

Summary

LRO Hospitality Fund SCA SICAV-RAIF (hereinafter the **Fund**) is an ESG orientated Fund, *i.e.* a fund that in accordance with the criteria outlined in Article 8 of the Regulation (EU) 2019/2088 on sustainability-related disclosure requirements in the financial services sector, as amended (the **SFDR**) promotes, among other characteristics, environmental or social characteristics, and invest in hotels and companies that follow good governance practices.

The classification of the Fund as an ESG orientated Fund means that it considers sustainability risks and environmental, social or governance (**ESG**) related requirements as a key factor of its investment policy, but do not have as its objective a sustainable investment.

Sustainability risks and ESG related aspects will be assessed by the Fund, through its external alternative investment fund manager, Langham Hall Management S.à r.l. (the **External AIFM**) and with the support of LRO Investment Advisor Limited (the **Investment Adviser**), on a case-by-case basis in line with the Fund's investment strategy.

A minimum of sixty-five per cent (65 %) of the investments will be aligned with the ESG characteristics promoted by the Fund. Thirty-five per cent (35 %) of the remaining investments which are not directly aligned with the ESG characteristics promoted by the Fund will include the acquisition/incorporation of Special Purpose Vehicles (**SPVs**) (as applicable), hotels and other relevant assets, capex and operational activities costs.

To that end, the Fund's due diligence process will integrate both ESG and traditional commercial aspects. In addition, the Fund will incorporate ESG issues into the relevant SPVs and their ownership policies and practices and select suppliers adhering to relevant sustainable development and production charters.

Whilst the Fund will not report against the principal adverse impacts of investment decisions on sustainability factors (**PAI**) at this stage, it will take into account relevant indicators for adverse impacts in Table 1 of Annex I of the Commission Delegated Regulation (EU) 2022/1288 setting out the SFDR regulatory technical standards (the **RTS**) and any relevant indicators in Tables 2 and 3 of Annex I RTS. Any sustainable investment of the Fund will also be aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

No specific index has been designated as a reference benchmark for the purpose of assessing the environmental and social characteristics promoted by the Fund, however the Fund is using the FuturePlus sustainability management platform to assist it in managing and measuring the sustainability of its assets and has also designated the Global Real Estate Sustainability Benchmark (**GRESB**) to assess whether ESG related criteria are met.

The Fund will report on progress through annual reports which will describe among other things to which extent the ESG characteristics promoted by the Fund are met.

Résumé

LRO Hospitality Fund SCA SICAV-RAIF (ci-après le **Fonds**) est un Fonds à orientation ESG, c'est-à-dire un fonds qui, conformément aux critères énoncés à l'article 8 du Règlement (UE) 2019/2088 sur la publication d'informations en matière de durabilité dans le secteur des services financiers, tel que modifié (le SFDR), promeut, entre autres caractéristiques, des caractéristiques environnementales ou sociales, et investit dans des hôtels et des entreprises qui suivent des pratiques de bonne gouvernance.

La classification du Fonds en tant que Fonds à orientation ESG signifie qu'il considère les risques de durabilité et des exigences liées à l'environnement, au social ou à la gouvernance (**ESG**) comme un

facteur clé de sa politique d'investissement, mais qu'il n'a pas pour objectif un investissement durable.

Les risques de durabilité et les aspects liés à l'ESG seront évalués par le Fonds, par l'intermédiaire de son gestionnaire de fonds d'investissement alternatif externe, Langham Hall Management S.à r.l. (l'**AIFM**) et avec le soutien de LRO Investment Advisor Limited (le conseiller en investissement ou **Investment Adviser**), au cas par cas, conformément à la stratégie d'investissement du Fonds.

Un minimum de soixante-cinq pour cent (65 %) des investissements seront alignés sur les caractéristiques ESG promues par le Fonds. Les trente-cinq pour cent (35 %) d'investissements restants, qui ne sont pas directement alignés sur les caractéristiques ESG promues par le Fonds, comprendront l'acquisition/la constitution de sociétés à finalité spécifique (**SPV**) (le cas échéant), d'hôtels et d'autres actifs pertinents, les coûts d'investissement et les coûts d'activités opérationnelles.

À cette fin, le processus de diligence raisonnable du Fonds intégrera à la fois les aspects ESG et les aspects commerciaux traditionnels. En outre, le Fonds intégrera les questions ESG dans les SPV concernées et dans leurs politiques et pratiques de détention de propriété, et sélectionnera des fournisseurs adhérant à des chartes de développement durable et de production pertinentes.

Bien que le Fonds n'établira pas de rapport sur les principaux impacts négatifs des décisions d'investissement sur les facteurs de durabilité (**PAI**) à ce stade, il tiendra compte des indicateurs pertinents pour les impacts négatifs dans le tableau 1 de l'annexe I du règlement délégué (UE) 2022/1288 de la Commission établissant les normes techniques réglementaires SFDR (les **RTS**) et de tout indicateur pertinent dans les tableaux 2 et 3 de l'annexe I des RTS. Tout investissement durable du Fonds sera également aligné sur les Principes directeurs de l'OCDE à l'intention des entreprises multinationales et les Principes directeurs des Nations Unies relatifs aux entreprises et aux droits de l'homme, y compris les principes et les droits énoncés dans les huit conventions fondamentales identifiées dans la Déclaration de l'Organisation internationale du travail relative aux principes et droits fondamentaux au travail et la Charte internationale des droits de l'homme.

Aucun indice spécifique n'a été désigné comme indice de référence pour évaluer les caractéristiques environnementales et sociales promues par le Fonds, mais le Fonds utilise la plateforme de gestion de la durabilité FuturePlus pour l'aider à gérer et mesurer la durabilité de ses actifs et a également désigné le Global Real Estate Sustainability Benchmark (**GRESB**) pour évaluer si les critères ESG sont respectés.

Le Fonds rendra compte de ses progrès dans des rapports annuels qui décriront, entre autres, dans quelle mesure les caractéristiques ESG promues par le Fonds sont respectées.

1) No sustainable investment objective

The Fund promotes environmental and social characteristics (as further detailed in the section below), but does not have as its objective sustainable investment.

It will nevertheless partially make sustainable investments and intend to not significantly harm any relevant environmental or social objectives.

The Fund and its External AIFM will take into account relevant sustainability factors and indicators in the investment decision process in line with the United Nations supported Principles of Responsible Investment (**PRI**).

Whilst the Fund will not report against the PAI at this stage, it will measure, manage and report the Scope 1 and 2 greenhouse gas emissions from 2023, both in tonnes of Co2 and by intensity¹.

The Fund will report through its annual reports on the relevant indicators included in Table 1 of Annex I of the RTS including energy consumption, water, and waste emissions and any violations of the UN Global Compact principles. These indicators will also help inform the investment decision processes of the Fund.

Finally, in line with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, the External AIFM and the Investment Adviser recognise that the Fund and its special purpose vehicles (**SPVs**) must comply with all applicable laws and respect human rights. In this regard, the Fund complies with national environmental and employment laws and regulations and follows the European Union law principles and standards in its regions of operations.

2) Environmental and social characteristics promoted by the Fund

The whole life cycle of the Fund's assets from underwriting through renovations and operating measures until disposal tends to promote ESG characteristics by protecting the environment, engaging socially and promoting sound governance practices.

The ESG characteristics the Fund seeks to promote for each project at the acquisition, renovation and operation stages are the following:

Protecting the environment

Acquisitions:

- Focus on hotels that have already started green certificates or that offer the possibility to obtain certification through sustainable measures and renovations.
- Provide capital for feasible investments in brownfield/regeneration areas.
- Sourcing activity to be geared towards reducing overall carbon footprint.

Renovations:

- Focus on technical improvements to reduce overall consumption (e.g. insulation, solar panels, LED lighting) and hence reduce carbon footprints and obtain relevant certifications.
- Enhanced insulation programs to reduce wastage and energy consumption.
- Implementing connected devices to detect water leakage, open windows and unnecessary lighting.

¹ Scope 1 and 2 GHG emissions' means the scope of greenhouse gas emissions (**GHG**) referred to in points (1)(e)(i) to (iii) of Annex III to Regulation (EU) 2016/1011 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds, as amended (the Benchmarks Regulation). According to the Benchmarks Regulation, Scope 1 GHG emissions are the emissions generated from sources that are controlled by the company that issues the underlying assets, and Scope 2 GHG emissions are the emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets.

- Building rooftop or parking gardens to produce wildlife habitats and food and reduce dependence on long delivery circuits.

Operations:

- Implementing measures to reduce food waste, and ban disposable plastic items (except those used for accessibility measures) together with brand owner's sustainability programs.
- Awareness programs with employees and customers to reduce energy and water consumption.
- Selection of suppliers adhering to sustainable development and production charters.

However, the underlying investments of the Fund do not take into account the EU criteria for environmentally sustainable economic activities as defined under the Taxonomy Regulation (EU) 2020/852 (the **Taxonomy Regulation**), as the Fund only promotes at this stage environmental characteristics in the meaning of the SFDR (*i.e.* non Taxonomy-aligned environmental activities), and does not promote Taxonomy-aligned activities.

Social engagement

Diversity and social inclusion

- Encouraging a diverse employee base in terms of gender, race, ethnicity, identity, age, and disability mix.
- Promoting fair pay, also in accordance with the local laws and regulations.

Health and Well-Being

- Supporting health, safety and security trainings and programs for all employees.

Local socio-economic developments where possible

- Promoting employee skills-based volunteering to benefit the wider community.
- Engaging with local communities, with a view to give back.

Governance

Adequate investor rights:

- Ensuring timely and high-quality reporting on Fund's performance and key developments
- Maintaining regular dialogue and good relationships with the entire investor base and with all stakeholders

Transparent decision-making processes

- Creating a lean Fund and SPVs structure with a transparent decision-making process

Proper Risk Management

- Establishing prudent risk management procedures in evaluating potential investments

Zero tolerance for corruption and bribery

- Encouraging a culture of whistleblowing and strict penalties for any public violations

3) Investment strategy

The Fund aims at investing in a diversified portfolio of hotels in the Target Cities and achieving an internal rate of return (**IRR**) above fifteen per cent (15%)² by carrying out the investment strategy as further described in Section 3 of the Private Placement Memorandum of the Fund (the **PPM**).

The above-described ESG characteristics will be integrated in the Fund's goals and ambitions in line with its commitment to the PRI.

In line with its investment strategy, the Fund will:

- incorporate ESG issues into its investment analyses and decision-making processes;
- incorporate ESG issues into the relevant SPVs and its ownership policies and practices;
- seek relevant sustainability certifications; and
- select suppliers adhering to relevant, sustainable development and production charters.

The Fund aims at investing in a diversified portfolio of hotels in different target cities, ensuring as far as possible that the above-described ESG characteristics are attained at every stage.

Project appraisals will include detailed ESG and impact studies. On the basis of these appraisals, the Fund may decide whether or not to invest.

Key performance indicators may also be developed with the help of environmental consultants at the project level.

The binding element of the Fund's investment strategy is the acquisition, repositioning / rebranding, and development of hotels in the Target Cities (as such a term is defined in the PPM) of ensuring as far as possible that the above-described ESG characteristics are attained at every stage.

Finally, it should be noted that the Fund invests in real estate assets, not in companies. As a result, good governance practices are assessed at the level of the SPVs created to buy the assets, and develop the real estate projects. In this regard the Fund pays particular attention to the values and reputation of its partners, real estate developers, etc. These partners are selected on the basis of the quality of their work, the transparency of their processes and their commitment to responsible work practices. The absence of controversies and claims is also assessed in the selection process (bribery or corruption matters, etc.).

To assess and monitor the good governance practices of the investee companies, we will use the FuturePlus sustainability management platform. The ESG score is developed using a methodology that includes nearly all globally recognised indicators, and will ensure a transparent and accurate representation of the governance rating. The FuturePlus scoring methodology is based on a proprietary ESG analysis framework, which includes specific governance criteria within the operational, workforce, supply chain and assets ecosystem. The governance sub-criteria considered include board structure, remuneration, human rights, ethics, tax practices and ESG strategy application.

4) Proportion of investments

100% of the Fund's investments are made in hotel opportunities located in Target Cities (as such a term is defined in the PPM). A minimum of 65% of the investments will be aligned with the ESG characteristics promoted by the Fund.

The Fund is 0% aligned with the Taxonomy Regulation.

A minimum percentage of 45% of sustainable investments of the Fund will be allocated to non-EU Taxonomy aligned environmental objectives of the Fund and a minimum percentage of 20% of sustainable investments of the Fund will be allocated to social objectives of the Fund.

The remaining percentage of 35% of investments of the Fund will be dedicated to other operational purposes, including the acquisition/incorporation of the SPVs (as applicable), hotels and other relevant assets, capex and operational activities costs.

² No guarantee can be given that such target return will be achieved. The IRR is expressed as a pre-tax net return to Investors of the Fund before any promote distribution.

5) Monitoring of environmental or social characteristics

The Fund works with sustainability and ESG analysts from The Sustainability group Ltd (The owners of Future Plus) to ensure an understanding of emerging ESG topics and monitoring trends, updating relevant indicators and assessing sustainability risks and opportunities as well as negative exposure to sustainability factors.

To ensure that environmental and social characteristics are met throughout the lifecycle of the fund, the ESG process above is applied and monitored on an ongoing basis, including tracking the assets against the agreed sustainability roadmaps to ensure compliance with Article 8 SFDR requirements.

6) Methodologies for environmental or social characteristics

No specific index has been designated as a reference benchmark for the purpose of assessing the environmental and social characteristics promoted by the Fund, however the Fund is using FuturePlus, a sustainability management platform, to assist it in managing and measuring the sustainability of its assets, which includes indicators tracking climate, social, economic and environmental impact as well as diversity and inclusion.

The Fund also designated GRESB to assess whether the ESG related criteria are met. The GRESB will provide annual performance assessment reports of the Fund compared to relevant peers' ESG performance and sustainability best practices for real estate and infrastructure companies, funds and assets worldwide. GRESB assessments focus on what investors and the industry consider to be material issues in the sustainability performance of real asset investments, and are aligned with relevant international reporting frameworks, the Paris Climate Agreement, UN SDGs, region and country specific disclosure guidelines and regulations. In this regard, the GRESB constitutes a useful benchmark aligned with the Fund's investment strategy.

Furthermore, the Fund will report on progress through annual reports which will describe among other things to which extent the ESG characteristics promoted by the Fund are met.

7) Data sources and processing

As stated, the Fund will use both FuturePlus and GRESB to assess the social and environmental characteristics of the assets. To ensure high data quality, FuturePlus uses and verifies primary data provided directly by the assets to provide both an "Actual" and "Ambition" score for the individual assets. The evidence is verified against a comprehensive and relevant evidence framework.

The Actual score reflects the score obtained by the Asset on acquisition during due diligence whilst the Ambition score will be set by the Fund. Both Actual and Ambition scores will be elaborated on an asset by asset basis.

For specific data areas such as Scope 1 and Scope 2 emissions, standard methodologies and extrapolation methods will be used to ensure best practice estimations are provided.

8) Limitations to methodologies and data

The Fund uses the robust and comprehensive FuturePlus methodology as its impact measurement and evaluation criteria. However, there can be limitations when measuring the progress of an early stage company. Data might be limited or non-existent when the company is at an early stage. This is counteracted by the ability to develop an ambition score that is compiled in collaboration with FuturePlus. The ambition score is developed by the company pledging to achieve certain objectives within three years, and agrees to be monitored in its progress and report transparently on its outcomes

9) Due diligence

The Fund's due diligence process integrates impact, ESG and traditional commercial aspects. This includes screening impact potential, investment focus alignment, [SPV and hotel] team set-up and investment model. An in-depth analysis of the business, impact screening and validation and standard

due diligence such as legal, IP & technology diligence, impact & sustainability diligence, and reference calls.

10) Engagement policies

As indicated above the Fund will incorporate ESG issues into the relevant SPVs and their ownership policies and practices and select suppliers adhering to relevant, sustainable development and production charters.

The Fund is developing a pro-active engagement policy that seeks to contribute to best practices across the assets and foster the integration of sustainability in its governance, operations and business models. We support a more sustainable, inclusive, low-carbon business model for our investors and assets. The fund will monitor the assets across 200 to 300 ESG indicators (depending on the size and location of the asset) on a regular basis and works with sustainability and ESG analysts in regard to controversy monitoring, which will be considered on a regular basis and remedial action will be based on the level of severity of the controversy.

11) Policy on sustainability risks

SFDR defines “sustainability risks” as environmental, social or governance events or conditions that, if they occur, could cause an actual or a potential material negative impact on the value of the investment.

Pursuant to SFDR, the Fund and its External AIFM are required to disclose the manner in which sustainability risks are integrated into the investment decision-making process and the results of the assessment of the likely impacts of sustainability risks on the returns of the Fund. The nature of the Fund’s investment policy is such that the Fund considers sustainability risk and ESG related requirements as a key factor of its investment policy and integrate sustainability risks into the investment decisions in respect of the Fund.

Sustainability risks will be assessed by the Fund, through its External AIFM and with the support of the Investment Adviser, on a case-by-case basis and can take various forms, such as climate change regional risks (e.g. more regular fires or floods), public boycott campaigns, local risks of corruption or fraud.

Assessment of sustainability risks is complex and sometimes requires subjective judgements, which may be based on data which is difficult to obtain or incomplete, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that the Fund, through the External AIFM and with the support of the Investment Adviser, will correctly assess the impact of sustainability risks on the Fund.

To the extent that a sustainability risk occurs, there may be a sudden material negative impact on the value of an investment, and hence the returns of the Fund. Such negative impact may depend on the circumstances result in a significant impact on the returns of the Fund.

12) No consideration of principal adverse impacts on sustainability factors

According to the SFDR, sustainability factors are environmental, social and employment matters, respect for human rights, anti-corruption and anti-bribery matters.

As the legal framework regarding sustainability adverse impacts is still in formation and the methodologies for considerations of adverse impacts on sustainability factors are in full development and have not yet reached maturity within the sustainable finance industry, the Fund and its External AIFM do not currently consider principal adverse impacts of investment decisions on sustainability factors.

We expect this will be a work in progress until the sustainable finance industry is more evolved in the methodology of measuring and reporting sustainability adverse impact in a way that is useful for investors and the Fund and its External AIFM will review this policy as the relevant legal framework and technical methodologies are developed further.

13) Annual Reports

Finally, the Fund will report on progress through annual reports which will describe among other things to which extent the ESG characteristics promoted by the Fund are met.

More information related to the Fund's ESG strategy is available in Schedule 3 of the PPM.

Further information in relation to the External AIFM's approach to sustainable investment may be found on the External AIFM's website at: <https://www.langhamhall.com/legal-disclosures/langham-hall-luxembourg-aifm-sustainability-related-disclosures-2/langham-hall-luxembourg-aifm-sustainability-related-disclosures/>

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