

# **ESG INCORPORATION**

## THE DETAILS

November 2020



# ESG INCORPORATION STRATEGY

## We view ESG criteria to be measures of risk

We believe that forward-thinking, sustainably-oriented companies that excel along a broad spectrum of ESG considerations should be rewarded with a lower risk premium than peers with a more short-term, less responsible orientation.

## We **integrate** ESG considerations into every security valuation

ESG incorporation strategy	We apply to all actively managed listed equities under our coverage	We apply to portfolio construction for ESG strategies
Integration	✓	✓
Positive screening	×	✓
Negative screening	×	×
Thematic	×	×

## Our relevant policies

- [Responsible Investment Policy](#)
- Proxy Voting Policy
- ESG Screening Policy
- Engagement Policy



# THE PROCESS

## **Our ESG data partner is Sustainalytics, a dedicated ESG research provider**

- We source raw ESG indicators and company-level ESG Risk Ratings from Sustainalytics
- Sustainalytics bases its assessments on public company disclosures
- Data points are comparable across our global universe of listed real estate securities

## **We rank our investment universe from lowest to highest ESG risk, as determined by Sustainalytics' published ESG Risk Ratings**

- The ESG Risk Rating is a numerical value that captures the material ESG risk factors for a given industry, where a lower rating indicates less unmanaged ESG risk

## **We apply a cost of equity adjustment to every security valuation in our investment universe**

- We use a linear function to determine an ESG cost of equity multiplier ranging from 1.0 to 1.1
- The security with the lowest ESG Risk Rating in our investment universe sees a negligible adjustment to its cost of equity, while the stock with the highest ESG Risk Rating sees its cost of equity adjusted by a factor of 1.1
- Since we view ESG as a measure of risk, no securities receive a positive cost of equity adjustment as a result of ESG integration



# IN PRACTICE

Based on a data pull from Sustainalytics, the ESG Risk Ratings for our investment universe of global real estate securities range from 7 to 35

- All securities are rank-ordered and a linear function is applied to determine the ESG cost of equity multiplier for each
- The stock with the ESG Risk Rating of 7 has a multiplier of 1.0, while the one rated with 35 has a multiplier of 1.1
- All other securities have multipliers landing between those two extremes

## FOR EXAMPLE

### Residential company #1

Cost of equity before ESG integration = 6.07%

ESG risk rating = 25.0

ESG cost of equity multiplier = 1.0784

ESG-adjusted cost of equity = **6.54%**

### Residential company #2

Cost of equity before ESG integration = 6.20%

ESG risk rating = 16.8

ESG cost of equity multiplier = 1.0429

ESG-adjusted cost of equity = **6.47%**

**Even though  
Company #2  
started with a  
higher cost of  
equity relative to  
its peer, its better  
management of  
material ESG risks  
warrants a smaller  
risk premium**

