NET-ZERO PATHWAY

A JOURNEY TO NET-ZERO BY 2040

DTZ Investors – 2022

Contents

DTZ INVESTORS

Background

DTZ Investors UK (DTZI) manages £5 billion of real estate assets on a fully discretionary basis. Our clients are long-term, institutional investors, with the majority operating within the public sector. We recognise that there is a responsibility to stakeholders, wider society and the environment to address the challenges and opportunities presented by climate change. To this end, we believe that the time is now to demonstrate leadership in this space.

Our responsible investment (RI) strategy focuses on protecting income and generating long-term income growth from investments. We work in close partnership with occupiers to ensure that properties suit occupier requirements today and adapt as businesses evolve. The importance that is placed on maximising income over the long-term influences our corporate governance structure, informs the investment philosophy, shapes the asset management style and determines the reward structure.

In 2021, we set an ambitious target to transition all discretionary assets under management to net-zero by 2040. This pathway document outlines that target and provides further clarity on how we aim to realise this through effective governance and leadership; by setting and achieving interim targets and publicly disclosing performance. This pathway has been kept to discretionary assets due to the control and influence we have over them. Other assets, including indirectly managed funds, have their own programme to align them to our overall RI strategy. Discretionary assets make up the majority of our assets under management.

The board of directors (Board) has accountability and ultimate responsibility for embedding and driving RI and net-zero. Jennifer Linacre, Head of RI, chairs the Responsible Investment Committee (RIC), which sets policy for the group on all matters relating to ESG standards in connection with the assets that are managed on behalf of clients and its own approach as a business and occupier of real estate. The RIC meets monthly to ensure progress is maintained and the overall strategy remains relevant and impact driven.

We have committed to achieving net-zero by 2040 for all discretionary assets under management

Our Carbon Emissions Baseline

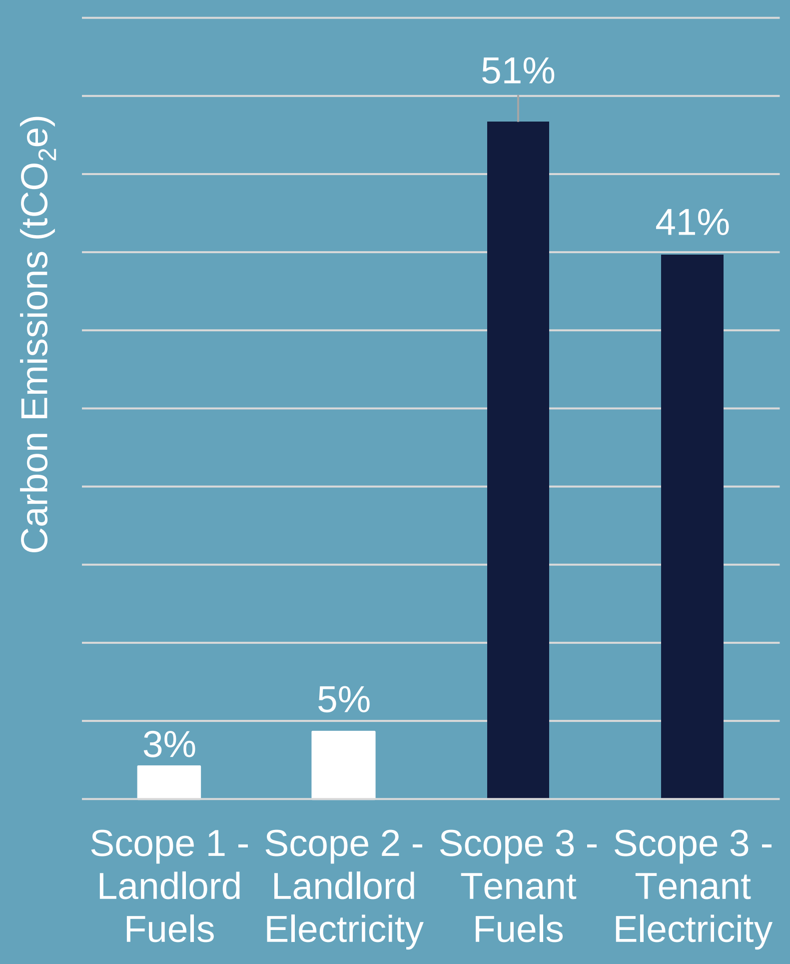
For our net-zero commitments and for ongoing reporting, we have set a reporting boundary in line with the Better Buildings Partnership's Net Zero Framework.

The reported total carbon footprint includes the emissions associated with Scope 1 (landlord fuels), Scope 2 (landlord electricity), and Scope 3 (occupier activities). In 2019, the energy related carbon emissions across 200+ assets split across seven managed portfolios were modelled, and it was found that occupier emissions account for approximately 92%.

The portfolio emissions were calculated using existing asset-level occupier and landlord consumption data reported by us through GRESB, where available. The totality of the landlord consumption was available while data gaps associated to occupiers' consumption were addressed using industry 'typical practice' benchmarks from CIBSE Guide F and calculated using asset class and floor area.

Across our portfolio, our service providers contribute to the carbon emission baseline, however these have not yet been included within our baseline. We have therefore included a commitment to baseline carbon emission related activities through the supply chain and engage supply partners to support them to develop their own climate response programmes.

In this case, fuels refers to natural gas. Further detail on the boundary of our commitment can be found on page 18.



Why Net-Zero?

In 2015, 189 countries ratified the Paris Climate Agreement, which committed Parties to keeping global warming below +2°C above pre-industrial levels and pursue efforts to achieve +1.5°C. Globally, 70+ countries have agreed to reach net-zero and some already have legislation in place[1].

By 2050, emissions will need to reach net-zero to maintain a 50% chance of avoiding the worst effects of climate change. This will require current emissions to fall by 45% by 2030[1]. With almost 40% of total global CO_2 emissions coming from buildings and construction[2], it is widely recognised that those organisations within the industry must be more ambitious if this goal is to be reached.

We recognise the need to react positively to this challenge and make the necessary changes in business operations to mitigate the risk of asset obsolescence. In doing so, we will also be leveraging the opportunity to increase future returns through creating a portfolio with a greater focus on emissions that is attractive for its clients and occupiers.

There are three key drivers for transitioning assets under our management to net-zero

Legislation

DTZI operates primarily in Europe where an acceleration of legislation is expected to be made to facilitate the transition of buildings to net-zero.

This shift in policy and development of legislation, such as the Minimum Energy Efficiency Standard (MEES) is already being accompanied by growing engagement from investors and occupiers, leading to technological innovation and structural market change. The transition to a low carbon environment will bring risk and opportunity, leading inevitably to market value change and asset obsolescence.

We want to ensure that we stay at the forefront of these changes, act pre-emptively and engage with industry and governments to influence and learn where we can.

Responsibility

Property has a vital role to play in decarbonising, and recognising this, we believe that we have a fiduciary duty to our clients and to our stakeholders to develop a realistic pathway to transition assets under our management to net-zero carbon.

Transitioning our discretionarily managed assets to be part of a low carbon economy will help to manage our portfolios' exposure to climate risks, mitigate risk to value, reduce asset obsolescence and enable us to take advantage of opportunities where we see them.

Performance

We believe that net-zero assets will deliver better performance for investors; benefitting from greater resilience to market influences and an enhanced ability to meet evolving occupier requirements. Evidence of heightened occupier demand for 'greener', more efficient space is already mounting, well in advance of any corresponding regulation to drive such requirements. As such, it is expected that net-zero will inform asset allocation, the approach to acquisition due diligence, and the transparency provided on building performance during the disposal process.

As markets shift, low carbon buildings have the potential to command lower void rates, higher rents and enhanced capital value.

[1] United Nations (2021). Net Zero Coalition. Available at: https://www.un.org/en/climatechange/net-zero-coalition
[2] World Green Building Council (2019). Embodied Carbon Report. Available at: https://www.worldgbc.org/news-media/WorldGBC-embodied-carbon-report-published

Achieving Net-Zero

The Science Based Targets Initiative (SBTI) defines corporate net-zero as reducing Scope 1, 2 and 3 emissions to zero or to a residual level that is consistent with reaching net-zero emissions at the global or sector level in eligible 1.5 °C-aligned pathways. As well as neutralising any residual emissions at the net-zero target year and any Greenhouse Gas (GHG) emissions released into the atmosphere thereafter.[1]

The UK Green Building Council (UK GBC) defines what net-zero means for both the design and construction of a building and its operation[2], where both of these are of equal importance and as such we have aligned our net-zero commitment to the UK GBC's definition for net-zero.

Within real estate, there are numerous competing frameworks for setting net-zero strategies, all of which follow similar approaches. The main difference between them being the scale at which they are implemented, differing at both an asset and portfolio level.

Our portfolio net-zero strategy is supported by asset level strategies.

Portfolio Level Strategy

1. Define absolute carbon trajectories following a science-based approach
2. Assessment of carbon risk and asset 'stranding'
3. Identify top-down carbon reduction interventions to inform asset-level strategy
4. Track emissions at a portfolio level across all relevant areas of impact dictated by the portfolio boundary
5. Set pathway actions and targets on all emission sources

Asset Level Strategy

1. Reduce operational and embodied carbon emissions
   - Reduce energy demand
   - Procure renewable energy
   - Decarbonise heat networks
2. Meet industry and government set energy intensity targets by reducing asset energy demand and meeting key changes in legislation
3. Reduce and offset carbon emission related impacts from construction and refurbishments

[1] Science Based Targets Initiative (2021). Corporate Net-Zero Standard. Available at: https://sciencebasedtargets.org/resources/files/Net-Zero-Standard.pdf
[2] UK Green Building Council (2019). Net Zero Carbon Buildings: A Framework Definition. Available at: https://ukgbc.s3.eu-west-2.amazonaws.com/wp-content/uploads/2019/04/05150856/Net-Zero-Carbon-Buildings-A-framework-definition.pdf

To help deliver its net-zero ambitions, we have built our RI approach on four core pillars

1 Leadership & Governance

Integrate RI principles throughout our company culture, business activities and processes and assign lines of responsibility with robust support from the Board. Collaborate with government, peers and clients to encourage adoption of RI practices across the industry.

2 Investment Process & Implementation

Manage, maintain, upgrade and dispose of clients' assets in an environmentally and socially conscious way, that protects value, the environment and enhances community.

3 Stakeholder Engagement

Educate and engage with clients, occupiers, our people and local communities to enable effective decision-making and action that leads to positive environmental and societal impact across all corporate & real-estate activities.

4 Benchmarking & Disclosure

Share ESG performance against industry benchmarks publicly and identify opportunities for continual improvement.

We have embedded RI across the entirety of the property lifecycle

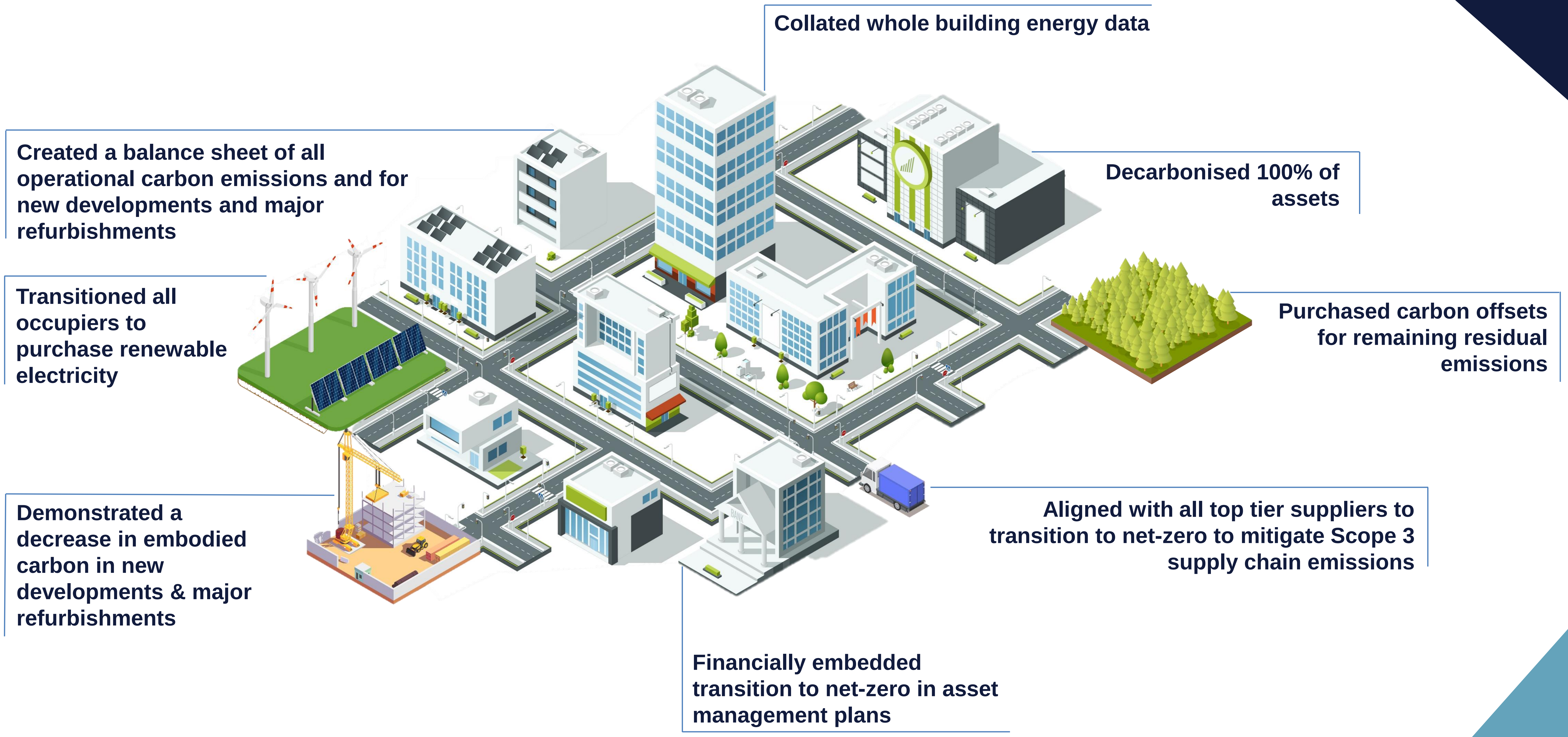
By focussing on environmental and social, as well as economic sustainability, and building each of these into investment processes and asset management philosophies, RI is embedded into the business. This approach is integrated throughout the property lifecycle and continually supports our net-zero strategy. How this is embedded is demonstrated in the property lifecycle diagram (right). To ensure progress, every portfolio has a clear set of objectives against which each investment must be considered. These objectives steer the strategy and are reviewed on a quarterly basis, ensuring every investment is assessed for ESG risks and opportunities.

Throughout the property lifecycle, we aim to drive environmental and social impact in the following areas:

- **Climate Change Risk**
- **Waste Production & Disposal**
- **Renewable Energy**
- **Occupier Satisfaction**
- **Carbon Emissions**
- **Stakeholder Health & Wellbeing**
- **Biodiversity & Habitat**
- **Health & Safety Procedure**
- **Energy Usage & Intensity**
- **Air Quality Management**
- **Transport & EV Charging**
- **Fair Labour Practices**
- **Water Efficiency**
- **Sustainable Procurement**
- **Stakeholder Engagement**
- **Inclusion, Equity & Diversity**

Source: DTZ Investors

Net-Zero Portfolio in 2040



Source: DTZ Investors

Net-Zero Pathway Timeline

Pathway Actions

1
Create a balance sheet of all operational carbon emissions (Scope 1-3) and for new developments and refurbishments by 2022.

2
Financially embed transition to net-zero in Asset Management Plans by 2023.

3
Transition all occupiers to purchase renewable electricity by 2030 (Landlord electricity already renewable).

4
Decarbonise 50% of assets (removing use of gas and other fossil fuels) for heating and hot water by 2030, 75% by 2035 and 100% by 2040.

5
Collate whole building energy data for 75% of the portfolio by 2030 and 90% by 2035.

6
By 2035, demonstrate decrease in embodied carbon in new developments & major refurbishments.

7
Alignment with all top tier suppliers to transition to net-zero to mitigate Scope 3 supply chain emissions by 2040.

8
Carbon offsets purchased, if required, for remaining residual emissions to reach net-zero across all discretionary portfolios by 2040.

2021 **2030** **2040**

Milestones

2021: DTZI sets its net-zero by 2040 commitment.

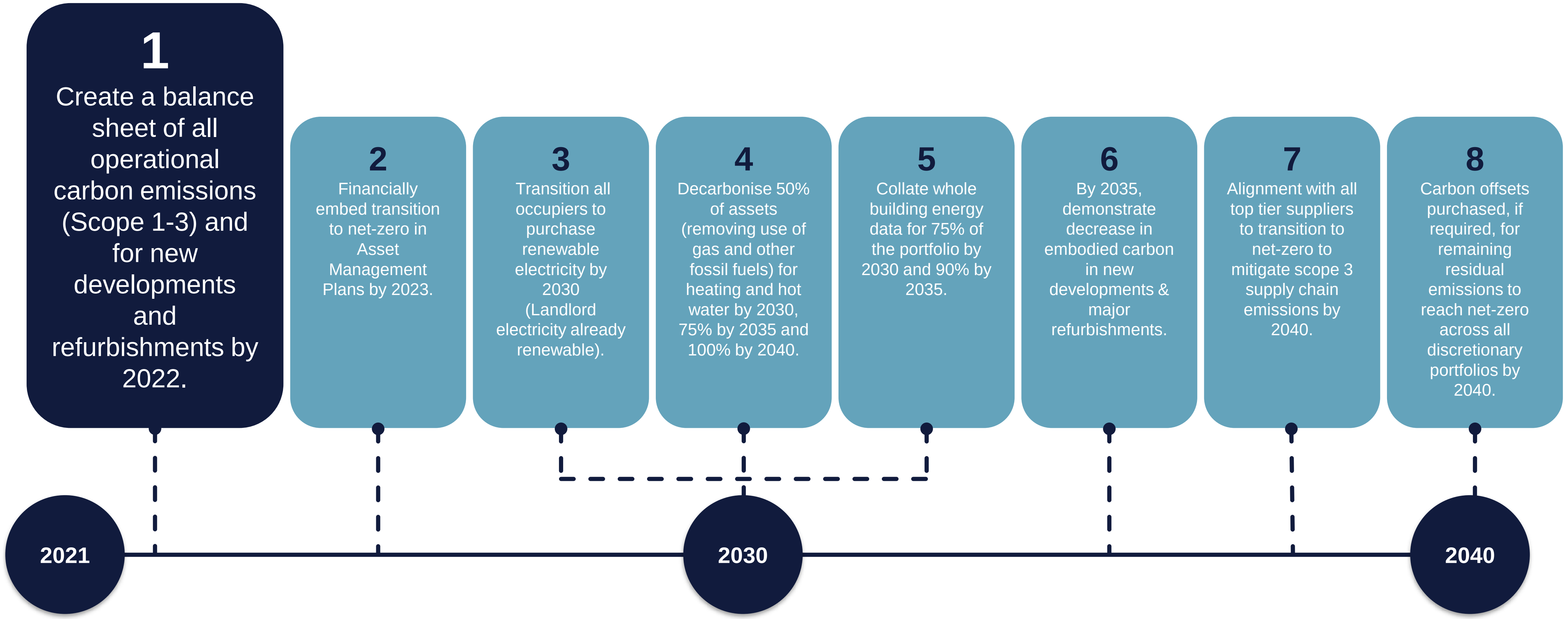
2030: **50% reduction in carbon emission intensity** as required by SBTI and in line with a 1.5 degree pathway from a 2019 baseline.

2040: All discretionarily managed investment portfolios reporting as net-zero by 2040, with all feasible directly managed assets operationally net-zero in line with the local definition of a net-zero asset and with any residual emissions offset.

Source: DTZ Investors

Action 1

Create a balance sheet of all operational carbon emissions (Scope 1-3) and for new developments and refurbishments by 2022.



Strategy:

1. **Set an internal price of carbon in 2022 to support the decarbonisation of each portfolio. The starting carbon price, set when GHG emissions are at their highest across the portfolio, will rise as progress continues along the net-zero pathway.**

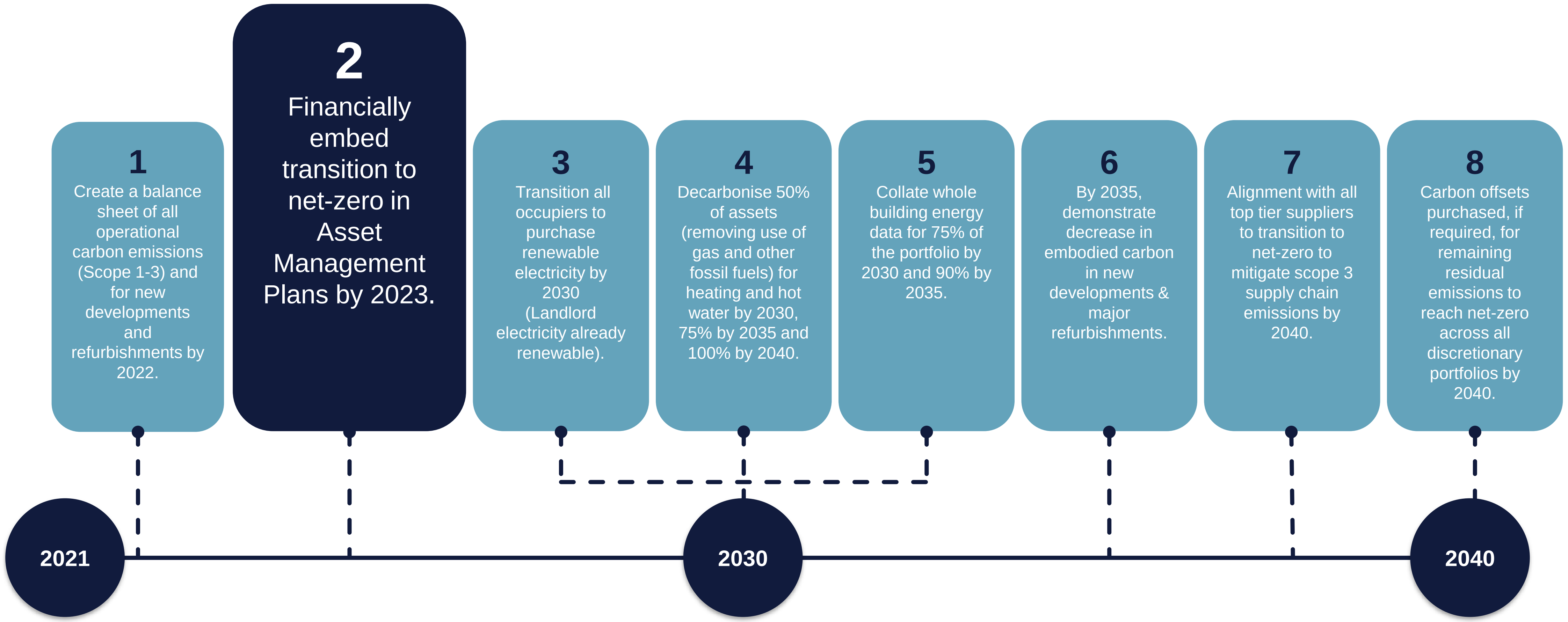
2. **Develop an annual ‘balance sheet’ inventory in order to keep track of carbon emissions embodied in all construction and major refurbishments; emitted directly through each portfolio’s operations and generated from our purchased good and services.**

3. **Establish a policy to measure the embodied carbon emissions of new construction and major refurbishments by undertaking a ‘Lifecycle Assessment’ to identify optimisations in design and emission reduction opportunities.**

TARGET YEAR 2022

Action 2

Financially embed transition to net-zero in Asset Management Plans by 2023.



Strategy:

1. **Ensure the net-zero commitment is embedded into asset management planning and included in investment committee reporting, building in the long-term financial impact of asset interventions.**

2. **Undertake a thorough cost-benefit exercise in 2022, examining the net-zero pathway against each asset. This study will seek to understand:**

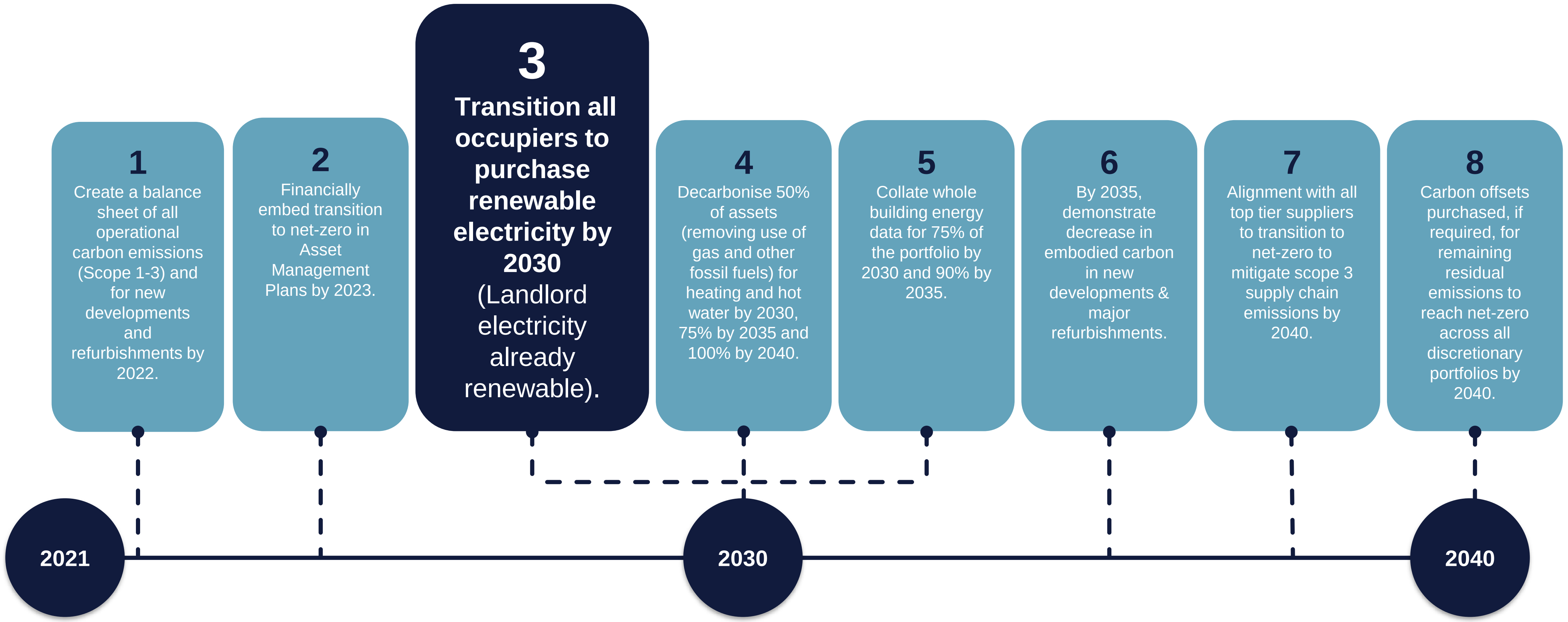
   - **What energy savings can be made at which assets.**
   - **Which assets are suitable for on-site renewable energy generation, and which can be switched to a green tariff.**
   - **The associated carbon savings of initiatives, capital expenditure (CAPEX) required and payback expected.**

3. **Commence planning with asset managers to communicate these findings and build in timelines.**

TARGET YEAR 2023

Action 3

Transition all occupiers to purchase renewable electricity by 2030 (Landlord electricity already renewable).



Strategy:

1. **Procure 100% renewable electricity supplies across all properties by 2030. To achieve this, a renewable energy procurement strategy for occupier demises and controlled areas will be developed by:**

   - **Collaborating with occupiers to agree to procurement of renewable electricity, in alignment with the UK Green Building Council's renewable energy procurement guidance, through Green Lease Clauses**
   - **Undertaking occupier surveys through direct occupier contact, satisfaction survey and property inspections, requesting occupier procurement information.**

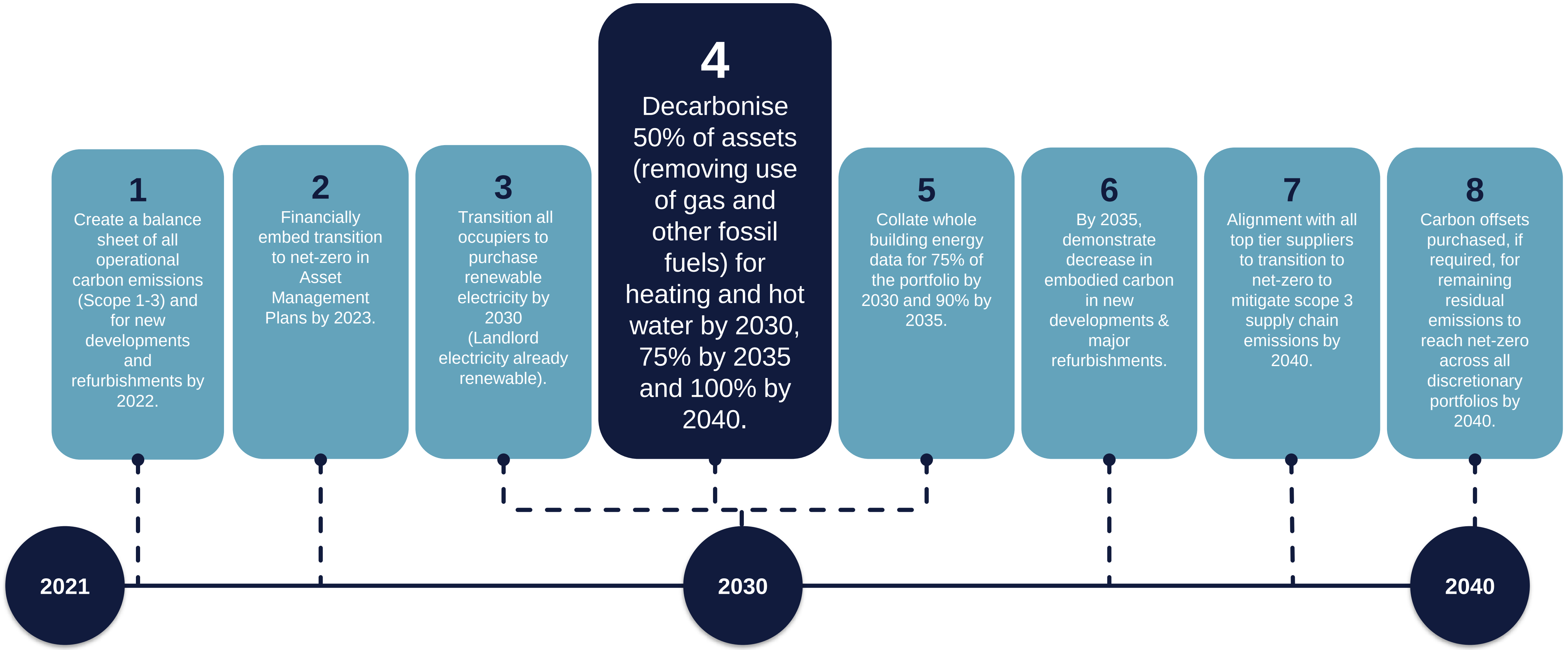
2. **Generate the equivalent of 20% of landlord energy through on-site renewables by 2030. This will be achieved by:**

   - **Undertaking a feasibility study for the introduction of on-site renewables on a site-by-site basis, prioritising industrial assets due to their large roof areas.**
   - **Assessing, where on-site installations are not feasible, energy procurement routes for all electricity supplies. Ensuring that where renewable energy must be procured, the highest quality is maintained.**

TARGET YEAR 2030

Action 4

Decarbonise 50% of assets (removing use of gas and other fossil fuels) for heating and hot water by 2030, 75% by 2035 and 100% by 2040.



Strategy:

1. **Replace fossil fuel systems with a low carbon alternative at the next system replacement cycle* and undertake a market review of current heat pumps or point of use systems for hot water to assess their cost effectiveness.**

2. **Procure biogas as an interim measure to mitigate the emissions from natural gas (derived from agricultural/food/municipal waste, labelled 'green gas').**

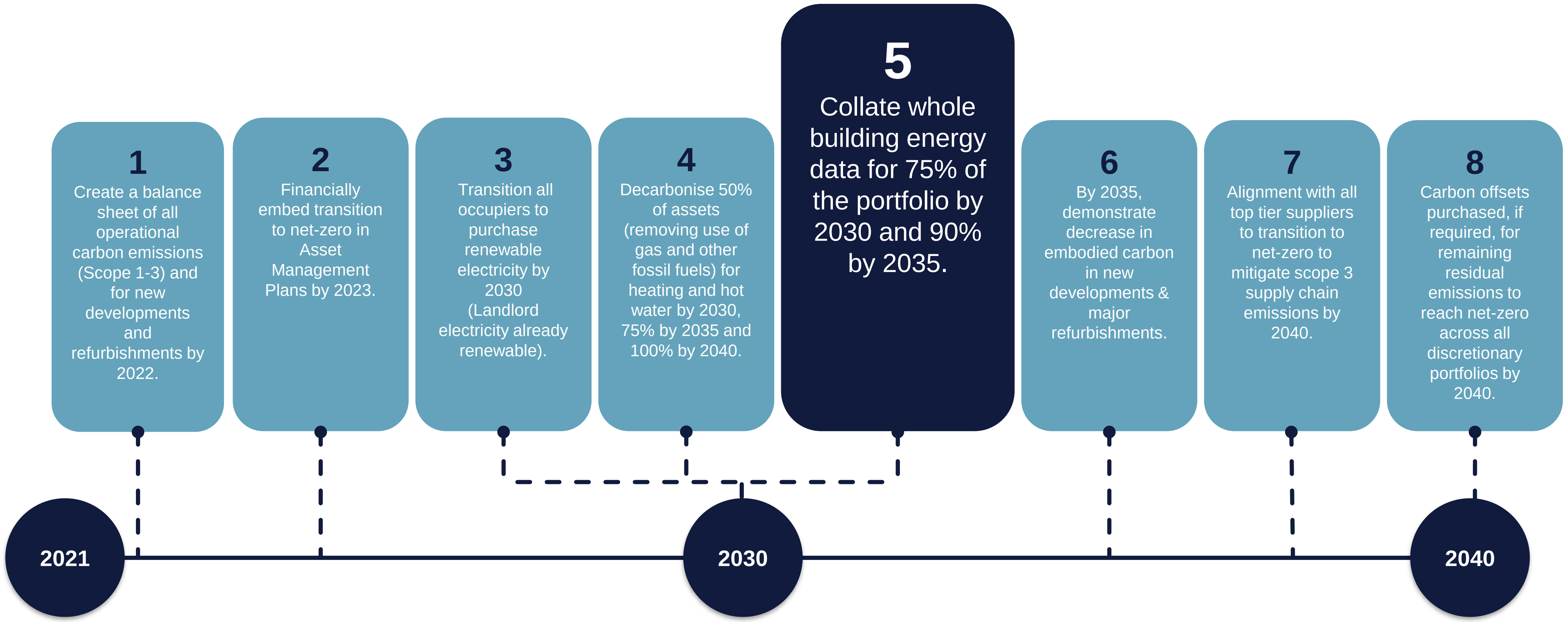
3. **Consider the net-zero commitment at the design stage of new constructions and major refurbishments, designing out fossil fuel systems.**

****fossil fuel systems may still be employed in situations where it can be demonstrated that there is no other viable alternative, or where the choice of heat source is beyond our control.***

TARGET YEAR 2030

Action 5

Collate whole building energy data for 75% of the portfolio by 2030 and 90% by 2035.



Strategy:

1. Engage occupiers to request and collate occupier consumption data across the portfolio to avoid relying on estimates.

2. Increase the utilisation of technologies across occupier spaces to allow for automated data retrieval.

3. Identify assets with high energy intensity and identify causation, delineating occupier business operations from building operations.

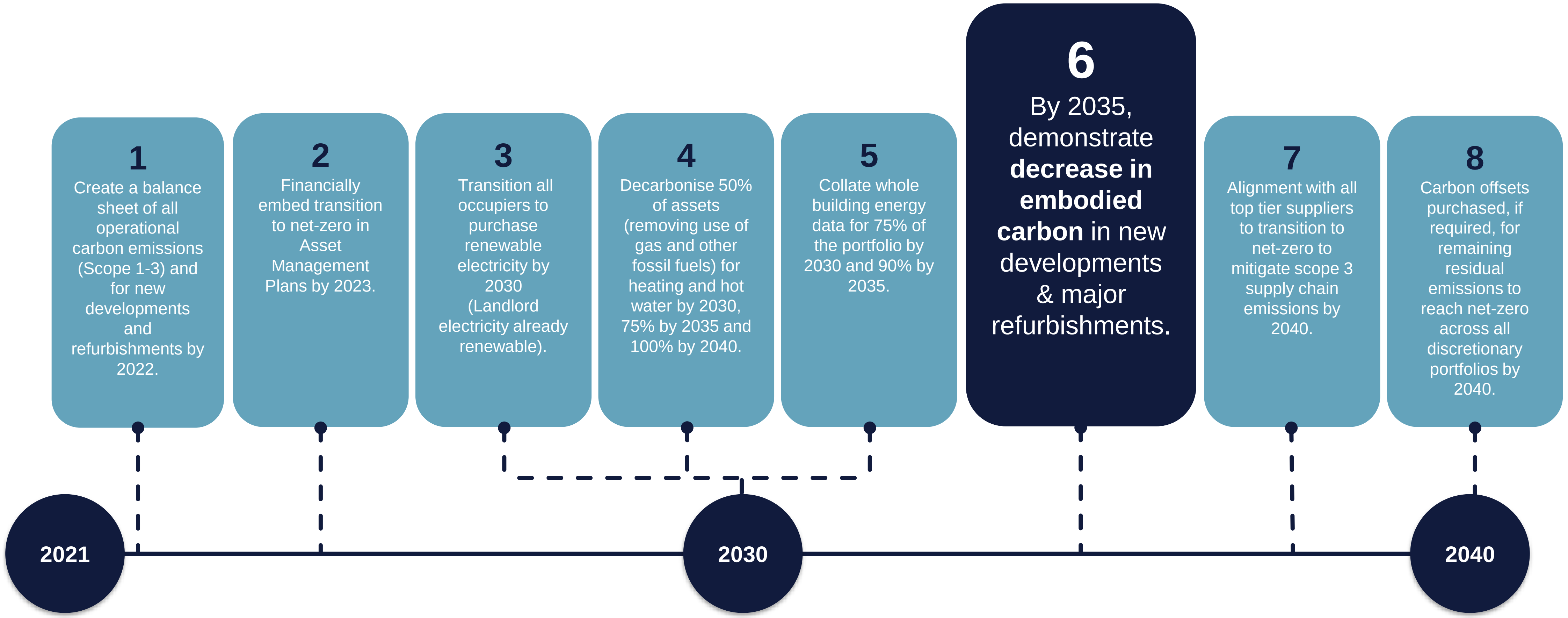
4. Implement processes to identify and gather data on landlord and occupier consumption of the following Scope 3 categories not yet quantified:

    - Occupier and landlord refrigerant fugitive emissions
    - Occupier and landlord water consumption
    - Occupier and landlord waste arising
    - DTZI purchased goods and services

TARGET YEAR 2030

Action 6

By 2035 demonstrate decrease in embodied carbon in new developments and major refurbishments.



Strategy:

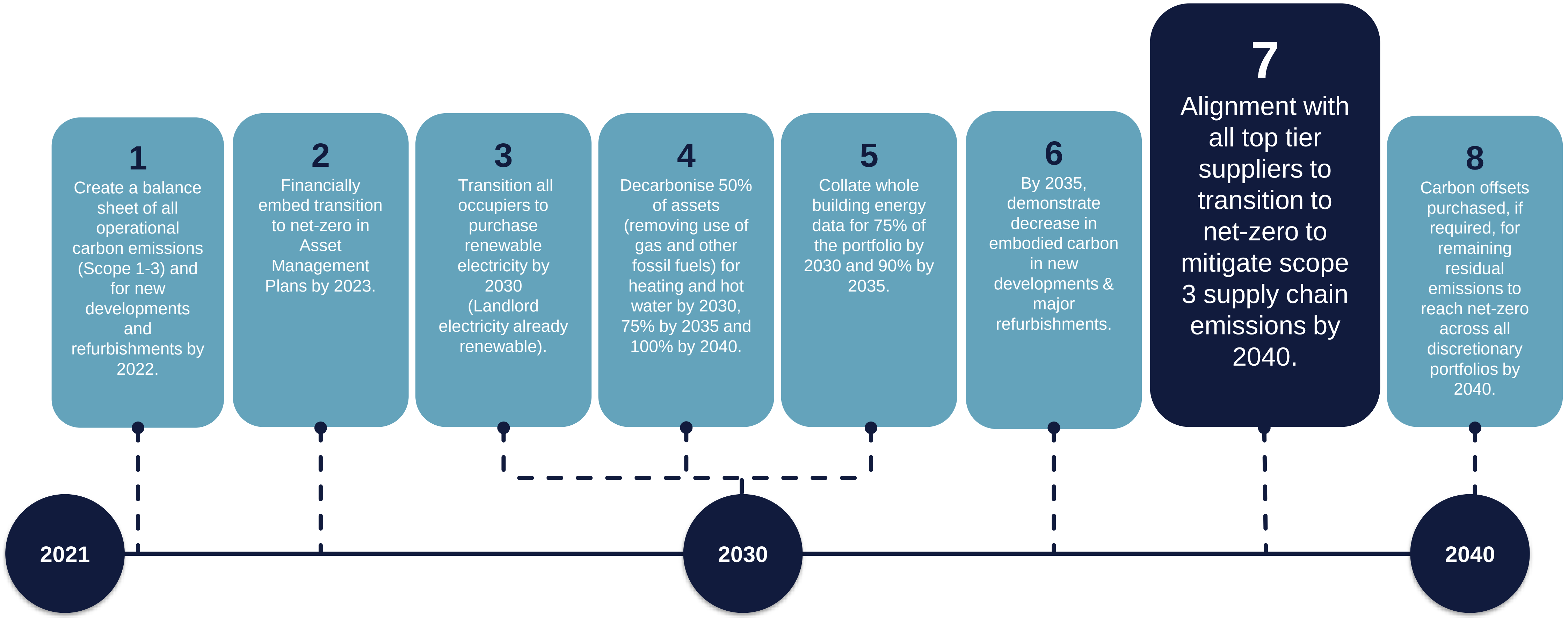
1. Establish a policy to measure the embodied carbon emissions of new construction and major refurbishments by undertaking 'Lifecycle Assessments' to identify optimisation in design and reduce emissions as and when these arise. This will form part of the development of the balance sheet of carbon emissions (as detailed in Action 1).

2. Minimise embodied carbon, in line with achievable targets ($kgCO_2/m^2$), which will be set by 2030, via adopting circular economy principles and innovative methods including low carbon intensive materials and simple structures.

TARGET YEAR 2035

Action 7

Alignment with all top tier suppliers to transition to net-zero to mitigate Scope 3 supply chain emissions by 2040.



Strategy:

1. **Calculate our supply chain related carbon emissions and key material suppliers for engagement in 2022/23 across our discretionary assets.**

2. **Establish a robust set of supplier vetting processes to ensure material suppliers are setting net-zero and climate-related targets.**

3. **Undertake analysis on each portfolio's supply-chain related carbon emissions and key material suppliers. Those that exceed the materiality threshold* will be selected for ongoing engagement thereafter.**

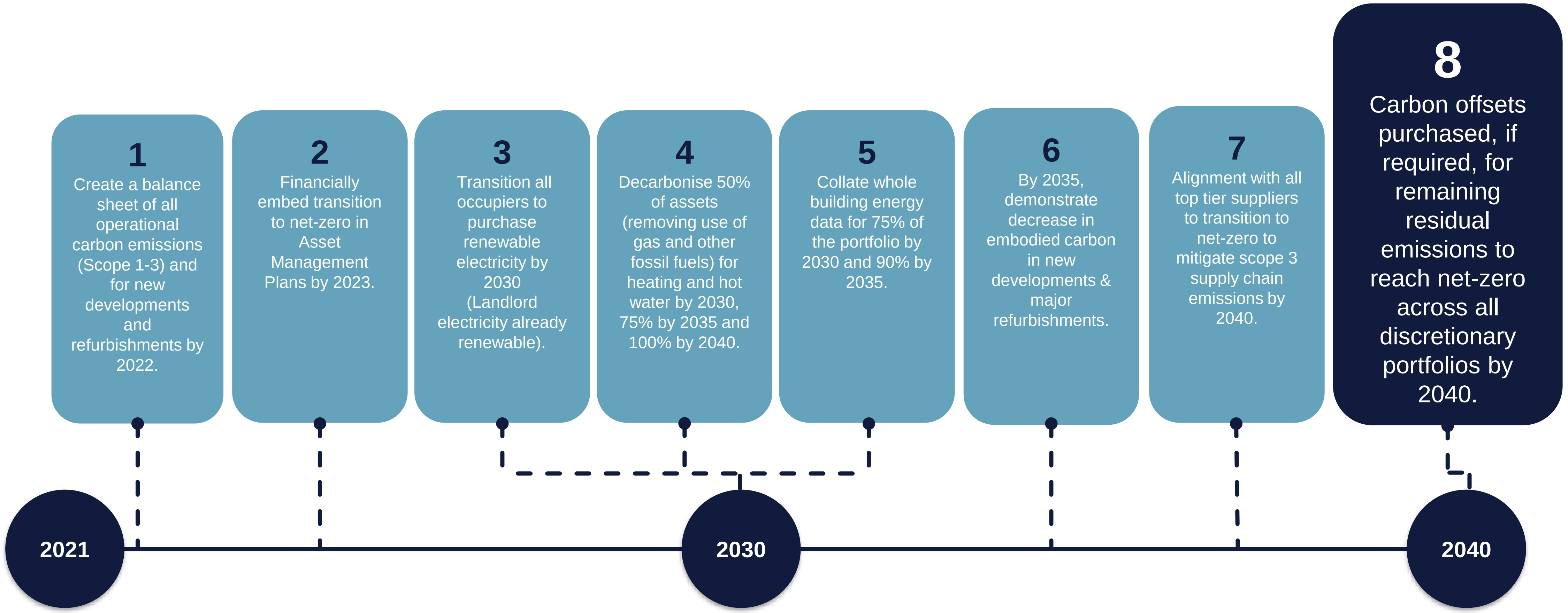
4. **Engage with material suppliers to support them in setting their own science-based net-zero targets.**

materiality threshold has not yet been determined.

TARGET YEAR 2040

Action 8

Carbon offsets purchased for remaining residual emissions to reach net-zero across all direct investment portfolios by 2040.



Strategy:

1. **Identify appropriate and credible offsetting schemes for purchase and offset any residual emissions on the voluntary market in 2040 (and ongoing) to reach net-zero across all direct-investment portfolios.**

2. **Align credible projects with the wider Sustainable Development Goals (SDGs) and social and environmental values that we have committed to.**

3. **Aim to align long term offsetting strategy with best practice guidance such as the Oxford Principles for Net-Zero aligned Carbon Offsetting.**

   - **Appropriate and credible schemes will ensure that the five key offset principles are met for any offsets purchased. Including:**
     1. **They are additional**
     2. **They are not overestimated**
     3. **They are permanent**
     4. **They are not double-counted**
     5. **They do not cause wider harm**

TARGET YEAR 2040

Industry Initiatives & Voluntary Disclosure

Reporting and benchmarking is an essential part of our RI and net-zero strategy where disclosure of ESG performance to internal and external stakeholders ensures transparency and sharing of best practice. In addition, disclosure allows comparison and benchmarking of performance internally and externally to be undertaken, which supports measurement of progress and performance over time. We commit to reporting on our progress to net-zero via our annual report to ensure full transparency. All environmental data and progress will be checked by a third-party.

Alongside all client and voluntary reporting, we also complete all mandatory reporting, including the Energy Saving Opportunity Scheme (ESOS), and comply with all legislation, including the Minimum Energy Efficiency Standard (MEES).

GRESB

We have been a member and participant to the Global Real Estate Sustainability Benchmark (GRESB) since 2015. The GRESB reporting framework has helped to develop our approach to RI through peer benchmarking and analysis of performance annually. The applicability of each managed fund's participation in GRESB is reviewed on an annual basis, in line with each fund's overall strategy.

TCFD

We are committed to integrating the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD) into our responsible property investment approach and as such publicly supports it. We have put in place the governance and process to support the identification and monitoring of our exposure to climate related risks and opportunities across our business and our client's assets in order to preserve value. We report annually on its progress in implementing the recommendations of the TCFD.

BBP

We have aligned with the BBP's Climate Commitment and plan to become a formal signatory in 2022. We understand that the sharing of knowledge and approaches around net-zero, through commitments such as this, can support the development of industry best practice. Only through this, can the industry make the significant changes that are required to achieve net-zero. As a signatory, we commit to providing continued transparency over our net-zero progress and collaborate with other organisations to drive change.

PRI

We became a signatory to the United Nations Principles for Responsible Investment (PRI) in 2013. PRI is a voluntary framework for incorporating ESG into investment decision making and ownership practices through the implementation of their six key principles.

IIGCC

We became a member of IIGCC in 2021. IIGCC is a membership body for investor collaboration on climate change. As a member, we are supporting in the development and adoption of best practice across the financial sector. It also enables us to feed into market policies and practices that address the long-term financial risks associated with climate change.

Detailed Scope of the Net-Zero Commitment

In setting the net-zero pathway strategy we have aligned the reporting boundary to the BBP's net-zero framework. The BBP requires signatories to include the following activities within the scope of their net-zero targets.

This is closely linked to the net-zero asset definition as stated by the UK GBC. This will apply to all of our discretionarily managed portfolios.

ACTIVITIES WHICH GENERATE GHG EMISSIONS FOR REAL ESTATE INVESTMENTS (DIRECTLY OR INDIRECTLY)	ACTIVITIES CONTROLLED AND MANAGED BY LANDLORDS	ACTIVITIES CONTROLLED AND MANAGED BY OCCUPIERS
Energy to operate buildings (electricity, fuels & heat networks)	✓	✓
Water to operate buildings	✓	
Waste generated during operation	✓	
Refrigerants (Fugitive emissions)	✓	
Purchase of goods and services (M&E & property management services)	✓	
Business travel (excluding that associated with development works)		
New development works	✓	
Refurbishment works	✓	✓
Fit-out Works	✓	✓
End of life		

We have included the following items within the net-zero boundary

AREA	ACTIVITY		GHG SCOPE	NET-ZERO SCOPE	EMISSIONS BASELINE PREPARED AS A PART OF COMMITMENT
CORPORATE	Energy consumption		Scope 1 & 2	No	Corporate emissions are not included within the scope as the focus is on our real estate investments. It is also likely these emissions are not significantly material. Corporate emissions are also considered within DTZI's parent company net-zero commitment
	Waste production		Scope 3	No	
	Business travel		Scope 3	No	
	Employee commuting		Scope 3	No	
	Purchased goods and services		Scope 3	No	
CLIENT PORTFOLIO: OPERATIONAL	Energy (fuels and electricity) purchased	Landlord	Scope 1 & 2	Yes	Yes
		Occupier	Scope 3	Yes	Yes
	Refrigerants	Landlord	Scope 1	Yes	No emissions baseline set - only qualitative pathway actions set
		Occupier	Scope 3	Yes	
	Water	Landlord	Scope 3	Yes	Yes
		Occupier	Scope 3	Yes	Emissions baseline to be set in future. Interim qualitative pathway action set until data captured
	Managed Waste	Landlord	Scope 3	Yes	Yes
		Occupier	Scope 3	Yes	Baseline to be set in future. Interim qualitative pathway action set until data captured
	Purchase of goods and services	Landlord	Scope 3	Yes	Interim qualitative pathway actions set
		Occupier	Scope 3	No	Not in scope
	Occupier Transport (landlord impacts)		Scope 3	Yes	No emissions baseline set – this scope only applies to support sustainable transport infrastructure in asset management
CLIENT PORTFOLIO: DEVELOPMENT	New development works		Scope 3	Yes	Emissions baseline to be set in future
	Refurbishment works		Scope 3	Yes	
	Controlled fit-out works	Landlord	Scope 3	Yes	
		Occupier	Scope 3	Yes	

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