

Responsible management of unlisted real estate

Guidance

Norges Bank Investment Management manages the assets of the Norwegian Government Pension Fund Global. We work to safeguard and build financial wealth for future generations. As a long-term and global financial investor, we are dependent on sustainable development, well-functioning markets and good corporate governance.

This document sets out our guidance for responsible management of unlisted real estate related to environmental, social and governance matters. It serves as a starting point for our interaction with investment partners and asset managers that we may co-invest and contract with. This document complements Norges Bank Investment Management's expectation documents setting out our key principles on responsible investment to the boards of listed companies in our portfolios (see overview on last page).

Our approach is based on internationally recognised principles such as the UN Global Compact, the UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, the OECD Guidelines for Multinational Enterprises and other topic-specific standards.

Responsible management of unlisted real estate

Norges Bank Investment Management is a financial investor and diversifies its investments across many markets and securities. Responsible investment management shall support the financial objective of the fund by furthering the long-term economic performance of our investments and reducing financial risks associated with the environmental and social practices of companies in which we have invested. It is broadly accepted that companies have fundamental responsibilities to reduce environmental impacts, respect human rights and adhere to global standards for responsible business conduct.

The environmental risks and opportunities associated with constructing, operating, and disposing buildings can be substantial. The production of building materials such as concrete, steel and glass requires energy, water and a variety of natural resources and chemicals, and generates air pollution and waste. Green building features are viewed among many tenants as a mark of high quality and for some a requirement for tenancy. Occupiers favour buildings with design features and amenities that positively impact their health and well-being. Robust health and safety standards can improve productivity and reduce risk on construction sites, in factories producing building materials, and in buildings that are in operation.

Companies should seek to avoid or mitigate environmental and social risks as a means to contribute to value creation. Real estate companies should understand and manage such risks and opportunities across the lifecycle of the assets. Developers can reduce the environmental footprint of construction by procuring sustainable building materials, implementing measures that mitigate the potential impact on the local environment. They should also address any human rights and social implications of their business, such as labour rights, tax transparency and anti-corruption measures, in development and operations, as well as in their supply chains and business relationships.

Guidance

Below we set out guidance to investment partners and asset managers outlining our approach to responsible management of unlisted real estate. We believe that following this approach will contribute to lower operating costs, less risk and higher asset values over time.

We expect investment partners and asset managers to apply this guidance taking into account the best practices and relevant background law in markets where we invest.

A. Integrate ESG considerations into policies, strategies and plans

- Issue policies that address material environmental, social and governance risks and opportunities across the life cycle of real estate. Policies should address energy and water use, and emissions and waste, in the construction and operations of buildings, as well as tax transparency, anti-corruption and the health, safety and well-being of occupiers, employees and sub-contractors.
- Include environmental and social initiatives in asset management strategies, plans and budgets for each asset. Set short-, medium-, and long-term quantitative targets

for improving the energy and carbon performance of assets in line with expected developments or trends in local tenant markets, building regulations, certification standards and opportunities offered by new technology. Prepare buildings for meeting net zero energy and carbon standards and qualifying for green building certifications and energy labels at a high level relative to their local markets.

- Consider the environmental and social aspects of building design and management, and the governance risks related to investment structuring in due diligence processes before making new investments. Documentation should be requested and assessed on all issues potentially affecting asset valuation and operational efficiency, including contamination, energy management, and environmental, health, and safety standards. Best practices on tax transparency, anti-corruption and supply chain management should be followed.

B. Identify material ESG risks and take mitigating actions

- Assess which environmental, social, and governance risks are material to the future value of assets, the cost of real estate operations, and the reputation of owners. Develop risk management systems and processes to monitor and measure risk exposure and identify cost-effective mitigating actions.
- Consider risks and opportunities related to the global transition to low-carbon energy use in buildings and more frequent and intense extreme weather. Identify the resilience of assets to different future risk scenarios, including the ramifications of both the successful and failed implementation of policies to limit the likelihood of global average temperatures rising above 2 degrees Celsius. Ensure buildings are able to withstand anticipated physical risks related to climate change.
- Integrate health and safety into risk and compliance frameworks. Establish systems for monitoring and reporting incidents and have plans for taking corrective actions. Maintain relations with key stakeholders through engagement and dialogue and follow best practices in health, safety and supply-chain management.

C. Demonstrate improvement in environmental and social performance metrics

- Complete the real estate assessment of the Global Real Estate Sustainability Benchmark (GRESB) on an annual basis ensuring transparency with their investors at asset level. Aim to improve their scores every year and outperform their respective peer group. Address weaknesses in survey results in asset management plans.
- Collect and share asset-level environmental data with their investors on energy and water consumption, carbon emissions and waste management. Monitor and report on health and safety incidents during building construction, renovation, and operations.
- Follow internationally accepted reporting standards such as Sustainability Accounting Standards (SASB), Global Reporting Initiative (GRI), and the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD).

See our website www.nbim.no for a list of our expectations on sustainability topics. We also regularly publish our perspectives on issues such as sustainability reporting and the UN Sustainable Development Goals.

