

10. SFDR Annex II

ANNEX II

Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: Hearthstone Residential Fund, L.P.

Legal entity identifier: [complete]

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?



Yes



No

It will make a minimum of **sustainable investments with an environmental objective**: ___%

- in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It will make a minimum of **sustainable investments with a social objective**: ___%



It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 80% of sustainable investments

- with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- with a social objective

It promotes E/S characteristics, but **will not make any sustainable investments**

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



What environmental and/or social characteristics are promoted by this financial product?

The Hearthstone Residential Fund, L.P. (the **Fund**) seeks to build a diversified residential property portfolio, invested in selected locations across the UK, offering high quality, predominantly new-build assets for the mainstream private rented market. In doing so, the Fund operates under defined sustainability criteria through

which it promotes environmental and/or social characteristics but the Fund does not have sustainable investment as its objective.

The environmental and/or social characteristics promoted by the Fund are:

- **The provision of energy efficient buildings.** The Fund seeks to ensure that its new and completed homes have or can be cost-efficiently upgraded to an EPC A or B rating.
- **Maintaining a low carbon intensity.** The Fund seeks to have an average carbon intensity of less than 18 kg/sq m per annum.
- **Improvements in overall sustainability.** To identify and, where possible, make cost-efficient sustainability improvements to the Fund properties, through asset management initiatives. These may differ from asset to asset but could include, amongst other things, the installation of electric vehicle charging points, improvements to thermal insulation, retrofitting of heat pumps or installation of photovoltaic panels.

The Fund has not designated a benchmark for the purpose of attaining the environmental or social characteristics it promotes as no benchmarks exist for the Fund's asset classes that explicitly include environmental or social characteristics.

- ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The following sustainability indicators are used to measure the attainment of the environmental and social characteristics of the Fund:

- **The provision of energy efficient buildings:**
 - The percentage of homes under construction that are expected to achieve EPC A or B ratings on completion
 - The percentage of completed homes with EPC A or B ratings or identified as being capable of cost-effective upgrading to A or B standard
 - Average portfolio SAP rating
- **Maintaining a low carbon intensity:**
 - Average portfolio carbon intensity (Kg/sqm/pa)
- **Improvements in overall sustainability**
 - Number of planned or completed improvement initiatives across the portfolio

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

The sustainability indicators used to measure the attainment of each environmental or social characteristic are calculated at the asset and portfolio level, where such data is relevant and measurable and available, unless stated otherwise.

Additional sustainability indicators may be used to measure the Fund's performance across relevant ESG metrics and reported to investors, but do not currently form part of the Fund's formal regulatory commitment to sustainability indicators.

● ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The objective of the sustainable investments is to contribute to climate change mitigation by providing energy efficient buildings.

The sustainable investments contribute to this objective by ensuring that the homes developed by the Fund have a strong sustainability profile. The Fund will target energy-efficient assets, capable of achieving EPC ratings of A and B. C-rated units may be acceptable if they are capable of cost-effective upgrading to an A or B rating.

● ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The Fund operates under detailed sustainability criteria which includes the identification of specific material risks to the Fund including those which may significantly harm the sustainable investment approach of the Fund.

The do no significant harm (DNSH) principle applies only to investments which are considered to be "sustainable investments" under Article 2(17) of SFDR. For the purposes of the Fund, this represents 80% of its invested assets.

The Fund will target energy-efficient assets, capable of achieving EPC ratings of A and B. C-rated units may be acceptable if they are capable of cost-effective upgrading to an A or B rating.

Environmental assessments are incorporated into the Fund's screening and due diligence processes for potential investment properties, considering factors such as, where relevant, energy efficiency, waste management, water supply and sanitation, carbon emissions, sustainability of drainage systems, climate resilience and risks from flooding, coastal erosion, land contamination and mining activities.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Other factors included in the review may include:

- Building construction materials and processes, and embedded carbon (where available)
- Use of hydrocarbons
- Rainwater recycling
- Energy supply for space and water heating

- Recycling provision
- Cycle storage provision
- EV charging provision
- Retrofitting potential
- Biodiversity provisions

How have the indicators for adverse impacts on sustainability factors been taken into account?

The Fund considers PAIs as part of its broader assessment process for its properties, where data is available and reliable.

As the Fund invests in real assets, the following PAIs are mandatory under SFDR:

- Exposure to energy-inefficient real estate assets
- Exposure to fossil fuels through real estate assets

However, given the nature of the Fund's investments, it is expected that the exposure to energy inefficient assets will be limited or reduced over time, and that exposure to fossil fuels will be zero.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

The sustainable investments of the Fund are real assets, and it is therefore not possible to align these to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

However, due diligence is carried out on new supply partners, typically involving a comprehensive review of that entity to assess the risks and benefits associated with the potential partnership. This process includes verifying the third party's legal compliance, financial stability, operational capabilities, and reputation. In addition the Fund may consider the third

party's past performance, references, and credit history, as well as any potential conflicts of interest or regulatory concerns.

The goal is to ensure that supply partners align with the Fund's standards, values, and objectives, thereby mitigating risks and fostering a successful collaboration.



Does this financial product consider principal adverse impacts on sustainability factors?

Yes, _____

As noted above, the Fund considers the PAIs relevant to real assets. It does so across all assets of the Fund, not only the sustainable investments. It does so through the due diligence processes explained above.

Ongoing metric information on the principal adverse indicators will be provided to investors along with the annual financial reports as required by Article 11(2) of SFDR.

No



The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

What investment strategy does this financial product follow?

The investment strategy of the Fund is set out in full in the PPM. The Fund seeks to build a diversified residential property portfolio, invested in selected locations across the UK, offering high quality, predominantly new-build assets for the mainstream private rented market.

Key principles of the investment strategy relevant to the environmental and social characteristics of the Fund are:

- assets of the Fund will be a mix of generally low-rise apartment blocks and clusters of family housing in areas with good access by public and private transport, and with attractive community infrastructure;
- properties will be constructed and maintained to a sustainable specification and designed to minimise on-going maintenance and repair costs;
- through collaboration with developers, opportunities will be sought to acquire homes that will be zero-carbon in operation, where they meet the Fund's investment objectives;
- the portfolio will be diversified by property type and region to limit concentration risk, but will

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

expect to achieve management and cost efficiencies through clusters of assets in target locations; and

- the target resident profile is families, young professionals and key workers, and the homes offered in each market will be selected and priced accordingly, to be affordable to these groups.

The strategy is carried out on a continuous basis through the Fund's approach to site selection, stock selection and property management:

- **Site selection:** Sites are assessed against both environmental and social performance metrics as part of the initial due diligence prior to purchase. This includes, inter alia, access to community services and amenities, neighbourhood quality, sustainability, affordability and access to a diverse range of local employment.
- **Stock selection:** Assets on a site are chosen particularly for their design, configuration and sustainability, and for their ability to meet the Fund's investment criteria. Properties with a minimum expected EPC "B" rating (or capable of cost-effective improvement to this standard) are targeted.
- **Property management:** Assets are managed to ensure that they are maintained to a high, institutional standard for the long term, with good quality service to residents, monitored through regular customer satisfaction surveys. Hearthstone conducts frequent site visits post-completion, engaging directly with residents as needed, particularly in the resolution of more challenging problems or in cases of financial hardship. Weekly monitoring of key performance indicators and daily dialogue with our property managers helps to ensure they perform to the high standards expected of them.

● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

In terms of selection of investments, the site and stock selection elements of the strategy described above are binding together with the Fund's requirement to invest in buildings with either an EPC A or B or able to achieve EPC A or B through cost effective improvements.

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

N/A – the Fund does not have a committed minimum rate to reduce the scope of investments.

● ***What is the policy to assess good governance practices of the investee companies?***

N/A - The Fund does not invest in companies.