

Sustainable Thematic Equity

Show, don't tell – investing in sustainable themes with demonstrated impact

Sustainable Investing Expertise by
ROBECOSAM

- ESG talk is cheap, real impact means measuring outcomes
- Robeco's impact measurement drills deep to confirm impact
- Impact results reported for four sustainable thematic strategies

Impact measurement is a way to show investors and stakeholders the real-world outcomes of the companies in which they invest. Our impact reporting tools guide investment decisions, inform engagement activities, and create accountability for our sustainable investment objectives. Thanks to the positive impact generated across our thematic investment strategies, Robeco can confidently show and tell the value of our commitment to sustainability.

Impact investing – beyond ESG

Impact investing is generally defined as investments made with the intent to generate positive, measurable impact alongside a financial return.¹ Sir Ronald Cohen's Impact Management Project describes it as "the material effects experienced by people, and planet, both positive and negative."²

It is often confused with other forms of responsible investing that judge the investable merits of a company based on its performance across a smorgasbord of environmental, social and governance criteria. But impact investing is much more rigorous than an ESG score. It emphasizes actual outcomes over mere compliance and well-meant intentions.

That rigorous spirit is catching on with investors. At the start of 2018, impact investments stood at USD 444 billion, up nearly 80%

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For professional investors
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Strategist



in just two years.³ This coincides with broader trends that see mainstream investors embracing responsible investing in all its forms, lifting assets to nearly USD 31 trillion.⁴

Lots of cash, not enough impact

The growth of sustainable investing (especially in public equity markets) has fueled growth in the volume of ESG reporting from companies. In 2019, 90% of S&P-listed companies published sustainability or corporate responsibility reports of some form.⁵

But despite increasing assets and data volumes actual progress on sustainable goals is slow and even regressing in some areas. According to the UNs 2020 Sustainable Development Goals Report, the world was off track for achieving many sustainability goals. And though it has caused some setbacks, Covid is not the primary culprit. Even before the Covid-19 crisis, data revealed worrisome trends across environmental indicators like carbon emissions, water stress, and biodiversity that continue to the present. Moreover, social indicators like education and training, gender and inclusion, health and well-being are also waning.⁶

'Impact investing is much more rigorous than an ESG score. It emphasizes actual outcomes over mere compliance and well-meant intentions'

Outcomes inform actions

To reverse negative trends, ESG data is not enough. Companies with good ESG scores are frequently found to have negative impacts. To take an extreme example, oil and gas companies can report superior performance across a range of ESG criteria but are also key drivers of climate change, causing hundreds of billions of dollars of environmental damage. To make matters more challenging, recent research shows that the ESG scores of different data providers are found to be unrelated. What one provider may say is a sustainable company can be viewed as an unsustainable firm by another.

To truly advance sustainability in the economy and for society, investors must measure whether companies are producing absolute positive outcomes. Just as financial accounting informs company management and its stakeholders on its operational effectiveness, in the same way, impact measurement informs sustainability effectiveness. Without impact data to guide them, companies, investors, and stakeholders have no way of knowing the efficacy of their investments. As a result, progress will continue to be sub-optimal.

Drilling deeper – assessing SDG impact

Over the past two decades Robeco's sustainable equity platform has expanded to include sustainable thematic investment products spanning themes in clean energy generation and management, smart materials and manufacturing, water and sanitation, electric mobility and transportation, healthy living and disease prevention, waste reduction and the circular economy.

Our sustainable thematic portfolios are constructed based on rigorous fundamental analysis, ESG research and careful theme development. But we drill even deeper; we assess how investee companies contribute to each of the 17 SDGs. Using Robeco's proprietary SDG framework, SDG impact is calculated and quantified for holdings within our thematic equity strategies.⁷ To show clients the significance of the impact, the portfolio's SDG impact

scores are compared with those of a global benchmark. An example of SDG impact for the RobecoSAM Sustainable Water Equities strategy is shown in Figure 1.

Figure 1 | Measuring SDG impact for thematic strategies ⁸

RobecoSAM Sustainable Water Equities – Distribution of SDG Impact Scores (%)



Numbers represent percentages and not individual portfolio companies.

MSCI World Index – Distribution of SDG Impact Scores (%)



Numbers represent percentages and not individual companies..

Data as of: 31.03.2021

Source: Robeco Switzerland Ltd. Certain underlying data is sourced from third parties (e.g. CDP Europe Services GmbH).

The reference index, the MSCI World Index, is a general market index and is not consistent with the sustainable objective of the fund. The graphic shows the magnitude and distribution of SDG impact scores (high, medium, low or neutral) estimated for each of the companies within the portfolio. 5% of the companies within the RobecoSAM Sustainable Water Equities portfolio had neutral SDG impact, 15% low positive impact, 51% had medium positive impact and 25% had high positive impact. The same data is presented for the portfolio's global reference benchmark, the MSCI World Index (which has no SDG objectives).

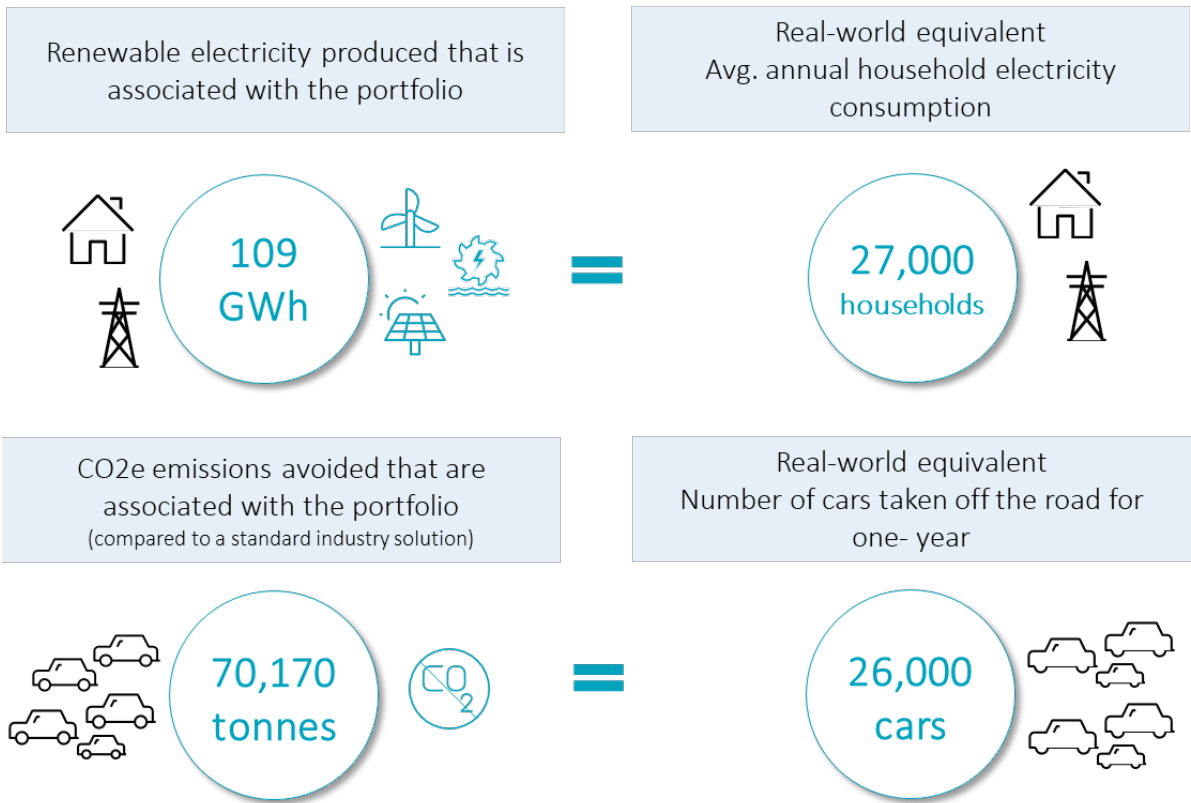
Estimating impact outcomes

Like the Sustainable Water fund, all thematic portfolios are closely monitored to ensure positive impact on the most relevant SDG goals. But the picture is still incomplete. Using specific metrics that align with the SDG targets, we [estimate real-world outcomes](#) for the companies in which we invest. In particular, we look at the impacts stemming from the products and services that companies produce, such as how much clean water was distributed to households, how much greenhouse gas was avoided, how many tonnes of plastic were recycled, and how many individuals were provided with access to healthcare.

The graphics in Figure 2 show the impact metrics and real-world outcomes estimated and reported for four of Robeco's sustainable thematic equity strategies.

Figure 2 | Impact metrics and outcomes

RobecoSAM Smart Energy Equities Strategy ⁹



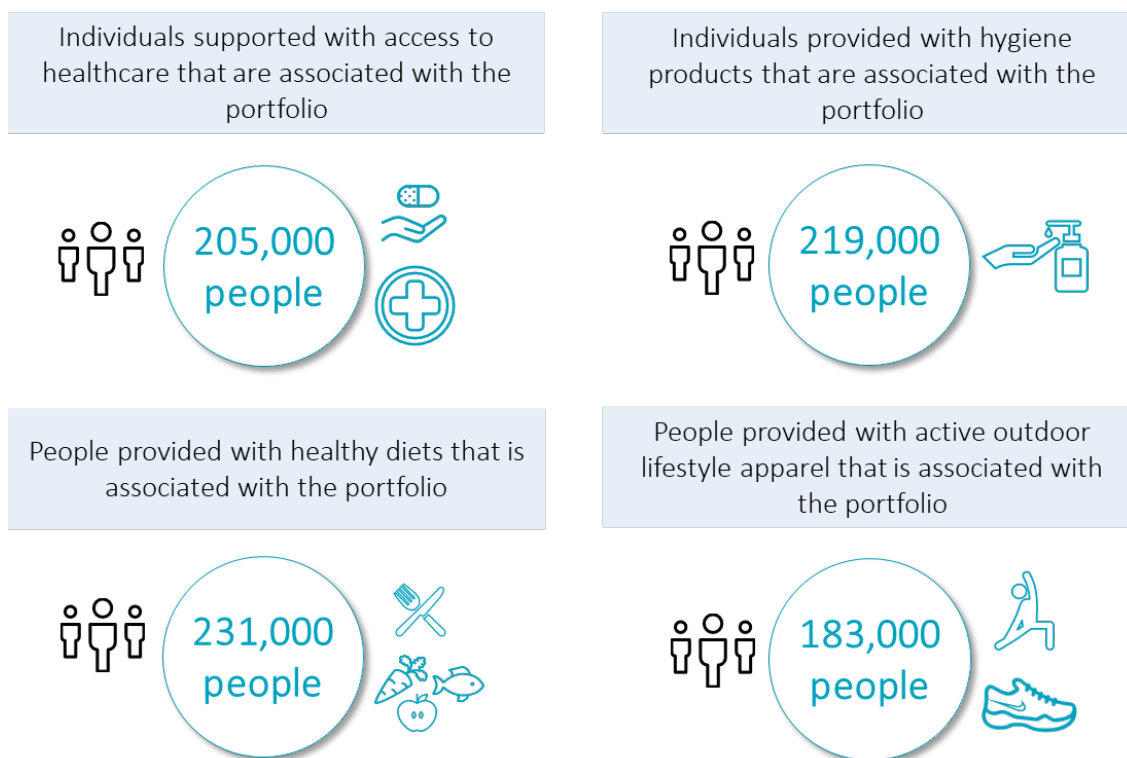
Source: Robeco

The impact of 38% of companies in the portfolio representing 26% of the portfolio's market value has been aggregated. The graphic displays an estimation of the associated impact of the companies in which the Smart Energy Fund is invested.

Average annual household electricity consumption is based on MWh (source: www.ec.europa.eu/eurostat).

Average carbon dioxide emissions from new passenger cars per year in t CO2-eq (source: www.eea.europa.eu).

RobecoSAM Healthy Living Equities Strategy ¹⁰



Source: Robeco

Impact calculations cover 26 of the 45 companies in the portfolio (64% of portfolio AuM). The graphic displays an estimation of the associated impact of the companies in which the Sustainable Healthy Living Fund is invested.

Important Notes:

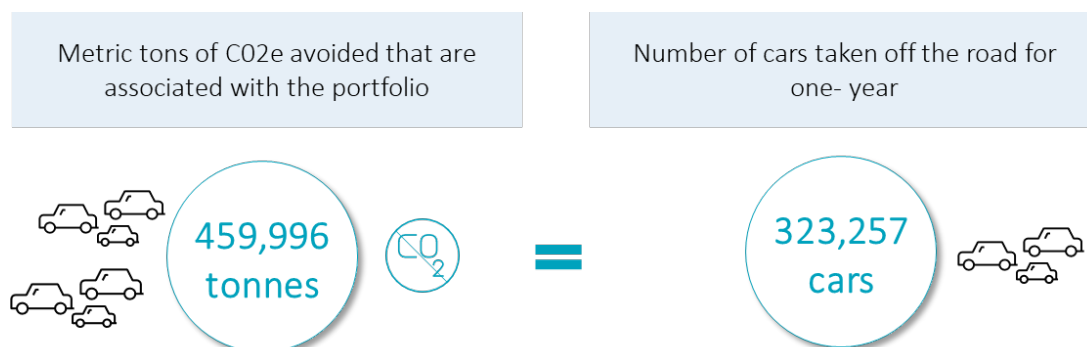
Access to health care: Impact estimates of the number of people reached with access to healthcare are based on 12 companies.

Hygiene products: Impact estimates for hygiene products provided are estimated based on companies' shares of revenues coming from different markets (US; EU; China; India; Indonesia; Rest of the World) and companies' market shares within regions. An adjustment is made to consider the share of population that do not have access to hygiene products, based on market penetration data. Results of analysis are cross-checked with the companies' own reporting.

Healthy diets: People provided healthy diets are estimated based on the United Kingdom's National Health Service's (NHS) guidelines for a healthy diet; and based on estimates on the number of meals per person provided by the company.

Fitness apparel: Companies' revenues from outdoor/active wear are retrieved from company reports. The average product price (multiplied by 66% to account for sales margins) is estimated per company to calculate the number of "active" and "outdoor" products that are sold. Estimates on the number of items bought by one customer per company per year are made (based on company reports, external data, or own assumptions) to estimate the number of people reached.

RobecoSAM Smart Materials Equity Strategy ¹¹



Source: Robeco

The impact of 32 companies in the portfolio representing 64% of the portfolio's market value has been aggregated. The graphic displays an estimation of the associated impact of the companies in which the Smart Materials Fund is invested.

Number of cars reduced annually calculations are based on 2017 average CO2 emissions EU 118.5 g/km; 2015 annual distance driven by car EU 12,009 km; in t CO2-eq; 1.423 (source: www.eea.europa.eu; www.odyssee-mure.eu).

RobecoSAM Sustainable Water Equities Strategy ¹²



Source: Robeco

The impact of 11 companies in the portfolio representing 21% of the portfolio's market value has been aggregated as of 30 June 2020. The graphic displays an estimation of the associated impact of the companies in which the Sustainable Water Fund is invested.

Aggregates and adjustments

Not all portfolio companies collect data on selected impact metrics. Moreover, companies may also report inflated data that overestimates impact. Experts on Robeco's SI Research team carefully compare company reports with reliable industry data to determine if adjustments are necessary.

Once we have estimated the total impact of a company on a particular impact metric, we attribute a portion of that impact to the fund. We do so based on the value of the portfolio's investment in the company, relative to the investee company's total enterprise value. If the portfolio 'owns' 1% of the company's enterprise value, we 'claim' 1% of the estimated impacts for that company. Impact estimates for individual companies are summed to determine an aggregate impact outcome for the selected impact metric.¹³

From impact measurement to impact management

Impact measurement benefits diverse stakeholders. Reported impact outcomes can be used by stakeholders including regulators, consumers, and suppliers to judge, monitor, and compare companies' commitment to sustainable progress. Moreover, outcomes data can be used by company management to help prioritize strategies and optimize future investments.

An important caveat for investors to consider when reviewing impact outcomes for publicly listed instruments (including those reported here): there is no clear causal relationship between stock purchases and impact outcomes. In other words, allocating capital to companies with high impact does not necessarily generate additional impact. To influence company behavior, Robeco relies on its [Active Ownership](#) Team which uses sustainability research and impact reports to engage with company management on risks, targets, and strategies that drive sustainable practices and outcomes.¹⁴

When used in this way, impact measurement and reporting can help increase accountability and action from publicly listed companies. Moreover, measuring impact for investment portfolios can help asset managers steer investment capital towards companies with better outcomes.

'We take impact measurement a step further by estimating company outcomes on selected impact metrics'

Conclusion

Sustainable investing is entering a new stage of development, one that goes beyond ESG research and ratings. Impact measurement and investing bases investment decisions on material outcomes that reveal the true impact that lies beneath masked assumptions.

Impact reports confirm which companies within our portfolios are out- or under-performing in terms of SDG contributions based on a proprietary SDG scoring system. But we don't stop there, we take impact measurement a step further by estimating company outcomes on select impact metrics. Outcomes are then aggregated for thematic portfolios to show clients the real-world impact of portfolio companies on sustainable development objectives.

Impact reporting not only informs investment decision-making and engagement activities it also creates accountability to our clients, demonstrating how our investment convictions are generating positive impact. Thanks to the positive impact generated across our thematic investment strategies, Robeco can confidently show and tell the value of our commitment to sustainability.

¹ Definition according to the Global Impact Investing Network (GIIN), <https://thegiin.org/impact-investing/>

² Often described as the Godfather of Impact Investing.

³ Global Sustainable Investment Alliance. Global Sustainable Investment Report 2018. At the time of writing, the Global Sustainable Investment Report 2020 was unavailable. A release date of early 2021 is planned. See <http://www.gsi-alliance.org/>

⁴ ibid

⁵ Governance & Accountability Institute, Inc. (2020). Governance & Accountability Institute Flash Report S&P 500. <https://www.gai-institute.com/research-reports/flash-reports/2020-sp-500-flash-report.html>

⁶ United Nations, Department of Economic and Social Affairs, Statistics Division. (2020). The Sustainable Development Goals Report 2020.

⁷ For more detail on Robeco's proprietary SDG Framework visit, <https://www.robeco.com/docm/docu-robeco-explanation-sdg-framework.pdf>

⁸ This report shows the RobecoSAM Sustainable Water Equities portfolio weight allocated to companies with a positive, negative and neutral impact on the Sustainable Development Goals. The positive or negative impacts can be high, medium or low. SDG scores are created using Robeco's proprietary SDG Framework. If the data set does not cover the full portfolio, the figures shown above each impact level sum to reflect the data coverage of the portfolio, with minimal deviations that reflect rounding. Weights < 0.5% will show as 0. The same calculations and figures are provided for the index.

The fund has sustainable investment as its objective within the meaning of Article 9 of the European Sustainable Finance Disclosure Regulation. The fund contributes to water infrastructure, to the distribution of tap water and the collection and treatment of wastewater. The fund focuses on companies which contribute to the value chain of water or which offer products or technologies which are more water-efficient than others in their category. This is done by investing in companies that advance the following UN Sustainable Development Goals (UN SDGs): Clean water and sanitation, Good health and well-being, Life below water and Life on land. The fund integrates ESG (Environmental, Social and corporate Governance) in the investment process, applies an exclusion list on the basis of controversial behavior, products (including controversial weapons, tobacco, palm oil and fossil fuels) while avoiding investment in thermal coal, weapons, military contracting and companies that severely violate labor conditions, next to proxy voting and engagement.

⁹ It shall not be assumed that an investment in the portfolio does result in a direct or additional avoidance of emission. The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as of June 30, 2020, 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 2019).

¹⁰ It shall not be assumed that an investment in the portfolio directly affects these results or creates additional effects on access to healthcare, hygiene products distributed, healthy diets provided, or outdoor apparel supplied.

The total investment is associated ownership-adjusted impact over a 1-year period. Holdings are as of June 30, 2020, assuming that a 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 2019).

¹¹ It shall not be assumed that an investment in the portfolio results in direct or additional avoidance of carbon equivalent (CO₂e) emissions. The total investment is associated with the following ownership-adjusted impact over a 1-year period. Holdings as of September 30, 2020, assuming that a stable proportion of companies are held. Market value of a holding is normalized by the company's enterprise value. Based on production numbers from the latest reporting (FY 2019).

¹² It shall not be assumed that an investment in the portfolio directly affects these results or creates additional effects on water distribution, water supply or waste-water treatment. The total investment is associated with an ownership-adjusted impact over a 1-year period. Holdings are as of June 30, 2020, assuming that a stable proportion of 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 2019).

¹³ For an overview of Robeco's Active Ownership 2021 Engagement Themes please visit: <https://www.robeco.com/ch/en/insights/2021/05/our-six-climate-change-engagement-themes.html>

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The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except in circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

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