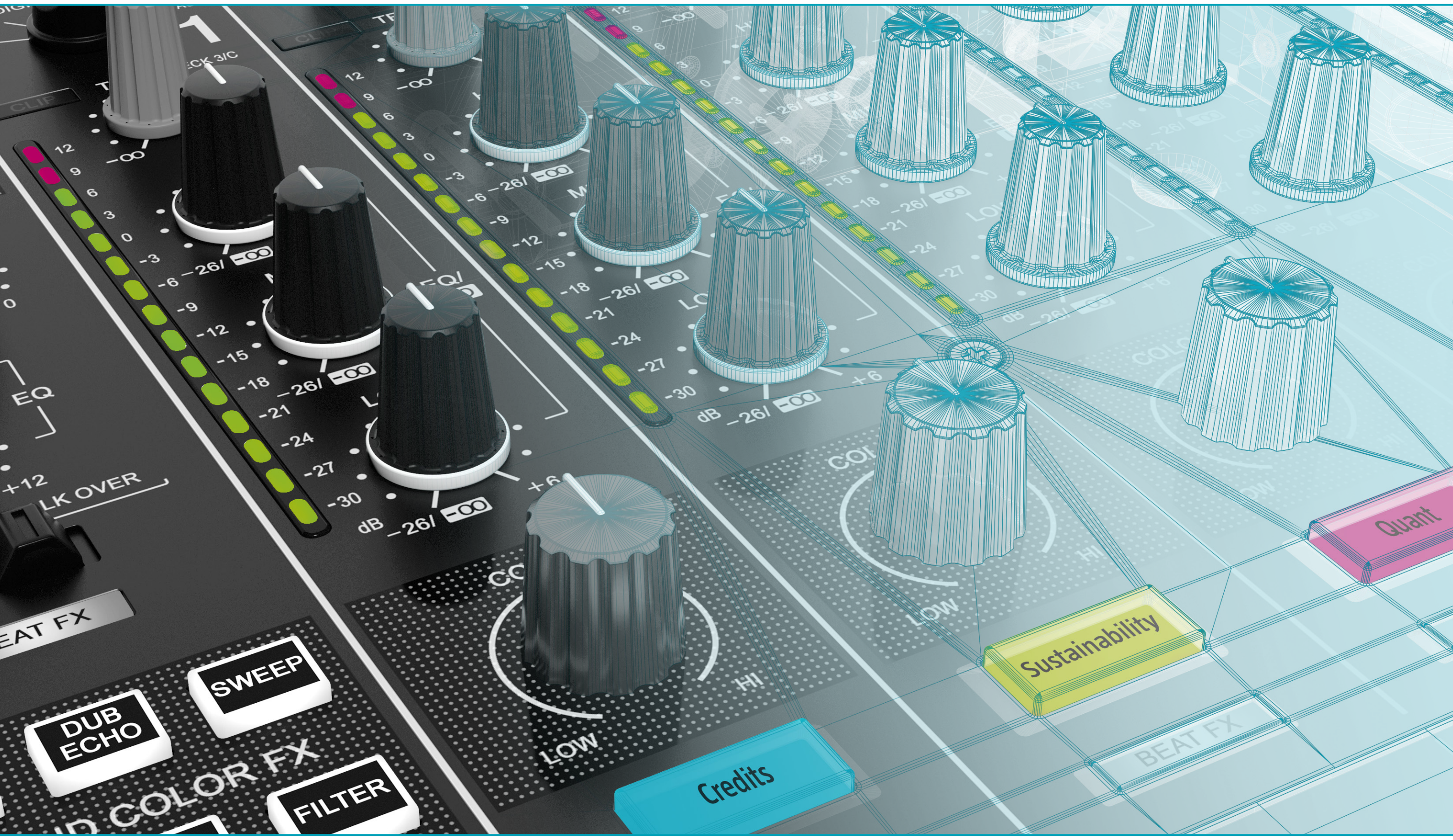
ROBECO
The Investment Engineers

For professional insurers



Solutions for insurers

The power of three: Credits, Sustainability and Quant

Sustainable Investing Expertise by
ROBECOSAM

USD 215 billion
Assets under management

Top 15
European Insurance Asset Manager*

USD 69 billion
managed in Fixed Income

17 Offices
around the world

USD 196 billion
managed in ESG integrated assets

USD 24 billion
Insurance assets under management

USD 97 billion
managed based on quant models

A+ score
in PRI assessment**

USD 317 billion
Assets under engagement

13 FTE
Insurance & Pension solutions team

Source: Robeco, figures December 2020
* Insurance Investment Outsourcing Report, ranking based on AuM, data December 2019
** PRI's report 2020, A+ score for core strategy and governance, along with five other modules

Client-driven customization for optimal results

The continuing low yield environment and increasing regulatory requirements for insurers make it vital to have the right investment partner. Robeco works with insurance companies to create customized solutions to meet their distinct regulatory and investment challenges. We create strong partnerships with insurers because we have so much in common. Insurers use an analytical approach to decision making to mitigate risk, which is something that Robeco has done from the very beginning.

As the 'Investment Engineers', we integrate three types of research – fundamental, sustainable and quantitative – to offer ground-breaking investment strategies to our insurance clients. Such is the quality of our award-winning research that white papers and other articles regularly appear in academic and financial journals and are widely shared on professional platforms.

As 'Cautious Pioneers', we believe that our pioneering work at the forefront of sustainability, quant and credits investing has only been possible thanks to the caution that we apply to it. Put simply, if we can't prove it, we don't do it. This has enabled us to develop innovative products for clients, secure in the knowledge that they will work as intended. This builds confidence and reputation, which is also essential for success in insurance.

Core offerings

Our core offerings for insurers include credit strategies and customized factor investing across both fixed income and equities. We integrate environmental, social and governance (ESG) criteria into all of our investment processes as standard, and we have the ability to tailor the extent of ESG integration according to each insurer's needs.

This 'power of three' embracing sustainability, quant and credits can be blended according to the insurer's wishes, using one, two or all three of them as desired. This proven ability enables clients to take the parts that are best suited for their needs, and thereby create a bespoke solution.

Client-driven optimization

We believe that while the regulatory framework is universal, each client's situation is unique. Robeco has years of experience in managing tailored insurance portfolios through the support of a dedicated Insurance Solutions team who translate our clients' needs into optimized portfolios. This team has a strong background in risk management, portfolio optimization, and cash flow and liability matching.

The Insurance Solutions team has all the experience, tools and Robeco-wide resources needed to design highly customized client solutions. The key to success is understanding the client and their precise needs. Our investment solutions are flexible so that we can adjust to even the most specific requirements regarding risk, return, regulatory and sustainability considerations.
For liability-driven investments, the cornerstone of our philosophy is based on maximizing the matching effectiveness while striving for optimal capital and risk-adjusted investment returns. We use our extensive experience in portfolio structuring, risk management and fixed income investing to control interest rate risk with customized solutions. Since the 1990s, we have managed innovative matching solutions with risk management at the core of our investment philosophy.

Our client-setting model

Robeco uses a client-setting model to make sure that clients get exactly what they request by blending the solutions available to meet their precise needs. To facilitate the dialogue on the most suitable portfolio allocation, we implement the client's objectives across four factors: risk, return, regulation and sustainability, as shown below. Based on this, we also share insights into the consequences that different allocations may have on the client's investment objectives.

Environmental, social and governance (ESG) factors

Cash flows
Diversification

Matching adjustment
Accounting
Low turnover
SCR*

Long horizon
Risk appetite

Portfolio optimization
- Risk: Tracking error, volatility, number of defaults
- Return: Yield, carry or expected return
- Regulation: Capital, matching adjustment
- Sustainability: ESG, carbon footprints, impact investing

Liability matching/cashflow delivery
- Cash flows or duration targets
- Market value

Specific requirements
- Turnover (accounting or regulatory driven)
- Asset class/instrument restrictions

* Solvency Capital Requirement

Credits investing

The majority of insurers' assets are held in fixed income, combining a search for yield with the necessity of carefully controlling risk. Robeco has a long history in credits, having invested in corporate bonds since the 1970s. Today, we run an extensive range of fundamentally managed global credit portfolios that are all based on in-depth research. We look for bespoke opportunities that good research can uncover, rather than necessarily 'following the herd'.

As pioneers in quantitative investing, Robeco can use our decades of experience with factors alongside our sustainability expertise. The fixed income team does this by also managing quant credit approaches which target factors such as low volatility, value, momentum and size. Robeco's credits capability was enhanced when we became one of the first asset managers in the world to target the Sustainable Development Goals (SDGs). They use proprietary research which utilizes a process that calculates the contributions that a company can make towards achieving one or more of the 17 goals.

Three simple words
Duration | Times | Spread

In 2003, we engineered this industry standard. We've invested in corporate bonds since the 1970s, launched the first European high yield fund in 1998, and today continue to break the mold by incorporating ESG in our credit investment processes.

Sustainable investing

The advent of the SDGs shows how sustainability is evolving, and why it is important to keep up with trends. Any insurance solution by definition needs to be sustainable, which is where Robeco's long commitment to sustainability comes to the fore. We integrate ESG criteria into all of our fundamental equity, fixed income, quantitative and bespoke sustainability strategies – one of the few asset managers in the world to take such an all-encompassing approach. We can now check the carbon footprints of companies in our portfolios and report on the results.

Integrating sustainability on this scale requires access to the highest-quality research. Our affiliate company RobecoSAM supplies the essential data necessary to be able to make the best-informed investment decisions. This research uses both bottom-up analysis of companies and top-down analysis of countries. It is backed further by smart ESG tools to make portfolios as environmentally friendly and sustainable as possible.

Another vital aspect of sustainability is active ownership – using our position as a shareholder and bondholder to effect change. We have a strong track record in voting and engagement on behalf of clients; our total assets under engagement were USD 317 billion in 2020.

This overall commitment to sustainability has been recognized by the Principles for Responsible Investment, which has consistently awarded both Robeco and RobecoSAM an A+ PRI score.[1]
We are also ranked as the number one brand for sustainable investing by fund buyers in Europe.[2]

Creating returns that benefit the world we live in.

Meeting the needs of the present generation without compromising those of generations to come. It's not just a tick-the-boxes activity for us: Robeco has been a global leader in sustainable investing since 1995.

Quantitative investing

As one of the pillars of Robeco's investment approach, we have also been leading the way in quantitative investing for over 25 years. With our experienced research and investment teams, systematic exploitation of market inefficiencies and dedication to factor investing, Robeco's quant strategies have a strong track record of outperformance. This includes multi-factor investing and sustainable quant strategies such as enhanced indexing, which can act as a more sustainable and risk-controlled alternative to passive investing for insurers.

One of Robeco's great strengths is in low volatility investing, which exploits an anomaly in the stock market that certain lower-risk stocks can actually produce better returns than higher-risk ones. This applies equally to the credits of the companies that we follow. An extra process known as 'Smart ESG' is additionally used in quant investing to removes biases that can creep in, depending on what a company does and where it is domiciled.

Looking below the surface.

As pioneers of both sustainable and quantitative investing, we know it's important to look below the surface of what's visible. That way we can bring hidden factors to life.

[1] PRI's Assessment Report 2020
[2] Broadbridge survey for Q3 2020 (formerly the Fund Buyer Focus)

Finding the right balance

In summary, it all comes down to finding the right balance between risk, return, regulation and sustainability. Some examples of tailored solutions that we constructed for clients are shown on the next page.

The concept of buy and maintain

'Buy and maintain' is an example of how we customize insurance portfolios to reach a precisely defined investment outcome. The client's actual investment objective is at the core of every buy-and-maintain portfolio. The basis for investment decisions is therefore the unique situation of the client, instead of a benchmark. Its central principle is to buy assets and hold them until maturity, keeping trading costs down to a minimum.

The investment style focuses on risk management and aims to create a low-turnover portfolio of bonds that is able to weather all phases of the credit cycle, meet client-specific regulatory criteria, and achieve long-term investment returns at reduced levels of risk.

Tailored to client objectives
Fully benchmark agnostic

Driven by the unique client situation, not a benchmark

Low-turnover
Regulatory & cost efficient

Regulatory requirements

Cost efficient harvesting of credit risk premium

Long horizon
Long-term capital preservation

In line with the client investment horizon

Focus on long-term risk

Tailored solutions

Case 1: Fixed Income

European non-life insurance company: an aggregate bond portfolio with ESG

Client setting

The client's primary focus is on liquidity and creditworthiness. It wants to expand its corporate bond exposure in an aggregate portfolio in order to generate additional yield.

Client objectives

- ✔ Stay solvent
- ✔ Avoid defaults and downgrades
- ✔ Be able to meet (un)expected insurance claims
- ✔ Make a decent return

Other requirements

- ✔ No (forced) selling from accounting perspective
- ✔ Minimum cash flow matching requirements for the first five years
- ✔ ESG identified as an important element of portfolio construction

Client solution

We developed a strategic positioning across the curve of credits, agency debt and government bonds to fit the client's objectives.

Risk

Given the current phase of the credit cycle, shorter maturities were targeted to lower credit risk. This was aimed at increasing liquidity and flexibility and limiting the probability of large market value drops.

Return

Potential risk-adjusted returns were enhanced by selecting creditworthy names with relatively high yield, while also positioning over the curve based on relative value between fixed income asset classes.

Regulation

We bought bonds with a lower probability of being downgraded below A, which would trigger a need to sell.

Sustainability

ESG is integrated to help identify long-term creditworthiness, and to allow the inclusion of green bonds. ESG consideration for credits bought are disclosed to the client.

Case 2: ESG – low carbon footprint

High yield with a low carbon footprint and matching cashflow profile

Client setting

The primary focus was on matching a targeted cash flow profile and generating enough yield to be able to launch competitive products. There was also a specific focus on a low carbon footprint.

Client objectives

- ✔ Match specific liability cash flows
- ✔ Avoid defaults and downgrades
- ✔ Focus on capital adjusted returns
- ✔ Achieve a low carbon footprint

Other requirements

- ✔ No (forced) selling
- ✔ Return dependent on hurdle rates per rating
- ✔ Matching adjustment eligible investments

Client solution

We created a diversified high-rated corporate bond portfolio balancing client-specific risk, return, regulation and sustainability objectives.

Risk

We selected high-yielding names relative to their capital cost hurdles per rating also taking into account fundamental credit risk as assessed by Robeco's fundamental credit analyst.

Return

Select high-yielding names relative to their capital cost and fundamental credit risk.

Regulation

We achieved matching cashflows taking into account capital requirements, and limiting turnover by focusing on names that can withstand the entire credit cycle.

Sustainability

Use ESG integration to help identify long-term creditworthiness. Manage the climate profile of the portfolio by selecting issuers with a relatively low carbon footprint.

Case 3: Quant – Enhanced Indexing

Customized Emerging Markets Enhanced Indexing

Client setting

Coming from a purely passive portfolio, the client was looking for an emerging markets equity portfolio which provided beta + alpha. Another criteria was having a better ESG profile compared to the benchmark, with a client-specific exclusion list.

Client objectives

- ✔ Generating outperformance
- ✔ Client-specific exclusion list
- ✔ Integrated best-in-class investing
- ✔ Being flexible with regard to future ESG criteria

Other requirements

- ✔ Stable Information Ratio
- ✔ Controlled low tracking error
- ✔ Active ownership and engagement reflected in portfolio positioning

Client solution

To fit the client's objectives, we developed an enhanced indexing emerging markets strategy that had a better ESG profile than its benchmark.

Risk

Limiting emerging markets country relative risks.

Return

The long-term Information Ratio target is 1.0, with a tracking error of 1.2%. This results in average annual outperformance of 1.2%.

Regulation

The strategy needed to comply with local regulations as standard.

Sustainability

A client-specific exclusion list was implemented, and ESG was integrated into the stock selection process, leading to a superior portfolio ESG score.

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The Investment Engineers

We conduct a considerable amount of ground-breaking research in-house, and have made a number of contributions to quantitative, credits and sustainable investing theory. We publish articles in leading journals on topics such as factor investing and the low volatility anomaly. A selection of these is given below. Please visit our website for all our leading papers.

For insurers to make the most of a strategy, customization is essential. Contact us directly.

Credit investing

Duration Times Spread: A new measure of spread exposure in credit portfolios
Ben Dor, Dynkin, Hyman, Houweling, van Leeuwen and Penninga, 2007,
The Journal of Portfolio Management, Vol. 33, No. 2, pp. 77-100.

Factor Investing in the Corporate Bond Market
Houweling and Van Zundert, 2017, Financial Analysts Journal, Vol. 73, No. 2, pp. 100-115.

Enabling insurers to achieve capital-efficient returns
Houweling and Muskens, 2019

Sustainable investing

The Big Book of Sustainable Investing, September 2018

How ESG aids outperformance in equity investing
Chris Berkouwer, Robeco Research paper, April 2019

The hows and whys of linking SDGs to credit portfolios
Taeke Wiersma, Robeco Research paper, October 2018

Quantitative Investing

Strategic allocation to emerging markets factor premiums
Wilma de Groot and Weili Zhou, VBA Journal (CFA Society), December 2018

Enhanced indexing – a proven alternative to passive investing
Wilma de Groot, January 2019

Book of collected articles on quant investing in EMs
Wilma de Groot, Weili Zhou and David Blitz, April 2019

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