ROBECO
The Investment Engineers

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ESG Bond Frameworks

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Issuance of ESG labeled bonds has grown in recent years, reflecting an increasing investor commitment to sustainable development and positive impact. Still, the various ESG Bond labels are not legally protected terms, except for bonds that comply with the EU Green Bond Regulation[1], meaning bond issuers can self-classify a bond issuance as ESG-labeled. In order to assess the sustainability credentials of green, social, and sustainability (GSS) bonds, Robeco has developed proprietary methodologies – referred to as ESG Bond Frameworks. These are discussed in this note.

The variety ESG labels for bonds has been expanding. While the ESG Bond Frameworks follow a consistent structure, individual frameworks have been developed for each label to address their distinct requirements.

ESG Bonds in scope of the ESG Bond Frameworks[2]

- **Green bonds**: Bonds with proceeds earmarked to environmentally friendly projects, like green buildings and renewable energy projects.
- **Social bonds**: Bonds with proceeds earmarked to socially beneficial projects, like social housing or employment generation projects.
- **Sustainability bonds**: Bonds with proceeds earmarked to either social or green projects, or projects that yield both social and green benefits.

Overview of the ESG Bond Frameworks

Robeco's ESG Bond Frameworks are structured around five steps:

1. Alignment with the International Capital Market Association's (ICMA) Principles
2. Evaluation of the use of proceeds
3. Analysis of allocation and impact reporting
4. Assessment of the issuer's sustainability strategy
5. Confirmation of adherence to minimum safeguards

The result of the five-step analysis is an overall 'Pass' or 'No-Pass' conclusion. ESG Bonds in scope must successfully pass all five steps in order to be considered eligible for investment. This applies to all types of issuers, e.g., governments, supranationals, government-related entities, or corporations.

Step 1 – Alignment with the ICMA's principles

In the first step, we verify that the issuer's GSS bond framework is in line with the relevant ICMA Principles[3]: Issuers are also required[4] to obtain an external review with a positive conclusion as recommended by ICMA. An external review can be in the form of a Second Party Opinion, third-party assurance, or pre-issuance certification, such as the Climate Bond Initiative's Climate Bond Standard or the EU Green Bond Standard.

Step 2 – Evaluation of the use of proceeds

GSS bonds are essentially regular bonds with the use of proceeds 'earmarked' for projects with environmental, social, or combined benefits, respectively. Therefore, in this second step, we analyze the sustainability credentials of the projects in scope to ensure we deem them to make a significant contribution to either of the environmental or social objectives in focus. They also cannot cause significant harm to any of the other objectives in scope.

1. The EU Green Bond (EuGB) Regulation has established the European Green Bond Standard to improve the transparency and credibility of the documentation associated with green bonds issued in Europe. Bonds that follow this standard do not automatically qualify as eligible, but are still subject to the assessment under Robeco's ESG Bond Frameworks.
2. Use of proceeds bonds that do not fall under the ICMA Principles, such as defence bonds, or that deliver sub-optimal climate impact, such as transition bonds, are not within the scope of analysis of the ESG Bond Frameworks.
3. For green bonds, we verify alignment with the latest Green Bond Principles. For social bonds, we verify alignment with the latest Social Bond Principles. Finally, for sustainability bonds, we verify the alignment with the previously mentioned Principles, as well as the Sustainability Bond Guidelines.
4. This requirement, introduced in November 2025 to align with emerging industry trends, does not apply retroactively.

Table 1 – Sustainability objectives in focus

Environmental objectives	Social objectives
1. Climate change mitigation 2. Climate change and adaptation 3. Sustainable use and protection of water and marine resources 4. Transition to a circular economy 5. Pollution prevention and control 6. Protection and restoration of biodiversity and ecosystems	1. Decent work 2. Adequate living standards and well-being for end-users 3. Inclusive and sustainable communities and societies

Source: Robeco, adopted from the EU Taxonomies

For the analysis, we use proprietary guidelines that have been developed with the EU Taxonomies[5] as the leading frameworks, while accommodating ESG Bond market developments and local (e.g. emerging markets) perspectives. For green bonds, the guidelines focus on projects with a direct contribution (e.g. renewable energy or electric vehicles), an indirect contribution via enabling activities (e.g. batteries or charging infrastructure), as well as limited transitional activities following best practice. For social bonds, we focus on the targeted segment of the population as well as a best-effort evaluation of the alignment with the availability, accessibility, acceptability, and quality (AAAQ) of the framework. For sustainability bonds, we focus on a combination of the two.

In addition to analyzing the sustainability credentials of projects, we consider the type of expenditure and the look-back period for refinancing. This is done with the aim to promote additionality.

Eligible types of expenses are:
- Capital expenditure on tangible and intangible assets
- Operating expenses, conditional on these increasing the lifetime or value of the eligible asset
- Research and development expenses

Guidelines for the look-back period are:
- Assets: not beyond useful life, not more than the current value at the time of issuance
- Research and development or operating expenses: three years maximum

Some issuers have adopted the practice of including equity participations, such as those related to mergers and acquisitions (M&A), within the eligible asset pool of ESG Bond issuances. From a sustainable investment perspective, we favour instruments that finance tangible, solution-oriented projects over those that merely represent a change in ownership. This should address concerns around crowding-out effects and limited 'additionality'. However, we remain flexible and consider additional criteria to evaluate certain M&A activities on a case-by-case basis.

Step 3 – Analysis of allocation and impact reporting

A key feature of ESG Bonds with a use of proceeds structure, like the ones in scope of Robeco's ESG Bond Frameworks, is the ability for investors to 'follow their money'. To ensure that allocations align with our expectations and can be reported transparently to clients, we require issuers to commit to at least annual reporting on the use of proceeds and the associated positive impact, starting from pre-investment and continuing until full allocation. Post-investment, we monitor the publication of allocation and impact reporting and analyze it at least once a year. While not mandatory, we prefer the presence of external assurance from an independent third party, such as an auditor, and review such assurances as part of our eligibility assessment. In case allocations do not meet our expectations, e.g., if the issuer has not allocated bond proceeds as described in their pre-issuance documentation, the eligibility of the bond will be reassessed. Based on the circumstances, we may decide to engage with the issuer.

Step 4 – Assessment of the issuer's sustainability strategy

This step aims to ensure that the ESG Bond issuance is supported by and consistent with the issuer's sustainability strategy. This should ensure underlining credibility and progress toward an issuer's sustainability commitment. To assess the issuer's overarching sustainability strategy, we consider governance, targets and progress, actions, transparency, and reputational risks. All these elements are evaluated in line with emerging transition finance practices and recognized transition pathways. The analysis is supported by Robeco's proprietary IP, such as climate, biodiversity, and social "traffic light" KPIs, controversy scores, and SDG scores, which help assess sustainability-related performance and intent, as well as alignment with relevant sectoral transition pathways.

5. We use a mix of adopted and draft Delegated Acts by the EU Commission and/or reports and recommendations by the EU Platform for Sustainable Finance depending on availability. As such, with taxonomies we refer to both the environmental EU Taxonomy and the draft social EU Taxonomy. This is also evident from the sustainability objectives in focus, which are those of the mentioned taxonomies.

The high-level considerations are the same for each label, while attention is paid to more detailed topics relevant to the specific labels. For example, for a green bond, we focus on integrating environmental and climate considerations, such as decarbonization targets and progress in the issuer's sustainability strategy. For a social bond, the integration of relevant social elements will be a key point of attention. For a sustainability bond, a combination of environmental and social elements in the issuer's strategy will be relevant.

Step 5 – Confirmation of adherence to minimum safeguards

We want to ensure that any issuer we invest in adheres to minimum safeguards and established societal expectations for responsible conduct. In this step, we confirm:

- Corporate issuers are not involved in any substantial breaches of the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises, or the UN Guiding Principles on Business and Human Rights. Issuers should also not be involved in any substantial controversies.
- Government or government-related issuers from countries where serious human rights violations or a collapse of the governance structure have taken place. Neither should these countries be subject to international sanctions. This is identified via Robeco's Country Exclusion Framework, accessible via Robeco.com.

Implementation

Bloomberg indicators are used to identify GSS bonds. These bonds are assessed following the relevant ESG Bond Framework. Robeco fundamental fixed income funds can only invest in eligible GSS bonds, which are those with an overall 'Pass' rating on the respective Framework. In the event of new issues or new investments, a waiver period applies while the assessment is pending. The assessments are logged via an integrated ESG Bond platform. On a monthly basis, assessments are discussed in the ESG Bond Committee and approved by the ESG Bond Governing Body. The portfolio manager is the ultimate decision maker on including any eligible ESG bond in a given portfolio. For strategy-specific implementation, please refer to the product-specific sustainability disclosures accessible via Robeco.com.

Other

Ongoing monitoring

The ESG Bond team monitors 'Pass' decisions on an ongoing basis and reviews allocation and impact reporting annually. If substantial controversies or material changes arise, they trigger further analysis, and, depending on their severity, may result in action, such as engagement with the issuer or a change in conclusion.

SDG scores

GSS bonds have an individual security-level SDG score (separate from that of the issuer) based on the allocation of proceeds, as per Robeco's proprietary SDG Framework. For more information, please refer to the SDG Framework brochure.

Data

Robeco has access to external data from ESG-related data providers, which we utilize in both our pre-investment screening and post-investment monitoring. We use this to determine whether an issuer is involved in a controversy and may also use it as input for assessing the issuer's sustainability strategy. If a controversy or a deteriorating sustainability strategy is detected, the analyst determines whether this has material impacts on the analysis and/or the SDG Score. For more information, please refer to the SFDR data disclosures.

Impact reporting

Leveraging an acquired ESG Bond impact database, we periodically report to clients on the portfolio's impact profile across key metrics, highlighting the contributions made by ESG Bond investments.

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