

Policy for Integrating Sustainability Risks into Investment Processes

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1 Introduction

The purpose of this document is to clarify how COIMA SGR (hereafter “SGR”) integrates the analysis and mitigation of sustainability risks within its investment selection and evaluation process for the managed funds.

The document has been developed following the regulatory guidelines provided by art. 3 of Regulation no. 2088/2019 (hereafter SFDR), which applies to COIMA SGR as a Financial Market Participant.

2 Definitions

The definitions below have been extracted from the following regulations:

- EU Regulation 2019/2088 of the European Parliament and the Council of 27 November 2019 on sustainability reporting in the financial services industry,
- EU Regulation 2020/852 of the European Parliament and the Council of 18 June 2019 on establishing a framework to encourage sustainable investment and amending Regulation (EU) 2019/2088

Sustainability factors: environmental, social and governance issues concerning personnel, respect for human rights and issues related to the fight against bribery and corruption;

Sustainable investment: Investment in financial activities which contribute to an environmental objective. It is measured by key resource efficiency indicators, including energy use, use of renewable energy, raw materials, water resources and land, waste production, greenhouse gas emissions and biodiversity impact and the circular economy or an investment in a financial activity that contributes to a social objective. This involves an investment that contributes to the fight against inequality or promotes social cohesion, social inclusion and industrial relations. It can also mean investing in human capital, economically or socially disadvantaged communities, provided that such investment does not significantly harm any of these objectives and Enterprises benefiting from such investment follow good governance practices, have sound management structures, positive employee relations, staff remuneration policies and follow tax obligations;

Financial market participant: an alternative investment fund manager (AIFM)

Financial product: an alternative investment fund (AIF); an IBIP; a pension product; a pension scheme; a UCITS; or a PEPP;

Sustainability Risk: an environmental, social or governance event or condition, which, if it occurs, could cause a significant actual or potential adverse impact on the investment value;

COIMA Charter: The COIMA Charter is a proprietary tool that defines a framework where a possible investment is identified through measurable KPIs during the acquisition phase, by defining a rating in the three measurement areas (i.e. protection, inclusion and growth).

Sustainability Checklist: this is a tool that supports collecting information on the assets and areas under investment assessment, before the ESG risk analysis.

Sustainable Innovation Committee (SIC): A mainly technical – advisory Committee set up by COIMA. SIC carries out supervisory activities related to the corporate management of “ESG” (Environmental, Social & Governance) issues, “Impact Investing” and product innovation and makes recommendations to the Investment Committee and Board of Directors, which adopts resolutions after obtaining, where necessary, the opinions of the Conflicts Committee and the Funds’ Advisory Committees.

3 Principles and reference values

COIMA SGR believes that integrating environmental, social and governance (ESG) factors into the investment process is of fundamental importance. It firmly believes these elements can contribute positively to our funds’ financial results, reduce medium and long term risks, and foster sustainable economic and social development.

Those committed to integrating ESG criteria into their strategy can generate sustainable profits over time and, consequently, lasting value for all stakeholders. This allows for more efficient management of financial, environmental, and social risks that can negatively impact individual investments’ value retention.

Identifying and managing environmental and social risks is part of an asset manager’s fiduciary duty to protect the value of their investors’ assets over time.

Our mission is to create long-term value for our investors and the social communities in which we operate through continuous attention to:

- Asset key features
- Quality of developed and managed works
- Constant risk management
- Creating environmental and social benefits in addition to market financial returns

Our approach to responsible investment and real estate development and management is based on integrating sustainability criteria into the investment strategy. This creates high-quality real estate assets with sustainable long-term growth and favouring assets with high-value potential.

COIMA integrates the Sustainable Development Goals promoted by the United Nations, believing that it can contribute to eight of the 17 SDGs, initiating innovation processes, focusing on people and the management of natural and other resources.

The “Sustainable Innovation Committee” oversees the consistency of the outlined sustainability approach. This committee is set up at COIMA Group level to promote and

monitor a strategic vision which underlines every investment, redevelopment or development project, and assets operational and management phase.

4 Integration of ESG factors into investment strategies

COIMA SGR is a real estate fund management company with investments that include projects with diversified risk profiles, from “Core” to “Value Added” and “Development” investment strategies with different asset classes including office, retail, residential, logistics and hospitality.

4.1 Integration process for traditional funds

The investment process for traditional Funds (Art. 6 2019/2088), integrates Sustainability Factor (ESG) Assessments into investment choices; the investment process consists of four steps:

- 1) ***Screening and selection of investment opportunities***: this is based on specific exclusion criteria. The main exclusion criteria are the following:
 - Preventing development in protected natural areas
 - Preventing construction of new buildings for the extraction, storage, transport or production of fossil fuels
- 2) ***Due Diligence***: the due diligence purpose is to:
 - a. understand the investment and ESG risks associated with investments through the Sustainability Checklist
 - b. verify that the risk-return profile follows the fund’s risk profile
 - c. Analyse areas for improvement in terms of ESG investment objectives identified in the checklist.

The Sustainability Checklist:

- Rationalises specific analysis and assessment areas by preparing ad hoc questions on topics related to: ESG risk management; environmental certifications (if any); materials used; etc.
- identify where such information can be researched or requested;
- provide questions to support further investigation of potential risks;
- define additional notes and links to supplementary industry guidelines.

The sustainability checklist is organised into categories according to the nature of the impact based on this classification:

- Physical risks on assets:

- Climate and environmental risks
- Transition risks:
 - Regulatory Risk
 - Policy and Legal Risk
 - Environmental certifications and ratings
 - Building enclosure and materials
 - Technological Risk
 - Installations
 - Energy services and metering
 - Energy Efficiency
 - Water use efficiency
 - Market Risk
 - Socio-economic risks
 - Transport / mobility
 - Reputational Risk
 - Waste Management
 - Property Management
 - Health, safety and wellbeing of occupants
 - Biodiversity

The Sustainability Checklist outcomes and the investment management framework targets are integrated into the investment memorandum submitted to the Board to review and approve the investments. This memorandum contains the information required and reviewed during the due diligence process, from the preliminary stages of assessing the investment opportunity and defining the monitoring KPIs up to the transaction completion.

3) *Investment Monitoring*

Once the investment transaction is completed, Fund & Asset Management starts the project management and development activities under the conditions defined during the underwriting phase and based on the business plan approved as part of the acquisition and subsequent amendments.

Throughout the development, a rigorous and disciplined procedure is followed to monitor the performance and fulfilment of the underwriting acquisition plan.

Investors are provided with a periodic report outlining the investment's ESG and financial performance against identified targets.

Our team delivers sustainable investment performance over the long term. The identification, analysis and ongoing management of ESG risks and opportunities are undertaken as part of the active management of assets owned by our funds.

Below is a set of tools and processes used in active investment risk management:

- regular checks during the development phase to assess the status of a building following renovation processes (preparation of an annual report detailing the ESG areas identified during the Due Diligence phase, and the annual progress against target's achievement).
- an environmental strategy for each acquired asset which sets specific performance standards used for the assessments;
- market analysis assessing the best methods on the market for electricity and water use and carbon production;
- in-depth research, including tenant satisfaction surveys;
- periodic performance reviews to assess progress against environmental targets and compliance with legislative and internal policy requirements; and
- investment risk assessment carried out by expert consultants to identify health and safety risks.

The tools and processes described above allow the correct assessment of the asset competitive positioning on the market.

4.2 *Integration process for ESG funds*

The investment process for funds classified according to art. 8 (funds promoting environmental or social features) of Regulation 2019/2088, is further integrated with the following requirements:

- 1) ***Screening and selection of investment opportunities:*** the exclusion criteria are supplemented with the additional requirement of achieving a minimum ESG rating at fund level, calculated using the "COIMA Charter" internal assessment model
- 2) ***Defining the ESG investment profile and verifying the financial impact related to the achievement of identified ESG objectives:*** defining the ESG investment profile takes place by measuring specific KPIs examined in the Sustainability Checklist and using the COIMA Charter values.

The COIMA Charter is a measurement and monitoring tool that allows assessing the qualitative performance and the expected investment contribution in three areas:

- **Protection:** referred to environmental resilience aspects

- **Inclusion:** referred to social aspects
- **Growth:** referred to the financial benefits generated

Using the COIMA Charter, ratings are defined for an “as is” starting scenario and a “target” scenario; the latter provides for the analysis of target areas of improvement included in the investment enhancement and development plan.

During the assessment process of a potential investment, in addition to market, counterparty, credit, liquidity, concentration, leverage and operational risks, investment risks are assessed for:

- **Physical Risk on Assets** - this is the risk arising from the effects of climate change and can be divided into two categories:
 - Acute Physical Risks: arising from climatic events such as extreme weather events such as floods, storms, fires, etc..
 - Chronic Physical Risks: arise from climate change with long-term effects such as changing temperatures, rising sea levels, reduced water availability, etc..
- **Transition Risk** - is the risk related to the uncertainty of the adjustment process to a low-carbon circular economy. It includes the following categories:
 - Regulatory Risk
 - Technological Risk
 - Market Risk
 - Reputational Risk

3) *Due Diligence*

Upon completion of Due Diligence, the COIMA Charter is applied. The results generated by the application of the model are integrated into the investment memorandum that the investment team prepares for the investment committee.

The Sustainability Checklist results and the Coima Charter estimated target scores are integrated into the investment memorandum submitted to the Board to examine and approve investments. This memorandum contains the information required and reviewed during the due diligence process, from the preliminary stages of assessing the investment opportunity and defining monitoring KPIs until the transaction is completed.

4) *Investment Monitoring*

In addition to the monitoring processes defined for traditional Funds (Art. 6 2019/2088), ESG Funds are subject to an annual independent ESG rating (i.e. Global Real Estate Sustainability Benchmark - GRESB or alternative/equivalent).

The Company suggests classifying some existing funds and establishing future funds according to Art 9, for which specific, measurable objectives are being assessed and defined and will be subject to pre-contractual disclosure to investors.

5. ESG investment process governance

Below is a list of the functions involved in the ESG investment process governance within the company:

a. Board of Directors

The Board of Directors approves the Policy for Integrating Sustainability Risks into Investment processes and any sub-policies and ratifies its updates annually.

It approves investment transactions, the fund and investment business plan and any annual changes.

b. Investment Committee

The Investment Committee is responsible for applying the ESG guidelines defined in the Policy for Integrating Sustainability Risks into Investment Processes to each investment selection process.

The Investment Committee has an advisory role in defining proposals to be submitted to the Board of Directors on sustainable and responsible investment issues. This ensures innovation in the adopted methods and processes, monitoring ESG indicators' compliance and how these are taken into account for the various products and services offered to clients.

Fund investments' assessments and approvals involve the Head of Sustainability & Communications and the Sustainability Officer in the Investment Committee, who formulate their investment performance assessment in ESG terms. They may request additions to the underwriting business plan from the Investment Team and Fund Manager if they consider the target is not in line with the fund's overall objective.

c. COIMA Sustainable Innovation Committee

The COIMA Sustainable Innovation Committee (SIC) is a mainly technical - advisory committee set up by COIMA and carries out supervisory activities related to the corporate management of "ESG" (Environmental, Social & Governance) issues, "Impact Investing" and product innovation.

SIC makes recommendations to the Investment Committee and the Board of Directors.

SIC assesses the investment performance in ESG terms and may request additions to the business plan from the Investment Team and the Fund Manager if it considers that the fund's objectives are inconsistent with the strategic guidelines.

COIMA City Lab works with SIC. The COIMA City Lab is a group of renowned professionals and architects, whose objective is to draw up guidelines to create future urban spaces for COIMA-promoted projects and as a cultural contribution to the Italian regional development.

SIC has the task of finalising the Sustainability Report by defining the objectives that will be submitted to the Board of Directors for approval.

d. Control Functions

The Risk Management function is responsible for monitoring and assessing the ESG factors' impact on the fund's risk and financial performance.