

# Centuria

## ESG investment approach – Centuria Industrial REIT

### INTRODUCTION

Stakeholders are increasingly valuing how fund managers incorporate environmental, social and governance (**ESG**) themes into their investment approach. Centuria Industrial (**CIP**) Real Estate Investment Trust (**REIT**) recognises the importance of valuing ESG as part of its wider investment approach.

As an externally managed REIT, CIP aligns to Centuria Capital Group's active management approach, processes and procedures. An ESG Policy and Sustainability Framework endorsed by Centuria Capital Group define the ESG values CIP considers throughout its investment approach.

CIP seeks to embed ESG themes into its investment approach. CIP's ESG Investment Approach outline how CIP rationalises these ESG values.

### VISION, STRATEGY AND OBJECTIVES

The incorporation of ESG themes assist in guiding CIP's vision, strategy, and objectives:

#### Vision

To be Australia's leading domestic pure play industrial REIT.

#### Strategy

Deliver income and capital growth to investors from a portfolio of high quality Australian industrial assets.

#### Objectives

- **Portfolio construction** – A portfolio of quality Australian industrial assets diversified by geography, sub-sector, tenants and lease expiry.
- **Active management** – Focus on 'fit for purpose' assets that align to the needs of our quality tenants to achieve high retention and occupancy.
- **Capital management** – a robust and diversified capital structure with appropriate gearing.
- **Unlocking opportunities to create further value** – Reposition assets and execute value-add initiatives aimed at maximising returns for unitholders.



1. Centuria Property Funds No. 2 Limited (CPF2L), is the Responsible Entity for the ASX-listed Centuria Industrial REIT (CIP). CPF2L is a wholly owned subsidiary of Centuria Capital Group (CNI). CNI is an ASX-listed specialist investment manager with CNI is an ASX-listed specialist investment manager and offers a range of investment opportunities including listed and unlisted property funds as well as tax-effective investment bonds.

## ESG THEMES FORMING PART OF AN INVESTMENT APPROACH

ESG themes as guided by the Centuria Capital Group ESG Policy and Sustainability Framework, which assist CIP’s investment approach, are summarised here:

### ESG investment approach, aligned by objectives

<p><b>Portfolio construction</b> A portfolio of quality Australian industrial assets diversified by geography, sub-sector, tenants and lease expiry.</p>	<ul style="list-style-type: none"> <li>• Focus on high quality industrial real estate primarily within urban infill markets – infill locations are generally close to large population catchments and in close proximity to major infrastructure</li> <li>• Diversification by geography – provides resiliency across the wider portfolio</li> <li>• Focus on tenants with strong covenants, including listed and multi-national tenants – improves income security and asset desirability</li> </ul>
<p><b>Capital management</b> A robust and diversified capital structure with appropriate gearing.</p>	<ul style="list-style-type: none"> <li>• Adopts Centuria Capital Groups stringent governance processes – CIP is externally managed by Centuria Capital Group. CIP leverages Centuria Capital Groups suite of processes to provide strong corporate governance across its operations</li> <li>• Capital sources – diversified debt providers and debt expiries reduce refinancing risk</li> </ul>
<p><b>Active management</b> Focus on ‘fit for purpose’ assets that align to the needs of our quality tenants to achieve high retention and occupancy.</p>	<ul style="list-style-type: none"> <li>• Annual tenant engagement surveys – ongoing tenant engagement seeks to maintain a level of satisfaction with Centuria’s ongoing asset management</li> <li>• Proactive supplier engagement – continual supplier engagement, focus on modern slavery and sustainable products/materials</li> <li>• Strategic tenant partnerships – partnering with tenant on strategic ESG initiatives which benefit both CIPs and the respective tenants own ESG strategy</li> </ul>
<p><b>Value creation</b> Continue to enhance the portfolio and improve asset quality where practical.</p>	<ul style="list-style-type: none"> <li>• Continual asset improvement – measuring asset improvement utilising energy and water ratings, energy audits, tenant engagement surveys and emission reductions</li> <li>• Conscious of a changing climate – considers probable climate change risks as part of forward-looking risk assessments and seeks to mitigate risks through on-site controls where practical</li> <li>• Brownfield redevelopments – development on existing sites to maximise site utilisation, increase asset returns and reduce the overall need for greenfield developments</li> <li>• Green Star certification for new developments – lifts the portfolios green credentials, attractive to tenants with strong covenants and institutional investors</li> </ul>

## ESG INTEGRATION

CIP recognises the impact ESG themes can have on investment performance, and CIP's ESG investment approach is integrated into current processes, encouraging management to reflect upon ESG themes in operations and through various stages of the investment process, via:

A summary of how ESG themes are integrated into various investment stages are provided here:

<b>Asset acquisition - due diligence</b>	<ul style="list-style-type: none"> <li>• Technical assessors complete ESG checklists which factor in ESG themes as part of an asset evaluation.</li> <li>• Potential improvements to building credentials (e.g. NABERs ratings) are considered as part of an asset evaluation.</li> </ul>
<b>Active management approach – day to day asset management</b>	<ul style="list-style-type: none"> <li>• Centuria has an in-house active asset management team. Asset Managers outline ESG initiatives tied to CIPs investment objectives annually. These initiatives are built into Asset Management Plans.</li> <li>• Centuria's management team collaboratively share outcomes for ESG initiatives and where practical seek to create a consistent approach for initiatives which add known value. CIPs Management team validate the success of these initiatives by engaging with third parties such as tenants and investors.</li> </ul>
<b>Risk management, reporting and governance</b>	<ul style="list-style-type: none"> <li>• Risks and opportunities presented by various ESG themes are regularly communicated to Management and are considered, assessed and reported in accordance with Centuria's Risk Management Framework.</li> <li>• Appropriate escalation and approval processes regarding ESG risks and opportunities are in place.</li> </ul>
<b>Funds management and corporate</b>	<ul style="list-style-type: none"> <li>• ESG themes are regularly assessed as part of CIPs strategy. Themes identified as value add are integrated into the asset acquisition, asset management and risk management processes.</li> <li>• CIP utilises third party ESG services to validate its ESG themes and monitor their performance.</li> </ul>