

## Getting alpha out of sustainable portfolios

It takes two to tango

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Senior Portfolio Manager Quantitative Equities Robeco

Marketing materials for professional investors, not for onward distribution

Sustainable Investing Expertise by  
**ROBECOSAM**

2010

## Sustainability investing

*Is here to stay*



53 %

OF TOP 100 CORPORATES THAT  
ISSUE SUSTAINABILITY REPORTS



500

FUNDS AVAILABLE

2010



113.5 BLN

USD INVESTED

## Sustainability investing

*Is here to stay*

2020

75 %

OF TOP 100 CORPORATES THAT  
ISSUE SUSTAINABILITY REPORTS



3400

FUNDS AVAILABLE



1.06 TRILLION

USD INVESTED



53 %

OF TOP 100 CORPORATES THAT  
ISSUE SUSTAINABILITY REPORTS

500

FUNDS AVAILABLE

2010

113.5 BLN

USD INVESTED

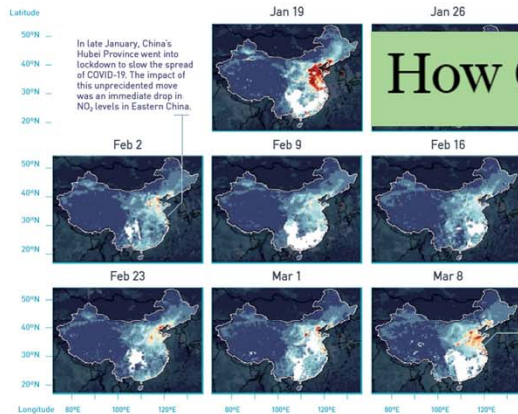
## Beyond Covid-19: Strong tailwinds for sustainability investing

Virus resurgence dragging on eurozone recovery, data suggest

The economy won't snap back after Covid-19

### NO<sub>2</sub> LEVELS OVER CHINA

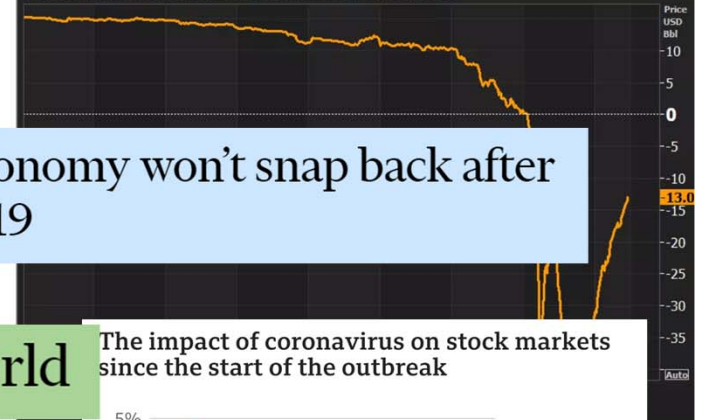
(BY WEEK, 2020)



### TOTAL CONFIRMED COVID-19 CASES



### U.S. crude oil's historic crash below zero



## How Covid-19 will change the world

The impact of coronavirus on stock markets since the start of the outbreak



	ESG Leaders	Index	ESG Laggards
MSCI ACWI Global Equity	-15.6%	-21.3%	-22.1%
S&P 500 U.S. Equity	-10.8%	-19.6%	-22.2%

## The Outperformance of ESG Investing During the COVID-19 Selloff



Price: Bloomberg, 29 June 2020, 12:00 BST

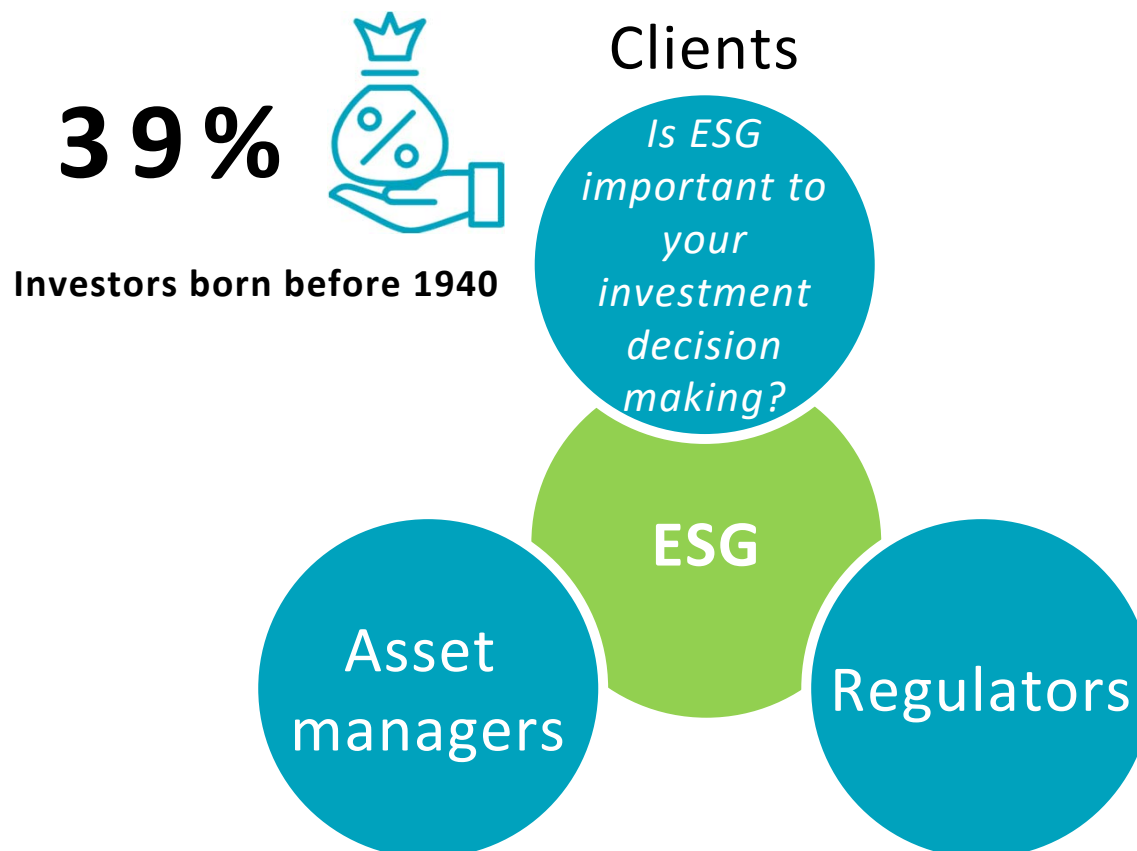
BBC

## Sustainability investing: Drivers for growth



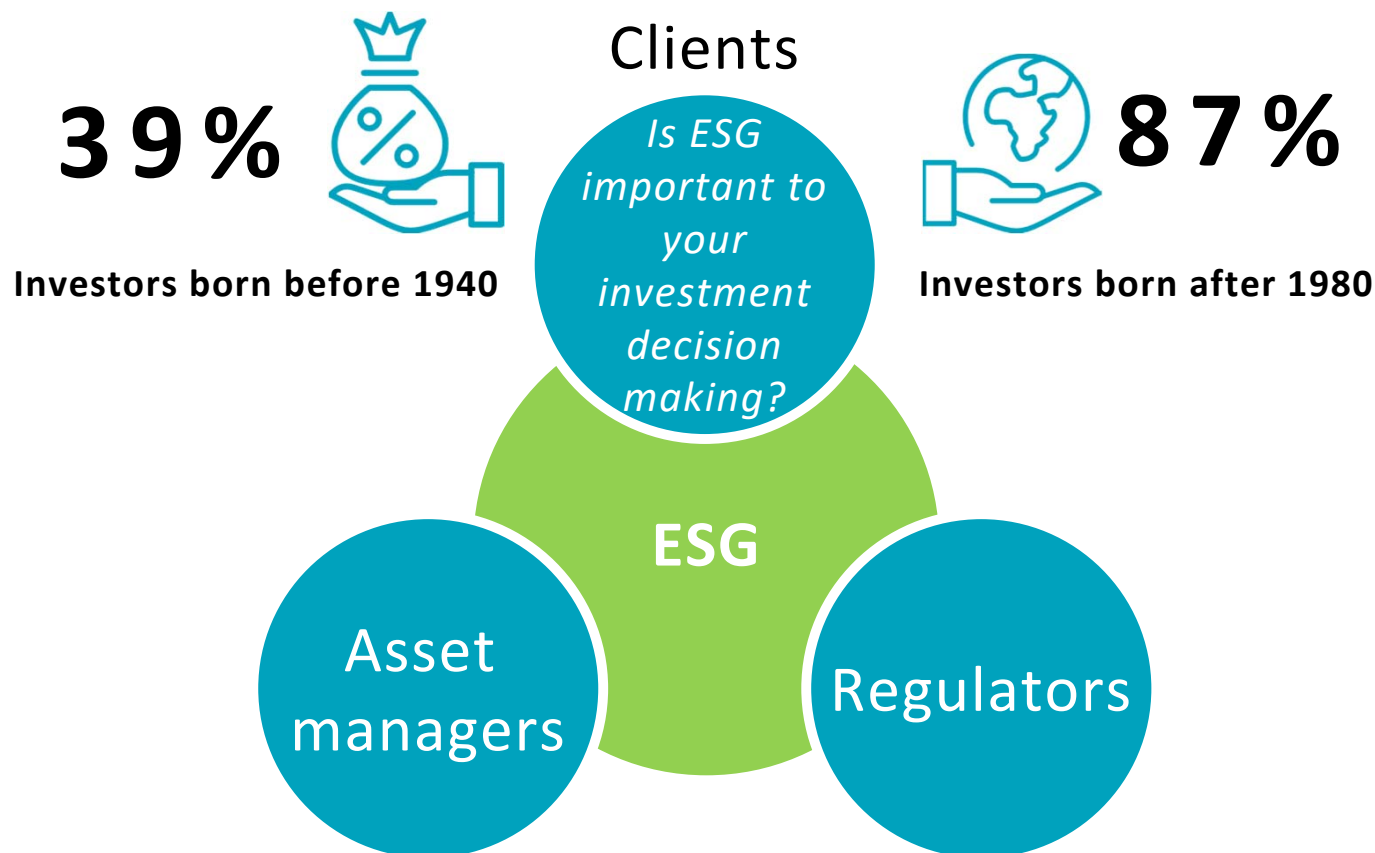
## Sustainability investing: Drivers for growth

### Clients



## Sustainability investing: Drivers for growth

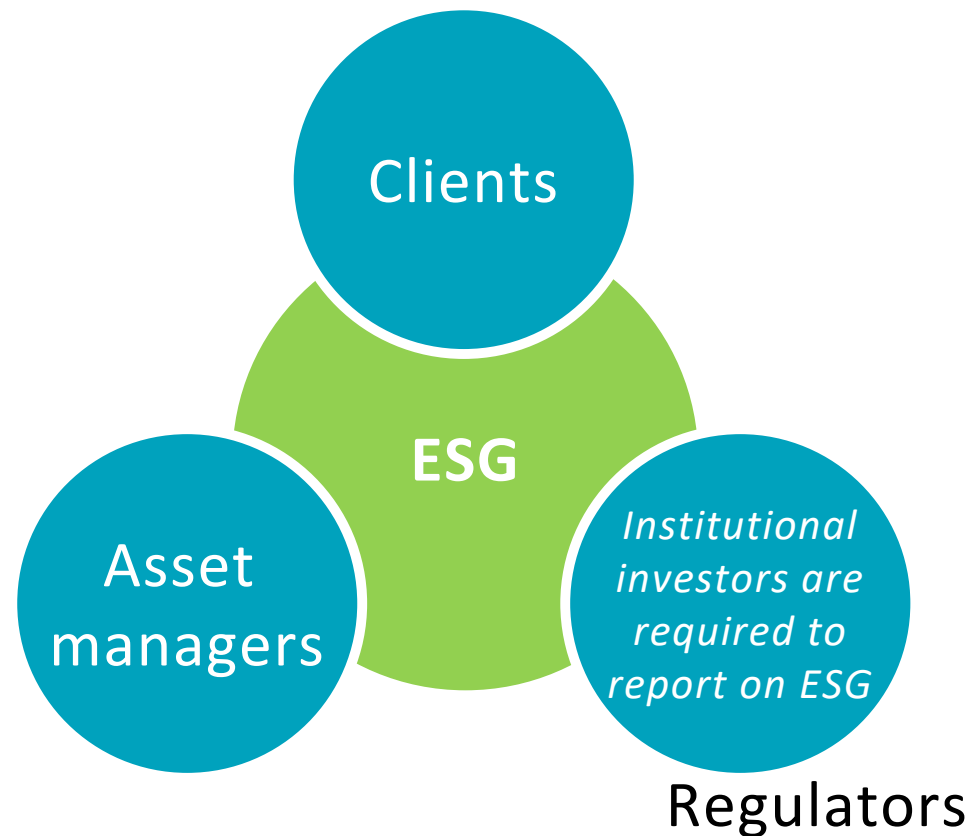
### Clients





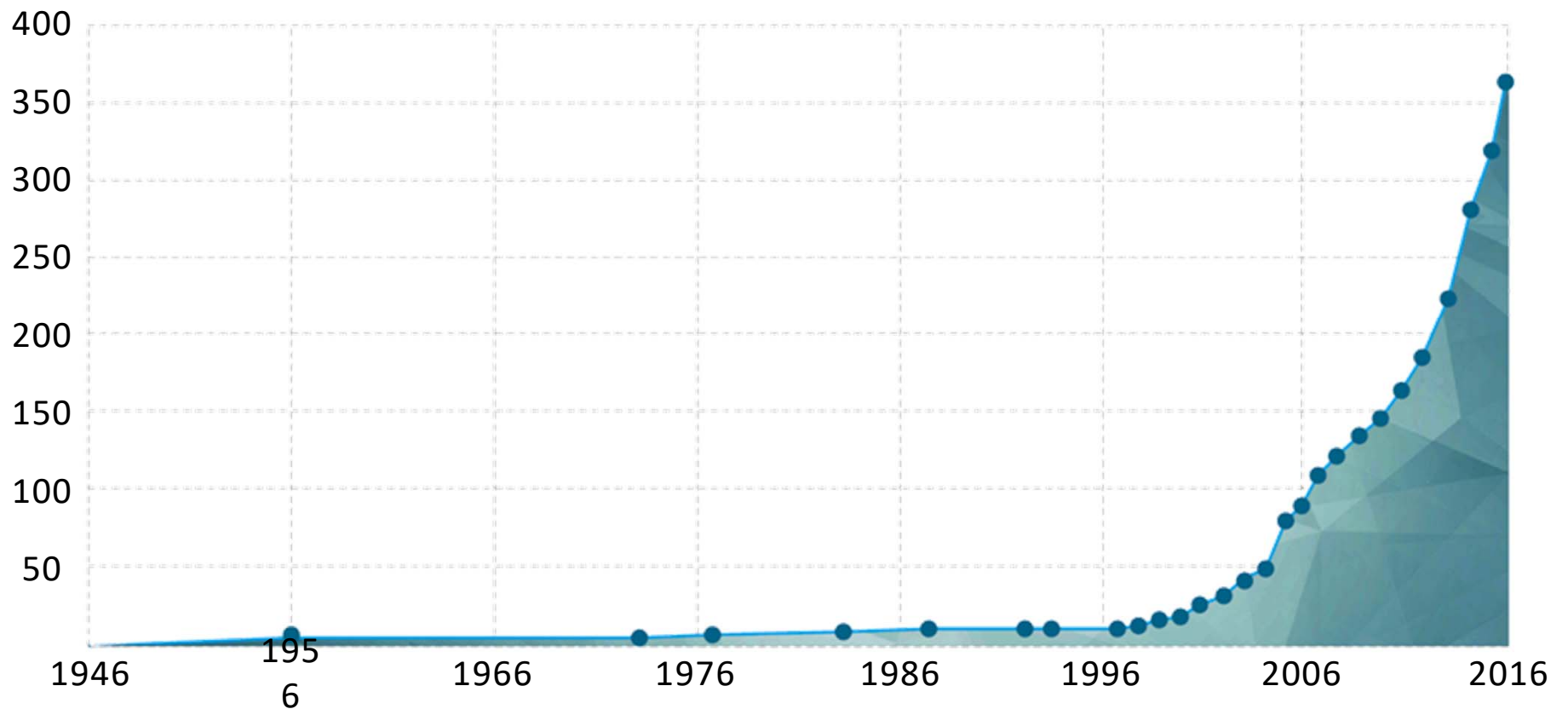
## Sustainability investing: Drivers for growth

*Regulators*



## Sustainability investing: Drivers for growth

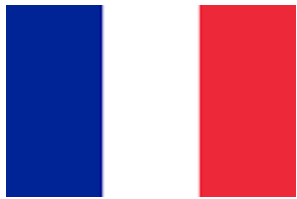
*Cumulative number of policy interventions per year*



Source: PRI responsible investment regulation database - (counting individual revisions separately)

## Sustainability investing: Drivers for growth

### Regulators



#### French Law on Energy Transition (2016)

*Disclose how ESG is integrated in investment process*



#### KING III (2009) Integrated Reporting

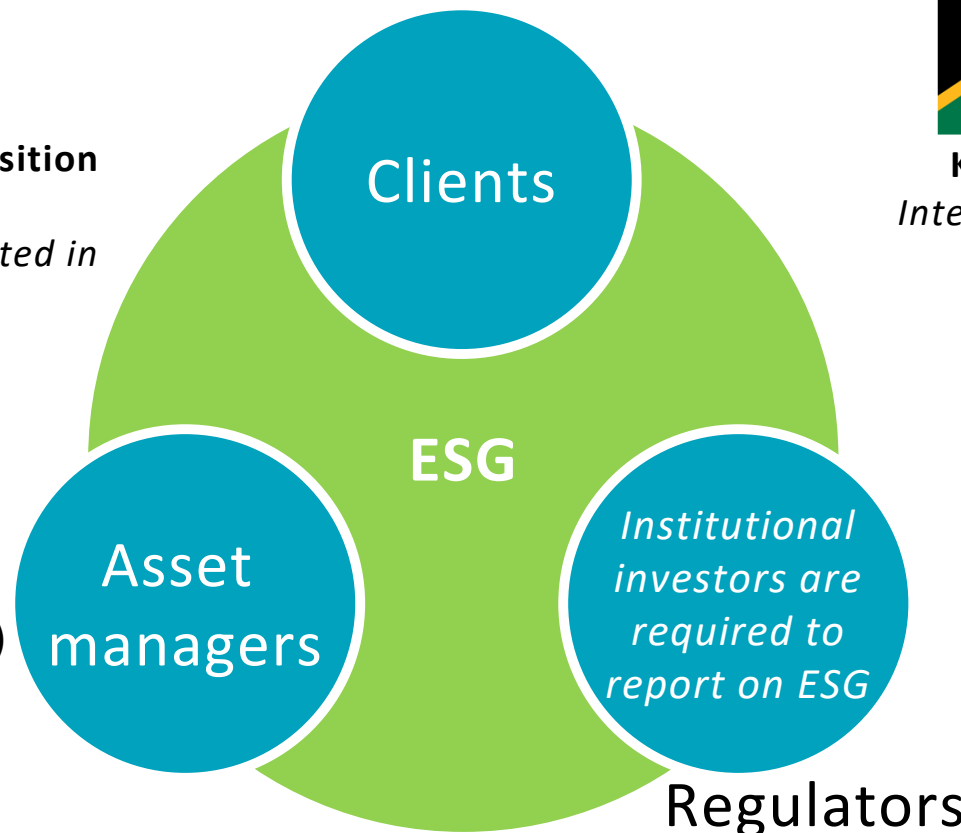


#### Fiduciary duty regulations (2018)

*Consider all material ESG issues when investing*



#### Fiduciary duty (2017) EU Consultation on fiduciary duty regarding ESG risks



## Sustainability investing: Drivers for growth

*Asset Managers*



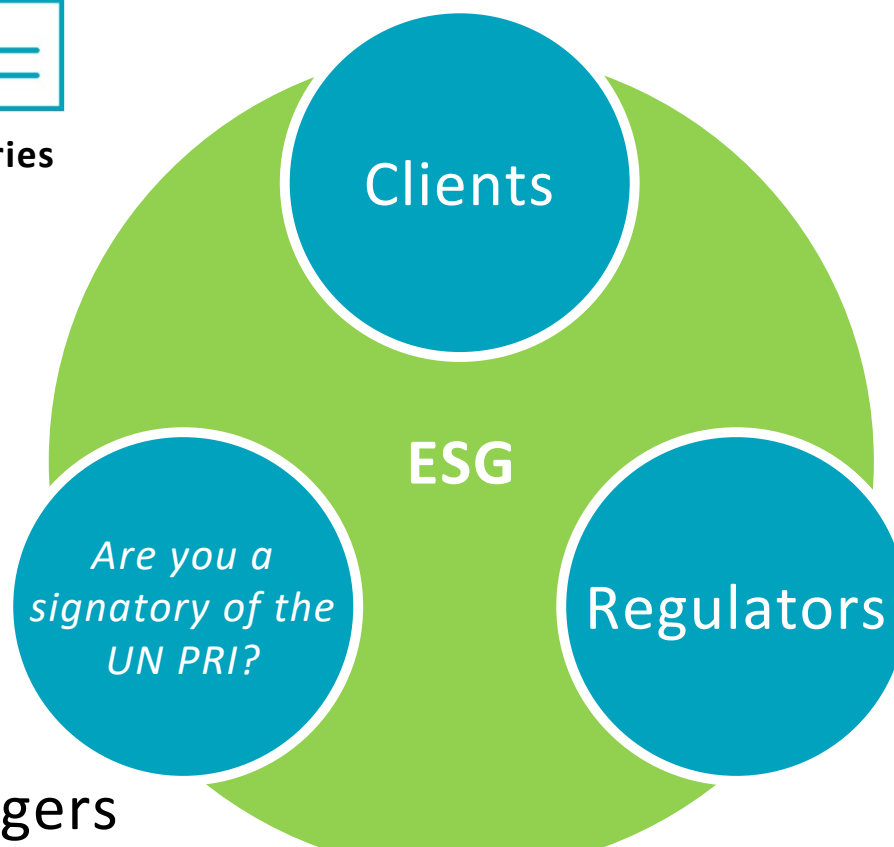
## Sustainability investing: Drivers for growth

*Asset Managers*

**734**



2010: UN PRI Signatories



Asset managers

## Sustainability investing: Drivers for growth

*Asset Managers*

**734**



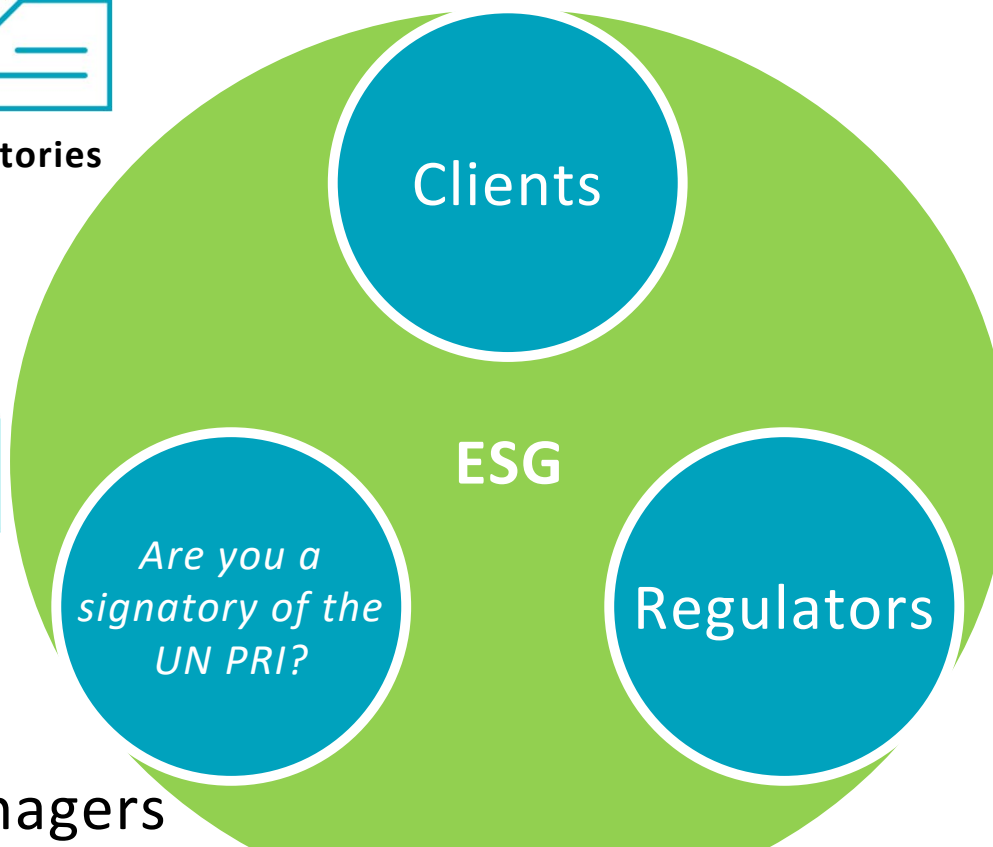
2010: UN PRI Signatories

**2517**



2020: UN PRI Signatories

Asset managers



## Sustainability investing: Drivers for growth



## Sustainability investing

*Investors can make the difference*



DAILY SHOWER OF 12  
MIN.  
*5 MINUTES LESS?*

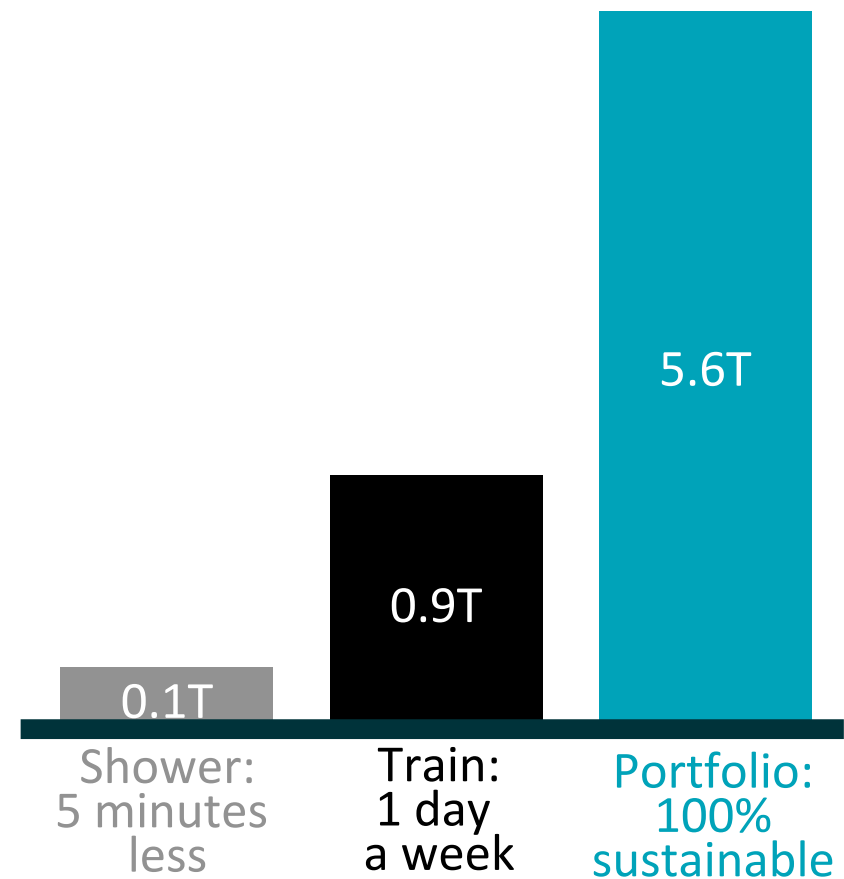


50 KM COMMUTE DAILY  
*1 DAY BY TRAIN?*



60/40% RETIREMENT  
PORTFOLIO OF EUR 300K  
*100% SUSTAINABLE?*

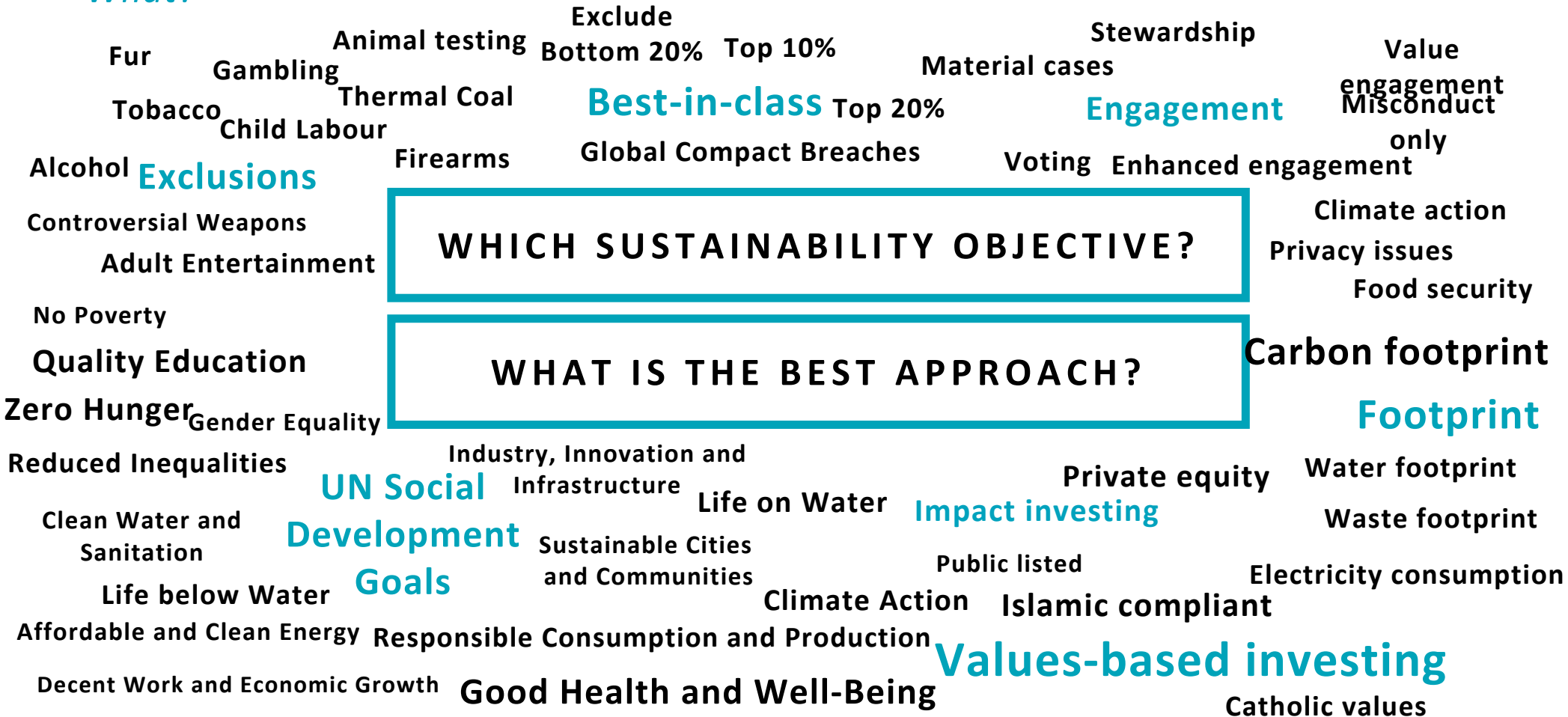
### Effect on environmental footprint





# Sustainability investing

What?



Responsible Consumption and Production

**Values-based investing**

Good Health and Well-Being

Global Compact Breaches Tobacco

Zero Hunger **Best-in-class**

Alcohol **Exclusions** Top 10%

Top 20% Quality Education

**UN Social** Child Labour

**Development** Public listed  
Voting

**Goals** Life on Water

Adult Entertainment

**Footprint**

Gambling

Climate Action

**Impact investing**

Clean Water and  
Sanitation

Decent Work and Economic Growth

Privacy issues Material cases No Poverty

Animal testing Private equity Gender Equality

Thermal Coal Life below Water

Electricity consumption

Stewardship Climate action

**Carbon footprint**

Affordable and Clean Energy

Industry, Innovation and

Fur Infrastructure

Enhanced engagement

Controversial Weapons

engagement

Misconduct

Islamic compliant

Water footprint

**Engagement**

Exclude

Bottom 20%

Sustainable Cities

and Communities

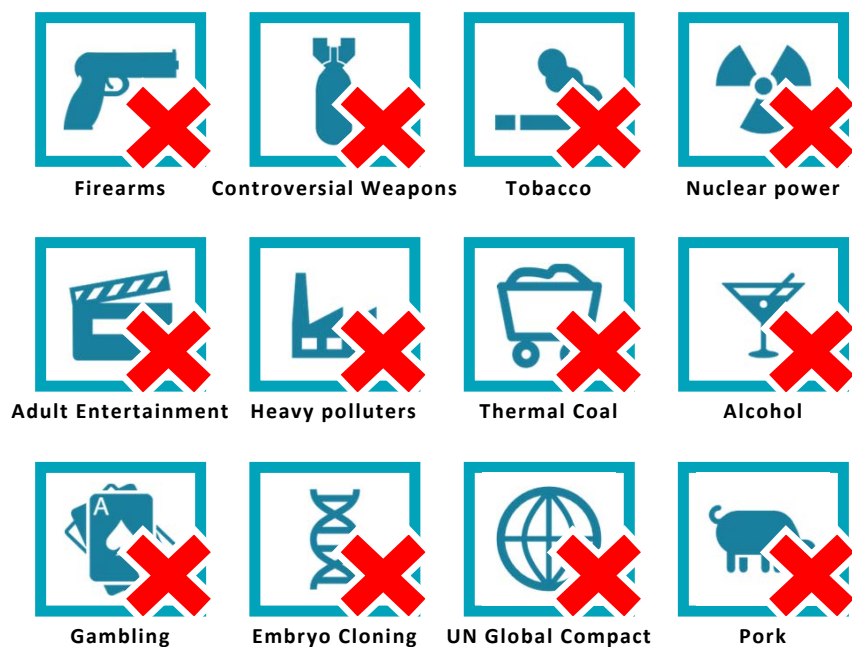
Catholic values

Firearms

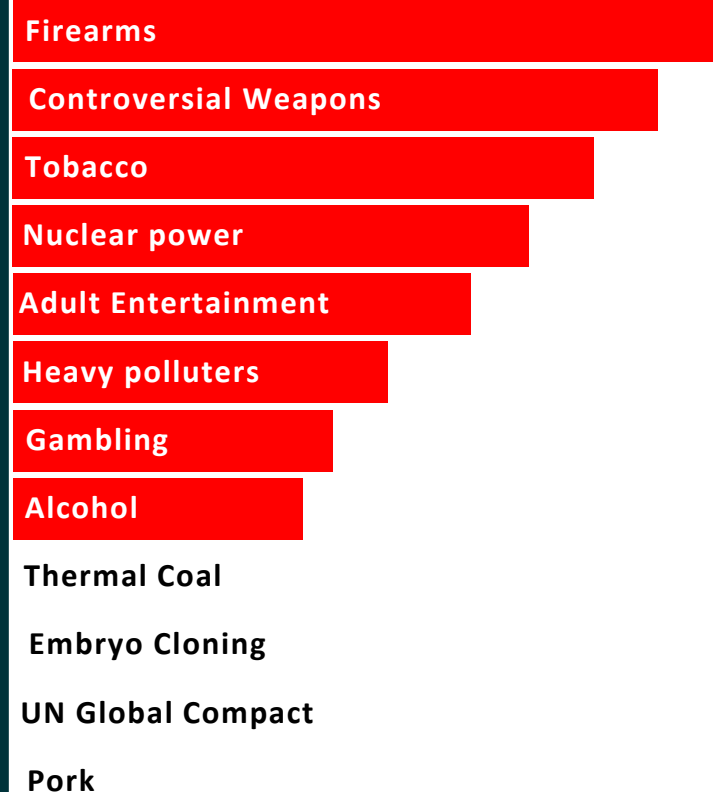
WHAT ABOUT  
PERFORMANCE...

## Exclusions

### Type of exclusion



### Top exclusion criteria



## Exclusions: Every investor has different needs

### Type of exclusion



Firearms



Controversial Weapons



Tobacco



Nuclear power



Adult Entertainment



Heavy polluters



Thermal Coal



Alcohol



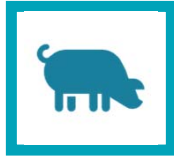
Gambling



Embryo Cloning



UN Global Compact



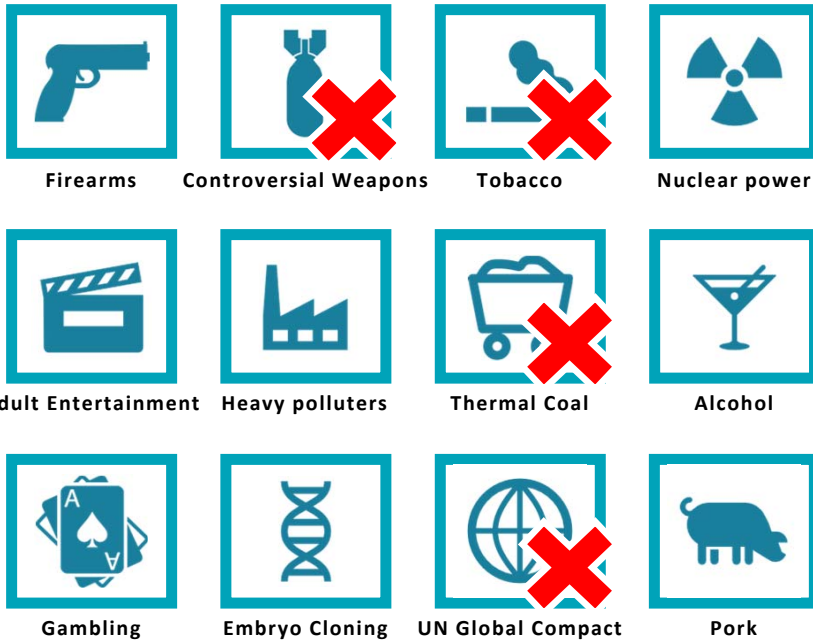
Pork

### Type of investor

pensionskasse  
STADT ZÜRICH

## Exclusions: Every investor has different needs

### Type of exclusion



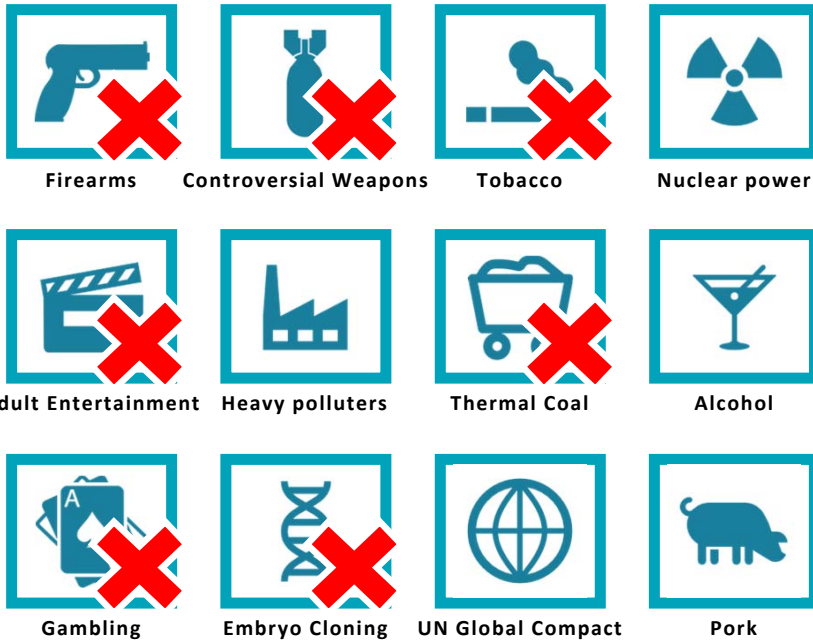
### Type of investor

pensionskasse  
STADT ZÜRICH

  
NORGES BANK  
INVESTMENT MANAGEMENT

## Exclusions: Every investor has different needs

### Type of exclusion



### Type of investor

pensionskasse  
STADT ZÜRICH

  
NORGES BANK  
INVESTMENT MANAGEMENT

 THE CHURCH  
OF ENGLAND

## Exclusions: Impact on portfolio characteristics

### Type of exclusion



Firearms



Nuclear power

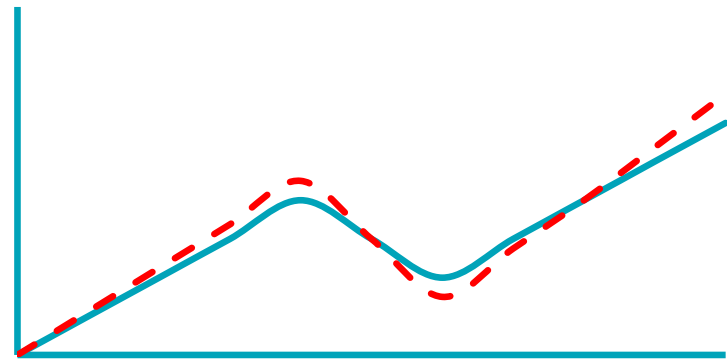


Gambling



Embryo Cloning

### Portfolio



## Exclusions: Impact on portfolio characteristics

### Type of exclusion



Firearms



Controversial Weapons



Nuclear power



Adult Entertainment



Alcohol

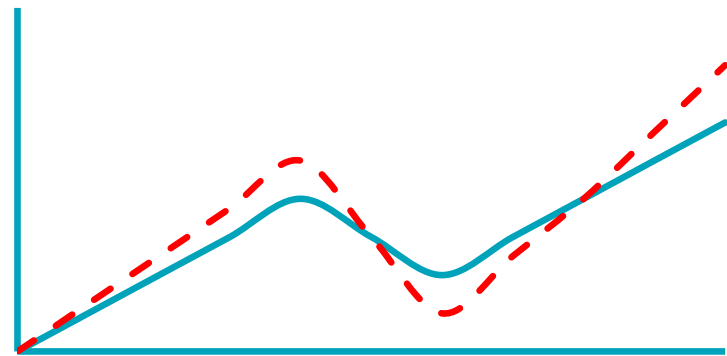


Gambling



Embryo Cloning

### Portfolio



Tracking error



## Exclusions: Impact on portfolio characteristics

### Type of exclusion



Firearms



Controversial Weapons



Tobacco



Nuclear power



Adult Entertainment



Heavy polluters



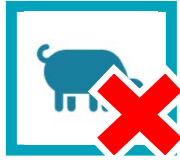
Alcohol



Gambling

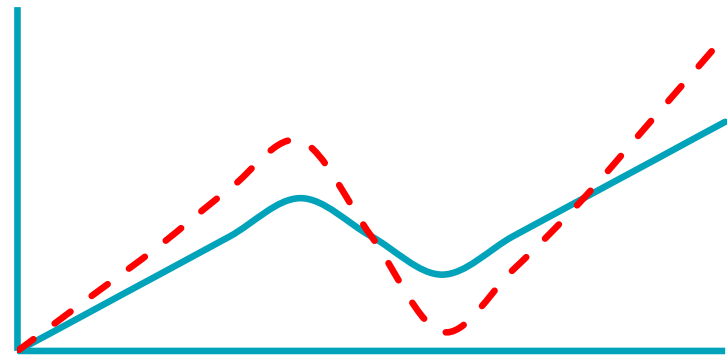


Embryo Cloning



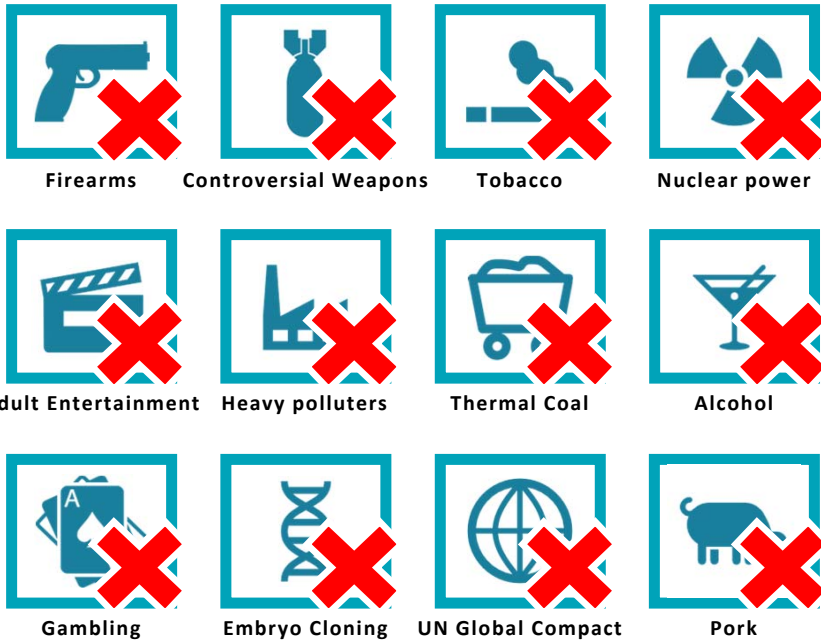
Pork

### Portfolio

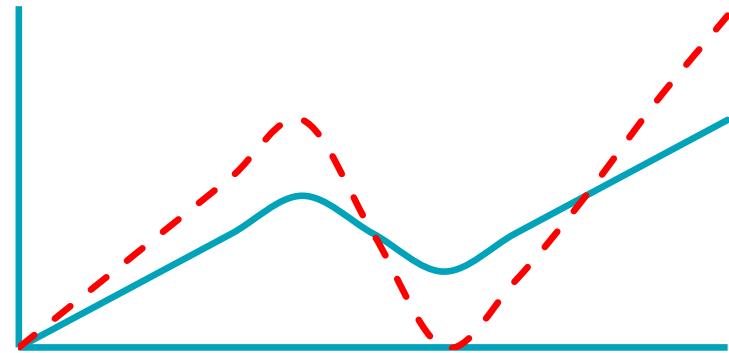


## Exclusions: Impact on portfolio characteristics

### Type of exclusion



### Portfolio



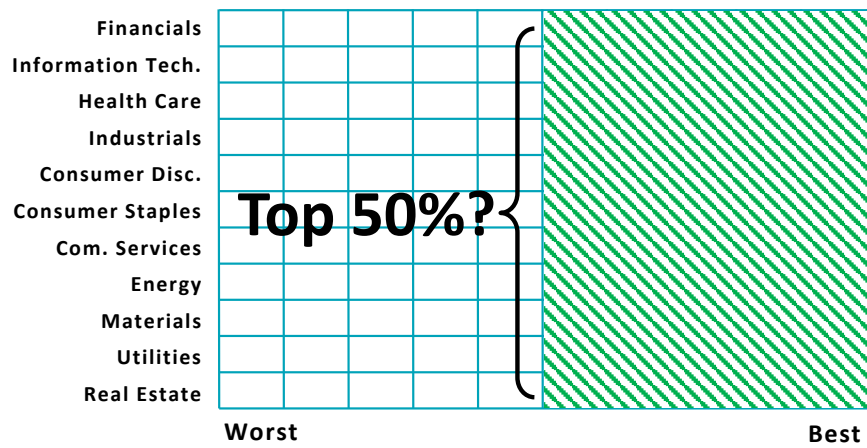
Best in class

Financials										
Information Tech.										
Health Care										
Industrials										
Consumer Disc.										
Consumer Staples										
Com. Services										
Energy										
Materials										
Utilities										
Real Estate										
	WorstBest									



## Best in class: Challenges

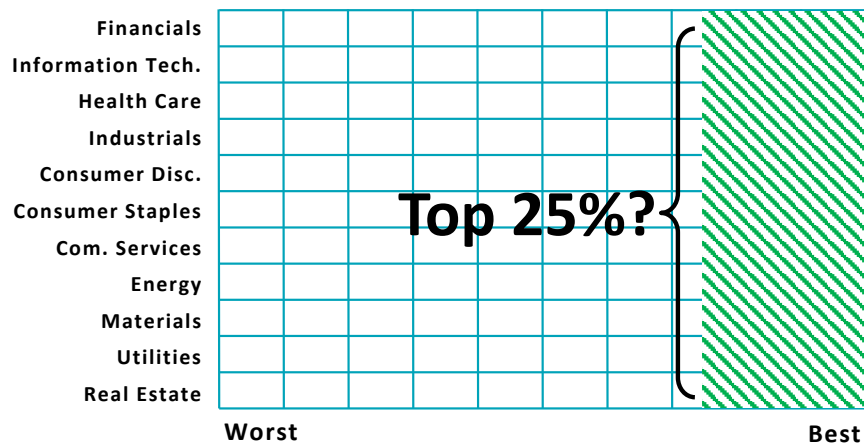
Where to draw the line?



FTSE4Good

## Best in class: Challenges

Where to draw the line?



MSCI   
SRI INDEXES

## Best in class: Challenges

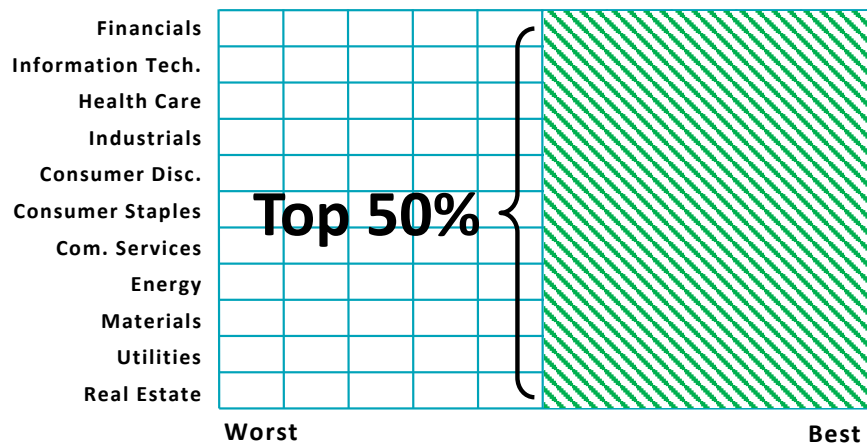
Where to draw the line?



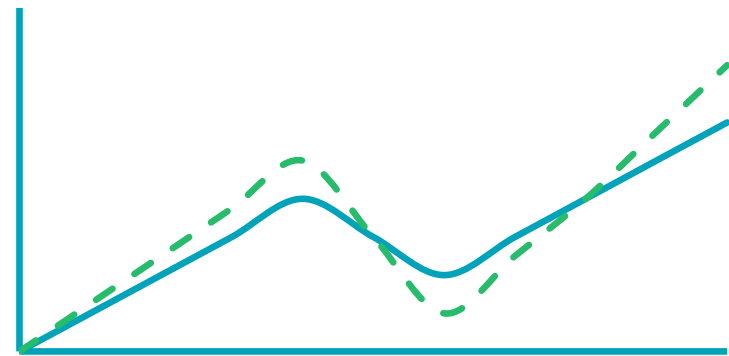
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

## Best in class: Challenges

Where to draw the line?

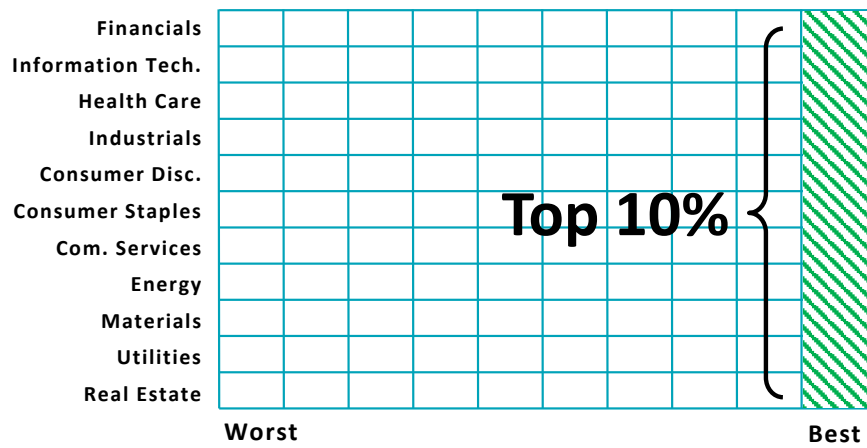


Portfolio



## Best in class: Challenges

Where to draw the line?



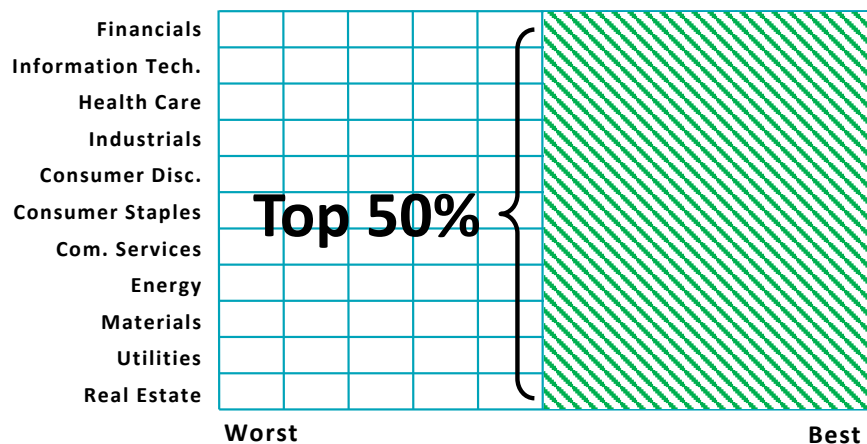
Portfolio



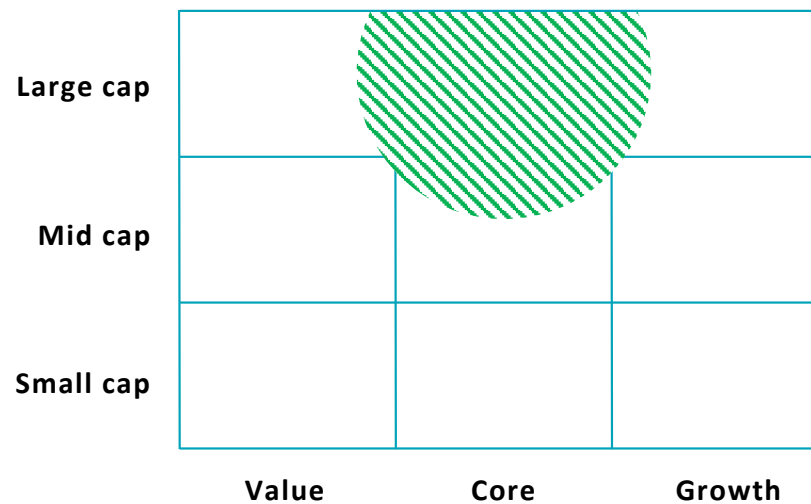


## Best in class: Challenges

Where to draw the line?

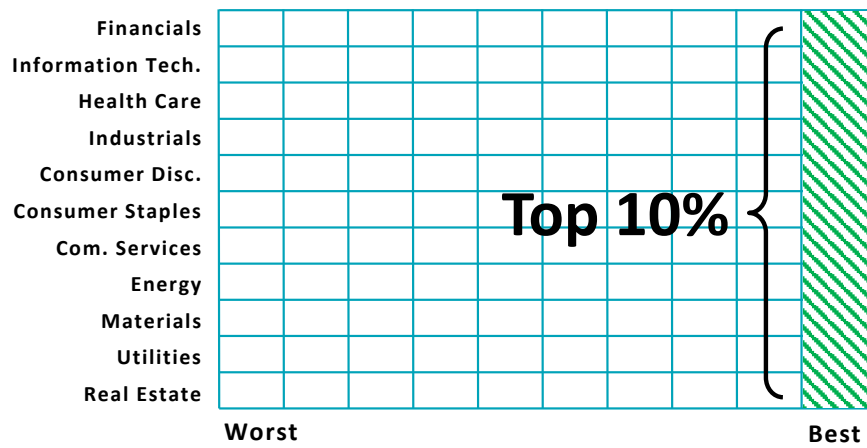


Portfolio

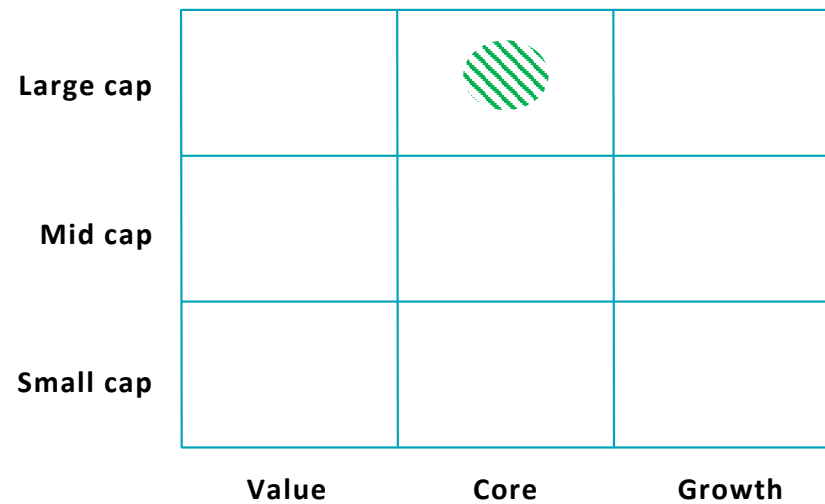


## Best in class: Challenges

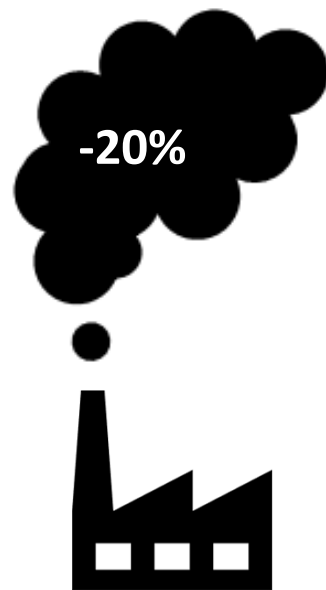
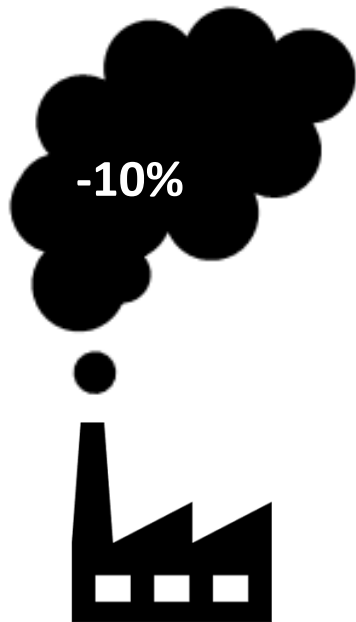
Where to draw the line?



Portfolio



## Reducing the carbon footprint



-100%



[Source: UN EP Finance Initiative](#)

## Reducing the carbon footprint

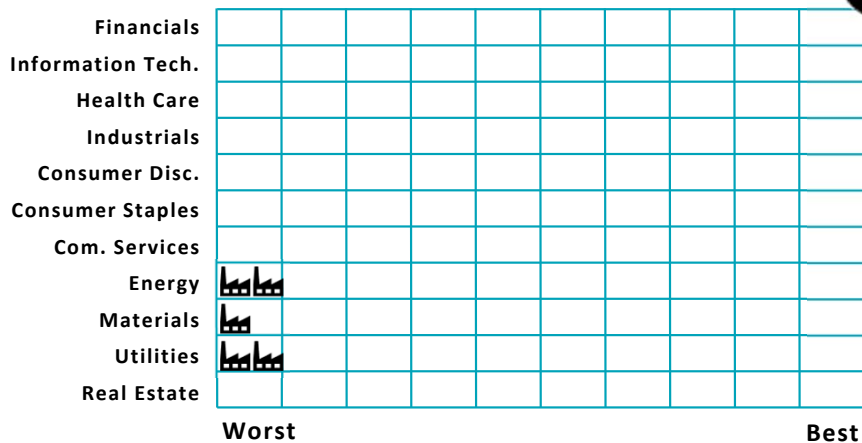


## Carbon footprint reduction Beware of portfolio pollution

Reducing the carbon footprint...

-20%

...may increase the tracking error



## Carbon footprint reduction Beware of portfolio pollution

Reducing the carbon footprint...

-30%

...may increase the tracking error

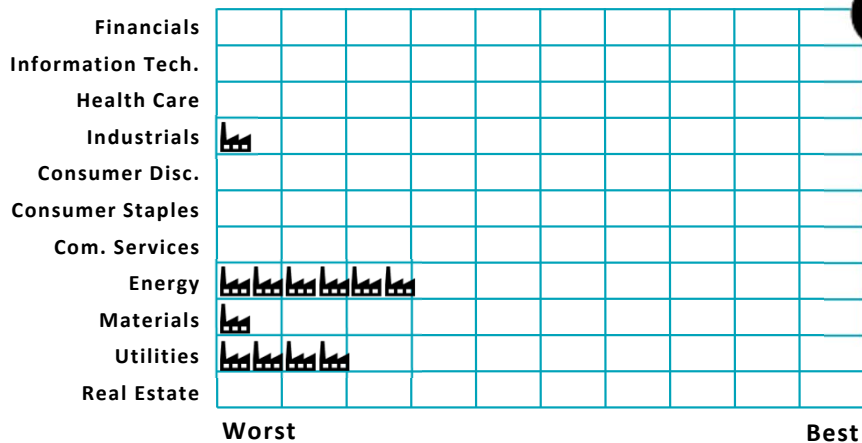


## Carbon footprint reduction Beware of portfolio pollution

Reducing the carbon footprint...

-40%

...may increase the tracking error

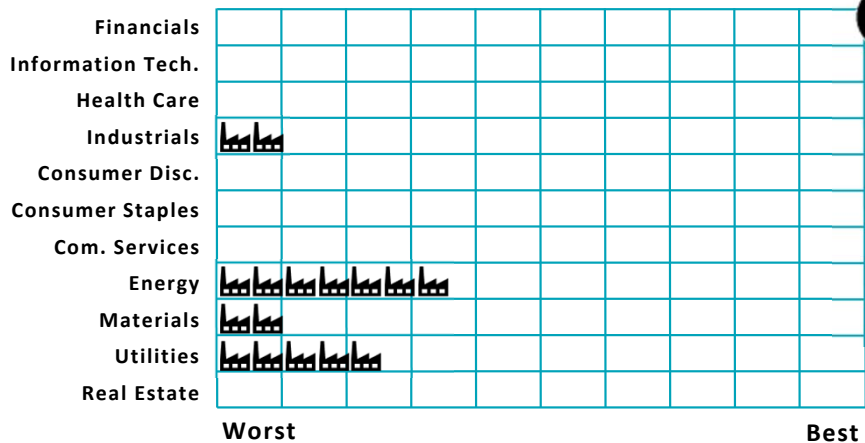


## Carbon footprint reduction Beware of portfolio pollution

Reducing the carbon footprint...

-50%

...may increase the tracking error





## Reducing other environmental footprints



Waste generation

**-20%**



Water consumption

**-20%**



Energy generation

**-20%**



**-20%**

## Lower Footprint



Sustainability integration



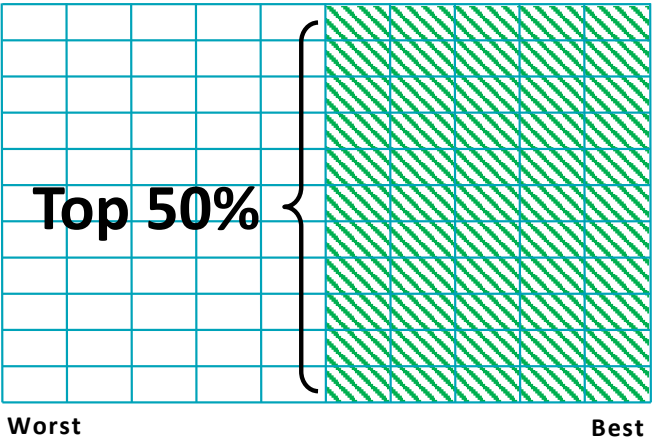
Firearms



Military contracting

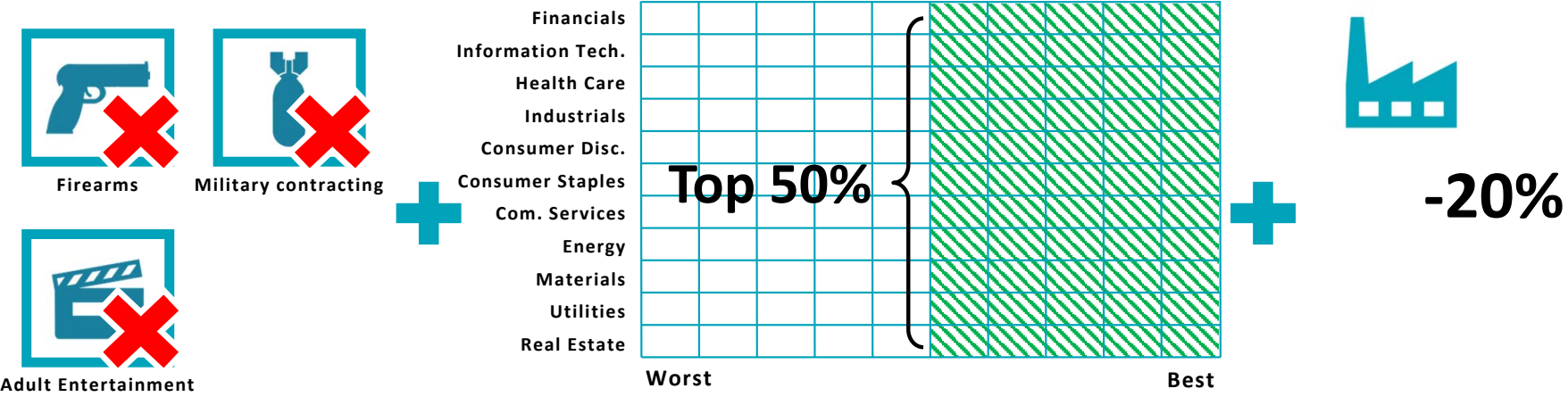


- Financials
- Information Tech.
- Health Care
- Industrials
- Consumer Disc.
- Consumer Staples
- Com. Services
- Energy
- Materials
- Utilities
- Real Estate

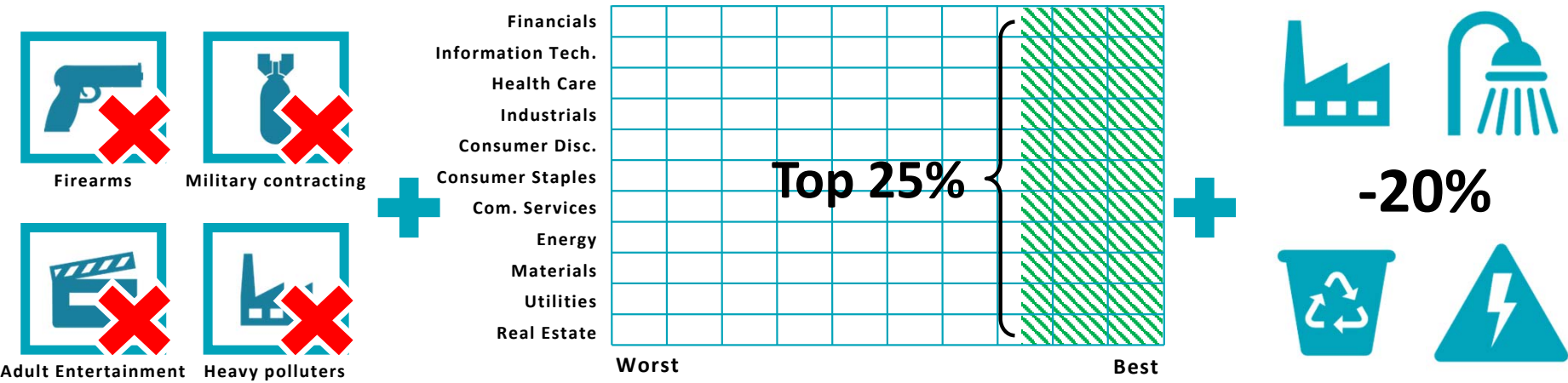
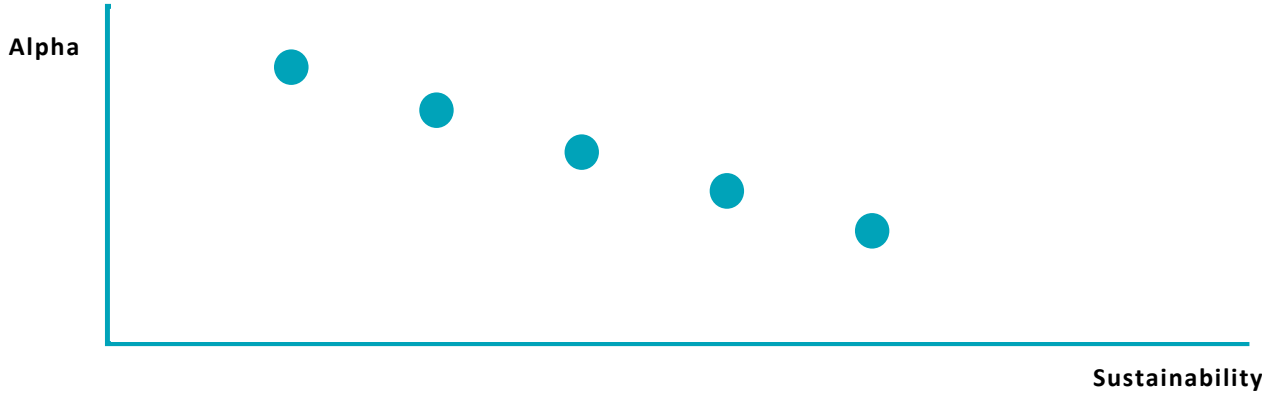


-20%

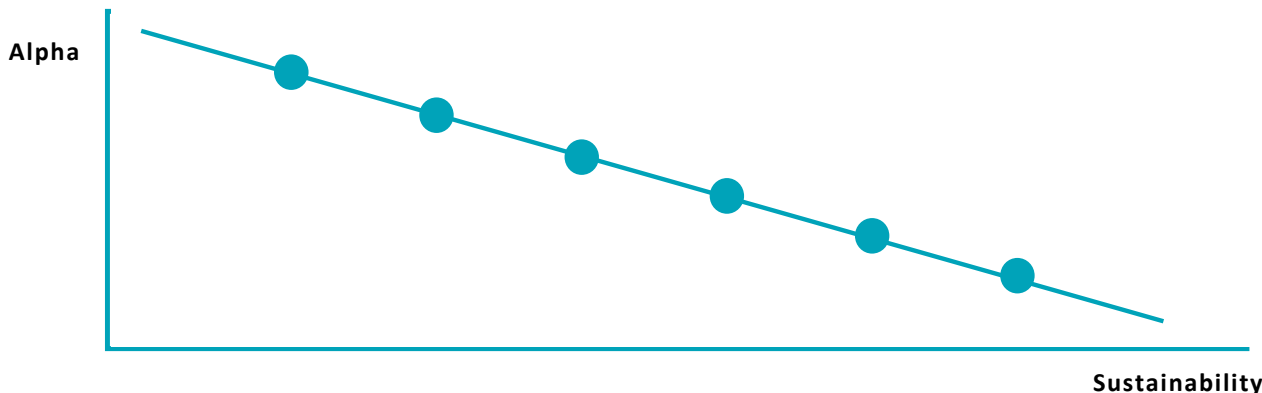
Sustainability integration



Sustainability integration



Sustainability integration



## Sustainability integration solution: The case of sin stock



**“Historical analysis lead us to believe that a portfolio compromised of stocks found in the defense, tobacco, alcohol and gambling sectors tended to outperform the S&P-500”**

*Vice Fund website*



## Sustainability integration solution: The case of sin stock



**“Sin Stock Returns” by Fabozzi, Ma and Oliphant (fall 2008)**

**The authors identified unambiguously better returns of a portfolio of “sin” stocks versus the S&P-500 (from 1970 to 2007).**

**Monopolistic pricing was proposed as a major reason for the performance differential.**



# Sustainability integration solution: The case of sin stocks

Bloomberg

Markets

## Investors Can Be Ethical and Still Beat the Market, Study Says

By [Cormac Mullen](#)

September 11, 2017, 3:18 PM GMT+2 Updated on September 11, 2017, 5:43 PM GMT+2

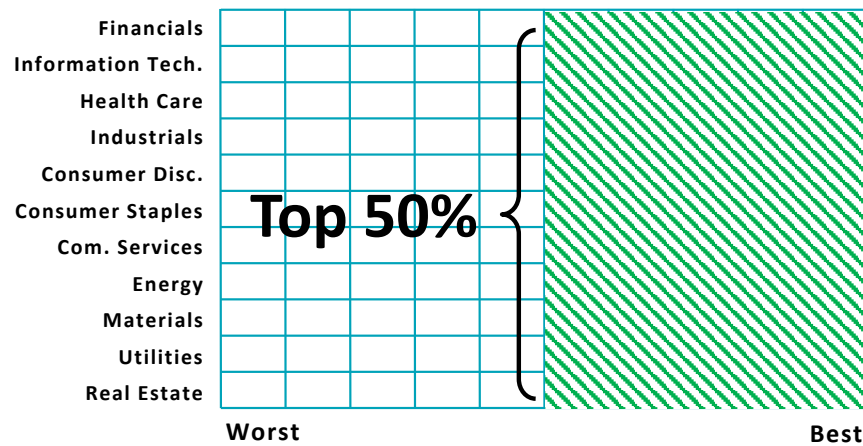
- ▶ Authors find no evidence of premium specific to 'vice' stocks
- ▶ Outperformance comes from factors such as profits, investment

**David Blitz, PhD**

Head Quantitative Research Robeco

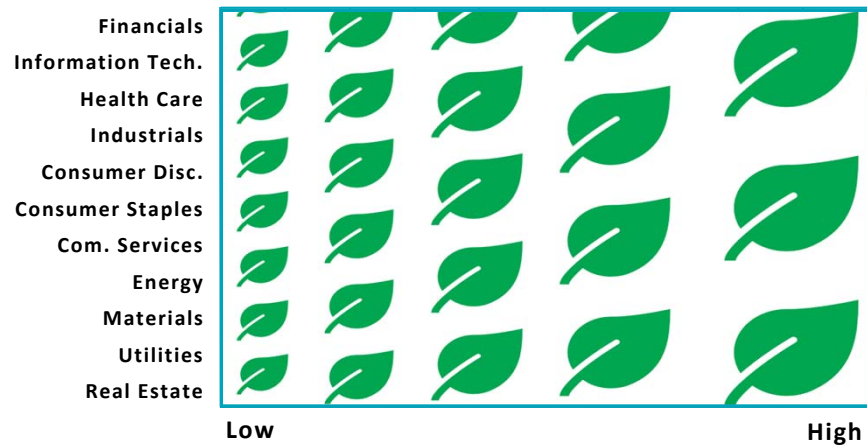
## Sustainability integration: From best in class

Best in class

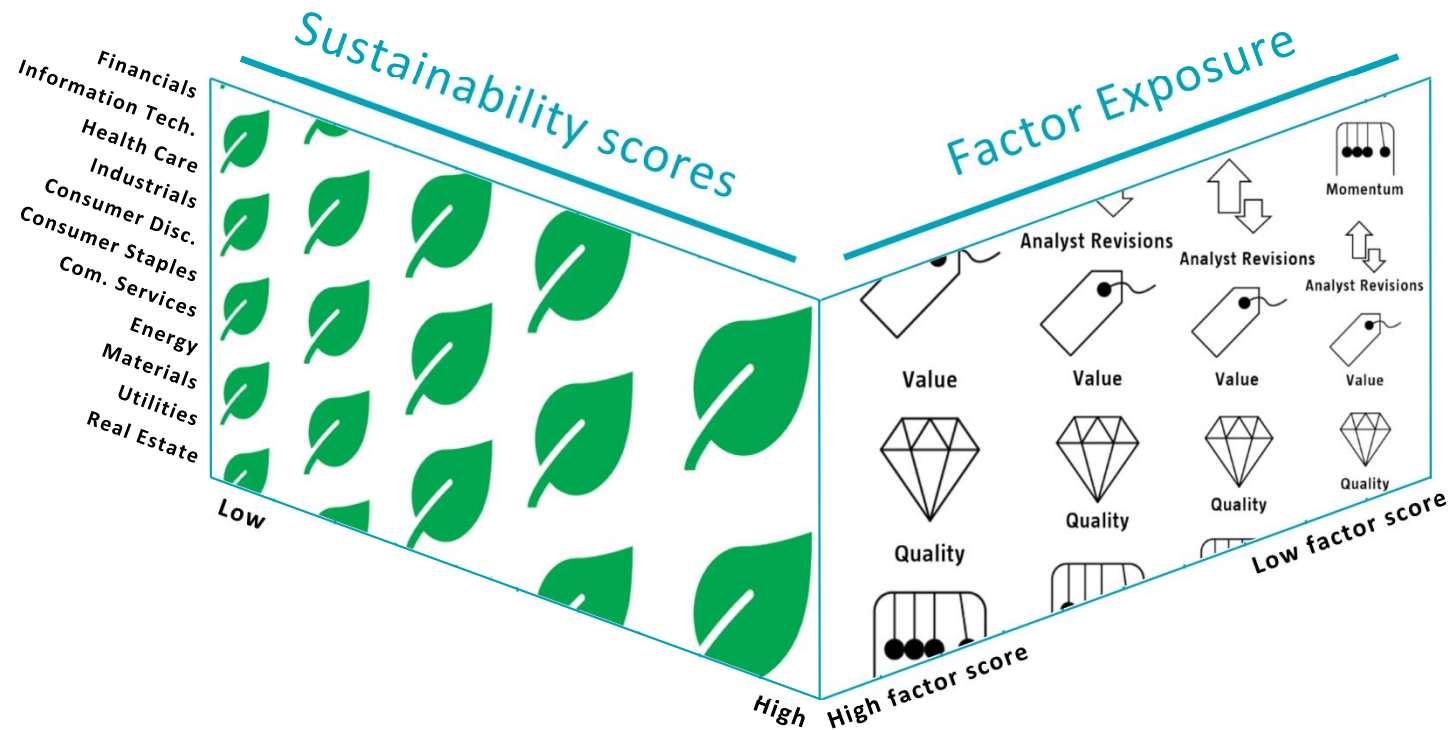


## Sustainability integration: To sustainability scores

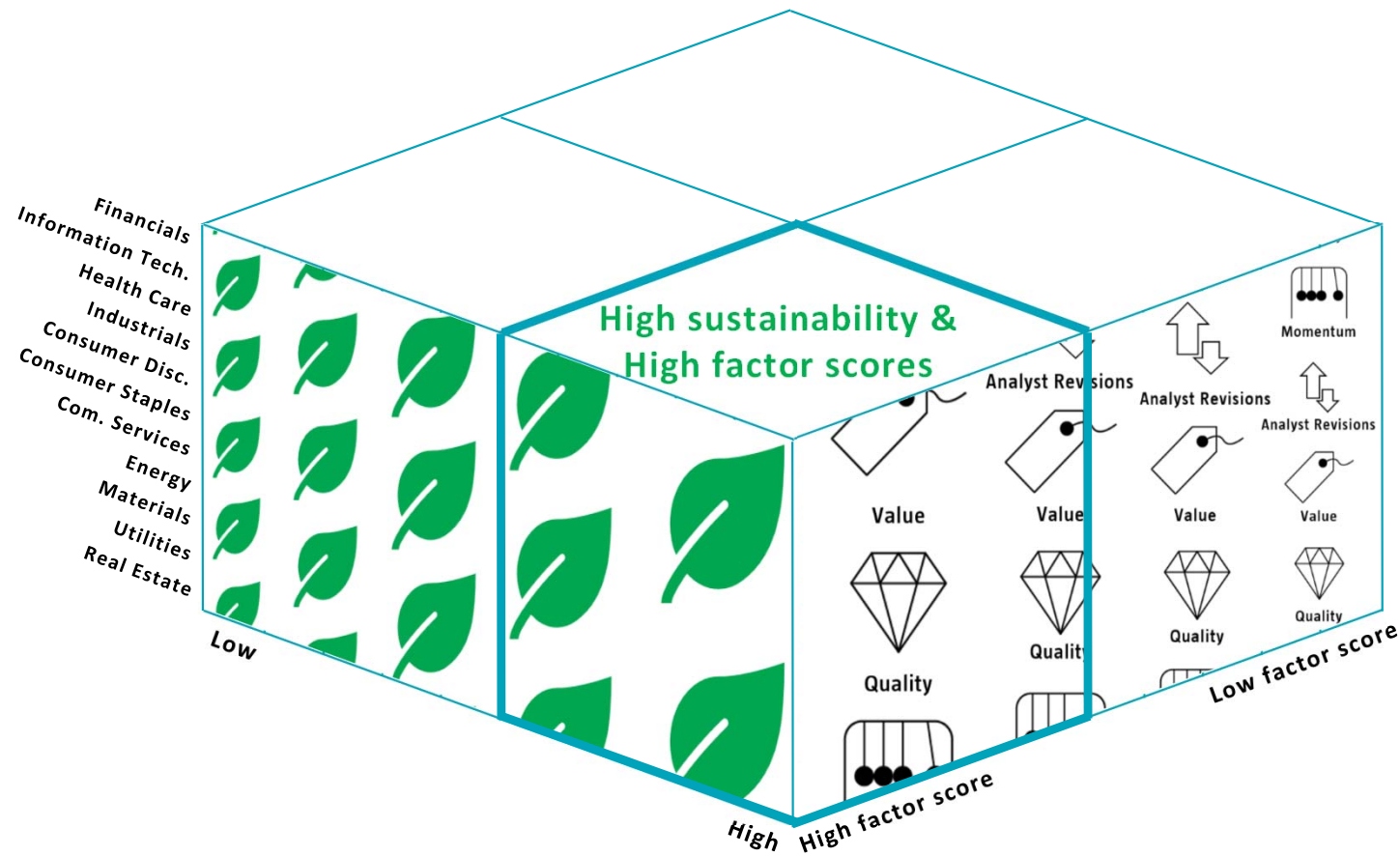
### Sustainability scores



## Sustainability integration: Combing sustainability scores and factor scores

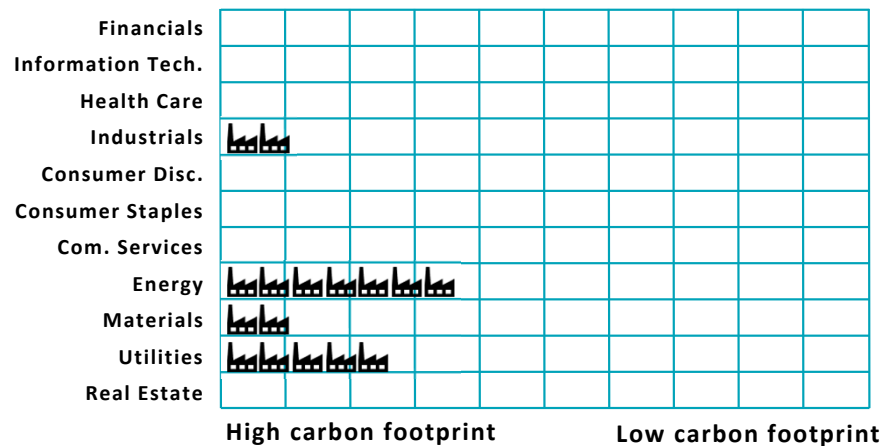


## Sustainability integration: Combing sustainability scores and factor scores



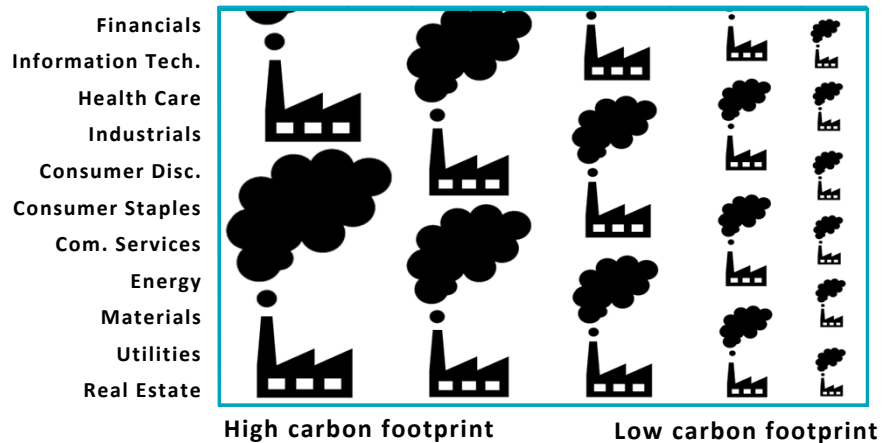
## Sustainability integration: From excluding heavy polluters

### Carbon footprint: heavy polluters

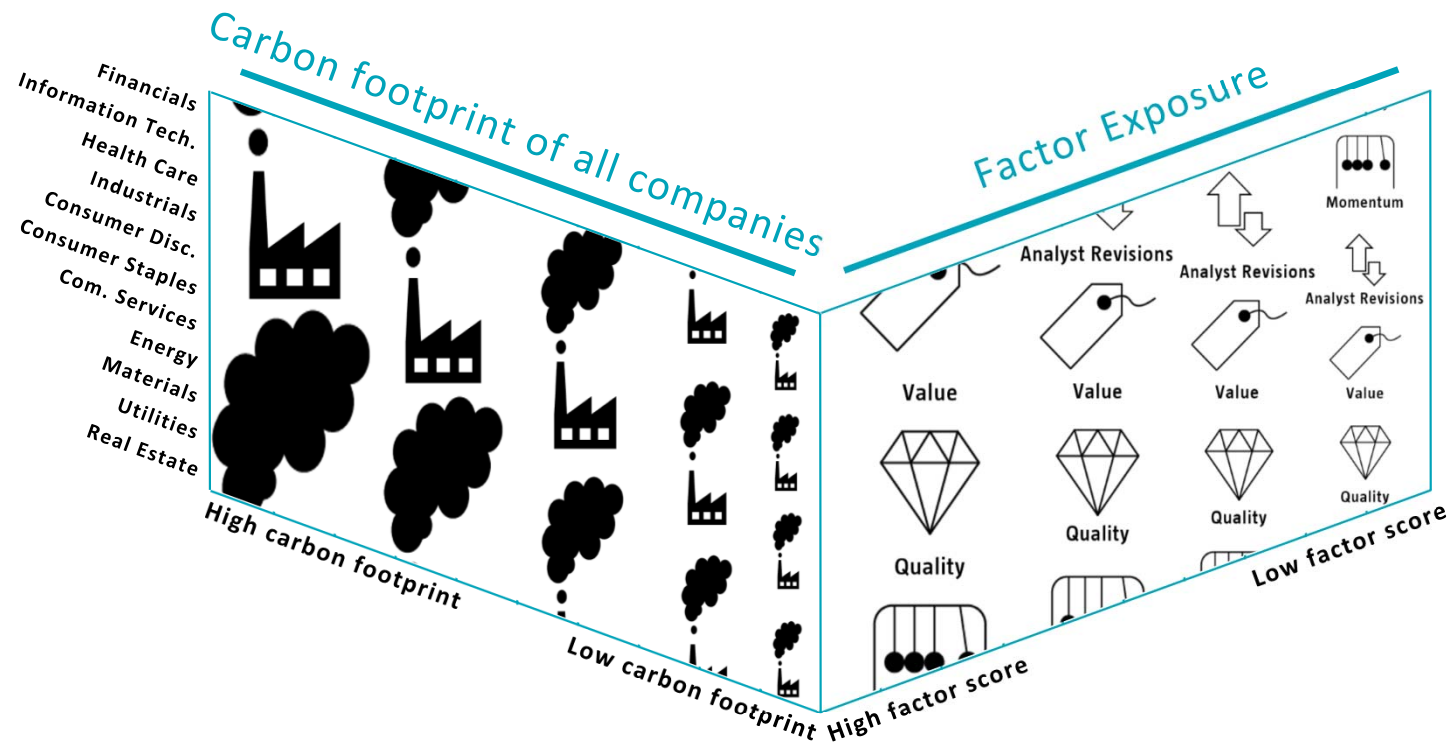


# Sustainability integration: To measuring the carbon footprint of all companies

## Carbon footprint of all companies

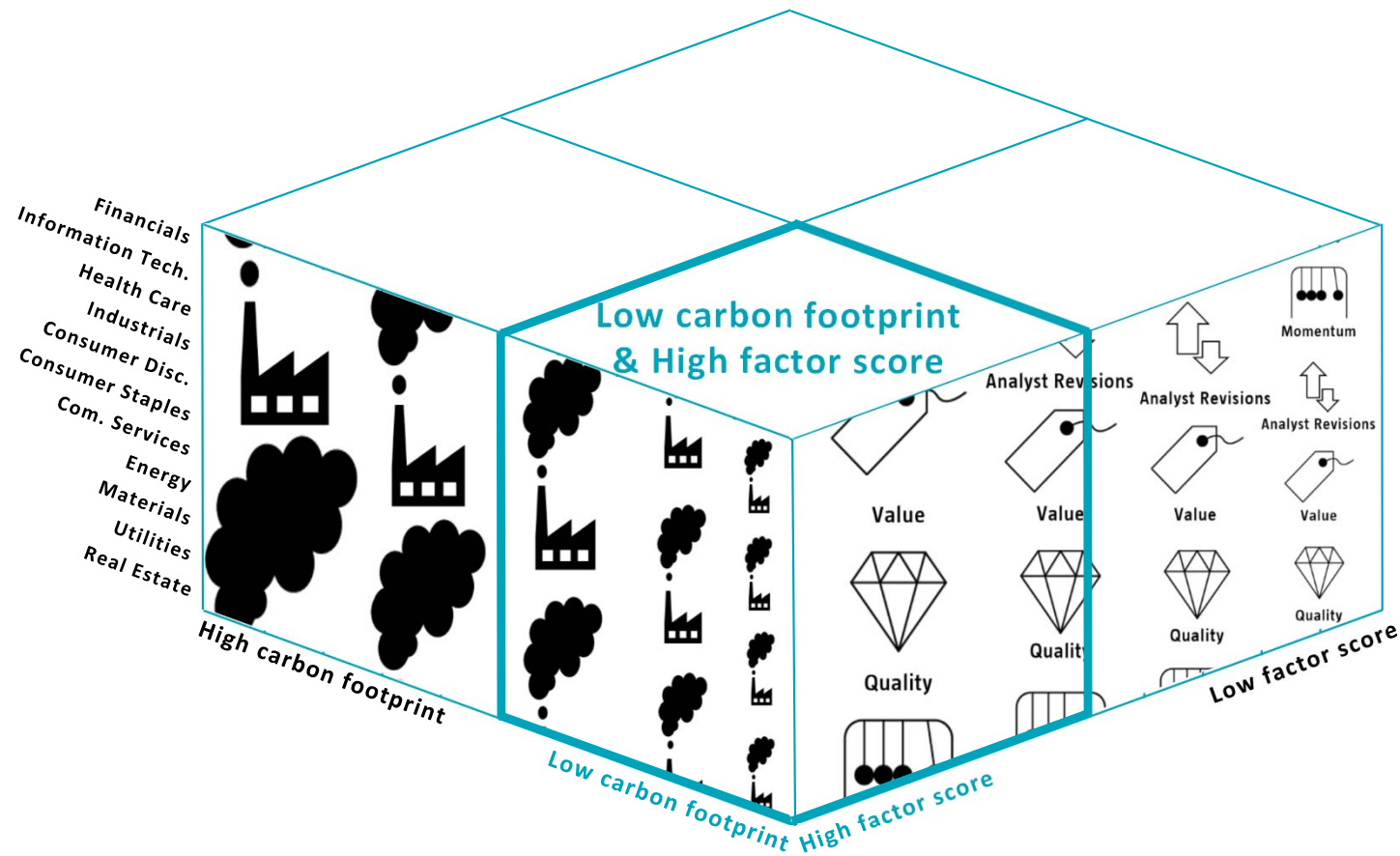


## Sustainability integration: Combing footprint and factor scores

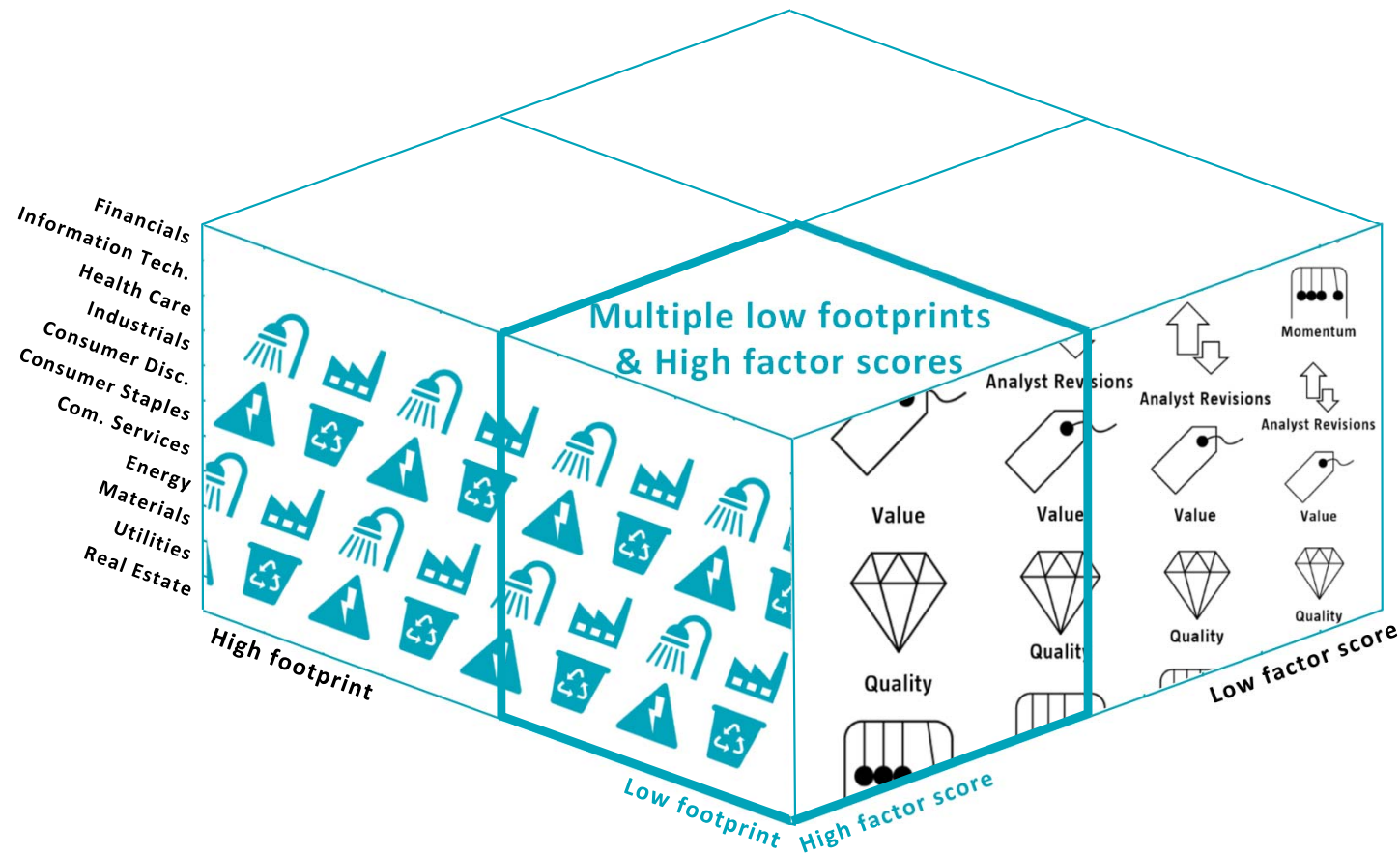




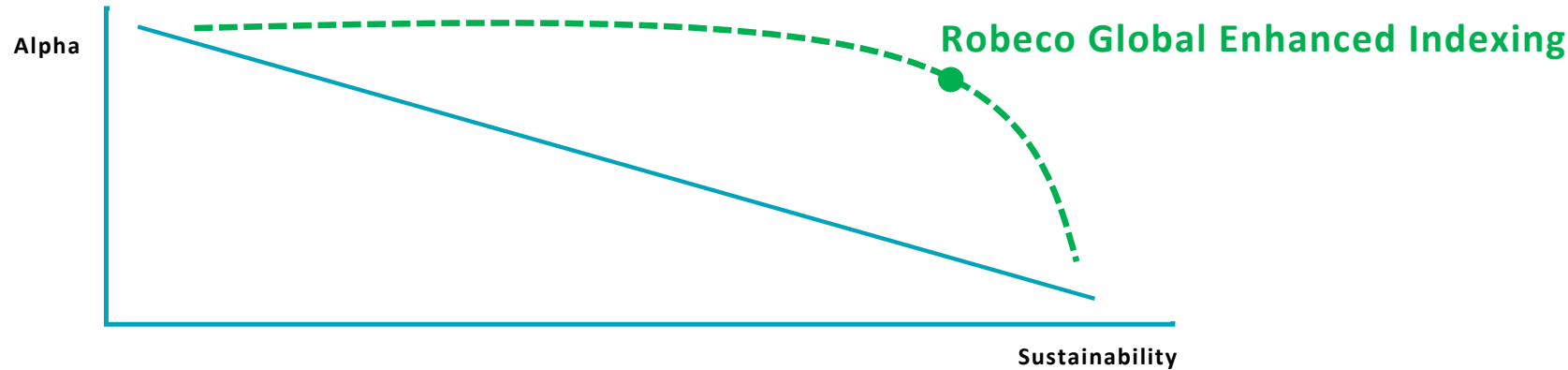
## Sustainability integration: Combining footprint and factor scores



# Sustainability integration: Combing footprints and factor scores



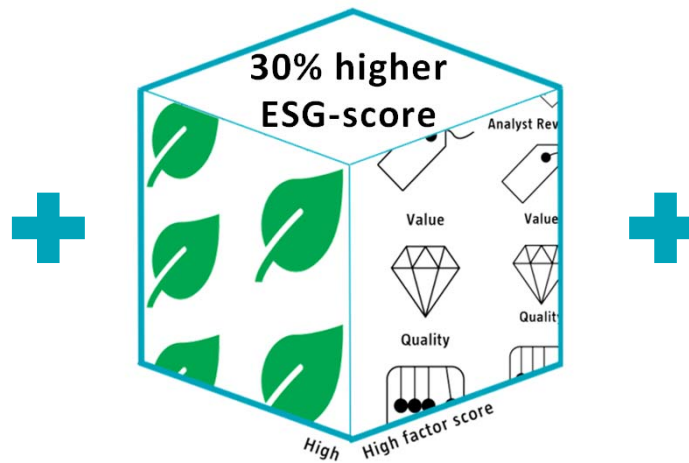
## Bringing it all together: Robeco Global Enhanced Indexing



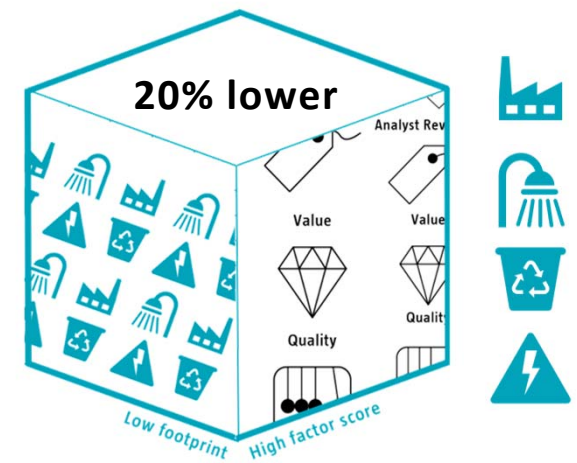
### Exclusions:



### ESG integration:



### Lower Footprint:



## Important information

### Important Information

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The Fund information, if any, contained in this document is qualified in its entirety by reference to the prospectus, and this document should, at all times, be read in conjunction with the prospectus. Detailed information on the Fund and associated risks is contained in the prospectus. The prospectus and the Key Investor Information Document for the Robeco Funds can all be obtained free of charge at [www.robeco.com](http://www.robeco.com).

### Additional Information for US investors

Neither Robeco Institutional Asset Management B.V. nor the Robeco Capital Growth Funds have been registered under the United States Federal Securities Laws, including the Investment Company Act of 1940, as amended, the United States Securities Act of 1933, as amended, or the Investment Advisers Act of 1940. No Fund shares may be offered or sold, directly or indirectly, in the United States or to any US Person. A US Person is defined as (a) any individual who is a citizen or resident of the United States for federal income tax purposes; (b) a corporation, partnership or other entity created or organized under the laws of or existing in the United States; (c) an estate or trust the income of which is subject to United States federal income tax regardless of whether such income is effectively connected with a United States trade or business. Robeco Institutional Asset Management US Inc. ("RIAM US"), an Investment Adviser registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, is a wholly owned subsidiary of ORIX Corporation Europe N.V. and offers investment advisory services to institutional clients in the US. In connection with these advisory services, RIAM US will utilize shared personnel of its affiliates, Robeco Nederland B.V. and Robeco Institutional Asset Management B.V., for the provision of investment, research, operational and administrative services.