

EXTERNAL REVIEW

Starwood Sustainability Bond Allocation Report

Sustainability Bond Allocation Report of Starwood

9 August 2022

VERIFICATION PARAMETERS

Type(s) of reporting	Sustainability Bond Allocation Report
Relevant standard(s)	<p>Harmonized Framework for Impact Reporting (HFIR), updated June 2022, as administered by International Capital Market Association (ICMA)</p> <p>Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, administered by the International Capital Market Association (ICMA)</p> <p>Green Bond Principles (GBP), updated June 2021 (with June 2022 Appendix I), as administered by the International Capital Market Association (ICMA)</p> <p>Social Bond Principles (SBP), updated June 2021 (with June 2022 Appendix I), as administered by the International Capital Market Association (ICMA)</p>
Scope of verification	<p>Starwood’s 2021 Sustainability Bond Allocation Report (as of August 4, 2022)</p> <p>Starwood’s Bond Documentation (as of November 2, 2020)</p>
Lifecycle	Post-issuance verification
Validity	As long as no material changes are undertaken by the issuer to its 2021 Sustainability Bond Allocation Report (as of August 4, 2022)

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SCOPE OF WORK

Starwood Property Trust, Inc. ('the issuer' or 'Starwood') commissioned ISS ESG to provide an External Review¹ on its Sustainability Bond Allocation Report by assessing:

1. The alignment of the Starwood's Sustainability Bond Allocation Report with the commitments set forth in Starwood's Bond Documentation (November 2, 2020 version)².
2. Starwood's Sustainability Bond Allocation Report - benchmarked against Harmonized Framework for Impact Reporting for Green Bonds (HFIRGB), updated June 2022, as administered by International Capital Market Association (ICMA) and Harmonized Framework for Impact Reporting for Social Bonds (HFIRSB), updated June 2022, as administered by the International Capital Market Association (ICMA).
3. The disclosure of proceeds allocation and soundness of reporting indicators – whether the impact metrics align with best market practices and are relevant to the Green and Social Bonds issued.

¹ ISS ESG does not provide limited or reasonable assurance on the information presented in Starwood's Sustainability Bond Allocation Report. ISS ESG solely conducted a review of the use of proceeds' allocation and impact reporting against ICMA's Green and Social Bond Principles) core principles and recommendations where applicable, and the criteria outlined in the underlying Bond documentation. ISS ESG bases its assessment solely on the information provided in the allocation and impact reporting. Starwood is responsible for the preparation of the report including the application of methods and internal control procedures designed to ensure that the subject matter information is free from material misstatement.

² Alignment of the Bond Documentation with the ICMA Social Bond Principles and Green Bond Principles has not been assessed by an SPO provider.

ISS ESG ASSESSMENT SUMMARY


REVIEW SECTION	SUMMARY	EVALUATION
<p>Part 1</p> <p>Alignment with the issuer’s commitments set forth in the Bond Documentation</p>	<p>ISS ESG finds that Starwood’s Sustainability Bond Allocation Report meets the issuer’s commitments set forth in the Bond Documentation except for the fact that Starwood hasn’t disclosed an external review from an independent registered public accounting firm. However, Starwood is getting an external review through this document, provided by ISS ESG.</p> <p>The proceeds have been used to finance Green Buildings and Affordable Housing in accordance with the eligibility criteria defined in the Bond Documentation.</p>	<p>Partially Aligned</p>
<p>Part 2</p> <p>Alignment with the ICMA Harmonized Framework for Impact reporting for Green Bonds and Harmonized Framework for Impact reporting for Social Bonds</p>	<p>ISS ESG finds that the Sustainability Bond Allocation Report is aligned with the core principles and some key recommendations of both ICMA’s Harmonized Framework for Impact reporting for Green and Social Bonds.</p>	<p>Aligned</p>
<p>Part 3</p> <p>Disclosure of proceeds allocation and soundness of reporting indicators</p>	<p>ISS ESG finds that the allocation of the bond’s proceeds has been disclosed, with a breakdown across different eligible project categories as proposed in the Bond Documentation³.</p> <p>The Starwood’s bond documentation has adopted an appropriate methodology to report the impact generated by providing information on Green Building and Affordable housing in line with the suggested impact reporting metrics from the ICMA’s Harmonized Framework for Impact Reporting for Green and Social Bonds.</p>	<p>Positive</p>

³ ISS ESG bases its assessment on the information provided in the allocation reporting. The Issuer is responsible for the preparation of the report, including the application of methods and procedures designed to ensure that the subject matter information is free from material misstatement.

ISS ESG EXTERNAL REVIEW ASSESSMENT

PART I: ALIGNMENT WITH COMMITMENTS SET FORTH IN THE BOND DOCUMENTATION

The following table presents ISS ESG’s assessment of the Sustainability Bond Allocation Report against the commitments set forth in Starwood’s Bond Documentation, which are based on the core requirements of the Green Bond Principles and Social Bond Principles as well as best market practices⁴.

GREEN BOND AND SOCIAL BOND PRINCIPLES	ISS ESG’S OPINION	ALIGNMENT WITH COMMITMENT
<p>1. Use of Proceeds</p>	<p>Starwood confirms to follow the Use of Proceeds’ description provided by Starwood’s Bond Documentation. The report is in line with the initial commitments set in the Starwood’s Bond Documentation: Alignment with the project categories defined by the GBP, defined and transparent criteria for eligible projects, description of the expected environmental and/or social benefits of the project categories, and exclusion of harmful project categories.</p> <p>The issuer’s green and social categories align with the project categories and in accordance with the eligibility criteria as proposed by Starwood’s Bond Documentation, environmental and social benefits at either project level are described and quantified.</p> <p>The issuer follows best market practice by explicitly excluding harmful project categories</p>	
<p>2. Process for Project Evaluation and Selection</p>	<p>The issuer has confirmed Starwood investment committee will evaluate projects for eligibility based on the criteria described in the Bond Documentation and recommend the allocation of the net proceeds among eligible green and/or social projects for review and approval by the finance team. Environmental risks associated with the project categories are identified and managed through an appropriate process, however social risks do not seem to be identified and/or covered.</p>	

⁴ Alignment of the Bond Documentation with the ICMA Social Bond Principles and Green Bond Principles has not been assessed by an SPO provider.

<p>3. Management of Proceeds</p>	<p>Starwood confirms to follow the Process for Management of Proceeds description provided by Starwood’s Bond Documentation. The report is in line with the initial commitments set in the Starwood’s Bond Documentation: The proceeds are tracked by the issuer in an appropriate manner, however there is no disclosure of intended types of temporary investment instruments for unallocated proceeds.</p> <p>The proceeds collected are equal to 100% of the amount allocated to eligible projects, with no exceptions.</p>	<p style="text-align: center;">✓</p>
<p>4. Reporting</p>	<p>ISS ESG considers that the Starwood’s Sustainability Bond Allocation Report is coherent with the Reporting description provided by Starwood’s Bond Documentation. The report is in line with the initial commitments set in the Starwood’s Bond Documentation: Level of reporting, information reported, frequency, scope, and duration.</p> <p>The sections “Allocation reporting” and “Impact Reporting” of the Sustainability Bond Allocation Report comply with the pre-issuance commitment expressed in the bond documentation. The report is intended to be publicly available.</p> <p><i>Further analysis of this section is available in Part III of this report.</i></p>	<p style="text-align: center;">✓</p>
<p>5. External Review</p>	<p>ISS ESG notes that Starwood has obtained an external review via this assessment, however Starwood hasn’t disclosed the outcome of the external review process by an independent registered public accounting firm.</p>	<p style="text-align: center;">○</p>

PART II: ASSESSMENT AGAINST THE ICMA HARMONIZED FRAMEWORK FOR IMPACT REPORTING

FOR GREEN BONDS

Reporting is a core component of the GBP and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Green Bonds issuers are required to report on both the use of proceeds, as well as the environmental impacts at least on an annual basis until full allocation or maturity of the bond. ICMA Harmonized Framework for Impact Reporting for Green Bonds has been chosen as benchmark for this analysis as it represents the most widely adopted standard.

The table below presents the findings of ISS ESG’s assessment of Starwood’s Sustainability Bond Allocation Report against ICMA Harmonized Framework for Impact Reporting for Green Bonds.

CORE PRINCIPLES		
ICMA HFIR	SUSTAINABILITY BOND ALLOCATION REPORT	ASSESSMENT
Reporting on an annual basis	Starwood has reported within one year from issuance and part of the proceeds of Green Bonds Issuances have been allocated to Green Building projects. Starwood has also reported the environmental impacts from the proceeds. The report will be available on Starwood’s website.	✓
Illustrating the environmental impacts or outcomes	The assessment and measurement of the impacts generated by Starwood’s Green Bonds covered the following areas: LEED Silver Certified on 2 green building projects	✓
ESG Risk Management	Starwood has outlined environmental risk management practices for all investments, including 100% of the green building projects in 2021. However, social risks do not seem to be identified and/or covered.	✓
Allocation of proceeds - Transparency on the currency	Starwood has illustrated the cashflow allocated to Office (\$299.5M) and multi-family (\$57.9M) green building projects in U.S dollars.	✓

RECOMMENDATIONS		
ICMA HFIR	SUSTAINABILITY BOND ALLOCATION REPORT	ASSESSMENT
Define and disclose period and process for Project Evaluation and Selection	The entirety of the proceeds has been allocated to Green and Social Assets. The issuer has followed the initial commitments set in Starwood's Bond Documentation for project evaluation and selection process.	✓
Disclose total amount of proceeds allocated to eligible disbursements	A total of \$700M has been raised through issuer's Green Bonds. 51% (\$357.3M) of the proceeds has been allocated to Green Building Projects.	✓
Formal internal process for the allocation of proceeds and to report on the allocation of proceeds	The issuer has followed the initial commitments set in Starwood's Bond Documentation for project evaluation and selection process and the reporting of the allocation of proceeds.	✓
Report at project or portfolio level	The Green Allocation Report includes the total amount of proceeds allocated to the Green Building project category, office and multi-family green buildings within the category and per geographical breakdown by U.S city.	✓
Describe the approach to impact reporting	The issuer reported that the Green Bonds proceeds have been allocated to green buildings with LEED Silver certifications. For each project, the issuer provided the size of the project but has not commented on the share of financing and refinancing.	○
Report the estimated lifetime results and/or project economic life (in years)	Starwood reports on the average portfolio lifetime (3 years) for both the eligible project category and the subcategories, however the economic lives of the green buildings are not disclosed.	○
Ex-post verification of specific projects	The issuer did not sample ex-post verification of specific projects and did not include relevant results in the reporting.	N/A
Report on at least a limited number of sector specific core indicators	Starwood reports on certification standards (LEED) that is a core indicator for the Green Building sector. A description of core environmental impacts for each target area is available in the report: <ul style="list-style-type: none"> • LEED Silver Certified 	✓
If there is no single commonly used standard, issuers may follow and disclose their own calculation methodologies	Not applicable because certification standard is used as indicator	N/A

Disclosure on the conversion approach (if applicable)	Not applicable because certification standard is used as an indicator	N/A
Projects with partial eligibility	There are currently no projects with partial eligibility outlined in the allocation report.	N/A
When the expected impacts of different project components may not be reported separately, issuers may use (and disclose) the attribution approach	Not applicable because there are no different project components.	N/A

ISS ESG OPINION

ISS ESG finds that Starwood follows the Harmonized Framework for Impact Reporting for Green Bonds' core principles and most of the key recommendations in the Sustainability Bond Allocation Report. The issuer provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, aligned with best practices. Starwood has clearly illustrated the environmental impacts from the Green Building projects utilized by the Green Bond use of proceeds and has reported the ESG Risk Management practice in place. The Sustainability Bond Allocation Report also clearly reported the Use of Proceeds in U.S dollars.

FOR SOCIAL BONDS

Reporting is a core component of the SBP² and transparency is of particular value in communicating the expected and/or achieved impact of projects in the form of an annual reporting. Social bond issuers are required to report on both the use of social bond proceeds, as well as the social impacts at least on an annual basis until full allocation. ICMA Harmonized Framework for Impact Reporting for Social Bonds has been chosen as the benchmark for this analysis as it represents the most widely adopted standard.

The table below presents the findings of ISS ESG’s assessment of Starwood’s Sustainability Bond Allocation Report against ICMA Harmonized Framework for Impact Reporting for Social Bonds.

CORE PRINCIPLES		
ICMA HFIRSB	Sustainability Bond Allocation Report	ASSESSMENT
Formal internal process to track proceeds	Starwood confirms project selection and management of proceeds to be in line with the criteria set forth in the bond documentation.	✓
Reporting on an annual basis	Starwood has reported within one year from issuance and part of the proceeds of Green Bonds Issuances have been allocated to social projects. Starwood has also reported on the social impacts of the proceeds. The report will be available on Starwood’s website.	✓
Allocation of the proceeds to social project categories	In accordance with the criteria established within the Bond Documentation, in compliance with the Social Bond Principles issued by the ICMA, Starwood has allocated the net proceeds of the bond to new and/or existing eligible assets within the following categories: <ul style="list-style-type: none"> Affordable Housing 	✓
Target Population(s) identified	Starwood identified affordable housing projects targeting populations making 60% or less of MSA5 median household median income.	✓
Output, outcome and/or impact of projects at project or portfolio level	Starwood has provided 6,978 apartment units for ~16,000 people making 60% or less of MSA5 median household median income as of December 2021. 98% of the Starwood’s affordable housing units are occupied by households on such income.	✓
Illustration of the social impacts	The assessment and measurement of the impacts generated by Starwood Social Bonds covered the following area: <p>Affordable apartment units, where 98% of the project’s units are reserved for or restricted to households earning 60% or less of MSA5 median household median income.</p>	✓
The issuer uses output, outcome, and/or impact metrics relevant to the projects and referred to	The issuer referred to existing indicator lists and catalogs from the Annex III of the HFIRSB: 16,000 people benefiting	✓

⁵ Metropolitan Statistical Area

existing indicator lists and catalogues	from the Affordable Housing projects financed by the Use of Proceeds. ISS ESG conducted a detailed analysis of impact indicators available in Part 3 of this report.
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RECOMMENDATIONS

ICMA HFIRSB	Sustainability Bond Allocation Report	ASSESSMENT
Disclose the methodology and the assumptions used for the calculation of impact indicators	Starwood did not display any methodology and assumptions used to calculate the social impact in the allocation report.	○
When the expected impacts of different project components may not be reported separately, issuers may use (and disclose) the attribution approach	Not applicable because there are no different project components.	N/A
Disclose the methodology used to determine the share of eligible project financing being applied to impact calculation	Starwood did not disclose the methodology used to determine the share of eligible project financing being applied to impact calculation as there is no pro-rata financing.	N/A
Collaborating with experts if reporting on the estimated lifetime impacts and/or project economic life in years	Starwood did not collaborate with experts to report the affordable housing projects economic life or maturity of the loan in years. However, Starwood states the maturity of the loan will be July 2026.	✓
Assumptions and ex-post verification	The issuer did not provide any assumptions and ex-post verification on the affordable housing project.	N/A
Report Period	The entirety of proceeds has been allocated to affordable housing projects, there is currently no modification (removal or additional projects) of the project portfolio planned.	✓
Disbursement reporting	Starwood did not outline the timing of disbursement in any impact reporting within the Sustainability Allocation Report.	○
Projects with partial eligibility	All projects are 100% eligible for financing, there are no partial eligibility criteria.	N/A

ISS ESG OPINION

ISS ESG finds that Starwood follows the Harmonized Framework for Impact Reporting for Social Bonds' core principles and some recommendations. Starwood provides transparency on the level of expected reporting as well as on the frequency, scope, and duration, and is aligned with best market practices. Starwood illustrates the social impact and requirements in the core principle by displaying the number

of apartment units and number of people from the targeted population who benefited from the Affordable Housing Use of Proceeds category.

PART III: DISCLOSURE OF PROCEEDS ALLOCATION AND SOUNDNESS OF THE IMPACT REPORTING INDICATORS

Use of Proceeds Allocation

Use of Proceeds allocation reporting is key to put the impacts into perspective with the number of investments allocated to the respective Use of Proceeds categories.

The Use of Proceeds allocation reporting occurred within two years of the first issuance and 6 months of the second issuance date, after full allocation of the proceeds. Within \$700.0M, \$342.7M were assigned to affordable housing and \$357.3M were assigned to the Green building Use of Proceeds category.

Proceeds allocated to Eligible Projects/Assets

The proceeds' allocation is broken down at the project category level and by type of project and at portfolio level for green and social Use of Proceeds categories, respectively. The issuer has provided detail about the type of projects included in the portfolio. For green UoP categories, Starwood provided details on the usage of the building and the level of certification obtained, while for the social UoP category details are provided on the number of affordable apartment units built.

ISS ESG finds that the allocation report section of the Sustainability Bond Allocation Report of Starwood aligns with best market practices by providing information on

- The number of projects (re-)financed
- The environmental certification and usage type per green building
- The number of affordable housing apartment units built and the number of low-income people receiving affordable housing.
- The total amount of proceeds in thousands of dollars (divided per environmental and social use of proceeds categories)

Impact Reporting Indicators

The table below presents an independent assessment conducted by ISS ESG. The issuer reports and discloses on the output, outcome, and/or impact of projects/assets using impact indicators.

ELEMENT	ASSESSMENT
Relevance	<p>The impact indicator chosen by the issuer for this bond is the following:</p> <ul style="list-style-type: none"> a) Green buildings - the level of certification standard obtained. b) Affordable housing - number of affordable housing apartment units built and number of low-income people receiving affordable housing. <p>These indicators are qualitative and material to the Use of Proceeds categories financed through this bond and in line with the Suggested Impact Reporting metrics for Green Building Projects by the ICMA’s HFIRGB and for Affordable Housing Projects by the ICMA’s HFIRSB.</p>
Data sourcing and methodologies of quantitative assessment	<p>For the impact indicator, the issuer uses Internationally recognized certification standards for Green Buildings - LEED (Leadership in Energy and Environmental Design, in line with the core indicator proposed by the ICMA HFIR (for Green Bonds). For the affordable housing category, the issuer details the number of affordable housing apartment units built and the number of low-income people receiving affordable housing. Data source is not disclosed for both indicators.</p>
Baseline selection	<p>For the Green buildings, internationally recognized standards are used, providing important baselines against which the green building project can be benchmarked. In this sense, the report is in line with the suggestion of the ICMA Harmonized Framework for Impact Reporting (for Green Bonds).</p> <p>For the Social category, Starwood defines affordable housing as apartment units, where 98% of the project’s units are reserved for or restricted to households earning 60% or less of MSA⁵ median household median income, which is not in line with the local definition of affordable housing, which limits benchmarkability.</p>
Scale and granularity	<p>The impact data is presented at the Use of Proceeds category level for Affordable housing and at project level for the Green Building UoP category.</p>

High-level mapping of the impact indicators with the UN Sustainable Development Goals

Based on the project categories financed and refinanced by the bonds as disclosed in the issuer’s Sustainability Bond Allocation Report, the impact indicator(s) adopted by Starwood for its Green and Social bonds can be mapped to the following SDGs, according to the ICMA “A High -Level Mapping to the Sustainable Development Goals”⁶.

⁶ [ICMA’s Mapping-SDGs-to-Green-Social-and-Sustainability-Bonds](#)

IMPACT INDICATORS	SUSTAINABLE DEVELOPMENT GOALS
<p>a) Environmental Classification (e.g. LEED), including the specific classification level where applicable (e.g. “Silver”)</p>	
<p>b) Number of Affordable Housing</p>	

ISS ESG OPINION

ISS ESG finds that the allocation of the bond’s proceeds has been disclosed, with a detailed breakdown across different eligible project categories. ISS ESG finds that the impact indicators used align with best market practices using ICMA’s recommended metrics, either in the HFIRGB or the HFIRSB. However, indicators for the affordable housing projects are benchmarkable with limitations and the impact report does not disclose information on data sourcing.

DISCLAIMER

1. Validity of the External Review: As long as no material changes are undertaken by the issuer to its Sustainability Bond Allocation Report as of 31.12.2021
2. ISS ESG uses a proprietary methodology to assess the post-issuance reports. In doing so, we adhere to standardized procedures to ensure consistent quality of responsibility research worldwide. In addition, we conduct External Reviews solely based on data provided by the issuer.
3. We would, however, point out that we do not warrant that the information presented in this External Review is complete, accurate, or up to date. Any liability on the part of ISS ESG in connection with the use of this External Review, the information provided in them, and the use thereof shall be excluded. In particular, we point out that the verification of the compliance with the selection criteria is based solely on random samples and documents submitted by the issuer.
4. All statements of opinion and value judgments given by us do not in any way constitute purchase or investment recommendations. In particular, the External Review is no assessment of the economic profitability and creditworthiness of a bond but refers exclusively to the social and environmental criteria mentioned above.
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ANNEX 1: Methodology

ISS ESG Review of the post-issuance Reports

The external review of post-issuance reports provides the issuer with an independent opinion on the soundness of its post-issuance report and of its alignment with recognized market guidelines and it provides investors with independent information regarding the reliability of the report produced. On the basis of the information provided by the issuer, ISS ESG assesses the alignment of the report with recognized market guidelines, the metrics chosen by the issuer and the soundness of process and methodology of reporting. The analysis of the metrics adopted is based on specific sets of indicators developed by ISS ESG referring to common market guidelines.

High-level mapping to the SDG

The 17 Sustainable Development Goals (SDGs) were endorsed in September 2015 by the United Nations and provide a benchmark for key opportunities and challenges toward a more sustainable future. Using a proprietary method based on ICMA's Green, Social and Sustainability Bonds: A High-Level Mapping to the Sustainable Development Goals, ISS ESG identifies the extent to which the issuers' reporting and project categories contribute to related SDGs.

ANNEX 2: Quality management processes

SCOPE

Starwood commissioned ISS ESG to compile an External Review on its Bond Report. The External Review process includes verifying whether the Bond Report aligns with the Issuer's Bond Documentation and the respective market standards, i.e. the Green Bond Principles, Social Bond Principles and Sustainability Bond Guidelines and to assess the robustness and completeness of the reporting methodologies.

CRITERIA

Relevant Standards for this External Review:

- ICMA Green Bond Principles and Social Bond Principles
- ICMA Harmonized Framework for Impact Report for Green and Social Bonds

ISSUER'S RESPONSIBILITY

Issuer's responsibility was to provide information and documentation on:

- Sustainability Bond Allocation Report
- Bond Documentation
- Proceeds Allocation
- Reporting Impact Indicators
- Methodologies, and assumptions for data gathering and calculation
- ESG Risk Management

ISS ESG's VERIFICATION PROCESS

ISS ESG has conducted this independent External Review by following the ICMA Guidelines for Green, Social, Sustainability and Sustainability-Linked Bonds External Reviews, and its methodology, considering, when relevant, the ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information.

The engagement with issuer Name took place in July and August 2022.

ISS ESG's BUSINESS PRACTICES

ISS has conducted this verification in strict compliance with the ISS Code of Ethics, which lays out detailed requirements in integrity, transparency, professional competence and due care, professional behaviour and objectivity for the ISS business and team members. It is designed to ensure that the verification is conducted independently and without any conflicts of interest with other parts of the ISS Group.

About ISS ESG External Review

ISS ESG is one of the world's leading rating agencies in the field of sustainable investment. The agency analyses companies and countries regarding their environmental and social performance.

As part of our Sustainable (Green & Social) Bond Services, we provide support for companies and institutions issuing sustainable bonds, advise them on the selection of categories of projects to be financed and help them to define ambitious criteria.

We assess alignment with external principles (e.g. the ICMA Green Bond Principles, Social Bond Principles and Sustainable Bond Guidelines), analyse the sustainability quality of the assets and review the sustainability performance of the issuer themselves. Following these three steps, we draw up an independent External Review so that investors are as well informed as possible about the quality of the bond/loan from a sustainability perspective.

Learn more: <https://www.isscorporatesolutions.com/solutions/esg-solutions/green-bond-services/>

For information on External Review services, contact: SPOsales@isscorporatesolutions.com

For more information on this specific Sustainability Bond Allocation Report External Review, please contact: SPOOperations@iss-esg.com

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