Generali Real Estate S.p.A. SGR

SUSTAINABILITY POLICY AND ADVERSE SUSTAINABILITY IMPACT STATEMENT

Implementation of Regulation (EU) 2019/2088 Art. 3 and Art. 4

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Document summary

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Glossary and Definitions

Term	Definition
BOD	Board of Directors of the Company
CEO & GM	Chief Executive Officer and General Manager of the Company
ESG FACTORS	Environmental, Social and Governance factors
GRE SPA	Generali Real Estate S.p.A. as Real Estate service provider herein and after the “service provider”
GRE SGR	Generali Real Estate S.p.A. Società di Gestione del Risparmio
POLICY	This GRE SGR Sustainable Finance Policy
SUSTAINABILITY RISK	A sustainability risk can be defined as an environmental, social, or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment.
TCFD	Task Force on Climate-related Financial Disclosures

Roles and Responsibilities

Corporate Function	Roles and Responsibilities
BOARD OF DIRECTORS/BOD	GRE SGR Board of Directors is in charge of the approval and review of the Sustainability Risk Policy. The Board approves the Policy upon proposal of GRE SGR CEO.
CHIEF EXECUTIVE OFFICER/CEO	The CEO is involved, inter alia, in presenting to the BoD the Sustainability Risk Policy to be approved and is also in charge of the implementation of the Policy.
ESG FUNCTION	The newly constituted GRE SGR ESG function directly reporting to the GRE SGR CEO is in charge of defining the sustainability risk assessment methodology, implements ESG initiative in coordination with the fund management team and monitors ESG parameters. ESG function supports and collaborates with the other stakeholders and involved functions of the investment process providing ESG opinions, views and research on relevant ESG and climate topics in order to inform the investment decision-making process with updated quantitative and qualitative information. The ESG function will also drive and monitor the activities carried out on behalf of GRE SGR and related funds by the service provider GRE SPA.
SUSTAINABILITY STEERING COMMITTEE	Generali Real Estate (GRE SPA) in the performance of role as GRE SGR service provider has established a Sustainability Steering Committee responsible for overseeing and supporting the implementation of the Responsible Property Investment Guidelines. It reviews and monitors the targets and key performance metrics from each of the strategic focus areas, which are set by the Committee whenever it sees the opportunity. The Committee will also discuss and approve new targets and key performance metrics, once the previous ones are met and/or whenever it deems convenient and necessary.
FUND MANAGEMENT	GRE SGR function in charge to manage the fund's portfolio and to maintain responsibility for the performance of the Fund;

Introduction

Generali Real Estate S.p.A. SGR ("GRE SGR"), part of the Generali Group, is committed to Sustainable Investments and believes that the proactive integration of Environmental, Social and Governance ("ESG") factors (see table below) into the investment process, within the real estate asset class, will support it to achieve both financial returns and social value. Furthermore, GRE SGR seeks to have an influence on tenant's behaviours, through engagement activities aimed to create an holistic ESG approach to the real estate value chain.

European Regulators developed a framework to boost the inclusion of sustainability considerations in finance in order to achieve a long-term sustainable development.

On 25 September 2015, the UN General Assembly adopted a new global sustainable development framework: the 2030 Agenda for Sustainable Development, which has at its core the Sustainable Development Goals (SDGs).
The transition to a low-carbon, more sustainable, resource-efficient and circular economy in line with the SDGs is key to ensuring long-term competitiveness of the economy of the Union. The Paris Agreement adopted under the United Nations Framework Convention on Climate Change which was approved by the Union on 5 October 2016, seeks to strengthen the response to climate change by, inter alia, making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development.
As the Union is increasingly faced with the catastrophic and unpredictable consequences of climate change, resource depletion and other sustainability-related issues, urgent action is needed to mobilise capital not only through public policies but also by the financial services sector. Therefore, financial market participants and financial advisers should be required to disclose specific information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts.

In this regard, on the 27 November 2019 the European Parliament and the Council adopted Regulation (EU) 2019/2088 "Sustainable Finance Disclosure Regulation" or "SFDR" which entered into force on the 29 December 2019 and is applicable starting from 10 March 2021. Several provisions of SFDR shall be implemented by regulatory technical standards developed by the ESAs, through the Joint Committee.
SFDR aims to reduce information asymmetries in principal-agent relationships with regard to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment, by requiring financial market participants and financial advisers to make pre-contractual and ongoing disclosures to end investors when they act as agents of those end investors (principals).
In compliance with the SFDR, all the financial market participant (i.e. amongst which the fund managers) shall:

(a) publish and update on their websites information about their policies on the integration of sustainability risks in their investment decision-making process;

(b) publish and maintain on their website: (i) where they consider principal adverse impacts of investment decisions on sustainability factors, a statement on due diligence policies with respect to those impacts, taking due account of their size, the nature and scale of their activities and the types of financial products they make available; or (ii) where they do not consider adverse impacts of investment decisions on sustainability factors, clear reasons for why they do not do so, including, where relevant, information as to whether and when they intend to consider such adverse impacts;

(c) include and update in their remuneration policies information on how those policies are consistent with the integration of sustainability risks and shall publish that information on their websites.

As per the products, financial market participants shall, inter alia:

1. include descriptions of the following in pre-contractual disclosures: (i) the manner in which sustainability risks are integrated into their investment decisions; and (ii) the results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available. Where financial market participants deem sustainability risks not to be relevant, such descriptions shall include a clear and concise explanation of the reasons therefor. For AIFMs, such disclosure to investors shall be provided in the offering document referred to in Article 23(1) of Directive 2011/61/EU;

2. where a financial product promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices, the pre-contractual disclosure (under previous point a)) shall also include the following: (i)

information on how those characteristics are met; (ii) if an index has been designated as a reference benchmark, information on whether and how this index is consistent with those characteristics and an indication of where the methodology used for the calculation of the index is to be found;

3. where a financial product has sustainable investment as its objective and an index has been designated as a reference benchmark, the pre-contractual disclosure (under previous point a)) shall also include the following: (i) information on how the designated index is aligned with that objective; (ii) an explanation as to why and how the designated index aligned with that objective differs from a broad market index. Where no index has been designated as a reference benchmark, the pre-contractual disclosure shall include an explanation on how that objective is to be attained;

4. where financial market participants make available a financial product as referred to under previous points (b) or (c), they shall include a description of the following in periodic reports: (i) for a financial product as referred to under previous point (b), the extent to which environmental or social characteristics are met; (ii) for a financial product as referred to under previous point (c), the overall sustainability-related impact of the financial product by means of relevant sustainability indicators; or where an index has been designated as a reference benchmark, a comparison between the overall sustainability-related impact of the financial product with the impacts of the designated index and of a broad market index through sustainability indicators. For AIFMs, such disclosure to investors shall be provided in the annual report referred to in Article 22 of Directive 2011/61/EU;

5. publish and maintain and update on their websites the following information for each financial product referred to under previous points b) and c): (i) a description of the environmental or social characteristics or the sustainable investment objective; (ii) information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product; (iii) the pre-contractual disclosure under previous points b) and c); (iv) the information set forth in periodic reports under previous point (d);

6. ensure that their marketing communications do not contradict the information disclosed pursuant to SFDR.

SFDR was enhanced by the Regulation (EU) 2020/852 ("Taxonomy Regulation") that provides the criteria for determining whether an activity can be considered environmentally sustainable, further to integrating certain provisions of the SFDR. In particular, pursuant to article 3 of Taxonomy Regulation an economic activity shall qualify as environmentally sustainable where that economic activity:

- contributes substantially to one or more of the environmental objectives set out in the Taxonomy Regulation;
- does not significantly harm any of the environmental objectives set out in the Taxonomy Regulation;
- is carried out in compliance with the minimum safeguards set out in the Taxonomy Regulation;
- complies with technical screening criteria that shall be adopted by the Commission by means of delegated acts.

In compliance with article 9 of the Taxonomy Regulation, the following shall be environmental objectives:

- climate change mitigation;
- climate change adaptation;
- the sustainable use and protection of water and marine resources;
- the transition to a circular economy;
- pollution prevention and control;
- the protection and restoration of biodiversity and ecosystems.

The environmental objectives under letters a) and b) shall be applied starting from 1 January 2022, whilst the remaining objectives shall be applied starting from 1 January 2023.GRE SGR, fulfilling the requirements laid down by the European Regulations, adopts and publishes the present document which comprises the policy on the integration of sustainability risks in the investment decision-making process (as laid down by Article 3 of the SFDR) in the first section, and the adverse sustainability impacts statement (as defined by Article 4 of the SFDR) in the second section.

Categories and related example of Environmental, Social and Governance aspect

Category of the factor	Example of factor
E- ENVIRONMENTAL	Aspects related to the quality and to the functioning of the environment and natural systems, including: greenhouse effect and climate change; the availability of natural resources, including: energy and water; changes in the use of soil and urbanization; quality of the air, water and soil; the production and management of waste; the protection of natural habitats and biodiversity. This dimension is particularly relevant in the real estate industry as buildings sector consumes around 40% of the world's energy and contributes up to 30% of global annual greenhouse gas emissions[1]
S- SOCIAL	Aspects related to the rights, well-being and legitimate interests of people and local communities, including: human rights, diversity and promotion of equal opportunities; demographical changes; occupation and the right to decent working conditions, including child and forced labor, as well as occupational health and safety; the distribution of wealth and inequalities within and among countries; migrations; education and human capital development; digital transformation, artificial intelligence, internet of things and robotics; health and access to social assistance and healthcare; consumer safety; power diffusion and the crisis of traditional elites.
G- GOVERNANCE	Aspects related to government of the companies and organizations, including: transparency; ethics and integrity in business practices and compliance with laws; corruption; tax responsibility; board structure, independence and diversity; mechanisms to incentivize the management; stakeholders and stakeholders rights, protection/distortion of competition.

[1] United Nations Environment Programme Finance Initiative, Integrating Climate Risks in Real Estate, https://www.unepfi.org/fileadmin/documents/IntegratingClimateRisksInRealEstate.pdf

1. Policy on the integration of sustainability risks in the investment decision-making process.

This policy, required by art. 3 of SFDR, hereinafter also referred to as the “Sustainability Risk Policy” or the “Policy”, aims to integrate sustainability risks in the investment decision-making process through the identification, measurement and mitigation of risks stemming from ESG factors.

As an investment manager with a long-time horizon, the material impact that ESG factors have on the long-term returns of asset classes is of utmost importance. It is therefore essential to consider how ESG integration affects long-term investment returns and take advantages on anticipating the risks characteristics of the underlying real estate assets, considering ESG factors in trend and valuation analysis, where material. GRE SGR believes that ESG risks will have a significant impact on these macroeconomic risk drivers and therefore on the risks and return of the portfolio.

Considering the activities regulated in this Policy, also for their potential implications, the document is relevant also for the purposes of the Legislative Decree no. 231/2001 with regard to the provisions of the Organization and Management Model as its integral part.
Whoever becomes aware of potential violations of the provisions contained within this Policy must report immediately to the Surveillance Body established in accordance with the Legislative Decree no. 231/2001.

1.1 SUSTAINABILITY RISK ASSESSMENT

Sustainability risk identification

The sustainability risk identification process aims at guaranteeing that all material risks to which GRE SGR is exposed to are properly identified, assessed and considered based on their likelihood of occurrence and severity, and mitigating actions are identified and properly implemented.

GRE SGR ESG Risk Assessment activity is structured around the funds and underlying real estate investment assets and it starts by the identification of the material risks affecting the asset, taking into consideration its destination of use and building specific risks.

ESG risk identification at fund and asset level is intended to detect sustainability risks and opportunities that can impact the evolution of performance going forward. Indeed, while successful ESG strategies can create value to the funds/ vehicle in which the asset is invested, companies performing ESG risk management can avoid/ minimize costs by managing risks and increasing resiliency to sector and macro adverse trends. GRE SGR ESG analysis allows to measure the ESG risks, also capturing whether assets ESG performance are improving or worsening over time.

In particular, the main ESG risks identified by GRE SGR affecting its business are:

a) Climate change and natural disasters: most of the possible outcomes from climate change, mainly deriving from an increase in global temperatures, will have direct impact on the real estate assets, such as increased intensity of storms, including tropical cyclones with higher wind speeds and precipitations; increased risk of inland flash floods; more frequent coastal flooding and increased coastal erosion from storms and sea level rise. (“Physical risk”). Furthermore, “Transition risks” associated with climate change are also identified: adoption of new climate regulations, changing customer behaviour and preferences, development and/or expansion of low emission goods and services, reputation risk due to increased stakeholder concern or negative stakeholder feedback.

b) Pollution, water and waste: scarcity of planet resources and the limitless use of water, energy, materials, food and resources in general, have a significant impact on the global environmental and social sustainability and on the economic risks deriving from it. GRE SGR acknowledges an operational risk related to health and safety of the premises it manages and thus negative impact on the wellbeing of employees, tenants and the wider community.

c) Risk of involvement in ethical violations (e.g. Human rights, corruption, compliance with laws) or in controversial business sectors (unconventional weapons, severe environmental damages) though its investments and consequently the reputation risk related to inadequate responsible commitment.

Sustainability Risks can include potential increased running cost, potential decreased revenues, potential need of Capital Expenditures (Capex)/ Extraordinary Expenses, Contingent Liabilities & Provisions.

Given the peculiarities of the real estate industry, GRE SGR risk assessment framework is based on the below four dimensions of analysis as better detailed under following paragraph 1.2:

- Direct investments and divestment
- Refurbishment/ capital expenditures
- Tenants and counterparties
- Processes (health, safety and environmental management system; procurement; compliance adopted by the service provider in its operating procedures)

Sustainability risk measurement and materiality

Sustainability risks, as ESG factors that can be detrimental to the value of the investment, are identified under the above framework and measured both in a quantitative and qualitative manner in order to inform the investment decision-making process with the most updated and reliable figures and information.

Sustainability risk can be measured both in absolute and in relative terms. Information leverages on internal research in conjunction with sustainability news, and raw data coming from multiple external providers (among which GRE SPA) are utilized to such end. Third-party data coming from ESG external provider are vetted and cross-checked with both external and internal researches. Internally to GRE SGR, qualitative assessments can be performed in cases where available data are not sufficient to correctly measure and manage material sustainable risks.

GRE SGR ESG assessment focuses, from one side, on the material risks of funds/ assets and, from the other side, on the counterparties.
In GRE SGR's view, a strong positive ESG view signifies that a fund/ real estate asset has a higher likelihood of showing resiliency and better long-term strategic positioning than fund/ real estate asset with a negative ESG view. In case material ESG risks are associated to a specific fund/ real estate asset, a series of analysis are run to identify the specific improvements that could be implemented, and support the funds/ assets in the transition path or mitigation actions.

GRE SGR aims to identify and quantify those factors and insights that can strengthen and better inform the investment decision making process and strategies based on their financial materiality.

GRE SGR's aim is to create a holistic ESG approach which emphasizes materiality. This element is fundamental in the methodology applied: GRE SGR wants to focus on ESG metrics that have a significant financial impact on the investments.

1.2 SUSTAINABILITY RISK STRATEGIES

As detailed under previous paragraph 1.1, among ESG themes, climate-related concerns gained greatest importance due to increasing regulatory and societal pressures, as well as their growing impacts in terms of transition and physical risks. As such, climate topics are embedded into GRE SGR decision making process.

Specifically, GRE SGR performs climate-related analysis to (i) assess and mitigate assets exposure to transition and physical climate risks and simultaneously (ii) to influence assets users/ tenants in order to improve their approach to the energy, waste and water consumptions.

As a result, climate strategies can be implemented with the aim of ensuring that assets consumptions are addressed towards climate change targets, with particular focus on transition risk and physical risk.

GRE SGR implements a wide range of ESG screening strategies carried out through its real estate service provider based on funds' rules/prospectus, such as the application of actions regarding the following dimensions:

1. Direct investments and divestment
2. Refurbishment/ capital expenditures
3. Tenants and counterparties
4. Processes (health, safety and environmental management system; procurement; compliance key controls on Real Estate Management Procedures)

In addition to the actions implemented on the above dimensions, GRE SGR is organized to adopt ESG integration techniques with the goal of:

- Incorporate financial information and ESG information in portfolio construction process;
- Uncover hidden risks;
- Enhance returns anticipating trends;
- Focus on ESG factors found to be material and likely to affect corporate performance and investment performance.

Direct Investments and divestment

GRE SGR in order to prevent and minimize reputational risk and simultaneously encouraging potential counterparties/ the business community in general to adopt Sustainable and Responsible Investments "SRI" principle and ethical behaviours, has mandated its service provider GRE SPA to adopt a series of control and checks on the counterparties (ie. Buyer, seller or co-investor). GRE SPA performs said controls and checks for each counterparty identified by GRE SPA pursuant to outsourcing agreement in place with GRE SGR and refers the output to GRE SGR. Controls and checks are based on the analysis of a number of dimensions such as involvement in controversies which potentially infringe the principles of United Nation Global Compact and/ or involvement in controversial business sectors. In case the counterparty is deemed, according to GRE SPA analysis, to be characterized by poor ESG practices on the above-mentioned dimensions, the business opportunity is aborted.

Regarding portfolio rotation and investment selection GRE SGR, through its fund management team and ultimately the BoD applies the following actions:

- Focus on internationally, well known and reputable building certifications including but not limited to: "BREEAM[2]", "LEED[3]", "WELL[4]", "HQE[5]" and "DGNB[6]" and increasing coverage throughout the portfolio;

- On top of preferences for building certified acquisitions undergo environmental/ sustainable due diligence (SDD) with outputs taken into consideration in the investment decision process.

[2] Building Research Establishment Environmental Assessment Method
[3] Leadership in Energy and Environmental Design
[4] WELL Building Standard
[5] Haute Qualité Environnementale
[6] German Sustainable Building Council

Refurbishment/ capital expenditures

GRE SGR recognizes the opportunity to embed sustainability within the refurbishment projects of the underlying assets. This includes both the capital expenditure on materials in the initial build and implementation of technology upgrades and building management systems optimization during refurbishment and project management stages for operational effectiveness.

The following implementation activities establish GRE SGR's approach to development and project management:

- integrating responsible property investment considerations into the design and specification of major refurbishments and new developments with a roll out of refurbishment guidance;
- investing in capital expenditure to ensure the most appropriate level of technology efficiency is achieved when developing or refurbishing sites;
- ensuring continuous improvements in the energy intensity of our assets through upgrades and optimization in the development and project management of our assets, in line with the European Union's Energy Performance in Buildings Directive (EBPD);
- mitigating climate risk through the upgrades and the refurbishment of assets.

Tenants and performance monitoring

In order to monitor assets data consumptions needed to identify and prioritize ESG actions to be implemented a data gathering process and related reporting and trends analysis is needed. Those tools are relevant to make enhancements and engage with the tenants**.**

The following implementation activities , applied by its service provider, represent GRE SGR approach to an active recurring asset management:

- data capturing from tenants' operations through the ongoing data analytics to drive proactive property management and maintenance to pursue energy and resource efficiencies as well as targeting assets for refurbishments and upgrades;
- operational data are used to engage with tenants on consumption trends and behaviour to find ways to reduce consumption.

Processes (health, safety and environmental management system; procurement; compliance key controls on management procedures)

The ESG topics are addressed by GRE SGR through GRE SPA in accordance with the outsourcing agreement in place, pursuant to which GRE SPA will apply the following procedures adopted by GRE SPA itself:

- Direct Investment and Divestment
- Capex Procedure
- Letting Procedure
- Health, Safety and Environmental Management System Procedure
- Procurement Procedure
- Compliance key controls on management procedure

The perimeter of the six policies above has been structured around the four GRE SGR sustainability dimensions ((i) direct investments and divestments, ii) Refurbishment/ capital expenditures, iii) Tenants and performance monitoring iv) Processes) and are summarized in the previous paragraphs.

1.3 PROCESS GOVERNANCE

Governance of ESG Risk Assessment and Integration process

GRE SGR Board of Directors is in charge of the approval and review of the Sustainability Risk Policy. The Board approves the Policy upon proposal of GRE SGR CEO & GM, which is also in charge of the implementation of the Policy.

GRE SGR ESG function, under the direction of CEO & GM to which reports and following the path traced by clients or funds' rules/prospectus, is in charge of defining the sustainability risk assessment methodology and ESG parameters, implements ESG initiative in coordination with the fund management team, monitors ESG parameters and the compliance with this Policy, drafting an annual report on the implementation of the Policy addressed to the Board of Directors. ESG function supports and collaborates with the fund management on the investment process providing ESG opinions, views and research on relevant ESG and climate topics in order to inform the investment decision-making process with updated quantitative and qualitative information, actively participating in the process to identify the measure in order to face any sustainability event and supporting the fund management team in defining the investment strategic choices.

The ESG function will also perform and monitor the activities carried out on behalf of GRE SGR and related funds by the service provider.

In order to have updates on sustainability topics and sharing information GRE SGR through GRE SGR CEO & GM and GRE SGR CRO participates to the GRE SPA Sustainability Steering Committee, whose aim is to give evidence on market trends and other ESG related themes. GRE SGR CEO & GM refers updates and information to ESG function, fund managers and, where relevant, Business Development & Investor Relation, to perform their activities.

Reporting of the process

Annually, GRE SGR ESG function publishes on its website the updated version of the present Policy, if no publication is made it means that no amendments occurred. In compliance with article 12 SFDR the Policy published on the website is kept up to date. Where GRE SGR amends the Policy, a clear explanation of such amendment shall be published on the same website.

Internally, the Board of Directors is informed by the ESG Function annually of the implementation of the Policy in order to assess and review the underlying methodology and the outcomes.

Periodically internal reports are delivered to the fund management in order to enable it to fulfil their oversight duty on investments. In addition, other internal stakeholders are updated and involved based on process's needs.

2. Adverse Sustainability Impacts Statement

The Statement on due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors, hereinafter also referred to as the "Principal Adverse Impacts (PAI) Statement" or the "Statement", aims to describe (a) the policies on the identification and prioritisation of principal adverse sustainability impacts and indicators; (b) the principal adverse sustainability impacts and any action taken in relation thereto or, where relevant, planned (c) a reference to GRE SGR adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of GRE SGR alignment with the objectives of the Paris Agreement.

In this regard, monitoring activities and planned actions to mitigate the potential damage caused by climate change, waste or misuse of natural resources (such as water and fossil fuels), as well as the exclusion of companies pursuing not ethical behaviours from all business related activities, are expected to lighten the principal adverse sustainability impacts identified in 1.1.

Ensuring we have an effective and market-leading fund strategy is essential for GRE SGR to attract and retain investors. As the ESG requirements within the real estate sector increase, we want to take a proactive approach to establish the ESG credentials of our funds, ensure we have a multi-year outlook and advocate our sustainability management to reflect the market's needs and requirements. We aim to continuously improve the sustainability credentials of our funds and assets through integration of the activities outlined in the precedent sections.

GRE SGR, complies with art. 4 of the SFDR, in order to give a contribution to the real estate investment management industry in standardizing best-practice and transparent disclosure. Pursuant to the mentioned provision the PAI Statement takes into due account the size, the nature and scale of the activities of GRE SGR and the types of financial products rendered available.

2.1 IDENTIFICATION AND PRIORITISATION OF PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS AND RELEVANT INDICATORS

Misguided investment choices can have a potential adverse impact on stakeholders, environment and society.

GRE SGR, as part of Generali Group, considers the Group sustainability materiality matrix, available online, as an important reference in order to identify and prioritize external adverse impacts.

GRE SGR believes that the climate change, also given the peculiarities of the real estate asset class, is one of the most relevant topics in regard to the impacts of its activities. GRE SGR can have an important impact on the environment through its investment choices. As an investment manager, GRE SGR can influence the tenants behaviors as ultimate users of the assets and thus responsible for the daily energy and waste emissions and water consumptions, can further reduce the investments in underlying real estate assets not reaching certain environmental labels/ consumptions thresholds and can further increase the capital expenditure and refurbishment efforts towards initiative and projects aimed to increase the environmental performance of the buildings.

Based on the above, GRE SGR has decided to assess its impacts on sustainability factors through different criteria, namely: Sustainable Due Diligence for new investments, counterparties screening, data analytics also trough Green leases, and Physical – Transitional Risk assessment.

Following the list of PAI used to assess GRE SGR's impact and their underlying methodology:

- Exposure to fossil fuels through real estate assets (share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels)
- Exposure to energy-inefficient real estate assets (share of investments in energy-inefficient real estate assets)
- GHG Emissions
- Energy consumption intensity

2.2 DESCRIPTION OF THE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS AND ACTIONS TO ADDRESS PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS

Although being GRE SGR first disclose period, GRE SGR is already involved in initiatives that aim at limiting/eliminating the potential adverse impact of investments. GRE SGR will also monitor interim achievements in the future.

Specifically referring to the impacts disclosed above, GRE SGR is supporting its clients in the implementation of mitigation strategies.

Counterparties screening

GRE SGR, through its service provider GRE SPA, considers the following controversies and/or business sectors as relevant in the ESG assessment:

- involvement in controversies which potentially infringe the principles of United Nation Global Compact:
  - companies involved in serious or systematic human rights and/or labour rights violations;
  - companies involved in severe environmental damages;
  - companies implicated in cases of gross corruption and bribery.
- involvement in controversial business sectors:
  - armament and weapons that violate fundamental humanitarian principles through their normal use (cluster bombs, antipersonnel landmines, nuclear weapons, biological and chemical weapons);
  - coal.

The screening take place on counterparties defined as buyer, seller of co-investors.

GRE SPA performs control and check for each counterparty identified by GRE SPA pursuant to outsourcing agreement in place with GRE SGR and refers the output to GRE SGR. Control and check are based on the analysis of a number of dimensions such as involvement in controversies which potentially infringe the principles of United Nation Global Compact and/ or involvement in controversial business sectors. In case the counterparty is deemed, according to GRE SPA analysis, to be characterized by poor ESG practices on the above-mentioned dimensions, the business opportunity is aborted.

Sustainable due diligence

Acquisitions, undergo environmental/ sustainable due diligence (SDD) that is performed by GRE SPA. Our proprietary Sustainable Assessment tool measures the weighted performance of each building according to the following categories:

- Energy
- Water
- Waste
- Materials
- Land Use & Ecology
- Pollution
- Transport
- Health & Wellbeing
- Management

The outputs of these checks are embedded in the due diligence for informational purposes and for consideration alongside other factors in the investment decision making process.
The same tool for sustainability assessments is also used on the majority of GRE SGR's existing portfolio assets, also to identify any energy-inefficient assets, with an aim to continuous improvement. Whenever possible, a sustainable certification is targeted.

Data analytics

GRE SGR through GRE SPA is implementing a Data Analytics project covering across 11 European countries. Existing utilities consumption data are collected and centralized in a digital platform, which automatically calculates CO_2 emissions and monitors their evolution, also supported by an innovative prop-tech, green-tech SaaS[7] solution.

Green Leases

GRE SGR through GRE SPA is proposing a new "Standard Green Lease Clause", each time a lease with a tenant is (re)negotiated. This clause will allow GRE , on behalf of GRE SGR, to obtain at minimum the tenants' utility consumptions on a regular basis, so that GRE, on behalf of GRE SGR, can measure and take action to improve its management, its buildings and the CO_2 footprint, in close collaboration with the tenants. Besides, other selected ESG aspects can be integrated in the lease contracts.

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[7] Software as a service.

Physical risk analysis

GRE SGR through GRE SPA, carried out the first impact analysis for its full portfolio in 2020. Thanks to the methodology developed by a specialized and market leader service provider, GRE SGR has been able to geo-localize all its assets and to map out the physical risks related to global warming, in line with the TCFD Recommendations.
Seven key hazard types have been assessed under three climate change IPCC[8] scenarios (high, moderate and low) and three future reference years (2020, 2030 and 2050):

- Water stress
- Wildfire
- Flood
- Heatwave
- Coldwave
- Hurricane
- Sea level rise

The outputs of this analysis are used by the fund management to fulfil their oversight duty on investments.

Transition to a low-carbon economy

GRE SGR voluntarily pledges the reduction of portfolios' emissions and - more broadly, the low-carbon transition. GRE SGR developed a proprietary methodology to assess and improve portfolios climate sensitivity by (i) identifying climate leaders and laggards and (ii) optimizing portfolios according to various climate strategies, as recommended by best practice (NZ AoA[9], TCFD, etc.).

2.3 ADHERENCE TO RESPONSIBLE BUSINESS CONDUCT CODES AND INTERNATIONALLY RECOGNISED STANDARDS FOR DUE DILIGENCE AND REPORTING

GRE SGR aims at incorporating ESG topics into the investment decision making and ownership practices. GRE SGR is committed in the fulfilment of the following six principles adopted from UN PRI[10]:

- "We will incorporate ESG issues into investment analysis and decision-making processes."
- "We will be active owners and incorporate ESG issues into our ownership policies and practices."
- "We will seek appropriate disclosure on ESG issues by the entities in which we invest."
- "We will promote acceptance and implementation of the Principles within the investment industry."
- "We will work together to enhance our effectiveness in implementing the Principles."
- "We will each report on our activities and progress towards implementing the Principles."

Furthermore, as the real estate business is specifically concerned, GRE SGR takes inspiration from the Environmental Sustainability Principles for the Real Estate Industry, promoted by the World Economic Forum[11]:

1. "Embed adherence to best-in-class sustainability standards in all aspects of our real estate operations, with board level responsibility for monitoring and disclosing our sustainability performance. "

2. "Ensure that our decisions contribute to improvements in environmental sustainability at the local and urban levels, working cooperatively with tenants, city governments, planners and other stakeholders in achieving our targets. "

3. "Commit to continuous improvement in the environmental performance of construction and development activities, our real estate operations and our asset management policies."

4. "Track the environmental performance of our real estate assets and operations on a continuous basis, to assess our ecological footprint, and our exposure to risk from natural shocks, environmental regulation and the economic impacts of climate change."

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[8] Intergovernmental Panel on Climate Change
[9] NetZero Asset Owner Alliance
[10] https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-are-the-principles-for-responsible-investment
[11] https://www.weforum.org/whitepapers/environmental-sustainability-principles-for-the-real-estate-industry

5. “Identify explicit targets for improving our environmental sustainability performance including specifically in our commitment to minimize emissions of greenhouse gases and to increasing our use of renewable resources.”

The principles apply to all GRE SGR’s funds. In addition, each single fund might adopt more stringent/ selective rules and guideline to further enhance its ESG performance.