



THE HIGH DIVIDEND REIT
UK OFFICE SPECIALISTS

INTRODUCTION FROM THE CHAIRMAN 2021 IN FOCUS

In 2020 the Company was pleased to make a renewed sustainability commitment being a central pillar to our corporate strategy. The work done in 2020 and 2021 built on the good work already being undertaken across the Group in adopting a more formal and focused approach to sustainability.

Since then, the Company has continued with a programme of ESG integration across the business, and through its stewardship, in the choices and decisions it makes, and the ways in which it engages with and encourages sustainable practices by others.

Highlights for 2021 were as follows:

- Established an ESG Working Party comprised of members from the Asset and Investment Managers.
- Established key performance indicators (“KPIs”) by which the Company can measure its sustainability performance.
- The Asset Manager issued new and updated policies and procedures, and practices were updated to better reflect sustainability objectives.
- Included ESG criteria within due diligence procedures; in how the Company assesses and manages the performance of its standing assets and prospective investments; and who is chosen to engage and work with.
- Purposefully engaged with our occupiers by promoting sustainable practices and also in the obligations it commits to; for example, by including green lease clauses within its contractual terms.
- Became participant members of the Global Real Estate Sustainability Benchmark (GRESB). Submitted the Company’s first GRESB assessment.

“OUR BELIEF IN THE IMPORTANCE OF SUSTAINABILITY, WHICH ENCOMPASSES ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”) CONCERNS, HAS GUIDED THE COMPANY’S TRANSACTIONAL ACTIVITY SINCE INCEPTION. GOING FORWARD WE ARE COMMITTED TO ADOPTING A MORE FORMAL AND FOCUSED APPROACH TO OUR SUSTAINABILITY STRATEGY.

This will include the reduction of the Company’s energy consumption and carbon emissions, increasing utility data collection, underpinned by a strong governance and social foundation. To achieve our sustainability strategy, ESG considerations are embedded within our individual property plans and the overarching corporate strategy.”

Kevin McGrath
Chairman

SUSTAINABILITY REPORT



Admiral House, Sunderland

ESG Working Party

An ESG Working Party was established in 2020 and reports directly to the Board. Membership of the Working Party is made up from members of the Asset Manager and the Investment Manager. External ESG consultants are invited to attend and support the Committee by undertaking specific pieces of work.

The Board has delegated its authorities to the Working Party to:

- Assist the Board in defining and regularly reviewing the Company's strategy relating to ESG and in setting relevant key performance indicators.
- Develop and regularly review the policies, procedures, practices and initiatives relating to ESG matters and ensure they remain effective, relevant and consistent with industry best practice.
- Have oversight of the management of ESG matters and compliance with relevant statutory, regulatory and legal requirements and applicable ESG rules, industry standards and guidelines.
- Have oversight of responses to investor requests on ESG matters.
- Report on these matters to the Board and where appropriate make recommendations to them.

In undertaking this role, the Working Party's duties include assessing effectiveness in identifying, managing, mitigating or eliminating ESG risks and ensuring compliance with relevant statutory, regulatory and legal requirements as well as applicable ESG rules, industry standards and guidelines.

In its first full year of work the Working Party focused on the processes and steps necessary for ESG integration across the Company and its subsidiaries and the role of the Company in its ESG stewardship through its investments, external relationships and interactions. It also oversaw the Company's first GRESB Standing Investments Assessment and its response to the Task Force on Climate-Related Financial Disclosures (TCFD) in improving reporting of climate-related financial information. It was also responsible for preparing the Company's sustainability policy and relevant KPI's.

Looking Forward

The sustainability agenda continues to develop at pace with the steady transition from voluntary reporting on sustainability to statutory reporting. With Governments publishing disclosure requirements and aligning with reporting standards such as those currently being formulated by the International Sustainability Standards Board, the importance and relevance of sustainability reporting, and it being on an equal par to that for financial information, is clear to see.

We are mindful of this and our programme of work for 2022 and beyond continues to focus on greater ESG integration across the business, improving our ESG performance, our stewardship and being transparent in how we perform.

Some examples of our programme of work for 2022 are:

- Tackle areas highlighted for improvement from our inaugural GRESB assessment.
- Continue to integrate our ESG criteria into due diligence enquiries, the obligations we require from our key suppliers and associates, and in the measurements we use to track performance.
- Undertake a portfolio wide audit of Energy Performance Certificates and alignment with the Minimum Energy Efficiency Standard (MEES).
- Continue with our energy efficiency strategies to reduce energy consumption and support a low carbon portfolio, source renewable energy supplies, install on-site renewables, upgrade to energy efficient plant through retrofitting, refurbishment and fit-out, and by encouraging our occupiers to adopt their own energy efficient mitigations.

- Support our occupiers and suppliers adopt more sustainable means of travel by installing electric vehicle charging points and priority on-site bicycle lanes and bicycle storage/changing facilities.
- Through our fit-out guide and asset specifications promote greater circularity, encouraging recycling and reuse, responsible sourcing, the use of low carbon embodied materials, limiting resource use, avoiding virgin raw material use, and eliminating waste to land fill or incineration where possible.
- Transition our standard lease terms on renewals and new leases to green leases which include cooperation and reporting obligations on parties to share environmental performance data, allow landlord access to verify environmental performance, impose sustainability criteria on fit-outs, repairs, maintenance and dilapidations and encourage reductions in resource use.
- Continue with our work in the community through the charities we support and serve while ensuring they remain the best and most closely aligned to our ESG objectives and outcomes.
- Continue with our carbon footprint assessment programme.



Aspect House, Nottingham



SUSTAINABILITY REPORT CONTINUED

United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals are comprised of 17 interlinked global goals that provide a blueprint for a sustainable future. We recognise our role in supporting the global transition to sustainable living as envisioned by the goals and have taken the decision to align our business with four goals where we believe we can make the biggest impact.

These are:



Set out below is a summary of our progress against the goals which are particularly significant to our business.

<p>3. Good health and well-being</p>	<p>We promote good health and wellbeing in our interactions and the services we provide to our customers and suppliers and for the communities who share the vibrant spaces that we create and manage. During the Covid-19 pandemic we facilitated remote and distance working, access to clean and hygienic places to work with space to collaborate and work safely. Through our Tenant Fit-out Guide we give recommendations and provide guidance on steps that can be taken for the health and well-being of building users and how they can be achieved.</p>
<p>8. Decent Work and Economic Growth</p>	<p>We provide and manage facilities that provide opportunities for enterprises to grow and support job creation. In our acquisitions and refurbishments, we promote sustainable resource consumption, reuse and recycling, and in our engagements with others, we protect the labour rights of those who we engage to work for us in safe working environments.</p>
<p>11. Sustainable Cities and Communities</p>	<p>We invest in and manage property and real estate assets across identified growth cities and centres across the regions of the UK outside of the M25 motorway. Our investment and management strategy is to ensure that they are sustainable and through the facilities and opportunity that they offer, they make a beneficial contribution to the communities they are part of and serve.</p>
<p>13. Climate Action</p>	<p>We are taking action across our portfolio to mitigate the harmful effects of climate change. We are doing this by undertaking energy audits of all our assets, implementing energy efficiency strategies to support a low carbon portfolio and engaging with our stakeholders to promote their own climate action.</p>

Sustainability in Action

Improving the Energy Performance of our Assets

Through our refurbishment programmes we are continuously improving the amenity of our assets and their environmental and energy performance. Examples include:

800 Aztec West, Bristol – EPC Rating ‘B’

Previously rated ‘D’ this large 1980’s commercial office was refurbished internally and externally to ‘Cat A’ standard with extensive insulation, glazing/cladding and building services upgrades.

Environmental:

The Coach Works, Leeds – EPC Rating ‘B’

This city centre asset was previously rated ‘C’. An extensive refurbishment saw installation of energy efficient air conditioning and heat recovery systems, replacement of electrical power and service installations, hot water and other building services installations and large-scale insulation upgrades.

Investment Due Diligence

We have broadened our investment due diligence to include sustainability criteria which feed into our decision making. This includes:

The position insofar as the environmental footprint of an investment is concerned. Current usages and impacts; the maturity of systems and mitigations in place to eliminate or reduce those impacts, environmental risks and their severity and the prospects and opportunities for change.

Social:

The social impacts and opportunities of an investment. Health and wellness criteria; air quality and its monitoring, physical attributes such as access to daylight, low noise pollution and social space. The availability of local amenities, close public transport and energy efficient means of travel, charging and parking.

Governance:

The assessment and mitigation of risks, for example environmental and biodiversity risks, physical, natural and social economic risks. Sustainability framework and strategies in place for the investment and their relative performance. Financial, legal and operational obligations and impacts. Environmental classifications and certifications.

Working with our Communities

In 2021 we continued to support and work with a number of charities and not for profit organisations who are making an impact in the communities and the regional locations where we operate.

In Manchester we are pleased to be supporting three charities by providing each of them with 5,000 square feet of free office space so that they can focus on their core purpose and in helping those most in need. The services they are providing offer much needed support:

- to local not for profit organisations by providing partnership working and shared space;
- in community wellness and mental health support. Delivering a range of primary care mental health services, drop-in support and therapy services for NHS commissioning bodies; and
- safe and culturally familiar environments for women who are at personal risk or escaping violence.

SUSTAINABILITY REPORT CONTINUED

Data Performance

A. Key Performance Indicators (“KPIs”)

During the year the ESG Committee recommended the following KPI's.

Boundary KPIs

Whole Portfolio Boundary

1. To reduce total portfolio absolute emissions to net zero by 2050 in accordance with the Paris climate agreement and to strive to achieve this in a shorter timescale.
2. To achieve a Minimum Energy Efficiency Standard (‘MEES’) target of EPC B by 2030. In 2022 we are undertaking a portfolio wide audit of all EPC’s as part of our strategic response to MEES. For 2021 our EPC performance data was as follows:

Rating	Rated Area
A-B	9.92%
C-E	83.40%
Other	6.68%



Manchester Green, Manchester

B. Task Force for Climate-related Financial Disclosures (“TCFD”)

We are pleased to have joined many other organisations around the world by becoming a supporter of TCFD and to work towards creating a more resilient financial system and help safeguard against climate risk through better disclosures.

This is the first year the Company is making disclosures in-line with the Task Force on Climate-related Financial Disclosures (“TCFD”). As with other sustainability disclosures, the Company expects them to evolve in accordance with increased understanding around climate change risks.

Landlord Controlled Boundary

KPI	2021 Performance
All properties to be serviced by renewable energy sources	Since April 2020 the substantial majority of supply contracts for electricity supplies have been green. This accounts for 54% of all energy consumption. In 2022 we are investigating opportunities for procurement of green gas supplies as part of our mitigation strategies.
All sites to be sourced from renewable energy by	Our target is to ensure that all our sites are sourced by renewable electricity by 2023.
Install electric vehicle charging points across [the portfolio by or as requested by occupiers	Our target is to provide all multi let sites with electric vehicle charging points by 2025. By the end of 2021 22 sites provided 77 charging points. The target for the first six months of 2022 is to install a further 46 charging points over 6 sites.
Eliminate waste to landfill by	Data for 2021 shows that of 705 tonnes of waste generated across sites 456 tonnes was recycled. The balance was sent for energy recovery either for refuse derived fuel (244 tonnes) or at an anaerobic digestion facility (4 tonnes). No waste went to landfill.
Reduce water consumption	Through the use of our fit-out guide and in our refurbishments we are targeting reductions in water consumption. This is primarily through the use of water saving equipment, devices, and by sharing best practice guidance with our users, occupiers and suppliers.
Energy Use Data coverage	We are working to ensure half-hourly energy performance data coverage and reporting is fully implemented and available for electrical and gas energy supplies by 2025.

Occupier Boundary

KPI	2021 Performance
Engage with occupiers during lease negotiations to incorporate green clauses into new leases	We are incorporating green lease clauses into lease agreements. These include cooperation and reporting obligations to share and obtain environmental performance data, and impose sustainability criteria. To date these clauses are being broadly accepted.
Engage with all occupiers annually on ESG issues	We regularly engage with our occupiers, at least annually, and we are now including ESG as part of that engagement.

SUSTAINABILITY REPORT CONTINUED

Governance

Recommendation	Commentary
<p>The Boards oversight of climate – related risks and opportunities</p>	<p>The Board has ultimate responsibility for oversight of risks and opportunities. This includes those that are climate related.</p> <p>In undertaking its work, the Board has delegated its authorities on climate related risk identification to the Audit Committee. The Audit Committee is responsible for overseeing the maintenance of the Group's risk and uncertainties. These are set out in the report of current principal risks and uncertainties on Pages 52 to 61 in the 2021 Annual Report.</p> <p>The Audit Committee reports on its activity to the Board after each meeting.</p> <p>The Audit Committee has similarly delegated its authorities on climate related risk to the ESG Committee.</p>
<p>Board's role in assessing and managing climate-related risks and opportunities</p>	<p>The Board has ultimate responsibility for assessing and managing climate related oversight of risks and opportunities.</p> <p>The Board has delegated its authorities on climate related risk to the Audit Committee, which assesses and evaluates risk against the risk appetite established by the Board. The risk assessment is undertaken through risk profiling and scoring prior to and post risk mitigation, whether those risks are improving, worsening or static and the appropriateness of the mitigation strategies in any particular case.</p> <p>The Audit Committee shares its assessments and findings with the Board for the Boards consideration.</p> <p>The Audit Committee meets at least twice annually.</p> <p>The ESG Committee met six times in 2021 and is made up by members of the Asset Manager and Investment Manager teams.</p>

SUSTAINABILITY REPORT CONTINUED

Strategy

Recommendation	Commentary
Climate-related risks and opportunities identified over the short, medium and long-term	<p>Climate-related risks are considered over the short, medium and long term as set out below.</p> <p>Short term (0-5 years):</p> <ul style="list-style-type: none"> Increasing ESG legislation & compliance Integration of ESG into business model Implementation of new Minimum Energy Efficiency Standards Portfolio climate adaption and retrofitting <p>Medium term (5-10 years):</p> <ul style="list-style-type: none"> Asset stranding Portfolio Occupier demand for buildings with higher levels of efficiency, climate resilience, and lower carbon footprints Increased legislation requiring adherence <p>Long term (10+ years):</p> <ul style="list-style-type: none"> Continued legislation requirements Climate change which may impact the portfolio
Impact of climate-related risks and opportunities upon the Company's strategy, operations and financial planning	<p>The Board has identified that climate-related risks could impact the Company by:</p> <ul style="list-style-type: none"> Properties becoming unfit for purpose and asset stranding Income and expenditure impacts arising from climate related mitigation strategies Lessened or improved desirability of its properties Pricing of properties Ability to access funds Cost of capital Reputation in the context of climate – related aspects <p>The Company's rolling capital expenditure and refurbishment programme aims to improve and adapt the portfolio of properties as necessary.</p>

Resilience of the organisation's strategy, taking into consideration different climate – related scenarios, including a 2°C or lower scenario	<p>Our climate related strategy is to: reduce energy consumption and increase energy efficiencies; source renewable energy supplies; support a low carbon portfolio; install on-site renewables, improve efficiencies through retrofitting, refurbishment and fit-out; and where carbon emissions cannot be eliminated investigate the possible use of verified carbon offsetting strategies.</p> <p>The board tests the resilience of its strategies through regular performance updates and adjusts its strategies where it determines change is needed.</p>
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Risk Management

Recommendation	Commentary
How processes for identifying, assessing, and managing climate-related risks are integrated into the Company's overall risk management.	<p>Climate-related risk is assessed on an on-going basis.</p> <p>The Board and Audit Committee review the Group's principal risks and uncertainties, including climate-related risks, in the normal course of business conducted at Board and Committee meetings. Board meetings are held at least quarterly and Audit Committee meetings at least bi-annually, with adhoc meetings called as circumstances demand.</p>

Metrics and Targets

Recommendation	Commentary
Metrics used by the Company to assess climate related risks and opportunities are in line with its strategy and risk management process	<p>The Company reports in line with:</p> <ul style="list-style-type: none"> The GRESB Standing Investments Benchmark EPRA Sustainability Best Practices Recommendations for sustainability reporting. EPRA performance tables are detailed later in this Sustainability Report.
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	<ul style="list-style-type: none"> The Company reports Scope 1 and Scope 2 emissions in accordance with EPRA recommendations and as set out for the years 2019 and 2020 separately in this Report. The GHG assessment for the year to 31st December 2021 will be published separately to this Report
Targets used by the Company to manage climate-related risks and opportunities and performance against targets	<p>Through the ESG Committee the Company has established key performance indicators and targets as set out elsewhere in this report. The ESG Committee measure performance against the targets and reports its findings to the Board.</p>

C. EPRA Sustainability Best Practices Recommendations

The Company has chosen to report its material, environmental, social and governance data in accordance with the third edition of the European Public Real Estate Association ('EPRA') Best Practices Recommendations ("sBPR"), September 2017.

EPRA is a non-profit association representing Europe's publicly listed property companies. By responding to EPRA, the Company is promoting sustainability within the property portfolio, while also identifying opportunities for further improvements relating to sustainability regulations and initiatives.

This EPRA report is over three sections:

1. Overarching recommendations
2. Environmental performance measures

SUSTAINABILITY REPORT CONTINUED

1. Overarching Recommendations

Organisational boundaries

The Company's EPRA sustainability reporting covers properties held as at 31 December 2021. At the date of this report we are finalising collection of performance data to report on our environmental performance measures to 31 December 2021. We expect this to be published and made available in the second half of 2022. For the purposes of this report environmental performance data is restricted to that for 2020 against a 2019 base year.

Coverage

The coverage of absolute performance measures amounts to 50% of all property assets held at 31 December 2020. The remaining assets are single or multiple occupancy assets with no landlord-obtained electricity gas and water ("**Utilities**").

The absolute performance measures relate to electricity, fuels and associated greenhouse gas ("**GHG**") emissions where the Company procures Utilities for common areas, shared services, occupier areas and those properties that are vacant.

Like-for-like performance measures include properties for which the Company has collected two years' worth of consistent data – and excludes properties sold, acquired or under development during the period: 1 January 2019 to 31 December 2020. The like-for-like portfolio therefore represents 50% out of the assets covered in the organisational boundaries, and data coverage is 100% of these properties. Data collected was during the Covid 19 pandemic at which time properties were not fully occupied or utilised.

The Company aims to complete annual health and safety assessments for 100% of the assets, excluding those where the responsibility for health and safety assessments is with the occupier.

Boundaries – Reporting on landlord and occupier consumption

The energy and associated GHG emissions data reported includes:

- Electricity and fuel consumption which the Company purchases as landlord covers common areas, shared services and occupier areas where this consumption is not sub-metered but recharged via the service charge
- Utilities procured directly by occupiers is excluded as it falls outside the Company's operational control.

Estimation of landlord-obtained Utility consumption

All data is based on invoices and/or meter readings where available. Estimations have been applied where invoices were not available at the time of publication. In these instances, we have estimated consumption data based on the most recent invoice or reading for the corresponding period.

Analysis – Normalisation

Energy and emissions intensity indicators are calculated using floor area sq. ft. for whole buildings.

We are aware of a mismatch between the numerator and denominator, as in some properties our utilities consumption relates to common areas only, and in others, it covers both shared services, outside space and occupier areas where there are no sub-meters.

Analysis – Segmental analysis (by property type, geography)

Sector analysis is organised by the property classification as set out in the Asset Management section of the company's financial reporting. Additional segmental analysis by geography is not applicable as all assets are in the United Kingdom.

Reporting Period

- Absolute performance measures and intensity metrics are reported for the most recent reporting year for which we hold full reporting data at the date of this report (year ending 31 December 2020).
- Like-for-like performance measures are reported for the two most recent reporting years that the Company can collect consumption data for (years ending 31 December 2019 and 31 December 2020).

Disclosure on Manager's offices

Utilities associated with the Manager's office consumption and the Managers employee-related performance measures

are excluded, apart from where the Managers' demise is leased from the Company, as they fall outside the scope of the organisational boundaries.

Data verification and assurance

All data is reviewed for consistency and coherence prior to disclosure.

Materiality

The following EPRA sustainability performance measures were not considered material and have therefore been excluded from reporting:

- District heating or cooling ("DH&C")-absolute & DH&C-like for like: No DH&C is procured across our portfolio
- Diversity-Emp; Diversity-Pay; Emp-Training; Emp-Dev; Emp-Turnover & H&S-Emp: The Group has no direct employees. All administrative functions associated with the management of our portfolio are conducted by the Managers, which are separate legal entities and therefore outside the organisational boundaries of this report
- Waste-absolute & Waste-like for like: Operational waste is generated solely by our occupiers and is therefore outside of our control. Waste generated through the Company's [refurbishment/development] activities is excluded from the scope of the EPRA sBPR.

SECTION 172 STATEMENT

Stakeholder Engagement and Board Decision Making

The Company has adopted the 2019 AIC Code of Corporate Governance as published by the Association of Investment Companies. The Code requires the Directors to explain how they have had regard to duties required under s.172 of the UK Companies Act 2006. This includes duties relating to sustainability. The Statement for 2021 can be found at [insert hyper link or include text in entirety]

Contact

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