ROBECO
The Investment Engineers

ACTIVE OWNERSHIP REPORT

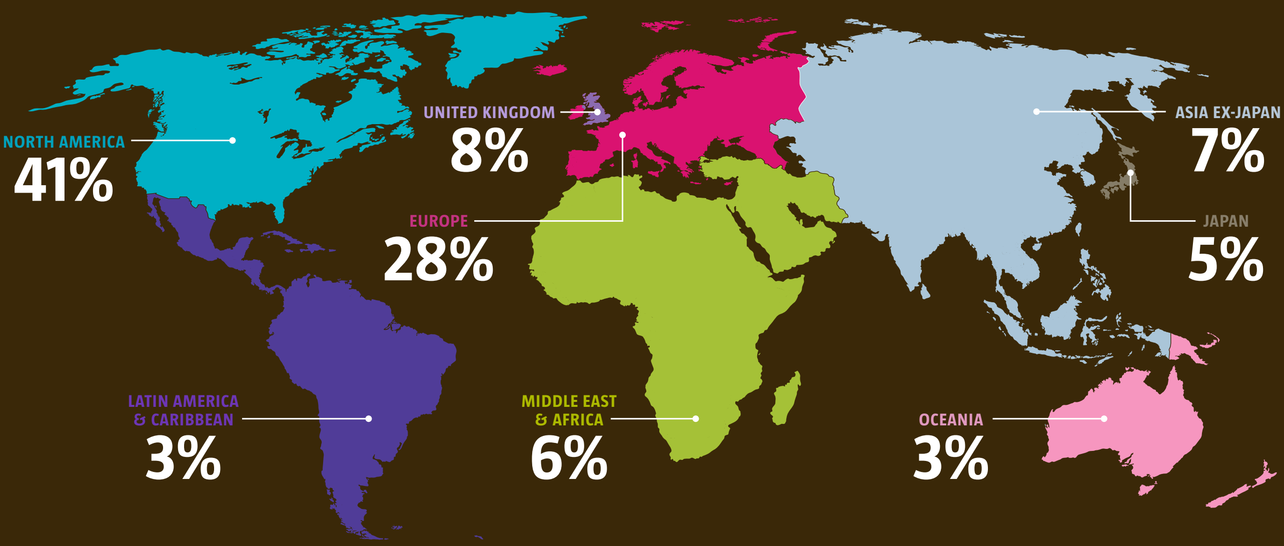
ROBECO | 01.07.2021 - 30.09.2021

Q3
2021

Sustainable Investing Expertise by ROBECOSAM

Q3|21 FIGURES ENGAGEMENT

Engagement activities by region



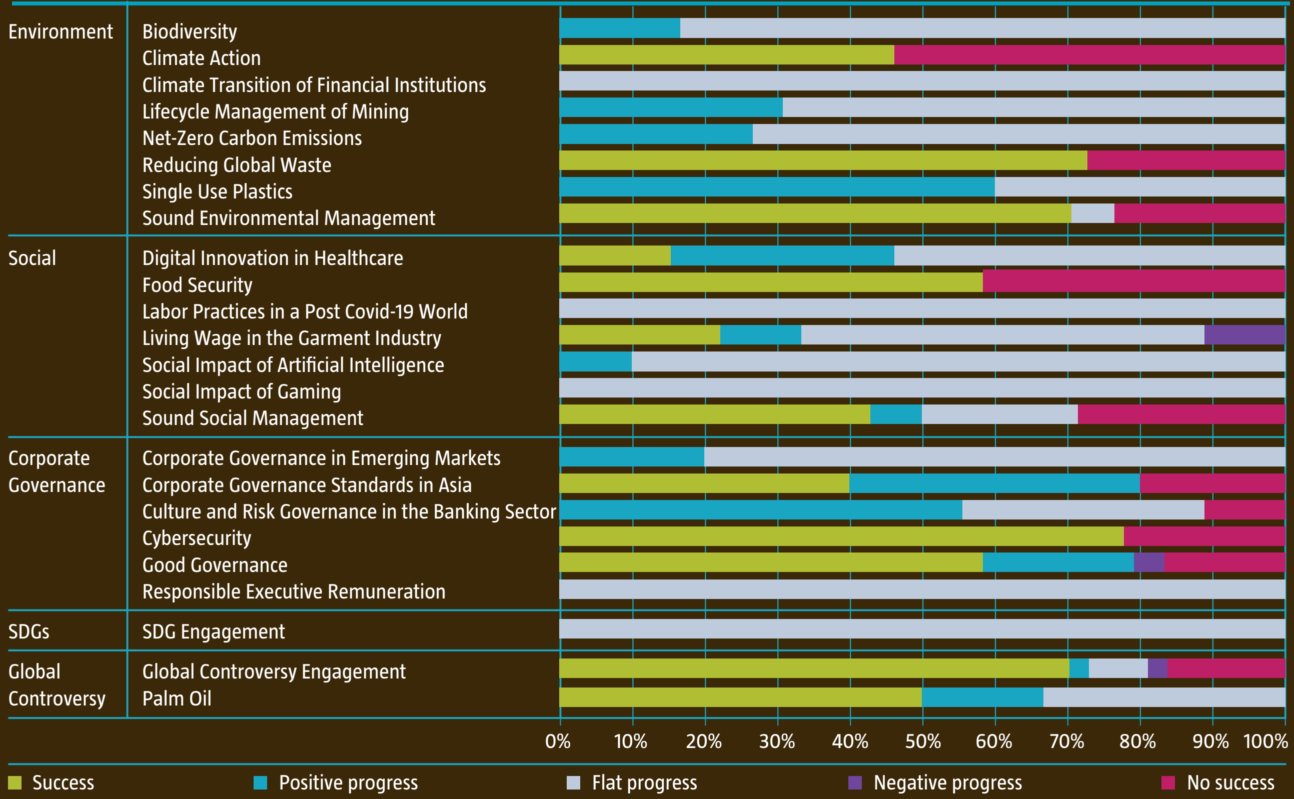
Number of engagement cases by topic

	Q1	Q2	Q3	Q4	YTD
Environment	55	47	30		78
Social	32	52	31		66
Corporate Governance	27	35	18		50
SDGs	-	-	16		16
Global Controversy	5	11	9		15
Total	119	145	104		225

Number of engagement activities per contact type

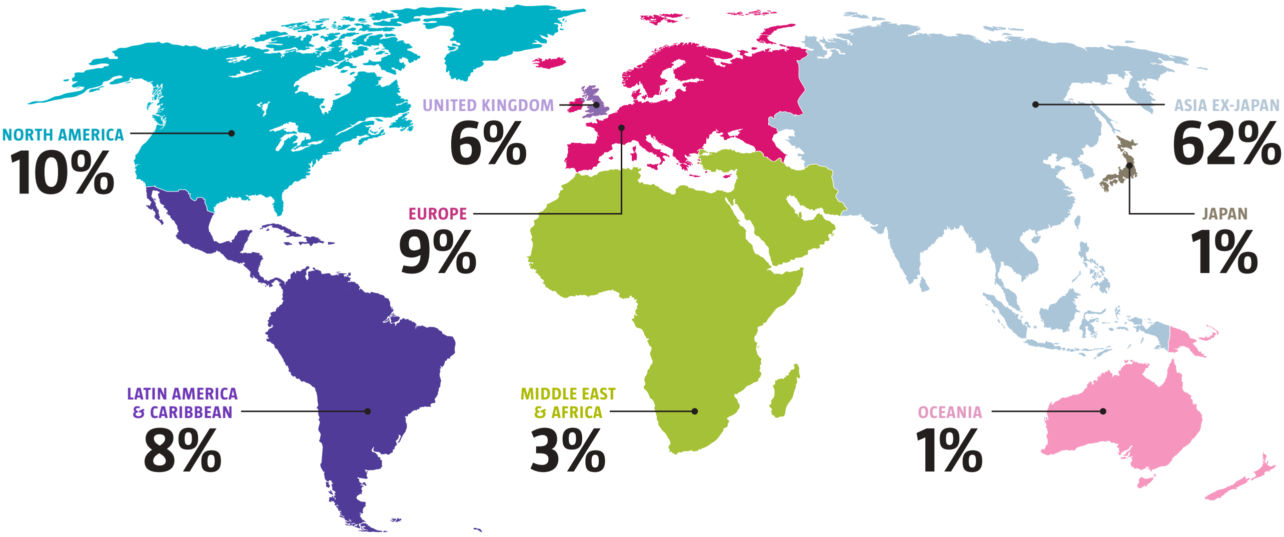
	Q1	Q2	Q3	Q4	YTD
Meeting	-	3	-		3
Conference call	97	99	67		263
Written correspondence	82	100	68		250
Shareholder resolution	2	1	-		3
Analysis	31	25	13		69
Other	2	17	2		21
Total	214	245	150		609

Progress per theme



Q3|21 FIGURES VOTING

Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	1.112	4.486	1.050		6.648
Total number of agenda items voted	9.645	54.932	7.813		72.390
% Meetings with at least one vote against management	54%	57%	44%		54%

Votes cast per proposal category

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INTRODUCTION

Over the course of the third quarter, environmental, social, and governance (ESG) topics continued to be in the spotlight, and the pressure to act on a variety of issues is growing steadily.

The publication of the Intergovernmental Panel on Climate Change (IPCC)'s Sixth Assessment Report, as well as the recent string of natural disasters in the form of major floods, heatwaves, wildfires and storms emphasize the urgency of climate action. Robeco acknowledges this urgency and is part of several global climate change initiatives that foster investor action on this issue. Most recently, in July Robeco became a partner of the Principles for Responsible Investment's Inevitable Policy Response (IPR). The IPR seeks to provide investors with a forecast acceleration of global policy responses to climate change, including realistic input to, and output from the energy and land-use climate transition. Robeco's Active Ownership program continues to build on our long history of climate engagement. While climate action remains a major focus, this Q3 report highlights our engagement efforts on other key ESG fronts.

Besides climate change, another major environmental challenge is the rapid global decline in biodiversity. In 2020, Robeco initiated an engagement with several companies producing commodities closely linked to biodiversity loss. As we near the halfway mark of this engagement theme, this report explains how we are pushing companies to make biodiversity management a priority.

In this report we also introduce our new Enhanced Human Rights Due Diligence engagement theme. The engagement will focus on the challenges of protecting human rights while operating in conflict areas. Companies operating in these markets need to have robust human rights due diligence systems in place to navigate the challenging market environments.
As digitalization expands far beyond the tech realm, so do its associated cyber threats. In 2018, Robeco initiated an engagement to gain better insights into how companies across industries manage these increasing risks related to cybersecurity. After concluding our three-year engagement, we share our main insights and results.

During our three-year food security engagement with the agricultural supply chain, we saw incremental improvements, some of which were however significantly impacted by the pandemic. Despite this recent setback, we have seen progress of companies' sustainability governance, corporate contribution to the UN's Sustainable Development Goals (SDGs), and around public-private partnerships. As the theme comes to a close, we reflect on the progress achieved and the challenges that remain.

A brand-new addition to our engagement universe is the launch of our SDG theme. The engagements under this theme will tackle the most material ESG issues in order to improve the companies' impact on the SDGs.

The breadth of our active ownership program demonstrated in this report underpins our commitment to being responsible stewards.

Carola van Lamoen
Head of Sustainable Investing

‘Conflict-affected or high-risk areas pose challenges to continuously act responsibly and safeguard human rights’

HUMAN RIGHTS DUE DILIGENCE

INTERVIEW WITH DANIËLLE ESSINK – *Engagement Specialist*

This quarter marks the launch of our engagement project on human rights due diligence, being an important topic for Robeco and our clients. To prevent providing capital to companies exposed to human rights violations, we have carried out an in-depth research project focused on companies active in conflict-affected or high-risk areas, aiming to minimize the adverse impact of their business activities on people. In this Q&A, Daniëlle Essink describes why we are launching this theme and what our goals are.

Why are we launching this engagement theme?

Over the past years, human rights have become increasingly at risk around the world. This development has further emphasized the importance of the 'S' in ESG and the obligations of companies and investors to respect human rights. Especially conflict-affected or high-risk areas pose challenges to continuously act responsibly and safeguard human rights. Our engagement theme aims to highlight human rights risks in our portfolio and strengthen risk management systems. For the financial year 2021, the World Bank has determined a non-exhaustive list of at least 39 countries that are in either a fragile or conflict-affected state[1]. This list includes, for example, Myanmar, which experienced a coup d'état in 2021 and deteriorated in Freedom Houses' democracy ranking – which measures countries and territories civil liberties and political rights – from 'partly free' to 'not free', increasing the concerns in the international as well as in the business community[2]. Most public services in the country are shut down and hundreds of pro-democracy protesters have been killed by military forces. Due to the military's broad involvement in the private sector, companies need to closely evaluate how their products or services may be tied to the military and thus might impact human rights. Generally, the OECD Guidelines for Multinational Enterprises distinguish between companies that are causing, contributing, or that are directly linked to doing harm. There are multiple ways in which companies can have an impact on human rights considering their sector, business model, products or services.

How will you assess which companies should be under engagement?

Robeco has developed a proprietary methodology to evaluate the human rights risk exposure and due diligence efforts of our portfolio companies. 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. We will engage with these companies to continuously ensure alignment with the best practices laid out in the UN Guiding Principles on Business and Human Rights. Additionally, we will maintain a watchlist to persistently monitor companies that are active in these regions.

1. The World Bank (2021), FY21 List of Fragile and Conflict-affected Situations.
2. Freedom House (2021), Freedom in the World – Myanmar.

'COMPANIES THAT ARE INVOLVED WITH STAKEHOLDERS LINKED TO HUMAN RIGHTS ABUSES MAY SEE THEIR PRODUCTS BOYCOTTED AND THEIR FUTURE SOCIAL LICENSE TO OPERATE IN JEOPARDY'

DANIËLLE ESSINK

Do some sectors or operating environments result in higher human rights risks?

Although the definition of conflict-affected or high-risk areas is frequently used to bundle all risks that stem from these regions, we specifically analyze and recognize the different risks that some sectors or business models may expose a company to.

We identify red flags in countries or regions with ongoing conflicts, reports of forced labor in the supply chain of specific industries or instances of humanitarian or international law breaches. Although these risks may seem decoupled from the overall business operation, it is important to recognize that risks may first materialize over time. Countries such as Myanmar highlight how businesses may, even unknowingly, be linked to human rights impacts. The military has broad economic interests and has captured many parts of the private sector through their own conglomerates, exposing companies that are engaged with them to significant risks.

Furthermore, sectors with complex supply chains such as the apparel sector have been exposed to increased risks. Allegations of forced labor in specific geographical locations in which companies' supply chains are active, such as Xinjiang, increase the urgency of companies to implement robust human rights due diligence measures, and to meet rising regulatory demands as well as satisfy consumer demands for transparency.

Ongoing and complex conflict dynamics such as between Israel and Palestine also expose businesses to a variety of risks. Multiple UN resolutions have deemed the occupation of parts of the West Bank to be in breach of international law and of the UN Human Rights Treaty, for example. Although this might appear to be a matter that needs to be solved between nations and international institutions, the Human Rights Council has laid out a diverse range of sectors and activities in which businesses may also be directly linked or contribute to human rights impacts. Examples include supplying materials that aid the expansion of settlements, or the use of natural resources such as water and land for business purposes.

Why should investors address human rights concerns (and what risks may stem from neglecting this)?

We believe that all companies have a responsibility to respect human rights, uphold policy commitments and act upon the guidance laid out in the UN Guiding Principles on Business and Human Rights and other international standards. Poor and inadequate management of human rights risks could have an impact on people and expose businesses as well as investors to legal, operational and reputational risks. This can have a direct negative impact on their license to operate.

In many industries, supply chains may span multiple countries and involve several layers of commercial relationships. A growing concern is that parts of these supply chains are located in conflict-affected or high-risk areas with low labor standards and a lack of transparency. Laws targeting increased disclosure of supply chains are becoming more prominent, with a German supply chain law commencing in 2023 as well as proposals by the UK and Australia which would require companies to disclose issues related to modern slavery and forced labor. Furthermore, the US has placed suppliers who have alleged ties to forced labor on their entity list, and have also banned the import of products from places that are suspected of using forced labor. The liability of companies involved in human rights impact is harder to gauge as it is still uncommon for firms to be prosecuted, yet the economic impact of these import halts is significant.

But even without legal action, reputational risks are almost always present when a company's operations have a negative impact on people. Companies that are involved with stakeholders linked to human rights abuses may see their products boycotted and their future social license to operate in jeopardy. Additionally, consumers may specifically avoid products of a company linked to allegations of forced labor.

What challenges do you expect to face when engaging with companies in conflict-affected or high risk areas??

Due to the specific context of conflict-affected and high-risk areas, some engagements may have increased hurdles due to the political landscape. Israel and the US, for example, have laws which may constrict companies in their ability to disengage through their anti-boycott laws. Furthermore, some companies that have acknowledged the increased risks they may potentially face by producing or sourcing from Xinjiang have faced consumer backlash in the Chinese market. Additionally, lack of reliable information may increase the difficulties of building an effective engagement case.

In many cases engagement with companies on adverse impact on human rights takes place in a reactive manner. With this engagement theme we aim to collaborate with our portfolio companies to highlight the importance of a more proactive approach. This includes carrying out enhanced human rights due diligence when entering new markets or engaging in joint ventures. Through the different processes embedded in an enhanced due diligence approach such as a thorough contextual analysis, we believe companies will have the necessary tools to perceive risks before they materialize and avoid contributing to negative impacts on human rights and associated legal, reputational and operational repercussions.

What are the outcomes you expect to achieve through this engagement theme?

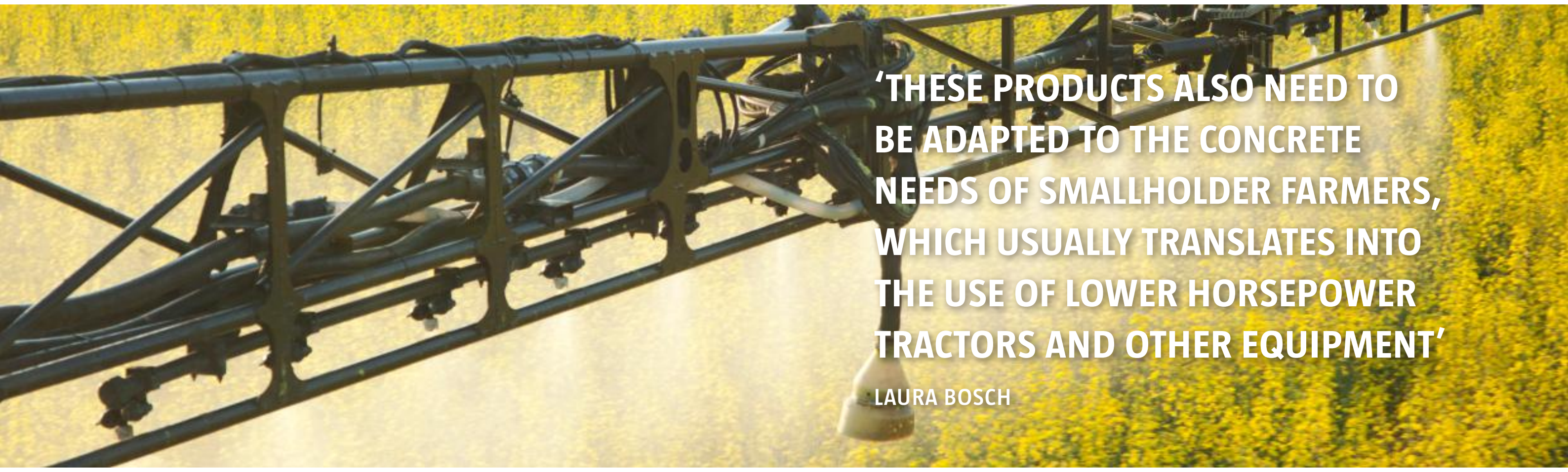
Assessing companies with a pre-defined methodology will allow us to compare performances, analyze shared difficulties and gain a better understanding of best practices. Our engagements are focused on the gaps we identify for each company such as a lack of reporting, undisclosed performance measures or lack of access to appropriate remediation. We believe this combination of proactive improvements to human rights management systems and responses to conflict-affected and high-risk situations that respect human rights will help mitigate risk and minimize the negative impact on people.

Addressing food insecurity at its roots

FOOD SECURITY

LAURA BOSCH – *Engagement specialist*

The world is facing ever-growing pressure on our global food system. With the global population set to reach 9.7 billion by 2050, demand for food is projected to grow between 25% and 70% over the next 30 years. Climate change and crop productivity are just a few of the factors that exacerbate the challenge of feeding tomorrow's population. As a result, food security has become a priority for sustainable development.



Improvements in food security have been reversed due to the disruptions caused by Covid-19 in our economies, job markets and remittances from overseas workers to low- and middle-income countries. Acute food insecurity has increased by 82% compared to the pre-pandemic period, impacting 270 million people by now. A decline in crop productivity due to soil degradation and climate change, and the productivity challenges faced by smallholder farmers are some of the key reasons behind ubiquitous food insecurity rates. Malnutrition weighs heavily on economic development and public health, at an estimated annual cost of USD 3.5 trillion to the global economy. Achieving SDG 2 of ‘Zero Hunger’ remains one of the key global challenges for the decade to come.

Engagement focus

Investors need to consider the topic of food security in the light of broader sustainable development, which companies in the food value chain can influence significantly and benefit from. In 2018, we initiated an engagement program focused on advancing the corporate contribution to food security, targeting companies in the agrochemical, commodity trading, agricultural mechanization, and irrigation sectors. Our dialogues were framed around engagement objectives on sustainability reporting and transparency, product portfolios and the geographic distribution of operations, innovation management and public-private partnerships.
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.

Winners and losers

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 farming machinery, crop protection products and seed varieties.

Agrochemical and irrigation system companies in our engagement group managed to demonstrate the most progress against our engagement objectives. The affordability and accessibility of their products place these companies in a better position when it comes to promoting their products in food-insecure regions. Key challenges for these sectors relate to effectively penetrating a market comprised by smallholder farmers, for which public-private partnerships are a useful tool to connect with this customer base.

On the other hand, food processors and commodity trading companies were not able to increase their impact on tackling food insecurity. These sectors have the potential to be an active participant in developing economies’ agricultural sectors by giving smallholder farmers access to their offerings. However, limited evidence was found on how smallholder farmers are tied into the offerings of these companies. Our engagement dialogues with the two companies operating in these sectors were closed unsuccessfully.

For agricultural machinery companies, progress against our engagement objectives was more mixed, as we managed to successfully close two-thirds of the dialogues. Agricultural machinery requires a sizeable investment, and it takes a long period to reap a profit, which in many cases is not economically feasible for smallholder farmers.

Despite this challenge, most companies identified the business opportunities that will materialize in low- and middle-income countries if the mechanization gap is closed in the coming decades. Being able to partner up with local players to provide financial support to farmers is crucial for ensuring accessibility to their products. These products also need to be adapted to the concrete needs of smallholder farmers, which usually translates into the use of lower horsepower tractors and other equipment.

Progress and areas for improvement

Companies' ability to contribute to food security depends in large part on the internal sustainability structures and processes they have in place. One-third of the companies in our engagement group were very open to explore how they can enhance their reporting practices and requested our feedback on how to do this, along with how to create concrete SDG mapping and reporting tools.

Yet, only one-quarter of companies under engagement managed to incorporate their contribution to food security in their business strategy and to set timebound and measurable SDG 2-linked targets, as well as to adapt their business and marketing models to the needs of food-insecure regions. Progress in this area was concentrated among agrochemical and irrigation companies.

What's next

Food security is fundamentally linked to biodiversity and agricultural production. The benefits of healthy ecosystems, such as superior soil quality or pollination, are critical to ensuring sustainable crop productivity. Yet, predominant patterns of agricultural growth such as the application of monocultures or the overuse of agrichemicals have eroded biodiversity, are causing economic loss, jeopardizing productivity and food security, and are leading to broader social costs.

In the coming year, the 15th meeting of the Conference of the Parties (COP 15) to the Convention on Biological Diversity will negotiate a framework equivalent to the one that the Paris Agreement provided for climate change for all member states. This would provide a clear roadmap for how to reverse nature loss in the next decade. While climate change and carbon emissions have found their way into companies' standard accounting over recent years, there will be a clear need to measure the impacts and dependencies of companies on biodiversity. This level of transparency would help organizations to act on their biodiversity footprint, helping to tackle other interconnected global challenges such as climate change or food security. ■

CASE STUDY

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 tractor 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.

Safeguarding the natural balance

BIODIVERSITY

PETER VAN DER WERF – *Engagement specialist*

Biodiversity loss is increasingly being recognized as a global systemic risk by investors, in addition to climate change. The concept and value of biodiversity have long been overlooked by the global financial industry. Defined as the diversity within and between species and their ecosystems, biodiversity is at the core of the delicate natural balance which for millions of years has ensured that Earth has remained habitable for us and the other species with whom we share the planet.

Without biodiversity, nature cannot provide goods and services that are worth trillions of euros. Strong ecosystem health is indispensable for food security, disease prevention, clean water provision, and much more. Yet in the Anthropocene, both climate change and biodiversity loss are accelerating faster than ever before: the current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years. As a result, the World Economic Forum ranks biodiversity loss as the third most impactful risk facing the global economy, and the fourth most likely to occur.

Commodity-driven deforestation as a key driver of biodiversity loss

The habitat destruction caused by land-use change for agricultural purposes is one of the major contributors to biodiversity loss. Thus, in order to reduce the current rate of extinction and preserve biodiversity, it is critical to halt commodity-driven deforestation. Our biodiversity-focused engagement work aims to improve the sourcing and production practices of companies whose supply chains are exposed to high-risk commodities. These key agricultural and livestock products – natural rubber, soy, beef, tropical timber, and pulp – are closely linked to deforestation and environmental degradation.

First steps towards traceability in the Brazilian beef industry

The beef industry in Brazil has a track record of high deforestation. However, 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, however, we have started to see a shift, as companies are beginning to hold themselves more and more accountable and are committing to achieve full traceability in their supply chain by 2025.

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 at 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 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 natural rubber value chain. This platform is helping companies to start setting up concrete policies and commitments to tackle the environmental and social challenges in the natural rubber supply chain.

Robeco to champion the launch of Nature Action 100

In addition to our engagement work on halting deforestation, Robeco is actively participating in various global efforts to prevent biodiversity loss. We contributed to the informal working group to prepare the launch of the Taskforce Nature-related Financial Disclosure (TNFD), we joined the Platform Biodiversity Accounting Financials (PBAF), and collaborated with the Cambridge Institute for Sustainable Leadership's (CISL) biodiversity risk working group to advance academic research. All of these efforts contribute towards our commitment to the Finance for Biodiversity pledge which we signed in September 2020. Through this pledge, Robeco

> **'THROUGH [THE FINANCE FOR BIODIVERSITY] PLEDGE, ROBECO HAS COMMITTED TO ALIGN ITS INVESTMENTS WITH THE GLOBAL BIODIVERSITY FRAMEWORK [WHICH] CALLS FOR NO NET LOSS IN BIODIVERSITY BY 2030 AND TO BE NATURE-POSITIVE BY 2050'**
>
> PETER VAN DER WERF

has committed to align its investments with the Global Biodiversity Framework that will be negotiated by governments around the world in April 2022 in Kunming, China. This framework calls for no net loss in biodiversity by 2030 and to be nature-positive by 2050.

Furthermore, the Finance for Biodiversity pledge calls upon signatories to seek collaborative engagements to safeguard biodiversity. That is why Robeco, together with a core group of investors, is driving the development of Nature Action 100. This program, building on the lessons learned from Climate Action 100+, seeks to work with research organizations and conservation NGOs to develop a list of the 100 companies with the largest impacts and dependencies on biodiversity. Global investors will be invited to sign up to the program and lead individual dialogues on behalf of the global investor community.

Robeco will represent its clients in this effort and seeks to complement its existing engagement program on biodiversity, as the common goal of these dialogues will be to prepare companies to proactively address biodiversity loss by establishing strong governance structures and committing to biodiversity policies. The engagements should ultimately lead the way for companies to adopt the TNFD when it is launched in 2023. The urgency and magnitude 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.

CASE STUDY

At the end of 2020 we filed a shareholder resolution for 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 the key asks included in our withdraw criteria proposal and we withdrew the proposal from the ballot of the AGM. Our achievement was to ensure that ADM published a revised no-deforestation policy, committing to eliminate deforestation from all their supply chains by 2030.

Fortifying digital assets

CYBERSECURITY

CAROLINA VERGROESEN – *Engagement specialist*

As digitalization expands far beyond the tech realm, so do the associated cyber threats. Cybercrime can include anything from small, local security incidents with minor consequences to cyberattacks which can disturb significant parts of the global economy. In recent years, the costs related to cybercrime have grown exponentially from USD 500 billion in 2017 to an estimated USD 6 trillion globally for 2020. Any company with digital operations should therefore fortify and protect its digital assets, or risk losing big time.

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, Robeco's Active Ownership team 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 11 companies in the payments, telecom, and household products sectors, as these companies operate using sensitive customer data or have experienced significant data breaches. Two companies were dropped due to either poor financial results leading to divestment or mergers/acquisitions. In the end, we concluded our engagement with nine companies, out of which seven cases were concluded successfully.

Companies remain reluctant to provide full transparency on cybersecurity

The theme focused on five topics: governance & oversight, policy & procedure, risk management & controls, transparency & disclosure, and privacy by design. Most companies in our engagement peer group acknowledged the risks related to cybercrime, but their approaches to this risk 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.

The governance and oversight objective focused on the highest tier of cyber management at the board and executive level. Nearly 80% of all companies had a clear strategy and governance hierarchy in place for managing cybersecurity. However, several transparency topics proved more challenging as most companies preferred to keep their cards close to their chest. This is understandable given that hackers can more easily circumvent barriers if they know exactly which security systems are in place. This hesitancy to provide information affected our success rate for our policy & procedure (56%) and transparency (56%) objectives in particular, where we closed only slightly more than half of the companies successfully.

Progress visible in operationalizing cybersecurity risk management

Although companies hesitated to disclose their particular response to cyber threats, they were more open to discussing the sensitivity and integrity of their security controls. Several companies have dedicated teams that regularly test their company's defenses in order to identify possible gaps in their current practices. We found this especially encouraging as the threat landscape is continuously changing and companies should be prepared to adapt their security accordingly and respond quickly to emerging threats.

Legislation increasingly protects sensitive customer data

Not every data breach is created equally and those involving personally identifiable information (PII) are especially harmful not only for companies but especially for those individuals whose data has been leaked. Companies need to be clear to their customers what type of data is collected and for what purpose, as well as inform their customers when there has been an accidental breach. This has become increasingly important as data privacy has received global attention in recent years and has led to the introduction of the EU's General Data Protection Regulation (GDPR), which is applicable to all companies globally if they serve EU customers. We therefore expected companies to have robust privacy policies in place, but although most companies had some form of privacy policy in place, the quality of these policies varied substantially. Whereas some were global and very detailed, others were local and only met legal requirements rather than being truly informative for clients. Overall, we closed 67% of companies successfully for the privacy by design objective.

Cybersecurity becomes more material for all sectors, given the trend of digitalization

In the past three years of engagement, cybersecurity has continued to garner global importance and we expect this trend to continue as companies across the globe expand their digital presence. We are encouraged to see that nearly 80% of countries worldwide have cybersecurity legislation in place. Continued expansion of this legislation is crucial in ensuring clear standards for companies to adhere to. Although several of the companies under engagement

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>
> CAROLINA VERGROESEN

went far beyond legal requirements, many cyber strategies were directly linked to specific legislation. As cyber standards are raised globally, companies will have to vie for talent. A global report from the Information Systems Security Association shows that the gap between demand and supply for cybersecurity skills is persisting, for the fifth consecutive year in 2021. We believe companies should therefore focus on the development of cyber skills within their organizations, as simply acquiring outside talent might prove to be a difficult challenge. Although this engagement has come to a close, we continue to see the importance of cybersecurity across industries. Specifically, our engagement themes on the digitalization of healthcare and the social impact of AI continue to focus on companies' diligent implementation of cybersecurity and data privacy practices. ■

CASE STUDY

One of the companies in our peer group that scored well on most engagement objectives is Visa. An exemplary approach to cyber governance & oversight is embodied in the Audit & Risk committee overseeing related risks and the significant technology experience on the board. Over the course of our engagement, Visa committed to improve its reporting on how cyber risks are addressed throughout the company, including details on how cybersecurity is included in the executive compensation criteria. Another best practice is that the company holds third party assessments on the maturity of its program, with high scores compared to its peers.

Proxy voting

CAROLINA VERGROESEN – *Active ownership analyst*
ANTONIS MANTSOKIS – *Active ownership analyst*

Active Ownership Analyst Carolina Vergroesen and Antonis Mantsokis reflect on some of the trends and sustainability questions which have defined the agenda for the 2021 proxy voting season, among them are the ever-rising tensions around responsible executive remuneration and the various growing importance given to diversity and inclusion across companies.

Shaping Accountable Remuneration Committees

The tension surrounding executive pay is increasing year on year. Both shareholders as well as civil society at large are increasingly putting question marks behind certain corporate pay practices. Historically, shareholders have been mostly focused on aligning pay with performance, whereas broader stakeholders have focused on pay equity between executives and the broader workforce. This dynamic has changed slightly as the pandemic has brought the stark difference between the C-suite and front-line workers into sharp focus. During the 2021 proxy season, investors have increasingly called out incongruent behavior between executive pay and treatment of the broader workforce. As institutional investors and societal demands for executive pay become more aligned, the pressure on companies to change their historic practices is building.

Despite alignment between institutional investors and society there is one group of shareholders who form a roadblock on the road to reform – insiders. Many listed companies have large portions of their shares, or even dual share classes designed to keep control, in the hands of management, founders and other insiders. These insider shareholders water down strong independent opposition and aid in the vast majority of all 'say on pay' proposals comfortably passing. It can come as no surprise that average executive pay-levels have been steadily increasing despite social and shareholder uproar.

As changing these shareholding structures in the near term is unlikely, we can look at another way that could help circumvent these roadblocks. In most developed markets, boards assign pay setting responsibility to a select group of directors that form a Remuneration Committee. Specifically, this committee is responsible for setting the policy for the remuneration of the executive management, determining targets for performance-related pay schemes and determining the total individual remuneration package of each executive director. Since Remuneration Committees have the power to change remuneration practices, addressing the way these committees work can help catalyze change.

Shareholders have some degree of influence on the composition of the committee. It is essential to have a fully independent committee to ensure management cannot leverage its power in setting its own pay. Besides independence, director backgrounds might also strongly influence the kind of pay practices they approve. Many board directors are former, or current, executives themselves and as such might not share the same reference point for fair pay levels as the general public. This also means executives serving on Remuneration Committees are subject to a conflict of interest – if they are too outspoken on compensation at another company, they risk facing the same fate and worse outcomes themselves. Ensuring a diverse committee might help break historical habits and push for a more critical evaluation of common pay practices.

Another way to push for change is through direct dialogues with remuneration committees. Therefore, Robeco regularly engages with companies to give direct feedback on remuneration. These discussions help a remuneration committee translate voting results into actionable items for change. Remuneration committees often use the help of compensation consultants, who provide the committee with suggestions based on comparable companies. This common practice might counteract change as it helps to maintain a status quo that is no longer supported by many shareholders. It is therefore essential for remuneration committees to also have input from shareholders to be informed of changing demands. Closer collaboration with shareholders will prevent companies from unexpected shareholder dissent.

A last resort to influence a Remuneration Committee's behavior is to use voting rights to oppose reelection of committee members who have failed to meaningfully improve remuneration practices. Robeco uses this leverage when we have voted against remuneration for three consecutive years without seeing an appropriate response from a company to this level of dissent.

As remuneration continues to be a contested item on the yearly AGM agenda, we believe shareholders will increasingly look at the roles of Remuneration Committees directly. This is in line with a broader shareholder movement to use director elections to voice concerns on a broad range of issues. We expect to see a more proactive approach of compensation committees to reach out to shareholders or else risk their position on the board altogether.

Diversity and Inclusivity

Diversity and inclusivity have increasingly become a hot topic in recent years, either as agenda items at AGMs, or in investors' engagement efforts with companies to help them address issues of social inequality in their organizations. The Me Too movement that was initiated in 2017 after sexual harassment and abuse of women in workplaces, and the Black Lives Matter Movement that exposed the lack of racial and ethnic equality in our societies, made investors realize that corporations must step up their efforts to promote diversity, equity, and inclusivity (DE&I). It is clear that gender or racial quotas in higher management and corporate boardrooms, remain important as the first step to promote diversity, but these alone are no longer enough to change the system and address our social and racial biases.

Companies should become more inclusive and reflect the communities they are a part of to ensure their long-term prosperity and competitiveness. A 2019 McKinsey report shows that inclusion matters, highlighting that even relatively diverse companies are facing challenges to increase inclusivity. Corporations should try to create work environments characterized by inclusive leadership, equality and fairness of opportunity, and freedom from bias and discrimination. Companies should uphold a zero-tolerance policy for discriminatory behavior and ensure the representation of diverse talent. Companies should build a culture where all employees feel they can bring their whole selves to work, by supporting the formation of employee working groups with diverse/minority backgrounds. The same report shows that those diverse companies that do take those steps to build up inclusivity tend to outperform their peers financially.

Many shareholder advocates and investors are now focusing on the role corporations play in exacerbating racial and social inequalities in our societies. Historically, corporations have perpetuated societal inequalities through their corporate culture and behavior. For example, we have seen communities of color to be disproportionately affected by environmental damages caused by corporate polluters. In this year's AGM season, we saw resolutions submitted by shareholders asking from many major US banks to conduct racial equity audits to detect how their business activities might have "adverse impacts on non-white stakeholders and communities of color". The purpose of this proposal is to conduct an independent and objective evaluation of the effectiveness of the banks' internal and external actions in combatting systemic racism, and the impact of the banks' own policies related to mortgage lending, retail banking, and small business lending on communities of color. These proposals have become more important to ensure accountability of corporate purpose statements.

Diversity though has more aspects than only gender, race, or ethnicity. In December 2020, Nasdaq, the stock exchange, filed a request with the SEC to require its 3,300 listed companies to have at least one female board member and one board member who identifies as either an under-represented minority or LGBTQ, on a comply or explain basis. Corporate disability inclusion is also becoming a central aspect of the diversity and inclusivity dialogue. A 2018 report published by Accenture shows that corporations that embrace best practices for employing people with disabilities have outperformed their peers. The report also noted that including people with disabilities in the workforce leads to increased innovation, higher productivity, and a more inclusive working environment. These dimensions of diversity are difficult to capture, and consequently hard to set specific targets for certain companies, for example because of the EU's General Data Protection Regulation - a strict set of privacy and security rules about the use of personal information. Nevertheless, this year saw shareholders asking more US companies to reveal diversity data about their workforces. Extra disclosure and measurable employee diversity data will allow investors to assess and have better oversight of the companies' diversity and inclusion efforts.

Over the next decades due to megatrends, such as climate change, there will be a global change in demographics, and our countries will become even more diverse. This change will have certain social effects, but also a substantial impact on labor markets and consumer trends. Corporations need to conduct an open dialogue with investors and governments to manage the resulting impacts. And though there are barriers, like data availability on specific DE&I targets, diversity should be approached more holistically, not aiming only to reach specific figures but aiming to enhance inclusion. ■

CODES OF CONDUCTS

Robeco's Engagement Policy

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information is available at: https://www.robeco.com/docm/docu-robeco-engagement-policy.pdf

The UN Global Compact

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

Human rights

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

Labor standards

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

Environment

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

Anti-corruption

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

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

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

International codes of conduct

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

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

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

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate. The Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities. ■

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

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

More information can be found at: https://www.robeco.com

IMPORTANT INFORMATION

ROBECO
The Investment Engineers

Contact

Robeco
P.O. Box 973
3000 AZ Rotterdam
The Netherlands

T +31 10 224 1 224
I www.robeco.com

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