

HIH Real Estate

# Sustainability Approach of HIH Real Estate

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## Introduction

### Hamburg 2020 / 2021

Sustainability and ESG<sup>1</sup> compliant management of all business units is an integral component of the corporate philosophy of HIH Real Estate. The company puts a premium on the sustainable and efficient management of properties, as well as on due consideration for people and the environment. Observing the ESG criteria and taking advantage of structuring options are key aspects within the value systems, strategies and structures of HIH Real Estate.

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<sup>1</sup>ESG: E= environmental; S= social; G= governance



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## 1 BASES OF OUR ACTIONS



As a signatory of the UN Global Compact, HIH Real Estate supports the compact's 10 principles which provides guidance in the four subject areas of human rights, labour rights, environmental protection and the fight against corruption. In its business activities with investors and partners, HIH Real Estate abides by the code of conduct defined by the BVI Federal Association for Investment and Asset Management to govern the responsible handling of capital entrusted to it and of investor rights.

## 2 BASELINE SITUATION

The European Union has adopted ambitious goals for its climate and energy policies. The framework for the target benchmarks and political objectives covers the period of 2021 through 2030. Key objectives for 2030 include

- i. lowering greenhouse gas emissions by 40% or more (compared to 1990),
- ii. raising the share of energy from renewable sources to 32% or more, and
- iii. increasing the energy efficiency by 32.5% or more.

Beyond these objectives, the EU heads of state and government committed to the goal of climate neutrality by 2050 in December 2019. By that time, the European Union will seek to avoid all greenhouse gas emissions, to the extent possible.



Sustainability has become firmly anchored in the political agenda. The EU Action Plan for Sustainable Finance indicates that capital flows should increasingly be channelled into sustainable investments.

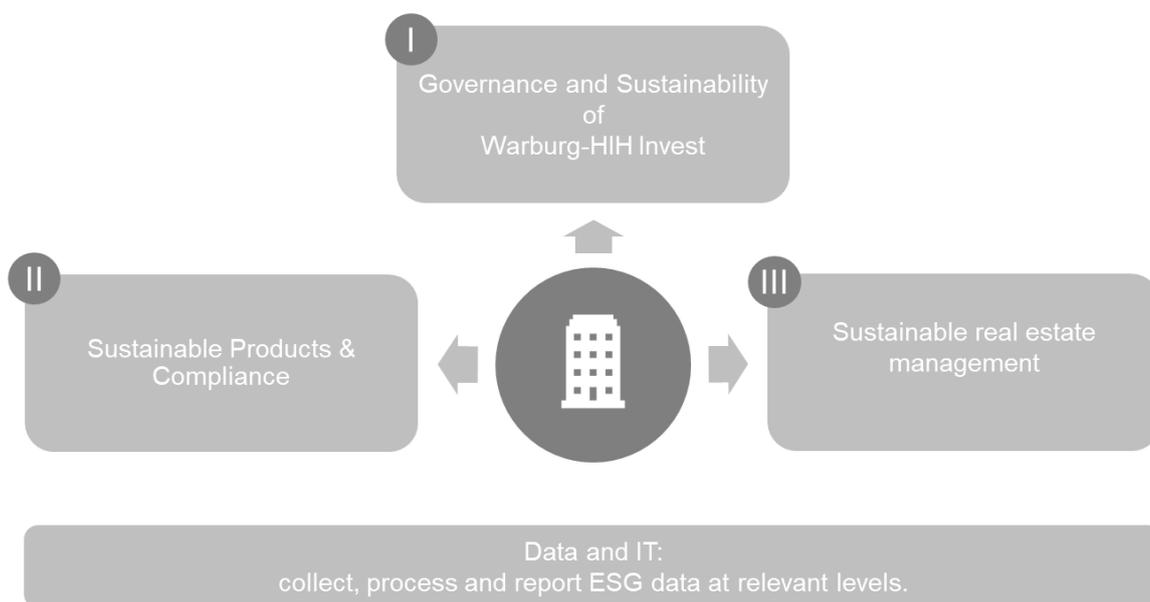
Going forward, this will entail tightened transparency requirements about the sustainable activities actually undertaken.

In addition to the environmental objectives, the societal transformation involves social factors and requirements concerning corporate governance.

### 3 SUSTAINABILITY APPROACH

In order to mitigate the ramifications of climate change and to create an optimal work environment, HIH Real Estate defined a comprehensive sustainability approach and formed an ESG team, which implements the approach in collaboration with the company's various business units, and adjusts it from time to time in coordination with the senior management.

The sustainability approach is composed of the ESG mission statement and the four central sustainability issues:



In the implementation of its sustainability approach, HIH Real Estate strives for a high product and service quality in the interest of its clients, for a stable goodwill, the long-term ability to pay dividends and a balanced risk profile in the interest of its shareholders, as well as for a pleasant working environment and a sound work-life balance in the interest of its employees.



## I. Governance and Sustainability at HIH Real Estte

 <b>Renewable Energy</b> Green Energy in our offices	 <b>Bio-Certified Cleaning Materials</b>	 <b>Promotion of public transport use</b> Reduction of GHG Emission
 <b>Wellbeing</b> Work Life Balance & Community	 <b>Health</b> Sport Program & healthy food	 <b>Family Friendly</b> Extra vacation days for families
 <b>UN Global Compact</b> <b>UN PRI</b> Signatory	 <b>Compliance &amp; Governance</b> Trainings	 <b>Charity</b>

It was no coincidence that we opted for a far-reaching sustainability commitment and that we make our know-how available to various organisations:

- UN Global Compact / UN PRI
- BVI:
  - Sustainability Committee (“Ausschuss Nachhaltigkeit”)
  - Working Group on Sustainability in Property Funds (“Arbeitskreis Nachhaltigkeit bei Immobilienfonds”)
  - Working Group on Responsible Investing (“Arbeitskreis Verantwortliches Investieren”)

Our policies include, in addition to our care for employee health, a commitment to engage our partners, service providers, clients and our immediate surroundings in dialogue.

We expect our service providers to implement our principles along their entire supply chains as well, and regularly compare notes with them.

### 1 Active Engagement

The sustainability approach of HIH Real Estate starts on the company level. The company therefore actively raises employee awareness on the subject of environmental and social sustainability, the idea being to make a conscious effort to reduce emissions and to proactively integrate sustainability into its day-to-day business. HIH Real Estate has integrated ESG aspects into all of its



decision-making levels, from the company level, to the product level, and all the way to the property level.

Integrating ESG aspects into our decisions has become a part of our active risk management. The effort of sensitising employees is masterminded by our Sustainability Manager who implements the sustainability approach and serves as contact person for related queries. Employees who are motivated and sensitised to sustainability will expedite and facilitate the implementation of our sustainability approach.

We expect our appointed service providers to engage in responsible supply chain management by adhering to WHIHs standards and ethics. We expect our service providers for example, to:

Ensure that ESG requirements and commitments outlined in the sustainable asset and property management policy, in the Code of Conduct and in the ESG Policy are incorporated in all business activities and are consistently applied to all other contractors

## **2 Employee Concerns and Well-being**

The WHIH / HIH group of companies is an attractive and responsible employer who recruits high-skilled employees with the objective of retaining them long-term in the company.

The group considers it of the essence to offer its employees opportunities for practice-oriented promotion and the development of future-oriented competencies, to create the parameters necessary to ensure that women and men receive the same pay and benefit from the same opportunities for advancement and professional development, to provide an active health management, and to keep physical and mental strain within reasonable limits.

In order to retain its employees in the company long-term, HIH Real Estate makes an effort to create a permanently attractive work environment that is both secure and rich in opportunity. HIH Real Estate advocates non-discriminatory interaction, and offers its employees a variety of opportunities for their continued professional and personal training and development. Employees of HIH Real Estate benefit from a well-developed company health management and a caring human resources department, both of which contribute to a positive work environment.

## **3 Governance**

As a responsible and professional company, HIH Real Estate ensures compliance with international human standards, including respect for human rights, prohibition of child labour, prohibition of forced labour, and freedom of association. Principles such as non-discrimination and people's liability for their own actions and participations are firmly anchored in our work and business standards.

HIH Real Estate enforces a zero-tolerance policy vis-à-vis corruption and bribery and prosecutes any breeches of it under criminal and labour law. Other essential components of our processes include cybersecurity, data protection and the "Know Your Customer" principle.

The sustainability approach helps HIH Real Estate to put itself in an adequate/auspicious position to meet the standards set by future legislation.



Through active involvement in associations and communities of interest, HIH Real Estate exposes itself to new influences and perspectives.

## II. Sustainable Products and Compliance

### 1. Sustainable Portfolio Strategies

In an effort to enhance its sustainability process and potential beyond the corporate level, HIH Real Estate Invest increasingly integrates sustainability aspects into its product landscape, thereby giving its investors the chance to make permanently sustainable investments. This takes the form of creating new sustainable fund solutions and products, of supplementing the transaction process with ESG aspects, and of structuring the management of our real estate to conserve more energy and resources.

For its overall portfolio, HIH Real Estate pursues a sustainability approach that comprises both process-related and explicit sustainability measures. On top of that, HIH Real Estate gives its investors the option to structure bespoke sustainability strategies that satisfy individual needs and suit specific portfolios. To this end, the overall portfolio approach may be expanded to include various ESG modules.

The modules follow the requirements of the Sustainable Finance Disclosure Regulation (OffV) and offer optional components for external benchmarking or scoring models.

ESG Modul	Merkmale	Reporting	Eigenschaften
 Non-ESG	<ul style="list-style-type: none"> <li>No consideration of sustainability risks and negative effects Not or only partially part of the WHIH ESG overall portfolio strategy</li> </ul>	No ESG Elements	<ul style="list-style-type: none"> <li>Statement that no ESG risks / criteria are taken into account = the investor must explain this explicitly</li> </ul>
 Basis	<ul style="list-style-type: none"> <li>Sustainability within the scope of the KVG ESG overall portfolio strategy</li> </ul>	Basic key figures (Consumption / CO2 emissions)	<ul style="list-style-type: none"> <li>Statement that ESG risks / criteria are being considered in investment decisions</li> <li>ESG as part of active management</li> </ul>
 ESG-Strategy	<ul style="list-style-type: none"> <li>Pursuit of selected ESG goals based on specific ESG characteristics</li> </ul>	Basic key figures + ESG characteristics	<ul style="list-style-type: none"> <li>No sustainable investment objective</li> <li>Binding ESG characteristics / exclusion criteria and minimum criteria in the investment strategy</li> <li>Development of a fund strategy with ESG characteristics</li> </ul>
 Impact	<ul style="list-style-type: none"> <li>Achieving a measurable and demonstrably positive contribution to environmental and social</li> </ul>	Basic key figures + Impact characteristics (e.g. Net-Zero strategy)	<ul style="list-style-type: none"> <li>Sustainable investment objectives</li> <li>Development of a fund strategy with ESG objectives</li> <li>Binding ESG Objectives in the investment strategy</li> </ul>



## 2. Top-Down Strategy of HIH Real Estate for the Overall Portfolio

HIH Real Estate is well aware of its environmental and social responsibilities. The purpose of the ESG strategy for the overall portfolio is to implement the minimum requirements for sustainable action. These include minimum exclusions, increased transparency in sustainability aspects, and requirements for sustainable property management. Additional sustainability targets will be defined specifically for a given portfolio to meet the needs of the respective investors.

### 2.1. Exclusions

We at HIH Real Estate commit to the general exclusion of service providers, business partners and tenants as follows:

- Strict exclusion for involvement in controversial, outlawed weapons<sup>2</sup>
- Strong indication for exclusion in case of serious violations of the UN Global Compact Principles

### 2.2. Processes

Integration into the entire life cycle of a property or of a product. From the initial investment, to maintenance, and all the way to the sustainable facility management.

HIH Real Estate integrated key elements of a sustainable investment approach into its investment process. This includes a ESG due diligence during the acquisition process as well as the early identification of measures that will become necessary in downstream portfolio management.

Every type of asset (retail, office, etc.) is appraised on the basis of specific criteria, both on the market level and on the property level. ESG and sustainability risks are identified and evaluated with a view to their ramifications on rates of return. ESG related criteria, such as occupier amenities, safety or infrastructure access, are reviewed within the framework of the ESG due diligence while the building shell is examined during the technical due diligence. The ESG due diligence reviews that HIH Real Estate conducts cover the following sustainability aspects:

- resource efficiency
- occupier amenities and safety
- location and
- physical risks.

Decision papers report on the findings of the respective ESG due diligence. On occasion of investment decisions, the fund management and the members of the investment teams usually make recommendations to the senior management and normally to the investors, too. The final decision regarding a given acquisition is made by the senior management, which makes it responsible for implementing the ESG strategy. Moreover, each product is assigned to a fund director, ensuring that a managing director is involved even in the current portfolio management.

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<sup>2</sup>Cluster bombs, land mines and anti-personnel mines in any form, as well as biological and chemical weapons such as poison gas



### 2.3. Sustainability Measures of the Overall ESG Portfolio Strategy

HIH Real Estate strives to involve other stakeholders directly in sustainability measures and thereby to achieve a greater sustainability impact. This is aimed particularly at tenants who committed themselves to a resource-conserving occupancy by signing a “green lease,” and at service providers whose collaboration is subject to a sustainable approach. In addition, HIH Real Estate intends to keep developing the aggregation, analyses and processing of non-financial ratios further in order to make its sustainability efforts transparent vis-à-vis stakeholders through periodic reporting. By collecting and evaluating sustainability characteristics, we review sustainability effects so as to adjust our sustainability measures as needed.

To complement the overall portfolio strategy, we collaborate with our investors to develop strategies tailored to the specific characteristics of each of our funds or products to improve sustainability at the portfolio level. This way, we integrate sustainable investment strategies directly into the portfolio management.

### **III. Sustainable Property Management**

HIH Real Estate is convinced that steps taken to optimise resources and occupier amenities, sustainable rental spaces, green leases and the implementation of social sustainability aspects have a positive impact on tenant behaviour, tenant satisfaction, tenant demand and tenant loyalty. The ESG context is gaining relevance on a daily basis, and businesses are hunting for sustainable modern accommodation even now, which is where HIH Real Estate comes in with the implementation of its ESG strategy.

Sustainable property management means above all:

- Periodic appraisal of properties with respect to sustainability and derivation of pinpoint measures.
- Convincing tenants of the merits of sustainably building occupancy via so-called green leases: A “green lease” includes provisions concerning the sustainable occupancy and management of the leased property during active operation, the reduction of waste, consumption rates and emissions, and the environmentally harmless implementation of maintenance, modernisation and other construction measures.
- Maintaining constant communication on sustainability issues during the lease term in order to exploit the property’s full potential in regard to its sustainable use and management through a partnership-like collaboration. Conducting periodic tenant surveys is one element in this context.
- Using sustainable materials, particularly for maintenance and other construction measures: e. g. regulations governing their environmentally harmless implementation, for instance by prohibiting the use of certain environmentally damaging building materials and by mandating the adherence to certain construction-ecology specifications during expansion and modernisation measures.
- Use of environmentally harmless cleaning agents
- Optimal integration of the rental property into the local infrastructure
- Development of community engagement programs



- Facilitating occupier mobility (e. g. through structural alterations such as the installation of bicycle parking spaces)
- Ensuring compliance with current and future regulations
- Service providers (e. g. property manager and/or facility manager) and other contractual partners who play a key role in the use and management of the property are advised to take sustainable occupancy and management aspects into account.
- Procurement of electricity from environmentally sustainable sources

The company sees considerable potential in digitisation and technological innovation, especially in the area of facility management. Going forward, HIH Real Estate will continue to identify efficient pinpoint measures to improve its sustainability performance.



## 4 DISCLAIMER

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## 5 LEGAL NOTICE

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