

Taskforce for Climate-related Financial Disclosures Report for FY2021

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Introduction and Scope of Report

Mitigating climate change is undeniably one of the most important challenges for businesses and communities today. The recent United Nations Intergovernmental Panel on Climate Change (“IPCC”) Sixth Assessment Report on Climate Change presented a sobering outlook that current efforts are not enough to limit warming to 1.5°C above pre-industrial levels¹. Climate action failure in the coming decades will likely result in global economic volatility and instability in the financial markets².

Governments and global institutions have made ambitious commitments toward decarbonisation, aiming to limit global temperatures to well below 2°C above pre-industrial levels. These efforts include regulations and guidance for entities to manage the impact of climate risks and reduce emissions³.

The implications of climate risks on the hospitality and building industry are far reaching, from **physical risks** such as extreme weather events (e.g. increased frequency and intensity of flash floods and heat waves) which disrupt operations, to **transition risks** towards a low carbon economy (e.g. higher energy prices resulting from higher carbon taxes to changing investors’ expectations towards green investments and changing consumer demand for more sustainable products and services). Far East Hospitality Trust (“FEHT”) is fully committed to making concerted efforts to manage climate-related risks and progressively reduce our carbon footprint⁴.

In FY2021, we reviewed and updated our environmental, social and governance (“ESG”) strategy, involving key stakeholders with the help of an external consultant, KPMG Services Pte Ltd (“KPMG”).

FEHT’s Sustainability Strategy



¹ [IPCC’s Sixth Assessment Report on Climate Change](#)

² [World Economic Forum’s Global Risk Report 2022](#)

³ In Singapore, the Monetary Authority of Singapore (“MAS”) has set out guidelines on environmental risk management for asset managers, financial institutions and insurers to strengthen resilience of institutions. For more details, refer to [MAS’s Guidelines on Environmental Risk Management \(Asset Managers\)](#) published in December 2020

⁴ For more information on FEHT’s environmental efforts and greenhouse gas (“GHG”) emissions disclosures, please refer to [page 59 to 62 of our Annual Report 2021](#)

We have expanded our Sustainability Report on climate-related risks and opportunities, following the recommendations of the Task Force on Climate-related Financial Disclosures (“TCFD”). The TCFD provides recommended guidelines to identify and report climate risks and opportunities for entities, across four strategic areas: **governance, strategy, risk management and metrics and targets.**

This report aims to communicate our progress in the identification and management of our climate impacts to stakeholders. FEHT will continue to expand on our climate disclosures, aligned to TCFD’s recommendations, and will progressively embed the analyses into our business decision-making processes.

Pillar 1 – Governance

TCFD Recommendations

- Describe the board’s oversight of climate-related risks and opportunities
- Describe management’s role in assessing and managing climate-related risks and opportunities

This section provides an outline of FEHT’s governance structure for ESG issues. ESG responsibilities are clearly defined and carried out by the Board and management to ensure sufficient oversight of risks across the organisation.

Board’s Oversight

The Board is responsible for ESG strategies and climate risk management across FEHT. The Board takes into consideration ESG and climate-related issues in all strategic planning exercises – including in risk management, policy setting, annual budgets, capital expenditure planning, as well as acquisition and divestment deliberations.

The Board also ensures conformance with applicable regulations related to sustainability such as SGX-ST Listing Rules 711A and 711B and SGX Sustainability Reporting Guide.

To reinforce our commitment towards integrating ESG and climate management into our business, we have expanded the scope of the Audit and Risk Committee (“ARC”) in FY2021. The ARC was reconstituted as the Audit, Sustainability and Risk Committee (“ASRC”) with purview over FEHT’s ESG objectives, programmes, policies and practices. The ASRC provides independent oversight and serves to ensure there are appropriate checks and balances.



Management's Roles

The CEO of the REIT Manager oversees the overall development and implementation of ESG strategies and climate risk management across FEHT. He is supported by the Sustainability Working Committee ("SWC"), which comprises representatives from the Finance, Asset Management and Investor Relations functions. From time to time, the SWC also engages, works with and gathers inputs from our operator, Far East Hospitality Management (S) Pte. Ltd. ("FEHM" or "Operator"), master lessees and the property manager of the commercial premises.

Governance Overview

Governing Body	Responsibilities
Audit, Sustainability and Risk Committee	<p>Overseeing environmental, social and governance strategy</p> <ul style="list-style-type: none"> • Overseeing the process used to identify, evaluate and manage material ESG related issues (including risks related to FEHT's business) • Making recommendations to the Board on FEHT's strategies, targets, policies, and roadmap pertaining to sustainability • Monitoring the compliance with applicable regulations and policies as well as the adequacy of resources allocation and overall stakeholder engagement and outcomes. • Reviewing the effectiveness of strategies, targets, policies, and roadmaps pertaining to sustainability • Reviewing the status updates on the implementation and progress against sustainability targets
Sustainability Working Committee	<ul style="list-style-type: none"> • Reports to the CEO • Identifies and examines ESG and climate-related risks and opportunities and provides relevant recommendations to ASRC • Drives, monitors and communicates ESG and climate-related initiatives for internal and external stakeholders

Pillar 2 – Strategy

TCFD Recommendations

- Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long term
- Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
- Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario

This section provides an overview of how FEHT incorporates climate-related risks and opportunities into our strategic decision-making processes.

Identification

The SWC conducts an annual exercise to screen and monitor potential climate-related drivers or trends that could impact the building and hospitality sectors in the markets where FEHT is operating. The types of risks and opportunities considered include physical and transition trends. The scope of risks and opportunities considered is based on their relevance to FEHT's hospitality assets and value chain (see column 1 in Tables 1 and 2).

Assessment

The SWC will gather data from external and internal sources to assess the extent of financial impacts of the risks and opportunities identified. The committee will take into consideration the following criteria in its assessment (see column 2 in Tables 1 and 2):

- The degree of exposure to risks due to the locations of FEHT's physical assets and supply chain
- The extent of vulnerability due to the lack of existing capabilities or structure to mitigate risks
- Existing capabilities and resources that FEHT can tap on to capture opportunities

Prioritisation

The SWC further reviews the risks and opportunities and thereafter conducts a prioritisation exercise to ensure an organised and structured approach towards managing climate-related impacts. The SWC takes into consideration the likelihood of occurrence, the magnitude of impact and our capabilities to mitigate risks or leverage opportunities across different time horizons.

The time horizons are defined as follow (see columns 3 to 5 in Table 1 and 2):

- Short term (<= 5 years)
- Medium term (6-10 years)
- Long term (>= 11 years)

Strategies

The SWC recommends strategies to mitigate risks and capture opportunities based on the identification, assessment and prioritisation exercises conducted. The recommendations are presented to the ASRC for input and subsequently to the Board for approval. FEHT's responses to climate-related impacts are reviewed periodically and we will continue to enhance our climate disclosures.

Potential financial impact level:



Table 1: Climate-Related Risks

Climate-related Transition Risk	Potential Impact on FEHT	Short	Medium	Long	FEHT's Strategies to manage Risks
Regulatory risks (e.g. Building and Construction Authority of Singapore, Monetary Authority of Singapore and Singapore Exchange)	<ul style="list-style-type: none"> FEHT may be affected by changing regulatory requirements, leading to increase costs due to rapid and urgent investments in retrofitting existing buildings to comply with new regulations. 				FEHT regularly keeps abreast of emerging and future regulations to better develop business and sustainability-related strategies, as well as to ensure regulatory compliance, and manage the associated legal, compliance and financial risks.
Changing market expectations for green technology	<ul style="list-style-type: none"> Current technology may become obsolete or no longer be approved for use over time. FEHT may need to adopt alternative technology and implement new processes to meet market expectations and regulatory requirements (e.g. upgrading of chillers, backup generators and lights) 				FEHT weighs the costs, benefits and overall value over the long run when considering the adoption of new technologies. FEHT will work with the Operator, and master lessees in exploring the adoption of other energy-efficient solutions.
Consumer demand for green hospitality	<ul style="list-style-type: none"> FEHT may face market risk due to a shift in consumer behavior, including an increased preference for green hospitality (especially for corporate clients). 				FEHT key strategies in this area include working with our Operator to: <ol style="list-style-type: none"> Monitor the consumer and market expectations Enhance our communication to customers and other stakeholders on our green hospitality strategy and efforts

Climate-related Physical Risk	Potential Impact on FEHT	Short	Medium	Long	FEHT's Strategies to manage Risks
Increased stakeholder concern or negative stakeholder feedback	<ul style="list-style-type: none"> • More institutional investors may have the mandate to invest in entities that meet their ESG criteria which may result in a reduction of capital availability from investors if FEHT's assets do not meet regulatory sustainability standards. • Due to the pressure to be greener and to reduce carbon emissions in the hospitality and building industry, FEHT may face reputation risk if it is unable to meet industry standards or match the performance of peers by making strong commitments to reduce emissions. 				<p>FEHT's key strategies in this area includes:</p> <p>a) Monitoring investors' and other stakeholders' expectations.</p> <p>b) Enhancing our communication to these stakeholders on our ESG strategies and efforts.</p> <p>c) Improving our rating on the relevant ESG ratings (including the Global Real Estate Sustainability Benchmark).</p>
Increase in frequency and intensity of flooding	<ul style="list-style-type: none"> • FEHT may face financial implications from direct damage to our properties. This may lead to reduced revenue from decreased production capacity. • Increased occurrences of flooding may require investments in flood prevention measures for FEHT's properties, resulting in higher costs. 				<p>FEHT has in place an insurance cover over property damage and business interruption. In addition, FEHT fully supports mitigation strategies by the government (e.g. coastal protection solutions and drainage projects) and will continue to monitor and implement relevant recommendations proposed by the authorities for our respective properties.</p>
Increase in global temperature	<ul style="list-style-type: none"> • Increased temperature which leads to increased cooling demands will increase energy consumption and maintenance costs. 				<p>FEHT is exploring green sources of energy and other energy efficient solutions.</p>

Table 2: Climate-Related Opportunities

Climate-related Opportunities	Short	Medium	Long	FEHT's strategies to capture opportunities
Implementing new energy-efficient initiatives to meet BCA's super low energy buildings standard and/or Green Mark GOLD				FEHT will progressively replace older equipment with more efficient technology and work with the Operator to attain BCA Green Mark certification for buildings in the portfolio.
Adoption of green technologies (e.g. renewables, rainwater harvesting, switching to lower emission refrigerants)				In collaboration with the Operator, FEHT is exploring energy-efficient and water management solutions that are materially impactful and economically sustainable. Where possible, we will apply for the appropriate government grants.
Communicate sustainability commitments to stakeholders through external partnerships, working committees and conservation efforts in partnership with other hospitality players, etc.				FEHT will work closely with the Operator and share the latest developments as well as knowledge with relevant stakeholders.
Sustainable finance				FEHT has obtained \$125m of sustainability-linked loan and an \$85m sustainability-linked swap. We will continue to undertake sustainable financing, where appropriate.
Set progressive science-based emission targets and implement a decarbonisation plan				FEHT has developed Scope 1 and 2 GHG inventory and is in the process of setting targets for progressive long-term carbon targets.
Conduct training on how to understand and manage risks for all relevant employees of the REIT Manager				The REIT Manager will send relevant employees for applicable sustainability trainings, including those organised by SGX and other relevant training providers.
Include climate criteria in the acquisition mandate				FEHT has an investment management policy that includes climate criteria for new acquisitions.
Include climate risk assessment in Enterprise Risk Management ("ERM")				In line with SGX's sustainability reporting guidelines, FEHT is in the process of conducting a review exercise to update the key risks under our ERM framework, including climate risk. Relevant changes will be incorporated into the new audit plan.

Pillar 3 – Risk management

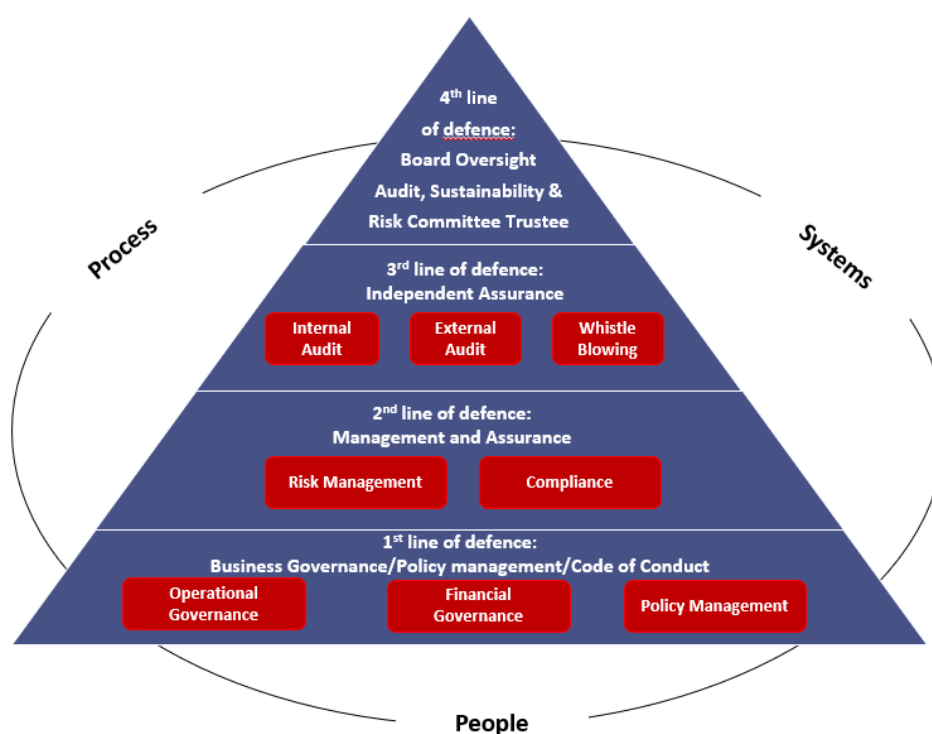
TCFD Recommendations

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

FEHT has in place an ERM framework that aids in identifying, assessing and addressing risks on an ongoing basis.

For 2022, FEHT is in the process of integrating climate risks into our ERM process. Additionally, we are examining additional tools and methodologies that would be appropriate to help us strengthen our ESG risk management process.

As per our ERM framework, FEHT has in place a three-line defence system with clear roles and responsibilities of each defence line to ensure sufficient oversight across our whole operations to address our climate risks.



1. First line of defence

Business governance, policy management and code of conduct constitutes the first line of defence for the SWC to stay in compliance with governing policies and procedures.

2. Second line of defence

Management and assurance constitutes the second line of defense which monitors and review risks management controls and compliance and establishes policies and procedures to mitigate risk.

3. Third line of defence

Independent internal audit constitutes the third line of defense which ensures adequacy and effectiveness of risk management.

Pillar 4 – Metrics and Targets

TCFD Recommendations

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

This section provides an overview of the metrics that FEHT uses to manage climate-related risk exposure.

In FY2021, we disclosed our first GHG emissions inventory (Scope 1 and 2). We will continue to provide comprehensive disclosures on our emissions and other environmental metrics on a yearly basis in our sustainability report. FEHT's FY2021 environmental performance can be found in the Sustainability Report:

- Electricity consumption, electricity intensity (page 60-62 of FY2021 Sustainability Report)
- Water consumption, water intensity (page 63 of FY2021 Sustainability Report)

FEHT has performed trend analysis using historical data. Based on the materiality assessment conducted, these metrics will continue to be relevant to our business operations in line with regulatory and market expectations. Since 2021, key performance indicators for the FEHT management team have also incorporated ESG related targets.

As we are in the process of reviewing, validating and updating our ESG strategy, and given the circumstances of operating under the COVID-19 pandemic (which may not be representative of normal operations), it would be premature to set long term environment targets this year. Notwithstanding this, FEHT is committed to managing our climate footprint responsibly. In the longer term, we are working towards conducting the appropriate climate scenarios and developing quantitative climate-related targets to better manage and track the progress in the near future, aligned with the TCFD's recommendations.

The Way Forward

FEHT aspires to achieve a greener future for our stakeholders and future generations and will continue to strengthen our climate disclosures and risk management. We will continue to work towards integrating climate opportunities into our broader ESG and business strategy, while managing the associated risks. While the process to review, validate and update our ESG strategy is ongoing, progressive improvements to our ESG performance across all material aspects will be an ongoing journey and we remain focused on achieving this in the years to come for the benefit of all our stakeholders.