



DEEP DIVE: ENGAGING PROPERTY FUND MANAGERS AND TENANTS

TESCO PENSION INVESTMENT

Engagement with new property fund manager

When a commitment was made to a property investment in the care home sector, for the Income Generating Assets Portfolio, Tesco Pension Investment (TPI) reviewed the fund manager's ESG approach and considered that improvements could be made. TPI engaged on a number of ESG issues. Its work in support of the Trustee's climate objectives is detailed here.

TPI, on behalf of the Trustee, worked with the manager to establish a bespoke "fund of one" investment programme for the Scheme. It was able to negotiate a commitment that the fund would be managed to a 2050 net zero target from the outset. The manager also made a commitment to provide ESG reporting to include absolute emissions and emissions intensity, and to adopt an approach to flood risk assessment that is consistent with the principles of TPI and the Trustee.

The improvements to the terms will help TPI and the Trustee to improve its data coverage and support the Trustee's net zero goals. The investment will also benefit from enhanced protection against climate change induced flood risk. The agreement is a step forward in encouraging fund managers to engage on climate related risks and disclosures and therefore in protecting long term value for the Scheme.

As per TPI's escalation policy, TPI will continue to engage with the manager to ensure that the commitment is implemented, with appropriate monitoring in place. TPI will liaise with the manager to ensure timely delivery of meaningful emissions data and to monitor the manager's application of the agreed ESG approach. The Trustee will also continue to be informed of TPI's engagement activities on a quarterly basis.

Engagement with tenants

The Scheme is funding the development of the UK's first BREEAM Outstanding rated office building in the UK, in Bristol. In order to ensure that the building's environmental credentials are maintained once the building is in use, TPI engaged with the prospective new tenants to ensure that they understood the energy efficiency features of the building and would not compromise these standards through their own fit out and use of the space. The engagement has the following results:

- TPI was able to agree "Green" lease clauses, including commitments to share energy usage data, and to promote efficient energy performance.
- TPI and its advisers reviewed fit out specifications to ensure that they did not reduce the building's efficiency.
- TPI agreed a memorandum of understanding with a major tenant of the building, which commits both parties to energy efficient management of the building. It includes information about the energy use information the tenant will provide, how it will source energy, and further details about its own commitment to the environment. It provides the Scheme with additional comfort beyond the provisions of the lease.
- TPI, on behalf of the Trustee, secured the provision of energy usage data to support its own data coverage and quality.
- TPI, on behalf of the Trustee, was also able to use the Outstanding target rating of the development to help to secure blue-chip tenants with their own ambitious emissions reduction targets.

In line with TPI's escalation policy, TPI will continue to engage with tenants to ensure that lease clauses are adhered to and that the building continues to operate efficiently. The Trustee will also continue to be informed of TPI's engagement activities on a quarterly basis.

