

***THE PRINCIPAL ADVERSE SUSTAINABILITY IMPACTS
STATEMENT***

**Schroder Real Estate
Kapitalverwaltungsgesellschaft mbH**

June 2021



Schroders
capital

Contents

- 1. This Statement.....3
- 2. Definitions3
- 3. Approach to adverse sustainability impacts.....3
- 4. Description of policies to identify and prioritise principal adverse sustainability impacts5
- 5. Engagement 6
- 6. International standards and adherence to responsible Codes and Standards7

The Principal Adverse Sustainability Impacts Statement

SFDR Article 4

1. This Statement

Schroder Real Estate Kapitalverwaltungsgesellschaft mbH (“SREK”) considers the principal adverse impacts of its investment decisions on sustainability factors. This statement is the principal adverse sustainability impact statement of Schroder Real Estate Kapitalverwaltungsgesellschaft mbH (“SREK”)

2. Definitions

Integration of Sustainability Risk Considerations: explicitly and systematically includes analysis of a range of risks and opportunities related to 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 the investment. In principle, this leads to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of future opportunities and risks than traditional financial analysis alone.

Sustainable Investment: as defined under SFDR, means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;

Sustainability Risk: 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 investments.

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

3. Approach to adverse sustainability impacts

As a real estate asset manager, we have a crucial role in understanding the relationship between the social and environmental challenges the world faces and the potential impact that these will have on the investments we make on behalf of our clients. Through the integration of Sustainability Risks, we apply a framework through which the risks and opportunities related to Sustainability Factors are considered within our investment processes.

Sustainability Risks could arise at any stage of the real estate investment lifecycle including acquisition, ownership, renovation and construction, and disposal.

Sustainability Factors and other governance relevant matters related to real estate include for example:

- Environmental: energy efficiency and production of waste and greenhouse gas emissions, weather events and physical climate risks such as flooding, supporting biodiversity and natural resources, avoiding pollution;
- Social: occupier requirements, public realm and community amenity, health and safety;
- Governance: regulations, taxes and industry standards, including related transition risks, to protect or encourage sustainable real estate lifecycle activities and practices such as mandatory minimum

standards and requirements relating to energy efficiency and energy reduction which may be introduced.

We recognise that all activities, including our investments, result in impacts on the planet or on people. These can be deemed positive or negative.

We have identified 5 environmental measures for which we report key sustainability metrics for our real estate portfolios at the sector level.

Figure 1: Schroders sector-reported real estate sustainability measures

Measure	Unit
Energy consumption - landlord obtained energy consumption	Absolute electricity and fuel consumption (kWh)
Greenhouse gas emissions – in respect of landlord obtained energy consumption	Tonnes of carbon dioxide (tCO ₂ e) (Scope 1 and 2 GHG emissions)
	- Absolute
	- Like for like
	- Like for like Intensity
Water – landlord procured water consumption	Absolute consumption m ³ Like for Like m ³ Like for Like intensity m ³ /m ²
Waste – managed by the landlord	
By disposal route	Absolute tonnes
- Recycled	Like for like tonnes
- Incineration with energy recovery	
- Landfill	
Energy efficiency certificate profile	Rating by % portfolio floor area

Source: Schroders

The five measures identified in Figure 1 were selected as they are meaningful for real estate investments to fulfil landlord responsibilities for the buildings we operate. For example energy, water and waste, with a view to reducing consumption and improving efficiency, and additionally have good data coverage.

In line with the regulatory timeline, we will update the metrics we report on to be consistent with the requirements under the updated draft Regulatory Technical Standards (“draft RTS”) ¹ which sets out the proposed content, methodologies and presentation of sustainability-related disclosures under the relevant Articles of Regulation (EU) 2019/2088 known as the Sustainable Finance Disclosure Regulation (SFDR). Table 1 of the draft report sets out the final list of principal adverse impacts (“PAIs”).

The list identifies the mandatory PAIs, plus a requirement to report on two further indicators, one environmental and one social/governance, with the number of mandatory PAIs set out as follows:

- Investments in companies: 14
- Investments in sovereigns and supranational: 2
- Investments in real estate: 2

¹ *ESA, Final Report on draft Regulatory Technical Standards, published 2 February 2021

https://www.esma.europa.eu/sites/default/files/library/jc_2021_03_joint_esas_final_report_on_rts_under_sfdr.pdf

4. Description of policies to identify and prioritise principal adverse sustainability impacts

Sustainability is integral to our real estate asset management approach. Climate change, shifting demographics and the technology revolution are reshaping our world. Understanding and improving the impacts of real estate investment to the environment and society sits alongside our priority of trying to maximise returns for our clients in a manner consistent with our funds' risk profiles. We therefore seek to identify, understand, manage and improve sustainability factors throughout the real estate investment lifecycle: construction and refurbishment, transactions, asset and property management as well as at the portfolio level.

Our "Real Estate with Impact" approach is founded on four Impact Pillars of: People, Planet, Place and Prosperity referenced to the UN Sustainable Development Goals ² framework, covering the following goals:

- 8 – Decent Work and Economic Growth;
- 11 – Sustainable Cities and Communities and
- 13 – Climate Action

We have developed key performance indicators for these 'Pillars' and a proprietary impact measurement framework to assess environmental and social impact within our portfolios.

Our approach, led by the Real Estate Sustainability Team, is supported by an Environmental Management System certified to ISO14001³ for the asset management of direct real estate in the UK and Europe. This approach aims to identify, monitor and incorporate Sustainability Risks and opportunities into investment selection, retention and realisation. We have a set of guidance documents to support our real estate investment team carry out our sustainability initiatives across all investment activities.

The Environmental Management System includes a materiality assessment to ensure the identification and prioritisation of key material risks and opportunities arising from our significant sustainability aspects. Assessing materiality helps us prioritise issues and focus efforts according to their importance to the business and stakeholders.

Our sustainability policy, available [here](#), is approved by Schrodgers Real Estate Investment Committee ("Investment Committee") annually and endorsed by the Management Board of SREK, sets out our sustainability commitments, including how we integrate sustainability risks into our investment management processes.

We set sustainability objectives for funds as part of the annual fund strategy and asset business plans which in addition to the Management Board of SREK also require Investment Committee approval. Investment proposals to the Investment Committee must include a sustainability risk and opportunities review. This review helps inform the sustainability considerations for delivery of the investment strategy. We seek continual improvement to sustainability credentials of our assets, which include the environmental measures set out in Figure 1, using our Impact and Sustainability Action Plans throughout the asset hold period.

We monitor our portfolio's sustainability aspects formally twice each year. This review involves our Sustainability and Investment Teams, the third party portfolio property manager and sustainability consultant.

² In 2015, all United Nations Member States recognised the range of issues we all face by adopting the UN Sustainable Development Goals ('SDGs') as part of the 2030 Agenda for Sustainable Development. These SDGs provide a common framework for public and private organisations to present the impacts of their activities and report on the outcomes they achieve. <https://sdgs.un.org/goals>

³ ISO 14001 is an internationally agreed standard that sets out the requirements for an environmental management system.

5. Engagement

We have defined our stakeholders to include shareholders, service providers, lenders, occupiers, local communities and the environment.

We actively manage our portfolios of real estate investments with regular and ongoing engagement with stakeholders to ensure we understand their needs to manage sustainability risks and opportunities and to support long term financial returns to our clients. Through our engagement initiatives and to support our investment management approach, we seek to, amongst other outcomes, mitigate the adverse impacts of the sustainability measures identified in Figure 1 as follows:

Occupiers/Tenants:

As real estate investors, occupiers are our customers and we strive for good relationships with tenants to support their occupation.

We seek to understand and support their needs. We have a Sustainability Guide for Occupiers and a Sustainability Guide for Tenant Fit Out which provides environmental and social good practice considerations.

We seek to include green clauses in leases which can support landlord and tenant opportunities to improve environmental performance including energy consumption and onsite renewables, such as roof top solar photovoltaics.

Service providers:

Key real estate asset management activities involve property management, construction and refurbishment which are supported by third-party service providers.

Our asset management team has regular engagement with property managers to ensure the portfolio assets are managed appropriately to the satisfaction of the occupiers and in accordance with the lease terms.

Our policy on Sustainability Requirements for Property Managers specifies the service levels required to support the management of assets in line with our Sustainability Policy and objectives including, energy and greenhouse gas targets and the use of renewables. Aspects include monitoring, measurement and reporting utility data and improvement initiatives; controls including compliance; proposing and supporting improvements; supply chain management and stakeholder engagement. These requirements include key performance indicators.

Our Sustainability Guide for Development and Refurbishment supports the management of projects from concept and ambition, through delivery and into operation and occupation. This guide is a toolkit to be used by project teams which includes a broad range of third party consultants for example architects, technical consultants – structural, M&E, wind, thermal – and development managers. The guide supports us to deliver projects to appropriate standards, including legal planning and building code requirements, across a range of environmental and social considerations including climate change, health and wellbeing, carbon, materials, biodiversity, social impact, water and waste.

Communities:

We work to ensure good engagement with communities in relation to our asset strategies. This includes ensuring that planning requirements and building regulations are met, or exceeded where appropriate, and seek to develop good relationships with the communities using and benefitting from our buildings in their locality.

Investors:

We have regular engagement with our investors to ensure that we understand and meet their investment requirements. We provide regular reporting and include in annual product reports, sustainability information on Schroders' principles, progress across sustainability initiatives, including compliance, a Taskforce on Climate Related Financial Disclosure statement and environmental measures as set out in Figure 1.

Environment:

We apply a range of environmental principles in our investment management approach for our portfolios which are set out to investors within annual product reporting. These include the environmental measures as set out in Figure 1.

6. International standards and adherence to responsible Codes and Standards

UN Global Compact

We are committed in continuing to make the UNGC and its principles part of the strategy, culture and day-to-day operations of our company, and to engaging in collaborative projects which advance the broader development goals of the United Nations.

We comply with applicable human rights legislation in the countries in which we operate and, as a signatory to the UN Global Compact, we fully support the UN Guiding Principles on Business and Human Rights. This applies equally to our own employees and those outside our organisation.

Net Zero Asset Managers Initiative

Schroders Group joined 29 other global asset managers representing more than USD 9 trillion of assets in launching the Net Zero Asset Managers initiative in December 2020. This leading group of asset managers commits to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner, in line with global efforts to limit warming to 1.5°C.

Further, we joined other members of the Better Buildings Partnership ('BBP') in September 2019 to sign the Member Climate Change Commitment. The BBP Member Climate Change Commitment is available [here](#). This includes commitments to net zero carbon, climate change resilience strategies and the requirements of industry standards including the Taskforce on Climate-Related Financial Disclosures ("TCFD").

We issued our Net Zero Carbon Pathway in December 2020 which is available [here](#). We are working to set new energy and carbon targets in the context of our Net zero Carbon Commitment to include interim milestones. Our existing country-level energy targets expired in March 2021.

UN Principles of Responsible Investment (UN PRI)

Schroders Group became a signatory to the UN PRI on 29 October 2007, however we have been implementing a Responsible Investment Strategy since 2000.

For the sixth successive year, Schroders has retained the highest rating of A+ for our Strategy & Governance approach to Responsible Investment in the latest 2020 assessment.

We have participated in the Direct Property Segment of Schroders submission for the past 4 years to 2020, achieving an A rating in each year.

Schroders' public PRI Transparency report is available [here](#).

The Global ESG Benchmark for Real Asset (GRESB)

We participate annually in GRESB, the Global ESG benchmark for real estate funds and listed companies. The benchmark awards green stars for absolute performance, and 1 to 5 stars for performance relative to all participant scores. We achieved a Green Star for both mandates managed by the SREK, with one fund achieving 5 Stars in the 2020 survey. The 2021 results will be available October 2021.

Industry involvement

Schroders Group is a member, participant or signatory to a number of reputable industry organisations in which we share know-how and collaborate on various industry initiatives.

For further details on our industry involvement, including membership/signatory dates, please refer to pages 49 – 54 of our 2020 annual Sustainable Investment report available [here](#).

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