Gresham House
Specialist investment

Sustainable investment update:

Real Estate

April 2024

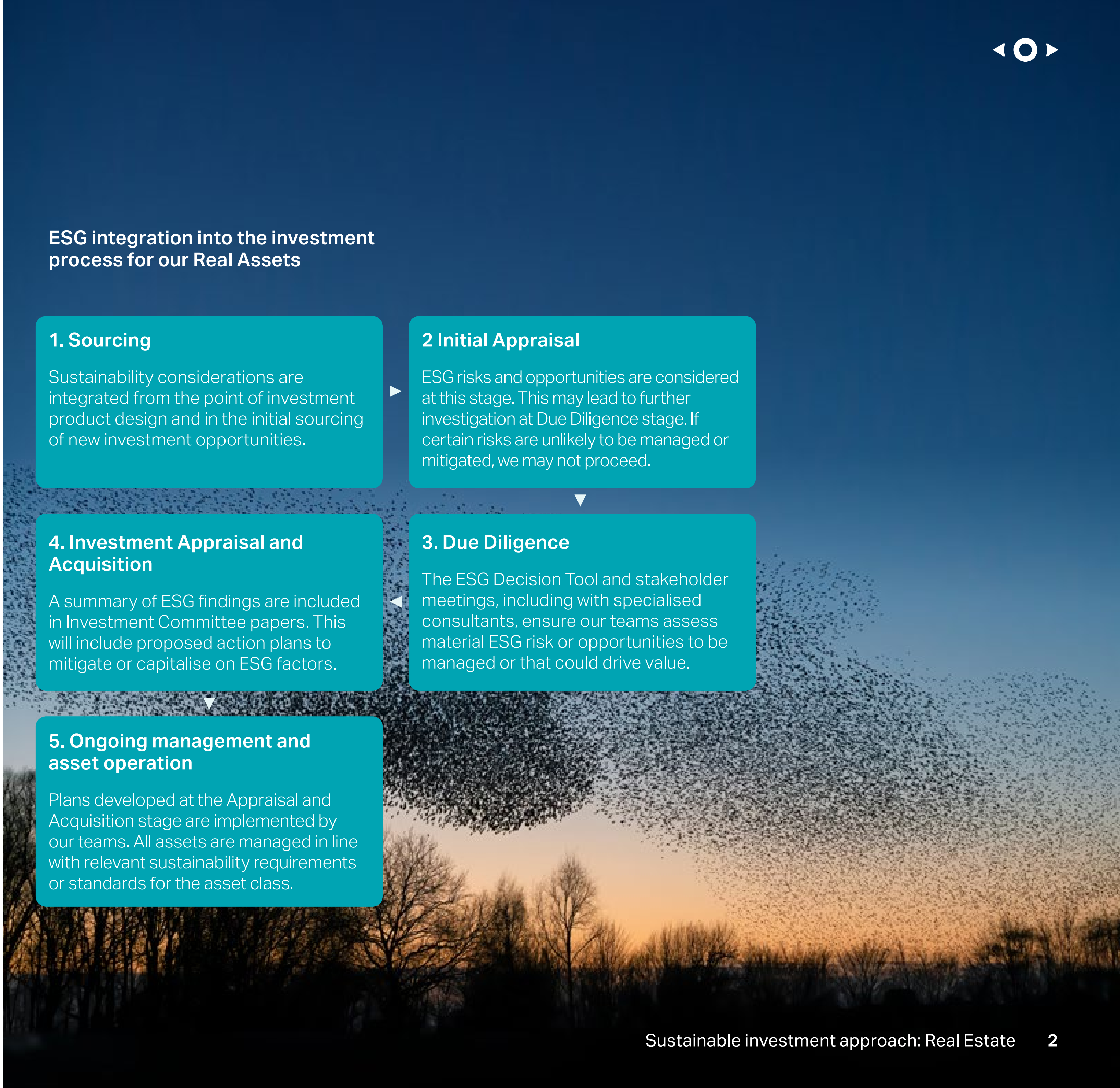
Real Assets

Our range of real asset investment products provide protection from inflation through proven, long-term sustainable, asset-backed investments.

In many cases, they also provide the potential for uncorrelated returns to equity markets as well as diversified sources of income.

How we integrate ESG

Our Real Asset investments sit within the Sustainable and Impact categories of our Spectrum of Capital. ESG factors are assessed from a risk and opportunities perspective to generate at least market-level investment returns. Our funds also aim to actively contribute towards solutions to some of the largest environmental and societal challenges and produce positive real-world outcomes.



ESG integration into the investment process for our Real Assets

1. Sourcing

Sustainability considerations are integrated from the point of investment product design and in the initial sourcing of new investment opportunities.

2 Initial Appraisal

ESG risks and opportunities are considered at this stage. This may lead to further investigation at Due Diligence stage. If certain risks are unlikely to be managed or mitigated, we may not proceed.

3. Due Diligence

The ESG Decision Tool and stakeholder meetings, including with specialised consultants, ensure our teams assess material ESG risk or opportunities to be managed or that could drive value.

4. Investment Appraisal and Acquisition

A summary of ESG findings are included in Investment Committee papers. This will include proposed action plans to mitigate or capitalise on ESG factors.

5. Ongoing management and asset operation

Plans developed at the Appraisal and Acquisition stage are implemented by our teams. All assets are managed in line with relevant sustainability requirements or standards for the asset class.

Real Estate

We offer long-term equity investments into UK housing, through listed and unlisted investment vehicles, each focused on addressing different aspects of the UK's housing crisis.

Our investments aim to deliver stable and secure inflation-linked returns whilst providing social and environmental benefits to our residents, the local community and the wider economy.

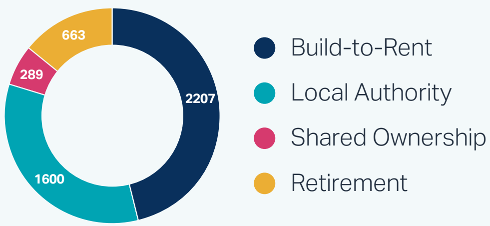
In Ireland, we provide investments in commercial property – office, retail and industrial properties in the greater Dublin area and major regional urban centres.

The fund recognises the strong value of sustainability in improving and enhancing the value of its assets for clients, investors, tenants, and society.

Real world outcomes	2022	2023
Scope 1&2 GHG emissions (tCO_2e)	22	14
Scope 3 GHG emissions (tCO_2e)	7,056	7,530
Carbon intensity (Scope 1,2&3 GHG emissions/m^2)	11.2	16.5
Operational UK housing stock EPC B+ (%)	40	41
Operational Irish commercial property stock BER B+ (%)	23	30
UK homes completed (all fund and ownership types)	253	126
UK homes committed to funding (all fund and ownership types, %)	634	97
Proportion affordable Shared Ownership homes (%)[1]	96	100
% new build SO homes that are EPC A	75	75

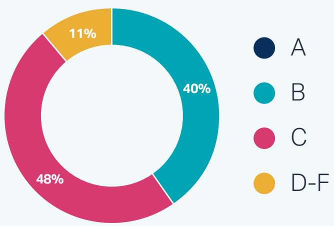
1. as defined by The Good Economy

2023 Gresham House operational UK housing stock (# units)



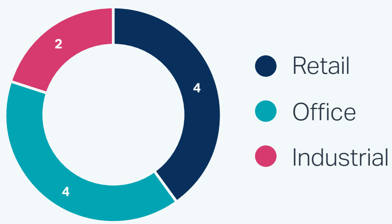
2022: 2,238 Retirement; 1,524 Shared Ownership; 289 Local Authority; 434 Build-to-Rent

2023 Distribution of UK housing EPCs



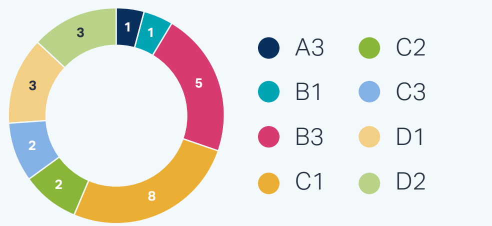
2022: 35% B; 46% C; 11% D; 1% E

2023 Gresham House Ireland commercial property portfolio (# properties)



2022: 3 Retail, 4 Office, 2 Industrial

2023 Distribution of Irish commercial property portfolio BERs (# units)



EPCs and BERs rate a property based upon its energy consumption and efficiency. EPC ratings are a measure of a property's energy efficiency, assigning a letter grade between A and G. BERs are a legal requirement in Ireland and provide information on a property's energy efficiency. BERs rate properties on a scale of A1-G.

Shared Ownership: a piece of the affordable housing puzzle

Within our UK Housing portfolio, we invest in sub-sectors of the UK residential housing market where demand is underpinned by an ageing demographic and untapped, strong demand for affordable home ownership.

ReSI PLC and ReSI LP invest in Shared Ownership housing, a part-buy part-rent affordable housing solution, where the customer owns an equity portion of their home and pays a below market rent on the remainder. Shared Ownership provides an affordable route to home ownership for middle- and lower-income households. In summary, the shared owner:

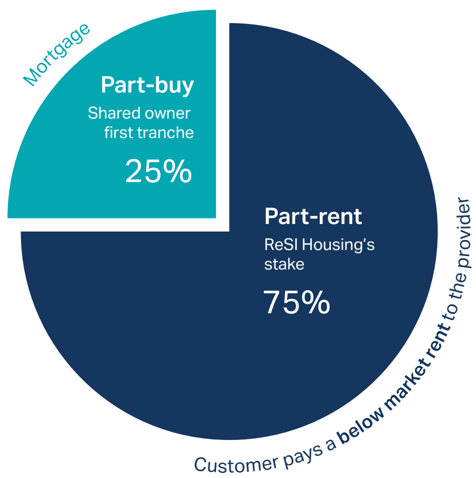
1 purchases an equity stake in their new home at open market value. This is known as the "first tranche sale" and is a minimum of 25% of the value of the property;

2 pays a subsidised rent c.30% below market rent on the remaining part of the home, which increases annually at CPI +1%;

3 has the option to incrementally purchase additional shares in their home at the prevailing open market value (known as "staircasing");

4 typically finances their initial stake with a 90% mortgage; and

5 is responsible for maintenance, repair and insurance, creating strong alignment of interest.



> **Emily takes security from the rent cap applied by ReSI during the year and being able to plan her finances accordingly. Whilst she has not been able to save as much money as she hoped, she feels it is more cost-effective than renting privately**

Interview with residents as part of The Good Economy's 2023 ReSI PLC impact report. Names have been changed.

Case study: maintaining affordability levels during the cost-of-living crisis

Our team took several steps to ensure that Shared Ownership residents were protected from some of the spikes that someone renting or owning the average UK property on the open market may have experienced in 2023.

Rent increases

- Shared Ownership portfolio rent increases were capped at 7%, below their contractual level of 13.1%
- Retirement rent increases were capped at 6%, generating annualised savings for residents of £1 million compared to increasing rents in line with RPI
- With UK wage inflation for the period averaging 8.5%[1], the rent caps applied by ReSI have ensured that rent levels remain affordable to the average resident

1. Annual growth in employees' average total pay (including bonuses) – ONS, September 2023

Mortgage rates

As shared owners only own a portion of their home, the impact of increased mortgage costs was significantly reduced compared to someone who owns outright.

Energy bills

The energy efficiency of ReSI's properties is estimated on average to be saving shared ownership and retirement residents £661 and £248 per year respectively compared to the cost of energy at an average UK property.[2]

The table below shows that a typical shared ownership resident who is refinancing their mortgage at today's rates could expect to see a lower increase in their housing costs compared with a typical housing owner.

		2022 £	2023 £	Increase £	%
Typical ReSI Shared Ownership Resident refinancing their mortgage at today's rates[3]	Rent and service charge	7,688	8,226	538	7%
	Mortgage costs	3,579	4,644	1,065	30%
	Energy bills[4]	1,261	1,173	-88	-7%
	Total	12,528	14,043	1,515	12%
Typical ReSI Shared Ownership Resident with fixed rate mortgage	Rent and service charge	7,688	8,226	538	7%
	Mortgage costs	3,579	3,579	-0	0%
	Energy bills	1,261	1,173	-88	-7%
	Total	12,528	12,978	450	4%
Typical UK owner refinancing at today's rates[5]	Mortgage costs	14,315	18,577	4,263	30%
	Energy bills	1,971	1,834	-137	-7%
	Total	16,286	20,411	4,126	25%
Typical UK rental accommodation[6]	Housing costs	14,700	16,244	1,544	11%[7]
	Energy bills	1,971	1,834	-137	-7%
	Total	16,671	18,078	1,407	8%

2. The Good Economy calculation based on savings for EPC B and EPC C properties vs EPC D of £460 and £171 respectively with the UK energy price cap at March 2021 level. Saving scaled up for October 2023 price cap
3. Shared ownership assumptions: OMV £300k; First Tranche Sale: 25%; Deposit: 10%; Mortgage term: 30 years; initial interest 3.3%; refinanced interest 5.5%; Rent level 2.75% rent increase 7%; Service charge: £1,500 p.a; EPC B
4. 2022 energy bills as of April 2022 price cap. 2023 energy bills as of October 2023 price cap
5. Outright owner assumptions; OMV: £300k; Mortgage LTV 90%; initial interest 3.3%; refinanced interest 5.5%; EPC D
6. Rental Assumptions - OMV: £300k; Rental Yield: 4.9%; EPC D
7. Rental Market Report, Zoopla – September 2023

Case study: innovative financing solutions to support the delivery of shared ownership housing in the UK

ReSI LP aims to deliver quantifiable social and environmental impact by providing middle to low income earners with an affordable route onto the housing ladder through shared ownership.

In December 2023, ReSI LP secured its first sustainability-linked loan with MUFG. The £30 million credit facility includes sustainability KPIs relating to the continued reduction of carbon emissions and the delivery of increasingly energy efficient homes. These include:

1. Reducing the carbon intensity of the portfolio (kg CO_2e/m^2)in line with the requirements under the Science Based Targets initiative (SBTi)
2. Increasing the percentage of forward funded shared ownership homes that have an Energy Performance Certificate (EPC) of A
3. Increasing the percentage of forward funded developments where embodied carbon emissions can be reported

These KPIs align with the Fund's impact objectives, helping to create aligned incentives to achieve its sustainability targets.

Case study: retrofitting Fenward House

The challenge. In 2023, our Irish Commercial Property Fund sought to transform Fenward House, a vacant office building built in 2005 with a Building Energy Rating (BER) of E1, into a modern, energy efficient asset that could also command higher rents and a higher valuation.

The solution: A number of upgrades were made to improve the overall sustainability of the building. These included:

1. Upgrading the air conditioning and lighting systems with more energy efficient alternatives
2. Installing 22MWh solar panels on to the roof to cover the energy consumption of the building's common areas
3. Creating new welfare facilities for tenants, including showers, locker rooms and secure bike parking

The result: As a result of the renovation, the energy efficiency of the building was vastly improved with its BER increasing from E1 to A3. The value of the property was increased as a result of the improved energy rating, and new tenants have been attracted to the property, paying higher rents than could be commanded previously.

Case study: improving the energy efficiency of ReSI plc's retirement properties through "Project D"

ReSI plc is committed to upgrading the energy efficiency of its portfolio, as outlined in its Environmental Charter.

A core pillar of this is "Project D" which aims to upgrade 100% of its non-exempt directly rented properties to a minimum of EPC C by 2025.

Directly Rented Units

- During the year, a further 33 directly rented properties were upgraded from a D to a C, bringing 146 (78%) of the properties that were D rated at the beginning of Project D now having been upgraded to a C
- The remaining non-exempt directly rented D rated properties are expected to be upgraded to a C by 2025

Housing Manager Flats (HMFs)

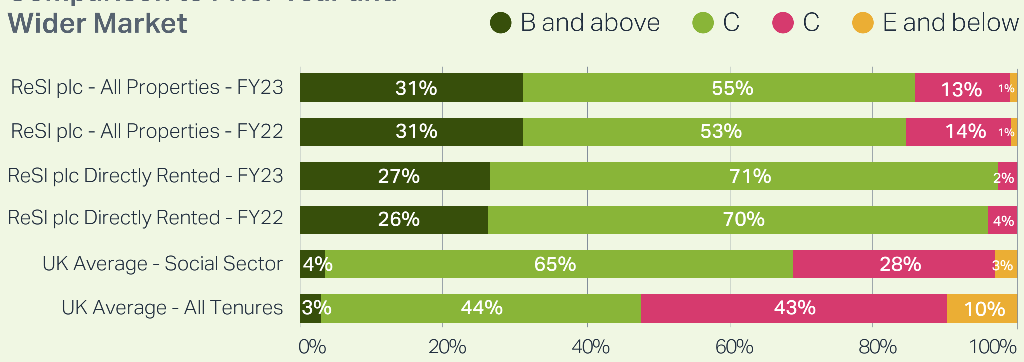
- The HMFs are on license to a third party who is responsible for the maintenance of the properties, however ReSI has worked with the counterparty to improve the efficiency of the portfolio
- The percentage of HMFs with an EPC rating of D or below dropped from 25% in FY 2022 to 19% in FY 2023

Real-world outcomes

As a result of the continued focus on energy efficiency improvements, the proportion of ReSI plc's directly rented properties that are EPC B or C increased by 2 percentage points in 2023 to 98%.

This compares with an average of 47% for all tenures, and 69% for the social sector in England.

Comparison to Prior Year and Wider Market



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