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AVIVA INVESTORS

Private Markets | Real Estate Debt

Sustainable Transition Loan Framework

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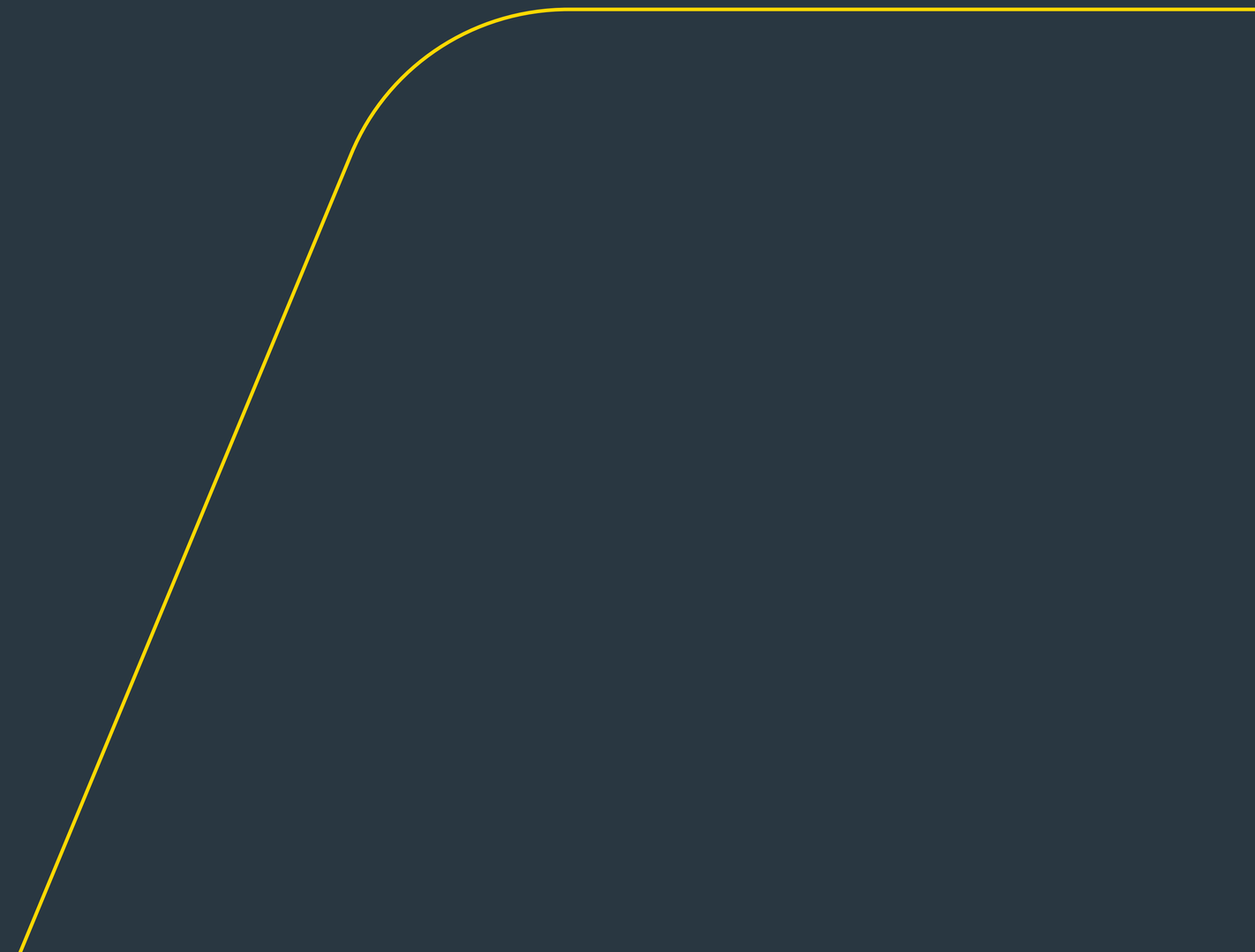

Introduction

Aviva Investors Private Markets is an active asset manager with £43bn assets under management.[1] We manage strategies that make direct investments in real estate debt and equity, infrastructure debt and equity, private corporate debt and structured finance. As an asset manager, our fiduciary duty is to protect and maintain the value of assets. Aviva Investors recognises its duty to act as responsible stewards of its clients' assets.

Aviva Investors Private Markets is committed to reducing the carbon footprint of our portfolio and future proofing our assets against physical and transition climate risks. It is for this reason that we have developed an industry-aligned Sustainable Transition Loan framework for our Real Estate Debt (RED) business, accredited by an external second-party opinion provider, to demonstrate our commitment to the transition towards a low-carbon economy.

Tackling Climate Change in Real Estate

Real assets are critical for society, but the unconstrained delivery of buildings and infrastructure has been a significant contributor to energy consumption and GHG emissions. Specifically, the built environment is estimated to consume 40% of global energy annually and account for more than 20% of international carbon emissions, in addition to waste production, pollution, water use and consumption of other limited natural resources. In Europe, an estimated 90% of European real estate is built before 1990 and is therefore likely to have poorer quality insulation and heating systems.[2]

Buildings – both new and existing developments – are therefore central to GHG emissions reduction and the transition towards a low-carbon economy. We recognise the scale of the challenge that climate change presents and understand the importance of mitigative action. A significant opportunity exists to enhance ESG credentials of existing buildings we lend against, whilst generating investment returns and reducing the buildings' impact on the environment and wider society.

1. Source: Aviva Investors as of 31 March 2025. 2. Source: European Commission April 2019.

Aviva Investors Private Markets is committed to reducing the carbon footprint of our portfolio and future proofing our assets against physical and transition climate risks

ESG Strategy

Private Markets Responsible Investment and Sustainability Risk Policy

We have developed a clear policy framework with a consistent set of responsible investment policies to ensure our approach to ESG at an institutional, asset class and product level is clearly understood. The responsible investment policies sit within a tiered policy framework, ensuring that all policies maintain consistent principles and any positions agreed at an institutional level cascade down and are implemented across each asset class in an efficient manner.

We have put in place a Private Markets Responsible Investment and Sustainability Risk Policy with supporting RED Operating Procedures with the intention of promoting responsible investment, mitigating ESG risks and improving the performance of its clients' investments over time.

We have developed a clear policy framework with a consistent set of responsible investment policies to ensure our approach to ESG at an institutional, asset class and product level is clearly understood

Implementation of responsible investment practices occurs throughout the investment process. We seek to invest in assets and make improvements as required, rather than screen out underperforming assets. This is how we increase the overall ESG improvement and is a fundamental part of what we consider to be responsible investment.

An in-house proprietary ESG Tool enables the investment teams to assess, at the outset of a lending opportunity, the associated ESG risks and impact. This covers a direct lend, acquisition of an existing loan or (for RED) the event of existing borrowers substituting a new property into our charge. The ESG Tool helps guide both the Investment Committee and investment team in the appropriateness of any proposed loan, drawing in the wider expertise of the ESG Team where the assessment flags risk(s).

We prioritise investment selection decisions which have a positive contribution to society, and we aim to validate the sustainable value through the selection process.

We do this by:

- Selecting projects or investments where we believe the asset can make a positive impact on society; and
- Where we are able to contribute as a responsible investment manager by selecting and working with partners which have a proven track record in delivering projects in a sustainable manner.

Sustainable Transition Loan Framework

Sustainable Transition Loan Goals

The objective of our Sustainable Transition Loan Framework is to further support our long term objective to lower carbon emissions across our portfolio. Furthermore, we seek to strengthen our efforts to engage borrower clients on ESG factors, and to support a transition to a low-carbon economy.

There are three overarching goals that Aviva Investors Real Estate Debt (RED) aims to achieve through our framework	
1	Continue the robust origination of Sustainable Transition Loans accredited to this Framework
2	Creating loan term incentives to ensure measurable improvements on buildings we lend against
3	Delivering tangible impact for our clients through their investments with external verification through Second Party Opinions

The Sustainable Transition Loan Framework will provide a structure for loans to property companies with terms linked to improvements in the environmental performance of the buildings we lend against. The origination framework will determine key environmental targets (e.g. energy efficiency improvements), as well as green initiatives (e.g. installation of solar) required on the underlying secured assets, which will also guide the type of financial incentive mechanisms (e.g. margin ratchets) on each loan.

When considering climate transition, we recognise that different building types require different levels of environmental improvements. There are a range of weak to strong performing environmental buildings, and as an active lender, we need to identify and tailor the required actions for improvements. As such, these Sustainable Transition Loans will actively support borrowers in transforming their sustainability and ESG credentials.

The objective of our Sustainable Transition Loan Framework is to further support our long term objective to lower carbon emissions across our portfolio

Framework Objectives

To meet these goals, we are increasing the volume of transactions focused on climate transition that meet the eligibility criteria set out our framework below. Our focus areas align to the UN's Sustainable Development Goals (SDGs), which include:

This framework is also developed in alignment with the Loan Market Association's (LMA) Sustainability Linked Loan Principles (SLLP). It also draws from the Climate Bond Initiative (CBI) Standards, the EU Sustainable Finance Taxonomy and other relevant industry standards in determining appropriate eligibility criteria for RED. These standards and principles are voluntary guidelines that promote greater transparency and disclosure in the sustainable financing market. In alignment with LMA guidance, we present our Framework through the following pillars:

- Pillar 1 **Selection of KPIs**
- Pillar 2 **Calibration of Sustainable Performance Targets (SBTs)**
- Pillar 3 **Loan Characteristics**
- Pillar 4 **Reporting**
- Pillar 5 **Verification**

Any valid Sustainably Linked Loan must meet the mandatory requirements as stipulated under of the five pillars outlined below.

Pillar 1

Selection of KPIs – Aligning to UN SDGs

The key component to SLL is establishment of relevant KPIs aimed at supporting a borrower's efforts in improving its sustainability profile over the term of the loan. In line with the LMA SLLP, KPIs shall be:

- Relevant, material and of strategic importance to the borrower's overall business and operations
- Consistent with the borrower's overall sustainability strategy
- Measurable or quantifiable on a consistent methodological basis
- Able to be benchmarked
- Where feasible, externally verifiable

A clear definition of the KPI(s) shall be provided by the borrower and shall include the applicable scope or parameters, as well as the calculation methodology, a definition of a baseline and be benchmarked against an industry standard and/or industry peers where feasible.

For the purpose of this Framework, Sustainable Transition Loans are classified under one of the eligible criteria. We aim to have 2-3 eligible KPIs embedded in each loan, with a minimum requirement of 1 KPI selected from 'Group A'. Each loan will be assessed on an individual basis with example eligibility criteria below.

Group A

UN SDG Theme	Example Eligibility Criteria	Example Initiatives and Indicators
SDG 7 **Affordable and Clean Energy** 	**1. Energy efficiency** Targets that improve, or aim to improve, energy efficiency of buildings resulting in a reduction in energy consumption: • Reduce energy demand of at least 30% in comparison to the energy performance of the building before the renovation, in line with EU Taxonomy's 'Building renovation' (8.2) for 'Construction and real estate activities'; or • Improvement in energy efficiency through transition to EPC rating B or higher; or • Achieving green building certification through BREEAM excellent or outstanding accreditation **2. Renewable energy** Targets that improve, or aim to improve, the level of onsite low carbon energy resulting in an increase in renewable electricity generation: • Increase on-site renewable electricity generation proportion by at least 15%, or an equivalent amount per annum, through the lifetime of the loan. For example, certified by REGO backed sources (or equivalent); or • Commitment to procure 100% renewable power by 2050, For example, in line with the RE100's technical criteria (with interim target of 60% by 2030	**Example initiatives and projects can include, but are not limited to:** • Improving building management systems (BMS) and installing smart meters • Improve energy efficiency of HVAC systems • Installation of onsite renewable energy • Installing LED lighting • Installation of energy storage technology • Installation of renewable heat technology **Example indicators:** • Annual energy savings (e.g. kWh/m2/yr) • Annual energy supply from renewable sources (kWh/yr) • Green certification (e.g. EPC or BREEAM) • Renewable certification (e.g. RE100 Membership or REGO backed sources)
SDG 13 **Climate Action** 	**3. Green buildings** Targets that reduce, or aim to reduce, the level of carbon emissions of the borrower's buildings: • Setting carbon emissions reductions targets on buildings in line with limiting warming to 1.5°C, in line with Climate Bonds Standard (or equivalent); or • Commitment to develop a net-zero carbon pathway. For example, in line with the Science Based Targets initiative (SBTi) methodology	**Example initiatives and projects can include, but are not limited to:** • LEED Gold/Platinum • Increase in electrified heating • Increase level of occupier green energy tariffs **Example indicators:** • Green certification (e.g. Climate Bonds Standard certified) • Annual carbon intensity (kg CO2/m sq)

Group B

UN SDG Theme	Example Eligibility Criteria	Example Initiatives and Indicators
SDG 11 **Sustainable Cities and Communities** **SDG 9** **Industry, Innovation and Infrastructure** 	**4. Circular Economy** Targets that contribute to sustainable management of living natural resources and land use: • Onsite (or nearby) biodiversity net gain by at least 10% through measured improvements using the Natural England Biodiversity Metric; or • Increase on-site biodiversity projects and recycling initiatives contributing to the conservation and recovery of natural habitats by at least 10% **5. Clean Transportation** Targets that increase the level of investments that promote use of low carbon transport:: • Increase on-site low carbon transport infrastructure (e.g. electric vehicle charging, bike parking infrastructure) by at least 15%, or an equivalent amount per annum, through the lifetime of the loan **6. Wellbeing** Targets that make buildings inclusive, safer, resilient and sustainable: • Increase on-site refurbishment initiatives that improve employee/ occupier/ wellbeing by at least 15%; or • Improve occupier and staff wellbeing through certification towards the WELL Building standard, a performance-based certification scheme developed to put occupant health in building design	**Example initiatives and projects can include, but are not limited to:** • EU Taxonomy's 'Individual measures and professional services' (8.3) for 'Construction and real estate activities', a list of eligible activities which are compliant with minimum requirements in the applicable national regulations • Tenant fit out guides to deliver SKA rated refurbishment • Refurbishment that contributes to the local community (e.g. investments into open space) • Clean infrastructure improvements (e.g. EV charging) and air quality improvements **Example indicators:** • % of material by total weight/volume/value • % of material certified for their sustainable qualities • % of reused or recycled material • % of dedicated parking spaces for electrical and hybrid vehicles • Certified WELL Building Standard

Pillar 2

Calibration of Sustainable Performance Targets (SPTs)

As per LMA guidance, a minimum of one SPT is required to be set per KPI identified in from the previous section, ensuring that the financing is tied to meaningful, measurable, and ambitious improvements to the borrower's overall sustainability performance. SPTs must be set in good faith and reflect a level of ambition that is both relevant and material to the borrower's business.

These targets should go beyond a "business-as-usual" trajectory and exceed regulatory requirements, representing a genuine improvement in the borrower's sustainability performance.

The calibration process should be grounded in a robust benchmarking approach. This includes referencing either:

- the borrower's historical performance (ideally with at least three years of data)
- peer comparisons
- where applicable, science-based scenarios
- where applicable, international frameworks such as the Paris Agreement, Sustainable Development Goals, or national climate targets

The SPTs must be consistent with the borrower's overall sustainability and business strategy and should be set on a predefined timeline, ideally before or at the time of loan origination. Borrowers should provide clear and transparent information to lenders regarding the rationale for the selected targets, including the baseline used, the timeline for achievement, and any assumptions or methodologies applied. Where feasible, borrowers should also outline how they intend to achieve the SPTs, including strategic initiatives, governance structures, and operational levers. Additionally, they should disclose any external factors that could materially affect their ability to meet the targets.

LMA guidance further recommends setting annual SPTs for each KPI throughout the loan term, unless a strong rationale is provided for a different frequency. Borrowers may engage a Sustainability Coordinator to assist in structuring the SPTs and facilitating dialogue with lenders. Overall, the calibration of SPTs must be rigorous, transparent, and tailored to the borrower's context, while maintaining the overarching principle of ambition to ensure the integrity of the SLL product.

SPTs must be set in good faith and reflect a level of ambition that is both relevant and material to the borrower's business

Pillar 3

Loan Characteristics

Financial incentives associated to the achievement of the predefined SPT(s) will be determined between Aviva Investors and the borrower in order to incentivise to incentivise the delivery of sustainability performance.

These will generally be in the form of margin ratchets which reduce the cost of debt to the borrower and allow our clients to become more competitive in winning lending opportunities with organisations which are keen to invest in becoming sustainable.

Pillar 4

Reporting

Reporting will be conducted in two parts:

1 Sponsor/Borrower obligations

The sponsor/borrower will be primarily responsible for reporting against the KPIs agreed from this Framework. These will be recorded in the loan documentation, including providing the underlying data and assumptions used to calculate the KPI. The reports must include:

- Updated, sufficient information to allow lenders to monitor progress The Sponsor's reporting will form part of the wider loan quarterly compliance reports.
- A sustainability confirmation statement outlining the performance against the SPT(s) and (where relevant) the related impact, and timing of such impact, on the loan's financial and/or structural characteristics and attaching a verification report.
- Borrowers are encouraged to publicly report information, on progress against SPT(s), as well as underlying calculation methodologies and assumptions. Where this is not feasible, borrowers can choose to share this information privately with lenders instead.

2 Aviva Investors Reporting

We will report annually through:

- Allocation Reporting. For sustainable loans originated in-line with our Framework, we will report proceeds used for eligible loans. This will include the aggregated amount of allocation of the net proceeds to eligible assets aligned to the criteria. We will report this through our Aviva Investors Annual Responsible Investment review.
- Impact Reporting. Subject to borrower confidentiality agreements, we will endeavour to report on the KPI impact of eligible loans in our Framework. Owing to the large number of underlying assets and the limited available information, we will only present any KPIs on an aggregated basis.

Pillar 5

Verification

Borrowers must obtain and independent and external second party opinion (SPO) for the verification of the borrower's performance level against SPT(s) according to each predefined KPI. The SPO must be conducted by a qualified external reviewer with relevant expertise, such as an auditor (by way of limited or reasonable assurance), environmental/sustainability consultant and/or independent ratings agency. External verification must be included for both determining the initial validity of SPT(s) during the calibration process, and the ongoing assurance of any relevant non-public data pertaining to financially-linked SPT(s) until the last SPT trigger event of the loan has been reached. Where information has already been verified as part of a borrower's (public) annual reporting or regulatory submission, it need not be verified again for the purposes of these SLLP. Equally, where achievement of an SPT can be evidenced by an external rating or certificate (e.g. BREEAM, EPC, WELL etc.) these will not require external verification, but should be shared with the lender when attained.

The external verification must be shared with the lenders in a timely manner and, where appropriate, should be made publicly available.

Important Information

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