

‘Second Opinion’ on Kungsleden’s Green Bond Framework

09 March 2018

Summary

Overall, Kungsleden's Green Bond Framework (GBF), together with its sustainability policy, building certification strategy and reporting standards, provides a sound base for climate-friendly investments. Kungsleden also has a Purchasing Policy which extends Kungsleden sustainability related policies to its suppliers.

The green bond framework lists the eligible project category as Energy Efficiency, Green Buildings, Renewable Energy and Clean Transport, and sub-categories that support the objectives to promote the transition to low carbon, climate resilient growth and a sustainable economy. Kungsleden has a strong governance structure and fit-for-purpose procedures that support sound management of proceeds, as well as regular and transparent reporting about green bond project achievements to investors and the public.

Kungsleden has committed to the principles of the UN Global Compact and reports accordingly, as well as according to the Global Reporting Initiative (GRI) standards. GRESB, an investor-driven organization committed to assessing the ESG performance of real assets globally, has rated Kungsleden "Green Star" since 2016. Kungsleden has already taken actions to improve its energy efficiency. In 2016, 10-11% of its total property value was environmentally certified (Annual report 2016).

Green bonds can be used to finance both new projects as well as refinance existing eligible projects. Eligible projects contribute to the company's energy reduction and building certification targets defined in its sustainability policy and strategy.

Based on the project category shadings detailed below, and consideration of the issuer's systematic sustainability work and governance structure of Kungsleden in terms of management and use of proceeds, we rate the framework CICERO Medium Green. The minimum requirement of energy points for certified green buildings does not ensure substantial improvements of energy efficiency compared with existing building regulations in Sweden. However, based on an overall assessment taking into account the strict Swedish building regulations on energy efficiency and the issuer's strong focus on sustainability the green building category receives a medium green shading.



°CICERO
Medium Green

Contents

Summary	2
1 Introduction and background	4
Expressing concerns with ‘shades of green’	5
2 Brief Description of Kungsleden’s Green Bond Framework and rules and procedures for climate-related activities	6
Definition:	6
Selection:	6
Management of proceeds:	7
Transparency and Accountability:	7
3 Assessment of Kungsleden’s Green Bond framework and environmental policies	11
Overall shading	11
Eligible projects under the Green Bond Framework	11
Strengths	13
<i>Established management and governance structures</i>	13
<i>External review of reporting</i>	13
Weaknesses	14
Pitfalls	14
<i>Impacts beyond the project boundary</i>	14
<i>Rebound effects</i>	14
Appendix: About CICERO and SEI	15

1 Introduction and background

The global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, was established by CICERO (Center for International Climate and Environmental Research – Oslo) to broaden the technical expertise and regional experience for second opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for second opinions. In addition to CICERO, ENSO members include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy.

This Second opinion was produced by SEI and CICERO on behalf of ENSO. SEI is an independent international research institute that has been engaged in environment and development issues at local, national, regional and global policy levels for more than 25 years. CICERO is an independent, not-for-profit, research institute, focused on providing reliable and comprehensive knowledge about all aspects of the climate change problem. A more detailed description of each of these institutions can be found at the end of this report. SEI and CICERO are both 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.

The CICERO-led ENSO provides second opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments and assesses the framework's robustness in meeting the institutions' environmental objectives. The second opinion is based on documentation of rules and frameworks provided by the institution themselves (the client) and information gathered during meetings, teleconferences and email correspondence with the client. ENSO 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.

ENSO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. ENSO network members do not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. Network members are neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of Kungsliden's Green Bond Framework and policies for considering the environmental impacts of their projects. The aim is to assess the Kungsliden Green Bond Framework as to its ability to support their stated objective of climate mitigation.

This Second Opinion is based on the green bond framework presented to CICERO by the issuer. Any amendments or updates to the framework require that CICERO undertake a new assessment.

ENSO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long run. Network members strive to avoid locking-in of emissions through careful infrastructure investments and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. ENSO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

Expressing concerns with ‘shades of green’

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a ‘shade of green’ to the green bond framework of Kungsleden:

- **Dark green** for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- **Medium green** for projects and solutions that represent steps towards the long-term vision but are not quite there yet.
- **Light green** for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- **Brown** for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations are also important because they give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

2 Brief Description of Kungsleden's Green Bond Framework and rules and procedures for climate-related activities

Kungsleden is a Swedish property management and development company with an estimated 222 properties in Sweden under its management in 2017. That year, 82 per cent of the company's total property value was in its priority markets of Stockholm, Gothenburg, Malmö and Västerås. Kungsleden plans to invest approximately SEK 3 billion total in improving and developing commercial premises during the period 2017-2019 and considers investment an important element of its business concept.

According to the issuer's Sustainability Policy, Kungsleden has the objective of reducing energy consumption in its property portfolio by 20% by 2020 compared to 2014, and to lower its average energy consumption to 25% below Swedish average the same year. According to its Year-end report for 2017, energy use in like-for-like holdings decreased by 5.9 per cent year on year, corresponding to a cost saving of SEK 13 million. The savings are largely due to investments in energy efficiency projects. In 2016 the average energy use of the issuer's portfolio was 155 kwh. The company has also invested in innovative building materials, such as mineral olivine, which it has used to coat 55000 m2 of rooftop area and which it expects to absorb 96 tons of CO2.

In 2016, Kungsleden joined the United Nation's Global Compact initiative. The group has reported on its corporate responsibility in accordance with the international Global Reporting Initiative (GRI) framework consecutively since 2015. Its corporate responsibility focuses on environmental protection, gender and social quality, work safety and health, responsibility, governance, accountability and transparency. In 2016, Kungsleden received AllBright's award for the best equal gender company on the Stockholm stock exchange. The company is also part of the EU GreenBuilding project and has developed its own energy management system. GRESB, an investor-driven organization committed to assessing the ESG performance of real assets globally, has rated Kungsleden "Green Star" since 2016, which means that it has received over 50:100 points (score 67).

Definition:

Projects eligible under the Green Bond Framework (GBF) encompass: Investments into new and existing commercial properties that have or will have specific levels of certification from LEED, BREEAM or BREEAM In-use, Miljöbyggnad, or EU Green Building; Renovation of commercial properties; Energy efficiency; Renewable energy; Eco-efficient and/or circular economy adapted products, production technologies and process; and Clean transport.

Green bonds can be used to finance both new projects as well as refinance existing eligible projects. Green bonds will not directly fossil fuel generation projects.

Selection:

According to Kungsleden's GBF and Rules of Procedure of its Green Bond Committee (GBC), projects will be evaluated by the company's Chief Investment Officer, who also is the Senior Vice President, Sustainability

Manager and Treasurer. Projects selected as potential eligible projects must then be unanimously approved by all three members of the GBC. The Committee will only approve Projects which meet the criteria listed in the GBF.

Management of proceeds:

Kungsleden will establish a dedicated account for the net proceeds of issued Green Bonds. As long as Green Bonds are outstanding, and the dedicated account has a positive balance, at the end of every fiscal quarter, funds will be deducted from the dedicated account and added to Kungsleden's Green Project Portfolio in an amount equal to all disbursements made during such quarter in respect of financing and/or refinancing of Eligible Projects. Until disbursement to Eligible Projects, the account balance will be placed in liquidity reserves and managed accordingly. If, for any reason, a financed Eligible Project no longer meets the eligibility criteria, it will be removed from the Green Project Portfolio.

Transparency and Accountability:

Kungsleden will report on its green bonds through its annual Green Bond Investor letter. Reporting will cover 1) list of projects financed including allocated amount, a brief description and expected impact; 2) division of allocation between new projects and refinancing.

Kungsleden also has the ambition to include information in the Green Bond Investor Letter about the type and level of certification, energy use and CO₂ emissions when relevant as well as other environmental benefits when available.

The table below lists the documents that formed the basis for this Second Opinion. Additionally, relevant certification programs, national strategies, and various webpages on the Kungsleden's website were also reviewed.

The table below lists the documents that formed the basis for this Second Opinion:

Document Number	Document Name	Description
1	Kungsleden's Green Bonds Framework 08.03.2018	This document comprises Kungsleden's Green Bonds Framework and how the company intends to use proceeds, how it plans to evaluate and select eligible projects, manages the proceeds and reports to investors.
2	Kungsleden's Green Bond Committee Rules of Procedure (Arbetsordning för Kungsledens Green Bond Committee)	Clarifies the Kungsleden's Green Bond Committee Rules of Procedure including its membership, responsibilities and vetoing rules.

3	GRI complement including EPRA reporting 2016	Kungsleden's corporate responsibility reporting according to GRI (Global Reporting Initiative) and EPRA (European Public Real Estate Association) standard. Available online as part of the Annual and Sustainability Report 2016. Also serves as a Communication on Progress (COP) report in compliance with the UN's Global Compact initiative.
4	Kungsleden's Year-end Report 2017	Document includes the company's financial statement, investments, earnings and property portfolio. Also includes information about energy consumption.
5	Kungsleden's Supplier Code of Conduct (Uppförandekod för Leverantörer) 14.11.2016	Document outlining Kungsleden's expectation for their suppliers in terms of legal compliance, human rights, occupational safety and health, the environment, and monitoring and sanctions.
6	Kungsleden's Sustainability Policy and Strategy (Hållbarhetspolicy- och strategi)	Document outlining Kungsleden's environmental and social responsibilities and its expectations for its employees and business activities. It is based on the UN Global Compact and the Guiding Principles on Business and Human Rights. It outlines focus areas, link to SDGs and includes energy consumption reduction targets. It also outlines monitoring and evaluation.
7	Kungsleden's Certification Strategy (Certifieringsstrategi)	Document outlining Kungsleden's property certification strategy including targets and time plan.
8	Kungsleden's Energy Management System (Beskrivning av KL)	Document required to participate in EU GreenBuilding. It outlines how Kungsleden is managing, planning,

	energiledningssystem energiledningssystem) 01.01.2017	reviewing and improving its energy management in terms of energy efficiency and reduction. It includes how Kungsleden is developing energy policy and targets, maps, plans and implements measures, as well as legal and governance issues.
9	Organisational structure and responsibilities in Kungsledens Energy Management System (Organisationsstruktur och ansvarsmatris) 04.10.2017	Documents describes organisational structure and responsibilities in Kungsledens Energy Management System
10	Purchasing Policy	Documents describe how Kungleden's purchases are made in accordance with its values and sustainability policy.
11	GRESB Assessment 2017	ESG performance rating of real assets by GRESB
12	Social equality and diversity policy (Jämställdhets och mångfaldspolicy)	Document describes Kungsledens policy to on equality and diversity.
13	Guidelines for public outreach (Riktlinjer för relationsfrämjande åtgärder)	Document outlines Kungsleden's stakeholders and how it engages with them on mutual issues and deal with their concerns.
14	Guidelines for spare-time jobs and conflict of interests (Riktlinjer för bisysslor och jäv)	Document determines admissible spare-time jobs for Kungsleden's employees and what constitutes conflict of interests
15	Kungsleden's Annual and Sustainability Report 2016	Report summarizes Kungsleden's Strategy and Management Systems and Objectives, Market and Business Environment, Property Portfolio, Corporate Governance and reviews

		its financial, social and environmental performance in 2016.
16	Swedish Building Material Assessment Criteria for content and life-cycle aspects (Byggvarubedömnings kriterier för innehåll och livscykelaspekter) 31.03.2016	Document summarizes Byggvarubedömning assessment criteria of construction materials based on chemical content and life-cycle-analysis.

Table 1 Documents reviewed

3 Assessment of Kungsleden’s Green Bond framework and environmental policies

Overall, Kungsleden’s green bond framework provides a detailed and sound framework for climate-friendly investments.

The framework and procedures for Kungsleden’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, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

Overall shading

Based on the project category shadings detailed below, and consideration of the issuer’s systematic sustainability work and governance structure of Kungsleden in terms of management and use of proceeds, we rate the framework CICERO Medium Green. The requirement of at least 70 per cent of the possible points within the energy category for LEED and BREEAM certified buildings does not ensure substantial improvements of energy efficiency in the buildings compared with existing building regulations in Sweden. However, based on an overall assessment of the strict Swedish building regulations on energy efficiency, the additional required energy points and the issuer’s strong focus on sustainability the green building category receives a medium green shading.

Eligible projects under the 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 certainty to investors 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
		<p>For all projects: Should consider potential rebound effects related to energy efficiency measures and lock-in effects of domestic fossil fuel consumption for transport and heating by Kungsleden and its clients.</p> <p>Construction, renovation and refurbishment: Should consider broader impacts, such as potential negative impacts on biodiversity, nature and local</p>

		communities and potential co-benefits provided by nature-based solutions.
Energy efficiency/Green Buildings	<ul style="list-style-type: none"> • New and existing commercial properties that have or will have a certification from: LEED with a minimum certification level of at least Gold, BREEAM or BREEAM In-use with a minimum certification level of at least Very Good, Miljöbyggnad with a minimum certification level of at least Silver, or EU GreenBuilding For LEED and BREEAM at least 70 per cent of the possible points within the energy category has to be achieved. • Major renovation of commercial properties leading to a reduced energy use per year on a m2 basis of at least 25 per cent. • Energy efficiency projects leading to a reduction of energy use of at least a 25 per cent. 	<p>Medium Green</p> <ul style="list-style-type: none"> ✓ In a 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. ✓ Certification standards differ considerably in their requirement for energy efficiency and reduction, biodiversity and stakeholder engagement. ✓ The requirement of at least 70 per cent of the possible points within the energy category for LEED and BREEAM, certified buildings does not ensure substantial improvements of energy efficiency in the buildings compared with existing building regulations in Sweden. However, based on an overall assessment taking into account the strict Swedish building regulations on energy efficiency, the additional required energy points and the issuer's strong focus on sustainability the green building category receives a medium green shading.
Renewable energy production	<ul style="list-style-type: none"> • Renewable energy from solar, wind or geothermal 	<p>Dark Green</p> <ul style="list-style-type: none"> ✓ The issuer has informed us that geothermal, which may carry some risks, refers to ground heating which has a relatively small environmental impact and carbon emissions.
Clean transport	<ul style="list-style-type: none"> • Clean transportation infrastructure for electric cars. 	<p>Dark Green</p>

Green Buildings	<ul style="list-style-type: none"> Eco-efficient and/or circular economy adapted products, production technologies and processes including environmentally smart use of building materials 	<p>Medium to Dark Green</p> <ul style="list-style-type: none"> ✓ The environmental benefits of advanced building materials may be offset by more resource intensive production and life-cycle-emissions. The issuer has informed us that it will use the Swedish Building Material Assessment Criteria to evaluate the environmental benefits and impacts.
-----------------	---	--

Table 2 Eligible project categories

Strengths

Established management and governance structures

Kungsleden has a strong management and governance structure indicated by their existing corporate management and reporting processes, as well as their experience with projects in energy efficiency and building materials. Kungsleden has internal policies, such as Sustainable policy and strategy, Energy Management System, Purchasing Policy, as well as a Supplier Code of Conduct all of which deal with environmental and broader sustainability issues. Kungsleden has also integrated climate and sustainability issues into its corporate strategy and daily operations. It also joined the UN Global Compact Initiative in 2016 and performed CSR (GRI) reporting for the first time in 2012, and every year since 2015. According to the issuer, the company has also used the GRESB ESG rating to highlight areas for improvement (e.g. in the environment section) and is taking steps to improve their already good overall rating. A further step that would strengthen Kungsleden's green bond governance system would be to make public also its sustainability policy and strategy. According to the issuer its ambition is to publish the sustainability policy on the web within the next weeks.

It is also a strength of Kungsleden's GBF that eligible projects must be approved by consensus vote by the Sustainability Manager, the Chief Investment Officer, who also is Senior Vice President, and the Treasurer. This reflects commitment from top-level management.

External review of reporting

Related to its green bonds, Kungsleden has an annual reporting process in place that includes verification by an external party. The GBF details the basic information to be included in the annual Green Bond Investor Letter.

The investor letter will also report on the impacts when feasible. The Investor letter, together with the verified results, will be made available online on the company website.

It is also positive that the issuer has informed us that they intend to report on a project-by-project basis unless it would reveal confidential information. Kungsleden also plans, where possible, to include in the investor letter project-level data on green building certification, GHG emissions and energy rating, and for pending certifications, the targeted certification level. Kungsleden also has the ambition to disclose the contribution of individual green bonds to investments into specific assets that fall under the GBF. The GBC will make decision on asset-specific reporting.

Weaknesses

We find no obvious weaknesses in the Kungsleden's GBF.

Pitfalls

ENSO takes a long-term view on climate change. One way to better ensure long-term positive effects is through impact assessments. In the project selection, Kungsleden will use the results of certification assessments and external assessments, e.g. related to building materials to evaluate projects for eligibility. However, a more thorough impact analysis (ex-ante and ex-post) and a standardized set of indicators against which to assess the projects could help avoid selection of projects that may not represent a significant improvement over status quo. This would also support Kungsleden reporting of impacts and assessment methodologies in its Green Bond Investor Letter. Green building certifications include many important environmental aspects. However, these certifications alone do not necessarily ensure improved energy performance or that resilience aspects are taken into considerations. For example, it is possible to achieve a LEED Gold certificate with no energy efficiency credits.

The issuer requires that for LEED and BREEAM certified buildings at least 70 per cent of the possible points within the energy category for LEED and BREEAM certified building has to be achieved. This does not ensure substantial improvements of energy efficiency in the buildings compared with existing building regulations in Sweden. The issuer has provided an example of a building that will be financed under the framework that have received 72 percent of possible energy points. Compared to existing regulation this building represents a 17 percent improvement, down to 65 kwh per square meter. Based on an overall assessment of the strict Swedish building regulations on energy efficiency, the additional required energy points and the issuer's strong focus on sustainability the green building category, receives a medium green shading.

Impacts beyond the project boundary

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.

Rebound effects

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 2, an example is energy efficiency investments in buildings which in part may lead to more energy use. Kungsleden should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high.

Appendix:

About CICERO and SEI

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of international agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO received a Green Bond Award from Climate Bonds Initiative for being the biggest second opinion provider in 2016 and from Environmental Finance for being the best external review provider (2017).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-carbon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted 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). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

cicero.oslo.no/greenbonds

SEI is an independent international research institute that undertakes policy oriented and applied research on environment and development issues. Our innovative, integrated systems research forms the basis for our work on policy advice, capacity development, decision support and implementation of policy and practice. Our mission is to support decision-making and induce change towards sustainable development around the world by providing integrative knowledge that bridges science and policy in the field of environment and development.

sei-international.org/

