ROBECO
The Investment Engineers

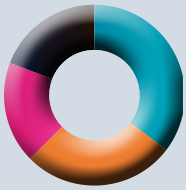
Active Ownership Report Q4-2018

BCPP | 01.10.2018 - 31.12.2018

BORDER TO COAST
PENSIONS PARTNERSHIP

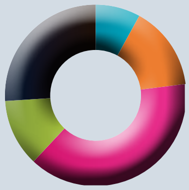
Engagement activities by region

North America	35%
Europe	27%
Pacific	18%
Emerging Markets	0%
United Kingdom	19%



Shareholder meetings voted by region

North America	8%
Europe	15%
Pacific	39%
Emerging Markets	12%
United Kingdom	26%



Voting overview

2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total number of meetings voted	N/A	N/A	57	88
Total number of agenda items voted	N/A	N/A	917	750
% Meetings voted against management	N/A	N/A	72%	52%

Engagement overview by topic

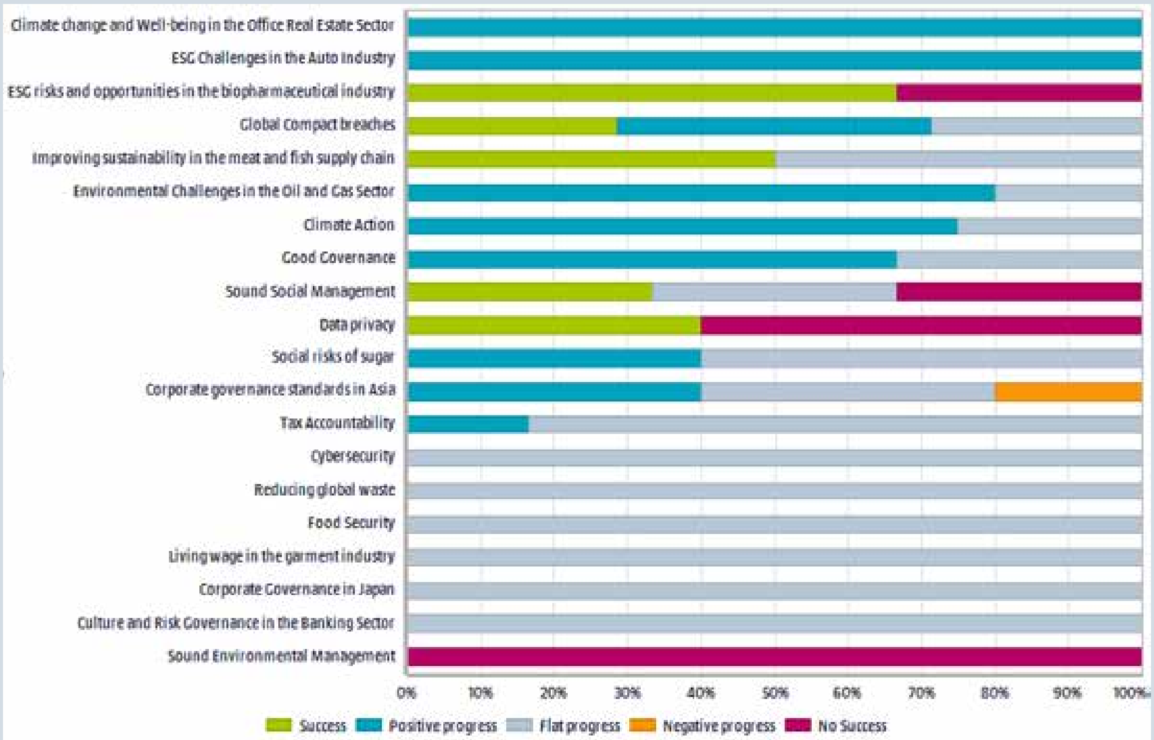
Environmental Management	15
Environmental Impact	1
Human Rights	10
Healthy Living	7
Social Management	3
Corporate Governance	22
UN Global Compact	4

During the quarter, 12 engagement cases were conducted with UK listed companies

Engagement by contact type

Analysis (no actual contact with company)	10
(Open) Letter	19
Meeting at company offices	26
E-mail	16
Active voting	
Shareholder resolution	
Conference call	19
Speaking at a shareholder meeting	
Meeting at Robeco offices	
Speaking at conferences	1
Issue press release	1

Engagement results per theme



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Introduction

Over the course of 2018, we've been working hard to stay ahead of the curve in the active ownership services we provide to our clients, and the fourth quarter has been no different. We have launched new themes throughout the year and achieved some notable successes in our company engagements. During the fourth quarter, we have launched a new engagement theme on Food Security, and closed our Data Privacy theme. We are also pleased to announce the success of our engagement with Royal Dutch Shell, resulting in a climate plan which now leads the oil and gas sector.

The oil and gas sector remains highly exposed to the risks and opportunities of the energy transition required in response to climate change. Therefore it is of the upmost importance that oil and gas companies act now to begin transitioning to business models which will be required in the future. We believe the recent steps taken by Shell do just that, as well as representing another significant step: a company and its major shareholders acting together on climate change.
Robeco is also increasingly focused on the integration of the Sustainable Development Goals into our Active Ownership activities. In our newest engagement theme, Food Security we see the opportunity to contribute as active owners to SDG 2 focusing on 'zero hunger'. We strive to improve food security and nutrition, to promote sustainable agriculture, and to identify the promising investment opportunities which arise from new innovations such as precision farming.

Our engagement theme focused on Data Privacy came to an end during the fourth quarter. Over the last three years, we have seen progress at many of the companies in our engagement group in the way they deal with data privacy issues. Positive developments were supported by the implementation of new GDPR legislation, focusing on data privacy at EU level. However, during this time period the relevance of cyber security, a related topic, has continued to rise. Therefore we continue to engage on this theme in the coming years. With this report, we update you on these developments and more.

Carola van Lamoen
Head of Active Ownership

Voting Highlights

Proxy voting is an integral part of Active Ownership. The aim of our voting activities is to encourage good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. During the quarter, we voted at 88 shareholder meetings, voting against at least one agenda item in 52% of cases. Below we provide some highlights from the quarter.

Codes of conduct
- ICGN Global Governance Principles

Corporate Governance: Proxy Voting
Our voting policy is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provide a broad framework for assessing company's corporate governance practices. We constantly monitor the consistency of our general voting policy with the ICGN principles, with laws and governance codes and systems as well as client specific voting policies. Our voting policy is formally reviewed at least once a year. We also take into account company specific circumstances and best practices when casting our votes.

The link between SDGs and voting on shareholder resolutions

As sustainability-minded investors, we are concerned not only with economic returns to shareholders and good corporate governance practices of our investee companies, but also with ensuring that their business activities and practices are aligned with the broader objectives of society. We actively use our shareholder rights to influence the behavior of our investee companies when it comes to their environmental, social and governance impact. Through our proxy voting activities we aim to address key governance and sustainability matters while protecting long-term shareholder value.

The Sustainable Development Goals (SDGs) define global sustainable development priorities for 2030 and seek to mobilize global efforts to achieve these goals, contributing to connecting business strategies with global priorities. The SDGs can be a business opportunity for listed companies, providing them with a future competitive advantage by being a source of innovation, process improvements and operational efficiencies.

The SDG framework constitutes a useful tool when assessing shareholder proposals involving environmental and social (E&S) matters. When assessing shareholder resolutions we take into

account the merits of the proposal, how the company is currently tackling the issue and the overall impact of the proposal on shareholder value in the long run. Moreover we review the overall materiality of the resolution and determine whether the objectives included in the proposal fall within the scope of the company management's influence and control.

Impact assessment of climate change and emission reduction targets are the most common subjects among environmental shareholder resolutions filed in 2018. Proponents mainly target companies operating in the utilities, oil and gas sectors. The scope of these resolutions range from requesting concrete greenhouse or methane emission target reductions, to asking the board to evaluate the long-term portfolio impacts of scenarios consistent with the goal of limiting the global increase in temperature to two degrees Celsius. Supporting these resolutions would positively contribute to SDG 13 'Climate Action' as it calls for integrating climate change measures into corporate strategies and planning, while fostering climate resilience by lowering emissions.

Board and employee diversity-related shareholder proposals were the most common resolutions filed on the social front in 2018. We recognize the importance of corporate diversity and inclusiveness as it adds value to the business whilst improving human capital management. Shareholder support on this resolutions increased from 24.5% in 2017 to 36.6% in 2018 due to amplified governance focus and media attention on the topic. By supporting these resolutions investors are contributing to achieve SDG 5 'Gender Equality', as these support women's full and effective participation and equal opportunities for leadership at different levels of corporate decision-making roles, while advocating to end gender discrimination in the workplace.

While the number of E&S proposals decreased in 2018 compared to last year, the average level of votes in favor rose in many E&S categories. Few of the resolutions discussed in this article received majority support from shareholders, however companies are becoming more aware of investors' scrutiny regarding their non-financial impact on society and the environment. In turn, this trend contributes to enhancing the relevance of positive contributions from corporations to achieve the SDGs.

Data Privacy

Internet and telecommunications (ICT) companies are increasingly associated with the collection of customer data and the subsequent risk of data privacy breaches. ICT companies often have control over the information availability and communication accessibility in their countries of operations, which exposes them to freedom of expression related perils. As a result, ICT companies are exposed to reputational, legal and operational risks.

Codes of conduct
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- SDG 16: Peace, Justice and Strong Institutions

Human Rights: Privacy and Freedom of Expression
The first and second principles of the UN Global Compact provide a framework for companies to operate responsibly to prevent breaches of human rights. Human rights are basic standards aimed at securing dignity and equality for all. Systematic breaches of such human rights could have a negative effect on a company, its immediate surroundings, and other stakeholders. Article 12 of the Universal Declaration on Human Rights specifically draws on the right to privacy as one of the human rights which is described as "the protection against arbitrary, unreasonable or unlawful interference with a person's privacy, family, home or correspondence, as well as attacks on their honor or reputation". Additionally, Article 19 defines freedom of expression as "the right… to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers".

How many online services do you use? And how many do not ask for a subscription fee? Ever thought about the business model of these companies? More and more companies use data as input for their business activities, and for some, data is even the main driver of revenue. But how do these companies ensure consumer trust in the long term? 2018 has been the year in which the use of data by companies and their related business models became much clearer to the public. This was a result of the EU General Data Protection Regulation (GDPR) that came into force in May 2018, but also because of the large data breaches at some ICT companies that were reported in the news, with the subsequent societal debate about privacy.

The impact of GDPR

Over the past three years, we have engaged with companies in the ICT sector on data privacy and freedom of expression. We have seen increasing interest in the topic, both from companies and from other investors. The GDPR has played a key role, as it aims to enable EU citizens to have better control over their personal data, including where it is stored, the purpose of it, and their ability to erase that data. While this is a European law, it applies to organizations anywhere in the world that do business with anyone in the EU, and therefore has broad-

reaching effects globally. It requires organizations to categorize, record and specify how long an individual's data has been held and when it will be erased, which is also known as 'the right to be forgotten'.

We have discussed the implementation of GDPR with the companies in our engagement peer group that are affected by it. Some of these companies already set up project groups to ensure compliance as early as 2016, and were very open about their approach. For other companies, transparency on their implementation only started at the end of 2017, or even as late as early 2018. Compliance with GDPR is key, as penalties can be as high as EUR 20 million, or 4% of the company's global annual revenues, whichever is greater. All companies part of our engagement peer group exposed to GDPR have updated their privacy policies and improved transparency towards users on the information they are sharing.

Freedom of expression

While most attention in the media and public debate over the past years has been around privacy, our engagement theme also covered freedom of expression. ICT companies face an increasing number of orders from governments around the world that seek to restrict access to services and disrupt networks. The consequences of disruptions include restricting internationally recognized rights to free expression, preventing access to vital emergency, payment and health services, and disrupting contact with family members and friends. In some cases, these mandates pose an additional risk of human rights breaches when they restrict the free flow of information in the run-up to elections, or are used to target particular regions, districts or ethnic groups. Shutdowns can also undermine economic growth and long-term development, affecting local businesses and tourism.

One of our key engagement expectations was focused on collaboration by companies with key players across the ICT sector, including peers, vendors, business partners, customers, NGOs and government organizations. We sought to work together to manage human rights risks relevant to data privacy and freedom of expression. We have seen the companies in our engagement peer group that collaborate in the Global Network Initiative actively engaging governments on the topic of freedom of expression and network shutdowns. We have also seen some of the companies increase their disclosures around government requests over the past three years.

Ranking Digital Rights Index is a key resource

One of the key resources we used for our assessment of the performance of companies on data privacy is the Ranking Digital Rights Index (RDR). This is a non-profit research initiative working with an international network of partners to set global standards for how companies in the ICT sector should respect human rights. RDR produces a Corporate Accountability Index evaluating the world's most powerful internet, mobile, and telecommunications companies on their disclosed policies and practices regarding freedom of expression and privacy. Besides a ranking of companies, RDR also provides several investor guidance documents.

To get more investors involved in the topic of data privacy, Robeco took a leading role in setting up an ICT campaign within the Investor Alliance for Human Rights. Over the course of 2018, several webinars were organized in which NGOs presented their data privacy work to the investor community. To emphasize the importance of the topic for investors, the Investor Alliance for Human Rights has put out an investor statement supported by 49 investors. This calls on companies to respect human rights, and refer to the Ranking Digital Rights (RDR) Corporate Accountability Index as a tool to help them improve their governance systems and performance on salient risks related to privacy and freedom of expression.

The next steps around human rights and technology

The rapid development and the increased use of new technologies by companies across sectors poses many questions on how human rights might be impacted. We have discussed privacy and freedom of expression with companies in the ICT sector for the past three years. Earlier in 2018, we started an engagement theme focused on cyber security that includes an engagement objective around privacy. We will actively follow developments to ensure human rights are taken into account when companies adopt new technologies in their business

Food Security: How can investors contribute to SDG2: Zero hunger?

Food insecurity stems from economic and social conditions that hinder the sufficient availability of, and access to, food. This differentiates food insecurity from the personal state of hunger and creates an important link to investors. Agricultural input providers and food companies play an important role in shaping the circumstances that could foster food security. Therefore, investors in these companies have the opportunity to contribute to SDG 2 (zero hunger), which strives to improve food security and nutrition, and promote sustainable agriculture.

Codes of conduct
- UN Global Compact
- OECD Guideline
- SDG 2: Zero Hunger

Human Rights: Social Supply Chain Standard
Companies are increasingly being held accountable for poor labor conditions in their operations and that of their supply chains. This is the result of a number of different trends. The first of these is the transfer of production to lowwage countries, resulting in companies being faced with non-Western labor standards and conditions in their supply chain. Then there is a trend towards the more rapid and wider dissemination of information on the external effects of corporate activities. Furthermore, non-governmental organizations (NGOs) are playing an increasingly important role as social watchdogs and, finally, consumers are becoming more aware and more demanding in terms of corporate social responsibility. It is very important for companies, especially those that operate internationally and have well-known brand names, that generally accepted labor standards are followed throughout the supply chain.

The persistent concern for food insecurity throughout civil society is reflected in an increased awareness of the issue among regulators. There is widespread recognition that this is a defining development challenge for the 21st century. With that in mind, agricultural policy is being stretched in unprecedented directions. New factors and challenges that need to be taken into account by policymakers are as diverse as poverty, food price volatility and climate change, to the role of gender in rural areas and developing agricultural technology.

Farm productivity is key

One of the most important factors contributing to food insecurity is farm productivity. This depends in a large part on how farming inputs are utilized. Differences in input quality and availability across markets persist, as farmers in developing countries struggle to access farming machinery, crop protection products and seed varieties. Regional discrepancies contribute to enhance the imbalances in the global food system. One of the results of these imbalances is the greater rate of food loss in food-insecure regions. Whilst this is in part due to poor infrastructure and practices following harvest, food loss during crop cultivation and harvest presents an urgent challenge. Pests, pathogens and

weeds have consistently posed threats to crop output, and the problem has become exacerbated as food safety and harvest quality as well as quantity have become central concerns for food security. Companies operating along the value chain have the ability to improve farming practices and productivity in developing countries.

Innovative solutions to help farmers in food-insecure regions

Our research identified four main engagement topics to consider when analyzing the contribution of companies operating in the agricultural industry to SDG 2. First, we looked at product portfolios and innovation management.

Following waves of consolidation in the agricultural landscape, products such as fertilizers, pesticides and seeds are nowadays often sold by integrated agrochemical companies. These companies' products and services have the potential to be well aligned with SDG 2, as all three product groups can support farmers in food-insecure regions by closing the yield gaps that put them at a systemic disadvantage.

Second, we assessed pricing and intellectual property management. The food security challenge requires differentiated approaches with regard to intellectual property, depending on the market in question. For instance, agrochemical companies relying on direct revenue from the sale of seeds and waiving royalty fees could foster the development of small farming in food-insecure regions.

Third, we explored how inclusive business models should be developed using public-private-partnerships. The societal challenge of food insecurity is exacerbated by the lack of integration of smallholder farmers into global markets for both inputs and outputs. A large share of small farmers lack the know-how, technological inputs and financing to compete in markets with their produce. A potential solution is that agrochemical firms could engage with smallholder farmers, both as customers and by including them directly in the product development and breeding process of seeds. Mechanization and irrigation companies already provide technological services to farmers in advanced markets, allowing them to control their crops with greater precision, ultimately increasing yields. Beyond this kind of unilateral action, a collaborative approach to problem solving is needed. The complexity of agricultural sectors, especially when they are as fragmented as in food insecure regions, calls for partnerships between companies, governments, NGOs, and public academic bodies.

Companies need to develop strategies

Our food security engagement theme aims to encourage companies active in the agricultural sector to contribute to food security. Our dialogue will focus on sustainability reporting and transparency; product portfolios and the geographic distribution of operations; innovation management, and public-private partnerships.

Addressing food security in sustainability reports

A company can only play a significant role in achieving sustainable development objectives if it is committed to the integration of ESG considerations to its business model. For this reason, we view an analysis of ESG disclosure as indispensable in judging how advanced their sustainable development considerations are. Strong sustainability reporting can also be an important reflection of the maturity of internal sustainability processes, a prerequisite for a meaningful contribution to development.

Conducting a food security impact assessment

In our research, we identified sub-Saharan Africa, South and East Asia as the regions that are most vulnerable to food insecurity. The more active and targeted that a company's involvement in a food-insecure market becomes, the greater is its potential to exert a positive influence. When building on an emerging market presence, food security-oriented product stewardship is an important approach to enhance the product's impact. Tailoring its offerings to the needs and expectations of food insecure communities, and to smallholder farmers in particular, are other strategies that can achieve the same goal.

Developing an innovation strategy for smallholder farmers

Since the quest to improve farm yields lies at the very heart of improving food security, innovation becomes an overriding factor of importance in staying ahead of rapidly evolving forces, such as climate change and soil degradation. The attainment of food security depends on the availability of advanced forms of crop protection, hybrid seed varieties and technological solutions. The allocation of company resources to innovation for food security can confirm whether a firm is truly committed to contributing to sustainable development. R&D efforts should be mindful of the four dimensions of food security, namely availability, access, utilization and stability in the food system.

Engaging in public-private partnerships when commercial business is not viable

Collaborating with other stakeholders elevates corporate impact from a one-dimensional and necessarily limited effort, to a comprehensive search for solutions on a larger scale, that leverages expertise from different areas of society. Whilst governance in food insecure regions does not always meet high standards, governments, regulators and public institutions offer one key piece of the puzzle for progress on the topic.

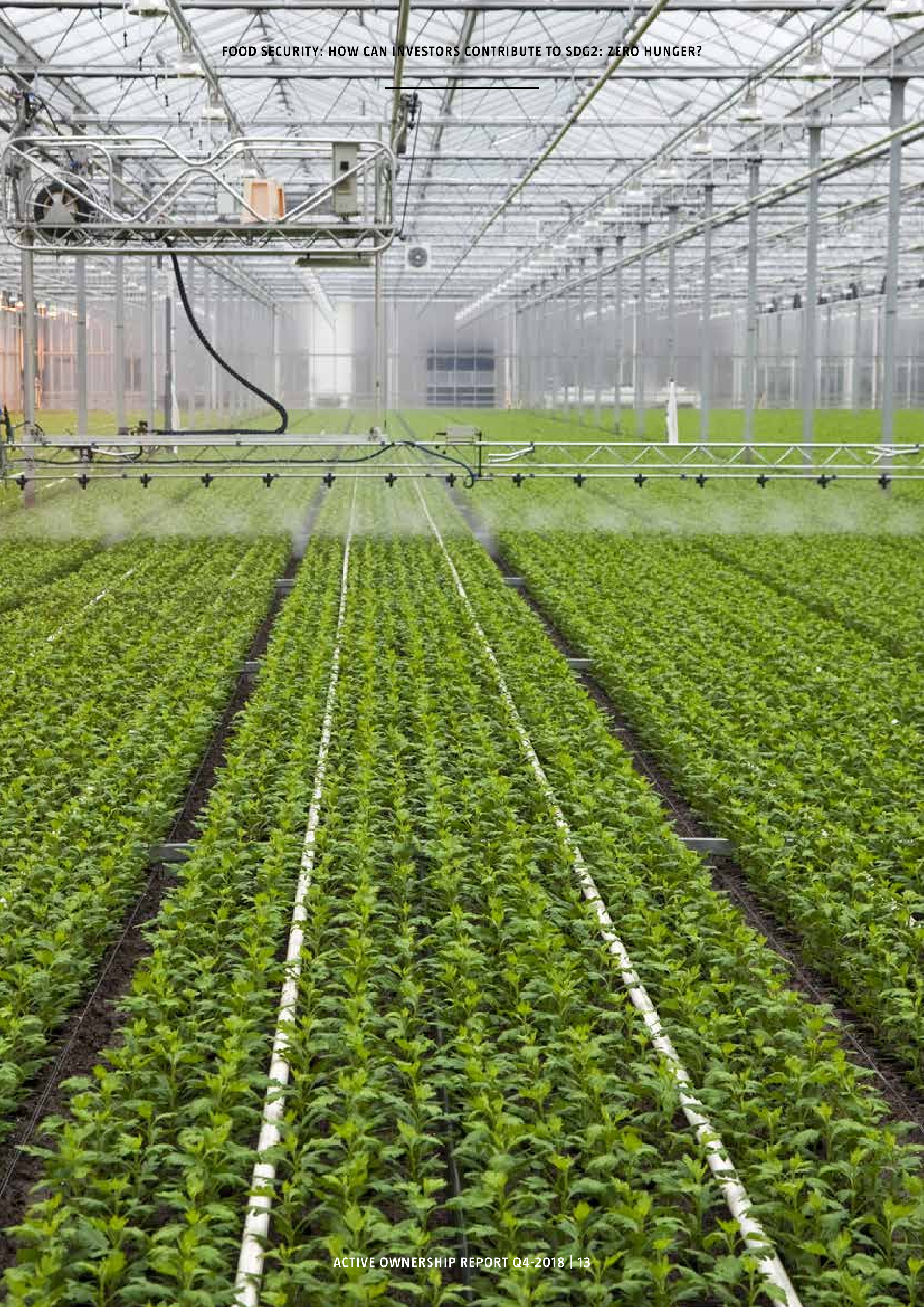
AN INVESTOR PERSPECTIVE ON FOOD SECURITY

Holger Frey, Senior Portfolio Manager – RobecoSAM Sustainable Food Equities

People in developed countries take food security for granted. However, malnutrition remains a major challenge in many developing countries, and with the world's population moving towards 10 billion by 2050, food security remains a moving target for the decades to come. Fortunately, projections foresee a continuous increase in wealth creation for developing countries, which should turn the challenge into an opportunity, as rising consumer purchasing power supports farmers economically.

At the core of food security is creating a stable and efficient food production system. Comparing productivity measures such as yield per acre on a global scale, it is obvious that the large differences in yield dispersion cannot be explained by climatic and soil conditions alone. Often, they are an indicator of entirely different farming practices. To be more precise, it does not come as a surprise that output without the deployment of modern farm equipment and inputs produces below optimal results.

Against this backdrop, a promising opportunity arises in precision farming. While a broad-based adoption of digital farm technology appears to be a given in developed countries in the years ahead, developing countries could become a compelling market as well. Whereas the conventional evolutionary pattern would suggest a repeat of the development in developed countries – the broad-based adoption of mechanical tools, followed by agricultural nutrients and chemicals and finally biotech seeds – precision farming could serve as an enabler for all of this. A similar step-change has been observed for the rapid adoption of mobile communication technology in developing countries. As digitization facilitates a significantly more efficient use of farm inputs, costs and outputs become more manageable. Besides the growth in production-related investments, more capital is also expected to be allocated to food-related infrastructure, contributing to the greater stability of, food supply. Opportunities include basic logistics such as rail links, or more specific issues such as supply-chain management and automation. Given the stable underlying demand pattern for food products, investors should prefer related investments to more cyclical end markets.



Climate change and well-being in the office sector

The real estate sector as a whole accounts for nearly 40% of the world's energy consumption and 33% of global greenhouse gas (GHG) emissions. As the sector is facing major challenges to reduce its carbon footprint, it is a key focus of our carbon-related engagements. Over the last four years, we have successfully engaged on carbon management with retail Real Estate Investment Trusts (REITS). In Q4 2017, we expanded our engagements from retail businesses such as shopping malls to office spaces. Due to this expansion, we now also address 'health and well-being' (H&WB) in our dialogue with these companies.

Codes of conduct
- UN Global Compact principles 7-9
- Rio Declaration on Environment and Development
- SDG 11: Sustainable cities and communities
- SDG 13: Climate Action

Environmental Impact: Climate Change
Together with the limited availability of natural resources such as water, climate change is the biggest environmental issue affecting companies. Climate change currently affects both government policy and consumer behavior. Climate change increases the risk to companies and sectors but also offers opportunities. In order to address the risks arising from climate change, companies will have to develop strategies to manage the financial, operational and organizational impact. It is also important that companies set targets, measure performance and report progress. Opportunities will arise in new and existing markets, through process improvements and technological innovation from companies at the cutting edge.

Using the assessments of GRESB

The research underpinning this engagement program comes from the Global Real Estate Sustainability Benchmark (GRESB) Assessment, and its Health & Well-Being Module supplement. The GRESB is an industry-driven organization committed to assessing the sustainability performance of real estate assets globally. Robeco uses the GRESB's dynamic benchmark to engage with the companies in which we invest, aiming to improve the sustainability performance of the real estate sector.

Focusing on five engagement objectives

As investors, we are not only looking for real estate companies that seek to reduce costs. We also value those companies that integrate sustainability into their business models to ensure the long-term value creation of the properties in their portfolios. We have defined the following five engagement objectives for which we seek improvements at companies:

1. Having a climate change policy, and integrating sustainability into

the overall business strategy. This includes their response to the various risks and opportunities presented by climate change, the integration of sustainability in their respective corporate strategies, and the development of programs and targets aimed at increasing investments in green buildings and facilitating green renovations.

2. Being transparent in order to earn a license to operate. Companies should be sufficiently transparent about their sustainability activities, thereby earning and strengthening their license to operate. This encompasses aspects such as proactive communication, the level and depth of sustainability reporting, and their participation in relevant initiatives such as the GRESB and Carbon Disclosure Project (CDP), along with certification schemes such as the Building Research Establishment Environmental Assessment Method (BREEAM) and Leadership in Energy and Environmental Design (LEED).
3. In order to provide a framework for the efficient measurement and reduction of their overall environmental impact, we believe that companies should have an Environmental Management System (EMS) in place. This EMS should cover energy consumption and carbon reduction metrics, and ideally be externally certified according to international standards, such as ISO 14001.
4. Reducing energy consumption and carbon emissions. Under this objective, we review and look for reductions in the companies' periodic disclosures. We focus on absolute and relative reductions year on year, and across the last three years. The companies' performance will also be evaluated in relation to their peers.
5. Focusing on promoting health and well-being for employees. It is increasingly recognized that office spaces can influence this. These issues are progressively viewed as being important areas of opportunity for the real estate industry because they are a driver for workers' productivity.

Improving health and well-being in offices

For this latter engagement issue, it is widely recognized that having green and healthy office buildings can bring about various economic benefits for real estate companies. First, the proactive management of buildings' environmental performance and carbon emissions can lead to lower energy costs. Second, landlords can charge premium rents for environmentally friendly, healthy buildings because of tenants' lower energy costs, and the increased productivity of happier and healthier employees. Third, it is also easier to market and lease out such buildings, as their occupancy rates are higher on average. Fourth, a climate change strategy reduces the risk related to the potential implementation of stricter environmental legislation by governments.

Therefore, we believe that the objective "Health and well-being" (H&WB) is financially material to our investments. A company's staff is one of its most valuable resources. Critically, employees typically account for 90% of a business' operating costs. Companies that improve their productivity gains can enjoy significant financial and competitive advantages. In fact, according to a recent study, businesses with elaborate employee H&WB programs significantly outperform the S&P 500. Furthermore, in a survey of 200 Canadian building owners, 38% of those reported that healthy buildings were worth at least 7% more than normal ones, while 46% said they were easier to lease out, and 28% said that these buildings commanded higher rents.

According to the World Green Building Council, there are various different elements of a healthy office that can lead to happier, healthier and more productive employees. These are indoor air quality and ventilation, thermal comfort, the availability of natural light, noise reduction, interior layout and design, the look and feel, location, and access to local amenities. Another way that companies can invest in their employees' H&WB is through corporate wellness programs. More than 75% of large companies in the US routinely offer such programs, which can consist of a range of activities such as improving fitness, and encouraging weight loss and smoking cessation. In general, an amalgamation of strategies is employed to improve employees' and tenants' H&WB.

Reporting on progress

In relation to the health and well-being objective, all the companies under engagement have introduced an employee satisfaction survey. Most have also implemented programs to improve the satisfaction levels. The biggest challenge for the companies now is to collect all the data, and to connect the dots to gain a higher labor productivity.We will disclose our results in the regular engagement updates and reports.

Tax accountability: filtering out the noise

Corporate taxation has been in the focus of considerable public debate over recent decades. Much of the recent attention has focused on the long debated US tax reform of late 2017, which altered tax rates and triggered significant repatriations for several US multinationals. However, corporate taxation was the subject of discussion long before this point, with the OECD introducing stricter guidelines for baseline erosion and profit shifting (known as BEPS) long before the US tax reform was announced.

Codes of conduct
- OECD/ G20 Base Erosion and Profit Shifting (BEPS) Package
- The European Commission, Anti-Tax Avoidance Package (ATAP)
- SDG 16: Peace, Justice and Strong Institutions; SDG10: Reduce Inequality

Corporate Governance: Accountability & Transparency
A company's corporate governance structure specifies the rights and responsibilities of the various stakeholders such as the management, supervisory directors, shareholders and other stakeholders. An effective corporate governance system focuses on a company's long term business continuity and protects shareholders' interests. A well-functioning corporate governance system can contribute to long term shareholder value. International and national principles and codes provide guidelines for good corporate governance. Corporate governance covers a number of important issues. Relevant subjects are: remuneration policy, shareholder rights, transparency, effective supervision of management, independent audit and risk management.

Numerous recent cases of tax avoidance and potential state aid concerns have led to increased demand for corporate tax practices to become more accountable. Investors should be aware that governments worldwide need to increase tax revenue, and are becoming stricter in the enforcement of fiscal policies. For investors therefore, better transparency and accountability in terms of corporate taxation can allow better judgements to be made as to whether an effective tax rate is sustainable over the longer run.

In 2016, Robeco started an engagement project on corporate tax practices, focused on pharmaceutical, media and tech companies. Our goal is to enhance the accountability and transparency of tax practices and rests on four sub-objectives: 1) Tax reporting and disclosures, 2) Policy and principles, 3) Regulatory impact assessments and 4) Tax governance and systems.

Tax policies: high, higher and highest level disclosures

The UK was the first country to require listed companies to publish a document that explains by which principles their tax is calculated. Increasingly, companies in other nations also publish their tax policies, or are converting their UK tax principles

into global principles. At face value, one might think that these documents allow investors and the public to get a better understanding over whether companies are relatively aggressive or conservative around tax matters.

However, these documents usually cover a very similar set of statements. The following principles are usually included:

- "Compliance with all applicable tax laws"
- "Tax payments should follow economic substance"
- "Paying taxes where taxes are due without paying unnecessary or double taxes"
- "Maintaining a healthy and constructive relationship with tax authorities", and
- "The arm's length principle applies for transfer pricing".
  Helpful, but a comprehensive overview it is not.
  Often, tax governance is also covered in the documents, but this too remains extremely high level.
- "Ultimately, the supervisory board has a supervisory role over the company's tax practices, with a specific role for the audit committee....".

Again, a high level statement which says very little about the actual governance of tax practices at a company.

Increasingly, tax policies also provide information on the objective of tax departments. The statements that are usually included are:

- "The tax department is a support function to the business"
- "The integrity of tax reporting is of utmost importance", and
- "The department is not necessarily incentivized to unduly or artificially lower the company's effective tax rate."

Once more, not much to go on here. So how can investors gain further insight into the underlying sustainability and appropriateness of a company's tax position?

Country by country reporting: the Holy Grail

Having had conversations with approximately 10 different pharma, tech and media companies, we noticed that talking directly with tax specialists gave us a much better understanding of the a company's stance towards certain fiscal codes, how they deal with conflicting approaches between tax authorities, and the quality of tax assurance.

Still, what we ultimately are trying to assess is the degree to which the OECD guidelines on baseline erosion and profit shifting are followed. In order to truly do this, information needs to be made available on profits, margins, taxes paid, allocation of intellectual property and the nature of economic activity in the company's markets. This type of reporting is better known as Country by Country Reporting (CbCR).

The OECD requires these documents to be shared with tax authorities. Unfortunately for the investing public, these are not publicly available. US companies are required to file a tax reconciliation in their 10K reports, which allow investors get a sense about the effects of taxes paid in foreign countries, but they do not usually provide any of the above-mentioned data points per market. So far, companies have been very reluctant to provide country by country reporting.

The main argument often is the complexity of the report, and the confusion and misunderstanding it would create. The format in which the CbCR would be presented to the various tax authorities is often said to be not useful to investors. Another common argument is that the information is commercially sensitive, as it would disclose pricing practices and investments in specific products or markets. Yet, several companies have started publishing tax reports with CbCR for the top 10 or 15 markets in which they operate, and provide more narrative on examples of tax risks and challenges. We are encouraged by these examples, even though we haven't seen much of these disclosures by pharma or tech companies.

The tax debate is here to stay

Late in 2017, the US passed tax reform into law. Several of the US pharmaceutical companies in our program had pointed out that the

US tax system was uncompetitive compared to other markets. Soon after the reform, US companies announced cash repatriations to the US, as a result of the lower tax rate. It was often argued that US companies had pursued active tax strategies as a result of the relatively high US tax rate. You might think that the US tax reform puts that discussion to bed, but you would be wrong.

Most companies in our engagement theme report the increase in tax audits and conflicts between jurisdictions as a continuing trend. Several jurisdictions are under pressure to increase their tax base whilst maintaining a competitive business environment for international institutions. The number of listed companies under public scrutiny for their tax contributions have not yet decreased. Our engagement with these companies will continue for another two years.

Active ownership in practice: engaging Royal Dutch Shell

Robeco has been recognized for its critical role in persuading Royal Dutch Shell to significantly strengthen its measures to reduce its carbon footprint. The Anglo-Dutch oil major has agreed to set short-term targets for cutting carbon emissions and will link executive pay to meeting these objectives for the first time. Robeco has engaged with Shell for many years to try to reduce the impact of the company, and that of other oil majors, on climate change.

Codes of conduct
- UN Global Compact Principles 7-9
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises Chapter VI
- SDG 13: Climate Action

Environmental Management: Environmental Policy & Performance
An environmental management policy is a set of restrictions or standards designed to protect and conserve environmental resources. An effective environmental policy clearly outlines rules and expectations for companies to follow regarding preventing negative impact on the environment. Furthermore it should be equipped to calculate the environmental performance of a company as well.

Together with the Church of England Pensions Board, Robeco led the investor engagement activities on behalf of Climate Action 100+, an initiative spearheaded by investors with more than USD 32 trillion in assets under management, and the Dutch corporate governance platform Eumedion.

"This is a significant achievement, something that has never happened before in the field of engagement: a company and its shareholders acting together on climate change," said Carola van Lamoen, Head of Robeco's Active Ownership team. "This shows that dialogue does work, and is an effective way to bring about change."

Introducing an ambition
Shell was already the first oil and gas company to introduce an ambition to reduce its carbon footprint, stretching out to 2050.

Meeting the challenge of tackling climate change requires unprecedented collaboration and this is demonstrated by our engagements with investors," said Shell Chief Executive Officer Ben van Beurden. "We are taking important steps towards turning our Net Carbon Footprint ambition into reality by setting shorter-term targets. This ambition positions the company

well for the future and seeks to ensure we thrive as the world works to meet the goals of the Paris Agreement on climate change."

In a joint statement with investors, the company added: "Shell aims to reduce its Net Carbon Footprint by around half by 2050 and by around 20% by 2035 as an interim step. To operationalize this long-term ambition, Shell will start setting specific Net Carbon Footprint targets for shorter-term periods (three or five years). The target will be set each year for the next three- or five-year period. The target setting process will start from 2020 and will run to 2050."

Link with remuneration

"Taking into account the perspectives gained through its engagements with shareholders and other relevant stakeholders, Shell will incorporate a link between energy transition and long-term remuneration as part of its revised Remuneration Policy, which will be subject to a shareholder vote at the 2020 Annual General Meeting (AGM)."

"If approved at the AGM, the policy will include a Net Carbon Footprint-related measure, as well as other measures, to have a balance of leading and lagging performance metrics over a three-or five-year performance period. The measures for each performance period will be set on an annual rolling basis at the time of the award and will be subject to the annual remuneration target-setting process as well as to the final plan design. The measures and targets will evolve as time progresses over the years to 2050."

"The final plan design is being discussed with shareholders, including details relating to the appropriate remuneration structure and appropriate measures and metrics."

The value of dialoge

Investors welcomed the historic move. "We applaud the joint statement by Shell and lead investors for Climate Action 100+," said Anne Simpson, the inaugural Chair of the Climate Action 100+ Steering Committee and Director of Board Governance and Strategy at the California Public Employees' Retirement System (CalPERS). "The commitment by Shell to fully respond to the engagement shows the value of dialog and global partnership to deliver on the goals of the Paris Agreement on climate change. Shell is setting the pace, and we look forward to other major companies following its lead."

Peter Ferket, Chief Investment Officer of Robeco, added: "When it comes to meeting the demands of the Paris Agreement on climate change, we believe it is necessary to strengthen partnerships between investors and their investee companies to accelerate progress towards reaching such an ambitious common goal. This joint statement is an example of such a partnership. As institutional investors in Shell we continue to support Shell on its journey in the energy transition, aiming for other companies to follow suit."

Long engagement activities

The moves follow engagement activities that go back as far as 2005. Earlier this year, Robeco was signatory to an appeal from 60 investment firms appearing in the Financial Times that encouraged all companies in the oil and gas sector to clarify how they see their future in a low-carbon world. Robeco also spoke at Shell's 2018 shareholder meeting on behalf of a large group of institutional investors.

"Only committing Shell to a climate scenario puts the company at a disadvantage in many respects," said Van Lamoen. "Our engagement must be much broader, so we encourage other companies in this sector to take responsibility in preparing for the energy transition."

Reducing global waste
Total
Xylem, Inc.

Climate Action
BASF
Chevron
Hitachi Ltd.
Royal Dutch Shell

Environmental Challenges in the Oil and Gas Sector
BP
ConocoPhillips
Eni
ExxonMobil
Total

ESG Challenges in the Auto Industry
Bayerische Motoren Werke
Honda Motor
Toyota Motor

Sound Environmental Management
Jardine Matheson Holdings Ltd.

Climate change and Well-being in the Office Real Estate Sector
Great Portland Estates Plc

Food Security
Bayer
Deere & Co.
DowDuPont Inc.

Living wage in the garment industry
Adidas
NIKE
The Home Depot

Data privacy
Apple
AT&T, Inc.
Facebook, Inc.
Singapore Telecommunications
Vodafone

Improving sustainability in the meat and fish supply chain
DSM
McDonald's

ESG risks and opportunities in the biopharmaceutical industry
AstraZeneca Plc
Biogen IDEC, Inc.
Johnson & Johnson

Social risks of sugar
Coca-Cola
Danone
Kellogg Co.
Nestlé
Unilever

Sound Social Management
Bayer
DowDuPont Inc.

Corporate Governance in Japan
Mitsui Fudosan Co. Ltd.

Corporate governance standards in Asia
Hynix Semiconductor, Inc.
Hyundai Motor
INPEX Corp.
Samsung Electronics
SK Holdings Co. Ltd.

Good Governance
DSM
Royal Dutch Shell
Samsung Electronics
Schneider Electric SA
Sun Hung Kai Properties Ltd.
Unilever

Tax Accountability
AstraZeneca Plc
Biogen IDEC, Inc.
Johnson & Johnson
Nestlé
Pfizer
SAP

Culture and Risk Governance in the Banking Sector
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
HSBC
ING Groep NV
JPMorgan Chase & Co., Inc.

Wells Fargo & Co.

Cybersecurity

Deutsche Telekom
Reckitt Benckiser Group Plc
Visa, Inc.
Vodafone
Worldpay, Inc.

Global Compact breaches

During the quarter, six companies were engaged with for potential breaches of the UN Global Compact

Robeco's Engagement Policy

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.

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, similar to the way we look at other drivers such as company financials or market momentum.

The UN Global Compact

The principal code 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 there are now approximately 9,000 participating companies. It is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt a number of 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.

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 Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

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). The ICGN principles have been revised in June 2014. The exercise of voting rights is limited to those companies held in our portfolios. This concerns shares held in the mandates of our clients, where Robeco has been requested to vote on the client's behalf. 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 CO2 emissions from companies. 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, working in close collaboration with Robeco's Investment Teams, and RobecoSAM's Sustainability Investing Research team. This team was established as a centralized competence centre in 2005. The team consists of 12 qualified active ownership professionals based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. The team is headed by Carola van Lamoen.

About Robeco

Robeco Institutional Asset Management B.V. (Robeco) is a global asset manager, headquartered in Rotterdam, the Netherlands. Robeco offers a mix of investment solutions within a broad range of strategies to institutional and private investors worldwide. As at 31 December 2017, Robeco had EUR 161 billion in assets under management. Founded in the Netherlands in 1929 as 'Rotterdamsch Beleggings Consortium', Robeco is a subsidiary of ORIX Corporation Europe N.V. (ORIX Europe), a holding company which also comprises the following subsidiaries and joint ventures: Boston Partners, Harbor Capital Advisors, Transtrend, RobecoSAM and Canara Robeco. ORIX Europe is the centre of asset management expertise for ORIX Corporation, based in Tokyo, Japan.

Robeco employs about 877 people in 15 countries (December 2017). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America.

Robeco strongly advocates responsible investing. Environmental, social and governance factors are integrated into the investment processes, and there is an exclusion policy is in place. Robeco also makes active use of its voting right and enters into dialogue with the companies in which it invests. To service institutional and business clients, Robeco has offices in Bahrain, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney and the United States.

More information is available at www.robeco.com

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