

AEW Europe SA – Sustainable Investment Approach

1. OBJECTIVE OF THE DOCUMENT

This document has the main objective of helping our investor clients to understand how AEW Europe SA (AEW) defines the concept of “sustainable investment” in compliance with Article 2(17) of Regulation (EU) 2019/2088 Regulation (EU) 2019/2088 of the European Union on sustainability-related disclosures in the financial services sector (SFDR), and also of presenting the concept of “sustainable investment” as results from Regulation (EU) 2020/18 amending the aforementioned Regulation.

With a desire for transparency, the document thus presents the methodology used by AEW to qualify a real estate asset or a debt representing real estate finance (case of funds invested in property loans) as “sustainable” under the SFDR Regulation, being funds falling within the scope of Article 8 of that same Regulation.

2. SFDR DEFINITION OF SUSTAINABLE INVESTMENT

The definition of sustainable investment within the SFDR Regulation is mentioned in Article 2(17) of the SFDR Regulation:

*‘sustainable investment’ means an investment in an economic activity that contributes to an **environmental objective**, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy,*

*or an investment in an economic activity that contributes to a **social objective**, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities,*

provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

AEW wished to specify its approach while taking account of the orientations given by the regulators and the current “stock market standards”.

THE CONTRIBUTION TO A SUSTAINABLE SOCIAL OR ENVIRONMENTAL OBJECTIVE

AEW has defined an overall reference framework applying to its investment and management processes which makes it possible to identify the real estate assets which, owing to their characteristics, contribute positively to a sustainable social or environmental objective. The same approach is applied both to real estate assets acquired on behalf of investment funds managed by AEW, and to real estate assets for which AEW funds are co-financers of those assets (funds invested in property loans).

The sustainable objectives relative to each fund are specified in their precontractual documentation.

The objectives identified by AEW are as follows:

ENVIRONMENTAL OBJECTIVE

- Alignment with the European Taxonomy;

- Alignment with the Paris Agreement;
- Production of renewable energies;
- Moderation in the use of water (water-efficient equipment);
- Low-carbon mobility (charging stations);

SOCIAL OBJECTIVE

- Controlled rent residential assets;
- Assets rented primarily to fragile populations;
- Asset able to house community service facilities and public services at a below market rent;

Quantitative approach

AEW draws on a quantitative, measurable and enforceable framework, presented hereunder for each of the objectives which makes it possible to ensure that the real estate assets in question do indeed provide, through their characteristics, an effective positive contribution to the sustainable objective identified. This framework applies to existing assets and to those under development.

Special cases of funds under constitution: the percentage of sustainable objective fixed in the precontractual documentation corresponds to an objective at the end of the investment period (ramp-up period).

3. DEFINITION OF SUSTAINABLE ENVIRONMENTAL OBJECTIVES

3.1 TAXONOMY ALIGNMENT OBJECTIVE

The 6 environmental objectives of the European Taxonomy are:

1. Climate change mitigation;
2. Climate change adaptation;
3. Sustainable use and protection of water and marine resources;
4. Transition to a circular economy;
5. Pollution prevention and control;
6. Protection and restoration of biodiversity and ecosystems

To be able to calculate the share of assets aligned to the objective of adaptation or mitigation, it must be verified that each asset:

1. Demonstrates a substantial contribution to one of the 6 objectives defined in the Taxonomy;
2. Does not cause harm to the 5 other objectives of the Taxonomy: this is the DNSH (Do No Significant Harm) criterion;
3. Respects the minimum social guarantees required

For activity 7.7 - Acquisition and ownership of buildings - to which AEW is subject, the only two objectives are: Mitigation and Adaptation.

3.1.1 MITIGATION OBJECTIVE (TAXONOMY)

Performance criterion for the Mitigation objective:

- For buildings with a construction permit filing date before 31/12/2020:
 - o EPC A rating or top 15% of energy consumption of the reference field
- For buildings with a construction permit filing date after 31/12/2020:
 - o Buildings of less than 5,000m²: NZEB -10% (equivalent in France to RT 2012-10% or RE2020)
 - o Buildings of over 5,000m²: NZEB level -10%, execution of a life cycle analysis, presence for buildings with a heating power of over 290 kW of a system for monitoring and evaluation of the energy performance of the building, and execution of an airtightness test upon delivery.

Taxonomy DNSH (Do No Significant Harm) criterion of the adaptation objective:

- Execution of a climate risk survey
- If material risks are identified, execution of a building vulnerability technical survey
- Identification and establishment of a plan for adaptation to climate change within 5 years

3.1.2 ADAPTATION OBJECTIVE (TAXONOMY)

Performance criterion for the Adaptation objective:

- Execution of a climate risk survey
- If material risks are identified, execution of a building vulnerability technical survey
- Identification and establishment of a plan for adaptation to climate change with monitoring indicators

Several scenarios may arise:

- The asset has not been the subject of a climate risk survey: the criterion is not fulfilled
- The asset has been the subject of a risk survey, material risks have been identified, but the vulnerability audit has not been conducted or an action plan to reduce the vulnerability has not been defined: the criterion is not fulfilled
- The asset has been the subject of a risk survey, material risks have been identified and a vulnerability audit has been conducted, but no action plan has been validated: the criterion is not fulfilled
- The asset has been the subject of a climate risk survey which has not revealed material risks: the criterion is fulfilled
- The asset has been the subject of a risk survey, material risks have been identified and a vulnerability audit has been conducted, monitoring of an action plan integrated into the budget: the criterion is fulfilled

Taxonomy DNSH (Do No Significant Harm) criterion of the Mitigation objective:

- For buildings with a construction permit filing date before 31/12/2020:
 - o EPC rating \geq C or top 30% of energy consumption of the reference field
- For buildings with a construction permit filing date after 31/12/2020:
 - o NZEB level (in France, RT2012)

3.2 OBJECTIF OF REDUCTION OF GREENHOUSE GAS EMISSIONS

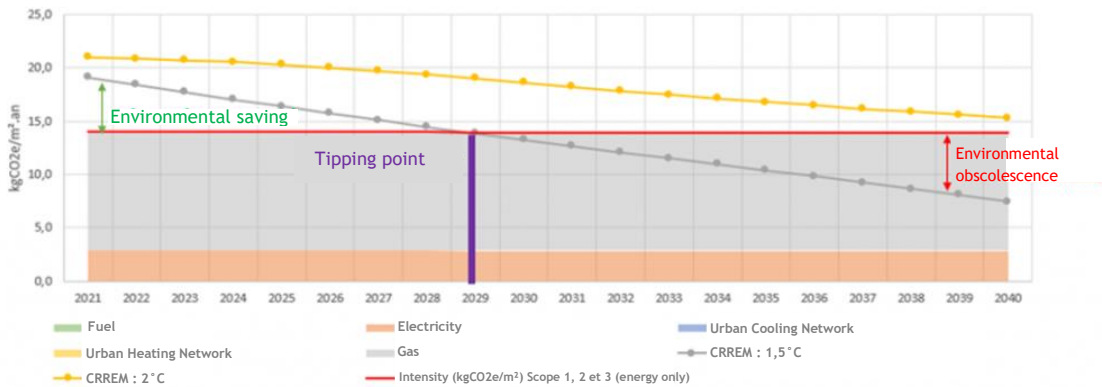
This is conveyed for the real estate assets concerned by an alignment to the carbon pathway laid down in the Paris Agreement (limit global warming to a level well below 2°, preferably to 1.5°).

This alignment is measured by AEW using the CRREM (Carbon Risk Real Estate Monitor) model.

What is the CRREM model?

The Carbon Risk Real Estate Monitor (CRREM) has built a scientific tool to evaluate decarbonation pathways consistent with the objectives of the Paris Climate Agreement.

- Makes it possible to define carbon objectives based on a scientific method and aligned to the pathway given by the Paris agreements in 2015 (-2°C or -1.5°C). Each type of real estate asset has its own pathway;
- Analyses according to several scales: that of building, that of the portfolio of assets over a 2018-2050 timeframe
- Calculates the costs of reduction and proposes a timeline of works making it possible to reduce the carbon footprint.
- Identifies environmentally obsolete assets.



All assets below the CRREM curve (1.5° or 2° curve according to the chosen pathway) up to 2030 will be considered to be aligned with the Paris Agreement. The assets above the curve may also target an alignment objective subject to implementing the CapEx and executing the necessary works to bring the assets into compliance. The other assets will not be aligned.

3.3 LOW CARBON MOBILITY OBJECTIVE: CHARGING STATIONS FOR ELECTRIC VEHICLES

This sustainable objective is based on the provision of charging stations for electric vehicles on an existing or new asset having a car park. Thus, the property contributes, through the charging stations, to the transition to electric mobility.

The charging stations may be managed directly by AEW or by an external service provider. This will deal with the installation and maintenance, and bill the usage direct to the tenant.

This alignment will be measured by the presence or otherwise of parking spaces equipped with charging stations for electric vehicles, with a minimum threshold depending on geographical location specified in an appendix on technical examination criteria available on request, and the justification for this threshold.

Case of real estate debt funds:

For these funds, the investment in question corresponds to a debt that may cover several real estate assets. The charging station threshold will be applied on the basis of an average of all assets of the debt.

3.4 RENEWABLE ENERGY PRODUCTION OBJECTIVE

This objective is conveyed by the existence, on an existing or new asset, of renewable energy production on the land or on the building complex to which the asset is attached.

This renewable energy production, depending on the context, may be of the following origins (list not exhaustive):

- Solare (photovoltaic or thermal);
- Wind;
- Geothermal;
- Etc.

This alignment will be measured by the presence of a local renewable energy production.

About photovoltaic panels, the minimum threshold fixed varies by country and type, it is specified in an appendix on technical examination criteria available on request.

This threshold is applied:

- having regard to the available surfaces on the roofs, owing to the presence of technical installations, walkways and various obstacles,
- also to the frequent presence of shading, notably in towns, making the installation of panels ineffective
- lastly owing to technical impossibility, notably roofing materials incompatible with the panels, unsuitable roof angles, insufficient load-bearing structure to carry the additional weight of the panels

3.5 WATER USE MODERATION OBJECTIVE

AEW has defined a sustainable objective based on the optimal management of water.

This may be conveyed by the presence on an existing or new asset of water-efficient equipment. Examples: aerators, flow restrictors, dual flushes, infrared detectors, etc.

The thresholds are set out in a technical review criteria appendix available on request.

4. DEFINITION OF THE SUSTAINABLE SOCIAL OBJECTIVE CRITERIA:

4.1 SOCIAL OBJECTIVE

The Regulation provides the possibility of defining a sustainable objective based on the social nature of the investment. Definitions are set out in a technical review criteria appendix available on request.

construction or installation “Public interest equipment and services”.

5. DNSH (Do No Significant Harm) PRINCIPLE

The definition of the sustainable investment requires that the principle consisting of “Do No Significant Harm” or DNSH is observed; in other words that the indicators relative to negative impacts on the sustainability factors have been taken into account before making the investment, then during the phase of holding the real estate asset. To ensure that the sustainable investments made by AEW on behalf of the funds managed do no significant harm – DNSH principle – AEW applies, in compliance with the legislation, the filter of mandatory and optional indicators upheld by AEW of the Negative Impact Principals in compliance with tables 1 and 2 of Annex I of the RTS.

PAI (Principal Adverse Impact) Indicators

The PAI indicators of the SFDR are systematically taken into account upon acquisition, at the time of works, and during management in accordance with the terms below defined by AEW:

Efficient Assets / Carbon Emissions / Energy Consumption indicators

- Evaluation of the performance upon acquisition
- Exclusion of assets with EPC rating specified in an appendix on technical review criteria available on request, which do not have an energy action plan to reduce their energy consumption.
- If none of the criteria can be verified, the asset will be considered by default as not fulfilling the DNSH criterion.

Fossil Fuel indicators

- Evaluation of the presence of fossil fuels upon acquisition
- Exclusion of assets where fossil fuels represent revenues above a threshold set out in a technical review criteria appendix available on request

Artificialisation Rate indicator

There is no minimum threshold fixed for this criterion, because we do not have sufficient data and the situations are highly variable depending on the building construction zones. Furthermore, insofar as usually the buildings are already built in dense urban zones, there is very little, if any, possibility of improving the artificialisation rate. Nevertheless, the commitment made is not to deteriorate the initial situation, and to improve it where possible.

- Evaluation of the performance upon acquisition
- Improvement of the performance, notably by the creation of green spaces, by the de-artificialisation of overground parking spaces, at the time of works and during management, where applicable, or as a minimum maintenance of the artificialisation rate; otherwise the asset will be considered as non-compliant with DNSH
- Monitor during management, if applicable

For new constructions and extensions, insofar as the artificialisation rate will necessarily be downgraded at the end of the project, a study will be conducted on the envisaged qualitative impacts of the project on biodiversity, and an action plan will be proposed in order to reduce the main negative impacts. This action plan will be implemented at the time of works and during management. The consideration of biodiversity will notably be attested for the new constructions and renovations by obtaining certifications with a biodiversity prong or obtaining dedicated biodiversity labels.

Resources indicator (Consumption of raw materials for new constructions and major renovations)

- Consideration of this criterion at the time of significant renovation works, by endeavouring to integrate recycled or bio-sourced construction materials, notably via the implementation of environmental certifications or dedicated labels integrating these stakes.

The PAI waste indicator is not taken into account because it is less material than the other indicators. Furthermore, it mainly pertains to the activity of tenants, which makes it difficult, if not impossible, to access data and provides very limited possibilities of action.

Furthermore, the sustainable objectives upheld by AEW do not in themselves harm the other objectives:

Reduction of Greenhouse Gas Emissions objective

The actions for improving the energy efficiency of buildings, put in place to comply with the CRREM pathway, make it possible to reduce greenhouse gas emissions (GGE), and therefore the assets in question have no significant negative impact on the other environmental objectives (biodiversity, circular economy, water, etc.) or on the social objectives.

Low-Carbon Mobility objective

These facilities make it possible to reduce greenhouse gas emissions, and therefore the assets in question have no significant negative impact on the other environmental objectives (biodiversity, waste, water, etc.) or on the social objectives.

Production of Renewable Energies objective

The local production of renewable energy makes it possible to reduce energy consumption and greenhouse gas emissions, and therefore the assets in question have no significant negative impact on the other environmental objectives (biodiversity, waste, water, etc.) or on the social objectives.

Water Use Moderation objective

Water-efficient equipment makes it possible to reduce energy consumption, and therefore the assets in question have no significant negative impact on the other environmental objectives (GGE, biodiversity, waste, etc.) or on the social objectives.

Social objective

The provision of intermediate housing in “housing control” areas for a middle-income population makes it possible to contribute to tackling inequality, and has no negative impact on any other social objectives or on the environmental objectives.

6. INCLUSION OF GOOD GOVERNANCE PRACTICES

In compliance with Article 2-17 of the SFDR *the investee companies [must] follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.*

In line with market practice, and taking account of the characteristics of the assets managed by AEW (real estate assets), we ensure that our principal Property Manager (responsible for the day-to-day management of the real estate assets) and Property Developer, in the case of new constructions, stakeholders respect the OECD Guidelines for Multinational Enterprises, the United Nations Guiding Principles on Business and Human Rights, and the Fundamental

Principles of the International Labour Organization. For this purpose, these principles are inserted into their contracts. These principles are also integrated into the AEW ISR Policy.

Furthermore, as the assets are all located in Europe, the participating companies must comply with the European regulations and therefore international rules of good governance.

Requirements	Criteria	Indicators	Acquisition	Management
Social minimums	OECD, ILO, Human Rights	Compliance with texts	Integration of dedicated clauses in the contracts of property developers or attestation	Integration of dedicated clauses in the contracts of Property Managers