# CLIMATE-RELATED DISCLOSURES

## (TCFD REPORT)

**PFI recognises that we need to proactively manage the risks and opportunities that arise from climate change, just as we manage all other risks and opportunities facing our business. We are pleased with the progress that we have made during 2021 to further strengthen our understanding of, and response to, our climate-related risks and opportunities. In particular, PFI has undertaken an exercise to understand the resilience of individual assets in PFI's portfolio to climate change in different climate change transition pathways. We were pleased to find that PFI's portfolio overall has a low to moderate physical risk exposure. We have also taken steps during the year to strengthen how we integrate climate considerations into our due diligence processes for the acquisition of new properties.**

This report provides information about the actions that we are taking to identify and manage climate-related 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 second report in line with the TCFD recommended disclosures. We note that PFI will be required to provide mandatory disclosures in line with the TCFD recommendations from 2023. These voluntary disclosures position us well to comply with that mandate once it is in place.

Climate change is an evolving crisis with high levels of uncertainty. This report sets out PFI's current understanding of, and response to, climate-related issues. However, we acknowledge that this will evolve over time. We are committed to continue progressing our response to climate change over time 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 from Management on sustainability and risk management, which includes PFI's response to climate-related risks and opportunities. This reporting includes progress against agreed climate-related initiatives within PFI's ESG programme (which are set with oversight from the Board). The Board also receives information on climate-related issues from Management as part of PFI's due diligence process for new acquisitions.

The PFI Board's Audit and Risk Committee assists the Board in discharging its responsibilities with respect to risk management. Management's assessment of PFI's climate-related risks and opportunities are presented to the Board's Audit and Risk Committee 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. These roles are also responsible for the execution of PFI's strategy, including any climate-related opportunities. PFI has a dedicated Head of Sustainability and Operations 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 was established in 2020 that monitors sustainability market trends and regulatory change and makes decisions on PFI's responses to climate-related issues. This meeting is attended by the Chief Executive Officer and Chief Finance and Operating Officer. During 2020 and 2021, the Chief Executive Officer and Chief Finance and Operating Officer oversaw PFI's climate-related risk and opportunity assessments through this forum.

## STRATEGY

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

PFI's climate-related risk and opportunity assessments are undertaken 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 |

PFI has identified 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 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 that PFI has identified 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 |
|---|---|---|---|
| **Transition – Policy (regulatory) risk:**<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. | ■ Short term<br>■ Medium term<br>☐ Long term | PFI is closely monitoring climate-related regulatory change and is working with industry bodies to provide feedback on proposed regulations where appropriate.<br>We are also working to ensure that we are ready to respond to incoming legislative changes when they arise.<br>Our Board receives quarterly reporting on how we are responding to upcoming regulatory change. | During 2021, PFI has begun to explore opportunities to create value by working with tenants on renewable energy and water efficiency initiatives. |

| RISKS | EXPECTED TIME HORIZON | RISK RESPONSE | RELATED OPPORTUNITIES |
|---|---|---|---|
| **Transition – Market (property) risk:**<br><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. | ☐ Short term<br>■ Medium term<br>■ Long term | Green buildings have not traditionally been a focus for industrial properties. However, as outlined on pages 29–30, PFI has:<br><br>▪ joined the New Zealand Green Building Council to build on our sustainable building capability;<br>▪ registered our next major development at 30-32 Bowden Road for Green Star certification; and<br>▪ created a sustainable refurbishment framework. | While this is a longer-term risk, shifting tenant demand has presented us with near-term opportunities to:<br><br>▪ work with our tenants to help them meet their climate or environmental commitments; and<br>▪ create value by developing Green Star certified buildings.<br><br>We will continue to progress these initiatives during 2022. |
| **Transition - Reputation and Market (capital) risk:**<br><br>Failure to meet stakeholder expectations regarding ESG performance could in turn lead to difficulty in obtaining capital from:<br><br>▪ shareholders due to increasing preference to invest in demonstrably sustainable companies; or<br>▪ funders due to increased scrutiny over climate risks and their management. | ■ Short term<br>■ Medium term<br>■ Long term | PFI sees successful execution of its ESG programme as being critical to managing this risk. PFI's climate-related risk and opportunity assessments have been considered in the design of PFI's ESG programme. This includes:<br><br>▪ reducing our greenhouse gas emissions;<br>▪ improving the sustainable design of our buildings; and<br>▪ investigating the resilience of individual assets in our portfolio to physical risk, which was completed during 2021.<br><br>Transparency is also important, so our progress will continue to be disclosed through PFI's annual report, and through CDP. | Strong ESG performance could present an opportunity for PFI to increase our capital availability (for example, through green financing) and promote our reputation. |

| RISKS | EXPECTED TIME HORIZON | RISK RESPONSE | RELATED OPPORTUNITIES |
|---|---|---|---|
| **Physical – Acute (damage) risk:**<br>We may experience damage or loss of access to PFI properties from climate-related events, such as storms or flooding. | ☐ Short term<br>■ Medium term<br>■ Long term | In response to this risk, PFI has completed an exercise with the assistance of S&P Global to investigate which of PFI's properties may be most vulnerable to physical impacts from climate change. This has helped us to better understand what actions we can take to mitigate these risks through our asset and portfolio planning activities. We plan to repeat this exercise periodically as climate science and the global response evolve.<br>PFI completes physical climate risk assessments as part of our due diligence checks for all new property purchases.<br>To ensure that we are well placed to respond to a major climate event, we continue to retain a strong balance sheet.<br>We also closely manage our insurance programme which provides cover in the event of damage from weather events. | The work that we have done to understand and plan for the physical impacts of climate change is not only a risk mitigation approach. It gives us the opportunity to deliver longer-term efficiencies by enabling us to appropriately plan and deliver changes at the most effective times.<br>We also have an opportunity to embed resilience to climate impacts (rain, wind, heat) into the design of new buildings. |
| **Physical – Acute (insurance) risk:**<br>Due to increasing climate-related claims, insurance for climate events may become more difficult to obtain or increasingly expensive. | ☐ Short term<br>■ Medium term<br>■ Long term | As PFI relies on insurance to remediate damage to its properties, changes in insurer preferences will be carefully monitored.<br>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. | Due to PFI's size, PFI is in a position to be able to put in place tailored insurance structures. |

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

Our understanding of PFI's climate-related issues has influenced the following aspects of our business, strategy and financial planning:

- PFI has undertaken additional analysis of climate-related exposures for individual assets within our portfolio. This has in turn fed into our asset planning and portfolio management decisions.
- PFI has enhanced its due diligence processes to consider climate change-related risks. This includes the physical risks that a property may be exposed to. Depending on the materiality and nature of the tenant, we may also seek to understand the impact of climate change on its business.
- PFI has committed circa $2 million to reducing the greenhouse gas emissions from PFI's refrigerants between 2021 and 2023.
- PFI has sought to address its indirect emissions from its property maintenance and construction activities by investigating options for Green Star developments and sustainable refurbishments.

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

PFI has undertaken both qualitative and quantitative assessments of the impact of different climate-related scenarios on PFI's strategy, including a 2°C or lower scenario. The analysis has considered three Representative Concentration Pathways (RCPs): RCP 2.6 (low climate change scenario), RCP 4.5 (moderate scenario) and RCP 8.5 (high scenario).

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 have also engaged S&P Global to help us review the vulnerability of PFI's properties to a range of climate-related hazards across different time horizons and climate-related scenarios. S&P Global determined that PFI's portfolio has a low to moderate risk overall. Four properties were assessed as having a heightened exposure to a particular climate-related hazard. This knowledge puts PFI in a good position to consider these hazards as part of asset management decisions such as future capital expenditure.

Critically, climate-related physical risks are one of a number of strategic factors that PFI considers when considering acquisitions and divestments. The exercise that PFI undertook during 2021 to understand the resilience of individual assets in our portfolio to climate change has given us a greater understanding of the types of climate hazards that are most relevant for PFI, and how these risks can be managed.

We maintain a strong balance sheet that, 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 do this is outlined in the Risk Management section below.

## RISK MANAGEMENT

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

Identification and assessment of PFI's climate-related risks is led by PFI's Head of Sustainability and Operations, with contribution from senior management. This assessment is completed annually.

Key risks are assessed and prioritised against a risk matrix of consequence and likelihood in line with PFI's Risk Management Framework. The time horizons considered are set out in the strategy section of this report. The assessment considers PFI's direct operations, as well as upstream and downstream impacts.

In 2021, this assessment was also informed by the analysis completed by S&P Global on the physical climate risk exposure of each PFI property. We intend to periodically refresh the analysis of physical climate risks for individual PFI properties, but this will not be required on an annual basis.

In line with TCFD guidance, PFI considers 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).

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

As described in the Governance section, PFI has a monthly ESG management meeting attended by the Chief Executive Officer and Chief Finance and Operating Officer. This management meeting oversees PFI's climate-related risk and opportunity assessments. The Chief Executive Officer and Chief Finance and Operating Officer are responsible for making decisions on whether to mitigate, transfer, accept, or control climate-related risks.

This structure gives us flexibility to review and adapt our response to climate-related issues over time as the external environment evolves.

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 PFI's most material climate-related risks include:

- incorporating climate change considerations into our due diligence process for new acquisitions;
- growing our capabilities in sustainable building design for refurbishments and new developments;
- disclosure to stakeholders on our ESG progress;
- annual reviews of our insurance strategy;
- periodically assessing the vulnerability of individual PFI properties to climate impacts; 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.**

PFI's climate-related risks are incorporated into PFI's company-wide 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 or strategic risk). Our controls for those risks (such as acquisition due diligence and our insurance programme monitoring) have been enhanced to include consideration of climate change impacts. We have also introduced a new control whereby we will periodically review the PFI portfolio's physical climate risk.

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 uses the following metrics to assess climate-related risks and opportunities in line with its strategy and risk management process:

| METRIC | PURPOSE | 2021 RESULT | 2020 RESULT |
|---|---|---|---|
| Scope 1 emissions | To measure PFI's impact on the climate. | 77.0 $tCO_2e$ | 116.8 $tCO_2e$ |
| Scope 2 emissions | To measure PFI's impact on the climate. | 14.2 $tCO_2e$ | 5.4 $tCO_2e$ |
| Scope 3 emissions | To measure PFI's indirect impact on the climate. | 2,760.1 $tCO_2e$ | 2,701.5 $tCO_2e$ |
| CDP score | To understand how our climate performance compares to other corporations globally. | B- | C |
| Capital investment deployed towards removal of R22 gas | To measure progress on our commitment to phasing out R22 within PFI's operational control. | $688k | $0 |
| 2050 composite physical risk score (based on a moderate climate change scenario)* | To measure the physical climate risk associated with PFI's property portfolio. | 33 (Low to Moderate risk) | Not available |

*This score was provided by S&P Global following analysis of PFI's portfolio. We note that we do not intend to update this score annually.

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

Please refer to the table above for details of PFI's 2021 GHG emissions. We recognise the importance of reducing greenhouse gas emissions and understand that there are reputational and market risks if we do not take meaningful steps to decrease them. During 2021, PFI has:

- commenced work to replace all HVAC systems in our portfolio and within our operational control that use R22 refrigerant gas by the end of 2023; and
- taken positive steps to address our indirect carbon emissions associated with our supply chain, as outlined in our sustainability report on pages 29–30.

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

PFI is targeting replacement of all HVAC systems currently in our portfolio and within our operational control that use R22 refrigerant gas by 2023. We are also targeting an improvement in our CDP score from C (in 2020) to B by 2023.