

**CASTELLO SGR S.p.A.**

**- ESG POLICY -**

**Approved by the Board of Directors on 16 December 2021**

## 1. Foreword

With this **ESG Policy** (hereinafter the "*Policy*"), Castello SGR S.p.A. (hereinafter referred to as "Castello" or "SGR") intends to formally define the set of principles and guidelines to be followed with reference to environmental, social and *governance* issues (hereinafter also referred to as "*Environmental, Social and Governance*" or "ESG").

In carrying out its activities, Castello aims to operate in the interest of investors, making choices aimed at the creation of sustainable and lasting value over time, as well as the growth of the business in the medium to long term, in order to produce a positive impact on society.

Having said this, the SGR believes that the integration of ESG issues in *governance* and business processes, in investment and risk management policies, as well as in *stakeholder* relations must be pursued in order to align investors' own interests with those of the context in which we live.

The principles formalised within this *Policy are intended* to inform all stakeholders (subscribers, tenants, financing banks, suppliers, etc.) about the guidelines on sustainability, which guide the SGR in its operations.

This *Policy* has also been formulated on the basis of the European legislation on sustainability in the financial context, and in particular EU Regulation no. 2088/2019 (the so-called "**SFDR**"), and the guidelines drawn up in this regard by the European Supervisory Authorities.

## 2. Our values

Our aim is to support the country's growth and safeguard the environment in which we live through healthy and sustainable development in the long term, minimising the consumption of resources and polluting emissions, and promoting the use of resources with a reduced environmental impact.

The activity of the SGR is based on the following fundamental principles:

- engage in the search for solutions aimed at promoting environmental and social responsibility;
- adopt clear and transparent rules of conduct focused on respecting sustainability in its institutional and business activities;
- engage in the promotion of activities related to the use of materials with a low environmental impact;

- to foster community integration, well-being and health through projects to develop new residential solutions;
- promote high standards of *corporate governance* and sound and effective management of sustainability risks.

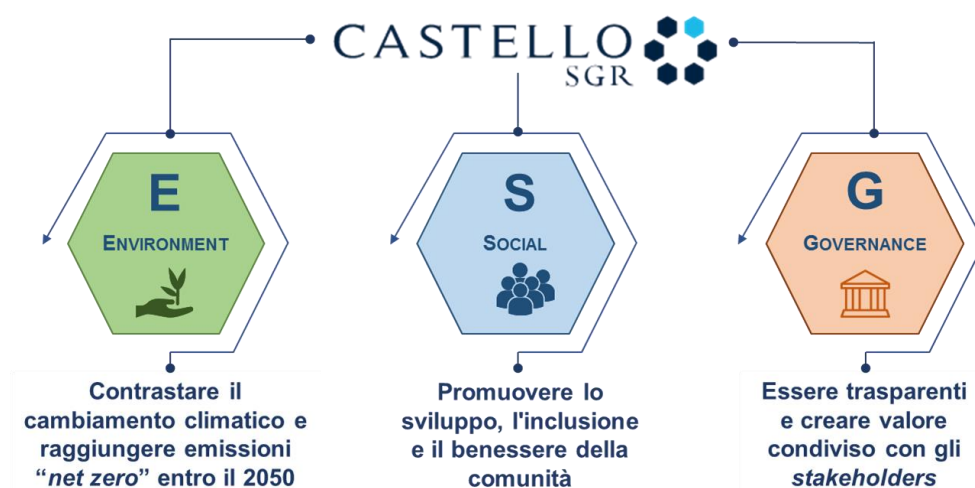
The SGR is therefore committed, through its activities, to promoting a wider dissemination of ESG principles, which become, together with the general principles of conduct of the Code of Ethics - such as loyalty, transparency, seriousness and fairness - a decisive value for the success of the same and for the promotion of its assets.

This *Policy* is integrated with the general principles of the SGR **Code of Ethics**, to which reference should be made<sup>1</sup>.

### 3. ESG strategy

Through its investment activity, the SGR intends to contribute to the achievement of the objectives set by the United Nations for sustainable development (the so-called *Sustainable Development Goals* or "SDGs").

With this in mind, Castello has defined an "ESG Strategy" that identifies the objectives to be pursued in the medium to long term in relation to sustainability issues and the actions to be implemented to effectively integrate ESG principles into its investment and *asset management* activities.



<sup>1</sup> [https://www.castellosgr.com/assets/castello-sgr\\_codice\\_etico\\_def\\_121020172.pdf](https://www.castellosgr.com/assets/castello-sgr_codice_etico_def_121020172.pdf)

The complete description of the ESG Strategy adopted by the SGR and of the actions planned to implement it is reported in full in the document "**ESG Strategy**", to which we refer.

This document describes the *framework* that the SGR intends to gradually adopt in order to integrate environmental, social and *governance* issues in its organisational and control structure as well as in its investment, risk management and support processes.

#### 4. Roles and responsibilities in ESG

Confirming the SGR's commitment to ESG and the fundamental role that sustainability issues play in its investment strategy, Castello has integrated ESG principles into its corporate *governance*, adapting the roles and responsibilities of its corporate bodies and functions.

Below is a brief description of the roles and responsibilities of the corporate bodies and functions with regard to ESG:

- **BoD:** provides guidance on sustainability strategies, policies and plans, approving the ESG *Strategy* and this ESG *Policy* and its updates, and periodically verifying their application on the SGR and the funds under management;
- **ESG Committee:** set up on 5 March 2021 with the aim of supporting the Board of Directors in evaluating and deciding on environmental, social and *governance* issues, with particular reference to assessing the *performance of* investments and the SGR from an ESG perspective and promoting any improvement plans;
- **Chief Executive Officer:** implements the sustainability strategies, policies and plans defined by the Board of Directors, ensuring the integration of ESG factors into business processes and into the development, investment and valorisation of real estate assets;
- **Risk Management / Asset Valuation:** supports the CEO and Board of Directors in assessing the sustainability risks to which investments are exposed and monitors them over time; takes ESG factors into account in the valuation of the real estate assets of funds under management;

- **Compliance:** supports the CEO and the Board of Directors in assessing the compliance of SGR and funds with sustainable finance regulations (e.g. SFDR);
- **Business Development:** supports the CEO in implementing the investment strategies defined by the Board of Directors, taking ESG factors into account in the design of new products/establishment of new funds, commercial development and management of relations with subscribers;
- **Head of Investments:** supports the CEO in implementing the investment strategies defined by the Board of Directors, in coordination with Business Development; to this end, analyses the ESG profile of new investment opportunities and existing portfolios, identifying, where appropriate, any improvement actions. It also integrates ESG principles into its policies for selecting, managing and evaluating suppliers, with particular reference to those functional to real estate development;
- **CFO:** contributes to the planning, monitoring and *reporting of* investments, through the analysis and management of financial and ESG-related information; integrates ESG principles within the administration and control activities of the SGR; contributes to the adaptation of internal processes and procedures in order to implement the ESG guidelines adopted by the SGR;
- **HR:** ensures that internal training plans include sustainability issues.

During 2022, the SGR plans to appoint an ESG Manager who, in coordination with the other Functions, will support the CEO and the Board of Directors in implementing the ESG Strategy and Policies, with particular reference to the assessment, management and reporting of the ESG *performance of* the SGR and the funds under management.

## 5. Human Resources Management

When selecting personnel, Castello guarantees respect for the **principles of equality and equal opportunities**, making assessments based on the criteria of merit and competence and avoiding any form of discrimination or favouritism.

On the other hand, as far as the professional growth of human resources is concerned, the SGR offers equal opportunities to all subjects, avoiding arbitrary discrimination, guaranteeing everyone the same career opportunities and basing all relations on the principles of fairness, correctness and loyalty and on meritocratic criteria.

The SGR considers the growth and welfare of its staff as fundamental and, to this end, guarantees **corporate training** programmes on the subject of sustainability and other topics of interest to the SGR, and monitors the satisfaction of resources, both during periodic *performance* evaluations and during special company *surveys*.

Similarly, the SGR is committed to ensuring adequate working conditions for its staff, based on the best standards of **health and safety in** the workplace in the management of its offices.

Lastly, it should be noted that, in order to encourage its staff to behave in line with the ESG Strategy and the reference legislation on sustainable finance, the SGR has launched a programme to integrate objectives linked to ESG issues and sustainability risk management into its **remuneration and incentive policies**.

## 6. Governance and Ethics in Business

The SGR defines appropriate *governance* controls to ensure an effective integration of ESG aspects in all relevant business processes, also through its **Code of Ethics**.

The SGR promotes, at all company levels, the values of loyalty, transparency, fairness and good faith with respect to customers, staff, external collaborators and other subjects with whom it comes into contact in the performance of its activities.

The SGR adopts all the necessary measures to prevent any form of criminal offence connected with its activity, including, in particular, those of corruption, extortion and undue induction to give or promise benefits, money laundering and financing of terrorism.

Furthermore, the SGR is committed to ensuring the protection of all *stakeholders'* data and to adopting *cybersecurity* systems.

To this end, the SGR has adopted a specific **internal control and risk management framework** that responds to the best practices in *governance* and *risk management* and takes into account European supervisory regulations (e.g. AIFMD, MiFID, etc.) and the provisions of Legislative Decree

231/2001, relating to administrative liability, which provides for specific organisational controls aimed at preventing the commission of criminal offences in the context of business activities.

In this context, the SGR has also appointed a special **Supervisory Body**, with the task of monitoring the adequacy and correct application of its control system, and has defined a ***whistleblowing*** procedure in order to collect, also anonymously, any reports on critical issues and/or potential violations of internal and external regulations, also with reference to ESG profiles.

Moreover, in relation to the standards adopted in the real estate investment and management activity, the SGR has recently obtained the **ISO 9001 Quality Certification**, issued by the international company RINA Service.

## 7. Sustainable investment policies

The investment in real estate *assets* that contribute to the adopted **sustainability objectives** is considered by the SGR as an opportunity for the development of its *business* and for the creation of value in the long term and, therefore, is evaluated as a crucial aspect of its investment strategy.

The commitment to these objectives is evidenced by the establishment of funds investing in quality and energy-efficient real estate, renewable energy (approx. Euro 250 million) and social infrastructure, on which the SGR intends to increasingly focus in the near future.

In implementation of the ESG Strategy in the planning of new real estate development initiatives and in the management of its own funds, it is therefore committed to

- favouring investment in real estate *assets with a low environmental and energy impact* (i.e. NZEN), i.e. that use **renewable energies** (water, sun, wind and biomass), with the aim of reducing global pollution and, consequently, the environmental impact, without jeopardising the natural resources needed by future generations.
- implement **operations of reconversion, redevelopment and recovery** of *assets*, in order to reduce the consumption of resources, improve their energy *performance*, enhance urban spaces and enable better living conditions for local communities;
- investing in real estate *assets* that contribute to the development of **collective welfare** (e.g. residences for university students or the elderly) and/or implementing real estate projects

and initiatives (i.e. construction, redevelopment, reconversion) aimed at fostering the development and **welfare of the community**.

In addition, taking into account the principles outlined above and the strategies adopted in the context of ESG, the SGR therefore proposes **not to invest** in *assets* having as their object:

- activities prohibited by the biodiversity conservation legislation of the country where the project takes place or by major international conventions relating to the protection of biodiversity or cultural resources;
- the development of projects in protected natural areas;
- the construction of new buildings for the extraction, storage, transport or production of fossil fuels.

In addition, the SGR **excludes from its tenants** those who carry out production or marketing activities or whose activities are related to:

- controversial and banned weapons under the main international conventions <sup>2</sup>;
- pornography and prostitution;
- substances prohibited in the jurisdiction where the property is located;
- endangered or protected wildlife.

The list of exclusions is not exhaustive and may be extended to additional excluded and/or prohibited activities as defined by the SGR and/or the subscribers and potential investors.

## **8. Guidelines for integrating ESG factors into the investment process**

As part of its strategy, the SGR aims to progressively integrate ESG principles into all phases of the investment process.

The guidelines apply to all new and existing funds (excluding those in liquidation and/or *distressed*), with the level of application commensurate with each fund's investment objectives and lifecycle, portfolio characteristics and relative classification under the SFDR.

### **Assessment of investment opportunities**

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<sup>2</sup> These include, for example, the Nuclear Non-Proliferation Treaty, (ii) the Biological Weapons Convention, (iii) the Paris Convention (chemical weapons), (iv) the Ottawa Convention (anti-personnel mines) and (v) the Oslo Convention (cluster bombs).



When evaluating new investment opportunities, the SGR takes into account, in addition to the traditional financial and real estate parameters, the most relevant environmental and/or social profiles in consideration of the type of investment and its use (e.g. residential, offices, retail, etc.). To this end, the technical, environmental and legal *due diligence* envisaged in relation to new acquisitions are integrated in relation to the ESG profiles of the investment and oriented towards the identification and assessment of related risks (*see paragraph 9 below*), as well as the definition of opportunities for improvement and enhancement, also through the use of specific sustainability *checklists*.

In particular, the assessment of new investments takes into account, among others, the following aspects:

- Functional characteristics of the building and the degree to which the well-being, *comfort* and health of the end users are taken into account (i.e. adequacy of the spaces with respect to the intended use, flexibility and quality of the spaces, adequacy of the installations, architectural barriers, on-site services, common spaces and green areas);
- The urban context in which the property is located and its accessibility, including the presence and/or feasibility of works to favour sustainable mobility of end users (e.g. parking for bicycles, electric vehicles, etc.) and the proximity to points of social interest (including open areas, parks, green spaces, pedestrian and cycling areas);
- Degree of energy efficiency of the building and related level of emissions or possibility of improvement through efficiency enhancement measures (e.g. energy upgrading measures on the building envelope and/or plant systems, photovoltaic panels, energy class upgrading);
- Existence or feasibility of obtaining voluntary environmental and user welfare certifications (e.g. LEED, WELL), based on the type of *asset* and its intended use;
- Presence / possibility of implementation of technologies aimed at monitoring and improving the environmental performance of the assets (i.e. energy and water consumption and waste production);
- Exposure to adverse natural events (e.g. floods, earthquakes, extreme heat or cold waves, land subsidence) and the presence of related mitigation elements (flood prevention schemes, adaptability and insulation to temperature changes, etc.); and );

- Environmental compliance, i.e. the presence of environmental analyses and of any materials with environmental and health impacts, possible risks due to contamination, of the soil or of the buildings, and any consequent action taken;
- Level of water consumption and possible controls in relation to waste management and disposal.

### **Definition management of development and redevelopment interventions**

In development and redevelopment projects, appropriate tools and technical requirements are adopted, which, depending on the characteristics and aims of the project itself (e.g. new offices, social *housing*, *cobousing* and social residences for the elderly, residences for young people, etc.), may include:

- Criteria and standards in the selection of sites (i.e. *brown-field* approach), also assessing the possibilities of urban regeneration (e.g. economic, social, urban and historical impacts) and the environmental and territorial impacts related to the location;
- Environmental criteria and standards in the selection of materials (i.e. "eco-compatibility" assessment) and in plant and architectural solutions, also in line with the standards of voluntary environmental sustainability certifications and protocols (e.g. LEED, BREEAM, ITACA, WELL, etc.) adopted from time to time;
- Design criteria for spaces to be used for collective activities and services, also in order to meet the needs of inhabitants, with a view to inclusion and enhancement of public space.
- Compliance with the energy efficiency criteria set out in the new regulations for buildings (e.g. NZEB), also assessing the installation of systems for the production of energy from renewable sources;
- Setting standards in relation to the protection of resources and their efficient use, both in the design and execution of development and renovation works (e.g. use of non-toxic and sustainable materials) as well as the reduction and recycling of construction waste, and the prevention and control of pollution (e.g. certification of suppliers and construction sites);
- Adoption of stringent standards on safety and respect for the rights of workers involved in the development, redevelopment and maintenance of buildings (e.g. supplier list requirements, ESG contractual clauses, presence of ISO 14001 and ISO 45001

certification, etc.), including by carrying out independent checks, *audits* and ongoing monitoring activities.

### **Investment management**

ESG profiles considered most relevant to the characteristics of the investment and/or fund are monitored, through the analysis of an *ESG data set*, and considered during the management of the *asset* and its improvement plans.

In this sense, the ordinary and extraordinary maintenance of the assets of the managed funds take into account any strategies defined in the ESG context and may include improvements aimed at generating positive environmental or social impacts such as, for example, reducing building emissions and/or improving the quality of spaces (*comfort*, well-being, healthiness, etc.).

The assessment, in relation to the implementation of these interventions, takes into account not only the strategy and characteristics of the fund but also its financial availability, as well as requests received from subscribers and/or tenants.

In addition, the technical, economic and financial feasibility of equipping the *assets with* the necessary tools for monitoring energy consumption, useful for optimising the energy consumption of the funds' real estate assets, is assessed during extraordinary maintenance operations.

Whenever possible, during the negotiation of the lease contracts, the SGR evaluates the opportunity to share eventual environmental *performance* objectives with the tenants and to foresee in the lease contracts specific clauses for the communication of data and information useful for the reporting of environmental impacts and *assets*.

However, the SGR pays the utmost attention to the conditions of health and well-being of the tenants living in the managed properties and of the community in general, and therefore aims to ensure that its *assets* guarantee these conditions.

In this regard, the SGR undertakes to carry out periodic *surveys* to assess the degree of satisfaction of the tenants (e.g. quality of service, health and well-being, etc.) and to implement, where possible, the necessary interventions to remove the shortcomings found, also through the promotion of new services to users.

## **9. Guidelines for the integration of sustainability risks**

**Sustainability risks**, as defined by EU Regulation No. 2019/ 2088, are related to environmental, social or governance events or conditions that, if manifested, could cause a significant negative impact on the value of the investment.

In particular, sustainability risks may arise with respect to environmental, social and personnel issues, respect for human rights and issues relating to the fight against active and passive corruption (so-called **sustainability factors**).

The SGR recognises the importance of a correct management of such risks in order to protect the value and the profitability of the assets in which the assets of the funds under management are invested and, to this end, has defined specific guidelines and policies for the integration of sustainability risks within business processes and investment decisions, in the management and development of real estate portfolios.

The **risk management guidelines** adopted by the SGR provide for:

- the integration of the **map of risks to** which the *assets* and funds under management are exposed with the inclusion of sustainability risks;
- the analysis and measurement of the risks to which investments are exposed, including sustainability risks, by means of appropriate qualitative and quantitative **risk parameters** and **indicators**;
- assessing, through sustainability risk analysis, the **main negative** sustainability **impacts** related to investment decisions and fund management;
- periodic **stress tests and sensitivities** on the main investment risk variables (e.g. *occupancy*, *rents*, *asset value*, *capex*) which, where appropriate, also take into account *best practices* for analysing sustainability risks in the real estate sector (e.g. *Carbon Risk Real Estate Monitor* or "CRREM");
- periodic **risk assessment** of the operational, reputational and strategic risks to which the SGR and the managed funds are exposed, with the involvement of top management and *process owners*, in order to assess the existing control system;
- the preparation of at least bi-annual risk **reports** defining, where appropriate, actions to mitigate sustainability risks to which *assets* and funds under management are exposed.

The **risk assessment** activity in relation to investments is carried out in a selective manner taking into account their characteristics (i.e. type, size, duration, etc.) and risk profile and starts from the

identification of the material risks to which Castello's *assets* and funds are/could be vulnerable, taking into account the use and specific risks of the properties.

The table below summarises the main sustainability risks to which Castello's *assets* and funds are exposed, indicating the main areas of assessment adopted.

### Main sustainability risks and areas for assessment

CATEGORY	RISK	RISK FACTOR	AREAS OF EVALUATION
<b>ENVIRONMENTAL (Physical Risk)</b>	Climate change	Damage to assets due to "acute" or "chronic" adverse climatic events (e.g. floods, rising temperatures)	Structural characteristics and location of the asset (e.g. exposure to seismic risk) Design requirements and insurance cover in place (e.g. presence of anti-seismic measures, fire prevention, etc.).
<b>ENVIRONMENTAL (Transition Risk)</b>	Technology and market	Decrease in the value of the investment and/or increase in costs due to the energy inefficiency of the building and the premature obsolescence to which it is exposed.	Characteristics of the property and its state of repair and capex Class and energy rating of the building Level of consumption and emissions
	Normative	Sanctions linked to increasingly stringent environmental regulations Risk of missing opportunities offered by new European/national environmental legislation	Verification of ESG compliance during due diligence
	Reputational	Reputational decline due to management/investment failures on environmental issues	Collection of stakeholder perceptions through stakeholder surveys Performance of reputational risk assessment by the SGR
<b>SOCIAL</b>	Violation of human rights and occupational health and safety obligations	Occupational health and safety incidents particularly in the context of property development projects Violation of workers' rights in real estate development projects	Health and safety measures taken by companies (e.g. contractual clauses, ISO certification, etc.). Conducting due diligence on counterparties (e.g. qualifications, references, contribution regularity, ESG disputes, etc.).
	Limited accessibility and/or inclusion in local communities	Lack of accessibility of the building and/or presence of architectural barriers Lack of perception of the demands of end-users and/or local communities	Structural features and location of the asset (e.g. links, cycle paths, etc.) Evaluation of requests from local associations and public administrations Collection of stakeholder perceptions through stakeholder surveys
<b>GOVERNANCE</b>	Inadequate <i>governance</i> practices	Inadequacy of SGR governance Inadequacy of the supply chain (e.g. non-existence of legal requirements, presence of ESG disputes, etc.). Lack of <i>stakeholder</i> involvement	Requirements of the internal control system, adoption of codes of ethics and/or conduct (also for the purposes of Legislative Decree no. 231/2001) Requirements for accreditation to the Supplier Register and <i>service level agreement</i> (SLA) Anti-corruption and anti-mafia policies and controls

## 10. *Stakeholder engagement and communication*

The SGR is committed to engaging in dialogue with third parties with whom it has business relationships or collaborations, encouraging them to act responsibly and in accordance with the ESG values of the SGR as defined in this *Policy*.

Furthermore, the SGR is committed to involving and raising awareness of ESG issues among its suppliers of *property* and *facility management* services in order to improve the monitoring of *asset* performance and facilitate the achievement of sustainability objectives.

The *engagement* activity is also addressed to tenants as they have a primary role in the implementation of the SGR ESG Strategy as users of the buildings and holders of the information needed to improve real estate *performance*.

## 11. Disclosure and Transparency

One of the main objectives of the SGR is to guarantee the protection of the interests of the *stakeholders*, promoting the principles of transparency and completeness of corporate information and the participation of the stakeholders in the decisions they are responsible for.

In their activities, they undertake to ensure the exchange of information with the other internal bodies of the Company, as well as between the different corporate functions.

The Corporate Bodies take their decisions autonomously, in order to pursue exclusively the interests of the SGR and, consequently, of the investors.

The periodic reporting of the activities carried out and the results obtained in the ESG field, in line with the attitude of transparency that inspires Castello, reflects the will to open a dialogue with *stakeholders* and to be at the service of the community.

With this in mind, and in line with the regulations on transparency in the field of sustainability (i.e. SFDR), it is planned to progressively adapt the external reporting with

- integration of traditional **financial reporting** by the SGR with information relating to sustainability and the path undertaken, evaluating in the future the preparation of a specific non-financial report aligned with international standards (e.g. GRI, UNIPRI, etc.) and with regulatory standards currently being defined (e.g. CSRD);

- the integration of ESG aspects within the **disclosures provided in the Funds' Management Report**, also in coherence with the SFDR classification of the fund and the related obligations provided for by EU Regulation no. 2019/2088;
- publication on the **website of** a report on the approach adopted by the SGR in relation to ESG issues and, in particular, to the policies adopted in order to integrate or sustainability risks in the investment decision-making processes.

## 12. Implementation of this Policy

The SGR undertakes to follow up and implement the principles expressed in this ESG Policy by adapting its organisational structure and reviewing, in a progressive manner, the operational processes, decision-making processes, tools and methodologies that support them, and consequently integrating the company's practices and regulatory *framework*.

To this end, the CEO, with the support of the corporate structures, identifies the activities to be carried out in the ESG sphere and the related implementation timeframes, and submits an action plan to the Board of Directors, reporting periodically on their progress.

## 13. Update and publication

The *Policy* is updated once a year and whenever necessary, in order to ensure continuous monitoring of sustainability issues.

This Policy is made available to all employees of the Company in order to integrate ESG values into the company and business processes.

In accordance with the SFDR regulations, an extract of this *Policy* is also made public on the institutional website of the SGR in the section dedicated to sustainability.