ROBECO
The Investment Engineers

Stewardship Report 2019

ROBECO ACTIVE OWNERSHIP | 01.01.2019 - 12.31.2019

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Sustainability has long been in our DNA. We launched our first sustainable investing product, Green Certificates, back in 1995. And last year we marked the 20th anniversary of launching our first sustainable equities fund in 1999. Today, our commitment to sustainability is stronger than ever. Environmental, social and governance (ESG) factors are now routinely integrated into our entire product range, putting Robeco at the forefront of taking such a 'total sustainability' approach.

We do this because we believe integrating sustainability factors into the investment process leads to better-informed investment decisions and healthier long-term, risk-adjusted returns. We believe our responsibility extends beyond generating wealth to include generating well-being. This is also clearly reflected in our mission and vision. Prioritizing profit over issues such as climate change might lead to better returns in the short term, but the long-term prospects for such a strategy are less positive and increasingly less socially acceptable.

In 2019, we saw strong demand for sustainability solutions from clients. To meet this demand, we regrouped our wide range of strategies to create a more easily identifiable and more consistent sustainability approach across three ranges:

- **Sustainability Inside:** the majority of our strategies fall into this category, which includes full ESG integration, proprietary research, exclusions, and voting and engagement.
- **Sustainability Focus:** these strategies have more specific sustainability targets for ESG profiles and seek environmental footprints that are better than their benchmarks.
- **Impact Investing:** these strategies aim to contribute to sustainable themes such as energy or mobility, and/or the UN's Sustainable Development Goals (SDGs).

Assets under management in our Sustainability Inside strategies grew to EUR 132 billion per end 2019, while Sustainability Focus and Impact Investing strategy assets reached EUR 16.5 billion. Net inflows from clients for whom sustainability is deemed to be important in their manager selection criteria increased by 50% between 2018 and 2019. These are encouraging numbers, as in the journey towards more sustainable global markets, the reallocation of assets towards more sustainable strategies will make a difference.

Our investment teams are also continuing to seek ways to show the impact that environmental, social, and governance (ESG) integration has on our investment decision-making and performance, to enable us to prove that it works. For example, during the year we quantified the performance impact of ESG integration in our Global Stars fund, showing that key ESG factors explained about 20% of the fund's outperformance over a 3-year period.

The year also marked the 15th anniversary of the founding of our Active Ownership team, and as can be seen in this extensive report, the drive for using voting and engagement to further the ESG credentials of companies has never been more powerful. As the role of stewardship and what is expected of us by clients grows ever more prominent, we believe strongly in acting as responsible stewards of the assets we manage on behalf of our clients across the globe. We do this in the belief that this adds value for our clients and other stakeholders in the long term.

For Robeco's Active Ownership team, 2019 saw record levels of activity, along with four new engagement themes. We have long believed that to be considered truly sustainable, an asset manager should use its position as a shareholder or bondholder to effect change. Robeco exercised its right to vote at 5,926 shareholder meetings in 2019, and conducted 255 engagement cases with a total of 229 companies worldwide. New engagement themes were started to address single-use plastic, the social impact of artificial intelligence, digital innovation in healthcare, and unsustainable palm oil. Four other engagement themes were completed in 2019: Environmental Challenges in the Oil and Gas Sector, Corporate Governance in Japan, Improving Sustainability in the Meat and Fish Supply Chain, and Tax Accountability.

Discussions with companies on climate change and their efforts to combat global warming by decarbonizing continue to play a major role in our engagement program. Over the course of our theme on Environmental Challenges in the Oil and Gas Sector, we have seen a number of European companies step up their action on climate change. However, progress has not been uniform across the sector, and for this reason we will redouble our efforts in tackling high emitters in our new 2020 engagement theme focused on decarbonization.

Our efforts to stop unsustainable palm oil production literally went into orbit when we partnered with Satelligence, a satellite imagery data company that monitors deforestation and other impacts of land use. The imagery is collected in real time, and allow us to monitor the effects of plantation owners, intermediaries, and other stakeholders throughout the palm oil supply chain. While the concept of engagement remains the same, embracing continual innovation, particularly in addressing topics that are more difficult to assess on the ground, remains vital.

At the same time, new topics have entered the public spotlight. The extensive fires in the Amazon rainforest and across Australia have heightened global concerns around protecting biodiversity, whilst reducing plastic pollution to stop the tsunami of waste entering our oceans is now at the top of the sustainability agenda. Businesses are also beginning to rethink their overall place in society, and the ever clearer need for them to contribute to socioeconomic improvement, alongside the generation of financial returns.

At Robeco, we aim to continue to play our role in ensuring that our investee companies face up to these challenges. That's why we continue to evolve, from the introduction of the UN Sustainable Development Goals as a framework for our engagement activities, to using a spy in the sky to check up on deforestation. We will continue to use ESG integration as the bedrock of our investment processes, and active ownership as the means of making a difference in a rapidly changing world.

As we embark on another year, 2020 has already shown the fragility of human existence, as the coronavirus swept around the world, causing lockdowns in many countries. Time will tell how well humanity will deal with a global health crisis like this. We look forward to serving our clients and stakeholders sustainably in the years to come.

Peter Ferket
Chief Investment Officer
On behalf of the Robeco Executive Committee.

Robeco and RobecoSAM's joint vision

"Safeguarding economic, environmental and social assets is a prerequisite for a healthy economy and the generation of attractive returns in the future. The focus in the investment industry is, therefore, shifting from creating wealth to creating wealth and well-being. We are the leading sustainable asset manager and will continue to improve and innovate."

Our mission

Robeco's mission statement is: 'To enable our clients to achieve their financial and sustainability goals by providing superior investment returns and solutions'. The mission is supported by our key (joint) investment beliefs:

1. As an active asset manager with a long-term investment view, we create added value for our clients.
   a. Our investment strategies are research-driven and executed in a disciplined, risk-controlled way.
   b. Our key research pillars are fundamental research, quantitative research and sustainability research.
   c. We can create socioeconomic benefits in addition to competitive financial returns.
2. ESG integration leads to better-informed investment decisions and better risk-adjusted returns throughout an economic cycle.
   a. Sustainability is a driver of structural change in countries, companies and markets.
   b. Companies with sustainable business practices are more successful.
   c. Active ownership contributes to both investment results and society.

Sustainable Investing in 2019

Robeco and RobecoSAM enjoyed another strong year for their world-leading sustainable investment capabilities in 2019. A new framework was adopted for how we categorize our many SI strategies, climate change was given a bigger focus on risk, and our active ownership efforts increased further. In this review, Head of Sustainability Integration Masja Zandbergen looks back on another great year in 2019, and previews what lies ahead in 2020.

In 2019, we again saw a strong demand for sustainability solutions from clients. We also gathered from talking to our clients that there is still some confusion as to what sustainable investing actually entails, as each asset manager seems to have their own approach. This is why we continue to share our knowledge with our clients and the broader market. We noticed that there is now more and more alignment about the different types of sustainability approaches that investors seek, and so we developed a framework around this. Our sustainability approach is explained in the graphic overleaf.

Material sustainability issues

What is important to note is the fact that the Sustainability Inside range does not have explicit sustainability targets up front. This allows us to create portfolios in which material sustainability issues are taken into consideration, but are not the driving factors for investment. This is reflected in a slightly lower, but above average, Morningstar globe rating. These strategies therefore also do not carry 'sustainability' in the fund name. They are very suitable for a broad range of investors that are starting to become interested in sustainability. The amount of money invested in this category has grown, and now amounts to 86% of the assets that we manage. *Fig.1.*

The Sustainability Focus and Impact Investing strategies do have ESG (or SDG) targets, and this results in portfolios that score more highly on the Morningstar Globe ratings. These strategies are suitable for clients that want to go a step further in sustainability. They carry names that reflect the sustainable character of the funds. This range has also grown substantially in 2019 from EUR 5 billion to EUR 16.5 billion under management. This includes RobecoSAM's assets under management that have doubled in the last five years. This success is also related to the good performance of both ranges, as based on Morningstar's performance ratings, these strategies score quite high on average.

We also see that sustainability in general is becoming even more important to a broad range of our clients. Across both new and existing clients, we see a real increase in interest and knowledge, something which we believe bodes well for the future. For example, net inflows from clients for whom sustainability is deemed to be important in their manager selection criteria increased by 50% between 2018 and 2019.

Sustainability Inside

In 2019, all our investment teams worked to further improve their ESG integration efforts. A few examples are:

- Our credit team formalized its green bond analysis process, which determines the eligibility of green bonds for our investments. This process is one of the first in the market to be aligned with the proposed EU Taxonomy on environmentally sustainable economic activity.
- The Quantitative Equity team now include RobecoSAM's sustainability scores when determining (and tilting to) the quality and income characteristics of companies. This was already in place for all core quant developed market strategies since 2010, and is now applied to all strategies.

We also continuously seek ways to show the impact that ESG integration has on our investment decision-making and performance:

- Our Global Stars Equity team analyzed the attribution of ESG integration into the investment performance from 2017 until 2019, showing that key ESG factors explained about 20% of the fund's outperformance over this time period.
- Our Quant Research team analyzed the impact of integrating RobecoSAM's Country Sustainability Ranking scores into a global government bond portfolio. They concluded that introducing an ESG constraint is partially compensated by a lower tracking error.

Furthermore, in 2019 it was announced that S&P would acquire the Corporate Sustainability Assessment of RobecoSAM. Robeco and RobecoSAM remain focused on conducting research in how to apply ESG data to investment strategies. We have enhanced our research approach in several areas:

Figure 1 | **Robeco's SI Strategies**

Sustainability Inside
The majority of Robeco strategies fall into this category, which includes full ESG intergration based on proprietary research, exclusions, and voting and engagement.
AuM 132 bln EUR
Average Morningstar globes 3.3

For a few strategies ESG integration and engagement is not relevant (i.e. advised, derivatives strategies).
AuM 25 bln EUR

Sustainability Focus
In addition to Sustainability Inside, these strategies have an explicit sustainabilit policy, and targets for ESG profile and environmental footprint that are better than their benchmarks.
AuM 8.2 bln EUR
Average Morninstar globes 4.1

Impact
In addition to Sustainability inside, these strategies aim to contirbute to specific sustainable themes such as energy or mobility, and/or the UN's Sustainable Development Goals
AuM 8.3 bln EUR
Average Morningstar globes 4.0

- For the Country Sustainability Ranking, we have enhanced the set of indicators with new data, in order to ensure adequate coverage of the most relevant ESG aspects. The number of countries covered by the ranking was also increased from 65 to 125.
- Continuing quantitative research efforts on sustainability bore fruit. One prime example is our 'decarbonized value' research, which was implemented into quantitative equity strategies in 2019. We have designed a methodology to improve the environmental footprint of the conventional value factor, thus lowering climate risks without lowering its return premium.

Sustainability Focus

In 2019 we expanded our Sustainability Focus range with a few new fundamental equity strategies: Sustainable Global Stars, Sustainable Emerging Stars and Sustainable Property.[1]

Furthermore, we worked with clients to provide them with solutions to achieve both their financial and sustainability goals (in line with our mission statement). We won a multi-billion euro advisory mandate for a sovereign bond fund, in which the Country Sustainability Ranking scores play an important role in the composition of the portfolio. We also introduced a Sustainable Core European Government Bond fund. This fund has a dedicated sizeable allocation to sovereign and sub-sovereign, supranational and agency (SSA) green bonds, and the country allocation is directly linked to the Country Sustainability Ranking.

Another example of this is a large mandate awarded by a Dutch pension fund for a sustainable enhanced indexing portfolio. Our approach utilizes our factor expertise from a risk management perspective while optimizing the ESG profile of the portfolio, still aiming for benchmark-like returns.

Impact Investing

Under this heading, we put all strategies that invest in companies that we believe can make a positive contribution to sustainable development. As we are active in listed strategies, we do not claim to have the same impact as traditional impact investing strategies. This range contains the thematic and SDG-aligned funds in listed equities and credits. Through this product range, capital is directed to companies that do more good than harm on a number of pre-defined metrics, such as improving food security in emerging markets. All impact strategies are labeled RobecoSAM and come with robust reporting on alignment and impact.

Impact investing assets under management further increased in 2019, reaching EUR 8.3 billion. This product range was boosted when one of the largest financial organizations in Japan gave RobecoSAM a mandate to manage an SDG equities portfolio. In order to maintain an adequate capability to excel in impact investing, RobecoSAM has hired additional analysts to ensure an ongoing understanding of sustainable trends, as well as building a broader coverage of portfolio holdings with integrated investment cases. Furthermore, assets in the SDG credits solution continue to attract large interest from investors around the globe. Multiple SDG credits strategies are available to our clients in European and global investment grade, global high yield and global income strategies. The track record is good, and assets under management are already very sizable.

The PRI assessment: an important yardstick

This year we achieved the highest PRI A+ rating again in almost all categories. The PRI assessment is an important yardstick for us, as it helps us determine where we stand compared to the rest of the market, and also which areas and topics we can improve upon. When we analyzed the results, we saw that only 23% of asset managers actually achieve an A+ score for strategy and governance. And when it comes to implementation of ESG integration and active ownership, only 5% to 10% of managers receive A+ scores. So, we are very proud that since 2014, we have received A+ consistently in the majority of categories for all asset classes and active ownership.

Focus on climate

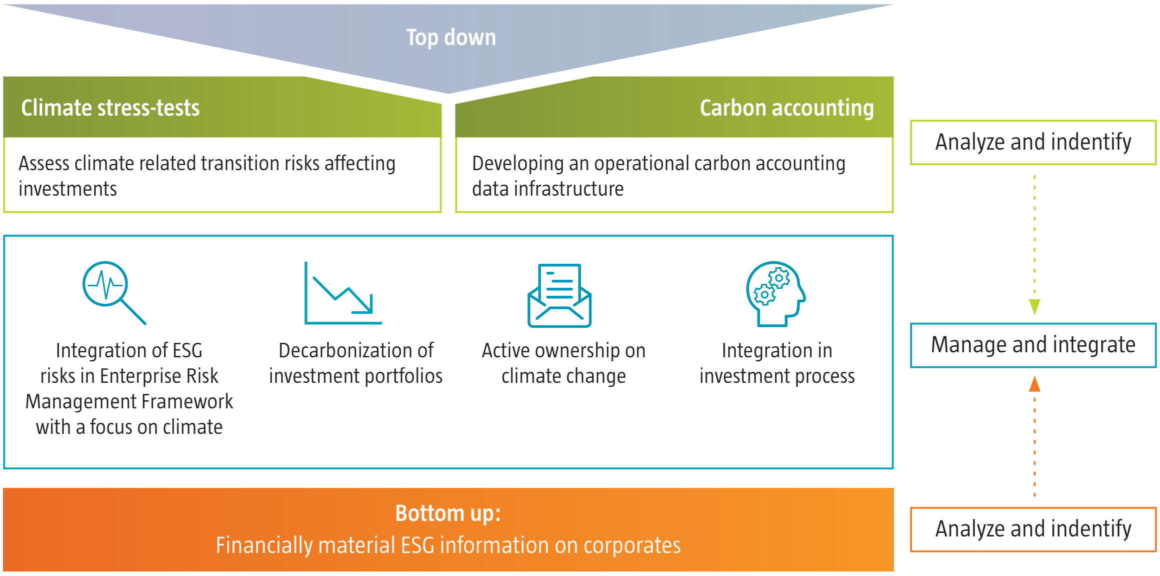
Robeco and RobecoSAM regularly assess the actual and potential impacts of climate-related short, medium and long-term risks and opportunities on our businesses, strategy and financial planning, where such information is material. The climate approach is summarized in the graphic below:

Climate change developments in 2019

- Risk management: Robeco has set up a comprehensive Enterprise Risk Management Framework to look at all relevant financial and non-financial risk, including regulatory risk. Robeco investigates and monitors environmental risks, and climate risks in particular. In this context, the Financial Risk Management department focuses on transition risk by visualizing carbon emissions and designing climate change scenarios in order to monitor the impact on client portfolios, both in equities and fixed income. In 2019, concrete scenarios were calculated. The next step is to include physical risk scores.

[1] Two funds were rebranded after the investment process was aligned with the Sustainability Focus guidelines.

Figure 2 | **Our climate approach**



- Carbon accounting: as a first step in developing an operational carbon accounting data infrastructure, we built a carbon accounting prototype, which calculates carbon intensities and footprints across a variety of metrics. The calculations are based on data for scope 1, 2 and selected scope 3 emissions. These calculations have allowed us to assess and quantify carbon emissions embedded in our investments across all our equity and corporate debt investments.
- Decarbonization process: Robeco and RobecoSAM are committed to achieve the goals of the Paris climate agreement and the Dutch klimaatakkoord. This means that we need to set a portfolio decarbonization pathway. Currently, we are taking action to have the appropriate data and tooling in place going beyond global equity into other asset classes and going beyond scope 1 and 2 emissions, and assess the expected consequences on all our investment strategies.
- Investment process: Robeco and RobecoSAM's investment teams adopt a holistic approach when integrating sustainability into their investment processes. A concrete improvement this year on the climate side was the decarbonized value factor, which is now used for all quantitative investments.

Ahead of the curve – managing market-wide and systemic risk

As investment returns are accompanied by risks, it is important to specifically state a risk appetite for each portfolio. Determining the risk appetite is the joint effort of the portfolio manager (first line), the risk manager (second line), and the client or fund board. Regulatory guidelines, restrictions, and frameworks inform the risk appetite and are translated into Limit and Control Structures, providing the risk context under which portfolio managers and the Head of Investments carry the primary responsibility for portfolio management. Risk Management and Compliance challenge the first line, monitoring and reporting on adherence to the risk appetite.

Market Risk

A key element of Robeco's financial risk framework is Market Risk, the possibility of experiencing a financial loss due to market movements, such as changes in interest rates or equity and commodity prices. For each portfolio, a primary market risk measure and limit serve to align the market risk profile with the market risk appetite. These measures include the Tracking Error, Volatility-ratio, and Duration, reflecting the risk profile in normal market circumstances.

Stress tests help in understanding how portfolios behave under extreme market circumstances. Simple sensitivity tests identify significant isolated risk factors and are complemented by historical and hypothetical scenarios. These scenarios might, for instance, mimic the events of September 11th, 2001 or the Lehman default, but predictive scenarios provide further insight through explicit assumptions on correlations and sizes of market variable shocks. We run several climate (transition risk) scenarios and in addition to this we also perform sensitivity stress tests based on the CO_2 exposure of our portfolios.

The results of these tests are used as input for discussions with portfolio managers on the composition of their portfolios, the portfolio strategies, and their exposure to market-wide risks.

Systemic risks of climate change and their implications

Some of the important systemic risks Robeco has identified are those emanating from climate change. We seek to manage and counter these risks in our products and investment approach, as well as in unison with our peers and other stakeholders.

It is important to see the whole picture for the net contribution a company makes to global warming. "Carbon footprinting is a great place to start, but you have to go deeper and to understand specific companies and their plans for transitioning and mitigating their climate risks," Jacob Messina, Head of Sustainable Investing Research at RobecoSAM says.

"The three areas to look are finding transition risks, transition opportunities, and the physical risks. The challenge here is that it's not a linear process – in our view, we will most likely reach a tipping point where there will be a rapid escalation of different policies and regulations which companies will quickly have to adapt to." "Those that don't keep up will end up with potentially a large amount of stranded assets. We want to ensure that companies are aware of the regulations and have a strategy for future-proofing their businesses."

Spotlight: Mitigating climate change through the SDG lens

One way that investors can help the fight against global warming is by investing in the UN's Sustainable Development Goals, particularly SDG 13 on Climate Action. For example, RobecoSAM's Global SDG Equities strategy systematically screens a diversified group of companies based on their SDG impact scores – including their commitments to decarbonizing – and selects the best ones for the fund.

"For nearly two decades RobecoSAM has been in the business of anticipating significant structural trends that will impact the environment and business models. Climate change is a very powerful and very visible example of one of those trends," says Rainer Baumann, Lead Portfolio Manager for the strategy.

"Our SDG fund invests in companies which are enabling the transition to a low-carbon economy through clean energy solutions as well as in companies helping to reduce carbon emissions through energy-efficient tools, services, and infrastructure. In addition to climate change, the fund provides exposure to all 17 SDGs – all of which are aimed at protecting life, society and the planet."

The RobecoSAM Smart Energy Fund is one of the funds that targets transition opportunities, focusing on four areas: renewable energies, energy distribution, energy management and energy efficiency. The companies in this strategy make significant contributions to the UN's Sustainable Development Goals, particularly SDG 7 (affordable and clean energy) and SDG 9 (industry, innovation and infrastructure).

Asset managers come together under the Dutch Climate Agreement

Robeco works together with industry associations to move forward collectively and share knowledge. In July, the Dutch Fund and Asset Management Association (Dufas), together with other financial sector associations, put its signature under a commitment to actively contribute to the Dutch government's climate goals. In addition to the associations and Robeco, more than fifty financial institutions signed the commitment. The aim of the Climate Agreement is to reduce greenhouse gas emissions by 49% in a cost-effective manner compared to 1990. To this end, the financial sector will draw up action plans and report annually on the climate impact of financing and investments.

Gilbert Van Hassel, CEO of Robeco, explained that the commitment is "an essential starting point, as the financial industry can be an important force for change. Robeco is committed to help achieve the climate objectives and take a leading role in the sector."

Active Ownership

Active ownership is also a key part of Robeco's sustainable investing approach, which we believe contributes both to investment results and society. 2019 was another busy year for the 12-strong team, as we exercised our right to vote at almost 6,000 shareholder meetings, nearly 700 more than last year.

During the year, the team also conducted 255 engagement cases with companies in our clients' portfolios. We started four new engagement themes in addition to those themes already underway, namely single-use plastic, the social impact of artificial intelligence, digital innovation in healthcare, and palm oil. We also completed four engagement themes in 2019: environmental challenges in the oil and gas sector, corporate governance in Japan, improving sustainability in the meat and fish supply chain, and tax accountability.

Engagement with companies on climate change continues to play a major role in our engagement program. Over the course of our theme on environmental challenges in the oil and gas sector, we have seen a number of European companies step up their action on climate change. However, progress has not been uniform across the sector, and for this reason we will redouble our efforts of tackling high emitters in our new 2020 engagement theme focused on decarbonization.

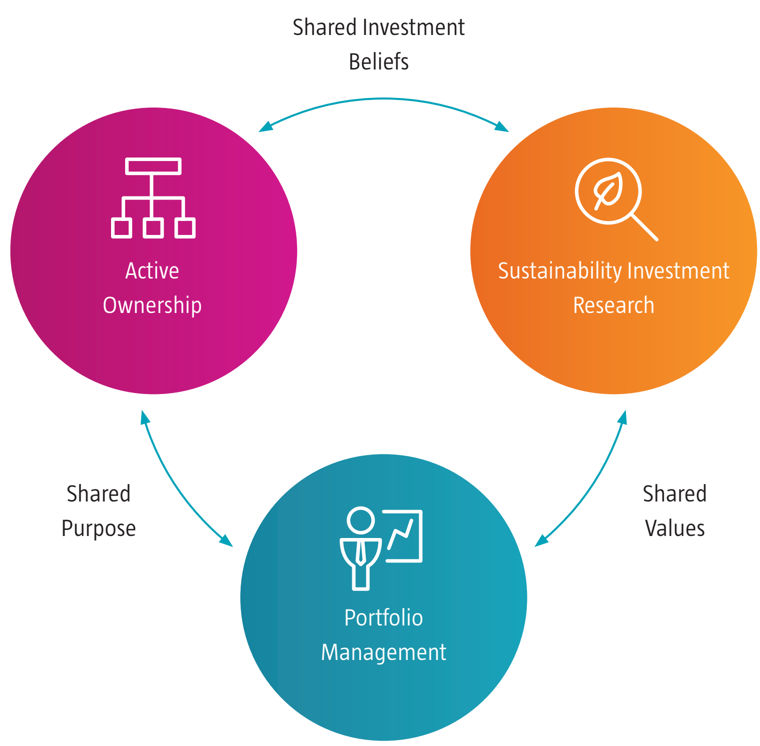
On another note, we have partnered with Satelligence, a satellite imagery data company that monitors deforestation and other impacts of land use. These images will be incorporated into our engagement program focus on palm oil producers. The imagery is collected in real time, and allow us to monitor the effects of plantation owners, intermediaries, and other stakeholders throughout the palm oil supply chain.

Still more work to be done!

The investment industry is stepping up its overall use of sustainability approaches. It is increasing its use of active ownership on social and environmental issues, integrating ESG into more and more asset classes, and developing new sustainable strategies with new labels. Much more scenario analysis is being undertaken to assess carbon risk in portfolios, with more tools being developed to decarbonize portfolios. A positive development.

However, we also need to keep an eye on what this yields in the end in terms of truly sustainable development. Are we indeed lowering carbon emissions in the real world? Are we contributing to achieving the Sustainable Development Goals? And last but not least, what are the financial returns of all of these new strategies? This will be a focus area for us the coming years. Is ESG integration helping returns? What is the real life impact of our thematic and SDG funds? And if we are selling our controversial holdings, who is buying them, and what happens then? A lot of work still needs to be done by the financial industry to show the actual outcomes of all of the efforts that are being taken towards sustainable investing.

Figure 3 | **Robeco's Integrated Sustainability Framework**



Robeco's Approach to Stewardship

Carrying out stewardship responsibilities is an integral part of Robeco's Sustainable Investing approach. Robeco's Head of Active Ownership, Carola van Lamoen, outlines the framework behind our global program.

Even though assets are managed with different strategies and investment objectives to fit clients' needs, there is a companywide philosophy that companies (and countries) that act in a sustainable way towards the environment, society and all its stakeholders are likely to be more able to deal with a variety of issues in the future of their business or endeavors. As an asset manager we give shape to this philosophy via a set of policies that ensure our adherence to our stewardship responsibilities. These policies are documents outlining and guiding our behavior on ESG integration, Voting, Engagement with investee companies, and Exclusions, as well as our Code of Conduct.

At Robeco, we believe that engagement and voting are critical elements of a successful Sustainable Investing strategy and can improve a portfolio's risk-return profile. We target a relevant subset of companies globally in our clients' equity and credit portfolios for a constructive dialogue on environmental, social and governance factors.

We distinguish two types of engagement:

- **Value engagement** is a proactive approach focusing on financially material sustainability themes which have the most potential to create value for shareholders. The focus is on long-term, financially material ESG factors that can affect companies' ability to create value. Achieving impact on the UN Sustainable Development Goals is also an important consideration in our value engagement approach.

- **Enhanced engagement** focuses on companies involved in controversial behavior. This includes companies that severely and structurally breach principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption, and/or the OECD Guidelines for Multinational Enterprises. In case the engagement is unsuccessful, the respective company will become candidate for exclusion from the investment universe of Robeco.

Meet Robeco's Active Ownership Team

Robeco's Active Ownership team is responsible for all engagement and voting activities undertaken by Robeco, on behalf of our clients. This team was established as a centralized competence center in 2005 and consists of 12 qualified voting and engagement professionals based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate.

The division of work within the team of analysts is based on the three ESG components: Environmental, Social and Governance. Robeco's Hong Kong based governance engagement specialist is responsible for local market engagement, where we have found that having resources based locally leads to a greater level of corporate access and engagement success.

The Active Ownership team is part of Robeco's Investment Division, and is headed by Carola van Lamoen, who reports directly to the Executive Committee.

Building on our founding philosophy that every investment strategy should be research driven, we undertake extensive research for every engagement we undertake, always focusing on the most material ESG factors which drive long term company performance. We do this in the belief that engagement with companies in which we and our clients invest will have a positive impact on both long term investment results and on society.

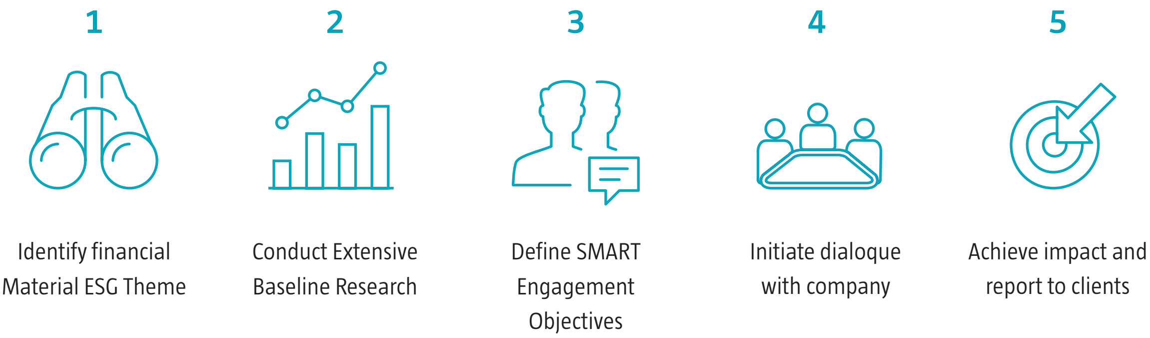
For both types of engagement, we establish specific, measurable objectives. Our engagements typically run over a three-year period, during which we have regular contact with company representatives. We track progress against the engagement objectives set.

Our engagement approach is built on three building blocks:

1 The extensive engagement track record of Active Ownership team;
2 RobecoSAM's sustainability expertise;
3 Robeco's asset management capabilities.

This integrated approach, focused on knowledge sharing and leveraging

Figure 4 | **Robeco's five steps for SMART engagement**



EUR 316 Billion
Assets under engagement

255
Number of engagement cases

229
Number of companies engaged

58%
Number of cases closed successfully

22
Number of engagement themes

EUR 91 Billion
Assets under voting

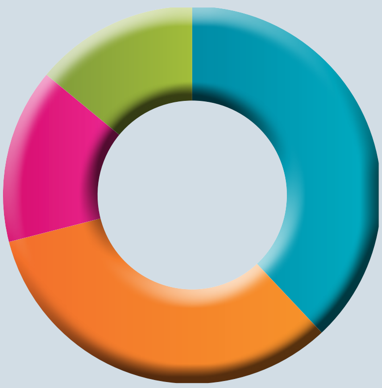
5,962
Number of shareholder meetings voted

73
Number of markets voted

59%
% Meetings with votes against management

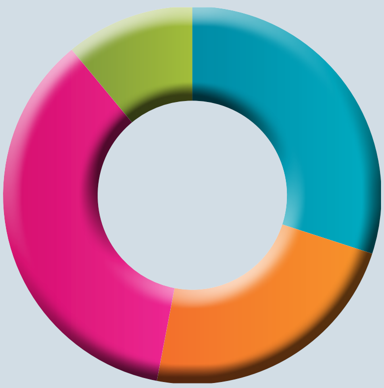
63,196
Number of proposals voted on

Engagement activities by region



North America	41%
Europe	31%
Emerging Markets	13%
Pacific	15%

Shareholder meetings voted by region



North America	29%
Europe	23%
Emerging Markets	37%
Pacific	11%

our financial and sustainable investing expertise, places us in a unique position within the asset management field.

The Active Ownership team selects new engagement themes every year in a structured way, in close consultation with clients and Robeco's investment teams. The themes always focus on financially material topics that address environmental, social and governance (ESG) issues in a variety of investable arenas. The analysis of materiality is conducted by RobecoSAM's Sustainable Investing Research team. Each theme focuses on 10-15 companies, and typically runs over a three-year period during which our engagement specialists have regular contact with company representatives to discuss sustainability risks and opportunities. Sectors and client holdings are an important input in the selection of companies under engagement. Another informative strategy to ensure relevant engagement case selection is through our work together with other institutional investors in joint initiatives, such as Climate Action 100+.

The role of our clients

We actively gather input from our clients on a structural basis to ensure the engagement themes we design are relevant for our clients and their beneficiaries. To ensure that our active ownership activities keep pace with the sometimes changing requirements of our clients, and therefore remain relevant to them on an ongoing basis, we utilize an annual client panel as part of our engagement theme select process.

During the panel, a long list of potential engagement themes is presented, along with a high level engagement plan. The client panel plays a central role in setting our engagement agenda. An additional key input in the generation of the long list is the feedback of clients received during the year in individual client meetings. Client feedback is therefore actively sought at multiple points during the process.

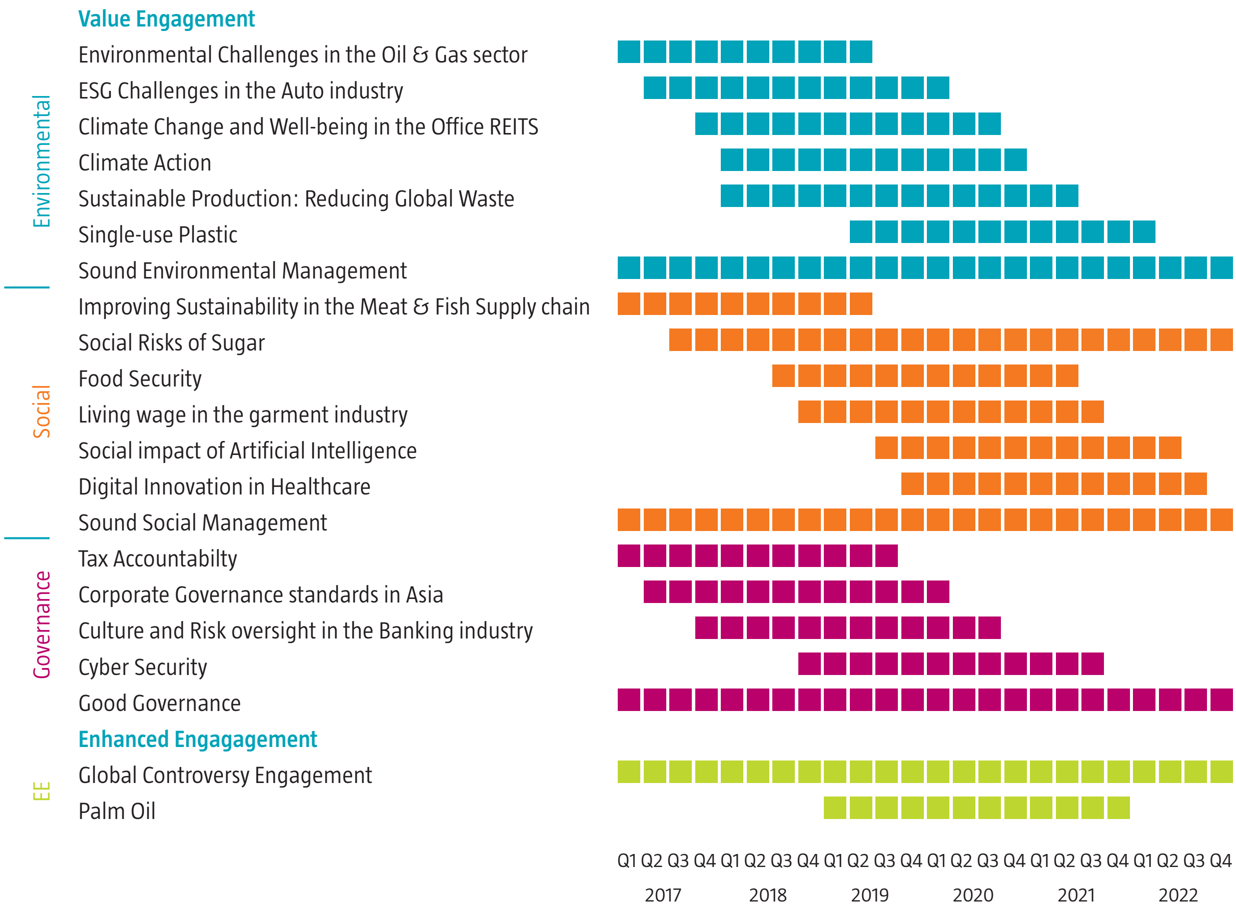
In addition, twice a year, Robeco organizes a client event, to share insights on our recent activities. During this event, we give more insight in the engagement process, share the results of ongoing or closed engagement themes and provide updates on new sustainability trends. The allow us to gain further input from clients on the current engagements we undertake on their behalf.

On a quarterly basis, we select cases for enhanced engagement. We screen news flows for breaches of the UN Global Compact principles and OECD Guidelines for Multinational Enterprises. These principles cover a broad variety of basic corporate behavior norms around Environmental, Social and Governance topics. Our portfolio holdings (and more broadly our investment universe) are screened on 1) validation of a breach of the

Figure 5 | **New Engagement Themes in 2019**

	Theme	Purpose
Environmental Engagement	Single Use Plastic	We aim to move companies towards a circular economy model, focusing on innovation.
Social Engagement	Social Impact of AI	The main aim of this engagement is to safeguard human rights in relation to the application of AI.
Social Engagement	Digital Innovation in Healthcare	We aim to lower spiraling medical costs through digital innovation, as well as combatting aggressive drug pricing.
Enhanced Engagement	Palm Oil	We focus on challenges in the palm oil industry, including deforestation, carbon, and labor standards.

Figure 6 | **Active Engagement Themes in 2019**



UN Global compact principles, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue.

Objectives are set at the beginning of the engagement process. This forms a key part of the engagement theme research stage, and ensures that we begin engagement with a thorough understanding of the materiality of the ESG issue in question, the company's current performance on and exposure to the issue, and their baseline performance on the engagement objectives set. Each time we are in contact with a company, we discuss the progress towards the objectives.

Throughout our engagement across themes, the outcomes are shared with our investment teams and our clients, which contributes to better-informed investment decisions.

Effective engagement channels

Engagements usually start by explaining our engagement objectives to a company's Investor Relations department via e-mail, letter or phone call, followed by conference calls or meetings with technical experts. Examples of such experts are the Head of Risk Management, Head of Sustainability, Head of Supply Chain Management and wide variety of operational experts. Senior management or non-executive board members may also be involved in our discussions.

In 2019, the vast majority of our engagement cases involved written company contact, as well as meetings or calls with IR and technical experts. In addition, we regularly held discussions with executives and boards. Robeco's Active Ownership team also visted company operations, attended several AGMs, and participated in roadshows in the past year, though these were less frequent occurences.

Spotlight: Palm Oil engagement objective

Robeco's Palm Oil Policy clearly sets out the central SMART objective for the Palm Oil enhanced engagement program: we expect palm oil producers to reach 50% of land that is Roundtable for Sustainable Palm Oil (RSPO) certified, and to have a time-bound plan for achieving 100% certification within 5 years.

When and how we escalate

We believe that a constructive dialogue with the companies in which we and our clients invest is more effective than excluding companies from our investment universe. If enhanced engagement does not lead to the desired change, Robeco or our clients can decide to exclude a company from its investment universe. Robeco considers exclusions from the investment universe to be an action of last resort, applicable only after engagement, our first and preferred option, has been undertaken. However, there are instances where escalation may be necessary.

Using enhanced engagement, we escalate our dialogue with companies on specific topics. Enhanced engagement follows a breach of minimal norms of behavior and can finally be escalated with an exclusion from the investment universe of a company that does not improve its ESG behavior after the engagement has concluded. In both value and enhanced engagements, a lack of responsiveness by the company can be addressed by seeking collective engagement, attending a shareholder meeting in person, or sharing written concerns with the board, and can lead to adverse proxy voting instructions on related agenda items at a shareholder meeting.

Our enhanced engagement program does not differentiate between investment styles or asset classes and is aimed to set minimal norms for expected behavior in relation to the UN Global Compact and OECD Guidelines for Multinational Enterprises.

As an investor we have several rights that can be used for stewardship purposes. The right to voting and to engagement are preferred options for our activities. Other rights such as the right to file a shareholder resolution, to nominate a director, or to take legal action, are considered in the context of our engagement and only used in a secondary or escalated stage of the engagement.

Case Studies: Outcomes of escalation in 2019

In 2016, we identified a breach of the UN Global Compact by a US utility company due to a significant methane leak at its natural gas storage facility. Over the following three years, we conducted enhanced engagement focused on eliminating the breach, improving policy and risk management systems, as well as ensuring transparent stakeholder dialogue. Through conference calls with senior executives and by supporting shareholder resolutions at the AGM, we communicated our concerns clearly to the company. An important expectation was the publication of an independent root cause report explaining the failings leading to the incident. Following the publication of the report and evidence of necessary improvements and remediation, we closed the case successfully.

But not all escalated engagements prove effective. Unsuccessful cases form the basis for our exclusion process on the grounds of controversial behavior. In early 2019, we excluded a UK security company after three years of enhanced engagement due to violations of the human rights principles of the UN Global Compact. Targeting the same objectives as in the case of the US utility, we saw some measures to avoid breaches in future. However, in light of repeated incidents towards the end of the engagement period, there was clear evidence that the company's processes and monitoring had not improved sufficiently.

Transparent policy framework

The policy framework guiding Robeco's stewardship activities is publicly available via our website. Our overarching Stewardship Policy covers our approach towards transparency in our stewardship activities, our policy for managing conflict of interests and ethical conduct, how we monitor investee companies, and the verification of our stewardship procedures and activities. These approaches are fleshed out further in our Engagement Policy, Proxy Voting Policy, Exclusion Policy, amongst others.

Robeco's Engagement Policy provides further information on what we expect from investee companies, how we engage with companies, and how we communicate on our progress. Meanwhile, the Proxy Voting Policy sets out guidelines that ensure we vote proxies in the best interests of our clients. These guidelines apply to all proxies voted on behalf of Robeco funds and the majority of discretionary mandates. For some mandates, we implement a client's own voting policy.

Key updates during the past year

Our stewardship policy framework, including all individual policies on engagement, proxy voting, and exclusion, is subject to a formalized annual review process. The aim is to evaluate whether our policies continue to meet best practice in the industry and reflect our internal processes accurately. The Active Ownership team carries out the review, monitoring any updates to signed stewardship codes or SI-related memberships that may imply certain commitments. In 2019, the Financial Reporting Council (FRC) updated the UK Stewardship Code, with limited impact on our SI policies, but significant implications for our disclosure on stewardship as encompassed in this report.

The SISC verifies whether proposed updates to policies and reporting fully meet Robeco's stewardship responsibilities as signatory or member of codes and initiatives, and the Compliance department is informed of the results of the annual update cycle. The SISC formally approves the changes to be implemented.

In 2019, we made several changes to our policies, and introduced a new Palm Oil Policy. Updates focused on improving transparency on our expectations regarding specific ESG issues and the international norms that we hold companies accountable to. In particular, we:

- Updated several policies to solidify the requirement for all corporates to uphold the standards set by the OECD Guidelines for Multinational Enterprises;
- Set out our position on several ESG topics, such as unsustainable palm oil production, company adherence to anti-corruption laws, and accountable tax practices;
- Made our proxy voting guidelines more concrete on board gender diversity and unacceptable remuneration practices, and provided more narrative on our assessment of ESG-related proposals at AGMs;
- Clarified under which circumstances we participate in public policy engagement to ensure transparency.

We believe these amendments have further improved external stakeholders' ability to understand Robeco's stewardship approaches and how they have been put into practice. In 2020, we expect a consolidation of policy documents to allow stakeholders to follow our approach across stewardship topics more easily. Updates in the coming year will also seek to ensure compliance with upcoming EU legislation.

The specifics of stewardship in fixed income

Robeco's active ownership program spans across several asset classes, and in some circumstances, engagement approaches may differ for equity and fixed income portfolios. As stated in our Engagement Policy, engagements for credit portfolios are likely to be focused on down side ESG risks whereas engagements for equity portfolios are more likely to focus on both ESG risks and opportunities and shareholder rights. An example of this differing approach in the past year has been our engagement with banks on culture and incentives. With strong interest in the topic from Robeco's fixed income team, and myriad examples of misconduct in the sector in recent history, an area of emphasis in the engagement has been gauging levels of risk from improperly incentivized management or sales personnel.

Even though proxy voting is a more widely recognized form of stewardship, Robeco is also active in exercising our rights and responsibilities that result from holding fixed income assets.

As a global asset manager, we are familiar with the systemic difficulties in seeking amendments to terms and conditions in indentures or contracts. The lack of an organized and efficient channel to structurally engage issuers on these topics has led to the creation of the European Leveraged Finance Association (ELFA) in 2019. Robeco holds a seat on ELFA's board, and is actively involved in setting the agenda for improved market transparency in the high yield and leveraged finance market. The aim is to organize buy-side parties to ensure we can make use of our rights.

Besides working with our peers to work towards a better functioning bond market, our day-to-day processes incorporate the need for close scrutiny of prospectuses and covenants. All fixed income analysts are trained in reading and interpreting covenant language, with senior analysts directly responsible for analyzing terms and conditions of transactions. Building expertise in this field is vital, and Robeco organizes regular trainings for analysts conducted by external experts from ratings agencies and law firms.

Robeco carefully evaluates the terms of any potential transaction. In addition to our in house legal expertise, we retain an external legal advisory firm for in-depth analysis where needed. Our one-on-one relationship with specialized lawyers gives us full access to their thorough analysis on weaknesses and strengths of proposed terms. Their recommendations provide a useful input for our assessment.

In 2019, in the normal course of the Active Ownership team's stewardship activities, some potential conflicts of interest were identified and managed according to the stewardship policy. These involved executing proxy votes at the AGMs of (prospective) clients or affiliates of Robeco. In order to avoid the potential conflict of interests involved in electing directors on the board of Orix Corporation, Robeco's mother company, we refrained from voting at the Orix Corporation AGM on behalf of Robeco's and our clients' shares.

When voting against a key agenda item at the AGM of a Robeco client in 2019, the Active Ownership team followed its standard proxy voting policy and process. In line with our stewardship policy, the compliance department was consulted ahead of the decision, and Robeco's executive committee and our clients were informed.

In order to ensure ethical conduct in our engagement with companies, Robeco also follows a clearly defined

Building confidence through our audit framework

Robeco's active ownership activities are audited on a regular basis. Robeco's external auditor audits our active ownership controls on an annual basis. During this process, it is assessed whether these processes are robust enough to mitigate potential risks. This audit is part of the annual ISAE control. In addition, our internal audit department audits the quality of the active ownership processes (including voting processes, engagement processes and the exclusion policy) at least every three years.

Robeco participates in several governance and sustainability related investor platforms such as the UN Principles for Responsible Investing (PRI), the Asian Corporate Governance Association, the Dutch corporate governance platform and many others. Several of these organizations monitor our compliance to their principles or require Robeco to report on the implementation of their active ownership principles.

In addition, Robeco's and RobecoSAM's PRI assessments are subject to an internal audit each year, a leading practice amongst PRI signatories.

Managing conflicts of interest

Robeco's Stewardship Policy outlines our approach to identifying and managing conflicts of interest. The approach is based on Robeco's Conflict of Interest procedure.

process if material non-public information is obtained. For instance, members of our Active Ownership team who were involved in the process of nominating board directors at an Italian company followed our stewardship policy to avoid dissemination or abuse of non-public information. Robeco's compliance department was informed, which established a Chinese wall around these individuals and issued a trading block for the relevant securities.

Data providers that support smart stewardship choices

Our Active Ownership team acts as Robeco's in house competence center on stewardship in the form of voting and engagement. In carrying out our responsibilities to meet clients' stewardship needs, we take into account information received from various service providers. We work closely with our sustainable investing affiliate RobecoSAM for analysis and data, such as the innovative SDG Impact Framework.

In most instances, externally sourced data is only used as a starting point for further analysis within Robeco's investment and Active Ownership teams. This is the case, for example, for research and voting recommendations provided by our proxy voting advisor, Glass Lewis. Robeco has implemented a custom voting policy that drives recommendations in line with the guidelines set out in our Proxy Voting Policy. In 2019, Robeco's voting analysts carried out an additional in-depth assessment for around 60% of all meetings at which we cast our vote.

Following RobecoSAM's sale of the SAM ESG Ratings and ESG Benchmarking business in late 2019, the data from the SAM Corporate Sustainability Assessment (CSA) continues to be an important input in Robeco's investment strategies. Robeco maintains a voice in the further development of the CSA methodology, ensuring that the data we use will continue to meet our high standards by supporting good stewardship and investment decisions.

These high expectations are also embedded in our approach to monitoring our proxy voting advisor. Glass Lewis was selected to provide proxy voting services after a thorough benchmarking and RFP process that included the three major providers of proxy voting services. We perform annual due diligence to ensure operational integrity, quality of research and implementation of both Robeco's custom voting policy and our clients' voting policies.

Transparency towards our clients and the public

Transparency is a key element of Robeco's Active Ownership activities. Robeco's sustainable investing efforts including status updates on voting and engagement are reported publicly on a quarterly and annual basis. Robeco's voting decisions are disclosed on an ongoing basis on our website. With these reports, stakeholders are informed periodically on how Robeco meets its stewardship responsibilities.

Depending on each client's individual requirements, Robeco shares a wide variety of stewardship-related reporting. This includes reports which can be publicly shared with clients' individual beneficiaries, as well as more detailed reporting on individual engagement cases. With this information, we support our clients in fulfilling their stewardship disclosure requirements through various channels.

Engagement: Climate Change

Climate change remains one of the defining issues of our time, posing serious risks to the stability of the global economy and impacting many economic sectors. Replacing fossil fuels with clean energy is a key element in limiting climate change, but changes must also be driven by other sectors from the move towards electrification in the automotive sector, to 'greener' buildings. Robeco's environmental engagement specialists Cristina Cedillo and Sylvia van Waveren outline our climate focused activities in the last year.

Oil & Gas

Robeco has engaged with companies in the oil and gas sector since 2016. In that time, we have seen fundamental changes taking place, as companies grapple with the shifting future of their industry. The economics are clear, with the business model of oil and gas companies being eroded by rising capital intensity and diminishing returns. This effect is amplified by technology dynamics such as the rise of renewable energy, the benefits of energy storage, and the potential of electrified transportation. At the same time, the threat of tighter environmental and climate change legislation on a global, regional and national level is looming in the background.

The key aim of our engagement has been to prompt companies to keep pace with the energy transition, encouraging companies to implement a future-proof business strategy, striving for operational carbon efficiency, assessing asset portfolio resilience, and working on product stewardship.

While operational (scope 1 & 2) emissions represent a small fraction of the greenhouse gases linked to used products, a tremendous effort has been undertaken to reduce these. Companies have improved their energy efficiency, reduced their methane emissions, and eliminated almost all routine flaring emissions. Exiting highly carbon-intensive production arenas such as oil sands by some companies under engagement also illustrates this positive development in the sector.

Many companies are already investing in low-carbon assets and embracing innovative technologies, with a wave of new energy investments in the sector such as an increase in the sales of biofuels and the development of negative emissions, including natural sinks such as (re)forestation. Companies have been spreading

their investments across various technologies, looking to capture the upside potential. Different strategies exist, with some companies developing in-house capabilities, and others using M&A to quickly establish a market presence.

Planning for Tomorrow, Today

The shift from producing oil to natural gas is expected to continue, as production forecasts for 2022 show companies increasing the share of natural gas in their portfolios by roughly 14% to 55%. We have also witnessed an increase in refining crude oil and gas into petrochemicals, and an expansion downstream into gas and supplying power to the retail market, including through the use of renewables.

Many companies are increasingly thinking of the long-term, with some even going so far as to set reduction targets for product emissions. Despite this positive development, we also notice that some companies are deploying a 'last-one standing strategy', in which they resist the energy transition. In this scenario, we need to be conscious that not all companies can claim to be the 'last one'.

Looking back on three years of engagement

Our engagements with the oil and gas companies have in general led to some successful outcomes. Of the 11 companies within the peer group, we have been able to close seven successfully, based on their progress on the underlying objectives set at the beginning of the program. For three of the companies, regrettably we were unable to make sufficient progress, due to their lack of ambition in their climate change strategies and management, and therefore closed these engagements unsuccessfully. For the remaining company, we believe that while it has not made sufficient progress for the engagement to be closed successfully, its trajectory is positive, and therefore we can report that positive progress has been made.

There is a marked difference in preparedness for a low-carbon energy transition between companies in Europe versus the US and the rest of the world. The European companies are better engaged with the transition and are more successfully taking the necessary steps to limit their exposure to climate risks than companies elsewhere. This could be a timing effect, with European companies responding earlier to normative pressure and regional economic incentives. All our engagements with European companies were successfully closed.

Auto Sector

As greenhouse gas emissions from the transport sector continue to rise in US and European markets, policymakers are setting increasingly stringent fuel economy and fleet emissions standards. The past year has been an important period in creating the regulatory framework that will shape the industry's technology development for the next decade.

Investor Spotlight - Chris Berkouwer: Portfolio manager, Global Equity

As investors, we need to know how oil and gas companies will deal with these changes in their industry, how they will address the huge risks, and how they plan to profit from the opportunities that arise. This will allow us to pick the winners of this transformation.

It's unlikely that the world can completely shy away from fossil fuels in just a few years. There are still too many pockets of the economy where substitution to bio-based alternatives or renewables cannot yet be made, or is prohibitively expensive. In the meantime, the higher profit returns from conventional fuels will provide energy companies with the firepower to fund the re-direction to a low-carbon future.

Engaging with oil and gas companies help to craft their future strategic direction to a low-carbon economy. We should not forget that these companies often have the means, both cash flow wise and technologically-wise, to provide solutions to the climate problem. The creative destruction and re-inventing capabilities of energy companies is often underestimated, but herein lies the key to keep them onboard in our fight against climate change. Our engagements efforts to, tie long-term climate ambitions to short-term incentive structures, for example, is an important first step in the right direction.

In March 2019, the EU set a target to reduce the average CO2 emissions from new cars by 15% in 2025 and by 37.5% in 2030, both relative to a 2021 baseline. Attaining these standards can only be achieved through a significant introduction of electrified vehicles (EVs) – accounting for about a third of new car sales by 2030.

Meanwhile, in the US, the appetite for mitigating fleet emissions is waning. In August 2018, regulators announced that they would abandon the long-term fuel economy standards for passenger cars and light trucks developed by the Obama Administration for 2022-2025, declaring that they are "too high". The US Environmental Protection Agency is also seeking to revoke a waiver that allows California to set vehicle emissions standards and sales quotas on zero-emission vehicles that each automaker must comply with in California and 13 other states.

These developments illustrate the challenging and inconsistent regulatory environment that automakers are facing across key markets. Despite the Paris Agreement's ambition of limiting global warming to well-below 2°C above pre-industrial levels, the policies pursued in the EU and the US clearly show contrasting levels of commitment. Yet, both regulatory developments have in common an underlying phenomenon – corporate lobbying.

So far, our dialogue with the companies has provided little evidence that there is adequate oversight by the board on the policy positioning that they are advocating for directly and indirectly via industry associations. We have also consistently heard from carmakers that consumer demand for EVs is one of the biggest challenges to meet more stringent fleet emissions standards and to accelerate the electrification of their fleets.

The challenge of balancing emissions

Carmakers have tough choices to make to meet both tougher regulation and shifting consumer preferences towards larger vehicles like SUVs, which are less fuel efficient. Decarbonizing their fleets will come at a cost, with estimated technology costs of EUR 3,000 per vehicle. To comply with European fleet emissions standards, carmakers are challenged to reach a level where EVs account for approximately 20-30% of sales. These projections, however, are still far from achieving the emissions reductions needed to limit global warming to well below 2°C. The industry should therefore be prepared for persisting – if not increasing – climate policy pressure.

Robeco joined a campaign led by the Church of England Pensions Board and Swedish pension fund AP7 that aims to address the perceived inconsistencies in climate lobbying in the auto industry. We ask corporate boards to assess their memberships and act to reconcile identified misalignments. In addition, Robeco co-filed a shareholder resolution at the annual general meeting of Ford in 2019 that asked for disclosures on company policies and procedures governing lobbying, the payments used for lobbying, and the management's decision-making process and the board's oversight for making such payments. The resolution received support from 16.5% of the votes, sending a clear signal to the company to act. Ford's stance on climate policies has significantly improved, as evidenced by its leadership in striking a deal with California on new fuel economy standards.

The coming decade will be critical for the auto industry. Although the direction of travel is clearly pointing at the full decarbonization of passenger vehicles, there is still uncertainty around the speed of change, technological development, and the carmakers' ability to weather the fundamental transformation that needs to take place. In our engagement, we will continue to encourage companies to assess how the energy transition will affect their business, incorporate in their strategies a long-term ambition to decarbonize their operations and fleets, and detail how exactly they plan to meet such ambitions.

Climate change and well-being in the office real estate industry

The real estate sector is a major contributor to global warming, as it is responsible for more than 30% of the annual global emissions of carbon and other greenhouse gasses. To tackle this issue, we have focused our engagement in this sector on the Real Estate Investment Trusts (REITs) for office buildings since 2017.

The research underpinning this engagement program comes from the Global Real Estate Sustainability Benchmark (GRESB). The GRESB is an industry-driven organization committed to assessing the sustainability performance of real estate assets around the world. In 2019, more than 1,000 property companies and real estate funds representing over USD 4.5 trillion in assets completed the GRESB Real Estate Assessment.

Relevance for investors

Having green and healthy office buildings can bring about various economic benefits for real estate companies. First, the proactive management of buildings' environmental performance through energy-efficient measures that reduce

Investor Spotlight - Evert Giesen: Credits Analyst

In the last few years we have seen most traditional car manufacturers announcing large EV model programs. In 2018 and early 2019, we saw the first models coming to the market, but most product introductions will be later in 2020 and 2021. The first model introductions show that the traditional original equipment makers (OEMs) have the capability to manufacture EVs.

To reach the 2021 EU emission targets, a small number of EV sales will probably be sufficient. For the more ambitious 2025 and 2030 targets, EV sales need to increase a lot. This will require substantial investments from the car manufacturers to meet this production. It also remains questionable whether production costs of EVs will decline enough to attract consumers without fiscal incentives. In addition, it will be a challenge to produce EVs at similar profit margins to combustion engines. The transformation to EVs will be a challenge for the industry and a drag on profitability in the coming years.

We don't think that new entrants will be able to grab a big share of the EV car market. As recent examples have shown, it can be a big struggle for new entrants to produce them in high volumes. New entrants will also face the same production cost hurdles as existing players. In addition, they need to build up a production footprint, build a dealer network, and gain expertise in high volume production. We expect that the traditional auto OEMs will largely maintain their market share.

Given the high value of required investments, and the expected low profitability of EVs, we prefer larger players that have sound profitability. For some smaller players, the required investments could be too big.

carbon emissions leads to lower energy costs. Second, they can charge premium rents for environmentally-friendly, healthy buildings because of these lower energy costs, and the increased productivity of happier and healthier employees. Third, it is also easier to market and lease out such buildings, as their occupancy rates are higher on average. Fourth, a climate change strategy reduces the risk related to the potential implementation of stricter environmental legislation by governments or local authorities.

Companies show progress under our five engagement objectives

As investors, we value those companies that integrate sustainability into their business models to ensure the long-term value creation of the properties in their portfolios. With that in mind, we have defined the following five engagement objectives:
Climate change management, License to operate, Environmental management systems, Reducing energy consumption and carbon emissions, and Health and well-being.

During our engagement, we learned that most companies increased their building certifications for their offices, both at the time of construction and after it became operational. Some companies even started using energy efficiency benchmarking for energy ratings in their buildings. We regard these developments as very encouraging.

Our next engagement steps

We will continue to engage with the companies in the last year of the engagement period. We will push a bit further on the steps that the companies need to take in relation to company-wide greenhouse gas reduction goals. We need to better understand how close they are to reaching their rather ambitious goals. We strongly feel that this engagement theme will come to a successful ending because these real estate companies are progressing very positively.

Collaborating to expand our analytical toolbox

The Transition Pathway Initiative (TPI) was launched by the UK Environment Agency and the Church of England in 2017 to assess the preparedness of high-carbon producers – including the automakers – for moving to a low-carbon economy. It is backed by asset owners and asset managers, including Robeco, which helps to fund its research.

"There is still a lot that carmakers need to figure out in the short term, but overall the direction of travel is certainly towards a low-carbon world, to which carmakers have to adapt," says Engagement Specialist Cristina Cedillo Torres, who is working with TPI on this project.

"According to the latest TPI report, 'Management quality and carbon performance of transport companies', the quality of governance around climate-related issues among carmakers is improving. This signals an increased level of awareness and responsiveness to climate-related issues in corporate boards. However, the research also finds that only two out of 22 (9%) companies assessed have set emissions reduction targets that are aligned with low-carbon scenarios by 2030."

A major contributor to warming

"They are one of the sectors that are most under the eye of the regulator; the transition to building lower-emissions vehicles is mostly regulatory driven. The transportation sector is a major contributor to global warming – passenger vehicles account for about 7% of global CO2 emissions (12% in the EU), and about 45% of world oil demand."

"For regulators who want to tackle climate change – plus other issues such as air pollution, traffic and road safety – this is therefore one of the key sectors that needs to be addressed. This is not only from the emissions perspective, but also from an overall mobility perspective on how people can go from A to B in a way that is less impactful to the environment and to society."

"Carmakers have to take that into account in their business models, where they need to not only work on cars that are lower in emissions, but also on other trends in the industry and wider society."

Some successes already

The engagement work is already seeing some successes. "We had a few breakthroughs earlier this year," says Cedillo Torres. "Two major carmakers have set a long-term ambition of achieving net zero emissions by 2039 and 2040 respectively."

"One of them went as far as to bet on a single drivetrain technology – the only carmaker so far to have done that. There are many different technologies, such as hybrid, plug-in, fuel cell and battery electric, but in order to be successful, you need to be able to focus your capital. This company has chosen to focus on battery electric vehicles and has committed substantial capital expenditure to this technology over the next few years."

Scaling up on Climate Change

With the publication of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations in 2017, a framework was set by the international

Understanding climate change risk in portfolios

Creating portfolios that are resilient to climate change is not just an issue of decarbonizing, says RobecoSAM's Jacob Messina, Head of Sustainable Investing Research at RobecoSAM.

Investors need to take a more rounded view of the threat that global warming poses to companies, including assessing indirect 'scope 3' emissions that are currently under-reported, he told delegates at the fourth annual Sustainable Investment Forum that Robeco co-hosted with Allianz Global Investors in Brussels.

"Decarbonization is just a proxy – it's a starting point," says Messina. "For an asset manager selecting securities, the footprint of the portfolio does not indicate the actual risks of those holdings."

"Understanding the company-specific risks and opportunities, including the transition risks, are essential to understanding what the company will look like in 10-20 years from now. And opportunities abound – it's not all doom and gloom."

Finding the data...

RobecoSAM uses its proprietary Environmental Impact Monitoring Tool and a broad range of company data sets to assess the climate change resilience of companies, among other sustainability issues. Key factors researched are reporting levels of emissions and the company's internal price for carbon.

It's also not just about emissions of greenhouse gases (GHG) such as carbon dioxide which is blamed for global warming. "Looking across the whole supply chain, water-related risks will become increasingly important, and there are any number of other industry-specific questions such as fuel efficiency for airlines or auto companies," Messina says.

"The Environmental Impact Monitoring Tool looks at four things when assessing stocks: GHG emissions, energy consumption, water use and waste generation. The aim in our sustainability focused strategies is for the resulting portfolio to have an environmental footprint that is at least 20% better than the benchmark."

... and extending its scope

Levels of emissions are also not just those belching out of a factory chimney. They now fall into three categories, known as scope 1, 2 and 3. Scope 1 emissions are those made directly by the company, while scope 2 are those that accrue from the generation of the electricity that was used to create its products.

Scope 3 emissions are all indirect emissions that occur in the value chain; these can be produced upstream from suppliers or downstream by customers. Given their indirect financial industry to disclose climate-related financial data in a standardized way. Our engagements have since then increasingly focused on requesting companies to use this framework in their reports. Four of our engaged companies now publicly say that they are committing to the TCFD.

Another development was the set-up of the Transition Pathway Initiative (TPI). Launched in January 2017, this is a global initiative led by asset owners and supported by asset managers. The TPI tool enables the assessment of companies' carbon management quality and carbon performance within a selected sector. We have used the TPI results extensively in our engagements by using it as a peer group analyses, motivating the companies to step up their efforts in order to get a higher rank in the TPI framework.

Climate Action 100 +: Establishing a climate of collaberation

The first year of the investor-led Climate Action 100+ (CA100+) global initiative has inspired momentous progress in a number of companies. The collaborative engagement with the world's highest greenhouse gas (GHG) emitters has brought important commitments to curb emissions. Corporate leaders in the energy transition have begun to differentiate themselves from peers by adopting stronger commitments to decarbonize.

Robeco is an active member of the CA100+ initiative, in which we act as lead investor in three companies – Enel, NTPC and Royal Dutch Shell – and as a collaborating investor in companies across the oil and gas, electric utilities and chemical industries. In addition, Robeco is also member of the CA100+ Advisory Group to the Institutional

nature, they are more difficult to calculate, and can also be counterintuitive. "People are often surprised how intense scope 3 emissions are in the Consumer Discretionary sector, where there is also a lot of waste," Messina says.

"A fossil fuel producer may even have a lower impact for scope 3 emissions than a materials company, which is very labor and energy intensive, or a utilities company that generate the energy used by others. We think that scope 3 data quality is very close to the level at which we can integrate it into our portfolios systematically."

Transition risks, opportunities and physical risks

"The three areas to look are finding transition risks, transition opportunities, and the physical risks," says Messina

Transition risks: an example can be seen in a fossil fuel company that has committed to reduce its carbon emissions – including Scope 3 – by 40% by 2040, Messina says. While the commitment is welcome, analysis showed that this was not in line with the 2 degrees Celsius warming scenario, and needed to go much further. This includes raising the internal price for carbon from USD 25/ton to something more in line with peers at USD 40/ton.

Transition opportunities: this is targeted by the RobecoSAM Smart Energy Fund, which focuses on four areas: renewable energies, energy distribution, energy management and energy efficiency. The companies in this strategy make significant contributions to the UN's Sustainable Development Goals, particularly SDG 7 (affordable and clean energy) and SDG 9 (industry, innovation and infrastructure).

Physical risks: these emanate from increasingly severe weather that climate change is producing, including hurricanes, floods, droughts and rising sea levels. These kinds of risks are becoming more difficult to insure and are closer to home than many may realize, Messina says.

Weathering the storm

"Physical risks are probably the most complicated and unclear area," he says. "We need to understand where the assets are, what risk they're exposed to in terms of sea level rise and changing weather patterns, and what the local governments and companies are doing to defend against them."

"What was surprising for me was that in the drought of 2018, we actually had several industries shut down in Europe. Historically low water levels on the Rhine between July and November 2018 meant production completely stopped in many places, and they had to declare force majeure for certain products."

"Germany's economy shrank by 0.2% in the third quarter of 2018, and was flat in the fourth quarter, partly due to the supply chain disruptions from the Rhine being so low. It was really quite astounding that Europe was so badly affected by this."

Investor Group on Climate Change, serving as one of the lead investors in the European auto industry.

Emissions by end-users matter

Oil and gas companies play a systemically critical role in the energy transition. Although emissions from the production phase are relatively low, the end use of oil and gas products accounts for over half of global GHG emissions associated with energy consumption. As such, oil and gas producers have been a priority sector in our engagement. In May 2018, a group of investors including Robeco had a letter published in the Financial Times that called for the oil and gas industry to be more transparent about the financial impact of climate change, and to take responsibility for all of its emissions.

So far, only a couple of oil majors have publicly acknowledged responsibility for the emissions derived from the consumption of their products, and have committed to decreasing their entire carbon footprint. For most energy majors, it remains unclear how they plan to evolve their business and prepare for a low-carbon scenario. On average, oil and gas producers have allocated around 1% of their total 2018 capital expenditure to their alternative energy businesses, according to data from the Carbon Disclosure Project.

Our engagement with Royal Dutch Shell led to climate commitments

Royal Dutch Shell became the first oil and gas company to announce concrete plans to reduce its carbon footprint in a series of targets stretching out to 2050. The plan was announced in a ground-breaking joint statement with investors in December 2018.Shell agreed to set short-term targets for cutting GHG emissions for the first time, and said it aims to reduce its net carbon footprint by around half by 2050, with a 20% reduction by 2035 as an interim step. To put this long-term ambition into effect, Shell will start setting net carbon footprint targets for shorter-term periods from 2020. Each year, the target will be set for the next three- or five-year period until 2050.

Furthermore, in an unprecedented move, Shell will link energy transition targets with executive long-term remuneration as part of its revised Remuneration Policy. Shareholders will be able vote on it at the 2020 Annual General Meeting.

Committing only Shell to a low-carbon scenario puts the company at a competitive disadvantage in many respects. We therefore plan to concentrate our engagements on other companies in this sector to encourage them to take responsibility in preparing for the energy transition.

Moving towards a decarbonization roadmap for electric utilities

Research by Carbon Tracker suggests that European coal plants will become loss-making by 2030, while the levelized cost of energy (LCOE) from renewables is expected to be lower than coal by the mid-2020s. In the US, a lower LCOE of new gas and renewable capacity will continue to push down coal's competitiveness.

While all of the utility companies in scope for our engagement have committed to not develop any new coal-fired plants, they have been unable to commit to a phase-out date for their existing coal assets. Phasing out coal plants requires regulatory approval. Policymakers fear insecurity of supply if the intermittent energy from renewables is not backed up with reliable coal-fired power plants. In some cases, this is resulting in investments to upgrade existing coal-plants in order to reduce their emissions and extend their life.

During 2018, most of the utilities under engagement implemented the recommendations of the Taskforce on Climate-related Financial Disclosures in their annual disclosures, including scenario analyses. Moreover, we have found differences in the decarbonization strategies of utilities, the starkest being between European and US companies. While European utilities envisage achieving a net-zero scenario primarily through renewables and storage, their US counterparts see a more prominent role for both nuclear power and natural gas-powered plants that are retrofitted with carbon-capture-and-storage (CCS) technologies.

It remains unclear whether CCS and battery storage will be technologically speaking sufficiently developed or financially viable by 2050, when they will be needed the most. While most companies have set long-term emissions reduction targets, it remains unclear what the energy mix of these utilities will look like under a net-zero emissions scenario. Yet, it is evident that more investment in renewables and other low-emissions energies is needed. None of the companies under engagement have over 11% of installed capacity from renewables, or more than 45% of installed capacity from zero-emission energy sources such as hydro.

In another letter to the Financial Times, published in December 2018, Robeco was among a group of investors that publicly called on utilities companies to end coal use by 2030, and to spell out their strategy to prepare for a global shift towards low-carbon fuels.

Reconciling short-term accountability with long-term ambitions

Climate change brings a challenge to the world of unprecedented proportions. Planning for the energy transition requires companies to sketch

scenarios on how their businesses may evolve over the next three or four decades, a timeframe that goes well beyond most industries' planning horizons. Yet, we increasingly see business leaders committing to a low-carbon future and setting net-zero targets by the mid-century.
In our engagement, we aim to develop frameworks upon which top management can be held accountable for the realization of a low-carbon scenario. Besides setting intermediate targets, we encourage companies to integrate these strategic targets into executive remuneration plans, as Shell has done. As more companies commit to decarbonizing their business in line with the Paris Agreement of limiting global warming to 2°C above pre-industrial levels, the accountability of management will increasingly become a priority in our engagement.

Engagement: Responsible Production

Innovating production systems for sustainable growth can go a long way towards mitigating negative environmental consequences and decoupling growth from using natural resources. The emergence of innovative and scalable technologies represents an opportunity to transform production so that it drives both profits and sustainability. This opportunity is highlighted by the United Nation's Sustainable Development Goal (SDG) 12: Responsible Consumption and Production.

Reducing global waste

The amount of solid waste that the world produces is expected to rise from the current 2 billion tons a year to 3.4 billion tons by 2050. The rate of growth in waste is more than twice as high as the rate of growth in the world's population, which is expected to rise to 10 billion by the same year.

Tackling this issue will require a coordinated effort from countless stakeholders, and corporates have a significant role to play. Our 'reducing global waste' engagement program aims to encourage companies to fulfil their role in cutting levels of waste, or not producing it in the first place.

For investors, getting independent oversight of a company's non-financial performance is often challenging. Therefore, we look for indicators that serve as a proxy for topics such as supply chain management and environmental stewardship. One such indicator is whether a company has a formalized sustainability policy in place. These policies detail a company's position on various social and environmental issues and the actions taken to address them, while demonstrating a commitment to more than just financial performance.

However, a formal sustainability policy is only as good as a company's governance practices. Poor corporate governance can compromise accountability, which in turn undermines any sustainable initiatives set by shareholders or external stakeholders. Therefore, corporate governance is a primary objective of this engagement program, because we recognize its importance in holding companies accountable to their own policies.

One of the aims of this engagement program is for companies to have a quantifiable contribution to the Sustainable Development Goals. One such goal is SDG 12, which seeks "to achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international

frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment" by 2020. Attaining this goal requires an understanding of data collection methods that would allow companies to measure their waste management.

Food security

Two billion people, or 26.4% of the world's population, are currently facing moderate to severe levels of food insecurity, according to the latest estimates. These people do not have adequate access to food in terms of both quality and quantity. Most food-insecure countries tend to be concentrated in sub-Saharan Africa and South-East Asia, where 21% and 13% of their respective populations suffer from chronic undernourishment.

By 2050, the global population will reach nearly 10 billion people, placing the world's food supply under considerable strain, and increasing the social impacts of food insecurity. Climate change, soil degradation and food loss are just a few of the factors that exacerbate the challenge of feeding tomorrow's population. Consequently, food security has become a priority for sustainable development, something that has been acknowledged in the Sustainable Development Goal (SDG) 2 of 'Zero Hunger'.

We began our engagement work with companies across the value chain for food production in December 2018, gauging how they promote food security through their products and operations. Our dialogue has been structured around four key fundamental objectives, covering the company's contribution to food security along with more general ESG disclosure and contributions to the SDGs.

Food production in food-insecure regions relies mainly on smallholder farmers who have limited access to production equipment, especially mechanization. Productivity and yields remain low, which negatively impact food availability and accessibility in these regions. Smallholder farmers will need to increase their food production by over 60% to meet growing demand, and the companies that produce agricultural machinery can expect to benefit from this. Companies under engagement acknowledge this market opportunity, yet few have implemented a robust strategic plan to expand their exposure to food-insecure markets, due to several structural challenges addressed in this article.

Companies requested our feedback on which organizations could become a reliable partner in this field. In order to address this request, we engaged with several NGOs operating in the food space to better understand what they do to contribute to food security, and how they collaborate with companies.

Palm oil

The palm oil industry is often associated with significant environmental and social issues such as deforestation and poor labor standards. Although Robeco has actively engaged with companies on these issues since 2010, there is still much room for them to improve. For this reason, Robeco published a position paper on palm oil in early 2019. With this paper, we presented our new approach, using the certification scheme of the Roundtable on Sustainable Palm Oil (RSPO) as a central pillar.

Robeco joined the RSPO in January 2019, and will become part of its Financial Institutions Task Force, in collaboration with a number of global banks that are active in the credit financing of palm oil companies. At the same time, we began an engagement program with palm oil producers, focused on increasing the production of RSPO certified palm oil. We place certification levels at the heart of our engagement for one key reason. It is essential for the industry to transition to a more sustainable means of producing this vital crop.

Palm oil, deforestation and climate change

Palm oil cultivation has subsequently expanded globally, bringing economic benefits to many producers, including smallholder farmers in emerging markets. However, in tandem with this, palm oil production faces several significant environmental and social issues, ranging from deforestation and biodiversity loss, to pollution and human rights/labor rights violations.

A recent RSPO study showed that between 1990 and 2010, 3.5 million hectares of forest in Indonesia, Malaysia, and Papua New Guinea was converted to palm oil plantations. This is of particular importance in that deforestation has a significant impact on the global carbon balance, as the removal of trees releases carbon dioxide into the atmosphere, contributing to climate change.

Additionally, peatland degradation is a further issue related to palm oil plantation development, with further negative impacts on climate change. Peatland ecosystems are considered to be one of the most important carbon sinks for the planet. Yet, according to the RSPO study, most of the extensive peatland in Indonesia, Malaysia and Papua New Guinea has already severely degraded.

Our engagement program aims to address all of the issues outlined above by focusing on a number of areas we see as essential to develop a more sustainable palm oil value chain. Robeco acknowledges that RSPO certification – an internationally recognized standard – plays a crucial role in ensuring the sustainability of palm oil production. Hence, we have aligned our approach to measuring sustainable performance with the RSPO standard.

To establish a baseline, we conducted a sector screen, benchmarking companies according to the amount of RSPO certified land owned by each producer. We will continue this screen on an ongoing basis to monitor progress. Using the results of this screen, we will begin to engage with all producers identified as having 20% to 80% of land RSPO certified. The main goal of this three-year program is to support companies in improving their performance on material sustainability issues.

Upon completion of the engagement program in December 2021, we expect the selected palm oil producers to reach at least 50% of RSPO certified. We further expect that companies with a lower percentage of RSPO certification at present to meet the 50% threshold within three years, bringing them to a substantially better sustainability performance from today's low base.

Investor Spotlight - Wim-Hein Pals: Head of Emerging Markets Equities

Palm stands out as a particularly efficient crop. In fact, a hectare of land planted with palm trees can produce 4 tons of oil, which is roughly eight times the output for soybeans. From an investor's perspective, once the tree is planted, it will start yielding in five years and continue to yield for the next 25 years. This gives oil palms a very attractive long-term cashflow profile, and an asset that is difficult to displace and replace.

Malaysia and Indonesia account for the bulk of global palm oil production. Yet there are no new developments in Malaysia, and it is getting increasingly difficult to acquire new land for plantation development in Indonesia. In the last five years, most large plantations have consistently missed new plantation targets, primarily due to the increased awareness of the impact on the environment.

Weak prices and excess supply

Palm oil prices have also been exceptionally weak in the past few years, as heavy planting in the past starts to yield full harvests now, causing excess supply to the market. However, looking out into the next couple of years, we believe supply growth will taper off. In addition, in a bid to reduce its current account deficit, the Indonesian government mandated that vehicles and heavy machinery running on diesel engines will have to use fuel that contains a 20% biodiesel blend (the B20 program). Successful implementation would not only help reduce Indonesia's diesel imports, but also allow it to export biodiesel, which could help narrow its current account deficit. Under the reinforced B20 regulation which began on 1 Sep 2018, all Indonesian fuel stations are not allowed to sell unblended diesel fuel from that date onwards.

The importance of sustainability

Sustainability is therefore a very important consideration when investing in this sector. Many investors have excluded coal from their portfolios, for example, and we've seen a huge de-rating in that sector that goes far beyond its intrinsic value. Palm oil is also a controversial commodity, so best practice and proper use of ESG factors are of the utmost importance. The industry needs to move forward, not only to push palm plantations to adopt better practices, but also to pressure buyers to source only RSPO-certified products. This is where the difficulty lies, as the industry is still extremely fragmented, and since the commodity is traded in an open market, many buyers are reluctant to pay any premium for RSPO-certified products.

Living wages in the garment sector

Millions of workers employed throughout the garment industry's global supply chain are not able to make ends meet with the salary they receive at the end of their working day. Although most sourcing countries have minimum wages in place, these are often on the poverty line, and insufficient to cover workers' basic living expenses. Multinational corporations with long supply chains are deeply embedded in many economies, and the level of wages that they and their suppliers pay has a huge impact on many people's lives.

There is a growing awareness of the need to respect the fundamental human rights of workers, included in the UN's Sustainable Development

Goals' SDG 8 – 'Decent work and economic growth' – for which earning a living wage plays a key role. This is defined as the minimum income necessary for workers to meet basic needs for themselves and their families, including some discretionary income, earned within legal working hour limits.

In 2018, we joined the Living Wage Financials Platform, a global coalition of financial institutions. It has initiated an engagement program which aims to encourage, support, assess and monitor investee companies regarding their commitment to paying a living wage to the workers in their supply chains. Our dialog focuses on leading brands in the clothing and footwear sector who work with suppliers in sourcing countries that have poor labor practices.

Our engagement dialog firstly assesses whether the company identifies living wage as a key issue, and whether it has policies addressing this matter throughout its supply chain. Due to the existing divergent definitions of fair wages, special attention is given to the scope of the living wage definition used by the company. We encourage them to increase transparency regarding wage data at supplier facilities while undertaking a wage gap analysis of supply chain regions and key suppliers. Identifying wage gaps within the supply chain enables companies to work with suppliers to calculate how much it would cost to raise salaries to a living wage level.

Purchasing practices can have a positive impact on a supplier's ability to pay a living wage. Through our engagement, we encourage companies to seek active collaboration with stakeholders at different levels to advance the case for a living wage. This includes improving purchasing processes to lower the negative impacts on supplier operations and on workers' human rights. Although we are in the first year of this engagement program, some garment companies already identify living wages as a salient human right issue. Nonetheless, the industry will need to work together to lay the foundation for living wages.

Mining

Robeco has engaged in active dialogues with many mining companies on environmental and social topics for many years. A recent example is the engagement with Samarco Mineração, a joint venture between Brazil's Vale and the Anglo-Australian mining giant BHP.

This engagement focused on the breach of a tailings dam – an embankment used to store the byproducts of mining operations after extracting the metal ore – in the Brazilian state of Minas Gerais in 2015. Tailings dams are very large and often highly toxic, causing widespread pollution if they collapse.

Worse was yet to come after 248 people were killed in January 2019 due to the collapse of another dam owned by Vale holding mining waste in Brumadinho, Brazil. This again provided us with a fundamental need to act now. These disasters seem to become statistically more significant and industry-wide. Climate change and extreme weather shifts will intensify the risks. Therefore, it is essential that investors can establish a clear line of sight about the tailings facilities that mining companies possess, and how these facilities are being managed. The current disclosures being made by companies are largely inadequate.

In April 2019, the Investor Mining and Tailings Safety Initiative was set up by the Church of England Pensions Board and the Swedish Ethics Council. Robeco is a member of the steering committee. The total group consists of 96 investors with USD 10.3 trillion in assets under management.

The initiative brings together institutional investors that are active in extractive industries, including major asset owners and asset managers, using roundtables to pursue its agenda. Inputs have been sought from communities impacted by recent disasters, along with advice from leading international experts, government representatives, leading international technical advisors, and company representatives.
The roundtable events aim to:

- Provide a forum for locally affected communities and enable a better understanding of the scale of social and financial risks associated with tailings dams' failures
- Help identify the actions needed for minimum standards on tailings dam's management and best practices, using inputs from tailings dam experts and industry-leading companies
- Define the roles of investors, companies and other stakeholders in reducing the risks associated with tailings dams.

Investors meet on a monthly basis. Their work has already led to three interventions. In the first intervention, the group made a public call to establish a new independent and publicly accessible international standard for tailings dams based upon the consequences of failure. The second intervention was a letter sent to all 651 miners – including those oil and gas companies that have exposure to tailings through their oil sands operations – asking for greater disclosure about several issues. Lastly, the third intervention was a detailed proposal to establish a global tailings database has been developed and submitted for seed funding.

Engagement: Responsible Consumption

Consumers are increasingly concerned with not only the polluting or health effects of the consumption of products, but also the impacts which that consumption may have on the factors of production, including workers and resources. As a result, sustainable consumption policies and initiatives are broadening to take into account the effects of processes as well as products and the provision of services as well as goods.

Plastic

Plastics have become a resource used in nearly every part of our modern economy, combining superior functional properties with low cost. Their use has increased twenty-fold since the 1970s and usage is expected to double again in the next two decades. Today nearly everyone, everywhere, every day, encounters plastic packaging that is only used once. Tackling this phenomenon of wasteful single-use plastic is now a major engagement theme beginning in H2 2019.

While delivering many benefits, the current use of plastic packaging has drawbacks that are becoming more apparent by the day. After a short first-use cycle, 95% of plastic packaging worth USD 80–120 billion is lost every year, according to the New Plastics Economy report published by the Ellen MacArthur Foundation in 2016. It says 32% of plastic packaging escapes collection systems and is dumped instead, with much of it ending up in the ocean, polluting the seas and endangering marine life. The total cost of dealing with plastic waste, added to the greenhouse gas emissions from plastic production in the first place is conservatively estimated at USD 40 billion annually, thereby exceeding the plastic packaging industry's profit pool.

In preparation for the start of engagement program in H2 2019, Robeco joined the Plastic Solutions Investor Alliance in 2018, with the intention of encouraging consumer goods companies that sell single-use plastic products to transition to packaging which can be recycled, reused or composted.

Robeco also signed the Ellen MacArthur's Foundation New Plastic's Economy Global Commitment, which brings together businesses and governments around the world to tackle plastic pollution. The Foundation's mission is to accelerate the transition to a circular economy, and an essential part of that is to work with investors and global companies to build a benchmark for a restorative and

regenerative economy. Furthermore, Robeco has become an active member of the PRI Plastics Investor Working Group, a collaboration with other investors to get a better understanding of the risks and opportunities in this sector.

The aim of our new engagement theme on single-use plastics is to drive the global plastic packaging value chain towards a more circular model and improve supply and demand for recycled plastic. We will target 12 companies within the industry that have the potential to combat plastic waste issues. We will engage with the whole plastics value chain, from petrochemical, plastic packaging and consumer packaged goods, to retail companies.

Social risks of sugar

Sugar contributes strongly to the current global obesity pandemic, given its presence in almost all packaged food or drinks. The economic costs of this pandemic are clear; USD 2 trillion annually, or nearly 3% of global GDP. It is estimated that obesity, along with smoking and armed violence, is one of the top three social burdens induced by humans. This is likely to continue to grow, with obesity estimated to affect almost half of the world's adult population by 2030. Besides obesity, the growing consumption of added sugar is linked to diabetes and other health risks.

We expect companies in our engagement program to ensure that their lobbying activities are consistent with their position on health and wellness. As investors, we encourage transparency and accountability in the direct and indirect use of corporate funds to influence legislation and regulation. We believe there may be significant reputational risks when a company's lobbying positions are not aligned with tits public positions. We ask companies to commit to lobbying on nutritional issues only in support of public health, or to not lobby at all. Secondly, we ask them to disclose all lobbying activities on nutritional issues, memberships, board seats and any financial support for industry associations or other lobbying organizations.

According to the Center for Responsive Politics, the food and beverage industry spent USD 29 million on federal lobbying in the United States in 2018. This does not account for lobbying at the state level. It is unclear to investors how this money is being spent. Moreover, recent reports and articles raise concerns for us about the incongruence between the stated positions of companies and their lobbying practices.
Examples include:

1. The International Life Sciences Institute helped steer nutritional guidelines in China away from discouraging high-sugar drinks and food.
2. The US Department of Agriculture and the US Department of Health and Human Services rejected their own expert panel's advice to limit consumption of sugary beverages and processed meats, despite evidence of their harm to public health, in part as the result of industry influence.
3. The American Beverage Association lobbied for a California law that prevents local governments from imposing future taxes on groceries including carbonated and non-carbonated non-alcoholic beverages through to 2030.
4. A recent study by the Institute for Health Metrics looked at the health effects of dietary risks in 195 countries from 1990–2017 and concluded that a sub-optimal diet is responsible for more deaths than any other risks globally, including tobacco smoking.

We have asked the eight companies in our engagement peer group how they define their priorities for lobbying on nutritional-related issues, and have articulated the need for the Board to oversee its lobbying activities. In addition, we have asked them to set a policy on vetting trade associations and their public policy positions. Ultimately, we want to know how the company uses lobbying and its membership in relevant trade associations to promote healthy products and address nutritional-related issues.

Meat and fish supply chain

Total demand for animal protein products continues to grow globally. Developed markets have experienced either flat growth rates or a small decline in the consumption of meat. But the growing middle class in emerging markets is driving significant growth, as with growing affluence comes a growing taste for animal protein. US consumers continue to be the world's leading meat eaters, with an annual average of 102 kilograms of meat per person. In contrast, a developing nation such as Ethiopia still averages only at 7 kilograms per head but is set to catch up with developed countries as they continue to grow.

Global total meat consumption has quadrupled over the past two decades and is expected to double in the next two. Therefore, improving sustainability in the meat and fish supply chain is crucial for the long-term sustainability of investments in this sector. Since 2016, Robeco has engaged with 11 companies active in the value chain, ranging from animal nutrition companies and meat producers, to quick service restaurants and retailers that cover the full supply chain.

In partnership with the Farm Animal Investment Risk and Return (FAIRR) group and the Interfaith Centre on Corporate Responsibility (ICCR), we have dedicated many dialogues with livestock production companies to encourage less use of antibiotics that are important for human use. Continuing the prophylactic application of antibiotics is projected to cause 10 million human deaths by 2050 due to antimicrobial resistance. Companies operating in this field are set to benefit from phasing out antibiotics, which many producers have committed to during our engagement program.

In recent years, awareness has grown regarding the significant impact on climate change arising from meat production, predominantly through the production of animal feed such as the protein-rich soybean in South America. This land use change through deforestation leads to the loss of a large carbon sink and its associated biodiversity. This shift is driven by consumer choices in the US, China or Europe, where much of the beef or the soy is exported.

During the three years of engagement, we have spoken with companies directly handling livestock in their slaughterhouses on ensuring animal welfare. We undertook a collective engagement with other investors in the Business Benchmark for Farm Animal Welfare (BBFAW) group to tackle this topic. For the objective of 'animal welfare' we encouraged companies to increase video surveillance in their slaughterhouses. This was mainly necessary on the kill floor, where cows and pigs need to be humanely slaughtered, but where employees are under pressure to increase the speed of the processing line.

On the topic of innovation management, we have discussed the acquisition of sustainable protein sources with the quick service restaurants and retailers. While they initially cited consumer demand as leading factor, they are now expressing a growing awareness of the overall footprint of their animal protein products, and a need to work on preventing deforestation to mitigate this impact.

Investor Spotlight - Taeke Wiersma: Co-Head of Credit Research

The successful IPO of Beyond Meat in the US in May 2019 has drawn attention to the alternative meat products trend. Food companies will try to benefit from this by introducing their own lines of plant-based products, or acquire companies already making these products, leading to more M&As in the sector. Companies that have already had some products in this category will allocate more advertising and promotion resources to give the segment a push.

Barclays research estimates that the value of the alternative meat market can reach USD 140 billion in the next 10 years (versus USD 14 billion today), with alternative meat players capturing 10% of the USD 1.4 trillion global meat industry. Market penetration of plant-based meat in the US is around 1% versus an estimated 13% share for plant-based milk (almond, oats, coconut, etc.). Research shows that in the US, as many as 50% of consumers are seeking more plant-based foods in their diet, and 40% are open to reducing their traditional meat consumption. Alternative meat products' taste profile has strongly improved over the years. There are concerns that alternate meat offerings may not necessarily be much healthier than their meat equivalents. While the calories that they contain are similar, the sodium level is higher, but the amount of cholesterol is lower. However, the reduction in the environmental footprint of the consumer's diet is an important reason for a growing number of people to embrace a flexitarian diet, or even further to a vegetarian or vegan diet, using these alternative protein products..

Engagement: Technology

The 21st century has already seen technological progress that few could have predicted just a few decades ago. This trend shows no signs of slowing down. Advanced technological applications promise a better society, but what are the risks of 'the next big thing'? Robeco's engagement specialists and portfolio managers shed light on how investors can stay ahead of the curve and help steer the responsible development and use of technology.

Social impact of Artificial Intelligence

The benefits of Artificial Intelligence (AI) are promising and include increased efficiency, scale, and speed of decision-making. AI can also have applications for social good. More specifically, the development of AI has the potential to help solve complicated problems such as diagnosing diseases at an early stage, predicting natural disasters, or identifying victims of online sexual exploitation. However, various social issues have already surfaced with the application of AI, which shows that its ethical development and deployment cannot be guaranteed if they are not appropriately addressed by its users.

In 2019 Robeco's Active Ownership team started to engage with companies on these issues, with the aim of promoting best practices in the evolvement and usage of AI systems.

Somewhat promisingly, an increasing number of leading technology companies have recently set up ethical codes or principles for the design and implementation of AI systems. However, transparency around AI governance is low, and it is therefore difficult to assess whether strong oversight and accountability mechanisms are in place. This lack of transparency also extends to the implementation of human rights considerations in product design and development. For example, it is unclear whether companies perform due diligence on human rights to assess the unintended consequences of their technology and the resulting societal impact. Legislators are increasingly looking to reduce such effects. Therefore, we believe that those companies that have solid processes to control these impacts are better positioned for the digital transformation.

AI is not a technology per se, but rather a collection of techniques that can simulate human behavior. Whereas its history began in the 1950s, we have seen a breakthrough in AI research in recent years, driven by affordable computing power, a rise in

the volume and variety of data, and more advanced algorithms. Today, AI is used in self-driving cars, online content recommendation, facial recognition for passport control, and fraud detection. These uses increasingly overlap with socially sensitive spaces such as education, employment, housing, credit, policing and criminal justice. Often, these systems are deployed without contextual knowledge or informed consent, and thus they threaten civil rights and liberties.

Bias in the spotlight

The most commonly discussed issue of AI systems is that it is prone to bias. This may reflect and even reinforce existing prejudices and social inequalities. These biases could arise via the data used, but also the design or deployment of AI could encode bias. It is almost impossible to 'opt out' of facial recognition operations, putting the right to privacy at risk. What is especially critical is that these systems are being used in high-stakes domains such as airports, even with the knowledge that these systems are largely biased. The American Civil Liberties Union (ACLU) and the University of California tested a facial recognition tool by comparing the photos of sitting members in the United States Congress with a database containing 25,000 photos of people who had been arrested. The tool incorrectly identified 28 Congress members as people from the arrests database, with an error rate of almost 40% for non-white members compared to only 5% for white members. This shows that conclusions drawn based on these systems are prone to bias and could lead to accusing someone of something that he or she did not do and putting minorities at a particular risk.

Bias creates a negative impact on Sustainable Development Goal 10 ('Reduced inequalities') which aims to empower and promote the social, economic and political inclusion of all people. The topic of bias is a key discussion point with the companies under engagement for this theme.

A comprehensive engagement approach

In the fourth quarter of 2019, Robeco's Active Ownership team launched a three-year engagement project focusing on the risks associated with AI and its social impact. From a human rights standpoint, the chief concern is that the technological development and application of AI is outpacing the development of principles and hard legislation needed to use the technology responsibly. We also address corporate governance issues, especially because most control frameworks are focused on standardization in processes and are not designed for AI. Our focus will go beyond technological knowledge and societal awareness on the board, as a different approach to governance and control will be needed to effectively manage AI.

We will focus our engagement on the Information and Communication (ICT) sector and will be engaging both companies that develop AI and those that use it in their core business models. The ICT sector has a vital role to play in respecting human rights and achieving the Sustainable Development Goals. We expect companies to know how and where AI is used in their business, to proactively assess potential impacts, and to actively monitor its risks and unintended consequences. Our engagement objectives focus on policy guidelines for AI, impact assessment of products and services, adequate board oversight, integrating human rights considerations into product development, responsible lobbying and stakeholder engagement.

Digital innovation in health care

Artificial Intelligence also has applications in the health care space, but in a sector that has historically been slow to adopt innovations, there is a whole range of digital advances that can lead to a more efficient, effective, and accessible industry.

Although significant progress has been made to improve the health of millions of people, there are still plenty of challenges to face before good health and well-being is the global standard. In many countries, health care expenditures have grown faster that the GDP, mainly as a result of the need to service growing and aging populations. There are also studies that indicate that a combination of siloed budgets and limited cross-collaborations have resulted in limited access to healthcare, while much of it remains of an unsatisfactory quality. One of the solutions that shows great potential is the digitalization of health care. Digitalization can help the industry to both reduce costs and improve outcomes. Recent reforms indicate a shift from activity-based to outcome-based models, and digitalization can further enhance this trend.

The full implementation and integration of digital solutions requires cooperation between many stakeholders, as well as the support of regulatory bodies. Many innovations deal with critical data, and ethical concerns must be addressed over its use, such as maintaining adequate privacy and countering bias in algorithms. In addition, providers and patients need to enhance their understanding of why and how tools are used, and they may need to alter their perspectives. Nonetheless, there are numerous opportunities, from promoting healthy behavior and drug personalization, to remote monitoring, holistic analysis and improved decision making. Digitalization cannot singlehandedly solve the health care challenges. However, it can help with controlling costs, improving quality, and guiding the sector towards more patient-centric care.

Engaging to decrease risk of political pressure on health care companies

The engagement will take place over a period of three years and focus on those digital innovations that can be adopted within this timeframe, starting from the end of 2019. Within our engagement we will consider objectives covering companies' readiness to embrace digitalization, sector collaboration to maximize potential, innovation management, transparency in sales and marketing, and cybersecurity.

Looking at all these objectives will help us understand a firm's overall readiness for digitalization, and answer the following questions:

- Does the company have a sound digital strategy that is integrated throughout the organization?
- Is the company working together with stakeholders to optimize benefits and mitigate risks coming from digitalization?
- How does the company use digitalization to both optimize its processes and in new product development?
- Is the company aware of cybersecurity risks, and doing everything in its power to mitigate those risks?

We will target companies in a variety of health care sub-sectors. These include pharmaceuticals and biotechnology companies in developed and emerging markets; medical equipment manufacturers and suppliers; life science tools and services providers, and healthcare providers.

Impact on Sustainable Development Goal 3

With our engagement, we aim to contribute to Sustainable Development Goal 3: Good health and well-being. A sub-target of this goal aims to "Achieve universal health coverage, including financial risk protection, access to quality essential health care services, and access to safe, effective, quality and affordable essential medicines and vaccines for all." Digital innovation truly has the potential to improve access to quality and effective, affordable healthcare.

Cybersecurity

Underpinning much of the discussion around technological innovation and its impacts are concerns around cybersecurity. Data protection has become a key tenet of many

Investor Spotlight - Michiel Plakman: Portfolio Manager, Global Equities

AI is a burgeoning topic of interest for several business applications. AI can facilitate significant growth potential for our portfolio companies while simultaneously improving margin levels via operational efficiency and cost reductions. The sheer scale and effectiveness of AI can facilitate growth for tech companies, but also companies in different sectors that are largely data driven. Additionally, AI can be used for more predictive maintenance, the optimization of operation processes, better-informed business decisions, and automated material procurement for both tech and non-tech companies.

Yet at the same time, there are risks associated to AI, also from an investment perspective. As a variety of new tech applications are shown to have an impact on society, increased scrutiny and regulation can be expected from a legislative perspective. In recent years, the European Union has implemented the General Data Protection Regulation (GDPR), which set the stage for regulation that is based on the idea that people have a right to control data about themselves, and companies cannot store and use that data without an individual's consent. Major tech companies have also been summoned for Congressional hearings on misuse of AI to influence the political process. We expect a stronger regulatory stance from governments both in the US and in Europe.

It is still relatively unclear to what degree companies are well equipped to deal with elaborate regulation related to AI. And this is exactly where an important risk lies. The internet and applications of AI are built for scale and speed, and that has facilitated an enormous degree of data sharing and connectivity. It is, however, not easily contained and controlled. Therefore, the implementation of stricter regulation might pose serious risks for companies.

Investor Spotlight - Vera Krückel: Portfolio Manager, Trends & Thematic Equities

The Robeco Trends Investing Team sees the digitalization of the healthcare sector as one of the most attractive investment opportunities for the next decade. We invest in those companies which deliver better health at lower cost through digitalization or are the enablers of digital change. We see a very attractive and broad investment universe which we have put into three categories:

1. **Efficiency providers** reduce health care cost with digital tools. Examples are the automation of payment systems and reimbursement procedures, or the digitalization of the sales process.
2. **Quantified self-tools** which allow the industry to transition to continuous and cheaper care, as well as a greater focus on prevention. A good example is regular glucose monitoring for diabetes patients.
3. **Disruptive technologies** can completely change the way that health care is performed, such as genomics opening the door for personalized medicine.

In addition to those technology enablers, early adapters in the 'traditional' health care sector might benefit as well. For example, digital tools can make the clinical trials for pharmaceutical companies significantly more efficient and effective, which benefits those pharma companies who spend significant amounts on R&D. Similarly, hospitals can significantly decrease their administrative spending, which can account for up to 40% of their cost base. Again, early adopters will be able to provide better and cheaper care.

A word of caution is necessary though – health care is a slow-moving space and incredibly complex. Investors should not invest with traditional 'technology' horizons in mind but allow for longer timeframes. Technology alone is not enough to enable change in health care: other factors that must be considered as well are workflow integration, the buy-in of doctors, system dynamics and incentive structures, along with regulation.

sectors' license to operate, making cybersecurity a highly material topic for investors to consider.

Research by the Ponemon Institute and Accenture estimates the global value at risk from direct and indirect cyber attacks over the next five years to be over USD 5 trillion. Translating breaches into a verifiable impact on share prices is, admittedly, not an exact science. However, what we can see is an average organizational cost of data breaches of approximately USD 13 million. Combined with associated indirect costs and reputational damage, cyberattacks cause an estimated 5% drop in US companies' share prices in the immediate aftermath. The problem for both companies and their investors is evident. Yet, cybersecurity disclosure lags behind the level of information that investors need to make informed decisions.

Transparency at the root of the problem

It is of the utmost importance that investors can assess whether their investee companies are adequately managing their cyber risk, and in turn can be deemed cyber resilient. Yet given an overall lack of transparency around companies disclosure of cybersecurity practices, this can be notoriously difficult. For investors and other stakeholders, underinvestment, lack of management accountability, and difficulty in recruiting appropriate skills sets can be hard to detect due to the opaque nature of many companies' cyber reporting.

A 2018 study by consultants EY cast light on the state of the problem. Following an analysis of Fortune 100 companies, they presented stark results outlining the scale of the issue. Whilst 100% of companies included cybersecurity as a risk factor in their annual report (with 92% of these prominently highlighting the topic), only 14% highlighted cybersecurity as a strategic focus. The knock-on effect is that very little additional and comparable information was disclosed by companies as to their spending, management reporting, and oversight of cybersecurity.

Regulators have also paid more attention recently. The US Securities and Exchange Commission (SEC) issued guidance to companies with the expectation that they improve disclosures to their investors around cybersecurity risks and incidents. In particular, the guidance stated:

"... we believe disclosures regarding a company's cybersecurity risk management program and how the board of directors engages with management on cybersecurity issues allow investors to assess how a board of directors is discharging its risk oversight responsibility in this increasingly important area."

The timing of the 2018 guidance gave companies a full year to implement the changes required, with the SEC further stating that regulators now expect significantly expanded disclosures. Whilst we have seen some more reporting in response, not much of the disclosure is robust enough to draw concrete conclusions. As a result, given the clear materiality of cybersecurity as a topic, Robeco has been engaging with companies since late 2018, with the aim of encouraging those companies under engagement to strengthen their cyber resilience. Our engagement with companies focuses on governance and oversight, policies, risk management tools, transparency, and privacy by design.

Particularly on the topic of transparency, we expect companies to inform stakeholders about the costs and effects of cyber incidents (including the materiality threshold used for reporting). When customer data is exposed, companies should clearly communicate this to their customers to avoid further negative impact on reputation.

From opaque cyber governance to transparent cyber reporting and performance

Despite the near inevitability of cyber incidents, transparency on related governance structures is often weak. Especially for holding companies or Groups, security across brands is poorly defined and disclosed. Nonetheless, we have seen examples of robust governance and oversight, which involve executive team members explicitly in charge of cybersecurity, as well as expertise in the technology sector at the board level.
Whilst cyber risk management systems are likely to be in place at all companies under engagement, disclosure on tools to actively prevent or redress cyber incidents is relatively thin. This is especially concerning given that we have discovered a pattern of reliance on third-party network infrastructure or service providers. These partnerships are often a key source of risk, but are insufficiently addressed in public disclosure. More work must be done in this area to provide investors with reassurance going forward.

An important component of transparency that is missing across the engagement peer group is a clearly defined materiality threshold for disclosing cyber incidents. Such a threshold would be vital for stakeholders' confidence in data protection systems and a company's cyber maturity. Our baseline research has also revealed varying approaches to communication on confirmed breaches, ranging from a complete absence of public disclosure to disclosing an incident's effect on the company's financial results.

Overall, whilst companies might be implementing robust security systems, a central component of cyber maturity – transparency – shows significant scope for improvement.

The tools for responsible technological progress

The issues that come with technological progress are as diverse as the technologies themselves – be it the human rights implications of deployment of AI, development of digital tools to improve accessibility of healthcare systems, or how to incentivize transparent disclosure on cybersecurity that builds stakeholder confidence. As Robeco's Active Ownership team engages with companies in various sectors on these topics, it becomes clear that clear and comprehensive guidelines on development, use, and disclosure are at the core of a positive business relationship with advanced technology. Collaboration cannot be discounted as a key factor in the development of these guidelines, whether with investors through engagement, industry peers, or regulators. Our engagement work aims to ensure that early stage innovations and advanced technologies alike are anchored in responsible approaches and uses that both companies and society benefit from.

Engagement: Corporate Governance

At the very heart of how a company executes its vision and mission is its corporate governance. The structure of information flows and supervision directly impacts operations and affects stakeholders, both internal and external. Market practices frequently dictate corporate governance standards, but as our governance engagement specialists uncover, even certain sectors can be prone to particular governance shortcomings.

Corporate Governance standards in Japan

In 2019, Japan's Prime Minister Shinzo Abe received a "Lifetime Achievement" award from the International Corporate Governance Network (ICGN) for his contributions to the G in ESG. Indeed, it is not often that a prime minister of a country places such emphasis on corporate governance practices by making it a central theme in a plan for a nation's economy. As part of 'Abenomics' structural reform, the Japanese Financial Services Agency introduced the Principles for Responsible Institutional Investors in 2014. Another tool in the armory of reform was the introduction of Japan's Stewardship Code, which was intended to revitalize corporate competitiveness and performance. The code has encouraged investors to exercise their shareholder rights, and to engage their investee companies to improve governance practices to achieve better returns.

In 2015, Robeco's active ownership team conducted a research project to assess the status of corporate governance in Japan, aiming to enhance our stewardship activities for our Japanese equity investments. Following the conclusion of our engagement, we review what progress has been achieved.

Stakeholder versus shareholder orientation

There are public policy debates in the US and UK about whether business should have a wider social purpose, and whether a stakeholder approach could make listed companies more resilient. In Japan, however, the concept of fiduciary duty is less well developed, and Japanese companies' have historically given more weight to multiple stakeholder (employees, customers and suppliers) than to shareholders. Companies relied on easy financing by the keiretsu (or corporate networks) rather than investors. This resulted in a lack of transparency, a lack of accountability to minority investors, and a lack of focus on shareholder returns.

We therefore focused our engagement on improving communication with the public markets via higher quality disclosures and clear strategic guidance, protecting shareholder rights and aligning management incentives with those of investors, increasing the number of independent board members, and prioritizing sustainable value creation by seeking more robust financial strategies on capital allocation.

The role of the board; it's more than counting outside directors

A high degree of independence of directors on boards is often seen a best practice in corporate governance. The Tokyo Stock Exchange has set a recommendation for companies to have at least two. Most companies meet that minimum, and many others have added additional independent directors. In conversations with Japanese corporates though, we felt that appointing independent directors is seen as a compliance requirement. Companies often complain that it is hard to find enough capable professionals to serve on the company's board.

In our view, this reluctance relates to a fundamentally different notion for the role of the board. In the US and most of Europe, the board oversees the executive management and the company's strategy and has a more supervisory role. But in Japan, the board is often concerned with operational matters, and sitting on it is seen as the pinnacle of someone's career at the company. Our objective to increase the number and quality independent members has only been met at a few of the companies in our project and has proven difficult to implement in practice.

Significant room for improvement in capital management

Over recent years, Robeco, together with the Asian Corporate Governance Association and other investors, has engaged with policymakers and influential stakeholders to include critical governance issues in policy revisions. In 2017, we provided feedback on the proposed revision of the Corporate Governance Code to establish the Guidelines for Investor and Company Engagement. The guidelines are intended to act as a practical means to shape the agenda for investor dialogue with companies. We recommended that companies provide a credible financial strategy to help investors assess its management of debt and equity capital.

Our engagement with our portfolio holdings has evolved from asking for high-level milestones to be met, to encouraging the adoption of specific measures, including reducing excess assets by disposing of cross-holdings, increasing dividend payout ratios, and conducting share buybacks. In order to achieve sustainable economic value creation, a company's return on invested capital (ROIC) should exceed its weighted average cost of capital (WACC). Our analysis concluded that most companies had poor capital management, with 70% of 2,000 TOPIX companies having a 5-year negative return on their ROIC when compared with their WACC.

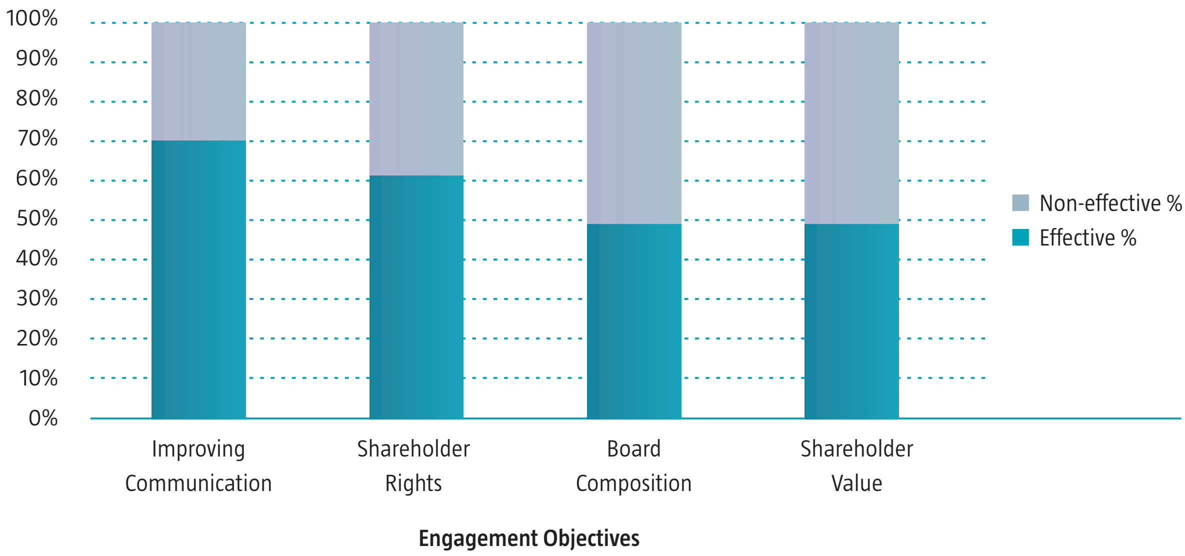
Although companies' dividend payout ratios have risen by 29% over the last five years, their debt to equity ratios have declined by 14.4%. Therefore, the growth in returns has barely kept pace with the growth in earnings per share (EPS) and cashflow. The current dividend payout ratio of 35% is only just above the post-Abenomics average. The lack of progress on this measure helps explain why there has been little reduction in cash on balance sheets, despite large increases in EPS and dividends per share. More encouragingly, the total payout ratio (including net buybacks) as a proportion of net profits has increased for the TOPIX to 46% in 2019 from 34% in 2017. However, this remains well below Europe and the US.

Engagement conclusions

Japanese corporate governance has improved since the introduction of the Corporate Governance Code in 2015. Investors have welcomed improvements, such as the continued unwinding of cross-shareholdings, increased shareholder return, and more independent directors on boards. Momentum is also gathering amongst investors exercising their fiduciary duty, as we've seen an increase in the number of shareholder proposals.

However, recent scandals have confirmed our assessment that board oversight on management for many Japanese corporates should be much further improved. Incentives between management and shareholders are hardly ever aligned. A wholistic

Figure 7 | **Engagement Results – Corporate Governance Standards in Japan**



approach for returns is seldom, if ever, part of the management's KPIs, and this often leads to the wrong focus on metrics.

Engagements in Asia are marked by a need for in-person presence to gain good corporate access. Our engagement approach for this theme focused heavily on meetings at company headquarters, a good example of how differentiating engagement strategies per geography leads to better results.

Our progress on our engagement with ten companies in this theme is summarized in the following chart: *Figure 7.*

Based on our initial objectives at the start of the engagement with portfolio companies, we can broadly conclude that we were very effective in improving corporate disclosure and communication and effective in winning more rights for shareholders. But we had mixed results when we escalated the engagement challenge into areas like board composition and shareholder value.

Culture and Risk oversight in the Banking industry

Corporate governance issues tend to be market-specific, as is evident in Japan. Sometimes, however, companies in certain sectors are particularly prone to particular governance shortcomings. Robeco has been engaging with companies in the banking industry to address their culture and risk governance since 2018.

The role of banks in the financial crisis, the LIBOR rate-fixing scandal, and many other controversies have changed the public perception of the banking industry. Several issues have often been flagged as problematic in the sector, including risk control frameworks, the quality of corporate governance, perverse incentive structures, the lack of accountability for poor performance, and more broadly, 'organizational culture'. These topics are not just relevant for policy makers, or participants in the public debate, but also for investors who need to form an opinion on whether to invest in a specific bank. Robeco's engagement with banks aims to support our investment teams in their understanding of their investments in the sector, and pursues improvements around incentive structures (both for executives and sales staff), risk governance, reporting around behavioral issues and culture, and operational risk management.

Learning to Assess Culture through Engagement

When we started this project, our main concern was that to form an educated opinion on an organization's culture as an outsider would be a big challenge. Although such an assessment is indeed very challenging, it is not impossible. Sometimes, even the annual report can be a good starting point, as the CEOs and chairs of boards of directors often use them to flag their opinion about how they would like their employees to behave. For the attentive reader, these statements can provide insights into what type of behavior will be rewarded.

Much more insightful, however, are meetings with various representatives of the bank, whether they be board members, executive directors, risk managers or investor relations people. So far, meetings with board chairs, heads of risk, and VPs of compensation have provided good corporate access. For example, we spoke with the new CEO of a major UK bank on the date of his appointment, and at a Dutch bank we spoke with the CRO and various members of the board. Often, our discussions are very open about the challenges around risk management, corporate culture and the role of the different stakeholders in the governance of the company. One of the central questions in this engagement project is: do executive management and the board have a grip on the organization's culture and the quality of the risk control framework? Often, we find that this is also a difficult assignment for a board, and board members are usually frank enough to admit that there is work to be done on this front.

Tackling Money Laundering

Some of the recent problems around money laundering have provided interesting insights into how well boards and executives understand their risk culture and the quality of their control framework. Preventing money laundering requires a combination of strong controls, flagging transition patterns, exception-handling, and the reporting and escalation of issues. Recent issues with large money laundering incidents reveal problems in internal control frameworks, the organizational culture, and the quality of oversight from the board.

Understanding the Cultural Weave

One thing that has become blatantly clear throughout our work so far is how important culture is in risk management. Most organizations have a similar set-up for their risk management framework. Most of the time, the board approves a risk appetite framework, setting allowances and limits for all risks. These are often translated into several risk policies for different departments and different types of risk.

Tax Accountability

Besides banking culture and conduct, another item under intense public scrutiny has been corporate taxation and transparency. As our engagement on the topic draws to a close, we reflect on progress made and persisting areas for improvement.

Robeco started its engagement program on tax transparency about three years ago to get a better understanding of how this complex and often controversial issue affects investors. Our initial engagement framework was designed together with PwC, with whom we conducted our baseline research. Since then, the fiscal world has changed, but many of the transparency problems around taxation remain unchanged. We started our engagement to support our investment analysts and to address the societal debate around taxation. Disclosures on taxation help investors more effectively calculate a company's long-term sustainable tax rate. This is important because cash flows are reported on an after-tax basis, and so the effective tax rate becomes a relevant indicator for investors in determining true profitability.

Our conversations on tax have gone far beyond the technical approach of determining the sustainability of a long-term tax rate. After several controversies, such as when it was disclosed that Starbucks paid virtually no tax in the UK, and the EU issued a tax ruling that said Apple's tax arrangements in Ireland amounted to state aid, corporate tax structures have been under far greater public scrutiny. Governments have also increased efforts to prevent multinational corporate tax structures that make companies less liable to pay taxes at a national level in the countries in which they operate. Recently, the OECD introduced principles to reduce tax base erosion and profit shifting, which state that taxation needs to follow economic substance, and international transfer pricing needs to be at arms-length. These guiding principles are intended to level out the international tax landscape. In our engagement, we have sought clear public tax policies, meaningful tax disclosures, a regulatory impact assessment, and robust governance frameworks around corporate tax.

Where is the added value?

Throughout our conversations with companies, we have seen progress on public tax policies. Most multinational companies published a tax policy when it became a legal requirement in the UK, but many companies treat this as a compliance document. Therefore, most tax statements do not go beyond phrases like "we comply with all applicable regulations", or "we seek a constructive dialogue with tax authorities". Even if this still holds true for most tax statements, we have seen some best practices emerging. Increasingly, tax policies include tax control frameworks, statements on incentives for tax departments, and references to the use of tax havens. An important element is often neglected, however; in order to assess if the tax payment is aligned with economic substance, corporates should better explain the main components of their value chains, and the allocation of their intellectual property. In many of our dialogues, this was essential in our assessment of the quality of tax structures, yet companies often fail to publicly set this context for their tax principles.

Country by country reporting

In recent years, the OECD has mandated country by country reporting (CbCR). Multinational companies need to disclose their tax payments to all countries in which they have activities. This framework should help solve tax conflicts and avoid double counting, while enhancing transparency. If companies reported this framework publicly, investors would have a full picture of tax payments and how they relate to economic substance. Not many companies willingly disclose these CbCR reports, unless required to do so by law. The most common objections to publishing a CbCR is that the reporting framework would disclose a lot of confidential information, allowing competitors to learn about pricing, margins and even clients in specific markets. Many companies also point out that the current reporting framework is complex, and the CbCR would include double counting and other reporting problems. Additionally, many companies do not see the need to be a first mover, or to go beyond what is legally required for reporting. However, there is reason for some optimism, as we increasingly see customized CBCRs for the biggest tax contributions, and an enhanced narrative around tax reconciliations.

Three years down the road

After three years of talking to fiscal departments and tax specialists, the results of our engagements are mixed. Most listed companies are willing to contribute to discussions on taxation, and we have seen improvements in policies and guidelines. At the same time, companies whose disclosures prompt the most questions are the least willing to show their colors, but the onus is not only on companies. There are few investors who ask for additional tax disclosures, and several governments also seem to have little incentive to push the needle.

Public discourse points spotlight on governance issues

Corporate governance matters can seem far removed from the general public, but our governance engagement themes provide evidence to the contrary. Public scrutiny can be the source of investor concern on issues such as corporate culture and conduct or taxation. Topics like governance standards in Japan intersect with debates on the very purpose of corporations. Governance engagements are sometimes fact-finding missions, but also serve to bring important shareholder concerns to the attention of executives and boardrooms globally. With that, we see Robeco's engagement contributing to continual, but measured progress in a challenging arena.

Engagement: Public Policy

Working with public bodies on sustainability issues forms an important part of the engagement work by Robeco's Active Ownership team. This includes writing letters to trade groups, regulators and governments, and making statements with other investors on collaborative projects. This is a summary of the main public policy engagements in 2019.

Statement on mining tailings dams

On 31 January, a joint statement was issued to the mining industry and International Council on Mining and Metals MM on the independent verification of tailings dams. The Church of England Pensions Board, Church Commissioners for England, Sweden's Public Pension Funds Council on Ethics for AP1, AP2, AP3 and AP4, and funds representing over USD 1.3 trillion in assets under management, jointly called for a global independent public classification system that monitors the safety risk of mining company tailings dams. The call follows the failing of the Vale dam in Brumadinho, Brazil and the tragic loss of lives and livelihoods, as well as the devastating environmental impact.

The funds are jointly proposing that the new system should be independent of companies, and require annual audits of all tailings dams as well as verification that the highest corresponding safety standards are being implemented. All reporting should be made public through an accessible database that communities, governments, civil society and investors can access.

Eumedion letter on proposed anti-takeover bill

On 7 December 2018, the Dutch Ministry of Justice and Safety published the first draft of a bill that would allow Dutch companies to invoke a statutory response time of up to 250 days in the event of shareholder activism or hostile takeovers. During this period, shareholders would be denied the right to engage with boards on critical governance issues such as director election or dismissals.

In response to the draft, on 22 February 2019, Eumedion sent a letter to the Minister of Legal Protection detailing their concerns. The first of which was that the 'black-out' period of 250 days is unnecessary, given that Dutch companies already have a multitude of options to ward off takeover bids. Furthermore, the draft bill would hinder the free movement of capital,

as guaranteed by the EU Treaty. Lastly, the bill was unclear as to why directors require additional protection government protection during a takeover. Robeco participated in this correspondence through its active Eumedion membership.

EFAMA versus Robeco Ecolabel response

On 22 February, Robeco completed a questionnaire to inform the development of EU Ecolabel criteria for financial products addressed to retail investors. The criteria will define the minimum environmental performance of this product group, and will be based on the requirements of the EU Ecolabel Regulation 66/2010, with the objective of awarding the label to financial products with the best environmental performance. The development of EU Ecolabel criteria for financial products is based on the European Commission's recently adopted Sustainable Finance Action Plan.

Global Investor Statement to governments on climate change

On 28 June, investors from around the world reissued their 2019 Global Investor Statement, calling on the governments of the G20 nations to increase efforts to achieve the goals of the Paris Agreement, accelerate private sector investment in the low carbon transition, and commit themselves to improving climate-related financial reporting. The statement was delivered in advance of the G20 Summit on 28-29 June 2019. Similar statements were issued in 2016, 2017 and 2019.

IIGCC letter to EU leaders on net zero emissions target

On behalf of 44 of their members, including Robeco, the Institutional Investors Group on Climate Change (IIGCC) on 9 December sent a joint letter to EU leaders encouraging them to approve a target to achieve net zero emissions by 2050. The letter was signed by CEOs and senior executives, on behalf of IIGCC members representing over EUR 6 trillion in assets collectively under management. The intervention came ahead of a key EU summit in Brussels that took place on 12-13 December, at which leaders had the opportunity to approve the target. Key countries known to be withholding their support at the time were Poland, the Czech Republic and Hungary. Key points covered by the letter include:

- "The urgent need to act" in the face of the climate emergency.
- Investor support for a "net-zero emissions target for the EU, to be achieved by 2050 at the latest".
- How "the costs of inaction will be catastrophic", given projected global losses from a 4°C global temperature rise are EUR 21 trillion over the next 80 years.
- EU-specific benefits of adopting the target, including an estimated 2% boost to GDP across the EU through to 2050, and the creation of two million new jobs.
- How committing to the net zero emissions target will further strengthen the EU's global leadership role in tackling climate change.

Investor Alliance for Human Rights letter to institutional investors

Robeco has been a member of the Investor Alliance for Human Rights since 2018. In 2019, the alliance invited all institutional investors to sign on to a newly released statement entitled 'The Investor Case for Mandatory Human Rights Due Diligence'. The statement calls on all governments to develop, implement, and enforce mandatory human rights due diligence requirements for all companies headquartered or operating within their own jurisdictions or, where appropriate, to further strengthen these regulatory regimes where they already exist. The statement sets out three key reasons for why investors are increasingly backing mandatory measures that facilitate business respect for human rights, namely that such measures are:

1. Materially good for business, investors, and the economy;
2. Essential in creating uniformity and efficiency as an increasing number of governments are already taking this step; and
3. A necessary component for investors to fulfill our own responsibility to respect human rights.

This statement follows the previous Investor Alliance statement entitled 'Making Finance Work for People and Planet', which calls on governments to require investors to consider human rights throughout the investment lifecycle. For investors to succeed in these efforts, it is critical that companies conduct human rights due diligence as set out in the UN Guiding Principles on Business and Human Rights and the OECD Due Diligence Guidelines for Multinational Enterprises.

In the statement, Robeco's Head of Active Ownership Carola van Lamoen said: "Institutional investors increasingly recognize that they have a vital role to play in ensuring that businesses are environmentally and socially sustainable. We welcome the European Union's leadership in clearly communicating due diligence expectations of investors, helping to ensure finance works for people and planet."

Proxy Voting

Our Active Ownership team has been voting on behalf of Robeco's clients since 1998, when proxy voting emerged as an instrument for promoting responsible investing. Robeco's dedicated voting team offers a comprehensive proxy voting service and currently votes on behalf of clients at roughly 6,000 meetings per year. All proxy voting activities are carried out by dedicated, in house, voting analysts in the Active Ownership team. We provide our clients with an integrated and cutting edge voting product, built up over 20 years of experience.

Voting Policy

The basis of any well informed proxy voting decision starts with the development of a proxy voting policy designed to ensure that we vote proxies in the best interest of our clients. Our voting policy is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provide a broad framework for assessing companies corporate governance practices. The ICGN principles offer scope for companies to be assessed according to local standards, national legislation and corporate-governance codes of conduct. We constantly monitor the consistency of our general voting policy with the ICGN principles, laws, governance codes and systems as well as client specific voting policies. Our voting policy is formally reviewed at least once a year

We take into account company specific circumstances and best practices when casting our vote. With our voting and engagement practices, we aim to encourage the management teams of companies in which we invest to implement good corporate governance and responsible policies to increase long-term shareholder value while encouraging responsible corporate behavior.

With 20 years of experience in proxy voting on which to draw, Robeco's integrated approach to active ownership is widely recognized as best practice in the asset management industry. The quality of our approach was confirmed in the UN PRI assessment, where we attained the highest possible score (A+) for active ownership. Additionally, in the Asset Owners Disclosure Project (AODP), a project managed by the responsible investment organization ShareAction, Robeco ranked first amongst 75 of the world's largest asset managers according to their responsible investment practices.

Voting execution

Robeco is responsible for and carries out all proxy voting in house. There are

In some markets, implementing the recall process is challenging due to record dates before the notices of shareholder meetings are published. In 2019, we pre-empted this practice in Korea, where the record date tends to fall on the last day of the preceding calendar year, but where AGM information is only published a few weeks before the meeting. We recalled at least 50% of all Korean securities on loan ahead of 31 December, 2019 to ensure compliance with our stewardship responsibilities in that market.

several practical elements that need to be considered in the implementation of our voting policy. These include monitoring our voting rights, and the potential implications of securities lending, share blocking, and custom voting policies, amongst others.

Monitoring voting rights

The proxy voting process can be relatively opaque and requires systematic supervision. One element that Robeco and Glass Lewis monitor proactively is whether we have received voting ballots for all shareholder meetings where we are entitled to vote. This is a cornerstone of good stewardship for equity assets, and requires coordination of various parties in the proxy voting chain, such as custodians and ballot distributors. When Robeco or Glass Lewis identify a missing ballot ahead of an AGM through a holdings reconciliation process, the relevant parties are contacted to verify which portfolios held shares on the date on which voting rights were determined. If necessary, action is taken to make sure we are able to exercise our right to vote.

Securities Lending

Robeco has a securities lending program for several of our listed mutual funds. When shares are on loan, we are unable to exercise our voting rights for those shares. A daily process confirms whether any shares are on loan ahead of an upcoming AGM, and recalls at least half of the position. Our Proxy Voting Policy further highlights some of the circumstances that lead to recalling a higher percentage of shares.

Share blocking

Another impediment to voting can be share blocking, where securities are blocked from trading after sending a vote instruction. This can have implications for fund performance and may therefore not be in the best interests of the beneficial owner. As a result, Robeco only votes proxies in share blocking markets when the agenda contains a controversial item and/or our position could have a significant impact on the voting result. We infrequently refrained from voting due to share blocking in 2019, casting our vote in 98% of cases.

Client voting policies

We apply custom voting policies for some clients in segregated mandates or for externally managed assets. In these cases, clients may override our voting decision under their policy. Clients who have applied the Robeco Proxy Voting Policy may also highlight specific shareholder meetings where their voting preference differs from ours. We will accommodate such client-directed voting for segregated mandates, but Robeco makes all voting decisions for pooled funds in house, in line with the Robeco voting policy.

Activity in 2019

Much of the proxy voting activity is concentrated in the first half of the calendar year. The 2019 AGM season saw a marked increase in the number of shareholder meetings that Robeco voted at, due mainly to a rise in the number of clients and mandates. That is why at the halfway mark, we published an overview of the trends we encountered in 2019 in our Proxy Voting Season Overview.

For instance, in the US, we've seen a large increase in the number of social shareholder resolutions; last year the big theme was environmental, but this year the number of environment-related resolutions that made it to the meeting agenda has decreased, and the social ones have taken over. In addition, at the end of every year, we share our thoughts on some of the most notablel AGMs voted during the year, explaining our rationale for important votes we cast.

Shareholder proposals

In recent years, the number of climate change-related proposals filed at oil majors, banks, and retailers has risen. This is in part due to the urgency of climate-related risks, in addition to often lagging regulations that force shareholders to put more pressure on issuers. Typically, a climate change-related shareholder proposal will call for a company to issue a report detailing the extent of their Greenhouse Gas (GHG) emissions and mitigation efforts. Such proposals are also commonly filed throughout a company's peer group, as climate change mitigation is not an independent pursuit. Likewise, these proposals frequently refer to internationally recognized standards such as the Paris Agreement or the Sustainable Development Goals.

The issue of plastic waste has also increasingly become the focus of shareholder proposals. Just in the second quarter of 2019, two chemical giants received a proposal asking them to issue a report on the number of plastic contaminants they release into the environment. The companies would also have to detail the effectiveness of their actions to reduce plastic pollution. This proposal received a great deal of support and in one instance was even adopted by the company prior to the vote.

All SHPs share several characteristics by which they can be assessed and compared. For a SHP to either be adopted by a company or receive a majority of shareholder support, it should address a material issue while not being overly prescriptive. This implies that the proposal should be relevant and allow the company enough space for implementing the requested change. Ultimately, as the name suggests, a shareholder proposal should be geared towards generating value for both the company and its shareholders.

Growing concerns around the impact of climate change have also led to a shift in investors' voting approaches. For instance, increased collaboration amongst investors has led to a convergence of requests put forth to their issuers, starting from climate risks disclosure, to emission reduction targets, climate stress testing and climate risk governance. Similarly, the recommendations of the Task Force of Climate-related Financial Disclosures published in 2017 have become a reference point for engagement on climate issues and more broadly on ESG issues.

The increased pressure from investors using voting rights has also contributed to companies anticipating shareholders' concerns and addressing them through different channels outside proxy statements, which has coincided with a rise in the direct engagement between investors and companies. This increasing level of companies' responsiveness has concurrently contributed to a decline in the overall level of shareholders proposals submitted. For example, the most recent proxy season in the US saw the lowest number of shareholder proposal submissions in the last five years, from a high of 549 in 2015 to 420 in 2019.

This trend is in part explained by the varying means for companies to address shareholder concerns. In 2018 US proxy season, 48% of filed environmental proposals were withdrawn, while only 37% of filed proposals went to a vote. Historically, these figures were reversed, as a greater proportion of proposal would go to a vote compared to proposals that were withdrawn. However, given that engagement between institutional shareholders and companies has increased, it is likely that the decline in proposals filings could be related to discussions and engagement outside of the proxy process.

Director Elections

Most markets allow shareholders to elect their board representatives individually. Intuitively, this is a prudent approach – directors contribute to the board individually, bringing their expertise and varying opinions to board discussions. They should arguably also be held to account one-by-one. As shareholders voting at AGMs, we rarely take issue with the composition, oversight or performance of an entire board. Usually the responsibility for certain failures or poor practices can be drawn back to individuals, such as committee members or chairs. It then makes sense to oppose the election of only these directors, rather than voting against the entire board.

However, some regulatory environments call for a different approach. Markets like Italy and Brazil allow companies or shareholders to propose an entire 'slate' of nominees at once. Shareholders can often only voice their opinion on the whole group by voting for or against the slate. This introduces various complexities into the voting decision-making process.

Especially Brazil is notorious for complicated director election procedures, with various election methods at play at a single AGM, depending on which method shareholders themselves choose to adopt. Brazilian companies with controlling shareholders can choose to nominate directors by slate, given that their voting power suffices to approve the election independently. However, minority shareholders are provided with a consolation prize. Investors can aggregate shares to reach a threshold of 5-10% of outstanding capital, depending on the company, in order to separately nominate a 'slate of one'. Shareholders can only vote on the management/controlling shareholder-proposed slate or the single minority shareholder-proposed nominee.

Given that the minority nominee tends to exhibit a better profile in terms of independence and external expertise, we usually cast our vote in favor of the single candidate, abstaining from voting on the company's own slate. Even if the nominee does not attain the required majority, this vote serves as an important signal to the company that international investors greatly value the oversight of truly independent directors.

Italian public companies exclusively elect their directors by slate. However, slates are not proposed by companies' boards or management. Instead, the system relies on shareholders to put their nominees into the race in slate form. Italian slates are regulated to ensure at least some degree of diverse representation. Most company bylaws foresee that the slate with the highest percentage of votes in favor fills all available seats bar one (or until the slate runs out of candidates). The remaining seat(s) are filled from the list receiving the second-highest level of support. The slate proposed by minority shareholders usually contains nominees that bring much needed independence and expertise to the board. Therefore, we tend to support this slate, and do not vote on the major shareholders' list of nominees.

Italian slate nominations often also extend to the separate Board of Statutory Auditors. Once again, shareholders propose competing slates to fill the board with effective and alternate statutory auditors. Most of the auditors are elected from the winning slate. However, an interesting quirk seeks to ensure sufficient checks and balances – the chairman of the Statutory Auditors board is chosen from the second-placed list. As a result, investors might be inclined to support the major shareholders' slate in order to guarantee a chairman chosen by minority shareholders. However, we find this approach somewhat counterproductive, and would prefer to have a majority of candidates from the slate representing ourselves as minority shareholders.

Italy and Brazil are just two examples of markets where differing election methods and practices influence our voting approach. It is vital for shareholders voting by proxy to be informed about the benefits and pitfalls of various systems in the quest for better independent board representation.

Gender Diversity

Research shows that a gender-balanced workforce positively supports corporate performance in relation to either the company's profitability, risk reduction, or share price. A gender diverse workforce at all levels of the organization can support business and financial performance while improving human capital management. Gender diversity has become a very relevant topic in the international corporate governance arena. A Spencer Stuart survey found that in 2018, 40% of incoming directors on S&P 500 boards were women. This has translated into an overall female representation of 24% across S&P 500 boards, up 2% from the previous year.

In several markets, it is common to include nominations to the board of directors in shareholder meeting agendas. Before casting our votes, a thorough assessment of the overall board diversity in terms of tenure, skills, gender and external commitments is conducted, and compared to local best practices. Key expectations towards companies include increasing the disclosures related to gender diversity throughout the workforce, equal remuneration practices, and disclosure of how gender diversity is approached at the board level. However, commitments put forward by companies to enhance diversity are not always followed by concrete policies.

Insufficient disclosure has, as a result, been the topic of shareholder resolutions filed at companies' AGMs, seeking enhanced disclosures on both female workforce representation at different job levels and equal remuneration opportunities. We believe that addressing these topics would support companies to better attract and retain talent while enhancing the value of their human capital.

In the last couple of years, an increasing amount of gender-related shareholder resolutions have been filed, predominantly in the US. The content of these resolutions ranges from requesting companies to issue either a gender pay gap or employment diversity report to enhance diversity at the board level. Receiving on average 28% of votes in favor, it sends a clear signal to the company regarding the relevance of the topic for a large proportion of shareholders and creates an incentive to address the topic. The rationale behind such proposals is that enhanced disclosures on gender diversity within the workforce would benefit shareholders, as failure to address these matters could present significant legal, reputational, and talent-retention concerns for companies.

About Robeco

Robeco is an international asset manager offering an extensive range of active investments, from equities to bonds. Research lies at the heart of everything we do, with a 'pioneering but cautious' approach that has been in our DNA since our foundation in Rotterdam in 1929. We believe strongly in sustainable investing, quantitative techniques and constant innovation.

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 31 December 2019, Robeco had EUR 173 billion in assets under management, of which EUR 149 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.

Established in Rotterdam in 1929, Robeco offers investment management and advisory services to institutional and private investors, and manages UCITS1 and alternative investment funds. As such, Robeco acts as the manager of investment funds (and as director in case the funds have the form of legal entities) in the Netherlands, and also operates as the direct distribution channel in the Dutch retail market for all of the Robeco funds. More than half of Robeco's assets under management are listed equity assets, with the remainder in fixed income, and a small portion in private equity and balanced assets.

Sustainable investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

We employ 873 people at 17 offices worldwide (as of December 2019). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America. To service institutional and business clients, Robeco has offices in Australia, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Italy, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney, the United Arab Emirates, the United Kingdom, and the United States.

The UN Global Compact

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at:
https://www.unglobalcompact.org/

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards. The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.
More information can be found at:
http://mneguidelines.oecd.org/

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on
- Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices. In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

ROBECO

The Investment Engineers