

# Climate-related Financial Disclosure Statement

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The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD recommendations [www.fsb-tcfd.org](http://www.fsb-tcfd.org)) were published in June 2017 with the objective of establishing a voluntary framework for disclosing an organisation's climate-related financial risk.

By providing a consistent reporting approach, financiers, investors, insurers and other stakeholders are able to understand an organisation's material climate-related risks, the financial implications of the risks and the approach being taken to manage them.

Cromwell has been reporting for a number of years on its actions to improve the performance and quality of its assets, reduce emissions and increase efficiency and resilience. We recognise the potential risks and opportunities arising from climate change and a transition to a low-carbon economy.

This statement summarises Cromwell's approach to managing the risk from climate change, across the Australian directly owned and funds management business and the current process of alignment across the European operations. In adopting the TCFD recommendations, we are committed to review and evolve our reporting to support effective disclosure.

## Risk Management

### 1. Physical risks

Property and fund acquisitions are led by Cromwell's in-house legal, financial, property, investment and technical teams, who manage and appoint consultants and prepare detailed investment papers.

The Chief Investment Officer (CIO) is responsible for presenting investment papers to the Board Investment Committee which includes the Chief Executive Officer (CEO). Investment papers include full financial, technical, legal and operational risk reviews to enable the Board to understand and approve the recommendations.

Within Europe, where property management and acquisitions may be undertaken on behalf of third party fund managers, investment strategies are reviewed by an Investment Committee to ensure the criteria set by that fund have been applied, before being presented to the Fund Manager for approval.

When acquiring an asset, the acquisition team lead the legal, financial and technical due diligence (TDD) process. This includes inspection and evaluation of the property's condition, the performance and economic life of the building systems and structure, plus sustainability and environmental impacts including biodiversity where applicable.

Local authority searches are also undertaken to identify the potential adverse impacts that may arise from other commercial and industrial operations in the area. Environmental searches consider historic use and determine risks of flood, aquifers, overland inundation, bush fires or other environmental vulnerabilities.

Cromwell has developed TDD check lists and scopes to identify both short-term vulnerabilities and the longer-term probability of capital works required to protect the asset value. The TDD scopes are issued to specialist consultants appointed to prepare comprehensive ten-year forecasts and were adopted for the Cromwell European REIT (CEREIT) acquisition. Consultant reports identify compliance requirements, as well as building condition, improvement, refurbishment and sustainability opportunities.

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Each property lease is reviewed and an evaluation completed on the financial strength and quality of each tenant. Insurers are also consulted to determine any insurance risk related to the premises, location or tenant's use.

As part of a process of continuous improvement, the acquisition processes is regularly reviewed and updated. The most recent reviews have led to an increase in scope to further consider the capacity of a property to withstand climate related impacts. Within Australia, these checks now consider performance against forecast climate-related scenarios. Determining the building design, occupant and systems capacity and comparing previous recorded performance against peak temperature days and storm events identifies a building's capability to withstand the effects of increased precipitation, storm severity and increasing temperature extremities and durations.

These reviews integrate with technical building audits. The audits are also regularly reviewed as part of ongoing operations and Cromwell is considering adopting and using them across its entire platform.

## 2. Operational risk

Strategic asset plans are prepared for each property and fund, and are reviewed annually. The plans align to Cromwell's corporate strategy as well as the sustainability plan and risk register.

Asset and property management teams also review the ten-year life cycle and capex forecasts for the overall portfolio annually, and prioritise works identified in the strategic asset plan. These reviews include:

- Ensuring compliance with statutory reporting and performance standards;
- Refurbishing and renewing buildings and fitouts to ensure that the facilities, safety, performance and quality of assets are appropriate and respond to stakeholder needs and market expectations;
- Assessing the capital investments required to replace and upgrade buildings and systems to add value and ensure that the assets support the business strategy; and
- Reviewing and resetting performance targets for energy, water, emissions and waste.

## 3. Business continuity risk

Cromwell completes physical and business continuity risk assessments on its operations and also for each office. All business processes are mapped, and IT systems are backed up into the cloud, removing single point failure and providing continuous support and the flexibility to relocate operations should any key office be disrupted.

The business continuity plan, as well as the crisis management plan, are regularly reviewed and scenario tested annually, with the results provided to the CEO and COO, and reported to the Board.

## Strategy

The Senior Management Group (SMG) review and update business enterprise risk assessments bi-annually. These reviews consider risk across the business with the ensuing control measures reported to the Board.

The risk review process is managed by Cromwell's Governance Pillar and is supported by the Chief Sustainability Officer (CSO) who provides sustainability-related input to each risk review.

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Additionally, Cromwell completes an annual materiality review. The materiality review is facilitated by external sustainability consultants and is used to identify the key sustainability topics and related risks that have the greatest importance to the business and to our stakeholders.

The materiality review is used to reset the annual Sustainability Objectives. The Sustainability Objectives contribute to the annual business planning process, and are included in budgets and KPI's.

In 2017, our review identified ten key materiality risks, which included responding to climate change and transitioning to a low carbon economy. 30 objectives were set overall and agreed by each of the five Sustainability Pillars. They have been used to form action plans across the business.

Cromwell has introduced a resilience and climate change policy that includes undertaking building and technical reviews to consider asset location and physical vulnerabilities, as well as opportunities arising from climate change. These reviews will be completed across each Australian asset in FY19, with a plan to implement similar reviews across the European Platforms.

Our climate adaptation and resilience reviews include consideration of the susceptibility and impacts from increasing storm and cyclone events, as well as increased global temperatures. Cromwell's actions to improve its approach to risk assessment include:

- Technical building audits addressing vulnerabilities and identifying energy, emission and waste reduction opportunities every three years;
- Increasing the cycles of review for business risks;
- Investing in new technology platforms to assist in linking risk evaluation with materiality and business and sustainability objectives;
- Increasing training and awareness of sustainability and Climate related risk and opportunity throughout the business;
- Considering climate scenarios for the medium and long term that include RCP (Representative Concentration Pathway) 8.5 and RCP 6.0 risks;
- Participation in global benchmarks including GRESB and DJSI to set and compare our performance, and to identify and disclose our sustainability performance and targets to reduce emissions;
- The economic and operational impacts of business wide emissions reductions; and
- Understanding the impact from climate risk to the business and to stakeholders and prioritising actions to ensure long term sustained economic performance.

## Building Refurbishment and Performance

Cromwell has delivered a number of major refurbishments and new construction projects, partnering with leading construction contractors to deliver exemplary buildings. Further, Cromwell has an extensive track record in undertaking significant repurposing projects for existing buildings.

Re-purposing ageing buildings that would otherwise become vacant and be demolished delivers a number of benefits. Amongst these is the reuse of the existing embedded carbon from construction. This avoids the substantial carbon footprint associated with demolition, and removal of waste to landfill, as well as the carbon associated with the manufacture and construction of new structures.

Cromwell is committed to delivering sustainable, energy-efficient buildings. Since 2007, Cromwell has delivered six new major commercial office buildings, all of which were subject to detailed due diligence

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in design, with each obtaining a Green Building Council of Australia Green Star certification at a minimum of 5 Stars, with two obtaining a 6-Star rating.

Our in-house property and projects team obtained the first commercial office, 5-Star Green Star certification for refurbishment as part of the 321 Exhibition Street project in Melbourne. The building also included one of the first retrofitted gas fired Cogeneration systems and delivered a 5.5-Star NABERS rating for energy performance, going on to achieve 6-Stars in operation.

Within Europe, a number of refurbishment projects have been completed and obtained BREEAM certification.

## Metrics and Targets

Cromwell manages its own property assets, as well as retail and listed Funds Under Management (FUM). Cromwell has disclosed its sustainability performance since the issuance of its first sustainability report ten years ago, reporting annually in accordance with the Global Reporting Initiative (GRI). In addition, Cromwell has submitted to the DJSI for the last three years.

To provide a benchmark for portfolio performance, Cromwell submits its sustainability performance to the Global Real Estate Sustainability Benchmark (GRESB) each year. GRESB is a leading global measure of real estate Environmental, Social and Governance (ESG) performance.

Performance is measured against seven major aspects including risks, opportunities, policy, disclosure and performance indicators. Targets and results are published in Cromwell's annual Sustainability Report.

GRESB was created to provide actionable insights into an organisation's ESG data for the benefit of investors. In 2018, it represented over US\$6 trillion of institutional capital. Cromwell has been participating in GRESB since 2012, increasing participation to 99% of Australian direct owned property, funds under management (FUM) and over 68% of the European FUM.

In 2017, Cromwell reported on all Australian assets regardless of where control was vested, and continues to focus on improving participation in Europe.

## Direct owned property emissions and targets

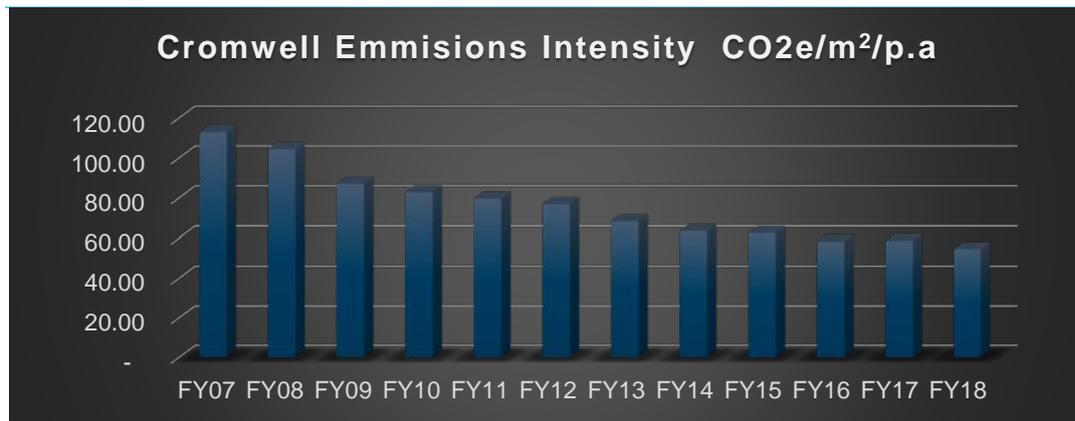
The boundary for Cromwell's sustainability reporting is set out in accordance with the GRI standard. Each year a breakdown is provided on the distribution of the portfolio between direct property and funds under management. In addition, details are provided on the split between properties where Cromwell has operational control and where the operational control rests with the tenant directly.

The greatest opportunity for Cromwell to implement emissions reductions targets is within assets where there is both a clear mandate and operational control.

For the Australian assets where Cromwell has operational control, energy consumption and emissions intensity has been tracked for ten years. Emissions intensity is an established metric for reporting emission efficiency of assets. It is calculated by determining the emissions produced from electricity and gas consumption each year and dividing this by the floor area in square metres.

Cromwell's emissions intensity for directly owned commercial offices is now 54.73 kg/CO<sub>2</sub>e /m<sup>2</sup> representing a reduction of 51.6% since 2007.<sup>1</sup>

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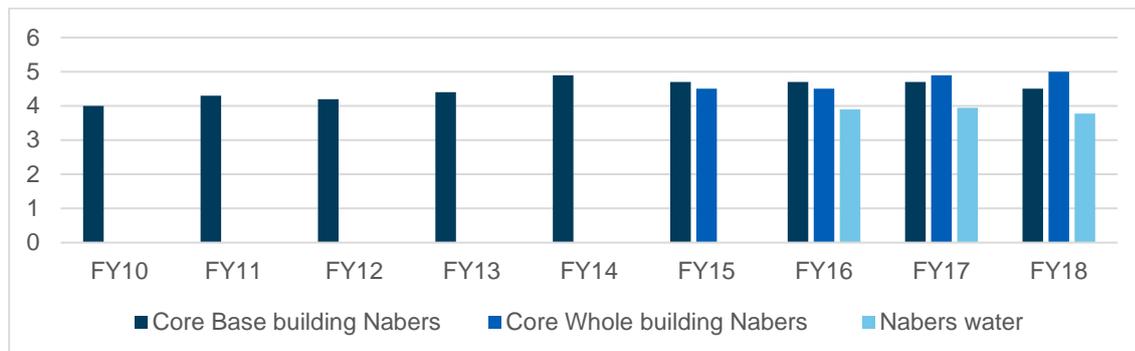


<sup>1</sup>Emissions calculated for directly owned commercial offices where Cromwell had operational control and for which base building energy and gas data was available for a full 12 months. Emissions factors for the relevant State and year were applied from the National Greenhouse accounts factors against recorded utility bill data

Cromwell has a longstanding target to achieve an area weighted 5-Star Energy and 4-Star Water rating. In 2018, Cromwell reported an average NABERS area weighted performance for its directly owned properties for which we have operational control as 4.5-Stars Energy (base building), 5-Stars Energy (whole building rating), <sup>2</sup> and 3.8-Stars NABERS Water.

The reduction in the NABERS energy rating from 4.7 to 4.5 occurred due to the sale of several high performing assets and a very high vacancy rate for one asset where the building is about to transition into a value add redevelopment opportunity (removing the impact of this asset the weighted average result stayed at a 4.7-Star average)

### Annual WNABERS rating performance of Commercial Assets under operational control



<sup>2</sup>NABERS whole building ratings are undertaken for 4 property assets where a base building rating is not possible. These are separated for the purposes of calculating the average area weighted NABERS rating. Water for NABERS ratings is based on the whole building consumption and therefore is consistent. NABERS ratings are undertaken for all directly owned property where Cromwell has operational control and the asset meets the ratings criteria

## Corporate operations

As a global business, Cromwell has offices in Australia, Asia and Europe and recognises its responsibility to minimise its emissions footprint.

In 2017, in response to the increasing need for international air travel associated with the business, we committed to offsetting all business air travel through the Qantas Future Planet Partnership.

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In 2018, as part of the commitment towards our goal of net zero emissions, Pangolin Associates were instructed to complete a formal assessment of carbon emissions from the Australian business. The assessment was completed in accordance with the Australian Government's National Carbon Offset Standard (NCOS).

In 2019, Pangolin will complete an assessment of the European business, following which we are aiming to achieve NCOS certification as 100% carbon offset for our corporate operations.

In addition, we continue to progress opportunities to improve the energy performance of each office through a process of continuous review.

## Corporate Governance

Cromwell Board and Board committees have oversight of our risk and sustainability framework. Board members participate as representatives on a number of Board committees, including:

- Audit and Risk;
- Investment;
- Nomination and Remuneration; and
- Compliance.

Board meetings are held monthly, with Risk and Audit committee meetings generally every two months. Risk and Audit members receive updates on the risk register as well as receiving presentations from senior executives and managers on their individual reports. Meetings are also attended by the Company Secretary, Chief Financial Officer (CFO) and CEO.

The CSO is responsible for setting the sustainability framework and overseeing the delivery of the company's sustainability strategy. The CSO provides monthly reports to the Board, as well as weekly reports to the CEO and the Executive leadership team. The CSO also participates in and reports to the Audit and Risk Committee.

Reports to the Board include progress against the sustainability strategy, as well as emerging risk and legislation matters that affect the organisation's materiality review.

Cromwell's Sustainability Framework is centred on Five Pillars. Members of the Executive and designated senior managers act as Pillar owners and form the global sustainability committee. The owners are;

- Economic Pillar: Chief Financial Officer
- Governance Pillar: Company Secretary
- People Pillar: Chief Operations Officer
- Stakeholder Pillar: Head of Investor Relations
- Environment: Pillar: Head of Property.

Meetings are held monthly with each of the Sustainability Pillars, and the global sustainability committee meets at least three times a year to set and participate in the materiality review and to agree and sign off on sustainability objectives. The CSO and CEO meet quarterly to review the Sustainability strategy and to review performance across the platform.

In addition, Pillar representatives are also appointed within the European Funds Management business. They report to the Managing Director, Europe. Meetings are held regularly with the

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European representatives who participate in sustainability initiatives and provide general feedback on the application of objectives and targets in Europe.

Pillar owners work with the CSO to develop and implement the sustainability objectives throughout the business and report to the CEO and to the Board on progress against each of their respective sustainability pillar objectives.

## Risk Mitigation Framework

Area	Risk	Mitigating Activity
Governance	Ensuring the Board is informed and has oversight of risk management practices.	<p>Board has oversight of corporate and climate related risk, members are engaged in a number of sub-committees, including;</p> <ul style="list-style-type: none"> <li>• Risk and Audit;</li> <li>• Investment; and</li> <li>• Remuneration.</li> </ul> <p>Reports are provided regularly and cover business operations, financial performance, acquisitions, capital management and sustainability.</p> <p>The Risk and Audit committee meet every two months and receive reports from CFO, CSO and Company Secretary.</p> <p>Executive Leadership Team meet weekly with the CEO.</p> <p>Materiality reviews are undertaken annually to determine the major sustainability topics for the business and to reset objectives and integrate these into the strategic asset plans</p>
Governance	Ensuring SMG assess and manage climate related risks.	<p>SMG are responsible for review and update of the Corporate Risk Register.</p> <p>SMG receive regular training and information on risk, governance and sustainability.</p> <p>The annual materiality review is undertaken and used to set sustainability objectives.</p> <p>The SMG meet quarterly with executives and the CEO and are also required to update the risk register quarterly.</p> <p>The SMG group meet quarterly to report to the CEO and executive on risk and strategy</p>
Strategy	Vulnerabilities of assets from location based impacts of climate change.	<p>Acquisition due diligence considers financial, legal and property risks. Physical risks from flood, cyclone, inundation from stormwater are determined.</p> <p>Operational and vulnerability reviews are undertaken every three years.</p> <p>Corporate policies for energy, water, waste, biodiversity, emissions, sustainability, climate change and resilience are reviewed every three years to ensure that they remain relevant, are capable of responding to emerging technologies, disruption and stakeholder expectations.</p>
Risk	Tenant vulnerability.	<p>Tenant quality and capacity is currently considered and future reviews will be broadened to further evaluate, where practicable, tenant business and operational vulnerabilities from climate change or carbon intensive operations.</p>

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<p>Strategy</p>	<p>Increasing weather extremities including temperature, storm severity and precipitation may impact on tenant satisfaction and comfort.</p>	<p>TDD considers vulnerabilities associated with geographical location and predicted impacts.</p> <p>Undertaking NABERS reviews and setting NABERS energy targets to reduce emission and energy and water consumption supports reducing occupancy costs and avoiding the impacts from energy cost increases</p> <p>Regular engagement with tenants undertaking tenant surveys to determine and respond to tenant issues and to understand their expectations on building performance and resilience</p> <p>Technical building audits introduced in 2018 in Australia will be undertaken as part of TDD and every three years thereafter to review building capacity and the capability to operate and maintain conditions and safety at predicted increasing extremities of temperature, storm events and precipitation. Outcomes will inform capital investment and refurbishment strategies and will be used to support longer term emission reduction targets</p>
<p>Strategy</p>	<p>Ageing assets require investment to maintain and improve performance and resilience.</p>	<p>Ten-year lifecycle and capex program updated annually.</p> <p>Minimum performance standards documented for all Australian building refurbishment and upgrades including future tenant fitouts.</p> <p>Refurbishment and fit out standards to be developed to reflect and support the European funds under management</p> <p>Technical building audits identify targets to increase energy efficiency and reduce water consumption and emissions in buildings where Cromwell has operational control.</p> <p>Policy and Investment strategies to be developed to identify onsite renewable generation opportunities, green power procurement and water storage based on targets to support net zero emissions by 2050</p>
<p>Risk</p>	<p>Resilience.</p>	<p>Each property has an emergency procedures assessment, which sets out building risks and covers emergency systems and controls.</p> <p>Technical audits review each asset's ability to appropriately respond to social and environmental changes, shocks and disturbances.</p> <p>Insurance cover is reviewed regularly to ensure that adequate cover is available to meet identified risks and major loss events. Regular engagement with insurers and brokers is undertaken to understand insurance risks and to implement and demonstrate risk management practices that minimise insurance costs.</p>

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<p>Strategy</p>	<p>Targets for medium and long term.</p>	<p>Each property has a Strategic Asset Plan, that is reviewed and updated annually. The Strategic Asset Plan includes leasing term, property condition, market evaluation and investment and refurbishment programs.</p> <p>The asset strategy is being developed to further include long-term emerging risks associated with the transition to a low carbon economy.</p> <p>Understanding and keeping abreast of emerging scientific knowledge and climate modelling will increasingly inform our acquisition decisions and the strategic decisions around refurbishment and capital works as well as investment into on site renewable energy generation solutions.</p> <p>Increasing our understanding of our tenant's activities and their vulnerabilities to ensure we support their success, as well as understand opportunities and threats that may impact on their business activities.</p> <p>Ensure that we increase our understanding of our supply chains and the risks that may emerge from a transition to a low carbon economy, water scarcity and energy demand and reliability.</p> <p>Cromwell has invested in a corporate dashboard to monitor sustainability performance and data collection. In addition, the planned expansion of the current property management platforms and better property analytics will expand our ability to model and manage long-term property strategies which consider climate related risks.</p>
<p>Strategy</p>	<p>Appropriate emissions reduction strategy.</p>	<p>Targets are set to achieve energy and water efficiency measures (using NABERS where appropriate) for direct owned property under operational control.</p> <p>Across Europe, achieving compliance and monitoring performance and capital works to address EPC minimum performance targets.</p> <p>Medium to long-term targets include a combination of ongoing investment to improve efficiency, increased investment in renewable energy and energy storage facilities, combined with increasing renewable energy and offsets to deliver net zero by 2050.</p> <p>Investments will need to be balanced against emerging technology, increasing energy costs and government legislation combined with stakeholder expectation.</p> <p>Corporate emissions are currently 71% offset, and our short-term target is to complete NCOS registration for the Group.</p> <p>In recognising the European Performance of Building directive (EPB) 2018 and other emerging legislation and best practice, Cromwell will seek formal commitment and policy in FY18 to support the World Green Building Council (WGBC) targets to achieve net zero emissions by 2050.</p>

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	<p>Risk of increasing energy, water and waste costs on the occupancy costs.</p>	<p>Each asset has internal and external technical building audits and reviews along with an ongoing ten-year capital and life cycle plans.</p> <p>Plans and audits are used to identify the gap between target efficiency and market expectations. Measuring performance against NABERS ratings on European EPCs further enables benchmarking and the setting of improvement targets.</p> <p>Continuing to seek opportunities to improve performance and reduce consumption is included in capital works and refurbishment plans.</p> <p>We measure our performance and compare occupancy costs to market trends and benchmarks including the Property Council service charge indices to ensure that we balance value against investment.</p> <p>Our commitment to setting long-term reduction targets will increasingly inform investment decisions. These decisions will need to balance initiatives such as onsite renewable generation and rain water harvesting to occupancy and utilities costs, determining the trade-off between increasing efficiency or onsite green power solutions.</p> <p>New acquisitions are reviewed to ensure their ability perform to meet our performance targets as well as to respond to market expectations on performance and cost.</p>
<p>Risk Management</p>	<p>Activities to ensure that risks are appropriately identified and regularly reviewed for both acute and chronic risks.</p>	<p>The Sustainability Framework is based upon identifying material risks and implementing objectives.</p> <p>Cromwell has an established Corporate Risk Register and is working towards integrating this with the materiality framework.</p> <p>The Board is informed of, and included in, the development of the five-year business strategy, and provided regular reports and engagement at a number of levels to ensure that they are adequately informed.</p> <p>Cromwell complies with a number of corporate obligations, including ASIC, international accounting standards, GRI, etc.</p> <p>Medium-term objectives include obtaining Green Star performance ratings for Australian assets and heading towards similar reporting standards (BREEAM, etc.) for European assets.</p> <p>Cromwell has committed to reporting performance against GRESB and DJSI as global benchmarks for best practice Sustainability and ESG procedures.</p>

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<p>Metrics and targets</p>	<p>Emissions.</p>	<p>We provide data on water, energy, waste and emissions by property and for assets where we have operational control, as well as engaging with tenants to obtain their data (where possible) to disclose full building operational data where we do not have operational control.</p> <p>We have policies to cover our emissions, energy and water, and are working to align these with the UN Sustainable Development Goals.</p> <p>We are targeting net zero emissions for our corporate operations by 2022 and to achieve net zero for our directly owned assets where we have direct operational control by 2050.</p>
<p>Governance</p>	<p>Sustainability reporting.</p>	<p>We prepare an annual sustainability report in accordance with GRI.</p> <p>Our target is to move from having our sustainability report externally assessed to externally verified by 2022, and externally validated by 2024.</p> <p>Cromwell's property management performance is measured by its annual GRESB scores.</p> <p>Annual improvement targets are set across the directly owned and funds management operations. The overarching medium-term target is to achieve a leadership score in Australia for the directly owned properties and to exceed the EU peer group average for CEREIT.</p> <p>Our target for performance on corporate sustainability, governance and social responsibility is to obtain inclusion into the DJSI. Performance improvement targets for DJSI are set annually and are published in the annual sustainability report.</p> <p>We undertake an annual materiality review and aim to integrate this with our corporate risk register. We also seek to increase involvement in the materiality review by including the SMG and engaging with our external stakeholders.</p>