

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

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July 11, 2018

# Summary

Overall, SYK's Green Bond Framework, together with its Sustainability Framework, Energy Management Framework, Sustainability Vision 2030 and its recently approved Energy Efficiency, Carbon Neutrality and BREEAM Policy, provide a sound base for climate-friendly investments.

The Green Bond Framework includes eligible investments into Green buildings, Energy efficiency, Renewable energy production and Clean Transport. Proceeds will not be used to finance investments into fossil fuels. Green bonds can be used to finance both new projects as well as refinance existing eligible projects. SYK plans to provide investors with an annual letter including a list of the projects financed including allocated amount, a brief description and expected impact; and information about the division of the allocation of green bond proceeds between new and refinanced projects.

SYK is a well-managed university property company that was, in 2017, awarded for its work on energy efficiency. SYK has reported according to the GRI standards since 2013 and has a strong governance structure which supports sound management of proceeds, as well as regular and transparent reporting about green bond project achievements to investors and the public. SYK also aims to have developed precise goals, meters and actions related to its objective to measure its sustainability work by the end of 2019.

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

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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 SYK's Green Bond Framework and policies for considering the environmental impacts of their projects. The aim is to assess the SYK 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 SYK:

- **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 SYK's Green Bond Framework and rules and procedures for climate-related activities

SYK, University Properties of Finland, is a Finnish property company that owns and manages higher education campuses outside the Helsinki metropolitan area. SYK's portfolio of properties include buildings used for various purposes and are categorized as office and educational buildings. Since 2013, SYK has reduced its CO<sub>2</sub> emissions from energy by 6.2%. SYK is part of the TETS agreement, a voluntary energy efficiency agreement that municipalities or private companies can sign to support meeting national commitments. As a participant, SYK aims to reduce energy consumption with 7.5% in 2025 compared to 2016, with an interim milestone set for 4% reduction by 2020. Based on recent decisions by the Executive board, SYK has the following comprehensive set of energy efficiency and emissions targets for new building construction 1) energy efficiency rating E-number of best A class (which requires 20% higher energy efficiency than under Finnish regulations); 2) less than 150 kWh/m<sup>2</sup>a purchased energy; 3) at least 75 % of energy used in building coming from renewable energy sources; and 4) less than 25 kg CO<sub>2</sub>/m<sup>2</sup>a emissions. SYK fulfills BREEAM certification grade of "Very Good" for new construction as well as for major renovations, but has ambitions for achieving the grade of "Excellent" in the future. Similarly, the Executive Board set the aim for carbon neutrality by 2030.<sup>1</sup>

SYK's GBF, together with its Sustainability Framework, Energy Management Framework, Environmental review and guidelines of SYK, Sustainability Vision 2030 and its recently approved Energy Efficiency, Carbon Neutrality and BREEAM Policy, aims to support the transition to low carbon and climate resilient growth. SYK has been reporting on its sustainability work in accordance with the Global Reporting Initiative's guidelines since 2013.

### 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. 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. New projects are ones that have been finalized or acquired within one year before the time of approval by SYK's Green Bond Committee. Green bonds will not be allocated to fossil energy generation.

### Selection:

The selection process is a key governance factor in the Green bond Principles. We typically look at how climate and environmental considerations are taken into account when evaluating whether projects can qualify for green bond funding. The broader the project categories, the more importance ENSO places on the governance process.

According to SYK's GBF and, projects will be evaluated by SYK's Green Bond Committee, which includes Chief Financial Officer, the Director of Project Management, and the Environmental Engineer. Eligible projects

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<sup>1</sup> Carbon neutrality can be achieved through a combination of emissions reductions based on continual measurement, as well as compensation of remaining emissions.

are approved in consensus. We have been informed by the issuer that the Committee will prioritize higher environmental performance when multiple potential projects are being considered.

A record of meetings and decisions will be documented.

#### **Management of proceeds:**

The management approach for Green Bond proceeds are in alignment with the Green Bond Principles. SYK will establish a dedicated account for the net proceeds of issued Green Bonds. The allocation of funds from the proceeds will be monitored by SYK-treasury and verified by external auditor annually. If the account has a positive balance, funds will be deducted and added to SYK's lending pool in an amount equal to all disbursements made from that pool during the quarter in respect to Eligible Projects. Unallocated funds may be invested in liquidity reserves and managed accordingly. If, for any reason, a financed Eligible Project no longer meets the eligibility criteria, the project will be removed from the eligible pool of projects financed with Green Bond proceeds.

#### **Transparency and Accountability:**

Transparency, reporting, and verification of impacts are key to enable investors to follow the implementation of green bond programs. Procedures for reporting and disclosure of green bond investments are also vital to build confidence that green bonds are contributing towards a sustainable and climate-friendly future, both among investors and in society.

SYK will report on its green bonds through its annual Green Bond Investor Letter. The letter will cover a list of all projects financed, including their allocated amount, a brief description and expected impact. Reporting will also include the division of allocation of financing between new and refinanced projects. SYK aims to also report on the type and level of certification, energy use and CO2 emissions when relevant and potentially other environmental benefits. The issuer has informed us that energy reduction will also be reported.

The internal tracking method for the management of proceeds and use of the special account, allocation of funds from the GB proceeds and the GB Investor Letter will be annually reviewed by an external auditor. The Green Bond Investor Letter and the external audit results will be publically available on the SYK website.

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

<b>Document Number</b>	<b>Document Name</b>	<b>Description</b>
1	SYK's Green Bonds Framework 26.06.2018	This document comprises SYK'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	Environmental review and guidelines of SYK (11.06.2018)	Document outlines SYK's commitment to environmental sustainability, the external and internal documents that guide its work, targets, as well as documents used to monitor its progress. The document also includes 12 appendices (listed separately below):
3	Appendix 1: Company Presentation of SYK	Slide providing background information (statistics and geographical coverage) on SYK.
4	Appendix 2: Strategy Board 2016 - 2019 of SYK (1 slide in English, 1 in Finnish)	2 slides depicting how sustainability is integrated into their strategy – graphical representation.
5	Appendix 3: Sustainability framework of SYK	2 slides presenting the Global, EU, and Finnish guiding commitments related to sustainable development, as well as the baseline scenario in terms of trends.
6	Appendix 4: Energy Managing Framework of SYK	4 slides presenting SYK's goals related to energy management; how they relate to energy efficiency; organizational components/stakeholders of energy management; and energy reporting.
7	Appendix 5: SYK consumption report property specific April 2018 in Finnish	Overview and specific reports for April (2018) per location; as well as notes; electricity and heat emissions factors for CO <sub>2</sub> .

8	Appendix 6: SYK consumption report Tampere property and building specific April 2018 in Finnish	Overview and comments on Tampere specific sites and buildings, targets (when available) and CO2 emissions factors.
9	Appendix 7: BREEAM certification situation of SYK in May 2018	1 slide presenting which locations have which phase of certification: final, design or registered.
10	Appendix 8: Sustainability vision 2030 of SYK	3 slides presenting an overview of the SYK sustainability vision.
11	Appendix 9: Energy Efficiency, Carbon Neutrality and BREEAM targets of SYK	4 slides presenting overview of targets.
12	Appendix 10: BREEAM policy of SYK for architect in Finnish	Instructions for architect related areas of responsibility (main responsibility or secondary responsibility) for BREEAM issues, including reduction of energy use and CO2 emissions, energy efficient transport, accessibility of public transport, responsible sourcing of construction products, designing for durability and resilience, material efficiency, operational waste, etc.
13	Appendix 11: BREEAM policy of SYK for constructor in Finnish	Instructions for contractor related areas of responsibility (main responsibility or secondary responsibility) for BREEAM issues, energy efficient transport, accessibility of public transport, responsible sourcing of construction products, construction waste management, and ecological

		value of site and long-term impact on biodiversity etc.
14	Appendix 12 SYK team BREEAM responsibilities on the process in Finnish (Granlund Consulting)	15 slides explaining BREEAM: history, process, integration into planning/implementation process, role of planning team related to BREEAM, Granlund's role.
15	News item: RAKLI website: energy savings award to SYK <a href="http://www.rakli.fi/kaytto-yllapito/ajankohtaista/kiinteistoalan-uutterimmat-energiansaastajat-palkittiin.html">http://www.rakli.fi/kaytto-yllapito/ajankohtaista/kiinteistoalan-uutterimmat-energiansaastajat-palkittiin.html</a> (16.06.2017)	Website news item about how SYK was awarded honors related to its work in energy efficiency.
16	SYK GRI annual report ( <a href="https://vuosikertomus.sykoy.fi/2017/en/responsibility/gri-index/">https://vuosikertomus.sykoy.fi/2017/en/responsibility/gri-index/</a> )	Online GRI annual report
17	Carbon Neutrality by 2030	1 slide describing SYK's carbon neutrality target
18	Energy efficiency targets and comparison with past and current situation	2 slides describing the targets in more detail.

**Table 1 Documents reviewed**

### 3 Assessment of SYK's Green Bond framework and environmental policies

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

The framework and procedures for SYK'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 SYK'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 or major renovation of properties that have or will have a certification from BREEAM with a minimum certification level of at least Very Good and an energy use that is at least 15% lower than required by the Finnish national building code.</li> </ul>	<p><b>Medium Green</b></p> <ul style="list-style-type: none"> <li>✓ Certification standards allow for various ways of filling requirements some of which may not be considerable in their requirement for energy efficiency and reduction, biodiversity and stakeholder engagement. Additional energy efficiency requirement to national regulation is therefore a strength.</li> <li>✓ For all projects: Should consider potential rebound effects related to</li> </ul>

		energy efficiency measures and lock-in effects of domestic fossil fuel consumption for transport and heating by SYK and its clients.
		✓ 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.
Green buildings	<ul style="list-style-type: none"> <li>Existing properties with a certification from: BREEAM In-use (two parts out of three: Asset and Building Management) with a minimum certification level of at least Very Good</li> </ul>	<p><b>Medium to Light Green</b></p> <ul style="list-style-type: none"> <li>This category receives a medium to light green shading because there are no quantified energy efficiency requirements for existing buildings. It is however a strength that the BREEAM In-use certification also include building management (part 2).</li> </ul>
Energy Efficiency	<ul style="list-style-type: none"> <li>Projects resulting in a reduction of at least 25%.</li> </ul>	<p><b>Medium Green</b></p> <ul style="list-style-type: none"> <li>Should consider potential issues with rebound effects and lock-in effects.</li> </ul>
Renewable energy production	<ul style="list-style-type: none"> <li>Technical solutions utilizing solar, geothermal, or wind power to meet energy demand of properties.</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 and cooling which has a relatively small environmental impact and carbon emissions.</li> </ul>
Clean transportation	<ul style="list-style-type: none"> <li>Clean transportation infrastructure for electric vehicles.</li> </ul>	<p><b>Dark Green</b></p> <ul style="list-style-type: none"> <li>Well aligned with a low carbon transportation future.</li> </ul>

Table 2 Eligible project categories

## Strengths

### *External review of reporting*

Related to its green bonds, SYK 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 Green Bond Investment Letter. The annual letter, together with the statement of external verification, will be made publically available online on SYK's website.

### *Impact reporting*

The Annual Investor Letter will make use of the continual monitoring that SYK performs on its consumption and emissions and report on the actual ex-post impacts when feasible. It is also a strength that emissions are, when available, based on the relevant emissions conversion factors from the local grid in question. It would strengthen the GBF to define the baseline against which these indicators are reported, as well as to include impact indicators in the eligibility requirements for each category of projects. It is recognized that it is difficult to define quantitative indicators for old buildings with a wide range of uses.

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

SYK has paid attention to environmental issues since its founding in 2009, covers sustainable development as a part of its current strategy and has documented its long-term sustainability vision (until 2030). SYK reports according to the Global Reporting initiative and is currently working to define more precise goals and metrics, which will be ready at the end year 2019. It has also set longer term targets which it is working towards.

## Weaknesses

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

## Pitfalls

ENSO takes a long-term view on climate change. One way to better ensure long-term positive effects is through screenings and impact assessments already at the project planning and selection phase, e.g. to evaluate projects for eligibility for also other issues such as resilience and climate friendliness of building materials. 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 investment letter. Green building certifications can help track many of these impacts, however the certifications alone do not ensure considerations of improved energy performance or resilience.

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. According to the IEA efficiency of building envelopes need to improve by 30% by 2025 to keep pace with increased building size and energy demand globally– in addition to improvements in lighting and appliances and increased renewable heat sources.

Certification standards allow for various ways of filling requirements some of which may not be considerable in their requirement for energy efficiency and reduction, biodiversity and stakeholder engagement. The green building category receives a medium to light green shading because there are no quantified energy efficiency requirements for existing buildings. It is however a strength that the BREEAM In-use certification also include building management (part 2).

### *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 or a failing to reach the potential reductions. SYK should be aware of such effects and possibly avoid Green Bond funding of projects where the risk of rebound effects is particularly high. The monitoring that SYK does on its properties environmental impacts to identifying issues and work with its property users can actively mitigate of 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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