# Overview investment strategy

## RobecoSAM Global Sustainable Impact Equities

| Objective | • Direct impact and attractive returns with a portfolio of companies whose products, services and operations contribute to the achievement of the UN Sustainable Development Goals (SDGs)  
• Dynamic risk-return optimization |
| Investment universe | From a global equity universe of 5000 stocks we select companies with significant and measurable impact on the SDGs |
| Investment approach | • Impact is generated through focus on higher impact companies, ethical and environmental screens and Smart ESG  
• Stock selection is applied with focus on sustainability, quality and valuation  
• Minimum variance optimization creates an optimal risk return profile |
| Target return | 2%-4% annualized above the MSCI World over the full market cycle |
| Number of holdings | 60-80 |
| Market cap | All-cap strategy |
Delivering impact and financial returns

**Intentionality**
Identification of an investment universe directly based on impact as defined by SDGs

**Additionality**
Focus on firms that create a positive socio-economic outcome compared to status quo

**Measurability**
Sustainability research to define the extent of impact a company has related to each SDG

**Profitability**
Fundamental research and quantitative portfolio optimization gives investors an optimal portfolio out of the SDG universe
Impact & returns from investing in the development of a sustainable economy

<table>
<thead>
<tr>
<th>Natural Resources Scarcity</th>
<th>Climate Change</th>
<th>Demographic Shifts</th>
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</thead>
</table>

**Increased Regulation**
- Increased awareness and sense of urgency
  - Global warming, water scarcity, pollution
  - Soaring energy demand

**Governments are taking action**
- Increased emission standards

**Accelerated Innovation**
- Consumer awareness is on the rise
  - Sense of responsibility
  - High quality products and services

**Producers are in quest for efficiency gains**
- Technological innovation
- Management of risks

This creates huge market opportunities for companies providing solutions to the global challenges.
Generating impact through the contribution to the SDGs

- UN Sustainable Development Goals – A helpful framework for impact Investing
- Released in 2015 by the United Nations - adopted by 193 countries
- Explicit role for private sector

We group the SDG universe into five impact areas:

- Basic Needs (SDG 2, 3, 4, 6)
- Healthy Planet (SDG 7, 12, 14, 15)
- Sustainable Society (SDG 8, 9, 11, 13)
- Equality & Opportunity (SDG 1, 5, 10)
- Robust Institutions (SDG 16, 17)

Illustrative example of one of the impact areas addressed – Healthy Planet
Company impact is determined based on its offering

Impact designation based on the following guidelines:

**Significant revenue exposure that**
- Positively contributes to SDGs
- Avoids detraction from the achievement of the SDGs
- Has emerging market exposure

**High value proposition of the product or service**
- High: cost effective and widely available goods and those with major technical advances at a reasonable cost
- Low: expensive products with limited distribution and minimal enhanced benefits

**Additionality**
- Products and services, new business models and expansions into otherwise underserved markets, countries or regions for a positive impact versus the status quo.

→ Minimum 33% positive revenue contribution to the SDGs in order to be included in the SDG universe
Company example: Medtronic PLC – High Impact

Positive revenue contribution to the SDGs
• Pureplay healthcare company, offering medical devices, diagnostic equipment, and medical supplies, including cardiac, vascular and diabetes products, surgical solutions and minimally invasive therapies.

Emerging Markets exposure
• 13% of sales, growing in the mid- to high-single digits.

Value proposition
• Medtronic sells many innovative products, such as minimally invasive heart valves, peripheral vascular devices, and diabetes management products.
• It’s products often provide cost effective improvements over the standard of care.
• Medtronic designs «value» products specifically for emerging markets, they have more basic features and thus sell at lower prices that can reach a larger segment of an otherwise underserved market.
→ Better access to healthcare

SDG Mapping – Good Health & Wellbeing
Some SDGs are difficult to invest in

Impact from an investment in MSCI World

<table>
<thead>
<tr>
<th>Basic Needs</th>
<th>Healthy Planet</th>
<th>Sustainable Society</th>
<th>Equality &amp; Opportunity</th>
<th>Robust Institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 Energy</td>
<td>7 Affordable</td>
<td>8 Quality Health</td>
<td>1 Peace</td>
<td>16 Freedom</td>
</tr>
<tr>
<td>3 Food</td>
<td>8 Education</td>
<td>9 Gender Equality</td>
<td>2 Health</td>
<td>17 Consumer</td>
</tr>
<tr>
<td>4 Health</td>
<td>9 Housing</td>
<td>10 Debt</td>
<td>3 Social</td>
<td>18 Education</td>
</tr>
<tr>
<td>6 Clean</td>
<td>11 Water</td>
<td>12 Education</td>
<td>4 Housing</td>
<td>19 Employment</td>
</tr>
<tr>
<td>7 Water</td>
<td>12 Education</td>
<td>13 Education</td>
<td>5 Education</td>
<td>20 Employment</td>
</tr>
<tr>
<td>8 Clean</td>
<td>13 Education</td>
<td>14 Education</td>
<td>6 Education</td>
<td>21 Education</td>
</tr>
<tr>
<td>9 Energy</td>
<td>14 Education</td>
<td>15 Education</td>
<td>7 Education</td>
<td>22 Education</td>
</tr>
</tbody>
</table>

- Some Impact Areas are barely addressed by an investment in the MSCI World
- **MSCI World only contains 22% of SDG impact stocks identified by RobecoSAM**
- Off benchmark positions are required to have a real impact

→ RobecoSAM Global Sustainable Impact Equities Strategy provides exposure to all of the 5 Impact Areas and focuses on high and medium impact companies.

The weight on the circle chart indicates the weight of the portfolio invested in companies that address the specific SDG. Considering that one company can have exposure to multiple goals, the sum does not add up to 100%.

*Source: RobecoSAM, September 2017*
Investment team

Portfolio Management

Rainer Baumann, CFA
Head of Investment Management

Ruben Feldman, CFA
Senior Quantitative Analyst in Sustainability Investing

SI Research

Jacob Messina, CFA
Head of SI Research

Equity Analysts (7)

Equity analysts add to the value creation of the portfolio by incorporating RobecoSAM’s focus on sustainability, quality and value in investment decisions.

Quantitative Research (5)

The quantitative research team supplies the portfolio managers with the necessary systematic screens and quantitative method to optimize the portfolio.

SI Analysts (9)

The team of SI analysts identifies those companies that have significant positive impact on sustainable development. They analyze and monitor these exposures on an ongoing basis.
Investment process - RobecoSAM Global Sustainable Impact Equities Strategy

**Intentional impact**
- Universe construction
  - Starting universe ~5000 stocks
  - Significant and measurable SDG impact companies ~1000
  - Tradability: at least $200mn market cap and $1.5m ADTV

  ~850 stocks

**Leverage sustainability**
- Sustainable impact selection
  - Focus on higher SDG impact companies
  - Top two thirds by Smart ESG score
  - RobecoSAM enhanced exclusions

  ~600 stocks

**Increase performance**
- Investment recommendation
  - Focus on sustainability, profitability, quality of balance sheet and valuation
  - Media & Stakeholder Analysis

  ~300 stocks

**Minimize risk**
- Portfolio construction
  - Risk minimization
  - Optimal portfolio creation (best return for lowest level of risk)
  - Impact threshold on all Impact Areas
  - Sanity checks

  60-80 stocks

Active ownership (voting, engagement, exclusions) & impact reporting
Sustainable impact selection: impact, sustainability and exclusions

Select based on impact

Impact categories

- High impact ~350
  - More likely to be selected
- Medium impact ~370
- Low impact ~230

Ensure sustainable business practices

Smart ESG is cleansed of biases and is calculated using only financially material themes

- The worst 33% underperforms by 2.1% annually with a volatility which is 6% relatively higher
- To exclude them improves sustainability, returns and risk

Avoid controversies

- Firearms
- Military contracting
- Controversial weapons
- Child labor (ILO standard)
- Tobacco
- Thermal Coal
- Alcohol
- Gambling
- Adult Entertainment

- These detrimental practices are incompatible with SDG impact

Source: RobecoSAM. RobecoSAM Smart ESG characteristics: Unbiased and Industry Neutral, Materiality tilt based on evidence
Investment recommendation – Fundamental analysis

Stock selection based on sustainability, quality and valuation

- Criteria include profitability, balance sheet strength and earnings quality
- Preference of companies with superior performance expectations in every single category
- Focus on companies that trade below their Fair Value

Sustainability due diligence

1) Analysis of Media & Stakeholder cases

- MSA helps to verify a company’s involvement and management of critical economic, social and environmental issues or crisis situations
- MSA cases emerge when there are significant contradictions with sustainability criteria
- We screen out companies that have had a major MSA case in the last 24 months

2) ESG analysis

Analyze companies sustainability profiles

Capitalize on sustainability trends and knowledge by applying materiality

Source: RobecoSAM
Portfolio construction – complementing fundamental research with portfolio optimization

Dynamically minimize risk

- We create fundamentally an investment universe, each stock has
  - Significant SDG impact
  - Strong standards of sustainability and no controversies
  - Fulfilled financial, valuation criteria
- We then construct the best portfolio out of this universe by minimizing risk
- This returns a portfolio with much stronger risk-adjusted expected return relative to the investment universe and the benchmark (MSCI World)
- The optimization controls for individual stock weights, diversification across assets, turnover costs, ensures impact in all Impact Areas at least as strong as MSCI World
The entire portfolio’s allocation has impact and over 30% impacts multiple impact areas simultaneously.

**RobecoSAM Global Sustainable Impact Equities Strategy**

<table>
<thead>
<tr>
<th>Impact Area</th>
<th># Companies</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Companies with SDG Exposure</td>
<td>76 of 76</td>
<td>100%</td>
</tr>
<tr>
<td>Companies exposed to 1 Impact Area</td>
<td>50</td>
<td>65%</td>
</tr>
<tr>
<td>Companies exposed to 2 Impact Areas</td>
<td>16</td>
<td>22%</td>
</tr>
<tr>
<td>Companies exposed to 3 and more Impact Areas</td>
<td>10</td>
<td>13%</td>
</tr>
</tbody>
</table>

**Impact areas**

Bubble size indicates portfolio weight exposed to each Impact Area. Y-axis displays number of companies with exposure to the Impact Area.

*Source: RobecoSAM*
Relative to an MSCI World investment, the strategy has very significant impact.
Global Sustainable Impact Equities extracts extra performance out of the SDG universe, while controlling risk

Performance Backtest (USD)*

Performance and risk characteristics

<table>
<thead>
<tr>
<th></th>
<th>Sust. Impact Strat.</th>
<th>SDG Equal Weighted</th>
<th>MSCI World</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual return</td>
<td>10.3%</td>
<td>9.6%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Annual risk</td>
<td>17.0%</td>
<td>18.0%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Return/Risk</td>
<td>0.60</td>
<td>0.54</td>
<td>0.44</td>
</tr>
<tr>
<td>Up capture ratio</td>
<td>103.6</td>
<td>107.6</td>
<td></td>
</tr>
<tr>
<td>Down capture ratio</td>
<td>85.5</td>
<td>95.8</td>
<td></td>
</tr>
<tr>
<td>Beta</td>
<td>0.96</td>
<td>1.05</td>
<td></td>
</tr>
<tr>
<td>Tracking Error</td>
<td>8.1%</td>
<td>7.0%</td>
<td></td>
</tr>
</tbody>
</table>

* Monthly data from 23.1.2002 to 11.07.2017. Non-MSCI indices are backtested performances, which represent potential survivorship biases. These have been accounted for by removing a premium of ~2.5% annually. This is in line with the survivorship present in the MSCI World, were we to backcast its current composition historically. The bias has also been in part addressed by applying a liquidity and tough Altman Z filter historically (shaky companies were not invested in). These backtests also account for an annual 0.50% performance drag to account for turnover.
Geographically diversified portfolio with high allocations to impactful sectors

**Regional exposure**
(excluding Cash)

- **Emerging Markets**
- **APAC**
- **Europe**
- **Americas**

**Sector exposure**
(Global Industry Classification Standard excluding cash)

- **Utilities**
- **Telecommunication Services**
- **Real Estate**
- **Materials**
- **Information Technology**
- **Industrials**
- **Health Care**
- **Financials**
- **Energy**
- **Consumer Staples**
- **Consumer Discretionary**

Source: RobecoSAM

This information is included solely for illustrative purposes regarding economic trends and conditions or investment processes. It should not be assumed that any investments in sectors and/or markets identified were or will be profitable. The information presented is based upon a representative account in the composite. Each investor's portfolio is individually managed and may vary from the information shown.
Create outperformance by investing in high impact: companies which have an active exposure to the SDGs

Our SDG impact universe shows a strong outperformance potential:

- SDGs are a key driver behind a huge set of market opportunities, and solution providers will be the beneficiaries
- Detecting solution providers in the sustainability context is our daily job: successfully for more than 15 years

The focus on SDGs comes along with active positions in size, sector or regional exposures

In order to keep risks under control we employ our well known and proven toolkit:

1. Strong fundamental company analysis skills with sustainability integration
2. Unique Smart ESG approach to account for biases (size, regional)
3. And we back it with a Minimum Variance approach for portfolio construction

The SDG investment rationale leads to a very active high impact investment approach with high performance potential
Delivering on the SDG investment opportunities

RobecoSAM has:

1. The ability to detect the companies which have the potential to benefit over-proportionally
2. The capability to build an actively managed and systematically risk controlled portfolio
3. The credibility of a sustainability leader with a long standing track record

This unique combination has the potential for delivering long term performance via a SDG focused investment strategy
Appendix
Portfolio construction – Optimal portfolio construction using minimum variance

Efficient use of risk budget

• The risk-return of portfolios on the efficient frontier dominate that of those not on the frontier

• To construct a portfolio on the frontier requires an estimate of future returns and risk, except for the Minimum Variance (MV) portfolio
  • Only risk is required
  • Risk is much more reliable to estimate

• A MV portfolio gives investors the best level of return for the lowest possible level of risk

• Most non-optimized portfolios lie beneath the efficient frontier, taking on unremunerated risk (Size bias, over-weighting over-priced stocks, concentration risks, etc.)

• MV strongly benefits from the Low Vol anomaly\(^1\) whereby low risk stocks tend to outperform over full market cycles, especially when risk-adjusted

• MV dynamically diversifies among all risk factors to get the lowest portfolio risk

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1) For more information: [http://pages.stern.nyu.edu/~lpedersen/papers/BettingAgainstBeta.pdf](http://pages.stern.nyu.edu/~lpedersen/papers/BettingAgainstBeta.pdf). Much more literature is available on this topic.

2) Illustration only.
SDG universe of companies whose products, services and operations directly contribute to the SDGs

Source: RobecoSAM
RobecoSAM’s Corporate Sustainability Assessment (CSA) specifically asks and measures criteria related to SDG

- **No poverty**
  - CSA questions: Access to water, addressing healthcare cost burden, financial stability and systemic risk

- **Good health & wellbeing**
  - CSA questions: GMO policy, hazardous substance use, access to water and medicine

- **Affordable and clean energy**
  - CSA questions: Climate strategy, electricity generation mix, new market opportunities, gas portfolio

- **No hunger**
  - CSA questions: Raw materials sourcing, corporate citizenship & philanthropy, health & nutrition

- **Quality education**
  - CSA questions: Financial inclusion, digital inclusion, corporate citizenship & philanthropy

- **Decent work & economic growth**
  - CSA questions: Labor practices, human rights, local impact of extractive industries, supply chain

→ All SDG’s are addressed in the corporate sustainability assessment
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