



Sustainability Report 2019

Usaldusfond EFTEN Real Estate Fund 4

This is our annual sustainability report, covering the sustainability activities of **Usaldusfond EFTEN Real Estate Fund 4** for the calendar year ending 31 December 2019. This document has been aligned to INREV guidelines. The market performance data has been collated from publicly available sources. We welcome feedback, which can be directed to: info@eften.ee

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Dear readers,

Commitment to sustainability is an integral part of our EFTEN Real Estate Fund 4 and has shaped our corporate culture since the fund's inception in 2018.



Throughout the organization, our people are passionate about developing new solutions to sustainability challenges and growing our business both successfully and responsibly. We are accelerating our efforts across all the business – for example, by increasing our energy efficiency across our entire portfolio, reducing our demands for water, as well as by aspects of governance, such as respecting human rights along the entire value chain.

2020 will be an important milestone for us, despite the challenges that the COVID-19 disruption is bringing. We are working every day to develop the goals and strategy we have defined for the future. The next five years will be decisive, both on a global level and for us as a company. We need to make sure that we are on the right track to limit climate change. As a company, we need to prepare for fundamental change and transformation.

We are looking forward to building on the knowledge and engagement of our people, the strength of our assets within Fund 4, and successful partnerships in all areas of our business activities.

On behalf of everyone at EFTEN, I would like to thank you for your interest in our Sustainability Report.

Viljar Arakas

CEO and Chair of the ESG Committee

Established in **2009**

Team of **55** professionals

We are the **largest commercial real estate fund manager in Baltic States**

€750 million
of assets
50 properties
Over **1,200 tenants**

Four alternative investment funds:

EfTEN Kinnisvarafond AS (founded in 2008), an opportunistic and value-added strategy commercial real estate fund. Fund's investment period has ended. The fund is the largest commercial real estate fund in Baltics with assets over 200 million euros.

EfTEN Kinnisvarafond II AS (founded in 2015), targeted mainly for institutional investors. The fund follows core and core plus investment strategy. Funds investment region is Baltic States capitals.

EfTEN Real Estate Fund III AS (founded in 2015) is a public closed real estate fund, targeted mainly for retail investors. The fund's investment strategy is value added and opportunistic. Funds investment region is Baltic States.

Usaldusfond EfTEN Real Estate Fund 4 (founded in 2018) is alternative, closed-end investment fund. The fund follows core and core plus investment strategy.

Headquarters in **Tallinn, Estonia**, regional offices in **Latvia and Lithuania**

Annual rate of return has been constantly over **15%**

Over **2,900** investors

Investments in **offices, industrial, hotels**

Sustainability Strategy



The EBRD supported the growth of the first green property fund in the Baltic states with a €30 million equity investment in Usaldusfond EFTEN Real Estate Fund 4 in May 2019. The fund is the first in the region to adopt climate priorities and green objectives as integral aspects of its operational mandate.

The investment was signed in Vilnius by Viljar Arakas, CEO of EFTEN Capital, and Vlaho Kojakovic, EBRD Director, Property and Tourism.

Usaldusfond EFTEN Real Estate Fund 4 was founded in October 2018 to invest in commercial properties across Estonia, Latvia and Lithuania. The fund primarily invests in office, retail and logistic facilities across the Baltic states. The private real estate equity fund was established in Estonia and is fully controlled by EFTEN Capital.

The fund will seek to benefit from the implementation of a comprehensive sustainability improvement programme in its investment properties. This will include infrastructure upgrades with advanced resource efficiency technologies but also behavioural change through the introduction of resource efficiency-focused facility management, engagement with building

- EBRD invests €30 million in Usaldusfond EFTEN Real Estate Fund 4 in May 2019
- Fund to support investment in sustainable measures across the Baltic states
- First property fund in the region to include climate considerations in its investments

occupants through green leases as well as sustainability reporting according to globally recognised standards.

EFTEN aims to promote sustainability initiatives, environmental responsibility and resource-efficient processes that drive improved operational and environmental outcomes. We have commenced a comprehensive process to identify and evaluate the environmental impact of our assets and operations. This is part of EFTEN's strategy to reduce our carbon emissions and to limit our impact on climate change.

We are in the process of developing our Sustainability Strategy and Action Plan. In line with the strategy, EFTEN is developing its objectives and energy reduction targets. This strategy development programme will investigate, consider and incorporate elements of sustainability frameworks including the Sustainable Development Goals (SDGs) and Task Force on Climate-related Financial Disclosures (TCFD). Fundamentally, any sustainability framework established will reflect EFTEN's position in the market as the largest commercial real estate fund manager in the Baltic States.

Sustainability Strategy

Our environmental vision is a portfolio that minimises the environmental impact of the construction, operation and refurbishment of our buildings, while maximising tenant comfort, health and financial returns.

Our social vision is a resilient company with a sustainable supply chain that maximises the health and productivity of both employees and tenants.

We will accomplish this by achieving the highest levels of performance in energy and water efficiency, waste management, supply chain management, tenant engagement, employee development, sustainable construction and building operations, green building certifications, materials selection and community involvement.

We identify the critical issues to be included in our sustainability strategies via a materiality process. This assessment applies a sustainability lens to business risk, opportunity, trendspotting and risk management processes. The assessment identifies, refines and assesses numerous Environmental, Social and Governance (ESG) factors that can affect our business and/or our stakeholders.

We believe that using an Environmental Management System (EMS) supports better results. EFTEN's EMS is being established to align with the International Standards Organisation (ISO) 14001 standard, which is an internationally recognised approach to environmental management. We set out below a summary of our 'Plan, Do, Check, Act' continuous improvement approach. This enables us to address stakeholder requirements in a structured fashion.

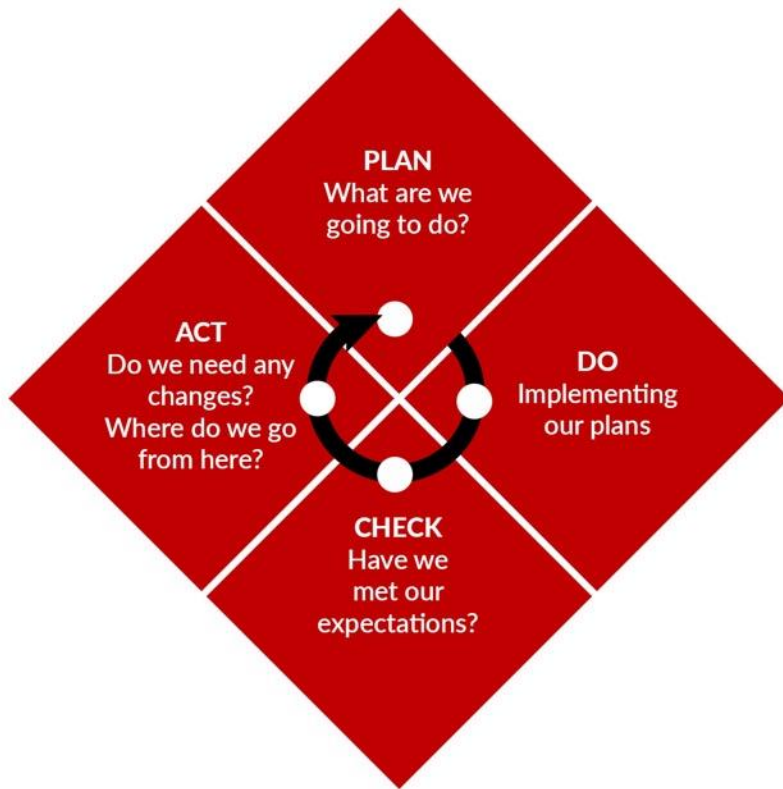


“Our purpose to create sustainable value is now more relevant than ever. With our strategic approach, we are securing our company’s future and contributing to sustainable development across the Baltics.”

Tõnu Uustalu
Investment Manager



Sustainability Strategy



ESG Policy

One of our first objectives is to integrate and promote greater environmental responsibility and resource-efficient processes across our operations and activities. As such, we will launch an ESG Policy in late 2020.

The Policy will demonstrate EFTEN's commitment to having a sustainable approach to management by integrating environmental sustainability across all our activities as well as fostering a shared sense of responsibility for optimal environmental performance from senior management through to our team members and subcontractors.

ESG Committee

An ESG Committee is being established to assist in the development and implementation of EFTEN's ESG Policy. The Committee will include representation from all business functions, with oversight from the management board. The Committee will strive for continual improvement across all of EFTEN's real estate portfolios. The Committee will manage sustainability strategies and objectives and ensure incorporation of these into property operations, with appropriate variation by country due to differing certification and legislative requirements.

We identify climate change as a risk to our business, not to mention the planet as a whole. By making the problem of climate change a key driver in long term strategic decision-making, we will do our part to address this issue, creating long-term value opportunities in the process.

Our ability to anticipate, mitigate and prevent impacts from climate change is determined by the strength of our internal governance efforts across all departments. Key anticipated climate change impacts and opportunities, are set out below:

More environmental regulation

Our ISO 14001 aligned management system will help us comply with current and anticipated regulations.

We recognise an increased focus on emissions through carbon legislation in the future. This is why we verify and disclose our Scope 1 and Scope 2 emissions (where applicable) both in this report and through disclosure platforms such as the Global Real Estate Sustainability Benchmark (GRESB).

Higher costs and more supply chain regulation

Sourcing materials for our buildings could become increasingly expensive and there could be disruptions to the supply chains of our building materials, potentially extending construction times or preventing us from delivering buildings on time.

We have experienced development and asset management employees who will be able to mitigate these increases as much as possible. Our procurement procedures are stringent.

Increasing costs for energy and water

We will manage rising costs for energy and water through efficiency initiatives to protect our tenants, but it is possible that as a result of climate change these costs could increase faster than we can reduce our energy and water use.

Community Impacts

The communities in which we operate could become increasingly stressed as a result of climate change, disrupting transportation and basic services. We will develop community engagement procedures as part of our EMS. These will allow an element of climate emergency planning, which will help us to preserve business continuity under more strained community conditions.

Business Impacts

Because we recognise that as a result of climate change, our stakeholders are asking for increased transparency, we have expanded our voluntary disclosure efforts within annual sustainability reports.

Climate change risks and opportunities include policy, market, technology and reputational concerns and are one of our focus areas. Below, we set out our approach to consideration of resilience risk at different stages of the asset life cycle:

Acquisition

We conduct due diligence during the acquisition phase which includes assessing risks posed by predicted future climate changes including flooding, building resiliency, energy and water consumption.

Development

We ensure that climate change mitigation strategies are incorporated into development and refurbishment strategies.

Operations

All of our assets are developing Emergency Response Plans that outline a building's response to particular emergency scenarios that incorporate extreme weather due to climate change.

As an owner and operator of real estate, we understand the impacts of our built environment and the importance of addressing these in a sustainable manner. We are exploring and, where feasible, implementing solutions designed to mitigate climate change risk, reduce our greenhouse gas emissions and limit the overall impact on the environment.

Our sustainability strategy will act to identify opportunities for efficiencies in energy and water consumption and strengthening climate resilience across the portfolio. Any efficiency projects will be undertaken on the basis of return on investment for both the environment and our investors.

Material Issues:

— Energy & Carbon

— Water Efficiency

— Waste Management

— Biodiversity & Habitat

Environmental Objectives

The first stage of our sustainability strategy has included the development of appropriate objectives.

Water Efficiency

Reduce like-for-like EFTEN procured water consumption by 10% by 2023 (against a 2019 baseline), where we have the opportunity to make changes.

Waste Management

We will divert 100% of landlord managed waste from landfill by 2023, where infrastructure allows.

Energy & Carbon

- Reduce like-for-like EFTEN procured energy consumption by 15% by 2023 (against a 2019 baseline)
- 100% of electricity to be sourced from green tariffs by 2023, across all managed assets, where landlord has control and where costs are not prohibitive
- Compile a solar PV rollout strategy for viable roof spaces by 2023
- Obtain or estimate tenant energy consumption for >50% of tenancies by 2023
- Investigate feasibility of energy AMR (automatic meter reading) devices across all assets (where landlord has control) by 2023

Biodiversity & Habitat

Create a biodiversity strategy for applicable sites with significant land, by 2023 to identify opportunities for habitat creation & biodiversity improvement such as native plants and bees.

At EFTEN, to help enable meaningful action, we define community as our immediate neighbours and those in the local catchment areas surrounding our properties. We support and empower our community partners by focusing on building positive and lasting relationships and maintaining a sustainable operation. We believe that having an open and transparent dialogue with our local communities enables us to create a harmonious environment for our neighbours, customers and staff alike.

Compliance with local laws and regulations is paramount to the progress of our development projects, the sustainability of our operations and harmonious community environments.

The effectiveness of our community engagement is continuously being reviewed and adjusted to ensure that we sufficiently address community interest and opportunities. Wherever possible, we actively seek to create synergies and connections between our activities within our managed assets and our philanthropic activities.

Material Issues:

— Employees — Gender & Diversity — Health & Wellness — Transport & Mobility — Community Engagement

Employees

The value, development potential, and social impact of EFTEN is highly dependent on the skills and commitment of our employees.

Attracting, retaining and managing people with appropriate expertise and experience is of paramount importance. However, this alone is insufficient. We must also create conditions that enable our employees to feel deeply motivated and committed to their daily work.

The drive to create better working conditions, which will boost performance, is all the more important since it also addresses the issue of the changing relationship between employees and their work. Indeed, an increasing number of people state that they need more meaningful work and are unwilling to compromise on their personal values. At the same time, these people want to be respected and treated fairly. They also want to develop their skills, fulfil their potential, enjoy a certain amount of autonomy, and be able to make appropriate decisions concerning their work.

Employees Objective:

Conduct an employee engagement survey on an annual basis with appropriate action plan based on feedback and results

Gender & Diversity

The real estate sector remains one in which women find it difficult to access senior management positions, especially in certain specific business lines. EFTEN is fully committed to promoting gender equality and diversity in all its aspects.

Gender Percentages	2018		2019	
	Female	Male	Female	Male
Employees in EFTEN's Supervisory Board	0%	100%	0%	100%
Employees in EFTEN's senior management	50%	50%	50%	50%
All employees	68%	32%	66%	34%

Gender & Diversity Objectives::

- Collect data and report on an annual basis: gender and diversity statistics, gender pay gap, gender bonus gap
- Gradually increase the percentage of women in senior management

Health & Wellness

Our success starts with people. Whether they are our employees, or part of the communities where we operate – happy, healthy people are crucial.

We see our employees as our greatest asset, and we are committed to providing them with a healthy workplace that supports their physical and mental wellbeing.

We also recognise that our buildings have human impacts both within and outside their walls. Building health is a key part of our asset management programme. This promotes and verifies great indoor air quality and emphasises active design features that help our building occupants stay physically active.

Health & Wellness Objectives::

- Ongoing employee training in environmental, health and safety
- Health and Wellbeing Strategy for selected assets by 2025 (including needs analysis, goal setting, taking corrective actions, monitoring & formal ratings (e.g. FitWel), with improvement plans to include measures that address key wellbeing issues identified)

Transport & Mobility

Sustainable transport options such as walking, cycling and public transport can improve health and wellbeing, reduce congestion and cut greenhouse gas emissions—issues we all need to think about in our own lives. By giving people the right facilities in the right locations we believe we can help them travel healthier and more sustainably.

Transport & Mobility Objectives:

- EV charging available at all appropriate sites by 2025
- Bicycle parking provision at all appropriate sites by 2023 & best practice end of trip facilities

Community Engagement

We recognise that our buildings are part of larger community systems, and that they have the potential to either benefit or detract from their local communities. To navigate these concerns, we support and engage with the local community through our development and asset management activities. We aim to create and operate buildings that complement and benefit their neighbourhoods.

Community Objectives:

Encourage selected sites to put in place community engagement programmes by 2025

Stakeholder Engagement

The transition to a sustainable and low-carbon economy requires unprecedented collaboration between different stakeholders and collective governance.

We consider that it is not only our responsibility, but rather a strategic priority, alongside our various stakeholders, to support the progress of the global community in line with our commitments and our expertise.

Material Issues:

- ESG Growth
- Reporting & Ratings
- Tenant Engagement

ESG Growth

In today's environment where change and uncertainty seem to be the only constants, more and more investors are taking a long-term view and choosing to put their money into companies that generate return and act responsibly. ESG investing is already reshaping global markets. This trend is poised to continue making ESG analysis a critical part of the investment process. As such, we prioritise publicly disclosing our Sustainability Strategy and ongoing environmental performance, allowing stakeholders to considerately judge the effectiveness of our response.

ESG Growth Objectives:

- Transparent disclosure of our performance in the Usaldusfond EFTEN Real Estate Fund 4 Annual Sustainability Report & regular investor ESG reporting & engagement as considered appropriate and desirable
- Incorporate ESG analysis into the EFTEN acquisition process



Indrek Kaldoja
Head of Investor Relations

“Investing to generate a positive impact is a matter of principle for EFTEN Capital. We use innovation to help us meet future challenges by identifying forward-looking sectors and using our expertise to achieve a combination of financial performance, healthy governance and a positive social and environmental impact. We continue to offer our investors meaningful investments that provide sustainable solutions.”

Stakeholder Engagement

Tenant Engagement

It would be impossible for us to progress our sustainability agenda without ongoing engagement with our tenants: to understand their own approaches and policies, but also to enable them to tell us if we're meeting their needs as well as our own.

Tenant Engagement Objectives:

Sustainability engagement with all tenants via tenant satisfaction survey every three years, as a minimum.

Reporting & Ratings

Global Real Estate Sustainability Benchmark (GRESB) is an industry-driven organisation committed to assessing the environmental, social, and governance (sustainability) performance of real estate portfolios globally. We are proud to have begun participating in the annual GRESB benchmarking process from 2020, providing comparable and reliable data on the ESG performance of our investments. The 2020 results assessment will help drive decision-making that leads to a more sustainable real asset industry.

Reporting & Ratings Objectives:

- Incrementally improve GRESB benchmark scores for participating funds
- Achieve year-on-year increases in BREEAM coverage across our portfolios



Marilyn Hein
CFO

“We have noticed a significant acceleration in the evolution towards sustainability in society as a whole and a real change in the pattern of our stakeholders’ expectations. There is a clear trajectory, be it the urgent need of governments, regulators or clients to finance the energy transition, our private clients desire for meaningful investments, or our employees need to do meaningful work.”

Our developing sustainability strategy is to be central to our culture, guide us in all of our activities so that we can make a strong and direct contribution to the sustainability transition.”

We set out below our environmental sustainability performance for Real Estate Fund 4 assets under management.

Sustainability performance for the 2019 calendar year (1 January 2019 to 31 December 2019) is presented against 2018 in the tables below.

- Table 1: Energy – Absolute, Like-for-Like and Intensity – 2019 versus 2018
- Table 2: GHG emissions – Absolute, Like-for-Like and Intensity - 2019 versus 2018
- Table 3: Water - Purchased and Consumed - 2019 versus 2018
- Table 4: Waste - 2019 versus 2018

The reporting boundary has been defined according to where EFTEN has operational control i.e. where it has the full authority to introduce and implement operating policies, within Usaldusfond EFTEN Real Estate Fund 4 only. Single-let assets (where tenants are responsible for procurement) and assets in development are excluded.

Future reports will consider reporting on other funds as considered appropriate and required.

Absolute data

Includes consumption for assets that were acquired during the reporting period and where EFTEN held operational control.

Like-for-Like data

Performance data excludes assets where they were not in ownership for 24 months covering the reporting periods. No estimates have been made for like-for-like data.

Intensity data

Intensity performance data reflects like-for-like classified assets. Net lettable area has been used as the denominator for intensity for all sector types.

Third Party Data Review

EVORA Global Limited has completed a review of the data presented within this report.

Methodology

EFTEN utilises SIERA as its Data Management System platform. SIERA enables efficient data capture and analysis. In summary, our review has included:

1. Confirmation of asset data
2. Receipt of reported energy consumption

3. Initial data accuracy checks (completed by SIERA software platform)
4. Submission of queries and clarification to EFTEN and Property Management teams
5. A final validation of data and results (completed by software with specialist consultant review)

Notes:

Environmental performance data (electricity and gas) is based on invoiced data. However, in some cases - to address data gaps - estimates may have been used. Records of estimated consumption data, and methodologies used have been reviewed and are held on file.

Opinion

Invoiced data is accurately reported. Estimations are clearly identified (using previous year data and pro rata techniques), where information is found to be missing. A full record of estimations is available from EVORA.

EFTEN continue to work towards improving accuracy of data. This will support improvement programmes going forwards.

About EVORA Global Ltd

EVORA is an independent, pan-European sustainability consultancy and software provider, specialising in the commercial real estate sector.

Table 1: Energy – Absolute, Like-for-Like and Intensity – 2019 versus 2018

Sector and Energy Source		Absolute Consumption (kWh)		Like-for-Like Consumption (kWh)			Like-for-Like Intensity (kWh/m ²)		
		2018	2019	2018	2019	% Change	2018	2019	% Change
Office	Electricity	85,844	1,036,783						
	Total Energy	85,962	1,037,566						
	Coverage	1 ¹	1			0			
Retail	Electricity	9,432,635	9,541,934	9,432,635	9,541,934	1%			
	Total Energy	9,432,635	9,541,934	9,432,635	9,541,934	1%	221	224	1%
	Coverage	2	2			2			
Total	Total Energy	9,518,597	10,579,500	9,432,635	9,541,934	1%			
	Coverage	3	3			2			

Table 2: GHG emissions – Absolute, Like-for-Like and Intensity - 2019 versus 2018

Sector and GHG Source		Absolute Emissions (tonnes CO ₂ e)		Like-for-Like Emissions (tonnes CO ₂ e)			Like-for-Like Intensity (kgCO ₂ /m ²)		
		2018	2019	2018	2019	% Change	2018	2019	% Change
Office	Scope 2	75	82						
	Total	75	82						
	Coverage	1	1			0			
Retail	Scope 2	1,295	752	1,295	752	-42%			
	Total	1,295	752	1,295	752	-42%	30	18	-42%
	Coverage	2	2			2			
Total	Total	1,370	834	1,295	752	-42%			
	Coverage	3	3			2			

Table 3: Water - Purchased and Consumed - 2019 versus 2018

Sector	Absolute m ³ Usage		Like-for-Like m ³ Usage			Like-for-Like Intensity (m ³ /m ²)			
	2018	2019	2018	2019	% Change	2018	2019	% Change	
Office	Water	349	4,066						
	Coverage	1	1			0			
Retail	Water	32,849	32,572	32,849	32,572	-1%	0.77	0.76	-1%
	Coverage	2	2			2			
Total	Water	33,198	36,638	32,849	32,572	-1%			
	Coverage	3	3			2 ²			

Table 4: Energy – Waste - 2019 versus 2018

Sector and Waste Destination	Absolute				Like-for-like				% change	
	2018		2019		2018		2019			
	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%		
Office	Recycling	6	8%	6	8%	6	8%	6	8%	0%
	Incineration	65	92%	65	92%	65	92%	65	92%	0%
	Landfill	0	0%	0	0%	0	0%	0	0%	0%
	Total	70		70		70		70		0%
	Coverage	1		1		1		1		
Retail	Recycling	30	41%	36	34%	30	41%	30	41%	0%
	Incineration	44	59%	68	66%	44	59%	44	59%	0%
	Landfill	0	0%	0	0%	0	0%	0	0%	0%
	Total	74		104		74		74		0%
	Coverage	1		2		1		1		
Total	Recycling	36	25%	42	24%	36	25%	36	25%	0%
	Incineration	108	75%	133	76%	108	75%	108	75%	0%
	Landfill	0	0%	0	0%	0	0%	0	0%	0%
	Total	145		174		145		145		0%
	Coverage	2		3		2		2		