

# Sustainability related disclosures

Simply Affordable Homes 1 LP, Simply Affordable Homes 2 LP

23 June 2023



## 1. Summary

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Simply Affordable Homes 1 LP and Simply Affordable Homes 2 LP (collectively, the **Fund**) is not registered in or managed from the EU and is not within scope of the EU's Sustainable Finance Disclosure Regulation (**SFDR**). The Fund does not follow, and is not required to follow, all of SFDR's requirements. However, the investment strategy of the Fund is considered by Savills Investment Management (UK) Limited (the **AIFM**) to align with Article 9 of the EU's Sustainable Finance Disclosure Regulation (**SFDR**), as a Fund that has sustainable investment as its objective. This website disclosure and the SFDR Level 2 template in the private placement memorandum (the **Memorandum**) are provided on a voluntary basis.

This disclosure sets out the Fund's approach to sustainable investing and the ways in which sustainability risks and factors are integrated into portfolio management decisions. This includes:

- Confirmation that the investments do no significant harm to the sustainable investment objective of the Fund, through the implementation of the Fund's Impact Framework and the monitoring of a range of metrics to assess potential investments;
- A summary of the sustainable investment objective of the Fund to support the provision of affordable housing in the UK;
- A summary of the investment strategy of the Fund to source, invest in, and manage a diversified portfolio of affordable housing comprising both shared-ownership homes as well as affordable and social-rent and other sub-market rented homes;
- The proportion of investments that have sustainable investment as their objective, which equates to 90% of the Fund's portfolio;
- Confirmation that all assets in the Fund's portfolio are subject to the sustainability criteria set out in the Fund's ESG Impact Framework;
- An explanation of how the Fund assesses sustainability risks, factors and opportunities and implements a targeted action plan in relation to its assets;
- The indicators that are used to measure the attainment of the sustainable investment objective;
- The monitoring process for collecting the environmental and social data relevant to the indicators;
- Approach to occupier engagement; and,

The process for identifying data quality issues and the mitigations in place for ensuring this does not adversely impact the Fund.

## 2. No significant harm to the sustainable investment objective

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### *No significant harm*

The investments made by the Fund do not significantly harm any environmental or social objectives as environmental and social considerations are integrated into investment decisions and the ongoing management of the Fund's portfolio.

The AIFM has a rigorous ESG risk identification and mitigation process which is applied throughout the lifecycle of the Fund. The Fund has a specific Impact Framework as described in the Memorandum and a range of metrics are monitored to assess potential investments holistically before acquisition and on an ongoing basis.

Where development activities are involved, this includes ensuring any developments the Fund invests in meet the AIFM's minimum ESG standards as set out in the AIFM's Sustainable Development Brief, which is available to investors on request. This addresses areas such as biodiversity net gain, meeting, as a minimum, local planning requirements, climate risk assessment, whole life carbon assessment, minimum EPC B Rating for new build and resource efficiency requirements as part of any certification for new build assets, where practicable.

### *Adverse impacts on sustainability*

There are two mandatory adverse sustainability indicators relating to climate and environment included in SFDR which are applicable to investments in real estate assets, namely:

- exposure to fossil fuels through real estate assets, measured by the share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels – this is expected to be nil in the Fund; and
- exposure to energy-inefficient real estate assets, as measured by the share of investments in energy-inefficient real estate assets – this may be non-zero at the outset but is expected to improve over time whether measured by EPC rating or energy use intensity. The Fund is not restricted to acquiring properties which meet any specific EPC rating at the outset but we seek to move the portfolio as a whole towards net zero carbon over time.

Where data is available, the Fund will also monitor other environmental principal adverse impacts such as:

- Total Green House Gas Emissions,
- Total energy consumption is kWh/m<sup>2</sup> per annum.

### *OECD Guidelines for Multinational Enterprises and the UN Guiding Principle on Business and Human Rights*

As the Fund invests in real assets, it is not possible to align these to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

However, where possible, the Fund adheres to the AIFM's Responsible Investment Policy, Minimum Global Compliance Standards and our AML which combined cover the breadth of topics outlined in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles of Business and Human Rights.

In addition, Simply Affordable Homes RP Limited (the **Registered Provider**) complies with the regulator of social housing's (the **RSH**) Governance and Financial Viability Standard.

## 3. The sustainable investment objective of the Fund

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The sustainable investment objective of the Fund is to support the provision of affordable housing in the UK, delivering social value through investing in existing, and increasing the supply of, high-quality affordable homes.

To meet this objective, the Fund will purchase existing affordable homes, including from housing associations and other registered providers, and will also seek to forward fund new developments of affordable homes. "**Affordable homes**" are defined as homes which are made available on a low-cost home ownership basis (for example shared ownership) or on a sub-market rental basis (for example social rent or affordable rent).

The Fund also considers the UN Sustainable Development Goals (SDGs) as part of its investment strategy. The Fund has a specific focus on SDG 11 (Sustainable Cities and Communities) and also contributes to SDG 3 (Good Health and Wellbeing) and 10 (Reduced Inequalities). Providing affordable homes to those in need is also believed to have secondary benefits and contribute to several other SDGs.

The Fund indirectly contributes to SDGs 1 (No Poverty), 7 (Affordable and Clean Energy), 8 (Decent Work and Economic Growth) and 12 (Responsible Consumption and Production). For more information please see our Impact Framework.

The indicators used to measure the attainment of the sustainable investment objective are detailed within the Fund's Memorandum and Impact Framework and reflect the Fund's intention to take a holistic view of the way in which social objectives are delivered within the Fund. The Impact Framework sets out the key areas the Fund will focus on as part of its selection of investments and ongoing management. These fall into the following main categories (characterised as "**Impact Objectives**"):

- Meeting social need
- Increasing supply
- Funding high-quality sustainable homes
- Delivering affordability
- Quality services and partnerships

## 4. Investment strategy of the Fund

### *Investment strategy*

The investment strategy of the Fund is set out in full in Fund's Memorandum. In seeking to achieve its sustainable investment objective, the Fund will source, invest in, and manage a diversified portfolio of affordable housing comprising both shared-ownership homes and rented homes. It will:

- Invest in portfolios of existing affordable housing, including those acquired from housing associations and other registered providers. These purchases are expected to free up capital for them to develop more homes, or invest in improvements such as fire safety and decarbonisation strategies for their existing portfolios; and
- Forward fund the delivery of new affordable housing through its registered provider, Simply Affordable Homes RP Limited.

In addition to the social aspects of the Fund's strategy, the Fund also seeks to achieve high standards of environmental performance of homes owned, both in terms of standards achieved on new homes and retrofitting existing properties to improve energy efficiency, working towards achieving a net zero portfolio by 2040.

The Fund is committed on an ongoing basis to all aspects of its sustainable investment strategy, through the lifecycle of all invested assets. As such, the Impact Framework and

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Sustainable Development Brief form an integral part of the decision-making process and ongoing management of all assets.

### *Good Governance policy*

The Fund invests in real assets, not in companies. Companies may be used only for the purposes of fund structuring (in order to hold the real assets in an efficient manner).

However, the Fund does take into consideration the good governance of Simply Affordable Homes RP Limited, ensuring that the registered provider is compliant with good governance practices and in alignment with the RSH's standards. As part of that the registered provider has adopted a code of governance and considers its ongoing compliance on a regular basis.

## 5. Proportion of investments

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Given the Fund's investment strategy, all of its invested assets (being at least 90% of the portfolio) will consist of affordable homes or developments for affordable homes. All remaining assets of the Fund (up to 10% of the portfolio) will be used only for the purposes of liquidity and financial risk management. Cash called from investors for the purchase of affordable homes but not yet invested or realised from a sale and not yet distributed are set aside for the purpose of this calculation.

## 6. Monitoring of the sustainable investment

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The indicators used to measure the attainment of the sustainable investment objective are detailed within the Fund's Impact Framework and reflect the Fund's intention to take a holistic view of the way in which social objectives are delivered within the Fund. The Impact Framework sets out the Impact Objectives the Fund will focus on as part of its selection of investments and their ongoing management. These are:

- Meeting social needs to deliver homes which are: (i) provided on a shared ownership or affordable rent basis, (ii) in areas with greater than average social housing waiting list, and (iii) in areas of constrained availability
- Increasing supply of Affordable Homes
- Funding high-quality sustainable homes: (i) with an EPC rating of A or B, (ii) that meet certain standards (including the Decent Homes Standard, National Space Standards) and (iii) demonstrate environmental improvements over the previous reporting period.
- Delivering affordability
- Quality services and partnerships through compliance with regulatory standards

## 7. Methodologies

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The Fund has developed a “theory of change” tool, which is used to evaluate and explain how the activities of the Fund contribute to the impact sought through the Fund's investment strategy and is focussed on the five Impact Objectives. The “theory of change” tool connects the direct investment and operational activities of the Fund vehicles to the ultimate outcomes from our activities providing us with a detailed methodology for analysis and reporting against the Impact Objectives and therefore the sustainable investment objective of the Fund.

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The main methodologies used to measure the sustainability indicators, under the five Impact Objectives, are as follows:

### *Meeting social needs*

Measured by:

- Percentage of the portfolio which is social (rented or shared ownership)
- Percentage of rented homes in areas with greater than average social housing waiting list
- Percentage of shared ownership homes in areas of constrained affordability

### *Increasing supply*

Measured by:

- Number of affordable homes funded (split by existing vs. new-build and by tenure)
- Estimated total number of individuals housed

### *Funding high-quality sustainable homes*

Measured by:

- Percentage of new homes with EPC A or B ratings
- Percentage of homes owned that meet Decent Homes Standard
- Percentage of new homes meeting National Space Standards
- Percentage of homes owned demonstrating environmental improvements over the previous reporting period

### *Delivering affordability*

Measured by:

- Average percentage rental discount to market rent
- Percentage of rented homes at or below the Local Housing Allowance

### *Quality services and partnerships*

Measured by:

Continued compliance of the Registered Provider with the regulator of social housing's regulatory standards

## 8. Data sources and processing

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The primary data source for the majority of the indicators described above is the management information retained by the fund management team and AIFM. For example, the asset register of the Registered Provider will contain information on property numbers, tenure, whether acquired as a new-build and similar static data. Our housing management data will include information on rent levels and we will use that data along with public information and information from advisers, such as valuers, to calculate affordability metrics, such as comparing rent levels to Local Housing Allowance and market rents.

Environmental and energy efficiency data includes static data maintained on our asset register, such as EPC ratings on acquisition, along with data on asset management investment held as part of our forward investment plans.

Data quality of static data will be subject to review as part of due diligence on acquisition and as part of the ongoing maintenance of asset information. Dynamic data such as rent levels will be subject to quality assurance on an ongoing basis as part of ensuring that the records of the Fund and Registered Provider are reconciled to financial data and maintained to an appropriate standard, including as part of the annual financial audit of the company's record-keeping. Indicators will also be reviewed as part of the review process associated with publishing our ESG performance on a regular basis.

There will be some estimated data used, in relation to granular market rent levels or certain environmental data such as energy usage where systems are not yet in place across the market to track in-use data.

## 9. Limitations to methodologies and data

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Available ESG data has its limitations particularly in the area of energy efficiency and climate change data where development of better reporting systems is ongoing work across the industry. We regularly review the data providers we source from, and we continuously seek to improve transparency, disclosure and data provision in relation to the Fund. Where data gaps exist, for example where we are unable to capture energy data from our occupiers, we will use reference benchmarks to make informed estimates and be transparent where this process has been applied.

In case data gaps pose challenges to make an informed decision and ensure alignment of the Fund with its sustainable strategy, for example gaps in available data sought as part of

acquisition due diligence, our responsible investment specialists, together with the dedicated fund team, jointly recommend mitigation actions. This could include testing an approach on a single asset before applying that approach to the whole Fund.

These limitations are practical issues faced across the social housing sector and important for understanding operating performance, cost, and impact. However, the nature and extent of data limitations do not materially affect the ability of the Fund to report against attainment of the sustainable investment objective, which is to provide affordable housing, as described under Section 3 above.

## 10. Due diligence

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Due diligence is carried out at various points in the investment cycle and for different purposes. This includes, for example:

- Portfolio construction

The Fund's portfolio structure is determined by the Fund's investment team, in line with the Fund documentation and with oversight from the AIFM's investment committee and the Registered Provider board. Possible investments are considered on a two-step process – initial screening prior to due diligence expenditure and final approval prior to investment. At both stages, both the investment committee and Registered Provider board will screen proposals for compliance with the Fund's strategy, investment restrictions, and risks associated with the particular transaction including from a regulator and ESG perspective.

- Managing agents

Due diligence is carried out on managing agents who provide day-to-day property management services to the fund. The fund manager will select agents who have a strong track record in providing services to appropriate quality standards and also reflecting the principles of sustainability and responsible property management. Property managers will be involved in a number of activities which have the potential to affect performance against our Impact Objectives so selection of managers who incorporate awareness of these issues into their own operations, and can demonstrate this, are important considerations.

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# 11. Engagement Policies

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The Fund actively engages with the tenants of its properties regularly and across a number of issues as the Manager aims to deliver services to standards which meet the expectations of residents and the RSH. One of the key regulatory standards for the sector (the Tenant Involvement and Empowerment Standard) is specifically focussed on tenant engagement and this, along with the requirements of the Tenant Satisfaction Measures Standard, are important in framing our approach.

The Fund will engage with tenants in a way which is appropriate to their diverse needs. This requires an understanding of the portfolio beyond purely financial performance and means that there is a natural alignment between regulatory expectations and the Fund's sustainable investment objective.

Tenant engagement covers central topics such as how we approach and deliver repairs and maintenance services, as well as transactional matters (for example where we acquire tenanted properties there is an obligation on the part of the seller to consult with tenants). We envisage that going forward tenant engagement will be also an important area when planning the delivery of works to improve the environmental and energy performance of existing housing.

# 12. Attainment of the sustainable investment objective

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There is no suitable index for the purposes of the Fund at the present time. We use our own Impact Framework and detailed reporting to investors to demonstrate the attainment of the Fund's objective.

For further information, please contact:

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**Savills Investment Management**

33 Margaret Street  
London W1G 0JD  
T +44 (0) 20 7877 4700  
F +44 (0) 20 7877 4777  
info@savillsim.com

**savillsim.com**

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