

Sustainability Risks Policy

10 March 2021

as amended

This document sets out the policy for PGIM Real Estate Germany AG (LEI: 529900X2Q4V8EL5EB666), PGIM Luxembourg S.A. (LEI: 549300L5RQD5M18TN802) (the “**EU AIFMs**”) and for PGIM, INC. (LEI: 5493009SX8QJBZYIGB87) in respect of such fund(s), which are actively marketed into the European Union under a National Private Placement Regime (the “**Non-EU AIFM**”) (together the “**AIFMs**”) on the integration of sustainability risks in our investment decision-making process.

1. Introduction

The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the AIFMs to formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.

In overview, the AIFM’s sustainability values are that we believe that doing the right thing for our people, the environment and our communities leads to better results for all our stakeholders. We strive to embed sustainability related best practices throughout our investment, asset management, risk management, and talent management processes.

This document sets out the AIFM’s policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 SFDR. The policy applies to the AIFMs, and applies in respect of all portfolio and asset management services or AIF management carried on by the AIFMs in relation to the AIFs in scope as defined above.

For reference, the AIFMs maintain other policies and documentation related to sustainability, including:

- Principal Adverse Impacts – Investment Due Diligence policy,
- PGIM Real Estate’s Global Sustainability Policy,
- Remuneration Policy

This policy applied as from 10 March 2021 and may be amended from time to time.

2. Purpose of this policy

Under SFDR, “**sustainability risk**” means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients’ investments.

The AIFMs recognise that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those sustainability risks could impact on our clients’ investments. This policy therefore establishes our framework to identify, measure, manage and monitor sustainability risks to our clients.

For the purposes of SFDR, sustainability risk is not concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers “*value*” rather than “*values*”. The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm’s investment decisions on sustainability factors. The AIFMs are compliant with the principal adverse impacts rules under Article 4 SFDR and have separately implemented a due diligence policy on this matter.

In addition, SFDR is not specifically concerned with the risks that sustainability events may cause to the AIFM's own balance sheet or prudential position. Such risks will be separately covered by the AIFM's enterprise risk management.

3. **Governance and senior management responsibility**

The AIFM's Board of Directors or the Management Board, as applicable, are ultimately responsible for the AIFM's policies and procedures in respect of sustainability. The AIFM's respective executive committee have approved this policy and the related procedures and the AIFM's integration of sustainability risks into investment decision making. The board of PGIM, Inc. has delegated the task to update and amend policies and procedures in respect of sustainability in relation to PGIM, Inc. to the PGIM Global Head of ESG.

4. **Sustainability risk management**

As part of our broader risk management processes when investing and during the holding period of the asset, the AIFMs have implemented procedures to (i) **identify**, (ii) **measure**, (iii) **manage** and (iv) **monitor** sustainability risks.

The AIFM's approach to sustainability risk management is based on (amongst other things) the time horizon for our investments, the types of assets in which we invest, the sectors / geographies in which we invest, and the investment strategies we apply.

4.1 **Acquisition**

(A) **Identify & Measure**

(1) **Real Estate Equity Investments**

Sustainability risk is being considered in the initial acquisition phase, with a strong focus on the energy efficiency and the resiliency of an asset.

For all new investments, assets are "screened" at bid stage from a review of vendor due diligence, where available, and publicly available environmental information. Once under offer, comprehensive and thorough due diligence is completed utilising a standardised scope of works and approved panel of independent specialist consultants. As part of the due diligence review, the likelihood of occurrence of sustainability risks is analysed. This includes a scorecard assessment highlighting the strengths and weaknesses of an asset from a sustainability perspective. The relevant risks are broadly divided into the three categories of environmental, social and governance/resilience. The ESG scorecard calculates environment, social and governance/resilience into "below average", "average" and "above average" and requires commentary on notable risks. The ESG score, whilst formulated by the AIFM and using internal analysis, also relies on third-party data sources including physical climate risk analytics.

The investment committee report includes key findings of the due diligence assessments and the output of the asset level ESG scorecard. Any material risks identified are discussed at the committee and underwritten as required, such as through insurance or price adjustment. By embedding this assessment strategy into underwriting, the AIFM is able to quantify, at a high level, the impact of sustainability risks.

Within each of the regions, certain sustainability risk items are considered 'investment critical' i.e. could have a material impact on an investment decision from a regulatory or financial aspect, and where a negative appraisal may preclude investment. To handle these items regionally, decision trees have been developed to support the identification of material risks, consider potential impacts and any mitigation measures which might be required. The investment committee report, alongside the output of the ESG scorecard, presents each of the investment critical items as "critical issue/action", "important issue/action" and "no current issue". Mitigation measures and associated capital expenditure are reported for all "critical issue/action" and "important issue/action". As above, any material risks identified are discussed at committee and underwritten as required.

(2) **Real Estate Debt Investments**

Globally, the debt business (commercial and agriculture) performs a screening process similar to the equity business. During the loan structuring and underwriting due diligence, a suite of appropriate third-party environmental assessments is engaged and a proprietary ESG Loan Assessment is completed. Data

for the loan assessment is collected by a borrower questionnaire, ESG specific sections of the due diligence reports and physical climate risk analytics.

The ESG Loan Assessment generates an overall “ESG Loan Score” (0 to 100) with Environmental, Social, Governance and Resilience sub-scores. The key findings from the due diligence assessments and the ESG loan score are presented in the investment committee report. Any material risks identified in the due diligence or using the assessment tool are discussed at committee and underwritten, through a deferred maintenance reserve (if applicable) or a post-closing obligation.

(3) Fund of Funds

In private equity and fund of funds, the AIFM is currently solely engaged in indirect investments. As a consequence, the AIFM is typically one step removed from underlying portfolio companies. Therefore, the sustainability risk framework focuses on assessing the sustainability risk of the General Partners of the underlying fund investments as well as of the underlying portfolio companies:

For GP risk assessments, where transaction dynamics allow (GP-led deals, selectively LP-led deals and fund-of-fund secondaries), the AIFM or the delegated portfolio manager uses available information to perform a sustainability risk review to assess GP policies, commitments to industry standards, governance, communication and investment process. The outcome of the analysis is included in the investment memorandum presented to the investment committee.

- **For secondary investments: for portfolio company risk assessments, a two-step process is applied:**
 - First, individual portfolio companies are screened against a high-risk industry list.
 - **In addition, the** sustainability risk of the portfolio companies is assessed by leveraging a third-party risk rating provider, which considers issues and topics based on UNGC principles¹, SASB issues² and past public sustainability incidents by sector and company.
- **For primary investments: for co-investments**
 - From time to time, private equity co-investments with existing General Partners may be evaluated and ultimately included in the portfolio. For these investments, the AIFM or delegated portfolio manager will rely on the previous risk assessment of the General Partner’s sustainability risk when considering all private equity co-investments for inclusion in the portfolio. The outcome and/or any sustainability risk specific to the co-investment will be documented in the written investment recommendation.

(4) MiFID

This section focuses on REITs investment. Real Estate debt mandates are covered under the Real Estate Debt section. For investment in REITs, a proprietary ESG scoring is used as a material factor in price target output for each company in the universe. It assesses the below 5 indicators:

1. Governance score: A proprietary governance-ranking system accounts for multiple factors to create an overall governance quality score, including independent versus non-independent board composition, lengths of tenure of board members, proxy access, insider ownership of stock, non-staggered board, anti-takeover provisions and business conflicts of interest with executive management teams. ESG governance scores are also factored in because such rankings spotlight a REIT’s commitment to continued ESG oversight.
2. ESG implementation score: ESG initiatives, case studies, building certifications and energy ratings are used to derive ESG implementation scores.
3. Annual emission reduction score: Disclosures from GRESB are used to compare real estate investment trust environmental standings based on PGIM Real Estate’s environmental priorities. ESG case studies, building certifications, GHG emissions, waste management and water consumption rankings are used and finally, an overall resilience score is given for each REIT’s portfolio.
4. Social commitment score: The current methodology ranks companies based on disclosures with regard to diversity, stakeholder satisfaction and community engagement. REITs that currently provide that information in their annual

¹ Available at <https://www.unglobalcompact.org/what-is-gc/mission/principles>

² Available at <https://www.sasb.org/>

ESG reports are rated on those factors. REITs' portfolio social standings are also assessed, looking at affordable-housing benefits and walkability measures.

5. PGIM ESG Platform assessment: A scoring assessment is based on analyst and property manager interactions with REIT management team regarding ESG matters.

4.2 Active Ownership

(A) Management & Monitoring

(1) Real Estate Equity Investments

Sustainability risks continue to be monitored during annual portfolio reviews and throughout the investment holding period. The relevant risks are broadly divided into the three categories of environment, social and governance. The ESG section of the review process, whilst formulated by the AIFM and using internal analysis, also relies on third-party data sources including physical climate risk analytics and GRESB. By embedding this review into standard processes, the AIFM is able to continue to manage and monitor sustainability risks as they arise.

(2) Real Estate Debt Investments

PGIM Real Estate's³ standardized loan documentation also addresses sustainability risks. In addition to relevant sustainability risks, where applicable and required, the loan asset management team and loan servicer will monitor compliance with the sustainability and financial covenants throughout the life of the loan to ensure that there is continued knowledge and understanding of the assets.

By striving to embed ESG best practices throughout our real estate investment, asset management (e.g. lease structuring), risk management, and talent management processes, as demonstrated above, PGIM Real Estate looks to ensure appropriate protections, even in the event of catastrophic sustainability risk events.

(3) Fund of Funds

Post investment, the following sustainability risk monitoring activities are performed:

- For secondary investments:
 - Portfolio companies: on a quarterly basis, portfolio companies (including newly acquired ones) are reviewed against the high-risk industry list and an updated risk-rating is sourced through the third-party provider. Any increases in risk are subject to additional desktop research or discussion with the respective fund manager if appropriate.
 - Portfolio GPs: on an annual basis, portfolio GPs are invited to complete a sustainability risk monitoring questionnaire.

For primary investments (co-investments):

Co-investments: on an ongoing basis, the AIFM or delegated portfolio manager, performs screening checks for any adverse media alerts and evaluates the ongoing reporting from the GP relating to sustainability risks. Any increases in risk are subject to additional research and discussions with the GP.

(4) MiFID

- The ESG score described in the previous section is monitored on a monthly basis. The scores are updated annually as part of the GRESB submission.

³ "PGIM Real Estate" refers to the real estate investment management business of PGIM, the principal asset management business of Prudential Financial, Inc. ("PFI"), a company incorporated and with its principal place of business in the United States.

5. **Disclosure of this policy**

SFDR requires that the AIFMs must publish on our website information about this policy.

SFDR also requires that the AIFMs must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. The AIFMs satisfy this requirement by disclosing a separate summary of this policy in the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.

6. **Transitional Period**

This version of the policy is made on the relevant date of the board resolution of the respective AIFMs and effective as of 1 January 2024. From that date it supersedes the policy dated 10 March 2021.