

## **Prelios RED Real Estate Debt**

### **Art.10 - Transparency of the promotion of environmental and/or social characteristics and the sustainable investments on the websites**

#### **Summary**

The fund «Prelios RED Real Estate Debt», established and managed by Prelios SGR, is a closed-end, reserved alternative investment fund dedicated to investments in receivables and securities representing receivables (the "Receivables"), backed by collateral with underlying real estate (the «Fund» or «RED»). The Fund, through its investment strategy, promotes environmental and/ or social characteristics, in compliance with good governance practices, in accordance with Article 8 of EU Regulation 2088/2019 - SFDR.

The Fund actively contributes to the promotion of environmental and/or social characteristics through investments made in collateral-backed loans having real estate as their underlying assets, with the aim of improving their energy efficiency and attributable to the following asset classes: living, logistic, office, hospitality and retail.

For the purpose of promoting the above characteristics, various elements are taken into consideration such as (i) investments in companies that comply with good governance practices; (ii) negative and positive screening processes.

At least 65% of the investments promoted by the Fund are directed toward achieving social or environmental characteristics.

The achievement of each social and/or environmental characteristic is monitored and evaluated based on a three macro-step approach:

- ex-ante identification of key metrics (KPIs) associated with the UN SDGs;
- definition of expected targets for the development of the identified KPIs over the holding period of the target investment;
- periodic monitoring (reporting) of sustainability.

Data needed to assess and monitor the achievement of environmental and/or social characteristics are collected, either directly or through third parties, during the due diligence and monitoring process.

Prelios SGR ("SGR" or "Company") subjects each investment opportunity presented to the Board of Directors or Chief Executive Officer (where applicable) to an ESG due diligence, performed by the Fund Management structure, with the support of the ESG Advisor.

### **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not aim for sustainable investment.

### **Environmental or social characteristics of the financial product**

the Fund actively contributes to the promotion of environmental and/or social characteristics through investments made in collateral-backed loans having real estate as their underlying assets, with the aim of improving their energy efficiency and attributable to the following asset classes: living, logistic, office, hospitality and retail.

The Fund promotes the following environmental and social features, in accordance with good governance practices, and in line with some of the United Nations Sustainable Development Goals ("**UN SDGs**"), including but not limited to:

- **Environmental:**
  - Improving energy efficiency
  - Proper waste management and disposal
  - Reduction of critical phenomena at the microclimate level
  - Decreased energy demand from the grid
  - Reduction of environmental impacts
- **Social:**
  - Phenomena of inclusion and improved quality of spaces
  - Improvement of health and well-being of occupants
  - Proactive relationship with the local community

In the investment selection phase, as well as in the monitoring phase, the SGR:

- undertakes governance profile analysis in relation to the Target Companies and includes in the "investible universe" only those Target Companies that operate in compliance with good governance practices, assessed on the basis of an internal methodology;
- selects those non-real estate Target Companies and real estate pledged assets that promote environmental and/or social characteristics identified on the basis of appropriate indicators.

### **Investment strategy**

The Fund adopts the following ESG investment strategies in order to promote environmental or social characteristics:

- ✓ a negative screening process applicable to both Target Companies and the real estate underlying the Receivables;
- ✓ a positive screening process applicable to real estate underlying the Receivables and non-real estate Target Companies (provision of KPIs based on the SDG's), as well as to all Target Companies with reference to good governance practices.

The SGR considers the integration of environmental, social and governance (ESG) factors into its investment process to be of fundamental importance in the belief that these elements, in addition to fostering sustainable economic and social development, can contribute positively to the financial performance of the funds while reducing their risks

The good governance practices of the companies in which the Fund invests are subject to evaluation based on the criteria the Fund pursues, particularly considering what is stated in Article 2(17) under SFDR:

- sound management structures;
- staff relations;
- remuneration of staff;
- compliance with tax obligations.

In particular, the Fund defines a set of indicators for calculating the alignment of Target Companies with the requirement described above establishing a minimum threshold of 50%.

### **Proportion of investments**

At least 65% of the investments promoted by the Fund are directed toward achieving social or environmental characteristics. For the remainder, the SGR reserves some flexibility to make investments that do not promote social or environmental characteristics and that are not aligned with the United Nations Sustainable Development Goals.

### **Monitoring of environmental or social characteristics**

The monitoring process consists of two macro-phases, which are managed by the Fund Management structure, and whose final results are also monitored by the Risk Management structure:

- during the holding period of the investment, at least once a year, periodic monitoring of sustainability factors is carried out on the basis of information provided directly by the Target Companies through the completion of dedicated questionnaires;
- on an annual basis, the Fund's management team also analyses selected KPIs to assess and quantify the investment's generated performance.

### **Methodologies**

The achievement of each environmental and/or social characteristic is monitored and evaluated on the basis of a three macro-phase approach:

- **ex-ante identification of key metrics (KPIs) associated with the UN SDGs:** the SGR identifies and defines ex-ante the main sustainability KPIs associated with the UN SDGs;
- **definition of expected targets for the development of the identified KPIs over the holding period of the target investment:** the SGR Fund Management team formulates ex-ante expectations for the development of the defined KPIs, including investment

sustainability assessments in the functional documentation for the approval of each transaction;

- **periodic monitoring (reporting) of sustainability:** the SGR monitors on an ongoing basis the status and development of sustainability metrics based on an annual report.

### **Sources and processing of data**

The data needed to assess and monitor the achievement of environmental and/or social characteristics are collected, either directly or through third parties, during the *due diligence* process. Where possible, external or public databases and sources are also used.

In order to ensure the quality of the data, checks are carried out to identify possible biases. The impact of different sources on investment decisions is also assessed.

Data are received in different modes of transmission, which may vary from information transmitted by email or received through automated processes. The latter is the preferred mode to avoid any form of operational risk or unnecessary human intervention. The data received are entered into internal databases, so that they are always available to the Fund for its various evaluations. Where possible, timely data is always preferred. Limited to sporadic situations where point data are not available, estimation procedures are used, with adequate disclosure of the proxies used.

### **Limitation of methodologies and data**

The main limitations arising from the methodology to measure how the environmental/social characteristics promoted by the financial product are met, are represented by the possible lack of availability of the relevant data for the purpose of measuring the performance of the KPIs. The SGR will find the aforementioned data, possibly making reasonable assumptions, in order to prevent such limitations from affecting the way in which the environmental/social characteristics promoted by the Fund are met.

### **Due diligence**

The SGR subjects each investment opportunity presented to the Board of Directors or the Managing Director, where applicable, to an ESG due diligence which forms an integral part of the analysis criteria and helps to define the investment (credit or participation in the Target Company) through the analysis of the Target Company.

ESG due diligence is performed by the Fund Management structure with the support of the ESG Advisor and may include, depending on the Target Company:

- sending questionnaires through an automated process;
- discussions with the company's top management or analysis of industry studies by non-financial rating agencies, where available;
- definition of the sustainability profile of the target companies and the property on which to base improvement/maintenance targets.

The due diligence will also include information useful to identify real estate KPIs and those for non real estate Target Companies consistent with the ESG strategy promoted by the Fund.

### **Commitment policies**

Engagement techniques consist of a constructive dialogue between institutional investors and investee companies to discuss how to manage ESG risks and seize business opportunities associated with sustainability challenges.

The SGR uses a proactive approach focusing on long-term, financially relevant ESG opportunities and risks that can influence the valuation of companies and their ability to create value. The primary objective is to create value for investors by improving sustainability behaviour and corporate governance. The main objective of increased engagement is to address reported shortcomings against internationally accepted codes of conduct for corporate governance, social responsibility, environment and transparency, such as the UN Global Compact and the OECD Guidelines.

### **Designated Reference Index**

No index has been designated as a benchmark to meet the environmental or social characteristics promoted by the financial product.