LET'S TALK RESULTS

Sustainable investing is finally gaining traction in the marketplace, possibly because the market has started to acknowledge the detrimental effect that issues such as climate change, loss of biodiversity and inequality can have on our economies and companies. To prevent these effects from materializing, it is vital that we start considering the results of our investment strategies not only from a financial perspective but also in terms of their social and ecological effects. We tend to call this impact: a change in a specific social or environmental parameter that is caused by an activity. All our investments have both a financial and a non-financial impact.

It's clear that the asset management industry is in the early stages of designing and fine-tuning this measurement process. In this section, we present and explain some of the work we have done towards measuring Robeco's own impact as a sustainable investor.

The goals of applying ESG information and the types of impact we have as an investor vary depending on the strategy. We find that investors are increasingly aligned on their approach to sustainability, and so we have developed a framework around this. Our approach to sustainability is outlined in the graph. The majority of our investment strategies apply exclusions, ESG integration and engagement. These are grouped under the 'Sustainability Inside' label and do not have explicit, pre-set sustainability targets. This enables us to create portfolios for which material sustainability issues are taken into account, but are not the driving factors for investment.

Beside these strategies, we manage EUR 16.5 billion in assets for which we do have pre-set sustainability targets. This difference in approach is reflected in the average Morningstar globe rating, an independent measure of sustainability that ranges from

OUR PRODUCT RANGE AND HOW WE RESEARCH IMPACT

Sustainability Inside

■ The majority of Robeco strategies fall into this category, which entails full ESG integration based on proprietary research, exclusions, and voting and engagement.

- AuM: USD 148.2 bln*
- Average Morningstar globes 3.3

How ESG integration contributes to alpha in global equity P32
Living Wage platform financials: impact in the garment industry P30
Our approach to tackling climate change P27

Sustainability Focused

■ In addition to 'Sustainability Inside', these strategies have an explicit sustainability policy, as well as targets for the ESG profile and environmental footprint that are better than their benchmark.

- AuM: USD 9.2 bln*
- Average Morningstar globes 4.1

Impact Investing

■ In addition to 'Sustainability Inside', these strategies aim to contribute to specific sustainability themes such as energy or mobility, and/or the UN's Sustainable Development Goals.

- AuM: USD 9.3 bln*
- Average Morningstar globes 4.0

The performance attribution of Global SDG Credits P29
Impact measurement by RobecoSAM thematic strategies P24
Column by Karen Maas (From 'investing with impact' to 'impact investing') P34

■ For a few strategies ESG integration and engagement is not relevant (i.e. derivatives strategies).

- AuM: USD 2.8 bln*

* As of 31 December 2019

1 globe (low score for sustainability compared to peers) to 5 globes (high score compared to peers). The average rating for our 'Sustainability Inside' strategies is slightly above average, while the average rating for our 'Sustainability Focused' and 'Impact Investing' ranges are higher. Based on the Morningstar performance ratings, the sustainability strategy range – Sustainability Focused and Impact Investing – certainly does not have a lower performance than the 'Sustainability Inside' range. This supports our belief that we can achieve a positive socioeconomic impact alongside competitive financial returns.

In the pages that follow, we showcase results from our efforts in determining our impact as investors, both financial and non-financial, which support this belief. We set out findings on the extent to which integrating ESG information in our Global Equity strategy contributes to generating alpha, provide insight into the impact of our collaborative work on the Living Wage platform, and discuss our efforts to assess the footprint of our entire investment portfolio.

In addition, we outline the findings of our attribution analysis, which shows the contribution of our SDG credit framework to the performance of the Global SDG Credit strategy. Furthermore, we highlight some of the impact measures calculated for the RobecoSAM thematic strategies, which describe their contribution to environmental and social development.

We would like to express our thanks to Karen Maas – expert on impact measurement, impact investing and CSR; Professor of Accounting and Sustainability at the Open University; and Academic Director of Impact Centre Erasmus (ICE). She has provided us with her views on what impact is, how it should be measured and what work needs to be done to take impact investing to the next level.

THE SDGS WILL MAKE IT EASIER TO ALIGN INTERESTS BETWEEN COMPANIES, INVESTORS AND SOCIETY

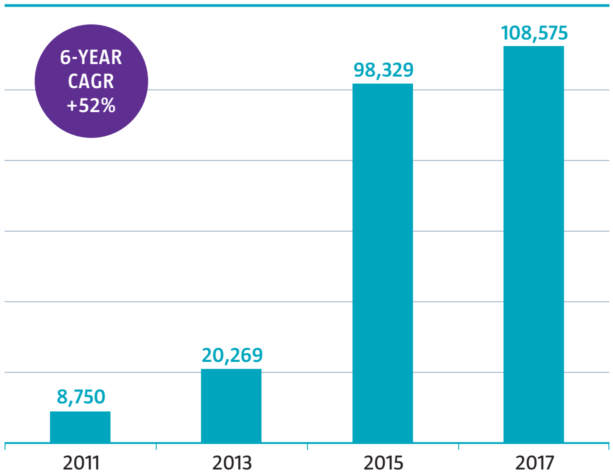
THE CHALLENGE OF MEASURING IMPACT

- **Impact investment – and impact reporting – are here to stay, and we see a strong momentum on both the demand and the supply side that could eventually make impact reporting mandatory for certain types of investments.**
- **Impact reporting is still at a very early stage, with no good, standardized methodologies available yet. RobecoSAM has developed a systematic approach that solves many of the shortcomings. This is illustrated below using our Smart Energy strategy as an example.**
- **Given the different ways of approaching the issue, there will never be a single solution for measuring impact. Therefore, the journey will always be more important than the destination. Doing the calculations enables us to learn about the real impact that companies have, but – owing to the inherent limitations – there will always be challenges in comparing the final aggregated numbers.**

A surge in impact investing

There has been a strong increase in impact investing over the past decade (see graph below), focusing on the impact of the products and services of companies. However, measurement of these impacts is often still lacking.

GROWTH OF IMPACT INVESTING



Source: European SRI Study 2018 (Eurosif)

To enrich our understanding of the value created by companies, RobecoSAM has begun to develop impact reports that systematically describe and estimate the output and impact of the holdings in our impact and thematic strategies. We believe that, by providing tools that enable the comparison of investments on a critical dimension beyond the purely financial, impact reporting benefits not only investors and investees, but society at large.

With the growing popularity of the Sustainable Development Goals (SDGs), there is hope that it will become easier to align interests between companies, investors and society. The SDGs provide a framework and vocabulary to start discussing the impact of companies in a standardized way, and can help investors to make decisions about investment, divestment and engagement.

Showcase for measurement

The ultimate goal is a small set of impact metrics that gives an indication of how well the strategy is aligned with the claimed purpose or theme. These metrics complement the financial analysis by providing a more holistic description of the company, as well as the performance of the strategy.

In order to demonstrate our methodology, we provide the analysis for our Smart Energy strategy, which contains several investment clusters:

- renewable energy generation,
- energy distribution,
- energy efficiency and
- energy management.

In renewable energy generation, two kinds of activity should be considered: the manufacture of equipment (e.g. wind turbines) and the actual renewable energy production by the operators of that equipment. For both activities, hard numbers are often available (e.g. GW of wind turbines produced per year, annual GWh of wind electricity generation). We use a full life-cycle analysis; for example, we include the environmental footprint during wind turbine manufacturing. These numbers can thus be compared with benchmarks, which typically correspond to the average grid carbon intensity at the location where the wind turbine is operating.

For an accurate assessment of a company's impact, it is crucial to also include negative company impact (e.g. from fossil fuel electricity generation) to avoid cherry picking. In addition, to avoid double counting between different companies in the same value chain, the full impact of the activity is distributed to the different companies along that chain.

Finally, company impact numbers are aggregated for the full portfolio impact. For each company, we attribute a share of the company's total impact proportionate to the strategy's exposure to the company as a percentage of enterprise value. We choose enterprise value rather than market capitalization, as we consider bond holders to be proportionally responsible for the company impact.

Results

For RobecoSAM Smart Energy, we aggregate the impact for renewable energy producers, natural gas distributors, and companies engaged in LED lighting and clean transportation products and services. This is measured as the amount of electricity produced from renewable sources and tons of CO_2e emissions avoided as compared to a standard industry solution. The positive impact from the remaining companies in the strategy (energy efficiency, power management, etc.) are not aggregated owing to the difficulty in reasonably quantifying these impacts in a comparable way.

The impact of 47% of companies in the portfolio, representing 31% of the portfolio market value, is aggregated as at June 2019. For the overall strategy, we obtain the following numbers:

- **157** GWh of renewable energy generated, equivalent to annual electricity consumption of more than 39,000 average households;
- **96,800** tons of CO_2e avoided, equivalent to more than 37,000 conventional cars taken off the road for one year.

Renewable energy

- The strategy's holdings in this cluster are associated with 142.2 GWh of renewable energy generated and 61,447 tons of CO_2e avoided over a one-year period.
- For every EUR 1 million invested into this cluster, the holdings represent an avoidance of 647 tons in CO_2e emissions.

Natural gas distribution (NGD)

- The holdings in these companies represent the avoidance of 29,358 tons in CO_2e emissions over a one-year period by replacing dirtier fuels.
- Some NGDs also engage in clean power generation, contributing another 15.2 GWh to the strategy impact.
- For every EUR 1 million invested into NGD companies, this corresponds to 362 tons of CO_2 emissions avoided.

Energy efficiency and clean alternatives in transportation

- The holdings in these companies are associated with an avoidance of 4,989 tons of CO_2e emissions.
- For every EUR 1 million invested into transportation solutions in the strategy, this translates to 129 tons of CO_2 emissions avoided.

Efficient lighting

- The holdings in these companies contribute to the strategy impact by 1,007 tons of CO_2e emissions avoided.
- For every EUR 1 million invested in lighting solutions, the investment corresponds to 98 tons of CO_2 emissions avoided. ⟶

MAKING A DIFFERENCE

Company reporting still lacking

We find that impact numbers reported by companies themselves can typically not be used. Here are some of the issues we found with company reporting:

- Worst-case benchmark: companies compare themselves with the worst-case scenario, e.g. pure coal power instead of the actual generation mix in the location where they operate.
- Aggregation of past and/or future operations: companies count all their historic achievements, or extrapolate this year's result far into the future.
- Ignoring negative impact and cherry-picking the positive aspects.

In the present strategy, all companies assessed show a clear positive net contribution. While this is not surprising given the thematic focus, the impact calculations add further details for more comprehensive peer comparisons. These details can form a basis for further engagement with a company.

Recommendations for interpreting the numbers

General recommendations

In interpreting impact numbers, it is important to keep in mind that there are many non-linear interactions that are difficult to untangle, and that calculating positive impact should never be done for companies in isolation. It is crucial to understand how to use this data: as an indicator only and in combination with other metrics, but never as a target in its own right.

Recommendations for asset managers

- Always do a reality check for all impact numbers.
- Be transparent, honest and humble about the scope. Do not oversell your results.
- Exchange ideas and work towards common quality standards.
- Engage with companies to improve not only impact, but also disclosure.

Recommendations for asset owners

- Do not use impact numbers for direct comparison between strategies.
- Do question all assumptions and results, and be on the lookout for greenwashing.
- Put all impact numbers in the right context.
- Spread the word and rally other asset owners to go beyond pure financial metrics.

ALL ASSUMPTIONS SHOULD BE QUESTIONED – BEWARE OF GREENWASHING

THE SMART WAY TO MAKE AN IMPACT, FROM FOOD TO FAIRNESS

Impact investing involves making a difference on the ground alongside generating a financial return. This requires an investment process which intentionally targets companies that are demonstrably making a measurable social or environmental impact on their surroundings.

The impact investment process therefore identifies companies which exhibit social or environmental improvement, in both their products and solutions, and their own operations. Moreover, we believe investors benefit from measurable reported impact at the portfolio level.

RobecoSAM started adding thematic strategies to its product range in the early 2000s, investing in companies offering solutions to challenges such as water scarcity, unsustainable sourcing, the distribution of energy, and improving the health of the planet's growing population.

In 2015, when the UN SDGs were introduced, several of these thematic strategies had already captured a number of those goals. Years later, with SDG-linked impact reporting embedded into all of them, every RobecoSAM product has impact investing characteristics.

Here's how we're making an impact while serving our clients at the same time.

1. Sustainable water

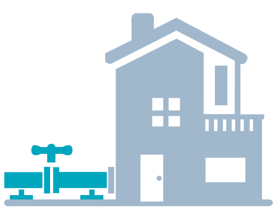
A safe and reliable supply of fresh water is a basic human need. Yet, despite being more valuable than gold in drought-stricken areas, it doesn't seem to hold the importance of other commodities. Water is largely unpriced, allowing some to take more than their fair share, while others go thirsty. Water purification and wastewater treatment are other problematic areas that require extensive investment.

The RobecoSAM Sustainable Water strategy is the world's first of its kind. It invests in companies that use less water for industrial processes and irrigation, reduce evaporation and pipe leakage, tackle contamination and increase desalination from sea water. Over one year, in 2018, the companies in the strategy distributed 51.7 billion liters of clean drinking water, equivalent to that consumed by a total of 646,566 people. →

IMPACT METRICS

The amount of clean water distributed

51.7 billion liters
of drinkable water distributed



Per EUR 1 million invested:
47 million liters distributed

Equivalent to the volume of water used by
430 average households (EU)[1]
each year

The number of people supplied with clean drinking water

646,566 persons
supplied with drinking water

Per EUR 1 million invested:

588 people
supplied with drinking water

The total amount of waste water treated

38.5 billion liters
of waste water treated

Per EUR 1 million invested:
34.9 million
liters of waste water treated

Equivalent to the amount of water used by
735 Europeans[2]
each year

Source: RobecoSAM, 2019.
1. Average household size 2018 is based on 2.3 members www.ec.Europa.eu. 2. Equivalent water used per European is based on 47.5 m^3. Source: www.eea.Europa.eu.
The graphic displays the resulting impact of the Water strategy across the 3 impact indicators per EUR 1 million invested. The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as at 30 June 2019, assuming that stable proportion of the companies are held. Market value of the holding is normalized by the company's enterprise value. Based on production numbers from the latest reporting (FY 2018).

2. Smart energy

Renewable energy and smart energy generation facilities are undoubtedly the way forward when it comes to eradicating fossil fuels. Giant wind turbines – some as big as skyscrapers – are the new offshore oil rigs. Solar panels have proven capable of generating enough electricity to power entire cities. Add in hydroelectric dams and biofuels, and we're well on our way to one day replacing coal.

Renewable energy companies in the RobecoSAM Smart Energy strategy produced 157 gigawatt hours of electricity in 2019, equivalent to the annual consumption of more than 39,000 households. This represents a CO_2 reduction of some 96,800 tons, which is equivalent to taking 37,000 conventional cars off the road.

IMPACT METRICS

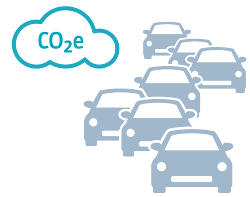
Amount of electricity produced from renewable sources

157 GWh
of renewable energy generated

Equivalent to the annual electricity consumption of more than
39,000 average households[1]

CO_2e emissions avoided as compared to a standard industry

96,800 metric tons
of CO_2e avoided



Equivalent to
37,000 cars[2]
taken off the road for one year

Source: RobecoSAM

1. Average electricity consumption per household and year; in MWh (source: www.ec.europa.eu/eurostat).
2. Average carbon dioxide emissions from new passenger cars per year; in t CO_2-eq (source: www.eea.europa.eu).

The graphic displays the resulting impact of the Energy strategy across the two impact metrics. The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as of 30 June 2019, assuming that stable proportion of the companies are held. Market value of the holding is normalized by the company's enterprise value. Based on production numbers from the latest reporting (FY 2018).

3. Smart materials

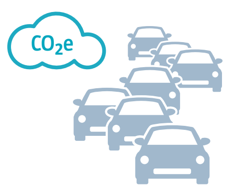
Electric cars have different components from those powered by petrol, not least in their batteries. This requires cadmium and lithium, among other new minerals now being mass mined. Transformation materials are also creating opportunities in lasers, 3D printing and more advanced recycling, not to mention biodegradable plastics and even parts for the human body.

Companies in the RobecoSAM Smart Materials strategy have made a difference by recycling 5,481 metric tons of materials in 2019, equivalent to the annual use of 26,058 people. Some 32,060 metric tons of waste was avoided, equivalent to what is normally created by 65,780 people. And those involved in reducing energy use prevented 465,095 tons of CO_2 from entering the atmosphere, equivalent to taking 326,605 non-electric cars off the road.

IMPACT METRICS

Amount of CO_2e emissions avoided

465,095 metric tons
of CO_2e avoided



Equivalent to
326,605 cars[1]
taken off the road for one year

Amount of material recycled

5,481 metric tons
of materials recycled

Equivalent to the annual materials recycled of more than
26,058 people[2]

Amount of waste avoided

32,060 metric tons
of landfill waste avoided

Equivalent to the annual waste generated of more than
65,780 people[3]

Source: RobecoSAM

1. 2017 average CO_2 emissions EU 118.5 g/km; 2015 annual distance driven by car EU 12,009 km; in t CO_2-eq; 1.423 (source: www.eea.europa.eu; www.odyssee-mure.eu).
2. 2014 Recycling rate EU 43.6% 487kg *43.6%= 0.21 tonnes waste recycled per capita (source: www.ec.europa.eu/eurostat).
3. 2017 EU: 487 kg=0.487 tonnes waste generated per capita; in tonnes; 0.487 (source: www.ec.europa.eu/eurostat).

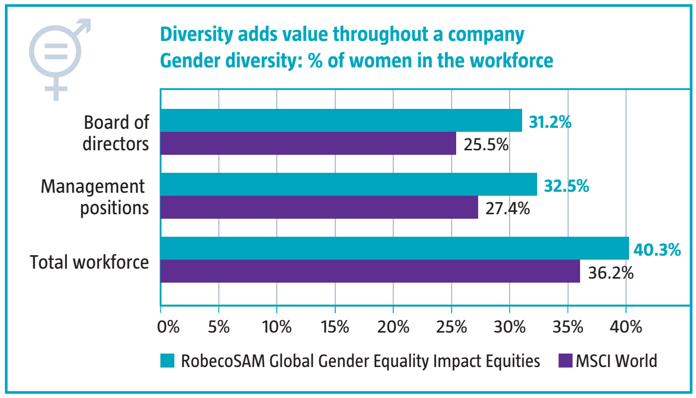
The graphic displays the resulting impact of the Smart Materials strategy across the three impact metrics. The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as at 30 June 2019, assuming that stable proportion of the companies are held. Market value of the holding is normalized by the company's enterprise value. Based on production numbers from the latest reporting (FY 2018).

4. Gender equality

Men and women each make up half the population, yet the disparities in employment opportunities, ranging from equal pay to glass ceilings for female executives, still bedevils business. It's a shame, as research has shown that more diverse companies and those that treat women fairly have a strong competitive advantage.

The enlightened companies in the Global Gender Equality Impact strategy contribute to making a difference and, uniquely, the strategy looks beyond board-level equality. Research shows that only 29% of board members in Europe are female, while the participation of women in the global workforce has fallen to 35%, and it will take 22 years to close the gender pay gap at the current rate. That's why investing in the right companies can make a difference.

GENDER DIVERSITY IN THE WORKFORCE



Source: RobecoSAM, 2019

CREDITING THE SDG PERFORMANCE

Supporting the Sustainable Development Goals is not only a good way to make a difference, it has also shown to have a positive impact on financial returns.

Our dedicated SDG Global Credits strategy outperformed its benchmark by a cumulative 29 basis points* in the 18 months since its launch in June 2018. This confirms that it is possible to develop a sustainability-focused investment process that is focused on generating positive returns as well as benefiting society.

The SDG-eligible universe of credits is selected using our proprietary SDG screening methodology, which we developed in 2018 in cooperation with RobecoSAM. This process of screening companies and giving each an SDG score comprises three steps: establish what the products or services produced by the company contribute to the SDGs, analyze how the company's conduct contributes to the SDGs, and determine whether it is or has been involved in any controversies and, if so, whether measures have been taken by the management to prevent this from reoccurring. The SDG scores range from +3 to -3. Only bonds with a positive or neutral SDG score are eligible for inclusion in the portfolio, representing about 75% of the entire coverage list.

Watching the SDGs

A closer look at the performance of the SDG Global Credits strategy reveals that issuer selection explains more than three-quarters of the outperformance of the 18-month period, showing that we're picking the right companies. What's more, almost a quarter of this outperformance is due to the screening that we carry out to assess a company's contribution to the SDGs. Of this, more than three-quarters can be attributed to not investing in companies with a negative SDG score. In particular, avoiding some issuers in the automotive, brewing, financial and utility sectors has had an important impact on performance.

The analysis shows that, as is the case with our entire credits investing process, the idea that it can be more important to avoid the losers rather than always picking the winners is applicable here, too. This finding also confirms our research into credits data going back five years: credit sectors with positive or neutral SDG scores had a positive risk-return relationship compared to those with negative scores. In other words, risk was lower without sacrificing returns.

Winning by not losing is a fundamental motto for credits investing and the research shows that our SDG screening methodology is a good fit with this philosophy.

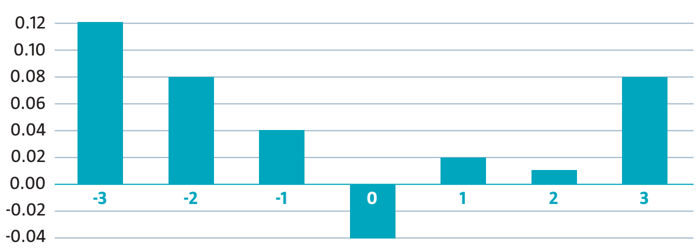
* RobecoSAM Global SDG Credits IH USD share class, net of fees, based on gross asset value, all figures in USD.
Benchmark: Bloomberg Barclays Global Aggregate Corporate (hedged into USD).

PERFORMANCE CONTRIBUTION FROM SDG-SCORE ALLOCATION

The SDG screening process contributed positively to performance

- Clear relation between SDG score and performance contribution
- Avoiding negatively scoring names had the strongest effect
- On both ends of the spectrum the effect is strongest

Performance attribution



Analysis period June 2018 to December 2019. Benchmark is the Bloomberg Barclays Global Aggregate Corporate Index. Performance attribution of the Global SDG Credits strategy. These numbers are internally calculated estimates, which are only intended to give a rough estimate of the attribution. The attribution figures are not GIPS compliant, and not calculated/checked by our official NAV-team, nor Performance Measurement Team, nor Compliance. Performance attribution in percentage points. Source: Robeco

LABOR COSTS SOMETIMES ACCOUNT FOR ONLY 2% OF THE PRICE OF HIGH STREET CLOTHING

2%

WORKING FOR LIVING WAGES

TWO percent. That's how little labor costs sometimes account for the price of high street clothing. The people making the clothes are often on extremely low wages, and in many cases work in sweat shops in emerging markets.

As part of its engagement work, Robeco is a member of the Platform for Living Wage Financials: an investor group formed in 2018 that campaigns to raise pay levels in the textile industry. Twenty companies involved in the garment industry are now engaging with the platform, with much progress already being made in raising pay levels at suppliers.

After a successful first year, the group of 12 – mostly Dutch – financial institutions is now expanding its focus to include the payment of a living wage in the food, agricultural and retail sectors.

"The initiative was started to unite forces from different financial institutions to assess the performance of companies in the garment sector with respect to the payment of a living wage in their supply chains," says Laura Bosch Ferreté, Robeco's Engagement Analyst working on the project.

"We use that information to engage with the companies and raise the bar in the sector. Labor-related issues in the supply chains have been under particular scrutiny since the Rana Plaza disaster in Bangladesh in 2013, which killed more than 1,000 workers after the building they were working in collapsed."

"Rana Plaza was a health and safety issue, but a closer look at the social issues in the garment sector reveals that workers' living standards are so low that they accept jobs with poor labor conditions. A living wage – an income that enables them to make ends meet – not only has an impact on their living standards in the short term, but also enables them to flourish in their communities."

A major challenge is to convince companies that paying higher wages – and therefore raising their costs in a fiercely competitive environment – is in their long-term interests. This is partly why it is so important to prove the financial materiality of ESG factors: to show that it is not only an ethical issue but also enhances performance in the long run.

"There are some financially sound arguments for paying a living wage," says Bosch Ferreté. "Higher-paid workers are more willing to stay at your manufacturing plant, so becoming more skilled and more efficient."

"There is also a cost-saving component as you don't need to keep hiring and recruiting new people. This enables you to focus more on employee satisfaction and improving workers' skills, which in turn will help you improve productivity. Moreover, paying a living wage helps companies avoid the serious reputational, legal and regulatory risks that are associated with poor labor practices."

"We had the first round of assessments in 2018, when we ranked around 20 of the companies we engage with on their progress towards paying a living wage," says Bosch Ferreté. "In the second round, in 2019, we saw some welcome changes in the rankings."

"A good example was a major brand that had actually moved from the 'developing phase' to the 'maturing phase'. They had significantly improved their performance, having introduced a more comprehensive living wage policy and a more comprehensive grievance mechanism to process potential and actual violations of labor-related issues in their supply chains."

"So, we've seen a fair bit of progress in the industry, even though we've only been engaging with these companies for a year. We think this collaborative platform raises awareness about the topic and puts more pressure on the industry as a whole to further improve practices."

GREEN IS GOOD

They're described as liquid impact investing. Green bonds – bonds whose proceeds are used for clearly specified projects with an environmental impact – have been included in Robeco's credit portfolios for years, as part of our strategy of building diversified portfolios. We'll be initiating a dedicated green bond strategy this year and, in our other strategies, we continue to make sizeable allocations to green, social and sustainable bonds.

The market for green bonds has been growing rapidly since the World Bank issued the first such instrument in 2008. This year, inaugural green bond issuances are expected from the governments of countries such as Germany, Italy, Spain and Sweden, and the secondary market is beginning to show depth and sophistication.

Our appetite for green bonds is evident in the scale of our exposure. Robeco's Euro Government Bonds (EGB) strategy, for instance, has a 10% allocation to the asset class, compared to an index weight of less than 1%.

Examples of the green bonds held by EGB are the KfW 2027, which primarily serves to finance wind energy programs, and the RESFER 2047, which helps to finance a more energy-efficient French railroad system.

The green bond allocations in the EGB strategy cover a wide range of projects, the largest of which concern clean transportation, water management, renewable energy and green buildings.

Using its methodology to estimate the CO_2 reduction achieved through green bonds projects, Moody's argues that investments in renewable energy are the most efficient in achieving decarbonization.

Applying Moody's methodology to the EGB strategy suggests that the green bond holdings have helped to finance projects resulting in an estimated reduction of 3.7 million kilograms of carbon emissions. To break it down somewhat, the calculations show that every USD 1,000 invested in the renewable energy green bond projects to which the strategy has exposure generates a 500 kg reduction in CO_2 emissions; 175 kg in CO_2 emissions reduction result from clean transport projects, and energy efficiency projects ensure a 60 kg reduction. Additional, albeit smaller, emissions reductions are achieved by other green bond investments.

With their clearly defined scope and transparency, green bonds are effective tools for achieving impact. It's no wonder, then, that the market for this asset class is growing rapidly, with strong investor appetite for new green debt issuances by corporates and governments.

RE: THE CIRCULAR ECONOMY

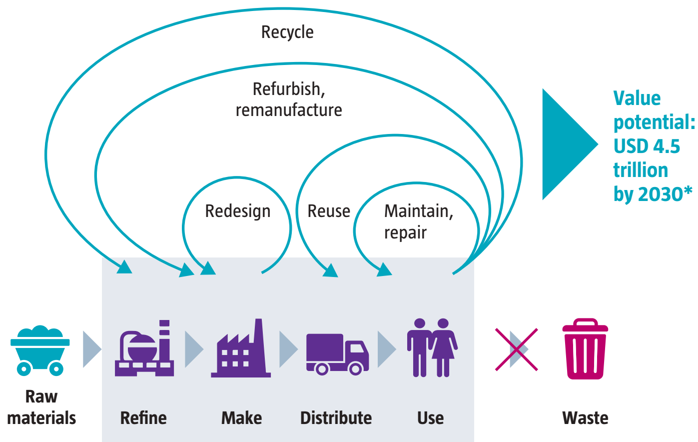
We're all familiar with the existing linear 'take-make-dispose' economy, by which we extract resources to manufacture products and then dispose of them once they have served their purpose. And we all know that this has to stop, but how do we move towards a less wasteful model?

RobecoSAM's new and innovative Circular Economy Equities strategy targets companies that aim to eliminate waste and facilitate the continual use of resources. In that way, what was once waste becomes a resource, creating a loop. The circular economy concept is not yet used on a national level, but is being gradually developed in the commercial arena.

The market for this is estimated to be worth USD 4.5 trillion by 2030. Think of any process beginning with the letters 're' and you'll have some idea about the kind of companies whose shares will be sought.

Recycling, reusing, redesigning, remodeling, refurbishing, repairing, renewable and regeneration. It's reworking investing, it's making an impact, and it's ready to roll.

REDESIGN, REUSE, REPAIR, RECYCLE



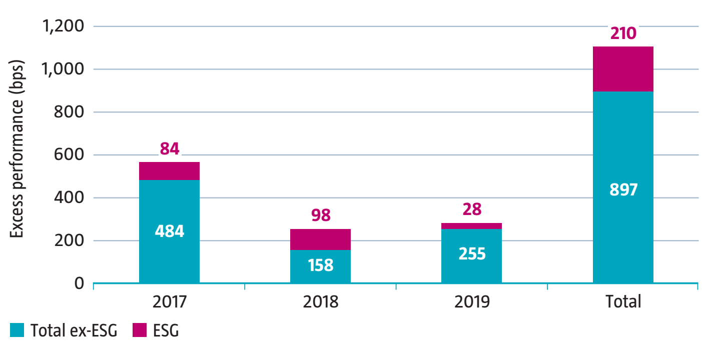
Source: 'Waste to Wealth: Creating Advantage in a Circular Economy', Accenture, 2015; and RobecoSAM

TO MEASURE IS TO KNOW, BUT DO WE KNOW HOW TO MEASURE?

It's easy to drop a lump of sugar into a mug of tea, but once it has dissolved, it is impossible to calculate or to know what exactly the sugar has contributed to the taste. In the same sense, it's difficult to measure the effect of ESG integration on the performance of a fund or portfolio, as the portfolio decisions are based on a completely integrated analysis. Yet that's no reason not to try, thinks Chris Berkouwer, analyst for the Sustainable Global Stars Equity strategy. After diving deep into the performance of the strategy, he discovered that 20% of the outperformance in the past three years could be attributed to sustainability. While the strategy added slightly more than an 11% return to the performance of the MSCI World Index, between 2017 and 2019, 2.1% of this could be attributed to ESG, says Berkouwer.

It almost sounds too good to be true. The question, of course, is how Berkouwer measures the contribution of the sugar to the taste of the tea. Berkouwer looks at the ESG elements that have an impact on the target price of every company in the portfolio. These could be positive, zero or even negative. The extent to which ESG affects the target price, combined with the out- or underperformance of the stock, ultimately determines the return attribution. The math is easy. Imagine that company A's stock price is EUR 20 based on a normal financial analysis, but owing to a positive influence of ESG factors, the analysts arrive at a price target of EUR 25. Mathematically, 20% of the stock price, or company value, is then 'ESG related' (EUR 5 divided by EUR 25). If at the end of the year stock A

ESG PERFORMANCE ATTRIBUTION



Source: RobecoSAM

contributes 0.5% to the strategy's outperformance, the ESG contribution to that outperformance would be 0.1%.

Skeptics will argue that this sounds like a back-of-a-beer-mat calculation, and it's true that there isn't any hard scientific evidence yet, but then there are few asset managers that carry out this exercise. "And it is a serious attempt to ascertain the impact of ESG on performance. It also has an impact on how we look at companies, and how we can measure the role of sustainability in the performance of a portfolio," says Berkouwer.

REDUCING THE REAL ESTATE FOOTPRINT

Buildings are a major contributor to emissions and solid waste, and a leading user of water and land. Efforts to reduce the extensive footprint of the real estate sector will be critical to making progress in meeting the SDGs linked to these elements.

The team managing the Robeco Sustainable Property Equities strategy is actively using its influence to help lessen this impact, and has had some measurable success in doing so.

As portfolio manager Folmer Pietersma points out, the application of this influence goes well beyond excluding property stocks with a big footprint. He and his colleague Frank Onstwedder engage actively with property companies within the portfolio, in an effort to reduce the negative impact of constructing, running and maintaining properties, which range from industrial, retail and office real estate, to residential, healthcare and hotel property.

"A company's sustainability score itself is not the sole criterion; the efforts a company is making to improve its ESG profile are very relevant as well. Reducing GHG emissions is our main objective, but energy reduction, water use and waste generation are also important footprint targets," Pietersma says.

Pietersma and Onstwedder have some quantifiable results for property stocks in the portfolio. "On average, our holdings as at the end of November 2019 that were covered in the Global Real Estate Sustainability Benchmark 2019 survey showed a 5.6% reduction in GHG emissions, or a cut of 350,000 tons of CO_2 emissions from the properties held by the strategy, which is the equivalent of taking 75,000 conventional cars off the road."

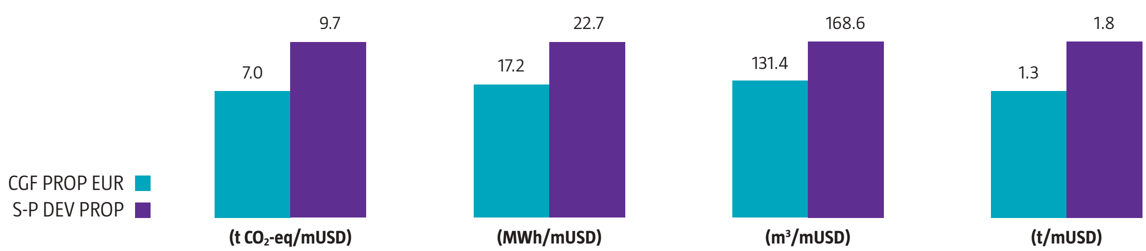
The strategy notched up another achievement by cutting the water use of buildings in the portfolio, which includes the results of steps to use rain water rather than mains water to flush toilets. Water use was cut by 800,000 cubic meters, which is enough to fill 320 Olympic swimming pools.

Cutting carbon footprints in real estate is important, as the sector accounts for nearly 40% of the world's energy consumption and over 30% of global greenhouse gas emissions. In addition, it accounts for 30% of raw material use, 25% of solid waste, 25% of water use and 12% of land use.

Robeco Sustainable Property Equities targets an environmental footprint that is at least 20% below the sector average. "Its footprint is better than that of the real estate benchmark in terms not only of GHG emissions, but also energy, waste and water," Pietersma says.

ROBECO SUSTAINABLE PROPERTY EQUITIES' ENVIRONMENTAL IMPACT REPORT

As of 30.11.2019



Impact per mUSD invested	GHG emissions – Scope 1 & 2	Energy consumption	Water use	Waste generation
Unit per year	(t CO_2eq/mUSD)	(MWh/mUSD)	(m^3/mUSD)	(t/mUSD)
Impact	2.6	5.5	37.2	0.5
Impact (%)	**27%**	**24%**	**22%**	**27%**
Savings/mUSD*	1	2	1	2
Impact total invested: USD 439 m				
Portfolio footprint	3,087	7,569	57,692	586
Benchmark footprint	4,238	9,984	74,015	808
Impact	1,150	2,415	16,323	221
Impact equivalent*	442	623	344	498

*** European average figures per year**

Average carbon dioxide emissions from new passenger cars per year; average 20,000 km and 130 g CO_2-eq/km; in t CO_2-eq (source: www.eea.europa.eu)	2.6
Average electricity consumption per household and year; in MWh (source: www.ec.europa.eu/eurostat)	3.9
Average water consumption per person and year; in m^3 (source:www.eea.europa.eu)	47.5
Average waste generation per household and year; in t (source: www.ec.europa.eu/eurostat)	0.4

Source: Robeco, RobecoSAM, 2019

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From 'investing with impact' to 'impact investing'

COLUMN 'Impact investing' is a wonderful concept that can really help to solve social issues. But we must go beyond simply believing others' good intentions. We actually have to measure impact and make it a key focus of our efforts.

Money plays a crucial role in society: investment drives the action. When the vast majority of capital is allocated to polluting – or primarily profit-driven – businesses, these companies continue to grow and flourish. If more capital were invested in the circular economy, the idea of circularity would form the basis for development.

All investments have a social, economic and environmental impact, be it positive or negative, direct or indirect, intended or unintended. Nevertheless, investors still focus mainly on the financial consequences: returns. The attention paid to social and environmental aspects has, however, increased significantly over the past decade. Investments that factor in ESG considerations have grown strongly in recent years and now account for almost half of total capital invested (USD 30 trillion in 2018, source: Global Sustainable Investment Review, 2019).

From 'do no harm' to 'doing good'

This type of investment involves looking for opportunities that 'do no harm' within the current return and risk-return ratio environment. Investors expect such investments to have less negative social impact. A small subset of these ESG investments is referred to as impact investing and represents a major step forward, as they actively generate a positive and measurable social impact. The focus here is on 'doing good'. However, the Global Impact Investing Network (GIIN) estimates that the current market for impact investing is USD 502 billion, which is less than 0.01% of assets invested worldwide (USD 66.4 trillion AuM in 2019, i.e. 66.4 million times one million, source: IPE, 2019).

This may sound like a semantic distinction, but in essence it concerns investments that also require a different mindset, approach, set of calculations and management. Impact investments are investments with the primary aim of generating positive and measurable effects. Here the pursuit of financial returns is important, but is not the main objective. If no positive impact is expected, no investment will be made. The best financial returns can then be pursued from the opportunities that remain. For ESG investments, the reverse applies. A selection is made based on the expected financial return and investments are sought within that spectrum that would have minimal negative impact.

In order to claim that investments do indeed have a positive social impact, you have to measure their total impact: economic, social and environmental. Social impact can be measured in a number of steps. First, the key indicators need to be identified and selected. This allows you to determine what you want to measure. Impact measurement can then be used to assess the impact of existing investments on the indicators selected. It is important to consider what contribution the investment makes compared to a comparable situation, also known as a counterfactual. As an example, you could compare an impact investment with a traditional investment. The results of this measurement show whether there is a positive impact.

Nowadays, almost all financial parties claim to be involved in impact investing. However, there are few examples in which impact is measured properly and where social impact drives investment. The question is how seriously we can take impact investing at this point in time. The intentions and opportunities are there; now we have to take the next step: to measure and manage, so that we can put our money to work and really help to solve social issues.

ENHANCING THE MARKET'S ESG CRED

In addition to its range of sustainable investment products, Robeco also offers customizable solutions. An example is Robeco's ESG Indexing offering, which was initially developed for a Dutch pension fund looking for a specific combination of investment outcomes. This investor wanted an investment solution that provides market-like returns, with a relatively low tracking error compared to the market capitalization-weighted index, while featuring very high sustainability standards.

Robeco's ESG Indexing is a quant-based approach that offers clients a passive-like portfolio that is active with regards only to ESG positioning. It uses active risk budget to allocate towards environmental, social and governance aspects, adding to our already well-established suite of solutions that allocate risk budget towards factor premiums.

In this specific client case, the solution uses a combination of three approaches to sustainability integration: exclusions, integration and impact investing. Exclusions entail avoiding stocks of companies involved in the manufacture or distribution of tobacco products and controversial weapons. Integration involves avoiding companies with the poorest ESG scores. Impact investing involves ensuring the portfolio has a carbon intensity which is 10% lower than the benchmark.

Compared to most standard sustainability indices available in the market, which only consider one dimension of sustainability integration, Robeco's ESG Indexing optimizes the portfolio in order to achieve multiple goals simultaneously. And, contrary to conventional index-based solutions, our ESG Indexing remains flexible and allows for future additional sustainability customization.

USE YOUR ACTIVE RISK BUDGET TO ALLOCATE TOWARDS ESG ASPECTS