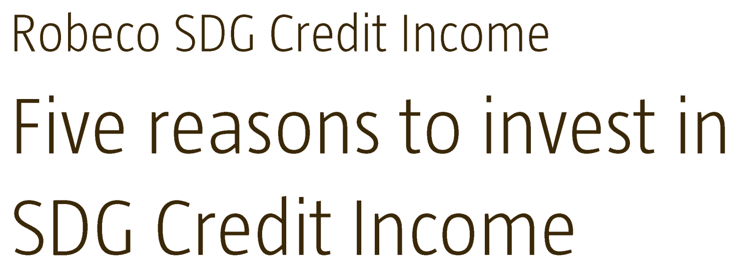

Robeco SDG Credit Income

Five reasons to invest in SDG Credit Income

- An attractive risk-return profile compared with high yield market
- Exposure to global markets, with tactical flexibility through the cycle
- SDG focus improves investor's sustainability profile and lowers risk

We highlight five reasons for investing in the Robeco SDG Credit Income strategy.

1. Attractive risk-return profile compared to high yield

SDG Credit Income has a track record of delivering high-yield-like returns in a bull market environment, and of producing lower drawdowns than a dedicated high yield strategy in a bear market environment.

The emphasis on higher-quality BB/BBB credits, investments in shorter-dated credits and tactical use of treasury exposure, have resulted in a better risk profile than high yield, while the large investment opportunity set has enabled the strategy to provide returns in line with the high yield market.

The strategy aims to deliver a USD yield of 4-6% through the cycle. The current portfolio yield still represents an attractive yield pickup compared to zero or negative-yielding cash or government bonds.

Moreover, given the relatively large position in cash and treasuries (10% of the total portfolio), in anticipation of more market volatility in coming months, the strategy has the capacity to benefit from returns-generating market movements. In particular, once the anticipated increase in market volatility materializes, we can quickly reinvest this liquidity into credits with attractive yields.

Furthermore, through the investments in short-dated BB-rated corporate bonds, the portfolio can benefit from the

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additional roll-down return generated as these bonds mature.

The SDG Credit Income strategy is managed prudently and with a quality bias, which means that we will not invest in low-quality high yield and low-quality emerging market bonds just to enhance yield. In an environment of rising defaults, we think it prudent to avoid these types of investments.

Figure 1 | Comparing the risk and return profile of SDG Credit Income and the high yield market

	RobecoSAM SDG Credit Income	Global high yield market
2020 year-to-date (August)	4.7%	1.1%
Bear market (credit spreads up) Q1 2020	-7.2%	-13.2%
Bull market (credit spreads down) Q2 2020	9.7%	10.6%
Volatility	2.7%	4.6%
Sharpe ratio	4.39	2.5%

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Source: Robeco, Bloomberg. RobecoSAM SDG Credit Income IH USD, all figures in USD. Global high yield market: Bloomberg Barclays US Corporate High Yield + Pan Euro HY ex Financials 2.5% Issuer Cap (hedged into USD).

2. Exposure to best-in-class credit investments across investment grade, high yield and emerging markets, through the cycle

The strategy has access to the full spectrum of global credit opportunities. This is combined with tactical adjustments for each market phase, to underpin performance.

Robeco's credit team has a very strong track record in investing in global high yield, global investment grade credit and emerging credit markets.

The SDG Credit Income strategy invests in the best-in-class credit ideas across global investment grade, high yield and emerging markets, based on superior bottom-up fundamental research and more than a decade of experience in identifying the best investment opportunities in global credit markets throughout the credit cycle.

Investors in the fund have access to the full spectrum of opportunities in global credit markets. This broad scope, combined with tactical adjustments for each market phase, ensures an attractive yield and return throughout the credit cycle.

3. Low volatility compared to high yield and emerging credit

Strategic and tactical management of portfolio risks ensures that the fund has a low volatility profile – typically around 2-6% – compared to traditional high yield and emerging market investments.

Several factors contribute to the low volatility profile of the strategy. The portfolio is diversified across different markets and investment themes, which is an important tool for managing volatility. The portfolio construction also entails an emphasis on shorter-dated credit, which is less sensitive to market volatility than the longer-dated end of the market spectrum. Moreover, the tactical use of treasuries can be a very effective hedge against credit market volatility.

In addition, the use of our proprietary DTS (Duration Times Spread) credit risk model and risk scenario analysis ensures that portfolio risks are well understood and managed.

4. Sustainability screening lowers downside risk and enhances returns

Our proprietary sustainability screening process, which is based on the UN Sustainable Development Goals (SDGs), contributes to our ability to avoid poorly performing names. This has been a significant contributor to performance, particularly in times of market stress.

One of the mantras in our investment philosophy is 'Winning by not losing'. In credit investing, avoiding poor performance is often more important than picking one high-performing name. We apply our proprietary SDG methodology to screen out companies that negatively impact the UN Sustainable Development Goals. The SDG screening process has been an important factor in our ability to avoid poorly performing names. The track record of the strategy shows that, particularly in times of market stress, this risk-mitigation tool has been a significant contributor to performance. For example, in the Covid-induced sell off of the first quarter of 2020, the fund

outperformed the reference index[1], with a clear contribution from not owning energy companies, automotives and banks with a negative SDG score.

Figure 3 | Performance attribution (in basis points)
RobecoSAM SDG Credit Income

Total cumulative outperformance	**341**	
Beta management	-13	
Credit selection process	296	
Contribution from SDG screening	**58**	
Avoiding negative SDG		52
Neutral SDG		2
Positive SDG		3

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5. Improves sustainability profile of your fixed income portfolio

The SDG Credit Income strategy, which incorporates rigorous screening of credits based on their contribution to the SDGs, enables fixed income investors to improve the sustainability profile of their portfolio.

The strategy primarily invests in companies that make a positive contribution to the UN SDGs. This approach is critical to our ability to avoid investing in companies with outmoded business models that have come under severe pressure.

Examples of such outdated and unsustainable business models include automotive companies that do not adapt quickly enough to a world of electric vehicles, and traditional integrated oil producers. By contrast, companies that offer solutions to help achieve the SDGs may well be the winners of the future – as well as attractive investment candidates.

Next to the SDG screening, we integrate ESG factors in the bottom-up credit analysis, and engage with companies on various environmental, social and governance themes such as decarbonization, biodiversity and corporate governance in emerging markets.

[1] The fund is not managed against an index. However for reference purposes we use a custom reference index: 1/3 Bloomberg Barclays US Corporate High Yield + Pan Euro HY ex Financials 2.5% Issuer Cap; 1/3 JPM Corporate EMBI Broad Diversified Index; 1/3 Bloomberg Barclays Global Aggregate Corporates Index.

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