SUSTAINABLE REAL ESTATE INVESTMENT

IMPLEMENTING THE PARIS CLIMATE AGREEMENT: AN ACTION FRAMEWORK

February 2016

FRAMEWORK FOR ACTION

FOR ASSET OWNERS AND TRUSTEES AND THEIR INVESTMENT ADVISORS

Investor Group on Climate Change | IIGCC | Investor Network on CLIMATE RISK a project of Ceres | UNEP FINANCE INITIATIVE | PRI Principles for Responsible Investment | RICS

Strategy

Develop a material ESG and climate strategy

Key elements

Preparing and drafting an ESG and climate risk and opportunity policy and strategy which focuses on material risks and opportunities will enable asset owners to understand the evidence and decide what is the most appropriate approach for them to manage these risks. It enables asset owners, trustees and their advisers to better identify and manage those risks and opportunities in a way that is consistent with their fiduciary duty to exercise due care, skill and diligence in the pursuit of the best interests of fund beneficiaries .
Stakeholders engaged in this process should factor in existing and likely changes in the regulatory environment over the investment horizon, financial regulations surrounding climate change risk disclosure, and rating methodologies by mainstream groups such as Bloomberg, Moody's, and MSCI, as well as ESG groups such as Sustainalytics, Oekom, Trucost, and others.

Key elements of this process include a review and understanding of relevant ESG and climate risks and opportunities, the development and selection of dedicated ESG and climate risks policies and strategies and the determination of which measurements are appropriate for target setting.

Stakeholders should also decide which targets are appropriate for their investment strategies, and which will be made public, and which remain private. It is understandable that not all may be appropriate for the public domain. The guide will help stakeholders set reasonable and achievable goals, which can be stretched over time.

When a strategy is in place, such targets may be more uniquely tailored to the stakeholder. However, the action of setting targets can stand on its own. Most important is to define what the targets are, who is responsible for measuring them, how they will be measured, at what frequency they will be reported on, and what the incentives or expected consequences are if the targets are met, exceeded, or missed.

Recommended Actions

The following is a non-exclusive list of actions which form the core components required to develop an ESG and climate risk policy and strategy which focuses on material risks and opportunities:

Assess risks and opportunities

SHOULD

Question and assess whether key ESG and climate risks are being considered in real estate strategic asset allocation and investment strategies.

Ask advisers support to identify appropriate sources of information to assess current strategic allocation and investment strategy, their expert view on the relevance of these risks to current real estate investment strategy and their help in answering the following questions in order to identify gaps in existing processes and evaluation framework to account for ESG and climate risks:

- What are the impacts of changes in sustainability policy and regulation throughout the real estate investment cycle?
- What are ratings agencies, regulators, legal advisors and other stakeholders saying about the materiality of ESG and climate risks?
- What ESG and climate impacts are already included in assessment of risks, are there risks which will be material over the life of my asset portfolio which are not yet included?
- What will be the likely impacts of ESG and climate risks on the valuation assessment of real estate assets over their useful lives?
- Will real estate assets face regulatory or physical "obsolescence" due to ESG and climate risk factors over their useful lives?
- What are and will be the impacts from the societal shift to place greater economic value on ESG and climate factors on real estate assets/ strategies over the fund life?

COULD

Establish regular or on-going ESG and climate risk assessment, including:

- Identify relevant information sources and collect relevant data on regular basis.
- Review risks and opportunities on regular basis.

Develop ESG and climate policy and strategy

SHOULD

Develop or maintain a regularly updated policy and strategy stating specific approaches to integrate ESG and climate risk into investment framework.

Policy and strategy should determine how ESG and climate risk assessment processes will impact strategic real estate asset allocation and investment management including:

- Identify key procedures in asset acquisition, management, operation, planning, new developments.
- Refurbishment, upgrade, rental, and manager selection which are impacted by ESG and climate risk strategy.
- Set ESG and climate change indicators to evaluate new investment opportunities.
- Define ESG and Climate criteria for selection of new mandates and monitoring of existing mandates.
- Determine requirements for reporting and feedback from all relevant investment managers and advisers.
- Determine reporting process to members and stakeholders.
- Establish periodicity and approach should be used to review and evaluate ESG and Climate risk policy and strategy.

COULD

Take a leadership role in terms of dissemination and supporting training of advisers /managers so that the pace of change is accelerated.

Determine appropriate approach to embed a dynamic, data-driven assessment of ESG and climate risks into investment strategies.

Set targets

SHOULD

Determine and set appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in their portfolios.

Issue clear directives to external managers or REITs managing their property assets to deliver these targets, including requirement for their executives to be responsible for delivery of performance.

Targets can include:

- Quantitative and material targets to reduce energy, carbon intensity, water and waste of the portfolio over specified timeframe.
- Set a goal to measure and reduce the environmental/ resource intensity of a portfolio against relevant benchmarks over a given time period.
- Set qualitative targets for achieving relevant green property certifications for a percentage of the portfolio over a specified timeframe, targets can aim to grow over time.
- Set quantitative and qualitative targets to address social impacts of the portfolio, including community engagement and contribution to local communities.
- Set quantitative targets for the inclusion of green lease clauses in the lease agreements with tenants.
- Set quantitative targets to measure and provide minimum quality levels for indoor air quality, affecting health and productivity.
- Target for a specified proportion of the fund's assets in real estate to be powered by clean energy, to be highly energy efficient, to achieve minimum requirements for renovations, or to be "best in class" with respect to resource intensity.
- Require periodic reports on progress against targets.

COULD

Engage with property managers, operators and maintenance to ensure that "best in class" energy/ carbon reduction technologies and operating procedures are in place across a growing percentage of the managed portfolio over a given timeframe.

Require ESG and climate risk "learnings" to be socialized among internal stakeholders.

Supporting resources for developing an ESG policy and strategy

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to asset owners and their advisers to implement this step, available in the Annexes. The most relevant have been selected to provide additional support to investors willing to dive deeper in understanding the actions and their rationale.

"Investing in a time of climate change" Mercer 2015, Global
"An-Investment-Framework-for-Sustainable-Growth"
Mercer 2014
"Climate change scenarios: Implications for strategic asset allocation" Mercer 2011

These three studies help asset owners and investors better understand and estimate the impacts of climate change on investment strategies and financial performance. They address the following questions: Which financial impact could climate change have- at which magnitude and when? What are the key risks and opportunities, how do we manage and integrate those into current investment processes?; Which actions could an investor take to become more resilient to climate change?

"Climate Change Investment Solutions Guide"
IIGCC 2015, Europe

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement are important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

"Advancing Responsible Business in Land, Construction and Real Estate Use and Investment"
RICS / UN Global Compact, 2015, Global

The document provides a guide to the practical application of the 10 principles of the UN global Compact to the land, construction and real estate sectors. It helps set the strategic agenda for companies operating in the sector, real estate users and investors, through clear action items supported by a list of benefits and real life case studies.

"The-21st-century-investor-ceres-blueprint-for-sustainable-investing" Ceres 2013, North America

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement is important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

"Developing an asset owner climate change strategy"
PRI 2015, Global

This pilot framework offers a step-by-step approach for addressing climate change across three main strategies: engage, invest and avoid. Case studies outline existing examples of asset owner action, including several initiatives that have been started by project participants during the project.

"Investing through an adaptation lens", IGCC 2015
'Assessing climate change risks and opportunities for investors - Property and Construction Sector'
IGCC 2013, Australia

The later guide provides practical insights on how investors can and should be investing through an adaptation lens. The former provides information to help investors assess and integrate climate risk and opportunity within the property and construction sector into investment analysis. The guide covers the following key areas and steps for this process: Identify current risks; Identify risk variance and impacts; Identify the adaptation strategies and mitigation measures; Assess materiality. The guide then proposes steps to integrate the information into investment processes.

"Trustee's Guide: Protecting value in real estate through better climate risk management" IIGCC 2014

The aim of this guide is to provide asset owners with a range of investment strategies and solutions to address the risks and opportunities associated with climate change. While the guide is targeted at asset owners it also contains insights for asset managers which are directly relevant to equity real estate investors. The guide proposes a four-step framework for considering climate change investment solutions. It also affirms that corporate and policy engagement is important complementary strategies, which can address climate change risks across portfolios and facilitate new investment opportunities. It provides specific questions that asset owners and investors can ask the companies they invest in, to reduce and report their carbon intensity.

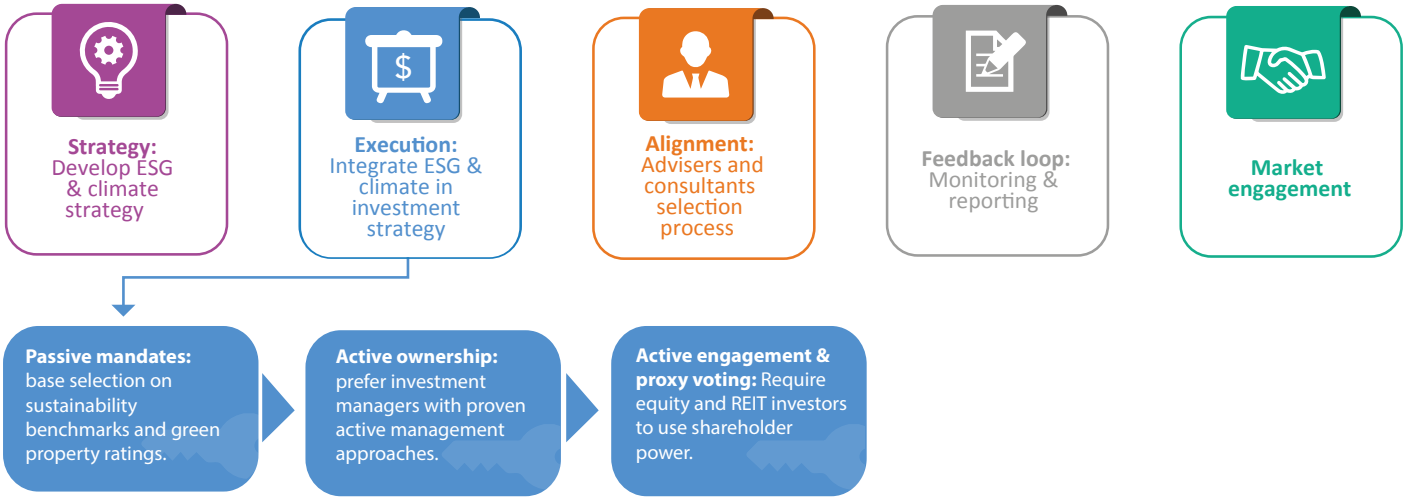
Execution

Integrate ESG and climate in investment strategy

Key elements

Investors should align their ESG and climate risk management processes with their ESG and climate risk policy and strategy by selecting and embedding them in the already existing risk management processes. The real estate investment process naturally has points at which value is created and where risks lie. Stakeholders should articulate how any interventions either increase the likelihood that value is created, and / or highlight how risk management is improved. Taking this approach will help ground any actions in what is of material concern for a particular company or investment strategy.

Key elements of this process include a review the selection of the type of investment strategy with a focus on active management for direct real estate investment and active engagement and proxy voting for equity, debt and bonds investments.



Recommended Actions

The following is a list of recommended actions which should be followed by Asset Owners, Trustees and Investment Advisors to integrate ESG & climate in their various real estate investment strategies.

Passive mandates and screening

SHOULD

Select passive mandates with screening based on sustainable real estate benchmarks and green property ratings:

- Measure and reduce exposure to ESG and climate risks.
- Measure and increase exposure to ESG and climate-related property opportunities.
- Require periodic reports on progress against targets.

Active Ownership

SHOULD

Select an active ownership strategy for real estate assets that integrates ESG and climate risks in real estate investment strategy.

Require investment managers to have in place a policy and strategy on ESG and climate risks.

Request managers to have in place processes for integrating ESG and climate risks into their strategic, investment, asset management and operational processes. For details on the request to be made see step 3 Alignment:

This can include to:

- Have dedicated procedures in all investment management phases: asset acquisition, management, operation, planning, new development, refurbishment and upgrade, rental and manager selection which are impacted by ESG and climate risk strategy.
- Determine and set appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in your portfolio.
- Monitor portfolio and underlying real estate assets performance in carbon, energy and natural resource intensity (e.g.: portfolio level and individual asset case studies), and social impacts such as community engagement, contribution to local communities, job creation.
- Report against relevant Real Estate sustainability benchmarks to monitor and compare absolute and performance against peers.
- Publicly report ESG and climate risk assessments and management activities.
- Engage with managers and request them to report on the extent to which they support or resist ESG and climate risk policies at the regulatory level.

COULD

Monitor manager performance at asset level:

- Require reporting based on relevant asset level benchmark.
- Require detailed monitoring and reporting through integrated and seamless data management systems providing building and asset level information to owners in a timely, usable way.

Active engagement & Proxy Voting

SHOULD

Require equity investment managers to actively engage with underlying listed real estate companies or investment managers, need to ensure they:

- Have dedicated procedures in all investment management phases: asset acquisition, management, operation, upgrade, rental, planning and manager selection which are impacted by ESG and climate risk strategy.
- Monitor portfolio and underlying real estate assets performance in carbon, energy and natural resource intensity (e.g.: portfolio level and individual asset case studies), and social impacts such as community engagement and contribution to local communities.
- Use relevant Real Estate sustainability benchmarks to monitor and compare absolute and performance against peers.
- Publicly report their ESG and climate risk assessments and management activities.
- Engage with managers and request them to report on the extent to which they support or resist ESG and climate risk policies at the regulatory level.

Require equity investment managers to use their shareholders right to contribute to proxy voting including:

- Supporting motions that strengthen ESG and climate risk management.
- Introducing motions to request active management of ESG and climate risk.

COULD

Monitor manager performance at asset level:

- Require reporting based on relevant asset level benchmark.
- Require detailed monitoring and reporting through integrated and seamless data management systems providing building and asset level information to owners in a timely, usable way.

Resources for the integration in Investment Strategy

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to asset owners and their advisers to implement this step, see Annexes. Among these resources, the following were identified as particularly useful for implementing the recommended actions for integrating ESG in their investment strategies:

"Advancing Responsible Business in Land, Construction and Real Estate Use and Investment"

RICS / UN Global Compact, 2015, Global

The document provides a guide to the practical application of the 10 principles of the UN global Compact to the land, construction and real estate sectors. It helps set the strategic agenda for companies operating in the sector, real estate users and investors, through clear action items supported by a list of benefits and real life case studies.

"Trustee's Guide: Protecting value in real estate through better climate risk management" IIGCC 2014

This guide covers the key questions which asset owners and investment managers should be asking themselves when developing their ESG and climate policy and strategy and their investment strategy to integrate ESG and climate risks into their businesses. It covers four areas: Assessing risks and opportunities, managing regulatory risks, manager selection, incentives and rewards.

"The-21st-century-investor-ceres-blueprint-for-sustainable-investing" Ceres 2013, North America

The report acts as a guide to help investors satisfy the fiduciary responsibilities. It is designed to help concerned trustees or board members advance a process for better oversight and decision making that enhances sustainable risk-adjusted returns. It outlines the critical decisions that trustees must make regarding board policies and implementation and specific steps in the investment process that will benefit from trustee involvement.

''Investing through an adaptation lens", IGCC 2015 Assessing climate change risks and opportunities for investors - Property and Construction Sector'

IGCC 2013, Australia

This guide provides information to help investors assess and integrate climate risk and opportunity within the property and construction sector into investment analysis. The guide covers the following key areas and steps for this process: Identify current risks; Identify risk variance and impacts; Identify the adaptation strategies and mitigation measures; Assess materiality. The guide then proposes steps to integrate the information into investment processes.

The follow up guide in 2015 provides practical insights on how investors can and should be investing through an adaptation lens.

Alignment

Advisers and managers selection process

Key elements

Having set ESG and climate risk policies and targets and decided on the most appropriate approach to integrate ESG into the investment strategies, it is fundamental for asset owners to instruct their advisors and investment managers, whether direct managers or equity/REITs investors, accordingly. Asset owners need to send this signal – strongly, clearly, and consistently - both to their investee companies and funds, and to their investment consultant / advisers, if applicable.

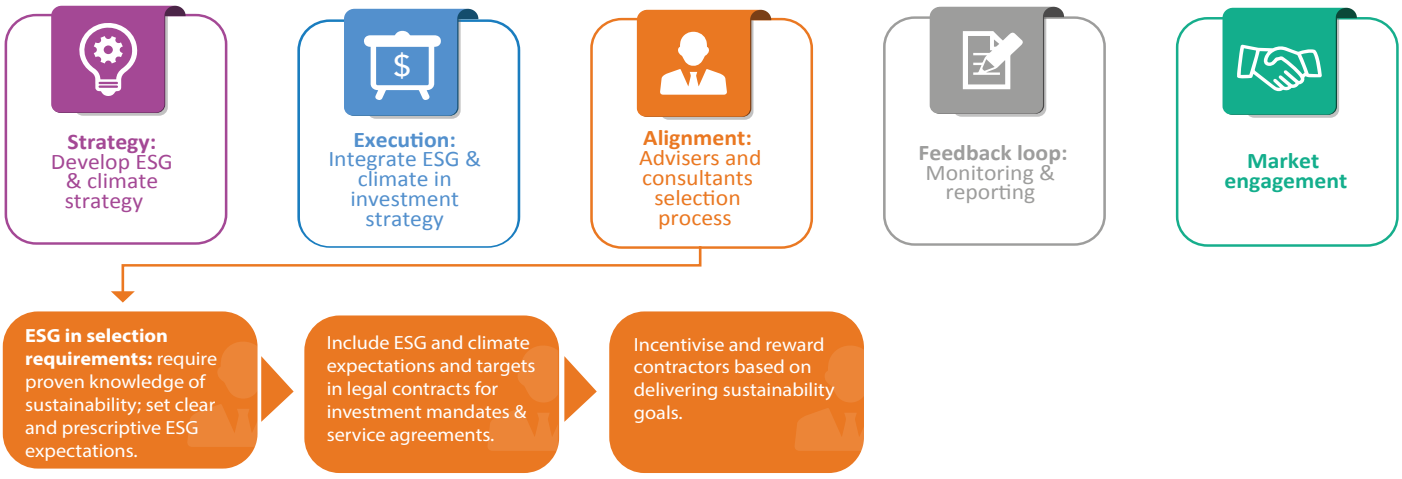
The material ESG and climate risk components identified in the first two steps also need to inform the selection process with clear ESG and explicit climate portfolio expectations. Specific quantitative and qualitative targets based on absolute performance, and against benchmarks, should be included in the mandate and connected to economic incentives, rewards and penalties where appropriate.

While much progress has been done on real estate sustainability benchmarks, those who are comparing REITs and investment managers should be careful to not oversimplify this process by looking only at ratings, certifications and benchmarks. These provide indications, but not answers. It is imperative for those investigating to engage with property companies, to understand both how ESG and climate risks are applicable to each business model, and how well ESG is understood and acted upon by the most senior decision makers. This is by far the best way to assess which manages are ticking boxes or bolting on ESG as an afterthought, and which are serious contenders. This framework and its actions provide a one-stop shop for how to check on and engage with investee companies.

Finally, whether engaging with existing investees or making a new investment, investors/asset owners should be explicit in their requests for qualifications and requests for proposals (RFPs) to invest their precious capital and which specific actions they expect managers to take with respect to the integration of ESG & climate risks and opportunities. REITs and investment managers will respond more favourably as such language becomes a series of asks and contains some prescriptive requirements. This approach would be major improvement over open-ended inquiry. Lastly, REITs and investment managers would benefit greatly if they were to receive feedback on the nature of the responses, which are provided, both today, and in the future. Critically, there must be back and forth dialogue.

Asset owners should set expectations of their property managers with respect to ESG and climate risks. Responsibility for the achievement of any targets which are set at the portfolio and asset level should be clearly defined, with agreed upon mechanisms for the process and frequency of data collection and reporting.

While rewarding property managers for hitting sustainability targets is currently the exception rather than the norm, it is one, which could be among the most impactful. At a minimum, asset owners could notify their direct investment managers and equity/REITs investors that a minimum level of expertise, service, and sustainability performance is required in order to keep or win their business.



Recommended Actions

The following is a list of recommended actions which should be followed by Asset Owners, Trustees and Investment Advisors to integrate ESG & climate in the selection process of their advisors and consultants.

Selection requirements

SHOULD ✓

Favour active investment and investment managers demonstrating integration of ESG and climate risks in their investment processes.

Include specific requirements for ESG and climate investments and expertise in the selection processes.

Focus selection engagement process on specific direct requests and past performance rather than open-ended questions, these could include:

- Ask for opinion on asset level or portfolio out-performance opportunities through greater integration of ESG and climate criteria.
- Require specific description of mechanisms used to embed ESG and climate risks in the buy, hold and sell decisions being made on properties.
- Request description of how the investment manager implements ESG and climate risks in their asset management approaches throughout the real estate investment cycle with requested evidence of track records and concrete examples.
- Request and review performance against portfolio and asset level benchmarks to ensure that ESG and climate risk criteria are effectively integrated in investment processes.
- Require examples of experience in executing portfolio strategies to reduce the environmental footprint of the managed properties.
- Adviser/ consultant to demonstrate that their ESG and climate research is understood and implemented in some meaningful way by the real estate / property researchers and that ESG and climate is not treated as a specialist silo.

COULD ~

- Seek managers who link compensation to energy or carbon performance / reductions, green / energy efficiency certification, or other targets which have either been set voluntarily by the manager or requested by the asset owner.

ESG and climate risk in Investment mandates

SHOULD ✓

The mandate or investment management agreement should include clear and detailed expectations for incorporating ESG and climate risk factors and the process for monitoring ESG and climate risk implementation and performance.

For direct investors the request should be made as part of the investor active management.

For equity investment managers these should be part of the requirements to undertake engagement and voting activities with the assets invested in.

In both cases, according to the specificity of the mandate, the investment manager should be required to:

- Incorporate criteria to assess the capabilities of managers/ advisers in measuring and managing the physical risks of climate change.
- Have dedicated procedures in all investment management phases: asset acquisition, management, operation, upgrade, rental, planning and manager selection which are impacted by ESG and climate risk strategy.
- Determine and set appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in your portfolio.
- Monitor portfolio and underlying real estate assets performance in carbon, energy and natural resource intensity (e.g.: portfolio level and individual asset case studies), and social impacts such as community engagement and contribution to local communities.
- Have an Environmental Management System (EMS) that applies to the entity level.
- Use relevant Real Estate sustainability benchmarks to monitor and compare absolute and performance against market peers.
- Have clear reporting requirements including narrative and quantitative reporting against targets.
- Publicly report their ESG and climate risk assessments and management activities.
- Engage with managers and request them to report on the extent to which they support or resist ESG and climate risk policies at the regulatory level.

Set and reward clear performance targets

SHOULD

The mandate should include appropriate, verifiable and material targets, both quantitative and qualitative, to manage environmental, social and governance issues in portfolio. Targets can include:

- Quantitative targets to undertake voting and engagement activities where appropriate (Equity, bonds, debt).
- Quantitative and material targets to reduce energy, carbon intensity, water and waste of the portfolio over specified timeframe.
- Set a goal to measure and reduce the environmental/ resource intensity of a portfolio against relevant benchmarks over a given time period.
- Quantitative and qualitative targets to address social impacts of the portfolio, including community engagement and contribution to local communities.
- Set quantitative targets for the inclusion of green lease clauses in the lease agreements with tenants.
- Target for a specified proportion of the fund's assets in real estate to be powered by clean energy, to be highly energy efficient, to achieve minimum requirements for renovations, or to be "best in class" with respect to resource intensity.

Require periodic reports on progress against targets Specific incentives are provided for ESG and climate.

COULD

Provide specific incentives for performance against agreed ESG and climate risks requirements:

- Incentivize pro-active seeking and reporting of ESG and climate risk management improvements.
- Reward with economic incentives/ penalties as appropriate, for performance against agreed ESG and climate portfolio targets for both, absolute and benchmarks performance.

Resource mapping and selected reference resource for advisers and manager selection

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to asset owners and their advisers to implement this step. More details are provided on selected resources of particular relevance when selecting advisors, and their direct investors, property companies, and Equity/REITS, Bond and Debt vehicles and investors.

ICGN model mandate initiative, ICGN 2012

This Model Mandate provides a guideline for asset owners on how to formulate a contract to align the activities of their fund managers with their own long-term interests.

Global Real Estate Sustainability Benchmark – Asset Owners, Direct, Equity and Debt investments,

GRESB 2015, Global

Through GRESB, direct real estate investor members are able to monitor the annual GRESB survey results for all their direct investments and, if they invest in listed real estate securities, all listed real estate companies' results. By using the GRESB Portfolio Analysis tool, investors are able to select investments to compare results, e.g. for a particular investment manager, a region or country, or a particular property type. They are also able to undertake portfolio analysis for self-selected groups of their investments.

The GRESB debt survey represents an initial step in monitoring real estate debt and assessing how to integrate ESG and climate risks into this growing financial instrument for real estate investment. The survey aims to increase transparency in the debt market and guide investors on best practice implementation.

"Aligning expectations: guidance for asset owners on incorporating ESG factors into manager selection, appointment and monitoring" PRI 2013

This guidance helps asset owners assess whether their managers' investment policies and processes are consistent with their ESG expectations. It aims to support them in their dialogues with managers so that they gain a clear understanding of the ESG risks and opportunities affecting their portfolios and how their managers are addressing them.

This guidance is also relevant for fund-of-fund managers who outsource investment activities and who need greater confidence that managers are aligned with their own expectations.

Feedback loop

Monitor, report and benchmark

Key elements

All stakeholders are responsible in monitoring progress against goals and targets which are set – as per Step 1 & 2 - to demonstrate that ESG & climate change risks and opportunities are being managed and acted upon to the best of the ability of all those involved.

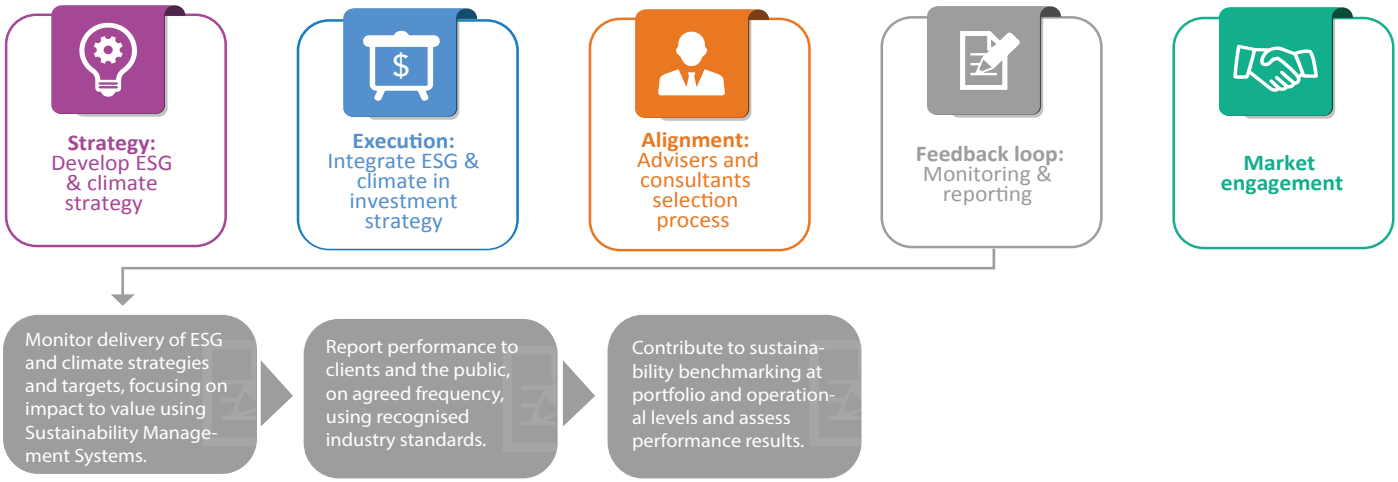
The regular observation, evaluation, benchmarking and recording of ESG and climate risk management activities should take place routinely within a pre-agreed monitoring and reporting schedule with the appointed manager and advisers. Reports should be practical and oriented towards delivering performance on ESG and climate risk factors and offer decision makers with relevant information. Monitoring should also involve feedback about the progress of the various strands of activity outlined and agreed in the Strategy Review for Asset Owners and Trustees.

It is important to demonstrate how the property portfolio's sustainability performance has changed over previous months and years, and to be able to present such changes on a like-for-like basis, normalised for weather and occupancy (or instead of occupancy some other measure of intensity). Additionally, controlling for boundaries and being consistent in measuring within these boundaries is very important.

In 2014, The UNEP FI Property Working Group published a comprehensive guide to sustainability metrics and how to deploy a Commercial Real Estate Sustainability Management (CRESM) system. UNEP FI et al. (2014c). Sustainability metrics: translation and impact on property investment and management.

Asset owners could request from their direct investment managers and equity/REIT investors to procure such a system to facilitate accurate, robust, efficient data collection practices which make reporting at the building, portfolio and company level quite simple. This would likely reduce quite substantially the level of effort currently expended in reporting to multiple building, portfolio and company level sustainability related frameworks for commercial property.

An additional benefit of such an approach is that regulatory issues relating to buildings and energy data benchmarking and disclosure are on the rise; and this was the case before COP21. Going forward, access to energy, carbon, water, and waste data will become increasingly valuable and required.



Recommended Actions

The following is a non-exclusive list of actions, which should be considered to form the core of such monitoring and reporting processes:

Monitoring Process

SHOULD

Include ESG and climate risk-related expectations in manager monitoring requirements against investment strategies and quantitative ESG and climate risk performance targets:

(See step 1 "Define ESG and climate policy and strategy").

- Request the investment manager to monitor performance through an Environmental Management System (EMS) that applies to the entity level.
- Request regular monitoring against selected benchmarks and information around exemplar or best-in-class activities.
- Monitor performance against specific agreed targets, both absolute and relative performance compared to selected portfolio level benchmarks.

COULD

- Request for Environmental Management System (EMS) to be aligned with a standard and/or verified or certified by an independent third party.
- Include external verification or assurance where data or conclusions will be published or where material decisions will be taken based on this data.
- Request information from manager on underlying real estate asset performance in carbon, energy and natural resource intensity (portfolio level and individual case studies).
- Within each portfolio require the identification of "best performer" and "worst performer" (asset type, geography or portfolio) to allow focus on effective intervention and performance improvement.
- Ensure "deep dive" on divergent assets (with positive or negative impact) to understand the overall portfolio effect of these and what the manager proposes as the "learning's" arising from this analysis.
- Keep track of new technologies, which may allow ESG and climate, risks to be reduced on a portfolio basis.

Reporting standards and requirements

SHOULD

Define ESG and climate risk-related expectations in manager reporting requirements and discussions.
(Refer to step: Select investment manager for details)

- Require systematic reporting by the manager in a cost effective format or dashboard, which provides material ESG and climate performance information in a meaningful and coherent manner.
- Require information should cover al material topics that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.
- Agree delivery date and format for a report with sections for "business as usual progress towards agreed targets" as well as an "exception report" area for managers to identify or highlight particular incidents in the reporting period.
- Select and agree on reporting standards, and scope and depth of reporting required, with a focus on materiality to the business and value drivers and accounting for geographical or regional norms and regulatory expectations.
- Include a placeholder for relevant regulatory update and industry framing section in recognition of the fact that ESG and climate frameworks are not static and changes to the regulatory environment or competitive landscape are important to monitor.
- Enable manager to provide free-form comments to the standard and data driven format.
- Agree on data sources and ensure that reports are systematically filled with the most relevant and updated data from the manager.
- Agree in advance on periodicity and materiality thresholds for reporting activities.

Reporting standards and requirements	**COULD**  • Migrate towards actionable and information-intense measures for reporting and away from "check-box" approaches. • Implement a feedback loop to ensure that, where selected reporting tools are not "best fit" then this can be reported upon.
Benchmarking	**SHOULD**  Determine relevant portfolio level and operational level benchmarks based upon characteristics of portfolio and geography. • Request submission to relevant portfolio wide sustainability investment management framework. • Request submission to relevant operational level and asset performance benchmarks, where such benchmarks are available. • Require reporting to include benchmark results and analysis. • Require a performance analysis and reporting against the benchmark to identify what are the most material areas of focus are and how to best track them.

Selected resources for Monitoring & Reporting

The project team reviewed the available literature and based on best practice defined a map of the relevant tools and practical knowledge available to implement this step, see Annexes. Below are selected resources of particular relevance for Monitoring & Reporting.

"G4 Sustainability Reporting Guidelines: Construction and Real Estate Sector Disclosures", GRI 2015, Global

This resource is the definite guidance on performance indicators and reporting processes for anyone who invests in, develops, constructs, or manages buildings. The GRI Guidelines, help reporting organizations disclose their most critical impacts – be they positive or negative – on the environment, society and the economy. They can generate reliable, relevant and standardized information with which to assess opportunities and risks, and enable more informed decision-making – both within the business and among its stakeholders. The GRI's Construction and Real Estate sector guidance makes reporting relevant and user-friendly for organizations in this targeted sector.

"PRI reporting framework – Asset Owners, Direct, Equity and Debt investments" PRI, Global

The PRI Reporting Framework seeks to answer one question: How do you govern and implement responsible investment? The framework is composed of modules, with general modules tailored for multiple asset class investors and dedicated modules focused by asset class. Reporting through the Framework is mandatory for all PRI signatories and responses are translated into Transparency Reports which are available on the PRI website as a public demonstration of signatories' commitment to implementing the Principles for Responsible Investment.

"Global Real Estate Sustainability Benchmark – Asset Owners, Direct, Equity and Debt investments"

GRESB 2015, Global

Through GRESB, direct real estate investor members are able to monitor the annual GRESB survey results for all their direct investments and, if they invest in listed real estate securities, all listed real estate companies' results. By using the GRESB Portfolio Analysis tool, investors are able to select investments to compare results, e.g. for a particular investment manager, a region or country, or a particular property type. They are also able to undertake portfolio analysis for self-selected groups of their investments.

The GRESB debt survey represents an initial step in monitoring real estate debt and assessing how to integrate ESG and climate risks into this growing financial instrument for real estate investment. The survey aims to increase transparency in the debt market and guide investors on best practice implementation.

Market engagement

Key elements

Over 1,400 finance sector institutions managing over US$59 trillion of assets subscribe to the United Nations supported Principles for Responsible Investment and it is likely that the level of engagement between business and public policymakers will increase, especially as more and more real estate investors integrate ESG and climate risks into their business practices and regulations on these matters become more developed.

Real estate investors should consider taking an active role in public policy and sector engagement to promote acceptance and implementation of ESG and climate risks measures across the real estate industry. This ensures sector-wide tools are developed enabling industry comparison and better monitoring of the sector's and portfolio's performance.

It is also important that they play a role, directly, or indirectly through sector organisations, in establishing positive dialogue and engaging with public policy to ensure that a robust regulatory framework supports the effective integration of ESG and climate risks in real estate investments.

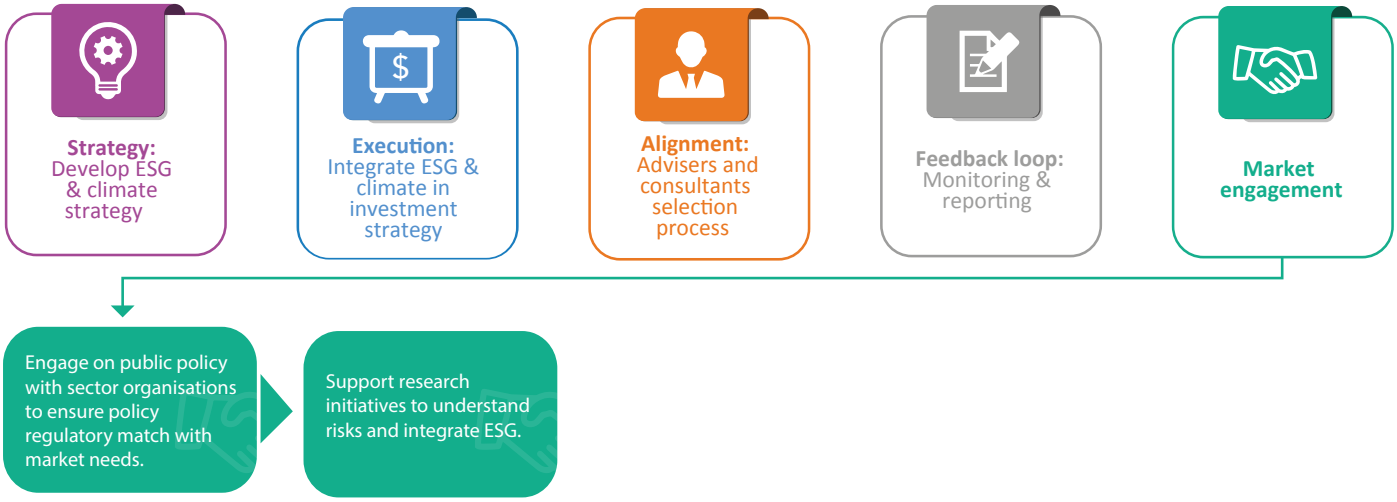
Recommended Actions

There are three key areas in which all real estate investment stakeholders can optimise their engagement with public policy:

1. Engage, directly or indirectly, on public policy to manage risks.
2. Support research on ESG and climate risks;
3. Support sector initiatives to develop resource to understand risks and integrate ESG.

PRI Policy Frameworks for Long-Term Responsible Investment: The Case for Investor Engagement in Public Policy, Global

This PRI policy framework shows why public policy engagement is essential for long-term investors, provides examples of investor engagement in public policy, lessons learned, and offers practical recommendations for better integration of ESG factors in the public policy-making process.



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Principles for Responsible Investment (PRI)
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