



Svenska Handelsfastigheter AB Green Bond Second Opinion

14 August 2020

Svenska Handelsfastigheter group (Svenska Handelsfastigheter) is a Swedish commercial property owner based in Stockholm and operating in Sweden. The company focuses on easily accessible retail properties with long-term, low-cyclical tenants. The majority of tenants are large Swedish retail stores. As of June 2020, the company owned and managed 111 properties across Sweden, totalling 550,300 sqm and valued at SEK 9.3bn.

Svenska Handelsfastigheter is in the process of mapping their energy use as well as their climate footprint covering Scope 1, 2 and partially 3. Until that has been completed, they cannot report on energy use and GHG emissions, and refrain from formulating precise quantitative targets and direct their attention is instead on actions promoting a green development, such as securing solar panels on existing buildings and use of ground heat in new buildings. In the longer term the climate/environmental target is to have all electrical energy derived from solar panels. All new buildings are certified according to climate certification standards, such as LEED, BREEAM, Miljöbyggnad or the Nordic Swan Ecolabel or similar.

Proceeds may be used to fund new assets and projects as well as for re-financing. Eligible project categories are Green buildings, Renewable energy and Energy efficiency with the bulk of the proceeds going to capital investments in new Green buildings. The lack of energy efficiency criteria for Green buildings in addition to the certification criteria, is a weakness of the framework. Green Bonds will not be used to finance investments in fossil energy generation, nuclear energy generation, the weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco. Specifically, fossil fuel heating of buildings is excluded.

Svenska Handelsfastigheter will report annually a full list of all projects that has been allocated proceeds from a Green Bond, including information regarding the certification level achieved when applicable. In addition, they will to the extent possible report on electricity generation, energy savings as well as GHG emissions reduced or avoided. Emissions from construction and materials are not reported.

This framework has some strong elements in the form of well recognized certification schemes. It would however gain from explicit energy efficiency targets as well as from reporting on emissions from construction and materials. Based on the overall assessment of the project types, governance and transparency considerations, the green bond framework of Svenska Handelsfastigheter receives a **Light Green shading**.

SHADES OF GREEN

Based on our review, we rate the Svenska Handelsfastigheter's green bond framework **CICERO Light Green**.

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



GREEN BOND PRINCIPLES

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





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1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the client's framework dated July 2020. 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, key governance aspects that can influence the implementation of the green bond are carefully considered and reflected in the overall shading. CICERO Green considers four factors in its review of the client's governance processes: 1) the policies and goals of relevance to the green bond 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. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



2 Brief description of Handelsfastigheter's green bond framework and related policies

Svenska Handelsfastigheter group (Svenska Handelsfastigheter) is a Swedish commercial property owner based in Stockholm and operating in Sweden. The company is focusing on easily accessible retail properties with long-term, low-cyclicality tenants. The majority of tenants are large Swedish retail stores. As of June 2020, the company owned and managed 111 properties across Sweden, totalling 550,300 sqm and valued at SEK 9.3bn. Founded in 2015, Svenska Handelsfastigheter has grown rapidly through new-builds and acquisitions. The founding partners remain owners of the company, together with three public pension funds: Fjärde AP-Fonden (AP4), Kåpan Pensionstiftelse (Kåpan) and Länsförsäkringar Liv Försäkrings AB (Länsförsäkringar).

Environmental Strategies and Policies

Svenska Handelsfastigheter is in the process of mapping their energy use as well as their climate footprint covering Scope 1, 2 and partially 3. A key component to this is to obtain permission from tenants to gather their energy data, which they are currently working on. Until that has been completed, they refrain from formulating precise quantitative targets and direct their attention is instead on actions promoting a green development, such as securing solar panels on existing buildings and use of ground heat in new buildings. In the longer term the climate/environmental target is to have all electrical energy derived from solar panels. All new buildings are certified according to climate certification standards, such as LEED, BREEAM, Miljöbyggnad or the Nordic Swan Ecolabel or similar. The board evaluates the company risks (climate risks included) at least once per year. No TCFD scenario analysis is conducted. A more general sustainability strategy focuses on resource use and climate, urban development, anti-corruption practices and responsible procurements, and a code of conduct for subcontractors is being planned. Use of materials with a low climate footprint is in focus in new development as well as refurbishment and repair of older facilities, but there are currently no quantitative aspirations. Life cycle assessment of projects are only carried out in connection with Miljöbyggnad certifications. Transport solutions are taken into account through providing bike rack and cooperation with municipalities for public transports solutions, such as buses. Infrastructure for electric car charging has been put in place in all their properties.

Use of proceeds

Proceeds will finance eligible assets and projects, in part or in full, as per this framework. Eligible project categories are Green buildings, Renewable energy and Energy efficiency with the bulk of the proceeds going to capital investments in new Green buildings. Eligible assets and projects will contribute either to the adaptation and/or to the mitigation of climate change. Proceeds may be used to fund new assets and projects as well as for re-financing. Green Bonds will not be used to finance investments in fossil energy generation, nuclear energy generation, the weapons and defence industries, potentially environmentally negative resource extraction, gambling or tobacco. Specifically, fossil fuel heating of buildings is excluded.

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.



Svenska Handelsfastigheter has formed a Green Bond Committee to oversee that only assets and projects eligible as per this framework are funded by proceeds from any Green Bond. The Green Bond Committee consists of the CEO, CFO and Head of Technology. External advice is sought in the form of an environmental expert consultant. Each member of the committee has the right to veto against any asset or project. The group shall meet no less than twice yearly, and notes of which projects and assets they deem as eligible per this framework will be recorded.

Management of proceeds

CICERO Green finds the management of proceeds of Handelsfastigheter to be in accordance with the Green Bond Principles.

The net proceeds of any bond issued under this Framework will be credited the “Green Account”. An amount equal to the investment made into an eligible projects or assets may be deducted from the Green Account. Should a project or asset no longer qualify as per this Framework, the funds will be returned to the “Green Account”.

The Finance Department is responsible for i) the allocation of the net proceeds from the issuance of Green Bonds to the approved eligible projects and assets and for ii) keeping records of the purpose of any transfers on the Green Account. Any unallocated proceeds will not be used for investment purposes but kept as cash.

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.

Svenska Handelsfastigheter will yearly for as long as it has green bonds outstanding make an impact report publicly available on its website. The Financial department will be responsible for the reporting and the first report is expected a year after the first issuance is made. The report will enclose information regarding both allocation and impact (measured where possible, otherwise estimated). Svenska Handelsfastigheter will to the extent possible report on the following metrics amongst others:

- The sum of the aggregated green bonds issued
- A full list of all projects that has been allocated proceeds from a Green Bond, including information regarding the certification level achieved when applicable.

Renewable energy category:

- Capacity of energy generation of plant (MW)
- Annual renewable energy generation in MWh or GWh
- Annual GHG emissions reduced/avoided, in tonnes of CO₂-equivalent

Green buildings category:

- Annual energy avoided in MWh or GWh compared to the relevant building code (for new buildings)
- Annual energy reduced in MWh or GWh compared to the pre-investment situation (for refurbishments)
- Annual energy production on-site, in MWh or GWh
- Annual GHG emissions reduced/avoided, in tonnes of CO₂-equivalents



Energy efficiency category:

- Annual energy reduced/avoided in MWh or GWh (electricity) and MWh or GWh (other energy savings)
- Annual GHG emissions reduced/avoided, in tonnes of CO₂-equivalent

In calculating emission reductions, Svenska Handelsfastigheter plans to report according to the grid factor suggested in Nordic Public Sector Issuers Impact Reporting (currently 315 gCO₂e/kWh)¹.

An independent auditor will go through the allocation and impact report.

¹ https://www.kuntarahoitus.fi/app/uploads/sites/2/2020/02/NPSI_Position_paper_2020_final.pdf, page 7.



3 Assessment of Svenska Handelsfastigheter's green bond framework and policies

The framework and procedures for Svenska Handelsfastigheter's green bond 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 Svenska Handelsfastigheter 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 Svenska Handelsfastigheter's green bond framework, we rate the framework **CICERO Light Green**.

Eligible projects under the Svenska Handelsfastigheter's green bond 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 bonds 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 	Financing of newly constructed, acquired, refurbished or existing buildings with at least one of the following certificates: <ul style="list-style-type: none">• Miljöbyggnad "Silver" certification (or better)• LEED "Gold" certification (or better)• BREEAM "Very Good" certification (or better)• Nordic Swan Ecolabel• BREEAM in-use "Very Good" (or better)• Green Building Certificate	Light green <ul style="list-style-type: none">✓ The issuer informs us that the bulk of the proceeds will be used for this category and for new buildings. From a climate point of view, deep renovation of existing buildings is most often preferable to new-built.✓ Building certificates cover a broad set of issues that are important to sustainable development. However, certification alone does not ensure passive or plus housing. Energy use may in cases be no better than current building regulations.✓ The issuer should consider construction phase emissions and emissions related to transportation to and from the properties.✓ Green Building Certificate requires that the building uses 25% less energy than



		before or compared to the new construction requirements in building code.
		✓ Climate resilience issues should be a central part of new projects in this category.
Renewable energy	Investments in solar power equipment and emission-free geothermal energy solutions.	Dark green
		✓ Geo-energy installations are of the closed type with minimal pollution problems (heavy metals). To be aligned with the EU Taxonomy, CO ₂ emissions should be lower than 100gCO ₂ /kWh.
Energy efficiency	Funding for projects which aim to improve the energy efficiency by at least 25% in buildings owned by Svenska Handelsfastigheter. This includes, but is not limited to, performance improvement to the insulation, ventilation, light systems and windows.	Medium green
		<ul style="list-style-type: none"> ✓ Efficiency measures in existing buildings is a good way to lower the climate footprint of buildings, unless it involves fossil fuel elements which then can be locked in. ✓ No upgrading of fossil fuel technologies will be allowed. ✓ According to IEA, efficiency of building envelopes needs to improve by 30% by 2025 to be aligned with the Paris target.

Table 1. Eligible project categories

Background

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 the IEA², the buildings and buildings construction sectors combined are responsible for 36% of global final energy consumption and nearly 40% of total direct and indirect CO₂ emissions. 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.³ Energy efficiency improvements in buildings are thus important building blocks towards reaching the 2°C goal. Also, local transport solutions and easy access to renewable energy are important elements. Emissions from buildings are approximately half coming from materials/construction and half from energy use. Over time the energy use becomes less important (with off grid solution such as geothermal and solar increasing).

Although voluntary environmental certifications such as 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 climate resiliency.

² <https://www.iea.org/topics/energyefficiency/buildings/>

³ <http://www.iea.org/tcep>



EU Taxonomy

The proposed EU taxonomy for sustainable finance⁴ includes a number of principles including a “do-no-harm clause” and safety thresholds for various types of activities. CICERO Green will not here verify Svenska Handelsfastigheter’s framework against the full EU taxonomy, but notes that the taxonomy includes specific thresholds for the real estate sector, briefly summarized as follows:

1. The design and construction of new buildings needs to ensure a net primary energy demand that is at least 20% lower than the level mandated by national regulations.
2. Ownership or acquisition of buildings built before 2021: Energy performance in the top 15% of similar stock are aligned with the EU taxonomy.
3. Renovations should deliver 30% energy savings.
4. Large non-residential buildings should have dedicated energy management system.

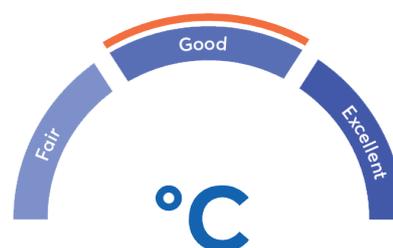
It is currently unclear how this will apply to Sweden, but it is reasonable to expect that buildings with energy use 20 percent below present regulation would be aligned with the taxonomy. The taxonomy also highlights the importance of lifecycle emissions including a focus on building material such as wood.

Energy saving renovations for existing properties that result in buildings lowering their primary energy demand with 30% are also to be classified as sustainable within the EU Taxonomy. It is further anticipated that activities related to energy efficiency, including installation of solar panels, heat pumps, extension of district heating and cooling, are to be classified as sustainable according to the EU Taxonomy. For co-generation to be aligned with the EU taxonomy, emissions must be below 100gCO₂/kWh. District heating and cooling must comply with the EU Energy Efficiency Directive (50% Renewable or Waste heat or 75% Cogen heat, or 50% combination of all three). Production of electricity will be aligned with the EU Taxonomy if associated emissions are lower than 100gCO₂/kWh. The threshold will be reduced every 5 years in line with a trajectory to zero net-CO₂e emissions in 2050.

Based on the above, it seems reasonable to expect some parts of Svenska Handelsfastigheter’s eligible projects to be aligned with the EU taxonomy, but this will depend on energy efficiency gains.

Governance Assessment

Four aspects are studied when assessing the Svenska Handelsfastigheter’s governance procedures: 1) the policies and goals of relevance to the green bond 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. Please note this is not a substitute for a full evaluation of the governance of the issuing institution, and does not cover, e.g., corruption.



Svenska Handelsfastigheter has some action related goals and targets of relevance to the green bond framework (e.g. geothermal heating in all new buildings, solar panels on roofs, etc.), but currently very little reporting on energy use and emissions and also no quantitative targets for these aspects. They are, however, in the process of laying the groundwork for future reporting and target setting. The selection process of eligible projects is straight

⁴ Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, March 2020.
https://ec.europa.eu/knowledge4policy/publication/sustainable-finance-teg-final-report-eu-taxonomy_en



forward and is strengthened by the use of independent advice. However, a lack of energy efficiency criteria for Green buildings is a weakness. The management of the proceeds is in accordance with the Green Bond Principle, and the reporting is good. The reporting will be reviewed by an independent auditor, but it is unclear whether the impact reporting will be independently verified. The overall assessment of Svenska Handelsfastigheter's governance structure and processes gives it a rating of **Good**.

Strengths

The investment in solar panels and geothermal energy is a strength of this framework. It is also a strength that the energy efficiency projects under this framework has a clear efficiency target, although the criteria is below the EU Taxonomy requirement for refurbishments. The intended reporting is comprehensive, and the exclusion of fossil fuel related projects is a strength.

Weaknesses

The lack of energy efficiency criteria for Green buildings is a weakness of the framework. Other than that, we find no obvious weaknesses in Svenska Handelsfastigheter's green bond framework.

Pitfalls

The green buildings eligible under Svenska Handelsfastigheter's framework are falling short of the long-term vision of zero-energy buildings or passive houses. Also, to the extent that the buildings rely on district heating, there is an inherent probability that some fossil fuel fractions (e.g. plastics) will be involved.

Svenska Handelsfastigheter is in the process of mapping their energy use as well as their climate footprint covering scope 1, 2 and partially 3. A key component to this is to obtain permission from tenants to gather their energy data, which they are currently working on. Until that has been completed, they refrain from formulating precise quantitative targets for e.g. specific energy use and greenhouse gas emissions. Life cycle assessment of projects are only carried out in connection with Miljöbyggnad certifications. There is no emission accounting covering construction and demolition phase activities.

Svenska Handelsfastigheter is aware of physical and transitional climate risks, but has not formalized the process for climate risk screening.

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. From the project categories in table 1, an example is energy efficiency investments in buildings which in part may lead to more energy use or a failing to reach the potential reductions. Svenska Handelsfastigheter's work with its property users can actively mitigate the risk of rebound effects related to energy efficiency.



Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	Green Bond Framework DRAFT 2020.07.14	Svenska Handelsfastigheter's Green Bond Framework dated July 2020
2	Alkohol- och drogpolicy	Alcohol and drug policy
3	Kvalitetspolicy	Quality policy
4	Miljöpolicy	Environmental policy
5	Mångfaldspolicy	Diversity policy
6	Policy för konflikthantering	Conflict management policy
7	Policy mot kränkande särbehandling	Policy against abusive discrimination
8	Policy mot trakasserier	Policy against harassment
9	Whistleblowerpolicy	Whistle blower policy
10	Uppförandekod för Svenska Handelsfastigheters leverantörer	Code of conduct for Svenska Handelsfastigheter's suppliers



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).

