



# Catella European Residential Fund III

## Environmental, Social and Governance (ESG) Policy

The Catella European Residential Fund III (CER III) is committed to meeting its financial objectives whilst simultaneously delivering market-leading Environmental, Social & Governance (ESG) standards at fund and asset level. ESG issues are central to investment and ownership decision-making practices. Our aim is to become a fund with leading sustainability credentials.

The Catella European Residential Fund III (CER III) has developed high-level ESG requirements that will safeguard against potential eroded returns by ensuring resilience to strengthening regulatory requirements, operational cost volatility, occupier expectations and future purchasers' criteria. In return, our strategy expects to generate improved liquidity, stronger tenant retention, and higher income growth.

This policy sets out our fund ESG commitments. Progression and achievement are supported through a structured management system approach across all levels and activities of the entity.

### Portfolio Management

The Catella European Residential Fund III (CER III) and its Managers consider effective management of environmental impacts and risks to be central to our fiduciary duties, especially in light of compliance with the Paris Agreement. Therefore, on portfolio level supporting management tools and guidelines will be implemented:

- Assessment of fragility and robustness of any transaction and as regular process within asset management
- Assessment of key environmental risks as part of any transaction and as regular process within asset management; this assessment includes stranding risk analyses and measures to mitigate any stranding risks.
- Development of environmental key performance indicators for the fund, which will be used to measure performance. These indicators include at least specific energy consumption, carbon footprint, specific water consumption, and specific waste amount.
- Development of a regular consumption data collection process (most importantly energy, water, and waste) along with implementation in property and facility management contracts.
- Utilise software solutions to systematically measure and manage sustainability related property data across the fund and report ESG impacts quarterly.
- Develop comprehensive and feasible mid- and long-term targets for data coverage and reduction of the environmental impact of the properties, with specific regard to energy and water consumption, waste disposal, and biodiversity. Those mid- and long-term targets will guide us to achieve carbon neutrality of our fund by 2050 along with a feasible share of rainwater usage for irrigation and cleaning. Moreover, we will strive to unseal areas and create opportunities for rainwater retention, wherever possible. All waste is to be collected separately and diverted from landfill. In order to meet these targets green leases shall be introduced for all tenants including the obligation to share energy consumption data and to look into procurement of green energy.
- Operate an Environmental Management System, aligned to the international standard ISO14001, including ESG Action Plans on entity- and asset-level. Integrate measures to

improve ESG performance in CAPEX schedules (i.e. energy efficiency, water efficiency, waste management, improvement of health & wellbeing, and improvement of biodiversity, if applicable).

- Ensure environmental issues are ingrained within the fund's procurement process, through a procurement policy that encourages development of the circular economy.
- Develop and document a comprehensive stakeholder engagement programme in order to positively contribute to social aspects and local communities (cf. Catella „From Good to Great Program“) and to support sustainable practices of our property and facility managers as well as our tenants.
- Incorporate social improvement objectives into asset management plans, where feasible. The strategy shall include the ambition to provide for modern working spaces with a focus on the wellbeing of the tenants in the buildings.
- Report on our ESG activities and progression annually.
- The Catella European Residential Fund III (CER III) will support the development of industry-wide reporting and sustainability benchmarking protocols and will participate in suitable schemes such as GRESB (Global Real Estate Sustainability Benchmark) and INREV (European Association for Investors in Non-Listed Real Estate Vehicles).

Moreover, the Catella European Residential Fund III (CER III) recognises that transparent governance processes are critical to the principles of responsible investment and the alignment between the investors, managers, service providers, and all stakeholders.

### **Investment Management**

As early as in the due diligence phase for new assets certain ESG requirements will be addressed. Hence, strengths and weaknesses from a sustainability perspective will be identified from the beginning:

- Perform asset level compliance check, which includes risks deriving from local energy and environmental law.
- Integration of sustainability aspects in the technical and environmental due diligence.
  - Resilience and adaptability to climate change including flood risk and control
  - Contamination surveys of both ground and surrounding site
  - Building fabric including deleterious materials
  - Energy efficiency of mechanical and electrical equipment
  - Energy Performance Certificates (EPCs) and other regulatory risks (e.g. F-Gas Regulations and local drinking water regulations)
  - Energy consumption and carbon footprint, water consumption, and waste management
  - Utility supply set-up
  - Occupational welfare (considering health, safety and wellbeing of building users – specific consideration may be given to indoor environmental quality)
  - Transport links and parking

- Biodiversity and habitat
- Actions to improve energy efficiency and increase the share of renewable energy for both heating and electricity
- Actions to reduce running costs and increase investment value
- Verification of existing metering strategy and possible adjustments to match the fund's overall data collection process.
- Development of asset-specific sustainability CAPEX-measures.
- Assess feasibility of stakeholder engagement with suppliers, tenants, and the community in order to support and drive ESG performance of the asset.
- Structured hand-over process from investment team to asset management.

Once the acquisition is complete, the asset management can easily start a continuous improvement of the asset.

### **Asset Management**

We commit to taking a stewardship approach so that the environmental value of assets under management control is greater at the point of sale than at acquisition. Therefore, the following actions will be implemented into the scope of asset management to achieve continuous improvement of ESG performance:

- Integrate the identified sustainability issues of the acquisition phase into asset management.
- Further investigate on measures to reduce the environmental impact (energy, water, and waste).
- Have Green Building certificates for operational performance for at least 20% of our assets under management (AUM) by 2030.
- Implement consumption data collection process and enhance metering infrastructure, where necessary.
- Consider enhancement of biodiversity on and/or around the asset (e. g. urban farming, green community areas).
- Develop tenant sustainability guidebooks, fit out and refurbishment guides to promote positive engagement and best practice to our occupiers.
- Property and facility management teams along with maintenance companies are asked to expand their advice beyond the regular operation of the building and its technical systems and include suggestions on enhancing the sustainability performance of the asset.
- Continuously review the ESG-activities together with major tenants and other stakeholders (service suppliers, neighbours, local communities etc.) to align expectations and results.
- Providing safe, secure and healthy environments for all building users

### **Developments (New Construction & Major Renovations)**

New construction and major renovation projects provide the chance to considerably influence the overall sustainability performance of the Catella European Residential Fund III (CER III) At the beginning of the



project development phase the sustainability characteristics can be defined and seamlessly be integrated into all stages of the development. Therefore, all developments of the Catella European Residential Fund III (CER III) will at a minimum consider the following aspects:

- Achieve the highest practicable Green Building certification level for new construction and major renovation assets. In doing so, the following main aspects will be considered:
  - Climate change adaption
  - Resilience
  - Resources efficiency and management (energy, water, and waste)
  - Renewable energy
  - Sustainable materials to support the circular economy and to reduce any future health risks (incl. supply chain management)
  - Safety, health & wellbeing of all project participants and future building occupants and visitors
  - Public transport and amenities
  - Bicycle and other facilities to support sustainable transport
  - Sustainable sites (incl. suitable site selection, biodiversity and habitat, rainwater management, and recreation areas)
- Consider local community aspects in the design development phase to enhance future acceptance of the building within the neighbourhood.
- Investigate and, where feasible, implement new and innovative sustainable technologies and publish results to support industry understanding.
- Ensure sustainable project plans are developed to manage practical environmental impacts during the construction phase and to limit the influence on the local community.
- Apply latest standards for health and wellbeing in terms of layout, materials, and building services.
- Develop individual asset sustainability improvement programmes to maximise operational performance once new and refurbished buildings are occupied.
- Structured hand-over process for the asset and property management to ensure that the sustainability characteristics of the building are addressed properly in the day-to-day management.

### **Closing Remarks**

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

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



## Catella European Residential Fund III

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

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