ROBECO
The Investment Engineers

Good Governance Test

The EU Sustainable Finance Disclosure Regulation ("SFDR") requires that products classified as Article 8 or Article 9 products do not invest in (securities issued by) companies who do not follow good governance practices[1]. This policy describes how Robeco determines if and when a company does not follow good governance practices and is therefore excluded from the initial investment universe for Article 8 and 9 products (the 'Good Governance Test'). For purposes of the Good Governance test, Robeco has defined 7 criteria as set forth below. These criteria reflect widely recognized industry- established norms.

Indicator	**SFDR topic**	**Metric ***	**Weight****
1. Employee Relations	Employee Relations	The company is compliant with the 3rd principle on labor relations on the UN Global Compact and is not on the non-compliance list.	Required 100%
2. Bribery Corruption, and Business Ethics	Management Structure	The company is compliant with the 10th principle on anti-bribery and corruption of the UN Global Compact and is not on the non-compliance list	Required 100%
3. Accurate Reporting to Markets and the broader Public	Management Structure	The company has published unqualified audited financial statements and reports	Required 100%
4. To have Board Oversight on Functioning of Management	Management Structure	The Supervisory Board, if applicable, has at least one independent board member	Required score of 3 out of 4
5. Tax Behavior	Tax compliance	The company has no significant controversies on Taxation and Accounting	
6. Consistent Remuneration issues	Remuneration	Companies that have a significant shareholder dissent and do not follow basic expectations on golden parachutes and claw back provisions.	
7. Breaches of shareholder rights and Governance incidents	Management Structure	The company has no Issue Codes on 'other governance issues' and Active Ownership 'assessment principles.	

* Data sources used can be found in Robeco's data disclosure documentation (https://www.robeco.com/docm/docu-robeco-sfdr-data-disclosures.pdf). For this test Sustainalytics Data is used in relation to indicators 1, 2 and 5. MSCI data is used for indicators 3, 4 and 6. Glass Lewis information lies at the basis for indicator 7.

** The allocated weight reflects that adherence to the UN Global compact guidelines and basic reporting requirements are expected for all corporate asset classes.

Brief explanation:

1. Employee relations: Sound employee relations contribute to employee wellbeing, foster a company's productivity and working environment. Good governance ensures the absence of high or severe conflict or controversies in the workplace. Governance practices differ as in how stakeholders' interests are prioritized. In any case companies should not be in structural conflict with their employees and adhere to the UN Global Compact principle on labor practices ('third principle').
2. Business ethics: Business ethics relate to how a business should act in the face of ethical dilemmas and controversial situations. Good governance practices ensure there are no high or severe controversies.

[1] The good governance requirement forms part of the definition of sustainable investment in article 2(17) of SFDR; the meaning of good governance practices in this context is not further specified in SFDR or any laws or rules promulgated thereunder.

3. Accurate reporting: Companies should have reporting structures that provide the investing public with the most relevant business activities throughout the year and financial statements, which should be subject to external audit/review.
4. Oversight: Companies should have a supervisory board that oversees management activities on behalf of shareholders and other stakeholders in the company. The supervisory board must have at least one independent board member, meaning that the member has no ties to company, their executives, and any of their shareholders other than being a member of the board.
5. Tax compliance: Robeco believes that truthful reporting of taxable income and timely payment of tax dues are cornerstones of the healthy functioning of societies. As a minimum, companies must adhere to local tax laws and be aware of and observe the state, federal, and international tax laws and requirements set forth by local government officials and other taxing authorities. Companies that show behavior that significantly breach tax regulations do not exhibit good governance. A tax dispute with an authority in itself is not necessarily a sign of poor governance. Robeco also believes that it is important for companies to have a tax policy and to be transparent on both the tax principles applied and the tax contribution that is paid in the jurisdictions they operate.[2]
6. Remuneration: Companies that receive a significant 'against'-vote from shareholders on their executive remuneration, are assessed if basic remuneration safeguards are in place. This includes having adequate claw back provisions in place and prohibiting excessive change of control provisions. If a company does not comply with any of these requirements, it does not meet the basic expectations of good governance.
7. Shareholder rights: Companies should respect basic shareholder rights, including applicable company law and the basic rules of the shareholder meeting. In case of a violation of shareholder rights, a company does not meet the basic expectations of good governance.

The Good Governance Test is not applied to investments in securities issued by sovereigns or supranational entities as part of Article 8 or 9 products, however separate sustainable investing measures for sovereigns are in place and can be found on our website. The policy currently also does not apply to products that are not managed directly by Robeco but are distributed by Boston Partners, a wholly owned subsidiary of the ORIX Corporation Europe N.V., as Boston Partners has its own good governance policy in place[3].

To be able to assess Robeco's full investment universe, a data driven quantitative Good governance test was developed that can be used globally and across all asset classes. As a result, it is a basic governance expectations test, meeting only our minimum Good governance standards. Once a company passes this test other due diligence and governance practices are applied that fall outside the scope of this Good Governance policy:

(I) ESG Integration - governance criteria are used by the investment teams to determine the attractiveness of a security as part of ESG integration and investment analysis,
(II) Proxy voting for all votable holdings, in line with Robeco's Stewardship Policy - Once securities are in portfolio, voting is used to further push for improvements in corporate governance
(III) Engagement of investees, in line with Robeco's Stewardship Policy – in case of a breach of Good governance standards.

The assessment process

The Good Governance Test is performed by data driven analysis based on external data vendors and maintained in Robeco's internal systems. For companies that do not have sufficient data, two remediation efforts will be followed; 1) data vendors are approached to increase data coverage where needed, 2) data is collected on the basis of a predefined questionnaire in line with this policy

[2] Engaging companies on transparency regarding tax principles and tax contribution will be an integral part of Robeco's stewardship proposition.
[3] https://www.boston-partners.com/uploads/2021/09/1a7bc0cf1c8fdb7bcf68b7273263afeb/corporate-governance-policy.pdf

by Robeco from public company documentation, management engagement or other reliable sources. On an annual basis missing data is tested and reported to the SISC. The additional data will be logged in the systems as described below. The Investment teams are supported by Robeco's SI Center of Expertise, which comprises all of Robeco's Sustainable Investment (SI) professionals, including SI Research.

Divestment or engagement

Companies that fail the Good Governance Test are not eligible for Article 8 or 9 products. For these ineligible companies, all related investment instruments (e.g. equity, bonds, derivatives on respective companies) are in scope. The list of excluded companies does not apply to index derivatives or to proprietary index construction. The ineligible instruments should be divested within three months after the outcome of the Good Governance Test has been approved. If selling is not possible for liquidity reasons, then buying is not allowed. Once selling is possible at a reasonable price, holdings will be sold.

Alternatively, for an ineligible company the portfolio manager can choose to submit a request for engagement within 30 days. Such request must be approved by the Controversial Behavior Committee within 30 days of submission. A request for engagement must be supported by Robeco's Active Ownership department, determining that a credible case can be made that engagement can lead to improved Governance practices and a positive assessment within one year. In case the Controversial Behavior Committee approves the engagement request, the Good Governance test is deemed to be met and the company does not need to be divested during that year. If the request is rejected, the ineligible instruments should still be divested within the original three months period.

Responsibility Review and Monitoring

The dedicated body for the governance of sustainable investing at Robeco is the Sustainability & Impact Strategy Committee (SISC) which includes members of Robeco's Executive Committee. The SISC is responsible for (i) approval of the policy, (ii) reviewing the functioning of the policy at an annual basis, and (iii) reviewing the list of non-eligible companies, including the companies under engagement, every 6 months.

The Controversial Behavior Committee is mandated by the SISC to decide on requests for engagement within the context of this Good governance policy, and acts as escalation committee in case the investment team disagrees on the data going into the Good governance assessment. The Controversial Behavior Committee is chaired by the Controversy Engagement Specialist. Members are Robeco's Chief Investment Officers, the head of Sustainable Investing, the head of SI Research, the head of the SI Research Board and the head of Financial Risk Management. The head of Compliance acts as Advisory member.

Robeco's risk management function is responsible for ensuring the proper risk controls, also in relation to this policy. Adherence to this Policy and its restrictions is part of the control framework (ORM, Compliance and Internal Audit) and monitored regularly. The restrictions following the Good governance assessment are coded by the risk management function and strictly adhered to.

Sufficient controls are in place to make sure that an event or changed circumstance is flagged when it affects the assessment. The outcomes of the assessments, decisions from the Committee and duration of engagement processes are logged in a central registry and monitored.

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