Sunstone Hotel Investors, Inc: Task Force on Climate-Related Financial Disclosures Report

The Financial Stability Board's Task Force on Climate-related Financial Disclosure ("TCFD") has developed a voluntary climate-related financial risk disclosure for companies use in providing information to investors, lenders, insurers and other stakeholders. Sunstone Hotel Investors, Inc.'s ("Sunstone" or "Company") TCFD report is organized around the framework's four pillars of recommendation, which are governance, strategy, risk management, and metrics and targets.

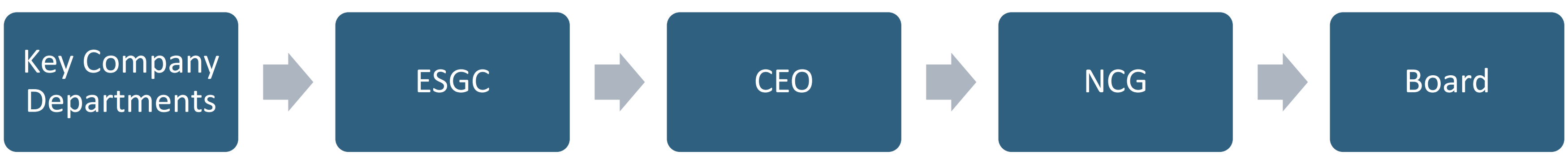
GOVERNANCE

BOARD'S OVERSIGHT OF CLIMATE-RELATED RISKS AND OPPORTUNITIES

The Nominating and Corporate Governance Committee ("NCG"), which is comprised of independent members from our Board of Directors ("Board") has direct oversight of the Company's Environmental, Social, and Governance ("ESG") related objectives, policies, procedures, and evaluation of risks and opportunities, including those related to climate change, resource scarcity, and human rights. The NCG charter was updated in 2020 to reflect these responsibilities. Our CEO serves on the Board and is actively engaged in our ESG process. NCG receives ESG updates quarterly and the entire Board annually from management's ESG Committee ("ESGC"). Progress towards our 2025 carbon emissions reduction targets, along with other related ESG goals and performance, is communicated to the Board via this structure to enable monitoring and inform decisions. Additionally, the Compensation Committee sets a portion of each of the named executive officer's annual bonus compensation on achieving certain goals related to advancing the Company's ESG initiatives.

MANAGEMENT'S ROLE IN ASSESSING AND MANAGING CLIMATE-RELATED RISKS AND OPPORTUNITIES

Our Company's ESGC is comprised of employees and executives from our Legal and Finance departments and has supervision of our ESG programs, objectives, policies and procedures, including Sunstone's ISO 14001 aligned Energy Management System ("EMS"). The ESGC is responsible for providing the ESG updates, including climate-related issues, to the NCG and the entire Board and oversees company-wide initiatives to meet our 2025 energy, water, waste, and carbon emissions reduction targets and enhance our environmental performance and social responsibility. The ESGC meets monthly, with key Company departments including Asset Management, Legal, Design and Construction, Acquisitions, Risk Management, and quarterly with Senior Management. The ESGC also conducts one-on-one meetings for specific projects or newly identified risks or opportunities, as necessary and reports directly to the CEO. Via our EMS, climate risk assessments are routinely performed for properties within the portfolio and building protective measures and low-carbon opportunities are evaluated as part of asset management, insurance planning, and capital budget planning. To ensure the wide range of planning and achievement of the ESG objectives are carried out across the organization, a portion of our Named Executive Officer's (NEO) goals and compensation are tied to ESG initiatives and performance.



STRATEGY

CLIMATE-RELATED RISKS AND OPPORTUNITIES IDENTIFIED OVER THE SHORT, MEDIUM AND LONG-TERM

As owners of Long-Term Relevant Real Estate® ("LTRR®"), we take into consideration climate risks and opportunities up to 10 or more years into the future. We use the following time horizons for identified climate risks and opportunities: Short-term (<3 years), Medium-term (3-7 years), and Long-term (>7 years).

Time Frame	Climate Risk	Climate Opportunities
Short-Term and Medium-Term: Physical and Transitional	• Extreme weather events such as hurricanes, fires, droughts and floods • Increased insurance costs • Difficulty to access and increased costs of raw and finished materials • Increased regulation mandating energy efficiency, energy sources, equipment specifications, and additional processes • Increased requirements for ESG disclosure and actions from stakeholders including investors and other Business Partners • Increased variability in weather patterns for additional heating and cooling days • Increased cost to manage shift in consumer preferences including low-carbon or carbon neutral hotels, sustainability certified hotels, green programs and plastic free hotels	• Increased building and operating efficiencies • Investments for reduced water consumption • Increased waste efficiency programs • Investments in renewable energy • Investments in building resilience measures • Preference by and access to consumers prioritizing sustainable buildings and hotel operations
Long-Term or Unknown: Physical and Transitional	• An increase in average temperatures and an increase in frequency in extreme temperatures • Rising sea levels • Uncertainty in market signals	• Low emission goods and services • Climate-related partnerships with local municipalities • Increased efficiency programs • Increased long-term asset value from efficiency, resiliency, and low-carbon attributes

IMPACT ON BUSINESSES, STRATEGY AND FINANCIAL PLANNING

Sunstone's ISO 14001 aligned EMS is integrated across all Company departments and supports our overall corporate strategy of creating lasting value through our ownership of LTRR®. Our EMS is designed to monitor performance and risks while aiming for continuous improvement by setting performance goals; collecting, reviewing, and monitoring environmental data; and reporting on environmental performance throughout our entire portfolio.

Within the EMS, we evaluate and monitor the geographical risks and impacts for all current assets and assess the same risks and impacts of any potential acquisition during the due diligence process. In addition, we assess environmental, regulatory, and socioeconomic trends, which may impact financial performance or long-term asset value.

Business Impacts

Sunstone utilizes our risk management process to identify the highest priority risks for our short-to-medium term time horizons and our long-term horizon.

Short-to-Medium Term Business Impacts	Long-Term Business Impacts
• Risk management process identifies our two highest priority risks to be extreme weather and changing consumer preference and behaviour. • We manage the impact of weather events through investing in protective and precautionary systems, detailed operational protocols, and comprehensive evaluations of asset infrastructure. • We manage the impact of consumer preferences and behaviors through active engagement with the brands and operators that guide the messaging of our hotels, including Marriott, Hyatt, Hilton and other third-party operators. • Engagement with other stakeholders, particularly investors, includes providing reliable and transparent disclosures regarding climate change management. These disclosure engagements require resource dedication and purposeful focus on benchmarks and certifications.	• Risk management process identifies our highest priority risk to be the rise in sea levels. • Sea level rise will impact current and future capital investments planning and our acquisition strategy. • We evaluate the location, risk profile, and resilience of a potential asset during the due diligence process and determine whether the risks can be mitigated. • Current assets and potential locations with the greatest risk profile internally are evaluated by outside consultants to determine potential impact of climate change on the location and potential mitigation opportunities.

Strategy and Financial Planning Impacts

As owners of LTRR® with a long-term investment hold, we incorporate mitigation for climate-related risks in our long-term strategy and financial planning. Our climate-related planning is embedded throughout our organization and our asset life cycle. At the portfolio level, we have set environmental targets for 2025 with interim targets for 2020's performance. We are constantly evaluating energy efficiency projects, including renewable energy investments. In addition, our teams work to build a multi-year capital plan to ensure our buildings are operating at optimal efficiency and that we are investing capital in critical infrastructure.

Addressing climate-related risks and opportunities requires building partnerships with those who work with our assets or are located around our assets. We work with managers and operators who are driven to perform better environmentally and to address social issues. We select vendors and other business partners who align with our Vendor and Business Partner Code of Conduct and look for sustainable solutions to our capital investments. We are also building partnerships with local municipalities, such as Boston, to address climate change risks in these cities and how to mitigate the future impact.

ORGANIZATIONAL RESILIENCE AND IMPACT OF DIFFERENT SCENARIOS, INCLUDING A 2º OR LOWER SCENARIO

We recognize that our ESG efforts are not completed in a vacuum. In addition to the direct partnerships with all of our stakeholders and business partners, the efforts across local, state and federal government and the industry on a whole to decarbonize will have a significant influence on our transitional risks and opportunities. As more investment, innovation, and scale are given to the installation, procurement, and use of sustainable energy both within our portfolio and across the energy innovation sector, additional opportunities will arise to invest in low-carbon solutions and energy generation and distribution. Changes to address consumer preference may also accelerate as businesses align their own strategies and set carbon reduction targets for their operations and supply chain well below the 2-degree scenario. Business travel represents a significant segment of the travel industry and will have an impact on decision-making for implementing low-carbon solutions.

Our strategy toward a 2-degree scenario has been three-fold:

- Set up the management and oversight structure via the ESGC, NCG, and the governance outlined in the EMS to continually monitor risks and opportunities and identify those that may accelerate in the 2-degree scenario transition.
- Set up the process and performance tracking to define our first set of carbon reduction targets to expire in 2025, enabling the analysis and monitoring mechanisms to achieve them.
- Ensure governance and process structural integrity to continuously improve, evaluate and plan toward longer-term carbon reduction targets in alignment with the 2-degree or lower scenario.

With this strategy, we aim to be well-positioned to maximize the opportunities afforded in the accelerated transition to a low-carbon economy.

RISK MANAGEMENT

PROCESS FOR IDENTIFYING AND ASSESSING CLIMATE-RELATED RISKS

Outlined in the EMS is the ESGC's responsibility to oversee, in conjunction with Risk Management and Senior Management, the process to identify, assess, plan and respond to climate-related risks and opportunities that may impact our Company performance, asset preservation, associate health and well-being, and investor engagement.

The ESGC and Risk Management coordinate with Asset Management, Legal, Engineering and Design & Construction departments to engage hotel brands and operators, various energy and building consultants, regulatory experts, and local and state officials to identify, assess, and mitigate risks. Additionally, financial results including utility costs and impact of weather events, including building safety, performance, and access during weather, and catastrophic events are used to identify climate-related opportunities for potential mitigation measures and analysis for acquisition targets. The ESGC coordinates with the Acquisitions department via the Acquisitions Risk Assessment guide within the EMS to identify, assess, and mitigate risks during the due diligent process for a potential acquisition.

PROCESSES FOR MANAGING CLIMATE-RELATED RISKS

Similar to the process to identify risks, the ESGC works with various departments including Risk Management, Asset Management, Engineering, Legal, Acquisitions, and Design & Construction to manage climate-related risks.

Physical Risk Management Strategies

- Extreme weather events, variability in weather patterns and higher temperatures are managed by our strong capital investment strategy including building preparations.
- We invest in efficiency projects such as on-site solar generation, upgrades to building management systems, and water recycling programs.
- We plan and prepare for emergencies and natural disasters using our portfolio-wide emergency preparedness program that requires every hotel to have an emergency protocol and on-hand equipment (e.g., satellite phone, life safety and water remediation equipment, first aid supplies, etc.).
- In high-risk areas, we invest in building resilience measures including removable flood barriers, storm rated windows, and back-up generators.

Transitional Risk Management Strategies

- Consumer preferences, governmental regulations, access and cost of goods and raw materials, and increased stakeholder requirements are managed through strategic partnerships, open and communicative relationships, and involvement in industry certifications.
- Consumer preference management approaches rely on strategic guidance and recommendations from our brands and managers to inform, create and promote programs that improve sustainability on properties.
- Regulatory risks are routinely identified and evaluated through government and industry association engagement and general policy scanning. Proposed or approved regulations are communicated to the ESGC and impacted departments including Legal, Accounting, Design and Construction, and Asset Management for continued discussion and prioritization.
- Our Design and Construction team continues to develop a strong supplier network that aligns with our Vendor and Business Partner Code of Conduct.
- Our ESGC works with Investor Relations and Legal to engage with stakeholders, particularly investors and financial regulatory agencies, to address disclosure and performance expectations.

INTEGRATION INTO OVERALL RISK MANAGEMENT

Sunstone has established an Enterprise Risk Management (“ERM”) program that includes cross-functional members within a Risk Management Committee that meets quarterly with Senior Management. The ERM requires Risk Management to collaborate with all departments within Sunstone including the ESGC. The ESGC is responsible for identifying the climate-related and any other ESG- related risks and opportunities and informing the Risk Management Committee to ensure they are incorporated into the overall ERM. The results of the ERM review with Senior Management are presented to the Audit Committee quarterly and to the Board annually. NCG has direct oversight of the climate related risks and opportunities that are incorporated into the ERM presented to the Audit Committee. Annually, the ESGC and the Risk Management Committee participate in a complete review and strategic planning session of climate-related risks and opportunities.

METRICS & TARGETS

METRICS USED BY THE ORGANIZATION TO ASSESS CLIMATE-RELATED RISKS AND OPPORTUNITIES

Metrics disclosed in annual environmental performance reporting include:

GHG Emissions

- Total GHG Emissions
- Total Scope 1 Emissions
- Total Scope 2 Emissions
- GHG Emissions per square foot

Energy

- Total Energy Consumption
- Total Direct Energy Consumption
- Total Indirect Energy Consumption
- Energy Consumption per square foot
- Percent of energy derived from renewables (including hydro)
- Percentage of energy produced or procured from renewables
- Percentage of energy sourced from grid electricity

Water

- Total Water Consumption
- Water Consumption per occupied room
- Percentage of the portfolio in regions with High or Extremely High Baseline Water Stress (by floor area)

Waste

- Total Waste Generated
- Total Waste Landfilled
- Total Waste Incinerated
- Waste Generated per occupied room
- Waste Diversion Rate

Additional Metrics Monitored

- Percentage of hotels with a sustainability certification or label
- Portfolio Energy Star score
- Amount invested in energy, water, waste, and GHG emission reduction projects
- Estimated annual energy and GHG emissions reduction from investments in energy efficiency conservation measures
- Forecasted variances in temperature and precipitation
- Relative risk levels of sea level rise
- Relative risk levels of drought
- Relative risk levels of flood
- Proximity to IUCN protected areas
- Social determinants of well-being in and around a community, including factors related to poverty, unemployment, crime, youth education, and air pollution

SCOPE 1, 2 AND 3 GREENHOUSE GAS EMISSIONS

Greenhouse Gas Emissions	2019 Performance	
Scope 1	17,817 metric tons CO_2e	1.91 kg CO_2e per square foot
Scope 2	41,542 metric tons CO_2e	4.44 kg CO_2e per square foot
Total Scope 1 + Scope 2	59,359 metric tons CO_2e	6.35 kg CO_2e per square foot
Scope 3	*Currently we do not track Scope 3 emissions*	

Historical data for GHG emissions and other environmental performance metrics are provided each year from 2015-2020 in our 2020 Sustainability Report.

TARGETS USED AND PERFORMANCE AGAINST TARGETS

Sunstone has set 2025 intensity reduction targets as compared against a 2015 baseline, with an interim 2020 target.

Target	2019 Progress	2020 Interim Target	2025 Target
GHG emissions per square foot (kgCO_2e)	-16.4%	-15.0%	-22.0%
Energy per square foot (kWh)	-5.8%	-6.0%	-7.5%
Water per occupied room (Gal)	-9.4%	-9.5%	-13.0%
Waste per occupied room (lbs)	-4.1%	-4.0%	-10.0%