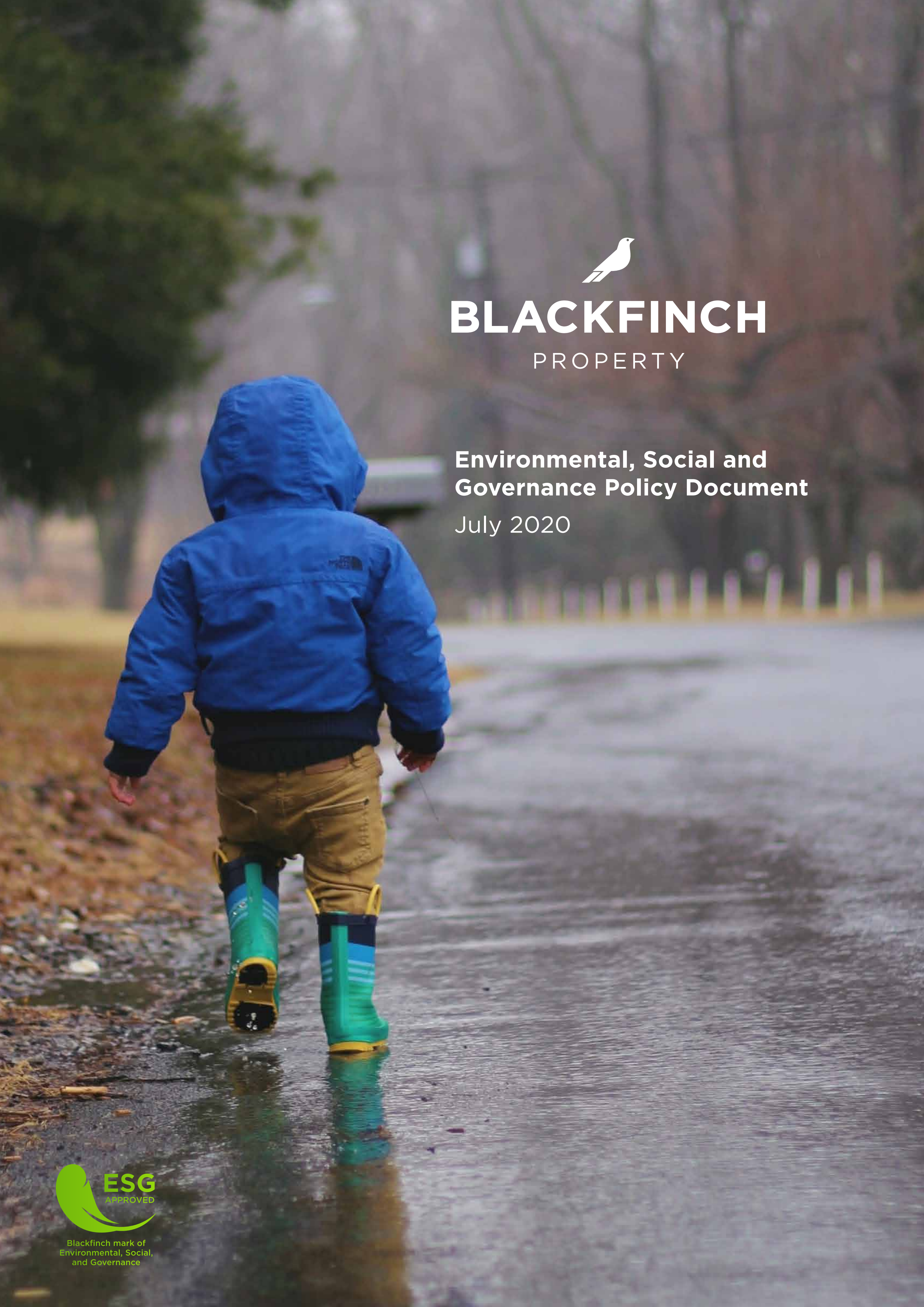


BLACKFINCH

PROPERTY

Environmental, Social and Governance Policy Document

July 2020

ESG
APPROVED

Blackfinch mark of Environmental, Social, and Governance

Contents

Introduction	3
What is ESG?	4
ESG Approaches in the Industry	6
Our ESG Approach	8
How do we implement ESG investing?	9
Applying the UN Global Compact Principles	10
Policy	12
Mandate	13
Investment Process	15

Introduction

At Blackfinch Property, we recognise how important it is for companies to be aware of, and improve on, their environmental and social impact. This applies to how they operate and the products and services they provide.

We know that our investment decisions have an effect on people's lives, their surroundings and the environment. It's very important to us that our work has a positive impact and that all transactions are managed in a fair and responsible manner.

Similarly, many consumers prefer products from companies that consider their impact on the environment. This is as well as ensuring that staff and wider supply chains are treated with equality and respect for their human rights.

The financial services industry, including the property sector, has responded with a set of definitions and approaches to responsible investing. While these are comprehensive, they're also often confusing.

At Blackfinch Property, we have a formalised and structured approach to the factors involved in responsible investment. We consider these in all the investments we make. We work to ensure that they're aligned with our principles and beliefs, which we present in this document.

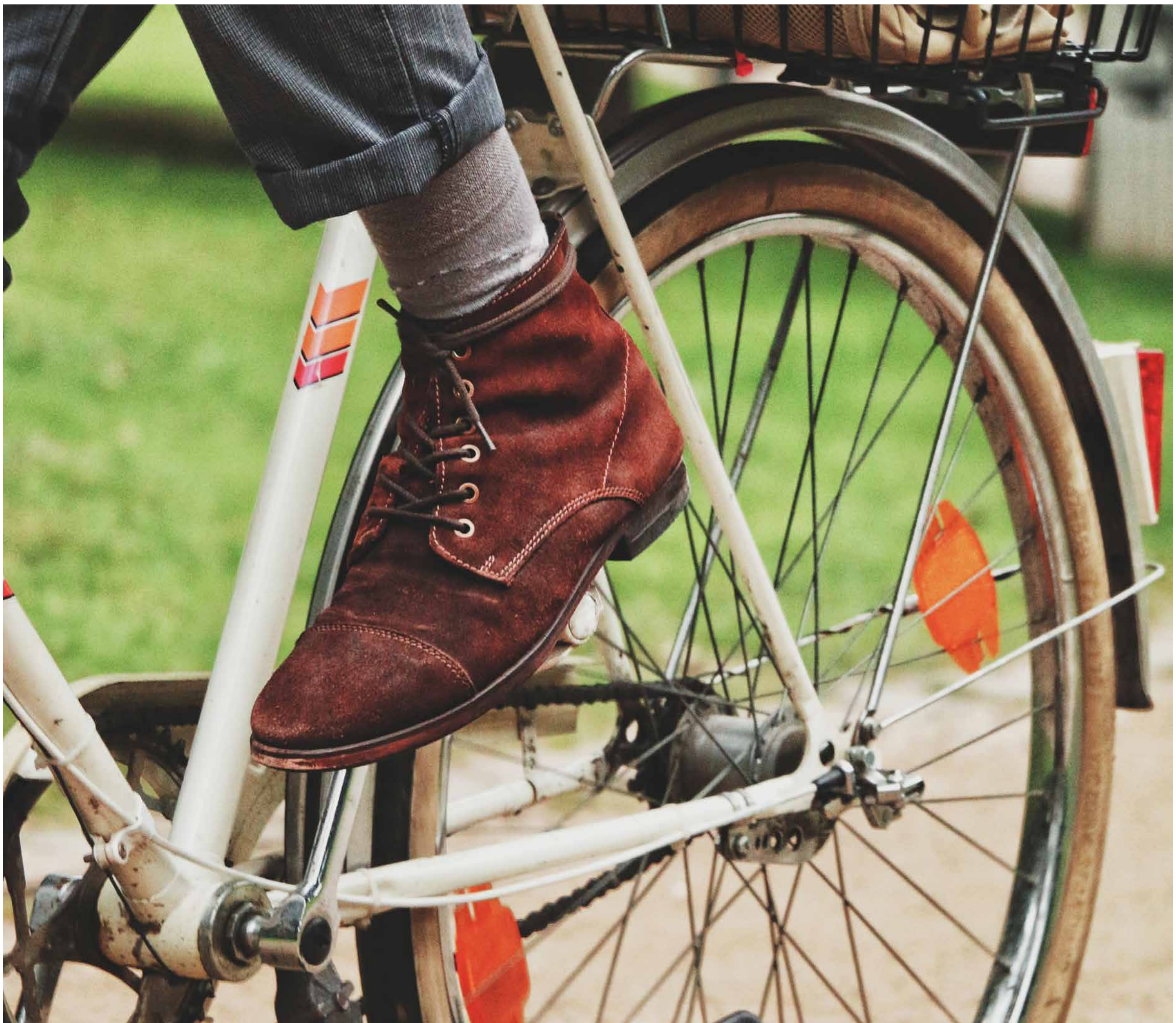
As part of setting out our policy on Environmental, Social and Governance (ESG) factors, we have also included relevant approaches, definitions and aims relating to ESG. This reflects our commitment to transparency. Our main aim is to help educate investors, and for them to be able to assess if their beliefs align with ours.

What is ESG?

What is the official definition of ESG?

Over the last few years, ESG has started being used more to describe how well a business is managed than to explain how sustainable its product or service is. More recently, the mainstream press has been using ‘ESG’ as a catch-all term for investing with a ‘responsible’ or ‘ethical’ screen.

There are no official industry or regulatory standards for comparing these different approaches. However, with ESG now so important, some key definitions for certain factors have been accepted across the industry. We align to these.



Environmental

Investing in projects with consideration for their environmental impact. Teams can work with clients and developers to help reduce pollution and climate change, and to source sustainable raw materials using clean energy sources. The focus is on how a firm approaches environmental concerns, the ecological impact of its work and its carbon footprint.

Social

Investing with consideration for human rights, equality, diversity and data security. The focus is on how developers and stakeholders are incorporating these socially responsible practices. It's also about looking to see if each is investing in/working towards a healthier and higher quality of life for staff. Teams can also consider whether firms expect the same set of standards and values from suppliers.

Governance

Investing with consideration for positive employment practices, business ethics and diversity. The focus is on how a company builds its management structure and works with all its different stakeholders. How does it approach investor and employee relations? Does the board work with transparency, honesty and integrity? Does this filter down to the rest of the company?

ESG approaches in industry

Different asset managers offer different approaches. We know how important is that an investor's beliefs and objectives are aligned with the firm they choose.

Below is an overview of the main approaches today.

Ethical

Avoiding industries like tobacco, arms, gambling and pornography. More recently this has come to include other controversial industries such as fossil fuels and oil & gas.

Sustainable

Focusing on specific ESG challenges, e.g. reducing further climate change or using sustainable energy. It also involves focusing on companies that reflect ESG trends in their sector. These firms are growing as they can offer the sustainable materials, processes and products that customers want. The area also includes environmental technologies and renewables, along with health, education, cyber security and many others.

Impact

Targeting measurable environmental or social impact, e.g. carbon emissions. This is an extension of sustainable themes, where investors want to invest in firms that have a positive impact. We're starting to see this documented, including as part of contributions to the United Nations' Sustainable Development Goals. It has resulted in some very specific measurements.

Engagement

Engaging with shareholders to promote responsible business practices. This includes challenging investee companies to improve how they're run, or to take a more proactive approach. The focus is also on supporting a broad range of stakeholders, not just shareholders.

Responsible

This is a slightly broader version of specialist sustainable investing. Some conventional funds may avoid particular areas of the market on sustainability grounds. There's also an element of crossover with the 'Engagement' approach.

Stewardship

Having formal policies in place and holding companies to account. This is done by actively voting and challenging the board and management teams, to improve the way firms are run.

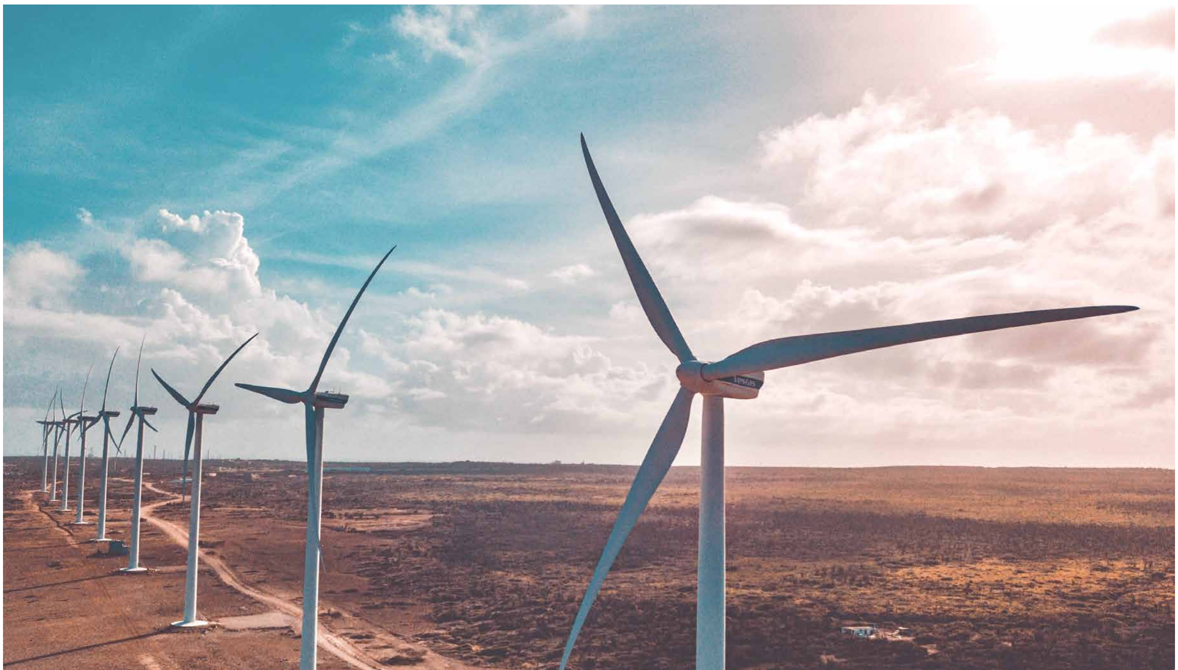
Our Approach

We're adamant that a portfolio must deliver on its investment objectives, without a detrimental impact on society and the wider environment.

ESG is not just a trend. We believe it's a key consideration for strong future business performance. Borrowers who strive to improve on their ESG impact present strong investment opportunities compared to those who don't pay enough attention to it. Indeed, borrowers with strong ESG credentials are less likely to be the subject of future scandals, and therefore carry less reputational risk. Conversely, borrowers who disregard ESG factors face a shrinking customer base.

In turn, we believe that investments made with strong considerations around improving ESG factors can lead to superior returns. For example, we see a positive correlation between borrowers who improve their ESG factors and successful developments.

Our beliefs on ESG investing are core to our process and integral to how we work. We apply them to any loan in which we participate.



How do we implement ESG investing?

The principles set out in the UN Global Compact are central to our ESG policy. In September 2015, all 193 Member States of the United Nations adopted a plan for a better future for all. This included setting out Sustainable Development Goals along with ten principles. These helped to lay out a path for the next 15 years to end extreme poverty, fight inequality and injustice, and protect our planet.

The principles are the foundation for any company seeking to advance the goals. We draw on them, translating them into relevant factors. In particular, this enables us to assess potential investments. The list of principles is below.

UN Global Compact Principles

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Applying the UN Global Compact Principles

We apply the principles throughout our entire investment process. This starts with our overall aims and approach, and includes deal appraisals; screening; due diligence; review and approval by our Investment Committee; and continued monitoring of ongoing projects and future relationships.

Below we have highlighted the areas of screening and due diligence.

Seeking alignment on principles

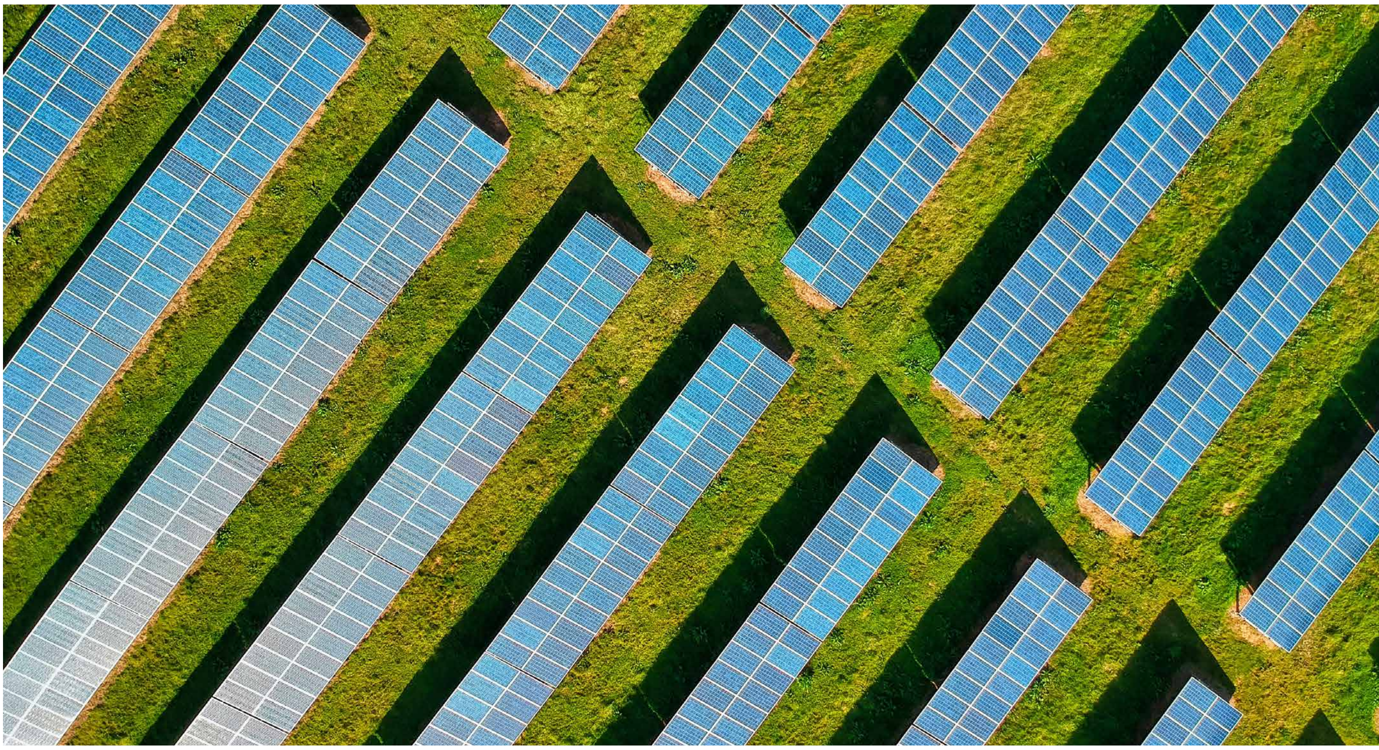
Each potential investment must pass through our rigorous due diligence process to ensure it fits with our principles and policy. We draw on the skill and experience in our team as well as that of select third parties.

We work to identify opportunities and borrowers aligned with our beliefs. Our focus is on those with environmentally friendly and socially responsible business practices. We question each borrower to ensure we're comfortable that their business practices and that their views on ESG equate to ours.

Fostering wider good practice

We believe that responsible borrowers and their businesses enact the same values and principles wherever they have a presence. We also know that good practice in one area does not offset harm in another. We expect those we support to meet key responsibilities in the areas of human rights, labour, environment and anti-corruption.

We also aim to ensure that those we support use their power to help shape the direction of others' ESG-related work. We recognise that borrowers committed to ESG often also encourage other firms, such as their suppliers, to improve their ESG impact.



Working towards a sustainable future

Our approach helps us to find investments where the development's impact and legacy is important. We're highly committed to it. We believe that as stewards of capital, we have a pivotal role in ensuring that those we fund are answerable to ESG concerns.

Our aim is to select investment opportunities where work is being done towards a more sustainable future. For us, it's not just about recognising what's being done by borrowers and businesses today. It's about encouraging them to keep ESG considerations at the forefront over the long term. This helps to ensure that they continue to strive for high ESG standards.

Policy

Blackfinch Property ESG Investment Policy

Our investment policy is based on our principles. We adhere to the following:

We invest with a core focus on the UN Global Compact Principles: The UN Global Compact has ten principles outlining core values. We assess potential investments against these. Wherever possible we screen out lending opportunities that contravene the principles.

We invest with a central focus on ESG considerations: Our goal is to generate strong and consistent returns through investments supporting more inclusive social and economic developments and more sustainable environmental and business practices. Wherever possible, we look to invest in assets incorporating affordable housing, environmental sustainability, job creation and brownfield regeneration.

We uphold our duty of care on ESG investing as stewards of capital: We're passionate about delivering on our investment objectives while reflecting our responsible investment values. As stewards of capital we believe we have a duty of care to allocate funds to borrowers focused on ESG.

We take a forward-looking approach to investment selection using positive screening: Positive screening is key to how we invest. We take into account policies and engagement efforts to improve ESG factors. We seek to provide funds to borrowers who prioritise these areas.

We encourage 'engagement' with both sustainability 'leaders' and 'improvers': We prioritise investments where there is active engagement with the community on ESG issues. Transparency on engagement is also an important factor.

We're committed to transparency on ESG and reflect this in our investment approach: When analysing lending proposals, we ensure that developers are clear about what they will and won't do from an ESG perspective.

Mandate

Blackfinch Property ESG Investment Mandate

Environmental

Regarding environmental impacts, we consider:

- Environmental accreditation and certification
- Modern methods of construction
- Ecological impact assessments on protected or endangered species and tree protection orders
- Waste and wastewater management schemes
- Ground contamination investigations
- Use of sustainable development materials
- Hazardous plant or building materials, such as asbestos or Japanese knotweed
- Energy efficiency regulations and energy performance certificates to set standards
- Adherence to Part L Building Regulations, monitoring energy performance and carbon emissions of all new developments
- Climate resilience; ensuring investments are sustainable and future proofed for possible climate impacts

Social

Regarding socially responsible practices, we consider:

- Rejuvenating period buildings, often listed or protected by historic conservation societies
- Regeneration of brownfield sites, bringing communities back to life
- Contribution to local amenities through Section 106 and Community Infrastructure Levy (CIL) payments
- Health and wellbeing developments which have care facilities or enhanced community features
- Adherence to health and safety laws
- Provision for social housing and affordable homes
- Developments with the potential for job creation
- Connectivity of developments to modern infrastructure, including broadband networks and transport hubs
- Compliance with employment regulation
- Stakeholder engagement

Governance

Regarding strong governance, we consider:

- Financial due diligence, including credit checks, insolvency and bankruptcy checks and a review of net worth in order to meet financial guarantees
- Social media searches
- Fair and transparent treatment of counterparties on an investment
- Adherence to planning regulations and conditions which embed ESG principles
- Engagement with chartered surveyors to ensure compliance with building regulations, planning conditions and health and safety laws
- Investment criteria open to all areas of the UK to facilitate fair allocation of capital and resources
- Internal governance via stringent investment process and investment committee papers

ESG Investment Process

We apply our principles and policy to our entire investment process.

Investment approach	We aim to provide investors with a healthy secured sustainable level of return on capital at the lowest risk possible We always consider wider factors when investing including ESG
Deal appraisals	Our team meets frequently to discuss and debate new lending opportunities Meetings include discussion of ESG issues We throw out deals in sectors which don't comply with the UN Global Compact Principles Our team assesses the remaining deals, giving precedence to those with positive ESG impacts
Due diligence	Potential new deals are put through our due diligence process. We work in line with our investment mandate and make in-depth assessments, with any red flags scrutinised. Analysis includes: • Borrower's track record and reputation • Appointments of subcontractors • Appropriate environmental surveys • Reputational risk • Lack of alignment with principles of responsible investing
Investment Committee reviews for approval	Work includes highlighting any particularly prevalent issues or positives regarding ESG
Continued monitoring	Following investment, we carry out monitoring throughout the loan lifecycle. We release funding in stages. We only deliver to borrowers once a monitoring survey has been completed, or a monitoring surveyor has signed off on the works, and our team has also provided approval. Monitoring includes: • Regular site visits from our investment team particularly where assets include construction sites • Work by monitoring surveyors • Reviewing build progress to ensure compliance with building regulations and planning authorities as well as health and safety on site
Assessing future relationships	We assess our ongoing business relationships, including with any counterparty we lend to or deal with, to ensure continued alignment on ESG We would discontinue work with any party where their activities contravene our ESG principles and policy