

# Challenger Investment Management Real Estate

Responsible  
Investment  
Statement



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**Asset Class**

Real Estate

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**Owners**

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Challenger Investment Management Real Estate (Challenger) is an experienced institutional investment manager with significant operations in Australia and Japan. Challenger Investment Management Real Estate is committed to the integration of Environmental Social and Governance (ESG) considerations into property investment decision-making and asset management. Challenger Investment Management Real Estate believes the effective management of ESG risks and opportunities is integral to the long-term investment performance and sustained value of assets. Integration of ESG practices is therefore a part of Challenger Investment Management Real Estate's day-to-day business operations.

## Real estate holdings in Australia

Supporting their belief in ESG integration, Challenger applies ESG principles when acquiring and managing its Australian real estate holdings.

## Acquisition due diligence

Challenger's investment process incorporates ESG considerations into the acquisition due diligence stage including, but not limited to:

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### Environmental issues

- Contamination
- Energy efficiency
- Flooding
- Natural hazards
- Water efficiency
- Waste management

### Social issues

- Building safety and materials
- Health, safety and wellbeing
- Occupier satisfaction
- Community engagement

### Governance issues

- Anti-bribery and corruption
  - Conflicts of interest
  - Regulatory
  - Shareholder structure and rights
  - Supply chain governance
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## Asset and property management

- The Strategic Asset Plan for each property identifies and analyses ESG risks, and establishes monitoring and management processes
- External contractors providing facilities management and related services must also have acceptable ESG credentials
- Challenger's third-party property management service providers have an obligation to provide regular reporting on risk management, Workplace Health and Safety (WH&S), energy reporting requirements, and audit and compliance requirements
- Challenger's designated National Operations and Sustainability Manager ensures Challenger monitors energy conservation factors including National Australian Built Environment Rating System (NABERS)<sup>1</sup> ratings, lifecycle performance audits, Risk Management Maturity Model (RM3)<sup>2</sup> audits and Building Energy Efficiency Certificate (BEEC)<sup>3</sup> certification
- Challenger monitors and encourages community events within its retail shopping centres
- Challenger ESG activities are monitored and annually reported for inclusion in Challenger's Principles of Responsible Investment (PRI) reporting obligations.

Key performance measures for the management of the Australian real estate portfolio are summarised below:

- NABERS<sup>1</sup> ratings – target is a minimum 4.5 star average rating across the office portfolio
- Life cycle performance audits
- Energy usage monitoring via RM3<sup>2</sup> audits
- BEECS certificates<sup>3</sup>

## Consideration of climate change risks and opportunities

Challenger acknowledges that climate change is an important issue and understanding its impact continues to evolve at a rapid pace. Challenger's approach to the assessment of climate change risks is therefore expected to evolve accordingly.

Challenger's acquires assets with a view of long-term ownership and acknowledges that over time climate change can impact the value and management of these assets.

Currently, Challenger utilises a panel of suitably qualified consultants to consider the impact of climate change at various stages of the investment life-cycle and to assist it to assess the impact on value in the following ways:

### Assessment upon acquisition

- Deal screening (where a material risk is identified)
- Pricing consideration (if required)
- Management plan (where a suitable solution or mitigation strategy can be identified)

### Periodic review of portfolio assets exposure to climate risks takes place every 3 years or more regularly, as appropriate, to respond to changing legislation and technologies.

Considerations under the climate change risk assessment include, but are not limited to, the following:

Physical Risks	Transition risks
<ul style="list-style-type: none"><li>• Increased temperature and extreme heat days</li><li>• Bushfire risk</li><li>• Sea level rise</li><li>• Storms and high wind events</li><li>• Drought</li><li>• Flooding and extreme rainfall</li></ul>	<ul style="list-style-type: none"><li>• Shifts in investor appetite</li><li>• Changing industry standards</li><li>• Pressure on supply chains</li><li>• Technology shifts in energy</li></ul>

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1 NABERS: The National Australian Built Environment Rating System, is an initiative by the government of Australia to measure and compare the environmental performance of Australian buildings and tenancies.

2 RM3: The Risk Management Maturity Model (RM3) is an online and web-based software platform which enables effective management of health and safety, risk and compliance obligations. The system enables tracking of compliance and risk control actions, including exception reporting.

3 BEEC certification: A Building Energy Efficiency Certificate (BEEC) sets out the energy efficiency rating of a building or area of a building that is offered for sale, lease or sublease. BEECs contain two parts:

- Part 1 consists of a National Australian Built Environment Rating System (NABERS) Energy for offices rating for the building – The NABERS Energy for offices rating provides information on the building's energy efficiency. It must be a base or whole building rating (a whole building rating also covers the tenanted space and is disclosed if there is inadequate metering to obtain a base building rating)
- Part 2 consists of a CBD Tenancy Lighting Assessment (TLA) for the area of the building that is being sold, leased or subleased. The TLA is an assessment of tenancy lighting that measures the power density of the installed general lighting system.

## Consideration of water security in asset acquisition and management

Water security is a rising issue in Australia and across the globe. Challenger is committed to reducing water usage across all its assets.

Challenger's day-to-day asset management process focuses on water reduction initiatives through business planning and monthly reporting.

Water reduction initiatives are considered across the entire portfolio as part of regular business planning and in response to emerging technology.

Annual NABERS water ratings are also undertaken for the office portfolio, which demonstrates the water efficiency of each building. There is a strong focus within the Challenger team on how this star rating can be continually improved including through development activity and new acquisitions.

### New acquisitions example:

Challenger purchased 50% of an asset, recognising it would be built to achieve a minimum green star rating of 5 stars, which includes material water saving targets by:

- design
- use of materials
- its plant & equipment
- fixtures & fittings

### Development example:

Challenger include a specific section within their shopping centre business plans for identification of water efficiency initiatives and emphasising its strong commitment to water usage reductions.

### Examples of water reduction initiatives undertaken:

**Asset 1:** Bathroom upgrade with water efficient taps & toilet pans throughout.

**Asset 2:** Hot Water Reticulation – installed a reticulated pipe system minimising water draw-off and water consumption.

**Asset 3:** Bathroom upgrades that included the installation of water efficient tap units.

**Asset 4:** Bathroom upgrade with time flow tap units.

**Asset 5:** New irrigation system for the garden beds which were installed with timed control systems.

**Asset 6:** Upgrade of bathroom amenities which were fitted with:

- Sensor taps
- Automatic flush urinals
- Controlled flow toilet cisterns

## Real estate holdings in Japan

The Challenger Japan team (through Challenger Kabushiki Kaisha (CKK), Challenger's wholly-owned and licensed real estate asset management subsidiary established in Japan) incorporates ESG considerations into all investment decisions and monitors portfolio properties to ensure compliance with Japanese ESG-related laws and regulations, wherever applicable.

CKK undertakes rigorous due diligence when acquiring properties in Japan, both to comply with Challenger's ESG-related policy obligations and to minimise investment risk related to environmental issues. To this end, CKK engages a panel of suitably qualified consultants to assess compliance with environmental, town planning and safety laws and regulations.

In conducting due diligence prior to making investment decisions, CKK focuses on confirmation of compliance to applicable ESG-related laws and regulations (this includes soil/building contamination, CO2 emissions-related rule whenever applicable) and seismic resistance (building safety). Energy efficiencies are considered when the investment mandate stipulates such criterion. Other ESG issues include accessibility and adequate green space provision.

All acquisitions must comply with relevant environmental and social laws, regulations and codes (or if not complying, there must be a specific remediation plan in place).



