Clearbell

Introduction

This statement sets out Clearbell's approach to managing transition and physical climate risk. This statement has been developed in line with the International Financial Reporting Standards Standard 2 (IFRS S2) framework. The purpose of this statement is to:

- Clearly set out Clearbell's approach to managing climate risks that have been identified;
- Set out the current state and intentions around governance, strategy, risk management and metrics in relation to climate change risk;
- Act as a single reference point for stakeholders interested in Clearbell's exposure to and management of climate risk.

About Clearbell

Clearbell is an established fund manager and adviser, specialising in UK real estate. Since 2007, Clearbell has managed four diversified funds and three separate accounts across the risk spectrum, raising over £1.5bn and asset managing over £3.4bn.

Changes to TCFDs & IFRS S2

The Taskforce for Climate Related Financial Disclosures (TCFD) was created to improve and increase reporting of climate-related information from entities. It demonstrates how an organisation considers and mitigates climate-related risks and opportunities. There are two types of risk considered and reported within the TCFD framework:

- **Transition risks** address how an entity or business could be exposed to climate risk as it transitions from a business-as-usual approach to a net zero economic position. These risks are split into four sub risks: Policy & Legal, Technology, Market sentiment/Consumer Behaviour and Reputational.
- **Physical climate risk** refers to the impacts such as heat stress changes in flooding, drought and sea level rise as well as the likelihood and intensity of extreme weather events. Physical risks can be acute - event driven such as wildfires or floods; or chronic - longer term changes in climate patterns such as prolonged higher background temperatures.

As of January 2024, the original TCFD was adopted by IFRS. IFRS S2 specifically requires an entity to disclose information about its climate-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the entity.

- The governance processes, controls and procedures the entity uses to monitor, manage and oversee climate-related risks and opportunities;
- The entity's strategy for managing climate-related risks and opportunities;
- The processes the entity uses to identify, assess, prioritise and monitor climate-related risks and opportunities, including whether and how those processes are integrated into and inform the entity's overall risk management process; and
- The entity's performance in relation to its climate-related risks and opportunities, including progress towards any climate-related targets it has set, and any targets it is required to meet by law or regulation.

Differences between TCFD & IFRS

While the adoption through the IFRS is broadly similar to previous TCFD guidelines, there are some changes.

- An increased focus on sector guidance being considered within disclosure;
- Increased focus on quantification of risks;
- An increased focus on identification of opportunities.

Governance

Clearbell has a clear decision-making structure and sustainability risk is managed at the ESG committee level, which reports directly to the Clearbell Partnership. Clearbell's remit also includes the ownership of a systematic approach to climate-related risk management, including transitional and physical risk. The commitment to good climate governance is also evidenced by the Sustainable Asset Pathway, which demonstrates the sustainable asset management approach from pre-acquisition to IC approval, all the way through to disposal or continued management.

Clearbell Partners (Manish Chande, Robert Mills, Robert West and Sally Doyle-Linden) are the ultimate owners of group risk, including climate change. The ESG Committee includes two of Clearbell's partners and a director from EVORA Global.

The full ESG Committee meets formally every two months, with a programme of other interim meetings with internal and external parties to ensure regular communication and diligence in delivering Clearbell's sustainability strategy. EVORA Global has also started to attend quarterly meetings with Clearbell's external property managers to set asset level ESG initiatives and targets.

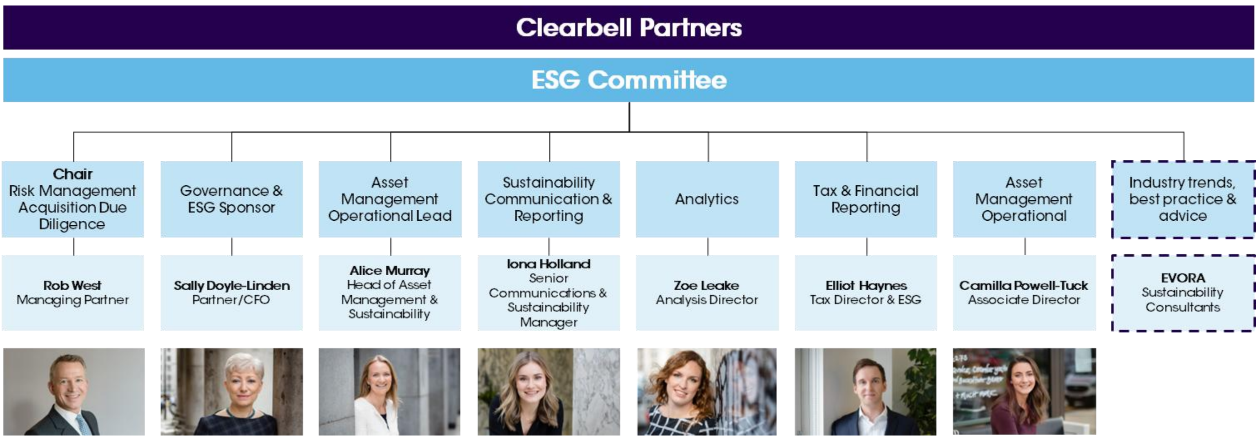

Figure 1 – ESG committee membership and link to governance

Clearbell's Compliance Manager, Andrea Springett, completes an annual ICARA report as part of its FCA compliance requirements. Within the ICARA report all risks to the business, including ESG, are reviewed and ranked and the controls captured. This is explored in more detail within the risk management section below.

Strategy

Material physical and transition climate risks have been identified and are listed overleaf. Opportunities identified include using policy incentives to improve resource/energy efficiency, access to potential new markets and development of new products. Clearbell has an internal process for managing transition and physical climate risk which sits within its Environmental Management System (EMS) which is aligned to ISO 14001:2015.

Following a gap analysis in 2023, a wider range of physical climate risks are now considered within the acquisition due diligence process. While flooding has always been a critical risk considered for assets acquired and managed by Clearbell, it now has a commitment to “Undertake physical climate risk screening across the portfolio to identify most material impacts and enable future resilience planning”.

As a result, all new acquisitions now consider a wider list of physical and transitional climate risk hazards which are reviewed in a third-party climate data provider’s report, commissioned for every new asset.

The full list of physical climate hazards now includes:

- Flooding
- Heat
- Cold
- Wind
- Precipitation
- Wildfire
- Hail
- Drought

Additional analysis on these climate reports is carried out by EVORA to ascertain if there are elements to the risk which require flagging and/or high-level mitigations that can be identified at an early stage. In terms of transitional climate risks, the following have been identified:

- MEES regulations
- Net-zero carbon targets
- Minimum ESG reporting standards

These risks are also integrated into Clearbell’s overall approach around ESG risk management.

Climate Impacts

Risk	Impact	Likelihood	Description & Commentary
MEES regulations	Medium	Medium	• Landlords of buildings with EPCs of F & G cannot renew existing or grant new tenancies after 1 April 2018. • No building can continue to be let or sold after 1 April 2023 if the EPC is F & G. There is a high risk of obsolescence, and this will impact capex, value and liquidity of tertiary assets and increase costs. In addition, a financial penalty may be applied if there is non-compliance.
Net-zero carbon targets	Medium	Medium	• Clearbell have responded to the Government’s target by 2050 and have committed to defining

Risk	Impact	Likelihood	Description & Commentary
			and measuring Scopes 1&2, while beginning to measure Scope 3.
Minimum ESG reporting standards	Medium	Medium	• UN PRI member investors have increased reporting requirements which Clearbell responds to.

Risk Management

A gap analysis has been previously undertaken with a wider range of physical and transition risks identified, as outlined within the strategy section of this statement. Clearbell are analysing how climate change can present both risks and opportunities to the business and align these considerations with the ESG risks included in the ICARA risk register.

2024 will be the first year the risks and opportunities are ranked, with the intention of then measuring their financial impact which will then influence the asset sustainability action plans and corporate office strategy.

Climate risks are largely identified at acquisition stage through the climate due diligence process which includes the procurement and analysis of climate data.

The process in place for assessing the physical and transitional climate risk can be found in EP04 of Clearbell's EMS. We have also set clear mitigation plans for the risks identified in the Strategy section. Our approach to risk management of climate and related ESG risks is integrated into the ICARA risk register. Some of the mitigations are outlined below.

1. **MEES Regulations** - EPCs will be required to be renewed within 2 years prior to acquisition by the fund. All new acquisitions have to have a road map to achieving at least a C but preferably a B or above. An approved capex program will be put in place to improve the EPC to at least a B. EPCs are reviewed by the ESG Committee.
2. **Net Zero Targets** – Clearbell is currently working with its consultants to develop Science Based Targets for assets where sufficient data is available. Net zero audits may also be required for new acquisitions and some standing assets.
3. **Minimum ESG Reporting Requirements** – Clearbell publishes its sustainability progress/results on an annual basis. This IFRS S2 statement also marks progress in this area. Clearbell's ESG consultants also provide regular updates on new regulations and reporting requirements as well as ad hoc updates through conferences, articles, webinars etc. from ESG Committee members to ensure Clearbell is compliant. All relevant legislation is maintained in a Register of Environmental Legislation & Other Requirements document within Clearbell's Environmental Management System.
4. **Climate Risks** – We employ a due diligence checklist for new acquisitions, which includes a physical climate risk assessment. All risks are classified and recorded within the due diligence checklists under a 'RAG' system. 'Amber' risks are specifically addressed by mitigation measures. Progress against all asset action plans will be reviewed annually by the ESG Committee.

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Metrics & Targets (Entity & Funds)

Clearbell, as a company, has made a public commitment to measure Scope 1&2 emissions (as defined by Better Buildings Partnership) and begin to identify and measure certain entity Scope 3 emissions. Additionally, the company is committed to reaching Net Zero with regards to Scopes 1&2 and selected Scope 3 emissions by 2030. Clearbell recently joined Planet Mark to achieve its Annual Business Certification which commits us to reduce our carbon footprint by a minimum of 2.5% each year.

Clearbell intends to undertake a Scope 1,2 and 3 emission review for its funds and separate mandates in the future, in addition to the CRREM analysis Clearbell has been able to be complete to date and on future assets when sufficient data is available.

Through the annual reporting process Clearbell discloses performance in areas such as GHG emissions across Scopes 1,2&3. Complete metric disclosure can be found in the appendices of the annual Clearbell Sustainability Report.

This statement has been approved by Clearbell Capital LLP.

Rob West (Jan 16, 2025 18:36 GMT)...

Rob West (Managing Partner)
January 2025

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Glossary of Terms

- **Carbon/GHG footprint** - A carbon footprint is the total amount of greenhouse gases (including carbon dioxide and methane) that are generated by an entity's actions. Carbon emissions for accounting purposes are split into Scopes.

- **CRREM** – The Carbon Risk Real Estate Monitor (CRREM) is aimed to support real estate actors foster investments in energy efficiency as many assets will become 'stranded' properties that will not meet future energy efficiency standards and whose energy upgrade will not be financially viable.

- **IFRS S2** - International Financial Reporting Standards Standard 2 was issued in June 2023 and sets out the requirements for disclosing information about an entity's climate-related risks and opportunities.

- **MEES** - The Minimum Energy Efficiency Standard applies to private rented residential and non-domestic property and is aimed at encouraging landlords and property owners to improve the energy efficiency of their properties by a restriction on the granting and continuation of existing tenancies where the property has an Energy Performance Certificate Rating of F and G.

- **Scenario analysis** - A process for identifying and assessing the potential implications of a range of plausible future states under conditions of uncertainty. Scenarios are hypothetical constructs and not designed to deliver precise outcomes or forecasts.

- **Scope 1 emissions** - Scope 1 emissions are direct emissions from owned or controlled sources.

- **Scope 2 emissions** - Scope 2 emissions are indirect emissions from the generation of purchased energy.

- **Scope 3 emissions** - Scope 3 emissions are all indirect emissions (not included in Scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

- **TCFD** - The Financial Stability Board (FSB) created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015 to improve and increase reporting of climate-related financial information. The TCFD has developed a framework to help public companies and other organizations more effectively disclose climate-related risks and opportunities through their existing reporting processes.

- **Transition Risk** - Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations.

- **Weighted Average Carbon Intensity (WACI)** – is a measure of the carbon intensity of a portfolio normalized by revenues.

Clearbell IFRS S2 Statement (Jan 2025)

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