PGIM REAL ESTATE

PGIM Real Estate Germany AG

PGIM Real Estate Luxembourg S.A.

Principal Adverse Impacts – Investment Due Diligence Policy

10 March 2021

This document sets out the investment due diligence policy of PGIM Real Estate Germany AG (LEI: 529900X2Q4V8EL5EB666) and PGIM Real Estate Luxembourg S.A. (LEI: 549300L5RQD5M18TN802) (together the "**Firm**"), in respect of the principal adverse impacts of our investment decisions on sustainability factors. The Firm's analysis shows that it does not meet the criterion of the average number of 500 employees during the financial year and thus complies with any requirements to the transparency of adverse sustainability impacts on a voluntary basis.

1. Introduction

1.1 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to make a "comply or explain" decision whether to consider the principal adverse impacts of our investment decisions on sustainability factors. The Firm has decided to comply with that regime.

1.2 "Sustainability factors" are defined in the SFDR as meaning environmental, social and employee matters, respect of human rights, and corruption and anti-bribery matters.

1.3 In overview, the Firm's sustainability values are that we believe that doing the right thing for our people, the environment and our communities leads to better results for all our stakeholders.

We strive to embed ESG best practices throughout our real estate investment, asset management, risk management, and talent management processes.

1.4 This document sets out the Firm's investment due diligence policies in respect of the principal adverse impacts of our investment decisions on sustainability factors, as required by Article 4 SFDR. The policy applies to all investment professionals of the Firm, and applies in respect of all portfolio management services, investment advisory services, AIF management and carried on by the Firm, but subject to the product-specific exceptions noted in section 3 of this policy.

1.5 For reference, the Firm maintains other policies and documentation related to sustainability, including:

- Sustainability Risks Policy,
- PGIM Real Estate's Global ESG Policy,
- Remuneration Policy

1.6 This policy applies as from 10 March 2021. This policy also partially applies, where the management of portfolios or assets is not provided by the Firm but is delegated to and/or supported by other entities of the PGIM Group, which may be seated in non- EU countries.

1.7 Article 4 of SFDR requires that regulatory technical standards will be published, to supplement the high-level requirements of Article 4. **As of 10 March 2021, those regulatory technical standards have not yet come into force. As such, this policy adopts the approach of principles-based compliance with Article 4. This policy will need to be reviewed and updated once the regulatory technical standards are finalised.**

2. Purpose of this policy

2.1 The Firm's investment professionals must apply the due diligence measures specified in this document, when they are making the investment decision to acquire an asset, either directly or indirectly, subject to the exceptions described below in section 3 of this policy. This is to enable the Firm to identify and prioritise principal adverse sustainability impacts and indicators. This policy approaches sustainability from the perspective of the harm that our investment positions might do externally to sustainability factors, and what steps we take to mitigate that harm. This is based on our corporate sustainability values.

2.2 For the purposes of SFDR, the regime around principal adverse impacts is <u>not</u> concerned with the risk that ESG events could impact on the value of our clients' investments. In other words, this policy covers "*values*" rather than "*value*". The impact of sustainability risks on our clients' investments is covered by the Firm's separate Sustainability Risks Policy.

3. <u>**Product-specific exceptions**</u>

3.1 The SFDR permits certain financial products not to comply with the firmwide principal adverse impacts policy, even where the management entity is generally complying with the principal adverse impacts regime. The Firm has decided that, while it will generally comply with the principal adverse impact regime across our product range, certain products will be excepted from compliance.

3.2 Products which may be excepted include, for example:

- products involving portfolio management strategies where it is not possible to conduct detailed diligence on the principal adverse impact of our investments on sustainability factors,
- products where the client expressly instructs us not to follow the firmwide policy;
- products for which it would be unlawful or contrary to applicable regulation to follow the firmwide policy, for example a legal regime which requires the firm to prioritise only economic factors when investing for certain types of client;
- products the terms of which do not contemplate or permit the application of this firmwide policy, including where regulatory or client consents or amendments would be required to apply this policy at product level; and
- products, which are part of the Global Real Estate Securities (GRES) business.

3.3 The Firm's process for excepting a particular product is that the Board of Directors will consult with the PGIM Real Estate ESG group on the possible exception of the product and then discuss the exception internally and decide whether or not to exclude.

4. <u>**Governance and senior management responsibility**</u>

4.1 The Firm's Board of Directors is ultimately responsible for the firm's policies and procedures in respect of sustainability.

4.2 In particular, the Board of Directors appoints an individual of the Board of Directors, who will be personally responsible for investment due diligence, when allocating responsibilities.

4.3 The Firm's Board of Directors has approved this policy and the related procedures.

5. <u>**Principal adverse indicators – due diligence phase**</u>

5.1 This section of the policy applies to all products managed by the firm, <u>except</u> for those products which have been carved-out under section 3.

5.2 Prior to making any investment decision, our transactions and portfolio management teams (referred to below as the "**relevant investment professional**") are required to conduct due diligences (e. g. legal or technical) and gather facts from diverse data sources on the proposed investment position. These investment due diligences will evaluate a variety of factors including (for the purposes of this policy) an assessment of how the proposed investment position is assessed against the sustainability indicators which are specified below. The table below specifies the sustainability metrics which must be reviewed, the detail of the metric, and the data sources which are available to the investment professionals.

The transaction team then presents and discusses the results with the portfolio managers. The portfolio managers decide on whether the respective investments should be made, taking into account economical and risk relevant facts. The transaction team then presents their result to the Investment Committee in a paper. The Investment

Committee reviews and discusses the results in a meeting and votes on the recommendation in relation to the investment decision based on the Investment Committee paper.

No.	Indicator	Detail	Data sources
1	**Fossil fuels**	Exposure to fossil fuels through real estate assets Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	Technical DD
2	**Energy efficiency**	Exposure to energy-inefficient real estate assets Share of investments in energy-inefficient real estate assets	ESG New Acquisition Due Diligence
5	**Waste - Waste production in operations**	Share of real estate assets not equipped with facilities for waste sorting and not covered by a waste recovery or recycling contract	ESG New Acquisition Due Diligence

5.3 ***Non-availability of data:*** The investment professional must use reasonable efforts to obtain the required data, from the sources indicated above. If the data is not reasonably available, that fact shall be recorded instead of the quantitative data point.

5.4 Investment professionals may conclude, using their reasonable judgment, that a particular metric is not commercially relevant to the assessment of a particular proposed investment, given the asset class of that proposed investment or the proposed investment strategy.

Where the investment professional reaches the conclusion that sustainability metrics are not relevant, that conclusion shall be recorded instead of the quantitative data point.

5.5 ***Recording the sustainability metrics:*** Having completed the diligence exercise, these data points must be recorded in the Investment Committee Paper.

Such a record will show either:

- the relevant quantitative data point or
- confirmation that the data is not reasonably available or
- conclusion that the metric is not relevant to the proposed investment

5.6 This diligence assessment then feeds into the investment phase, as outlined at section 6 of this policy, below.

6. Principal adverse impacts – investment phase

6.1 Having completed the diligence assessment as noted under section 5, the relevant investment professional is then required, when evaluating the merits of a proposed investment, to determine the extent to which the results of the diligence exercise should weigh on our investment decision, taking into account our sustainability values as articulated below.

6.2 The Firm's policy is to allow the relevant investment professional to exercise their subjective judgment as to whether and how the results of the diligence process impact on the investment decision, as against the Firm's sustainability values:

- **Environmental**: We generally aspire to invest in investment positions which do relatively less adverse impact to environmental sustainability as compared to competitors in similarly sized and investment strategy/styled funds as measured by carbon emissions.

- **Social:** We generally aspire to invest in investment positions which meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption, as measured by reference to the UN Global Compact.

6.3 The relevant investment professional is required to subjectively assess, using their reasonable judgment, if the proposed investment does significant adverse impact, in light of those sustainability values.

- If the conclusion is that there is no significant adverse impact, then that shall be recorded in the Investment Committee Paper.

- If the conclusion is that there is a risk of significant adverse impact, then the investment professional is further required to determine what the consequences of that shall be for our investment decision. In making this decision, the relevant investment professional shall generally **prioritise** mitigating adverse impact according to the order in which the identifiers appear in the table as specified above. In other words, the Firm will prioritise mitigating fossil fuels above (for example) mitigating waste production in operations.

- The investment professional shall have complete discretion as to what decision to take, and these steps may include the following mitigating actions (amongst other things):

  (i) Making a decision <u>not</u> to invest in the proposed investment.

  (ii) Making a decision to invest, but with a limited position size.

  (iii) Making a decision to invest, but with an intention to engage with the management of the asset to improve their business from a sustainability perspective.

  (iv) Making a decision to invest, but with an intention to make offsetting investments to balance or hedge the adverse impact being done through this investment.

  The investment professional shall be required to record their decision on what mitigating actions, if any, are appropriate to take.

7. <u>**Principal adverse impacts statement**</u>

An assessment and calculation of the ongoing adverse impacts of the investment decisions on the sustainability factors mentioned above will be made on 31 March, 30 June, 30 September and 31 December. The assessment will include a description of the actions taken during the reference period and the actions planned or targets set for the next reference period to avoid or reduce the principal adverse impacts identified.

8. <u>**Disclosure of this policy**</u>

8.1 SFDR requires that the Firm must publish on our website information about this policy. The Firm satisfies this requirement by disclosing this policy itself on our website. In addition, the Firm commits to include information about our sustainability impacts, shareholder engagement policies and responsible investing guidelines on PGIM Real Estate’s Annual ESG Report.

8.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products which adhere to this policy, a description of how the product considers the principal adverse impacts on sustainability factors. The Firm satisfies this requirement by disclosing this policy itself in pre-contractual disclosures.

8.3 For any financial product which is excepted from this policy under section 3, we must instead include an explanation that the relevant financial product does not consider the principal adverse impacts on sustainability factors, and the reasons for that approach.

8.4 For these purposes, “pre-contractual disclosures” means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.