

DLE Living SCS-RAIF -Senior Living Fund

Sustainability-related disclosures

Summary

The Fund focuses on investments in buildings in Germany that are operated by senior care providers. Target allocation is 70% in senior care and 30% in assisted living facilities.

The Fund does not commit to make sustainable investments as defined by SFDR, Art. 2(17) or investments aligned with the EU Taxonomy but it promotes environmental and social characteristics. The Fund applies an ESG scorecard designed by an external provider to assess and monitor each assets' performance against a set of environmental and social characteristics/indicators. The indicators are clustered in three levels (fund level, operator level, building level) and concern aspects material for senior living. The Fund further excludes investments related to weapons, gambling and tobacco above a de minimis threshold of 5%, as well as severe or systematic and persistent violations of international standards in the areas of human rights, labour rights, environment and business ethics. The investment strategy applies to at least 90% of all investments.

The Fund only acquires properties that achieve a minimum score of 50 in the ESG scorecard, which was designed by an external provider (ISS ESG). The input for the scorecard is sourced using a questionnaire to the operator as well as from publicly available sources such as websites. Compliance regarding human and labour rights, environmental standards and fair business practices is monitored via a quarterly controversy screening conducted by the Fund advisor's ESG department.

The Fund does not use a reference index for benchmarking.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

Exclusion criteria

For ethical and environmental reasons, the Fund excludes investments related to weapons, gambling, fossil fuels. The Fund will not invest in assets dedicated to hosting such business on the premises (e.g. casinos, tobacco production, gas stations). For practical reasons, a de minimis threshold of 5% (in terms of area) is applied. In the Senior Living asset class, the actual effect is almost non-existent by nature but gives formal reassurance to investors that such assets will not be included.

In addition, the Fund also refrains from real estate investments that are directly related to severe or systematic and persistent violations of international standards in the areas of human rights, labour rights, environment or business ethics (in particular corruption). A direct relation is understood to mean violations in the target property itself or at the target operator's group level, which may pose a reputational and/or operational risk to the Fund.

E&S characteristics

The Fund promotes environmental and social characteristics which are particularly material to real estate investments and senior homes. The Fund applies an ESG scorecard to assess and monitor each assets' performance against a set of environmental and social characteristics/indicators.

The ESG scorecard has been developed in conjunction with an independent third party, ISS ESG, and covers the following environmental and social characteristics on three levels:

The ESG Scorecard covers the following environmental and social characteristics:

(1) Fund Level (50%)

- 1.1. Fund sustainability strategy & commitments
- 1.2. ESG criteria for the selection of eligible investments
 - 1.2.1. Environmental selection criteria
 - 1.2.2. Social selection criteria
 - 1.2.3. Scope of exclusion criteria
- 1.3. Governance processes to ensure compliance with selection criteria
- 1.4. Governance to manage potential controversies
- 1.5. ESG reporting
- 1.6. External review
- 1.7. Contribution to the UN SDGs (20% of total score)

(2) Operator Level (30%)

- 2.1. Environmental risk management
 - 2.1.1. Environmental objectives and due diligence
 - 2.1.2. Measures regarding sustainable freshwater use
 - 2.1.3. Promoting environmentally responsible behaviour of employees and tenants
- 2.2. Social risk management
 - 2.2.1. Policy on labour rights and working conditions
 - 2.2.2. Quality management system
 - 2.2.3. Resident safety
 - 2.2.4. Business continuity management
- 2.3. Governance and business ethics risk management
 - 2.3.1. Code of conduct and compliance system
 - 2.3.2. Monitoring of ESG-related incidents
 - 2.3.3. ESG-related fines or penalties

(3) Building Level (30%)

- 3.1. Environmental performance
 - 3.1.1. Sustainability features of the building
 - 3.1.2. Energy efficiency
 - 3.1.3. Share of renewable energy use
- 3.2. Social performance
 - 3.2.1. Access to healthcare, nursing homes or assisted living
 - 3.2.2. Wellbeing of residents

Scoring system and investment eligibility

The scores range from 0 (no particular ESG efforts or no information) to 100 (best practice). The Fund will only acquire properties that have a minimum ESG score of 50.

Investment strategy

The Fund discloses under Art. 8 SFDR and focuses on investments in buildings that are operated by

senior care providers, including assisted living facilities. Target allocation is 70% in senior care and 30% in assisted living facilities.

The Fund's ESG investment strategy combines exclusion criteria with a systematic ESG risk assessment. An evaluation of physical climate risk exposure of the target investment's location complements the ESG scorecard assessment of the risk and opportunities.

The Fund does not invest in companies with actual operations and employees but in real estate assets via share deal or asset deals. Still, the ESG governance of the property operators is covered and assessed in the ESG scorecard (labour rights, code of conduct, compliance system, quality of care).

Proportion of investments

The minimum share of investments that promote environmental and/or social characteristics without having as its objective a sustainable investment is 90%, meaning that the maximum share of other investments for liquidity management is limited to 10%. The Fund invests directly in assets via share or asset deals.

The minimum share of sustainable investments as defined by SFDR, Art. 2(17) is 0%.

Also, the minimum share of investments aligned with the EU Taxonomy is 0%. Consequently, the shares of investment in fossil gas or nuclear energy related activities complying with the EU Taxonomy are as well 0%.

Monitoring of environmental or social characteristics

Trained staff of the Fund advisor conduct the initial ESG scorecard assessment and the annual update under the supervision of the Fund advisors' ESG department. The same process covers the application of the exclusion criteria.

Progress is monitored via annual reviews and updates of the ESG scores of each asset. The Fund also strives monitors certain principal adverse impact indicators, including fossil fuels exposure, energy performance classes and energy consumption.

Alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights is monitored via a quarterly controversy screening that is coordinated by the Fund advisor's ESG department. The results are reported in quarterly reports. In case controversies are identified, this triggers engagement by the Fund.

Methodologies

The Fund applies an ESG scorecard to assess and monitor each assets' performance against a set of environmental and social characteristics/indicators. The scorecard was designed by ISS ESG to capture the overall ESG performance of real estate funds with focus on senior living by considering policies, measures and performance of key environmental and social (and governance) indicators on three levels: (1) the fund level, (2) the operator level and (3) the real estate asset level.

The selection and weight of indicators is based on relevant standards and frameworks.

The score range is from 0 (no particular sustainability efforts) to 100 (best practice in all indicators). Almost every indicator has four scoring options (0, 50, 75, 100). Score 100 is equivalent to best practice, score 75 indicates actions or commitments significantly above market standard and 50 corresponds to a performance that is moderately above market standard. Score 0 indicates no particular ESG-related efforts and is also used in situations where no information is available.

The controversy screening is based on a web-based keyword search.

Data sources and processing

The input for the ESG scorecard is collected from different sources: a standardized questionnaire for senior home operators, energy performance certificates, technical due diligence reports and other expert opinions as well as web-based sources. The physical climate risk assessment is based on public tools to assess climate risks and flood risks (e.g. GIS – ImmoRisk, Federal Institute of Hydrology), Data on energy, water use, and greenhouse gas emissions is often not available in a consolidated manner but must be collected from the tenant. Green lease clauses that provide for data sharing are incrementally implemented where feasible to facilitate the data collection process. Greenhouse gas emissions are calculated using the CRREM tool and underlying emission factors.

The ESG department of the Fund Advisor will at least annually conduct a plausibility check on the consolidated resource and emission data.

Whenever possible, the Fund strives to base assessments on actual data and will only estimate data to fill in small data gaps or fulfil mandatory reporting requirements. Estimates are marked as such and underlying sources provided.

Limitations to methodologies and data

The Fund's ability to collect the data for the ESG scorecard requires collaboration by tenants, which cannot always be taken for granted. The data collection process and data sets may be impaired by time gaps, delays in the transmission of data and incomplete data. Some locations may not have the technical set up for the accurate and timely measurement of resource and emission data. The Fund strives to improve the data situation during the holding period.

Due diligence

Each asset is evaluated in the transaction due diligence using the ESG Scorecard. All evaluations are based on substantiated data and documented. The Fund advisor's ESG department conducts spot checks.

Engagement policies

If the regular controversy screening reveals violations of human or labour rights, environmental standards of fair business practices by the senior home operator during the holding period, the Fund will engage with the operator to mitigate impacts, improve the situation and prevent similar events. The engagement strategy will be based on the scope and impact of the violation.

Designated reference benchmark

This product does not use a specific index as reference benchmark because such an index is not readily available for this asset class.