

Green Bond Framework

There is an increased issuance of so called 'green bonds' in the market. Green bonds have dedicated use of proceeds, and issuers of green bonds (sovereigns, sovereign-related, corporates) intend to use the green bond proceeds to finance environmentally friendly investments like green buildings, wastewater treatment facilities, wind farms, etc. Certain operating expenses or R&D can also be financed by the green bond proceeds.

A green bond is not a legally protected term. Any firm can claim it issues a green bond. Robeco has a high quality methodology in place (the Green Bond Framework) to properly conduct our own investment selection and monitoring duties towards funds and clients in relation to Green bonds. The Green Bond Framework defines the process to check whether a green bond is also green according to Robeco's internal criteria, the green bond guidelines. The result of this 5-step process is a "pass" or "no-pass" and is written down in a separate report called a 'green bond report'.

The green bond reports are discussed and approved in monthly 'green bond committees', which include representatives from Investments (portfolio management and analysis) and SI Research.

Robeco's green bond analysis consists of five steps. On each of these five steps, the bond will be assessed with a "pass" or "no-pass":

1. Alignment of the issuer's green bond framework with market standards related to Green bonds
2. Allocation of proceeds – project evaluation
3. Impact reporting
4. Environmental strategy
5. Conduct – adherence to international norms

The green bond must pass all five steps successfully in order to be considered eligible as a green bond investment and are applicable to government (related) bonds and corporate bonds alike. The decision to include the eligible Green bond in the portfolio, is ultimately taken by the portfolio manager based on the regular investment process of the portfolio.

1. Alignment of the issuer's green bond framework with market standards related to Green bonds.

In this step we consider if the issuer's green bond framework is based on standards or principles that exist in the market, such as the ICMA Green bond principles, the Climate bond initiative (CBI) or national standards as the EU Green Bond Standard. We take into account if the issuer has looked for external verification of its Green Bond Framework (ex-ante), a so called Second party opinion.

2. Allocation of proceeds – project evaluation

Green bonds are essentially regular bonds with an 'ear marked' allocation of proceeds. Therefore, the environmental objectives of the underlying projects that will be financed are analyzed.

The proceeds of the issuance of the Green bond will have to make a positive contribution to an environmental objective, as defined by the EU. These six objectives are listed below, and next to a positive contribution to one of the six, the bond cannot finance activities that do significant harm to any of the other five:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy, waste prevention and recycling
5. Pollution prevention and control
6. Protection of healthy ecosystems

For the analysis of the first two objectives, climate change mitigation and climate change adaptation, we base ourselves on the (draft) EU Taxonomy.

Eligible use of proceeds can be

- Capital expenditure on tangible and intangible assets
- Operating expenses only if these increase the lifetime or value of the eligible asset
- Research and development costs

As a lookback period we have as guideline:

- Assets: not beyond useful life, not more than the current value at time of issuance
- R&D: 3 years maximum

3. Impact reporting

We require that at least annually, the issuer reports on the use of proceeds and the contribution to the environmental objective. Optionally, the issuer has obtained external assurance on the reported impact (ex-post). This external assurance, if obtained, must be given by an independent third party, such as an auditor, and could be part of the audit of the financial statements.

In case we find that the entity does not disburse bond proceeds as described in the offering documents, we will re-assess the eligibility of the bond for investment. If the proceeds are used towards existing activities that have no positive impact, the bond will no longer be eligible.

Based on the circumstances, we may decide that the issuing company becomes candidate for active engagement, to further discuss the governance around their financing process. This could, in ultimo, have consequences for Robeco's investment recommendation for the entity.

4. Environmental strategy

This step has as purpose to prevent investments into an entity that is not making significant steps towards becoming more sustainable. In this step, we consider the wider strategy of the company, country or government related entity. The analysis of SI Research is taken into account, as well as the assessment whether Active Engagement could reasonably be expected to deliver results in the foreseeable future. Lack of a coherent strategy or expansion plans in thermal coal for instance, will lead to a "no-pass" in this step.

5. Conduct – Adherence to international norms

We believe that for a Green bond to be a sustainable investment, international norms related to social and governance issues also must be met. Therefore, we assess:

- Social safeguards – the issuer shows respect for International Human and Labor Rights
- Controversial behavior – the issuer is not in violation of the UN Global Compact
- Sanctions – the issuer is not subject to international sanctions

The issuers of Green bonds have an SDG Score pursuant to Robeco's proprietary **SDG Framework and the SDG rating methodology**. To identify whether an issuer is involved in a controversy, ratings and data from external providers are used to aid our in-house monitoring. If a controversy is found, the analyst determines whether this has material impacts on the Green bond analysis and/or the SDG Score.

The Green bonds are reviewed annually as part of the impact reporting review. Also, the SDG Score of the Green bond is reviewed annually. If in the intermediate period a controversy or material change arises, this triggers immediate further analysis and, depending on the severity, may result in action, such as the Green bond becoming ineligible for investing, or Active Engagement.

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