For professional investors/qualified investors only

Applying Environmental, Social and Governance to **Residential Strategies**

White Paper | February 2022

BMO Real Estate Partners

BMO Global Asset Management

Part of COLUMBIA THREADNEEDLE INVESTMENTS

Contents

Introduction

Environmental, social and governance (ESG) considerations, alongside innovation, have always proudly been a part of our mindset at BMO Real Estate Partners (BMO REP). The team benefits from the strong reputation, heritage and pedigree of our parent company, BMO Global Asset Management (EMEA), part of Columbia Threadneedle, where responsible investing and stewardship have always been an integral part of the culture. Together with Columbia Threadneedle, we are part of a global alternatives business with more than £34bn[1] in assets under management, including real estate in the UK, Europe and the US.

Recent events have had an indelible impact on the real estate sector globally, which we and our clients are acutely aware of. A clear outcome has been the increased importance of ESG considerations which is driving demand for assets that are able to demonstrate compliance with all three of the ESG pillars whilst delivering both investment returns and shareholder value.

Our scale and experience in this area means that we are well placed to understand the market dynamics influencing ESG with respect to our industry and to respond appropriately with effective and relevant solutions. We constantly challenge ourselves to ensure we have thoroughly scrutinised all of the risks and opportunities presented by each of the ESG pillars, and this has delivered notable benefits. It is clear to us, through first-hand experience, that ESG factors can be material to value creation and preservation, meaning that there is no need for a financial trade-off.

We recognise that our activities have a direct and indirect impact on the environment as well as the communities we operate in and that we cannot achieve the results we are targeting in isolation. As such, we work with all stakeholders to create partnerships across the real estate landscape to share best practices and deliver market leading ESG strategies that not only deliver on our investors' financial requirements but are ultimately motivated by doing the right thing.

This White Paper sets out our viewpoint and the ways in which BMO REP's best-in-class strategies reflect our commitment to delivering attractive returns through investment in sustainable property assets, by driving environmental excellence and prioritising social value in a transparent and authentic manner.

Stewart Bennett,
Global Head of Alternatives

Key risks

Past performance should not be seen as an indication of future performance.

The value of investments and any income derived from them can go down as well as up and investors may not get back the original amount invested.

The information, opinions estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

[1] As at 30-Jun-21

1. What is Environmental, Social and Governance and why we apply it to what we do in real estate

Joanna Tano
Head of Research, BMO Real Estate Partners

Where did it begin and where is it going

Environmental, Social and Governance (ESG) has become a growing focus across the investment world, including real estate. BMO Real Estate Partners has been an active participant in the ESG conversation, but more important is the activity we have been undertaking in applying our ESG strategy to assets under management and ensuring it forms an integral component of all new product launches.

Owners and importantly occupiers of real estate, across all sectors of the industry, are more sophisticated than ever and while, yes, investors still seek returns, they are much more discerning in how they access those returns. A large part of that is the ESG agenda, reaching beyond the boundaries of the physical building.

The 2005 publication of "Who Cares Wins", under the auspices of the UN Global Compact, laid the foundations for ESG investing. The report outlined that better investment makes not only good business sense but leads to more sustainable societies. In our opinion, it can also create and preserve value.

Initially, there were swathes of the institutional investor community that were reluctant to embrace the concept. They believed that their fiduciary duty should be exclusively focused on maximising shareholder value, setting aside not only occupier requirements to a degree, but environmental and/or social impacts and, to some extent, governance issues too, to focus on income streams.

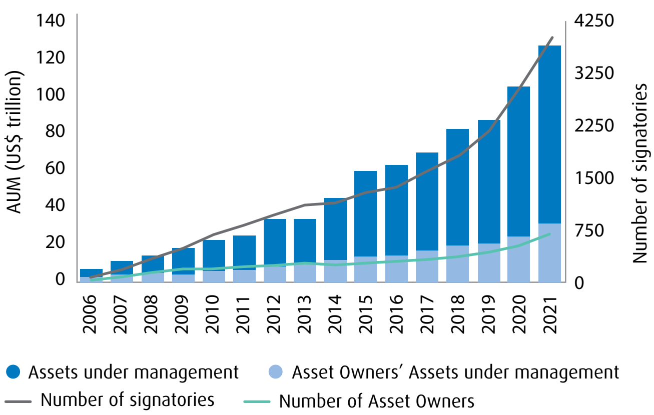
But the tide has turned and is gathering momentum. The integration of ESG is now seen as crucial to the decisions we make on behalf of our investors and shareholders, but also how we build long-term relationships with our occupier customers.

It is fair to say that the industry's initial adoption of ESG principles was slow. It was held back by the mistaken view that investing more time, money and energy into producing positive social and environmental impacts would reduce the financial return and make an investment less viable. Statistics show that the opposite is true.

The Global Investing Impact Network (GIIN) launched their first survey in 2010 when just 24 members responded, a number that rose in 2020 to 300 organisations collectively managing USD404 billion in impact investment assets. Research from Mercer also reinforces this; in their 2020 European asset allocation insights survey they found that 54% of respondents actively consider the impact of climate change related risks on their investments, up from 14% in a 2019 survey. In addition, 89% of pension funds now consider wider ESG risks as part of their investment decisions, up from 55% in 2019.

ESG is no longer a nice-to-have, it is a must-have; and while governments are pushing through regulation, there is a growing awareness that the impact of the real estate that we invest in is felt by its local community, for example through place-making which influences the environment beyond a single asset, or by new buildings with green credentials.

The Principles for Responsible Investment: AUM and number of signatories



Source: Principles for Responsible Investment, as at Apr-21

Key EU legislative initiatives for asset managers	**Disclosure Regulation** ((EU) 2019/2088) • also known as SFDR or the ESG Regulation • Applies from March 2021 • Delay to final RTS publication and RTS compliance (likely end Jan 2022)	**Taxonomy Regulation** ((EU) 2020/852) • also known as the Framework Regulation • Applies from Jan 2022/2023 • Level 2 pending	**AIFMD Level 2 Delegated Regulation** (amending Regulation (EU) 231/2013/EU) • Consultation closed in Jul 2020 • Applies 12 months after coming into force (expected to apply Q3/Q4 2021)
MiFID II Organisation Regulation (amending Regulation (EU) 2017/565/EU) • Timings as per AIFMD	**MiFID II Delegated Directive** (amending Regulation (EU) 2017/593/EU) • Timings as per AIFMD	**Voluntary ESG obligations and expectations** ((EU) 2020/852) • eg UN PRI, UN SDGs, Impact Management Project, PRI's report on fiduciary duties, other principles, frameworks, codes, practices	**Others** • Low Carbon Benchmarks Regulation, delegated legislation integrating sustainability relating to the UCITS Directive, Solvency II and the Insurance Distribution Directive plus local regulation (eg in UK TCFD recommendations)

Source: Bryan Cave Leighton Paisner LLP 15-Oct-20

What is moving the dial

There are a number of moving parts. As active participants we sit at the core but regulatory change, wider industry players and technology also play key roles. Increasingly, the public sector is looking towards the private sector to help create and implement the ESG agenda. There is growing awareness that real estate plays a huge role in society, not just in terms of the physical attributes of a building, but how the community interacts with the built environment; the services buildings provide in integrating communities at a social level; and the broad nature of real estate in offering solutions to living, working and socialising in a community. Real estate is part of a destination's socio economic fabric.

In Europe, more pension funds and insurers are awarding business to real estate investors and asset managers that don't just talk about having ESG capabilities, but can demonstrate that they can and do deploy them. As the process becomes more transparent with the volume of data and the speed at which it is being generated, together with an increasing sophistication by which it is being captured and greater transparency, this allows for a much improved understanding of the world we are living in. The result is greater clarity with which to make better decisions. There is, for example, greater awareness (in part driven by more data stemming from the scientific community) that irreversible environmental change is afoot and, if sweeping change that involves individuals, businesses, and governments is not forthcoming, the outcome could be disastrous. And so, good stewardship, low carbon practices and decisions being taken to limit further damage to the environment will attract support. The pace of technological change also means that individuals have the information they need at their fingertips to clearly express their values and ensure their financial investments and savings are reflective of those preferences.

Real estate responding to the **climate emergency**

There is a more genuine awareness of the climate emergency. A landmark report by the IPCC (Intergovernmental Panel on Climate Change) on climate change, signed off by 234 scientists from more than 60 countries, concluded that the world is likely to temporarily reach 1.5C of warming within 20 years, even in a best-case scenario of deep cuts in greenhouse gas emissions, and this impacts us all.

The climate will continue to influence behavioural change, supported by increasingly structured and governed frameworks. Industry bodies such as the European Association for Investors in Non-Listed Real Estate Vehicles (INREV) have developed the Sustainability Reporting Guidelines, for example, and GRESB, the investor-driven global ESG benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate reported increased participation in the 2020 GRESB real estate assessment.

More recently, in November 2021 the highly publicised COP26 (the 26th United Nations Climate Change Conference) was held in Glasgow. An important event, it was the moment countries revisited climate pledges made under the 2015 Paris Agreement where countries were asked to make changes to keep global warming well-below 2C and to try and aim for 1.5C.

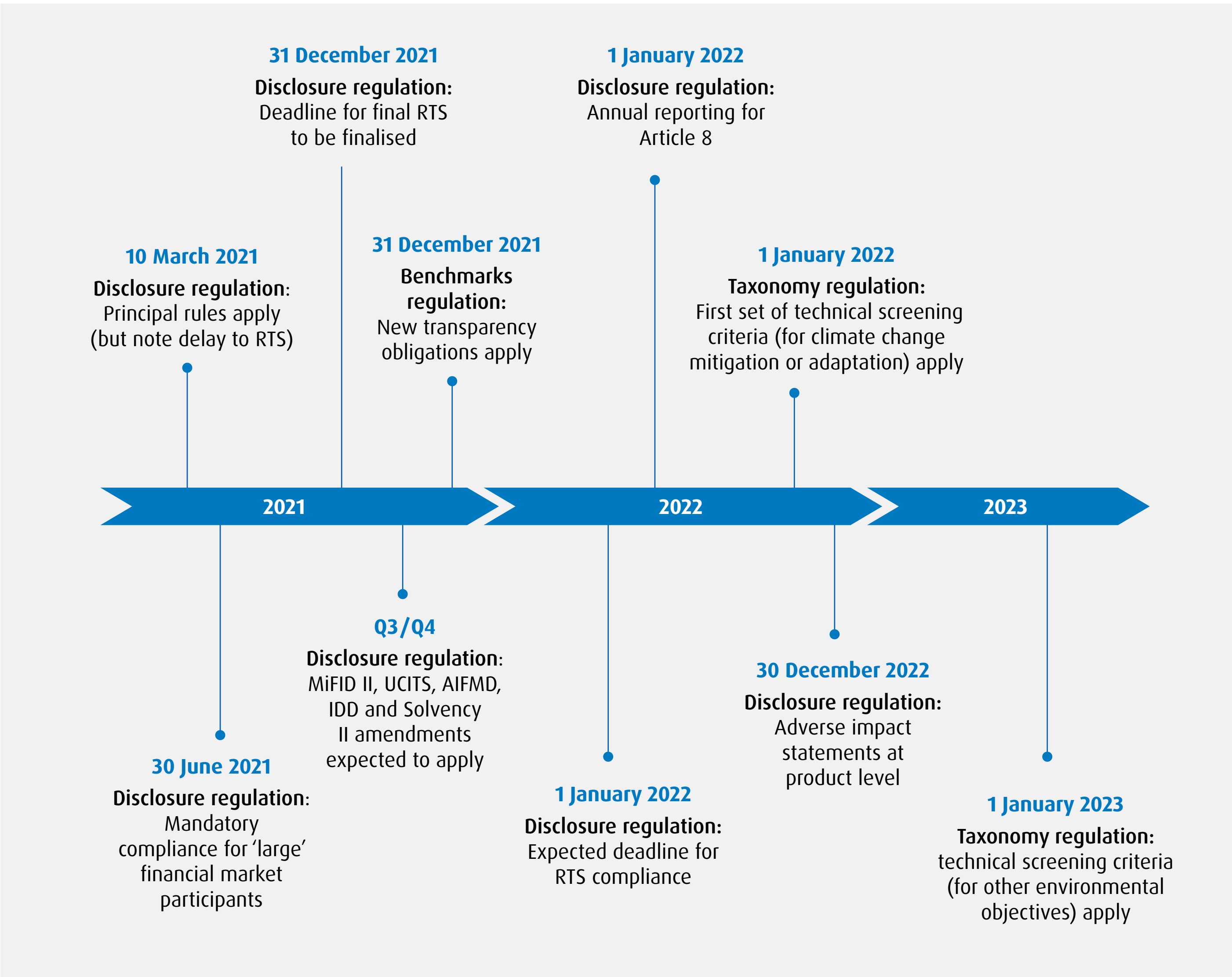
A few (high level) thoughts on the impact on real estate

Given the backdrop of global uncertainty, occupiers are tending to favour shorter leases which is not ideal for landlords, but if indirectly, through active ESG strategies, value is created in both the bricks and mortar and the community within which it is located, then arguably, shorter leases are nothing to worry about as the draw and value of the ESG strategy to the wider community should suffice, although there is a potential cost to shorter leases in the capex needed to go into a building with each lease expiry.

The greater change is likely to come through how we, as consumers and workers, interact with the built environment. By way of example, as trends accelerated by the COVID-19 pandemic, such as a hybrid working model, local convenience becomes more important giving shoppers greater influence over the future of the food industry and this will have an impact on supply chains. Furthermore, as sustainability grows in importance, coupled with the reduction in carbon emissions targets, this will further aid a long-term shift in increased levels of local sourcing and delivery models that are low in carbon, so rising demand for electric powered vehicles.

Applying ESG principles to investment decisions and existing funds under management is about much more than being sustainable and responsible, it is an important driver of value creation and preservation going forward.

ESG Regulation – key dates 2021-2023



Source: Bryan Cave Leighton Paisner LLP 15-Oct-20

2. It's not just 'doing good', it also makes financial sense

Angus Henderson
Head of Business Development, BMO Real Estate Partners

The growth of impact investing

The consideration of long-term investment value drivers and risks is a fiduciary obligation placed on fund managers. Environmental, social and governance (ESG) factors are increasingly recognised as being material to investment value creation and preservation. In this context, the systematic and explicit inclusion of ESG into investment analysis and decision making is a core principle under which we invest and launch new products. The tangible nature of real estate assets, with their exposure to physical aspects and significance to policymakers, amplifies the importance of the ESG dimension.

The evaluation of positive impact criteria provides a deeper means by which to consider these ESG factors. Positive impact seeks a shift in approach such that market-oriented capital flows do more than minimise harm, but rather, create positive environmental, economic and societal outcomes, as well as contribute to solutions in underserved markets where government is increasingly seeking private finance to deliver.

The emerging consensus that capitalism should be less short term and more inclusive to the wider society is quickly establishing itself in mainstream investment thinking. For years considered niche, the growth of sustainable and impact funds is facilitating genuine change in many areas of society and the environment.

The concept of "double bottom-line" investing considers not only the financial return provided, but also the positive impact that invested capital has been able to create. Impact funds range greatly across providers and asset classes. They are generally distinguished as seeking investments that support an intention to generate positive, measurable social and environmental impact alongside a financial return.

From an investment perspective, with low interest rates the real estate sector has been viewed as a way to diversify investment risk for life and pension fund portfolios. Long-term rental housing can act as a strong diversifier as it is less correlated to other more cyclical property asset classes. The various leasing models associated with affordable housing also offer scope for inflation linking. The credit strength of the sector and inelastic demand, particularly through the global financial crisis, has helped reinforce the view of the sector as a credible source of diversification.

For investors who are seeking positive sustainability solutions alongside financial returns, real estate investment can have both important social and environmental benefits. On the social side, housing represents a key tool for developing cities looking to cope with growing, transient, and ageing populations that require employment and social infrastructure – housing, healthcare and education. And environmentally, the development and operation of housing presents the opportunity to drive long-term environmental change through forward-looking design that creates operationally efficient homes, reducing carbon footprints and enabling social benefits such as lower fuel poverty. Credible impact investment in real estate demands that investors consider both these aspects.

Finally, the myth that for high-quality impact to be achieved, financial returns must either be a secondary factor or an additional consideration, has been proven false. Certainly, in terms of real estate, the provision of well governed, affordable housing solutions offers clear social benefits, along with the advantages that new housing stock offers in terms of operational efficiency for the owner and occupier, reducing costs and returning income back to the investor.

> The myth that for high-quality impact to be achieved, financial returns must either be a secondary factor or an additional consideration, has been proven false.

How ESG supports our investment thesis

Our ESG objectives help drive our thinking and are fully embedded into our consideration of property fundamentals and determination of risk and opportunities, as illustrated below.

Acquire properties thoughtfully

Tighter controls into acquisition due-diligence with oversight from the Investment Committee and Head of Sustainability

Design and refurbish buildings responsibly

Using our bespoke Sustainable Development Brief to guide best practice

Manage and operate assets sensitively

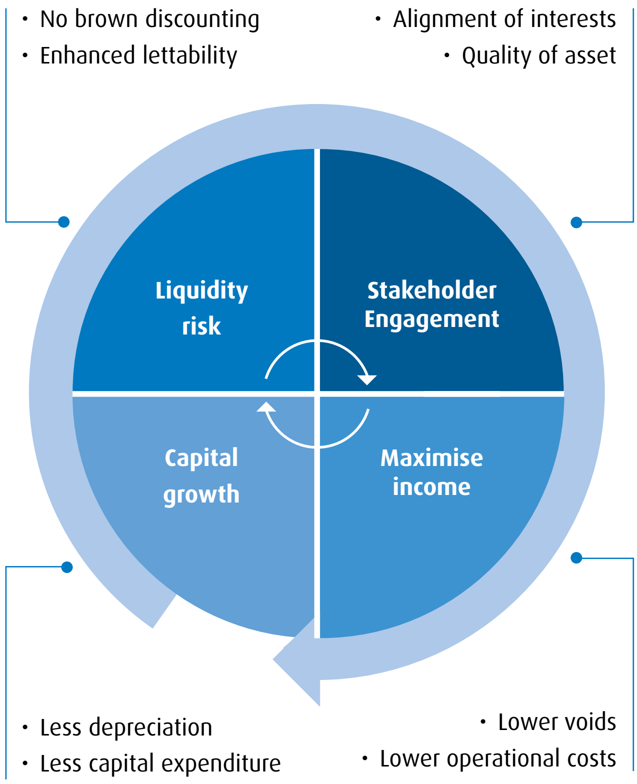
Informing asset business plans with ESG profiles and priorities, determining existing credentials, opportunity and exposure to risk

Engage with occupiers astutely

Collaborate and share data to jointly understand the challenges and opportunities presented

Create value within communities

Social Impact Strategy that drives engagement with occupiers and wider communities towards positive outcomes



Source: BMO Real Estate Partners

Using the housing sector as an example

Different countries and cities are at different points linked to wealth, demography, affordability, housing stock and tenure, planning regimes and migration patterns and so it is not a one size fits all approach – the unique composition of each city creates opportunity for various forms of residential investment and development going forwards – but across Europe there is a lack of quality stock in the right locations and it is clear that the existing market is not delivering enough housing.

The rising prices of home ownership in major European cities have made it unaffordable for some, pushing them to the private rented sector as they do not qualify for social housing either – this is a key growth driver of demand for the rental market.

Since 2000, the average house price across the Eurozone has risen by 3.1% per annum, while real wages have only increased by 0.4% pa, meaning that while earnings are only 8% higher in 2020 than 2000, house prices are 86% higher.

The pressure on prices is exacerbating the affordability gap, making it very difficult, in particular for first time buyers, to afford a suitable home and this is in spite of the low interest rates. This means that a large, typically young and mobile, group is dependent on the rental housing market – especially in mid- to large-scale cities across Europe.

Furthermore, there is a growing proportion of existing stock that is facing obsolescence. The levels of owner occupation vary across Europe – 31% of European households live in private rental homes, up from 26% a decade ago – but, by and large, there remains a large and growing proportion of the market that could benefit from institutional investment, in particular the Social Housing and Private Rented sectors.

As well as demographic changes (growing population + urbanisation + migration), COVID underpinning the value of the home, legislative pressure and tax changes are contributing to a reduction in supply. This leaves the door open for institutional investors to step in and fill the gap, offering some important advantages over the traditional model of individual private landlords, for both the tenants and for society.

The fundamental shift stimulated by the introduction of institutional investment is a movement in the parameters for the underwriting and operation of the real estate, with the investment being long term in nature resulting in a different approach to valuation (income focused, not capital driven) and efficiency.

Having larger, commercial property management companies overseeing rental properties can offer a higher, more standardised and professionalised level of service for tenants. Commercial property management companies are often able to offer longer tenancies, in contrast with private landlords where tenancies may be shorter, creating a lack of certainty for tenants. Longer tenancies allow individuals to integrate into the wider community and contribute more freely, with the knowledge that the area is their home and not just a stopgap.

Efficiencies for the landlord will be reflected in the occupational costs to the tenants, meaning their rental payments are more affordable – which often leads to higher occupation rates that in turn underpin financial returns. Where new build is possible, there is an opportunity to design, construct and operate new homes that will almost certainly have a better environmental profile than most of the older housing stock. This not only improves the carbon intensity of the property stock, but can also support the development of modern construction technologies, stimulating new industry and the associated employment opportunities.

These benefits do not come automatically with the shift from private to institutional money. The willingness, the right partnerships and management structures have to be in place to ensure that benefits to tenants, communities and the environment are realised.

Measuring impact

Impact is driven by intentionality. This must then be translated into objectives which are held consistent and measured over time. Feedback can then be generated to assess effectiveness and what can be done to improve the targeted outcomes. Fundamentally, to have impact, the objectives should improve the market and do more than might ordinarily be delivered by other market participants – this is additionality.

Given the many ESG interventions possible for real estate investors through the acquisition, development, operation and disposal of physical assets, not all can constitute impact. Being transparent, understanding the impact achieved and being able to consistently measure it are core factors to ensure that investors and wider stakeholders understand investments in this area.

Accusations of 'greenwashing' can be extremely detrimental to the reputation of a fund and the wider sector. It is therefore essential that measurement frameworks are created for products to allow priorities to be determined in the pursuit of objectives and that this process can be communicated to stakeholders when necessary. Internal and independent impact assessments can also be conducted on a periodic basis to provide fresh perspective and the test practice.

BMO REP's overarching framework is shown below as an example.

Our ESG objectives

Environment
tackling the environmental deficit

Carbon, climate resilience, circular economy, biodiversity

Social
having purpose and value

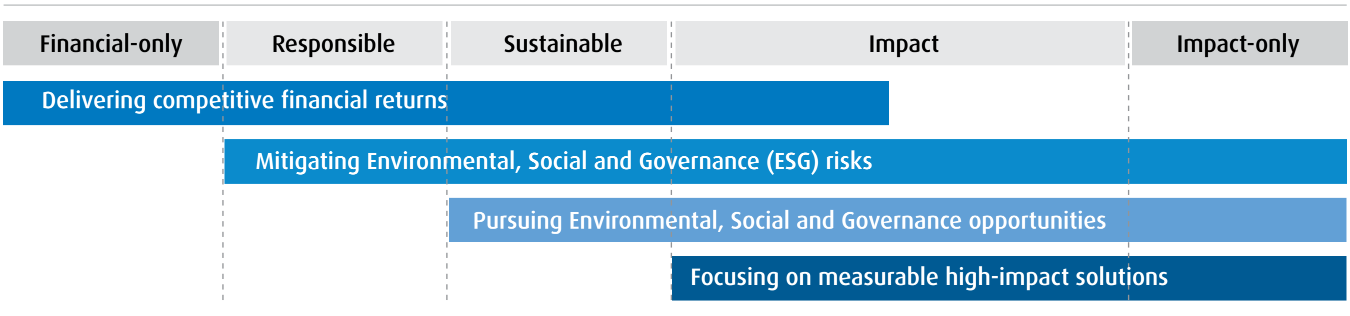
Community, prosperity, inclusivity, wellbeing

Governance
working with integrity and rigour

Certifications, accreditations, awards

Source: BMO Real Estate Partners

Impact investing for sustainable outcomes



Source: BMO Real Estate Partners

Impact in real estate cannot be distilled to a single metric. There are different aspects of impact which need to be recognised and measured, and any potential housing investment may be market-leading in some areas but only reaching minimum standards in others. It is the combined output and progress against the product's objectives that are significant.

Residential investment represents social infrastructure and there are many ways to promote ESG or to be impactful, whether through a focus on the provision of a specific type of accommodation for an underserved or vulnerable market, or the associated uplift in building quality and operation. It may even be the wider economic significance of the housing in terms of the regeneration of areas and support of economic growth through the provision of work (a direct result of construction) and retention of staff for local employers. Significantly though, each product should set out is objectives and prioritise its interventions to protect against regulatory and reputational risk, but also to credibly assess the level of impact achieved.

3. The E: How we apply our framework to standing owned assets

Anne-Sophie Zähringer
Officer Corporate Communication, ESG Representative, BMO Real Estate Partners

Sustainable investment: the path to "net zero carbon"

The World Economic Forum has outlined the importance of environmentally friendly thinking and the related impact of the real estate industry in its Global Risk Report 2020. According to this report, the industry is responsible for 55% of electricity consumption, 39% of energy-related CO_2 emissions and 30% of energy consumption, globally. Only 1% of all buildings are labelled as CO_2-neutral. To reach the European goal of making existing buildings climate neutral by 2050, the industry must quickly move down the road of decarbonisation. This includes determining the CO_2 footprint on property level, both at a portfolio and company level. Knowing the CO_2 footprint of each property enables us to quantify the monetary risks, to plan measures to reduce emissions and to counter any risks those emissions might cause. BMO Real Estate Partners is aiming to achieve CO_2-neutrality by 2050, if not before.

Collection of ESG data is the foundation for transparency and future sustainability strategies

At the moment we are defining our own sustainability strategy: we specify measures at a company, portfolio and property level to decarbonise all our properties and to rate new investments. In accordance with our investors, we are seeking to upgrade our products that are currently rated according to article 6 of the Sustainable Finance Disclosure Regulation (SFDR, REGULATION 2019/2088 of the European Parliament and of the council of 27 November 2019 on sustainability- related disclosures in the financial services sector) to article 8 over the medium term.

We have collected our properties' consumption data for the period between 2018 and 2020 to create a reliable and transparent database on our current carbon footprint and from there we can decide on the necessary decarbonisation measure for each property. The efforts required for the analogue collection of consumption data are intensive and time consuming. We have therefore rolled out a portfolio wide smart metering system, which will simplify the collection and verification of the data. By 2025 we plan to achieve a comprehensive remote readout via sub-metering and in 2022 we will publish our first sustainability report, summarising the measures we have implemented, the results so far, next steps and a new timeline.

How does ESG impact valuation

The recent developments in the sustainability debate and new legislation make it necessary to check and value properties according to ESG standards, to ensure the preservation and future appreciation of value. We have applied for classification according to article 8 of SFDR for one of our newest strategies, namely BMO Europe Residential Fund which will only acquire verifiably sustainable properties or those that have the potential to be developed into sustainable properties. All new investments meet our ESG criteria and will be subject to technical, legal and ESG due diligence. Thus, our ESG criteria forms a key part of both the pre-purchase valuation as well as the business plan of any new asset.

"The recent developments in the sustainability debate and new legislation make it necessary to check and value properties according to ESG standards, to ensure the preservation and future appreciation of value.

Measures to achieve portfolio-wide CO_2 neutrality

We attach importance to that new buildings can be certified, and we also aim for benchmarking according to GRESB. All our new leases contain important sustainable, green requirements and measurements to direct our tenants towards the sustainable use of the premises and us, the landlord, towards its sustainable management.

Two important steps towards sustainability are switching to green power and CO_2-neutral gas, as well as the pledge of our service providers to work sustainably. Furthermore, we install e-charging stations in our parking lots.

By 2023/24 we will implement professional waste management by systematically collecting waste data with the aim to bundle private waste disposal contracts at a national waste disposal company, to reduce public waste disposal contracts where applicable and to make data analysis easier and more precise and we will publish sustainability rankings for our properties and portfolios.

Through these initiatives, by 2025 we plan to reduce our energy consumption by 10% and to increase our rate of recycling to 50%, against the respective rates in 2018.

All our new leases contain important sustainable, green requirements and measurements to direct our tenants towards the sustainable use of the premises and us, the landlord, towards its sustainable management.

4. The S: Our responsibility to our investors and society

Anne-Sophie Zähringer
Officer Corporate Communication, ESG Representative, BMO Real Estate Partners

As a real estate company, we are aware of our responsibility to society – the "S" in ESG – and one of the pillars of our success is for the fair and transparent cooperation with all stakeholders, including our business partners and investors.

The social responsibility in our investments is partly driven by the very nature of our investors, who comprise pension funds and life insurance companies. We have a special obligation towards these long-term investors since they have bestowed us with the important duty of keeping their members' pension monies safe.

We choose the properties for our funds very carefully, but a high yield is a key priority. Equality and participation in society are also important when we select properties. We invest in fully accessible properties and all our tenants are treated equally.

What we do at BMO Real Estate Partners

Our social engagement is not confined to our investments – we live it every day in our company. All our service providers and suppliers receive fair payment whether they work for us directly or for one of our funds. We demand that third party employees are paid fairly and according to the German minimum wage or UK Real Living Wage, a voluntary uplift on the government's lower living wage. This is particularly important for workers in the construction industry and those who keep our buildings running, such as cleaning and security staff.

Teamwork is an important pillar of our company's culture. Our flexible and individual working time models and diverse training programmes strengthen our positive working atmosphere. We assist our colleagues in finding childcare facilities and subsidise the costs for childcare to facilitate the everyday life of their families. We care about our colleagues' health; thus, we have regular health and sport events, all our workplaces are outfitted with ergonomic equipment, and we offer fresh organic fruit.

Equality and participation in society are also important when we select properties. We invest in fully accessible properties and all our tenants are treated equally.

5. The G: Regulation summary (Europe) and what it means

Andrew Szyman
Head of Sustainability, BMO Real Estate Partners

Cathy Keir
Sustainability Analyst, BMO Real Estate Partners

The growth of regulation

The remarkable growth of interest in sustainability within the commercial property investment world over the last decade has naturally led to a correspondingly significant increase in regulatory attention and activity. Real estate is not just an investment class; physical buildings are crucial to our human needs for shelter, for infrastructure, for commerce and for leisure. The importance of property as a key contributor to the challenges and solutions around climate change and other fundamental sustainability factors such as biodiversity and the circular economy has not been lost on policymakers. There is an ever-increasing number of emerging regulatory and quasi-mandatory frameworks and standards that are driving investor behaviours across the capital supply chain.

A summary of regulation across Europe

A non-exhaustive selection of key instruments designed to further encourage and stimulate behaviours applicable to commercial and residential focused funds is presented below:

Theme	Principal concerns
An array of disparate industry bodies and professional associations Major sustainability related reporting frameworks and surveys	– European Public Real-estate Association (EPRA) – European Association for Investors in Non-listed Real Estate Vehicles (INREV) – Principles for Responsible Investment (PRI) – Climate Disclosure Project (CDP) – Global Reporting Initiative (GRI) – Global Real Estate Sustainability Benchmark (GRESB) – Equity Impact Project (reporting approach for investment in social & affordable housing)
EU Taxonomy EU Green Deal and blueprint for transformational change	– Supports the EU objective of making its economy sustainable – Classification that establishes a list of environmentally sustainable economic activities – Provides performance criteria against which to assess an activities' contribution toward six environmental objectives – Informs a range of regulatory frameworks such as the Green Bond Standard and SFDR
SFDR EU Sustainable Finance & Disclosure Regulations	– Imposes transparency and disclosure requirements on financial market participants – Introduces technical standards for systematic, consistent and authentic disclosures – Integration of sustainability risks into investment decision-making

Theme	Principal concerns
TCFD Taskforce for Climate-related Financial Disclosures	– Exposure to financial risk due to climate change – Mandatory reporting from 2025 – Most covered corporates required to report sooner
TNFD Taskforce for Nature-related Financial Disclosures	– Understand nature related risks – Direct capital towards nature positive outcomes – Framework anticipated in 2021 and tested during 2022
Environment Bill & Energy White Paper UK legislation	– New environmental governing body to replace the European Commission – Framework for setting legally binding targets – Support a ten-point plan for a green industrial revolution – Transition of energy systems, resilient growth, and net zero carbon by 2050
Energy UK policy/consultation	– Decarbonisation for power, industry and households – Energy efficient homes – Future Homes Standard from 2023 – Domestic minimum energy efficiency standards (MEES) – Band D from April 2022
Circular Economy Package UK legislation	– Optimisation of resources and prolonging a product's life – Permitting conditions to prevent separately collected waste from being accepted for incineration or landfill

Source: BMO Real Estate Partners

What does this mean for real estate and developing new product

The Global Sustainable Investment Alliance suggests that the sustainable investment market has hit maturity in Europe where the tightening of legislative definitions has seen ESG practices become the norm. At the same time, institutional investors based in countries with less developed regulatory frameworks are increasingly adopting elements of the EU Taxonomy.

It follows that both existing and new real estate investment strategies must carefully consider the true nature of their approach towards ESG factors and also increasingly towards impact intentionality. The need to articulate and disclose sustainability related risks and objectives in a structured way and the subsequent classification of products to help investors discern is to be welcomed, particularly if this stems the elements of greenwashing that have emerged within the industry. However, in parallel with GRESB where some might argue that activity is driven more by the quest for points rather than for strategic purpose, there is a danger of reverse engineering existing products so that they meet a desired classification, rather than label them for what they really are. On balance, the new disclosure regulations should be helpful, albeit a touch protracted. As with GRESB and its single numeric indicator needing underlying narrative to give a deeper sense of a fund's ESG credentials, disclosures and classifications should still provoke investors to probe and challenge the underlying nature of ESG objectives, ambitions, policies, and characteristics of the vehicles they finance. In anticipation of such examination becoming more mainstream, product providers need to be thinking carefully of their ESG approach and to what degree it might or should contribute to their underlying investment thesis.

The spectrum of emerging legislation clearly points to climate change as a top priority. Addressing the devastating impacts of our changing weather patterns is of global concern and society needs to play its part. Our collective thinking around carbon, energy security, loss of biodiversity, supply chains, human capital and individuals' safety, security and wellbeing is paramount. The resilience of funds to these externalities will be a key determinant in their ability to deliver returns to investors.

There is no doubt that we have moved into a new phase when considering ESG. At the same time, we must acknowledge that we face some stiff challenges, not least of which is looking to achieve net zero carbon for real estate funds with legacy property assets. However, the appetite for doing the right thing and achieving positive impact is strong, enhanced by a reflection of what is important in business and in life which has been provoked by the coronavirus pandemic. Regulation can help steer direction whilst disclosures, classifications and deeper due diligence will all help stimulate the importance of transparency and the authenticity of investment approaches.

6. How do we apply ESG and what is BMO Real Estate Partner's framework

Andrew Szyman
Head of Sustainability, BMO Real Estate Partners

Cathy Keir
Sustainability Analyst, BMO Real Estate Partners

What is our framework

For BMO Real Estate Partners, the explicit and deliberate consideration of ESG factors, in other words adopting responsible investing principles, is built into our behaviour as an organisation. It has long been part of our heritage and remains a key aspect of our culture. We recognise that our activities have both direct and indirect impacts on the environment and the communities in which we operate, and we believe we have a responsibility to identify, assess and manage these impacts effectively. Our overriding ambition is to deliver sustainable returns through investment in sustainable property assets by driving environmental excellence with social value and purpose in a transparent and authentic way.

The integration of ESG factors into our regular business practice is delivered through four principal means:

1 ESG Committee

This group's principal role is to provide leadership and direction in respect of ESG matters, to anticipate and respond to regulatory pressures and industry sentiment, and to monitor and provide oversight to the implementation of ESG strategy across our property investment funds. The group's composition has representation from our primary property functions and is supplemented by the participation of our parent group's Responsible Investment team as well as our retained external sustainability consultant.

2 ESG Framework

Our ESG Framework provides the structure around which the relationships between our various property functions operate, reinforcing the concept that every individual has a part to play and a contribution to make towards the successful integration of ESG matters into our property investment activities.

3 ESG Appraisal Tool

The tool is a key instrument used to support ESG integration, capturing from various sources a range of business critical and other ESG related metrics, for ultimate incorporation into individual property asset business plans. For property acquisition, ESG considerations are aligned with this tool and presented as an integral component of investment committee papers submitted for approval.

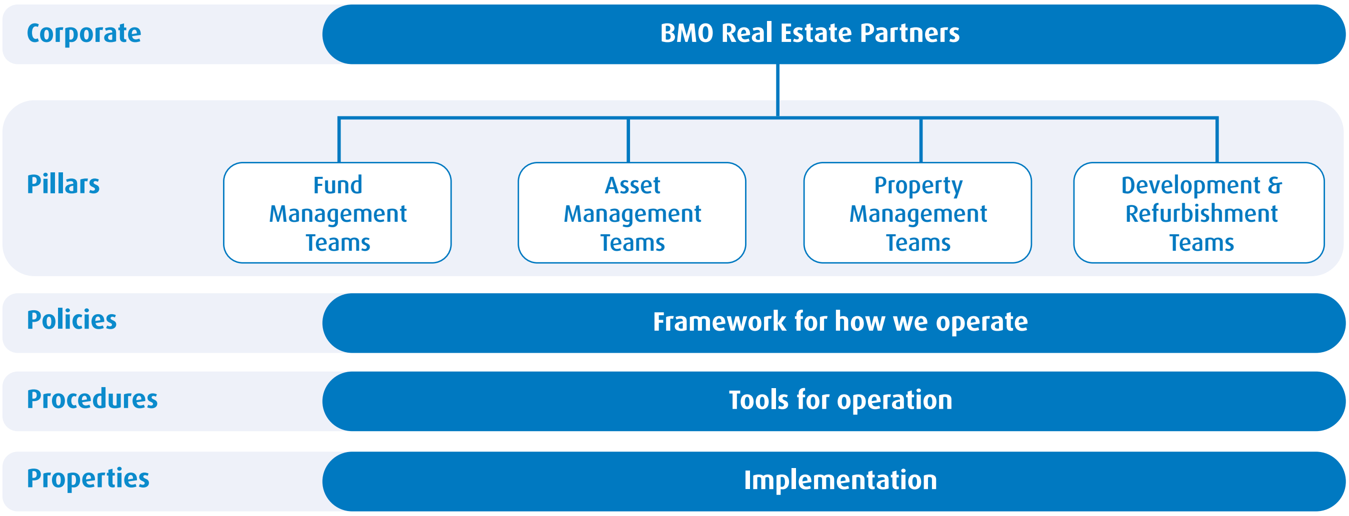
4 Policy and procedural guidance

Our guidance documents serve dual purpose insofar as they provide supporting background information and context for key relevant ESG matters as well as detailing our specific policy and procedures against them. They articulate a methodical approach to key stages in the property cycle – from acquisition, management, leasing, capital works and refurbishment, to disposal and suggest a frequency for intervention depending on materiality. This ensures a consistency of application across our continental operations. Our European ESG Group collaborates frequently to ensure that ESG policy and procedures are implemented with uniformity but reflective of local regulatory and market requirements. Guidance is supplemented with regular training sessions, often with the help of external professionals, and typically involves debate and discussion about the practical integration of ESG into day-to-day activity.

How are we different to our peers?

Where we believe we differ from many of our peers is our approach to direct physical management of our real assets. Our preference for delivering site-based supervision through internal resource is a legacy of our past history. Whilst we are not averse to engaging reputable external managing agents, and indeed we do so successfully in several geographic locations, we still retain

ESG implementation across our activities



Source: BMO Real Estate Partners

a nucleus of directly employed property and facilities managers across our operations, particularly in the UK. We recognise that each approach has its own benefits and challenges, but we value the additional commitment that ownership, control, and empowerment extract from our employees having 'skin in the game'. It is a philosophy that has stayed with us through many corporate mergers and acquisitions.

Our property and facilities managers are typically located in a major building and cover a small number of nearby assets. They represent the front face of our operation, of our company, and ultimately that of our client funds. In a world where ESG factors matter more than they ever have, our ability to present a familiar face over a long period gives us an advantage in terms of being conversant with the proper operation of a building's plant and equipment, to engaging with our occupiers to ensure they are safe, secure, and satisfied. We believe this better places us for engaging on matters relating to ESG, from understanding their own business challenges, with recent issues high on the agenda including air quality, to sharing ESG related data, for seeking out aligned interests and for exploring opportunities for intervention.

What are our plans

Like many of our peers and other businesses in a variety of industries and sectors, our immediate plans are centred on delivering on our net zero carbon promise. We recently published our platform level net zero carbon commitment with a target of achieving the position by 2050 or sooner. Our efforts are now focused on pursuing the delivery strategies contained within our pathway – we have recently upgraded our Sustainable Development Framework for use with our residential build to rent products, as well as for significant commercial refurbishment schemes, we continue to pursue our occupier engagement activities which we redoubled earlier in the year, and we are beginning to look more closely at how an internal shadow carbon price can help contribute to and motivate future decision making.

Our net zero carbon ambition is wholly aligned with our strategy for delivering sustainable property assets.

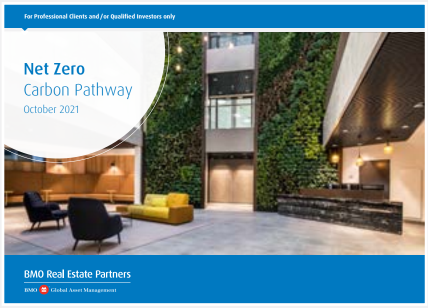
Net Zero Asset Managers Initiative

As a founder member of this initiative, BMO Global Asset Management has committed to build upon its existing actions on climate change and reach net zero emissions by 2050 or earlier across all assets under management.

The Intergovernmental Panel on Climate Change (IPCC) has made two things clear. First, the risks to people and the planet from climate related hazards become far more serious as global temperature rise over the 1.5 degree threshold, and second, keeping temperatures below that threshold means we must transition to a net zero global economy by 2050 at the latest.

The initiative sets out a range of commitments to support global efforts to limit warming to 1.5°C. Accordingly, signatories have undertaken to work in partnership with other stakeholders on decarbonisation goals, to set interim targets and to review these targets at least every five years. The principles that underpin this initiative are broadly applicable to the property investment activities of BMO Real Estate Partners and the funds it manages on behalf of a range of clients, a clear example being an active engagement approach be it with investee companies across our equity products or with building occupiers in our listed property trusts.

Climate change represents one of the greatest threats of our time and has far reaching implications for the real estate industry. With the built environment contributing approximately 40% of greenhouse gas emissions across the EU, the sector must recognise the significant part it has to play in embracing the challenge and finding solutions. The path to net zero carbon is complex and uncertain, with much of the detail yet to be determined, but it is critical for the industry to step up, contribute and be transparent and accountable for its actions, whilst supporting and collaborating with the wider Asset Managers Initiative.



Certification and benchmarks: GRESB across our portfolio

GRESB, the Global Real Estate Sustainability Benchmark, has undoubtedly become the de-facto proxy indicator of a property fund's ESG credentials. Originally a comparison of less than two hundred entities, GRESB has evolved over the last ten years to capture over 1,500 participant funds worldwide. The annual survey explores ESG characteristics and activity under the key dimensions of management and performance, and focuses on aspects such as leadership, policies, reporting, and risk assessments as well as utility consumption and greenhouse gas emissions associated with the operation of commercial real estate assets.

BMO Real Estate Partners has been participating in GRESB since 2015 when our BMO UK Property Fund submitted its first response. With an opening score of 19 points, the fund established its baseline and applied incremental improvements to maintain an upward trajectory in each subsequent year of involvement, this year achieving an overall score of 74 (out of 100) and securing three green star statuses. In the interim both listed property trusts, our flagship fund BMO Commercial Property Trust Limited and BMO Real Estate Investments Limited joined the influential assessment with 2021 being their fourth year of participation. Both funds have similarly displayed year on year improvements and achieved scores of 77 and 70 respectively in this year's survey. BMO Commercial Property Trust retained its three-star status and remained top of its peer group.

We expanded our participation this year to include our Best Value Europe I and Best Value Europe II funds for the first time. These funds, managed by our team based in Paris achieved baseline scores of 39 and 37 respectively, this reference point being largely predicated on the strong management and governance structures in place within the management platform.

The GRESB score is not without limitation. Applying a single numeric indicator to a globally diverse and heterogeneous asset class with multiple fragmented interests and characteristics to reflect a fund's ESG credentials is a challenge. The underlying narrative becomes equally important. The very nature of property portfolios, and particularly the degree of operational control and influence a fund manager can exert on behalf of its landlord client, means that opportunities to integrate and pursue ESG aspirations can vary. This is reflected in the range of scores our three UK commercial property funds achieved this year, despite the same fundamental ambitions and philosophies being consistently applied across each. However, there is no doubt that GRESB has helped stimulate the real estate industry into looking at the contribution it makes to environmental and social concerns, and how it can contribute towards a more sustainable world. We are eager to see GRESB develop a residential module and we will monitor the timeline with interest as we progress products and strategies that are invested in this sector. Given the distinct differences in nature, it is crucial that we adopt a module that best addresses investors' desire for an indicator with presenting the most authentic reflection of ESG efforts.

On Diversity & Inclusion

One of our bold corporate commitments is to build an inclusive society with zero barriers to inclusion. It is one of the defining hallmarks of our culture, reflecting those values that create meaningful and lasting change, in support of colleagues, customers and communities. Our senior leaders have been publicly lauded for advocating positive change in this respect in the financial sector- an industry with hard-hitting figures, representing a huge disparity against the societal diversity it should be representing. For example, according to research carried out in 2018, 85% of all "UK Fund Assets" are managed solely by men. At BMO REP, our work on gender equality in the workforce awarded us the EPRA Diversity & Inclusion Awards 2020. The corporate culture influences the way we manage our real estate activities too; we encouraged the Boards of our listed funds to create diversity targets. BMO Commercial Property Trust set a 2020 target in 2018 to meet the Hampton-Alexander recommendation, to see representation of women on the board of at least a third. Following changes to Board composition in 2019 there are now five directors with 40% female representation.

The Company recognises that there is a much wider imbalance beyond gender, with evidence showing that the industry is not representative of the societies we live in, and there are programmes ongoing with partner organisations to drive the change we wish to see in the world.

On Corporate Social Responsibility

As a company we regularly support our colleagues in their fundraising efforts for chosen charities, and we have several local charities that we support annually, whether through fundraising or employee volunteer days. One is the Back Up Trust, supporting those with spinal cord injury in the UK. Most years, the Company will fundraise for our volunteers who, as a team, build a vehicle that can be used to carry someone who has been disabled by spinal injury up Mount Snowdon in Wales.

Outside of Company-sponsored events, the company shows support for and rewards individuals who are active in the community and in their own fundraising efforts.

In 2019, one of our BMO REP colleagues challenged themselves to train for the London marathon, successfully raising over £5,000 for their chosen charity, to which BMO match-funded £1,000. In 2020, when the UK went into lockdown and pupils were forced to continue their schooling from home, individuals in the London office set up a fundraiser in support of a local charity whose purpose was to ensure children from disadvantaged backgrounds would have the devices they needed to access their lessons from home.

The Company provides opportunities for staff to help and inspire young adults for whom insight into the financial services sector might not otherwise be possible. It is testament to the passion of our people that when these annual mentoring opportunities arise, they are always oversubscribed, leading to an increase in engagement days with local schools each year.

On the Cultural Working Group

At the heart of the organisation, bringing enthusiastic volunteers from multiple business disciplines together, is our Cultural Working Group (CWG). The group has broad scope to plan events and presentations, implement office changes and overall maintain the working culture the Company prides itself on. The diversity of the group brings a variety of ideas year on year to cater to the changing needs of the people where we work. They had a pivotal role to play during COVID-19 lockdowns when the office doors closed but new virtual opportunities revealed themselves. With better connectivity across our business, the CWG could organise events spanning continents for everyone to stay connected. While we encountered the new challenges that working from home presented, the CWG ramped up their offering of wellbeing webinars in areas such as nutrition, fitness and mindfulness. For those with a creative interest, artists' presentations extended to interactive classes in drawing, creative writing, and poetry. All of these were additional to the annual events that are held for key dates in the culture calendar, such as Black History Month, Pride and Wellness Week.

On reducing waste

Our Corporate Real Estate team is working to ensure all of our offices are covered by an environmental management system (EMS), which has seen the removal of all single-use plastics from our offices as at the end of 2019. This extended to encouraging staff to ditch paper cups and plastic bottles and reuse their company gifted Keep Cups and water flasks.

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Author Biographies

Angus Henderson

Head of Business Development, BMO Real Estate Partners

Angus joined BMO Real Estate Partners in July 2009 and leads the business development team responsible for targeting new business opportunities, platform growth working with new partners and the launch of new structures. Angus works across the platform focusing on the growth of the existing product range, as well as new products and joint ventures and with a diverse investor base. Angus joined from AXA REIM, where he worked as a Business Development Manager, responsible for launching new products in Europe and Asia across the risk spectrum and all sectors. Angus sits on both the Executive Committee and Investment Committee of BMO REP and holds an MBA from INSEAD and an MA in Economics from The University of Edinburgh.

Joanna Tano

Head of Research, BMO Real Estate Partners

As Head of Research for BMO Real Estate Partners, Joanna Tano is responsible for setting the Research strategy for the international platform, producing investment and strategy research to advise the firm and its clients on market and sector opportunities and risks. She also works with key stakeholders to influence the business strategy, individual portfolio composition, and business development opportunities including prospective product launches, and uses her experience in economic and property market analysis to support the investment decision making process. Joanna joined BMO Real Estate Partners in April 2021, and prior to this she was Head of Research at Cromwell Property Group, joining from Cushman & Wakefield where she was responsible for the research team across EMEA. Prior to that she worked in the charitable space serving as the Area Services Manager for the Kensington & Chelsea branch of the Notting Hill Housing Group. Joanna has 20 years of experience in commercial real estate research and strategy through roles she held in the United Kingdom and France. She holds a Joint Honours degree in Psychology & Sociology from City, University of London.

Andrew Szyman

Head of Sustainability, BMO Real Estate Partners

Andy joined the business in 1989. He is currently Head of Sustainability and leads on the company's responsible property investment strategy. Born in Manchester, he gained extensive local experience in building construction, refurbishment and property management with ICI, British Railways and Sun Alliance Insurance Group. In 1996, he moved to London and with Royal & Sun Alliance Investments assumed responsibility for property compliance matters – developing, implementing, and co-ordinating policy and strategy on a wide range of issues including health and safety, property insurance and environmental matters. For the last fifteen years and through a series of subsequent mergers and acquisitions, he has continued to focus on the ESG agenda to ensure the integration of relevant factors into decision-making processes throughout the property lifecycle. A former co-chair of the UNEPFI Property Working Group, Andy is a member of the Royal Institution of Chartered Surveyors and the Institute of Safety & Health.

Cathy Keir

Sustainability Analyst, BMO Real Estate Partners

Cathy joined BMO Real Estate Partners in January 2018 and is working with Andy to improve the company's responsible property investment strategy. Responsibilities revolve around ultimately reporting to the Global Real Estate and Sustainability Benchmark (GRESB) as well as the Carbon Development Project (CDP) and other initiatives that further develop the company's profile, performance and reputation within the responsible property investment space. Prior to joining the company, Cathy worked with Ernst & Young as an associate auditor where she completed her first year of training with the Institute of Chartered Accountants of Scotland (ICAS). Prior to this, Cathy graduated in 2015 with MSc in Sustainability and Environmental Studies (accredited by CEng) from the University of Strathclyde.

Anne-Sophie Zähringer

Officer Corporate Communication, ESG Representative, BMO Real Estate Partners

Anne-Sophie joined BMO Real Estate Partners Germany in 2020 as Officer Corporate Communication and as ESG representative she is in charge of all ESG related topics. She is responsible for all internal and external communication. This also includes raising awareness about sustainability amongst colleagues and stakeholders. In collaboration with renowned partners in the real estate industry, she coordinates and ensures the implementation of all necessary measures to achieve carbon neutrality at BMO REP Germany. Prior to joining the company, Anne-Sophie worked in editorial and in project management for German publishing houses for over ten years.

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