

CATELLA

# Catella Residential Investment Management GmbH

Sustainability Report 2021



“Housing unaffordability spreads like a virus. It starts in certain cities, in specific neighbourhoods, before becoming a global phenomenon. This, despite governments and civil society desperately acting against it for decades. Our current position is that of a ‘sandbank’, which is unfortunate as our horizon is already clouded with new challenges. In particular, decarbonisation and energy price inflation. It is both astonishing and hopeful how many investors turn to impact investing and target housing markets in particular. From a bird’s eye view, the divide between the social housing sector and the institutional sector seems to be narrowing, is it still there? If so, this is very good news. Avoiding ideological traps and past recipes that failed only increases our capacity to deal with these challenges effectively.

**Xavier Jongen, Managing Director**

“Doing the right thing” has been a key feedback theme from our investors. It’s about the impact we can make. We set ourselves high targets to meet and we already have two SFDR Article 9 funds in our product range - Catella European Residential III (Q1 2021) and the Catella Elithis Energy Positive Fund (Q2 2022) - which is quite unique in the market. Even then, we could do more, for example by buying assets with greater potential to be “managed to green” through office to residential refurbishment, rather than only purchasing assets that are Article 9 compliant or sustainable from day one.

**Michael Fink, Managing Director**



“Decarbonisation is the key to continuing to ensure housing affordability. The approaches to the third-party use of real estate; the reduction in the sealing of green spaces in new buildings; and the energetic modernization of existing real estate in accordance with the interests of tenants - some of which have been lost in the last decade - are our key priorities for making a difference. Technical developments in renewable energy supply to homes and a shift in focus of urban development and construction industries towards existing real estate and away from new construction are prerequisites for this.

**Michael Keune, Managing Director**



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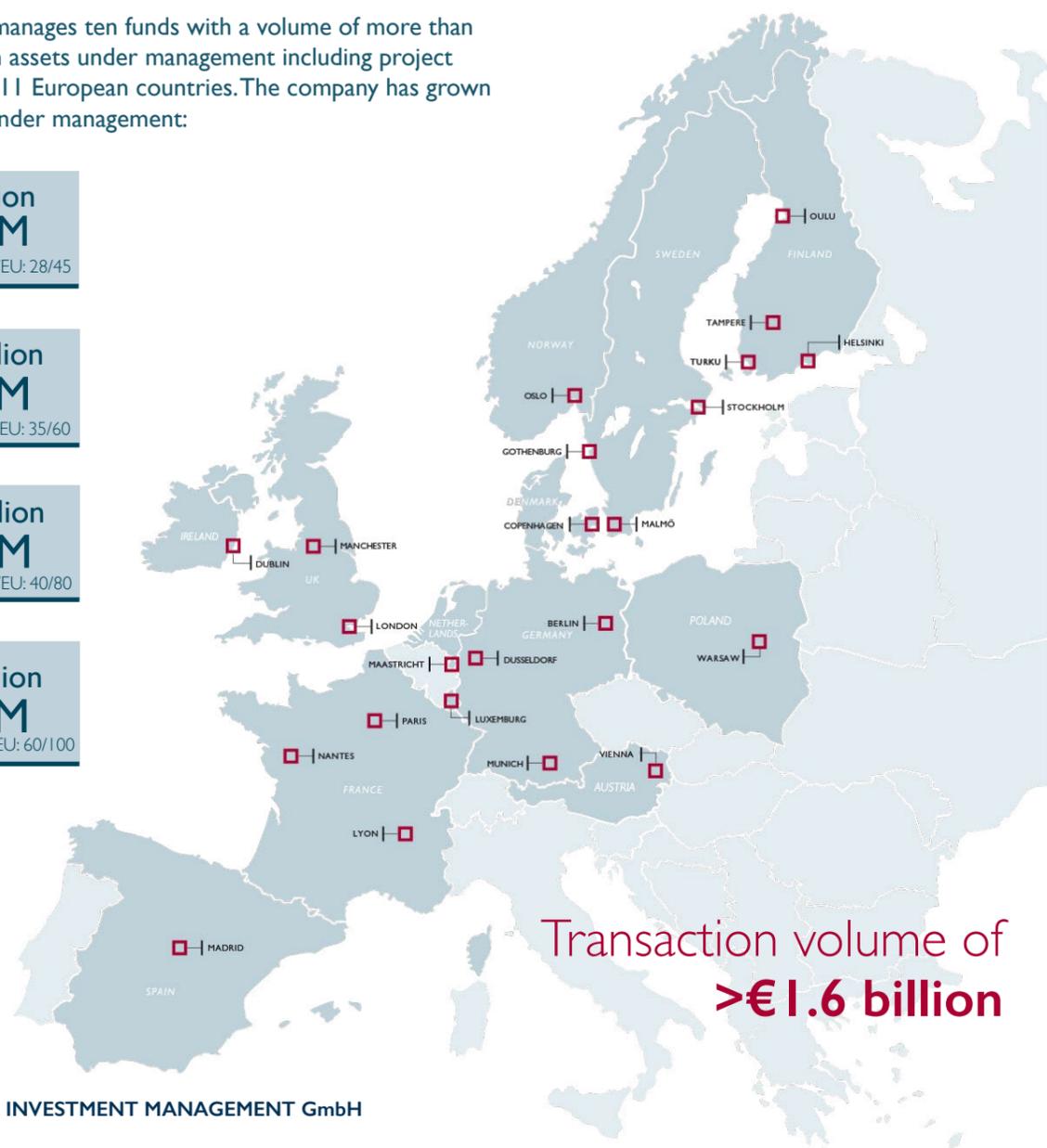
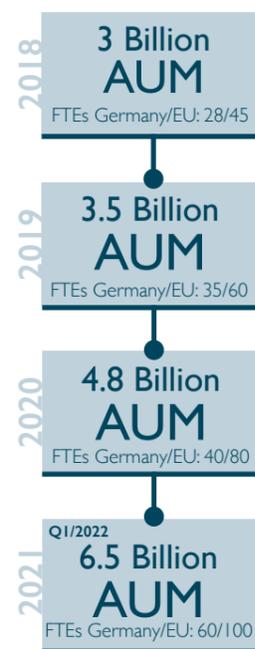
# Who we are and what we do

Catella Residential Investment Management (CRIM) is a fully owned subsidiary of Catella AB based in Stockholm, Sweden. Catella was founded in 1987 and is listed on the Stockholm Stock Exchange. CRIM is based in Berlin and, together with the Alliance, forms a pan-European network of over 100 front-office staff members. The Alliance is the first residential investment management platform in Europe, dating back to 2007.

property acquisition and sale, and asset management, as well as business development and sales. The core team has more than 17 years' of experience in open and close-ended residential real estate investment funds. Their real estate expertise spans Germany and, through their work with subsidiary companies and local partners, the Netherlands, France, Spain, Poland and the UK, as well as other markets such as Scandinavia.

CRIM's residential real estate business includes investment strategy, portfolio management,

CRIM currently manages ten funds with a volume of more than 6.5 billion EUR in assets under management including project developments in 11 European countries. The company has grown with the assets under management:



Transaction volume of **>€1.6 billion**

CRIM invests in a wide range of housing segments: from family housing, social housing and affordable housing, to student accommodation, co-living, boarding houses and senior. We have a long track-record of pan-European residential investments and are well-positioned to grow through new investments in modern and affordable housing, including project developments and in specific sectors like senior housing, student accommodation and serviced apartments. We also act as a forward purchaser and forward funder of developments.

Our top-down corporate investment strategy is built in-house and is composed of anti-fragility strategies alongside more classical methodologies based on diversification and fundamental analysis. This is supplemented by a strong bottom-up strategy that focuses on investments in high-quality European residential real estate in selected locations, with the aim of establishing long-term relationships and customer loyalty. Central to this are two approaches: Alpha strategies, in which properties, locations and timing are individually selected; and Beta strategies, in which speed and investment volume play a greater role.

CRIM integrates pioneering antifragile investing concepts based on the theories of Nassim Taleb that target 'Black Swan', extreme tail risk events. By translating Taleb's antifragility concepts to the European residential real estate market, CRIM creates robust buffers against tail risks in its portfolio, ensuring stable cash flow even in times of economic crisis. Simultaneously, our societal impact benefits from this strategy, as the stability of cash flow is based on affordability. The overarching philosophy of CRIM focuses on active research and regular reflection on defined investment strategies, asset and portfolio management.

Modern Portfolio Theory focuses on statistical volatility to which anti-fragility adds by protecting against down-side risk inter alia, by being more concerned with understanding the deeper root cause issues of uncertainty and protecting against some of those at asset level. This has led the organisation to incorporate impact strategies organically as a third layer within its investment strategy, because we aim to specifically target and amend some of those root cause uncertainties in our impact strategies.

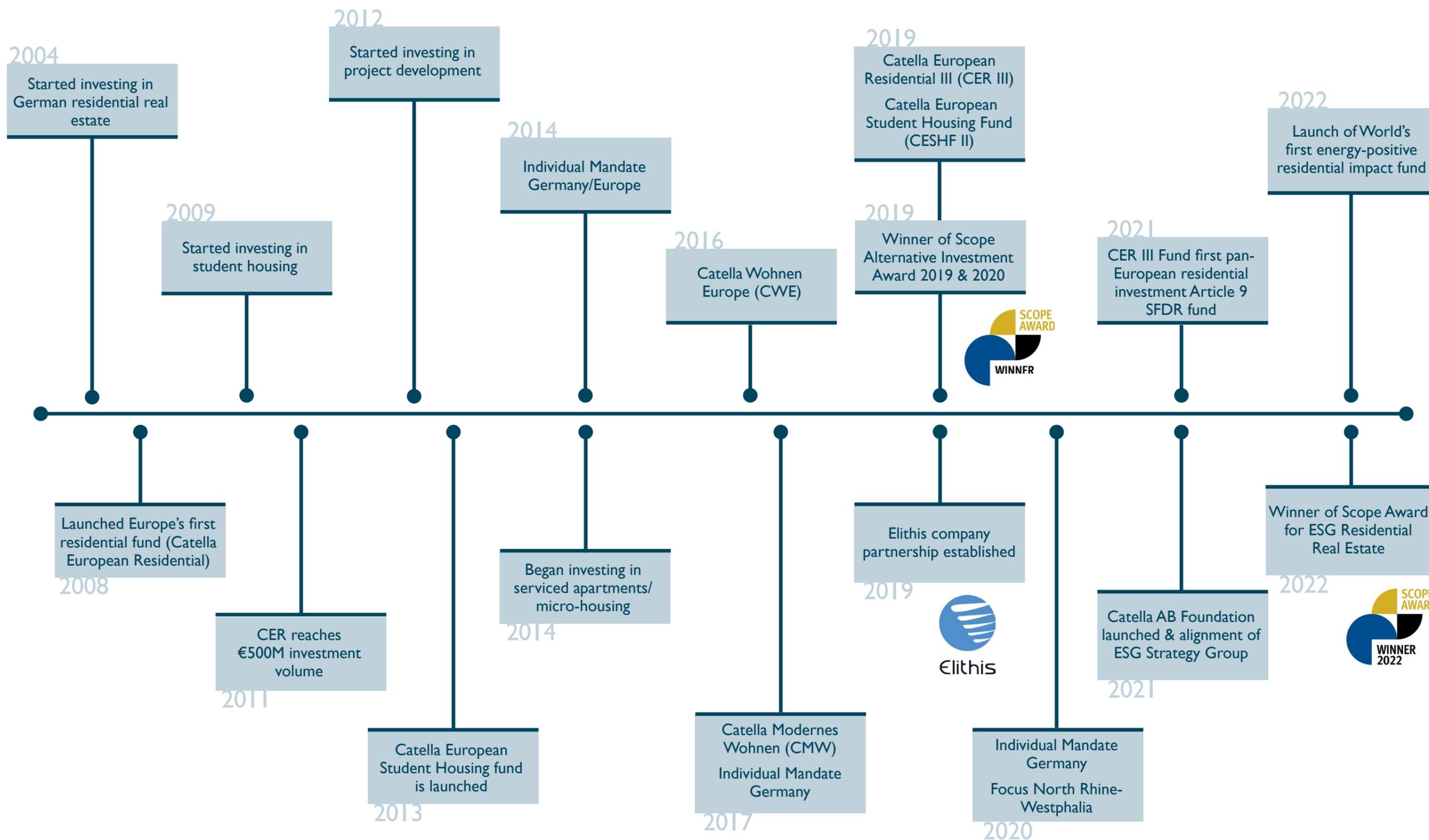
[Find out more here.](#)



“As a responsible investment manager we should continue setting the tone by walking the walk and showing the benefits of ESG and responsible investing.

**Didier Beltai-Menth, Head of Debt Finance**

# Our investment timeline



# Our ESG motivation



CRIM has committed to being the leading residential real estate investment management partner in Europe, while taking on responsibility for the social and environmental impact of the real estate industry. For this reason, CRIM embarked on a journey to integrate ESG through our investment management process and into our corporate philosophy in 2019.

We recognize ESG as a process that contributes to the achievement of the Sustainable Development Goals (SDGs), taking responsibility for provide investment services in line with high environmental and social standards. We have continued to develop ESG at a European level and within our culture, corporate philosophy, and management processes.

This project is driven by a range of global developments and trends:

## The European Green Deal

To accelerate Europe's green transition, the EU Green Deal was launched in December 2019. The strategy provides a roadmap to address several environmental, social, and economic challenges and aims to make Europe the first climate-neutral continent. Against the backdrop of the COVID-19 pandemic, the EU Green Deal is also regarded as an opportunity to build greener, healthier, and more ethical economies. It has become clear that a greater focus on ESG criteria and investments is required to put this into practice.

## 2 Fit for 55

The EU is currently revising its climate, energy, and transport-related legislation as part of the "Fit for 55" package. This is intended to bring the current regulatory framework in line with the 2030 and 2050 climate targets. The package also includes new initiatives to ensure that EU actions are in line with these targets. Initiatives for the real estate sector include: improving the framework conditions for renewable energy usage in buildings, and constructing new buildings as "zero emission buildings" from 2030.

## 3 Disclosure Regulation

"Regulation (EU) 2019/2088 of the European Parliament and Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector" (SFDR for short) regulates the obligations of financial market participants and other actors in reporting information on sustainable financial products. It obliges companies operating on the financial market to communicate their strategy, and, in particular, on how they deal with sustainability risks and consequent negative impacts. In addition, financial market participants are obliged to report certain key figures (so-called PAIs). The regulation has been in force for the most part since March 2021.

## 4 The UN Sustainable Development Goals

The 2030 Agenda for Sustainable Development, was adopted by the member states of the United Nations in 2015 and comprises 17 Sustainable Development Goals (SDGs) covering social, economic, and ecological development. These goals provide the framework for achieving a globally sustainable society, and act as a future contract for the global community in the 21<sup>st</sup> Century. The goals range from ending world hunger and poverty, to clean energy, access to clean drinking water and gender equality.

## 5 Taxonomy Regulation:

The EU Taxonomy Regulation is one of ten action points under the EU Action Plan for Financing Sustainable Growth, with the first part coming into force on 1 January 2021. It is intended to serve as a classification system that defines whether an economic activity is environmentally sustainable, with individual activities assessed as opposed to the company as a whole. The Taxonomy Ordinance is divided into six environmental objectives:

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

An activity is only considered environmentally sustainable if it contributes to one of the six goals whilst having no detrimental effect on any of the others (the principle of Do No Significant Harm or DNSH). The taxonomy applies to all financial products, although its application remains voluntary. Sustainable funds (according to Articles 8 and 9 of the Disclosure Regulation) will, in future, publish the share of investments that comply with the criteria of the taxonomy. Funds that are not considered sustainable must inform that they do not invest in accordance with the taxonomy. The technical criteria for the first two environmental goals - 'climate protection' and 'adaptation to climate change' - will come into force in 2022, with the four other goals following in 2023.

### Our ESG journey



# Our corporate philosophy — Diversity and inclusion

Catella strives to see, understand, and care for all our internal and external stakeholders, for this reason the culture embedded within the organization aims to be conducted with the following principles:



At CRIM, we are convinced that meaningful and sustained stakeholder engagement is crucial to ensure our organisation's successful ESG performance. On an organisational level, we focus on effectively engaging, incentivising, and empowering our employees to ensure full ESG integration. We also focus on cooperating with other key stakeholders, including CRIM's suppliers, tenants and local community. Catella wants to ensure their competitive advantage by engaging employees to live a culture of excellence and maintain a high performing team status, to this end the company works actively in developing its staff and culture, protecting the health and well-being of employees as a core priority.



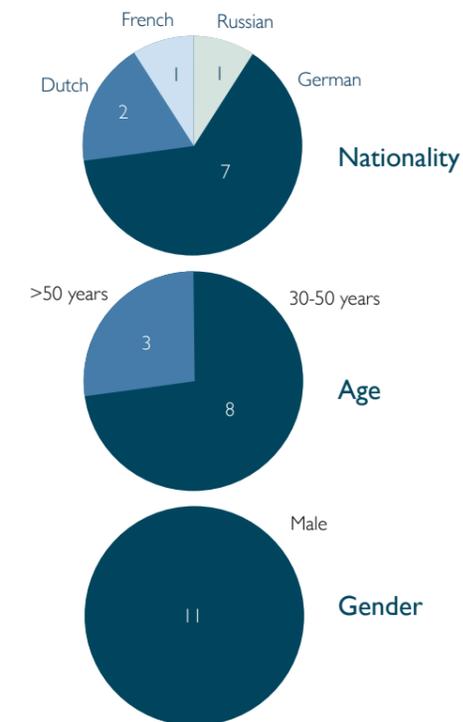
“ We can only be credibly perceived as a responsible investment manager if we apply the strictest standards to ourselves as a company and as employees. Taking constant responsibility in the area of ESG must be part of our DNA. Walking this path together with more than 60 colleagues and not letting up in our efforts to make a difference is how we see ourselves.

In view of the pandemic, the primary focus in 2021 was on protecting the health of our employees and providing cover in the event of illness. To this end, a wide range of measures were taken in the working environment and assurances going far beyond statutory regulations were agreed with employees.

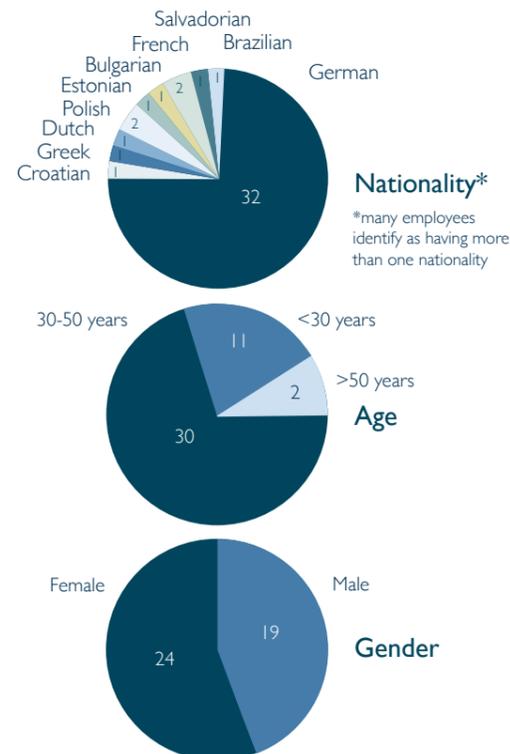
With a general return to the office, 2022 will be defined by awareness: awareness of working in partnership, diversity, acceptance of others, freedom of expression and social responsibility. Based on our employee survey, numerous workshops and projects will be launched to address these topics in a comprehensive manner and to anchor them in the corporate culture in the long term.

**Volker Stix, Head of Operations**

## CRIM Governance Body



## CRIM Employee Demographics



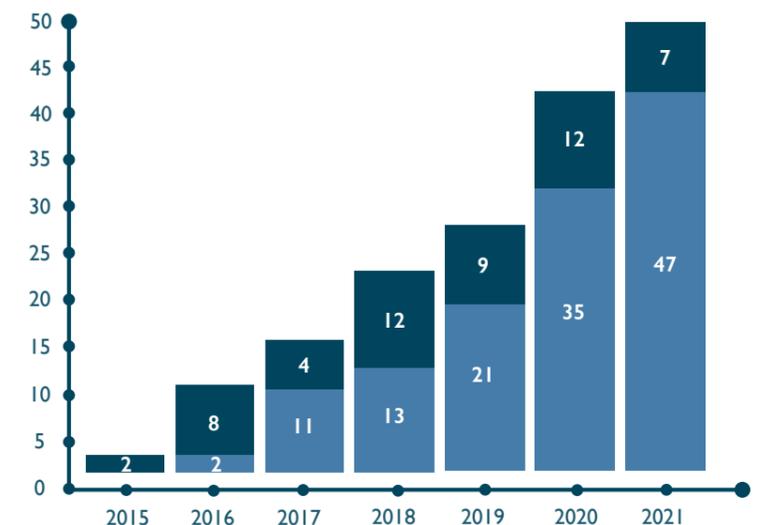
## Diversity and inclusion



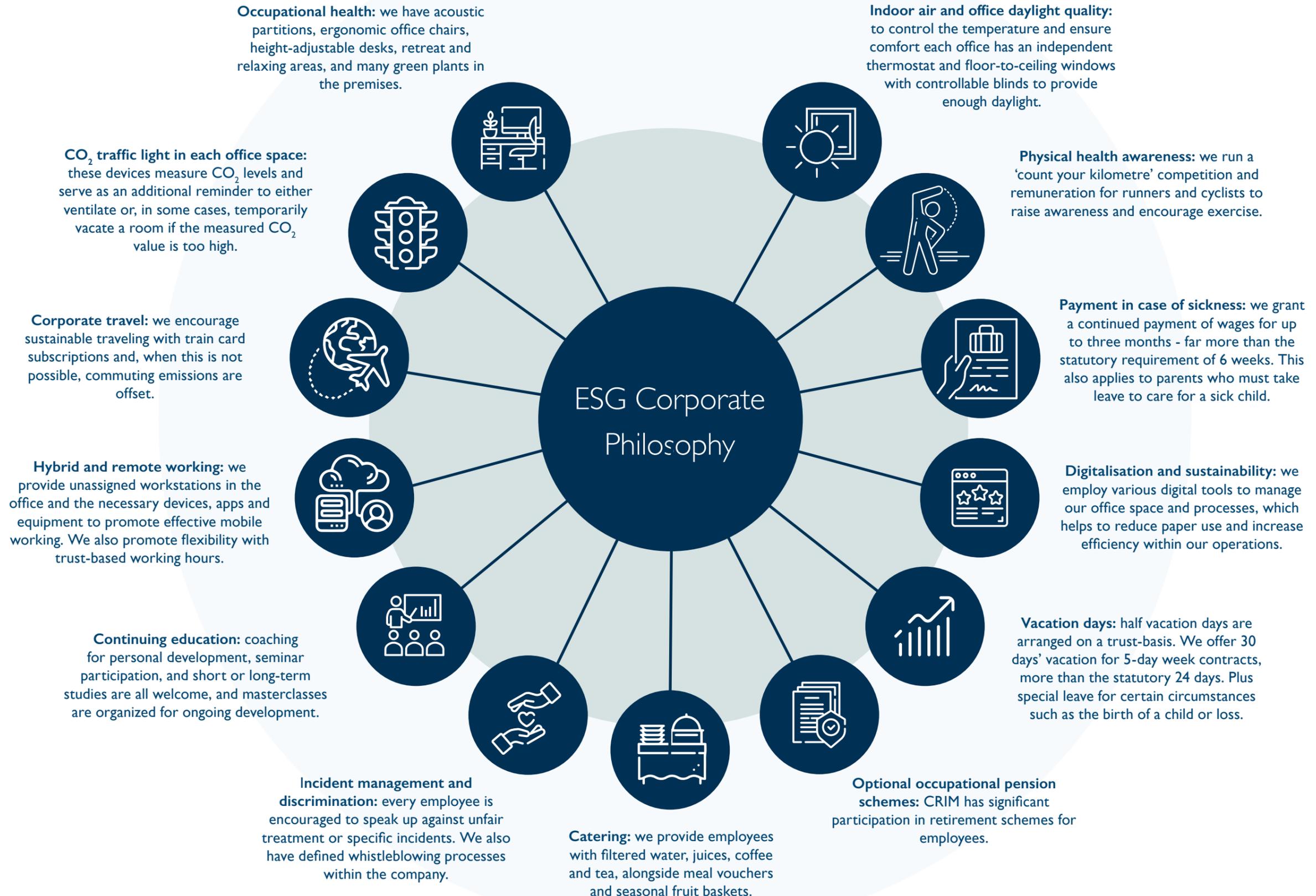
“ We have anchored diversity as one of our key values, and have enshrined it within our policies, as well as our DNA and culture. As a pan-European company, our success results from personal, social, and cultural diversity. With this awareness, the CRIM has always focused on the human element of our staff in balance with the business side - where diversity is expressed through our international culture in people management.

**Steffi Wicht, HR Manager**

## Employee Growth and New Hires Since the Company's Foundation:



# Health and wellbeing at CRIM





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# Engraining ESG into our company strategy

**2021 was a year of transformation**, where Catella started to formulate an integrated ESG Strategy together with all subsidiaries and units throughout Europe and agreed on focusing on reducing the environmental impact and contribute to achieve a positive impact in the three areas environmental, social and corporate. The journey of embedding ESG as part of our corporate and management strategy started in 2019 and plays a vital role in the company's culture and daily business. We have implemented an ESG European competitiveness team within our Alliance network, which is led by an ESG director and together they orchestrate the ESG strategy.

In order to integrate ESG through the entire lifecycle of investment management processes, regular ESG trainings and workshops are

held with the team, to create awareness, understanding and to meet our ESG Objectives. ESG workshops and trainings increase engagement throughout the team and further develop the maturity of integrating ESG as a strategy at all levels of our management processes which gives more room for innovation and experimentation, which are key for the transformation of the industry.

We have continued and improved our acquisitions ESG processes, to understand the impact and every climate risk that the assets on our portfolio are exposed to, which allows full understanding of value potential or risk. These are transparently communicated through every step of the transaction process.



“We believe that ambitious goals can only be reached with a collaborative approach across all departments at CRIM. Getting everybody involved, to understand and to act on a day-to-day level will sustain good jobs, satisfied clients and service providers, all within a successful, long-lasting and healthy business environment.

**Hagen Fitzer, ESG Director**

## Transaction Management

As we develop and mature our ESG strategy and contribution to a positive environmental and social impact, we have increased our resource allocation for data collection processes to improve the coverage and quality of our data. We have identified data collection bottlenecks and have set a commitment to overcome these barriers by engaging different levels of stakeholders and training them along the way, for example our partners in the property management level. It is of the utmost importance to engage all our stakeholders in this journey to ensure and meet all standards of data security. We continue to participate in GRESB, where we report our data from all of our funds on a yearly basis to track and monitor our improvement.



“For us, sustainability is a new driver in operational work as well as a strategic orientation. It encourages us to rethink our daily and long-term decisions in concrete terms. In Fund Management this means that we promote the use of renewable energies, such as the installation of geothermal energy in our Finnish properties, and, increasingly rely on the installation of PV systems in order to produce electricity regeneratively.

However, we have also seen our responsibility for social impact become more important, and we are increasingly investing in social housing and in new construction projects that aim to offer affordable living spaces.

**Benjamin Rüter, Head of Fund Management**

“The transaction team takes their responsibility in ESG strategy implementation by investigating which products might be better suited for the portfolio, not only at the property level, but also at the city and country level.

**Michael Eirich, Head of Transaction Management**



## Entities (Real estate funds)

CER III is one of the first pan-European residential funds to be classified as an impact fund, with one of the highest levels of sustainability categorisation as defined by the EU SFDR Article 9 regulations. CER III has committed to achieving financial and extra-financial objectives, in the environmental and social realm. The Fund has defined ambitious environmental and social goals: to contribute with a positive impact by becoming carbon neutral at fund level by 2030, whilst supplying affordable housing and good living conditions to the community.

To reach these goals, we use the information from our yearly data collection, our transaction processes, and decarbonisation studies to create action plans on asset level for improvement and to continue reducing our environmental impact. We are collaborating and engaging with our partners to improve our data collection processes and through the guidelines we provide to them, thereby improving the sustainable management of our assets.

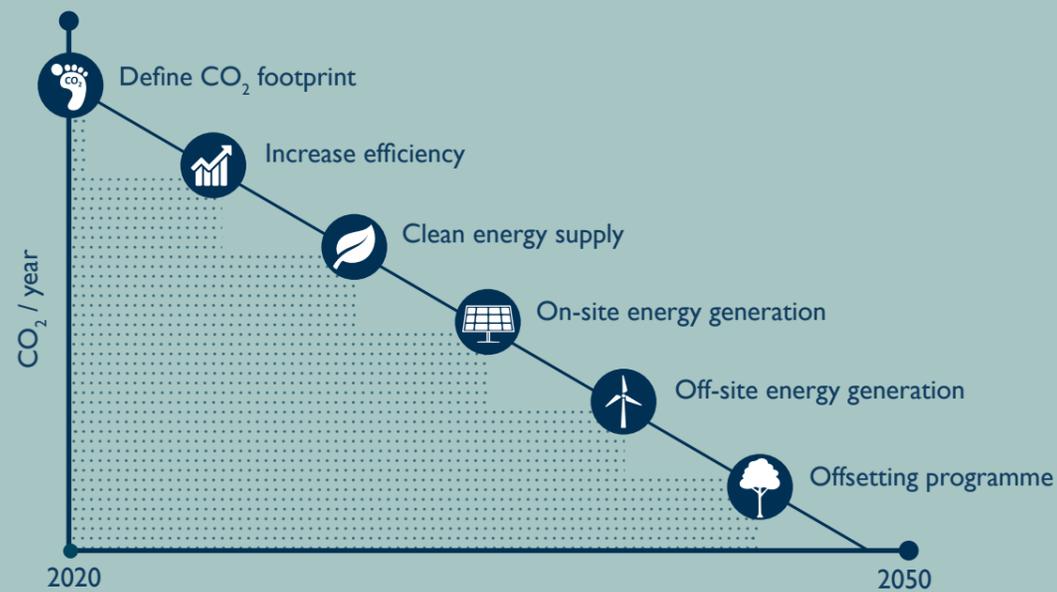
## Assets (Asset Management)

In asset management, we are building a holistic approach to sustainability, which involves taking into consideration the entire life cycle of the property. The improvement of energy efficiency and the reduction of the carbon footprint play a significant role in this and we are constantly educating ourselves to become more familiar with the latest technology and building standards. We are aiming to build different strategies to raise the standards of our portfolio, such as implementing electric charging stations or making our waste management more efficient.

We want to make sure that our property management and caretaker services implement our sustainability principles in their daily work. To meet social principles, we also rent our existing apartments at local rents and comply with the tenancy law of the respective local district.

## Decarbonisation

Decarbonisation means switching from the use of fossil fuels such as oil, natural gas or coal, to carbon-free and renewable energy sources. Within the framework of so-called decarbonisation audits, optimisation potentials for increasing energy efficiency, i.e. reducing energy demand, and consequently reducing CO<sub>2</sub> emissions, are developed. Taking these optimisation measures into account, climate protection roadmaps (CPRM) are drawn up for the individual properties in a portfolio. This shows how the 1.5-degree target from the Paris Agreement can be achieved by 2050 in terms of CO<sub>2</sub> emissions. As well as increasing efficiency and clean energy supply, the program also includes on-site and off-site power generation to reduce CO<sub>2</sub> emissions in the future.



Source: EnviroSustain 2021



“The employees in the Asset Management team live sustainability by traveling with Deutsche Bahn for business trips within Germany where it makes sense and using public transport or bicycles for their daily commute as far as possible, as well as using sharing systems.

**Fabian Duwe, Head of Asset Management**



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# Elithis partnership

We were proud to enter into a partnership with French engineering company Elithis at the end of 2019. The project started with Catella's 'Green Cygnet' - often referred to as the 'Elithis Tower' - the world's first energy-positive residential building. The Green Cygnet was designed and developed by Catella's French engineering partner located in Dijon, offering scalability due to the competitive development costs compared to non-energy positive buildings.

We had the opportunity to strengthen our relationship with Elithis in 2021 by acquiring two projects in two existing funds. Elithis is constructing Energy Positive Towers, which not only have a positive impact on the environment, but also on the community, because they offer lower energy bills to tenants. The towers are built at standard cost, enabling us to maintain the same financial yields, alongside positive ESG impact.

As sustainable investment becomes more important in the real estate industry, we are happy to be able to offer a product that combines stable cashflow with environmental and social impact. With this in mind, we set up the article 9, SFDR Catella Elithis Energy Positive Fund in February 2022. The Fund, in partnership with Elithis, aims to build 100 energy-positive residential towers across Europe by 2030 as part of a €2 billion investment programme, driving forward our sustainability ambitions. Starting with the purchase of six Elithis towers in 2022.

“ The Elithis Tower residential design is the first in the world to link the delivery of operational carbon neutrality to the provision of affordable rents, while not affecting investors' returns, so everybody (and the planet) wins. This model provides a globally scalable ESG solution for the two greatest current crises of our times, climate change and widening social inequality.

**Thierry Bièvre, President & Founder of Elithis Team**

“ We are happy to have a partner who is aware of the responsibility the real estate industry holds in reducing carbon emissions and making sustainable affordable housing accessible to everyone. Thanks to the PV panels on the roof and the facade, as well as its bioclimatic design, the Elithis Towers produce more energy than they consume. The surplus is given back to the tenants, who are also offered advice on how to achieve a zero-energy bill. We are proud to be part of such a holistic approach to ESG.

**Julie Joubert, Fund Project Manager**



© Architect: Arte Charpentie, Dijon, France

- In France, the building sector is the most energy-intensive economic sector; it accounts for 44% of energy consumption and nearly 25% of CO<sub>2</sub> emissions.
- Grenelle Environment Forum in 2007 set France the very ambitious target of quartering its greenhouse gas (GHG) emissions by 2050, compared to its 1990 emissions. This would be achieved through new buildings that produce more energy than they consume (starting in 2020) and the long-term mass renovation of existing buildings to ensure a good level of energy performance.
- Introduced by the 2015 Law on Energy Transition for Green Growth (LTECV), the National Low-Carbon Strategy (SNBC) and the Multiannual Energy Programme (PPE) set guidelines for the sectors in order to achieve carbon neutrality by 2050.
- In 2020, the RE2020 was reclassified from a Thermal Regulation (RT 2012) to an environmental regulation, making it more ambitious and demanding for the construction sector. For example, a Life Cycle Assessment has become mandatory for developments.
- Landlords and tenants of areas of more than 2,000m<sup>2</sup> must exchange consumption data and make decisions on optimisation measures at least once a year.



© Architect: Coldefy, Le Havre, France

# What lies ahead: ESG action plan

## Organisation (Catella)

- Consider personnel ESG performance targets
- Expansion of ESG reporting
- Expansion of ESG incident monitoring
- Expansion of the employee health and well-being program to include needs assessment, goal setting and monitoring
- Expansion of supply chain engagement program

## Entity (Fund Management)

- Set-up a climate protection roadmap
- Conduct tenant satisfaction survey
- Consider further ESG-specific guidance and workshops with tenants
- Develop a tenant satisfaction program
- Provide tenants with a tenant sustainability guide including fit-out
- Improve reporting procedures and standards of ESG-specific requirements in lease contracts
- Consider developing a comprehensive tenant health and wellbeing program based on needs assessment as part of tenant survey
- Consider expansion of community engagement

## Assets (Asset Management)

- Increase data coverage for energy, water, waste, and EPCs
- Consider decarbonisation studies for selected assets to develop asset-level net-zero carbon roadmaps
- Align CAPEX planning with ESG performance targets of the fund
- Add efficiency measures as an item to the standard property management reporting
- Evaluate improvement opportunities, especially with respect to resource efficiency, e. g. by conducting ESG checks
- Consider certification of assets in combination with decarbonisation studies

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