

# 'Second Opinion' on Vacse's Green Bond Framework

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May 15, 2018

# Summary

Overall, Vacse's Green Bond Framework (GBF), together with its newly reformulated Environmental Policy, Energy Policy and Quality and Sustainability Program, provides a sound base for climate-friendly investments. Vacse is a Swedish property management and development company. The majority of Vacse's properties are rented to public and local authorities and administration, including the Swedish Police Authority and the Swedish court system.

The green bond framework aims to support the transition to low carbon intensity and sustainable development and lists the eligible project category as Energy efficiency, Green buildings, Renewable Energy and Clean Transportation and Environmentally Sustainable Management of Living Natural Resources (M/E) which support their objectives to promote the transition to low carbon and climate resilient growth. The net proceeds will not be allocated or linked to fossil energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco. Green bonds can be used to finance both new projects as well as refinance existing eligible projects. In the long-term, the aim is to allocate most of the net proceeds to new projects (projects within 12 months from completion).

Vacse is a well-managed property company with a strong governance structure which support sound management of proceeds, as well as regular and transparent reporting about green bond project achievements to investors and the public. Vacse has committed to the principles of the UN Global Compact, and supports the Swedish government's Fossil Free Sweden initiative. They are also a member of the Swedish Green Building council since 2016 and ISO 14001 certified since 2017. The issuer does not however have a targeted policy on climate resilience. Investors should also be aware that the reporting only will be done in Swedish.

Based on the overall assessment of the project types that will be financed by the green bonds and governance and transparency considerations, Vacse's Green Bond Framework receives a Medium Green shading.



°CICERO

Medium Green

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# 1 Introduction and background

The global Expert Network on Second Opinions (ENSO), a network of independent non-profit research institutions on climate change and other environmental issues, was established by CICERO (Center for International Climate and Environmental Research – Oslo) to broaden the technical expertise and regional experience for second opinions. CICERO works confidentially with other members in the network to enhance the links to climate and environmental science, building upon the CICERO model for second opinions. In addition to CICERO, ENSO members include Basque Center for Climate Change (BC3), International Institute for Sustainable Development (IISD), Stockholm Environment Institute (SEI), and Tsinghua University's Institute of Energy, Environment and Economy.

This Second opinion was produced by SEI and CICERO on behalf of ENSO. SEI is an independent international research institute that has been engaged in environment and development issues at local, national, regional and global policy levels for more than 25 years. CICERO is an independent, not-for-profit, research institute, focused on providing reliable and comprehensive knowledge about all aspects of the climate change problem. A more detailed description of each of these institutions can be found at the end of this report. SEI and CICERO are both independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure.

The CICERO-led ENSO provides second opinions on institutions' framework and guidance for assessing and selecting eligible projects for green bond investments and assesses the framework's robustness in meeting the institutions' environmental objectives. The second opinion is based on documentation of rules and frameworks provided by the institution themselves (the client) and information gathered during meetings, teleconferences and email correspondence with the client. ENSO encourages the client to make this Second Opinion publicly available. If any part of the Second Opinion is quoted, the full report must be made available.

ENSO's Second Opinions are normally restricted to an evaluation of the mechanisms or framework for selecting eligible projects at a general level. ENSO network members do not validate or certify the climate effects of single projects, and thus, has no conflict of interest in regard to single projects. Network members are neither responsible for how the framework or mechanisms are implemented and followed up by the institutions, nor the outcome of investments in eligible projects.

This note provides a Second Opinion of Vacse's Green Bond Framework and policies for considering the environmental impacts of their projects. The aim is to assess the Vacse Green Bond Framework as to its ability to support their stated objective of climate mitigation.

This Second Opinion is based on the green bond framework presented to CICERO by the issuer. Any amendments or updates to the framework require that CICERO undertake a new assessment.

ENSO takes a long-term view on activities that support a low-carbon climate resilient society. In some cases, activities or technologies that reduce near-term emissions result in net emissions or prolonged use of high-emitting infrastructure in the long run. Network members strive to avoid locking-in of emissions through careful infrastructure investments and moving towards low- or zero-emitting infrastructure in the long run. Proceeds from green bonds may be used for financing, including refinancing, new or existing green projects as defined under the mechanisms or framework. ENSO assesses in this Second Opinion the likeliness that the issuer's categories of projects will meet expectations for a low carbon and climate resilient future.

### Expressing concerns with ‘shades of green’

CICERO Second Opinions are graded dark green, medium green or light green, reflecting the climate and environmental ambitions of the bonds and the robustness of the governance structure of the Green Bond Framework. The grading is based on a broad qualitative assessment of each project type, according to what extent it contributes to building a low-carbon and climate resilient society. The shading methodology also aims at providing transparency to investors when comparing green bond frameworks exposure to climate risks. A dark green project is less exposed to climate risks than a lighter green investment.

This Second Opinion will allocate a ‘shade of green’ to the green bond framework of Vacse:

- **Dark green** for projects and solutions that are realizations today of the long-term vision of a low carbon and climate resilient future. Typically, this will entail zero emission solutions and governance structures that integrate environmental concerns into all activities.
- **Medium green** for projects and solutions that represent steps towards the long-term vision but are not quite there yet.
- **Light green** for projects and solutions that are environmentally friendly but do not by themselves represent or is part of the long-term vision (e.g. energy efficiency in fossil-based processes).
- **Brown** for projects that are irrelevant or in opposition to the long-term vision of a low carbon and climate resilient future.

The project types that will be financed by the green bond primarily define the overall grading. However, governance and transparency considerations are also important because they give an indication whether the institution that issues the green bond will be able to fulfil the climate and environmental ambitions of the investment framework. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The overall shading reflects an ambition of having the majority of the project types well represented in the future portfolio, unless otherwise expressed by the issuer.

## 2 Brief Description of Vacse's Green Bond Framework and rules and procedures for climate-related activities

Vacse is a Swedish property management and development company owned by a number of pension funds of large Swedish companies. The majority of Vacse's properties are rented to public and local authorities and administration, including the Swedish Police Authority and the Swedish court system. Total real estate value is around SEK 5 billion. The majority of Vacse's properties are built around 2010 and many of them are in use 24 hours a day. In 2017, Vacse's average energy consumption was 118kWh/sqm and aims to reduce consumption by 20% by 2030<sup>1</sup>.

Vacse's GBF aims to support the transition to low carbon intensity and sustainable development through climate mitigation, climate adaptation, and supporting the environment and ecosystems. Vacse's overall operations, as well as its GBF, utilize the SDGs as a guiding document. The GBF corresponds specifically to SDGs 6,7,11,13 and 15. Furthermore, Vacse has committed to the principles of the UN Global Compact and supports the Swedish government's Fossil Free Sweden initiative. They are also a member of the Swedish Green Building council since 2016 and ISO 14001 certified since 2017.

### **Use of proceeds:**

Projects eligible under the Green Bond Framework (GBF) fall under several project categories: Energy Efficiency, Green Buildings, Renewable Energy and Clean Transportation and Environmentally Sustainable Management of Living Natural Resources (M/E). Each project category has criteria defining eligibility.

Green bonds can be used to finance both new projects and assets as well as refinance existing eligible projects and assets, but the long-term aim is to allocate most of the proceeds to new projects. Green bonds will not be allocated or linked to fossil energy generation, nuclear energy generation, research and/or development within weapons and defense, potentially environmentally negative resource extraction (such as rare-earth elements or fossil fuels), gambling or tobacco.

### **Selection:**

According to Vacse's GBF and, projects will be evaluated by the Sustainable Finance Committee, which includes members of the management team, including the CEO, CFO, and the Head of Properties. Projects within the eligible categories are initially nominated by other departments, such as the business units, administrative departments and environmental department. Selection of eligible projects is based on assessment of their compliance with laws and regulations, internal policies and guidelines and the eligible criteria outlined in Vacse's GBF (called "Green Terms" in the framework).

Those selected as potential eligible projects must then be unanimously approved by the Sustainable Finance Committee. Decisions will be documented and a list of all eligible projects and assets will be kept to determine if

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<sup>1</sup> This target is not documented in their policies, but the issue has disclosed a target of target of 65 kWh/sqm in discussions.

there is current or future headroom to issue green bonds. The Committee will only approve Projects which meet the criteria listed in the GBF, national laws and regulations, as well as Vacse policies and guidelines.

### Management of proceeds:

Vacse will establish a dedicated account for the net proceeds of issued Green Bonds which will be monitored and tracked for Use of Proceeds by the Finance Department and verified by external auditor in terms of allocations. If the account has a positive balance, unallocated funds may be invested in short-term interest-bearing securities according to Vacse's Financial Policy pending investment in Eligible Projects and Assets. A transfer from the Green Account is allowed in an amount corresponding to the financing or refinancing of Eligible Projects and Assets that have met the Green Terms, or to repay a Green Bond. If, for any reason, a financed Eligible Project no longer meets the eligibility criteria, the funds will be reallocated to projects and assets that meet the eligibility criteria.

### Transparency and Accountability:

Vacse will report on its green bonds through its annual financial reporting, starting in 2019. The reporting will be done in Swedish and will cover 1) a list of projects and assets financed and their individual adherence to the eligibility criteria, and 2) a summary of Green Bond related activities. Different details related to allocation and impacts will be disclosed, depending on the project category. Reporting will also include the sum of outstanding Green Bonds and the balance, as well as the proportion of financing to new projects and assets.

A signed statement by the external auditor or similar third party, related to the allocation of Green Bonds net proceeds according to the annual financial report will be published on the Vacse website.

The table below lists the documents that formed the basis for this Second Opinion:

| Document Number | Document Name  | Description  |
|-----------------|--|--|
| 1               | Vacse's Green Bonds Framework<br>14.05.2018                          | This document comprises Vacse's Green Bonds Framework and how the company intends to use proceeds, how it plans to evaluate and select eligible projects, manages the proceeds and reports to investors. |
| 2               | Vacse's Closing-of-books<br>communication (Bokslutskomuniké)<br>2017 | Document includes the company's financial statement, investments, earnings and property portfolio.   |
| 3               | Vacse's Annual Reports<br>(Årsredovisning) 2016 and 2017             | Report summarizes Vacse's Strategy and Objectives, Property Portfolio, Corporate Governance and reviews its financial, social and  |

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|   |  | environmental performance in 2016 and 2016.  |
| 4 | Vacse's Supplier Code of Conduct (Uppförandekod för Leverantörer) 22.04.2016 | Document outlining Vacse's expectation for their suppliers in terms of legal compliance, human rights, occupational safety and health, the environment, and monitoring and sanctions.  |
| 5 | Vacse's Environmental Policy (Miljöpolicy) 18-04-2018                        | Document outlining Vacse's commitment to comply with all relevant legislation, coordinate efforts with stakeholders and to reward certification. The policy also highlights personal responsibility of Vacse's employees.  |
| 6 | Vacse's Energy Policy (Energipolicy) 16.02.2018                              | Document outlining Vacse's energy policy, including its commitment to all relevant legislation, coordination with stakeholders, its ambition to work with and monitor reduction in energy consumption and improvements to energy efficiency. The policy also states Vacse's commitment to the national energy reduction target of 20% by 2030. |
| 7 | Vacse's Water Strategy (Vattenstrategi)                                      | Document describing the actions Vacse is taking to preserve portable water and reduce water damage in its buildings.   |
| 8 | Vacse's Energy Target 2018 - 2030 (Energimål 2018 - 2030)                    | Document stating Vacse's energy consumption reduction target of 20% by 2030 (2017 baseline). The document also outlines monitoring and evaluation towards that target.   |

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| 9  | Vacse's Quality and Sustainability Program (Kvalité och Hållbarhetsprogram) 01.03.2018 | Document describes in detail how environmental issues must be taken into account by builders and during the planning and implementation of development projects. This includes demands on use of environmental friendly building materials, energy efficiency, water resource preservation and rules of conduct. |
| 10 | Vacse's Rules of Conduct (Uppförandekod)   | Document states the rules of conduct of Vacse's employees, including its board and management.   |
| 11 | Vacse's UN Global Compact Commitment Letter 13.03.2018                                 | Letter to the UN Secretary General, stating Vacse's commitment to Compact and to the annual submission of the Communication of Progress.   |

**Table 1 Documents reviewed**

### 3 Assessment of Vacse’s Green Bond framework and environmental policies

Overall, Vacse’s green bond framework provides a detailed and sound framework for climate-friendly investments.

The framework and procedures for Vacse’s green bond investments are assessed and their strengths and weaknesses are discussed in this section. The strengths of an investment framework with respect to environmental impact are areas where it clearly supports low-carbon and resilience projects, whereas the weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where issuers should be aware of potential macro-level impacts of investment projects.

#### Overall shading

Based on the project category shadings detailed below, and consideration of the issuer’s systematic sustainability work and governance structure of Vacse’s green bond framework in terms of management and use of proceeds, we rate the framework CICERO Medium Green.

#### Eligible projects under the Green Bond Framework

At the basic level, the selection of eligible project categories is the primary mechanism to ensure that projects deliver environmental benefits. Through selection of project categories with clear environmental benefits, green bonds aim to provide certainty to investors that their investments deliver environmental returns as well as financial returns. The Green Bonds Principles (GBP) state that the “overall environmental profile” of a project should be assessed and that the selection process should be “well defined”.

| Category        | Eligible project types  | Green Shading and some concerns   |
|-----------------|---|---|
| Green Buildings | <ul style="list-style-type: none"> <li>New properties that have or will have a certification from: LEED with a minimum certification level of at least Gold, or BREEAM-SE or with a minimum certification level of at least Excellent, or Miljöbyggnad with a minimum certification level of at least Silver, and at least 20% lower energy use than required by the Swedish National Building Code (Boverkets byggregler)</li> </ul> | <p><b>Medium Green</b></p> <ul style="list-style-type: none"> <li>✓ To achieve a dark green shading, the energy performance of buildings, is expected to be improved, with zero emission housing becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments.</li> <li>✓ Certification standards differ considerable in their requirement for energy efficiency and reduction, biodiversity and stakeholder engagement.</li> </ul> |

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|                             | <ul style="list-style-type: none"> <li>Existing properties that have or will have a certification from: BREEAM In-use with a minimum certification level of at least Very Good, or Miljöbyggnad with a minimum certification level of at least Silver, and at least 25% lower energy use than required by the Swedish National Building Code (Boverkets byggregler)</li> </ul>   | <ul style="list-style-type: none"> <li>For all projects: Should consider potential rebound effects related to energy efficiency measures and lock-in effects of domestic fossil fuel consumption for transport and heating by Vacse and its clients.</li> <li>Construction, renovation and refurbishment: Should consider broader impacts, such as potential negative impacts on biodiversity, nature and local communities and potential co-benefits provided by nature-based solutions.</li> </ul> |
| Energy Efficiency           | <ul style="list-style-type: none"> <li>Investments in the existing portfolio of buildings that target a lower overall energy use and an improved environmental footprint. This could include, for instance, the installation of geothermal heating/cooling, district heating/cooling, energy-efficient lighting, IT-technology (monitoring, efficiency management and remote operation), energy efficient windows or an upgraded ventilation system. Vacse will ascertain the following for each project:             <ol style="list-style-type: none"> <li>High estimated energy savings in the targeted area (minimum of 20%).</li> <li>Minimize long term negative climate impact and potential rebound effects.</li> <li>Minimal negative climate impact from the technology used.</li> </ol> </li> </ul> | <p><b>Medium to Dark Green</b></p> <ul style="list-style-type: none"> <li>Only directly associated expenditure (e.g. material, installation and labor) is eligible for financing.</li> <li>Long-term negative impacts and potential rebound effects of investment alternatives into energy efficiency should be transparently and appropriately assessed.</li> </ul>   |
| Renewable energy production | <ul style="list-style-type: none"> <li>Renewable energy from solar, or geothermal power on existing building or stand-alone investment.</li> </ul>   | <p><b>Dark Green</b></p> <ul style="list-style-type: none"> <li>The issuer has informed us that geothermal, which may carry some risks, here refers to ground heating which has a relatively small environmental impact and carbon emissions.</li> </ul>   |

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|  |  | ✓ The issuer has informed us that projects are only of interest when they lead to energy savings.      |
| Clean transportation   | <ul style="list-style-type: none"> <li>Clean transportation infrastructure, e.g. charging stations for electric vehicles, bicycle garages, etc. which support the use of clean transport solutions.</li> </ul> | <p><b>Dark Green</b></p> <p>✓ Well aligned with a low carbon transportation future.</p>                |
| Environmentally Sustainable Management of Living Natural Resources (M/E) | <ul style="list-style-type: none"> <li>Investments in green environments that promote, restore and preserve biological diversity, e.g. green roofs, flower-beds, trees, etc.</li> </ul>                        | <p><b>Dark green</b></p> <p>✓ Should include assessments to ensure that biodiversity is supported.</p> |

Table 2 Eligible project categories

## Strengths

### *External review of reporting*

Related to its green bonds, Vacse has an annual reporting process in place that includes verification by an external party. The GBF details the basic green bond related information to be included in the annual financial report. The annual report will also report on the impacts when feasible. The report, together with the statement of external verification, will be made publically available online on a dedicated webpage for Green Bonds at its website ([www.vacse.se/investerare/grona-obligationer](http://www.vacse.se/investerare/grona-obligationer)).

### *Reporting indicators*

It is also positive that in the GBF it states that the annual reporting will also disclose a select set of asset level indicators, when available. The set of indicators is described in the GBF. A further step that would strengthen Vacse's green bond framework would be to include also at least category level impact indicators for each category, rather than just example project descriptions. This allows for overall portfolio monitoring.

### *Progress on integrated environmental governance and management*

Vacse has recently gone through the process of revamping and aligning its Environmental Policy, Energy Policy and Quality and Sustainability Program. Furthermore, it is also positive that Vacse has recently committed to the UN Global Compact and aims to report according to the Global Reporting Initiative in the near-term future. Vacse's environmental governance and management would be further improved if its related policies, including its energy reduction targets and different reporting commitments, became more integrated and was made publicly available. The issuer does not have a targeted policy on climate resilience.

## Weaknesses

We find no obvious weaknesses in the Vacse's GBF.

### **Pitfalls**

ENSO takes a long-term view on climate change. One way to better ensure long-term positive effects is through impact assessments already at the project planning and selection phase, e.g. to evaluate projects for eligibility. A more thorough impact analysis (ex-ante and ex-post) and a standardized set of indicators against which to assess the projects could help avoid selection of projects that may not represent a significant improvement over status quo. This would also support the reporting of impacts and assessment methodologies in its annual financial report.

Green building certifications can help track many of these impacts, however the certifications alone do not ensure considerations of improved energy performance or resilience. For example, it is possible to achieve a LEED Gold certificate with no energy efficiency credits. The issuer has included category specific energy savings targets and communicated their ambition to lower energy consumption for buildings under the GBF to 65kWh per square meter. Based on an overall assessment of the strict Swedish building regulations on energy efficiency and the issuer's strong focus on sustainability and targets in the green building category, Vacse's GBF receives a medium green shading.

### *Impacts beyond the project boundary*

Due to the complexity of how socio-economic activities impact the climate, a specific project is likely to have interactions with the broader community beyond the project borders. These interactions may or may not be climate-friendly, and thus need to be considered with regards to the net impact of climate-related investments.

### *Rebound effects*

Efficiency improvements may lead to rebound effects. When the cost of an activity is reduced there will be incentives to do more of the same activity. From the project categories in Table 2, an example is energy efficiency investments in buildings which in part may lead to more energy use. Vacse should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high. However, the work that Vacse does directly with its property users shows that Vacse is aware and actively mitigating the risk of rebound effects related to energy efficiency.

# Appendix: About CICERO and SEI

CICERO Center for International Climate Research is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen inter-national climate cooperation. We collaborate with top researchers from around the world and publish in recognized international journals, reports, books and periodicals. CICERO has garnered particular attention for its work on the effects of manmade emissions on the climate and the formulation of inter-national agreements and has played an active role in the UN's IPCC since 1995.

CICERO is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO received a Green Bond Award from Climate Bonds Initiative for being the biggest second opinion provider in 2016 and from Environmental Finance for being the best external review provider (2017).

CICERO Second Opinions are graded dark green, medium green and light green to offer investors better insight in the environmental quality of green bonds. The shading, introduced in spring 2015, reflects the climate and environmental ambitions of the bonds in the light of the transition to a low-car-bon society.

CICERO works with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions. Led by CICERO, ENSO is comprised of trusted research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University and the International Institute for Sustainable Development (IISD). ENSO operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

[cicero.oslo.no/greenbonds](http://cicero.oslo.no/greenbonds)

SEI is an independent international research institute that undertakes policy oriented and applied research on environment and development issues. Our innovative, integrated systems research forms the basis for our work on policy advice, capacity development, decision support and implementation of policy and practice. Our mission is to support decision-making and induce change towards sustainable development around the world by providing integrative knowledge that bridges science and policy in the field of environment and development.

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