

Green News & Views

Real Assets – ESG initiatives

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ESG factors play an important role in initial investment decisions, as well as the on-going monitoring of holdings and fund managers after investment.

Investors should identify and address material ESG risks and opportunities, both prior to investment and during the ownership period not only when investing directly, but also indirectly.

The *(due) diligent* approach to indirect real estate investment

ESG has long been important to businesses that prioritize sustainability and to investors looking for sustainable and impact investment opportunities; however ESG is no longer just a nice to have addition pursued by a minority, it is now mainstream and expected of all institutional investors and their clients.

Due diligence is an important component of any investment process as it helps investors understand the nature of a deal, identify the risks involved and ability to mitigate, and whether the deal fits with their portfolio strategy. In the context of sustainable and impact investing, due diligence is now more important than ever as investors are increasingly trying to assess the overall strength and impact of their investments, today and into the future.

How does this work in the context of indirect real estate investment?

Indirect private real estate investing usually involves purchasing units in a fund, which then invests into real estate on behalf of many investors. The purpose of performing due diligence is to make sure investors into the underlying fund are getting what they are paying for and to understand any risks the investment may be (or may become) exposed to. Through performing due diligence, investors can also assess the potential for improvements, identify legacy issues and analyze the impact of ESG (and other) trends across the underlying assets, ultimately affecting the risk/return profile and likely future performance of an investment.

What we believe

Our responsible investment strategy is embedded throughout the ownership cycle of a Multi-Manager real estate investment because we believe that a significant positive impact is possible indirectly, on both the environment and in the returns generated for our clients. We fundamentally believe that ESG will materially impact future results, combined with an overarching fiduciary duty both to manage risk for our clients but also to act responsibly as investors.

strategy, how it reports its ESG strategy to its investors, what relevant laws and regulations impact the fund, and any sustainability initiatives the fund is already participating in.

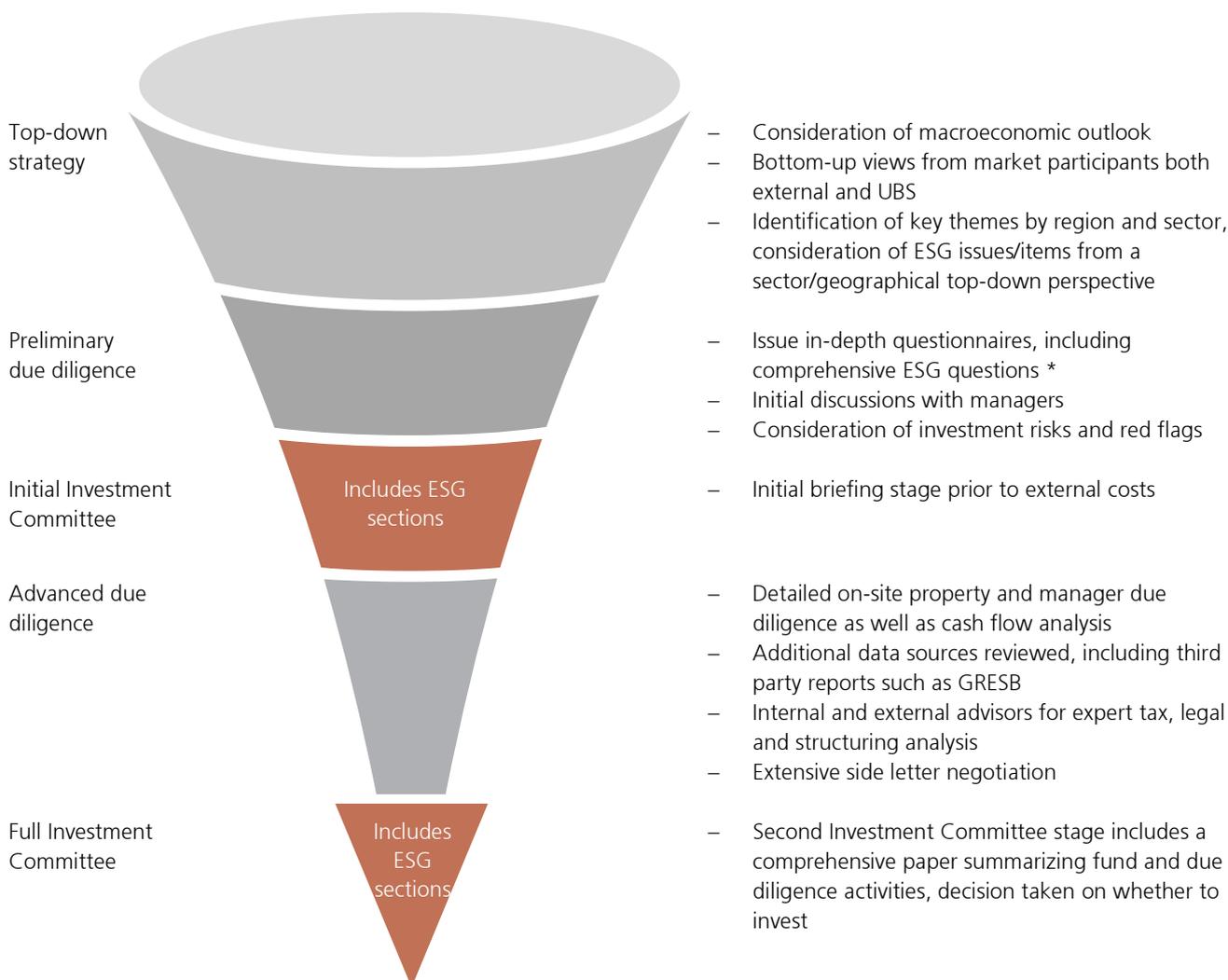
We also review the ESG scores achieved by the target fund, at the property, fund and company levels (e.g. LEED certifications, GRESB scores, UN PRI assessment, other environmental accreditations). We believe such scores may indicate risks and opportunities that could impact current and future investment returns and liquidity.

How we do it

Information on target funds' ESG policies and efforts are collected as part of the due diligence process during our underwriting. In addition to reviewing a fund's ESG policies, we consider how it incorporates these policies into the fund

This information is incorporated into the investment decision-making process, which includes other commercial and financial analysis too. The final investment decision is taken following a review of all of this information. We've illustrated below how ESG is embedded in our standardized due diligence process that is followed globally.

Due diligence process – ESG embedded throughout¹



What are the benefits?

ESG forms part of our due diligence process because we recognize the value of proactive and positive ESG policies. The benefits include:



Reduced risk of regulatory non-compliance

For example, new EU regulations will require fund managers and non-EU fund managers marketing funds in the EU to make new disclosures related to sustainability. Regulatory risk of obsolescence (for example being unable to sell or lease a building if it rates poorly on an environmental basis) is also growing.



Competitive positioning

Sustainable assets are gaining more attention among investors who are pursuing strategies that consider sustainability factors. This in turn is starting to be reflected in pricing of real estate in certain markets globally. Furthermore, there is huge value at risk (and price discounts) in assets that are not managed or considered sustainable, which may be a result of their physical location (for example at risk of sea-level rises) or the building quality (and therefore energy efficiency).



Reduced expenses and improved returns

Sustainable real estate not only benefits the environment through reduced use of natural resources, it can preserve/increase asset value (lower void lengths, lower obsolescence, reduced depreciation, reduced operating costs, better tenant covenants, higher tenant retention). 60% of investors surveyed by PRI agreed that ESG had an impact on prices paid/offered on assets.

For investors with ESG targets, due diligence can assess how an asset will likely impact those goals. For example, if one of those targets is to reduce energy consumption or carbon emissions across their portfolio, then acquiring an energy inefficient building (or a fund containing energy inefficient buildings) will impact the ability to reach that target. Therefore, an ESG driven investment strategy can be a crucial step to help investors enhance the environmental and financial performance of their assets, as well as the future value of their portfolios.

Accreditations and global goals



Signatory of:



¹ Source: UBS Asset Management, Real Estate & Private Markets (REPM); February 2021. * The UBS ODDQ includes 22 ESG focused questions out of 51 total questions. The UBS-proprietary DDQ includes 33 fund-level questions and 9 fund-manager-level questions focused on ESG.

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