Environmental, Social & Governance Policy

LXi REIT plc

September 2021

ESG Policy

Statement

As investment advisor to LXi REIT plc ("the Company"), LXi REIT Advisors Limited (the "Investment Advisor") has a responsibility to conduct its investment business in a socially responsible way.

We recognise that stakeholders of the Company may share and benefit from these values and we therefore seek to execute our investment strategy whilst contributing positively, or at the lowest practical cost, to society and to the environment.

We support the six Principles for Responsible Investment so far as they relate to the Company's activities and have incorporated ESG issues into the Company's investment analysis and decision-making processes. The Company will use its influence to encourage its tenants, suppliers and other counterparties to do the same.

The Company and its Investment Advisor will also report the 11 disclosures recommended by the Task Force on Climate-related Financial Disclosures.

All employees of the Company and Investment Advisor involved in the management of the Company are engaged in ESG issues in the conduct of their day to day business activities and the principles of this policy are embedded in all business activities carried out on the Company's behalf.

Responsibility for ensuring compliance with this policy rests with the Company's Board of Directors.

I am a director of the Investment Advisor, and I am the owner of this policy. I have overall responsibility for the Company's compliance and that of its investment advisor. I am also responsible for keeping this policy under constant review.

I hereby confirm that all the statements made herein are true.

Freddie Brooks
Director - LXi REIT Advisors Limited

PRI | Principles for Responsible Investment

Signatories' commitment

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).
We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.**
- **Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.**
- **Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.**
- **Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.**
- **Principle 5: We will work together to enhance our effectiveness in implementing the Principles.**
- **Principle 6: We will each report on our activities and progress towards implementing the Principles.**

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.
In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.
We encourage other investors to adopt the Principles."

Environmental

Guiding principles

We recognise that the Company's investment activities have both direct and indirect impacts upon the environment for which its Investment Advisor is responsible. We are committed to managing those environmental impacts effectively and responsibly. We look continuously to reduce our negative impact on the environment and reduce the carbon footprint of the Company's assets to the greatest extent possible during its ownership.

The control of virtually all the Company's investment property has been devolved under the terms of long leases or developer funding arrangements. We use the influence of the Company as landlords to encourage tenants and development funders to use property responsibly and will work with them to identify and exploit opportunities to improve the sustainable quality of the Company's buildings.

We measure the environmental performance of the Company's assets and have developed a set of metrics that enable us – and the Company's stakeholders – to report progress consistently and in alignment with accepted external benchmarks. We report the results to the Company's stakeholders at least annually in the Company's Annual Report and more often, when it is appropriate.

We engage specialist consultants to evaluate the sustainable characteristics of properties as part of our pre-acquisition due diligence, identifying risks to future financial performance and exploring opportunities to create additional value or to improve environmental performance. We also explore the impact of new acquisitions on the overall environmental characteristics of the Company before making a commitment to purchase.

The Company will not ordinarily acquire buildings that fall short of our minimum standards unless we are able to demonstrate that affordable improvements can be made. This minimum standard varies from one sector and use to another, and also by region.

The Company would not ordinarily acquire buildings, for example, with an Energy Performance Certificate rating lower than C without having an affordable plan in place to improve the rating to at least a B during the period of our ownership.

When funding the development of a new pre-let building, we use our influence to encourage the tenant, developer and its contractors to consider sustainability-related issues in the design, construction and commissioning of buildings. We expect the environmental performance of new developments to exceed the minimum standards laid down by building regulations and planning policy. New commercial buildings should have a BREEAM rating of at least "Very Good".

We expect all new buildings to have Energy Performance Certificates rated at B or higher and that the design will incorporate enhanced insulation, advanced energy efficiency and a suitable range of water-saving features.

Aside from managing assets in an environmentally responsible manner, we see sustainability as both a threat and as an opportunity. There is a risk that the future value of some properties may be adversely affected by issues of sustainability.

The Company only acquires properties let to strong tenant covenants on long leases. This means that a virtually all of the Company's investment properties are devolved to tenants on "full repairing" leases, diminishing the extent of the Company's control over the day to day use of the properties.

It also means that careful attention is paid to the overall environmental performance of tenants' activities and the likely impact of the transition to a lower carbon economy when assessing the quality of our tenant counterparties at acquisitions and on an ongoing basis when assessing risk.

We have systems in place to enable us to measure, monitor and then manage these emerging risks as an integral part of our overall approach to risk management.

Conversely, we believe that some assets may experience a positive price correction as a result of the move towards a lower carbon economy. The Company is always looking for opportunities to enhance value through the creation of more sustainable assets and the improved sustainability of existing assets when considering stock selection and asset management initiatives.

Environmental

Environmental sustainability is considered under these key headings:

- Financial performance
- CO_2 emissions
- Energy
- Accessibility
- Physical risks
- Water
- Waste
- Engagement
- Development

Some of these issues represent opportunities to affect the financial performance of the Company positively or to protect against downside risk, and some relate purely to "best practice" and social responsibility. Our policy is intended to:

- Promote environmental protection;
- Prevent contamination;
- Promote sustainable development;
- Meet or exceed legal compliance and planning requirements;
- Anticipate future regulatory impacts;
- Identify risks from the physical impacts of climate change and develop mitigation strategies and
- Minimise waste.

While keeping our focus on maximising each individual asset's financial performance, we take account of our sustainability objectives by incorporating them into the Company's investment activity and reporting. By integrating such issues into the investment appraisal and asset management processes we aim to minimise risk and to capitalise on opportunities for enhancing returns wherever possible.

Due to the ever-changing nature of sustainability we will continue to review and update the relevant criteria that are used within our investment process.

Environmental

Financial Performance

We assess the likely implications of climate change policy on each individual asset and on the overall performance of the Company.

We consider that financial performance is most at risk of being impacted by environmental matters in three ways:

1) Regulatory impact – where policy changes and the environmental characteristics of a property no longer allow it to be owned and operated in such a way that meets the investment criteria of the Company this may impact the income/capital performance of the Company.

2) Re-letting risk – although the Company generally acquires assets with a significant period to first break, the desirability of a property to a tenant or tenant pool, will impact the vacant possession value and the equivalent rental value of a property. As such where a property demonstrates environmental characteristics that make it difficult for a tenant to meet its own internal criteria, it is less likely to be desirable to a tenant which will impact values.

3) Capital allocation – the way in which many institutional property investors allocate capital is becoming more influenced by environmental characteristics and it may be that a larger pool of capital seeks assets that meet certain criteria thus enhancing the value, but conversely it may mean that a smaller pool of capital is willing to acquire an asset that fails to meet this criteria thereby negatively affecting the value.

We ensure that risks from sustainability-related issues are consistent with the Company's general appetite for risk and devise strategies for reducing over-exposure to sustainability-related risks, during asset allocation and stock selection decisions and in the day to day management of the Company.

We identify the cost of improvements that may be required, either to protect the future quality of an asset or as a result of statutory interventions and ensure that they are properly reflected in individual asset plans.

We monitor the emerging impact of sustainability-related issues on values and will amend performance projections and offers for future transactions in the light of hard evidence, as it emerges.

The Company is committed to improving the energy performance of our buildings wherever this is commercially viable. With that in mind, we are currently in discussions to retrofit a further 2.75 MWp of solar PV across six sites using a combination of Company and third party funds. This is in addition to the five assets currently owned with solar PV panels producing just under 2 MWp of power per year.

CO_2 Emissions

We recognise that greenhouse gases are a major contributor to climate change and the reduction of CO2 emissions from properties in the Company's ownership is therefore an essential part of our environmental strategy.

Where data is available, we calculate emissions from each property in the Company and, where data is unavailable, make reasonable estimates as the basis for setting targets for future reductions.

Environmental

Reporting boundaries

Current emissions are used as a basis against which measurable targets for year on year CO_2 emissions reductions are set.

We establish the volume of emissions from each property and, when new properties are being brought into the Company, we will assess the relative impact of each acquisition on overall emissions.

When appropriate, we also calculate the “Carbon Intensity” (tonnes of CO_2 per £m invested) and, over time, we will seek to reduce the total volume of CO_2 emitted by properties in the Company. This may be achieved through the adoption of more sustainable property management, through the physical improvement of selected assets or as a result of investing capital in better quality properties.

We will use the Company’s baseline data to assess what measurable actions need to be taken - and by when - to enable the Company to achieve a science-based carbon neutral status.

That said, emissions under the Company’s direct control are a small proportion of the total amount of CO_2 emitted from the Company and that there is no obligation on the Company’s tenants to provide details of energy used at leased properties. Despite this limitation, we use our reasonable endeavors to persuade tenants voluntarily to provide sufficient details of their emissions to enable us to collate data for all assets in the Company.

We calculate emissions in accordance with the GHG Protocol and have elected to adopt an Operational Control approach to our calculations and reporting.

Environmental

Energy

Energy is the most significant contributor to CO_2 emissions from the built environment and we are committed to conserving supplies and reducing consumption.

- **Devolved**

  At the majority of the Company's buildings, the landlord has no direct control over the way that energy is used by the tenant(s) and has no authority to improve energy efficiency where responsibility for buildings has been devolved to its tenants under lease arrangements. In these cases, we engage with our tenants to encourage the more efficient use of energy and to promote energy efficiency improvements.

  Few tenants are obliged to provide details of consumption and many larger companies are unable to identify consumption at individual buildings where they are part of a wider operational estate. When it is appropriate, we identify tenants who are likely to have the highest levels of consumption using generic data. For selected buildings, we undertake a high level assessment of energy efficiency and identify ways in which energy efficiency can be improved.

  When a cost:benefit analysis suggests that energy savings are proportionate to the costs, we invite tenants to undertake a more detailed assessment and give favourable consideration to applications for consent to alter.

  We also seek opportunities to fund improvements to the sustainability and energy efficiency of the Company's investment properties. Measures include energy or water saving devices, rainwater harvesting, bee friendly landscaping and the installation of on-site sources of renewable energy.

- **Controlled**

  The Company is directly responsible for the consumption of energy at a very small number of multi-let buildings with shared services, such as external lighting at multi-let sites. For these properties, we have details of actual consumption and subject to historic contractual obligations with suppliers, we seek to only use suppliers who supply 100% renewably sourced electricity.

  We record consumption, year on year, and identify ways in which reductions can be made, setting measurable annual targets for each asset and across each portfolio as a whole.

  We identify a range of energy efficiency improvements for each building under the Company's direct control and determine whether the expenditure is justified in both environmental and financial terms.

  We identify the most appropriate time to undertake improvements, having regard to existing tenancy structures and maximising opportunities to recover costs from tenants who stand to benefit significantly from lower building running costs.

  In programming improvements, we also identify opportunities to reduce costs through making the relevant improvements at marginal additional cost during general refurbishment projects and during the routine repair and replacement of obsolete equipment.

Environmental

Accessibility

We recognise that transport is a significant source of CO_2 emissions and that assets that are less accessible may prove less attractive to occupiers and decline in value.

We examine the accessibility of all assets in the Company and identify the extent of the Company's exposure to less accessible properties.

There is no common measure of accessibility but our analysis is based on three factors:

· **Distance from public transport.** Over-reliance on private transport generates higher emissions than properties which are well-served by public transport. Town centre or inner-city properties which are more than one kilometre from suitable public transport, for example, may be considered relatively "inaccessible".

· **Congestion.** Properties which rely on road transport (such as distribution facilities, retail warehouses, industrial properties) should be within easy reach of the national motorway network and accessible from a major trunk road without being ensnarled in stationary traffic. Properties which are more than a 15-minute drive-time from the nearest motorway or major trunk road may be considered "less accessible".

· **Car parking.** The adequate provision of car parking can be a major contributor to the value of properties. Under-provision, displacing vehicles into neighbouring streets, will have a negative impact on the quality of the surrounding area. Over-provision may encourage the unnecessary use of private transport. Buildings which differ +/- 20% from local standards may be considered inaccessible.

Where it is feasible and appropriate, we will promote Green Transport Plans at assets held by the Company and ensure that buildings are equipped with appropriate facilities for cyclists and users of electric vehicles, including safe cycle storage facilities and electric vehicle charging points.

Physical Risks

We recognise that some property is at risk of flooding and that, in some locations, the risk of flooding may worsen over time as a result of climate change-related issues. In some cases, the risk is not reflected in current market values and we expect that to change.

Through our environmental due diligence, we identify which assets are at risk from flooding and forecast the extent to which values may be compromised. We can then ensure that the exposure is consistent with the Company's overall approach to risk.

On acquiring new assets, we have regard both to the impact of flood issues on the future performance of each asset and its impact on the overall exposure of the Company as a whole to flood-related risks.

In the longer term, properties in the United Kingdom may suffer other extreme weather-related risks, such as drought, heat gain, subsidence and water shortages. The emergence of these risks will be monitored closely to ensure that risks to value can be identified at a sufficiently early stage. This will allow us to design appropriate mitigation strategies and, when necessary, improve the physical resilience of individual properties.

Environmental

Water

We recognise that water is a scarce commodity in some regions and that, over time, scarcity is likely to affect an increasing number of territories. We also recognise that the treatment of water is a significant source of greenhouse gas emissions.

We consider the Company to be under an obligation to use all natural resources, including water, responsibly.

To this end, we promote the use of water-saving measures in areas of buildings that are devolved to the Company's tenants and explore ways in which it can be reduced.

When we identify water saving measures that can be achieved at little or no cost, we will encourage tenants to make improvements. We also evaluate the cost and likely return on more significant measures and look for ways to incentivise tenants to take action.

We also have regard to water saving opportunities during the regular repair, refurbishment and replacement of water-related services.

Waste

We support the principle of "re-use, recycle, reduce" and its application to waste.

We encourage our tenants to recycle waste and to reduce waste sent to landfill sites.

Subject to suitable space being available, we provide waste separation areas and recycling facilities at our buildings for the use of our tenants.

Engagement

We recognise that the largest impact the Company can make on the environment is through influencing the behaviour of others – our investment advisor and its staff, together with the Company's agents, contractors, suppliers and tenants.

We ensure that everyone employed by our investment advisor is aware of our policy, objectives and targets. We provide appropriate training to our staff so that relevant individuals have the knowledge and skills necessary to comply with this policy in their day-to-day activities.

Through our procurement policies and practices, we also encourage suppliers of goods and services to the Company to minimise the impact of their operations on the environment.

We engage with the Company's tenants to encourage the sustainable management of areas under their direct control and in the way that common parts and shared services are used. We encourage tenants to make improvements to energy efficiency and, where appropriate, we prepare high level "sustainable design guides" for tenants' reference in preparing plans for fit outs and periodic refurbishments.

We identify tenants whose businesses are most influenced by sustainability-related issues and who have the most advanced Environmental Policies and explore ways in which tenants' aspirations to reduce carbon emissions are consistent with our social and financial objectives.

Environmental

Development

The Company does not undertake direct development but does fund development projects and enter into forward commitments to acquire new developments.

The Company will use its influence to encourage tenants, developers and their contractors to consider sustainability-related issues in the design, construction and commissioning of buildings. We expect the environmental performance of new developments to meet and, where appropriate, to exceed the minimum standards laid down by building regulations and planning policy.

Commercial buildings should have a BREEAM Certificate with a rating of at least “Very Good”.

We expect all new buildings to have Energy Performance Certificates rated at B or higher and that the design will incorporate enhanced insulation, advanced energy efficiency and a suitable range of water-saving features.

The Company encourages developers to use durable materials and, where appropriate, to ensure that adaptability, both within use and across uses, is incorporated into new building design.

The Company also encourages developers to reuse or to recycle materials when existing buildings are demolished and to re-use recycled materials during new construction.

We recognise that the manufacture of building materials, such as glass, concrete and steel, can have a significant impact on the environment and that a large volume of CO_2 emissions are embodied in the development process. While this is largely outside the Company’s control and influence, we will only provide funding or agree for the Company to acquire newly-constructed buildings where there is a genuine social or economic need. Where development sites are to be cleared of existing buildings, we will ensure that those buildings are genuinely at the end of their economic life or that the replacement building will add significantly to the character of the local area and to the amenity of the local community.

Social

The Company recognises that its business activities have both direct and indirect impacts upon society and that it has a responsibility to minimise any negative impacts. When it is consistent with fiduciary responsibilities, the Company will seek opportunities to make a positive impact on the communities in which it invests and on wider society.

Negative Screening

The Company will not invest in properties that are used for unacceptable purposes or let to companies engaged in unacceptable business sectors. The list of unacceptable uses is kept under periodic review and, at present, includes the following:

- Adult entertainment
- Illegal or unregulated gambling
- Manufacture of tobacco products
- Animal testing for non-medical products
- Production of animal fur
- Manufacture and sale of controversial weapons.

Positive Screening

In the rare event that properties become vacant and need to be re-let, the first priority is to achieve the best rent available from the most appropriate tenant. This is necessary to satisfy the fiduciary responsibility to maximise income and capital returns from the Company's investment. The Company does, however, recognise that some potential tenants will have a more positive impact on the local community and on local economies than others.

Where it is consistent with the Company's fiduciary duty, it will give priority to potential tenants who:

- Employ the greatest number of local staff
- Provide goods and services primarily to the local community
- Can demonstrate good governance and ethical business practices
- Have an established approach to diversity and inclusion in their workforce

Subject to competitive offers being received, preference will be given to local businesses with the largest number of local employees and other businesses that will have the largest positive impact on the local community.

Social

Health & Safety

The Company will ensure that appropriate Health & Safety regimes are in place at all buildings under its direct control and encourage its tenants to do the same. Compliance with appropriate legislation and regulations is considered to be a minimum standard and the Company will ensure that Health & Safety issues are kept under constant review and subject to quarterly review at our main board meetings.

Further details are set out in our corporate Health & Safety policy.

Procurement

The Company has a responsibility to procure goods and services at a reasonable cost and, when such costs are recovered from our tenants through a service charge, to provide value for money.

Within these parameters the Company will, when appropriate, work with suppliers local to areas in which the Company's properties are situated. When we are procuring services, we ensure that local companies are given an opportunity to participate in tenders and to quote on an equal footing.

When goods and services are procured on the Company's behalf by our consultants and advisors and in agreeing to the funding of new developments, the Company will use its influence to ensure that local suppliers and contractors are given an equal opportunity to tender for work, whenever it is appropriate.

Development

The Company does not undertake direct development but fund development projects and make forward commitments to acquire new developments.

Only "thoughtful" developments will be funded or acquired, where the developer can demonstrate that the scheme will minimise any negative impact of the new buildings on local communities, both during construction and when the building is in use. The Company will prioritise development opportunities that provide positive public benefits and that support local communities.

The Company will encourage developers to identify and consult with a wide range of stakeholders in the local community and, when appropriate, to involve local stakeholders in the design of developments in which the Company invests.

The Company will use its influence to ensure that developers, through their contractors, provide local employment opportunities and, when appropriate, give local contractors and service suppliers an equal opportunity to tender for the supply of goods and services.

The Company will ensure that developers minimises disruption to the local community during construction. Completed developments should be properly integrated into the surrounding area, preserving or enhancing local identity and sensitive to the historical context and tone of the existing local architecture.

The Company expects new buildings to meet high standards of environmental performance and to promote the health and well-being of both the building occupiers and the wider community.

Governance

The Company's investment activities are overseen by our Board, whose members include non-executive members. The investment advisor and the Board work together to ensure proper execution of the Company's investment strategies, consistent application of policies, compliance with procedures and compliance with local and regional regulatory requirements.

The investment advisor's approach to good governance is set out in detail in its various policies and, for the purposes of this policy, are summarised below:

Compliance

The Board and the Investment Advisor are committed to conducting its activities with the highest integrity and in compliance with the letter and spirit of the law. All employees must adhere to our management policies and procedures.

The Investment Advisor has a dedicated Compliance Officer who is primarily responsible for the monitoring, review and enforcement of policies and procedures.

The Compliance Officer implements and oversees legal and regulatory compliance and risk management. Responsibilities include, among other things, making regulatory filings, reviewing, updating and maintaining policies, advising on new laws and reviewing conflicts of interest.

The Board of Directors, along with the Investment Advisor, has formed a Climate Risk Working Group ("CRWG") which meets at least quarterly. The CRWG has the sole purpose of identifying environmental-related risks, designing risk mitigation strategies and ensuring their implementation. This includes worsening physical risks, compliance risks from emerging legislation and potential financial risks to income and property values.

Every employee of the Investment Advisor undergoes training so that they are informed of their compliance obligations and how to identify compliance issues.

Risk Management

The Company's governance model is designed to manage investment risk and operational risk.

Investment Risk

Investment risk is overseen by the Board which monitors all capital transactions undertaken by the investment advisor. This ensures that proper emphasis is placed on the preservation of capital, identification and management of investment risk and appropriate pricing of risk at the portfolio and property level.

The Board is responsible for monitoring portfolio risk across the business and for undertaking quarterly reviews.

Operational Risk

The Compliance Officer reports to our Board and to the investment advisor's own board, and is tasked with identifying, capturing, assessing, managing and monitoring all operational risks including litigation, insurance and regulatory compliance, tax and IT disaster recovery procedures that may affect the Company or its investment advisor.

Reporting

The Company recognises the importance of setting targets for the management of ESG, for mitigating sustainability-related risks and for the exploitation of opportunities to add value. Long term targets are set for key initiatives and progress is monitored year on year.

Reports on progress are made to the Board at least quarterly and a section on ESG is included in a formal annual report to the Company's investors, with interim updates as required.

It is known that many co-investors in the Company and its joint venture partners are under both statutory and voluntary reporting obligations and the Company will seek to ensure that good quality information is made available to them at such times and in such a format to discharge those obligations.

The Company recognises the importance of benchmarking the performance of its assets against other investment properties and with other, comparable property investment funds. The Company is committed to making an annual return to GRESB and will comply with the recommendations of EPRA's Sustainability Best Practice Reporting.

The Company will also report on the 11 disclosures recommended by the Task Force on Climate-related Financial Disclosures: