ROBECO
The Investment Engineers

ACTIVE OWNERSHIP REPORT

ROBECO | 01.04.2021 - 30.06.2021

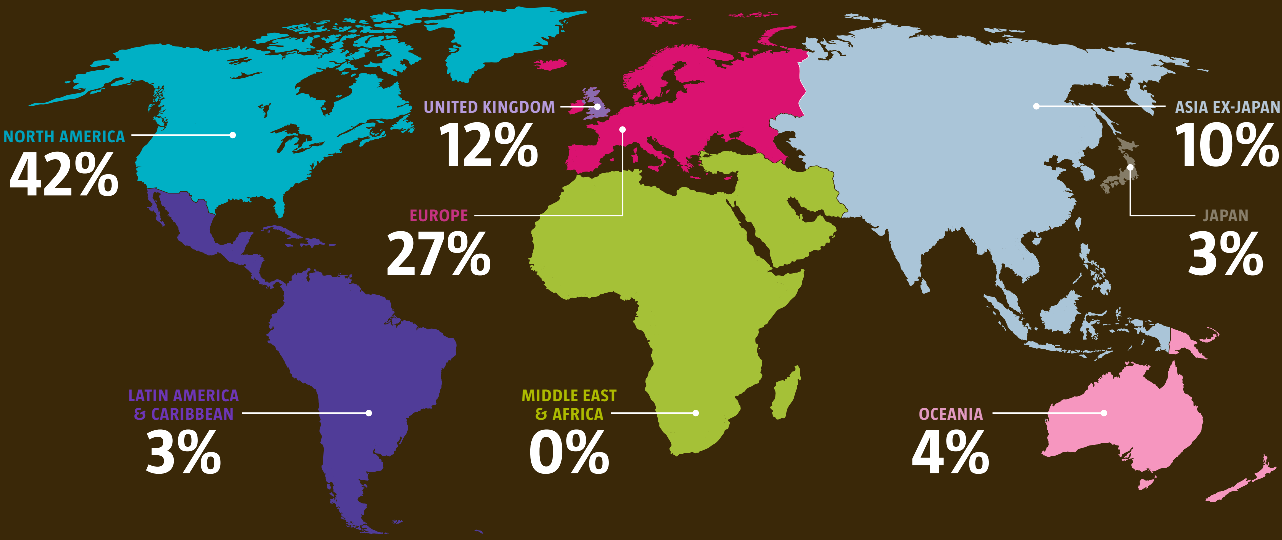
Q2 2021

BORDER TO COAST
PENSIONS PARTNERSHIP

Sustainable Investing Expertise by ROBECOSAM

Q2|21 FIGURES ENGAGEMENT

Engagement activities by region



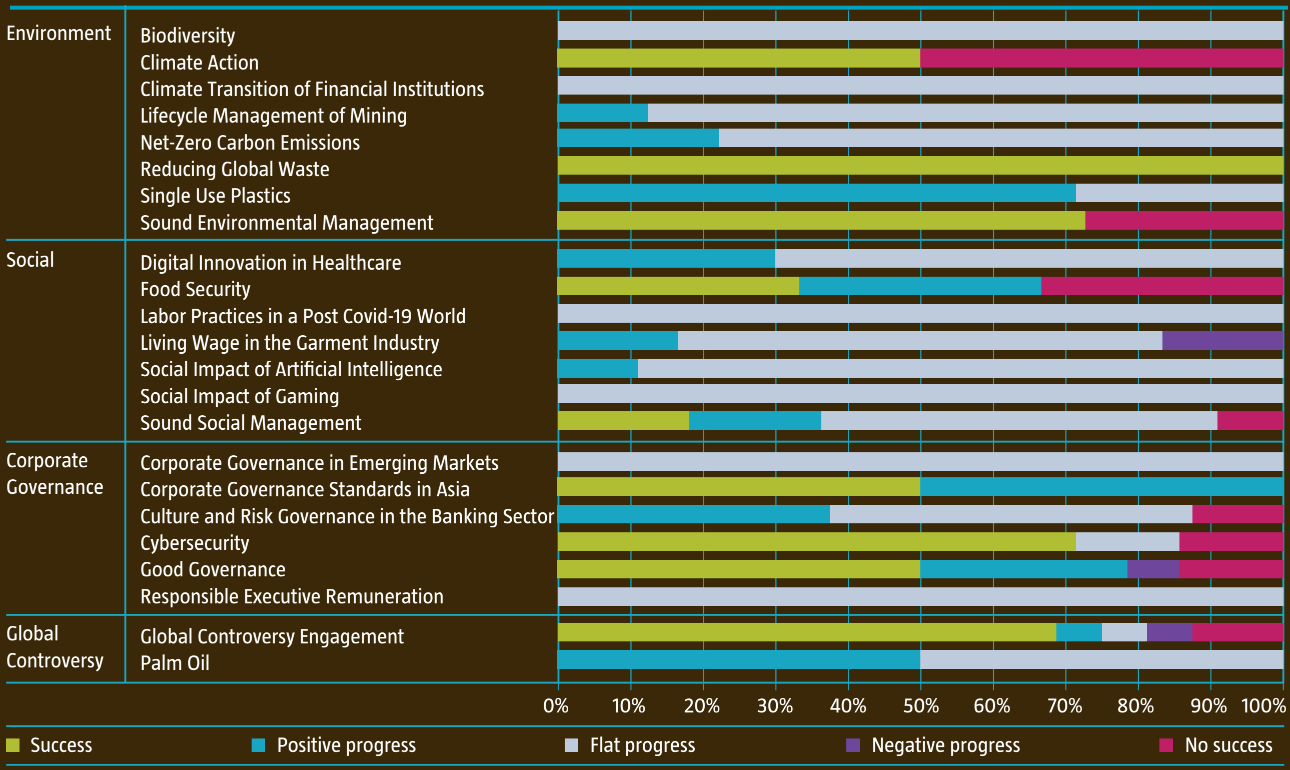
Number of engagement cases by topic

	Q1	Q2	Q3	Q4	YTD
Environmental	29	22	-	-	40
Social	27	33	-	-	43
Corporate Governance	14	19	-	-	28
Global Controversy	2	4	-	-	5
Total	72	78	-	-	116

Number of engagement activities per contact type

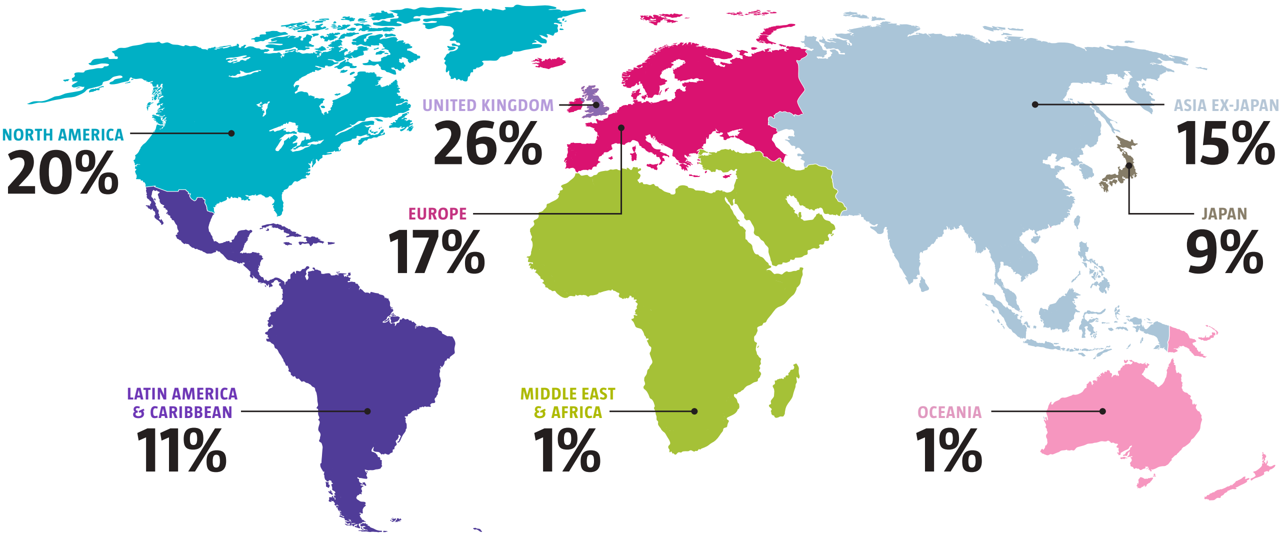
	Q1	Q2	Q3	Q4	YTD
Meeting	-	1	-	-	1
Conference call	59	51	-	-	110
Written correspondence	47	54	-	-	101
Shareholder resolution	2	1	-	-	3
Analysis	17	16	-	-	33
Other	2	10	-	-	12
Total	127	133	-	-	260

Progress per theme



Q2|21 FIGURES VOTING

Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	141	551	-	-	692
Total number of agenda items voted	1.558	8.278	-	-	9.836
% Meetings with at least one vote against management	55%	74%	-	-	70%

Votes cast per proposal category

CONTENTS

INTRODUCTION

During the first half of 2021, investors’ focus has been on the key issue of climate change. Whether the topic was its integration into investment decisions, proxy voting at high-emitting companies, or engagement outcomes, the investor response to climate change becomes more advanced and more universal with every passing quarter. In parallel, the Covid-19 pandemic lingers and continues to cast a long shadow of uncertainty on what the world will look like once it is over.

In light of the pandemic, we have initiated an engagement focused on labor rights in a post-Covid-19 world in the second quarter. The crisis has once again exposed the fact that certain groups of workers remain vulnerable and require strong labor rights to ensure their continued safety, security and well-being. Additionally, the pandemic underlined the importance of our continued engagement work on the digital innovation of health care. As the coronavirus limited in-person doctor visits, ‘telehealth’ became a widely used practice that is likely to remain popular after the pandemic has passed.

We have also seen the impact of Covid-19 at shareholder meetings around the globe. This was not only through the adjustment to virtual meetings, but also in the increased complexity of determining fair executive compensation considering the effects of the pandemic on workers and companies. Meanwhile, climate considerations are leaving their mark on the agendas at shareholder meetings like never before, as climate proposals both from shareholders as well as managements’ introduction of a ‘Say on Climate’ take center stage.

As the push for carbon neutrality is growing, so is the demand for precious minerals which are required for many renewable solutions. We are engaging with the mining industry to ensure it transitions to more responsible practices to ensure its operations have a limited environmental and social impact.

One noteworthy development during the annual season of shareholder meetings was that following last year’s Black Lives Matter movement, there was a noticeable increase in shareholder proposals focusing on social topics such as diversity, inclusion and human rights. These proposals were raised across industries and in most cases received significant support from shareholders. Additionally, shareholders took a groundbreaking stance at ExxonMobil, where three shareholder-proposed directors were elected to the board because investors saw them as being better suited to fight climate change, bolster Exxon’s finances, and guide the oil giant through a transition to cleaner energy.

We feel encouraged to see the growing impact of shareholders and look forward to continued progress in the second half of 2021.

Carola van Lamoen
Head of Sustainable Investing

'The pandemic emphasized the vulnerability and precarious employment status of some workers'

LABOR PRACTICES IN A POST-COVID WORLD

INTERVIEW WITH LAURA BOSCH – *Engagement Specialist*

This quarter marks the launch of our engagement project focused on labor practices in the aftermath of Covid-19. This seeks to ensure decent working conditions and the implementation of robust human capital strategies in labor-intensive sectors heavily impacted by the pandemic. In this Q&A, Laura Bosch explains why we started this engagement, and what it aims to achieve.

Why did we launch this theme?

The labor market disruption seen in 2020 far exceeded the impact of the global financial crisis of 2009. According to the ILO, an unprecedented 114 million jobs were lost in 2020, and global labor income declined by 8.3% relative to 2019. The pandemic emphasized the vulnerability and precarious employment status of some workers, exposing a lack of adequate safeguards to protect workers and enforce their labor rights in times of hardship. Our engagement program focuses on protecting workers' rights and upholding appropriate labor practices in labor-intensive sectors. We target sectors that have experienced a massive disruption in their operations due to the pandemic, putting the working conditions of their employees at stake.

Why should investors address labor practices and strive to protect workers?

Poor and inadequate management of labor and human rights risks can expose businesses to legal, operational and reputational risks. Companies can seize new growth opportunities by implementing sustainable business practices and thereby upgrading their brand value and reputation. Moreover, improved labor practices can lead to higher employee satisfaction, which can lower recruiting costs. It can also enhance productivity levels due to lower turnover and increases in average tenure, thereby minimizing operational risks. Aside from the business perspective, systemic risks might arise from rising social inequality due to sharp income disparities, which can undermine economic growth and potentially cause macroeconomic and financial disruption.

Which sectors have experienced more severe labor-related challenges due to the pandemic?

While some sectors are grinding to a halt, pressure is growing on others. Nevertheless, almost all sectors have been affected by the pandemic in some shape or form. E-commerce and the delivery economy have grown two to five times faster than before the pandemic. This has highlighted the controversial working contracts for gig workers in the booming online food delivery sector and shone a light into the high-pressure work environment in the food retail and e-commerce sectors.

On the other side of the spectrum, the hospitality industry has been facing a crisis due to the social mobility restrictions imposed last year. Although sporadic demand, rapid-

'SYSTEMIC RISKS MIGHT ARISE FROM RISING SOCIAL INEQUALITY DUE TO SHARP INCOME DISPARITIES'

LAURA BOSCH

fire recruitment and retrenchment of staff have always been part of the hotel industry, the pandemic has amplified and highlighted these previously hidden issues, as workers struggled to secure an income while hotels remained closed. For our engagement program, we selected a group of eight companies across the online food delivery, retail and hospitality sectors where we identified the most material labor-related challenges.

Online food delivery is mainly operated by companies in the so-called gig economy. How can they improve the labor rights of its workers if these usually are not classified as formal employees?

Indeed, employment contracts in the gig economy usually classify workers as independent contractors rather than employees, shifting a large part of labor-related responsibilities and liabilities to the individual worker. The gig economy has expanded quickly, so regulators are now looking into the legal employment status and conditions of its workers.

Firstly, there are now new health and safety risks post-Covid-19, with the resulting obligations on the part of the employer to provide additional support for gig economy workers. Secondly, it is important that employees should have the right to collective bargaining and to organize themselves through labor unions regardless of their employment status. We will focus our engagement dialogue on how companies ensure that minimum labor standards are being upheld whilst keeping a certain level of flexibility on the classification of their employees.

What type of challenges do you envisage in engaging with the lodging sector, given its sensitive financial situation due to the pandemic?

The pandemic has put a spotlight on not only the upcoming challenges in the lodging sector but also on the industry's underlying labor concerns. The mismanagement of layoffs, furloughs and safety concerns, as well as the lack of preparedness for when the travel industry opens up again, have raised many risks from a reputational perspective. This requires hotels to rethink their business model if they want to maintain their license to operate. On the one hand, hotels must understand and respond to customers' changing behaviors, reimagining the customer experience and rebuilding trust. On the other hand, they must improve their operational agility and financial resilience, while ensuring responsible recruitment and labor practices around the world.

So much for the problems: what are the What outcomes do you expect to achieve through this engagement theme?

Covid-19 spurred shifts in behavior among consumers and businesses that are causing the greatest disruption in low-wage jobs. Businesses, governments, and investors need to support a human-centered recovery that is robust and broad-based, focusing on employment, income, workers' rights, and social dialogue. In our engagement program we aim to uphold adequate labor practices and robust human capital management strategies across the three focus sectors under scope. Through addressing our key engagement objectives, we expect to nudge our target companies to place labor practices and human capital strategies at the core of their corporate strategy. ■

Minimizing the negative impact of minerals

LIFECYCLE MANAGEMENT OF MINING

CRISTINA CEDILLO – *Engagement specialist*

Metals and minerals play an important and increasing role in modern societies. The history of civilization shows that technological developments raise the demand for raw materials. As the world faces the challenge to transition to a low-carbon world, clean technologies are leading to booming demand for materials such as aluminum, copper and nickel. In other words, the energy transition will be built with metals and minerals.

The soaring demand reminds us that mining activities often have significant adverse impacts on natural landscapes, disrupt ecosystems, and divert scarce water resources to the detriment of local communities. As responsible investors in the mining industry, we launched an engagement program in 2020 with the objective of encouraging our investee companies to minimize the environmental footprint of their operations. We focus on three overarching areas: water risk management, tailings dam safety and asset retirement.

Enhanced disclosures on water risk management

Our first year of engagement has found that there is a high level of awareness of the importance of water use management among most of the mining companies in the peer group. Due to the operational importance of enhancing efficiency, most of them are undertaking efforts to re-use water and minimize consumption.

However, the majority of companies disclose water use performance at the group or entity level, and only a minority provide data at the asset level. Asset-level disclosures are important because the sustainability of water consumption levels is dependent on the specific hydrological characteristics where a mine operates. Since 2020, Robeco has also joined the CDP Non-Disclosure Campaign to ask eight of the companies in the peer group to complete CDP's annual water questionnaire in order to help enhance the quality of disclosures.

One of the main areas of concern that our engagement aims to address are the adverse impacts of mining operations on water availability for all users of the waterbody. This requires companies to ensure that the water balance at the catchment level is sustainable. It is encouraging to find that a growing number of companies in the peer group are conducting baseline risk assessments at the entire basin level, effectively adopting a catchment level approach. This is the first step to being able to measure and report on the impact of operations on water availability at the catchment level, and in setting targets to mitigate adverse impacts on the overall water body and its users.

An important finding of our engagement so far is that water quality is predominantly determined by local regulatory requirements. Most companies operating in multiple countries argue that adopting the same quality standards across different jurisdictions is difficult to implement, as regulatory requirements for measuring and monitoring water quality differ.

More broadly, we also note that there is no common disclosure framework on water quality. The International Council on Mining and Metals (ICMM) standards stress the need for regular disclosure of performance data on both water quality and quantity. But industry guidelines on water reporting focus almost entirely on quantity issues. There is a need for detailed indication of the quality of the water actually used by stakeholders located downstream of mining operations, such as the rivers and lakes from where water may be used by others.

Growing momentum for Global Tailings Standards on safety

Two years after the tailings dam burst in Brumadinho, Brazil, the mining industry has shown its willingness to take safety risks seriously. Following collaborative engagement under the Investor Mining and Tailings Safety Initiative, mining companies started disclosing for the first time the full inventory of tailings storage facilities they operate. With the exception of two companies, all other miners in the peer group have disclosed details of their tailings dams.

Moreover, in 2020, the ICMM, PRI and UN Environment Program co-convened the Global Industry Standard on Tailings Management with the aim of providing best practice standards. This aims to ensure it incorporates not only safety, but also environmental and social minimum safeguards. Mining companies that are members of the ICMM have committed to implementing the global standards within the next three years.

There are eight ICMM company members in our engagement peer group. However, the enthusiasm to implement the standard among non-ICMM members is less pronounced. Of the five non-ICMM miners in the peer group, only one of them has so far publicly committed to fully implementing the standard. Particularly critical of the standard are those miners with tailings dams classified as high risk in the severity of environmental and social damage that would occur in the event of failure. Some of the arguments made not to (fully) implement the standards include the highly demanding number of experts needed, and concerns that critical decisions are no longer taken by management, but are delegated to an independent expert committee.

As an active member of the Investor Mining and Tailings initiative, we will continue encouraging companies to implement the global standards on tailings.

CASE STUDY

BHP's Water Stewardship Strategy is a good best practice example of what we would like to achieve with other miners with regards to water use efficiency. The strategy is a result of a multi-stakeholder consultation.
The company performs water risk analyses using the World Resources Institute's Aqueduct global water risk mapping. Thanks to this, BHP maps and discloses the categorization of water stress across their mines. Based on these assessments, by 2022 each site must implement an action plan to ensure compliance with the corporate target of 15% reduction in freshwater withdrawals. After 2022, BHP aims to set new targets on water withdrawal at the asset level. We are using BHP in our engagement with peers to illustrate our expectations regarding water use management.

The black box of mine closure plans and costs

Best practice tells us that minimizing environmental impacts of mining activities is most successful when they are anticipated before operations have even started and are subsequently managed throughout the entire life of a mine. Mine closure plans that are developed early on can be used as a baseline upon which the adequate technologies and measures can be adopted. This can then more easily mitigate any environmental risks during the operational phase and help reduce rehabilitation costs at the end of the mine's life.

Our engagement so far finds a complex reality where mines may follow different asset retirement standards depending on their age and location. More critically, disclosures on this important matter do not provide investors with sufficient information to assess the extent to which companies have appropriate financial assurances to finance the costs of mine closures and land rehabilitation.

Lifecycle management of environmental risks

Managing the environmental risks of mining operations is often dependent on the location. One size does not fit all mining operations. This is the main reason our engagement is focused on enhancing transparency and setting targets at the asset level. We have seen progress on the adoption of an asset-level approach in water use management and tailings dam safety. In our engagement, we are calling for a comprehensive approach that helps investors gain a good understanding of the environmental risks across assets and the actions being taken to mitigate them.

Never waste a good crisis

DIGITAL INNOVATION IN HEALTH CARE

ANOUK IN 'T VELD – *Engagement specialist*

The Covid-19 outbreak has emphasized the relevance of digital innovation in the health care landscape. Since the lockdowns began, the health care sector has struggled to conduct business as usual, and has realized the importance of using digital tools to manage teams, optimize clinical trials, communicate with health care professionals and monitor patients. The pandemic has not only fast-tracked the adoption of digital technologies, but has also forced companies and their customers to overcome cultural barriers (such as technology adversity) to adapt to a new reality. We expect such changes to continue to shape the industry in the post-pandemic world.

Reflecting on two years of engagement

After an initial slow start to the engagement theme due to several organizations indicating that digitalization was not their top priority, corporate interest in engaging on this topic with their investor base has accelerated because of the global pandemic. Many firms under engagement have set their first vision statements and targets on utilizing digital innovation. The pharmaceutical industry is lagging slightly behind other industry players such as medical equipment suppliers, health care information technology and other service providers. Until recently there was no need to change their business-as-usual approach, and historically there have been limited asks by the outside world for transparency.

We continue to encourage organizations to articulate a clear vision on how digital innovation can support them in achieving their mission. To accomplish this, they need to have this type of knowledge available at board level. Generally, the effect of digitalization efforts is predominantly visible on the organizational side, (such as by digitalizing administrative processes and marketing efforts, as well as on the product side through innovative applications and smart devices, all with measurable results. During the pandemic, many organizations have also started virtual clinical trials, but an evaluation of such experiments have not been thoroughly made yet.

Another observation is that the global pandemic has intensified active collaboration between public and private partners, and has boosted knowledge sharing and data exchanges to serve the broader health care system in high, middle and low-income countries. Some of this collaboration has been successful, particularly when it relates to mitigating cybersecurity risks.

However, the part of it that relates to the ability of organizations to articulate how digital innovation is changing healthcare business models has been less successful. They have not embraced the benefits of moving from measuring the quantity of care towards the outcome of it, have not focused on preventative care, or understood how the benefits of digitalization may be shared among this group of stakeholders.

Cybersecurity increasingly recognized as a material topic

While health care organizations are increasingly relying on the cloud storage of data and mobile access to increase flexibility and efficiency, they are also increasingly suffering from cyberattacks. According to the Identify Theft Resource Center, the medical sector had the second largest amount of data breaches in 2018, and the highest rates of exposure per breach[1]. In October 2020, US hospitals and health care providers were warned against an imminent cybercrime threat and encouraged to take timely and reasonable precautions to protect their networks. The warning came from the US Cybersecurity and Infrastructure Security Agency, the Federal Bureau of Investigation, and the Department of Health and Human Services[2].

In our engagements, we observe an increased recognition of the importance of having sound cybersecurity, either voluntarily or through experiencing impactful cybersecurity breaches over recent years. Next to working together with industry stakeholders to mitigate risks, companies are increasingly training their boards and employees to integrate cybersecurity-by-design and take responsibility to mitigate third-party risks. Unfortunately, even the best-prepared companies recognize that the continuous threats and risks can never be fully mitigated.

> **‘WE STILL NEED TO SEE TO WHAT EXTENT CHANGE IS HERE TO STAY IN TERMS OF WORK ENVIRONMENTS, MARKETING, DECENTRALIZED CLINICAL TRIALS AND PATIENT CONTACT. TECHNOLOGY IN ITSELF IS NOT ENOUGH TO EFFECT CHANGE IN HEALTH CARE’**
>
> ANOUK IN ‘T VELD

1. ITRC (2018), https://www.idtheftcenter.org/wp-content/uploads/2019/02/ITRC_2018-End-of-Year-Aftermath_FINALWEB-V2-2.pdf
2. Joint Cyber Security Advisory, Ransomware Activity Targeting the Healthcare and Public Health Sector, 2020, https://us-cert.cisa.gov/sites/default/files/publications/AA20-302A_Ransomware%20_Activity_Targeting_the_Healthcare_and_Public_Health_Sector.pdf

Quality over quantity

For most companies that operate in the health care industry, innovation of their products or service offerings provides the principal source of competitive advantage, and therefore represents the engine of an enterprise's future growth. The key to the success of digital innovation is the having an integrated approach that allows solutions to be communicated across stakeholders, and ultimately to deliver more efficient, better integrated qualitative care. Through our engagement, we learned that companies continued to shift from capital expenditure to operating expenditure models by means of memberships and subscriptions to health care. In addition, a growing emphasis is being placed on the development of revenue-generating, outcome-based care models that focus on working with the best patient solutions, although the structuring of such benefits between pharmaceuticals, pharma-benefit providers and others has yet to be discussed.

Here to stay?

Over the last two years, we have seen an unexpected shift in the health care sector towards digitalization, mainly driven by the pandemic. However, a word of caution should be said. We still need to see to what extent change is here to stay in terms of work environments, marketing, decentralized clinical trials and patient contact. Technology in itself is not enough to effect change in health care: workflow integration, physician buy-in, system dynamics, incentive structures, regulation and many more factors must be taken into account. Having said that, we feel optimistic about the direction that many organizations are taking, and that ultimately the winners will be able to provide investment returns whilst transforming the industry for the better.

CASE STUDY

Philips, a Dutch health care technology company, has a clear technology roadmap towards achieving its mission, seeking an improved experience by both patients and staff, generating better outcomes at a lower cost of care. A central part of the roadmap is moving from data connectivity to data orchestration, connecting all relevant health care services.

Part of this includes the transformation of cybersecurity from a risk into an opportunity: the company aims to offer cybersecurity as a service to health care providers, which we recognize as an innovative development. In the last year of our dialog, we will continue to focus on digital business model innovation, and the opportunities to benefit from value-based care models in a complex stakeholder landscape.

AGMs in 2021, a proxy season like no other

GOOD GOVERNANCE

MICHIEL VAN ESCH – *Engagement specialist*

As an annual rite, the AGM season takes place from the second half of March and the end of May. Last year the Covid-19 crisis had already left a mark on the AGM season, as several meetings were postponed or were held virtually. This season saw additional ramifications on the resolutions themselves, as executive remuneration votes required more complex analysis to account for the pandemic's impact on performance. We also saw the rise of a new phenomenon, the 'Say on Climate' vote.

Lessons learned from virtual meetings, a best practice for the future?

Due to the ongoing crisis, shareholder meetings could not take place in person, forcing most companies to resort to a form of virtual meeting. In 2020, most companies held AGMs that did not allow for much interaction between shareholders and management. Shareholders were sometimes allowed to send in questions before the meeting, if at all.

This year we saw that several companies were more creative in facilitating shareholder interaction, for example via video calling. This virtual option has benefits, as it allows shareholders to participate from a distance. At the same time, this means that management can control who ask questions, and in what order. Therefore, we believe that hybrid options where shareholders can decide to attend a meeting, or have the option to participate from a distance, is a viable format for the future. In these circumstances, there should be sufficient safeguards to ensure that all shareholders can ask their questions and hold management to account.

Additional complexity in remuneration

In many markets, shareholders get a say on how management is paid. This is an important vote for many shareholders, as it allows them to determine if pay practices set the right incentives for management. As many aspects of a remuneration policy can have an impact on its effectiveness, we apply an analytical framework that looks into several components: 1) the pay structure 2) its overall size or scope 3) the integration of ESG into remuneration plans, and 4) reporting and accountability.

Applying this analysis requires us to carefully look into how variable pay compares to fixed pay, and which KPIs are set and with what level of ambition. It also reveals how companies report on pay practices, and how the remuneration committee exercises discretion. To further add complexity to this analysis, this season we needed to carefully consider how companies dealt with the impact of the pandemic.

For example, if companies had received state aid, cancelled their dividends, or had to lay off a large part of their workforce, we expected boards to lower executives' variable payouts, or forego bonuses. If companies failed to do this, we voted against their remuneration proposals. So far this has led to a higher percentage against votes of 28% against compared to last year's 24%.

The introduction of 'Say on Climate'

Over the last couple of years, shareholders increasingly have asked CO2 emitting companies to set carbon reduction targets in order to mitigate climate change. This year, many resolutions were filed with such demands. As we believe that climate change has inherent risks for companies, we tend to support such resolutions if a company has not set long, mid and short-term targets for their relevant scopes of emissions, or has failed to report on progress.

In the 2021 AGM season, we have also seen the introduction of management proposals in relation to their climate strategies. Unilever, Royal Dutch Shell, Total, and Nestlé were some of the first large companies to ask for an explicit shareholder advisory vote on their climate strategies or reporting. We expect that by having a frequent shareholder vote, best practices will evolve in terms of reporting, ambition levels and progress for the mitigation of climate change. Therefore, we have generally supported such proposals if they meet a set of criteria, including that the company in question had set a Net Zero Ambition, and that it had presented concrete plans for achieving its long-, mid- and short-term targets.

'IF COMPANIES HAD RECEIVED STATE AID, CANCELLED THEIR DIVIDENDS, OR HAD TO LAY OFF A LARGE PART OF THEIR WORKFORCE, WE EXPECTED BOARDS TO LOWER EXECUTIVES' VARIABLE PAYOUTS, OR FOREGO BONUSES'

MICHIEL VAN ESCH

Additionally, we require the proposal to be based on Paris-aligned scenario analysis and that progress is reported in line with the TCFD framework. In our view, supporting a Say on Climate does not absolve management from its responsibility to further improve its climate strategy. Rather, we believe that a recurring vote is a useful tool to monitor progress on the mitigation of climate change, and in pushing companies to make progress. ■

CASE STUDY

When DSM published its agenda for the company's annual shareholder meeting, it proposed several changes to its articles of association. One of the proposals was to allow a full virtual AGM as an option for the future, also after the pandemic. We recognize that virtual options allow for broader participation amongst shareholders, but we also are concerned that they limit shareholders' ability to participate.

DSM has a tradition of proactive engagement with shareholders, including during the AGM. However, without appropriate checks and balances, we believe that full virtual meetings might not be beneficial to all shareholders, and we prefer hybrid options after the corona crisis. As legislation on virtual and hybrid meeting options is still pending, we thought it was premature to already formalize the option for a full virtual event. We and several other shareholders voiced our concern, and after discussion with DSM, the company removed the proposal from the agenda.

During the AGM, DSM explained that it never intended to limit shareholder participation, and that it was only seeing flexibility for AGM options in case they needed them after the crisis. We will closely monitor how legislation and best practices evolve around new meeting formats.

Proxy voting

CAROLINA VERGROESEN – *Active ownership analyst*
ROBERT DYKSTRA – *Active ownership analyst*

As the peak of the 2021 proxy season has come to a close, Robert Dykstra reflects on the increasing focus on climate action during shareholder meetings. Carolina Vergroesen highlights the recently revised Japanese Corporate Governance Code.

A New Frontier in the Fight Against Climate Change

Climate change is now a cornerstone of investor stewardship but addressing this topic through votes at shareholder meetings is relatively novel. However, the 2021 proxy voting season has demonstrated that boards will be held accountable for their climate-related oversight by proxy advisors, activist groups, and institutional investors alike.

Historically, shareholders have addressed their climate change concerns to boards through filing shareholder proposals. In the US for instance, the number of climate-related shareholder proposals filed has steadily risen over the years, from 34 in 2012 to over 140 in 2020. Of the proposals filed, many get withdrawn if the request is adopted by the company, but some proposals are also challenged by companies and omitted from the AGM. Although these challenges are intended for poorly drafted or immaterial proposals, companies lagging in climate action often use this mechanism to skirt the concerns raised by shareholders. In these cases, shareholders may escalate their climate-concerns by voting against the nomination of board directors such as the chairman or members of the audit or sustainability committees.

Holding directors accountable for a company's (inadequate) approach to climate change could become the norm. Just recently, Majority Action – an ESG focused shareholder activist group – published their 'Proxy Voting for a 1.5°C World' campaign, which outlines a list of systemically important companies in the three key industries that have not set emissions targets aligned to limiting warming to 1.5°C. The campaign calls on institutional investors to use their voting rights to vote against company directors that have failed in their oversight responsibilities to address escalating climate change.

One of the challenges in adopting such a voting approach is consistently identifying which companies are not in line with a 1.5°C or Paris-aligned scenario. Companies and international organizations often use different methods to calculate their long-term 2050 climate change scenarios, which is then reflected by the discrepancies in short-term targets. Nonetheless, there are several resources like the Climate Action 100+ Net-Zero Benchmark or the Transition Pathway Initiative that investors can use to help track the climate change targets set by companies. The Border to Coast voting guidelines incorporate the toolkit of the TPI to flag companies where a vote against the chairman of the board is warranted due to climate-related concerns.

These new guidelines for proxy voting underscore that, where companies are failing to develop effective climate transition plans, boards will appropriately be held accountable. While institutional investors' definitions of what is appropriate may vary, the importance and urgency of holding directors accountable are clear.

Japan – Catching up on Corporate Governance

Japan is historically a laggard when it comes to corporate governance practices compared to other developed market peers. However, it is taking strides to catch up. The Tokyo Stock Exchange (TSE), Japan's major stock exchange, has announced a market restructuring plan to take effect in the spring of 2022. The goal is to make the Japanese market more attractive for international institutional investors. TSE intends to create different market segments where the new Prime Market will consist of only large-cap companies and require higher standards of corporate governance.

To achieve this higher standard of corporate governance, the council of Japan's Corporate Governance Code initiated a revision of the code. The revision focused on several key topics: ensuring board independence, promoting diversity, the inclusion of sustainability and ESG. The council held a public consultation round for institutional investors. Robeco participated in this consultation in April and some of our recommendations were reflected in the final version of the code that was published in June.

The code further incorporates the importance of sustainability, referencing the UN Sustainable Development Goals (SDG) and the Taskforce for Climate-related Financial Disclosures (TCFD). It pushes companies to improve disclosures on specific sustainability issues such as climate, diversity, and risk management. Specifically for the Prime Market, it asks companies to make relevant disclosures available in English and support electronic voting, further aligning with global best practices. Furthermore, the code pushes for an increase in independence both within the board as well as specific committees. Importantly, the code now asks for an even higher level of independence of boards when there is a controlling shareholder, a majority for the Prime Market, and one-third for other markets.

Although many welcome the changes to the corporate governance code, some are skeptical of the circumstances in which the changes were made. Since these changes were instigated by the market restructuring some argue that the changes are too focused on the Prime Market leaving too low a bar for the remaining market segments. Critics argue that because of the simultaneous changes of the market as well as the corporate governance standards, both have been diluted too much to appease the different groups affected. The Prime Market was intended to be an exclusive group of a few hundred of the largest market cap Japanese companies that could compete on the global stage. The most recent outlooks seem to be watered down, with an estimated 1500 companies qualifying for the Prime Market at a market cap threshold of around JPY 10bn instead of the original JPY 100bn. Additionally, the code will remain based on the "comply or explain" rule without legal enforcement.

Since the newest version of the code was published during the 2021 annual shareholder season in Japan, the true implications of the code will not be visible until next year. For now, although the progress might be less extensive than some corporate governance experts might have hoped, it is undeniably moving in the right direction.

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
Royal Dutch Shell

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
Wal-Mart Stores
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

Labor Practices in a Post Covid-19 World
Amazon.com, Inc.
InterContinental Hotels Group Plc
Wal-Mart Stores

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
Bayerische Motoren Werke

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.
Shin-Etsu Chemical Co. Ltd.

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, 4 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

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

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

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

IMPORTANT INFORMATION

ROBECO
The Investment Engineers

Contact

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

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