



Sustainability Report

2023

Senior Leadership Statement

LRO Hospitality is proud to publish its inaugural Sustainability Report. This document outlines our dedication to integrating sustainability principles into our investment strategy and details the progress achieved in sustainability performance over the past year.

At LRO Hospitality, we are committed to integrating sustainability and ESG considerations throughout our investment decisions, recognising it as a cornerstone of long-term success. Our commitment to responsible investing, in line with the Principles of Responsible Investment, is driven by the belief that responsible investing effectively mitigates potential ESG risks, enhances financial performance, and contributes positively to society and the environment.

Our overall approach to investment is guided by our sustainability-focused vision, sustainability measurement and assessment practices and transparent reporting. We believe that integrating sustainability into our investment decision-making and ongoing operations is the right thing to do for our investors, our stakeholders, people and the planet.

We are proud of the sustainability progress made over the last year as outlined in this report.. However, we know that there is more work to be done and focus areas over the next year. We are committed to continuing to improve our sustainability performance and to making a positive impact.

A handwritten signature in black ink, appearing to read 'JOZINGA', is displayed within a light gray rectangular box.

*Signed by John Ozinga
CEO - LRO Investment Adviser*

Introduction

LRO Hospitality is a Reserved Alternative Investment Fund (RAIF) based in Luxembourg that targets hotel investments comprising both real estate and operations across Europe. Since establishing the Fund in 2021, sustainability has been a key consideration in our investment decision-making, and this report represents our first standalone Sustainability Report, covering the period 1 January 2023 - 31 December 2023.

Our first report provides an overarching view for LRO Hospitality's sustainability commitments and strategy, as well as key sustainability action, performance and ambition at both a corporate level and of our assets. As LRO Hospitality is an investment fund, we recognise that our largest contributions to sustainability are through our investment strategy and the assets that we invest in. Our primary focus is therefore on the sustainability of our assets and the processes we have in place to manage sustainability risk and opportunity for our stakeholders.

For the period 1 January - 31 December 2023, LRO Hospitality's externally managed assets include the following investment properties:

- Hotel du Parc Bougival: a hotel located on the banks of the Seine in Bougival, near Paris, France. The hotel has 219 rooms, a restaurant, bar and corporate meeting rooms.
- Holiday Inn Express Dresden Zentrum: a hotel located in central Dresden, Germany. The hotel has 312, restaurant, bar and meeting facilities. The hotel has undergone renovation and refurbishment over 2023.

Governance

Strong governance is essential to achieving sustainability objectives and managing ESG risks. To support our sustainability commitments and investment approach, LRO Hospitality has a governance structure that ensures sustainability objectives are integrated and considered across our investment decisions and asset management practices.

The CEO of LRO Investment Adviser is responsible for ESG and sustainability objectives and is the senior decision-maker at a Board-level. The CEO works closely with senior management in respect of risk management, convening quarterly to evaluate risks to the Fund, such as investment, operational and other risks that can include ESG related issues. We view risk management as essential to the success of the Fund.

We have a range of policies and procedures in place to support good governance and ESG integration that have been reviewed and updated over the last year. This includes policies and procedures such as: Code of Ethics, Risk Management Framework, Whistleblowing and Anti-Bribery and Anti-Corruption.

In terms of engaging with the hotel assets on ESG and sustainability, the external General Managers of the hotels report to the CEO on a regular basis through the external Hotel Manager Atlas Hotels. LRO Hospitality requires that hotel managers have ESG policies and procedures in place, and are actively engaged in sustainability monitoring through the use of FuturePlus, a sustainability management platform. LRO Hospitality is able to view the overall performance and sustainability intent of hotel assets through the portfolio dashboard on FuturePlus. Regular meetings between LRO Hospitality, hotel asset representatives and FuturePlus advisors has enabled the sharing of information and progress to be made across all aspects of sustainability.

Our Sustainability Commitments and Investment Approach

At LRO Hospitality, we are committed to integrating sustainability considerations into our investment decisions and practices. Our investment strategy is guided by the following sustainability-related commitments:

- **Sustainability-focused vision:** We assess and manage our investments through a sustainability-focused lens, incorporating ESG objectives throughout the entire asset lifecycle, from underwriting to renovations, ongoing operations, and eventual asset disposal.
- **Alignment with Principles for Responsible Investment:** We align our investment approach with the Principles for Responsible Investment (the Principles), an international framework for incorporating ESG factors into investment decision-making and ownership practices. We are not a PRI signatory, but we fully endorse the Principles and strive to implement them in our investment practices. Our commitments, aligned with the PRI, are outlined below:
 - We will incorporate ESG goals into our investment analyses and decision-making processes.
 - We will be active owners and incorporate ESG issues into our ownership policies and practices.
 - We will seek appropriate disclosure on ESG issues by the entities in which we invest.
 - We will promote acceptance and implementation of the Principles of Responsible Investment within the investment industry.
 - We will work together across the portfolio to enhance our effectiveness in implementing the Principles.
 - We will report on our activities and progress towards implementing the Principles.
- **Sustainability Measurement and Assessment:** We use the sustainability management platform FuturePlus to measure, monitor and report on the sustainability of our assets. Additionally, we participate in the GRESB Real Estate Sector Benchmark.
- **Transparent reporting:** We report on our sustainability progress through annual reports, providing stakeholders with detailed insights into our efforts.

Our investment strategy is structured to ensure that sustainability risks and ESG-related criteria are fundamental components of our decision-making process. We have integrated ESG considerations into our investment analyses, due diligence processes, and asset selection criteria. We ensure that when investing in assets, the environmental and social characteristics meet Article 8 of the Sustainable Finance Disclosure Regulation.

Our ESG objectives and considerations in our investment processes reflect the general material sustainability issues for real estate assets, as reflected below.

LRO Hospitality ESG and Sustainability Objectives

<p>Environment</p> <p><i>Material issues:</i></p> <p><i>Energy consumption and greenhouse gas emissions</i></p>	<p>Acquisitions</p> <ul style="list-style-type: none"> • Assets that have already started green third-party certification or offer the possibility to obtain such certifications. • Provide capital for feasible investments in brownfield/regeneration area. • Sourcing activity to be geared towards reducing overall carbon footprint. • ESG requirements as part of due diligence process.
<p><i>Water consumption</i></p> <p><i>Waste generation</i></p>	<p>Renovations</p> <ul style="list-style-type: none"> • Focus on technical improvements to reduce overall consumption (insulation, solar, LED lighting etc). • Enhanced insulation programs to reduce wastage and energy consumption. • Implementing connected devices to detect water leakage, open windows and unnecessary lighting. • Building rooftop or parking gardens to produce wildlife habitats and food.
	<p>Operations</p> <ul style="list-style-type: none"> • Implementing measures to reduce food waste, ban disposable plastic items together with brand owner's sustainability programs. • Awareness programs with employees and customers to reduce energy and water consumption. • Selecting suppliers adhering to sustainable development and production charters.

Social <i>Material issues:</i> <i>Labour practices</i> <i>Community engagement</i> <i>Accessibility</i>	Diversity and Social Inclusion	<ul style="list-style-type: none"> ● Encouraging a diverse employee base in terms of gender, ethnicity, and disability mix. ● Promoting fair pay in accordance with local laws and regulations.
	Health and Wellbeing	<ul style="list-style-type: none"> ● Supporting health, safety and security training and programs for all employees. ● Ensuring appropriate health, safety and accessibility processes and procedures are in place.
	Local socio-economic developments where possible	<ul style="list-style-type: none"> ● Promoting employee skills-based volunteering to benefit the wider community. ● Engaging with local communities, with a view to give back.

Governance <i>Material issues:</i> <i>Corporate governance</i> <i>Risk management</i> <i>Reporting and disclosure</i>	Adequate investor rights	<ul style="list-style-type: none"> ● Ensuring timely and high-quality reporting on Fund's performance and key developments. ● Maintaining regular dialogue and good relationships with all stakeholders ● Transparent decision-making processes. ● Creating a lean Fund and Special Purpose Vehicles (SPVs) structure with a transparent decision-making process. ● Zero tolerance for corruption and bribery.
	Effective Board Structure	<ul style="list-style-type: none"> ● Creating a lean Fund and Special Purpose Vehicles (SPVs) structure with a transparent decision-making process.
	Risk Management	<ul style="list-style-type: none"> ● Establishing comprehensive risk management procedures in evaluating potential investments.
	Zero tolerance for corruption and bribery	<ul style="list-style-type: none"> ● Agreements with management partners to ensure hotel operations include good governance principles and transparent decision-making.

We use FuturePlus to continuously track and improve the sustainability performance of our assets across these material issues and objectives, where relevant. FuturePlus provides third-party verification on our progress, giving us access to benchmark scores, monitoring our progress over time, and developing roadmaps for improvement. The platform is aligned with all major ESG reporting frameworks including the United Nations Sustainable Development Goals. This ongoing monitoring ensures that our investments are aligned with our sustainability commitments.

By adhering to our commitments and embedding sustainability considerations into our investment strategy, LRO Hospitality strives to generate positive financial returns while making a meaningful contribution to a more sustainable future.



Our Impact

As a relatively new RAIFM fund, our direct impact on sustainability is proportionally small when compared to the potential impact of the assets that we invest in. Nevertheless, our sustainability and ESG efforts at the RAIFM level remain impactful, particularly our approach to incorporating ESG considerations into our investment decisions. While LRO Hospitality itself has not undertaken the FuturePlus assessment, we can still leverage the FuturePlus methodology to evaluate key sustainability actions we have taken in the last year, alongside the ESG impact of our investments.

FuturePlus assesses sustainability impact across five themes: Climate, Social, Economic, Diversity and Inclusion and Environment. The underpinning methodology and indicators have been researched and adapted from a range of best practice sources and industry standards, including recognised certification schemes, ESG indexes, the UN SDGs, UN Global Compact, Government standards and NGO frameworks.

LRO Hospitality implemented FuturePlus across both current hotels in 2023, with FuturePlus submissions first being made in February 2023. From a broad sustainability perspective, this has allowed LRO Hospitality to measure, monitor and manage the sustainability of its hotel assets across sustainability themes, track progress, collate insights and provide a feedback loop on the sustainability of its investments.

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Our Impact

From a Climate and Environmental perspective over the last year, LRO Hospitality has invested in the ongoing renovations of our assets to improve environmental performance and energy efficiencies. In addition, we are progressing the measurement and collation of environmental data to begin and improve the carbon emissions calculation process for our current assets.

From a Social perspective, we have ensured that management agreements, such as with Atlas Hotels, encompass positive social impact, including social inclusion and health and wellbeing policies. In the Diversity and Inclusion space, we have similarly ensured that Diversity and Inclusion policies and procedures are in place and embedded within operational processes.

From an Economic perspective, we have implemented and updated a range of policies and procedures to support good governance over 2023. This includes but is not limited to the LRO Investment Adviser Compliance Manual, Code of Ethics, Risk Management and Anti-Bribery and Corruption Policies. Dialogue and engagement with stakeholders has been ongoing, through regular investor update calls.

Our Portfolio Impact

We recognise that our ability to significantly contribute to sustainability and make a positive impact is largely driven by our investment portfolio. We therefore use the FuturePlus platform to measure, monitor and report on the ESG and sustainability performance of hotel assets. For the calendar year 2023, our investments have included Hotel Parc du Bougival and Holiday Inn Express Dresden, who have each been using the FuturePlus platform since February 2023 to assess performance and ambition across the five core themes: Climate, Environment, Economic, Diversity and Inclusion, and Social.

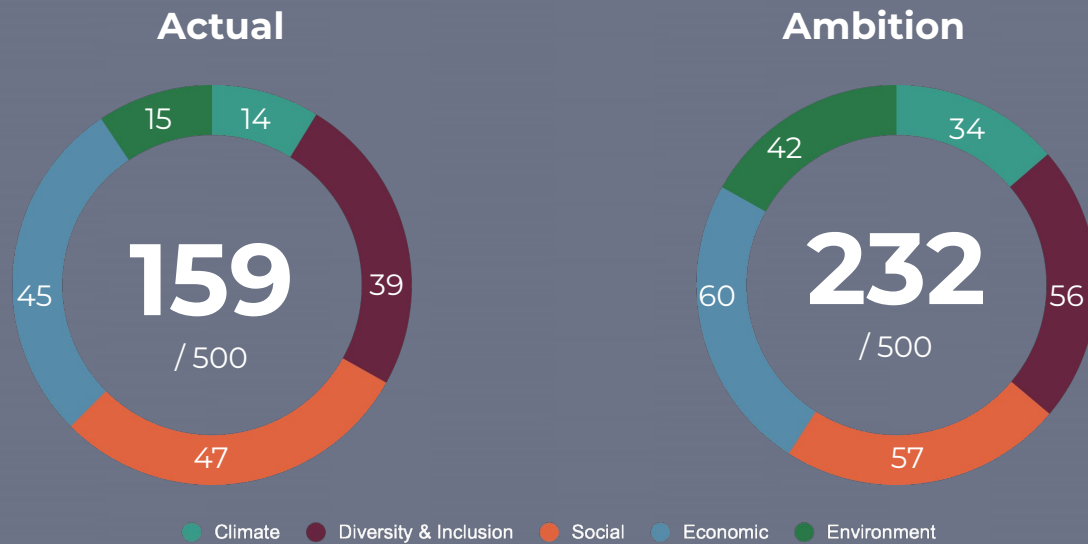
The platform provides both a benchmark sustainability score (the Actual score) representative of current impact, and a quantifiable measure of where a company intends to be over the next three years across the five themes (the Ambition score). FuturePlus provides overall scores out of a total of 500, with 100 points available for each of the five themes. FuturePlus is powered by a robust evidence matrix, scoring methodology and algorithm that informs the requirements for scoring points. This aims to incentivise continuous improvement and ambitious goal-setting. As the scoring is dynamic, if Ambitions are not met within defined timeframes or if Ambitions are reset for longer timeframes, this can decrease the overall Ambition score.

We are able to see the aggregated information of our portfolio through the platform to assess the progress of our investments, such as average Ambition score, average Actual score and highest individual performers. Roadmaps also guide the hotels on their sustainability journey to reach their sustainability Ambitions, and progress is tracked and reported in real-time to ensure transparency, consistency, and improvement. FuturePlus also measures alignment with and positive contributions to the United Nations Sustainable Development Goals.

With both hotel assets using FuturePlus, we are able to track progress in real-time and gain future-focused data and insights across our investments. FuturePlus allows us to aggregate and collectively assess the sustainability and impact of our investments at a portfolio level.

Key Insights

As of December 2023, LRO Hospitality's investment portfolio scores are:

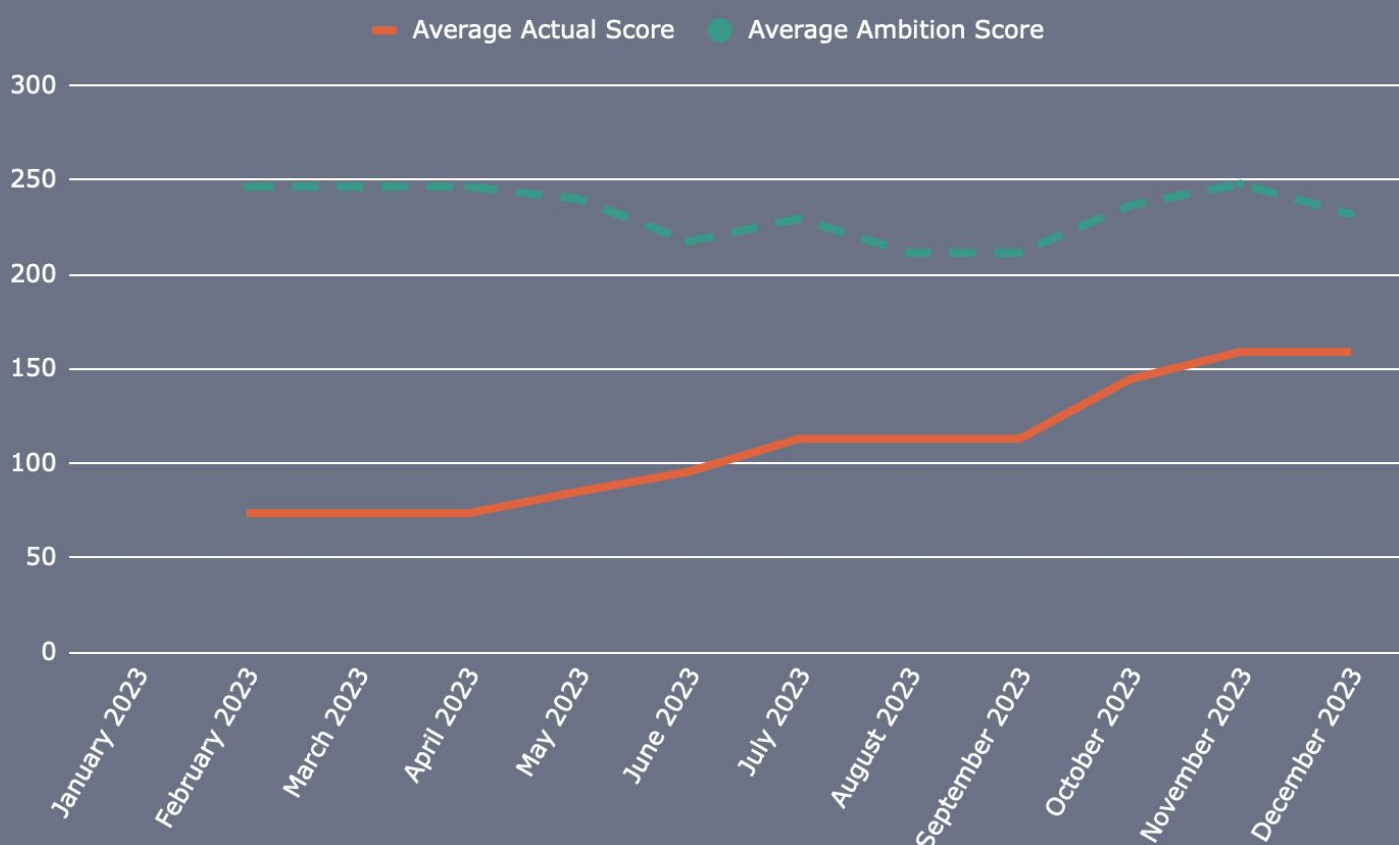


From first submission in February 2023 - December 2023:

- Average Actual score across the portfolio has increased from 73.5 to 159, an increase of 116%. This represents the current sustainability impact that the portfolio is having.
- Average Ambition score decreased towards the middle of 2023, but has now increased closer to its starting point at the beginning of the year - sitting at 232. This represents where the portfolio intends to be over the next three years. Some variance in Ambition is not unusual from time to time as organisations review short, medium and long-term plans where necessary. This occasionally results in adjustments to Ambitions and Ambition timeframes which can result in a reduction in Ambition score. The FuturePlus Ambition score has an anti-gaming algorithm that mitigates against Ambitions that are set and not completed within the specified timeframe, which will also be playing a role in this variance.
- The average Delta score of the portfolio in February 2023 was 174 and in December 2023 was 73. The Delta score represents the relative level of Ambition of the portfolio, representing the difference between the portfolio's average Actual and Ambition scores at a point in time. The average Delta score has decreased over the course of 2023 as the portfolio had significant increases in Actual score. This is a common trend in the first year of FuturePlus, as the portfolio has worked to progress sustainability actions, bringing the Actual and Ambition scores closer together. As the portfolio continues to improve, it is expected that the Delta score will increase as new Ambitions can be set, ensuring continuous sustainability improvement and goal-setting.

- The portfolio is performing better across Social, Economic and Diversity and Inclusion KPIs. Climate and Environment KPIs have emerged as focus areas for improvement, with the portfolio as a whole having lower scores across these two themes.
- The clear upwards trend in Actual score has occurred due to a range of actions, policies and procedures being implemented, including, but not limited to:
 - Governance commitment to sustainability.
 - Energy efficient equipment and processes.
 - Human Rights policies.
 - Volunteering and community engagement initiatives.
 - Considering climate-related issues when reviewing or formulating strategy.
 - Implementing performance and career development reviews,
 - Supplier Code of Conduct.
 - Personnel training.
 - Health and Safety procedures.
- The portfolio is positively impacting 14 out of 17 United Nations Sustainable Development Goals.

Graph 1: Actual and Ambition Scores over 2023



Greenhouse Gas Emissions Estimates

The following tables provide an estimated breakdown of scope 1 and 2 greenhouse gas (GHG) emissions for the 2023 calendar year for each asset. Scope 3 emissions of the assets have been excluded from calculations as no data is currently available.

It should be noted that emissions calculations have been performed in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard, however boundaries have been set to conform with the GRESB Reporting Standards, which require entities to report their GHG emissions at the asset level. These emissions estimates are based on available activity data provided by each asset and should be considered in the context of the low occupancy and renovations that took place at each asset in 2023.

Scope 2 emissions are reported using a location-based methodology. Scope emission figures have been rounded to the nearest kg or metric tonne of CO₂e. Intensity figures have been rounded to two decimal places.

Table 1: Hotel Du Parc Bougival Emissions

Description	kgCO ₂ e	tCO ₂ e
Scope 1 Emissions	61,593	62
Scope 2 Emissions	59,456	59
Total Scope 1 and 2 Emissions	121,049	121
Intensity (kgCO ₂ e per occupied room night)	5.80	/

Table 2: Holiday Inn Express Dresden Zentrum Emissions

Description	kgCO ₂ e	tCO ₂ e
Scope 1 Emissions	0	0
Scope 2 Emissions	522,130	552
Total Scope 1 and 2 Emissions	522,130	552
Intensity (kgCO ₂ e per occupied room night)	18.20	/

Sector Benchmarking

FuturePlus is able to assess where organisations and portfolios sit compared to their sector peers across Actual, Ambition and Delta scores. It should be noted this is the first year of sustainability measurement and reporting for the LRO Hospitality Portfolio, and that the Sector averages referenced below include all businesses within the hospitality sector using FuturePlus in December 2023, some of which have been using FuturePlus for over two years. As the Portfolio matures in respect to operationalisation and sustainability, we expect these scores to increase.

When comparing the LRO Hospitality Portfolio scores to others in the hospitality sector using FuturePlus, data shows that in December 2023:

- The LRO Hospitality Portfolio has a lower-than-average Actual score (-68 points) and Ambition score (-41 points) when compared to the sector averages.
- However, the Portfolio has a higher-than-average Delta score. This means that the relative level of Ambition across the portfolio is higher when compared to the sector average (+27 points). This is indicative of the fact that the Portfolio has a high level of relative Ambition and underscores a commitment to significantly improve sustainability over the next three years.

Table 3: Sector Scores December 2023

	Actual	Ambition	Delta
LRO Hospitality Portfolio	159	232	73
Sector Average	227	273	46

Future Goals

We are proud of the work to date undertaken to implement our investment strategy considering sustainability, and of the work undertaken by our assets to improve sustainability performance through the use of FuturePlus. This first report is an important opportunity to establish our sustainability baselines and lay a strong foundation for continuous improvement.

At the LRO Hospitality level, we have a number of goals over the next year to continue to improve the integration of ESG and sustainability in our decision making and in the operation of our assets. Over the next year, we aim to:

- Undertake broader risk assessment and management at the LRO Hospitality level and across our current assets. This may also include a materiality assessment.
- Further stakeholder engagement, such as with staff members.
- Strengthen the implementation of the PRI Principles across our work.
- Produce future Sustainability Reports on an annual basis to ensure ongoing transparency and reporting.

Future Goals

Across our portfolio, each asset has its own sustainability goals, as managed and monitored by relevant General Managers and FuturePlus. As noted above, Climate and Environment have emerged as areas of increased focus over the next year. Therefore, key goals across both assets include a focus on these issues, including:

- Improving waste management and recycling procedures, in line with hotel management and regulatory requirements.
- Undertaking and improving measurement of scope 1 and 2 carbon emissions.
- Enhancing energy efficient features, where possible.
- Sustainability training.
- Measurement and management of water usage.

There are also actions in the Social and Diversity and Inclusion themes to be addressed over the next year, such as implementing an Employee Volunteering policy and reviewing employee policies to ensure that they are inclusive and equitable.

Our expectation of our portfolio is to increase the average Actual score to between 190 and 200 and maintain or increase the average Ambition score by December 2024.

Conclusion

As our first Sustainability Report, we have outlined the key role that sustainability plays in our investment strategy, and we are proud of how this has been implemented over the last year.

Our investment strategy and alignment with the PRI Principles has ensured that sustainability and ESG considerations form part of our investment decision-making and operations. Across Climate, Environment, Diversity and Inclusion, Social and Economic themes, we have made progress, as well as ensuring that our assets are also making sustainability progress.

We have seen significant sustainability progress across our current portfolio of two hotels, with an increase in FuturePlus Actual score of 116% from February 2023 - December 2023. With the FuturePlus reporting platform, we can effectively measure and monitor the sustainability of our assets and support these to meet their ongoing sustainability goals.

As a portfolio, we are beginning to see the collective impact we can make across sustainability themes and we look forward to the continued positive progress that can be made over the next year.