Custodian
PROPERTY INCOME REIT

Environmental, Social and Governance Report 2023

Location: Sheffield

Welcome

Inside this Report

Location: Oxford
EPC Rating: B
EV Chargers: 6 x 7kW/hr fast chargers installed

How to use this report

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Chair introduction

Welcome to our inaugural 2023 ESG Report

> ESG improvements are an opportunity for shareholders to benefit from the enhanced rents, valuations and 'lettability' of the portfolio

The Company is committed to delivering its strategic objectives in an ethical and responsible manner and meeting its corporate responsibilities towards society, human rights and the environment. The Board acknowledges its responsibility to society is broader than simply generating financial returns for shareholders. We are committed to meeting the Company's challenging goals in relation to ESG matters, which we believe have never been more integral to the operations of a real estate business.

Commercial real estate is a significant contributor to national emissions so we believe an emphasis on how we can improve the portfolio's environmental performance is of particular relevance for our stakeholders.

The Board encourages the Investment Manager to act responsibly in the areas it can influence as a landlord, for example by working with tenants to improve the environmental performance of the Company's properties and minimise their impact on climate change. The Board believes that following this strategy will ultimately be to the benefit of shareholders through enhanced rent and asset values.

Energy performance and emissions are important considerations across all redevelopments and refurbishments in the portfolio as is the importance of social factors in creating an engaging, appropriate and sustainable (in all senses of the word) built environment. We believe that ESG improvements are an opportunity for shareholders to benefit from the enhanced rents, valuations and 'lettability' of the portfolio which should be value accretive over and above the cost of the investment. Investing in real estate that meets the ESG requirements of occupiers and legislation should lead to shorter periods of vacancy, higher rents and enhanced values. Remembering the "G" (Governance), we have policies, embedded in our strategy, to keep Custodian Property Income REIT on target to meet the required standards but we remain focused on delivering returns at the same time.

During 2022 we undertook a number of developments and refurbishments, continued to expand our electric vehicle ("EV") charging capacity as well as completing a number of charitable lettings, all detailed throughout this report, which achieved significant improvements in the environmental performance of the Company's portfolio alongside positive social outcomes.

During 2023 the Board's priorities are to continue to invest in the Company's existing portfolio of assets, to meet the Company's stretching ESG targets and to advance its net zero carbon strategy.

David Hunter
Chair - Custodian Property Income REIT

Location: Trafford Park
EPC Rating: Improved from C to B

ESG Committee Chair statement

Improving the environmental performance of our portfolio

> I am delighted with the Company's performance and the huge steps we have taken to embed ESG considerations into everything the Company does

Having Chaired the ESG Committee for the last two years I am delighted with the Company's response and the huge steps we have taken over that time to embed ESG considerations into everything the Company does. We have a number of exciting initiatives underway, in particular the ongoing net zero carbon pathway work, which will continue to improve the environmental performance of the portfolio and benefit the communities in which we own property.

The ESG Committee has worked closely with the Investment Manager to ensure the Company's key performance indicators ("KPIs") are met and new stretching targets are continually set to achieve our ESG objectives. We seek to continually improve the clarity and effectiveness of our external reporting, culminating in producing this ESG report, and are grateful to our ESG advisers, previously Carbon Intelligence and more recently JLL, for their valuable advice. Going forward, I look forward to the challenges an ever changing ESG compliance environment will pose, and expect the Company to continue to improve and futureproof the portfolio to the benefit of all stakeholders.

Hazel Adam
Chair of the ESG Committee

Location: Oxford
EPC Rating: B

Company background

Business model and strategy

Purpose

Custodian Property Income REIT offers investors the opportunity to access a diversified portfolio of UK commercial real estate through a closed-ended fund. The Company seeks to provide investors with an attractive level of income and the potential for capital growth, becoming the REIT of choice for private and institutional investors seeking high and stable dividends from well-diversified UK real estate.

Property strategy

The Company's portfolio is focused on smaller lots, principally targeting properties of less than £15m at the point of acquisition. This focus on smaller lots offers:

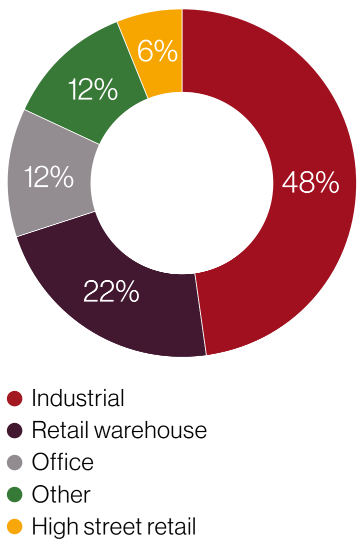
An enhanced yield on acquisition – with no need to sacrifice quality of property/ location/tenant for income and with a greater share of value in 'bricks and mortar';

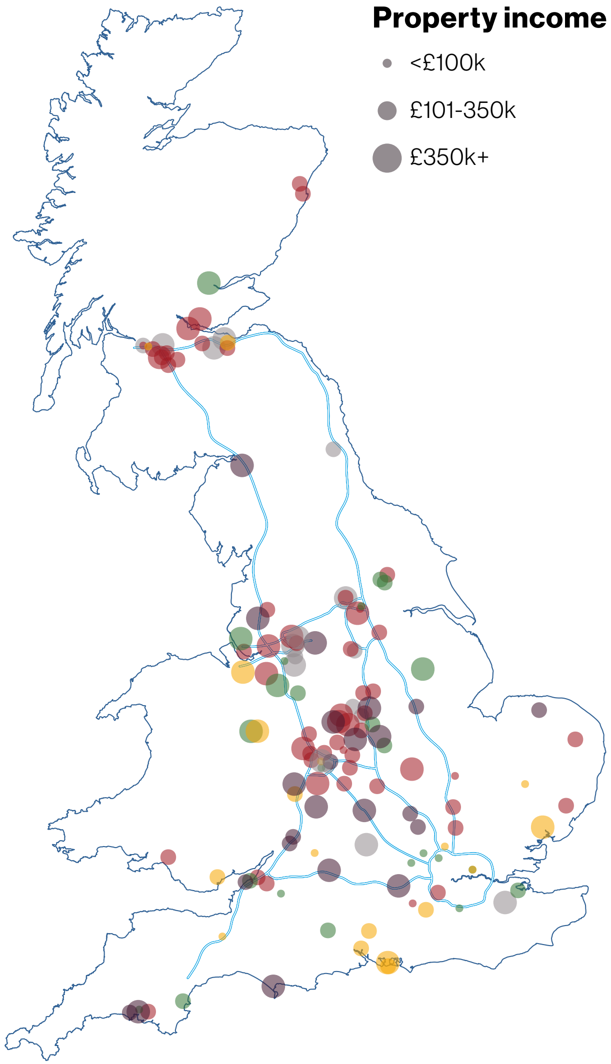
Greater diversification – spreading risk across more assets, locations and tenants and offering more stable cash flows; and

A higher income component of total return – driving out-performance with forecastable and predictable returns.

Our portfolio by sector:

weighting by value 31 December 2022





ESG objectives

Our blueprint for ESG success

Improving the energy performance of our buildings

Investing in carbon reducing technology, infrastructure and onsite renewables and ensuring redevelopments are completed to high environmental standards.

Reducing tenants' energy usage and emissions

Liaising closely with our tenants to gather and analyse data on the environmental performance of our properties to identify areas for improvement.

Achieving social outcomes and supporting local communities

Engaging constructively with tenants and local government to ensure we support the wider community through local economic and environmental plans and strategies and playing our part in providing the real estate fabric of the economy, giving employers safe places of business that promote tenant well-being.

Understanding and responding to environmental risks and opportunities

Allowing the Board to maintain appropriate governance structures to ensure the Investment Manager is appropriately mitigating risks and maximising opportunities.

Complying with requirements and reporting in line with best practice where appropriate

Increasing transparency, aligning with relevant benchmarks and frameworks, and communicating our targets, impact, activities and initiatives to stakeholders.

Governance

Maintaining high standards of corporate governance and disclosure to ensure the effective operation of the Company and instil confidence amongst our stakeholders.
We aim to continually improve our levels of governance and disclosure to achieve industry best practice.

Our ESG advisers

Jones Lang LaSalle

Carbon Intelligence has acted as the Company's ESG adviser since 2018, successfully advising on the Company's ESG policy, KPIs, and undertaking its initial GRESB and EPRA sustainability reporting. In October 2022, the Company took a very difficult decision to replace Carbon Intelligence with Jones Lang LaSalle Limited ("JLL") as its ESG adviser in October 2022, replacing Carbon Intelligence. JLL is one of the world's largest investment advisory firms and a market leader in real estate ESG advisory with 90 ESG focused consultants in the UK and over 650 internationally. The Board believes JLL's appointment will enable the Company to accelerate the implementation of its ESG strategy and more effectively achieve its objectives, but would like to offer its thanks for the effort and dedication of Carbon Intelligence over the last four years.

The Board is determined to carefully implement a practical carbon reduction strategy and believes that JLL's specialist real estate focus will help ensure the Company's pathway towards net zero carbon aligns with stakeholder expectations and the Company's property strategy.

"We see JLL's appointment as a crucial next step in the progression of the Company's ESG strategy, which places positive ESG outcomes at the heart of everything we do, helping drive operational performance and shareholder returns and creating a better, greener future

Hazel Adam
Chair of the Company's ESG Committee

"Custodian REIT fully understands the importance of ESG, particularly energy efficiency, in safeguarding its portfolio and the future performance of its assets. Our goal is now to work hard applying our market-leading expertise in this field to help Custodian REIT achieve its ambitions

Andrew Baker
Head of Sustainability Consulting at JLL

JLL

Our ESG policy

Our plan to achieve our ESG objectives

To achieve the Company's environmental and social objectives and targets, the Investment Manager seeks to achieve the following:

1 Environment

- Ensure operations are in place to commit to the minimisation of pollution and comply with all relevant environmental legislation;
- Gather and analyse data on our environmental performance across our business and portfolio; and
- Set long-term targets of environmental performance for our properties and monitor achievements as a commitment to continuous improvement.

2 Climate change adaptation and resilience

- Through our risk management process, identify climate-related risks, both physical and financial;
- Perform environmental risk assessments of our property portfolio on an ongoing basis;
- Design mitigation and management strategies for climate and environmental risks and resilience to catastrophe/ disaster; and
- Improve our reputation on environmental issues by incorporating resilience to climate-related transition and physical risk disclosures.

3 Energy consumption and management

- Comply with all applicable, relevant energy-related legislation and other requirements and adopt best practice beyond the mandatory minimum where appropriate;
- Seek to reduce energy usage across properties we control;
- Monitor energy consumption across properties we control, and tenant consumption, where possible;
- Seek engagement with tenants to make meaningful reductions to their emissions and pollution;
- Procure renewable energy across properties we control;
- Review our energy objectives and targets on an annual basis;
- Promote energy efficiency and management to our tenants; and
- Where possible, build in green lease clauses[1] into our tenant leases.

1. A 'green lease' incorporates clauses where the owner and occupier undertake specific responsibilities/obligations regarding the sustainable operation/ occupation of a property, for example: energy efficiency measures, waste reduction/management and water efficiency.

Our ESG policy continued

4 Building materials

- When we have the opportunity to develop new property or refurbish current assets, we commit to reviewing building materials which have a lower environmental impact and to select these materials, if appropriate; and
- Select greener building materials, in line with our vision to increase the sustainability certifications of our property portfolio.

5 Greenhouse gas ("GHG") emissions and management

- Quantify our Scope 1 and 2 (landlord controlled) emissions on an annual basis in line with our reporting requirements;
- Gather tenant energy consumption data, where possible, to quantify our leased assets emissions;
- Comply with and make representations to industry-standard ESG frameworks including both the EPRA Annual Sustainability Report and the GRESB;
- Continue to expand our carbon reporting in line with industry expectations and relevant legislation; and
- Reduce our greenhouse gas emissions through various energy reduction initiatives including virtual conferencing meetings to reduce travel.

Further information on our GHG emissions is set out within our SECR disclosures in the Directors' report.

6 Waste management

- Monitor waste levels across our properties and monitor tenant consumption, where possible;
- Implement landfill diversion waste streams such as recycling in our properties, where possible; and
- Promote waste management to our tenants.

7 Water consumption and management

- Monitor water consumption across our properties and monitor tenant consumption, where possible;
- Identify and implement water reduction technologies and opportunities within our property portfolio, where possible; and
- Promote water management to our tenants.

8 On-site carbon-reducing technology

- Install electric vehicle charging points across the portfolio where demand is sufficient;
- Install smart meters where tenants are amenable and in all vacant properties once re-let; and
- Investigate other carbon-reducing technology during significant refurbishments.

9 Biodiversity

- In the circumstances where we are developing new assets, the biodiversity of the development area will be considered and maintained to the highest level possible. We will promote sustainable practices by reducing the direct pressure on biodiversity and habitat by selecting more sustainable materials.

Our ESG policy continued

10 Asset level safety, health and well-being

We wish to manage and develop buildings which are safe, comfortable and high-quality spaces. As such, the safety and well-being of the occupants of our buildings is paramount. We will implement a property portfolio approach to well-being which encourages engagement with tenants, promotes carbon reducing behaviours, ensures suitable building safety and optimises the comfort and quality of occupancy.

11 Stakeholder engagement

We engage regularly with the following internal and external stakeholders on environmental and social matters:

- Board – the Board meets at least quarterly and receives a report from the ESG Committee on performance and progress towards our objectives;
- Investment Manager – the Investment Manager has an ESG working group which meets fortnightly. Property team staff roles and responsibilities include ESG which is embedded across the work it carries out on behalf of the Company;
- Managing agents – we receive quarterly reports on our asset performance and engage directly on property portfolio optimisation;
- Tenants – we seek to engage with tenants on a quarterly basis both to understand consumption trends and data and understand where we can upgrade and optimise buildings for tenant well-being and environmental impact reductions;
- Local communities and charities – we work closely with local communities and charities in particular utilising un-let space for the benefit of the local community; and
- Suppliers and business partners – we operate a procurement policy which seeks to ensure sustainable products and business practices are adopted by our suppliers.

Location: Trafford Park
EPC Rating: B

Chapter I

Improving the energy performance of our buildings and reducing tenants' energy usage and emissions

Location: Burton
EPC Rating: B

In this section

Introduction

Our environmental achievements

We believe the key to a responsible ESG policy is investing in our portfolio to make meaningful changes in reducing its longer-term environmental footprint and improving tenant welfare. Tenant demand for energy efficient property is becoming ever more apparent and as a result we have seen the rental value of properties successfully refurbished with an environmental focus increase significantly.

We anticipate further valuation increases for higher-quality refurbished property as investor and occupier demand continues to focus on energy efficiency credentials and further tightening of ESG legislation making further improvements mandatory.

Location: Perth
EPC Rating: A
(English equivalent)

Net zero carbon pathway

On our journey to net zero

Starting the journey towards net zero carbon is a crucial next step in our ESG strategy and making this journey fit with stakeholder goals and the Company's property strategy is one of the key challenges facing the Company and the real estate sector. Development of a net zero carbon pathway is underway.

We have collated emissions data for 2021 which will form the baseline year for reporting decreases. This required the collection of data direct from tenants and from smart meters installed at tenants' premises, plus estimates where tenants were unwilling to share information made using benchmarking from the Building Energy Efficiency Survey and the Real Estate Environmental Benchmark.

Model assumptions

Our asset-by-asset approach will involve an initial period of optimisation seeking to engagement with tenants to make behavioural changes over time to improve energy efficiency and gradually reduce operational carbon emissions.

Based on the needs of the tenants, the lease expiry profile and ensuring works are in line with our overall property strategy, we then expect to implement a programme of improvement works to each asset as required, ranging from a light retrofit covering mechanical, electrical and plumbing improvements, LED light fittings, building management system optimisation and other minor energy efficiency measures, to a deeper retrofit improving electrification, the building 'envelope', wall and roof insulation, glazing replacement and other changes to the structure as necessary.

Targets will be amended over time based on acquisitions and disposals with the portfolio.

We expect to complete the detailed work and publish our overall pathway during the financial year ending 31 March 2024.

> Some examples of recent initiatives are set out next which are in line with our commitment to improve Energy Performance Certificate ("EPC") ratings across our property portfolio.

Location: Redditch (Acanthus Road)
PV installation project anticipated in 2023

Case studies

Redditch

The Company received planning permission in June 2022 to redevelop a vacant 59,000 sq ft industrial building constructed in the 1980s into a new 60,000 sq ft industrial/distribution facility.

The new development is being built to a high level of environmental specification and will be certified BREEAM 'Excellent' as well as having an Energy Performance rating 'A'. In order to achieve this the specification the development will include:

- A net carbon zero build base;
- EV charging points;
- Solar photovoltaic panels ("PV") on the south facing roof elevations;
- LED lighting in warehouse and offices;
- Cycle storage;
- Shower facilities; and
- A bat roost to cater for local biodiversity.

The expected cost of the redevelopment is £7.2m and will generate an estimated rental value in the region of £500k pa. Given the occupation demand in this locality, we are confident the property will be pre-let prior to completion of the construction.

Location: Redditch (Ravensbank Drive) artist's impression
Expected EPC Rating: A

Case studies continued

Winsford

The previous tenant at this site vacated in June 2022 and alongside the required dilapidations works we are completing an extensive refurbishment of the site including the following specification which will significantly improve the building's ESG credentials and futureproof the site:

- LED lighting across the warehouse and office space;
- Decarbonisation of the site by removing the gas boiler and replacing with an air source heat pump system; and
- Installing 12 EV charging points for the tenant's usage.

The site will also benefit from the installation of solar PV as part of the refurbishment which will be utilised by an incoming tenant. Any power that isn't used by the tenant will be sold back to a distribution network operator ("DNO") to assist with the shortfall of green energy currently available in the UK. This produces a further revenue stream from the asset with providers offering between 5-20p/kWh for surplus energy produced.

Location: Winsford
EPC Rating: B

Case studies continued

West Bromwich

As part of a comprehensive refurbishment of Units 1-7 Hawthorns Business Park, West Bromwich six EV charging points and solar PV coverage of over 700 sq m of the roof area have been added.

This renewable energy generation capacity is anticipated to offset c. 116 tonnes of carbon in year 1, with an anticipated payback on investment of c. four years. As well as reducing the asset's carbon footprint, this investment also offers tenants a reduction in their utility costs by selling generated energy directly to them rather than direct from the central network. The panels are 'self-cleaning' and come with a 20-year guarantee.

The refurbishment also included installation of air source heat pumps to provide heating and hot water, saving the tenant an estimated £2k a year in running costs and a reduction in carbon use of around 12k kg a year in comparison to traditional gas boilers. As part of this investment new energy efficient radiators were also installed. Warehouse and office lighting was replaced with new LED fittings including passive infrared sensors to reduce operational use. Pre-refurbishment, the EPC rating for the property was C (69) and it is now rated B (38).

West Bromwich before and after refurbishment

Location: West Bromwich (before)
EPC Rating: C

Location: West Bromwich (after)
EPC Rating: B

Case studies continued

Warrington

In 2021 the Company recently undertook the refurbishment of a 66,000 sq ft industrial property at Kingsland Grange, Warrington at a cost of £1.6m. The refurbishment primarily consisted of:

- The replacement of the original asbestos roof with modern, new insulated roof sheets;
- Removal of curtain walling;
- Replacement of shutters and dock level doors; and
- An upgrade of the mechanical and electrical services.

Following the refurbishment, the property is significantly more energy efficient and as a result its EPC rating has improved from an 'E' to a 'B'. The property is now let on a long lease to Life Technologies Limited (part of the ThermoFisher Scientific Group) and meets the requirements of the modern occupier.

Warrington before and after refurbishment

Location: Warrington (before)
EPC Rating: E

Location: Warrington (after)
EPC Rating: B

Case studies continued

Lancaster House, Birmingham

The Company completed a £2.2m refurbishment of Lancaster House, Birmingham in 2018, a multi-let office building located in Birmingham's central business district arranged over basement, ground and six upper floors totalling 37,000 sq ft.

The refurbishment works comprised:

- Replacing the original single-glazed windows with triple-glazed Crittal equivalents;
- Updating the internal heating works by replacing two obsolete oil-fired boilers with a modern variable refrigerant flow system, which delivers both heating and cooling to all office suites; and
- Internal mechanical and electrical improvements.

The refurbishment significantly improved the energy efficiency of the building, reducing occupational costs for the tenants. The removal of the oil-fired boilers meant that the EPC rating of the office suites has improved to a 'B' rating from an 'E' rating at acquisition in 2015.
The works have increased the ERV of the property resulting in the works having a positive net impact on valuation.

Lancaster House, Birmingham before and after

Location: Birmingham (before)
EPC Rating: E

Location: Birmingham (after)
EPC Rating: B

Case studies continued

Wellington Road Retail Park, Burton

The Company recently invested £0.7m developing a drive-through restaurant on an existing retail park holding in Burton-upon-Trent pre-let to 1 Oak Limited (t/a Starbucks). The drive-through restaurant was built on the site of a dilapidated former tool hire centre, improving the EPC score from D to B.

Wellington Road Retail Park, Burton before and after

Location: Burton (before)
EPC Rating: D

Location: Burton (after)
EPC Rating: B

Green leases

A framework for engagement

Background

A green lease is a standard form lease with additional contractual provisions for the management and improvement of the environmental performance of a building by both landlord and occupier. A significant proportion of the commercial building stock likely to exist in 2050 has already been built and national carbon reduction targets cannot be met by simply improving the efficiency of new buildings.

Green leases provide a useful tool to support owners and occupiers in meeting mutually beneficial goals by setting out provisions for the efficient environmental management and improvement of their buildings.

A significant barrier to improvement is determining how responsibilities and incentives are shared between owner and occupier in the procurement, control and use of resources.

Green leases help to overcome this challenge by providing a framework for engagement on environmental issues, enabling each party to better understand each other's environmental aspirations, identify where opportunities for collaboration exist and develop an understanding of how improvements can best be undertaken.

A green lease does not automatically result in a more environmentally efficient or sustainable building. Commitment is required from both parties to fulfil the aspirations and commitments agreed and to work in partnership to reduce the adverse environmental impacts of the buildings they own and occupy.

Implementation

All new leases or lease renewals granted over the last 12 months have contained a 'green clause'.

Green leases are the most effective way of affecting change in the Company's properties.

We are seeing a gradual improvement in tenants' willingness to embrace opportunities to make carbon reducing changes to their business. Improving the level of tenant engagement is a key priority for 2023 and these leases provide contractual support for making that engagement a success.

Location: Ashby
EPC Rating: Refurbishment expected to improve from C to A

EV chargers

Partnering with established providers

EVs are an important step in sustainable transportation. Internal combustion engines produce harmful emissions during production and throughout their working life, including a significant amount of carbon dioxide, whereas the batteries in EVs have a smaller carbon footprint during manufacture, are emission-free and EV chargers increasingly use renewable energy. Growing our network of EV chargers, both for public use and tenant only use, is a key way of achieving our carbon reduction targets and improving out properties for tenants.

Installing EV chargers for public use also enhances properties' occupier appeal by increasing both customer footfall and dwell time. Office and industrial tenants now expect EV charging as a feature on-site when looking for properties based on their requirements for their EV/hybrid fleet or staff use.

We have a target KPI of installing 4200kW/hr of charging capacity across all retail warehousing and other asset sector by 2025 which would equate to 56 x 75kW chargers available for public use. For our non-public facing sites (typically industrial and office properties) we have set a target of 980kW/hr of capacity to be available for tenants' use, which translates to 140 x 7kW chargers to be installed.

All of the electricity used to power the charge points across Custodian Property Income REIT assets are from 100% renewable energy sources.

With many towns in the UK introducing clean air zones where a congestion fee is charged for driving through certain areas and the Government banning production of all new petrol or diesel vehicles from 2030, we expect to receive further demand and income for these chargers in the coming years.

> Increasing charging capacity is playing an integral role in helping us achieve our ESG goals while also enabling us to futureproof our retail and industrial assets as we transition to an electric future. The provision of EV charging across our retail estates also significantly enhances the properties' occupier appeal by increasing customer footfall and dwell time. We are well on track to rolling EV charging points out widely across our portfolio

Richard Shepherd-Cross
Managing Director of Custodian Capital Limited
(the Company's external fund manager)

EV charger partners

In 2020 we agreed leases with Instavolt allowing it to install 16 'rapid' 50kW EV charging points across eight of our retail parks with two chargers per site and the potential to increase the number of chargers on some of our larger sites when demand increases. The Company has benefited from a stable income stream from these chargers and is in discussion with Instavolt regarding a further roll out in 2023.

Instavolt charger

EV chargers continued

During 2022 the Company partnered with Pod Point to install EV charging points at our remaining retail warehousing sites and commenced the rollout across appropriate industrial and office sites. These chargers are owned by the Company with Pod Point retained to offer insight into day-to-day performance and advise on optimum pricing points.

Pod Point provides advice on the required load management system, groundworks, and infrastructure to suit tenants' requirements which are typically willing to pay a rental premium which allows the Company to at least recoup its capital expenditure whilst meeting our ESG targets and futureproofing the asset.

We currently have the following six sites live with 15 x 75kW chargers providing a total capacity of 1,125kW/hr:

- Gazelle Close, Winnersh
- Harbour Road, Portishead, Bristol
- Wellington Road Retail Park, Burton-on-Trent
- St Catherine's Leisure Park, Perth
- Phoenix Leisure Park, Crewe
- Coypool Retail Park, Plymouth

At each retail warehousing site Pod Point identifies the optimum number of chargers to:

- Minimise the 'payback' period on the upfront capital expenditure, targeting 4-6 years, which enhances short-term earnings and minimises obsolescence risk;
- Maximise overall investment return over a ten year investment horizon; and
- Maximise the total available charging capacity to help achieve the Company's ESG targets.

Workplace charging facilities are now live at the following sites which totals 12 x 7kW/hr chargers totalling 84kW/hr of total availability for tenants:

- Willow Court, Oxford
- Trafford Park, Manchester
- Lochside House, Edinburgh

We expect to complete our ongoing programme of installation of rapid EV chargers at 12 sites during 2023 comprising nine retail parks and three workplace locations for use by commercial tenants. Each retail warehouse location will be installed with at least four rapid charging bays offering 75kW or 100kW speeds and will be made available to the general public. 7kW chargers will be installed in the office locations.

Location: Winnersh

> ESG has become an imperative for many investors and we're delighted to be working with Custodian Property Income REIT to help them achieve their ambitious goals in this area
>
> **Erik Fairbairn**
> CEO of Pod Point

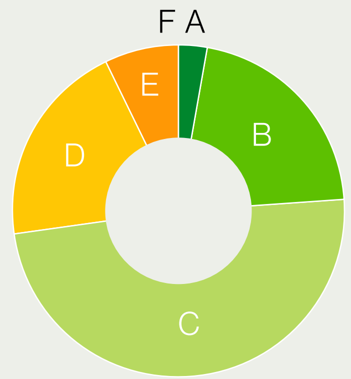
EPC ratings

Updating EPCs

The Investment Manager is currently reviewing and undertaking new assessments of any EPCs that are older than five years and below a 'C' rating. A 'C' rating is expected to become the minimum standard for new leases under the Minimum Energy Efficiency Standard ("MEES") in 2027 and therefore the Company is actively working towards improving the energy performance of its portfolio.

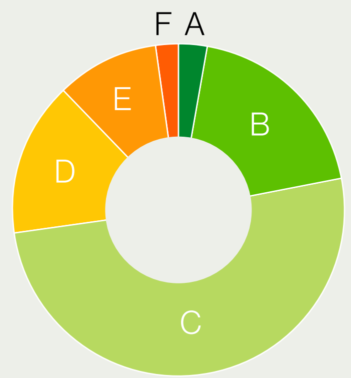
The Company's weighted average EPC score by rating is illustrated below:

Weighted average EPC 31 March 2022



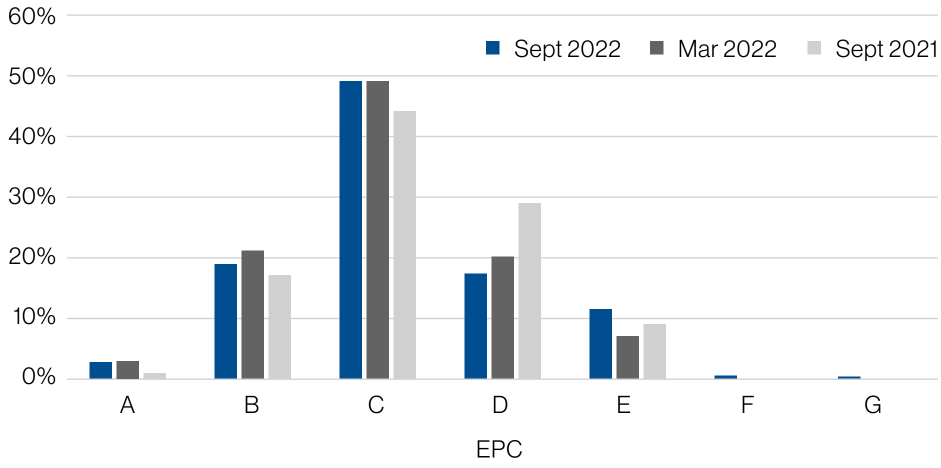
A: 3%, B: 21%, C: 49%, D: 20%, E: 7%, F: 0%

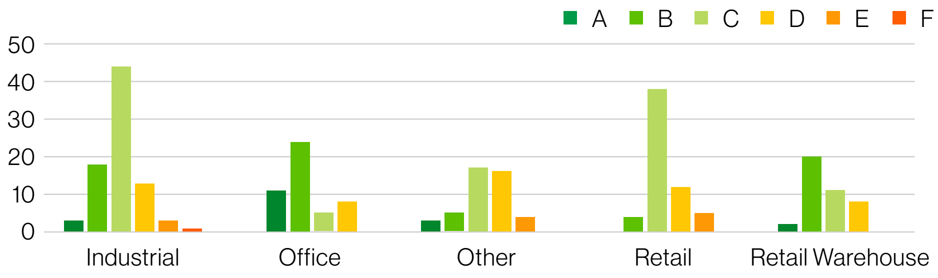
Weighted average EPC 30 September 2022



A: 3%, B: 19%, C: 51%, D: 15%, E: 10%, F: 2%

The weighted average score by sector at 30 September 2022 is illustrated below:





This graph shows that the majority of 'E' rated assets are within the office sector, including a number of assets from the DRUM REIT acquisition, and appropriate investment is planned to make the necessary improvements in these assets.

Tenant engagement

A key to success

Effective occupier engagement is key to the successful implementation of asset-level sustainability initiatives and projects, such as improving data collection processes and reducing occupier-related emissions. Our aim is to enable this process through a range of tailored initiatives designed to connect with the occupier's corporate and/or operational staff. We have a number of tenant engagement initiatives we aim to implement over the short to medium term including:

- Sustainability training for Investment Manager staff and tenants;
- Tenant surveys and questionnaires in order to establish occupier priorities; and
- Sustainability working groups including representatives from key tenants and the Investment Manager.

These initiatives are designed to actively and efficiently support awareness, engagement and data collection, such as sustainability training, surveys and interviews, toolkits and knowledge sharing, as well as asset/portfolio overall management, through green building management groups, joint agreements to improve the building performance, plant and fit-out, support during lease negotiations and 'green' lease advice.

In partnership with JLL we aim to improve the engagement and data collection and accuracy through active engagement initiatives and collaborations between JLL's team of experts and our tenants. JLL's team of sustainability and communications experts will work in parallel with its data management team to develop the right solution to meet our needs and enable successful implementation of our strategy.

Location: Fountain Street, Manchester

Key Performance Indicators

Environmental KPIs

During 2022 the Company set environmental targets measured by key performance indicators ("KPIs") which provide a strategic way to assess its success towards achieving its environmental objectives and ensure the Investment Manager has embedded key ESG principles. These environmental KPIs cover our main areas of environmental impact including energy efficiency, greenhouse gas emissions, water, waste and tenant engagement.

These environmental KPIs also directly support climate risk mitigation and capture some ESG opportunities from the transition to a low-carbon economy. As we progress our climate-related risk identification and management, we aim to identify and implement further climate-related metrics that can more clearly define the impact of climate-related risks and opportunities on our business.

The ESG Committee has set the following revised targets to be reported against in the financial year ending 31 March 2023:

Area	Target	Progress during the six month period ended 30 September 2022
Physical building improvements (whole portfolio boundary)	Increase EV charging capacity to the following by 2025[2]: • 4,200 kW/h[3] across retail warehouse and other sector assets; and • 980 kW/h[4] across office and industrial assets	• 16 x 75kW/hr public facing chargers (1,200kW/hr of capacity) were in place at the start of the Period • 13 x 75kW/hr owned public facing chargers were installed during the Period (975kW/hr capacity) • 11 x 7kW/hr owned chargers for tenant use (77 kW/hr capacity) were installed during the Period at office assets with a further 15 chargers (105kW/hr capacity) in the pipeline
	Install on-site renewable electricity generation at 75% of redevelopments and major refurbishments	Solar and air source heat pumps installed at West Bromwich redevelopment. Solar also being installed at ongoing redevelopments at Redditch and Trafford Park, Manchester
	Install smart meters across 25% of the portfolio by floor area	Installations completed at four sites during the Period with 12 further locations due to be online during December 2022 which will provide 19% smart meter coverage
	All 'D' EPC ratings to be removed or improved by 2027 and all 'E' EPC ratings to be removed or improved by 2025	Weighted average EPC rating has moved from C (61) to C (58) during the Period, detailed further below, and all F and G ratings removed, improved or under redevelopment
	All redevelopments to achieve Building Research Establishment Environmental Assessment Method ("BREEAM") Excellent rating	Ongoing Redditch redevelopment is expected to be BREEAM Excellent rated
Landlord-controlled usage (landlord-controlled boundary)	For landlord-controlled areas in the like-for-like portfolio, on a 2019 baseline, achieve: • Reduction in Scope 1 and 2 emissions of 30% by 2025 • Reduction in energy consumption of 15% by 2025 • Less than 5% waste to landfill by 2022 • Reduction in water consumption by 50% by 2025	Landlord controlled area data covers c. 75% of sites. Analysis of this data will allow us to analyse the portfolio and identify assets which are performing poorly in order to make improvements
	Switch all landlord-controlled sites to 100% renewable electricity by 2023	Currently at 95% and expect to achieve further improvements by the end of the financial year
	Switch all landlord-controlled sites to green gas by 2023	Achieved

continued on the next page >

2. Excluding assets with no car parking facilities.
3. Equating to 56 x 75kW 'Rapid' Chargers.
4. Equating to 140 x 7kW 'Fast' Chargers.

Key Performance Indicators continued

Area	Target	Progress during the six month period ended 30 September 2022
Risk management and reporting	Use TCFD recommendations and reporting framework to disclose our approach to climate related governance, strategy, risk management and opportunities	Achieved for the 2022 Annual Report, subject to omitting scenario analysis as the Company is exempt from mandatory TCFD reporting
	Incorporate ESG factors into all investment due diligence undertaken	Ongoing
	Achieve an annual improvement in GRESB score between 2021 and 2025	GRESB 'Real Estate' and 'Development' scores have both increased from 2021 to 2022
	Continue to report in line with EPRA sustainability Best Practice Recommendations to achieve a 'gold' standard	Achieved
Tenant engagement (tenant boundary)	For the non-landlord controlled like-for-like portfolio, on a 2019 baseline, achieve: • Reduction in Scope 1 and 2 emissions of 20% by 2025 • Reduction in energy consumption of 10% by 2025	Tenant data collection via a data platform currently covers c. 35% of the Company's portfolio by floor area which is expected to increase with improved tenant engagement. Analysis of this data will allow us to analyse the portfolio and identify assets which are performing poorly in order to make improvements
	Engage with tenants on a quarterly basis on ESG issues	Quarterly meetings are taking place with tenants at multi-let office buildings. A tenant engagement survey for occupiers will be issued in December 2022
	Engage with occupiers during lease negotiations to incorporate sustainability clauses into new leases	Ongoing
Social outcomes	Utilise 25% of vacant high street retail space for short-term not-for-profit lettings	Of five vacant retail properties two are being used by charities and at a third asset windows and frontage are used by the local business improvement district ("BID")
	Install changing facilities and secure cycle parking at all appropriate assets	New cycle storage and shower facilities have been installed at Lochside Way, Edinburgh and an amenity block will be installed at an industrial property in Ashby as part of a planned refurbishment
	Ensure properties comply with the Company's cladding policy within three months of acquisition	Ongoing
	Consider biodiversity and habitat strategy during all redevelopments	New bat roost being installed at the ongoing Redditch redevelopment

Investment decisions

Investment decisions play a key role in achieving the Company's environmental KPIs. The Company undertakes an environmental assessment on vacated assets and during the acquisition due diligence process, rating assets or tenants against a number of ESG factors which form part of the Investment Committee decision making process. This process also helps the Investment Manager evaluate the potential environmental risks and opportunities associated with an asset and the impact on the achievement of the KPIs.

The Company's procurement policy for property services includes an assessment of new suppliers on their specification and use of sustainable and energy efficient materials, systems, equipment, onsite operating practices and performance evaluation/incentives put in place for direct external suppliers and/or service providers to employ sustainable processes in day-to-day work.

Chapter II

Achieving social outcomes and supporting local communities

Location: Gloucester charitable letting (Furniture recycling)

In this section

Introduction

Curating the quality of our lettings

The Company strives to manage and develop buildings that are safe, comfortable, and high-quality spaces that have a positive impact on the local community. As such, our aim is that the safety and wellbeing of our occupants is maximised to the extent of our ability. We adopt a portfolio approach to wellbeing which encourages engagement with tenants, promotes carbon reducing behaviours, ensures maximum building safety, and optimises comfort and quality of occupancy.

As part of ongoing asset management and in particular during major property refurbishments, consideration is therefore given to the following:

- Bicycle parking and shower facilities to encourage active commuting;
- Indoor and outdoor break out space;
- Improved indoor ventilation and lighting;
- Increased external lighting;
- Increased landscaping with no net reduction; and
- Use of sustainable materials where possible.

Location: Arthur House, Manchester
Refurbishment ongoing

Cladding

Committed to community safety

Custodian Property Income REIT's portfolio currently has no exposure to 'high risk' assets which are typically either high-rise buildings (characteristically those over 18m tall) which use cladding in their construction or those used for multiple residential occupation. Custodian Property Income REIT does have exposure to properties where cladding material has been used in their construction, and where the composition of the material is unknown.
During 2022 the Board instigated a detailed review of the Company's cladding risks and obligations involving the Investment Manager and the Company's solicitors.

This review has resulted in the Investment Manager implementing a more extensive cladding policy, moving beyond the mandatory fire risk assessment requirements for properties where the composition of cladding material is unknown and actively core-drilling and replacing, where necessary, cladding not compliant with Loss Prevention Certification Board guidelines. This improved policy demonstrates that the Company's commitment to community safety significantly exceeds the minimum required in discharging its duty as a Responsible Person[5] .

“The Company's commitment to community safety significantly exceeds the minimum required in discharging its duty as a Responsible Person

5. As defined by the LPCB Loss Prevention Standards.

Biodiversity

Safeguarding our biodiversity

Although biodiversity conservation has not traditionally been a priority for many in the property industry, there is significant evidence demonstrating the value of biodiversity in terms of ecosystems services, health and well-being and placemaking, all of which is expected to become increasingly prevalent. As such, safeguarding biodiversity resources helps us improve the resilience of our business and the communities we work in.

We are aware of the growing importance of biodiversity to real estate and the Company has recently set a KPI to consider biodiversity and habitat strategy during all major developments. This is an area we are only now beginning to engage with and now seek advice on biodiversity options when planning works, demonstrated at the ongoing redevelopment at Redditch:

Case Study – Redditch

Bats had taken up residence in an outbuilding located at the proposed development site of Alto 60, Redditch. We have now rehomed the bats and bat boxes have also been included around the perimeter of the building to assist with bat migration and hibernation.

Location: Redditch Alto 60 (Ravensbank Drive)

Charitable lettings

Helping charities

Whenever possible we proactively let vacant properties to charities to utilise the space on a nil rent basis to assist with our social responsibilities with a target of 25% of vacant high street retail space in use for short-term not-for-profit letting.

During the year the Company has agreed the following charitable lettings:

Location	Rent (rateable value) £000	Annual rates £000	Previous tenant	Charitable use
Grafton Gate, Milton Keynes	325	166	Staples	Willen Hospice – clearance outlet
Eastern Avenue, Gloucester	186	95	Staples	Furniture Recycling Project – storage
Trinity Square, Colchester	114	58	Laura Ashley	We are the Minories – art gallery and creative community space
Long Wyre Street, Colchester	75	38	Poundland	One Colchester – community hub

Location: Milton Keynes

Location: Colchester

Charitable lettings continued

Case studies

Furniture Recycling Project, Gloucester

Since the charity was first registered in 1996, Furniture Recycling Project ("FRP") has been at the heart of Gloucestershire communities. FRP reuse items that would otherwise be sent to landfill, offer meaningful volunteering opportunities and provide good quality, affordable household items for sale.

FRP offer volunteering and learning opportunities to individuals, for the development of their work and social skills in environmentally beneficial activities. They also encourage individuals and organisations to support the protection and preservation of the environment for the public benefit, through the promotion of waste reduction, reuse, reclamation, recycling, and use of recycled products.

The charity has now been in occupation of the building for six months.

> The money raised at the unit since they have been leaseholders has really made a difference to a large number of people in Buckinghamshire who have had to receive palliative care. It has been a fantastic opportunity for the charity
>
> Senior Trustees of Willen Hospice

Furniture Recycling Project, Gloucester

Willen Hospice, Milton Keynes

1 Grafton Gate East, Milton Keynes has been let to Willen Hospice since July 2020. Willen Hospice is the only adult care Hospice in Milton Keynes and focuses on four key areas: specialist symptom control, emotional support, spiritual support and care for carers. Often the most distressing aspect of living with life-limiting illnesses is the types of pain and symptoms which can arise. The Hospice's team of dedicated staff and volunteers give specialist support to patients and their family members, to help deal with the physical and emotional effects of both their illness and treatments.

Due to the Covid-19 pandemic the Hospice have had a large supply of stock of donated goods that they had no room to store and would be forced to dispose of unless they could find space to store. We arranged for the vacant space to be used for the storage and sales of their items.

Chapter III

Understanding and responding to environmental risks and opportunities

Location: Kilmarnock
Sold during the year due to potential environmental risks

In this section

Understanding and responding to environmental risks and opportunities

Environmental risks and opportunities matrix

Physical and transition risks

The Board is ultimately responsible to stakeholders for the Company's activities and for oversight of our climate-related risks and opportunities.

The Investment Manager maintains the Company's risk management framework and risk register, which means our ESG objectives are embedded into the way the Company conducts and manages the business and the property portfolio on a day to day basis.

Climate change poses a number of physical risks to our property portfolio, for example those caused by the increased frequency and severity of extreme weather events. There are a number of transition-related risks, including economic, technology or regulatory challenges related to moving to a greener economy which the Company needs to consider. But climate change also provides opportunities to invest in alternative asset classes or to provide tenants with additional services.

Climate-related risk/opportunity	What this means for Custodian Property Income REIT	Management and mitigation of risk	Next steps
Physical risks			
Asset damage from storms and flooding and associated changing insurance products, pricing and availability *Long-term*	• Extreme weather events causing damage to infrastructure or assets, making assets unusable by tenants, making insurance cover harder or more expensive for tenants to arrange and impacting future lettability through lower occupational demand • Historical impact of floods or increasing flood risk impacting the long term attractiveness of properties due to tenants avoiding rentals with flood risk	• Annual property inspections enabling the Investment Manager to identify any damage or areas of improvements to ensure increased property resilience against potential storms • Building maintenance (where in the Company's control) ensures properties are maintained to prevent increased levels of potential damage from storms and floods • Buildings insurance coverage minimises the financial impact of the damage caused by storms • Environmental reports are carried out for all acquisitions including flood risk assessment, albeit flood risk is measured on likelihood of river/sea/ surface water flooding based on current scenarios/historical data rather than future climate change	• Begin to establish which assets are likely to be most at risk of potential extreme weather damage • Update flood risk for existing assets and understand how this may change in the future • With identified assets at risk, develop a management plan to build property resilience such as through fitout, asset upgrades or plan to divest, as appropriate • Ensure backup power is available in all building types where this is Custodian's responsibility • Review maintenance and fitout guidelines to include guidance on upgrades to storms such as securing of external equipment, roof specifications etc. • Review environmental reports procured at acquisition to determine whether future climate projection of flood risk can be included

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Environmental risks and opportunities matrix continued

The ESG Committee considers the Company's climate-related risks and opportunities to determine continued relevancy and impact on the Company and assesses the completeness and effectiveness of controls and processes in place to mitigate and manage these risks and opportunities. The Committee deemed all mitigation controls in place to be effective however a number of continuous improvement areas were determined which are highlighted in the table below as next steps which will be addressed and actioned via the ESG Committee. The Company's ESG targets also support continuous monitoring of progress against the ESG strategy, capturing of opportunities and the mitigation of climate risks. These targets are reported against on a quarterly basis to the Committee by the Investment Manager and the Company's environmental consultants.

Climate-related risk/opportunity	What this means for Custodian Property Income REIT	Management and mitigation of risk	Next steps
Physical risks			
Global temperature increases reducing the appeal of less energy-efficient assets *Long-term*	Certain assets will be more significantly impacted by rising temperatures, such as glass offices, requiring more energy for cooling and being less attractive to tenants	The Company's tenant engagement programme provides Custodian with up to date insights into changing tenant preferences, current challenges or feedback on building performance and provides an opportunity for the Investment Manager to further understand solutions to continue to meet tenants' preferences over time	• Monitor any tenant concerns around temperature through tenant engagement programme • Continue ongoing monitoring of energy consumption, particularly of glass properties, to determine whether the risk trend is accelerating and consider the need for upgrade plans such as façades, insulation etc. to reduce the property exposure to external temperature rises
Insufficient electricity supply to maintain tenant operations due to inadequate infrastructure *Medium - long-term*	Due to rising demand for energy such as from cooling requirements and EV chargers, current infrastructure might be unable to meet the energy demand	Upgrading power supplies where availability permits	Ensure power upgrades are utilising renewable energy sources, where contracts are under Custodian's control, in line with Custodian's emissions and energy targets

continued on the next page >

Environmental risks and opportunities matrix continued

Climate-related risk/opportunity	What this means for Custodian Property Income REIT	Management and mitigation of risk	Next steps
Transition risks			
Reduced attractiveness of the portfolio due to changing tenant preferences *Short – medium-term*	Changing tenant preferences to occupy less energy and carbon intensive buildings as well as requirements under MEES	• Capital expenditure considered necessary to maintain each asset within the portfolio to a suitable standard to secure new lettings at expected rental levels is forecast and factored into cashflow projections to ensure resources are available • EPCs are maintained for the whole portfolio, with higher scoring assets under review to ensure improvements are carried out as soon as practical as well as monitoring the renewal dates and tracking score improvements. This control provides Custodian oversight and transparency of the assets improvement over time and provides the basis of an improvement plan with key assets to target and directly relates to one of our ESG KPIs • Asset due diligence is performed at acquisition stage for all new assets. The Investment Manager considers the long term suitability of the asset including ESG requirements against our ESG strategy and calculates the forecast investment to upgrade the asset over its life in line with compliance and tenant requirements • Custodian's tenant engagement programme provides live insights into the changing tenant preferences to stay abreast of changing trends to maintain lettability of portfolio and levels of occupation	• Improve acquisition due diligence processes to more accurately assess forecast investment to upgrade the asset over its life in line with compliance and tenant requirements • Improve coverage of the tenant engagement programme and broaden its remit to better capture tenants' concerns and sustainability plans

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Environmental risks and opportunities matrix continued

Climate-related risk/opportunity	What this means for Custodian Property Income REIT	Management and mitigation of risk	Next steps
Transition risks			
Investor divestment or activism due to changing ESG expectations *Short-term*	Increased stakeholder scrutiny over Custodian REIT's ESG ambitions and climate action and awareness of the impact of the built environment, including carbon emissions from refurbishment and construction, leading to reduced confidence, shareholder activism or divestment	• External environmental consultants are engaged to advise on the Company's ESG initiatives and compare to requirements, best practice and peer-group performance • Shareholder expectations are established by the Company's brokers and distribution agents and directly during meetings with investors. Significant changes in expectations or potential activism would be communicated	• Continue to engage proactively with investors and the Company's wider stakeholder group on ESG matters • Continued Director training to build knowledge around Net Zero and climate issues to ensure ongoing effective governance and guidance • Consider future pricing of GHG emissions and emissions offsets and future enhanced emissions reporting obligations. Climate change could affect the input costs to produce traditional development related materials or building services. Utilising more innovative low carbon materials could also to mitigate some of the potential this risk might impose
Unsuccessful investment in new technology *Medium-term*	If technology that has been invested in is not properly researched, developed or implemented, or becomes obsolete or no longer industry best practice, it may not bring the return that was forecast	All investments are scrutinised by the Investment Manager's Investment Committee. Investment Committee reports include a dedicated ESG rationale. Carbon reducing technology is a key part of the carbon-reduction strategy but is not invested in speculatively and only established products are considered	

Environmental risks and opportunities matrix continued

Opportunities

Climate-related risk/opportunity	What this means for Custodian Property Income REIT	Management and mitigation of risk	Next steps
Exposure to new asset classes for potential investment *Short – medium-term*	Investment opportunities through exposure to new asset classes	All investments are scrutinised by the Investment Manager's Investment Committee	• Continue to encourage investment in the Investment Manager's staff development for them to remain abreast of low-carbon building solutions and other competitive offerings through industry bodies, associations and memberships • At Board Strategy days, include a more prominent segment focused on ESG and future strategy involving ESG Committee recommendations and the Company's environmental consultants, including how the Company might expand low-carbon services and review new investment classes
Shifting tenant preferences may create new demand for new or existing products/services *Short – medium-term*	The effects of climate change on tenant preferences may bring the opportunity to diversify business activities such as low-carbon alternative assets or development or expansion of low emissions services	• ESG Credentials are currently part of the marketing/prospectus of an asset – which ensures tenants are aware of Custodian REIT's ESG credentials to attract ESG conscious tenants • Tenant engagement programme – provides insights into the changing tenant preferences	
Increased demand for shares due to ESG credentials *Short-term*	Increased demand for shares from investors preferring to specifically invest in companies with strong ESG credentials	• Establishment of an ESG Committee of the Board and publication of revised, stretching ESG targets • Annual external reporting on progress against ESG targets • Investor feedback is captured regularly	Continue to improve communication with stakeholders regarding ESG initiatives through quarterly stock market reporting, Annual and Interim Reports and shareholder meetings and webinars

GRESB, EPRA, SECR

Frameworks for best practice

The Company has chosen to comply with external reporting best practice on ESG matters including the Global Real Estate Sustainability Benchmark ("GRESB"), European Public Real Estate Association ("EPRA") and Streamlined Energy and Carbon Report ("SECR") and adopts sector best practice where appropriate.

GRESB

GRESB is a mission-driven and industry-led organisation that provides actionable and transparent ESG data to financial markets. GRESB collects, validates, scores, and independently benchmarks ESG data to provide business intelligence, engagement tools, and regulatory reporting solutions for investors, asset managers, and the wider industry. GRESB provides a rigorous methodology and consistent framework to measure the ESG performance of individual assets and portfolios based on self-reported data. Performance assessments are guided by what investors and the wider industries consider to be material issues, and they are aligned with the Sustainable Development Goals, the Paris Climate Agreement and major international reporting frameworks.

GRESB is the most widely reported framework within the Company's peer group and is believed to be the most respected by current and potential investors.

The Company's results for the 2022 submission are shown in the table on the right.

The Company is pleased with the improvements seen in its score which are in line with the Company's target on annual improvements in the GRESB scores over the next few years.

The Company has developed a plan with JLL to continue to make improvements to our score and in 2023 we expect key areas of success to be:

- Tenant engagement including tenant health and wellbeing;
- Data collection and floor area coverage; and
- CCL performance targets and staff satisfaction surveys.

We also expect commencement of our carbon reduction pathway to yield further improvements in the GRESB score in the coming years.

Real Estate

Fund	2021 GRESB Score	2022 GRESB Score	Change in Score
Custodian Property Income REIT Plc	49	50	+1

Development

Fund	2021 GRESB Score	2022 GRESB Score	Change in Score
Custodian Property Income REIT Plc	35	46	+11

SECR

SECR GHG disclosures are included in the Company's Annual Report: https://custodianreit.com/wp-content/uploads/2022/07/5214_Custodian_REIT_Annual_Report_2022_Hyperlink.pdf

EPRA Sustainability Best Practice Reporting

EPRA Sustainability Best Practice Reporting disclosures are included on the Company's website: https://custodianreit.com/epra-sbpr/

Governance

The Company is committed to the principles of corporate governance contained in the Code, for which the Board is accountable to shareholders.

David Hunter
Independent Chairman

Elizabeth McMeikan
Senior Independent Director

Hazel Adam
Independent Director

Chris Ireland FRICS
Independent Director

Malcolm Cooper FCCA FCT
Independent Director

Ian Mattioli MBE
Director

In this section

Role of the Board

Long-term sustainable success

The Board is responsible to shareholders, tenants and other stakeholders for promoting the long-term sustainable success of the Company and generating shareholder value. Good governance is fundamental to the long-term success of the Company and the Board and Investment Manager work together to ensure the highest standards of governance are maintained by the Company and are central to every decision.

The Board comprises six directors, all of whom have wide experience, are non-executive and, save for Ian Mattioli, are independent of the Investment Manager. Biographical information on each Director is set out earlier in the Governance Report. The Directors are responsible for managing the Company's business in accordance with its Articles of Association ("the Articles") and the Investment Policy (as set out in the Strategic report), and have overall responsibility for the Company's activities. The Directors may delegate certain functions to other parties and in particular the Directors have delegated responsibility for management of the Company's property portfolio to the Investment Manager.
The Board retains responsibility for reviewing the engagement of the Investment Manager and exercising overall control of the Company, reserving the following key matters:

- Setting the Company's values, standards, investment strategy, strategic aims, risk appetite and objectives;
- Setting the overall approach of the Company's ESG strategy;
- Approving the annual operating and capital expenditure budgets and external financial reporting;
- Approving valuations of the Company's property portfolio;
- Approving the Company's dividend policy and the interim dividends;
- Ensuring a satisfactory dialogue with shareholders and approving AGM resolutions and shareholder circulars;
- Reviewing and approving changes to the structure, size and composition of the Board, including succession planning, following recommendations from the Nominations Committee;
- Determining the remuneration policy for the Directors;
- Undertaking a formal and rigorous annual review of its own performance, that of its committees and individual directors, and the division of responsibilities and independence;
- Considering the balance of interests between shareholders, employees, customers and the community; and
- Approving the appointment of the Company's principal professional advisers.

Role of the Board continued

Diversity

The Board is supportive of the increased stakeholder focus on diversity, understanding that a diverse Board brings constructive challenge and fresh perspectives to discussions. The Board considers diversity in a broad sense not limited to gender or ethnicity.

The Company also follows the AIC Code of Corporate Governance which recommends

- The Board has a combination of skills, experience and knowledge; and
- Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

The Board's proactive approach to diversity means that, where possible, each time a Director is recruited at least one of the shortlist candidates is female and at least one of the candidates is from a minority ethnic background.

The Board supports the overall recommendations of the Hampton-Alexander and Parker Reviews for appropriate gender and ethnic diversity and is aware of the FCA's 'comply or explain' targets, applicable for the financial year ending 31 March 2023, of: 40% of the Board to be women; one senior Board position to be held by a woman; and one individual on the Board to be from a minority ethnic background.

The Company's Board contains two females which at the year end represented 33% with Elizabeth McMeikan acting as the Senior Independent Director. No Directors are from a minority ethnic background.

At present it is not seen to be in the best interests of the Company and its shareholders to set prescriptive diversity targets for the Board and the Nominations Committee does not positively discriminate during the recruitment process.

During the recruitment process for the Audit and Risk Committee Chair designate a number of female candidates and candidates from a minority ethnic background were interviewed.

CCL Team

The Investment Manager is part of the Mattioli Woods Group which is committed to promoting diversity.

Left to right: Michael Wright, Rob Garner, Eva Romanova, Michelle Dewick, Aman Sharma, Kelly Duvnjak, Denisha Chauhan, Rose Hawker, Ian Mattioli, Tom Donnachie, Abbie Morrissey, Javed Sattar, Chantelle Hoolahan, Ed Moore, Richard Shepherd-Cross, Jez Wilson, Priya Patel, Alex Nix, Kailn Patel

Role of the Board continued

Bribery, money laundering, slavery and human trafficking

The Board has considered the requirements of the Bribery Act 2010, the Criminal Finances Act 2017 and the Modern Slavery Act 2015 and has taken steps to ensure that it has adequate procedures in place to comply with their requirements.

The Board has a zero tolerance policy towards unethical behaviour and is committed to carrying out business fairly, honestly and openly and it expects the same of its business partners. The Investment Manager actively reviews and is responsible for monitoring perceived risks and responsibility for anti-bribery and corruption. The Investment Manager maintains a risk register where perceived risks and associated actions are recorded and this is shared annually with the Board for approval.

We believe that all efforts should be made to eliminate unethical behaviour from our supply chains. We seek to mitigate our exposure to any unethical activity by engaging with reputable third-party professional service firms based in the United Kingdom.

We request formal governance information from our current or potential suppliers if there is a perceived risk of unethical behaviour to assess overall supply chain risk and conduct due diligence and risk assessment on potential new suppliers where considered necessary. We will continue to monitor and collaborate with our suppliers and tenants to ensure that they continue to adopt systems and controls that reduce the risk of facilitating bribery, money laundering, modern slavery, child labour and human trafficking.

Stakeholder engagement

Our approach to engagement

We engage regularly with both our internal and external stakeholders.

These include:

- Board – our Board meets at least quarterly and monitors ESG performance and progress towards our objectives
- Employees – as part of our training and staff roles and responsibilities, ESG progress is discussed and embedded across the work we do
- Managing agents – we receive quarterly reports on our asset performance and engage directly on portfolio optimisation
- Tenants – we attempt to engage with tenants on a quarterly basis both to understand consumption trends and data and understand where Custodian can upgrade and optimise buildings for tenant well-being and environmental impact reductions. We undertake periodic tenant satisfaction surveys to raise awareness of sustainability issues
- Local communities and charities – we work closely with local communities and charities, in particular, utilising un-let space for the benefit of the local community
- Suppliers and business partners – we operate a procurement policy which seeks to ensure sustainable products and business practices are adopted by our suppliers.

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Custodian
PROPERTY INCOME REIT