



**ARCH Capital Management Co. Limited**

**2022**

**Climate-Related Disclosure Report**

**CONTENTS**

Introduction ..... 3

Governance ..... 4

Investment Management ..... 6

Risk Management..... 9

# Introduction

This report is the first climate-related disclosure report (the “**Report**”) relating to ARCH Capital Management Co. Limited (“**ARCH Capital**” or the “**Company**”) and its subsidiaries (collectively, “**ARCH Group**”). The Report is prepared in accordance with the *Consultation Conclusions on the Management and Disclosure of Climate-related Risks by Fund Managers* — enhanced standards published by the Hong Kong Securities and Futures Commission (“**SFC**”) and with reference to recommendations from the Task Force on Climate-Related Financial Disclosures (“**TCFD**”). Unless noted otherwise, the policies and practices referred to in the Report are adopted by ARCH Capital on a group-wide basis and applied in the relevant jurisdictions in which ARCH Group operates. ARCH Group’s 2022 portfolio carbon footprint will be separately disclosed within four to six months after the December 31<sup>st</sup> fiscal year end.

At ARCH Capital, one of our corporate objectives is to leverage on our strengths and breadth of experience to sustain long-term growth and success. Our view of long-term growth and success is defined not solely by our success in our business as measured by the traditional business metrics but goes with the belief that responsibility and success are to be reflected in, and accompanied by, the alignment of benefits and interests among all stakeholders. The investments under management by ARCH Group cater to and meet the expectations of our investors and the needs in our target markets alike, are operated in a manner consistent with sustainable development and are aligned with the UN Principles for Responsible Investment (“**UN PRI**”) of which ARCH Capital is a signatory member. The Company’s approach to climate-related risks is underpinned by three pillars described throughout this report:

## Governance

- The Company has established a robust sustainability governance structure with clearly defined roles and responsibilities for management on climate-related issues and performance and implemented in line with evolving developments that address climate-related issues.

## Investment management

- The Company has and follows a clearly defined set of principles that integrates Environmental, Social and Governance (“**ESG**”) factors into its management processes and ownership practices and approaches climate risk and opportunities through all stages of the real estate lifecycle, from pre-investment to design, construction, asset operations and divestment.

## Risk management

- The Company has a defined risk management process for identifying, analyzing and managing climate risks and adopts suitable approaches for mitigating identified risks.

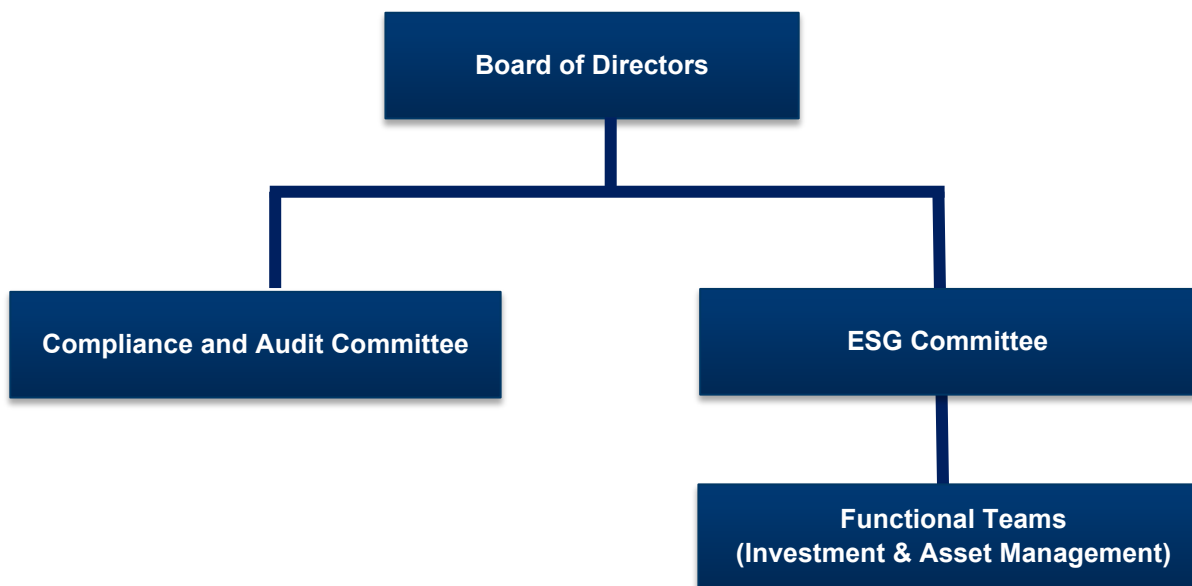
As an independently owned and managed real estate private equity investment platform with a well-established track record of investing in the opportunistic, value add and core/core plus strategies across major markets in the Asia Pacific, ARCH Capital’s investment management activities and principles will continue to evolve and adhere to climate-related disclosures on a timely basis to

provide transparent and relevant information to stakeholders and to review and make appropriate disclosures on an annual basis.

Your valuable feedback on the Company's Report is welcomed. Please contact Leonard Wei ([lwei@archcapital.net](mailto:lwei@archcapital.net)) or Jonathan Umali ([jeumali@archcapital.net](mailto:jeumali@archcapital.net)) as necessary or appropriate.

## Governance

An effective sustainability governance protocol is critical to directing and implementing ARCH Group's overall business strategy and sustainability performance. ARCH Group has developed a robust sustainability governance structure to ensure the management and monitoring of ESG and climate-related issues and performance in pursuance of its sustainability objectives and to address stakeholder concerns and expectations in its decision-making processes.



The Board has ultimate responsibility and accountability for evaluating and reviewing material ESG factors, sustainability strategies and action plans (including climate mitigation and resilience). The Chief Executive Officer defines the overall sustainability objectives and communicates the value of ESG to investors and organizations to ensure that sustainability criteria are at the core of its investment strategies and direction, portfolio construction and risk identification, mitigation and monitoring. The Chief Operating Officer and Head of Sustainability jointly oversee ARCH Capital's sustainable investment objectives, seek to ensure that ESG and climate-related issues reflect all essential elements in the corporate sustainability agenda, and maintain consistency and quality in ARCH Group's sustainability approach, including the setting of sustainable investment standards and processes. The Board is supported by the Compliance and Audit Committee and ESG Committee, which have interdependent and complementary functions in ESG and climate-related management.

The Compliance and Audit Committee ensures the adequacy and effectiveness of the group-wide risk management initiatives and internal control systems and takes necessary remedial action(s) where any deficiencies are identified in established operational systems.

Led jointly by the Chief Operating Officer and Head of Sustainability, the ESG Committee is responsible for developing, implementing and monitoring sustainability policies and investment and climate-related management standards and processes, ensuring the implementation of climate strategies across ARCH Group. The ESG Committee is comprised of investment and asset management professionals across countries in the Asia Pacific where ARCH Group operates, meets semi-annually (coinciding with established intervals for post investment reviews) to discuss relevant portfolio ESG and climate-related issues and concerns, reports firm-wide ESG performance and elevates critical sustainability topics for senior management or for the Board's attention and decision-making where appropriate.

Investment and Asset Managers report and disclose the ESG performance of portfolio investments at regular Asset Management Update meetings every two to three weeks, together with quarterly asset management reports and/or quarterly investor reports to ensure that performance progress is reviewed by the ESG Committee and reported accordingly to the Board.

To stay current with the latest thinking and trends in climate-related issues, ARCH Group recommends and/or organizes appropriate in-house or external training sessions related to climate competence to the Board and ARCH Group employees. Supplemented by a recently created internal newsletter ("The ARCHWAY") featuring asset-level ESG performance indicators, relevant industry news, relevant ESG research, training events, and participation at sustainability-focused conferences, ARCH Group strives to strengthen the professional capabilities of Board members and ARCH Group employees and to instill and impart ESG awareness of the everchanging developments and the sustainability investment landscape. ARCH Group also engages professional advice from external experts when necessary to better support the ESG and climate-related decision-making processes.

# Investment Management

As a responsible asset manager, ARCH Group is fully aware of its role to stimulate and support sustainable development and actively incorporates ESG issues, including climate-related risks and opportunities, into its overall business strategy.

ARCH Group integrates ESG factors into its investment activities through the principles shown below, which are aligned with the UN PRI.



ARCH Group has formulated a *Responsible Investment and Sustainability Management Policy* (“**RISMaP**”) that incorporates ESG issues into the investment management process. The RISMaP provides guidance and direction in incorporating physical and transition climate-related risks and opportunities into consideration in the business and decision-making processes, including business strategy formulation, business development plans and daily operations and ensures that these are effectively incorporated into the overall business strategy.

ARCH Group has integrated its Investment Policy as a part of the *ARCH Capital Compliance Manual* and *Code of Conduct*. The Investment Policy identifies the investment preferences or tolerance for climate-related risk, constraints on the investment portfolio, how investee companies are engaged, managed and monitored in the investment analysis process/investment program.

By recognizing the importance of understanding stakeholders’ opinions, ARCH Group has formulated the Stakeholder Engagement Policy to ensure the alignment of interests and benefits

among its stakeholders, including investors, employees, customers, suppliers and contractors and the communities in which ARCH Group is present. The policy illustrates the management approach to stakeholder engagement, including the identification process, engagement methods and results review. Given dynamic market developments and policy updates, ARCH Group carries out stakeholder mapping on a regular basis to keep pace with the latest regulatory requirements and industry development trends. ARCH Group also develops a range of communication channels, including press releases, social media, surveys, and joint projects to ensure effective communication with stakeholders.

To better respond to stakeholders' concerns and expectations, ARCH Group performs materiality assessments to identify and prioritize important ESG issues, including climate change, with reference to peers' material issues and global reporting standards and sustainability ratings, such as GRI, the Sustainability Accounting Standards Board (SASB), the Morgan Stanley Capital International (MSCI). ARCH Group also takes into consideration its business nature and operations, locations, market trends, and global and/or local policies and regulations. Based on the resulting analysis of the materiality assessment, climate change is deemed as relevant and a material ESG topic for ARCH Group.

ARCH Group's approach to managing climate risks and opportunities encompasses the real estate lifecycle from pre-investment to design, construction, asset operations and divestment.

### **Pre-Investment**

ARCH Group conducts the pre-investment screening assessment as a prerequisite for all new investments. The pre-investment screening checklist incorporates a wide range of issues for consideration including, but not limited to, reputational risks and ESG issues (e.g., ethical criteria and climate-related risks). When assessing investments, investment professionals seek to understand how the investee company's management teams identify, manage and mitigate ESG-related risks, and engage with investee companies on how these risks are managed. All relevant information and records of ESG issues, including climate-related risks with potential financial and non-financial implications and recommendations are documented and reviewed/approved by senior management. Issues identified in the checklist are continuously monitored throughout the investment period, with an overall strategy to mitigate risks driven by senior management.

### **Investment/Project Implementation**

During the project/asset management stage, asset managers establish the extent of active ownership and participate in the appointment of external service provider(s) for each of the projects to ensure (and improve where necessary or relevant) performance in the areas of quality control, environmental sustainability, costs and delivery time, thereby ensuring all ESG risks (including climate-related risks) are properly managed. Through regular assessment and adaptation of the asset and project management monitoring checklist, ARCH Group maintains active monitoring of identified sustainability issues or performance indicators during the project development and operational stages.

ARCH Group expects and encourages its business partners to implement relevant sustainability policies and practices (include climate change issues) with mitigation measure(s) to minimize the financial and operational impacts relevant to such risks. By so doing, ARCH Group is able to extend its sphere of influence along the value chain.

## Post-Investment

At the post-investment stage, asset management professionals complete reviews of individual investment on a semi-annual basis in line with the guidance of RISMaP, noting deficiencies, areas for improvement and, where relevant, review assessment criteria for improvement based on current performance and best practices. After the review, a post-investment monitoring report is prepared by asset managers, and the relevant investment information is incorporated into the overall report with approval from senior manager for public disclosure. In addition, asset managers update the model of each asset on a continuous basis to keep in view potential climate-related risks after the project implementation. Where new climate threats or risks are identified, these are brought to the attention of the ESG Committee and senior management for next steps.

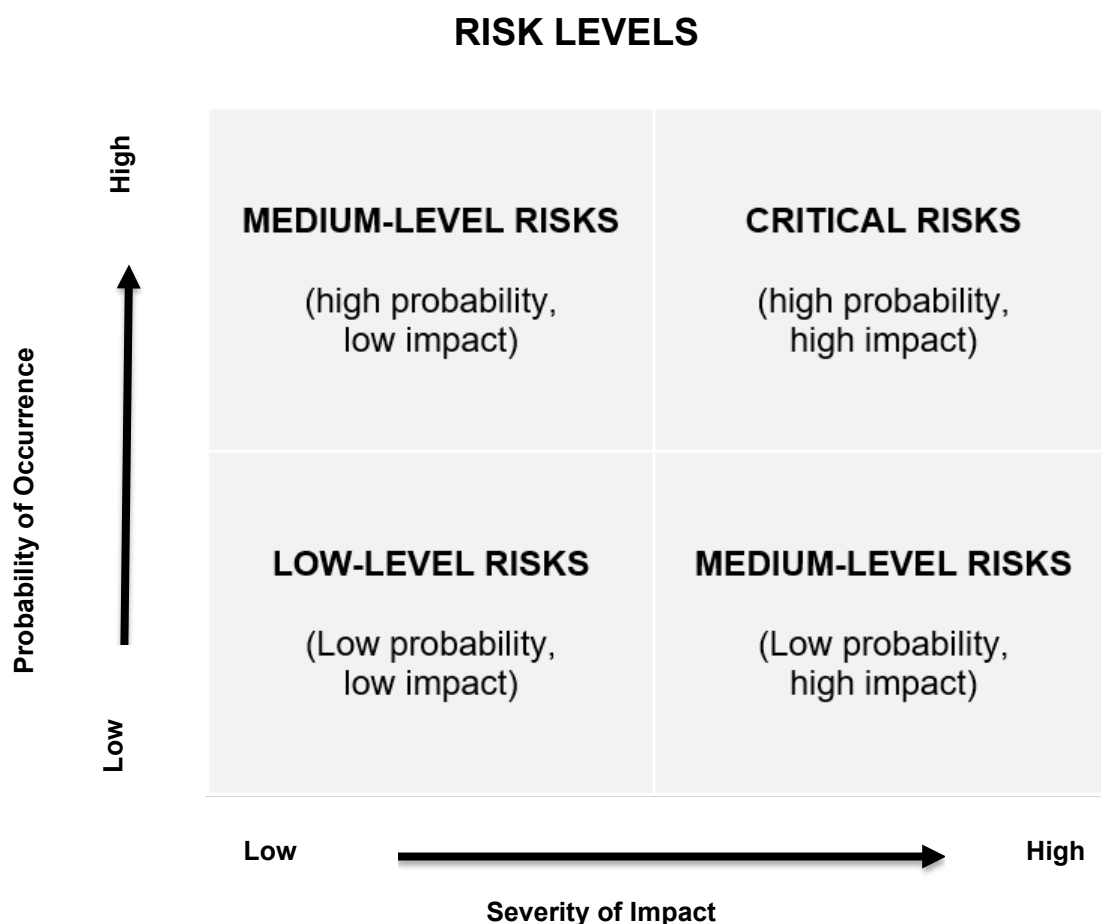
ARCH Group is committed to enhancing the awareness of staff and joint venture partners on responsible investment and sustainability management. ARCH Group encourages and organizes participation in events and active participation in organizations that promote sustainability initiatives including GRESB, INREV, UN PRI, ANREV, and Urban Land Institute. Additionally, ARCH Group regularly reviews its internal measures and practices to ensure their effectiveness for managing climate-related risks.



# Risk Management

## Risk Management Approach

ARCH Group has a defined risk management process for identifying, analyzing and managing risk levels and addressing both normal and exceptional situations. To assess the risk level and address different areas of risks (including climate risk and opportunities), ARCH Group adopts a risk appetite matrix to evaluate the probability of occurrence and the severity of impact of the risk. Risk prioritization template as a tool to score the probability of occurrence and severity of impact of the risk, with 1 representing low and 4 representing extreme. Those risks with a high probability of occurrence and which bring high severity of impact to ARCH Group are classified as critical risks, and then require the determination of mitigation measures and/or action plans to reduce the identified risk to an acceptable level.



## Risks and Opportunities Identification

ARCH Group undertakes sensitivity analyses of investments/projects based on key financial assumptions, business nature and geographic locations of business operations to identify material climate-related risks with their potential impacts and implications.

### Physical Risks

Risk category	Risk	Timeframe*	Financial Implications
Acute	Extreme weather events (e.g. flooding, tropical cyclones, wildfires)	Short-term	<ul style="list-style-type: none"> <li>Reduced revenue and higher costs from increased health and safety risks to personnel, including loss of workforce and absenteeism</li> <li>Reduced revenue from business interruptions, such as supply chain interruptions due to traffic difficulties</li> <li>Increased capital costs from the maintenance and replacement of damaged and/or destroyed assets</li> </ul>
	Rising temperatures (e.g. heatwaves)	Medium- to long-term	<ul style="list-style-type: none"> <li>Reduced revenue from lower productivity due to extreme heat, including restrictions on working outdoors</li> <li>Higher operating costs for cooling</li> </ul>
Chronic	Rising sea levels	Long-term	<ul style="list-style-type: none"> <li>Increased capital costs from adaption measures, such as elevating buildings</li> <li>Increased insurance premiums and decreased availability of insurance on assets in “high-risk” locations</li> </ul>

### Transitional Risks

Risk category	Risk	Timeframe*	Financial Implications
Policy and legal	Carbon pricing	Short- to medium-term	<ul style="list-style-type: none"> <li>Increased taxes and higher expenditures on offsets</li> <li>Higher operating costs from compliance with new standards and disclosure requirements</li> <li>Write-offs and early retirement of existing equipment and appliance due to policy changes</li> </ul>
	Enhanced climate-related reporting obligations	Short- to medium-term	
	Tighter building energy codes	Short- to medium-term	
Market	Changing customer behavior	Medium- to long-term	<ul style="list-style-type: none"> <li>Reduced demand for traditional products and services due to shifts in consumer preferences to green alternatives</li> <li>Increased operating costs due to the shift to low-carbon economy (e.g. renewable energy driven economy)</li> </ul>

\* Short-term: 0-2 years; mid-term: 3-5 years; long-term: 5+ years.

## Mitigation Approach for Identified Risks and Opportunities

### Business Continuity

To minimize the potential impact of any identified climate risks under ARCH Group's portfolio assets under investment, ARCH Group has in place an investment sustainability due diligence protocol to evaluate potential risks (regardless of their short-term or long-term business impact) and translates the identified risk into timely action. ARCH Group also continuously monitors changing policies and regulations at the local level for transitional risks so as to manage any potential resultant adverse impact on operational costs due to new disclosure requirements or compliance measures.

ARCH Group undertakes an Environmental Impact Assessment (and secures the necessary operating license/permits, where required) to identify and assess any environmental risks and opportunities related to the asset/project site and its surroundings (including climate change). Significant findings from the assessment are reported to the Board for review and/or approval.

Where environmental considerations or conditions are inadequate, ARCH Group designs more conservatively based on the inputs from engineering and environment consultants. Climate-related adjustments for investments involving land development include provision for higher storm resilience and rain drainage capacities, higher standards of care for existing plants or greenery and planting more resilient plants/trees for landscaping. For buildings, ARCH Group looks very closely at the strength of the curtain walls and windows and their capacity/quality for heat/cold air retention. More efficient and sustainable air-conditioning designs, systems, and equipment areas are also carefully checked and monitored.

ARCH Group ensures that emergency response plans are in place for local asset management for potentially critical events caused by climate change, such as super typhoons or severe flooding. In addition, business recovery plans are in place, reviewed and updated regularly to ensure business continuity and proper execution of core business functions.

### Green Building Design and Energy Efficiency

ARCH Group upholds its environmental stewardship and properly and professionally addresses climate risks and opportunities from the very beginning of the design and operational phases of its projects. Leveraging on professional expertise from engineering and environment consultants, the ARCH Group asset management professional study the local context of each project and appropriate measures and/or industry best practices for climate adaptation and resilience. Based on the results of these studies, ARCH Group deploys applicable climatic-resilience building design (e.g. Integrative design) to obtain green building certification by the internationally recognized green building ratings schemes, such as Leadership in Energy and Environmental Design (LEED), BCA Green Mark, WELL Building Standard, Fitwel Certification, IFC's Excellence in Design for Greater Efficiencies (EDGE) and/or Building for Ecologically Responsive Design Excellence (BERDE) Rating System.

Initiatives in energy and water efficiency, systems update, and regular system maintenance are also put in place to enhance the environmental performance of operational assets to support efforts to reduce carbon emissions in turn mitigating adverse impacts of changing weather patterns.

In the upcoming three to five years, ARCH Group will conduct an industry-level risk review with selected scenarios to gauge further insights from the management with regard to its investments, and to continue improve the assessment process for identified climate-related risks with reference to projections and historical data. ARCH Group will continue to develop its mitigation approaches and associated measures for identified climate risks to minimize those risks stemming from climate change that potentially affect ARCH Group.

## **Portfolio carbon footprints**

The Portfolio carbon footprint of the fiscal year of 2022 will be disclosed within four to six months after the fiscal year has ended on 31 December.