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Sustainable Investment Policy

Real Estate

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Schroders
capital

Contents

- 1. Why is it necessary? 1
- 2. Scope.....1
- 3. Guiding principles..... 1
- 4. Governance..... 2
- 5. Our commitments 2
- 6. Sustainable investment management..... 4
- 7. Risk Considerations..... 5
- 8. Ownership and review..... 5

1. Why is it necessary?

This Policy is set in the context of Schroders' Group Sustainable Investment Policy available [here](#) and Schroders Capital's policies and frameworks available [here](#). Our clients' and regulators' requirements around sustainability are continuously evolving. This document aims to provide our clients and stakeholders with a clear understanding of how Schroders can help them meet their objectives.

Real estate investment is focused on the built environment which is fundamental to business and societal activities. The world's experience of climate change, societal change, and the technology revolution is ever-changing, and these issues are reshaping our planet and society. Real estate investing carries the responsibility to identify, understand and manage environmental, social and economic risks and opportunities to support the delivery of investment returns for the long term and manage financial and non-financial risks.

This Policy describes how Schroders Capital integrates the management of sustainability risks and opportunities within its real estate investment process. This Policy is a component and requirement of Schroders Capital Environmental Management System¹ for its direct real estate activities.

Please refer to Schroders [webpages](#) for the following disclosures:

- [Schroders Capital Sustainability and Impact policies and reports](#)
- [TCFD Entity and Product Reports – Institutional Clients \(schroders.com\)](#)
- [Our SFDR disclosures and statements \(schroders.com\)](#)

2. Scope

Schroders Capital is the private assets investment division of Schroders.

This Policy applies to Schroders Capital's real estate activities which incorporate direct real estate and indirect real estate investment via Real Estate Solutions. It should be read in conjunction with Schroders' policies referenced above.

The Real Estate Solutions team reflect the principles of this Policy through their approach to investing in third-party managed equity or debt funds. The Solutions team will seek to understand sustainability factors and risks of the real estate portfolios in which they invest together with the third-party managers' or borrowers' approach to incorporating sustainability factors and risks in their own investment processes.

3. Guiding principles

Schroders Capital integrates ESG considerations into research and investment decisions across investment teams and asset classes with the aim of maximising risk-adjusted returns for our clients. ESG integration is achieved by our investment teams using Schroders' internal accreditation framework².

ESG integration runs through the investment lifecycle for direct and indirect real estate investments including, for example, acquisition due diligence, asset management, property management provided by third parties, refurbishments and developments, and investment in third-party funds.

Our sustainable investment approach is founded on three pillars – Investing in People, Protecting our Planet, and Creating Sustainable Places. These pillars are referenced to three UN Sustainable Development Goals³, which are '8 Decent Work and Economic Growth', '11 Sustainable Cities and Communities', and '13 Climate Action'.

¹ We maintain an environmental management system, certified to the international standard ISO 14001¹ (2015), for the asset management of direct real estate in the UK and Europe, to help identify and manage the deliverable actions of our policy.

² For details, see Schroders Sustainable investment policy available [here](#).

³ In 2015, all United Nations Member States recognised the range of issues we all face by adopting the UN Sustainable Development Goals ('SDGs') as part of the 2030 Agenda for Sustainable Development.

These SDGs provide a common framework for public and private organisations to present the impacts of their activities and report on the outcomes they achieve. <https://sdgs.un.org/goals>.

These pillars underpin our approach, which is based on three core attributes:

- Intent – Sustainability is a key element of our process, and we consider it to be part of our fiduciary duty. Schroders Capital integrates sustainability into the real estate investment management process to ensure sustainability risks and opportunities are considered appropriately and addressed systematically.
- Contribution – Our ESG integrated, sustainable investing and impact investment processes seek to deliver contributions in accordance with each strategy's investment objectives; and
- Measurement – Transparency and disclosure are fundamental to our approach. We collect and analyse a comprehensive range of ESG, sustainable investment, and impact investment metrics, as appropriate to each strategy and where data is available, to assess and report on the effectiveness of our investments in achieving the goals we set.

We believe a sustainable investment programme supports our purpose to deliver excellent investment performance to our clients, together with supporting the business performance of our tenants and tangible contributions to local communities, the environment and wider society for the long term.

4. Governance

Ultimate responsibility for ESG integration, sustainable investment and impact investment for real estate lies with Global Head of Real Estate, supported by the Head of Sustainability and Impact Investment, Real Estate, and the wider Schroders Capital real estate team.

Oversight and management of ESG integration, sustainable investment and impact investment for real estate is the responsibility of the direct and indirect Real Estate Investment Committees, the Real Estate Sustainability and Impact Governance Committee, and the Board of Schroder Real Estate Investment Management Limited.

Independent oversight is provided by Schroders Group Investment Risk Function and the Real Estate Risk and Performance Committee, together with the requirements of the Schroders Capital Sustainability and Impact Governance Framework.

We maintain an environmental management system, certified to the international standard ISO 14001⁴ (2015), for the asset management of direct real estate in the UK and Europe, to help identify and manage the deliverable actions of our policy for our direct real estate activities.

5. Our commitments

In addition to the commitments made at Schroders and Schroders Capital level, the Real Estate business has also committed to the following activities, which are implemented in our investment and reporting processes by way of frameworks and procedures:

Climate and Net Zero Carbon

We are a signatory to the Better Buildings Partnership (“BBP”) Member Climate Commitment⁵ (“Commitment”) which acknowledges the transformation required across the real estate sector to deliver net zero buildings by 2050 and the action and leadership of signatories as a catalyst for change to support this transition.

Our approach to integrating climate and net zero carbon in our investment processes, which incorporates the requirements of the Commitment, is as follows:

- We have established a Net Zero Pathway with the aim to achieve net zero carbon no later than 2050 for our portfolios of directly and indirectly held real estate investments and disclose annually our progress towards our net zero carbon pathway. Our Net Zero Pathway, set in 2020, is available [here](#). Key elements of the Pathway are:

⁴ ISO 14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organization can follow to set up an effective environmental management system <https://www.iso.org/iso-14001-environmentalmanagement.html>.

⁵ Details of the BBP Climate Change Commitment including the commitment wording, signatories, the BBP Net Zero Carbon Framework guidance, and referred to as the BBP Commitment throughout this document, can be found at BBP Climate Change Commitment | Better Buildings Partnership <https://www.betterbuildingspartnership.co.uk/node/877>.

- We set energy and carbon targets, including interim milestones, for our direct real estate portfolios⁶ and report against these targets annually; and
- We seek to achieve energy and carbon targets by identifying and implementing improvement measures for assets, where feasible, with the aim to reduce energy consumption, improve energy efficiency and reduce carbon emissions. Such improvement measures may for example include building management systems, LED, solar PV and technical building interventions which may be informed by audits and performance assessments.
- We publicly disclose the energy performance of our portfolios, where fund or mandate provisions allow, as a minimum at a portfolio level by geography, and ideally at a property level, and support efforts to develop consistent industry performance disclosure and benchmarks.
- We prepare annual sustainability reports for our funds and mandates, including these within annual report and accounts for our funds and formal client reporting where it is appropriate to do so.
- We aim to optimise renewables, in particular for landlord procured energy across portfolios:
 - We have a target to procure 100% landlord procured electricity on renewable tariffs by 2025 and report on our progress for our portfolios annually;
 - We will seek to implement onsite renewables where feasible across our portfolio.
- We develop climate change resilience strategies for our portfolios and support working together across the industry to develop consistent industry disclosure on climate change risks in line with industry standards, including the Task Force on Climate Related Financial Disclosure (TCFD)⁷. We utilise the BBP definition of climate resilience in developing our strategies⁸.
- We produce TCFD reports or statements for our funds and mandates as appropriate, including as required by regulation, and develop these statements as we evolve our management of climate risk.
- We assess transition and physical climate risks across our portfolios and implement actions to mitigate and adapt to risks where appropriate.

Social Benefit

We seek to provide and operate our buildings in a way that delivers social benefits to building occupiers, local businesses and communities and places where we invest. Social considerations may include safety, security, health and wellbeing, inclusivity and diversity.

Engagement

We engage with stakeholders as part of the active asset management approach. This may include occupiers, communities, local government, service providers, lenders, and investors. Please refer to Schroders Capital Engagement blueprint.

Compliance with best practices

We seek to understand global, national and corporate commitments, investor/partner and other stakeholder expectations, and pledges made to meet industry best practice standards and integrate these where appropriate across our business activities.

Environmental Responsibility

We take steps to protect the environment, including prevention of pollution, sustainable resource use, climate change mitigation, and enhancing biodiversity and green/blue spaces.

⁶ As at March 2024 we had set energy and carbon intensity targets for 50% of our directly managed assets. Please note that we report our progress in Schroders TCFD aligned [Climate Report](#).

⁷ Details of the TCFD Initiative can be found at <https://www.unepfi.org/climate-change/tcfd/>.

⁸ The definition of climate resilience can be found in the BBP 'A Guide to Climate Resilience Strategies for Commercial Real Estate', published September 2022. This can be found at <https://www.betterbuildingspartnership.co.uk/node/877>.

Risk Management

We maintain a process to identify, manage and report sustainability risks across our real estate investment activities with monitoring provided independently of Schroder Real Estate by Schroders Group Investment Risk Function.

Our Employees

Our employees responsible for governing our commitments and ensuring they are implemented, undertake sustainability training to ensure they are competent to deliver our sustainable investment programme and all investment staff have sustainability objectives defined and tracked as part of formal annual performance review processes.

Transparency of outcomes

We disclose ESG, sustainable investment and impact investment performance for funds in line with mandates, industry guidelines and regulatory requirements, as and where appropriate.

Data availability

Our ability to pursue and report on our commitments may be subject to data availability for the assets and investments under our management. We seek to continually improve data coverage and quality across our activities and will seek to explain data limitations as we consider appropriate.

Environmental Management System

We maintain an environmental management system, certified to the international standard ISO 14001⁹ (2015), for the asset management of direct real estate in the UK and Europe, to help identify and manage the deliverable actions of our policy. This includes continual improvement of the management system to enhance performance.

6. Sustainable investment management

Schroders Sustainable Investment Policy sets out our approach to sustainable investment management. In the context of real estate, the application in practice may be modified as appropriate to the asset class and is overseen by the Direct and Indirect Investment Committees, Real Estate Sustainability and Impact Investment Governance Committee and the Board of Schroder Real Estate Investment Management Limited.

The Real Estate approach to the sustainable investment aspects set out in the Group Policy are as follows:

- **Exclusions and screening:** Real Estate has established an Exclusions and Screening Procedure to cater for the application of Schroders exclusionary criteria to real estate mandates and which considers tenants and suppliers.
- **ESG Integration:** Real estate is subject to Schroders ESG Integration accreditation process and submits annual submissions for Direct Real Estate and Real Estate Solutions.
- **Measurement of sustainability related investment factors:** Real estate uses real estate specific data management systems and proprietary scorecards to support its analysis and management of sustainability risks and opportunities.
- **Climate:** In addition to Group commitments and disclosures Schroders is a signatory to the real estate specific UK Better Buildings Partnership Climate Commitment and publishes TCFD entity and product reports as required by the FCA¹⁰.
- **Nature and biodiversity:** Real estate recognises the opportunity of the co-benefits of considering nature and biodiversity within its sustainability approach for example interventions required to enable a net zero transition at asset and portfolio level.
- **Human rights:** Schroders position statement applies to real estate.

⁹ ISO 14001 sets out the criteria for an environmental management system and can be certified to. It maps out a framework that a company or organization can follow to set up an effective environmental management system <https://www.iso.org/iso-14001-environmentalmanagement.html>.

¹⁰ In compliance with the requirements set out in chapter 2 of the Environmental, Social and Governance sourcebook ("ESG Sourcebook") of the FCA Handbook, this year Schroders published a Schroders Real Estate Investment Management Ltd ('SREIM') entity-level TCFD disclosure, in addition to the Schroders Plc Climate Report 2023.

– **Active ownership:**

Our approach is set out in Schrodgers Capital [Engagement Blueprint for private assets which includes for real estate which includes:](#)

- **Active ownership** of directly managed assets involves ongoing engagement with a broad range of stakeholders across the lifecycle of an asset including tenants, suppliers, community, regulators, industry and environment to support our active management of each building as its own business; and
- **Engagement** is a more conventional concept for our Real Estate Solutions teams where we invest in third party managed funds/companies.

Policy discussions: Schrodgers may respond to real estate specific policy discussions.

Collaborative engagement: the real estate team participates in sustainability and/or impact related industry working groups recognising the need and benefit of collaboration as the subject matter, including regulation and best practice, continues to evolve.

Voting: while this may apply to other situations, voting is generally more relevant to our Real Estate Solutions team's investment in third party managed investments for which Group policies are applied.

Impact: the real estate team works within Schrodgers' Impact Framework for its Impact mandates, which draws on BlueOrchard's B.Impact™ Framework. This framework revolves around three pillars: Impact management (through a rigorous, externally verified impact management framework), Impact measurement (through a proprietary impact scorecard and reporting), and Impact governance (including an independent Impact Assessment Group to assess each transaction). It is aligned with the Operating Principles for Impact Management, to which Schrodgers is a signatory for its Impact-driven range.

7. Risk Considerations

Prospective investors should be aware of the associated risks and special factors of the Real Estate asset class which are not related to investments in traditional listed instruments. Attention is drawn to the following specific risks:

Liquidity risk	Investments in real estate are relatively illiquid and more difficult to realise than equities or bonds. Yields may vary and are not guaranteed
Market risk	The value of investments can go up and down and an investor may not get back the amount initially invested
Performance risk	Investment objectives express an intended result but there is no guarantee that such a result will be achieved. Depending on market conditions and the macro-economic environment, investment objectives may become more difficult to achieve
Real estate and property risk	Real estate investments are subject to a variety of risk conditions such as economic conditions, changes in laws (e.g. environmental and zoning) and other influences on the market
Valuation Risk	The valuation of private asset investments is performed on a less frequent basis than listed securities. In addition, it may be difficult to find appropriate pricing references for private asset investments. This difficulty may have an impact on the valuation of real estate investments. Certain investments are valued on the basis of estimated prices and therefore subject to potentially greater pricing uncertainties than listed

8. Ownership and review

This Policy is the responsibility of the Global Head of Real Estate. It has been prepared by Schrodgers and is subject to change and revision from time-to-time. Its application to Schrodgers' activities and businesses may be subject to exceptions and derogations, either on a general or an individual basis.

This Policy will be reviewed annually and is actively communicated with our internal stakeholders and key suppliers where appropriate. Our employees are responsible for implementation of this Policy.

Important Information:

For Professional Investors only.

The views and opinions contained herein are those of Schroders Capital and may not necessarily represent views expressed or reflected in other communications, strategies or funds.

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The value of investments and the income from them may go down as well as up and investors may not get back the amounts originally invested. Exchange rate changes may cause the value of any overseas investments to rise or fall. Past Performance is not a guide to future performance and may not be repeated.

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