

Completing the SFDR Process

Friday 13th October 2023



(To ask a question throughout this webinar - click the Q&A button at the bottom of your screen to bring up the Q&A board)

This webinar will be recorded



Moderators Welcome

Jonathan Hale Head of ESG Consulting, Knight Frank



Speakers for today



Jonathan Hale Head of ESG Consulting Knight Frank



Lisa Sherriffs
Head of Legal (Real Estate, EMEA)
Columbia Threadneedle
Investments



Georgie Nelson Head of ESG, Real Estate abrdn



Agenda

- Moderators Welcome & Housekeeping
- Introduction to SFDR Lisa
- AREF paper and consultation Insights and lessons learned so far Georgie
- Panel discussion
- Conclusions
- Finish 10am



Audience poll question 1

- What is your role?
 - 1. Investor / multi-manager
 - 2. Consultant
 - 3. Fund manager
 - 4. Asset manager / surveyor
 - 5. Lawyer
 - 6. Other



Audience poll question 2

- What is your familiarity with SFDR?
 - 1. This is the first I've heard of it
 - 2. I've read a few things but I have no in scope funds
 - 3. I've read a few things but I have no in scope funds but want to align some funds
 - 4. I run or am involved with in scope funds





Introduction to SFDR

Lisa Sherriffs
Head of Legal (Real Estate, EMEA)
Columbia Threadneedle Investments



Sustainable Finance Disclosure Regulation

IMPLEMENTATION TIMELINE

10 March 2021

First application of SFDR Level 1

1 January 2022

Annual reporting and disclosure

30 December 2022

Optional disclosure

1 January 2023

First application of SFDR Level 2

14 September 2023

Targeted consultation on SFDR implementation opens **15 December 2023**

Deadline for responses to targeted consultation 1 January 2024 Annual reporting and disclosure

- Integration of sustainability risks into investment decisions
- Considering the likely impact of sustainability risks on Fund returns
- Additional disclosures on characteristics and objectives
- Update of precontractual information based on templates in RTS
- Annual reporting on characteristics and objectives starts (for 2021 financial year)
- Optional PAI disclosures begin
- First periodic disclosures reporting with optional PAI disclosures at Fund level
- Targeted consultation on SFDR implantation published by the European Commission
- Consultation opens for responses
- Consultation closes for responses
- Second year for periodic disclosure reporting under Level 2.



Audience poll question 3

- For those of you who have dealt with (SFDR) in scope or aligned funds, what is the highest level of article application that you've dealt with?
 - 1. Article 6
 - 2. Article 8
 - 3. Article 9
 - 4. N/A





AREF Paper & Consultation + Lessons learned

Georgie Nelson Head of ESG, Real Estate abrdn



AREF paper on applying SFDR to real estate funds

- High level summary of the SFDR regulation
- Explains the evolution as well as the current market and regulatory interpretations of the terms 'ESG' and 'sustainability'
- Explains some key EU sustainable finance concepts which fall under the SFDR regulation
 - Principal adverse impacts (PAIs)
 - E and S characteristics
 - Sustainable investments
 - EU Taxonomy



Key considerations:

- This document is focused on the product level implications of SFDR and not the entity level.
- · SFDR is an evolving regulation with live consultations ongoing and thus the document will evolve over time
- The document is a high level guide but a lot of SFDR regulation is open to interpretation so we recomend you seek advice from in house compliance teams or external legal support.
- Document due to be published by end of October



Sustainable investing spectrum

Over time, what is currently deemed as pushing sustainability boundaries in real estate investments now, is likely to move to the left as regulation and the market catches up. Therefore, approaches need to be flexible to adapt in the future to maintain high sustainability integrity.

Sustainable investing spectrum

Cumulative characteristics of a RE fund as it increases its sustainability ambition

ESG integration

Promoting E and S characteristics

Contributing to a sustainable outcome

Fully committed to provide a sustainable outcome and impact

> RE = Real Estate E = Environmental S = Social Source: abrdn

Application of Articles 6, 8 and 9

Application of SFDR product articles to real estate funds

Article 8



Defining what E and S characteristics are promoted by the fund and measuring performance of these

Setting a minimum threshold of 'sustainable assets', the definition of which is open for managers to set within the SFDR framework

Article 9



Additional setting of a fund level sustainability objective which links to the 'sustainable assets' definition targeting 100%. The purpose of vehicle is to achieve the sustainable outcome

Article 6

Sustainable investing spectrum

Sustainable investing spectrum

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13 | abrdn.com Source: abrdn

Challenges of applying SFDR

- Regulation is equity focused and not asset class specific enough
- Inflexible templates which can't always accommodate asset class characteristics
- Additional complexity of incorporating EU taxonomy principles into the SFDR legislation
- Reporting burden takes away time from delivering performance
- Cost burden for investment managers how can this be spread to wider stakeholders?
- Availability of data due to complexity of data sets required and lag time



Panel Discussion

(To ask a question throughout this webinar - please use the Q&A panel to type your question to the Moderator)





Conclusions

