

Sustainable finance disclosures

COMMUNICATION PURSUANT TO ARTICLES 3, 4, 5 OF REGULATION (EU) 2019/2088 (the "SFDR")

Background and definitions

The purpose of this communication is to illustrate the choices made by the SGR as expressly required by Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 (so-called "**SFDR**") on sustainability-related disclosures in the financial services sector:

- information about the policies on the integration of sustainability risks adopted by the SGR in the investment decision-making processes and in the provision of advisory services (art. 3 SFDR);
- information whether the SGR considers or does not consider the principal adverse impacts of investment decisions on sustainability factors (Art. 4 SFDR);
- information on how the SGR has aligned its remuneration policy with its sustainability risk management objectives (Art. 5 SFDR).

The following definitions are useful for understanding this Communication.

- **Sustainability risk:** an environmental, social or *governance* event or condition which, if it occurs, could cause a significant actual or potential negative impact on the value of the investment;
- **Sustainable investment:** an investment in an economic activity contributing to an environmental objective, measured, for example, by key resource efficiency indicators concerning energy use, use of renewable energy, use of raw materials and water resources and land use, waste production, greenhouse gas emissions as well as impact on biodiversity and the circular economy, or an investment in an economic activity contributing to a social objective, in particular an investment contributing to fight against inequality or which promotes social cohesion, social inclusion and industrial relations, or an investment in human capital or economically or socially disadvantaged communities provided that such investment does not significantly harm any of these objectives and that the enterprises benefiting from such investment respect good governance practices, in particular regarding sound management structures, employee relations, remuneration of staff and compliance with tax obligations.
- **ESG:** *Environmental; Social; Governance.*

Art.3 - Transparency of sustainability risk policies

Prelios SGR intends to comply with the global framework for sustainable development defined on 25 September 2015 by the United Nations General Assembly by directing its investment choices towards sustainable development objectives.

Prelios SGR's commitment to sustainable investing is embodied in its adhesion to the Principles for Responsible Investment (PRI) supported by the United Nations in 2019 which, through the definition of principles and actions, promote the integration of ESG factors in investment choices, encouraging the engagement of stakeholders and monitoring their progress. In addition, Prelios SGR joined the GRESB as a *Participant Member* in 2020 for some of the funds managed by the Company, in order to see the SGR's efforts recognised through the inclusion in an international benchmark, and to be able to compare itself with a view to continuous improvement. One of the next steps for 2021 will be the valorisation of the actions that will be implemented by framing the strategic objectives also in relation to the Sustainable Development Goals (SDGs) promoted by the United Nations. Such goals will be used as a reference standard for investment funds.

A clear engagement of the Company represents a critical success factor for the improvement of actions and expected results, imposing a drive to assume a leadership role in the Italian impact industry through a constant commitment to improvement. The objective of integrating sustainability into the Company's actions is reflected on several interconnected levels: products, processes and organisation.

Prelios SGR therefore considers the integration of ESG factors in its investment process to be of fundamental importance, in the conviction that these elements, in addition to promoting sustainable economic and social development, can contribute positively to the financial results of its clients' portfolios while reducing their risks.

Integrating ESG criteria into the strategy can generate sustainable profits over time and, consequently, a solid prospect of value creation for all stakeholders. This also allows for a more efficient management of risks - financial, environmental and social - that may negatively affect the value creation of individual investments. Therefore, identifying and managing environmental, social and governance risks is part of the fiduciary duty to protect the value of investors' assets.

Prelios SGR has started a process aimed at integrating sustainable investment practices into its strategies, believing that such aspects should be considered, along with traditional financial measures, to provide a more complete view of the value, risk and return potential of investments.

In particular, the Company's sustainable investment strategy applies to all assets under management, with the following specifications:

- for all AIFs, ESG performance is assessed through a specific tool. In particular, the Structuring & Advisory department has developed, in collaboration with the Fund Management department, a tool for the assessment the ESG performance of each

AIF, according to 8 indicators (i.e. *certification, environmental compliance, accessibility, energy, waste management, water management, comfort and health, reputational risks*). For each indicator, a weighted percentage score is assigned corresponding to a cluster (*high, medium-high, medium-low, weak/absent*). Each AIF is then assigned a final percentage score determined by the average of the scores given to the individual indicators.

- for AIFs whose management rules or by-laws provide for an explicit ESG strategy, further specific identification, implementation and monitoring criteria, and tools are adopted, with respect to both ESG objectives and performance results.

The Head of Fund Management with the support of the Head of Structuring & Advisory identifies ESG objectives in the analysis of the investments of the individual AIFs managed and is responsible for implementing the related strategies and monitoring the results achieved. In order to achieve these objectives, the Asset Management department supports the Fund Management department in identifying and monitoring the main ESG levers regarding the assets managed.

The Head of Structuring & Advisory, at least once a year, takes care of and prepares an overview of the ESG strategies implemented and prospective at the overall Company level which, together with the results of the monitoring and measurement activities of the AIFs' ESG performance, is submitted to the Board of Directors of the SGR.

The results of the monitoring of individual AIFs are also presented to investors, where applicable, according to the terms set out in the management rules of the specific AIF.

On the basis of the process described above, the Risk Management department has developed a methodology for the analysis of sustainability risks related to all managed AIFs. The Risk Management department analyses are presented to the Board of Directors of the Company at least once a year.

For specific topics, the Compliance, Risk Management, Corporate & Regulatory Affairs, Internal Audit and Administration, Finance & Control functions are involved.

Art. 4 - Transparency of adverse sustainability impacts at entity level

The Company, in compliance with Article 4 of Regulation (EU) 2019/2088 (the "**SFDR**") on sustainability-related disclosure in the financial services industry, has decided to adopt an "explain" approach in the consideration of the principal adverse impacts of its investment decisions on ESG (Environment, Social, Governance) sustainability factors.

The Company informs that although, generally speaking, it takes into consideration the principal adverse impacts on sustainability factors in its investment decisions, at the present time it is not able to provide the information required by Article 4, paragraph 1, letter a) of the SFDR, as detailed in Article 4, paragraph 2 of the SFDR. This is due to the fact that, at present, it has not been possible to identify, prioritise and, therefore, objectively measure the principal adverse impacts of its investment decisions on sustainability factors (i.e. environmental, social and personnel issues, respect for human rights and issues relating to the fight against active and passive corruption), given the lack of precise indicators and metrics through which to verify

the degree of probability of their occurrence as well as their intensity and possible irremediable nature.

The Company maintains a proactive approach in defining the indicators and metrics with which to determine the above-mentioned adverse impacts, also monitoring the evolution of the reference regulatory provisions. The SGR will provide timely updates on such aspect.

Art. 5 - Transparency of remuneration policies in relation to the integration of sustainability risks

The SFDR requires the SGR to include in its remuneration and incentive policies information on how they are consistent with the integration of sustainability risks.

The SGR has started the procedure to review its remuneration and incentive policies in order to make the correlation of the incentive system more evident with the pursuit of the objectives in terms of sustainability risk management.

For more details on ESG risk management, see the information on sustainability risk policy in Article 3 SFDR.

PRODUCTS PROMOTING ENVIRONMENTAL OR SOCIAL CHARACTERISTICS / HAVING SUSTAINABLE INVESTMENT OBJECTIVES (Art. 10)

Fondo Infrastrutture Sociali (“Social Infrastructure Fund”)

Art.10 - Transparency of the promotion of environmental or social characteristics

Promotion of environmental and/or social features

The reserved closed-end Italian real estate AIF called "Fondo Infrastrutture Sociali" ("**FIS**"), established by Prelios SGR, is dedicated to the investment in the social infrastructure sector, with specific focus on the so-called "Impact Investing" field. The FIS enables the investment in assets linked to the real economy in order to generate positive social and environmental impacts, pre-defined and measurable, thus increasing the stock of infrastructures supporting socio-economic changes for the good of the community, in different territories, age groups and areas. The FIS also contributes directly and indirectly to accelerating sustainable growth for the benefit of the country.

Performance indicators used to measure the environmental and/or social characteristics of the financial product

The environmental and social characteristics of the FIS are promoted through a strategy based on specific criteria and tools for identifying, implementing and monitoring them. In particular, the Structuring & Advisory department has developed, in collaboration with the Fund Management department, a tool to assess ESG performance according to 8 indicators:

- Certifications: presence of energy certifications, such as LEED, BREEAM, and performance certificates;
- Environmental compliance: presence of environmental analyses and of any materials with environmental and health impacts, consequent actions taken if necessary;
- Accessibility and mobility: presence of architectural barriers and ease of access to the asset including proximity to transport and points of interest;
- Energy: presence of instruments for energy efficiency and use of renewable energy;
- Waste management: waste management methods and presence of adequate collection spaces, possible presence of separate waste collection;
- Water management: presence of instruments for the efficient use of water as well as for the reuse of waste water;
- Comfort and health: the presence of adequate measures to ensure the safety and health, as well as levels of well-being and comfort, of the occupants of the asset;
- Reputational risks: the presence of possible incidents and/or misunderstandings related to ESG factors with potential impacts on the company's reputation.

For each indicator listed above, a weighted percentage score is attributed corresponding to a cluster (*high* for scores above 75%, *medium-high* for scores above 50%, *medium-low* for scores above 25%, *weak/absent* for scores below 25%). The FIS is then assigned a final percentage score determined by the average of the scores given to the individual indicator.

In addition, for each individual investment, specific social and/or environmental impact objectives will be identified according to the characteristics of the investment itself. These objectives identified by the Board of Directors, with the approval of the so-called "Social Impact Assessment Committee" of the FIS, will be monitored and assessed upon completion of the valorisation process implemented by the Company, measuring the impact results actually achieved.

Investment strategy of the financial product

The FIS investment process seeks to promote environmental and social characteristics through consideration of the following factors:

- Social impact: improving accessibility to community services (e.g. education, care, housing);
- Impact on *Governance*: governance mechanisms aimed at safeguarding the achievement of social objectives;
- Impact on the Environment: interventions aimed at reducing the consumption of resources (e.g. urban regeneration interventions).

Integrating ESG criteria into the strategy can generate sustainable profits over time and, consequently, a solid prospect of value creation for all stakeholders. This also allows for a more efficient management of risks - financial, environmental and social - that may adversely affect the value creation of individual investments. Therefore, identifying and managing sustainability risks is part of the fiduciary duty to protect the value of investors' resources.

In this context, the SGR has adopted the "Responsible Investment" policy, which integrates the analysis of sustainability risks into its own investment decision-making process, adopting specific methods for selecting and monitoring investments relating to the management services of AIFs.

In line with the approach at corporate level, in managing the FIS, the SGR generally takes into account the adverse impacts on sustainability factors in its investment choices, but at the present time no precise indicators and metrics have been defined to prioritise such effects and measure them in line with regulatory requirements.

Implementing the investment strategy and monitoring ESG performance

The Head of Fund Management with the support of the Head of Structuring & Advisory identifies ESG objectives in the analysis of the investments of the individual AIFs managed and is responsible for implementing the related strategies and monitoring the results achieved. In order to achieve these objectives, the Asset Management department supports the Fund Management department in identifying and monitoring the main ESG levers for the assets managed.

The Head of Structuring & Advisory, at least once a year, takes care of and prepares an overview of the ESG strategies implemented and prospective at the overall Company level, which, together with the results of the monitoring and measurement activities of the AIF's ESG performance, is submitted to the Board of Directors of the SGR. The results of the monitoring are also presented to the Investors according to the terms of the management regulation of the relevant AIF.

On the basis of the process described above, the Risk Management department has developed a methodology for the analysis of sustainability risks related to all managed AIFs. The Risk Management analyses are presented to the Board of Directors of the Company at least once a year.

Designated ESG benchmark

The adoption of a benchmark is useful in order to assess the alignment of the financial product with the environmental or social characteristics promoted. In this regard, Prelios SGR has joined the GRESB as a *Participant Member*, falling within the "*fund and asset manager*" category. Joining important ESG organisations has the double benefit of seeing the Company's efforts recognised through inclusion in an international benchmark, and of being able to compare itself with a view to continuous improvement.

As a *Participant*, Prelios SGR can participate in the GRESB benchmark with one or more entities: in the case of the Company, these are the individual AIFs belonging to the real estate category. Following the GRESB Assessment 2020, the FIS, having no assets in portfolio at date, was not included in the ranking but participated only for the Management component.

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