ACTIVE OWNERSHIP REPORT

ROBECO | 01.04.2022 - 30.06.2022

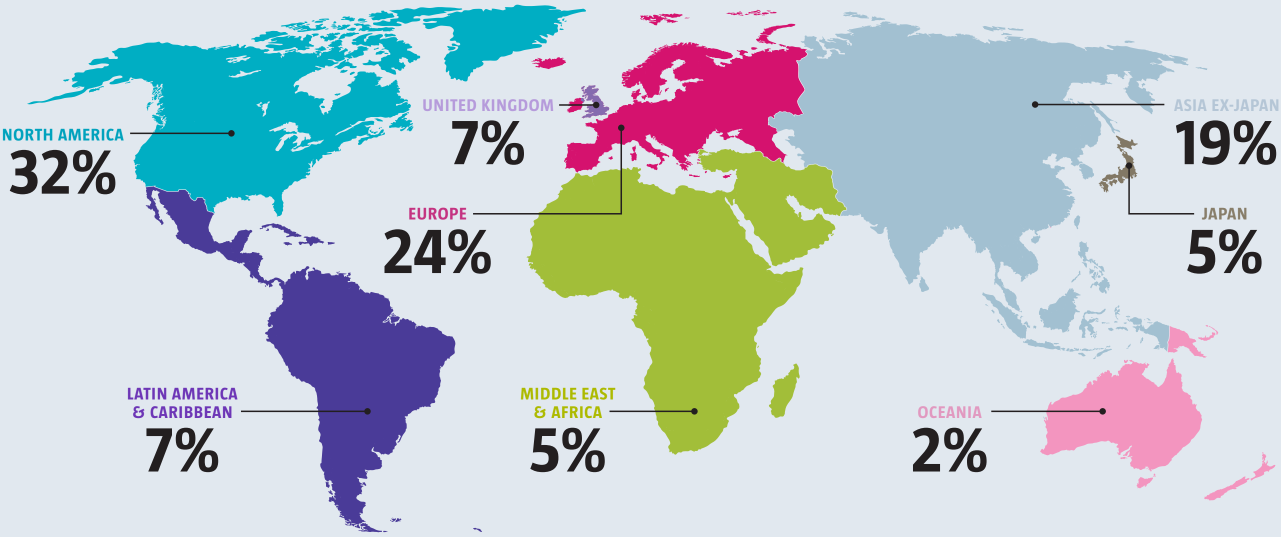
Q2

2022

Sustainable Investing Expertise by ROBECOSAM

Q2|22 FIGURES ENGAGEMENT

Engagement activities by region



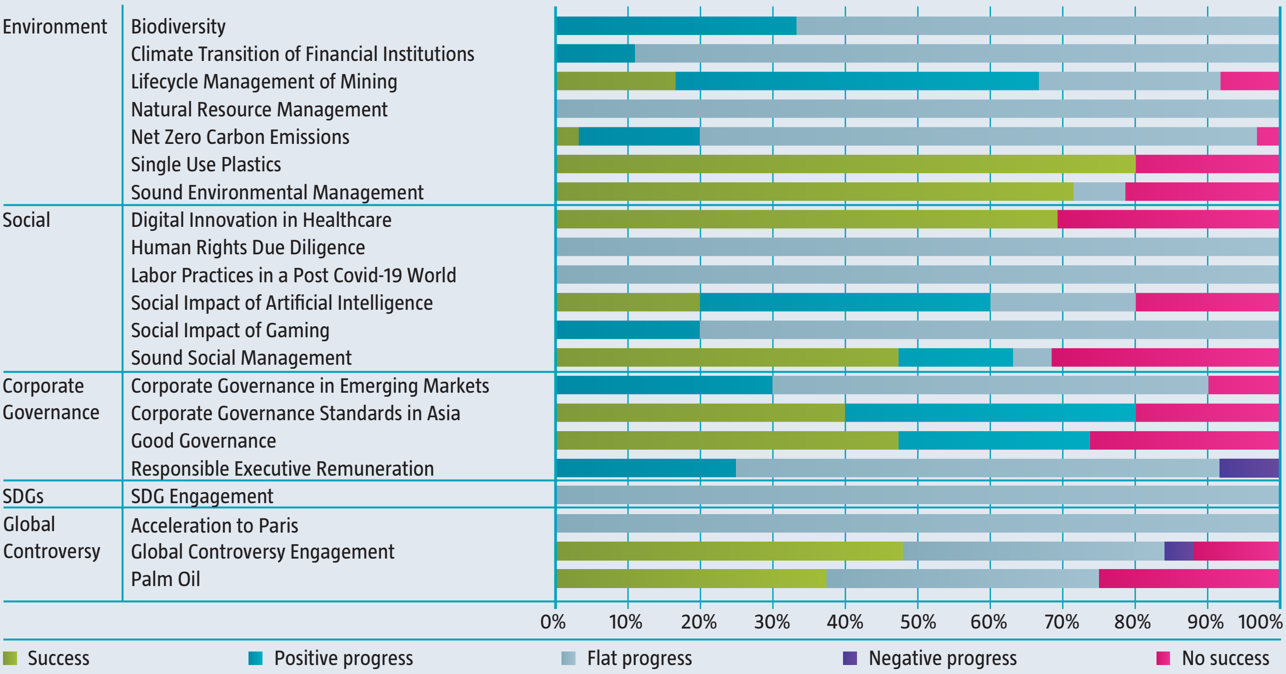
Number of engagement cases by topic

	Q1	Q2	Q3	Q4	YTD
Environment	48	55			72
Social	20	26			36
Corporate Governance	20	23			31
SDGs	15	30			38
Global Controversy	25	19			27
Total	128	153			204

Number of engagement activities per contact type

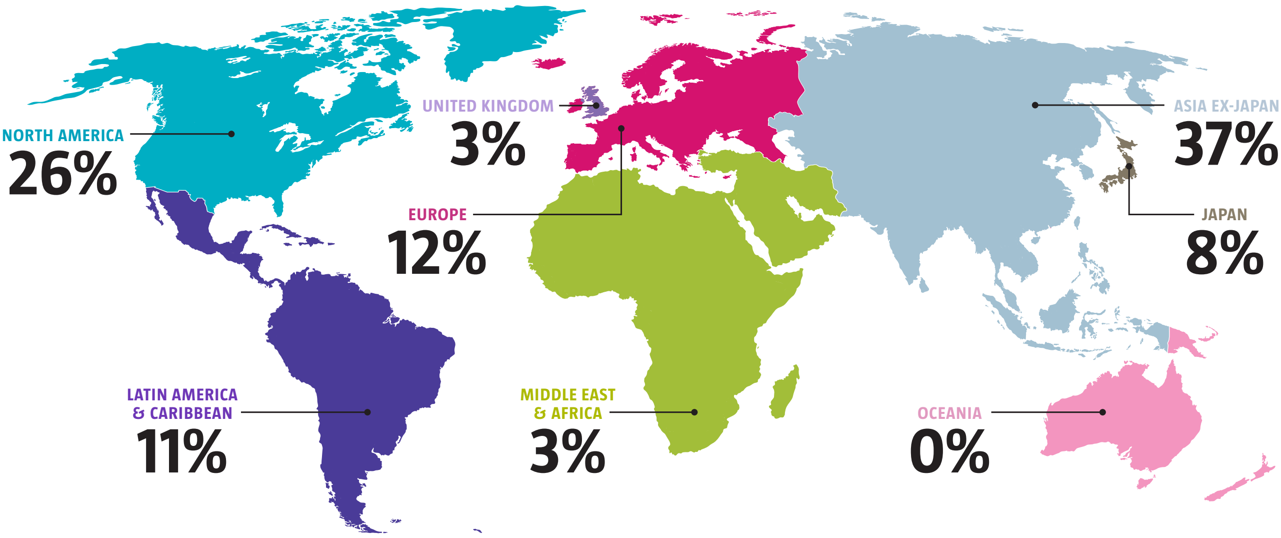
	Q1	Q2	Q3	Q4	YTD
Meeting	1	1			2
Conference call	81	91			172
Written correspondence	89	125			214
Shareholder resolution	0	1			1
Analysis	16	27			43
Other	1	11			12
Total	188	256			444

Progress per theme



Q2|22 FIGURES VOTING

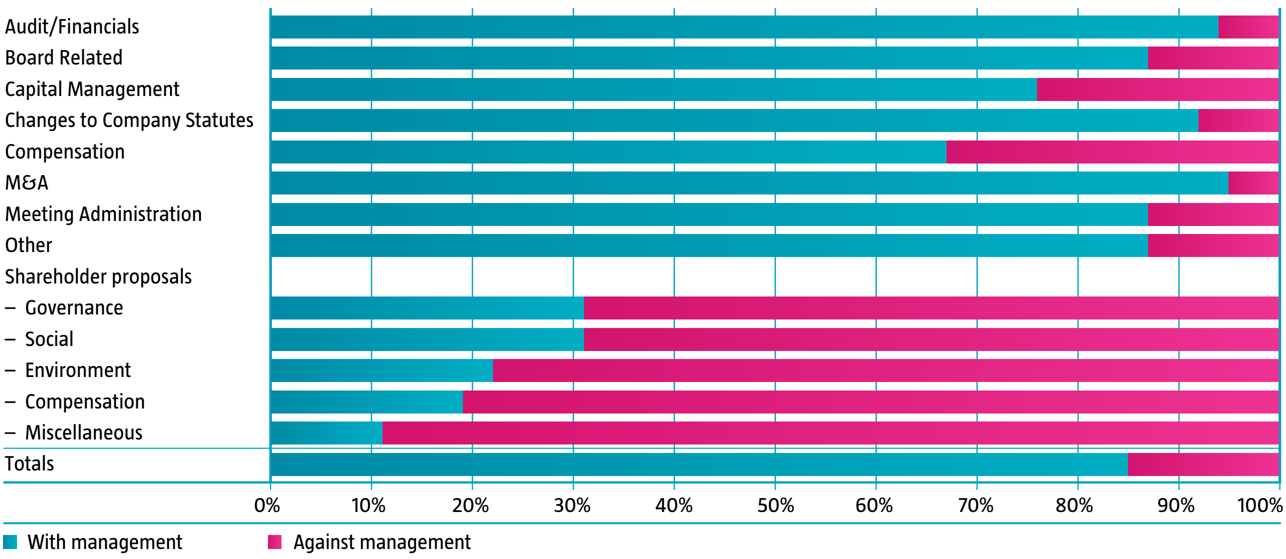
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	1.076	4.308			5.384
Total number of agenda items voted	9.268	53.407			62.675
% Meetings with at least one vote against management	56%	60%			60%

Votes cast per proposal category



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INTRODUCTION

The first half of 2022 has seen a lot of economic turmoil, from the Russia-Ukraine conflict disrupting energy and food markets, to growing uncertainty as inflation and interest rates rise across the world. These global events underline the ever-growing relevance of our corporate engagements: from our accelerated engagements around net zero carbon emissions that are now coinciding with European oil shortages, to our active participation in this year's AGM season, where we have been emphasizing the increasing importance of responsible corporate governance.

And while economic upheaval has been dominating the agenda, climate change continues to take center stage, not only through our engagements, but also during the 2022 AGM season. On the engagement side we have expanded our Net Zero Emissions theme to include 15 more companies to encourage them in their journey to become carbon neutral.

Meanwhile, we have seen growing support for environmental proposals at many AGMs, from investors asking for the reduction of single-use plastics, to requesting more disclosures on companies' climate risks. In our article on Good Governance, we explain how investors can not only put forward a clear message through their votes at AGMs, but can also leverage these shareholder interactions to establish a strong dialogue on corporate social responsibility.

As the 2022 voting season comes to a close, so does our engagement theme on Single-Use Plastics, in which we engaged with 10 companies across the plastic packaging value chain. Throughout the three year engagement, we saw great progress in promoting plastic recycling; we noticed some exciting innovations, and we were pleased to see growing industry collaboration to reduce plastic waste. Despite the impressive progress for some companies, none of the companies under engagement were able to set up a fully circular business model, leaving room for further improvement there.

As countries have loosened their Covid-19 restrictions, our engagement with the health care sector has come to an end. Through our Digital Innovation in Health Care program, launched in 2019, we have highlighted how the pressures from the pandemic on the health care sector have exposed key innovation and security gaps. Over three years, we joined health care companies on their digital journeys, from setting up concrete digital innovation strategies to growing collaborative initiatives between health care providers, fostering knowledge sharing and wider integration of care solutions. While we closed two-thirds of the engagements successfully, not all companies were able to take sufficient steps in addressing the digitalization risks, whether linked to data privacy, cybersecurity or broader industry evolution.

Lastly, we are proud to introduce our SDG engagement program in this quarterly update, marking a new way of engaging with companies. The theme focuses on the contributions that companies can make to one or more of the 17 Sustainable Development Goals, and calls for the integration of sustainable development principles within these companies' business models. Whether by encouraging animal pharmaceutical companies to expand into emerging markets, contributing to 'Zero Hunger' or underlining editing software companies' critical role in ensuring 'Peace, Justice and Strong Institutions' through their fight against digital content manipulation and the spread of fake news, we hope to exemplify the power of investor action.

The width of our engagement themes and the depth of our dialogues reflect the importance we attribute to sustainability as we move forward into the second half of 2022.

Carola van Lamoen
Head of Sustainable Investing

It is not only about achieving the end goal of net-zero, but how we get there

NET ZERO EMISSIONS

NICK SPOONER – *Engagement specialist*

The new Net Zero Emissions theme, launched in Q1 2022, is an extension of our existing corporate decarbonization theme, expanding our climate engagement by additional 15 companies. In this Q&A, Nick Spooner reflects on the continued urgency for climate action, explains the key changes to the theme and reiterates the importance of collaborative action as we step up our engagement under the Climate Action 100+ investor initiative.

What are the aims of the Net Zero theme?

As its name suggests, this engagement theme will work with companies towards achieving net-zero emissions globally by 2050. This is necessary to reduce greenhouse gas emissions and limit further temperature increases. Research by the Intergovernmental Panel on Climate Change (IPCC) has warned against the devastating impact of not meeting the Paris Agreement goals to combat global warming, with significantly higher levels of physical and economic damage occurring at 2°C of warming compared to pre-industrial levels, versus the lower goal of 1.5°C. Therefore, our collective ambition is to limit temperature increases to 1.5°C, or as close to this as possible.

The framing of net-zero is beneficial in setting out this longer-term goal. However, this framing also creates an overly simplistic conception of what is required, and the differentiation between pathways at a sectoral and regional level. Furthermore, the latest research by the IPCC issues a stark warning about the world needing much more action now to reduce the parts per million of carbon in the atmosphere by 2050. Since it is the cumulative emissions that ultimately matter, it is not only about achieving the end goal of net-zero, but how we get there. Specifically, this relates to how quickly we can bend the curve of emissions over the short and medium term. The current rate of annual emissions means the world will exhaust the carbon budget that would limit warming to 1.5°C within the next decade, and so early action is disproportionately beneficial in buying time to fully transition.

Our engagement under this theme sets the expectation for companies to set long-term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, as well as transition plans that ensure a reduction in real-world emissions over the next decade.

What is a credible transition plan and what are the objectives that we look for in our engagement?

A credible climate strategy is difficult to define as each company will have its own challenges and approaches to decarbonization. Nevertheless, we can leverage external benchmarks, such as the Climate Action 100+ Net Zero Benchmark, in defining our objectives. We consider this approach to be well-rounded and thoughtful in terms of driving credible transition strategies. While the focus of many of our engagements is on emissions reduction targets over the short, medium and long term, it is necessary to ensure that companies are clear about their plans to achieve this. They need to disclose their climate governance structures, climate-related risks and opportunities, and have plans in place for deploying the capital necessary to decarbonize.

We are closely involved in the evolution of the Climate Action 100+ process and will continue to contribute to the development of metrics and indicators within the benchmark. Recent developments have brought in two new sub-themes around climate accounting and the 'just transition' in which social factors are also incorporated. We are also increasingly focused on the role of carbon offsets, seeking to ensure that companies follow the mitigation hierarchy and are carrying out proper due diligence around offset activities.

The proliferation of net-zero targets has accelerated the debate around carbon offsets. This is due to the fact that it challenges companies to think about what a net-zero business looks like for them as an organization. To reach this final point there is going to be a high degree of variability in abatement costs, both between companies and within companies. It may be the case that there are residual emissions for some companies, particularly in high-emitting, hard-to-abate sectors, meaning that some degree of negative emissions technology is required. When dealing with nature-based carbon offset solutions, we need to be cautious about the level of commitment that any one company makes, and the potential negative externalities associated with these investments, such as impacts on indigenous rights or biodiversity. If there is any one takeaway from the Covid-19 pandemic, it is how inter-related many of these issues are.

How does this engagement program differ from other engagement programs?

The new Net Zero theme, launched in Q1 2022, is an extension of our corporate decarbonization theme which opened in Q4 2020. Here, we have expanded the theme by engaging with an additional 15 companies. What is different about the approach we have taken in this net-zero expansion is the company selection process. As with the Acceleration to Paris engagement theme, we use our 'traffic light' assessment research to categorize companies based on their lack of alignment to the Paris Agreement. The Acceleration to Paris engagement program chose the 13 worst-performing companies to engage with; the Net Zero engagement program expands this by engaging with the next 12 worst-performing companies based on our assessment.

Three mining companies were not selected on this traffic light basis, but because of opportunities that arose within the wider Climate Action 100+ initiative. This brings the total of engaged companies to 15. Despite this divergence from the approach taken with the other companies, we consider these opportunities for collaborative engagement to be extremely valuable in terms of enhancing the impact of our engagement. The importance of the mining sector, both with regard to reducing emissions related to the combustion of fossil fuels and with the expansion of low-carbon mineral extraction, was a major consideration in our selection of these companies.

The addition of these three mining companies is reflective of the broader push we have made to expand our influence under the Climate Action 100+ initiative. In our new Net Zero value engagement theme, we are now co-leading the engagement for Climate Acton 100+ for five of the 15 companies and acting as a collaborative engager for another five companies.

How has engagement been progressing so far?

It is still too early in the process to comment around the success of engagement – we hope to see more quantitative results in 18-24 months' time. However, there are some notable cases to highlight so far:

LyondellBasell

We co-lead the engagement with LyondellBasell under the Climate Action 100+ initiative and coordinated a meeting with the chairperson earlier in the year. This was the first time that direct engagement with a non-executive board member had taken place under the initiative. Here, we were able to convey our expectations of the company, which still performs relatively poorly on external benchmarks, despite recent progress. Following this meeting, LyondellBasell published its revised sustainability report. We were pleased to see many improvements, including the publication of short-term targets and enhanced detail around the decarbonization strategy to 2030 that we had recommended in our prior engagement covered in this report. We recognized this progress in a more recent engagement with the company and gave further feedback on the report, specifically around our future objectives from the engagement around scope 3 emissions targets and climate lobbying.

Enel

We have co-led the engagement with Enel under the Climate Action 100+ initiative since 2018. We have seen significant progress across most of our engagement objectives since then. More recently, we have focused our engagement on Enel's climate lobbying and disclosures. Over the last year we have had intense engagement with the company on this topic and provided extensive feedback based on our expectations. In Q2 2022, we have seen positive results from this engagement effort, as the company has significantly improved its disclosures on climate lobbying. In Enel's 2021 Consolidated and Sustainability Reports, the company disclosed for the first time its assessment on the level of alignment with the goals the Paris Agreement. This is something that the industry associations that Enel is member of had been advocating for. Based on the enhanced transparency and adoption of good practice, InfluenceMap – an independent think-tank ranking corporate climate lobbying – has upgraded Enel's score from 21/100 to 57. This means Enel now ranks third among Climate Action 100+ focus companies that have published an industry association review. ■

'WHILE THE FOCUS OF MANY OF OUR ENGAGEMENTS IS ON EMISSIONS REDUCTION TARGETS OVER THE SHORT, MEDIUM AND LONG TERM, IT IS NECESSARY TO ENSURE THAT COMPANIES ARE CLEAR ABOUT THEIR PLANS TO ACHIEVE THIS.'

NICK SPOONER

A new era for AGMs?

GOOD GOVERNANCE

MICHIEL VAN ESCH – *Engagement specialist*

The AGM season, when most companies hold their annual general meeting of shareholders, presents a unique opportunity for investors to engage with companies. With the world moving out of lockdowns, companies are increasingly adopting hybrid AGMs to allow more people to attend. Meanwhile, investors are using AGMs to take stronger stances towards topics such as remuneration, social responsibility and climate action.

Hybrid AGMs; having your cake and eating it

Until the global pandemic, most institutional shareholders cast their votes by proxy well in advance of the AGM. The actual meeting is typically attended in person by retail shareholders. Institutional shareholders only show up to make a public statement in a few cases, with most dialogue happening well before the AGM.

The global health pandemic inherently changed all that. While digital meetings enable a wider set of shareholders to join meetings, they also allow the degree of interaction to be controlled by management or the board. Some companies have made a point of answering all the questions posed even under a digital set-up, yet other companies only answer the questions that were convenient to answer. The fully digital AGM allows many more shareholders to join in, but accountability is low, as management can avoid awkward questions, and there is little opportunity for shareholders to ask follow-up questions when the answers given are too vague.

'WHILE DIGITAL MEETINGS ENABLE A WIDER SET OF SHAREHOLDERS TO JOIN MEETINGS, THEY ALSO ALLOW THE DEGREE OF INTERACTION TO BE CONTROLLED BY MANAGEMENT OR THE BOARD.'

MICHIEL VAN ESCH

During the 2022 season, we have seen that many companies are trying to have the best of both worlds. Hybrid meetings allow shareholders that cannot travel long distances to ask questions or make comments from their offices abroad. Shareholders who want to make sure that their messages are not 'muted' can show up at the meeting to make their voices heard. Currently, we see many different forms of AGMs taking place across the world. In some industries, the fully digital AGM seems to be preferred, whereas other markets show a clear preference for a return to pre-pandemic meetings in person.

We believe that the future set-up should allow for both; allowing a broad group of shareholders to attend online AGMs, whilst facilitating in-person attendance. In the Netherlands, several companies have already made this hybrid model work. For example, our attendance at the AGM of DSM showed us that meetings can be efficiently held with both shareholders calling into the meeting and asking questions from their location.

Obviously, there are also downsides to the in-person component of hybrid AGMs, such as when special interest groups join meetings as shareholders, claim a podium for themselves, and disrupt the flow of the meeting. An example of this was when several participants of the AGM of Shell (formally known as Royal Dutch Shell) glued themselves to their seats and caused the meeting to be delayed for several hours.

Remuneration; measuring with diverging standards

The time when shareholders viewed remuneration to be the only instrument they could use to align management with creating shareholder returns is over. An increasing number of remuneration reports and policies have been subject to shareholder dissent in recent years. Regulations such as the amended Shareholder Rights Directive (SRD2) in Europe give shareholders more tools with which to express their disapproval of remuneration practices. Additionally, the Covid-19 pandemic has changed the perspective on remuneration, both in the eyes of society and in what shareholders consider to be acceptable remuneration practices.

One example of a shareholder revolt was seen at Philips, where 80% of shareholders voted against the company's bonus scheme because of re-adjustments of performance targets. The supervisory board claimed that supply chain challenges were simply external issues, and that the lagging performance could not be attributed to management. Even if this were true, shareholders seem to be uncomfortable allowing remuneration committees to adjust the financial outcome for management if this cannot also be applied to the company's other stakeholders. Phillips' shareholders suffered a 40% loss of capital due to the supply problems, while its customers were delivered faulty medical equipment and did not receive any compensation.

While in Europe shareholders consider a EUR 1.5 million bonus unacceptable in the light of a poor stakeholder experience, in the US, CEO pay levels are rising to new records, Apple's CEO was paid USD 98 million for his performance this year. His performance-based long term incentive plan – with a grant date fair value of almost USD 45 million – is based on three-year performance against one sole metric, with a sizeable portion of the award still vesting in the event of below-median performance. Even though his pay package attracted a 'vote against' advisory from proxy voting advisor ISS, the vast majority of shareholders (64%) approved his remuneration anyway.

In our engagement with companies, we urge remuneration committees to use pay packages to align incentives with long-term value creation considering both financial returns and sustainability. This also means that we expect companies to apply moderation in their pay awards for CEOs. The concept of accountability for pay for many investors is shifting from a purely shareholder approach to one embracing all stakeholders.

Climate proposals are gaining support

Shareholders are increasingly using their voting rights to push companies to take responsibility for environmental and social ('E&S') issues. At the recent AGMs of Exxon Mobil, a majority of shareholders supported a request for more disclosures on how the company could be affected by the International Energy Agency's net zero 2050 models. More than one-third of Exxon shareholders also supported a shareholder proposal asking for a report about the company's efforts to reduce its contribution to the use of single-use plastics. Some 39% of shareholders voted for a full accounting of the company's climate risks.

Social topics are also gaining support. For example, technology companies in the US are often asked to report on risks associated with privacy issues, or how their products are used in countries that are associated with human rights violations. Shareholder proposals remain unlikely to gain a majority support in technology companies owing to these firms' dual-share classes allowing management to control a significant portion of the vote.

Although shareholder proposals are a good way to flag some shareholders views that companies should make progress on E&S issues, such resolutions are not filed consistently across markets. In the US, shareholder resolutions are much more common and are often used as a starting point for engagement. In Europe on the other hand, constructive dialogue is often the preferred tool to influence management, but this often lacks the teeth of a vote. Therefore, we push companies to introduce additional mechanisms for accountability on E&S performance, for example by submitting their climate transition plans to a vote (the so-called Say on Climate), or by improving their risk reporting on sustainability issues.

European regulations will soon require companies to submit their sustainability reports to the AGM. This seems like a mere technicality, but allowing shareholders to have a specific voting item on sustainability can be a starting point for additional impetus for best practices on sustainability. It is also a means for shareholders to add their voice when demanding companies to make further progress on their sustainability performance. ■

The cost of circularity

SINGLE USE PLASTICS

SYLVIA VAN WAVEREN – *Engagement specialist*

From preserving food to transporting medicine, single-use plastics have become an essential part of modern life. However, the waste it generates is slowly catching up with us, flowing into seas and covering roadsides where there is no efficient waste infrastructure. To safeguard our planetary boundaries, companies must move towards a circular model that can alleviate the drawbacks of single-use plastics and have a positive business impact.

While delivering many benefits, the current use of plastic packaging has drawbacks that are becoming more apparent by the day. Single-use plastic products are made within seconds, used for just minutes, and remain as waste for centuries. From 2019 to 2022, Robeco engaged with 10 companies with the aim of driving the global plastics value chain towards a more circular economic model. After three years, we successfully closed 80% of our engagement dialogues.

Reduce, reuse, and recycle single-use plastic

Plastics are used in almost every part of our modern economy, combining superior functional properties with low cost. Their use has increased 20-fold since the 1970s and this is expected to double again in the next two decades. Today, nearly everyone, everywhere, encounters plastic packaging that is usually used only once on a daily basis. Reducing single-use plastic has become a priority for tackling the high degree of waste that it produces. A circular economy reduces the need for single-use plastics, innovates so that plastics can be reused or composted, and recirculates everything by keeping it within the 'loop' economy and away from the environment.

Challenges and issues

There are numerous, interlinked challenges and struggles with managing plastics, with some challenges arising from these solutions as well. We found that the development of responsible packaging sometimes conflicts with other solutions. For example, bioplastics are seen as a major solution to waste as they degrade more easily than regular plastics, but this can complicate recycling systems further. Bioplastics are made of non-fossil fuel-based feedstock, which is positive in their ability to reduce climate impact, but often have comparable negative impacts when they are not recycled as regular plastics. Furthermore, these compostable materials are often not of sufficient quality to protect the food that is wrapped in them.

> **'BY RECYCLING MORE EFFICIENTLY TO CREATE AN ECONOMICAL MARKET FOR RECYCLED PLASTICS, COMPANIES CAN SEIZE THE OPPORTUNITIES AND ADAPT THEIR BUSINESS MODELS ACCORDINGLY.'**
>
> SYLVIA VAN WAVEREN

Recycled plastic still too expensive

We also found that there is an urgent need to improve the supply and demand dynamics for recycled plastic. Recycling plastic into new packaging can be costly. Household plastic waste must be sorted, melted into pellets, and turned into new packaging. That is why recycled plastic is often more expensive than new plastic. By recycling more efficiently to create an economical market for recycled plastics, companies can seize the opportunities and adapt their business models accordingly.

Engagement focus

The aim of this theme was to drive the global plastic packaging value chain towards a more circular model and improve the supply and demand dynamics for recycled plastic. This engagement focused on improving sustainability within the plastic industry. The 10 companies that were targeted operate within industries that have the potential to combat plastic waste issues. We engaged with the whole plastics value chain from petrochemicals, plastic packaging and consumer packaged goods to retail companies.

The results of our engagement

Companies are implementing innovative recycling initiatives and are involved in industry-wide collaborations. However, we saw little progress towards a fully circular model, and evidence of more responsible lobbying efforts regarding regulation was limited. In April 2022, we closed eight of the 10 engagements successfully. We found that most companies were able to show good progress toward three of the engagement objectives, namely innovation management, plastic recycling and industry collaboration and partnerships. However, they showed less progress towards responsible lobbying for regulatory change and plastic harmonization.

Many initiatives, but still in early stages

Despite sizeable general progress, we noted that only a few companies have demonstrated concrete efforts to accede to a circular model. There was insufficient overall progress towards effective plastic harmonization efforts, primarily because lessening the effects of complex plastics is a very difficult challenge to mitigate. This could be seen in the earlier example of the paradox of solutions that also bring additional challenges, such as with bioplastics.

Another example of this kind of paradox is a company that has significantly invested in scaling up waste collection in Egypt, providing economic opportunities for unemployed local people while also educating the consumer about the value of recycling. However, this type of fully traceable plastic comes at a much higher cost than virgin plastic. Other examples are a company that launched an innovative drinking ecosystem initiative that was recognized by the UN PRI as a best practice in avoiding waste. Another company launched a recycling facility to return post-consumer plastic waste to its molecular form to be used as feedstock for new plastic materials.

Next steps

Robeco has been leading the call for a UN treaty on plastics and has urged other investors and financial industry stakeholders to sign up to it. This initiative, which begun in the summer of 2021, was heavily supported by the Ellen MacArthur Foundation, the WWF, and companies including BASF, Tesco, Coca Cola, Danone, Henkel, Mondelez, Nestle, P&G, PepsiCo, Unilever, and Amcor, among many others. In March 2022, the UN approved a mandate for the International Negotiating Committee to develop a legally binding treaty on plastic pollution. ■

CASE STUDY

An example of a best practice achievement is Nestlé, a Swiss multinational food and drink processing company. It is the largest publicly held food company in the world. The company launched an innovative drinking ecosystem initiative that was recognized by the UN PRI as a best practice in avoiding waste. Nestlé has developed two new packaging innovations for its natural mineral water bottles. The novel water bottles are designed to function just like traditional plastic bottles but with much less plastic.

The material used is an ultra-thin plastic bottle made entirely from recycled content. It uses two times less plastic than a classic 1L bottle. The plastic layer is surrounded by a fibre-based material made from 100% recycled cardboard and old newspapers. Proprietary technologies enable the plastic and fibre-based layers to be locked together to create a functional, sturdy water bottle that can be easily used without any damage.

Digital revolution in health care

DIGITAL INNOVATION IN HEALTHCARE

LAURA BOSCH – *Engagement specialist*

The digital transformation that health care has seen over recent decades is now accelerating on a wider scale. The onset of the Covid-19 pandemic has not only fast-tracked the adoption of digital technologies in the health care sector. It has also forced companies to overcome their non-technological barriers to adapt to the new dynamic and remain competitive in the post-pandemic era. As we close our engagement with the health care sector, we reflect on some of the key trends, opportunities and challenges that the digital transformation has brought about.

According to Accenture's research, 81% of health care executives say the pace of digital transformation at their organization is accelerating. To be successful, the health care C-suite must adopt a digital-first, people-centric approach across all areas of their organization. Many firms under engagement have written their first vision statements and set targets on utilizing digital innovation. The pharmaceutical industry is lagging slightly behind other industry players such as medical equipment suppliers or health care information technology providers. Until recently, there was no need to change their business-as-usual approach, and historically, there have been limited requests by the outside world for transparency.

For most companies that operate in the health care sector, innovating products or service offerings provides the principal source of competitive advantage, and hence represents the engine of an enterprise's future growth. The key to the success of digital innovation lies in having an integrated approach that allows solutions to be communicated across stakeholders, and which ultimately delivers more efficient, better-integrated care to patients. Through our engagement, we learned that companies are increasingly working towards outcome-based care models that focus on working to find the best patient solutions.

Opportunities and challenges

While business partnerships are not new, we are now seeing the adoption of multi-party systems that use shared data platforms to create a resilient, adaptable and trustworthy foundation for existing and future partnerships. The global pandemic has intensified active collaboration between public and private partners, where knowledge sharing and data exchange is used to serve the broader health care system. According to McKinsey, the number of partnerships will increase as a reflection of the necessary digital integration, as well as answering the subsequent patient privacy concerns. In line with increased partnerships, regulatory changes might facilitate data sharing through secure, interoperable electronic health care databases.

There have been some bottlenecks when it comes to the overall adoption of digital solutions in the health care sector. In light of the pandemic, health care centers have tightened their budgets and now have more limited resources to invest in high-tech solutions. Another challenge that companies flag is that customers expect digital services to be free, and are not willing to pay for it. Pharmaceutical companies have also experienced an increase in demand for digital clinical trials, yet the economic benefits of these remain to be seen. There are also certain trials that cannot be fully digitalized as there is added value from physical contact between patients and doctors.

Cybersecurity is paramount

Threats to cybersecurity are one of the biggest challenges that health systems have faced amid rapid digitalization in the last few years. It is imperative that cybersecurity and privacy is fully integrated by design in the piloting and deployment of new digital health care services and solutions. Industry players are beholden to responsibly embrace the drivers of change and the challenges to come, so they can not only deliver on the promise of the future of health, but can also ensure a safe and secure tomorrow for their consumers.

In our engagements, we observe an increased recognition of the importance of sound cybersecurity, either voluntarily, or sometimes involuntarily through learning their lessons following impactful cybersecurity breaches over recent years. Next to working together with industry stakeholders such as public research centers to mitigate risks, companies are increasingly training their supervisory boards and employees to be aware of these risks. They are gradually integrating cybersecurity by design, and are taking active steps to mitigate third-party risks.

> **'THE KEY TO THE SUCCESS OF DIGITAL INNOVATION LIES IN HAVING AN INTEGRATED APPROACH THAT ALLOWS SOLUTIONS TO BE COMMUNICATED ACROSS STAKEHOLDERS, AND WHICH ULTIMATELY DELIVERS MORE EFFICIENT, BETTER-INTEGRATED CARE TO PATIENTS.'**
>
> LAURA BOSCH

Modernizing sales and marketing

Sales and marketing spending comprises up to half of all the costs of pharmaceutical and biotechnology companies, meaning there is a potential for digital solutions to make the process more cost efficient. Health care sales have historically been a face-to-face process, with representatives going door to door, aiming to build long-term relationships to achieve a sale. Both the Covid-19 pandemic and the widespread adoption of digital communication in health care have made the traditional sales approach socially challenging and financially unsustainable.

A large number of companies under engagement aim to enhance their existing marketing and distribution infrastructure through digital tools. Developing a strong digital marketing function will depend on how companies can embed it in customer journeys, build internal capabilities, and use data and analytics to personalize communications to meet individual health care professionals' needs. We recognize that one of the largest barriers to success is the digital knowledge gap, which makes it difficult for organizations to find the right people to support their digital transformation.

Closure of engagement theme

In May 2022, we concluded our engagement program and closed two-thirds of the engagement cases successfully. Most companies under engagement have defined a comprehensive digital strategy and supported it by integrating newer digital technologies within their innovation process. Limited progress has been achieved on the engagement objectives 'cybersecurity' and 'sales and marketing strategy', where respectively only 54% and 23% of these were closed successfully. When it comes to cybersecurity, despite having robust policies in place, companies remain reluctant to share detailed information on external attacks and internal policy adherence failures due to commercial sensitivity issues.

CASE STUDY

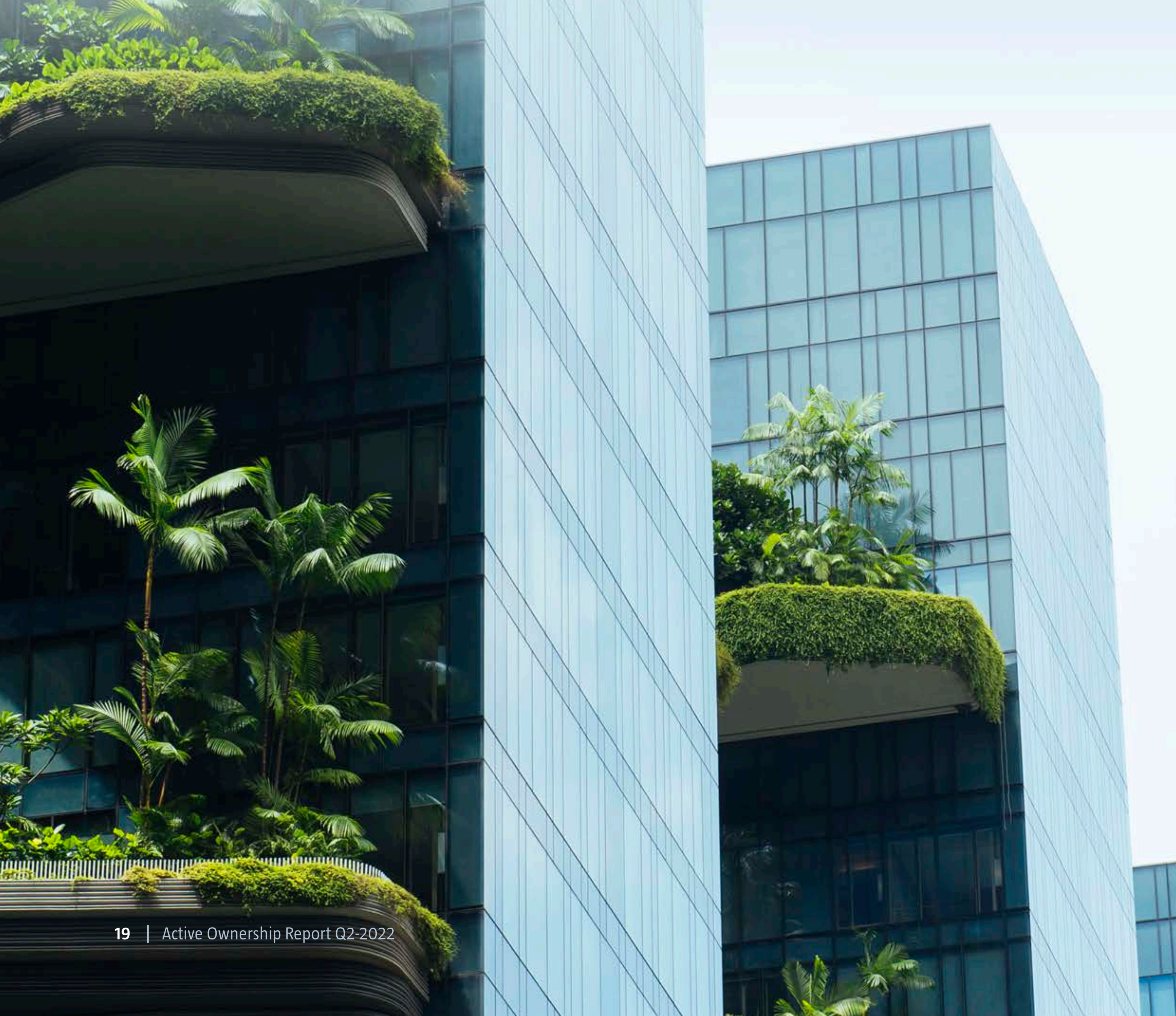
Managed care companies face material data privacy risks given the volume of data collected and the number of contact points with patients. The US health company Anthem is working on an initiative to enhance the data privacy component of their patient data sets. The company creates synthetic data where they register a patient's health representative data, but in a way in which it could be completely delinked from the actual person that the data represents. Synthetic data can be used to share valuable primary care information for AI modelling without compromising patients' privacy.

Engaging for the goals

SDG ENGAGEMENT

ALEXANDRA MORTIMER – *Engagement specialist*

The United Nations' 17 Sustainable Development Goals (SDGs) provide a blueprint for a more sustainable future, with goals ranging from 'No poverty' and 'Industry, Innovation and Infrastructure' to 'Climate action'. Investors have a key role to play in attaining this ambition as they can leverage their influence to accelerate corporate contributions to the SDGs. To help attain these developmental ambitions, we have launched a targeted SDG engagement program, working with companies to improve their positive contributions to the goals.



With an end date of 2030, the SDGs provide a holistic, measurable roadmap to the world, outlining what countries, civil society, organizations and corporates should do to solve the planet's most pressing issues. The first companies are starting to see not only their potential to generate an impact, but also the business opportunities that can be captured by these goals. This could involve providing electricity and internet to remote communities, thereby connecting them to the labor market, facilitating better education or increasing agricultural productivity in emerging markets. In doing so companies can build more sustainable operations and avoid any negative environmental or social impacts that would attract reputational damage, regulatory action or fines.

However, many companies continue to see the SDGs as an add-on to their business, missing an integrated approach that could capture sustainable development opportunities within their business models and operations.

New beginnings

In 2021, this led to the creation of a new engagement program, focused on improving companies' contributions to the SDG's. Although Robeco has engaged with companies on the SDGs for several years, the SDG engagement theme marks a new engagement approach that focuses on seeking a measurable improvement in the contribution that investee companies can make to the goals.

More specifically, the new program has an increased frequency, intensity, and measurement of interactions with stakeholders related to each engagement case. Based on integrated research capabilities and formed around concrete objectives and SDG-relevant milestones, the engagements follow a tailored, yet consistent and structured approach. By echoing the broad scope of topics covered by the SDGs, what sets this theme apart is that it has the flexibility to address any set of issues we deem relevant to the company through a holistic engagement approach.

Our SDG framework

The SDG engagement program is an ongoing theme which focuses on companies with a high, unfulfilled potential when it comes to positively contributing to one or more of the 17 SDGs. Companies are selected for engagement using Robeco's proprietary SDG framework. This assesses contribution to the SDGs throughout the companies' products, procedures and potential involvement in controversies. It scores them on a scale of -3 for those making a highly negative impact on the goals, to +3 for a highly positive impact. The engagement theme focuses on those companies which score in the middle of this scale, from -1 to +1, as we believe in the impact these companies can have if engaged properly.

'MANY COMPANIES CONTINUE TO SEE THE SDGS AS AN ADD-ON TO THEIR BUSINESS, MISSING AN INTEGRATED APPROACH THAT COULD CAPTURE SUSTAINABLE DEVELOPMENT OPPORTUNITIES WITHIN THEIR BUSINESS MODELS AND OPERATIONS'.

ALEXANDRA MORTIMER

The aim of our engagement is to improve the positive and reduce the negative SDG contributions of the selected companies, thereby increasing the number of companies actively creating positive impact, and the likelihood that the SDGs might meet the 2030 deadline set by the United Nations.

An impact-driven approach

Guiding the SDG engagement are three key processes. Before starting an engagement, a fundamental analysis is conducted and an SDG engagement strategy is laid out for each company, setting SMART (specific, measurable, attainable, relevant and time-based) milestones. These are focused around five overarching engagement objectives, asking companies to establish strong corporate processes around impact planning, SDG reporting, target setting, stakeholder engagement and integrated governance.

Second, there is the engagement itself, during which we seek to explore the operational and product links between companies and the SDGs, and consequently encourage companies to strengthen those links in order to deliver a real-world impact.

Lastly, there is a continued evaluation of the engagement impact, from tracking companies' performance on predetermined KPIs, to asking them directly about the effectiveness of our engagement efforts. For the three to five-year engagements to be closed successfully, we require at least four out of five objectives to be met, with most milestones to be completed per objective.

A long road ahead

During its first year, we have initiated engagement with 35 companies, engaging them on one or more of the 17 SDGs. While companies recognize that the SDGs are in everyone's interest, from improving livelihoods to spurring economic growth, more structured and integrated approaches are needed to realize the 2030 goals.

We are aware that the systemic change needed for a sustainable future requires not only company-specific but also global action. By seeking active collaboration and by sharing our journey and research on how we engage with companies on their contributions to the SDGs, we hope to exemplify what investor-led partnerships for the goals can achieve.

CASE STUDY

The software company Adobe's most significant link to the SDGs is characterized by its potential involvement in the manipulation of digital content, among which are AI-created 'deepfakes'. The potential for adverse use of products such as Photoshop and its video counterpart, Premier, exposes Adobe to societal risks embodied by SDG 16 (peace, justice and strong institutions).

To address these risks, Adobe has created a digital watermark to facilitate transparency and authentication, and we will encourage that this tool is rolled out to all its products. It has also taken a leading role in a cross-sector collaboration that seeks to create an open industry standard for content authentication, which we support.

Proxy Voting

DIANA TRIF – *Engagement specialist*
ANTONIS MANTSOKIS – *Active ownership analyst*

Having yet again filed thousands of votes through this year's proxy season, our voting specialists Diana Trif and Antonis Mantsokis share the key highlights of the 2022 proxy season, which was marked by a growing focus on shareholder rights, as well as niche topics, such as corporates' approach to US abortion laws and an increasing number of disguised anti-ESG resolution.

Shareholder rights in the spotlight during 2022 Proxy Season

Against the backdrop of the COVID-19 pandemic, the 2022 proxy season continues to witness an increased focus on shareholder rights. Virtual-only meetings and the push for more robust minority shareholder rights remain top of mind as companies come under high scrutiny over Environmental, Social, and Governance (ESG) topics.

The pandemic prompted countries worldwide to amend their legislation to enable virtual-only shareholder meetings. With the temporary relief measures expiring, many companies proposed article amendments that would allow them to hold virtual-only meetings at their discretion. Proponents of this meeting format cite its ability to facilitate high attendance while reducing costs and the carbon footprint. However, recent years have shown that virtual-only shareholder meetings can severely deprive shareholders of their rights as management is afforded the discretion to filter out inconvenient questions. For this reason, we oppose any article amendments that grant companies the discretion to hold shareholder meetings in a virtual-only format outside exceptional circumstances. However, we support amendments enabling hybrid meetings, as we consider that this format brings many of the advantages of virtual-only meetings without jeopardizing shareholder participation rights.

The 2022 proxy season also saw shareholders continue pushing to expand their rights and enact change at companies deemed to lag their expectations. Meeting agendas were packed with proposals seeking amendments to provisions governing proxy access, special meetings, and action by written consent, as well as resolutions calling for companies to adopt the "one share, one vote" principle. Particularly noteworthy were the many "fix-it" shareholder proposals seeking amendments to existing proxy access bylaws. These called for changes to aggregation limits or holding period requirements, indicating that shareholders have a thorough understanding of the technicalities surrounding their participation tools, and clear expectations regarding what rights they should hold. In all instances, we judged the merits of these shareholder proposals on a case-by-case basis. We supported proposals deemed to protect minority shareholder rights and strengthen director accountability while safeguarding long-term shareholder interests.

In some cases, shareholder initiatives to enact change translated into large-scale proxy contests. A notable development in this sense was the proxy fight launched by Carl Icahn at McDonald's over animal welfare. Although the campaign failed, many viewed this attempt as a signal that ESG-driven proxy contests may become commonplace. This speculation is spurred by recent proxy rules amendments passed in the US by the Securities and Exchange Commission, which will mandate the use of universal proxy cards in election contests as of August 2022. These require that all proxy cards distributed in contested elections include all nominees up for election, enabling shareholders voting by proxy to mix and match nominees from distinct slates. In the case of proxy contests, we base our voting decisions on several factors, including, among other things, the validity of the dissident's case for change at the company and whether the proposed plan is in line with the shareholders' long-term interests.

Investors focus on this year's Proxy Season

The 2022 proxy season, as it was expected, was an active one. It is challenging to decide where the focus was this season. There was certainly a lot of interest in numerous post-pandemic Say-On-Pay proposals and some corporate governance agenda items covering board elections. Additionally, there was also a lot of enthusiasm for some notorious Say-On-Climate resolutions. There is no doubt that this season was busier due to the high volume of ESG shareholder resolutions making it to proxy ballots.

The increase in shareholder proposal filings was prompted by the priorities shift at the US Securities and Exchange Commission (SEC) over the last year. In November 2021, the SEC issued new guidance on how they would interpret the rules used by companies to exclude ESG shareholder proposals, making it more difficult for companies to remove environmental and social proposals from their proxies. This guidance gave investors significant power to raise their concerns by submitting resolutions on essential matters and voting on them.

Investors' attention in this proxy season was on environmental matters. The most prominent shareholder resolutions requested companies for greater disclosure of their impact on climate and the risks this entails, the adoption of concrete emissions reduction targets in all scopes, and reporting on board oversight on the company's climate initiatives. We also saw investors asking companies to disclose their lobbying activities on climate issues, as well as to report on how they would shift their business to using recycled plastic, and to communicate their efforts to decrease deforestation.

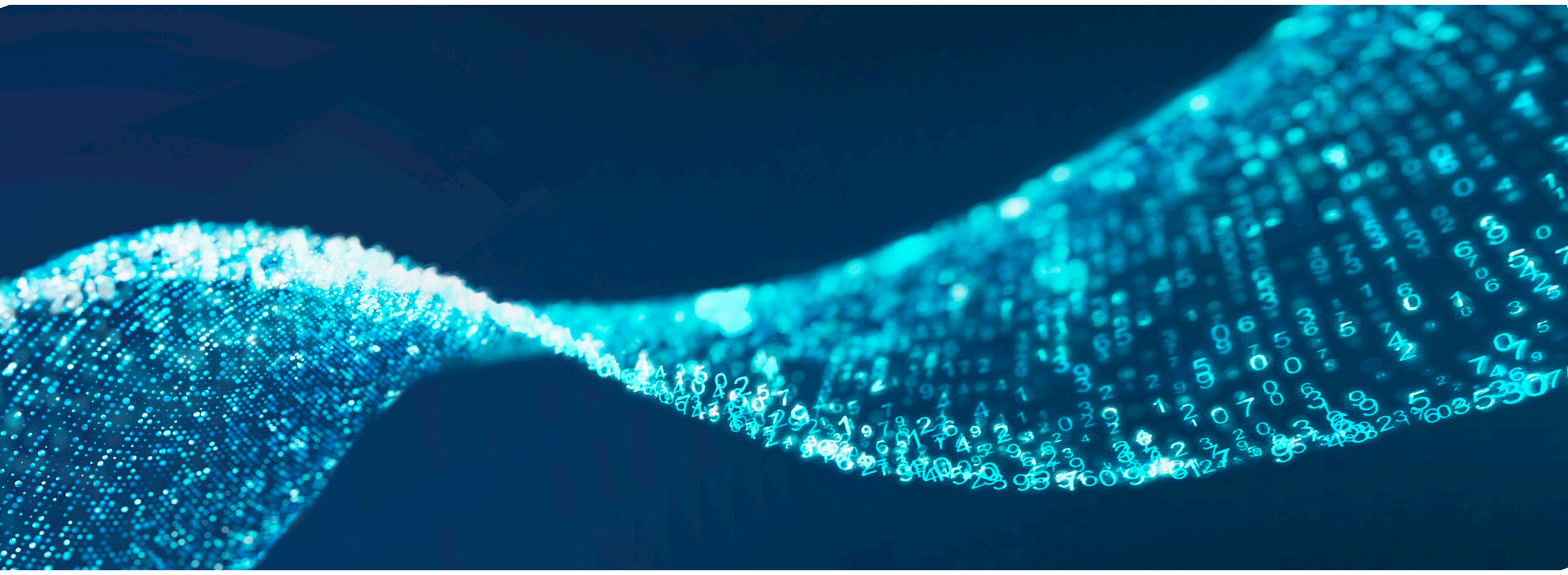
Say-On-Climate has been a dominant issue since the 2021 proxy season, and the debate also continued this year. We also noticed a strong increase in shareholder proposals asking for the adoption of Say-On-Climate proposals in future AGMs. Investors' views in this respect though have been diverse. Some have been more decisive in supporting the facilitation of these proposals, while others have been more skeptical. One thing is sure - many investors are adopting a more detailed and case-by-case approach when assessing their votes on Say-On-Climate proposals, pushing companies to provide clear and comprehensive climate-related information.

Social shareholder resolutions focusing on diversity, equity, and inclusion were also high on the agenda for investors. There has been increasing support for resolutions focusing on disclosing data on gender and racial pay gaps. High support was also received by resolutions asking companies to conduct racial equity audits to detect how their business activities might have 'adverse impacts on non-white stakeholders and communities of color.' This year we also saw shareholders asking companies to explain the use of concealment clauses in employment contracts, which limit the ability of an employee to discuss grievances or concerns about employment practices. Lastly, abortion rights have moved up on responsible investors' agenda, pushing companies to support employees' rights in those US states where lawmakers have passed or proposed legislation that would severely restrict women's ability to access legal terminations of pregnancies.

This proxy season, we also saw an increase in anti-ESG shareholder resolutions. A prominent example was the 'civil rights and non-discrimination' proposal, which asked the companies to conduct audits of their impact on civil rights. The resolution initially seemed supportable. Nevertheless, after carefully reviewing the proponent's supporting statement, it showed that the proposals also argued that "anti-racist" programs are discriminatory "against employees deemed non-diverse". This argument revealed filler's intentions to frustrate companies' efforts to promote civil rights and social justice.

Last but not least, on Governance, the shareholder proposals that attract investors' interest remain those focusing on supermajority vote requirements, the ability to call special shareholder meetings, and action by written consent. A high support rate was seen in the case of shareholder proposals asking the company to separate the roles of CEO and Chair of the Board. This development is welcomed by most investors since an independent chair can better oversee a company's executives and set a pro-shareholder agenda.

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

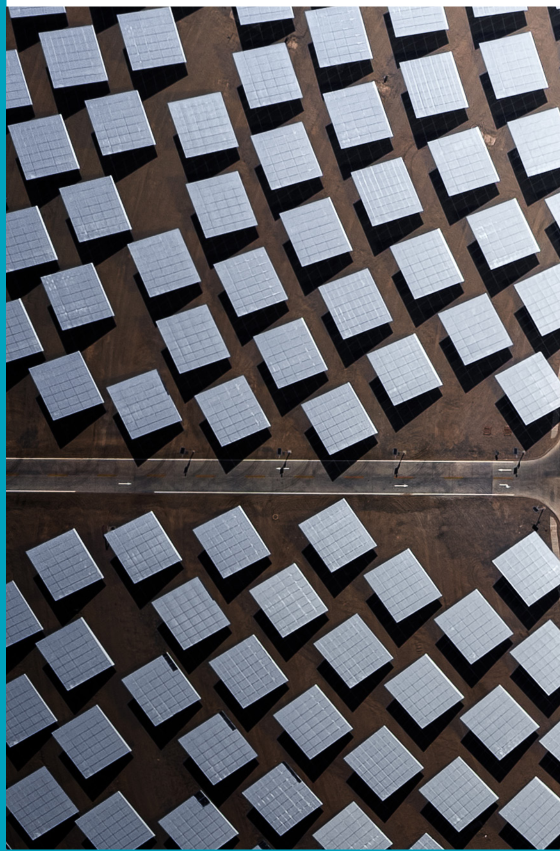
Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco 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



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