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FIBRA Macquarie México

Climate Change Report 2023

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Climate Governance

Oversight of climate-related risks and opportunities

GRI 2-12, 2-24

FIBRA Macquarie's environmental, social, and governance framework is in constant evolution in line with international best practices. We have a continuous improvement approach to the incorporation of ESG aspects to identify and undertake actions that increase resilience and strengthen economic and social value creation in the long term. Climate risk management is crucial for operating in a manner that is transparent, fair, and responsible.

Our Sustainability Committee evaluates the performance of sustainability and social policies and targets and, together with the Technical Committee, ensures compliance with our corporate governance initiatives, risk management, and potential impacts to our investors. The Sustainability Committee convenes at least quarterly and consists of board members, executive management, and in-house sustainability experts. For each meeting, the Committee Chairperson prepares an agenda, supported by explanatory documentation, circulates it to Committee members prior to each meeting, and shares findings with other Board members.

Sustainability Committee meetings have included the review of:

- FIBRA Macquarie's sustainability strategy and the implementation and compliance with related policies and systems.
- Progress towards goals and initiatives for continued improvement assessed by reference to agreed targets and measures and their disclosure through ESG reports.
- Audits of FIBRA Macquarie's performance, both internal and external, and actions being taken to address issues raised.
- Policies and systems within FIBRA Macquarie to ensure compliance with applicable laws and regulations associated with sustainability matters.
- Annual performance self-evaluations, where Committee members evaluate their ESG contributions to the Board and to FIBRA Macquarie, addressing areas for potential improvement.

The Sustainability Committee approved FIBRA Macquarie's net-zero plan, which is currently under way. During 2023 the Sustainability Committee monitored the progress of the year's work plan and approved the 2024 workplan which has a stronger focus on integrated management, updating and reinforcing our risk management and sustainability policy frameworks.

Management's role in assessing and managing climate-related risks and opportunities

GRI 2-13

MPA staff are engaged through effective communication strategies and ongoing involvement in the ESG management process, including climate-related risks and opportunities. Professional training and education opportunities are received throughout the year to encourage continual improvement. Through membership with the U.S. Green Building Council (USGBC), engineering teams have access to trainings, seminars, and educational materials on diverse topics related to green building design, construction, and operations.

Strategy

Climate-related risks and opportunities in the short, medium, and long term

SASB IF-RE-450a.2

FIBRA Macquarie is committed to integrating climate mitigation and adaptation strategies into our business, understanding the effects of environmental risks on our business and on the communities where we operate. We routinely perform environmental and social risk assessments across our entire portfolio at the property level to better understand and prepare for future climate-related risks. In 2023 we developed a site-level water stress risk assessment of our entire portfolio to identify priority sites.

During 2022, we carried out a TCFD-aligned analysis including a workshop with the executive team and key senior managers, which was facilitated by independent experts. Participants prioritized the climate risks and opportunities most relevant for our business. Also, they analyzed the vulnerability of our portfolio to those risks, against two climate scenarios and three-time horizons:

- Time Horizons
  - 2021. Baseline
  - 2030. Medium-term
  - 2050. Long-term
- IPCC Representative Concentration Pathway (RCP)
  - RCP 4.5. Spans from baseline to medium-term
  - RCP 8.5. Spans from medium to long term
- Global average temperature increase vs preindustrial levels by end of century
  - RCP 4.5 around 2.7°C
  - RCP 8.5 around 4-5°C

Climate-related risks

GRI 201-2, SASB, IF-RE-140a.4, IF-RE-450a.2

Climate-related risk	Potential climate and business impact	Mitigation strategy
Transition risk (Market and technology) Increased costs due to higher prices in materials and services and the need to retrofit assets.	Higher vulnerability of real assets to the expected increase in frequency and intensity of acute physical risks will demand more complex and costlier retrofits of our properties. As such, there could be an increased need to incorporate efficient technologies and mitigation strategies in the design and construction phases.	To achieve recognition and third-party validation of our performance, we actively pursue green building certifications during design and construction, and operational green building certifications. We are also building on our collaboration efforts with tenants, most of which have sustainability initiatives of their own. Over 50% of our tenants have formal ESG disclosures and align with ISO or best practices. An additional 22% are starting to adopt compliance or quality standards, ESG language, or have sustainability-oriented products. We strive to continue partnering with our tenants to support their and our sustainability efforts.
Transition risk (Policy and legal) Increased operational costs due to stricter regulation and emerging policy.	Potential for increased carbon performance regulation and pricing on GHG emissions may result in significant financial impacts if compliance is not met.	We are actively developing a formalized strategy to improve asset-level performance to ensure that we meet potential compliance requirements and avoid fines.
Chronic physical risk Droughts (including shifts in rain patterns and water scarcity) and changes in average temperatures.	Most of inland Mexico is projected to experience reduced rainfall, including an increase in consecutive dry days, particularly in the north, leading to reductions in surface water availability. 98% of FIBRA Macquarie's GLA is in regions expected to experience extremely high or high risk of water stress.	We actively work on retrofitting existing assets to install high-efficiency water fixtures and implement water/reuse systems wherever feasible. We use local species and efficient drip irrigation in the landscaping of our buildings to reduce water consumption while aesthetically enhancing our portfolio.
Acute physical risk Storms (including hail and strong winds) and floods.	Urban areas in central and southern Mexico are highly susceptible to flooding due to increased precipitation events and rapid, unorganized urbanization. Furthermore, coastal areas can be impacted by tropical storms. 36% of our GLA is in "high" to "very high" riverine or coastal flooding risk areas. Another 19% is in "medium-high" flooding risk areas, for a total of 55% of our GLA.	Vulnerability to flooding is dependent on elevation and flood infrastructure, we will continue to monitor and evaluate pertinent mitigation strategies such as stormwater retention tanks, site drainage, protecting infrastructure, among others, particularly for assets in "high" and "very high" risk areas.

Climate-related opportunities

SASB IF-RE-450a.2

Higher resilience to climate change and better adaptation capabilities (Resilience)

We proactively monitor environmental and social risks by adopting a continuous improvement approach to our risk assessment practices. This includes the consideration of risk criteria for both assets and clients.

We understand that certain climate-related risks require a systemic approach going beyond the identification of asset-level and site-level solutions. We plan on furthering our risk identification efforts, by collaborating with stakeholders to build appropriate risk responses.

This would help us increase resilience and protect our customers from climate-related disruptions, potentially securing present and future market valuation. Investments in resilience may generate cost savings and mitigated damages to infrastructure. Approvals for resilience investments by regulators may be easier due to political context and improved cost/benefit quantification methods in the future. Finally, as a matter of risk management, clients will have increased appetite for climate resilient buildings.

Improved energy security by improving efficiency and diversifying energy supply (Energy Source, Resource Efficiency)

We are continually searching for improvements on our properties to improve environmental performance, thus reducing operating costs and avoiding higher utility rates. An ambitious initiative to date is our rooftop solar energy program with its three action plans:

- Supplying the energy used in the common areas of our retail properties.
- Deploying solar energy in existing properties.
- Delivering every new industrial building with rooftop solar system.

Additionally, we support clients who wish to install their own on-site solar systems through an agile procedure that simplifies approvals of tenant improvements to the buildings and modifications and their lease agreements.

Impacts of climate related risks and opportunities in our business, strategy, and financial planning

GRI 201-2

We actively evaluate the exposure of our portfolio to climate risks to ensure the protection of our buildings and prepare for future scenarios. In 2022, we conducted our first physical risk Climate Scenario Analysis. For this exercise we considered the Intergovernmental Panel on Climate Change's (IPCC) Representative Concentration Pathways (RCPs), which are four possible future climate scenarios based on greenhouse gas emission trajectories defined in the IPCC's fifth Assessment Report (AR5). While our net-zero plan aims to contribute to limit global warming to 1.5°C, we chose to analyze our climate risks and opportunities under the RCP 4.5 and RCP 8.5 scenarios, along with our established time horizons, to be best prepared for diverse climate futures. These scenarios allow us to consider both a low-emissions scenario, RCP 4.5, which accentuates transition risks, and a business-as-usual scenario, RCP 8.5, where physical risks are more prominent.

Building on those efforts, in 2023 we conducted a site-level water risk assessment of the entire portfolio, including industrial, retail and development sites.

The resilience of our strategy, under two climate-related scenarios

SASB IF-RE-450a.2

Our scenario analysis process consisted of a thorough review of academic and international sources, press papers, and governmental publications to gather information related to our priority physical climate-related risks. We then evaluated each risk's impact to FIBRA Macquarie and the likelihood of their occurrence across the two chosen scenarios and time horizons.

Chronic Physical Risks

Mexico's high vulnerability to climate-related risks is compounded by its geography. Located inside the tropical belt and with an extended coastline, it is subjected to the influence of the Gulf Stream in the Gulf of Mexico, and the California and Equatorial currents in the Pacific Ocean. Our scenario analysis for chronic physical risks focused on water-related risks and changes in average temperatures, which are particularly relevant in North Mexico where most of our assets are located. The key findings are as follows:

- Present day climatic conditions
  - Decreased rainfall, increased frequency and severity of droughts, and higher average temperatures were dentified as the key chronic climate hazards.
  - Changes in rain patterns and water stress have already impacted most Northern and Central Mexican states[1].
- RCP 4.5 pathway
  - Greater likelihood of higher average temperatures, with North Mexico experiencing more rapid warming compared to the rest of the country.
  - This, combined with the possibility of decreased rainfall, is expected to increase the frequency and severity of droughts, particularly in the North and Central regions of the country.
  - While changes are less noticeable by our mid- term horizon (2030), by 2050, mean temperatures in Mexico could reach 23.15°C, 1.3°C higher than they currently are.
- RCP 8.5 pathway
  - The effects of climate change on our priority chronic risks are exacerbated.
  - Projections suggest an increase in extremely hot days to 14 days per year by 2030, with a further increase to approximately 26 days per year by 2050.
  - Additionally, droughts have the potential to worsen 10 times compared to their current state[2].
  - Water stress is a priority risk under both RCP 4.5 and RCP 8.5, worsening mostly in the North of Mexico.

Acute physical risks

SASB IF-RE-450a.2

Based on the scenario analysis, it is evident that acute physical risks related to storms and floods are relevant for our operations in Baja California, Sonora Sinaloa, Tamaulipas and Oaxaca. The impact of climate change on these risks is expected to be more severe as climate change progresses. Some key findings from the analysis include:

- Present day climatic conditions
  - Storms and hail are expected to be relevant risks to FIBRA Macquarie's properties.
  - Intense precipitation events, correlated to pluvial and urban floods, tropical cyclones, and storms accompanied by extreme winds, were identified as the key acute climate hazards.
- RCP 4.5 pathway
  - Total annual precipitation in Mexico is projected to decrease by up to 5%.
  - However, the frequency of heavy isolated precipitation events that could cause pluvial and urban floods is expected to increase, particularly in the North and Central regions of the country[3].
  - With regards to tropical cyclones, there is a mild probability of increase, but there are low projections for changes in the current wind speed trends.
- RCP 8.5 pathway
  - Total annual precipitation is projected to decrease between 5% and 15%.
  - Nevertheless, heavy isolated precipitation events are expected to be three times more frequent.
  - Moreover, flood activity projections are highly uncertain, with possibilities of no change or an increase in frequency by up to 30% by the 2050s.
- Other risks
  - Tornados and hailstorms are also predicted to occur, although at a smaller scale compared to other acute climate hazards.
  - Nonetheless, these events could still pose risks our operations.

1. According to the IPCC's Sixth Assessment Report, Section 14.2.1 Observed Changes in North American Climate, and the National Water Commission's (CONAGUA, for its Spanish acronym) Mexico Drought Monitor (MSM, for is Spanish acronym).

2. The Firth Version of the Coupled Model Intercomparison Project, foresees Mexico's SPEI Drought Index to reach -0.24 under RCP 8.5, compared to its current -0.02 value. Values represent a Multi-Model Ensemble.

3. Based on data from the World Resources Institute, including its Aqueduct tools.

Outcomes

Our climate-related risk and opportunity identification and scenario analysis processes indicate an increasing severity of climate-related hazards in our mid- and long-term horizons.

Currently, the annual economic costs of floods in Mexico are considerable: US$ 7.6 billion from inland flood damages and US$ 141 million from coastal flooding. By 2080, these costs are expected to be 16 times higher for inland floods and 26 times higher for coastal flooding. As we continue to incorporate climate-related risks into our financial planning we have started to address potential risk factors such as higher premiums, lower asset valuation, and higher operational costs through our business strategy, as applicable.

Risk of droughts and water scarcity could lead to increased cooling requirements, higher demand for water storage, increased energy use, and asset retrofitting.

Higher temperatures may reduce the effectiveness of water-related adaptation activities, leading to mal-adaptation.

Storms and floods could have a significant financial impact on operations, with current and projected annual damage costs reaching considerable amounts in Mexico.

As storms become more frequent in coastal areas, sea level rise and storm surge from coastal storms threaten water and electricity infrastructure with inundation and salinity, enhancing the need to retrofit assets and affecting client satisfaction and retention.

Potential increase in the cost of insurance, particularly considering improvements to data held by insurers on flooding.

Next Steps

By continually assessing the impacts of climate-related risks across our portfolio, we are implementing strategies and initiatives to enhance the climate resilience of our portfolio. We have revised our short-, mid- and long-term roadmap to the following actions:

- Short-term
  - Begin the transition from the TCFD framework into the IFRS S2 Climate-related Disclosures.
  - Implementing our net-zero plan, conducting feasibility studies, and identifying assets for improved energy performance.
  - Comply with our interim green building certifications targets to drive enhanced environmental performance.
  - Increase engagement with our clients to identify collaborative opportunities to reduce energy and water consumption.
- Mid-term
  - Improving eco-efficiency and certifying all assets under green certification programs (LEED®, BOMA®, EDGE).
  - Incorporate specifications for market-available low carbon construction materials in new development projects.
  - Strengthening partnerships with stakeholders through an expanded WHSE and ESG program to support sustainable operations.
  - Continuing the Net Zero plan with a goal of achieving net zero scope 1 and 2 emissions by 2040.
  - Increasing on-site solar and off-site renewable energy sources.
  - Leading multi-stakeholder actions to improve regional resilience, addressing water security, nature-based resilience, and community adaptation, among others.
  - Conducting a deeper evaluation of sites with potential for business interruption, incorporating stranded assets risk assessment, transitional risks and opportunities, quantitative scenario analysis, and stress test scenarios.
- Long-term
  - Guide future market and site selection by integrating climate risk into the due diligence process for site selection to minimize the risk of occupying locations that may become impacted in the future.
  - Continue incorporating climate-risk management processes and sustainability into our business strategy to ensure a strong, transparent, ethical ESG governance.
  - Embedding climate factors in our financial analysis, both in our reporting and operations. This includes modelling potential production, and cost impacts for both our clients' and our operations.

Risk Management

Our processes for identifying and assessing climate-related risks

FIBRA Macquarie takes a comprehensive, proactive, and prudent approach to managing and mitigating potential risks across the organization, including ESG and climate-related risks. Through disclosure of relevant, reliable, and material ESG data to key stakeholders, we take a systematic, integrated approach in the evaluation of ESG risks and opportunities. As mentioned previously, we routinely perform environmental and social risk assessments at the property level across our entire portfolio to better understand and prepare for climate-related risks.

1. Assess risks and opportunities: Conduct climate change risk assessments and determine which risks are highest priority as well as possible climate-related opportunities.

2. Plan and manage identified risks and opportunities: Develop a short-term implementation plan for mitigating risk at assets with the highest risk; develop a long-term implementation plan for all other assets.

3. Implement mitigation strategies: Implement identified mitigation strategies.

Starting in the fourth quarter of 2018, we partnered with an international firm and implemented an internal audit function to foster and encourage a culture of risk management and integrity. This function reports directly to the Audit subcommittee of the Technical Committee and focuses on:

- Providing independent risk-based assurance and improving controls.
- Improving compliance with processes and policies.
- Detecting and preventing bribery, corruption, and core business risks across all areas.

Building on last year's TCFD-aligned process focused on identifying physical and transition risks and opportunities specific to FIBRA Macquarie's portfolio, we went deeper in detail to execute an asset. To this end, our climate-related risk and opportunity identification process included:

- Review of international sector and academic publications, press articles, official documents by Mexican authorities related to climate risk, and regulatory developments.
- Drafting a long-list of climate risks and opportunities.
- Holding workshops to assess and prioritize risks and opportunities based on their relevance for FIBRA Macquarie, yielding a short-list on which to focus our ESG efforts.

This process has allowed us to improve our risk identification and assessment process with a focus on developments in Mexico. This is especially relevant as Mexico's climate regulation keeps maturing. As of now, it includes environmental taxes, emissions registries, a sustainable taxonomy, and an evolving emissions trading system, among others. Additionally, within this process we have assessed the scope of prioritized risks and opportunities by contemplating the likelihood and impact of climate change on our strategy and operations (for more details please see the Strategy section).

Our processes for managing climate-related risks

Our risk management processes are led by our Technical Committee and Manager. Our Technical Committee's priorities include approving material investments and transactions, regulatory compliance, implementing governance policies, and ensuring upholding our Code of Conduct and Ethics. The key governing bodies have a fiduciary responsibility to certificate holders to ensure efficient business operations and protect asset value. Diverse qualifications, skills, experience, backgrounds, and perspectives are considered in the composition of the committee to align with FIBRA Macquarie's business and strategy.

FIBRA Macquarie's Audit, Indebtedness and Ethics and Governance subcommittees review and enforce governance-related concerns. The Manager, through the Sustainability Committee, works to ensure that climate-related risks are embedded in our overall risk management process.

We take a proactive approach to track social and environmental risks and assess their impact across our portfolio. This allows for the development of business continuity capabilities to address challenges posed by climate change and social instability. The involvement of Board and Sustainability Committee members in climate risk and opportunity management processes enables informed decision-making on risk transfer, acceptance, or control. This approach is translated into adaptation efforts such as green building certification programs, alignment with industry frameworks like LEED®, GRESB, and S&P CSA, and asset-level retrofits to improve performance.

Our processes identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management

We conduct ongoing assessments of the impacts of natural hazards, climate exposures, and social impacts across our portfolio, including risks related to flooding, drought, heatwaves, tropical storms and earthquakes, among others. We actively evaluate portfolio exposure to climate risks to protect buildings and anticipate future scenarios.

In 2022, we updated our 2021 risk identification process, and we aim to keep integrating these processes in our overall risk management through annual updates to ensure we are best prepared to manage the effects of climate change. For 2023 we conducted a site-level water risk assessment of industrial, retail and development portfolios. Also, we evaluated the level of ambition of our industrial clients in terms of incorporation of sustainable practices. Our preventive measures are designed to enhance climate change resilience and ensure business continuity for our customers, as part of the general risk management frameworks.

As part of this integrated approach to futureproofing our portfolio and operations and embedding sustainability into our business, we continue to increase the number of credit facilities that are linked to sustainability performance. As of 2023, 58.7% of our debt is sustainability-linked. This better positions of our financial capacity in line with our climate change governance directives.

Also, we published our Sustainability-linked Financial Framework, in accordance with the 2023 Sustainability-Linked Bond Principles published by the International Capital Market Association, and the Sustainability-Linked Loan Principles 2023. Both guidelines that outline best practices for financial instruments to incorporate forward-looking ESG outcomes and promote integrity in the development of the Sustainability-Linked financing.

Metrics and Targets

Metrics used to assess climate-related risks and opportunities

FIBRA Macquarie tracks year-over-year performance improvements in energy, water use, and GHG emissions for properties. Our property management team works closely with our tenant's facility managers to obtain accurate and timely information on operational water and energy use.

At FIBRA Macquarie we consider that these three metrics (water, energy, and emissions) are crucial for our operations. As a result, we carried out an internal analysis in which we identify each metric's potential impact on mitigating our climate risks and opportunities which resulted in the following:

- By measuring and reporting energy and water use metrics we can monitor how transition risks, namely higher prices in materials, retrofits, and operational costs due to stricter regulation, and physical risks impact our financial performance.
- By tracking our GHG emissions we can quantify our adaptation capabilities and resilience to climate change.
- Our energy and emissions data are useful to evaluate our energy strategy, including our on-site generation plan, to support our assets cost-effectiveness, climate resiliency, and efficient energy supply.

For further detail on the water, energy and GHG emissions performance of our portfolio, please see FIBRA Macquarie's 2023 Sustainability Report.

Alignment with international standards

Through our efforts to enhance complementary ESG metrics, FIBRA Macquarie is aligning its ESG reporting to globally recognized disclosure and benchmarking standards such as GRI, SASB, GRESB, and S&P CSA. GRI provides an integrated, cohesive set of standards that represent the global best practice for reporting on economic, social, and environmental factors. On the other hand, SASB, GRESB, and CSA provide a robust, industry-specific sustainability accounting standards and benchmarks that enable FIBRA Macquarie the opportunity to disclose our financial and ESG information to further incorporate best practices for our sector.

Targets used for managing climate related risks and opportunities

FIBRA Macquarie's Sustainability-linked Financial Framework states its Sustainability Performance Targets, committing to increasing the percentage of certified industrial Gross Leasable Area (GLA) to 75% by 2035 from a 2021 baseline. Through our Green Certification Program, we have surpassed our 2023 interim target, reaching a total 75 certified properties or 38% of our industrial GLA by the end of 2023; including our first three LEED® Platinum buildings. With the addition of our six BOMA® BEST certified retail properties, the certified footprint of our consolidated portfolio reaches 39.7%.

Furthermore, we have already commenced work on our Net Zero Plan, with a goal of achieving net zero throughout our portfolio by 2040. Our Net Zero Plan is aligned with the GHG Protocol in terms of emissions estimations and consideration of material sources of emissions. After an analysis of our emissions, we identify that from our baseline:

To ensure our net zero plan, firstly, we are aware that we need to improve the accuracy of our emissions accounting. Currently, only our Scope 2 and Scope 3 emissions from industrial tenant's energy use are calculated using data measured directly. All other emissions are estimated pro forma. Therefore, we have established the following targets for our pathway to achieving net zero on absolute Scope 1 and 2 emissions by 2040.

- Net zero on Scope 1 emissions
  - Improved accounting of emissions from wastewater treatment and fugitive refrigerant gases.
  - Potential offsetting, for example, via certified carbon offsets.
- Net zero on Scope 2 emissions
  - Installation of rooftop solar systems to cover above 80% of energy use in retail common area operations.
  - Potential abating of remnant emissions via the purchase of, for example, I-RECs from generation assets based in Mexico.
- Material reduction in Scope 3 emissions
  - Industrial tenant energy use
    - Install rooftop solar energy in existing assets.
    - Delivering every new industrial building with rooftop solar system, in line with regulatory requirements.
    - Stepped integration of lease requirement of all industrial tenants to procure RECs, for incremental carbon intensity reduction on operational energy to reach net zero carbon intensity by 2040.
  - Embodied carbon of new buildings
    - Continuous improvement of design standards of new buildings and incremental sourcing of low carbon building materials.
    - Offsetting, for example, via certified carbon offsets.

FIBRA Macquarie sees solar energy as a key component of our sustainable future. Our rooftop solar program aims at maximizing the photovoltaic potential of our portfolio. Whether to supply the energy demand of common areas in retail or of MPA regional offices or directly supply our clients with solar energy generated on the roofs of the buildings they occupy. We are working to install PV systems in existing assets as well as in all new buildings under construction. For future targets, we have a plan to assess which assets have potential to increase energy performance through on-site solar installation, followed by feasibility studies at those sites. We aim to equip every new industrial building with a 0.5 MWp rooftop solar system.

About this Report

This is FIBRA Macquarie's second climate change report and the first to be published independently from the ESG report. The report covers aspects described in the TCFD methodology, for the year ending December 31, 2023. Unless clearly stated otherwise, performance data includes industrial and retail properties in 20 cities across 16 states in Mexico. All like-for-like calculations consider FIBRA Macquarie properties owned during all 24 months of 2022 and 2023. All financial data in this report is in U.S. dollars unless otherwise stated.

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