

Pepper Group

Type of Engagement: Green Bond Use of Proceeds Pre-Issuance Review

Date: April 2019

Engagement Leader: Ankita Shukla, ankita.shukla@sustainalytics.com, +1(617) 603 3329

Introduction

In February 2019, Pepper Group (“Pepper”) updated the Pepper Green Bond Framework¹ under which it plans to issue green bonds aimed at financing and refinancing green mortgages. In April 2019, Pepper engaged Sustainalytics to review its PRS 24 A\$750m no-grow issuance.² Sustainalytics has provided an assessment in Appendix 2 as to whether the green mortgage loans included for financing or refinancing in the PRS 24 transaction meet the criteria and the reporting commitments outlined in the updated Pepper Green Bond Framework. This document should be read in conjunction with the Framework.

Evaluation Criteria

Sustainalytics evaluated the underlying mortgage loans that will be funded through the PRS 24 issuance in 2019 for compliance based on whether:

1. The mortgage loans are aligned with the Use of Proceeds Eligibility Criteria outlined in the updated Pepper Green Bond Framework; and
2. The commitments to select mortgage loans and manage proceeds from the PRS 24 issuance are aligned with the commitments described in the updated Green Bond Framework.

Appendix 1 lists the Use of Proceeds and Eligibility Criteria.

Issuing Entity’s Responsibility

Pepper is responsible for providing accurate information and documentation relating to the details of the mortgage loans that have been funded, including a description of the eligible green mortgage loans. Pepper is also responsible for confirming to Sustainalytics that processes for project selection and management of proceeds for the PRS 24 issuance will remain aligned with the commitments described in the updated Green Bond Framework.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Pepper’s PRS 24 issuance and provided an independent opinion. The work undertaken as part of this engagement included reviewing documentation from Pepper employees to confirm the alignment of the PRS 24 issuance with the updated Green Bond Framework. Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

¹ <https://www.pepper.com.au/debt-investors/debt-programmes>

² The transaction size will be A\$750m no-grow.

Conclusion

Sustainalytics has reviewed the pools provided for compliance with the Use of Proceeds Criteria outlined in the Pepper Green Bond Framework, dated February 2019. Based on the limited assurance procedures conducted,³ nothing has come to Sustainalytics' attention that causes us to believe that the reviewed mortgage loans, funded through proceeds of Pepper's PRS 24 issuance, are not in conformance in all material aspects with the updated Pepper Green Bond Framework. Pepper has also confirmed to Sustainalytics that the proceeds of the bond will be managed in alignment with the commitments described in the Framework.

Appendix 1: Use of Proceeds and Eligibility Criteria

In February 2019, Pepper Group ("Pepper") updated the Pepper Green Bond Framework (the "Framework") under which it will issue green bonds and use the proceeds to finance, or refinance, green mortgages. The Framework defines eligibility criteria as new, or existing, mortgage loans complying with the following respective state requirements in Australia:

1. New South Wales (NSW): houses and apartments in the Sydney Local Government Area and in other areas of New South Wales approved after 1st January 2007;
2. Victoria: houses and apartments approved under NCC BCA 2011, as introduced on 1st May 2011, where construction was completed after 1st January 2012 with a 6-star NatHERS provision;
3. Tasmania: houses and apartments approved under NCC BCA 2013, as introduced on 1st May 2013, where construction was completed after 1st January 2014;
4. Queensland: houses and apartments approved under the NCC BCA 2010, where construction was completed after 1st January 2011, with a 6-star NatHERS equivalent;
5. South Australia: houses and apartments approved under the NCC BCA 2010, where construction was completed after 1st January 2011, with a 6-star NatHERS provision.,
6. Western Australia, Australian Capital Territory and the Northern Territory: must satisfy the eligibility requirements of New South Wales.

Appendix 2: Sustainalytics' Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the green mortgage loans funded by the PRS 24 issuance in 2019 to determine if mortgage loans aligned with the Use of Proceeds Criteria outlined in the Pepper Green Bond Framework and above in Appendix 1.	All green mortgage loans reviewed complied with the Use of Proceeds criteria. Thus, the properties included in the PRS 24 issuance portfolio were built after the eligible years defined as per the Use of Proceeds criteria within each state.	None

³ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the mortgage loans that have been funded which were provided by the Issuer. The Issuer is responsible for providing accurate information.

Disclaimer

© Sustainalytics 2019. All rights reserved.

The intellectual property rights to this Second-Party Opinion (the “Opinion”) are vested exclusively in Sustainalytics. Unless otherwise expressly agreed in writing by Sustainalytics, no part of this Opinion may be reproduced, disseminated, comingled, used to create derivative works, furnished in any manner, made available to third parties or published, parts hereof or the information contained herein in any form or in any manner, be it electronically, mechanically, through photocopies or recordings, nor publicly released without the “Green Bond Framework” in conjunction with which this Opinion has been developed.

The Opinion was drawn up with the aim to provide objective information on why the analyzed bond is considered sustainable and responsible, and is intended for investors in general, and not for a specific investor in particular. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, the information is provided “as is” and, therefore Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date, nor assumes any responsibility for errors or omissions. Any reference to third party names is for appropriate acknowledgement of their ownership and does not constitute a sponsorship or endorsement by such owner.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, nothing contained in this Opinion shall be construed as an investment advice (as defined in the applicable jurisdiction), nor be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. In 2015, Global Capital awarded Sustainalytics "Best SRI or Green Bond Research or Ratings Firm" and in 2018 and 2019, named Sustainalytics the "Most Impressive Second Party Opinion Provider. The firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance in 2018, and in 2019 was named the "Largest Approved Verifier for Certified Climate Bonds" by the Climate Bonds Initiative. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan and the Minister of the Environment Award in the Japan Green Contributor category of the Japan Green Bond Awards in 2019.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com

