

RESOLUTION CAPITAL



Climate Risk Report 2023

About us and our approach to climate reporting

About Us

Resolution Capital Limited (Resolution Capital, the Company) is a specialist investment manager focused on investing in global real asset securities, which includes both real estate securities and infrastructure securities, listed on major exchanges globally.

Our approach and commitment to ESG encompasses both the way that we operate and manage our business, and the assessment of the companies in which we invest on behalf of our clients.

Our clients include large superannuation and pension funds, institutions and government entities from around the world. In addition, we have a number of retail clients in the pooled funds we manage in Australia.

The Resolution Capital Board approves all policies including the Responsible Investment, Proxy Voting, Engagement and Diversity & Inclusion Policies on an annual basis. The composition of the Resolution Capital Board is as follows:

- Michael Cameron, Non-Executive Director/Chairperson (independent)
- Sonia Luton, Executive Director/Managing Director
- Andrew Parsons, Executive Director/Chief Investment Officer/Portfolio Manager
- Marco Colantonio, Executive Director/Portfolio Manager
- Ian Macoun, Non-Executive Director

There is no separate ESG team as we consider these factors an integral part of our whole business and our investment process. Our dedicated ESG analyst sits within, and supports, the investment team. The responsibility of incorporating ESG into the investment process sits with the entire investment team with oversight by the CIO and other Portfolio Managers.

We are using the exposure draft of the Australian Sustainability Reporting Standards (ASRS) – Disclosure of Climate – related Financial Information standards released by the Australian Accounting Standards Board (AASB) in October 2023 to guide our reporting of climate related disclosures.

ESG Framework

The ESG Framework adopted by the Company which governs how ESG is considered and implemented across all aspects of the Company is as follows:

- Commitment to ESG by the Board and the incorporation of ESG by the investment team
- Approval & Adoption of Responsible Investment, Proxy Voting, Engagement and Diversity & Inclusion policies.
- Commitment to the Principles of the PRI and UN Global Compact

Board

- Commitment to be carbon neutral
- ESG Committee
- Partnerships with charities
- Signatory to the PRI and UN Global Compact, members of GRESB, RIAA, and Ceres Investor Network
- Corporate volunteering

Company

- Incorporation of ESG into the investment process & stock initiations
- Proxy voting
- Engagement with investee companies
- ESG KPIs for investment staff

Investment Team

ESG Committee

The ESG Committee was established by the Company in 2019 with the aim of ensuring that sustainability practices were discussed more broadly within the business and to ensure that there was a commitment to improvement across the team. The Committee meets at least quarterly.

The Committee is made up of 7 staff from across the business including:

- Managing Director
- Head of Operations
- Head of Client Services
- Portfolio Manager
- ESG Analyst
- Head of Quant
- Investment Analyst

The focus of the committee has primarily been on:

- Continuous improvement of ESG integration in the investment research process
- Identification of data providers e.g MSCI
- Review of the PRI and UN Global Compact Submissions
- Reporting on Resolution Capital's stewardship activities (particularly proxy voting and engagement)
- Education of all employees regarding ESG related matters
- Identifying collaboration opportunities with peers
- Understanding and incorporating the requirements of various sustainability-related regulatory requirements, including Sustainable Financial Disclosure Regulations (SFDR), EU Taxonomy requirements, and ASIC and SEC focus on the presentation of ESG-related information in marketing materials by investment managers to avoid 'greenwashing', and new mandatory disclosures for Australian companies.

Investment Philosophy

Resolution Capital is a specialist real assets investment manager focused on investing the global listed real estate and infrastructure securities. Our primary investment objective is to deliver superior risk adjusted, long-term returns, compared with relevant benchmarks.

This we believe can be achieved by investing in concentrated portfolios of carefully selected listed real estate and infrastructure securities. There is an emphasis on avoiding fundamental flaws which could reasonably result in permanent impairment of the underlying investments. This aligns our investment process and security selection with clients' objectives of long-term wealth creation.

Resolution Capital is focused on fundamentals driven stock selection, with an emphasis on:

- High quality, high barrier/monopolistic assets, where there is pricing power;
- Sustainable capital structures with lower leverage levels; and
- Aligned management teams with a strong track record in asset management.

Our analysis of ESG factors for real assets aligns with this approach and therefore forms an important part of our analysis of investee companies. While analysis of governance structures has long been a primary area of focus as an active owner, we are increasingly incorporating environmental and social factors into our analysis and modelling of existing and potential portfolio holdings.

For all stock initiations, ESG factors are a key part of the analysis to identify any potential concerns, such as poor governance structures, a lack of carbon reduction strategies or poor employee engagement and safety programs. These are then factored into valuations via adjustments to the company's earnings forecasts and / or valuation multiple, where applicable.

Strategy

Climate risks and opportunities

Resolution Capital's considers a reasonable investment horizon for investment in our portfolio portfolios to be 5 to 7 years. Our assessment of climate-related risks and opportunities over this horizon are split into two sections: Transition Risks and Physical Risks.

The risks and opportunities related to Transition Risks we assess arise from how regulations, market preferences and technology improvements might drive changes to a low carbon economy, and how these changes can impact the value of the companies and assets in which we invest over time.

These factors are considered both risks and opportunities given the potential for companies to benefit from incorporating initiatives in order to take advantage of these drivers, or the potential for assets to become stranded if sufficient investment is not made stay ahead of these changes.

Physical risks are split into Acute (i.e. event driven risks such as increasing severity of cyclones, hurricanes or floods) and Chronic (i.e. longer-term changes in weather patterns such as increasing frequency of higher temperatures and sea level rise) categories. While the more serious impacts of physical climate risks have been projected to occur over the longer term, there are current climate-related events which are having an impact on our investments in both global real estate and infrastructure securities now, including heat stress, flooding, wildfires and storm surges which require those companies to look at both short- and long-term horizons.

These Risks are summarised in the table on the next page.

	Risks	Short Term (< 5 years)	Longer Term (> 5 years)
Transition	Regulations	<p>We focus on carbon reduction focused legislation.</p> <p>For global listed real estate we look at how building regulations are creating incentives for property owners to improve the energy efficiency of their operating properties and the design of properties in their development pipelines.</p> <p>For global listed infrastructure we assess carbon reduction targets that are set by governments and regulators, considering the levels of carbon reduction for each sector and the speed with which this is can be implemented</p>	
	Market Preferences	<p>How customers of our investee companies might drive demand changes due to their desire for more sustainable and less carbon intense products and services, stranding assets that cannot meet these new requirements.</p> <p>For real estate this may include tenants of the properties owned/managed by the REITs in which we invest choosing space to rent in buildings which align with their own sustainability goals, particularly in relation to their carbon reduction targets.</p> <p>For infrastructure, the demand for carbon free electricity will have a significant impact on, not only Utilities and Renewables, but also companies that will rely on carbon free electricity, or energy, to provide their own services. This may include rail companies providing freight services using electric or hydrogen fuel cell powered locomotives, or airports providing access to Sustainable Aviation Fuels to airlines.</p>	<p>Transition risks over the longer term will be driven by the impacts of the potential achievement of the Paris Agreement and how the regulatory environment, market preferences and technology changes have contributed to that state.</p> <p>For both our strategies we are looking at whether the companies in which we currently or potentially may invest have credible long term decarbonisation or transition plans in place that chart their pathway towards a low carbon economy that is likely to be defined by stringent net zero emissions regulations, customers that require zero-, or low- , carbon goods and services for their own operations, as well as taking advantage of technological advancements that enable a low carbon economy to operate.</p> <p>These risks are likely to accelerate and intensify over time, and companies that begin to tackle the risks and take advantage of the opportunities earlier are likely to be able to withstand these challenges.</p>
	Technology	<p>Changes in availability and cost of technology also has an impact, enabling companies to achieve their carbon reduction goals and therefore stay ahead of the Regulations and Market based risks.</p> <p>For property, two leading examples are the decreasing cost of solar panels and the improving performance of heat pumps, both of which can have a drastic impact on reducing carbon emissions in building operations.</p> <p>Technological changes are also important for our GLI investments, as many sectors outside Utilities will be reliant on new technologies becoming available to be able to transition to a low carbon economy.</p>	
	Reputation	<p>Companies seen as laggards in transitioning to a low carbon economy, or who fail to take into account this transition, can risk losing market share and eventually its social license to operate.</p>	<p>Companies that fail to decarbonise over the next 10-20 years are likely to lose significant market share to those companies that do, as customer and community perceptions of the company decrease.</p>

	Risks	Short Term (< 5 years)	Longer Term (> 5 years)
Physical	Acute		<p>As extreme weather events become more frequent and intense, companies in both our strategies will face disruptions to operations and revenue generation if their assets are not prepared to withstand the impacts of greater rainfall, more frequent flooding, or wildfires.</p> <p>Assets that are not able to withstand extreme weather events can also end up with damage that is uneconomical to repair and become stranded and uninsurable.</p>
	Chronic	<p>The main risks for both of our strategies are a reduction in revenue and asset values caused by business interruptions and reduced asset productivity for those companies that are not preparing for the increasing frequency and intensity of physical risks.</p> <p>These impacts are being seen in the escalating costs of property insurance, particularly in the U.S. Insurance costs have risen significantly in recent years due to increasing frequency and severity of storms, as well as property development increasingly expanding into regions with higher levels of climate risks.</p>	<p>For our real estate strategy, companies face reductions in operating capacity and business continuity of their properties, increased operating costs, and increased capital expenditure to repair and adapt to changing climate conditions. For companies that do not have plans to mitigate or adapt to these risks, it may become an existential problem and lead to reductions in value that cannot be overcome.</p> <p>Our infrastructure strategy faces similar risks and opportunities from physical risks, where increasing frequency and severity of climate events can impact the ability of infrastructure assets to operate as intended and to generate revenues and provide necessary services without significant capital investment. For example, Utilities that have not sufficiently prepared their generation or transmission assets for increasingly extreme temperature ranges can face significant and costly interruptions to the provision of electricity. Railroad companies can also face damage to rail networks from inland flooding or extreme weather without the proper investments made to strengthen their infrastructure.</p>

The transition to a low carbon world will also provide investment opportunities. These are summarised in the table below.

Opportunity	
Resource Efficiency	<p>Environmentally friendly assets with high levels of energy efficiency have greater tenant demand due to lower operating expenses. Environmental policies that lead to greater energy, water and waste efficiencies reduce operating expenses, making assets more profitable and environmentally sustainable. Additionally, tenants and consumers are increasingly setting minimum standards for sustainability. Buildings that meet such requirements have higher tenant demand and occupancy. Buildings with high environmental standards may receive better pricing upon sale due to a wider pool of potential buyers.</p> <p>Switching to more efficient transportation modes, fuels and modernising transport fleets, such as electric or hydrogen powered trains or sustainable aviation fuels for the aviation industry, as well as modernisation of locomotive fleets, allow for increased efficiency and lower fuel usage.</p>
Energy Source	<p>The decarbonisation and electrification of power supply is necessary to achieve a low carbon economy and to meet carbon reduction targets. Companies that can develop and deploy low or zero carbon energy generation can take advantage of the increasing demand for less carbon intensive electricity.</p> <p>Conversion of existing infrastructure assets to deliver carbon free fuels, such as green hydrogen, could enhance asset life and operating economics.</p>
Resilience	<p>Real estate companies that are focusing on energy efficiency and sourcing renewable electricity can be better prepared for a carbon constrained economy and better able to meet consumer demand for properties to meet their own sustainability targets.</p> <p>Focusing on strengthening climate protections for long lived assets mean companies can withstand the impacts of changing climate better than those that don't, lower ongoing operational costs (including insurance) and ensure assets can continue to operate during adverse weather and climate events.</p>

Case Studies in Transition Risk Assessment

Flight to sustainable quality in London offices driven by EPC regulations and tenant demand

An example of how we integrate the assessment of Transition Risks into our investment research and analysis is our work focused on the impact of looming minimum energy efficiency standards on Office REITs based in the United Kingdom (Regulation and Market Preference Transition Risks).

In 2018, the UK government announced the Minimum Energy Efficiency Standards (MEES) legislation to improve the energy performance of buildings so that the property sector could contribute its fair share to the country's decarbonisation targets. Legislation now requires that every building for sale or lease must obtain an Energy Performance Certificate (EPC), which is a measure of a building's energy efficiency. Ratings range from the most energy efficient (EPC A), to the least energy efficient (EPC G). Buildings that do not achieve the minimum required EPC levels cannot be sold or leased.

Initially, the MEES regulations set a minimum requirement of EPC E for buildings to be sold or leased, which applied from April 2023. To further increase the minimum building energy efficiency performance, the current proposal is for a minimum EPC C rating by 2027 and then an EPC B by 2030.

These ambitious standards require significant forward planning and material capital expenditure by most building owners. As of 2023, approximately 80% of office properties in London have EPCs below the 2030 requirement for EPC B and will have to undergo a significant level of refurbishment to achieve this level in the next 7 years. This includes many towers built in the past 20-30 years that have facades consisting mostly of glazing. This makes refurbishments to increase energy efficiency performance more difficult and costly given the increased levels of heat transfer through glass, which in turn leads to higher HVAC energy consumption.

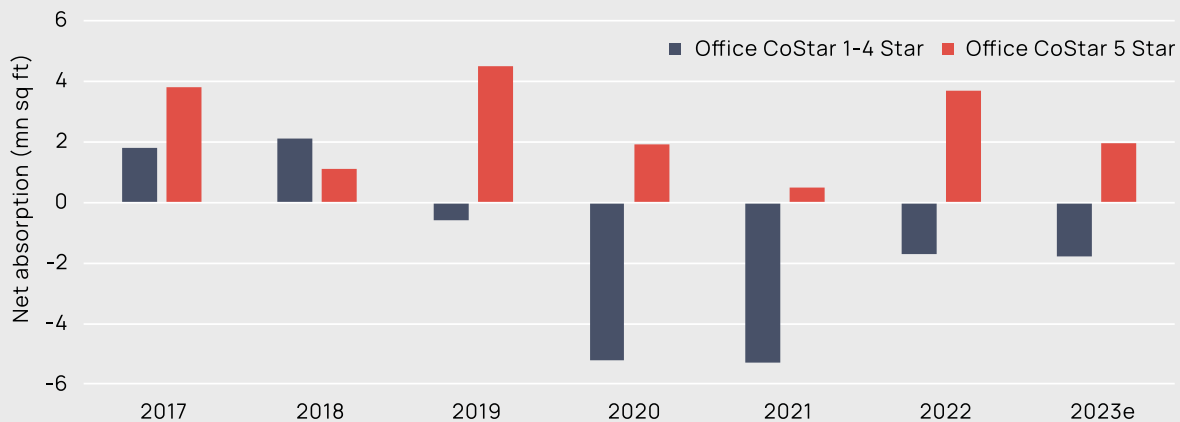
While the more demanding latter stages of the MEES requirements have not yet been legislated, tenant demand for sustainable space is still pushing building owners to improve the sustainability credentials of their properties in line with increasing EPC ratings and with net zero carbon performance.

There were several announcements by professional services companies in 2023 regarding relocations to offices with higher levels of environmental performance. Pimco and Clifford Chance have both announced agreements to move to buildings in developments with higher EPC ratings and sustainability credentials to better align with their own corporate level net zero carbon goals. Around the same time, HSBC announced that it was vacating its long-standing headquarters in Canary Wharf to take up a smaller and more energy efficient tenancy closer to central London, that would also help meet its corporate net zero target.

These are excellent examples of Transition Risk being driven by market demands and their impact on buildings with poor energy efficiency credentials. This is demonstrated in the chart below, which highlights the emerging bifurcation between low and high sustainable quality buildings, as those with 5 Star CoStar¹ ratings have much higher net absorption than lower rated buildings.

Two tier office market in London showing recent flight to sustainable quality

Net Absorption by CoStar ratings



Source: British Land, March 2023

1 The CoStar Building Rating SystemSM is a national rating for commercial buildings on a universally recognized 5 Star scale. 5 Star rated properties are premium buildings and have high levels of energy efficiency performance and are very likely to have a green building certification, whereas 4 Star and below have declining performance and are less likely to have green building certifications. See https://www.costar.com/sites/costar.com.na/files/2023-09/costar_buildingratingsystem-definition.pdf for more detail on CoStar building ratings.

During investment trips to London in 2023, our investment team inquired how companies are preparing for this increasing shift to high performance sustainable properties driven by both tightening regulations and increasing tenant demand. We visited Derwent London (DLN), Shaftesbury Capital (SHC), Unite Group (UTG), Grainger (GRI), Land Securities (LAND) and Great Portland Estates (GPE).

Each of these companies saw this shift approaching some time ago and have been preparing for both the EPC B requirement in 2030 and for the demand by tenants for highly sustainable spaces that is already happening. These preparations include quantifying the capex required to lift the environmental performance of their properties, ranging from £20m to £135m, formulating asset level decarbonisation plans, and internal carbon prices that are used to fund these expenditures. Their preparedness places them in a strong position to capture increased market share in terms of leasing, underscoring the increasing financial benefits of sustainability leadership.

U.S. Utility generation capacity plan to meet increasing demand at odds with U.S. State carbon emissions targets

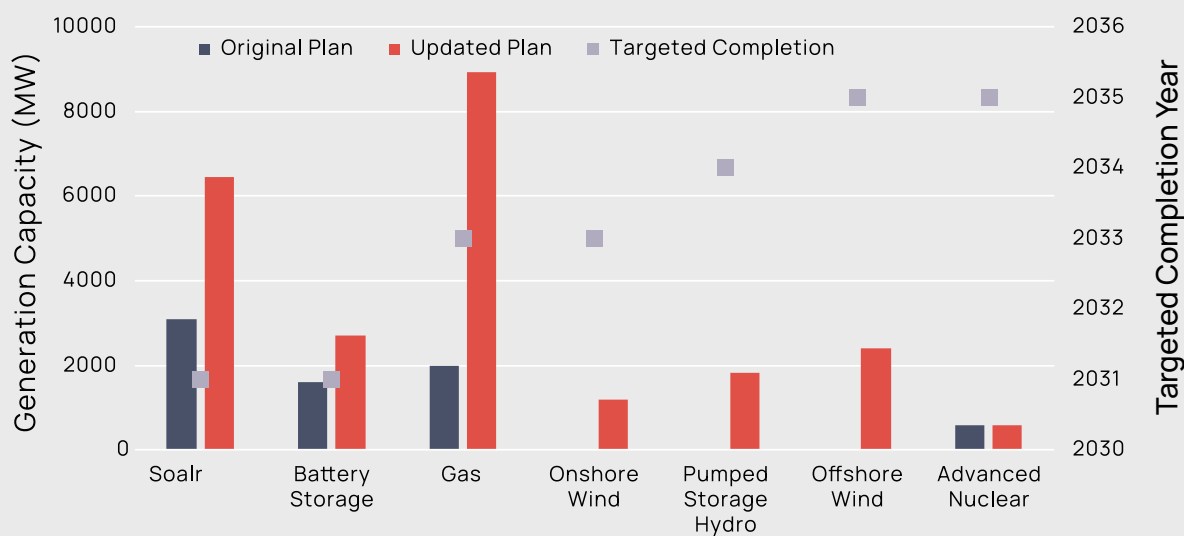
Compared to the European Union, with its ability to set carbon reduction targets at the EU level that apply to all member states, the situation in the U.S. is a lot more fragmented. The U.S. Federal Government has committed to carbon reduction targets of 50 – 52% reduction by 2030 and net zero by 2050. Many states have also set their own short- and long-term carbon reduction targets and, as one of the most carbon intensive sectors, Utilities will have a significant role to play in contributing to these carbon reductions.

An additional complexity in this process for regulated Utilities is that they must submit their generation plans for approval by their respective state - level regulatory commissions. These commissions consider, among other things, the impact of a utility's generation plan on system stability, affordability for rate payers and any carbon reduction or renewable energy targets that must be met. One example of this dynamic is in the state of North Carolina, with a target for 70% reduction in carbon emissions by 2030 and net zero emissions by 2050 where one of our GLI holdings, Duke Energy (DUK), operates.

In an updated submission to the North Carolina Utilities Commission in January 2024, Duke outlined its updated generation plan to meet both the region's significant increase in expected electricity demand and the legislated carbon emissions reduction targets of 70% by 2030 and net zero by 2050. This update included a revised estimate of peak electricity demand in 2030 that was eight times higher than the forecast projected only two years ago.

However, the generation scenarios that Duke has proposed would potentially result in a delayed achievement of the 70% reduction target from 2030 to between 2035 and 2038. This delay is caused by significant increase in gas generation since their last proposal a year ago. According to the company, they have proposed the increase in gas generation to provide shorter term coverage for demand increases and are planning on offsetting the increased carbon emissions from these plants by making them hydrogen compatible. However, there is little detail on how it will be able to achieve meaningful levels of hydrogen blending.

Duke Energy's proposed pathway for new generation assets



Source: Duke Energy, January 2024

While this plan does have a significant increase in gas-fired generation, with its attendant increase in carbon emissions, there is also a significant increase in renewables generation from solar (almost 3,500MW) and offshore wind (1,200MW), as well as in storage technologies with battery storage (1,100MW) and pumped hydro (1,700MW). This proposed plan is due to be ratified by the North Carolina Utilities Commission by the end of 2024, so it is yet to be accepted. We will be monitoring this to see whether the commission enforces its carbon targets or provides exceptions to allow Duke Energy to deliver delayed carbon reductions.

Scenario Analysis – Transition Risks

Resolution Capital's early implementation of scenario analysis for both our Global real estate and infrastructure portfolios has focused on the impact of Transition Risks and the potential ability of our investee companies to align their decarbonisation pathways to meet carbon emissions limits that are aligned with the requirements of the Paris Agreement. The results of this analysis is summarised in the following section.

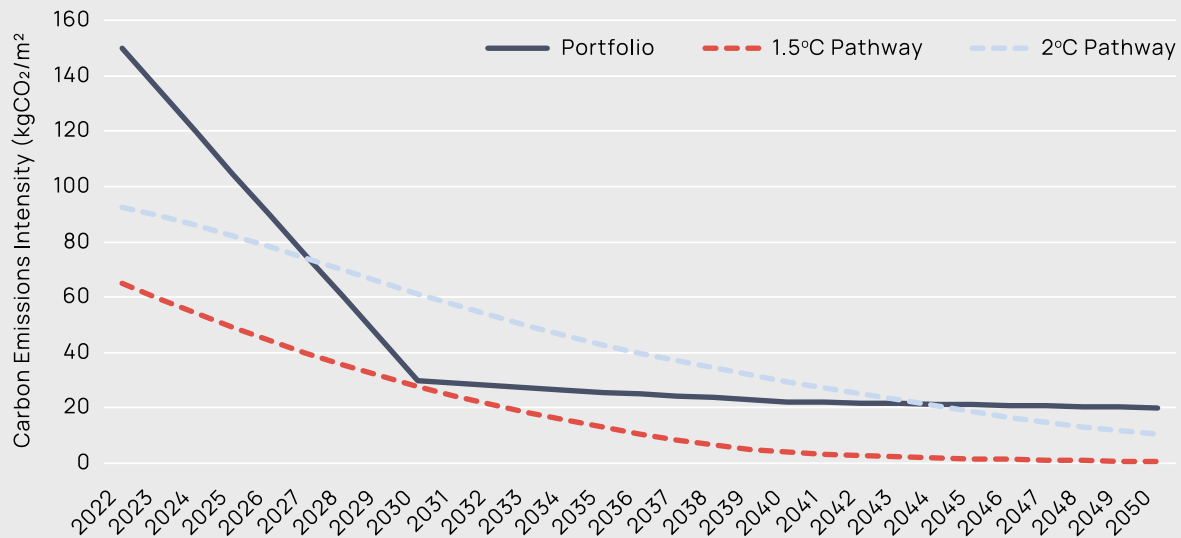
Global REITs

For our scenario analysis we used the Paris Agreement aligned decarbonisation pathways developed by the Climate Risk Real Estate Model (CRREM) Risk Assessment Tool². This data is used to understand the transition risks facing real estate assets and portfolios by comparing the Scope 1 and 2 carbon emissions intensity of properties to the Green House Gas (GHG) emissions budget for a specific property type, located in a specific country.

² This analysis was created with Carbon Risk Real Estate Methodology (CRREM) V.2.04 (Global Pathways V2)

This allows us to compare our portfolio's carbon emissions reductions performance against decarbonisation pathways aligned with limiting global warming to 1.5°C or 2°C. The CRREM 1.5°C and 2°C pathways for our Global REITs portfolio are shown in the chart below, with the aggregated projected decarbonisation pathway³ of our portfolio, as of 31 December 2023.

Global REITs portfolio alignment to CRREM scenarios*



Source: Company Disclosure, Resolution Capital, GRESB, CRREM, 2023

* As at 31 December 2023

By separating these assessments into regional and sectoral groups we can identify areas of our portfolio that are more exposed to asset stranding risks. This also helps us to identify companies which are lacking a sufficiently robust carbon reduction target for further engagement.

Looking at these projected decarbonisation pathways, there is a significant level of decarbonisation that is planned to occur in the years leading to 2030, with an approximate 78% decrease in carbon intensity of the portfolio between 2022 and 2030. However, many companies have not set targets beyond 2030 and this has led us to engage with several of these companies to understand their intentions with respect to potentially setting longer term targets. Nearly all of these companies advised that they were in the process of setting these longer-term targets, including targets to reach net zero emissions.

³ The portfolio decarbonisation pathway was calculated using the publicly disclosed carbon reduction targets of our investee companies and projecting the carbon intensity for each company, assuming the achievement of these targets by their respective deadlines.

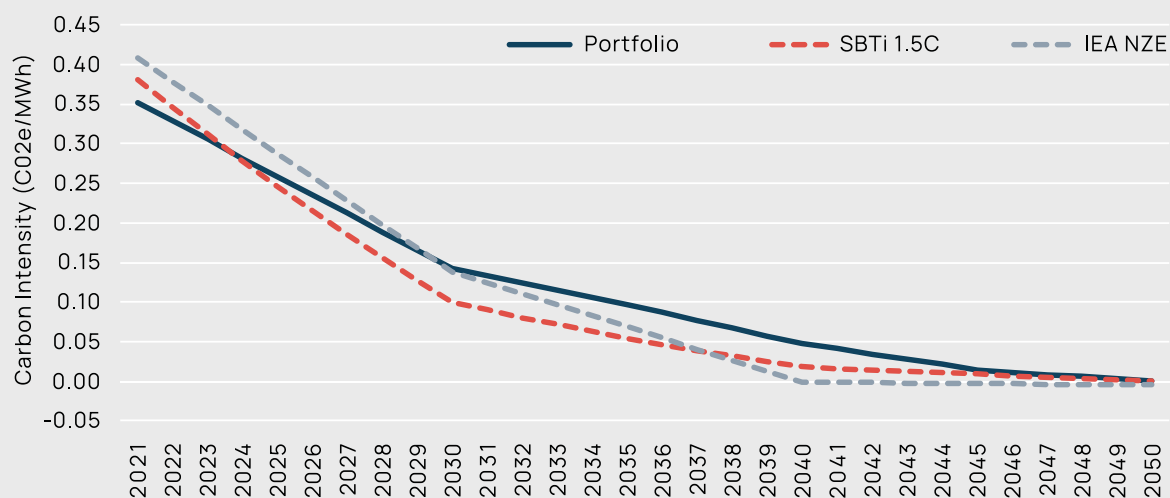
Global Listed Infrastructure – Utilities sector

Due to the differing and varied characteristics of the sectors that make up the infrastructure asset class, we have focused our initial scenario analysis work on the Utilities sector, because of its importance in the global transition to net zero emissions. Since the transition to zero carbon generation will occur on the back of significant increases in electricity demand due to the increasing electrification of our economies, Utilities will need to retire their fossil fuel-based generation assets and develop zero-carbon generation assets to replace them.

In our analysis of holdings in Utilities for our GLI strategy, we benchmarked the projected carbon intensity reductions against the Science Based Targets Initiative (SBTi) 1.5°C scenario⁴, using the Sectoral Decarbonisation Approach (SDA), where sector emissions converge to a net zero state. We also used the International Energy Agency (IEA)'s Net Zero Emissions by 2050⁵ (NZE) scenario, which shows a pathway for the global energy sector to achieve a net zero emissions state by 2050 while maintaining global average temperature rises to close to 1.5°C.

These two scenarios allow us to see the speed and level of decarbonisation that the Utilities sector must achieve to reach net zero emissions in a way that is aligned with the Paris Agreement goals. The chart below shows our preliminary analysis of the decarbonisation pathways of our Utilities holdings (as of 31 December 2023) compared to these two scenarios. While there is a convergence towards net zero by 2050, it is not happening at the same speed as required under the SBTi or IEA NZE scenarios.

GLI portfolio Utilities' decarbonisation pathway alignment to SBTi⁶ and IEA Net Zero scenarios



Source: Company Disclosure, Resolution Capital, Science Based Targets Initiative, IEA, 2023

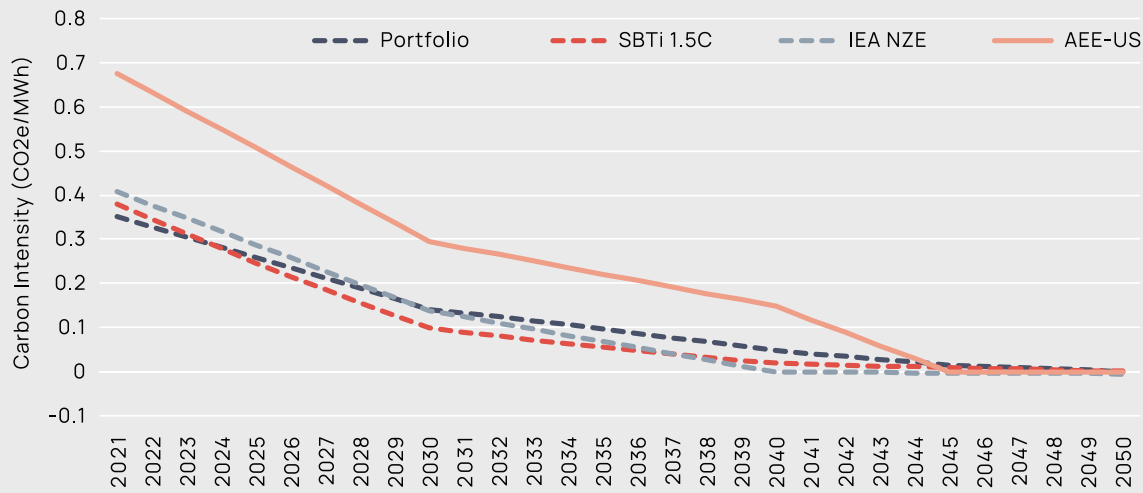
This analysis also helps us to identify companies that are not planning to decarbonise fast enough to align with these scenarios and engage with them to understand whether they can accelerate plans or what barriers exist to potentially accelerate their decarbonisation.

4 Science Based Targets Initiative (SBTi), "Setting 1.5°C Aligned Science Based Targets: Quick Start Guide for Electric Utilities", 2020

5 IEA (2023), Global Energy and Climate Model, IEA, Paris <https://www.iea.org/reports/global-energy-and-climate-model>, Licence: CC BY 4.0

6 Science Based Targets Initiative (SBTi) Science Based Target Setting Tool v2.2

Ameren Corp. decarbonisation pathway alignment to SBTi and IEA Net Zero scenarios



Source: Company Disclosure, Resolution Capital, Science Based Targets Initiative, 2023

This chart compares the decarbonisation pathway based on stated targets for Ameren Corp. (AEE), a U.S. based utility, compared to other utilities that Resolution Capital holds and the two scenarios described above. While this company has a target to be net zero by 2045, the chart above shows that is not decarbonising fast enough to be aligned with these scenarios.

In Ameren's case, the company faced a shareholder resolution at its 2023 Annual General Meeting (AGM) regarding its Scope 1 and 2 carbon emissions targets, claiming they were not ambitious enough considering the requirements of IEA's NZE scenario. The resolution requested that the company disclose short-, medium- and long-term Scope 1 and 2 GHG emissions targets that are aligned with these requirements, as well as plans to achieve those targets.

Ameren currently has carbon emissions reduction targets of 60% by 2030, 85% by 2040 and net zero by 2045. Their current decarbonisation plan involves the progressive retirement of its coal generation fleet, to be completed by 2042 and the build out of renewable energy generation plus battery storage capacity. This decarbonisation plan has been agreed with the relevant state regulators as part of their Integrated Resource Plan. This means that the company will implicitly move outside the already agreed upon framework with regulators should they deviate from their current plan.

Prior to the AGM, we engaged with Ameren to better understand the differences between these two approaches and the company's view on the shareholder proposal. While they mentioned their ambition to achieve net zero status as early as practicable, Ameren said that there were constraints including the requirement for regulatory approvals for generation retirements, balancing affordability, and reliability concerns. Ultimately their decarbonisation plans are contingent on achieving the change in generation mix, which is contingent on the Integrated Resource Plan approved by state regulators.

We will be following AEE's progress on its targets and will continue to engage with them to understand their plans and actions to achieve those plans.

Risk Management – How we identify and manage climate related risks

Resolution Capital recognises the need to limit average global temperature rises to well below 2°C, and ideally 1.5°C, compared to pre-industrial levels by 2100 in line with the goals of the Paris Agreement of 2015. In order to meet this target, the global economy needs to achieve net zero carbon emissions by 2050. The level of decarbonisation needed to achieve this will provide significant opportunities for companies that can enable and take part in this transition to a low carbon economy, and pose significant risks for those companies and assets that cannot.

Our focus is not just on the position of our portfolios at a point in time, but also on the changing nature of our environmental performance and whether investee companies are improving (or whether a declining level of performance requires engagement with company management). We also support the increase in transparency in company reporting and ESG disclosure in the sector, and emerging disclosure standards (such as those from the ISSB, ESRS and ASRS) for company reporting, which can and should increase the standardisation and comparability of company disclosures.

Our proprietary database houses our ESG data, which we collect directly from company disclosures, as well as from third party data providers, including the Global Real Estate Sustainability Benchmark (GRESB), MSCI, Bloomberg and Factset. This allows us to compare various ESG metrics at sector, regional and portfolio levels, as well as changes over time. This is important for understanding whether ESG metrics for the portfolio are being influenced by individual stock selection or sector positions. We need to be able to differentiate whether the carbon footprint of the portfolio is being influenced by being overweight a more carbon-intensive sector, or rather, are we picking companies that underperform their relevant peers.

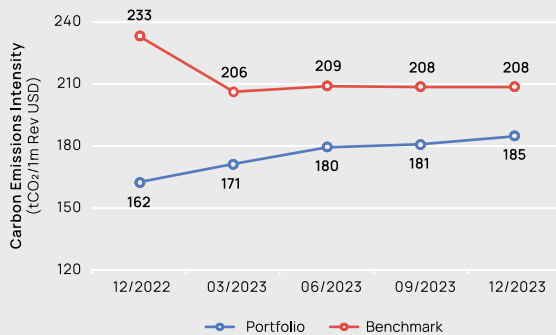
Consideration of the objectives and track record of company management is another critical component of our analysis, which gives us confidence that a company can achieve its environmental goals. We use meetings with management, as well as asset tours to discuss environmental credentials and review how they are incorporated into asset management and development decisions.

Decarbonisation and Climate Change for REITs

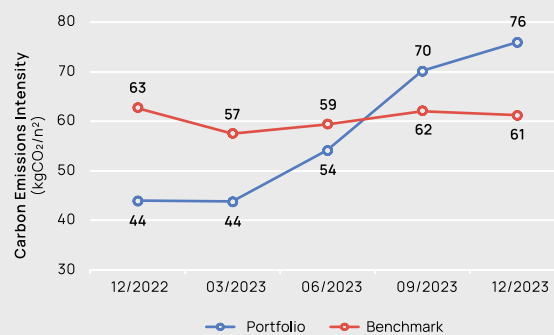
The real estate sector is facing a market environment that is increasingly demanding buildings with high levels of energy efficiency, the ability to operate only using electricity and which enable procurement of renewable electricity. This is driven by regulatory requirements for minimum levels of energy efficiency, national level carbon emissions reduction targets, as well as tenant expectations, which are rapidly becoming requirements, for tenancies that enable the achievement of their own corporate net zero targets.

Resolution Capital uses the data sources outlined above to track the performance of our portfolio versus our benchmark and to identify potentially lagging companies in terms of carbon emissions performance or those with insufficient company disclosures. Since carbon emissions are inherently a backwards looking metric, we also take into account the carbon reduction plans of our investee companies to get a better understanding of a company's potential decarbonisation pathways. As part of this analysis, we measure portfolio level metrics such as Scopes 1 and 2 carbon intensity and whether companies have public net zero carbon targets for Scopes 1 and 2 emissions.

Carbon intensity of Global REITs portfolio vs the benchmark*
(tCO₂/1m Rev USD)



Carbon intensity of Global REITs portfolio vs the benchmark*
(kgCO₂/m²)



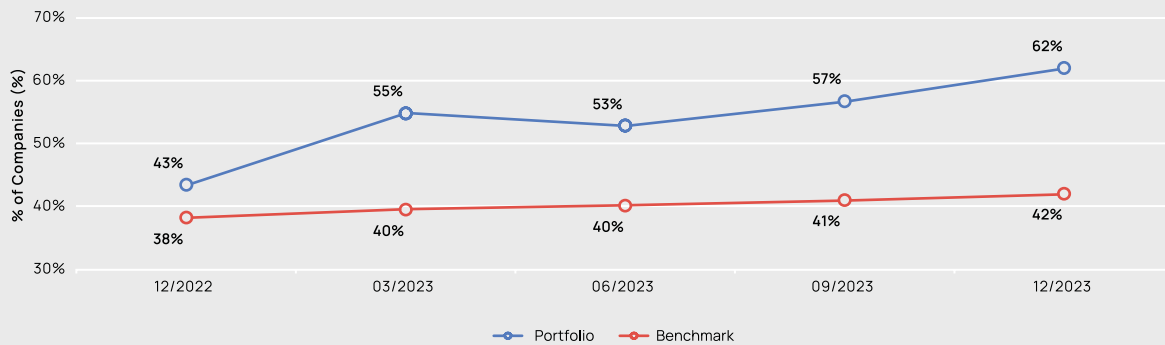
For the 12 months to 31 December 2023
*FTSE/EPRA NAREIT Developed Index
Source: GRESB, Resolution Capital, company disclosure, 2023

These two charts show the benefits of using more than one metric when assessing carbon emissions performance in a portfolio. While the revenue-based carbon intensity remained relatively stable over the 12 months to 31 December 2023, the area-based intensity saw a significant increase in the second half of the year. The main cause for this increase was increasing positions in two U.S. based Data Centre REITs, Equinix (EQIX) and Digital Realty Trust (DLR), moving from an underweight to an overweight position in the Data Centres and Towers sector compared to the benchmark. While these two companies are very carbon intensive, they both recognise the need to decarbonise and are both pursuing significant procurement and development of renewable energy supplies.

This is why we are also tracking whether companies have public net zero carbon emissions reduction targets, initially focusing on Scope 1 and 2 emissions, but also investigating targets that cover Scope 3 emissions. So that we can understand what direction companies are planning to move and whether

the more carbon intensive companies are working to reduce their climate impacts. The chart below shows the proportion of the Resolution Capital global REITs portfolio with net zero targets, compared to the benchmark. We have pleasingly seen an increase over the last 12 months in the portfolio holdings with net zero targets, particularly compared to the benchmark.

Proportion of companies with net zero targets in the Global REITs portfolio vs the benchmark*



12 months to 31 December 2023
 *FTSE/EPRA NAREIT Developed Index
 Source: MSCI ESG Research, Company Disclosure, Resolution Capital, 2023

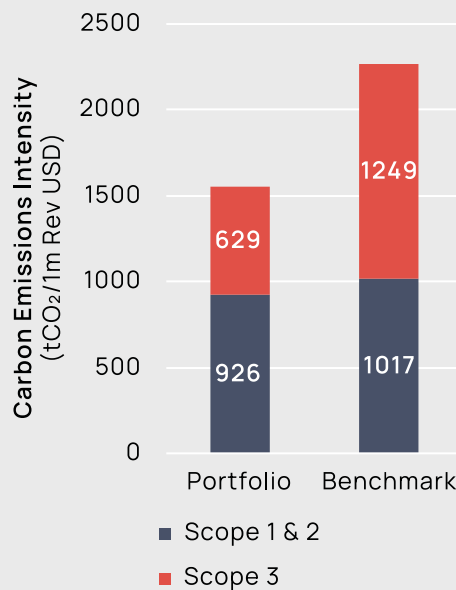
Energy transition in Global Listed Infrastructure

In our GLI strategy, one of our areas of focus is on companies that can participate in, and enable, the transition to a net zero world. Therefore, we are interested in listed infrastructure companies that can generate clean energy, decarbonise their operations and enable other companies to achieve the same goals.

We assess a company's carbon reduction plans, carbon emissions trajectories, proportion of renewable electricity generated for Utilities, and compare our portfolio performance versus the benchmark. This focus on the clean energy transition and those companies that can enable it has led to our portfolio having lower carbon emissions intensity, lower fossil fuel energy generation and higher renewable energy generation than the broader index.

Using our proprietary database, we measure these metrics and compare our portfolio to the benchmark to track our performance over time and to also highlight areas of outlying performance to target either engagement or further analysis.

Carbon intensity of Global Listed Infrastructure portfolio vs the benchmark* (tCO₂/1m Rev USD)



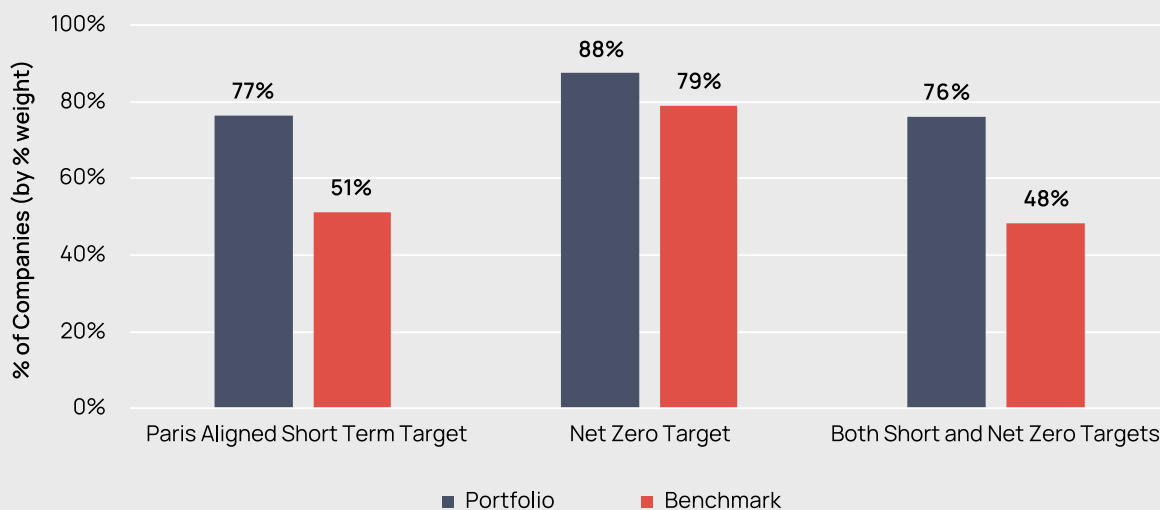
As at 31 December 2023
 *FTSE Developed Core Infrastructure 50/50 Index
 Source: MSCI ESG Research, Company Disclosure, Resolution Capital, 2023

The chart on last page shows the breakdown of revenue-based Scope 1 and 2 carbon emissions intensity and Scope 3 carbon emissions intensity for our portfolio and the benchmark. While the portfolio Scope 1 and 2 intensities are similar for the portfolio versus the benchmark, the portfolio Scope 3 emissions intensity is much lower. This is predominantly due to lower holdings in the Oil and Gas Midstream sector and no holdings in the Gas Utilities sector.

As with our Global REITs strategy, with carbon emissions an inherently backwards looking metric, we also try to find more forward-looking metrics to determine how companies are planning on decarbonising. While net zero targets are looking at the longer-term result for a company's decarbonisation journey, these targets are strengthened and more credible if also paired with interim targets, that are ideally also aligned with the Paris Agreement⁷.

The chart below shows the breakdown, by weight, of companies with aligned short-term targets, net zero targets and both. While there are comparable amounts of companies with net zero targets between our portfolio and the benchmark, our portfolio holdings have a much higher proportion of companies with Paris Agreement aligned short term targets paired with longer term net zero targets.

Proportion of companies with net zero targets in the Global Listed Infrastructure portfolio vs the benchmark*

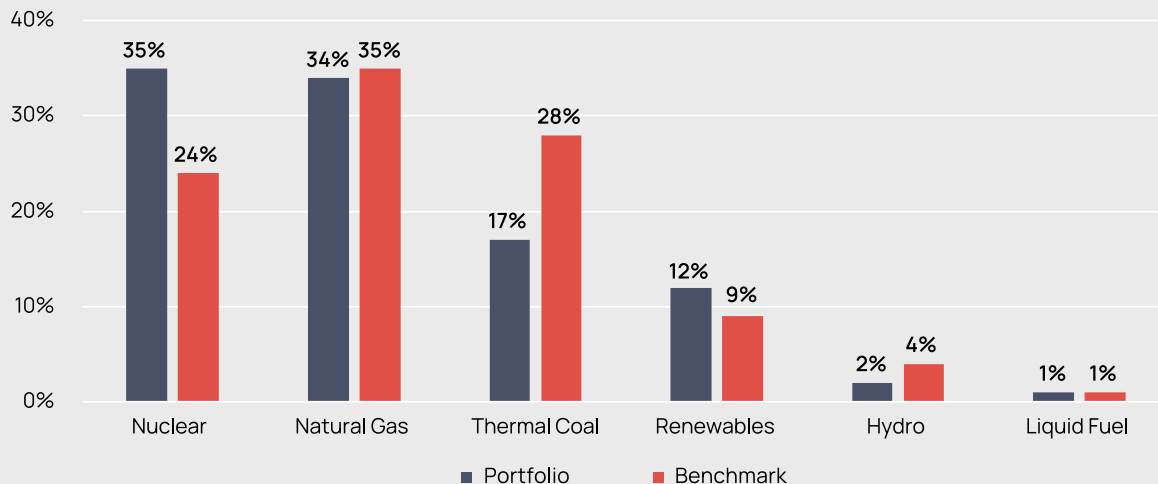


As at 31 December 2023
 *FTSE Developed Core Infrastructure 50/50 Index
 Source: MSCI ESG Research, Company Disclosure, Resolution Capital, 2023

Our focus on Paris Agreement alignment means we are looking closely at the Utilities sector and their efforts to decarbonise, particularly as this is a significant part of our investable universe, both in terms of market capitalisation and carbon emissions. Tracking electricity generation by source is of interest given the focus on decarbonisation and the transition to clean energy generation. The breakdown of electricity generation by source for the Portfolio and the benchmark is shown in the chart below. It demonstrates that the portfolio has a higher exposure to companies with a greater focus on electricity generation from low-carbon sources, such as Nuclear and Renewables, and less from high carbon intensity sources, like Thermal Coal and Natural Gas, than the benchmark.

7 Under the Paris Agreement, acceptable interim targets are generally agreed to be at least a 50% reduction in carbon emissions by 2030.

Proportion of energy generation output, by source, for the Global Listed Infrastructure portfolio versus the benchmark*



As at 31 December 2023

*FTSE Developed Core Infrastructure 50/50 Index

Source: MSCI ESG Research, Company Disclosure, Resolution Capital, 2023

Climate Focused Stewardship

In addition to the above data-focused analysis, in our role as an active investor we engage with companies that fall short of our expectations with regard to climate-related disclosures and on those on companies that do not have carbon reduction targets consistent with the goals of the Paris Agreement of 2015, which means a halving of greenhouse gas emissions by 2030 and being net zero carbon emissions by 2050.

Where our data sets identify disclosure gaps, or lagging performance in terms of setting carbon targets or annual emissions reductions, these companies are targeted for engagement to understand why there is a deficiency, if there are plans to rectify, and to encourage the company to do so. A key area of focus has been on encouraging companies to improve their ESG-related disclosures through recognised frameworks aimed at robust reporting and increasing standardisation. These frameworks include the Global Real Estate Sustainability Benchmark (GRESB) and, previously, the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). However, since the TCFD is being superseded by the climate disclosures from the International Financial Reporting Standards (IFRS) at the end of 2023 and with many jurisdictions developing their own climate-related financial disclosure standards in line with the IFRS standards, we will be recommending companies report in line with the standards that are most relevant to their business.

In our engagements with companies, we are asking companies that do not currently have carbon reduction targets that are aligned with the Paris Agreement if they are planning on implementing one, and if not, why not. For the companies that do not demonstrate a clear intention to become Paris aligned, our approach requires us to follow up with company management, discuss any issues or barriers to implementing such a target, and to apply pressure to encourage change. We communicate the importance of an ambitious environmental strategy and our intention to follow up regularly to ensure that progress is being made. If engagement does not yield any progress, we can use proxy voting as an escalation tool to vote against company directors.

For further information on our Stewardship approach, please refer to our 2023 Stewardship Report.

Financed Emissions

As an Investment Manager, the majority of our emissions are in the form of Financed Emissions, ie those emissions from the companies in which we invest. Our corporate emissions are outlined in our Corporate Sustainability Report. The table below shows the Weighted Average Carbon Intensity⁸ and the Carbon Footprint⁹ for our Global REITs and GLI strategies, as well as the coverage of data we have for those metrics.

Summary of financed emissions for Global REIT and Global Listed Infrastructure strategies

Emissions Category	Global REITs		Global Listed Infrastructure	
	Weighted Average Carbon Intensity (tCO2/US\$1m Revenue)	Carbon Footprint (tCO2/\$1m invested AUD)	Weighted Average Carbon Intensity (tCO2/US\$1m Revenue)	Carbon Footprint (tCO2/\$1m invested AUD)
Scope 1	12.0	17.6	689.2	724.8
Scope 2	77.3	93.0	74	26.0
Scope 3	224.6	521.3	629.0	224.4

Our carbon emissions data is sourced from a number of sources to ensure we have accurate data and high levels of data coverage. Data is provided by MSCI ESG Research, Global Real Estate Sustainability Benchmark (GRESB) and Bloomberg.

⁸ For our Weighted Average Carbon Intensity calculations we have taken a weighted average of each company's revenue based carbon intensity according to their proportionate positioning in each portfolio.

⁹ For our Carbon Footprint calculations, we have calculated the proportion of outstanding free float shares that we own for each company in our portfolios and apportion each company's absolute carbon emissions to our holdings



Conclusion and future focus

We believe that risks, challenges, and opportunities exist for all companies within our investment universe due to the impact of climate change. The short- medium- and long-term risks and opportunities we face have been outlined in this report, as well as how we are utilising ESG data and scenario analysis to identify these risks and opportunities in our portfolios through the integration of our ESG analysis into our investment processes and as active owners of our investee companies.

We support the standardisation efforts of the ISSB and various standards setting boards and regulators globally who are attempting to ensure that data produced across multiple different industries and sectors are more comparable and meaningful for investors and consumers to allow them to make informed decisions when they are selecting investments, products, and services to meet their own net zero goals.

This is the first iteration of our Climate Report, which will evolve as greater clarity around emerging mandatory climate disclosures is provided, and as we expand our analysis to include more information on the impacts of physical climate change risks faced by our investee companies under different climate scenarios and improve our understanding of the carbon emissions from their supply and value chains.

Further Information

Further information about the way in which we are integrating sustainability considerations into our investment process can be found in our Responsible Investment & Stewardship Report, and in our Responsible Investment, Proxy Voting, Engagement, and Diversity & Inclusion Policies which can be found on our website www.rescap.com/esg

Disclaimer

Resolution Capital Limited ABN: 50 108 584 167, AFSL No. 274491

This communication was prepared by Resolution Capital Limited (“Resolution Capital”). The information in this communication is for general information purposes only. This communication has been prepared without taking account of any person’s objectives, financial situation or needs, and because of that, any person should, before acting on the information contained within, consider the appropriateness of the information having regard to their objectives, financial situation and needs. Accordingly, reliance should not be placed on the information in this communication as the basis for making an investment, financial or other decision. Any opinions, forecasts or recommendations reflect the judgment and assumptions of Resolution Capital and its representatives on the basis of information at the date of publication and may later change without notice. Any projections contained in this

communication are estimates only and may not be realised in the future. Resolution Capital believes the information contained in this communication is reliable, however no warranty is given as to its accuracy and persons relying on this information do so at their own risk.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Resolution Capital Limited.

Resolution Capital is an affiliate of Pinnacle Investment Management Ltd. Pinnacle Investment Management (UK) Ltd is an appointed representative of Mirabella Advisers LLP (FRN 606792), which is authorized and regulated in the UK by the Financial Conduct Authority.

Resolution Capital Client Services

Email: clientservices@rescap.com

www.rescap.com