

## B&I Capital Group – Responsible Investment Practice

At B&I Capital, we have had responsible Environmental, Social, and Governance (ESG) practices at the core of our company philosophy since the firm's launch in 2007. We view ESG as means to continually improve our firm as well as our investment process for the benefit of all stakeholders, while recognizing the risks of not doing so. Moreover, we understand ESG as our responsibility towards all our investors as we invest alongside and on the same terms as our clients. We are active supporters of state-of-the-art ESG practices and raising awareness in this regard to achieve a positive change. The firm's responsible investment activity is overseen by the executive management and the board of directors.

Since May 2019, B&I Capital is a signatory of the **United Nations Principles for Responsible Investment (UNPRI)** and as such is formally committed to the following principles within our investment practice.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making process.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

From an investment perspective, we have always viewed ESG initiatives of REITs as important factors for long-term value creation, hence incorporating a REIT's ESG profile (especially Governance) in our investment analysis and decision-making processes. Our portfolio construction is a bottom-up, index agnostic, and best-in-class stock picking process. To properly assess a REIT's ESG profile, we combine qualitative and quantitative data from both external and internal sources.

Regarding the external sources, B&I Capital is a member of Global Real Estate Sustainability Benchmark (GRESB) for investors. GRESB specializes in assessing and benchmarking the ESG of real assets with a very close focus on environmental and social factors. As members, we have access to their detailed data, scorecards, benchmark reports, etc. It also enables us to track the REITs' ESG improvements on YoY basis. Complementary to GRESB, we subscribe to Green Street Advisors, a specialist in assessing of corporate governance of individual real estate companies. They provide their own proprietary evaluations and rankings of corporate governance using a set of factors focusing on board make-up, compensation, anti-takeover weapons, and other conflicts of interest.

Regarding the internal sources, we gather ESG data via our proprietary B&I Capital ESG questionnaires, open dialogue with company managements which includes face to face meetings, conference calls, property visits, conferences, etc. We have developed a quantitative scoring methodology reflecting the questionnaires which evaluates the ESG performance of individual REITs.

Not all REITs or RE companies (typically small caps and/or specific geographic regions) are covered by GRESB or Green Street Advisors and thus we have created our own internal assessment procedures reflecting the ESG factors we believe are most material for REITs (see below). The comprehensive ESG overview of individual companies that we are invested or might invest in is part of the B&I research and analysis process. We put a lot of emphasis on the development of each individual company over time. We look for an improving trend rather than just investing in REITs that are already highly rated.

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While REITs generally strive on their own to achieve high GRESB and/or other sustainability rating scores, there is also a cost benefit for many REITs in investment in eco-friendly equipment (solar panels, wastewater recycling, etc.) resulting in a better management of resources employed. Another reason why REITs are increasingly focusing on attaining strong sustainability scores is that it allows them to issue green bonds, which helps to further diversify their funding sources, or raises the likelihood of possible inclusion into ESG indices such as the MSCI ESG Indices.

Socially it is hard for REITs to have a major impact as they are typically small employers but there are many examples of childcare for employees, board and management diversity, and emergency plans in case of natural disasters as a way of having a positive social impact, among others. Most REITs we meet with do have sections which highlight their efforts in these areas but generally because of the scale of each REIT it is clear that, relative to other industries, they are less impactful.

Governance is the area where B&I Capital has the most impact. As an engaged unitholder we, as a firm, are very active in suggesting governance improvements and have examples where managements have taken on board our suggestions. We vote on all proposals put forward at AGM/EGMs and always decide based on our own internal opinion that can at times differ from that of proxy advisors like ISS. We believe governance is the one area with the scope for the greatest improvement and we seek to be a strong contributor to the industry's governance development. GRESB data is self-reported by the individual REITs. B&I Capital has an advantage when it comes to governance analysis as we do hundreds of personal meetings with managements a year which helps us to determine which managements add value and align themselves with stakeholders. This is a major part of our investment decision process.

Furthermore, we are very active in regional industry bodies, namely EPRA in Europe and APREA in Asia, to promote better governance and to formulate best practice rules for REITs. In addition, B&I Capital was active as a contributor on regulatory consultation papers with regulators (MAS, HK SEC, etc.). As UNPRI signatory, we transparently report on our ESG practice and seek an adequate ESG disclosure from our investments as well.

## Material ESG factors for REITs

In ESG analysis of individual REITs, we assess the below ESG factors. These were selected as the most material to the REIT industry based on our long-term experience and comply with GRESB, Green Street Advisors, and the Sustainability Accounting Standards Board (SASB) for real estate.

### Environment

We assess the following environmental factors and their development over time. Primarily, we seek reduction targets in all EMS categories. Additionally, we actively encourage the REITs to further their efforts in order to minimize their overall environmental impact and to offset their footprint where possible. The REITs should apply their environmental policies on both asset and portfolio level.

- 1) Environmental Management System (EMS)
  - a. GHG emissions management
    - Our primary GHG focus
      - i. Carbon dioxide (CO<sub>2</sub>)
    - Other GHG
      - ii. Methane (CH<sub>4</sub>)
      - iii. Nitrous oxide (N<sub>2</sub>O)
      - iv. Hydrofluorocarbons (HFCs)
      - v. Perfluorocarbons (PFCs)

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- vi. Sulphur hexafluoride (SF6)
  - b. Energy Management
    - i. Energy consumption
    - ii. Use of energy from renewable resources
    - iii. Energy ratings
  - c. Water Management
    - i. Water consumption
    - ii. Water recycling
  - d. Waste Management
    - i. Waste production
    - ii. Waste recycling
- 2) Green building certificates
  - a. Received on newly developed and/or renovated real estates
  - b. In process of receiving
- 3) Green financing (e.g., green bonds)
- 4) Involvement in any kind of environmental scandals

## Social

We seek an overall good social practice. This includes REIT's fair engagement with both internal and external stakeholders, as well as its positive engagement with local communities. We assess the following social factors.

- 1) Compliance of human rights
- 2) Employee engagement, equality, diversity, and inclusion
- 3) Employee well-being management
  - a. Development/Training programs
  - b. Health and safety
- 4) Involvement/consideration of all stakeholders in the corporate decision-making process
- 5) Tenant relations and satisfaction
- 6) Involvement with local communities
- 7) ESG requirements on external stakeholders (e.g., suppliers, service providers, tenants, etc.)

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## **Governance**

We focus on the following factors when assessing a REIT's corporate governance.

- 1) Corporate transparency
- 2) Business ethics (e.g., involvement in non-ethical activities or scandals in recent years)
  - a. Bribery and corruption
  - b. Political lobbying and donations
- 3) Independency of board of directors
- 4) Board election (e.g., periodicity, flexibility, diversity, transparent AGM voting track record etc.)
- 5) Board members' terms
- 6) Conflicts of interest
- 7) Management compensation
  - a. Internal management remuneration and its determination for internally managed REITs
  - b. Management fee structure for externally managed REITs
- 8) Capital management
  - a. Capital allocation
  - b. Buybacks
  - c. Responsible capital raising practice (e.g., not issuing new equity while shares trade on discount etc.)
- 9) Alignment of interests between management and shareholders (e.g., 'skin in the game', etc.)
- 10) Balance of power (management vs. shareholders)
- 11) Employee unit purchase plan
- 12) Anti-takeover policy

## **Additional**

We assess the following additional ESG-related factors. Although not material as per se, they are helpful to complete a REIT's ESG picture.

- 1) Public commitment to ESG (e.g., UN PRI, UN Global Compact, etc.)
- 2) Public disclosure on ESG activities
- 3) Support of environmental causes
- 4) Support of charitable causes
- 5) Any other ESG-relevant area the REIT does and should be disclosed

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