

KGAL Investment Management GmbH & Co. KG

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# RESPONSIBLE INVESTMENT POLICY FOR REAL ESTATE



## SUSTAINABILITY STRATEGY OF KGAL GROUP

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In 2010, KGAL-Group adopted a mission statement that incorporates environmental protection requirements into our strategic goals. KGAL not only aims to offer sustainable products for investors, but also to play a sustainable role in society. To underline this, KGAL signed the United Nations Principles for Sustainable Investment ("UN PRI") in September 2018. Consequently, sustainability aspects are an integral part of KGALs business and risk strategy. Our investment strategy takes into account megatrends such as urbanization, clean energy, mobility, and urban infrastructure, while also meeting environmental, social, governance (ESG) criteria, and is continually adapting to new requirements. This understanding does not only provide a future-proof basis for our investments, but also contributes to the 17 goals of the United Nations Sustainable Development Goals ("UN SDGs").

## SUSTAINABILITY STRATEGY OF REAL ESTATE

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With the building sector being responsible for approximately 40% of energy consumption and 36% of greenhouse gas emissions within the European Union, the relevance of sustainability for the asset class real estate is indisputable.

As an active asset manager, KGAL firmly believes that sustainable business practices go hand in hand with the economic value created by the sustainability of products and pursues the following guidelines and measures:

- Integrity and trust is at our core
- We operate with the highest level of ethical standards, with a sound governance structure to ensure that these standards are followed
- We follow all regulations such as the sustainable financial disclosure regulation ("SFDR")
- We intend to classify new products of at least as Article 8 SFDR ("ESG product")
- Review of existing funds with regard to Article 8 or 9 SFDR classification
- An ESG Due Diligence is conducted for all new real estate investments
- Data collection concerning consumption of water, waste, energy, etc., across all assets
- Implementation of sustainability in property lifecycle and regular review of optimization measures
- Evaluation of CO<sub>2</sub> footprint of all assets
- Compensation (short-term) and reduction of CO<sub>2</sub> emissions (long-term) in alignment with CRREM decarbonisation paths for ESG products
- Moving towards 100% renewable energy for all owner controlled areas
- Comply or exceed with all net-zero objectives in the countries where our properties are located
- Tenant engagement and social responsible rent increases
- Include green areas in our properties wherever feasible
- Transparent ESG reporting for our article 8 or 9 SFDR funds

The sustainability investment strategy outlines our general approach to sustainability for the asset class real estate and may not apply to all funds or may take some time to implement in a fund or will only be implemented selectively. The fund documents will outline the applicable sustainability investment strategy for a fund.

## THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS AND HOW OUR REAL ESTATE MAKES A DIFFERENCE

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In 2015, UN member states negotiated 17 Sustainable Development Goals (SDGs). They are the centre of the 2030 Agenda for Sustainable Development. Our KGAL real estate funds aspire to contribute to four specific SDGs:

<p><b>3</b> GOOD HEALTH AND WELL-BEING</p> 	<ul style="list-style-type: none"> <li>• <b>KGAL Location Rating:</b> New investments take into account our location rating. We focus on investments in walkable locations, so that tenants are encouraged to move around their environment by foot and thereby promote a healthier lifestyle. Investing in walkable locations has been linked to a host of positive environmental, health and community benefits in many studies across the world. These include lower emissions and better air quality through reduced car commuting, the encouragement of active transport leading to improved health risk factors from heart disease to depression, and increased social inclusion</li> <li>• <b>Affordable Housing:</b> Strengthen human welfare by providing affordable housing in our portfolios</li> <li>• <b>Certificates:</b> Real estate portfolios include certifications like FITWELL</li> </ul>
<p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p> 	<ul style="list-style-type: none"> <li>• <b>Renewable Energy:</b> KGAL has a long tradition in investing in renewable energy through its infrastructure division. We strive to increase the energy efficiency in our assets and aim to reduce our reliance on fossil fuels. We aim to increase the percentage of renewable energy used in our real estate portfolio by both increasing the use of green energy within our buildings and by generating renewable energy on-site</li> <li>• <b>Exclusion of direct investment activities in nuclear power plants and fossil fuel assets in selected investments</b></li> <li>• <b>Perform an asset level compliance check, which includes risks deriving from local energy and environmental law</b></li> </ul>
<p><b>11</b> SUSTAINABLE CITIES AND COMMUNITIES</p> 	<ul style="list-style-type: none"> <li>• <b>Sustainable mobility:</b> Provision of electrical charging stations, bicycle parking spaces</li> <li>• <b>Sustainable cities:</b> Increasing standard of living with focus on human beings, properties with close public transportation, short distances and improvement of the usage of resources</li> <li>• <b>Local Engagement:</b> We aim to develop our relationship with the local communities, in particular working together with organisations that promote and build healthy, green and walkable places.</li> <li>• <b>Prevention of gentrification by subdivision models</b></li> </ul>
<p><b>13</b> CLIMATE ACTION</p> 	<ul style="list-style-type: none"> <li>• <b>Resilience:</b> As real estate investor, we recognize our impact on the environment. We are committed to make our portfolio resilient and move towards net-zero</li> <li>• <b>ESG Due Diligence:</b> Every new real estate investment process involves an ESG due diligence and identifies future property development paths</li> <li>• <b>Green Leases:</b> Roll out as standard annex in lease negotiations</li> <li>• <b>Consumption data:</b> collection and optimisation</li> <li>• <b>Reduction of GHG emissions:</b> Calculation of CO<sub>2</sub>-Footprint and neutralisation by investing in compensation projects (short-term) and reduction of CO<sub>2</sub> emissions (long-term) in alignment with CRREM decarbonisation paths for ESG products</li> <li>• <b>Increase energy efficiency by five steps:</b> <ol style="list-style-type: none"> <li>1. Measure</li> <li>2. Integrate</li> <li>3. Reduce / avoid</li> <li>4. Compensate</li> <li>5. Reveal</li> </ol> </li> </ul>

## ESG INTEGRATION INTO THE INVESTMENT AND ASSET MANAGEMENT PROCESS

Our investment and asset management teams place an emphasis on environmental sustainability and improving the footprint of our assets under management. We are integrating ESG as follows:

1. Measure	<ul style="list-style-type: none"> <li>Measure and digitize our consumption data: We are continuously improving our system to gather and assess our environmental performance. We work closely with our property managers to improve data coverage and develop relevant KPIs to include in our business plans. We improve our real estate portfolio's carbon footprint, enhance energy and water efficiency and reduce waste. In addition, we expand our portfolio management system to include ESG data in an integrated system. Installing smart meters in selected properties will be our next step</li> </ul>
2. Integrate	<ul style="list-style-type: none"> <li>Implementation of climate risks in investment policies and processes: Integration of sustainability risks into Due Diligence process and risk reporting</li> <li>Integrate ESG KPIs in decision making: We are analysing our asset portfolio and business operations to reduce our environmental impact. In addition, we are continuously improving the standardized documentation and digitization of compliance with health and safety standards</li> </ul>
3. Reduce / avoid	<ul style="list-style-type: none"> <li>Reduce our carbon footprint: We commit to taking a stewardship approach to progressively improve the environmental footprint of our assets with the goal to keep within the Paris agreement targets. Corresponding actions will be implemented into the scope of asset management to achieve continuous improvement of ESG performance</li> <li>KGAL aims not to invest in fossil fuels for its managed investment funds. This includes all investments that flow directly into fossil energy projects/plants. This means no investments in oil and gas production, infrastructure that is primarily geared towards oil and gas, and no electricity and heat generation from fossil sources. We aim to replace existing heatings at the end of the life time with heatings from renewable energy sources and we allow a de-minis investment in fossil fuel assets in selected investment funds.</li> <li>Furthermore, KGAL will not invest in coal mining and coal-fired power plants, Arctic oil and gas, or oil sands</li> </ul>
4. Compensate	<ul style="list-style-type: none"> <li>KGAL compensates GHG-emissions of selected investment funds</li> </ul>
5. Reveal	<ul style="list-style-type: none"> <li>Transparency through ESG Reporting according to international recognised standards: first, only for selected products, in the future asset class wide</li> <li>Commitment to enhance our participation in industry initiatives and ESG ratings (UN PRI, GRESB, TCFD, Net Zero Asset Manager Initiative)</li> </ul>

## ESG INTEGRATION INTO THE RISK MANAGEMENT PROCESS

KGAL IM integrates sustainability risks as part of the risk management processes for all funds. "Sustainability risk" refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. ESG aspects are considered during the investment process based on an ESG due diligence. Before submitting the asset investment proposal to KGAL's investment committee, the risk manager will include the ESG findings in a risk evaluation. ESG risk are disclosed and mitigated on a case-by-case basis.

For any real estate asset acquired, KGAL considers the following sustainability risks to be relevant to the fund (only examples, no conclusive enumeration):

- risk of weather-related disasters (e.g. hurricanes, floods, storms) which would likely result in an increase in relevant insurance prices and restoration measures; and

- risk of carbon emissions not falling to the necessary levels which could result in a governmental imposition of additional mandatory corporate carbon taxation

We evaluate all ESG-risks regarding their potential impact on both the fund's liquidity and profit and loss statement. If the risks are essential, they are considered within the limit system and stress tests.

## KGAL REAL ESTATE FUNDS AND ESG

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In addition to implementing the general ESG guidelines, fund-specific priorities were already set at an early stage, such as:

- KGAL Core 4 (Art. 8 fund) is designed as carbon neutral: the investment advisor is obliged to offset net carbon emissions through Klima-Kollekte, a CO<sub>2</sub> compensation fund of Christian churches in Germany. The fund also participates in GRESB, which provides a ranking indicating the fund's ESG performance in relation to other participant funds. Beside continuous ecological improvements of the fund assets during the investment process and management period, mandatory criteria exclude tenants that exceed certain turnover thresholds in industries relating to weapons, gambling, soft commodities speculation, nuclear power plants, fossil fuels, etc.
- KGAL Core 3 (Art. 8 fund) integrates social and environmental criteria that focus on carbon reduction with the goal of carbon neutrality and healthy living. Among others, all areas managed by the owners are supplied with 100% green electricity and the Fund achieves carbon neutrality by compensating CO<sub>2</sub> emissions according to approved international standards. In terms of social criteria, the fund promotes affordable housing, avoids gentrification and involves tenants as valued partners. To support these goals, relevant building certifications are also targeted (e.g. Well, Fit-well, DGNB).
- KGAL immoSUBSTANZ (Art. 8 fund) aims to manage at least 50% of its real estate assets in an almost climate-neutral manner by 2045. It is guided by an EU-compliant decarbonisation target path (CRREM) with the target of limiting global warming to 2 °C by 2100. For the other 50% of real estate assets, the aim is to comply with the decarbonisation target path. The target values defined in CRREM are compared with the correspondingly determined comparative values of existing properties and new properties to be acquired. In this way, the fund's portfolio is under continuous review to identify and realize optimisation opportunities. This goes along with an ESG due diligence in the investment process, regular collection of consumption data, promotion of green leases, and reduction of energy consumption. Generally, at least 90% of the net annual rent of commercial tenants is allocated to non-controversial industries. Controversial industries include gambling, pornography, spirituous beverages, tobacco products and weapons.