



# Trianon

## Sustainability Bond Second Opinion

March 31<sup>th</sup>, 2019

**Trianon is a Swedish real estate company that owns, manages and develops commercial and residential properties in Malmö.** Trianon has a strong focus on sustainability and has informed us that they view social and environmental components as crucial to their overall business model. This provides a solid foundation for the issuance of sustainability bonds.

This framework includes a range of project categories that are important for a sustainable future. **Eligible project categories include employment generation, affordable housing, social environment, green building, energy efficiency and renewable energy.**

**The framework outlines a sound governance structure and includes impressive impact reporting.** It is a clear strength that the issuer will report on both green and social metrics were relevant, giving investors a holistic view on the sustainability impact of projects. We would encourage the issuer to take a broad view on reporting and attempt to report both green and social metrics for as many projects as possible. We further encourage the third-party review of reporting. The overall assessment of the governance structure to support the implementation of the Green Bond Framework gives it a rating of Good.

**The social project categories are relevant for addressing socio-economic development in vulnerable regions in Malmö.** By shaping the eligible social asset categories on earlier experiences in the same social context, the issuer increased the likelihood of setting the right targets for social project categories. The Framework has been set up to geographical target areas rather than vulnerable population groups. This introduces potential pitfalls, which the issuer has mitigated through coordinating closely with local policies. We are also encouraged that there are some green considerations for all social project categories, however, these could be strengthened by the inclusion of energy efficiency thresholds for refurbishments.

**The green categories listed in the framework generally promote the transition to low carbon, climate resilient growth.** Green buildings must obtain a Miljöbyggnad Silver certification. For energy efficiency projects, the issuer has a minimum threshold of 25 percent, and a track record of higher improvements. The framework also includes investments and maintenance of district heating that is still partly based on fossil fuels. There could be a stronger focus on social considerations in the green asset classes.

There are strong interlinkages between the two categories, a reflection of how the issuer works with both social and environmental initiatives in the target communities.

### SUSTAINABILITY BOND GUIDELINES

Based on this review, the framework is found in alignment with the green bond principles, the social bond principles and the sustainability bond guidelines.

### SOCIAL ASSESSMENT

Based on our review, the social considerations and risks identified can be regarded to bear no significant risks to the social benefits, consistency and effectiveness of eligible social asset categories proposed in the framework.

### SHADES OF GREEN

Based on our review, we rate the Trianon's **sustainability bond framework Medium Green.**

Included in the overall shading is an assessment of the governance structure of the sustainability bond framework. **We find the governance procedures in Trianon's framework to be Good.**



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# 1 Terms and methodology

This note provides CICERO Shades of Green's (CICERO Green) second opinion of the Trianon's sustainability bond framework from March 2019. This second opinion remains relevant to all sustainability bonds issued under this framework for the duration of three years from publication of this second opinion, as long as the framework remains unchanged. Any amendments or updates to the framework require a revised second opinion. CICERO Green 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.

The second opinion is based on a review of the framework and documentation of the Trianon's policies and processes, as well as information gathered during meetings, teleconferences and email correspondence with the Trianon.

## Expressing concerns with 'shades of green'

CICERO Green second opinions are graded dark green, medium green or light green, reflecting a broad, qualitative review of the climate and environmental risks and ambitions of the bonds. The shading methodology aims to provide transparency to investors that seek to understand and act upon potential exposure to climate risks and impacts. Investments in all shades of green projects are necessary in order to successfully implement the ambition of the Paris agreement. The shades are intended to communicate the following:

### CICERO Shades of Green

### Examples



**Dark green** is allocated to projects and solutions that correspond to the long-term vision of a low carbon and climate resilient future. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Ideally, exposure to transitional and physical climate risk is considered or mitigated.



Wind energy projects with a strong governance structure that integrates environmental concerns



**Medium green** is allocated to projects and solutions that represent steps towards the long-term vision, but are not quite there yet. Fossil-fueled technologies that lock in long-term emissions do not qualify for financing. Physical and transition climate risks might be considered.



Bridging technologies such as plug-in hybrid buses



**Light green** is allocated to projects and solutions that are climate friendly but do not represent or contribute to the long-term vision. These represent necessary and potentially significant short-term GHG emission reductions, but need to be managed to avoid extension of equipment lifetime that can lock-in fossil fuel elements. Projects may be exposed to the physical and transitional climate risk without appropriate strategies in place to protect them.



Efficiency investments for fossil fuel technologies where clean alternatives are not available



**Brown** is allocated to projects and solutions that are in opposition to the long-term vision of a low carbon and climate resilient future.



New infrastructure for coal

## Assessment of social benefits and risks

The Second Opinion for Trianon's Sustainability Bond framework also accounts for social dimensions of the framework in total and of eligible social asset categories in particular. IISD provides expertise on social benefits and social risks to be considered for the financing of infrastructure and other projects with environmental and social targets.

The social benefits, consistency and effectiveness of eligible social asset categories of this framework are reviewed against the issuer's overall social targets and the United Nations Sustainable Development Goals



(SDGs). SDGs highlighted by the issuer are assessed by clarifying which specific SDG targets are supported by each eligible social asset category. Moreover, the assessment points to relevant SDGs and targets that may not have been identified by the issuer. This reference framework for analyzing the benefits of social asset categories was chosen because SDGs are increasingly accepted and applied within the (impact) investment community, the International Capital Market Association (ICMA) encourages to pay attention to the SDGs as they recently published a high-level mapping on the alignment between the SDGs and green/social asset categories of Green/Social/Sustainability Bond Frameworks, and many countries are working actively on implementing the SDGs.

To complement the SDGs as a basis for this assessment, the International Organizations for Standardization (ISO) 26000 standard has been consulted. This standard on Social Responsibility has been published as a guidance document rather than a basis against which organizations can be certified. It includes a framework that links the SDGs to other popular standards for social responsibility, including the Organisation for Economic Cooperation and Development (OECD), International Labour Organization (ILO) conventions and the Global Reporting Initiative (GRI).

Social risks of eligible green and social asset categories are assessed based on IISD's extensive experience from infrastructure sustainability assessments as well as best practice guidelines and safeguards (such as the Environmental and Social Performance Standards of the International Finance Corporation). The assessment covers the bond issuer's capacity for anticipating and assessing adverse social risks when selecting eligible green and social projects. It is also reviewed whether the issuer has implemented policies that require project beneficiaries to have systems in place to avoid, reduce or minimize adverse social impacts.

### **Governance assessment**

Sound governance and transparency processes facilitate delivery of Trianon's climate and environmental ambitions laid out in the framework. Hence, the governance aspects are carefully considered and reflected in the overall assessment of the sustainability bond framework. ENSO considers four factors in its review of an Trianon's governance processes: 1) the policies and goals of relevance to the sustainability bond framework; 2) the selection process used to identify and approve eligible projects under the framework, 3) the management of proceeds and 4) the reporting on the projects to investors. Based on these factors, we assign an overall governance grade: Fair, Good or Excellent.



## 2 Brief description of Trianon's sustainability bond framework and related policies

Trianon is a Swedish real estate company that owns, manages and develops commercial and residential properties in Malmö. As per year end 2018, the company owns 54 buildings and partially owns 2 additional buildings, the total leasable area is 272 000 m<sup>2</sup>. Trianon was listed on the Swedish Nasdaq First North Premier exchange in 2017. Sustainability is an integral part of Trianon's business model, as a long-term owner, the company sees social, economic and environmental sustainability as important success factors.

### Environmental Strategies and Policies:

Trianon has chosen five Sustainable Development Goals (SDGs) as relevant to their work: affordable and clean energy (SDG 7), decent work and economic growth (SDG 8), reduced inequalities (SDG 10), sustainable cities and communities (SDG 11), and climate action (13).

Trianon has set 10 sustainability targets, built around the central goal of safe, stable and attractive neighborhoods and inspired by the SDGs. The targets include providing employment opportunities for targeted populations at suppliers and within its own organization, reducing electricity consumption in the existing building stock by two percent per year, reducing heat consumption in the existing building stock by one percent per year and having installed solar panels corresponding to 100,000 kWh / year over five years.

### Use of proceeds:

The sustainability bond framework lists eligible social and green project categories. The overall objective of the social projects is to increase well-being in communities identified as 'socio-economically weak areas' through reduced unemployment, and homelessness, and increased security. The three social project categories that can be funded are employment generation, affordable housing and social environment.

The overall objective of the green projects is to reduce the overall climate footprint of Trianon and its residents. The three green project categories that can be funded are green buildings, energy efficiency, and renewable energy.

Proceeds can be used for new projects and refinancing with a look-back period of no more than 3 years from the time of issuance. The issuer has informed us that they intend to use the majority of proceeds to finance new projects. Proceeds can fund capital expenditures and operational expenditures related to the project categories listed in the framework.

### Selection:

The issuer has established a sustainability bond committee with members from management, finance, sustainability and business control. The sustainability representative has veto power.

The sustainability bond committee will meet on at least an annual basis to review the pool of eligible projects and has the responsibility to ensure that all projects are in line with the criteria set out in the Sustainability Bond Framework and are targeting at least one of Trianon's 10 Sustainability Targets. The issuer has informed us that



the committee will also assess the progress of projects, and that they expect the committee to meet frequently. The pool of initial projects for the first issuance has been identified and agreed on by the sustainability bond committee during framework development.

### **Management of proceeds:**

The issuer will establish a sustainability bond register to monitor eligible projects and the allocation of the net proceeds from sustainability bonds. The net proceeds of the Sustainability Bonds issued by Trianon will be deposited into the treasury general accounts and subsequently the sustainability bond register will be marked up by an equal amount corresponding. The Sustainability Bond Register will form the basis for reporting to sustainability bond investors.

Trianon has committed to maintaining an aggregate amount of projects in the Sustainability Bond Register that is at least equal to the aggregate net proceeds of all outstanding Trianon Sustainability Bonds. There are two potential exceptions to this, the time directly after the issuance of additional Sustainability Bonds and all proceeds have not yet been allocated or if, for any reason, a project no longer qualifies and is taken out of the pool.

Any portion of the net proceeds that have not been allocated to eligible projects will be held in accordance with Trianon's normal liquidity management policy.

### **Reporting:**

Trianon will report annually on the allocation and impact of its sustainability bonds. The issuer has informed us that reporting will be done on a project-by-project basis where feasible, and that they will endeavor to report the allocated amount and sustainability bond share of financing per project. If a project could qualify for both a green and social category, the issuer may split the value between the two categories. The issuer has also informed us that they will report on the share of refinancing.

The impact report will include a methodology section, to the extent possible the issuer will provide details on methodologies, baselines and assumptions used in impact calculations. Where relevant Trianon will seek to align the reporting with the latest standards and practices as identified by ICMA and the guidelines in the Nordic Public Sector Issuer's Position Paper on Green Bond Impact Reporting.

Trianon's impact reporting will include quantitative social and environmental metrics. Several of the projects are expected to have both green and social impacts, in these cases, the issuer will report relevant metrics in both categories. Social impact indicators have been divided into two categories: indicators where Trianon has a direct effect on the outcome, and indicators where Trianon may have an indirect effect on the outcome. Employment, Affordable Housing and Social Environment metrics:

- Number of jobs created (short term and long term)
- Number of people with access to safe, affordable and sustainable housing
- Number of new low-income dwellings created
- Employment rate in the targeted areas
- Share of re-housing amongst the residents in the targeted areas
- Reduction in crime rate in targeted areas

### **Green Buildings:**

- Annual energy avoided in MWh or GWh compared to the relevant building code (for new buildings)



- Annual GHG emissions reduced/avoided, in tonnes of CO<sub>2</sub>-equivalents
- Avoided kWh/sq m or in percentage terms below national building standards

#### Energy Efficiencies

- Annual energy avoided in MWh or GWh for new buildings compared to the relevant building code
- Annual energy reduced/avoided in MWh or GWh
- Annual GHG emissions reduced/avoided, in tonnes of CO<sub>2</sub>-equivalent

#### Renewable Energy

- Capacity of energy generation of plant in MW
- Annual renewable energy generation in MWh
- Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub>-equivalent



### 3 Assessment of Trianon’s sustainability bond framework and policies

The framework and procedures for Trianon’s sustainability 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 projects; weaknesses are typically areas that are unclear or too general. Pitfalls are also raised in this section to note areas where Trianon should be aware of potential macro-level impacts of investment projects.

#### Overall green shading and social assessment

Based on the project category shadings detailed below, and consideration of environmental ambitions and governance structure reflected in Trianon’s sustainability bond framework, we rate the framework **CICERO Medium Green**.

Based on our review, the social considerations and risks identified can be regarded to bear no significant risks to the social benefits, consistency and effectiveness of eligible social asset categories proposed in the framework.

#### Eligible projects under the Trianon’s sustainability 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 and social benefits, sustainability bonds aim to provide investors with certainty that their investments deliver sustainability impact as well as financial returns.

The following table provides an assessment of the eligible social asset categories:

Category	Eligible project types	Green Shading and some concerns	Social considerations and concerns
Employment Generation	<u>Permanent work placement</u> Long-term work placement of the local residents by Trianon or its partners.  <i>Trianon Sustainability Target #1, #2</i>	<b>Light green</b>  ✓ The issuer has informed us that they are working on a program to include environmental and social aspects into the youth internships.	✓ Enabling residents to find employment by offering access to short- and long term work placement may bridge an accessibility gap for marginalized groups (SDG 8).
	<u>Temporary work placement</u> Facilitating and creating summer internships for the youth residence.  <i>Trianon Sustainability Target #3</i>	✓ The issuer also has the opportunity to influence environmental outcomes by setting requirements in the lease and has	✓ Internships can help marginalized youth to access the employment market
	<u>Income requirements</u> Setting income requirements for residents that ensure a high		



degree of employment in the local areas whilst at the same time keeping thresholds below the private market level to ensure a strong social value.

*Trianon Sustainability Target #4*

informed us that there are some environmental clauses, for example around recycling.

and to complete their education.  
 ✓ Setting income requirements for residents bears the risk of becoming an optic measure: improving the statistics but further marginalizing vulnerable, undereducated and unemployed groups (World Bank Environmental and Social Standards (ESS)).

Affordable  
Housing

New low-cost apartments

Build new low-cost rental apartments for people with a low-income level and thereby reduce housing shortage

*Trianon Sustainability Target #9*

Short-to-long term housing

Vacant apartments are made available to the City of Malmö to provide short-term housing solution to near-homeless and work to convert these into long-term residents.

*Trianon Sustainability Target #8*

Affordable refurbishments

Implementing the right renovation model to ensure existing and new residents are not forced out due to higher costs.

*Trianon Sustainability Target #5*

**Light – medium green**

- ✓ The issuer has informed us that any new building under this category will also have to meet the green building criteria (Miljöbyggnad Silver).
- ✓ Existing buildings, including buildings the issuer may purchase, may not meet the Miljöbyggnad Silver requirement. The issuer has however informed us that energy efficiency is always considered in the renovation process.
- ✓ In the case of the acquisition of an existing building, the value will correspond to the equity stake invested.
- ✓ For refurbishments in the existing portfolio of buildings, the value financed by sustainability bond proceeds will

✓ Achieving affordable access to housing provides an opportunity to achieve health-, education and social equality objectives. Combining this objective with green and energy efficient buildings reduces the risk of increasing environmental and climate footprints (SDG 11).



			correspond to the investment going into the refurbishments and not the total value of the building itself.
Social environment	<p><u>Improving the outdoor environment</u> Renovating and upgrading the outdoor physical environment to increase the sense of well-being <i>Trianon Sustainability Target #6</i></p> <p><u>Local support functions</u> Local offices and support functions with a high level of resources to ensure a strong sense of purpose and unity in the local community <i>Trianon Sustainability Target #6</i></p> <p><u>Social activities</u> Social activities such as ‘night walks’ and collaboration with local institutions to strengthen the social cohesion and a sense of safety. <i>Trianon Sustainability Target #6, #7</i></p>	<p><b>Light green</b></p> <p>✓ The issuer has informed us that when renovating physical outdoor spaces, they consider both environmental aspects and community involvement.</p> <p>✓ The issuer has a focus on improving recycling rates through the use of “nudging” techniques</p> <p>✓ There are clear synergies in integrating environmental (including resilience) and well-being considerations. The light green shading is a reflection of the lack of clear environmental criteria.</p>	<p>✓ Combined with other social sustainability categories, social activities may contribute to improved social well-being. In isolation, however, projects under this category may miss the target audience such as vulnerable groups, people living below the poverty line and marginalized communities (ISO 26000, World Bank ESS).</p>

Table 1. Eligible social project categories

The following table provides an assessment of the eligible green asset categories:

Category	Eligible project types	Green Shading and some concerns	Social considerations and concerns
Green Buildings	The construction of new buildings with a certification of Miljöbyggnad “Silver” certification (or better)	<p><b>Medium green</b></p> <p>✓ Voluntary environmental certifications such as can measure or estimate the environmental footprint of buildings and raise awareness of environmental issues, however, they fall short of guaranteeing an</p>	<p>✓ Community involvement will be of relevance for the design of green solutions for buildings.</p> <p>✓ Some vulnerable groups may be at risk of having less access to sustainable solutions than higher income groups.</p>



environmentally-friendly building. They do not guarantee a reduction in GHG emissions nor necessarily include considerations of resiliency.

- ✓ The issuer has informed us that they take resiliency into account when planning new buildings.
- ✓ The issuer has informed us that they are considering partnerships with mobility solutions like carsharing and electric bike sharing. No vehicles will be purchased using proceeds from this framework. The issuer are encouraged to actively make sure that carpool consists of green cars (electric or plug-in hybrid cars only).

Energy Efficiency	<p>Improving energy efficiency through projects with a targeted gain of minimum 25%. Examples of projects include;</p> <ul style="list-style-type: none"> <li>• LED lighting and motion sensor lighting</li> <li>• Modernization of laundry and washing facilities</li> <li>• Heat exchangers</li> <li>• Individual metering and charging (IMD)</li> <li>• Ventilation and air extraction systems</li> </ul>	<p><b>Dark green</b></p> <ul style="list-style-type: none"> <li>✓ Energy efficiency investments are key to reducing emissions.</li> <li>✓ Efficiency improvements may lead to rebound effects.</li> <li>✓ The issuer has informed us that efficiency in fossil fuel infrastructure could not be financed.</li> </ul>	<ul style="list-style-type: none"> <li>✓ The elements falling under this eligible category are no-regret measures in socially and environmentally sustainable practices, ranging from circular economy to energy efficiency.</li> <li>✓ Individual metering and charging may lead to questions regarding data protection and transparency measures. Community involvement is key.</li> </ul>
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Renewable Energy	<p>Investments and maintenance cost of solar panels and district heating.</p>	<p><b>Medium green</b></p> <ul style="list-style-type: none"> <li>✓ The district heating network currently relies on 1/3 fossil</li> </ul>	<ul style="list-style-type: none"> <li>✓ In case solar panels or other infrastructure has been produced in 3<sup>rd</sup> countries, it is important</li> </ul>
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| <p>fuel sources, we encourage the issuer to work with the supplier to increase the share of renewables.</p> <ul style="list-style-type: none"> <li>✓ Solar energy is key to a low-carbon transition, however there are potential concerns regarding supply-chain emissions of solar panels.</li> </ul> | <p>for the issuer to be informed on the social sustainability life-cycle considerations in the 3<sup>rd</sup> countries concerned.</p> |
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Table 2. Eligible green project categories

### Background

Trianon is a real estate company and the focus of the framework is on sustainable communities and buildings. In a low carbon 2050 perspective, the energy performance of buildings is expected to be improved, with passive house technology becoming mainstream and the energy performance of existing buildings greatly improved through refurbishments. The building sector accounts for over 40% of primary energy consumption in most countries. Efficiency of building envelopes needs to improve by 30% by 2025 to keep pace with increased building size and energy demand – in addition to improvements in lighting and appliances and increased renewable heat sources.<sup>1</sup> The construction of low carbon buildings and energy efficiency improvements in buildings are important building blocks towards reaching the 2°C goal.

Investments in renewable energy linked to buildings is another important climate measure. In 2017, renewable electricity generation grew 6% and reached a quarter of global power output, thanks to the continued growth of solar PV and wind technologies. Despite these positive trends (especially with PV), additional efforts are needed in renewable power generation to meet the targets set out in the IEA’s SDS. According to the IEA, the share of renewables in global electricity generation must reach 47% by 2030, up from 25% in 2017.<sup>2</sup>

Trianon is active in Malmö, a city which faces a significantly higher gap between income groups, health and education than other cities in Sweden. There are large differences in the proportion of unemployed in different groups – it is higher among young people, higher among people born abroad.

There are also large regional differences: while the economic and health situation in Malmö has improved over the last years, some urban areas of Malmö have gone through a regression concerning the health, income and education of their population. The municipality of Malmö has identified and targeted these areas, setting up initiatives to advance the social and environmental quality of those neighborhoods. In the recent past, Trianon has already engaged in activities that contributed to higher employment rates in some of those areas – an experience used as one of the building blocks for the Framework.

The social project category employment generation also has climate impacts. In order to transition to a low-carbon, climate resilient economy, job creation needs to be concentrated in areas that support this transition. The first work experiences of youth are especially important, as this is an opportunity to influence the future workforce.

<sup>1</sup> <http://www.iea.org/tcep>

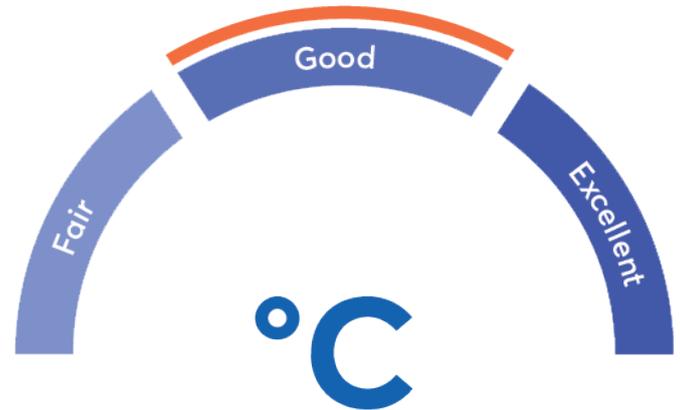
<sup>2</sup> <http://www.iea.org/tcep/power/renewables/>



## Governance Assessment

Four aspects are studied when assessing the Trianon's governance procedures: 1) the policies and goals of relevance to the sustainability bond framework; 2) the selection process used to identify eligible projects under the framework; 3) the management of proceeds; and 4) the reporting on the projects to investors. Based on these aspects, an overall grading is given on governance strength falling into one of three classes: Fair, Good or Excellent.

The overall assessment of Trianon's governance structure and processes gives it a rating of good. The framework outlines solid mechanisms for project selection and management of proceeds and includes impressive impact reporting. Trianon has relevant sustainability targets and has begun the process of reporting on progress. Similarly, Trianon has begun working towards a code of conduct towards suppliers. These initiatives also show a willingness to improve sustainability governance over time.



## Strengths

### Governance

Trianon has a strong focus on sustainability and has informed us that they view social and environmental components as crucial to their overall business model. The company has actively worked towards improving neighborhoods in Malmö and has previously demonstrated successful interventions. This provides a solid foundation for the issuance of sustainability bonds.

Resilience to the impacts of climate change is important for all infrastructure projects. While Trianon lacks a strategy on climate resilience, it is a clear strength that the issuer takes this into account when considering new developments. For the Malmö area this entails assessing the vulnerability to increased precipitation and cloudburst events.

There are strong interlinkages between the green and social categories, a reflection of how the issuer works with both social and environmental initiatives in the target communities. The issuer expects to be able to work towards several of their sustainability targets in many projects to be funded, and that many projects will qualify for both a social and green category.

We are also encouraged that there are some green considerations for all social project categories. For example, in the employment generation category, the issuer is creating a program for including environmental aspects into the youth internships. One aspect they considering including having the youth teach local children to recycle. In the affordable housing category, it is a clear strength that new buildings must also meet the criteria for green buildings.

The framework includes impressive impact reporting with relevant metrics for each project category. It is a clear strength that the issuer will report on both report on green and social metrics were relevant, giving investors a holistic view on the sustainability impact of projects. We would encourage the issuer to take a broad view on reporting and attempt to report both green and social metrics for as many projects as possible.



### *Social Project Categories*

The Framework includes project categories that are relevant for addressing socio-economic development in vulnerable regions in Malmö. Employment generation and the provision of affordable housing in combination with improvements to the social environment in vulnerable areas are key for the long term development and integration of marginalized and poorly integrated communities in Malmö. By shaping the eligible social asset classes on earlier experiences in the same social context, the issuer increased the likelihood of setting the right targets for social project categories.

Trianon is building up a track record of socially responsible real estate management. Historical spatial planning decisions have led to the current difficulties for some urban areas to integrate well. By targeting those areas and by investing in improving their livelihoods in terms of education, quality of housing and employment, the issuer demonstrates a good understanding of the root causes of local social inequality.

The Framework is considered to be in close alignment with municipal analyses and policies. Eligible social asset categories are set to enable conditions for targeted areas in Malmö to allow its population to escape the current problems of large-scale unemployment and poor performance in education.

According to the Framework, eligible project classes support SDG 7 'Affordable and clean energy', SDG 8 'Decent work and economic growth', SDG 10 'Reduced inequalities', SDG 11 'Sustainable cities and communities', and SDG 13 'Climate action'. Not mentioned in the Framework, but potentially benefiting from the actions proposed in it, is SDG 4 'Quality education'. The SDGs mentioned provide context to the sustainability targets defined in the Framework, while the sustainability targets are context- and location to the targeted areas in Malmö. For the eligible asset classes, or at least for the social ones, this can be regarded to be a relevant downscaling of sustainability objectives, especially when taking into account the coherence with local policy initiatives observed earlier.

While social project categories have been defined as a separate eligible asset category next to green project categories, the sustainability targets defined by the issuer apply on an organization level. The issuer has indicated to commit to do-no-harm, meaning that its internal sustainability targets apply on an organization-wide scale rather than on project level only. By integrating the elements of affordability, sustainability and safety, for example, the issuer set one indicative Key Performance Indicator for multiple sustainability targets.

### *Green Project Categories*

An investment category that includes technologies that are realizations today of the long-term vision of a low carbon and climate resilient future is considered dark green. Trianon's green bond proceeds allocated to solar panels and energy efficiency would also be examples of such dark green solutions.

The green building category represents important steps towards the long-term vision and is an example of a medium green solution. Miljöbyggnad includes key considerations like energy efficiency and building material choice. In addition to these considerations, it is a strength that Trianon considers some broader environmental considerations like transportation solutions and includes an assessment of climate resilience.

It is a strength that fossil fuel infrastructure is excluded from the energy efficiency category.

### **Weaknesses**

No weaknesses perceived.

## Pitfalls

### *Governance*

While there are strong interlinkages between the green and social projects, the issuer would benefit from a documented process to assess environmental, social and governance (ESG) risks for all project categories. The issuer has informed us that at a company level they are committed to ‘do no harm’ in all their projects. We are encouraged by the issuers’ focus on sustainable business practices and the steps the issuer is taking to strengthen governance.

The issuer lacks a comprehensive consideration of sustainability risks and impacts of their suppliers. However, the Miljöbyggnad certification covers some key environmental supply chain considerations. The issuer has further informed us that they are developing a code of conduct for suppliers that will also cover social aspects, however, we have not reviewed a draft of this policy and cannot comment on the contents of the policy.

CICERO Green welcomes the use of a common methodology in impact reporting, and sees it as a clear strength that Trianon is planning to report in accordance with the "Nordic Public Sector Issuers: Position Paper on Green Bonds Impact Reporting". Investors should however be aware that by using the fall back emission factor presented in this paper there is a risk that emission reductions are overestimated<sup>3</sup>.

The third-party review of sustainability bond reporting is considered best-practice and would strengthen transparency towards investors. The issuer has informed us that they may consider third-party review at the time of reporting, and we strongly encourage this.

### *Social Project Categories*

A safe environment has been identified by the issuer as the key driver for consistent development of an urban area. The factors defining a sense of safety as measurable social categories, according to the Framework, are employment, education and environmental quality of the urban area. These three factors have been worked out into measurable targets, for which the issuer identified indicative impact Key Performance Indicators (KPIs). The issuer integrated the element of safety in the KPIs, but hasn’t indicated how they want to monitor the sense of safety in the targeted areas.

The Framework has been set up to target areas rather than audiences. This introduces a potential pitfall, which seems to be overcome in the Framework, but which should not go unmentioned here. The SDGs relevant for the social asset classes in the Framework are SDG 8, SDG 10, SDG 11 and potentially SDG 4. Contributing to these SDGs means that a precise definition of the target audience is required, in accordance with the ICMA framework, ISO standard 26000 and other prevailing social standards. Actions proposed should contribute to improving the situation of the targeted audience. The Framework, however, defines targeted areas rather than a target audience. The risk here is that the actions proposed do not reach the most vulnerable people. To give an example: employment rates in the targeted areas are low, but increasing access to affordable housing in those

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<sup>3</sup> The European grid factor recommended by the Nordic Public Sector Issuers is 380 g CO<sub>2</sub>/kWh, and based on the methodology outlined in the Harmonized Framework for Impact Reporting developed by a group of multilateral development banks. This factor is higher than the European average grid factor, which was 350 g CO<sub>2</sub>/kWh in 2015 (International Energy Agency). The Nordic Public Sector Issuers have chosen the geographic area comprising EU26+Norway because the Nordic energy system is more and more connected to other European countries facilitating export and import of electricity. The average grid factor for production in the Nordic countries today according to the European Environmental Agency amounts to 83 g CO<sub>2</sub>/kWh<sup>2</sup>.



areas may reach the people who are employed, rather than the unemployed. As observed before, the Framework seems to overcome this pitfall by coordinating closely with local policies. However, it will be important for the issuer to continuously monitor the impact of the actions proposed in the Framework and to provide transparency in its annual reporting.

The indicative impact KPIs were sub-divided into those where the Framework has a direct impact on the desired outcome, and those where the Framework has an indirect impact. It should be kept in mind that even in the case where the Framework can have a direct impact, this does not need to be the case in practice. Many factors influence the availability of jobs and access to affordable housing.

Turnover of population due to individual improvement of financial situation is one of the processes that the issuer aims to control through the Framework. The intention is to slow down turnover rates by setting income requirements, so that people do not move out when they improve their financial situation, moving from a marginalized population category to a middle-income one. Although there seems to be some empirical evidence available in earlier experiences of the issuer, this mechanism should be carried out with great care and in strong coherence with affordable housing and employment generation. The social risk borne by setting income requirements is further segregation, lifting the quality of a target area but making it no longer accessible for its current population.

Energy efficiency in buildings is a key climate initiative. While we are encouraged by the issuer's consideration of energy efficiency in refurbishments under the Affordable Housing category, an explicit energy efficiency criteria would strengthen the framework.

### *Green Project Categories*

CICERO Green takes a long-term view on climate change, and thus recommends excluding projects that support prolonged use of fossil fuel-based infrastructure that will contribute to GHGs in the long run. Trianon has not explicitly excluded fossil fuel investments from their sustainability bond framework. The framework includes investments and maintenance of district heating that is still partly based on fossil fuels. In order to achieve a dark green shading for such investments, the network needs to be based on renewables. If the network still to some extent is based on generators that run on fossil fuels, a clear pathway to achieve 100 percent renewables in the near future, has to be demonstrated.

The total environmental impact of buildings over their life time is difficult to calculate with accuracy. Energy efficiency is key, but it is not sufficient to ensure low overall environmental impact and sustainable communities. Impacts from the construction face, the choice of material, water use, pollution and access to public transport are also important factors that determine a buildings overall sustainability. The Miljöbyggnad certification takes into account many of these aspects, however, this certification does not guarantee a low carbon building. In a low carbon 2050 perspective, we expect zero emission technology to become mainstream. The issuer is taking a step in this direction, but it should be mindful of the need for continuous improvements in terms of raising the bar for this project category.

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. This could be a concern for energy efficiency projects, we encourage the issuer to be aware of such effects and possibly avoid funding of projects where the risk of rebound effects is particularly high.

Concerning the social risks borne by the eligible green asset classes, which are considerations based on the ISO 26000 voluntary standard on social responsibility, there is no evidence available on whether social sustainability



has been ensured in case the issuer works with third parties. In the renewable energy category, it is relevant to consider the life cycle impacts of solar panels. A lifecycle approach includes the calculation of impacts from production of solar power stations and components through to the recycling and/or disposal phase and provides a broader view of the impacts. However, being fully informed about the social conditions in third countries requires the partners of the issuer producing solar panels to also disclose where and under which conditions solar panels are being produced. This information may not always be available, leaving a potential gap in the green life cycle assessment.



# Appendix 1: Referenced Documents List

Document Number	Document Name	Description
1	SUSTAINABILITY BOND FRAMEWORK	Sustainability bond framework March 2019
2	ÅRSREDOVISNING 2017	Annual report 2017 (in Swedish)
3	Commission for a Socially Sustainable Malmö (2013)	Malmö's path to a sustainable future – health, welfare and justice
4	Dock, Johansson (2014) The city's spatial impact on health	Background report for the Commission for a Socially Sustainable Malmö on how the physical environment contributes to health inequalities and the opportunities available to urban planning
5	Stadskontoret (2019) Segregation och segmentering i Malmö	An analysis of the degree of economic and ethnic segregation in Malmö
6	Polisen (2017) Utsatta områden - Social ordning, kriminell struktur och utmaningar för polisen	
7	Skyfallsutredning Rosengård	Cloudburst assessment for the Rosengård area



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8	E.ON Miljövärden 2018	Overview of fuel sources for the E.ON district heating network
9	Malmö Snapshot 2018	City of Malmö report on facts and figures on trade, industry and economy in Malmö
10	Droppen som urholkar stenen Utvecklingen i Herrgården 2013–2018	Report on the company Victoria Parks work in the socio-economically weak area Rosengård in Malmö
11	ÅRSREDOVISNING 2018	Trianon 2018 Annual Report

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## Appendix 2: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for sustainability bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of sustainability bonds, since the market's inception in 2008. CICERO Green is 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. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent 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).





## Appendix 3: About IISD

The International Institute for Sustainable Development (IISD) is an independent policy research organization working to deliver the knowledge to act. From offices in Winnipeg, Geneva, Ottawa, Toronto and New York, IISD's work impacts lives in nearly 100 countries.

IISD provides practical solutions to the growing challenges and opportunities of integrating environmental and social priorities with economic development. IISD reports on international negotiations and shares knowledge gained through collaborative projects, resulting in more rigorous research, stronger global networks, and better engagement among researchers, citizens, businesses and policy-makers.

The Public Procurement and Infrastructure Finance Sub-Program at IISD provides advisory services to public and private sector clients for the design and implementation of policies, programs and tools to prepare, finance and de-risk sustainable and low-carbon infrastructure.

IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC) and from the Province of Manitoba. IISD receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations, the private sector and individuals.

[www.iisd.org](http://www.iisd.org)