

Robeco's principles on fund governance

Global compliance policies

Corporate Compliance

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1. Introduction

Robeco is an organization that manages on a professional basis assets entrusted to it by third parties. In this capacity Robeco assumes a fiduciary responsibility. Robeco's motto is 'to deliver superior results through inspired investing'. The company has defined a set of core values including integrity, quality orientation, client orientation, result orientation - defined as creating value for our clients - and cooperation. These core values have been incorporated into a Code of Business Conduct which describes our principles with regard to the various aspects of the company's activities. It is important to ensure that Robeco delivers on these principles through corporate governance. Where Robeco's interests are in line with the interests of third-party customers this involves running a professional organization with the necessary checks and balances. When interests clash, however, the issue becomes more sensitive and the principles on fund governance come into play. The purpose of this document is to show how Robeco handles governance issues. These often take the form of conflicts of interest between Robeco as fund manager and the investors in the funds. The document is therefore restricted to the area of fund management. The above principles are a minimum requirement for the Robeco Group. Clearly, in jurisdictions with more stringent rules these shall be followed instead.

2. Fund governance at Robeco

Robeco operates internationally in many jurisdictions, which means that the company may need to adapt the specific application of the principles defined herein to local laws and regulations. Nevertheless, Robeco would like to establish its corporate standard, which is applicable to all funds managed by Robeco¹. Robeco is committed to operate its fund management activities in a fair and reasonable manner. This means that paramount attention must be given to managing potential conflicts of interest. Should conflicts of interest nevertheless occur, Robeco should deal with these situations in accordance with its fiduciary duty to act in the best interest of the investor.

To accomplish this, Robeco has defined the set of principles given below for specific situations commonly defined as conflicts of interest. When dealing with potential conflict-of-interest situations, Robeco will primarily endeavor to reasonably and fairly apply the specific principles defined herein. In situations that may not be covered by these principles, Robeco will in general seek to apply international best practices to the extent available. Robeco pledges to resolve any such situation, having due regard for the interests of the investor and Robeco's fiduciary duty, after reasonable and fair consideration of all the relevant facts and circumstances. We call this process 'conscientious consideration'. It is supported by a structure in which Robeco is accountable for compliance with the principles and the procedure to maintain them within the governance structure of the Robeco Group.

The final part of Robeco's fund-governance mechanism is formed by regular fund-governance reviews within Robeco's business operations. These reviews are carried out by the Corporate Compliance Department and they focus on all identified governance issues as described below. The outcome of these reviews is reported to the Audit & Compliance Committee of Robeco Groep NV's supervisory board, at least three times a year.

¹ These are the funds managed by Robeco Fund Management B.V., Robeco Luxembourg S.A., Robeco Gestions S.A. and Rorento N.V.

3. Managing governance issues

3.1 Principles

Product Quality

Robeco is firmly committed to the development of quality products designed to provide added value for investors. The timely consultation of all relevant parties involved in the fund-structuring process improves such quality and reduces reputation risk. All product proposals are therefore reviewed by the Product Quality Committee (PQC), which focuses on product quality and the identification and proper addressing of conflicts of interest. The PQC consists of all statutory directors of the Robeco Group as well as the head of Compliance and the head of Risk Management.

Asset valuation

The valuation of portfolios managed by Robeco is based on the principle of fair value, taking into consideration applicable legal requirements. Robeco ensures that valuation of assets and calculation of Net Asset Values (NAV) are performed independently from the portfolio management function.

Fund unit trading

Robeco has procedures to prevent late trading in units of its funds, i.e. it does not accept orders of clients after the determined cut-off time. In order to protect the fund from the potential negative impact of market timing transactions, Robeco has taken several measures, such as calculating NAV after the cut-off time (forward pricing).

Transparency

Robeco strives for an open relationship with the investors by providing relevant, clear and understandable information. This includes information on investment policy, investments, risks, costs and management fees, affiliated parties and outsourcing. Clearly Robeco observes the applicable laws and regulations as a minimum requirement. Examples are:

- The characteristics of a fund are clear, the risks are explained and there are no ambiguous conditions.
- All fees charged by Robeco and their connection to services rendered are clear.
- The maximum subscription and minimum redemption prices in relation to the net asset value (NAV) are clear.
- All performance-related information is aligned with Global Investment Performance Standards (GIPS).

Change in the conditions of a fund

During the lifetime of an investor's investment it is possible that a fund's conditions may change. In that case Robeco will suitably inform the investors in good time in accordance with the applicable laws, regulations and the fund's conditions. Robeco strives to ensure that such information is easily accessible, clear and understandable for all investors. If the proposed changes have a negative impact on conditions for the investor (e.g. a rise in fees), or if changes in the investment policy of a fund are proposed, the investor in an open-ended fund shall always have the right to divest on the then prevailing conditions within a reasonable period before the proposed changes are effected.

Unforeseen costs during the lifetime of a fund

A fund may be confronted with unforeseen, extraordinary costs and expenses. These may be caused by changes in tax treatment, increased regulatory costs, administration and custody fees, or by unusual circumstances such as nationalization, a moratorium, market disruption or other irregular market circumstances.

If the costs are the result of circumstances outside Robeco's control, or if the costs are made in the best interest of the investors, such costs are in general borne by the fund, if legally allowed. In all other cases, Robeco shall bear these costs or may elect to propose to change the conditions such that these costs shall then be borne by the fund (see 'Change in the conditions of a fund' above).

Services from affiliated parties

Robeco funds could make use of services from inter-group companies or other affiliated parties, such as treasury transactions. These services will be executed on arm's length basis and will be disclosed properly.

Best execution

In implementing and executing investment decisions, Robeco shall as a general rule take reasonable steps to obtain the best possible result, taking into account price, costs, speed, likelihood of execution and settlement, size, nature or any other relevant consideration. In particular, transactions with members of the Rabobank Group will be executed on arm's length terms customary in the market.

Fair allocation

Robeco may generally execute transactions on an aggregated basis to obtain more favorable commission rates or other transaction costs than if such orders are placed individually. When aggregating orders, all portfolios shall be treated fairly and systematically.

Broker selection and soft commissions

Robeco will ensure that the selection of counterparties for trade execution (brokers) will take place according to defined procedures and criteria, taking into account execution capability and quality of research. Robeco's funds will not make use of soft commission arrangements.

Commission Sharing Arrangements (CSA) with brokers is permitted to utilize research services from brokers or other providers. This research is directly instrumental for improving the investment decision-making process. CSA is an effective tool to unbundle execution and research services, so increasing transparency.

Securities lending

Robeco is transparent in a fund's prospectus and annual report with regard to the possibility of lending the portfolio securities of such a fund. The risk/reward relationship of lending activities for the fund shall in essence be reasonable and fair and in line with market practice. Robeco will act in accordance with best practices as formulated in the International Corporate Governance Network (ICGN) Stock Lending Code, (October 2005).

Personal interest and remuneration

Robeco endeavors to structure its remuneration systems in line with market practices and in such a way that conflicts with investors' interests are avoided. Where potential conflicts are conceivable, monitoring measures will be implemented in order to ensure that these conflicts are properly managed and addressed. We consider the fact that staff and members of the supervisory board can participate in Robeco's funds a 'stake of confidence'. Almost all securities transactions involving staff or members of a supervisory board are monitored. This is to ensure that we can steer clear of appearing to act with inside information.

Costs and damages as a result of operational errors

Robeco's ambition is to deliver services to its clients through faultless processing. Nevertheless, in a human environment operational errors can never be entirely excluded. Therefore, Robeco carries adequate insurance coverage for damages and costs incurred by the fund due to operational errors. Robeco's liability will be limited to the insurance coverage, except for gross negligence and/or willful misconduct.

Damages caused by errors in the calculation of the net asset value of a fund (NAV errors) and exceeding a certain *tolerance threshold* shall be compensated by the fund, taking into account a *de minimis* amount. Robeco will seek to ensure that the fund fulfills these obligations.

Voting rights

Robeco, in its function as investor, acts as an engaged shareholder and therefore makes use of the relevant voting rights. Robeco votes for all investment funds for which the costs of voting are not expected to have a noticeable, negative influence on the investment results. With respect to securities lending it is Robeco's practice that the lent shares are recalled in exceptional circumstances. These refer to enabling Robeco to vote on significant items or when there is an indication of potential voting abuse (empty voting by lender).

The voting policy and the votes cast per investment fund can be found on www.Robeco.com.

General meetings of the funds

Robeco will endeavour that beneficial owners of shares or participants in its investment funds can participate and vote in the general meetings of the funds. Robeco will suitably inform the investors of the time and location as well as the agenda of such meetings in accordance with the applicable laws, regulations and the fund's terms and conditions.

Robeco will endeavour that – when the funds are offered and administered through a so called 'effectengiro' – the beneficial owners of shares or participations in Robeco funds will be granted voting rights in the general meetings of the funds.

Robeco's offered 'effectengiro' – representing only the legal ownership of the shares or participations in the funds – will abstain from exercising their voting rights.

Public communications

It is Robeco's conviction that all public communications in respect of its funds must give true, accurate and complete information on the character, the costs, the risks and, if included, the past or simulated performance of such product to the extent reasonably practicable. Advertisements for Robeco products will maintain a healthy balance between sound commercial information as well as the technical facts necessary for potential investors on which they can base their judgment. Robeco will be transparent in its commercial information. Naturally, application of and compliance with applicable legal and regulatory standards shall serve as a minimum requirement.

Market abuse

Robeco has installed 'Chinese Walls' in order to manage the flow of price-sensitive information and other confidential market information. Since Robeco is part of the Rabobank Group, there is an organizational, physical and personnel segregation up to the highest possible level between Robeco and the other parts of the Rabobank Group. Furthermore there is an organizational, physical and personnel segregation between the Robeco business lines to the extent that this is reasonably necessary relative to their activities. This means that employees report hierarchically only to their managers and appropriate information-sharing barriers are in place to prevent dissemination of sensitive market information. No price-sensitive or confidential market information is exchanged between business lines other than is required to effectively carry out their work.

3.2 International best practices

In specific conflict situations where the above principles would not provide clear guidance Robeco endeavors to apply international best practices to the extent available. This means that Robeco may apply those standards that are commonly applied by peers in comparable situations and comparable markets or those standards which are endorsed by organizations of market practitioners and which are widely accepted and applied in the market.

Robeco will closely monitor the work undertaken by the International Organization of Securities Commissions (IOSCO) and other relevant organizations with regard to fund governance and will review its procedures on a continuous basis in the light thereof.

3.3 The principle of 'conscientious consideration'

However well defined and refined, a system of specific principles, even while supplemented with a set of international best practices, cannot always guarantee sufficient external guidance to deal with specific conflict situations. A fund management organization should reach a solution independently which does justice to its fiduciary role and responsibilities. Robeco therefore pledges that it shall, in all cases, endeavor to resolve any governance issues having due regard for the interests of the investor and Robeco's fiduciary duty, and after reasonable and fair consideration of all relevant facts and circumstances. This process, which we call 'conscientious consideration', shall be conducted within the management board of Robeco Groep NV as the highest authority within the Robeco management organization.

4. Implementation and enforcement of fund governance

The above mechanism of principles, international best practices and conscientious consideration is implemented within the Robeco organization in the following manner:

1. Robeco has defined its best practices; this is the set of business principles of the Code of Business Conduct. One of these business principles is fund governance. Robeco has identified the main areas for conflicts of interest between the management organization on the one hand and the investors in the funds on the other.
2. Robeco's Compliance department has a review program in which it monitors the application of the principles on fund governance. The focus of this program will be on the acts and decisions of all relevant officials and corporate functions relating to the management of conflicts of interests.
3. The Compliance Department informs the relevant management companies of the funds, the Management Board of Robeco Groep NV and the Audit & Compliance Committee at least three times per year about the outcome of its compliance reviews. The Audit & Compliance Committee is a sub-committee of Robeco Groep NV's supervisory board and consists in majority of so-called 'external' supervisory directors, i.e. persons not previously or currently employed by Robeco, Rabobank, or any of its other affiliates.
4. The director(s) of the fund or the fund-management organisation can, in the daily conduct of their business, encounter situations that are not covered by the above principles or that require the principles to be updated. In that case the director(s) of the fund or the fund-management organisation will meet with the statutory directors of the Robeco Group to deal with these situations in order to resolve these points by applying the concept of 'conscientious consideration' and/or by amending the principles themselves. The Audit & Compliance Committee shall be kept informed about the outcome of these discussions. The director(s) of the fund or the fund-management organisation can submit any subject to the Audit & Compliance Committee and will be invited at least once a year to attend the meeting of the Audit & Compliance Committee and to report on the issues mentioned above.
5. Robeco Groep NV publishes its Code of Business Conduct as well as the above principles of fund governance on its website. The report of the Supervisory Board of Robeco Groep NV shall contain a paragraph specifically devoted to this subject. The annual reports of the funds shall contain, in addition to the legal requirements of the relevant regulator, a statement on compliance with the principles of fund governance.

5. In conclusion

The mechanisms provided for herein are a living instrument offering standards and good practices. To stay abreast of constantly changing circumstances in the financial environment, Robeco will closely follow developments in fund governance, identifying trends and seeking remedies to new challenges.

Robeco is aware that trust and integrity play an important role in the financial industry. It is Robeco's sincere intention that these principles of fund governance, together with the Code of Business Conduct and further internal policies will help to maintain a culture in which professional and ethical behavior of the staff of Robeco is recognized, valued and promoted.