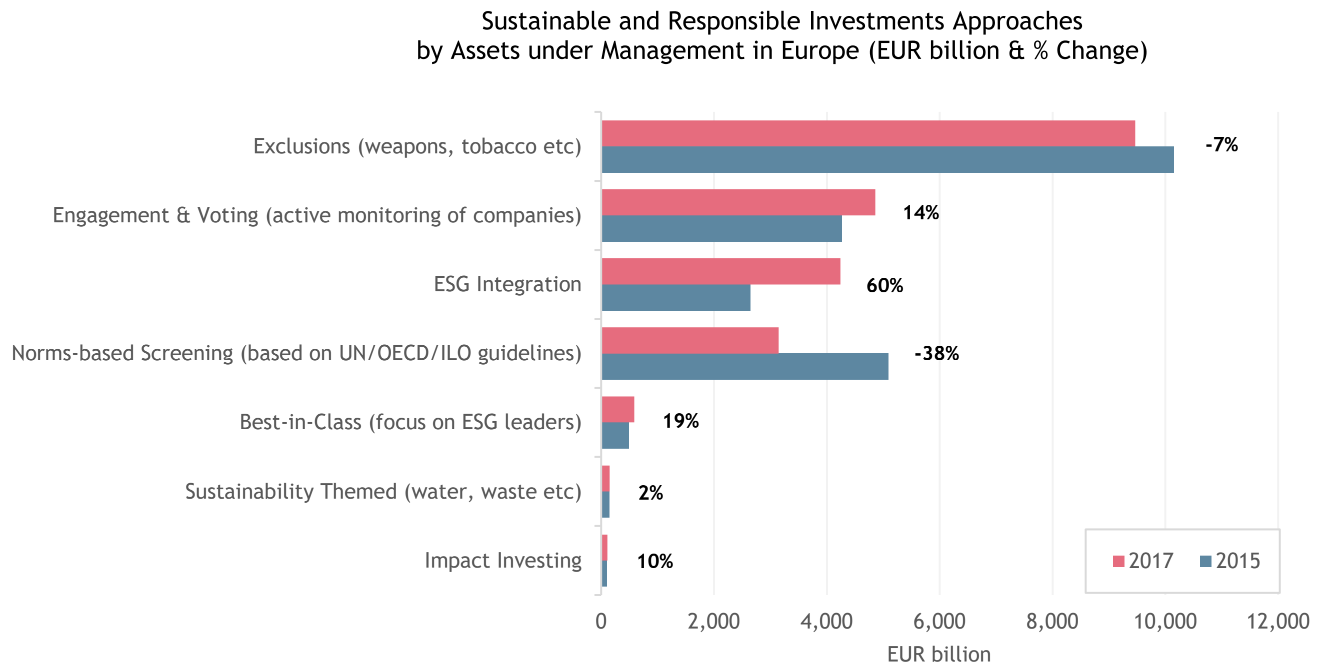
EUROPEAN RESEARCH MONTHLY UPDATE

MAY 2019

IMPROVED CLIMATE FOR IMPACT INVESTING

- Investors' increasing awareness of Environmental, Social and Governance (ESG) issues is shifting to climate change risks, as evidenced by over USD $33 trillion in AUM managed by Climate Action 100+ signatories.
- In addition, investors shift from awareness to pro-active impact investing. This has already fueled strong growth in sustainable investment products – such as green bonds and unlisted green funds.
- So far real estate constitutes a relatively small fraction of ESG investment products, which are dominated by bonds, equities and infrastructure.
- Investors lack clarity on definitions and metrics regarding sustainable investing across all asset types, despite initiatives such as the Impact Management Project. Developing a classification system ("sustainable finance taxonomy") and an EU label for green financial products are among the objectives of the recently created EU's Technical Expert Group on Sustainable Finance. This will reduce concerns about greenwashing and therefore allow sustainable finance to scale up and not remain a niche product.
- In real estate, we have seen the global GRESB fund-benchmarking reach over €1 trillion in European AUM. But, at the same time a large number of building-specific certifications globally has also created confusion among both investors and occupiers as certifications are not based on consistent methodologies. The real estate investment management industry will therefore have to embrace more detailed and consistent reporting and further innovation to meet investors' increasingly pro-active ESG requirements.

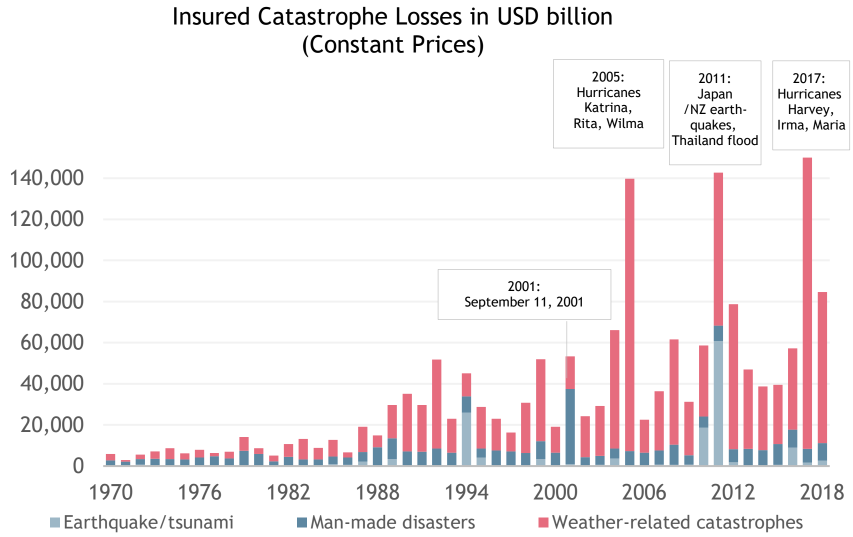
SUSTAINABLE AND RESPONSIBLE INVESTMENTS (SRI) ENCOMPASS DIFFERENT STRATEGIES



Sources: Eurosif SRI study (2018), GIIN, AEW

ESG FOCUS IS SHIFTING TO CLIMATE CHANGE RISKS

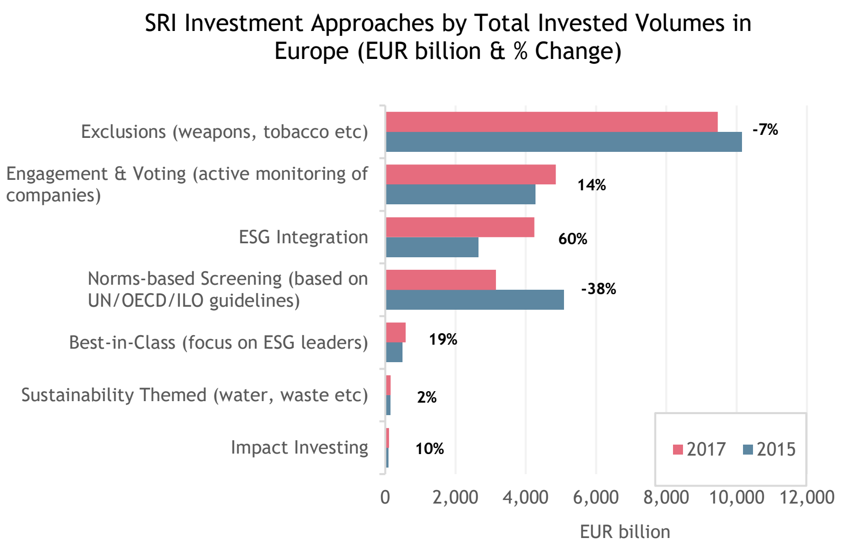
- Climate change risks have increased as demonstrated by growing insured catastrophe losses over the past 15 years.
- Asset manager awareness is growing as exemplified by the investor group Climate Action 100+ to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. 342 investors with more than USD $33 trillion in assets under management have signed up to the initiative.
- Government regulation increasingly requires investors to report on how they mitigate - and adapt to - climate change risks.
- In real estate, the negative impact of climate risks on property values is increasingly taken into account.



Sources: Swiss Re, Climate Action 100+, AEW

SUSTAINABLE & RESPONSIBLE INVESTMENTS (SRI) ENCOMPASS DIFFERENT STRATEGIES

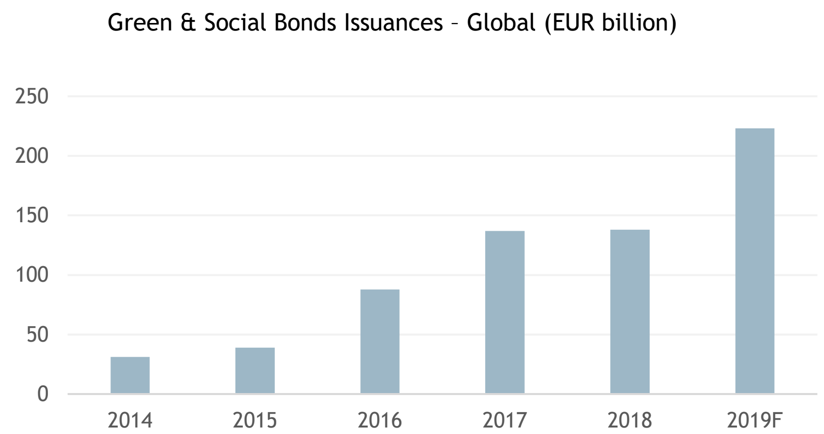
- Since 2010, Eurosif surveys 263 asset managers/owners (combined assets under management of €20 trillion) about their sustainable & responsible investments.
- SRI encompass different strategies, from minimal engagement (Exclusions, Norms-based Screening and ESG Integration, which reflects different levels of commitment) to more proactive approaches such as Engagement & Voting and Impact Investing.
- More and more investors are turning to Impact Investing to actively select categories of investments generating a positive and measurable social & environmental impact and not just exclude "sin stocks". This is the best way to help more capital flow into decarbonising the economy.



Sources: Eurosif SRI study (2018), GIIN, AEW

GREEN & SOCIAL BONDS ISSUANCES HAVE STRONGLY INCREASED AT THE START OF 2019

- Green & social bonds are securities issued to fund projects certified as having benefits for the environment.
- In Q1 2019 only, €67.4 billion of green & social bonds were issued. Around €223 billion of green & social bonds could be issued in 2019 as a whole. However, it is worth noting that green & social bonds represent only 1% of the USD 70 trillion global bond market.
- To achieve the EU's 2030 targets, including a 40% cut in greenhouse gas emissions, the European Commission estimates the investment gap at €180 billion per year.

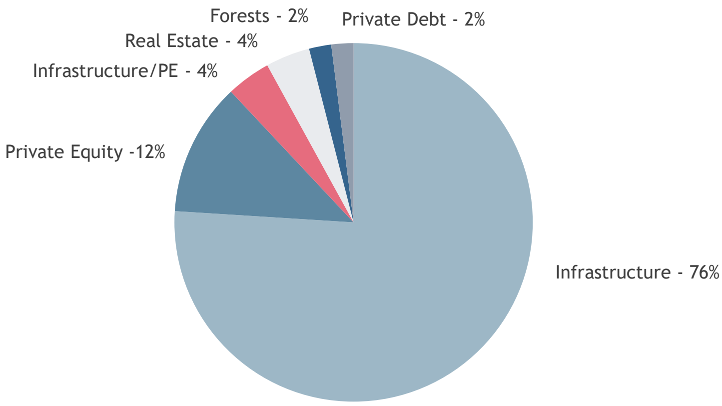


Sources: SGCIB, Bloomberg, Dealogic, Climate Bonds Initiative, European Commission, BIS, AEW

REAL ESTATE REPRESENTS JUST 4% OF UNLISTED GREEN FUNDS IN EUROPE

- Investments in unlisted green funds has also been growing, with total invested volume increasing from €3 billion in 2008 to €57.6 billion in 2018 in Europe. Nevertheless, green funds represent less than 10% of the unlisted European fund universe.
- Real estate represents just 4% of the European unlisted green funds. This leaves plenty of room for green real estate funds to grow.
- As investors need more clarity around what constitutes a green real estate fund, a label for real estate - relying on ESG indicators and published by the French Ministry of Finance - will soon be launched in France.

European Unlisted Green Funds Market Breakdown By Asset Class
(By Number of Funds)

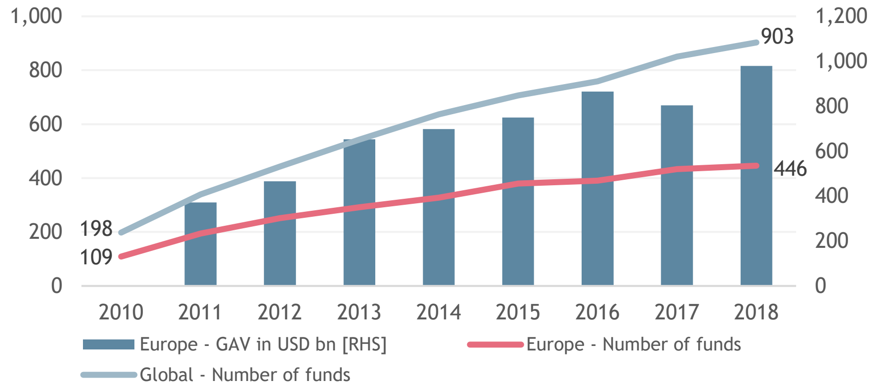


Source: Novethic, AEW

THE GRESB ESG FUND BENCHMARK HAS BECOME MAINSTREAM

- GRESB has become mainstream as an ESG real estate fund benchmark, with the number of funds covered increasing from 198 in 2010 to 903 in 2018.
- Europe is the most represented region in GRESB with 446 real estate funds, totaling USD $979 billion of GAV.
- The recently launched FTSE EPRA Nareit developed green index enables investors to integrate climate risk and shows that investors do not need to sacrifice returns to invest in green certified and energy efficient buildings. By using building-level data it can also avoid potential bias in a self-reporting survey like GRESB.

GRESB Real Estate Assessment Participants

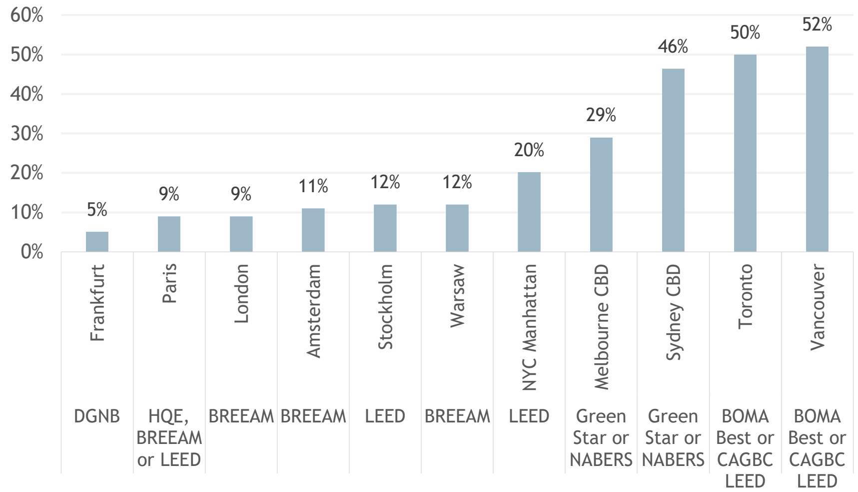


Sources: GRESB, FTSE Russell, AEW

PENETRATION OF ENVIRONMENTAL CERTIFICATION ACROSS MAJOR MARKETS VARIES

- European cities with historic city centres tend to have a low share of their office stock certified. Lack of consistency across environmental labels limits comparability.
- The share of certified buildings has increased as institutional investors' requirements have evolved. Around 9% of the office stock in Paris is currently certified, compared to just 0.1% in 2007.
- Certified office buildings command higher actual rents (+1.4%) and estimated rental value (+5.8%) than high-end non-certified office buildings according to evidence from the French market. The rent differential is likely to widen as large occupiers increasingly require certification.

Share of Certified Green Office Buildings



Sources: CBRE, University of Maastricht, MSCI, AEW

ABOUT AEW

AEW is one of the world's largest real estate asset managers, with €65.4bn of assets under management as at 31 December 2018. AEW has over 700 employees, with its main offices located in Boston, London, Paris and Hong Kong and offers a wide range of real estate investment products including comingled funds, separate accounts and securities mandates across the full spectrum of investment strategies. AEW represents the real estate asset management platform of Natixis Investment Managers, one of the largest asset managers in the world.

As at 31 December 2018, AEW managed €31.4bn of real estate assets in Europe on behalf of a number of funds and separate accounts. AEW has close to 400 employees based in 9 offices across Europe and has a long track record of successfully implementing core, value-add and opportunistic investment strategies on behalf of its clients. In the last five years, AEW has invested and divested a total volume of over €20bn of real estate across European markets.

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