



AREF GUIDANCE

ESG & Impact Investing Guidelines for AREF Members

Effective from September 2024

Introduction

This document has been prepared by the AREF ESG & Impact Investment Committee to provide AREF members with guidance on the integration of ESG considerations with investment and management frameworks. The guidance provided should be applied at both house and fund level. It is divided into three sections: (1) Governance; (2) Integration and Engagement; and (3) Reporting.

One of AREF's key aims is to ensure that funds offer consistently high-quality products and services to investors and advisors by adopting the highest possible standards of transparency and corporate governance. However, it is recognised that there may be valid reasons for fund members not to follow all of the stated guidance. Therefore, it is suggested that members regularly review the guidance to ensure they are following positive practice to the best of their abilities and, if requested, they disclose their reasons for non-compliance to their investors. Members may also wish to pursue other targets that they deem more ambitious than those stated in this document.

In the cases of conflict between the provisions of this ESG guidance and legislative/regulatory requirements, the latter will take precedence.

This document will be reviewed on an annual basis as a minimum, or as and when required given the pace that ESG is evolving within the real estate market.

If you have any questions regarding the guidance contained within this document, please email AREF at: info@aref.org.uk.

1. Governance

- 1.1 In fund documentation, include an ESG policy describing the fund's approach to ESG and sustainability, monitoring and reporting. This policy should be made available to investors.
- 1.2 Incorporate a statement describing the governance structure, including committees or equivalent of the highest governance body responsible for decision making and overseeing the management of the fund's ESG impacts.
- 1.3 Identify senior decision maker(s) accountable for ESG strategy and committees/working groups responsible for setting, implementing and monitoring progress towards ESG objectives.
- 1.4 To ensure alignment of interest, tie employee compensation to ESG objectives to ensure accountability across the business.
- 1.5 Build a strategy to ensure compliance with regulations, where relevant. This may include:
 - Minimum Energy Efficiency Standards (MEES)
 - Sustainable Finance Disclosures Regulations (SFDR)
 - Task Force on Climate Related Financial Disclosure (TCFD)
 - EU Taxonomy
 - FCA Sustainable Disclosure Regulation (SDR)

2. Integration and Engagement

Climate change

- 2.1 Set a net zero carbon (NZC) target and develop a NZC roadmap.
- 2.2 Report Scope 1, 2 and 3 carbon emissions and use estimates to fill data gaps in order to understand net-zero carbon performance of the whole building.
- 2.3 Understand existing portfolio and new acquisitions' exposure to future climate related risks (both physical and transitional) and report on resilience strategy/management of risks and opportunities (e.g. utilisation of CRREM, PAII Net Zero Investment Framework).

Energy

- 2.4 Monitor and review energy consumption.
- 2.5 Explore and implement opportunities for greater use of renewable energy, including onsite generation.

Water, effluents and waste

- 2.6 Monitor and review management of water consumption, effluents and waste. Explore and implement opportunities for greater conservation and sustainability measures.

Data Coverage

- 2.7 Maximise portfolio data coverage (energy, waste, water), with strategies in place to reduce portfolio consumption.

Biodiversity

- 2.8 Identify initiatives to improve biodiversity on site (e.g., landscaping, beehive installations, bird boxes).
- 2.9 On all new developments, ensure minimum 10% biodiversity net gain.
- 2.10 Track and measure biodiversity net gain on standing assets, particularly those which have the highest opportunities.

Sustainable travel plans

- 2.11 Ensure that infrastructure is in place on site to encourage sustainable travel (e.g., EV charging points, access to public transport nodes).

Health and wellbeing

- 2.12 Develop health and wellbeing strategies for employees, tenants and contractors.
- 2.13 Monitor and report on Health and Safety standards followed, particularly during construction.
- 2.14 Consider undertaking employee and tenant satisfaction surveys and report results to investors.

Engagement

- 2.15 Aim to have green lease clauses included in all new leases.
- 2.16 Engage with tenants to understand their ESG objectives (NZC targets, social initiatives etc.) to ensure better collaboration.
- 2.17 Consider the development of a Community Engagement Strategy.
- 2.18 Consider participation with the industry on key ESG issues.

Social impact/value

- 2.19 Consider a social impact strategy with underlying key performance indicators (KPIs) at an asset or portfolio level and report progress.

- 2.20 Consider using frameworks to measure and demonstrate additionality of impact when investing in communities.

Acquisitions, ongoing management, development & disposal

- 2.21 Include material ESG considerations within acquisition due diligence processes (for example, BBP's Acquisitions Sustainability Toolkit) and share findings with investment committee in order that these factors are included in purchasing decisions.
- 2.22 Members are encouraged to produce asset level ESG plans.
- 2.23 For refurbishment/development projects, develop a Sustainable Design Brief, which sets out minimum requirements and targets.
- 2.24 Consider use of Considerate Constructor Scheme.

Procurement

- 2.25 Consider a Sustainable Procurement Strategy and monitor and measure on sustainability practices of service providers.

Training and Development

- 2.26 Provide training and education opportunities for employees and stakeholders.

3. Reporting

- 3.1 Report in line with TCFD, TNFD, SFDR and EU Taxonomy (where relevant), as well as in line with UK and EU based regulation.
- 3.2 Report annually against ESG strategy and targets.
- 3.3 Report to GRESB annually.
- 3.4 Report ESG performance against targets regularly (at a minimum, annually) to investors (quantitative and qualitative).
- 3.5 Report in line with best practice industry standards

Disclaimer

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