

Good Governance Test

Corporate Governance refers to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations. A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long term strategy.

The EU Sustainable Finance Disclosure Regulation ("SFDR") requires that products classified as Article 8 or Article 9 products do not invest in (securities issued by) companies who do not follow good governance practices¹. This policy describes how Robeco determines if and when a company does not follow good governance practices (the 'Good Governance Test'). For purposes of the Good Governance test, Robeco has defined 7 criteria as set forth below. These criteria reflect widely recognized industry-established norms.

Indicator	SFDR topic	Metric *	Weight**
1. Employee Relations	Employee Relations	The company is compliant with the 3rd principle on labor relations on the UN Global Compact and is not on the non-compliance list.	Required 100%
2. Bribery Corruption, and Business Ethics	Management Structure	The company is compliant with the 10th principle on anti-bribery and corruption of the UN Global Compact and is not on the non-compliance list	Required 100%
3. Accurate Reporting to Markets and the broader Public	Management Structure	The company has published unqualified audited financial statements and reports	Required 100%
4. To have Board Oversight on Functioning of Management	Management Structure	The Supervisory Board, if applicable, has at least one independent board member	
5. Tax Behavior	Tax compliance	The company has no significant controversies on Taxation and Accounting	Required score of
6. Consistent Remuneration issues	Remuneration	Companies that have a significant shareholder dissent and do not follow basic expectations on golden parachutes and claw back provisions.	3 out of 4
7. Breaches of shareholder rights and Governance incidents	Management Structure	The company has no Issue Codes on 'other governance issues' and Active Ownership 'assessment principles.	

* Data sources used can be found in Robeco's data disclosure documentation (<https://www.robeco.com/docm/docu-robeco-sfdr-data-disclosures.pdf>).

** The allocated weight reflects that adherence to the UN Global compact guidelines and basic reporting requirements are expected for all corporate asset classes.

¹ The good governance requirement forms part of the definition of sustainable investment in article 2(17) of SFDR; the meaning of good governance practices in this context is not further specified in SFDR or any laws or rules promulgated thereunder.

Brief explanation

1. Employee relations: Sound employee relations contribute to employee wellbeing, foster a company's productivity and working environment. Good governance ensures the absence of high or severe conflict or controversies in the workplace. Governance practices differ as in how stakeholders' interests are prioritized. In any case companies should not be in structural conflict with their employees and adhere to the UN Global Compact principle on labor practices ('third principle').
2. Business ethics: Business ethics relate to how a business should act in the face of ethical dilemmas and controversial situations. Good governance practices ensure there are no high or severe controversies.
3. Accurate reporting: Companies should have reporting structures that provide the investing public with the most relevant business activities throughout the year and financial statements, which should be subject to external audit/review.
4. Oversight: Companies should have a supervisory board that oversees management activities on behalf of shareholders and other stakeholders in the company. The supervisory board must have at least one independent board member, meaning that the member has no ties to company, their executives, and any of their shareholders other than being a member of the board.
5. Tax compliance: Robeco believes that truthful reporting of taxable income and timely payment of tax dues are cornerstones of the healthy functioning of societies. As a minimum, companies must adhere to local tax laws and be aware of and observe the state, federal, and international tax laws and requirements set forth by local government officials and other taxing authorities. Companies that show behavior that significantly breach tax regulations do not exhibit good governance. A tax dispute with an authority in itself is not necessarily a sign of poor governance. Robeco also believes that it is important for companies to have a tax policy and to be transparent on both the tax principles applied and the tax contribution that is paid in the jurisdictions they operate.
6. Remuneration: Companies that receive a significant 'against'-vote from shareholders on their executive remuneration, are assessed if basic remuneration safeguards are in place. This includes having adequate claw back provisions in place and prohibiting excessive change of control provisions. If a company does not comply with any of these requirements, it does not meet the basic expectations of good governance.
7. Shareholder rights: Companies should respect basic shareholder rights, including applicable company law and the basic rules of the shareholder meeting. In case of a violation of shareholder rights, a company does not meet the basic expectations of good governance.

To be able to assess Robeco's full investment universe, a data driven quantitative Good governance test was developed that can be used globally and across all asset classes. As a result, it is a basic governance expectations test, meeting only our minimum Good governance standards. Once a company passes this test, other due diligence and governance practices are applied that fall outside the scope of this Good Governance policy:

- I. ESG Integration - governance criteria are used by the investment teams to determine the attractiveness of a security as part of ESG integration and investment analysis,
- II. Proxy voting for all votable holdings, in line with Robeco's Stewardship Policy - Once securities are in portfolio, voting is used to further push for improvements in corporate governance
- III. Engagement of investees, in line with Robeco's Stewardship Policy – in case of a breach of Good governance standards.

Implementation

The Good Governance Test is integrated into the Robeco exclusion policy, where on top of the scope of the exclusion policy, the test additionally applies to segregated accounts managed by Robeco that are classified as SFDR Article 8 or 9 products. The implementation of the Good Governance Test is in line with the exclusion policy as described in www.robeco.com/docm/docu-exclusion-policy.pdf.

The Good Governance Test is not applied to investments in securities issued by sovereigns or supranational entities as part of Article 8 or 9 products, however separate sustainable investing measures for sovereigns are in place and can be found on our website.

The investment strategy for Robeco's Sustainable Private Loans fund cannot rely on public information because of the nature of the investments for the portfolio. A pre-investment survey has been developed based on the same principles of the Good Governance Test. Investments that are not eligible based on the survey are reported to the e Sustainability & Impact Strategy Committee and the Controversial Behavior Committee.

Please visit the Robeco website
for more information