

What are Science-Based Targets?

Science-based targets are emissions reductions targets that companies are setting to reduce greenhouse gas emissions in their corporate operations and supply chain. The Paris Agreement in 2015 is the impetus for the public and private sector putting capital investment to work to limit global warming to 1.5 degrees Celsius above pre-industrial levels to mitigate the worst effects of climate change.¹ Science-based targets are translating aspirations into action.

There can be a lot of variance in targets. To create more consistency, the Science-Based Targets Initiative (SBTi) reviews and validates public and private sector targets. SBTi validates targets using models based on the Intergovernmental Panel on Climate Change (IPCC) scenarios and the International Energy Agency. The SBTi is a collaboration between the CDP, the UN Global Compact, World Resources Institute and the World Wide Fund for Nature (WWF – formerly the World Wildlife Fund).

The phrase “net-zero” rolls off the tongue easier than “science-based targets” so is often used as shorthand for all types of emissions reduction target setting. In actuality “net-zero” targets are more ambitious, but there is also a lack of clarity on exactly how a company or municipality will alone get to net-zero. There are more variables (i.e. upgrading national and regional electrical grids) that are not under the direct influence of any one entity. Some companies in the marketplace will claim that they are net-zero or carbon neutral simply by tallying their emissions and then purchasing verified carbon offsets

without necessarily creating plans to cut carbon emissions.

The SBTi launched a “net-zero corporate standard” to define parameters specifying that a company needs to reduce their emissions by 90% before seeking to purchase offsets for residual emissions.

What is the Process to Set a Science-Based Target?

SBTi provides several frameworks so companies can develop plans for the operational challenges specific to their sectors.² To improve the built environment the SBTi is developing a building sector framework for those stakeholders working in real estate.³ The guidance aims to establish a global pathway for buildings’ in-use emissions and embodied emissions aligned with 1.5°C.

The building sector framework follows a similar pattern to all other sector-specific processes. Setting a science-based target works in multiple steps. A company first indicates their commitment SBTi to set either a near-term or long-term target. Near-term targets are 5 to 10 years. The minimum ambition of a near-term target is a trajectory of 1.5°C for Scope 1 and 2 and well-below 2°C for Scope 3. Long-term targets that are 10 years or more require the company to set a net-zero target. The company then has 24 months to develop and validate their targets with SBTi.

Next, the work starts. The company defines their organizational boundary and creates an emissions inventory – identifying the sources of their Scope 1, Scope 2 and Scope 3 emissions. Scope 3 emissions must be included if they are 40% of the overall emissions inventory.

The SBTi guidance requires target-setting to take a whole-building in-use approach to operational emissions. The most relevant Scope 3 emissions categories for building owners would be:

Category 1 – purchased goods and services

Category 2 – capital goods relating to new buildings purchased

Category 13 – downstream leased assets meaning in-use operational emissions of tenant-controlled spaces

Companies then develop their targets using the tools provided by SBTi. Finally, the company submits its targets to the SBTi for validation.⁴ SBTi reviews a company's proposed strategy and approve their action plan.⁵

The company then reports their progress against the targets annually either through a CDP report or similar annual questionnaire, or their annual sustainability reports.

Decarbonization Strategies for REITs

The built environment and the real estate industry is critical to lowering emissions that contribute to climate change. Buildings are responsible for 40% of CO₂ emissions as the by-product of energy use and energy source. The global building stock is expected to double by 2060.⁶

What are Scope 1, Scope 2, and Scope 3?

Scope 1

Carbon is emitted directly from a company's owned property including buildings and vehicle fleets

Scope 2

Carbon emitted indirectly through electricity or fuel consumption for heating and/or cooling buildings

Scope 3

This is the largest category, with 15 sub-categories. Carbon is emitted indirectly through the value chain, through the products and emissions produced by their suppliers.

There are a few common strategies that REITs pursue when they set emissions reduction targets. For example, office building owners, follow similar strategies:

- 1) Conduct an energy audit of the property to assess building specific challenges and opportunities.
- 2) Make improvements to the energy efficiency of building systems such as lighting, insulation, heating and cooling.
- 3) Electrify buildings. One example is to replace gas powered boilers with heat pumps.
- 4) Assess access to renewable energy either off-site and/or on-site for a building's electricity needs.
- 5) Include design specifications to reduce energy-intensive materials in retrofits or new construction.

Investor Take-Away

Here are how three REITs from the office real estate sector across the globe are tackling their science-based targets:



Gecina

France | Diversified Office

In 2017, **Gecina**^{7,8} validated its 1.5°C aligned Emissions and Reduction Targets with SBTi. The company is targeting 42% emissions reduction in the entire commercial portfolio by 2030. The company's strategy for reducing carbon across its portfolio include:

- Setting a carbon intensity reduction goal of 25%
- Identifying decarbonization solutions (i.e. thermo-regulating paint, and electric water heating)
- Adding emissions reduction targets to renovation projects
- Tenant engagement – reduction of operational emissions through building energy efficiency work



Empire State Realty Trust

US | Office

In 2022, **Empire State Realty**^{9,10} validated its 1.5°C aligned Emissions and Reduction Targets with SBTi. The company is targeting 80% emissions reduction in the entire commercial portfolio by 2035. To date, ESRT has reduced emissions by 43% portfolio wide. The company's strategy for reducing carbon across its portfolio include:

- Whole-building energy use and life cycle analysis to assess upgrades
- Reduce operational emissions through building energy efficiency work
- Green leases – addressing split incentives for investment in energy upgrades
- Tenant engagement – detailed and actionable sustainability guidelines for tenants
- Purchase of wind renewable energy credits (RECs) for 100% of the commercial portfolio's electrical usage.



Japan Real Estate Investment Corporation

Japan | Office

In 2022, **Japan Real Estate Investment Corporation**^{11,12} validated its 1.5°C aligned Emissions and Reduction Targets with SBTi. The company is targeting 80% emissions reduction in the entire commercial portfolio by 2030. The company's strategy for reducing carbon across its portfolio include:

- Joined RE100 to procure renewable energy at 90% of properties by 2030
- Analyzing the portfolio to reduce energy intensity at existing and new properties
- Added sustainability considerations of green building certifications and emissions performance to its acquisition evaluations

Notes and Sources:

¹ United Nations Framework Convention on Climate Change. (2015). *The Paris Agreement*. UNFCCC.

https://unfccc.int/sites/default/files/english_paris_agreement.pdf

² Science Based Targets Initiative. (nd). "Companies Taking Action." SBTi. <https://sciencebasedtargets.org/companies-taking-action>

³ *ibid.*

⁴ Science Based Targets Initiative. (nd). "Buildings Sector Science Based Targets Setting Guidance." SBTi.

https://sciencebasedtargets.org/resources/files/DRAFT_SBTi_Buildings_Guidance.pdf

⁵ Science Based Targets Initiative. (nd). "Companies Taking Action." SBTi. <https://sciencebasedtargets.org/companies-taking-action>

⁶ ASHRAE. (nd). "What is Building Decarbonization?" ASHRAE. <https://www.ashrae.org/about/tfbd-what-is-building-decarbonization>

⁷ Gecina is 0.63% of the Vert Global Sustainable Real Estate Fund (VGSRX) as of June 30, 2023.

⁸ Gecina. (2023). *2022 Universal Registration Document*. Gecina. https://www.gecina.fr/sites/default/files/2023-02/gecina_-_universal_registration_document_urd_2022.pdf

⁹ Empire State Realty Trust is 0.14% of the Vert Global Sustainable Real Estate Fund (VGSRX) as of June 30, 2023.

¹⁰ Empire State Realty Trust. (2023). *2022 Sustainability Report*. ESRT. <https://online.flippingbook.com/link/859359/9/>.

¹¹ Japan Real Estate Investment Corp is 0.63% of the Vert Global Sustainable Real Estate Fund (VGSRX) as of June 30, 2023.

¹² Japan Real Estate Investment Corp. (2023). *Sustainability Report 2022*. JRE. https://jre-esg.com/en/pdf/sustainability_report2022.pdf

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