RESOLUTION CAPITAL

QUARTERLY ESG AND STEWARDSHIP REPORT

GLOBAL REAL ESTATE SECURITIES STRATEGY

SEPTEMBER 2023

ESG Commentary

UK Government announces changes to Residential EPC targets

Last quarter we wrote about the Minimum Energy Efficiency Standards (MEES) legislation that was introduced to improve the energy performance of buildings, requiring a property to obtain a given level of Energy Performance Certificate (EPC) to be leased or sold. The MEES legislation required minimum EPC ratings that increased in 2028 and then again in 2030, requiring significant increases in energy efficiency performance at both stages.

On 20th September, the UK Prime Minister, Rishi Sunak, announced several changes to the country's pathway to net zero emissions by 2050. One target that was rescinded related to the minimum EPC target and phase out of gas boilers for private residential landlords. PM Sunak stated that this was done to ease the upfront cost burden of private landlords, who were facing significant costs to retrofit their properties. However, the UK Labour party has stated that they would reinstate this target if they were to be elected next year. For the moment, the minimum EPC targets for commercial properties remain unchanged.

We also noted that, although the final deadlines and targets had not yet been legislated and could be subject to changes in government, tenants of commercial real estate would seek properties that will help them to achieve their own net zero targets. So, even without legislated EPC targets and deadlines, there is still likely to be significant tenant demand for properties that are sustainable and have high levels of energy efficiency performance.

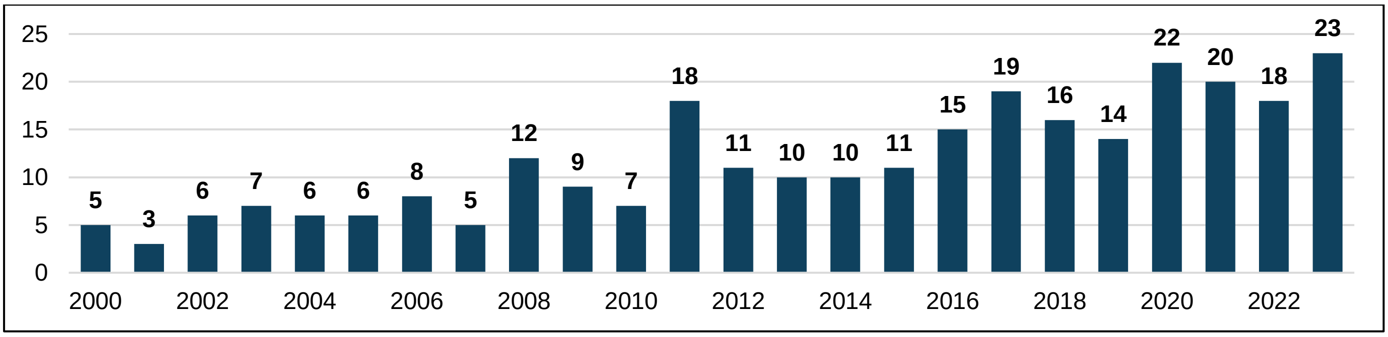
US property insurance issues intensify with climate impacts and cost increases

This year has seen an increasingly tough environment for property insurance, both from the perspective of insurers and their customers. The increasing frequency and impact from climate events, such as hurricanes or wildfires, combined with increasing reconstruction costs due to inflation in the construction supply chains have impacted the ability of insurance companies to provide profitable policies for properties in several US states. Hurricane Ian in Florida in 2022 and regular wildfires in California have made insurance policies covering these climate risks increasingly unprofitable in these states, even with significant increases in premiums, making properties in some areas uninsurable.

This situation has been particularly acute in Florida and California, with several insurers declaring bankruptcy or publicly ceasing to offer new policies or renew existing ones. In California, the increasing impact of wildfires have meant that large insurers State Farm and Allstate have ceased offering new homeowner insurance policies in the last 12 months due to increasing construction costs and rapidly growing exposure to extreme weather events, particularly wildfires.

The cost of natural disasters has been increasing as there are more frequent climate events, as well as an increase in the value of properties/ population in disaster hit areas. The number of natural disasters in the U.S. that has caused at least $1 billion damage has been increasing since 2000, as shown in the chart below.

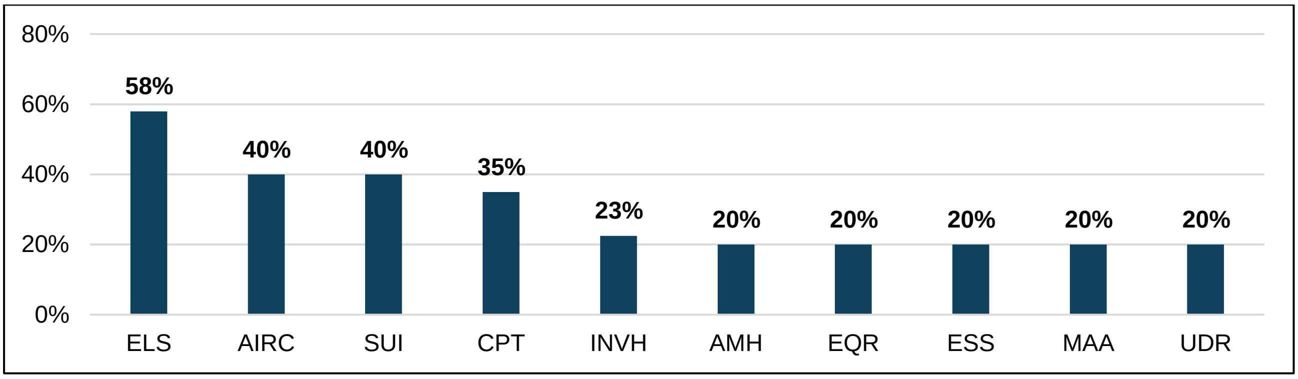
Number of climate events causing more than $1 billion USD damage per year in the United States



Source: National Oceanic Atmospheric Administration, October, 2023

While these increasing insurance costs are expected to impact all property types, residential landlords are less likely to be able to pass these costs on to their tenants compared to other property types. Multifamily REITs, manufactured housing and single-family REITs in particular are facing increasing costs that they might not be able to continue passing through to tenants. Information taken from earnings calls this year suggests that these increases are not immaterial. The chart below shows the most recent insurance renewal increases, as disclosed by these companies in annual earnings calls during 2023.

FY23 insurance renewal cost increases for select Residential REITs



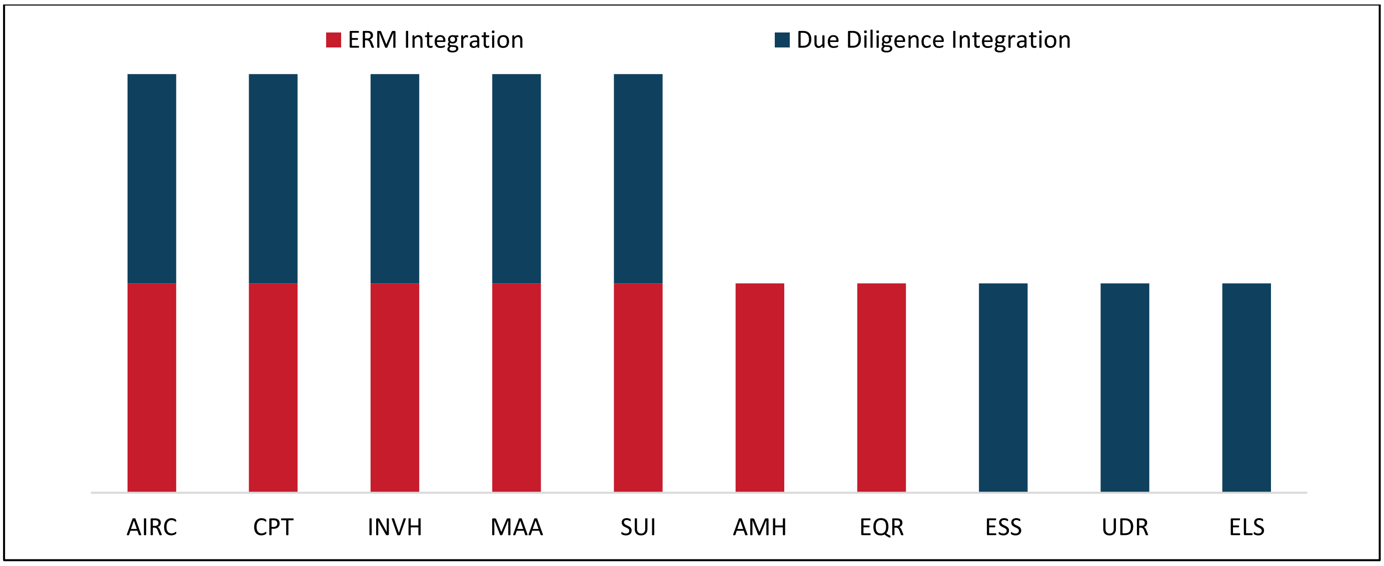
Source: Morgan Stanley, company disclosure, September 2023

There are several options open to REITs to mitigate these costs and supplement their insurance coverage in the short term. Morgan Stanley analysis[1] in September 2023 outlines two additional insurance options to supplement the use of a 3rd party insurer that U.S. based REITs are exploring: self-insurance or creating their own insurance company, called a "captive insurer[2]". These options can work in the short term and go some way to providing additional coverage for rapidly rising insurance costs.

In a conversation with Invitation Homes (a U.S. based single-family REIT) this quarter we asked about how they have dealt with these increasing insurance costs. They mentioned that they were exploring the creation of a captive insurer and will look to least supplement part of their insurance needs, as they understand the process and how they can benefit from this structure.

In terms of combating the impact from climate risks on these increasing costs, it will be important for companies to understand and mitigate the risks they face from their current portfolios, as well as from any properties or communities that they acquire. Using information from the 2023 GRESB Assessment, the chart below shows whether physical climate risk assessments are included in a company's Enterprise Risk Management (ERM) processes and in their due diligence practices for assessing potential acquisitions.

Incorporation of physical climate risk management into company risk management practices



Source: GRESB, company disclosure, August 2023

The companies having physical climate risk assessments integrated into both their Enterprise Risk Management systems and into their due diligence processes for assessing the climate risk of acquisitions (AIRC, CPT, INVH, MAA and SUI) will be able to monitor current risk exposures and ensure that they avoid adding to their risk exposure through property acquisitions.

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[1] "REIT Re? Assessing REITs' Insurance Options", Morgan Stanley Research, September 2023

[2] A "captive insurer" is a wholly owned subsidiary insurance company.

Portfolio Metrics

GRESB Score Update

The table below summarises the end of September 2023 Global Real Estate Sustainability Benchmark (GRESB) scores for the Global REIT portfolio. GRESB update their scores annually and consider a range of environmental, social and governance (ESG) factors. Consistent with previous quarters, the Portfolio GRESB score was slightly below the FTSE EPRA NAREIT Developed Index, against which the Portfolio is benchmarked.

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 89.1 (out of 100) compared to 85.8.

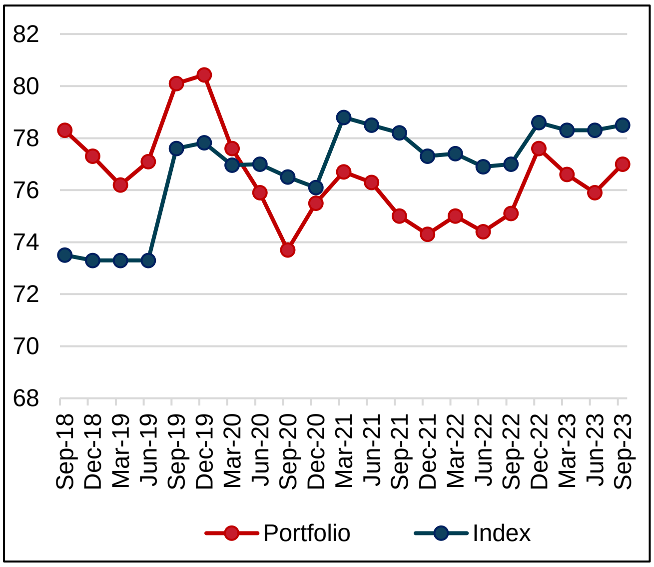
GRESB Coverage shows the proportion of companies reporting into GRESB and can show companies at the beginning of their ESG integration journeys, which typically leads to lower overall GRESB scores. Our Portfolio again has higher coverage than the FTSE EPRA NAREIT Developed Index, at 76.1% compared to 69.9%.

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 30 September 2023						
	GRESB Score Jun '23	**GRESB Score Sep '23**	**Environmental**	**Social**	**Governance**	**Public Disclosure Score**
Portfolio	75.9	77.0	66.7	93.2	94.6	89.1
Index	78.3	78.5	69.3	92.5	94.5	85.8
Difference	*-2.4*	*-1.5*	*-2.6*	*1.3*	*0.1*	*3.3*

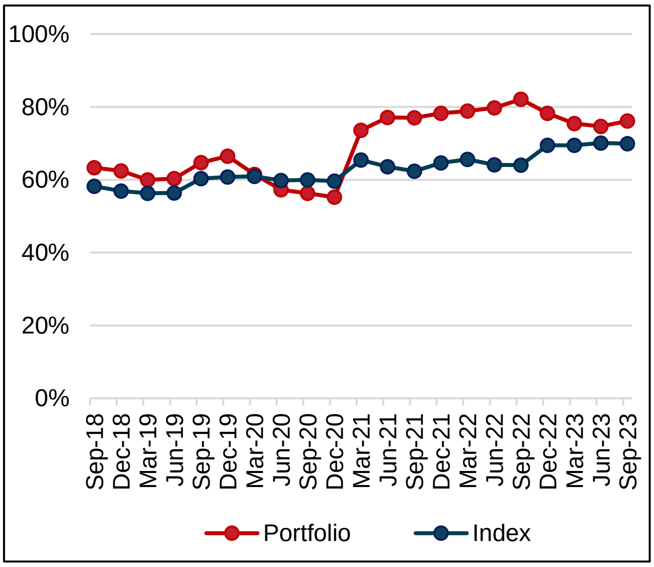
Whilst our Portfolio GRESB coverage is higher than the index, we continue to focus our engagements with Portfolio holdings that do not report to GRESB and encouraging them to report to GRESB as an industry standard for ESG assessment.

Weighted average GRESB score



Source: ResCap, GRESB, 30 September 2023

Weighted average GRESB coverage

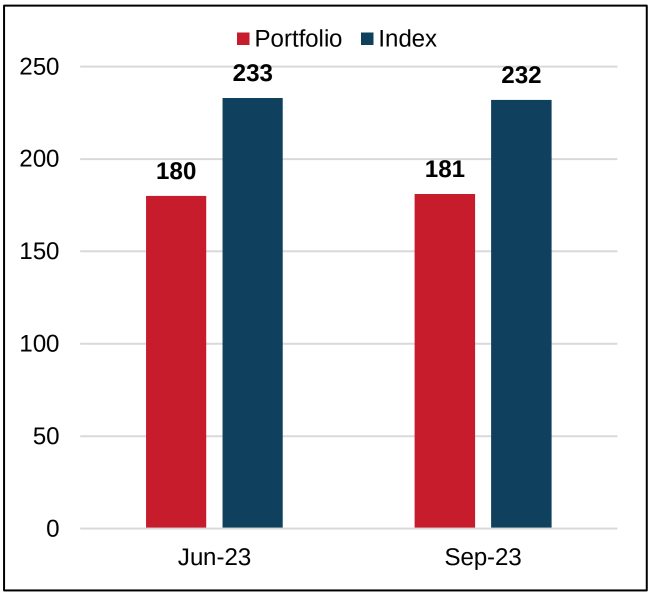


Source: ResCap, GRESB, 30 September 2023

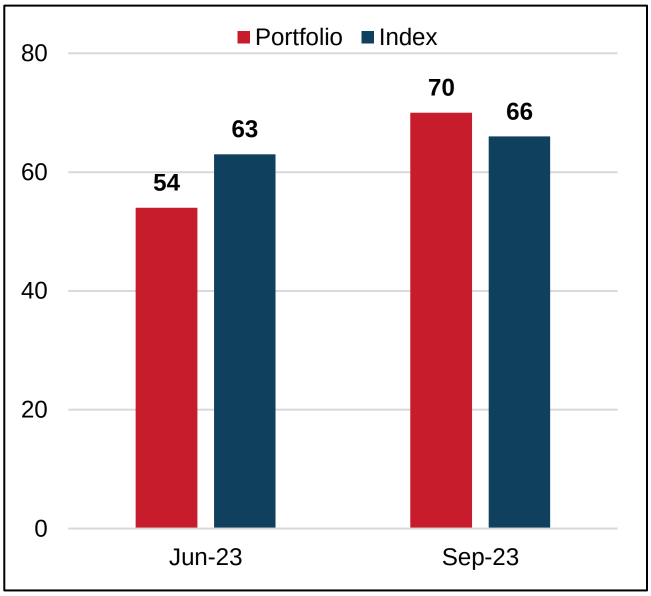
Carbon Emissions

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 30 September 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)



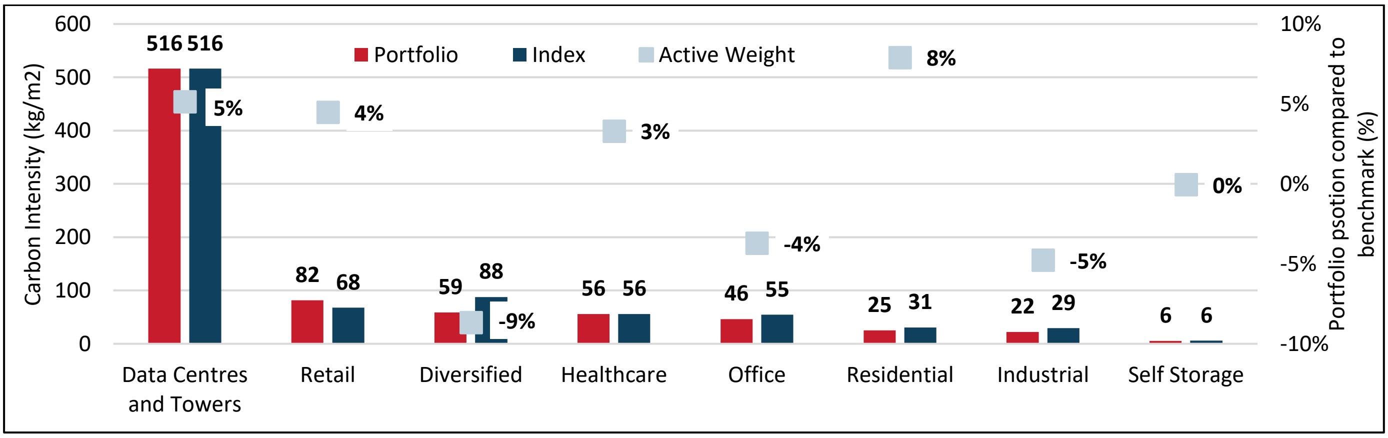
Carbon intensity (kg/m²)



Source: ResCap, GRESB, Bloomberg, company disclosure, 30 September 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 mainly attributed to the increase in our Data Centres and Towers sector positioning, which at the end of the quarter had become our second largest overweight sector. The Portfolio's largest overweight sector position became 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/m^2 versus 30.6kg CO_2/m^2 for the index. The Retail sector remained the only sector where our Portfolio had a higher carbon intensity than the benchmark (82.82kg CO_2/m^2 vs 67.82kg CO_2/m^2). 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, 30 September 2023

The most significant impact on the Portfolio's area-based carbon intensity was the increasing holdings in the Data Centres and Towers sector, with the increase focused on Digital Realty Trust (DLR). 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 (WELL, 8802, PEAK, VTR, BLND and LAND), there were also decreases in existing positions that increased the portfolio's carbon intensity (O, REXR, EQR and PSA).

Proxy Voting

In the three months to 30 September 2023, Resolution Capital voted on 40 resolutions at shareholder meetings and voted against 3 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	
30 September 2023	**Vote statistics**
Meetings	3
Resolutions	40
Voted For	37
Voted Against	3
Other Significant	0
Abstained	0
No Action	0

Votes against management

Link REIT (Link)

At Link's AGM in July 2023, we voted against the reelection of the three existing directors.There were four directors being nominated at this AGM, with three being reelected and one being nominated for the first time.

We voted against the reelection of the incumbent directors due to, what was in our view, poor business judgment in the oversight of a share rights issue that was announced in February 2023. We viewed this rights issue as being unnecessary and destructive of shareholder value. We also note that the issuance was not put to a shareholder vote and so we were not able to register our views on the issuance through a dissenting vote.

These three directors were all reelected with two receiving over 90% votes for. However one director, Nicholas Allen, received 12.3% votes against, which is a notable level of dissent for director reelections.

Corporate engagements

As part of our Modern Slavery focused engagement over the last quarter, we engaged with Equinix on their policies and practices to identify and mitigate modern slavery and forced labour risks in their supply chain. Equinix is a U.S. based, multinational Data Centre REIT, and we chose them for engagement due to their multinational footprint, particularly their locations in Africa, which can represent higher levels of modern slavery related risks than the developed markets that some of our other holdings operate in.

As a reminder of our focus with these engagements, we asked companies the following questions:

1. How are you addressing modern slavery, or forced labour, risks through your procurement of goods and services?
2. Do you engage or collaborate with your suppliers beyond requiring compliance with a vendor code of conduct, or similar, document?
3. Do you have any training or capacity building programs for employees, suppliers, and subcontractors to raise awareness of forced labour risks and promote responsible business practices?
4. Have you developed accessible whistle-blower / grievance mechanisms to address human rights issues raised by workers or other affected stakeholders?
5. Are you taking any other steps to minimise these risks in your supply chains?

We feel that Equinix had a strong response to our engagement questions and did not think that they required any follow up calls for clarifications at this point. A summary of their response is below.

They have senior management level oversight of their Human Rights program with the Senior Director of Supply Chain ESG, reporting to the Chief Procurement Officer being responsible for this program.

Their Human Rights program has six key focus areas: Assessment; Strategy; Policy; Supplier Selection & Contracting; Supplier Risk Assessment and Monitoring; and Reporting, Investigation and Remediation.

In addition to the requirements of their supplier contractual obligations and the Equinix Business Partner Code of Conduct, that include requirements to comply with their labour and anti-modern slavery requirements, their Supplier Risk Management program identifies higher risk suppliers, based on their location in high-risk areas that may have weak human rights laws. These higher risk suppliers are then engaged to find out more information and those that are then found to have elevated levels of risk can be subject to corrective action plans and regular follow ups to ensure compliance.

Equinix also provides annual training on its Code of Conduct and Anti-Bribery and Corrpution policies to its direct employees. The modern slavery and human rights components of its Supplier Code of Conduct are communicated to suppliers, their sub-contractors and other agents that act on Equinix's behalf. This is done during the onboarding of a supplier and as well as part of the monitoring and evaluation of a supplier's ongoing performance.

The company has also established whistleblower and ethics and compliance hotlines to assist in the reporting of Code of Conduct violations, which includes modern slavery matters. Access to these hotlines is offered to all of the company's stakeholders and is available in 20 languages with 24/7 availability.

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