

Client Focus

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William Blair



Spring Jolt to Markets; Fed Adds Confidence

The second quarter of 2019 continued the same momentum we saw early in the year, with the markets cautiously optimistic.

Employment data remains the strongest in decades despite disappointing June numbers. First-quarter U.S. GDP growth at 3.1% was better than economists expected, buoyed by consumer demand and exports.

Uncertainty on U.S. trade conflicts, notably with China and Mexico, eroded confidence in May. This not only affected Wall Street economists but the Fed, where Chairman Powell in June raised the possibility of easing interest rates back if tariffs hurt growth. Shares bounced on the news.

Such uncertainty is a good reminder that we are here to help you navigate the markets. Engaging with clients is a core value of William Blair, fundamental to who we are. We reaffirmed that dedicated partnership during a recent firm wide initiative to refresh our corporate mission, vision, and value statements.

This exercise underscored our foundational commitment to deliver client success by focusing on long-term investments. We continue to search for companies with strong and lasting growth potential.

Increasingly, such growth is coming from companies that aggressively adopt a host of sustainable business strategies. They work to reduce their environmental impact, including standards for their own suppliers. But they also embrace sustainability in a wider sense to adopt prescient social and corporate governance goals, reflecting commitments to their own employees and to society.

Such insights for long-term prosperity in socially responsible investing are affecting institutional as well as retail investors as they weigh long-term performance. We recognized that interest and this spring launched a global socially responsible investing strategy for clients.

The current issue of *Client Focus* continues our spotlight on

sustainability this year. The featured article discusses how the traditional real estate industry is responding to the “green” city movement. The industry in the U.S. and Europe is getting better at cutting energy use and designing workplaces that engage employees. Their customers are demanding it.

We also hear from a William Blair investment management client Region Gävleborg—a local Swedish government authority—that has made sustainability a thread in its entire social fabric as it manages programs for its citizens.

I’m also proud to share some recent industry honors. Our Investment Banking team earned three Deal of the Year awards this spring, one from *Mergers & Acquisitions* magazine and the others from *The Deal*. William Blair’s Institutional Sales, Research and Trading group earned seven No. 1 ratings in the annual Greenwich Associates survey, an industry benchmark for performance and client service.

On behalf of everyone at William Blair, thank you for your trust and the opportunities you give us to be your investment partner. Have a wonderful summer!

Sincerely,

John Ettelson
PRESIDENT AND CEO

Real Estate Industry Steps Up to Rising Demand for Green Cities

More than half the world's population now lives in urban areas. By 2050 that number is projected to swell to two-thirds, or 6.5 billion people, according to United Nations projections. Today's three biggest cities—Tokyo, New Delhi, and Shanghai—all have populations well above 20 million. Daily headlines often contain stories of polluted, congested, and resource-stressed mega-cities struggling to cope.

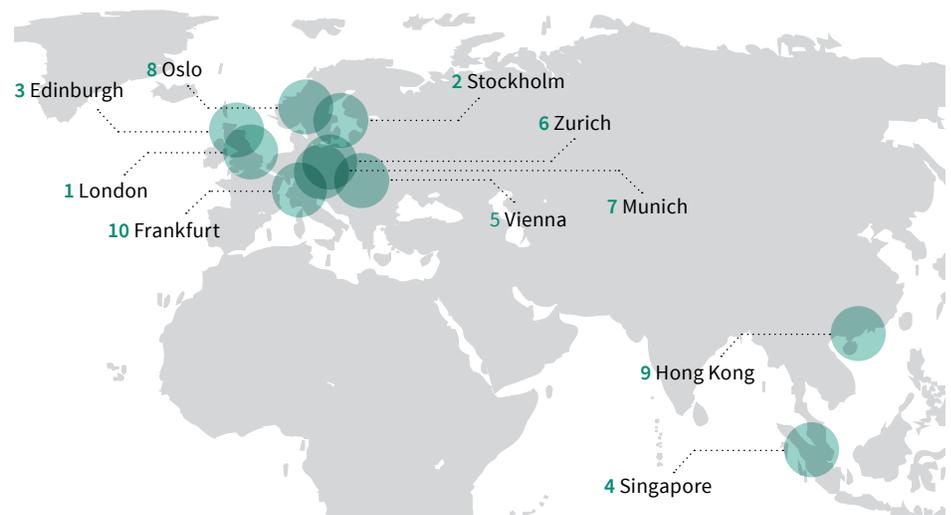
The stress has put pressure on governments and urban planners, not just residents. While cities occupy only 3% of the Earth's land they account for up to 80% of energy consumption and at least 70% of carbon emissions. Commercial real estate, as one of the largest users of energy, is right in the center of plans to cope. One major trend that has emerged in recent years is a push to create “green” buildings—and, eventually, “green” cities.

The push is recognizing the benefits of adopting sustainable business practices to not only increase energy efficiency and reduce environmental impact but also to create a sense of community, especially around improving health and well-being.

“You're seeing a very different approach to design, construction, and engineering—for lofts, offices, apartments, schools, public buildings—that is much more people friendly and environmentally sustainable,” says Brandon Dobell, a managing director with William Blair's Investment Banking team.

Top 10 Sustainable Cities

The Sustainable Cities Index, compiled by environmental consultancy Arcadis, ranks the top 100 global cities on the three pillars of sustainability: social, environmental and economic factors. The top 10 cities in 2018 were mostly in Europe. New York, San Francisco and Seattle were the only U.S. cities to make the top 20.



Sources: Arcadis' Sustainable Cities Index, 2018

“These trends are likely to continue because of their qualitative and quantitative benefits to individuals, companies, organizations, and society as a whole,” adds Dobell, who specializes in the real estate technology and services sector.

Going green

A green building is broadly defined as a building that, in its design, construction or operation, reduces or eliminates negative impacts, and can create positive impacts, on our climate and natural environment.

The World Green Building Council specifies numerous features that can make a building “green:”

- Efficient use of energy, water, and other resources
- Use of renewable energy, such as solar energy
- Pollution and waste reduction measures, and the enabling of re-use and recycling
- Good indoor environmental air quality
- Use of materials that are nontoxic, ethical, and sustainable
- Consideration of the environment in design, construction, and operation
- Consideration of the quality of life of occupants in design, construction, and operation
- A design that enables adaptation to a changing environment

In the United States and Europe, green building guidelines have filtered in to

almost all parts of the construction process—from use of ecofriendly materials like bamboo, recycled wood, and metal, to applying solar and other alternative energies, to creating more efficient heating and cooling (HVAC) systems, to designing more energy- and water-saving structures with a lower carbon footprint.

Within this wave of ecofriendly thinking has been woven in ideas of more open floor plans, natural light, communal spaces, and other common amenities so that workers and residents can better meet, communicate, and socialize.

In the United States certified green construction grew an estimated 15% year-over-year from 2015 to 2018, with annual spending reaching \$224.4 billion by 2018, according to the U.S. Green Building Council.

“A primary focus today in real estate is the recognition of a direct connection between using less energy or using it better and making money,” Dobell says. “You can make three changes to your energy use and save \$100,000 a day in energy costs. That’s why real estate technology and services companies are spending an awful lot of time to help businesses to do just that.”

Product innovation, M&A activity rise

The Urban Land Institute, a nonprofit focused on responsible land use and sustainability worldwide, hosted a panel of real estate experts at its spring meeting in Nashville. One topic of discussion: New software that monitors buildings’ energy and water use may be a game-changer for the industry.

The panel cited the example of a New York real estate company that is saving \$5 million a year in energy costs by automatically lowering its air-conditioning systems when there are fewer people in the building than readjusting it when employees return.

Such reawakened consciousness of energy use patterns is all part of the green building trend. So it’s no



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Most Famous LEED Buildings

The U.S. Green Building Council runs one of the best-known certification sustainability programs for buildings, which debuted in the 1990s through its Leadership in Energy and Environmental Design (LEED) program.

The program rates the sustainability of buildings based on energy and water efficiency, indoor air quality, access to transportation, and other sustainable factors. The more points, the higher the LEED rating. Today, more than 100,000 commercial properties globally are LEED certified.

Some of the most famous LEED buildings or structures are Chicago Bears Soldier Field, Salt Lake City Library, China’s Shanghai Tower, Facebook Headquarters in California, Two International Tower in Hong Kong, and the list goes on.

Additionally, William Blair’s new corporate headquarters in Chicago is LEED Gold certified, a top rating, scoring high on sustainable site, indoor environmental quality, water reduction, and innovation.

surprise that venture capital is finding its way to tech start-ups focused on green initiatives. Big real estate companies like CBRE, Cushman & Wakefield, JLL, Colliers, and others are also investing in solutions to increase their building efficiencies and expanding their services.

At William Blair, there's been a pickup in M&A activity in this space.

"There is so much energy consumption that takes place in buildings that it's an increasing focus for our clients," says William Blair investment banker Andy Miller, who leads the commercial services team.

Among the offerings the team is currently working on are businesses that specialize in HVAC and refrigeration efficiency, solar panel installations, waste hauling, and environmental consulting.

"There is a big trend in this space. Everything we're doing has a technology angle to it and some sort of resource conservation component," Miller says. "They all share similar values around being more efficient and more effective as a society with what we produce and consume."

Worldwide growth

If green building principles are sweeping American construction and planning circles, the same is true overseas. Many European countries remain far ahead of the United States. Huge markets like China, India, and the arid Middle East are also embracing the concept. China's five-year plan calls for 50% of all new urban buildings to be certified green by 2020. India's choking air pollution by New Delhi and Bangalore is raising pressure on authorities to demonstrate solutions. Dubai last year completed a 5 million square-foot sustainability city featuring 500 villas with rooftop solar panels and car-free zones.

CBRE Listens to Clients on Sustainability

CBRE, the world's largest real estate manager, has made listening to clients a key part of its success story. The company is an active consultant for its customers in creating modern "green" workplaces as it manages more than 5 billion square feet of work-space accommodating 9 million workers around the globe.

"We recognize that buildings are a significant contributor to global carbon emissions," CBRE says on its web-site. "Driving sustainable real estate practices is a fundamental principle of our environmental leadership."

Since 2014, CBRE Research and Maastricht University have collaborated to track the adoption of green building certifications. The Green Building Adoption Index uses a rigorous methodology to show the growth of Energy Star and LEED certified buildings for the 30 largest U.S. office markets.

The company sees growth opportunities in flexible work space and in its holistic approach to energy and sustainable management.

"The whole experience trend...has been a big driver for our business," said CBRE CEO Bob Sulentic on CBNC in May, citing tenant demand for flexible, co-working office space that features open floor plans, natural light, and tech-supported amenities to attract top talent.

"Occupiers are more and more focused on using space as a tool in the war for talent in order to attract, retain, and make talent more effective, efficient, and motivated," said Sulentic.

William Blair analyst Stephen Sheldon, following CBRE's investor day this spring, reported that the company "has about 1,000 dedicated leasing advisory specialists—workplace design, employee experience, analytics, and government incentives—who work with its leasing transactional professionals for clients. We believe this is part of the reason that CBRE has been able to gain market share and outperform overall global leasing volume over the last three years."

Among CBRE's offerings is an energy and sustainability network focused on reducing buildings' environmental impact using real-time data and automated controls. Its EnerSource software also pulls a client's energy billing data together to reduce energy use and cut costs.

"There's a broader trend that the biggest players in this space continue getting bigger, especially CBRE, and we believe CBRE remains best positioned to provide a broad range of supporting services in the leasing business," Sheldon says.

To receive Stephen Sheldon's research report, contact your William Blair representative. Visit williamblair.com/ResearchCoverage for disclosure information.

Sweden's Region Gävleborg Making a Sustainable Impact



Bo Svedberg
Region Gävleborg's Chief Financial Officer

About an hour's drive north of Stockholm on the coast of the Baltic Sea lies Gävleborg County, one of 21 counties in the country and home to 287,000 Swedes. The local governing authority known as Region Gävleborg, a William Blair client since 2015, oversees healthcare and public transportation. It also leads green initiatives to improve the quality of life and sustainable well-being for all.

Bo Svedberg, Region Gävleborg's chief financial officer for the past 14 years, has seen a significant boost in sustainable development in recent years. That includes an emphasis on embracing sustainable investment strategies for its 4.9 billion SEK employee pension fund and pushing its suppliers to adhere to the same sustainability principles that it embraces.

Sweden has long focused on equitable and sustainable global development, Svedberg says, pointing to the United Nations statement of 2030 social goals.

"The 2030 Agenda is a very important document for us and guides our sustainability policies," he says. "It is important for us to conduct our corporation in a way that supports sustainable development."

Recent projects observing the guidelines within the region include the expansion of its railway system, increased broadband access to

rural communities, and the development of the world's first electric road that allows vehicles to charge batteries while traveling.

Scaling up sustainable investing

Svedberg sees sustainability as a commitment not just in the way you look at your own organization but in the way you look at others. It's looking beyond your door in your office in your organization to the wider world and realizing it's not just your future at stake in your decisions, he says. So Gävleborg is determined to make a maximum impact by encouraging others to follow its values.

Take its investment philosophy as an example. Svedberg says that over the past few years there has been a stronger emphasis on investing in sustainable companies, which is a goal of Region Gävleborg's elected council.

"More specifically, we are not allowed to invest in funds that include companies involved with the production of weapons, tobacco, alcohol or gambling," Svedberg says. "But it's also looking at companies that are making changes with how they do business and making a positive impact while being successful doing that."

Svedberg cites Sweden's steel industry, a huge consumer of energy. But he sees them working very hard to minimize energy consumption and pollution.



“My view is that it has no negative effect on revenues. I think in the long term it’s better to be invested in companies with a sustainable business because otherwise they won’t survive. That’s a belief,” he says.

Supply chains also adapting

In a similar way, Region Gävleborg is scaling up its sustainable initiatives through its own supply chains, demanding suppliers of products, services and materials become sustainable and socially responsible.

Region Gävleborg, in collaboration with the other regions in Sweden, is following a rigorous procurement policy to make sure goods and services used within the country are both sourced and manufactured under sustainable and responsible conditions, Svedberg says.

“We have agreed on this code of conduct. The base for that is the United Nations universal declaration of human rights that includes the rights of children, eliminating child labor and guaranteeing minimum wages. We also follow our suppliers to protect the environment.”

“It’s important to take an active role to change behavior. Even if our impact on the whole world is small, we have to have this philosophy.”

—Bo Svedberg, CFO of Region Gävleborg

Gävleborg makes it the responsibility of companies within the supply chain to share the commitments and document that they are meeting the standards in their operations. That said, he cautions that imposing sustainable standards on either investing or operations takes time. You can’t change your way of doing business overnight or even in one year, he says. You’ve got to integrate the policy over time, have a practical view and begin working in the right direction.

“Start small, scale, and learn,” Svedberg advises municipal strategists on sustainability goals. “If you step up sustainable targets I think you can be successful.”

What really matters is standing by the principles of sustainability, he says.

“It’s important to take an active role to change behavior. Even if our impact on the whole world is small, we have to have this philosophy.”

Region Gävleborg is working for sustainable regional development and growth in Gävleborg County.

The region’s sustainable goals focus on economic, social, and environmental initiatives to improve the lives of its residents.



Railway System

Plans are underway to expand the railway to cut travel times, quadruple capacity, and increase punctuality.



Hospitals

Region Gävleborg is responsible for ensuring residents of Gävleborg County receive health and dental care.

Chicago Youth Group

Collects Data to Help Communities



With the arrival of summer, Chicago South Side-based MAPSCorps, a William Blair community partner, has sent its youth teams out canvassing the city's neighborhoods to gather healthcare data on businesses and groups—valuable information that will improve their community.

Founded 11 years ago as a youth employment and research effort, MAPSCorps hires local youth each summer and teaches them STEM skills to collect and analyze data on businesses and organizations. The Chicago Department of Public Health, the Cook County Land Bank, and other groups like tech start-up NowPow use the data to provide better health and social services to residents living in high-poverty neighborhoods where vital resources are hard to find.

“Generating data that people across the city can use to make informed decisions about what works, what doesn't, where are the gaps, where are the assets, is fundamental to sustainable growth in our city,” says Dr. Stacy Lindau, a physician scientist at the University of Chicago and founder of MAPSCorps.

This summer, MAPSCorps will expand its mapping to nine new areas, bringing its coverage to 60 of Chicago's 77 neighborhoods.

'Smart City' Tech

New Research Report Available

Big cities are getting a lot smarter and efficient with the latest consumer technology trends especially in dealing with crowded roads, parking payments, and potential crime, according to new research from William Blair. The success and spread of such rollouts is not just feeding further innovation but also driving new M&A activity.

William Blair equity analyst Louie DiPalma discusses these trends in his new report, *The Smart City Observer*. It analyzes the leading smart technologies in the context of William Blair's coverage of innovative companies AeroVironment, Cubic, FLIR, and Verra Mobility.

Some of the trends include the use of drones and robots for deliveries, facial recognition for security and other types of high-tech cameras to police vehicle and public transit payments.

“Smart city technology innovations and regulatory developments are occurring at a rapid pace,” DiPalma says. “Recent M&A activity in surveillance, transportation tech, and payments has been robust, with vendors positioning themselves to take advantage” of an expected surge in demand from urban planners.

To receive a copy of *The Smart City Observer* contact your William Blair representative. Visit williamblair.com/ResearchCoverage for disclosure information.



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