



---

# **SFDR ARTICLE 10 WEB- SITE DISCLOSURES - VELO MEZZANINE CREDIT FUND SCSP**

September  
2023

---



# SFDR Article 10 Website Disclosures - Velo Mezzanine Credit Fund SCSp

## Preface

**SFDR Website Disclosures in relation to Velo Mezzanine Credit Fund SCSp (referred to herein as the "Fund" or "AIF").**

These disclosures are intended for the transparency of the promotion of environmental or social characteristics and of sustainable investments on websites pursuant to Article 10 of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial service sector (the "SFDR").

In line with Article 10 of SFDR, "financial market participants shall publish and maintain on their websites the following information for each financial product referred to in Article 8(1) and Article 9(1), (2) and (3):

- a. description of the environmental or social characteristics or the sustainable investment objective;
- b. information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;
- c. the information referred to in Articles 8 and 9;
- d. the information referred to in Article 11".

## Summary

The Fund incorporates environmental and social characteristics into its investment decisions. While it does not have as its objective a sustainable investment, it will have a minimum proportion of 40% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

The Fund promotes binding decarbonization efforts and applies an exclusion policy. These binding elements are applicable for all countries and assets. 80% of the invested capital will promote assets which are below or equal to 2,0°C climate warmth potential (according to the Carbon Risk Real Estate Monitor (CRREM) decarbonization pathway). Thereof 50% of the assets will additionally be sustainable investments (equals to 40% of the total fund). For sustainable investments, the AIF has set asset-specific minimum sustainability requirements which are eligible to contribute to an environmental objective according to Art. 2 SFDR.

To ensure that the sustainable investments do not significantly harm any of the sustainable investment objectives an assessment is carried out. In determining what is considered to be significant harm, the AIF will consider the principal adverse sustainability indicators “fossil fuels” and “energy efficiency” pursuant to Annex I, Table 1 of the Regulation EU 2022/1288 of 6 April 2022 with regard to Regulatory Technical Standards (RTS). The AIF also invests according to the principles of the UN PRI.

The fund’s strategy is to invest in whole loans, mezzanine loans, senior loans or preferred equity investments that finance projects that have a clear focus on the decarbonization of the real estate sector and align with the sustainable investment objective, including both standing assets and development projects. The focus will be on residential and commercial assets. Geographically the focus will be on Germany and the Nordics.

The investment strategy includes several stages: (a) a pre-certification assessment to ensure that the minimum investment criteria are reached, (b) a due diligence phase and (c) the de-investment phase. A policy to assess good governance practices of the investee companies is in place.

The Fund monitors its environmental and social characteristics as well as its sustainable investment on an ongoing basis. To measure the environmental and social characteristics and sustainable investments, the % of investments fulfilling the binding elements of the strategy and meeting the minimum requirements is tracked.

In relation to its environmental and social characteristics as well as its sustainable investment, the Fund works with different methodologies. Compliance is checked on the basis of a defined criteria catalog which is used as an exclusion checklist for investment decisions.

Data is collected from asset managers, facility managers and other relevant parties of both quantitative and qualitative nature. The Fund also engages with external service providers and seeks to limit the use of data estimations, but the use of such estimations will be assessed on a case-by-case level.

The Fund is exposed to data and methodological limitations connected with the Fund`s operation and ESG agenda. The limitations represent common challenges for the real estate industry for measuring, interpreting, and reporting ESG relevant information. The Fund expects an ongoing process to increase data coverage and data quality.

The Fund performs an extensive due diligence process, covering ESG aspects.

The Fund does not have a formal engagement policy, however, does have engagement activities. The Fund engages with its stakeholders and assets are monitored on ESG performance on an ongoing basis.

A specific index is not designated.

## **No sustainable investment objective**

The Fund promotes environmental or social characteristics.

While it does not have as its objective a sustainable investment, it will have a minimum proportion of 40% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

Share of Investments which are environmental promoting and furthermore additionally Sustainable Investments:

- 80% of the invested capital will promote assets which are below or equal to 2,0°C climate warmth potential (according to the CRREM decarbonization pathway.
- thereof 50% of assets will additionally be sustainable investments (equals to 40% of total fund).

An assessment will be made prior to committing to an investment on whether the underlying asset that is to be financed would significantly harm an environmental or social objective in the context of the life cycle of the project. If the assessment concludes that the investment would cause significant harm to an environmental or social objective, the investment will not be pursued.

In determining what is significant harm, the AIF will consider the principal adverse sustainability indicators “fossil fuels” and “energy efficiency” pursuant to Annex I, Table 1 of the RTS, accordingly:

The Fund considers the following principal adverse sustainability indicators:

- a. The AIF will not invest in real estate assets involved in the extraction, storage, transport, or manufacture of fossil fuels; and
- b. the AIF will limit and monitor its exposure to energy-inefficient real estate assets. This consideration is embedded within the investment process and criteria.

The investment decision is made based on internationally recognized principles. Due to the structure of the AIF's investments being financing products, the AIF cannot guarantee the extent to which OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights are adhered to in practice by the borrowers, however the fund will make reasonable efforts to ensure that the relevant borrowers commit to doing so.

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

The Fund promotes decarbonization efforts as environmental characteristics. As such, the Fund applies an exclusion policy which targets, respectively, residential and commercial assets including new constructions and redevelopments.

The following elements are binding to the investment strategy used to select the investments to attain the environmental characteristics promoted by this Fund. The requirements are applicable for all countries and assets.

- Exclusion of buildings with oil and coal heating.
- Exclusion of buildings which are involved in the extraction, storage, transport or manufacture of fossil fuels.
- Investments will not be made where the maximum of 2°C of the decarbonization path of the climate warmth potential is maintained (as aligned with the CRREM methodology followed).

The AIF has set asset-specific minimum sustainability requirements for sustainable investments:

**For residential assets specifically**, the minimum requirements for sustainable investments are that:

- 1) Energy efficiency / Renewable energy supply
  - a. Effizienzhaus standard (formerly KfW-Effizienzhaus) at predefined levels for German investments
  - or
  - b. Decarbonisation path of 2°C (CRREM) for all investments

**For commercial assets specifically**, the minimum requirements are that:

- a. Target building certification (DGNB, LEED, BREAM)
- and
- b. Predefined EPC rating and / or decarbonization path of 2°C (CRREM)
- c. Target renewable energy supply
- d. Green clauses in all new tenancy agreements

**For new construction/ buildings specifically**, the minimum requirements are that:

- 1) The (estimated) primary energy demand after completion will be aligned with the respective decarbonisation pathway of 1.5°C of the asset class expected in the relevant jurisdiction (CRREM)  
or
- 2) The on-site generated renewable energy is equal to the (estimated) final energy consumption for the operational phase  
or
- 3) After completion, the AIF considers the operation of the building to be CO<sub>2</sub> neutral.

**For redevelopments specifically**, the minimum requirements are that:

- 1) After completion, the AIF considers the operation of the building to be CO<sub>2</sub> neutral  
or
- 2) A life cycle assessment (LCA) can be carried out. The redevelopment must lead to 30% lower emissions over the next 10 years, in contrast to the variant that no redevelopment would be carried out.

## **Investment strategy**

The AIF will invest in whole loans, mezzanine loans, senior loans or preferred equity investments that finance projects that have a clear focus on the decarbonization of the real estate sector and align with the sustainable investment objective. The Fund will invest in assets with a focus on residential and commercial. Geographically the Fund will focus on Germany and the Nordics.

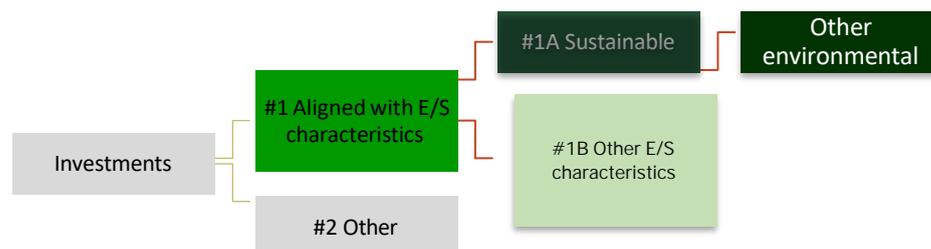
1. The investment strategy includes several stages with key milestones being:
  - a) the first stage review during which pre-certification assessments are made to ensure that the minimum investment criteria are reached;
  - b) the due diligence phase during which assessments are conducted to determine sustainable criteria; an assessment on the defined environmental characteristics and the sustainable investment requirements (see section “Environmental or social characteristics of the financial product” is conducted; and
  - c) the de-investment phase where final assessments are made on the defined environmental characteristics and the sustainable investment requirements (see section “Environmental or social characteristics of the financial product”.

2. The policy to assess good governance practices of the investee companies is as follows:

The AIF will only provide financing to SPVs and holding companies that have the purpose of holding a property. Nevertheless, the AIF invests according to the principles of the UN PRI. One principle of the UN PRI is that the AIF will incorporate ESG issues into the ownership policies and practices. Furthermore, the AIF accurately performs know your customer queries for the partners and service providers.

## Proportion of investments

The fund will invest at least 80% of the portfolio in assets falling under the category “#1 Aligned with E/S characteristics”. Additionally, a minimum of 40% of portfolio assets will be invested in “#1A Sustainable”. Up to 20% of the total portfolio will be made up of assets falling under the category “#2 Other”. Assets in the category “#2 Other” will nonetheless meet the minimum criteria of the AIF where it is committed to excluding all buildings (regardless of type) with oil and coal heating.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

## Monitoring of environmental or social characteristics

The financial product monitors its environmental and social characteristics as well as sustainable investments on an ongoing basis.

Specifically, the following indicators are used to measure the above-described environmental and social characteristics as well as the sustainable investment:

Environmental characteristics:

- Confirmation that share of investments in buildings with oil and coal heating is zero
- share of investments in buildings which are involved in the extraction, storage, transport or manufacture of fossil fuels
- share of investments where the maximum of 2°C of the decarbonization path of the climate warmth potential is maintained

Sustainable investment:

- share of investments in assets meeting the minimum requirements set for contribution to the sustainable investment objective

## **Methodologies**

The Fund works with a criteria checklist for its investment decisions which is used as an exclusion catalog.

For the environmental characteristic, the fund works with the 2,0°C decarbonization pathway according to CRREM to measure energy efficiency. To ensure that the investments are aligned with the 2,0°C decarbonization pathway according to CRREM, the Fund tracks EPC ratings and performs energy calculations on asset level. It is reviewed if the EPC certificate after completed construction or EPC as-built are valid. The documentation is ensured via reports.

The fulfillment of exclusion criteria is tracked via the confirmation of the borrower.

For sustainable investments, KPIs for minimum requirements (see section "Environmental or social characteristics of the financial product") are also tracked via the criteria checklist.

An investment is considered to be sustainable if the criteria of the respective category (e.g. social infrastructure, certifications, energy demand) for sustainable investments are fulfilled. For new construction and retrofits the target achievement has to be ensured through integrating the costs for the measures into the business plan and no evidence to the contrary exists.

If the exclusion targets cannot be achieved, the investment decision is going to be rejected. Hence, investments will only be made with the clear expectation that the sustainability targets will be achieved.

## **Data sources and processing**

The Fund collects regular information from asset managers, facility managers and other parties on asset level of both quantitative and qualitative nature. Besides these sources, the Fund has also engaged with external service providers.

Data providers are responsible for data quality and are required to review and update the data

on a quarterly basis. Internal controls are setup to identify any outliers or obvious mistakes.

The Fund seeks to limit data estimations but will assess the usage of estimations on a case-by-case approach. On external reporting frameworks we adhere to the rules of the individual framework and follow their guidelines for use of estimations.

## **Limitation to methodologies and data**

Data and methodological limitations relevant to the financial products' operation and ESG agenda are not unique to the Fund, but represents common challenges for measuring, interpreting, and reporting ESG relevant information.

The financial product expects an ongoing process to increase data coverage and data quality, in line with how the general ESG reporting area evolves with new international best practices and accounting standards going forward.

These limitations do not affect the attainment of the environmental and social characteristics and sustainable investment.

## **Due diligence**

The Fund performs an extensive due diligence process (see section "Investment strategy"). As part of the due diligence process, ESG aspects are carefully analyzed. The due diligence includes an assessment on all defined environmental and social characteristics as well as the sustainable investment requirements (see section "Environmental or social characteristics of the financial product"). The data is analyzed in terms of the target achievement for the AIF.

## **Engagement policies**

The Fund does not have a formal engagement policy, the financial product however, does have engagement activities. The Fund takes a collaborative approach with its stakeholders to jointly agree on measures to improve the ESG profile of relevant assets. All assets are continuously monitored on their ESG performance by asset managers in collaboration with its central sustainability team to uphold and increase the value of its assets.

## **Designated reference benchmark**

A specific index is not designated.