

ESG framework: towards a structural integration of ESG

In the second quarter of 2022, Bouwinvest introduced an integrated approach to the continuous integration of ESG in its Dutch funds: an ESG framework. In general, this ESG framework is a conceptual structure describing elements that Bouwinvest recognises to systematically integrate environmental, social and governance (ESG) topics at every stage of its decision making. The aim is to generate wider societal value for our stakeholders and to identify, manage and mitigate (potential) ESG risks. This two-pager elaborates on the elements of this ESG framework and how it supports the development and continuous improvement of ESG management at Bouwinvest. The aim of the ESG framework is to strengthen the overall ESG management in the long run, to enable the funds to provide long-term stable returns, combining both social and financial returns.

The ESG framework puts us in a better position to determine which ESG elements to embed in decision making and to report in a more transparent way. We incorporate environmental, social and governance (ESG) elements in our investment decisions, to better manage risk and deliver added value, aimed at generating sustainable, long-term returns.

Bouwinvest constantly strives to improve the integration of ESG aspects and will also continue to improve the reporting on this front. These efforts will enable the funds to report according to legal and regulatory requirements that are set to come into force in the next few years and do so in a controlled manner.

The ESG Framework consists of two main elements:

1. The top part, referred to as the ESG Performance of the framework, focuses on generating added value or positive impact through our investments;
2. The bottom part, referred to as ESG Risk and Control of the framework, focuses on managing ESG risks.



Figure 1: ESG-Model Bouwinvest

ESG performance

Based on its purpose, real value for life, Bouwinvest's aim is to realise both financial and social returns. A key component of this is the management of sustainable and affordable real estate, making a positive contribution to pension benefits, to our tenants and to the immediate environment.

At Fund level, Bouwinvest has translated this purpose into four ESG objectives, through which the funds aim to add value, which are:

1. Building a future-proof and sustainable portfolio;
2. Reducing environmental impact;
3. Liveable, affordable, attainable & inclusive places where people want to reside - now and in the future;
4. Contributing to healthy, safe and responsible operations.

Moreover, these four ESG objectives enable the funds to make a positive contribution to the five selected Sustainable Development Goals as formulated by the United Nations.

For each ESG objective, we have identified Key Performance Indicators (KPIs) that measure the underlying ecological and social elements the funds promote. These ecological and social elements are aligned with the promotor items formulated in the context of the Sustainable Finance Disclosure Regulation (SFDR). These elements are structurally embedded throughout our internal processes.

Bouwinvest acknowledges that we live in a fast-changing world with regard to ESG matters. For that reason, we expect other, new or amended topics to become relevant in the next few years. The funds evaluate and reassess the targets and KPIs annually. To respond to upcoming topics, the ESG framework defines "future-oriented priority themes". These topics are in development or being explored, so no KPI or target has been set. Over time, the funds can decide to actively promote a specific topic. The continued development of the funds' KPIs, targets and future-oriented priority themes is set out annually in the strategic plans and further integrated into fund management cycles.

ESG Risk, mitigants and outcomes

In addition to all other risk types that Bouwinvest takes into account, the funds systematically identify, manage, monitor, report and disclose the ESG risks relevant to the funds.

ESG risks are divided into five categories, namely physical climate risk, transition risk related to climate change, other environmental risk, social risk, and governance risk. The available ESG risk profile enables the funds to take appropriate actions to mitigate those risks that might have a major impact on society, the environment or our portfolio.

In the next step in the development and roll-out of the ESG Risk and control framework, Bouwinvest determines Key Risk Indicators (KRIs), so we can monitor whether the relevant ESG risk is managed to an acceptable level. The management of

risks will be integrated into our regular risk management. The ESG risk assessment is integrated in investment proposals. The ESG risk profile of a specific investment is compared to the fund-level ESG risk profile and a fund's risk appetite. The purpose of this analysis is to inform decision makers about the impact of the proposed investment on the ESG risk profile of the portfolio.

In addition to all direct measures and decisions taken to steer towards the defined ESG objectives and manage ESG risks through its operations, Bouwinvest contributes to a range of ESG outcomes also defined as principal adverse impacts in the SFDR. The EU defines these outcomes as "negative, material or likely to be material effects on sustainability factors that are caused, compounded by, or directly linked to investment decisions and advice performed by the legal entity".

Examples of ESG outcomes include CO₂ emissions related to the funds or the extent to which buildings in the portfolio are not energy-efficient based on the energy efficiency certificate. In line with the legal requirements set out in the SFDR, the funds report on the ESG outcomes in the mandatory disclosures.

In short, the ESG Framework helps the funds to structurally manage all relevant ESG elements, monitor these in a structured manner and enables them to inform the funds' clients in a clear and transparent manner. In addition to these short-term benefits, the ESG Framework results in a robust integration of ESG elements in the investment cycle. The aim is to strengthen overall ESG management in the long run, by providing a base to set up a more effective process, growing data-availability and more consistent decision making. This will enable the funds to provide long-term stable returns, combining both social and financial returns.

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