

# Octopus Affordable Housing Fund Limited: Sustainability-related Website Disclosures

## 1 Summary

Octopus AIF Management Limited (the "**AIFM**") is the alternative investment fund manager of Octopus Affordable Housing Fund Limited (the "**Fund**").

The AIFM has prepared and provides the disclosures contained herein via its website in accordance with article 10(1) of the EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("**SFDR**"), and the website product disclosure requirements for products with a sustainable investment objective under the Commission Delegated Regulation (EU) 2022/1288 (as amended) supplementing the SFDR with regard to the regulatory technical standards specifying the content and presentation of information required by the SFDR. In providing these disclosures, the AIFM has regard to the overall principles of Regulation 2020/852 of the European Parliament and of the Council of 18 June 2020 (the "**Taxonomy Regulation**") which is the cornerstone of the EU's sustainable finance framework.

Octopus Affordable Housing Feeder Fund I LP (the "**Feeder**") is a feeder AIF (as defined in article 4(1)(m) of the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (the "**AIFMD**") to the Fund. The AIFM is also the alternative investment fund manager of the Feeder. These sustainability related disclosures therefore also apply to the Feeder as its environmental, social and/or governance ("**ESG**") related objectives and impacts are intrinsically linked to, and mirror those of, the Fund as its master AIF (as defined in article 4(1)(y) of the AIFMD).

The Fund is a financial product that has sustainable investment as its objective pursuant to article 9 of the SFDR. In managing the Fund's portfolio, the AIFM takes into account sustainability risks and the potential impact of such risks on the Fund's returns. The AIFM is responsible for risk and portfolio management of the Fund's portfolio, and has delegated its portfolio management function to Octopus Investments Limited (the "**Investment Manager**"). The AIFM and the Investment Manager are subsidiaries of Octopus Group Holdings Ltd.

Responsible investment is an integral part of the Investment Manager's and the AIFM's investment processes. The Investment Manager seeks to integrate responsible investments considerations across all of its business activities with respect to the Fund. The Investment Manager applies the Fund's Responsible Investment Policy ("**RI Policy**") which sets out the Fund's approach to identifying and managing ESG risks and delivering impact, reflecting the interests of the Fund's stakeholders, including its residents and its shareholders, and informed by best practices for the sustainable design and construction of affordable housing. The RI Policy is tailored specifically to risks and processes applicable to the Fund, as well as linking into the relevant Octopus Group-wide policies. Dedicated resources within Octopus Investments help deliver Octopus Real Estate's (a division of Octopus Investments Limited and part of the Octopus Group) impact & sustainability strategy and support the AIFM and the Investment Manager in conducting ESG risk assessment and monitoring processes, such as the Octopus Affordable Housing Team, the Responsible Investment Committee and the Octopus Real Estate Investment Committee ("**OREIC**"). In particular, the OREIC and the AIFM are responsible for ensuring that all investment decisions are aligned with the RI Policy. The AIFM also engages external advisers, such as The Good Economy, to support it in the evaluation and monitoring of ESG risks.

The ESG regulatory landscape (including the SFDR and the Taxonomy Regulation) is continually evolving. At present the applicable requirements of the SFDR and the Taxonomy Regulation are tailored and skewed towards environmental objectives and disclosures, with a lesser focus on social objectives. The disclosures and information contained herein therefore reflect the current regulatory requirements which are more environmental focussed, despite the Fund's focus on ESG and sustainability being more aligned to social objectives. As regulation on socially sustainable objectives develops, the requirements applicable to the Fund might change and the AIFM is committed to complying with the regulations and obligations applicable

to it as it knows them to be and will review any such requirements on an ongoing basis and update this document and its approach to its obligations as required.

The Investment Manager (from a portfolio management perspective) and the AIFM (from a risk management perspective) each undertake a broad-based evaluation of ESG risks in determining the likely success of a potential investment over the long term. Each considers sustainability as intrinsic to the way it does business and an essential way to link the long-term financial performance of its investments with their environmental and social outcomes.

As part of its investment process, the Investment Manager seeks to: (i) identify and understand the relevant ESG risks related to a proposed investment, which are considered alongside other material risks; (ii) assess the scope for improvement of an investment's ESG credentials if an investment is to be made; and (iii) pursue active engagement on ESG considerations with key stakeholders once an investment has been made. As part of any investment process, ESG risks are discussed at the OREIC for each proposed investment. ESG considerations form part of the preliminary and final investment decision taken by the Investment Manager. This is principally undertaken (initially) by an assessment against the Fund's "**Quality Book**" (which forms part of the RI Policy) which sets out the Fund's requirements for properties and is used to appraise the performance of proposed investments by ensuring that due consideration is given to such requirements throughout the investment decision process, thus ensuring the Fund's assets meet a minimum ESG quality threshold.

ESG risks are considered during the initial due diligence in respect of an investment opportunity, including considerations of sector-specific and geography-specific ESG risks. Any new investment must also be aligned with Octopus Investment's ethical principles (which covers breaches of applicable planning laws, human rights abuse, unsatisfactory clinical or working conditions, bribery and corruption). The Octopus Real Estate Team also completes a review against the Fund's Quality Book as part of the due diligence process.

The Investment Manager takes into account ESG risks and other ESG factors as part of the investment process for the Fund and has developed a programme of sustainability and energy efficiency audits.

The investment performance of the Fund will depend on a range of economic and financial factors as well as ESG risks and opportunities which are specific to each investment's profile. The costs and reputational effects of ESG-related incidents can negatively impact the turnover and profitability of investments. Further, investments which do not adequately address sustainability risks may be less well positioned to succeed in the face of ESG-related challenges.

ESG risks can affect all known types of risk (for example, market risk, liquidity risk, counterparty risk and operational risk), and as a factor, contribute to the materiality of these risk types. The assessment of ESG risks is complex and often requires subjective judgements, which may be based on data, which is difficult to obtain, incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that the impact of ESG risks on the Fund's investments will be correctly assessed.

The integration of ESG risks into investment decisions may eliminate exposures found in other strategies or broad market benchmarks that may cause performance to diverge from the performance of these other strategies or market benchmarks. These effects may have an impact on the Fund's return.

The potential impact of these risks on returns of the Fund should be mitigated by integrating the consideration of ESG risks into due diligence and decision-making process. By taking ESG risks into consideration during its investment decision making process, the intention of the Investment Manager is to manage such ESG risks in a way that they do not have a material impact on the performance of the Fund. However, no assurance can be given that the AIFM, nor by the Investment Manager, will be able to unequivocally avoid and/or mitigate the impact of ESG risks on the Fund at all times and losses may be incurred.

## 2 No Significant Harm to the Sustainable Investment Objective

While the investment mandate is aligned with social outcomes associated with delivering new, quality, genuinely affordable homes, the Fund also actively seeks to ensure that the investments in the portfolio do not cause significant harm to any environmental or social sustainability objectives.

The RI Policy (which includes the Fund's Quality Book and the asset management strategy) sets out the tools, assessments and measures used to ensure that the investments and Fund do not significantly harm any environmental or social sustainability objectives, including in respect of climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, pollution prevention and control and the protection and restoration of biodiversity and ecosystems.

By way of example, the Investment Manager engages in the following to prevent significant harm to climate change mitigation:

- (a) The RI Policy is used to assess ESG-related risks (physical and transition risks) within every investment;
- (b) Quality book: This Quality Book sets out the Fund's requirements for properties that it acquires. It is used to appraise the performance of proposed acquisitions by ensuring that due consideration is given to these matters throughout the investment decision process;
- (c) The minimum quality threshold for new acquisitions ensures that all assets within the Fund meet a minimum environmental performance threshold (EPC B) and the Fund's asset management strategy sets out a pathway to a net zero portfolio by 2040, with all acquired assets to meet net zero standards by 2030;
- (d) Where homes are not able to achieve zero carbon in use, they are designed to enable future adaptation to achieve improved energy performance in the future;
- (e) Regarding greenhouse gas (GHG) emissions, the Investment Manager measures, monitors, and reports the assets of Scope 1 and 2 emissions. The asset's Scope 1 and 2 emissions are reported as part of Octopus Investments Scope 3 Category 13 emissions; and
- (f) The Investment Manager applies SASB (the Sustainability Accounting Standards Board) standards for 'Real Estate' to identify and mitigate financially material sustainability issues including factors caused by climate change.

The Investment Manager (through the Octopus Real Estate Team and other service providers) undertakes an annual review of the Fund's assets and how they meet the Fund's investment criteria (an 'Impact Report' undertaken by The Good Economy). NewArch Homes Limited ("**NewArch**") (a for-profit registered provider of social housing ("**FPRP**") which is registered with and regulated by the Regulator of Social Housing of England and Wales), has also adopted and will report under The Good Economy's Sustainability Reporting Standard for Social Housing (the "**SRS**"), which is an ESG standard designed to help the housing sector measure, report and enhance its ESG performance in a transparent, consistent and comparable way.

### 2.1 Consideration of the indicators for adverse impacts

The Fund's focus on sustainability is more aligned with social objectives rather than environmental objectives. The Investment Manager, with respect to the Fund, nevertheless considers the following indicators for adverse impacts on sustainability factors as applicable in the context of the investments:

- (a) climate and other environmental-related indicators: greenhouse gas emissions (GHG emissions, carbon footprint, GHG intensity of investments, exposure to companies active in the fossil fuel sector, share of non-renewable energy consumption and production, energy consumption intensity per high impact climate sector); biodiversity; water and hazardous and radioactive waste;
- (b) indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters: social and employee matters (violations and processes to monitor compliance with UNGC principles or OECD Guidelines for Multinational Enterprises, unadjusted gender pay gap, board gender diversity, exposure to controversial weapons);

- (c) indicators applicable to investments in real estate assets: exposure to fossil fuels through real estate assets, exposure to energy-inefficient real estate assets, and GHG emissions; and
- (d) indicators applicable to investments in investee companies or persons involved in the investments (such as developers): lack of a human rights policy.

The Investment Manager undertakes an annual review of these indicators, which will be included in the Investment Manager's Principal Adverse Impact Statement.

## 2.2 Alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights

The social housing and real estate sectors (like every other sector) could be subject to human rights abuse that needs to be mitigated and the Investment Manager ensures appropriate due diligence is performed, and that human rights, equality and anti-bribery and corruption policies are in place for service providers alongside the Investment Manager's own policies. This ensures that investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. This is primarily achieved by only working with suppliers who align with a supplier code of conduct. To the extent the Fund operates day-to-day management of its properties through its 'approved partners', this is considered as part of its due diligence.

Please also refer to the Modern Slavery Statement: <https://octopus-realestate.com/modern-slavery-act/>.

## 3 Sustainable Investment Objective of the Financial Product

The Fund's objective is to deliver new, quality, purpose-built and affordable homes which exceed minimum legal standards and be a responsible long-term landlord of those homes. In addition to financial returns, the Fund aims to deliver positive social impact by focussing on four investment themes:

- (a) accelerating the delivery of new, genuinely affordable, quality homes;
- (b) reducing fuel poverty;
- (c) delivering affordable housing for older people; and
- (d) making investments to maximise social impact.

## 4 Investment Strategy

The Fund focusses on funding the delivery of new, quality affordable homes and being a responsible, long-term landlord of those homes. The key parts of its investment strategy are as follows:

- (a) **acquisitions** – assets will be acquired either as standing (existing) investments or through forward-funding, or forward committing to, developments by housing associations, local authorities and other third-party developers;
- (b) **a direct-let model with an embedded Registered Provider** – the direct-let model will be operated using the Fund's embedded FPRP, NewArch. On occasion, long-term, inflation-linked leases may be granted to the housing associations or local authorities;
- (c) **housing management by trusted partners** – the Investment Manager will appoint 'approved partners' to operate and manage its homes. 'Approved partners' are assessed against detailed criteria and subject to approval by the NewArch Board; and
- (d) **asset quality** – the Fund will acquire predominantly new, purpose-built affordable homes which exceed minimum legal standards. The assets will be benchmarked against appropriate industry-standard measures of quality.

The Investment Manager has developed a formal Impact Framework for the Fund (which has been reviewed by the Good Economy) that:

- (a) defines the social impact associated with the Fund's investments by reference to the IRIS+ metrics;
- (b) embeds impact management within the investment management process;
- (c) is aligned with the GIIN's Operating Principles for Impact Management ("**Impact Principles**"); and
- (d) demonstrates how the delivery of social impact from the Fund's investments aligns fully with the investment objectives.

As part of the investment decision process, the Investment Manager aims to ensure that all investments meet the minimum standards for design, construction and environmental performance. All assets are benchmarked against appropriate industry-standard measures of quality which will be reviewed from time to time and are set out in the Octopus Real Estate's 'Quality Book', against which all new acquisitions are assessed. NewArch will also report under the SRS, and the Good Economy will assess the Fund activities against its Impact Framework and provide a report on the Fund's delivery of social impact.

As part of the due diligence process, the Investment Manager and the Octopus Real Estate Team will assess whether an investment follows good governance practices. Every investment and person involved in an investment (such as 'approved partners') is assessed against key criteria on good governance, including country specific governance risk, anti-money laundering, bribery and corruption and governance related reputational risk. In particular, 'approved partners' are assessed through a two-stage process, which includes a comprehensive assessment of the partners' ability to provide services to the Fund.

## 5 Proportion of Investments

At least 85% of the Funds GAV will be invested in Affordable Housing with the remaining 15% covering ancillary uses on the same sites and contributing to increasing the supply of residential housing to help with the housing shortages in the UK. 100% of the Fund's investments are expected to be comprised of socially sustainable investments.



## 6 Monitoring of Sustainable Investment Objective

The Investment Manager has developed a formal Impact Framework for the Fund (which will be reviewed by the Good Economy) that: (a) defines the social impact associated with the Fund's investments by reference to the IRIS+ metrics; (b) embeds impact management within the investment management process; (c) is aligned with the Impact Principles; and (d) demonstrates how the delivery of social impact from the Fund's investments aligns fully with the investment objectives.

The Investment Manager uses the following impact key performance indicators, which align with its four investment themes, to measure the attainment of the Fund's social investment objective:

- (a) number (and %) of new, genuinely affordable, quality homes funded from Housing Association and Local Authority development pipelines;
- (b) £ (and %) household energy cost savings delivered, and number (and %) of zero electricity bill homes funded;

- (c) number (and %) of new affordable, quality older persons' homes funded; and
- (d) £ of local co-investment from Housing Associations, Local Authorities, LGPSs and other mission-led organisations.

The Investment Manager also considers KPIs related to Real Estate Quality (via the Fund's Quality Book) as part of the formal Fund's Impact Framework created by Octopus Investments.

The Investment Manager will deliver an annual Impact Alignment Statement which is externally assured every three years against the Impact Principles.

Through a programme of sustainability and energy efficiency audits, the Octopus Real Estate Team monitors how the Fund is managed in line with ESG Principles and engages monitoring surveyors during the build stage.

The Investment manager considers the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights (as further detailed above in respect of the AIFM's due diligence processes).

## **7 Methodologies**

The Investment manager uses a range of methodologies to measure and monitor the Fund's attainment of the sustainability objective and how the sustainability indicators noted above are used:

- (a) RI Policy;
- (b) IRIS metrics
- (c) SASB (Sustainability Accounting Standards Board);
- (d) The Good Economy's Sustainability Reporting Standards;
- (e) KPIs as set out above; and
- (f) Benchmarking assets against appropriate industry-standard measures of quality.

## **8 Data sources and processing**

Data is collected principally through the management partners, who manage properties on the Fund's behalf, supported by technical consultants and independent verification where appropriate. The Fund's 2023 emissions data was 100% estimated within the SHIFT Environment Report. The Fund considers third party benchmarks such as the Sustainability Reporting Standards for Social Housing, which provide a data benchmark through which the Fund uses to assess performance against the sector, using collation and reporting methodologies that are consistent with sector expectations. External verification is undertaken on various data points by independent third parties reporting on the Fund's ESG performance, such as The Good Economy.

## **9 Limitations to methodologies and data**

On the basis that the Fund's focus on sustainability is more aligned to social objectives rather than environmental objectives, the assessment of ESG risks is complex and often requires subjective judgements, which may be based on data, which is difficult to obtain, incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that the impact of ESG risks on the Fund's investments will be correctly assessed.

There is some reliance on some third-party systems, which may, from time to time, not be able to provide information in exactly the format required. Alternative methodologies may be used to populate specific datasets.

## **10 Due Diligence**

ESG risks are considered during the initial due diligence in respect of an investment opportunity, including considerations of sector-specific and geography-specific ESG risks.

Any new investment must also be aligned with Octopus Investments' ethical principles (which covers breaches of applicable planning laws, human rights abuse, unsatisfactory clinical or working conditions, bribery and corruption). The Octopus Real Estate Team also completes a review against the Fund's Quality Book as part of the due diligence process.

Please refer to the sections titled "Investment Strategy" and "Monitoring of sustainability investment objective" above for further details of the AIFM's due diligence processes.

## **11 Engagement Policies**

The Fund's investment strategy is not to hold listed companies, so 'engagement' is not applicable. However, as noted above, the AIFM and the Investment Manager are subsidiaries of Octopus Group Holdings Ltd and apply the RI Policy when engaging with the management of assets and investments and with any third-party service providers to such assets and their management.

## **12 Attainment of the sustainable investment objective**

Not applicable.

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