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Second Party Opinion

Fibra UNO Sustainability-Linked Bond Framework

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Fibra UNO (FUNO) is the largest REIT in Latin America and acquires, manages, operates, and develops real estate properties across Mexico. As of August 2022, FUNO owned over 633 properties, encompassing 119 million square feet (sqft) of gross leasable area (GLA) in the retail, office, and industrial sectors with an occupancy rate of about 93%.

In our view, FUNO's Sustainability-Linked Bond Framework, published on **Date**, is aligned with:

 Sustainability-Linked Bond Principles, ICMA, 2020

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Issuer's Sustainability Objectives

FUNO's primary sustainability objective is to improve the environmental performance of its real estate portfolio while delivering enhanced social benefits to its employees and the communities in which it operates. To achieve this objective, the company has created a strategy to acquire, develop, and retrofit buildings in its portfolio to make them eligible for certification under various green building certification schemes, notably LEED, BOMA, and EDGE. Certified properties demonstrate improved environmental performance, including better energy, water, and waste efficiency. These properties also incorporate design elements that promote social inclusion and lead to healthier and safer spaces for tenants.

To track its progress against this objective, FUNO has set a number of sustainability performance targets. These include decreasing its energy intensity 5% by 2023 (kilowatt hours [kWh]/occupied square meter [sqm]), increasing its water efficiency 30% by 2030 (m3/occupied sqm), generating zero waste in its properties by 2030, and reducing its carbon footprint 20% by 2030. The company has also set targets related to health and safety as well as diversity and inclusion in its workforce.

In 2019, FUNO issued the first sustainability-linked loan in the Latin American market, linked to energy consumption in its managed properties. This Sustainability-Linked Bond Framework is in line with FUNO's sustainability strategy and commitment to be an active player in the sustainable finance market.

Selected Key Performance Indicators (KPIs) And Sustainability Performance Targets (SPTs)

KPI	SPT	Baseline	Fiscal year 2021 performance
Certified sustainable GLA through retrofit or refurbishment of existing buildings, measured as the proportion of certified sustainable GLA (sqft) to total GLA (sqft) in FUNO's portfolio	Increase in certified sustainable GLA by 58 percentage points from the 2021 baseline, equivalent to 67% of the total GLA by 2050.	9% of the total GLA (fiscal year 2021)	9%

Second Party Opinion Summary


Selection of key performance indicators (KPIs)

Alignment  FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

KPI 1 Certified sustainable GLA through retrofit or refurbishment of existing buildings, measured as the proportion of certified sustainable GLA (sqft) to total GLA (sqft) in FUNO's portfolio

Not aligned	Aligned	Strong	Advanced
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Calibration of sustainability performance targets (SPTs)


Alignment  FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

SPT 1 Increase in certified sustainable GLA by 58 percentage points from the 2021 baseline, equivalent to 67% of the total GLA by 2050.

Not aligned	Aligned	Strong	Advanced
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The SPTs' trajectories illustrate the annual SPTs available for securities issued under FUNO's Sustainability-Linked Bond Framework.

Instrument characteristics

Alignment  FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

Instruments under the framework will be subject to a premium payment, such as a coupon step-up, if FUNO doesn't achieve one or more of the SPTs. The specific mechanism will be specified in the respective instrument's documentation.

Reporting


Alignment  FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

Score

Not aligned	Aligned	Strong	Advanced
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FUNO commits to publish an annual report on its website containing information on the performance of the selected KPI and the company's progress towards achieving the SPT. The report will also include an explanation of the main factors influencing performance, the sustainability impacts, and any re-assessments or restatements of the KPI/SPT, where possible.

Post-issuance review

Alignment  FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

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FUNO commits to have an independent and external verification of its performance level for the KPI conducted annually. FUNO will publish the results of the verification on its website.

Framework Assessment

Selection of key performance indicators (KPIs)

The Principles make optional recommendations for stronger structuring practices, which inform our relevancy opinion as aligned, strong, or advanced. For each KPI, we consider how relevant the KPI is for sustainability by exploring the clarity and characteristics of the defined KPI; its significance for the issuer’s sustainability disclosures; and how material it is to the issuer’s industry and strategy.

 FUNO’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

KPI 1	Certified sustainable GLA through retrofit or refurbishment of existing buildings, measured as the proportion of certified sustainable GLA (sqft) to total GLA (sqft) in FUNO’s portfolio	Not aligned	Aligned	Strong	Advanced
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We view FUNO’s KPI to be aligned considering that the framework clearly articulates the scope, objective, and calculation of the KPI. The KPI supports the company’s sustainability strategy and addresses an important sustainability challenge for the sector.

The KPI will be calculated as retrofitted or refurbished sqft of properties that are certified under one or more eligible certification schemes as a percentage of total GLA in sqft of all properties in FUNO’s portfolio. FUNO will calculate the KPI based on GLA, rather than on the total construction or property footprint, which aligns with sector reporting practices. GLA excludes non-leasable area, such as parking and common areas, and is therefore also consistent across the eligible green building certification schemes. The numerator of the KPI excludes the acquisition of certified properties. We see this commitment as a stronger practice, because it will require investment to reduce the negative environmental impacts of existing properties in FUNO’s portfolio. Also, we consider that the commitment to achieve the target through retrofitting or refurbishment of existing buildings mitigates the risk of potential future stranded assets in the sector by giving existing assets new lease life. Eligible certifications include LEED for Building Design and Construction (BD+C), LEED Operation and Maintenance (O+M), BOMA BEST Sustainable Buildings, and EDGE. While FUNO aims to achieve the highest level of certification, the KPI does not specify a minimum certification level, which we view as a less strong practice. That said, we recognize the financial challenges that may arise from committing to the top level of certifications, especially considering that green certification is a nascent practice in Mexico compared to other regions.

We believe the KPI is relevant to FUNO’s 2020-2030 sustainability strategy because investments required to obtain sustainable building certifications support FUNO’s goals to reduce waste, water, and greenhouse gas (GHG) emissions.

FUNO’s KPI also addresses relevant challenges faced by the sector, such as climate change mitigation. In our view, GHG emissions and energy are the greatest environmental risks for property operators throughout the life of the buildings, followed by water and waste (see “Key Sustainability Factors: Real Estate,” published July 20, 2021). The KPI is a proxy for efficient, low-carbon buildings, and also addresses relevant social risks such as health and safety of occupants and impacts on communities.

Calibration of sustainability performance targets (SPTs)

The Principles make optional recommendations for stronger structuring practices, which inform our ambition opinion as aligned, strong, or advanced. We consider the level of ambition for each target by assessing its clarity and characteristics, how the issuer defines the target with reference either to its past performance, or to external or competitor benchmarks, and how it explains what factors could influence future performance.

 FUNO’s Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

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SPT 1	Increase in certified sustainable GLA by 58 percentage points from the 2021 baseline, equivalent to 67% of the total GLA by 2050.	Not aligned	Aligned	Strong	Advanced
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We believe the ambition, clarity, and characteristics of FUNO's SPT is aligned with the SLBP.

FUNO outlines the baseline year (2021), the expected observation dates (shown in the table below), and the relevant trigger events, such as the failure to achieve the SPT on the target observation date. The historical performance figures provided in the framework haven't been externally verified, which we consider a shortcoming. FUNO plans to verify its 2021 baseline to a limited level of assurance by the date the first report linked to an issuance is published.

We believe the SPT defined in the framework represents an improvement in sustainability performance versus the company's historical performance trajectory. The framework provides historical performance figures since 2016, which show an annual average increase of 1.5% certified GLA between 2016-2021. The SPT commits to an average annual growth rate (AAGR) of 2.0% certified GLA. In our view, the issuer's SPT shows improved sustainability performance on an annual basis and is more ambitious than what the company previously achieved. The framework outlines that historical performance (2016-2021) was achieved mainly by acquiring certified assets. Without considering acquisitions, certified properties only increased 1.0% from 2016 to 2021. The SPT will only consider the increase in GLA that comes from retrofitting or refurbishing properties, which we view as a strength.

The framework also identifies a number of risks that could compromise the achievement of the targets, such as natural disasters or civil disturbances which damage the properties, acquisition or divestment of properties, and changes in regulations.

However, our assessment of the SPT's calibration is constrained because the target isn't benchmarked against peers and external benchmarks.

Baseline	Increase in certified sustainable GLA by 58 percentage points from the 2021 baseline, equivalent to 67% of the total GLA by 2050					
2021	2025	2030	2035	2040	2045	2050
9% Certified GLA	18% Certified GLA	35% Certified GLA	41% Certified GLA	48% Certified GLA	56% Certified GLA	67% Certified GLA
	Equivalent to 9% increase	Equivalent to 26% increase	Equivalent to 32% increase	Equivalent to 39% increase	Equivalent to 47% increase	Equivalent to 58% increase

Instrument characteristics

The Principles require disclosure of the type of financial and/or structural impact involving trigger event(s), as well as the potential variation of the instrument's financial and/or structural characteristics.

 FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

FUNO discloses that instruments issued under its sustainability-linked bond framework will be subject to the step-up margin or other premium payment subject to the achievement of the applicable SPT(s).

For select transactions, if the first interim SPT isn't reached by the agreed observation date, it will prompt a premium payment to bondholders, which will remain in effect until the next observation date. If, subsequently, the following objective is not achieved, an additional premium payment will go into effect until the instrument matures. However, if the previous target is met, the premium will either remain the same or revert to the initial level.

The premium mechanism will be specified in the transaction documents of instruments issued under the framework.

The framework also describes relevant fallback mechanisms. For example, if the performance cannot be measured in a satisfactory manner, such as if the verification certificate provided by

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the independent auditor contains a reservation, or if the company does not publish the verification certificate on time, a premium payment will apply.

Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

Disclosure score

Not aligned

Aligned

Strong

Advanced

We consider FUNO's overall reporting practices to be strong.

The company commits to report annually, and for the relevant observation periods, on the performance of the KPI and baseline where relevant, as well as any additional information required for investors to monitor the company's progress toward the target(s). This information will be available publicly on FUNO's website.

FUNO will also disclose the main factors driving performance against the stated objectives, as well as the sustainability impacts of the performance. FUNO also commits to disclosing any reassessment and/or restatement of the KPIs and SPTs. In our view, the disclosure of this information is a strong feature.

Post-issuance review

The Principles require post-issuance review commitments including the type of post-issuance third-party verification, periodicity and how this will be made available to key stakeholders. Our opinion describes whether the documentation is aligned or not aligned with these requirements. Please note, our second party opinion is not itself a post-issuance review.






 FUNO's Sustainability-Linked Bond Framework is aligned with this component of the SLBP.

FUNO commits to annually, and for the relevant observation periods, obtain independent and external post-issuance verification of its performance against each SPT. FUNO will disclose

Mapping To The U.N.'s Sustainable Development Goals

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

FUNO's Sustainability-Linked Bond Framework intends to contribute to the following SDGs:

KPI	SDGs
Increase in certified sustainable GLA through retrofit or refurbishment of existing buildings, measured as the proportion of certified sustainable GLA (sqft) to total GLA (sqft) in FUNO's portfolio	    
	6. Clean water and sanitation[§] 7. Affordable and clean energy[§] 9. Industry, innovation and infrastructure[§] 12. Responsible consumption and production[§] 13. Climate action[§]

[§]The KPI is likely to contribute to the SDGs.

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