

How will SDR affect Real Estate? Webinar 25 November 2022

**Thanks for joining.
This webinar will
begin shortly**



(To ask a question throughout this webinar -
click the Q&A button at the bottom of your
screen to bring up the Q&A board)

This webinar will be recorded

Moderator Welcome

Melville Rodrigues
Head of Real Estate
Advisory, Apex Group
& Co-Ordinator,
Real Estate Association
SDR Working Group



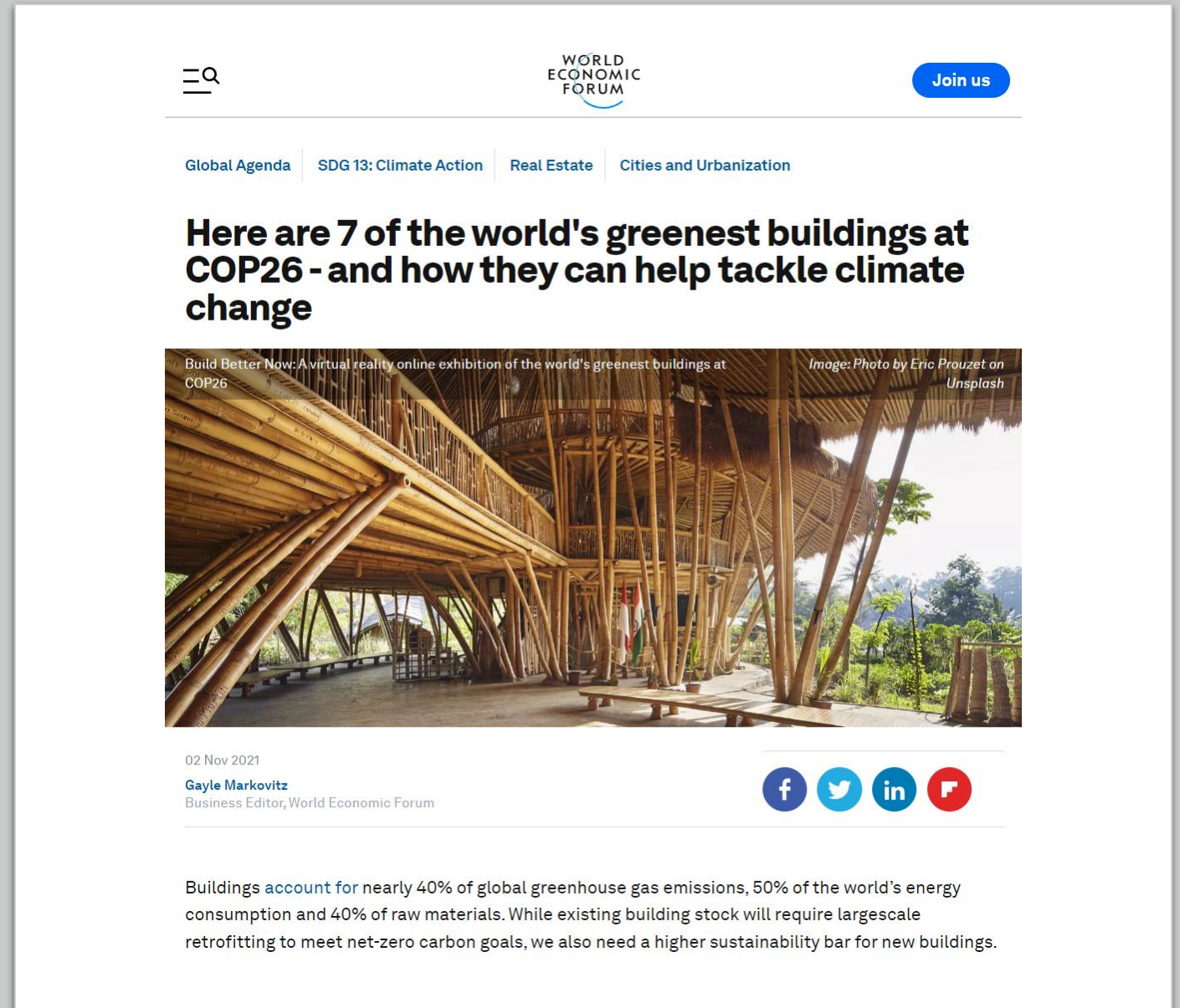
Welcomed FCA SDR Strategic Focus

“We want the UK to be a trusted centre for sustainable investment and place the UK at the forefront of sustainable investment internationally.”



Challenges: Real Estate

According to the World Economic Forum, buildings account for nearly 40% of global greenhouse gas emissions, 50% of the world's energy consumption and 40% of raw material use.



The image is a screenshot of a webpage from the World Economic Forum. At the top left is a search icon. At the top center is the World Economic Forum logo. At the top right is a blue button with the text "Join us". Below the logo is a navigation bar with four items: "Global Agenda", "SDG 13: Climate Action", "Real Estate", and "Cities and Urbanization". The main heading of the article is "Here are 7 of the world's greenest buildings at COP26 - and how they can help tackle climate change". Below the heading is a large photograph of a building with a complex, multi-level structure made of bamboo. The building has a thatched roof and is surrounded by lush greenery. Above the photograph, there is a caption: "Build Better Now: A virtual reality online exhibition of the world's greenest buildings at COP26" and a credit: "Image: Photo by Eric Prouzet on Unsplash". Below the photograph is the date "02 Nov 2021" and the author's name "Gayle Markovitz" with her title "Business Editor, World Economic Forum". To the right of the author's name are four social media icons: Facebook, Twitter, LinkedIn, and YouTube. Below the social media icons is a paragraph of text: "Buildings account for nearly 40% of global greenhouse gas emissions, 50% of the world's energy consumption and 40% of raw materials. While existing building stock will require largescale retrofitting to meet net-zero carbon goals, we also need a higher sustainability bar for new buildings."

Agenda

- 09.15** Introduction from our Moderator,
Melville Rodrigues, Head of Real Estate Advisory, Apex Group & Co-Ordinator, Real Estate Association SDR Working Group
- 09.20** Presentations
- Louisa Chender, ESG Policy & Advisory, FCA
 - Georgie Nelson, Head of ESG Real Estate, abrdrn & Member, Real Estate Association SDR Working Group
- 09.40** Panel Discussion & Q&A
- 09.55** Closing remarks
- 10.00** Finish

(To ask a question throughout this webinar - please use the Q&A panel to type your question to the Moderator)

Presenters



Louisa Chender
ESG Policy & Advisory,
FCA



Georgie Nelson
Head of ESG, Real
Estate, abrdn & Member,
Real Estate Association
SDR Working Group

How will SDR affect real estate?

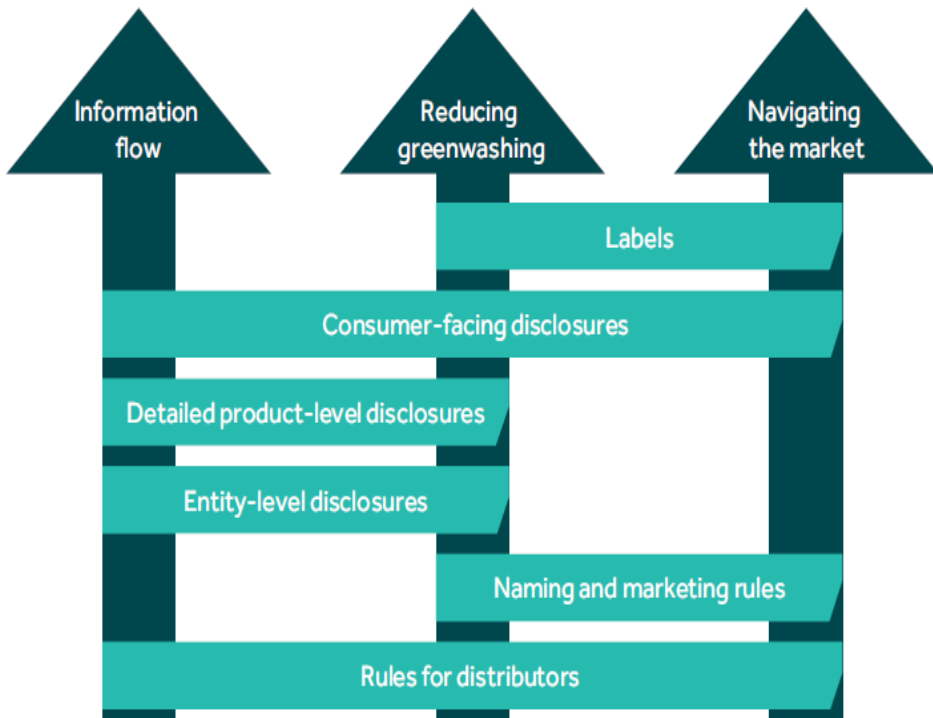
Real estate associations webinar, 25 November 2022

Louisa Chender, Financial Conduct Authority

Building trust in the funds market...

*"There are growing concerns that firms may be making **exaggerated, misleading or unsubstantiated** sustainability-related claims..."*

*"The market is **difficult** for consumers to navigate."*



Areas of intervention

Classification/labelling of sustainable investment products

Consumer-facing disclosures

Detailed entity- and product-level disclosures

Naming and marketing rules

Distributor rules

Navigating a complex landscape...



“Invests mainly in assets that are sustainable for people and/or planet”

“Classifying products based on ‘intentionality’, the proposed regime distinguishes between three different types of sustainable product according to the primary channel by which each can plausibly contribute to positive sustainability outcomes”

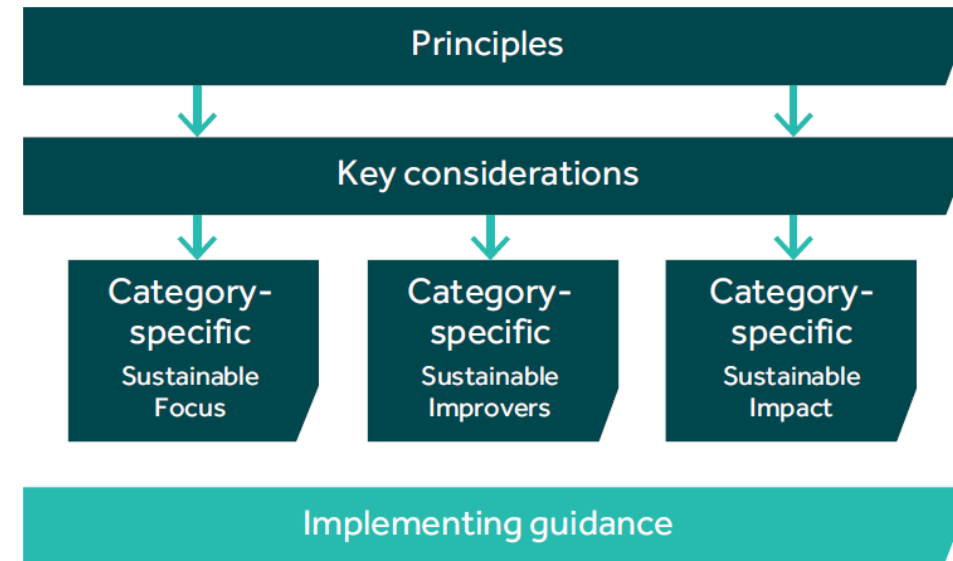


“Invests in assets that may not be sustainable now, with an aim to improve their sustainability for people and/or planet over time”



“Invests in solutions to problems affecting people or the planet to achieve real-world impact”

“The labels will be underpinned by a set of clear, objective criteria that set a high bar for quality and integrity”



“Any products that are not labelled must meet our naming and marketing rules”

Increasing transparency...

Consumer-facing product-level disclosures

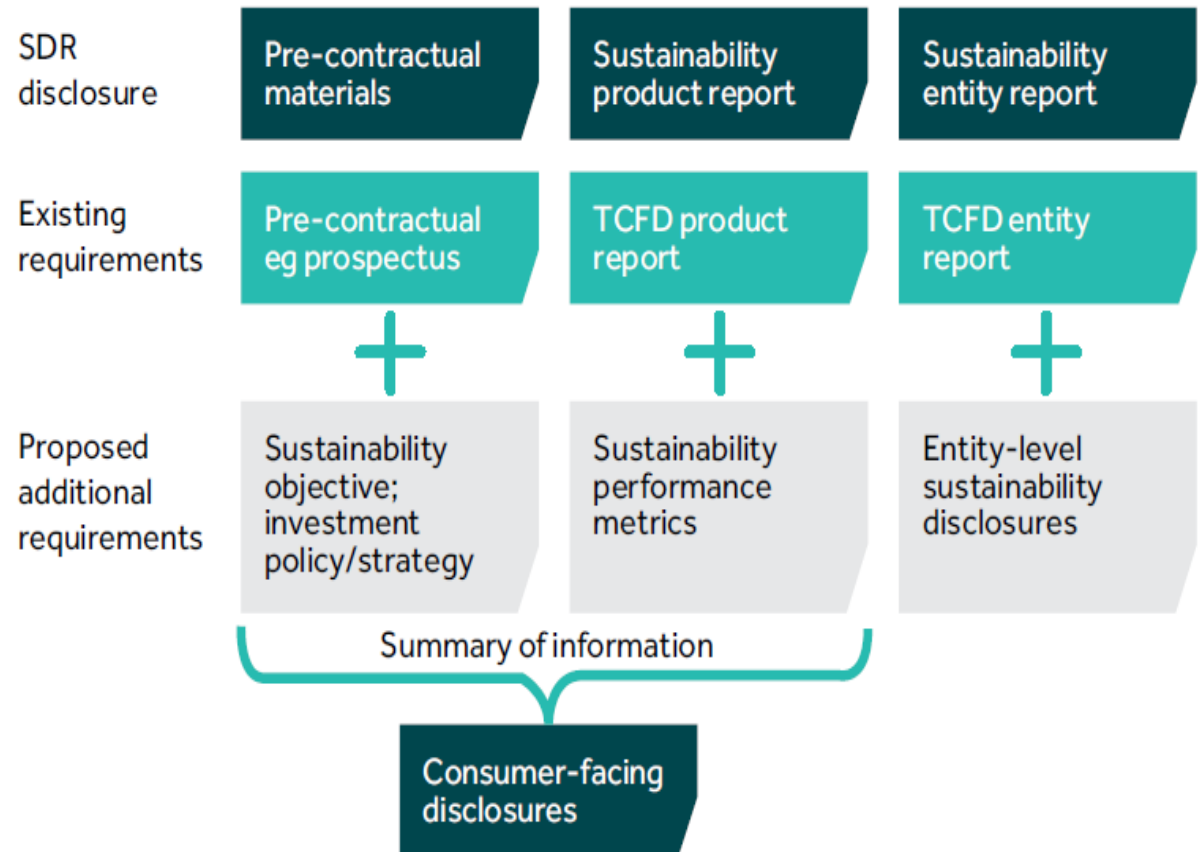
Consumer-friendly, accessible disclosures to help consumers understand a product's key sustainability-related features:

- sustainability objective
- investment approach
- performance against the objective

More detailed disclosures at product and entity level

For investors seeking more information on:

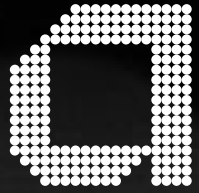
- a product's sustainability-related features
- sustainability-related performance
- how the firm manages sustainability-related risks and opportunities





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How will SDR affect real estate?

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Presented by

Georgie Nelson, Head of ESG Real Estate

Introduction to abr dn real estate



abr dn's real estate capabilities

£47.6 bn

Assets under management

35

Countries invested in

21

Countries with abr dn institutional Real Estate clients



ESG industry engagement



ESG legislative considerations

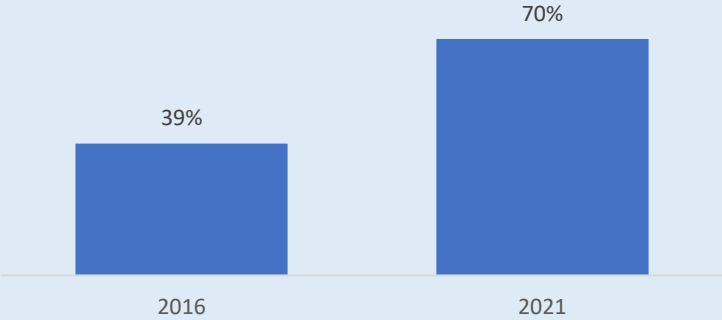
- ✓ TCFD (Taskforce for Climate-related Financial Disclosure)
- ✓ SFDR (Sustainable Finance Disclosure Regulation)
- ✓ SDR (Sustainable Disclosure Requirements)

The rise of ESG and anti-greenwashing!

The rise of ESG interest

- Year on year increase in questions and data requirements from investors
- ESG aspects especially those related to climate are attributing more material financial risk

% of asset and wealth management CEOs concerned about climate change



The rise of anti-greenwashing

The SEC War on Greenwashing Has Begun

The regulator's campaign against fund managers profiting from exaggerated ESG claims is off and running.

German prosecutors raid asset manager for greenwashing

Jun 16, 2022 / Regulatory Radar / Sustainability Reporting

ESMA LAUNCHES A CONSULTATION ON GUIDELINES FOR THE USE OF ESG OR SUSTAINABILITY-RELATED TERMS IN FUNDS' NAMES

18 November 2022

FUND MANAGEMENT SUSTAINABLE FINANCE

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, is seeking input on draft guidelines on the use in funds' names of ESG or sustainability-related terms.

FCA proposes anti-greenwashing rules to protect sustainable investors

04/25/2022 | By Piyal Mitra





The Financial Conduct Authority (FCA), the UK's financial regulator, has proposed an investment labelling regime as part of a plan to promote sustainable investing and to crack down on greenwashing.

Issuing a consultation paper on Sustainability Disclosure Requirements (SDR), the regulator said it was concerned that "exaggerated or misleading sustainability-related claims" were made about investment products that "don't stand up to scrutiny".

Why we welcome the FCA's proposal

- As an industry we welcome the FCA's proposal to combat greenwashing and ensuring sustainability claims on investment products are credible.
- The EU's SFDR initiative has led the charge to combat greenwashing but the FCA has improved on the SFDR approach.
- SDR has recognised 'Sustainability Improvers' which enables products to focus on improving poor sustainability assets to good performing sustainability assets.

Legislation		Description	Fund categories		
	SFDR	Focused on disclosure however market has used it more as a labelling tool. Focused on funds marketed and domiciled in Europe	Article 6	Article 8	Article 9
	SDR	Focused on labelling and for UK domiciled products starting with retail products first	Sustainability focus	Sustainability improvers	Sustainability impact

Diagrammatic elements: A blue arrow points from the 'Sustainability improvers' cell in the SDR row to the 'Article 9' cell in the SFDR row. The 'Sustainability improvers' cell is circled in pink.

Interpreting the FCA proposal for real estate

1

The nuances of real estate

- The asset class of real estate investments, especially direct real estate, is very different from 'equities investments'. It is unique because we tend to have more control and influence over the underlying assets.

2

Definition of sustainable

- The very nature and definition of the word sustainable (*Sustainability is the ability to maintain or support a process over time*) means that integrating sustainability or 'ESG' is crucial to ensure long term investment performance of real estate assets anyway.
- Good investment managers will have a very advanced level of ESG integration i.e. consideration and application of ESG risks and opportunities to protect and enhance investment performance and comply with current and upcoming policy.

3

How do we interpret for real estate what the FCA sustainable labelling will determine?

- The application of the sustainability labelling for real estate should recognise those products going above and beyond good ESG integration and that mandated by current policy. It should:
 - Recognise those which have put environmental and social targets alongside investment objectives
 - Recognise those going above and beyond current best practice i.e. 'accelerated or additional sustainability'

Our high level recommendations from the working group

Chapter 3

Overview, scope and timings

- Overseas funds marketed in the UK are brought into the regime at the same time as UK funds to prevent inconsistencies in the market

Chapter 4

Classification and labelling

- We agree that a key attribute of a sustainable investment product is an explicit environmental and/or social objective and this **sustainability objective should sit alongside the financial return objective**. Also, this objective should be expressed in specific and measurable terms.
- With regards to the labels themselves, we believe there will be overlap of investment strategies across the labels
 - e.g. some 'sustainability impact' may also fit into 'sustainability improvers' as due to the nature of real estate the most impactful real asset funds will be those that look to improve existing assets rather than build new.

Chapter 6

Naming and marketing

- We do not agree with the restriction on the use of the prohibited terms within marketing. Examples of common uses of these terms that are essential to be able to include in marketing to provide a factual view of an ESG integrated investment strategy:
 - If the manager is a signatory to PRI and score
 - If the manager is a signatory to Net Zero Asset Managers Initiative
 - Manager's own net zero carbon pathway or responsible investment strategy, often aligned to the UN SDGs
 - GRESB (Global Real Estate Sustainability Benchmark) rating for the product
 - Green building certifications case studies and statistics. BREEAM, Net Zero Carbon Building Standard, NABERS, LEED.

Final comments



We are fully supportive of the FCA proposal and hope that our comments and recommendations are taken on board.



As a global asset manager we will have to work with different disclosure/labelling regimes by region but want to work with industry bodies in the UK and abroad to ensure we can standardise as much as possible to:

1. Simplify and provide a consistent message to our investors
2. Enable efficiency in providing ESG/sustainability information



We would welcome global standardisation on ESG real estate metrics



We would welcome evolution of regulation over time recognising that change is inevitable

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Panel Discussion & Q&A

(To ask a question - please use the Q&A panel to type your question to the Moderator)



Thank you for joining

The recording, slides & guidance response of the Real Estate Association SDR Working Group will be available after this webinar.

The FCA is asking for comments on its SDR Consultation Paper by 25 January 2023.

