

FUNO® Sustainability Linked Bond Framework

February 2022

Background

We are the first and largest REIT in Latin America. FUNO owns over 646 properties, encompassing 116,282,584 million sqft of gross leasable area (GLA) all over Mexico, in the retail, office and industrial sector, with an occupancy rate of 93.1%.

Sustainable infrastructure is the core of our business model, aiming at the creation of long-term value for the communities where we operate and benefitting all our stakeholders. We currently report under GRI, TCFD, SASB and PRI guidelines; and have committed to establish a Science Based Target pending to be approved in 2022.

Our experience with sustainable finance goes back to 2019 when we established a corporate sustainability linked revolving credit facility, which was the first one in Latin America at the time, and a sustainable bond in 2021 which was also the first sustainable bond for a real estate company in Mexico.



FUNO's Sustainability Strategy
FUNOs sustainability Pillars



SUSTAINABILITY STRATEGY
2020-2030



* People with disabilities, single parents, LGBTQ+, indigenous groups, migrants.

In order to achieve our Sustainability Goals, we have committed to develop, retrofit and refurbish our properties in order to increase their efficiency, which in turn will help us to:

- Reduce our energy, water and carbon footprint
- Increase property resilience across our portfolio
- Reduce current operational expenses
- Maintain or increase property values
- Increase our ESG Investor base
- Set standards for property performance in Mexico

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- Strengthen social cohesion through inclusive and accessible public spaces for priority groups, such as people with disabilities, elderly, kids, amongst others).
- Provide safer recreational spaces, particularly in high crime rate areas in Mexico.
- Promote economic development for small and medium enterprises.

Framework overview

FUNO’s Sustainability Linked Bond Framework (“Framework”) has been established in accordance with the Sustainability-Linked Bond Principles published in June 2020 (“SLBP 2021”)¹ as administered by ICMA. The SLBP 2020 are a voluntary process guideline that outlines best practices for financial instruments to incorporate forward-looking Sustainability outcomes and promote integrity in the development of the Sustainability-Linked Bond market by clarifying the approach for issuance of Sustainability-Linked Bonds (“SLB”). FUNO’s Framework is in alignment with the five core components of the SLBP 2020:

1. Selection of Key Performance Indicators (KPIs)
2. Calibration of Sustainability Performance Targets (SPTs)
3. Bond Characteristics
4. Reporting
5. Verification

Substantially similar core components are outlined under the Sustainability-Linked Loan Principles 2021 (“SLLP 2021”), published by the LMA in connection with Sustainability-Linked Loans.

Sustainability-Linked Instruments are any type of instrument for which the financial and/or structural characteristics can vary depending on whether FUNO® achieves predefined Sustainability/ ESG objectives. In this sense, FUNO® is hereby committing explicitly to specific sustainability outcomes within a predefined timeline that is relevant, core and material to our overall business. SLBs are a forward-looking performance-based instrument. The proceeds of SLBs are intended to be used for general purposes; hence, the use of proceeds is not a determinant in our categorization.

FUNO® considers the issuance of SLBs as a logical further step of connecting ESG aspects of its core business and its overall refinancing strategy via capital markets. SLBs will represent an additional class of funding instruments within FUNO® ESG related funding mix, and will also be an important tool in addition to our commitment to the sustainability bond market.

FUNO® is committed to the Sustainable Development Goals (SDGs) as it understands that private sector engagement is essential to accelerate the fulfillment of the 2030 Agenda.

1.-Selection of Key Performance Indicators (KPIs)

Based on the six pillars of our Sustainability Strategy and our materiality assessment, FUNO® selects as the Key Performance Indicator for its SLBs **the increase in Certified sustainable Gross Leasable Area (GLA) through retrofit or refurbishment of existing buildings measured as the proportion of certified sustainable GLA (sqft) to total GLA (sqft) in our portfolio.**

Eligible Certifications:

1. LEED for Building Design and Construction (BD+C): addresses design and construction activities for both new buildings and major renovations of existing buildings
2. LEED Operation and Maintenance (O+M): addresses performance oriented sustainable strategies and outcomes in existing buildings that are undergoing improvement work or little to no construction.

¹ <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Sustainability-Linked-Bond-PrinciplesJune-2020-100620.pdf>

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3. BOMA BEST Sustainable Buildings: is Canada’s environmental assessment and certification program for existing buildings of all sizes. It provides building owners, managers and operators a roadmap for operational improvement through the use of questionnaires and survey-based assessment on ten key areas of environmental performance and management.
4. EDGE: was developed by the International Finance Corporation (IFC) specifically for application in emerging market countries and is a green building certification system focused on making new residential and commercial buildings more resource-efficient.

Rationale

Built infrastructure is fundamental for the economic growth and well-being of the communities in which we operate, promoting employment and creating better quality of life, particularly so in emerging markets and developing economies. Nonetheless, the environmental footprint of our sector cannot be overlooked. According to IPCC, buildings consume 32% of worldwide generated electricity, and also produce 25% of global GHG emissions. As such, FUNO has built a strategy to drive the improvement of sustainable practices in the Real Estate sector in Mexico.

As of 2021, our strategy around certified properties focused on new acquisitions or developments, with 89% of our new developments being LEED Certified, accounting for a total of almost one million LEED certified square meters, including office and industrial properties in Mexico. To further our objectives in our Sustainability Strategy, we are changing the status quo of the way we have historically operated and are committing to achieving our certification targets under this Framework entirely through retrofits and refurbishments of standing properties.

A certified property gives investors a third-party accreditation of the water and energy efficiency the property has. At FUNO we have seen that a certified property consumes 9% less energy and 13% less water than a non-certified building². Additionally, it ensures best waste management practices and the materials used in the design and construction of the property; certifications such as LEED and BOMA also looks into the social impact, health, safety, wellbeing and how accessible the property is for vulnerable groups. Therefore, we believe this KPI encompasses FUNO’s entire ESG strategy; while working to certify a property, we must ensure we have achieved all the other ESG targets in our strategy.

Progress towards sustainable buildings is accelerating, but even so, improvements are lower than what’s needed to face climate change. Due to our size and leadership, FUNO® is well positioned to drive change in the Real Estate sector in Latin America, with the support of responsible investors, and this commitment is the first step in doing so.

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Alignment with UN SDGs

FUNO’s commitment to properties certifications in Mexico contributes to the achievement of SDGs, primarily SDG 9, but also SDG 6, 7, 12 and 13.

Definition and methodology for KPI measurement

² This data compares certified properties and non-certified properties within the FUNO portfolio, and located in the same office corridor.

³ The 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015, including Mexico
<https://sustainabledevelopment.un.org/?menu=1300>

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The KPI will be calculated as retrofitted or refurbished sqft of properties that are certified under one or more of the Eligible Certification schemes described above as the percentage of the total GLA in sqft of all properties in FUNO's Total Portfolio.

The KPI is calculated based on GLA and not on the size of total construction/property footprint, therefore actual certified sqft are probably higher than the area reported. We have chosen this approach in order to standardize reporting related to LEED, BOMA and EDGE certification; since some of them exclude common areas and parking spaces and others don't.

FUNO uses the following definition for its Total Portfolio size:

- Total GLA of the properties owned by FUNO:
 - Including but not limited to office, industrial, retail, hotels, schools, hospitals and others;
 - We consider properties owned by FUNO, regardless if it is operated directly by us or by the tenant or other companies;

In case of divestments:

1. If a certified property is sold, then it will negatively impact our progress toward the SPTs and FUNO will have to compensate for the reduction of certified GLA
2. If a non-certified property is sold, then it will have a favorable impact on the achievement of the SPTs
3. If a property is owned by FUNO, it will be included in the total GLA. Currently there are no properties where FUNO operates but does not own the property; if that were the case, the KPI will only include properties owned by FUNO.

In the case of acquisitions:

1. If a certified property is acquired, it will have a neutral effect on the achievement of the SPTs
2. If a non-certified property is acquired, it will negatively impact our progress toward the SPTs

Events that can trigger a recalibration on our KPI baseline include:

1. Change in ownership structure of the business
2. Material changes in certification schemes
3. Discovery of a material error in calculations

2.- Calibration of Sustainability Performance Targets

FUNO® will assess its sustainability performance against Sustainability Performance Targets (SPTs) annually from the period 2021 to 2050 providing a trajectory towards:

SPT #1: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 9 percentage points from the 2021 baseline, equivalent to 18% of the total GLA by 2025

SPT #2: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 26 percentage points from the 2021 baseline, equivalent to 35% of the total GLA by 2030

SPT #3: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 32 percentage points from the 2021 baseline, equivalent to 41% of the total GLA by 2035

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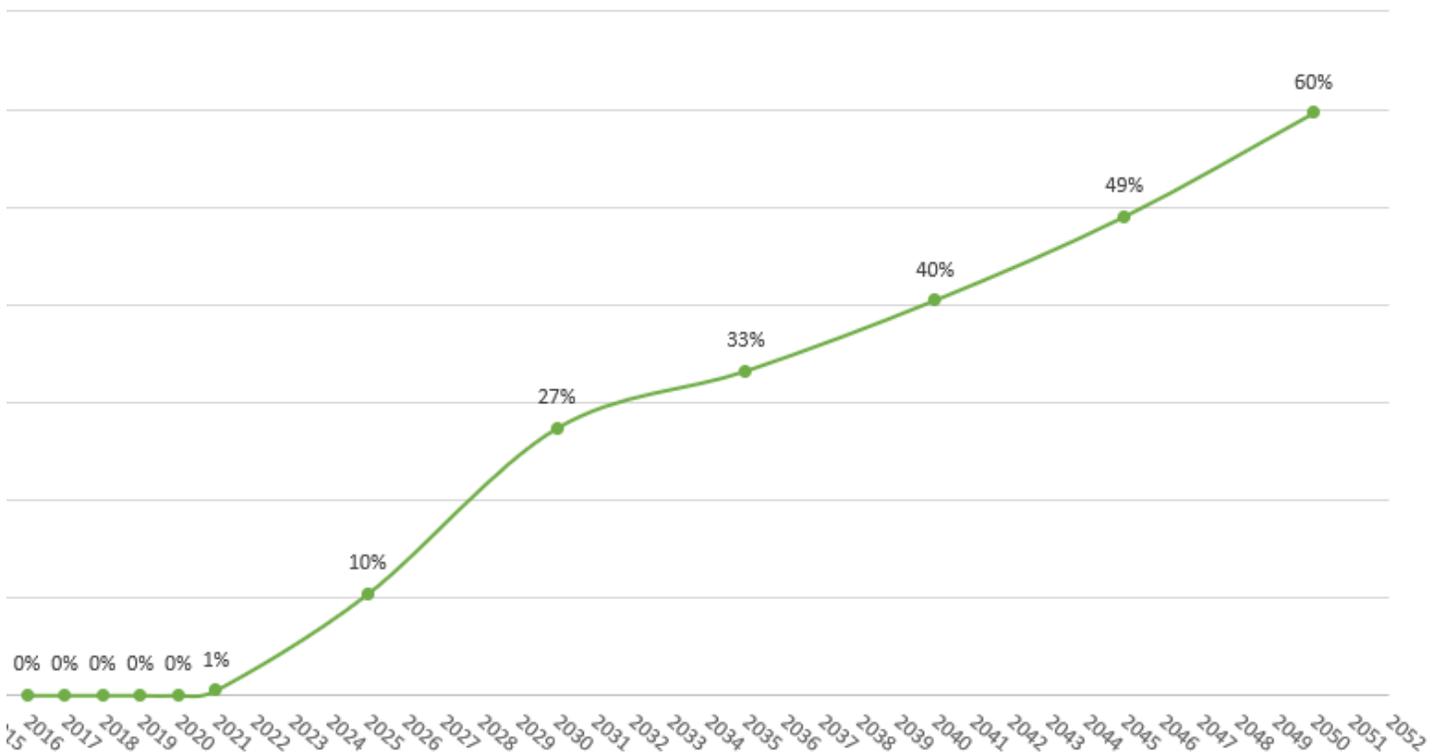
SPT #3: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 39 percentage points from the 2021 baseline, equivalent to 48% of the total GLA by 2040

SPT #4: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 47 percentage points from the 2021 baseline, equivalent to 56% of the total GLA by 2045

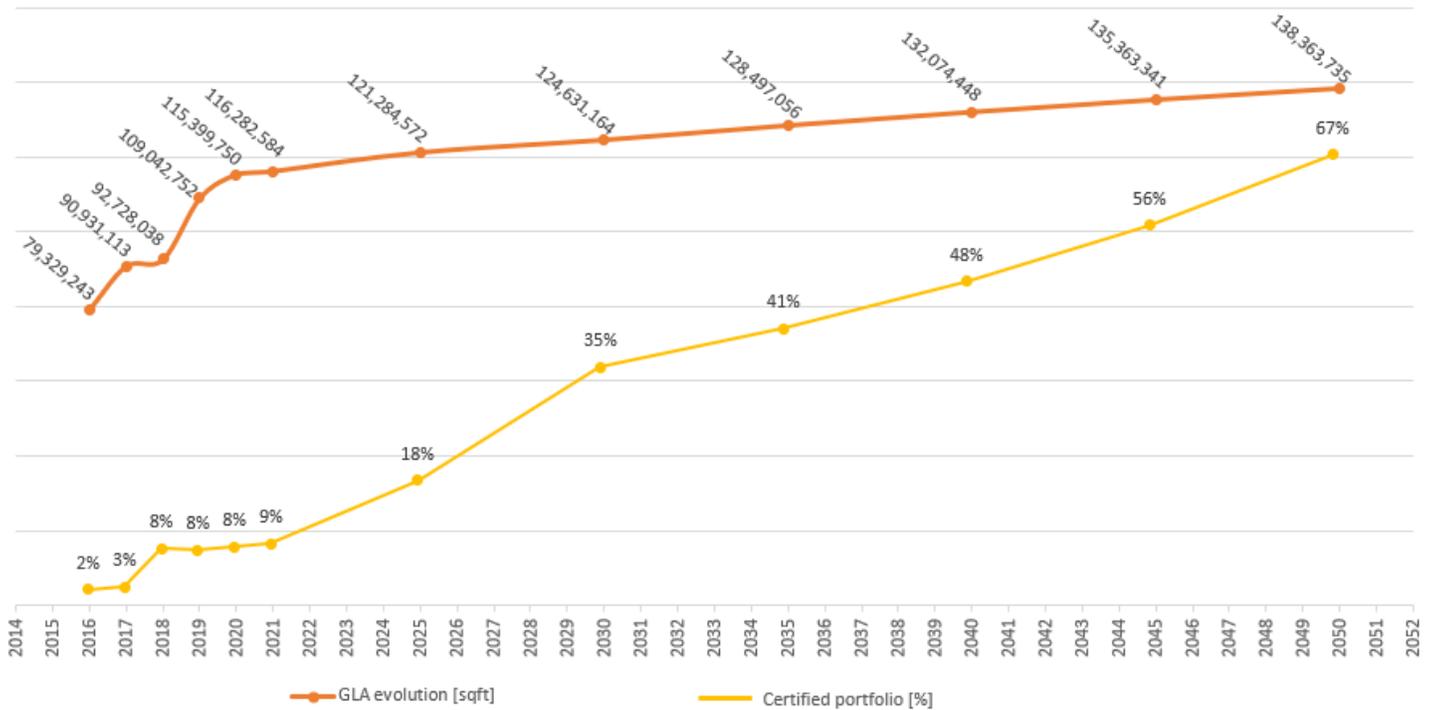
SPT #5: Increase in certified sustainable GLA through the retrofit or refurbishment of existing buildings by 58 percentage points from the 2021 baseline, equivalent to 67% of the total GLA by 2050

Baseline: 9% of the total GLA as of 2021, equivalent to 10,434,955.28 sqft of certified sustainable GLA as of December 2021. 2021 has been defined as the baseline since it is the year with most recent available complete data. Certified sustainable GLA in 2021 and prior was achieved through acquisitions of buildings with existing certifications and development of new buildings.

Certified portfolio from retrofiting



Certified portfolio vs portfolio evolution



Ambition

The chosen KPI encompasses FUNO® entire sustainability strategy and will show the result of the path taken in order to achieve FUNO’s® current sustainability goals. In order to certify a property, the property must comply with the highest health and safety standards, be water and energy efficient, have top waste management systems, air quality indoors and be accessible to its users. Therefore, the chosen KPI ensures the achievement of several ESG commitments in the process of reaching this SLBs target. In addition, achievements on this KPI directly contribute to the United Nation’s Sustainable Development Goals (SDGs) 11 (sustainable cities and communities) and 13 (climate action).

The KPI established and associated SPTs represent a commitment to align our investment strategy with our sustainability strategy as we will seek to achieve our targets through upgrades and refurbishment of existing properties exclusively, which has proven to result in a more positive environmental impact than obtaining sustainable certification through the construction and development of new certified buildings which is how we had built our certified building portfolio up to 2021. In this sense, FUNO is driving an important change in our core business strategy, representing a beyond business-as-usual effort to achieve our sustainability goals. FUNO considers the SPT is challenging and ambitious because it will be increasing overall certified sustainable GLA by more than 5 times over the next 20 years and is a substantial increase over our historic growth in certified sustainable GLA. Achieving this SPT will require a robust certification strategy and material investments for retrofitting existing buildings.

Furthermore, in the Mexican Market there are very few properties built and/or designed with operational sustainable practices in mind. Additionally, there is a scarcity of relevant rating systems and certified properties available for purchase, including with certifications such as LEED, EDGE or BOMA. FUNO’s investment strategy on green buildings seeks to commit to the most rigorous standards of certifications such as LEED Gold and Platinum, BOMA Best and EDGE Advance. While we will include certified sustainable buildings adhering to other levels of certification, it is our intention that the growth in certified GLA contemplated under SPTs will be driven primarily by investments in retrofitting existing buildings to adhere to the most ambitious certification requirements.

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Finally, while we do not control the activities or consumption of resources by our tenants, we encourage the application of best practices through training, green clauses and one-one meetings. Certifying properties allow us to create umbrella guidelines for tenants on the types of products, goods and services they can use in our properties.

To provide a plausible comparison, our largest competitors in Mexico's Real Estate market with similar targets have committed to certifying a total square footage that is still lower than our 2021 baseline. Given our size and leadership in the market, we are better positioned than our peers to drive positive environmental impact in the Mexican Real Estate landscape.

Risks to Achieving the Target

- Natural phenomena damaging our properties
- Lack of communication channels with tenants and tenant oppositions
- Last-minute challenges to acquire or develop LEED certified buildings, such as negative outcomes on licensing, permits, environmental audits, etc.
- Changes in local regulations
- Extreme changes in utilities or operational costs and or availability of sustainable options
- Acquisition or sales of properties
- Risk of accidents, adverse impacts on human health and the environment, adverse impacts from pollution and contamination, and other pre-existing liabilities, soils, water resources, materials use, energy use, waste, and hazardous materials
- Civil disturbances and organized crime that can damage our properties

III. Bond Characteristics

Our Sustainability-Linked Instruments have a sustainability-linked feature that will result in a premium payment by FUNO if one or more of the SPTs have not been reached at the target observation date, such as, but not limited to, a coupon step-up.

For select transactions, a first coupon-step will apply if the first SPT applicable is not met on the target observation date and remain until the target observation date for the second SPT applicable. After the target observation date for the second SPT applicable, a coupon-step (higher than the first step-up) will be applicable until the maturity date of the bond if the second SPT is not met, regardless of the first SPT being met. Otherwise, the coupon remains or reverts to its initial level.

The mechanism for the step-up margin or other premium payment, as applicable, will be specified in the Indenture of the Sustainability-Linked Instrument.

If, for any reason, the performance level against each SPT cannot be calculated or observed, or not in a satisfactory manner⁴, the premium payment will be applicable.

If, for any reason, the company does not publish the relevant verification assurance certificate within the time limit as prescribed by the terms and conditions of the indenture of the Sustainability-Linked Instrument, the premium payment will be applicable.

IV. Reporting

Annually, and in any case for any date/period relevant for assessing the trigger of the SPT performance leading to a potential adjustment, such as a coupon step-up of our Sustainability-Linked Bond, the Issuer will publish and keep readily available and easily accessible on its website: <http://en.funo.mx/investors/esg/sustainability-management>

⁴ non-satisfactory manner to be understood as a verification assurance certificate provided by the independent auditor containing a reservation or the independent auditor not being in a position to provide such certificate

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The FUNO® Sustainability Linked Bond Report will contain at least the following:

1. Up-to-date information on the performance of the selected KPI, including the baseline;
2. An external verification assurance report relative to the SPT outlining the performance against the SPT and the related impact, and timing of such impact, on a bond's financial performance; and
3. any relevant information enabling investors to monitor the progress of the SPT
4. Qualitative or quantitative explanation of the contribution of the main factors, including asset retrofitting, development, acquisition or divestiture activities, behind the evolution of the performance/KPI on an annual basis;
5. illustration of the positive sustainability impacts of the performance improvement; and/or
6. if it is the case, we will include any re-assessments of KPIs and/or restatement of the SPT and/or pro-forma adjustments of baselines or KPI scope.

5. Verification

Annually, and in any case for any date/period relevant for assessing the KPI performance leading to a potential financial adjustment, such as a step-up coupon on the Sustainability-Linked Bond, until after the KPI trigger event of a bond has been reached. FUNO will seek independent and external verification of its performance level for the stated KPI by a qualified external reviewer with relevant expertise. The verification of the performance of the KPI will be made publicly available in the form of a verification assurance certificate on FUNO's website.

We have not previously assured our reported certified sustainable GLA data, but we intend to seek limited assurance on the baseline data when we publish our first Sustainability Linked Bond Report. Our certified sustainable GLA is calculated based on the Gross Leasable Area definition which aligns them with our financial reporting, linking business performance with sustainability performance. KPMG has provided independent assurance on our sustainability reporting in the past.

FUNO will obtain and make publicly available a Second Party Opinion (SPO) and/or other external review from consultants with recognized environmental and social expertise to provide an opinion on the sustainability benefit of this Sustainability-Linked Financing Framework as well as the alignment to the SLBP.

Disclaimer: This Sustainability Linked Bond Framework is not an offer of, or invitation to apply for, or a recommendation to buy securities to any person in any jurisdiction. Any offers or invitations to apply for securities will be made only in accordance with all applicable laws.