



Responsible investment policy & framework for real estate equity



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1. Our approach to responsible investment

1.1 Introduction and scope

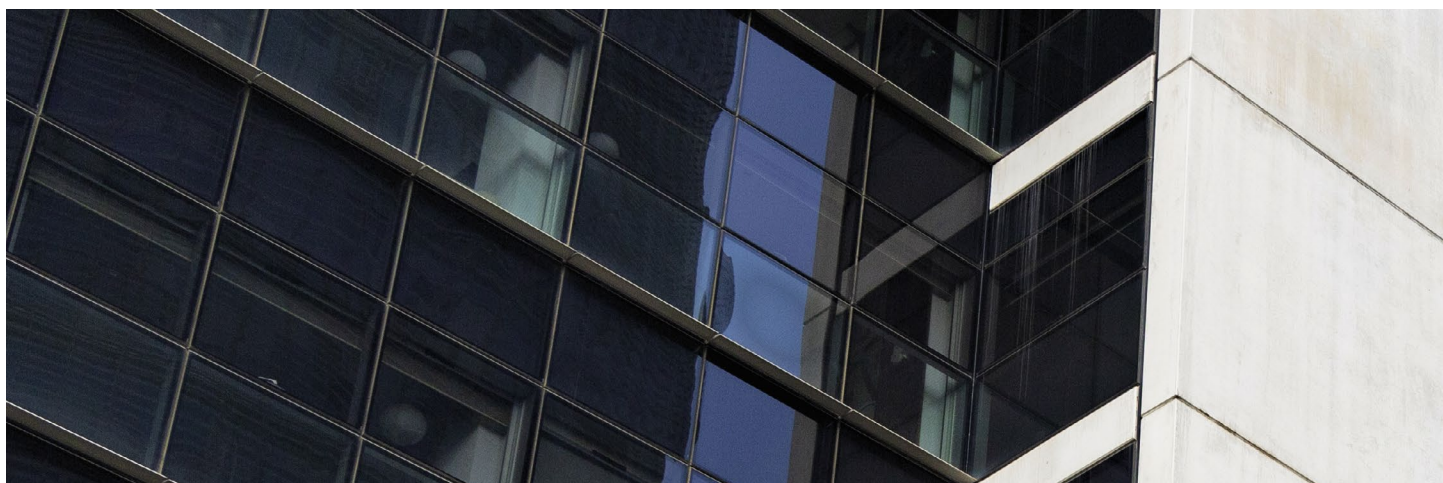
LGIM Real Assets (LGIM RA) is a division of Legal & General Investment Management (LGIM), one of Europe's largest institutional asset managers and a major global investor. As a long-term investor in the real estate business, we have a responsibility to protect our clients' capital through integrating ESG considerations into our investment process. The built environment has a significant role to play in addressing our carbon footprint and the impacts that our assets and operations have on the environment and the communities in which they serve.

This document sets out our Responsible Investment Policy for the real estate equity business. Over the past ten years LGIM RA has established a robust policy and strategy to deliver on and actively manage the sustainability performance of our real estate property portfolios; covering all elements of the property lifecycle. This policy establishes the principles, governance and objectives that will be adopted by the platform. We continuously review and update this policy in line with emerging ESG priorities including responding to evolving regulatory developments.

1.2 Responsible investment purpose and guiding principles

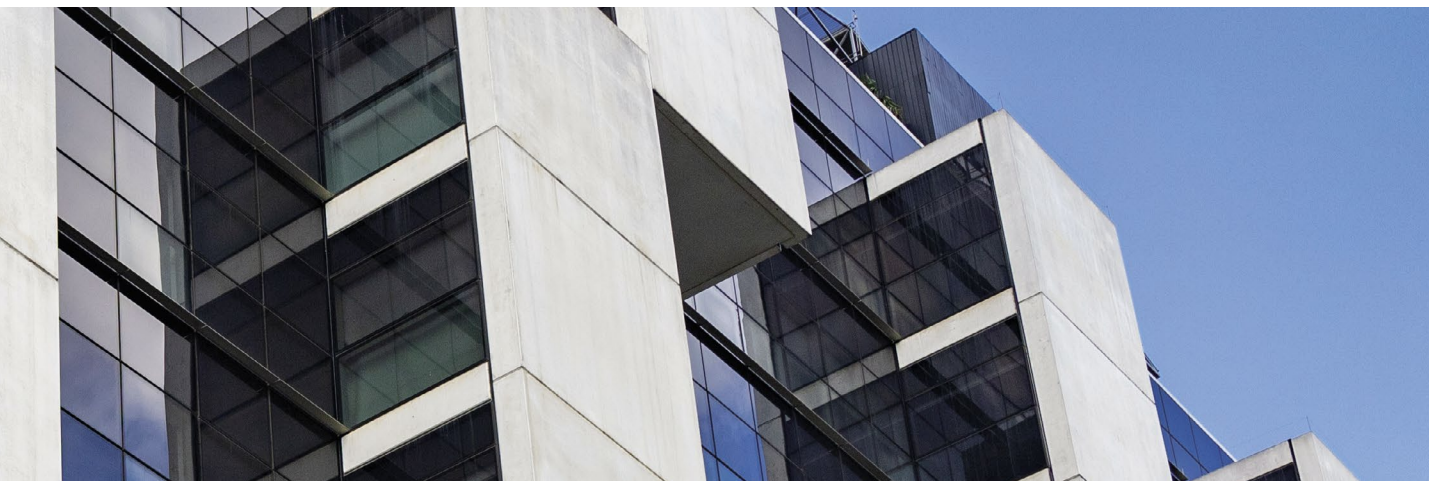
Responsible investment is an investment approach, which integrates environmental, social and governance (ESG) factors into investment analysis and decisions to deliver long-term sustainable investment returns¹. At LGIM Real Assets, we believe a responsible and sustainable approach to real assets investment management will enable our business to deliver long-term positive value to all our stakeholders and has the potential to create real world impact. Our responsible investment beliefs and core principles are embedded into our culture, asset management and investment process. We believe that effective integration of ESG factors are important for our business for the following reasons:

- a. LGIM believes that well governed companies that manage all stakeholders, including the environment, are more likely to deliver sustainable long-term returns
- b. Consideration of ESG issues is about risk management and is, therefore, part of fiduciary duty
- c. Companies are intrinsically linked to the economies (and societies) in which they operate and, therefore, investors have a responsibility to the market as whole
- d. The ultimate goal is to protect and maximise the investment returns for the benefit of our clients' interests



¹ LGIM applies The Investment Association industry definitions of Responsible Investment as our standard framework. The IA Responsible Investment framework published in Nov 2019 categorises and provides standard definitions for the different components of responsible investment., www.theia.org/campaigns/sustainability-and-responsible-investment

Figure 1: LGIM Real Assets Responsible Investment Purpose and Guiding Principles



1.3 Responsible investment objectives

We set ESG objectives across our real estate investment and management activities. These high-level objectives are implemented at fund and asset level initiatives through our ESG strategy. We believe that this will reduce risk and drive a positive impact on income streams and capital values.

To gain support for this process from key stakeholders, we aim to articulate clearly the connections between ESG and investment value, particularly to our investors and

shareholders. We also recognise that developing an effective occupier engagement programme will be imperative in achieving our decarbonisation objectives. We consider this engagement a crucial part of our fiduciary duty and responsibility as a landlord.

In order to ensure resilient long-term investment returns from our property portfolios we recognise the need to employ robust ESG risk management processes. We have identified a set of key material ESG issues, which are interconnected and have grouped them into six themes – refer to *Figure 2*.

Figure 2: Real Estate key themes that support our responsible Investment objectives



* For full details of our net zero carbon strategy and approach, please refer to the LGIM Real Assets Net Zero Carbon roadmap [here](#).

1.4 Governance, roles and responsibilities

1.4.1 Board-level governance

LGIM RA Real Estate Equity strategic responsible investment decisions are governed by the Legal & General Property board, which is chaired by the Head of Real Assets. This board level committee governs all the ESG activities, processes and approach to regulatory compliance. The committee reports into the LGIM Real Asset Limited Board.

LGIM RA's responsible investment strategy and policies are aligned with both Legal & General (L&G) Group's policies and management and LGIM's responsible investment policies that are supported by the LGIM Responsible Investment Group (RIG).

At L&G Group level, there are two relevant key group committees for LGIMRA:

- i) Group Environment Committee (GEC). The GEC has responsibility to ensure compliance with the principles of good corporate governance. It is also responsible for developing and reviewing Group ESG strategy and policies.
- ii) Group Environment Committee (GEC). The GEC is chaired by the Group Chief Risk Officer and provides

strategic direction for the management of environmental impact, with a focus on the Group's management of the financial risks from climate change. It acts as the central group committee to oversee climate risk management to ensure a consistent group-wide approach. The Group Environment Committee meets quarterly with LGIMRA representation.

LGIM RA director of Strategy & ESG is an observer at the GEC. Under the governance of the GEC, there are relevant subcommittees, where the LGIM RA ESG team members are represented:

- iii) Climate Risk Subcommittee;
- iv) Environment Subcommittee; and
- v) Climate Risk Working Groups

In terms of governance at LGIM level, the Responsible Investment Group (RIG) advises the LGIM Executive Committee in setting global, cross-asset strategy, principles and positioning across the entire business. The Head of LGIM RA is part of the RIG committee and therefore ensures that LGIM RA's responsible investment strategy and policies are aligned across the broader LGIM platform.





1.4.2 LGIM RA ESG Team

LGIM RA has a dedicated ESG team, led by the LGIM RA Head of ESG who reports into the Director of Strategy & ESG. The team has a dedicated Sustainability Manager who supports ESG integration efforts across the Real Estate platform. The ESG team are responsible for setting the ESG strategy and framework across the business. These are approved by the Legal & General Property board who has oversight of ESG integration and implementation across the real estate equity platform. The ESG team supports ESG development and integration across the real estate equity platform, working closely with the various teams across the business - fund management, asset management and property operations, transactions, development and technical services. All these areas play an important role throughout the investment process – across the life cycle of the assets.

The Responsible Investment & Sustainability Forum, with practitioner representation from across the business, exists to support the development and implementation of processes and procedures. This forum has

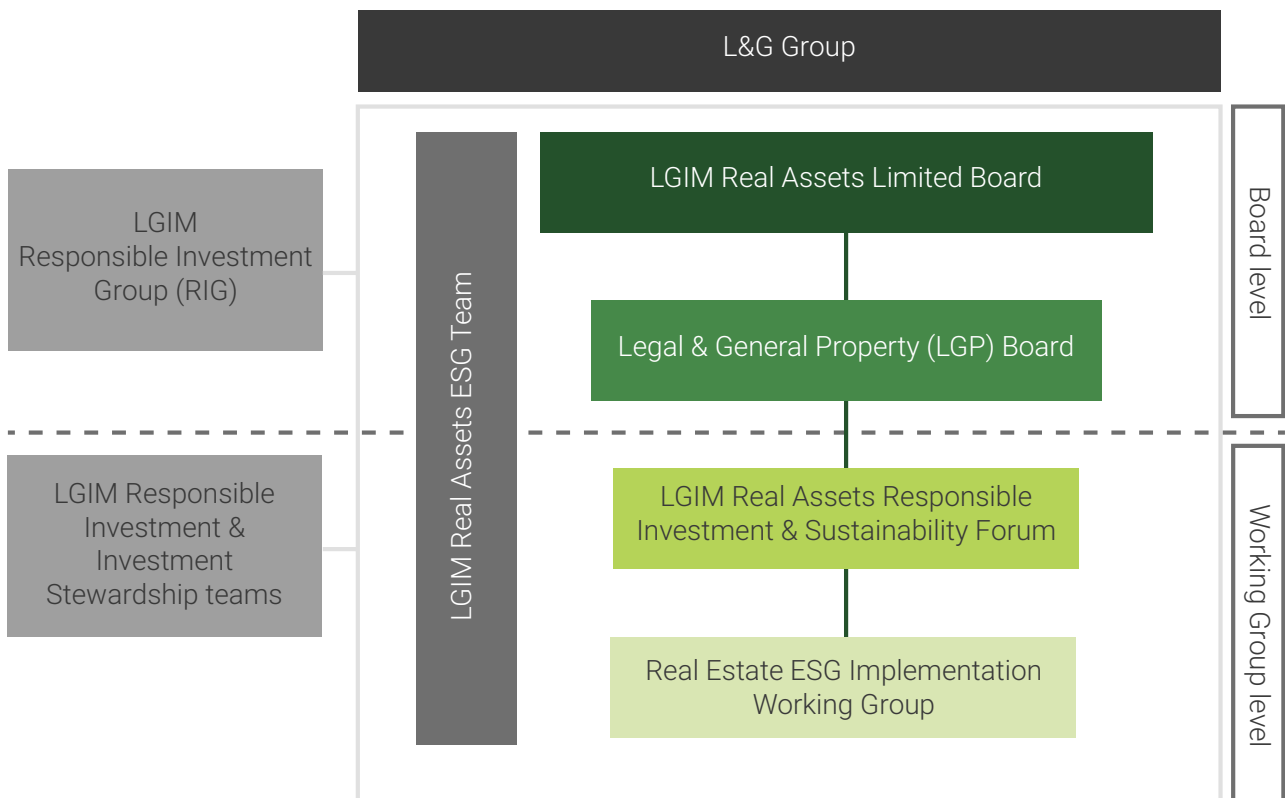
representation from relevant business areas within LGIM RA, as well as representation from ESG teams from the wider LGIM business.

The forum’s primary role is to support the development of ESG strategy and integration across the business and ensure that it is aligned with the wider responsible investment approach at LGIM and Group level. Some of the key objectives of this group are to:

- Act as a platform for knowledge sharing of relevant responsible investment topics and market trends both within Real Assets and across groups in LGIM
- Facilitate LGIM RA internal implementation and integration efforts via working groups
- Drive ESG development and integration across the real estate equity platform
- Guide and prioritise ESG relevant topics and decision
- Inform and guide firm-wide communications effort on ESG for LGIM RA



Figure 3: LGIM Real Assets Responsible Investment Governance Structure for Real Estate Equity



2. ESG Integration

We are committed to integrating ESG into our investment process to ensure the assets that we acquire and manage are of the highest possible quality. We integrate ESG considerations into all our investment decision making by identifying and managing the issues that are, in our view, the most material to our assets across the asset lifecycle. ESG implementation is essentially part of the responsibility of all teams involved, from its acquisition and in some cases, its construction and development, through to its operation in-use, to ensure that it is fully integrated throughout the investment process – from acquisition to operational, and to exit.

2.1 Management objectives

2.1.1 Governance

To ensure that the appropriate governance and management structure is in place to oversee the implementation of this policy, including putting in place standards and procedures to effectively manage current

and emerging risks and opportunities and drive ESG performance. Key management and performance targets are tailored to each activity area and are set in order to continually improve and push LGIM beyond legislative compliance and other requirements. Refer to Section 1.4 on Governance, Roles and Responsibilities.



2.1.2 Risk Control and Compliance

To ensure that the proper approaches and controls are in place in order to identify, manage and mitigate all ESG related risks and controls. To use the LGIM RA governance structure to develop and adopt new standards and procedures and to pursue ESG best practices to push performance beyond compliance.

2.1.3 People and Knowledge Management

To ensure ongoing commitment from all staff in embedding ESG initiatives in individual performance objectives and throughout the company's activities and to build knowledge management systems and learning and development in ESG areas. To collaborate with the Research team to provide cutting-edge research and analysis to help inform best practice across business activities, helping us to remain forward thinking in our ability to tackle all emerging ESG risks and take advantage of opportunities (with particular reference to climate change).

2.1.4 Stakeholder Engagement

To communicate LGIM RA ESG objectives, policy and strategy to all key stakeholders in order to make them aware of initiatives and support them in engaging with the material issues. This includes maintaining high levels of involvement with key industry bodies, engaging with occupiers and investors and making a firm commitment to external knowledge-sharing. This policy is communicated to those working for and on behalf of the business. LGIM RA is also an active participant in a number of key industry organisations working to promote and progress best practice. In 2019, we scaled up our ambition to deliver buildings that are Paris-aligned, becoming a signatory to the Better Building Partnership Climate Change Commitment and pledging to achieve net zero carbon for our real estate portfolio by 2050 or sooner.





**Climate Change
Commitment and
pledging to achieve net
zero carbon for our
real estate portfolio by
2050 or sooner.**

To strengthen engagement and collaboration with our occupiers on net zero carbon, social impact and other key ESG themes. To work with our property management supply chain to increase engagement through new approaches and to measure and monitor progress towards our ESG objectives.

2.1.5 Target Setting

To set platform and fund-level targets that are aligned with our net zero carbon objectives and other key ESG themes.

To focus on real, measurable performance improvements which will build occupier and investor trust and engagement. To this end, we will set stretching short-term and long-term management and performance targets, which fit with and go beyond relevant UK and EU government policy and legislation.

2.1.6 Measurement and Monitoring

Based on the target and objectives defined, key performance indicators are established, and some are in development, to track and monitor the performance and progress of our goals across the six key themes of:

- Net zero carbon
- Climate risk and resilience
- Social impact and communities
- Biodiversity
- Health and wellbeing
- Circular economy



Setting a baseline and rigorously monitoring performance is a key component in driving change and maintaining momentum to achieve ESG outcomes. We will use technology and innovative solutions to improve data quality and measurement.

2.1.7 Reporting

To make sure that all our stakeholders have access to relevant information on our ESG performance, presented in a way that reflects our internal strategic and management approach. This can be achieved through a range of reporting frameworks and methods.

- LGIM has been a signatory to the **UN Principles of Responsible Investment** (UNPRI) since 2010 and has achieved an A+ rating for overall Strategy & Governance and A rating for our Property module in [2019]
- We are also a member of the **Global ESG benchmark for Real Assets** (GRESB), undertaking annual assessments across many of our fund portfolios as a standardised and validated approach in ESG performance reporting
- LGIM RA reports our climate risk through the **Taskforce on Climate-related Financial Disclosure** (TCFD) report
- LGIM RA reports ESG performance into the annual **L&G Group CSR Report** and **Annual Report**

2.2 Activity specific objectives and implementation

In order to ensure that opportunities are fully realised and key risks within each focus area are effectively managed, LGIM RA has implemented management procedures to generate and manage strategic targets in the following core areas of our operation:

- Acquisition and transactions
- Tenant screening
- Fund management
- Asset management
- Property management
- Development and refurbishment

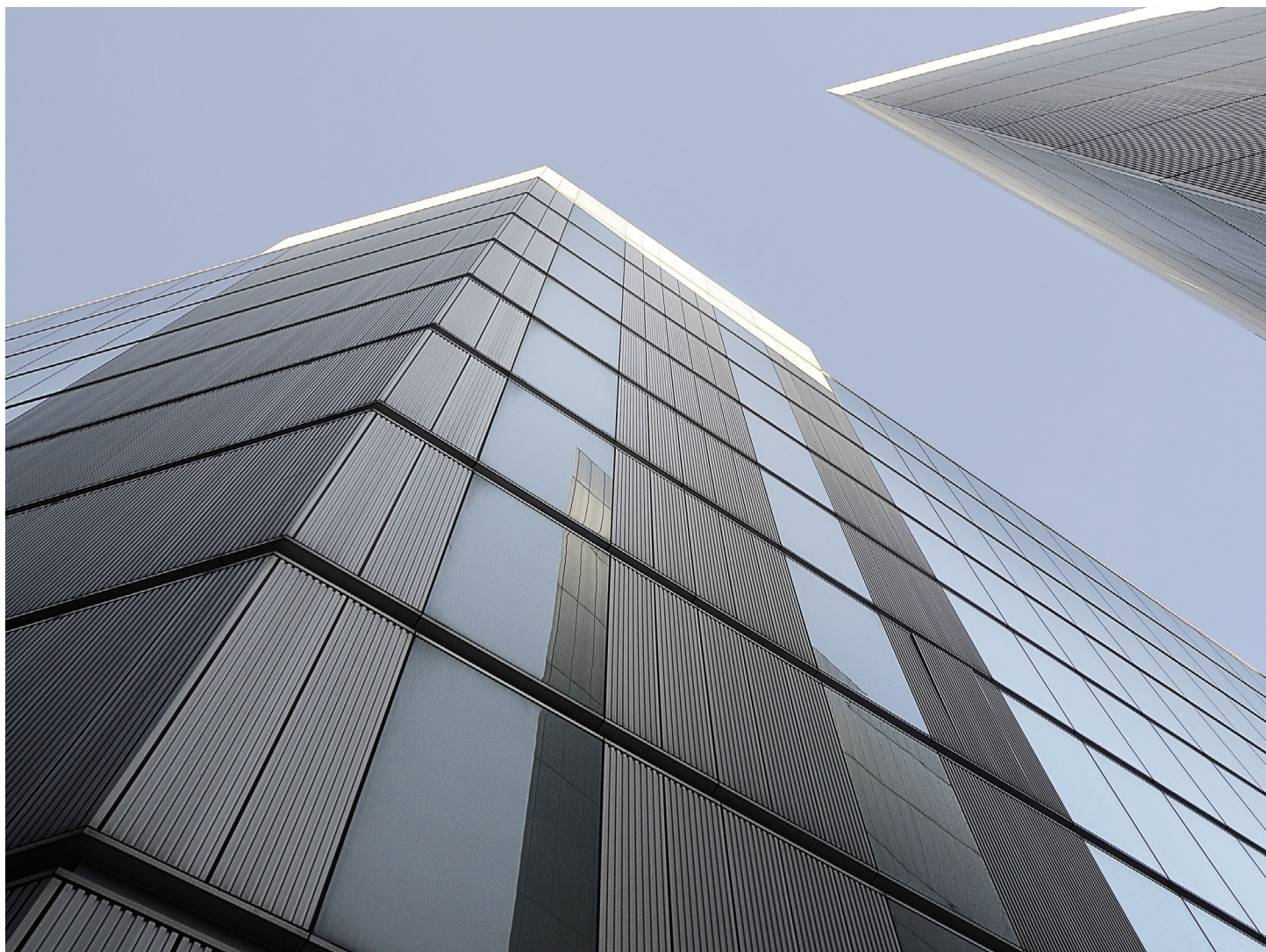
This ensures that we manage all environmental, social and economic impacts, and maximise opportunities in a consistent and systematic manner.

2.2.1 Acquisitions and Transactions

To consider the risk and opportunities associated with the ESG profile of individual transactions and major capital expenditure projects. To ensure that the due diligence process for all new acquisitions and transactions incorporates requirements around key ESG themes.

2.2.2 Tenant screening

We will undertake tenant screening on all new primary lease agreements based on ESG grounds to identify occupiers undertaking activities that may have a material ESG risk. With regard to specific exclusions, we will not let space to companies identified by LGIM under the Future World Protection framework as being involved in controversial weapons or thermal coal



mining. LGIM also identifies organisations which it deems to be in breach of the UN Global Compact (UNGC). As the organisations on this list evolve periodically, it is not practical to exclude them in the same systematic way. However, these exposures will be identified at first leasing and notified to the Investment Committee or responsible Fund Manager, who will then consider whether the exposure creates material ESG risk for the relevant portfolio. For segregated mandates, we may apply additional tenant screening criteria requested by our clients or if part of the fund's investment strategy.

2.2.3 Fund Management

To develop and implement a portfolio risk mitigation and adaptation strategy, incorporating the key ESG risks and opportunities from each of the six ESG key themes into our decision-making processes. This will help to support investment returns and ESG performance.

Asset Management

To integrate the management of ESG risks and opportunities as identified at fund level into Asset Sustainability Plans (ASPs). To work with our property management supply chain to implement the asset level plans and to realise ESG related opportunities, particularly through occupier engagement on ESG performance.

2.2.4 Property Management

To support our managing agents and Facilities Management Integrator in delivering annual objectives which aim to:

- vi) Reduce energy use and carbon emissions
- vii) Prevent pollution
- viii) Report publicly our environmental performance
- ix) Maintain ISO 14001 to manage and continually improve the environmental impact of our property management
- x) Protect the environment and biodiversity
- xi) Improve health and wellbeing in our properties
- xii) Support the measurement and implementation of social impact and community programmes
- xiii) Support improvements in climate related resilience and adaptation

2.2.5 Development and Refurbishment

To require high ESG standards to be targeted and designed into any new development or refurbishment projects and that these standards are comprehensively reviewed on an annual basis. Furthermore, to minimise negative environmental and social impacts on site and through the supply chain and to maximise the creation of positive environmental, social and economic opportunities in the local community.



Contact us

For further information about LGIM Real Assets, please visit www.lgim.com/realassets or email contactrealassets@lgim.com



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