ROBECO
The Investment Engineers

STEWARDSHIP REPORT

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Sustainable Investing Expertise by
ROBECOSAM

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INTRODUCTION

The transition towards truly sustainable investing is work in progress – embrace it!

Let's start with a comment I find myself making more and more often: 'We have no clue what is coming at us.' Climate management and taking care of biodiversity sound idealistic, but no one really knows what the trajectory to net zero will exactly look like, or what challenges in the decarbonization path we will face in the coming 10 to 15 years. We need more and more reliable data to understand the connection between sustainability and asset management, and the real-world impact of our policies and investments. It is maybe a bit painful to admit, but at this stage we have to accept that we do not know the exact route – only the direction. More than ever, we need to trust our people and specialists and keep a close eye on what science tells us.

The Paris Climate Agreement, the UN Sustainable Development Goals (SDGs) and Europe's Green Deal are all based on scientific work done in the field. Sustainability is not for believers; it has become hard science, with a growing number of scientific studies and papers being published on it.

As such, anyone in the financial industry who wants to keep up with developments needs to educate themselves. Unlike most other asset managers, we have embraced sustainability for over 25 years now and have a solid and proven track record in the field. Sustainable investing is not a simple copy-paste exercise. It takes a lot of research, building up knowledge, getting the right systems in place and the right people on board. Even as pioneers in this area we are still learning every day. We have to develop into Portfolio Managers 2.0. Alpha, tracking error and some kind of a sustainability budget: this is the new normal. Engagement, climate and biodiversity will be central in investment processes between now and your retirement, and long thereafter.

2021 marks another year of hard work and dedication towards integrating sustainable investing and furthering our stewardship activities. During the year we expanded our Sustainable Investing Center of Expertise, published a Net Zero Roadmap, refined our approach towards controversial behavior, and launched multiple new engagement themes. In this report, we showcase the progress made.

I am proud of the additional layers added and I look forward to continuing to embrace sustainable investing in 2022!

Victor Verberk
Chief Investment Officer, Fixed Income and Sustainability
On behalf of the Robeco Executive Committee

Robeco's 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."

Robeco's mission

'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 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 2021

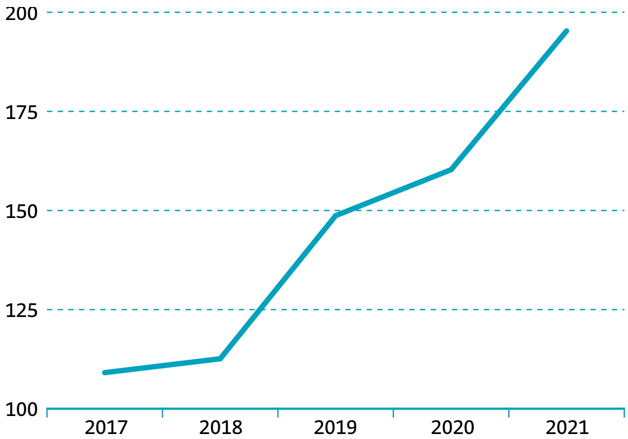
New EU Sustainable Finance regulation entering into force in the Spring, a summer of regional floods and forest fires, COP26 in the autumn, and an opportunity to pause and take stock at the year-end. The asset management industry has been embracing sustainability en-masse all year, but as with every major shift, change does not happen overnight. With 2021 gone by, Robeco adds another year to its more than 25 years of experience of sustainable investing.

Sustainable investing is growing rapidly. This is not only because of new regulation encouraging it, but also because sustainability issues - most notably climate change - are becoming more apparent and thus more material for companies and investors. Institutional investors around the globe are starting to implement sustainability. We see that clients are in different phases and would like to implement their own views on sustainability alongside moving more and more towards ensuring real-world impact.

Growth in sustainable investment solutions

In 2021, Robeco's assets under management reached the EUR 200 billion mark for the first time. Of these assets, EUR 154 billion are part of the Sustainability Inside range. The other two ranges are growing rapidly: assets under management in our Sustainability Focused range rose to EUR 19.8 billion, up from 12.5 billion in 2020, and in Impact Investing they rose to EUR 21.8 billion from 18.8 billion in 2020. Together, they now represent 97% of our assets, up from 92% in 2020.[1]

Figure 1: Growth in ESG integrated assets (EUR bn)



Impact investing

The Impact Investing range consisted of 22 RobecoSAM-branded funds at the end of 2021. This range experienced the fastest growth, driven by the demand for our thematic funds and our fixed income strategies targeting the SDGs. There was particularly high demand across thematic products addressing sustainability challenges ranging from climate change to resource scarcity and water use. Two funds, RobecoSAM Smart Energy Equities and RobecoSAM Sustainable Water Equities, reached assets under management of more than EUR 3 billion each, while RobecoSAM Smart Materials Equities passed the EUR 2 billion in assets threshold.

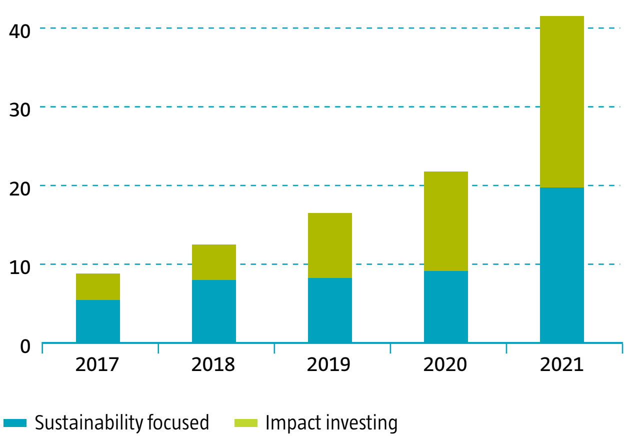
We have also seen 86 % growth (including market appreciation) in the assets under management n our SDG strategies, thematic funds, climate and green bond strategies as clients continue to increase their allocation to sustainable fixed income strategies with a specific goal, and as markets have risen. An example is Robeco's Climate Global Fixed Income capabilities, unique, bond-focused solutions that reflect the decarbonization targets of the Intergovernmental Panel on Climate Change (IPCC). Climate Global Credits is managed against a Paris-aligned index and aims to outperform through corporate bond selection. Its sister fund, Climate Global bonds, aims to outperform through the additional use of sovereign bonds and currencies, and is managed against a Paris aware benchmark. The Climate Global Fixed Income capabilities achieved a one-year track record in late 2021, which will help to pursue further client interest when gathering assets for these new strategies.

Sustainability Focused

Asset growth in the Sustainability Focused range was led amongst other things by the Sustainable Global Stars Equities product suite (including mandates), which grew from EUR 3.4 billion to EUR 5.4 billion (including market appreciation). On the quantitative equity side, we saw a lot of interest from existing clients in complementing their financial objectives with sustainability ones through a focus on climate-related objectives. These strategies range from having stringent targets on carbon footprint reductions to more elaborate approaches that are aligned with net zero ambitions. Also, they tilt towards companies that contribute positively to the SDGs that the client feels most strongly about.

The sustainable investing industry is still dominated by active management. However, passive sustainable solutions and exchange-traded funds (ETFs) are now also growing very rapidly. This is one of the reasons why Robeco set up the Sustainable Index Solutions team in May 2021 to pursue this market, resulting in the launch of a new sustainable index family in December 2021.

Figure 2: Growth in ESG integrated assets (EUR bn)



1 The remaining 3% of our assets are full derivatives solutions for which ESG integration is not applicable and subadvised strategies for which we do not invest ourselves. We are engaging with the managers of our subadvised strategies on their sustainability integration.

Sustainable investing regulation is shaking up the financial industry

In March 2021, the EU's Sustainable Finance Disclosure Regulation (SFDR) Level I requirements entered into force. This forms one of the core parts of the EU's Sustainable Finance Action Plan targeting the financial industry. With it, the tectonic plates upon which the financial industry has been standing for years is shifting. The regulation aims to promote sustainable investment across the EU as well as combating greenwashing and making the sustainable investing landscape more transparent and easier to understand for end-investors.

At Robeco, we have leveraged our long history with sustainable investing and are utilizing every inch of the organization to credibly implement the requirements of the regulations. During 2021, we took a two-step approach by firstly ensuring compliance with Level 1 requirements, which included prospectus updates with fund classifications, added policies and entity level disclosures. Secondly, we started integrating Level 2 requirements.

Climate change cemented as a core priority

The regulatory environment is not the only one that changed during 2021. The importance of climate change to the financial industry was cemented. In 2021, Robeco published its first Global Climate Survey. Some 300 institutional, wholesale and insurance investors accounting for about 20% of global assets answered questions on climate change, their net zero goals and climate solutions. Perhaps the biggest signal from those surveyed was that half of all assets under management will be committed to net zero in the coming years. Some 86% of investors saw climate change as a significant factor in their investment policy over the next two years, sending a massive message that decarbonization is well under way.

In addition, most believe that renewable energy forms part of the solution: 81% said solar, wind and hydrogen power would lead the way in switching from fossil fuels. And 66% said they would focus portfolio decarbonization efforts on global equities as their preferred asset class for achieving this over the next one to two years.

In 2022, we conducted our second climate survey. See more in the box 'What do the results look like for the 2022 Global Climate Survey?'.

The transition from ESG integration towards real-world impact

Making the transition from ESG integration towards making a real-world impact is the key challenge to truly sustainable investing. The rise in investor interest in ESG investing raises awareness and mobilizes financing for sustainability issues, both of which significantly enhance the ability to achieve the SDGs. We see it in our conversations with clients that the discussions are increasingly moving from ESG integration towards frameworks for creating real world impact. Here the SDGs offer a framework for transformative change.

WHAT DO THE RESULTS LOOK LIKE FOR THE 2022 GLOBAL CLIMATE SURVEY?

We have to recognize that the effects of climate change are also top-of-mind for us all, not just as investors but as citizens too. We know that the low-carbon transition is disruptive, with an impact on companies that cannot keep up. However, at the same time, it's providing opportunities for those that can. With the transition involving a massive reallocation of resources, 2022 is a crucial year for global action.
Climate risk increasingly forms an investment risk which we want to identify and rise up to.

For this reason, we conducted our Global Climate Survey for the second year in a row. Covering around 300 large investors across the globe, representing approximately USD 23.7 trillion in AUM, the survey has given us a wealth of information and feedback.

The survey shows that climate change remains central to investor strategies over the coming years, as active ownership and biodiversity increase in importance.

Find out more and download the publication via our insight article 'Engagement and biodiversity lead 2022 Global Climate Survey' available via our website.

LET'S BE HONEST ABOUT WHAT ESG INTEGRATION ACTUALLY DOES

ESG integration as commonly defined is done for financial reasons; it relates to the financial value of sustainability risk and opportunities. ESG integration does not reduce the investment universe: our portfolio managers are still allowed to invest in companies with low ESG scores, so long as they believe that the risks are more than priced into the market.

Our method of integrating ESG – which is more complex and profound in its application compared to just using ESG scores to reduce the universe – is often not categorized as a sustainable strategy. We refer to these strategies as having 'Sustainability Inside', the label that applies to the majority of funds at Robeco.

Clients who want to invest in sustainable or impact strategies do not want to invest in 'bad' ESG companies, even if this is reflected in the share price. For these clients we offer 'Sustainability Focused' and 'Impact Investing' products, which can both be categorised as sustainable strategies.

Read the entire article 'SI Opener: Let's be clearer about what ESG integration actually does' available via our website.

However, many conflate ESG integration with SDG impact. Although ESG integration helps investors make better-informed decisions on companies that are not adequately managing environmental, social, and governance risks and opportunities, it does not measure a company's impact on the SDGs. This is further supported by the fact that some notoriously harmful companies in industries such as tobacco or sugared beverages often perform well in ESG rankings.

Yet, SDG investing should not be seen as a substitute to ESG integration – in fact, the two combined unveil the meaning of the concept of double materiality. It works here by on the one hand taking into consideration the ESG challenges that an investee company is facing, and on the other hand assessing its alignment with the impact it could be making on the SDGs. The latter is only possible if investors obtain a deep understanding of the impacts caused by the diverse companies in their investment universes. Only then can companies that are a positive force for the SDGs be supported.

As more investors move into impact investment strategies, and as financial regulators tighten impact labelling standards, it is becoming increasingly important for asset managers to ensure the quality and rigor of their impact claims.

Working with clients to find their optimal sustainable investing solution

In the design of our products, we actively partner with clients, and sometimes NGOs, while meeting the requirements of local regulations, including the SFDR. Our ultimate goal is to offer the best sustainable solutions in accordance with client preferences.

In 2021, several new sustainability funds and solutions were launched, including innovative solutions developed in cooperation with, and solely for, a specific client.

- RobecoSAM Global SDG Engagement Equities: Robeco launched this fund together with UBS. A core characteristic of this fund is the use of engagement as a means of driving a clear and measurable improvement in a company's contribution to the UN SDGs over three to five years. The fund is co-managed by an engagement specialist together with a portfolio manager, thereby marrying active ownership with active management. The fund had EUR 1.2 billion in assets by the end of 2021.
- US Green Bonds: following the launch of the Global Green Bonds fund, and at the specific request of a European private bank, Robeco expanded the Green Bonds product suite by tailoring the fund to the US market.
- New product concepts were developed in the Quant SDG and climate area, of which the first products were introduced at the end of 2021.
- Robeco SDG Low Carbon Equities index family: Launched in December 2021, the indices contain companies that can contribute to the SDGs by reducing their carbon footprints.
- A sustainable equity fund in China was launched in Q4 2021.

Robeco's approach to stewardship

Carrying out stewardship responsibilities is an integral part of Robeco's sustainable investing approach. Here, we outline the framework behind our global program.

A central aspect of Robeco' s corporate mission statement is to fulfil its fiduciary duty to clients and beneficiaries. Robeco manages assets for a variety of clients with a variety of investment needs. In our activities we always strive to serve our clients' interests to the best of our capabilities. Robeco's stewardship policy is closely aligned with our investment mission, which is to use research-based, quality driven processes to produce the best possible long-term results for our clients. Therefore, our stewardship activities are aimed at long-term value creation in our investments, in addition to creating real-world impact.

Resourcing Stewardship: Robeco's SI Center of Expertise

Robeco's SI Center of Expertise delivers SI expertise to our clients, investment teams, the wider company and the broader market. The center is led by our Head of Sustainable Investing, Carola van Lamoen, and consists of four pillars: SI Thought Leadership, SI Client Portfolio Management, SI Research, and Active Ownership. In 2021, the SI Center of Expertise grew from 33 to 46 people. The additional capacity added includes an expansion of our Active Ownership team with a dedicated controversy engagement specialist and an additional climate engagement specialist.

The Active Ownership team lies at the core of Robeco's stewardship activities. The 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 currently consists of 18 qualified voting and engagement professionals based in Rotterdam, London and Hong Kong. The team is multi-national and multi-lingual – a key benefit when we have operations globally and across diverse markets. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The engagement team is split in three specializations: Environmental, Social and Governance.

Table 1: SI Center of Expertise

Pillar	*Focus and Expertise*
SI Thought Leadership	– Maintains and advances thought leadership on sustainable investment. – Conducts value-adding research and publications, specialized knowledge sharing, both with clients and internally, and SI data quality control. – Coordinates Robeco's connections with academia and to ensure the continual embedding of our SI work in academic research. – Key focus areas include the UN Sustainable Development Goals (SDGs), climate change, biodiversity, and SI data.
SI Research	– High-quality fundamental sustainability research on companies. – Deep understanding of industry sustainability drivers and sector decarbonization pathways. – Agenda oversight by SI Research board who discusses and monitors focus, prioritization and quality of SI research.
Active Ownership	– Responsible for voting and engagement activities. – Votes the equity positions for Robeco's funds and those of our overlay clients. This includes consultation with different investment teams. – Leads Robeco's engagement program, covering equities and fixed income. – Takes part in industry collaborative engagement efforts. – Collects the input from all stakeholders (including investment teams and clients) to prioritize engagement efforts and reports on progress made.
SI Client Portfolio Management (CPM)	– Centralized source of sustainable investing information to support Robeco's commercial activities. – Delivers first-class sustainable investing services to clients. – Close collaboration with Robeco's CPM and Sales teams on SI-related matters. – Provides masterclasses, workshops and presentations in support of our commercial activities.

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

Governance of stewardship and sustainable investing

Different parts of the organization have varying responsibilities in executing and overseeing Robeco's sustainable investing and stewardship efforts.

The responsibility for implementing sustainable investing is allocated to the most senior level within the investment department, the CIO for Fixed Income and Sustainability. He is a member of the ExCo and is ultimately responsible for sustainable investing across the company.

Sustainability and Impact Strategy Committee

The most senior body solely dedicated to sustainable investing activities is Robeco's Sustainability and Impact Strategy Committee (SISC). The committee is a sub-committee of the ExCo and oversees, coordinates and drives all sustainability and SI matters from a company-wide perspective across Robeco. The committee is also responsible for the proper implementation of sustainability matters. Notably, the SISC decides on the implementation and/or changes in the exclusion policy and list. The SISC has delegated the execution of the controversial behavior part of the exclusion policy to a dedicated Controversial Behavior Committee, which includes representatives of the ExCo. For material changes to the exclusion policy, the Robeco ExCo is the ultimate decision-making body. The SISC comprises members from the Exco, senior managers from different domains, and sustainability specialists. The committee is chaired by Robeco's Head of Sustainable Investing.

Sustainability in the investment process

Robeco's portfolio managers and investment analysts are responsible for integrating sustainability into the investment process. Robeco offers clients a suite of different investment solutions. This covers various assets classes, investment approaches and sustainable investing building blocks, which includes various types of sustainability analysis, data and impact of ESG matters on investment decisions and investment universe. As such the investment processes, risks, opportunities and investment exposures differ between these solutions. The investment teams have developed and customized ESG integration processes that add value to their own investment processes, as outlined in Robeco's Sustainability Policy.

Even though assets are managed using different strategies and investment objectives to fit clients' preferences, there is a Robeco-wide philosophy that companies (and countries) that act in a sustainable way towards the environment, society and all its stakeholders are more likely to be able to deal with problems in the future. 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; sustainability risk integration including climate change; voting; engagement with investee companies; and exclusions, as well as our own Code of Conduct.

Active Ownership

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. 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.

The Active Ownership team works closely together with investment teams, and the other members of Robeco's SI Center of Expertise, who play a central role in the engagement approach. Robeco's investment teams are consulted in our annual engagement theme selection process, ensuring that Robeco's engagement approach is relevant to our investment teams and their portfolios. They are also consulted for input to the analysis of engagement cases, adding to the quality and depth of the engagement process, as well as invited to and informed of ongoing engagement activities and progress. This ensures that investment teams have the most up-to-date information on the status of our current engagements. Information they can subsequently factor into their investment cases to make better-informed investment decisions.

We distinguish between three types of engagement:

Table 2: Types of Engagement

Engagement Type	*Purpose and Process*
Value Engagement	**Purpose:** Value engagement is a proactive approach focusing on long-term, financially material ESG opportunities and risks that can affect companies' valuation and ability to create value. The primary objective is to create value for investors by improving sustainability conduct and corporate governance.
	Process: We identify potential areas for engagement using our knowledge of trends in the sustainability and corporate governance arenas, assisted by the SI Center of Expertise and service providers. The final selection of engagement areas focuses on financial materiality and engagement impact and is made following consultation with portfolio managers, analysts, and clients. Based on our research, we set SMART objectives for all engagement cases.
Enhanced Engagement	**Purpose:** Enhanced engagement focuses on companies that severely and structurally breach minimum behavioral norms in areas such as human rights, labor, environment and anti-corruption. The primary objective of enhanced engagement is to address reported shortfalls against internationally accepted codes of conduct for corporate governance, social responsibility, the environment and transparency.
	Process: The UN Global Compact and OECD Guidelines for Multinational Enterprises outline minimal behavioral standards that serve as the basis for the enhanced engagement program. The desired outcome is the identifiable elimination and remediation of any breach, and then enhancements in management processes aimed at avoiding any repeated breach. For each enhanced engagement, we address the same overarching objectives: elimination of the breach, policy, stakeholder dialogue, risk management systems, and transparency. Remediation is a key element in all enhanced engagement cases. An enhanced engagement may finally be escalated with a company's exclusion from Robeco's or our clients' investment universe, if it does not improve its ESG behavior after the engagement has concluded. The process for enhanced engagement is a formal part of Robeco's Exclusion Policy.
SDG Engagement	**Purpose:** The objective of engagement on the Sustainable Development Goals (SDGs) is to drive a clear and measurable improvement in a company's SDG contribution over three to five years through engagement. By ensuring a company's persistent relevance is reflected by its ability to address key societal needs, this strategy creates value for both investors and society at large.
	Process: SDG engagement uses fundamental research by Robeco's SI Research team to develop a strategy that aims to improve the sustainability outcomes of companies with significant potential to positively impact one or more of the 17 SDGs. The impact process follows five engagement objectives: an impact plan, SDG mapping, target setting, stakeholder management and integrated governance. A set of individual SMART milestones are developed for each objective. For an engagement case to be closed successfully, we require a majority of milestones to be completed for at least four out of five objectives.

For all types of engagement, we establish specific, measurable objectives using the SMART process, as illustrated on page 12. 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:

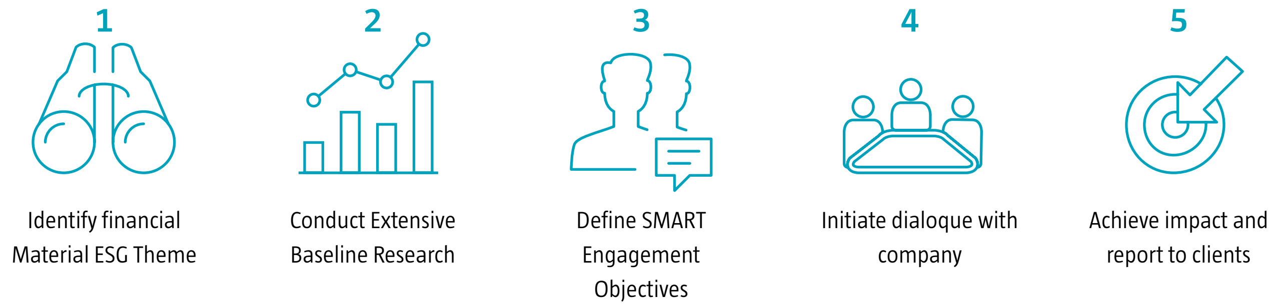
1) A long-track record: The experience of the Active Ownership team goes back more than 16 years to 2005.

2) Multi-dimensional collaboration: We leverage the knowledge of the entire SI Center of Expertise from SI Research on companies, to thought leadership on climate change, biodiversity, and the SDGs, to retrieving feedback from our Client Portfolio Management team.

3) An integrated approach with the wider Investment domain: We collaborate with the investment teams to make the most of our engagement efforts; adding quality and depth to the engagement process.

This integrated approach, focused on knowledge sharing and leveraging our financial and sustainable investing expertise, places us in a unique position within the asset management field.

Figure 3 | Robeco's five steps for SMART engagement



Engagement theme selection

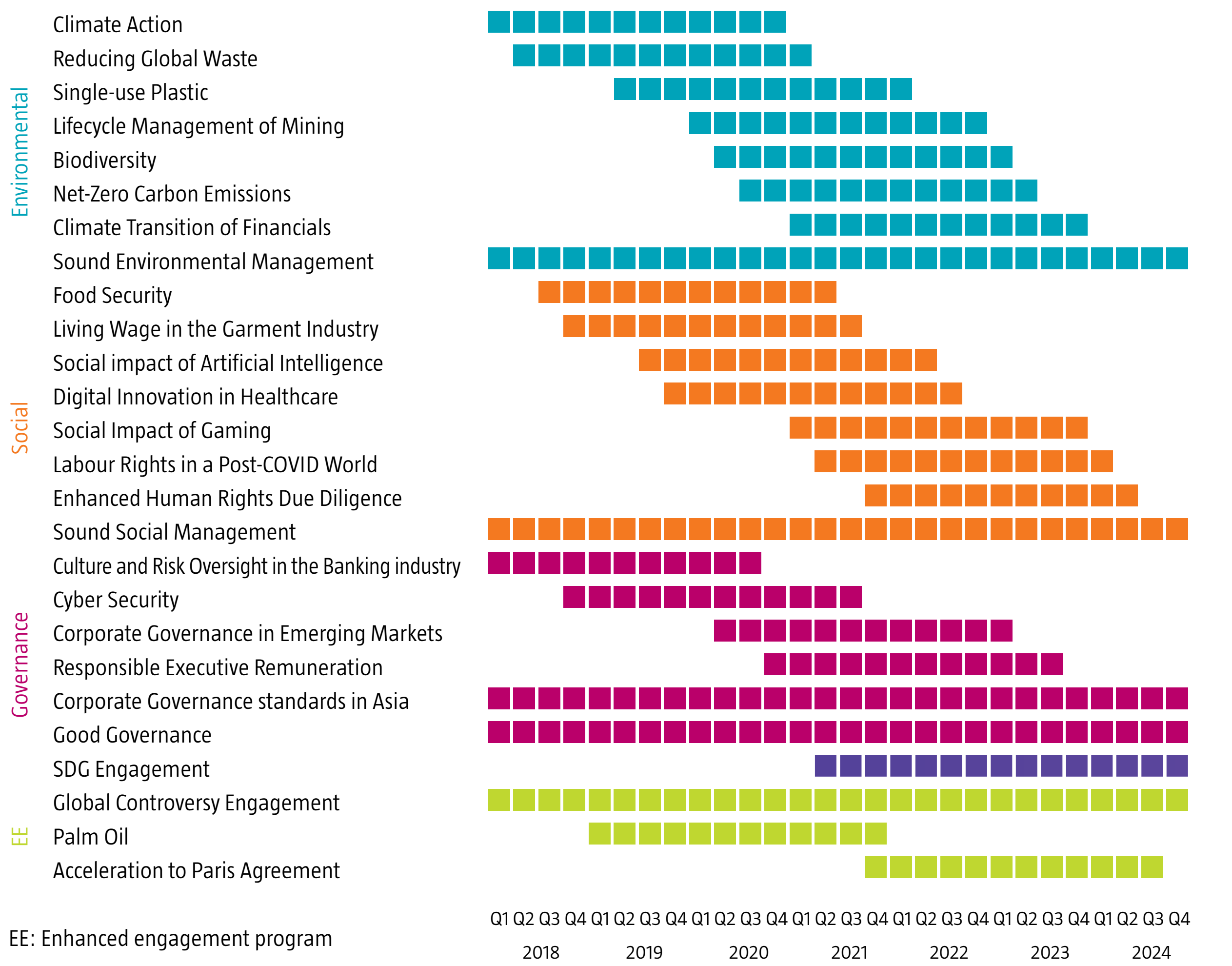
Following a structured approach, the Active Ownership team selects four to five new engagement themes every year. Core to this approach is the close collaboration and consultation with clients and Robeco's investment teams. The themes focus on both financially material topics that address ESG issues in a variety of investable arenas as well as adverse sustainability impacts. Each theme focuses on 10-15 companies and typically runs over a three-year period, during which time our engagement specialists have regular contact with company representatives to discuss sustainability impact, risks and opportunities. Sectors and client holdings are an important input in the selection of companies we engage with. Another mean to ensure relevant engagement case selection is through our collaborative work with other institutional investors in joint initiatives such as Climate Action 100+.

The process for enhanced engagement theme selection is a formal part of our exclusion policy. Please refer to the section on escalation for more information on our enhanced engagement program.

Table 3: New Engagement Themes in 2021

Focus	*Theme*	*Outcomes Targeted*
Environmental	Climate Transition of Financials	The main aim of this engagement is to support financial institutions in managing the emerging climate change related risks and opportunities, and to ready them for their and their clients' climate transition.
Environmental	Acceleration to Paris Agreement	We aim to optimize the potential for improvement over the timeline of the engagement program by selecting those companies that are furthest behind in the development of their climate strategies.
Social	Social Impact of Gaming	The engagement is centred around addressing the social impacts both in the content of the games, and the management of the companies themselves.
Social	Human Rights Due Diligence for Conflict-Affected and High-Risk Areas	To prevent the provision of capital to companies with exposure to human rights violations, we will be targeting companies active in conflict-affected and high-risk areas.
Social	Labor Rights in a Post-Covid World	Targeting sectors whose working conditions were highlighted by the pandemic, and promoting decent work and sound human capital management strategies.
SDGs	SDG Engagement	As a central component of our RobecoSAM SDG Engagement Equities fund, we engage with all companies in the portfolio with the objective of partnering to improve their impact on the SDGs

Engagement themes in 2021



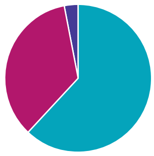
Structured feedback from overlay clients

Each year, we conduct an annual Active Ownership survey among our overlay clients. In 2021, the majority of our clients have less than/or one internal full-time employee dedicated to active ownership. About half believe that this current capacity is sufficient for their future planning regarding active ownership, while the rest is deciding whether more capacity is required in light of the growing importance of active ownership.

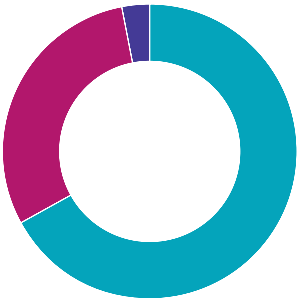
Clients overall are very satisfied with the level and quality of our engagement services, and rate Robeco's engagement process and activities as top quartile in comparison to industry peers. Clients indicate that the engagement themes are largely aligned with their own priorities, and that they appreciate being consulted on the new engagement themes as part of the theme selection process, though there is a preference for more engagement coverage. In terms of reporting, clients have expressed a need to receive more engagement case studies to be shared with external stakeholders, such as fund participants. This feedback from clients is taken into account to enhanced our reporting and active ownership services.

Robeco's end-2021 client base: Assets under management EUR 200.7 billion

Institutional clients	Wholesale clients	Dutch Retail clients
124.3	70.7	5.7

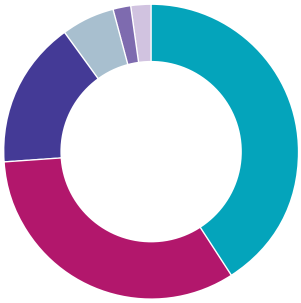


Assets breakdown



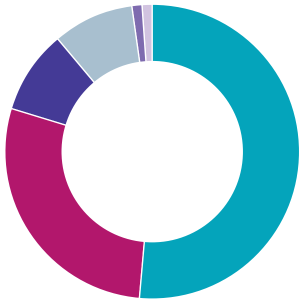
Equities	67%
Fixed income	30%
Balanced	3%

Clients by location



Europe ex. Netherlands	41%
Netherlands	33%
Asia-Pacific	16%
Americas	6%
Africa	2%
Middle East	2%

Client type breakdown



Banks & other financials	51%
Pension funds	28%
Official institution	9%
Insurance	9%
Corporate	1%
Foundation/endowment & other	1%

DO CLIENTS GET A SAY WHEN YOU SELECT THESE ENGAGEMENT THEMES?

We spoke with our Investment Specialist in Active Ownership, Amy Samson, on clients involvement in the engagement theme selection process.

Client input is an integral part of Robeco's annual theme selection.

We actively gather their input on a structural basis to ensure the engagement themes we design are relevant for our clients and their beneficiaries. For example, we host a client panel where we present a long list of potential new value engagement theme alongside a high level engagement plan each year. We appreciate this set-up as it is through the direct feedback from our clients that we are able to ensure that new engagement themes taken onboard are relevant for them and their beneficiaries.

Besides the annual client panel, Robeco organizes multiple client events throughout the year where we share insights on our recent SI activities and clients can raise questions. One example is our annual Stewardship event where we give more insight into the engagement process, share the results of ongoing or closed engagement themes and provide updates on new sustainability trends. The feedback we receive allows us to gain further input from clients on the engagements we undertake on their behalf.

Lastly, we take note of client preferences, agendas, and concerns through our many client meetings. This is a great way to keep pace with the dynamics of sustainability trends, markets, clients and Active Ownership agendas.

Effective engagement channels

Engagements usually start by explaining our 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 a wide variety of other operational specialists. Senior management or non-executive board members are also involved in our discussions. As with 2020, the continuing pandemic meant that the Active Ownership team continued to be largely constrained to engaging through written correspondence and conference calls in 2021.

Escalation

As an investor we can exercise several rights for stewardship purposes. The right to vote and to engage are the preferred options. Others such as the right to file a shareholder resolution, to nominate a director, or even take legal action are considered in the context of engagement but are only used in a secondary or escalated stage.

We believe that a constructive dialogue with the companies in which we and our clients invest is more effective than exclusion. 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. This can also lead to adverse proxy voting instructions on related agenda items at a shareholder meeting.

An additional escalation measure is added to our enhanced engagement program, given that this type of engagement is geared towards upholding minimal norms for expected behavior in relation to the UN Global Compact and OECD Guidelines for Multinational Enterprises. 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 the last resort, applicable only after engagement – our first and preferred option – has been undertaken.

In 2021, we expanded our enhanced engagement program with also an explicit focus on the Paris Agreement and companies falling behind in the transition. The enhanced engagement now covers the themes 'Global controversy', 'Palm oil', and 'Acceleration to Paris'. For more information on each of the enhanced engagement themes, please refer to the chapters 'Controversies and exclusions', 'Biodiversity' and 'Climate change', respectively.

TO DIVEST OR NOT TO DIVEST? THAT IS NOT THE QUESTION

One of the fiercest debates when it comes to sustainable investing today is the engage-or-divest dilemma. For some stakeholders such as NGOs or environmental activist groups, the picture is crystal clear. They want investors to divest from companies and whole industries that threaten the future of our planet, and move their money towards climate-positive sectors. The time for talking, they argue, is over, because change is happening too slowly, if at all. For asset managers, however, the picture is more complex. The question is not: to divest or not to divest, but rather: at what point does an unsuccessful engagement result in divestment?

Our core belief is that by engaging with companies – those involved with fossil fuel, petrochemicals and the like – asset managers can help steer them towards a more sustainable future. If you divest from those companies, you lose any kind of say in the matter, and other shareholders who care less about sustainability will jump in and take your place. It is a thin line.

See more about our engagement efforts in our publication 'Engage to create a better world? Challenge Accepted!' accessible via our website.

Engaging with policymakers

Engagement with governments, government related agencies or regulators can add value to our engagement program. Therefore, we take part in consultations and provide feedback on regulations that facilitate a better or level playing field for ESG issues.

Engagement is never intended to unduly influence the political process; Robeco only conducts engagement on public policy where it is deemed appropriate and transparent. The majority of our activities on this topic are coordinated through the various investor associations and collaborative groups of which we are members. Policy engagements that are done in this way can be relevant from an equity or bondholder perspective.

In 2021, we took part in multiple public policy engagements. In the chapter 'Public Policy and Partnerships' we highlight the interactions that we had during the past year.

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. The stewardship policy lives side by side with our sustainability policy, covering the processes for ESG integration in our investment strategies and positions on thematic sustainability issues, as well as internal sustainability.

Robeco's engagement policy is integrated within our stewardship policy and provides further information on what we expect from investee companies, how we engage with them, and how we communicate on our progress. The stewardship policy also includes our proxy voting policy, which sets out guidelines that ensure we vote 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 and sustainability policy frameworks, including all individual policies on engagement, proxy voting, thematic approaches, and organizational sustainability, are subject to a formalized annual review process. This aims to evaluate whether our policies continue to meet best practice in the industry and reflect our internal processes accurately. The Active Ownership team coordinates the review within the SI Center of Expertise, monitoring any updates to signed stewardship codes or SI-related memberships that may imply certain commitments.

During 2021, we added SDG Engagement to our engagement types, updated our references to international frameworks and exclusion procedures in our enhanced engagement program, and reviewed and updated our voting policy. Changes to the voting policy include a stricter assessment of diversity, human rights and remuneration at the board level, and a sterner view of companies in high carbon-emitting sectors that have so far failed to recognize climate change as a business risk or opportunity. In addition, we implemented changes related to amendments of the Japanese Stewardship Code and the feedback from the Financial Reporting Council and Eumedion which were primarily related to reporting. As a consequence, we have gone live with a library of voting rationales in 2022.

The Sustainability and Impact Strategy Committee (SISC) verifies whether proposed updates to policies and reporting fully meet Robeco's stewardship responsibilities as a 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.

It is important to us that clients and other external stakeholders have an accurate view of Robeco's stewardship and sustainable investing practices. We believe these amendments have further improved their ability to understand Robeco's stewardship approaches and how they have been put into practice by providing all our stewardship-related policies in a single place. Updates in the coming year will continue to be driven by compliance with EU regulation.

Stewardship across asset classes

Robeco's active ownership program spans several asset classes, and in some circumstances, engagement approaches may differ for equity and fixed income portfolios. Our enhanced engagement program does not differentiate between investment styles or asset classes. For our value engagement approach, our aim is to add value to improve the risk/return profile for our investments. In all cases, we take the approach of a long-term investor, either from a shareholder or a credit perspective or both. The majority of our engagement objectives are intended to add value for a broad set of investment portfolios and stakeholders. Our focus areas for engagement as a long-term shareholder and as a bondholder are often aligned.

FACTORING CLIMATE CHANGE INTO EXPECTED RETURNS FORECASTS

The exact magnitude of climate change over the next decade is uncertain, and its impact – and those of the policies and regulations to combat it – on asset prices is even more unclear. However, this does not absolve asset allocators from the task of considering the long-term impact of climate change on asset class returns. The nature of the path from the current situation to the long-run equilibrium is likely to have big implications for most investors' decisions.

In 2021, the impact of climate change was factored into the core forecasts in Expected Returns for the first time in the five-year outlook's 11-year history.

Read the full chapter 'Factoring climate change into Expected Returns forecasts' in our 5-year Expected Returns publication on our website.

However, in some instances there may be a difference in focus. For example, differences in engagement objectives between different investment styles or asset classes can be identified. At the start of new engagement themes/projects key stakeholders are identified, which include clients and portfolio managers. Depending on the relevant stakeholders, engagements may have a specific portfolio approach. 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, along with shareholder rights. The SI Center of Expertise is embedded in Robeco's investments domain. This integration allows both equity and fixed income portfolio managers and analysts to routinely join engagement dialogues.

In addition, for our newest type of engagement, SDG Engagement, the primary purpose is engaging from an impact perspective based on the holdings in the SDG Engagement Equities fund. Yet, this may have a positive effect on the investable universe of other funds, given Robeco has several credit and equity funds for which the investable universe is defined by investee companies' alignment with the SDGs. More information is available in the chapter on 'Sustainable Development Goals'.

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). 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 groups to ensure that we can make use of our rights.

Besides working with our peers to work towards creating 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, and with senior analysts are directly responsible for analyzing the terms and conditions of transactions. Building expertise in this field is vital, so 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.

Incentivizing stewardship

Our investment teams are responsible for incorporating sustainability considerations into their investment analysis, and their remuneration framework features sustainability-related KPIs. The strategic importance of sustainability is made clear through internal and corporate communications and the significant expansion of SI-related capacity. The launch of the Sustainable Investing Academy (SI Academy) in 2021 is a notable example of how sustainability is a core value at Robeco.

The SI Academy serves two core objectives. Firstly, it aims to spread knowledge and facilitate sustainable investing education internally, and secondly, it enables Robeco employees to become SI ambassadors. The academy consists of three levels:

- SI Essentials: The starting point for every employee to learn about the key elements of sustainable investing, climate investing and the SDGs
- SI Advanced: Building upon the key elements, Robeco's experts will share everything there is to know about Robeco's sustainable investing strategy and how we do this in-house
- SI Expert: Once fully immersed in Robeco's approach to sustainable investing, the last level allows employees to dig into the ins and outs of sustainable investing and sustainable development through external courses from leading universities.

As sustainable investment and stewardship continue to be at the front and center of Robeco's strategy, all employees have had at least one SI-related KPI included in their annual performance review from 2021 onwards.

Building confidence through our audit framework

Robeco's stewardship activities are audited on a regular basis. As part of Robeco's annual ISAE report, the external auditor audits our active ownership controls. During this audit, it is assessed whether these processes are robust enough to mitigate potential risks and the effectiveness of the controls is tested.

In addition, our internal audit department is intensively involved in SI and stewardship activities due to these topics' strategic importance for Robeco. SI and stewardship themes are fixed elements of the annual internal audit plan. Internal audits are conducted on a risk-based approach through periodic departmental audits, such as on the Active Ownership team's voting and engagement processes, the investment teams' integration of ESG factors, or the implementation of our exclusion policy. Project-based internal audits on SI-related projects, such as Robeco's implementation of the European Sustainable Finance Action Plan, are also conducted.

External recognition

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 Eumedion 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. Further, our annual PRI assessment response is audited by our internal audit department each year.

In 2021, Robeco received external recognition of its sustainable investing strength from various sources. One example is Robeco's fourth place in ShareAction's ranking of asset managers' voting approach to environmental and social issues. The report examines how 65 of the world's largest asset managers voted on 146 social and environmental resolutions, and shows that the way in which asset managers use their voting power to drive better social and environmental performance from listed companies varies widely. Although the voting performance of the industry as a whole remains 'stagnant', some individual managers did show substantial improvement. In this context, Robeco moved up in the ranking from the eighth position in 2020 to fourth in 2021.

The PRI's framework and scores are an important external benchmark on sustainable investing. In 2021, the results of the assessment were delayed until June 2022. This is due to issues with PRI's new online reporting tool, primarily in navigation and functionality, but it has contributed to the time taken for reporting and created problems during the review process for signatories. Along with other signatories, Robeco has provided extensive feedback to the PRI on the new reporting process, with the goal of improving the user experience.

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'.

In 2021, 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, for example, 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 parent company, we refrained from voting at its AGM on behalf of Robeco's and our clients' shares.

Robeco's approach to identifying and mitigating (potential) conflicts of interest related to voting is applied uniformly across our client based. For example, it could be the case that Robeco has voting rights at the shareholder meeting of a company, where the pension fund is also an asset management client of Robeco's. Where such case occurred during the year, Robeco voted in line with our standard voting policy on behalf of all of our clients, with the exception of the client where the relationship existed, and where a conflict could subsequently be perceived to exist. For this client, no voting instructions were casted, and Robeco's Compliance department was notified of the potential conflict.

In addition, the Active Ownership team exercised proxy votes at the

ROBECO GOVERNANCE

Ownership and legal status

Robeco is incorporated under Dutch law and has its corporate seat in Rotterdam, the Netherlands, and is wholly owned by ORIX Corporation Europe N.V. ORIX Corporation in Japan is the sole shareholder of ORIX Corporation Europe N.V. Robeco Holding B.V. is the top holding company of the Robeco group of companies, including Robeco Institutional Asset Management B.V.

Management Board and Executive Committee

The Management Board is the company's managing board under the articles of association and is entrusted with the company's management. It is ultimately responsible for setting the strategy, objectives and overall direction, and overseeing and monitoring management decision-making. As of 1 March 2022, the Management Board established an Executive Committee to support the Management Board in the exercise of its day-to-day management of the company. The Executive Committee consists of all members of the Management Board and senior executives, representing different domains in Robeco.

For further details on Robeco Institutional Asset Management B.V. governance and corporate structure, see our Annual Report.

AGM of a new client during the year. Following our standard voting policy, we would not vote for the client in question and only vote for all other accounts, but after informing the Compliance department, we applied our standard voting procedure and voting policy to vote at the new client's AGM, ultimately voting against an executive remuneration proposal. We were satisfied that the business relationship did not threaten the objectivity of our stewardship activities and vote decision-making.

In several instances, our engagement projects led to potential conflicts of interests with clients, or related parties to clients. In all instances, Compliance was consulted, and engagements have continued.

In order to ensure ethical conduct in our engagement with companies, Robeco also follows a clearly defined process if material non-public information is obtained. There were several instances where this happened during engagement activities. All these cases were reported to Compliance. For most of these cases, the nature of the non-public information was deemed non-material. For example, in at least one instance, our engagement work led to a requirement to sign a non-disclosure agreement by the engaged company. Where non-public information was deemed either strategic and material, employees were restricted in any trading in the company's securities, and were not allowed to communicate information about the engagement case with other Robeco personnel until the information was released publicly.

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 our stewardship activities, we also use proprietary SI intelligence and research delivered by our SI Research team and our thought leadership team. Besides internal resources, we also take into account information received from various service providers in carrying out our responsibilities to meet clients' stewardship needs.

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 rule-based custom voting policy that drives recommendations in line with the guidelines set out in our Proxy Voting Policy. The Active Ownership team then reviews and validates these recommendations to ensure the incorporation of company-specific circumstances and accurate implementation of policy.

Within our investment strategies we use a blend of internal and external data as the inputs to our sustainable investment processes. Our approach is to take the 'best of breed' for each given characteristic or objective. Our preference is to purchase commoditised data where relevant, such as for commonly disclosed ESG data and ratings.

Examples of major service providers we use for data and analytics include Sustainalytics, MSCI, S&P, Bloomberg and Glass Lewis. These data sources are supplemented by proprietary content which our expert analysts within the SI research and active ownership teams generate. We carry out due diligence of all potential providers as a matter of course in our data procurement process. This involves qualitative and quantitative analysis to ensure suitability of fit with our investible universe, sustainability preferences and relevant technical requirements. This year's review of data providers was heavily focussed on new active ownership requirements and other regulatory requirements under the SFDR. Both quality of data and data coverage are of key importance in these assessments, which are carried out by a workstream of different working groups and led by Robeco's SI data strategist.

These high expectations are also embedded in our approach to monitoring our proxy voting advisor. Glass Lewis was selected 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. Our due diligence with Glass Lewis this year focused on implementing a stricter approach on climate-related voting, the implementation of remuneration assessments, and improving transparency on providing our voting rationales on our website.

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 featuring statistics and highlights, which can be publicly shared with clients' individual beneficiaries. We also provide more detailed reporting on individual engagement cases on a confidential basis. With this information, we support our clients in fulfilling their stewardship disclosure requirements through various channels.

EUR 389 billion

Assets under engagement

270

Number of engagement cases

226

Number of companies engaged

62%

Number of cases closed successfully

26

Number of engagement themes

EUR 154 billion

Assets under voting

7,723

Number of shareholder meetings voted

77

Number of markets voted

54%

% Meetings with votes against management

78,729

Number of proposals voted on

Engagement activities by region

North America	39%
Europe	28%
Emerging Markets	21%
Pacific	11%

Shareholder meetings voted by region

North America	20%
Europe	16%
Emerging Markets	8%
Pacific	56%

Climate change

In 2021, we launched our Roadmap to Net Zero by 2050. This includes interim targets to cut the carbon footprint of investment activities by 30% by 2025 and by 50% by 2030, an extension of our climate change engagement program, and the launch of new climate investing solutions.

Climate science has made clear that society has to act now. The costs and impact of inaction increase by the year. The global economy is best served by a steadfast transition to net zero. Robeco acknowledges the responsibility the asset management industry has in addressing climate change risks, and is taking various steps towards contributing to the 2015 Paris Agreement.

In 2020, Robeco committed to achieving net zero greenhouse gas emissions across all its assets under management by 2050. In 2021, we followed this up by publishing our Net Zero Roadmap which included the announcement of our aim to decarbonize our investments by 30% by 2025 and by 50% by 2030. Living up to the same standards that we set for others, we also aim to reach net zero by 2050 across our own operations with interim targets of 35% lower operational emissions by 2025 and 50% by 2030. This encompasses all emissions associated with business travel, electricity, heating and other business activities.

To get to net zero by 2050, a core part of Robeco's roadmap aims to accelerate the transition by leveraging our long history of engaging with companies. In 2021, we therefore further stepped up our active ownership activities on climate change. Robeco will be voting on and engaging with the top 200 emitters in its investment universe, and will focus on engaging on climate change with 55 companies that cover approximately 20% of portfolio emissions. In addition, we call for climate action by countries as governments play a vital role in the transition towards net zero.

What drives our approach

Climate change must be mitigated to avoid unacceptable long-term impacts on society and the global economy. Doing this will create both investment opportunities and transition risks across all sectors of the economy. We believe that systematically considering climate change is essential to the success of our investing strategies. Our materiality research determines for which sectors and industries climate change is material, and over which time horizon. If it is material within the relevant investment horizon, the climate change strategy of a company is analyzed and compared to its peers. Based on this analysis, our sustainability and financial analysts work together to assess the impact on the company's business model, products and services, and financial accounts. Our climate change committee, established in 2020, continued to integrate climate change considerations and data into our investment process, and was largely responsible for the progress we accomplished in 2021, alongside that of our investment teams.

In 2021, we initiated a research project on sectoral decarbonization pathways for carbon-intensive sectors such as steel, cement, power, and oil and gas. We analyze how the sector should decarbonize over time to remain within a below 2 degrees carbon budget, and what types of technologies and policies will enable this.

ROBECO'S NET ZERO ROADMAP

Our Net Zero Roadmap is based on three pillars and six key actions:

1. Decarbonizing our activities. We will reduce the carbon footprint of our investments and operations by an average of 7% year on year. This is in line with what science indicates is required for keeping the global temperature rise to well below 2°C above pre-industrial levels.
– Action 1: Decarbonize our portfolios
– Action 2: Reduce our operational emissions

2. Accelerating the transition. We will leverage our influence as an investor to accelerate climate action by companies and countries. We will assess companies in order to identify those that can outperform in the transition. By investing in these companies, we can contribute to climate mitigation and enhance risk-adjusted returns. For companies that do not act fast enough, we will step up engagement activities and, where required, escalate voting decisions. We will also collaborate with other investors to step up dialogue with sovereign bond issuers.
– Action 3: Accelerate the transition of companies
– Action 4: Call for climate action by countries

3. Promoting climate-aligned investing. We will collaborate with clients, peers, standard setters and relevant stakeholders in the industry to accelerate net zero investing. We will grow and expand our offering of climate-aligned investment solutions. We will actively contribute to conducive market standards and policies.
– Action 5: Work with clients on decarbonization
– Action 6: Collaborate to promote net zero investing
All six key actions are described in more detail in the following chapters

For more information on each of the six key actions see our Net Zero Roadmap accessible via our website.

THE CAVEATS, CONSIDERATIONS, AND CHALLENGES OF DECARBONIZING INVESTMENT PORTFOLIOS

Climate change is the problem, net zero is the goal, and decarbonization is the means. But are there obstacles blocking the road ahead? Masja Zandbergen, Robeco's Head of Sustainability Integration, explains the caveats and challenges that may trip up investors in their quest to decarbonize portfolios and contribute to the net zero transition.

What exactly does it mean to decarbonize a portfolio?
"Put simply, it is reducing the carbon intensity of the portfolio by including companies with low emissions or which have made credible commitments to reduce their emissions. Similar to a portfolio's financial performance, progress in this area requires continuous measurement against a reference point."

Wouldn't it be easier to simply divest from heavy emitters?
"It would be if company-reported data were complete, but the bulk of emissions generated is excluded from this, so true emissions performance is underestimated. Currently, companies report and investors measure emissions from production processes (Scope 1) and the electricity used to power those processes (Scope 2). But they don't report emissions generated further along in the supply chain by a product's consumers. Oil and gas producers have a high carbon footprint in the production phase, but that's still only 20% of total emissions. The other 80% is generated when the oil is burned by customers (Scope 3)."

How does decarbonizing a portfolio fit into the wider context of decarbonizing economies?
"The economy grows where capital flows, so channeling capital towards companies with strong carbon reduction momentum and away from laggards accelerates the transition to a carbon-free global economy. That said, selling the securities of a high carbon emitting company has no immediate effect on the real economy. Real-world impact requires large pools of investors to 'vote with their feet' by refusing to own the securities of heavy polluters. This will ultimately raise their financing costs and expedite change."

"However, there are caveats to this approach. For one, denying financing will hurt many companies that want to transition but need capital to do so. In addition, some heavy polluters are so cash-flow rich, they don't need new capital. In the latter case, financing boycotts may have little effect. But even cash-rich companies care about their reputations, so if investors position their portfolios away from these companies, it sends an amplified, high-alert message to company management."

"Investors must also use active engagement and voting as a tool to exert their influence over company management. Given that carbon emissions are spread across entire economies and require major structural changes, engagement needs to take place not just with the company but also at the country level."

"Robeco has recently started engaging with country leaders to help them understand the aggregate effects of conflicting carbon policies at the national level. It is counterproductive to force some industries to decarbonize while allowing others to cut down forests or to offer protective subsidies to heavy carbon polluters. Country leaders must also understand that national decarbonization policies will impact their ability to attract global businesses, foreign investments and financing via sovereign bonds."

Subsequently we analyze how companies perform against their sector benchmark. This covers not only their current carbon performance, but also their forward-looking transition plan. Based on this, our analysts assess the financial implications for a company by looking at elements such as capital expenditure and carbon pricing.

Engaging on climate change

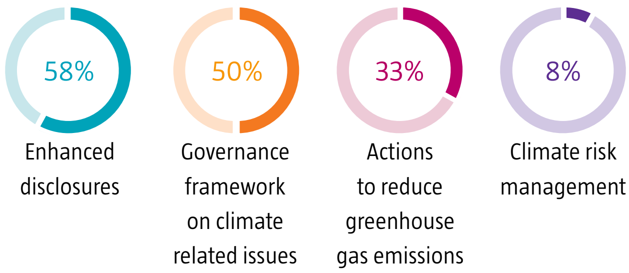
In 2021, we stepped up our engagement efforts on climate change.

Climate Action

In Q1 of 2021, we concluded our dialogue with 12 companies in our theme 'Climate Action'. The engagement theme was launched in 2018 with a focus on engaging on both an individual and collaborative basis. The theme initially included 13 companies in the electric utilities (5), oil and gas (4), chemical (2) and industrial (2) sector. However, one company dropped out of the theme due to a change in our exclusion policy related to fossil fuel exposure. During the three years, we were successful with 50% of the companies.

Two of the companies that were part of the engagement theme were engaged via the collaborative engagement platform Climate Action 100+, in which Robeco is an active member. For both engagement cases – Enel and Shell – Robeco acted as lead investor in the engagements.

Figure 5: Share of companies making positive progress within an engagement objective, Climate Action



Robeco's engagement results are aligned with the trend that a growing number of companies across carbon-intensive sectors have set a net-zero or equivalent target. According to the latest assessment released by Climate Action 100+, 115 companies, or 69% of focus companies, have set commitments to achieve net zero emissions by 2050 or sooner.[2] This represents a massive shift among companies that now recognize that net zero emissions by 2050 or earlier is the end goal that companies, investors, governments and general society should be striving for.

As climate science evolves, so are investor expectations towards our investee companies. Over the past couple of years we have seen a growing number of companies committing to net-zero emissions targets for 2050. However, the challenge of translating these targets into clear and credible transition plans remains. For this reason, 2021 also marked a significant expansion in our climate engagement program with the launch of two new themes, and a rise in ambitiousness of our asks addressed to our investee companies.

Net-zero carbon emissions

Launched in Q4 2020, our 'Net-zero carbon emissions' themed continued throughout the past year with interesting developments.

In 2021, companies began putting their climate transition plans to a vote at their AGMs, known as the 'Say on Climate'. Shell was the first of the oil and gas majors to do so, and we welcomed the beginning of this trend as a first step in improving transparency on transition plans across industries. While the 'Climate Action' engagement theme came to an end early 2021, we continued to lead the collaborative engagements with Enel and Shell under Climate Action 100+ as part of our 'Net-zero carbon emissions' theme, and collaborated actively on four others.

Over the course of 2021, we noted overall positive progress with five of the companies under engagement (two of which are described in the case studies later in this chapter), and flat progress with a further eight companies. The engagement with one company was closed unsuccessfully following a continuously unfruitful effort, and we will engage with another company under an alternative theme where we feel we can address its impact more effectively.

As the focus on corporate responses to climate change continues to intensify, along with the sense of urgency expressed by the scientific community, moving forward we will be focusing on enhancing the level of ambition of climate targets in our engagements. For the relevant sectors, this will include setting absolute carbon reduction targets as well as intensity targets.

Finally, towards the end of 2021 we carried out preparations for the expansion of the net-zero carbon emissions theme by selecting an additional 15 companies through our traffic light system. For more information, see the section 'Acceleration to Paris'. The expansion of the net-zero carbon emissions theme is planned for Q1 2022, and we look forward to sharing more on this next year.

Acceleration to Paris

As mentioned earlier, we expanded our enhanced engagement program with a dedicated theme targeting investee companies falling behind in the climate transition. This new approach to climate engagements aims to support our net-zero roadmap, and is informed by our in-house data-driven framework.

Together with Robeco's SI Research team, the Active Ownership team developed a traffic light system that ranks the top-200 emitters in our investment universe based on their transition-readiness. The scores use data from S&P Global Trucost, the Net Zero Benchmark of the Climate Action 100+ initiative, the Transition Pathway Initiative, the Science-Based Targets Initiative and the Urgewald's Global Coal Exit List, amongst other sources.

Based on this assessment, we identified 28 low-ranking companies across carbon-intensive sectors that will be prioritized for engagement. Thirteen of these companies have been selected for

[2] Climate Action 100+, Net Zero Company Benchmark assessment, 2022

the Acceleration to Paris enhanced engagement program, while the remaining make up the expansion of our existing net-zero carbon emissions theme. In total, these companies contribute to about 20% of Robeco's portfolio emissions.

The combination of high carbon footprints and a lack of climate ambitions is what distinguishes the companies under engagement in the Acceleration to Paris theme from the other climate-related engagement themes. Another important feature of this new theme is that it is an enhanced engagement. This means that we will promote the use of escalation tactics, such as filing shareholder resolutions or speaking at annual meetings, as well as putting companies that do not respond positively to our engagement forward for exclusion.

To boost climate action across the top-200 emitting companies in our investment universe, Robeco is sending each one a letter from our CEO. This letter emphasizes our expectations for companies to adopt credible transition plans towards achieving net zero emissions by 2050 or sooner. These expectations are based on the Sector Decarbonization Pathway research developed in-house. Companies under enhanced engagement failing to make sufficient progress within the engagement period will be considered in breach of global standards and subject to Robeco's exclusion policy.

Climate transition of financials

Besides engaging with carbon-intensive corporates, our engagement program also has the financial industry in scope. Regulators are increasingly looking at how lenders and insurers can support rather than undermine the transition to a low-carbon economy. For example, banks can play an important role by aligning their lending policies with the goals of the Paris Agreement and helping their clients transition to lower-carbon business models. In 2021, we started engaging with 10 banks, expecting them all to commit to net-zero by 2050. To do so, many banks need to set short-term decarbonization targets for sectors like power and energy.

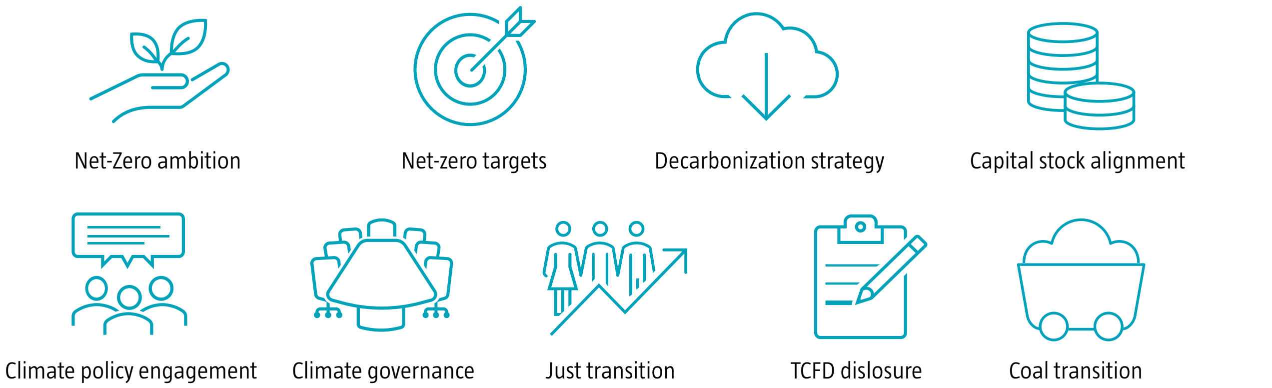
ENGAGEMENT CASE STUDY: ENEL COMMITS TO FULL DECARBONIZATION BY 2040

Throughout 2021, Robeco continued to engage with Enel with a particular focus on setting long-term targets for its scope 3 emissions from natural gas sales to customers, which represent 23% of total emissions, and on a decarbonization strategy for its natural gas generation activities. At its Capital Markets Day on 24 November, Enel committed to fully decarbonizing by 2040, bringing forward its previous net zero target by a decade. In order to meet this target, Enel has committed to generate and sell energy exclusively from renewable sources. The company aims to reach 154 GW of capacity in renewables by 2030, which if achieved would make it the largest renewables operator in the world based on peers' current targets.

The target to reduce scope 3 emissions from Enel's natural gas retail business was an explicit request that Robeco made earlier this year as the investor leading the engagement under the Climate Action 100+ initiative. Enel's announcement is therefore a huge step forward and places the company in a genuine leadership position as it transitions to a low-carbon business model.

Achieving these targets will be critical for banks to align their loan books with a 1.5 degree scenario. Now more than ever, there is industry wide momentum for financials to ramp-up their climate approach as investors set carbon neutrality targets and commit to decarbonizing their portfolios.

Figure 6 | Net-Zero Carbon Emissions: Engagement objectives



ENGAGEMENT CASE STUDY: WEC ENERGY COMMITS TO SETTING TARGETS ON SCOPE 3 EMISSIONS

Robeco has been engaging with WEC Energy as a member of Climate Action 100+. The coalition identified a significant gap in the company's climate strategy as it lacks targets to reduce scope 3 emissions from the sale of natural gas to customers which represent 50% of total emissions.

After engaging throughout 2021 without seeing significant progress, Climate Action 100+ escalated the dialogue by threatening to file a shareholder resolution. In response, in November 2021 WEC Energy committed to setting targets on scope 3 emissions in 2022. In addition, WEC will produce a progress report prior to the 2023 annual shareholder meeting, and issue annual progress reports thereafter that disclose goals and strategies relative to Scope 3 emissions from the natural gas distribution business.

Table 4: Climate Engagement Themes in 2021

Engagement theme	Sector focus	Outcomes Targeted
Climate Action Q1 2018 – Q1 2021	Oil and gas, electric utilities, and chemicals	In the first quarter of 2018 Robeco's Active Ownership team conducted a research on the key climate-related risks and opportunities for companies in the oil & gas, utilities, and chemicals sectors. Using the TCFD recommendations as a framework, our assessment looked into how the 13 companies in the peer group had integrated climate-related issues in the organization's governance, strategy, risk management, metrics and targets. This research forms the basis of our three years of engagement. A key element of this engagement program was our collaboration with global investors through the Climate Action 100+ initiative. Under this investor-led initiative we engage with the world's largest corporate greenhouse gas emitters to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures. Robeco co-led engagements with two companies, and engaged on both individual and collaborative basis with a total of 13 companies.
Acceleration to Paris Q4 2021 – Q4 2025	Broad	Our engagement program focuses on the rapid decarbonization of sectors that are the most highly exposed to the energy transition. These companies have been selected based off of their overall emissions footprint as well as the maturity of their climate strategies. By selecting those companies that are furthest behind in the development of their climate strategies, we aim to optimize the potential for improvement over the timeline of the engagement program.
Net-zero carbon emissions Phase 1: Q4 2020 – Q4 2023 Phase 2: Q1 2022 – Q1 2025	Oil and gas, electric utilities, steel and cement	Our engagement program focuses on smooth decarbonization journeys for the four key emitting industries: oil and gas, electric utilities, steel and cement by encouraging the companies under engagement to take climate change mitigation actions and secure their long-term license to operate. Our engagement approach will be based on the Climate Action 100+ Initiative's Net-Zero Company Benchmark framework released in 2020. Aligning our engagement approach with the Climate Action 100+ emphasizes our commitment as signatory to the initiative and allows us to combine our dialogues with a collaborative engagement.
Climate transition of financials Q1 2021 – Q1 2024	Financials	Our engagement focuses on the climate transition of financial institutions. The main aim of this engagement is to support financial institutions in managing the emerging climate change related risks and opportunities, and to ready them for their and their clients' climate transition. We will focus our engagement on the Banking sector, which has a vital role to play in financing the climate transition and helping their clients achieve the Sustainable Development Goals. We expect companies to know about the implications that climate change can have on their operations and their clients and to proactively assess, monitor and manage climate change related risks and opportunities.

THE INTRODUCTION OF 'SAY ON CLIMATE'

Over the last couple of years, shareholders increasingly have asked CO2-emitting companies to set carbon reduction targets. This year, many resolutions were filed with such demands. As we believe that climate change has inherent risks for companies, we tend to support such resolutions if a company has not set long, mid and short-term targets for their relevant scopes of emissions, or has failed to report on progress.

During the 2021 AGM season, we also saw the introduction of management proposals in relation to their climate strategies. Unilever, Shell, Total and Nestlé were some of the first large companies to ask for an explicit shareholder advisory vote on their climate strategies or reporting. We expect that by having a frequent shareholder vote, best practices will evolve in terms of reporting, ambition levels and progress for the mitigation of climate change. Therefore, we have generally supported such proposals if they meet a set of criteria, including that the company in question had set a net zero ambition, and that it has presented concrete plans for achieving its long-, mid- and short-term targets.

Biodiversity

Biodiversity is rapidly declining at an unprecedented rate in history. Robeco is committed to protect and support conservation and restoration efforts through our investment activities, and we are working towards strengthening the inclusion of biodiversity considerations in our ESG integration framework, our active ownership activities, and in our product development.

Biodiversity is declining faster than at any time in human history, and the pressures driving this decline are still increasing. Over half of the global economy is dependent on well-functioning ecosystems. Further loss of biodiversity could pose risks to financial markets. Nature conservation and restoration is therefore in the direct long-term interest of Robeco's clients and our investments.

Nature is vital for human existence, yet it is deteriorating worldwide due to human activity. The production and consumption of food, energy and materials is increasingly at the expense of nature's ability to provide such resources in the future. Reversing biodiversity and ecosystem loss is essential to preserve wealth and well-being. This can only be achieved through transformative changes in economy and society.

Since the publication of the IPBES report in 2019, investors globally have started to recognize how biodiversity loss is a global systemic risk for investors next to climate change. At Robeco, we have been addressing biodiversity issues for a number of years through a dedicated engagement program on commodity-related deforestation that was established in 2020, through our palm oil policy that was published in 2019, and by assessing biodiversity as a material factor in our ESG integration process. However, we recognize that more can be done from both an engagement perspective, and the way we integrate biodiversity in our investment decisions. In 2021, we explored data availability and carried out our first biodiversity materiality assessment, advanced our strategic partnerships, and continued our engagement and voting efforts.

Committed to protect and restore biodiversity

We recognize that the financial sector has a crucial role in preserving natural capital and biodiversity. In addition to signing the Finance for Biodiversity Pledge in 2020, we signed up to the Financial Sector Commitment on Eliminating Agricultural Commodity-Driven Deforestation at COP26 in November 2021. In the latter initiative,

ROBECO PUBLISHES WHITE PAPER ON ITS APPROACH TO BIODIVERSITY

Consolidating the work done throughout 2021, we published a white paper early 2022 entitled 'Robeco's approach to biodiversity: Towards the integration of nature-related risks, opportunities and impacts in our investments'. The white paper is written by specialists from across Robeco's engagement, climate and sustainable investing research teams and will form a blueprint for future policy in this arena.

Find the white paper on our website.

signatory financial institutions commit to work on eliminating agricultural deforestation risks in their investment portfolios by 2025. This pledge was announced during COP26 in Glasgow and has been endorsed by more than 30 financial institutions with more than EUR 8 trillion in assets under management.

To live up to our commitments, Robeco established a Biodiversity Taskforce in 2020. The taskforce coordinates and drives our organization's biodiversity approach. Robeco's current efforts and ambitions on scaling up their work on biodiversity are summarized in Figure 7.

Carrying out our first biodiversity materiality assessment

In 2021, Robeco conducted a heatmap assessment using ENCORE data[3] to better understand the exposure of our investments to biodiversity risks. This analysis allowed us to identify asset classes and sub-industries with the highest exposure to dependencies and

Figure 7 | Robeco's efforts on biodiversity

Established	ESG integration and SI governance	Engagement with companies and sovereigns	Palm oil policy and exclusions
In progress	Materiality and impact analysis	Partnerships with academics and peers	Collaborative engagement
End goal	Measure biodiversity at issuer level	Steer on quantitative targets in portfolios	Launch biodiversity investment strategies

Source: Robeco

[3] Source: https://encore.naturalcapital.finance/en/about

impacts on specific ecosystem services. The results stemming from this analysis are in line with the findings from research by DNB[4] and other peers in the industry. Here are some of our key insights:

- Around one-quarter of our assets under management are either highly or very highly dependent on at least one ecosystem service. The provision of ground and surface water alone proved to be the most material, followed by climate regulation and water flow maintenance.
- Around 29% of our investments are in sectors that have potentially high or very high impacts on key drivers of biodiversity loss. Use of land and freshwater was identified as making the largest impact, followed by climate change, pollution and direct disturbances. In Figure 8, we showcase Robeco's investment exposure to sectors severely impacting these key drivers of biodiversity loss.
- The highest exposures with impacts and/or dependencies were found in the pharmaceuticals, integrated telecommunication services, specialty chemicals, packaged foods and meats, and apparel, accessories and luxury goods industries.
- A high number of sectors are highly dependent on five ecosystem services, and we displayed our investment exposure to these in Figure 9. Within our investments, we confirmed that Agricultural Products are directly exposed to the widest range of ecosystem services, followed by forest products and a range of industries including electric utilities and telecommunications.

In 2022, we will increase the granularity of this assessment so that we can better understand and compare the biodiversity performance of individual companies within high-risk sub-industries. Going forward, we expect that specific exposure of individual issuers to biodiversity risks and impacts will become an integral part of our investment processes.

The next step challenges us to construct an improved methodology for incorporating biodiversity risk into the portfolio construction process, which will also shape the targets that we aim to set for our investments. Our ultimate goal is to develop a biodiversity framework that will enable us to measure the impact and dependencies of companies throughout our investment process, though we will first have to solve challenges related to data and wide scope of biodiversity impacts.

Figure 8 | Robeco's investment exposure to sectors that impact key drivers of biodiversity loss

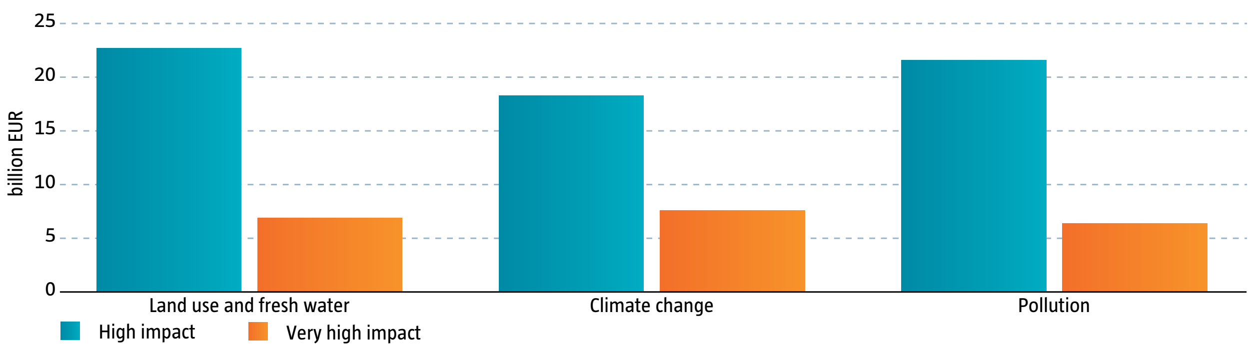
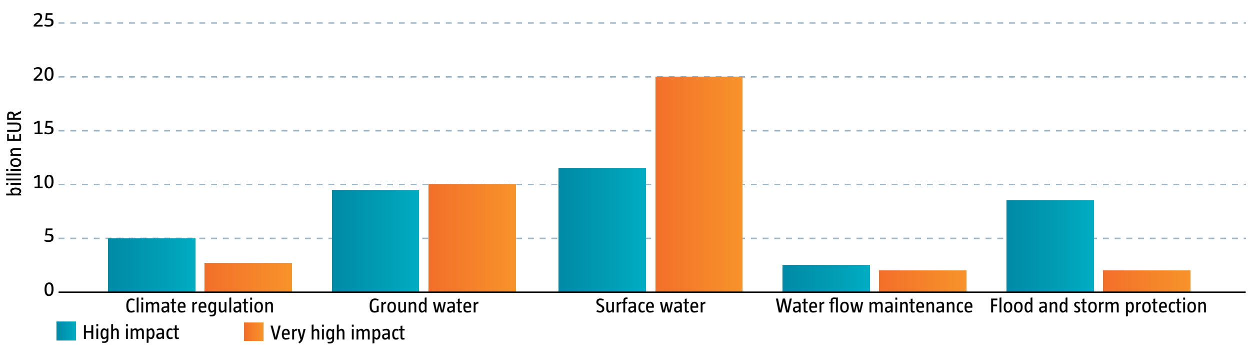


Figure 9 | Robeco's investment exposure to sectors that depend on ecosystem services



[4] Source: https://encore.naturalcapital.finance/en/about

Advancing strategic partnerships

Collaboration and sharing knowledge is fundamental to being able to create the data and tools that we need to progress in the area of biodiversity. Robeco is therefore active in a number of collaborative initiatives with academia and practitioners. In line with our commitment to the Finance for Biodiversity Pledge, we collaborate and share knowledge on the assessment of methodologies, biodiversity-related metrics and financing approaches for positive impact.

TNFD

One of our collaborations has been to help prepare the launch of the Taskforce for Nature-related Financial Disclosures (TNFD). The TNFD aims to support a shift in global financial flows toward nature-positive outcomes by delivering a framework for companies to report and act on evolving nature-related risks. The final recommendations and framework are set be launched in 2023.

PBAF

Robeco has also been involved with the Platform Biodiversity Accounting Financials (PBAF) since its inception, contributing to the development of a set of harmonized principles underlying biodiversity impact assessments for the financial industry.

CISL

Understanding the type of risks that companies will face in light of the depletion of nature is crucial to our investments. We are collaborating with the Cambridge Institute for Sustainable Leadership (CISL) to advance academic research in this field. A major step forward was the publication of the handbook for investors on nature-related risks in 2021.[5] Based on this handbook, we are developing case studies with a financial assessment of the nature-related risks on companies and their financiers.[6]

WWF-NL

In January 2022, Robeco announced a new partnership with World Wide Fund for Nature Netherlands (WWF-NL), combining our areas of expertise to highlight the urgency of biodiversity loss, build knowledge and show how investors can take action to integrate biodiversity into asset management. We look forward to sharing more on this in the coming months.

The financial sector and the asset management industry in which we sit has a crucial role to play in helping to prevent further biodiversity loss. This is not something that is simply 'nice to have' in the context of sustainable investing: it is in the long-term interest of our clients and our investment performance, along with our duty to do our best to use our financial muscle to contribute to protect the planet. One way we do so is through engagement.

PARTNERSHIP WITH WORLD WIDE FUND FOR NATURE NETHERLANDS (WWF-NL)

Robeco and World Wide Fund for Nature Netherlands (WWF-NL) have joined forces in a new partnership from January 2022 onwards.

Robeco and WWF-NL have defined three overarching work streams for this partnership:

1. **Collaborate on the Robeco biodiversity roadmap as presented in this white paper, including impact and dependency measurement and management**
2. **Co-development of biodiversity investment strategies**
3. **Inspiring and activating stakeholders in the financial sector to integrate biodiversity into asset management.**

Addressing biodiversity loss through the lens of commodity-driven deforestation

Environmental issues in the agricultural sector, such as deforestation and conversion of natural habitats and the impact of agrochemicals in crop production, have been a recurring topic in our engagement with companies. Our engagement program 'Biodiversity' focuses on the impact of deforestation linked to five high-risk crop commodities: cocoa, natural rubber, tropical timber and pulp, soy and beef, as showcased in Figure 10.

Expectations included in our engagement program are that companies commit to zero deforestation and conduct biodiversity impact assessments. We also aim to drive more biodiversity stewardship from our investee companies. This means that companies need to look beyond their own operations and supply chains, and mobilize and transform together with other stakeholders globally in order to find solutions to reverse nature loss. These are translated into five engagement objectives (see figure 11).

First steps towards traceability in the Brazilian beef industry

The beef industry in Brazil has a track record of high deforestation, but now our long-standing dialogue with some of the main beef producers is starting to bear fruit. These companies used to have a defensive approach when discussing their involvement in deforestation and the negative environmental footprint of their products. Recently, though, we have started to see a shift, as companies are beginning to hold themselves more and more accountable, and are committing to achieving full traceability in their supply chains by 2025.

[5] Source: https://www.cisl.cam.ac.uk/resources/sustainable-finance-publications/handbook-nature-related-financial-risks
[6] Source: https://www.cisl.cam.ac.uk/resources/publications/assessing-nature-related-financial-risks

Figure 10 | Scope of corporate engagement on biodiversity

Source: Robeco

Figure 11 | Robeco's engagement objectives: Biodiversity

To reduce biodiversity loss, it is crucial for companies to have oversight of whether deforestation occurs at the farmer-level, where calves are raised, or in any other parts of the supply chain before the cattle are sold to the slaughterhouse. Both beef producers in our program have adopted blockchain technology to develop proprietary platforms for their suppliers to track all supply chain movements of their cattle. However, for now this is only on a voluntary basis as the companies operating slaughterhouses globally find that mandatory transparency would be a financial risk due to the potential loss of access to cattle on the spot market.

Tire manufacturers struggle to prevent deforestation by rubber producers

In Southeast Asia, progress in achieving a reduction in deforestation rates is still minimal. This is mainly linked to the rubber supply chain of car tire manufacturers. These companies continue to struggle with implementing transparency practices that are more widely used in other supply chains, such as in the enhanced traceability and monitoring of suppliers. Nevertheless, most tire manufacturers are now part of the Global Platform for Sustainable Natural Rubber (GPSNR), an international, membership-driven platform set up to define sustainability standards for the value chain. This platform is helping companies to start setting up concrete policies and commitments to tackle the environmental and social challenges they face.

CASE STUDY

At the end of 2020, we filed a shareholder resolution at ADM's 2021 shareholder meeting, asking the company to step up its efforts to eliminate deforestation in its soy supply chain. After several weeks of intense negotiations, spanning across multiple meetings with ADM's head of sustainability and corporate secretary, we managed to get the company to agree to most of our key requests and so we withdrew the proposal. Our achievement was to ensure that ADM published a revised no-deforestation policy, and committed to eliminate deforestation from all its supply chains by 2030.

OUR POSITION ON PALM OIL

Robeco acknowledges the relevance of palm oil as a commodity in today's economy. Its high yield, low cost and stable supply makes palm oil a preferred ingredient in food and consumer products. However, as production volumes have surged, so have the environmental and social challenges, such as deforestation, pollution, the destruction of critical habitat, biodiversity loss, and severe human rights and labor rights violations. Robeco aims to actively contribute to the establishment of a sustainable palm oil industry. Our approach aligns with the work of the RSPO, of which Robeco is a member. Established in 2004, the RSPO is a not-for-profit organization that aims to unite stakeholders from all sectors of the palm oil industry. As the most relevant standard for sustainable palm oil, the RSPO has established processes to develop, implement, verify, assure, and periodically review standards for the supply of it.

In 2014, Robeco joined the Principles for Responsible Investment (PRI) Investor Working Group on Sustainable Palm Oil as an Advisory Committee member. We continued to challenge consumer packaged goods companies to create more uptake of sustainable palm oil in the market. In addition, Robeco has contributed to the development of the Zoological Society of London's Sustainability Policy Transparency Toolkit (ZSL-SPOTT) palm oil benchmark as a member of its Technical Advisory Group. Through constructive dialogues and collaborations with various stakeholders over almost 10 years, Robeco has brought positive change to the industry by applying our value engagement to provide shareholder expectations to a large number of companies in our investment portfolios.

Sustainable palm oil

Robeco has engaged since 2010 with companies producing, trading, or procuring palm oil used in consumer or household products. In January 2019, we included palm oil as a topic under the controversial behavior category in Robeco's exclusion policy. We defined a set of principles and expectations that guide our interaction with the palm oil sector. The multi-faceted sustainability issues facing the industry can't be completely resolved by certification schemes alone. However, leading schemes such as the Roundtable on Sustainable Palm Oil (RSPO) play an important role in leveraging the uptake of best practices and increasing transparency. In 2021, Robeco raised its inclusion threshold for companies from 50% or less of their plantations that are RSPO certified to 80%. Other palm oil-producing companies are part of an engagement program in which Robeco requires them to make progress towards full RSPO certification and address potential controversies and breaches of the UN Global compact. Palm oil-producing companies that do not reach 80% RSPO certified plantations by 31 December 2024 will be excluded. While engaging with companies is important, halting deforestation requires government action.

Sovereign engagement on deforestation

Robeco has been involved in the Investor Policy Dialogue on Deforestation (IPDD) initiative since it was formally set up in July 2020. This collaborative initiative focuses on mitigating the risk to investors posed by the increasing rates of deforestation around

IN JANUARY 2021, ROBECO WAS ONE OF THE INVESTORS MEETING WITH THE VICE PRESIDENT OF BRAZIL TO DISCUSS DEFORESTATION. CAROLA VAN LAMOEN, HEAD OF SUSTAINABLE INVESTING, GIVES HER VERDICT:

"As long-term investors in Brazilian bonds and equities, it is important to us how Brazil deals with deforestation and climate change, not only a matter of social responsibility, but also as a financially material factor in our investment decisions. These go hand in hand, and that fact that the Brazilian government is open to discuss these matters with investors is an important sign. We're grateful for that, but it's not the ultimate goal itself. The ultimate goal to achieve is significant reduction in deforestation rates and proper law enforcement against environmental crimes. This is why, together with the other investors from the Investor Policy Dialogue on Deforestation , we had this second call with the Vice President of Brazil. We are not able to solve global challenges like climate change and deforestation on our own, but together we can contribute to positive change."

the globe. The IPDD seeks to engage directly with governments (or related organizations) to convince them of the value attached to preserving natural assets and to discourage potentially unsustainable land use. The first sovereign engagement initiated by the IPDD was in June 2020 with Brazil, where a group of 29 global investors, including Robeco, signed an open letter to the Brazilian government to curb deforestation. Since then, follow-up meetings with representatives from the Brazilian government have taken place, the latest in January 2021.

In October 2020, the sovereign engagement on deforestation expanded to Indonesia.

Robeco to champion the launch of Nature Action 100

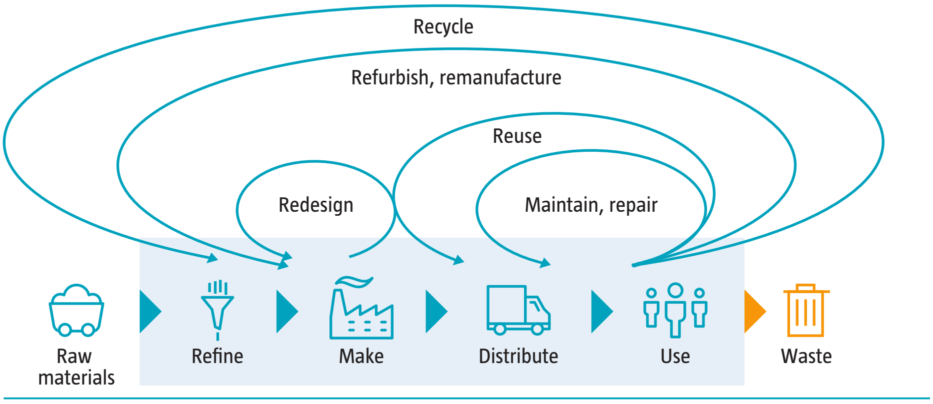
Robeco, together with a core group of investors, is driving the development of Nature Action 100, which will be launched in the second half of 2022. This program will build on the lessons learned from Climate Action 100+. It seeks to work with research organizations and conservation NGOs to develop a list of 100 companies with the largest exposure to impacts and dependencies on nature and biodiversity. Global investors will be invited to sign up to the program and lead on individual dialogues on behalf of the global investor community.

Robeco will represent its clients in this effort to complement its existing biodiversity engagement program. The common goal of these dialogues is to prepare companies to proactively address biodiversity loss by preparing the right governance structure and committing to a biodiversity policy. This should ultimately prepare companies for adopting the TNFD when this is launched in 2023. The urgency of biodiversity loss calls for comprehensive global action and the financial industry can play a pivotal role in harnessing the corporate support for the Global Biodiversity Framework.

Water and waste

Water and waste play essential roles in addressing biodiversity and climate change challenges. At Robeco, we recognize the intersection between managing the water and waste footprints in our investment activities, and our efforts to address the biodiversity and climate change challenges.

DIVING INTO THE CONCEPT OF CIRCULAR ECONOMY



The circular economy is a model which places a greater reliance on reusing existing materials in a series of loops, creating an almost closed loop system. This is in contrast to the current linear economy, which is based on the take-make-waste system of extracting minerals, turning them into manufactured products and then disposing of them at the end of their useful life.

Much of the concept of the circular economy involves words beginning with 're-': recycling, redesigning, reusing, refining, refurbishing and repairing – to name the most common descriptors. This has two main objectives:

- **Making more efficient use of the Earth's resources, as research shows that the linear model consumes finite resources at 1.7 times the planet's annual regenerative capacity.[7] In some areas such as farming and mining, we are already approaching planetary boundaries regarding deforestation, biodiversity and extractive limits.**
- **Eliminating the billions of tons of waste that are produced by the linear economy every year, much of which ends up in unsustainable landfill, or is dumped in the ocean. Plastic packaging is a particular problem, since 80% of it is never recycled. Electronic devices are also commonly discarded, when it would be possible to retain up to 90% of the product's value by using a more modular and recyclable design.**

The world's rapidly growing population, combined with economic growth and urbanization, is driving resource consumption. This consequently leads to one of the world's most pressing environmental problems: waste generation. With the current levels of urbanization and population growth, global waste generation is estimated to rise to 2.2 billion tons per year by 2025, which translates into 1.42 kg of waste per person per day. Improper handling and disposal of waste poses significant public health and environmental risks, and can lead to the violation of numerous human rights, thereby screaming for the move to a circular economy.

Opposite waste, water – especially fresh clean water – is increasingly becoming a scarce resource. The true value of this critical asset is underestimated and its use is largely unsustainable. Increases in water demand coupled with limited supply and uneven distribution are leading to water-stressed regions across the globe. Current trends like climate change, population growth, industrialization and decreasing water quality will strain supplies and further exacerbate water stress. The mining industry has the highest financial impact from water risks; its total risk is more than double that of second-placed industry of power generation. In 2018, Carbon Disclosure Project (CDP) found that water-related

[7] Source: National Footprint and Biocapacity Accounts 2021 Edition

risks had an estimated financial impact totalling USD 24.9 billion, which was 6% of the responding companies' market capitalization.[8] Water scarcity is thus not only an environmental problem but also an evident financial concern, as the associated risks can have a substantial impact on companies' financial performance.

Celebrating 20 years for our Sustainable Water Equities fund

In 2021, Robeco proudly celebrated the 20th anniversary of the RobecoSAM Sustainable Water Equities fund. Launched in September 2001, it is one of the world's first sustainable water funds and has been managed by the same portfolio manager – Dieter Küffer – since its inception.

For two decades, the fund has focused on companies that seek solutions to address the challenges of rising water demand. The strategy invests worldwide in companies providing technology, products and services relating to the water value chain, such as water distribution, management, efficient use, treatment, and analysis as well as irrigation systems.

Dieter Küffer: "The world and the investment universe along the water value chain looked different 20 years ago, when I started managing the strategy. Policy makers and innovative firms have joined us since then in our aspiration to preserve clean water on our planet. I'm proud that the teams involved with the strategy, consisting of equity analysts, SI Researchers and Active Ownership specialists, have enabled our clients to achieve their financial and sustainability goals. But the challenges for clean water provision are still at play – we cannot rest on our laurels."

A core component of our stewardship policy concerns addressing environmental impacts. Specifically, we expect companies to continuously improve their performance in areas such as emission reductions, resource efficiency, recycling, substitution or reduction of toxic substances and biodiversity.

In 2021, water and waste management was part of three engagement programs: 'Lifecyle management of mining', 'Single-use plastics', and 'Reducing global waste'.

Engaging on the lifecycle of mining: minimizing the negative impact of minerals

Through this engagement theme, we call on mining companies to improve disclosures on their performance on key environmental issues at the asset level, and urge them to take further action to mitigate adverse impacts.

Metals and minerals play an important and increasing role in modern societies. As the world faces the challenge to transition to a low-carbon world, clean technologies are leading to booming demand for materials such as aluminium, copper and nickel. But the soaring demand does not come without consequences. Mining activities often have significant adverse impacts on natural landscapes, disrupt ecosystems, and divert scarce water resources to the detriment of local communities. As responsible investors in the mining industry, we launched an engagement program in 2020 with the objective of encouraging our investee companies to minimize the environmental footprint of their operations. We focus on three overarching areas: water risk management, tailings dam safety and asset retirement.

ADDING WATER AND WASTE AS THE NEXT FRONTIER TO IMPROVE SUSTAINABILITY IN FACTOR CREDITS

The next step in improving the sustainability of our factor credit strategies is to reduce the water and waste footprints of the portfolios, in line with the principles of the Paris Agreement. We believe that, going forward, companies with lower environmental footprints will be more successful in the future. Importantly, we find that quantitative investment strategies lend themselves well to integrating secondary objectives, such as reducing environmental footprints, in addition to the primary objective of realizing attractive risk-adjusted returns. This is due to the large investment universe that the strategy is able to screen for the most attractive opportunities. If a company with a relatively high footprint issues a bond with attractive factor scores, the portfolio construction algorithm often is able to find a bond with similar factor scores, but with lower footprints. This efficiently tilts the portfolio towards bonds of more sustainable companies without having to forego a great deal of factor exposure.

Our research shows that imposing water and waste constraints ensures that the weighted average water and waste footprints of the portfolio are, at most, as high as those of the benchmark. This leads to small adjustments in portfolio allocation to sectors and in issuer selection within sectors, and results in a limited reduction in the back-tested outperformance.

Read more in the insight article 'Water and waste as the next frontier in improving sustainability in factor credits' available on our website.

[8] Carbon Disclosure Project, In too deep, 2019 (Link). The results of analysing water security data from 54 of the world's largest listed mining companies.

Enhanced disclosures on water risk management

Our first year of engagement has found that there is a high level of awareness of the importance of water use management among most of the mining companies in the peer group. Due to the operational importance of enhancing efficiency, most of them are undertaking efforts to re-use water and minimize consumption.

However, the majority of companies disclose water use performance at the group or entity level, and only a minority provide data at the asset level. Asset-level disclosures are important because the sustainability of water consumption levels is dependent on the specific hydrological characteristics where a mine operates. Since 2020, Robeco has also joined the CDP Non-Disclosure Campaign to ask eight of the companies in the peer group to complete CDP's annual water questionnaire in order to help enhance the quality of disclosures.

One of the main areas of concern that our engagement aims to address are the adverse impacts of mining operations on water availability for all users of the waterbody. This requires companies to ensure that the water balance at the catchment level is sustainable. It is encouraging to find that a growing number of companies in the peer group are conducting baseline risk assessments at the entire basin level, effectively adopting a catchment level approach. This is the first step to being able to measure and report on the impact of operations on water availability at the catchment level, and in setting targets to mitigate adverse impacts on the overall water body and its users.

An important finding of our engagement so far is that water quality is predominantly determined by local regulatory requirements. Most companies operating in multiple countries argue that adopting the same quality standards across different jurisdictions is difficult to implement, as regulatory requirements for measuring and monitoring water quality differ. More broadly, we also note that there is no common disclosure framework on water quality. The International Council on Mining and Metals (ICMM) standards stress the need for regular disclosure of performance data on both water quality and quantity. But industry guidelines on water reporting focus almost entirely on quantity issues. There is a need for detailed indication of the quality of the water actually used by stakeholders located downstream of mining operations, such as the rivers and lakes from where water may be used by others.

Growing momentum for global tailings standards on safety

Two years after the tailings dam burst in Brumadinho, Brazil, the mining industry has shown its willingness to take safety risks seriously. Following collaborative engagement under the Investor Mining and Tailings Safety Initiative, mining companies started disclosing for the first time the full inventory of tailings storage facilities they operate. With the exception of two companies, all other miners in the peer group have disclosed details of their tailings dams.

Moreover, in 2020, the ICMM, PRI and UN Environment Program co-convened the Global Industry Standard on Tailings Management with the aim of providing best practice standards. This aims to ensure it incorporates not only safety, but also environmental and social minimum safeguards. Mining companies that are members of the ICMM have committed to implementing the global standards within the next three years.

There are eight ICMM company members in our engagement peer group. However, the enthusiasm to implement the standard among non-ICMM members is less pronounced. As an active member of the Investor Mining and Tailings initiative, we will continue encouraging companies to implement the global standards on tailings.

The black box of mine closure plans and costs

Best practice tells us that minimizing environmental impacts of mining activities is most successful when they are anticipated before operations have even started and are subsequently managed throughout the entire life of a mine. Mine closure plans that are developed early on can be used as a baseline upon which the adequate technologies and measures can be adopted. Our engagement so far finds a complex reality where mines may follow different asset retirement standards depending on their age and location. More critically, disclosures on this important matter do not provide investors with sufficient information to assess the extent to which companies have appropriate financial assurances to finance the costs of mine closures and land rehabilitation.

Lifecycle management of environmental risks

Managing the environmental risks of mining operations is often dependent on the location. One size does not fit all for mining operations. This is the main reason our engagement is focused on enhancing transparency and setting targets at the asset level. We have seen progress on the adoption of an asset-level approach in water use management and tailings dam safety. In our engagement, we are calling for a comprehensive approach that helps investors gain a good understanding of the environmental risks across assets and the actions being taken to mitigate them.

Concluding our single-use plastics engagement

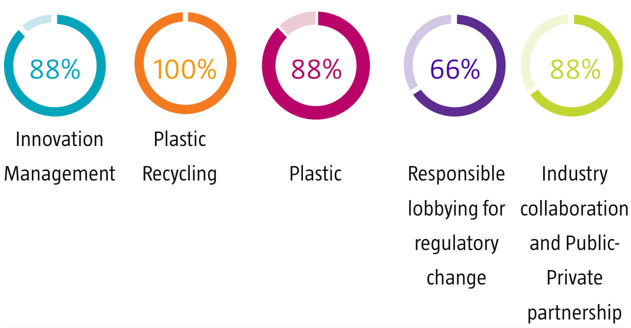
Towards the end of 2021, Robeco was concluding its three year engagement program on single-use plastics. The program focused on encouraging companies in the plastic packaging value chain to move to a circular economic model by addressing five key areas: innovation management, plastic recycling, plastic harmonization, responsible lobbying, and industry collaboration and partnerships.

Exposure to plastic waste and pollution within an investor's portfolio leads to many material ESG risks that could hurt returns. These include existing and future regulatory changes, reputational issues and litigation resulting from pollution of waterways and oceans, such as marine degradation and biodiversity loss. It is in our interest to reduce any such negative impact.

Good progress made but challenges ahead

Most companies were able to show good progress on three of the engagement objectives covering innovation, responsible lobbying and industry collaboration and partnerships, but they were lacking on recycling and plastic harmonization. However, the engagement also found that the development of responsible packaging sometimes conflicts with other solutions. One issue for example is that the development of bioplastics is seen as a major solution to waste, since they degrade more easily than regular plastics – but this then complicates the recycling system even further. The problem here is that bioplastics are made of non-fossil fuel-based feedstock, which is positive to reducing its impact on the climate, but these compostable materials are in general not of sufficient quality to protect food.

Figure 13: Share of companies making positive progress within an engagement objective in Single-use plastics



Improving the dynamics

Through the engagements we also found that there is an urgent need to improve the supply and demand dynamics for recycled plastic. Recycling plastic into new packaging costs money. Household plastic waste has to be sorted, melted into pellets and reformed into new packaging. That is why recycled plastic is often more expensive than new plastic. So, by recycling more efficiently, and creating an efficient market for recycled plastics, companies can seize the opportunities and adapt their business model accordingly.

Working Group on Plastics

The PRI's Working Group on Plastics recently developed new guidance to both investors and companies across four relevant sectors: petrochemicals, containers and packaging, fast-moving consumer goods, and waste management. The initiative brings together 39 institutional investors, including Robeco. It offers practical ideas on how to assess performance on waste management and gives examples of best practice. The pioneering guidance will help investors to assess companies' performance, and spur them to take bolder action towards a circular economy for plastics.

Transitioning from a 'waste management' to a 'resource recovery' mindset

With global solid-waste production expected to reach 3.4 billion tons by 2050, society faces a growing waste management challenge. After three years, our engagement project on 'Reducing global waste' has come to a close. Here, we reflect on the outcomes of the project, and discuss the future trajectory for companies addressing this issue.

Although the most efficient and successful way to manage waste is to not produce it in the first place, many companies are not there yet, but are transitioning from a 'waste management' to 'resource recovery' mindset. Embedding circular principles into operations can reduce resource consumption, improve resource efficiency, and reduce the overall cost of waste management. By tracking and communicating efforts around waste minimization, companies are also establishing a database that can be easily shared with stakeholders. Furthermore, sustainable waste and resource management has the potential to reduce greenhouse gas emissions by 15%-20% across several sectors.

Engagement results

We selected a group of 12 predominantly small/mid-cap companies that operate in industries related to solar energy, industrial waste management and technology. The core objective of this engagement theme was to improve the reporting of companies regarding their contribution to the SDGs, especially sub-target 12.4 which seeks to achieve "the environmentally sound management of chemicals and all wastes throughout their life cycle". In addition, we challenged the companies' strategic approach to managing performance on material ESG issues. Finally, we encouraged them to manage their resources sustainably, for example through the reduction and recovery of materials.

CASE STUDY

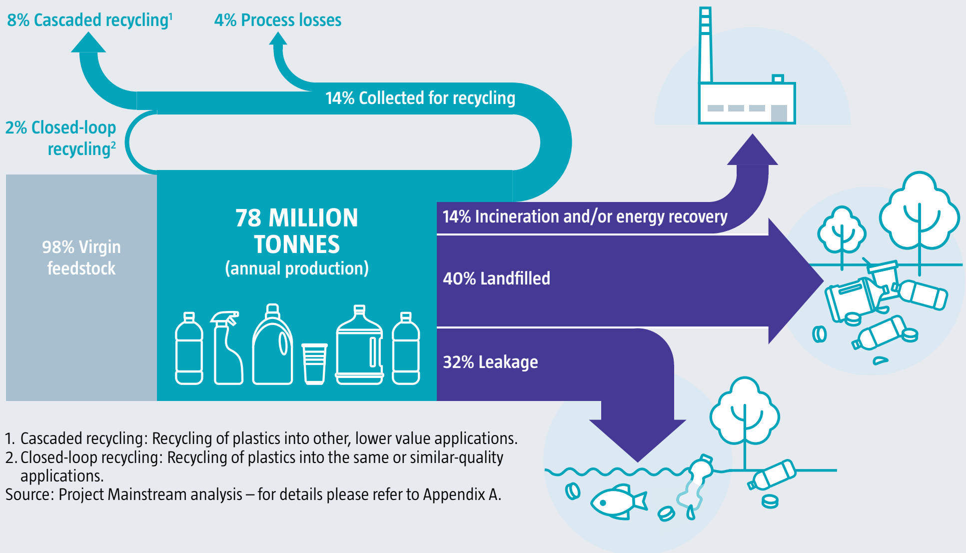
SINGLE-USE PLASTIC: NOT SO FANTASTIC

Plastic has many positive characteristics

- Superior functional qualities
- Light weight and low cost
- Packaging stability extends shelf life of products

Current use results in negative impacts

- Short life cycle with single use plastic packaging
- 95% of plastic packaging (USD 80-120 billion) lost annually
- Ends up in Landfill, Incineration or pollutes the Environment - not recycled



1. Cascaded recycling: Recycling of plastics into other, lower value applications.
2. Closed-loop recycling: Recycling of plastics into the same or similar-quality applications.

Source: Project Mainstream analysis – for details please refer to Appendix A.

Focus

The objective of this engagement theme is to drive the global plastic packaging value chain towards a more circular model and improve supply and demand for recycled plastic.

Company*	Overall engagement result	Innovation management	Plastic recycling	Plastic harmonization	Responsible lobbying for regulatory change	Industry collaboration and Public-Private Partnership
Amcor	✓	✓	✓	Flat progress	Flat progress	✓
Berry Plastics Group	✓	✓	✓	Flat progress	Negative progress	✓
Carrefour	✓	Positive progress	✓	Positive progress	✓	✓
Danone	✗	Flat progress	Positive progress	Positive progress	✓	Flat progress
Henkel AG & Co.	✓	✓	✓		✓	✓
Nestle	✓	✓	✓	✓	Positive progress	✓
PepsiCo	✓	✓	✓	✓	✓	Positive progress
Sealed Air Corp.	✗	✓	✓	Positive progress	Flat progress	✓

● Positive progress ● Flat progress ● Negative progress ✓ Closed effectively ✗ Closed non-effectively

* The single-use plastic engagement theme included two more companies, but at the time of publication the engagement with these companies was not yet finalized.

Results

SDG 11 SUSTAINABLE CITIES AND COMMUNITIES | SDG 12 RESPONSIBLE CONSUMPTION AND PRODUCTION | SDG 14 LIFE BELOW WATER

Examples of successes achieved

CASE 1 The company has set a long-term goal of using 100% reusable, recyclable, or compostable packaging for its brands' products by 2025. By September 2020, this initiative has helped eliminate 1100 tons of plastic used within 440 own-brand products.

CASE 2 The company has a new target to use 30% circular plastics across its fast-moving consumer goods packaging by 2030. It has developed a recycling technology that leads to virgin-quality recycled plastic. This will achieve a circular economy, as it recovers waste that would otherwise be landfilled.

CASE 3 The company is on track to achieve their 2025 target: 100% of its packaging recyclable or reusable. It also aims to reduce virgin plastic packaging use by 50%. It was the first company to conclude a plastic waste reduction bond, with volume of USD 70 million.

UN TREATY ON PLASTIC POLLUTION TO COMBAT PLASTIC WASTE

In the middle of last year, Robeco backed a call for a new global treaty that commits nations to ending the plastic waste tsunami. Engagement Specialist Sylvia van Waveren explains why such a treaty is important, and what effects it could have.

Why do we need a UN treaty on plastic waste?
"Cheap and easy-to-make plastics have become so prevalent in packaging that their use has increased 20-fold since the 1970s and is expected to double again in the next two decades. Virtually every supermarket product is packaged with plastic in some form, the majority of which is single use. That means that today, nearly everyone, everywhere, comes into contact with plastic packaging every day, and then throw it out afterwards."

"This comes at a huge environmental price, since it creates a waste mountain of drinks bottles and food bags, much of which ends up in the ocean. Scientists estimate that at the current rate of pollution, by 2050 there will be more plastic in the oceans than fish. So reducing single-use plastic is a core priority for tackling the tsunami of waste that it is causing."

"Apart from the many environmental problems that are caused by plastic waste, there are also many economic consequences of this kind of pollution. Marine litter is already affecting tourism by making certain areas less attractive to go to, and thus decreasing economic prosperity in coastal areas."

What effects could it have?
"Such a treaty could become as effective as other UN initiatives such as the founding of the PRI, which forms the blueprint for sustainable investing's core motives, and the development of the Sustainable Development Goals."

"It is also aligned with two key events that took place in 2021: the UN Biodiversity Conference in China, which aimed to agree on a post-2020 global framework to prevent biodiversity loss, and COP26 in Glasgow, which brought together governments to accelerate climate action towards the goals of the Paris Agreement. Plastic pollution is indirectly an element in both."

"Businesses and investors have been a key driver of previous UN treaties. By acting together for a common good we think we can shape the agenda for a new treaty on plastic pollution and so make a difference."

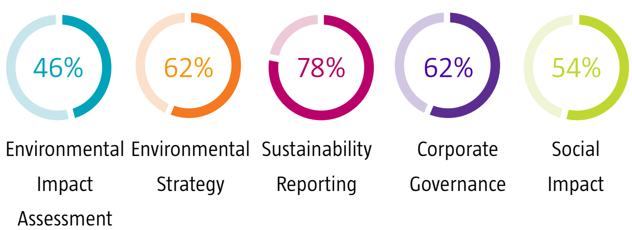
Some 70% of our company engagements were closed successfully, and most elements of three of the five engagement objectives were achieved. The most commonly achieved objectives were sustainability reporting and environmental strategy, with corporate governance being a close third.

This highlights the importance of company disclosure in facilitating an improved waste management program. Throughout our dialogues, we provided guidance on how to determine the materiality of various resource management issues and how they should be reported. When applicable, we encouraged the use of the SDGs as a means of demonstrating the contribution that individual sustainability strategies can make.

Future steps

The dialogues with management and some board members

Figure 14: Share of companies making positive progress within an engagement objective, Reducing Global Waste



demonstrated a shifting mindset towards waste management and resource efficiency. The topic of waste is steadily being integrated into the broader sustainability strategy, which many companies are proactively defining, measuring, and ultimately reporting on. Nonetheless, there are many foreseeable changes that will impact the entire waste management industry.

Future waste solutions will continue to be created and implemented, with computer technology taking a much larger role. This includes practices such as using robots at recycling facilities to sort the waste, using GPS-operated compactors and even microchipped recycling bins that can track the origin of recycled waste. If products are tracked throughout their lifecycle, this could allow for the creation of unique business models based on product lifecycle data to prevent the generation of waste.

Advancements in the treatment of specific kinds of waste will also play a role going forward. For instance, ecological and economically efficient plastic waste can now be turned into a high-quality resin. This process typically emits less greenhouse gas than is emitted from traditional plastic recycling techniques. Recycling, including various forms of waste-to-energy efforts, are also expected to take a much greater role in waste management. New laws, along with massive cooperation and coordination between governments, businesses, and individuals, will also be required to successfully get on top of the situation.

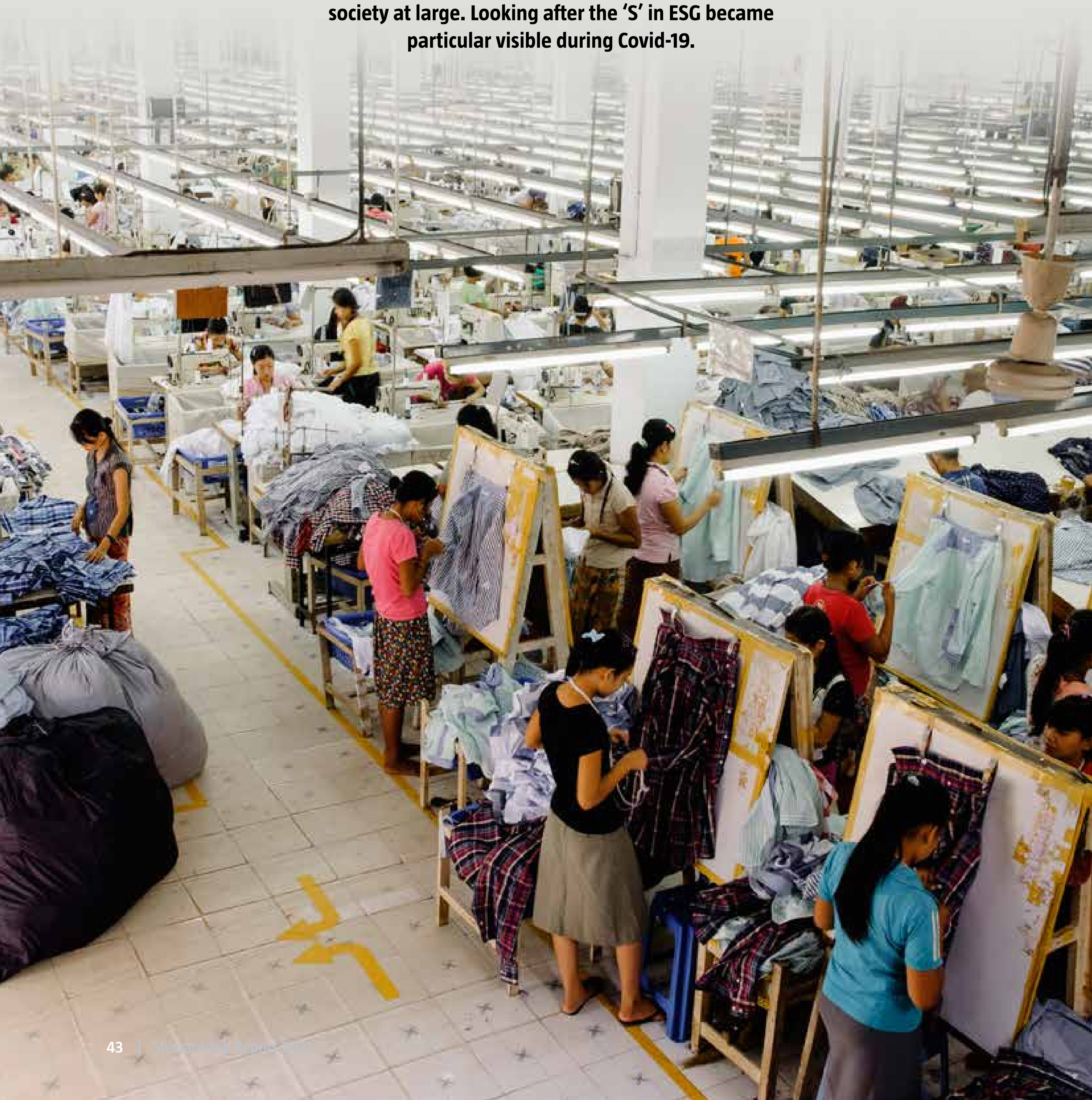
Overall, we have seen the engaged companies make progress towards achieving SDG 12.4, though it begs the question of whether the scale and depth of impact will be sufficient to fully meet this target by 2030.

CASE STUDY

Itron is an American technology services company that provides solutions to measure, manage, and analyze energy and water use. In three years, Itron went from not having a renewable energy program, not conducting lifecycle analyses, and only disclosing high-level reports, to being one of the most successful cases in the engagement. The company significantly improved its sustainability strategy and reporting over the course of our engagement, specifically by mapping its contribution to the SDGs and capturing more granular ESG data. The increase in data analytics and subsequent reporting has improved the oversight of the environmental effect of its products. This progress highlights the effectiveness of direct engagement, as we had several in-person meetings, and were able to capitalize on the company's awareness of growing investor expectations.

Social and employee matters

Over recent years, societal and political turmoil has reinforced how investors perceive companies' responsibilities towards workers, consumers and society at large. Looking after the 'S' in ESG became particular visible during Covid-19.



The Covid-19 pandemic has put extreme pressures on the economy, disrupting industries and their supply chains, all while highlighting many of the previously hidden labor malpractices. Meanwhile, recent global conflicts have led to a rise in human rights abuses around the world and have shone light on how and in which manner businesses are tied to these adverse human rights impacts. In addition, the topic of diversity and inclusion has also risen up the agenda of investors, given the social unrest around racial equality.

Despite climate change concerns among investors becoming more apparent throughout 2021, our belief is that social concerns deserve a spot on the broader investor agenda. In the article below, our Head of SI Research, Rachel Whittaker, explains why we must stay clear of carbon tunnel vision.

SI DILEMMAS: IS 'E' OR 'S' MORE IMPORTANT? – RACHEL WHITTAKER, HEAD OF SI RESEARCH

The SDGs are described as "a shared blueprint for peace and prosperity for people and the planet", placing humanity at the heart of sustainable development. Social goals slightly outnumber environmental goals, as well as appearing earlier in the sequence. Yet, as the market for sustainable and impact investing has matured, environmental topics such as climate change, water scarcity, ocean health and biodiversity are now receiving a much higher share of investor attention compared to social issues such as human rights, workplace conditions and access to finance, education and healthcare. Nevertheless, some social themes are quietly gaining momentum, even as environmental themes hog the limelight.

Recently, the 'gender lens' investing community has begun to look closer at the interconnectivity of gender equality with environmental challenges. Investors have been asking whether an investment or impact strategy focused on gender equality is truly meeting its objectives if it does not also address the climate-related inequalities.9 The United Nations has recognised the link between gender equality and climate change for over a decade.

Women and girls are often more vulnerable to the effects of climate change as they form a large proportion of the world's poor, and are more likely to be dependent on local natural resources that are impacted by climate change. They are less likely to be involved in decision making, have fewer financial resources to fall back on, and more likely to be responsible for domestic needs such as clean water, food and fuel. All of these issues will be made more difficult by climate change, particularly in developing countries. However, the latter responsibilities also make women critical participants in adopting the lifestyle changes necessary to adapt to a changing environment.10

Interconnectivity between the E and S exists across the entire scope of sustainability challenges. The worst effects of climate change will be disproportionately borne by the poorest in society; good health for all cannot be achieved without understanding that climate change and access to clean water affect patterns of disease. Likewise, eradicating hunger is inextricably linked to managing the impact of climate change and biodiversity on agricultural productivity. Trying to entirely disaggregate E and S issues and weigh up their relative importance could ultimately be a distraction from the goal of driving positive change and identifying attractive investment opportunities.

Examining our investment choices through a specific E or S lens can help investors to align with particular set of values or goals. But an effective investment or impact strategy must acknowledge that no sustainability challenge or opportunity can be tackled in isolation.

Read the full insight article 'SI Dilemmas: Is 'E' or 'S' more important?' on our website.

[9] Biegel, S. & Lambin, S. Gender & Climate Investment: A strategy for unlocking a sustainable future (2021)
[10] https://www.un.org/womenwatch/feature/climate_change/

Robeco includes considerations of social and employee matters in multiple steps of the investment process. Examples include our exclusion policy on controversial behavior which follows UNGC principles and OECD Guidelines, and our ESG integration framework. In the ESG integration framework, social scores are part of our quantitative strategies and in our fundamental strategies social factors like human capital management and health and safety are covered in the investment case when deemed financially material by our analysts.

Sustainable investors can also play a role in ensuring that an adequate focus on social challenges remains high on the agenda of companies, regulators and governments, through voting, engagement, and involvement in financial industry initiatives, such as the Investor Alliance for Human Rights and the recently launched PRI Stewardship initiative on social issues and human rights.

Companies need to ramp up human rights due diligence processes

In the last decade, the number of civil wars worldwide has almost tripled, with a peak of 53 countries experiencing internal armed conflict in 2016. Many of these conflicts are linked to severe human rights abuses, often involving not only conflict participants but also businesses operating in the concerned area, whether willingly or not. For example, a 2019 UN mission exposed the ties between companies and the military of Myanmar which was carrying out a violent campaign against the Rohingya people. These connections expose companies to growing regulatory, legal and consumer scrutiny, jeopardizing not only a company's future market access, but also their social license to operate.

Robeco has developed a proprietary methodology to evaluate the human rights risk exposure and due diligence efforts of our portfolio companies when operating in conflict-affected and high-risk areas. We analyze companies' human rights policies, their grievance mechanisms and remediation measures, as well as the presence of a context analysis of high-risk regions in which they operate, among other things. Input from our data providers and in-house research further points us towards the most salient human rights issues in our portfolio.

To address these risks, we have launched an engagement theme in Q4 2021 that focuses on companies operating in three conflict-affected or high-risk areas. Our engagement focuses on implementing robust human rights due diligence practices to help companies understand their operating context and minimize the risk that people may face from products, services or operations. The priorities for this theme revolve around robust policy commitments and remediation, and reporting on these matters, as well as disclosing adequate measures of performance. Through the engagement, we aim to ensure alignment with the best practices laid out in the UN Guiding Principles on Business and Human Rights.

THE CURRENT RUSSIA-UKRAINE CONFLICT

At the time of writing, the Russia-Ukraine conflict is of great concern. The situation in Ukraine triggers us to conduct enhanced human rights due diligence of our portfolio companies to identify and assess those with direct and/or value chain exposure to individuals or entities that may be causing, contributing to, or directly linked to human rights harms.

Read the Robeco statement on Ukraine, issued in March 2022, for further details on the investment measures we have taken, and visit the Robeco website for the latest updates.

Addressing labor practices in a post Covid-19 world

Meanwhile, Covid-19 has brought labor practices in labor intensive sectors under the magnifying glass. On the one side, sectors such as e-commerce and the online food delivery sector have grown two to five times faster than before the pandemic. The booming demand has highlighted the controversial working contracts defining 'gig economy' work in the online food delivery sector, and has shone light on the high-pressure work environment of food retail and e-commerce companies. On the other side of the spectrum, the hotel industry has been facing a business crisis due to the social mobility restrictions imposed throughout the pandemic. Although sporadic demand, rapid-fire recruitment and retrenchment of staff have always been part of the hotel industry, the Covid-19 pandemic has amplified these previously hidden issues as workers struggled to secure an income while hotels remained closed. The growing social pressures, regulatory changes, and trends towards increasing automation, have caught the attention of investors on labor practices. Inadequate labor management can not only expose businesses to legal, operational, and reputational risks, but if improved can also strengthen companies' competitive advantage in a post Covid-19 world.

To address potential risks and opportunities related to labor practices, Robeco's Active Ownership team launched the 'Labor practices in a post Covid-19 world' engagement program. The program focuses on promoting decent work and sound human capital management strategies in the online food delivery, retail and hospitality sectors. Engagement priorities relate to decent work and fundamental workers' rights, such as establishing strong social dialogue, transparent wage setting mechanisms, and appropriate social benefits and occupational health and safety protocols. They also look for strong human capital management strategies. Lastly, to ensure sufficient safeguards and corporate accountability on labor-related topics, the engagement addresses overall transparency levels and governance structures across the companies under engagement scope.

The pandemic hampered sustainable development in vital supply chains

The pandemic triggered drastic changes in both supply and demand, many of which were linked to goods and services, which if not managed responsibly can have severe impacts on society at large, potentially even echoing far into the future.

Digital innovation in health care

One of these areas is the health care industry, a sector which is core to the proper functioning of our society and for which the pandemic highlighted the need for strong innovation and risk management. Through our engagement program 'Digital innovation in health care', we have taken advantage of the growing pressures from the pandemic on the sector to highlight key innovation, digitalization and security gaps. Within this context for instance, we have seen a growing emphasis on digitalized home care and the integration of care platforms.

Food security

Other, less obvious sectors severely impacted by the pandemic, are those scattered across the global food supply chain. As Covid-19 disrupted global value chains, restricting the transportation of both people and goods, food security moved to the forefront of many countries. This highlighted the need for smallholder inclusive agricultural products and services in order to build a resilient local as well as global agricultural system.

Since 2018, Robeco has engaged with companies operating across the food supply chain, encouraging them to leverage their knowledge to foster food security in low- and middle-income countries while contributing to achieve SDG 2 (Zero hunger). Through the engagement, we asked companies to conduct food security impact assessment, strengthen smallholder-inclusive innovation management, explore market opportunities in food-insecure regions through public private partnerships, and to improve their sustainability reporting.

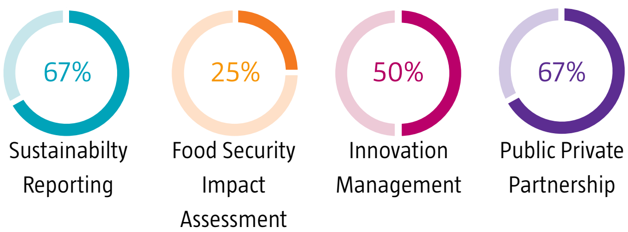
Nearly two-thirds of the dialogues were successfully closed after our three-year engagement period concluded in September 2021. The most progress was achieved in formalizing the companies' sustainability governance, measuring their corporate contribution to the SDGs, and exploring new market opportunities in food-insecure regions through public-private partnerships.

CASE STUDY

One of the most important factors contributing to food insecurity is farmer productivity, or the lack thereof. Productivity depends in large part on farmers' access to advanced farming inputs such as machinery and seeds. There are differences in input quality and availability across markets as farmers in low- and middle-income countries struggle to access high-quality machinery, crop protection products and seed varieties.

The agricultural machinery producer Deere & Co. managed to adapt its conventional tractors to service the needs of smallholder farmers. India constitutes a hub for the company's small tractor business, which manufactures tractors of 20-35 horsepower. Sales of tractors with lower horsepower represent 10-15% of global sales. Deere & Co. has been allocating R&D expenditures for developing products tailored to low- and middle-income countries. Our engagement objective focused on 'innovation management' was successfully closed due to evidence of the company's efforts to support farmer productivity and incomes in food-insecure region.

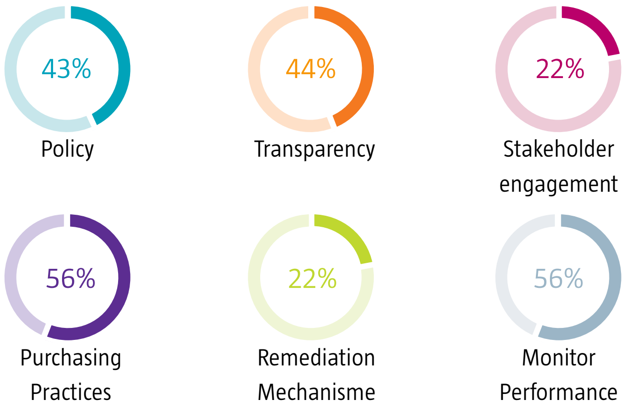
Figure 15: Share of companies making positive progress within an engagement objective, Food Security



Living wages in the garment sector

Covid-19's negative developmental impact is undeniable. The poverty rate has reached almost 10% of the global population due to the two-year pandemic, pushing over 100 million workers into poverty worldwide, and increasing the proportion of the so-called 'working poor'. Poverty pay is one of the most pressing issues for workers, and it is systemically embedded in the global garment and sportswear industries. Workers' wages represent only a fraction of what consumers pay for their clothes because of deep-rooted structural power dynamics. Governments have kept minimum wages low in a bid to create jobs and boost their economies. As a result, a minimum wage – where it exists as a legally binding standard – is far from sufficient to provide for workers and their families' basic needs. Therefore, paying a living wage is instrumental in the battle against poverty reduction across the globe.

Figure 16: Share of companies making positive progress within an engagement objective, Platform Living Wage



In 2021 we closed our three-year engagement program on accelerating the payment of living wages in the garment sector. The engagement focused on how companies promote living wages in their sourcing strategies and purchasing practices, with the aim of integrating the payment of living wages across companies' operations and business models.

Most of the companies under engagement have adopted references to living wages across their policies, and many have ramped up their efforts to collect data on the wage levels paid across their supply chain, as well as to benchmark those against living wage estimates. While these are key steps in guaranteeing responsible wages across the supply chain, very few companies lay out a strategic plan on how to accelerate the payment of living wages in their sourcing networks. We believe that the payment of living wages will stay on corporates' agendas for the years to come, especially in light of the forced labor allegations involving minority communities in the Chinese region of Xinjiang, one of the world's largest yarn and cotton sourcing regions. Meanwhile, upcoming EU regulation requires not only mandatory environmental and human rights due diligence from companies but also asking investors to perform due diligence and ESG analysis on their investment portfolios will contribute to keep this topic on the agenda.

INTERVIEW WITH OUR SOCIAL ENGAGEMENT SPECIALIST, DANIELLE ESSINK

Why do you engage on the social impact of gaming?

"It is undesirable that gamers become exclusively interested in gaming at the cost of other aspects of their lives. One topic the engagement wants to tackle for instance is gaming addiction and its adverse consequences to not only health but also to the gambling-linked financial risks. These risks can be minimized if players are able to manage both their online spending and gaming time. This can be done for instance, by showing warning messages about risk of overuse, or by being made aware of how much they are spending. Gaming companies should find a balance in this part of their business model."

Responsible technologies supporting global development

Social impact of artificial intelligence

Throughout all the engaged sectors, we see technological innovation, and the use of artificial intelligence (AI) in particular, as a key driver for development. While the potential benefits of AI are promising, it comes with many social risks and challenges. Companies developing and deploying AI must be aware of the potential risks their technological application can pose to society, from the implications of task automation for workers, to privacy concerns, the risk of discrimination through inherent biases, and many more issues. To ensure companies are equipped to manage the social risks of AI appropriately, Robeco has engaged on these issues since 2019, promoting best practices such as developing clear AI strategies, publishing responsible use policies and evidencing strong control and accountability mechanisms.

Social impact of gaming

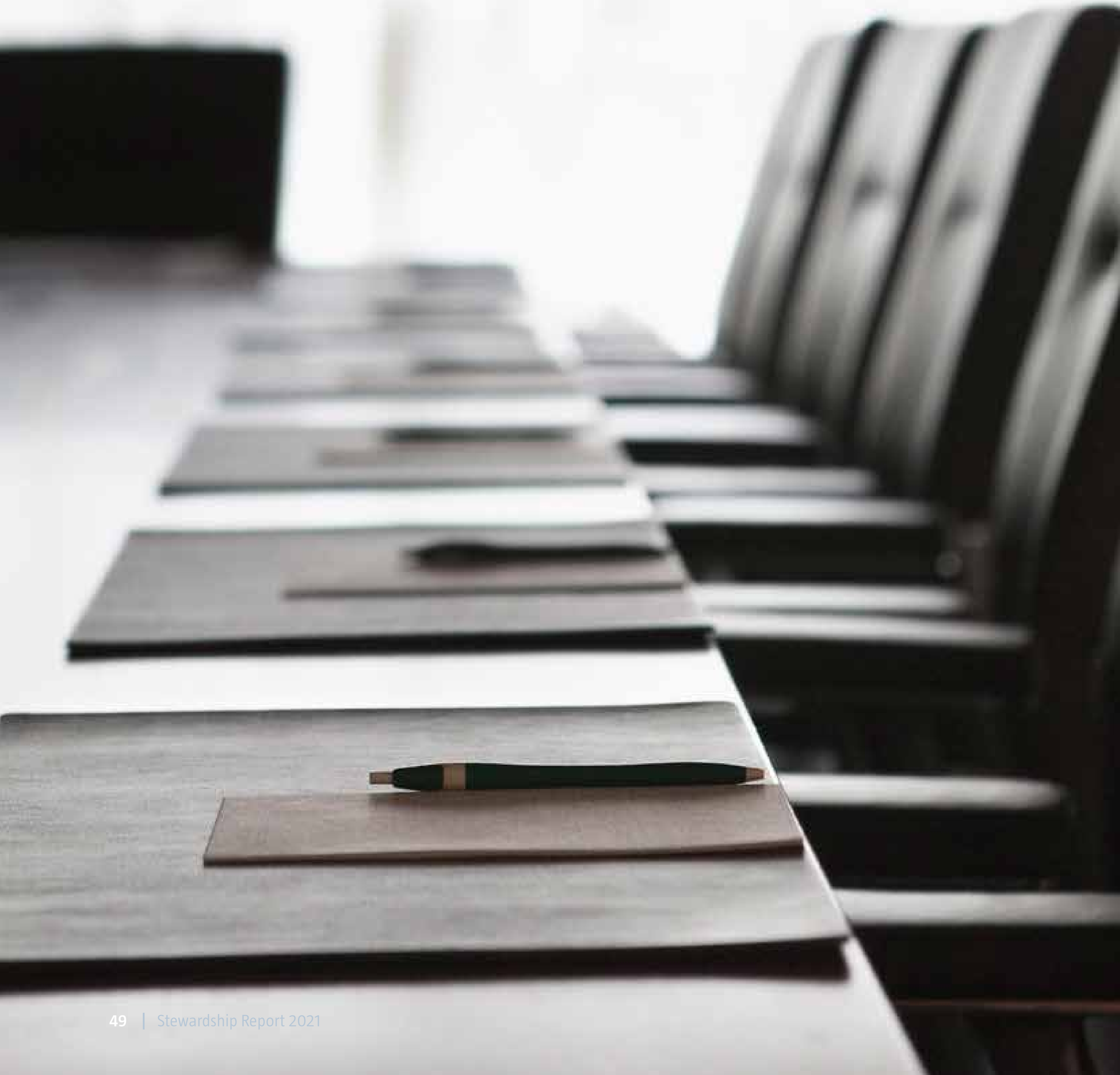
Another tech sector in focus in recent years is the gaming sector. The time spent on video games soared by 40% during the pandemic, and a similar percentage of the world's population is now reported to play them. Gaming hours are expected to stay at 21% above pre-crisis levels in future years. However, while gaming provides hours of harmless and even educational fun for millions of people, they also pose numerous risks, such as online abuse, exposure to violent content, and gaming addiction. Within the industry itself, employees of gaming companies face issues that include excessive overtime and a lack of diversity and inclusion among the workforce, raining questions on company cultures and their ability to attract and retain talent.

In 2021, we started an engagement program focused on the social risks for companies operating in the video game industry. The engagement focuses not only on risks associated with the use of gaming products – especially by children who are the most vulnerable group of users – but also on the gaming companies' human capital management, diversity and stakeholder management.

Throughout all engagement themes, one key takeaway remains: in order to establish socially responsible business practices, the SDGs and human rights considerations must be integrated across companies' business models, from purchasing practices, sourcing processes, and direct operations, to product strategy and vision.

Good governance

A well-structured corporate governance system aligns the various interests of all the stakeholders in a company, including shareholders, management, clients, suppliers, financiers, government and the community. It supports the company's long-term strategy.



We expect companies to have a well-defined corporate governance system that balances the interests of all stakeholders. Corporate governance refers to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations. It can enhance the stability and performance of a company and support its long-term strategy. Corporate governance provisions can differ strongly between regulatory markets.

We want companies to implement the guidelines shown below to the best of their ability and within the limits of any applicable local corporate governance framework. We recognize that sustainable and well-governed companies must satisfy the basic and legitimate requirements of its capital providers. Therefore, we expect prudent capital allocation as a basis for responsible company management.

GOOD GOVERNANCE MATERIALIZING AS A MINIMUM REQUIREMENT IN EU REGULATION

In March 2021, the EU Sustainable Finance Disclosure Regulation (SFDR) entered into force.

A key minimum requirement for funds that either promote environmental or social characteristics (Article 8) or has sustainable investment as its objective (Article 9) is that products do not invest in (securities issued by) companies who do not follow good governance practices.

In 2021, to be able to assess Robeco's full investment universe, a data-driven quantitative 'good governance test' was developed that can be used globally and across all asset classes. The test sets out the basic governance expectations, meeting only our minimum standards. The test comprises seven criteria reflecting widely recognized industry-established norms.

Read the full Good governance policy on our website.

Table 5 explains the rules-based test that companies must pass to be eligible for the majority of Robeco's funds

Indicator	SFDR topic	Metric *	Weight**
1. Employee Relations	Employee Relations	The company is compliant with the 3rd principle on labor relations on the UN Global Compact and is not on the non-compliance list.	Required 100%
2. Bribery Corruption, and Business Ethics	Management Structure	The company is compliant with the 10th principle on anti-bribery and corruption of the UN Global Compact and is not on the non-compliance list	Required 100%
3. Accurate Reporting to Markets and the broader Public	Management Structure	The company has published unqualified audited financial statements and reports	Required 100%
4. To have Board Oversight on Functioning of Management	Management Structure	The Supervisory Board, if applicable, has at least one independent board member	Required score of 3 out of 4
5. Tax Behavior	Tax compliance	The company has no significant controversies on Taxation and Accounting	
6. Consistent Remuneration issues	Remuneration	Companies that have a significant shareholder dissent and do not follow basic expectations on golden parachutes and claw back provisions.	
7. Breaches of shareholder rights and Governance incidents	Management Structure	The company has no Issue Codes on 'other governance issues' and Active Ownership 'assessment principles.	

* Data sources used can be found in Robeco's data disclosure documentation (https://www.robeco.com/docm/docu-robeco-sfdr-data-disclosures.pdf). For this test Sustainalytics Data is used in relation to indicators 1, 2 and 5. MSCI data is used for indicators 3, 4 and 6. Glass Lewis information lies at the basis for indicator 7.

** The allocated weight reflects that adherence to the UN Global compact guidelines and basic reporting requirements are expected for all corporate asset classes.

Engaging on good governance

Robeco's engagement activities on good governance is based on internationally accepted guidelines, such as the principles set by the International Corporate Governance Network (ICGN), the UN Global Compact principles, and several OECD principles including the Guidelines for Multinational Companies and Base Erosion Profit Shifting (BEPS).

During 2021, we continued our engagement on a set of key topics: improving transparency and the position of minority investors in emerging markets; getting a more holistic approach to incentives in developed markets; and trying to grasp the quality of risk governance, especially in the financial sector.

Apart from engaging with companies in our portfolios, we have continued our work towards policy work and consultations in order to improve the mechanics of shareholder and stakeholder influence in several markets, particularly in Brazil. To read more on this, see our 'Public Policy and Partnership' on page 60.

Responsible executive remuneration

We re-focused our attention on remuneration after the amendments to the EU Shareholder Rights Directive. Two annual general meeting seasons in the pandemic have taught us how much work there is still to be done on this front. There are a set of patterns in remuneration that appear to be returning. The first is a focus on pay-for-performance and a strong belief that incentives should be aligned with investors when markets are doing well. The second is the desire to de-risk incentive schemes in times of crisis, and the belief that management should not be 'punished' for external market factors when the economy is down. These patterns create a situation in which pay for performance practices often guarantee high pay-outs while having little to do with shareholder alignment.

In our opinion, the importance of clear variable pay schemes with simpler restricted share plans has become stronger with this crisis. We have noticed that some remuneration committees have rewarded management in periods of economic growth, but have often not translated disappointing financial results when times are bad. In our engagement, we have emphasized variable pay should be based on actual performance and should not be considered a standard outcome. Several remuneration committees have dealt with this adequately by not paying out bonuses during the pandemic and using discretion downwards rather than upwards. However, there are also several cases where the remuneration committee has lowered performance standards and paid out close to maximum rewards.

CASE STUDY

When DSM published its agenda for the company's annual shareholder meeting, it proposed several changes to its articles of association. One of the proposals was to allow a full virtual AGM as an option for the future, including after the pandemic. We recognize that virtual options allow for broader participation amongst shareholders, but we also are concerned that they limit shareholders' ability to participate.

DSM has a tradition of proactive engagement with shareholders, including during the AGM. However, without appropriate checks and balances, we believe that full virtual meetings might not be beneficial to all shareholders, and we prefer hybrid options after the corona crisis. As legislation on virtual and hybrid meeting options is still pending, we thought it was premature to already formalize the option for a full virtual event. We and several other shareholders voiced our concern, and after discussion with DSM, the company removed the proposal from the agenda.

During the AGM, DSM explained that it never intended to limit shareholder participation, and that it was only seeking flexibility for AGM options in case they needed them after the crisis. We will closely monitor how legislation and best practices evolve around new meeting formats.

A common trend we note is that ESG metrics in remuneration are being considered by a larger set of companies. This is a development we support. At the same time, sustainability metrics for remuneration are not always clearly defined. Our engagement focuses on sustainability performance that is relevant to a company's strategy and stands up to the same type of scrutiny in terms of being measurable and sufficiently challenging to achieve.

Corporate governance in emerging markets

Our work in emerging markets focuses on a set of aspects core to corporate governance. These are improving reporting and transparency to the investing public; increasing the quality of independent oversight; setting adequate processes to avoids conflicts of interest, and improving the position of minority shareholders.

In our work with a set of companies in Brazil, we note there is a willingness to improve disclosures, specifically around ESG. We are making progress on ensuring that companies become more receptive to shareholder feedback. The companies we are engaging with have made several improvements to the composition of their boards in terms of independence and diversity, though more progress needs to be made. In Brazil, many companies are controlled by shareholder groups, and therefore the country's company law has several mechanisms that afford influence by minority shareholders, such as the right to nominate a member to the board, and cumulative voting. However, the cumulative voting system works poorly in terms of transparency and infrastructure. We have started engaging with local institutions to improve the voting mechanisms in Brazil.

In Asia, our company engagements have included working with independent directors to initiate or improve executive performance metrics to include a range of our priorities. These metrics included gender diversity and capital efficiency, as well as broader ESG issues. Our dialogue with several companies was enhanced when we provided examples of reports from their industry peers illustrating how they managed material issues ranging from board evaluations to the choice of climate frameworks.

We have also conducted policy engagement with several institutions in China, South Korea, and Hong Kong. Following feedback from multiple stakeholders, South Korea's Corporate Governance Service (KCGS) published its revised ESG Code of Best Practices. The revisions addressed key issues in the business community together with international investors' contributions to ESG guidelines, better reflecting international norms. The revisions to its Governance Code included the responsibilities of the board and the individual directors, ESG risks and succession planning. It also placed new emphasis on the responsibilities of the board of conglomerates to protect the interests of shareholders equally, and to manage potential conflicts of interest in related-party transactions.

Culture and risk governance in the banking sector

In the last quarter of 2021, we closed our engagement program on 'Culture and risk governance in the banking sector', which started in 2017. Since the Global Financial Crisis, many banks have been forced to redesign their approaches to risk management, compliance and incentive structures. Even after the crisis, many banks continued to be faced with governance-related issues, such as sanctions violations, money laundering issues and other financial crimes. The engagement program aimed to address these issues by firstly analyzing the quality of governance on a set of issues, and secondly where possible, by seeking improvements. Four topics were made a priority: incentives for risk-taking personnel; remuneration policies for executives; processes around non-financial crimes; and the quality of risk governance. Looking back at four years of engagement in the financial sector, we note progress on some of our objectives. However, for most banks we still struggle to gain conviction on the quality of their risk management, and can only find external indicators for corporate culture. Therefore, we have been able to close our engagement with less than half of our peer group.

For the banks where the engagement was successfully closed, we were often able to verify that KPIs for executives contained relevant performance indicators in order to improve risk management and take a cautious approach towards risk. For many European banks, we were also able to get a better understanding of how key risk takers within the firm were rewarded, and what type of incentives applied for sales forces. In many instances, we were also able to verify that banks lived up to basic expectations on risk governance, including centralizing risk and compliance reporting, escalation procedures and the level of risk expertise on the supervisory board.

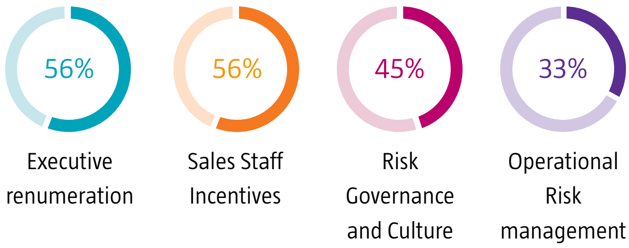
The most difficult objective proved to be on operational risk management and understanding the quality of approaches to counteract money laundering. Even though many banks seem to follow the same processes, it remained hard to get a better understanding of the actual implementation of such processes. Even where banks are making steady progress to improve risk management towards trending risks such as financial crimes, new

CASE STUDY

We reviewed our engagement with a global electronics company, Ebara. Over the last two years we have improved our corporate access. Although its leadership has attracted controversy, its operations and communications have continued to perform well. The company's returns were below its global peers when we began engagement. It is now committed to paying dividends of half of its free cashflow, and its pay-out ratio has improved from 14% to 77.9% in 2020, which now matches its peers. The company has accepted our recommendations to make more economically rational decisions, and its disclosure of their investments have also improved. We closed our engagement as having been effective, but will continue engaging with the company under our 'Corporate governance in emerging markets' engagement theme.

challenges and regulation put the financial sector in a dynamic in which new enhancements need to be made on a continuous basis.

Figure 17: Share of companies making positive progress within an engagement objective, Culture and risk oversight in the banking sector



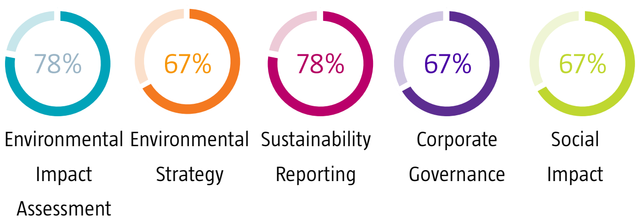
Corporate governance standards in Asia

The 'Corporate governance standards in Asia' theme began in 2017. Initially, this engagement project was planned to continue for three years, but we decided to continue our engagement, and will select additional cases going forward. This is primarily because a number of our corporate governance objectives continue to be particularly relevant for investors in Asia. Some of the companies under engagement are global leaders in their industries and core holdings in many portfolios. Success with engagement is leading to network effects in their respective industries and countries of domicile, and it may influence further improvements in transparency and accountability.

Cybersecurity

Lax cybersecurity practices represent a clear and present threat to company business models. Whilst these risks have become distinct in recent years, less clarity exists on the steps taken by companies to mitigate such risks. In 2018, we started to engage with companies on these issues, with the aim of promoting best practices in cyber-risk management and better understanding the approaches taken by a peer group of portfolio companies. We started out with 12 companies in the payments, telecom, and household products sectors, as these companies use sensitive customer data or had experienced significant data breaches. Two companies were dropped due to poor financial results leading to divestment and unresponsiveness, respectively. Two other companies in the program merged. In the end, we successfully concluded our engagement with seven out of the nine companies. The theme focused on five topics: governance and oversight, policy and procedure, risk management and controls, transparency and disclosure, and privacy by design. Most companies in our engagement peer group acknowledged the risks related to cybercrime, but their approaches to it differed vastly. Whereas some companies considered it to be a top priority and an essential part of their license to operate, others saw it as merely one of many business risks. This variety resulted in clearly different success rates for our various objectives.

Figure 18: Share of companies making positive progress within an engagement objective, Cybersecurity



Controversies and exclusions

Robeco acts in accordance with the International Labor Organization (ILO) standards, United Nations Guiding Principles (UNGPs), United Nations Global Compact (UNGC) Principles and the Organization for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, and is guided by these international standards to assess the behavior of companies.

At the end of 2021, Robeco updated its approach to controversial behavior and as a result, also its exclusion policy. Growing importance has been attached to these standards in recent years from a regulatory, investment and societal perspective.

The updated approach is therefore designed to ensure a robust governance around decision-making, as well as a comprehensive, timely and consistent assessment of, and engagement with companies. Some of the most important features of this improvement include:

- Strengthened oversight and decision-making process by establishing the Robeco Controversial Behavior Committee
- The use of robust data on UNGC and OECD Guidelines breaches
- Implementation of a stricter escalation strategy for our enhanced engagement program

Strengthened oversight and decision making

In 2021, Robeco established a Controversial Behavior Committee. The committee meets on a quarterly basis and has oversight and decision-making responsibilities related to the controversial behavior of corporates. The work is centered around three priorities:

1. Assessment of companies that (potentially) are in breach of UNGC and OECD Guidelines
2. Implications for Robeco's active ownership activities and investment strategies
3. Evaluating any changes to the controversial behavior framework and processes

The committee is chaired by the controversy engagement specialist and consists of representatives from the investment teams, Robeco's Sustainable Investing Center of Expertise, the risk management team, and the Compliance department. As a severe breach of UNGC and OECD Guidelines triggers an enhanced engagement process and has investment implications, all assessments and proposals for opening and closing engagements require approval from the committee. We believe that the committee's decisions will lead to increased accountability and transparency.

Ensuring robust data on breaches of UNGC and OECD guidelines

In 2021, Robeco changed the data source for our controversial behavior screening from Sustainalytics' Controversies Research to Sustainalytics' Global Standards Screening (GSS). This data source comes with a coverage increase and clear reporting on UNGC, OECD, UNGPs and other underlying international conventions when flagging potential breaches.

On a quarterly basis, we review the list of potential breaches flagged by Sustainalytics and conduct our own assessments. Specifically, Robeco's controversy engagement specialist reviews the cases flagged and assess them based on the following criteria:

- Nature: The first step is to assess if the alleged controversy is an actual breach of the UN Global Compact principles. Also, we distinguish between (i) large single incidents with significant individual impacts that bear the hallmarks of a catastrophic failure of systems; and (ii) a large number of smaller breaches that indicate that the company either lacks the commitment or the management systems to meet the global standards.
- Accountability: An engagement with a company only makes sense if it can be held accountable. Accountability can stem from direct involvement of the mother company, or via its subsidiaries and associates, and/or also through the supply chain.
- Severity: The scale of impact of the alleged breach may depend on the immediate effects of the incident or series of incidents, as well as second order effects such as how it is perceived by other parts of society, and whether there is potential for future outbreaks.

The assessments also include views on company responses, inputs from Robeco's SI analysts and the outlook for an engagement.

STRICTER APPROACH TO CONTROVERSIAL BEHAVIOR

With the updated approach to controversial behavior, Robeco also adopted a stricter exclusion policy.

Going forward, companies breaching international norms and guidelines will be subject to enhanced engagement for Robeco's range of Sustainability Inside funds, while they will be excluded from the Sustainability Focused or Impact Investing ranges without prior engagement.

If the enhanced engagement of up to three years does not lead to the desired change, Robeco will exclude a company from the investment universes of the portfolios following Robeco's exclusion policy.

For more information, please refer to Robeco's exclusion policy accessible via our website.

These assessments are brought forward to the Controversial Behavior Committee for an approval, upon which a new enhanced engagement case is opened.

Stricter escalation strategy for enhanced engagements

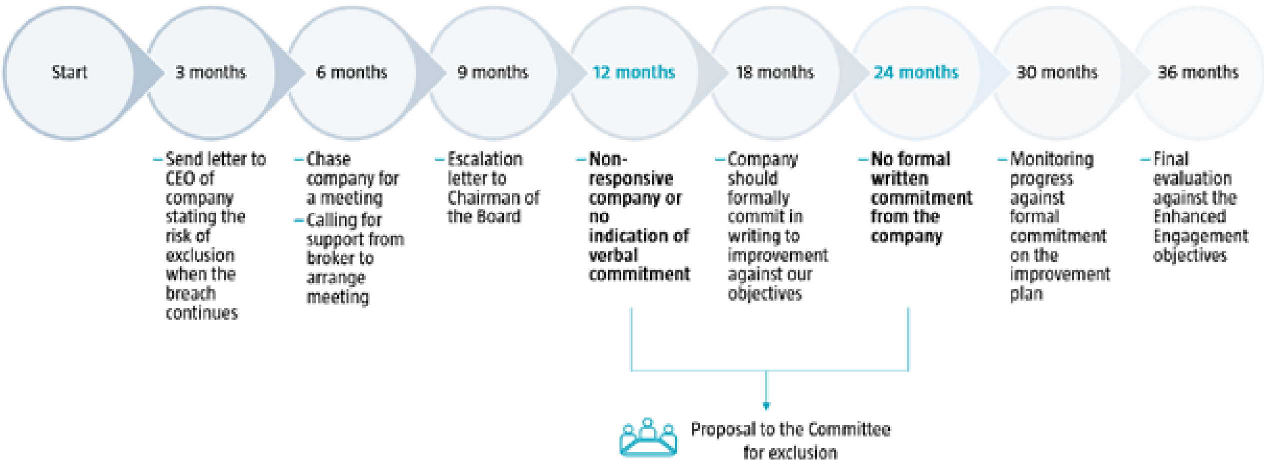
An enhanced engagement process is applied to companies facing severe breaches of these principles and guidelines. Once a new case is opened for enhanced engagement, it first aims to at eliminate the breach, and then implement proper management systems to prevent such a breach from happening again in the future. For all cases, the following five objectives are set:

1. Elimination of the breach
2. Development and implementation of policy in the relevant area
3. Establishing a constructive dialogue with stakeholders
4. The implementation of effective risk management systems
5. Transparency on the breach and remediation efforts

When an engagement leads to a successful closure of the first (i.e., elimination of the breach) and at least two additional objectives, the committee is again asked to approve a proposal to close the engagement case successfully, based on an overview of the dialogue and an assessment of the five objectives. It is also important to note that an engagement case closed unsuccessfully is reviewed by the committee at least annually, in order to ensure a timely reassessment of the breach.

We allow for a maximum of three years of engagement with a company in the global controversy program. With the updated and strengthened process (as outlined by Figure 19), we now also aim to apply a stricter escalation process compared to before, where the engagement trajectory is assessed at the end of both year one, two and three after initiating the engagement. In case the trajectory is not positive, we may propose to the committee to close the case unsuccessfully and exclude the company from our investment universe without waiting for the full three years. We believe that this would create more accountability for companies to remediate the impact caused and to improve the management of the issue in order to prevent a future occurrence of a similar breach. In 2021, we closed three global controversy enhanced engagement cases unsuccessfully, which has resulted in three companies – Norilsk Nickel, Korea Electric Power and Wirecard – being added to the exclusion list. On a more positive note, we also closed three global controversy enhanced engagement cases successfully, whereby the breach was eliminated, and relevant policies and risk management systems were put in place.

Figure 19: Escalation strategy for global controversy engagements



Source: Robeco

SDG Engagement

Although Robeco has been engaging with companies on the SDGs for several years, the launch of a new SDG Engagement Equities strategy in 2021 marked the beginning of a new engagement approach that focuses on measurable improvement of the contribution of investee companies to the goals.

The UN Sustainable Development Goals (SDGs) provide us with a blueprint to create a more sustainable future. Achieving the 17 SDGs and their targets requires a level of cooperation that has never been seen before. Multilateral organizations, governments, civil society groups and companies all must work together in order to change the complex societal patterns that underpin today's unsustainable production patterns and inequalities.

With the power to direct financial flows, the financial sector is key to the SDGs' successful implementation. The first investors have started to direct their investments towards companies that can positively contribute to sustainable development. These typically use best-in-class investment strategies that look for companies that are already making a strong contribution. The problem here is that this approach fails to support those companies that are still in their transition – those companies that could make a great contribution if they are given a nudge in the right direction.

The RobecoSAM Global SDG Engagement Equities Fund aims to address this by adopting a more forward-thinking and change-oriented approach towards SDG investment. It makes use of the full range of stewardship tools at our disposal, from sustainable asset allocation to active company engagement. By investing in those companies that are often overlooked when it comes to sustainable development, we are able to define a clear SDG engagement strategy for each holding in the fund, unlocking sustainable impact where it is most needed.

Since the launch of the fund in September 2021, the Active Ownership team has initiated engagement with 35 companies across 13 countries, addressing 471 engagement milestones linked to the 17 SDGs. The key engagement figures are reported below.

Importantly, while the SDG engagement cases are selected for the Global SDG Engagement Equities Fund, the work of the Active

Figure 20:Overview of the SDG Engagement theme

TOTAL NUMBER OF COMPANIES UNDER ENGAGEMENT

35

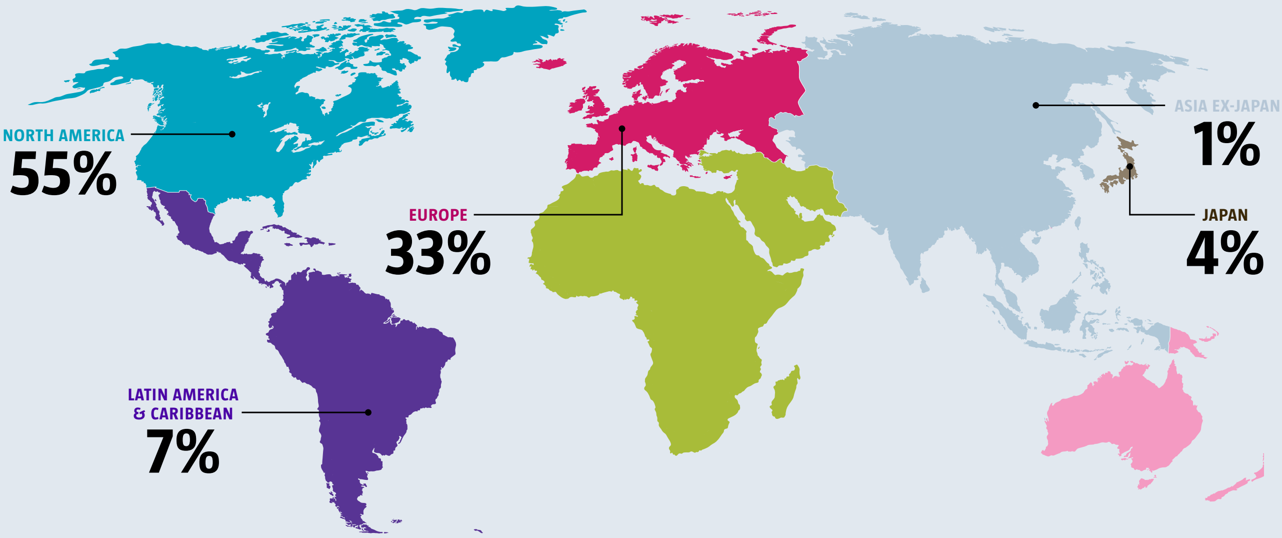
TOTAL NUMBER OF ENGAGEMENT MILESTONES

471

ENGAGEMENT PER CONTACT TYPE Q4 | 2021

	Number
Analysis (no actual contact with company)	4
E-mail	27
Shareholder resolution	1
(Open) Letter	5
Conference call	38
Active voting	1

ENGAGEMENT ACTIVITIES BY REGION Q4 | 2021



Ownership team also benefits the wider Robeco investment universe. This is either because other portfolios have exposure to the companies under engagement, or by increasing the eligible universe for those Robeco's strategies that only invest in companies with specific SDG scores following Robeco's proprietary SDG Framework, such as our SDG investing product range.

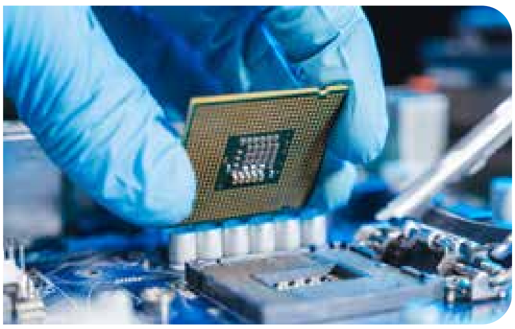
STMICROELECTRONICS I CONDUCTING SDG ENGAGEMENT

STMicroelectronics N.V. designs, develops, manufactures and markets semiconductor integrated circuits and discrete devices. The company's products are used in the telecommunications, consumer electronics, automotive, computer and industrial sectors. Geographically, customers are in North America, Europe and the Asia Pacific regions.

We found STM to be an example of best practice with regards to SDG reporting: each of its sustainability targets and corresponding initiatives are linked to an SDG target. Although the company takes a broad view of its SDG impact, we identified three SDGs of material importance using our proprietary SDG framework. These are SDG 7 (affordable and clean energy), SDG 8 (decent work and economic growth) and SDG 9 (industry, innovation and infrastructure). According to our framework, STM receives an SDG score of +1 because of its progress along several KPIs that measure the SDG impact of the company's products. For instance, since 71% (i.e. >33%) of the company's sales come from analog and power-related products, this positively contributes to SDG 8 and SDG 9. STM's energy-efficient automotive, smart power and metering solutions appear to be greater than 15% of total revenue and therefore there is a positive contribution to SDG 7. To improve their overall SDG score, STM would need to increase their revenue threshold from responsible products such as increased energy efficiency. This ambition is captured in milestone 3.1 which is linked to SDG sub-target 12.2 (achieve the sustainable management and efficient use of natural resources).

During the call we briefly spoke about several of the engagement milestones that we have identified. We suggested that the company also reports on the negative impact of its operations on the SDGs to increase the accuracy and credibility of the SDG mapping. This year, STM created 24 sustainability goals that range from reducing water consumption to lowering scope 1 and scope 2 greenhouse gas emissions. The company also has a target to generate 33% of total revenue from the sale of 'responsible products' by 2027. This target mirrors one of the KPIs in our SDG framework and will be a core focus throughout the engagement.

With the first positive progress being observed and with new companies being added to the fund on a regular basis, we are pleased to share some insights into our first engagements, and are looking forward to continuing our corporate dialogues.



Engagement objective	Milestone ID		SDG target
Impact plan	1.2	Investigate the end-use of the STM applications to track energy efficiency.	7.3
Target setting	3.1	By 2022, expand revenue targets for products that contribute to improved resource efficiency	12.2
Target setting	3.2	Establish target for improving wastewater treatment and recycling (60% by 2023).	6.5

Public policy and partnerships

Over the course of the year, we engaged both collaboratively and individually on various public policy initiatives. Although our engagement spans the ESG spectrum, public policy initiatives are rooted in governance and regulation. Below is a detailed overview of the activities carried out in 2021.

Robeco conducts public policy engagement where they are deemed to be appropriate and transparent. No engagement is ever intended to unduly influence the political process. The majority of our engagement activities on this topic are coordinated through the various investor associations and collaborative groups of which we are members. Policy engagements that are done via these collaborative platforms can be relevant from an equity investor perspective, from a bondholder perspective, or from both viewpoints.

Deep-dive: Improving the Brazilian proxy process

Brazil has long been a thorn in the side of everyone involved in the proxy voting chain – but recent efforts by Robeco have led to some steps towards improvement.

As a responsible investor, Robeco believes that executing voting rights at annual general meetings is an essential part of our stewardship responsibilities. Increasingly, clients and the public at large also want to see more transparency on the matter.

As a result, it becomes even more important that we can guarantee our voting practices across all markets. While we acknowledge that emerging markets in general are raising corporate governance standards and shareholder rights, we continue to experience issues with exercising our voting rights in Brazil.

Complex proxy voting issues

The Brazilian market is notorious for its proxy voting mechanisms. There are two major concerns. The first is the system for electing directors which in most jurisdictions offers a key opportunity for shareholders to hold individual directors of the board accountable, and to express dissent where necessary, such as by voting against them.

However, the election method in Brazil that enables directors' appointments to be challenged is adopted at less than 5% of AGMs. Moreover, this method of election often leads to confusion and comes with a large administrative burden for asset managers and proxy advisors, as it cannot be accommodated through the electronic voting infrastructure.

The second major issue concerns last-minute additions or amendments to the agenda of the meeting when international investors can no longer alter the votes they previously cast. All in all, it is worrying that international investors are not able to correctly perform their stewardship responsibilities for such a vital part of corporate governance.

Raising the issues

Given the ongoing issues experienced with proxy voting in Brazil, Robeco decided to take action in the fourth quarter of 2021. Our proxy advisor Glass Lewis provided us with analysis that showed our frustrations were also experienced by other investors.

We synthesized all the information we were able to gather into a letter. This letter summarized the main issues we experienced and requested a meeting with both the Brazilian Stock Exchange (B3) and the Brazilian Securities and Exchange Commission (CVM).

To ensure that the letter would get the desired attention, we leveraged our partnership with Brazil's Stewardship Association, the Associação de Investidores no Mercado de Capitais (AMEC). AMEC brings together around 60 foreign and domestic institutional investors representing assets under management of around BRL 700 billion in the Brazilian stock market.

Since its establishment in 2006, AMEC has played a key role in pushing for minority shareholder rights and good corporate governance in the Brazilian market. Daniela da Costa-Bulthuis, portfolio manager in Robeco's Emerging Markets Equities and Global SDG Equities teams, has been a member of AMEC's board of directors since 2019.

Robeco submitted several concrete suggestions to AMEC to send to the CVM for the short and long-term. AMEC embraced our call for change, collected further contributions from other foreign members, and sent the letter to both CVM and B3 on behalf of all of its members.

Initiating a dialogue

B3 accepted the invitation to hold a call with AMEC, Robeco and other institutional investors soon after receiving the letter, and we were pleased to see the stock exchange so receptive to hearing our concerns.

During the call, B3 showed us an overview of all the issues they had gathered from market participants. This showed they were aware of some of the problems and were already taking initial steps to improve the system. For example, B3 said it was in the process of aligning with major custodians in the market to solve the issue regarding the incompatibility of the alternative election system with the electronic proxy infrastructure. This would be a substantial solution if it is realized.

Although it was good to hear that B3 was aware of the issues, it also emphasized the importance of getting the CVM on board, as the stock exchange indicated the limitations to change that it faced due to the current legislation in place.

The AMEC board also represented investors in a call with CVM.

During this call, CVM welcomed any suggestion that was submitted to them – even when they involved regulatory changes – but warned that such changes could not be implemented until 2023 at the earliest. B3 had also earlier warned that any regulatory changes would be unlikely in 2022 due to the country's national elections.

From initial steps to progress

Each year at the end of February, CVM publishes an official letter with guidelines on procedures to be observed by publicly traded companies. This year the letter included several of the suggestions raised by Robeco and AMEC.

Especially encouraging was the commitment from CVM to create a working group to focus on the issues related to the exercise of voting rights by national and foreign shareholders at AGMs to enable the necessary regulatory improvements for the effective protection of minority shareholders. Furthermore, the letter urges issuers to adhere to the timely disclosure of documents in both English and Portuguese.

We are pleased to see this initial step towards a more structural and permanent improvement of the Brazilian proxy voting system and will closely monitor the regulatory changes in the upcoming years.

Meeting with Indonesian Ministry of Finance to discuss deforestation

Topic	Deforestation
Type of activity	Conference call with the Indonesian Ministry of Finance
Type of engagement	Collaborative
Lead organizations	Church Commissioners and Tropical Forest Alliance
Description	Given recent developments in Indonesian regulations governing land use, and the country's commitment at COP 26 to achieve a 'net zero carbon forest' by 2030, we approached the Indonesian Ministry of Finance for an introductory conference call which took place in December. This provided an opportunity not only for us to understand the ministry's role in contributing to the net zero goal – which includes budgeting and capital raising – but also for us to present our outlook on the issue of deforestation from an investor perspective. We were pleased to find the representatives forthcoming about relevant fiscal policy mechanisms to finance their commitment, including a proposed carbon tax and carbon trading scheme.
Relevance	Continued engagement with stakeholders will allow us to contribute to policies that support our own deforestation commitments and palm oil objectives. A means by which to do so is providing feedback on financial frameworks where appropriate. The ministry of finance accepted our offer to provide such input in the future, and we look forward to continuing this relationship.

Signing of investor statement on the UN Treaty on Plastics

Topic	Single-use plastics
Type of activity	Endorsement of UN treaty
Type of engagement	Individual
Lead organizations	WWF, the Ellen MacArthur Foundation (EMF) and the Boston Consulting Group (BCG)
Description	In the summer of 2021, we supported the initiative for an UN treaty to address plastic pollution. This is essentially a stronger follow-up to existing work on trying to combat single-use plastic pollution. This new statement advances the position laid out in the business call by calling on governments to work towards an ambitious treaty that includes both upstream and downstream policies aiming to keep plastics in the economy and out of the environment. It also seeks to reduce virgin plastic production and use, and decouple plastic production from the consumption of finite resources. By endorsing this statement the business community is signalling its support for an ambitious global treaty based on a circular economy approach that would address plastic pollution on a global scale. This time again, the financial industry is asked to sign on as well.
Relevance	Underpinning this proposal is Robeco's engagement within the single-use plastic engagement theme. This theme will find its natural closing Q1 2022. It would be great to be able to report in the closing statements our drive to continue to lead on this important topic via a signatory of the Treaty.

Investor Letter to the Presidential Committee on Carbon Neutrality of South Korea

Topic	Climate change
Type of activity	Joint investor letter
Type of engagement	Collaborative
Lead organizations	Climate Action 100+ initiative
Description	A group of institutional investors responsible for USD 6.7 trillion in assets under management who are actively engaging with South Korean companies on climate change, submitted a letter to the co-Chairs of the Presidential Committee on Carbon Neutrality of South Korea. The letter calls on the committee to develop pathways for South Korea to achieve net zero emissions by 2050 in line with the International Agency's Net Zero 2050 scenario. This scenario specifies that unabated coal power will be phased out in advanced economies by 2030 and at the latest by 2040 in other regions. Meanwhile, private coal-fired power plants are still currently under construction in the country, going against the efforts of the committee and putting assets at risk of becoming unprofitable due to low utilization rates and the extra efforts needed to offset the emissions incurred.
Relevance	Robeco is engaging with South Korean companies on climate change. For many of these companies, the outcome of national policy on energy and climate change is critical to achieving their net zero ambitions. Adopting a clear pathway to net zero emissions by 2050 is also crucial for the South Korean economy to remain competitive in global capital markets.

Investor Letter to the Presidential Committee on Carbon Neutrality of South Korea

Topic	Human rights and environmental due diligence
Type of activity	Joint investor Statement
Type of engagement	Collaborative
Lead organizations	Investor Alliance for Human Rights
Description	Robeco, alongside 94 other investors with more than USD 6 trillion in assets under management and advisement reaffirmed their support for mandated human rights and environmental due diligence in the EU. The statement reinforces our commitment to embed the UN Guiding Principles for Business and Human Rights (UNGPs) into investor actions and was sent to relevant European Commissioners and their staff, as well as to members of the European Parliament. The EU is currently awaiting a legislative proposal from the European Commission on Sustainable Corporate Governance that among other things would require companies to account for their human rights and environmental impacts or possibly face legal and administrative consequences.
Relevance	At present, only a minority of companies demonstrate the necessary willingness and commitment to take human rights seriously. A 2020 ranking by the Corporate Human Rights Benchmark found that nearly half of the 230 largest publicly traded companies in high-risk sectors received a score of zero when measured against five human rights due diligence indicators. The investors say reliance on the voluntary actions of companies is no longer adequate. For this reason, investors and civil society have been calling on the Commission to make sure the directive ensures corporate accountability for human rights and environmental impacts through administrative and civil liability, and access to remedy for affected people. The investors say the involvement of directors is paramount to ensure that the necessary strategic decisions are made and integrated into overall corporate strategies and business operations.

Signatory of COP 15 Financial Institution Statement on the Convention on Biological Diversity

Topic	Biodiversity
Type of activity	Joint investor Statement
Type of engagement	Collaborative
Lead organizations	COP 26
Description	We supported the establishment of an ambitious and transformational post-2020 Global Biodiversity Framework (GBF) for adoption at the 15th Conference of Parties of the UN Convention on Biological Diversity (CBD COP 15). We welcome the vision of "living in harmony with nature by 2050" through the recovery of natural ecosystems with net improvements by 2050. Specifically, this statement urged governments to do the following: 1. Agree on an ambitious and transformational post-2020 GBF that requires the alignment of financial flows to global biodiversity goals. 2. Strengthen national biodiversity strategy and action plans (NBSAPs) to ensure successful implementation of the GBF and enforce domestic policies to deliver biodiversity targets. 3. Establish a regulatory environment that enables financial institutions to address biodiversity-related risks and opportunities, including introducing consistent and decision-useful corporate disclosure requirements. 4. Remove all harmful subsidies and reverse them into aligned subsidies to bring about change in the real economy and alleviate market failures.
Relevance	As financial institutions, we recognize the need to protect, conserve and restore nature for future generations because we cannot generate value for our clients without a healthy biosphere. Biodiversity loss will have significant and systematic consequences for the global economy, and exposes us to market, credit, liquidity and operational risks. A realignment of our economies, including public and private financial flows, towards nature-positive pathways is imperative.

Joint call for fair and equitable global response to Covid-19

Topic	Human rights in relation to Covid-19
Type of activity	Joint investor letter
Type of engagement	Collaborative
Lead organizations	The Access to Medicine Foundation
Description	Robeco joined 147 institutional investors, representing more than USD 14 trillion in assets under management, in a call for a fair and equitable global response to the pandemic. This includes fully financing the Access to Covid-19 Tools (ACT) Accelerator partnership. In the statement, the signatories set out three actions to mitigate risks posed by new virus strains, and by the funding shortfalls and production gaps that prevent billions of people from receiving Covid-19 tools: a) Finance the ACT Accelerator in full: The signatories encourage world leaders in the G7, G20 and ACT Accelerator Facilitation Council to deploy adequate funding to ensure fair and equitable access to Covid-19 tools globally. b) Stimulate investee companies to do more: The signatories also pledge to work with the Access to Medicine Foundation and engage with investee healthcare companies to support the ACT Accelerator. They could do this, for example through cross-industry partnerships to accelerate R&D and expand production, equitable pricing strategies, and voluntary licensing agreements. c) Explore innovative finance mechanisms: The third action is for governments and international organizations. They are called on to explore the feasibility of innovative finance mechanisms for national and global Covid-19 responses, such as new vaccine bonds or social bonds being issued for pandemic-related programs.
Relevance	The development of a fair and equitable global response to the current pandemic is the first step towards mitigating the systemic risks associated with new variants.

Meeting with the Shanghai Stock Exchange to discuss comparative analysis

Topic	Corporate governance in emerging markets
Type of activity	Meeting
Type of engagement	Individual
Lead organizations	Robeco, Shanghai Stock Exchange (SSE)
Description	Representatives from Robeco and the SSE discussed the results of comparative research of six markets and their corporate governance standards. Specifically, Robeco suggested improvements in the areas of capital allocation practices, corporate governance codes, board independence, remuneration practices, and the presence of a stewardship code. While the SSE can be considered a laggard compared to other markets with respect to corporate governance and stewardship codes, it was receptive towards our recommendations. The exchange remain concerned around the lack of a consistent reporting standard that is recognized globally. Until there is uniform ESG reporting guidance which hopefully IFRS will come out with in future, consistency issues will remain. Until then, GRI and SASB are widely referred standards that can be incorporated by the market regulator.
Relevance	The adoption of a stewardship and corporate governance code has proven to create a better investment climate in several markets. For example, the UK aligned stewardship with business strategy, while Japan adopted the code to aim for better corporate behavior and to improve its competitiveness. Thus, it is up to the country how to use the stewardship code towards improving the situation and it indeed is a useful instrument. Not only should a code be adopted, but it should also be implemented and enforced. An outcome of the meeting was to connect the SSE with the Asian Corporate Governance Association (ACGA) for future engagements.

Proxy voting

Robeco currently votes on behalf of clients at nearly 8,000 meetings per year. All proxy voting activities are carried out by dedicated, in-house voting analysts in the Active Ownership team. While we have given insights into theme-specific voting activities in the other sections, this section provides a deep dive on our policy, its execution, 2021 trends and activities, as well as key votes.

Voting Policy

The basis of any well-informed proxy voting decision starts with a proxy voting policy designed to ensure that we vote in the best interest of our clients. The Robeco Proxy Voting Policy forms part of our Stewardship Policy, and is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provides 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. Through our votes, we aim to encourage companies to implement good corporate governance, foster long-term shareholder value, and engage in responsible behavior.

With many years of experience in proxy voting, Robeco's integrated approach to active ownership is widely seen as representing best practice in the asset management industry. this was most recognized by the responsible investment organization ShareAction in its Voting Matters 2021 report, where Robeco's voting performance was ranked in the top five amongst 65 of the world's largest asset managers.

Voting execution

Robeco carries out all proxy voting in-house. There are 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 among various parties in the proxy voting chain, such as custodians and ballot distributors. If necessary, we escalate the matter to ensure 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 based on best efforts the full position if required. 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 rarely refrained from voting due to share blocking in 2021, casting our vote in nearly 99% 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 own 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.

The use of proxy voting advisors

Robeco uses Glass Lewis & Co as voting agent, by using the Viewpoint voting platform, and we obtain research papers. Robeco's proxy voting team continuously works together with our voting advisors to improve a customized voting advise that differs from off the shelf voting set ups. Even though a customized set up bring us much closer to voting advise in line with policy and our approach, we review meetings and often override where the advice does not sufficiently meet our policy and our interpretation of governance, sustainability or investment issues. These differences are carefully tracked and communicated towards our voting advisor. Research, technical set-up and voting advise are reviewed on a regular basis and are subject to our risk control framework.

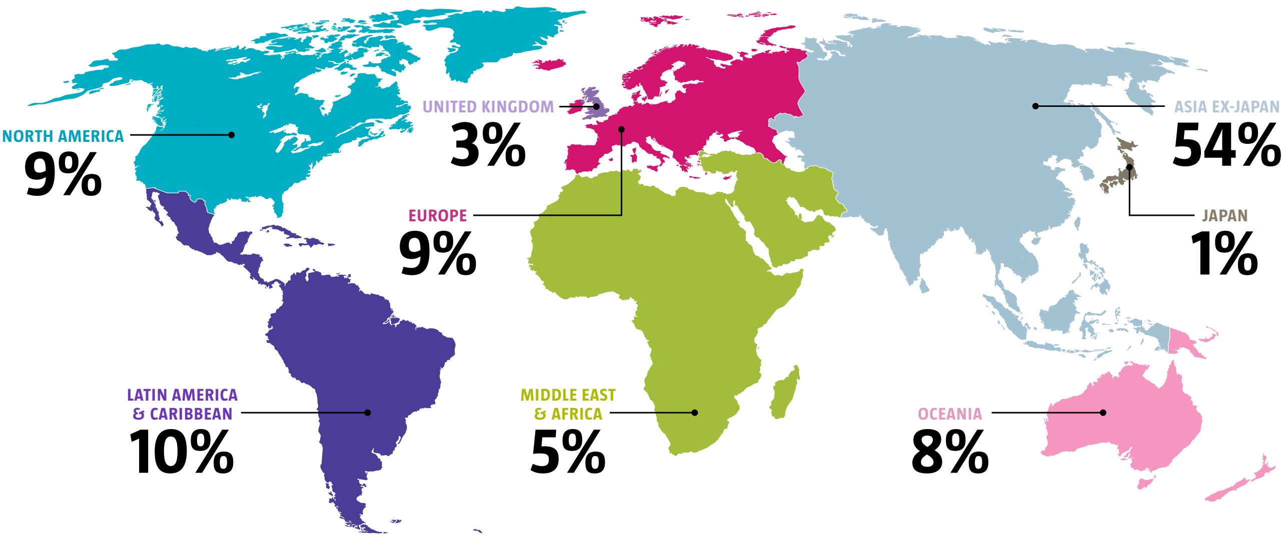
Communicating our voting behavior to investee companies

All of our voting instructions for Robeco funds can be found online. In 2022, we started disclosing rationales in case we vote against management recommendations on the agenda. Additionally we send explanations of these votes to management of the company, in case 1) a company is under engagement, or 2) we own have more than 1% of outstanding shares in a company. Additionally in 2022, we will increase the scope of that communication for companies where we have voted against any board members because of concerns on a company's climate performance.

Activity in 2021

Much of the proxy voting activity is concentrated in the first half of the calendar year. We summarized our voting approach and statistics for the first half in our proxy season overview. The following charts are our full year statistics.

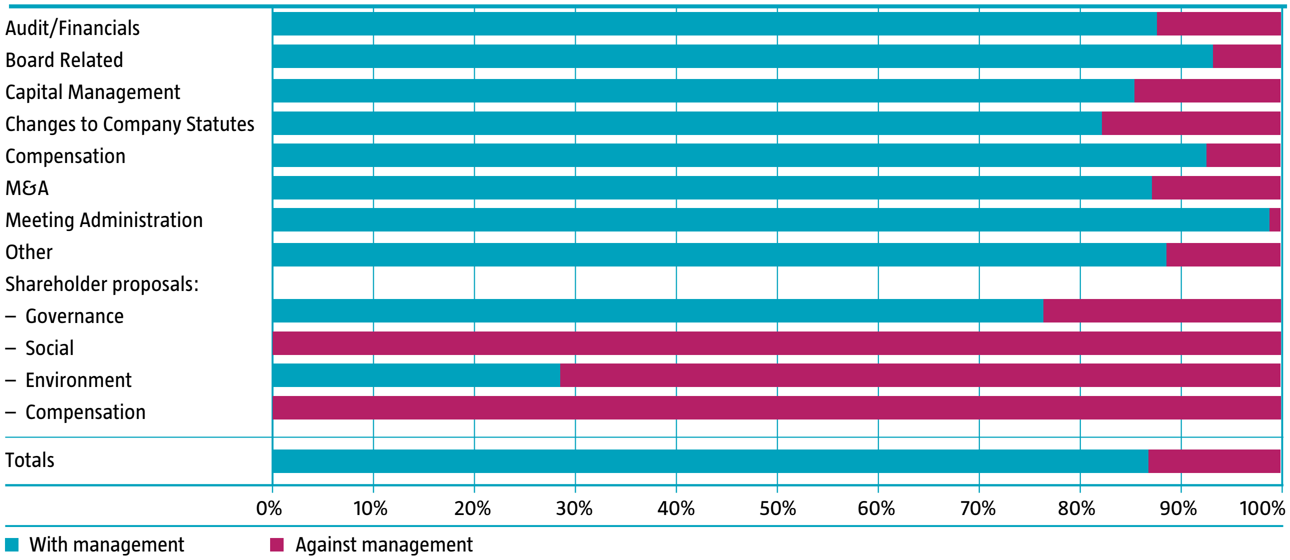
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	1,112	4,486	1,050	1,075	7,723
Total number of agenda items voted	9,645	54,932	7,813	6,339	78,729
% Meetings with at least one vote against management	54%	57%	44%	32%	51%

Votes cast per proposal category



% votes in favor of shareholder resolutions

80% Environmental

91% Social

70% Governance

Voting trends in 2021

A new frontier in the fight against climate change and boards under scrutiny in the wake of Covid-19

Climate change is now a cornerstone of investor stewardship but addressing this topic through votes at shareholder meetings is relatively new. The 2021 proxy voting season has demonstrated that boards will be held accountable for their climate-related oversight by proxy advisors, activist groups and institutional investors alike.

Historically, shareholders have addressed their climate change concerns to boards through filing shareholder proposals. In the US, for instance, the number of climate-related shareholder proposals filed has steadily risen over the years, up from 34 in 2012 to over 140 in 2020. Of the proposals filed, many get withdrawn if the request is adopted by the company, while some are also challenged by the companies and omitted from the AGM. Although these challenges are intended for poorly drafted or immaterial proposals, companies lagging in climate action often use this mechanism to skirt the concerns raised by shareholders. In these cases, shareholders may escalate their climate-concerns by voting against the nomination of board directors such as the chairman or members of the audit or sustainability committees.

Holding directors accountable for a company's (inadequate) approach to climate change could become the norm. Majority Action – an ESG focused shareholder activist group – published its 'Proxy Voting for a 1.5°C World' campaign, which outlines a list of systemically important companies in the three key industries that have not set emissions targets aligned to limiting warming to 1.5°C. The campaign calls on institutional investors to use their voting rights to vote against directors that have failed in their oversight responsibilities to address escalating climate change.

One of the challenges in adopting such a voting approach is consistently identifying which companies are not in line with a 1.5°C or Paris-aligned scenario. Companies and international organizations often use different methods to calculate their long-term 2050 climate change scenarios, which is then reflected in discrepancies in short-term targets. There are several resources that investors can use to help track the climate change targets set by companies. This year the publication of the Climate Action 100+ Net Zero Benchmark further helped us in the implementation of climate-related votes. Following our proxy voting policy, any company in the benchmark that has not set any relevant climate targets or made a Net Zero commitment, or ranks poorly in the Transition Pathway Initiative's Management Quality score, our policy dictates a vote against the Chairman of the board due to climate related concerns, if they are up for re-election. Benchmarks also enable investors to monitor the annual progress made by companies, and to determine whether to escalate their approach to voting and engagement.

These new guidelines for proxy voting underscore that, where companies are failing to develop effective climate transition plans, their boards will appropriately be held accountable. While institutional investors' definitions of what is appropriate may vary, the importance and urgency of holding directors accountable is clear.

On another note, expectations around board oversight of human capital management (HCM) and corporate culture have grown substantially. The economic impact of the pandemic and social justice movements in many regions have sparked demand for disclosure of more HCM data such as gender pay gaps, safety incidents and employee turnover. Moreover, companies with large numbers of at-risk or furloughed employees have been expected to disclose how the pandemic's impact across their workforces was considered in reconfiguring pay for senior executives.

Lastly, many companies around the world continued to hold virtual-only meetings for at least the first half of 2021. In the last voting season, shareholders expressed significant concerns regarding the inability to ask questions or to vote at virtual meetings. Several solutions have been provided by some participants in the proxy voting chain to facilitate access to meetings. While the majority of companies made genuine efforts to provide shareholders with the necessary platforms to participate virtually, some notable exceptions, such as audio-only broadcasts, have set a poor precedent, and may encourage greater scrutiny still.

The introduction of 'Say on Climate'

Over the last couple of years, shareholders increasingly have asked CO2 emitting companies to set carbon reduction targets in order to mitigate climate change. This year, many resolutions were filed with such demands. As we believe that climate change has inherent risks for companies, we tend to support such resolutions if a company has not set long, mid and short-term targets for their relevant scopes of emissions, or has failed to report on progress.

In the 2021 AGM season, we also saw the introduction of management proposals in relation to their climate strategies. Unilever, Royal Dutch Shell, Total, and Nestlé were some of the first large companies to ask for an explicit shareholder advisory vote on their climate strategies or reporting. We expect that by having a frequent shareholder vote, best practices will evolve in terms of reporting, ambition levels and progress for the mitigation of climate change. Therefore, we have generally supported such proposals if they meet a set of criteria, including that the company in question had set a net zero ambition, and that it had presented concrete plans for achieving its long-, mid- and short-term targets.

Additionally, we require the proposal to be based on Paris-aligned scenario analysis and that progress is reported in line with the TCFD framework. In our view, supporting a Say on Climate does not absolve management from its responsibility to further improve its climate strategy. Rather, we believe that a recurring vote is a useful tool to monitor progress on the mitigation of climate change, and in pushing companies to make progress.

Additional complexity in remuneration

In many markets, shareholders get a say on how management is paid. This is an important vote for shareholders, as it allows them to determine if pay practices set the right incentives for management. As different aspects of a remuneration policy can have an impact on its effectiveness, we apply an analytical framework that looks into several components: 1) the pay structure 2) its overall size or scope 3) the integration of ESG into remuneration plans, and 4) reporting and accountability.

Applying this analysis requires us to carefully look into how variable pay compares to fixed pay, and what KPIs are set and with what level of ambition. It also reveals how companies report on pay practices, and how the remuneration committee exercises discretion. To further add complexity to this analysis, this season we needed to carefully consider how companies dealt with the impact of the pandemic.

For example, if companies had received state aid, cancelled their dividends, or had to lay off a large part of their workforce, we expected boards to lower executives' variable payouts, or forego bonuses. If companies failed to do this, we voted against their remuneration proposals. This led to a higher percentage of 26% of votes against management compared to last year's 24%.

Key votes

We voted on 78,729 proposals in 2021, but some were more important than others. Below we summarize our voting decisions on some of the most significant votes throughout the year. They are significant because of client interest, news flow, their relevance to current market conditions or societal developments, and where shareholders showed significant opposition to management. Our Proxy Season Overview 2021 provides further insight into how we applied our voting policy at various shareholder meetings. These AGM's are selected based on stakeholder feedback, including questions from our clients, attention in the media, and AGM's that created internal debate.

Company	Meeting date	Proposal	Vote decision	Rationale	Vote outcome (% For)
Barclays plc	05/05/2021	29. Shareholder Proposal Regarding Climate Change Strategy	For	Resolution increases shareholder oversight of medium and long term trajectory of climate strategy. It would provide greater insights into specific lending activities and how they align with the ultimate 2050 net-zero target.	14%
Equinor ASA	11/05/2021	8. Shareholder Proposal Regarding GHG Reduction Targets	For	The proposal is framed in a supportive manner, seeking to underpin the company's existing climate commitments with quantitative targets over short, medium, and long term. This is a reasonable request that would bring Equinor in line with leading practice in the sector. The proposal refrains from imposing absolute targets on Scope 3 emissions, which is a constructive approach. This proposal is in shareholders' best long-term interests.	5.6%
Royal Dutch Shell plc	18/05/2021	20. Approval of the Energy Transition Strategy	For	Shell has presented their plans to become a Net Zero Company in 2050 with intermediary targets and a set of measures to achieve their goals. We believe that Shell's energy transition so far is the most elaborate strategy in the oil and gas sector.	88.7%
		21. Shareholder Proposal Regarding GHG Reduction Targets	Against	We voted abstain on a shareholder on regarding GHG Reduction Targets. Even though we supported similar proposals at many other companies, Shell's proposal on their Energy Transition Strategy met our requirements for support and the requirements of the shareholder resolution. At the time of the vote, our preference was for Shell to accelerate their own Energy Transition Plan.	30%
Amazon.com Inc.	26/05/2021	4. Shareholder Proposal Regarding Report on Customer Due Diligence	For	Robeco co-filed the resolution on enhanced customer due diligence as part of our engagement with the company on the social impact of artificial intelligence.	34.8%
		8. Shareholder Proposal Regarding Report on Plastic Packaging	For	Reasonable proposal asking from the Company to report on the use of plastic and the environmental impact this has through all Amazon operations.	35.3%
Exxon Mobil Corp.	26/05/2021	1.01. Elect Gregory J. Goff	For	The nominee adds relevant oil and gas experience.	4.6%
		1.02. Elect Kaisa Hietala	For	The nominee adds relevant experience.	4.9%
		1.03. Elect Alexander A. Karsner	For	The nominee adds relevant regulatory, technological and energy experience.	3.9%
		1.04. Elect Anders Runevad	For	The nominee adds relevant experience.	1.0%
Chevron Corp.	26/05/2021	4. Shareholder Proposal Regarding Scope 3 GHG Emissions Reduction	For	We support such resolutions especially when companies have not set scope 1, 2, and 3 targets for across short-, medium-, and long-term horizons and have not presented shareholders concrete implementation plans (for example via a Say on Climate) vote.	60.7%
		5. Shareholder Proposal Regarding Audited Report on Net Zero Emissions by 2050 Scenario Analysis	For	We support such resolutions especially when companies have not set scope 1, 2, and 3 targets for across short-, medium-, and long-term horizons and have not presented shareholders concrete implementation plans (for example via a Say on Climate) vote.	47.8%

Company	Meeting date	Proposal	Vote decision	Rationale	Vote outcome (% For)
Pfizer Inc	22/04/2021	5. Shareholder Proposal Regarding Report on Political Expenditures and Values Congruency	For	Political donations and lobbying contributions: reasonable proposal requesting companies to review their political spending and lobbying activities.	47.25
		6. Shareholder Proposal Regarding Report on Access to COVID-19 Products	For	We want to ensure that any medical breakthroughs derived from the public's contribution will be priced in an accessible way so that communities of all income levels will benefit equally	28.3%
Unilever NV, Unilever plc	05/05/2021	4. Advisory Vote on Climate Transition Action Plan	For	This is a Say-On-Climate Proposal. The Company provides thorough reporting concerning its climate strategies and initiatives and has made credible plans to mitigate its climate impacts, including an ambition to achieve net zero Scope 1, 2, and 3 emissions by 2039.	99.6%
Prosus NV	09/07/2021	1. Approve and Implement Exchange Offer of New Prosus Ordinary Shares in Consideration for Acquisition of Naspers Ordinary Shares by Prosus	For	We supported a restructuring proposal between Prosus and Naspers. The governance structure between the two companies have long created a value discount for shareholders in Prosus. By implementing the restructuring, Prosus shareholders will receive a fundamental value advantage because a middle course was chosen between net asset value and current market value. The restructuring adds a certain degree of complexity to the holding set up, but is designed to close the trading discount.	90.8%
BHP Group	11/11/2021	20. Approval of Climate Transition Action Plan	For	Despite the fact that BHP's Climate Transition Action Plan provides thorough discussion of its climate-related considerations and Capex spending, we have concerns regarding the level of ambition of the emissions reduction targets and their alignment with the goals of the Paris Agreement. In particular, the plan has limitations on how it will achieve, in full scope, its emissions reduction targets on scope 3 emissions. Besides that, the plan references the use of offsets to meet all of its targets while it remains uncertain of the quality and amount offsets that will be used.	84.9%
Royal Dutch Shell plc	10/12/2021	1. Adoption of new artciles	For	Shell announced that it would change its share structure to establish a single line of shares, move its headquarters to London, and change their tax residence from the Netherlands to the United Kingdom. Shell's new corporate structure is intended to make the company more agile in terms of M&A, disposals and their strategy in relation to the climate transition. Shell's move triggered some debate around the Dutch dividend withholding tax and any impact on the appealed district court case vs Milieu defensie. On balance we believed that unification would enable Shell to better execute its strategy, and will benefit its shareholders. Therefore, we supported the proposal.	99.77%
Microsoft	30/11/2021	16. Shareholder Proposal Regarding Median Gender and Racial Pay Equity Report	For	The Shareholder Proposals Regarding Median Gender and Racial Pay Equity Report reached a 40.04% support from shareholders. Additionally there was a Shareholder proposal asking the company to Report on Effectiveness of Workplace Sexual Harassment Policies which was supported by approximately 78% of the shareholders. The high support on those resolutions indicates the focus shareholders have on Social topics.	40.04%

Engagement overview

	Engagement theme	Period	Focus	Progress
Value engagement				
Environmental	Climate Action	Q1 2018 – Q1 2021	Engaging the world's largest corporate emitters of GHG emissions and leveraging scale through investor collaborations	Theme is closed: 46% success 54% no success
	Reducing Global Waste	Q3 2018 – Q1 2021	Focusing on industries related to solar, industrial waste management and technology and improving quantitative sustainability reporting.	Theme is closed: 73% success 27% no success
	Single Use Plastic	Q2 2019 - Q1 2022	Recognizing the policy and price-cost pressures on plastics by targeting the design, substitution, and recycling of plastic products.	Theme is ongoing: 40% success 40% positive progress 10% flat progress 10% no success
	Lifecycle Management of Mining	Q1 2020 - Q1 2023	Promoting better environmental management practices in top industry majors and aiming to promote reconciliation of intensive mining activities with critical minerals.	Theme is ongoing: 8% success 54% positive progress 31% flat progress 8% no success
	Biodiversity	Q2 2020 - Q2 2023	Addressing biodiversity loss through the lens of commodity-driven deforestation by targeting the cocoa, rubber, tropical timber and pulp, soy and beef sectors.	Theme is ongoing: 33% positive progress 67% flat progress
	Net-Zero Carbon Emissions	Q4 2020 - Q4 2023	Focusing on high corporate emitters and encouraging them become 'carbon winners' of tomorrow.	Theme is ongoing: 7% success 33% positive progress 53% flat progress 7% no success
	Climate Transition of Financials	Q1 2021 – Q1 2024	Encouraging alignment of lending portfolios with the Paris agreement by focusing on banks and large financial institutions.	Theme is ongoing: 10% positive progress 90% flat progress
	Sound environmental management	Continuous		Theme is ongoing: 67% success 11% flat progress 22% no success

	Engagement theme	Period	Focus	Progress
Value engagement				
Social	Food Security	Q3 2018 - Q3 2021	Engaging at different points across the food supply chain to support a more inclusive and resilient food system and promote new business development opportunities by entering low and middle-income markets.	Theme is closed: 58% success 42% no success
	Platform Living Wage	Q4 2018 - Q4 2021	Promoting living wages in the apparel industry giving the impact on livelihood, working conditions and safety, as well as investee companies' exposure to supply chain and reputational risks.	Theme is closed: 56% success 44% no success
	Social Impact of Artificial Intelligence	Q3 2019 - Q3 2022	Aiming to promote strong governance and human rights practices in AI.	Theme is ongoing: 30% positive progress 60% flat progress 10% no success
	Digital Innovation in Healthcare	Q4 2019 - Q1 2022	Promoting resilience in the healthcare sector through further innovation and digitalization.	Theme is ongoing: 54% success 15% positive progress 31% no success
	Social Impact of Gaming	Q1 2021 - Q1 2024	Focusing on mitigating social risks exposure for those companies operating in the gaming industry.	Theme was recently launched: 100% flat progress
	Labor Rights in a Post-Covid world	Q2 2021 - Q2 2024	Engaging with key industries where the pandemic exposed vulnerability and lack of safeguards for workers.	Theme was recently launched: 100% flat progress
	Enhanced Human Rights Due Diligence	Q3 2021 - Q3 2024	Mitigating exposure to human rights violations by focusing on companies operating in three conflict-affected or high-risk areas.	Theme was recently launched: 100% flat progress
	Sound social management	Continuous		Theme is ongoing: 43% success 14% positive progress 14% flat progress 29% no success

	Engagement theme	Period	Focus	Progress
Value engagement				
Governance	Culture and Risk Oversight in the Banking industry	Q4 2017 - Q4 2021	Addressing governance-related issues such as risk management, compliance and incentive structures, as well as seeking improvements where gaps are identified in our analysis.	Theme is closed: 44% success 56% no success
	Cyber Security	Q4 2018 - Q3 2021	Promoting best practices in managing cybersecurity risks and working to prevent financial losses, in random and operational downtime.	Theme is closed: 78% success 22% no success
	Corporate Governance in Emerging Markets	Q2 2020 - Q2 2023	Addressing material shareholder issues in Brazil, China and Korea, and aiming to improve governance and ESG practices.	Theme is ongoing: 30% positive progress 60% flat progress 10% no success
	Responsible Executive Renumeration	Q4 2020 - Q3 2023	Focusing on companies across six sectors in the US and EU with the aim to promote alignment of executive incentives with those of investors.	Theme is ongoing: 25% positive progress 75% flat progress
	Corporate Governance standards in Asia	Continuous	Engaging on governance issues in Asia. This engagement theme is kept broad to provide the necessary flexibility to accommodate investment team and client requests as engagement needs arise.	Theme is ongoing: 40% success 40% positive progress 20% no success
	Good Governance	Continuous		Theme is ongoing: 58% success 21% positive progress 21% no success
SDG engagement				
	SDG engagement	Q3 2021 – Continuous	Engaging with investee companies of our RobecoSAM SDG Engagement Equities fund.	Theme was recently launched: 6% positive progress 6% positive progress 94% flat progress
Enhanced engagement				
	Global Compact Breaches	Continuous	Engaging on breaches of international standards like the UN Global Compact and OECD Guidelines.	Theme is ongoing: 73% success 3% positive progress 5% flat progress 19% no success
	Palm Oil	Q1 2019 - Q4 2024	Addressing both the environmental and social challenges of palm oil and aligning with best-practices of RSPO.	Theme is ongoing: 67% successful 33% no success
	Acceleration to Paris	Q4 2021 - Q4 2025	Focusing on laggards in the energy transition.	Theme was recently launched: 100% flat progress

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 sustainability investing, quantitative techniques and constant innovation.

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 16offices worldwide. A global leader in sustainable investing since 1995, its 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. Robeco is wholly owned by ORIX Corporation Europe N.V., a subsidiary of ORIX Corporation, a Japanese multinational enterprise. More information is available at www.robeco.com.

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Additional Information for investors with residence or seat in Malaysia
Generally, no offer or sale of the Shares is permitted in Malaysia unless where a Recognition Exemption or the Prospectus Exemption applies: NO ACTION HAS BEEN, OR WILL BE, TAKEN TO COMPLY WITH MALAYSIAN LAWS FOR MAKING AVAILABLE, OFFERING FOR SUBSCRIPTION OR PURCHASE, OR ISSUING ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE OR SALE OF THE SHARES IN MALAYSIA OR TO PERSONS IN MALAYSIA AS THE SHARES ARE NOT INTENDED BY THE ISSUER TO BE MADE AVAILABLE, OR MADE THE SUBJECT OF ANY OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE, IN MALAYSIA. NEITHER THIS DOCUMENT NOR ANY DOCUMENT OR OTHER MATERIAL IN CONNECTION WITH THE SHARES SHOULD BE DISTRIBUTED, CAUSED TO BE DISTRIBUTED OR CIRCULATED IN MALAYSIA. NO PERSON SHOULD MAKE AVAILABLE OR MAKE ANY INVITATION OR OFFER OR INVITATION TO SELL OR PURCHASE THE SHARES IN MALAYSIA UNLESS SUCH PERSON TAKES THE NECESSARY ACTION TO COMPLY WITH MALAYSIAN LAWS.

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The funds have not been and will not be registered with the National Registry of Securities, maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.

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the Sub-Funds listed in the appendix to the section entitled "Important Information for Singapore Investors" of the prospectus ("Sub-Funds") are available to Singapore investors. The Sub-Funds are notified as restricted foreign schemes under the Securities and Futures Act, Chapter 289 of Singapore ("SFA") and invoke the exemptions from compliance with prospectus registration requirements pursuant to the exemptions under Section 304 and Section 305 of the SFA. The Sub-Funds are not authorized or recognized by the MAS and shares in the Sub-Funds are not allowed to be offered to the retail public in Singapore. The prospectus of the Fund is not a prospectus as defined in the SFA. Accordingly, statutory liability under the SFA in relation to the content of prospectuses does not apply. The Sub-Funds may only be promoted exclusively to persons who are sufficiently experienced and sophisticated to understand the risks involved in investing in such schemes, and who satisfy certain other criteria provided under Section 304, Section 305 or any other applicable provision of the SFA and the subsidiary legislation enacted thereunder. You should consider carefully whether the investment is suitable for you. Robeco Singapore Private Limited holds a capital markets services license for fund management issued by the MAS and is subject to certain clientele restrictions under such license.

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Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

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The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except under circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

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