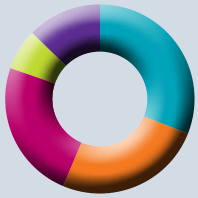
Active Ownership Report Q1-2020

ROBECO | 01.01.2020 - 31.03.2020

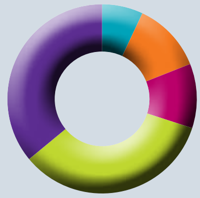
Engagement activities by region

North America	31%
Europe	35%
Pacific	24%
Emerging Markets	7%
United Kingdom	13%



Shareholder meetings voted by region

North America	7%
Europe	11%
Pacific	12%
Emerging Markets	34%
United Kingdom	36%



Voting overview

2020	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total number of meetings voted	107			
Total number of agenda items voted	1.337			
% Meetings voted against management	70%			

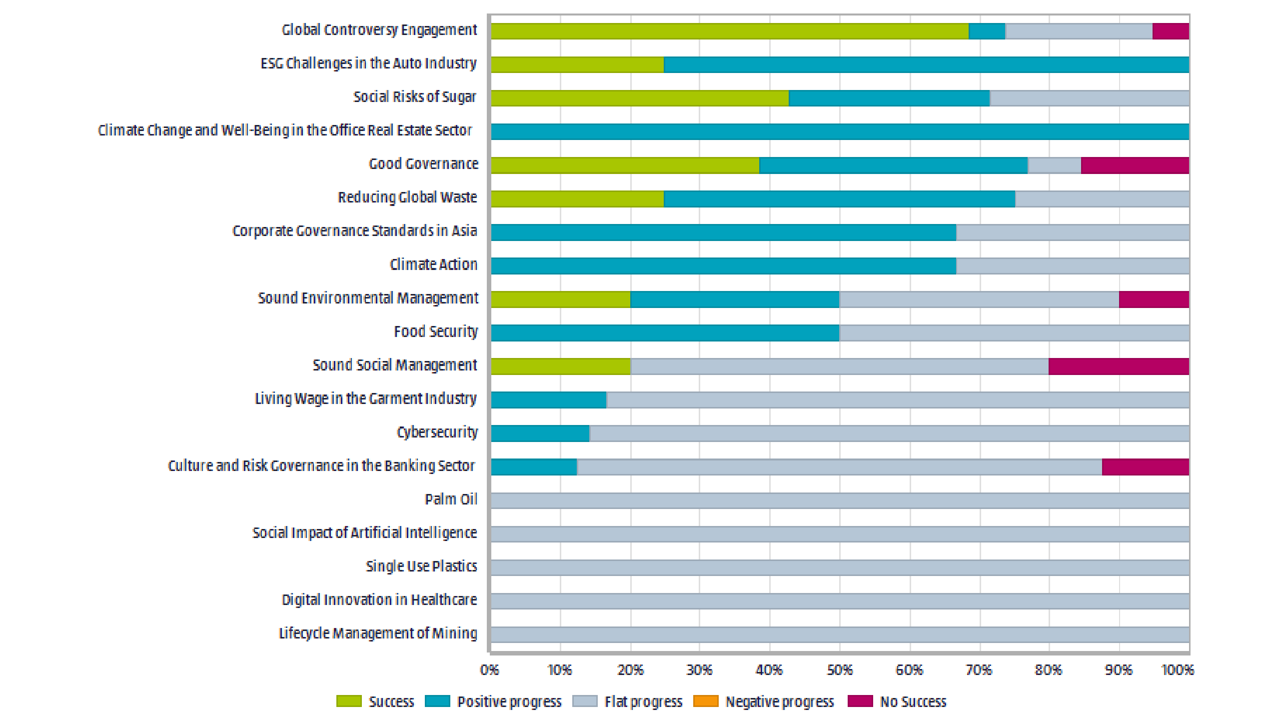
Engagement overview by topic

Environmental Management	24
Environmental Impact	3
Human Rights	9
Healthy Living	11
Social Management	3
Corporate Governance	18
Global Controversy	3

Engagement by contact type

Analysis (no actual contact with company)	14
(Open) Letter	6
Meeting at company offices	4
E-mail	39
Active voting	1
Shareholder resolution	0
Conference call	34
Speaking at a shareholder meeting	0
Meeting at Robeco offices	4
Speaking at conferences	0
Issue press release	1

Engagement results per theme



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Introduction

Since the start of the new year, Robeco's Active Ownership team has launched several new engagement themes, next to that the voting season kicked off. Despite the impact of the coronavirus, our commitment to stewardship remains unwavering.

The new engagement themes for this year will focus on solving several environmental challenges and contributing to improved corporate governance. One of the challenges to be addressed is biodiversity loss, which is expected to increasingly impact society in the coming decades. We will also focus on the urgent need to decarbonize companies – and thereby portfolios – to meet commitments to the Paris Climate Agreement. With regards to improving corporate governance, we will employ a specialized and focused engagement approach in emerging markets. Lastly, we will engage on executive remuneration, with the aim of strengthening alignment between company performance and stakeholder interests, while also conforming to best practices.

We are proud to see that our sustainability and stewardship efforts have not gone unnoticed. Just last March we were awarded first place in the Asset Owners Disclosure Project (AODP), which is managed by the responsible investment organization ShareAction. The survey ranked 75 of the world's largest asset managers based on their disclosure and management of ESG risks and impacts across their portfolios. Our place at the top of the leaderboard reflects our longstanding history in this field, and our commitment to driving positive change through rigorous stewardship and focus on ESG integration. Through this report, we would like to provide you with an update on many of our activities.

Carola van Lamoen
Head of Active Ownership

Voting Highlights

Cedric Hille & Laura Bosch

The outbreak of the coronavirus has sent shockwaves through the financial sector and has made for an unprecedented AGM season. Nonetheless, issuers and market regulators are adapting to ensure that corporate governance standards are both met and improved.

Strengthening the Foundation of Spanish Corporate Governance

The Spanish National Stock Exchange Commission (CNMV in Spanish) proposed a set of modifications to its Good Governance Code of Listed Companies, initially published in 2006 and most recently updated in 2015. Stakeholders could provide feedback on the suggested changes to be implemented in 2020 and the CNMV committed to take these into account when relevant in the final version of the Code.

The proposed changes focus on three main topics: strengthening the company's internal controls to avoid irregular business practices, emphasizing the company's responsibility regarding sustainability matters and implementing amendments on executive compensation guidelines. We believe that the changes suggested in this revision strengthen the good governance practices in the Spanish market and further protects long-term shareholder value creation.

Given the increasing cases of corruption in the Spanish corporate arena, the revision of the Code proposes that the board must assess any situation resembling misbehavior of a director that might damage the reputation of the company as soon as possible. Currently the Code requires this assessment only after a director has been formally prosecuted. These proposed changes ensure that the board assesses such situations without delay and decides whether it should take any action, for instance carrying out an internal investigation. Considering that most Spanish supervisory boards are chaired by executives, we believe that the Lead Independent Director should instigate this assessment when the executive directors on the board are being scrutinized.

Another change proposed by this revision is increasing the number of directors of the least represented

gender on the board. It proposed that the least represented gender must hold at least 40% of total board seats, in comparison to the 30% threshold currently in place. Given that the current rate of female directors on the board for the IBEX35 is around 27%, we believe that this proposed change could lead to concrete measures to promote the representation of female directors. For instance, gender diversity should be considered in the nomination policy and the succession planning strategy for both the supervisory and executive boards.

The revision also suggests amending a set of guidelines currently in place for executive compensation plans. In essence, it proposes that if executives are subject to stock ownership guidelines, deferral provisions in the variable pay should be minimized if not removed. Our view is that the requirements for holding shares should not be mutually exclusive with deferral of share-based variable remuneration. Both provisions help to align the interests of shareholders and executive directors since priority is given to generating and preserving long-term value for the entity and its shareholders.

Coronavirus impact on voting season

As companies attempt to come to grips with the new reality of a coronavirus pandemic, few aspects of 'business as usual' have remained untouched. The ritual of annual general shareholder meetings (AGMs) is no exception. Uncertainty abounds as news on postponed, cancelled, or revamped AGMs trickles in.

A likely outcome is that many shareholder meetings will be postponed. While companies make that choice individually, regulators have already given their blessing for full AGM seasons to take place later in the year. Italy and the Netherlands will likely see much of the AGM activity concentrate around June, rather than the upcoming weeks as initially planned. That brings challenges of its own – investors expect certain markets to hold their AGMs at the same times each year and prepare accordingly. When these timelines are reshuffled, an even more concentrated season can mean less time to analyze important proposals at AGMs and to engage with issuers. It remains to be seen if this risk materializes.

Other shareholder meetings have moved online. Virtual meetings can have advantages, such as reduced costs, and better accessibility for shareholders, according to law firm Norton Rose Fullbright. But we have generally been wary of this trend. Even though more shareholder can tune in, the quality of debate can suffer drastically. The largest concern is an inability to ask questions or the board cherry-picking comments to respond to. Some best practices have emerged, such as opening a forum ahead of time for shareholders to submit queries, holding a live Q&A as would have been the case in person, and the (tele-)presence of all board members.

On the other end of the spectrum, some companies have simply streamed a video link on the internet. A shareholder meeting that shareholders are not invited to and does not give them a voice can hardly be described as such.

In these circumstances, prudence is understandably top of mind. Companies should be given some leeway to minimize disruption and protect the health and safety of employees and shareholders. But the way in which companies do respond draws our attention once more to the importance of the annual general meeting, which helps maintain board accountability towards shareholders.

Engaging for a positive impact on the SDGs

The UN Sustainable Development Goals (SDGs) are a comprehensive set of 17 globally critical sustainability challenges that must be addressed to help secure a sustainable future. The UN Commission on Trade and Development estimated that achieving these goals by 2030 will require investments of USD 5 to 7 trillion per year. The SDGs also represent a business opportunity for those companies developing innovative solutions and business models that are committed to distributing sustainable products and services.

Cristina Cedillo Torres

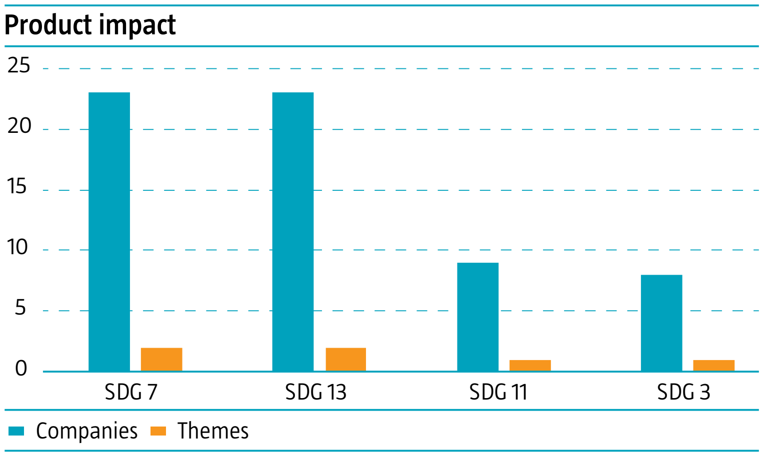
Since 2005, Robeco has been engaging with companies to enhance their ESG performance. It is our belief that engagement can have a positive impact on both long-term investment results and on society. With these goals in mind, we believe that engaging with companies is an important tool that investors can use to support the realization of the SDGs.

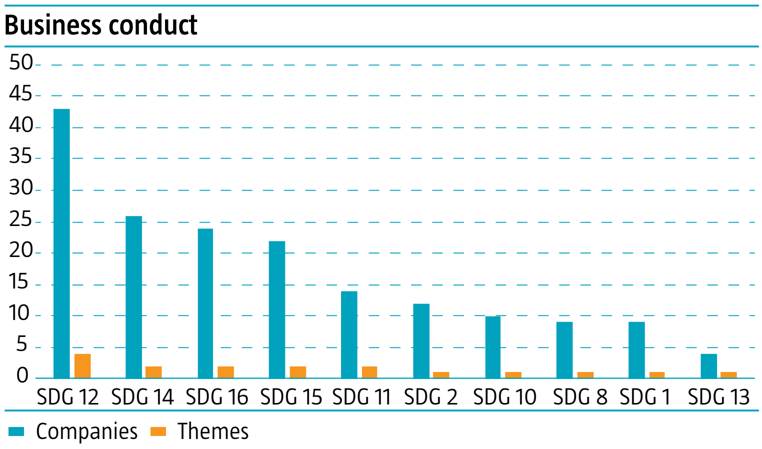
Over the past three years, the Active Ownership team has been taking steps to enhance our understanding of the impact of our engagement on SDGs. This includes assessing their contribution to relevant goals, and monitoring progress throughout our engagement.

Assessing a company’ contribution to SDGs

Robeco’s SDG framework identifies a company’s impact on the SDGs by analyzing what it produces, how it produces it, and whether the company has been involved in controversies. Under the first step, products and services are evaluated based on their positive or negative contribution to the relevant SDGs. Sector-specific SDG indicators measure the positive or negative impact as percentage of revenue from products and services. For example, generators of renewable energy make a positive contribution to SDG 13 on climate action, while shale gas producers are considered to contribute negatively. The second step assesses how the company’s business conduct contributes. For example, are business operations highly polluting, and do they respect labor rights? The third and last step monitors exposure to severe incidents and controversies. This final assessment examines whether the controversies are structural and systematic or isolated incidents, and what management’s response was to resolve them.

In 2019, 14 out of 19 engagement themes were linked to a relevant SDG. Under three of these themes (climate action, the social risks of sugar, and ESG challenges in the auto industry), we are engaging on enhancing companies’ contributions to the SDGs





through their products. The remaining engagement themes focus on corporate business conduct as the main means of either creating a positive impact or working towards mitigating adverse impacts. In our engagement, we encourage companies to disclose meaningful impact metrics that help us assess their contribution to the SDGs.

SDG 13 on climate action plays an important role in our engagement program. Our engagement theme asks 13 companies in the oil and gas, electric utility and chemical industries to incorporate climate-related risks and opportunities into their corporate strategies and investment decisions in order to transition to low- and no-carbon energy sources. A key objective of this engagement is for companies to set emissions reduction targets that are in line with the goals of the Paris Agreement.

To limit global warming to 1.5°C, net carbon emissions must drop by 45% between 2010 and 2030 and reach net zero around 2050. SDG 13 calls on governments to integrate climate change measures into national policies, strategies and planning. To date, climate pledges under the Paris Agreement cover only one-third of the emission reductions needed to keep the world below a 2°C temperature rise. The private sector can play an important role in meeting the Paris pledges and helping narrow the gap to achieve a below-2°C scenario.

Decarbonizing the energy sector is

essential to achieving the world's climate goals. In 2018, coal-fired electricity generation accounted for 30% of global CO2 emissions, and coal-fired power plants remained the single largest contributor to the growth in emissions observed that year. To meet the Paris Agreement, analysis shows that coal phase-out is needed no later than by 2030 in the OECD and EU28, and no later than by 2050 in the rest of the world. The economics of energy is materially shifting in favor of clean energy. The industry must take action to replace coal with lower-emission energy sources.

During our engagement with five electric utilities over the past couple of years, we gained significant commitments from companies to mitigate their carbon emissions. One of them pledged to achieve carbon-neutral energy generation by 2050, in line with a 2°C scenario, and to phase out coal by 2030. Two others have committed to reducing at least 80% of their carbon emissions by 2050, in line with the Paris pledges. Moreover, one of these utilities also amended its CEO remuneration plan to include a target on the change in net generation capacity from coal to zero-carbon energy sources.

We are continuing our engagement to encourage companies to set out transition plans consistent with the goals of the Paris Agreement and a 1.5°C future, including the compatibility of capital expenditure plans. We expect explicit timelines and commitments for the rapid elimination of coal in energy generation by utilities in EU and OECD countries by no later than 2030, defining how companies will manage near-future write-downs from fossil fuel infrastructure.

A net-zero emissions scenario cannot be accomplished by individual companies alone. Working with public bodies on sustainability issues are also an important part of Robeco's engagement work. In 2019, Robeco was a signatory of a Global Investor Statement calling on the governments of the G20 nations to increase their efforts to achieve the goals of the Paris Agreement, accelerate private sector investment in the low carbon transition, and commit themselves to improving climate-related financial reporting. In addition, last year Robeco also supported a letter from the Institutional Investors Group on Climate Change to EU leaders encouraging them to approve the target to achieve net zero emissions by 2050.

Throughout 2020, we will continue to constructively engage with both companies and policymakers to successfully transition towards a low-carbon economy.

ENGAGING FOR A POSITIVE IMPACT ON THE SDGS

Climate Action

With the adoption of the Paris Agreement in 2015, the world has committed to curbing greenhouse gas emissions in order to contain rising global temperatures to well below 2°C by the end of the century. In the event that society fails to limit global warming, the world – and therefore industries – will be increasingly exposed to physical risks. This includes damage to land, buildings, stock or infrastructure as a result of climate factors such as heatwaves, drought, rising sea levels or flooding.

Sylvia van Waveren

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, with industries operating under a circular business model in which resources used, waste, emissions, and energy leakages are minimized. This energy transition entails a risk to some sectors of financial losses arising from volatile adjustments to asset values, or the higher costs of doing business. How companies respond to these climate-related issues can influence their financial results.
Companies that are able to adapt will be the winners of this transition. It is for that reason that in 2018, Robeco's Active Ownership team launched its Climate Action engagement theme with 13 companies in the oil and gas, electric utilities and chemical sectors. Our engagement encourages companies to integrate climate-related issues into their organization's governance, strategy, risk management, metrics and targets.

Alignment with Sustainable Development Goals (SDGs)

We have aligned this engagement with the UN's Sustainable Development Goals, targeting 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 play an essential role in achieving these goals. Developing zero- and low-emission energy sources is one part of the solution. But achieving a carbon-neutral economy will require many more innovative technologies, such as carbon-capture-and storage, to enable a fluent decline in fossil fuel use.

We assess companies' contribution to these SDGs by looking at their scores allotted by the Transition Pathway Initiative (TPI). In this analysis,

companies' management quality and emissions performance are assessed to determine their incorporation of climate issues in their corporate strategy, emissions targets, strategic risk assessment and executive remuneration.

First progress report published by the Climate Action 100+ initiative

A key element of this engagement program is our collaboration with global investors through the Climate Action 100+ initiative (CA100+). Under the umbrella of this investor-led initiative, we engage with the world's largest corporate greenhouse gas emitters. Robeco is an active member of CA100+, where we continue to act as lead investor in two companies – Enel and Royal Dutch Shell – and as collaborating investors in the world's top emitters in the oil and gas, chemical and utilities sectors. Since its launch in December 2017, the initiative has grown into one of the world's largest investor- led engagement initiatives, with more than 450 investor signatories with more than USD 40 trillion in assets under management.

The initiative's first progress report published end of 2019 provides a sector-by-sector analysis of the progress made to date in a number of companies. The collaborative engagement has brought important commitments to curb greenhouse gas emissions. Leaders of the energy transition have begun to differentiate themselves from peers by adopting stronger commitments to decarbonize their business operations. Furthermore, we have seen some breakthrough commitments from companies in sectors where emissions are hard to abate, and a raft of disclosure commitments on corporate lobbying on climate change.

Our engagement achievements so far

One of our objectives is that we expect 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 show the management's role in assessing and managing these climate-related issues. The companies under engagement have shown progress in their climate governance. Most of the companies (eight out of 13) have shown clear board responsibility for climate changes risks and opportunities and were able to demonstrate a sound climate change management system. Areas where the lagging companies could improve the most are linking their executive compensation to climate change goals or allocating climate change oversight responsibility to the board.

Another goal of our engagement is to ensure that our focus companies have aligned their business strategies with Paris Agreement through a range of measures. We expect companies to set targets, and to demonstrate that they are implementing strategies to achieve their targets. Most of the companies under engagement (nine out of 13) have made positive progress in the alignment of their business strategies with the Paris Agreement goals. According to TPI's research, three companies are aligned with emissions reductions pledged by governments as part of the Paris Agreement via Nationally Determined Contributions. One company is aligned with the more ambitious climate scenario of 2°C.

Corporate lobbying on climate has become a priority for investors

In 2019, investors paid significant attention to companies' lobbying practices regarding climate policies. Research suggests that many companies in heavy-emitting sectors are pursuing lobbying practices that aim to block or significantly weaken effective climate policy, either directly or via industry association memberships. Research by InfluenceMap has found that only a few focus companies have clearly supported the development of climate policies. Around 90% of companies assessed hold memberships in industry associations that have opposed climate policies.

In our engagement, we have focused on securing enhanced disclosures on climate lobbying practices and have urged companies to align their lobbying positions with their own climate change policies. So far, one of the companies under engagement has reviewed its membership of industry associations following the publication of their corporate lobbying report, even dropping memberships if there were significant misalignments.

The challenge ahead is clear

Many investors continue to request that companies set targets that are compatible with, and can stress test their business against, a scenario limiting warming to 1.5°C by 2100, with limited or no temperature overshoot. In practice, this means aligning emissions reduction targets with scenarios that achieve carbon neutrality by 2050. It is encouraging to see that an increasing number of business leaders are committing to a low-carbon future and are setting net-zero targets by mid-century. But more action is needed.

So, as the move towards setting net zero targets by 2050 is imminent, our engagement activities going forward will be first and foremost focusing on achieving this net zero emissions objective with our target companies.

Improving corporate governance in Asia

One of the aims of the Sustainable Development Goal (SDG) 16 is to provide access to justice for all, building effective, accountable and inclusive institutions at all levels. The Partnerships for SDGs platform are the United Nations' global registry of voluntary commitments and multi-stakeholder partnerships, facilitating the global engagement of all stakeholders in support of the implementation of the SDGs. While some of the goals have attracted significant partnership visibility, SDG 16 has gathered only 550, or just half the partnerships, according to UN data.

Ronnie Lim

The Action Platform on Peace, Justice and Strong Institutions aims to provide "a forum for businesses, civil society, investors and governments… to engage in meaningful dialogue that results in concrete action towards improving accountability, integrity and transparency within businesses and the countries in which they operate." One of its purposes is to provide guidance to businesses to strengthen corporate governance through SDG 16, and to improve corporate/shared values through advocacy. While promoting strong institutions is a somewhat abstract goal, we believe that it is a vital foundation for many other SDGs to be effective. As a global investor, one feature we note is that Asian listed companies are under-represented in market capitalization, and we believe that improved corporate governance can help close the valuation discount.

Today's stock markets have become more integrated, and a growing share of public equity investments are being made across borders. In Japan, for example, foreign ownership of listed stocks increased from 3% to 30% between 1980 and 2017. This development has mainly been driven by institutional investors that have increased their exposure to Asian stocks. In almost all Asian jurisdictions, non-domestic institutional investors hold a larger share of the public equity market than domestic institutional investors. Emerging markets (of which Asia represents 80%) account for about one-third of global GDP, but only comprise around 12% of the world's market capitalization for public/listed equities. Japan is an exception in Asia, as a non-emerging market representing about 8% of global market capitalization. Hence, despite the significance of Asian economies in contributing to the global economy, the size of their equity markets is under-

represented. One of the key problems that needs to be addressed under SDG 16 is weak corporate governance in Asia and other emerging markets.

Understanding the differences in ownership structures in Asia is critical to ensuring the development of effective corporate governance. Listed companies in China are characterized by concentrated ownership, with government investors owning 31% of listed company shares. Approximately 75% of Hong Kong-listed companies had a dominant shareholder (either an individual/family or state-owned-entity. Concentrated ownership structures are also a feature in South Korea, where 38 family-owned 'chaebols' dominate the economy and business practices . These ownership features create potential conflicts of interest with minority investors such as asset managers who invest as fiduciaries, alongside state and family investors who may often have strategic or other priorities which go against the interests of minority investors. In contrast, the shareholder base in Japan is more dispersed, and the main governance issues are related to the sub-optimal capital allocation by corporate managers. By being an active advocate of better stewardship, institutional asset managers such as Robeco can make a significant contribution to SDG 16. We can do this by combining our fundamental knowledge of Asian companies with constructive engagement with key stakeholders, including policymakers and our portfolio companies.
In 2017, Robeco conducted a research project on the theme of 'Improving corporate governance standards in Asia'. We found some common market problems which we could address as active investors. These can be illustrated with some examples of our engagements:

- Significant unexplained expenses in financial reporting causing investor uncertainty

One of our portfolio companies is a Chinese mobile operator with a significant amount (34%) of its operating expenses simply classified as 'other', with no details given. This, together with other issues, caused it to have an unwarranted valuation discount. After a period of engagement, the company's annual report has improved its disclosure of 'other expenses' into 14 further categories.

- Slow destruction of shareholder value by persistent uneconomic investments

Another company which we have held for a long time is a Japanese oil and gas company which has two government-linked entities as its largest shareholders. Despite these two investors owning only 26% of the shares, the company demonstrated the behavior of a national oil company, which is typified by large expenditures in securing energy, often with little regard for the returns on its investments. After a long period of little progress, we found the company's response to our recent letter and meetings to be productive. The company has since improved its explanation of both its business and financial strategies.

- Insufficient non-financial reporting

For many years, a South Korean automotive parts company's reported little detail about its actual activity, who its stakeholders were, and how value was created. We encouraged the company to improve its narrative (non-financial) reporting by sending its management examples of good reporting by their global peers. We are now encouraged to see that the company's latest sustainability report analyzes how its business creates value for various stakeholders.

Broader tangible actions that some companies under engagement have made include the disposal of low-return investments and consistent share buybacks. These have led to steady increases in their return on equity of about 60% of our Japanese names, and a flat-to-improved price-to-book ratio of 80%. Although total payout ratios have increased for the broader market, it remains below those of European and US companies.
In addition to our engagement with individual portfolio companies, we also engage with other key stakeholders who have significant roles in shaping public policy and corporate behavior. For example, we recently contributed to

two engagements with policymakers. In January, we provided feedback to Japan's Financial Services Agency on its proposed revision of Japan's Stewardship Code. We recommended that the code is applied by signatories, not just to Japanese equity holdings, but to other asset classes such as fixed income. We also supported the inclusion of material sustainability factors in the revised draft. In the next quarter, we intend to participate in the consultation process with the Hong Kong Stock Exchange on its proposals to introduce corporate weighted voting rights for Hong Kong-listed companies. Robeco will report on these shortly in a separate publication on our policy engagement.

IMPROVING CORPORATE GOVERNANCE IN ASIA

Reducing Global Waste

Over the next 30 years, global annual waste generation is expected to jump to 3.4 billion tons. Although they only account for 16 percent of the world's population, high-income countries combined are generating more than one-third (34%) of the world's waste. The East Asia and Pacific regions are responsible for generating close to a quarter (23%) of all waste. And by 2050, waste generation in Sub-Saharan Africa is expected to more than triple from current levels, while South Asia will more than double its waste stream.

Robert Dykstra

Tackling the issue of global waste will require a concerted effort from consumers, governments, and businesses alike. As institutional investors, Robeco will proactively play its part to facilitate companies along their waste reduction journeys.

SDG contribution

Although waste can mean entirely different things for different companies, there are internationally recognized frameworks that allow companies to classify the impact of their waste reduction efforts. The Sustainable Development Goals (SDGs) are one such framework which is why we encourage companies to assess and report on how they contribute to achieving them. SDG 12 is particularly suited to reporting on waste reduction since it aims to achieve sustainable production and consumption by 2030. The SDGs provide the much-needed guidance and flexibility for companies to report on how their operations either positively or negatively affect their stakeholders.

Typically, there is a spillover effect with regards to SDG contributions. For instance, pursuing sustainable production and consumption likely reduces the carbon emissions and thus contributes to SDG 13 (Climate Action). However, this spillover effect can also be negative. Prioritizing waste reduction and energy efficiency may hinder efforts to achieve SDG 9 (Industry, Innovation, and Infrastructure). Ultimately, companies should quantify their contribution to each SDG and publicly disclose their methodology to maximize transparency and accountability.
From reducing to recycling

Materials and wastes offer an often-overlooked opportunity to improve a company's sustainability, prevent greenhouse gas emissions and reduce costs. The first step is tracking the amount of waste your organization generates, just like the old saying goes,

"you can't manage what you don't measure." Tracking your waste and recycling provides the key foundation for a successful waste reduction program.

Recycling saves energy helps keep materials out of landfills and incinerators and provides raw materials for the production of new products. When waste cannot be prevented, recycling is the next best option. Recycling is more than extending the life of landfills. It is about making the best use of the resources we have available and conserving others like water, energy, land and raw materials. Encouragingly enough, several of the companies in our engagement program have begun to do just that. Through the use of life-cycle analyses, supply-chain monitoring, and stakeholder engagements, some companies have successfully identified ways to either reduce their existing waste streams or implement recycling initiatives.

The case for LCA

Life cycle assessments (LCA) identify the environmental impacts of a product or service along its entire life cycle but perceived complexity, resource intensity (time and money), and lack of quality data are some of the challenges that inhibit mainstream LCA use. Nonetheless, LCAs can lead to significant cost savings by helping to pinpoint and address the hot spots where most of the environmental impact and costs of a product occur. A different raw material, a different supplier or manufacturing method can be the adjustment needed to ultimately reduce costs.

Engagement updates

The preliminary results from our engagement have varied across portfolio companies. Whereas some have only just begun publishing rudimentary disclosures around their sustainability performance, others have achieved their carbon reduction targets and completely mapped their SDG contributions.

Regional discrepancies have also played a role in this variance, as we have seen Chinese firms underperform in terms of public disclosures. North American companies with international exposure either through their supply chain or share ownership structure tend to disclose more on their waste management reduction efforts.

Many companies have gone beyond disclosures and integrated their sustainability approach into existing operations. One example is the inclusion of management KPI's related to the achievement of pertinent sustainability targets which in turn enhances the alignment between management incentives and the sustainability performance. This alignment is further strengthened by involvement from the board of directors in either setting KPI's or participating in sustainability reporting.

International certifications are another means to bolster the sustainability of a company's operations. The International Organization for Standardization provides guidelines on quality management (ISO 9001) and environmental management (ISO 14001) systems that can help improve operational efficiency. Several of the companies under engagement have increased the portion of their facilities or operations that are certified according to these standards.

Lastly, some companies have turned to renewable energy initiatives to reduce their global waste footprints. Either by directly investing in their own renewable energy supply (such as solar panels) or by indirectly sourcing their energy from renewables, companies can drastically reduce their carbon emissions. During our engagement thus far, we have seen some companies set reduction targets on their scope 1, 2, and even 3 emissions.

We have seen progress several our engagement objectives, but there is still much room for improvement. In the final phase of our engagement, we will support companies in identifying both the opportunities and the risks of reducing their global waste streams.

Palm Oil

The palm oil industry is often associated with significant environmental and social issues such as deforestation and poor labor standards. Although Robeco has actively engaged with companies on these issues since 2010, there is still room for many companies to improve. In March 2019, Robeco published a position paper on palm oil to present our new approach that is built on three pillars. These are engaging with all palm oil companies in our investment portfolios; excluding those companies that don't meet our minimum sustainability threshold; and being an active member of the Roundtable on Sustainable Palm Oil (RSPO).

Peter van der Werf

Robeco joined the RSPO earlier in January 2019 and started an engagement program for companies to focus on their certification to its standards, which we regard as being essential for the transition to a sustainable palm oil industry. Since then, we have made progress with several stakeholders. In conjunction with the Financial Institutions Taskforce and the International Union for Conservation of Nature (IUCN) we organized a panel at the RSPO conference in Bangkok in November 2019. Robeco also contributed to various other RSPO working groups on deforestation, and we care actively involved in the Complaints Panel to try to resolve contentious issues. In addition, in November 2019, Robeco became the first investor to become part of the Palm Oil Transparency Coalition which engages with palm oil traders on improving their practices.

Addressing sustainability issues in the palm oil industry was therefore a major theme for Robeco in 2019, using a combination of enhanced engagement and a screening system to target producers directly. A key benchmark is the amount of land under cultivation that has been certified by the RSPO.

To be completely effective, the engagement program requires proof of how well companies are complying with the objectives, and deforestation can be hard to detect from the ground. To gain a better insight, Robeco started looking towards innovative technologies to strengthen our collaborative approach. As a result, Robeco partnered with Satelligence, an Utrecht-based company with more than 20 years' experience in leveraging satellite imagery on deforestation.

Seeing is believing

The collaboration enables us to identify instances where forests in Malaysia and Indonesia are being

cleared to make way for new palm oil trees. The firm accesses data from satellites that can take high-quality pictures from orbit, allowing 'before-and-after' comparisons to be made on a continuous basis.

Building on the annual benchmark of palm oil companies as published by the Zoological Society of London's Sustainability Policy Transparency Toolkit (ZSL-SPOTT), this project now gives Robeco the ability to develop real-time monitoring of the palm oil companies' commitments to no deforestation. By collaborating for this pilot, Robeco can be at the forefront of integrating satellite-derived sustainability metrics into sustainability research to support our investment decisions. Together with Satelligence, we can build a system that can monitor the progress of companies towards 100% RSPO-certified plantations and drive the transformation to a sustainable palm oil industry.

The spy in the sky

The imagery comes from satellites operated by the European Space Agency (ESA), the Japanese Aerospace Exploration Agency and NASA, orbiting 700 km above South-East Asia, West Africa and Central and South America.

The ESA's Sentinel-1 satellite, launched in 2014 as part of the Copernicus scientific program, is so powerful it can pinpoint and precisely 'photograph' pieces of land five meters in diameter through the clouds. Aside from deforestation, it can detect oil spills, melting sea ice and flooding as part of the EU's Earth Monitoring program.

The satellites can target different crops subject to sustainability issues, including cocoa, soy and timber. Artificial intelligence is used to enhance the data analysis and keep track of quickly moving events. Continuously updated, it provides a real-time commodity map of the world.

The data can be used to engage with plantation owners, traders, intermediaries and other players in the supply chain, as well as to alert authorities of any criminal activity.

The methods were developed in close cooperation with scientists at the Netherlands' Wageningen University, which specializes in life sciences and natural resources.

Threats to portfolios

Deforestation and other climate-related issues could pose significant risks to investors' portfolios. Therefore, it's important for financial institutions to be at the forefront of making the impact of engagement measurable and visible. Through the collaboration with Satelligence, Robeco can identify risks, and use the evidence from the monitoring reports to start concrete discussions with companies about where and how they should change their business conduct to prevent deforestation.

This is particularly important for the companies we invest in, as they are already producing a significant number of crops that can be verified against the RSPO standard. One important area of engagement with palm oil producers is their exposure to deforestation and climate-related risks through their supply chain, as they might be sourcing large volumes of the commodity from non-RSPO certified producers. Being able to use the evidence from satellite monitoring in our conversations with companies will enable us to be more precise in our feedback on which parts of their supply chain we deem to be of high risk of breaching our palm oil policy.

How it works: the European Space Agency's Sentinel-1 satellites scan the ground; with AI, all pixels that underwent change are detected. Vegetation clearing including deforestation is shown in red; intact forests are shown in dark green, and plantations are in light green. Source: Satelligence

Lifecycle Management of Mining
Newcrest Mining
Rio Tinto
BHP Billiton
Norilsk Nickel
Anglo American
Fortescue Metals Group Ltd.
Gerdau SA
Grupo Mexico SAB de CV
Polymetal International Plc

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

Climate Action
BASF
Chevron
Hitachi Ltd.
Lukoil Holdings OAO
LyondellBasell Industries NV
Royal Dutch Shell

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

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

Climate Change and Well-Being in the Office Real Estate Sector
Great Portland Estates Plc

Single Use Plastics
Henkel AG and Co. KGaA
LyondellBasell Industries NV
Nestlé
PepsiCo, Inc.
Procter and Gamble Co.
Danone

Food Security
Bayer
Deere and Co.

Living Wage in the Garment Industry
The Home Depot
Adidas
NIKE
Asics Corp.
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.

Social Risks of Sugar
Coca-Cola
Danone
Kellogg Co.
Nestlé
PepsiCo, Inc.
Unilever

Sound Social Management
Henkel AG and Co. KGaA
Bayer
InterContinental Hotels Group Plc
Glencore Plc
Swire Pacific

Corporate Governance Standards in Asia

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

Good Governance

DSM
Heineken Holding
Unilever
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
Gerdau SA
Sumitomo Mitsui Financial Group, Inc.

Culture and Risk Governance in the Banking Sector

Wells Fargo and Co.
HSBC
ING Groep NV
Barclays Plc
JPMorgan Chase and 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, 19 companies were engaged based on potential breaches in the UN Global Compact.

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/

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 CO2 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 team is headed by Carola van Lamoen who reports to Peter Ferket, CIO at Robeco and member of the Executive Committee. The broad expertise of the Active Ownership team is complemented by access to, and input from, investment professionals based in local offices of the Robeco Group 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

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