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ESG

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The right mix How to build a successful strategy



KEYNOTE INTERVIEW

Where values meet value creation



*Sustainability is a moral imperative and can go hand in hand with investment returns if opportunities to create value through environmental and social focus are seized, say Slättö's **Annachiara Torciano** and **Jonas Andersson***

The need to genuinely embrace sustainability is driven both by a desire to contribute to society and a realization that an ESG focus can lead to stronger returns, say Annachiara Torciano, head of ESG, and Jonas Andersson, deputy managing partner, at Slättö, so sustainability is key at every stage of the value creation process. They say sustainability is both a moral imperative and part of delivering superior returns.

Q What ESG trends will most impact private real estate?

Jonas Andersson: Slättö is a fast-growing, mid-size Nordic private equity firm in real estate. Our vision is to be

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the most respected investor in our chosen strategies. We have the ambition to be best in class and outperform our peers over time, and we see sustainability as key to our continued success.

A number of long-term trends inform our sustainability approach. Firstly, it is clear that real estate has a key role to play in the transition to a low-carbon economy, as the construction value chain contributes to 25 percent of overall greenhouse gas emissions globally.

This is what has driven us to begin our own sustainability journey. It is crucial that governments and businesses work to achieve the goals of the Paris Climate Agreement, and Slättö is committed to setting net-zero science-based targets.

In Europe, the current geopolitical environment has focused minds on energy independence. In real estate, investing in energy efficiency and on-site renewables is an opportunity to reduce operational costs and climate impact and increase domestic energy supply.

Secondly, legislation is growing, so staying ahead of government policy is becoming increasingly important. The

EU Sustainable Finance Disclosure Regulation and Taxonomy are such examples, another is the updated legislation on energy performance of buildings.

Furthermore, ESG has become more interesting for investors, including for those active in the real estate space. Investors are increasingly viewing ESG as a way of unlocking value.

Another area where we are seeing an emerging trend regards tenants. Customers are increasingly interested in understanding the environmental impact of real estate and prefer assets

with a high sustainability performance.

As a consequence of these trends, returns and sustainability can go hand in hand.

Q What is Slättö doing on the environmental side of ESG?

Annachiara Torciano: We are preparing our net-zero science-based targets and setting short-term sustainability action plans for our firm and segments, both in terms of assets under management and new investments.

Concrete actions we are taking right

now include stepping up our initiatives to reduce the carbon footprint of existing buildings. We do this by investing in energy efficiency and on-site renewable energy. We are analyzing energy consumption in every one of our portfolio assets and setting improvement plans.

In project development, high sustainability ambitions have helped us win land allocation, as municipalities value environmental and social initiatives in bids. We are investing in solar energy on-site across new Slättö logistics projects, which will lead to total savings of over 32,000 tons of CO₂ over a 25-year period.

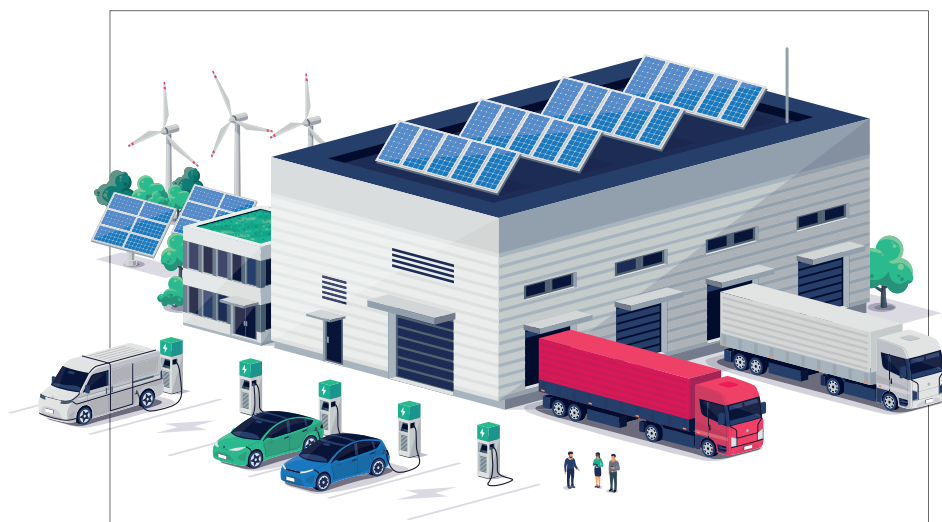
We include sustainability in all new investment decisions. For example, we integrate the EU Taxonomy criteria, addressing not only energy efficiency but also other aspects such as climate adaptation and lifecycle analysis of buildings. We also aim for environmental certification of all new developments.

Q ESG is key during the acquisition of assets but also throughout their entire lifecycle. How important is active asset management?

JA: Active asset management is essential. Taking steps to reduce the energy consumption of buildings has always been part of our approach. We are focused on this now more than ever and are currently carrying out an energy assessment of all our portfolio assets. The aim is to proactively identify ways to reduce energy consumption and increase on-site renewable energy. As a next step, we will set energy improvement plans across our assets.

We create value by staying close to customers, engaging in regular dialogue with them, solving problems and identifying their needs as early as possible so we can expand together. Asset management is therefore very important within our value creation model.

In logistics, for example, higher ESG performance can help attract



Slättö's new logistics facilities

A Nordic rollout of green last-mile logistics terminals is underway.

In logistics, efforts to reduce the environmental impact of the last mile have been a priority for Slättö for some time. The firm has partnered with its customer Budbee, a Sweden-based technology company and e-commerce platform, to create more sustainable logistics facilities.

As part of its sustainability goals, Budbee is expanding its use of fossil-free deliveries. Together, the two companies are developing logistics facilities powered by on-site solar energy.

Evolv, Slättö's brand for its warehouse and logistics platform, will develop and manage the terminal buildings in strategic locations. Each terminal will have approximately 400 employees.

Across all Slättö logistics projects, the firm says investments in solar energy on-site will collectively lead to savings of 32,000 tons of CO₂ over a 25-year period.

stronger brands as tenants. We certify all new projects with environmental certifications, secure high energy efficiency aligned with Taxonomy and invest in on-site renewable energy. This makes our assets more attractive to customers. Whether it is in terms of energy efficiency, renewable power, carbon footprint or any other sustainability metric you could think of, going beyond the legal requirements can create value.

Q Although environmental goals are a core part of any ESG strategy, how important is it to contribute to social objectives?

AT: Social aspects are incredibly important. A key part of our approach is to partner with civil society organizations who have the mandate and competences to address societal challenges. Through these partnerships, we can contribute to addressing important and difficult social issues.

One example of this is our partnership with the NGO World Childhood Foundation. We support Childhood's efforts with education and outreach around child protection.

Other initiatives in partnership with civil society include our co-operation with HerHouse, an organization that provides housing to women victim of domestic violence. In Sweden's regulated housing market, women have difficulties gaining a new home after breaking out of a violent relationship.

We also have a partnership with a municipality where we make our flats available to Ukrainian refugees. Our employees contributed financially to help refugee families purchase groceries, for example.

These initiatives may be small, but they matter to us working at Slättö, reflect our value-based culture and make us more relevant in society.

Social sustainability is an area with a lot of potential to do more. A great deal of data shows that feeling a sense of connection with the local community

makes people happier and strengthens the attractiveness of a neighborhood. Therefore, working with social sustainability creates a positive impact in society, demonstrates our values as a firm and makes us more relevant.

Q Transparency and reporting requirements are essential to meeting ESG goals. How challenging is it to maintain a high standard here?

JA: Slättö's culture is built on our strong values, and one of them is transparency. Therefore, it is part of our culture to strive for high standards of transparency, going beyond regulatory requirements. For example, we have already started to report on our Scope 3 emissions, as well as Scopes 1 and 2.

We are putting a lot of effort into understanding and applying the new EU reporting frameworks under EU Sustainable Finance Disclosure

Regulation and Taxonomy, to be able to provide high-quality information to stakeholders such as investors.

Our Nordic heritage helps us as both legislation and awareness around sustainability are quite advanced in this region. For example, climate footprint declarations will be required for new buildings in Sweden, so we have already started lifecycle analyses of our new projects.

Metrics provide opportunities for investors to make comparisons between asset managers. But more can be done for greater harmonization, which is the intention of new EU regulations.

Q What new opportunities are being created by the transition to a low-carbon economy, especially in real estate?

AT: This is a very exciting time, with opportunities to invest in the low-carbon economy but also a responsibility to accelerate the transition. In the short term, this is about reducing energy consumption of the existing stock and increasing European renewable energy production. In some respects, the regulatory environment helps with this, while not so much in others.

In the longer term, real estate can play a key role in the electrification of the economy, for example in the transport sector.

As to new construction, there are initiatives to reduce the climate impact of materials such as cement and steel, which in the mid- to long-term can provide solutions.

Buildings are spaces that people need, so the question is how to combine these with climate-positive solutions. Populations are growing and the need for new housing is increasing in many markets, so how can we meet this need in a way that is environmentally and socially sustainable?

If we think more smartly about the built environment there are going to be countless exciting opportunities emerging. ■

“Working with social sustainability creates a positive impact in society, demonstrates our values as a firm and makes us more relevant”

ANNACHIARA TORCIANO