



**Climate Risk Adaption Policy - AEW SARL**

**May 2021**

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## 1. Introduction

AEW's SRI Policy is aligned with the international climate agreement signed in Paris in December 2015, as climate change is a major challenge for humanity that poses important risks and creates opportunities for the real estate industry. The real estate sector in Europe accounts for approximately 40% of total energy consumption and about 25% of greenhouse gases (GHG) emissions.

AEW believes that a sustainable and socially responsible approach to real estate investment management, which anticipates and adapts to climate change both protects and enhances the value of our clients' assets, now and in the future.

This document is AEW's policy of adaptation to climate risk and is based on the TCFD framework.

The policies mentioned in this document will be updated as often as necessary to adapt to regulatory evolution, scientific knowledge, market practices and expectations of investors.

## 2. Governance

### 2.1 General organisation and Board oversight

AEW's Executive Committee is in charge of all climate related risks and delegates to a number of subcommittees including:

- The Risk Committee
- The SRI Committee
- The Investment Committee

The Risk Committee and SRI Committee gather together at least every quarter. Additionally, the SRI committee gathers every two months.

The Investment Committee, which includes the CEO, gathers with country Investment Managers when necessary. Together, they consider climate issues when overseeing acquisitions. Energy consumption and GHG emissions are considered and included within the preliminary and final investment memorandums, both of which are reviewed by the investment committee.

Internal persons responsible for specific climate risks and resilience:

- Physical risks and resources - Head of SRI
- Regulatory risk - Head of Legal
- Market risk - Head of Research
- Insurance risks - Insurance Manager
- Reputation and liability - Compliance Officer

### 2.2 Board and Committee consideration of climate related issues

The SRI committee, which includes the CEO, is responsible for all climate related issues. This committee is composed of managers from departments including legal, asset management and country managers of the main European countries.

It is responsible for the coherence of our different policies relating to climate risks and the implementation of our climate risk policy.

The SRI committee and the Executive Committee receive periodic reports on the status of defined indicators in order to know the progress of the climate policy objectives. These reports are prepared by various teams including SRI, legal, asset management, investment management and fund management.

All members of the SRI committee receive initial information on climate risks and TCFD methodology.

The Executive Committee receives regular information regarding all new legal requirements and any potential impact of climate hazards on insurance.

The governance of specific risks are presented in the specific risk presentation.

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

	Climate Risk	Definition	Pilot	Report
Physical risks	Direct	Impact of natural hazards due to climate change to buildings	Head of SRI	Report to the board and the SRI Committee
	Resources	Lack of resources due to climate change or regulation to tackle climate change	Head of asset management France	Member of the Board and reports to the SRI Committee
Transition risks	Regulatory	Regulatory evolution with new requirements	Head of legal department	Member of the Board and reports to the SRI Committee
	Market	Quick change in market expectations	Head of research	Member of the Board and reports to the SRI Committee
	Reputation	Due to civil society and Non-Governmental Organization	Head of compliance France	Report to the board and the SRI Committee
	Liability	Due to investors and other contractors with AEW	Head of compliance France	Member of the Board and reports to the SRI Committee
	Insurance	Risk of insurance market and contract changes	Insurance manager	Report to the board and the SRI Committee

### 3. Physical Risk

#### 3.1 Risks

Physical risk considerations are as follows:

- Direct impact of natural hazards to buildings due to climate change
- Climate hazards such as heat waves, flooding, storms, drought, heavy rainfall and sea submersion
- Time horizon: between 20 to 50 years

#### 3.2 Opportunities

The following opportunities can be considered in addressing physical risks:

- Reduce water and energy usage
- Reduce carbon emissions through the implementation of action plans based on resilience audits
- Improve tenant resilience and efficiency alongside occupier comfort and wellbeing
- Develop new strategies and explore new locations for investors to improve the resilience of their assets
- Access to new clients through demonstrating our ability to advise on climate related matters in regards to assets
- Collaboration with local authorities through shared goals, to have a common resilience approach

#### 3.3. Governance

- The SRI Committee will manage matters relating to governance
- Operational management carried out by both the SRI team and Investment team working together to define resilience scenarios and incorporate them in capex of acquisitions
- Asset management teams oversee the implementation of proposed resilience action plans

#### 3.4 Strategy

- Propositions to investors to adapt their investment strategies to avoid investment in higher risk buildings or in higher risk locations
- Adaptation of AEW investment processes to incorporate resilience audits and resilience improvement plans, if validated by investors
- Incorporation of action plans at due diligence stage to improve resilience within ESG improvement plans for assets

#### 3.5 Risk Management

- Incorporation of resilience audits at the due diligence phase to integrate into the capex plan the cost of adaptation to climate change
- Incorporation of development specification of resilience requirements  
Resilience audit proposed to investors for most risky assets

- Screening of existing portfolio to identify most exposed assets, followed by resilience audit and action plan, to reduce their vulnerability

### 3.6 Metrics and targets

Metric / Target	Term	Goal
Number of portfolios / funds with resilience audits carried out at acquisition stage	Medium term	50% in 2023
Number of portfolios / funds with climate risk screening and resilience audits carried out for most exposed assets	Medium term	50% in 2025
Number of portfolios with resilience specification for new constructions	Medium term	50% in 2022, 100% in 2025
Number of investors with resilience strategy proposed	Short term	50% in 2021, 100% in 2022
Selection of a climate expert to assess the climate risks of all European assets	Short term / Ongoing	2020 - 2021
Staff training on physical climate risks	Ongoing	2021 - 2022
Creation of resilience audits	Short term	Completed 2020
Test of resilience on diverse assets	Short term	Completed 2020

## 4. Market Risk

### 4.1 Risks

Market risk considerations will involve assessing the following:

- The possibility of tenants moving away from buildings that are less climate resilient and likely to be impacted by physical climate risk hazards as well as a shift away from buildings unable to meet stricter energy efficiency and greenhouse gas emission standards set by either local governments or multi-national organisations
- Whether investors may price less climate resilient and non-compliant buildings more conservatively to take into account the additional associated costs and risks
- If investors may start to insist on excluding specific asset types or specific areas with higher climate related risk and no chance of improving resilience on existing buildings, as well as assets to be developed

### 4.2 Opportunities

The following opportunities can be considered in addressing market risks:

- Reducing investors' portfolio exposure to assets that are at risk of reduced tenant demand for reasons relating to resilience and compliance
- Disposing of assets where the costs outweigh the benefits
- Attract new investors by demonstrating our overall SRI record and achievements, highlighting our pro-active climate risk adaptation strategy implementation

### 4.3 Governance

- Asset management teams will monitor matters relating to governance
- Asset management teams will also gather evidence concerning tenant and investor behaviour which will be reported on an annual basis to the SRI Committee
- Target: Schedule annual presentation

### 4.4 Strategy

- Increase awareness on issues relating to current and future resilience and compliance issues amongst AEW business colleagues through mandatory annual staff training and on-boarding
- Increase awareness amongst investors through reporting and investor events, covering topics relating to current and future resilience of assets
- Propose adapted investment strategies to investors to avoid reduced income and capital returns from potential assets that will not be compliant and resilient in the future
- Adaptation of AEW's investment process to incorporate resilience and compliance audits and resilience & compliance improvement plans, if validated by investors
- Incorporation of action plans at due diligence stage to improve resilience within ESG improvement plans for assets



#### 4.5 Risk management

- Incorporation of rental and investment market data to be used in the resilience and compliance audit at due diligence stage
- Integrating the cost of climate change adaption within annual asset management business planning to integrate within the 10 year capex plan at acquisition

#### 4.6 Metrics and targets

- Carry out climate risk and resilience tenant surveys together with AEW's asset management teams
- Carry out climate risk and resilience investor surveys focused on requirements, concerns and future visions together with the IR team
- Present a summary of results of both tenant and investor surveys at annual investor conferences
- Review tenant and investor survey results to determine whether any adjustments are required within the investment and asset management strategy for the mandate or fund

## 5 Resources Risk

### 5.1 Risks

The risks associated with resources are as follows:

- Save building materials where possible as resources are not infinite
- Risk of financial impact on those responsible for pollution in line with the polluter/payer concept
- Regulatory risk in regards to new regulation on the circular economy such as taxonomy and national laws on levels of waste

### 5.2 Opportunities

The following opportunities are present in regards to resource risk:

- Improving all materials and equipment used that can be valued either in terms of Euros or in terms of improving environmentally (credit for environmental certifications, carbon reduction in life cycle assessment, credit in GRESB survey) and increasing resilience (supply chain risks) performance

### 5.3 Governance

- Management of information at SRI Committee level
- Operational management carried out by local asset management teams

### 5.4 Strategy

- Limit carbon footprint and resource consumption by integrating “existing” materials in our projects and developing methods to reuse waste within development
- Training employees to identify quick wins and being knowledgeable in listing materials that can be reused in our projects
- Developing a BIM (Building Information Modelling) maintenance approach to understand what we can value in the life cycle of the assets

### 5.5 Risk management

- Risks related to the reuse of materials such as quality, availability and insurance
- Potential price increases in the market that would require specific monitoring

## 5.6 Metrics and targets

Metric / Target	Goal
Number of resource related projects per year	5 in 2021
Labels for re-use resources on a mid-term horizon (2 years)	2 in 2022
Update standard contracts with various service providers to include a re-use clause	100% by end of 2021
Incorporation of re-use clauses in standard contracts for France	In 2021
Trained staff members	100% by end of 2021

## 6 Insurance Risk

### 6.1 Market Risk

The following risks are to be considered in relation to the insurance market:

- Hardening insurance market (risk averse attitude, reduction of capacity/limits, increase in premium rates, increased deductibles, restrictive wording, higher focus on self-insured retentions, reduction of the panel placements)  
**Target:** Address the above mentioned concerns before the next main insurance renewal program (31/12/2022)
- Natural peril losses have significantly increased over recent years  
**Target:** Follow the evolution of natural event claims. Consider impacts of the COVID19 pandemic on insurance and reinsurance markets (in addition to the current situation)
- Risks for tenants of no longer being able to take out insurance due to increases in premiums  
**Target:** Renew the insurance market watch
- Risks for tenants of no longer accepting the re-invoicing of insurance premiums (for example property insurance)
- **Target:** Renew the insurance market watch

### 6.2 Opportunities

The following opportunities are present in relation to insurance risks:

- Identify alternative insurance solutions to minimise the impact of the hardening insurance market
- Anticipate future insurance renewals by including new insurance solutions and sharing recommendations across all departments at AEW (by the insurance department)
- Provide insurers and brokers feedback on our natural events management processes in order to strengthen existing partnerships

### 6.3 Governance

- Improve monitoring of claims relating to natural events by providing further information and feedback to both Risk Committee and Executive Committee meetings
- Sharing internal communications about insurance market trends in order to raise employee awareness (by the insurance department)  
**Target:** To be implemented this year for the Executive Committee

#### 6.4 Strategy

- Increase insurance market watch (market trends, worldwide naturals events claims)
- Organise specific training on the impact of climate change on assets for the investment department (by the insurance department)  
**Target:** Organise first training session during Q 2021 / ongoing
- Setup an alternative insurance solution for a pilot project  
**Target:** Feasibility study of a parametric insurance pilot project

#### 6.5 Risk management

- Implement systematic requests of natural event reports to CHUBB before integration of new assets (by the insurance department)

#### 6.5 Metrics and targets

- Anticipate insurance market trends (traditional market or not) and integrate naturals events within the discussion
- Make natural events analysis systematic before integrating any new assets (by the insurance department)
- Benchmarking parametric insurance with a pilot project
- Organise training sessions on natural events with relevant teams
- Improve communications on natural events with relevant teams
- Continue to work with data providers as accessibility to information improves further. Whilst many providers are rapidly improving their services, it still remains difficult to gather particularly granular details
- Obtain internationally comparable data to estimate current and future climate risks (reinsurers increasingly taking these risks into account)

## 7 Regulatory Risk

### 7.1 Regulatory Risk

Regulatory risks are transition risks linked to any new regulation in matters relating to climate change. There are many sources of new regulation (national, European and international) covering a range of topics including finance, real estate, taxes, urban-planning, energy and construction. The risks linked to each of these areas may create complexity and uncertainty.

### 7.2 Opportunities

To address and minimise any potential impacts related to regulatory changes, we propose the set-up of an organisation within the business to monitor and identify relevant regulatory developments as early as possible.

### 7.3 Governance

The legal department are responsible for identifying, analysing and defining legal/financial risks of new regulations and proposing action plans to the SRI Committee and the management committee. Action plans will be then implemented by relevant departments across the company.

### 7.4 Strategy

- Sources of information: Hire a pan European law firm which will be able to set up pan European legal monitoring of any new regulations on an annual basis for the following countries: France, UK, Ireland, Denmark, Luxembourg, Finland, Netherlands, Switzerland, Austria, Italy, Spain, Belgium, and Portugal
- Initial regulatory topics to be covered at this stage: energy and renewable sources, energy performance of assets, climate change adaptation of buildings, European climate plan, carbon (tax aspects included), decarbonisation, green finance, biodiversity, reporting Environmental Social Governance)

Topic		Buildings	Sustainable finance	Management company
Location	France	OID, Plan Bâtiment, BET, APAVE	OID, NIM and ASPIM	ASPIM
	Europe	Longevity	ASPIM and INREV	ASPIM

- Develop calculation of carbon footprint for portfolio and implement action plan to reduce GH emissions. (See AEW carbon Action Plan CAP 2030)

### 7.5 Risk management

- Legal and financial risks are to be identified by the legal department at AEW that will work alongside an appointed law firm to review, analyse and determine legal undertakings for the company and investors (quarterly meeting and minutes)
- Share legal analysis on a quarterly basis with the SRI and Investment teams and all other relevant departments across the firm to create a shared global overview and be able to define a global action plan together
- Propose an action plan to AEW's senior management. Appoint dedicated individuals across each relevant department to oversee implementation of the action plans.

### 7.6 Metrics and targets

- Selection of an appropriate legal advisor
- Number of meetings with appointed legal advisor and recorded minutes of meetings/year
- Number of topics communicated to the SRI committee and management committee
- Calculation of carbon footprint and reduction action plan defined at fund and portfolio level (see AEW carbon Action Plan CAP 2030)

## 8 Reputation

### 8.1 Employees

**Identified Risks:** A potential negative image of AEW in matters relating to climate change could make it more difficult to recruit talent as there is a growing influence of ESG transparency requirements.

**Findings:** There is currently firm-wide communication on ESG initiatives driven by the SRI department.

**Recommendations:**

- Further increase communication on actions being implemented and create new media
- Provide internal communications on the challenges of managing climate risk and new disclosures and related regulations
- Create organisational charts to clearly identify who is responsible for climate risk management and how these roles are allocated across the company
- Determine an appropriate survey to monitor expectations in regards to "talent" to be recruited.

### 8.2 Tenants

**Identified Risks:** Potential but limited risk that some tenants will no longer lease premises based on AEW's reputation in regards to climate risks.

**Findings:** Reputational issues are less problematic than issues relating specifically to asset management and AEW's media track record, but AEW should reinforce an appropriate level of communication with tenants on sustainable topics.

**Recommendations:**

- Increase communications with tenants to highlight actions being implemented by AEW on how we are anticipating climate risks as well as our adaptation strategies
- Conduct more ESG/satisfaction surveys such as surveys on tenant expectations

### 8.3 Investors

**Identified Risks:** If AEW's reputation is damaged it will have a negative impact on our business and perception of investors. There are also risks associated with the absence of labels on some products and higher expectations from investors concerning sustainable risks and products.

**Findings:** There is growing pressure from investors related to new regulations. This now requires adaptation of internal organisations to capitalise on transparency requirements,



exceed them and transform them into business opportunities (see regulatory risks and governance).

**Recommendations:**

- Consider new regulations within business challenges, not only as a purely regulatory challenge.
- Establish a survey of initiatives being implemented by competitors (websites, etc.)
- Maintain a visible presence with financial market associations  
Transform asset management actions into messages for external communication (from technical to communication)
- Targeted external communications covering regular strategy reviews, commitments made and follow ups, resources implemented and results obtained (equivalent to a statement of extra-financial performance)
- Look into the possibility of having our “climate risk” initiatives certified, complying with international standards such as TCFD. Emphasise this as a significant achievement in regular discussions with investors.

**8.4 Shareholders**

**Identified Risks:** Some shareholders have very high expectations because they are more exposed to the media than us.

**Findings:** Increasing requests from our shareholders to participate in an effort to harmonise our ESG approach among affiliates, but with an emphasis on the specificities of real estate.

**Recommendations:**

- Explain and demonstrate the robustness of our processes in terms of climate risk management to our shareholders especially within compliance, ESG and risks departments.
- Communicate specifically on this subject (at least annually) at meetings with the Audit Committee and the AEW Board of Directors including both alongside shareholders.
- Provide regular information on AEW SRI Committee’s role in climate risk management.

## 9 Liability

### 9.1 Risk

There are currently no identified contractual requirements identified in existing contracts, however this is a growing concern amongst investors. Therefore, the consideration of liabilities should be incorporate within our practices and we should have the capacity to make appropriate proposals to investors.

### 9.2 Opportunities

Anticipating potential impacts of climate change will create business opportunities and will reduce liability risks.

### 9.3 Governance

Please refer to section 2 - Governance, in regards to monitoring fund management and contractual requirements.

### 9.4 Strategy

Please refer to section 3 - Physical risks.

### 9.4 Risk management

Please refer to section 3 - Physical risks.

### 9.5 Metrics and targets

Please refer to section 3 - Physical risks.