

RobecoSAM Climate Global Bonds strategy

# Fixed income investing that is fully aligned with the Paris Agreement

Sustainable Investing Expertise by  
**ROBECOSAM**

Investment opportunity  
For professional investors

Jamie Stuttard,  
Regina Borromeo &  
Bob Stoutjesdijk

Portfolio Managers

RobecoSAM Climate  
Global Bonds strategy



- At the forefront of the transition to a low-carbon economy
- First global fixed income strategy to be fully aligned with Paris Agreement
- Combination of SI expertise and highly experienced Macro & Credit teams

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## EXECUTIVE SUMMARY

# RobecoSAM Climate Global Bonds strategy

At the forefront of the transition to a low-carbon economy, by investing in the winners of tomorrow.

### The principle

The Paris Climate Agreement presents a responsibility and an opportunity. Robeco Climate Global Bonds translates this commitment into an investment strategy. It invests in global fixed income in a way that strives to keep the temperature rise well below 2°C above pre-industrial levels, and pursues efforts to limit the temperature increase even further to 1.5°C.

### Investment objective and strategy

**Universe:** The strategy invests in a global aggregate portfolio of fixed income assets.

**Investment strategy:** An active strategy geared towards alpha generation throughout the credit cycle, driven by fixed income asset allocation, active euro and global rates management, FX and issuer selection. Climate change considerations are fully integrated in the investment process and portfolio construction, across multiple components.

This is a logical extension of our fixed income strategy range, given our experience with ESG integration in all of our sovereign bond and corporate credit funds, and the considerations around impact that we already apply in the SDG Credit range and our Green Bonds strategy.

The portfolio will start with a lower carbon emission intensity than the global market universe and will decarbonize at a rate of 7% per annum. Fossil fuel industries are excluded from the investment universe.

The strategy is part of the Robeco impact range and will have the 'sustainable investment' categorization in line with new EU regulation.

**Benchmark:** The strategy will be managed against a newly created index that ties in with the Paris agreement, which we refer to as a 'Paris-aware benchmark'. It will decarbonize at a rate of 7% per annum.

The credit segment of the strategy will start with a 50% lower carbon emission intensity than the global market universe and will be managed against a credit index that is aligned with the Paris Climate Agreement.

The EU benchmark regulation does not cover sovereigns. To safeguard alignment with the Paris Climate Agreement, the government bond segment of the strategy will be managed against an index that will be adjusted for CO<sub>2</sub> emissions per capita profile of the sovereign constituents.

**Performance target:** 100 bps over the cycle, through fixed income asset allocation, active euro and global rates (duration, curve and country) management, FX and issuer selection.

### The team

The strategy benefits from the expertise and proven track record of the Robeco Global Macro and Global Credits teams, as well as from our in-house sustainability expertise.

Our dedicated global team of macro and credit specialists are located in Rotterdam, London, New York, Singapore and Hong Kong and manages various global macro and credit portfolios. The team consists of 17 portfolio managers and 23 analysts.

# Fixed income solutions for the climate

Robeco acknowledges the responsibility the asset management industry has in addressing climate change risks, and is taking various steps towards contributing to the 2015 Paris Agreement.

## The asset management industry's responsibility

Robeco is committed to contributing to the 2015 Paris Agreement and acknowledges the responsibility the asset management industry has in addressing climate change risks. This commitment builds on our twenty-five-year track record in sustainable investing.

As a company, we are taking various steps towards reaching this objective. One important step in this regard is our ambition, expressed in December 2020, to achieve net-zero emissions by 2050 across all our assets under management. Robeco will develop a roadmap and set interim targets to meet this ambition. The targets will include reduction of

‘One important step in this regard is our ambition to achieve net-zero emissions by 2050 across all our assets under management’

portfolio emissions, but also investment in climate solutions such as green bonds.

Further, we will continue to engage with investee companies to drive emission reductions in the real economy and create real-world impact. We ask companies to implement a strong climate governance framework, to take action to reduce carbon emissions and to improve financial disclosures related to climate change.

Related to this, Robeco will continue to play a leading role in major collaborative investor initiatives that deal with climate change. These include Climate Action 100+, the Transition Pathway Initiative and GRESB.

We will also work together with and advise our clients on decarbonization goals that are in line with the ambition we have set for ourselves.

## Moving from the Paris Agreement towards practical impact

### Regulation provided in the EU Action Plan

The Paris Agreement was a milestone, providing global recognition of the need for urgent action to reduce climate change. It was followed by the EU Action Plan in March 2018, which is a far-reaching climate-related regulatory package for the financial sector. It is one of the most important translations of the Paris Agreement into regulation and it aims to promote capital allocation to economic activities that are environmentally sustainable and inclusive. The Action Plan encourages economic activity that is in line with the objective of the Paris Agreement: keeping the temperature rise well below 2°C above pre-industrial levels, and pursuing efforts to limit the temperature increase even further to 1.5°C.

### Equipping asset managers to become climate leaders

The Action Plan facilitates the creation of funds that meet EU regulation in terms of climate change and sustainability. It provides an EU classification system for sustainable activities – referred to as the taxonomy – and provides guidelines for developing sustainability benchmarks.

The latter was incorporated in the Low Carbon Benchmarks Regulation, which was implemented in December 2019, and is the basis for the decarbonization trajectory of the Robeco Climate Global Fixed Income strategies.<sup>1</sup>

The EU taxonomy for sustainable activities is critical in providing clarity for bottom-up issuer analysis in a fixed income strategy. It provides an encyclopedia of economic activity and helps financial players determine which activities qualify as sustainable from a climate change perspective, based on descriptions and thresholds.

<sup>1</sup> The regulation introduced a new category of benchmarks, referred to as EU Climate Benchmarks (the EU Climate Transition Benchmarks and the EU Paris-aligned Benchmarks), and sustainability-related disclosures for all benchmarks.



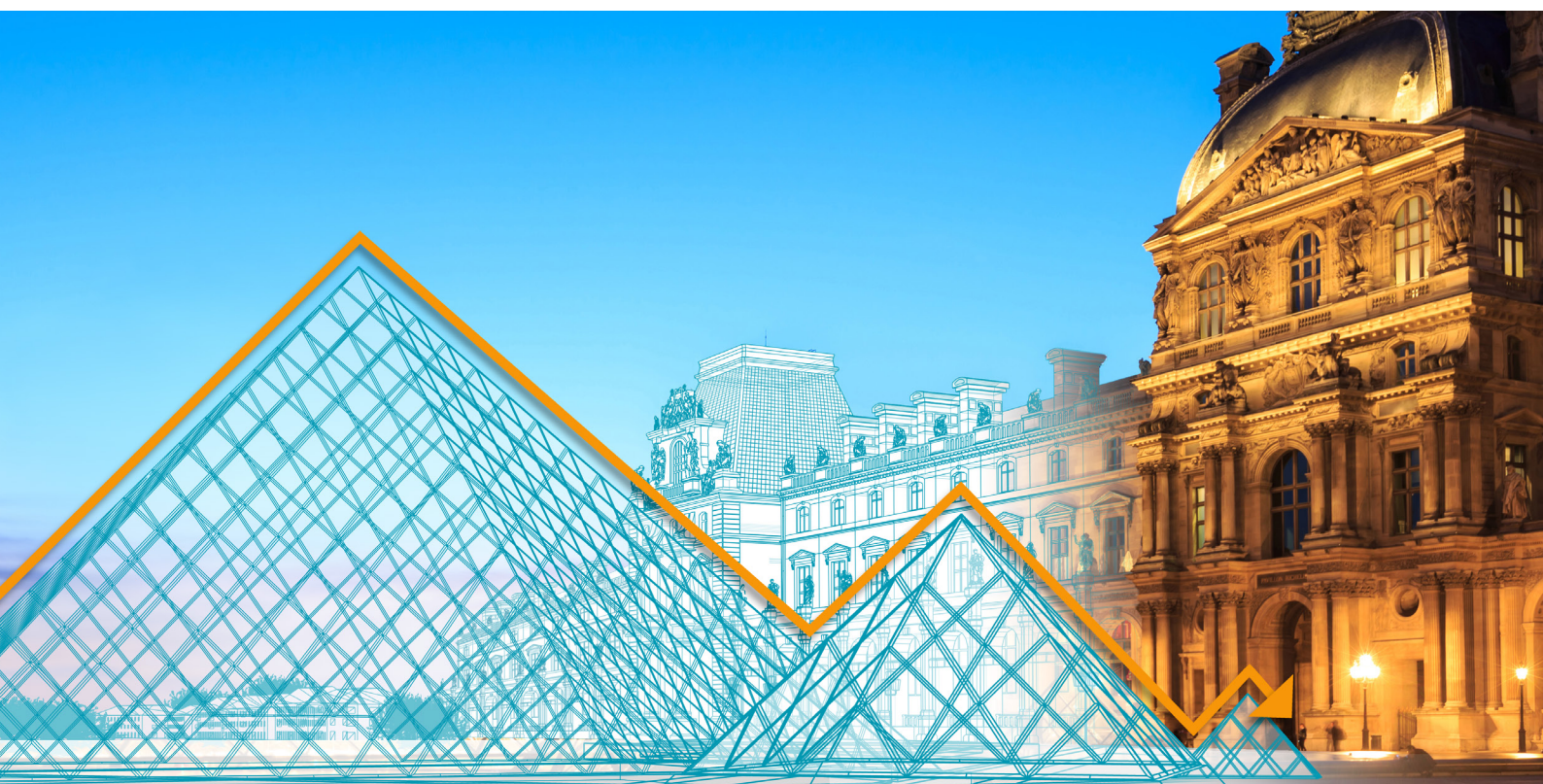
### Two new climate strategies that are aligned with Paris

As part of our focus on investing in climate solutions, we have introduced two climate global fixed income strategies that are fully aligned with the Paris Agreement. These are the Robeco Climate Global Bonds strategy – the world's first aggregate global fixed income strategy to be fully aligned with Paris – and Robeco Climate Global Credits.

‘These strategies build on Robeco’s established global credits strategy by fully integrating climate considerations into research and portfolio construction’

The strategies build on Robeco’s established global fixed income strategy by fully integrating climate considerations into research and portfolio construction. They draw on the tools provided by the EU Action Plan for Financing Sustainable Growth. These tools include the Paris-aligned Benchmark regulations and the taxonomy for sustainable activities.

Robeco Climate Global Bonds strategy is a logical extension of the sustainable approach we have in our fixed income range, given our experience with ESG integration in all of our sovereign bond and corporate credit strategies, and the impact considerations we apply in the SDG Credit range and our Green Bonds strategy.



# The Climate Global Bonds strategy

An active and contrarian investment strategy, with explicit climate targets that contribute to the goals of the Paris Agreement.

## At the forefront of the transition

The Robeco Climate Global Bonds strategy is a unique, fixed income-focused solution that reflects the decarbonization plan calculated by the Intergovernmental Panel on Climate Change. It invests in global fixed income assets in a way that strives to keep the temperature rise well below 2°C above pre-industrial levels, and aims to limit the temperature increase even further to 1.5°C. It provides for a 7% year-on-year decline in the portfolio's overall emission intensity. This is measured per capita for sovereigns and per unit of total capital for corporates.

Importantly, the regulatory requirements for a Paris-aligned Benchmark exceed the requirements of the Paris commitment. It is therefore appropriate that the EU Technical Group on Sustainable Finance describes Paris-aligned Benchmarks as "tools for investors with the willingness to be at the forefront of the transition, favoring today the players of tomorrow's economy".<sup>2</sup>

The high standards which Robeco pursues in following a demanding carbon-reduction trajectory for our investment portfolios reflects our commitment to combating climate change.

'The Robeco Climate Global Bonds strategy is measured against a newly launched Paris-aware benchmark'

Robeco Climate Global Bonds strategy is managed against a customized index which we refer to as a 'Paris-aware' benchmark. The credit segment of the index follows EU benchmark regulation, which sets out the requirements for a Paris-aligned Benchmark. EU benchmark regulation does not cover sovereigns. To safeguard alignment with the Paris Climate Agreement, the government bond segment of the strategy will be managed against an index that will be adjusted for the CO<sub>2</sub> emissions per capita profile of the sovereign constituents.

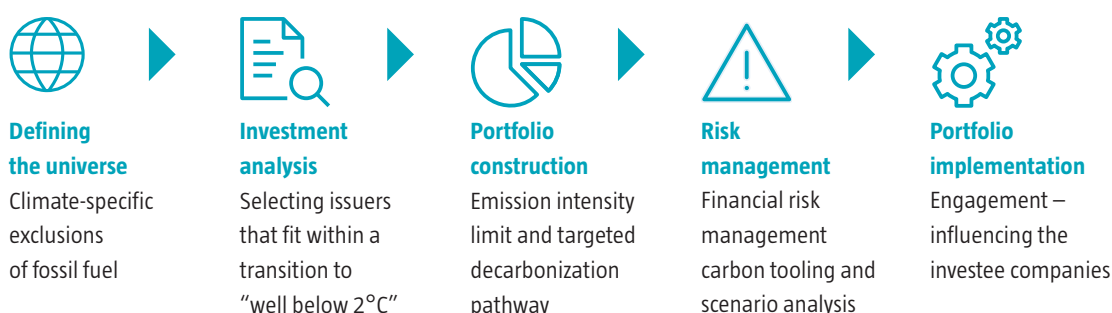
## An active, contrarian approach to climate change considerations

Robeco Climate Global Bonds is an active investment strategy that builds on our established global fixed income capability. It combines our top-down perspective on the macroeconomic and credit cycles with bottom-up issuer selection, to navigate market cycles, exploit market inefficiencies, and contribute positively to sustainable activity.

Climate change considerations are fully integrated in the investment process and portfolio construction, across multiple components (see Figure 1).

The investment approach is contrarian, value focused and research driven – backed by a highly experienced team of 23 macro and credit analysts, who are able to identify the best opportunities in global fixed income markets.

Figure 1 | Climate change is fully integrated in the investment process



Source: Robeco

<sup>2</sup> The EU Technical Expert Group on Sustainable Finance, "Report on Benchmarks", September 2019.

The Robeco Sustainable Investing Center of Expertise shares their input with the investment teams and our Data Scientist team provides insight into greenhouse gas emissions and their varying intensities.

### Using a disciplined investment process to find opportunities

We believe global fixed income markets are generally efficient. But our experience is that market regime shifts, cyclical overshoots due to fear and greed, structural rigidities among market participants, information asymmetries and behavioral biases create alpha opportunities for active

including sector preferences, sources of alpha and spread product beta positioning.

### Bottom-up issuer selection that is in line with the Paris Climate Agreement

The top-down view is combined with a bottom-up issuer selection process that is grounded in rigorous fundamental research and contributes positively to sustainable economic activity.

Robeco's team of seasoned fixed income professionals filter down the available investment universe to a select list of issuers. In our research set-up, our analysts are sector specialists, who cover all the sub-asset classes. They have a wealth of sector experience, ensuring we are well-positioned to capture value opportunities throughout the global rates and credit markets. Our bottom-up approach is further enhanced by sector, country and environmental, social and governance (ESG) research.

We select issuers by factoring in the CO<sub>2</sub> emission intensity of sovereigns, sectors and issuers. This is to ensure the strategy follows a decarbonization trajectory that reduces the portfolio's overall emission intensity by 7% on a year-on-year basis.

Furthermore, our approach is to invest in countries and companies that allocate capital towards activities that are in line with the EU taxonomy, and that are efficient in reducing their carbon emissions. This may include issuers whose emissions are currently high, as our criterion for allocating capital is that sovereigns and companies must be serious about making the transition to sustainable energy, and that they play an important role in ensuring such a shift.

### A Paris 'aware' index

EU regulation defines Paris-aligned Benchmarks. No such benchmark index exists for global aggregate fixed income yet. Moreover, the Paris-aligned Benchmark regulation covers only corporates, and does not incorporate guidelines and requirements for sovereigns. Robeco is innovating in this area, by working with Solactive to create a Paris-aligned Benchmark for fixed income investing. This is the index against which the performance of the Robeco Climate Global Bonds strategy is measured.

## 'The investment approach is contrarian, value focused and research driven'

managers who are nimble and can access liquidity. Mandate restrictions between high yield, investment grade and emerging market fixed income, between cash and CDS, and single-currency investors, for example, all result in market segmentation. This can create anomalies and opportunities between different parts of the global fixed income universe.

We harvest this information and these inefficiencies by following a disciplined and well-structured investment process. The strategy combines our top-down approach to macroeconomic and credit cycles – to determine overall risk positioning – with bottom-up fundamental research to identify the best investment opportunities that reflect the Paris-aligned framework.

### Our top-down positioning

The Robeco Global Macro Fixed Income Quarterly Outlook and Credit Quarterly Outlook processes drive the top-down perspective on fixed income asset allocation, global rates, FX and corporate bond markets. Given our considered view on the broader macroeconomy and our assessment on our current positioning in the market cycle, we evaluate bond market and sector fundamentals and valuations, as well as the prevailing technicals in the market.

Based on the output from the Quarterly Outlooks, the strategic and thematic direction of the portfolio is set,

The index is structured on the following principles:

For corporate bonds:

- It reflects a process of year-on-year decarbonization, equaling at least 7% on average per annum, based on the Scope 1, 2 and 3 emissions.
- All industries except fossil fuels are included, and sector weights are kept close to the broader market index
- Emissions are normalized by the total capital of issuers, measured in terms of book values

For sovereign bonds:

- The index reflects a process of year-on-year decarbonization, equaling at least 7% on average per annum.
- Decarbonization of the index will be achieved through decarbonization at a country level, as well as by adjusting the weights of individual sovereigns to establish a -7% annual trajectory on an index level.
- Country emissions will be normalized by the population size, measured in terms of CO<sub>2</sub> emissions per capita.

Despite these carbon-related constraints, our findings are that the index characteristics mimic those of the general market over time. Specifically, back-testing of the Solactive PAB Bond Index against the Solactive Global Bond Index gives favorable results, in that the behavior and nature of the two indices are very similar, with the important exception that the former has a strongly reduced carbon footprint.

### State-of-the-art risk monitoring and management

Risk management is a key aspect of all our investment processes, and covers credit risk, market risk, off-benchmark risk, liquidity risk, counterparty risk, currency risk and operational risk.

Robeco is a pioneer in credit risk management systems, having developed a proprietary credit risk model to monitor both issuers and model portfolios. The model uses spreads to capture market, sector and issuer volatility, and measures this as time-varying volatility.

Operational functionalities include fully automated daily reporting on the portfolio tracking error positioning.

### Tracking the impact

Reports will be provided of the fund's impact, which include data on its carbon footprint relative to the index and its alignment with the 1.5°C trajectory. The strategy will report on its performance and impact relative to the Paris-aligned index, as well as against the regular global aggregate index.



# Robeco's fixed income impact range

Robeco's Climate Fixed Income products are part of our fixed income impact range, and are subject to the same considerations as our extensive global fixed income capabilities.

## A suite of impact products

Robeco's Climate Fixed Income products are part of our fixed income impact range, and are subject to the same considerations as our extensive global credit capabilities. Our impact range consists of three strong propositions for investors wanting to allocate capital in a way that brings about positive change: Paris-aligned investing within a 1.5°C global warming scenario; financing the transition of companies by investing in bonds with dedicated use of proceeds; and contributing to the 17 SDGs by screening the investable universe on alignment with the SDGs.

'Our impact range consists of three strong propositions for investors wanting to allocate capital in a way that brings about positive change'

Robeco's Climate Fixed Income products allocate to bonds within the limits of the 1.5°C global warming scenario, and have a climate impact focus. These strategies are managed against a Paris-aligned index and generate alpha through credit selection (in the case of Climate Global Credits) or asset allocation, FX, rates and credit selection (in the case of Climate Global Bonds).

Our Green Bonds strategy is focused on environmental impact, and covers bonds issued by sovereigns, agencies and corporates, with proceeds that are earmarked for green projects. The strategy is managed against a green bond index and sources alpha through rates, credit selection and asset allocation.

The SDG Credits suite of products have a broad sustainability focus, and targets corporate issuers aligned with the 17 Sustainable Development Goals (SDGs). These strategies are managed against conventional indices and create alpha through credit selection.

# Conclusion

Our Climate Global Bonds strategy is an opportunity for investors wanting to be at the forefront of the transition to a low-carbon economy.

## **The latest innovation in our sustainable investing capabilities**

Robeco's Climate Global Bonds strategy is the most recent innovation in our sustainable investing capabilities. These capabilities have a track record that extends over a quarter of a century. Climate Global Bonds reflects our commitment to the spirit of the Paris Agreement and translates the Agreement into an opportunity for investors wanting to be at the forefront of the transition to a low-carbon economy. This active, contrarian strategy benefits from the expertise and proven track record of the Robeco Global Macro Fixed Income and Credits teams, as well as our in-house sustainability expertise.

It presents an opportunity for investors wanting to be at the forefront of the transition to a low-carbon economy.

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## Important Information

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#### Additional Information for investors with residence or seat in the United Arab Emirates

Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

#### Additional Information for investors with residence or seat in the United Kingdom

Robeco is subject to limited regulation in the UK by the Financial Conduct Authority. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request.

#### Additional Information for investors with residence or seat in Uruguay

The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

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