

# Second-Party Opinion

## Colonial Green Financing Framework



### Evaluation Summary

Sustainalytics is of the opinion that the Colonial Green Financing Framework is credible and impactful and aligns with the four core components of the Green Bond Principles 2021 and the Green Loan Principles 2023. This assessment is based on the following:



**USE OF PROCEEDS** The eligible category for the use of proceeds, Green Buildings, is aligned with those recognized by the Green Bond Principles and the Green Loan Principles. Sustainalytics considers that investments in the eligible category will lead to positive environmental impacts and advance the UN Sustainable Development Goals, specifically SDG 9.



**PROJECT EVALUATION AND SELECTION** Colonial Group's ESG Committee will be responsible for the evaluation and selection of eligible projects in line with the Framework's eligibility criteria. The committee will also be responsible for managing environmental and social risks associated with eligible projects. Sustainalytics considers the risk management process and the project selection process in line with market practice.



**MANAGEMENT OF PROCEEDS** Colonial Group's ESG Committee will be responsible for the management of proceeds and will track their allocation using a portfolio approach. The Group intends to allocate proceeds within 24 months of issuance. Pending allocation, the Group will temporarily hold unallocated net proceeds in cash, cash equivalents, market funds or money market instruments in accordance with the Group's responsible investment policy. This is in line with market practice.



**REPORTING** Colonial Group will report on allocation of proceeds and corresponding impacts on its website on an annual basis until full maturity. Allocation reporting will include the total amount of green bonds and loans outstanding per issuing entity; examples of eligible green projects, where feasible; and any remaining portion to be allocated, with the percentage of unallocated funds. Sustainalytics views Colonial Group's allocation and impact reporting as aligned with market practice.

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**Evaluation date** November 6, 2024

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**Issuer Location** Madrid, Spain

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## Introduction

The Colonial Group (the “Group”) is a real estate investment trust managing a portfolio of 70 assets located in Paris, Madrid and Barcelona, with a combined value of EUR 11 billion and 1.5 million square metres of total floor space.<sup>1,2</sup> Inmobiliaria Colonial, SOCIMI S.A. headquartered in Madrid, Spain, is the parent company of the Group, which owns several subsidiaries, including Société Foncière Lyonnaise S.A., headquartered in Paris, France.

Colonial Group has developed the Colonial Green Financing Framework dated November 2024 (the “Framework”) under which Inmobiliaria Colonial, SOCIMI S.A. and Société Foncière Lyonnaise S.A., intend to issue green bonds, including covered bonds,<sup>3,4</sup> and loans<sup>5</sup> and use the proceeds to finance or refinance, in whole or in part, existing or future projects expected to contribute towards the decarbonization of the Group’s property portfolio, thereby supporting the achievement of the EU’s climate and energy targets. The Framework defines eligibility criteria in one area:

### 1. Green Buildings

Colonial Group engaged Sustainalytics to review the Framework and provide a Second-Party Opinion on the Framework’s environmental credentials and its alignment with the Green Bond Principles 2021 (GBP)<sup>6</sup> and the Green Loan Principles 2023 (GLP).<sup>7</sup> The Framework has been published in a separate document.<sup>8</sup>

### Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent<sup>9</sup> opinion on the alignment of the reviewed Framework with current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the Green Bond Principles 2021, as administered by ICMA, and the Green Loan Principles 2023, as administered by LMA, APLMA and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.17, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Colonial Group’s management team to understand the sustainability impact of its business processes and planned use of proceeds, as well as the management of proceeds and reporting aspects of the Framework. Colonial Group’s representatives have confirmed that: (1) they understand it is the sole responsibility of Colonial Group to ensure that the information provided is complete, accurate and up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly

<sup>1</sup> Colonial Group, “Strategy”, at: <https://www.inmocolonial.com/en/company/strategy>

<sup>2</sup> Colonial Group, “Integrated Annual Report”, (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL\\_IA\\_2023\\_ENG\\_WEB.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL_IA_2023_ENG_WEB.pdf)

<sup>3</sup> Colonial Group has confirmed to Sustainalytics that: i) the net proceeds from covered bonds will be allocated to loans eligible under the Framework; and ii) the amount of the eligible loans will exceed all outstanding bonds and liabilities at all times.

<sup>4</sup> Colonial Group confirmed that covered bonds will be secured green standard bonds, as defined by ICMA under Appendix 1 (June 2022) of the GBP. The issuer has further confirmed that there will be no double counting of eligible projects under a covered green bond with any other type of outstanding GSS labelled financing instruments.

<sup>5</sup> Debt issued under the Framework may include revolving credit facilities and multi tranche loan facilities. The Issuer intends to label only those tranches of such facilities whose proceeds will be allocated according to the eligibility criteria in the Framework.

<sup>6</sup> The Green Bond Principles are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>.

<sup>7</sup> The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association and are available at <https://www.lsta.org/content/green-loan-principles/>

<sup>8</sup> The Colonial Green Finance Framework is available on the website of Inmobiliaria Colonial, SOCIMI S.A. at: <https://www.inmocolonial.com/en/shareholders-and-investors/fixed-income/green-bonds/framework>

<sup>9</sup> When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Colonial Group.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realised allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favour or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Colonial Group has made available to Sustainalytics for the purpose of this Second-Party Opinion.

## Sustainalytics' Opinion

### Section 1: Sustainalytics' Opinion on the Colonial Green Financing Framework

Sustainalytics is of the opinion that the Colonial Green Financing Framework is credible, impactful and aligned with the four core components of the GBP and GLP. Sustainalytics highlights the following elements of the Framework:

- Use of Proceeds:
  - The eligible category, Green Buildings, is aligned with those recognized by the GBP and GLP.
  - Sustainalytics notes that Colonial Group may use the proceeds to finance the acquisition of equity stakes from entities that derive 90% or more of their revenue from activities that comply with the eligibility criteria in the Framework. Colonial Group has confirmed to Sustainalytics that in case of acquisitions, the cost of the acquisition will be based on the fair value. Sustainalytics believes that project- and activity-based investing generally result in more direct environmental benefits and enhance compliance with the criteria in the Framework. However, Sustainalytics acknowledges that using green bond and loan proceeds to make equity investments into pure play companies is a commonly accepted approach that is likely to generate positive impacts by supporting the end activities of the pure play companies.
  - Under the Green Buildings category, Colonial Group may finance or refinance expenditures related to the acquisition, ownership, construction and renovation of buildings in accordance with the following criteria.
    - Acquisition and ownership of buildings that meet one of the following criteria:
      - Buildings meeting the technical screening criteria for substantial contribution to climate change mitigation for Activity 7.7 of the EU Taxonomy,<sup>10</sup> as outlined below:
        - Buildings built before 31 December 2020 that have an energy performance certificate (EPC) A or are in the top 15% of the national or regional building stock in terms of operational primary energy demand (PED), and which demonstrate a comparison of the performance of the relevant asset with that of the national or

<sup>10</sup> "7.7 Acquisition and ownership of buildings" in Annex I of the EU Taxonomy Climate Delegated Act (Regulation (EU) 2021/2139). European Commission, "Commission Delegated Regulation (EU) 2021/2139", (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>

regional stock built before 31 December 2020 and distinguish between residential and non-residential buildings.

- Buildings built after 31 December 2020 that meet the criteria for substantial contribution to climate change mitigation for Activity 7.1 of the EU Taxonomy, as outlined below:<sup>11</sup>
  - The PED is at least 10% lower than the threshold set by the applicable nearly zero-energy building (NZEB) requirements.
  - For buildings greater than 5,000 m<sup>2</sup>, the building undergoes testing for airtightness and thermal integrity and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients.
  - For buildings greater than 5,000 m<sup>2</sup>, the life cycle global warming potential (GWP) of the building has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand.
  - For large non-residential buildings with an effective rated output beyond 290 kW for heating, combined space heating and ventilation, air conditioning or combined air conditioning and ventilation systems, an energy performance monitoring and assessment system will be in place.
- Buildings that achieve one of the following certifications at the minimum levels: LEED Gold,<sup>12</sup> BREEAM Very Good with a minimum 70% score in the energy category,<sup>13</sup> HQE Excellent.<sup>14</sup>
- Buildings that do not exceed the carbon emissions or energy efficiency thresholds calculated by the Carbon Risk Real Estate Monitor (CRREM) tool to ensure financed buildings are aligned with a 1.5°C decarbonization pathway, for a specific building type in Spain, France, or other countries into which the Group may expand its operations in the future.<sup>15</sup> Sustainalytics notes that the CRREM tool provides decarbonization pathways for specific building types and location of the asset. However, Sustainalytics has not been able to assess compliance with the top 15% buildings in the relevant jurisdiction based on emissions intensity pathways. Sustainalytics recognizes the potential sustainability benefit of financing buildings in line with CRREM decarbonization pathways but notes that thresholds on this pathway can be achieved by procurement of renewable energy, which may not necessarily ensure the implementation of energy efficiency improvements in the financed buildings. Nevertheless, Colonial Group has informed Sustainalytics that it intends to achieve the reduction in emissions intensity through the implementation of energy-efficient technologies rather than the procurement of renewable energy. Thus, Sustainalytics considers the financing of buildings with a focus on improvements in energy efficiency in line with the CRREM decarbonisation pathways to be credible.
- Sustainalytics considers these investments to be aligned with market practice.
  - Construction of new buildings that meet one of the following criteria:
    - Buildings that meet any of the following certifications and minimum levels: LEED Gold, BREEAM Excellent, HQE Excellent.

<sup>11</sup> Ibid. "7.1 Construction of new buildings"

<sup>12</sup> LEED: <https://www.usgbc.org/leed>

<sup>13</sup> BREEAM: <https://bregroup.com/products/breeam/>

<sup>14</sup> HQE: <https://www.hqegbc.org/en/qui-sommes-nous-alliance-hqe-gbc/la-certification-hqe/>

<sup>15</sup> Colonial Group confirmed to Sustainalytics that it will not finance projects in the following locations under the Framework: Belarus; the Crimea region of Ukraine; Cuba; Iran; North Korea; Russia; the Donetsk People's Republic region of Ukraine; the Luhansk People's Republic region of Ukraine; or Syria.

- Buildings meeting the technical screening criteria for substantial contribution to climate change mitigation for Activity 7.7 of the EU Taxonomy,<sup>16,17</sup> as outlined below:
  - Buildings built before 31 December 2020 that have an energy performance certificate (EPC) A or are in the top 15% of the national or regional building stock in terms of operational primary energy demand (PED), and which demonstrate a comparison of the performance of the relevant asset with that of the national or regional stock built before 31 December 2020 and distinguish between residential and non-residential buildings.
  - Buildings built after 31 December 2020 that meet the technical screening criteria for substantial contribution to climate change mitigation for Activity 7.1, as follows:<sup>18</sup>
    - The PED is at least 10% lower than the threshold set by the applicable nearly zero-energy building (NZEB) requirements.
    - For buildings greater than 5,000 m<sup>2</sup>, the building undergoes testing for airtightness and thermal integrity and any deviation in the levels of performance set at the design stage or defects in the building envelope are disclosed to investors and clients.
    - For buildings greater than 5,000 m<sup>2</sup>, the life cycle global warming potential (GWP) of the building has been calculated for each stage in the life cycle and is disclosed to investors and clients on demand.
  - For large non-residential buildings with an effective rated output beyond 290 kW for heating, combined space heating and ventilation, air conditioning, or combined air conditioning and ventilation systems, an energy performance monitoring and assessment system will be in place.
  - Sustainalytics considers these investments to be aligned with market practice.
- Renovation of existing buildings that meet one of the following criteria:
  - Buildings that obtain any of the following certifications and minimum levels: LEED Gold, BREEAM Excellent, HQE Excellent.
  - Buildings that align with carbon emissions or energy efficiency thresholds calculated by the CRREM tool to ensure financed buildings are aligned with the 1.5°C decarbonization pathway for a specific building type in Spain, France or other countries into which the Group may expand in the future.<sup>19</sup> Sustainalytics notes that the CRREM tool provides decarbonization pathways for specific building types and location of the asset. However, Sustainalytics has not been able to assess compliance with the top 15% buildings in the relevant jurisdiction based on emissions intensity pathways. Sustainalytics recognizes the potential sustainability benefits of financing buildings in line with CRREM decarbonization pathways but notes that the thresholds on this pathway can be achieved by procurement of renewable energy, which may not necessarily ensure the implementation of energy efficiency improvements in

<sup>16</sup> “7.7 Acquisition and ownership of buildings” in Annex I of the EU Taxonomy Climate Delegated Act (Regulation (EU) 2021/2139). European Commission, “Commission Delegated Regulation (EU) 2021/2139”, (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>

<sup>17</sup> Colonial Group has confirmed that the buildings in this category are not intended for sale, but for rental agreements. EU Taxonomy Activity 7.7 is applicable, as stated in the EPRA, “Taxonomy Guidelines”, (2023), at: [https://www.epra.com/application/files/2416/7705/7648/EPRA\\_TAXONOMY\\_GUIDELINES\\_QA22.02.pdf](https://www.epra.com/application/files/2416/7705/7648/EPRA_TAXONOMY_GUIDELINES_QA22.02.pdf)

<sup>18</sup> “7.1 Construction of new buildings” in Annex I of the EU Taxonomy Climate Delegated Act (Regulation (EU) 2021/2139). European Commission, “Commission Delegated Regulation (EU) 2021/2139”, (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>

<sup>19</sup> Colonial Group confirmed to Sustainalytics that it will not finance projects in the following locations under the Framework: Belarus; the Crimea region of Ukraine; Cuba; Iran; North Korea; Russia; the Donetsk People’s Republic region of Ukraine; the Luhansk People’s Republic region of Ukraine; or Syria.

the financed buildings. Nevertheless, Colonial Group has informed Sustainalytics that it intends to achieve the reduction in emissions intensity through the implementation of energy-efficient technologies rather than the procurement of renewable energy. Thus, Sustainalytics considers financing the renovation of existing buildings with a focus on improvements in energy efficiency in line with CRREM decarbonization pathways of the Framework to be credible.

- Renovation measures in line with the SC criteria for Activity 7.2 of the EU Taxonomy,<sup>20</sup> resulting in a reduction of primary energy demand of at least 30% or complying with the applicable requirements for major renovations.<sup>21</sup> Sustainalytics notes that the performance standard reflected in the EU Taxonomy, which requires meeting the relevant cost-optimal minimum energy performance requirements in accordance with the Energy Performance Building Directive, could vary among EU Member States. Sustainalytics, therefore, encourages Colonial Group to report on the actual PED performance or energy savings achieved compared to the reference buildings as defined based on the existing building stock in the region.
- Colonial Group has confirmed to Sustainalytics that only expenditures related to retrofits will be financed, unless a building achieves an eligible level of certification as a result of the retrofit, in which case the expenditures related to the retrofit and the asset value of the building may be financed. This is in line with market practice.
  - The Framework excludes the financing of assets and buildings designed for the purpose of extraction, storage, transport or manufacture of fossil fuels, as well as weapons, pornography and tobacco activities.
- Project Evaluation and Selection:
  - Colonial Group's ESG Committee will be responsible for verifying compliance of the selected projects with the Framework. The ESG Committee will monitor the eligible green portfolios and approve allocation of net proceeds on an annual basis. The ESG Committee consists of members of Colonial Group's Management Committee, including members from the following areas: Sustainability and ESG coordination and reporting areas from Inmobiliaria Colonial, SOCIMI S.A., and Société Foncière Lyonnaise's Sustainability area.
  - The ESG Committee will be responsible for managing identified risks associated with the projects. Sustainalytics considers the Group's environmental and social risk management policies to be adequate. For additional details, refer to Section 2.
  - Based on the established responsibility for overseeing project selection and risk management, Sustainalytics considers this process to be in line with market practice.
- Management of Proceeds:
  - Colonial Group's ESG Committee will be responsible for the management of proceeds and will track their allocation through a portfolio approach.
  - Colonial Group intends to allocate net proceeds to eligible assets within 24 months of issuance. Pending full allocation, Colonial Group will temporarily hold the unallocated proceeds in cash, cash equivalents, money market funds, or equivalents, in accordance with its responsible investment policy.
  - Colonial Group has communicated to Sustainalytics that instruments issued under the Framework may include multi-tranche loan facilities and has confirmed that it will only label the tranches of such facilities whose proceeds will be allocated to eligible projects and assets under the Framework.
  - Based on the presence of an internal tracking system and the disclosure of the temporary use of proceeds, Sustainalytics considers this process to be in line with market practice.
- Reporting:

<sup>20</sup> "7.2 Renovation of existing buildings" in Annex I of the EU Taxonomy Climate Delegated Act (Regulation (EU) 2021/2139). European Commission, "Commission Delegated Regulation (EU) 2021/2139", (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>

<sup>21</sup> "7.1 Construction of new buildings" in Annex I of the EU Taxonomy Climate Delegated Act (Regulation (EU) 2021/2139). European Commission, "Commission Delegated Regulation (EU) 2021/2139", (2021), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R2139>



- Colonial Group will report on the allocation and impact of proceeds in an allocation and impact report to be published on its website annually until maturity of any outstanding instruments issued under the Framework.
- Allocation reporting will include: i) the total amount of green financing instruments outstanding per issuing entity; ii) the amount of each eligible green portfolio at least equivalent to the amount of green financing instruments outstanding, broken down by eligible green category and geographically where feasible; iii) examples of eligible green projects, where feasible; and iv) any remaining portion to be allocated, with the percentage of unallocated funds.
- An independent auditor will verify the allocation reporting of the issuer on an annual basis.
- Impact reporting will include key environmental impact indicators and estimated expected quantitative reporting metrics, where feasible, such as: i) energy intensity in kWh/m<sup>2</sup> per year; ii) energy efficiency improvement achieved; and iii) annual GHG emissions reduced or avoided in kgCO<sub>2</sub>/m<sup>2</sup> per year versus a relevant baseline.
- Based on the commitment to both allocation and impact reporting, Sustainalytics considers this process to be in line with market practice.

### **Alignment with the Green Bond Principles 2021 and Green Loan Principles 2023**

Sustainalytics has determined that the Colonial Group Green Finance Framework aligns with the four core components of the GBP and GLP.

## **Section 2: Sustainability Strategy of Colonial Group**

### **Contribution to Colonial Group's sustainability strategy**

Colonial Group incorporates sustainable transformation and improvement targets into its real estate development projects and investments. The Group's 2023 climate strategy has two pillars which are relevant under this framework: i) emissions reduction and maximum energy efficiency; and ii) emissions avoidance from third parties.<sup>22</sup>

Regarding the pillar on emissions reduction and maximum energy efficiency, Colonial Group has set a target to reduce scope 1 and scope 2 GHG emissions by 50% by 2030 from a 2018 base year.<sup>23</sup> The target was validated by the SBTi in 2022 under the validation route for small and medium-sized enterprises.<sup>24</sup> Colonial Group has also set the following near and long-term objectives: i) achieve net zero across the entire value chain by 2045; ii) reduce absolute GHG emissions in scopes 1, 2 and 3 by 45% by 2030; and iii) reduce absolute GHG emissions in scopes 1, 2 and 3 by 90% by 2045, all from a 2021 baseline.<sup>25</sup> Furthermore, to assess the economic impact of carbon emissions, the Group has set an internal carbon price of EUR 100/tCO<sub>2</sub> to evaluate the impact of embedded carbon emissions and promote the reduction of emissions produced in its projects. To reduce its energy consumption and CO<sub>2</sub> emissions, the Group has implemented additional actions, including replacement of air-conditioning systems with more efficient equipment, improvement of building automation and control, installation of LED lighting, lighting control and dimming systems, and installation of solar photovoltaic systems for self-consumption.<sup>26</sup>

The pillar on emissions avoidance from third parties focuses on avoiding third-party emissions through: i) asset transformation by improving the footprint of building stock in the cities; and ii) product offering with low mobility carbon footprint. Strategies under this pillar include life cycle analyses for all projects to assess their environmental impact, and the prioritization of city centres and relevant transport hubs for the location of buildings.<sup>27</sup> As of 2023, 99% of the Group's portfolio was located in city centres and 78% in business centre areas.

<sup>22</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL\\_IA\\_2023\\_ENG\\_WEB.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL_IA_2023_ENG_WEB.pdf)

<sup>23</sup> SBTi, "Companies taking action", at: <https://sciencebasedtargets.org/companies-taking-action>

<sup>24</sup> SBTi, "Companies taking action", at: <https://sciencebasedtargets.org/companies-taking-action>

<sup>25</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL\\_IA\\_2023\\_ENG\\_WEB.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-06/COLONIAL_IA_2023_ENG_WEB.pdf)

<sup>26</sup> Ibid.

<sup>27</sup> Ibid.

Furthermore, Colonial Group has committed to achieving the following targets by 2030: i) 95% renewable energy in its total renewable energy mix from 88% in 2023; ii) 97% of waste recovered from 95% in 2023; and iii) 100% Proptech Technologies Roll-Out<sup>28</sup> from 54% in 2023.<sup>29</sup>

Sustainalytics is of the opinion that the Colonial Group Green Finance Framework is aligned with the Group's overall sustainability strategy and initiatives and will further the Group's action on its key environmental priorities.

### Approach to managing environmental and social risks associated with the projects

Sustainalytics recognizes that proceeds from the instruments issued under the Framework will be directed towards eligible projects that are expected to have positive environmental or social impacts. However, Sustainalytics is aware that such eligible projects could also lead to negative environmental and social outcomes. Some key environmental and social risks possibly associated with the eligible projects may include issues involving: i) land use and biodiversity loss associated with large-scale infrastructure projects; ii) emissions, effluents and waste; iii) occupational health and safety; iv) business ethics; and v) supply chain risk.

Sustainalytics is of the opinion that Colonial Group is able to manage and/or mitigate potential risks through implementation of the following:

- Regarding land use and biodiversity risks, Colonial Group committed through its Environmental Policy to preventing contamination from its activities, as well as minimizing water usage and residue generation.<sup>30</sup> The Group is in the process of updating the policy and expects to finalize it by the end of 2024. The Group is also developing a risk management and control system which will integrate climate and environmental risks, including digital tools to aid management of these risks.<sup>31</sup> Through its Biodiversity Policy, the Group implements measures to improve biodiversity on its sites, including by installing sustainable irrigation and drainage systems; adding plants to indoor and outdoor areas, including to roof areas and walls; promoting habitats for native flora and fauna, including by installing bird nesting boxes and insect hotels; and installing dry stone habitats. The Group's environmental policy also sets out its commitment to abide by local laws and regulations with respect to environmental concerns.<sup>32</sup> Sustainalytics' notes that Spain's law 42/2007 on Natural Heritage and Biodiversity sets out the requirements for the conservation, sustainable use, improvement and restoration of natural heritage and biodiversity.<sup>33</sup> In France, the Environmental Code regulates the protection of nature and biodiversity.<sup>34</sup>
- In relation to the management of emissions, effluents and waste, Colonial Group monitors and identifies actions to limit and reduce emissions and waste within its portfolio and throughout its value chain.<sup>35</sup> To lower emissions and limit the production of waste, the Group performs and integrates life cycle analyses for all renovation and new construction projects.<sup>36,37</sup> Additionally, the Group tracks and reports the hazardous and non-hazardous waste generated in the construction and operation of buildings in its portfolio.<sup>38</sup> Colonial Group complies with relevant EU guidelines and regulations, such as the EU Construction and Demolition Waste Protocol and Guidelines,<sup>39</sup> the EU

<sup>28</sup> This initiative allows the Group to measure the energy efficiency of properties, as well as to control in situ and remotely all the installations that represent significant energy consumption in buildings, providing predictive alerts about possible anomalous behaviour in the operation of the installations, and facilitating automated solutions.

<sup>29</sup> Ibid.

<sup>30</sup> Colonial Group, "Environmental Policy", (2017), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/4.politica\\_ambiental\\_colonial\\_2017.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/4.politica_ambiental_colonial_2017.pdf)

<sup>31</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL\\_IA\\_2023\\_ENG\\_WEB\\_0.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL_IA_2023_ENG_WEB_0.pdf)

<sup>32</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL\\_IA\\_2023\\_ENG\\_WEB\\_0.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL_IA_2023_ENG_WEB_0.pdf)

<sup>33</sup> Spanish Official Gazette, "Ley 42/2007, de 13 de diciembre, del Patrimonio Natural y de la Biodiversidad", (2007), at: <https://www.boe.es/buscar/act.php?id=BOE-A-2007-21490>

<sup>34</sup> Légifrance, "Code de l'environnement", at: [https://www.legifrance.gouv.fr/codes/texte\\_lc/LEGITEXT000006074220/](https://www.legifrance.gouv.fr/codes/texte_lc/LEGITEXT000006074220/)

<sup>35</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL\\_IA\\_2023\\_ENG\\_WEB\\_0.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL_IA_2023_ENG_WEB_0.pdf)

<sup>36</sup> Ibid.

<sup>37</sup> Colonial Group, "SFL Group Life Cycle Analysis Standard", (2024), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/Colonial-SFL%20Group%20Life%20Cycle%20Analysis%20Standard%20\\_web.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/Colonial-SFL%20Group%20Life%20Cycle%20Analysis%20Standard%20_web.pdf)

<sup>38</sup> Colonial Group, "Integrated Annual Report", (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL\\_IA\\_2023\\_ENG\\_WEB\\_0.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-05/COLONIAL_IA_2023_ENG_WEB_0.pdf)

<sup>39</sup> European Commission, "EU Construction and Demolition Waste Protocol and Guidelines", (2018), at: [https://single-market-economy.ec.europa.eu/news/eu-construction-and-demolition-waste-protocol-2018-09-18\\_en](https://single-market-economy.ec.europa.eu/news/eu-construction-and-demolition-waste-protocol-2018-09-18_en)



Waste Framework Directive,<sup>40</sup> the Waste Electrical and Electronic Equipment Directive<sup>41</sup> and the European Waste Shipment Regulation.<sup>42</sup> These regulations aim to ensure that waste is managed without endangering human health or causing harm to the environment.<sup>43</sup>

- Regarding occupational health and safety risks, EU Directive 89/391/EEC<sup>44</sup> requires employers to take measures to ensure the prevention of occupational risks and provision of information and training. The directive has been transposed into Spanish law under Law 31/1995 on the Prevention of Occupational Risks.<sup>45</sup> In France, the Labour Code mandates employers to ensure the safety and protection workers' health.<sup>46</sup>
- To mitigate risks related to business ethics, the Group has an Anti-Corruption Policy, Code of Ethics, and Criminal Compliance Policy in place.<sup>47,48,49</sup> Colonial Group's Anti-Corruption Policy outlines its prohibition on extortion, bribery, influence peddling and facilitation payments. It also sets out accepted conduct relating to gifts, relations with political and official institutions, sponsorships, and donations. Under the Code of Ethics and Criminal Compliance Policy, the Group commits to abide by local laws, and provide personnel with the proper information and training to allow them to comply with applicable laws and regulations.<sup>50,51</sup> The Group has a whistleblowing policy and operates a confidential whistleblowing channel.<sup>52</sup>
- To manage its supplier-related environmental risks, Colonial Group has an ESG Criteria Policy for Supplier Selection<sup>53</sup> focusing on the environment, climate change, energy, water, biodiversity, materials, and pollution and waste. The Group assesses suppliers according to an ESG qualification survey<sup>54</sup> and incorporates ESG-responsibility clauses into contracts with suppliers.<sup>55</sup> The policy also sets out standards for renovation and refurbishment contractors, requiring suppliers to comply with the ILO core conventions, occupational risk assessment and management plans, and to protect vulnerable groups through human rights policies.<sup>56</sup>

Based on these policies, standards and assessments, Sustainalytics is of the opinion that Colonial Group has implemented adequate measures and is well positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

### Section 3: Impact of Use of Proceeds

The use of proceeds category is aligned with those recognized by the GBP and GLP. Sustainalytics has focused below on where the impact is specifically relevant in the local context.

#### Impact of green buildings in non-residential buildings in Spain and France

The buildings sector accounted for 30% of final energy consumption and 25% of greenhouse gas emissions in Spain in 2020.<sup>57</sup> Despite achieving a 16% reduction in GHG emissions from energy use in buildings between

<sup>40</sup> European Parliament, "Directive 2008/98/EC", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32008L0098>

<sup>41</sup> European Parliament, "Directive 2012/19/EU", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32012L0019>

<sup>42</sup> European Parliament, "Regulation (EC) No 1013/2006", at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32006R1013>

<sup>43</sup> European Commission, "Waste Framework Directive", at: [https://environment.ec.europa.eu/topics/waste-and-recycling/waste-framework-directive\\_en](https://environment.ec.europa.eu/topics/waste-and-recycling/waste-framework-directive_en)

<sup>44</sup> European Commission, "Council Directive of 12 June 1989", (1989), at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31989L0391&from=FR>

<sup>45</sup> BOE, Law 31/1995 on the Prevention of Occupational Risks, at: <https://www.boe.es/eli/es/l/1995/11/08/31/con>

<sup>46</sup> Légifrance, "Code du travail", at: [https://www.legifrance.gouv.fr/codes/texte\\_lc/LEGITEXT000006072050/](https://www.legifrance.gouv.fr/codes/texte_lc/LEGITEXT000006072050/)

<sup>47</sup> Colonial Anti-Corruption Policy, (2021), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2023-12/Anti%20corruption%20policy\\_0.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2023-12/Anti%20corruption%20policy_0.pdf)

<sup>48</sup> Colonial Code of Ethics, (2024), at: <https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-07/Codigo%20E%CC%81tico%2029.07.2024%20ENG.pdf>

<sup>49</sup> Colonial Criminal Compliance Policy,

<sup>50</sup> Colonial Group Code of Ethics, (2024), at: <https://www.inmocolonial.com/sites/default/files/uploaded-files/2024-07/Codigo%20E%CC%81tico%2029.07.2024%20ENG.pdf>

<sup>51</sup> Colonial Criminal Compliance Policy, at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2022-03/compliance\\_policy%20%282%29%20%281%29.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2022-03/compliance_policy%20%282%29%20%281%29.pdf)

<sup>52</sup> Colonial General Policy for the Colonial Group's Whistleblowing Channel, (2023), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2023-12/Poli%CC%81tica%20del%20Canal%20E%CC%81tico%20COL%2008.11.2023.DEF\\_ENTR.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2023-12/Poli%CC%81tica%20del%20Canal%20E%CC%81tico%20COL%2008.11.2023.DEF_ENTR.pdf)

<sup>53</sup> Colonial ESG Policy for Supplier Selection Criteria, (2018), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/8\\_politica\\_criterios\\_esg\\_proveedores\\_ing.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/8_politica_criterios_esg_proveedores_ing.pdf)

<sup>54</sup> Colonial Group, "ESG Clauses in Every Supplier: Commitment Number 8 of Colonial's Sustainability Decalogue", (2023), at: <https://www.inmocolonial.com/en/blog/esg-clauses-every-supplier-commitment-number-8-colonials-sustainability-decalogue>

<sup>55</sup> Ibid.

<sup>56</sup> Colonial Group, "ESG Policy for Supplier Selection Criteria", (2018), at: [https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/8\\_politica\\_criterios\\_esg\\_proveedores\\_ing.pdf](https://www.inmocolonial.com/sites/default/files/uploaded-files/2021-12/8_politica_criterios_esg_proveedores_ing.pdf)

<sup>57</sup> Spain Green Building Council, "Hoja de ruta para la descarbonización de la edificación en todo su ciclo de vida", (2022), at: [https://gbce.es/wp-content/uploads/2024/02/hdr-buildinglife\\_hoja-de-ruta-para-la-descarbonizacion-de-la-edificacion.pdf](https://gbce.es/wp-content/uploads/2024/02/hdr-buildinglife_hoja-de-ruta-para-la-descarbonizacion-de-la-edificacion.pdf)

2005 and 2021,<sup>58</sup> a high percentage of the building stock in Spain remains inefficient.<sup>59</sup> As of 2019 nearly 85% of existing buildings in Spain had an energy efficiency rating of E, F or G based on energy consumption.<sup>60</sup> Tertiary buildings<sup>61</sup> specifically account for 42% of the total energy consumption in Spain's buildings sector despite making up just 13% of the buildings by floor area.<sup>62</sup> Spain has set a target to achieve a 36% reduction in final energy consumption in tertiary buildings by 2030, compared to a 2020 baseline.<sup>63</sup> With regard to new builds, Spanish regulation requires all new buildings, including those subject to significant renovations, to comply with nearly zero-energy building specifications.<sup>64</sup>

In France, the buildings sector is the second largest emitter of greenhouse gases as of 2022, accounting for 27% of the country's CO<sub>2</sub> emissions, and almost 45% of final energy consumption.<sup>65,66</sup> Between 2005 and 2021, France achieved a 33% reduction in GHG emissions from energy use in buildings.<sup>67</sup> In this regard, France's *Réglementation Environnementale* of 2020 aims to improve the energy performance of buildings and reducing their carbon impact.<sup>68</sup> France has set a target to have all its building stock meet low energy consumption standards by 2050.<sup>69,70</sup> In order to meet these targets, France intends to spend EUR 7.7 billion on building renovations.<sup>71</sup> Additionally, all new buildings in France since 2013 must be nearly zero-energy buildings.<sup>72</sup>

In view of the above, Sustainalytics considers that Colonial Group's investments in green buildings are expected to contribute to decarbonizing its portfolio and more broadly to Spain and France's efforts towards meeting their respective targets to improving energy efficiency in non-residential buildings.

### Contribution to SDGs

The Sustainable Development Goals were adopted in September 2015 by the United Nations General Assembly and form part of an agenda for achieving sustainable development by 2030. The instruments issued under the Colonial Group Green Finance Framework are expected to help advance the following SDG and target:

Use of Proceeds Category	SDG	SDG target
Green Buildings	9. Industry, Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.

<sup>58</sup> European Environment Agency, "Greenhouse gas emissions from energy use in buildings in Europe", (2023), at: <https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy?activeAccordion=>

<sup>59</sup> Renovate Europe, "Time to Act: Spain as a Driving Force on Building Renovation", (2023) at: [https://www.renovate-europe.eu/wp-content/uploads/2023/10/REDay2023\\_2\\_Pager\\_Final.pdf](https://www.renovate-europe.eu/wp-content/uploads/2023/10/REDay2023_2_Pager_Final.pdf)

<sup>60</sup> Ibid.

<sup>61</sup> Tertiary buildings refers to non-residential buildings, including offices.

<sup>62</sup> Government of Spain, Ministry of Public Work and Transport, "ERESEE 2020", (2020), at: [https://cdn.mitma.gob.es/portal-web-drupal/planes\\_estartegicos/en\\_ltserb.pdf](https://cdn.mitma.gob.es/portal-web-drupal/planes_estartegicos/en_ltserb.pdf)

<sup>63</sup> Government of Spain, Ministry of Public Work and Transport, "ERESEE 2020", (2020), at: [https://cdn.mitma.gob.es/portal-web-drupal/planes\\_estartegicos/en\\_ltserb.pdf](https://cdn.mitma.gob.es/portal-web-drupal/planes_estartegicos/en_ltserb.pdf)

<sup>64</sup> Government of Spain, Ministry of Housing and Urban Agenda, "Documento Básico HE Ahorro de energía", (2022), at: <https://www.codigotecnico.org/pdf/Documentos/HE/DBHE.pdf>

<sup>65</sup> Government of France, Ministry of Ecological Transition, Energy, Climate and Risk Prevention in France, "Tout savoir sur la rénovation énergétique", (2024), at: <https://www.ecologie.gouv.fr/politiques-publiques/savoir-renovation-energetique>

<sup>66</sup> European Commission, "2023 Country Report, France", (2023), at: [https://economy-finance.ec.europa.eu/system/files/2023-06/ip234\\_en.pdf](https://economy-finance.ec.europa.eu/system/files/2023-06/ip234_en.pdf)

<sup>67</sup> European Environment Agency, "Greenhouse gas emissions from energy use in buildings in Europe", (2023), at: <https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emissions-from-energy?activeAccordion=>

<sup>68</sup> Government of France, "National Energy Climate - Plan", (2024), at: [https://commission.europa.eu/document/download/ab4e488b-2ae9-477f-b509-bbc194154a30\\_en?filename=FRANCE%20E2%80%93%20FINAL%20UPDATED%20NECP%202021-2030%20%28English%29.pdf](https://commission.europa.eu/document/download/ab4e488b-2ae9-477f-b509-bbc194154a30_en?filename=FRANCE%20E2%80%93%20FINAL%20UPDATED%20NECP%202021-2030%20%28English%29.pdf)

<sup>69</sup> Government of France, "Long-term strategy of France for mobilising investment in the renovation of the national stock of residential and commercial buildings, both public and private", (2020), at: [https://energy.ec.europa.eu/document/download/aeb8a440-69a4-4a74-b2e0-29e1f3fd6084\\_en?filename=fr\\_ltrs\\_2020\\_en.pdf](https://energy.ec.europa.eu/document/download/aeb8a440-69a4-4a74-b2e0-29e1f3fd6084_en?filename=fr_ltrs_2020_en.pdf)

<sup>70</sup> IEA, "Law on Energy Transition for Green Growth (LTECV)", (2019), at: <https://www.iea.org/policies/8737-law-on-energy-transition-for-green-growth-ltecv>

<sup>71</sup> European Commission, "France's recovery and resilience plan", at: [https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/frances-recovery-and-resilience-plan\\_en](https://commission.europa.eu/business-economy-euro/economic-recovery/recovery-and-resilience-facility/country-pages/frances-recovery-and-resilience-plan_en)

<sup>72</sup> Concerted Action EPBD, "Implementation of the EPBD France", (2020), at: <https://www.ca-epbd.eu/Media/638373600341507794/Implementation-of-the-EPBD-in-France--Status-in-2020.pdf>

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## **Conclusion**

Colonial has developed the Colonial Green Financing Framework under which it may issue green bonds and obtain loans, and use the proceeds to finance green building projects. Sustainalytics considers that the eligible projects are expected to provide positive environmental impacts.

The Colonial Green Financing Framework outlines a process for tracking, allocation and management of proceeds, and makes commitments for reporting on allocation and impact. Sustainalytics considers that the Colonial Green Financing Framework is aligned with the overall sustainability strategy of the Colonial Group and that the use of proceeds will contribute to the advancement of the UN Sustainable Development Goal 9. Additionally, Sustainalytics is of the opinion that the Colonial Group has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects.

Based on the above, Sustainalytics is confident that Colonial Group is well positioned to issue green bonds and obtain loans and that the Colonial Green Financing Framework is robust, transparent and in alignment with the four core components of the Green Bond Principles 2021 and Green Loan Principles 2023.

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