

## CLIMATE-RELATED DISCLOSURES

2020 has been a challenging year globally, and provided an insight to the scale of effort that will be required to respond to climate change.

PFI recognises that we need to proactively manage the risks and opportunities that arise from climate change, just like we manage all other risks and opportunities facing our business.

This report provides information about the actions that we are taking to identify and manage climate change risks and opportunities. The following disclosures have been prepared in accordance with the recommendations of the Task force on Climate-related Financial Disclosures (TCFD) which provides a framework for climate-related financial disclosures across four core elements: governance, strategy, risk management and metrics and targets.

This is PFI's first report in line with the TCFD recommended disclosures. We are pleased with the progress that we have made during 2020 to strengthen our understanding of, and response to, our climate-related risks and opportunities. However, we acknowledge that we have further work to do, in particular:

- understanding the resilience of individual assets in PFI's portfolio to climate change in different climate change transition pathways; and
- introducing additional metrics and targets to provide a more complete measure of our performance.

We are also cognisant that we are still in the early stages of understanding how these risks will develop over time. We intend to evolve and expand on our TCFD disclosures as our depth of understanding and management of these risks matures.

We are committed to continue progressing our response to climate change during 2021 and beyond, and to report our progress to our stakeholders each year.

## GOVERNANCE

### **Describe the Board's oversight of climate-related risks and opportunities.**

PFI's Board has responsibility for our strategic direction along with oversight of our operations and risk management. PFI's Board receives quarterly reporting on sustainability and risk management, which includes PFI's response to climate change risks and opportunities. During 2021, we intend to strengthen this reporting with the use of metrics and targets.

The PFI Board's Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk management. Management's first assessment of PFI's climate-related risks and opportunities in line with TCFD guidance was presented to the Board's Audit and Risk Committee in a dedicated session during August 2020 (attended by all directors). We plan to update this assessment and present it to the Board's Audit and Risk Committee at least annually.

### **Describe management's role in assessing and managing climate-related risks and opportunities.**

Under PFI's Risk Management Framework, the Chief Executive Officer and Chief Finance and Operating Officer are responsible for management of climate risk, along with all other risks. PFI has a dedicated Sustainability, Risk & Compliance Manager who leads the assessment of climate-related risks and opportunities, and coordinates our response as part of PFI's wider ESG programme.

A monthly ESG management meeting has been established that monitors sustainability market trends and regulatory change and makes decisions on our responses to climate-related risks. This is attended by the Chief Executive Officer and Chief Finance and Operating Officer. During 2020, the Chief Executive Officer and Chief Finance and Operating Officer oversaw PFI's first risk assessment in line with the TCFD recommendations through this forum.

## STRATEGY

### Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

A climate-related risk and opportunity assessment exercise was undertaken during 2020 with reference to PFI's Risk Management Framework and the time horizons below:

| HORIZON     | PERIOD                | DESCRIPTION   |
|-------------|-----------------------|---|
| Short term  | 1-5 years             | Within our weighted average lease term                                  |
| Medium term | 6-20 years            | The period within which most buildings will require major capital works |
| Long term   | Greater than 20 years | The life of a building  |

This produced a list of 18 possible risks and opportunities across all of the TCFD categories. Most of the risks are expected to materialise in the medium to long term. However, as our real estate assets are typically long term investments we are taking steps now to ensure that our organisation is resilient to these future challenges.

A summary of the top five risks is provided below, along with a summary of how PFI is responding to them, and the related opportunities:

| RISKS   | EXPECTED TIME HORIZON   | RISK RESPONSE   | RELATED OPPORTUNITIES  |
|---|---|---|--|
| <p><b>Transition - Policy (regulatory) risk:</b><br/>The introduction of new regulations, for example on building materials and design, disclosure and governance, land use, and electricity or water use could lead to increased compliance risk, and a potential reduction in profitability.</p>  | <p>This is a risk in the short term for PFI and is expected to remain a risk into the medium term.</p>          | <p>PFI is closely monitoring climate-related regulatory change, and is working with industry bodies to provide feedback on proposed regulations where appropriate. We are also working to ensure that we are ready to respond to incoming legislative changes when they arise. Our Board receives quarterly reporting on how we are responding to upcoming regulatory change.</p> | <p>There may be an opportunity for us to work with tenants and create value, for example on renewable energy or water efficiency initiatives.</p>  |
| <p><b>Transition - Market (property) risk:</b><br/>With increasing scrutiny of organisations' impact on the climate, we may experience increased tenant or purchaser demand for sustainable buildings. In the long term, this could result in difficulty re-letting buildings, devaluation of properties, or increased expenditure to bring properties up to higher sustainability standards.</p> | <p>This is a medium to long term risk for PFI, but we are taking steps in the short term to prepare for it.</p> | <p>Green buildings have not traditionally been a focus for industrial properties. However, as outlined in the Sustainability section (pages 20-29), PFI incorporates sustainable design features in new developments, and has joined the New Zealand Green Building Council during 2020 to build on our sustainable building capability.</p>                                      | <p>While this is a longer term risk, shifting tenant demand may present us with near term opportunities to:</p> <ul style="list-style-type: none"> <li>■ work with our tenants to help them meet their climate or environmental commitments; or</li> <li>■ create value by developing green-certified buildings.</li> </ul> <p>We will be further investigating these opportunities during 2021.</p> |

| RISKS  | EXPECTED TIME HORIZON   | RISK RESPONSE  | RELATED OPPORTUNITIES   |
|--|---|--|---|
| <p><b>Transition - Market (capital availability) risk:</b><br/>We could experience difficulty in obtaining capital from:</p> <ul style="list-style-type: none"> <li>■ Shareholders due to increasing preference to invest in demonstrably sustainable companies; or</li> <li>■ Funders due to increased scrutiny over climate risks and their management.</li> </ul> | <p>This is expected to materialise in the short term and remain a risk through all time horizons.</p> | <p>PFI sees execution of its ESG programme as being critical to managing this risk. PFI has used the climate-related risk assessment exercise to ensure that its ESG programme is set up to address our material risks and opportunities. This includes:</p> <ul style="list-style-type: none"> <li>■ reducing our greenhouse gas emissions;</li> <li>■ improving the sustainable design of our buildings; and</li> <li>■ investigating the resilience of individual assets in our portfolio to climate-related events.</li> </ul> <p>Transparency will also be important, so our progress will be disclosed through PFI's annual report, and through CDP (Carbon Disclosure Project).</p>   | <p>Strong ESG performance could present an opportunity for PFI to increase our capital availability (for example, through green financing) and promote our reputation.</p>  |
| <p><b>Physical – Acute (damage) risk:</b><br/>We may experience damage or loss of access to PFI properties from climate-related events, such as storms or flooding.</p>  | <p>These risks are expected to become heightened in the medium and long term.</p>                     | <p>We will be undertaking an exercise during 2021 to investigate which of PFI's properties may be most vulnerable to physical impacts from climate change. This will help us to develop a resilience strategy. Due to the time that it will take to prepare resilience plans for these physical climate risks, we will need to start planning and taking action in the short term, although our response may stretch beyond the first five years.</p> <p>During 2020, PFI started completing climate risk assessments as part of our due diligence checks for new property purchases. We will continue to expand on this during 2021.</p> <p>To ensure that we are well-placed to respond to a major climate event, we will continue to retain a strong balance sheet.</p> <p>We will also closely manage our insurance programme which provides cover in the event of damage from weather events.</p> | <p>A robust resilience strategy is not only a risk mitigation approach, but may deliver longer-term efficiencies by enabling us to appropriately plan and deliver changes at the most effective times.</p> <p>We also have an opportunity to embed resilience to climate impacts (rain, wind, heat) into the design of new buildings.</p> |

| RISKS  | EXPECTED TIME HORIZON                          | RISK RESPONSE  | RELATED OPPORTUNITIES |
|--|--|--|-----------------------|
| <b>Physical – Acute (insurance) risk:</b><br>Due to increasing climate-related claims, insurance for climate events may become more difficult to obtain or increasingly expensive. | This is considered a medium to long term risk. | As PFI relies on insurance to remediate damage to its properties, changes in insurer preferences will be carefully monitored. PFI reviews its insurance strategy annually, and is working to increase its sophistication in insurance management to ensure that we are best placed to address this risk should it arise. | –                     |

### **Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.**

Recognising the challenges and opportunities presented by sustainability and climate change, PFI created a new Sustainability, Risk & Compliance Manager role in 2020. In a team of only 14 people, this new position plays an important role in ensuring that sustainability and risk management are embodied in the strategic direction of our business.

During 2020, we have worked to ensure that our ESG programme is set up to address our most critical climate risks. Going forward, our ESG programme will include completing a climate change resilience assessment of individual assets in our portfolio, which will inform a resilience strategy. This may in turn impact capital expenditure and portfolio decisions made in future years. In addition, in order to reduce our greenhouse gas emissions, PFI has already committed \$2m to reducing the emissions from its refrigerants over the next three years.

### **Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.**

Through our initial qualitative assessment, we have determined that PFI's high level strategy of investing in quality industrial property remains robust in either a warming scenario of lower than 2°C, or a more extreme warming scenario. PFI has a diversified portfolio, with a good spread of geographical locations and tenants in various industries. This reduces the impact of a single event, and the concentration risk from exposure to a particularly impacted industry. We also already maintain a strong balance sheet which, as demonstrated through the COVID-19 pandemic, helps us to remain resilient in difficult times. However, it is critical that we remain responsive to climate risks as they evolve (how we will do this is outlined in the Risk Management section below).

We also need to gain a more in-depth understanding of the potential physical impacts of climate change to individual assets in our portfolio in different climate-related scenarios, which will commence in 2021. While we don't expect our high level strategy to change, the findings of this exercise this could, for example, lead to a shift in our appetite for concentration in certain locations, divestment of selected properties or capital expenditure to improve building resilience.

## **RISK MANAGEMENT**

### **Describe the organisation's processes for identifying and assessing climate-related risks.**

Identification and assessment of climate-related risks has been led by PFI's Sustainability, Risk & Compliance Manager, with contribution from senior management. Key risks were assessed and prioritised against a risk matrix of consequence and likelihood in line with PFI's Risk Management Framework.

In line with TCFD guidance, PFI considered both the risks associated with the transition to a lower carbon economy (such as changes in regulation) and the risks associated with the physical impacts of climate change (such as damage to buildings). For the 2020 risk assessment, the physical risk to the portfolio as a whole has been assessed (rather than asset-level assessments), however we plan to refine this during 2021.

### **Describe the organisation's processes for managing climate-related risks.**

As described in the Governance section, a monthly ESG management meeting attended by the Chief Executive Officer and Chief Finance and Operating Officer has been established. This structure gives us flexibility to review and adapt our response to climate-related risks over time as there are new developments and the climate change trajectory becomes clearer.

PFI's most material risks have been identified based on the likely consequences of those risks materialising, and are set out in the Strategy section above. Actions being taken to respond to the most material climate-related risks include:

- completing a study of properties that are most vulnerable to climate impacts;
- increasing our capabilities in sustainable building design;
- disclosure to stakeholders on our ESG progress;
- annual reviews of our insurance strategy; and
- maintaining a strong balance sheet.

Many of these activities form part of PFI's ESG framework, which is overseen by the monthly ESG meetings. Quarterly reporting on sustainability and risk management is provided to the Board.

### **Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.**

Due to its complexity, PFI completed a standalone climate risk assessment during 2020, adopting methodology from our Risk Management Framework. The findings were incorporated into PFI's risk register to provide a single view of risk for PFI. In most cases, climate risks are an extension of our existing risks (for example, physical damage to buildings), but we are updating our controls for those risks (such as acquisition due diligence and our insurance programme monitoring) to account for climate impacts. Assessment and management of climate risk is managed in the same way as our other risks, with oversight by senior management and the Board.

## **METRICS AND TARGETS**

### **Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.**

PFI assesses its impact on the climate by measuring its Scope 1, 2 and 3 greenhouse gas emissions. PFI has expanded the range of Scope 3 emissions categories assessed during 2020.

We also use our CDP (Carbon Disclosure Project) score to understand how our climate performance compares to other corporations globally. PFI submitted to CDP for the first time during 2020 and achieved a score of C which is in the Awareness band. This is in line with the Oceania regional average of C.

During 2021, further metrics will be developed in order to monitor our progress on strategic climate-related initiatives such as replacing our refrigerant gases and assessing the climate resilience of our portfolio.

### **Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.**

Please refer to pages 23-25 of our Sustainability report for details of PFI's 2020 GHG emissions. We recognise the importance of reducing our emissions and have committed \$2m to emissions reduction initiatives over the next three years. While PFI has a relatively small carbon footprint, we are conscious that there are reputational and market risks associated with our GHG emissions if we do not take meaningful steps to decrease them.

### **Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.**

PFI is targeting an improvement in our CDP score from C to B by 2023. We are also targeting replacement of all HVAC systems currently in our portfolio and within our operational control that use R22 refrigerant gas by 2023.