Approach to Principal Adverse Impact

ROBECO INSTITUTIONAL ASSET MANAGEMENT
1. Introduction

Robeco actively advocates sustainable investing (SI) by integrating environmental, social and governance factors (ESG) into the investment process in various ways. As a part of this approach, Robeco engages in activities that aim to mitigate the negative impact of our investments, including:

- Complying with regulation and following market best practices in relation to Stewardship
- Mitigating the negative impact of our investments by using several sustainable investments building blocks, including Exclusions, ESG Integration and Proxy Voting & Engagement
- Continuously evolving our approach to human rights, climate change and biodiversity.

Figure 1: Robeco’s approach to mitigating negative impact

Robeco’s current approach to mitigating negative impact allows for the integration of Principal Adverse Impact, as introduced by the EU SFDR Framework, in our investment processes. This document outlines the requirements of the EU SFDR Framework in relation to Principal Adverse Impact, the current overlap between Robeco’s approach and the concept of Principal Adverse Impact, and the actions that we take to be compliant with the SFDR Framework.
2. Principal Adverse Impact

2.1 Introduction
The concept of Principal Adverse Impact (PAI) is described in the EU Regulation on sustainability-related disclosures in the financial services sector (SFDR). The definition of PAI is as follows:

"Negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity."

More concretely, the SFDR framework will require the consideration of 18 mandatory indicators on greenhouse gas emissions, biodiversity, water, waste, and social indicators applicable to companies, sovereigns and supranationals, and real estate assets. In addition, there are 22 additional climate and other environment-related indicators defined, as well as 24 additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters on which reporting and integration is encouraged.

In the following paragraphs we describe how Robeco aims to avoid negative effects of our investments on sustainability factors in relation to the process steps outlined in the SFDR Framework:

- Identifying Principal Adverse Impact
- Prioritizing Principal Adverse Impact
- Addressing Principal Adverse Impact
- Reporting on Principal Adverse Impact

Last, we will also describe the governance in relation to Principal Adverse Impact.

2.2 Identifying Principal Adverse Impact
Robeco has different methods to identify adverse impact, based on an extensive data set derived from multiple data providers. Following the Level 1 SFDR framework published by the EU in November 2019, Robeco identified datapoints to measure the provided preliminary metrics, based on data from the S&P Corporate Sustainability Assessment (CSA).

The data points have been integrated in an PAI screening tool (see Figure 2), that allows for the screening of our funds on the preliminary indicators provided. In the coming months, this tool will be aligned with the criteria as laid out in the EU SFDR Regulatory Technical Standards (RTS) published in February 2021. For this update, alternative data providers will be considered.

Important to note is that data availability and quality related to several sustainability metrics is an evolving field. Data sources will be reviewed on an ongoing basis, to ensure that best available data will be integrated. If data is unavailable, Robeco might make use of assumptions. By June 2021, we will provide more in-depth information with regards to our approach concerning the PAI indicators, data sources and measurement.

2.3 Prioritizing Principal Adverse Impact

In line with the fund classification outlined in the SFDR, Robeco will prioritize PAI indicators per strategy. To perform the prioritization, Robeco will use the standards provided in the recently published RTS. It is expected the prioritization of PAI will be following the ESG priorities and sustainable objectives of the funds, and meet our general expectations of companies to commit to good governance principles outlined in our Stewardship Policy. More detailed descriptions will be provided in the Principal Adverse Impact Statement by June 2021, and the product disclosures by January 2022.

2.4 Addressing Principal Adverse Impact

Robeco addresses adverse impact in its investment considerations through a wide range of methods ranging from ESG Integration, Exclusions, and Active Ownership, amongst other building blocks. In addition, as an organization, Robeco has made several commitments related to climate change and biodiversity, amongst other topics, which are relevant to mitigating potential adverse impact as a company. These approaches are explained in the following paragraphs. It should be noted that Robeco acts in accordance with applicable regulation and aims to lead in the implementation of relevant Stewardship codes. More information can be found on our approach to the Shareholder Rights Directive II as well as in in our Stewardship Policy.

More detailed descriptions on our strategy to address PAI indicators in the future will be provided via the Principal Adverse Impact Statement by June 2021, and fund level disclosures required by January 2022.

2. Art 6, 8 and 9 SFDR.
2.4.1 Approach to Exclusions
Robeco believes that some products and business practices are detrimental to society and incompatible with sustainable investment strategies. Therefore, certain exclusion criteria are applied that are outlined in the Exclusion policy. These minimal standards overlap with several PAI indicators in relation to controversial weapons and controversial behavior in breach with the UN Global Compact and OECD Guidelines for Multinational Enterprises. Robeco will apply this policy to all assets under management from all funds over which we have full discretion, including those funds sub-advised by group members, but excluding discretionary mandates and client specific funds. In all funds managed by Robeco, the general exclusion policy applies as standard. Funds where only the general exclusion policy is applied qualify for the category ‘Sustainability Inside’. All other funds either fall into the categories ‘Sustainability Focused’ or ‘Impact Investing’. For these categories, stricter exclusions apply.

More information can be found in Robeco’s Exclusion Policy.

More information can be found in Sustainability Policy.

2.4.2 Approach to ESG Integration
Even though assets are managed with different strategies and investment objectives to fit clients’ needs, there is a companywide philosophy that companies (and countries) that act in a sustainable way towards the environment, society and all its stakeholders are likely to be more able to deal with a variety of sustainability issues in the future of their business or endeavors. Altogether, Robeco distinguishes three kinds of ESG strategies: sustainability inside strategies, sustainability focused strategies and impact strategies.

More information on our ESG Integration approach per ESG strategy and capability can be found in Robeco’s Sustainability Policy.

2.4.3 Proxy Voting
As a shareholder Robeco is co-owner of many companies and has a right to vote on shareholder meetings for those companies. We use our voting rights with the aim to influence company’s corporate governance and other relevant investment related decisions in the best interest of our clients. The Robeco voting policy consists of principles, guidance, and example scenarios to assist in determining our voting instructions. Broadly, Robeco votes against management recommendations in case of poor corporate governance practices, when proposals are not in the best interest of long-term shareholders and on any other proposal that is out of line with our policy principles. By Proxy Voting policy we aim to encourage good governance principles and address poor governance by voting against management or filing shareholder resolutions. In our policy, we outline our principle with regards to several PAI indicators, amongst other in relation to board diversity and separation of the Chairman/CEO roles.

More information on our voting approach can be found in Robeco Stewardship Policy.

2.4.4 Corporate Engagement
Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios, and is piloting engagement with sovereigns. The outcomes of our engagement efforts are communicated to analysts, portfolio managers, and clients, enabling
them to incorporate this information into their investment decisions as part of Robeco's integrated Sustainable Investing framework.

Engagement consists of a constructive dialogue between institutional investors and investee companies to discuss how they manage ESG risks and seize business opportunities associated with sustainability challenges. Robeco carries out two different types of corporate engagement with companies in which we invest: value engagement and enhanced engagement.

- Value engagement is a proactive approach focusing on long-term, financially material ESG opportunities and risks that can affect companies’ valuation and ability to create value. The primary objective is to create value for investors by improving sustainability conduct and corporate governance.

- Enhanced engagement focuses on companies that severely and structurally breach minimum behavioral norms in areas such as human rights, labor, environment and anti-corruption. The primary objective of enhanced engagement is to address reported shortfalls against internationally accepted codes of conduct for corporate governance, social responsibility, the environment and transparency such as the UN Global Compact and OECD Guidelines for Multinational Enterprises. In this approach, we monitor companies on several PAI indicators in relation to human rights, labor standards, the environment and anti-corruption.

More information can be found in our [Stewardship Policy](#).

2.4.5 Public Policy Engagement

Robeco engages in public policy engagement. Engagement with governments, government related agencies, or regulators can add value to our engagement program. Therefore, we take part in consultations and provide feedback on regulations that facilitate a better or level playing for ESG issues. Engagement is never intended to unduly influence the political process and Robeco only conducts engagement on public policy where it is deemed appropriate and transparent. Most of our engagement activities on this topic are coordinated through the various investor associations and collaborative groups of which we are members. Policy engagements that are done via these collaborative platforms can be relevant from an equity investor perspective, from a bondholder perspective, or from both perspectives.

Also, as part of our commitment to making financial markets more sustainable, Robeco works together with a diverse range of institutions. Our active contribution to these important global platforms for collaborative action on sustainability issues enables us to help shape the global investment agenda.

More information on our commitments can be found in the overview of [Sustainable Investing Memberships, Statements, and Principles](#).

2.4.6 Thematic approach: Human Rights

Part of Robeco’s corporate responsibility is its duty to respect and uphold human rights, as outlined in the Universal Declaration of Human Rights, and to integrate human rights considerations into its daily business operations. Robeco’s commitment towards human rights outlines the expectation that our employees, suppliers, business partners and portfolio companies will respect human rights in their business activities. Robeco has signed the United Nations Global Compact (UNGC) and endorses the OECD Guidelines for Multinational Enterprises and lives by these principles and
guidelines. Robeco’s human rights approach is thus aligned with the UNGC and OECD Guidelines, as well as the United Nations Universal Declaration of Human Rights, the International Labor Organization’s (ILO) labor standards and the United Nations Guiding Principles for Business and Human Rights (UNGPs).

More information on our Human Rights approach can be found in the Sustainability Policy.

2.4.7 Thematic approach: Climate change
In December 2020, Robeco announced that it has the ambition to achieve net-zero greenhouse gas (GHG) emissions by 2050 across all its assets under management.

More information on our Climate Change approach can be found in the Sustainability Policy.

2.4.8 Thematic approach: Biodiversity
In September 2020, Robeco announced to have signed the Finance for Biodiversity Pledge. In the Pledge the signatories call upon world leaders to reverse nature loss this decade and commit to collaborating, engaging, assessing their own biodiversity impact, setting targets and reporting on biodiversity matters by 2024 at the latest. In addition to the formation of a working group to meet those commitments, Robeco has started an engagement program on Biodiversity, with a focus on the biodiversity impact of deforestation that is linked to five high-risk crop commodities – cocoa, natural rubber, soy, beef, and tropical timber and pulp.

More information on our approach to Biodiversity can be found in the Sustainability Policy.

2.5 Reporting on Principal Adverse Impact
Robeco will report on Principal Adverse Impact in line with the expectations outlined in the SFDR. This translates into the following:

Entity-level disclosures
- Robeco will publish an updated Principal Adverse Impact Statement by June 2021.
- First entity level disclosures will be provided by June 2022.

Fund-level disclosures
- More information on how Article 8 and 9 funds consider Principal Adverse impact will be outlined in the prospectus and Key Investor Information Documents (KIID) before January 2022.
- Per January 2023, the performance of funds against the indicators, and a description of how Principal Adverse Impacts were considered, will be provided through regular fund reporting.
2.6 Governance of Principal Adverse Impact

Robeco’s Sustainable Investing Center of Expertise acts as the focal point for our sustainable investment activities and delivers expertise and insights to the investment teams, who are then responsible for the integration of ESG into their individual investment capabilities. Day-to-day activities are overseen by the Head of Sustainable Investing. The CIO Fixed Income and Sustainability is ultimately responsible for sustainable investing. At this point in time, the ownership of the Principal Adverse Impact Statement is within the Sustainability Impact and Strategy Committee (SISC). Governance may evolve throughout the following months. The first update of this statement will be made by 30 June 2021.

Contact

Robeco Institutional Asset Management B.V.

Carola van Lamoen
Head of Sustainable Investing

Weena 850
3014AD Rotterdam
The Netherlands

c.van.lamoen@robeco.nl

www.robeco.com