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Environmental, Social & Governance Policy for HDFC Capital Development of Real Estate Affordable and Midincome Fund – 1, the first scheme of HDFC Capital AIF-4

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1. INTRODUCTION

HDFC Capital Advisors Limited (HCAL), a real estate private equity investment manager, recognises that housing plays a significant role in determining the economic and social well-being of an individual. HDFC Capital seeks to address the supply gap in affordable housing in India through partnerships and technology interventions that create an eco-system for responsible investing that delivers a positive social and environmental impact.

We recognize that our business decisions may have the potential to impact the environment and surrounding communities. Understanding the approach of our Investee Companies and managing ESG metrics helps us make informed decisions during the investment process and thereafter. HCAL believes that the actions arising out of best practice ESG at the investment stage will result in high performance buildings in the future and healthier and safe occupants and communities in the long-term.

This Policy Statement incorporates feedback from internal and external stakeholders and is an evolving document that we review annually and update as necessary to reflect our strategy and key developments.

a. PURPOSE

This policy serves two main purposes: firstly, it outlines HCAL's commitment on ESG (Environmental, Social, and Governance) matters, and secondly, it offers guidelines to our employees for incorporating ESG considerations into our decision-making processes. Additionally, the policy serves as a communication tool to inform stakeholders about how HCAL integrates ESG factors into investment decisions while maintaining a focus on maximizing investment performance and fulfilling fiduciary responsibilities to investors.

b. VISION

"A for-profit global impact platform to sustainably address the needs of the affordable / social housing ecosystem for all stakeholders through a combination of knowledge accumulation, innovative financing, partnerships and technology."

c. REFERENCE FRAMEWORKS, COMMITMENTS AND MEMBERSHIPS

To deliver value across investments and stakeholders, HCAL relies on leading global frameworks like International Finance Corporation (IFC) Performance Standards¹ through 8 (2012), The World Bank Group General Environmental, Health and Safety (EHS) Guidelines, April 2007 and Global Real Estate Sustainability Benchmark ("GRESB")

In addition, HCAL relies on green building certification guidelines like IFC "EDGE" (Excellence in Design for Greater Efficiencies), Indian Green Building Certification ("IGBC") standards to nudge investee entities to make responsible choices in the larger development process.

d. APPLICABILITY

This policy is applicable to investments made from HDFC Capital Development of Real Estate Affordable and Midincome Fund – 1 (hereinafter referred to as the “**H-DREAM Fund**” or “**Fund**”), which is a scheme of HDFC Capital AIF-4 established as Trust under the Indian Trusts Act, 1882

2. Definitions and Interpretations

“Applicable E&S Law” means all applicable national and state-specific laws warranting permits, licenses, consents or imposing liabilities or setting standards of conduct concerning any environmental, social, health and safety, labour or security risks.

“E&S” shall stand for environmental and social.

“E&S Corrective Action Plan” (or E&S CAP) means the action plan submitted pursuant to an E&S DD, which is required to be implemented by the Investee Company basis the timelines and in the manner provided therein.

“ESMS” means the environmental and social management system of the Investment Manager for H-DREAM Fund, as implemented and/ or in effect from time to time that enables the Investment Manager to identify, assess and manage the E&S risks in respect of the Eligible Projects undertaken by the Investee Companies in accordance with the E&S Requirements (as defined below) and is set out in this ESMS Manual

“E&S Officer” means a senior officer of the Investment Manager responsible for administration and oversight of the ESMS.

“Eligible Project” means construction development/ real estate project(s) that form part of the primary security (but excluding additional security) of the Fund for investments in Investee Companies, in each case, that complies with Applicable E&S Law, and either (a) IFC Performance Standards and this ESMS Manual, or (b) is expected to comply with Applicable E&S Law, IFC Performance Standards and this ESMS Manual upon implementing an E&S Corrective Action Plan.

“E&S Consultant” means a qualified, experienced third-party consultant appointed by the Investment Manager, with adequate experience in working with the applicable Reference Framework (in particular, IFC Performance Standards and World Bank EHS Guidelines) especially with respect to construction sector in India.

“E&S Requirements” means the environmental and social obligations to be undertaken by the Investee Companies to ensure compliance with the following Reference Frameworks –Applicable E&S Laws; International Finance Corporation (IFC) Performance Standards 1 through 8 (2012); The

World Bank Group General Environmental, Health and Safety (EHS) Guidelines, April 2007; and the Investment Manager's ESMS or any sector-specific policy as deemed fit by the Investment Manager.

"H-DREAM Fund" means HDFC Capital Development of Real Estate Affordable and Mid-income Fund - 1, a scheme of HDFC Capital AIF-4 established as Trust under the Indian Trusts Act, 1882.

"HDFC Capital AIF-4" is a registered with SEBI as a Category II Alternative Investment Fund with effect from 11.11.2024 having registration number IN/AIF2/24-25/1626.

"IFC Performance Standards" means the 2012 Performance Standards on Environmental and Social Sustainability of IFC.

"Investee Companies" means companies and other entities in which investment is permitted as per applicable laws, which are engaged in or proposing to engage in construction development/ real estate projects, or undertaking activities in terms of the Investment Objective, in which the Fund proposes to make investments, and which are not primarily engaged in any of the activities on the Exclusion List.

"Investment Manager" or "HCAL" means HDFC Capital Advisors Limited, a public limited company incorporated under the Companies Act, 1956, and having its registered address at 6th Floor, Ramon House, H.T. Parekh Marg, 169, Backbay Reclamation, Churchgate, Mumbai – 400 020.

3. APPROACH & FOCUS AREAS

a. Guiding Principles

HCAL's Sustainability Compass. provides guidance for internal teams to organize and prioritize areas of ESG impact within the investment process. The Sustainability Compass comprises of three parts:

Responsible Investment Management

- a. Demonstrate excellence in managing investments via comprehensive risk management policy covering aspects of environment, social and governance.
- b. Consider investing in companies that assess E&S risks, adopt mitigation measures, and are committed to identifying, monitoring, and managing E&S risks;
- c. Maintain transparency with all investors on E&S management;
- d. Assess and evaluate material ESG risks and impacts of each funding proposal through an E&S DD conducted by a qualified external E&S Consultant. The purpose of E&S DD is to enable the HCAL to identify, assess and manage the social and environment risks in respect of Eligible Projects undertaken by the Investee Companies
- e. Foster a positive work environment at HCAL, based on respect for human rights, valuing diversity, and having zero tolerance for workplace discrimination, violence or harassment.

Sustainable Real Estate Development

- a. Continuously improve the E&S performance of all Eligible Projects;
- b. Promote good environment and social practices in the design and development of the funded projects.
- c. Encourage the projects funded by HCAL to institute and operate an appropriate Environmental and Social Management System (ESMS) for governing policies, risk identification and management.
- d. Periodically monitor and evaluate E&S parameters, risk management performance of each funded project and reformulate strategies in consultation with the project team, if necessary.
- e. Ensure the interests, safety, and well-being of the communities impacted by the projects are integrated into the development process.

Steadfast Stewardship

- a. Develop a culture of engagement through communication on ESG risk management, commitment through legally binding, measurable objectives where possible and transparency through a reporting mechanism in all its Primary Investments.
- b. Where appropriate, actively engage with stakeholders to understand challenges and take remedial steps to address issues.
- c. Promote participation of internal teams in knowledge sharing practices, at HCAL's discretion. This is either facilitated through our frameworks, memberships, and commitments.

b. Focus Areas

HCAL Level		Asset Level	
1.	Workforce and employment practices	6.	Construction Footprint
2.	Risk Management	7.	Sustainable Materials and Embodied Carbon
3.	Fiduciary Duty	8.	Operational Footprint
4.	Tech & Innovation	9.	Labour Standards and Working Conditions
5.	Social Enterprise Partnering	10.	Community Development

HCAL LEVEL

1. Workforce and employment practices

a. Non-Discrimination & Fair Treatment

We provide fair and equal employment and advancement opportunities to all employees and there will be no discrimination on the basis of race, caste, colour, age, sex, disability and socio-economic status of the candidate. We ensure a fair recruitment process that helps us identify and hire people with the right values, who are then groomed, encouraged and retained through a combination of financial and non-financial incentives. Details are reflected in HCAL's Diversity, Equity, and Inclusion (DEI) Policy and Equal Opportunity Policy

b. Employee Ethics & Code of Conduct

HCAL has mechanisms to deal with issues related to inhumane treatment including mental or physical coercion or verbal abuse, sexual harassment, sexual abuse, slavery, of employees. This is guided by the *Code of Conduct and Ethics Manual* and Prevention of Sexual Harassment Policy, which are internal documents available to all employees.

c. Health, Safety and Corporate Wellness

HCAL promotes a safe and conducive work environment for its employees and engages on aspects of wellness as guided by the Corporate Wellness Policy.

d. Training & Development

We train our employees to understand and manage ESG risks and opportunities affecting our business. We may engage with third-party consultants to conduct training on the HCAL's environmental and social commitments, policies and diligence processes as necessary, including through mandatory company-wide training across relevant business units and functions.

2. Enterprise Risk Management

Our ESG policy emphasizes addressing Environmental, Social, Governance, and Climate Risks. The Fund's Risk Management policy addresses the following: e

- a) Management of environmental risks, preserving ecosystems, reducing carbon emissions, and complying with regulations.
- b) Assessment of the Fund's exposure to Physical Climate risks
- c) Social Risk Management by upholding human rights, fostering inclusive communities, and ensuring employee well-being.

Governance Risk Management to uphold high standards of corporate governance, transparency, and accountability to protect stakeholders' interests.

3. Fiduciary Duty

HCAL's fiduciary obligations remain paramount and will strive to obtain the highest level of performance while acting within the boundaries of the E&S requirements of the fund and investee companies. ESG matters are designed to be transparent and improve the short, medium, or long-term performance of the properties under development.

4. Tech & Innovation

HDFC Capital has set up the H@ART (HDFC Affordable Real Estate and Technology) Platform to mentor, partner and invest in real estate technology companies that shall drive break through innovations and efficiencies in the Indian affordable housing ecosystem. This platform is meant to complement development projects funded by HCAL with a view to improving efficiency and performance.

5. Social Enterprise Partnering

Initiatives like Labourers Empowerment Aid Programme (LEAP), which was set up by HCAL in January 2021 to empower workers by enabling them access to social security schemes. By working with our select CSR partners we aim to facilitate access to government-sponsored social security entitlements for labour on project sites. This is to provide a means of access to private insurance, medical facility and thereby facilitating access to health, food security, and financial inclusion for workers and their families, which is key to the overall success of the investment.

ASSET LEVEL

6. Construction Footprint

a. Construction Waste Management & Pollution Prevention

We align our construction waste management and pollution control practices with the standards set forth by the International Finance Corporation (IFC) Performance Standards. Our approach to construction waste management and prevention of site pollution includes compliance with environmental regulations, implementing pollution control measures, and monitoring of the construction sites.

b. Site Treatment and Conservation of Biodiversity

Our approach to on-site treatment during construction embraces the protection and conservation of biodiversity. This is achieved through review of any regulatory permits such as the forest clearance and any wildlife clearance from the National Board of Wildlife, if applicable; Additionally, this includes safeguarding modified habitats, preserving natural habitats, and prioritizing critical habitats and legally protected areas.

7. Sustainable Materials and Embodied Carbon

. In alignment with the IFC EDGE (Excellence in Design for Greater Efficiencies) certification requirements, we prioritize the selection of sustainable materials that offer high recycled content, low embodied energy, and are rapidly renewable.

8. Operational Footprint

In alignment with IFC's EDGE tool, our real estate fund places a strong emphasis on energy efficiency, and water efficiency to be integrated at design stage, to optimize performance during the operational life of the building. This includes selecting energy-efficient materials, and implementing water-saving technologies to reduce environmental impact and resource consumption.

Regular on-site inspections, performance assessments, and audits will be conducted to verify compliance with ESG standards, and any deviations will be promptly addressed.

9. Labour Standards and Working Conditions

We prioritize adherence to labour rights and working conditions in accordance with the IFC Performance Standards with a focus on health and safety and labour issues, gender-based violence and harassment, workplace safety standards and use of child labour, including child protection measures (when accompanied on sites), consultations with affected communities and obtaining any additional information required.

10. Community Development

We align our practices with the IFC Performance Standards to ensure that our real estate projects contribute positively to the communities in which we operate. We recognize the significance of community engagement, social impact, and local empowerment. We nudge our investee projects and entities to promote local employment opportunities, fostering inclusive and safe communities, and collaborating with local stakeholders to address community needs and concerns.

3. IMPLEMENTATION ACROSS INVESTMENT PROCESS

HCAL embeds aspects of ESG across the investment cycle and is outlined in the Environmental and Social Management System Manual of the Fund. The five stages are:

- I. Investment Committee*
- II. Environmental & Social Due Diligence (ESDD)*
- III. Investment Decision and Agreement*
- IV. ESG Performance Monitoring and Reporting*
- V. Exit*



I. Investment Committee

All investments must be approved by the Internal Investment Committee (“IIC”) of HDFC Capital Advisors Limited (“Company”), which makes its decision based on a set of predetermined criteria and with guidance and direction from Investment Advisory Board (“IAB”) / Investment Advisory Council (“IAC”) / Board of the Company. To facilitate this, investment teams outline for the Investment Committee the merits of the transaction and material risks, mitigants and significant opportunities for improvement, including those related to ESG, such as bribery and corruption risks, health and safety risks, and environmental and social risks.

II. Environmental and Social Due Diligence

As part of the Project appraisal process undertaking ESDD process is a key requirement under this Policy.

Scope of Environmental and Social Due Diligence may vary based on the type and stage of project and will be based on the following environmental and social standards (**Reference Frameworks**):

- Applicable E&S Laws;
- International Finance Corporation (IFC) Performance Standards 1 through 8 (2012);
- The World Bank Group General Environmental, Health and Safety (EHS) Guidelines, April 2007; and
- HCAL’s ESG Policy or any sector-specific policy as deemed fit by HCAL.

The E&S officer will determine the scope of ESDD considering the stage of investment and extent of E&S related assessment and management work undertaken by the Investment Proponent at that stage. The approach to ESDD will be to ensure regulatory compliance as well as to identify and address all material E&S risks through the Project life cycle.

Outcome of ESDD is an Environmental & Social Corrective Action Plan (E&S CAPs), list of actions based on the recommendation of the observations made during the due diligence process. The Fund and the Investment Proponent mutually agree on E&S CAPs with set deliverable, timeline and responsibilities. Timely implementation of E&S CAPs plays a critical role.

Any delays in implementing or poor/ ineffective implementation of the ES CAPs and E&S related covenants will be treated as violation of the provisions of the transaction documents with the Investment Proponent and appropriate actions will be initiated against the Investment Proponent as provided in the transaction documents.

The scope of environmental and social due diligence (ESDD) will typically include:

- Collection of all relevant E&S information, records and documentation that covers all aspects and requirements Based on the scope set out by the qualified E&S consultant
- Securing E&S related information from the investee company and confirmation on Exclusion List (generic list of activities where investment is not allowed).
- Undertaking desktop review of collected information and publicly available E&S details
- Interaction with Corporate team and physical site visits to the said project
- Review of relevant E&S documentation provided by the Company and categorization of risks
- Identifying the gaps therewith and formulate Environmental and Social Corrective Action Plan (E&S CAP) that needs to be mandatorily implemented during remaining phases or stages of project execution

Consultation and mutual agreement with the Investment Proponent on action items proposed in the E&S CAP and the corresponding deliverables with respective timelines.

DOCUMENTS SUPPORTING THE ESDD

- Obtain signed documentation for acknowledgement of the Exclusion List.
- Submission of a detailed E&S DD Report including Environmental and Social Corrective Action Plan (E&S CAP).

III. Investment Decision and Agreement

Appropriate legal clauses and covenants as may be required to protect the interest of the Fund shall be included in the Portfolio Investment Agreements which shall bind the Investee Companies and shall be commensurate with the E&S risks and impacts, and other relevant E&S Requirements. The relevant legal clauses and covenants may be selected from the standard list and or modified/formulated as appropriate to the investment in consultation with the deal counsel.

Investee Company to provide HCAL with the ESG performance updates and status of E&S covenants as per above at least annually or any other frequency as required by HCAL.

IV. Monitoring and Reporting

All projects will be periodically monitored for effective implementation of E&S CAP items and other E&S related covenants as mutually agreed in the investment agreements with the Investment Proponent.

The monitoring and evaluation of the Project will be done at least on an annual basis or at a frequency as may be decided by the HCAL based on the criticality of the Project.

The project oversight mechanism will include any or all the following methods:

- Desktop review of records on periodic basis.
- Regulatory compliance management reports and other related documents of the project.
- Site visit by dedicated ESG Team from HCAL.
- Site audit based on E&S CAPs by a qualified E&S Consultant
- Additional requirements may be requested by HCAL to support any data needed for tracking of internal metrics and KPIs related to GRESB and other reporting standards.

V. Exit

When preparing an asset for divestiture, an Exit Summary that covers investment period performance on relevant E&S, E&S CAP implementation progress and any outstanding items.

In addition, HCAL may ask the E&S Consultant to undertake an exit due diligence as part of divestiture process, which may be used for external reporting and disclosure purposes.

Exit Summary is shared with the investors that shows the ESG performance score card of the investment in terms of outcomes achieved, and outstanding actions, if any, at the time of exit. It may also serve to inform sustainability performance disclosures of the Fund against its objectives as part of its annual reporting.

4. SUSTAINABILITY MANAGEMENT & GOVERNANCE

HCAL has established a robust E&S Organization using a combination of both internal resources and external E&S experts, qualified E&S consultants to augment the resource capability requirements. The roles and responsibilities regarding ESG, have been clearly outlined for the HCAL Board of Directors, Senior Management, ESG Taskforce and ESG Team in the Environmental and Social Management System Manual.

5. RELATED POLICIES AND PROCEDURES

This ESG Policy is supplemented by several other governance documents that apply to our business and operations.

- Risk Management Policy
- Code of Conduct and Ethics
- Employee Manual
- Environmental and Social Management System Manual (ESMS)
- Conflict of Interest Policy

6. CHANGES TO THIS POLICY

Where applicable policies may also apply to the operations and processes of HCAL. The management of HCAL will be responsible for seeking the prior written approval of a majority of the investors of the Fund as well as the HCAL Board of Directors for the proposed changes or updates.