AMP Capital Real Estate

ESG and responsible investment guidelines

AMP Capital is one of the largest real estate fund managers in Asia Pacific, with 50 years of experience in real estate investment. Delivering investment performance for our clients is our central focus and driving motivation. We inherently understand risk management and recognise that the identification and management of Environmental, Social and Governance (ESG) considerations are an integral part of delivering investment performance for our clients.

These guidelines have been developed to outline how material ESG factors are identified and assessed within our real estate investment and management process. The guidelines also demonstrate how ESG considerations are integrated into portfolio construction and management strategies, in line with the AMP Capital ESG and Responsible Investment Philosophy.
Our ESG and responsible investment philosophy

AMP Capital recognises that real estate is a long term asset class. Our ESG and responsible investment philosophy is centred on delivering sustainable, long term performance by ensuring our clients’ investments remain relevant, both now and in the future, and adaptable to changing life cycles, markets, client and customer expectations.

AMP Capital’s approach to ESG management has its foundations in the following principles:

- Delivering investment performance for our clients. This is our central focus and driving motivation; and
- Our fiduciary duty to act in the best interests of our clients.

ESG is defined as...

... any environmental, social or governance consideration that can impact the value of an investment.

Just some examples of ESG considerations in real estate investment can include:

- **Environmental**: energy, water and waste efficiency, embodied carbon, greenhouse gas emissions.
- **Social**: health, safety and security of building occupants, labour relations in service providers, impact on community
- **Governance**: investment decision approval process, related party transactions, bribery and corruption

ESG – a key component of risk management in real estate investment

Effective management of ESG risks is fundamental to the long term investment performance of our clients’ investments. As such, AMP Capital believes that consideration of ESG factors should be woven into day-to-day property and asset management and is the responsibility of the entire investment team.

Our real estate investment professionals are supported by AMP Capital’s unified investment house in the identification and management of ESG considerations and impacts, ensuring the experience, depth and breadth of our portfolio management capability is leveraged effectively. AMP Capital’s vertically integrated management model provides us with unique opportunities to ensure a unified approach to ESG management across the investment process, including benchmarking performance, information sharing and insights across the real estate management disciplines, enabling our team to keep abreast of industry best practice, legal and compliance requirements and reporting obligations.
Integration of ESG considerations in the investment process

ESG factors are considered throughout our vertically integrated management model, from formation of investment strategy through to acquisition, analysis, management, development and divestment of our clients’ property investments.

Figure 1: ESG and the investment process

Strategy formation, portfolio construction and fund management

Our research-driven approach to investment ensures that the strategy for each fund incorporates AMP Capital’s Real Estate House View on the forecast performance of various real estate investment markets and sectors. When assessing these markets and sectors, we take into account broader ESG factors including impacts of climate change, changes in government policy, legislation, tenant demand, customer and investor sentiment.

ESG-related goals and targets are identified within each fund’s annual strategy and performance against these targets reported to our clients throughout the year.

Investment analysis

Ongoing detailed investment analysis is undertaken on our clients’ investments to consider the impact of ESG factors on sustainable investment performance. The payback of various ESG-related initiatives is considered in a broader portfolio context, as well as relating to an asset-specific strategy.

Individual asset plans capture the analysis of the performance of an asset, and take into consideration each asset’s lifecycle. The asset plan encapsulates a range of strategies to better position and evolve the asset for sustained investment performance and to improve the asset’s relative positioning in its competitive marketplace. They must therefore contemplate ESG factors and their potential impact on the value and investment performance of the asset. Examples include value risk of certain tenant mix, market attraction of target energy rating, building services etc.

External consultants can be appointed to assess the asset’s interaction with its broader community and these assumptions are built into AMP Capital’s decision making tools and investment process.
Fund Governance

We are guided in our management of our client’s assets by a governance framework that seeks to protect and advance our clients’ interests and comply with all legal and regulatory requirements applicable to our activities. The consideration of ESG factors relevant to the Fund’s assets are appropriately identified and assessed at various levels of this framework. This includes the Property Investment Committees (PIC) which meet on a regular basis to review the Real Estate House View, independent valuations, fund strategies, acquisitions and disposals, debt management and development activity. These investment committees comprise members from across the Real Estate and broader AMP Capital business.

Our flagship funds also have Investor Representative or Advisory Committees which comprise representation from a number of the relevant fund’s investors. These Committees provide a forum for us to engage with investors and for investors to provide guidance and feedback regarding the relevant fund’s strategy and management activities, including ESG considerations.

Where our investors are invested in assets or funds that are externally managed, we seek representation on their various investment committees or will seek to engage with managers to understand how ESG considerations are identified and managed for that investment.

AMP Capital Group Risk Management team ensures we are compliant with various legislative, fund constitutional or investment management agreement requirements and internal policies throughout the investment process. Our dedicated Property Risk and Compliance team provides quarterly reports on compliance levels to this group.

In addition, an Environmental Legislation Compliance Committee operates at the AMP Group level, structured to monitor and coordinate the AMP Group’s specific compliance with Australia’s continually evolving environmental legislation.

Our internal policies and guidelines are available to the majority of our clients via online secure datarooms for a number our funds. Access is restricted to fund unitholders and can be arranged by contacting AMP Capital’s Client Services team.

Property Transactions

The consideration of ESG factors begins at the earliest stage of the investment process. The due diligence process utilises a checklist approach, to identify ESG risks and opportunities that currently or may potentially materialise over the investment horizon. These risks and opportunities are considered when assessing asset pricing, our potential to effectively manage these risks and opportunities and recommendation as to whether to proceed with the acquisition. ESG issues would be considered in a fund’s recommendation to dispose of an asset if these issues could not be managed in a manner beneficial to our clients’ interests.

The due diligence process is managed by AMP Capital’s Property Transactions Team in conjunction with the relevant Fund Manager and the Asset Management Team. The Property Transactions Team may occasionally appoint external advisors where specialist skills or technical knowledge is required, and these may include, for example, engineers or environmental consultants. The findings of such investigations are then reviewed by our internal engineers to quantify risk and corresponding value impacts of material issues.

Active asset and property management

Our team is determined to deliver long term, sustainable investment performance. As such, ongoing identification, analysis and management of ESG risks and opportunities is undertaken as part of the active asset and property management of our clients investments.

The below are a set of tools and processes to assist in our active management of investment risk:

- Life cycle audits are regularly undertaken to provide a better understanding of an asset’s “biological” age based on its current state of repair;
- An environmental strategy is typically completed for every asset within the AMP Capital managed portfolio. The strategy, which is aligned to the overall asset strategy, sets performance standards benchmarked using the NABERS (National Australian Built Environment Rating System) ratings;
- Industry best standard monitoring and tracking of an asset’s operations, providing real-time information on electricity and water usage, and carbon production. This tool provides our Property Managers with the information to act quickly and decisively in the management of our clients’ investments;
- In depth research, including demographic analysis and tenant satisfaction surveys;
- Regular performance analysis, taking into account ESG risks and opportunities, including monitoring progress against environmental performance targets and compliance with legislative and internal policy requirements; and
- Site specific risk assessments undertaken by expert consultants to identify health and safety risks.

In using the above, we are better able to understand where to position the asset in its competitive marketplace in terms of presentation standards, target rents and tenants. We believe that we are better positioned to more accurately forecast future capital requirements and can make more informed buy, hold, develop and sell recommendations to our clients.

It is our view that the management of assets according to a strategy that takes into consideration ESG risks and opportunities, ensures that long-term, sustainable performance is achieved for our clients.
Development

Whether proposing development on greenfield or brownfield sites, or redeveloping and evolving an existing asset in the portfolio for long term investment performance, our Development Team ensures ESG factors are considered throughout the development process.

Figure 3: The development process

Master-planning of an asset’s development or redevelopment takes into consideration the interactions and impacts of that asset on its occupants, community and the surrounding environment. Studies considering environmental impacts, impacts on transport, ground plane activation, over-shadowing, local demographics and the impact on services such as sewerage and the electricity grid are all undertaken in the design and feasibility phase of a development. The future operating environment and likely competitive landscape is also taken into account when considering ESG factors in the development feasibility.

As the development process progresses, ESG factors are again considered in construction contracts and may be prescriptive when considering demolition, the use of recycled materials, the choice of plant and equipment, the safety of contractors, tenants and neighbouring communities throughout the construction process to completion.

Reporting

AMP Capital has a transparent, open and honest approach to reporting on ESG factors in real estate investment. Regular reports outline the identification and management of ESG considerations within the client’s portfolio and where applicable, include performance reporting against targets over a base year as well as confirmation of legislative and internal governance compliance. Where appropriate, case studies are utilised to illustrate how ESG issues are managed within our investment process.

Tools, resources and staff training

At AMP Capital, we are utilising additional tools such as checklists and information sharing opportunities, to further support our investment professionals in their identification and management of ESG factors in real estate investment. Our AMP Capital Real Estate team is supported by the AMP Capital Property ESG Committee and other ESG resources across the AMP Capital business.

We are also committed to improving our ESG knowledge through ongoing staff training via our online training platform, internal briefings and education sessions, and formal opportunities through industry based workshops and conferences.

Industry participation

AMP Capital actively collaborates with industry peers to best share insights into the identification and management of ESG considerations in real estate investing. We actively participate in various committees and working groups for the Property Council of Australia and Better Buildings Partnership and are members in various industry bodies including the Responsible Investment Association of Australia and Investor Group on Climate Change.

AMP Capital is a contributor to the investor-led Global Real Estate Sustainability Benchmark (GRESB) and United Nations Principles of Responsible Investment survey, believing that these surveys can be used to measure and benchmark our sustainability performance and provide insights into industry best practice.

Committed to improvement

As a signatory to the United Nations Principles of Responsible Investment (UNPRI), an international working group which helps to integrate ESG factors into investment decision-making process, AMP Capital is committed to continually improving our investment decision making and evolving our management of ESG considerations. Property’s ESG Committee continually seeks to understand and evolve our processes to deliver best practice application and reporting.

Contact us

If you would like to know more about how AMP Capital can help you, please visit ampcapital.com.au, or contact one of the following:

Adam Kirkman
Head of ESG, Managing Directors Office
AMP Capital
Level 15, 50 Bridge Street
Sydney NSW 2000
T: +61 2 9257 1115
F: +61 2 9257 1199
adam.kirkman@ampcapital.com

Emlyn Keane
Head of Property Management and Sustainable Performance, Property
AMP Capital
Level 15, 50 Bridge Street
Sydney NSW 2000
T: +61 2 9257 1837
F: +61 2 9257 1888
emlyn.keane@ampcapital.com

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