

## **PIMCO Commercial Real Estate Lending Europe Fund**

**Date: 1 January 2023**

This disclosure is made by PIMCO Global Advisors (Luxembourg) S.A. in respect of PIMCO Commercial Real Estate Lending Europe Fund SCSp (the '**Fund**') pursuant to Article 10 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 ('**SFDR**').

A summary section is available in Czech, Danish, Dutch, Estonian, Finnish, French, German, Greek, Icelandic, Italian, Latvian, Lithuanian, Norwegian, Portuguese, Romanian, Spanish and Swedish at <https://europe.pimco.com/en-eu/our-firm/global-advisors-luxembourg>.

### **Summary**

In this section, we provide a summary of the information which is provided in more detail below. Please refer to each of the relevant sections below for further information.

The Fund promotes environmental characteristics but does not have as its objective sustainable investment meaning that the Fund is classified as an Article 8 fund under the SFDR. The investment strategy of the Fund is primarily focused on privately originated commercial real estate loans secured by a first mortgage on real estate assets in Europe, which are undergoing some form of transition to a more stabilized state. The strategy is implemented by an evergreen fund structure to aid investors in managing their exposure through time, and PIMCO will seek to fluidly deploy and re-deploy capital across real estate sectors and geographies, over different economic cycles. PIMCO has developed an approach to ESG in connection with commercial real estate financing activities for the Fund that focuses on: (i) energy efficiency; and (ii) refurbishments that are, in the view of PIMCO, expected to achieve an improvement in energy performance.

The Fund will collect energy performance certificates ('**EPCs**') and exclude assets with an EPC rating of E or below unless there is a business plan in place to improve the EPC rating to above E within the full term of the loan. For retrofits and refurbishments, which are expected to represent 40% of the Fund's investments, the Fund will exclude investments in loans that finance projects that fail to enhance the environmental profile of the assets being financed upon completion of the business plan. In order to assess, measure and monitor the environmental characteristics promoted, PIMCO relies on various widely accepted data sources, including: EPCs, BREEAM (Building Research Establishment Environmental Assessment Method); the LEED (Leadership in Energy and Environmental Design) certification developed by the USGBC and NABERS UK.

The Fund will allocate 100% of capital into loans that promote environmental characteristics as every borrower must provide upfront and periodic EPCs to the Fund. 100% of the capital will be deployed into first mortgages secured by European commercial real estate in a "transitional situation".

PIMCO seeks to ensure that good governance practices are followed by sponsors for all assets being financed, as it believes that there are certain corporate activities or behaviours that it does not wish to be associated with. This is done by setting clear expectations with respect to transparency and accountability, including with respect to sustainability, for all of the Fund's assets.

The criteria outlined above are applied upon investment selection. In each case, the relevant business plans are or will be established and implemented by the sponsor. Accordingly, PIMCO has limited or no ability to control or affect the outcome of the sponsor's business plan, including whether the objectives of the business plan will be achieved.

In addition, the Fund's approach to ESG encompasses the following non-binding elements as part of the investment process:

- Seek to enter into an agreement with sponsors to deliver energy and carbon related data on an annual basis;
- Collect and analyze energy and carbon related data in the technical due diligence for transactions; and
- Assign an ESG score for each transaction using a proprietary scoring methodology.

The Investment Team engages collaboratively with sponsors, encouraging them to improve their ESG practices and influence long-term improvement in the energy performance of their property assets, to capture both economic and environmental benefits.

No index has been designated as a reference benchmark for the purpose of attaining the environmental characteristics promoted by the Fund.

#### **No Sustainable Investment Objective**

This Fund promotes environmental characteristics but does not have as its objective sustainable investment.

#### **Environmental or Social Characteristics of the Fund**

PIMCO has developed a comprehensive approach to ESG in connection with commercial real estate financing activities, which focuses on (i) energy and carbon related data collection and (ii) refurbishments that achieve an improvement in energy performance or that reduce carbon intensity.

The Fund actively promotes the improvement in energy performance of commercial real estate within the European market. The Fund will only lend against a property that has an existing energy performance certificate ('EPC') (or local jurisdictional equivalent) and this EPC must be supplied to PIMCO prior to the loan being completed. Furthermore, the Fund will exclude from the portfolio any property that has an EPC rating below level D, unless the sponsor for the transaction can demonstrate that using the Fund's debt capital it will improve the EPC of the property to a higher level.

#### **Investment Strategy**

The investment strategy of the Fund is primarily focused on privately originated commercial real estate loans secured by a first mortgage on real estate assets in Europe, which are undergoing some form of transition to a more stabilized state. It is housed in an evergreen fund structure, to aid investors in managing their exposure through time, and PIMCO will seek to fluidly deploy and re-deploy capital across real estate sectors and geographies, over economic cycles.

The investment strategy of the Fund aims to construct a downside protected portfolio of first mortgage loans secured by European commercial real estate assets, with a focus on generating current income. The Fund generally expects to focus on providing shorter maturity floating rate loans in transitional situations, but there will also be a focus on lending against more stable assets in less liquid markets or property sectors. The Fund intends to target institutional-quality borrowers who own assets primarily located in central business districts, in or near dense population clusters or in areas that are in the path of growth. PIMCO anticipates that the Fund will be diversified across office, multi-family, industrial, hotel, and other property sectors. Over time, the returns of the investment strategy are expected to predominantly be comprised of income.

The Fund's flexible investment strategy is designed to facilitate the fluid deployment and redeployment of capital. The breadth of opportunity across countries and real estate sectors is designed to allow PIMCO to exercise discipline, avoiding countries and sectors that are crowded and pivot deployment to locations in which PIMCO see the greatest opportunity, while helping the Fund to navigate multiple economic cycles.

The Fund will collect energy performance certificates (EPCs) and exclude assets with an EPC rating of E or below unless there is a business plan in place to improve the EPC rating to above E within the full term of the loan.

For retrofits and refurbishments, which are expected to represent 40% of the Fund's investments the Fund will exclude investments in loans that finance projects that fail to enhance the environmental profile of the assets being financed upon completion of the business plan. The enhancement of the environmental profile is assessed using a variety of widely accepted measures, including, but not limited to, energy performance certificates, or BREEAM scores, or LEED ratings, or NABERS UK ratings, or custom carbon assessments, or other measures of an asset's environmental profile. An enhancement is defined as the expected improvement of one or more of these scores or ratings or as the sponsor's pursuit of an above average score or rating and can be measured using the sponsor's targeted environmental profile for the assets being financed as outlined in the sponsor's business plan.

PIMCO seeks to ensure that good governance practices are followed by sponsors for all assets being financed, as it believes that there are certain corporate activities or behaviours that it does not wish to be associated with. This is done by setting clear expectations with respect to transparency and accountability, including with respect to sustainability, for all of the Fund's assets. Attention is paid to the contractual relationships of the Fund, taking into consideration executive pay, bribery and corruption, political lobbying and donations, working conditions, tax strategy, and other relevant factors.

### **Proportion of Investments**

The Fund does not commit to investing a minimum percentage of its capital in investments that qualify as "sustainable investments", within the meaning of SFDR, for the purpose of attaining the environmental and social characteristics promoted by the Fund.

The Fund will allocate 100% of capital into loans that promote environmental characteristics as every borrower must provide upfront and periodic EPCs to the Fund. 100% of the capital will be deployed into first mortgages secured by European commercial real estate in a "transitional situation".

### **Monitoring of Environmental or Social Characteristics**

In order to assess, measure and monitor the environmental characteristics promoted PIMCO relies on various widely accepted measures, including:

- EPCs (Energy Performance Certificates) are used to benchmark the energy efficiency of real estate assets with a rating scale from A (most efficient) to G (least efficient). An EPC contains information about an asset's energy use and typical energy costs as well as recommendations about how to improve the asset's energy efficiency.
- BREEAM (Building Research Establishment Environmental Assessment Method) is an international scheme that provides independent third-party certification of the assessment of the sustainability performance of buildings. The main output from a certified BREEAM assessment is the rating. A certified rating reflects the performance achieved by a project and its stakeholders, as measured against the standard and its benchmarks. The BREEAM ratings range from Acceptable (In-Use scheme only) to Pass, Good, Very Good, Excellent to Outstanding and it is reflected in a series of stars on the BREEAM certificate.
- The LEED (Leadership in Energy and Environmental Design) certification process was developed by the US Green Building Council ('USGBC'). The system was differentiated according to the requirements of the different construction tasks. Points are awarded for the criteria of LEED theme areas. Depending on the number of points awarded, a project can achieve one of four LEED rating levels: Certified, Silver, Gold or Platinum.
- NABERS UK is a system for rating the energy efficiency of office buildings across England, Wales, Scotland and Northern Ireland. NABERS UK measures and rates the energy use of offices and helps identify areas for savings and improvements. It provides a rating from one to six stars for offices (1 star or poor, 2 stars or below average, 3 stars or average, 4 stars or good, 5 stars or excellent, 6 stars or market leading).

### **Methodologies**

PIMCO relies primarily on internal research for decision-making. The Fund will collect EPCs (or local jurisdiction equivalent) for every property for which it lends against to measure the attainment of each of the environmental or social characteristics promoted by the Fund. Using such certificates the Fund can measure how its capital has improved the property's energy performance rating over time.

### **Data Sources and Processing**

As noted above, in order to assess, measure and monitor the environmental characteristics promoted PIMCO relies on various widely accepted data sources, including:

- EPCs (Energy Performance Certificates);
- BREEAM (Building Research Establishment Environmental Assessment Method);
- The LEED (Leadership in Energy and Environmental Design) certification developed by the USGBC; and
- NABERS UK.

The above mentioned data sources are controlled by reputable third parties, which operate and license (as applicable) the data sources. The scoring/rating methodologies for each data source are standardised and determined by such third party organisations. PIMCO is not involved in, or able to, influence the rating/scoring for any loan.

### **Limitations to Methodologies and Data**

The criteria outlined above are applied upon investment selection. In each case, the relevant business plans are or will be established and implemented by the sponsor. Accordingly, PIMCO has limited or no ability to control or affect the outcome of the sponsor's business plan, including whether the objectives of the business plan will be achieved. However, PIMCO will seek to reasonably monitor the provision of the EPCs and/or relevant building certificates by sponsors and, if not provided by a sponsor, PIMCO will follow-up with and request the relevant EPC and/or building certificate from a sponsor.

### **Due Diligence**

In addition to the application of the criteria outlined above under the section "Investment Strategy" upon investment selection, the Fund's approach to ESG encompasses the following non-binding elements as part of the investment process:

- Seek to enter into an agreement with sponsors to deliver energy and carbon related data on an annual basis;
- Collect and analyze energy and carbon related data in the technical due diligence for transactions; and
- Assign an ESG score for each transaction using a proprietary scoring methodology.

### **Engagement Policies**

The Investment Team engages collaboratively with sponsors, encouraging them to improve their ESG practices and influence long-term improvement in the energy performance of their property assets, to capture both economic and environmental benefits.

### **Designated Reference Benchmark**

The Fund has not designated a reference benchmark for the purpose of meeting the environmental or social characteristics promoted by it.