



**Knight
Frank**

Investment
Management

**Building
impact
together**

UK Stewardship Code

2023 Report



Executive Summary

I'm pleased to share Knight Frank Investment Management's (KFIM) first annual report, in line with the UK Stewardship Code covering calendar year 2023. This report represents a key step in our commitment to transparency and sustainability in real estate investment.

2023 has been a transformative year for KFIM. We have successfully navigated a dynamic market environment while staying true to our core values of transparency, integrity, accountability, respect, and responsibility to Environmental, Social, and Governance principles. Our commitment to these values is reflected not only in our investment performance but also in our approach to integrating ESG considerations across our business operations, assets under management, and interactions with stakeholders.

At KFIM, we believe that sustainability and stewardship are not just add-ons but integral components of our business strategy. This year, we have taken meaningful steps to embed ESG principles into every facet of our operations. From conducting thorough due diligence during acquisitions to engaging with tenants and service providers on sustainability initiatives, our focus has been on creating long-term value for our clients while contributing positively to the environment and society.

Looking ahead, we aim to deliver innovative investment solutions that meet our clients' diverse needs. We will continue to leverage our expertise and uphold high standards of stewardship to ensure our investments have potential to benefit both our clients and the environment.

We are confident that our commitment to sustainability and stewardship will continue to drive long-term value for our clients and the environment, building on the strong foundation we laid in 2023.

Matthew McDonald
Chief Executive Officer
Knight Frank Investment Management



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Principle 1: Purpose & ESG Stewardship

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

ACTIVITY

Our Purpose, Culture & Values

Knight Frank Investment Management (KFIM) is a real estate investment manager based in London, UK. Our culture is shaped by our people and our deeply ingrained values, which are integral to the enduring success of our business. 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. ESG factors are at the core of our business strategy, allowing us to drive the continued performance of our clients' investments whilst benefiting people and our planet.

Our core values are critical to the long-term prosperity of the business and include:



Transparency	Integrity	Accountability	Respect	Responsibility
Embracing openness and clarity in all our business dealings and decisions	Upholding the highest moral and ethical standards in our operations	Taking ownership and responsibility for our objectives and performance	Demonstrating respect towards our clients, employees, suppliers, and the communities where we invest	Committing to ESG principles, ensuring our investments contribute to the well-being of people and the planet

Our Business Model & Strategy

KFIM operates as a specialist pan-European real estate investment manager, with a robust portfolio comprising USD 4.88 billion in assets under management (AUM). Our expertise spans both commercial and residential assets, enabling us to offer a diverse range of investment strategies tailored to the needs of our clients.

We deliver three key solutions within our business model: Tailored Strategies, Long Income Strategies, and Single Asset Solutions. Each of these play a crucial role in our overall strategy, reflecting KFIM's commitment to delivering innovative and effective investment solutions that cater to a variety of investor profiles.

Tailored Strategies: KFIM's Tailored Strategies focus on creating customised, risk-adjusted portfolios that align with the unique investment objectives of both UK and international clients. This approach emphasises a personalised investment strategy that takes into account individual risk tolerances, market conditions, and



financial goals. With Assets Under Management (AUM) of USD 1.64 billion as of December 2023, this segment showcases KFIM's commitment to delivering bespoke financial solutions.

Long Income Strategies: The Long Income Strategies involve investing in direct real estate assets to provide pooled investors with access to targeted investment opportunities. This approach is designed to generate stable, long-term income through strategic investments in high-quality properties, appealing to investors seeking consistent returns. With an AUM of USD 1.09 billion as of December 2023, this segment reflects KFIM's ability to leverage its expertise in real estate markets to create sustainable income streams.

Single Asset Solutions: This solution specialises in the sourcing, structuring, and performance management of individual asset acquisitions for prominent international investors. This approach is characterised by a detailed focus on the specific asset's potential and strategic fit within the investor's broader portfolio. With an AUM of USD 2.15 billion as of December 2023, this segment highlights KFIM's proficiency in navigating complex real estate transactions and optimising asset performance.



Personal Service

Recognising the importance of identifying and understanding the needs of our stakeholders; both clients and their customers (the occupiers).



Bespoke Investment Solutions

Designed to deliver a client's specific investment targets within an appropriate risk reward framework.



Income-Focused Philosophy

Delivering high, stable income returns, enhanced through proactive asset management.



Responsible

Embedding our environmental, social, and business values throughout both our investment processes and the way we run our business.

Commitment to Sustainability and Stewardship

KFIM recognise that our position of stewardship on behalf of clients carries a clear overriding objective to invest responsibly, both at the outset and during the period of client ownership. Our overall approach to this stewardship is to combine:

- Operating a robust governance environment to appraise and assess investments both prior to purchase, and during the hold period.
- Engaging, top-down, with investors on their own objectives, and engaging bottom-up with occupiers of held real estate assets to improve the environmental performance and seek improvement to the social impacts of assets within local communities.
- Customising ESG commitments at the asset level based on its specific characteristics, including use, type, location, and capacity for ESG impact implementation.
- Collaborating and providing oversight in working with best-in-class advisors - e.g., property managers, environmental specialists, technical specialists – to bring forward proactive change in real estate sustainability.
- Actively engaging in and providing valuable input to ESG consultations, industry bodies, and relevant organisations to shape real estate sustainability best practices and policies.



Overall, we do not view our stewardship as merely a mandate to "screen" assets or portfolios to include only those with ideal ESG credentials, such as divesting from an asset due to its environmental performance potentially affecting a broader portfolio evaluation. Instead, we believe that KFIM's responsibility lies in leveraging our role to facilitate gradual improvements over time. This includes managing and reducing energy, water, waste, and greenhouse gas emissions; integrating sources of sustainable energy in collaboration with occupiers; and ensuring that occupiers and property users benefit socially from the assets through safe and healthy working environments as well as positive community engagement.

OUTCOME

Investment Beliefs Guide Our Investment Strategy

Sustainability and stewardship are embedded throughout our business at every level.

Firm Level: At the firm level, sustainability and stewardship are foundational to our business operations. We integrate Environmental, Social, and Governance (ESG) strategies into our core values and governance structure. Our dedicated ESG team actively engages with industry leaders and utilises ESG consultancy services to support our endeavour to remain at the forefront of best practices.

Portfolio Level: On the portfolio level, we implement robust ESG strategies that align with recognised frameworks such as GRESB and UN PRI. These frameworks guide our investment decisions and performance assessments, ensuring that our portfolio not only adheres to sustainability standards but also delivers long-term value.

Asset Level. At the asset level, we employ a comprehensive acquisition checklist to evaluate potential risks associated with each asset, including climate and flood risks. These risks are systematically assessed and monitored throughout the asset's lifecycle. We develop tailored asset-level plans aimed at enhancing ESG performance while also boosting tenant satisfaction. This might involve initiatives such as raising the Energy Performance Certificate (EPC) rating, obtaining green building certifications like Active Score or BREEAM, and collaborating with tenants to implement onsite efficiency measures.



Embedding ESG into our Investment Strategy



Environment: Stewardship & Climate Resilience	Social: Thriving People & Communities	Governance: Fairness & Prosperity
<p>Improve operational efficiencies conserve natural resources, combat pollution, and protect land-use and wildlife.</p> <p>EPC Target Carbon Footprint to Net Zero Renewables (Solar and EV)</p> <p>Anticipate and respond to hazardous events, trends, or disturbances related to climate change.</p> <p>Flood Risks Climate Related Physical Risks with Scenario Planning Climate-related Transitional Risks</p>	<p>Promote health and happiness with social and wellbeing measures and activities.</p> <p>Occupier Engagement Social Value Outcomes</p>	<p>Uphold the highest standards in the way we do business.</p> <p>GRESB TCFD Alignment Supplier Engagement Diversity and Inclusion UN PRI and UK Stewardship</p> <p>Embed ESG criteria at every stage of our asset management process and business operations.</p> <p>One Planet Living Framework (aligned with UN SDGs) embedded into acquisition, capex, disposal processes. Green Clauses</p>

The Effectiveness of Our Investment Beliefs

Assessing how well we serve the interests of our clients and beneficiaries involves evaluating our robust investment performance, client satisfaction, and our capacity to provide the necessary investment solutions.

During the reporting year, we systematically evaluated the effectiveness of our ESG and engagement strategies by committing to and reporting on a range of industry frameworks.

Our core ESG commitments have been publicly articulated through initiatives like TCFD, GRESB, and UN PRI. Additionally, we have actively engaged with tenants to share our investment beliefs with the aim that these be integrated into the operation and occupation of our assets. Looking ahead, we seek to continually benchmark our ESG policies and practices against industry best practices with the objective to effectively implement stewardship across our investment portfolio.



Principle 2: Governance



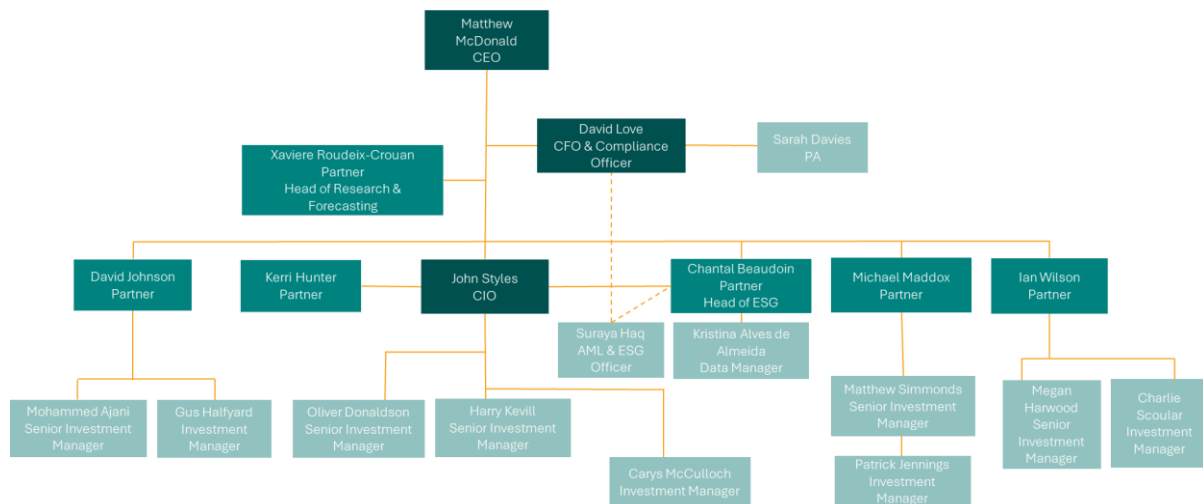
Signatories' commitment to stewardship is supported by our effective governance practices, allocation of necessary resources, and alignment of incentives.



ACTIVITY

Embedding Stewardship Across the Organisation Structure

ESG governance at KFIM is effectively managed through a well-defined framework involving key components at all levels of our organisation. This comprehensive governance structure helps us to safeguard ESG principles woven into the fabric of KFIM's decision-making processes, fostering sustainability across the entire investment lifecycle.



KFIM Exec:

- Matthew McDonald - CEO
- David Love - CFO
- John Styles – CIO
- David Johnson – Partner
- Ian Wilson – Partner
- Xaviere Roudeix-Crouan - Partner
- Chantal Beaudoin - Partner

KFIM Board:

- Matthew McDonald– CEO
- David Love – CFO
- John Styles – CIO
- Stephen Clifton – KF Head of Commercial
- Matt Tweedie – KF CFO

KFIM Board: The Board has responsibility for the successful operation of Knight Frank Investment Management including establishing strategic direction, business policy, and financial performance, compliance with legislation and regulation and delivery of excellent customer service and investment performance.

Investment Committee: The Investment Committee incorporates ESG Key Performance Indicators (KPIs) into considerations for new acquisitions, disposals, and the appointment of third-party suppliers. In the assessment of investments, the committee evaluates the asset's alignment with net zero objectives, delivering an overall ESG appraisal and categorising SFDR Article 6, 8, or 9, concluding with final recommendations.




ESG Real Estate Committee: Within the ESG Real Estate Committee, there is a dedicated focus on ensuring that ESG factors play a central role in the decision-making, development, and operation of KFIM’s AUM. The committee holds responsibility for defining, updating, implementing, and monitoring the evolving ESG Strategy, with a commitment to maintaining a best-in-class approach. Acting as ambassadors, committee members work to ensure widespread adoption of the ESG Strategy among KFIM investment teams. Additionally, the committee provides valuable recommendations and guidance to the KFIM Investment Committee, contributing to the enhancement of best practices and overall ESG performance.

Fund Managers: Fund Managers play a crucial role in embedding ESG standards and processes across their respective teams. Their responsibility extends to diligently tracking and reporting progress towards established ESG goals.

Investment Managers: Investment Managers are tasked with the execution of the ESG strategy, serving as the crucial link between KFIM's strategic vision and the practical implementation overseen by property managers.

The key representatives of KFIM and the boards and committees they serve on are listed as follows:

 KFIM Board	 Investment Committee	 ESG Committee
 <p>Matthew McDonald</p>  	 <p>David Love</p>  	 <p>John Styles</p>   
 <p>Stephen Clifton</p> 	 <p>Matt Tweedie</p> 	 <p>Sir Paul Clark</p> 
 <p>Xaviere Roudeix-Crouan</p> 	 <p>David Johnson</p>  	 <p>James Madden</p> 
 <p>Chantal Beaudoin</p>  	 <p>Michael Maddox</p>  	 <p>Ian Wilson</p>  
 <p>Ian Whittock</p> 	 <p>Mike Crowe</p> 	



ESG Team

Within KFIM, a specialised team is dedicated to overseeing ESG strategy, deployment, and reporting. This team collaborates closely with investment managers and members across KFIM to support the integration of ESG considerations across all aspects of our operations.



Chantal Beaudoin	Kristina Alves de Almeida	Suraya Haq
Head of ESG and a member of the executive team, holds the responsibility for formulating ESG strategy, establishing standards and processes, and chairs the ESG Real Estate Committee. Reporting directly to the CEO and with a dotted line to fund managers, Chantal works towards alignment and integration of ESG principles.	As KFIM's Data Manager she takes charge of collecting, updating, and reporting ESG data across the entire business. This comprehensive data encompasses EPC ratings, solar income and generation, carbon scopes, climate risks, CRREM pathways, MSCI climate platform, and compliance with client and external reporting requirements.	Our ESG & AML Officer plays a role in various sustainability tasks. This includes research, business case preparation, and the implementation and communication of ESG measures, contributing to the attainment of ESG goals and targets.

The Equitable Resource of Stewardship

At KFIM, we recognise that equitable resource of stewardship is essential to our mission, and diversity and inclusion are integral to our ESG strategy. We are committed to fostering a diverse and inclusive culture through key initiatives that promote equitable access and representation.

To better understand our current standing, we conducted a thorough diversity and inclusion assessment of our Board members, senior management, and employees, focusing on age, gender, and racial diversity. Last year, we also performed a pay gap and equal pay review for all employees, presenting our findings and recommendations to the KFIM Board to work towards more accountability and transparency.

In alignment with our commitment to supporting underrepresented groups, we have established mentoring and work placement partnerships with local schools. These initiatives aim to broaden access to knowledge and career opportunities in the Real Estate sector. Our employees from diverse backgrounds actively lead workshops in targeted schools, promoting ESG principles and careers in real estate to students from underrepresented communities. By investing in these young talents, we are fostering a more inclusive and equitable industry for our future.

Internally, our 'New Change Committee' serves as a vital forum for staff at all levels to provide feedback and implement projects across key areas such as environmental impact, social impact, culture and well-being, IT, and training. This committee plays a crucial role in maintaining an open, progressive, and supportive workplace. We also implemented bias-free training for all employees and established a DEI Action Team to drive our efforts forward, ensuring that our stewardship practices are equitable and inclusive.

During this period, we proudly participated in the Asset Owner Diversity Charter, which underscores our commitment to enhancing diversity within the asset management industry. We have integrated these commitments across our policies and procedures including Environment, Communities & Charities, Diversity & Inclusion, Health & Safety, Human Rights & Modern Slavery, and Supplier Code of Conduct.



Investment in Systems, Processes, Research, and Analysis:

We believe that robust research and investment processes lie at the core of successful real estate investment management. Our Head of Research and Forecasting undertakes research to deepen our proprietary understanding of real estate and industry trends. This role also contributes materially to our stewardship activities by providing analysis on market drivers, which includes environmental, social and political factors. We also conduct specific research on stewardship matters within our sustainability team, which in 2023 included research on various sustainability-focused topics such as real estate net zero solutions, green building certifications, and building management system optimisation services.

We are committed to advancing our acquisition due diligence process to make sure that our investments align with our sustainability goals and meet the evolving expectations of our stakeholders. This enhanced diligence not only helps us identify high-quality assets but also allows us to better assess their environmental, social, and governance (ESG) risks and opportunities.

In addition to refining our due diligence efforts, we actively submit our data to MSCI, a leading provider of ESG research and ratings. This engagement allows us to benchmark our performance against industry peers and pinpoint areas for improvement. To uphold the integrity of our environmental data, we implement data assurance processes that verify the accuracy and reliability of the information we report. This practice is vital for maintaining investor trust, identifying outliers and opportunities for more accurate and complete data.

We also commit to aligning ourselves with industry bodies and standards and invest in advancing our portfolio to meet these standards. We respond to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, ensuring that we transparently communicate the climate-related risks and opportunities associated with our investment portfolio. For LIPUT, which has EU investors, we align our practices with the Sustainable Finance Disclosure Regulation (SFDR), ensuring that we meet regulatory requirements while promoting transparency in our investment strategies.

Integration of Stewardship in Performance Management:

Stewardship is a key component of KFIM's employee evaluation system at all levels. We incorporate ESG KPIs into annual performance reviews and use them to inform decisions regarding salary increases and bonuses.

The KFIM Remuneration Committee, empowered by the KFIM Board, establishes a policy aimed at rewarding performance while adhering to local market practices. This Committee reviews compensation for all KFIM staff and advises the Board, aligning its operations with the FCA AIFM Remuneration Code when appropriate.

The Employee Remuneration Policy is in line with the business strategy, objectives, values, and interests and includes measures to avoid conflicts of interest. To underpin the stability of the business, the remuneration policy is directed at ensuring our staff are paid at least in line with the average of our industry peers, to support talent attraction and retention.

Total compensation will focus on both investment and individual performance, with ESG factors considered alongside financial metrics. The Remuneration Committee sets targets for performance-related schemes, seeking alignment with KFIM's strategic objectives and ESG KPIs. This approach helps to ensure that our performance goals reflect KFIM's core values and commitment to embedding ESG into our business strategy, enabling us to enhance client investment performance while positively impacting people and the planet.

Recognising employees' stewardship in ESG initiatives, we present the annual ESG Impact Award to individuals who have made significant contributions to our ESG goals and who exemplify KFIM's values throughout the year. Winners are chosen based on their performance in the annual appraisal process, particularly focusing on dedicated ESG sections that invite employees to detail their contributions and the impact they have made. This award not only celebrates those who lead by example but also reinforces our commitment to fostering an organisational culture that prioritises sustainability and social responsibility. By highlighting these achievements, we encourage all employees to engage actively in our ESG efforts, further embedding into all levels of performance management.



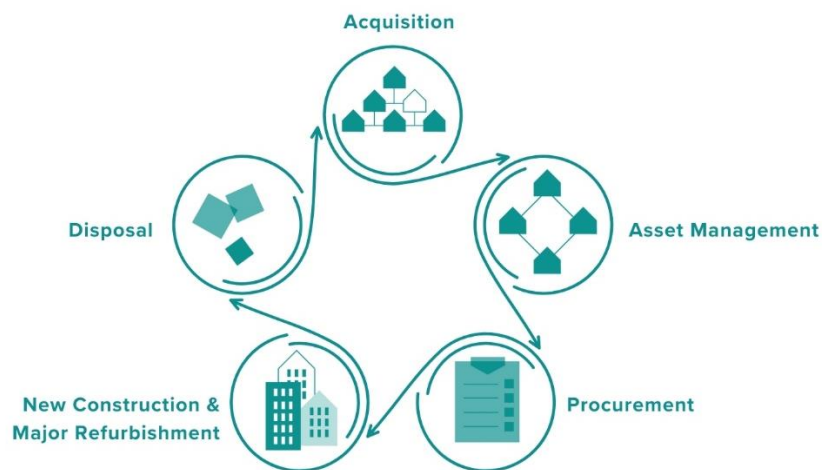
OUTCOME

KFIM's governance structures and processes have effectively supported stewardship efforts by prioritising transparency, integrity, and accountability, along with a commitment to ESG principles. Investment and fund managers have demonstrated greater accountability in ESG considerations into their activities. This includes upgrading the energy performance of their assets, investing in renewable energy generation projects, analysing ESG factors during acquisition, and engaging with tenants on ESG matters as part of their ongoing property management responsibilities.

Effectiveness of the Governance for Stewardship

Our governance processes have enabled ESG to be at the heart of decision making across the entire asset life cycle.

Embedding ESG across asset life cycle



Acquisition: During the acquisition phase, we conduct ESG due diligence to evaluate the environmental, social, and governance factors associated with potential assets. This process involves comprehensively documenting the ESG performance and risks linked to each acquisition, ensuring that we make informed decisions aligned with our sustainability objectives. This includes requesting access and reviewing asset EPC rating, site EUI, HVAC records, climate-related risks, building certifications, zero carbon electricity procurement standards, tenant SBTi or climate commitments, and green clauses in existing tenancy agreements.

Asset Management: In our ongoing asset management practices, we implement ESG criteria to enhance sustainability and promote responsible stewardship. This includes documenting performance metrics and setting specific goals for continuous monitoring and improvement. Additionally, we engage stakeholders to confirm alignment with ESG objectives throughout the asset's lifecycle, covering aspects such as maintenance, operations, and potential upgrades.

Procurement: In our procurement processes, we conduct ESG due diligence on suppliers to assess their environmental, social, and governance practices. We document ESG performance criteria and incorporate these standards into our procurement requirements. Suppliers are screened based on their ESG credentials, and we look to integrate ESG considerations into contract negotiations.



New Builds & Refurbishment: For new builds and refurbishments, we integrate ESG principles into the design and planning phases. This involves documenting ESG goals and requirements, which may include certifications, energy efficiency, the use of sustainable materials, and considerations for community impact. We also engage with stakeholders to gather input and target for our ESG objectives to be aligned throughout the construction process.

Disposal: In the disposal phase, we conduct ESG due diligence to assess the environmental, social, and governance impacts of potential sales. We document ESG performance through certifications, energy ratings, and social impact assessments. To attract buyers, we actively market the ESG features of the assets and include relevant ESG clauses in sale agreements.

Improvement Recommendations

The chosen governance structures and processes have been effective in supporting stewardship by ensuring oversight, transparency, and accountability. They have facilitated a culture of responsible decision-making, action in asset management, and alignment with stewardship objectives. We need to further enhance our processes to ‘closing the loop’ and to integrate the lessons learned from each asset life stages into the different areas to avoid silos and repeating same patterns.



Principle 3: Conflict of Interest



Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.



ACTIVITY

Approach to Conflicts of Interests

KFIM recognises the reality that in a relatively small market there will be instances where an actual or perceived conflict may arise. In markets where KFIM is active, it is inevitable that there will be potential conflict situations between instructions.

All KFIM employees adhere to the Conflict of Interest Policy, which provides guidance on identifying and managing potential conflicts. Additionally, all staff comply with Knight Frank LLP's Conflict Management Policy, the Financial Conduct Authority's Conduct of Business Rules, and the Royal Institution of Chartered Surveyors Professional Standards regarding conflicts of interest.

KFIM's approach to managing conflicts of interest aligns with the UN PRI's Principle 3, which states that signatories will seek appropriate disclosure on ESG issues of the real estate in which they invest. Our due diligence and disclosure are embedded as part of a two-stages process, which delineates the ESG criteria to be assessed before approving a new asset for client acquisition. These stages extend beyond mere decision-making to encompass a thorough evaluation of ESG factors.

Our commitment to transparency and responsible investment practices underpins our adherence to this principle. If conflict arises between KFIM client investment activity and the terms of this Policy, we will notify our clients and agree a course of action. Whilst we actively promote best practice in ESG matters, we will always act within the terms of our client mandates.

All employees are required to complete mandatory annual training on compliance and anti-money laundering. This training includes updates on KFIM's approach to conflicts of interest, ensuring that employees understand their responsibilities in this area. Where necessary, we provide additional training tailored to specific business areas and roles. After training, the compliance or anti-money laundering officer communicates with all employees to request the disclosure of any potential conflicts of interest. Identified conflicts are logged and managed.

Sources of Potential Conflicts

Customer & Staff	Customers & Knight Frank LLP	Between Clients
Interests of customers or potential customers and members of staff (personal and professional conflicts of interest)	Interests of customers or potential customers and the interests of a Knight Frank LLP department	Those between the interests of different clients



Those between the interests of customers or potential customers and members of staff (personal and professional conflicts of interest)

Personal or professional interests in particular transactions are required to be declared to the Investment Committee, or on presentation of an approval document (where the transaction does not require full Investment Committee approval). Where such a conflict exists, the individual concerned is excluded from involvement in the approval process, and/or the relevant transaction.

Offers of gift and entertainment are registered and considered or approved by nominated senior personnel in accordance with FCA rules and governance standards.

The KFIM Compliance Officer is responsible for identifying and managing personal and professional conflicts of interest.

Those between the interests of customers or potential customers and the interests of a Knight Frank LLP department.

KFIM's Investment Committee has oversight of all third-party appointments involving Knight Frank LLP. The principal of appointing service providers on a "best in class" basis at market competitive fee rates is applied in all cases, and unless by prior client agreement Knight Frank LLP are only appointed where fees have been tested against alternative quotes. KFIM's governance structure ensures that consideration is given to all third-party appointments by a senior professional or in the case of larger appointments, by the Investment Committee which includes three Independent Members with no connection to Knight Frank Group.

KFIM unless required by a client prohibits the valuation of client assets by Knight Frank.

Those between the interests of different clients

It is possible that more than one client of KFIM or a KFIM managed fund will have an interest in bidding on a particular investment property, although this has occurred on very few occasions. To avoid the parties bidding against one another, allocation will be decided in accordance with the KFIM Investment Allocation Policy.

It is also possible that one client or managed fund of KFIM may have an interest in acquiring an asset owned by another client or KFIM fund. In this case the following procedure would apply:

- Approval of the sell/buy decision would be considered independently by the Investment Committee in the knowledge of the two investors' respective investment objectives.
- No approval would be given without the Committee being convinced that the price had been determined independently by way of an independent valuation or a marketing process.

Anti-Bribery and Corruption

KFIM and its staff also adhere to the Global Anti-Bribery and Corruption Policy of Knight Frank LLP. This policy outlines Knight Frank's position on bribery and corruption and our minimum expectations for complying with anti-bribery and corruption laws, emphasising that gifts and bribery can create conflict in interests for all parties involved. It provides guidance on areas where we are at risk of bribery and corruption and sets out processes if someone suspects or identifies bribery and corruption taking place.

OUTCOME

KFIM recognise the importance of identifying and managing conflicts of interest to uphold the integrity of our stewardship practices. Below is an example of how we have addressed actual or potential conflicts.



CASE STUDY: Prioritisation of impeding sites

OVERVIEW:

Our LIPUT fund engaged a third-party firm to monitor a development project intended for acquisition. This strategic move aimed to ensure due diligence and enhance the project's viability. However, during the monitoring process, it was discovered that the third-party firm also had a working relationship with the developer involved in a separate site acquisition.

CHALLENGE:

The revelation of the third-party firm's dual engagement raised concerns regarding a potential conflict of interest. Although the developments were in different locations, the overlapping interests of the third-party firm could lead to the compromise of integrity of its acquisition or lead to reputational risks.

SOLUTION:

To address the potential conflict, the Compliance Officer initiated a review of the third-party firm's involvement. This included an assessment of the scope and nature of the firm's work with the developer. Measures to monitor the process were also implemented to ensure conflicts of interest were raised to the KFIM Compliance Officer and escalated to the Board if required.

RESULTS AND IMPACT:

The investigation confirmed that the third-party firm's relationship with the developer pertained solely to a different site and that there was minimal risk of conflict affecting the LIPUT acquisition. The oversight measures implemented enhanced the monitoring process, providing LIPUT with confidence in the integrity of the acquisition.



Principle 4: Response to Systemic Risks



Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.



ACTIVITY

Identifying and Responding to Market-wide and Systemic Risks:

KFIM recognises that both the organisation as a whole and individuals are responsible for the stewardship of the environment, with principles recognising 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. There is commitment to seek equality, diversity and good practice in all aspects of our operations, in the areas where we operate.

KFIM incorporates risk management both at the portfolio and the asset level, identifying, assessing and managing market wide and systemic risks. Our due diligence process for new acquisitions involves an assessment of potential financial impacts stemming from physical climate risks. This aims to ensure that every new asset is scrutinised with the same level of detail, helping us to maintain a robust and resilient portfolio.

Working with Industry Initiatives to Improve Financial Markets

KFIM actively participates in industry initiatives, regulatory consultations, and collaborative forums aimed at enhancing market transparency, integrity, and efficiency. By sharing best practices, advocating for regulatory reforms, and fostering dialogue among stakeholders, we contribute to the development of a more resilient and sustainable financial ecosystem.

UK Net Zero Carbon Buildings Standard: KFIM has played a role in shaping the UK Net Zero Carbon Buildings Standard. Acting as both a data provider and a member of the offices sector group, KFIM has contributed to this pioneering initiative led by industry organisations such as BBP, BRE, the Carbon Trust, CIBSE, IStructE, LETI, RIBA, RICS, and UKGBC. The collaborative effort aims to define and implement a unified methodology for achieving net zero carbon buildings in the UK. KFIM's involvement included completing a workbook of data points for a selected asset under management to exemplify best practices for achieving net zero carbon status. Additionally, KFIM's Head of ESG participated in bi-monthly meetings within the sector group, contributing to the proposal of a Net Zero Carbon Standard specifically tailored for the offices sub-group. This collective endeavour marks a significant step towards aligning built assets with the nation's climate targets, with KFIM's contributions serving as pillars of expertise and dedication to sustainable development.

Association of Real Estate Funds (AREF): KFIM has actively contributed to the collaborative efforts of AREF through the involvement of its Head of ESG in the ESG and Social Impact Investing committee. This committee promotes sustainable real estate practices. It advocates for the adoption of strategies that minimise environmental footprint, facilitate the transition to net zero emissions, and recognise buildings as pivotal spaces for vibrant communities, both today and into the future. Through its membership with AREF and the committee KFIM contributes to and participates in regulatory consultations. This involvement seeks to ensure that the firm remains updated on current and forthcoming legislative changes, allowing its ESG strategy to be amended to reflect best practices and build resilience to legislative changes.

Alignment of Investments:

Our overarching investment strategy, financial planning, and product development are interwoven with the considerations of climate-related risks and opportunities.



Key considerations include evaluating electricity and gas consumption, determining EPC ratings, and assessing ESG credentials. To effectively mitigate environmental risks, we carefully examine flood ratings and other relevant environmental factors. By integrating stewardship into the acquisition process and thoroughly evaluating potential financial performance, we aim to identify and understand opportunities and risks before making purchasing decisions. This approach allows us to protect our portfolio and make informed investments.

Additionally, within our existing portfolio, we assess assets for their alignment with net-zero objectives and the risk of becoming stranded assets—both of which are integrated into our overall strategy and financial planning. We collect and report data related to these assets on an annual basis. By maintaining oversight of this information, we can evaluate the potential impact of legislation and regulations on our portfolio and target the removal or manage non-compliant assets.

OUTCOME

KFIM employs a systematic process to assess the material financial impact of risk on its business and financial planning. This process is incorporated at both the pre-acquisition and post-acquisition stages of the property lifecycle to effectively identify and manage both market-wide and systemic risks to our portfolio.

The Risk and Audit committee is responsible for overseeing the Company's risk management process, ensuring that the Company has an effective on-going framework for the management of operational business risks (property risk is the responsibility of the Investment and Performance Committees). Risk matters will be reported to the KFIM Board

Market-wide Risks

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market. Market risks are specific to the real estate market and are influenced by factors such as supply and demand, market sentiment, and competition. Examples of how KFIM incorporate the assessment of market-wide risks include the following:

Changes in consumer demand: Through regular tenant engagement, we stay informed about changing consumer preferences. This allows us to adapt our strategies to meet evolving needs. We held tenant engagement workshops with our top 10 tenants covering circa 50% of the floor area. The engagement sessions work with tenants to understand their needs and challenges, explain what we as the acting landlord want to achieve and then also explore ways to collaborate.

Geopolitical Issues: We actively monitor global events and their potential effects on the real estate market, enabling us to identify and manage risks related to political instability. Our Head of Research analyses these factors and shares findings with the broader organisation and investors on a quarterly basis. We assess the risks associated with economic, political, and geopolitical factors, considering both short-term and long-term impacts on the financial performance of our funds.

Systemic-wide Risks

Systemic risks are those that may lead to the collapse of an industry, financial market or economy. Systemic risks are risks that arise from the overall economic or financial system, rather than from specific factors related to a particular industry or asset class. These risks can affect the entire real estate market and are often difficult to predict or control. Examples of how KFIM incorporate the assessment of systemic-wide risks include the following:

Regulatory Changes: The transition risks related to policy changes have the potential to move markets and strand assets on short-term time frames as well. Recognising policy risks as a key concern in real estate management, we have implemented several strategic measures to comprehensively cover our ESG objectives. In preparation for the upcoming changes to Minimum Energy Efficiency Standards (MEES), we conducted a comprehensive portfolio analysis to assess the potential impact of a B rating requirement in 2023. By identifying potential stranded assets, allows us to implement action plans to improve the EPCs of the assets and mitigate against the future financial risks associated with non-compliant assets.



Climate Risk: KFIM adopt a precautionary approach to managing risk and minimising negative environmental

Asset Level Portfolio Analysis

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 Head of ESG manages our ESG asset tracker to track the successful delivery of climate-related projects and activities.

KFIM conducts a variety of risk assessments across the portfolio to proactively address potential risks and implement mitigation measures when required. For instance, portfolio reviews of natural climate hazards including flood risk, biodiversity & solar opportunities, and green building certifications have been undertaken across our funds. These processes highlight risks and opportunities for further exploration. If an asset is identified as high risk, we are conducting more detailed investigations to determine the specific risk level and the necessary measures to mitigate it.

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. This includes implementing risk management into our operations, ongoing asset level reviews and in the due diligence of our acquisition process.

Corporate Governance

KFIM adopts a precautionary approach to the environmental challenges that we face by integrating risk management throughout our operations. 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 one Board members and is chaired by the Head of ESG. The Chair of the ESG Committee and designated board members are also members of the KFIM Investment Committee.

Acquisitions and Due Diligence

Our due diligence process for new acquisitions involves an assessment of potential financial impacts stemming from physical climate risks. This aims to ensure that every new asset is scrutinised with the same level of detail, helping us to maintain a robust and resilient portfolio. Through these processes, we endeavour to incorporate the assessment and management of physical risks into our broader risk management strategy, thereby striving to fortify our entity against the unpredictable nature of climate change.

During the pre-investment screening process, KFIM's Investment Committee (IC) integrates ESG due diligence and climate risk into their decision-making. For any new acquisition, the KFIM Investment Committee reviews relevant protocols related to physical and transitional risk and looks to address and manage possible climate risks or opportunities with a plan and budget. The IC employs a two-stage process that delineates the ESG criteria to be assessed before approving a new asset for client acquisition.

CASE STUDY: Climate Risk Scenario Analysis

OVERVIEW

To manage climate-related risks and safeguard the long-term sustainability of our real estate portfolio, we conducted a comprehensive analysis using MSCI's Climate Scenario Platform. This tool allowed us to assess the potential financial impacts of various climate hazards across different future scenarios.



CHALLENGE

Climate-related risks can significantly impact the financial performance of a real estate fund. Physical risks, such as natural disasters and rising sea levels, can directly damage properties and lead to financial losses. Additionally, transition risks arising from the shift towards a low-carbon economy can impact property values and investment returns. Understanding the impact of these risks on our portfolio is crucial in building our resilience.

SOLUTION

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 utilised the climate scenario analysis to gain insights into our assets and the diverse risks they face under different future climate scenarios. This data-driven approach enables us to make informed decisions and develop strategies to address climate-related risks and opportunities. This review encompassed an evaluation of financial impacts arising from a spectrum of climate hazards, including storms, flash floods, wildfires, droughts, river and sea floods, tropical cyclones, and heat stress, across different climate scenarios.

RESULTS AND IMPACT

By systematically evaluating these risks, KFIM identifies and manages potential climate-related physical hazards with the goal to safeguard its assets and maintain resilience in the face of climate change. This proactive approach to risk management is an integral part of KFIM's overall strategy, ensuring long-term sustainability and stability. By combining MSCI's climate scenario analysis with TCFD reporting and the CRREM pathway model, we develop a comprehensive understanding of the climate-related risks and opportunities facing our assets. This multifaceted approach enables us to prioritise physical risks effectively to foster long-term environmental, social, and economic resilience.

CASE STUDY: Flood Risk Analysis

OVERVIEW

As part of our ongoing commitment to climate change adaptation, we have conducted a comprehensive flood risk investigation across a selection of our portfolio sites. This analysis aimed to identify potential vulnerabilities and implement appropriate mitigation measures.

CHALLENGE

During our initial portfolio-wide flood risk assessment, Quora Retail Park, a purpose-built retail park in Hull, was identified as being in a high-risk zone. Due to its location, this asset could have faced a significant risk of financial loss from climate change-related flooding. This required greater investigation into the potential risk.

SOLUTION

An independent third party was instructed to undertake an in-depth Flood Risk Review on this site. This included confirming the site's flood risk rating and determining whether the site would benefit from further flood risk management measures.

RESULTS AND IMPACT

Although the site lies in a Flood Risk Zone 3, it is surrounded by flood defence improvement schemes such as the Humber Estuary defences. As such, it was found that the site has a 'low' risk of flooding from the Humber Estuary and River Hull, and no specific flood risk mitigation measures are necessary for the site in the context of its continued use. Despite this, site management are further ensuring safety and the protection of site through registering for flood warnings to be in receipt of any relevant information in the very unlikely event a breach was to occur in the flood defences during a major flood event. Regular maintenance of the site drainage system will also be undertaken to reduce the risk of surface water flooding occurring.



Principle 5: Review & Assurance



Signatories review their policies, assure their processes and assess the effectiveness of their activities.



Activity

Review of Policies to Enable Effective Stewardship

The KFIM Executive Committee is responsible for ensuring that KFIM adhere and meet the ambitions outlined in all applicable policies. Recommendations are made for any improvement measures and circulated to the appropriate personnel. The policies are reviewed by the KFIM Board to confirm that they aligned with best practices.

The KFIM Board has responsibility for the successful operation of the business including the reviewing of business policy and compliance with legislation and regulation. By reviewing corporate policies as part of a strategic forum, this helps to ensure that proper systems of internal control are in place to safeguard the interests of stakeholders.

Policies which enable effective stewardship include the following:

Policies are reviewed by the ESG committee and KFIM Board on an annual basis with the aim to align with best practices. Recommendations are made for improvement measures and circulated to the appropriate personnel. In 2023, after conducting a review of our policies, we introduced the following updates to our standards:

KFIM Policies and Documents	Document Content	2023 Review
Responsible Investment Policy	Outlines KFIM’s approach to responsible investment and our stewardship processes. This policy applies to all our Assets Under Management (AUM), including assets managed on behalf of third-party clients under mandates, unless client-specific requirements specify otherwise	This policy now supersedes the prior Environmental Policy. Sections of stewardship and engagement, capital transactions, exclusions and managing conflicts are now outlined within this policy.
ESG Strategy for KFIM Business	Outlines the ESG KPIs that KFIM, as a business, is committed to achieving. These KPIs are aligned with the United Nations Sustainable Development Goals (SDGs)	Renewed without amends
ESG Strategy for Assets Under Management	Outlines the ESG KPIs that KFIM’s assets under management are committed to achieving. These KPIs are aligned with the United Nations Sustainable Development Goals (SDGs)	Added a key performance indicator on biodiversity to assess the baseline biodiversity and promote initiatives to enhance and monitor biodiversity net gains.
Governance and Operational Manual	The documentation of the Corporate, Management and Governance structure of Knight Frank Investment Management (KFIM), the manner in which authority is delegated to it and the way in which it delegates authority, collectively and individually.	Renewed without amends



KFIM Sustainable Procurement Standards	Establishes the ESG standards that service providers and the supply chain should adhere to when relevant and proportionate.	Renewed without amends
Net Zero Strategy	Fund-specific strategies which set out initial trajectories and action plans for the funds' assets under management to achieve net zero carbon.	Updated to reflect tailored client net zero targets.
Employee Remuneration Policy	The policy aims to reward performance at all levels and provides a framework within which local "market practices" are aligned	Renewed without amends
Communities and Charity Policy	Outlines the KPIs we focus on, the restrictions governing our charitable activities, and our approach to engaging with local communities.	Renewed without amends
Human Rights and Modern Slavery Policy	Outlines the commitment to ensuring that there is no modern slavery or human trafficking in our supply chains or in any part of our business.	Renewed without amends
Health & Safety Policy	Outlines KFIM's commitment to ensuring a safe and healthy workplace for all employees by complying with health and safety regulations, identifying and mitigating hazards, and promoting employee well-being	Renewed without amends
Maternity and Paternity Leave Pay Policy	KFIM's maternity and paternity leave policy ensures compliance with legal requirements and supports employees in balancing work and family life.	Renewed without amends
Whistleblowing Policy	This Policy is designed to ensure that staff within KFIM can raise concerns about wrongdoing or malpractice within KFIM without fear of victimisation, subsequent discrimination, disadvantage, or dismissal.	Renewed without amends
Anti-Bribery and Corruption ("ABC") Policy	KFIM have adopted Knight Frank LLPs Global Anti-Bribery and Corruption ("ABC") Policy which emphasises that Knight Frank does not tolerate the giving or receiving of bribes, including the making of facilitation payments.	Renewed without amends
Conflicts of Interest Policy	This policy outlines KFIM's approach to identifying and managing conflicts of interest, detailing the procedures to follow when a conflict arises.	Renewed without amends

Internal and External Assurance

KFIM has implemented a series of internal and external processes to gain assurance:

Internal Stewardship Assurance

The Board and the Executive Committee are both responsible for the oversight and accountability for effective stewardship within KFIM. This approach has been chosen to ensure that stewardship is at the heart of decision making both strategically and operationally.

The Investment Committee is also designed to make certain that there is a robust system of checks and balances in place, plus an audit trail that will demonstrate clearly to clients, regulating bodies and, if



appropriate, our insurers, why a decision/recommendation has been made and the thought process behind it.

The Compliance Officer (David Love) is appointed to oversee the compliance arrangements, to advise and assist personnel as required, and to ensure, by a process of formal and informal monitoring, adherence to the FCA rules and internal procedures. The Compliance Officer operates with as much independence as possible for an internal appointee and has the authority to access information and personnel necessary to enable performance of this role. In support of the Compliance Officer, the Management has undertaken to maintain the following compliance arrangements and in doing so is required to give support to every person within the team:

- A commitment to high standards of business ethics and practice;
- Written, up to date compliance and operating procedures;
- Strict financial accounting and operational controls;
- Procedures for the maintenance of record keeping;
- A policy of regular compliance monitoring proportionate to the regulated business;
- Regular compliance reporting to the Management Committee; and
- A programme of induction and compliance update training where required.

External Stewardship Assurance

KFIM continues to work with CBRE ESG Consulting on matters relating to ongoing advice and guidance on ESG implementation and reporting.

Fund and property environmental performance data submitted to GRESB for assessment is also externally assured to the AA1000AS standard through the ISOS Group. This assurance verifies KFIM's adherence to data management procedures, confirming the accuracy and completeness of the data, enforcing quality controls, and calculating emissions.

Fair, Balanced and Understandable Stewardship Reporting

Global Real Estate Sustainability Benchmark (GRESB). GRESB is an annual benchmark to which the LPPI and LIPUT funds submit their data. GRESB evaluates the ESG performance of commercial real estate through a range of indicators and metrics. By participating in this annual reporting, KFIM funds can assess their operational management and environmental performance within a globally recognized framework. This process enables them to compare their ESG performance with that of industry peers, revealing both the strengths and weaknesses of their ESG strategy. By engaging with this framework, KFIM funds demonstrate their dedication to transparency, accountability, and continuous improvement in ESG performance.

LIPUT: In 2023, LIPUT submitted its third report to GRESB, increasing its score from 77 in 2022 to 79. This improvement highlights the positive performance in environmental, social, and governance factors and reflects the continued efforts to integrate ESG considerations into our processes and practices.

LPPI: 2023 marked LPPI's first submission to GRESB, where it earned a 2-star rating and a score of 67. This achievement establishes a solid foundation for future enhancements.

United Nations Principles for Responsible Investment (UN PRI): KFIM is a signatory of the UN Principles for the Responsible Investment (UN PRI). The UN PRI is a global framework that sets out voluntary principles for responsible investment, guiding investors in integrating ESG considerations into their investment decisions. By reporting against this globally recognised framework, KFIM demonstrates the commitment towards transparency and credibility in ESG practices and performance.

ESG Annual Reports. To target transparency and credibility, KFIM engages an independent third party to prepare fund-specific annual fund reports when instructed by clients. These reports provide a comprehensive overview of our ESG KPIs, environmental data performance, and progress on sustainability initiatives. By outlining our performance year-over-year, we can identify areas for improvement and prioritise



actions to enhance our ESG impact. The independent review process helps to ensure that our reporting is objective, balanced, and understandable for investors and stakeholders.

Outcome

Our review and assurance processes are essential for continuously enhancing our stewardship policies and practices. By conducting regular internal and external assessments, we evaluate the effectiveness of our current strategies, pinpoint areas for improvement, and make necessary updates to stay aligned with changing market dynamics and stakeholder expectations.

CASE STUDY: Reviewing Data Practices in Line with Assurance

OVERVIEW

To confirm the accuracy and reliability of our environmental data, we engaged a third-party auditor to review energy consumption, GHG emission, water use and waste management data. Data assurance has set clear guidelines for collecting and reporting this environmental information.

CHALLENGE

Environmental data collection in real estate can be nuanced and complicated. Depending on the asset class, lease type, or location, the methodology for calculating actual and estimated data can vary significantly. Additionally, since property managers, asset managers and tenants can all report this data, they may employ different approaches to data collection and analysis.

SOLUTION

Data assurance involves quality control measures and establishes guidelines and procedures for data collection and reporting. This has allowed us to adapt and improve data collection methodologies for greater consistency. For instance, we standardised different 'market-based' conversion factors for renewable energy in our carbon reports. Furthermore, we adjusted our assumptions regarding landlord communal areas from 10% to 25% to align with industry averages in cases where data was missing.

RESULTS AND IMPACT

Data assurance has created standardised methodologies for data collection and reporting. This has streamlined the annual process and has created consistency and accuracy of our stewardship reporting. In turn, that has led to clear insights into our environmental impact to identify areas for further reduction in energy consumption and GHG emissions, supporting our long-term stewardship KPIs

CASE STUDY: GRESB Improvement Plans

OVERVIEW

To improve our GRESB performance and alignment with industry best practices, KFIM engaged CBRE's independent ESG consultancy, to conduct an annual review of our GRESB benchmark report. This identifies areas for improvement within our management practices, procedures, and environmental data reporting.

CHALLENGE

In submitting to Global Real Estate Sustainability Benchmark (GRESB), funds benchmark their performance against a standardised framework and their peers. However, the evolving nature ESG regulations and best practices presents a significant challenge. Ensuring that our internal policies and procedures align with these benchmarks is crucial for maintaining standards and demonstrating our commitment to sustainability.

SOLUTION

As part of wider ESG consultancy for GRESB, CBRE created a GRESB improvement plan to identify specific areas where our policies and procedures could be strengthened to better align with industry best



practices and the GRESB benchmark requirements. This proactive approach helps to ensure that we take advantage of opportunities to further solidify our commitment to ESG principles.

RESULTS AND IMPACT

By addressing identified gaps, we have improved our overall GRESB score, and regular review and updates seek to ensure that our practices remain aligned with the latest GRESB requirements and industry best practices.





Principle 6: Client Needs & Activities

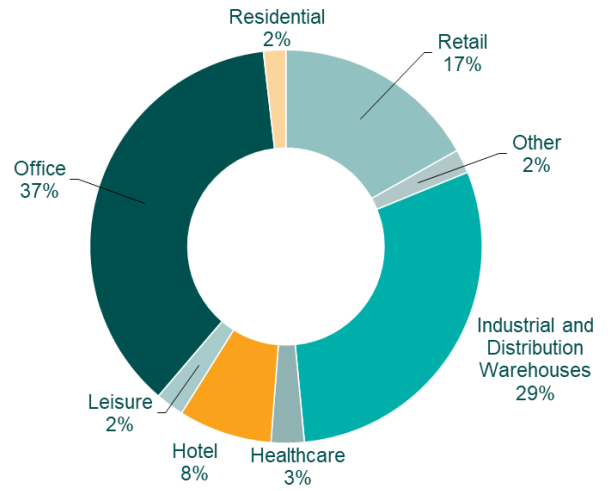
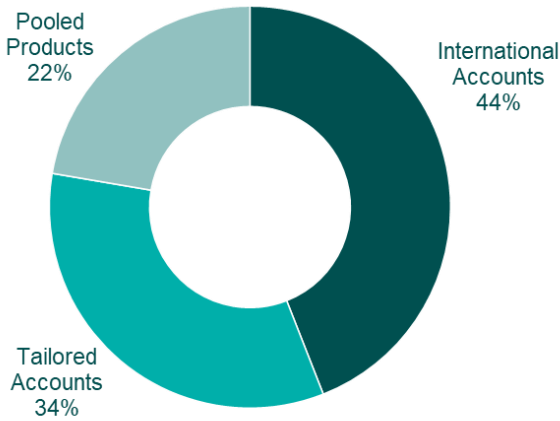
Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Activity

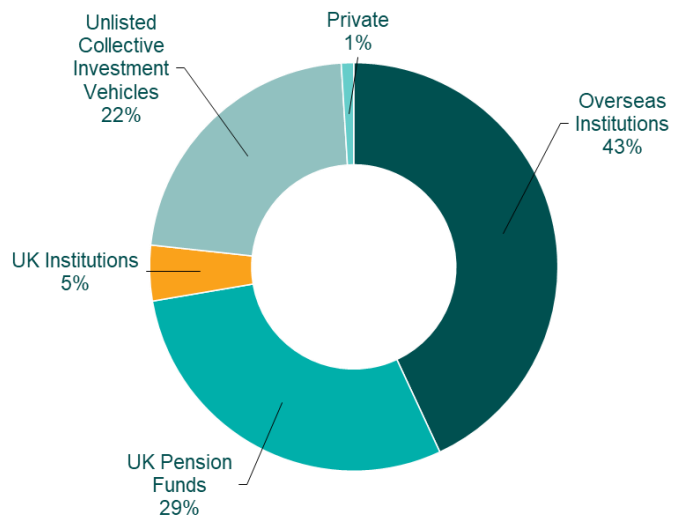
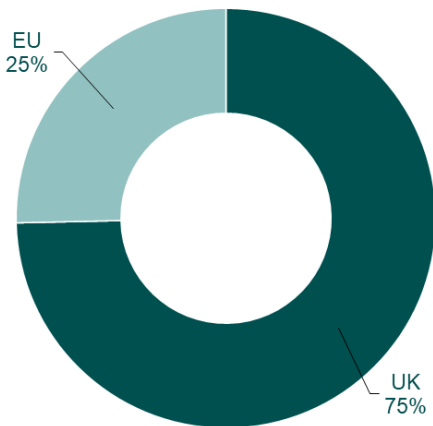
Portfolio Overview and Client Base

As of the end of December 2023, KFIM had 4.88 billion USD of AUM. The pie-charts below set out the breakdown of our global AUM by three different means: business area, property type, property location, and investor type.

KFIM AUM by Business Area (2023) KFIM AUM by Property Type (2023)



KFIM AUM by Property Location (2023) KFIM AUM by Investor Type (2023)







Communication with Clients

KFIM presents clients with their market insights, portfolio strategy, and ESG targets annually. Quarterly we report progress made against plans and targets. Additionally, we hold monthly calls with clients to discuss



costs and any agreed changes. Moreover, we provide training and insights through online workshops covering market changes, legislation, consultations, and standards.

 <p>Strategy Review</p>	 <p>Quarterly Review</p>
 <p>Monthly Calls</p>	 <p>Insights and Training</p>

Annual Strategy Review

The annual review serves as a comprehensive overview of our market positioning, portfolio strategy, and ESG targets, which is then circulated and presented to clients. During this review, we assess current market trends and evaluate our performance against established benchmarks. We also outline our ESG services and targets, including budget allocations for third-party partnerships. The annual business plan is formulated, detailing sales goals, acquisition strategies, and performance targets, with an ESG plan achieving net-zero emissions, addressing climate risk, and enhancing energy efficiency through initiatives like solar energy, and reducing carbon and air pollution through electric vehicle integration.

Quarterly Review

The quarterly review provides a critical assessment of our progress towards the objectives outlined in the annual business plan. This includes a thorough evaluation of our performance against financial and ESG targets. Each quarterly report details advancements made, challenges faced, and any necessary adjustments to our strategies. This ongoing process supports us to remain aligned with our annual goals, allowing for proactive management and timely responses to emerging market dynamics and operational needs.

Monthly Calls

Monthly calls are dedicated to providing updates on our progress, addressing queries, and discussing any necessary changes to our plans and associated costs. These discussions specifically focus on the approved ESG services that fall within our service provisions, ensuring adherence to our sustainability commitments. Additionally, we conduct calls related to asset management and financial performance, fostering open communication and collaboration among team members to drive continuous improvement.

Annual Insights and Training

We offer online workshops designed to keep our teams informed about changes in market legislation, consultations, and evolving standards. Recently, we updated our green clauses to align with the UK Green Building Council's Dark Green Clauses. To facilitate this, we engaged our solicitors to deliver training sessions aimed at equipping the KFIM team with the necessary knowledge. We also extended invitations to investor teams focusing exclusively on ESG, fostering a deeper understanding of sustainable practices and compliance requirements.



Outcome

Evaluation of Method Effectiveness:

We will continuously seek innovative ways to foster ongoing dialogue, such as surveys and one-on-one meetings, to further refine our approach and maintain transparency in our operations. We prioritise evaluating our communication methods with clients by actively creating opportunities for their feedback. We frequently review the format and content of our reports, including our annual and quarterly reports. This ongoing assessment helps to ensure that these documents provide the best insights into our progress and objectives. By refining the presentation of information, we aim to deliver clear, concise, and relevant updates that resonate with our clients' needs and expectations.



Principle 7: ESG in Investment Decisions



Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities



Activity

Differences for Funds, Asset Classes and Geographies

KFIM acknowledges that the degree of control over ESG objectives can vary based on the level of discretion allowed and the ESG ambitions of its clients. KFIM takes an asset-focused approach to investment strategies, considering geography and asset class to inform our individualised methodologies. For each asset, we assess various factors, including the level of control we have, the type of asset, the tenants who occupy it, and other relevant criteria to determine which ESG initiatives to implement. When applicable, we engage in certifications such as BREEAM and explore opportunities for on-site enhancements like solar installations or EV charging points.

We also create tailored net zero strategies detailing estimated budget and timelines for retrofits based on lease expirations. In 2023 we developed customised net zero strategies for 55% of our AUM. In cases where KFIM has discretion or clients have high ESG objectives, more ambitious ESG impacts and targets have been established.

Some funds report to GRESB, such as LIPUT and LPPI, which has helped identify areas for advancing responsible investment objectives. Client planning horizons are determined individually, but our approach to climate risks and opportunities extends beyond these horizons.

Integration of Stewardship in Service Providers

We have integrated stewardship into our supply chain, emphasising the positive impact of KFIM. Our implemented policies and practices seeks alignment with our core values across four key pillars: conducting business ethically, safeguarding confidentiality and privacy, treating employees and others with respect, and prioritising environmental preservation. We expect our suppliers to uphold these principles and actively monitor, identify, and address any violations of the code.

We engage service providers to complement our internal capabilities and support stewardship activities where necessary. These providers offer specialised expertise and resources, enhancing our ability to effectively integrate ESG considerations into investment decision-making processes. We maintain close oversight of service provider relationships and target alignment with our stewardship objectives and values.



Supplier Code of Conduct	Sustainable Procurement Standards	Supplier Checklist
<p>In collaboration with our retained ESG advisor, we have developed and implemented a Supplier Code of Conduct, shared with external providers upon engagement.</p> <p>This code outlines our expectations and requirements regarding business operations, considering suppliers as extensions of KFIM's business.</p> <p>Within the Supplier Code of Conduct there are values related to KFIM's business principles and practices, security, people management, environment, and governance.</p>	<p>We have introduced a sustainability procurement standard document, distributed to external service providers, which underscores our dedication to responsible business practices.</p> <p>This document details KFIM's objectives for integrating ESG into the supply chain, focusing on minimising waste, upholding labour standards, enhancing social value and promoting ethical sourcing, among other ESG goals.</p>	<p>The supplier self-assessment form is designed to monitor the adherence to the supplier Code of Conduct and Sustainable Procurement Standard, ensuring that responsible practices are integrated throughout the supply chain.</p> <p>The self-assessment form is a tool which enables us to evaluate supplier alignment with stewardship criteria. By completing this form, suppliers provide insights into their current practices and performance, helping us assess their commitment to responsible business operations and identify areas for improvement.</p>

The implementation of the supplier self-assessment checklist has provided us with valuable insights and data regarding our suppliers' policies and practices. This initiative has not only enabled us to evaluate their alignment with our sustainability goals but has also increased the awareness of stewardship and ESG principles across new suppliers. To date 36% of our supplier base has completed the assessment and we are progressively working towards increasing coverage. We have included a copy of our Supplier Self-Assessment on the next page.



Supplier Self-Assessment

This self-assessment is used to monitor alignment to KFIM's Supplier Code of Conduct and Sustainable Procurement Standards. Please respond to the following questions as they apply to your company or organisation.

Supplier Name: Company Registration Number:

Contact Name: Contact Email:

Product(s) and/or Service(s) Supplied to KFIM: Supplier Status:

Choose Response		Comments:
<input type="text" value="Choose Response"/>	I have read and understood Knight Frank Investment Management's Supplier Code of Conduct and confirm that our company aligns to the standards.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company has set <u>science based climate targets</u> .	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company works to reduce the environmental impacts of our operations and products, and with our suppliers and subcontractors to minimise and manage these impacts.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company targets a reduction in our operational energy use and the electricity we use is sourced 100% renewable.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company is certified ISO 14001 or other certification to ensure environmental management credibility.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company is recognised with credible standards such as Fair Trade International, certified B Corporation, Cradle to Cradle, Forest Stewardship Council, or other sustainability standard.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company implements a proactive approach to tackling modern slavery and labour exploitation and works to eliminate these practices in our wider supply chain.	<input type="text"/>
<input type="text" value="Choose Response"/>	Our company pays our employees and ensures our subcontractors pay at least the <u>National or Global Living Wage</u> .	<input type="text"/>

Any other feedback, alignment, or issues to highlight?

Supplier Self-Assessment

We monitor stewardship at key stages of our supply chain:



Tendering: In accordance with client mandates, we select external service providers through a competitive tendering process. The evaluation of potential service providers is conducted by a panel comprising KFIM Partners and/or the KFIM Investment Committee, which includes external independent representation to confirm an unbiased assessment of each provider's relative merits.

Monitoring: The performance of key service providers is continuously monitored by KFIM staff. In addition, the KFIM Investment & Performance Committee reviews performance at bi-annual meetings, allowing for a thorough evaluation and ensuring that our service providers consistently meet our standards and expectations. This ongoing monitoring process is essential to maintaining the integrity and effectiveness of our supply chain.

Outcome

Stewardship in Decision Making

In general, we do not see our stewardship as a requirement to “screen” assets or portfolios to only hold assets with optimal ESG credentials, e.g., selling an asset because its environmental performance might be a drag to a wider portfolio assessment. Instead, we recognise that KFIM’s responsibility should be to use our role to try and ensure incremental improvements are made over time so that energy, water, waste and GHG emissions are managed and reduced over time; that sources of sustainable energy are introduced, working collaboratively with occupiers; and occupiers and property users derive societal benefit from the assets through safe/healthy working environments and positive community engagements.

Nevertheless, as outlined in Principle 3, we implement stewardship throughout the acquisition of the asset to identify its risks and tailor the asset plan to its specific requirements. During the pre-investment screening process, KFIM’s Investment Committee (IC) integrates ESG due diligence and climate risk into their decision-making. For any new acquisition, the KFIM IC seeks to make sure that relevant protocols related to physical and transitional risks are followed, addressing and managing potential climate risks or opportunities with a comprehensive plan and budget. This includes influencing acquisition decisions by allocating a capital expenditure budget aimed at improving the asset's Energy Performance Certificate (EPC) rating to a minimum of B by the next lease expiry event. The IC employs a two-stage process that delineates the ESG criteria to be assessed before approving a new asset for client acquisition. In addition, KFIM will exclude any asset that falls within its established exclusion criteria, such as those involved in tobacco production or nuclear weapons.

Once an asset is acquired, KFIM will integrate ESG principles into its management, as outlined in detailed asset plans and objectives. We have joined MSCI's climate platform, which provides us with an analysis of the value at risk from transition risks associated with achieving net-zero emissions under various scenarios. In anticipation of forthcoming transitional risks, including more stringent environmental policies, we are proactively assessing the potential impacts on our portfolio. For instance, we are taking a comprehensive approach to evaluate the risks related to potential updates to the Minimum Energy Efficiency Standards (MEES) legislation, which aims to establish a minimum EPC rating of B by 2030.

Information from communication with tenants also drives prioritisation of ESG initiatives and stewardship implementation. For example, tenant alignment with science-based climate targets drives strategic partnerships for net-zero initiatives in asset management, fostering tenant relationships and portfolio performance. Additionally, tenant engagement has also influenced the dissemination of solar energy and electric vehicle (EV) renewables on-site.



CASE STUDY: Engaging with Tenants for Green Certifications

OVERVIEW

To enhance stewardship through the fund's ESG KPIs, the LIPUT Fund is focused on broadening the sustainability credentials within its portfolio. Insights gathered from a tenant survey on interest in sustainability and green certifications helped prioritise the implementation of these initiatives. As a result, we successfully achieved Active Score certification and BREEAM accreditation for two of our sites in 2023.

CHALLENGE

With a diverse portfolio of assets, prioritising green certifications is challenging. Tenant cooperation is essential for successful accreditation, which requires data collection and site visits. We also aim to align our ESG projects with tenants' stewardship commitments. Therefore, the main challenge is assessing tenant interest and evaluating the feasibility of implementing these certifications across properties.

SOLUTION

A tenant survey was sent to all occupiers within the LIPUT Fund, inquiring about their interest in enhancing the social, community, and environmental impacts of the site. The survey indicated interest among tenants. For those who expressed enthusiasm, the LIPUT Fund moved forward with pursuing BREEAM certification for a Staycity site and Active Score certification for a Sainsbury's location, aligning with tenant stewardship goals.

RESULTS AND IMPACT

The implementation of BREEAM certification not only improved the sustainability profile of the designated site but also heightened tenant engagement on ESG initiatives. Similarly, the Active Score certification successfully promoted healthier living environments in another property. Both certifications enhanced the overall marketability of the LIPUT Fund's portfolio. The survey and subsequent actions demonstrated a clear alignment between tenant interests and the LIPUT Fund's sustainability goals.





CASE STUDY: A Desktop Study on Biodiversity

OVERVIEW

Understanding biodiversity is essential for ensuring sustainability and compliance with emerging regulations. With the emergence of TNFD and Biodiversity Net Gain, real estate stakeholders need to take steps to establish biodiversity baselines and implement effective enhancement strategies. We initiated a mapping project in 2023 to better understand the natural environments surrounding our asset and find opportunities for greater biodiversity and greenspace at our sites.

CHALLENGE

Understanding biodiversity within our real estate portfolio is crucial as it impacts investment sustainability and regulatory compliance. The TNFD framework necessitates that investors assess and disclose their exposure to nature-related risks, including the effects of climate change and the ecological value of land. With the Environment Act 2021 mandating a 10% net gain in biodiversity for developments in England starting November 2023, real estate stakeholders must establish biodiversity baselines and implement enhancement strategies. This involves establishing a biodiversity baseline, maintaining existing biodiversity levels, and implementing measures to achieve additional biodiversity enhancements.

SOLUTION

Recognising the critical role of healthy ecosystems and biodiversity, we are actively exploring opportunities to enhance biodiversity within our portfolio. In 2023, we initiated a desktop project to map the boundaries of a selection of our assets. This foundational step allows us to gain a deeper understanding of the existing natural environment surrounding our properties. We first estimated the green space at each of the assets in the portfolio.

RESULTS AND IMPACT

As a result of our mapping initiative, we identified key areas for biodiversity across our portfolio. As a next step we will work towards identifying and implementing potential biodiversity enhancement strategies, such as native planting and habitat creation with the goal to increase local biodiversity metrics within the next few years. Furthermore, aligning with the TNFD framework and meeting the requirements of the Environment Act 2021 positions us as a responsible investor and mitigating against regulatory risks. We will build on this study by collaborating with tenants to assess the feasibility of biodiversity initiatives at each site. We will then partner with property managers and industry experts to effectively implement these biodiversity enhancements on targeted location.



Principle 8: Monitor Service Providers



*Signatories monitor and hold to account managers
and/or service providers*



Activity

Overview of Our Service Providers

As outlined in Principle 7, we provide third-party service providers with the Supplier Code of Conduct, Sustainable Procurement Standards and the Supplier-Self Assessment Checklist. This informs our service providers about our values and objectives while also monitoring their own stewardship practices. We ask our suppliers to adhere to our Supplier Code and deliver their services responsibly. Our service providers support various functions within our business these include but are not limited to:

- Property Managers
- Sustainability Consultants
- Insurance Brookers
- Solicitors
- Investment Agents
- Leasing Agents
- Debt Consultants
- Rating consultants
- Specialist Services Providers
- Building Surveyors
- Environmental Auditors
- Planning Consultants
- Architects
- Quantity Surveyors
- MEP Engineers
- Structural Engineers

Monitoring Service Providers

When monitoring service providers, the scope and frequency of evaluations are determined by the services offered by the supplier. Regular meetings are scheduled monthly, quarterly, annually, or as needed to discuss service-level performance and identify areas for improvement. Any issues or complaints are communicated to the service provider both during these regular meetings and on an as-needed basis.

During annual review meetings, we assess performance over the past year, address any outstanding issues, gather feedback on services, and discuss the future roadmap to confirm it aligns with both our expectations and those of our tenants.

Additionally, prior to every service contract renewal, we review performance against the original terms of the contract and conduct an internal review to confirm ongoing business needs and satisfaction with vendor services.

Monitoring Property Management

Property managers play a vital role as service providers within our management mandates. Before any services begin, we establish formal Property Management Agreements with all property managers. These agreements define clear, actionable performance criteria and set specific objectives that align with our stewardship values. KPIs are set which outline the property manager's overall responsibility for the management oversight of compliance and reporting.

We monitor the performance of our property managers through various forms of tenant engagement, including surveys and one-on-one interviews. These methods provide tenants with a platform to share their feedback on several aspects, such as overall satisfaction with the property manager, the clarity and frequency of communication, responsiveness to their needs, and the perceived value for money from their lease agreements. By actively soliciting this feedback, we gain valuable insights that help us assess and enhance the effectiveness of our property managers, ensuring a high standard of service that meets tenant expectations.



Outcome

Services Adapting to Service Providers Needs

After monitoring service provider performance, we are committed to adapting our services in order for our tenants to receive the best possible experience. By analysing feedback and performance metrics, we can identify areas for improvement and make necessary adjustments. This proactive approach not only addresses tenants' concerns but also enhances the overall quality of service, contributing to our stewardship goals. Furthermore, by creating a positive tenant experience, we can drive greater financial performance through increased lease renewals.

Case Study: Revising Tenant Engagement in the LPPI Fund

OVERVIEW

In 2023, KFIM conducted a tenant engagement survey among LPPI's occupiers. While the positive feedback indicated strong performance from the property managers, the survey also identified an opportunity for more communication with occupiers from our property managers. In response to these findings, we have expanded our tenant engagement strategies to include one-on-one interviews, fostering direct dialogue between tenants and property managers.

CHALLENGE

While monitoring objective KPIs is essential for assessing service provider performance, the feedback from occupiers—who directly experience the property managers' services—is vital for understanding whether their needs have been met. This input from tenants is key to identifying areas for improvement and ensuring that the services offered align with their expectations.

SOLUTION

A tenant survey was distributed to all occupiers within the LPPI portfolio, resulting in a 54% response rate, which is notably high compared to average survey response rates that typically range from 5% to 30%. Among the respondents, 80% expressed a neutral, satisfied, or very satisfied opinion regarding their property manager. While this positive feedback is encouraging, only 49% indicated they would recommend the property manager. The key takeaway from this survey is the need to enhance both the frequency and quality of communication with tenants to decrease the number of neutral responses.

RESULTS AND IMPACT

As a result of the survey findings, we have expanded tenant engagement efforts to incorporate one-on-one interviews and onsite investigations, allowing tenants to engage more directly with property managers regarding operational management and site updates. This initiative aims to foster better communication, address tenant concerns more effectively, and provide a platform for tenants to voice their feedback in a more personalized manner. By prioritizing these interactions, we expect to enhance tenant satisfaction and trust, ultimately reducing the number of neutral responses in future surveys. Additionally, we hope this approach will help property managers better understand tenant needs and preferences, leading to improved service delivery and stronger relationships within the LPPI portfolio.



Principle 9: Enhancing Value

Signatories engage with issuers to maintain or enhance the value of assets

There are no issuers in direct real estate and so this principle does not apply to our direct real estate investment teams in its purest form. However, we work closely with stakeholders to maximise stewardship outcomes.

Activity

Prioritisation of Engagement

Our approach to engagement ties back to the core objectives that we seek to achieve through our commitment to responsible investing (as explained under Principle 1). We have subsequently set out objectives which implement stewardship across our engagements, creating value for both our clients and the communities in which they are placed.

Our approach to engaging in ESG activities is greatly influenced by the UN Sustainable Development Goals (SDGs). These goals provide a framework for aligning our efforts with global sustainability objectives and fostering meaningful partnerships.

Value Environment: Planet Stewardship and Climate Resilience	Value Society: Thriving People and Communities	Value Governance: Promoting Fairness and Prosperity

Enhancing Asset Value

We seek to protect investors' interests on all leasing, refurbishment and development projects. Our aim is to engage in 'best-in-class' projects to deliver optimal outcomes for our investors.



Engaging with Stakeholders

Our Stakeholders

Investors	Service Providers	Tenants	Regulatory Authorities	Industry Organisations
UK Institutions, UK Pension Funds, Overseas, Private, Unlisted Collective Vehicles	Developers, property managers, ESG Consultants	Commercial and residential tenants	Standards and compliance organisations	Industry peers and associations

Given the range of enhancement projects across our portfolio, we adopt a range of engagement methods to communicate with our service providers, investors and tenants. This includes formal reporting as well as more frequent meetings and on-site visits.

Strategic Engagement: KFIM shares future portfolio strategies and proposed targets with investors, offering approaches that create financial value and stewardship opportunities, such as investments in affordable housing or carbon reduction. Insights gained from our investor engagement shape our decision-making process.

Project Based Engagement: We commonly engage service providers and tenants on asset improvement initiatives such as refurbishment or ESG initiatives. These projects are informed by asset-level plans and our ESG Strategy for AUM. We typically engage service providers during the lifecycle of a project through formal reporting, in-person meetings, project budgets and KPIs.

Recurring and Frequent Engagement: We regularly connect with our service providers, clients, and tenants through scheduled meetings, progress updates, and performance reviews to maintain alignment and address ongoing needs.

Ad-hoc Engagement: We also engage through targeted discussions, workshops, or consultations as specific issues or opportunities arise, allowing for flexibility and responsiveness to immediate concerns or developments.

Expectations to Ensure Value is Delivered

At our sites, we are committed to delivering value through a multifaceted approach that prioritises sustainability, tenant engagement, and operational performance. By integrating various initiatives aimed at enhancing environmental performance and community well-being, we create spaces that not only meet the needs of our tenants but also contribute positively to the surrounding environment. Below are some ways in which we deliver this value across our properties where possible.

- **Certifications:** We aim to secure certifications like Active Score and BREEAM for our properties. These accreditations reflect our dedication to sustainability and responsible building practices, offering independent validation of our initiatives in energy efficiency, water conservation, and overall environmental stewardship.
- **Energy Efficiency:** Our buildings should achieve a minimum EPC rating of B or higher, with action plans for assets which do not achieve this minimum criterion. This focus on energy efficiency helps reduce operational costs for tenants while contributing to lower carbon emissions.
- **Biodiversity Initiatives:** We aim to create environments that support biodiversity through landscaped greenspaces integrated into targeted sites. By undertaking initiatives to select sites for biodiversity projects, we aim to enhance the aesthetic appeal of our properties but also promote local ecosystems by providing habitats for wildlife.



- **EV Charging Stations:** We aim to install electric vehicle (EV) charging infrastructure across our sites. Providing EV charging stations enhances convenience for users while showcasing our commitment to reducing carbon and air pollution.
- **Solar Energy Solutions:** The implementation of solar energy can offer long-term cost savings for both investors and tenants, further increasing the value of the asset and aligning it with our pathway to Net Zero.
- **Retrofit Refurbishment Projects:** Our retrofitting initiatives aim to modernise existing structures to align with contemporary sustainability standards, enhancing resource efficiency while minimising construction waste. These upgrades aim to ensure that older buildings retain their value and reduce embodied carbon footprint.
- **Tenant Engagement Opportunities:** We hold regular feedback sessions that allow tenants to share their needs and concerns about the property. This process not only enables us to effectively adapt our offerings but also encourages ongoing collaboration on sustainability initiatives, such as the installation of solar energy systems on-site.
- **Climate Risk Management:** Conducting flood and climate risk assessments enhances the resilience of all properties in our portfolio. By identifying potential vulnerabilities, we can proactively address both direct and indirect risks. Implementing mitigation strategies based on these assessments can safeguard the value of assets and also contributes to its long-term appreciation.

To achieve our goal of enhancing asset value through increased stewardship, we have implemented policies and practices that aim for stakeholders to be aligned with these objectives. This collaborative approach facilitates efficient processes for capturing data and executing sustainability initiatives on-site, allowing us to monitor progress and drive meaningful change.

Case Study: Implementing Green Clauses

OVERVIEW

To enhance sustainability and operational efficiency, our firm implemented green clauses into tenancy agreements across a portfolio of properties. These clauses were designed to confirm that tenants adhere to the best green practices, thereby creating long-term value for our clients through improving the assets and implementing responsible stewardship at the asset level.

CHALLENGE

There is growing demand for sustainable practices from both investors and tenants. There is a need to align tenant operations with environmental goals to promote efficient resource use and implement our ESG strategy at an asset level. Without formal mechanisms in place, it was difficult to enforce sustainability standards, leading to inconsistent practices across the portfolio and inconsistent environmental data collection.

SOLUTION

To address these challenges, our team developed and integrated green clauses into tenancy agreements. These clauses include stipulations for energy efficiency, waste management, and water conservation, alongside an invitation for tenants to participate in sustainability training and ESG meetings. One of the key features of the solution was the establishment of comprehensive “Environmental Performance” metrics. These metrics require tenants to share their energy consumption, water usage, waste generation, and greenhouse gas emissions when available. By standardising these measurements, both landlords and tenants have a clear framework for evaluating and improving environmental performance.

RESULTS AND IMPACT

This initiative has defined the ESG roles of both the landlord and tenant, resulting in improved efficiency and reduced inconsistencies in practices. With more rigorous environmental data collection, we now have greater coverage and increased confidence in the information provided by tenants. This leads to a more accurate understanding of our progress toward net zero and effective data utilisation. By integrating



green clauses into tenancy agreements, we increase the value of our assets through green initiatives on-site and promote responsible practices at the operational level, ensuring that our values are effectively delivered on the ground.

Outcome

As described in our activities above, initiatives to create and maintain the value of our assets is critical in our strategy. To illustrate this, we provide a case study to describe the outcomes that are aligned to our investment approach.

Case Study: Solar Installation on Industrial Sites

OVERVIEW

In response to the rising demand for sustainable energy solutions, we undertook a feasibility study to explore the installation of solar photovoltaic (PV) systems at two Wickes industrial sites in Watford and Chatham. This initiative aligns with our commitment to renewable energy, aiming to enhance site values while supporting tenants' environmental and economic goals.

CHALLENGE

The industrial sector is increasingly challenged by the need to transition towards renewable energy sources. Landlords and tenants alike seek solutions that not only reduce operational costs but also contribute to global sustainability efforts. Our objective was to determine a viable approach for the installation of solar PV systems that would benefit both LIPUT investors and Wickes.

SOLUTION

After conducting detailed feasibility studies at the Watford and Chatham sites, we opted for a commercial model where LIPUT would invest in the rooftop solar systems. This model involves installing solar PV systems sized at 101kWp for Watford and 128kWp for Chatham. Wickes will purchase the generated electricity at a discounted rate through a Power Purchase Agreement (PPA), which is lower than the grid price. Additionally, any excess electricity will be sold back to the grid, optimising revenue streams for both parties.

RESULTS AND IMPACT

The installation of these solar PV systems will be undertaken in 2024. At the Watford site, we anticipate a 37% reduction in grid demand, while the Chatham site is expected to achieve a 44% reduction. These significant reductions not only lower energy costs but also contribute to a more sustainable energy footprint for both companies.

Financially, we expect a robust Internal Rate of Return (IRR) over 25 years for both sites. These returns underscore the economic viability of investing in renewable energy solutions, providing a solid foundation for future growth. This initiative is projected to also enhance tenant satisfaction. By reducing electricity bills, Wickes can better align with its stewardship commitments, fostering a positive relationship with both customers and stakeholders.

The adoption of these renewable energy sources is poised to improve the overall value of the sites. By mitigating the risk of stranded assets and ensuring long-term economic stability, we contribute to a sustainable future for both LIPUT and its tenants, reinforcing our commitment to environmental stewardship and responsible investment.



Principle 10: Collaborative Engagement



Signatories, where necessary, participate in collaborative engagement to influence issuers



Activity

Collaborative Engagement

As a firm, we embrace our stewardship role by engaging a range of stakeholders and industry bodies to promote and integrate stewardship within real estate investment sector. We participate in collaborative initiatives that reflect our core values of transparency, integrity, accountability, respect, and responsibility towards ESG principles. Our dedication to stewardship motivates us to advocate for changes that serve the best interests of our clients while fostering sustainability within the financial ecosystem.

Engagement with Industry Partnership

We are active members and signatories to a number of associations and industry initiatives. A list of KFIM memberships are as follows:

Organisation	Role and Contribution	Outcome
UN Principles for Responsible Investment (PRI)	As signatories of the UN PRI, KFIM is committed to incorporating ESG factors into our investment decision-making processes.	Enhanced integration of ESG criteria into investment strategies, leading to improved risk management and long-term sustainable returns.
GRESB	Two KFIM funds submit to GRESB annually. This participation allows us to benchmark against industry standards and implement best practices that enhance the stewardship of the portfolios	Improved portfolio performance and transparency through benchmarking, resulting in increased investor confidence and alignment with sustainability goals.
Association of Real Estate Funds (AREF)	As a member of AREF, KFIM collaborates with fellow industry leaders to promote best practices in real estate investment.	Strengthened industry relationships and access to shared knowledge, fostering innovation in responsible investment practices.
AREF ESG and Impact Investing	KFIM has actively contributed to the collaborative efforts of AREF through the involvement of its Head of ESG in the ESG and Social Impact Investing committee.	Development of impactful ESG frameworks and policies that guide responsible investment practices, benefiting both investors and communities.
UK Net Zero Carbon Buildings Standard	KFIM is a contributor both as a data provider and as a member of the offices sector group to the UK's first Net Zero Carbon (NZC) Buildings Standard led by industry organisations BBP, BRE, the Carbon Trust, CIBSE,	Demonstrated commitment to sustainability, enhancing the credibility of KFIM's investment strategies and aligning with national climate goals.



	<p>IStructE, LETI, RIBA, RICS, and UKGBC. By endorsing the UK Net Zero Carbon Buildings Standard, KFIM aligns our real estate investments with the national objective of reducing carbon emissions.</p>	
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Outcome

KFIM's active engagement with industry working groups and collaborative initiatives has resulted in many successful partnerships that drive stewardship and value throughout the real estate sector. While there are many examples to highlight, we provide a case study below that illustrates how we have facilitated this collaboration.

Case Study: AREF Working Group on Nature and Biodiversity Strategies

OVERVIEW

As part of the Association of Real Estate Funds (AREF), KFIM has taken a proactive role in co-leading a working group focused on enhancing biodiversity and nature within the real estate sector. This initiative aims to foster collaboration among industry stakeholders and develop practical strategies for integrating nature-positive outcomes into investment portfolios. A key component of this effort is the production of a video in partnership with Knight Frank LLP, designed to share insights and best practices across the industry which will be presented to AREF members in 2024.

CHALLENGE

The real estate sector faces increasing pressure to address environmental concerns, including biodiversity loss and the impact of property investments on natural ecosystems. Investment managers must navigate an evolving landscape that demands sustainable practices while also understanding the economic drivers and risks associated with nature. The challenge lies in effectively integrating biodiversity strategies into existing investment frameworks and demonstrating the value of nature in enhancing portfolio performance.

SOLUTION

To address these challenges, KFIM as a member of AREF have led a working group dedicated to exploring nature and biodiversity in real estate. This initiative includes the creation of an informative video that covers the critical role of nature in global economic value and decarbonisation efforts. The video serves as a practical guide for investment managers, offering insights on how to integrate nature-positive outcomes at every stage of the asset lifecycle.

RESULTS AND IMPACT

The collaborative efforts within the working group are set to deliver substantial advantages for both participants and the industry. The informative video will provide investment managers with insights to refine their strategies. KFIM's leadership in the biodiversity and nature working group will bring together key stakeholders in the real estate sector, ensuring that investments generate not only financial returns but also contribute to ecological health.



Principle 11: Escalating Stewardship



Signatories, where necessary, escalate stewardship activities to influence issuers



This principle does not strictly apply to direct real estate investing since there are no issuers. For real estate investments, engagement is necessarily confined to the specific asset. We have therefore focussed on how escalation is approached in our practices.

Activity

The Modification and Escalation of Activities

Investment managers create a strategic plan for each asset that outlines specific ESG objectives aligned with the overall goals of the portfolio. These plans are developed during the acquisition phase and are subsequently monitored and reviewed considering the asset's performance and external factors. This flexible approach enables adaptation to evolving market conditions and stakeholder expectations, ensuring that ESG considerations remain a component of asset management.

- **Acquisition:** During the due diligence process, if issues arise that pose risks to the portfolio, the investment manager will either exclude the asset from consideration or devise an action plan to mitigate or manage the identified risks.
- **Asset Management:** Ongoing monitoring of the asset is conducted through data collection, site visits, and tenant engagement, providing investment managers with insights into performance and stewardship initiatives. Should opportunities for further enhancement or problems arise, managers will investigate and implement appropriate actions.

If significant stewardship issues or opportunities are identified, the investment manager will escalate to the Fund Manager who will escalate to the appropriate committee or personnel for further investigation. This escalation process seeks to ensure that any potential risks or advantageous developments are addressed promptly and effectively, leveraging the expertise of specialised teams.

If opportunities for further stewardship or sustainable activities are identified, KFIM leverages specialist teams, such as our ESG consultants, to implement targeted initiatives. This collaborative approach allows us to harness industry insights and implement best practice initiatives.

Case Study: Asset Level Net Zero Plans

OVERVIEW

Considering the increasing importance of Net Zero, we have committed 55% of our AUM to customised net zero strategies. These strategies allow us to achieve financial objectives while also making a positive environmental impact. To effectively determine which assets should be prioritised for sustainability initiatives and action plans. We recognised the need for a thorough prioritisation exercise to escalate our efforts in these critical areas.

CHALLENGE

One of the primary challenges in executing these net zero plans is the variability in asset types and their existing energy performance. Targets for net zero are primarily set at lease expiries, creating a need for timely evaluations. Furthermore, we recognise that not all assets have the same potential for improvement; those with EPC below a B rating are particularly targeted. This necessitates a focused



approach to identify which assets will benefit most from sustainability initiatives, as we seek to conduct net zero audits for retrofitting opportunities within the next 24 months.

SOLUTION

We have developed a structured approach to prioritise assets based on their potential for improvement and our level of control. We categorise net zero audits into three levels of scope—basic, intermediate, and complete—allowing us to instruct and tailor strategies based on specific needs. The selection process for which assets receive net zero audits is driven by total asset carbon emissions, tenant SBTi commitments, lease expirations and existing EPC ratings. Additionally, assets where we have direct control over Scope 1 and 2 emissions, particularly multi-let properties, are given precedence for net zero initiatives. This strategy confirms that we are focusing our resources on the assets that can yield the most significant improvements in carbon reduction.

RESULTS AND IMPACT

By prioritising assets and conducting tailored net zero audits, we anticipate a reduction in carbon emissions and an increase in the overall value of the portfolio. Additionally, by identifying assets with lower EPC ratings and improving their scores, we can increase compliance with MEES regulations and minimise the risk of these assets becoming stranded.

Escalating issues with Property Managers

Service providers, particularly property managers, play a fundamental role in the performance of and the dissemination of stewardship throughout our portfolio. Their engagement is crucial for translating our ESG objectives into actionable strategies on the ground.

When issues are identified—whether related to sustainability practices, tenant satisfaction, or compliance with regulatory standards—these can be escalated promptly to confirm that corrective actions are taken. Regular performance evaluations and feedback loops with service providers targets accountability and to maintain high standards across the portfolio. During tenant surveys and one-on-one interviews, if feedback is raised on property or investment management, this can be monitored, and issues can be escalated when relevant.

Outcome

The outcomes of escalating stewardship issues and opportunities are reflected in the sustainability initiatives that KFIM actively engages in. Our accreditations at the portfolio level serve as a testament to the successful implementation of this strategy. For instance, our consistently improving GRESB scores highlights the positive actions we've undertaken at the asset level. These initiatives include achieving BREEAM and Active Score certifications, implementing automated environmental data collection that has significantly increased data coverage, disseminating tenant surveys to gather valuable feedback from occupiers, and promoting onsite efficiency measures.

In 2023, KFIM identified several stewardship activities to escalate, ensuring that we continue to align with best practices and meet our clients' evolving expectation. Some of these are as follows.

- **Flood Risk Reviews:** Following a comprehensive flood risk investigation across our portfolio, certain sites were identified as being at risk. Consequently, we conducted more detailed flood risk reviews to assess the level of risk and identify suitable mitigation measures.
- **Enhancing Environmental Data Collection:** To improve the accuracy and efficiency of our data collection, we revamped our process by automating it through the National Grid, streamlining operations and ensuring more reliable data.
- **Expanding Our Supplier Code of Conduct:** We broadened our Supplier Code of Conduct to include a self-assessment checklist, which enhanced our supplier due diligence. This initiative has



bolstered our confidence in our suppliers and increased their awareness of our stewardship expectations.

Case Study: Carbon Collaborator

OVERVIEW

KFIM aims to achieve net zero carbon emissions for its AUM, which constitutes over 90% of its carbon footprint. The primary source of these emissions is the energy consumed by occupiers, highlighting the need for accurate energy data to inform carbon reduction strategies. To secure this data, we needed to escalate this and search for alternative strategies to solve this issue.

CHALLENGE

Obtaining tenant consent for energy data sharing has proven difficult, creating a significant obstacle in establishing a carbon baseline and fulfilling regulatory reporting requirements. Despite the potential benefits for occupiers, including enhanced energy monitoring and potential cost savings, many requests for consent have been met with resistance, queries, or outright refusals.

SOLUTION

We initiated a trial to access real-time energy consumption data directly from the National Grid, which requires occupier permission but promises streamlined data access over the lease period. This method aims to eliminate the administrative burden of manual data collection and enhance data accuracy. Additionally, we engaged in one-on-one discussions with occupiers to foster collaboration on energy reduction initiatives.

RESULTS AND IMPACT

Through persistent engagement, KFIM has achieved approximately 60% consent from occupiers for data sharing. This progress has facilitated constructive conversations around energy efficiency and renewable investments. While challenges remain in securing the remaining permissions, KFIM advocates for government intervention to promote centralised data disclosure, emphasising the necessity of accurate data for effective climate action. By focusing on collective energy reductions, KFIM aims to contribute to meeting the UK's net zero targets and align with global climate goals.



Principle 12: Exercising Rights and Responsibilities



Signatories actively exercise their rights and responsibilities



Activity

Since direct real estate investing is focussed on buying buildings and not shares in listed companies, the reporting requirements set forth by the FRC do not directly apply to our business. However, there are clear rights and responsibilities that we have as a real estate investor. Therefore, in this section we outline our rights and responsibilities as a real estate investor.

Expectations for Investment Managers

At KFIM, we recognize the importance of adhering to rigorous standards across all our responsibilities. Our governance framework and operational practices incorporate stewardship, ensuring that our investment portfolio generates value not only for our clients but also for the communities where our assets are located. The following are the responsibilities and expectations we hold for our investment and asset managers throughout our portfolio.

Due Diligence: Responsibility to conduct thorough due diligence prior to asset acquisition. KFIM implements a comprehensive governance framework to evaluate and assess investments both before purchase and throughout the holding period.

Compliance. We adhere to relevant regulatory standards and industry best practices, ensuring that our investment activities align with legal requirements and ethical guidelines. Regular audits and compliance checks are conducted by the Compliance Officer to maintain accountability in our operations.

Portfolio Management. We continuously monitor asset performance, adjusting as necessary to optimise long-term value and sustainability. Risk assessments are undertaken to determine the financial implications.

Reporting: We commit to providing thorough reporting on our activities and progress toward implementing the UN Principles of Responsible Investment principles, through annual and quarterly reports, submission to GRESB and carbon reporting.

Fiduciary Duty: Act in the best interests of clients and investors. We engage, top-down, with investors on their own objectives, and engage bottom-up with occupiers of held real estate assets to improve the financial performance of the asset, whilst also creating value for the environment and community the asset sits within.

ESG Implementation: Investment and portfolio management should address key environmental, social, and corporate governance issues, contributing positively to a green and sustainable economy.

Engagement in Industry: We actively engage in and provide valuable input to consultations, industry bodies, and relevant organisations to shape real estate best practices and policies.

Outcome

Reviewing Rights and Responsibilities based on Asset Class and Geography

KFIM customises its responsibilities for each asset based on its specific characteristics, including use, type, location, and capacity for hands on implementation.



Case Study: A Tailored Approach to Due Diligence in Solar Contracting

OVERVIEW

A key aspect of ensuring effective stewardship across our portfolio is the implementation of ethical practices throughout our supply chain, especially considering global concerns surrounding modern slavery. By customising our due diligence processes for solar service providers, we can align our responsibilities with the geopolitical and ethical requirements of the industry.

CHALLENGE

With an increasing number of solar service providers sourcing silicon from the Xinjiang region of China—an area reported to have significant human rights violations—we recognised the need to enhance our due diligence process to address these critical issues. The potential risks included reputational damage, legal implications, and ethical concerns arising from any association with forced labour practices.

SOLUTION

We tailored our due diligence process to include several key components. We sent a comprehensive due diligence form for our solar service providers to complete. This form inquired whether they source materials such as polysilicon from the Xinjiang region. Additionally, it requested proof of third-party audits and social audits conducted within their supply chains, as well as the locations and identities of subcontractors involved in the production process. We also asked for an organizational action plan relating to solar PV supply chain transparency.

RESULTS AND IMPACT

By adopting a tailored approach to due diligence for solar service providers, we can identify potential risks before contracts are implemented, thereby reducing our exposure to legal and reputational risks. The implementation of enhanced modern slavery due diligence not only safeguards our company against potential threats but also contributes to a broader movement toward ethical practices in the renewable energy sector.



Glossary

AML	Anti-Money Laundering
AUM	Asset Under Management
BREEAM	Building Research Establishment Environmental Assessment Method
DEI	Diversity, Equality & Inclusion
EPC	Energy Performance Certificate
ESG	Environmental, Social & Governance
EUI	Energy Unit Intensity
EV	Electric Vehicle
GRESB	Global Real Estate Sustainability Benchmark
HVAC	Heating, Cooling, and Hot Water Systems
IC	Investment Committee
KF	Knight Frank
KFIM	Knight Frank Investment Management
KPI	Key Performance Indicators
SBTi	Science Based Targets initiative
SFDR	Sustainable Finance Disclosures Regulation
TCFD	Task Force on Climate-related Financial Disclosures
TNFD	Task Force on Nature-related Financial Disclosures
UN PRI	United The Principles for Responsible Investment



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