

**PGIM Real Estate Germany AG**  
**PGIM Real Estate Luxembourg S.A.**  
**Sustainability Risks Policy**  
**10 March 2021**

This document sets out the policies of PGIM Real Estate Germany AG (LEI: 529900X2Q4V8EL5EB666) and PGIM Real Estate Luxembourg S.A. (LEI: 549300L5RQD5M18TN802) (together the “**Firm**”), on the integration of sustainability in our investment decision-making process.

**1. Introduction**

1.1 The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the Firm to formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.

1.2 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.

1.3 This document sets out the Firm’s policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 SFDR. The policy applies to the Firm, and applies in respect of all portfolio management services, investment advisory services, AIF management carried on by the Firm.

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

- Principal Adverse Impacts – Investment Due Diligence policy,
- PGIM Real Estate’s Global ESG Policy,
- Remuneration Policy

1.5 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.

**2. Purpose of this policy**

2.1 Under SFDR, “**sustainability risk**” means 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 an investment.

2.2 This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients’ investments.

2.3 The Firm recognises that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those ESG risks could impact on our clients’ investments. This policy therefore establishes our framework to identify, measure, manage and monitor ESG risks to our clients.

2.4 For the purposes of SFDR, sustainability risk is not concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers “*value*” rather than “*values*”. The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm’s investment decisions on sustainability factors. The Firm is compliant with the principal adverse impacts rules under Article 4 SFDR, and has separately implemented a due diligence policy on this matter

2.5 In addition, SFDR is not specifically concerned with the risks that sustainability events may cause to the Firm's own balance sheet or prudential position. Such risks will be separately covered by the Firm's enterprise risk management.

### 3. **Governance and senior management responsibility**

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

3.2 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.

3.3 The Firm's Board of Directors has approved this policy and the related procedures, including the Firm's sustainability risk appetite, and the Firm's integration of sustainability risks into investment decision making.

### 4. **Sustainability risk management**

4.1 As part of our broader risk management processes when investing, the Firm has implemented procedures to (i) **identify**, (ii) **measure**, (iii) **manage** and (iv) **monitor** sustainability risks.

The Firm's approach to sustainability risk management is based on (amongst other things) the time horizon for our investments, the types of assets in which we invest, the sectors / geographies in which we invest, and the investment strategies we manage.

#### (i) **Identify**

4.2 As part of its ESG Assessment, the Firm separately reviews the sustainability risks which are potentially likely to cause a material negative impact on the value of our clients' investments, should those risks occur. These are summarised below in section 5 of this policy, and are broadly divided into the three categories of environmental, social and governance risks.

4.3 The Firm treats sustainability risk predominantly as a standalone risk through PGIM Real Estate's investment analysis and due diligence processes, including a robust and rigorous underwriting regimen, risk management evaluation and approval processes. We assess our investments for climate-related risks and anti-money laundering concerns.

**(ii) Measure**

- 4.4 An ESG and resilience due diligence review is conducted to assess the likelihood of occurrence of sustainability risks. This includes an assessment highlighting the strengths and weaknesses of an asset from an ESG perspective, from which conclusions can be drawn to inform asset-level capital and operational strategies. By embedding these strategies, designed to improve efficiency or resilience, in our underwriting, we are able to quantify, at a high level, the impact of these risks. Additionally, on an annual basis, assets are monitored and reviewed in depth to ensure we are improving efficiency and apprised of new risks as they are presented. Findings and adjustments are then addressed via the annual budget process.

During annual budgeting, an Asset-Level ESG Performance Report includes a review of an Asset-level work plan. The likelihood of impacts of ESG risks is identified based on a combination of factors: gross floor area, energy use intensity (EUI), water use intensity (WUI), percentage difference from national median (EUI and WUI), the top 20 percent of properties with highest utility consumption and costs, low waste diversion rates, operational control. Assets that lack asset-level ESG data are identified as having a data coverage risk factor. The analysis for sustainability risk is also completed with the results from GRESB.

As a part of PGIM Real Estate's recurring annual underwriting practice, ESG Asset-level work plans inform asset-level budgets, identify opportunities for ESG improvements, elect ESG mitigation solutions and set ESG priorities for resource and capital allotment of the upcoming year across portfolios consistently and on a global scale. The severity of the impact, should the risk occur, is reflected in the GRESB results and score.

By striving to embed ESG best practices throughout our real estate investment, asset management (e.g. lease structuring), risk management, and talent management processes, as demonstrated above, PGIM Real Estate effectively ensures significant protections, even in the event of catastrophic sustainability risk events.

If or when an unanticipated sustainability risk occurs, there could be a temporal, material negative impact on the asset value. However, by striving to embed ESG best practices throughout our real estate investment, asset management, risk management, and talent management processes, as demonstrated above, PGIM Real Estate effectively ensures significant protections are in place even in the event of catastrophic sustainability risk events. Additionally, in the event of a total property loss due to sustainability risk, the inherent value of land owned would be preserved.

- 4.5 In formulating such Risk Rating score, we rely on our own internal analysis and assessment and third-party data sources including Four Twenty Seven, GRESB and UNPRI.
- 4.6 In measuring sustainability risk, we take account of the "physical" or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for our investment positions). In addition, we also take account of the "transition" risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model.

**(iii) Management**

- 4.7 While the Firm's portfolio managers are provided with information on sustainability risks, and are encouraged to take sustainability risks into account when making an investment decision, sustainability risk would not by itself prevent the Firm from making any investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk. However, the Firm does not apply any absolute risk limits or risk appetite thresholds which relate exclusively to sustainability risk as a separate category of risk.
- 4.8 PGIM implements three lines of defense in managing risk, where risk management plays an active role in the investment risk group, the operational risk group, and in the audit process. Investment Risk Management is involved to ensure that any risks are accounted for and thoughtfully considered in the underwriting of new investments. In conjunction with the regional transaction teams, they identify and understand the local physical and regulatory factors that impact each new investment and applies a consistent approach to the underwriting of the risks associated. This is most notably addressed through a global standardized ESG table that is imbedded in the investment committee books and reported across each region.

PGIM Real Estate Operational Risk Management (ORM) implements the Firm's Global Operational Risk Management Framework. The Operational Risk Management Framework ensures thorough and thoughtful identification, assessment, mitigation, monitoring, and reporting of operational risk which includes risk from external events such as climate change and ESG requirements and related investor demands. ORM also provides guidance on certain company-wide initiatives, ensuring compliance with industry best-practices and Prudential's guiding principles and policies. The team continually strives to improve risk governance and consideration of both

current and emerging risks to effectively reduce the frequency and impact of unexpected financial and non-financial impacts.

As part of its routine oversight responsibilities, PGIM Real Estate Compliance partners with key business stakeholders to ensure that PGIM Real Estate is fully transparent regarding the various guidelines and continues to monitor for any further developments. The audit group uses a property manager review program to assess sustainability indicators at the site level and review the overall compliance program. The Compliance partners respond to material disclosures that a reasonable investor needs in order to make informed investments and voting decisions. This line of defense also ensures that risk criteria set forth by individual pensions are met.

**(iv) Monitoring**

- 4.9 The Firm's Portfolio Risk Management team conducts periodic monitoring of the existing client portfolios, to check that positions remain within sustainability risk limits, and takes corrective action if those limits are breached.
- 4.10 Where applicable to the relevant financial product, as part of ongoing monitoring, the Firm's portfolio managers are encouraged to engage in Active Ownership, with a view to reducing the Risk Rating of particular positions. Active Ownership is the process of exercising voting rights attached to securities and/or entering into dialogue with issuers on ESG issues, with a view to monitor or influence ESG outcomes within the issuer. PGIM Real Estate actively collects and monitors fund-level and asset-level ESG data of acquired properties and implements ESG programs to mitigate ESG risks where feasible.
- 4.11 In determining how to exercise voting rights attached to securities (e.g. private real estate funds), we rely on our own internal analysis and assessment.

5. **Relevant sustainability risks**

5.1 As noted above at section 4 of this policy, the Firm has taken steps to identify each key environmental, social and governance risks which could, if it occurs, cause an actual or a potential material negative impact on the value of an investment. These are summarised in this section 5.

5.2 **Environmental** sustainability risks for the value of our clients' portfolios:

- Climate change
- Energy efficiency rating compliance
- Low-flow water fixtures compliance
- Green building certificates
- Rising sea level, coastal flooding
- Wildfires, bushfires
- Waste recycling
- Water stress
- Heat stress
- Hurricanes, typhoons
- Non-renewables as exclusive energy source

5.3 **Social** sustainability risks for the value of our clients' portfolios:

- Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment
- Hazardous building material
- Accessibility standard(s) compliance

5.4 **Governance** sustainability risks for the value of our clients' portfolios:

- Non-compliance with minimum wage or (where appropriate) living wage requirements
- Green leasing

6. **Disclosure of this policy**

- 6.1 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.
- 6.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. The Firm satisfies this requirement by disclosing this policy itself in pre-contractual disclosures.
- 6.3 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.