

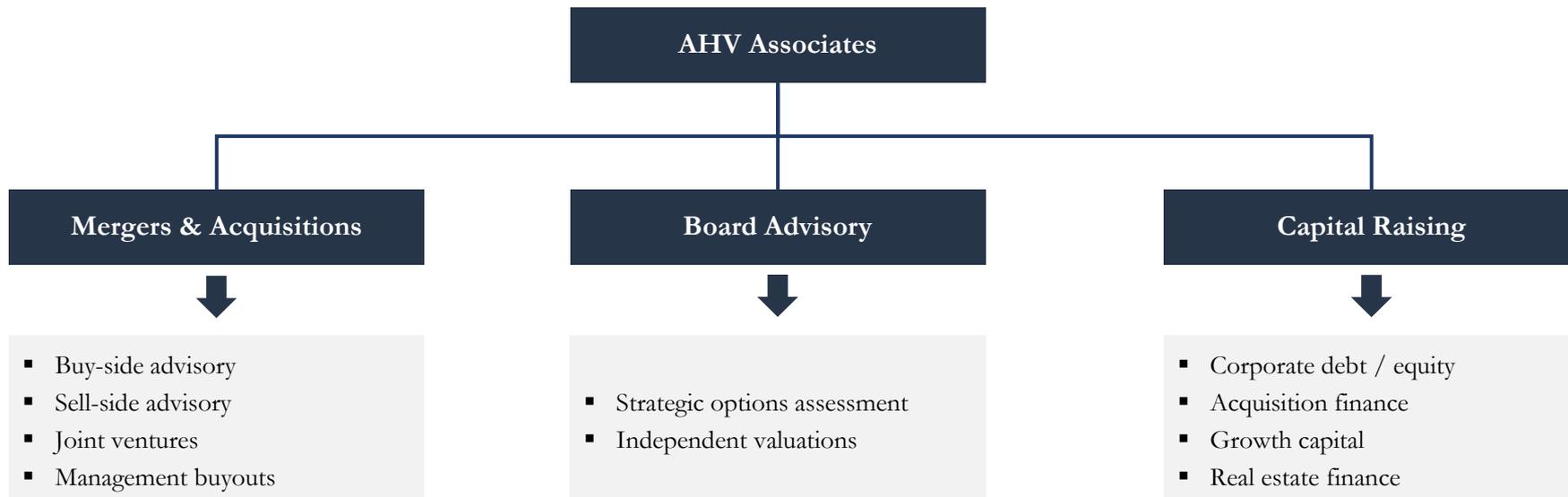


**AHV Associates presents:
"The Rising Role of ESG in Investment Decisions"**

Urban Living Festival, July 2022



Founded in 2001 by Andrew Harrington and Hanif Virji, AHV Associates LLP (‘AHV’) is an award-winning boutique investment bank focused on advising private companies across a range of M&A and advisory assignments



AHV specializes in hospitality and has worked with companies that own and/or operate hotels, apart-hotels, serviced apartments, hostels and mixed-use resorts

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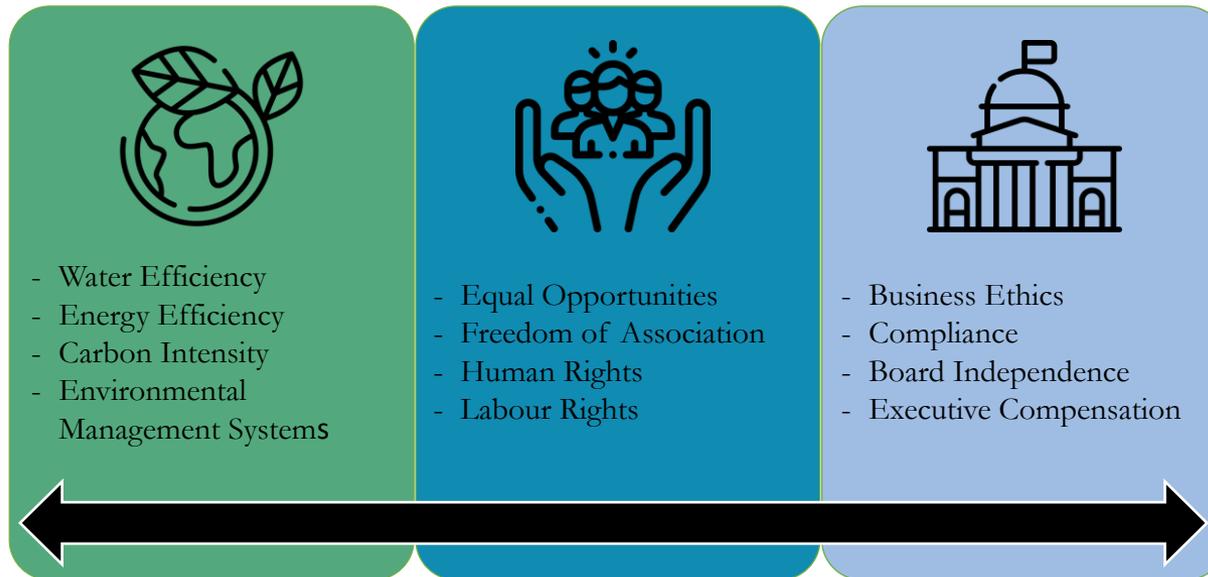


What's ESG?

ESG is an acronym for Environmental, Social and Governance

Socially responsible investors, concerned about the sustainability and ethical impact of their actions, screen for investment opportunities that also respect non-financial standards. Those are summarised in three key criteria:

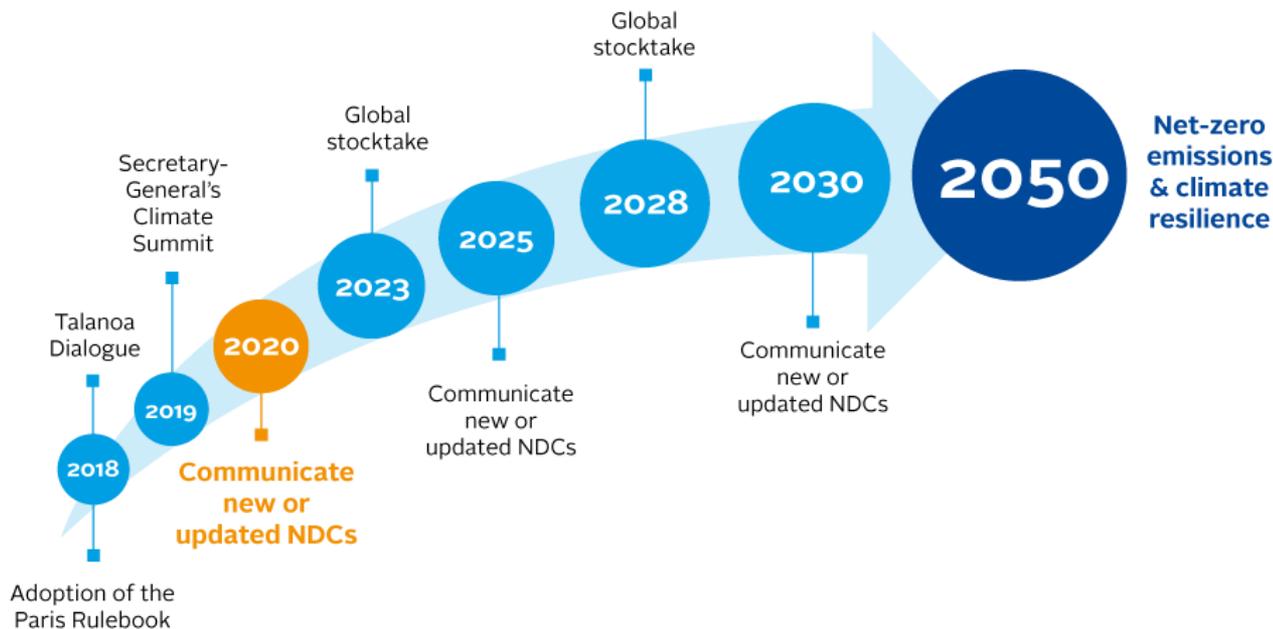
- **Environmental** criteria concern the way in which organizations interact with their physical environments. This is the most significant aspect of the ESG framework, and specifically related to the Climate Crisis and associated risks
- **Social** criteria concern the way in which an organization interacts with society, and the relationships that it has with all stakeholders
- **Governance** criteria are the most inward looking of the ESG framework, concerning the internal systems of practice, controls and procedures within organizations themselves





What are the roots of the ESG investment market?

- The ESG framework emerged as part of a joint initiative between UN Secretary General Kofi Anan and the CEOs of major financial institutions as part of the UN Global Compact in January 2004
- In 2006, the release of the UN's **Principles for Responsible Investment (PRI)** marked the first step in actually requiring companies to incorporate ESG factors into financial evaluations
- Initially, 63 companies signed the PRI, with an initial combined Assets Under Management (AUM) of \$6.5 trillion. As of 2022, there were more than 4,900 signatories representing more than with \$100 trillion AUM
- In 2018, the **Paris Agreement** set the ultimate goal of achieving net zero carbon emissions by 2050 and since then an acceleration of green initiatives by governments and financial institutions around the world is clear



Sources: Principles for responsible Investing, Bloomberg.

What's the current status of the ESG investment market?



The game changer has been that the market is starting to understand the economic value of ESG credentials!



At least 98% of investors use **ESG data** in their investment process, as there is pressure coming from their LPs



The sustainability trend has pushed the emergence of **ESG – only funds**, that tripled their AUM within the last 3 years



Majority of ESG funds are investing in publicly listed companies, however as institutional investors increase their capital allocation to private markets, we expect this to affect ESG funds' investment in illiquid assets



In 2021, 13% of total bonds issued were green in Europe. 12% of total loans were green

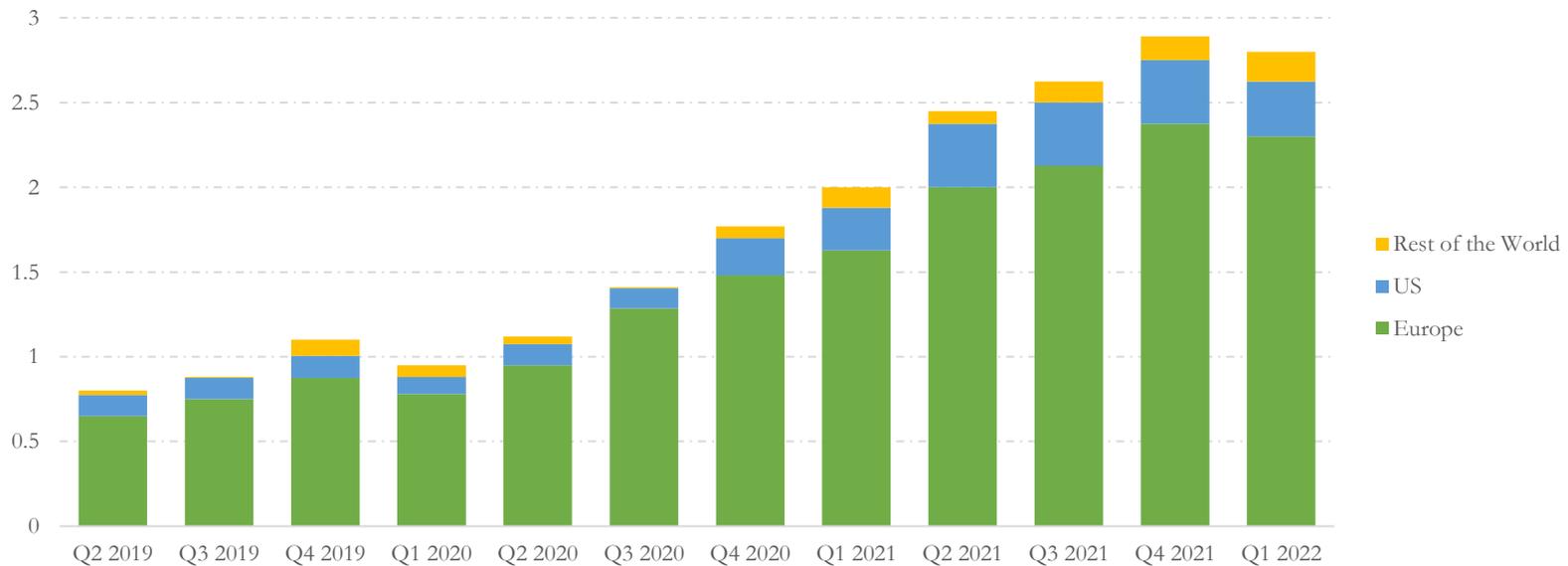


Europe leads the “green race”, with \$2.37 trillion of assets under management in sustainable investments, more than 80% of all Sustainable assets under managements across the globe



Finland, Denmark and Sweden continue to lead the way towards carbon neutrality in Europe

AUM on ESG Funds (in trillion \$)



Sources: Morningstar, Bloomberg, FT, Robeco, weforum, NewFinancial



What's Green Finance?

Green or Sustainable finance refers to the process of taking ESG considerations into account when making lending decisions, leading to more long-term investments in sustainable economic activities and projects. It can take many forms as shown below, but is not limited to:

- Renewable Energy
- Energy Efficiency
- Green Buildings
- Circular Economy
- Climate Change Adaption

Major Green Finance Instruments:

1

Green Bonds: Proceeds are used to finance specific green projects

2

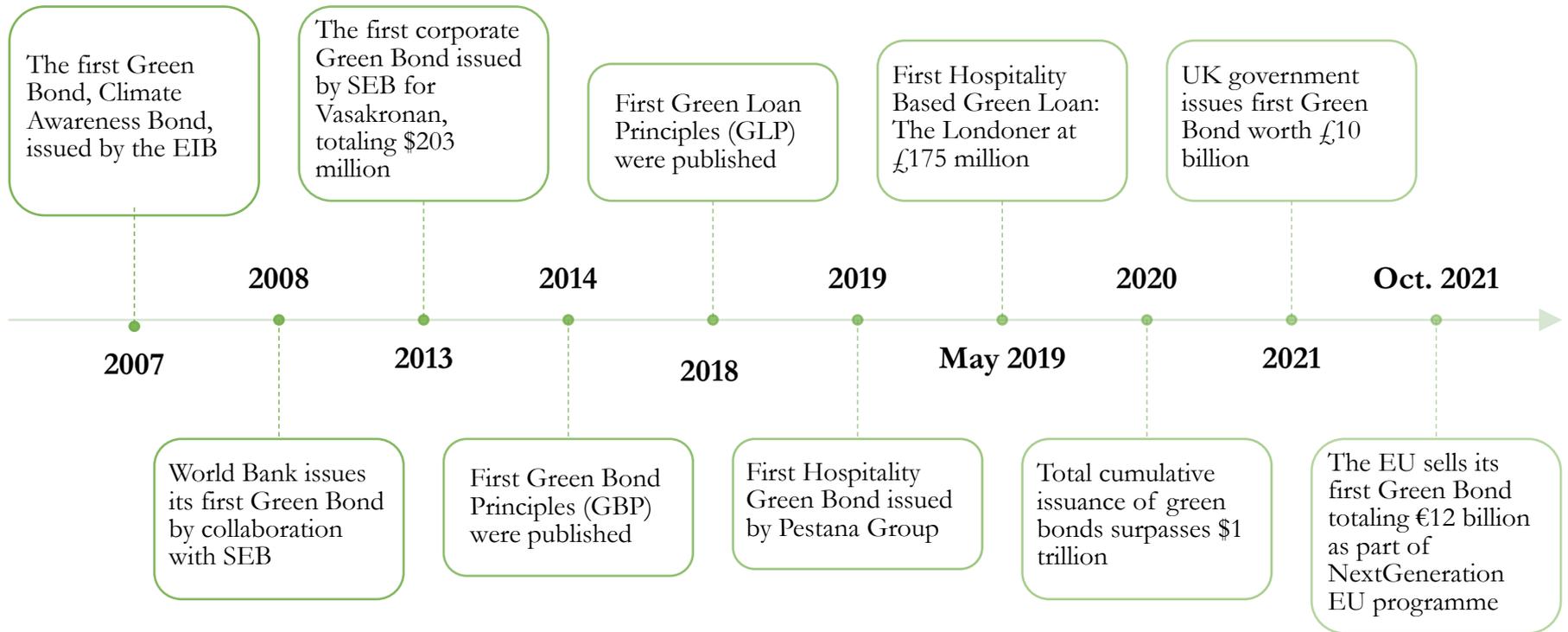
Green Loans: Proceeds are used to fund projects that make a substantial contribution to an environmental object

3

Sustainability linked bonds and loans: pledged to meet pre-specified and tailor-made sustainability targets with the most common characteristics being:

- Loan terms are measured against one or more **key performance indicators** (KPIs)
- The KPIs are pre-selected and relevant to the borrower's overall business and are measurable and benchmarkable
- The borrower then determines which targets it is ready to commit, thereby calibrating the sustainability performance targets ("SPT") against the KPIs
- SPTs are then used as a benchmark for any **margin adjustments**; according to Loan Market Association guidance, lenders should offer both a reward for borrowers that meet their ESG targets and a penalty of the same amount for the borrowers that do not

History of the Green Finance Market





Green Finance – What are the guiding principles of Green Lending?

Voluntary guidelines providing a framework on green finance products:

- **Green Bond Principles (GBP) & Green Loan Principles (GLP):** Established by the International Capital Markets Association and the Loan Markets Authority respectively in 2018, outlining voluntary guidelines for promoting transparency and consistency for financing of green projects
- **Sustainability-linked Bond Principles (SLBP):** Established by the International Capital Markets Association in 2020, the principles provide guidelines that recommend structuring features, disclosure, and reporting
- **Sustainability-linked Loan Principles (SLLP):** Established by the Loan Markets Authority (LMA) in 2022, providing guidelines which capture the fundamental characteristics of SLLs

Frameworks and Principles:

- Each bank (green lender) and each corporation (green bond issuer / green lender) have defined their own **Green Frameworks** to outline how the proceeds can and will be used
- These frameworks are frequently based on the aforementioned **Green Bond Principles** and **Green Loan Principles**, which have four core components

The 4 Core Components for alignment with the GBP and GLP are:

1. Use of proceeds

The utilisation of the proceeds of the bond/loan for eligible Green Projects

2. Process for Project Evaluation and Selection

The issuer/borrower should communicate sustainability objectives and how projects fit within eligible Green Project categories

3. Management of Proceeds

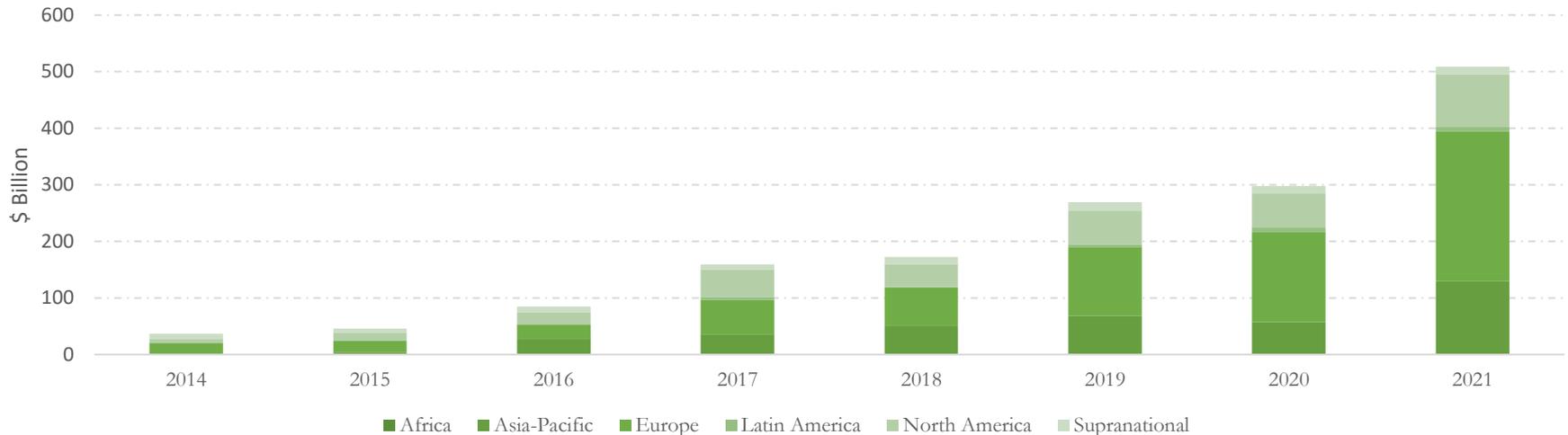
Net proceeds should be credited to a sub-account or moved to a sub-portfolio, and formally attested to by the issuer/borrower

4. Reporting

Issuers/borrowers should keep readily up-to-date information on the use of proceeds to be renewed annually until full allocation



Green Bond Issuance by Region



Exponential increase in Green Bond issuance:

- The Current Green Bond issuance to date is **\$1.834tn** (June 2022), with 2022 issuance at \$175.3bn so far
- **Europe** was the **most** prolific issuance region in 2021, with **Germany** and **France** being the most active European countries in terms of issuance
- On an **individual** country basis, the **USA** leads the way in the value of issuance followed by **China**
- Green Bond issuance account for **93.1%** of total green finance globally with **28%** going towards **real estate** projects in 2021
- Green loans have big room for growth as lenders will start worrying about stranded debt that is not easily financeable



Does 'Greenium' exist?

Green Finance in numbers:

McKinsey & Company
Better ESG scores translate to about a **10% lower cost of capital**

Amundi
ASSET MANAGEMENT
Using Green bonds currently saves **0.022 to 0.25 percentage points** compared to conventional bonds; 0.15% pp is the average yield saving today on low coupon bonds. For bonds trading on coupon rates less than 2%, this discount is quite meaningful

S&P Global
Market Intelligence
Companies issued more than **\$200 billion** of green bonds in first half of 2021 but demand still outpaces supply driving prices higher than for conventional bonds

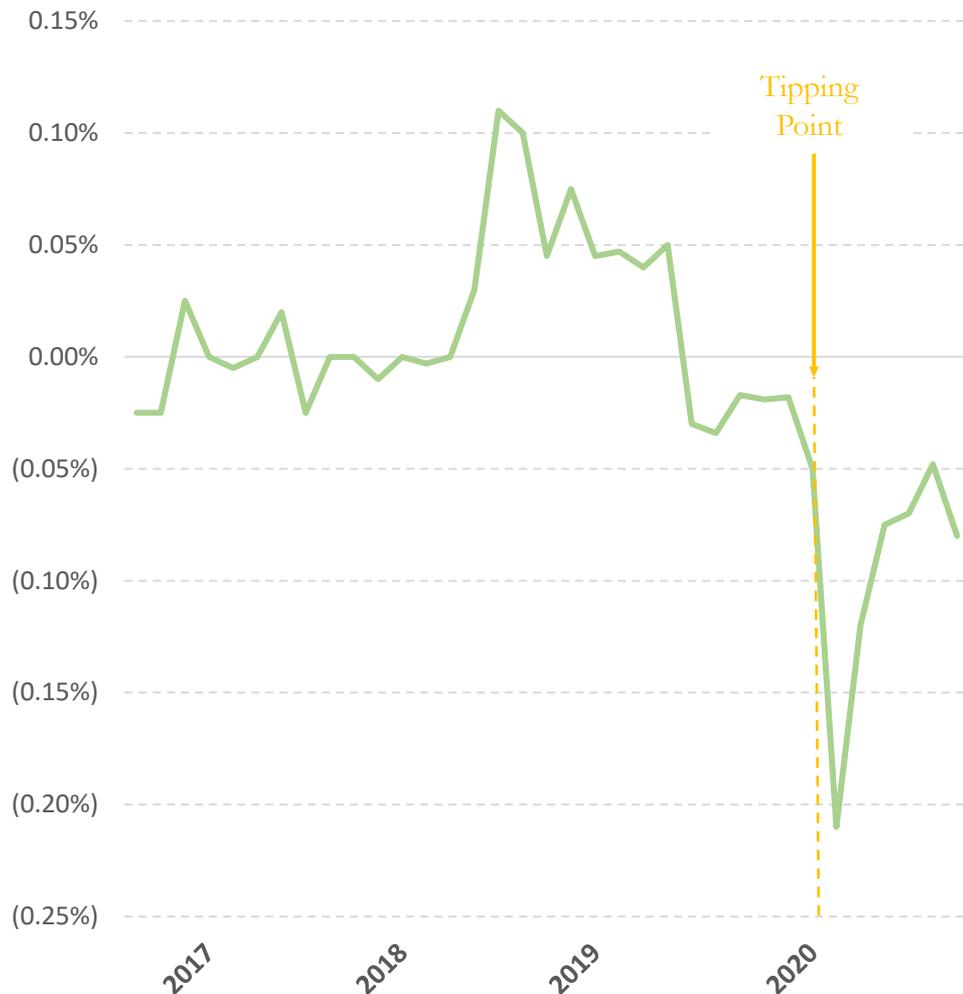
NOVARTIS
Novartis promised to increase payments from **0% to 0.25% for Sustainability-linked bonds (SLBs)** if it failed to meet 2025 ESG target



“While green bonds are already cheaper than conventional debt instruments, with increasing demand, it is expected that the yield differences will expand further”

Source: Amundi, S&P Global, Novartis

Yield Differential - Green vs. Conventional Bonds



What green commitments are being made by banks?



- The Net-Zero Banking Alliance (NZBA) brings together global banks representing 40% of global banking assets. Banks are committed to aligning lending and investment portfolios with net-zero emissions by 2050



- Natwest launches Green Loans and Green Asset Finance for SME businesses, with **no arrangement fee**, with the aim of helping them to achieve sustainability ambitions



- In 2020, HSBC announced it will set aside **\$1 trillion in Green Financing** to target net-zero carbon emissions across its entire customer base by 2050
- HSBC UK launches £500m Green SME Fund as commitment to support businesses of all sizes to thrive in a low carbon economy.



LLOYDS BANK

- Lloyds Banking Group has launched a **£2bn funding scheme** to help UK businesses invest in reducing their environmental impact while increasing productivity



- In 2017, Barclays raised €500 million of green bonds with a coupon rate of 0.625%. The proceeds were used for mortgages on energy efficient properties
- A second Green Bond issue of £400 million was carried in 2020. The funds will be allocated for residential mortgages on energy efficient properties

What green commitments are being made by debt funds?



- ICG Real Estate Debt VI fund has incorporated an ESG-linked bridge facility with the margin linked to two KPIs:
 - ❑ 50% of the Fund's AUM make use of ICG's Green Loan Framework
 - ❑ More than 50% of the underlying assets have achieved a Green Building Certificate to at least a 'very good' level, including BREEAM and LEED
- ICG's corporate revolving credit facility is linked to carbon emissions and underscores ICG commitment to sustainability



- Arcmont has been a member of the UN PRI since July 2013 and has long-standing history of incorporating ESG into its investment risk processes
- Arcmont offer ESG-linked discount for all loans from €5bn fund



- In January 2021, Aviva pledged to achieve net-zero greenhouse gas emissions across its real assets portfolio by 2040
- As part of a set of interim targets, Aviva planned to issue £1bn in sustainability-linked real estate loans by 2025

What green commitments are being made by institutional investors and fund managers?



BT Pension Scheme



- BT Pension Scheme (BT PS) is a member of the UN Net-Zero Asset Owner Alliance
- BTPS has a set 2035 goal of having net-zero greenhouse gas emissions for its investment portfolio. The initiative will involve reducing emissions and investing in assets that will support the transition towards a low carbon economy



- Europa Capital's value-add fund agrees €210 million sustainability-linked loan with RBS International
- The rolling facility agreement includes margin incentives conditional on sustainability linked targets, including use of green energy and minimum EPC rating of C

CARLYLE

- Carlyle sets a net-zero target by 2050 and Carlyle is one of the first Private Equity firms to push acceleration towards net-zero
- After 2025 all new majority-owned portfolio companies will set Paris-aligned climate goals within two years of ownership

ICG

- Standard Chartered and ICG have successfully closed €1.45bn ESG linked subscription facility for ICG Europe VIII under an ESG framework, which involves companies having Science Based Targets (SBT)
- Portfolio companies emission targets must align with SBT. SBT are targets aligned with the goals of the Paris Agreement

EQT

- EQT launched ESG-linked Subscription Credit Facility with €5bn upper limit related to the Private Equity business line
- It is the first ESG-linked fund bridge facility of this size in the global fund financing markets and is backed by a syndicate of leading financial institutions



How can Central Banks influence and accelerate the green finance activity

Central Banks are seeking ways to incentivize companies to take decisive actions and achieve sustainable results

- As green metrics improve over time, the approach will become more and more demanding



Central Banks may force banks to hold extra capital to cover risks from climate change or incentivise banks by allowing them to hold lower capital reserves if they incorporate certain green elements to their portfolio



Incorporating Green rules, central banks may make exclusions and divestments from Corporate Bond Purchase Schemes (CBPS) for companies that do not follow sustainable practices. The BoE updated its CBPS in 2021, to explicitly include environmental sustainability and net-zero compatibility



Green Quantitative Easing could give preference to lending that promotes more environment-friendly investments so when the economy is in recovery it will help steer investment towards eco-friendly projects



Stress testing is becoming stricter and it will incorporate exposure to climate risk. BoE made a study which revealed:

- UK banks need to prioritize investment in climate risk assessment capabilities,
- Lack of data available on corporation's current emissions and future transition plans
- Transition to net zero will impact sectors that banks are exposed to

What are key expected developments and targets shaping the private ESG investment activity?



Targets

The EU has outlined its aims to have **net zero emissions by 2050** in line with the Paris Agreement. This includes cutting greenhouse emissions by 55% by 2030

All new buildings must operate at net zero carbon from 2030 and 100% of buildings must operate at net zero by 2050

Expected Developments

In March 2022 the **SEC** proposed that would make it mandatory for public companies to disclose their greenhouse emissions. This is something that could grow globally in other markets

It will be a requirement to submit an **Energy Performance Certificate (EPC)** with a minimum of B rating by the 1st April 2028

The **International Sustainability Standards Board (ISSB)** was established in 2021 and gives companies a framework for reporting climate and other sustainability risks. It is under the IFRS Foundation

Regulatory developments:

- **EU/UK Taxonomy** – framework for what can and cannot be considered an environmental sustainable product
- **EU/UK Disclosure Regulation** – will harmonise existing provisions for sustainability-related disclosures made by financial institutions
- **Low Carbon Benchmark Regulation** – new guidance and 2 new benchmarks measuring performance against the Paris Agreement climate targets



What is the contribution of Real Estate in the global climate challenges?

As real estate has an incredibly long lifecycle, the overall sector plays a pivotal role in the wider global environment:

The Real Estate sector consumes **35% of global energy...**

... and consumes **38% of total carbon emissions**

The world housing stock is expected to double by 2050, with **85-95% of buildings today** expected to still be here in 2050

Concrete, a key material in the construction of buildings, is the source of **c8% of global CO2 emissions**



What are the main attributes of green accommodation buildings?

A “**green**” building is a building that, in its **design, construction, or operation**, reduces or eliminates **negative** impacts, and can create **positive** impacts, on the **climate** and natural **environment**.

There are a number of features which can make a building “**green**” as shown below:



Efficient use of **heating, water, lighting** and other resources



Use of **renewable** energy



Pollution and **waste** reduction measures, and the enabling of **reuse** and **recycling**



Good **indoor** environmental **air** quality



Use of **materials** that are **non-toxic**, ethical, and sustainable



Promoting use of **public transport** and not located in **environmentally sensitive** locations



Promote and maintain the **natural habitat**



Implement **innovative** sustainability strategies during its **construction**



Enable wider **community** benefits, **social impact** and living wage job creation



What are property certifications?

Green certificates seek to establish **standards** for **sustainability**.

They are used to assess the **performance** of a **building** or other real estate project in several **categories**:

- **Energy** consumption
- **Water** consumption
- **Waste** management

There is **no** universal, **globally accepted** green building certification.

There are **specific** certifications for different **types** of Real Estate ...

... such as the **Home Quality Mark** for **residential** properties

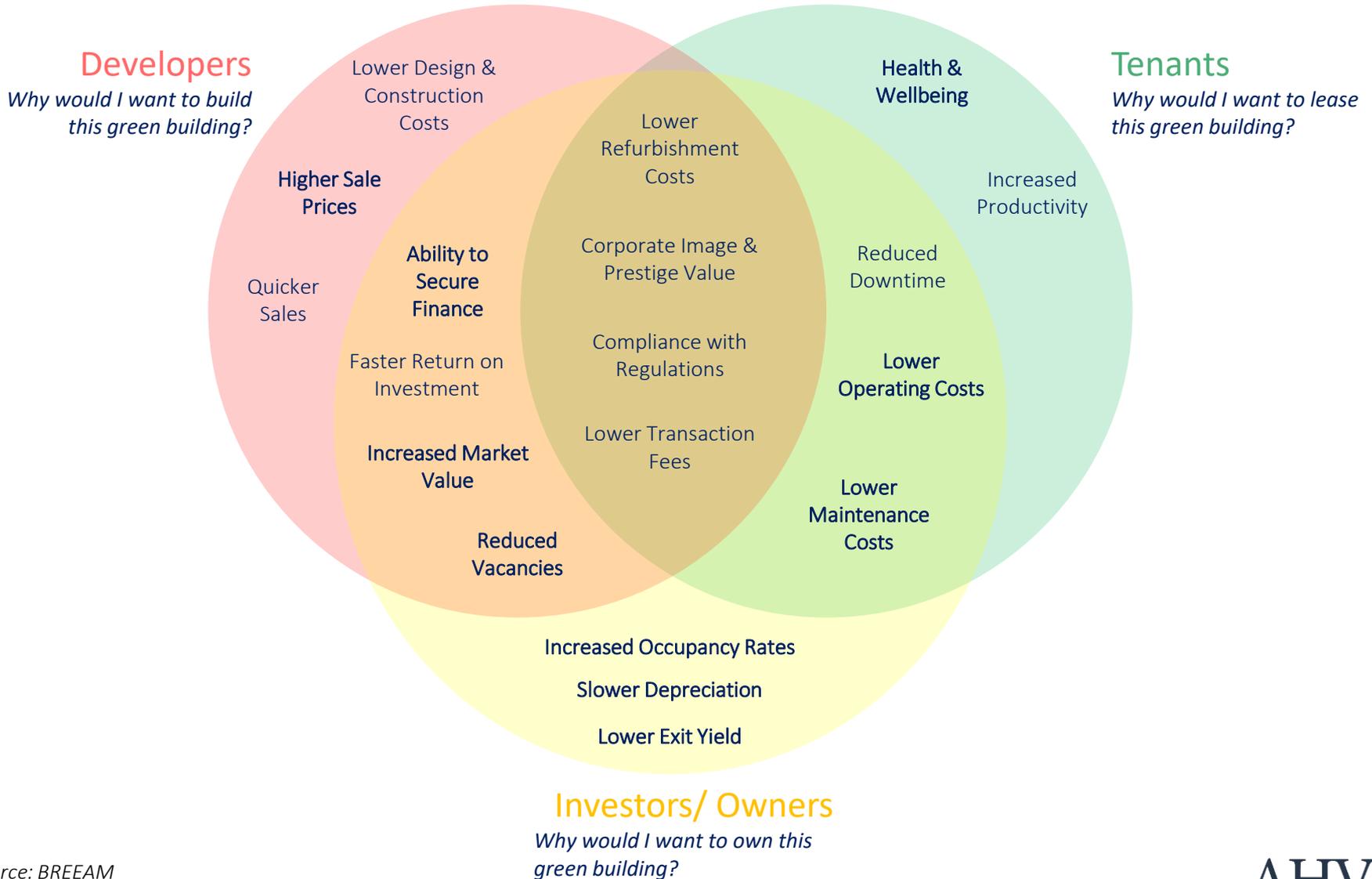
Certificates can also vary based on:

- The **objective** they try to evaluate
- The unique characteristics of the **area** the certificate is applied. For example, most countries have their own versions, with different criteria required for achieving each one
- The different status of the property:
 - Construction
 - In-use
 - Refurbishment / Fit-Out

Frequently used certificates are:

- BREEAM, LEED, CASBE, GREEN STAR - Evaluate several criteria
- EPC – Energy Performance
- FITWEL – Workplace conditions
- WELL – Wellness on people inside
- HQE – Energy performance and Wellness of occupiers
- DNGB – Ecology and sociocultural issues

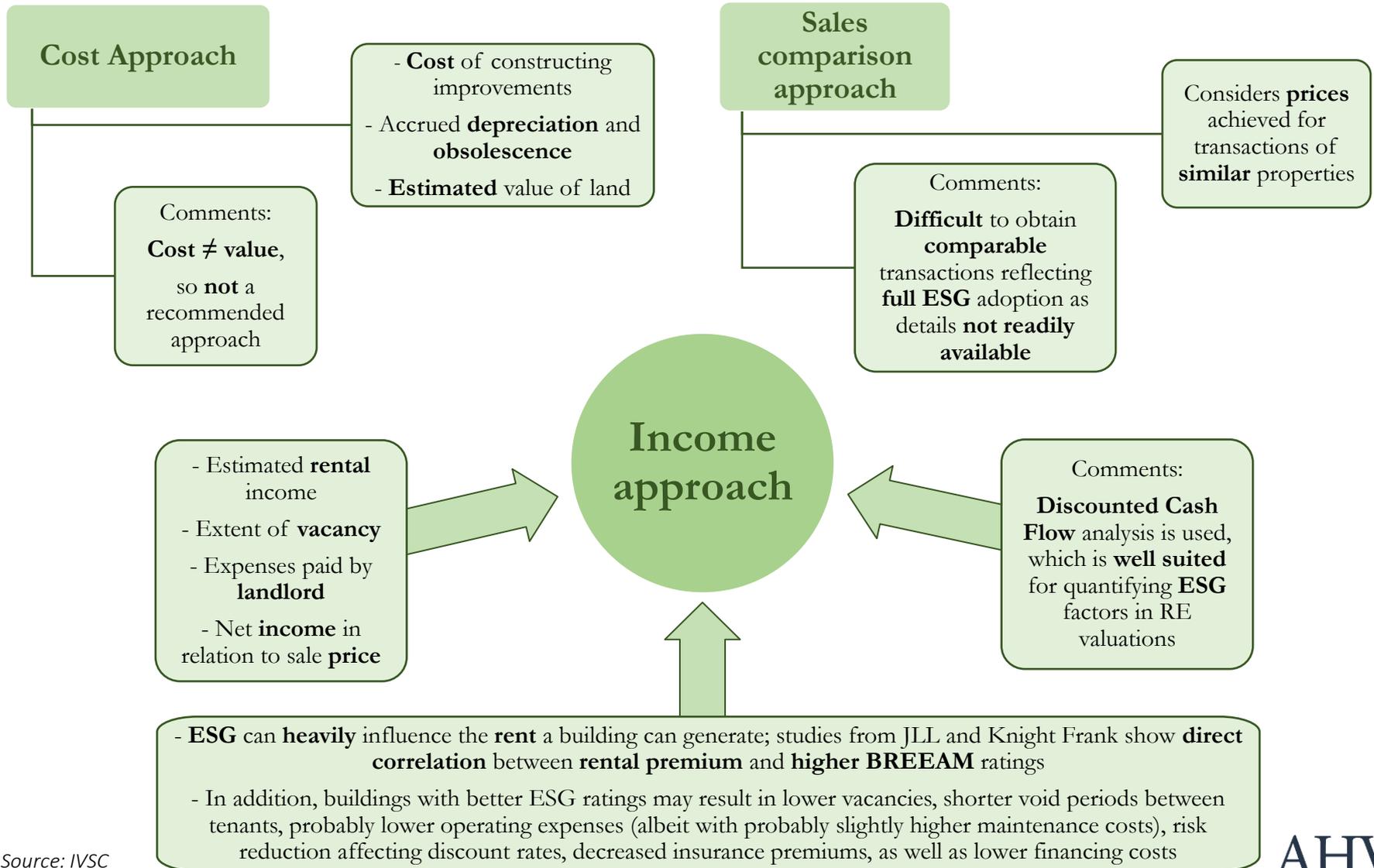
What are the benefits of sustainable assets to developers, tenants and investors?



How do property valuers incorporate environmental considerations in their appraisals?



There are **three** accepted approaches that valuers use when considering **ESG** in their **valuations** of property:



Is there empirical evidence supporting a green buildings' valuation premium?



Effect of Green Certification & ESG Enhancement on the Commercial Properties

Cash Flow Parameter		Effect	Range	Mean	Median
	Rental Income	Increased	0.0% - 23.0%	6.3%	4.6%
	Occupancy	Increased	0.9% - 17.0%	6.0%	4.3%
	Operating Costs	Inconclusive	(14.3%)% - 25.8%	(0.4%)	(4.9%)
	Sales Price	Increased	0% - 43.0%	14.8%	14.1%

Empirically it has been observed that **operating cost savings & enhanced revenue make sustainable buildings 8-10% more valuable than other properties**

Independent study says that **properties with BREEAM certification in the Great London area command a rental and price premium of 4.3% and 22.3% respectively**



What is the Real Estate sector's current footprint in the Green Finance market?

Out of the **\$1tn** of green bonds issued, **26%** of that was mentioned as related to **buildings** in 2020

Considerable room for growth:

In 2021, Green Bonds accounted for **c15%** of **all REIT** bond proceeds for the period, the highest level to-date

- The green bond issuance in the European listed real estate (LRE) sector has also grown rapidly rising from €0.8 bil in 2014 to €7.7billion in the first half of 2021
- Nordic companies are the most active in issuing green bonds. Twelve Swedish companies issued green bonds valuing € 4.6 billion and representing 27% of the total amount of issued green bonds, followed by four French companies with €3.5 billion and 20% of the value

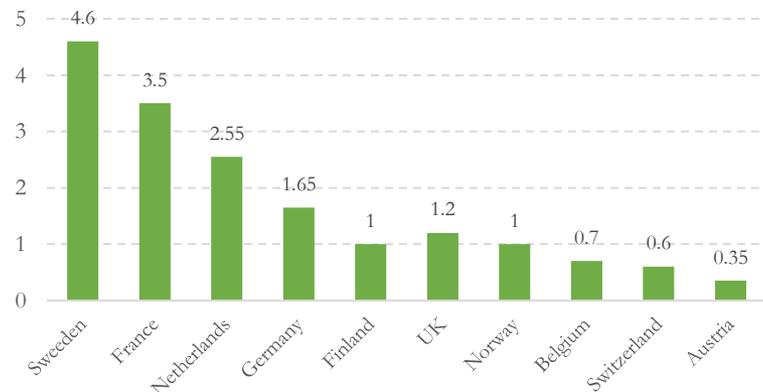
The UK Market has begun to attract significant institutional investments:

- In December 2020 **Aviva Investors** committed to allocate **£1bn** over the **4 years** to sustainable real estate lending
- In May 2022 (18 months later), Aviva announced that it had already provided **£1bn** in sustainability-linked real estate loans

Total Issued Green Bonds by Years (€ bn.)*



Total Issued Green Bonds by Country (€ bn.)*



* Based on Data from 29 European Listed Property Companies



Green Embracers in the Aparthotel Market

room2 Hometels:



The Chiswick Hometel is the world's first whole life net zero hometel, meaning that all the carbon emissions from conception through to end-of-life have been reduced and rebalanced to zero. Chiswick is the first hotel to offset both operational and embodied carbon to zero



89% more efficient than the average hotel



All Energy comes from Renewable Sources



Zero Waste Policy



Blue Roof retains 50,000L of rainwater



Beyond Aparthotels



Beyond Aparthotels offers a sustainable hospitality experience. With a range of apartments in different locations it offers healthier spaces to stay, live and work incorporating green energy, sustainability built and exceptional quality with a health focus

Beyond Aparthotel rooms:



95% cleaner air



low VOC and dust



100% Chemical Free



Filtered Water





Get Living

One of the UK's leading
Build-To-Rent owner and
operator

getliving

Secured external **funding**
of around **£250m** from
funds raised by Oxford
Properties and Delancey in
2020

ESG Achievements:

- Launched **The Lab E20**, an innovative space designed to bring together local stakeholders to engage in creating more **sustainable** communities
 - **5-Star GRESB** rating maintained for standing investments
- Established a strategy to enhance **ESG performance** standards for new **Get Living** developments





Guldsmeden Hotels

A Green Globe certified hotel chain from Denmark with a strong ESG focus

All bed linen and towels **eco-certified** and fair trade

Recycling system showers, saving **60-90%** of normal water consumption

Portfolio of 8 **Green Globe** certified hotels

Responsible construction materials, ruling out **plastics** in favour of **plantation wood** and **reclaimed** materials

Restaurants within hotels serving **organic**, eco-certified food

Owners of **I Love Eco Hotels**, a sustainable booking engine:
- For **every booking** made, **rice** is **donated** to the **Plastic-Rice Exchange**, meaning for every booking **1kg of plastic** is **collected**
- A **tree** is planted for **every** booking made

GULDSMEDEN HOTELS





Qatar Diar lands £450m Green Loan

- **Date:** May 2021
- **Deal Size:** £450 million
- **Comments:** Qatar Diar has secured a £450m to finance the construction of The Chancery Rosewood with lenders including HSBC, Credit Suisse, Intesa Sanpaolo, Qatar national Bank and United Overseas Bank



Cerberus and Highgate Secure Green Loan for Dorsett City Purchase

- **Date:** September 2021
- **Deal Size:** Undisclosed
- **Comments:** The 5-year senior loan provided by Aareal Bank is collateralised against the Dorsett City Hotel, London, and is contingent on the borrowers maintaining the sustainability of the asset that is currently BREEAM 'Very Good' certified



Dandara secures £60m Green Revolving Credit Facility from HSBC UK

- **Date:** October 2021
- **Deal Size:** £60 million
- **Comments:** Dandara Living will use funding aligned to Green Loan Principles to build 11 sustainable BTR developments across the UK



Hines Signs a €50 Million Euro Green Loan with CaixaBank for Preciados 13

- **Date:** February 2022
- **Deal Size:** €50 million
- **Comments:** Hines signs €50 million green loan with CaixaBank for its Preciados 13 project in Madrid



LGIM secures £270m green debt facility from HSBC, Natwest & Standard Chartered

- **Date:** April 2022
- **Deal Size:** £270 million
- **Comments:** LGIM for its BTR Scheme in Wandsworth has arranged a four year £270m green development financing in line with Green Loan Principles



Aviva provides £227 million sustainability-linked refinancing to property group Romulus

- **Date:** May 2022
- **Deal Size:** £227 million
- **Comments:** The ten-year, fixed-rate loan is secured against a number of assets owned by Romulus in the office, hotel, leisure and retail sectors and which are located across central London



Scape Living closes a green financing agreement with German lender Aareal Bank

- **Date:** June 2022
- **Deal Size:** £157 million
- **Comments:** Scape a UK REIT in the coliving will use the loan to refinance an existing Aareal loan on the Scape Mile End Canalside



Chelsea Barracks set to become most sustainable development in Europe

- **Date:** June 2022
- **Deal Size:** £400 million
- **Comments:** Qatar Diar has secured a £400m Green Loan for the development of the Chelsea Barracks site



First Hospitality Based Green Bond: Pestana Hotel Group

- **Date:** September 2019
- **Deal Size:** €60 million
- **Comments:** The world's first bond issued to a hospitality company in accordance with the International Capital Market Association's GBPs. With a six year maturity, the offering was more than three times oversubscribed



First Green Bond Issue in UK Hospitality: Whitbread

- **Date:** February 2021
- **Deal Size:** £550 million
- **Comments:** Issued in line with the GBPs, the two bonds total £300 million and £250 million, with a 2.375% coupon rate maturing in May 2027 and 3.00% maturing in May 2031 respectively



Accor Issue Green Bond with Green House Gas Reduction Targets

- **Date:** November 2021
- **Deal Size:** €700 million
- **Comments:** The sustainability-linked loans involve Accor committing to key emission reduction targets by 2025, against a 2019 benchmark. Carrying a 2.375% coupon, the issuance was more than 3x oversubscribed.



WHITBREAD

Premier Inn

In April 2021, Whitbread (owner of Premier Inn Hotels) took a historic step, issuing two green bonds, totalling £550 million

Bond A: £300mn. due May 2027 at 2.375% interest rate.

Bond B: £250mn. due May 2031 at 3.0% interest rate.

Borrowing Framework

In obtaining the bonds, Whitbread laid out a framework that is aligned to ICMA's Green Bond Principles:

Use of Proceeds: from Green Construction to Green Operation and Sustainable Procurement the proceeds were required to be used according to ICMA requirements across 6 categories and in line with promoting the Sustainable Development Goals

Process for Project Evaluation and Selection: Conducted by the newly established Sustainable Finance Committee, who meet semi-annually

Management of Proceeds: All eligible investments are allocated and tracked by the finance committee

Reporting: Annual reporting system in place until proceeds of the bond have been fully allocated



WHITBREAD

Premier Inn



- Eligible Green Projects included:
 1. Green Buildings - Development / fitted out or operated to BREEAM standards (very good or above), LEED (platinum or above) or EPC (B or above)
 2. Energy Efficiency – electric power storage, electricity efficiency projects incl. insulation
 3. Clean Transportation – Installation and running of EV charging points
 4. Renewable Energy – Procurement of 100% renewable energy & solar panels
 5. Waste Management – No waste to landfill through recycling
 6. Sustainable Procurement – appropriately certified **timber** for fixtures and fittings, use of sustainably sourced **cotton, and fish**

The list of green projects were externally reviewed by **Sustainalytics** to confirm alignment with Green Bond Principles



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