The REIM impact fund OPPORTUNITY

Becoming a signatory to the IFC's Impact Principles can help formalize a sustainable real estate investment management program, but more work lies ahead.

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The business of impact investing is booming. The Global Impact Investing Network estimates that the impact investment market — encompassing investments devoted to achieving positive social, economic and environmental impact alongside financial return — was worth $715 billion globally as of April 2020.[1] That represents 42.4% growth from 2019.[2]

Until recently, the commercial real estate industry was sitting on the sidelines of this market. Yes, many real estate investment managers have long prioritized environmental, social and governance (ESG) factors in investment and operational decisions. Very few, however, are signatories to the Operating Principles for Impact Management (Impact Principles) established by the International Finance Corporation (IFC). The IFC's Impact Principles provide a framework to help asset managers and investors to ensure that impact considerations are integrated throughout the investment lifecycle.

In April 2021, BentallGreenOak (BGO) proudly announced that it became a signatory to the Impact Principles through its BGO Diversified US Property Fund. It was a natural next step as the fund has a strong history of supporting economic and social progress. Based on available information, BGO Diversified is among the first open-end, diversified, core equity real estate funds to attain this designation.

The impact investing market offers a tremendous opportunity for real estate investment managers who share the goal of making a positive impact in the world while achieving financial return. Following are key reasons why it's time for more managers to consider becoming signatories to the Impact Principles, and practical advice for getting started.

The business case for impact funds

Numerous studies prove that investing in a responsible manner produces tangible returns. Recent IFC analysis found that, among the 656 companies in its portfolio, those with good environmental and social performance outperformed clients with worse environmental and social performance by 210 basis points (bps) on

[1] Global Impact Investing Network, 2020 Annual Impact Investor Survey.
[2] Leslie P. Norton, Impact-Investing Market Expands to $715 Billion, Survey Says, *Barron's*, June 11, 2020.
[3] International Finance Corporation, The Business Case for Sustainability.

return on equity and by 110 bps on return on assets.[3]

As the link between financial and ESG performance becomes more widely acknowledged, an increasing number of pension funds and other institutional investors are allocating capital to achieve specific social and environmental goals. Select groups of international investors and large domestic public funds highly value the designation and are going down the path of requiring that a portion of their investments be impact funds.

As this trend gains traction, asset managers that become impact investing signatories will have a distinct advantage in raising capital from investors who are exclusively looking at this space. Additionally, signing onto the Impact Principles reinforces accountability and pushes investment managers to continue to evolve and improve practices related to achieving ESG goals.

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How to measure impact

Becoming a signatory to the Operating Principles for Impact Management requires adoption of nine principles. The principles provide an overall framework for designing and implementing an impact management system and ensuring that impact considerations are integrated throughout the investment lifecycle. Then it is up to asset managers to determine the specific tools, approaches and impact measurement frameworks that align with their funds and operational practices. The Impact Principles are scalable and relevant to all types of investors and sizes of investment portfolios, asset types, sectors and geographies — and how they are applied will vary by investor.

Many asset managers align the objectives of their impact fund with the United Nations Sustainable Development Goals (SDGs) or other widely accepted goals, and apply other international best practices to create their framework and establish reporting metrics. BGO Diversified, for example, has a framework aligned with the Operating Principles for Impact Management, leverages the principles of the Impact Management Project (IMP) to outline impact measurement, and uses metrics from the Global Impact Investing Network's (GIIN) Impact Reporting and Investment Standards (IRIS). The SDGs were applied to frame the fund's focus areas of resilient communities, sustainable spaces and climate change. Following are examples of how we measure impact across these three areas:

1. ***Resilient communities.*** We strive to build thriving, diverse neighborhoods through our investments. Since 1982, BGO Diversified has created $10.7 billion in wages and 56,329 construction jobs in the US. Additionally, the fund has generated approximately $22 billion in

Evaluating the impact of assets

The BGO Diversified Fund evaluates impact related to sustainable spaces, resilient communities and climate change. In 2021, our asset-level benchmarking revealed that the portfolio's top performing asset from an impact perspective is 200 West Madison, a 45-story, Class A office building in downtown Chicago. The high-rise is both LEED Gold and Fitwel certified, and ranks as 'strong' for its impact on community health and well-being, thanks to the presence of public art, a fitness center, bike lockers and showers, healthy food options, and other features.

Our benchmarking program does more than highlight strengths — it also uncovers opportunities for improvement. For example, at 200 West Madison, our sustainable investing team has identified areas in which asset managers can focus to improve the social impact score, such as considering certification or accreditation for property accessibility and inclusive design.

economic activity (output or sales) and 149,321 total jobs across the US.

2. *Sustainable spaces.* Healthy buildings have been growing in importance for well over a decade, but the pandemic underscored the importance of the built environment for supporting health and well-being. In fact, Fitwel, the organization dedicated to healthy building certification, launched its Viral Response Module in 2020 to set the standard for mitigating viral transmission in buildings. In all buildings in our portfolio, we track wellness features such as healthy food options, access to free drinking water, nature views, and indoor plant or water features, as well as playgrounds, walking trails, communal spaces and other public amenities. A growing number of properties in the BGO Diversified portfolio hold healthy building designations such as Fitwel. Just as important is ensuring that buildings support diverse occupants with prayer spaces, lactation rooms, accessibility features and other inclusive amenities.
3. *Climate change.* Of all areas of impact, environmental impact is the most established measure in the commercial real estate industry. However, the measures of progress are continually evolving. At BGO, we track typical measurements of environmental impact, such as energy conserved and greenhouse gas reduction. We're proud that 96% of the BGO Diversified portfolio is green-building certified. Now, we're also prioritizing climate risk profiling as the effects of climate change become more widespread. Leveraging the proprietary climate resilience tool developed by our Sustainability Innovation Lab, we have conducted asset-level climate risk assessments for 100% of the assets in the portfolio, and 89% have established climate resilience adaptation plans.

Whatever areas your fund decides to focus on, measuring impact can be overwhelming if you don't have the tools in place to track metrics at the asset and portfolio level. In 2019, we developed a social impact assessment tool — the first of its kind in the industry — to collect data and develop individual plans for improvement. That tool has been instrumental in tracking the metrics needed to align with the Impact Principles.

How to get started: Operationalizing impact investing and reporting

The process of becoming a signatory to the Impact Principles can be daunting, even for companies that have well-established ESG investing mandates. Having the right internal infrastructure is critical, with the skilled talent who understand sustainable investment principles as well as the technology and operational requirements for tracking impact data.

At BGO, we have built a robust sustainable investing team and a culture grounded in sustainability. Building off that solid foundation and our global-leading systems, we worked with a consultant to ensure proper alignment to international best practices as we established our impact investing framework.

The biggest challenge was creating a credible framework aligned with our impact priorities, while tailored to the fund mandate. We knew our effort needed to be intentional and that our team would need to be able to measure and report on progress. Our framework is aligned to international best practice, is flexible, and has teeth and can stand up to scrutiny among impact investors.

In addition to establishing a framework, getting the data management tools and processes in place is critical. Many asset managers track environmental data, but standardizing that information across a portfolio requires a different level of operational and technology prowess that is best centralized with a sustainability team. And depending on the goals of your fund, you may find that you must now provide substantive evidence of what had previously been soft commitments, such as community involvement programs or inclusive amenities.

Don't underestimate the level of communication and coordination that is involved in the effort of becoming a signatory. It's important to have a strong leader championing the effort who can gain executive sponsorship and convince product and investment management teams to buy into the sustainable investing initiatives.

Is becoming a signatory the right move for your fund?

At BGO, we realized it made sense to become a signatory because our BGO Diversified investments are already aligned with the Impact Principles. However, once we decided to formalize our impact investing mandate, it was time to transparently commit to a credible path forward.

In the age of greenwashing, having credible data is key, so it can make sense to start small as you learn and understand what is required of signatories. Industry peers can be a valuable source of information and guidance on this front.

When you become a signatory, you are signing up for a journey. This is a long-term commitment that requires a mindset for continual evolution in how you invest. We hope that more peers join us on this path so that we can learn from each other and push each other to continually improve as we implement the Impact Principles in our funds. ◆

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