RESOLUTION CAPITAL

QUARTERLY ESG AND STEWARDSHIP REPORT

GLOBAL REAL ESTATE SECURITIES STRATEGY

DECEMBER 2023

ESG Commentary

UN Principles of Responsible Investment (UN PRI) Assessment

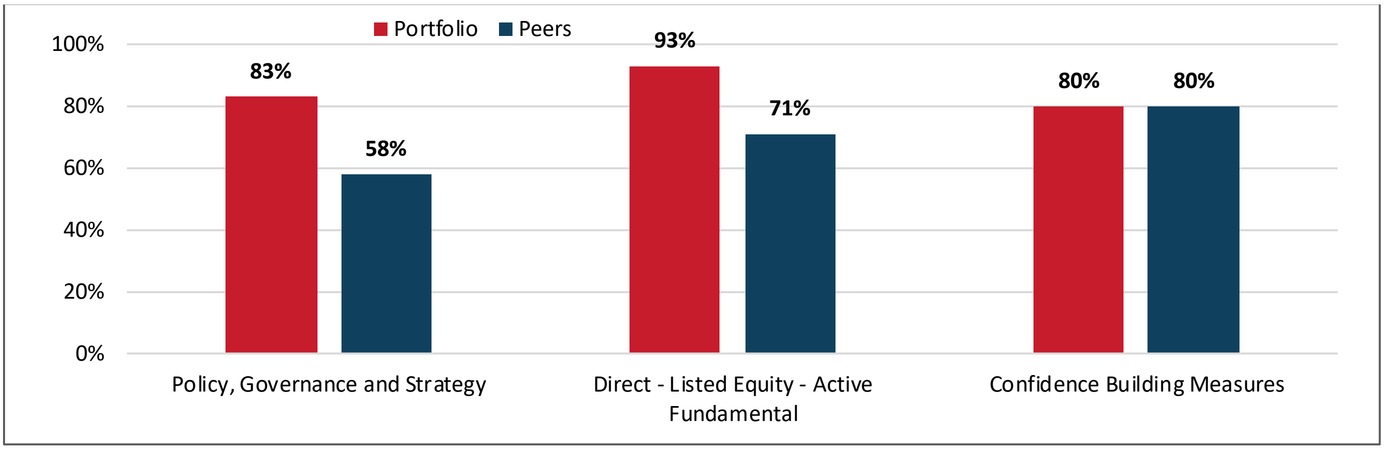
As a signatory to the UN PRI, we are required to report on our responsible investment activities each year, a process that increases transparency and accountability in the responsible investment industry, standardises reporting and provides opportunities for peer comparison and feedback for improvement.

During this quarter we received the results for our 2023 Transparency Assessment. We were assessed on the following modules:

- **Policy, Governance and Strategy** – This module is the main focus of the overall assessment and examines our governance, policy framework, proxy voting, company engagements and climate change approach.
- **Direct – Listed Equity – Active Fundamental** – This module assesses how we integrate ESG into portfolio construction, investment and company research processes.
- **Confidence Building Measures** – This module assesses our internal quality control processes for our ESG integration practices.

Pleasingly, we scored Four Stars (between 65% - 90%) for the Policy, Governance and Strategy, and Confidence Building Measures modules and Five Stars (over 90%) for the Direct - Listed Equity - Active Fundamental module. We scored above the peer median scores for each of these modules, the results are summarised in the chart below.

UN PRI 2023 Assessment results



Source: UN PRI, December 2023

Resolution Capital named a Responsible Investment Leader in RIAA's 2023 Responsible Investment Benchmark report

In September, Resolution Capital was named a Responsible Investment Leader by the Responsible Investment Association Australasia (RIAA) in its 22nd annual Responsible Investment Benchmark Report. The result recognises our commitment to responsible investing as an investment manager and places Resolution Capital in the top 20% of the investment managers assessed in Australia for responsible investment practices.

The Report is the most comprehensive review of the responsible investment sector in Australia, with the 2023 report reviewing the investment practices of 272 investment managers.

This result is recognition of the work we have done in expanding the integration of ESG into our investment and stewardship processes, as well as our commitment to increasing transparency and disclosure of the activities that we undertake as active managers on behalf of our clients.

Net Zero buildings related announcements at UN COP28

In early December 2023, the 28th Conference of the Parties to the UNFCC (COP) was held in the UAE. The main outcome of COP28 was the 200 participating countries agreeing to "transitioning away from fossil fuel use in energy systems, in a just, orderly and equitable manner, to achieve net zero by 2050 in keeping with the science". This marks a significant point as it is the first time a COP agreement has included reference to oil and gas and is the first time that countries have explicitly acknowledged the need to end use of fossil fuels in energy systems.

There were also a number of announcements that were more directly, and indirectly, relevant to the real estate sector. Firstly, there was the launch of a global collaboration to enable policy and regulatory action in the Real Estate sector with the goal of making "near-zero emission and climate resilient buildings the new normal by 2030". At the time of the announcement, 27 countries had joined the collaboration, including significant property markets such as the U.S., China, Germany, France and Canada. This additional focus on the construction and operation of near-zero emissions buildings will be particularly important to achieving global carbon reduction goals given the Real Estate sector contributes approximately 37% of global energy-based carbon emissions, especially for companies that are lagging in implementing net zero emissions aspirations.

Secondly, there were two other headline announcements that will have relevance for the real estate sector and could contribute to the near-zero emissions and climate resilient buildings goal. One is an agreement to triple renewable electricity capacity by 2030, which can provide additional drivers for properties to generate onsite renewable electricity or procure renewable electricity and will also provide benefits through greener electricity grids. Higher penetration of renewables in a country's electricity grid will contribute to the lowering of a property's operational carbon emissions. Another announcement that is more focused on the embodied carbon emissions of a property is one that supports policies and approaches with the aim of promoting low carbon construction and to increase the use of timber from sustainably managed forests in construction.

City of Seattle enacts net zero carbon emissions target at the end of 2023

In December 2023, the City of Seattle joined New York, Washington DC and Boston in enacting a net zero target for its new and existing buildings. Through its Building Emissions Performance Standards (BEPS) policy, commercial and multifamily buildings that are greater than 20,000 square feet will have until 2045 and 2050 respectively, to achieve net zero.

Although the compliance periods start later than New York’s Local Law 97, with Seattle’s starting in 2031 compared to 2024, the emissions caps are much stricter owing to the lower emissions intensity of the electrical grid in Washington state compared to New York state’s grid.

Each of these cities are imposing fines for not complying with their respective emissions caps, although with slightly different applications. Seattle and Boston’s fines are based on building size, whereas New York’s are based on the volume of carbon emissions over the limit.

One of the interesting aspects of this target is that it implicitly requires buildings to become fully electric over time. This is done by making gas appliances increasingly uneconomical to replace compared to installing electric alternatives as the carbon emissions limits are progressively lowered.

Hedged and Unhedged Global REITs funds receive Responsible Investment Certifications from RIAA

In recognition of Resolution Capital’s ongoing commitment to responsible investment and ESG integration we are pleased to report that during this quarter the Resolution Capital Global Property Securities Fund – Series II and Resolution Capital Global Property Securities Fund (Unhedged) – Series II were both certified as part of the Responsible Investment Association of Australasia’s (RIAA) RI Certification program.

RIAA’s RI Certification shows that an investment product systematically considers environmental, social, governance or ethical factors in its investment process and that this process has been verified by an external party, meeting the strict operational and disclosure practices of the Certification Program requirements. These requirements include having a formal, disclosed and consistent strategy for responsible investment and active stewardship, clear and honest labelling, avoiding significant harm, and disclosure of portfolio holdings, performance, engagement and proxy voting outcomes.

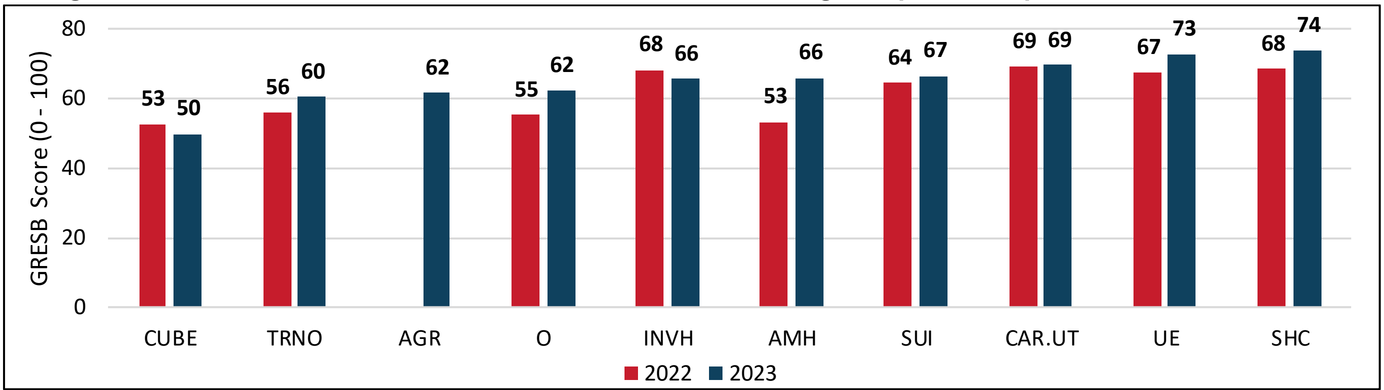
Portfolio Metrics

GRESB Score Update

Separately we are pleased to provide the following update on our Global Real Estate Sustainability Benchmark (GRESB) score[1]. These scores are updated annually and consider environmental, social and governance factors. Consistent with previous quarters, the portfolio GRESB score was slightly below the FTSE EPRA NAREIT Developed Index, against which the portfolio is benchmarked, however the gap continues to narrow further with the release of the 2023 GRESB results.

The chart below shows the change in GRESB Scores between 2022 and 2023 for the ten lowest scoring companies held in the Portfolio at 31 December 2023. All have shown improvements, except for CUBE and INVH, with both relatively static in their ESG performance compared to peers over the year. American Homes 4 Rent (AMH) and Realty Income (O) had the largest improvements, while Assura (AGR) reported into GRESB for the first time.

Change in GRESB Score for 2022 – 2023 for the 10 lowest scoring companies in portfolio at 31 Dec 2023



Source: ResCap, GRESB, 31 December 2023

The table below summarises the end of December 2023 GRESB scores for the global REIT portfolio.

While the overall GRESB Score for the Portfolio was lower than for the benchmark, the scores for the Social and Governance components were above the benchmark. Additionally, the GRESB coverage and Public Disclosure scores for the Portfolio continued to be higher compared to the benchmark. Public Disclosure scores are a GRESB defined measure of the quality of public ESG information, whether they participate in the GRESB assessment or not. Our Portfolio has a higher Public Disclosure Score than the FTSE EPRA NAREIT Developed Index, at 92.9 (out of 100) compared to 88.3.

GRESB Coverage shows the proportion of companies reporting into GRESB and can show companies at the beginning of their ESG integration journeys, which typically leads to lower overall GRESB scores. Our Portfolio again has higher coverage than the FTSE EPRA NAREIT Developed Index, at 76.0% compared to 72.1%.

This shows our Portfolio continues to have a higher proportion of companies disclosing their ESG information and formally reporting on their ESG journey than the FTSE EPRA NAREIT Developed Index, reflecting our investment and engagement focus on companies that have ESG disclosures and that are improving their performance.

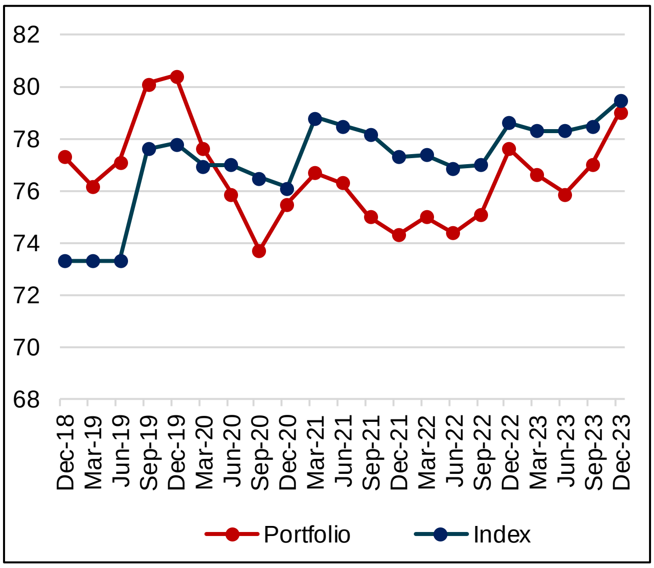
Period Ending 31 December 2023

	GRESB Score Sep '23	GRESB Score Dec '23	Environmental	Social	Governance	Public Disclosure Score
Portfolio	77.0	79.0	70.0	93.9	94.1	92.9
Index	78.5	79.5	70.6	93.5	94.3	88.3
Difference	*-1.5*	*-0.4*	*-0.6*	*0.4*	*-0.2*	*4.6*

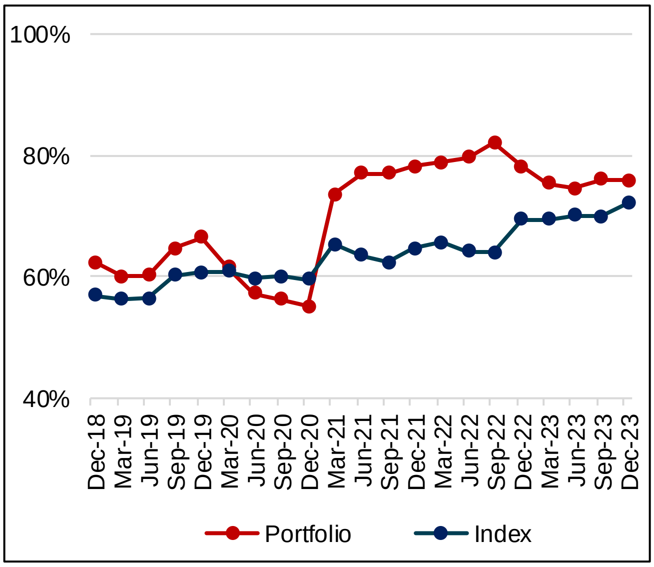
[1] GRESB provides a rigorous methodology and consistent framework to measure the ESG performance of individual Real Estate assets and portfolios based on self-reported data, guided by what real estate investors and industry consider to be material issues.

Whilst our Portfolio GRESB coverage is higher than the index, we continue to focus our engagements with Portfolio holdings that do not report to GRESB and encouraging them to report to GRESB as an industry standard for ESG assessment.

Weighted average GRESB score (0 – 100)



Weighted average GRESB coverage

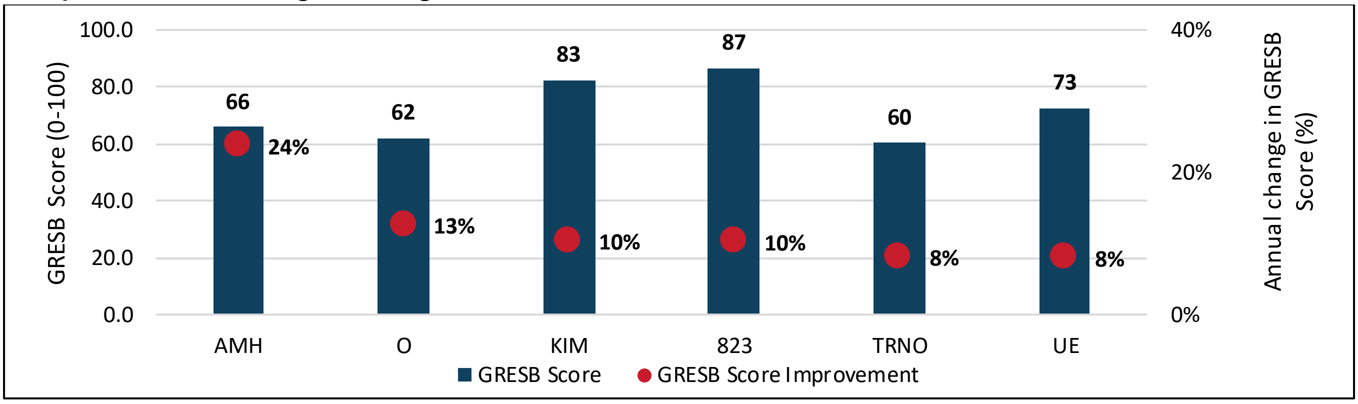


Source: ResCap, GRESB, 31 December 2023

GRESB Annual Changes

The annual GRESB results were released in October 2023 and showed the progress of several our holdings made incorporating ESG practices and improving the environmental performance of their operations. The chart below shows the companies with the largest percentage improvement over the last year, AMH and O, had particularly significant improvements of 24% and 13% respectively, both are early in their GRESB reporting journeys, with AMH in its second year of reporting and O its third.

Companies with the largest changes in GRESB Score between 2022 – 2023, at 31 Dec 2023



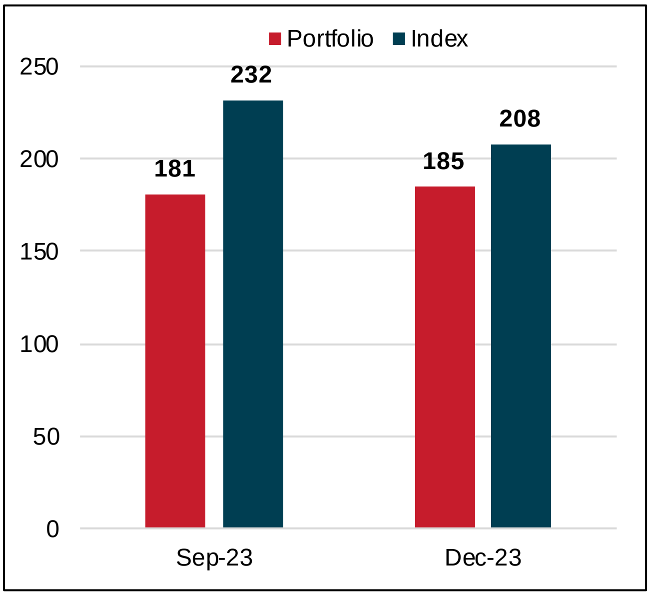
Source: ResCap, GRESB, 31 December 2023

AMH showed improvements across nearly all areas of the GRESB assessment, with particularly strong improvements in reducing resource intensity of its portfolio and reporting on carbon, energy and water consumption. Whereas O had improvements in their risk assessment frameworks, tenant and community engagement programs and improving resource intensities.

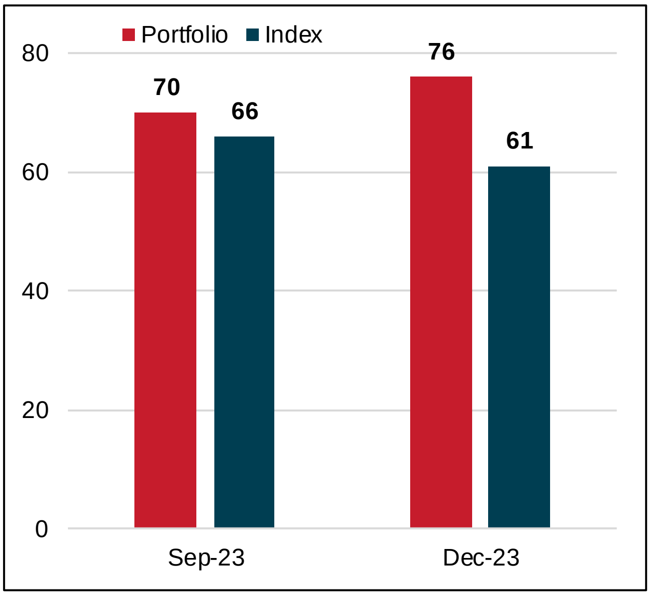
Carbon Emissions

The carbon emissions and carbon intensity of the Portfolio versus the index are monitored and measured on a quarterly basis, this data is sourced from the GRESB company assessments, Bloomberg and company disclosures. The charts below illustrate the carbon intensity of the Portfolio versus the index as of 31 December 2023. Unfortunately, while the Portfolio's carbon intensity on a revenue basis remains below that of the benchmark, the area-based carbon intensity of the Portfolio has climbed above the bechmark's this quarter.

Carbon intensity (Ton/US$1m Rev)



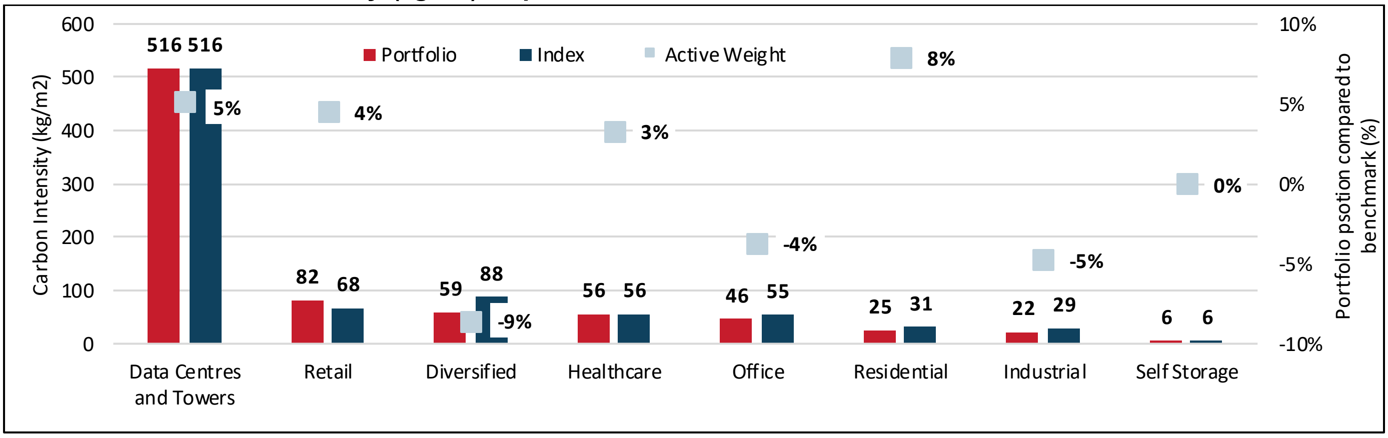
Carbon intensity (kg/m²)



Source: ResCap, GRESB, Bloomberg, company disclosure, 31 December 2023
Index: FTSE EPRA NAREIT Developed Index

The carbon emissions intensities of our Portfolio can be attributed to a combination of sector positioning and stock selection. Over the quarter the significant increase in area-based carbon intensity, shown on the chart above to the right, can be attributed to a further increase in our Data Centres and Towers sector positioning, which remained our second largest overweight sector. The Portfolio's largest overweight sector position was again the Residential sector, contributing to mitigating the increase in Portfolio carbon emissions, as the average carbon intensity for this sector is 25.2kg CO_2/m² versus 30.6kg CO_2/m² for the index. The Retail sector remained the only sector where our Portfolio had a higher carbon intensity than the benchmark (82.8kg CO_2/m² vs 67.8kg CO_2/m²). The Portfolio had lower carbon intensities for all other sectors, with the Diversified and Residential sectors having the largest differences compared to the index.

Sector based carbon intensity (kg/m²) of portfolio vs index



Index: FTSE EPRA NAREIT Developed Index, 31 December 2023

The most significant impact on the Portfolio's area-based carbon intensity was the increasing holdings in the Data Centres and Towers sector, increasing positions in Digital Realty Trust (DLR) and Equinix (EQIX). The chart above shows the carbon intensive nature of this sector. While new positions and increases in existing positions this quarter positively impacted the portfolio's carbon intensity (URW, VTR, BYG, CUBE and TEG), there were also decreases in existing positions, and exiting some positions, that increased the portfolio's carbon intensity (REXR, EQR and PSA).

Proxy Voting

In the three months to 31 December 2023, Resolution Capital voted on 27 resolutions at shareholder meetings and voted against 2 resolutions. Note that in all cases where we intend to vote against resolutions, we communicate our rationale to the company ahead of the vote.

Proxy voting overview	
31 December 2023	**Vote statistics**
Meetings	3
Resolutions	27
Voted For	25
Voted Against	2
Other Significant	0
Abstained	0
No Action	0

Votes against management

Sun Hung Kai (16-HK)

In November we voted against two resolutions at SHK's AGM. One related to the issuance of equity securities and the other reissuance of repurchased shares.

SHK had proposed to issue capital without pre-emptive rights and did not disclose the discounted price or the specific use of the funds. Hong Kong listing rules allows companies to issue equity at a maximum discount to market prices of 20%. Since there was no specified discount limit for this issuance, we voted against this resolution.

We voted against the resolution to reissue shares that had been repurchased by the company given this would cause the aggregate share issuance without pre-emptive rights to exceed the recommended limit of 10% at 20% of total issued shares.

Both of these resolutions were passed at the AGM. However, there were significant votes against both at approximately 22% for these resolutions.

Corporate engagements

One of our engagements this quarter was with a U.S. based Health Care REIT called Healthpeak. We contacted Healthpeak to discuss their plans, if any, for implementing a net zero carbon reduction target since they do not currently have a long term carbon reduction target in place.

Healthpeak has a strong track record of sustainability leadership, being one of the first health care REITs to set a Science Based Targets Initiative (SBTi) certified target. They currently have a target to reduce emissions by 37.5% over 2018 levels by 2033.

During this discussion the company said that they are in the process of reassessing their sustainability strategy after the acquisition of another U.S. health care REIT, Physicians Realty, to integrate the new portfolio and set sustainability performance. As part of this reassessment, they are looking at building on their current sustainability performance through focusing on deep decarbonisation initiatives, electricification of its buildings and setting a net zero target.

During this process, they have reported facing similar challenges to other REITs we have engaged with about net zero targets. These challenges include access to tenant utilities data to determine Scope 3 emissions, generating onsite renewable energy and costs of retrofitting existing buildings to be fully electric.

Healthpeak is working to overcome these challenges through engaging with tenants on the benefits and necessity of energy efficiency initiatives, even if they come with additional costs, and the use of Green Lease clauses in tenancy agreements to allow for data sharing and passing through either some or all of the costs of upgrades.

In terms of increasing its share of renewable energy consumption, installing solar panels on their buildings can be difficult due to the amount of equipment already present, other options being explored include procuring green electricity products from utilities, participating in community solar projects and potentially making use of car parking structures for solar panels.

While they have seen some tenant demand for fully electric buildings, the usual difficulties of equipment and infrastructure replacement costs, as well as back up power reliability requirements mean that electrification will be a building by building assessment.

We are encouraged by this continued focus on improving sustainability performance by Healthpeak, especially with the integration of the Physicians Realty portfolio, and their continued development of the necessary requirements for achieveing net zero targets, such as electrification, renewable energy use, energy efficiency initiatives related tenant engagement and deep energy efficiency retrofits.

Contact Details

Morgan Ellis
ESG Analyst
Email: morgan.ellis@rescap.com

Andrew Parsons
CIO - Portfolio Manager
Email: andrew.parsons@rescap.com

Resolution Capital Limited
Tel: +61 2 8258 9188
Email: clientservices@rescap.com