



# **SUSTAINABILITY RISK MANAGEMENT POLICY**

**PREIM LUX Luxembourg SA**

**Team**

Fund Management / Risk Management / Compliance

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## 1. HISTORY

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Version	Release Date	Description	Author
v1	04/23	NEW	JK/ND/RB
v2			
v3			

## 2. GLOSSARY

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Term	Description
<b>AIF</b>	Alternative Investment Fund (and sub-funds where relevant)
<b>AIFM</b>	Alternative Investment Fund Manager (including subsidiaries and branches, if any)
<b>Board, BoD</b>	PREIM LUX's board of directors
<b>Conducting Officer</b>	Persons who effectively conduct the business of the AIFM
<b>Conducting Officer Compliance</b>	Conducting Officer in charge of PREIM LUX's compliance activities
<b>Conducting Officer Portfolio Management</b>	Conducting Officer in charge of PREIM LUX's portfolio management activities
<b>Conducting Officer Risk Management</b>	Conducting Officer in charge of PREIM LUX's risk management activities
<b>PREIM LUX</b>	PREIM LUX Luxembourg S.A.
<b>PRIMONIAL REIM HOLDING</b>	Primonial REIM (ex Stone Holding), the umbrella entity for all the Primonial group real estate asset and property management companies
<b>Policy</b>	The subject Management Information Policy
<b>Principle Adverse Impact</b>	The impact of investment decisions and advice that result in negative effects on sustainability factors, for example, the negative effect of an underlying investee company on sustainability factors. As such, the concept of "sustainability risk" applies to the value of the financial product whereas the assessment of a "principal adverse impact" applies to the underlying investee company. (SFDR)
<b>Sustainable Finance Disclosure Regulation ("SFDR").</b>	Amended regulation 2019/2088 of the European parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.
<b>Sustainability Factors</b>	Sustainability Factors. Environmental, social and employee matters, respect for human rights, anti--corruption and anti--bribery matters (SFDR).
<b>Sustainability Risk</b>	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 the investment (SFDR).

### 3. APPLICABLE REGULATIONS

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REGULATION	DESCRIPTION
EU	Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (“SFDR”)
EU	Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (“Taxonomy”)
EU	Commission Delegated Regulation (EU) 2022/1288 of 6 April 2022 supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports (“SFDR RTS”)
CSSF	CSSF FAQ Sustainable Finance Disclosure Regulation (SFDR)

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### 4. PURPOSE AND SCOPE

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In accordance with Article 3 of SFDR, PREIM Lux must publish information on its policies for integrating sustainability risks into its investment decision-making process on its website.

The purpose of this policy is to describe how PREIM Lux integrates relevant sustainability risks into its investment and asset management activities.

This policy applies to all funds managed by PREIM LUX.

This policy is based on the **principle of double materiality**:

- **Sustainability risk**: event or situation in the environmental, social or governance field that, if it does occur, could have an actual or potential negative material impact on the value of the investment.
- **Principal Adverse Impacts (PAI)**: The impact of investments on the environment.

The notion of double materiality highlights the direct and reciprocal link between the asset (mitigation of carbon emissions with a view to reducing the negative externalities targeted) and its environment (integration of climate risks with a view to preserving the asset's value).

#### 4.1 Definitions

**A sustainability risk is an environmental, social or governance event or situation that, if it occurs, could have an actual or potential negative material impact on the value of the investment.**

##### 1. Environmental risks

**A physical risk** is an event or situation, caused by meteorological and/or climatic phenomena, which, if it occurs, can cause material or human damage that impacts the asset's yield.

Climate change makes the probability of this risk occurring higher and higher from year to year.

**A transition risk** is an event or situation, caused by adjustments made for a transition: political, legal, technological and commercial changes implemented to mitigate and adapt to climate change (e.g. environmental objectives defined by the Taxonomy Regulation<sup>1</sup>), in particular when these are poorly anticipated or occur abruptly.

**A liability risk** is an event or situation, induced by complex legal and reputational situations, resulting from negative impacts on the environment that may affect people and property, generated by the company's activity.

**2. Social risk**

**Social risk** concerns the analysis of the company's relationship with its stakeholders: employees of the management company, investors, tenants, property managers, work providers, suppliers, etc. It includes in particular the protection of employees' health and safety, the protection and well-being of tenants, the fight against discrimination, respect for human rights within the supply chain or the philanthropic approach of the company, its relations with local communities, customer satisfaction, etc.

**3. Governance risks**

**Governance risk** encompasses both the competence of the company's management team, the remuneration structure of management teams, and the existence of counter-powers. The evaluation of this last point involves analysing the composition of the boards of directors, the suitability of directors' profiles for the company's needs, their independence, business ethics or the company's commitment on the subjects of Corporate Social Responsibility (CSR).

At the fund level, **governance risk** includes compliance with contractual obligations by stakeholders. These contractual obligations may include clauses relating to environmental, social and governance criteria.

**5. DESCRIPTION OF THE SYSTEM**

**5.1 Identification and mapping of sustainability risks**

PREIM LUX provides the following services subject to sustainability risks:

Collective management	Management of UCITS	<input type="checkbox"/>
	Management of AIFs	<input checked="" type="checkbox"/>

<sup>1</sup>Mitigation of climate change, adaptation to climate change, sustainable use and protection of aquatic and marine resources, transition to a circular economy, prevention and reduction of pollution, protection and restoration of biodiversity and ecosystems

**Sustainability risks**, whether environmental, social or governance, may affect the value of assets and revenues generated by AIFs managed by PREIM LUX. These are potential risks in the short, medium and long term.

PREIM LUX believes that all of these risk factors need to be considered in the same way as financial indicators to obtain a more complete view of the value, risk and potential performance of investments.

These risks are some of the risks mainly identified by the real estate market for the management of assets located in Europe. Other risks may be significant in the coming years and will be added to the risk mapping as part of its review process.

A risk impact and probability scoring model has been developed by PREIM LUX to hierarchise risks and determine, according to our approach, the effectiveness of risk control measures on these potential risks. This mapping will be updated at least annually. Both factors are distributed on a scale of 1 to 4 (low, moderate, high and very high). The Net Risk is the equivalent of the probability x impact pair. The Net Risk is therefore spread over a scale of 0 to 16.

According to the mapping presented below, it should be noted that none of the ESG risks exceeds risk level 9, given the current investment universe of funds managed by PREIM LUX and the risk control mechanisms in place.



E/S/G	Risk Category	Risk Type	Risk factor associated	Scope	Risk management system	Status	Origin	Probability	Cotation	Impact	Cotation	Net risk
E	Physical risk	Heatwave	global warming induced by the increase in CO2 emissions, due to anthropogenic activity since the industrial era	All acquisitions made. All assets under management.	A climate risk map has been created on the Deepki platform based on European maps from the IPCC reports (most likely scenario 4.5), which project climate risks to at least 2050: precipitation, heat waves, coastal flooding, floods, forest fires, landslides, earthquakes, drought.  - Based on the three exposure factors (frequency, intensity and duration of the episodes), a risk scale of 1 to 5 identifies what is called the "proven climate risk" = 5/5.  - At the time of acquisition, Primonial excludes any asset with a proven climate risk to ensure that the asset is resilient to this risk.  - During management, if the asset presents a proven risk and is not resilient to this risk, then CapEx is implemented to adapt the building to climate change (lift pumps, rainwater recovery system, air/water cooling etc.).	emerging	exogenous	Moderate	3	weak	1	3
E	Physical risk	Droughts				emerging		Moderate	3	weak	1	3
E	Physical risk	Precipitations				emerging		Moderate	3	Moderate	2	6
E	Physical risk	Landslides				emerging		Moderate	3	Moderate	2	6
E	Physical risk	Flooding				emerging		Moderate	3	High	3	9
E	Physical risk	Fire				emerging		Moderate	3	High	3	9
E	Physical risk	Coastal submersions				emerging		Moderate	3	High	3	9
E	Physical risk	seism				current		weak	2	High	3	6
E	Physical risk	Biodiversity loss	- soil artificialization	All acquisitions made. All assets under management.	calculation of the ratio of artificial surfaces to total land for any asset located in France. Use of AI which analyses the assets by satellite photo and automatically calculates this ratio..  on VEFA acquisitions and redevelopment, efforts to improve the precisely calculated biotope coefficient (green roofs and terraces, open-air gardens etc.)	current	Endogenous	Moderate	3	Moderate	2	6
E	Transition risk	legislative	- Increasing and more stringent requirements through European regulations, in terms of commitment and transparent results on ESG issues (SFDR, Taxonomy, CSRD, ART 29 etc.)  - new construction standards with the aim of reducing the carbon emissions of construction programmes and then of buildings in operation, which could result in additional costs for works	All acquisitions made. All assets under management. Entity	Active monitoring by the ESG team of Primonial REIM Holding of regulatory changes relating to sustainable development in the financial, real estate and construction sectors.  - drawing up strategic plans and implementing action plans to meet new standards and regulations: the aim is to anticipate them as far in advance as possible.	current	Exogenous	Moderate	3	Moderate	2	6

E/S/G	Risk Category	Risk Type	Risk factor associated	Scope	Risk management system	Status	Origin	Probability	Cotation	Impact	Cotation	Net risk
E	Transition risk	technology	<ul style="list-style-type: none"> <li>- stagnation of solutions that would reduce the carbon emissions of an asset (renewable energies, heating and air conditioning systems etc.)</li> <li>- increase in the price of these new technical solutions</li> </ul>	<p>All acquisitions made. All assets under management.</p>	<p>The Primonial REIM Holding ESG team actively monitors new technological solutions that reduce carbon emissions.</p> <ul style="list-style-type: none"> <li>- The ESG team is consolidating its knowledge and expertise in the use of current technologies, using known and mature but optimised solutions to help limit climate change (insulation, heat pumps, solar panels etc.)</li> </ul>	emerging	Exogenous	weak	2	weak	1	2
E	Transition risk	Mobility	<ul style="list-style-type: none"> <li>rising fuel prices</li> <li>- poor location of assets in the public transport network</li> <li>- parking areas not adapted to new modes of transport (electric cars, bicycle rooms)</li> </ul>	<p>All acquisitions made. All assets under management.</p>	<p>In management, deployment of a mobility score on the Deepki Ready extra-financial platform, which measures the quality of implementation of assets in the public transport network</p> <ul style="list-style-type: none"> <li>- High of assets that offer a soft mobility solution within the scope of SRI-labelled funds (bicycle rooms, electric charging stations, etc.). Intensification of soft mobility solutions on assets with a weak mobility score.</li> <li>- On acquisition, analysis of the "mobility score" correlated with the soft mobility solutions present on site. In case of a weak mobility score, intensification of soft mobility solutions or stop of the acquisition process.</li> </ul>	emerging	Endogenous / Exogenous	High	4	Moderate	2	8
E	Transition risk	Market	<ul style="list-style-type: none"> <li>- dépréciation de la valeur des actifs suite à l'intégration des externalités négatives (carbone principalement)</li> <li>- conditions de financement pour l'acquisition de passifs énergétiques désavantageuses</li> <li>- conditions d'investissements par les investisseurs institutionnels corrélés à la performance extra-financière des fonds et actifs</li> <li>- Marché de la rénovation énergétique non mature : nombre d'entreprises insuffisant, nombre ETP qualifiés...</li> </ul>	<p>All acquisitions made. All assets under management.</p>	<p>Active monitoring by the ESG team at Primonial REIM Holding of all possible changes in market practices</p> <ul style="list-style-type: none"> <li>- anticipation of practices, internal integration upstream of market changes</li> </ul>	emerging	Exogenous	weak	2	Moderate	2	4
E	Responsibility risk	Reputational	<ul style="list-style-type: none"> <li>lack of responsibility on the part of the entity for environmental issues, and in particular the carbon emissions linked to its activity</li> </ul>	<p>Entity</p>	<p>establishment of an extra-financial plan by the ESG team of Primonial REIM Holding</p> <ul style="list-style-type: none"> <li>- deployment of the strategy to operational activities (awareness, training, processes, results) in order to minimise the negative environmental impact of the management company's activities (carbon emissions)</li> </ul>	emerging	Endogenous	weak	2	Moderate	2	4



E/S/G	Risk Category	Risk Type	Risk factor associated	Scope	Risk management system	Status	Origin	Probability	Cotation	Impact	Cotation	Net risk
S	Social risk	Noise Pollution	proximity to transport infrastructure such as an airport or motorway  - Proximity to places of social life with a high flow of people (concert halls, bars, nightclubs etc.)	All assets under management (for SRI-labelled funds)	identification of "noise pollution" risk factors by the AM SRI team, which analyses the ESG grid for each asset  - adaptation of buildings to mitigate noise pollution (double glazing, sound insulation, anti-noise walls)	current	Exogenous	weak	2	weak	1	2
S	Social risk	Health of building users	- presence of hazardous substances (asbestos, lead, etc.), whether or not they are degraded  - indoor air quality	All assets under management (for SRI-labelled funds)	identification of "regulated substances" risk factors by the AM SRI team, which analyses the ESG grid for each asset  - action plans implemented to extract regulated substances that impact the health of building users  - action plans implemented to improve indoor air quality (CO2 sensors, anti-microbial filters, etc.)	current	Endogenous	weak	2	High	3	6
S	Social risk	Health of building users	Industrial sites with major accident hazards	All assets under management (for SRI-labelled funds)	identification of the risk factors "nearby industrial sites" by the AM SRI team, which analyses the ESG grid for each asset  - adaptation of buildings to protect users in the event of such an event (boomers, containment rooms, water treatment in the event of an emergency)	current	Exogenous	weak	2	High	3	6
S	Social risk	Building safety	insecurity of the neighbourhood	All acquisitions made. All assets under management.	identification of "neighbourhood insecurity" risk factors by the Transaction and Asset Management team.  - in management, implementation of action plans to protect building users from the insecurity of the neighbourhood and adaptation of the building to mitigate this risk (armoured glass, burglar-proof doors, 24-hour security centre, etc.)	current	Exogenous	weak	2	Moderate	2	4
G	Governance risk	Cybersecurity	Malicious use of Primonial REIM private data by service providers - Hacking of Primonial REIM infrastructures or its service providers	Entity	Identification of "cybersecurity" risk factors by the Primonial Group's IT team.  - establishment of an anti-hacking strategy and deployment of material and immaterial action plans to manage this exogenous risk	current	Exogenous	Moderate	3	High	3	9
G	Governance risk	Regulatory	loss of operating licence for health care facilities	The totality of the managed health assets.	active monitoring by the ESG Primonial REIM Holding team of any possible loss of operating authorisation for a healthcare establishment  - by anticipation, exchanges and support to operators who could lose their operating licence	current	Exogenous	weak	2	High	3	6

E/S/G	Risk Category	Risk Type	Risk factor associated	Scope	Risk management system	Status	Origin	Probability	Cotation	Impact	Cotation	Net risk
G	Governance risk	Regulatory	change of use to intermediate or social housing	Intégralité du patrimoine (pour la SCPI Patrimmo Croissance)	active monitoring by the ESG team of Primonial REIM Holding of any possible conversion of social and intermediate housing into open-access housing  - by anticipation, exchanges and support to social landlords in order to prevent the requalification of residential assets	current	Exogenous	weak	2	High	3	6
G	Governance risk	Controverse	Tenant subject to reputational or legal controversy	All acquisitions made. All assets under management.Entity	active monitoring by the ESG team at Primonial REIM Holding of any tenant that may be subject to reputational or legal controversy  - in anticipation, exchanges with tenants in order to identify weak points and support them in a process of continuous improvement  - in acquisitions, in-depth study of the subject of the controversy, in order to only include in the portfolio assets managed by leading operators	current	Exogenous	weak	2	Moderate	2	4
G	Governance risk	Directory	lack of awareness of ESG issues among the management team  - Lack of checks and balances within the board of directors, making it impossible to defend extra-financial issues against financial interests	Entity	recurrent presentation by the ESG team of Primonial REIM Holding of the ESG issues facing the company's activities to the management team  - training of managers on issues related to climate change and the ESG strategy deployed  - setting up an extra-financial committee, mirroring the Board of Directors	emerging	Endogenous	weak	2	Moderate	2	4

## 5.2 Reducing exposure to sustainability risks

Depending on the investment and fund management policy, risk control measures are put in place by PREIM LUX teams to prevent the occurrence and reduce the vulnerability of assets to the risks to which they are exposed.

### 1. Definitions of the objectives

From banking to real estate to insurance, all sectors must integrate sustainability risk management into their business plans and reduce their exposure to these risks.

The regulatory documentation (prospectus, regulations, PPM, Key Information Document (KID) or Key Investor Information Document (KIID), Investor Information Document (IID) or the statutes) of each managed portfolio presents its general objectives in financial and non-financial terms.

Specifically for real estate asset management, physical risks have and will increasingly have an impact on the profitability of funds; these risks are directly linked to climate change, which increases the occurrence, intensity and duration of weather events.

Analytical work is underway to determine the exposure to physical risks on assets. Once this analysis is completed, PREIM LUX's objective is to analyse the vulnerability of assets that present a proven risk, and their ability to respond to these exposures.

Adaptive measures are taken on each asset with a proven physical risk to make the building resilient to climate change, in anticipation of future extreme weather situations. An overall level of risk is then defined by fund and the financial impact is assessed.

### 2. Resources dedicated to ESG and sustainability risks

#### Human resources:

The definition and deployment of PRIMONIAL REIM HOLDING's ESG strategy is driven by:

- The Director of Research, Strategy and Sustainable Development of PRIMONIAL REIM Holding. He chairs the six-monthly ESG Committee. With his team of 2 people, they define the overall SRI strategy at PREIM LUX Holding, including deployment in the subsidiaries PRIMONIAL REIM France, PRIMONIAL REIM Germany, PRIMONIAL REIM Italy and PRIMONIAL REIM Luxembourg.
- In addition, an ESG Director of PRIMONIAL REIM Germany is under the responsibility of the Director of Research, Strategy and Sustainable Development, for deployment of the SRI strategy on assets located in Germany.
- The other people involved in the process are:  
Asset Managers and Property Managers who execute asset business plans under the responsibility of the Fund Managers

All PREIM LUX employees have benefited from ESG training to better grasp, understand and apply the ESG strategy adopted by PRIMONIAL REIM Holding.

**Technical resources:**

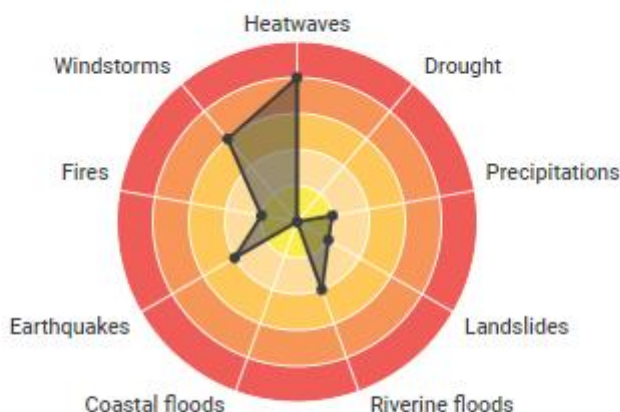
PREIM LUX uses climate models from the CDS (Climate Data Store) and Copernicus (European Union Earth Observation Programme) validated by the scientific community.

To calculate the risk of exposure to physical risks, PRIMONIAL REIM HOLDING selected the projected scenario up to 2100 from the IPCC: RCP 4.5. This scenario is most likely according to the IPCC (Intergovernmental Panel on Climate Change) expert community.

The mapping of physical risks based on the CDS and Copernicus charts on scenario 4.5 described above is developed on the **Deepki Ready** platform across all assets throughout Europe (tertiary assets > 1,000 m<sup>2</sup>). Technical information relating to the assessment of climat risks in this tool can be found in the document " Primonial REIM global Sustainability and ESG protocol".

**1. Establishment of an analysis methodology**

- A. The mapping of physical risks developed by Deepki takes into account the projected climate risks by 2050 or even 2100: precipitation, heat waves, floods, rising sea level, forest fires, landslides, earthquakes, drought.
  
- B. Depending on the 3 exposure factors (frequency, intensity, and duration of episodes), a risk scale of 1 to 5 identifies what is called a "proven climate risk".



Scoring from 0 to 5, the worst case (higher risk) is 5

- C. Resilience studies are produced upon acquisition and during management to verify the asset's adaptability to climate change when the result of the physical risk analysis presents at least 1 proven risk. Where appropriate, corrective measures are adopted on each building exposed to a proven risk.
  
- D. Upon acquisition, PREIM LUX excludes any asset with a proven climate risk after verification of the building's resilience to this risk, unless the appropriate corrective measures are included in the business plan.
  
- E. The other risks (transition, responsibility, social and governance) are collected manually, controlled via a 1<sup>st</sup> level system by the operational teams.
  
- F. The analysis and action plans to manage or reduce the E, S and G sustainability risks that a fund bears are communicated to investors via the annual reporting (from 1 January 2023) or in ad hoc meetings for funds classified under Articles 8 and 9 within the meaning of SFDR.

The results of the analyses carried out according to the methodology described above are taken into account in investment decisions and management activities for all funds managed by PREIM LUX.

### 5.3 Communication and media used (article 6 sfdr)

#### 1. Languages used

The information is communicated at least in the official language of the Member State where the products are marketed and possibly in a language customary in financial matters other than the official language of that Member State.

The information is communicated by PREIM LUX in English.

#### 2. Pre-contractual documents

For AIFs Articles 6, 8 and 9, PREIM LUX describes:

- how sustainability risks are integrated into its investment decisions;

For AIF Articles 8 and 9, Primonial further describes:

- the assessment methods and results of the likely impact of sustainability risks on the performance of the financial products it makes available.

This information is included in the annex to the funds' precontractual documentation.

#### 3. Website

Access to information on how PREIM LUX incorporates relevant sustainability risks that are significant or likely to be significant is effective through the publication on the website of a dedicate SFDR disclosure.

All information published on the website is kept up to date.

## 6. SUMMARY OF 1st AND 2nd LEVEL CONTROLS

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The associated controls are spread over several levels of responsibility and are applicable to the company's entire activity.

### 6.1 First level controls

The 1<sup>st</sup> level controls are the responsibility of the operational teams (Property / Asset Managers under the responsibility of the Fund Managers) who are responsible for deployment of the system and compliance with the associated procedures for PREIM LUX.

### 6.2 Second level controls

#### 1. Risk Management Function

The risk management system oversees all risks (financial, operational, liquidity and sustainability risks according to the funds' investment strategy).

Risk indicators specific to each fund are monitored and reviewed in collaboration with the various operational departments of PREIM LUX France. These indicators feed into the risk mapping used to assess the effectiveness of the operational arrangements and procedures governing these risks.

## **2. Compliance Function**

Regarding the management of ESG risks and sustainability in particular, the CICD ensures in the framework of the annual control plan that:

- The compliance and risk control system are implemented in accordance with the regulations in force (including ESG and sustainability risks),
- The policy relating to the investment/disposal processes of managed real estate assets (including ESG/SRI) is well respected,
- Periodic reporting is carried out on the funds concerned,
- The management company's website contains all the required sustainability information.

## **7. REVIEW OF THE POLICY**

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The Policy will be reviewed at least once a year by the Managers under the supervision of the Board.

Where no update is required, the Policy will be applied consistently over time. Where update is required, formal approval by the Board is necessary.