United Sustainable Credit Income Fund

Attractive yield with a positive impact

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UOB Asset Management

RIGHT BY YOU

The United Sustainable Credit Income Fund (the "Fund") invests in the RobecoSAM SDG Credit Income (the "Underlying Fund"), which is managed by Robeco Institutional Asset Management B.V., an investment specialist in sustainable investing and a subsidiary of ORIX Corporation Europe N.V. (formerly known as Robeco Group N.V.).

This paper takes a closer look at the RobecoSAM SDG Credit Income (the "Underlying Fund").

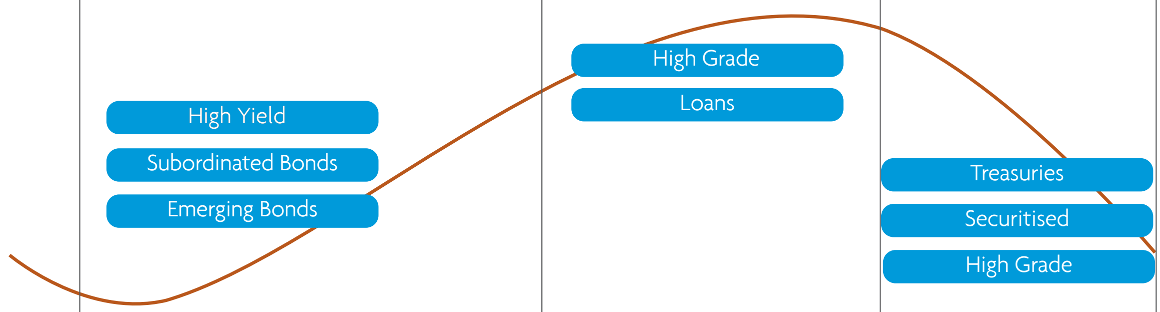
RobecoSAM SDG Credit Income (the Underlying Fund)

The Underlying Fund helps to ensure that investments are geared to future-proof business models and avoids investments in companies with stranded assets. This has a positive impact on expected returns over the longer term and can make a difference in the transition to a more sustainable economy. At the same time, the positive contribution towards the UN Sustainability Development Goals (SDG) lowers tail risks. To an increasing degree, companies are facing the risks associated with stranded assets or environmental liabilities. ESG integration, exclusions and the positive impact of research can lower the downside risk of credit portfolios.

Research

The Underlying Fund's credit research is backed by Robeco's Credit Quarterly Outlook and over a decade of experience in credit cycle management.The Underlying Fund divides the credit cycle into three stages and looks at optimising yield, credit and rate exposure throughout the cycle.

Figure 1 | Mapping the opportunity set to the credit cycle



Market phase	Recovery 5 – 10% Return	Bull Market 3 – 5% Return	Bear Market 0 – 2% Return
Market characteristics	The longest period in the credit cycle Improving fundamentals	Markets become expensive Euphoria and greed	Markets become expensive Euphoria and greed
Duration strategy	Medium duration (3-5 years)	Shorter duration (<5 years) More tilt to quality	Longer duration (>5 years) Maintain quality
Portfolio risk	Down in quality 4 – 6% Volatility	More tilt to quality 3 – 4% Volatility	Maintain quality 2 – 4% Volatility

Source: Robeco. These examples are for information purposes only and not intended to be an investment advice in any way. The value of your investments may fluctuate. Results obtained in the past are no guarantee for the future.

SDG framework

There are many, often quite intuitive, reasons why it is beneficial to incorporate SDG considerations into an investment strategy. In a global economy that is increasingly focused on renewable energy, it is easy to predict that the business models of companies such as coal miners, oil producers and fossil fuel-based electricity generators will come under severe pressure. The same can be said of car manufacturers that do not adapt quickly enough to a world of electric vehicles. RobecoSAM, an affiliate of Robeco specialising in sustainable investing, is one of the first asset managers that has developed a proprietary SDG framework to map the credit universe in terms of the impact of the investable companies on the SDGs. Robeco's credit analysts use this framework to determine the eligible investment universe.

ESGs

The Underlying Fund applies a fully integrated ESG research model. ESG integration reduces the downside risk for credits and with sustainability research that helps to reveal governance flaws at corporations. Robeco's credit team has avoided all defaults or distressed/stressed situations over the last ten years. Governance research provides better insights and information on potential litigation, environmental claims or weak risk management. Downside risks are clearly higher and thus digging deeper in ESG topics helps to avoid credit incidents for the Underlying Fund with a lot of credit exposure.

Mean reversion

The value factor, which also applies to credits, basically means that the mean reversion of credit spreads provides a tremendous opportunity. A contrarian investment style can capture that premium from somewhat shorter maturity credits and more research-intensive credits. The Underlying Fund would buy a 5-year credit at a spread of 200 bp than a 30-year credit at a spread of 240. Credit volatility and interest rate volatility are reduced, while the carry and roll-down actually result in the shorter bond outperforming the long bond. The Underlying Fund has a very short spread duration exposure based on cheap credits.

Sustainability Development Goals

Positive impact

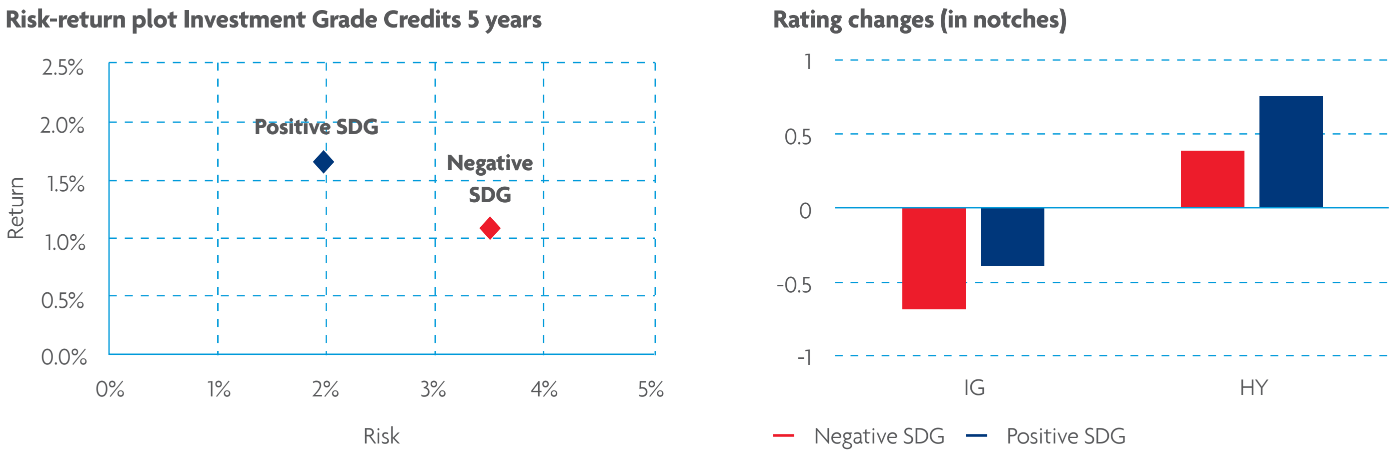
For the Underlying Fund to achieve positive impact on the SDGs, every investment must contribute towards the UN Principles for Responsible Investment (PRI) SDGs. Robeco has developed a proprietary mapping framework to link companies with the SDGs.

Figure 2 | The 17 UN SDGs

In three steps, the companies' contribution towards the SDGs can be established. First, the Underlying Fund looks at what products the company produces, using quantifiable KPIs. Second, the Underlying Fund assesses how the company produces its products. Finally, it looks at whether the company has any recent controversies.

The results of the SDG approach are twofold. First, downside risk can be managed. Robeco's research has shown (Figure 3) that companies in sectors that contribute positively to the UN SDGs have over the last five years delivered higher credit returns and lower volatility than companies in sectors that have a negative impact on the SDGs. This is also reflected in Robeco's credit ratings. Companies in positive SDG sectors have had less downgrades in and more upgrades compared to companies in negative SDG sectors.

Figure 3 | Positive contribution leads to less rating pressure



Sources: Barclays, Robeco calculations based on global IG and HY universe covered by RobecoSAM. Data as of end August 2018, five-year history.

The above charts are for illustrative purposes and do not represent the performance of any specific investment strategy. The Underlying Fund delivers a stable income throughout the credit cycle. Active risk management and a smart adaptation to 'where we are in the cycle' help stabilise the returns. On top of that, the SDG framework reduces risks, increases return and helps to avoid investing in stranded assets.

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