

WHITE PAPER

Robeco's approach to impact investing in public markets

Can it make a difference, and how
can we optimize real-world impact?

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Introduction

Impact investing, which aims to create a measurable beneficial impact on the environment or society while earning a positive financial return, has faced questions about whether it meets this definition when applied in public markets. Proving that a positive environmental or social impact has actually been achieved has often been difficult, causing many to question whether the phrase 'impact investing' should be used.

It is often argued that public markets are unsuitable for impact investing, because:

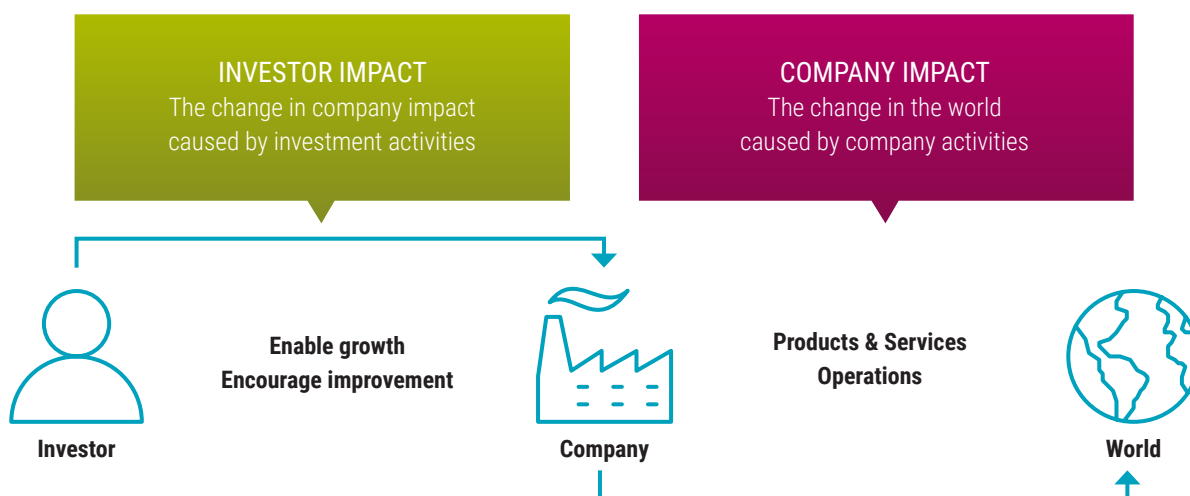
1. Public markets mainly deal in secondary trading. Because the company is not a counterparty in the transaction, the investment has *no direct effect* on its balance sheet, and, in turn, its ability to scale its positive impact.
2. Public markets mainly concern investments in large, established companies which often already have sufficient access to capital.¹ Given the high liquidity in the market, there would always be another investor willing to make the trade for a similar price. Such investments are thus said to be *lacking additionality*.

For these reasons, a more neutral phrase, 'impact-aligned investing', was often preferred, as this conveys the intentionality while making clear that it is aligned with a motive rather than making an absolute statement. In addition, capital allocation is not the only means by which investors can seek to make an impact. Through engagement, investors do have a direct influence on portfolio companies. Increasingly, it is used to encourage companies to address adverse impacts stemming from their business activities and to foster positive outcomes.

As such, in line with academic discourse,² we make this important differentiation between 'impact alignment' and 'impact generation' in our investment strategies. Impact-aligned investments focus on allocating capital to companies that already create positive impacts. To qualify as 'impact-generating', a *change in company impact* must be established that can be attributed to the investor. In other words, our impact-aligned strategies focus on company impact, whereas our impact-generating strategies are concerned with *investor impact* (see Figure 1).

While we acknowledge its limitations, we believe there are ways in which investors can, and should, optimize the real-world impact stemming from their impact-aligned investments. In this white paper, we set out our beliefs around if, and how, both impact-aligned and impact-generating investments can create real-world impact, and how we seek to advance this field.

Figure 1 | Impact in an investment context



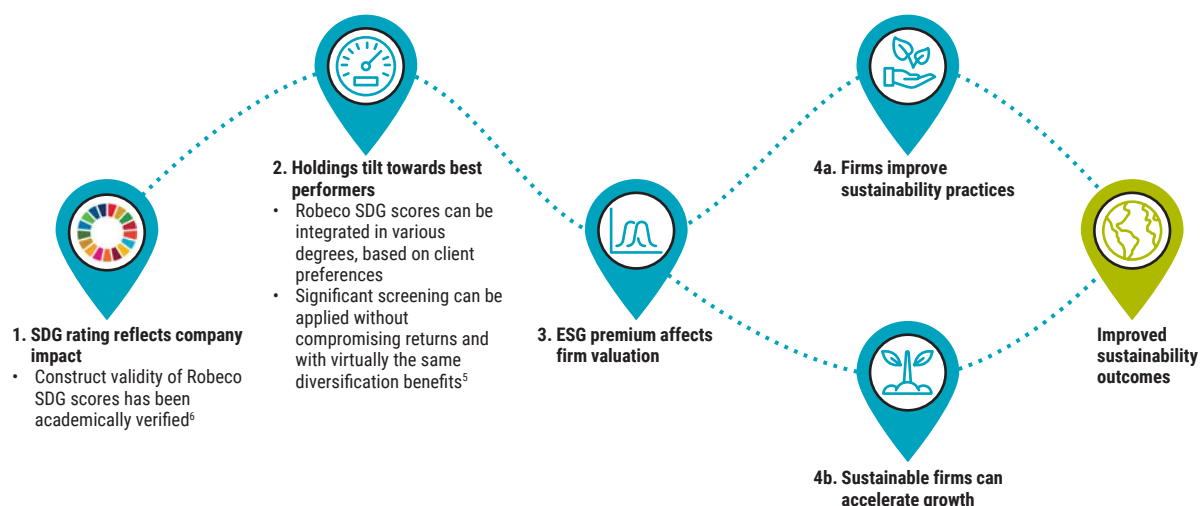
Source: adapted from: Heeb & Kölbel (2020)³

Impact-aligned investing

As set out above, there are widespread concerns around the real-world impact potential of impact-aligned investments. A report from Heeb, Kellers & Kölbel (2022) has offered a slightly more optimistic perspective around the question of whether such investments can affect the real economy.⁴ Based on a review of academic literature, the authors of the report conclude: “maybe a little bit”. In this chapter, we will elaborate on the “maybe” and “a little bit”.

The authors write “maybe” because impact is only to be expected if four key assumptions are satisfied simultaneously (see Figure 2). While the first two are to an extent within the investor’s sphere of influence, criteria 3 and 4 remain outside of its control.

Figure 2 | Four criteria for impact-aligned investing to impact the real economy



Source: adapted from Heeb, Kellers & Kölbel (2022)

The first condition relates to *measurability* and states that the sustainability metric used in the investment process (such as an ESG or SDG rating) should reflect company impact. Many widely used ESG ratings are known to focus on *financial materiality* rather than *impact materiality*.

At Robeco, our SDG Framework forms the backbone of our impact-aligned strategies (see Box 1). This framework identifies companies’ impact on the SDGs by assessing its products and services, along with its operational impact, while also screening for controversies. The framework’s ability to reflect company impact has been academically validated,⁶ meaning we can confidently say our impact-aligned strategies meet the first criteria. In Box 1 we elaborate on how we assess and quantify the impact of portfolio companies.

The second condition is that investment portfolios should significantly tilt toward the best performers. This relates to *intentionality* and is defined at the investment strategy level. All Robeco’s impact-aligned strategies at the minimum exclude companies with negative SDG scores, but in most cases only invest in companies with positive scores (see Figure 3). Our SDG scores can be integrated to various degrees, based on the preferences of the client. Moreover, recent research shows that portfolios can significantly tilt toward positive SDG scores without compromising returns, and with virtually the same diversification benefits.⁷

Box 1: The Robeco SDG Framework and impact measurement

Our SDG Framework is as clear, objective and systematic tool for assessing companies' impacts on sustainable development. Through three consecutive steps, companies are given a score for every SDG that is relevant to their business, indicating both the direction (positive, neutral or negative) and the intensity (high, medium or low) of the impact. These 17 scores are then consolidated into one overall score.

Figure 3 | The Robeco SDG Framework

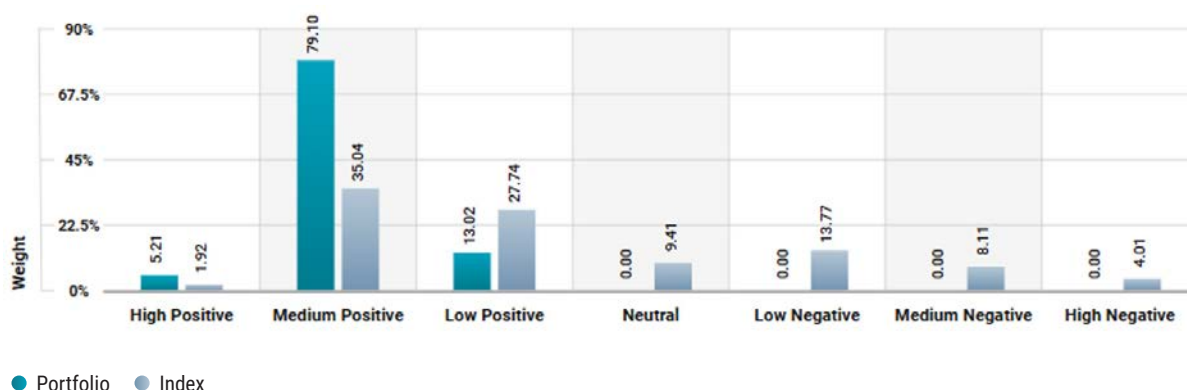
1. PRODUCTS	2. PROCEDURES	3. CONTROVERSIES
Sector-specific KPIs are assessed	Operations are screened along SDG areas	Are controversies known?
Examples	Examples	Three guiding questions
Consumer goods and services <ul style="list-style-type: none"> • % revenues from active apparel • % revenues from fast fashion • % revenues from beauty products 	Gender equality (SDG 5) Water consumption (SDG 6, 15) Palm oil sourcing practices (SDG 12) Food waste reduction (SDG 12)	1. How severe is the negative impact? 2. Has there been remediation? 3. Have preventative measures been implemented?
Food (excl. fish) <ul style="list-style-type: none"> • % revenues from healthy food in EM • % revenues from plant-based protein • % revenues from beef/lamb/mutton 		

Furthermore, our impact measurement and management goes beyond assigning scores. We created a framework through which we quantify companies' contributions to relevant SDGs in a concise, consistent and comparable manner. It consists of indicators that are linked to official SDG targets. For holdings with a positive SDG score, we measure the overall impact, and attribute part of this impact to our investment, based on the value of the holding relative to the company's enterprise value. Finally, we aggregate the results on a portfolio level, as seen in Figure 4:

Figure 4 | In one year, EUR 100 million invested in Robeco Global SDG Equities is associated with...

2 ZERO HUNGER Providing 296,000 meals to 4,400 people (2.1)	7 AFFORDABLE AND CLEAN ENERGY Generating 1.4 GWh of renewable energy (7.2) Saving 1.9 GWh of energy through efficiency solutions (7.3)
3 GOOD HEALTH AND WELL-BEING Extending the lives of 3,200 patients (3.8) Providing 7,600 people with active apparel (3.4) Providing 270 people with health insurance coverage (3.8)	8 DECENT WORK AND ECONOMIC GROWTH Extending EUR 1.6 million finance to SMEs (8.3) Reaching 5 companies with solutions to improve productivity (8.3)
4 QUALITY EDUCATION Supporting 180 students with education services (4.3)	11 SUSTAINABLE CITIES AND COMMUNITIES Manufacturing 9 affordable homes (11.1)
6 CLEAN WATER AND SANITATION Providing 33,900 people with products to meet their hygiene needs (6.2)	16 PEACE, JUSTICE AND STRONG INSTITUTIONS Providing 4,500 people with telecommunication services (16.10) Providing 250 people with online or physical security services (16.10)

Source: Robeco, Sustainable Development Goals. For illustrative purposes only. The numbers in brackets represent the official UN SDG target or indicator the impact metric is linked to. The impact of 36 companies in the portfolio representing 69.9% of its market value has been aggregated, rounded and shown per EUR 100 million invested. Holdings as of July 31, 2024

Figure 5 | Robeco Global SDG Equities – SDG score distribution relative to benchmark

Source: Robeco. The graph depicts the SDG score distribution by weight of the portfolio holdings of Robeco Global SDG Equities (blue bars) and compared to the index (grey bars).

The third and fourth conditions fall outside of the direct influence of the investor. The third criteria is that, as more capital flows toward impactful companies, this should be reflected in their valuation (sustainability premium). This remains an academically contested area: while most studies indicate that such a premium does exist, they do not conclude whether it is of economic relevance. In addition, it is important to acknowledge that individual investors, no matter their size, cannot singlehandedly impact sustainability premiums in the market, and thus have no *additionality*. These mechanisms can only work if they are carried out by a critical mass in the financial ecosystem.

This brings us to the fourth condition. If the sustainability premium is of economic relevance, this would mean companies can improve their sustainability practices, and/or that impactful companies can accelerate their growth by more easily attracting capital at cheaper rates. Clear evidence on this is lacking, and so the writers of the report conclude that unless other factors such as regulatory, technological and competitive forces are at play as well, the real-world effects of impact-aligned investing are limited to “low-hanging fruits”. Hence, they write “a little bit” of impact.

In summary, while investors have some levers (using the right metrics and significantly tilting their portfolios) to optimize their impact, real change does not happen in isolation. However, we argue that *additionality* – where impact is attributed to a single player – should not be the goal for impact-aligned investments. Rather, every investor has a role to play. At Robeco, we are determined to play our part by continuing to scale our impact-aligned investments and, by [making our SDG scores publicly available](#), we seek to enable other investors to do the same.

RECAP | For all our impact-aligned investing strategies we optimize:

- **Intentionality:** We refrain from investing in companies with a significant negative impact and in most cases only invest in companies with a positive impact.
 - **Measurability:** We assess the impacts of portfolio companies through our proprietary and academically verified SDG Framework, and quantify this in real-world terms.
 - **Additionality:** While there is no or limited additionality through capital allocation, we instead aim to be part of broader market forces, and seek to enable other investors to scale their impact-aligned investments through our SI Open Access initiative.
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Figure 6 | Robeco's suite of impact-aligned investment capabilities and examples of strategies

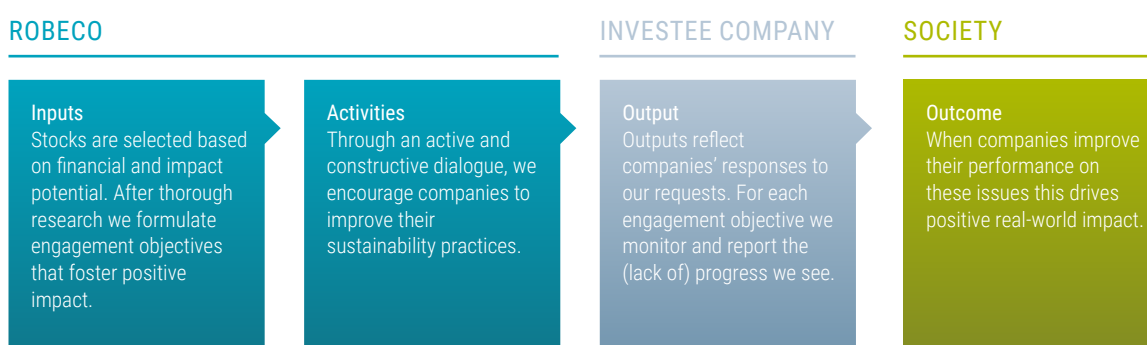
Asset class	Equity			Fixed income	
Investment style	Quant	Fundamental	Indices	Quant	Fundamental
Example strategy	Robeco QI Global SDG and Climate Beta Equities	Robeco Global SDG Equities	Robeco SDG Low- Carbon Indices	Robeco QI Global SDG & Climate Multi- Factor Credits	Robeco Global SDG Credits
Objective	The strategy offers a 'better beta' solution by attaining index-like exposure with a significantly improved sustainability profile on multiple dimensions, particularly the SDGs and climate.	The strategy aims to outperform the global market over time by investing in sustainable companies with a direct positive link to the SDGs.	The indices aim to provide investors with solutions that offer SDG alignment and significant carbon footprint reduction, while using a relatively low tracking error budget.	This approach provides long-term capital growth while advancing the SDGs and the goal of the Paris Agreement to keep the global temperature rise well-below 2°C.	The strategy targets long-term capital growth while contributing to the SDGs.
Level of SDG integration	≥0	≥+1	≥0	≥0	≥0

Impact-generating investing

To have *additionality*, investors must thus move beyond capital allocation. An academic study of investor impact concludes that shareholder engagement emerges as the most reliable mechanism to generate impact in listed assets.⁸ Related to this, industry guidance on pursuing impact in listed equities from the Global Impact Investing Network (GIIN)⁹ cites engagement as being a key component of a credible Theory of Change. But what constitutes a strong impact strategy?

At Robeco, our impact-generating investing strategies are all grounded in a theory of change, which follows the steps in Figure 7. How each of these steps are fulfilled (such as by the types of companies we invest in, or the engagement objectives we formulate) varies by strategy. But what all strategies have in common is that they uphold the three core characteristics of impact investments: intentionality, measurability and additionality.

Figure 7 | Theory of Change



Intentionality: Depending on the impact objective of the strategy, we select companies with significant potential to advance this goal, and then formulate related engagement objectives. For instance, Robeco Fashion Engagement Equities seeks to contribute to the fashion transition by investing in and engaging with key industry players across the value chain. This aims to deliver positive change across three overarching themes: overconsumption, social inequalities, and resources intensity. In addition, these strategies have defined the minimum percentage of portfolio companies that we look to engage with. For Fashion Engagement, this sits at 80%. Any lack of access or receptiveness to our requests is incorporated in portfolio management decisions. Impact intentionality is fully reflected in the investment strategy.

Additionality: For our impact-generating strategies, engagements not only take place with a large share of the companies in portfolio than regular ESG engagements: the intensity of the engagement relation is also higher. Across our engagement dialogues, we seek to add value by truly understanding the companies' business models and the forces that are at play in their industry. In many cases, we have a good sense of whether our engagement is influential in driving companies to improve their sustainability practices, though we believe it is important to validate this, as there might be other factors driving this as well. As such we distribute an annual survey to our portfolio companies to gain insights into the effectiveness of our engagement.

Box 2: Theory of Change – Robeco Engagement Equities

Our investment strategy aims to achieve long-term capital growth while enhancing companies' contributions to the Sustainable Development Goals (SDGs) over a three to five year engagement period.

Stock selection

We employ fundamental analysis to identify the companies that are best positioned to make meaningful progress on the SDGs. Using our proprietary SDG Framework, we assess and score companies' impacts on these goals, focusing on mid-range companies with significant potential for improvement. The lowest scoring -2 and -3 companies are deemed to require more fundamental changes to their business models, which may not be a realistic endeavor within the engagement timeframe.

We focus on companies across sectors and regions and with different links to the SDGs, allowing us to maintain a well-diversified portfolio while adopting an integrated approach to sustainable development. Portfolio companies can thus be active in different sectors, markets and geographies, but what they all have in common is that a shift in their business model or change in business practices can deliver tangible and measurable impact on the SDGs. By focusing on large and mega-cap companies, we leverage their scale, influence and resources to advance the SDGs. Without their active participation in sustainable development, significant gaps in attaining these goals will persist. The engagements are typically not geared toward overhauling the way these companies conduct business. However, even smaller changes to their operational practices or product impact can cause ripple effects across markets and global supply chains.

To ensure we can effectively drive change within these large companies, our Active Ownership team assesses the potential for engagement ex-ante, for instance by taking into account past experience with companies' accessibility and receptiveness for requests. Lack of access or responsiveness to our requests will lead us to reevaluate the company's position in the portfolio.

Engagement strategy

Our engagement strategy involves conducting thorough bottom-up research and developing company-specific engagement strategies with concrete milestones. These milestones relate to their most material sustainability issues and define the trajectory to improve their impact on the SDGs. We aim to build strong relationships through a regular, constructive dialogue, and share our expertise and best practices to drive progress on material sustainability issues.



Measurability: Impact measurement and management are at the heart of our impact investing processes. We continuously monitor the (lack of) progress made by companies on our engagement objectives. However, we want to go beyond assessing *whether or not* companies are making progress by measuring the real-world impact of our engagement. We do this based on the Five Dimensions of Impact framework.¹⁰

For instance, for a textile company that has committed to living wages in its supply chain ('what'), we assess how underserved the beneficiaries are related to this outcome ('who'), how many beneficiaries experience this outcome ('how much'), the investor additionality ('contribution'), and finally the risk of the company not succeeding in realizing this outcome ('risk').

What is impact?

The impact of any effect is its performance across five dimensions.

WHAT



WHO



HOW MUCH



CONTRIBUTION



RISK



RECAP | All our impact-generating investing strategies are:

- **Intentional**
 - We select companies with a clear engagement and impact potential.
 - We create company-specific engagement strategies with concrete objectives that can advance the SDGs.
 - We define a minimum percentage of portfolio companies we want to engage with.
- **Additional**
 - We aim to add value by truly understanding our investees' business and make informed recommendations and/or engagement requests.
 - We assess our level of investor contribution with investees through an annual engagement survey.
- **Measurable**
 - We go beyond activity and progress reporting by measuring the real-world impact of our achieved engagement objectives across key impact dimensions.

Figure 8 | Robeco's suite of 'impact-generating' investment strategies

	Robeco Engagement Equities	Robeco Fashion Engagement Equities	Robeco Biodiversity Equities
Objective	Provide long-term capital growth while advancing the SDGs	Achieve long-term returns and reduce the adverse impact from the fashion industry	Provide long-term capital growth while halting and reversing the decline in biodiversity
Strategy	Invest in and engage with companies that are best positioned to have a clear and measurable improvement in their contribution to these goals over three to five years via active engagement	Invest in and engage with companies throughout the entire fashion value chain that have the intention or potential to drive structural change by addressing the industry's sustainability challenges	Invest in companies that develop technologies, products and services that help to reduce biodiversity threats or restore natural habitats, as well as motivate selected companies to improve their footprint through engagement
Share of companies under engagement	100%	80%	25%

Conclusion

Robeco's pioneering spirit in impact-aligned investing is exemplified by its unique SDG Framework, innovative impact measurement approach, and the introduction of investment strategies across various asset classes (equities and fixed income) and investment styles (indices, quant, and fundamental).

Leveraging this experience and its extensive track record in active ownership, Robeco has expanded its suite of investment strategies to include impact-generating strategies that aim to create real-world impact by engaging with portfolio companies, with intentionality, additionality, and measurability at their core.

Robeco's commitment to advancing the field of impact investing highlights our belief that every investor has a role in fostering a more sustainable and equitable future.

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10. <https://impactfrontiers.org/norms/five-dimensions-of-impact/>

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