RESOLUTION CAPITAL

QUARTERLY ESG AND STEWARDSHIP REPORT

REAL ASSETS STRATEGY

JUNE 2023

ESG Commentary

A-REIT Residential developers prioritising solar generation to reduce Scope 3 emissions

As a quick refresher on carbon emissions, they are categorised into three Scopes:

- **Scope 1** emissions are those emissions that are caused by an entity's direct actions (for example using gas boilers for heating or using diesel fuel in company cars);
- **Scope 2** emissions are those indirectly caused by an entity's use of electricity generated offsite by their operations; and
- **Scope 3** emissions are broadly split into Upstream emissions, which are caused during the construction phase of a building (this is also referred to as Embodied Carbon) and Downstream emissions, which are caused by the use of the products a company sells by the purchaser of that product (ie the occupiers or tenants' use of electricity in that property).

The leading A-REITs have largely dealt with their Scope 1 & 2 carbon emissions through net zero targets with deadlines between 2030 and 2050 and are now turning their attention to reducing their Scope 3 emissions. These emissions are caused by the initial construction of the property and the end use by the occupants of completed development, Combined, these activities can represent up to 80% of a property's total life carbon emissions. A-REITs with exposure to development of residential property are approaching this from two main angles: constructing energy efficient properties that use much less electricity in operation; and increasingly through the use of onsite solar generation systems.

In terms of reducing Downstream Scope 3 emissions, the inclusion of solar systems on the residential properties they sell, combined with increasing energy efficiency, allows the occupants of these properties to reduce their reliance on electricity from the grid, increasing the proportion of low carbon electricity consumption and therefore lowering carbon emissions for both the occupier (Scope 2 emissions) and the developer (Scope 3 emissions).

During the quarter we had discussions with three AREIT residential developers, Mirvac, Stockland and Ingenia, about how they are prioritising the inclusion of solar systems in their new and existing developments. Their feedback was that their intention was to include solar systems as part of all their new developments. In cases where they might not include it as standard, due to potential financing or construction cost pressures, they are offering it as an additional option whilst also including the internal wiring to accommodate solar systems and batteries in the future.

These companies also mentioned education and engagement programs for purchasers to provide better information about the benefits of solar systems in terms of reduced electricity bills and lower personal carbon footprints, since it might not necessarily be something that has an immediate visible impact over an item like a stone kitchen bench. While there were discussions about slower take up in the short term in some of their developments due to increasing costs in financing and construction, they are also experiencing strong demand drivers due to increasing electricity costs and consumer interest in personal carbon footprints, leading to an overall increasing proportion of new settlements with solar systems added as standard.

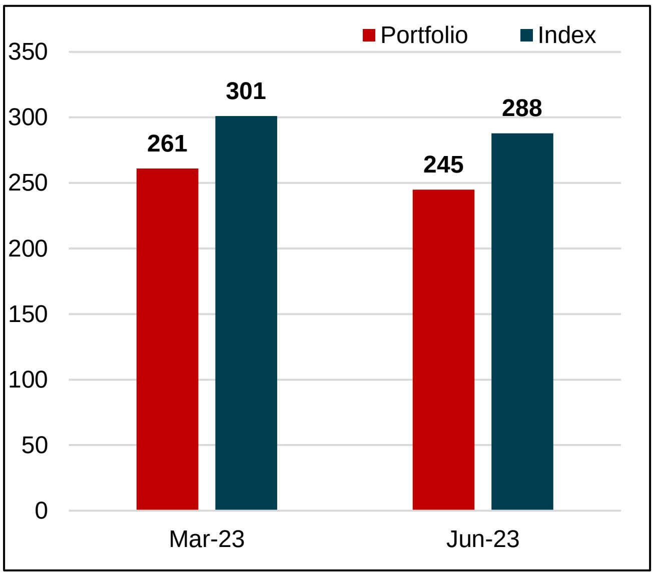
Separately, we have also discussed other health related impacts that can arise from construction decisions, including the installation of gas stovetops, leading to increased indoor air pollutants and potential respiratory issues, and the use of engineered stone benchtops, which can expose construction workers to the risks of silicosis. In terms of gas stovetops, all three of these REITs are exploring how to expand fully electric development options across their developments, such as using induction stovetops, also aiding in their decarbonisation efforts, as described above. In terms of reducing risks of silicosis, there are construction safety guidelines to reduce these risks to workers set by the companies, as well as safety requirements set by state level safety regulations. Additionally, due to the seriousness of the risk this poses to construction workers, the Australian Federal Government is also currently considering an import ban on engineered stone products, with a decision on a potential ban expected towards the end of 2023.

Portfolio Metrics

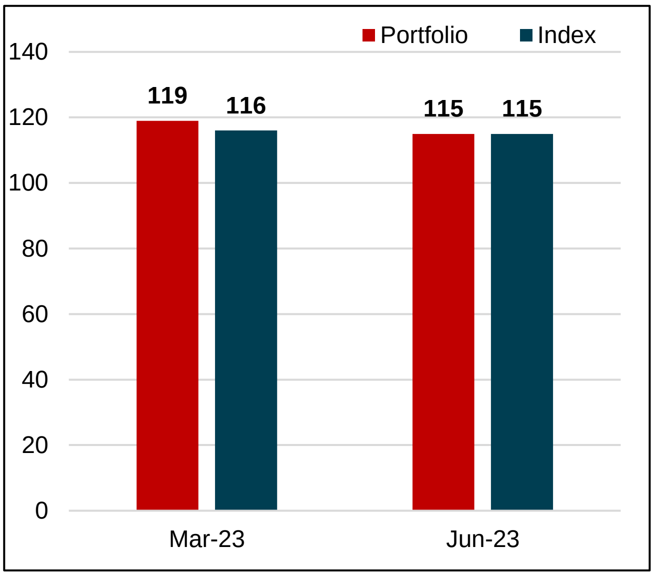
Carbon Emissions

The carbon emissions and carbon intensity of the Portfolio versus the index are monitored and measured on a quarterly basis from data sourced from the GRESB[1] company assessments, MSCI, Bloomberg and company disclosures. The charts below illustrate the carbon intensity of the Portfolio versus the index[2] as of 30 June 2023. While the Portfolio's carbon intensity is lower than the index on a revenue basis, it is in line with the index on an area basis. The area based carbon intensity for the portfolio is slightly higher than the index due to overweight positions in several retail REITs (particularly Scentre Group, Vicinity Centres and Region Group). Retail REITs are typically more carbon intensive than other property types due to a number of factors, including high interior and exterior lighting density, increased demands on central air conditioning from more open spaces and increased interior lighting levels, and from cooking and refrigeration activities.

Carbon intensity (Ton/US$1m Rev)



Carbon intensity (kg/m²)



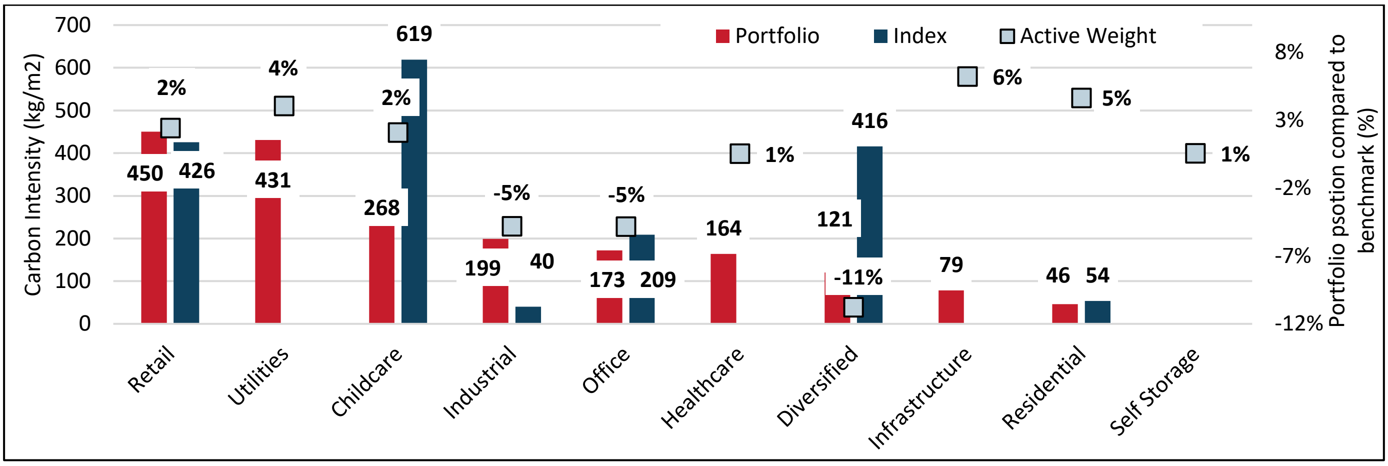
Source: ResCap, GRESB, Bloomberg, company disclosure, June 2023
Index: S&P ASX300 / A-REIT constituents

The Portfolio's carbon emissions intensity on a revenue basis below that of the index can be attributed to a combination of sector positioning and stock selection in the portfolio. The chart below shows the revenue-based carbon intensity for the different sectors covered by the portfolio and the index. The largest Portfolio overweight sectors are the Infrastructure and Utilities sectors, given they are outside the ASX300/ A-REIT index, and the Residential sector. Stock selection within the overweight positions in the Residential (4%) and Childcare (2%) sectors, as well as in the large underweight position in the Diversified sector (-12%), have resulted in lower carbon intensities.

[1] GRESB is the Global Real Estate Sustainability Benchmark, an independent organization providing validated ESG performance data and peer benchmarks for investors and managers to improve business intelligence, industry engagement and decision-making

[2] Index is the S&P ASX300 / A-REIT

Sector based carbon intensity (Ton/US$1m Rev) of portfolio vs index



Index: S&P ASX300 / A-REIT constituents, June 2023

Increased positions this quarter have contributed to a reduction in carbon emissions intensity particularly in Goodman Group, Mirvac and Stockland, as have new positions in U.S. listed REITs Kilroy Realty, Avalon Bay Communities and Essex Property Trust. However, increasing positions in utilities SSE and Terna Group partially offset this reduction.

Proxy Voting

In the three months to 30 June 2023, Resolution Capital voted on 144 resolutions at shareholder meetings and voted against 9 resolutions this quarter. 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 June 2023	Vote statistics
Meetings	12
Resolutions	144
Voted For	135
Voted Against	9
Other Significant	0
Abstained	0
No Action	0

Votes against management

Scentre Group (SCG)

Scentre Group held its AGM in April and had another contentious director election proposal in Steven McCann.

We voted against the election of Steven McCann based on his track record as CEO at Lendlease including poor strategic decisions made in relation to its construction business and when disclosing information about problems in the division, the company's response was characterized by delay and a general lack of transparency. In the lead up to this vote we contacted the Chairman to inform him of this view.

Despite our opposition to this election and some misgivings of proxy advisors, this resolution was passed with only 5.5% of shares being voted against the proposal.

Cellnex Telecom SA (CLNX)

At CLNX's AGM in May, we voted against their remuneration resolution.

Last year we voted AGAINST CLNX's remuneration plan due to a booster provision in the LTIs that if company performance was sufficient to trigger it could lead to a maximum 5x multiplier for CEO pay. This part of the CEO's remuneration plan faced significant shareholder dissent and CLNX engaged widely with stakeholders to identify areas for improvement. There was a 36.8% AGAINST vote for the remuneration plan at the last AGM.

As a result of this engagement, the company has removed the booster component from the LTI from this year's remuneration plan. However, even with a change in CEO during the last 12 months, the company has maintained a similar exceptional performance component to the LTIP that is similar in size to the contented booster from last year, leading to a maximum potential LTI opportunity of 610% of target.

Despite its engagement with stakeholders, the company still faced significant opposition to the remuneration report with 36% of shares voting AGAINST the resolution.

Shaftesbury Capital (SHC)

In the company's AGM on 15th June, we voted against the remuneration policy and report, as well as the reelection of all directors from Shaftesbury PLC's board.

We voted against the remuneration resolutions, as the 2023 remuneration policy allows the remuneration committee to apply discretion in unforeseen events and control changes. Additionally, the overall quantum of the compensation proposed in the remuneration report screens as excessive, given Capital & Counties Properties PLC's (CAPC, now SHC) poor historical shareholder return performance relative to its peer group over the last decade. The long-term incentive vesting percentages were not prorated, contrary to best practice. Additionally, the vesting percentages don't screen "fair and reasonable", considering CAPC's historical relative underperformance, which led to zero vesting from 2016 to 2021. We acknowledge the remuneration committee has made some welcomed changes, including deferring part of the cash bonus into shares.

We voted against the six directors that were to be re-elected from the legacy Shaftesbury PLC's board (J. Nicholls, C. Ward, R. Akers, R. Anderson, A. Steains and J. Tilling). This reflects our judgement that the SHB Chair and board members did not achieve acceptable merger terms for SHB's minority shareholders. We communicated our position regarding the merger in a letter to the company's management in July 2022.

All of the SHB directors were re-elected with between 96%-98% of shareholders voting FOR. The Remuneration Policy and Report were both passed with 89.2% and 91.5% votes FOR, respectively.

Prologis (PLD)

We voted against Prologis' Remuneration Report at their annual meeting in May 2023. We appreciate and welcome the changes Prologis has continued to make to its executive compensation programs and has undertaken engagements with its investors (in which we also took part), however, we felt that there were still a number of aspects of the compensation program that warranted a vote against the resolution.

In our opinion, the Long Term Incentive still awarded a significant percentage of the target award if Prologis underperforms is TSR benchmark relative to peers, particularly as an outcome of modest TSR performance hurdles in the LTI and Prologis Outperformance Plan (POP) schemes, which also includes an element of overlapping goals with the LTI scheme.

At the AGM, this resolution received 73% votes against. While this is an advisory resolution, Prologis will again have to engage closely with investors to bring their compensation plans in line with investor expectations.

Corporate engagements

During the quarter we spoke with several US based Single Family Home Residential REITs about how they are dealing with reducing the carbon emissions of their tenants/occupiers and to what extent they have considered deploying solar generation on their developments. We were particularly interested in whether this was something they had considered in their manufactured homes products, given the opportunities that prefabrication and standardized designs provided for inclusion of energy efficiency and solar generation systems.

Their uninspiring responses led us to approach leading A-REIT residential developers to see what their thinking was in this area.

Our discussions with Mirvac, Stockland and Ingenia about whether they are prioritising the inclusion of solar systems in their new and existing developments led to the discussions outlined in the beginning of this report.

They indicated an intention to include solar systems for all new developments and provide competitive options for inclusion as additional inclusions. These companies are also working on education and engagement programs with purchasers and existing tenants to better inform about the benefits of solar in terms of reduced energy bills and lower personal carbon footprints.

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