

# Sustainable Finance Disclosure Regulation

## Article 3: Managing Sustainability Material Risk



# Purpose of this document

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Responsible Investment matters form an integral part of our role as responsible and effective investment managers.

Savills Investment Management (Savills Investment Management) believes that awareness and consideration of responsible investment issues throughout its investment process are a key part of its primary responsibility towards investors, clients, employees, and other stakeholders, as well as those in the wider community.

Our corporate vision and purpose are consistent with our objective to encourage, promote and enforce good corporate governance and awareness of responsible investment issues across our business activities, wherever possible. This will help us reduce the risk of stranding assets, minimise voids and mitigate increasing energy costs and risks to liquidity.

The purpose of this document is to explain how we are identifying and managing sustainability risk to ensure we deliver responsible investment outcomes for our clients, employees and wider society.

Following the materiality assessment, Savills IM Group, as a financial market participant, taking due account of its size, the nature and scale of its activities and the types of financial products we make available, consider principal adverse impacts, whether material or likely to be material, of investment decisions on sustainability factors, has integrated its processes and procedures for considering the principal adverse impacts alongside the relevant financial risks and relevant sustainability risks.

## Identifying Material Sustainability Issues

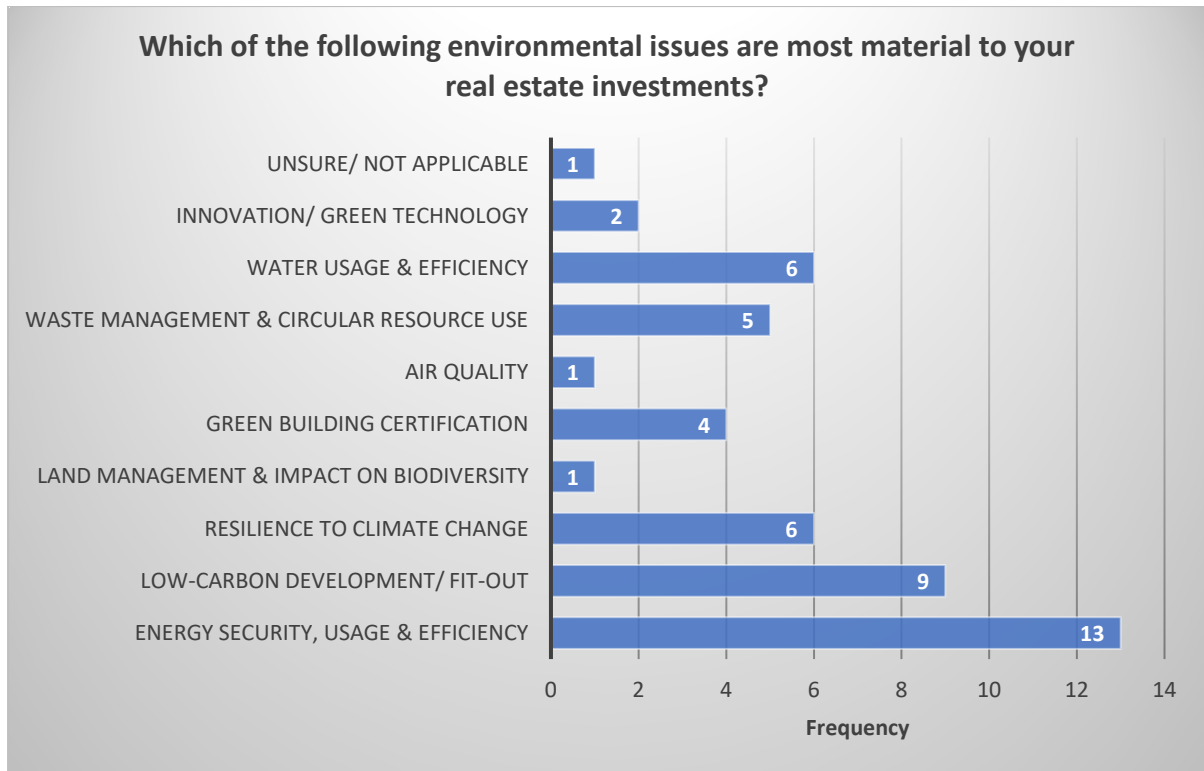
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To identify material sustainability risks, Savills IM undertook a double materiality assessment which involved the following:

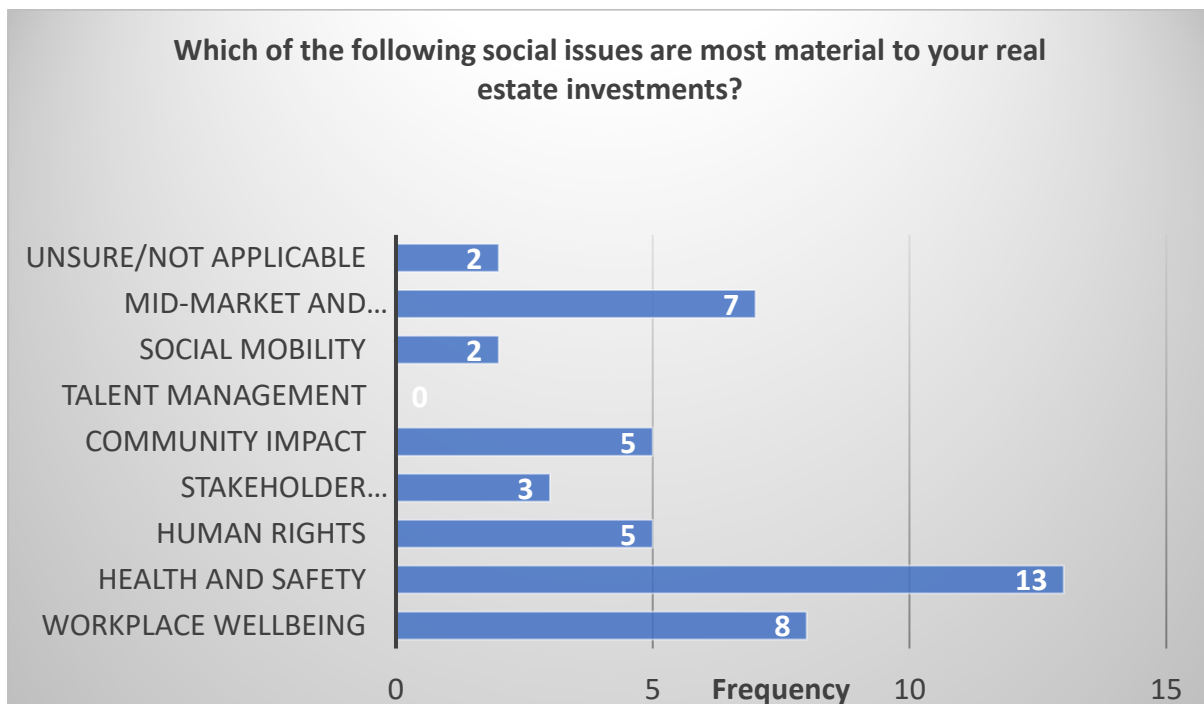
- TCFD scenario analysis using a wider of range of sources (including, IPCC scenarios, shared socioeconomic pathway scenarios, IEA scenarios and NGFs scenarios) identify material financial risk as a result of climate change. This included probabilistic modelling against RCP 2.6 and RCP 8.5.
- Undertaking a baseline carbon footprint of the global AuM portfolio to identify the scale of carbon emissions.
- Internal workshops with employees to identify material sustainability issues to them.
- A survey with global investors to identify material sustainability issues under their perspective.
- Analysis of the UN Sustainable Development Goals, targets, and indicators to identify which UN SDGs Savills IM could materially impact.

The first part of the materiality assessment is identifying material issues that society and the world could have on Savills IM – as an investment manager - which was determined by a survey to

investors and discussing material issues relevant to the whole real estate sector through industry working groups. As Savills IM Group has over 1,000 investors, the survey was only sent to investors who comprised the top 50 investors by value. The results are shown below. By far the most material topic was **ensuring energy security and efficiency of buildings and low carbon development**. **Using water efficiently and ensuring resilience to climate change were also high priority issues.**



Health and safety ranked as the number one social material issues for investors followed by workplace wellbeing and providing mid-market affordable housing. These material issues closely mirror the material issues that Savills IM have identified through internal stakeholder engagement.



The second part of the double materiality analysis involves identifying Savills IM's impact on the world and wider society through activities such as assessing global energy, water and waste footprint, where data was available, as well as undertaking a global TCFD<sup>1</sup> assessment which includes climate risk scenario analysis. The principal material issues that Savills IM identified were:

- energy efficiency – focusing on reducing energy consumption in buildings
- Increasing renewable energy principally through the installation of solar photovoltaics
- Facilitating job creation through management of buildings
- Working with occupiers and supply chain to eliminate modern slavery
- Integrating mitigating and climate adaptation strategies into the investment lifecycle
- Building sustainability knowledge of our employees and supply chain
- Increasing biodiversity through enhanced management of real assets

Responsible procurement to reduce impact on natural resources, e.g. water, forests etc. As part of our double materiality assessment process and through further engagement with investors, internal workstreams and analysing sustainability data where available, Savills IM has identified its most material sustainability factors from a financial perspective. This means these material issues if not addressed will likely reduce corporate profitability such as decrease in revenue from high carbon activities or buildings. It could further require increased CapEx investments to reduce the GHG emissions per unit, write-offs or impairments of the asset value, potential fines, litigations, or an impact on taxes and could lead to decreased investment returns for the AuM we manage. Financial costs also could increase given the low credit rating (non ESG loan) as well as interest rates.

These include:

- Failure to mitigate and adapt to climate change;
- unsustainable use of natural resources through real estate management and development activities;
- failure to train employees to understand how they can identify and manage sustainability related risks and opportunities in their day-to-day activities and responsibilities.
- failure to manage sustainability risks and opportunities as part of the real estate asset selection; and,
- failure to engage stakeholders in delivering on our purpose to manage resilient assets as well as supporting our longer-term restorative vision.

### **Alignment to the UN Sustainable Development Goals**

We are committed to ensuring that responsible investment material issues are assessed against each focus area when acquiring new assets and at each appropriate stage in the investment lifecycle. In doing this, we will ensure that equal focus is given to each of our three focus areas whilst indirectly seeking to contribute to the UN Sustainable Development Goals (SDGs). To enable Savills IM to deliver the highest positive impacts through our RI processes, whilst reducing negative impacts from our business operations to the highest extent possible, we have categorised our impact as contributing to the **six priority Sustainable Development Goals (SDG 7, 8, 11, 12, 13 and 15)** and **aligned with three others (SDG 3, 4 and 5)**, as described below. We recognise as an individual organisation, our impact is limited but as an industry there are substantial areas for the real estate sector to deliver sustained, long-term contributions and have considered our contributions in that context. Therefore, in

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<sup>1</sup> Task Force on Climate-Related Financial Disclosures

assessing our contribution to the SDG goals we have considered this from a double materiality perspective, i.e. what environmental and social factors are materially relevant to the AuM we manage and how our activities impact the environment and society. For the six priority UN SDGs, the material factors relevant to Savills IM through a double materiality lens are:

<b>SDG</b>	<b>SDG Targets</b>	<b>Impact</b>	<b>Contribution Rationale / SIM answer</b>
SDG 7: Affordable and Clean Energy	7.2: Increase global percentage of renewable energy  7.3: Double the improvement in energy efficiency	Real Estate lifecycle operations generate significant carbon footprint (production, transportation and use of materials and machinery) and absorb huge amount of energy, causing environmental damages and inefficiency. Relevance: high	Buildings have the capacity to substantially improve contribution to renewable energy provision through the installation of onsite renewables. Decarbonising buildings by improving the energy efficiency can significantly contribute to this target and maintain asset value.
SDG 8: Decent Work and Economic Growth	8.3: Promote policies to support job creation and growing enterprises  8.5: Full employment and decent work with equal pay  8.7: End modern slavery, trafficking, and child labour	Real estate directly and indirectly facilitates job creation and employment through the various building asset classes, such as logistics, retail and commercial. Innovative buildings may facilitate new business ideas and economic growth. No barriers buildings can help inclusion of disables. Relevance: high	In addition, Savills IM has a direct and indirect contribution to enabling decent worksites (respectful of applicable regulation and equipped with all best solutions of access / wellbeing) and equal pay (complying with best practices).  As a facilitator of employment opportunities real estate has a direct and indirect contribution to eradicating trafficking and child labour through assessment of building occupier activities and our own supply chain.
SDG 11: Sustainable Cities and Communities	11.1: Safe and affordable housing	Lack of new housing offer targeting only top range units for riches generate price rise and loss of purchase power by the people/community. Relevance: medium	Real estate has an opportunity to provide safe, affordable housing and increasing exposure to the Living sector (both in selling and built to rent assets) is a key pillar of Savills IM's business strategy.
SDG 12: Responsible Consumption and Production	12.2: Sustainable management and use of natural resources	Real estate uses c.40% of the world's natural resources through built environment activities and need to find ways to lessen this impact. Concurrently the availability of natural capital such as water,	Savills IM has produced sustainable development requirements which we are in the process of implementing. This includes requirements on integrating processes to reduce carbon emissions in the construction process, using water efficient products, increasing biodiversity and green space and

SDG	SDG Targets	Impact	Contribution Rationale / SIM answer
		timber, air quality directly impacts the ability to operate buildings, undertake retrofit and development projects. Relevance: high	ensuring high standards of air quality. Our ability to implement these requirements is dependent on whether we have discretionary control, but in all instances we seek to collaborate with key stakeholders we work with, whether that be contractors or investors.
SDG 13: Climate Action	13.1: Strengthen resilience and adaptive capacity to climate-related disasters  13.2: Integrate climate change measures in national policies and strategies  13.3: Build knowledge and capacity to meet climate change	Extreme climate events are increasingly impacting properties, generate damages to the buildings and to the people living/working in those assets. Relevance: high  Without suitable regulation it's not possible to build resilient assets and mitigate the negative effect of climate change. Relevance: medium  Without understanding of climate change causes and effects knowledge there is no possibility to take appropriate and prompt action to mitigate the effects. Relevance: medium	Climate action is a key focus area for Savills IM's Responsible Investment approach as real estate is responsible for circa 40% of global carbon emissions and carbon emissions were identified as the most material factor in the environmental footprint for the AuM we manage.  Integrating climate change measures into the AuM we manage is a material issue as decarbonising assets and reducing carbon emissions is a business priority for Savills IM to protect the value of investments.  Building sustainability knowledge through learning and development of its staff base is a key implementation priority for Savills IM and is essential for improving how investment value are assessed over the longer term. Equally, finding the better competences on the market is a key target of our procurement strategy.
SDG 15: Life on Land	15.5: Take urgent and significant action to reduce the degradation of natural habitats.	Contamination and pollution generated by real estate industry have a massive negative impact to nature and human being life quality. Relevance: high	Savills IM has identified nature as one of our key focus areas, as nature-based solutions such as green walls, green roofs, sustainable urban drainage can improve resilience of buildings. Furthermore as c.40% of natural resources are consumed by the built environment, we have an active stewardship role to ensure Savills IM is contributing to reducing the degradation of natural habitats and helping to restore ecosystems and biodiversity where possible.

For the UN SDGs with which we are aligning we do not seek to contribute to a specific target but instead focus on the wider aims of the goal and how this is considered through our RI processes.

SDG	Goal	Impact	Alignment rationale
SDG 3: Good Health and Wellbeing	Ensure healthy lives and promote well-being for all at all ages.	Unsafe building may generate sicknesses and unhealthy working spaces, with negative impact on productivity. Relevance: medium	People spend more than 90% of their time in buildings, therefore enabling healthy lives and promoting wellbeing for all ages is an area Savills IM can impact through our RI processes.
SDG 4: Quality Education	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all	With poor education there is no prosperity and opportunities. Where people do not have access to decent education, they may be subject to exploitation and inequality. Relevance: medium	The real estate investment management sector has a skills gap between the skills needed to deliver sustainable buildings and fully embed how sustainability opportunities are integrated into the investment lifecycle and the current workforce. As a responsible investment manager, we can seek to contribute by mentoring young people and upskilling our employees and supply chain.
SDG 5: Gender Equality	Achieve gender equality and empower all women and girls	By denying women equal rights, we deny half the population a chance to live life at its fullest. Political, economic and social equality for women will benefit all the world's citizens. Relevance: medium	Enabling diversity and inclusion in the workplace has been proven to lead to better business decisions. Savills IM has a strategic focus on diversity and inclusion, including initiatives to support and further gender equality within its own operations and on the supply chain.



Further information about how we manage sustainability risks and opportunities is set out in the Responsible Investment Policy published on our website.

# Managing Material Sustainability Issues

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Savills IM has set five implementation areas to enable enhanced management of material issues at corporate, asset, and fund level. These implementation areas are intended to enable Savills IM to build prosperity by investing into resilient real estate and position Savills IM employees to develop the skills, knowledge, and processes to work towards restorative outcomes: These are:

## **Investment and operational processes**

- *This includes our approach to identifying and managing material sustainability issues for the real estate assets we manage on behalf of investors, for example, through guidance provided to Investment Teams. We look to assess investment opportunities based on a long-term horizon, assessing costs and benefits through the lens of delivering environmental and social value as well as financial value. For example, encouraging positive stock selection of assets that are all electric or can be retrofitted to become climate resilient, or facilitating community benefits such as, housing, employment and local services which helps enable people, communities and ecosystems to thrive. Where third party leverage is used sourcing of finance which incentivises sustainable outcomes is preferred.*

## **Product ESG programme**

- *This includes our approach to setting fund and asset level objectives and targets to address the material factors identified as well as promoting relevant sustainability opportunities, e.g., generating energy from onsite renewables or engaging with our occupiers for reduction in energy consumption and/or improvement of facilities/units. These actions are intended to ensure we are enabling resilient real estate and searching for opportunities to work towards restorative outcomes whilst also targeting long term financial returns.*

## **New Business**

*This refers to how material sustainability issues are considered in the creation of new funds and mandates and in capital raising, for example how we are developing products that help us work towards becoming respected for our expertise in restorative real estate, including natural capital and affordable housing offerings as well as incorporating sustainability into our more widely focussed products.*

## **Knowledge and Capacity Building**

- *We value high quality research and analysis and use science-based evidence to set our goals and targets, wherever possible. This includes a programme of learning and development on material sustainability issues as well as encouraging self-learning through access to a ringfenced global ESG learning and development budget. It also includes how we work with other stakeholders to build their knowledge and capacity to deliver positive sustainability outcomes. Through these initiatives we will strive to become an industry influencer and thought leader in real estate industry. Over time these actions will contribute to Savills IM becoming respected for its expertise in restorative real estate.*

## **Corporate Disclosure**

- *This includes our approach to sharing our story regarding our journey to become a real estate investment manager which enables people, communities and ecosystems to thrive. We are also committed to disclosing our progress honestly and transparently, sharing our challenges and successes, as well as meeting all applicable and adopted ESG Disclosure regulation requirements.*



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