PAREF
/ MORE THAN REAL ESTATE

# Sustainability Risk Integration Policy

## Summary



## Objectives of this policy

Sustainability risks are defined by Regulation (EU) 2019/2088 on Sustainable Finance Disclosure Regulation ("SFDR") as "an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment".

This policy on sustainability risks and environmental, social and governance ("ESG") risks was created as part of the consideration of extra-financial criteria in the selection and management of assets of certain portfolios managed and management strategies under mandate proposed. It also clarifies the position for the main negative impacts on sustainability (PAI for "principal adverse impacts").

The objective of this policy is to describe how sustainability risks – whether significant or likely to be significant – are integrated into the PAREF Group's "PAREF" investment decision-making processes, which may include management or organizational aspects, or risk management and/or governance of these same processes.

The policy is based on the principle of double materiality:

Sustainability risk: Impact of external events on product performance (How external events could have impact on the performance of the financial product and how sustainability integrated into the risk management),

Negative sustainability impacts: Impact of investments made on external sustainability factors (How the entity ensures that the investments made do not cause significant harm to environmental and social objectives).

## Definitions

**Sustainability risk**

A sustainability risk is an **environmental, social** or **governance** event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Sustainability factors are environmental, social and personnel issues, respect for human rights and the fight against corruption and acts of corruption.

**Environmental risks (climate change)**

Physical risks, which result from damage directly caused by weather and climate phenomena, such as:

- the loss in value of investments held by portfolios managed and issued by entities affected by these climatic events;

- increasing the frequency and cost of claims to be paid by insurers to policyholders;

Transition risks, which result from adjustments made with a view to a transition: exposure to changes induced by the ecological transition, in particular the environmental objectives defined by the Taxonomy[1] regulation, especially when these are poorly anticipated or occur suddenly. These risks are related, for example, to:

- a depreciation of assets, following regulatory changes that would penalize or even prohibit certain activities deemed to emit greenhouse gas (GHG);

- losses following the end of certain financed activities deemed polluting or emitting GHGs;

Induced liability risks (legal and reputational risks), related to the financial impacts of claims for compensation from companies financed by those suffering damage due to climate change, such as:

- investments financing the development of polluting or highly GHG-emitting industries and activities;

- professional insurance, operating civil liability, infrastructure construction.

**Social risk**

Social risk concerns the analysis of the company's relationship with its stakeholders: employees, customers, suppliers, civil society. It includes the protection of employees in terms of well-being, health and safety, the fight against discrimination, respect for human rights within the supply chain or the philanthropic approach of the company, its relations with local communities, donors and customer satisfaction...

**Governance Risk**

Governance risk encompasses both the competence of the company's management team, the structure of the CEO's remuneration scheme or its legitimacy, as well as the existence of checks and balances. The evaluation of this last point involves the analysis of the composition of the boards of directors, the adequacy of the profiles of the directors with the needs of the company, their independence, respect for minority shareholders, business ethics or the company's commitment to CSR issues.

**Principal Adverse Impacts (PAI)**

[1] Climate change mitigation, adaptation to climate change, sustainable use and protection of aquatic and marine resources, transition to a circular economy, prevention and reduction of pollution, protection and restoration of biodiversity and ecosystems

Main principal adverse impacts (PAIs): the impact of investment decisions that have significant or likely negative effects on sustainability factors (environmental, social and personnel issues, respect for human rights and the fight against corruption and corruption).

## Identification of main ESG and sustainability risks (Art.3 SFDR)

### Concerned Activities

PAREF is a listed company since 2005 on compartment C of the regulated market of Euronext in Paris and which opted for the French REIT tax regime SIIC (listed real estate investment company) in 2006.

To date, the Group manages three main activities, including:

- A real estate activity with a total of 10 assets owned by PAREF and its subsidiaries;
- A management activity regulated on behalf of third parties through its subsidiary PAREF Gestion, 100% owned;
- And a management activity on behalf of third parties through its subsidiary PAREF Investment Management, 100% owned, offering all the necessary services to individual and institutional investors for their property management in France and Europe.

PAREF provides the following services subject to sustainability risks under real estate management in France and Europe.

PAREF applies this policy to all activities it manages.

Environmental, social and governance ("ESG") and sustainability factors can have significant effects on the value of companies. PAREF is exposed to ESG or sustainability risks in the following activities:

| **Relevant asset classes** | **Sectors** | **Geographical areas** |
|---|---|---|
| Office | Real estate | France and the European Union |
| Retail | Real estate | France and the European Union |
| Light Industrial | Real estate | France and the European Union |
| Service | Real estate | France and the European Union |
| Residential | Real estate | France |

PAREF's ESG risks are potential in the medium and long term. PAREF reviews its exposure analysis annually.

### Key environmental risks

Related environmental risks can be imposed on all real estate asset classes.

| **Risks** | **Sub-risks** | **Probability** | **Horizon** | **Impact** |
|---|---|---|---|---|
| **Physical risks** | Pollution risks | Low, checked due diligence at the acquisition and when looking for new tenants (depending on their activity) | Long term | Weak |

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| | Risks of deterioration of energy consumption by obsolete equipment | Average, obsolete equipment checked in due diligence and regularly | Medium term | Average |
| | Risks related to water quality degradation | Average, obsolete equipment checked in due diligence and regularly | Medium term | Average |
| | Asbestos and lead risks | Rare, due diligence audited | Long term | Weak |
| | Flood risks | Average, by asset location | Medium term | Important |
| | Risks of rising water levels | Average, by asset location | Medium term | Average |
| | Risks of accelerating biodiversity loss | Average | Long term | Important |
| | Fire safety risks | Average | Medium term | Important |
| **Transition risks** | Transition risks related to energy regulations | Important given the evolution of regulations and technology | Short/Medium Term | Important |
| | Transition risks related to climate change regulations | Important given the evolution of regulations and technology | Medium term | Important |
| **Liability risks** | Risks related to activities presenting a risk of litigation | Important in case of materialized risk, especially a follow-up can not be demonstrated | Medium term | Important |
| | Risk in identifying the responsible party | Important because many interdependent actions: between the builder, the lessor and the tenant | Medium term | Important |

## Key social and governance risks

| Risks | Sub-risks | Probability | Horizon | Impact |
|---|---|---|---|---|

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| **Social risks** | Risks related to the lack of diversity and equal opportunities for all | Weak | Medium term | Average |
| | Risks related to lack of employee participation in decision-making processes | Average, depending on the organization of the company | Medium term | Average |
| | Risks related to lack of continuing education and professional development | Average, depending on the training needs of employees and their seniority | Medium term | Average |
| | Risks associated with a non-multigenerational environment | Average, depending on the seniority of the employees | Medium term | Average |
| | Risks associated with a lack of work-life balance | Average, by period of activity related to vehicles | Medium term | Average |
| | Pandemic and Remote Work Risks | Rare, according to the development of COVID-19 | Short-term | Weak |
| | Risks related to the accessibility of buildings to PRM | Weak | Medium term | Weak |
| | Occupant Safety Risks | Average | Medium term | Medium |
| **Governance Risks** | Risks related to the governance structure | Average | Medium term | Weak |
| | Executive Compensation Risks | Medium | Medium term | Average |

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| | Corruption risks | Weak | Medium term | Average |

## Position on the consideration of the principal adverse impacts (PAI)

As having less than 500 employees, PAREF is not obliged to consider the principal adverse impacts. To date, PAREF does not take into account the principal adverse impacts of its investment decisions on sustainability factors. Indeed, it does not yet have the human and technical resources to assess these impacts.

However, the company's focus on sustainability factors in investment decisions helps to limit the principal adverse impact that could have on portfolio and assets.

PAREF is currently in the process of integrating ESG approach to its investment strategies and reflecting on the relevance of the implementation of tools to measure sustainability risks and adverse impacts at the group level.

As of the date of this document, PAREF continues to review and consider its obligations with respect to the consideration of the principal adverse impacts (PAI) of its investment decisions as defined in Article 4 of the SFDR Regulation. It will adapt this policy to the SFDR Level 2 measures of Regulatory Technical Standards (so-called "RTS"). In future, if PAREF decides to change this position, this information will then be updated accordingly.

This position applies to all the activities of the group companies.