



**Resolution Capital Limited**  
**Climate Change Policy**

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# 1. Introduction

This policy has been approved by the Resolution Capital Limited (the Company, we, our) Board and should be read together with the Company's Responsible Investment, Engagement and Proxy Voting Policies. These Policies can be found on our website: [ESG - Resolution Capital \(rescap.com\)](https://www.rescap.com)

Environmental, Social and Governance (ESG) considerations are an integral part of the Company's investment philosophy and are incorporated in stock analysis. We believe that strong ESG practices benefit the broader community and are additive to performance, ultimately rewarding investors through superior investment outcomes.

This policy outlines our climate change risk framework, drawing on the recommendations of the Taskforce for Climate – Related Disclosures (TCFD), and our assumptions for our analysis of climate related risks and opportunities. Our annual Climate Risk Report highlights our climate-related investment research, integration efforts and relevant climate change related portfolio metrics and can also be found on our website: [Climate Risk Report 2023](#)

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. To achieve this, the global economy needs to be net zero carbon emissions by 2050. We believe that 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 significant risks for those companies and assets that cannot and may have stranded asset risk

## 2. ESG Governance and Oversight

Resolution Capital's ESG Governance Framework outlines how ESG and climate change-related issues are governed and taken into account. The Framework covers all aspects of company operations from the Board level to the Investment Team.

The Resolution Capital Board is ultimately responsible for approving all policies.

The Resolution Capital investment team is responsible for the day-to-day integration of ESG and Climate Change risks and opportunities into the investment process.

Resolution Capital's ESG Committee was established 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 ESG Committee meets at least quarterly. The Committee is made up of 8 staff from across the business including:

- Managing Director
- Head of Operations
- Head of Client Services
- Portfolio Manager
- Head of ESG
- Head of Quant
- GREITs Investment Analyst
- Global Listed Infrastructure 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.

## 2.1 ESG Governance Framework

### Board level oversight

- Commitment to ESG and addressing climate-related risks
- The Board meets quarterly and approves all our policies
- Policies are reviewed at least annually
- Commitment to the Principles of Responsible Investment and UN Global Compact

### Company

- Commitment to be carbon neutral in operations
- ESG Committee led by Head of ESG reports to Managing Director, who reports to the Board
- Partnerships with Charities
- Signatory to the PRI and UN Global Compact
- Corporate volunteering

### Investment Team

- Incorporation of ESG considerations into the investment process and stock initiations
- Proxy Voting
- Engagement with investee companies
- ESG related KPIs for investment staff

## 3. Integration into investment process

### 3.1 Climate-related Risks and Opportunities

Resolution Capital considers a reasonable investment horizon for investment in our 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 to take advantage of these drivers, or the potential for assets to become stranded if sufficient investment is not made to stay ahead of these changes.

### 3.2 Short Term Transition Risks < 5 years

Risk	Focus	Global REITs	Global Listed Infrastructure
<b>Regulations</b>	Carbon pricing and carbon reduction focused legislation that can lead to increased operating costs, loss of value and stranding of carbon-intensive assets	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.	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
<b>Market Preferences</b>	Increasing customer demand for less carbon intensive products and services, reducing demand for browner assets and stranding assets that cannot meet these market signals	This may include tenants of the properties owned / managed by the REITs in which we invest choosing to rent space in buildings which align with their own sustainability goals, particularly in relation to their carbon reduction targets.	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.
<b>Technology</b>	The increasing availability of lower carbon intensive technologies can reduce demand for high carbon intensity products and services, leading to demand reduction and stranding of assets that cannot be sufficiently upgraded	Understanding how companies are adapting to these technology changes by investing in the decarbonisation of their portfolios. Efficiently integrating new technologies also comes with increased costs and challenges.  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.	While there are many decarbonisation technology options readily available for Utilities now, many other GLI sectors, such as Railroads and Airports, will be reliant on new and emerging technologies that are not yet readily available or commercially viable.
<b>Reputation</b>	Companies seen as laggards in transitioning to a low carbon economy, or who fail to consider this transition, can risk losing market share and eventually its social license to operate.		

### 3.3 Longer Term Transition Risks > 5 years

Risk	Focus	REITs and Global Listed Infrastructure
<b>Regulations</b>	Carbon reduction focused legislation that can lead to increased operating costs, loss of value and stranding of carbon-intensive assets	<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 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>
<b>Market Preferences</b>	Increasing customer demand for less carbon intensive products and services, reducing demand for browner assets and stranding assets that cannot meet these market signals	
<b>Technology</b>	The increasing availability of lower carbon intensive technologies can reduce demand for high carbon intensity products and services, leading to demand reduction and stranding of assets that cannot be sufficiently upgraded	
<b>Reputation</b>	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.	

### 3.4 Physical Climate risks

Risk	Short Term <5 years	Longer Term (> 5 years)
<b>Acute</b>	<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>As extreme weather events become more frequent and intense, companies in both the global REITs and GLI 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>

Risk	Short Term <5 years	Longer Term (> 5 years)
Chronic		<p>For our global REIT 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>

### 3.5 Climate change-related opportunities

Opportunity	Focus
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>

Opportunity	Focus
Resilience	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.
	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.

## 4. Risk Management

### 4.1 Identification of Climate-related risks or opportunities

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.

### 4.2 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 companies that do not have carbon reduction targets consistent with the goals of the Paris Agreement of 2015 (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. We also identify whether there are plans to rectify any shortfall in disclosures, or whether there are emissions reduction targets and how they will achieve them.

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.



## 5. Metrics

We collect and use a range of ESG and climate change-related metrics to identify and assess risks and opportunities presented by the impacts of climate change. These metrics help us to identify companies, or sectors, in our portfolios with higher than peer average exposure to carbon-related risks or those who do not have decarbonisation plans aligned with the Paris Agreement in place. This allows us to identify companies for further analysis or engagement.

We collect key carbon emissions metrics recommended by the TCFD, as well as the proportion of our portfolios with carbon reduction targets across all our funds. We report these metrics both internally and externally through our Quarterly and Annual ESG reporting.

- **Weighted Average Carbon Intensity (tCO<sub>2</sub>/US\$1m Revenue)**
  - We have taken a weighted average of each company's revenue-based Scope 1 and 2 carbon emissions intensity according to their proportionate positioning in each portfolio.
- **Carbon Footprint (tCO<sub>2</sub>/\$1m invested AUD)**
  - 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 Scope 1 and 2 carbon emissions to our holdings
- **Total Carbon Emissions (tCO<sub>2</sub>)**
  - We have calculated the absolute Scope 1 and 2 carbon emissions associated with our portfolios
- **Proportion of portfolio with carbon emissions reduction targets**
  - We measure the coverage of companies that have short – , long – term carbon emissions targets, or net zero emissions targets.