



ESG Integration for Investment Portfolio

Victoria Mio, CFA CPA FRM

CIO China, co-Head Asia Pacific Equities, Fund Manager, Robeco Chinese Equities

Sustainability investing: Integral to our fundamental analysis



A long history of Sustainability Investing

Sustainability specialist RobecoSAM provides proprietary insights

Dedicated Active Ownership team focused on improving companies' sustainability profile

We quantify ESG impact

Focus on financially material ESG factors

Company valuations reflect ESG analysis adjustments

Addressing client specific Sustainability goals

Partner with clients to integrate ESG

Regular reporting on the realization of sustainability objectives

20+ years

in-house sustainability data

ROBECOSAM

> 4,500

companies covered

A+

Rating by the PRI



240

Engagement cases

65%

Closed successfully

Company valuations impacted by ESG factors

40%

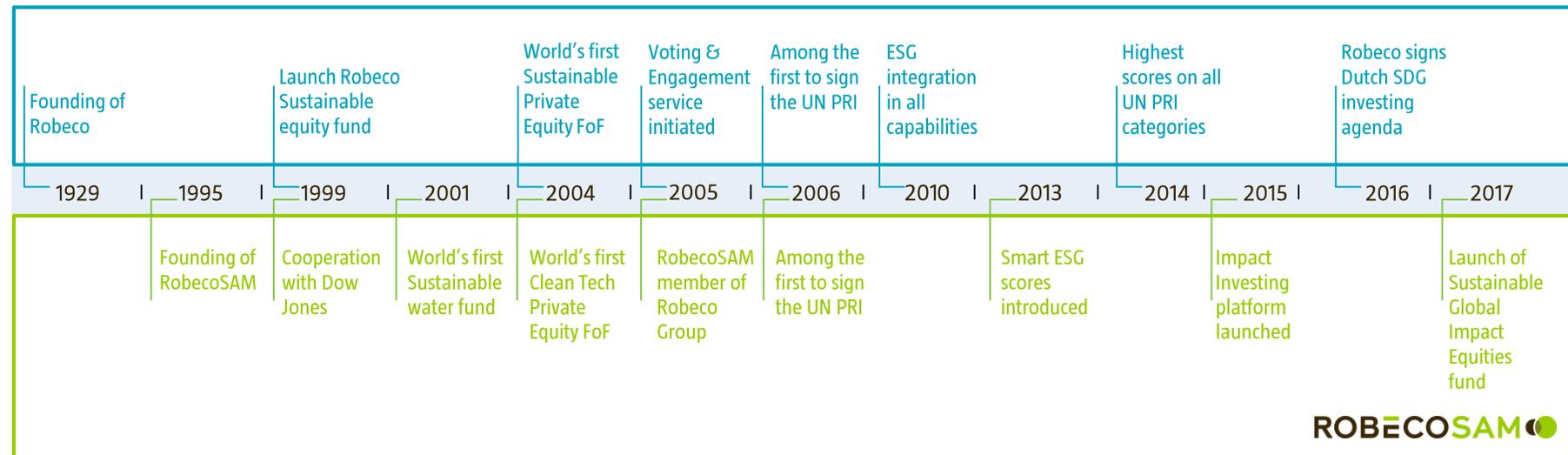
Source: Robeco, RobecoSAM. For illustrative purposes only.

This information is intended to provide the reader with information on Robeco's specific capabilities, but does not constitute a recommendation to buy or sell certain securities or investment products.

Long standing experience in Sustainability Integration

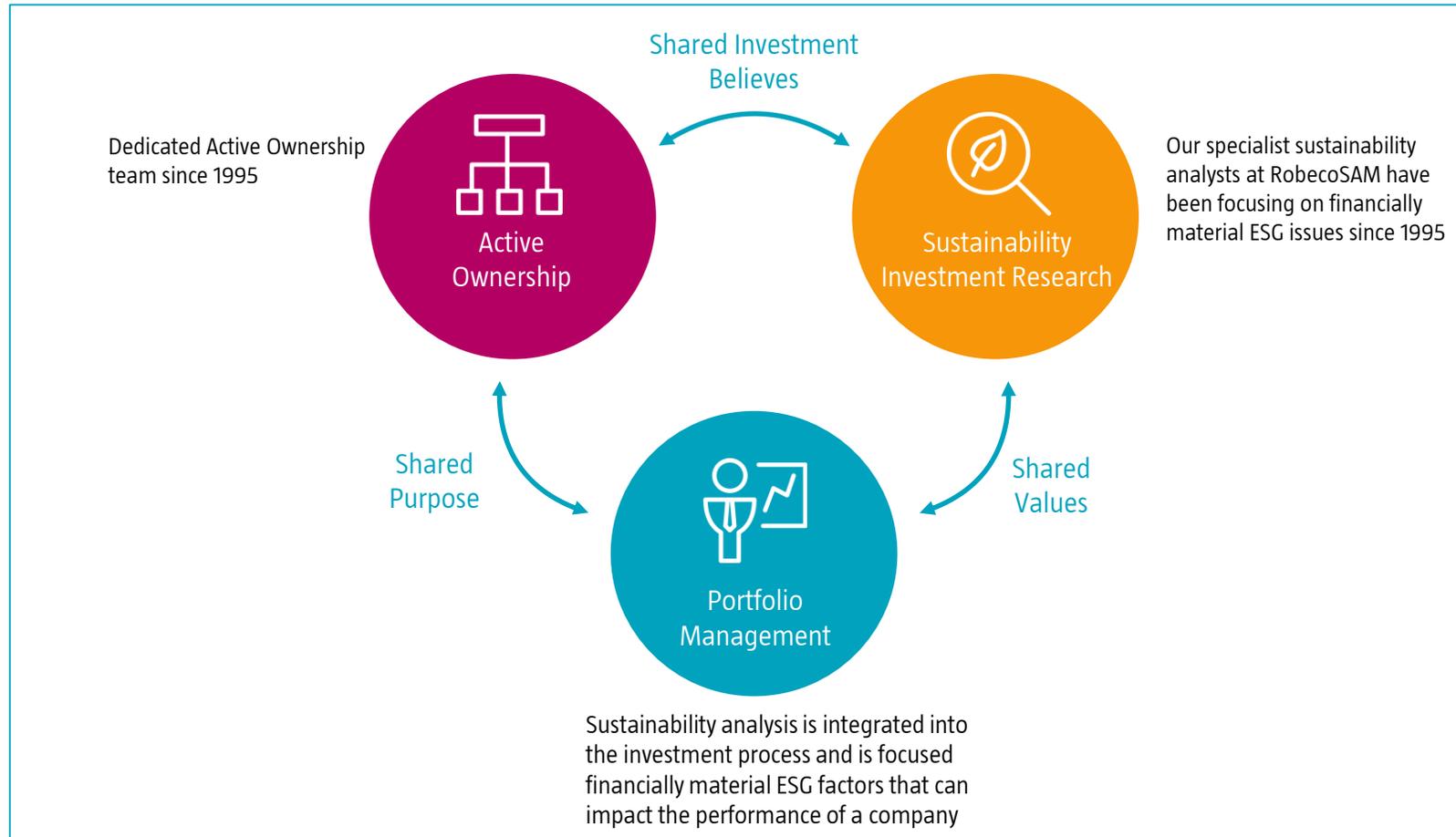
23 years of experience in sustainability investing

- > We are fully committed to Sustainability Investing and have been active in this space for many years
- > We have adapted and improved our methods and strategies as markets and clients have evolved



Unique sustainability culture: Extensive in-house sustainability expertise available

Close cooperation between dedicated, expert teams



RobecoSAM Sustainability Investment Research



Jacob Messina, CFA
Head of SI Research
Health Care, Consumer

Financial Industry: 10 years
Sector: 9 years

Previous employer: BMO Capital Markets –
Equity Research, Medical Technology



Michael v. d. Meer, CFA
Deputy Head of
SI Research
Emerging Markets

Financial Industry: 11 years
Sector: 13 years

Previous employer: EEA Fund
Management – Investment Advisor,
Private Equity



**Elina Kaarina
Hokkanen**
Senior SI Analyst
Industrials

Financial Industry: 2 year
Sector: 14 years

Previous employer: UPM-Kymmene OYJ,
World Bank, Gaia Consulting – various roles



Roland Hengerer, PhD
Senior SI Analyst
Utilities, Energy,
Electrical Equipment

Financial Industry: 5 years
Sector: 17 years

Previous employers: Trina Solar, Solon AG,
Accenture – various roles



Angela Saxby
Senior SI Analyst
IT, Communications
Services & Technology

Financial Industry: 2 year
Sector: 27 years

Previous employer: Hewlett Packard Enterprise,
Zurich – Chief Technologist, EMEA Cloud Service
Providers



Xiaoyue Du, PhD
SI Analyst
Materials

Financial Industry: 2 years
Sector: 11 years

Previous employer: Flatev AG – Chief
Sustainability Officer



**Daniel Bernalte
Hindersin**
SI Analyst
Financials &
Real Estate

Financial Industry: 7 years
Sector: 7 years

Previous employer: Credit Suisse Group AG –
Analyst (Sell-Side & Strategy), Investor
Relations



Livaskio David
SI Analyst
Health Care

Financial Industry: 9 years
Sector: 9 years

Previous employer: Ownership Capital –
Health Care Analyst

Additional resources



Research talent pool

5 Team Members

ESG Ratings

~30 Team Members

Quantitative Research

4 Team Members

Robeco Active Ownership Team

Team Lead	<p>Carola van Lamoen Head of Active Ownership</p> <p>Industry: 18 years</p> 	<p>Masja Zandbergen Head of ESG integration</p> <p>Industry: 21 years</p> 		
	Active Ownership Team	<p>Sylvia van Waveren, CEFA Senior Environmental Engagement Specialist</p> <p>Industry: 32 years</p> 	<p>Cristina Cedillo Environmental Engagement Specialist</p> <p>Industry: 5 years</p> 	<p>Laura Bosch Active Ownership Analyst</p> <p>Industry: 3 years</p> 
<p>Michiel van Esch, CFA Senior Governance Engagement Specialist</p> <p>Industry: 11 years</p> 		<p>Ronnie Lim Senior Governance Engagement Specialist</p> <p>Industry: 33 years</p> 	<p>Cedric Hille Active Ownership Analyst</p> <p>Industry: 1 year</p> 	<p>Anouk in 't Veld Active Ownership Specialist</p> <p>Industry: 5 years</p> 
<p>Danielle Essink Senior Social Engagement Specialist</p> <p>Industry: 18 years</p> 		<p>Peter van der Werf Senior Social Engagement Specialist</p> <p>Industry: 9 years</p> 	<p>Robert Dykstra Active Ownership Analyst</p> <p>Industry: 2 years</p> 	

Utilizing leading sustainability research from RobecoSAM for in-depth analysis

ROBECOSAM	ESG Dashboard	<ul style="list-style-type: none"> > Proprietary semi-automated tool obtaining data from internal and publicly available sources > Based on shareholder, board, management, governance, environmental and social factors > Covers 1,125+ companies in emerging countries and 2,000+ companies in developed markets > Integral part of fundamental framework since 2001
	Corporate Sustainability Assessment	<ul style="list-style-type: none"> > Proprietary bottom-up Corporate Sustainability Assessment (CSA) conducted since 1999 > Focus on material, under-researched issues that impact companies' ability to create shareholder value > Covers more than 4,500 companies in emerging and developed markets > Integral part of fundamental framework since 2011
	Materiality Framework	<ul style="list-style-type: none"> > The materiality framework pinpoints which ESG factors are material to the performance of a company > Customized frameworks for developed and emerging markets companies/sectors
	Third party research	<ul style="list-style-type: none"> > Corruption perception index, ICRG political risk, Fragile states index > Sustainalytics, Glass Lewis, RepRisk

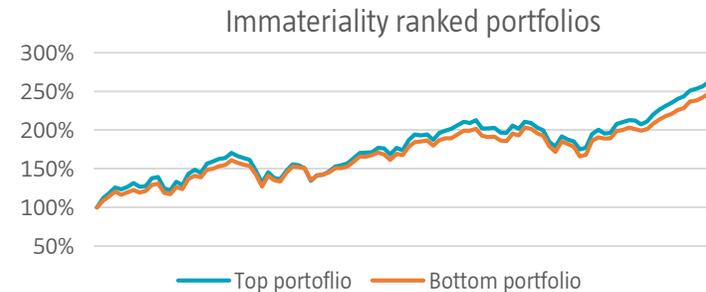
Will ESG integration lead to better investment return?



Source: www.beautiful.ai

Empirical study of ESG integration are positive and significant

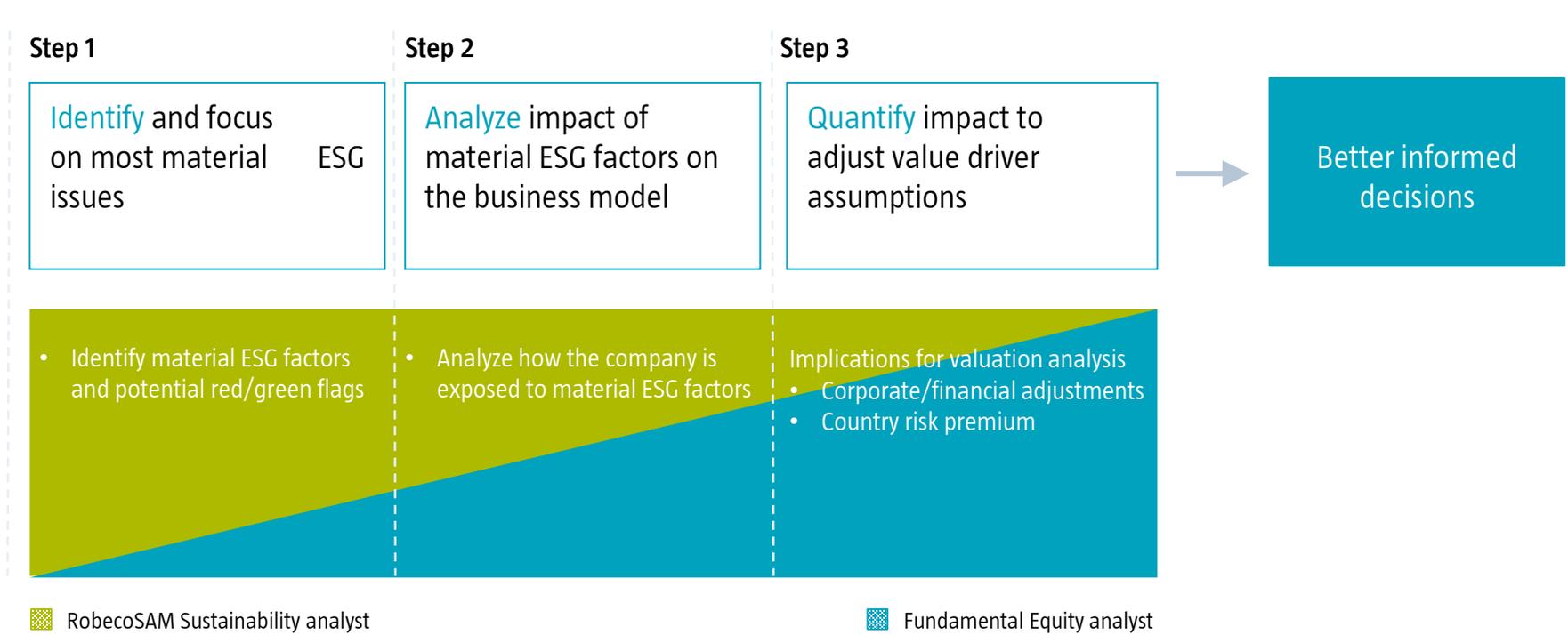
- > Total ESG score does have some predictive power of financial returns
- > Though the materiality scores are better able to differentiate top and bottom portfolios
- > Immateriality scores are irrelevant for financial performance
- > Firm investments in ESG issues should be focused on material issues



Source: Robeco. Values indicate the alpha's of portfolios estimated using Fama-French (1993) style factor model, controlling for market, SMB, HML, MOM, liquidity and quality. 5M1 indicated the p-value of t-test testing difference in excess returns of a long-short portfolio. Portfolios are based on average ESG scores (equally-weighting E, S, G).

Fundamental Equities investment process on ESG integration: Identify ESG risks and opportunities

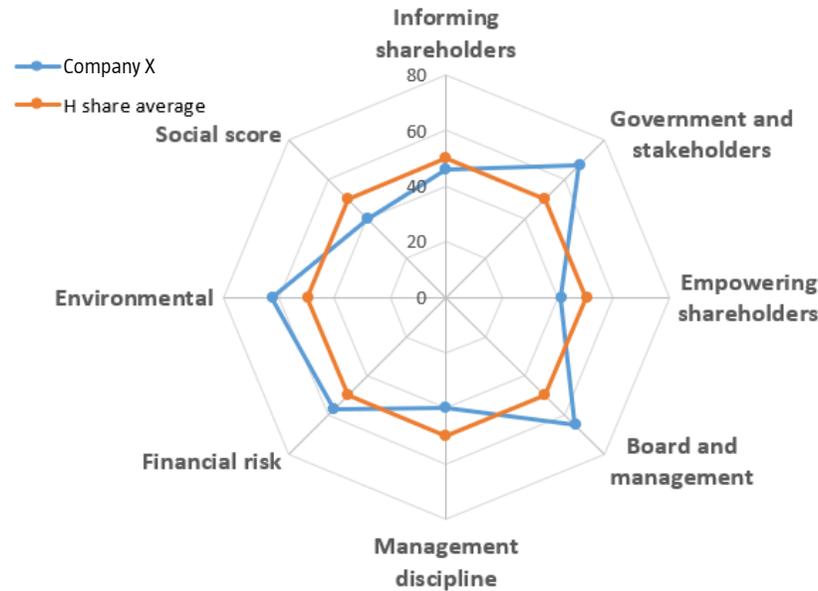
Three steps approach to quantify the impact of ESG factors:



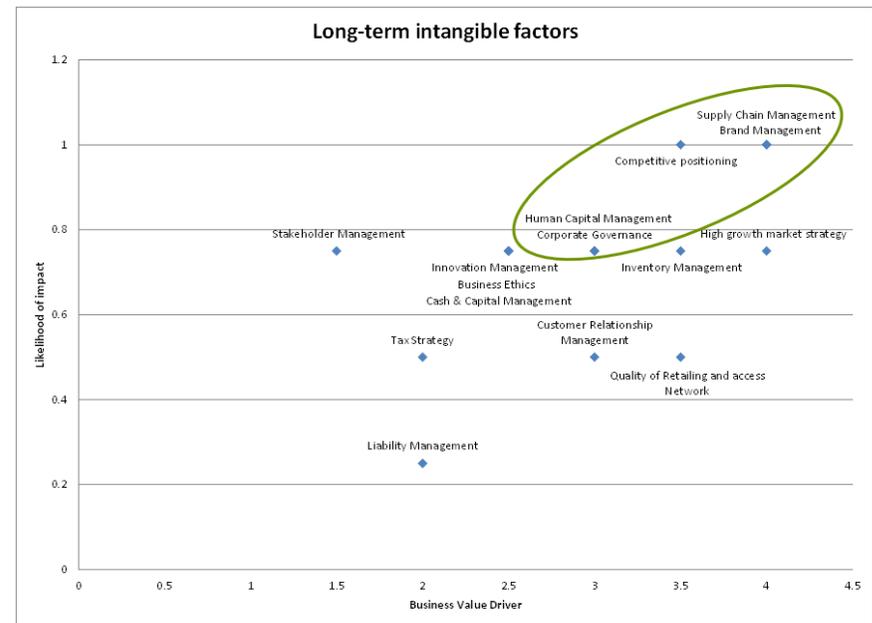
Step 1: Identify material ESG factors – Company X example

Which ESG factors are financially material to the performance of a company?

ESG Dashboard: bottom-up



Materiality Framework: top-down



1. Social score falls behind average due to Sustainalytics social %ile, which benchmarks Company X with peers world-wide, is low.
2. Management discipline score is lower than average due to a placement in June 2013. Funds raised were used in construction of factories and PP&E purchase in Vietnam.
3. Empowering shareholders score is low due to incorporation in Cayman Islands.

Source: RobecoSAM, Robeco. This is not a buy, sell or hold recommendation for any particular security. The information is for illustrative purposes only. No representation is made that these examples are past or current recommendations, that they should be bought or sold, nor whether they were successful or not.

Step 2: Analyze ESG impact – Company X example

How is the company exposed to material ESG factors?

ESG factor	Performance	Peer comparison	Impact on value drivers
Supply Chain Management	<ul style="list-style-type: none"> Vertically integrated business model with direct control over supply of intermediate products Direct contractual relationships with suppliers, ensuring direct application of strict selection criteria and supervision under group-wide policies Focus on: supplier evaluation policy, green products, product quality, response to climate changes and sustainability All suppliers and service providers sign integrity undertakings and anti-commercial bribery agreement Certified by ISO 14001, ISO 9001 and OHSAS 18001 Huge investment in environmental protection, incl. the water treatment for dyeing process 	<ul style="list-style-type: none"> Most of peers have dependencies on multiple counterparties along the supply chain hence cannot impose direct control. Some peers also adopt international standards in quality control and environment standards Few local companies invest in high standard environmental protection system 	<ul style="list-style-type: none"> Sustainable revenue growth and higher-than-peer GPM could maintain <u>Revenue</u> – stronger quality <u>Cost</u> – more saving in the long term given China’s growing environmental protection standard
Human Capital Management	<ul style="list-style-type: none"> Low staff turnover rate: standard working hours (overtime capped), central kitchen, arranged transportation during CNY, AC for all factories Company X is established with a well-defined curriculum and runs formal training programs. 	<ul style="list-style-type: none"> Most of peers do not show sufficient transparency in measures to improve employee welfare Few companies can provide such people-oriented working condition 	<ul style="list-style-type: none"> <u>Cost</u> – more sustainable workforce and less operational disruption
Corporate Governance	<ul style="list-style-type: none"> Constituent of Hang Seng Corporate Sustainability Index; an A Sustainability accreditation of CSR Index by Hong Kong Quality Assurance Agency Robust anti-corruption and whistleblowing policy 	<ul style="list-style-type: none"> Some competitors do not have/disclose anti-corruption/whistleblowing policy 	<ul style="list-style-type: none"> <u>No adjustment</u> - inconclusive

Source: Robeco. This is not a buy, sell or hold recommendation for any particular security. The information is for illustrative purposes only. No representation is made that these examples are past or current recommendations, that they should be bought or sold, nor whether they were successful or not.

Step 3: Quantify the ESG impact – Company X example

Explicit integration into valuation assessment

Value driver	Sales growth/margins	WACC	Impact	Upside
Pre-ESG valuation	16%-20% sales growth/24.5%-27.5% EBIT margin for the next 5 years	9.5%		+12%
ESG adjustment	Margin: we believe strong control over the supply chain with less external dependencies and a sustainable workforce could improve margin in the medium to long term	No adjustment	EBIT margin: 25%-30%	+5%
Final valuation		9.5%		+17%

Note: Upside calculation based on 2018 Aug stock price

Source: Robeco. This is not a buy, sell or hold recommendation for any particular security. The information is for illustrative purposes only.

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ESG Engagement – another step to create value for shareholders

Engagement Policy





Robeco's Engagement Policy

ROBECO INSTITUTIONAL ASSET MANAGEMENT

- I. What do we expect from investee companies?
- II. How we engage
- III. Communicating our progress

Robeco's Engagement Policy

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society. Within Robeco investors, sustainability investing researchers and engagement specialists work closely together focusing on jointly determined financially material themes.

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and private investors of all sizes and from all regions of the world. As they represent a diverse set of values and preferences, Robeco cannot decide for all its clients what their values and preferences should be. Our first criteria is that engagement needs to be relevant in light of our investment exposure. We have developed a materiality framework that is used as starting point to prioritize our engagements. We use materiality insights to determine the most relevant sustainability risks and opportunities that need to be addressed for specific investment exposures.

Additionally, to acknowledge the diversity in our client base and the variety in our investee companies, Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. The most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

1. What do we expect from investee companies?

Robeco focuses its engagement activities with listed companies on material Environmental, Social and Governance issues which create long term shareholder value. Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, similar to the way we look at other drivers such as company financials or market momentum.

Both the management and board of listed companies are accountable for the company's long term strategy and management of ESG issues. Robeco believes that companies that have strong sustainability and governance policies in place are more likely to act in the best interest of all their stakeholders, and are better positioned to deal with a variety of issues, such as non-financial risks and changing regulation. Subsequently these companies are also better prepared to address long term trends such as climate change. On such issues we believe that a constructive dialogue can enhance accountability between stakeholders and improve the risk/return profile of investee companies.

The outcomes of our engagement efforts are communicated to analysts, portfolio managers, and clients, enabling them to incorporate this information into their investment decisions as part of Robeco's integrated sustainability investing framework.

Relevant codes, principles and best practices for engagement
 Robeco's clients include institutional investors, high net worth individuals,

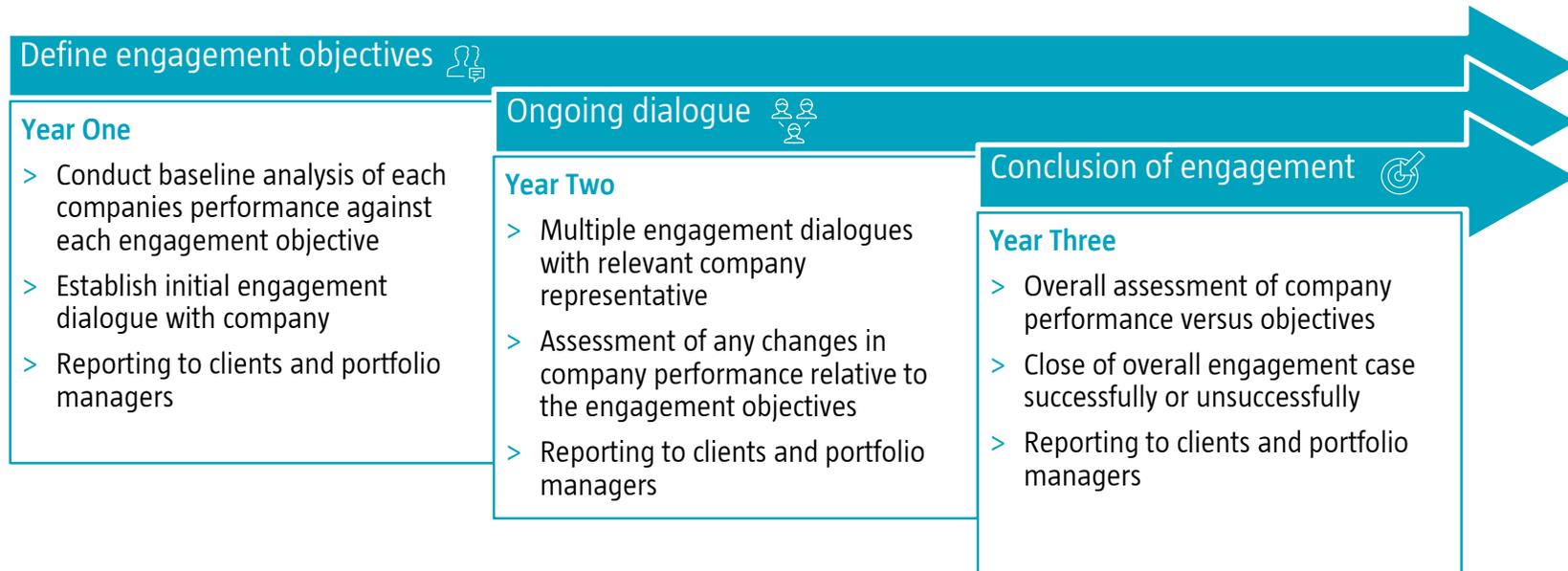
For the quarterly news flows for breaches of the UN Global Compact principles. The UN Global compact principles, cover a broad variety of basic corporate

Robeco's Engagement Policy • 3

Value Engagement Process: Focus on materiality and impact

Our Value Engagement program focusses on creating value by improving the conduct of companies we invest in

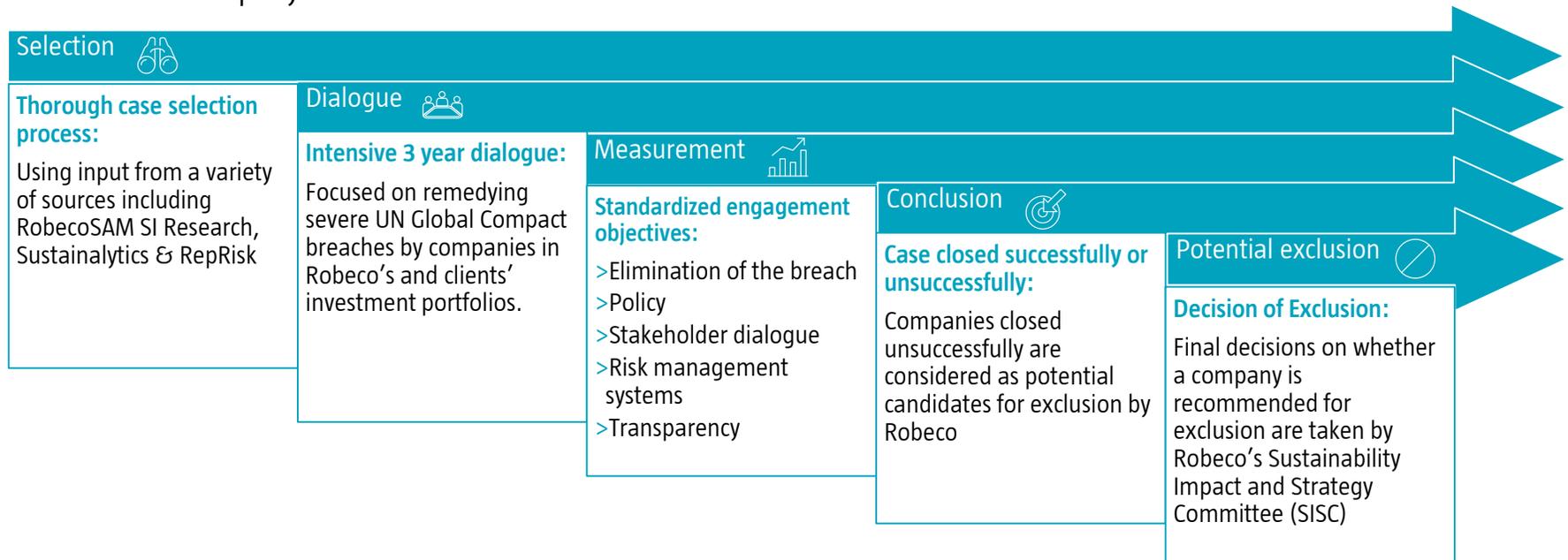
- > A structured, three year engagement process
- > Extensive baseline research process to establish starting point for engagement
- > Multiple contacts with companies through each year of engagement
- > Extensive reporting to Robeco’s investment teams and clients throughout the process



Enhanced Engagement: A highly structured approach

Our Enhanced Engagement program focusses on finding and remedying severe breaches of the UN Global Compact or OECD principles by companies in Robeco’s and clients’ investment portfolios.

- > Engagement objectives focused on Elimination of the breach, Policy, Stakeholder dialogue, Risk management systems, and Transparency
- > Enhanced engagement cases closed ‘unsuccessfully’ are subsequently proposed to Robeco’s Sustainability Impact and Strategy Committee (SISC) for potential exclusion from Robeco’s investment universe
- > We allow three years for engagement. Our engagement is deemed to be successful if it achieves the success threshold for each company.



New Engagement Themes: 2019

In the selection of these new themes we have assessed engageability, financial materiality and ESG impact of the topics



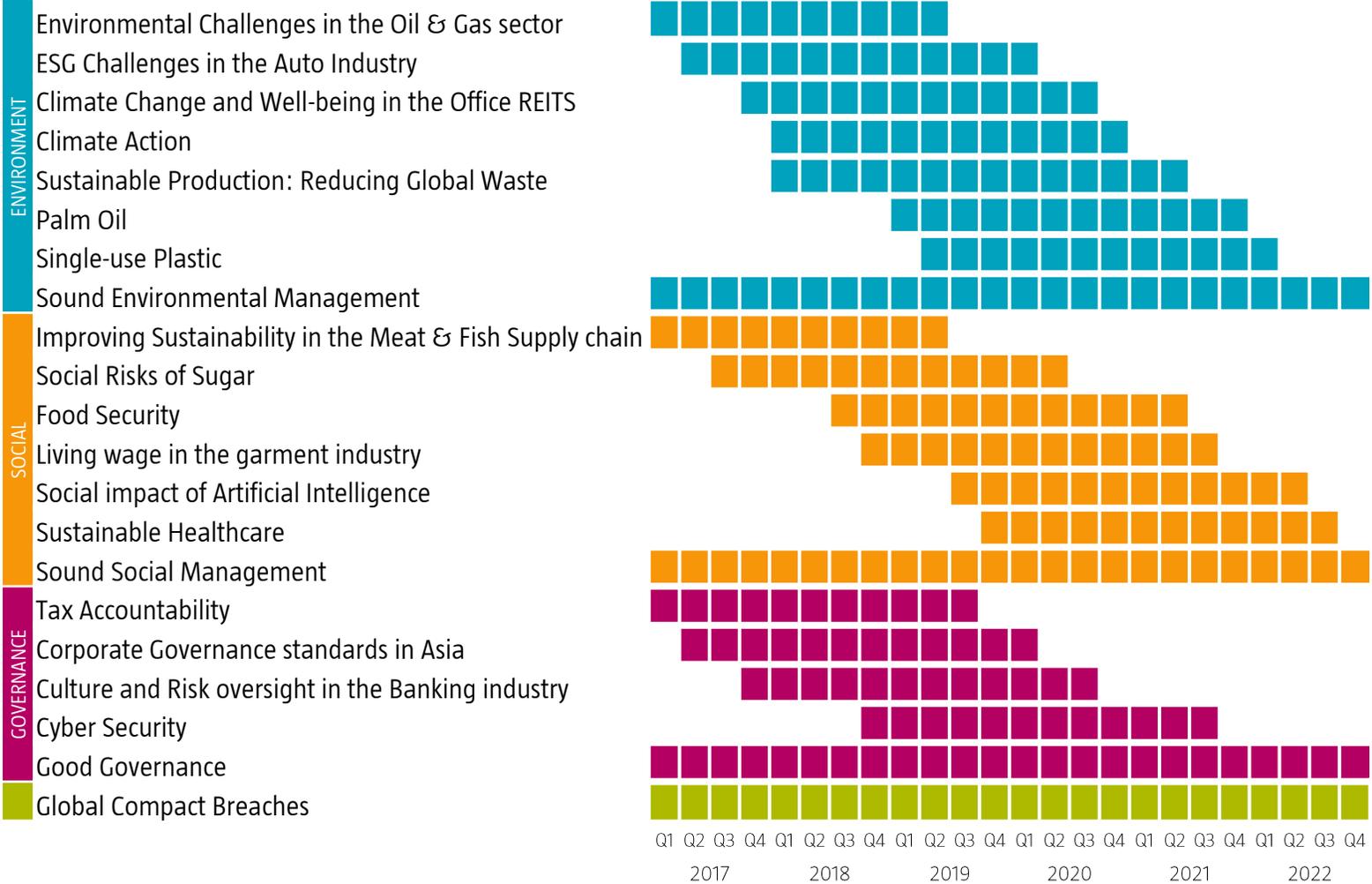
We will engage with palm oil companies to address inherent controversies and require mitigation and remediation to stakeholders.

The engagement will focus on companies that use single-use plastic packaging, with the aim to stimulate the transition to recyclable, reusable and/or compostable packaging

The main objective will be to safeguard human rights considerations in relation to the applications of AI. Additionally we will require companies to implement proper governance around AI, including sufficient board oversight and risk management

We will encourage companies to become more efficient using digital innovation. Such innovations can contribute to reduced healthcare costs and increased access to healthcare.

Engagement Themes 2019: A Thematic approach to engagement



240
Engagement
Cases

214
Companies
Engaged

65%
Cases closed
successfully

799
Engagement
Activities

Noteworthy ESG themes and major ESG risks

- > The ESG theme that European/global investors are currently most focused on is **Climate Change**. This is also a new focus of the HK SFC.
- > The major ESG theme that Robeco engages on for our Asia portfolios relates to **improving corporate governance** – specifically to address the low valuation of Asian companies because of poor capital management. We believe that addressing these issues forms the foundation on improving performance in other ESG issues.
- > For HK-listed companies, we found the following **main ESG themes/risks**:
 1. poor capital management (low return on capital);
 2. unclear influence of communist party representatives on boards of china companies;
 3. risks of related-party transactions;
 4. improving environmental & social reporting; and
 5. human rights violations



Challenges for ESG implementation

Challenges for ESG implementation

- > Lack of comparable and historical data
- > Lack of company culture
- > Short-termism of investors
- > Limited understanding of ESG issues in both companies and investors
- > Low client demand
- > No evidence of investment benefits
- > Lack of standardization of definitions and ESG scoring methods
- > Lack of a comprehensive regulatory framework to promote sustainability investing

Why should companies be more transparent?

Companies are facing increasing pressure for transparency both from investors and non-financial stakeholders.

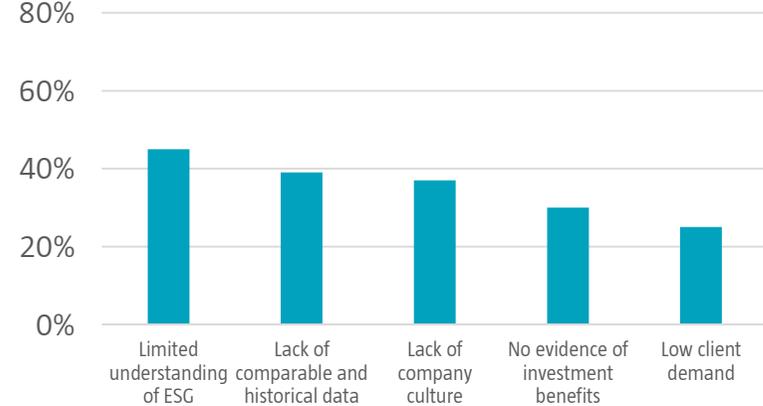
- > **Investors:** Big institutional investors as well as private investors incorporate ESG in their investment decisions. A lack of transparency can negatively influence a company's valuation, starting with an increase of a company's cost of capital.
- > **Employees:** Employees expect their employer to be transparent about any ESG issues and or initiatives. This expectation is even more pronounced among the generation of the millennials and the company's future workforce.
- > **NGOs and media:** Transparency is the best way of pro-actively managing challenging topics, and a way of steering the public discussion
- > **Clients and Customers:** Transparency is the key to successful, long-term client and customer relationship

Challenges for ESG implementation

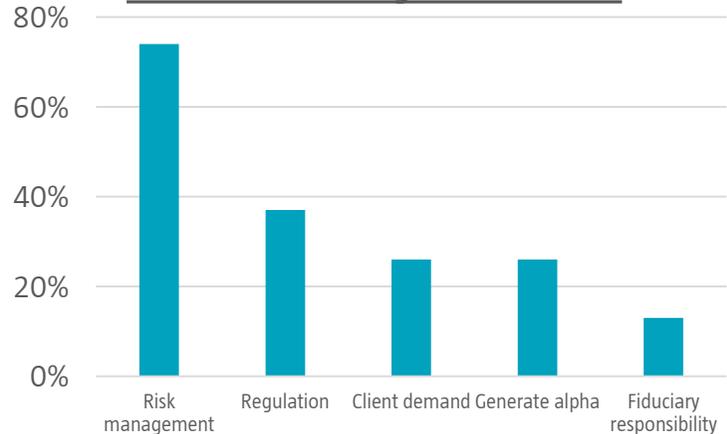
Drivers of ESG Integration in Hong Kong



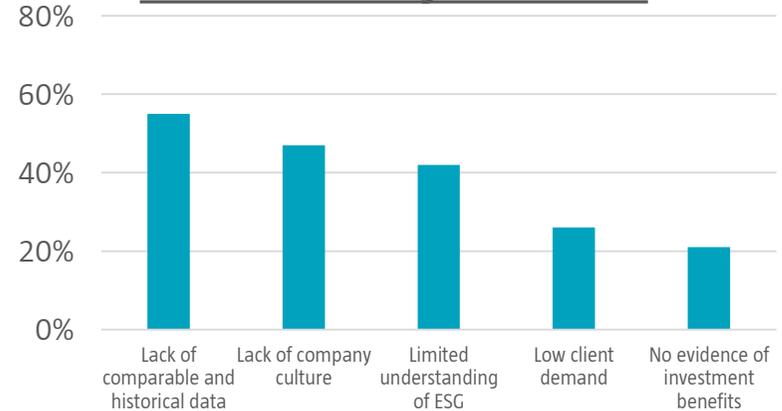
Barriers to ESG Integration in Hong Kong



Drivers of ESG Integration in China



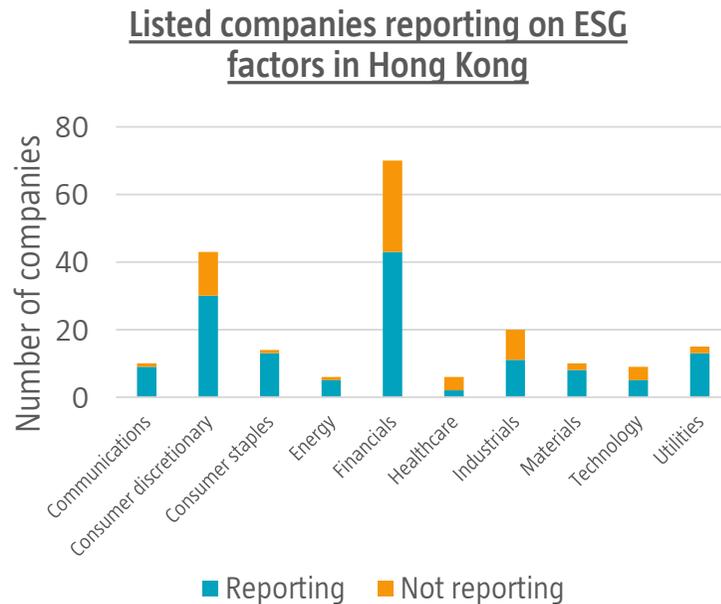
Barriers to ESG Integration in China



Note: Percentages represent those who thought each item was a main driver. Survey respondents could choose more than one answer.
 Source: ESG Integration in Asia Pacific: Markets, Practices, and Data, 2019, CFA Institute

Challenges for ESG implementation (con't)

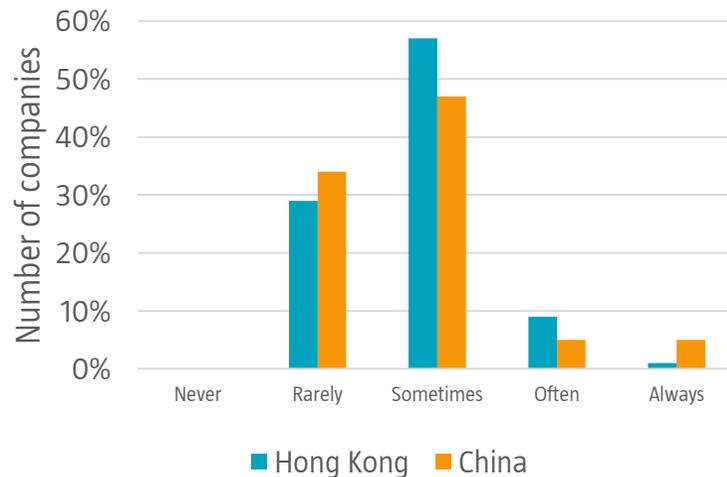
- > Majority of Hong Kong listed companies report ESG factors
- > 45% of Chinese listed companies report ESG factors



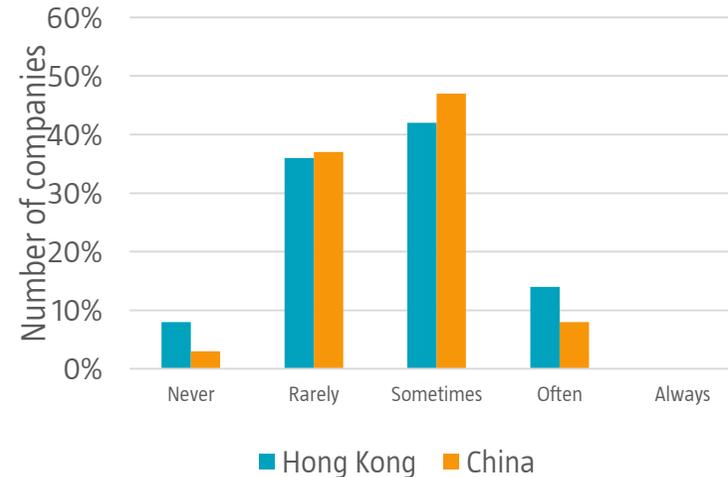
Challenges for ESG implementation (con't)

- > Very few investors in Hong Kong and China often/always incorporate ESG analysis in their investment process
- > Robeco is the pioneer and leader in ESG integration globally

How frequently do investors include material ESG issues in equity analysis?



How frequently do investors adjust valuation models / tools based on ESG?



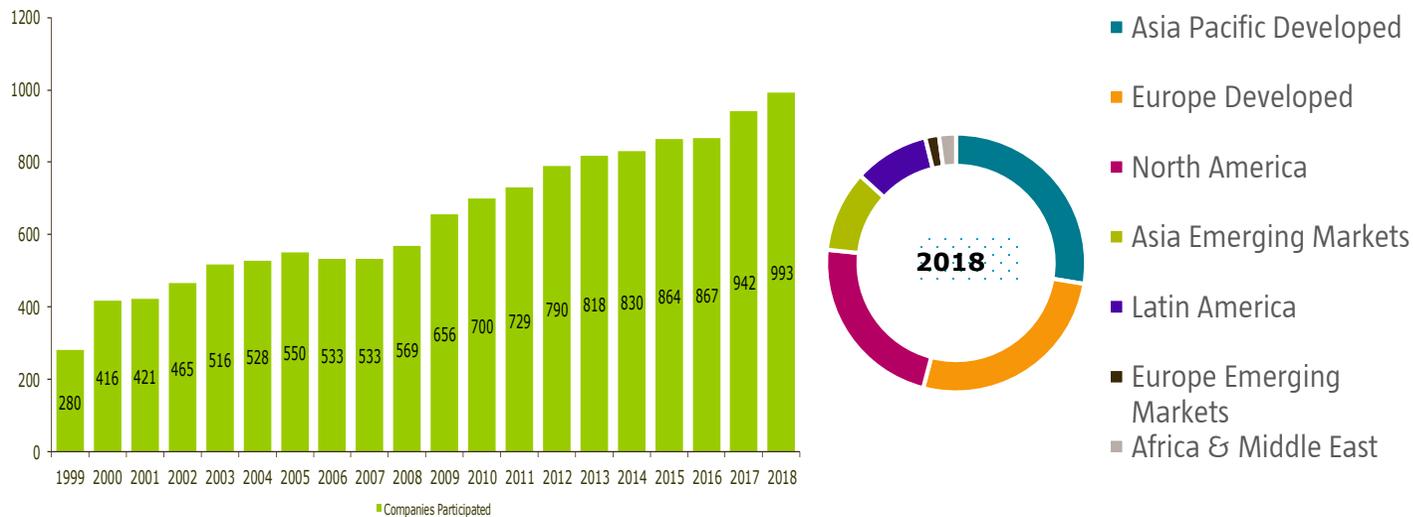
Source: ESG Integration in Asia Pacific: Markets, Practices, and Data, 2019, CFA Institute



RobecoSAM's Corporate Sustainability Survey and Smart ESG Score

RobecoSAM Corporate Sustainability Survey: Participation Trend

Increasing company participation in DJSI over the years

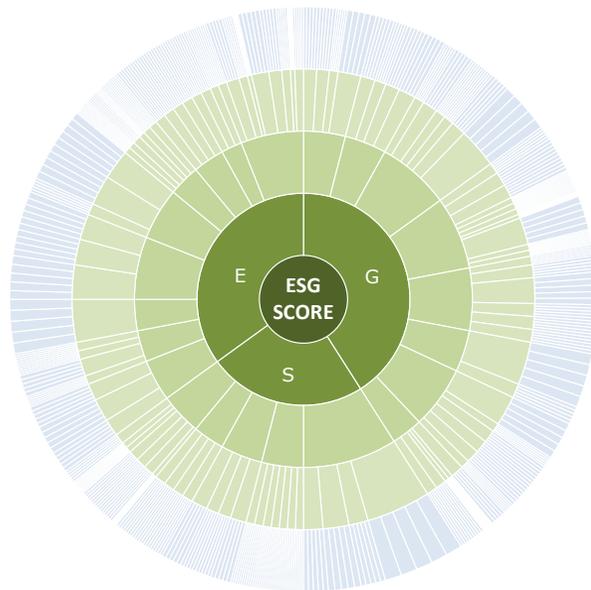


3500 of the largest companies globally are invited annually based on their free float asset capitalization. Companies not participating actively will be assessed based on public information and the resulting ranking will be publicly available. Active participation provides the most complete set of sustainability information on your company, and enables us to provide you and your stakeholders with the most accurate industry ranking possible.

Source: RobecoSAM Corporate Sustainability Assessment 1999-2018

From Data to Score

Annual SAM Corporate Sustainability Assessment (CSA)



For each industry:

600 - 1000 data points

↓

100 question scores

↓

20 theme scores

↓

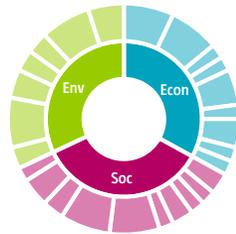
3 dimension scores

1 Final ESG score
for each company

Source: RobecoSAM

61 Industry Specific Approaches, differing by focus areas and weight

Mining & Minerals



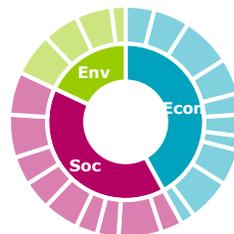
(Cross-) Industry specific criteria examples

- Payment transparency

- Mineral waste mgmt.
- Water related risks
- Biodiversity

- Asset closure mgmt.
- Community impact
- Stakeholder engagement

Restaurants

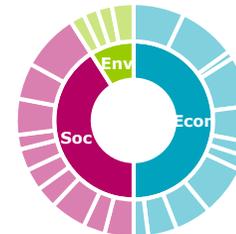


- Brand Management
- Customer Relationship Management

- Raw Material Sourcing

- Local Impact of Business Operations

Pharmaceuticals



- Innovation mgmt.
- Product Quality and Recall mgmt.

- Climate Strategy

- Address cost burden
- Access to drugs
- Health outcome contrib.

Source: RobecoSAM

Use of CSA results

Visibility with well over 150'000 of financial and other stakeholders

Powering the DJSI and many other ESG indices

The top performing companies (e.g. top 10%) in the yearly CSA are included in the DJSI World and the other regional indices. Moreover, CSA scores are used as a basis for many other indices, such as the S&P 500 ESG.

SAM Sustainability Yearbook

The related [yearbook online database](#) provides the ranking of over 2500 assessed companies. It is **accessed over 100'000 times** in the past 12 months. The majority of these are non-financial stakeholders ranging from your customers and (future) employees to Non-Governmental Organizations (NGOs) and academia.

Bloomberg

Since 2016, percentile rankings of all assessed companies are available to a growing number of mainstream and ESG-focused investors. The Bloomberg platform has over **300'000 subscribers with over 17'000 active users** of ESG data.

MEMBER OF

**Dow Jones
Sustainability Indices**

In Collaboration with RobecoSAM 



Source: Google Analytics, Bloomberg data as of 2017

What Drives Companies to Participate?

The CSA has become a reference tool for companies to gauge the financial materiality of their sustainability performance from an investor perspective and to prepare themselves to address upcoming sustainability trends.

- > Gives **visibility and credibility** to your sustainability performance
- > Drives **strategic decisions** within the company
- > Communicating CSA results to employees **makes them proud**
- > **Eases stakeholder dialogues**, for example with critical NGOs
- > CSA participation can be seen as a **management tool**
- > **Toolkit for IR** – enhance communication with sustainability focused investors and pro-actively include sustainability in the company's investor relations narrative in the most convincing and credible way

Participation of Asian companies

Asia - Invited and Member Companies DJSI World, DJSI Asia Pacific and DJSI Emerging Markets 2018



Source: RobecoSAM, Asia Status Report 2018

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