Integration of sustainability risks in the investment decision-making process

Our goal is to promote and protect the increase of the Fund's asset value. Determining, evaluating, and mitigating sustainability risks is one of the key considerations in making the Fund's assets sustainable and ensuring attractive returns for the Fund's investors over the long term.

"Sustainability risk" is - 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 the investment.

Sustainability risks are evaluated:
- (i) During the real estate acquisition process – in all cases;
- (ii) During the real estate management process, including leasing the real estate to lessees, if necessary;
- (iii) During the development of the property (improvements, additional structures) if necessary;
- (iv) During the alienation process if necessary.

Particularly detailed sustainability compliance criteria are examined during the due diligence process before the property is acquired. We identify sustainability risks that in our view may objectively jeopardize the investment target.

When assessing sustainability risks:
1) We identify the potential range of risks;
2) Determination is made whether any sustainability risks exist (we identify and define specific risks);
3) Determination is made on the significance and impact of the identified risks (what exactly these risks affect, what the consequences may be, what impact they have on the Fund's returns, and what resources are needed to mitigate these risks or to eliminate their consequences).

The following primary or significant sustainability risks and their sub-risks, which could cause an actual or a potential material negative impact on the value of the real estate, are evaluated:
1) Risks caused by weather conditions:
    a. Risks caused by floods - flooding caused by heavy rain, including flooding of sewage systems, or if the real estate is located near a body of water – due to the increase of the water level;
    b. Risk from natural hazards - storms, hail, lighting, and other hazards;
    c. Risk caused by the increase/decrease of the air temperature – draught, risk of fire, risk of having to invest additional funds in insulation or ventilation of buildings, risks caused by new invasive species;
    d. Risk caused by the increase/decrease of the humidity – deterioration of buildings, the necessity for indoor humidity control, etc.

2) Risks of sourcing/accessing consumable energy resources – amount of solar energy for solar panels, availability of wind energy, and availability of other energy sources.
3) Pollution risk – decrease in the value of the real estate if the activities of a

person/organization neighboring the real estate pollute the soil or air or water, e.g., adjacent factory, gas terminal, and other potential sources of emissions/leaks.

During due diligence, Fund manager examines, whether any of the existing or foreseeable environmental situations and events can have a significant negative impact on the planned investment and its returns.

For the evaluation of sustainability risks, the responsible employee of the Fund manager compiles a list of potential sustainability risks and assesses the possible occurrence and impact of each risk. If necessary, an external subject matter expert will be engaged. A cost estimate is drawn up for risk mitigation/prevention, which is submitted to the Fund manager's finance department.

Upon receiving the cost estimate, Fund manager CFO prepares a business plan draft, including costs to mitigate/prevent the identified sustainability risks and projecting the potential return on the real estate. If it is found that some of the exiting or foreseeable environmental situations or events can have a negative impact on the planned investment and its returns, this is clearly stated in the business plan draft and appropriate mitigation measures are proposed.

The business plan project of the finance director is submitted to the Fund manager management for evaluation and approval.

After reviewing the business plan draft prepared by the finance director, Fund manager approves or rejects the business plan draft, or indicates the necessary additions/amendments to the finance director. If the business plan draft is rejected, the deal is not continued and the real estate is not bought. If the business plan draft is approved, and there are no other obstacles to the deal (the legal and technical evaluation (due diligence) does not show unsurmountable risks, the seller of the real estate has not received a negative opinion in the area of NILLTPF and sanctions, etc.), then the matter is further referred for consideration to the Fund investment committee.

The Fund manager’s management approved business plan draft, containing in addition an action plan for solving/improving sustainability issues in the investment object before its purchase, is submitted to the Fund investment committee. Based on the business plan, opinions, and other documents, as well as evaluating suitability of the object regarding the Fund investment strategy and its potential returns, investment committee adopts a final decision on whether the investment shall be made.

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Chart of decision-making process for object purchase