ROBECO
The Investment Engineers

ACTIVE OWNERSHIP REPORT

ROBECO | 01.01.2021 - 31.03.2021

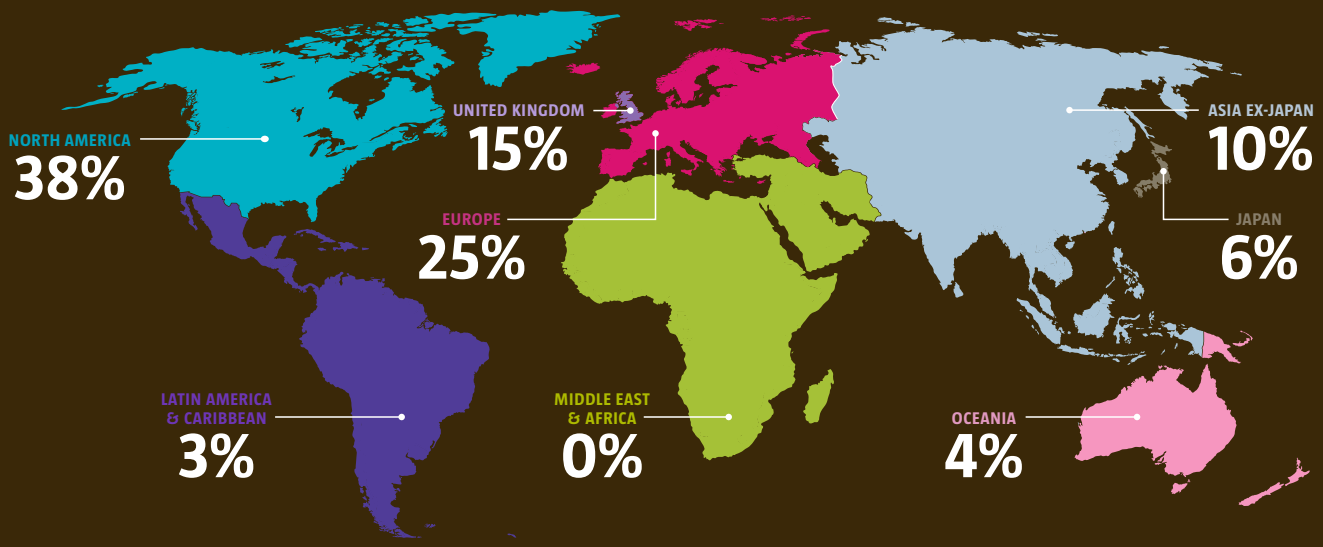
Q1 2021

BORDER TO COAST
PENSIONS PARTNERSHIP

Sustainable Investing Expertise by
ROBECOSAM

Q1|21 FIGURES ENGAGEMENT

Engagement activities by region



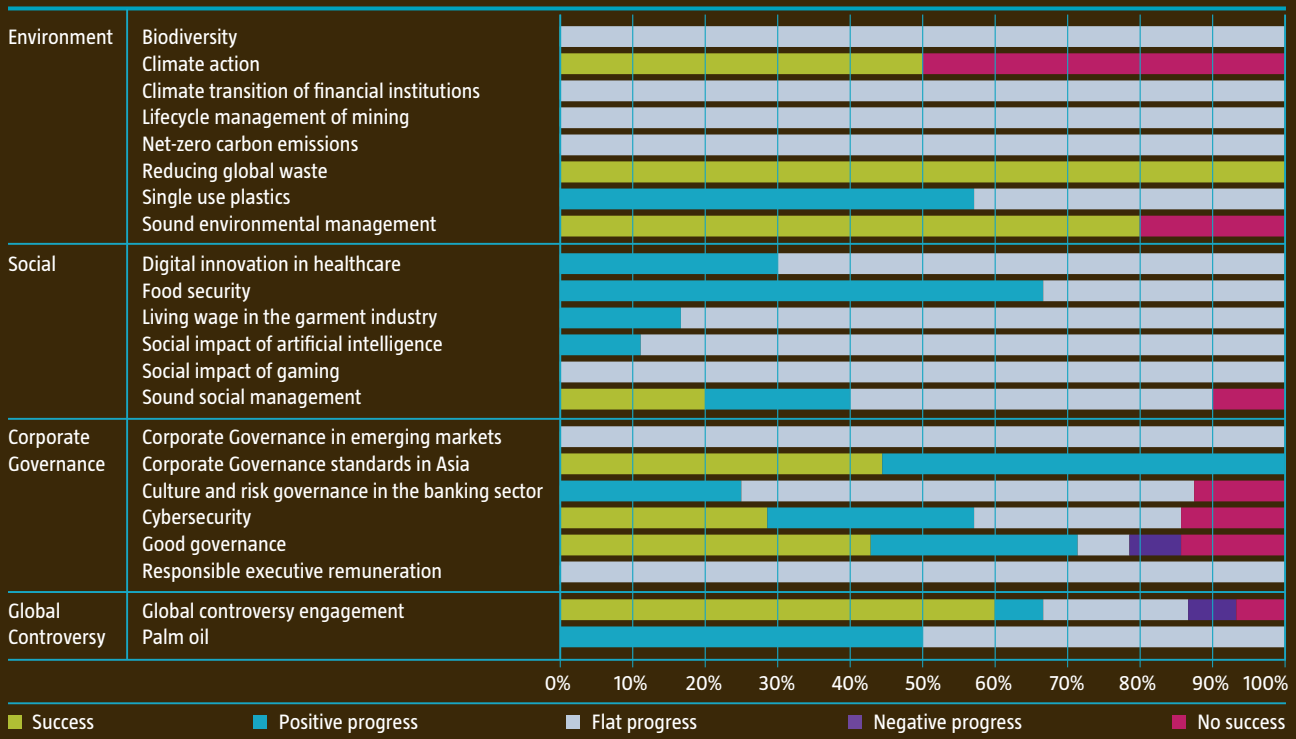
Number of engagement cases by topic

	Q1	Q2	Q3	Q4	YTD
Environmental	29	-	-	-	29
Social	27	-	-	-	27
Corporate Governance	14	-	-	-	14
Global Controversy	2	-	-	-	2
Total	72	-	-	-	72

Number of engagement activities per contact type

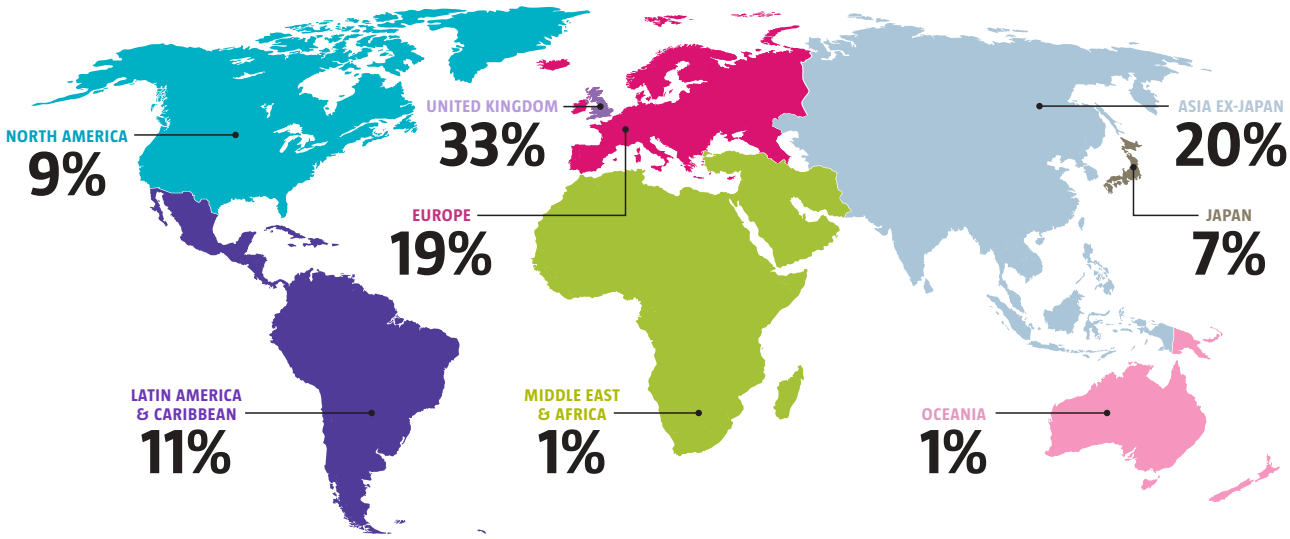
	Q1	Q2	Q3	Q4	YTD
Meeting	-	-	-	-	-
Conference call	59	-	-	-	59
Written correspondence	47	-	-	-	47
Shareholder resolution	2	-	-	-	2
Analysis	17	-	-	-	17
Other	2	-	-	-	2
Total	127	-	-	-	127

Progress per theme



Q1|21 FIGURES VOTING

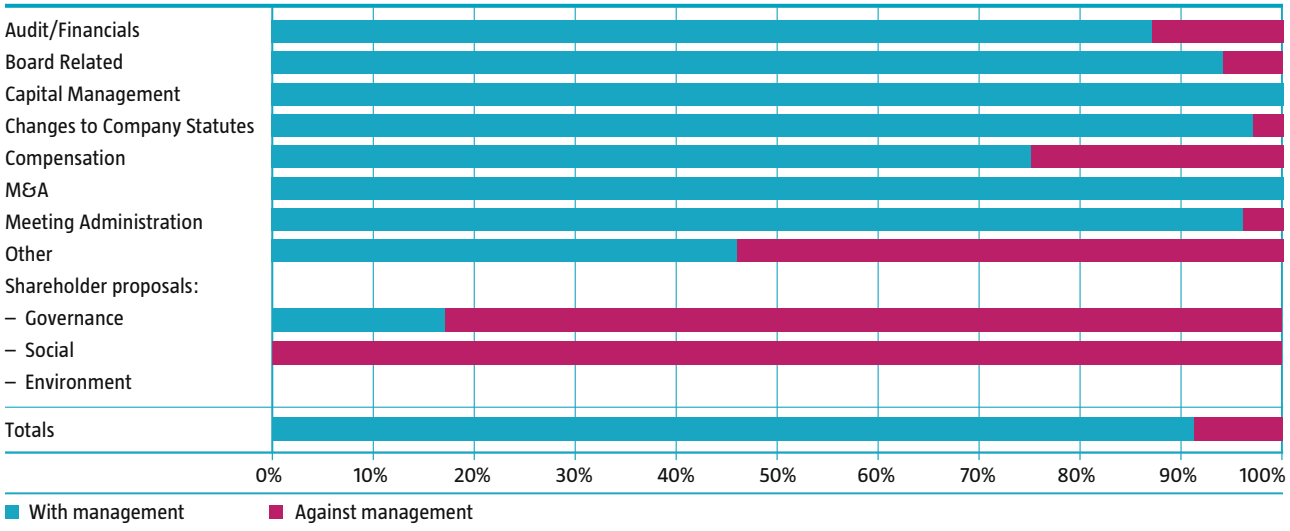
Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	141	-	-	-	141
Total number of agenda items voted	1558	-	-	-	1558
% Meetings with at least one vote against management	55%	-	-	-	55%

Votes cast per proposal category



CONTENTS

Climate Transition of Financial Institutions 6

This quarter marks the launch of our Climate Transition of Financial Institutions engagement. In this Q&A, Robert Dykstra elaborates on why we have begun this engagement, and what it aims to achieve.

Corporate Governance Standards in Asia 10

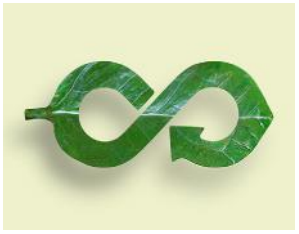
The Corporate Governance Standards in Asia theme began in 2017, and was scheduled to end this quarter. Ronnie Lim explains the rationale for extending our dialogues, and what progress we have seen thus far.

Climate Action 13

Our Climate Action engagement theme draws to a close. As Robeco's engagement on the topic of climate change continues in several other programs, Sylvia van Waveren and Cristina Cedillo reflect on the key results and takeaways of this theme.

The Social Impact of Gaming 16

Time spent on gaming grew by nearly 40% during Covid-19 and is predicted to stay 21% above pre-crisis levels in the future. It is important to note the sustainability issues related to gaming. Daniëlle Essink expands on the need for engagement on the social risks for companies operating in the industry.



Reducing Global Waste 19

With global solid-waste production expected to reach 3.4 billion tons by 2050, society faces a growing waste management challenge. In this article, we reflect on the outcomes of our Reducing Global Waste engagement, and discuss the future trajectory for companies addressing this issue.

Proxy Voting 22

Antonis Mantsokis provides insight into why proxy voting is gaining increased importance. Robert Dykstra shares an outlook on expected shareholder proposals during the 2021 proxy voting season.

INTRODUCTION

After a turbulent 2020, we look optimistically towards 2021 as the year of recovery. As part of this focus on recovery, we have signed the global investor statement in support of an effective, fair and equitable global response to Covid-19. We signed the statement along with 250 other long-term institutional investors representing over USD 6.4 trillion in assets under management, urging businesses to protect their workers' rights in this crisis and during the recovery.

Although the year has only just begun, we are already observing several important trends. For instance, while labor rights have been a material issue for investors for years, Covid-19 has brought to light the precarious circumstances of many front-line workers. As a result, labor rights will play a key role in the new themes that will be added to our engagement program in 2021. This quarter, we launched an engagement theme focusing on social issues in the gaming industry, one of the few industries to benefit from the pandemic. Specifically, the theme will focus on developers' working conditions, gaming addiction, customer in-game spending, and diverse representation in games.

Another continuing area of focus is how companies are responding to climate change. Banks have an important role to play in this regard, using their loan books as a lever. Our new engagement theme, the Climate Transition of Financial Institutions, will encourage banks to incorporate climate considerations in their financing policies. Additionally, as the season for Annual General Meetings approaches, an exciting new proposal can be found on some agendas: 'Say on Climate'. This new management proposal is a response to several years of investor pressure on companies to give shareholders a vote on climate transition strategies. One of the first companies to introduce a 'Say on Climate' is Shell, in line with the engagement work done in collaboration with Climate Action 100+ co-leads Robeco and the Church of England Pensions Board. This is only the latest success under our Climate Action engagement theme, which we closed this quarter after three years of intense engagement.

Our engagement theme focused specifically on companies' contribution to SDG 12.4, Reducing Global Waste, came to a close this quarter. Meanwhile, we have decided to extend our Corporate Governance Standards in Asia theme. During the initial three years of the engagement program, we have seen positive progress in most cases. We believe continued engagement with some of the leading companies within their respective industries and countries of domicile will lead to network effects that help raise the bar of transparency and accountability across these industries and markets.

We are pleased with the progress made in the first quarter of 2021 and look forward to another year of meaningful engagement to guide companies through the Covid-19 recovery.

Carola van Lamoen
Head of Sustainable Investing

‘As lenders, banks have a major role to play in financing the transition to a low-carbon future’

CLIMATE TRANSITION OF FINANCIAL INSTITUTIONS

INTERVIEW WITH ROBERT DYKSTRA
Active ownership analyst

This quarter marks the launch of our engagement project on the climate transition of financial companies, led by banks. This project seeks to further financial disclosures on climate risks and opportunities, and to develop a strategy to manage portfolios that are fully aligned with the Paris Agreement. In this Q&A, Robert Dykstra explains why we have begun this engagement, and what it aims to achieve.

What is the relevance of the climate change transition for investors?

Climate change is increasingly on the radar, not only for society, but also for investors. There are three main reasons why investors should be concerned with how the financial companies they invest in deal with climate change; these are portfolio decarbonization, the impact on loan books, and increased regulatory scrutiny. Incoming regulation such as the EU's Sustainable Finance Action Plan and higher stakeholder expectations emanating from the Paris Agreement mean that investors are increasingly required to report their carbon exposure.

As banks lend to all sorts of businesses, they are exposed to the financial success (or failure) of these companies through their loan books. Loans to companies that suffer loss from declining demand for higher-carbon products, regulatory sanction or longer-term write-offs from stranded assets may risk default. Conversely, climate change offers opportunities in sustainable solutions such as lending to the renewable energy industry. Those banks that are quick to avoid the pitfalls and target the opportunities will do much better than those that do not.

Which financial companies will be in scope for this engagement project?

Ten banks have been selected based on their exposure to carbon-intensive sectors, their current lending practices, and overall sustainability ranking. While there are many different types of companies in the broader financials sector, our engagement project will focus on the climate transition of banks. The banks in scope are spread across a variety of markets, which will increase the role of regional and international regulators in our engagement. The regulatory landscape with respect to banks' climate transition differs by region, so this will have to be accounted for in our engagement dialogues.

Banks themselves have a low carbon footprint, so why target them directly?

As lenders, banks have a major role to play in financing the transition to a low-carbon future. It is estimated that roughly USD 93 trillion of investment is required by 2030 to limit global warming to the Paris Agreement upper limit of 2°C, much of which will come from the finance sector, including bank loans. As they control trillions in capital, it is essential that this money is directed towards the climate transition, and not in continuing to fund

'AS BANKS CONTROL TRILLIONS IN CAPITAL, IT IS ESSENTIAL THAT THIS MONEY IS DIRECTED TOWARDS THE CLIMATE TRANSITION'

ROBERT DYKSTRA

higher-carbon business that can't or won't change. So, while banks have not been at the center of attention in the early calls to action regarding climate change management, they are being increasingly targeted by a wide range of stakeholders.

Is this a risk faced by certain banks, or a more systemic risk?

The sheer scale of global warming and the response needed to combat it has led many in the financial sector to call on regulators across the globe to start addressing climate change as a systemic financial risk. Unless it is addressed, some estimates suggest that the negative effects of climate change such as more extreme weather could reduce the value of global financial assets by as much as USD 24 trillion. This means it has the potential to destabilize capital markets and lead to serious negative consequences for financial institutions and the broader economy. Therefore, banks form part of a wider systemic risk, making engagement important to make sure they understand the role they play in it.

Are banks doing enough to monitor developments regarding climate change?

Overall, climate-related disclosures from financials remain quite poor, and investors lack relevant key disclosures to be able to conduct appropriate risk analyses. To enable this, banks should disclose appropriate levels of information on their climate-related risks and how these affect classic prudential risks. Valuable information that would help financial analysis includes disclosures around loan books' exposure to carbon-intensive sectors in terms of monetary risk and levels of emissions. They should also disclose what specific restrictions are being imposed on lending activities for climate-related factors. This would facilitate portfolio decarbonization through transition pathways adopted by banks and get their portfolios and activities aligned with the objectives of the Paris Agreement. There are several transparency initiatives that aim to improve banks' management of climate-related risks and supply data that will be valuable for investors for their financial analysis and decision making.

So much for the problems: what are the opportunities?

Decarbonization is both a massive challenge and opportunity; the renewable energy sector for example is an obvious major growth area. Banks can also seize opportunities in the carbon-offsetting space and look for ways to play a more active role in this domain. One example is the idea of a 'carbon bank', a method for banks to convert carbon storage and sequestration solutions such as tree planting into 'credits' that can be used to offset emissions. These credits could be sold to companies looking to become carbon neutral or even carbon negative. Other opportunities can be found in funding attempts to improve the quality of carbon data, particularly in scope 3, as the emissions that occur along the value chain (such as the exhaust from a car) are difficult to measure. This would thereby increase the availability of green-lending activities. Banks can also choose to adopt clear exclusion policies for sectors with high social and environmental risks. Taking such a proactive stance could then help banks reposition for growth in clean energy finance.

How can you measure what a successful climate transition of financials looks like?

In 2017, the Financial Stability Board-convened Task Force on Climate-related Financial Disclosures (TCFD) published its recommendations for this. It provides guidance on how companies should disclose clear, comparable, and consistent information about the risks and opportunities presented by climate change. The objective is to ensure that, by reaching a widespread adoption of the proposed disclosure framework, the effects of climate change would then become routinely considered in companies' business and investment decisions, allowing them to better manage climate-related issues. Our engagement objectives will be based on the four pillars of the TCFD recommendations, as outlined on the next page.

TCFD ELEMENTS	TCFD RECOMMENDED DISCLOSURES
Governance The organization's governance around climate-related risks and opportunities	a Board oversight b. Management's role
Strategy The actual and potential impacts of climate-related risks and opportunities for the organization's businesses, strategy and financial planning	a. Climate-related risks and opportunities b. Impact on the organization's businesses, strategy, and financial planning c. Resilience of the organization's strategy
Risk Management The processes used by the organization to identify, assess and manage climate-related risks	a. Risk identification and assessment processes b. Risk management process c. Integration into overall risk management
Targets and metrics The metrics and targets used by the organization to assess and manage relevant climate-related risks and opportunities	a. Climate-related metrics in line with strategy and risk management process b. Scope 1, 2, 3 greenhouse gas metrics and the related risks c. Climate-related targets and performance against targets

What outcomes do you expect to achieve through this engagement theme?

Ultimately, we aim to improve the disclosures of how banks develop and report on their climate transition strategies. This means that Paris-aligned climate targets are set, and the necessary data to do so is collected and verified, and there is sufficient oversight from management and the board. Now more than ever, there is industry-wide momentum for financials to ramp-up their climate approach, as investors set carbon neutrality targets, and commit to decarbonizing their portfolios. These recent trends signal a tipping point in the financial industry, and we expect banks to follow suit. ■

Continuing our dialog in Asia

CORPORATE GOVERNANCE STANDARDS IN ASIA

RONNIE LIM – *Engagement specialist at Robeco Hong Kong*

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

'NETWORK EFFECTS MAY INFLUENCE FURTHER IMPROVEMENTS IN TRANSPARENCY AND ACCOUNTABILITY'

RONNIE LIM

Update of progress

At the beginning of 2020, we had 14 companies under the Corporate Governance Standards in Asia engagement theme. Over the last year, we closed five engagement cases as having been effective and three as non-effective, reporting positive progress on the remaining six companies. When we began the engagement theme in 2017, it had three objectives, namely to seek the disclosure of corporate strategy, the disclosure of significant costs, and improving capital management. We had selected those objectives from a wide range of corporate governance issues in our initial research. Over time, we identified only a few companies where the second objective of disclosing significant costs was a meaningfully material issue.

Furthermore, as our research and engagement progressed, it became evident that we would achieve the most impact by focusing on the first and third objectives. Many companies in Japan and Asia publish their business strategy, but very few disclose a distinct financial strategy to support it. A key weakness in Asian governance was that around 70% of listed companies failed to generate a return that covered their cost of capital. These pervasive and material ESG issues resulted is us identifying many further companies where constructive engagement has become a multi-year opportunity to make a positive impact.

In 2020, we closed five engagements with companies as having been effective, since they met the majority of our objectives. These companies ranged from makers of sportswear and fluid pumps to leaders in the semiconductor and automotive industries. Many companies were badly impacted by Covid-19 and the weak global consumer demand that the pandemic caused in 2020. Owing to the large negative impact on their operating and balance sheet performance, we adopted a more conducive approach during 2020 for most of these companies.

We closed our engagement with three companies unsuccessfully. We tried to establish one company's relationship with a large shareholder and how that shapes its business and financial strategy, along with the criteria for the selection and assessment of board members, and accountability for its poor financial performance since 2008. We did not achieve any progress on the company's approach to capital management. Several of these cases also failed to provide credible or substantive explanations for their investment criteria. These engagements were concluded as being non-effective.

For the sportswear company, its weak profitability has been one of the main barriers to creating value. However, it has raised its dividend payout ratio from 20% in 2017 to over 70% in 2020. We reported positive progress on capital management since 2019, and closed the engagement as having been effective.

A large investment holding company in South Korea has been communicating its values and strategy to its employees and suppliers for while, but it lacked specifics. Its 2020 presentation now discloses investment horizons, and has begun some realizations of its investments. The company has been reluctant to commit to a fixed payout ratio, but this has improved from only 12% since the start of the engagement to 32.5% at the end of 2020. The CEO has also revealed that the company's internal hurdle rates are 20% for listed investments and 10% for existing unlisted new investments. This case was successful on both our objectives.

We are continuing our engagement with six companies that have demonstrated positive progress. They are based in Japan, South Korea and China. This ongoing engagement is leading to network effects that may influence further improvements in transparency and accountability. One of them is a Japanese oil & gas exploration

company, with whom we expressed our reservations about the viability of its current strategy and the importance of creating a credible renewables strategy. After a long and persistent dialogue, we managed to secure a meeting with an appropriate independent director in January 2021.

Appointments to associations

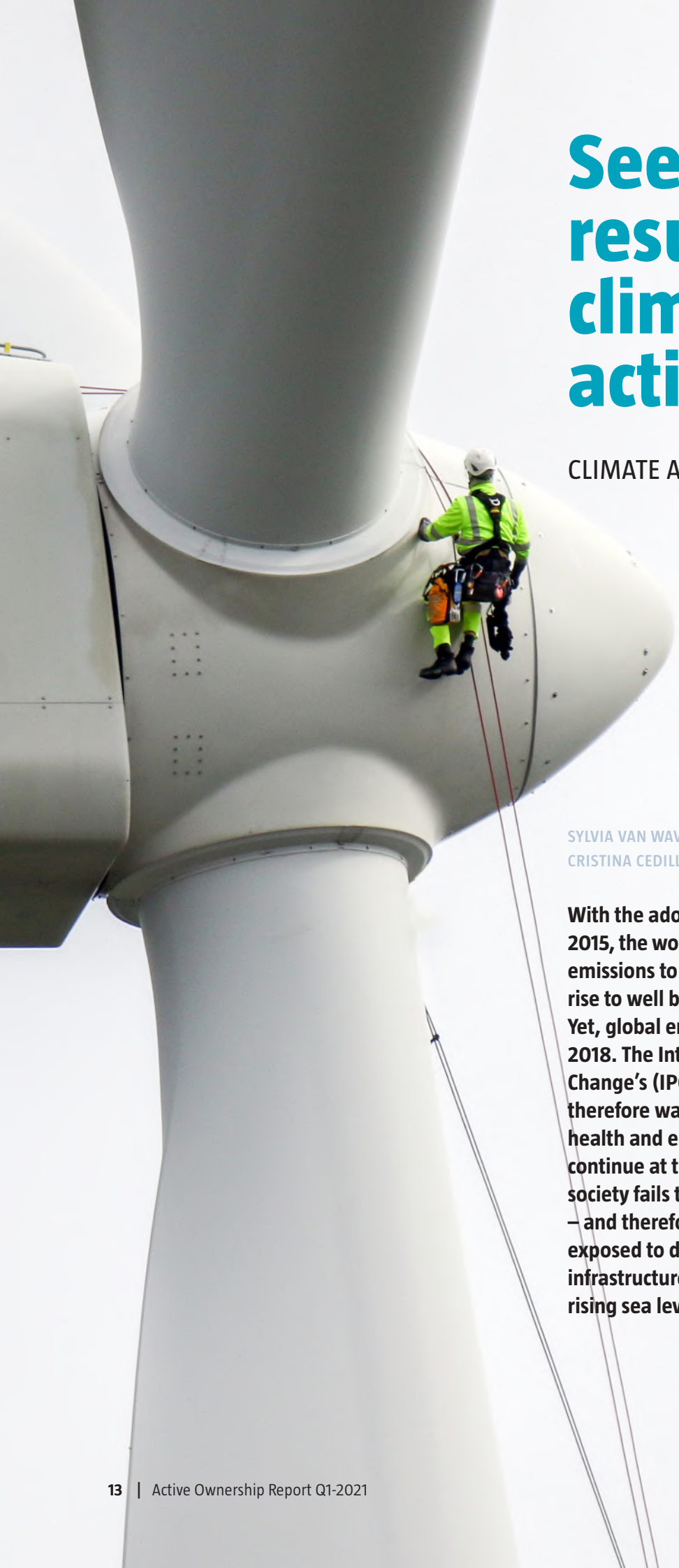
In 2019, our senior engagement specialist who is based in our Hong Kong office joined the board of the Asian Corporate Governance Association (ACGA) as a Council Member. He is also an active participant in the ACGA Membership Committee and Working Groups on Japan and South Korea. In February 2021, our Head of China Investments joined the ACGA's China Working Group. We have also contributed selectively to public and private consultations on improving relevant regulatory and good practice guidelines.

Stewardship and the SDGs

For cultural and historical reasons, many companies in Asia suffer from valuation discounts because of opaque holding structures and the poor use of capital. Policy and regulatory changes in several markets such as Japan, Hong Kong and South Korea aim to address these issues, and create a more supportive environment for investor stewardship.

Regarding the UN's Sustainable Development Goals, our engagement theme is most relevant to SDG 16: Peace, Justice, and Strong Institutions. Many jurisdictions in Asia are not governed by common law legal systems, and corporate behavioral norms tend to be dictated by favoring state or family founders.

We intend to continue engagement with the six open cases, and plan to add more companies to the engagement list, possibly refining our objectives. ■



Seeing results in climate action

CLIMATE ACTION

SYLVIA VAN WAVEREN – *Engagement specialist*
CRISTINA CEDILLO – *Engagement specialist*

With the adoption of the Paris Agreement in 2015, the world committed to curbing greenhouse emissions to contain the global temperature rise to well below 2°C by the end of the century. Yet, global emissions reached a record high in 2018. The Intergovernmental Panel on Climate Change's (IPCC) special report on global warming therefore warned of severe impacts to human health and ecosystems by 2040 if emissions continue at the current rate. In the event that society fails to limit global warming, the world – and therefore industries – will be increasingly exposed to damage to land, buildings, stock or infrastructure as a result of heatwaves, drought, rising sea levels or flooding.

A low-carbon world looks very different to the one we live in. Low carbon requires an energy system that is predominantly fueled by renewables, and industries operating under a circular business model in which resource usage, waste, emissions and energy leakages are minimized. This energy transition is a risk to some sectors which face financial losses arising from volatile adjustments to asset values, or the higher costs of doing business. However, it may also bring an opportunity, since the low-carbon world is introducing new business models. How companies respond to these climate-related issues can greatly influence their financial results. Companies that are able to adapt will be the winners of this important transition.

Our 3-year engagement on Climate Action

It is for that reason that in 2018, Robeco' s Active Ownership team launched its Climate Action engagement theme with 13 companies in the electric utilities (five), oil and gas (four), chemical (two) and industrial sector (two). Our engagement encouraged companies to integrate climate-related issues into the organization's governance, strategy, risk management and disclosures on metrics and targets. In Q1 of 2021, we concluded our dialogue with 12 companies under the Climate Action theme. One company dropped off from the list due to an exclusion decision based on fossil fuels. In this article, we reflect on the key results and takeaways of our engagement.

Collaborating in the Climate Action 100+ initiative

A key element of our engagement program is our collaboration with global investors through the Climate Action 100+ initiative (CA100+). Since its launch in December 2017, this has grown into one of the world's largest investor-led engagement initiatives, backed by more than 545 institutional investors with more than USD 52 trillion in assets under management. Under the umbrella of this investor-led initiative, global asset owners and asset managers jointly engage with the world's largest corporate greenhouse gas emitters.

Robeco is an active member of CA100+, acting as lead or co-lead investor in engagement with three companies – CRH, Enel, and Royal Dutch Shell. We will continue pursuing this role for the remaining years of the initiative under our newly launched net-zero theme.

The collaborative engagement by investors has already seen the emergence of companies taking the lead on the energy transition. They are differentiating themselves from peers by adopting stronger commitments to decarbonize their business operations. We have witnessed some breakthrough commitments particularly from companies in the utilities and the oil and gas sectors, some of whom are part of our engagement theme.

Presenting the results from our engagement

When we started our engagement program, we based our engagement objectives on four pillars and aligned them with those set by CA100+. This focused on encouraging companies to improve their governance of climate-related issues, their management of climate-related risks, their actions taken to reduce greenhouse gas emissions, and their enhancement of corporate climate-related financial disclosures.

On the objective of improving on climate governance, we expected companies to implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities, and to explicitly align executive incentives with the attainment of the company's climate strategy. During our engagement, the companies have shown progress in their climate governance. Most of them (9 out of 12) have set a clear board responsibility for climate change risks and opportunities, and were able to demonstrate a sound climate change governance framework. Areas where the companies could improve are related to linking their executive compensation to climate change goals, since only five have so far allocated and linked remuneration to climate metrics.

'A LOW-CARBON WORLD REQUIRES AN ENERGY SYSTEM THAT IS PREDOMINANTLY FUELED BY RENEWABLES'

SYLVIA VAN WAVEREN

Another objective was that companies align their business strategies with the goals of the Paris Agreement of limiting global warming to less than 2°C by the end of this century. We expect companies to set targets and demonstrate that they are implementing strategies to achieve their targets. Most of them (9 out of 12) have made positive progress in aligning their business strategies with the goals of the Paris Agreement. For three companies, their progress is more advanced. According to research by the Transition Pathway Initiative, one company is aligned with emission reductions pledged by governments as part of the Paris Agreement via Nationally Determined Contributions, and two are aligned with the 2°C scenario.

Lastly, many investors continue to request that companies set targets compatible with the more ambitious scenario of limiting global warming to 1.5°C by 2100. In practice, this means western companies aligning their emission reduction targets with scenarios that would achieve carbon neutrality by 2050. It is encouraging to see that an increasing number of business leaders are committing to such a low-carbon future and are setting net-zero targets by the mid-century. It remains a challenge though to test these promises, so we therefore worked collaboratively towards setting up a net-zero benchmark assessment within the CA100+ in order for investors to properly assess these net-zero pledges.

Alignment with Sustainable Development Goals

We have aligned this engagement with the UN's Sustainable Development Goals, specifically SDG 7 on Affordable and Clean Energy, and SDG 13 on Climate Action. Under these SDGs, it is essential to take urgent action to combat climate and its impacts. At the same time, it is necessary to ensure access to affordable, reliable, sustainable and modern energy. Companies in the energy sector particularly play an essential role in achieving these goals.

Developing zero- and low-emission energy sources is one part of the solution. Achieving a carbon-neutral economy will require much more innovative technologies, such as carbon capture and storage, to enable a fluent decline in fossil-fuel demand. The two companies that have set emissions reduction targets that are aligned with a below-2°C scenario are therefore well positioned to contribute positively to SDG 13. Moreover, one electric utility has concrete plans to replace coal generation plants with renewable energy, demonstrating a positive contribution to SDG 7.

Closing the engagement theme at the end of Q1 2021

At the end of March 2021, we closed our three-year engagement with the companies in the Climate Action theme. In our final assessment of progress made on the objectives, we have considered both the insights gained during our dialogue, and the results of the CA100+ benchmark assessment that came out in March 2021. From the 12 remaining companies in the peer group, we were able to close our engagement successfully with six of them.

However, engagement with the other six was closed unsuccessfully. This very much reflects the fact that we are still at the very early stages of the energy transition. While we positively view the fact that more companies are willing to set ambitious net zero emissions targets for 2050, the biggest challenge is translating these targets into clear and feasible transition plans. Although several companies have come a long way in acknowledging the sense of urgency to take action, most of them simply need more time to define their pathways.

Half of the focus companies showed a fair improvement by setting themselves some strong commitments, and we are very much encouraged by them. The utilities sector is the farthest advanced in the energy transition, while in oil and gas, only the European companies have taken action. We remain concerned around the hard-to-abate sectors like chemicals, where there is still no clear transition pathway, and where technological innovation still needs to take place. ■

CASE STUDY

Royal Dutch Shell was the first oil and gas company to introduce an ambition to reduce its carbon footprint, stretching out to 2050. On its 2021 Strategy Day in February 2021, Shell tightened its net-zero emissions targets and announced it is giving shareholders an advisory vote on Shell's climate transition plan at this year's AGM. Once again, this is a first in the oil and gas sector. The ongoing engagement with Shell under the CA100+ umbrella, along with having a frequent and continuous say on the company's climate strategy, allows investors to keep a finger on the pulse of the company's progress throughout the energy transition. We welcome Shell's move, and our engagement will continue with an initial focus on the Energy Transition Plan to be put to the AGM vote in May 2021.

Engaging with the video game industry

THE SOCIAL IMPACT OF GAMING

DANIËLLE ESSINK – *Engagement specialist*

Gaming is increasingly part of everyday life for more and more people. In mid-2020, nearly 40% of the global population was reported to play video games. Time spent on gaming grew by nearly 40% during Covid-19, and is predicted to stay 21% above pre-crisis levels in the future. Alongside the entertainment and learning value of video games, it is important to note the sustainability issues that occur while playing these games, and during the development and use of gaming products.

Video game players face various risks, such as online abuse, exposure to violent content, and gaming addiction, while the employees of gaming companies face issues that include excessive overtime and a lack of diversity among the workforce. In 2021, Robeco's Active Ownership team started an engagement program focused on the social risks for companies operating in the video game industry. We have identified six overall engagement topics. Four are linked to risks associated with the use of gaming products, especially by children who are the most vulnerable group of users. In addition, special attention should be paid by gaming companies to human capital management and stakeholder management.

Safeguarding online communities

In-game harassment may harm people's well-being and put individual gamers off. Therefore, gaming companies should minimize the risks of misbehavior. Many companies introduced community guidelines to promote or discourage certain behavior. Gamers should also be able to take action against toxicity, such as by using a private profile, or having the ability to block, ignore, or mute someone in the game. They should also be able to make a complaint or flag misbehavior through a system of user reporting.

Beyond gamer intervention, companies should have human or automated content moderation, including a text chat filter. Lastly, it is important to share knowledge and cooperate via platforms such as the Fair Play Alliance, an initiative to create healthy online gaming communities.

Spending and time management

It is undesirable that gamers become exclusively interested in gaming at the cost of other aspects of their lives. Gaming addiction could lead to both health and financial risks. These risks can be minimized if players are able to manage both their online spending and gaming time. When it comes to time management, this can be done for instance by showing warning messages about risk of overuse or by inserting reminders for breaks or 'cooling off' periods. Some games have a parental mode that allows parents to limit playing time for their children.

Similarly, gamers should be prevented getting into debt due to excessive purchases of in-game features. Gaming companies should find a balance in this part of their business model. From the outset, they are encouraged to disclose in their policies what in-game monetization mechanisms are not acceptable. Additionally, it helps if players are made aware of the level of their in-game purchases. With regards to parental control measures, these should be activated by default, be accessible and intuitive.

Creating in-game diversity

The diversity of in-game characters should ideally represent a cross-section of society. Gaming companies have the ability to implement strategies that embed diversity in the gaming environments they create. Game narratives can be made inclusive through representation of different groups, with representative characteristics and non-stereotypical characters.

In this endeavor, mobilizing a diverse workforce should contribute to more diversity in video games. It also helps if feedback loops are integrated into the development process. The development of specific tools for analyzing characters' diversity is also a good way to look at such issues.

Managing violent content

Video game makers should make use of relevant age ratings by the Entertainment Software Rating Board (ESRB) or the Pan European Game Information (PEGI), based among other things on violent exposure, bad language, and levels of blood and gore. These ratings enable children and parents to make a reliable assessment of appropriateness for the relevant age groups. Companies might enable their gamers (and their parents) to filter violent graphics if that is desired.

'GAMERS SHOULD BE PREVENTED GETTING INTO DEBT DUE TO EXCESSIVE PURCHASES OF IN-GAME FEATURES'

DANIËLLE ESSINK

Besides using published industry ratings and age verification, we ask companies to commit to a higher-level reflection during the game development process. Questions might relate to the proportionality of violence, the targets of violence, good versus bad militaries, and the type of weapons used.

Human capital management

Human capital management is of key importance in the gaming industry to attract and retain talent. From our baseline research, we have identified 'crunch' and diversity and inclusion as the two most important sub-topics.

Crunch is excessive overtime work for longer periods; a practice endemic in the gaming industry and commonly observed around the release of a new game or feature. We ask companies to carefully reflect on their product expectations, such as over-specification, their approach to design, under-staffing and planning, and the working culture in the firm. We encourage companies to take a public stance on the question of work life balance, and to have that supported and verified through, for example, employee engagement surveys.

We note that involvement in initiatives and programs towards diversity and an inclusive culture are increasing in the gaming sector. We expect companies to adopt a clear diversity and inclusion policy laying out their position on the topic. They could be more transparent by disclosing the composition and diversity of their broader workforce and management. Finally, they could also set themselves clear targets in terms of diversity and inclusion, and report on their progress towards achieving them.

Stakeholder management

We expect companies to report at least annually on the state of affairs and progress around ESG issues. We are also interested in the way ESG issues and reporting are being managed and overseen within the company, and how responsibility for ESG is embedded in the board structure.

In addition, we welcome transparency about the dialogue that is being conducted with stakeholders and the board's receptivity to external input – by way of initiatives, cooperation or partnerships. In our review, stakeholder management also includes the consideration of company activity related to lobbying and regulation.

Contributing to the SDGs

By improving their approach to the above topics, the companies in our peer group have an opportunity to contribute to the Sustainable Development Goals (SDGs). The product-related engagement objectives can be linked to SDG target 3.4 aimed at promoting mental health and well-being. It is important that corporations create awareness of mental health risks for gamers or insert tools to enable time management.

The engagement objectives linked to diversity and inclusion, both in games and within gaming companies, contribute to SDG targets 5.1, 5.5 and 10.2 focused on (gender) equality. More minority developers and minorities in leadership of gaming companies would contribute to a more inclusive gaming environment. ■

Transitioning from a ‘waste management’ to a ‘resource recovery’ mindset

REDUCING GLOBAL WASTE

ROBERT DYKSTRA – *Active ownership analyst*

After three years, our engagement project on Reducing Global Waste has come to a close. In this article, we reflect on the outcomes of the project, and discuss the future trajectory for companies addressing this issue.

With global solid-waste production expected to reach 3.4 billion tons by 2050, manufacturers, regulators and investors alike face a growing waste management challenge. Addressing this issue will require a coordinated effort from many different stakeholders, and so our engagement project has highlighted the role of corporates in finding a solution.

Although the most efficient and successful way to manage waste is to not produce it in the first place, many companies are not there yet, but are transitioning from a 'waste management' to 'resource recovery' mindset. Embedding circular principles into operations can reduce resource consumption, improve resource efficiency, and reduce the overall cost of waste management.

By tracking and communicating efforts around waste minimization, companies are also establishing a database that can be easily shared with stakeholders. Furthermore, sustainable waste and resource management has the potential to reduce greenhouse gas emissions by 15%-20% across several sectors.

Engagement results

We selected a group of 12 predominantly small/mid-cap companies that operate in industries related to solar energy, industrial waste management and technology. The core objective of this engagement theme was to improve the reporting of companies regarding their contribution to the Sustainable Development Goals (SDGs), especially sub-target 12.4 which seeks to achieve "the environmentally sound management of chemicals and all wastes throughout their life cycle".

In addition, we challenged the companies' strategic approach to managing performance on material ESG issues. Finally, we encouraged them to manage their resources sustainably, for example through the reduction and recovery of materials. Specifically, we selected five engagement objectives to measure a company's progress towards the theme of reducing global waste:

- Environmental impact: Conduct an environmental impact assessment based on a product's life cycle analysis and production processes.
- Environmental strategy: Set targets to reduce the most material environmental impacts of products, increase the efficiency of resource use, and lower operating costs as a result.
- Sustainability reporting: Continually improve sustainability reporting and provide disclosure on identified key ESG issues in addition to annual financial disclosures.
- Corporate governance: Assess the effectiveness of individual corporate governance practices.
- Social impact: Increase human capital management performance and reduce labor risks in supply chains.

'EMBEDDING CIRCULAR PRINCIPLES INTO OPERATIONS CAN REDUCE RESOURCE CONSUMPTION'

ROBERT DYKSTRA

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

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

Unsurprisingly, there was a correlation between improved corporate governance and the disclosure of sustainability strategies. Various companies in our engagement introduced ESG-related performance metrics in executive compensation practices. This created an explicit incentive for management to carry out the sustainability strategy of the company, which in turn was overseen by the board of directors.

Several companies also established a sustainability committee which helped to align the execution of the strategy across operations, management, and auditors. Most of the unsuccessful engagement cases failed to create value due to the companies' unwillingness to respond to our outreach.

Future steps

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

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

Advancements in the treatment of specific kinds of waste will also play a role going forward. For instance, ecological and economically efficient plastic waste can now be turned into a high-quality resin. This process typically emits less greenhouse gas than is emitted from traditional plastic recycling techniques.

Recycling, including various forms of waste-to-energy efforts, are also expected to take a much greater role in waste management. New laws, along with massive cooperation and coordination between governments, businesses, and individuals, will also be required to successfully get on top of the situation.

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

CASE STUDY

Itron is an American technology services company that provides solutions to measure, manage, and analyze energy and water use. In three years, Itron went from not having a renewable energy program, not conducting lifecycle analyses, and only disclosing high-level reports, to being one of the most successful cases in the engagement. The company significantly improved its sustainability strategy and reporting over the course of our engagement, specifically by mapping its contribution to the SDGs and capturing more granular ESG data. The increase in data analytics and subsequent reporting has improved the oversight of the environmental effect of its products.

This progress highlights the effectiveness of direct engagement, as we had several in-person meetings, and were able to capitalize on the company's awareness of growing investor expectations.

Proxy voting

THE IMPORTANCE OF (PROXY) VOTING

ANTONIS MANTSOKIS – *Active ownership analyst*
ROBERT DYKSTRA – *Active ownership analyst*

Proxy voting is a fundamental part of corporate governance. The so-called shareholder democracy, where investors have the power with their vote to influence corporate decisions or hold management to account, is of growing importance.

Throughout the years, we see significant changes in how shareholders' voting rights are exercised, and the impact this has. Over the last year and due to the Covid-19 pandemic, we saw voting mostly taking place digitally, and only few shareholders attending annual shareholder meetings in person. Still, investors managed to raise their concerns and achieve impact. That strengthens our view on the importance of proxy voting, and the difference it makes to companies' operations and decisions.

Another aspect that shows the importance of voting, is the increasing number of retail investors. Based on SEC figures, it is estimated that in 2020, approximately 47% of the households in the US owned shares in companies directly or through funds. Those retail investors entrusted their wealth, and subsequently their shareholder voting rights, to fund managers, making their proxy voting practices particularly impactful. Additionally, according to a Morningstar survey, more and more retail investors are interested in investing in sustainability-themed funds, and are willing to show their sustainability beliefs when voting at companies' AGMs. This trend is expected to increase as more and more millennials are joining the pool of retail investors.

Over the last few years, there have been an increasing number of shareholder resolutions focusing on climate change, and promoting social equity and justice. This has made it clear that shareholders are shifting their focus from short-term gains, to more long-term benefits, and this is translated in their (proxy) voting decisions as well. Companies recognize the pressure they are under, and are beginning to act accordingly. The final element that we believe makes proxy voting critical, is that it is part of the fiduciary duty of the manager to the ultimate beneficiaries. At the same time, shareholders have a duty towards society, in the sense that the companies they own ought to have an ethical and social behavior as a norm. This is the essence of what makes proxy voting an important link in the investing chain, and a key component of stewardship: exercising our rights as shareholders gives us the opportunity to have a say on matters that transcend traditional corporate governance matters, as we seek to encourage progress on sustainability in the belief that this contributes to long-term value creation.

Shareholder Proposals on the horizon

For the 2021 voting season, shareholders, regulators, and other stakeholders have expanding expectations for board action in the wake of the pandemic. Boards of directors are being prompted to address financial and social pressures, a reimagined workplace, evolving regulatory demands and increased scrutiny on environmental, social and governance (ESG) activities.

Although the frequency and subject matter of shareholder proposals vary significantly across markets, one new climate-focused proposal gaining significant traction this proxy season is the 'Say on Climate' advisory vote. Like 'Say on Pay' proposals, 'Say on Climate' proposals requests that a company provide shareholders with the opportunity to approve or disapprove of the company's climate policies and strategies. More specifically, this new proposal requests that companies annually report emissions data and reduction strategies in a manner consistent with the Task Force on Climate-related Financial Disclosures' (TCFD) framework. Failing a 'Say on Climate' proposal could also trigger votes against the nomination of responsible directors if insufficient actions have been taken to address shareholders' climate related concerns.

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

Lastly, many companies around the world are expected to continue to hold virtual-only meetings for at least the first half of 2021. Last voting season, significant shareholder concerns we expressed regarding the inability to ask questions or to vote at virtual meetings. While several solutions have been provided by some participants in the proxy voting chain to access to meetings, companies will likely be more scrutinized for their handling of online meetings. Especially if companies experience technical mishaps or hold audio-only meetings with limited opportunities for shareholders' questions and dialogue. ■

COMPANIES UNDER ENGAGEMENT

Lifecycle Management of Mining

Newcrest Mining
Rio Tinto
BHP Billiton
Anglo American
Fortescue Metals Group Ltd.
Grupo Mexico SAB de CV
Polymetal International Plc

Net-Zero Carbon Emissions

BP
ArcelorMittal
CRH Plc
Gazprom OAO
Neste Oil Oyj
POSCO
PTT Public

Reducing Global Waste

China Everbright International Ltd.
Taiwan Semiconductor Manufacturing Co. Ltd.
Xylem, Inc.
Parker Hannifin Corp.

Climate Action

BASF
Chevron
Hitachi Ltd.
Royal Dutch Shell

Climate Transition of Financial Institutions

Bank of America Corp.
Barclays Plc
Citigroup, Inc.
HSBC
JPMorgan Chase & Co., Inc.
ING Groep NV
BNP Paribas SA
Sumitomo Mitsui Financial Group, Inc.
DBS Group Holdings
Australia & New Zealand Banking Group Ltd.

Sound Environmental Management

Jardine Matheson Holdings Ltd.
Royal Ahold Delhaize N.V.
Danone
McDonalds
Mondelez International
Nestlé
Tesco Plc
BHP Billiton
Origin Energy Ltd.

Biodiversity

Compagnie Generale des Etablissements Michelin SCA
Mondelez International

Single Use Plastics

Henkel AG & Co. KGaA
Nestlé
PepsiCo, Inc.
Procter & Gamble Co.
Danone

Food Security

Bayer
CNH Industrial NV
Deere & Co.

Living Wage in the Garment Industry

The Home Depot
Adidas
NIKE
Burberry Group
Inditex

Social Impact of Artificial Intelligence

Alphabet, Inc.
Amazon.com, Inc.
Adobe Systems, Inc.
Microsoft
Apple
Facebook, Inc.
Booking Holdings, Inc.
Visa, Inc.
Accenture Plc

Digital Innovation in Healthcare

Abbott Laboratories
CVS Caremark Corp.
Fresenius SE
Philips
Roche
Quintiles IMS Holdings, Inc.
HCA Holdings, Inc.
UnitedHealth Group

Anthem, Inc.
Eli Lilly & Co.

Social Impact of Gaming

Activision Blizzard, Inc.
Electronic Arts, Inc.
NCsoft Corp.
NetEase.com, Inc.
Tencent Holdings Ltd.

Sound Social Management

Henkel AG & Co. KGaA
Bayer
InterContinental Hotels Group Plc
Glencore Plc
Procter & Gamble Co.
Thermo Fisher Scientific, Inc.
Aon Plc
Reckitt Benckiser Group Plc
Tesco Plc

Corporate Governance in Emerging Markets

Anhui Conch Cement Co. Ltd.
Hyundai Motor
Samsung Electronics

Corporate Governance Standards in Asia

Hyundai Motor
Samsung Electronics
China Mobile Ltd.
Hynix Semiconductor, Inc.
OMRON Corp.
SK Holdings Co. Ltd.
INPEX Corp.

Good Governance

DSM
Heineken Holding
Royal Dutch Shell
Petroleo Brasileiro
Samsung Electronics
Sun Hung Kai Properties Ltd.
Hon Hai Precision Industry Co. Ltd.
Persimmon Plc
Royal Mail plc
Schneider Electric SA
Sumitomo Mitsui Financial Group, Inc.
SoftBank Corp.

Responsible Executive Remuneration

Henkel AG & Co. KGaA
Linde Plc
NIKE
Schneider Electric SA
Tesco Plc
Walt Disney

Culture and Risk Governance in the Banking Sector

HSBC
ING Groep NV
Barclays Plc
JPMorgan Chase & Co., Inc.
Citigroup, Inc.
Bank of America Corp.
BNP Paribas SA

Cybersecurity

PayPal Holdings, Inc.
Reckitt Benckiser Group Plc
Booking Holdings, Inc.
Visa, Inc.
Deutsche Telekom
Vodafone
Fidelity National Information Services, Inc.

Palm Oil

Wilmar International
Genting Bhd.

Global Controversy Engagement

During the quarter, 2 companies were engaged based on potential breaches of the UN Global Compact and/or the OECD Guidelines for Multinational Enterprises.

CODES OF CONDUCTS

Robeco's Engagement Policy

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

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

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

The UN Global Compact

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

Human rights

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

Labor standards

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

Environment

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

Anti-corruption

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

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

CODES OF CONDUCTS

OECD Guidelines for Multinational Enterprises

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

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

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

International codes of conduct

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

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

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

Robeco's Voting Policy

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

Collaboration

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

Robeco's Active Ownership Team

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

ROBECO
The Investment Engineers

Contact

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

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