

# **NICOLA WEALTH REAL ESTATE**

## **Responsible Investment Policy**

January 2020



*Security - Clarity - Confidence*

## 1. INTRODUCTION

- **Who we are** - Formed in 1994, Nicola Wealth is a firm dedicated to the complex wealth management needs of high net worth families and foundations. The firm currently manages over \$6.0 billion in assets and employs over 200 staff located in four Canadian offices.
- **What we do** - Nicola Wealth has made innovation a foundational cornerstone and brings a sophisticated and integrated approach to overall wealth management for its clients. Our institutional approach to investing offers a broad range of investments that generate stable cash flow with less volatility.
- **How we do it** – Our values and philosophy guide our overall approach to wealth management. Nicola Wealth’s four core values, namely: Trust & Transparency; Investing Beside You; Communication & Reporting; and, Innovation & Performance all form part of our fiduciary duty to our clients. Our investment philosophy encompasses a broad approach and includes investments in private equity, private debt, commercial mortgages, and real estate. This results in a range of diversified investments that generates stable cash flow while reducing the overall level of risk. Supporting our community is also highly valued at Nicola Wealth. In 2010, Nicola Wealth Gives Back (“NWGB”), the firm’s charitable giving committee, was formed. The objective of NWGB is to develop and foster a culture of giving both inside and outside the firm.
- **Real Estate** – Investment-grade real estate provides sustainable cash flow in the form of rental income generated at the property level. Specific investment objectives can include capital preservation as well as the opportunity for growth in value-add opportunities. Diversification by asset type and geography reduces the overall level of portfolio risk while taking advantage of opportunities across property types and regional markets. Different asset types are driven by different economic factors and a diverse portfolio could include a mix of office, rental residential, retail, industrial and self-storage assets. Likewise, regional demand drivers can vary significantly, and a diversified portfolio will include representation in several key urban areas.

## 2. DEFINITIONS

This Policy contains references to certain key terms frequently used in the context of sustainable investing. Outlined below are common definitions of these words and phrases.

### **The United Nations Environmental Program Finance Initiative (“UNEP FI”)**

*The United Nations Environmental Program Finance Initiative (UNEP FI) is a partnership between UNEP and the global financial sector to mobilize private sector finance for sustainable development. UNEP FI works with more than 300 members – banks, insurers and investors – and over 300 supporting institutions – to help create a financial sector that serves people and the planet while delivering positive impacts.*

## **Principles for Responsible Investment (“PRI”)**

*A set of six voluntary and aspirational principles developed by the UNEP FI that offer a selection of possible actions for incorporating ESG issues into investment practices.*

- i) Incorporate ESG issues into investment analysis and decision making.*
- ii) Be active owners and incorporate ESG issues into management policies and practices.*
- iii) Provide and seek appropriate disclosure on ESG issues.*
- iv) Promote acceptance and implementation of the Principles with the investment industry.*
- v) Work together to enhance our effectiveness in implementing the Principles.*
- vi) Report on our activities and progress towards implementing the Principles.*

## **Environmental, Social and Governance Integration (“ESG”)**

*The PRI defines ESG integration as the explicit and systematic inclusion of environmental, social and governance issues in investment analysis and investment decisions.*

### **3. PRI GUIDELINES**

When carrying out its activities, Nicola Wealth Real Estate (“NWRE”) includes a broad selection of responsible investment strategies and practices when analyzing a potential investment and, during the on-going management of each asset. A mix of financial, environmental and social criteria are analyzed and discussed with overall strategy and policy guided by an internal governance framework.

NWRE retains third-party managers and local service providers to carry out various property level functions and NWRE employs a collaborative approach towards the application of PRI principles to the activities of its service providers. This approach includes:

- i) encouraging external service providers to align their practices with NWRE’S Responsible Investment Policy and the PRI;
- ii) supporting and promoting the adoption of ESG practices in the management of key factors such as: energy, water and waste; GHG emissions; tenant/resident health, safety and wellness, responsible contracting policies, employee training and education and community engagement;
- iii) supporting regular reporting and benchmarking on ESG issues and initiatives.

#### 4. APPROACH TO RESPONSIBLE INVESTING

NWRE approaches each investment and the on-going management of each asset using a variety of methods and, one very important tool is the positive screening approach. This approach is used to describe what we invest in (for our clients) and why by referring to guidelines for ESG integration into investment analysis and management.

For example, each investment ought to have a reasonable mix of several of the following characteristics:

- a) **TARGET MARKET** - well-developed infrastructure to support and encourage job and population growth, a vibrant and engaged community, an established higher education and health care network, and a supportive regulatory environment.
- b) **LOCATION** – strong accessibility network (mix of public transit, walk, bike, car), close to a strong work force, proximate to a variety of entertainment and leisure amenities, and in the case of development or repositioning opportunities - in the path of development.
- c) **PRODUCT TYPE** - portfolio diversification benefits by asset class and/or geography, reliable income stream from quality credit sources.
- d) **SPECIFIC ASSET/PROPERTY** - sustainable cash flow, potential for income and/or value growth, opportunity to improve energy, water and waste performance to ensure against obsolescence, a quality physical space offering a mix of natural lighting, temperature and air quality control and, amenity rich communities and/or building spaces.
- e) **MANAGEMENT AND OPERATIONAL EXPERTISE** – ability to retain third-party managers with the following skills and knowledge: strong local market and product type expertise; ability to drive operational excellence through innovation; employ effective tenant/resident engagement strategies to increase attraction and retention; and, report and benchmark performance data to best manage operational and long term capital programs.

**5. ACTIVE MANAGEMENT & ENGAGEMENT PRACTICES**

NWRE influences, engages and encourages the adoption of PRI best practices by stakeholders in those areas we believe will have the greatest impact and are most relevant to our investors, namely; generating sustainable cash flow and attractive long-term returns.

**STAKEHOLDERS**

<b>Investors</b>	<b>Tenants/Residents</b>	<b>Community</b>
<ul style="list-style-type: none"> <li>• Manage risk by incorporating PRI strategies to improve incomes and maximize long term value</li> </ul>	<ul style="list-style-type: none"> <li>• Enhance loyalty, engagement and the health and wellness of our occupants</li> <li>• Support the sustainability goals of our tenants within their built environments</li> </ul>	<ul style="list-style-type: none"> <li>• Make a meaningful contribution to the vibrancy of the communities in which our properties are located</li> </ul>
<b>Third-Party Managers</b>	<b>Industry</b>	
<ul style="list-style-type: none"> <li>• Incorporate ESG in the on-going management of each asset</li> </ul>	<ul style="list-style-type: none"> <li>• Help advance thought leadership through participation in associations and events</li> <li>• Support transparency with participation in key initiatives (e.g. UNEP FI, MSCI, REALPAC, building certification programs)</li> <li>• Collaborate, encourage innovation and share best practices amongst external managers</li> </ul>	

**6. REPORTING AND COMMUNICATION**

NWRE recognizes the importance of transparent communications with respect to ESG activities within its real estate portfolio and these performance metrics are one of the key inputs used when developing portfolio and asset level strategies.

Each potential investment is presented to the Investment Review Committee (‘IRC’) of NWRE, a group comprised of both management and independent members, for its review and approval. Each Investment Summary presented to the IRC includes a discussion of responsible investing criteria such as community, environmental and transportation factors as part of the overall investment analysis.

Regarding the on-going management of each asset, external managers report on a monthly basis with respect to a variety of operational initiatives, capital projects and leasing programs. Analysis and reporting with respect to ESG initiatives is often embedded in the thought process behind many property level decisions. Recommendations and outcomes are reviewed by management and considered when developing property budgets, setting targets and reviewing performance.