

A photograph of a modern garden featuring a dark metal pergola structure. The pergola has a grid of horizontal slats and vertical posts. Lush green foliage, including trees and bushes, is visible through and around the structure. The ground is covered in reddish-brown gravel. In the background, there is a blue-tinted wall or fence. The overall scene is bright and sunny.

# European climate-related risk disclosure



GROSVENOR

# Foreword

At Grosvenor Europe our vision is to put the mitigation of climate change and the promotion of healthy, inclusive, and economically resilient businesses and communities at the heart of everything we do.

Grosvenor's approach to climate risk is underpinned by two core tenets: to make meaningful impact against climate change and to build on our 340-year history to help our business continue to deliver lasting commercial and social benefit.

The former is achieved through reducing operational and embodied carbon emissions. In 2020, we published our impact strategies, **Delivering Social Benefit** and **Our Goal: Net Zero**, and our mission has continued with pace and enthusiasm throughout 2021.

The latter, through the mitigation of the environmental risks facing the business and identification of opportunities in our transition to net zero. We recognise the need to act early to manage the impact of risks and exploit opportunities.

As a result, we are implementing short and medium-term actions to build climate and environmental risk into our operations, strategic planning, and risk framework. From 2022, we will further integrate climate scenario analysis into the decision-making process, including incorporating costs associated with transition and physical risks into financial projections.

Though not yet a legal requirement, we have chosen to make the following voluntary disclosure in line with the Task Force on Climate-related Financial Disclosure (TCFD) framework to illustrate our performance to date against the TCFD targets, and our planned future steps.

We are proud to advocate for action on climate change, and in making this disclosure, we are holding ourselves accountable to our climate-related commitments.

Sebastien Hyst,  
CHIEF FINANCIAL OFFICER



# Governance

## ESTABLISHED PRACTICE

The Grosvenor Europe Board (the “Board”) retains responsibility for environmental and climate-related risk. Day-to-day management is delegated to relevant teams and committees, including a dedicated Sustainability team and local sustainability champions, to enable swift identification of risks, clear monitoring and to drive progress of opportunities. External consultants are retained on a continuous basis to provide specialist advice. Through committees and the sustainability team, the Board have continuous oversight supported by relevant and timely communication.

In 2020, Grosvenor Europe commissioned a report to assess and report climate-related risks and opportunities affecting both the wider business and the portfolio on an asset-specific basis. This provided a detailed and robust assessment of how to manage and integrate physical, transition and liability risks and opportunities into short-term roadmaps and longer-term strategy.

At Grosvenor Europe, success is measured annually against business value drivers agreed by the Board – social and environmental considerations have been a long-standing feature of this process and benefitted from a higher weighting in 2021. Performance management for all staff, including executives, is linked to the business value drivers, which incentivises progressing short, medium and long-term climate targets.

Since 2019, Grosvenor Europe have been signed up to the Better Buildings Partnership (BBP) Climate Change Commitment and the World Green Building Council (WBG) Commitment; to achieve net zero carbon operational emissions from all directly managed buildings globally by 2030, and to work towards all buildings, directly and indirectly managed, being embodied and operationally net zero across our portfolio by 2050.

In 2020, the Board approved Our Goal: Net Zero; Grosvenor Europe’s net zero carbon pathway to cut the business’ total carbon impact by 50% by 2030, which has subsequently been verified by the science-based initiative (SBTi).

## IMPLEMENTED IN 2021

The role of *Chief Investment Officer, Grosvenor Estate* (CIO) was created in 2021 and the CIO was appointed to the Grosvenor Europe Board, whose remit includes raising standards of sustainability and on responsible investment.

The Board regularly discusses climate-related risks and opportunities at a strategic level and now requires that the annual 10-year strategy adequately reflects this. The current strategic plan includes downside scenarios, such as the inclusion of further cost allocated towards retrofitting and financial downside planning against potential carbon taxation. Building on the new carbon strategic plan, which is designed to provide clarity over the environmental impact of future decision making, climate-related risks will be further integrated into the base case from 2022.

The scope of the Risk and Operations committee, chaired by the Chief Financial Officer (CFO), membership of which includes the newly created position of Head of Construction and Sustainability, has been extended to include climate-related risks and opportunities with full integration commencing in 2022.

The employee performance process was adapted in 2021 to require all staff to set a minimum of one target aimed to progress our impact strategies, encompassing five priority areas: Net Zero Carbon, Sustainable Buildings, Sustainable Businesses & Communities, Health & Wellbeing, Nature & Biodiversity.

To promote thought leadership and further progress the priority areas, executive-led working groups have been created with members from diverse work streams and locations across the business. Key focus areas in 2021 include: climate resilience, low carbon construction, green lease clauses, indoor air quality and biodiversity measurement.

## NEXT STEPS

First-in-class training opportunities are currently being trialled by employees across Europe with the view to rolling out to executives in the new year to supplement ongoing internal training and knowledge sharing on net zero carbon and climate-related risks.

Grosvenor Europe plans to introduce structured governance around how to assess, manage and address climate-related risks and opportunities in relation to new acquisitions, including but not limited to net zero carbon due diligence, high level assessment of physical and transition risks, sustainability-adjusted scenario analysis.

# Strategy

## ESTABLISHED PRACTICE

Building on the BBP and WGBC commitments to achieve embodied and operational net zero by 2050, Grosvenor Europe launched Our Goal: Net Zero – a net zero carbon pathway with the following near-term target, which was subsequently commended by the SBTi as an ambitious 1.5°C-aligned near-term target:

*“Grosvenor Europe commits to reduce absolute scope 1, 2 and 3 GHG emissions by 50% by 2030 from a 2019 base year.”* **Science Based Targets initiative**

In addition to developing our net zero carbon pathway, we have worked with specialist climate modelling consultants to identify and assess our climate risk exposure in 2°C and 4°C warming scenarios. Through this process we have identified the impact on our business, our strategy and our financial position and we can target specific areas, assets and regions most at risk.

We have identified four focus areas to reduce operational greenhouse gas emissions and mitigate transition and liability climate risk:

- Our buildings
- Supply chain
- Developments
- Other Emissions

Further information on our approach to these four focus areas can be found in **Our Goal: Net Zero**.

Acute and chronic physical risk analysis indicated that only three assets had a climate hazard exposure rating of high or above, two of which have been subsequently sold in line with the strategy plan (not as a direct result of this analysis). The cumulative physical risk profile for Grosvenor Europe is considered low using this methodology, which is derived through bottom-up analysis of each property using leading climate and natural hazard databases, including Swiss Re CatNet and Munich Re NATHAN. Potential physical risks at new acquisitions are being monitored and further due diligence is being developed.

## IMPLEMENTED IN 2021

The 10-year strategic plan includes further low carbon capex projects, which will advance our net zero carbon strategy and now integrates expedited transition and physical risks into downside planning scenarios. Building on the comprehensive climate-related risk review undertaken in 2020, we have recently started approved climate value-at-risk methodology for high-level identification and quantification of climate-related risks in our portfolio over the short, medium and long term. This tool includes the capacity to undertake due diligence on new acquisitions.

One of our strategic priorities at Grosvenor Europe is to engage internally and externally on climate change action. This year, internal engagement has been supported through the creation of new central sustainability roles and incorporation of responsibilities into existing roles. We have also provided a variety of training opportunities, including in-house knowledge sharing, best-in-class academic courses and talks from industry experts.

Externally, we have collaborated with peers and other stakeholders to raise the profile of environmental and social issues within our sector. Key milestones in 2021 include:

- Engaging with industry bodies, committees and roundtable discussions, such as the Better Buildings Partnership, Edie and Revo.
- Hosting an international conference on sustainability and innovation in partnership with the Municipality of Stockholm and Plug & Play.
- Sustainability Partner Charter (as detailed below).

A key achievement in 2021 was the development of a Sustainability Partner Charter on the principle that *“together, we can take more impactful action against climate change”*.

We have included climate resilience as one of the key principles of our Sustainability Partner Charter, which challenges our suppliers, tenants and investors to improve business practices in line with core sustainability principles. It is critical that we futureproof our supply chain and partners in order to manage indirect climate risks that might otherwise impact us.

## NEXT STEPS

The progress made on integrating physical, transition and liability risk considerations over short-, medium- and long-term time horizons must now be formalised with a climate resilience strategy, which we have committed to developing in 2022.

To further engage with our suppliers, tenants and other external stakeholders, we will implement a roll out plan for the Sustainability Partner Charter in early 2022. Training workshops will be held to equip internal stakeholders with the skills, knowledge and confidence to better influence the strategy of our partners.

# Risk management

## ESTABLISHED PRACTICE

Climate risk affects our business to different degrees across different locations. We assess and respond to physical and transitional risks on a country specific basis to enable us to identify and manage relevant and realistic risks to the portfolio appropriately.

We have a robust risk identification and management process, which is led by the Risk and Operations committee, chaired by the CFO and includes the Head of Construction and Sustainability. The committee meets on a quarterly basis to ensure the key risks are identified, emerging risks facing the business are being addressed and where appropriate significant risks are escalated to the executive committee. Responsibility for significant risks rated medium or higher are formally assumed by an executive director.

We have identified the highest physical risk to be heat stress in Spain. To identify this, we applied the following methodology.

Physical risk:

- 1 Identify hazards and change in hazard in the wake of climate change
- 2 Map acute climate hazard exposures
- 3 Regional assessment of chronic climate risk

We identified the most significant transition risk to be the potential policy change and legal risk to our future investments and developments. To identify this, we applied the following methodology.

Transition risk:

- 1 Developed transition risk scenarios (2°C and 4°C at a time horizon to 2040)
- 2 Scenarios informed by physical risk modelling findings
- 3 Scenarios to consider regional variances
- 4 Scenarios reviewed, iterated and approved
- 5 Potential risks from 2- and 4-degree scenarios collated
- 6 Potential risks reviewed, prioritised and finalised

The business' risk management process is led by the Risk and Operations committee, chaired by the CFO and includes the Head of Construction and Sustainability. The committee meet on a quarterly basis to ensure the key risks are identified, emerging risks facing the business are being addressed and where appropriate significant risks are escalated to the executive committee. Responsibility for significant risks rated medium or higher are formally assumed by an executive director.

Carbon emissions, building consumption reporting and short-term environmental risks are all featured within existing risk registers. Further climate-related risks are currently managed by the sustainability team on an informal basis and will be officially integrated into the risk and operations committee in January 2022.

Through annual reporting with GRESB and UN PRI we identify risks through the pre-submission work and post-submission benchmarking against industry peers. The process of our external reporting requirements enables us to perform gap-analysis on our portfolio, thereby identifying individual assets that are more at risk and require more detailed review. Furthermore, these frameworks allow to form part of an international network alongside our peers to establish a benchmark for standards that contribute to efforts to mitigate climate change within the industry.

## IMPLEMENTED IN 2021

The responsibility of managing climate-related financial risk has been assumed by the Finance and Sustainability teams and further devolved responsibilities relating to risk assessments will commence in 2022.

Annual reporting of carbon emissions was established in 2010, however the processes for measuring and reporting on greenhouse gas emissions have significantly advanced. This has enabled more granular identification of risks and opportunities, which can subsequently be built into asset plans. For example, at one of our shopping centres in Sweden we have leveraged this data to optimise heating and cooling and further identified a simple solution to further preserve heat through the installation of a revolving door.

The collection of energy and water consumption is now almost fully automated and collected alongside waste in a digital platform. This is supported by a partnership between sustainability and data experts and context is directly added by our internal and external property and asset managers. Qualitative ESG data is also collected, analysed and visualised using an interactive tool that has been internally developed. In addition to providing data for our GRESB and UN PRI submissions, these platforms have been designed to facilitate sustainability reporting. Over the course of the year, reporting has been progressed and better communication of key information is relayed to the board and investment partners.

Ad hoc opportunities have been explored, including a countrywide review of opportunities to install roof-mounted photovoltaic panels. This builds on early identification of risks, such as carbon taxation and future spikes in energy prices, to build resilience into the decision-making process.

## NEXT STEPS

We have begun tracking potential changes in policy in response to the climate crisis at a high level, including the climate law that was recently passed in France and EU Taxonomy. Next year we will be undertaking a comprehensive review of upcoming or anticipated European and country specific legislation.

Ongoing risk identification measures have been implemented, such as the climate value-at-risk analysis and will be delegated to local team leads to further integrate climate-related risk into existing risk processes. Climate-related risk due diligence will also be used to further inform investment decision making.

# Metrics and targets

## ESTABLISHED PRACTICE

Grosvenor Europe has annually published emissions data for the majority of assets under management since 2010. In recent years, scope 1 and 2 greenhouse gas emissions have been assured in line with the International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on GHG Statements. This information is disclosed in our Non-Financial Data Report, which is published annually on Grosvenor.com.

To achieve our environmental sustainability commitments (as outlined in Governance), in 2020 we launched our net zero carbon pathway to halve our total carbon impact by 2030. To achieve this objective, we have also set the following near-term targets for 2030:

- 1 **Our buildings** – Reduce energy consumption in our buildings by 30%
- 2 **Purchased goods and services** – reduce emissions per unit of spend by 60%
- 3 **Developments** – reduce embodied carbon per square metre in our developments by 50%

All of the above targets are measured against a baseline year of 2019 and can be accessed here. See appendix A for an inventory of activities that we include in our scope 1, 2 and 3 emissions. We have included optional emissions categories from our corporate activities, such as business travel, purchased goods and services and employee commuting.

Alongside our net zero carbon strategy, we have developed 25 interim targets for 2025. In addition to halfway objectives for the above near-term targets, these include:

- Develop a climate resilience strategy for our portfolio by 2022 and report climate risks and opportunities in line with the TCFD framework by 2023
- 90% of construction waste recycled or re-used by 2025
- By 2025, 50% of standing assets to be certified BREEAM Very Good or LEED Gold
- Improve the accessibility and inclusiveness of our places to those with physical and mental health conditions or disabilities
- Increase biodiversity at all assets by 25% by 2025

Since 2016 we have been measuring our environmental and social performance against industry peers and standards through GRESB reporting. As part of the 2021 GRESB rankings, Grosvenor Europe scored 88 and 92 points for its investment and development activity respectively, earning a 5-star rating for the first time. Annually, we provide responses for 100 questions on each of our entities, covering core criteria such as leadership and policies, risk management, stakeholder engagement, targets and consumption performance. In addition, the UN PRI questionnaire assesses our structures in place to implement and manage risk of investment in sustainability outcomes, climate resilience and stewardship.

## IMPLEMENTED IN 2021

Following the release of our net zero carbon pathway in 2020, we have committed to annual progress updates. This year we will release our first pathway update.

In 2021, we have implemented an improved system for measuring and reporting against our environmental targets. The platform automates a vast majority of inputs and visualises the data in an efficient and transparent way. Historically, we have publicly reported on scope 1 and 2 emissions, and have collected and analysed our scope 3 data. This includes the emissions associated with third party procured goods and services, energy use by tenants, transmission and distribution of energy to Landlord areas, business travel, employee commuting, waste and embodied carbon of materials used in developments. This year we have sought to improve the accuracy and completeness of scope 3 data as well as developed a Sustainability Partner Charter to enhance the sharing of emissions data going forwards.

We have worked collaboratively with internal stakeholders to develop metrics for measuring existing targets and advancing net zero. We have leveraged existing data through the new platform to begin measuring important components of our pathway, such as operational carbon intensity and the proportion of renewable energy. We have also worked with external consultants to measure air quality and biodiversity impact, using their specialist knowledge to assist with this.

## NEXT STEPS

To accelerate the measurement of scope 3 emissions, we will begin to roll out our Sustainability Partner Charter with suppliers and new tenants in the new year. Some of our larger suppliers and tenants have already committed to science-based targets and will catalyse the sharing of emissions data.

This year we have experimented with new qualitative and quantitative ESG reporting, which will be integrated into investor reporting from January. Furthermore, building on existing sustainability processes, metrics around climate-related risks and opportunities will be further embedded in the decision-making process next year.