BGO

From policy to performance: how LP expectations are shaping sustainable investing

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, spoke earlier this year with **Ailey Roberts,** principal, global head of sustainable investing at BGO, about how the firm's approach to sustainability is tailored to match client risk and return expectations throughout the investment cycle, the benefits of regional expertise within a global framework, and how success requires fostering well-aligned, trusting relationships with both clients and internal stakeholders. Following is an excerpt of that conversation.

How do you approach integrating sustainability and climate considerations into real estate portfolio strategy? And what principles guide your decision-making in balancing the financial performance with long-term environmental and social impact?

Sustainability is an embedded component of our investment strategy, helping us to create and protect long-term value for our investors. We view it as part of our fiduciary responsibility. Throughout the investment lifecycle, we integrate sustainability and climate risk considerations – both physical and transition risk – into our investment due diligence process, underwriting, and asset business plans. One example is our Sustainable Investing Framework, which we introduced in 2024. The framework helps us set sustainability priorities and objectives across different investment strategies. The framework is comprised of 12 core themes across the environmental, social and governance pillars. Those themes give us flexibility to address the sustainability issues that are most material to a particular investment. This may differ across our investments, so we use this framework to adjust and customize the approach for each strategy.

We also use different tools throughout the investment lifecycle. For example, during the acquisitions phase, we apply a framework that helps us identify risks and opportunities as well as required capex. Then at the operational stage, we look at factors like what energy efficiency upgrades are possible, opportunities to integrate resilience measures, tenant engagement, etc. Our approach is also informed by benchmarks such as GRESB and PRI, which helps us to remain aligned with the industry.

Where does responsibility for ESG and sustainability sit within BGO? Is it a standalone part of the business or does it fall under asset management?

Sustainability is an embedded function across our regions, with reporting to BGO's global management committee. That structure gives us both consistency and proximity to the business. We have a global framework and toolkit, but the way it is applied needs to reflect local regulations, market conditions, asset types and client expectations.

What does a truly aligned GP-LP relationship look like? And how do you work to build trust with investors over time?

During the past 5 years, expectations around sustainability have evolved significantly. Throughout that time, it's been critical that we remain aligned with our investors, and that our funds and strategies remain in line with their expectations. Alignment with clients starts with shared objectives. There's a clear focus on understanding what their priorities are from a sustainability perspective, because they're asking increasingly more complex and in-depth questions. We've seen investor due diligence requests and requests for proposals come through with increasing rigor and higher levels of sophistication in the last 5 years, so we have had to adapt our approach to meet those expectations and remain in line with the market. Previously, clients would ask things like, "Do you have a sustainability policy?" Today they're asking what tools are being used to assess physical climate risk, how mitigation measures are reflected in underwriting, and whether capital expenditures are being incorporated into business plans to address those risks.

Maintaining open and two-way communication with our LPs has been essential, as has transparency in our approach. We publish an annual sustainable investing report, which outlines what we are doing as a firm to demonstrate that environmental, social, and governance considerations are being integrated appropriately. We also report on sustainability performance at the fund level when appropriate. We focus on disclosure to underpin the trust in our relationships with our investors. We also review investor due diligence requests closely because they provide useful information about how priorities are evolving and where expectations are heading.

> *"Sustainability cannot sit off to the side as a reporting or marketing function. It has to be connected to portfolio management, investment activity and client priorities."*

Not long ago, sustainability often seemed more like a function of investor relations or marketing than a dedicated strategy. Are LPs becoming more sophisticated in their expectations, and able to more effectively distinguish between groups that are actually enacting ESG strategies and those that aren't?

Absolutely. LP expectations have become much more sophisticated, and the conversation has moved well beyond whether a manager has a sustainability policy or report. Investors are increasingly looking for evidence of implementation: how sustainability is embedded into investment underwriting, asset management, capex planning, risk management and ultimately value creation. They are much better equipped to distinguish between managers who are simply reporting on sustainability and those using it to inform investment and asset management decisions.

> *"LPs are no longer asking whether sustainability exists as a policy. They are asking how it shows up in underwriting, asset management and value creation."*

We pay close attention to investor expectations because they often signal where the market is heading. Those expectations, alongside industry frameworks and best practices, help inform where we focus, how we strengthen asset-level execution, and where we need to build additional capability across portfolios.

We see this most clearly in Europe, where regulation has increased scrutiny, but investor expectations do not stop at the border. As a global manager with global investors, we may have U.S. or Canadian strategies that are not directly subject to the same rules that some of our investors are. That creates a global standard of expectation. Our role is to meet investors where they are today, while also anticipating where the market is going.

How do you bring different perspectives together on your team to arrive at sound, well-tested investment decisions?

Real estate is inherently local, which is why regional expertise is so important to our decision-making. We have sustainability professionals embedded across our Canadian, U.S. and European businesses, which allows us to combine local market knowledge with a consistent global approach. Sustainability cannot sit off to the side as a reporting or marketing function. It has to be connected to portfolio management, investment activity and client priorities. We partner with those teams, and we are at the table when investment decisions are made.

Sustainability is an embedded function. Constant communication across our markets helps us identify emerging risks, regulatory developments and evolving investor expectations earlier. Insights from one region often become relevant elsewhere over time. We leverage these different experiences to remain in line with the rapidly shifting expectations of sustainability.

What is a hard-earned lesson from your career that continues to guide how you lead today?

One lesson that continues to guide me is the importance of relationships. Sustainability is sometimes viewed as a values-driven initiative rather than an investment discipline. But at the same time, on our team we operate on the understanding that this does create and protect value for our investors. Building trust and credibility has been essential to advancing important initiatives and integrating sustainability more deeply into the business.

A key part of leadership is understanding the priorities of the people you work with and ensuring your objectives support theirs. I often emphasize to my team that success depends on strong relationships and trust. Technical expertise matters, but the ability to build credibility and bring others along is often what determines whether an initiative succeeds.

CONTRIBUTOR

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Ailey Roberts is Global Head of Sustainable Investing at BGO, based in Toronto. With over a decade of experience, she leads the firm's global sustainability strategy across its real estate portfolio, integrating ESG considerations across the investment lifecycle to drive risk-adjusted returns and long-term value for investors. Ailey serves on the Board of Directors of the Canada Green Building Council (CAGBC) and was recognized as a Clean50 sustainability leader in 2020.

COMPANY OVERVIEW

BGO is a leading global real estate investment management adviser, real estate lender, and globally recognized provider of real estate services. BGO serves the interests of more than 750 institutional clients, with expertise in the asset management of office, industrial, multi-residential, retail, and hospitality properties across the globe. BGO has offices in 25 cities across 12 countries, with deep local knowledge, experience, and extensive networks in the regions where we invest in and manage real estate assets on behalf of our clients in primary, secondary and co-investment markets. BGO is a part of SLC Management, the institutional alternatives and traditional asset management business of Sun Life. For more information, please visit **www.bgo.com.**

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