

Precinct sustainable debt framework

2020


Precinct™
creating a sustainable future



Purpose.



The purpose of this document is to outline the **governance framework under which Precinct Properties intends to issue and manage various Sustainable Debt products**. As relevant market standards and best practice continue to evolve over time, Precinct retains the right to make changes to the Sustainable Debt Framework (the “Framework”), at its discretion. We welcome feedback on our approach from all market participants.

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Introduction to Precinct.

Our Strategy

Precinct's strategy focuses on three distinct areas: **our people and partners, operational excellence and developing the future**. The primary objective being to create sustainable value from city centre real estate.

Our ambition

Our ambition is to control or own strategic city centre precincts, enabling us to create vibrant environments which attract occupiers. While predominantly invested in office buildings, Precinct may invest in other city centre real estate including land, retail, hotel and value-add properties where there is opportunity to create value. Precinct's development activities are enhancing our portfolio while attracting and retaining high quality clients.

We understand that the operational aspects of Precinct's business as an owner, developer and a manager of property, have an external impact on a number of environmental, social and economic issues.

Our sustainability strategy has therefore been designed in parallel with Precinct's broader business strategy. This alignment has provided us with a sustainability framework which we have adopted to both assist and illustrate Precinct's sustainability context, approach and priorities.

Our sustainability framework



Our approach

Precinct's approach reflects the goal of a more environmentally sustainable management model, recognising the drive to a more environmentally sustainable portfolio. Our objective is to deliver improvements in environmental performance and operational costs, and meet the trend from occupiers to prefer more environmentally sustainable office accommodation.

The overarching measure we currently use to benchmark our sustainability performance is the Global Real Estate Sustainability Benchmark (GRESB). Being able to measure Precinct's sustainability operational performance and having measurable long-term targets is a key priority.

The assessments are guided by what investors and the industry consider to be material issues in the sustainability performance of real estate investments. GRESB is considered the global standard for ESG benchmarking and reporting for real estate. Precinct achieved a GRESB score in 2019 of 77 out of 100 (2018: 69). This score compares with the GRESB global average for 2019 of 72.

Precinct also reports in accordance with the Global Reporting Initiative (GRI) Standards (core option). This requires Precinct to identify and report against the material sustainability issues facing the business. For more information on all material sustainability issues please see the sustainability section of Precinct's [annual report](#).

The key targets that relate to these material sustainability issues include:

GRESB

Global real estate sustainability benchmark.

- Our target is to be in the top quartile of reporting global peers.

Green Star

- Precinct targets both a **5 Green Star Design and As-built** rating (Excellence) for new developments.
- Targeting over 50% of the portfolio having at least a best practice (4 star) Green Star rating

Greenhouse Gas emissions (GHG)

- **NABERSNZ:** Targeting 4 star (excellent performance) for new developments and a minimum 3-star rating (good performance) for all properties.
- **Carbon Disclosure Project (CDP):** Targeting A leadership and strategic best practice
- **Carbon emission intensity:** Precinct's long-term science-based target is for total emissions measured by the weighted average (by area) of the portfolio to be aligned with the Climate Bond Initiative by 2030, to meet the Paris Agreement emissions reduction targets.

Introduction to Precinct. (Continued)

Design and building ratings such as Greenstar and NABERSNZ ratings provide a credible method to measure the environmental and sustainability performance of our properties. However, Precinct is going a step further by engaging Toitū Envirocare (Toitū) to help quantify and measure Precinct's direct (combustion of any type of fuel) and indirect (imported energy, transportation and other sources) emissions. Once quantified and measured, Precinct will account for the cost of emissions based on the current cap of New Zealand's emission trading scheme. Precinct will then offset emissions through accredited programmes such as the *Gold Standard*. Any amount leftover will be invested in emission mitigation strategies. By way of example these could include management and reduction plans, industry partnership programmes and investment in capital projects.





Precinct is very pleased to have achieved Toitū carbonzero certification.

RICHARD HILDER, CFO

Precinct is a member of the New Zealand Green Building Council (NZGBC) and works in partnership with the NZGBC on a wide range of market-based green building practices (For instance The Zero Carbon Road Map for Aotearoa's Buildings. For more information on the Zero Carbon Road Map Download: [Here](#))

Precinct is also a long-term supporter of the Auckland City Mission and Wellington City Mission. In addition to financial support, Precinct works together with both Missions on fundraising initiatives throughout the year. In 2018 Precinct agreed to a 5-year financial commitment to support the Auckland City Mission's HomeGround project; a purpose-built housing and social services facility providing safe space to stand against homelessness, hunger and poor health.

Precinct is a member of GRESB and Diversity Works.



Precinct sustainable debt framework.

The establishment of the Precinct Sustainable Debt Framework (The "Framework") is a natural extension of Precinct's sustainability strategy and the focus on sustainable business outcomes. The Framework sets out the process by which Precinct intends to issue and manage Sustainable Debt on an ongoing basis to fund low carbon buildings within Precinct's property portfolio.

Sustainable Debt may include:

- Green bonds and loans, and;
- Sustainability linked bonds and loans
- Bonds and loans may be designated as Sustainable Debt at the time of issue or any time thereafter.

The Framework sets out the processes for these products separately.

The Framework may be subsequently updated at Precinct's discretion as relevant market standards and best practice continue to evolve over time.



10 Madden Street

Green bonds and loans

Use of Proceeds bonds and loans issued under the Framework may take the form of:

- Green Bonds in accordance with the ICMA Green Bond Principles (GBP)
- Green Loans in accordance with the APLMA Green Loan Principles (GLP)

In accordance with the above market standards and best practice, the Framework covers four key components as follows:

1. Use of Proceeds;
2. Process for Project Evaluation and Selection;
3. Management of Proceeds; and
4. Reporting

Use of proceeds

An amount equivalent to the net proceeds from the issuance of Green Bonds or Loans will be used wholly or in part to finance or refinance existing and/or planned Eligible assets.

Eligible assets

Precinct intends to allocate proceeds to energy efficient buildings utilising the Green Star or NABERSNZ ratings tools. Eligible assets will also align with the GBP or GLP. Existing and/or planned buildings, including upgrades will be eligible to be categorised and labelled as an Eligible asset, and proceeds can be internally allocated to them, if they meet the following criteria:

1. Certified as obtaining, or targeting, a minimum 5-Star NZGBC Green Star Built rating; or
2. Certified as obtaining, or targeting, a minimum 4-Star NABERSNZ Energy Base Building Rating or Energy Whole Building Rating.

If an Eligible asset no longer meets the Eligibility Criteria set out in this Framework, then it will no longer be categorised as an Eligible asset and the total value of Eligible assets will reduce by the value of this asset.

A list of Eligible assets which have attained Green Star or NABERSNZ certification will be published within annual Use of Proceeds reporting.

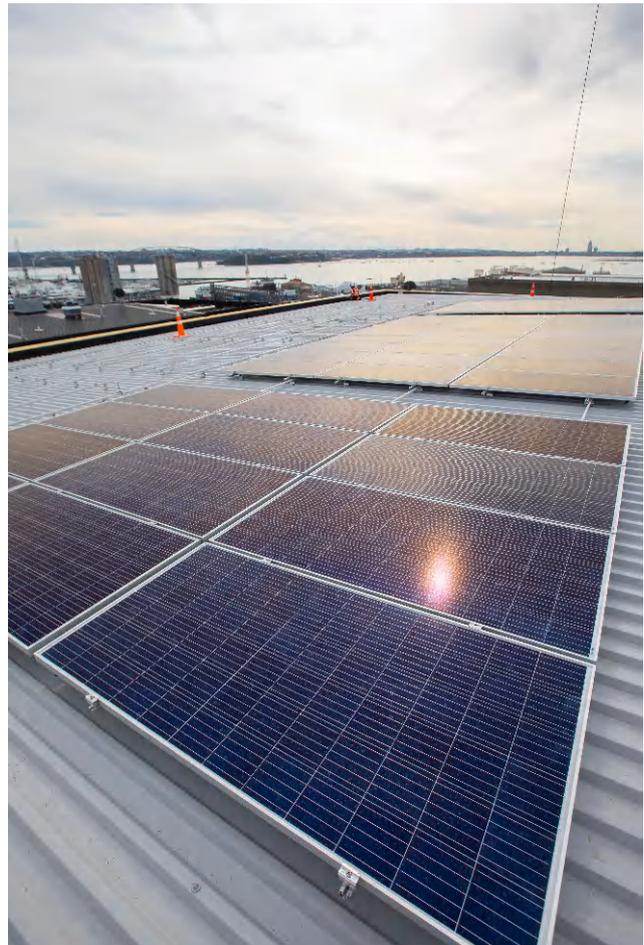
Process for project evaluation and selection

Precinct has processes that are in place to ensure that Eligible assets are identified and evaluated appropriately to ensure compliance with this Framework.

In determining eligibility of Precinct's low carbon and energy efficient buildings, Precinct will assess the following where applicable:

- **Current NABERSNZ rating.** Assets across the portfolio are rated as part of Precinct's ongoing monitoring of its operational assets. NABERSNZ is a system for rating the energy efficiency of office buildings. It is an independent tool, backed by the New Zealand government.
- **Green Star Rating.** Green Star is an internationally recognised rating system for the sustainable design, construction and operation of buildings, fit out and communities. Green Star provides a trusted mark of independent verification to support decision-making.

Once projects are determined to have met all relevant criteria for inclusion, assets will be included as Eligible assets.



Management of proceeds

Precinct commits to tracking the receipt and allocation of net proceeds via internal reporting systems. Precinct will maintain a register of Eligible assets, including the notional allocation of net proceeds against each Eligible asset.

Precinct intends to fully allocate net proceeds immediately following issuance of any new Sustainable Debt.

Precinct intends to monitor proceeds and balances of eligible assets on an annual basis.

Unallocated proceeds or surplus funds

Precinct does not intend to have any unallocated proceeds. Precinct intends to maintain a balance of Eligible assets as described above, based on market value, which is larger than the sum of net proceeds from all Use of Proceeds bonds or loans.

In the unlikely event of any unallocated proceeds or surplus funds, Precinct will ensure any unallocated proceeds are applied to temporarily reduce indebtedness of a revolving nature before being redrawn for investments or disbursements to Eligible assets.

Reporting

Precinct understands the importance of transparency and disclosure. All reporting will be in line with applicable market standards. Impact reporting may be provided where applicable or incorporated within Use of Proceeds reporting.

The following reporting will be made publicly available following issuance:

Document	Timing
Sustainable debt framework	At time of first issuance (subsequently updated at Precinct's discretion)
Assurance statements	At time of first issuance and annually thereafter
Use of proceeds reporting	Annually

Use of proceeds reporting

Precinct intends for annual Use of Proceeds reporting to include:

- Summary of Eligible assets (location, type of asset, asset value)
- Current NABERSNZ and/or Green Star rating
- Confirmation of aggregated amount of proceeds
- Details of allocation of proceeds per Eligible assets
- Disclosure of any unallocated proceeds
- Confirmation of accordance with applicable market standards
- Assurance updates or the most recent assurance report

Assurance

In accordance with the applicable market standards, Precinct will seek assurance from an approved verifier prior to first issuance and on an annual basis, and as deemed necessary by Precinct.

Confirmation of assurance will be made publicly available.

Important Notice

For the avoidance of doubt, and unless otherwise specified in relation to specific Green Bonds or Loans, if Precinct fails to earmark the proceeds in the manner described in the Framework or fails to comply with the Framework or related matters; Green Bonds or Loans cease to satisfy the GBP or GLP; or Precinct undertakes non-eligible projects outside of this Framework:

- no event of default or any other breach will occur in relation to the Green Bonds or Loans; and
- neither investors nor Precinct have any right for the Green Bonds or Loans to be repaid early.

This means there is no legal obligation on Precinct to earmark the proceeds of Green Bonds or Loans in the manner described in this Framework or to comply with this Framework, the GBP or the GLP on an ongoing basis. Bonds and loans may cease to be labelled as green, in which case investors may consider that the bonds or loans no longer align with their intentions or requirements and may (as applicable) have increased difficulty finding interested buyers or obtaining an acceptable price.

Sustainability linked bonds and loans

Sustainability Linked Bonds and Loans are distinct from Green Bonds and Loans as previously defined. Proceeds from Sustainability Linked Bonds and Loans are utilised for general corporate purposes and do not require proceeds to be evaluated, monitored or tracked.

Issuance of Sustainability linked Bonds and Loans will seek to be consistent with the elements of the ICMA Sustainability linked Bond Principles (SLBP) and the LMA Sustainability Linked Loan Principles (SLLP) respectively. This section of the Framework covers the following elements:

1. Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy
2. Target Setting
3. Reporting
4. External Review

Relationship to the borrowers overall corporate social responsibility (CSR) strategy

When undertaking any issuance of Sustainability Linked Bonds and Loans, Precinct will communicate how the instrument, the Key Performance Indicators (KPIs) and the Sustainability Performance Targets (SPTs) relate to and are material to, Precinct's overall Sustainability Strategy and Framework.

Target setting

Precinct has a commitment to achieve a more environmentally sustainable property portfolio. For the issuance of Sustainability Linked Bonds and Loans, where the bond coupon or the loan margins are linked to the achievement of SPTs, Precinct has provided the below metrics as a guide for potential KPIs:

- NABERSNZ building ratings
- GRESB rating
- Carbon Disclosure Project
- Green Star property ratings
- Ratings on a subset of properties or Precinct's total portfolio
- Energy, water or waste consumption for properties, or on a portfolio basis
- Greenhouse gas (GHG) emissions for properties, or on a portfolio basis
- Other sustainability metrics (environmental or social) that are relevant to Precinct's overall Sustainability Strategy and Framework.

Measurement of performance with respect to KPIs for any Sustainability Linked Bonds and Loans will be undertaken periodically as relevant. At a minimum, measurement will be annual.

Precinct intends to ensure the SPTs and KPIs used will be meaningful to Precinct's sustainability and will involve appropriate ambition.

Reporting

For Sustainability Linked Loans, Precinct and the arranging bank(s) or financial institution(s) will agree on the appropriate reporting parameters and the schedule for disclosing information on sustainability performance to the lenders.

For Sustainability Linked Bonds, Precinct will undertake annual public reporting with regards to the issuance and sustainability performance against the selected targets. This reporting will be available on Precinct's website.

Precinct will disclose at issuance the reporting that will be provided, including its location, frequency, scope and assurance commitments. Precinct will focus on providing timely information regarding performance in relation to the selected SPTs for each transaction.

External review

Precinct will undertake some form of independent and external assurance for each Sustainability Linked Bond or Loan on issue. This includes external review of sustainability performance prior to issuance and ongoing post issuance assurance over Precinct's performance in relation to the selected SPTs for each issuance. This will be made publically available for Sustainability Linked Bonds and will be made available to lenders at a minimum for Sustainability Linked Loans.

Governance

Precinct's internal working group for sustainable debt will form part of Precinct's Sustainability Committee. Precinct's Sustainability Committee acts as custodian for Precinct's sustainability strategy and comprises representatives from various parts of our business including Operations, Development, Corporate and Investor Relations and Human Resources. The committee meets frequently during the year, at least quarterly.

The committee is responsible for assessing, actioning and driving ESG issues, reviewing performance and considering Precinct's long-term strategy on sustainable activities across the business and reporting on its progress, which will include Sustainable debt. Sustainable debt will be included into the agenda of the Sustainability Committee meeting and any matters arising will be noted into the Audit & Risk papers on an ongoing basis and consequently overseen at a Board level.

Precinct's CFO is the Chair of Precinct's Sustainability Committee and is responsible for Precinct's overall Sustainability Strategy and Emissions and Reduction Plan. The CFO will also be responsible for any sustainable debt which Precinct undertakes and will report to the wider senior management team and at a Board level, quarterly.

Appendices & contacts

Appendices

More information on Precinct's approach to sustainability can be found:

On our website:

www.precinct.co.nz/sustainability

In our Annual Report:

<https://www.precinct.co.nz/reporting-and-disclosure>

Contacts

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