Eika Asset Management

A POLICY FOR ASSESSING SUSTAINABILITY RISKS IN INVESTMENT DECISIONS

WHAT DOES THIS POLICY ESTABLISH?

This Policy on the Consideration of Sustainability Risks in Investment Decisions (**the "Policy"**) sets out how Eika Asset Management (**the "Management Company"**) considers sustainability risks and their different aspects in its investment decisions and investment management.

The Policy is intended to apply to the investments of the CIU managed by the Management Company. The Policy does not define the Management Company's own governance principles in relation to ESG.

The Policy sets out the general principles that guide the Management Company's approach to assessing the investments of a CIU from an ESG perspective. The investment strategy of each CIU will have its own nuances. Accordingly, the appropriate approaches for assessing and managing sustainability risks will be determined for that CIU. If a particular CIU does not assess sustainability risk, an explanation will be provided in the prospectus of the CIU.

CONCEPTS

The director	One-person management body of the management company (administrative manager)
ESG (*Environmental, Social, and Governance Criteria*)	Environmental, social and governance criteria
EU	European Union
CIU	Collective investment undertaking managed by a management company for informed investors
RE	Real Estate
SPV	Special purpose company
Sustainable investments	Investments in economic activities that contribute to an environmental objective, such as those measured by key resource efficiencies indicators such as the use of energy, renewable energy, raw materials, water and land, the amount of waste produced, greenhouse gas emissions or the impact on biodiversity and the circular economy; investments in economic activities that contribute to the achievement of a social objective, in particular investments that contribute to tackling inequalities, or that promote social cohesion, social inclusion and labour relations, or

	investments in human capital or disadvantaged communities, provided that such investments do not significantly harm any of these objectives and that the investee companies comply with good governance practices, in particular as regards sound governance structures, employee relations, remuneration and tax compliance
Sustainability risks	An environmental, social or governance event or situation which, if it were to occur, could have an actual or potential material adverse effect on the value of the investment
Management Board	Collegial Governing body of the Management Company

WHY IS SUSTAINABILITY IMPORTANT?

Global climate change, societal changes and evolving technologies are some of the key aspects that real estate investors need to consider. Investing in real estate is a responsibility to identify, understand and manage environmental, social and economic impacts, both positive and negative while ensuring long-term returns on investment. The management company has integrated these aspects into its investment process, from acquisition to asset management.

WHAT DO WE AIM FOR?

Responsible investment is the main objective of the Management Company. The Management Company aims to invest in real estate that is not only an attractive investment but also enriches the lives of people and communities and creates lasting value for society and the environment.

In addition to investing in the sustainability of real estate, the Management Company also aims to invest in renewable energy to reduce global carbon emissions. An important part of the Management Company's mission is to create a more sustainable future by moving towards renewable energy.

The management company aims to be socially responsible in addition to these objectives:

1. In relations with employees: (i) the Management Company creates a working environment that ensures well-being and safe working conditions: health insurance for employees, flexible working conditions (possibility to work from home); (ii) employee surveys to assess the working climate, etc.; (iii) every employee is valued and a working environment is created where employees feel respected; (iv) fair pay is guaranteed, which depends on the functions performed, the quality of the work, and the professional abilities of the employee; (v) employees are offered training and development opportunities, and the sharing of best practices is encouraged.
2. The management company has a remuneration policy in place and is in line with EU regulations.
3. The management company aims to maintain gender diversity - from top management to employees.

HOW DO WE ACHIEVE THIS?

The management company's ESG strategy sets out three objectives and how to achieve them:

1. Improving the environment. This will be achieved both by investing in technologies and technological solutions that make real estate more sustainable and by investing in real estate that generates its own renewable electricity.
2. Social benefits. This will be achieved by investing in Real Estate that delivers positive social outcomes for tenants, residents, local communities and wider society, depending on the type of CIU and the market in which it operates.
3. Good management. This will be achieved through the implementation of good governance practices within the Management Company and through accountability in relation to the achievement of ESG objectives.

The design of the CIU strategy will specify which ESG characteristics will be promoted or pursued. Long-term ESG objectives and short-term objectives/implementation plans will be set at the level of the CIU. The objectives will be reviewed and adjusted by the Board as necessary.

WHAT ARE OUR INVESTMENT DIRECTIONS?

The management company has two investment lines:

1. Investing in Real Estate – CIU, which will invest in real estate in one form or another, including, but not limited to, existing, under construction, reconstructed, renovated and/or planned to expand, reconstruct, renovate or newly build commercial or residential Real Estate objects;
2. Investing in renewable energy – CIU will invest in renewable energy in one form or another, including but not limited to:
   (a) renewable energy (solar, wind, hydro and hybrid) power plants in the EU and technologies related to energy storage and gathering. Renewable energy plants can be either already built and in operation or newly built; and/or
   (b) specialised bio-energy plants which convert the energy released by biochemical processes into heat and electricity; and/or
   (c) geothermal energy plants and technologies harness the hot water in the earth's subsurface to produce heat and electricity.

The management company will consider climate change risks, energy efficiency, water use, biodiversity impacts, land use and waste management when making investment decisions. The Management Company will seek to contribute to mitigating climate change, conserving the natural environment and enhancing biodiversity where possible.

WHAT WILL WE BUY AND HOW?

A CIU investing in both real estate and renewable energy will be able to acquire real estate assets (including power plants, etc.) either directly or through controlled SPVs (**"Real Estate Investments"**).

CIU investing in renewable energy also have the right to acquire non-equity securities of companies that have invested or intend to invest in the relevant assets and equity securities of companies that are developing or have acquired the relevant assets (**"Investments in investee companies"**).

Accordingly, the Management Company will assess indicators related to:
1. Investments in Real Estate, if the investment is made directly or through an SPV;
2. Investments in Real Estate and Investments in Investee Companies when invested in them.

WHAT ARE THE SUSTAINABILITY RISKS OF INVESTING IN RE?

Sustainability risks can arise at any stage in the life cycle of property investments, including acquisition, renovation and construction. **Sustainability risks that can adversely affect the value of a particular property can materialise through:**

1. Environmental factors: extreme weather events and physical climate risks such as flooding, waste generation and greenhouse gas emissions, pollution incidents, damage to biodiversity;
2. Social circumstances: material and structural safety issues, health and safety incidents such as injuries or deaths;
3. Mismanagement: failure to identify and understand new legislative requirements or standards.

HOW WILL WE ACHIEVE SUSTAINABILITY WHEN INVESTING IN COMMERCIAL OR RESIDENTIAL PROPERTY?

As far as possible, the management company will aim to reduce energy consumption, improve energy efficiency and reduce carbon emissions in real estate properties. This will be achieved through the implementation of advanced building management systems, the use of renewable electricity, energy-saving solutions, etc.

In assessing the sustainability of a Real Estate Asset, the Management Company will take into account a range of relevant factors, including the following:
1. Management (design; operation and commissioning; responsible construction practices);
2. Health and well-being (indoor air quality; thermal comfort; sound insulation; safety and security);
3. Energy (reducing energy use and carbon emissions; lighting; energy-efficient equipment);
4. Transport (public transport accessibility; infrastructure; amenities for cyclists);
5. Water (water consumption; water consumption monitoring; water leakage detection);
6. Materials (insulation; resistance and durability; material performance);
7. Waste (supervision of construction waste management; recovery of waste);
8. Land use and ecology (siting; ecological value of the site and protection of ecological features; long-term impacts on biodiversity);
9. Pollution (coolant use; nitrogen oxide emissions; flood risk; noise reduction).

On the market, properties can obtain certificates showing that the building meets specific standards. The main standards/certificates recognised in the market are:

1. GRESB;
2. BREEAM;
3. LEED;
4. HQE;
5. DGNB;
6. CASBEE.

The management company will seek to invest in properties that have/plan to have relevant certificates.

HOW DOES INVESTMENT IN RENEWABLE ENERGY CONTRIBUTE TO SUSTAINABILITY?

Alternative, renewable energy (e.g., solar energy) has become a key technology in transitioning from carbon-intensive fossil fuels to renewable energy. As an asset manager, the management company has an important role in helping direct capital towards technologies that contribute directly to sustainability.

The management company will aim to make a positive contribution to improving ESG:
1. Directly, by creating CIU that will finance specific renewable energy projects;
2. Indirectly, by exercising investors' rights in investee companies (e.g. by appointing managers of investee companies).

HOW DOES SUSTAINABILITY CORRELATE WITH FINANCIAL RETURNS?

The management company's sustainability risk assessment considers international studies[1] indicating the positive impact of ESG on the return on real estate investments. A 2015 study showed a positive impact in 57% of equity studies, 64% of bond studies and even 71% of real estate studies.

See below for more research [2], which show trends in the green risk premium in real estate.

[1] Source: *Bassen, A., Busch, T. and Friede, G. (2015). "ESG and Financial Performance: Aggregated Evidence from More than 2,000 Empirical Studies". Journal of Sustainable Finance & Investment, 5(4), pp. 210–233.*
[2] Source: AllianzGI Global Solutions (2015). *ESG in Real Estate.*

Author / Source	Year	Research period	Place	Segment	Sample	Diagram	Sale or rent	Change in prices	Size	
									Sales	Rent
Fuerst, McAllisterNanda, Wyatt	2013	1995–2011	JK	Residential use	325,950	EPC (Energy Performance Certificate)	Sales	Positive	6% - 14%	–
Kok, Kahn	2012	2007–2012	JAV	Residential purpose	1,604,879	Energy Star, GreenPoint Rated, LEED	Sales	Positive	9%	–
Yoshida, Sugiura	2014	2002–2010	Japan	Residential purpose	41,560	Tokyo Green Building Programme	Sales	Mixed	-5 % - +17 %	–
Fuerst, McAllister	2011	1999–2008	JAV	Commercial use	24,479	Energy Star, LEED	Both	Positive	25 % - 26 %	4 % - 5 %
Kok, Jennen	2012	2005–2010	The Netherlands	Commercial use	1,072	EPC (Energy Performance Certificate)	Rental	Positive	–	6.5% - 12%
Newell, MacFarlane, Walker	2014	2011	Australia	Commercial use	366	NABERS	Both	Mixed	-1% - 9%	-1% - 7%

Although past performance does not guarantee the same results in the future, the above studies show a trend that investing in sustainability, particularly in sustainable real estate, can positively impact the value of investments.

WHO SETS THE REQUIREMENTS?

The Paris Agreement, which the EU endorsed on 5 October 2016, aims to strengthen the response to climate change.

To meet the objectives of the Paris Agreement and to significantly reduce the risks and impacts of climate change, Regulation (EU) 2019/2088 of the European Parliament and the Council on sustainability-related disclosures in the financial services sector was adopted on 27 November 2019. It was decided that the Regulation would oblige financial market participants (of which the Management Company is one) to disclose information on their approach to assessing sustainability risks in their decision-making.

WHO IS RESPONSIBLE FOR THIS POLICY?

The policy is approved by the Board. The policy guides investment decision makers