Sustainable Investment Principles 2024

The definition of 'sustainable investments' in the Sustainable Finance Disclosure Regulation (SFDR) lacks clarity for real estate, causing uncertainty. Investment managers can address this by adopting market-based approaches alongside compliance with legal requirements when evaluating investments.

Following SFDR's definition, the assessment of sustainable investments can be broken down into three steps:

Step 1

CONTRIBUTION TO AN ENVIRONMENTAL AND /OR SOCIAL OBJECTIVE

Step 2

DO NO SIGNIFICANT HARM (DNSH)

Step 3

GOOD GOVERANCE PRACTICES

For SFDR Article 9(3) transition funds, a disclosure checklist is provided to support effective implementation of carbon reduction strategies.

Download the full paper here

Assessing sustainable investments

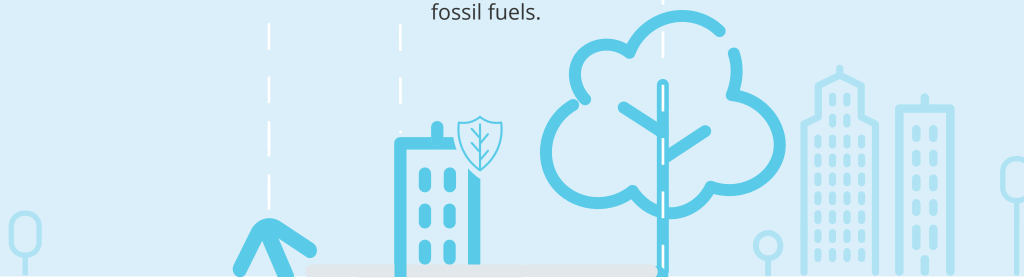
Legal requirements

Set your own goals and thresholds.

Exposure to inefficient assets
EPC C or better, or top 30% PED.

Exposure to fossil fuels – asset activity assessment for the extraction, storage, transport, or manufacturing of fossil fuels.

Legal requirements
good governance not mandated for direct real estate investments, but required for investee companies in strategies under article 8 or 9.



Step 1 **Step 2** **Step 3**

Market expectations

(i) choose a contribution theme
e.g. net zero carbon.

(ii) set a goal
e.g. decarbonisation before 2045.

(iii) specify an asset-level KPI
e.g. specific EUI target.

Inefficient assets if legal requirements are not applicable:
- local taxonomy alignment;
- green building certifications.

Fossil fuels clarification:
No exposure allowed. In some cases ≤ 5% of revenue acceptable.

Additional (PAI) indicators
Complete DNSH assessment with additional indicators and thresholds.

Despite no legal mandate, the market expects investment managers to adhere to good governance standards.
e.g INREV Governance module.

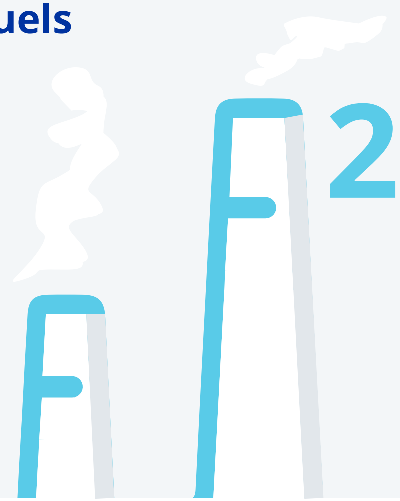
Exposure to inefficient assets

Market driven assessments in case of no official thresholds

Score for "energy" section of green building certification, for example:
Energy star ≥ 70;
Nabers ≥ 4 stars;
LEED ≥ Silver;
BREEAM In-Use ENE1 ≥ Very Good

Local taxonomies:
ASEAN Taxonomy;
emerging local taxonomies.

Exposure to fossil fuels



1 **Identify if assets are exposed:**

Extraction, storage, transportation, or manufacturing of fossil fuels?

2 **Is exposure material?**

Managers to decide based on professional judgement, considering factors like:

Revenue generated by fossil fuel operations;

Proportion of sqm dedicated;

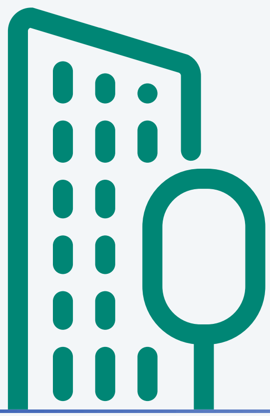
Overall environmental impact.

Transition strategies under SFDR Article 9(3)

The lack of PABs[1] or CTBs[2] for real estate, necessitates alignment with the following considerations:

Do you adhere to science-based standards aligned with the Paris Agreement and do you have a decarbonisation plan in place?

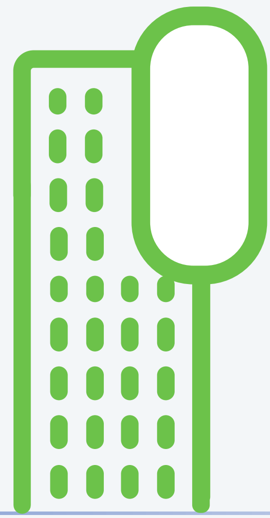
Yes: follow next steps.
No: no sustainable investment.



Step 1: Select Paris-aligned standard.

Step 2: Define benchmark tracking methodology, including:

- Operational carbon (preferably all scopes).
- Indication of location- or market-based.
- Portfolio or individual assessments.
- Integration details of acquired buildings.
- Benchmark tracking after investment period completion.
- Timeline for meeting benchmarks.
- Wind-down period management for closed end vehicles.
- Correction methods for benchmark deviations.



Step 3. Ensure transparent communication to investors, and comprehensive documentation within fund materials.

[1]Paris-Aligned Benchmarks
[2]Climate Transition Benchmarks