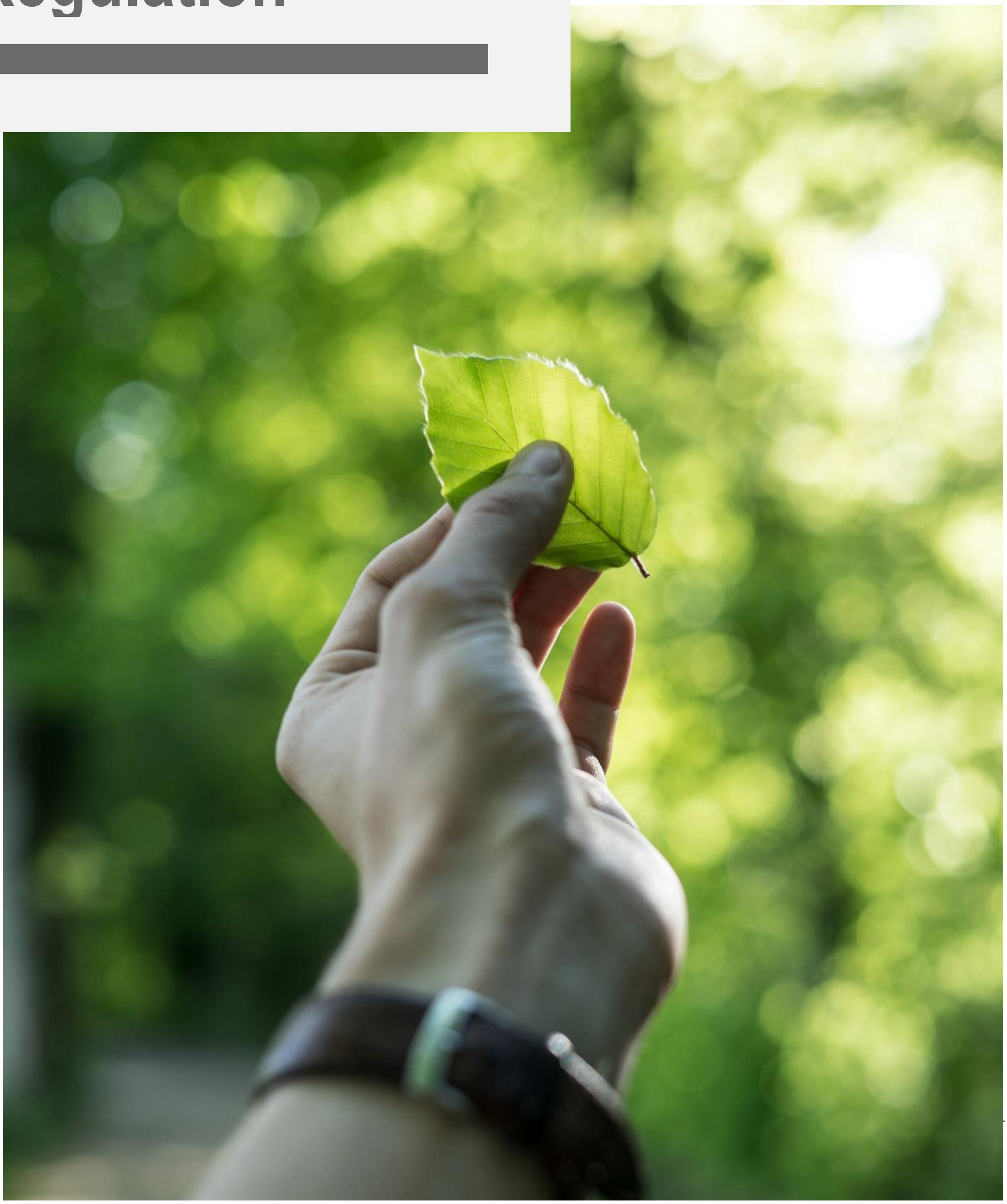
HIH Real Estate

Transparency Obligations by Disclosure Regulation



1 Adverse effects of investment decisions on sustainability factors

HIH Real Estate considers the most significant adverse effects on sustainability factors when taking investment decisions, along with the relevant adverse effects of investment decisions on environment-related factors and has set up internal strategies for this purpose. Sustainability factors are defined in accordance with the Disclosure Regulation as environmental, social and labour issues, respect for human rights and combating corruption and bribery. Whether and the degree to which the most significant adverse effects on sustainability can be taken into account depends materially on the availability of the relevant information.
In terms of real estate investments, examples of sustainability factors include energy efficiency and the resource consumption of properties.

For more information, see the explanation of the adverse impact of investment decisions on sustainability factors: https://hih-invest.de/wp-content/uploads/sites/2/2023/06/Statement-on-principle-adverse-impacts-of-investment-decisions-on-sustainability-factors-HIH-Invest-Real-Estate-GmbH.pdf

Quartier am Auswärtigen Amt, Oberwallstrasse, Berlin

2 Sustainability risks in investment decisions

HIH Real Estate stipulated clear guidelines for dealing with sustainability risks in its sustainability strategy in December 2020 and in the transaction process description. During the investment process, HIH Real Estate incorporates sustainability risks into its investment decisions and evaluates them on an ongoing basis. Sustainability risks are risks that involve a possible negative impact on the return of an investment. Material sustainability risks and the negative impact of the respective investment are determined during the due diligence process for purchases and reviewed continually throughout the entire life cycle of the property.

Sustainability risks are identified and evaluated for each property type (retail, office, etc.) in view of the effects on the return. Criteria such as user comfort, resource efficiency, security and connections to infrastructure are reviewed during the due diligence process. The building envelope is inspected during technical due diligence.

In terms of environment-related risks, transition risks are determined based on the energy performance certificate, including the stated primary energy requirement, or based on a building's features and construction method. In this context, either the average energy requirement of the respective building type and quality or the specific primary energy requirement are compared with the decarbonisation pathway of the relevant type of use at the given location. The result of this analysis serves to determine investments to be made in the property's energy resource efficiency. Taking into account possible dependencies, physical sustainability risks, e.g. arising from extreme weather events, are also evaluated using insurance loss databases and geo data. This makes it possible to quantify an individual loss amount for each property resulting from environment-related sustainability risks, which is then considered when making the purchase decision.
The results of the due diligence process are reported in the background documents for the decision. In making investment decisions, fund management and the members of the investment team make their recommendations to the investment committee, management and, as a rule, also the investors. The final decision on any purchase is taken by management. Moreover, each product is assigned a managing director to act as fund director so that a managing director is also directly involved in ongoing portfolio management.

All three aspects of sustainability (environment, social, governance) are analysed in the course of evaluation of the sustainability factors associated with an investment. HIH Real Estate generally gives these three aspects equal weight in the investment decision. An equally important basis for decision-making in the view of HIH Real Estate is the profitability of an investment decision. Sustainable investments must also provide a suitable return. Investment decisions are taken in consideration of all of the aforementioned aspects.

The risks associated with insufficient consideration of adverse sustainability effects are also economic in nature. If sustainability factors play only a minimal role in investment decisions, this can result in heightened risk in the case of a sale, because the attractiveness and future viability of the property may not meet the requirements of legislation in effect or of the real estate market at that time.

It should be assumed that the statutory requirements will become stricter with time. HIH Real Estate simulates the adverse effects across the decarbonisation pathways to ensure that properties remain on the temperature pathway of the Paris Climate Change Agreement, even at the time of sale. In taking investment decisions on building modernisation and development projects, HIH Real Estate also considers the options for renovations to improve the energy efficiency of properties and takes advantage of these if economically viable.

At company level, there are also guidelines for compliance with the relevant rules and regulations and for dealing with corruption and money laundering.

The material sustainability risks of the properties are assigned a sustainability score. The score is broken down into five clusters and covers the following topics:

- Resource efficiency
- Social performance
- User comfort and security
- Economic performance
- Certification and governance

The results are discussed with fund management and asset management in order to edit the identified adverse effects, if necessary. As in the case of investment decisions, regular evaluations are conducted and reports issued concerning the transition and physical risks of the properties over their holding periods.

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3 Our commitment to domestic and international standards for responsible investing

HIH Real Estate is committed to supporting sustainable investing. To this end HIH Real Estate's employees work in associations and organisations to share our expertise and actively participate in promoting sustainability in the real estate sector.

In doing business with investors and partners, HIH Real Estate follows the BVI Rules of Conduct for responsible management of the capital entrusted to the company and the rights of investors.

As a **signatory to the UN Global Compact** HIH Real Estate supports its ten principles:

- Respecting the protection of internationally proclaimed human rights
- Not being complicit in human rights abuses
- Upholding the freedom of association and the right to collective bargaining
- Elimination of all forms of forced and compulsory labour
- Effective abolition of child labour
- Elimination of discrimination in respect of employment and occupation
- Precautionary approach to environmental challenges
- Initiatives to promote greater environmental responsibility
- Development and diffusion of environmentally friendly technologies
- Working against corruption in all its forms

In addition we have committed to complying with **the UN Principles for Responsible Investment** (UNPRI). These six principles are as follows:

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

HIH Real Estate works to advance these principles further by supporting the UN Global Compact as a signatory, participating in the BVI industry association as an active member and by making other commitments.

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4 Consideration of sustainability risks in remuneration policy

The agreed-upon remuneration and the underlying system are reviewed annually in the first quarter of each calendar year. The goal of this review is to compare the salary structure of employees in comparable positions, to review market-rate remuneration and therefore to analyse how to ensure the remuneration system has the optimal effect on employee satisfaction and therefore on employee retention.

HIH Real Estate does not achieve employee satisfaction solely with monetary incentives, but instead by equally emphasizing a strong health care and pension system, promoting social interaction and equity, as well as fair compensation and the equal treatment of men and women and people with physical and mental disabilities. HIH Real Estate likewise promotes intercultural exchange by employing people from various countries of origin.

Our understanding of diversity spans a number of aspects, including gender, ethnic background, LGBTQ status, disability, mental health and leadership. We continue to strive for a balance among employees in all diversity categories, particularly at management level. We support initiatives aimed at hiring, promoting and retaining more women at all levels of the organisation.

Our remuneration guidelines are aligned with our company mission and our ESG strategy, so we have specified criteria to be used for salary adjustments or possible payouts of discretionary bonuses.

Variable remuneration is not paid in cases of serious breach of duty or unethical conduct, and violations of compliance or governance rules.

Senior executives are not rewarded with settlements for mismanagement. HIH Real Estate does not reward the generation of short-term profits or taking of inappropriately large risks.

Another issue is dealing with risks whose occurrence could have actual or potential significantly negative effects on the net assets, financial position and results of operations and on the reputation of a company and fund; this includes physical and transitional climate-related risks.

Moreover, the consideration of sustainability risks is integrated into the requirements of the relevant business units in which employees work. This includes talent management, diversity and inclusion, customer satisfaction and responsible corporate governance as well as the associated goals of reducing our carbon emissions and fulfilling our social responsibility commitments.

As described, the remuneration policy is compatible with solid, effective risk management and does not simply incentivise risk taking.

The remuneration policy as implemented is discussed annually in conjunction with performance reviews in March of each year during meetings of managing directors. Minutes are taken to document the content of these meetings.

5 DISCLAIMER

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6 IMPRESSUM

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