ROBECO
The Investment Engineers

SDG Credits

The link between ESG and performance: SDG Credit stands the test

- SDG Credit strategies have outperformed their respective indices year to date
- SDG screening supports the ability to screen out poor performers...
- ...and does not impede our capacity to generate alpha via credit selection

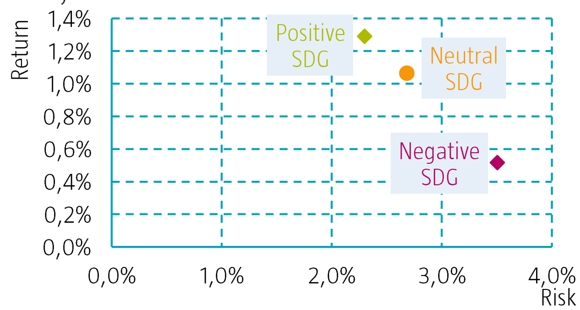
This analysis shows that supporting the SDGs is not only a good way to make a difference, it is a means to support financial performance.

Positive link to sector performance

Robeco developed a unique approach in 2018 to screen for UN Sustainable Development Goals (SDGs), which is applied across a range of Robeco strategies. Last year, the initial analysis showed that sectors which were positively aligned with the SDGs had lower credit risk and that, over a five-year period, sectors with a positive or neutral SDG rating had a superior risk-return relationship compared to those with negative SDG scores.

With the SDG Credit strategies now having developed a track record, the next step of evaluating results at the portfolio level was taken, to determine how the SDG measurement framework adds value in practice. In particular, the results were assessed in the wake of the Covid-19-related market and economic crisis.

Figure 1 | Investment grade credit: risk-return, five-year history



Source: Barclays, and Robeco calculations based on the global IG universe. Data up to August 2019, five-year history. The above chart is for illustrative purposes and does not represent the performance of any specific Robeco investment strategy.

Article
For professional investors
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Holding strong during Covid-19 crisis

Following a positive start, 2020 has proven to be unprecedented, with a dramatic sell-off in global credit markets in response to the Covid-19 crisis and then a strong rebound in credit markets since the end of March. Spreads moved from late bull market tights to recessionary levels in both investment grade and high yield within just four weeks. Quick and decisive action by governments and central banks prompted a substantial tightening in credit markets in the second and third quarter. The Global Investment Grade Credit Index[1] declined by -6.07% (EUR) in March, contributing to the first-quarter decline of -3.6%. The subsequent recovery resulted in a +7.57% (EUR) return in the second quarter and a more tempered gain of +1.49% (EUR) in the third quarter.

'Robeco's SDG credit screening methodology contributed to positive results during the height of the crisis and in the months that followed'

Detailed attribution analysis at the portfolio level shows that Robeco's SDG credit screening methodology contributed to positive results during the height of the crisis and in the months that followed.

Performance of the RobecoSAM Global SDG Credits strategy[2]

The RobecoSAM Global SDG Credits strategy has outperformed the Bloomberg Barclays Global Aggregate Corporate Index over the year to date. An outperformance of +103 basis points in the first quarter, +149 bps in the second quarter and +31 bps in the third quarter, takes the year-to-date outperformance to +292 basis points (representative account, gross of fees). Since inception in June 2018, the strategy has outperformed the index by 181 basis points per annum, and the cumulative outperformance over this period was 457 basis points (representative account, gross of fees).

Attribution analysis shows that a quarter of this cumulative outperformance is directly attributed to the SDG screening, through avoiding the bad names. In particular, the findings show:

- **Avoiding names with negative SDG scores contributed 68 basis points cumulatively over the period since June 2018.** This included avoiding some large integrated oil and gas companies that have a negative SDG score, avoiding the bigger automotive manufacturers with little or no revenues from electric vehicle sales and not being exposed to some of the sizeable, well-known utilities and banks with a negative SDG score. Amongst banks, for example, we avoided exposure to those with negative SDG scores owing to concerns related to corporate conduct.
- **Of the outperformance, 38 basis points is linked to favoring companies with a positive SDG contribution.** Robeco's SDG methodology led to the inclusion of a number of firms due to their positive SDG scores for business practices – amongst others, an Indian and US telecoms operator and a US technology company. These SDG-related selections contributed to the overall outperformance.

Beyond the SDG screening process, there is also a strong contribution from issuer selection, totaling 161 basis points since June 2018. This is support for our conviction that SDG screening does not hinder our ability to generate performance through bottom-up issuer selection, which is an important performance driver in all our credit capabilities.

Performance of the RobecoSAM Euro SDG Credits strategy[3]

SDG screening was implemented for the RobecoSAM Euro SDG Credits strategy in January 2019. Over the period January 2019 to September 2020, the strategy outperformed the Bloomberg Barclays Euro Aggregate Corporate Index by +113 basis points. A similar outcome is seen here with regard to the contribution of the SDG screening to relative performance, albeit over a shorter period.

The SDG screening added 68 basis points, with equal contributions from avoiding names with a negative SDG score and being overweight in names with a positive SDG score. A strong contribution from issuer selection is evident here, too, at 79 basis points.

[1] Global Investment Grade Credit Index: Bloomberg Barclays Global Aggregate Corporate Index.

[2] Source:Robeco. RobecoSAM Global SDG Credits representative account, gross of fees, based on gross asset value. Benchmark: Bloomberg Barclays Global Aggregate Corporate. In reality, management fees and other costs are charged. These have a negative effect on the returns shown. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future.

[3] Source:Robeco. RobecoSAM Euro SDG Credits representative account, gross of fees, based on gross asset value. In reality, management fees and other costs are charged. These have a negative effect on the returns shown. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future.

How the SDG screening works

Robeco selects the SDG-eligible universe of credits using its proprietary SDG screening methodology, which was developed in 2018. This process of screening companies and giving each an SDG score comprises three steps: establish how the products or services produced by the company contribute in a positive or negative way 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; those with a negative score are excluded from further consideration.

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