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Policy on sustainability and remuneration

Information sheet and version control

Information sheet

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Department	Management Board
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Related documents	Vesteda's Variable Remuneration Policy and Vesteda's Remuneration Policy
To	External use

Content

Chapter 1

Introduction

Scope

Vesteda Investment Management B.V. ("Vesteda") is the Manager of Vesteda Residential Fund (the "Fund") and, as such, must adhere to the Alternative Investment Fund Managers Directive ("AIFMD"). Pursuant to the AIFMD, Vesteda has implemented a balanced remuneration policy for the members of its Management Board (Chief Executive Officer and Chief Financial Officer) and Management Team (jointly "Management"). The Management Team is comprised of: Chief Operations Officer, Chief Investment Officer, Director HR. It is noted that Vesteda's Manager Internal Audit and its Compliance Officer are part of the "identified staff" as defined in the AIFMD. However, as they do not receive performance related variable remuneration, they fall outside the scope of this policy.

Vesteda's remuneration policy is clear and transparent, and is meant to be closely aligned with its strategy, business targets and the overall interests of Vesteda. It is also aligned with and a contributing factor to adequate and effective risk management. It aims at avoiding that Management take risks that are not compatible with Vesteda's risk profile. In addition, the remuneration policy is constructed in such a way that financial incentives that may enhance irresponsible risk taking in Vesteda's operational and financial policies are avoided.

The remuneration policy aims at contributing to the integrity and solidity of the company and at the long-term objectives of the company and the interests of Vesteda's stakeholders. In light hereof, it is deemed essential that Management are focused on achieving concrete and ambitious sustainability targets and take into account sustainability risks in the day-to-day operations.

This policy describes Vesteda's (variable) remuneration policy for Management and how this is consistent with the integration of sustainability risks and factors.

Chapter 2

Remuneration Policy and sustainability risks

Description of remuneration policy

The remuneration for our Management is aimed at preventing that irresponsible risks are taken for personal gain. The total remuneration comprises of a fixed and a variable component.

The remuneration comprises:

- Fixed part
- Variable part
    - Direct component: 60% of overall variable remuneration
    - Indirect component: 40% of overall variable remuneration

The direct component is unconditional, the indirect component is conditional. Both components are rewarded 50% in cash and 50% in phantom shares. The indirect component can be subject to a correction by the Supervisory Committee for three years. After this period, the indirect component is converted into an unconditional grant. The purpose of this retention period is to ensure that the focus of Management is directed towards Vesteda's business continuity and long-term objectives, which include sustainability objectives. In case Supervisory Committee is of the opinion that Vesteda faces undesirable results due to for example irresponsible risk taking on the part of the grantee, it could decide to apply a significant downwards adjustment of the indirect component.

The phantom shares are subject to a retention period of one year after the unconditional grant. Vesteda does not grant guaranteed variable remuneration.

The aforementioned leads to the following:

The variable remuneration entitles:

- the CEO to 26.6% of base salary for 'on target' performances, with a maximum of 40%
- the CFO to 20% of base salary for 'on target' performances, with a maximum of 30%
- the Management Team to 20% of base salary for 'on target' performance, with a maximum of 30%

This also evidences that the overall remuneration of Management is not disproportionately dependent on achieving certain individual targets, which mitigates the risk that unsound business decisions are taken to the detriment of (sustainability) targets in the interest of personal gain.

Targets

The variable part of the remuneration depends on whether set targets are met.

The following principles are applied:

- the targets should reflect a fair balance between:
    - long-term and short-term goals
    - company goals and individual goals
    - the interests of the various stakeholders of Vesteda
    - financial and non-financial criteria
    - qualitative and quantitative criteria
- individual targets should have limited impact on the total remuneration
- a material qualitative part of the variable component is at the discretion of the Supervisory Committee
- part of the variable remuneration will be invested in Vesteda and has a lock-up period of three years

The targets that are related to the overall performance of the company should represent 70% of the target setting. The targets should be ambitious and promote outperformance. Underperformance on a specific target means no allocation of that variable remuneration component will take place.

The targets are closely linked to the goals that are set in Vesteda's current Business Plan and are reviewed on a quarterly basis by the Nomination- and Remuneration Committee. The Supervisory Committee shall make the final assessment on whether the set targets are achieved or not. Quantitative targets, are calculated and verified by Vesteda's business control department.

Sustainability risks and factors

ESG targets

With regards to the sustainability of the portfolio, Vesteda focuses on climate change mitigation and adaptation. As such, it has integrated some ambitious targets in the Business Plan 2021-2025:

- in 2021 ≥91% (in 2024 ≥99%) of Vesteda's properties have green energy labels; to achieve this, there is an extensive investment programme in place to improve ther assets that do not yet meet this goal
- launch a pilot for the installation of 5,000 solar panels
- reducing carbon emissions; in 2030 Vesteda wants to have reduced its carbon footprint by 49%, and in 2050 by 95% in comparison to 1990

- maintain and/or increase Vesteda's exposure to (regulated) mid-market homes in primary regions
- outperformance of the UN PRI benchmark

The Business Plan has been approved by the participants of the Fund. The Supervisory Committee will monitor the Fund's performance against the Business Plan on a continuous basis throughout the year.

Aforementioned targets have been converted into concrete and measurable targets for the Management for 2021:

- Energy label conversion rate
- GRESB score ("Global Real Estate Sustainability Benchmark")

In realising these targets, Management always focuses on the real impact on sustainability goals versus "quick wins". In theory, Management could influence its GRESB score by implementing "quick win" measures. This risk is significantly mitigated by reducing the weight of this target and to aim for a top 3 position and 5 stars, rather than to "win the contest" at all costs.

The defined targets are further integrated in the targets of the employees at all levels within the organisation.

Other targets

It is noted that other targets could, in theory, have an indirect (negative) effect on sustainability factors. Two of the most significant targets in this respect are explained further below:

- Acquisition target:
  Vesteda has a long-term acquisition goal of approximately 1,100 units per year. This can be achieved by purchasing existing portfolios, new buildings or densification of existing property. This target could, in theory, give an incentive to Management "acquire at all cost", not taking into account sustainability factors and risks. This risk is mitigated by the following. Vesteda has identified sustainability risks that are most material for Vesteda and and which risks and sustainability factors Vesteda can have the most impact on. These are *transition risks* (which consist of energy performance, carbon emission and circularity), *physical climate risks* (which consist among others of flooding due to levee breach, heat stress and flooding due to heavy rainfall) and *social risks* (which consist of affordability and health and wellbeing). These risks and sustainability factors are incorporated in an ESG scorecard which results in a sustainability impact score. The scorecard will be used to assess potential acquisition projects and, in case Vesteda eventually wishes to acquire the project, it will be added to the investment proposal.
  With regard to the sustainability score, Vesteda will "comply or explain" the score of the acquistion at hand. Any investment proposal > EUR 20 million is submitted for approval to the Supervisory Committee and > EUR 100 million to the participants of the Fund. In this way, Management is accountable for making sustainability an integral part of the investment process.

- Total return:
  Vesteda's target is to outperform the benchmark "MSCI Dutch residential 3 yrs average". This target could, in theory, given an incentive to Management to invest in assets with a higher risk and a lower sustainability score, in order to outperform on the MSCI total return target. This risk is substanitally mitigated by the requirement to include a sustainability impact score in investment proposals, which forces Management to "comply or explain" in this regard. In addition, the professional assessment of the proposed acquisition of both the Manager Sustainability and the Manager Research are included in the investment proposal. The variable remuneration of these officers is not materially dependent on either outperformance or acquisition volume[1].

Governance

Review and approval

This policy shall be reviewed and approved on an annual basis.

Any changes to this policy shall be submitted for review to the Nomination- and Remuneration Committee and approved by the Supervisory Committee.

[1] On the other hand, project with a good sustainability score but foreseeable financial underperformance, will not be approved if it fails to meet the set return requirements.