KFIM Response to the Task Force on Climate-Related Financial Disclosures

Governance

a) Describe the board's oversight of climate-related risks and opportunities.

The KFIM Board has full oversight of climate-related risks and opportunities. The Board delegates management of climate-related risks to the Head of ESG who has set-up the ESG Real Estate Committee (ESG Committee) which includes at least two Board members and is chaired by the Head of ESG. The Chair of the ESG Committee and board members are also members of the KFIM Investment Committee. The ESG Committee reports updates to the Board on a quarterly basis.

Our adopted ESG strategy applies not only to our professional activities as a Real Estate Investment Manager, but equally to our own staff, operations, and occupation. We have created our own New Change Committee to provide a forum for members of the KFIM team to provide feedback, ideas and implement projects across the following key areas:

- Environmental Impact (as applicable to KFIM's corporate operations as opposed to client AUM).
- Social Impact (charity activities, "outreach" to the wider industry/community).
- Culture & wellbeing (social activities, diversity and inclusion by ensuring KFIM maintains an open, progressive and supportive working environment, office environment, internal communications).
- IT (strategic matters)
- Training (personal career development, mentorship and CPD)

The KFIM ESG Real Estate Committee

The ESG Committee is formed to ensure that Environmental, Social and Governance (ESG) factors are central to decision-making, development, and operation of KFIM's Assets Under Management (AUM). The ESG Committee is responsible for the definition, update, implementation and monitoring of the ESG Strategy. This Strategy is expected to evolve over time to maintain a best-in-class ESG approach. The members of the committee serve as ambassadors to ensure the ESG Strategy is adopted by KFIM investment teams.

ESG Strategy

Our strategy is based on the three ESG pillars and apply to all our assets under management. Each pillar has an objective that supports specific UN Sustainable Development Goals. Our sustainability strategy supports 11 of the sustainable development goals.

<table>
<tr>
<td>Environmental: Planet stewardship & climate-resilience</td>
<td>Society: Thriving people and communities</td>
<td>Governance: Promoting fairness and prosperity</td>
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Reporting Structure

The ESG Committee provides recommendations and/or guidance to the KFIM Investment Committee as and when appropriate to support best practice and ESG performance. The ESG Committee seeks approval from the KFIM Board for expenditures that benefit all AUM such as memberships, consultancies, and resources needed to deliver on its targets. The ESG Committee draws together expected areas of business cost into a single annual budget, to be presented to the KFIM Board at the end of each financial year for the forthcoming period.

Membership

The ESG Committee includes key KFIM Partners with funds or client management roles, each taking responsibility for the fulfilment of the ESG Strategy across their respective AUM. The ESG Committee has at least one representative member from the KFIM Board and one member from the investment teams. Working Groups for the implementation of specific initiatives may be formed by ESG Committee Members as and when required.

Frequency of Committee Meetings

The Committee meets quarterly.

Initial Members

1. Chantal Beaudoin (Chair)
2. John Styles (Board representative)
3. David Johnson
4. Ian Wilson
5. Oliver Donaldson (Investment Team)
6. Holly Brown (Investment Team)

b) Describe management's role in assessing and managing climate-related risks and opportunities.

For any new acquisition, the KFIM Investment Committee ensures that all relevant protocols related to physical and transitional risk is followed and that any possible climate risks or opportunities are addressed and mitigated with a plan and budget. The Investment Committee is responsible for all material Investment and Asset Management decisions taken in the management of our clients' assets. Once an asset is purchased, the Fund Managers oversee the deployment, management and monitoring of any climate plan approved by the KFIM Investment Committee. Within our held portfolios, the ESG Committee manages our ESG asset tracker to track the successful delivery of climate-related projects and activities.

Leadership

At a executive level we have a dedicated Head of ESG who is responsible for overseeing and accelerating progress and performance on KFIM's Environmental, Social and Governance (ESG) goals and targets spanning across real estate portfolios, as well as the activity and behaviour of the operational business. As part of the executive team, the Head of ESG is accountable for ESG and climate-related issues and reports progress and performance directly into the Chief Executive Officer and KFIM Board.

Strategy

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

ESG ethos

ESG factors are at the core of our business strategy, targeting the continued improving performance of our clients' investments whilst benefiting people and our planet. We take an active approach to our sustainability responsibilities and are fully committed to integrating our ESG values across our business, the assets we manage, and with our employees, suppliers, occupiers, and the communities in which we operate and invest. We have refined our sustainability strategy and objectives for our Assets Under Management (AUM) set around three priority areas, which address major environmental, social and economic trends. These are:

- Planet Stewardship and Climate Resilience - Through our active asset management, we target to reduce net carbon emissions to zero, minimise climate-related risk, and implement climate adaptation solutions.
- Thriving People and Communities - Through our activities we target to maximise social impact for the health and wellbeing benefit of occupiers and local communities.
- Promoting Fairness and Prosperity - Uphold the highest standards in the way we do business within a transparent and robust governance framework.

A review KFIM assets to establish climate-related physical risks under different climate scenarios as well as a mapping of transitional risks and opportunities has been completed. The ESG Committee conducts an assessment report on all assets to establish risk levels for the different hazards at different climate increase scenarios. This includes risks such as storms, flash floods, wildfires, droughts, and heat stress. This allows us to test a range of outcomes and helps us identify physical risks derived from climate change. The climate-related transitional risks assessment is being done to understand the risks that arise because of the global transition toward a low-carbon economy including policy and legal, technology, market, and reputation. In the case of real estate management, policy risk is generally considered to be the predominant transition risk to an asset or portfolio. We are commissioning an assessment report for assets using the Carbon Risk Real Estate Monitor (CRREM) to establish science-based decarbonisation pathways on acquisitions and to establish the plans and cost to decarbonise and the risk of asset stranding.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Approach

KFIM adopt a precautionary approach to managing risk and minimising negative environmental impacts, this includes but is not limited to the impacts of climate change, embedding climate resilience within the organisation and the portfolios and assets we manage. We have been implementing climate related risk mitigation measures to the greatest UK climate change risks, such as flooding. We review flood risk through our due diligence process and an in-depth portfolio review was conducted, identifying potential flood risks to our assets. If required a more detailed survey of each high-risk asset will be conducted so that there is an appropriate flood management plan in place.

In 2022 the LIPUT and LPPI portfolios enrolled into MSCI climate platform to provide a holistic view of the risks posed by climate change. We have begun to prepare for the upcoming transitional risks such as more stringent environmental policy including calculating Climate Value at Risk (VaR). VaR review looks at the impact on the net present value of the future costs attached to transition risk (lowering the carbon emission of the asset in the future), physical risk (cost of damage due to extreme weather), or the sum of both, expressed as a % of the asset's Capital Value. It is calculated for a given carbon emissions reduction scenario or climate change scenario, with a given scenario outcome (aggressive or average) in case of physical risk.

In doing the physical and transitional risk reports, we can identify what our most material issues are and their most potential impacts. These risks include a prospective of costly damages upon assets, fines and voids, a loss of footfall to our assets, increased operating costs and a possible overall loss of rental and capital value. With this information, we can target a holistic understanding of how climate-related risks can affect our business and how the implementation of ongoing risk managements are monitored throughout the year.

We are adopting a portfolio approach to determine the risks posed to the portfolio through potential upcoming updates to the MEES legislation which is expected to set the minimum EPC rating to B by 2030. We are in the process of developing and improving our ESG strategy to tackle wider market issues such as Net Zero, SFDR, EU Taxonomy and engaging with our tenants to assist them where possible in transitioning to a low carbon economy.

c) Describe the resilience of the organization’s strategy, taking into consideration different climate-related scenarios, including a 2 degrees or lower scenario.

The scenarios are used to assess the impact of the risks, incorporating valuable factors ranging from frequency, duration, velocity and its financial impact towards the business. We also compare the physical risks in contrast with transition risks which would occur from moving into a lower-carbon economy. The assessment reports are required for us to report on all acquisitions to establish risk levels for the different hazards at different climate increase scenarios.

Risk Management

a) Describe the organization’s processes for identifying and assessing climate-related risks.

Our review of climate-related risks allows the company to implement and adapt to mitigation measures, in order to initiate a climate materiality assessment, which monitors our sustainability actions, establishes targets and identify the inefficiencies within the business.

We are carrying out a variety of risk assessments across portfolios to be proactive against potential risks and put in mitigation measures as early as possible. For example, we have conducted a LIPUT portfolio review of flood risk, air quality, solar opportunities, and green building certifications. These processes highlight risks and opportunities to explore further. If an asset is determined as high risk, we conduct a more detailed investigation to what the risk level is and what necessary measures might need to be put in place to mitigate the risk level. Any new asset acquisition undergoes land contamination assessment. To assess resilience, we have completed a transitional risk assessment covering 100% of the portfolio.

b) Describe the organization’s processes for managing climate-related risks.

The global transition introduces risks towards a low-carbon economy including policy and legal, technology, market and reputation. In the case of real estate management, policy risk is generally considered to be the predominant transition risk to an asset or portfolio.

We are keen to follow a decarbonisation pathway that includes both landlord and tenant spaces. Our strategy to ensure we cover key aspects of our ESG objectives include:

- Submission to GRESB to understand year on year performance.
- Setting Net Zero Commitments and Science-Based Targets – landlord and tenant.
- Moving towards 100% Renewable & Low Carbon Technology – landlord and tenant.
- Keeping track of EPC / GREEN Building Certifications.
- Specific studies related to physical, flood risk, air quality across our assets.
- Engaging with tenants on key themes for the transition to a low carbon future, including ESG clauses within our tenancy contracts.

We use a tenant engagement process to capture energy consumption, efficiency measures and fuel mix supply. We have converted tenants' energy data into total GHG carbon footprint based on actual data and estimated any remainder using property type averages. We also undergo engagement with tenants via our property managers and external ESG consultants to capture other metrics such as health and well-being. We assess building safety as part of property managers inspections and record any risk.

We have been holding tenant engagement workshops with our top 10 tenants covering >50% of the entities floor area. The engagement sessions work with tenants to understand their needs and challenges around sustainability, explain what we as the landlord want to achieve and then also explores way to collaborate. Communication flows through our external ESG advisors and via our property management team to assist the tenants in whatever way is necessary. This also explores their energy use via the tenant data collection process where we engage with tenants on their consumption. Our two ESG guides havebeen sent to all tenants in the portfolio and aims to raise awareness on ESG issues, while also providing a set of high-level minimum criteria that a tenant should be aware of during fit outs and refurbishments. Our property managers are in regular contact with our tenants, providing support on ESG issues and escalating any issues of concern to our asset managers.

Percentage of contracts with ESG clause in 2022: **4.88%**

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

At a pre-acquisition stage, we have procedures throughout the due diligence process in order to help us identify and manage climate-related risks. Additionally, several checks are carried out which would be incorporating risks including on-site renewable energy generation and legislative compliance. At the post-acquisition stage, asset managers are responsible for developing asset plans that incorporate sustainability KPIs, which property managers are annually assessed against. This ensures there is responsibility for managing climate risks and opportunities at the asset level.

Shown below is an example of risk assessments done for one of our funds – The Long Income Property Unit Trust (LIPUT). This is a core balanced property fund which invests in direct UK property assets that exhibit long & secure income characteristics. LIPUT was valued at close to £1bn and held 112 assets in 2022.

Specific LIPUT studies / reports:

- GRESB submission – ongoing, latest in 2022
- CBRE flood risk assessments - 2022
- CRREM transition risk assessment - 2022
- MSCI physical risk assessment - 2023
- MSCI Climate Value-at-Risk Real Assets Portfolio Analysis – 2022
- MSCI REAL ESTATE ENTERPRISE ANALYTICS - SFDR - Adverse Sustainability Impacts Statement –2021
- MSCI REAL ESTATE CLIMATE RISK - TCFD Metrics Report – 2021
- EPC ratings – ongoing, latest in 2022

Metrics and Targets

a) Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

When setting our Net Zero strategy it is important to consider the material emissions across our portfolio to understand where we should focus our efforts. We have developed this Net Zero strategy to be focused on our assets under management within the LIPUT portfolio and therefore have discounted other KFIM operations such as our head office and business travel as these measures sit within our own KFIM Net Zero strategy.

Due to many of our lease agreements being Long Income FRI leases, most of our emissions fall into Scope 3. The portfolio has a small proportion of Scope 1 & 2 emissions through vacant units, common areas or external supplies. Below is a breakdown of emissions we are reporting against through each scope.

Across the portfolio there are no landlord procured water or waste contracts and as such this emission stream is not included within the above reporting.

BBP Climate Commitment Carbon Boundaries

Activities which generate GHG emissions for real estate investments (directly or indirectly)	Activities controlled and managed by LIPUT	Activities controlled and managed by tenants
Energy to operate buildings (electricity, fuels & heat networks)	Yes	Yes
Water to operate buildings	N/A	Yes
Waste generated during operation	N/A	Yes
Refrigerants (Fugitive emissions)	N/A	Yes*
New development works	Yes*	N/A
Refurbishment Works & Fit Out Works	Yes*	Yes*

**The portfolio is not currently collecting data on these activities; however, there is intention to begin data collection in 2024.*

Detailed Carbon Scope Table

Activities which generate GHG emissions for real estate investments (directly or indirectly)	GHG Protocol Reporting Category	Carbon Scope
Landlord purchased energy (electricity & fuels)	Purchased electricity, heat and steam	1 & 2
Tenant purchased energy (electricity & fuels)	Downstream leased assets	3
Refrigerant fugitive emissions	Purchased Goods & Services	3
New development	Purchased Goods & Services	3
Refurbishments	Purchased Goods & Services	3
Fit-out (tenant controlled)	Tenant Scope 3	3

The Purchase of goods and services (M&E & property management services) has been excluded from our reporting due to it being de-minimus.

To understand what we need to reduce our emissions, we first need to understand what our baseline emissions are across our scopes. Due to most of our emissions being Scope 3, we have chosen to use 2022 as our baseline year. This is due to having the greatest accurate coverage of our tenant's consumption data and there being a reduced impact from reduced occupancy in Covid. Where data is missing, we have utilised proxy data from collected data property type averages. As we work towards our Net Zero ambitions and gather more accurate tenant consumption data, we will update our proxy data entries.

Assessments

We conducted a materiality assessment and benchmarked our current performance against competitors. Following this exercise, we established our baseline performance and developed our ambitions of where we would like our business to be in line with short, medium and long-range targets. Benchmarking was carried out against competitors, GRESB ambitions, key stakeholders (investors, tenants, fund and asset managers) and market trends.

From this, KFIM recognises the principles that:

- A precautionary approach should be adopted to manage risk and minimise negative environmental impacts. This includes, but is not limited to, the impacts of climate change, embedding climate resilience within the organisation and the portfolios and assets we manage.
- Both the organisation and individuals are responsible for the stewardship of the environment.
- There is commitment to seek equality, diversity and good practice in our operations, in the areas where we operate.
- Investment and portfolio management is based on addressing the key factors of environmental, social and corporate governance and can make a positive contribution to a green and sustainable economy.
- A circular economy (CE) has the potential to radically and positively change the real estate industry and address many environmental and sustainability challenges. We are seeking to adopt CE principles on our forward-funded developments and real estate operations.

We report our Scope 1 and 2 carbon emissions directly from our managed assets and have started to collect Scope 3 data from our tenants to support their development towards our low carbon reduction target. As well as working towards these goals, this provides opportunities for efficiency improvement and ultimately will supply clarity on our footprint and would allow us to report all our Scope 1, 2 and 3 emissions.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

The disclosures below are specific to the LIPUT fund.

Category	Actuals	Estimated	Total	Total Coverage - Collected (%)
Fund emissions Scope 1 (tCO2eq)	0	0	0	100%
Fund emissions Scope 2 - Market-Based (tCO2eq)	1.28	0	1.28	100%
Fund emissions Scope 3 - Market-Based (tCO2eq)	8,314.33	2,297.32	10,611.64	78%
Fund total emissions - Market-Based (tCO2eq)	8,315.61	2,297.32	10,612.93	78%
Fund Carbon Footprint Scope 1 & 2 (tCO2eq / £m revenue)	0.03	0	0.03	
Fund Carbon Footprint Scope 1 & 2 & 3 (tCO2eq / £m revenue)	166.97	46.13	213.10	
Fund Weighted Average Carbon Intensity Scope 1 & 2 (tCO2eq / £m revenue)	0.02	0	0.02	
Fund Weighted Average Carbon Intensity Scope 3 (tCO2eq / £m revenue)	165.54	47.66	213.20	

Fund Weighted Average Carbon Intensity Scope 1 & 2 & 3 (tCO_2eq / £m revenue)	165.56	47.66	213.22	

Tenant data

Indicator	2021			2022		
	Absolute Figures	% Coverage (m^2)	Intensity (per m^2)	Absolute Figures	% Coverage (m^2)	Intensity (per m^2)
Fuels (MWh)	21,555	41%	0.015	18,348	67%	0.009
Electricity (MWh)	31,053	69%	0.012	37,790	78%	0.011
Off-site Renewables (MWh)	15,866			12,985		
On-site Renewables (MWh)	35			188		
Location based GHG Emissions	10,541	70%	0.040	10,621	78%	0.035
Market based GHG emissions	7,490	70%	0.028	8,314	78%	0.027
Water (m3)	131,571	46%	0.80	76,925	21%	0.88
Total Waste (tonnes)	1,912	34%	0.02	849	16%	0.013
Diverted from Landfill (%)	99%	34%	-	91%	16%	-

c) Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

Our company targets to achieve net-zero by 2050 for all assets under management or sooner. As well, by 2028 we aim to achieve a minimum EPC rating of a B to meet MEES compliance by 2030. Last year, we commissioned an assessment report using the Carbon Risk Real Estate Targets (CRREM) which established science-based decarbonisation pathways on all LIPUT assets. This report allowed us to draft plans and costs to decarbonise as well as identify the risk of asset stranding.

Providing key qualitative measures such as EPC ratings and building certifications, builds a well-rounded view of each asset's performance. An overview of our targets for the LIPUT fund is shown below. The energy consumption target, GHG emissions target, data coverage, and building certification applies to the whole portfolio (landlord and tenant controlled). The renewable energy target applies to electricity only.

Theme	Type	Long-term target	Baseline Year	End year
Energy Consumption	Absolute	60%	2022	2025
GHG emissions	Absolute	100%	2022	2050
Building certifications	Absolute	10%	2018	2023
Data coverage	Absolute	75%	2018	2023
Minimum Energy Efficiency Standards	Absolute	100%	2018	2030

Details of target year for the LIPUT fund is given below:

Target	Target Year
All landlord energy use to be purchased on a renewable energy contract	2021
Net Zero Scope 1, 2 & 3 emissions (2022 baseline)	2050
75% (by floor area) tenant electricity data coverage	2023
GRESB – Outperform peer group	2023 (Submission Year)
Increase building certification coverage to 10% of floor area	2022

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