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Policy on the integration of sustainability risks and factors in the investment decision making process

Information sheet and version control

Information sheet

Title	Policy on the integration of sustainability risks and factors in the investment decision making process
Department	Acquisitions and Development
Policy owner	Chief Investment Officer
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Content

Introduction

The transition towards a more sustainable, low-carbon, resource efficient and circulair economy, which is in line with the Sustainable Development Goals of the 2015 Paris Agreement, is vital to limit global warming and reduce climate change, whilst ensuring long-term value creation. In order to reach the objectives of the Paris Agreement and significantly reduce the risks and impact of climate change the target is to limit the tempurature increase to a maximum of 2 degrees and pursue efforts to limit the temparature increase to 1,5 degrees above pre-industrial levels. Following this, the European Commission released an Action Plan for Sustainable Growth.

As part of the Actionplan for Financing Sustainable Growth, the European Union implemented the Sustainable Finance Disclosure Regulation ("SFDR") in 2021. The goal of the SFDR is to reorient capital flows towards a more sustainable economy. Furthermore, the SFDR established a regulatory framework to harmonise the disclosure on the integration of sustainability risks in the investment decision-making process and the consideration of principal adverse impacts of investment decisions on sustainability factors. Moreover, the SFDR aims to reduce the information asymmetries with regard to these topics between financial market participants, making disclosures more comparable for investors.

"Sustainability risk" is defined in the SDFR as 'an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment. As a result, investors therefore are mandatory to provide information how it integrates ESG in its risk considerations and investment management decisions.

"Sustainability factors" mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Vesteda provides insight in which potential sustainability risks Vesteda indentified with regard to its real estate portfolio. Furthermore it explains how Vesteda integrates sustainability risks and principal adverse impacts on sustainability factors in the investment decision making process regarding new acquisitions and redevelopment of real estate assets.

This policy document covers Article 3 of the SFDR which Vesteda is obliged to publish on its website.

It is noted that Vesteda Residential Fund (the "Fund") is managed by Vesteda Investment Management B.V. (the fund manager). The fund manager only manages the Fund and its indirect shareholders are the investors in the Fund. Reference to Vesteda therefor implies reference to the Fund and the fund manager. Vesteda, solely invests in direct real estate assets.

Policy on the integration of sustainability risks and factors in the investment decision making process

Introduction

Vesteda is an institutional residential real estate investor with a large and varied portfolio of homes in the Netherlands. Vesteda has a focus on the mid-rental segment and a focus on improving the quality and sustainability of its portfolio. Vesteda invests the pension savings and insurance premiums entrusted to it by institutional investors, such as pension funds and insurance companies, in Dutch residential real estate, predominantly for middle-income tenants. As such, we contribute to future income security for retirees, affordable living for Dutch middle-income households and to the continued improvement of the quality of urban communities in the Netherlands.

Vesteda's sustainability policy targets

We see sustainability as vitally important for the long-term value development of our portfolio, our organisation as a whole and the society in which we operate. We believe that our efforts in the field of sustainability improve and strengthen Vesteda, both directly and indirectly, that they result in future-proof returns on our investments and that they help us to create value for all our stakeholders. Our sustainability targets are an integral part of our business plan, which is approved by our investors on an annual basis and are therefore firmly embedded in our day to day business operations.

With regard to sustainability risks and impact on sustainability factors, we specifically look at what sustainability risks are most material for Vesteda and which risks and sustainability factors we can have the most impact on. These are, for example, *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 the ESG framework which can be found in Annex A (the "ESG Framework").

ESG integration in acquisitions and renovation

Sustainability risks and impact on sustainability factors form an important part of Vesteda's investment decision making process for new acquisitions and renovation of existing buildings. Vesteda applies its technical standards to assess whether new (potential) investments comply with Vesteda's sustainability and technical requirements (the "Technical Standards"). Since 2021, Vesteda uses an ESG risk-framework to determine a sustainability impact score for each new-built or renovation project. This contributes to a broader scope on relevant sustainability risks and factors.

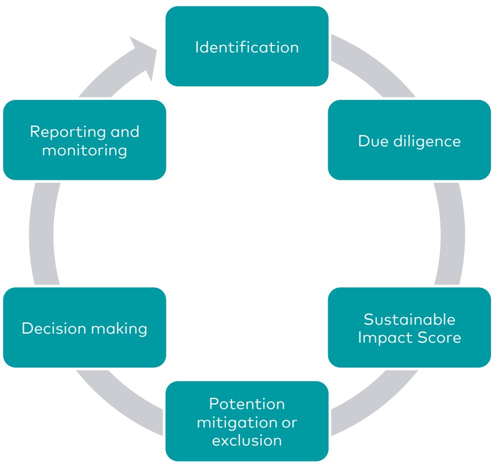
The Technical Standards consist of technical and qualitative sustainability requirements that new projects and renovation of exisisting residential buildings are required to meet. These standards are, in some cases, even higher than national and local regulations and legislation and also take into consideration the Technical Screening Criteria for climate change mitigation and adaptation in relation to the EU Taxonomy Regulation[1].

For example: Vesteda has high requirements regarding the maximum temperature inside a residential unit. As temperatures continues to rise due to climate change, Vesteda anticipates on a greater need for cooling measures to safeguard the living comfort of our tenants.

In the ESG framework sustainability risks and potential impact on sustainability factors are incorporated and measured to score new projects and renovation of exisisting residential buildings that Vesteda is considering to invest in. As a result, each potential project is assigned a sustainability impact score based on approximately 25 indicators. The weighted average of this score results in a sustainability impact core (SIS) of the project. Although Vesteda has already been setting high requirements for sustainability for many years, the ESG framework and the sustainability impact score are still relatively new and will be further developed and refined over time. The integration of the ESG framework will ensure that sustainability risks and impact on sustainability factors are fully embedded in the decision making process.

Investment assessment and decision making process

The assessment and decision making process for new investments takes place in several stages which are as follows:



Identification of sustainability risks and potential impact on sustainability factors

[1] Reg (EU) 2020/852

Firstly, potential sustainability risks and potential impact on sustainability factors of the proposed investment are indentified. Vesteda uses its Technical Standards and the ESG risk framework (Annex A) to assess the ESG performance of the project. The ESG risk framework will be used both to identify sustainability risks and to identify if the investment contributes to Vesteda's ESG goals. In general, Vesteda assesses new projects and renovation of existing buildings with regard to the quality of the product, sustainability and financial risk and return requirements. With regard to new projects, a selection is carried out to determine whether or not the project meets the requirements of Vesteda and whether it wishes to continue with the potential investment. This will lead to an exclusivity agreement with the counterparty after which we proceed to the next stage.

Screening and selection (due diligence)
A due diligence is performed during the screening and selection phase. The goal is to assess the various sustainability risks and impact on sustainability factors.

For instance, the energy source is reviewed in relation to the 'energy emissions and performance' indicator. Hence, Vesteda will try to reduce energy needs of the property and have sustainable energy sources used. This can for instance be done by applying extra isolation measures and/or by using an aquifer thermal energy storage (ATES) or increase the number of pv-panels. Both will have a positive impact in lowering the energy use per sqm per year and increase the use of sustainable energy. As a result, the project will have a positive impact and a high score on energy emissions and performance.

Sustainability impact score
Vesteda measures a project's sustainability risks and impact on sustainability factors by benchmarking the project against the sustainability indicators in the ESG framework. After Vesteda has assessed all items in the ESG framework it will result in an overall sustainability impact score.

Potential mitigation
In the case Vesteda identifies a potential sustainability risk or a certain impact on a sustainability factor the project thus scores low with regard to that specific item. Vesteda will then, together with the counterparty, try to find mitigating solutions that can address, reduce or eliminate the potential risk or impact. The developer and or contractor will be responsible to alter the design or take additional measures to comply with Vesteda's requirements.

If for instance the property's location has a high risk of heat stress (such as inner city locations) and the temperature exceeding report shows that there is a risk of high indoor temperatures, Vesteda will ask the developer to take provisions against temperature excesses. This can for instance be done by the use of passive cooling, a different type of glass in the facade or by installing sunscreens and applying a green roof for water retention. This could possible lead to improvements and alterations of the project to enhance the sustainability impact score and mitigate potential sustainability risks.

Decision making

As described, the aforementioned assessment and due diligence of potential sustainability risks will lead to a SIS. This score will be incorporated in the Investment Proposal. Vesteda describes the potential investment and gives insight in whether it complies to the risk and financial return requirements in the investment proposal. With the SIS, the potential sustainability risks are explicitly incorporated in the investment decision making process and Vesteda is able to make a well balanced decision for the specific investment. Investment proposals for acquisitions with a value of > EUR 20 million are subject to the approval of the Supervisory Committee and > EUR 100 million of the participants of the fund. Vesteda will reject a project or renovation in case its SIS falls below a pre-defined threshold, unless there are compelling reasons to not do so. This will have to be motivated and taken up in the relevant investment proposal for consideration of the Management Board and Supervisory Board and/or Participants (depending on the investment amount).

Reporting and Monitoring

The reporting and monitoring phase takes place after project completion. At this stage the property is finished, rented out and operated. Vesteda monitors the performance and impact of sustainability factors. This is conducted by gathering data from the properties and perform property performance tests. . The results therefrom and the results from the benchmarks comprise input for our policy on investments decisions and may cause adjustments of the ESG Framework and Technical Standards.

Governance

Vesteda constantly seeks to improve the ESG impact of investments and therefore will continuously update the Technical Standards, sustainable impact score metrics, the ESG Framework and this policy. The policy on integration of sustainability risks and factors will be yearly evaluated and any amendments will be submitted for approval to the Management Board.

The Chief Investment Officer is ultimately responsible for the implementation and integration of this policy.

Annex A

ESG FRAMEWORK					
	Sustainability risk / impact on sustainability factor indicator	**Strategy and due diligence**	**Sustainability Impact Score (SIS)**	**Potential mitigation**	**Reporting and monitoring**
Environmental	• Climate adaptivity • Biodiversity • Energy performance • Water use and water retention • Material use and resources	• Resilience against physical climate risks (flooding, heat stress, groundwater flooding, wildfire and wooden pile rot) • Protection and restoration of biodiversity and protect species and habitats • Reduce energy consumption, increase sustainable energy and reduce carbon footprint • Sustainable use and protection of water resources • Exclude environment unfriendly materials, transition towards circularity	• Climate adaptivity risk score (CAS) • Biodiversity score • Energy consumption (kWh/sqm) • # of water saving measures • Material and resources score	• Climate adaptivity measures • Increase green to improve biodiversity • Decrease energy need, adjust energy source, increase renewable energy sources (solar panels, ATES etc.) • Green roof for heat reduction and water retention • Increase water saving and retention measures • Stimulate environmentally friendly materials, apply testing on emissions on formaldehyde concentration	• Climate adaptivity risk score (CAS) • Biodiversity score • Energy consumption in kWh

Social	• Affordability • Accessibility • Health and wellbeing	• Realise residential units for mid income households • Job accessibility from residential unit • Create comfortable living environments	• % of mid rental housing from total units • Vesteda mobility score • Comfort score	• Allocate units for mid income households • Comply to Woonkeur and design improvements to enhance GPR and Breeam score • Apply additional measures if necessary, such as extra air filters in ventilation systems or screens at the façade	• Percentage of mid rental units on total portfolio • Vesteda mobility score
Govern ance	• Compliance • Quality • Social return	• Screening of counterparty risks • Internal and external audits • Alignment of suppliers and counterparties • Contribution to social return	• Satisfactory outcome Client Due Diligence check • ISAE controls • Alignment with sustainability goals	• Exclude parties with reputational risks • Responsible and well balanced decision making	