White Paper

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ESG and REIT Investment Strategies

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At CenterSquare we believe an appropriate consideration of Environmental, Social and Governance (ESG) issues is important to making the right real estate investments. Real estate assets are: one of the primary locations of energy usage (environmental), the cornerstones of our societal infrastructure (social), and capital intensive, with financial outcomes heavily influenced by transparency and alignment (governance). At CenterSquare we have been incorporating ESG considerations into our listed real estate investment process for decades. However, as our clients' focus on these issues has increased, so too has the formalization of our approach. One concern that arises in ESG discussions is the utility of ESG to drive better investments; however, our analysis finds that factoring ESG elements into the investment process correlates with better returns for investors.

The Importance of ESG for Real Estate

Real estate's necessity and capacity to mitigate environmental risks is evidenced in its energy usage. In 2016, real estate consumed more energy than both the transportation and industrial sectors, accounting for almost 40%[1] of total energy usage in the United States. Environmental policies that lead to energy efficiency for real estate directly impact the bottom line, making efficient assets more profitable and sustainable. Additionally, tenants and consumers are increasingly demanding sustainability and are willing to pay premium rents for such assets. From a social perspective, real estate is the cornerstone of society; it is where people gather, live, and work. As such, real estate's impact on its community directly impacts the asset's long-term sustainability and value. Lastly, as a capital intensive industry, appropriate governance of real estate assets and proper alignment of interests are key drivers of risk management and value creation when assessing a company's potential for long-term outperformance.

CenterSquare's ESG Approach to REITs

At CenterSquare we have been incorporating ESG considerations into our listed real estate investment process for over two decades. As the focus on ESG has continued to evolve, we have formalized that process. We begin by generating a ranking framework to assess a company's ESG score along ten equally-weighted factors (each scored 0 to 10) measuring environmental stewardship, social responsibility, and corporate governance to provide an expanded analysis. The sum of these ten scores generates the REIT's overall ESG score.

Environmental factors account for 40% of CenterSquare's overall ESG score. These factors capture the robustness of the company's environmental sustainability policies addressing energy efficiency, conservation, and carbon footprint reduction as well as the execution and disclosure of those policies. For companies developing additional assets, we consider brown-field development and mass transit-oriented development environmentally friendly. We also analyze the company's real estate portfolio for heightened sustainability standards, such as attaining LEED[2] and GRESB[3] certification. Companies receive superior scores for being leaders and advocates within the environmental sustainability space.

Social factors account for 20% of the overall ESG score. These factors capture the company's quality of employee engagement and extent of community involvement. We consider policies regarding ethics, conduct, anti-corruption, and anti-bribery for employees and contractors as well as the company's commitment to community involvement, civic service, and philanthropic efforts.

Governance factors account for the remaining 40% of the overall ESG score. Shareholder alignment and board independence measure the shareholders' influence over the company and the board's ability to carry out its fiduciary responsibility as the steward of shareholder capital. We also measure the extent to which strategic efforts have been clearly identified and implemented to enhance governance of shareholder capital and the quality of governance disclosures.

CenterSquare's bottom-up analysis provides insights into ESG trends across REITs

Factor Weights			40%						20%				40%					
	Overall		Environmental						Social				Governance					
US Sectors	ESG Rating	ESG Score	Rating	Score	Policy	Action	Leadership	Disclosure	Rating	Score	Employee	Community	Rating	Score	Alignment w/ S/H	Board Independ.	Disclosure Quality	Strategy
Apartment	A	82	A	90	97	87	90	86	A	79	83	75	A	76	70	67	88	80
Industrial	B	70	B	69	70	70	69	69	B	69	73	65	B	71	64	78	72	69
Infill Office	A	79	A	89	95	84	87	91	A	86	86	86	B	65	60	58	69	72
Suburban Office	B	63	C	60	64	62	52	62	B	66	67	64	B	65	59	62	77	60
Regional Mall	A	79	A	95	95	95	95	95	B	74	54	93	B	66	63	59	63	80
Shopping Center	B	69	B	73	76	78	77	62	B	63	74	51	B	68	73	64	67	69
Hotel	C	57	C	53	53	53	54	53	B	64	64	64	C	58	59	51	70	51
Healthcare	B	63	B	62	61	62	61	62	C	56	55	58	B	68	67	66	70	70
Alt Housing	B	67	C	59	59	57	58	61	A	75	77	74	B	70	69	69	71	71
Self Storage	C	53	C	57	48	64	60	57	C	56	57	55	D	48	53	48	29	61
Specialty	B	69	A	77	79	78	71	78	A	76	74	77	C	57	56	49	60	64
Triple Net	C	51	D	44	47	47	42	40	B	61	65	56	C	54	49	55	51	63
Other	D	49	D	46	53	50	31	49	C	51	51	51	C	51	47	59	58	40
Total	B	68	B	71	73	71	70	70	B	69	68	69	B	64	62	61	66	68

Note: Scores calculated as market-cap weighted averages, as of 3Q17. Company scores are proprietary and generated by CenterSquare's qualitative analysis of each stock in the investment universe.

Apartment: The sector's emphasis on environmental sustainability (through electricity and water conservation), board alignment and independence, disclosure clarity, and strong community and employee involvement award it a high ESG score.

Industrial: These REITs score well for their leadership in transforming and developing assets with a strong focus on energy efficiency and emission reduction, which has helped the industry receive recognition from GRESB. The sector also focuses on social efforts within the community and demonstrates strong governance standards.

Office: Infill office owners include quality developers whose new buildings often target high LEED certifications. They have clear policies on community involvement and charity along with strong governance structures. For suburban office owners with less new product and smaller assets, the investment in green buildings simply has not been made to the same extent. Nevertheless, these companies are involved in their communities and have governance disclosures largely on par with the infill office names.

Retail: Mall owners demonstrate clear policies and leadership in the ESG space as many companies report to GRESB and develop sustainable assets. Most companies are actively involved in their communities by sponsoring events and making charitable contributions. The shopping center owners have fewer disclosures but generally follow the trends seen for mall owners to a lesser degree.

Hotel: These companies, aside from the largest companies, are typically less focused on ESG efforts with varied disclosures, resulting in relatively low ESG scores.

Healthcare: This industry has varied levels of disclosures, resulting in lower scores on their social and environmental efforts, although there is a recent push for developing and transforming buildings to be more energy efficient. However, their governance is relatively strong, especially for the larger companies.

Alt Housing: These REITs have clear ESG policies and focus on environmental sustainability and community involvement. The ESG focus for single family REITs is slightly unproven given the sector's infancy.

Self Storage: This sector scores poorly as most companies have little to no disclosures regarding their ESG efforts. Only one company reports to GRESB on its environmental efforts, while only one other scores well on its social efforts.

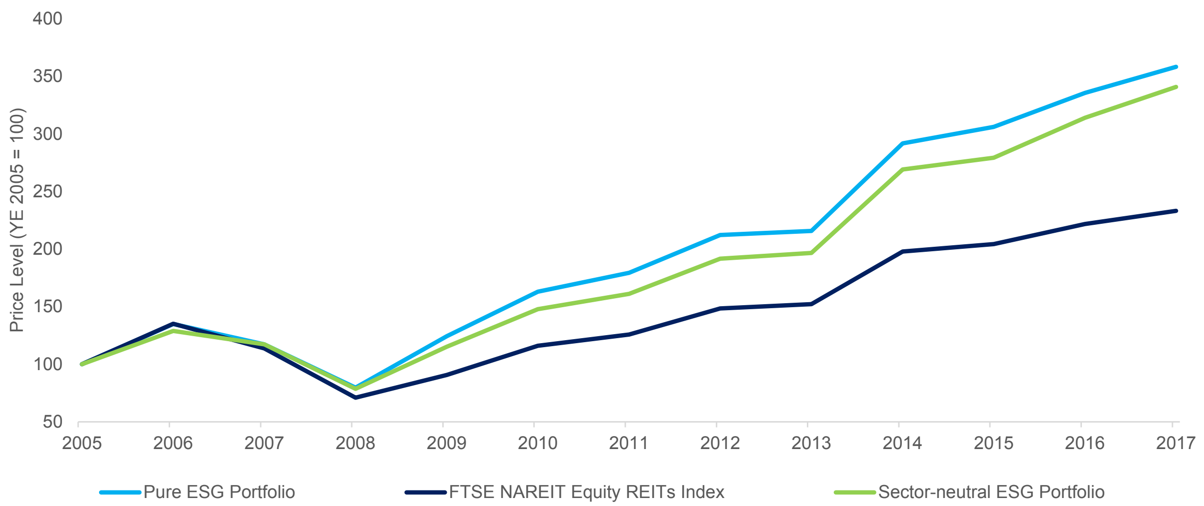
Specialty: Data center companies score well given their strong focus on renewable energy and social efforts regarding employee and community engagement. However, they do rank lower on their governance scores as they have poor disclosures and less independent boards.

Triple Net: These REITs have poor to no disclosures as the nature of the sector allows the asset owners to worry less about efficiency of their assets. Their employee engagement, however, is comparable to REITs overall.

Measuring the Investment Benefits of ESG

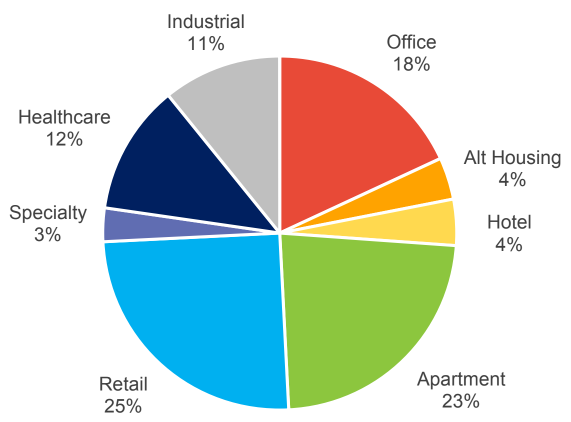
A common concern that arises in ESG discussions is the extent to which it drives better investments. In fact, our analysis suggests that incorporating ESG factors may enhance financial performance in REIT investment strategies. Using CenterSquare's proprietary ESG scoring system, we generated a Pure ESG Portfolio[4] comprised of U.S. real estate securities that fall within the top quartile of ESG scores[5]. For the period from 2005 to 2017, this Pure ESG Portfolio outperformed the REIT Index[6] by 402bps on an annualized basis. Further, by undertaking the same approach on a "sector-neutral" basis, the Sector-neutral ESG Portfolio[7] outperformed the Index by 355bps on an annualized basis over the same period.

Total Return Comparison

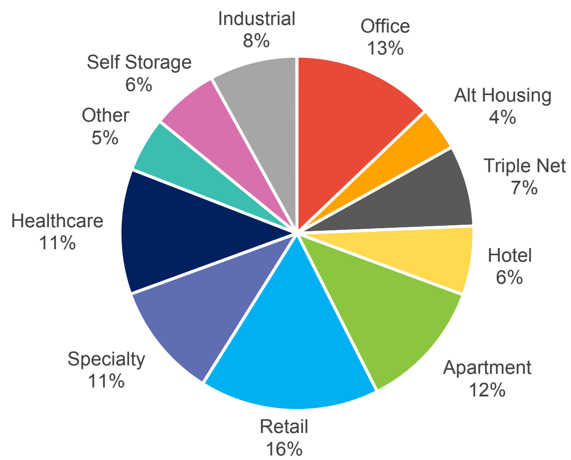


Source: CenterSquare, NAREIT, as of December 31, 2017

Pure ESG Portfolio



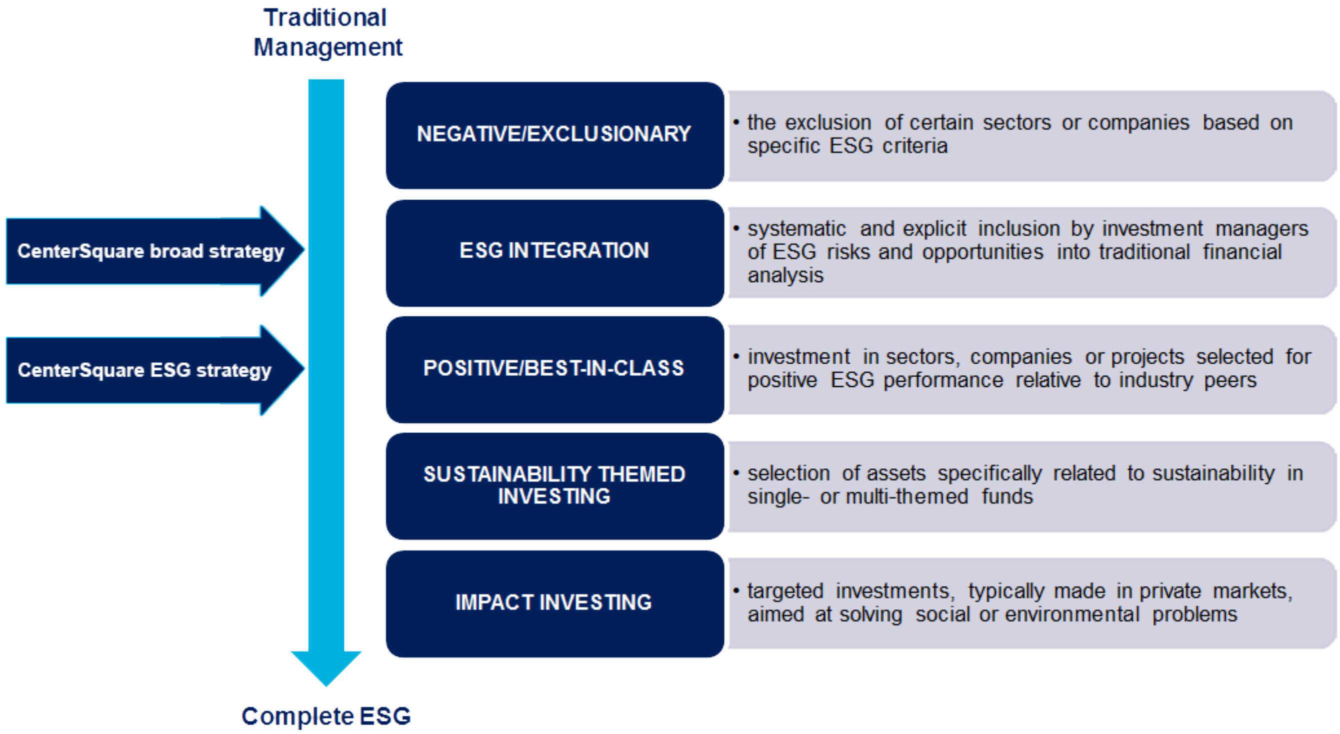
FTSE NAREIT Equity REITs Index & Sector-Neutral ESG Portfolio



Assessing the Position on the ESG Spectrum

The implementation of ESG factors into the investment analysis and portfolio construction processes varies across a wide spectrum of investment management styles. Traditional management, for example, might use ESG factors as a negative screen and exclude certain sectors or companies based on specific ESG criteria. The other end of the spectrum consists of impact investing strategies where managers target investments, typically in private markets, aimed at solving social or environmental problems. CenterSquare's broad REIT strategy most closely falls into the "ESG Integration" category of the spectrum in which we systematically include ESG risks and opportunities into traditional financial analysis. However, some of our more customized strategies that directly incorporate ESG-specific characteristics more closely resemble the "Positive/Best-in-Class" category of the spectrum in which we invest in sectors, companies, or projects selected for positive ESG performance relative to industry peers.

The ESG Spectrum



Conclusion

We believe managing ESG risks is not only crucial for real estate assets, but also generates long-term value. CenterSquare's ESG analysis, while long-standing, has evolved as the demand and focus around ESG products has continued to grow in the last decade. While the concept of "ESG" might have been considered in the past as a deterrent to superior returns, our data shows portfolios of companies with the top CenterSquare ESG scores have significant alpha-generating potential.

[1] *Source: U.S. Energy Information Administration*
[2] *Leadership in Energy and Environmental Design: most widely used green building rating system in the world that provides a framework to create healthy, efficient, and cost-reducing green buildings.*
[3] *Global Real Estate Sustainability Benchmark: collects voluntary information on the sustainability performance of real asset companies on material environmental issues.*
[4] *The Pure ESG Portfolio was calculated by CenterSquare based on market-cap weights, comprised of U.S. real estate securities that fall within the top quartile of ESG scores as of 3Q17. Refer to important hypothetical performance disclosures at the end of this document.*
[5] *As of 3Q17*
[6] *FTSE NAREIT Equity REITs Index, or "FNRE"*
[7] *A sector-neutral ESG portfolio starts with the Pure ESG Portfolio[4] with an additional rule that each sector of the FNRE Index must be represented within the portfolio. Each portfolio sector is then grossed up or down to match the FNRE Index sector weights.*

Disclosures

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Any indication of past performance is not a guide to future performance. The value of investments can fall as well as rise, so investors may get back less than originally invested.

Hypothetical or simulated performance results have certain inherent limitations and actual results may differ. Both hypothetical portfolio simulations presented do not reflect investment management fees. The Pure ESG Portfolio is a portfolio of stocks comprised of U.S. real estate securities that fall within the top quartile of CenterSquare's proprietary ESG scores as of 3Q17. These stocks are then market cap weighted to create a portfolio and performance is tracked historically. The sector-neutral ESG portfolio starts with the Pure ESG Portfolio with an additional rule that each sector of the FTSE NAREIT Equity REITs Index must be represented within the portfolio. Each portfolio sector is then grossed up or down to match the Index sector weights.

Unlike an actual performance record, simulated results do not represent actual trading. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Also, since the trades have not actually been executed, the results may have under or over compensated for the impact of certain market factors. In addition, hypothetical trading does not involve financial risk. No hypothetical trading record can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses or to adhere to a particular trading program in spite of the trading losses are material factors which can adversely affect the actual trading results. There are numerous other factors related to the economy or markets in general or to the implementation of any specific trading program which cannot be fully accounted for in the preparation of hypothetical performance results, all of which can adversely affect trading results. The total returns presented are gross of investment management fees. Fees will reduce investor returns. For example, an account with a compounded annual return of 10% would have increased by 159% over 10 years. Assuming an annual advisory fee of 0.85%, this increase would be 140%.

General Real Estate Risks

Because the investment strategies concentrate their assets in the real estate industry, an investment is closely linked to the performance of the real estate markets. Investing in the equity securities of real estate companies entails certain risks and uncertainties. These companies experience the risks of investing in real estate directly. Real estate is a cyclical business, highly sensitive to general and local economic developments and characterized by intense competition and periodic overbuilding. Real estate income and values may also be greatly affected by demographic trends, such as population shifts or changing tastes and values. Companies in the real estate industry may be adversely affected by environmental conditions. Government actions, such as tax increases, zoning law changes or environmental regulations, may also have a major impact on real estate. Changing interest rates and credit quality requirements will also affect the cash flow of real estate companies and their ability to meet capital needs.

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Definition of Indices

FTSE NAREIT Equity REITs Index

The FTSE NAREIT U.S. Real Estate Index includes all tax-qualified real estate invest¬ment trusts ("REITs") that are listed on the New York Stock Exchange, the American Stock Exchange and the NASDAQ National Market List. The index constituents span the commercial real estate space across the US economy and provides investors with exposure to all investment and property sectors. The performance presented is based on total return calculations which adds the income a stock's dividend pro¬vides to the performance of the index, and is gross of investment management fees. Effective December 20, 2010 the ticker for the FTSE NAREIT U.S. Real Estate Index changed from FNERTR (total return) to FNRETR (total return). The old ticker (FNER¬TR) has been reassigned to newly established FTSE NAREIT All Equity REIT Index which is similar to the existing benchmark in all regards except that timber REITS will comprise approximately 7% of the new index and 0% in the FTSE NAREIT Equity Real Estate Index.

This benchmark is a broad-based index which is used for illustrative purposes only and has been selected as it is well known and easily recognizable by investors. However, the investment activities and performance of an actual portfolio may be considerably more volatile than and have material differences from the performance of the referenced index. Unlike this benchmark, the portfolios portrayed herein are actively managed. Furthermore, the portfolios invest in substantially fewer securities than the number of securities comprising the benchmark. There is no guarantee that any of the securities invested in by the portfolios comprise this benchmark. Also, performance results for benchmarks may not reflect payment of investment management/incentive fees and other expenses. Because of these differences, benchmarks should not be relied upon as an accurate measure of comparison.

About the Authors

Scott Crowe, *Chief Investment Strategist*

Mr. Scott Crowe is the Chief Investment Strategist at CenterSquare Investment Management and joined the firm in 2015. Scott is a member of CenterSquare's listed real estate, listed infrastructure and private real estate investment committees. In his capacity as Chief Investment Strategist, Scott works with each team's portfolio managers and investment professionals in the leadership of the investment process, with a particular focus on thought leadership by synthesizing our real asset views across the business. Scott is the portfolio manager of the Global Concentrated real estate securities strategy. Scott also works directly with CenterSquare's clients, providing education and guidance on the market and helping them execute their investment goals. Prior to joining CenterSquare, Scott was CIO of Liquid Alternatives at Resource Real Estate where he built and led a global investment and distribution platform. Prior thereto, Scott was the lead Global Portfolio Manager for Cohen & Steers, where he was responsible for $10B in assets under management and led the investment and research team of over 20 portfolio managers and analysts. Prior to this, Mr. Crowe held the position of Head of Global Real Estate for UBS Equities Research, where he built and managed the U.S. REIT division while leading a global team of more than 40 analysts. Scott began his career at Paladin Property Securities and holds an Honors Finance Degree from the University of Technology Sydney and a Bachelor of Commerce from the University of NSW / National University of Singapore.

Eric Rothman, CFA, *Portfolio Manager*

Mr. Rothman serves as Portfolio Manager for CenterSquare Investment Management's real estate securities group. He joined the firm in 2006, and is responsible for market research, sector allocations, research, and financial modeling across the real estate securities universe. He has over 20 years of REIT and real estate investment experience. Prior to joining CenterSquare, he spent more than six years as a sell-side REIT analyst at Wachovia Securities and three years as an analyst at AEW Capital Management, LP. Mr. Rothman graduated cum laude from Boston University with a B.A. in Economics, International Relations and French.

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Ms. Pattarkine is an Investment Strategy Analyst for CenterSquare Investment Management. She joined the team in 2017 and focuses primarily on top down analysis, research and product development, and is an active member of the public side research effort. Prior to joining CenterSquare, Ms. Pattarkine spent three years in corporate finance and strategic planning at ExxonMobil in Houston. Ms. Pattarkine graduated from The Pennsylvania State University with Interdisciplinary Honors and High Distinction and holds a BS in Finance with a minor in International Business, BS in Accounting, and Master of Accountancy.

About CenterSquare

Founded in 1987, CenterSquare Investment Management is an independent, management-owned real asset manager focused on listed and private equity real estate and listed infrastructure investments. As an investor and manager, our success is firmly rooted in aligning our firm's interests with those of our clients, partners and employees, as well as our commitment to alpha-generating research.

CenterSquare Investment Management is headquartered in suburban Philadelphia, with offices in Newport Beach, London and Singapore. CenterSquare is proud to manage investments on behalf of some of the world's leading institutional and private investors.

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