

The EU Sustainable Finance Disclosure Regulation | Article 3, 4 and 5 Disclosures

NRP Anaxo Management AS (NAXM)

Organisational number: 921800703

Last updated: 09.12.2022

Background

Legal Framework

This document has been prepared for the purpose of meeting the specific disclosure requirements set out in Articles 3, 4 and 5 of the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (SFDR).

European real estate - sustainability challenges and risks

The construction and real estate sector are responsible for approximately 40% of the global energy consumption and 50% of the use of natural resources.¹ In general, the industry also sometimes faces other challenges such as skewed gender composition, accidents at construction sites, the occurrence of bribes/corruption when private capital meets public politically controlled authorities in connection with planning for societal development and construction activities. As a result, the industry is working hard to improve. A driving force that has a major impact on the real estate industry is the increasing awareness of climate issues. Both the industry and the authorities are now taking action to meet politically agreed climate obligations, such as the Paris Agreement and the Agenda 2030. In summary, the awareness and sense of responsibility are deemed generally high in the sector.

NAXM believes that there are mainly two types of sustainability risks associated with investments in listed construction and/or real estate companies. Firstly, through co-ownership, there is a risk that the investor contributes to the company's negative impact on sustainability. Secondly, there is a risk that the return on investments may be negatively affected as a result of the companies' possible shortcomings regarding all aspects of the industry's sustainability issues. Any shortcomings can lead to difficulties in attracting employees, tenants, and investors. Additionally, sustainability issues may also negatively impact property values.

ESG governance

The responsibility for investment and the integration of ESG practices rests with the Investment teams and ultimately the Portfolio Managers. ESG considerations are fully embedded in the investment process at NAXM.

NAXM, the manager of NRP Anaxo Nordic m2, is adapted to the guidelines described in the NRP Group documents ESG and responsible investment policy and Ness, Risan & Partners Sustainability -

¹ According to UN Environmental Programme Financial Initiative (UNEPFI), 2016

our approach². However, some adjustments have been made with regards to using materiality limits instead of total exclusion of certain activities. For a more detailed description, see the section "Negative screening – Exclusion" below.

NAXM is committed to adhere to the principles set out in the NRP Group ESG and Responsible Investment Policy. As described in the policy:

- The Fund(s) integrates ESG considerations in the investment process – both prior to making the investment and during ownership;
- The Fund(s) excludes companies from the investment universe in accordance with the policy, accounting for materiality limits instead of total exclusion of certain activities;
- NAXM and its Fund(s) is an active and responsible owner.

NRP is a signatory member of the Principles for Responsible Investment organisation (PRI) and supports the UN's Sustainable Development Goals.

Product category

The fund NRP Anaxo Nordic m2 falls under the regulations for SFDR Article 8. The product promotes environmental and social characteristics and invests in companies that comply with high standard governance practices. However, the fund does not commit to make investments that are based solely on sustainability aspects.

Integration of sustainability risks in the investment process

Assessment of environmental and social characteristics need to be considered continuously alongside the management team in the companies NAXM is investing in. NAXM does not sidestep this responsibility by appointing third party ESG rating agencies. Instead, sustainability is a fully integrated part of the investment process. Below is a description of how sustainability is integrated in the investment process, how NAXM identifies and prioritise regarding sustainability risks, and how NAXM works through its ownership to influence the companies in the right direction to achieve more sustainable operations.

Positive screening - inclusion

The investment process is largely based on the idea of investing in successful companies that have a proven track record of creating shareholder value through profitable growth. NAXM believes, that within the real estate and construction industry, there are no obvious contradictions between running a sustainable business and being financially successful. To act responsibly is rather a prerequisite. Given the focus on high quality companies, NAXM assessment is that, in general, the Fund(s) will invest in companies with a successful and responsible sustainability work.

Quality check and influence

To ensure that the portfolio holdings take sustainability issues seriously, NAXM and its Fund(s) will use its ownership position in the portfolio companies to send out ESG related questionnaires to the companies and track their performance. In the questionnaires the companies are asked to describe their work and goals related to sustainability.

² The documents can be found on NRP's website nrp.no

Screening – quantitative approach

NAXM and its Fund(s) are rating the investment universe based on the amount of ESG data that the individual companies report publicly. In addition, the screening includes a collection of company-specific data regarding a number of different ESG key figures relating to SFDR. NAXM also checks the existence of a number of internal policies.

Negative screening - Exclusion

Furthermore, NAXM avoid investing in companies that have a significant exposure to specific industries that in its opinion is particularly problematic. Therefore, NAXM only invests in companies that have less than 5% of total annual rents coming from tenants with main activities related to gambling, nuclear weapons, other illegal weapons, or adult entertainment. Fines for bribery or corruption are also grounds for exclusion.

Identifying and quantifying negative impacts

The quantitative screening process described above helps to identify the negative impact the investments may have on society's sustainability. NAXM can identify risks and potentials by analysing which companies are currently doing well or less well. The process also enables us to analyse the companies' individual development trends. NAXM's ambition and priority is to invest in companies that are improving continuously.

Principal adverse impacts (PAI) of investment decisions on sustainability factors

It is a criterion for an economic activity to be deemed environmental or sustainable that it fulfills one or more of the Taxonomy's six environmental goals, at the same time as it does not cause any principal adverse impacts to the other six goals.

PAI is only applicable for the share of a Fund's investments that are deemed sustainable according to SFDR article 2 nr. 17 or according to EUs criteria for environmentally sustainable investments (the Taxonomy). The rest of the Fund's investments does not take the Taxonomy into consideration.

NAXM does not currently consider principal adverse impacts of investment decisions on sustainability factors within the meaning of SFDR. This is due to, inter alia, the regulatory uncertainty related to the regulatory technical standards supplementing SFDR. Consideration of PAIs within the meaning of SFDR will require collecting, measuring, validating, and reporting correct and precise data on a number of mandatory sustainability indicators, whereas this information may not be readily available. NAXM will on an ongoing basis reassess its position on whether to consider principal adverse impacts on sustainability factors within the meaning of SFDR, based on the availability of relevant data from the portfolio investments.

On a general level, NAXM has identified several methods to include sustainability risk in the investment process to minimise risk of principal adverse impact, such as negative screening and quality checks related to ESG-matters of the portfolio companies. This enables NAXM make an informed decision on the sustainability risks before a potential investment as well as monitoring sustainability risk in the companies currently in the portfolio of the Fund managed by NAXM. The Fund consider PAIs on the environmental and social characteristics promoted by the Fund.

Targets and reference values

All the steps described above -positive/quantitative/negative screening and quality check and influence - aim to ensure that the Fund(s) has a portfolio of reasonably sustainable companies and that NAXM, as owners, can contribute to a more sustainable society.

NRP Anaxo Nordic m2 has VINX Real Estate as its benchmark. For obvious reasons, the benchmark companies are exposed to similar challenges, risks and environmental trends as the companies the Fund invests in. The ambition and priority are:

- that the portfolio shall provide a return that exceeds the index;
- that the average sustainability scores (quantitative and qualitative scores described above) for the portfolio shall be in line with or above the benchmark level over time;
- to invest in companies that have clear internal goals regarding sustainability and are able to deliver in line with the goals;
- to invest in companies that can continuously improve on a number of ESG key ratios.

Complicating factors in the analysis are that not all companies report data externally. A further aggravating factor in the analysis of the companies' sustainability is that the comparability between the companies normally is low. For example, older buildings often have poorer key figures for heating and ventilation. On the other hand, the production of new more sustainable buildings is in itself dangerous and polluting.

Remuneration schemes

Within NRP Anaxo Management, there is no direct link between employee remuneration and the number of or level of sustainable investments made in the funds.

However, sustainability is an integral part of the investment process as described above. In the construction and real estate industry, there are no contradictions between having a sustainable business and being a growing and profitable firm in the long term. On the contrary, having a sustainable attitude to the business is a prerequisite for being successful in the long term. The manager has a performance-based element as part of the remuneration, and hence sustainability is indirectly linked to remuneration.

Version history of this document

| Version | Date of publication |
|----------------------------------|---------------------|
| Version 1 (original publication) | 09.12.22 |