Argosy

2021 climate-related financial disclosures

Overview

The impact of Argosy's business on the natural environment is an increasingly important consideration for investors, occupiers and other stakeholders. Argosy recognises that an important part of our responsibility is to identify and assess the risks presented by climate change, just as we manage other risks facing our business.

This report has been prepared based on the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which provides a framework for climate-related financial disclosures across four core elements: **governance, strategy, risk management and metrics and targets**.

Governance

TCFD Objective:

Disclose the organisation's governance around climate-related risks and opportunities.

TCFD Requirement:

a) Describe the board's oversight of climate-related risks and opportunities.
b) Describe management's role in assessing and managing climate-related risks and opportunities.

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Argosy's Board is responsible for establishing, reviewing and monitoring processes to identify climate change risks. The Board's Audit and Risk and ESG Committees also have specific responsibilities to assist the Board with governance around climate related risks.

The Audit and Risk Committee is responsible for overseeing the management of climate related risks as part of its overall responsibility for risk management which is implemented through Argosy's Risk Management Policy and Framework, including Argosy's risk register. The Audit and Risk Committee oversees the risk register and reviews it regularly with management. Argosy's climate related risks are included in the risk register.

The ESG Committee brings a particular focus to all ESG matters, which includes considering climate related risks and opportunities, and ensuring that these are brought to the Board's attention. The responsibilities of the ESG Committee are as follows:

- Identify and consider ESG matters relevant to the Company and report to the Board as appropriate.
- Identify and consider climate change risks arising from physical risks of climate change and risks arising from the transition to a low carbon economy.
- Make recommendations on the Company's approach to ESG matters.
- Oversee implementation of the Company's Sustainability Policy and ESG Framework.
- Review and report to the Board on the Sustainability Policy and ESG Framework.
- Review the ESG elements of the Company's annual and interim financial statements and recommend them to the Board for approval.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

Argosy established a Sustainability Committee in 2019. The Sustainability Committee reviews climate related risks, opportunities and initiatives. The Sustainability Committee meets four times per year and reports to the Board's ESG Committee. The membership of the Committee includes, among others, the Chief Executive Officer, Chief Financial Officer, Head of Sustainability and Facilities Engineer. This provides a diversity of thought, ensuring that climate related risks and opportunities are properly identified and considered.

The Sustainability Committee is also represented on the Risk Management Committee which implement's the Company's Risk Management Framework and reports to the Board's Audit and Risk Committee. This ensures that (although not subject to external audit) risks identified by the Sustainability Committee are subject to the same level of scrutiny as other types of financial and non-financial risk.

Strategy

TCFD Objective:

Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material.

TCFD Requirement:

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.

For the purposes of classifying risks and opportunities Argosy has adopted the TCFD's classification of physical and transitional risks and timeframes of within 3 years for the short term, within 10 years for the medium term and longer than 10 years for the long term.

- ***Physical risks*** are identified in the property strategy for each of Argosy's 55 property assets. Argosy considers the nature of the risks to which its assets could potentially be exposed are: direct damage from inundation or severe weather events in the long term; increased temperature causing increased demand on buildings services in the long term, particularly air-conditioning; and rising sea levels in the long term. Rising sea levels could possibly lead to significant asset value impairment due to coastal storm inundation. Several of Argosy's buildings are located close to the waterfront in both Auckland and Wellington. As a result, the potential for rising sea levels represents a possible physical risk. Auckland and Wellington Councils model coastal-storm inundation from 1 in 100 year events based on current sea level and a projected sea level rise of up to one metre. This information indicates that Argosy's assets will not be materially affected by coastal storm inundation. These long term risks will, in accordance with the TCFD's guidance, be further explored. No short or medium term physical risks have been identified.
- Argosy has identified ***transitional risks*** and opportunities based on assumptions about Government policy and the expectations of its occupiers, investors and other stakeholders. These include costs to meet building certification and climate change-related reporting requirements and potential obsolescence of building services. Such transitional risks are expected to arise in the medium to long term. While these costs represent a risk to affected assets, they also represent an opportunity to the extent that Argosy can meet stakeholder requirements. The attention paid to transitional climate-related risks and opportunities by Government, occupiers, investors and other stakeholders has grown markedly in recent years and it is expected that in New Zealand these risks and opportunities will be determined to at least some extent by the final report and timeframes set by the Climate Change Commission. Argosy is considering the risks and opportunities suggested by the Commission's January 2021 advisory report and will consider the final report and timeframes when these are available. At present Argosy expects that it will be well-placed to mitigate risks and benefit from opportunities.

b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.

Argosy is committed to managing and reducing the impact of its operations on the environment, including through climate change. Our environmental strategy reflects our ambition to address environmental issues by creating well designed, vibrant and sustainable workplaces for today and into the future. We believe that green buildings have the potential to provide several key business benefits including:

- lower operating costs;
- higher occupancy;
- higher value;
- improved worker productivity and occupant health and well-being;
- lower regulatory risk.

Argosy has a sustainability strategy which applies to all areas of its business. The most observable impact of climate-related risks has been the drive for Argosy and its stakeholders to obtain certifications in relation to the refurbishment or construction (i.e. Green Star ratings) and ongoing operation (i.e. NabersNZ ratings) of its buildings. These certifications provide evidence of reduced emissions from Argosy's buildings in accordance with internationally recognised standards which help reduce the carbon footprint of Argosy and its occupiers. This drive toward green certified buildings is reflected in Argosy's financial planning as well as its plans for acquisitions, developments and disposals.

The development of green certified buildings has also provided Argosy with an opportunity to diversify its funding through Green Bonds. At the date of this report, Argosy has funding of $325 million from Green Bonds supported by green certified buildings valued at $377 million.

Argosy does not expect any material effect from physical climate related risks. However, as noted above, the potential impact of long term risks will be further explored in accordance with the TCFD's guidance.

c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

Argosy has a resilient portfolio that is diversified by sector, tenant and location. This reduces risk to a severe climate change induced events. Argosy does not expect to suffer material direct effects from a 2°C or lower scenario and considers its portfolio resilient to physical impacts. While there is the potential for increased demands on building services, particularly air-conditioning systems, due to increased temperatures, Argosy does not expect the increased cost to be material, particularly as this will likely be mitigated by the introduction of more efficient technologies to address transitional risks.

Argosy has been preparing its portfolio of property assets for progressive certification, starting with the 5 Green Star Office Built rating and 5 Star NabersNZ rating obtained for the redevelopment of its historic Art Deco-styled building at 15 Stout Street, Wellington in 2013. Since then, Argosy has obtained Green Star ratings on a further 4 buildings and NabersNZ ratings on a further 5 buildings.

Argosy expects that, without any anticipated physical impacts, and with the progressive certification of buildings in its portfolio, its business will be resilient to risks from climate change. However, in accordance with TCFD guidance, Argosy will undertake scenario analysis to identify any climate-related risks.

Risk Management

TCFD Objective:

Disclose how the organisation identifies, assesses, and manages climate-related risks.

TCFD Requirement:

a) Describe the organisation's processes for identifying and assessing climate-related risks.
b) Describe the organisation's processes for managing climate-related risks.
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.

a) Describe the organisation's processes for identifying and assessing climate-related risks.
Argosy identifies and assesses climate-related risk through its Risk Management Policy and Framework as well as Management's Sustainability Committee who identify and assess climate-related risks.

The Sustainability Committee consults with the Property Council and other industry bodies focused on climate-related policy and building certification.

b) Describe the organisation's processes for managing climate-related risks.
Argosy considers that material climate-related risk could arise from transitional risks which may result in a mismatch between its portfolio and requirements of occupiers, investors and other stakeholders. To manage these risks Argosy assesses the suitability of its buildings against the expected requirements of its stakeholders and makes acquisition, development and divestment decisions to ensure that buildings in its portfolio are fit for purpose.

c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.
Argosy includes climate-related risks in its Risk Register maintained in accordance with its Risk Management Policy and Framework which is overseen by the Board's Audit and Risk Committee. The composition and structure of Management and Board Committees (outlined above) ensures that climate-related risks identified by the Board's ESG Committee and Management's Sustainability Committee (although not subject to external audit) are scrutinised at the same level as other financial and non-financial risks.

Metrics and Targets

TCFD Objective:

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

TCFD Requirement:

a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

a) Disclose the metrics used by the organisation to assess climate related risks and opportunities in line with its strategy and risk management process.

Argosy seeks to obtain Green Star and NabersNZ ratings of at least 4 stars for all new developments (both new build or retrofit).

Currently Argosy has 5 Green Star Built ratings on five buildings in the portfolio and is targeting a 6 Green Star Built rating for its office redevelopment at 8-14 Willis Street in Wellington. A green rating of 5 Stars represents *New Zealand Excellence* on the rating scale administered by the New Zealand Green Building Council. A green star rating of 6 is *Aspirational Performance*.

Argosy has achieved NabersNZ ratings of 4 Stars or above on 5 office buildings in the portfolio and we are awaiting eligibility on four more buildings. Metering is being installed currently in all office buildings. 4 Stars represents *Excellence* on the NabersNZ rating scale, also administered by the New Zealand Green Building Council.

Argosy has engaged an independent consultant (Toitū) to certify Scope 1, 2 and 3 emissions. This independent certification process will allow Argosy to focus on emissions reduction in the future.

b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Scope 1-3 emissions are reported on in our annual report.

c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.

The company has set ambitious targets as part of its ESG Framework.

- Obtain NabersNZ Energy Ratings by 2022 on all office buildings (excluding developments).
- Target the portfolio being >50% green by 2031. Green is defined by obtaining either a Green Star Built rating or NabersNZ rating of at least 4 Stars.
- Implement a Waste Management Plan for all major projects, targeting >75% diversion from landfill. Argosy is also targeting a 3% reduction in waste to landfill from its own operations annually over the next ten years to achieve a 30% reduction by 2030.
- Collect and report on scopes 1, 2 and 3 mandatory carbon emissions and complete a reduction plan for Argosy.
- Obtain carbon neutral status for 2020 calendar year (January – December 2020)

Argosy

39 Market Place
PO Box 90214, Victoria Street West, Auckland 1142
P / 09 304 3400
www.argosy.co.nz