



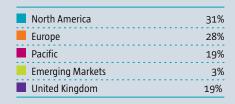
Active Ownership Report Q3-2019

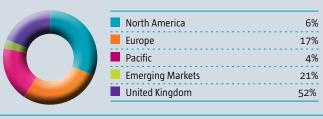
BCCP | 01.07.2019 - 30.09.2019



Engagement activities by region

Shareholder meetings voted by region







Voting overview

2019	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total number of meetings voted	122	525	101	
Total number of agenda items voted	1.409	7.974	1241	
% Meetings voted against management	77%	74%	66%	

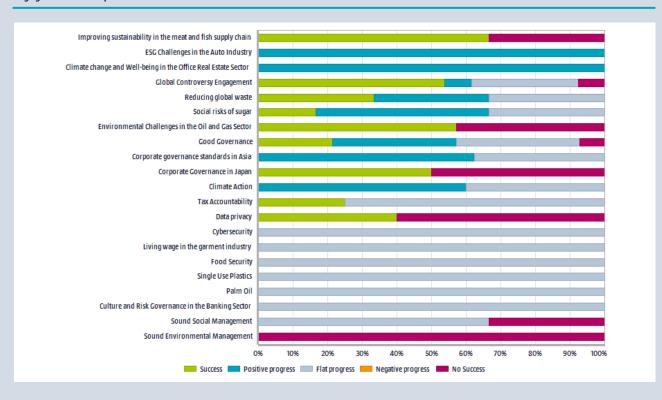
Engagement overview by topic

Environmental Management	6
Environmental Impact	2
Human Rights	4
Healthy Living	5
Social Management	0
Corporate Governance	13
UN Global Compact	2

Engagement by contact type

Analysis (no actual contact with company)	2
(Open) Letter	5
Meeting at company offices	6
E-mail	12
Active voting	C
Shareholder resolution	C
Conference call	11
Speaking at a shareholder meeting	C
Meeting at Robeco offices	ϵ
Speaking at conferences	1
Issue press release	С

Engagement results per theme



Contents

Voting Highlight P 4

With the ending of the 2019 proxy voting season comes a period of reflection on both new and old trends in corporate governance. Active Ownership Analysts Cedric Hille and Laura Bosch shed light on the trending topics of cybersecurity and CEO successions.

Corporate Governance in Japan P 8

Robeco, together with the Asian Corporate Governance Association and other investors, has engaged with policymakers and influential stakeholders on Japanese corporate governance. Senior engagement specialist Ronnie Lim reflects on the outcome of this engagement.

Safety of Tailings Dams P 12

Robeco is stepping up its efforts to improve safety in the mining industry after 248 people were killed in a Brazilian tailings dam collapse this year. Engagement specialist Sylvia van Waveren explains how an investor initiative is acting to prevent further disasters.

Reducing Global Waste P 16

The world's waste mountain is growing higher every day, with the focus now on not producing it rather than trying to recycle it. Active Ownership Analyst Robert Dykstra explains what this means for companies and how they can be part of the solution.

Single Use Plastics P 20

Plastics are used in nearly every part of our modern economy, but due to the lack of collection and recycling, plastic packaging has created an enormous issue. To be a part of the solution, we began our single-use engagement program this year.

Social Risks of Sugar P 22

Since July 2017, we have engaged several companies to reduce the sugar levels and increase the nutrional value of their products. To do so, companies should be transparent about their lobbying activities and exercise responsible marketing. Engagement Specialist Peter van der Werf shares our findings regarding our objective to secure responsible lobbying.

Introduction

Much has changed since 2005, the year Robeco's Active Ownership team was founded. Sustainability investing has moved more towards the mainstream, and society is now beginning to place greater emphasis on the long-term impacts of the decisions which it collectively makes. Plastics is one such issue which, driven in part by increased media attention, has grabbed the collective attention of individuals and investors alike. In this quarters report, we highlight what investors can do to ensure that companies address this pressing societal issue.

Related to the issues around the sustainability of our current levels of plastic production and consumption, are those around global waste. For over a year, Robeco has been engaging with companies to address issue around waste production and management, which also features in this report.

Like plastics and waste, society is also waking up to the impacts which over consumption can have on global health. With ever increasing levels of global obesity, and the increasing prevalence of 'sugar taxes' as a result, we showcase the results achieved so far as part of our engagement around 'Social Risks of Sugar'.

On a different note, it has now been five years since Japanese prime minister Shinzo Abe began a series of structural reforms around corporate governance in Japan. As our engagement theme on 'Corporate Governance in Japan' comes to an end we look back at what we have achieved following our governance discussions with many Japanese companies.

And yet whilst many things have changed since 2005, some things have not. The value we as Robeco place on the external verification of our Active Ownership activities remains high. That's why we were delighted to again receive the maximum possible score for our active ownership activities in this year's UN PRI assessment, an achievement of which we are very proud.

Carola van Lamoen

Head of Active Ownership







Cedric Hille & Laura Bosch

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.

With the closing of the 2019 AGM season comes a period of reflection for proxy voters. New issues like cybersecurity and traditional topics such as CEO successions are addressed by both shareholders and issuers as they gear up for the next voting season.

Cybersecurity

Making the right decisions when voting by proxy at AGMs always depends on having the right information at hand. Increasingly, this means being aware of the most material ESG risks a company is facing and determining whether executives and supervisory boards are equipped to manage these risks. A rapidly developing threat to many corporates, especially those operating in technology-driven sectors, is cyber risk. Our sector knowledge as investors, coupled with lessons from our engagement on cybersecurity, ensures that we are fully aware of this topic's materiality and vote accordingly at company AGMs.

Cybersecurity can initially appear a very technical subject. In reality, though, the crux of the issue lies in governance structures responsible for oversight of an organization's attitude towards and policies on cybersecurity. Cybersecurity is above all a human risk, with consultancy Willis Towers Watson estimating that around two-thirds of breaches are caused by employee negligence or malicious acts. A far lower percent of incidents is driven by external threats. As a result, cyber risk's human angle firmly places it into the realm of board's risk supervision role.

Therefore, we expect companies to implement a robust governance structure to manage their approach



engagement and in-depth company knowledge in two key ways. The first link between cybersecurity and proxy voting relates to the election of directors on the board. We take cyber risk into account when looking at board composition to ensure that directors serve investors' long-term interests by bringing valuable expertise to the table. For companies in sectors such as telecommunications and payments, but increasingly also consumer goods or industrials due to the rise of the Internet of Things, cybersecurity or technology leadership expertise is a must.

Second, we may encounter cybersecurity-related shareholder proposals up for vote. A notable example from this past year was when a proposal asked a major telecommunications company to issue a report assessing the feasibility of tying executive compensation to cybersecurity and data privacy KPIs. We voted in favor, along with around 12% of shareholders, as cyber risk presents material threats to the company operating in the telecommunications arena. The proposal aligned nicely with our engagement objectives, seeking to strengthen accountability for cyber risk in large organizations. Even though such proposals remain rare for the time being, we expect to see an increased focus on cybersecurity in shareholder resolutions in the future.

The CEO Successorship

Changes in senior executive positions introduce inherent risks to companies and their shareholders. Russell Reynolds, a governance consultant, identified that over a 12-year period (2003-2015) the average departing S&P500 CEO had a tenure of 5.9 years. The company's ability to carry out its strategy and respond to new competitive challenges might be jeopardized by boards and CEOs that do not identify succession planning as a key priority. It is crucial to have a robust succession planning

process in place to ensure a smooth transition.

This is arguably one of the more interesting responsibilities of the nominating committee. Enough objectivity in both formulating and executing the policy on succession planning is vital. As such, we encourage companies to have only non-executive directors serving on this committee and solely independent directors shall be involved in this process. The CEO can provide advice to the committee to ensure the company has a forwardlooking approach towards executive talent development. As the transition evolves and the process turns toward the board's selection of finalist candidates, we expect the CEO's participation to diminish.

When undertaking a CEO transition, one of the most contentious topics is the pay package offered to both the outgoing and incoming CEO. According to Alex Edmans, professor at LSE, executive pay should encourage long-term thinking by tying company leaders' remuneration to long-term share price even after they leave the organization. Post-holding requirements could encourage CEOs to be actively engaged in the succession planning strategy of the company. When it comes to the final pay package provided to good leavers, we believe severance payments must not exceed two years of the executive's base salary in line with international corporate governance best practices. In markets such as Spain and Italy it is common to exceed this threshold, often leading to a larger proportion of votes against compensation plans including such excessive severance payments.

Sign-on bonuses provided to newly hired executives help to attract top talent and improve retention rates. It is sensible to compensate newly appointed CEOs for the remuneration foregone from previous employers. However, this

to cybersecurity, and to design and implement a strategy which mitigates these risks. The board of directors should provide oversight of the strategy and consider cybersecurity as an enterprisewide risk and should therefore have the appropriate skills and experience in place to act as a sufficient counterweight to operational cybersecurity personnel. The executives whose role relates to the implementation of the strategy should have appropriate KPI's included in their compensation. Ideally, the Chief Executive's remuneration should also be linked to cybersecurity KPIs, if these represent a material risk to the company's core business.

Our voting approach is informed by our

VOTING HIGHLIGHTS

shall involve a reasonable quantum, bearing in mind the potential costs to shareholders. In general terms, we view positively sign-on payments provided in stock and attached to performance targets, as it ensures that executive interests will be aligned with shareholders' priorities.







Michiel van Esch & Ronnie Lim

Codes of conduct

- Japanese Stewardship Code
- ICGN Global Governance Principles
- SDG 16: Peace, Justice and Strong Institutions;

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 wellfunctioning 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.

In 2019, Japan's Prime Minister Shinzo Abe received a "Lifetime Achievement" award from the International Corporate Governance Network (ICGN) for his contributions to the G in ESG. Indeed, it is not often that a prime minister of a country places such emphasis on corporate governance practices by making it a central theme in a plan for a nation's economy.

But this formed part of his so-called 'Abenomics' comprising the 'three arrows' of monetary easing, fiscal stimulus and structural reform. As part of the latter, the Japanese Financial Services Agency introduced the Principles for Responsible Institutional Investors in 2014. Another tool in the armory of reform was the introduction of Japan's Stewardship Code, which was intended as a soft law to revitalize corporate competitiveness and performance. Backed by various ministries large domestic pension funds and institutional investors, the code has encouraged investors to exercise their shareholder rights, and to engage their investee companies to improve governance practices to

achieve better returns.

In 2015, Robeco's active ownership team conducted a research project to assess the status of corporate governance in Japan, aiming to enhance our stewardship activities for our Japanese equity investments. Three and a half years later, we review in this article what progress has been achieved.

Stakeholder versus shareholder orientation

There are public policy debates in the US and UK about whether business should have a wider social purpose, and whether a stakeholder approach could make listed companies more



CORPORATE GOVERNANCE IN JAPAN

- strategic guidance, and procuring more effective communication with institutional investors
- Protecting shareholder rights, and aligning a company management's incentives with those of investors
- Increasing the number of independent board members, and
- Prioritizing sustainable value creation by seeking more robust financial strategies on capital allocation

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

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

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

Significant room for improvement in capital management

Over recent years, Robeco, together with the Asian Corporate Governance Association and other investors, has engaged with policymakers and influential stakeholders to include these critical issues in policy revisions. In 2017, we provided feedback to Japan's Financial Services Authority for the proposed revision of the Corporate Governance Code to establish the Guidelines for Investor and Company Engagement. The guidelines are intended to act as a practical means to shape the agenda for investor dialogue with companies. We recommended that companies provide a credible financial strategy to help investors assess its management of debt and equity capital, and the framework on how a company intends to use its capital to create economic value. An ICGN statement in 2018 further supported the "improvement of corporate disclosure reflecting discussions on capital cost, shareholder return, growth strategy and cash usage... and how this relates to the company's long-term value creation". Our engagement with our portfolio holdings has evolved from asking for high-level milestones to be met, to encouraging the adoption of specific measures, including reducing excess assets by disposing of cross-holdings, increasing dividend payout ratios, and conducting share buybacks.

In order to achieve sustainable economic value creation, a company's return on invested capital (ROIC) should exceed its weighted average cost of capital (WACC). Our analysis concluded that most companies had poor capital management, with 70% of 2,000 TOPIX companies having a 5-year negative return on their ROIC when compared with their WACC. Although companies' dividend payout ratios have risen by 29% over the last

resilient. In Japan, however, the concept of fiduciary duty is less well developed, and Japanese companies' have historically given more weight to multiple stakeholder (employees, customers and suppliers) than to shareholders. Companies relied on easy financing by the keiretsu (or corporate networks) rather than investors. This resulted in a lack of transparency, a lack of accountability to minority investors, and a lack of focus on shareholder returns.

We therefore focused our engagement on these objectives:

 Improving communication with the public markets via higher quality disclosures, providing clear

CORPORATE GOVERNANCE IN JAPAN

five years, their debt to equity ratios have declined by 14.4%. Therefore, the growth in returns has barely kept pace with the growth in earnings per share (EPS) and cashflow. The current dividend payout ratio of 35% is only just above the post-Abenomics average. The lack of progress on this measure helps explain why there has been little reduction in cash on balance sheets, despite large increases in EPS and dividends per share. More encouragingly, the total payout ratio (including net buybacks) as a proportion of net profits has increased for the TOPIX to 46% in 2Q 2019 from 34% in 4Q 2017. However, this remains well below Europe (75% for MSCI Europe) and 105% for the largest 500 US companies in 1Q19.

Significant efforts have been made to close the information asymmetry between management and investors. In the early stages of our engagement, conversations with a portfolio company were often formalistic and at a high level. Throughout the project, we have noticed an increased willingness from the Japanese to discuss ESG topics, the implementation of governance standards, and to take feedback on reporting. Selectively, we also noticed that persistent engagement has improved our access to more senior management at companies. Corporate Japan seems to have embraced the Sustainable **Development Goals and companies** are quite willing to provide additional narrative on their sustainability performance. Yet, we are under the impression that some companies might use their sustainability efforts as a distraction from poor financial performance.

Effective company engagement requires a few essentials, which include meetings in person as well as using communication in writing; demonstrating the financial as well

as societal benefits of following a recommended course of action; and asking for specific milestones. We also found that meetings which included our portfolio managers benefits both the credibility of our agenda and the inputs of our fundamental investment cases.

Conclusion

Japanese corporate governance has improved since the introduction of the Corporate Governance Code in 2015. Investors have welcomed improvements, such as the continued unwinding of cross-shareholdings, increased shareholder return, and more independent directors on boards. Momentum is also gathering amongst investors exercising their fiduciary duty, as we've seen an increase in the number of shareholder proposals. These developments are positive, and we are hopeful that the undervaluation of Japanese companies will narrow compared to other developed markets.

Abenomics' 'three arrows' represent a bold move to invigorate corporate Japan, and to enhance returns for investors in Japanese companies. A key requirement for the success of structural reforms includes minority investors engaging in persuasive dialogue with companies to create financial strategies that support sustainable value creation. These strategies are aligned with recommendations by Japanese institutions and include:

- i. Measuring the true cost of debt/ equity,
- ii. Setting appropriate hurdle rates for specific categories of businesses and assets
- iii. Making realistic assumptions about risks/returns

While many companies have accepted the need for change, others have been demonstrably reluctant to accept our

desired outcomes. Our escalation process included writing to company boards and incorporating financial metrics systematically into our voting process. We now vote against company proposals for director (re) elections and the allocation of capital. Recent shareholder meetings have continued the activist momentum. with the number of shareholder proposals being filed up 29% from last year. Together with the tailwind of supportive policymakers, we believe that significant opportunities still lie ahead for active managers to hold corporate managers accountable to shareholders.

We believe that strong representation on the board that looks after the interest of minority shareholders is often still lacking. Recent scandals have confirmed our assessment that board oversight on management for many Japanese corporates should be much further improved. Incentives between management and shareholders are hardly ever aligned. A wholistic approach for returns is seldom, if ever, part of the management's KPIs, and this often leads to the wrong focus on metrics. Our progress on our engagement with ten companies in this theme can be summarized as follows:

- Improving communication:
 this was our objective for seven
 companies, and of these we
 concluded that it was effective for
 five and negative or non-effective
 for two
- Shareholder rights: an objective for eight companies, effective for five, and negative/flat for three
- Board composition: an objective for eight companies, effective for four, negative for four
- 4. Shareholder value: an objective for eight companies, effective for four, negative/flat for four.

Based on our initial objectives at the start of the engagement with

CORPORATE GOVERNANCE IN JAPAN

portfolio companies, we can broadly conclude that we were very effective in improving corporate disclosure and communication and effective in winning more rights for shareholders. But we had mixed results when we escalated the engagement challenge into areas like board composition and shareholder value. We are continuing our engagement with two of our original ten companies under a new theme of 'Corporate Governance in Asia', including capital management as a further goal of improving shareholder value.





Sylvia van Waveren

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

Codes of conduct

- ICGN Corporate Risk Oversight guidelines
- SDG 12: Responsible Production and Consumption; SDG 9: Industry, Innovation and Infrastructure

Corporate Governance: Risk Oversight

A company's risk oversight is relevant for the investment process in various ways. As risk taking can lead to both profits and losses, it's important for investors to gain insight in the specific risks that are relevant for companies and the type of policies they use to mitigate those risks. Relevant risks vary across markets and sectors. In this engagement theme we focus on corporate risk oversight in the mining sector, where various types of ESG risks are relevant for operational efficiency. For example, in mining the handling of social issues is essential to operate successfully. If the relevant stakeholders are not on board, a company might risk losing its mining licenses. Proper safety regulations are also very important for operational efficiency. Although the types of risk are similar between different types of commodities, the mentioned risks are more severe for commodities that require more intensive labor.

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

Worse was yet to come after 248 people were killed in January 2019 due to the collapse of another dam owned by Vale holding mining waste in Brumadinho, Brazil. This again provided us with a fundamental need to act now. These disasters seem to become statistically more significant

and industry-wide. Climate change and extreme weather shifts will intensify the risks.

Therefore, it is essential that investors can establish a clear line of sight about the tailings facilities that mining companies possess, and how these facilities are being managed. The current disclosures being made by companies are largely inadequate. For us as investors to assess the risks, we require a system to monitor the safety risk of tailings dams. We require public reporting through an accessible database that communities, governments and investors can access to ensure that the safety of mining



STEPPING UP SAFETY IN MANAGING MINERS' TAILINGS DAMS

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

The roundtable events aim to:

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

Investors meet on a monthly basis. Their work has already led to three interventions.

First intervention – calling for an independent safety standard

The group made a public call to establish a new independent and publicly accessible international standard for tailings dams based upon the consequences of failure. There is currently no consolidated global public register of the estimated 18,000 tailings dams worldwide, of which approximately 3,500 are currently active. Without a global register, the precise scale of the risks involved are not clear, nor is it understood which company has responsibility for which facilities.

In response to that request, a global review was announced and

co-convened by the International Council on Mining and Metals – an international organization dedicated to a safe, fair and sustainable mining and metals industry – along with the Principles for Responsible Investment (PRI) and the United Nations Environment Programme.

Second intervention – letter requesting greater disclosure

The second intervention was a letter sent to all 651 miners – including those oil and gas companies that have exposure to tailings through their oil sands operations – asking for greater disclosure about several issues. To create a sense of urgency, the letter was described as "an urgent global engagement" in response to the Brumadinho disaster.

The companies involved are being asked 20 questions about their tailings storage, including longitude and latitude coordinates, their present status, information about independent reviews, and engineering records. The initiative asked companies to publish the required disclosure on their company website within 45 days and ensure that it is signed off by the company's chief executive officer or chairman.

The companies were also asked to consider how they can best communicate any disclosure with communities that might be affected by their tailings footprints. If they are unable to answer a question, or provide the requested information, the company should clarify what action it is taking to address the issues.

So far, 34 of the top 50 largest mining companies in the world, have responded, including 21 out of the 22 publicly listed members of the International Council of Mining & Metals. Some 66% of the industry by market capitalization have given

dams is assured. This is a test case for the responsibility of corporations and investors to prevent unnecessary death and destruction, and to make the sector as safe and socially beneficial as possible.

The Investor Mining and Tailings Safety Initiative

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

STEPPING UP SAFETY IN MANAGING MINERS' TAILINGS DAMS

discloses, and 52% fully and publicly disclosed. Some 25 companies are still classified as requiring extra time to complete the disclosures.

Third intervention – setting up a global tailings database

A detailed proposal to establish a global tailings database has been developed and submitted for seed funding. This is currently with a government for consideration. The group has asked a Norwegian data provider and consultant to assist in developing the infrastructure for a permanent public database.

One use of the information collected would be in the development of an international standard for tailings facilities that is expected to create a "step change" in safety and security.







Robert Dykstra

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

Codes of conduct

- UN Global Compact
- SDG 12: Responsible Consumption and Production'

Environmental Management: Emissions, Effluents and Waste Emissions and effluent should be included in the primary process of a company's environmental management. The efficient use of resources results in immediate cost savings. Even the efficient processing of waste(water) requires energy and some of the waste (water) always ends up in the environment. Therefore, the prevention of emissions and effluent is vital. This is followed by stimuli to encourage companies to use efficient processing methods, such as recycling. Companies have to develop strategies for managing the financial and operational consequences of their contribution to the generation of emissions and effluent. This will mean setting targets for reducing emissions and effluent, including measuring performance and reporting progress. A company that makes use of the technological possibilities to reduce emissions and effluent and that contributes actively to technological innovations in this area, reduces reputational risk and assumes a leadership position.

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

How can you manage what is not measured?

One of the requests we make of companies is that they conduct an impact assessment of their product(s) and publicly disclose the results. The most common type of assessment is a life cycle analysis (LCA) whereby the

total resource use and environmental impact associated with a product are calculated. This holistic judgement of a product helps identify ways to manage and ultimately mitigate its environmental cost.

These assessments are especially relevant for manufacturers, given their influence over the basic design of a product. For instance, a product that was made using dangerous chemicals may require expensive disposal procedures once it has reached the end of its life cycle. Manufacturers can employ techniques to reduce the potential environment damage and



Another by-product of this assessment is improved disclosures on more traditional metrics such as renewable energy use, carbon emissions and waste generation. More granular data along these metrics would help both corporates and investors to understand how to better minimize a company's waste stream.

Formalized sustainability policies

For investors, getting independent oversight of a company's non-financial performance is often challenging. Therefore, we look for indicators that serve as a proxy for topics such as supply chain management and environmental stewardship. One such indicator is whether a company has a formalized sustainability policy in place. These policies detail a company's position on various social and environmental issues and the actions taken to address them, while demonstrating a commitment to more than just financial performance. However, a formal sustainability policy is only as good as a company's governance practices. Poor corporate governance can compromise accountability, which in turn undermines any sustainable initiatives set by shareholders or external stakeholders. Therefore, corporate governance is a primary objective of this engagement program, because we recognize its importance in holding companies accountable to their own policies.

In assessing a company's corporate governance with regards to its sustainability policy, we look for specialized board committees and remuneration-linked sustainability targets. By meeting these criteria, companies give an indication of their commitment and accountability towards issues such as global waste.

Contributing to the SDGs

One of the aims of this engagement program is for companies to have a quantifiable contribution to the Sustainable Development Goals. One such goal is SDG 12, which seeks "to achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment" by 2020. Attaining this goal requires an understanding of data collection methods that would allow companies to measure their waste management. Some of the actions that companies can take to help achieve this SDG include:

- Tracking and reporting levels of waste generated and disposed of; along with emissions of air pollutants, including short-lived climate pollutants such as black carbon and methane
- Identifying any land pollution, plus levels of water discharged, the impact of transportation used, and any significant spills of toxic materials
- Understanding the waste caused by the design of products and services
- Planning mitigation/remediation measures, environmental protection expenditures and investments in their own operations and the supply chain
- Assessing the impact of their product after the first cycle and implementing circular business models to create a system that allows for long life, optimal reuse, refurbishment, remanufacturing and recycling
- Extending responsibility to the post-consumer stage of a product's lifecycle, including collecting or taking back used goods, and sorting or treating them for recycling or reuse.

make the product's disposal safer.

It's not all bad

Impact assessments can also be used to highlight the unsung benefits of a product. For example, many companies in the energy generation, distribution, and conversion businesses are constantly increasing the energy efficiency of their products, which is often unaccounted for in their sustainability disclosures. Therefore, we also encourage companies to conduct impact assessments to capture the positive effect their products may have on the environment.

These actions may be more relevant for some companies than for others, given that the type of waste generated also varies greatly. For example, electronics manufacturers might consider the spare materials or retired products as waste, whereas for a utilities company the greatest waste could be heat loss.

Conclusion

Robeco's engagement program on 'reducing global waste' has reached its halfway mark, and several trends, best practices and areas for improvement have begun to emerge. Companies have shown a high level of responsiveness to our feedback and are intent on improving their disclosures. Overall, we have seen the issue of global waste become increasingly salient, as companies are put under more pressure by investors and stakeholders to address the issue.







Sylvia van Waveren

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

Codes of conduct

- UN Global Compact Principles 7, 8 & 9
- OECD Guidelines for Multinational Enterprises chapter VI.
- SDG 11: Sustainable Cities and Communities
- SDG 12: Responsible Consumption and Production
- SDG 14: Life Below Water Healthy Living: Healthy Nutrition

Environmental Impact: Biodiversity

Biodiversity is "The variability among living organisms from all sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems." Ecosystem services (the benefits that people receive from ecosystems) are underpinned by biodiversity. Examples include: raw materials such as timber, fish or services such as natural hazard protection, water filtration or pollination. Sixty percent of the ecosystem services on which we as a society rely are degraded or in decline. This loss of biodiversity and ecosystem services has significant implications for companies and may pose reputational, operational, regulatory, financing and market risks as well as opportunities.

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

billion annually, thereby exceeding the plastic packaging industry's profit pool. Apart from the many environmental issues that are caused by plastic waste, there are also many economic consequences. In Asia-Pacific, the cost of clearing marine debris was estimated to be USD 1.26 billion per year as of 2008 and is only expected to increase. Marine litter also affects tourism as polluted areas become less attractive to visit and thus hurts economic prosperity in coastal areas. The annual loss in tourism is said to be USD 622 billion globally.

Managing plastic waste is of fundamental importance and should



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

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

Furthermore, Robeco has become an active member of the PRI Plastics Investor Working Group, a collaboration with other investors to get a better understanding of the risks and opportunities in this sector. The aim of our new engagement theme on single-use plastics is to drive the global plastic packaging value chain towards a more circular model and improve supply and demand for recycled plastic. Therefore, we will address the following issues in our engagement:

- Innovation management.
 Consumer demand is shifting more towards sustainable packaging solutions, offering an opportunity for companies to differentiate with new product innovation, but is also a potential risk of substitution for their existing products.
- Plastic recycling. For the industry to move towards a more sustainable model, all players must take responsibility for their products to form part of a circular economy through recycling.

- Plastic harmonization. Because of the blending of different polymers, the complexity and diversity of such plastics bring many challenges to be technically able to recycle them.
- Responsible lobbying & regulatory change. We find that companies operating in the plastic packaging value chain take varying approaches towards regulations that, if followed properly, would increase the rate of packaging material recycling.
- Industry collaboration and publicprivate partnerships to decrease ocean littering. Collaborating with other stakeholders elevates the corporate impact from a one-dimensional and necessarily limited effort, to a comprehensive search for solutions that leverages expertise from different areas of society.

Our engagement will focus on improving sustainability within the plastics industry. It will target 12 companies within the industry that have the potential to combat plastic waste issues. We will engage with the whole plastics value chain, from petrochemical, plastic packaging and consumer packaged goods, to retail companies.

Plastic waste is clearly a socioeconomic risk. As investors, we are
concerned at how the issue could
potentially impact the profitability of
the companies in which we invest.
Defining financial materiality is a
core element in our ESG integration
approach. Therefore, we aim to shed
more light on the materiality of the
plastic waste problem through our
engagement with companies, whilst
at the same time encouraging them to
transform the plastic value chain into a
more sustainable and circular model.

be developed to become a selfsustaining system. In this context, the development of innovative technologies and new markets for recycled plastic are essential to enable the global reduction of waste.

To address these issues, our engagement theme aims to encourage plastic packaging companies to move to a circular economy model. We expect to see collaboration along the extended global plastic packaging production and after-use value chain, as well as with governments and NGOs, to achieve systemic change towards creating a more circular system.





Peter van der Werf

In July 2017, we began our engagement program aimed at encouraging food and beverage companies to speed up product reformulation and innovation. This aims to reduce sugar levels, improve nutritional value, and ensure a successful business model in the long run. We also discussed how companies can provide more transparency around their lobbying activities, and ensure that their marketing is responsible. In this article, Engagement Specialist Peter van der Werf shares our findings regarding our objective of securing responsible lobbying.

Codes of conduct

- UN Global Compact
- SDG 2: End hunger, achieve good security and improved nutrition and promote sustainable agriculture
- SDG 3: Ensure healthy lives and promote well-being for all at all ages

Healthy Living: Healthy Nutrition

UN Global principles 1 and 2 are designed for companies to respect and support the protection of internationally proclaimed human rights and to make sure that they are not complicit in human rights abuses. Human rights issues arise because companies do not consider the potential implications of their activities within their operating context. We link the way people are able to live a healthy life to basic human rights.

Global impact of overconsumption of sugar puts pressure on public health budgets

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

sugar is linked to diabetes and other health risks.

Companies affect progress in public policy with their lobbying activities

We expect companies in our engagement program to ensure that their lobbying activities are consistent with their position on health and wellness. As investors, we encourage transparency and accountability in the direct and indirect use of corporate funds to influence legislation and regulation. We believe there may be significant reputational risks when a company's lobbying positions are not aligned with tits public positions.



We ask companies to commit to lobbying on nutritional issues only in support of public health, or to not lobby at all. Secondly, we ask them to disclose all lobbying activities on nutritional issues, memberships, board seats and any financial support for industry associations or other lobbying organizations.

What is the food industry spending on lobbying, and where is the money spent?

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

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

Should the food industry's lobbying be restricted like the tobacco industry?

In response to these and other examples, The Lancet Commission on Obesity observed the growing consensus that corporate and commercial influence needs to be reduced so that governments can "implement policies in the public interest that benefit the health of current and future generations, the environment and the planet". The commission called for a treaty that would exclude the food and beverage industry from policy-related discussions — similar to the restrictions placed on

tobacco companies in the World Health Organization's Framework Convention on Tobacco.

ICGN provides best practice guidance on lobbying

Robeco supports the best practice guidance provided by the International Corporate Governance Network (ICGN), the OECD Principles for Transparency and Integrity in Lobbying, and the Global Reporting Initiative (GRI), which all call for integrity and transparency in corporate lobbying practices. The ICGN states: "Companies exist within society and must relate to society. Lobbying is part of that relationship, but it is fraught with risks. Lobbying becomes unacceptable either when it serves the personal interests of the corporate leadership, or when it is in the narrow interest of the company, such as promoting regulations that are favorable to it, but potentially damaging to society as a whole. Corporate lobbying becomes acceptable, if not positive, when it takes a longer-term view aimed at the promotion of high quality regulation which will serve the broader social interest, and thereby create a climate in which the company can deliver value and flourish."

Encouraging companies to adopt responsible lobbying practices

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

COMPANIES UNDER ENGAGEMENT

Reducing global waste

China Everbright International Ltd.

Taiwan Semiconductor Manufacturing Co. Ltd.

Xylem, Inc.

Climate Action

BASF

Chevron

Hitachi Ltd.

Lukoil Holdings OAO

Environmental Challenges in the Oil and Gas

Sector BP

ConocoPhillips

Eni

ExxonMobil

Total Rosneft NK OAO

Petroleo Brasileiro

ESG Challenges in the Auto Industry

Bayerische Motoren Werke

Honda Motor

Toyota Motor

Sound Environmental Management

Jardine Matheson Holdings Ltd.

Palm Oil

Wilmar International

Genting Bhd.

Climate change and Well-being in the Office Real

Estate Sector

Great Portland Estates Plc

Single Use Plastics

Nestlé

Procter & Gamble Co.

Food Security

Bayer

Deere & Co.

Living wage in the garment industry

The Home Depot

Adidas

NIKE

Burberry Group Inditex Data privacy

Vodafone

Facebook, Inc.

Apple

AT&T, Inc.

Singapore Telecommunications

Improving sustainability in the meat and fish

supply chain

DSM

McDonalds

WH Group Ltd. (HK)

Social risks of sugar

Danone

Kellogg Co.

Nestlé

The Kraft Heinz Co.

Unilever

Sound Social Management

Bayer

InterContinental Hotels Group Plc

Facebook, Inc.

Corporate Governance in Japan

Mitsui Fudosan Co. Ltd.

OMRON Corp.

Corporate governance standards in Asia

ROHM Co. Ltd.

Hyundai Motor

Samsung Electronics

China Mobile Ltd.

Hynix Semiconductor, Inc.

OMRON Corp.

SK Holdings Co. Ltd.

INPEX Corp.

Good Governance

DSM

Heineken Holding

Unilever

Petroleo Brasileiro

Samsung Electronics

Sun Hung Kai Properties Ltd.

Hon Hai Precision Industry Co. Ltd.

Persimmon Plc

Royal Mail plc

Schneider Electric SA

COMPANIES UNDER ENGAGEMENT

Daiwa House Industry Co., Ltd. Sumitomo Mitsui Financial Group, Inc. POSCO

Tax Accountability

Amgen

AstraZeneca Plc

Johnson & Johnson

Biogen IDEC, Inc.

RELX

SAP

Pfizer

Nestlé

Culture and Risk Governance in the Banking Sector

Wells Fargo හ Co.

HSBC

ING Groep NV

Barclays Plc

JPMorgan Chase & Co., Inc.

Citigroup, Inc.

Bank of America Corp.

BNP Paribas SA

Cybersecurity

Reckitt Benckiser Group Plc

Visa, Inc.

Deutsche Telekom

Vodafone

Global Controversy Engagement

During the quarter, fourteen companies were engaged based on potential breaches in 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

- 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

- 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

- Companies should adopt a prudent approach to environmental challenges
- 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. 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



