

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**

