



Proxy Voting Report

Period: April 01, 2023 - June 30, 2023

Votes Cast	1574	Number of meetings	139
For	1254	With management	1213
Withhold	0	Against management	288
Abstain	6	N/A	73
Against	314		
Other	0		
Total	1574	Total	1574

In 68% of meetings we have cast one or more votes against management recommendation.

General Highlights

2023 Banking Crisis: A cautionary tale of corporate governance

The spring of 2023 was far from serene. The world watched in shock as Silicon Valley Bank (SVB), Signature Bank and First Republic failed in the US, spreading fears of contagion to other regional banks and beyond. Credit Suisse, once a symbol of Swiss financial power and stability, collapsed after years of scandals, and was taken over by its long-time domestic rival UBS in a rushed deal orchestrated by the government.

One question is now on everybody's mind – what went wrong? The simple answer is corporate governance.

In recent years, environmental, social and governance (ESG) factors have gained growing importance. The 'E' and the 'S' have arguably drawn the most attention recently, led by the focus on combating climate change. There is now a growing awareness that effective governance is imperative to long-term ESG success, and that poor corporate governance can have far-reaching consequences for the economy as a whole. Governance – once a more traditional topic for investors – seemed to have gone out of fashion, but every time something goes wrong, investor attention refocuses on it.

Where are we at?

The Federal Reserve's report examining the SVB collapse concluded that the bank failed because of a "textbook case of mismanagement". The regulator found that the directors and management failed to manage risk, noting that the full board was neither adequately informed by management on risk, nor did they hold management accountable for effectively managing this risk. According to the report, the growth of Silicon Valley Bank Financial Group, the holding company of SVB, "far outpaced the abilities of its board of directors and senior management", while executive compensation packages incentivized managers to focus on short-term profit.

Similarly, a report from the Federal Deposit Insurance Corporation (FDIC) concluded that the collapse of Signature Bank was due to "poor management". The regulator noted that "the board of directors and management pursued rapid, unrestrained growth without developing and maintaining adequate risk management practices and controls appropriate for the size, complexity and risk profile of the institution."

While the report into the Credit Suisse collapse is yet to be released by the Swiss government, the lender was engulfed in one scandal after another in recent years. Its long list of missteps ranged from accusations of spying to money laundering, and pointed out deep-rooted corporate governance issues. In fact, the 2021 report by the Paul Weiss law firm into the Archegos debacle, in which Credit Suisse lost billions on highly risky financial swaps, reads like a case study of what can go wrong in a firm's corporate governance.

The report revealed no less than "a lackadaisical attitude towards risk and risk discipline; a lack of accountability for risk failures; risk systems that identified acute risks, which were systematically ignored by business and risk personnel; and a cultural unwillingness to engage in challenging discussions or to escalate matters posing grave economic and reputational risk." While the lender rolled out an extensive set of measures to remediate the shortcomings identified, the ensuing events which ultimately led to its demise suggest that these issues were far from being resolved.

What next?

Looking back, the enhancement of corporate governance regulations was often a result of corporate failures. The Sarbanes-Oxley Act was passed in the aftermath of the Enron and WorldCom scandals. The 2003 collapse of Italian food giant Parmalat prompted a reform of insolvency law. We can therefore expect that the unfolding crisis will again trigger regulatory reform. However, should this reform be the sole focus?

In a recent speech, the European Central Bank's Chair of the Supervisory Board noted the following:

“We should abandon the ambition of designing ever-more precise regulations that accurately measure all risks under any circumstances, covering even the most extreme business models and risk configurations. That approach only results in excessive complexity, with burdensome procedures for supervisors and excessive rewards for the few institutions that have the wherewithal to game the system. Instead, we should focus our efforts on empowering supervisory teams, within a strong accountability framework.”

The reality is that a myriad of factors contribute and lead to good governance. It's not only about having experienced directors on the board. It is also about fostering a sound ethical tone at the top and having the right board dynamics, ensuring that directors are engaged, that they challenge management and promote a culture of accountability. It is also about ensuring that shareholders have the proper tools available to hold the board and management accountable.

As shareholders, we are co-owners of many companies, and thus have the right to vote at their shareholder meetings. We use our voting rights with the aim of influencing a company's corporate governance and other relevant investment-related decisions in the best interest of our clients. This ensures that we can hold companies accountable for poor performance across all three dimensions of ESG. Voting can be used to push for basic governance tools and should be used by shareholders to flag their concerns by voting against the appropriate agenda item. Corporate governance only functions well if shareholders make active use of their rights and hold management to account for their performance – something that we still need much more of.

Voting Highlights

Hon Hai Precision Industry - 05/31/2023 - Taiwan

Proposal: 2022 Business Report and Financial Statements.

Hon Hai Precision Industry Co., Ltd. provides technology solutions in Japan, Ireland, the United States, Singapore, China, Taiwan, and internationally.

Hon Hai's 2023 Annual General Meeting (AGM) took place amid scrutiny over the company's operations and management of environmental impact. Although the meeting agenda was relatively short and did not feature the election of board directors, this context remained pertinent when it came to our voting decisions. Robeco has a long history of taking corporate governance and sustainability as part of our investment philosophy. At the start of the year, our Active Ownership team identifies companies that are poorly managing environmental and social risks, and this will trigger a vote against management on an appropriate agenda item at their AGMs.

Our team used recognized benchmarks and ESG data providers to assess risk, impact, and the degree to which they are already addressed in the strategies and policies of the company. In the case of Hon Hai Precision Industry, we identified concerns around labor practices in the supply chain and a lack of evidence of adequate human rights due diligence processes. We expect all companies to have in place a robust human rights strategy in line with the UN Guiding Principles on Business and Human Rights, with implementation through strong human rights due diligence processes. However, our aforementioned assessment determined that the company does not satisfy these criteria.

These issues informed our vote Against the company's 2022 Business Report and Financial Statements proposal. We believe that companies that act in a sustainable way towards the environment, society, and all its stakeholders are more likely to be able to deal with a variety of issues, including systemic risks, in the future. Therefore, we integrate relevant ESG considerations into our voting approach to promote strong practices around ESG issues and to hold companies accountable when these are not in place.

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