Climate Change Strategy and Governance

Robeco acknowledges the responsibility of the asset management industry towards climate change risks through the investment decisions that we make and the contact we have with investee companies and other institutions. We aim to make our contribution to the Paris Agreement ambition to keep temperature rise well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5°C. We also recognize the part that climate change risks plays in contributing to the UN’s Sustainable Development Goals (SDGs) 7, 12 and 13. Furthermore, we believe that climate change poses both risks and opportunities for our clients’ investment portfolios. We aim to identify and manage those risks.

We have signed the statement of support for the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD). From page 55 onwards of our Sustainability report, we explain our position in relation to the TCFD’s recommendations and our targets to reduce our operational footprint. In this climate change policy document, we describe our approach to measuring, monitoring and managing climate change in our investments.

Governance of climate risks

At Robeco, the Executive Committee is responsible for determining the company’s approach to sustainability. This includes defining company-wide values, policies, initiatives and actions related to climate change.

The Sustainability and Impact Strategy Committee (SISC) decides and advises the Executive Committee on climate-related actions.

The SISC has commissioned a Climate Change Task Force (CCTF) to enable further progress on this important issue. The task force consists of senior experts from Robeco’s Sustainability Research, Active Ownership, Risk Management and Investment teams. It acts as the central group of competence on climate change-related topics, adapting existing investment strategies, risk management, and active ownership activities.

The CCTF’s progress is reported to the SISC on a bi-monthly basis, while the Executive Committee is updated by the SISC once a month on relevant sustainability matters.

Our climate strategy

The empirical evidence that the global climate has been changing due to human activity, primarily through the consumption of fossil fuels and land-use changes, is overwhelming. We acknowledge that climate change, if unmitigated, will have an unacceptable long-term impact on society and the global economy. In view of this, we acknowledge the responsibility of the asset management industry in addressing climate change risks through its investment decisions and its contact with investee companies and other institutions. Given the high relevance of climate change for the global society and the investment community overall, we are working on adopting the following strategy:

1. Analyzing climate-related investment risks relating to our clients’ investment portfolios.
2. Raising awareness about climate change risks; engaging through dialogue with clients and the public; and engaging for change with the companies we invest in.
3. Integrating financially material climate change-related issues into our regular investment processes, where relevant for the business model.
4. Decarbonizing assets under management and aligning investments with an emissions reduction pathway that would limit global warming to well below 2°C. This applies to those assets where we have discretion over the investment approach, and so excludes client-specific mandates and client-specific funds.
5. External reporting on the portfolio’s environmental footprint and environmental impact for selected strategies.

In this policy, we elaborate on each element of our climate change strategy.
# How climate-related risks affect our investment portfolios and how we prepare

## Assessment

**Regulatory developments and market standards:**
Evolving climate-related standards may affect the way asset managers and clients need to integrate ESG considerations into their investment decisions.
- We expect related standards to strengthen in the next one to five years.

**Climate and ESG-related factor integration is becoming mainstream:**
The development of climate standards and disclosure requirements will help advance the integration of ESG. Our ESG-integration approach goes beyond simple exclusion and screening methodologies, focusing on factors in investments in general, turning ESG integration into a mainstream activity for asset managers.
- We expect related developments over the next five years.

**Investment risks and opportunities:**
Transition risks posed by climate change are highly likely to affect the value of our investments. Climate policy actions, technological innovation and market demand may shift (suddenly), leading to stranded assets in investment portfolios, or the gradual depreciation of fossil fuel-related or dependent sectors. These developments will be considered in our risk management and investment processes.
- Risks are likely to accelerate during the next 10 years.

The physical risks of climate change are likely to affect the value of our investments. Assets (often uninsured) and supply chains will be affected by climate change-related severe weather events and rising sea levels. Property losses, infrastructure disruption, workforce issues and loss of food production are only a few examples. These developments will be considered in our risk management and investment processes.
- Risks may occur anywhere between today and the next 30 years.

## Impact

**We monitor the development of standards and methods at regulators, standard-setting bodies, NGOs and so on.**

Developing capabilities to identify and assess climate risks (e.g. scenario and stress test approaches) will be of growing importance to meet this soft compliance pressure, which will likely turn into hard regulation.

**Our ESG-integration approach goes beyond simple exclusion and screening methodologies, focusing on outcomes (financial and non-financial) and active ownership.** To remain leading, we will invest further in climate research, active ownership specialists and technology. A critical factor for the coming years is to demonstrate the impact of ESG integration and active ownership in investment decisions and outcomes, and ensure all of our strategies are prepared for climate impacts.

**The CCTF is developing new approaches to climate risk assessment to safeguard our investment strategies, capitalize on climate opportunities, and expand our product offering.** This coincides with the increased demand from our clients for climate-resilient investment solutions.
- We partner with our clients to help them achieve their financial and sustainability objectives, and increasingly those related to climate change.
- Our fundamental and quantitative research already addresses certain aspects of transition and physical risk, but the quality of climate-related data available continues to improve, as more companies report and data providers improve their offerings. We continually improve the insights we gain from such data.
- The risk management department has developed climate stress testing to assess climate risks across specific portfolios and to our business model, and will also benefit from these new data sources.
Our climate strategy explained

Climate data and carbon accounting

Climate data
We acquire and generate various climate-related data that helps us understand the risks and opportunities that arise from climate change, as described above. Our analysts take this data and convert it into scores, footprint reports, impact reports and insights that are integrated across our range of asset management products and services.

Carbon accounting
We are developing an operational carbon accounting data infrastructure: a prototype that calculates carbon intensities and footprints across a variety of metrics (see metrics section for more details). The calculations are based on emissions data for scope 1, 2 and, to some extent, scope 3. These calculations have allowed us to assess and quantify the carbon emissions embedded in our investments across all our equity and corporate debt investments.

1. Climate change risk management
Robeco has in place a comprehensive Enterprise Risk Management Framework for the management of all relevant financial and non-financial risks. In this context, the Financial Risk Management department focuses on transition risk by visualizing carbon emissions and designing climate change scenarios in order to monitor the impact on client portfolios, both in equities and fixed income.

We assessed climate-related transition risks affecting investments by adapting a stress-test approach based on four different scenarios developed by the Dutch central bank. Each scenario is translated into an impact (shock on key macroeconomic variables) and then disaggregated to a meso level – one that falls between individuals and governments, such as an industry or community – using a multi-country macro-econometric model. The stress test discriminates between exposures to 56 industries based on each industry’s relative vulnerability to energy transition risks. As not all companies within a sector will be impacted in the same way, we have complemented this approach with company-specific climate scores based on comprehensive emissions data. Internally developed climate transition risk scenarios and sensitivity analysis are based on these scores. This allows us to calculate global industry shocks affecting our investments. The next step is to include physical risk scores.

2. Active ownership on climate change
We have a long track record of engaging with companies on their environmental, social and governance practices, and using our voting rights to support shareholder proposals that help address climate change risks. We encourage the implementation of proactive and ambitious

Country and company ESG research

Integration of ESG risks in Enterprise Risk Management Framework with a focus on climate
Decarbonization of investment portfolios
Active ownership on climate change
Integration in investment process

Analyze and identify
Manage and integrate

Analyze and identify

Report on footprint and impact

Report
environmental strategies, the pursuit of operational excellence, the creation of asset portfolio resilience, the innovation of business models, and responsible participation in the public policy debate. In our climate engagement program, we focus on industries most prone to climate change risks, such as energy, utilities, car manufacturers and real estate. Collaboration is important to achieve our engagement goals. We play an active role in several climate change collaboration platforms, most notably the Climate Action 100+ initiative.

### 3. Climate change research and integration in investment processes

Material ESG issues are systematically integrated in all our investment processes. The country and company research is done by the SI Research team and used by investment teams across the company. We have a systematic way of assessing the climate strategy and adaptive capacity of a company via the dedicated climate strategy questions in RobecoSAM’s Corporate Sustainability Questionnaire. These questions are aligned with the Carbon Disclosure Project (CDP). We also have access to forward-looking data in sectors where climate change poses material risks and opportunities (utilities, oil and gas, etc.). We address climate change issues through the evaluation of business models, corporate climate change strategies and products and services. Materiality research determines for which sectors and industries climate change is a relevant topic. When relevant, the climate change strategy of a company is analyzed and compared to its peers. Based on this analysis our sustainability and financial analysts work together to assess the impact on the company’s business model. By including the analysis on climate change in the investment process, our fundamental analysts have a better view of the risks (and opportunities) that companies are exposed to. We believe that systematically considering climate change issues is essential to the success of our investing strategies.

#### Climate-related exclusions

All Sustainability Focused funds and thematic and SDG funds are divested from mining companies which derive more than 10% of their revenue from thermal coal, and from power producers with more than 10% of thermal coal-related revenue. Thermal coal is predominantly used in power generation and is more carbon intensive than other sources of energy such as oil and gas. We focus on thermal coal because we consider that power generators have a choice of technologies and we expect them to move towards lower carbon alternatives.

#### 4. Decarbonization of portfolios

Our ambition is to decarbonize assets under management. This ambition applies to those assets where we have discretion over the investment approach, and so excludes client-specific mandates and client-specific funds.

We will decarbonize the portfolios for two reasons:

- **Risk-adjusted return perspective:** in the mid term, we see transition and physical climate change issues as a risk to investment returns. We believe that carbon-intensive sectors and companies will be more affected by these risks.
- **Systemic perspective:** in the long term, climate change needs to be solved in order to keep our societies and economies afloat. We believe the Paris Climate Accord is setting the right path for this. We are therefore committed to reaching the goals of the Paris Agreement and the Dutch climate accord. We acknowledge that decarbonizing portfolios does not directly decarbonize the companies we invest in, nor the economy. However we do believe that active asset allocation decisions can make a difference in society. We understand that the direct impact that can be made in secondary markets shorter term might be low. This is where fixed income and equity markets inherently differ, and were engagement versus denying financing might have different roles to play in different asset classes. That is why we apply both instruments for this purpose and use them effectively.

This means that we plan to decarbonize portfolios. As explained in this climate change policy we are taking action towards having the appropriate data and tooling in place, so that we can assess the expected consequences on our investment strategies. To this end we use a number of different metrics and targets to assess and control relevant risks and opportunities.

#### Metrics

Different industry standards recommend different metrics. Each metric has its advantages and disadvantages. We measure carbon exposure using two main metrics.

- **Weighted average carbon intensity (WACI)**: In line with the TCFD disclosure suggestion, we have measured the carbon intensity of our investments using the weighted average carbon intensity (WACI) approach, which makes emissions comparable across companies by dividing carbon emissions by revenues in a given year for each company we invest in.

The WACI approach is often used with the purpose of assessing carbon risks.

- **Carbon footprint**: In line with the EU taxonomy disclosure requirements for climate benchmarks and the Partnership for Carbon Accounting Financials (PCAF), we have also measured the carbon footprint of our investments by attributing carbon
emissions to their share of enterprise value, broadly defined as the combined value of equity and net debt.

This metric is aligned with ownership of carbon emissions and therefore often used to decarbonize portfolios with the systemic perspective in mind (normative).

**Setting targets**
In line with the International Panel on Climate Change’s recommendation to halve global greenhouse gas emissions by 2030 and reduce them to net zero by 2050, we have adopted the following approach:
- For strategies that are branded sustainable, the target carbon footprint is 20% lower than the benchmark. This reduction will be reassessed and possibly made more ambitious during 2020.
- We have subscribed to the Dutch National Climate Agreement and also the goals of the Paris Agreement. Therefore we have the ambition to report on emissions by 2020 and take action to contribute to companies achieving 49% CO₂ reductions compared to 1990 in a cost-effective way by 2030. Our contribution could comprise a combination of approaches, including CO₂ reduction targets for portfolios where possible, engagement, and financing CO₂-reducing projects. However, targets have not been officially set, as further data, research and tooling are necessary.

We are increasing investment in resources in this area to ensure that our subsequent decisions and commitments are well researched. So far we have performed an initial analysis to understand our carbon exposures.

**5. Footprint and impact reporting**
Robeco offers its clients full reporting on GHG emissions for all portfolios managed, using both intensity and ownership metrics. For our Sustainability Focused fund range the GHG footprint is also part of the public reporting in the monthly Portfolio Manager’s Update.

Impact reporting is also available for the thematic funds with a focus on investing in companies that contribute to sustainable development. An example is shown in the figure below.

**Scope of the climate change strategy**
The different elements of the climate change strategy and how they are applied to our fund range is depicted below:
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