

Sustainability Risk Integration Policy - AEW SARL

March 2021

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.



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

1.1. The ESG Policy of Natixis Investment Managers

AEW Sarl and AEW Ciloger, AEW Invest GmbH, AEW Europe LLP, (together “AEW”) are affiliates 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'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 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

AEW'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

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



illustrates the commitments AEW has made to promote responsible investment in all of its activities, in accordance with French and international regulations and developments.

AEW takes sustainability risk into consideration by incorporating ESG criteria in the formation and management of the funds (AIF) and in the governance built around the subject.

Although sustainability risks are generally considered applicable to AEW's portfolios, the degree to which ESG aspects are integrated into the investment decisions varies according to the product's ESG targets as described in its investment strategy.

AEW's products that promote ESG characteristics or (where applicable) that have a sustainable investment objective tend to focus on the best performing investments from an ESG perspective, or those with potential for improvement in line with the portfolio's ESG strategy, so as to limit the potential adverse impact of sustainability risks on the product's performance in accordance with regulatory documents.

AEW's investment philosophy defines the environmental, social and governance ("ESG") guidelines it follows. In the acquisition phase, AEW assesses the main ESG characteristics of the asset.

- 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.
 - Where appropriate, an **ESG action plan** may be defined, implemented and monitored by the management teams.

1.3. Exclusion policies

AEW 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

AEW relies on the 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 management teams in order to provide an additional qualitative ESG analysis, in support of investment decision-making.

Within AEW, the two-person 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 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.

Finally, the Compliance, Internal Control and Risk Committee, which meets on a regular basis with AEW's senior management in attendance, is the forum for reporting and exchanging information on the control functions' evaluation of whether these provisions are properly implemented and commitments are being met.

2. Engagement within AEW

As a real estate asset manager, AEW implements and manages the ESG action plans that it has defined at acquisition.

These action plans are integrated into the management practices of the internal and external teams, including the 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 takes into account 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.

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.