



## Catella European Residential Fund III (CER III)

### Environmental, Social and Governance (ESG) Policy

#### Fund's objectives

Catella European Residential Fund III ("CER III" or "the Fund") is committed to meeting its financial objectives whilst simultaneously reaching environmental and social goals. It has aligned its fee structure with those objectives, meaning there is a 5% discount on the annual asset/fund management fee if these objectives are not met. The fund is classified as an Article 9 fund (a so-called "Impact Fund") under the Sustainable Financing Disclosure Regulation (SFDR), as it has defined sustainable, social and governance objectives as binding elements for its investment strategy. Additionally, the Fund incorporates ESG considerations during all project phases of acquisition, refurbishment/development, and operation.<sup>1</sup> CER III is aware of the real estate industry's responsibility towards climate change risks and is committed to identifying principal adverse impacts (PAI).

CER III's ESG Policy serves as a guideline for planning purposes, to ensure the Fund reaches its environmental and social objectives. Also, it is meant to help achieve high level ESG credentials in order to safeguard against potentially eroding returns by ensuring resilience to ever-stringent regulatory requirements, increasing operational cost volatility, evolving occupier expectations and future purchasers' criteria.

To make sure the Fund will meet these objectives and maintain a high ESG performance, a list of measures has been implemented for CER III. These measures cover all phases of the investment, from the acquisition phase to the operational phase.

#### 1 Environmental objective

*Reduce carbon emissions by developing and investing in sustainable buildings and refurbishing existing assets with an aim to reach a carbon-neutral asset portfolio by 2030*

To achieve this objective CER III has committed to investing in and developing of sustainable assets or upgrading existing assets that are currently not compliant with CO<sub>2</sub> or energy intensity pathways as derived from the Paris Agreement.

This goal is aligned with various *United Nation's SDGs*:

7 Ensure access to affordable, reliable, sustainable, and modern energy for all

7.2 Increase renewable energy including consumption from tenants

7.3 Improve energy efficiency via LED lightning

11 Sustainable cities and communities

11.6 Reduce environmental impact, by improving waste management

13 Take urgent action to combat climate change and its impacts

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<sup>1</sup> Further information on the sustainable investment objective can be found in the fund description pursuant to SFDR. [Link]



## **2 Social objective:**

*Improve access to affordable housing with good living conditions.*

CERIII's social impact goal is to increase the supply of good-quality affordable housing thereby delivering positive social outcomes to the community. The impact is maximized by focusing on those income groups which are most challenged in getting access to affordable housing. These target groups typically earn too much to be entitled to social/subsidised housing but equally lack the financial capacity to rent in the premium housing segment. For this purpose, the Fund has defined that the base rent (i.e. rent excluding services charges and utilities) for at least 80% of all residential units in the Fund's portfolio should be below the median rental level in their respective. To achieve this, a comparative rent analysis is carried out for each target property as part of the purchase process.

Next to affordability, ensuring good living conditions is also essential. The Fund has defined five main criteria for this: the size (large enough to live with a household of four in the unit), quality, accessibility, safety and equality/diversity of the units. Taking these criteria into account, the assets should have good wellbeing outcomes for the tenants.

This goal is aligned with the following *United Nation's SDGs*:

1: End poverty in all its forms everywhere

11: Make cities and human settlements inclusive, safe, resilient and sustainable

11.1: By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums

11.6: By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management

## **3 Environmental and Social Experiments for the community and tenants**

*Addressing housing unaffordability with experiments to identify scalable solutions.*

Furthermore, the Fund is conducting several social impact experiments with the purpose of addressing the underlying factors driving housing unaffordability. The Fund is conducting tests in different assets to identify potential scalable solutions to enhance affordability for those who are challenged most. Several experiments are being conducted:

### **1. Landlord Reference Statements**

The Fund provides a written reference statement to tenants who have terminated their rental contract. The statement declares that the tenant has always paid the rent on time during the rental period and has not committed any other form of negligence. Moreover, it states that the tenant has taken good care of the apartment and the communal areas as is to be expected from a good tenant. The Landlord Reference Statement should help the leaving tenant to obtain a mortgage and/or new rental property.



## **2. Positive Discrimination**

The Fund is investigating whether it is possible to adopt a policy that favors under-represented demographics if there are multiple applicants for a vacant rental unit, when applicable and suitable.

## **3. Community program**

The Fund will motivate tenants to do community service for a certain number of hours of per year in their respective neighborhood, with the goal of enhancing social ties which are aimed at driving a positive impact on the wider community.

## **4. Environmental Experiments**

We want to experiment if we can delay planned non-material technical opex and capex investments (e.g. such as replacing curtains, etc) and a trade-off towards sustainable investments on the basis of voluntary behaviour of the tenant. The experiment would be to test during 1 year in 2 assets whether or not tenants can become a partner in structural change and if voluntary participation turns out to be an effective tool or not.

## **5. Catella's Well-being / Happy Rating**

Many ESG ratings and/or benchmark tools mainly focus on Environment and Energy. There is a lack of measurement of the social aspect. Questions on topics such as the quality of the assets and how this impacts tenants' quality of life are typically left unanswered. We want to measure our tenants' well-being via a survey and based on the results make improvements if possible.

## **Sustainable Corporate Governance**

*Integrating sustainable corporate governance through our culture, corporate governance philosophy and management processes.*

Corporate governance at Catella Residential Investment Management GmbH is based on a legally compliant and transparent compliance culture. We ensure compliance with applicable laws and other regulations as well as internal policies and encourage our employees to report violations or suspicions to their superiors.

Health and well-being of our employees is a top priority at Catella Residential Investment Management GmbH. Therefore, we carry out a wide range of personnel development measures and grant employees a variety of additional benefits, such as optional company pension plans or activate them to do more physical exercise. In addition, a trust-based culture with sufficient room for home-office is in our DNA. CRIM management allows flexible working hours according to the model of trust-based working hours. The company provides all necessary resources (IT budget, infrastructure & technology, applications, etc.) to promote effective remote working.

In addition, Catella Residential Investment Management GmbH is committed to the 10 principles of the UN Global Compact. These include issues such as the rejection of child labour and any form of forced labour, freedom of association, the protection of international human rights and environmental protection. We have firmly implemented the following standards or codes of conduct into the corporate structure of Catella Residential Investment Management GmbH: (1) OECD Guidelines for Multinational Enterprises, (2) ILO Guiding Principles on



Fundamental Principles and Rights at Work, (3) the International Convention on Human Rights, (4) Principles for Responsible Investment, and the (5) Sustainable Development Goals.

### *Integrating sustainable corporate governance in the Fund CERIII.*

Catella has committed to align interests for CER III. We have formulated and are pursuing the following two ambitions. First, as stated above, we have aligned our fee structure with skin in the game to fulfil the ESG criteria of the fund. Which means, if CERIII does not reach its targets, its Manager will need to pay a penalty of up to a maximum 5% of its annual management fee to an UN-charity organization. Secondly, we are working to establish a new risk return performance metric, one that not only runs alongside the contractually binding and prevailing return calculations, but that also includes notions of E and S in the return. Our contribution to governance here is to make it possible to express a risk adjusted return that shows exposure of less downside risk for an Article 9 fund than for other funds, given the same level of return – precisely because it pursues these E and S targets. Our key concept is that of a modified Value at Risk calculation.

### **ESG in Transaction**

Already in the due diligence phase for new acquisitions ESG requirements are addressed. The Fund uses an Impact Dashboard through which it can be assess whether new acquisitions are in alignment with the impact strategy and can be acquired. This dashboard describes the targets of the impact strategy, measures the current impact score of the assets, and monitors the progress of the assets' environmental and social long-term targets.

The resulting SWOT and gap analysis, will help in assess whether or not carbon neutrality by 2030 and improved access to affordable housing with good living conditions are achievable from the onset. The following topics will be assessed during the DD process:

- Perform asset level compliance check, which includes risks deriving from local energy and environmental laws.
- Energy efficiency of mechanical and electrical equipment
- For existing buildings: Complete consumption data is requested, including energy consumption and greenhouse gas emissions, water consumption, and waste management
- For development: Total calculated energy consumption and greenhouse gas emissions of the asset are evaluated.
- Measures to improve energy efficiency and increase the share of renewable energy for both heating and electricity are identified.
- Options for renewable energy on site are evaluated.
- Stranding Risk analysis with the CRREM Tool to see whether the asset's CO<sub>2</sub> emissions end energy performance are in line with the Paris Agreement is conducted.
- Water efficiency and water consumption information is reviewed.
- Waste Management information conditions of the site are requested.



- Material sourcing and resource efficiency, sustainable procurement are evaluated, where applicable.
  - Indoor environmental quality is evaluated.
  - Biodiversity and habitat
  - Resilience to catastrophe/disaster and climate change adaptation including flood risk and control
  - Pollution prevention
  - Mobility concept
  - Digitalisation concept
  - Green Building certification
  - Stakeholder Engagement
  - Disclosure requirements (SFDR) and Taxonomy criteria
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- Assessing potential sustainability risks according to probability of occurrence and financial impact. After assessing the risks, we initiate preventive measures where necessary.
  - Presentation of the conclusions of this due diligence into the investment memos and formal review by the investment committee.
  - Assess feasibility of stakeholder engagement with suppliers, tenants, and the community in order to support and drive the ESG performance of the asset.
  - To meet the social objectives, CER III invests in new and existing affordable housing with good living conditions for the income group in need.
  - Besides looking solely at affordable rents, the living conditions of the assets and the tenants' satisfaction are essential.
    - Quality of the units: Has the building been refurbished in the last 5 years?
    - Size of the units: Is the unit large enough to live comfortable with a family household?
    - Accessibility: The Walk Score® is taken as proxy to calculate the accessibility of the building.
  - Training of asset management and investment team on currently relevant ESG issues to be considered in purchasing.
  - Development of asset-specific sustainability CAPEX-measures.
  - Structured hand-over process from investment team to asset management.

Catella has commissioned studies for standing assets in the CERIII portfolio with diverse partners to identify improvement potential and increase efficiency with innovations.

## **ESG in Asset Management**

CER III and its managers consider effective management of environmental impacts and risks to be central to our fiduciary duties, especially in light of compliance with the Paris Agreement and the two sustainable investment objectives. Therefore, portfolio level supporting management tools and guidelines will be implemented.

### **Measures already implemented:**

- Commissioned decarbonisation audits
- Impact Dashboard which integrates the current status and future targets of the environmental, social and financial targets of CER III
- Comprehensive and achievable medium and long-term targets are defined annually to reduce the environmental impact of the properties, particularly with regard to energy and water consumption, waste disposal and biodiversity.
- Measures to improve ESG performance as well as reduce energy demand and CO<sub>2</sub> emissions are integrated into annual CAPEX plans (i.e., energy efficiency, water efficiency, waste management, health & well-being improvement, and biodiversity improvement, where applicable) and implemented on an ongoing basis.
- Sustainability-related asset data is included in the yearly reports; this ensures regular ESG monitoring.
- CER III ensures an annual exchange between asset management and external property management on ESG issues.
- Continuously review the ESG-activities together with major tenants and other stakeholders (service suppliers, neighbours, local communities etc.) to align expectations and results.
- Report on our ESG activities and progression annually.
- CER III will support the development of industry-wide reporting and sustainability benchmarking protocols and will participate in suitable schemes such as GRESB (Global Real Estate Sustainability Benchmark) and INREV (European Association for Investors in Non-Listed Real Estate Vehicles).

To make CER III's assets climate-neutral by 2030 and to improve their overall ESG performance we will create a climate protection roadmap and a green CAPEX plan for each asset in order to analyse potential risks and determine suitable measures at an early stage. Those can include the following measures:

- Reduction of energy-related carbon emissions



- Reduction of energy consumption
- Reduction of water consumption
- Reduction of waste consumption
- Focus on renewable/green energy and energy-efficient building technology (e.g. LED) at the asset level to save energy.
- Adopt maintenance strategies that include modern, energy-efficient heating, cooling and lighting systems.
- Installing solar panels
- Switch from gas heating to electricity heating using heat pumps
- Rely on rainwater harvesting – where possible - for irrigation of our outdoor spaces to address water scarcity.
- Be committed to unsealing surfaces where possible and creating opportunities for rainwater retention.
- Introduce green leases for new tenants, which will provide guidelines, for example, on waste separation and the economical use of resources, in order to implement our goals together with the users.

The above will be supported by the following measures:

- Development of a regular consumption data collection process (most importantly energy, water, and waste) along with implementation in property and facility management contracts by 2023.
- Utilise software solutions to systematically measure and manage sustainability related property data across the fund and report ESG impacts quarterly by 2024.

In order to reach our social objective, we will also address the following:

- Increased availability of housing close to daily amenities and public transportation facilities
- Renovate apartments to modern standards ensuring the quality of the units increase the wellbeing of the tenants, by implementing and measuring residents' satisfaction with the help of surveys and measuring resident retention rates
- Inclusion of target groups in need of alternative modern living forms (e.g. senior housing, student accommodation and shared living concepts)
- Ensuring the wellbeing of the tenants when regulatory frameworks allow it, by:
  - a. Resident's satisfaction ratio
  - b. Resident retention rate
- Providing a safe, secure and healthy environment for all building occupants.



- Ensuring the user's health comfort by paying attention to pollutant-free and allergy-friendly materials.
- Continuously evaluate the mobility concept at the site and the need for bicycle garages incl. charging stations for e-bikes.
- Create sustainable and health-promoting mobility offers
- Improve outdoor space design, non-smoker protection, playgrounds, common areas, thermal comfort and accessibility
- Develop tenant sustainability guidebooks, fit out and refurbishment guides to promote positive engagement with our occupiers by 2023
- Have Green Building certificates for operational performance for at least 20% of our assets under management (AUM) by 2030.

### **How are the targets measured?**

The Environmental, Social and Financial targets will be measured with an Impact Dashboard, where the following measurements are included:

1. Monitor and reduce the CO<sub>2</sub>/m<sup>2</sup> carbon emission of all buildings.
2. The (external) certification of the buildings will ensure the high-quality standards prevailing in the market
3. Achieve the Green Star GRESB rating in 2022.
4. Monitor and reduce the energy consumption for heating and electricity of the buildings (kWh/m<sup>2</sup>)
5. PAI indicators to be monitored: fossil fuels, energy efficiency and energy consumption.
6. Annual report to GRESB to monitor the Fund

### **Management approach**

The fulfilment of these ESG commitments to reach our sustainable goals is supported by a structured management approach based on an integrated environmental management system in accordance with ISO 14001 at all levels and in all activities of the Fund. This follows the continuous improvement process (Plan-Do-Check-Act). Within this framework, we continuously review our ESG requirements, including our targets and progress. Accordingly, we constantly identify new, relevant ESG aspects that affect our company and our activities (Plan). Based on these results, we consistently implement new ESG measures (Do) and continuously review the implementation (Check) in order to adjust the ESG measures accordingly (Act).

### **Closing Remarks**





The Catella European Residential Fund III is committed to incorporating the above ESG practices into its business strategy and operations. While doing so CER III will treat partners and suppliers with respect and integrity with the aim of developing lasting and trusted business relationships. This Policy and commitments made shall be under continuous review to ensure we are successful in this aim.

Our overarching aim is to provide a positive contribution to solving societal sustainability issues, through operation of the fund.

DocuSigned by:

**Paul van Stiphout**

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Date / Name(s) / Signature(s)

**Please note:** The following policies and guidelines, as amended from time to time, of the Catella Residential Alliance also apply to this fund:

- Catella Group Business Continuity Management Policy
- Catella Group Code of Conduct
- Catella Group Corporate Governance Policy
- Catella Group Diversity and Equality
- Catella Group Environmental Policy
- Catella Group Privacy Policy
- Catella Group Guidelines for Group Risk Control
- Catella Security Incident Management Standard