ECE Real Estate Partners

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Content

1. Legal framework

ECE Real Estate Partners S.à.r.l. (hereinafter "**AIFM**" or „**ECE REP**") is an alternative investment fund manager authorised pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter "AIFM Law").

Within the scope of its regulatory authorisation, the AIFM manages the Luxembourg real estate investment funds that qualify as alternative investment funds (the "**ECE Funds**") (hereinafter "investment funds").

2. Purpose of this policy

This document (hereafter "**Policy**") generally describes the AIFM's handling and monitoring of sustainability risks which may arise during the investment decision process.

Within this Policy the AIFM sets the framework for sustainability factors considered in the investment decision process describes the approach taken to manage and monitor sustainability risks which may influence the funds managed.

The AIFM is aware of the impacts sustainability risks can impose on the funds managed and therefore considers the integrated approach outlined in this policy as strengthening its fiduciary duties towards the investors of the funds managed by the AIFM.

The Policy is in line with the requirements set by Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (“**SFDR**”).

3. Policy review

This policy will be reviewed and updated annually, and on an ad hoc basis in case of relevant changes to the organizational structure of the AIFM, in case of amendments to the regulatory framework governing this policy or if otherwise deemed necessary.

4. Principles for Responsible Investment

ECE REP signed the UN Principles for Responsible Investment on 16 June of 2020. The signatories contribute to develop a more sustainable global financial system. Selected principles are to incorporate ESG issues into decision-making as well to seek appropriate disclosure on ESG issues by the entities in which ECE Funds invests.

The AIFM is a member of UN PRI since June 2021. The UN PRI is a membership in which signatories commit to the following principles:

- Principle 1. To incorporate ESG issues into investment analysis and decision-making processes
- Principle 2. To be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3. To seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4. To promote acceptance and implementation of the UN Principles withing the investment industry.
- Principle 5. To work together to enhance our effectiveness in implementing the UN Principles.
- Principle 6. To report to each other on our activities and progress towards implementing the UN Principles.

5. What are the ESG issues?

ESG issues refer to environmental, social and governance issues that are identified or assessed in responsible investment processes.

- Environmental issues related to the quality and functioning of the natural environment and natural systems.
- Social issues related to the rights, well-being and interests of people and communities.
- Governance issues related to the governance of companies and other investee entities.

ESG issues are often interlinked, and their cumulative impact is significantly greater than one issue looked at in isolation. A definitive list of environmental, social and governance (ESG) issues, cannot be created, as any such list would inevitably be incomplete and would soon be out of date.

Below is a non-exhaustive list of ESG factors.

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Air and water pollution	Customer satisfaction	Accounting standards
Biodiversity	Data protection and privacy	Audit committee structure
Climate change	Diversity and equal opportunities	Board composition
Energy efficiency	Employee attraction and retention	Whistle blower schemes
Deforestation	Employee engagement	Business ethics
Energy efficiency	Working conditions	Compliance
Hazardous materials	Government and community relations	Executive remuneration
Waste management	Child labour	Risk management
Water scarcity	Product safety and liability	Stakeholder dialogue

6. Sustainability risks

6.1 Physical risks

In case of real estate funds, the main physical risks relate to the investment property.

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Real estate investments are linked to a specific geographic location. Hence the risks are mainly linked to natural disasters and the potential additional costs they can generate (repairs, reconstruction, increased insurance costs). Climate changes risks (such as in temperature and precipitation) may increase the operating costs of a real estate assets and therefore its performance.

Possible impacts:

- Material negative impact on the value of investments due to environmental events
- Material negative impact on the value of investments due to deficiencies in the construction or security systems of the building
- Business interruption due to temperature increase, precipitation etc. or extreme events (e.g. floods, cyclones, etc.)
- Material negative impact on the value of investments due to environmental or other external events

A summary of the direct and indirect physical risks on revenues, operating costs, capital costs and capitalisation rates can be found in the table below:

	Physical Risk	
	Direct	**Indirect**
Revenue	Disruptions to an asset's operations from severe or repeated physical-hazard events (eg, major floods)	Reduced real-estate demand in a local market given disruptions to surrounding transportation or other infrastructure
	Risk of inability to sell the asset due to physical climate risk	Market perception with reduced interest in certain areas with the highest physical risks
Operating Cost	Increased maintenance costs as physical risks increase	Increased insurance costs as insurers recognise physical risks and adjust underwriting models
	Integration of innovative mitigation solutions that are not (cost) efficient	Operational costs involved with staff, knowledge to mitigate the risks
Capital Cost	Investment required to improve the resilience of building to increasing physical risks (eg, elevating lobby, green roofs, protecting electric and mechanical systems)	Increased capital investments (eg, development fees), required to protect broader communities from climate risks (eg, floodwalls, green infrastructure for heat mitigation)

	Physical Risk	
Capitalisation rate / Liquidity	High cap rate due to the physical risks that an asset is facing	

6.2 Transition risks

Transition risks – derive from the change to a low-carbon economy and can generate extensive policy and legal changes to address mitigation and adaptation requirements related to climate change, needs for new technologies and change in consumer demand or commodity prices. Transition risks can be further classified into:

- Regulatory risk – risk that a change in laws and regulations will materially impact a security, business, sector or market;
- Technological risk – risk relating to the need for new technologies, and respectively impact of the increased capex measures on the value of the investment and investor´s returns;
- Reputation risk – loss of stakeholder trust in the company´s competence or integrity. Failure to adapt to changes in market sentiment.

In the longer-term transition risk can materialize in loss in value of an asset arising from the asset becoming less competitive e.g. due to high CO_2 emissions and energy consumption per square meter.

A summary of the direct and indirect transition risks on revenues, operating costs, capital costs and capitalisation rates can be found in the table below:

	Transition Risk	
	Direct	**Indirect**
Revenue	Decline of demand of tenants in unsustainable buildings for occupiers that have made a climate commitment	Decline in a sector or local economy resulting in lower local real-estate demand/occupancy
	Introduction of carbon tax or subsidies by governments	
	Introduction of stringent minimum regulatory standards by governments	

	Transition Risk	
Operating Cost	Increased utility costs given carbon-intensive building systems	Changes in the tenant behaviour due to ESG demands
	Introduction of carbon tax or subsidies by governments on the utility bills	
Capital Cost	Significant capital investment required to meet local energy efficiency/ emissions standard or tenant demands (e.g, early retrofit of heating/ cooling systems), increased need to purchase lower-emissions building materials (e.g, steel, timber)	Increased financing costs as investors and lenders price in market- level transition risks (eg, in economies dependent upon carbon-intensive industries)
Capitalisation rate / Liquidity	Changes in capitalisation due to perceptions of both physical and transition risks by market participants	

Possible impacts:

- Regulatory risks: Failure to comply with current regulatory requirements.
- Technological risks: Failure to timely identify and address the need for the technological changes resulting from the ESG factors and loss in value of an asset arising from the asset becoming less competitive e.g. due to high CO2 emissions, energy consumption per square meter and water pollution/waste.
- Reputation risk: Loss of stakeholder trust in the competence or integrity of the fund or/and AIFM and failure to adapt to changes in market segment.

6.3 The Carbon Risk Assessment Tool (CRREM-Tool)

The Carbon Risk Real Estate Monitor (CRREM) is the leading initiative for establishing targets for operational (“so called “in use”) carbon emissions for standing real estate assets consistent with the ambitions of the Paris agreement. CRREM publicly released decarbonization pathways that translate the ambitions of limiting global warming to 1.5°C and 2°C by the end of the century into regionally- and property-type-specific trajectories against which real estate assets and portfolios can benchmark themselves.

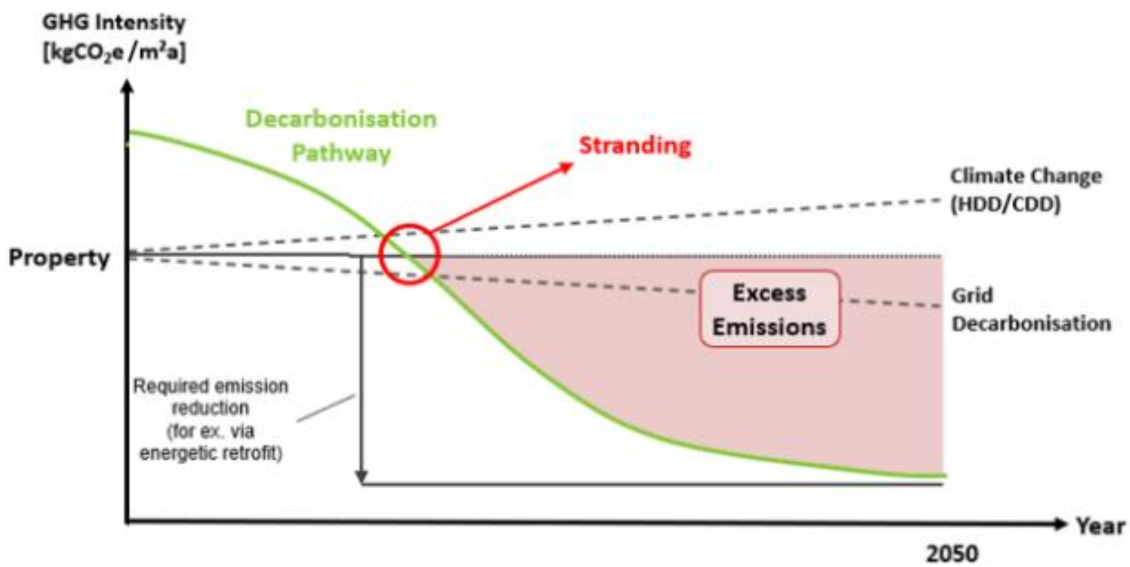
The developed software (so called “CRREM-Tool” or Carbon Risk Assessment Tool) derives carbon emission intensities as well as energy consumption intensities and demonstrates the 1.5-degree-readiness of each analysed property.

Besides isolating transition risks of individual properties, the tool also helps to identify and visualise strategies for improvement.

The CRREM Risk Assessment Tool to identify stranded assets is designed for asset owners and investors to understand the carbon risks – also referred to as transition risk - inherent in their real estate portfolio (see section 6.2.).

6.3.1 The stranding diagram

The stranding diagram provides a summary of the fundamental principle of CRREM´s stranding risk analysis for single properties:



- **Black line**: The black line represents a building’s baseline and future carbon performance in terms of the socalled greenhouse gas (GHG) intensity, which is calculated as the amount of annual greenhouse gas emissions per building floor area. Emission figures include those directly generated by the on-site combustion of fossil fuels for heating and indirect emissions (caused by the use of district heating and/or electricity consumption).
-

- **Green curve**: The green curve represents the target decarbonisation pathway of a specific building type in a specific country that aligns with a certain climate target (1.5°C/2°C) and must not be exceeded if a property intends to meet the above-mentioned “Paris agreement”. If the emission intensity is above the target value, “stranding” occurs. In that case the asset would have a carbon-footprint that is above the fair-share derived by downscaling the carbon budget to property level

In the illustration above, the exemplary building fulfils the requirements only at the very beginning and faces stranding far before the end of the observation period (in 2050). Only appropriate retrofit measures reducing the GHG emissions can ensure that the building will meet the future emission ceilings. This might include changing the energy source (to renewables), decarbonization of the electricity grid and/or simply reducing consumption due to lower demand or due to higher insulation.

The AIFM has started using the CREEM-Tool to better analysis the stranded dates and the necessary measures to be implemented to reduce the GHG emissions. The necessary measures are then analysed, a budget is derived and the priorities to reduce the GHG emissions are defined.

A more detailed analysis of the CRREM-Tool is presented in the CRREM Risk Assessment Reference Guide saved under Appendix 6.

7. The ESG strategy

7.1 Strategic ESG objectives

The ESG strategy and objectives of the AIFM is in line with the ESG strategy on organisational level of ECE Group.

Sustainability and Responsibility are in the main focus for ECE and the AIFM as the manager of the ECE Funds and therefore an integral part of the corporate strategy and takes place through the defined values of ECE. ECE consistently gears the business activities towards long-term value creation, and ECE assumes responsibility for the society: For the employees, for the properties, for the cities in which ECE is active and for the efficient and careful use of the resources ECE employs.

In addition to political regulations/requirements, the holistic sustainability strategy takes the expectations of investors and other stakeholders such as tenants, visitors and employees into account. The “Net Zero” objective means achieving a balance between the amount of greenhouse gases emissions produced and those removed from the atmosphere to reduce global warming. The AIFM believes reducing these greenhouse gas emissions is key in generating a positive impact on climate change. As a result, the ECE REP ESG strategy is to set a goal of being net zero by 2040 as part of the Paris Agreement, signed in 2016.

ECE identified six strategic fields of action and assigned targets to these areas:

- Energy (professional monitoring, energy efficiency increases, renewable energies);
- Resources (professional monitoring, waste and water management, promotion of circular economy approaches);
- Sustainable mobility (electric mobility, development/use of sustainable mobility options);
- Well-being (accessibility, indoor air quality);
- Employees (health management, diversity management and social engagement) and
- Sustainable trends (driving innovation projects forward in a targeted manner).

Further details on the ESG strategy are posted in the websites of ECE REP and ECE respectively:

ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: ESG ECE Real Estate Partners

ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: Sustainability Strategy

ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: ESG ECE Work & Live

7.2 Specific adopted ESG policies

Based on the above-mentioned ESG objectives, ECE and the AIFM have adopted the below ESG policies:

ESG Factors Covered	Applicable	Objectives/ Targets	Policies (if considered) *
Energy Consumption	☒ Yes ☐ No	This is part of the reduction of GHG emission	Part of the Due Diligence

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ESG Factors Covered	Applicable	Objectives/ Targets	Policies (if considered) *
GHG Emissions	☒ Yes ☐ No	40% reduction of GHG Emissions until 2030 (ECE Group)	ECE ESG strategy and part of the Due Diligence
Climate Change – Transition Risks and Opportunities (eg Net zero carbon targets and/or decarbonisation pathways, fossil fuel exposure (SFDR))	☐ Yes ☒ No	The Net Zero Building Target together with the action plans to achieve the decarbonisation pathway is currently in process.	-
Climate Change – Physical Risks and Opportunities (ie climate resilience)	☒ Yes ☐ No	100% regular risk analysis	Risk management policy
Water Consumption	☒ Yes ☐ No	The definition of objectives are currently in process.	Part of the Due Diligence
Waste Management	☒ Yes ☐ No	Establishment of a waste monitoring system and a separation rate of 75%	ECE ESG strategy
Biodiversity	☒ Yes ☐ No	No objectives are carried out	Part of the Due Diligence
Building Certificates	☒ Yes ☐ No	100% certified portfolio	ECE ESG strategy
Energy Ratings	☒ Yes ☐ No	No objectives are carried out. Please see GHG emissions.	Part of the Due Diligence
Diversity, Equity and Inclusion (DEI)	☒ Yes ☐ No	Several objectives, please see DEI-strategy of ECE, for example 35% women in higher management	Diversity strategy of ECE Group
Health, Safety and Wellbeing (HSW)	☒ Yes ☐ No	Supporting barrier-free design, Improve indoor air quality	ECE ESG strategy
Stakeholder Engagement	☒ Yes ☐ No	Regular dialog with stakeholders, Integration of stakeholder view in materiality assessment	ECE ESG strategy

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ESG Factors Covered	Applicable	Objectives/ Targets	Policies (if considered) *
Employee Development	☒ Yes ☐ No	Women in the leadership, Improve diversity culture	ECE ESG strategy
Human Rights	☒ Yes ☐ No	Prohibition of child and forced labour, Consideration of the minimum employment age, Consideration of minimum wages, Combating illegal employment and undeclared work	Code of Conduct ECE Group, Compliance Standards for Business Partners
Social Impact	☒ Yes ☐ No	Supporting employees' social engagement, Promotion of cultural values, science, sport, environment, health care, youth and elderly care in cities	ECE ESG strategy
Code of Ethics / Code of Conduct	☒ Yes ☐ No	Compliance with the core values of ECE, Reduction of compliance incidents, Regular compliance training for employees	Code of Conduct ECE Group
Other, please specify_____	☒ Yes ☐ No	Have a look at objectives in 1.2.1 & Appendix IV	

Further details on the ESG initiatives are posted in the website of ECE:

[ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: Energy renovation roadmap]

7.3 Stewardship

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ECE is the European market leader for the development, acquisition and management of prime shopping centres with more than 55 years of experience. ECE is 100% privately owned by the Otto family, owners of the Otto Group, a globally leading omnichannel retail group. ECE is 100% equity financed with over 3,300 employees located across 13 countries. It manages properties with a total market value of approx. € 31 billion comprising approx. 200 shopping centres with a combined sales area of 7.1 million square meters.

The ECE-Funds have more than € 5 billion assets under management, include retail, hospitality and residential assets and are backed by the Otto Family and globally leading institutional investors. In the past decade, ECE Real Estate Partners have successfully acquired 26 shopping centres in Germany, Poland, Austria, Italy, Hungary, Spain and Denmark, 3 residential built-to-rent assets in the United Kingdom and Denmark and one hotel in Italy.

The AIFM focuses on measuring and assessing the ESG risks to improve its investment and stewardship decisions to create long-term value for our investors, leading to sustainable benefits for the economy, the environment and society.

ECE and its CEO Alexander Otto are committed to society in many ways through various foundations. The focus of the commitment is on projects and initiatives in the fields of sports, education, culture, health and urban development. In addition to supporting many small projects that benefit children, athletes or the disabled, for example, Alexander Otto's civic involvement also includes targeted support for lighthouse projects such as the modernization of the Hamburger Kunsthalle or the tennis stadium at Hamburg's Rothenbaum. Regardless of size, every single project is important - always with the aim of giving something back to society.

ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: Giving something back

8. Overview of the integration of ESG risks in the Portfolio Management function

8.1 Overview of the AIFM level

The aim of including ESG risks in the investment decision is to identify the occurrence of these risks as early as possible and to take appropriate measures to minimize the impact on the investments or the overall portfolio of a fund. The events or conditions that may be responsible for a negative impact on the return of a fund are split into environmental, social and corporate governance aspects. While environmental aspects include energy and waste management, for example, social aspects may include the consideration of internationally recognized labour law requirements during the construction/improvement phase. Corporate governance aspects include, for example, the consideration of employee´s rights and data protection. The AIFM also considers the aspects of climate change, including physical climate events or conditions such as heat waves, storms, rising sea levels and global warming.

The AIFM is responsible for exercising the portfolio management function for the managed investment funds. The AIFM performs the Portfolio Management function itself. The AIFM may involve investment advisers who support the investment decision process. The investment decision is the sole responsibility of the AIFM. Therefore, potential investment proposals from investment advisers are duly assessed against regulatory and legal requirements before their execution (pre-trade assessment). The AIFM will for all relevant funds integrate the sustainability risks as deemed relevant in the investment advisory process requirements, i.e. the proposal provided by the advisor as well as the assessment of this proposal in the final decision-making process by the AIFM.

The AIFM identified all Article 8 SFDR funds which are subject to (new) subscriptions as relevant. Therefore, all Article 6 SFDR funds which are fully invested and closed to new subscriptions as from the application of the SFDR are deemed out of scope.

8.2 Overview of the advisory services level

In making investment decisions the AIFM relies on investment advice provided to it by advisors through the service agreements entered into between the AIFM and the Consultants for each of the AIFs under management, the advisors (in each case upon the request, under the supervision of, and – where applicable – upon detailed instruction by, the AIFM) shall therefore also assist the AIFM to carry out the due diligence process as described herein.

The AIFM has appointed ECE Real Estate Partners GmbH, Hamburg, Germany, Hamburg, Germany, to procure consultancy services for supporting the preparation of the Manager's investment decisions relating to ESG matters.

The AIFM has appointed ECE Group G.m.b.H & Co. KG, Hamburg, Germany, Hamburg, Germany, to procure consultancy services for supporting the preparation of the Manager's investment decisions relating to ESG matters hereinafter together "**ECE**").

The AIFM has also appointed Ernst & Young Real Estate GmbH (hereinafter "**EY**") for certain ESG matters, including inter alia the ongoing support regarding regulatory requirements in connection with Regulation EU 2019/2088 ("SFDR") and Regulation EU 2020/852 ("Taxonomy") and the overview of the discussion status of the requirements of the SFDR, incl. opportunities & risks.

In addition, joint solutions for long-term improvement are evaluated and assessed with partners, for examples municipalities, neighbours and community. In accordance with these guidelines, the

AIFM will typically pursue the more sustainable investment opportunity out of several equally suitable investment opportunities.

8.3 The ECE ESG Board

ECE has set up an ESG Board, consisting of representatives from science, business and politics, supports us in this. All new projects are critically discussed there with regard to their ecological, social and economic impact. The board also raises employee awareness of the issue. The insights and suggestions gained from the lively exchange between the board members and the decision-makers of the ECE Group are incorporated into the subsequent decision-making process. Members of this board Polar explorer Arved Fuchs, real estate expert Bärbel Schomberg, Hamburg's former mayor Ole von Beust, Chairman ZIA President Dr. Andreas Mattner. and Dr. Kunibert Lennerts from the Karlsruhe Institute of Technology.

For further details, see the web site of ECE:

ECE – INNOVATIVE UND NACHHALTIG ERFOLGREICHE IMMOBILIENWELTEN: Organization ESG Board

8.4 The Responsible Investment Committee (RI Committee)

When reviewing the content of the RI Section of the investment memorandum in line with the relevant due diligence process, the AIFM has set up a RI Committee integrated by Ms Katrin Ewald as Chairman and investment director, Mr Markus Schmitt-Habersack as Managing Partner ECE REP GmbH, Ms Olha Yurkina, as Conducting Officer Risk Management, of the AIFM and Ms Katrin Klostermeier as Asset Manager ECE Group. The RI Committee members shall receive the advisory services of other professional with specific knowledge on different areas relating to the assets under management. For the list of the permanent advisors to the RI Committee please refer to Terms of Reference of RI Committee.

The RI Committee will pay particular attention to investments for which ESG factors have been identified during the initial screening process and will assess whether the due diligence on the investment opportunity, including the due diligence on ESG factors and ESG risks specific to that investment has been satisfactorily completed.

For those investment strategies where the RI Committee reviews the investment memorandum as part of the investment process, it must approve the content of the RI section of the investment memorandum before the investment memorandum can be passed on to the Board of the AIFM.

The RI Committee will also discuss any material ESG risks which have been flagged in the investment memorandum. One of the grounds on which the RI Committee can recommend declining the investment opportunity if there are ESG risks that could potentially impact the value and the return on the investment opportunity. Nonetheless, the presence of ESG risks does not mean an investment will not be made since the final decision on an investment opportunity is taken by the Board of the AIFM which will evaluate ESG risks along with other relevant risks in determining whether the potential opportunity from the investment can outweigh the ESG risks.

9. Integration of ESG risks into the investment decision-making process

9.1 Incorporation of ESG risks into the investment decision-making process

The AIFM considers sustainability factors and integrates into its investment due diligence and decision-making process with the aim of conducting comprehensive risk and opportunity analysis based on the belief that this has the potential to (i) enhance the evaluation of forward-looking risk-adjusted returns of an investment opportunity and (ii) protect value for investors.

A sustainability risk is every environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

The AIFM is aware of the material impacts ESG factors may cause to the funds managed and deems sustainability risks to be relevant to all the funds managed.

The selection of meaningful ESG risks will be based on the overall investment portfolio of a specific fund, the overall availability of relevant data to assess sustainability risks as well as the characteristics of each target investment of a specific fund.

The AIFM set up the monitoring of sustainability risks by integrating them into the risk profiles of the funds managed. The risk profile reflects the level of identified relevant risks that arise from the investment strategy, as well as the interaction and concentration at portfolio level for each fund managed by the AIFM.

The AIFM defined internal risk limits in relation to sustainability risks for each fund managed. The risk limits describe the maximum risk a fund is exposed to a certain risk type. The risk limits are set in accordance with the overall risk exposure of fund. The internal Risk Management function is responsible for the monitoring of the defined sustainability risk limits set.

To effectively monitor the risks, the AIFM receives data from external data sources to calculate to overall sustainability (risk) exposure of a fund portfolio based on the defined sustainability risks. The results of the assessment are compiled and constantly monitored by the internal Risk Management function against the limits set in the (sub-)fund risk profile.

In case the overall sustainability risk exposure of the fund is above the limits for a sustainability factor of an investment, it will be directly reported to the AIFM 's Conducting Officer for investment management (CO for investment management).

The AIFM will review the approach taken on an ongoing basis and may detail the internal procedures and process for the assessment of sustainability risks based on changes in the overall market environment and the provision of meaningful data for the expansion of its efforts to assess and monitor sustainability risks as part of the overall risk exposure of the fund managed.

ESG incorporation is the assessment, review and consideration of ESG factors in existing investment decision through a combination of four approaches: (i) integration, (ii) screening, (iii) due diligence and (iv) value creation.

9.1.1 Integration

Explicitly and systematically including ESG factors in investment analysis and decisions, to better manage risks and improve returns.

9.1.2 Screening

Applying filters to lists of potential investments to rule certain market players, in or out of contention for investment, based on the AIFM´s preferences for values and ethics or investment metrics, such as risk assessments.

As part of the risk assessment and due diligence process on investments, an initial screening process relating to high ESG risks is carried out. Screening includes compiling a checklist to screen for high-level ESG risks before moving forward on detailed due diligence (e.g. remediation costs related to contaminated land), screening for the presence of controversial tenants (e.e.g in sectors such as gambling, arms manufacture) or screening for properties that cannot meet net-zero standards (net-zero refers to a state in which the GHG going into the atmosphere are balanced out by their removal from it).

The outcome of the screening process is that the CO for investment management notifies the Board of the AIFM of the heightened ESG risks and relevant ESG factors related to an investment opportunity.

It is noted the AIFM cannot invest in other class assets than real estate, thus sectors with heightened ESG risks including amongst other fossils fuels, pornography, gambling (including virtual currencies), weapons and tobacco are automatically excluded from the investment process.

9.1.3 Due diligence

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The AIFM engages an external service provider or advisor to perform a detailed technical and environmental due diligence (**TDD report**) for each investment opportunity which includes at least the review of the construction conditions, the environmental impact and the sustainability, and a summary of capital expenditure required to address the backlog of overdue maintenance.

- **Environmental factors assessment**

a) Environmental site review
  - Site history
  - Previous site investigations/ Land quality
  - Statutory designation
  - Hazardous building materials
  - Asbestos containing materials
  - Unexploded ordnance
  - Energy performance
  - Green building certificates

b) Current Operations
  - Current use of the property
  - Storage and use of hazardous materials
  - Heating/ Air emissions
  - Ozone depleting substances/ Global warming potential
  - Water supply/ Drainage/ Water hygiene

c) Environmental Hazards
  - Flooding
  - Earthquakes
  - Radon
  - Mining

d) Environmental Setting
  - (Hydro)geology/ Water protection zones
  - Hydrology
  - Ecology

If necessary, the assessment could also include the following scope:

a) Has there been an energy audit report, certification reports or reports from other specialists and technical consultants?

b) Is there an attempt to limit, reduce, or completely eradicate harmful waste?

c) Are all forms of wastes properly disposed of?

d) What wastes are not properly disposed of? Why?

e) Are the regular environmental assessments being carried out as planned?

f) Are the waste recycling processes followed?

g) Is the use of renewable energy and other forms of more sustainable energy promoted regularly?

The AIFM shall consider the following social and governance factors:

- **Social factors assessment**

  a) Is the company open to hiring anyone from any background and race?

  b) Is the company workplace a safe space for everyone, regardless of their gender, sexuality, and beliefs?

  c) Are all employees paid fairly, no matter the position? If not, why not?

  d) Is the company equipped with the proper discipline to sanction acts and offenses that can hurt others?

  e) Is the company and its employees active in carrying out Corporate Social Responsibility (CSR) efforts?

- C**orporate governance assessment**:

  a) Does the company demonstrate an integrated approach to ESG risk across its entire footprint?

  b) Is the data of the company, its employees, and its clients protected equally?

  c) Is the company transparent about where their taxes go? If not, why not?

  d) Does the company regularly conduct risk assessments?

e) How has the business performed on regulatory compliance? Are there any non-compliances you should be aware of?

f) Does the company follow best practices when it comes to ESG disclosures or takes a tick-box approach to comply with mandatory reporting? How does it score against competitors on ESG performance measures?

g) Reputation: Has the organization been the subject of adverse media reports, shareholder actions or other reputational issues? What results does a web search of the company name bring up?

ESG materiality for real estate investment varies based on several factors, including:

- Property type
- regulatory environment
- whether the property is a new construction
- whether the property is already operational

For instance, a building's carbon emissions can be classified as:

- operational (emissions from the asset's use)
- embodied (emissions related to the construction, refurbishment, and end-of-life phases)

For a pre-investment, the AIFM considers best practice to list improvements with costs and estimated savings.

To assist the AIFM in assessing the sustainability risks, the scope of the **TDD report** for any given transaction shall consider all matters included in the ESG Checklist (see Appendix 1).

9.1.4 Exclusion lists

The AIFM or any of the ECE Group entities with which it has direct, or indirect service agreements will not knowingly provide services that directly facilitate:

General exclusions	Activities causing adverse human rights impacts[1]
	Activities resulting in conversion or degradation of protected areas[2] or critical habitats[3].
	Trading of plant or animal species, or products thereof, in violation of CITES[4]
Weapons	Activities involved in the production, selling and/or distribution of (parts of) weapons that have a disproportionate and indiscriminate impact on civilians ("Controversial Weapons"). The following weapons are considered controversial: Cluster weapons, nuclear weapons, depleted uranium weapons, anti-personnel mines, biological weapons, chemical weapons, white phosphorus weapons and fully autonomous weapons.
Energy	Oil/gas exploration and production activities in the Artic region, as well as supporting services dedicated to these activities
	Stand-alone project finance of nuclear power plants
	New coal-fired power plants
Mining	Commercial large-scale deep-sea mining beyond exclusive economic zones.
	Mining and/or trading rough diamonds which are not certified according to the Kimberley Process
	Acquisition or building of thermal coal[5] mines
Tobacco	Growing of tobacco and manufacturing of tobacco products, as well as trading and wholesale when revenues from these trading and wholesale activities exceed 50% of the consolidated turnover

[1] This applies to the entire spectrum of internationally recognized human rights, which includes labour rights such as the abolition of forced labour and child labour.

[2] Protected areas: UNESCO World Heritage Sites; Wetlands registered as Wetlands of international importance under the Ramsar Convention on Wetlands.

[3] Critical habitat includes areas with high biodiversity value that meet the criteria of the IUCN classification, including habitat required for the survival of critically endangered or endangered species as defined by the IUCN Red List of Threatened Species or as defined in any national legislation.

4 Convention on International Trade in Endangered Species of Wild Fauna (www.cites.org)

[5] Thermal coal: black coal and brown coal/lignite.

9.1.5 Value creation

During the holding period, the AIFM focuses on the enhancement of the value of properties by focusing on two main activities: (i) reducing costs and liabilities and (ii) increasing revenue.

Reducing costs and liabilities	Increasing revenue
Operating costs – installing more energy-efficient equipment reduces costs	**Fewer incentives** – tenants prefer buildings with higher ESG performance, which reduces the need for incentives
Liabilities – better knowledge of a building's environmental condition reduces the chance of unforeseen litigation	**Higher rents and occupancy** – tied to increased demand for sustainable buildings with lower carbon footprints
Stranded asset risk – staying ahead of regulatory requirements reduces risk of falling foul of more stringent regulations	**Sale of green energy** – electricity generated on site (through solar panels or other means) can be sold to tenants or the local community at cost
	Demand shedding – buildings with flexible energy load profiles can alter their usage patterns to be eligible for rebates from utilities and government authorities

9.1.6 Investment Memorandum

For each proposed investment, an investment memorandum is drafted which contains a dedicated responsible investment section (**RI Section**) that has been completed by the investment due diligence team and reviewed by the CO for investment management The investment memorandum will highlight any ESG risks which have been identified during the due diligence process.

10. Reporting

Following the acquisition of the investment, the RI Committee requires the property manager to notify it of any critical ESG risks. Any such ESG risks will then be reviewed and investigated by the RI Committee (and to the extent necessary, the legal team of the AIFM) which will then make a recommendation as to next steps.

10.1 Building emissions and data collection

Data on Scope 1 emissions (the operations of a real estate company´s services) and Scope 2 emissions (purchased electricity) from real estate assets has become increasingly available and the AIFM is aiming at disclosing both Scope 1 and Scope 2 for all asset classes, if available.

The AIFM via its service provide ECE Marketplaces, collects data on energy, gas, water and district heating consumption, as well as waste generation. Sources of data are currently a combination of digital meters and invoices; the latter being gradually replaced by automatic metering devices. In general, the necessary data is collected by the technical staff who work on-site together with external service providers. The data collection is made by ECE Marketplaces as detailed in Appendices 2 to 5 below.

The CO2e emissions are calculated using the 'market-based' method of the GHG protocol and emission factors supplied by "Sphera". Those consider only direct emissions as well as CO2-equivalents. Whenever emissions factors are not provided by suppliers, factors that represent average emission factors in the respective country or the EU are used.

Availability of the above data is currently limited mainly to common/landlord-controlled areas and is expected to be further enhanced in the future, with further implementation of metering system across the funds´ portfolio.

10.2 Environmental certificates

ECE and the AIFM use a range of tools that support the operation of green buildings including international rating systems such as BREEAM, LEED and DGNB.

Widely used in the real estate industry, these certifications demonstrate that ESG factors have been considered in the building's design and/or operation. The reports produced when these certifications are granted contain due diligence information that can be used at each stage of the investment process. Certifications are also useful for attracting tenants and buyers.

The assets held by the ECE Funds, are classified as BREEAM Excellent, BREEAM Very Good or BREEAM Good, DGNB Platinum or Gold and

BREEAM®

The certifications are not limited to the design of a building but extends to an assessment of its actual performance.

10.3 GRESB reporting

The GRESB Real Estate Assessment provides a global ESG benchmark and reporting framework for listed property companies, private property funds, developers and investors that invest directly in real estate. It is shaped by what investors and the industry consider to be material issues in the sustainability performance of real estate investments. The methodology is consistent across regions, investment vehicles and property types, and it aligns with international reporting frameworks.

The AIFM is using the GRESB Reporting for the ECE European Prime Shopping Centre Fund II, the ECE Progressive Growth Income Fund and the ECE Preferred Equity Fund.

11. Appendices

11.1 Appendix 1: ESG checklist

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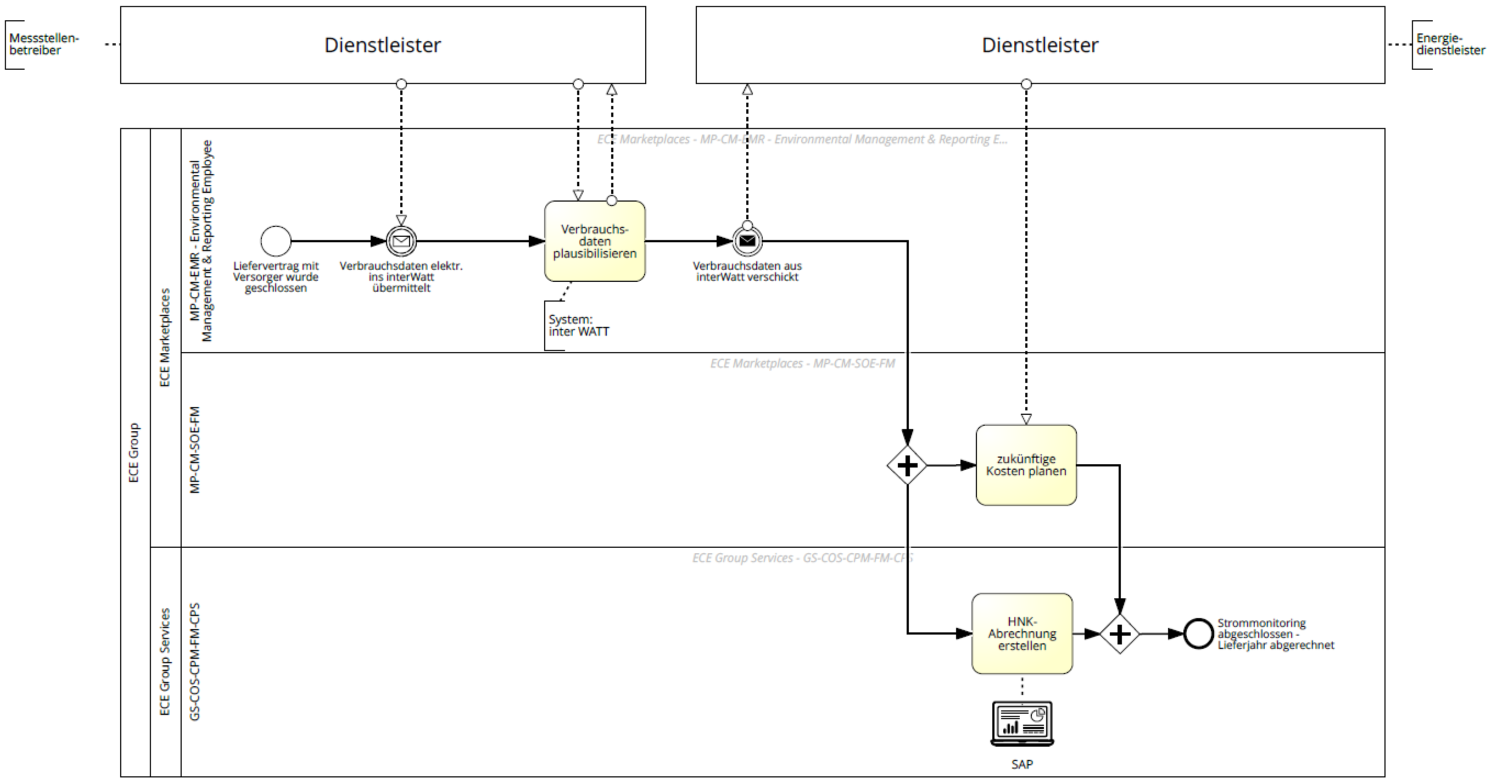
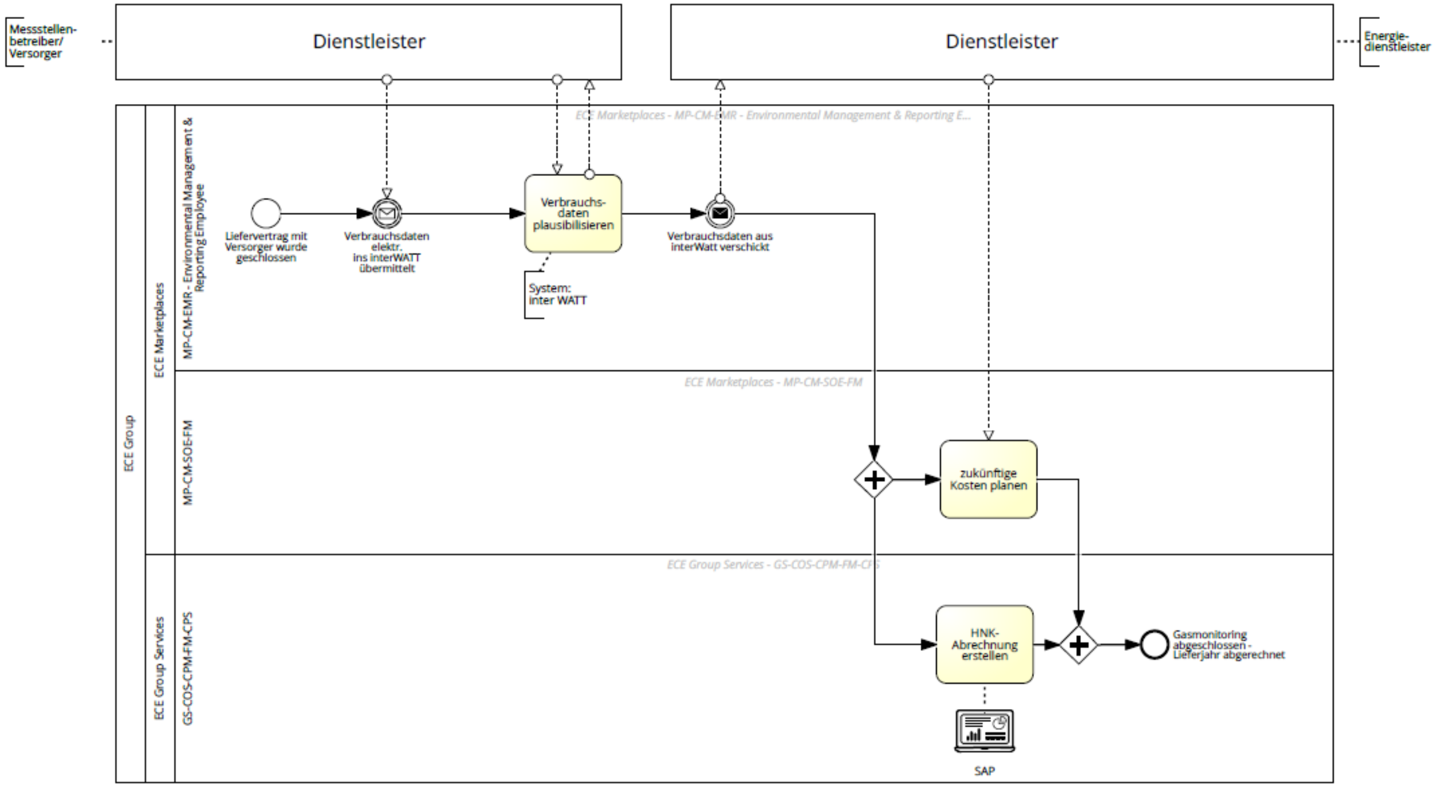
Diligence Checkliste fi

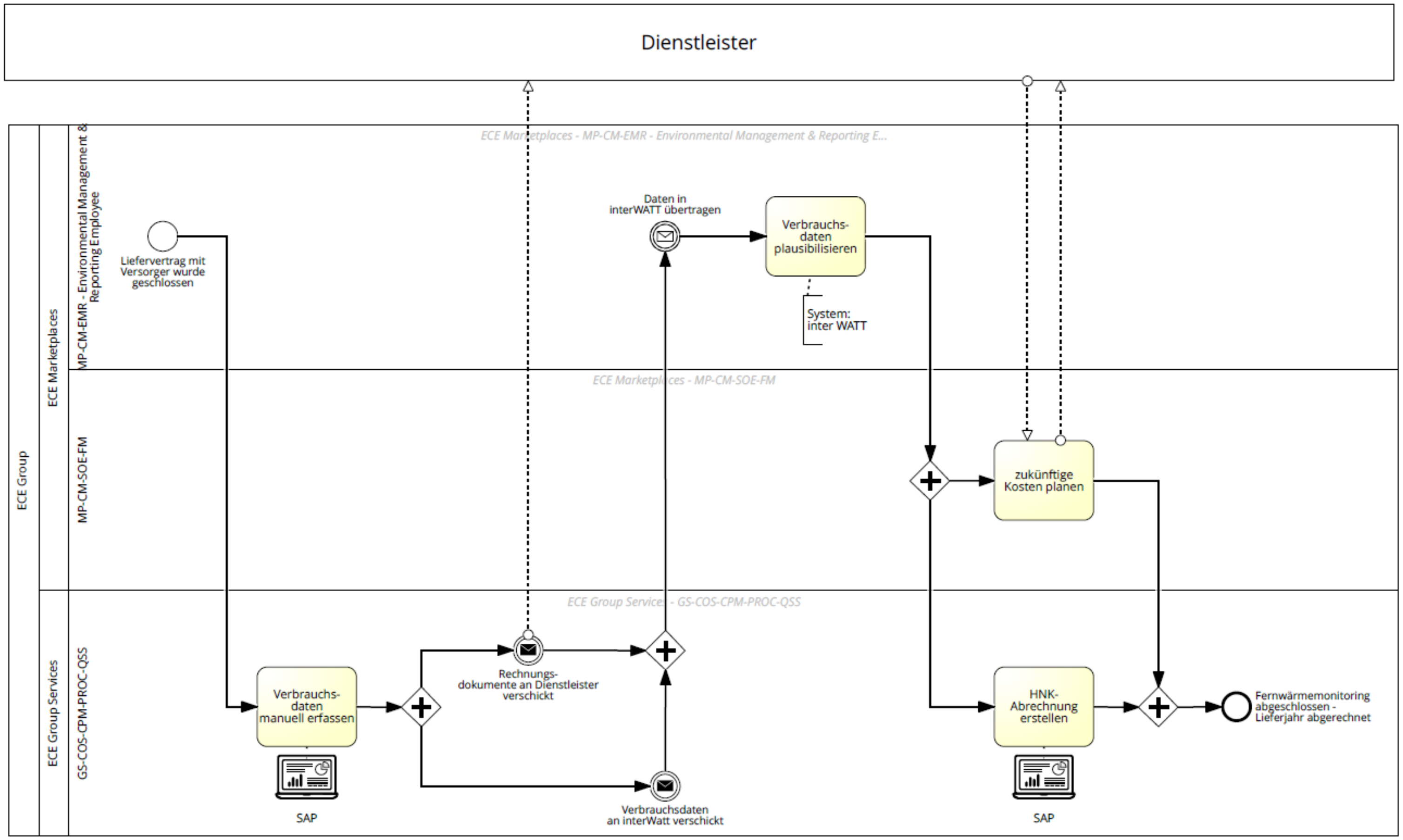
11.2 Appendix 2: Electricity data collection *(Strommonitoring)*



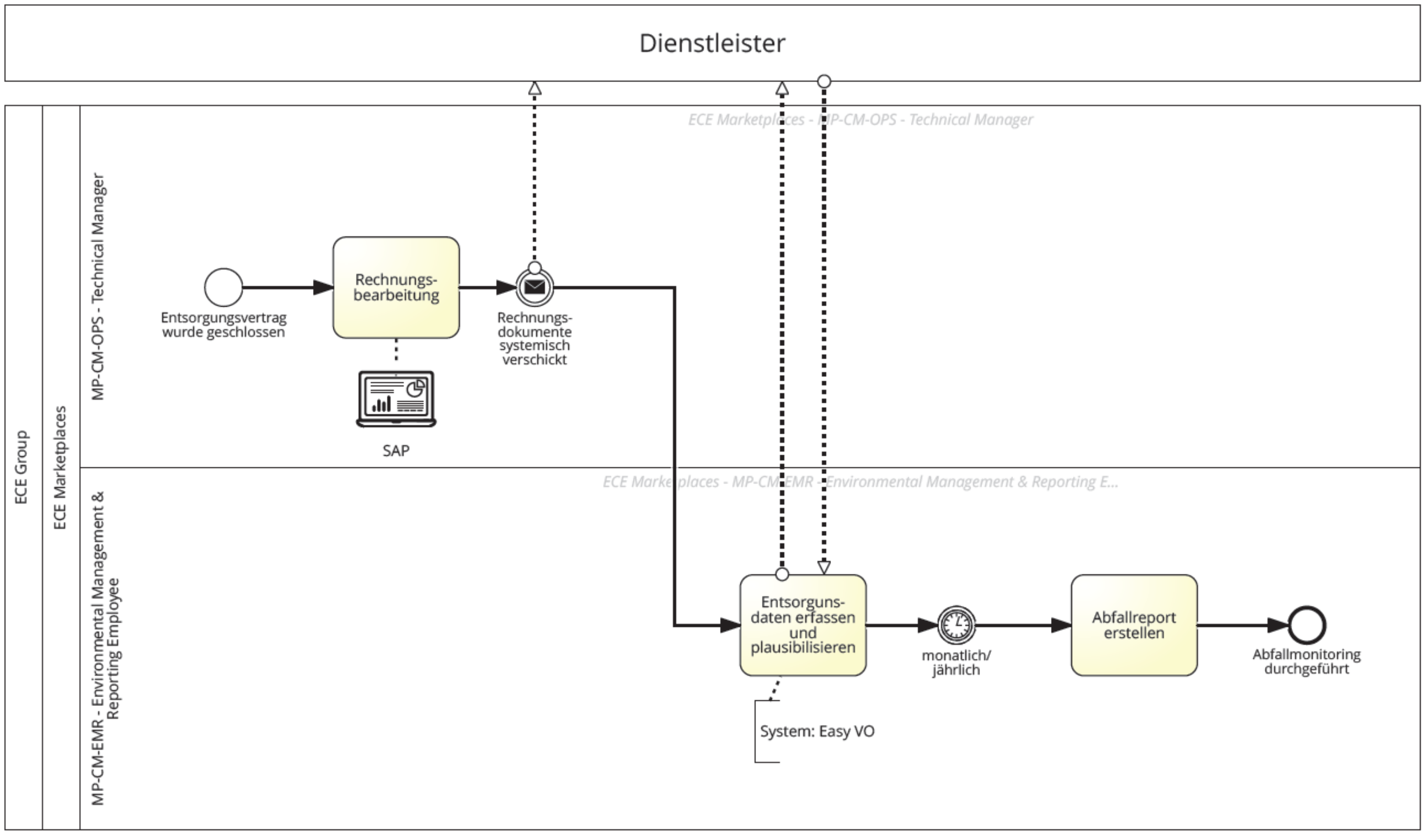
11.3 Appendix 3: Gas data collection (*Gasmonitoring)*



11.4 Appendix 4: District heating data collection *(Fernwärmemonitoring)*



11.5 Appendix 5: Waste data collection *(Abfallmonitoring)*



11.6 Appendix 6: CRREM Risk Assessment Reference Guide

25. Sustainability

25.1. ESG Policy

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