



Sustainability Risk Integration Policy – AEW SARL

December 2022

A sustainability risk is defined in Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation or "SFDR") as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment."

The purpose of this policy is to describe how sustainability risks – whether material or potentially material – are incorporated into the investment decision-making processes of AEW Sarl ("the Company"). These may include purely managerial or organizational, risk management and/or governance aspects of these same processes.

Consequently, consideration of sustainability risks takes several forms, before and after the investment decision, which are set out in more detail below.

The policies mentioned in this document are available on the AEW and NIM websites.



Table of contents

1. Consideration of sustainability risk in the investment decision-making process..	3
1.1. The ESG Policy of Natixis Investment Managers.....	3
1.2. The integration of ESG and sustainability risk at AEW Sarl.....	5
1.3. Exclusion policies.....	8
1.4. ESG governance.....	8
2. Engagement within AEW.....	9
3. Consideration of sustainability risk in the compensation policy.....	11



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

1.1. The ESG Policy of Natixis Investment Managers

AEW Sarl as a subsidiary of AEW Europe SAS (known as "AEW"), is an Affiliate of Natixis Investment Managers (hereinafter "Natixis IM" or the "Group"), the holding company of a diverse group of specialized investment management and distribution entities with locations worldwide. The Group has developed a responsible investment approach suited to its multi-affiliate model and in line with the Active Thinking® approach.¹

This approach is based on several pillars such as:

- the integration of environmental, social and governance (ESG) factors in investment decisions;
- management and active shareholding;
- exclusion policies.

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

Within this framework, the Affiliates are required to integrate ESG criteria into their investment decisions, to be active managers, to adhere to local standards, and to share best practices wherever 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 committees or advisory boards dedicated to ESG issues. Some Affiliates also have policies that incorporate other aspects of ESG issues, such as engagement and proxy voting. A portion of the Affiliates also reports on ESG performance through newsletters and regular fund updates.

AEW Sarl 's policy also contains real-estate-specific guidelines on the Natixis Investment Managers approach to climate risk.

Several Affiliates use internal models to assess the impact of ESG issues. These models draw on data from companies whose assets they manage, public institutions, and other external organizations. The Affiliates also rely on independent data providers, such as Institutional Shareholder Services (ISS), MSCI and Sustainalytics, or they perform case-by-case assessments of the actual ESG performance of the managed assets, including real estate. Using these models, the Affiliates can assign a rating to

¹ <https://www.im.natixis.com/fr/profil>.



companies or to real estate assets and other issuers. This ESG rating can then be used along with financial data in investment analysis or selection



1.2. The integration of ESG and sustainability risk at AEW Sarl

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. They have been identified, classified and prioritized.

They are of two types:

- Regulatory risks such as soil pollution, termites, radioactivity, quarries, floods, earthquakes...
- Non-regulatory risks such as greenhouse gas emissions, climate change, regulatory changes, etc.

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

a) *Physical and transition risks*

- Physical risks related to climate change resulting from damage caused to assets 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 risks related to climate change for real estate assets are
 - Clay shrinkage and swelling
 - Urban heat islands
 - Flooding
 - Drought
 - Storms
 - Marine subversion
 - Heat waves
- The risks of transition linked to climate change are linked to regulatory changes and the perception of stakeholders.
- 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, whose occurrence is variable and whose intensity is low to medium, are reviewed every two years.
- The risks of transitions related 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 eliminate particularly impactful equipment, and the prohibition of the use of certain equipment or technologies. All of 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 buildings under management.

- Transition risks related to biodiversity

The erosion of biodiversity has effects on ecosystems and increases the risk of climate 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 on the subject of soil artificialization. These regulations could, when published, prevent certain constructions on natural agricultural or forest areas, or restrict extensions on partially artificial 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 organizations.

AEW also includes biodiversity in its priorities as indicated in its SRI policy, which includes assessing and anticipating possible risks to the natural environment. This objective is embodied in an approach that consists of "Avoid, Reduce, Compensate" for the impacts of our activity on biodiversity. Biodiversity issues are considered throughout the value chain, from the construction phase with the developers, during the works, to acquisition and 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

- Litigation risks related to climate change or the impacts of carbon emissions 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.

- The risk 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 (AIF), but also in the governance organization.
- While sustainability risks are generally considered relevant to AEW's portfolios, the degree of ESG integration within investment decisions varies depending on the ESG ambition of a product as described in its investment strategy.
- AEW Sarl products that promote ESG characteristics, or (where applicable) have 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 portfolio's ESG strategy, in order to limit the potential negative impact of sustainability risks on product performance in accordance with their regulatory documents

AEW Sarl 's responsible investment approach is part of the responsible investment policy of Natixis IM group. Through its responsible investment policy, AEW presents its commitments and practices in the area of environmental, social and governance (ESG) investment. It illustrates the commitments AEW has made to promote responsible investment in all of its activities, in accordance with French and international regulations and developments.

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

- During the pre-due diligence phase, the management teams complete an **ESG grid** that includes the following criteria:
 - 6 environmental criteria: Energy, Water, Carbon, Environmental Certification, Soil Pollution and Asbestos
 - 4 social criteria: Transportation, Accessibility, Usage and Well-being.
 - 4 governance criteria: Tenant Activities, Conflict of Interest, Tenant Satisfaction and Green Leases.
- This ESG grid is finalized during the due diligence phase. During this phase, five audits may be performed:
 - A **technical audit** provides a more in-depth examination of certain aspects such as regulatory compliance and safety.
 - For certain assets, an environmental and/or energy audit is performed in addition to the technical audit. The **environmental audit** tracks environmental risks such as pollution, noise, natural and technological hazards or atmospheric 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's improvement plan and the ten-year budget forecasts.



- Finally, for specific products, due diligence can be completed through a more advanced ESG audit and/or a climate change resilience audit. The **ESG audit** covers nine indicators (Energy, CO2, Water, Waste, Biodiversity, Transportation, Well-being, Health, and Use Value) and assesses four aspects of the asset's performance: current, intrinsic, current potential, and intrinsic potential. The **climate change resilience audit** is an audit that assesses the impact of projected climatic hazards on a building according to different IPCC (Intergovernmental Panel on Climate Change) scenarios.
- According to the investment strategy of the fund, where appropriate, an **ESG action plan** may be defined, implemented and monitored by the management teams.

For the debt fund management activity AEW systematically follows an ESG approach, which is based:

- During the acquisition phase: the evaluation of projects in the pre-financing phase allows AEW to analyze the ESG commitments of the Equity Sponsors and to evaluate the extra-financial performance of the real estate assets according to internal ESG grids;
- During the management phase: based on a logic of progress in the ESG practices of the Equity Sponsors and continuous improvement of the ESG performance of real estate assets. As part of its commitment policy, AEW encourages Equity Sponsors to implement actions aimed at improving their responsible approach and advancing their ESG practices.

1.3 Exclusion policies

AEW Sarl does not currently have its own exclusion policy in place but adheres to the Natixis policy and the expectations of some of its institutional clients.

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

These exclusion processes help to take sustainability risks into consideration.

1.4 ESG governance

AEW Sarl relies on the AEW internal ESG function to define and implement the methodology for ESG analysis relating to the investment processes. The ESG team is composed of two people and works with all of the entities of the AEW group in Europe.



This function supports the AEW Sarl management teams in order to provide an additional qualitative ESG analysis, in support of investment decision-making.

Within AEW, the 5-persons ESG team was created to respond to various ESG and climate-related issues. This team's mission is, among others, to implement AEW's socially responsible policy, to build the socially responsible product offering, to train the teams in ESG matters, and to integrate the new sustainable finance regulations within AEW Sarl in cooperation with other company departments.

Sustainable finance-related subjects are also addressed in a quarterly SRI committee meeting chaired by the CEO of AEW SA, gathering the European platforms with representatives from the main functions: research, asset management, legal, fund management, and investor relations.

This committee is in charge of coordinating AEW's SRI policy, overseeing its compliance, and sharing best ESG practices. Consequently, the subject of integrating sustainability risks into the investment decision process of these funds is addressed.

AEW Sarl applies the provisions of Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 amending Delegated Regulation (EU) No 231/2013 with regard to sustainability risks and sustainability factors to be considered by AIFM.

In particular, the managers are responsible for integrating sustainability risks into AEW Sarl '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 Board of Managers Committee and Executive Committee, which meets on a very regular basis.

AEW Sarl establishes, implements and maintains appropriate internal control mechanisms designed to ensure compliance with decisions and procedures regarding the consideration and management of sustainability risk. The risk management policy includes all necessary procedures to enable the manager to assess, for each AIF it manages, the exposure of that AIF to sustainability risks.

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

2. Engagement within 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 local laws and international regulations and their evolution.

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

As a real estate asset manager, AEW 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, by the fund managers and/or the SRI team.

These ESG action plans may give rise to specific reporting to investors on how to use budget forecasts, the progress on implementing planned actions, and monitoring of ESG impact indicators to ensure the action plans are appropriate.

Updates to ESG action plans may be proposed to investors on a case-by-case basis, particularly because of unforeseen events or insufficient results. All of these actions aim to cover sustainability risk and to work proactively.

When selecting external service providers (in particular property managers), AEW considers how the ESG dimension is integrated into the service provider's policy.

Engagement to fight climate change

AEW is also engaged in the fight against climate change by relying inherently on climate policies: AEW is a signatory of the PRI, which recently incorporated the recommendations of the TCFD (Task Force on Climate - related Financial Disclosures) in the reporting framework. These are key issues within the Affiliates.

In addition, since 2017, AEW has prepared work and conducted a study on projected climate risk 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.

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

AEW Sarl proposed to investors to integrate climate risks into the management of their portfolios in 2021.



Engagement in favor of Biodiversity

AEW also includes biodiversity in its priorities as indicated in its SRI policy, which includes assessing and anticipating possible risks to the natural environment. This objective is embodied in an approach that consists of "Avoid, Reduce, Compensate" for the impacts of our activity on biodiversity. Biodiversity issues are considered throughout the value chain, from the construction phase with the developers, during the works, to acquisition and 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.

3. Consideration of sustainability risk in the compensation policy

Following the entry into force of Regulation (EU) 2019/2088, AEW Sarl remuneration policy was revised to reinforce the promotion of sound, effective management of sustainability risk.

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

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

These objectives vary according to the employees' functions 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 compensation to be allocated.

In the event of the materialization of a major sustainability risk 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 compensation allocated.