

ESG integration in practice

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All of our strategies have ESG (environmental, social and governance) factors integrated at every step of the process. This lowers the risk and identifies opportunities to improve the returns.

Our key investment beliefs are centered around the following:

- All investment decisions are research-based
- We aim for high active shares, so we avoid benchmark-hugging, and have a long-term investment horizon
- Sustainability insights support better-informed investment decisions.

Some of the considerations we look at include: Values-based exclusions, negative screening, ESG integration, active ownership, improved ESG profile, environmental footprint reduction, and sustainable development goals.

Our approach

We follow a three-step approach to quantify the impact of ESG factors and to facilitate better-informed investment decisions:

Step 1 – Identify and focus on the material ESG issues

Step 2 – Analyse the impact of material ESG factors on the business model. How is the company exposed to material ESG factors?

Step 3 – Quantify the impact to adjust value driver assumptions.

The impact of ESG factors on valuation assessment

We looked at over 200 investment cases and some of the main findings were that:

- 52% of all cases saw ESG impacting a company's valuation, whereas in 48% of the cases no adjustment was made; and
- 35% of valuation adjustments were positive and 17% had a negative impact.

The impact of ESG factors on investment performance

Research also showed us that:

- ESG factors have contributed positively to the investment result; and
- ESG factors explained almost 20% of the outperformance from 2017-20.

The outperformance was mainly driven by the integration of ESG factors into the valuation analysis.

Key take-aways

- ESG integration is really about being better equipped to identify sustainable risk and opportunities, leading to better decision making.
- Robeco has all three key ESG capabilities in-house, i.e. fundamental analysis, sustainable investment research and active ownership.
- We see a positive correlation between strong ESG credentials and quality characteristics of a company.
- ESG acts as a performance cushion and increasingly as a performance driver too.

Governance

There's been a lot of focus on the environmental side of things, but the focus did actually start out on the governance side. We engage to see where governance can be improved – shareholder rights etc. It depends on the region, and on where you focus, and also on the sector, e.g. US banks. We want them to develop a climate policy but it's a sector that's driven by having good governance structures in place. For example, we'd talk to them about things like executive remuneration frameworks and how they deal with customer data. An important goal is to bring about more harmonisation of sustainability-related disclosures and policies.

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