



# Stewardship Code Introductory Event For the Real Estate Industry

Wednesday 24th February 2021



## **Moderator Welcome**

Jen Sisson, Deputy Director of Stakeholder Engagement  
and Corporate Affairs  
at the Financial Reporting Council (FRC)

# Agenda for today

- 10.15 Webinar start
- 10.15 Welcome and overview - Jen Sisson, Financial Reporting Council (FRC)
- 10.25 The UK Stewardship Code 2020 & Real Estate Funds - Claudia Chapman, FRC
- 10.40 Stewardship in Real Estate- Stanley Kwong, Aviva Investors
- 10.50 Member Q&A / discussion with speakers
- 11.00 Close

# Speakers



**Claudia Chapman**  
**Head of Stewardship**  
**Financial Reporting Council**  
**(FRC)**



**Stanley Kwong**  
**ESG Associate Director**  
**Aviva Investors**



# The UK Stewardship Code 2020 & Real Estate Funds

Claudia Chapman, Head of Stewardship  
at the Financial Reporting Council (FRC)

- History and purpose
- Key changes
- Applying the Principles

## What I will cover

# About the FRC

- The FRC:
  - sets the UK Corporate Governance and UK Stewardship Codes;
  - sets UK standards for accounting and actuarial work;
  - monitors and takes action to promote the quality of corporate reporting;
  - and operates independent enforcement arrangements for accountants and actuaries.
- As the competent authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.
- The FRC works in the public interest. Our work is aimed at investors and others who rely on company reports, audit and high-quality risk management. We report to Parliament.

“Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”



# History



# Purpose of the Code



- Set high expectations for stewardship
- Promote interest of clients and beneficiaries
- Increase transparency about activities and outcomes
- Reflect changing investment landscape and societal expectations
- Create a market for effective stewardship

# Key features

Purpose and  
governance

All assets

Engagement  
and monitoring

Integration of  
ESG

Reporting on  
activities and  
outcomes

1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
6. Client and beneficiary needs



# Real Estate

How to apply the Principles

7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
9. Engagement with issuers
10. Collaboration with other investors
11. Escalation of engagement
12. Exercising rights and responsibilities



# Real Estate

How to apply the Principles

# Why become a signatory?

- Review RI approach with a robust framework
- Demonstrate you go above minimum requirements
- Respond to growing public, client and govt expectations
- Tell your story to clients

- Apply and explain
- Annual stewardship report
- First applications – 31 March 2021
- First list of signatories – summer 2021
- Second application date – 31 Oct 2021
- Applications for 2021 reporting periods – 30 April & 31 Oct 2022

# Requirements and timings



# Stewardship in Real Estate

Stanley Kwong, ESG Associate Director  
at Aviva Investors



# Stewardship in Real Estate

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## What does stewardship mean in Real Estate?

Different to listed equity and fixed income:

- Where real assets managers invest directly, the manager's staff make decisions about how the asset is managed.
- Where real assets managers invest in private debt, the opportunity to engage with counterparties concerns only the management of the secured asset.

Engagement in real assets is **structured interaction on environmental and social issues** with the **occupier, sponsor or counterparty**.

The engagement should be carried out through the **transaction process**, or through **ongoing asset management**, dependent on the asset class.



# Engagement in Real Estate

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How does we engage across equity and debt?

## EQUITY (DIRECT ENGAGEMENT)

### ACTIVE MANAGEMENT

Engaging with occupiers and communities to create positive environmental and social outcomes

*ESG Asset Tiering – identifying initiatives to improve ESG credentials of assets*

## DEBT (INDIRECT ENGAGEMENT)

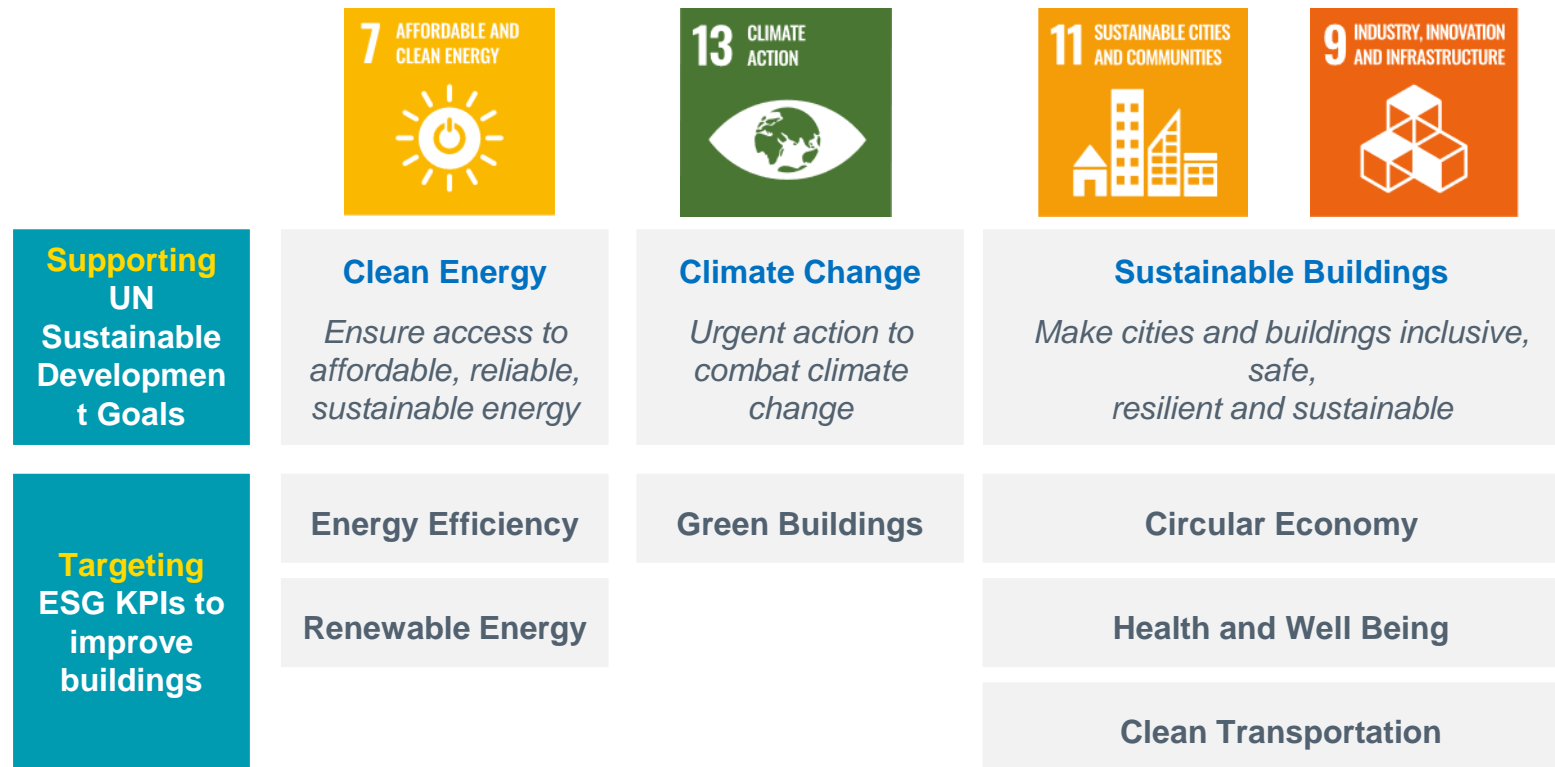
### SUSTAINABLE LOANS

Engaging with sponsors to incentivise or covenant environmental or social outcomes

*Sustainable Transition Loans – linking measurable ESG targets to financial incentives*

# Sustainable Transition Loans

## Framework targeting UN Sustainable Development Goals and ESG KPIs



**"Creating long-term loan term incentives to ensure measurable environmental improvements on the buildings we lend against"**

\*Second Party Opinion verified by Vigeo Eiris as 'Advanced'

# Equity Case Study

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## Smart Buildings Programme



**Our Smart Buildings Programme has been running since 2017 and it's the first step we take towards decarbonising large and complex assets.**

- Combination of retrofitting smart software and bringing the right engineering expertise means we can help occupiers to save on their utility bills whilst contributing to our carbon reduction goals
- £2.1 million in avoided energy costs and 4,000 plus tonnes of carbon saved in 4 years

# Debt Case Study

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## Originating green and sustainability linked loans



Structured a loan to CLS with terms linked to improvements in the environmental performance of the buildings we lend against.

**Sustainability-linked loan structure** allow for margin Incentives linked to specific ESG targets

- **Improvements in building environmental performance** as loan will support carbon reduction and ensure all assets are environmentally certified by BREEAM.
- **Improve ESG credentials** of the buildings we lend against

# Key Risks

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The value of an investment and any income from it may go down as well as up and the investor may not get back the original amount invested.

# Important Information

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## Q&A Discussion

*To ask a question to the panel:*

*Click the Q&A button at the bottom of your screen to bring up the Q&A board {note: your question will be visible to all attendees, unless you tick the 'anonymous' box*

*To unmute and join the discussion, please raise your electronic hand  and you will be unmuted*





# Thank you

*The slides and recording from this webinar will be send to AREF members later.*