

# Robeco's Principles on Fund Governance

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## 1. Introduction

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Robeco Institutional Asset Management B.V. (Robeco) manages on a professional basis assets entrusted to it by third parties. Robeco assumes a fiduciary responsibility. Robeco's motto is to Deliver Superior Results Through Inspired Investing. Robeco has defined a set of core values including integrity, quality orientation, client orientation, result orientation - defined as creating value for our clients - and cooperation. These core values have been incorporated into Robeco's Code of Conduct. Robeco delivers on these principles through a sound fund governance. Where Robeco's interests are in line with the interests of third-party customers this involves running a professional organization with the necessary checks and balances. When interests clash the issue becomes more sensitive and the principles of fund governance come into play. The purpose of this document is to show how Robeco handles governance issues. These often take the form of conflicts of interest between Robeco as fund manager and the investors in the funds. The principles are minimum requirements for Robeco for the management of the Dutch and Luxembourg funds.

## 2. Fund Governance at Robeco

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Robeco is committed to operate its fund management activities in a fair and reasonable manner. This means that paramount attention must be given to managing potential conflicts of interest. Should conflicts of interest nevertheless occur, Robeco should deal with these situations in accordance with its fiduciary duty to act in the best interest of the investor.

To accomplish this, Robeco has defined the set of principles given below for specific situations commonly defined as conflicts of interest. When dealing with potential conflict of interest situations, Robeco will primarily endeavor to reasonably and fairly apply the specific principles defined herein. In situations that may not be covered by these principles, Robeco will in general seek to apply international best practices to the extent available. Robeco pledges to resolve any such situation, having due regard for the interests of the investor and Robeco's fiduciary duty, after reasonable and fair consideration of all the relevant facts and circumstances. We call this process 'conscientious consideration'.

It is supported by a structure in which the Executive Committee of Robeco bears ultimate responsibility for compliance with the principles. Compliance carries out periodic reviews on the application of fund governance principles in the business operations. Another part of Robeco's fund-governance mechanism is formed by regular fund-principle audits within Robeco's business operations. These audits are carried out by Internal Audit. The Supervisory Board of Robeco fulfils the role of oversight entity with regard to fund governance. It has the task to check whether the management company fulfils its duty to act in the interest of the investors in its funds and complies with the law and these principles.

## 3. Principles of fund governance

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### 3.1 Principles

#### **Managing conflict of interests**

Paramount attention is given to manage potential conflicts of interest. Measures are embedded in the organization to avoid conflict of interest. An outline of the conflict of interest policy, which describes the main areas of potential conflict of interests, is published on the website. Should conflicts of interest nevertheless occur, Robeco deals with these situations in accordance with its fiduciary duty to act in the best interest of the investors.

#### **Product Quality**

Robeco is firmly committed to develop quality products designed to provide added value for investors. The timely consultation of all relevant parties involved in the fund-structuring process improves such quality and reduces reputational risk. All product proposals are therefore reviewed by the Product Approval Committee (PAC), which focuses on product quality and the identification and proper addressing of conflicts of interest. The PAC consists of Robeco's Executive Committee and the heads of Compliance, Risk Management and Product Management.

#### **Asset Valuation**

The valuation of portfolios managed by Robeco is based on the principle of fair value, taking into consideration applicable legal requirements and the guidelines described in the prospectus of the respective fund. Robeco ensures that valuation of assets and calculation of Net Asset Values (NAV) are performed independently from the portfolio management function.

#### **Fund Unit Trading**

Robeco has procedures to prevent late trading in units of its funds, i. e. it normally does not accept orders of clients after the determined cut-off time. In order to protect the fund from the potential negative impact of market timing transactions, Robeco has taken several measures, such as calculating NAV after the cut-off time (forward pricing).

#### **Transparency**

Robeco strives for an open relationship with the investors by providing relevant, clear and understandable information. This includes information on investment policy, investments, risks, costs and management fees, affiliated parties and outsourcing. Robeco observes the applicable laws and regulations as a minimum requirement. Examples are:

- The characteristics of a fund are clear, the risks are explained and there are no ambiguous conditions;
- All fees charged by Robeco and their connection to services rendered are clear;
- The maximum subscription and minimum redemption prices in relation to the NAV are clear; and;
- All performance-related information is aligned with Global Investment Performance Standards (GIPS) guidelines.

#### **Change in the conditions of a Fund**

During the lifetime of an investor's investment a fund's conditions may change. In that case Robeco will suitably inform the investors in good time in accordance with the applicable laws, regulations and the fund's conditions. Robeco strives to ensure that such information is easily accessible, clear and understandable for all investors. If the proposed changes have a negative impact on conditions for the

investor (e.g. a rise in fees), or if changes in the investment policy of a fund are proposed, the investor in an open-ended fund shall always have the right to divest on the then prevailing conditions within a reasonable period before the proposed changes are effected.

#### **Unforeseen Costs during the Lifetime of a Fund**

A fund may be confronted with unforeseen, extraordinary costs and expenses. These may be caused by changes in tax treatment, increased regulatory costs, administration and custody fees, or by unusual circumstances such as nationalization, a moratorium, market disruption or other irregular market circumstances.

If the costs are the result of circumstances outside Robeco's control, or if the costs are made in the best interest of the investors, such costs are in general borne by the fund, if legally allowed. In all other cases, Robeco shall bear these costs or may elect to propose to change the conditions such that these costs shall then be borne by the fund (see 'Change in the conditions of a fund' above).

#### **Services from Affiliated Parties**

Robeco funds could make use of services from inter-group companies or other affiliated parties. These services will be executed on arm's length basis and will be disclosed properly.

#### **Best Execution**

In implementing and executing investment decisions, Robeco shall as a general rule take reasonable steps to obtain the best possible result, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other relevant consideration. In particular, transactions with members of ORIX Corporation will be executed on arm's length terms customary in the market.

#### **Fair Allocation**

Robeco may generally execute transactions on an aggregated basis to obtain more favorable commission rates or other transaction costs than if such orders are placed individually. When aggregating orders, all portfolios shall be treated fairly and systematically. Robeco adapted a similar policy for IPO allocations.

#### **Broker services**

Robeco will ensure that the selection of counterparties for trade execution (brokers) will take place according to defined procedures and criteria, taking into account execution capability and - where applicable - quality of investment research ("Research"). In addition to an execution only fee (excluding a fee for Research), brokers may charge a transaction fee consisting of two elements: a fee for the execution of an order and a fee for Research. A fee for Research is only paid if such Research is directly instrumental for improving the investment decision-making process within Robeco. Research can be paid for through commission sharing arrangements ("CSA") or through full service fees. In a CSA the cost of Research is split from the execution costs. Subsequently, the fee for Research will become a credit of Robeco at its broker account. Robeco transfers this credit to a research house or broker who provides Research without executing any trades for Robeco. This way, the broker who, in the opinion of Robeco, provides the best investment research will be paid. By splitting the execution and the investment research it is accomplished that in both areas the best brokers can be selected.

#### **Securities Lending**

Robeco is transparent in a fund's prospectus and annual report with regard to the possibility of lending the portfolio securities of such a fund. The risk/reward relationship of lending activities for the fund shall in essence be reasonable and fair and in line with market practice. Robeco will act in accordance with best practices from the ICGN Guidance on Securities Lending from the International Corporate Governance Network.

### **Personal Interest and Remuneration**

Robeco endeavors to structure its remuneration systems in line with market practices and in such a way that conflicts with investors' interests are avoided. Where potential conflicts are conceivable, monitoring measures will be implemented in order to ensure that these conflicts are properly managed and addressed. We consider the fact that employees, members of the Executive Committee and members of the Supervisory Board can participate in Robeco's funds as a 'stake of confidence'. Private investment transactions of employees, members of the Executive Committee and members of the Supervisory Board are monitored. This is to ensure that we can steer clear of appearing to act with inside information.

### **Costs and Damages as a Result of Operational Errors**

Robeco's ambition is to deliver services to its clients through faultless processing. Nevertheless, in a human environment operational errors can never be entirely excluded.

Therefore, Robeco carries adequate insurance coverage for damages and costs incurred by the fund due to operational errors. Robeco's liability will be limited to the insurance coverage, except for gross negligence and/or willful misconduct.

Damages caused by errors in the calculation of the net asset value of a fund (NAV errors) and exceeding a certain tolerance threshold shall be compensated by the fund, taking into account a de minimis amount. Or if applicable the amount will be compensated by the management company to the fund.

### **Voting Rights**

Robeco, in its function as investor, acts as an engaged shareholder and therefore makes use of the relevant voting rights. Robeco votes for all investment funds for which the costs of voting are not expected to have a noticeable, negative influence on the investment results. With respect to securities lending it is Robeco's practice that the lent shares are recalled in exceptional circumstances. These refer to enabling Robeco to vote on significant items or when there is an indication of potential voting abuse (empty voting by lender). The voting policy and the votes cast per investment fund can be found on [www.robeco.com](http://www.robeco.com).

### **General Meetings of the Funds**

Robeco will endeavour that beneficial owners of shares or participants in its investment funds can participate and vote in the general meetings of the funds. Robeco will suitably inform the investors of the time and location as well as the agenda of such meetings in accordance with the applicable laws, regulations and the fund's terms and conditions.

Robeco will endeavour that – when the funds are offered and administered through a so-called 'effectengiro' – the beneficial owners of shares or participations in Robeco funds will be granted voting rights in the general meetings of the funds.

Robeco's offered 'effectengiro' – representing only the legal ownership of the shares or participations in the funds – will abstain from exercising its voting rights.

### **Public Communications**

It is Robeco's conviction that all public communications in respect of its funds must give true, accurate and complete information on the character, the costs, the risks and, if included, the past or simulated performance of such product to the extent reasonably practicable. Information in advertisements for Robeco products will be balanced in the presentation of sound commercial information and the technical facts and risks necessary for potential investors on which they can base their judgment. Robeco is transparent in its commercial information. Application of and compliance with applicable legal and regulatory standards shall serve as a minimum requirement.

### **Market Abuse**

Robeco has installed 'Chinese Walls' in order to manage the flow of price-sensitive information and other confidential market information. Since Robeco is part of ORIX Corporation, there is an organizational, physical and personnel segregation up to the highest possible level between Robeco and the other parts



of the ORIX Corporation. Furthermore, there is an organizational and personnel segregation between the Robeco business lines to the extent that this is reasonably necessary relative to their activities. This means that employees report hierarchically only to their managers and appropriate information-sharing barriers are in place to prevent dissemination of sensitive market information. No price-sensitive or confidential market information is exchanged between business lines other than is required to effectively carry out their work.

### **3.2 International Best Practices**

In specific conflict situations where the above principles would not provide clear guidance Robeco endeavors to apply international best practices to the extent available. This means that Robeco may apply those standards that are commonly applied by peers in comparable situations and comparable markets or those standards which are endorsed by organizations of market practitioners and which are widely accepted and applied in the market.

### **3.3 The Principle of 'Conscientious Consideration'**

However well-defined and refined, a system of specific principles, even while supplemented with a set of international best practices, cannot always guarantee sufficient external guidance to deal with specific conflict situations. A fund management organization should independently reach a solution which does justice to its fiduciary role and responsibilities. Robeco therefore pledges that it shall, in all cases, endeavor to resolve any governance issues having due regard for the interests of the investor and Robeco's fiduciary duty, and after reasonable and fair consideration of all relevant facts and circumstances. This process, which we call 'conscientious consideration' shall be conducted at the level of the Executive Committee.

## 4. Implementation and Enforcement of Fund Governance

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The above mechanism of principles, international best practices and conscientious consideration are implemented within the Robeco organization in the following manner:

1. Robeco has identified the main areas for conflicts of interest between the management organization on the one hand and the investors in the funds on the other hand. All employees have the individual responsibility to address these conflicts and to adhere to mitigating principles and procedures.
2. Standards and policies give substance to the fund principles. Robeco Compliance monitors, as part of its annual compliance monitoring program, compliance with these standards and policies. Compliance officers take part in management company meetings. Issues of fund principles are addressed and discussed in these meetings. Compliance reports to the Executive Committee and Supervisory Board at least once a year on the monitoring activities performed to ascertain the application of the fund principles.
3. Internal Audit periodically audits adherence to fund principles. Every principle shall be audited at least once every three years. Internal Audit reports its findings to Robeco's Executive Committee and Supervisory Board.
4. In the day-to-day management the organization will encounter situations that are not covered by the above principles or that require the principles to be updated. Such situations shall be presented to the Executive Committee of Robeco. The Executive Committee shall resolve these points by applying the concept of 'conscientious consideration'. This may lead to an amendment of the principles. The Supervisory Board shall be kept informed about the outcome of these discussions. The director(s) of the fund or the fund-management organization can submit any subject for 'conscientious consideration' or report any issues to the Supervisory Board.
5. The Executive Committee of Robeco bears ultimate responsibility for compliance with these principles. The annual report of the funds shall contain a paragraph specifically devoted to this subject and shall contain in addition to the legal requirements of the relevant regulator, a statement on compliance with these principles of fund governance.

## 5. In conclusion

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The mechanisms provided for herein are a living instrument offering standards and good practices. To stay abreast of constantly changing circumstances in the financial environment, Robeco will closely follow developments in fund governance, identifying trends and seeking remedies to new challenges.

Robeco is aware that trust and integrity play an important role in the financial industry. It is Robeco's sincere intention that these principles of fund governance, together with the Code of Conduct and further internal policies and standards will help to maintain a culture in which professional and ethical behavior of the staff of Robeco is recognized, valued and promoted.