



# The CenterSquare New Economy Real Estate UCITS Index (CSNEREU)

Founded in 1987, CenterSquare Investment Management is an independent, employee-owned real asset manager focused on listed real estate, private equity real estate and private real estate debt.

As a trusted fiduciary, our success is firmly rooted in aligning our interests with those of our clients, partners and employees.

CenterSquare is headquartered in suburban Philadelphia, with offices in New York, Los Angeles, London and Singapore. With more than \$15 billion in assets under management (March 16, 2022), our firm and subsidiaries are proud to manage investments on behalf of some of the world's most well-known institutional and private investors.

*The CenterSquare New Economy Real Estate UCITS Index is powered by:*

- *Refinitiv information and calculated by Refinitiv*
- *Sustainalytics, a Morningstar company*

## Index Description

The **CenterSquare New Economy Real Estate UCITS Index (CSNEREU)** is designed to track the performance of real estate companies meeting eligibility requirements consisting of 1) Environmental, Social and Governance (ESG) screening and 2) material direct and/or indirect exposure to technology, sciences and/or ecommerce related business models, industry sectors and/or geographies.

## Security Selection

The Index applies a rules-based security selection process to the investable universe which is broadly defined as a combination of global common equity securities consisting of listed REITs and companies identified as being significantly real estate related. Real estate related companies include home builders, C-Corps in the hotel industry and technology companies whose primary business is real estate related. Securities must have a market capitalization of at least \$500 million and a 90-day average trading volume above \$4 million/day.

Common stocks, REITs, ADRs, tracking stocks, and holding companies are eligible for inclusion. GDRs and EDRs are excluded, as are limited partnerships, limited liability companies, royalty trusts, and Business Development Companies (BDCs). Preferred stocks, closed-end funds, exchange-traded funds, and derivative securities such as warrants and rights are not eligible.

Companies must list shares on one of the stock exchanges in the United States, Europe (i.e., Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, or the United Kingdom), the Tokyo Stock Exchange, or on stock exchanges in Australia, Israel, Hong Kong, Singapore, or Canada.

A multiple-tiered screening process is performed. The first screen eliminates all companies not meeting ESG screening criteria. The second tier eliminates all companies with a CenterSquare Technology Score (described on the following page) less than 7 out of 10. The third tier eliminates highly levered companies with Debt to Total Market Cap above 70%.

## ESG Screening

The Index takes Environmental, Social, and Governance (ESG) considerations into account. Companies that are non-compliant with the Global Standards Screening (GSS) and are involved in Controversial Weapons, Tobacco or Thermal Coal activities, as identified by the 3rd party ESG data providers, are excluded from the eligible investment universe.

- **Global Standards Screening (GSS):** The Index will exclude companies that are non-compliant based on the ESG data providers' GSS assessment. GSS identifies companies that violate or are at risk of violating commonly accepted international norms and standards, such as the United Nations Global Compact (UNGC) Principles, the UN Guiding Principles on Business and Human Rights (UNGPs), and the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises and their underlying conventions.

## ESG Screening (Continued)

- **Controversial Weapons:** The Index will exclude the companies that are involved in controversial weapons, such as the activities in anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus weapons.
- **Small Arms:** the Index will exclude the companies that derive over 5% revenue from activities connected to small arms. Such activities include the manufacturing and selling of small arms, or the manufacturing and selling of key components involved in small arms manufacture or being involved in the distribution of small arms.
- **Tobacco:** the Index will exclude the companies that are involved in tobacco production and supplying of tobacco-related products/services, or companies derive over 5% revenue from tobacco distribution, as identified by the ESG data providers.
- **Thermal Coal:** the Index will exclude the companies derived more than 5% revenue from thermal coal extraction or having more than 5% revenue or capacity from thermal coal-based power generation, or having more than 5% revenue from providing tailor-made products and services to support thermal coal extraction.
- **Oil Sands:** the Index will exclude the companies derived more than 5% revenue from extracting oil sands.
- **Arctic Oil & Gas Exploration:** the Index will exclude the companies derived more than 5% revenue from oil and gas exploration in Arctic regions.
- **Shale Energy:** the Index will exclude the companies derived more than 5% revenue from the shale energy exploration and / or production.

## CenterSquare Technology Score Screening

CenterSquare has created a proprietary “technology score” for its universe of global REITs, real estate operating companies and real estate related companies. These scores are fundamentally derived based on various factors including 1) direct revenue received from the technology, life sciences, and R&D sectors and 2) the enablement of ecommerce, new economy logistics, or sciences. A company’s score is also a function of the geographic footprint of its assets, the tenants it serves, and the REIT’s ability and experience implementing technology solutions when operating their assets.

To derive our technology scores, fundamental analysts perform analysis and assign a value to predefined evaluation criteria for each company. Companies are scored on scale of 1-10 (with 10 being the highest) for positive sensitivity to technology. The technology score is a function of the combination and strength of the following factors in descending order:

- Technology exposure of the property subsector in which the REIT operates;
- Presence of assets located in geographies where technology is a significant driver of the local economy;
- Importance of technology-related tenants in the REIT’s rent roll;
- REIT’s ability to implement technology solutions when operating their assets.

REITs where we have determined that technology is a primary and direct driver of real estate fundamentals and returns are scored 6 or greater. Each company is evaluated on a regular basis to determine if its score should be increased or decreased.

CenterSquare awards the highest technology scores to REITs with portfolios of assets focused in the telecommunication tower sector (including cable and fiber assets), data centers, modern logistics warehouses and distribution facilities. High scores are also given to REITs that enable ecommerce and supply chain management as well as portfolios of assets that cater to the life sciences industries with either laboratory and/or office space.

As it relates to geography, CenterSquare has identified global “tech hubs” where technology is a significant driver of the local or regional economy. Examples of such “tech hubs” include the San Francisco Bay area; Boston, MA; Seattle, WA; Austin, TX; the Research Triangle in North Carolina; Tokyo and Osaka, Japan; Toronto and Vancouver, Canada, the “Golden Triangle” in London, among others. Companies with significant assets in “tech hubs” receive a higher score. The tenancy of any given REIT (for example an office building leased to Facebook, Google, Microsoft or similarly technology focused company) is also factored into the score.

For REITs operating across more than one property type or for those that operate in a segment where the favorable sensitivity to technology is less obvious, such as the Office-focused REITs, scores can range between 6 and 10. The gradation of the score is a direct function of the portion of exposure to technology real estate assets, exposure to technology-dominated geographic markets, and exposure to technology-tenants. Our fundamental analysts factor in the REIT’s announced acquisitions, developments and asset dispositions into this assessment. A determination is made on whether or not the growth

of technology and new economy businesses will have a substantial impact on the value of the REIT's assets over the medium to longer-term.

"Old-economy" REITs with little to negative sensitivity to technology are scored 5 or below. These REITs have a concentration of real estate assets in sectors outside of technology; assets that do not have technology as a primary factor contributing to the use or fundamental demand (such as brick and mortar retail, hotels, self-storage, casinos, farmland and others); a lack of asset presence in technology-heavy geographic markets; and or an inability to implement technology solutions in operating their assets.

### **Leverage Screening**

CenterSquare believes that balance sheet strength is an important factor in the long-term performance of a real estate or real estate related company. Thus, the third tier of screenings eliminates highly levered companies with Debt to Total Market Cap above 70%.

## **Index Weighting Methodology**

The output of the tiered screening process creates the investable universe of securities. The investable universe is then analyzed and optimized by weighting the holdings to create an Index of securities that are technology focused and have attractive growth and valuation characteristics relative to the investable universe. The growth metric is based on the average of 12-month forward earnings growth, trailing 5-year dividend growth, and trailing 12-month comparable funds from operations (FFO) Growth. The value metric is calculated based on the average of the most recent Price/Adjusted FFO, Enterprise Value/EBITDA (Adjusted), and Price/Dividend.

The initial weights of the securities are dictated by the free float market capitalizations in United States dollars. These weights are adjusted with a formula that reweights the securities based on their quintile within the CenterSquare New Economy Score. The weighting formula is as follows:

**New Economy Score =**  
**60% (CSQ Technology Score) + 40% (Growth Rank + Value Rank equally weighted 20% each)**

Quintile	Formula
1	New Weight = Current Weight * 1.2
2	New Weight = Current Weight * 1.1
3	New Weight = Current Weight * 1.0
4	New Weight = Current Weight * 0.9
5	New Weight = Current Weight * 0.8

The Index also employs a capping methodology whereby single securities are reduced to a maximum weight of 7.5% while distributing the excess weight proportionally across all other names in the Index on a market capitalization weighted basis. In addition, the sum of all securities over 5% shall not exceed 35% at rebalance and any excess weight will be subtracted and distributed on a proportional market capitalization weighted basis.

**Liquidity Exclusion:** If a company is deemed as having low liquidity it is excluded from the Index. Low liquidity is defined as having less than \$4 million of average daily trading volume over the preceding 90-days.

**Liquidity Adjustment:** In the event a company has a calculated volume factor (average daily volume traded over the preceding three months / weight in the Index) that is less than \$400 million, its weight will be reduced such that:

$$\text{Weight After Volume Adjustment} = \text{Weight Before Adjustment} \times \text{Calculated Volume Factor} / \$400 \text{ Million.}$$

The excessive weights will then be distributed proportionately to the other Index constituents.

## **Rebalance Frequency**

The Index is rebalanced semi-annually on the third Wednesday of March and September based on market closing prices.

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**Disclosures:**

Material in this publication is for general information only and is not intended to provide specific investment advice or recommendations for any purchase or sale of any specific security or commodity. Due to, among other things, the volatile nature of the markets and the investment areas discussed herein, investments may only be suitable for certain investors.

**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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It is not possible to invest directly in an index.