our acquisitions process and checklist, and lettings, renewals and regears and capital expenditure proformas to include Energy Performance Certificates and/or certification targets, referencing the government's stated target for a minimum EPC of B for non-domestic properties by 2030. The full details of this regulation and how it will apply to existing versus new leases has not been provided by the government.

Risk Management

We used our 2020 climate risk review to inform key actions to enhance climate resilience, including key processes to further embed climate risk management into our operations. See also the 'Governance' section on pages 28-33.

We updated proforma documentation for key lifecycle stages, including pre-acquisition, refurbishment and disposal to embed sustainability into everyday actions. We included sustainability criteria in our acquisition checklist in 2018 and have enhanced these in 2021 to include more detailed climate-related criteria, including feasibility for PV installation, EV charging and grid capacity.

We developed minimum sustainability standards and guidance for refurbishments, including setting the expectation for property managers and contractors to safeguard the sustainability performance of our assets.

We have developed a Responsible Procurement Charter, which defines the expectations of all retained suppliers contracted directly by Orchard Street on behalf of our client mandates as well as the minimum standards required to maintain a working relationship with our business. This includes ensuring our procurement does not have adverse environmental impacts.

We continue to enhance our ESG Asset Tracker, which assigns responsibility to individuals to oversee the implementation of climate-related initiatives and track progress.

We continue to monitor climate-related legislation and regulation.

We are proud to collaborate with the wider industry to improve mainstream approaches. Orchard Street representatives sit on BBP working groups including climate change, green leases and occupier engagement. We also collaborated with MSCI in piloting a number of assets in the development of its climate VAR tool, which quantifies potential impacts of several climate-related risks and provides asset-level insights.

Our net zero carbon pathway

Publishing a net zero carbon pathway helps us to mitigate a number of climate-related risks, allowing us to respond to:

- Growing market demand for best-in-class, net zero carbon assets
- Increasing level of policy and investor scrutiny over our carbon emissions
- Reputational and litigation risks that could arise if we are perceived to adversely impact our environment
- Our clients' exposure to potential increases in energy cost or carbon emissions taxation
- Manage the impacts of heat stress by focusing on energy efficient ventilation and cooling

Metrics and Targets

We report against the EPRA sBPR[23] to provide a consistent, comparable disclosure of environmental performance, including Scope 1, 2 and 3 emissions. We now report three full years of landlord energy, water and waste data to highlight performance trends. Please see our Environmental Data Annex.

Our occupier emissions account for the majority of our operational impact. We have implemented a formal engagement process with occupiers and managing agents to support environmental data collection and our asset managers engage with occupiers on improving the sustainability credentials of assets.

Our net zero carbon pathway provides full details of our carbon-related targets and metrics. For more detail, please see page 14.

Reported metrics and targets	Reference
GHG Emissions: Absolute Scope 1, Scope 2, and Scope 3; emissions intensity	Environmental Data Annex
Water and waste performance data: Intensity ratios and historic data provided	Environmental Data Annex
Climate-Related Opportunities: % of assets by value by EPC rating	Environmental Data Annex
Climate-Related Opportunities: % of assets with renewable energy feasibility study conducted	'Task Force on Climate-related Financial Disclosures', page 36
Calculation methodologies	'Methodological Notes', Environmental Data Annex
Key climate-related targets	'2021/22 Responsible Investment targets', page 9

Reducing our energy consumption

We are implementing several actions to improve data collection and management. We have set a combined target for landlord-controlled energy meters (including gas and electricity) to cover 90% of landlord energy by the end of 2021/2022. This is an increase of 50% compared to 2020/21. We are separately implementing a smart water meter roll-out as water consumption was not previously measured by smart meters. We have set a 2030 target to reduce whole building energy intensity (kWh/m^2) by 16%, across all assets under management, including occupier and landlord procured energy.

Green building certifications

We track EPCs and green building certifications, helping us understand our ability to meet shifting market and legislative demands. In 2021, at a property level, 23% of our assets by value were EPC B or above, 70% were EPC C or above and 36% were either BREEAM or WELL certified or had an EPC over B. On an individual unit basis, 28% of our units by value (ERV) had an EPC rating of B or above. We will continue to track and report improvements in EPC performance and seek to gain green building certifications where appropriate.

Our 2022 targets outline a number of key climate-related targets (included on page 8 and 9 of this report). These, coupled with the implementation of our net zero carbon pathway, are important steps to uphold our Responsible Investment Policy over the longer term and safeguard our assets' resilience to both physical and transitional climate-related risks.

23. The European Public Real Estate Association Sustainability Best Practices Recommendations (sBPR) are intended to raise the standards and consistency of sustainability reporting for listed real estate companies across Europe.