



Ken McCullagh  
Chair

UK Commercial Property REIT Limited (“the Company”) believes that comprehensive assessment of environmental, social and governance (ESG) factors leads to better outcomes for shareholders.

Global and local drivers including climate change impacts, the transition to a low-carbon economy, the need for circularity of materials and increasing urbanisation are affecting the built environment in many ways and will continue to do so in future. These trends present both risks and opportunities to owners of real estate assets that will become increasingly material to investment decision-making, both due to the tightening of legislation and changing occupier requirements.

In particular in the past 12 months we have seen increasing focus on how commercial real estate must respond to climate change – both in terms of mitigating physical risks and in supporting the transition to a low-carbon economy. We are pleased that the Investment Manager has committed to achieving net-zero emissions by 2050 as a signatory to the Better Building Partnership Climate Change Commitment and we look forward to moving towards this objective as a Company.

Full ESG disclosures for the Company are included within the Annual Report & Accounts, in line with EPRA best practice guidance. Information about the Company’s investment portfolio can also be found in the Annual Report & Accounts.

It is encouraging that energy consumption and emissions from the like-for-like portfolio continued to reduce in 2019. Whilst much progress has been made on these and other ESG themes, more work is required to fully understand risk and opportunities within the portfolio. We have therefore established ESG Commitments for the Company which are outlined in this brief report, alongside our approach to ESG.

We look forward to reporting our progress against these Commitments in future years.

Ken McCullagh  
Chair of UKCM  
June 2020

We are committed to achieving net-zero emissions in line with the Better Building Partnership Climate Change Commitment.



Ocado Distribution Unit  
Hatfield ▲

## ENVIRONMENTAL HIGHLIGHTS FOR 2019

**3%**

improvement in  
energy intensity

**9%**

improvement in  
emissions intensity

**6%**

improvement in  
water intensity

**100%**

diversion of  
waste from landfill

These figures relate to landlord-procured utilities for the like-for-like portfolio in 2019.

# THE COMPANY’S APPROACH TO ESG

The Company adopts the Investment Manager’s policy and approach to integrating ESG and this has been used as the basis for establishing the Company’s ESG Commitments.

The Investment Manager views the management of ESG issues as a fundamental part of its business. Whilst real estate investment provides valuable economic benefits and returns for investors it has – by its nature – the potential to affect environmental and social outcomes, both positively and negatively.

The Investment Manager’s approach is underpinned by the following three principles:

**Transparency, Integrity and Reporting:**

being transparent in the ways in which the Company’s strategy, approach and performance are communicated and discussed with its investors and stakeholders.

**Capability and Collaboration:**

drawing together and harnessing the capabilities of its ESG platform, with the insights and experiences of its property consultants and industry best practice.

**Investment Process and Asset Management:**

integrating ESG into decision making, governance, underwriting decisions and asset management approach. This includes the identification and management of material ESG risks and opportunities across the portfolio.

A key element of the Investment Manager’s approach is the employment of its ESG Impact Dial – a proprietary research framework – in support of investment strategies and asset management approach. Four major forces for change have been identified – Environment & Climate, Governance & Engagement, Demographics and Technology & Infrastructure – which together form the basis of the ESG Impact Dial. These guide the assessment of materiality and integration of ESG factors within the Company’s portfolio and provide the framework for the Company’s ESG objectives.

Information collected as part of the Impact Dial process has informed the scope and content of the Company’s ESG Commitments.

To read more, click [here](#)

## INVESTMENT STRATEGY AND PROCESS

### Investment Manager’s Global Real Estate Houseview



### Key Responsibilities and Governance

ESG Strategy Group monitor trends and materiality

The identification of ESG risks and opportunities is part of each phase of the Company's investment process.

Four Forces for Change inform the Global Real Estate Houseview of the Investment Manager, ensuring key ESG trends are considered in investment research alongside traditional variables.

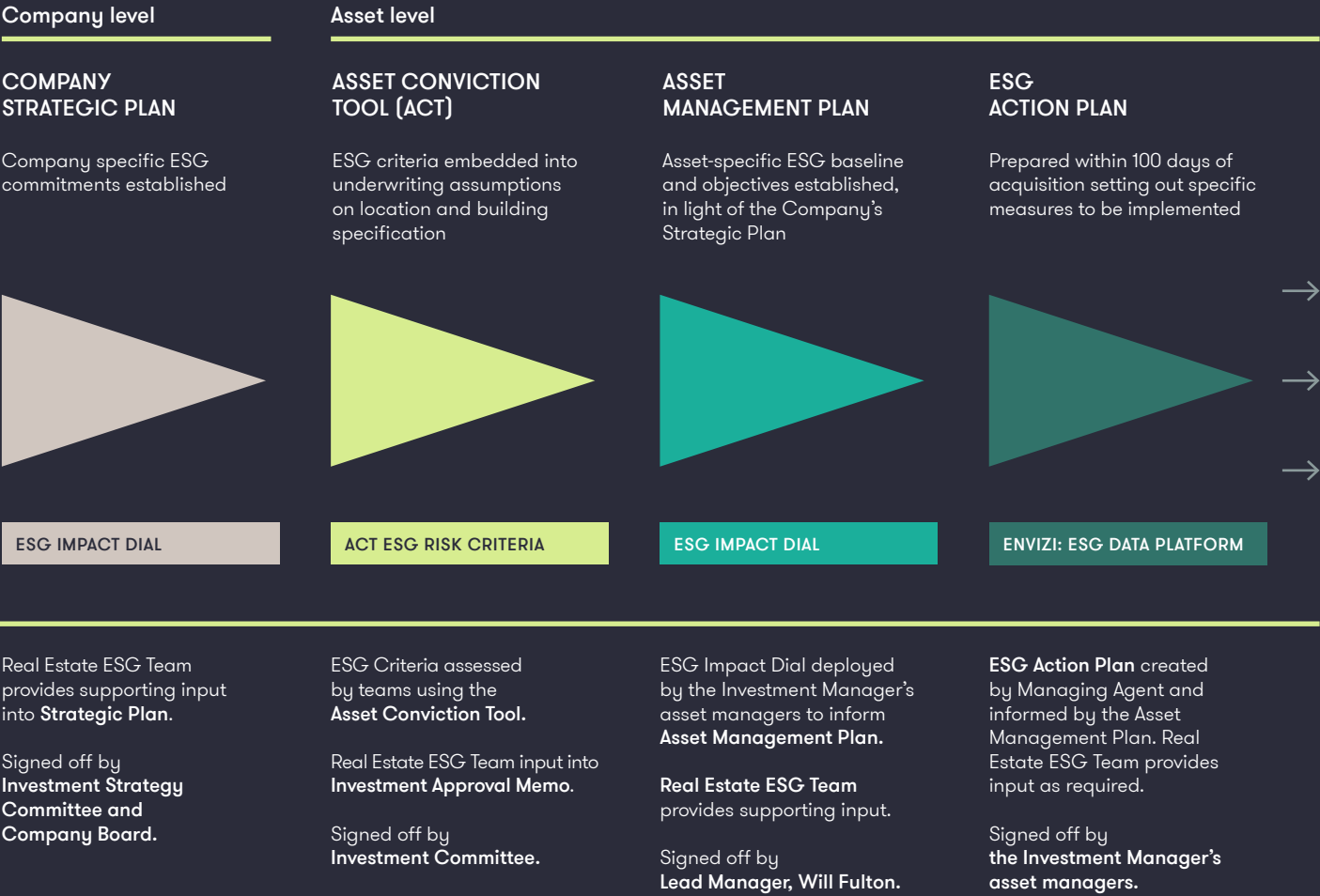
At the Company level, ESG objectives form part of the Strategic Plan which is subject to scrutiny and sign-off by the Investment Manager's Investment Strategy Committee (ISC) and by the Company's board. The Investment Manager's Head of ESG, Real Estate is a member of the ISC.

At the asset level, ESG factors including flood risk and energy performance are built in to the Investment Manager's Asset Conviction Tool which is used by the Company's Investment Manager to inform the pricing of risk.

Each asset's annual business plan captures ESG objectives for the coming year. They are reviewed and approved by the Investment Manager in order to ensure consistency with the Company's overarching strategy. This feeds into the ESG Action Plan for each asset which is established by the Company's Managing Agent with support from the Investment Manager's asset managers and directly-appointed. Engineering/ Sustainability and Waste Management Consultants. The ESG Action Plan is hosted on the Investment Manager's ESG data platform, Envizi.

For new development projects, major refurbishments and forward fundings, the Investment Manager's approach to Sustainable Development applies. Amongst other requirements, this sets a target of a minimum BREEAM Very Good rating for all new developments and major refurbishments.

The process is designed to enable the flow of information and feedback from the Company level to each individual asset and vice versa. It also ensures there are clear roles and responsibilities for identifying ESG risks and opportunities and implementing improvement measures. See diagram below.





## COMPANY ESG COMMITMENTS

The Company's ESG Commitments are structured in accordance with the three ESG principles outlined previously, Transparency, Integrity and Reporting; Capability and Collaboration; and Investment Process and Asset Management. Under the Investment Process and Asset Management section we have included specific commitments in relation to the ESG themes that are material to the Company. This is not an exhaustive list of initiatives the Company will take forward but reflects those that are considered to be most material at present.



Hannah Close  
Neasden, Wembley



ESG THEME	CURRENT STATUS	COMMITMENTS
<b>Transparency, Integrity and Reporting</b>		
<b>GRESB Assessment</b>	The Company has participated in the GRESB Assessment since 2015 and has improved its score from 56 to 76 over this period. In 2019, the Company was top of the UK Diversified Listed peer group and achieved a Three Star rating.	Submit to the annual GRESB assessment, aiming to achieve Four Star status by 2022 and to continue to out-perform the peer group average.  Retain score of A for the GRESB Public Disclosure Assessment.
<b>EPRA Reporting</b>	The Company has followed EPRA Best Practice Recommendations for sustainability reporting (sBPR) since 2017 and has received a Gold Award each year.	Disclose sustainability performance in accordance with EPRA sBPR on an annual basis.
<b>Capability and Collaboration</b>		
<b>Industry Engagement</b>	The Investment Manager is a member of various industry bodies and forums. This includes the GRESB Investor Advisory Group and the Better Building Partnership.	Through the Investment Manager, continue to engage with industry groups to gain insight into future trends and to use our voice to promote industry best practice on ESG.
<b>Supply Chain Best Practice</b>	The Company works with a large number of suppliers to deliver its services. This includes the Property Manager and technical consultants who advise on a range of ESG topics. We engage regularly with suppliers to ensure the Company's approach to ESG is being implemented.	Ensure that all suppliers have the necessary tools to effectively respond to the Company's ESG Commitments and to monitor and analyse performance. This includes training on our investment process and on our ESG data platform Envizi.  Ensure that performance against asset-level ESG objectives is part of all regular scheduled meetings with the Property Manager and Engineering/Sustainability Consultants.
<b>Investment Process and Asset Management</b>		
<b>Carbon Reduction and Energy Efficiency</b>	<p>The Company has a mature approach to monitoring and managing energy efficiency where there is landlord-procured energy. Our Property Manager works closely with our consultants to monitor performance and identify improvements. To date, assets with landlord energy consumption have worked to a 2% annual reduction target for energy intensity.</p> <p>In 2019, like-for-like landlord energy intensity reduced 3% and emissions intensity reduced by 9%.</p> <p>The Investment Manager has committed to achieving net-zero emissions from the portfolio by 2050 as part of the Better Building Partnership Climate Commitment.</p> <p>Landlord electricity is procured from 100% renewable sources.</p> <p>Several landlord solar PV schemes are in detailed stages of feasibility.</p> <p>We engage with tenants to request energy consumption data for their space but do not currently have a high level of data coverage.</p>	<p>Work with the Property Manager and Consultants to benchmark assets against appropriate energy use intensity targets consistent with a net-zero emissions pathway. Use the outputs of this work to set new, tailored asset-level targets and to inform business planning.</p> <p>Improve coverage of tenant energy consumption data, aiming to achieve at least 60% data coverage by floor area by 2021.</p> <p>Work with occupiers to implement landlord solar PV schemes where they are mutually beneficial.</p> <p>Maintain full coverage of Energy Performance Certificates (EPCs) and ensure a plan is in place for any sub-standard ratings.</p> <p>Consider implications of future minimum EPC legislation in asset business plans, linked to work on net-zero emissions pathways.</p>
<b>Resilience and Physical climate risk</b>	The Company undertakes detailed flood risk assessments prior to acquisition of assets and reviews this annually as part of its Strategic Plan.	Undertake scenario analysis for all assets in the portfolio to understand future physical climate risks under a range of climate scenarios. During 2020 a specialist consultant will be appointed by the Investment Manager to undertake this work.
<b>Land and Water Contamination</b>	The Company assesses environmental risks as part of the due diligence process. The portfolio does not include any assets at medium or high risk of contamination.	Maintain low contamination risk status of the portfolio.
<b>Biodiversity</b>	Several opportunities to enhance biodiversity have been assessed, including potential for bee-hives at office assets and biodiversity enhancements as part of development projects.	Work with the Property Manager to review and implement additional opportunities for biodiversity enhancements at assets with suitable external space.
<b>Water Efficiency</b>	<p>Landlord-procured water consumption is monitored and managed by our Property Manager and consultants.</p> <p>In 2019, like-for-like landlord consumption reduced by 6%.</p>	<p>Continue to reduce landlord water consumption.</p> <p>Improve coverage of tenant energy consumption data, aiming to achieve at least 60% data coverage by floor area by 2021.</p>
<b>Waste Management and Circularity</b>	<p>Where the Company is responsible for waste management the Property Manager works with a directly-appointed Waste Management consultant to ensure segregation and recycling facilities are in place. The Waste Management consultant undertakes regular waste audits and identifies improvement measures.</p> <p>In 2019, 100% of landlord-managed waste was diverted from landfill.</p>	<p>Maintain 100% diversion from landfill of landlord-managed waste.</p> <p>As part of new development and major refurbishment projects, maximise the re-use and recycled content of materials where possible.</p>
<b>Health, Safety and Wellbeing</b>	<p>The Company, through the Investment Manager, manages and controls health &amp; safety risks systematically as any other critical business activity using technologically advanced systems and environmentally protective materials and equipment.</p> <p>Each asset in the portfolio is subject to an annual health &amp; safety inspection. There were no incidents of non-compliance identified in 2019.</p>	<p>Continue managing health &amp; safety risks in line with the established approach to maintain track record of 100% compliance.</p> <p>Explore opportunities to work with occupiers to improve health, wellbeing and productivity outcomes. This will include a review of fit-out guides to ensure occupiers are equipped with best practice guidance on this topic.</p>

## RECENT EXAMPLES FROM THE PORTFOLIO

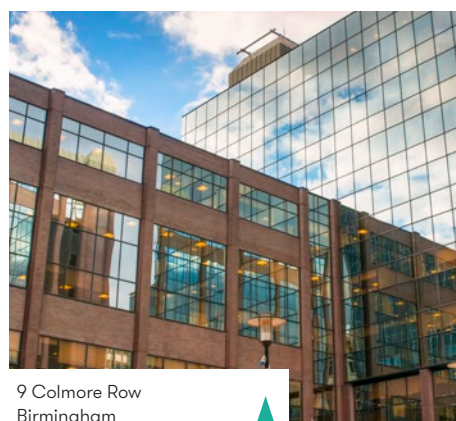
Measuring, monitoring and targeting ESG performance is built into our investment process and supplier agreements. Considering these factors helps us ensure the portfolio is of high quality and is well-placed to respond to changing occupier requirements and tightening legislation.

### Office asset management

The Investment Manager appoints an M&E/Sustainability Consultant who works alongside the Managing Agent at assets where there is landlord operational control. Their role includes monitoring and analysing energy consumption and identifying opportunities for improvement.



Eldon House  
City of London, EC2



9 Colmore Row  
Birmingham

The Investment Manager's data platform – Envizi – captures energy and emissions performance data from these assets and provides the facility for live monitoring and action planning. The Consultants, Property Manager and Investment Manager's portfolio management team all have access to the platform, which also provides the basis for meeting the Company's energy and emissions reporting obligations.

This approach has resulted in a number of recent improvements at office assets. At 9 Colmore Row, the replacement of

a large chiller and extensive lighting upgrades resulted in an 8% reduction in electricity consumption in 2019. Similar lighting upgrades and improvements to the operation of heating and ventilation equipment at Eldon House lead to a 5% improvement in 2019.

The Consultants have started an exercise to benchmark office assets against net-zero emissions targets. We look forward to reviewing the results of this during 2020.



## Creating high-quality, industrial assets

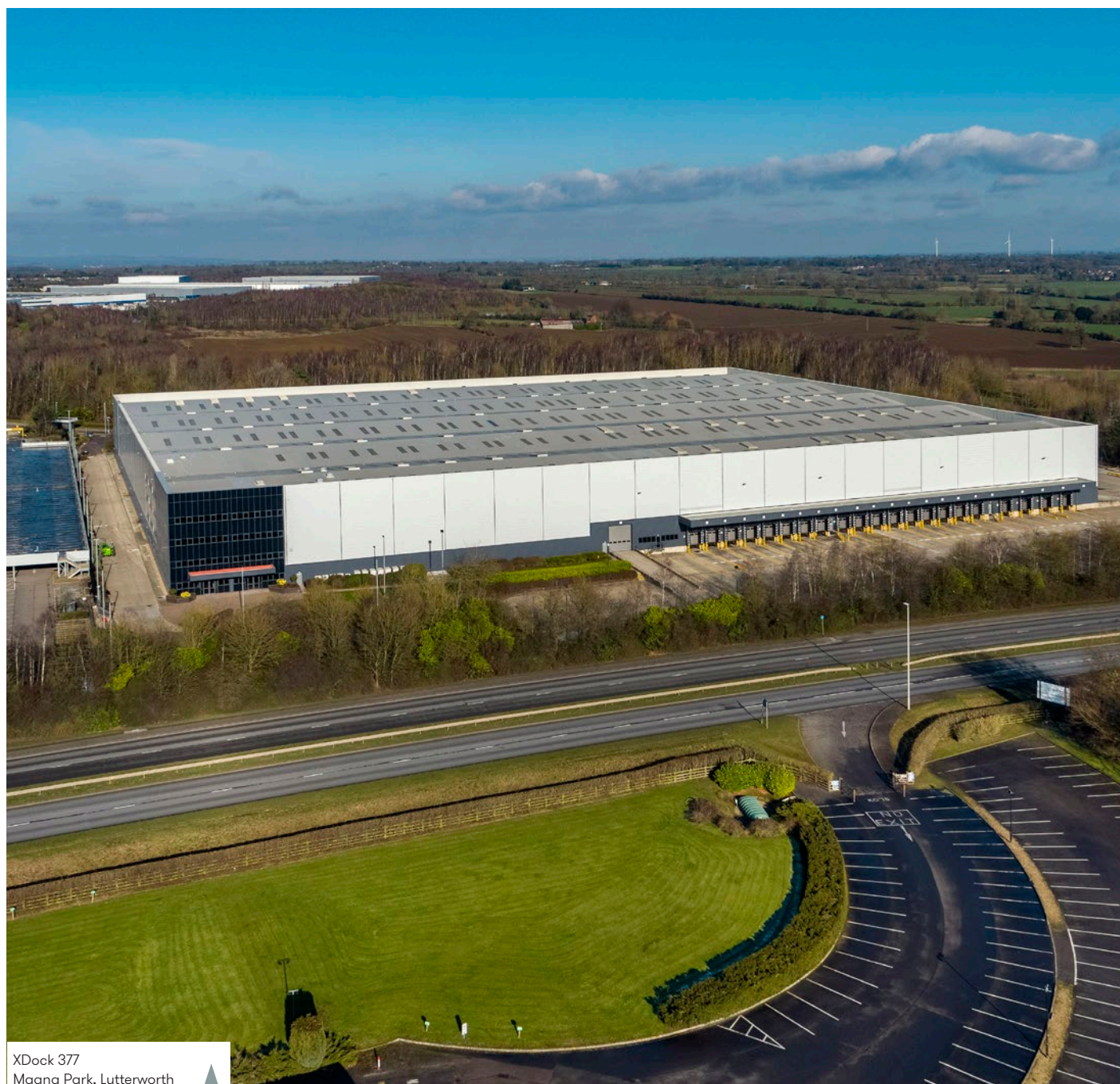
The Company has recently completed the refurbishment of industrial assets at Hannah Close, Neasden and Magna Park, Lutterworth. Both projects incorporated high levels of sustainability performance to deliver modern, industrial buildings.

Wembley 180 at Hannah Close was refurbished to a BREEAM Very Good standard, incorporating a solar PV array (with capacity to expand further in future),

high efficiency lighting and high levels of natural light. The Energy Performance Certificate (EPC) improved to a C rating as a result of the works. The projects also incorporated biodiversity improvement measures including an insect hotel.

The project at Xdock 377 at Magna Park, Lutterworth included a full refurbishment of the office space including full LED lighting and high-efficiency heating, ventilation and

cooling. The warehouse space incorporates a high level of natural light; reducing the need for artificial lighting. The EPC rating for the asset improved to a B as a result of the works, future-proofing the asset against expected tightening of energy performance regulations over the next decade.



XDock 377  
Magna Park, Lutterworth



	Current Status	Commitment
Health, Safety and Wellbeing	<p>The Company, through the Investment Manager and the Managing Agent, manages, monitors and controls health &amp; safety risks systematically, as it would any other critical business activity, using advanced technology and environmentally protective materials and equipment.</p> <p>Each asset in the portfolio is subject to an independent annual health &amp; safety inspection.</p>	<p>Continue managing health &amp; safety risks in line with the established approach.</p> <p>Explore opportunities to work with occupiers to improve health, wellbeing and productivity outcomes.</p>
Community Engagement	<p>Several projects to enhance community engagement have been completed including the social use of common parts at the Company's large format leisure holdings, notably at Kingston upon Thames and Swindon.</p> <p>These have included children's face painting, to raise funds for Great Ormond Street, Purple Tuesday highlighting visible and non-visible disabilities and Christmas collections of toys and warm clothing.</p>	<p>Explore opportunities to develop a strategic community engagement plan that includes further enhancement programmes for public spaces, community health and wellbeing, supporting charities and community groups and wider education about environmental sustainability.</p> <p>The Company will also develop an appropriate mechanism to monitor the impact and benefits of the programme.</p>
Value to Society	<p>The Company, through the Investment Manager, is developing a research methodology to enable the economic valuation of societal benefits to be calculated and reported.</p>	<p>Work with the Investment Manager to implement this methodology and annually report progress; within 24 months report on the value to society generated through the Company's activities.</p>



The Rotunda  
Kingston upon Thames



Regent Circus  
Swindon



The Company is committed to high standards of corporate governance which are set out more fully in the Corporate Governance section of the Company's Annual Report and Accounts.

### Introduction

The Board has considered the Principles and Provisions of the AIC Code of Corporate Governance (AIC Code) which address the Principles and Provisions set out in the UK Corporate Governance Code (the UK Code), as well as setting out additional Provisions on issues that are of specific relevance to the Company. The Board considers that reporting against the Principles and Provisions of the AIC Code, which has been endorsed by the Financial Reporting Council and the Guernsey Financial Services Commission, provides more relevant information to shareholders. The Company has complied with the Principles and Provisions of the AIC Code.

### The Board

The Board consists solely of non-executive Directors all of whom are considered by the Board to be independent, with any potential conflicts considered at each Board meeting with reference to the AIC Code.

The Board has appointed five committees to cover specific operations: Audit Committee, Management Engagement Committee, Nomination and Remuneration Committee, Property Valuation Committee and Risk Committee. The operation of each is described in more detail within the Annual Report & Accounts.

Of the six Directors, two are female and four male. The Nomination and Remuneration Committee considers appointments of new Directors, undertaking a thorough and open process involving, where appropriate, professional recruitment consultants and committee interviews with candidates whose skills have been identified as complementary to the existing Board. The Board and Committee are supportive of the recommendations of the Davies Report on Women on Boards and the Hampton Alexander Review and recognise the benefits of diversity in its broadest sense and the value this brings to the Company in terms of skills, knowledge and experience, with women now making up a third of the Company's Board composition.

A management agreement between the Company and its Investment Manager sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing, and corporate governance, are reserved for the approval of the Board of Directors. The Board currently meets at least quarterly and receives comprehensive information on the Company's investment performance, assets, liabilities and other relevant data in advance of Board meetings. In addition the Board has many ad hoc meetings and an annual strategy day.

### Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. The Board has therefore established an ongoing process designed to meet the particular needs of the Company in managing the risks to which it is exposed, consistent with the guidance in the Financial Reporting Council publication 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The process is based principally on the Investment Manager's existing risk-based approach to internal control whereby a risk matrix is created that identifies the key functions carried out by the Investment Manager and other service providers, the individual activities undertaken within those functions, the risks associated with each activity and the controls employed to minimise those risks.

### Performance evaluation

The Board regularly reviews the performance of the Investment Manager and other service providers to ensure they manage the Company in the long term interests of shareholders and other stakeholders effectively. In order to measure the success of the Company in meeting its stated objective and evaluate the performance of the Investment Manager, the Board reviews and monitors a range of performance indicators, including comparisons with appropriate industry indices and with a peer group of comparative companies.

### Relations with Shareholders

Shareholders are key stakeholders in the business and hence the Company places great importance on communication with its shareholders and welcomes their views. The Investment Manager and Broker of the Company meet existing and potential shareholders on a regular basis and the Board receives regular reports on the views of shareholders from these meetings. In addition the Chair, where possible, meets larger shareholders annually and other Directors are available to meet shareholders if required. The AGM of the Company and also the annual and interim results presentations provide a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Investment Manager of the Company.

