RESOLUTION CAPITAL

# Sustainability Report

November 2021

# A message from our Managing Director



To our stakeholders,

The Resolution Capital Board is aware that a changing climate brings both risks and opportunities for our business, and we're responding to both.

We continue to work on reducing our emissions across our supply chain. We are committed to reducing our environmental impact and as a firm have set a goal of being carbon neutral by the end of 2021, which we are well on our way to achieving.

We are also committed to ensuring that the investment portfolios that we manage on behalf of our clients and investors are well-positioned to meet the Paris Agreement target of net zero emissions by 2050, whilst ensuring that our long-held investment philosophy of investing in high quality stocks, strong balance sheets and aligned management is not compromised. In addition, our new Global Listed Infrastructure strategy specifically excludes companies that we believe will not be able to meet the Paris Agreement targets.

This report provides an update on our progress against our sustainability targets both within the business and for our clients and outlines our new targets for the coming year.

Sincerely,

Sonia Luton

Sonia Luton
Managing Director

# Our Business

# About us



Resolution Capital (ResCap) is a specialist investment manager focused on investing in the listed global real estate and listed infrastructure (real assets) securities.

Our approach to ESG is essentially twofold – in 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 / pension funds, pooled investment vehicles (available to both retail and wholesale investors), corporations and government entities from around the world.

**Board**

- Commitment to support the business to incorporate sustainable initiatives into business operations and monitoring Modern Slavery in the supply chain
- Responsible Investment, Proxy Voting, Engagement policies
- Commitment to UNPRI, UN Global Compact

**Company**

- ESG Committee
- Initiatives to lessen environmental impact of our operations
- Partnerships with charities
- Membership of GRESB
- Corporate volunteering

**Investment Team**

- Incorporation of ESG metrics into research/analysis
- Proxy voting
- Engagement with investee companies
- KPIs for investment staff

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# ESG Committee



The ESG Committee was established in 2019 with the aim of ensuring that sustainability practices were discussed more broadly within the business.

The team members are made up of:

- Managing Director
- Head of Operations
- Head of Client Services
- Real Assets/GLI Portfolio Manager
- Quantitative Analyst
- Investment Analyst

The focus of the committee has been on:

- Continuous improvement of ESG implementation in the research process – particularly with better data and disclosure becoming available
- Enhancement of ESG functions within our proprietary research database including assessment of data sources
- Enhancement of reporting on ResCap's sustainability related activities (particularly proxy voting and engagement)
- Expanding the knowledge base of all employees regarding ESG
- Providing an update on various sustainability-related regulatory requirements, including Sustainable Financial Disclosure Regulations (SFDR), EU Taxonomy requirements, and regulator focus on the presentation of ESG-related information in marketing materials.

The committee meets at least quarterly.

# Our Team

Our team of 26 is made up of investment professionals, middle office/operations staff and a dedicated client services team.

Policies in place to protect the safety and rights of our staff are approved by the Board and include:

- HR Policy (including Recruitment & Selection, Leave, Termination, Employee Behaviour & Grievance Resolution)
- Privacy Policy
- Workplace Health and Safety Program
- Code of Conduct (including anti-corruption and bribery, gifts and entertainment policy)

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# Diversity within ResCap

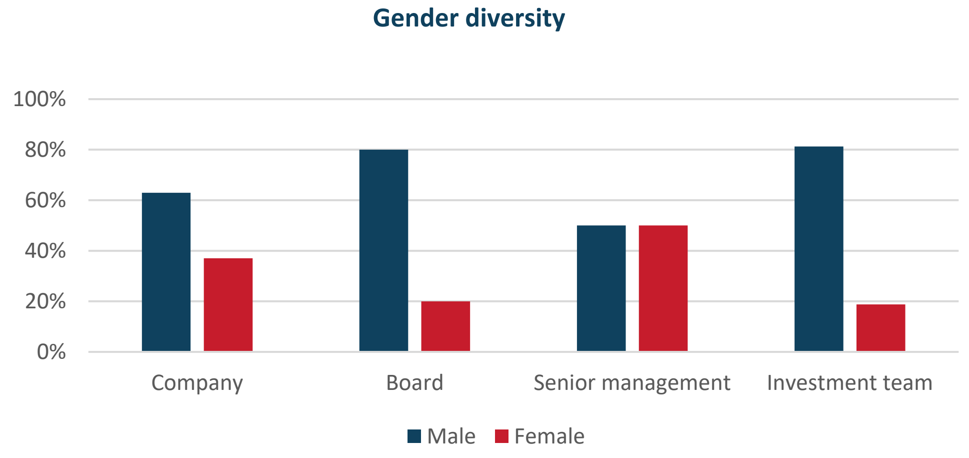


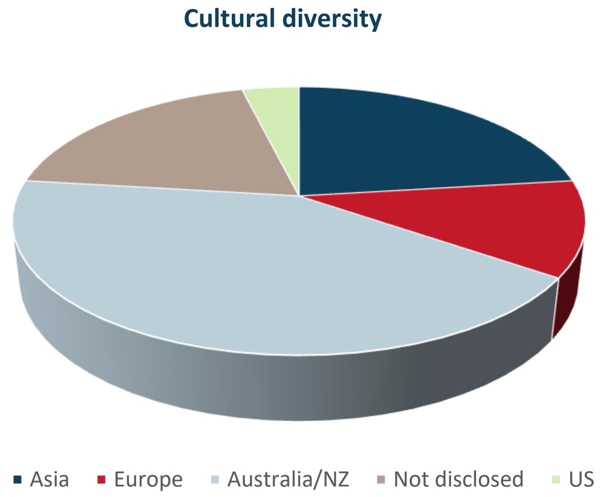
ResCap is an equal opportunity employer and believes that gender and cultural diversity leads to better engagement and decision-making by providing different perspectives and insights.

The Board has 20% female membership and the senior management team is made up of 50% female team members, including the Managing Director.

We are pleased to say that we have increased the female representation in the investment team during the last 12 months, with the addition of a female Portfolio Manager and an investment analyst.

ResCap is also participating in our business partner, Pinnacle Investment Management's Women's Graduate Program and an Internship Program, both of which are open to students who are close to finishing their university studies. ResCap is participating in the Internship Program in 2021 (after Covid hampered our ability to participate in 2020), and hopes to encourage female applicants into a career in real estate investment.

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# ESG Associations / memberships / commitments

Signatory of: PRI Principles for Responsible Investment

ResCap has been a signatory to the PRI (www.unpri.org) since 2010.
We are pleased with our result for 2020* which shows continued progress year on year, as well as versus our peers.

| Category | 2018 Score | 2019 Score | 2020 Score | 2020 Median |
|---|---|---|---|---|
| Strategy & Governance | A | A | A+ | A |
| Incorporation | A | A | A | A |
| Active Ownership | A | A | A | B |

*2021 results have been delayed by the PRI and are not available at the time of this report.

ResCap is also a member of GRESB (Global Real Estate Sustainability Benchmark) and we benchmark our portfolio GRESB rating versus the relevant portfolio benchmark's rating.

GRESB

In November 2019, ResCap became a signatory to the UN Global Compact which encompasses ten principles which focus on four key issue areas (human rights, labour, environment, and anti-corruption).

THE GLOBAL COMPACT
WE SUPPORT

RESOLUTION CAPITAL

# Modern slavery risk



ResCap is not a reporting entity under the Australian Modern Slavery Act, however we believe it is important to understand and mitigate the risk of modern slavery in our business and supply chain.

ResCap has policies in place which support the identification, assessment and mitigation of risks relating to modern slavery and human trafficking.

These include:

- Code of Conduct – workplace harassment, discrimination and bullying, anti-corruption, whistleblowing
- Worksafe Manual – provision of a safe workplace
- HR Policy – Recruitment, equal employment opportunity, victimisation
- Whistleblowing Policy
- AML-CTF Program (Sanctions Program)
- Responsible Investment Policy

In order to provide investment management services to our clients, ResCap procures services from a number of key suppliers including staff, property management (including cleaning services, electricity supplier), professional services organisations (such as auditors, insurance, lawyers), banks/financial institutions, shared services (Pinnacle provide IT, legal, regulatory compliance, distribution, finance). Other suppliers to the business include those providing stationary, food and beverage/kitchen supplies, office equipment, office furniture, and recruitment firms.

In order to assess modern slavery risk in the key suppliers, we reviewed (where available) Modern Slavery Statements issued by those companies on the Department of Home Affairs website. We also reviewed whether the companies published any other relevant reports or policies on their websites (such as Human Rights Policy, Code of Conduct/Ethics, Anti-Corruption Policy).

Modern slavery risk in the portfolios that we manage on behalf of clients is addressed later in this report.

ResCap partners with the Pinnacle Charitable Foundation (https://pinnacleinvestment.com/foundation/) to support charities with a focus on children, including providing education, medical research and supporting mental health.

During 2020/21, ResCap also made one-off donations to selected charities including hospitals in Australia and a charity providing hot meals in South Africa to support their work during the Covid pandemic (the charity was recommended to us by one of our clients).

The charities we support include:

- ***Yalari***
  - Provide trusted, quality educational opportunities for indigenous children by offering secondary education scholarships at leading Australian boarding schools to indigenous children from regional, rural and remote communities
  - Up to 50 scholarships offered annually to indigenous children who satisfy the selection criteria
  - Our contribution is directed towards the Orientation Program which brings together students in year 7 and 8 about to start their boarding school journey with those who have started/completed their education
  - In 2021 we also extended this support to sponsor a Rosemary Bishop scholarship for a year 7 student which will be continued into 2022
  - https://www.yalari.org/

Yalari Educating Indigenous Children®

- ***Children's Medical Research Institute (CMRI)***
  - For over 60 years, CMRI has been helping to save the lives of children through research into causes and prevention of children's genetic diseases and cancer
  - Our joint contribution assists with the purchase of cutting edge, vital equipment used across multiple departments including the Eye Genetics Unit and Cancer Research Labs
  - https://www.cmri.org.au/

CHILDREN'S MEDICAL RESEARCH INSTITUTE

Jeans for Genes®

- ***New in 2021 - Mirabel Foundation***
  - Assists children who have been orphaned or abandoned due to parental illicit drug use and are now in the care of extended family (kinship care)
  - Assists the children's carers
  - Provide opportunities for the children to interact with others in similar environments
  - Our joint contribution has been directed towards financial and overall family wellbeing during COVID lockdowns, including a Christmas party for Mirabel children in the Newcastle area (Covid permitting)
  - https://www.mirabelfoundation.org.au/

- ***Planned from Jan 2022 - Australian Alzheimer's Research Foundation (AARF)***
  - Supports medical research into Alzheimer's disease including:
    - Increasing the understanding of the causes of Alzheimer's disease
    - Developing earlier diagnostic techniques
    - Identifying treatments and interventions
  - Our joint contribution will be applied to researching blood biomarkers and the development of a non-invasive, simple, early stage diagnostic blood test to show "markers" for Alzheimer's, and assist in early identification and potential early treatment for the disease
  - https://alzheimers.com.au/

Our partnerships are reviewed annually to ensure that our donation is being utilised for specific programs, however, we usually support a charity for at least 3 years.

# Responsible Investment

# Investment philosophy



ResCap is a specialist listed real assets investment manager. Our investment objective is to deliver superior risk adjusted, long term returns, compared with relevant benchmarks. This we believe can be achieved by investing in a concentrated portfolio 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.

Primarily through bottom up research, ResCap seeks to identify and invest in a select group of high- quality stocks which exhibit unique characteristics that the market continues to under appreciate. Companies that we invest in are situated in some of the largest markets in the world and are traded on major stock exchanges.

**Our stringent filtering process focuses on identifying and exploiting three key attributes:**

- **High barrier markets with assets that have the best potential for long term pricing power;**
- **Strong balance sheets which can successfully withstand and exploit market cycles; and**
- **Management teams with skill, discipline and alignment.**

ESG factors form an important part of our analysis of investee companies. Governance has long been a primary area of focus for the investment team however, increasingly environmental and social factors are included in our assessment of existing and potential portfolio holdings.

ESG factors are incorporated into any new stock initiation and research reports and are explicitly factored into valuations via adjustments to the company's earnings forecasts and / or valuation multiple, where applicable.

In the Global Listed Infrastructure (GLI) portfolio, securities are specifically excluded where the ResCap team believe that they will be unable to meet Paris Agreement targets of net zero emissions by 2050.

# Environmental factors



Environmental policies that lead to greater energy, water and waste efficiencies can reduce operating expenses, making assets more profitable and environmentally sustainable. Additionally, tenants and consumers are increasingly setting minimum standards for sustainability. Assets that meet such requirements often have higher occupancy levels.

Where possible we measure the company's consumption (per square metre), like-for-like change and targets for:

- Energy;
- Greenhouse gas (GHG);
- Water; and
- Waste.

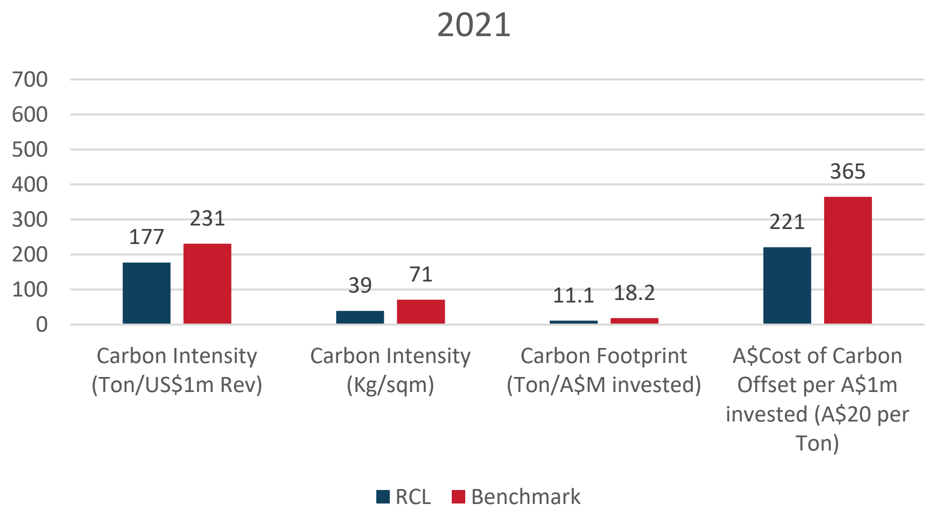
Rather than rank the environmental rating of the static portfolio at a point in time, we also track how each company is improving over time. ResCap supports the introduction of TCFD for company reporting which we believe will assist in increasing disclosure and comparability.

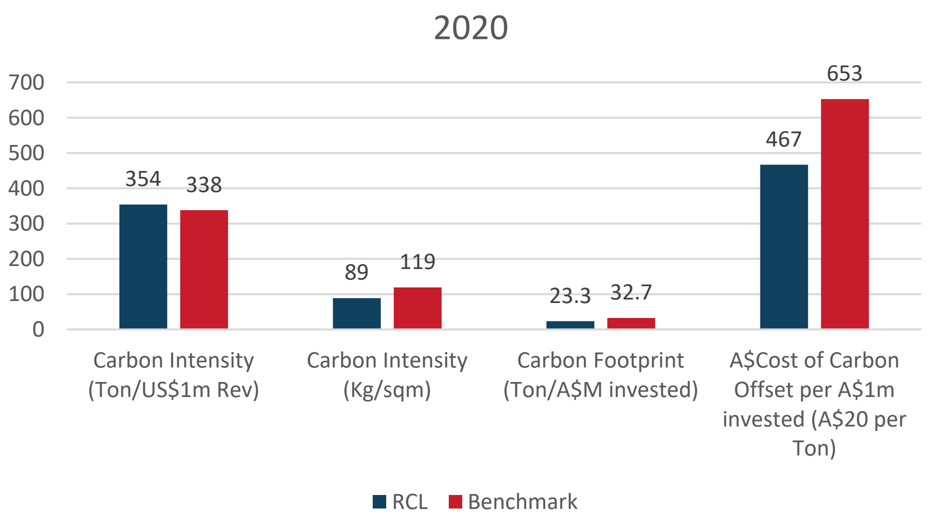
Whilst we take industry measures of sustainability into account, it is critical to consider the objectives and track record of management. We also use meetings with management and asset tours to discuss environmental credentials and review how they are incorporated into asset management and development.

ResCap believes that climate change is both an investment and financial risk.

GRESB data is currently used to measure the carbon footprint of the investee companies within the global REIT portfolio. This forms part of the overall GRESB score which is benchmarked against the GRESB score of the FTSE EPRA/NAREIT Developed Index. Our goal is that the portfolio score is higher than the index. For 2021, 77% of the global REIT portfolio holdings and 61% of the companies that make up the index provided information to GRESB.

## Carbon Metrics




Source: ResCap research, Company reports, Bloomberg, FactSet, FTSE
Benchmark: FTSE EPRA/NAREIT Developed Net TRI AUD

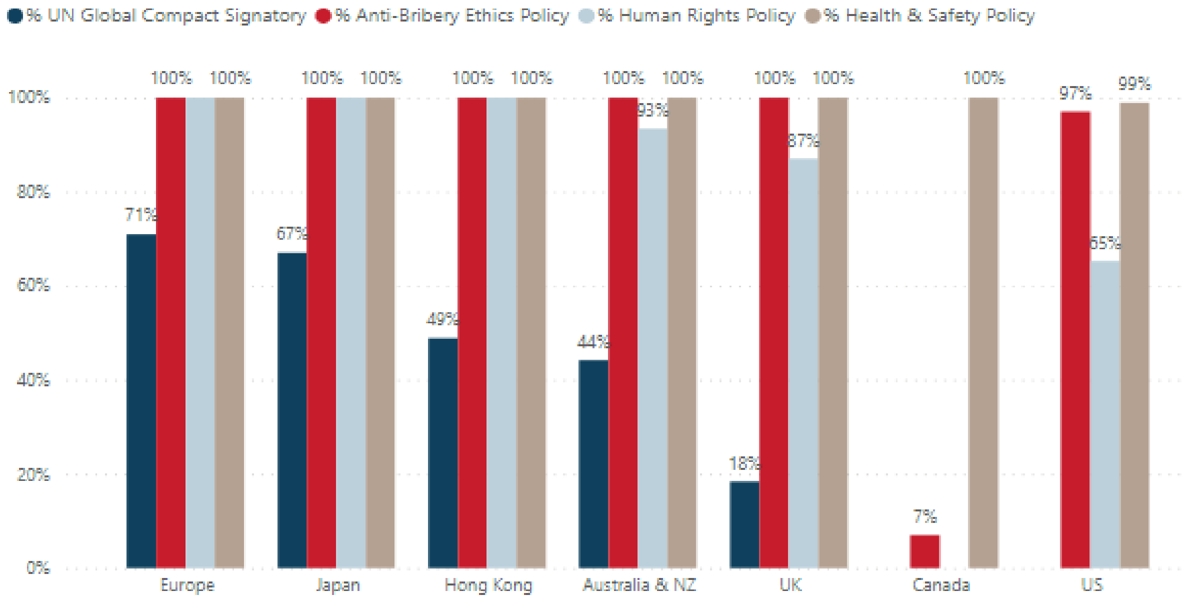
Portfolio: ResCap Global REIT strategy
As at 30 September 2021

Real estate and infrastructure touches many facets of our everyday lives and therefore it's important to consider how companies interact with all stakeholders. We consider a number of the company's policies and performance, including:

- Stakeholder relationships, including customers, local community and government;
- Safety track record (including fatalities);
- Adherence to human rights (in the supply chain); and
- History of illegal activities/corruption.

In assessing the modern slavery risk within the portfolio, we engaged with companies to understand whether they had stated a commitment to address modern slavery risks in their business and in their supply chain and had the policies and processes in place to identify and remediate any areas of concern. The results of that review are stored in our proprietary research database and more information is provided on page 23 of this report.

**% of companies within ResCap global REIT portfolio with Social Policies by region**




Source: ResCap research, Company reports

As at 30 September 2021

# Diversity and human rights



In terms of investee company's employees we, where practicable, review the following factors:

- Employee engagement and training;
- Staff turnover (treatment); and
- Diversity.

Other factors that are considered include:

- The overall social impact of activities of the company;
- Where activities do have a detrimental social effect, how strong is the regulation of the company's activities?;
- Does the company adhere to all the regulatory requirements that apply to them; and
- Has the company been subject to many complaints from stakeholders (whether they are employees, shareholders or other parties interacting with them)?

Companies may be excluded from consideration where the social impact of their activities is so great that the companies are considered non-investment grade regardless of other factors. For example:

- mistreatment of employees or other stakeholders (such as suppliers or purchasers), particularly in jurisdictions where regulations surrounding such activities are poor or non-existent; and
- engaging in any illegal activities.

# Governance factors

We believe that good governance and good management are imperative to a company's long-term success. We have observed that companies with aligned management typically outperform companies with inferior alignment over the long term. To assess this, we focus on:

- External management companies
- Management share ownership;
- Remuneration structure and KPIs;
- Board composition (including diversity);
- Track record, transparency, integrity;
- Minority shareholder protection; and
- Conflicts of interest/related party transactions.

Management is one of the key screening criteria within our investment process. We seek companies that have strong alignment of interests with shareholders, a consistent strategy, disciplined capital management and a track record of active asset management.

Metrics that we incorporate into our analysis of the governance framework/practices of investee companies include:

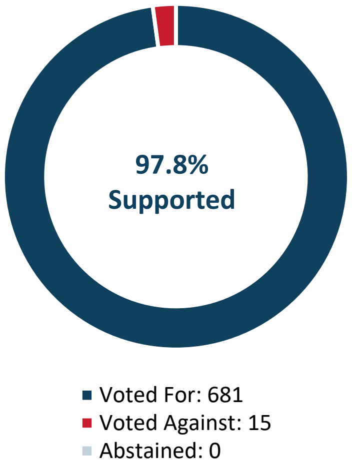
- Percentage of independent directors
- Size of the board
- CEO total compensation compared to market cap and competitors

# Proxy Voting

We have a strong bias towards high quality companies with aligned management, therefore we are disappointed when we need to vote against management. Where we do vote against management, we advise the company of our reasons for doing so prior to the meeting wherever practicable.

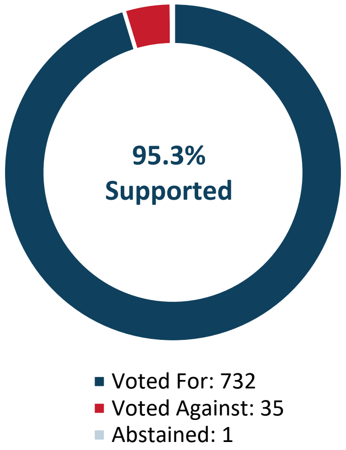
ResCap takes its responsibility as an active shareholder seriously and will vote on all resolutions that it has the ability to (in accordance with client agreements). The Portfolio Managers vote all the proxies. ResCap does not utilize a proxy advisory service, however, we use ISS as an additional information resource. Our proxy voting activities are outlined below.

**2021 Total Resolutions***



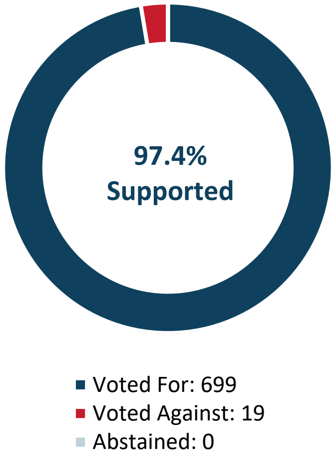

**57** Meetings
**696** Resolutions
*CYT to 30 September 2021

**2020 Total Resolutions**




**87** Meetings
**768** Resolutions
Vote abstained where unable to vote against resolution proposed (URW)

**2019 Total Resolutions**




**73** Meetings
**718** Resolutions

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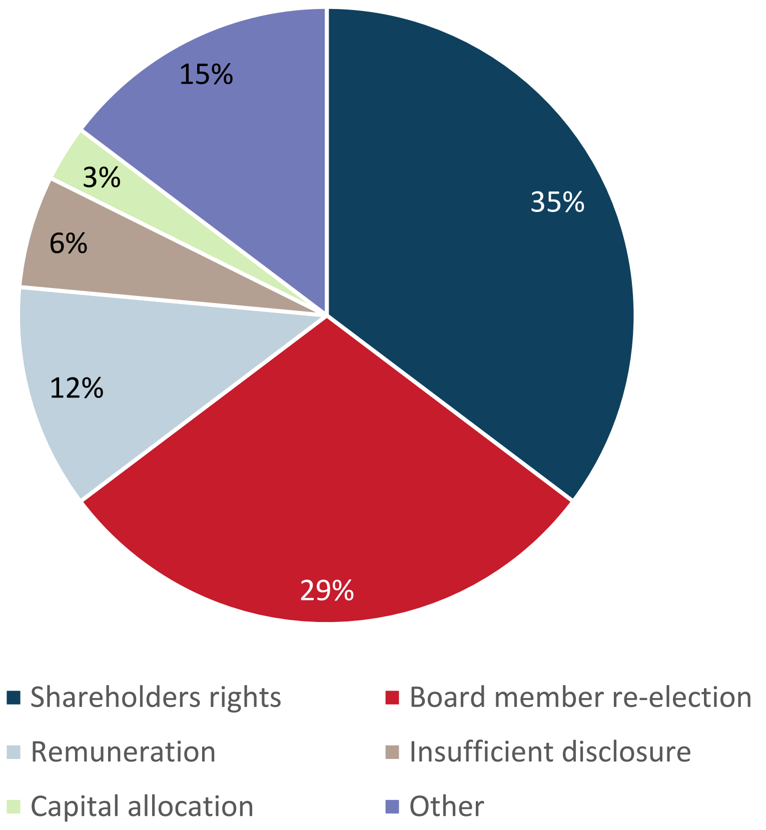
# Voting against management

The main reasons that ResCap have voted against management in the last 12 months include:

- Remuneration:
  - Absolute level excessive
  - Low bonus hurdles
- Shareholders rights:
  - Right to amend Bylaws
  - Shareholder rights not overly restrictive
- Board members need to have:
  - Capacity
  - Relevant experience
  - No conflicts of interest
- Corporate governance
  - Proposals to limit or reduce shareholder's rights

## Reasons for voting against management*




*12 months to 30 September 2021

Company engagement is an important part of ResCap's investment process.

As active owners, engagement provides the investment team the opportunity to share our philosophy and corporate governance values and make a positive contribution to investee companies. Furthermore, it often provides us with a deeper and different perspective of how the company operates.

The engagement agenda is reviewed annually and agreed upon by all the Portfolio Managers responsible for the strategy.

## ResCap Engagement process

**Identify companies we need to engage with**

- Poor ESG score/disclosure: no/low GRESB score, sustainability report, no disclosed targets
- Y/Y deterioration in ESG scores
- Poor board diversity

**Discussion with company**

- Poor effort or poor disclosure?
- Acceptable risk profile?

**Follow up in 6/12 months**

- Hold company accountable
- Apply pressure
- Propose resolution

# Engagement

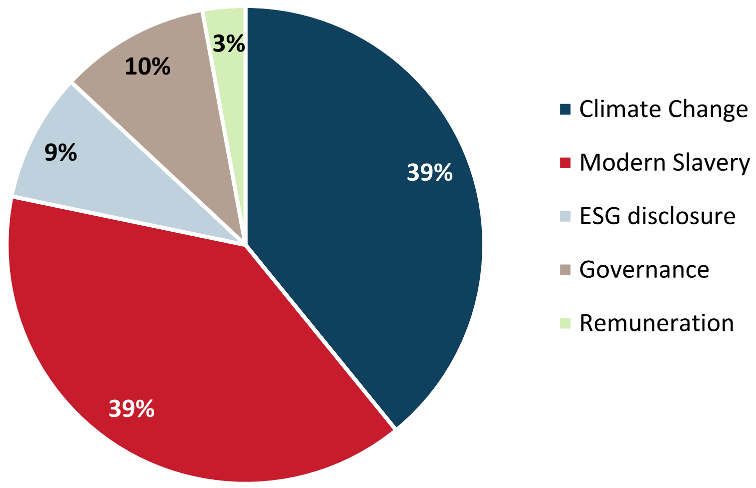


Key engagement initiatives this year have included:

- Climate change – disclosure, emissions reductions targets and physical risk assessment
- Modern Slavery – business and supply chain analysis
- Company specific - strategy, capital allocation, remuneration, governance

Another key area of focus has been on encouraging companies to improve their ESG related disclosure and to join GRESB. This allows for better understanding of the risk profile and comparability between holdings in the global REIT portfolio. Furthermore, better disclosure typically results in increased focus by the company on areas including waste reduction, water usage and the company's environmental footprint.

## Reasons for engagement




- 42 company engagements were undertaken for the 12 months to 30 September 2021.
- One company can have multiple engagements.
- Measured per company.

## Modern Slavery

The questions asked of investee companies were:

- What policies are in place to protect worker's rights?
- Has there been any review of supply chains to identify where there may be higher risk of labour exploitation?
- If so, what (if anything) has the company done?

Responses varied depending on the jurisdiction in which the company was listed. In jurisdictions where there is modern slavery-related legislation, companies were more likely to have performed analysis on their business operations (at least), and to some extent their supply chain to identify where there may be a higher risk of labour exploitation. There are particular areas of the property industry which are likely to encounter higher risks such as cleaning staff, maintenance, security, and sources of building materials.

In order to facilitate reporting by their members, the Property Council of Australia has developed a supplier due diligence platform which members are able to access. This simplifies the supply chain analysis as many suppliers are engaged across many companies/properties, and the information obtained from these suppliers is available for all PCA members.

2021 was the first year in which companies which met the revenue threshold had to produce Modern Slavery Statements. We believe that these reports will become more insightful over time.

The UK and California also have Modern Slavery acts although neither of these jurisdictions have mandatory reporting criteria, so the statements that are produced are not as detailed as those produced in Australia.

In the US (other than in California), labour protections tend to be outlined in Whistleblower, Workplace Safety and Anti-bribery and Corruption or Ethics policies. See the chart on page 16 for more detailed information.

## Climate Change

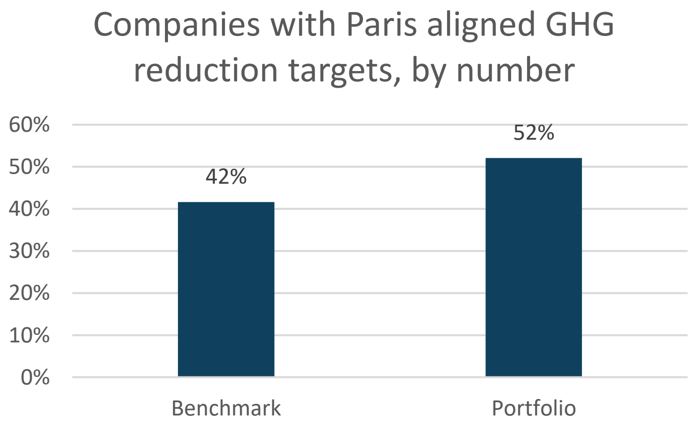
Real Estate is responsible for almost 40% of all global emissions and therefore we believe it is critical that the industry plays its part in reducing emissions consistent with the goals of the 2015 Paris Agreement.

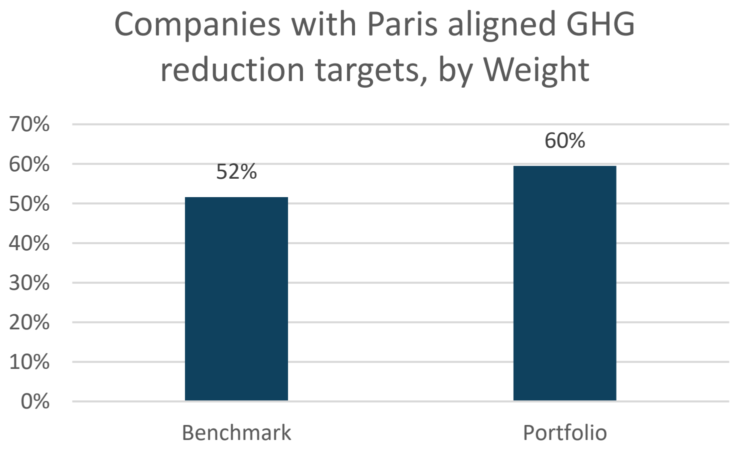
We engaged specifically with companies where our research indicated that they had not set a carbon emission reduction target in accordance with the 2015 Paris Agreement and asked companies to confirm whether it was something that they intended to implement.

In addition, we focused on physical risk (relating to rising sea levels and changes in weather patterns) which will have a lasting impact on assets in vulnerable locations in the coming decades. We asked companies whether they had undertaken a physical risk assessment to understand how vulnerable the company was to the physical risks associated with climate change, and if so, what the result of that assessment was.

Responses were mixed depending on the jurisdiction in which the company was based. Generally those companies in the European Union and Australia were more likely to have considered their emissions and set targets for interim emissions reductions as well as net-zero targets for 2050 (aligned with Paris). The reasons for this are varied – regulation, peer pressure, and increasing awareness and activism from investors (and their consultants) have all pushed companies to identify, assess risks and formulate an action plan to mitigate their impact on the environment.

In our opinion infrastructure plays a key part in enabling the world to decarbonise - electronification and decarbonisation of electricity generation are secular growth opportunities for decades. In the global listed infrastructure strategy, we avoid companies which we believe are unable to meet Paris alignment targets (gas utilities and fossil fuel transportation and storage).




Source: ResCap research, Company reports, Bloomberg, FactSet, FTSE
Portfolio: ResCap Global REIT strategy
Benchmark: FTSE EPRA/NAREIT Developed Net TRI AUD

## Engagement outcomes –two case studies



**Case Study 1**

We met with one of our Canadian multi family portfolio holding companies in June 2021. Our initial meeting with the company relating to their sustainability efforts and climate-related disclosure was disappointing. After that meeting, we formalised our feedback to management, which resulted in a follow up meeting with the CEO and other representatives from the company.

During this follow up meeting, senior management did a much better job of communicating the importance and urgency of the issues and what the company is doing to improve their environmental footprint. They are currently in the process of working through TCFD compliant reporting and expect to commit to a GHG reduction target. Pleasingly, the company ruled out the use of offsets to meet environmental goals, instead prioritizing investment in technologies and materials that will reduce the carbon footprint of their portfolio. We will follow up to ensure progress in being made and continue to add pressure.

**Case Study 2**

We first engaged with another of our US based multi family portfolio holdings in 2019 as a result of poor ESG disclosure.

The company was a participant in the GRESB survey, but scored the lowest among US sector peers. They had no dedicated sustainability staff and did not disclose GHG emissions or have an emissions reduction target. Since then, we have had consistent, ongoing engagement with the company to encourage greenhouse gas disclosures, implement emissions reduction targets, and conduct climate change related risk assessments.

Pleasingly, this year the company released a sustainability report that included all three, a large improvement for a company that is predominately located in US sunbelt markets and is smaller in scale than peers.

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## Further Information:

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