

RESILIENCE SUSTAINABILITY CASE STUDY

Investa's initial TCFD Response

June 2019

SUMMARY

With the release of the Financial Stability Board's Final Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and increasing expectations from investors and Australian regulatory bodies, there has been a growing impetus for companies to assess and report the risks posed by climate change.

Investa identified the TCFD Recommendations as an opportunity to work alongside investors to determine best practice reporting. With this in mind, they directly engaged investors to better understand investor expectations and co-define a best practice approach to disclosing climate risk. The result of this engagement was the development of a three-year phased approach to refine key material risk and associated financial exposures. The following case study details the first phase of these works, the identification of key material climate related risks and opportunities.

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LOCATION

Sydney, Brisbane and Melbourne

DESCRIPTION

The first phase of these works (those detailed in this case study) focused on the identification of material climate related risks and opportunities.

The TCFD identifies two types of climate risk;

1. **Physical risks:** arising from the physical changes to the earth's climate; and
2. **Transitional risks:** arising from the global transition to a low-carbon economy, presenting challenges from a reputational, social, regulatory, technological and financial perspective.

Physical and transitional risks identified and assessed include;

Physical risks

1. Meteorological events, including storms
2. Hydrological events, including riverine flooding and sea-level rise
3. Climatological events, including rising temperatures and drought

Transitional risks

1. Rising electricity costs due to rapid decarbonisation
2. Loss of tenants impacted by climate change
3. Building upgrades to maintain high performing buildings
4. Rising material costs
5. Scope 3 Emission responsibility (those emissions for which property owners have no operational control over)

These risks were assessed by external consultants who considered and analysed Investa's portfolio data (property management data, insurance data, investor surveys, etc.) as well as third party data sources (including the Australian Bureau of Meteorology, the Scientific Intergovernmental Panel on Climate Change Reports, Municipal Council data, etc). Five workshops were then held with Investa Executives, Fund and Property management teams in the major cities of Brisbane, Sydney and Melbourne, to discuss the initial findings relevant to each City.

SPECIFICATION

Commercial offices more than one million square meters.

TIMEFRAME

The project was facilitated over four months from scoping to completion. The programme included an extensive stakeholder engagement programme, which ensured the ultimate Executive approvals, business adoption and appropriate permission to proceed to Phase 2.

MAIN STAKEHOLDERS

Stakeholder management in this project was of critical importance. TCFD reporting will ultimately land in the financial reporting suite, and so will engage investors, fund managers and property management teams.

Investors

Ensuring Investa's response is in line with investor expectations, confirming they are able to utilise the comparable data to evaluate the financial exposure to climate change.

Property Management

Identifying the primary climate risks and opportunities allows property management teams to design and implement bespoke mitigation strategies.

CONTEXT AND DRIVERS

In response to the 2015 Paris Climate Agreement, the global Financial Stability Board established the Task Force on Climate Related Financial Disclosure (TCFD).

The TCFD sought to establish clear reporting frameworks for the investment community to articulate climate related financial risk. The TCFD's Final Recommendations for the disclosure of climate risks were released in July 2017 and were quickly endorsed by key Australian regulatory bodies including the Australian Prudential Regulation Authority (APRA), Australian Securities and Investment Commission (ASIC) and Australia Securities Exchange (ASX).

Furthermore, an Australian Federal Government Committee Report into carbon risk disclosure concluding that "companies should provide meaningful and useful risk disclosure to enable investors to make fully informed decisions."

These domestic endorsements were clear drivers for Management to respond to the TCFD recommendations, in addition to an industry leadership expectation that disclosure of climate risks will become mainstream over the coming years.

In response to these clear drivers, Investa commenced a three-phased approach as follows:

- Phase 1:** Material Risk Identification Disclosure
- Phase 2:** Full Scenario Modelling Disclosure
- Phase 3:** Full financial disclosure

By staging the delivery programme, Management will work alongside investors to ensure the output is aligned directly with their reporting needs. Importantly, Investa identified an early challenge of providing sector wide comparable data. The TCFD Recommendations do not provide guidance on preferred scenario analysis, or minimum risk and opportunity data considerations should be conducted.

With this challenge in mind, Investa has joined a global working group (UNEP FI Property Group) to pursue the development of a global best practice reporting standard.

Note:

1. Please refer to "Investa Office Management 2018 Sustainability Report" for more details of the reporting of TCFD response. It is available from the link below: <https://www.investa.com.au/about-investa/sustainability/results-and-reports>

2. Please refer to the link below for more details on UNEP FI Property Group <https://www.unepfi.org/investment/property/>

IMPLEMENTATION

Our approach was to collaborate directly with our investors prior to beginning the formal work. This allowed us to deliver to investors' expectations, ensuring the final work would be useful to this key stakeholder group. The project was designed and managed by Investa's inhouse Sustainability Team, producing the work in conjunction with consultants.

Working with expert consultants, Investa analysed internal and publicly available data and records to determine the climate risks and opportunities posed to Investa's portfolio.

The availability and accuracy of public data posed a challenge and was particularly prevalent when considering City Council flooding maps, whose accuracy was disputed by property management teams. As a result, Investa is investigating partnerships with alternate data providers who can provide a detailed analysis of natural hazard risks in Australian city areas.

The primary outcome of the work was a final report produced by consultants detailing the climate risks and opportunities faced by Investa. The risks identified in this report will form the basis for forthcoming scenario analysis work which will consider the risks under projected outcomes of climate change. Similarly, Investa will explore opportunities to attract green and resilience capital in a carbon constrained future.

FUTURE PLANS

Having completed the first phase of TCFD response, Investa is now proceeding to the second phase. Investa is pleased to work with the UN Environmental Programme Finance Initiative (UNEPFI) working group on establishing TCFD best practice reporting models. It is our intention to continue to gather investor and best practice feedback in TCFD reporting on an ongoing basis.

INFORMATION

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