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## Qualitas ESG Policy

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## 1 Purpose

The purpose of this policy document is to define Qualitas' commitment to environmental, social and governance (**ESG**) factors at both a corporate level and through its fund investment processes.

Qualitas believes that the integration and management of ESG factors throughout its organisation, funds and investment processes will enhance the risk adjusted returns for Qualitas' shareholders and investors in Qualitas funds.

## 2 Role of ESG Integration

Environmental, social and governance issues cover a range of topics.

**Environmental** – In addition to broader concerns about such things as the deterioration of environmental and natural resource use, there is increasing recognition of the threat of climate change to the stability of the global economic and financial system.

**Social** – The way in which companies and enterprises manage their operations with respect to labour market practices, work health and safety, product liability and supply chain management (including modern slavery) can pose investment risk. Qualitas believes that organisations should effectively manage their social licence to operate and social issues must be taken into consideration for both Qualitas as an organisation and for Qualitas' investment processes for its funds.

**Governance** – Governance risks represent a major long-term threat to investor value and Qualitas considers such things as board composition, director incentives and general remuneration and ESG oversight are of critical importance. These risks are also present in all real estate asset classes in which investments are made by Qualitas funds. Qualitas is of the view that, over the longer term, good governance will tend to be rewarded.

Notwithstanding the modest size of Qualitas as an organisation, it has chosen to implement its ESG beliefs in a measured way with full and active participation from all Qualitas staff.

## 3 ESG priorities and goals

### 3.1 Environmental and climate focus

Qualitas believes rising global carbon emissions and consequent global warming represents the greatest risk we are likely to experience this century to both investment markets and the physical well being of the global community.

Accordingly, one of Qualitas' immediate goals is focussed on how, as a corporate citizen, it can achieve carbon neutrality, whilst at the same time influence partners and borrowers to invest in real assets with a strong sustainability focus.

Qualitas' immediate environmental focus is on addressing climate change through a two-fold plan:

1. Aspiring to achieve carbon neutrality by the end of calendar year 2022; and
2. Integrating environmental sustainability benchmarks and criteria into its current and future investment activities and decision making, which are expected to increase over time.

### 3.2 ESG priorities

Below is a summary of Qualitas' ESG priorities over the next 12 and 24 months, which are to be reviewed annually, to drive material impact.



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Business Area	12 Month Targets	24 Month Targets
<p><b>Corporate</b></p>	<ul style="list-style-type: none"> <li>• <b>Carbon Neutrality</b> – Qualitas aspires to become certified as carbon neutral at the corporate level by Climate Active by the end of calendar year 2022.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Group Reporting Standards</b> –To develop its internal reporting competencies and information systems to comply with the reporting commitments of the United Nations’ Principles for Responsible Investment (UNPRI), including under the Task Force on Climate-related Financial Disclosures (TCFD).</li> </ul>
<p><b>Investment &amp; Risk</b></p>	<ul style="list-style-type: none"> <li>• <b>Environmental Sustainability Integration</b> – To include sustainability benchmarks and criteria in all current and future investment activities, which are to be measured and managed at a portfolio level.</li> <li>• <b>External Collaboration</b> – To expedite the integration of ESG benchmarks and criteria into investment activities and build ESG capabilities, Qualitas will seek the support of an independent ESG expert such as GRESB.</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Monitoring &amp; Improvement</b> – Upon the integration of ESG benchmarks and criteria into Qualitas’ investment activities, Qualitas will develop effective internal and external reporting frameworks to measure progress against targets.</li> </ul>



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## 4 ESG beliefs and priorities

Qualitas believes that embedding ESG considerations into the organisation's governance, culture, operating and investing approaches is both essential and critical. It will support better performance and enhance Qualitas' sustainable growth and success, and ultimately reflects Qualitas' commitment to be part of the positive social and environmental action and world needs.

As a signatory to the UNPRI, Qualitas is committed to implementing its five principles which are consistent with Qualitas' core ESG beliefs.

ESG beliefs
<p>1. <b>Long Term Temperature Goal</b> - Qualitas strongly endorses strengthening the global response to climate change, affirming the Paris Agreement goal of limiting global temperature increase to below 2 degrees Celsius from pre-industrial levels, whilst pursuing efforts to limit the increase to 1.5 degrees. Qualitas intends to reduce emissions across all lines of business to align with these goals. It is proposing to develop a plan consistent with this intention.</p> <p>2. <b>Adaptation</b> - Qualitas acknowledges the importance of adaptation to a low-carbon future through supporting the transition of legacy assets with high emissions, as well as the development of new assets which are built to the standard of a low-carbon future, over-and-above current requirements. Qualitas seeks to increase the presence of these impact style investments in both its traditional and ESG-linked funds.</p> <p>3. <b>Climate change is a material risk that needs to be mitigated</b> – as an investment manager of real assets, climate change is a systemic risk which requires mitigation and prevention efforts to deliver the desired investment outcomes and protect the value of the real assets that are invested in or lent to. Climate related risk can be categorised as –</p> <ul style="list-style-type: none"><li>a) <i>Physical risks</i> - the risk that real asset values are adversely affected by the heightened occurrence of rising sea levels, floods, droughts, wildfires and severe weather events;</li><li>b) <i>Liability risks</i> – the risk of litigation for losses parties may have suffered where organisations have not properly considered the risk of climate change;</li><li>c) <i>Transition risks</i> – the risk posed through changing policies, regulations and strategies as society adapts to a low carbon economy. During this transitional process, Qualitas believes the value of some real assets may be detrimentally affected or even stranded as the rate of change in technology, regulations and occupant requirements moves at a faster rate than the rate at which a real asset can adapt. Examples of such would include aged industrial or office properties that no longer meet the needs that tenants require in a low carbon environment.</li></ul> <p>In this regard, Qualitas believes it has a significant role to play in supporting and encouraging sponsors and borrowers to invest in real assets with a strong sustainability focus. As an equity investor or joint venture partner Qualitas can exert more influence with respect to sustainability outcomes. As a lender, Qualitas' ability to influence is more limited and involves, for example, advocating for the financial and risk management benefits of sustainable development and in some cases may involve requirements around meeting minimum sustainability parameters.</p> <p>Qualitas believes that material progress in the transition to low carbon investment activities can only be made with a transparent and robust reporting system to inform investment policy.</p> <p>4. <b>Governance</b> – Qualitas believes that governance risks represent a major long-term threat to investor value and Qualitas considers such principles as board composition, director incentives and general remuneration and ESG oversight are of critical importance. Qualitas is of the view that, over the longer term, good governance will tend to be rewarded.</p> <p>5. <b>Diversity and inclusion</b> – by harnessing the unique talents and experiences of a diverse team in a psychologically and physically safe environment, Qualitas is better equipped to face complex business challenges.</p>

## 5 Responsibility and accountability

5.1 Qualitas aims for best practice stewardship through governance and oversight of its sustainability initiatives at each level in the business – including:



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- **Qualitas Board (the Board):** The Board has a responsibility to consider sustainability factors as part of its strategic planning processes and to prioritise best practise. The Board is ultimately responsible for sustainability governance, including approving the Qualitas ESG Policy.
- **Executive Team:** The Executive Team is responsible for sustainability leadership, strategy and oversight
- **Global Head of Corporate Development:** The Global Head of Corporate Development, is responsible for the day-to-day management of the sustainability initiatives and framework, assisted by the Executive Team and Sustainability Steering Committee.
- **Sustainability Steering Committee (SSC):** The SSC, which comprises senior representation from key parts of the business and is chaired by the Global Head of Corporate Development, is responsible for strategy and policy development, reporting and implementation of strategic priorities. Within this group, further working groups are established on an as-needs-basis to design and test key aspects of sustainability integration relating to investments and operations. The SSC currently meets bi-monthly.
- **Investment Committee:** The Investment Committee is responsible for the effective integration of ESG factors into investment due diligence and decision making, including encouraging the Investment Team to work with counterparties to improve their ESG performance.

5.2 Where practical, each employee, contractor and adviser engaged by Qualitas is required to have regard to ESG factors in their engagement with the business. Each person is responsible and accountable for ensuring that Qualitas complies with its requirements and goals towards its initiatives and priorities.

## 6 ESG Framework

### 6.1 ESG Investment Policy

#### ESG Integration

Qualitas will gradually seek to integrate ESG considerations into its investment decisions with a view to optimising the sustainability of its funds and investments, with a priority focus on climate risk and environmental sustainability. It will also focus on the following factors in the short to medium term:

- a) Access, affordability and socioeconomic factors;
- b) Counterparty ESG credibility and performance, including policies and governance; and
- c) Community connection and diversity.



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## 6.2 ESG Assessment Tool

Leveraging relevant aspects of the international GRESB Real Estate Assessment, Qualitas has developed and uses a proprietary assessment tool to assess and document ESG leadership and identify key areas of ESG performance for all its investments.

In analysing all potential investments across the capital structure, Qualitas includes an ESG assessment of the sponsor and associated property. This assessment is further considered by the Investment Committee and forms part of the investment decision-making process.

Qualitas actively engages with sponsors/borrowers to encourage them to maximise their consideration around ESG factors.

## 6.3 Negative and Exclusionary Screening

Qualitas utilises a screening process to ensure all investments are of a minimum ESG standard. Qualitas' current screening process involves mandated exclusion of borrowers/sponsor/projects in the following sectors:

- Production and/or sale of military equipment, firearms or munitions;
- Production, storage and/or transportation of nuclear/radioactive material (note – this does not apply to the purchase of medical equipment or quality control measurement equipment);
- Production and/or sale of tobacco products (where the latter is a material component of the business); and
- Adult entertainment venues, brothels and sale of pornography.

The Investment Committee may also consider rejecting an investment on ESG grounds, despite not fitting into the above filters if they deem it does not align with Qualitas' overall ESG Policy.

Qualitas aims to work with partners and seek out co-investments with like-minded sponsors/borrowers and third parties. Qualitas undertakes an assessment of third-party processes and engages in discussions with sponsors/borrowers about their processes to ensure their values align with ours.

Qualitas views screening as an ongoing process that will continue to be informed by what Qualitas deems to be an unacceptable ESG risk. Hence, the criteria above may be expanded further in the future.

## 6.4 Climate Change

Qualitas affirms climate change as one of the most material environmental and social systemic risks its business and the wider Australian economy faces. As such, plans for Qualitas to adapt, mitigate, and capitalise on a low-carbon future are key features of its ESG Policy, and for Qualitas to continue to service the needs of its clients. Qualitas has and will continue to develop investment products that are well positioned to benefit from the transition to a low-carbon economy, whilst maintaining attractive risk and reward profiles. Qualitas believes a changing climate, and consequently a changing economy, will continue to alter how risk is perceived and assessed.

## 6.5 Climate Change Engagement

When investing equity through Qualitas funds, Qualitas will seek and prioritise investments that proactively consider sustainability outcomes. Qualitas will focus this on examining asset design and mechanical services with respect to sustainability outcomes to the fullest extent that is



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financially feasible. The sustainability credentials of these investments are to be promoted externally when making transaction announcements to the press or when discussing the investments more broadly in the market.

Qualitas will continue to implement sustainability covenants within the Qualitas Build to Rent Impact Fund, requiring specific levels of features and ratings to gain financing, as a method of engagement. Examples of sustainability covenants used in the Qualitas Build to Rent Impact Fund include minimum NatHERS/NABERS ratings, minimum photovoltaic density on non-trafficable roof space, highly efficient mechanical services and energy monitoring portals. Qualitas will explore how the learnings obtained within this Fund can be applied across a broader cross section of its investment activities.

## 7 Collaboration and knowledge sharing

Qualitas is a signatory to UNPRI and a member of the IGCC and members of the SSC are involved in ongoing correspondence with these groups.

Members of the SSC and other employees of Qualitas are also engaged in committees run by the Property Council of Australia, including the National Social Sustainability Roundtable and NSW Sustainability Committee.

## 8 Diversity and Inclusion

### 8.1 Working environment

Qualitas is committed to promoting a working environment which is inclusive and free from discrimination. Qualitas recognises the value and power of diversity in achieving long term performance by fostering a sense of belonging and psychological safety. To embed an empowering culture which is welcoming, safe, and inclusive, Qualitas launched an employee led Diversity Committee in 2020. Since the inception of the committee, several key and proactive changes to the way Qualitas views its talent have been made, including:

- a) **Balanced Recruiting:** Qualitas utilises diversity short lists and non-homogeneous interview panels to aid in eliminating bias during the recruitment process. This optimisation has been crucial in Qualitas' 10% year-over-year improvement in gender diversity. Qualitas also commenced sponsorship of Women's finance societies at universities to provide a pipeline of diverse talent and encourage diversity in the industry more broadly.
- b) **Remuneration Consistency:** Qualitas acknowledges the existence of 'pay gaps' and ceilings on some demographics of talent. To ensure all staff are recognised for their performance, outcome reviews for diverse populations with respect to talent opportunities and remuneration are undertaken.
- c) **Improved Parental Leave Conditions:** Qualitas recognises the systemic and detrimental effects when superannuation is not paid on parental leave. As such Qualitas has increased its period of parental leave and ensured superannuation is paid.
- d) **Flexible Arrangements:** Qualitas understands that rigid working arrangements are an impediment to a diverse workforce. Qualitas supports its employees to build flexible arrangements which are focused on achieving outcomes.

### 8.2 Gender Diversity

Qualitas approaches these initiatives as the foundation of its diversity and inclusion aspirations. Continuous improvement is needed to reach Qualitas' target of 40/40/20 gender diversity throughout all levels of the organisation. As Qualitas continues to expand, a diverse and



culturally competent workforce will be integral to its success, and will be continually enhanced through educating, celebrating, and growing its increasingly diverse team.

## 9 Reporting

### 9.1 Internal reporting

Internal reporting is managed and monitored by the Global Head of Corporate Development. Reporting to the Board occurs at least bi-annually and to the Executive Team at least quarterly.

The Global Head of Corporate Development is responsible for communicating the contents of this policy and advising the Executive Team of any breaches of this policy. Breaches will also be recorded in the Qualitas incidents and breaches register maintained by the Director – Group Compliance.

Reporting to key stakeholders and investors will occur via current ongoing communication channels.

### 9.2 External reporting

Qualitas is committed to transparency and disclosure in monitoring and reporting on its sustainability journey.

The business will undertake its reporting requirements as required by the UNPRI, with assistance from sustainability consultants.

## 10 Policy Review Process

This policy will be reviewed annually, and more frequently if deemed appropriate. The Global Head of Corporate Development is responsible for the annual review by the Nomination, Remuneration and Governance Committee and any material changes to this policy will be provided to the Board for approval.

## 11 Related Policies

Qualitas seeks to reflect ESG and its obligations in its suite of policies, including but not limited to its:

- a) Investment policies;
- b) Risk management framework and risk appetite statement;
- c) Conflicts management framework and policy; and
- d) Board Charter and Code of Conduct.