~~PGIM Real Estate Germany AG~~

~~PGIM Real Estate Luxembourg S.A.~~

Principal Adverse Impacts – Investment Due Diligence Policy

10 March 2021

as amended

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**~~**AIFMs**")~~,~~ in respect of the principal adverse impacts of ~~our~~the 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~~AIFMs to make a "comply or explain" decision whether to consider the principal adverse impacts of ~~our~~the investment decisions on sustainability factors. The ~~Firm has~~AIFMs have 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~~AIFM'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~~sustainability best practices throughout our real estate investment, asset management, risk management, and talent management processes.

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

1.5 For reference, the ~~Firm maintains~~AIFMs maintain 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~~applied 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~~ and may be amended from time to time.

~~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~~AIFM'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~~AIFMs to identify and prioritise principal adverse sustainability impacts and indicators. This policy approaches sustainability from the perspective of the harm that ~~our~~the investment positions might do externally to sustainability factors, and what steps we take to mitigate that harm. This is based on ~~our~~the AIFM's corporate sustainability values.

2.2 For the purposes of SFDR, the regime around principal adverse impacts is not concerned with the risk that ~~ESG~~sustainability 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~~AIFM's separate Sustainability Risks Policy.

3. **Product-specific exceptions**

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~~AIFMs have decided, that~~, while it will generally comply with the principal adverse impact regime across our product range,~~ certain products will be excepted from full compliance and/or will only consider certain sustainability indicators.

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~~the investments on sustainability factors,
- products where the client expressly instructs us not to follow ~~the firmwide~~this policy;
- products for which it would be unlawful or contrary to applicable regulation to follow ~~the firmwide~~this policy, for example a legal regime which requires the ~~firm~~AIFMs to prioritise only economic factors when investing for certain types of client;
- products, which are not actively marketed into the European Union under a National Private Placement Regime; and
- 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~~AIFM's process for excepting a particular product is that the Board of Directors or the Management Board, as applicable, will consult with the PGIM Real Estate ~~ESG~~[1] sustainability integration work group on the possible exception of the financial product and then discuss the exception internally and decide whether or not to exclude.

3.4 The AIFMs will keep the decision not to comply with the principal adverse impact regime in respect of the excepted final products mentioned in 3.2 above under regular review and will formally re-evaluate the decision at least annually.

4. **Governance and senior management responsibility**

~~4.1~~ The ~~Firm~~AIFM's Board of Directors or the Management Board, as applicable, is ultimately responsible for the ~~firm~~AIFM's policies and procedures in respect of sustainability.

[1] ["PGIM Real Estate" refers to the real estate investment management business of PGIM, the principal asset management business of Prudential Financial, Inc. ("PFI"), a company incorporated and with its principal place of business in the United States.]

~~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~~AIFM's ~~Board of Directors has~~respective executive committee have approved this policy and the related procedures.

5. **Principal adverse impacts – sustainability indicators and data sources**

5.1 The SFDR regulatory technical standards (the "**SFDR RTS**") require AIFMs to consider the principal adverse impact of the investment decisions against two mandatory sustainability indicators relating to investments in real estate assets (the "**Mandatory Indicators**"). In addition, the SFDR RTS require the AIFMs to consider at least one additional climate and other environment-related sustainability indicator and one additional sustainability indicator relating to social and employee, respect for human rights, anti-corruption and anti-bribery matters, if applicable (the "**Additional Indicators**" and together with the Mandatory Indicators the "**PAI Indicators**"). The SFDR RTS sets out the metric for measuring the impact of each PAI Indicator.

Selecting Additional Indicators

5.2 The AIFMs use the following principles to select the additional PAI indicators:

5.3 Materiality: to account for the probability of occurrence and the severity of the PAIs.

5.4 Alignment: with PGIM's strategic initiatives and priorities for the relevant asset class.

5.5 Ongoing relevance: Additional indicators selected are binary rather than relative, which means that the data is likely to be consistent year-on-year and the indicators will stay relevant.

5.6 Degree of interpretation associated with calculation/derivation of metric: to ensure there is, and will continue to be, accurate and repeatable reporting.

5.7 Availability of data: to ensure there is, and will continue to be, sufficient, accurate and meaningful coverage for reporting.

Prioritisation of Sustainability Indicators

5.8 The AIFMs have applied the above methodology for the identification of the Additional Indicator to the Mandatory Indicators in order to prioritise the indicators and ranked each sustainability indicator in the order of greatest priority to least based on the principles above.

Data Sources for Sustainability Indicators

5.9 The data sources used by the AIFM's for the sustainability indicators to calculate the impact of the investment decisions against such sustainability indicator include the technical due diligences, the assessments of the internal asset management team, the ESG new acquisition due diligences as well as external property manager supervised by the asset management team.

6. ~~5.~~ **Principal adverse ~~indicators~~impacts – ~~due~~ diligence phase**

6.1 ~~5.1~~ This section of the policy applies to all products managed by the ~~firm~~AIFMs, except for those products which have been carved-out under section 3.

~~5.2~~ Prior to making any investment decision, ~~our~~the transactions ~~and portfolio management~~ teams (referred to below as the "~~**relevant investment professional**~~**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~~This investment due ~~diligences~~diligence will evaluate ~~a variety of factors~~"investment critical" sustainability items including (for the purposes of this policy) ~~an assessment of~~ how the proposed investment position ~~is assessed~~performs 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~~

6.2 ~~5.3~~ ***Non-availability of data:*** The ~~investment professional~~Investment Professional must use reasonable efforts to obtain the required data, from the sources indicated ~~above~~below. If the data is not reasonably available, the Investment Professional should consider whether it is able to make reasonable assumptions in relation to the data. If the Investment Professional is able to make reasonable assumptions it should record the fact that data was not available from the identified data sources and shall explain the basis upon which its assumption has been made (for example, by reference to industry peers or sector averages). If no data is available from the identified data sources and it is not possible to make a reasonable assumption, that fact shall be recorded instead of the quantitative data point.

~~5.4~~ Investment ~~professionals~~Professionals may conclude, using their reasonable judgment, that a particular ~~metric~~sustainability indicator is not ~~commercially~~ relevant to the assessment of a particular proposed investment, given ~~the asset class of that proposed investment or~~for example the proposed investment strategy. Where the ~~investment professional~~Investment Professional reaches the conclusion that sustainability metrics are not relevant, that conclusion shall be recorded instead of the quantitative data point.

6.3 ~~5.5~~ ~~***Recording the sustainability metrics:***~~ ~~Having completed the diligence exercise, these data points must be recorded in the Investment Committee Paper.~~***Recording the sustainability metrics:*** The AIFM's have developed decision trees for the investment critical sustainability items, to support the identification of material risks, consider potential impacts and any mitigation measures which might be required. Each of the investment critical sustainability items are allocated with a colour key priority status alongside "critical issue/action", "important issue/action" and "no current issue" within the investment committee report. Mitigation measures and associated capital expenditure are reported for all "critical issue/action" and "important issue/action".

~~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~~

6.4 ~~5.6~~ This diligence assessment then feeds into the investment phase, as outlined at section ~~6~~7 of this policy, below.

7. ~~6.~~ **Principal adverse impacts – investment phase**

7.1 ~~6.1~~ Having completed the diligence assessment as noted under section ~~5~~6, the relevant ~~investment professional~~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 environmental sustainability ~~values~~value as articulated below.

7.2 ~~6.2~~ The ~~Firm~~AIFM's policy is to allow the relevant ~~investment professional~~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~~AIFM'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**~~value:

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~~have relatively less adverse impact to environmental sustainability as compared to competitors in similar sized funds and with a similar investment strategy.

7.3 ~~6.3~~ The relevant ~~investment professional~~Investment Professional is required to subjectively assess, using their reasonable judgment, if the proposed investment ~~does~~has significant adverse impact, in light of ~~those~~this environmental sustainability ~~values~~value.

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

- If the conclusion is that there is a risk of significant adverse impact, then the ~~investment professional~~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~~Investment Professional shall generally prioritise mitigating adverse impact according to the order ~~in which~~as defined by the ~~identifiers appear in the table as specified above~~AIFMs. In other words, the ~~Firm~~AIFMs will prioritise mitigating ~~fossil fuels~~the exposures to energy inefficiency above (for example) ~~mitigating~~and waste ~~production~~recycling in operations.

- The ~~investment professional~~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 not to invest in the proposed investment.

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

  (ii) ~~(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~~

  The Investment Professional shall be required to record their decision on what mitigating actions, if any, are appropriate to take in the investment committee report.

7.4 The transaction team then presents to 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 report. 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 report.

8. Principal adverse impacts – ongoing monitoring and improvement

Monitoring

8.1 The relevant Investment Professionals will monitor investments made against the sustainability indicators as part of the portfolio review process on an annual basis. Having completed this assessment, the relevant Investment Professional is then required to determine the extent to which the results of the review exercise should impact our holding of the investment and what actions could be taken, taking into account our sustainability value as articulated above.

8.2 As described in section 7 above, the AIFMs' 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 any investment decision, as against the AIFMs' sustainability values as set out in section 7.2.

8.3 The relevant Investment Professional is required to subjectively assess, using their reasonable judgment, if the existing investment has significant adverse impact, in light of this environmental sustainability value.

- If the conclusion is that there is no significant adverse impact, then that shall be recorded in the PGIM data collection system.
- 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 holding of the investment. In making this decision, the relevant Investment Professional shall generally prioritise mitigating adverse impact according to the order in which the sustainability indicators appear as defined by the AIFMs .
- 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) Divestment.

  (ii) Deciding to engage with the management of the asset to reduce the adverse impact and improve the asset from a sustainability perspective.

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

~~7. Principal adverse impacts statement~~

~~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.~~

Improvement

Active Ownership

8.4 During ownership of the investments the AIFMs create detailed action plans, which include asset-by-asset assessments that prioritise and identify areas of improvement, such as regarding energy performance certificates (“**EPC**”), the instrument to measure the PAI Indicator regarding “energy in-efficiency”, green building certifications or to identify properties that could benefit from net zero/energy and water or waste audits. The asset level work plans create a baseline and reflect the current implementation status across the respective fund. Based on this information the AIFMs are enabled to target implementation measures for future budget cycles.

Development/Refurbishment

8.5 The development/refurbishment stage of the property lifecycle is the key intervention point for the AIFMs to improve the sustainability performance of the assets of the respective fund, in particular with a view to the energy performance of the assets.

8.6 All new developments and refurbishments follow the best practices of the AIFMs for new construction and major renovation projects, supported ideally by high level EPC ratings, i. e. targeting an “energy efficient” asset, and green building certification. In 2023 the best practise guidelines of the AIFMs are being evolved to align with the EU Taxonomy technical screening criteria for these economic activities.

9. ~~8.~~ Disclosure of this policy

9.1 ~~8.1~~ SFDR requires that the ~~Firm~~AIFM’s 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~~, along with certain other information ~~about our~~relating to the actions taking in relation to 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~~. The SFDR RTS require the AIFM’s to publish this information in a prescribed table format by 30 June each year (which shall include a description of this policy).

9.2 The AIFMs include, in the pre-contractual disclosures for our financial products which adhere to this policy in whole or in part or otherwise consider principal adverse impacts of our investment decisions on sustainability factors, a description of how the financial product considers the principal adverse impacts on sustainability factors~~. The Firm satisfies this requirement by disclosing this policy itself in pre-contractual disclosures~~, as required by the SFDR.

9.3 ~~8.3~~ For any financial product which is excepted from this policy under section 3 and does not consider the principal adverse impacts of its investment decisions on sustainability factors, ~~we must~~the AIFM’s 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.

9.4 ~~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.

10. Transitional Period

This policy is effective as of 1 January 2024 . From that date it supersedes the policy dated 10 March 2021.

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Statistics:	
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Format changes	0
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