10 March 2021

DRC Capital LLP – ESG Policy

Objectives

This Environmental, Social and Governance Policy (the **Policy**) provides an overview of DRC Capital LLP's approach to sustainable investing. This Policy also describes how sustainability opportunities, risks and factors are integrated into our investment recommendation and decision-making processes.

Sustainable investing refers to the consistent consideration of key environmental, social and governance (**ESG**) factors to inform or define the investment process and to gain a more comprehensive understanding of both the risks and the long-term opportunities arising from these factors.

A sustainability risk is any ESG event that, if it occurs, could or will have a material negative impact on the value of our investments (**Sustainability Risks**). Sustainability or ESG factors include environmental, social and employee matters, respect for human rights, and anti-corruption and anti-bribery matters (**Sustainability Factors**). Sustainability Risks and Factors are, together, referenced as ESG issues or ESG considerations in this Policy.

DRC Capital LLP (**DRC**) recognises that real estate is a long term asset class. Our Policy focusses on ensuring that our borrowers are committed to delivering sustainable, long term value through the continuous monitoring and management of ESG issues at the real estate asset level.

DRC's approach to ESG

DRC's approach to the management of ESG issues has its foundations in the following principles:

- Delivering investment performance for our investors, and;
- Our fiduciary duty to act in the best interests of our investors.

There are many and varied ESG considerations in real estate investment depending on the asset itself. These can include:

- **Environmental:** climate change, pollution, water and waste efficiency, carbon emissions, energy consumption, use of renewable energy, greenhouse gas emissions, flooding and construction

- **Social:** health, safety and security of building occupants, labour relations in service providers and the supply chain, impact on community, tenants and their businesses

- **Governance:** investment decision approval process, related party transactions, bribery and corruption, internal controls and risk management and shareholder rights

Our Policy is to manage and monitor ESG considerations at all relevant levels of the transaction. Our approach to sustainability is always evolving as we develop our policies and processes in this area and, as such, this Policy will continue to evolve over time and will be reviewed and updated regularly.

This Policy is aligned with the current requirements of the EU's Sustainable Finance Disclosure Regulation[1].

[1] 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

ESG Assessment:

ESG considerations are integrated into our investment recommendation and decision-making processes at the four stages of the investment lifecycle:

1. Due diligence
2. Facility agreement negotiation
3. Investment Committee/Fund board approval
4. Ongoing asset management

1. Due Diligence Stage:

The ESG issues relevant to our investments are assessed at the initial underwriting and due diligence process through the following reviews:

- Valuation reports
- Technical due diligence reports
- Environmental reports
- Assessment of environmental penalties/fines during financial due diligence
- Assessment of community impact of planning applications submitted
- Onshore/Offshore structure reports to assess appropriate governance

The ESG issues identified during the due diligence phase will be taken into consideration as part of the overall assessment of whether to proceed with a deal and, as relevant, during the negotiation phase of the relevant facility agreement.

2. Facility Agreement Negotiation Stage:

Our deal team ensures that the facility agreement contains appropriate ESG considerations in the representations for information. The key areas which cover these representations are:

- Information representation
- Financial Statements
- No proceedings pending or threatened
- Environmental matters
- Alignment with all applicable law and regulation (including sustainability requirements)

3. Review and Approval Stage:

a) Investment Committee of Investment Advisor:

The initial approval of any proposed investment and the integration of Sustainability Risks and opportunities in the investment decision making process is the responsibility of the Investment Committee.

The deal team present their findings on all identified risks (including Sustainability Risks) and analysis from the due diligence and negotiation stages of each proposed investment to the Investment Committee for their review and consideration.

Where necessary the deal team proposes additional obligations on the borrower to make relevant improvements to the assets based upon their findings. For example, where the EPC ratings for a building are too low the capex improvements budget could be altered to include additional cost for achieving a higher EPC rating.

The costs for these adjustments would then be integrated into the underwriting process for the deal and leverage will be provided on this basis.

b) Board of General Partner:

Upon approval by the Investment Committee, the proposed investment is presented to the off-shore board of the General Partner of the relevant fund entity. The board will, amongst other things, assess the identified and reported ESG considerations of the transaction. The board may seek further clarification or assessment of the relevant issues before coming to an investment decision, or they may approve or decline the proposed transaction.

4. Ongoing Asset Management:

The ESG issues identified at the due diligence and negotiation stages, including any proposed additional obligations that may be imposed on the borrower continue to be monitored by the dedicated asset management team at DRC, in line with the obligations of the facility agreement and any approved business plan for capex expenditure.

Principal Adverse Impacts

We currently do not formally, or to the extent set out in SFDR, take into account the principal adverse impacts of investment decisions on sustainability factors on the basis that, in the context of the investment strategies of our funds, it is not possible to conduct detailed diligence on the principal adverse impacts. We do, however, broadly consider the main material impacts of our investments through our overall approach to the integration of Sustainability Risks as described in this Policy.

As at the date of this Policy, the final regulations in respect of principal adverse impacts have not yet been finalised. We will monitor our obligations under the final regulation and update this disclosure as relevant in the future.

Fund Governance

The integration of Sustainability Risks and opportunities in the investment decision making process is the responsibility of the Investment Committee. Alongside the Investment Committee, DRC's Risk Committee meets on a regular basis to ensure that the identified ESG issues foreach fund are reviewed and take into account any changes in the macro environment.

We also ensure that, in line with SFDR, the application of the principles of our remuneration policies are consistent with the integration of Sustainability Risks, ensuring that DRC only rewards appropriate risk-taking and does not encourage risk-taking which is inconsistent with the risk profiles or investment restrictions of the relevant fund. In applying DRC's remuneration guidelines, consideration is given to this Policy.

In addition, DRC appoints an external consultant to review the controls and processes of the funds, including how DRC manages its processes.

International Standards

DRC is a signatory to the UN Principles for Responsible Investment (UNPRI). DRC is also a member of the CREFCE Green Lending Initiative working group and which is looking to develop best practices across the Bank and Non-Bank lending space.