



Sagax

Green Finance Second Opinion

December 04, 2019

Sagax is a listed property company with headquarter in Stockholm, Sweden, whose business concept is to invest in commercial properties, primarily in the warehouse and light industry segment. Currently Sagax owns warehouse and industrial properties in Sweden, Finland, France, the Netherlands, Germany, Spain and Denmark. Sagax's greatest exposure to the rental market occurs in Stockholm and Helsinki, which are the markets in the Nordic region regarded as offering the best potential for long-term growth.

The green finance framework of Sagax is aligned with the Green Bond Principles (2018). The eligible categories – Green buildings, Energy efficiency and Renewable energy – are well defined and provide important steps toward a low carbon future. Initially, the majority of the proceeds will go to green buildings. The criteria for eligible projects under the Green building category are good, but do not yet deliver the solutions needed in a low carbon 2050 perspective (passive house technology and similar). Eligibility in the Green building category will require an energy usage 15% below applicable legislation and fulfilling Miljöbyggnad Silver or equivalent. Energy retrofits such as the installation of more efficient ventilation or heating system, replacing fuse ratings and adjusting light controls and light fittings will require minimum 20% energy savings. Proceeds will not be used to finance fossil fuel or nuclear energy generation except for energy efficiency measures in existong gas heated properties. Renewable energy is focused on onsite solar panels. How the properties are used depends on how the tenant use their space. There is no screening for customers' climate alignment which may include fossil fuel related activities.

Sagax is committed to support the UN sustainable development goals - SDGs. They have a sound selection process and a basic plan for impact reporting. Sagax considers on a case by case basis scenario analysis for new buildings taking into consideration potential environmental impact. Measures can include MIFO registry check (list of polluted sites), technical due diligence and environmental due diligence. We note, however, that there is no climate risk assessments in alignment with the methodology recommended by TCFD.

Based on the overall assessment of the project types in the framework of Sagax which includes all shades of green, governance and transparency considerations, the green finance framework receives an overall **CICERO Medium Green** shading. In order to achieve a dark green shading, the green finance framework could include a clearer requirement that best environmental technologies are used in eligible building projects.

SHADES OF GREEN

Based on our review, we rate the Sagax's green finance framework **CICERO Medium Green.**

Included in the overall shading is an assessment of the governance structure of the green finance framework. CICERO Shades of Green finds the governance procedures in Sagax's framework to be **Good.**



GREEN BOND and GREEN LOAN PRINCIPLES

Based on this review, this Framework is found in alignment with the principles.





Contents

1	Terms and methodology	3
	Expressing concerns with 'shades of green'	3
2	Brief description of Sagax's green finance framework and related policies	4
	Environmental Strategies and Policies	4
	Use of proceeds	4
	Selection:	5
	Management of proceeds	5
	Reporting	6
3	Assessment of Sagax's green finance framework and policies	7
	Overall shading	7
	Eligible projects under the Sagax's green finance framework	7
	Background	8
	Governance Assessment	8
	Strengths	9
	Weaknesses	9
	Pitfalls	9
	Appendix 1:	11
	Referenced Documents List	11
	Appendix 2: About CICERO Shades of Green	12



1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated December 2019. This second opinion remains relevant to all green bonds and/or loans issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green encourages the client to make this second opinion publicly available. If any part of the second opinion is quoted, the full report must be made available.

The second opinion is based on a review of the framework and documentation of the client's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence.

Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

CICERO Shades of Green



Dark green is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



Medium green is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



Light green is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.



Brown is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.

Examples



Wind energy projects with a strong governance structure that integrates environmental concerns



Bridging technologies such as plug-in hybrid buses



Efficiency investments for fossil fuel technologies where clean alternatives are not available



New infrastructure for coal

Sound governance and transparency processes facilitate delivery of the client's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall shading of the green finance framework. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.



2 Brief description of Sagax's green finance framework and related policies

Sagax is a listed property company with headquarter in Stockholm, Sweden, whose business concept is to invest in commercial properties, primarily in the warehouse and light industry segment. Currently Sagax owns more than 500 warehouse and industrial properties in Sweden, Finland, France, the Netherlands, Germany, Spain and Denmark, covering 3 million square meters. Sagax's greatest exposure to the rental market occurs in Stockholm and Helsinki, which are the markets in the Nordic region regarded as offering the best potential for long-term growth. Sagax's current portfolio in Sweden and Finland comprises 80% of their total, Netherlands 9%, France 9% and Spain 1%. How the property is used depends on how the tenant use their space. In general, there is no heavy factory production, but there is light production in some properties.

Environmental Strategies and Policies

Sagax Sustainability Policy provides a solid framework on how the company operates within environmental and sustainability issues including to continuously improving its property portfolio from a sustainability perspective. Sagax's efforts relating to sustainability are based on the Global Compact ten principles and the UN Sustainable Development Goals. The issuer does not follow the TCFD guidelines and climate scenario analysis is not part of the resilience screening. Sustainability reports are done according to the guidelines developed by the Global Reporting Initiative (GRI).

Sagax was responsible for carbon emissions of 252 tons CO₂ in 2018 (scope 1), of which most were from company cars and business air travel. Sagax has compensated for the company's emissions in 2018 and will continue to do so in future years. By 2021, at least 75 percent of Sagax's corporate cars are to be electric. The remaining 25% will also be subjected to environmental screening and include vehicles with class Euro 6.

The consumption of heating and electricity are considered to be the most important environment-related sustainability area for Sagax. While heating is overwhelmingly provided by district heating, a small fraction is provided by oil. The issuer informed us that Sagax is in the process of phasing out fossil fuels as a heating source. Sagax's existing properties heated by gas are mainly situated in the Netherlands, comprising 7% of Sagax total number of properties. Proceeds from green finance will not be used to acquire new gas heated properties.

However, the climate impact from tenants' use of electricity and heating is something that the company has only limited control of since most of Sagax's tenants by area are responsible for their own heating accounts. Therefore, Sagax pursues a continuous dialogue with tenants to achieve energy savings and to enhance the efficiency of sustainability efforts by tenants. The aim is to reduce the energy consumption by 30% from 2018 to 2025 in properties where Sagax is responsible for the procurement of energy. In order to improve the monitoring of the total energy consumption, particularly in properties where tenants are procuring heating and electricity, Sagax implements so-called "Green Leases" (Sweden) or equivalent lease agreements (other markets) when extending existing leases or entering into new lease agreements. Green Leases allow Sagax, among other things, to closely monitor the properties' energy consumption regardless of whether the procurement of heating and/or electricity is made by the tenant or by Sagax.

Sagax is to increase the number of environmentally certified buildings in accordance with Miljöbyggnad Silver, BREEAM, LEED and Green Building. According to Sagax's sustainability policy, all new buildings that Sagax



develop are to be environmentally certified at least Miljöbyggnad Silver according to the Sweden Green Building Council, Very Good according to BREEAM, Gold according to LEED or the equivalent in another certification system.

Use of proceeds

Sagax will finance eligible assets in part or in full that promote distinct environmental benefits as determined by Sagax and in line with Sagax Sustainability policy. The proceeds raised based on the green finance framework, which mostly will be from green bonds, can be applied towards new assets, projects and to refinance existing assets. The look back period is 24 months. All proceeds under the green finance framework will be used for green buildings, energy efficiency and renewable energy projects. Initially, the majority of the proceeds will go to green buildings. Eligible assets can be owned by Sagax directly or indirectly through subsidiaries.

In addition to Green finance instruments issued by Sagax in the capital market the company may have Green loans provided by lending institutions. The same criteria for eligible assets specified in the green finance framework applies for green loans. Green loans taken by Sagax may be provided by lending institutions that finance these by issuing green bonds. Sagax will report the aggregate amount of green loans taken and specify each eligible asset that has been financed by a green loan in a separate section of the green finance investor report.

Proceeds from green finance instruments will not be used to finance investments linked to fossil energy generation, the weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco. The issuer informed us that properties heated by fossil fuels, except for gas which could be included, is not to be part of the green portfolio.

Selection:

The selection process is a key governance factor to consider in CICERO Green's assessment. CICERO Green typically looks at how climate and environmental considerations are considered when evaluating whether projects can qualify for green finance funding. The broader the project categories, the more importance CICERO Green places on the governance process.

Sagax has established a Green Finance Committee to evaluate and select assets that are in line with its green finance framework. The Green Finance Committee is responsible for the ongoing monitoring of the green portfolio of eligible assets. The green portfolio will be reviewed and updated on a quarterly basis. The Green Finance Committee consists of members from the Finance Department and Senior Executives with some environmental competence. Any future updates of the green finance framework must be approved by the Green Finance Committee. Potentially eligible assets for the green portfolio are proposed by members of the Green Finance Committee, business developers, asset managers or other employees. The Green Finance Committee is responsible for evaluating and selecting properties that qualifies as eligible assets for the green portfolio. A list of the green portfolio and the eligible assets and the green portfolio is kept by the Senior Executives and the Head of Finance is responsible for the list to be updated and valid. The green portfolio and the eligible assets are monitored on a regular basis to ensure that proceeds from the green finance framework are allocated to eligible assets.

Management of proceeds

CICERO Green finds the management of proceeds of Sagax to be in accordance with the Green Bond and Green Loan Principles.

An amount equal to the net proceeds of any green finance instruments raised will be credited to a green account that will support Sagax's lending to eligible assets and the green portfolio. Allocation will be made to individual



disbursements, e.g. Sagax will record all the allocated proceeds to specific projects/assets. Together these posts will make up the green portfolio. So long as the green financing is outstanding and the green portfolio has a positive balance compared to the green account, funds may be deducted from the green account and added to Sagax's lending pool in an amount equal to all disbursements in respect of such eligible assets. The green account ensures monitoring and tracking of proceeds. The Head of Finance is responsible for the allocation of proceeds.

Assets can whenever needed be removed or added to the green portfolio of eligible assets. If, for any reason, an eligible asset ceases to comply with the requirements set out in Sagax's green finance framework, such asset will be removed from the green portfolio.

Proceeds on the green account not yet allocated towards eligible assets will be placed in line with Sagax handling of short-term excess liquidity. Proceeds from Green Finance Instruments will not be used to finance investments linked to fossil energy generation, the weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco.

Reporting

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green finance programs. Procedures for reporting and disclosure of green finance investments are also vital to build confidence that green finance is contributing towards a sustainable and climate-friendly future, both among investors and in society.

To enable investors and lending institutions to follow the development and to be transparent Sagax will provide a Green Finance Investor Report on an annual basis. The Green Finance Committee will be responsible for the Green Finance Investor Report. The Green Finance Investor Report will include: List of eligible assets in the green portfolio; type of certification for eligible assets; the amount outstanding for each category of green finance instruments; information on the split between new financing and re-financing; a description of selected project(s) financed in the green portfolio; geographical distribution and unallocated amounts.

Sagax intends to report on quantitative impact indicators for each project where feasible and relevant data information is available. Indicators for eligible assets include: Energy performance (kWh per sqm and year); energy generated (kWh per year); capacity installed MW and annual GHG emissions reduced/avoided in tCO₂ using publicly available grid values.

The Green Finance Investor Report will be available on Sagax's webpage www.sagax.se.

An appropriate independent assurance provider will annually assure Sagax selection process for the financing of eligible assets and the allocation of the proceeds of any Sagax green finance product and that such processes and allocations are in accordance with the Sagax green finance framework. The opinion of the assurance provider will be made publicly available on Sagax's webpage.



3 Assessment of Sagax’s green finance framework and policies

The framework and procedures for Sagax’s green finance investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Sagax should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Sagax’s green finance framework, we rate the framework **CICERO Medium Green**.

Eligible projects under the Sagax’s green finance framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green financial instruments aim to provide investors with certainty that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

Category	Eligible project types	Green Shading and some concerns
Green buildings  	<p>Newly constructed properties, acquired properties, refurbished properties or existing properties that either have or will fulfil (within 18 months) the requirements of at least one of the following certificates systems and that has an energy usage which is at least of 15% below applicable legislation:</p> <ul style="list-style-type: none"> ✓ Miljöbyggnad Silver – minimum certification ✓ BREEAM Very Good – minimum certification ✓ BREEAM-in use Very Good – minimum certification ✓ LEED Gold – minimum certification ✓ Or the equivalent in another certification system. 	<p>Light to Medium Green</p> <ul style="list-style-type: none"> ✓ Passive or plus house technologies should become mainstream and the energy performance of existing buildings greatly improved. Sagax is taking steps towards this long-term vision with energy efficiency targets. A dark green shading would require passive or plus house technologies. ✓ Properties heated by fossil fuels is not to be part of the green portfolio, except for exceptional existing gas heated buildings which can be included. ✓ Construction projects can have potential negative local environmental impacts. ✓ For new buildings, access to public transport should be considered, as well



		as bicycle parking and charging facilities for electric cars.
		<ul style="list-style-type: none"> ✓ Resiliency concerns under a changing climate should be taken into account. ✓ Life cycle assessment should be an increasing ambition for the issuer.
Energy efficiency	Refurbishment of existing buildings that lead to a 20% increase in energy efficiency. Investments include energy retrofits such as the installation of more efficient ventilation or heating system, replacing fuse ratings and adjusting light controls and light fittings.	<p>Light to Medium Green</p> <ul style="list-style-type: none"> ✓ Be aware of possible rebound effects and lock-in of fossil fuel infrastructure when upgrading buildings. ✓ Can include energy efficiency measures in building with heating based on gas.
Renewable energy	Onsite installation of solar panels to improve the energy efficiency and to support the aim to increase the share of renewable energy in the properties and to decrease the share of fossil fuels.	<p>Dark Green</p>

Table 1. Eligible project categories

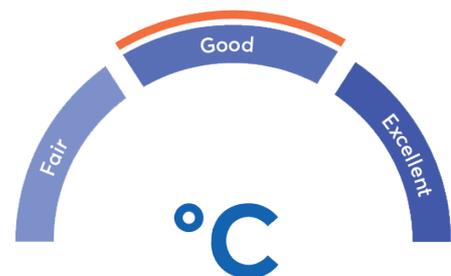
Background

The building sector accounts for over 40% of primary energy consumption in most countries. Efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources. Energy efficiency improvements in buildings are thus important building blocks towards reaching the 2°C goal.

Governance Assessment

Four aspects are studied when assessing the Sagax’s governance procedures: 1) the policies and goals of relevance to the green finance framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

Sagax is committed to support the UN sustainable development goals - SDGs. They have a sound selection process and a basic plan for impact reporting. Sagax considers on a case by case basis scenario analysis for new buildings taking into consideration potential environmental impact. Resilience measures can include MIFO registry check (list of polluted sites), technical due diligence and environmental due diligence. We note, however, that there are no risk assessments in alignment with the methodology recommended by TCFD.



The overall assessment of Sagax’s governance structure and processes gives it a governance rating of **Good**.



Strengths

The framework of Sagax is well aligned with the Green Bond Principles (2018) and Green Loan Principles. The eligible categories are well defined and provide important steps toward a low carbon future. The criteria for eligible projects under the Green buildings category are good, but do not yet delivering the solutions needed in a low carbon 2050 perspective (passiv house technology and similar).

In addition to the criteria for eligible assets and overall ambitions of supporting the UN sustainable development goals and minimise carbon emissions, we note that Sagax has a number of quantitative environmental targets such as: To become a carbon neutral company by 2020, energy use in buildings where Sagax is responsible for the energy supply should be reduced with 30% from 2018 to 2025 and by 2021 all corporate cars should be 'environmental cars' and at least 75% of these should be electric. The remaining 25% will also be subjected to environmental screening and include vehicles with class Euro 6.

Sagax requires that its suppliers meet all the applicable environmental laws and regulations. Suppliers should also take the initiative to promote the assumption of greater environmental responsibility and encourage the widespread use of eco-friendly technology to facilitate long-term, sustainable development.

Weaknesses

We find no substantial weaknesses in the green finance framework of Sagax but note a lack of overall targets for emissions related to buildings and a lack of impact reporting beyond energy use. Also, there seems to be a lack of risk assessment and scenario analysis as recommended by TCFD vis a vis future climate risk.

Pitfalls

Although voluntary environmental certifications such as LEED and BREEAM or equivalents can measure or estimate the environmental footprint of buildings and raise awareness of environmental issues, they fall short of guaranteeing an environmentally friendly building. They do not guarantee a reduction in greenhouse gas emissions nor necessarily include considerations of resiliency.

In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources. The issuer is taking a step in this direction with the energy efficiency criteria. In order to achieve a dark green shading, the green finance framework would need a clearer requirement that best environmental technology is used in eligible green finance building projects.

In addition to certifications and energy efficiency improvements, one should consider

- Do the buildings and their locations encourage low carbon transportation solutions?
- For new constructions, how are construction phase environmental concerns taken into account?
- Resiliency for climate change should be taken into account. Flooding risk, in combination with extreme weather and sea level rise, has been observed in almost all regions in the world.

How the properties are used depends on how the tenant use their space. There is no screening for customers' climate alignment. In general, there is no heavy factory production, but there is light production in some properties.



Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. An example is green buildings. Sagax should be aware of such effects and possibly avoid green finance funding of projects where the risk of rebound effects is particularly high.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Sagax Green Finance Framework December 2019	Sagax's Green Finance Framework dated December 2019
2	Antikorruptionspolicy 2019	Anti-corruption policy 2019
3	Arbetsmiljöpolicy 2019	Labour environment policy 2019
4	Antidiskrimineringspolicy 2019	Anti-discrimination policy 2019
5	Hållbarhetspolicy 2019	Sustainability policy 2019
6	Riktlinjer för visseblåsartjänst 2019	Guidelines for whistle blowers 2019
7	Uppförandekod leverantörer 2019	Code of conduct for sub-contractors 2019
8	Sagax_AR_SV_2018_PUBL_BM_17April (1)	Annual report 2018
9	Uppföljning instruktioner och policys 2019	Instructions for follow up of policies 2019



Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD).

