

# **Incorporating ESG into Investment Strategy**

Drive performance, attract investors, and  
increase NOI



# Our speakers



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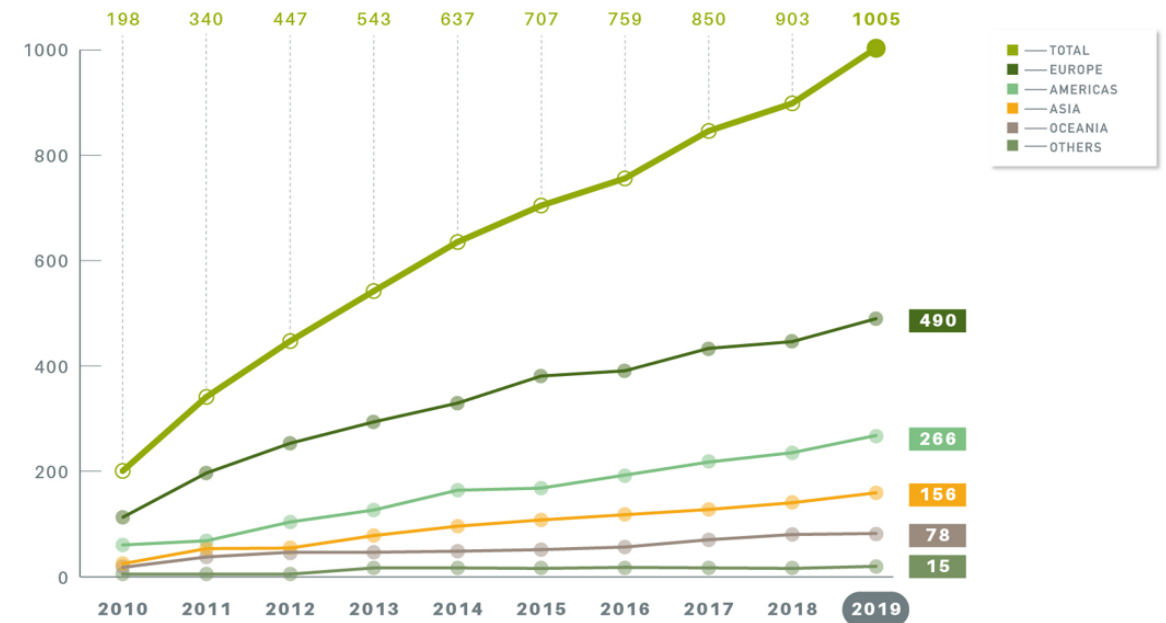
# Why ESG?

## Drivers behind participation

- Respond to existing investor requests for increased disclosure
- Attract new investors
- Improve company performance & NOI
- Identify and mitigate ESG risks
- Stay ahead of industry trends

### Global Participation :: ESG Benchmarking

private equity | listed REITs | JVs | sovereign wealth funds | direct | government



# How to Engage with ESG Disclosure Mechanisms

## Elevating Metrics

- Disclosure frameworks: GRESB, SASB, UNPRI, CDP, etc.
  - Overlap & synergy
- Industry trends towards environmental disclosure/carbon footprinting
  - TCFD expected to become wider-spread

## Communication frameworks

- Company published ESG reports, GRI, etc.





# How to Engage with ESG Disclosure Mechanisms

What do investors actually see?

- GRESB Investor Members are able to review Public Disclosure Data for all entities



# How to Engage with ESG

## Participation Driving Strategy

- Reporting frameworks create engagement within the company
  - Requires participation across departments/regions
  - Breaks down communication barriers
  - Creates a platform for investor/company collaboration
- GRESB/other disclosures inform long-term strategy
  - Highlights areas for improvement
  - Prompts questions of what else can be done
  - Drives participation in other ESG disclosure/reporting mechanisms

# Most Asked Questions

Institutional Investors + ESG Data + Real Estate | Infrastructure Portfolios

1. Why do Institutional Investors focus on ESG issues?
2. Which issues matter most?
3. How do the capital markets use ESG data?



# INSTITUTIONAL INVESTORS

## ESG Objectives

# Objectives

## Primary

Achieve superior risk adjusted returns  
Implement industry best practice  
Invest in best-in-class management teams

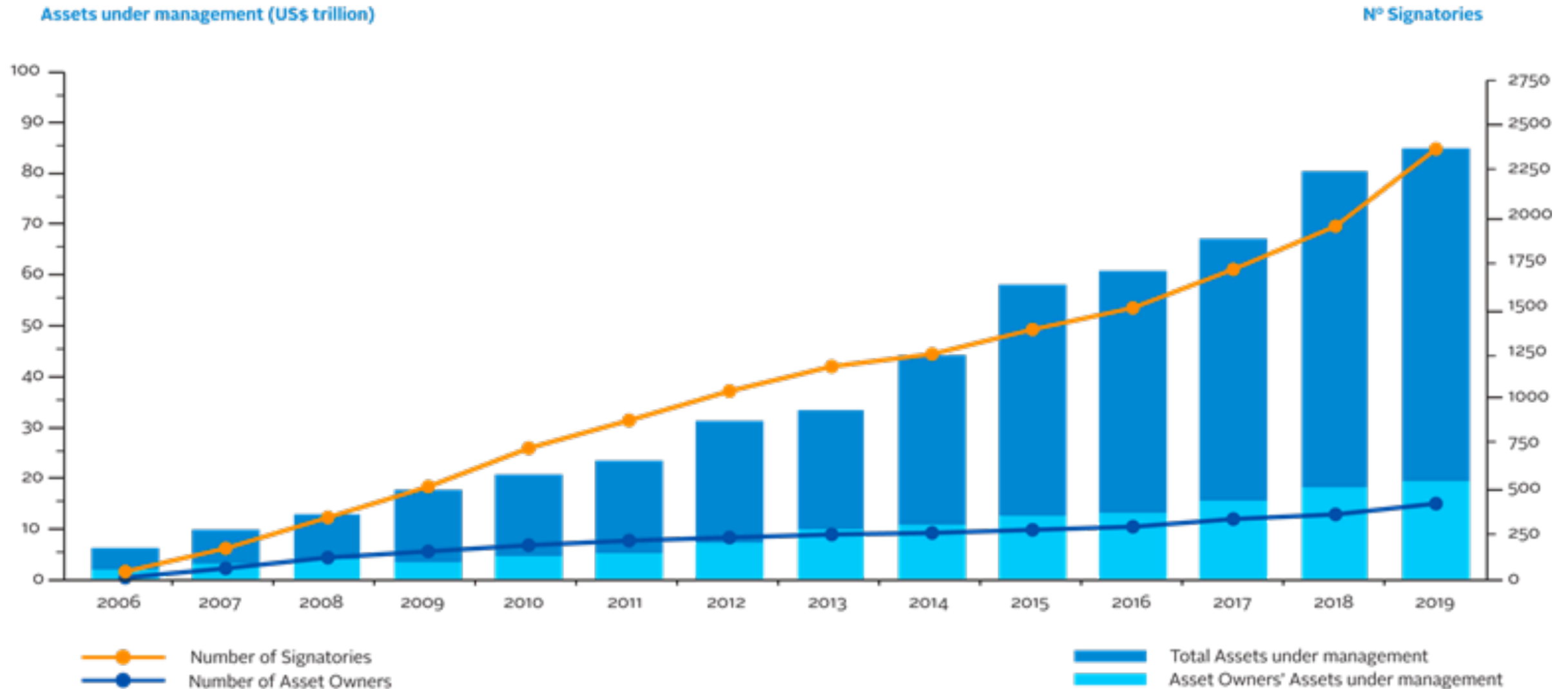
## Secondary

Mitigate reputational risks  
Long-term, intergenerational view



# UNPRI Signatory Growth

Accelerating since 2014



# ESG Issues

## UN Principles for Responsible Investment

### Environmental

Climate change

causes and effects

Water access / scarcity

Sustainable land use

Fracking

Methane release

Plastics

### Social

Human rights

Labor standards

Employee relations

Conflict zones

### Governance

Tax avoidance

Executive pay

Corruption

Director nominations

Cyber security


# Rating Agencies

S&P Global

## ESG: Going Beyond the Balance Sheet













What is ESG, what factors does it reflect, and is it a long-term trend or simply a flash in the pan?

Read, watch and explore need-to-know insights about ESG [here](#).



S&P Global

### Profile Factors

Environmental		Social	Governance		
 Greenhouse Gas Emissions	 Waste & Pollution	 Workforce & Diversity	 Safety Management	 Structure & Oversight	 Code & Values
 Water Use	 Land Use	 Customer Engagement	 Communities	 Transparency & Reporting	 Cyber Risk & Systems



# World Economic Forum's 2017 Risk Landscape

Top 5 Global Risks in Terms of Likelihood

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1st	Breakdown of critical information infrastructure	Asset price collapse	Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration	Extreme weather events
2nd	Chronic disease in developed countries	Middle East instability	Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events	Large-scale involuntary migration
3rd	Oil price shock	Failed and failing states	Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation	Major natural disasters
4th	China economic hard landing	Oil and gas price spike	Global governance gaps	Fiscal crises	Biodiversity loss	Cyber attacks	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences	Large-scale terrorist attacks
5th	Asset price collapse	Chronic disease, developed world	Retrenchment from globalization (emerging)	Global governance gaps	Climate change	Water supply crises	Mismanagement of population ageing	Cyber attacks	High structural unemployment or underemployment	Major natural catastrophes	Massive incident of data fraud/theft

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

# World Economic Forum's 2019 Risk Landscape

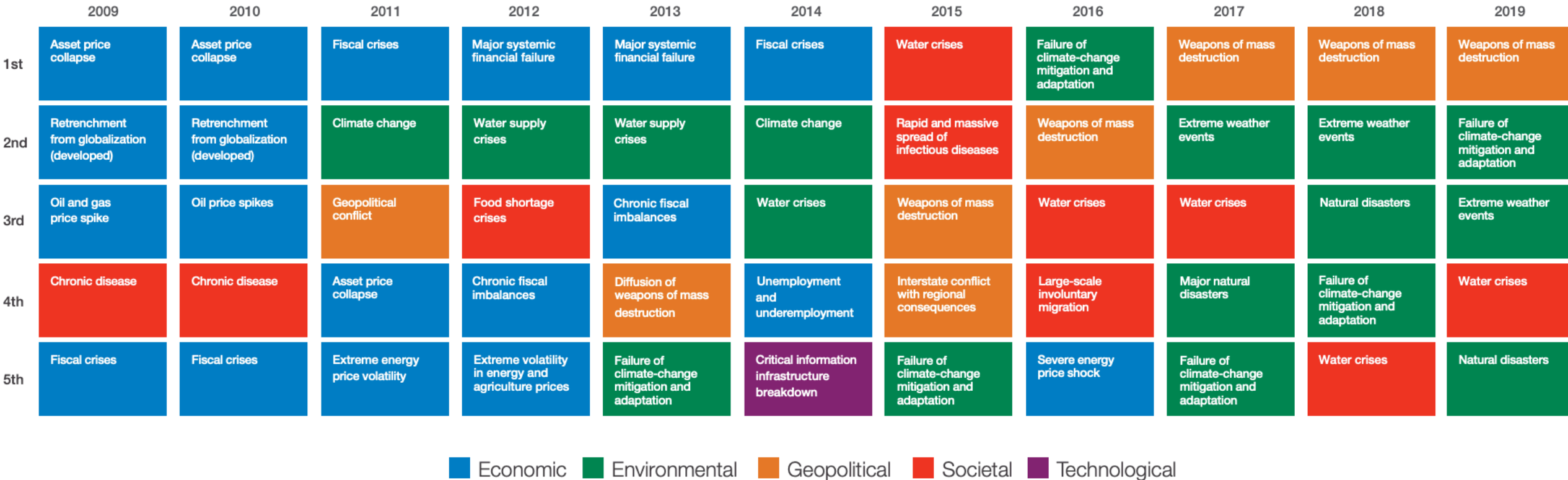
Top 5 Global Risks in Terms of Likelihood

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
1st	Asset price collapse	Asset price collapse	Storms and cyclones	Severe income disparity	Severe income disparity	Income disparity	Interstate conflict with regional consequences	Large-scale involuntary migration	Extreme weather events	Extreme weather events	Extreme weather events
2nd	Slowing Chinese economy (<6%)	Slowing Chinese economy (<6%)	Flooding	Chronic fiscal imbalances	Chronic fiscal imbalances	Extreme weather events	Extreme weather events	Extreme weather events	Large-scale involuntary migration	Natural disasters	Failure of climate-change mitigation and adaptation
3rd	Chronic disease	Chronic disease	Corruption	Rising greenhouse gas emissions	Rising greenhouse gas emissions	Unemployment and underemployment	Failure of national governance	Failure of climate-change mitigation and adaptation	Major natural disasters	Cyber-attacks	Natural disasters
4th	Global governance gaps	Fiscal crises	Biodiversity loss	Cyber-attacks	Water supply crises	Climate change	State collapse or crisis	Interstate conflict with regional consequences	Large-scale terrorist attacks	Data fraud or theft	Data fraud or theft
5th	Retrenchment from globalization	Global governance gaps	Climate change	Water supply crises	Mismanagement of population	Cyber-attacks	High structural unemployment or underemployment	Major natural catastrophes	Massive incident of data fraud/theft	Failure of climate-change mitigation and adaptation	Cyber-attacks

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# World Economic Forum's 2019 Risk Landscape

Top 5 Global Risks in Terms of Impact



## POLICY BRIEFING

### EU REGULATION ON SUSTAINABILITY-RELATED DISCLOSURES IN THE FINANCIAL SERVICES SECTOR

#### AT A GLANCE

Organisation	Requirements
<b>Financial Institutions</b>	<p><b>At entity level, financial institutions must disclose:</b></p> <ul style="list-style-type: none"> <li>■ Details of their policies on the integration of sustainability risks into investment decision-making and sustainability in remuneration policies.</li> <li>■ Whether and how they consider the principal adverse impacts of their investments on sustainability (comply or explain for smaller firms).</li> </ul> <p><b>For all products, financial institutions must disclose:</b></p> <ul style="list-style-type: none"> <li>■ How sustainability risks are integrated in investment decisions, their likely impact on the financial product (comply or explain).</li> <li>■ Whether and how a financial product considers principal adverse impacts on sustainability factors (comply or explain).</li> </ul> <p><b>For funds targeting sustainability objectives, financial institutions must disclose:</b></p> <ul style="list-style-type: none"> <li>■ A description of the sustainability objectives of the product, details of how they are met, and the overall sustainability impact of the product.</li> </ul>
<b>Financial advisors</b>	<p><b>At entity level, financial advisors must disclose:</b></p> <ul style="list-style-type: none"> <li>■ Details of their policies on the integration of sustainability risks into investment and insurance advice, and how sustainability is integrated into remuneration policies.</li> <li>■ Whether and how adverse sustainability impacts are considered.</li> </ul>

FINANCING A SUSTAINABLE  
EUROPEAN ECONOMY



**HANDBOOK OF  
CLIMATE TRANSITION BENCHMARKS, PARIS-ALIGNED  
BENCHMARK AND BENCHMARKS' ESG DISCLOSURES**

**December 20<sup>th</sup> 2019**

# EU Disclosure Regulations – ESG / Sustainability

EU regulators emphasizing:

1. The importance of ESG considerations in business strategies
2. Encouraging firms to be proactive in relation to ESG considerations

EU Disclosure Regulation requires:

- Integration of sustainability risks in investment decision-making / advisory processes
- Transparency regarding financial products which target sustainable investments, including reduction in carbon emissions
- Specific financial product disclosure requirements
  - pre-contract
  - website disclosures
  - periodic reports [quarterly / annual]



1. Climate change innovators:  
spotting the sleeping giants

2. New terms for capital:  
ready or not, here comes ESG

3. Re-valuing real estate:  
investing in the eye of hurricane

4. The human capital paradox:  
Juggling layoffs and shortages

5. Keeping score on  
stakeholder capitalism: looking  
for accountability in all new  
places





# INSTITUTIONAL INVESTORS

ESG Issues :: Real Estate

Phase I

2009-2014



ISO Approach



Tailored Aspects



# Interactive ESG Data platform



# Applications

Opportunities for portfolio de-risking

## Capital Markets | Institutional Investors

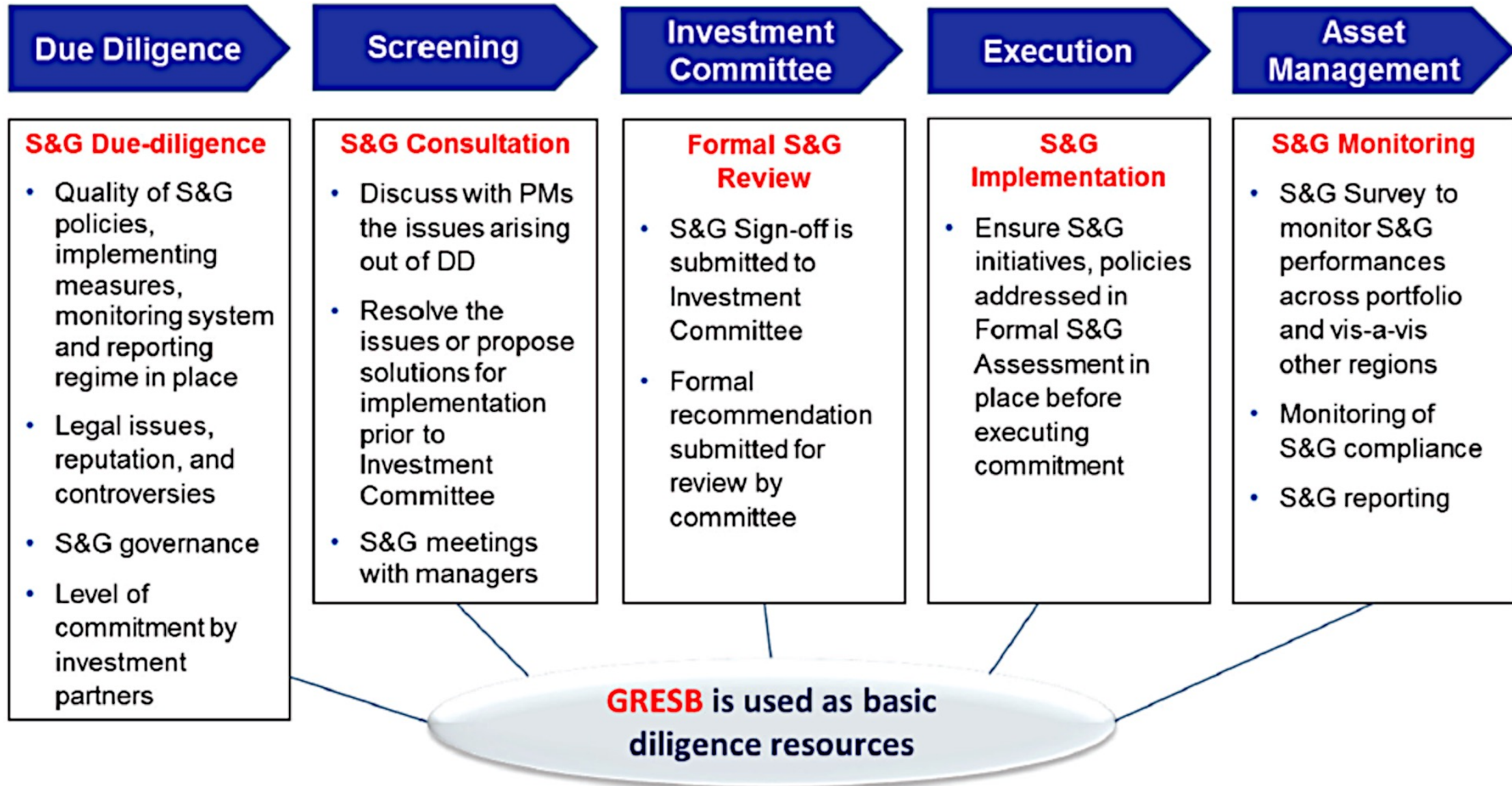
- Positive screening for capital allocation and manager selection
- Transparency mechanism for pursuing enhanced risk-adjusted returns
- Additional measure of performance
- Ongoing engagement tool with investment managers
- Carbon footprint reporting

## Industry Sectors | Participants

- Understand ESG related portfolio risks and opportunities
- Identify industry best practices in ESG performance
- Perform gap analysis / introspection
- Develop tailored action plans for improvement
- Metrics for investor communications

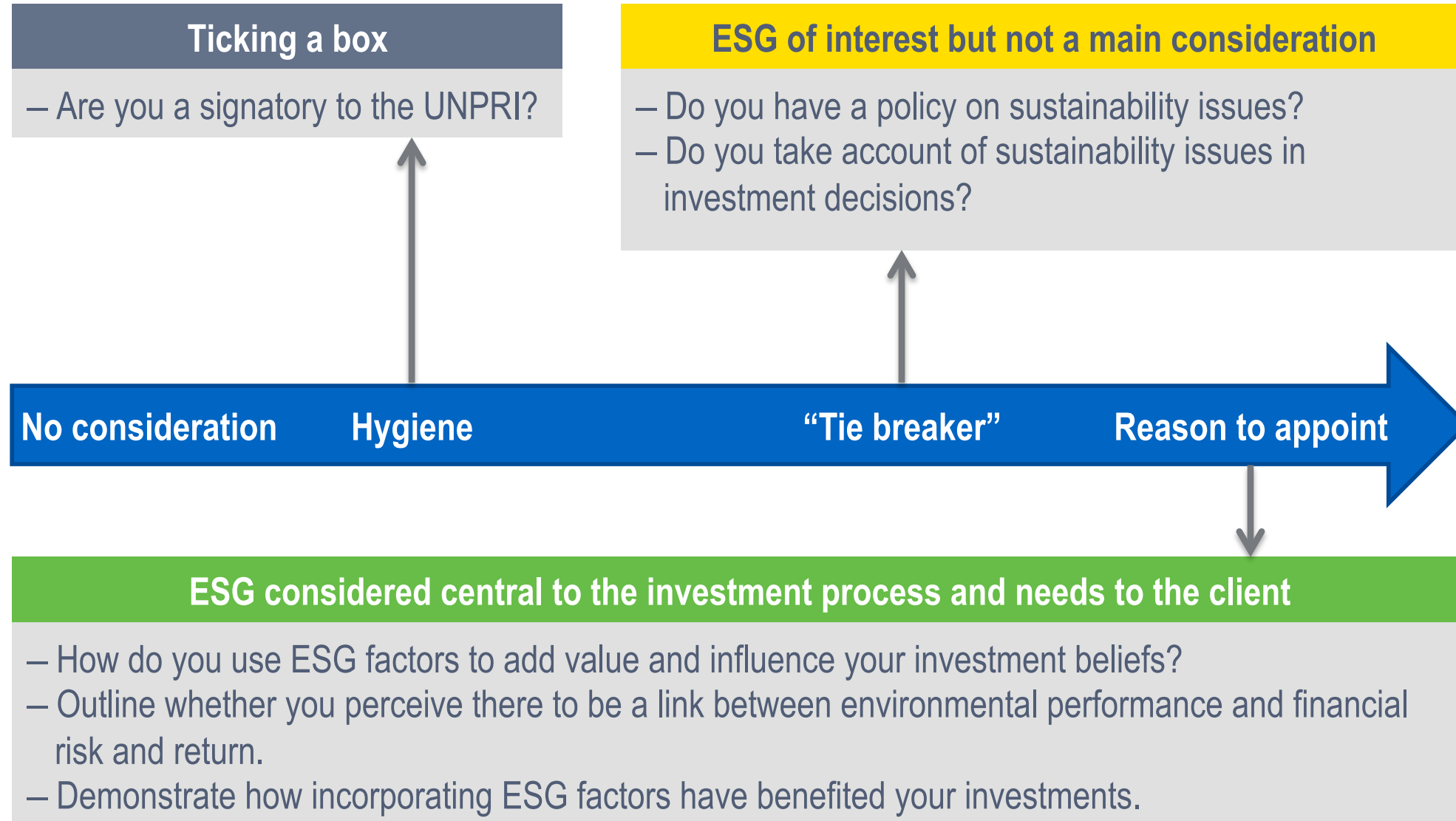
# ESG Integration: APG Asset Management

Private real estate investment decision and engagement process



# Engagement

Private equity fund underwriting



# Due Diligence

pre-investment phase





# INSTITUTIONAL INVESTORS

## Use of ESG Data

# Common ESG Investment Strategies

## 1. Negative/exclusionary screening

- Eliminate companies in specific industries / countries

## 2. Norms-based screening

- Eliminate companies that violate a set of norms [eg [UN Compact 10 Principles](#), etc]

## 3. Positive/best-in-class screening

- Selecting companies with strong ESG performance based on metrics

## 4. Sustainability-themed allocations

- Renewable energy, clean water, carbon reduction

## 5. ESG Integration

- Includes ESG factors in fundamental company deep-dive analysis efforts

## 6. Active ownership / engagement

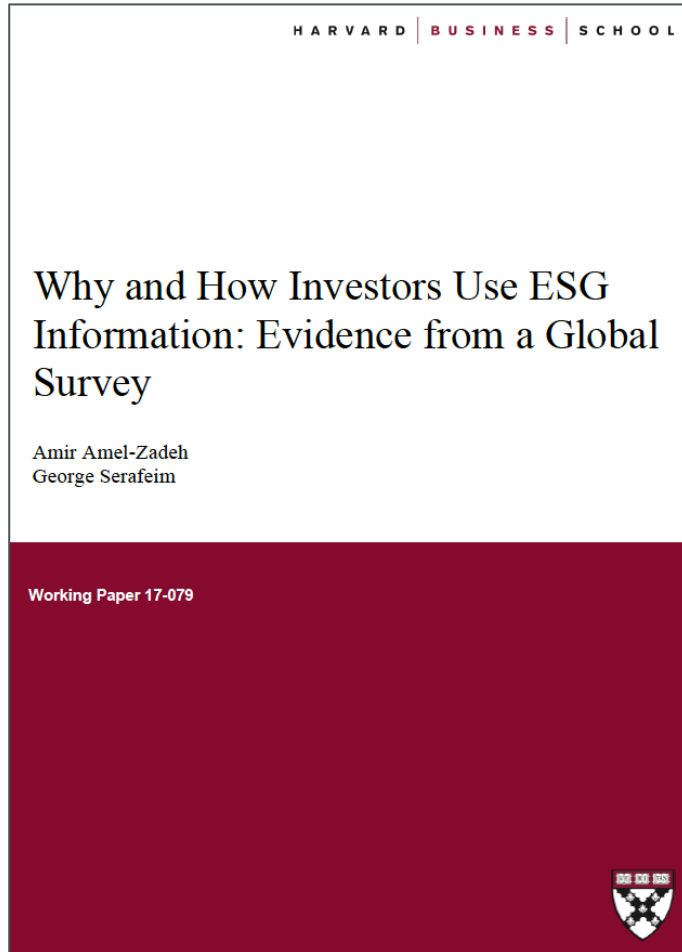
- aka 'a seat at the table'

## 7. Impact Investing

- Actively seeking investments that make positive impact(s) at competitive market returns

# HBS Survey

400+ portfolio managers [2017]



URL: [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2925310](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2925310)

**Table 2:** ESG information in investment decisions

N = 419

**Yes, because...**

**82.1%**

- |   |  |       |
|---|--|-------|
| 1 | ... ESG information is material to investment performance                    | 63.1% |
| 2 | ... of growing client/stakeholder demand                                     | 33.1% |
| 3 | ... we believe such policy to be effective in bringing about change at firms | 32.6% |
| 4 | ... it is part of our investment product strategy                            | 32.6% |
| 5 | ... we see it as an ethical responsibility                                   | 32.6% |
| 6 | ... we anticipate it to become material in the near future                   | 31.7% |
| 7 | ... of formal client mandates  | 25.0% |

**No, because...**

**17.9%**

- |   |  |       |
|---|--|-------|
| 1 | ... there is no stakeholder demand for such policy                         | 26.7% |
| 2 | ... we lack access to reliable nonfinancial data                           | 21.3% |
| 3 | ... ESG information is not material to investment performance              | 13.3% |
| 4 | ... we believe such policy to be ineffective in inducing change at firms   | 12.0% |
| 5 | ... it would violate our fiduciary duty to our stakeholders                | 12.0% |
| 6 | ... such information is not material to a diversified investment portfolio | 10.7% |
| 7 | ... including such information is detrimental to investment performance    | 4.0%  |



# ESG Data Uses

GRESB scores | aspects | KPIs

## 1. Management Engagement

active strategies



## 2. Full ESG Integration

individual stock valuation

fundamental analysis



## 3. Positive Screening

best-in-class



## 4. Thematic Strategies

issue-by-issue ESG analysis



## 5. Portfolio Tilt

indices

**S&P Dow Jones  
Indices**

A Division of **S&P Global**

# Investment Spectrum



# Investment Spectrum

## The New Paradigm

Traditional	Responsible	Sustainable		Impact		Philanthropy
Limited or no regard for environmental, social or governance (ESG) risk management practices	Delivering competitive returns					
	Mitigating ESG risks					
	Pursuing ESG opportunities					
	Focusing on (measurable) high-impact solutions					
	Mitigate risky ESG practices in order to <i>protect value</i>	Adopt progressive ESG practices that may <i>enhance value</i>	Address societal challenges that generate <i>competitive financial returns</i> for investors	Address societal challenges where returns are as yet unproven	Address societal challenges that require a below-market financial return for investors	Address societal challenges that cannot generate a financial return for investors

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Questions?

# Thank you!



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