Sustainability Risk Integration Policy – AEW Invest GmbH

March 2021 – Updated December 2022

Sustainability risks are defined by the Regulation (EU) 2019/2088 on Sustainability Disclosure in the Financial Services Sector ("SFDR") as "an environmental, social or governance event or condition which, if it occurs, could have a material adverse effect, actual or potential, on the value of the investment".

AEW Invest GmbH ("AEW") is a management company with less than 500 employees, specialising in the management of real estate special funds. The following paragraphs describe the due diligence policies followed by AEW for all of its funds.

AEW is part of the AEW Europe Group ("AEW Group") consisting of four (4) fully regulated Alternative Investment Fund Management companies, all specializing in the management of real estate investment funds.

The purpose of this policy is to describe how sustainability risks - whether material or likely to be material - are integrated into AEW's investment decision-making processes, which may include the purely managerial or organisational, risk management, internal control and/or governance aspects of those processes.

The consideration of sustainability risks therefore takes several forms, both before and after the investment decision, and these are further detailed below.

The policies mentioned in this document are available on the AEW Group and Natixis Investment Managers ("Natixis IM") websites.

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1. Consideration of sustainability risk in the investment decision-making process

1.1 Natixis Investment Managers' ESG policy

AEW is a subsidiary of Natixis Investment Managers (hereafter "Natixis IM" or "the Group"), the holding company for a diverse group of specialised investment management and distribution entities operating worldwide. The Group has developed a responsible investment approach adapted to its multi-affiliate model and in line with the Active Thinking® approach[1] .

This is based on different pillars such as

- the integration of environmental, social and governance (ESG) factors into investment decisions;
- management as well as active shareholding;
- exclusionary policies.

The Group's responsible investment approach is detailed in the ESG Policy and the Natixis Investment Managers Responsible Investment Report, which details the beliefs, standards and governance of the implementation of ESG practices within the Group.

Within this framework, Affiliates are required to integrate ESG criteria into their investment decisions, to be active managers, to adhere to local standards and to share best practice where possible. Given the multi-affiliate structure, it is up to the Affiliates to decide how to implement this policy. Many have their own responsible investment policies, as well as dedicated ESG committees or advisory boards.

AEW's policy also contains property-specific guidelines on Natixis Investment Managers' approach to climate risk.

1.2 ESG integration and sustainability risk within AEW

The sustainability risks in the real estate sector have been identified on the basis of scientific and technical knowledge, and are regularly reviewed in the light of new knowledge. The risks have been identified, classified

[1] https://www.im.natixis.com/fr/profil

and prioritised.

They are of two types:
- Regulatory risks such as soil pollution, termites, radioactivity, quarries, floods, earthquakes, etc.
- Non-regulatory risks such as greenhouse gas emissions, climate change, regulatory developments, etc.

The main sustainability risks identified by AEW can be classified as follows:

A. Physical and transitional risks

- Physical risks related to climate change resulting from damage to assets caused by climatic phenomena. These risks, whose occurrence is variable, whose intensity can be low to high and whose time horizon is long, are reviewed every two years.

  The most significant climate change risks for real estate assets are :
  - Clay shrinkage and swelling
  - Urban heat islands
  - Flooding
  - Drought
  - Storms
  - Marine subversion
  - Heat waves

- The risks of transitions linked to climate change are linked to regulatory developments and stakeholder perceptions.

- Physical risks related to soil, water or air pollution that can impact a building and cause health or comfort problems for its occupants.

  These risks, which vary in occurrence and are of low to medium intensity, are reviewed every two years.

- The risks of transitions linked to energy and CO2. These risks correspond in particular to regulatory changes with new requirements that would weigh on the most energy-intensive buildings and/or the most emissive buildings. These include new taxes, obligations to reduce consumption/emissions, the obligation to remove equipment that has a particularly high impact, and a ban on the use of certain equipment or technologies. All this would have a direct impact on the liquidity and value of buildings.

  These risks, whose occurrence is continuous and whose intensity is high in the short to medium term, are reviewed every two years. AEW constantly monitors all of these issues in order to adapt the specifications of the analyses carried out during acquisitions and to adapt the action plans of the properties under management.

- Transition risks related to biodiversity

  The erosion of biodiversity has effects on ecosystems and increases the risk of the occurrence of climatic hazards; even if the erosion of biodiversity can have an impact on the value of real estate assets, the potential negative effects of our activities on biodiversity seem more significant to us. However, in terms of transition risks, biodiversity may impact the return on assets or even prevent certain projects due to new regulations, particularly concerning the artificialisation of land. When published, these regulations could prevent certain constructions on natural agricultural or forest areas, or restrict extensions on partially developed land. It would therefore have a direct impact on the value of certain assets. AEW is monitoring the situation and participating in working groups on this subject with professional organisations.

  AEW also includes biodiversity in its priorities as indicated in its SRI policy, which provides for the assessment and anticipation of possible risks to the natural environment. This objective is reflected in an approach that consists of "Avoid, Reduce, Compensate" for the impacts of our activity on biodiversity. Biodiversity issues are taken into account throughout the value chain, from the construction stage with developers, during the works, at acquisition and in management.

Specific biodiversity strategies have been defined with precise objectives for several portfolios, and biodiversity is a theme that is included in our ESG assessment grid.

B. Litigation and reputational risks

- The risk of litigation related to climate change or carbon impacts resulting from a potential action against the Management Company or a Fund by a third party. This risk is short-term and may have a significant financial impact.

- Risks of non-compliance with applicable regulations (asbestos, pollution, energy efficiency, etc.) This risk is short-term and may have a significant financial impact.

- Risks related to health risks for stakeholders and participants on construction sites and in operation.

- The consideration of sustainability risk is articulated through the integration of ESG criteria in the constitution and management of funds (FIA), but also in the governance built around the subject.

- While sustainability risks are generally considered relevant to AEW's portfolios, the degree of ESG integration within investment decisions varies according to the ESG ambition of a product as described in its investment strategy.

- AEW products promoting ESG characteristics, or (where applicable) with a sustainable investment objective, are intended to focus on the best performing investments from an ESG perspective or those with potential for improvement consistent with the ESG strategy of the portfolio in order to limit the potential negative impact of sustainability risks on the performance of the product in accordance with their regulatory documents.

In the acquisition phase, a sustainability risk assessment is carried out and the financial consequences of these risks are taken into account in the analysis of the investment.

- In the pre-diligence phase, the management teams fill in an **ESG grid** comprising the following criteria
  - 6 environmental criteria: Energy, Water, Carbon, Environmental Certification, Soil Pollution and Asbestos
  - 4 social criteria: Transport, Accessibility, Usage and Well-being
  - 4 governance criteria: Tenant Activity, Conflict of Interest, Tenant Satisfaction and Green Lease

- This ESG grid is finalised in the due diligence phase. During this phase, 5 audits can be carried out.

  - A **technical audit** allows for a more in-depth examination of certain aspects such as regulatory compliance and security.
  - For some assets, an environmental and/or energy audit is added to the technical audit. The environmental **audit** monitors environmental risks such as pollution, noise, natural and technological hazards or air emissions (non-exhaustive list). The **energy audit** indicates how to reduce the asset's energy consumption and greenhouse gas emissions. These recommendations are integrated into the asset improvement plan and 10-year budget forecasts.
  - Finally, for specific products, due diligence can be complemented by a more in-depth ESG audit and/or a climate resilience audit. The **ESG audit** focuses on 9 indicators (Energy, CO2, Water, Waste, Biodiversity, Transport, Well-being, Health, and Use value) and assesses 4

performances: current asset, intrinsic, potential current, and potential intrinsic. The **Climate Resilience Audit** is an audit that assesses the impact of projected climate hazards on a building according to different IPCC (Intergovernmental Panel on Climate Change) scenarios.
- Depending on the investment strategy of the fund or mandate, an **ESG action plan** can be costed and defined, then implemented and monitored by the management teams to reduce sustainability risks

1.3 Exclusion policies

AEW does not have its own exclusion policy in place at present, but complies with Natixis' policy and the expectations of some of its institutional clients.

These exclusions may apply to entire sectors or to individual companies or issuers. Funds may exclude, for example, investments in tobacco, thermal coal mining or controversial weapons such as landmines or cluster munitions.

These exclusionary processes contribute, among other things, to the consideration of sustainability risks.

1.4 ESG Governance - AEW

AEW builds upon the internal ESG function of the AEW Group to define and implement the methodology for ESG analysis of the investment process. The AEW Group ESG team is composed of five (5) people and works for all AEW group entities in Europe. This function supports AEW's management teams by providing additional qualitative ESG analysis to support investment decisions.

Within AEW Group, the ESG team was created to respond to the various ESG and climate issues. This team's role is to implement AEW Group's socially responsible policy, to build the socially responsible offer, to train the teams in ESG and to integrate the new regulations on sustainable finance within AEW Group in cooperation with the other departments of the company.

Sustainability risk issues are regularly reported to AEW Group's senior management and decision points are reviewed by AEW Group's Executive Management Committee.

Topics relating to sustainable finance are also dealt with by a quarterly pan-European SRI committee bringing together the various AEW Group fund management companies in Europe, chaired by the Managing Director of AEW Europe SA and made up of representatives of the main functions: Research, Asset Management, Legal, Fund Management and Investor Relations.

This committee is in charge of coordinating AEW Group's SRI policy, ensuring its respect and sharing best practices in terms of ESG. Thus, the subject of integrating sustainability risks into the investment decision-making process of these funds is addressed.

Additionally, AEW coordinates its own ESG activity in the German AEW ESG committee, which is made up of representatives of the German main functions: Fund Management, Investment Management, Asset Management, Fund Operations, Risk Management, Compliance. The committee is in charge of coordinating all of AEW’s ESG activities and the harmonization of AEW Group’s strategies with AEW’s local requirements.

AEW applies the provisions of the Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 as regards sustainability risks and sustainability factors to be taken into account by AIFMs.

In particular, management is responsible for integrating sustainability risks into AEW's investment policy and management activities. They benefit from regular reporting, in particular through the Compliance, Internal Control and Risk Committee, as well as through AEW's Management Board, which meets on a regular basis.

AEW shall establish, implement and maintain appropriate internal control mechanisms designed to ensure compliance with decisions and procedures regarding the consideration and management of sustainability risk. The risk management policy shall include all necessary procedures to enable the AIFM to assess, for each AIF it manages, the exposure of that AIF to sustainability risk.

In order to ensure that when identifying the types of conflicts of interest that may affect the interests of an AIF, AEW shall ensure that these include the types of conflicts of interest that may arise from the integration of sustainability risks into its internal processes, systems and controls.

II. Commitment to AEW

- AEW's responsible investment approach is in line with the responsible investment policy of the Natixis IM group.
- Through its responsible investment policy, AEW presents its commitments and practices in terms of environmental, social and governance (ESG) investment. It illustrates the commitments made by AEW to promote responsible investment in all its activities, in accordance with German and international regulations

AEW's investment philosophy defines the environmental, social and governance ("ESG") guidelines followed.

AEW, as a manager real estate AIFM, implements the ESG action plans it defined at the time of acquisition.

These action plans are integrated into the management practices of internal and external teams, particularly property managers, asset managers and by the fund managers.

These ESG action plans may give rise to specific reporting to investors on the use of projected budgets, on the progress of the implementation of planned actions and the monitoring of ESG impact indicators to ensure the relevance of the action plans.

Updates to the ESG action plans may be proposed to investors on a case-by-case basis due to unforeseen events or insufficient results. All these actions aim to cover the sustainability risk and to act proactively.

When selecting external service providers (in particular property managers), AEW takes into account the integration of the ESG dimension in the service provider's policy.

<u>Commitments to combat climate change</u>

AEW is also committed to the fight against climate change through its involvement in climate policies: AEW is a signatory to the PRI, which has recently incorporated the recommendations of the TCFD (Task Force on Climate - related Financial Disclosures) into its reporting and is a key issue for its affiliates.

In addition, since 2017, AEW has prepared work and carried out a climate risk forecast study with a climate specialist in order to offer its clients solutions to integrate climate risks such as transition risk and physical risk into their investment management.

From 2020, AEW has carried out a pilot operation on pilot assets to assess their resilience to the physical risks of climate change and the actions to be taken to reduce their vulnerability.

AEW has proposed to investors that they integrate climate risk into the management of their portfolios in 2021, and this is now being done for our main portfolios.

<u>Commitments to biodiversity</u>

AEW includes biodiversity in its priorities as indicated in its SRI policy, which provides for the assessment and anticipation of possible risks to the natural environment. This objective is reflected in an approach that consists of "Avoid, Reduce, Compensate" the impacts of our activity on biodiversity. Biodiversity issues are taken into account throughout the value chain, from the construction stage with developers, during the works, at acquisition and in management.

Specific biodiversity strategies have been defined with precise objectives for several portfolios, and biodiversity is a theme that is included in our ESG assessment grid.

III. Consideration of sustainability risk in remuneration policy

Following the entry into force of Regulation (EU) 2019/2088, AEW's remuneration policy has been reviewed to strengthen the promotion of sound and effective risk management with regard to sustainability risks.

The objective of this update was to ensure that AEW's remuneration practices do not encourage excessive sustainability risk-taking and are linked to risk-adjusted performance.

This policy applies to all AEW employees who have had a sustainability-related target in their annual objectives since 2020, on which their variable remuneration will depend.

These objectives vary according to the functions of the employees and the portfolios they work on. They concern in particular but not exclusively the management teams. Compliance with these objectives is assessed by the manager, who also determines the level of variable remuneration to be awarded.

If a major sustainability risk materialises that would have a significant and lasting negative impact on the value of the portfolios under management, it is thus possible to reduce or even cancel the variable remuneration awarded.