

## Sustainability related disclosures

### BMO UK Residential Real Estate FCP-RAIF

#### Summary

The BMO UK Residential Real Estate FCP-RAIF (the **Fund**) has sustainable investment as its objective.

It is categorised as an Article 9 product for the purposes of SFDR<sup>[11](#)</sup> by Luxembourg Investment Solutions S.A., the management company of the Fund (the **Management Company**), supported by BMO REP Property Management Limited in its capacity as investment advisor (the **Investment Advisor**).

As a result of its investment strategy to invest in affordable housing and its stated mission on positive social outcomes, the Fund's portfolio will consist of sustainable investments. The Fund's stated social objectives, to be attained through investing in affordable housing, include:

1. creating homes for people that offer flexibility and affordability;
2. actively incorporating Affordable Private Rents;
3. improving the private rented sector through a flexible rent leasing model;
4. delivering new homes to an under-represented segment of the housing market, providing an opportunity to improve lives and create impact; and
5. providing homes that are resilient, affordable, efficient to live in and embedded into their communities.

The Fund currently measures the attainment of its social objectives, as well as ensuring that the Fund is not doing any significant harm to other sustainability objectives, using a proprietary framework of metrics. The social objectives are fundamental to the Fund's day to day operation. All elements of the strategy used to select the investments to attain the social objectives are binding on the Fund. As the Fund both develops and provides the affordable housing, the social objectives are a continuous element of the management of the Fund.

The Fund has been operated in this way since its inception, also using an integrated approach to the management of wider sustainability factors and risks.

The Investment Adviser's detailed approach and methodology also allows wider sustainability factors and risks to be considered holistically throughout the lifecycle of investments, including the acquisition, construction, management, leasing, refurbishment and disposal stages of the property investment cycle.

All investments in the Fund are considered to be sustainable investments, under the sustainability criteria to which the Fund adheres and as defined in SFDR. These may include assets where the Management Company, on the advice of the Investment Adviser, considers that it can make a positive contribution to the social objectives, or wider sustainability criteria of the Fund, through improvement of assets. The Investment Adviser's methodology allows for ESG risks and opportunities to be considered holistically during the acquisition, construction, management, leasing, refurbishment and disposal stages of the property investment cycle and each investment must adhere to minimum investment criteria.

The Investment Advisor monitors the methodologies and data it uses to monitor attainment of the sustainability objectives of the Fund on an ongoing basis and continuously seeks to improve the way in which sustainability measures are applied.

Terms used in this disclosure and not defined herein have the meaning set out in the Fund's ESG Sustainability Risk Policy (**SRP**) which is available from the Investment Advisor or the Management Company.

### **No significant harm to the sustainable investment objective**

The Fund has sustainable investment as its objective; its strategy is to attain social objectives by investing in, developing and providing affordable housing. The stated social objectives of the Fund are set out in full in its Offering Memorandum.

The Fund currently measures the attainment of its social objectives, as well as ensuring that the Fund is not doing any significant harm to other sustainability objectives, using a framework of metrics as further detailed in the responsible property investment framework and appraisal methodology used by the Investment Advisor (the **ESG Impact Framework**) and as explained in the section below.

Please see "proportion of investments below" for further information on how the ESG Impact Scorecard is used to ensure no significant harm is caused.

The detailed metrics and indicators for adverse impacts as set out in Annex 1 of the draft regulatory technical standards for SFDR (the **RTS**) will be taken into account and reported on, where relevant to the Fund, in compliance with the timing requirements of SFDR and this disclosure will be updated accordingly. However, the metrics currently used by the Investment Advisor to measure attainment of the social objective and to ensure no significant harm is caused to other sustainable objectives, as set out in the ESG Impact Framework have been specifically developed for the purposes of the Fund and provide detailed information to investors on Fund specific sustainability indicators, providing a way for investors to understand how the Fund's social objectives have been achieved and its overall sustainability impact.

### **Sustainable investment objective of the financial product**

The Fund's sustainable investment objective is to invest in affordable housing with the intention of, amongst other indicators,:

1. creating homes for people that offer flexibility and affordability;
6. actively incorporating Affordable Private Rents;
7. improving the private rented sector through a flexible rent leasing model;
8. delivering new homes to an under-represented segment of the housing market, providing an opportunity to improve lives and create impact; and
9. providing homes that are resilient, affordable, efficient to live in and embedded into their communities.

In seeking to provide these positive social outcomes, the Fund takes a holistic approach to ESG, by also embedding environmental and governance considerations into the operation of the Fund.

The Fund measures the attainment of its social objectives using the ESG Impact Framework, which includes criteria such as:

1. affordability and provision;
10. societal change;
11. quality of property management and governance;
12. environmental impact – consumption/production;
13. environmental impact – surroundings (biodiversity/ecology); and
14. resilience

## **Investment Strategy**

The investment strategy of the Fund is set out in full in its Offering Memorandum, together with its stated social mission and objectives.

The Fund invests in the UK private rented sector, designing, building and managing high density apartments and low density houses across the UK, providing homes that are resilient, flexible and affordable.

The social objectives are fundamental to the Fund's day to day operation. All elements of the strategy used to select the investments to attain the social objectives are binding on the Fund. As the Fund both develops and provides the affordable housing, the social objectives are a continuous element of the management of the Fund.

The Fund has been operated in this way since its inception, also using an integrated approach to the management of wider sustainability factors and risks.

The Investment Advisor's detailed approach also allows wider sustainability factors and risks to be considered holistically throughout the lifecycle of investments, including the acquisition, construction, management, leasing, refurbishment and disposal stages of the property investment cycle.

The Investment Advisor engages a number of external specialist consultants to consider sustainability risks and factors as part of acquisition due diligence which is fed into its advice to the Management Company.

Sustainability risks and factors are incorporated into the individual business plan for each directly held property asset. This process will enable the management of asset risk, protection of income yields and support for the long term returns produced by real estate assets.

In addition, investments that cannot meet the Fund's minimum standards at each stage of the lifecycle (a minimum of 1 star on a 3 star scale) will not be eligible for inclusion in the portfolio.

Additional information on the responsible investment and sustainability risk management activities for the Fund are reported quarterly to investors as part of the Fund's standard reporting and in an annual impact report.

## **Proportion of investments**

As described above, the strategy of the Fund is to invest in the UK private rented sector, designing, building and managing high density apartments and low density houses across the UK, with the purpose of attaining the social objectives of the Fund.

As such all investments in the Fund are considered to be sustainable investments, under the sustainability criteria to which the Fund adheres and as defined in SFDR. These may include assets where the

Management Company, on the advice of the Investment Advisor, considers that it can make a positive contribution to the social objectives, or wider sustainability criteria of the Fund, through improvement of assets.

In addition, the Investment Advisor operates a scorecard policy as part of its ESG Impact Framework which excludes investments that it considers would significantly harm the sustainable investment policy of the Fund through being incapable of meeting minimum expectations. These include factors such as:

1. to what extent will the development achieve further positive social impact (in addition to the primary objective of delivering quality, affordable homes)?
2. to what extent will the management of the property and governance structure be in-keeping with the social objectives of the Fund?
3. to what extent will the development achieve further positive environmental impact in relation to environmental efficiencies and quality of building fabric/ fittings?
4. to what extent is the development built to be resilient against shocks (for example related to climate change) and stressors (such as changing political/ economic conditions)?

The indicators considered by the Investment Manager are described in the section “What is the sustainable investment objective of the Fund?” above.

The remaining assets of the Fund not invested in affordable housing do not affect the delivery of the social investment objective of the Fund as they are held only for the purposes of liquidity.

### **Monitoring of sustainable investment objective**

The ongoing ESG credentials and performance of each individual property is formally reviewed through an annual asset business plan process.

Emerging risks and opportunities and market intelligence is established through active participation in collaborative industry groups. The Investment Advisor retains a specialist ESG consultant to assist its ongoing analysis of the portfolio and opportunities and shares findings with the Management Company.

The Fund pursues a number of outputs and outcomes which are monitored throughout the investment lifecycle.

In particular, the ESG Impact Framework is used to assist the Investment Advisor in capturing and integrating ESG risks and opportunities into the individual business plan for each directly held property asset. This process enables the management of asset risk, protection of income yields and support for the long term returns produced by real estate assets.

Each investment is measured against the ESG Impact Framework at acquisition and annually throughout ownership. Each investment must continue to meet the minimum standards as set out by the ESG Impact Framework. The Fund’s assets must also meet specific defined investment limitations and social objectives which underpin the social objectives of the Fund. The performance reports for each asset are disclosed with the regular external reporting to investors and oversight is provided internally by the Investment Advisor’s Investment Committee and Impact Advisory Group in addition to the Management Company’s Portfolio and Risk teams.

### **Methodologies**

Our overall investment process includes, at each step, the methodologies by which we measure how successful we are in achieving the social objectives of the Fund.

The combination of the expertise of the Investment Advisor's team, the Framework and the overall methodology employed by the Investment Advisor allows ESG risks and opportunities to be considered holistically during the acquisition, construction, management, leasing, refurbishment and disposal stages of the property investment cycle.

Details of this assessment are included in the SRP, and include detailed due diligence on each proposed asset, ensuring use of environmentally sound construction materials and practices and ensuring engagement with all relevant social objectives and social and environmental characteristics of the Fund with our partners (eg development teams).

### **Data sources and processing**

Various external and internal data sources are used throughout the lifecycle and hold period of an investment. A number of these are identified in SRP, including GRESB performance and a Home Quality Mark pre-assessment. A designated scoring system is applied to each investment on an annual basis to provide a transparent measurement which is disclosed to investors.

### **Limitations to methodologies and data**

Available ESG and sustainability data has its limitations. The Investment Advisor monitors the methodologies and data it uses to monitor attainment of the social objectives of the Fund on an ongoing basis and continuously seeks to improve the way in which sustainability measures are applied.

The nature of direct real estate investments means that not all measures can be applied to each and every investment. Therefore, the Framework allows for a number of metrics to be used per measurement category to ensure each investment meets the minimum standards applicable to Fund assets. Assets which fall beneath this minimum score (which is constantly monitored by the Investment Advisor's Investment Committee and the Management Company) have a set period of time to improve before the disposal process must be undertaken

The measurement process and metrics used are fully transparent. Some use accredited external sources while others have been designed by the Investment Advisor. The measurement framework is reviewed on a three year basis to ensure adherence with the evolving landscape. The Framework is overseen at the Investment Advisor level by a majority independent committee.

### **Due diligence**

Each investment must adhere to minimum investment criteria, which includes the ESG requirements as defined in the ESG Impact Framework and standard real estate fundamentals. The process for review and approval is managed by the Investment Advisor's Investment Committee and the Management Company's Portfolio and Risk teams. The Investment Advisor engages a number of external specialist consultants to consider sustainability risks and opportunities as part of acquisition due diligence which is fed into its advice to the Management Company.

### **Engagement policies**

The Fund is a direct real estate investment product and in control of all interventions. Engagement in this context is with tenants and suppliers. Ambitions for engagement and improved outcomes with both are captured and measured using the Framework.

#### **Attainment of the sustainable investment objective**

There is currently no benchmark which can be used by real assets funds to adequately measure the attainments of social or environmental objectives. As such, the Fund currently uses its own ESG Impact Scorecard as well as provided detailed qualitative and quantitative reporting to investors on a regular basis.

[\[1\]](#) Regulation (EU) 2019/2088 of the European Parliament of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector