ROBECO
The Investment Engineers

ROBECO INSTITUTIONAL ASSET MANAGEMENT

Sustainability risk integration & operational impact

January 2025

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1. Introduction

Robeco's corporate mission is to enable our clients to achieve their financial objectives through superior returns and solutions. Sustainability is key in fulfilling that duty and a key pillar of Robeco's corporate strategy. We are convinced that investee companies with sustainable business practices have a competitive advantage and are more successful in the long term. A proactive approach to measuring, managing and mitigating sustainability risk is therefore an essential part of our sustainable investing approach.

Robeco integrates relevant sustainability risks in all aspects of its investment strategies, client solutions and organization. This includes investment analyses and decisions, investment advice, risk management, product governance & client suitability assessment processes, as well as the organizations governance of these processes.

This document aims to provide a comprehensive overview of Robeco's sustainability risk integration approach. It is based on underlying policies, procedures and tools, which are outlined in this document.

The document is made publicly available on Robeco's website and updated on a regular basis[1].

1.1 Regulatory framework

Our sustainability integration measures comply with relevant provisions of the EU Sustainable Finance Framework, e.g.:

- Information disclosure requirements with respect to sustainability risk integration at entity and product level (regulation on sustainability- related disclosures in the financial services sector - SFDR).
- Provisions to integrate sustainable risks in investment due diligence and risk management policies & processes, and governance structures (UCITS Delegated Directive 2021/127, AIFMD Delegated Regulation 2021/1255 and MIFID Delegated Regulation 2021/1254).
- Provisions to integrate ESG factors in mandatory client suitability assessment & product governance processes (MIFID II Delegated Regulation 2021/1254 and MIFID Delegated Directive 2021/1269).

The European Securities Markets Authority (ESMA) and national competent authorities have conducted a Common Supervisory Action (CSA) on sustainability-related disclosures and the integration of sustainability risk in 2023 and 2024.

1.2 Evolving field

This document outlines our current measures for integrating sustainability risks. However, this field is evolving. The available data, expertise and technology to identify, measure and mitigate sustainability risks will probably increase over time. Therefore, we will regularly review and, where relevant, recalibrate our sustainability risk integration processes to ensure that these remain fully in line with these innovations.

1. Art 3 SFDR requires financial market participants and financial advisers publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process and their advice

2. Sustainability risk identification

2.1 Definition of sustainability risks

Sustainability factors – such as environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters – may have a positive or negative impact on the financial performance of our investments[2]. While sustainability factors can also have positive impacts (opportunities), the sustainability risks for the purpose of integration are defined as the negative materialization of the factors. Sustainability as a risk factor is relevant to all investments, while sustainability opportunities are typically relevant to the products that have an ESG objective. For its sustainability risk integration approach Robeco applies the definition of sustainability risk included in the EU Sustainable Finance Disclosure Regulation (SFDR).

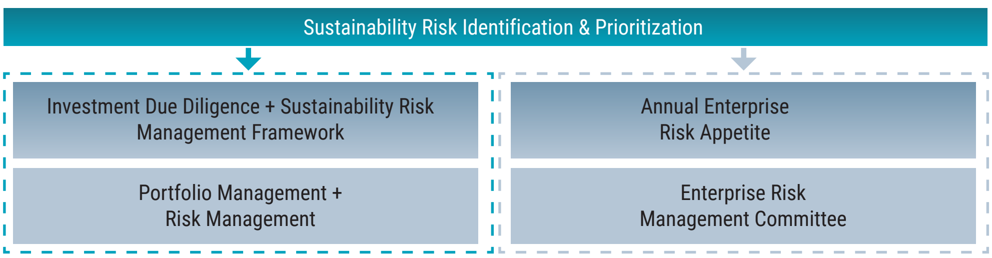
'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.[3]

This definition is also used in the amended rules under UCITS, AIFMD and MIFID II frameworks, which cover the majority of the mandatory policies and process requirements, as well as the organizational related requirements regarding sustainability risks. The definition has two core elements (1) an event/ condition from the broad ESG spectrum that (2) could (potentially) cause a material negative impact on the value of the portfolio. This means that Robeco is expected to identify relevant ESG risks and subsequently determine which of them are material in the short, medium and long term regarding its investment strategies.

2.1.1 Identification

Sustainability risks can be climate-related, or related to other environmental, social and governance practices. Sustainability risks can be identified across asset classes, sectors and geographies, or on the basis of length and maturity. Robeco uses various proprietary and external tools to identify and evaluate sustainability factors and related risks. Our Investment Due Diligence and Risk Management frameworks are the basis for the different investment teams and risk management functions to identify and evaluate potential sustainability risks for our investment portfolios.

Once identified and evaluated as financially material for an individual investment portfolio, sustainability risks and the mitigation thereof are directly integrated in the related investment and risk management processes.



In parallel, we run a holistic materiality analysis at entity level – as part of our annual internal risk appetite review – of potential risks, including sustainability risks, relevant to our business activities. Integrating climate-related and environmental risks into the internal risk appetite increases Robeco's resilience to such risks and improves its ability to manage those risks. This company wide risk assessment provides an additional source/ check to the sustainability risk evaluations made by the different investment teams and risk management functions within Robeco and is used to confirm that all potential risks have been properly identified and prioritized.

The sustainability component of our internal risk appetite, currently primarily focusing on carbon emission mitigation, is adopted by the Enterprise Risk Management Committee (ERMC) after consultation with Robeco's Sustainability Impact & Strategy Committee (SISC).

Robeco runs an Internal Capital Adequacy Assessment process and internal Risk Assessment Process (ICARAP) to assess the level of capital that adequately supports all relevant current and future risks in their business. The potential financial impact of climate risk is incorporated in this assessment.

2. Art 2(24) SFDR.
3. Art 2(22) SFDR.

2.2 Sustainability risks

Climate-related risks are the financial risks posed by the exposure to an investment that may potentially contribute to, or be affected by, climate change. Following the adoption of the Paris Agreement, governments are endeavoring to transition to low-carbon and more circular economies on a global scale.

We assess climate risks for all investments. Transition to a low-carbon and more circular economy entails, beyond opportunities, risks for the regions, industries and companies in which Robeco invests, whilst physical damage caused by climate change can have significant impact on those regions, industries and companies as well as the wider financial system.

Robeco seeks to take a forward-looking and comprehensive approach to considering climate-related risks. To run climate change scenario analyses and measure climate risk, Robeco has developed proprietary tools in addition to possible third-party data provider solutions. To assess the impact of climate change, Robeco primarily uses (forward looking) scenario analysis available via Climate Value-At-Risk which is a measure of the likely impact climate change can have on the return of a portfolio's holdings.

Risks related to climate-related factors are t well-known, and methodologies and data to calculate and apply these are relatively mature. However, our sustainability risk identification and prioritization assessments are not solely restricted to climate issues. Other environmental factors (such as air pollution, water pollution, scarcity of fresh water, biodiversity loss and deforestation), social issues and governance practices may also present serious risks to the value of our portfolio investments and are therefore also considered.

Environmental and social risks are closely interrelated. The continuous deterioration of environmental conditions implies heightened social risks, such as when climate-related physical changes or water stress affect deprived parts of a geographical area and already disadvantaged populations. Reputational impacts are then also possible. Poor governance practices and/or significant social issues may also have material financial impact on portfolio investments if the probability of their occurrence is not sufficiently priced into the valuation of the affected assets or liabilities.

Therefore, Robeco's sustainability risk identification covers a broad range of ESG factors, including (but not limited to):

Key sustainability Factors

Environmental	Social	Governance
Climate change vulnerability	Compliance with recognized labor standards	Risk & Business continuity management
Carbon pricing	Compliance with employment safety and health protection	Integrity and ethical behavior
Biodiversity	Fair working conditions, diversity, and training and development opportunities	Information security and data protection
Environmental waste & pollution	Product safety and customer wel-fare	Board composition and remuneration
	Infectious diseases	Regulatory and Tax Compliance
		Political instability

2.2.1 Sustainability risk characteristics

The relevance of a sustainability risk type for a portfolio depends on both the investment strategy and the risk type characteristics. Some sustainability risks may potentially have a negative impact on all investment strategies, while others may only affect specific companies or sectors. The time horizon, likelihood of occurrence, likely impact and ability to control some sustainability risks are often uncertain.

Sustainability risks may become relevant and lead to pressure for action in the short term, as well as over the medium and long-term.

2.3 Relation with established risk categories

Sustainability risks are often related to and may have an impact on other risk categories or may be a factor to their materiality. Examples of the relation of sustainability risks with established risk categories include:

1. Credit risk/counterparty default risk: The business model of an issuer of a bond may be severe-ly damaged by transition risk.
2. Market risk: An investee company that does not demonstrate management for transition to-wards a sustainable economy may lose value due to a decline in market sentiment (reflecting transition cost expectations)
3. Liquidity risk: If climate-related and environmental risks materialize (e.g. natural disaster) we may experience substantial outflows and/or a fund liquidity mismatch related to the financially material impact of physical risks on our operations in one or more relevant markets.
4. Operational risk: events like extreme weather conditions and epidemic diseases may impact our operations in one or more regions.
5. Data availability risk: sustainability risk integration underscores the need for reliable and high quality ESG information. ESMA has acknowledged that there are operational challenges in-volved with 'getting reliable data on sustainability risks and factors'[4]. The ECB has highlighted this as an impediment to the consistent use of ESG data by market participants and stresses that unreliable ESG data and ratings limit users in their capacity to conduct granular financial risk analyses[5].

Robeco acknowledges the relation of sustainability risks with established risk categories and therefore holds an integrated view on sustainability risk management. Robeco incorporates sustainability risks as drivers of aforementioned established risk categories into Robeco's existing risk management framework, with a view to managing and monitoring these risks over a sufficiently long-term horizon.

4. In its 2019 final report on ESG risk integration in UCITS and AIFMD, p. 18 (ESMA34-45-688).
5. Eurosystem reply to the European Commission's public consultations on the Renewed Sustainable Finance Strategy and the revision of the Non-Financial Reporting Directive (https://www.ecb.europa.eu/pub/pdf/other/ecb.eurosystemreplyeuropeancommissionpublicconsultations_20200608~cf01a984aa.en.pdf).

3. Sustainability risk governance & remuneration

3.1 Governance

Robeco's management board and key officers appointed to manage Robeco (together the Executive Committee, ExCo) bear overall responsibility for monitoring the implementation of the business, risk strategy and governance arrangements. Accordingly, the Executive Committee is also responsible for the strategic considerations of integration of sustainability risks connected to its business activities and governance and control.

Collectively, the members of the Executive Committee are equipped with sufficient knowledge to ensure that sound and well-informed decision are taken. Key function holders of the Executive Committee – in particular the Chief Investment Officer and the Chief Financial Risk Officer - are individually suitable including that they have sufficient knowledge, skills and experience with regard to sustainability factors and related risks in their management function. For a full overview of our internal risk governance we refer to our integrated annual report

3.2 Remuneration policy

Robeco's remuneration policy is consistent with, and promotes, sound and effective risk management and does not encourage risk taking which exceeds the risk profiles of the portfolios we manage[6]. We consider appropriate incentives-based mechanism vital to support achieving our investment performance goals within an appropriate risk culture and to account also for relevant sustainability risks. Sustainability related KPIs are set to ensure decisions are taken in line with the relevant sustainability risk considerations related to investment strategies and also facilitate the implementation of relevant ESG risk-related factors consistent with our sustainability risk policy.

6. Art 14b (1)(a)(b) UCITS Directive, Annex II AIFMD.

4. Investment Due Diligence

Our Investment Due Diligence policy sets out how it is ensured that investment decisions are carried out in compliance with the objectives, the investment strategy, the sustainability profile and, where applicable, the risk limits of the portfolio. We have integrated sustainability risks in the investment decision-making process in the belief that this leads to better-informed investment decisions and better risk-adjusted returns throughout an economic cycle.

Portfolio managers and analysts are primarily responsible for conducting investment due diligence on their strategies on a daily basis. With respect to investment guidelines and restrictions monitoring, they are supported by independent monitoring, performed by the Financial Risk Management and Investment Restrictions departments.

4.1 Methods used for assessment and evaluation of sustainability risks

Overall sustainability risks are integrated in Robeco's investment due diligence processes by using the Exposure Method[7]. This means that we directly assess the performance and risk exposure in terms of E, S and G at the individual investment level. This is done both (i) at point of security selection and (ii) during the monitoring of investments.

The evaluation of ESG sustainability takes place through Sustainable Development Goals impact and ESG integration policies, exclusions and engagement dialogues with investee companies. Strategies may also have specific sustainability related objectives or investment themes. These different sustainability criteria are implemented to varying degrees, depending on the investment strategy. The sustainability data and criteria used for managing these strategies are addressed in the following paragraphs of this section.

To assess the impact of climate change, Robeco uses available (forward looking) scenario analyses provided by MSCI.

4.2 Sustainability research as a key research pillar

Within Robeco, every investment decision is research driven; this may include fundamental, quantitative and sustainability research. Integrating sustainability risk means systematically integrate financially material ESG issues into the investment processes. This includes both the impact an investment has on society and the impact of the society on the investment. The portfolio managers can leverage on analysts, including analysts in the SI research team, and the expertise of other investment teams within Robeco. Quantitative investment strategies are largely model based. Portfolio managers of Robeco's Quantitative strategies benefit from the expertise of quantitative researchers in managing their strategies.

Important input for analyzing companies' corporate sustainability are external sustainability resources, environmental data providers and a range of other sources like company disclosures, industry reports and meetings with investee companies' management. For countries we make use of the proprietary Country ESG Ranking methodology.

More information can be found in the Sustainability Integration document on our website: Sustainability policies and positions.

4.2.1 Exclusion policy and negative screening

The Robeco exclusion policy entails the exclusion of companies based on controversial behavior (based on breaches of the UNGC, UNGP, ILO standards and OECD Guidelines for Multinational Enterprises) and excludes or applies criteria for controversial products (including controversial weapons, tobacco, unsustainable produced palm oil and certain fossil fuels). In addition, we consider investing in government bonds (federal or local) of countries where serious violations of human rights or a collapse of the governance structure take place as unsustainable. In addition, we follow applicable Sanctions of the UN, EU or US to which it is subject and follows any mandatory (investment) restrictions deriving therefrom.

In all funds managed by Robeco over which it has full discretion, the general exclusion policy applies as standard. For funds with an enhanced sustainability profile stricter exclusions may apply. Towards its discretionary mandates clients, Robeco advocates applying the Robeco exclusion policy.

For selected strategies, additional negative screening might be applied tailored to the sustainable characteristics or objective pursued by the strategy.

More information on exclusions can be found in our exclusion policy on our website: Sustainability policies and positions.

4.2.2 ESG Integration

The vast majority (>95%) of our investment strategies integrate ESG factors into the investment process. This can be done via corporate ESG scores and / or by analyzing the impact of financially material ESG factors to a company's competitive position and value drivers. For fundamental equities, if ESG risks are significant, the ESG analysis could impact a stock's fair

7. EBA 23 June 2021 Report on management and supervision of ESG risks for credit institutions and investment firms (EBA/REP/2021/18).

value and the portfolio allocation decision. The Country ESG Ranking is used to determine the country ESG risk. For investment strategies that are implemented for almost 100% by derivatives, we do not integrate ESG.

4.2.3 Climate focused investing
Certain strategies aim for having, next to providing long term capital growth, a lower environmental footprint than their index on greenhouse gas emissions, water use and/or waste generation, and/ or may be managed against a climate transition or a Paris Aligned benchmark.

4.2.4 SDG Investing
SDG (Sustainable Development Goals) investing aims at producing both an attractive return and alignment with the Sustainable Development Goals. To measure a company's alignment with the SDGs, Robeco has developed a three-step framework. SDG strategies focus on multiple goals by investing in companies with a neutral to positive contribution to the UN SDGs and/ or helping business to achieve positive impact through engagement.

More information on the Robeco SDG framework can be found in SDG Investing | Robeco Global.

4.2.5 Transition investing
Investing in companies that can enable climate, biodiversity or social transition by providing products and services that are needed to make the transition possible, in companies that make the transition by transforming their business models and by selecting securities through which we can finance the transition. Examples are green and social bonds.

More details can be found How to invest in the transition | Robeco Global.

4.2.6 Sustainability-themed investing
Sustainability-themed investments contribute to address social or environmental challenges by aiming to invest in companies offering solutions to these issues. These issues may be, but are not limited to, population growth, food security, natural resource scarcity, energy security and climate change.

4.2.7 Green/ Social & Sustainability labelled bonds
For certain strategies we invest in green, social and/ or sustainability bonds whose proceeds are used towards environmental and/ or social objectives. Green, social and sustainability bonds are analyzed based on an internally developed five-step framework.

More details can be found ESG Bond Frameworks.

4.2.8 Active ownership
As a signatory to the United Nations Principles for Responsible Investments, Robeco's dedicated Active Ownership team conducts engagement activities based on clearly stated objectives. A relevant subset of companies globally in clients' equity and credit portfolios are targeted for a constructive dialogue on environmental, social and governance factors. The Active Ownership department engages with the aim of increasing long-term value for investors.

More information can be found in Stewardship approach and guidelines.

4.3 Implementing sustainability across investment strategies

4.3.1 Equity strategies
Equity strategies (quantitative and fundamental) incorporate ESG integration, exclusions and a voting and engagement overlay in the investment process. In addition to this there can be portfolio specific sustainability objectives, which can be found in the pre-contractual disclosures. Sustainability objectives are applied in a consistent way across our fund range. The sustainability profile may include limits or additional requirements (see also paragraph 5.2.5).

4.3.1.1 Fixed Income strategies
For fixed income investment funds, ranging from government debt to credit and from fundamental to quantitative, a similar approach is followed compared to the equity strategies. Fixed income strategies incorporate ESG integration, exclusions and an engagement overlay in the investment process. The portfolio specific requirements can be found in the pre-contractual disclosures.

4.3.1.2 Multi-Asset strategies
Robeco multi-asset strategies primarily invest in Robeco funds, for which the integration of sustainability risks is described above. For direct investments the same investment due diligence is performed as described in the relevant paragraph for equity and fixed income. Capabilities from other asset managers might be selected if no comparable Robeco product is available. An ESG analysis will be part of the selection process.

4.3.1.3 LDI and Buy & Maintain strategies
Insurers and pension funds face the imperative of finding investment solutions that generate sufficient returns while also managing risk and being compliant with regulations. The LDI strategies hold positions in Core Euro government bonds and related entities for reasons of liquidity and creditworthiness. The Country Sustainability Ranking and underlying research is

used as input for assessment of the structural outlook for a country. Furthermore, the LDI strategies may have a minimum aggregate allocation to Green, Social, Sustainable and Sustainability-linked bonds.

Buy-and-maintain portfolios are bespoke by nature, they are ideally suited for incorporating impact investing and can be customized to meet investors' sustainable investing requirements very precisely, including net-zero commitments, focus on UN SDGs and sustainable bond investments. Extensive proprietary tooling, which includes portfolio optimization and monitoring, is in place to ensure that the portfolio meets the client preferences on risk and return, but also on the sustainability characteristics.

4.4 Monitoring adherence to investment guidelines

Each portfolio conforms to a series of internal guidelines and restrictions to promote diversification and minimize material risk, including risk stemming from sustainability factors, while facilitating the actively managed nature of the portfolio. These portfolio and investment guidelines are monitored by the investment team. There are pre- and post-trade compliance checks in place for the sustainability binding elements monitored by the restrictions team. There is an annual quality control process in place to ensure ESG integration is done according to the frameworks described above.

4.5 Principle Adverse mpacts

Investment decisions can lead to negative, material or likely to be material effects on sustainability factors. These negative impacts are also referred to as Principal Adverse Impact (PAI). On an entity and portfolio level, Robeco has identified and prioritized adverse impacts and indicators on sustainability factors relevant to the organization's overall investment strategy.

Analysts and portfolio managers consider the adverse impacts in investment due diligence procedures through various methods ranging from exclusions, information from SDG contributions, reduction (emission) thresholds, and voting and engagement. Robeco has published a Principal Adverse Impact Statement on its website to explain to investors and prospective investors its due diligence policies on how it takes the principal adverse impacts which investee companies have on sustainability factors into account when making investment decisions.

5. Risk management framework

5.1 Independent monitoring of sustainability risk

Robeco's Portfolio management teams in the first line are responsible for the daily management and monitoring of portfolios, including any sustainability risks. From the second line, the Financial Risk Management (FRM) department performs an independent monitoring function, overseeing market, liquidity and sustainability risks and applying stress tests to capture potential extreme losses. The monitoring of sustainability risks is described in the Sustainability Risk Policy (SRP). This policy describes sustainability risk limits and controls and the way any possible exceedances of these risks are coped with.

5.2 Sustainability Risk Policy

The Sustainability Risk Policy (SRP) sets out procedures that enable the risk management function to assess the material sustainability risks and addresses tools and arrangements to measure, calculate and manage the sustainability risks. Furthermore, the SRP describes the governance around escalation of exceedance in sustainability risk exposures.

5.2.1 Governance structure

The SRP is managed and maintained by Risk Management (RM). Approval of the policy takes place by the Risk Management Committee (RMC). Evaluation and ratification of the policy takes place each year. The RMC is informed about sustainability risks of portfolios each quarter.

5.2.2 Scope

The policy applies to all funds of which Robeco has full discretion. In case of mandates, the monitoring primarily takes place based on client preferences stated in the Investment Management Agreement (IMA). Sustainability risk targets and controls defined in the IMA are directly monitored from the second line. Additionally, the mandates are by default monitored in line with the related fund strategy. This is shared with the client by a SFDR disclosure document. In case the client actively decides not to make use of this additional control, the mandate is exempted from monitoring of sustainability risk restrictions. Aside the investment restrictions, all funds and mandates are monitored on a variety of metrics and characteristics by FRM (See paragraph 5.2.6).

5.2.3 Approach

The Sustainability Risk Policy is based on three pillars that together form the policy:

- The first pillar entails the minimum sustainability requirements that are applied to all Robeco strategies.
- The second pillar entails the promotion of environmental or social characteristics by addi-tional sustainability related investment restrictions.
- The third pillar entails an assessment of sustainability risks for all portfolios which may lead to further in-depth analysis of individual portfolios. In this analysis special attention is paid to sustainability themes such as climate risk, biodiversity, and social risks.

The first two pillars entail strict sustainability risk limits, while the third pillar entails an active dialogue based on financial risk assessments between the first and second line instead of limits.

5.2.4 Pillar 1: Minimum sustainability requirements

All funds managed by Robeco are subject to an exclusion list which prevents the exposure towards controversial issuers, hereby mitigating sustainability risk. Exclusions are based on two types of criteria: type of activities and type of behavior (governance). Table 2 shows an overview of the binding elements related to the exclusion policy.

Table 2: Pillar 1 – Binding elements

Exclusion Type	Category	Description
Activity based exclusions	Corporates	Companies are excluded based on certain exclusion criteria with regards to prod-ucts (including controversial weapons, tobacco, palm oil, and fossil fuel) and business practices that Robeco believes are detrimental to society and incompati-ble with sustainable investment strategies.
Behavior based exclusions	Corporates	Companies that do not act in accordance with the United Nations Universal Declara-tion of Human Rights, the International Labor Organization's (ILO) labor standards, the United Nationals Global Compact (UNGC), and the OECD guidelines for multina-tional enterprises are excluded from the portfolios, unless they are part of Robeco's enhanced engagement program.
	Governments	Robeco deems investing in government bonds (federal or local) of countries where serious violations of human rights or a collapse of the governance structure takes place as unsustainable. Robeco applies a country exclusion test. To identify these countries, Robeco makes use of our Country Exclusion Framework in which we use data from World Bank, Freedom House, Fund for Peace, and internation sanction lists.

The activity-based exclusions that are applied may differ depending on the type of strategy. All funds are subject to the Robeco exclusion list. Depending on the fund strategy sustainability characteristics, the exclusion list is extended and becomes more stringent. Adherence to the exclusion list is monitored by the Investment Restrictions (IR) department.

5.2.5 Pillar 2: Promoting E/S characteristics

Based on the strategy's commitment to sustainability, risk limits and thresholds are determined. Based on the sustainability activities and commitments, monitoring takes place to check whether strategies are compliant with these sustainability targets and objectives. The table below, gives an insight in the way this is done.

Table 3: Pillar 2 – Binding Elements

Restriction type	Description
ESG Targets	Minimum ESG criteria can be incorporated in several ways, such as relative versus a benchmark or in absolute portfolio targets. There are three types of binding elements that are part of the strategy to enhance the ESG profile measured by an ESG Risk Rating System.
ESG profile versus the benchmark	Products may need to adhere to a minimum the overall ESG profile versus its benchmark. The lower the sustainability risk appetite, the stricter the limit. The ESG profile is assessed using the Sustainalytics ESG Risk Rating methodology
Elevated risk profile	Products may commit to a maximum exposure to companies with an elevated risk profile. Additionally, an investment case needs to be discussed and approved by the controversial behavior committee. The elevated risk profile is evaluated using Sustainalytics ESG Risk Ratings and represent a company with a score higher than 40.
Country sustainability profile	Funds that invest in government bonds commit to a minimum average sustainability score of the portfolio. The data used to assess a government's sustainability profile is the Robeco Country Sustainability Ranking.
Carbon footprint reduction	Products may commit to a maximum carbon footprint relative to their benchmark, including Paris-alignment. For products that apply a maximum carbon footprint relative to their benchmark, measurement takes place by normalizing the greenhouse gas (GHG) emissions by Enterprise Value Including Cash (EVIC). The GHG emissions are derived from the Robeco Carbon database of which Trucost is the prime underlying data vendor. For products that follow a Paris-aligned benchmark, the same metrics and data are used as in the index methodology which in practice entails ISS for fixed income and MSCI for equities.
Water footprint reduction	Products may commit to a maximum water footprint relative to their benchmark. The water footprint is measured by normalizing the cubic meters of water used by EVIC. The water footprint is based on Trucost data.
Waste footprint reduction	Products may commit to a maximum water footprint relative to their benchmark. The waste footprint is measured by normalizing the tons of waste generated by EVIC. Trucost is the vendor of the waste data used.
Sustainable Development Goals	Robeco's SDG Framework is a tool for explaining whether a fund attains a sustainable investment objective in line with the Sustainable Development Goals, and if it is avoiding harming environmental or social objectives. Products may incorporate SDG scores by excluding assets with low scores or by solely investing in positive SDG contributors. Furthermore, products may limit concentrations to lower SDG scores and aim for a weighted average score better than the benchmark. Based on the sustainability category and the SFDR classification monitoring takes place.
Minimum allocation measures	Strategies may incorporate additional measures to enhance the E/S profile by committing to a minimum allocation towards sustainable assets.
Green, social, sustainable, and sustainability-linked bonds	Funds may commit to a minimum exposure to either Green, Social, Sustainability bonds, or a combination of all. These positions are identified by using the International Capital Market Association (ICMA) definitions of these types of bonds.

As results of the binding elements, our products contain to a minimum percentage of investment that are classified as either being an Environmental or Social investment. The classification of an investment to the E or S category is based on the underlying SDG Scores of the company and also monitored by the Investment Restrictions department.

5.2.6 Pillar 3: Sustainability risk analysis & awareness

The third pillar of the sustainability risk policy entails independent sustainability risk identification and measurement by Risk Management. The analyses are used for reporting to stakeholders and creating a dialogue with portfolio managers about the sustainability profiles of the portfolios. The third pillar does not involve any investment restrictions since the analyses' purpose is to create sustainability risk awareness and get a deeper understanding of sustainability risks.

The sustainability risk analysis & awareness is based on two elements, (1) a Sustainability Oversight Dashboard and (2) Sustainability Deep Dives & Thematic Assessments.

5.2.6.1 Sustainability Oversight Dashboard

Integrating Environmental, Social and Governance ("ESG") risks has a broad range of criteria and can be difficult to measure. Robeco applies a comprehensive integration of such risks in the investment process. Robeco uses different methods to measure sustainability risks, described in paragraph 5.2.5. To provide an insight and overview of the sustainability performance of all portfolios, Financial Risk Management monitors the sustainability profiles using an Sustainability Oversight Dashboard.

In this dashboard, all portfolios are evaluated using the multiple types of sustainability metrics described above. Also, several climate risk scenarios are part of the dashboard. The set of scenarios are both internally developed scenarios as well as scenario provided by a vendor and the Dutch Central Bank. The primary metric to assess climate risk is MSCI Climate Value-at-Risk (VaR). The climate VaR methodology incorporates climate transition risks and opportunities, and physical risk based on a 1.5-degree pathway.

The internally developed scenarios are based on literature review and modelled into Robeco's risk platform. The scenarios focus on transition risk and follow both a bottom-up and top-down approach to assess the impact of climate risks on the portfolios versus their benchmark. The results of these scenario assessment are internally shared with all stakeholders through a monthly sustainability risk report. This dashboard also serves as input for the Risk Management Committee and for the selection of portfolios for further analysis of sustainability risks

Apart from understanding the impact of climate risk factors in companies' valuation and their risk-return characteristics, mapping companies' contribution to the global warming is an important non-financial risk indicator. Robeco is makes use of the Implied Temperature Rise ("ITR") metric of MSCI. The implied temperature risk is included in Sustainability Oversight Dashboard.

5.2.6.2 Sustainability deep dives and thematic assessments

Based on the Sustainability Oversight Dashboard and discussions held in the governing bodies, the risk management function applies risk deep dives and thematic assessments. In a risk deep dive, a portfolio is selected for further analysis and turned inside out using a variety of sustainability and market risk metrics. Results are shared and discussed with the portfolio matter to get a better understanding of the strategy approach and sustainability profile.

The risk management function applies thematic assessments to get a better understanding of specific topics that being discussed either internally or externally. There is no fixed approach or format to apply such an assessment since each topic differs in terms of impact, complexity and availability of data. Topics such as biodiversity, social issues, materiality of sustainability decisions, and/or regulatory developments are elements that the risk function takes in mind. Each assessment is logged and presented to and discussed with the relevant stakeholders.

5.3 Escalation & reporting process

5.3.1 Monitoring of sustainability risk limits

The monitoring of sustainability risks takes place in a similar way as other financial risks monitored from the second line. The Investment Restrictions department codes the sustainability risk limits This way, a pre-trade and post-trade compliance check takes place. In case a limit is breached, all relevant stakeholders are informed, and the portfolio manager is required to adjust the portfolio to get back within limits.

5.4 Sustainability risk profiles

For each portfolio a Sustainability Risk Profile is determined and communicated through the prospectus or SFDR disclosure document. The sustainability risk profile consists of multiple scores that reflect the materiality of the ESG related risks in the portfolio and how those risks may affect performance. For company and government ESG risks, and climate transition risk, the distinction is made in different categories, ranging from the lowest risk to the highest risk. Furthermore, the three most relevant physical climate risks are disclosed.

6. Distribution chain & client sustainability preferences

6.1 Alignment across the Distribution Chain

The integration of sustainability risks in Robeco's investment strategies, products and organization is not conducted in isolation. As clients justify our existence, we are determined to focus on their needs and interests, including any sustainability preferences they may have. Across the distribution chain, we have implemented several measures to ensure that investment services and products properly reflect the needs and objectives of our clients with regard to sustainability.

6.2 Investment Advice

As with performing discretionary portfolio management, integrating sustainability risks is also relevant in those cases where Robeco provides investment advice. When selecting investments for advisory portfolios, portfolio managers and analysts apply the same research, methods and procedures for integrating sustainability risks and considering adverse sustainability impacts, as described in the Investment Due Diligence section. Following the delivery of the advice portfolio to the client, the latter is responsible for constructing and managing an investment portfolio (whether or not in line with the advice). Also, the continuous managing of the sustainability risks within the investment portfolio and, if necessary, carrying out active ownership activities with investee companies, will be the responsibility of the advisory client. Furthermore, the measures referred to in this chapter will contribute to managing sustainability risks in line with the needs and interests of the client.

6.3 Product Governance

The MiFID Product governance requirements aim to prevent mis selling of financial products and other product issues from occurring, and to improve the quality of investment products through their lifecycle. A key element is that product manufacturers are responsible for determining the right target market for the product and to ensure that products do not (structurally) end up outside the target market.

- Robeco ensures that its procedures remain in accordance with the applicable MiFID Product governance requirements, safeguarding that our products, investment advice and portfolio management services continue to be fully offered in the interest of clients and that sustainability factors are taken into account in the target market assessment. On the basis of said procedures, Robeco ensures that sustainability- related client objectives are taken into account when specifying the appropriate target market of a fund it manufactures and of a financial instrument it may distribute as part of an investment advice or portfolio management service. This supports Robeco in ensuring that products and services remain compatible with the needs, characteristics and objectives of the identified target markets. In addition, Robeco provides its fund distributors with the necessary sustainability-related information, on the basis of which distributors are able to match our funds with the sustainability preferences as expressed by their clients. Robeco communicates such information to distributors through the new standardized European ESG Template (EET), which is aligned with the SFDR EU classification. This facilitates distributors to conduct their own suitability assessment.
- Robeco also ensures that sustainability-related elements of a product or service are explicitly taken into account during product reviews.

6.4 Client Suitability Assessment

When providing investment advice or portfolio management services, Robeco performs a MiFID client suitability assessment on the basis of the respective individual client's investment objectives, risk tolerance and ability to bear losses. We have modified our suitability assessment procedure in order to incorporate a client's sustainability preferences as part of its investment objectives.

Based on information obtained from clients, Robeco takes the client's sustainability preferences into account when providing an investment advice or managing a portfolio

6.5 Avoiding Conflicts of Interest

Preventing and controlling conflicts of interest at Robeco is an important element in ensuring that the interest of clients is protected. Based on Robeco's Conflict of Interest Policy, Robeco structurally analyzes potential conflicts of interest and takes additional measures in case it is concluded that a (potential) conflict of interest is not being managed effectively. We have modified our Conflicts of Interest Policy to ensure that our analyses explicitly take into account any conflicts of interest that may arise as a result of the integration of sustainability risk in our processes, systems and internal controls, the existence of which may damage the interest of any clients.

The Investment Engineers

Please visit the Robeco website
for more information

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