

B&I Capital AG

Responsible Investing

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B&I Capital – Responsible Investing

B&I Capital has had responsible Environmental, Social, and Governance (ESG) practices at the core of company philosophy since the firm's launch in 2007. We view ESG as means to continually improve our firm as well as our investment process for the benefit of all stakeholders, while recognizing the risks of not doing so. We understand ESG as our responsibility towards all our investors as we invest alongside and on the same terms as our clients. We are active supporters of modern state-of-the-art ESG practices and raising awareness in this regard to achieve a positive change. The firm's responsible investment practice is overseen by the executive management and the board of directors.

B&I Capital is a signatory of the **United Nations Principles for Responsible Investment (UNPRI)** and as such is formally committed to the following principles within our investment practice.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making process.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

Principle 6: We will each report on our activities and progress towards implementing the Principles.

In our investment thesis, we have always viewed ESG initiatives of REITs as important factors for long-term value creation, hence incorporating a REIT's ESG profile (especially corporate governance for all stakeholders) in our investment analysis and decision-making processes. Our portfolio construction is a bottom-up, index agnostic, and best-in-class stock picking process. To properly assess a REIT's ESG profile, we combine qualitative and quantitative data from both external and internal sources.

B&I Capital is a member of Global Real Estate Sustainability Benchmark (GRESB) for investors. GRESB specializes in assessing and benchmarking the ESG of real assets. As members, we have access to their detailed data, company reports, benchmark reports, portfolio assessment tools, etc. It also enables us to track ESG improvements or exposure to sustainability risks of REITs on Year-Over-Year basis. We also subscribe to Green Street Advisors (Green Street), a specialist in assessing corporate governance of individual real estate companies. Green Street provides their own proprietary evaluations and rankings of corporate governance using a set of factors focusing on board make-up, compensation, anti-takeover weapons, and other conflicts of interest. Complementary to GRESB and Green Street, we use ESG data available on Bloomberg and FactSet. And lastly, we cooperate with Morningstar and MSCI who provide an independent and publicly available sustainability assessment for our UCITS funds.

Not all REITs or other listed real estate companies (typically small caps and/or companies from specific geographic regions) are covered by our external ESG data providers and thus we have created our own internal assessment procedures reflecting the ESG factors we believe are most material for REITs (see section *Material ESG Factors for REITs* below). We collect first-hand information about REITs' via open dialogue with company managements which includes face to face meetings, conference calls, property visits, conferences, etc. In addition, we gather ESG data via our proprietary B&I Capital ESG questionnaires. We have developed a quantitative scoring methodology based upon the questionnaires which evaluates the ESG performance of individual REITs.

All data combined provide a thorough picture about the quality of ESG of a single REIT and its exposure to sustainability risks. The comprehensive ESG overview of individual companies that we are invested or might invest in is part of the B&I research and analysis process.

Part of our investment philosophy is that, especially in regions where the REIT market is still small relative to potential, many of the best opportunities are to be found in early-stage REITs. These REITs often trade at a liquidity valuation discount, are not followed widely by the investment community and are able to offer a higher total return as they grow from a small size. Such REITs may, but don't have to, face a disadvantage when it comes to their ESG compared either to larger peers or to peers from a country with higher regulatory ESG requirements. We understand ESG as a continual work in progress and as such we put a lot of emphasis on the development of each individual company over time. We look for an improving trend rather than just investing in REITs that have superior ESG ranking. As a consequence of this investment approach, it is possible that some of our holdings may have either none or a low ESG rating relative to its relevant peers at the time.

Active Ownership

B&I Capital is an active investor and corporate governance is an area where we have a high impact. We, as a firm, are very active in suggesting governance and/or other ESG-related improvements and have examples where managements have taken on board our suggestions. It is our policy to exercise, where permitted, voting rights for any investment where doing so is in the best interest of the investors. In each vote, we decide based on our own internal opinion that can at times differ from that of proxy advisors like ISS.

We believe governance is the one area with a scope for the greatest improvement and we seek to be a strong contributor to the industry's governance development. GRESB data is self-reported by the individual REITs. B&I Capital has an advantage when it comes to governance analysis as we do hundreds of personal meetings with managements a year which helps us to determine which managements add value and align themselves with stakeholders. This is a major part of our investment decision process.

B&I Capital is a relatively small asset manager and as such we do not have a formal escalation policy in place to protect our long-term investment interests in individual companies. Should a REIT be heading, in our opinion, in the wrong direction, it is our common practice to engage first and should our doubts persist, we either lower our position or divest completely.

B&I Capital cooperates with regional industry bodies, namely The European Public Real Estate Association (EPRA) and The Asia Pacific Real Estate Association (APREA), to promote better governance and to formulate best ESG practices for REITs. We cooperate with regional GRESB offices to convince REITs to report on their ESG and thus improve overall industry coverage and standards. We were active as a contributor to regulatory consultation papers with different regional regulators, such as MAS in Singapore or SEC in Hong Kong. As an UNPRI signatory, we transparently report on our responsible investment practice and seek an adequate disclosure from our investees as well as other financial market participants.

Material ESG Factors for REITs

In ESG analysis of individual REITs, we assess the below ESG factors. These were selected as the most material to the REIT industry based on our long-term experience and comply with GRESB, Green Street Advisors, and the Sustainability Accounting Standards Board (SASB) for real estate.

Environment

We assess the following environmental factors and their development over time. Primarily, we seek reduction targets in all EMS categories. Additionally, we actively encourage REITs to further their efforts to minimize their overall environmental impact and to offset their footprint where possible. The REITs should apply their environmental policies on both asset and portfolio levels. Should a REIT not positively contribute to any of the following environmental factors, the REIT should follow the do no significant harm principal as a bottom line.

- 1) Environmental Management System (EMS)
 - a. GHG emissions management
 - Our primary GHG focus
 - i. Carbon dioxide (CO₂)
 - Other GHG
 - ii. Methane (CH₄)
 - iii. Nitrous oxide (N₂O)
 - iv. Hydrofluorocarbons (HFCs)
 - v. Perfluorocarbons (PFCs)
 - vi. Sulphur hexafluoride (SF₆)
 - b. Energy Management
 - i. Energy consumption
 - ii. Use of energy from renewable resources
 - iii. Energy ratings
 - c. Water Management
 - i. Water consumption
 - ii. Water recycling
 - d. Waste Management
 - i. Waste production
 - i. Waste recycling

- 2) Green building certificates
 - a. Received on newly developed and/or renovated assets
 - b. In process of receiving
- 3) Green financing (e.g., green bonds)
- 4) Involvement in any kind of environmental scandals

Social

We seek an overall good social practice. This includes REIT's fair engagement with both internal and external stakeholders, as well as its positive engagement with local communities. We assess the following social factors. Should a REIT not positively contribute to any of the following social factors, the REIT should follow the do no significant harm principal as a bottom line.

- 1) Compliance of human rights
- 2) Employee engagement, equality, diversity, and inclusion
- 3) Employee well-being management
 - a. Development/Training programs
 - b. Health and safety
- 4) Involvement/consideration of all stakeholders in the corporate decision-making process
- 5) Tenant relations and satisfaction
- 6) Involvement with local communities
- 7) ESG requirements on external stakeholders (e.g., suppliers, service providers, tenants, etc.)

Governance

We focus on the following factors when assessing a REIT's corporate governance. Each REIT in our portfolios should follow a good governance practice without any major misconduct.

- 1) Corporate transparency
- 2) Business ethics (e.g., involvement in non-ethical activities or scandals in recent years)
 - a. Bribery and corruption
 - b. Political lobbying and donations
- 3) Independency of board of directors
- 4) Board election (e.g., periodicity, flexibility, diversity, transparent AGM voting track record etc.)
- 5) Board members' terms
- 6) Conflicts of interest

- 7) Management compensation
 - a. Internal management remuneration and its determination for internally managed REITs
 - b. Management fee structure for externally managed REITs
- 8) Capital management
 - a. Capital allocation
 - b. Buybacks
 - c. Responsible capital raising practice (e.g., not issuing new equity while shares trade on discount etc.)
- 9) Alignment of interests between management and shareholders (e.g., 'skin in the game', etc.)
- 10) Balance of power (management vs. shareholders)
- 11) Employee unit purchase plan
- 12) Anti-takeover policies

Additional

We assess the following additional ESG-related factors. Although not material per se, they are helpful to complete a REIT's ESG picture.

- 1) Public commitment to ESG (e.g., UNPRI, UN Global Compact, etc.)
- 2) Public disclosure on ESG activities
- 3) Support of environmental causes
- 4) Support of charitable causes
- 5) Any other notable ESG activity the REIT does on top of previously mentioned

Exclusion Criteria

All positions in B&I portfolios are supposed to follow best-in-class corporate governance. There must not be any misconduct and/or a significant harm to any of the above mentioned environmental or social factors. Each position in our portfolios must not be directly or indirectly involved in any controversial activities¹. Serious violations of these conditions would lead to an exclusion of such company from our investment universe either indefinitely or until appropriate corrections are made. The portfolio holdings violating the exclusion criteria may never exceed 10% of the portfolio. B&I Capital would then investigate the holdings that violate the exclusion criteria thoroughly, which may lead to a complete divestment on a case-by-case basis.

¹ Production of coal products, civilian firearms, controversial weapons , involvement in military operations and/or oil sands drilling.