ROBECO
The Investment Engineers

Governance & Active Ownership

ACTIVE OWNERSHIP REPORT 2016

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1. Sustainability investing

Sustainability investing is integral to Robeco's overall strategy. We are convinced that considering ESG factors results in better informed investment decisions. We also believe that our voting and engagement with the companies in which we and our clients invest will have a positive impact on both investment results and on society. This report describes the engagement and voting activities of Robeco during 2016.

The structure of this report is as follows. The following chapter contains the key statistics of the active dialogue undertaken with companies in our portfolios. Chapter three provides some highlights on Robeco's voting at shareholder meetings. Chapters four through seventeen contain highlights of Robeco's engagement program in 2016. Finally, chapter nineteen summarizes the various codes of conduct under which Robeco runs its engagement program as well as how it exercises voting rights at shareholder meetings.

Robeco retains PRI's highest A+ grade

Robeco has retained the highest possible A+ score for sustainability investing by the United Nations Principles for Responsible Investment (UNPRI).

It is the third year in a row that Robeco has achieved the best possible score for all the modules assessed by the UNPRI. The firm's sustainability specialist, Zurich-based RobecoSAM, also received the A+ grading.

The A+ score was awarded because of the way Robeco uses environmental, social and governance (ESG) metrics and integrates sustainability principles across the entire range of funds. RobecoSAM offers sustainability products and supplies the group's ESG data using its Corporate Sustainability Assessment and Country Sustainability Risk surveys.

The United Nations-supported PRI initiative is an international network of more than 1,500 investors working together to put six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In line with Principle 6, the PRI signatories must "report on their activities and progress towards implementing the Principles". Signatories are scored for each UN PRI principle and the scores are measured against those of other investment managers that have signed the UN PRI. Robeco has been a signatory to the principles since the group's foundation in 2006.

Working towards the Sustainable Development Goals through active ownership

The UN has set out the Sustainable Development Goals, asking the private sector to contribute as well. Asset managers and asset owners cannot only make an important contribution, they can also benefit from the investment opportunities that arise.

In the autumn of 2015, the Sustainable Development Goals (SDGs) were released by the United Nations as a successor to the Millennium Developing Goals (MDGs), which expired in 2015 and had achieved good results on improving education levels and health, reducing hunger and alleviating poverty. The 'Agenda for Sustainable Development' has been adopted by 193 countries, who together agreed to contribute to the realization of 17 SDGs by 2030. The 17 goals range from ensuring the availability of water and sanitation for all, food security, achieving gender equality, to access to affordable and sustainable energy within 15 years.

An appeal to the private sector

The SDGs differ from the MDGs in that they call on the public and the private sector to support the SDGs. The SDGs will require a step-change in the levels of both public and private investment in all countries. It is estimated that a yearly investment of USD 2.5 trillion is required in SDG investments. This means that governments themselves cannot financially achieve the SDGs on their own.

The private sector can back many SDGs directly, for example in relation to infrastructure, by investing in power generation, renewable energy, transport, water and sanitation projects. It can also contribute to more abstract concepts such as sustainable economic growth and sustainable production and consumption. Other SDGs such as education and the promotion of peaceful societies are more systemic in nature, and thus more difficult to operationalize for the private sector. Therefore we expect that these goals will be mainly addressed by the public sector.

Working towards the SDGs through active ownership

On behalf of clients, Robeco contributes to the achievement of the SDGs through active ownership. First, companies are encouraged to take action on the SDGs through a constructive dialogue (engagement). Second, via voting environmental and social proposals are supported that promote creation of long-term shareholder value.

As an example, in the engagement theme 'Environmental Challenges in the European Electric Utilities Sector' electric utilities are encouraged to implement ambitious environmental strategies and, independently of their historical energy mix, focus on de-carbonization: moving from coal to gas to renewables and using meaningful internal carbon prices in their planning.

By encouraging utilities to shift from coal to gas to renewables, a contribution is realized to SDG 7 - Renewable Energy. During our engagement so far we have already seen substantial changes taking place in the sector. Several utilities, for example, have drastically adjusted their business models in order to focus on renewable energy.

The 'Social issues in the Food & Agri supply chain' engagement theme is an example of how companies are encouraged in the food industry to work towards the SDGs by considering smallholder capacity building and investing in its development. Companies are encouraged to support the development of the communities in which they operate by providing job skills training and education on agricultural techniques. This contributes to the achievement of SDG 1 - No poverty and SDG 2 - No hunger.

The 'Board Quality' and 'Good Governance' engagement themes contribute to SDG 5 - Gender Equality. In these engagement programs companies are encouraged to create well balanced boards in terms of gender, age and skills.

Overall, about 80% of the SDGs is covered by current engagement themes (see Figure 1).

Conclusion

The financial industry has a special role to play in contributing to the SDGs. The sector has the ability to direct capital towards sectors that offer the biggest opportunities to contribute to the SDGs. The SDGs agenda by the UN aligns well with active ownership activities. Comprehensive active ownership activities address many SDGs.

Figure 1 | SDG coverage of engagement activities

ENGAGEMENT THEMES	No poverty	No hunger	Good health	Quality education	Gender equality	Clean water & sanitation	Renewable energy	Good jobs & economic growth	Innovation and infrastructure	Reduced inequalities	Sustainable cities & communities	Sustainable consumption	Climate action	Life below water	Life on land	Peace and justice	Partnerships for the goals
ENVIRONMENTAL																	
Carbon Management In REIT's									■		■	■	■		■		
Deepwater Drilling			■			■						■		■	■		
Sound Environmental Management			■						■			■	■		■		
Toxic Chemicals			■														■
Environmental Challenges In European Electric Utilities							■		■		■		■				
Environmental challenges in oil & gas sector							■		■		■		■				
SOCIAL																	
Health And Safety In The Clothing Sector	■		■					■				■					■
Social Issues In Food & Agri	■	■	■	■				■		■		■			■	■	■
Soy Supply Chain	■		■					■		■		■			■	■	■
Data Privacy										■							■
ESG Challenges In Healthcare	■		■						■							■	■
Sound Social Management	■		■						■							■	■
Sustainability Of The Meat Supply Chain		■	■					■	■	■		■	■	■	■	■	■
GOVERNANCE																	
Board Quality					■			■		■						■	
Corporate Risk Oversight Mining			■		■			■		■							
Good Governance					■											■	
Corporate Governance In Japan					■											■	
Tax Accountability								■				■					

Sources: UN Sustainable Development Goals, Robeco

2. Voting & engagement statistics

The graphs below highlight the themes upon which Robeco voted upon at shareholder meetings, and also where most engagement progress has been made over the course of 2016.

Voting summary

	2016
Total number of meetings which was voted	4799
Total number of agenda items which has been voted for	49167
% Meetings voted against management on one or more agenda items	57.17%

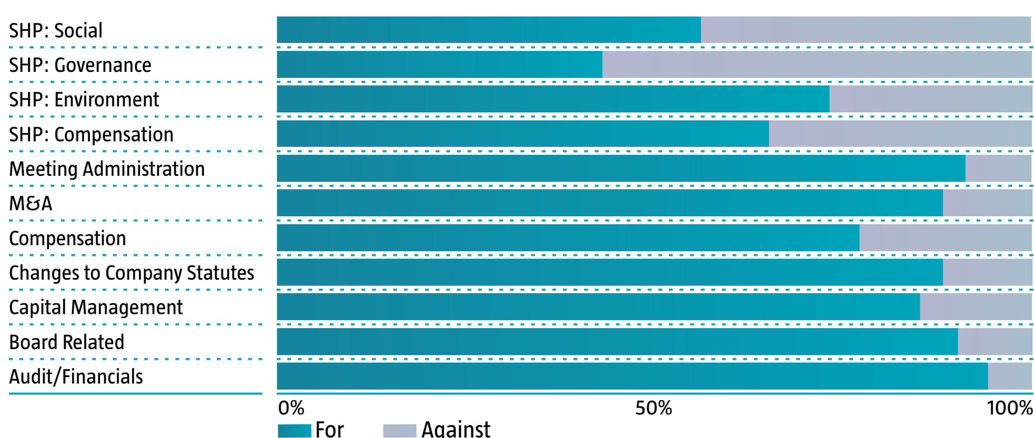
Percentage of meetings where one or more agenda items were voted against

	2016
Total meetings all in favor	42.83%
Total meetings voting against one or more proposal	57.17%

Votes by region

	2016
North America	34%
Europe	24%
Pacific	15%
Emerging Markets	27%

Voting by topic



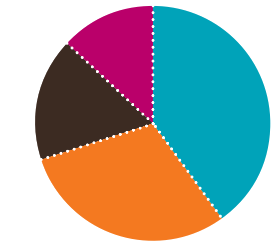
SHP = Share Holder Proposal

In 2016, Robeco engaged with 188 companies on 210 engagement cases.

Engagement overview

Engagement overview	
Environmental Management	27
Environmental Impact	23
Human Rights	36
Healthy Living	22
Social Management	8
Corporate Governance	54
UN Global Compact	40
Total number of engagement cases	210

Engagement activities by region

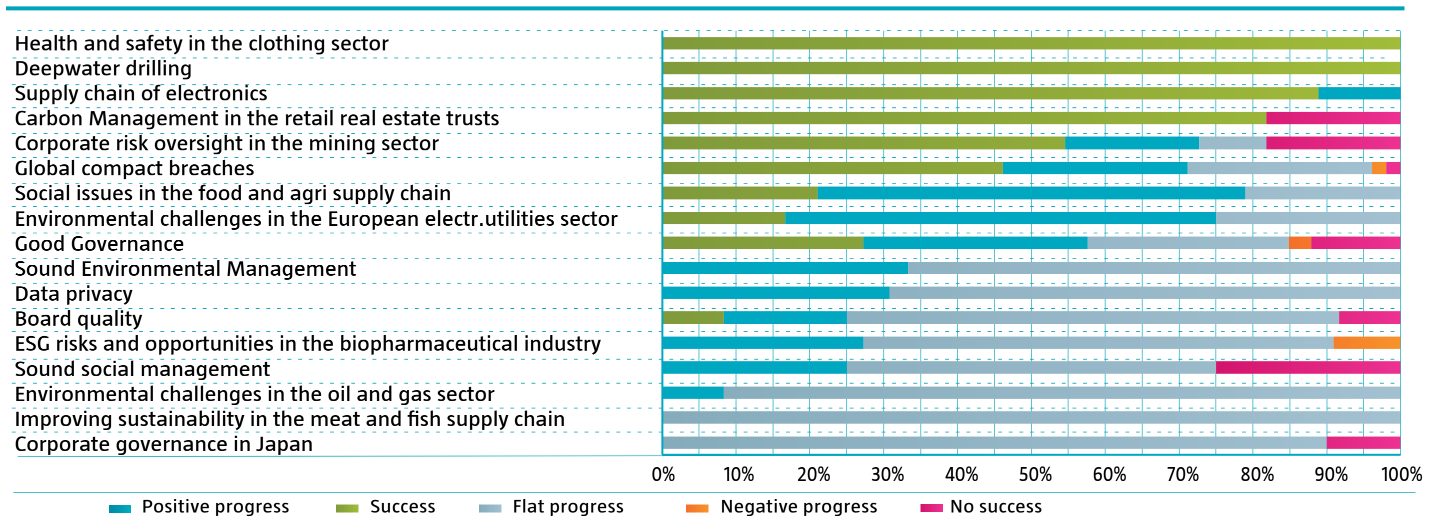


Region	Share
Europe	40%
North America	30%
Pacific	17%
Emerging Markets	13%

Engagement activities per contact

Engagement activities per contact	
Analysis (no actual contact with company)	74
E-mail	242
Meeting at company offices	60
(Open) Letter	145
Active voting	10
Shareholder resolution	5
Conference call	199
Speaking at a shareholder meeting	10
Meeting at Robeco offices	34
Speaking at conferences	8
Total number of engagement activities	787

Engagement overview by theme



To date, most progress has been seen in the themes 'Health and safety in the clothing sector' and 'Deepwater Drilling'. Newer themes such as 'Sound Social Management' and 'Corporate Governance in Japan' show limited or no progress. This is because these engagement topics have only recently been launched. It is therefore still too early to report significant process.

3. Voting highlights

Robeco votes at shareholders' meetings on behalf of our clients. The topics on the agenda vary by company, country and sector. Below we explain Robeco's approach to voting on issues which have arisen during 2016. In total, Robeco voted at 4799 different shareholder meetings during 2016. In 57% of meetings, one or more votes cast was against the proposed decision of the Board.

Market Highlights

Good Stewardship

As part of an ever growing trend, many countries have introduced stewardship codes over the last few years. This has in part been driven by an increasing number of asset owners requiring their asset managers to sign these codes as a prerequisite to doing business.

The first stewardship code, implemented in 2010 by the UK's Financial Reporting Council, grew out of criticism of the role which institutional investors had played in the financial crisis. While corporate governance codes target companies to promote good governance, stewardship codes target institutional investors, encouraging them to be good stewards. This in practice means investors should be transparent about their investment process, engage with investee companies and vote at shareholder meetings. It is hoped that institutional investors adopting these codes will be of great benefit not only to investors and investee companies, but also to the sustainability of the economy as a whole.

However, there is often a lack of clarity regarding what these codes involve. Furthermore, it is important to recognize when designing and implementing new stewardship codes, the legal frameworks and cultural values of the country for which the code is designed.

Robeco signed the UK stewardship code when we established our UK office last year. Robeco also signed the Japanese stewardship code in 2015, when the country became the first in Asia to introduce such a code. The International Corporate Governance Network (ICGN) has recently taken the initiative to create a Global Stewardship Code. Whilst it is not compulsory to sign these new stewardship codes, they are increasingly seen as a license to operate. For example GPIF, Japan's largest pension fund, requires all its asset managers to be a signatory to the Japanese Stewardship code.

At Robeco, we take our stewardship responsibility very seriously. We have our own stewardship policy, which explains how we fulfill our duties as a good steward by engaging, voting and reporting about our sustainability investing strategy in a transparent way. This policy complies with all of the current stewardship codes. We also continue to monitor and provide input on the development of new stewardship codes and view the increasing number of countries adopting such codes as a positive step.

Proxy Access

Proxy access consists of the right of qualifying long-term shareholders to nominate a limited number of directors and to include them in the ballot of shareholder meetings. Although this right has certain limitations, such as ownership requirements and a maximum number of directors that shareholders can nominate, it is an important right because it allows shareholders to dismiss under-performing directors.

After almost seventy years of debate, in 2010 the Securities and Exchange Commission (SEC) adopted a new rule mandating universal proxy access. A 2011 court ruling effectively invalidated the new rule before it ever went into effect. Proxy access became a relevant topic in the US as shareholders saw their ability to submit shareholder proposals requesting companies to adopt proxy access as an alternative way to ensuring this right. It is estimated that over 100 proxy access proposals were submitted to public companies during the 2015 proxy season. Currently, over a fifth of S&P 500 companies have adopted proxy access, up from almost zero last year. In 2015, nearly 130 embraced proxy access. This trend has gained momentum as companies have begun to receive proxy access proposals for the 2016 proxy season.

Proxy access proposals usually ask for the same requirements: 3% ownership to qualify as a nominating shareholder, a maximum requirement of 3 years of continuous holding period for each nominating shareholder, a maximum of 20 shareholders aggregation limit, and a maximum of 20% of the board could be nominated by shareholders.

Robeco analyzed proxy access proposals on a case by case basis and voted in favor of 90% of them. This is in contrast with other fund managers. Data from the SEC on proxy access votes cast by mutual funds indicates that the industry is deeply divided in its approach to proxy voting as a shareholder right. Whereas 7 out of the top ten mutual funds companies in the US supported proxy access proposals the majority of the time, other funds showed low or no support for proxy access. According to this data, had these funds voted in favour of proxy access, the proposals would have likely passed at 17 additional companies in 2015, including Exxon Mobil.

Overall, Robeco supported these shareholder proposals except in the following cases: (i) when the company proposed its own proxy access proposal with similar provisions to those of the shareholder proposals; and (ii) when the shareholder proposal contained a problematic provision, which were restrictions that severely undermine the proxy access right. Examples of such provisions include the imposition of post-meeting shareholding requirements for nominating shareholders and prohibitions to resubmit failed nominees in subsequent years.

Pay vs. Performance in the Oil and Gas Sector

The 2016 proxy season has been characterized by significant shareholder disapproval of executive compensation practices. This has been apparent across all sectors. Robeco has voted against pay practices at a substantial proportion of companies within the sector, in those cases where pay and performance are not sufficiently aligned. Levels of opposition to pay were higher across the industry than frequently seen in recent years. At BP, almost 60% of shareholders voted against the executive compensation report, representing one of the largest instances of shareholder opposition to executive pay practices in recent years.

Government Service Golden Parachutes

Equity compensation of retired executives becoming government officials has attracted significant attention in this proxy season. The annual general meetings (AGM) at some of the largest US financial institutions saw shareholder resolutions asking to ban so-called "government service golden parachutes".

A government service golden parachute consists of direct cash pay out of stock-based incentives schemes to senior executives when they voluntarily resign from their position to enter government service. Government officials that oversee the financial system are usually not allowed to own stock in financial institutions.

Usually, equity or stock incentives are subject to performance metrics or to continued employment for a minimum number of years before executives can receive the monetary benefit. In other words, senior executives who enter government service benefit from equity compensation that they would otherwise give up for failing to meet the employment period or performance vesting requirements of their equity compensation. government service parachutes take place when the termination of employment with the company is voluntary.

Even though we understand the need for government officials to remain independent, we believe the Government Service Parachutes rewards voluntary dismissal with shareholder funds. In our view, government service golden parachutes may harm shareholder interests. Accelerated vesting of equity may lead to sizeable awards that are not related to performance. In view of the potential impacts of government service golden parachutes on the interests of investors and other stakeholders, these shareholder proposals deserve our support.

Navigating Climate Change-related shareholder proposals

Climate change-related shareholder proposals have become increasingly prominent in the proxy season of 2016, seeing a 15 per cent increase in the number of resolutions filed in comparison with last year. About a fifth of shareholder resolutions filed so far raise questions about business continuity in a low-carbon economy.

The unanimous approval by UN delegates of the Climate Accord reached in Paris in December 2015 has been a game changer for many companies. This agreement will for the first time bind nearly every country to lowering greenhouse gas emissions to limit the rise in global average temperatures to below 2 degrees Celsius. Several countries are already planning to introduce stricter regulation limiting emissions of carbon and other greenhouse gases. These developments raise regulatory and market-based risks to companies, and investor engagement addressing this topic has intensified in the last years. Although climate change is a material risk for nearly all sectors, companies in the mining, utilities, oil and gas sectors have been the most challenged by investors on how they can succeed in a potential 2°C scenario. Material ESG risks for such companies include high greenhouse gas emissions, stranded assets, and business strategies that are unequipped to cope with a low-carbon economy.

The shareholder proposals on climate change filed in this proxy season address these ESG risks. They make a varying range of requests. On the one hand, most proposals request making an analysis of impacts that climate change will have on corporate operations, or conducting a robust assessment of strategic changes that can facilitate a transition to a low-carbon future. Other proposals request setting of quantitative targets on reduction of greenhouse gas emissions.

Robeco believes that the transition to a low-carbon economy is a major global challenge that requires assertive corporate action. The most intensive fossil fuel producers and users have to prepare themselves for a net-zero carbon energy system in the second half of this century and should adapt their business models and strategies accordingly. For shareholders it is key that this transition is well-managed. We expect that companies consider the issues and options, explain them to the investors, execute the updated strategy and set an indicative timeframe for reaching the ultimate objective of becoming a renewable energy company.

Robeco is supportive of shareholder proposals that reasonably align companies to a potential low-carbon economy.

General Highlights

Special on Board Composition

Good corporate governance is essential to facilitating good corporate performance. It provides a framework for accountability between a company and its shareholders. Corporate boards are an important instrument in ensuring sound corporate governance. Failure at board level to sufficiently understand and mitigate risks was one contributing factor to the financial crisis of 2008, highlighting the strong materiality of poor corporate board oversight. The necessity of having the right skills in place at board level to compete becomes of even greater importance in light of the plethora of disruptive technologies, new business models, regulatory complexity and political uncertainty likely to be seen by companies in the coming years.

Taking a holistic approach

With this in mind, as we approach the first half of 2017 when the vast majority of shareholder meetings take place, we highlight below the key points we asses when making our voting instructions for new and existing members of corporate boards. Robeco takes a holistic approach to assessing board composition, aiming to combine this with an understanding of the sector within which the company operates, local market corporate governance codes, examples of best practice and company history on issues of corporate governance. Therefore, whilst it is difficult to create a one size fits all best practice example of board composition, it is possible to outline some general points which we take into account when assessing board composition on a company basis.

Public disclosure: Making informed choices

Maintaining a diverse balance of knowledge, experience, skills, age, background and gender, ensures that boards of directors reflect the reality of their operating environments and allow for proper strategic management of a business. However, transparency on this is the crucial starting point for testing board quality. In order to draw informed conclusions as to board quality, investors and other stakeholders must have access to accurate and complete information on the nominated candidates, the nomination process and the performance of the board.

Information on board members is not always readily available and much of what investors really want to know, for example how a board operates, takes place behind closed doors. Shareholders therefore have to rely on information provided by the company itself or, in some cases, on board self-assessments. Companies should therefore provide sufficient information for investors to understand the requirements in terms of skills and composition of a corporate board and the extent to which nominated board members meet these requirements. This allows investors to form informed opinions on board composition, resulting in better decisions when participating in shareholder meetings.

Board nominations: How deep is the bench?

To achieve the right balance of tenures, experience, skills, expertise and other diversity criteria, it is important that the company has a strong and transparent nomination policy in place to guide the search for new board members. When a board proposes a new person to a board seat, it is crucial to understand the rationale behind the process that led up to the nomination being made, and what skills the board feels the new nominee will bring to the board. Robeco looks for nomination processes that address the following; 1) An independent nominating committee determines the required skills, attributes and board composition based on the business strategy.. 2) Based on these identified attributes and skills, periodically a gap analysis should be performed. 3) Based on this gap analysis, a profile should be drafted for new board members. 4) When nominating new board members, it should be clear to shareholders what specific attributes a board member adds to the board. If the company does not disclose basic information on the nominees, we cannot vote in favor of nominees.

Board independence: Maintaining effective oversight

To achieve effective management supervision, it is imperative that the board can exercise independent judgment and is free of conflicts of interest. Corporate boards should be sufficiently independent to make sure that independent judgment has been applied in the boards' supervisory tasks and that they represent shareholder views. It is also important to strike a balance when considering independence. Indeed, there is a counterweight between having a board that is totally independent and having board members who understand the underlying operations of the business.

What is of overall importance is that the board is in a position to act as sparing partners for the management team, and that the CEO is accountable to a board composed of members who have sufficient understanding the business and the topics at hand, whilst possessing sufficient independence to oppose senior management when things go wrong. With this in mind, it is also essential that the board possess the tools to take action when things go wrong, including the power to terminate the CEO. This becomes problematic when the CEO of a company also chairs the board. Therefor it is Robeco policy to vote in favor of shareholder proposals that ask for separation of these roles.

In order to measure board independence it is also important for investors to understand the independence criteria which companies use when making new nominations to the board, as well as changing board composition in light of board tenures or related party transactions. Companies should therefore ensure they publish a robust policy on director independence with an extensive list of the factors they use to asses new and existing board members. On the whole, most companies disclosure some sort of policy, but they vary considerably in their quality and extensiveness.

Robeco will therefore vote against nominated directors in such cases as when the nominated director is an insider or affiliate to the company, the board is not sufficiently independent according to local standards or when a more suitable director nominated by shareholders is available for election.

Board diversity: Understanding the business

When assessing board diversity prior to voting at the shareholder meeting of a company, we wish to see boards which are not only diverse across a range of metrics, but also reflect the diversity of the business, the challenges and the economic context within which it operates. These factors can differ per company, but it should be clear why the company focuses on selected factors. Nominations should be in line with the companies' diversity statement.
Robeco believes that a diverse workforce at all levels of the organization with equality of opportunity for all should support business performance, and therefore financial performance, over time. Concurrently, an ever greater number of companies are convinced that a well-diversified board adds value to the company. A common argument is that boards with people from different backgrounds are more likely to approach issues from various perspectives, leading to more comprehensive decision-making and more effective supervision.
One such example of this is gender diversity. Recent studies by both Robeco and Morgan Stanley have connected gender diversity to financial performance. In fact, the former study found that that companies with a more diverse boards are indeed better positioned to outperform, whilst the latter found that the stocks of those American companies with the highest scores on diversity beat those scored the lowest by 2.3 percent on a monthly annualized basis over the last 5 years (2011-2016).

In addition, if the argument for increased diversity is that it adds value to the board, then boards must strive to also be diverse in the broadest sense, for example on nationality (to help in understanding the culture/geography of the organization), age and tenure (to balance new perspective vs understanding of business) and sector experience (to achieve a skill set which matches the underlying operations of the business). One such example comes from a 2012 study by the Association of Chartered Certified Accountants who found that, in analyzing board behavior, financial risk-taking was lower where board processes were characterized by a healthy degree of cognitive conflict, that is, differences of opinion over key company issues and board tasks. This is only possible where diversity of experience and opinion is present on the board. Over the course of the last year, Robeco has supported a several shareholder proposals asking companies to commit to greater levels of disclosure on diversity and pay equality.

Self-assessment: Identifying necessary improvements

In combination with a strong nomination policy to ensure that board members possess the right skills to perform their roles effectively, it is important the board regularly assesses their own functioning to ascertain where potential improvements can be made. Whilst shareholders are usually only given the chance to cast their votes on board composition at most once every year, it is important that they have an understanding of the how the board has functioned over the previous year.
This allows for a better assessment of new nominees, especially if skill or knowledge gaps have been identified over the year in review. We believe all boards should undertake regular self-assessments, and that these should be carried out on a yearly basis. An external party should be involved in the process of these assessments at least every three years to provide independent judgment. The results and follow up actions from these board assessments should be available to shareholders. Best practice in self-assessment can therefore be broken down into two steps: 1) performing an appropriate level of self-evaluation and 2) reporting to shareholders on these activities.

In this sense, regular monitoring and assessment is key in ensuring good corporate governance and effective risk management oversight. From a board perspective, this should entail regular assessments of the boards composition, organization, effective functioning and the identification of possible areas for improvement. Disclosing such information to shareholders allows for better informed proxy voting decision making. We therefore encourage all companies to disclose the results of their self-assessment process.

Board composition: The role of investors

The topics outlined above are just a few of the factors which result in our final voting instruction at a shareholder meeting. But a pertinent question to ask is what effect these votes have on the company in question. A recent (2016) study by PricewaterhouseCoopers highlighted the importance of investor engagement and proxy voting, and the subsequent impact which this has on board composition. As a result of investor engagement, 61% of surveyed directors say their board added a director with a specific skill set, 46% say they added a candidate who brought additional diversity of the board, and 24% say they added a younger board member.

The importance of informed proxy voting is therefore two-fold. Firstly, by exercising their shareholder rights, investors can help to ensure that the board in place post-shareholder meeting is the one that is best prepared and equipped to meet the challenges of the coming year. Secondly, by remaining open to engagement, investors can act as a sounding board for companies, sharing examples of best practice, in turn leading to increased shareholder value creation.

Company Highlights

Monsanto Co.

Robeco has been engaging with Monsanto since 2012. Following the approval of a shareholders' proposal for proxy access which grants shareholders the right to nominate board directors, we had constructive talks with Monsanto, making suggestions for the implementation of this new procedure.
US biotech company Monsanto produces seeds for fruits, vegetables and crops such as corn, soybeans, and cotton. It is the subject of controversy for the production of genetically modified organisms (GMOs) and pesticides, such as its proprietary Roundup, which are accused of endangering the food chain. Robeco has an active dialogue with Monsanto on this and other topics since 2012.

Monsanto gives minority shareholders the right to nominate directors. At this year's annual shareholders' meeting, 53% of the shareholders, including Robeco, voted in favor of a shareholder proposal to change Monsanto bylaws and allow for 'proxy access'. As a result, eligible Monsanto shareholders are now allowed to nominate their own directors, in addition to the candidates nominated by Monsanto's board of directors.

After our review of the 2014 sustainability report released at the end of May 2015, we sent a set of questions to Monsanto and asked to discuss their plan to implement the proposal. The company was keen to hear our views on how such measures should be designed, and we shared our views during a call in June 2015. We discussed conditions for shareholders' eligibility such as the period of their share ownership and the amount of shares they own.

Ultimately, the company decided that a single shareholder or a group of up to 20 shareholders, owning 3% of Monsanto's outstanding stock continuously for at least three years may submit director nominees for up to 20% of the board. The fact that we had been in talks with the company for three years strengthened the mutual trust and allowed us to contribute to an optimum outcome of the voting process.

Our engagement with Monsanto shows good progress. We encourage the company to develop a comprehensive policy on their efforts to support biodiversity conservation. Meanwhile, the company is increasingly transparent on sustainability issues. It has opened up to external stakeholders, has enacted an integrated Sustainability department and has committed to develop a biodiversity policy as part of the new sustainability framework, which is expected to be released in 2016. However, we will continue to exert our influence through the dialogue with Monsanto on product stewardship. WHO research published in March 2015 labels glyphosate, the active component of Roundup, as probably carcinogenic. These publications are a cause for concern for shareholders and the way in which the company manages the health risks of its products is a material factor in our analysis.

Voting and engagement are two tools that, when combined, can strengthen each other. A long-standing relationship resulting from a multi-year engagement process inspires trust. Voting then becomes much more than simply casting a vote, and evolves into an important element in a continuous mutual exchange of views.

Visa Inc

Visa Inc., a payments technology company, operates an open-loop payments network worldwide.

Meeting date: 02 March 2016

At the annual shareholder meeting of this year, the company submitted a proposal for shareholder ratification of its executive compensation policy and practices. Following a careful analysis, Robeco decided to vote against the executive compensation proposal. This outcome reflects an assessment on the adequacy of the compensation package structure, quality of disclosure and reasonableness of payouts. We found concerns particularly on the structure of the remuneration plan and on the reasonableness of payments.

Regarding the structure of the compensation plan, we believe that a balance is missing between the fixed and variable payments to the CEO as the variable pay (including annual bonus and equity incentives) was 1000% of the fixed compensation. The equity incentives alone amount to approximately 740% of the CEO's base salary. Although we believe that equity awards can effectively incentivize management to create long-term value, such awards should be reasonable and well-balanced with the rest of the components of the compensation policy. Moreover, the equity awards are based on annual EPS targets over a three-year period. Although the awards vest at the of the three-year period, the focus on short performance periods for the EPS metric may fail to fully capture the long-term performance of the company. Finally, regarding the reasonableness of the payouts, we have concerns about the sign-on payment to the recently-recruited CFO of USD$17.5 million, which in our opinion is excessive.

This proposal was approved on an advisory basis by 97.2% of shareholders.

SGS SA

SGS SA provides inspection, verification, testing, and certification services in the Asia Pacific, the Americas, Europe, Africa, and the Middle East. The company's line of business includes provide clinical laboratory testing services.

Meeting date: 14 March 2016

During the annual shareholder meeting of SGS Societe Generale de Surveillance SA, Robeco voted against a number of the candidates up for election on the ballot. In accordance with Swiss law, the chairman and all other directors are up for election to serve a one-year term. We are specifically concerned by the lack of independent directors in the proposed board composition for the coming year with eight of the ten current and proposed directors either affiliated with the Company or insiders. Specifically, we believe Groupe Bruxelles Lambert SA and the von Finck family, which beneficially own 15.00% and 15.03% of the Company's total share capital respectively, have a disproportionate amount of seats on the board relative to their holdings. This leads us to believe that minority shareholders in the company are therefore under represented. We also believe nominees Desmarais, Gallienne, Lamarche and Marchionne serve on too many other boards, precluding them from spending sufficient time to discharge their duties as board members, with nominee Paul Desmarais in particular holding an additional seven public company directorships.

As a result of the overall lack of independent members on the board, the composition of the audit, nominating and remuneration committees do not meet our standards of independence. We believe it is important that both the audit and remuneration committees contain a majority of independent directors. We also view the current composition of the board as a failure of the nomination committee to nominate a sufficient amount of independent directors to the company's board. However, as the chair of the nomination committee is one of the few independent members of the board, we have chosen not to vote against his nomination at this time. As a result of these concerns, we voted against the nomination of nominees Marchionne, Desmarais, Gallienne, Lamarche and August François von Finck with the aim of increasing board independence.

All of the proposed nominees were re-elected to the board at the annual shareholder meeting.

Koninklijke Ahold NV

Koninklijke Ahold NV operated retail food stores. The company operated through three segments: Ahold USA, The Netherlands, and Czech Republic.

Meeting Date: 19 April 2016

On 14 March, Koninklijke Ahold NV held an extraordinary general meeting (EGM) where changes to the executive remuneration policy were proposed. Among the changes was the awarding of a special one-time incentive in relation to the merger with Delhaize Group. Shareholders, including Robeco, voiced their concerns on the proposed remuneration policy. Robeco believes that executive compensation should incentivize long-term performance. We view the execution of transactions, such as mergers and acquisitions, as intrinsic to an executive's duties. As such, we believe they should not be subject to payment of exceptional bonuses.

In response to shareholder feedback, Ahold withdrew the proposal from the agenda of the EGM and the vote on this proposal was postponed to take place at the annual general meeting (AGM) of 19 of April. At the AGM the proposal on amendments to the executive compensation policy removed the one-time incentive award. We believe this is an example of how investors can add value to companies' corporate governance practices by engaging in dialogue with them.

The proposal voted at the AGM of 19 April was adopted with 97,84% of shareholder support.

Citigroup Inc

Citigroup Inc. is a diversified financial services holding company that provides a broad range of financial services to retail and corporate customers. The company services include investment banking, retail brokerage, corporate banking, and cash management products and services. Citigroup serves customers globally.

Meeting Date: 26 April 2016

A shareholder proposal was presented at the annual general meeting (AGM) of Citigroup this year, requesting that the company prepares a report by September 2016, demonstrating that the company does not have a gender pay gap. Robeco supports gender equality in both hiring and pay practices, believing that this is in the best interest of both investors and the society at large.

A recent report by McKinsey (2015) predicted that close gender equality in the workplace could add as much as 26% to GDP by 2025 whilst a 2013 study by Harvard Business school found that gender diversity in the workplace can increase both returns on equity and net profit margins.

A 2016 study by Morgan Stanley also highlighted the positive effect which gender diversity policies can have on companies and the investment opportunities they represent. The study noted that European and American companies with the most progressive policies on diversity offered both higher returns and less volatility to investors. In fact, the stocks of those American companies with the highest scores on diversity beat those scored the lowest by 2.3 percent on a monthly annualized basis over the last 5 years. Furthermore, a 2015 study by RobecoSAM also found that companies with a more diverse and equal workforce are indeed better positioned to outperform.

Yet, diversity remains a goal many companies are struggling to achieve, with pay equality a key component of the equation. At present, the median income for a woman working full-time in the U.S. is reported to be 78% of that of their male counterparts, with the financial services

sector routinely found to have one of the widest gaps in pay levels by gender relative to other parts of the economy. Further, women represent only one third of the workforce in the sector, further emphasizing the importance of the issue.

This has led to a number of large banking institutions including Morgan Stanley, Wells Fargo, Bank of America and Citigroup settling recent gender discrimination lawsuits ranging from $32 - $46 million. We therefore believe that reporting on any potential gap in gender pay is a first step to reducing and subsequently closing it. This will not only allow the company to reduce its risk of gender bias problems and subsequently costly lawsuits, but also to benefit from the potential outperformance as outlined above.
The shareholder proposal was rejected by a majority of shareholders at the AGM.

In addition to supporting the shareholder proposal on gender pay equality report, Robeco voted against the executive remuneration report, as the company did not align pay with performance. The advisory report on remuneration was passed with the approval of 63.6% of votes.

Johnson & Johnson

Johnson & Johnson manufactures health care products and provides related services for the consumer, pharmaceutical, and medical devices and diagnostics markets. The company sells products such as skin and hair care, acetaminophen, pharmaceuticals, diagnostic equipment, and surgical equipment globally.

Meeting Date: 28 April 2016

Robeco expects companies to be transparent on their lobbying activities, on both the national and international level, and on their positions on matters of public policy, such as relevant environmental legislation. This includes ensuring consistency with the company's views on themes such as climate change and those which are advocated for on their behalf by their representative trade associations. With this in mind, Robeco supported a shareholder proposal filed at the annual general meeting (AGM) of Johnson & Johnson, asking the company to report on its lobbying activities.

We believe companies should be transparent in the way in which they use their power to influence legislation and regulation. Between 2013 and 2014, the company disclosed that it spent $11.6 million in direct federal lobbying activities. This is in addition to the lobbying undertaken at US state level. However, whilst the company is fairly transparent in this regard, what is not clear is how the company's trade association membership align with their own publicly stated views. An example of this is the company's membership of the US Chamber of Commerce who has in the recent past aggressively lobbied against the Environmental Protection Agency and its new Clean Power Plan to address climate change.

Ensuring that companies are transparent on how they are represented by trade associations is important due to the huge influence trade associations have. The previously mentioned Chamber of Commerce for example spent over $124 million lobbying in 2014 and has spent over $1 billion on lobbying since 1998. Yet, the companies do not reveal payments made to the trade association of which they are members, removing an important level of accountability which we believe should be present.

This shareholder proposal received 8% of shareholder support.

Occidental Petroleum

Occidental Petroleum engages in the acquisition, exploration, and development of oil and gas properties in the United States and internationally.

Meeting Date: 29 April 2016

Climate change related proposals had a prominent place at the annual general meeting (AGM) of Occidental Petroleum. Shareholders requested the company to stress-test its operations in a potential 2°C scenario, and to report quantitative performance and targets on methane emissions and flaring.

Robeco supported both the shareholder proposals. First, we believe, that the company could provide more information concerning its plans to ensure continuity of operations, should emissions regulations become more stringent or market forces lower demand for the company's products. At present, the company does not provide details regarding how climate change-related regulations will impact the company's portfolio, nor does it discusses how these regulations account for, in its capital investment decisions. We believe, that the shareholders would benefit from more comprehensive information about the impact that climate change regulation designed to limit global warming to no more than 2 degrees celsius might have on the company, given its continued significant investment of capital in carbon-intensive projects.

Secondly, although methane emissions have not received as much attention as other climate change related proposals, we believe they are an equally important topic for the oil and gas industry. Contrary to oil spills, methane is not easily detected by the human senses of sight and smell. Instead, identifying methane emissions requires more advanced technologies such as infrared imaging and malodorous additives. For this reason, Robeco supports adequate reporting and reduction targets of methane emissions and flaring. The shareholder proposal on methane emissions is particularly relevant for Occidental Petroleum because reporting quantitative performance on methane emissions and flaring is common practice among major peers, including Exxon Mobil. Moreover,

reporting on such emissions is considered as best practice according to industry organizations such as the International Petroleum Industry Environmental Conservational Association (IPIECA) and the American Petroleum Institute (API). Occidental is a member of both IPIECA and API.

Entergy Corp

Entergy Corporation, together with its subsidiaries, engages in the electric power production and retail electric distribution in the United States. It operates in two segments, Utility and Entergy Wholesale Commodities.

Meeting Date: 20 May 2016

Robeco supported a shareholder proposal at the annual general meeting (AGM) of Entergy Corp. The proposal requested that the company publishes a report by October 2016 (at reasonable cost and omitting proprietary information) describing how it could adapt its business model to significantly increase deployment of distributed-scale non-carbon-emitting electricity resources to reduce its greenhouse gas emissions and protect shareholder value.

It is known that utilities companies' business model face unprecedented disruptions driven by demand of non-carbon-emitting sources of electric power, whilst also moving from a centralized generation structure to a decentralized one. In this context, companies need to design new strategies and seize investment opportunities by focusing on cleaner power generation, customer retention, networks, and services. The right balance between security of supply, environmental impact, and costs must be established for electric utilities to be sustainable. Due to long lifecycles of power generation assets, utilities should take measures to future-proof their strategies.

A recent survey by PricewaterhouseCoopers found that 94% of international electric power industry representatives believe that the power utility business model will be transformed by 2030. Many other companies also acknowledge that factors that could affect market prices for electricity and fuel include the availability of competitively priced alternative energy sources and the requirements of a renewable portfolio standard. With this in mind we assessed the merits of the shareholder proposal and found it to be reasonable without having to incur huge costs on the company's part. Therefore, we supported the proposal.
The shareholder proposal received 30% of votes cast at the AGM.

McDonald's Corp

McDonald's Corporation franchises and operates fast-food restaurants in the global restaurant industry. The company's restaurants serve a variety of value-priced menu products in globally.

Meeting Date: 26 May 2016

At the annual general meeting (AGM) of McDonalds Corp. we supported a sharehodler proposal requesting that the company adopt a policy to prohibit use of antibiotics in the meat supply chain other than for therapeutic purposes.

A 2014 a report by the World Health Organization highlighted that overuse of antibiotics when rearing livestock was contributing to the growth of dangerous antibiotic-resistant bacteria and other pathogens, creating a situation whereby high levels of resistance to antibiotics can now be seen. This is in addition to recent warnings by the U.S. Centers for Disease Control and Prevention, and the President's Council on Science and Technology, stating that antibiotic resistance is an immediate and global public health crisis which, if unchecked, threatens to overturn many of the medical advances made over the last century. The crossover between antibiotics used in rearing livestock and those used to treat human illness has further complicated the issue, with over 70% of antibiotics in classes important for human medicine also being sold for use in food producing animals.

This makes the issue particularly significant for those companies involved in the livestock supply chain, in which companies such as McDonalds are important parties. The shareholder proposal therefore asks McDonalds to "prohibit the use of antibiotics important to human medicine globally in the meat supply chain, for purposes other than disease treatment or non-routine control of veterinarian-diagnosed illness, and; identify timelines for global implementation of vision including for meats currently not supplied by dedicated suppliers."

As well as voting for this shareholder proposal, Robeco will be engaging with companies within the meat supply chain over the coming three years, with a view to changing practices within the sector.

The proposal gained support of 26.3% of shareholders.

Chubb Limited

Chubb Limited (formerly ACE Limited) provides property and casualty insurance and reinsurance products worldwide.

Meeting date: 19 May 2016

In several markets, including the US, it is customary for shareholders to have an advisory vote on the executive compensation practices at the company. This year, Robeco voted against this proposal in order to show our disapproval of the company's executive pay structure.

According to our assessment, there are several issues with the company's executive compensation program. When considering the structure of the plan, it becomes apparent that the company does not utilize an objective, formula-based approach to setting short-term executive compensation

levels. Instead, this is determined on a purely discretionary basis, which is out of line with best practice norms. In the past year, the CEO was granted an annual bonus amounting to approximately 470% of his annual base salary. It also appears there is no upper cap in place to limit the size of annual bonus grants to the CEO. This can also be considered as an important reason for the misalignment between pay and performance at the company, whereby pay awards at the company significantly outpaced those of the relevant peer group. Additionally, due to the short performance period of the long term component of the plan, we have serious concerns as to the alignment between executive pay and long term, sustainable shareholder value creation.

This is the third consecutive year where Robeco has voted against pay practices at the company. For this reason, we also took the decision this year to vote against the reelection of three members of the companies compensation committee, which has consistently failed in its duty to sufficiently align executive pay with the best interests of shareholders. The advisory vote on executive compensation was approved by 59.42% of shareholders.

WPP Plc

WPP plc operates a communications services group. The Company's operations encompass advertising, media investment management, information and consultancy, public relations and public affairs, healthcare and specialist communications, and branding and identity services.

Meeting date: 06 August 2016

Robeco voted against the advisory report on remuneration at the annual general meeting of WPP Plc, due to the highly excessive remuneration package granted to the chief executive officer during the past year. British companies are required to seek non-binding shareholder approval of their remuneration practices annually, in addition to a binding vote on the remuneration policy every 3 years.

The remuneration report presented at this year's AGM showed the chief executive's annual compensation greatly outpaces the compensation awarded to chief executives at similar firms, without proper justification. We are also concerned at the high limit placed upon the long term incentive (LTI) component of the plan, which allows for awards of up to 975% of base salary for the CEO and 400% for other executives.

We are alarmed that these remuneration practices have been ongoing for a significant period of time. Robeco has consistently opposed remuneration practices at the company, voting against the advisory vote since 2012, as well as opposing the remuneration policy when it was presented to shareholders in 2014. Last year alone approximately 20% of shareholders voted against the advisory remuneration report.

We therefore believe that the members of the compensation committee have failed to sufficiently take into account shareholder disapproval when formulating remuneration practices at the company. For this reason we also voted against the reelection of the two members of the remuneration committee up for reelection.

The advisory vote on executive compensation was approved by 66.5% of shareholders

BHP Billiton Plc

BHP Billiton plc operates as a resources company that discovers, acquires, develops, and markets natural resources worldwide.

Meeting date: 20 October 2016

For the first time since the 2001 merger of BHP and Billiton, the CEO of the company did not receive any annual bonus, or payments under the long-term incentive, in fiscal year 2016. The CEO's total pay was practically halved, dropping from USD 4.58 million in 2015 to USD 2.24 million in 2016. At the annual shareholder meeting of 2016, shareholders had the opportunity of voting on the executive remuneration proposal.

This year has been a very tumultuous one for BHP Billiton, and for the mining industry as a whole. Due to depressed commodities price, the company suffered the biggest loss in its history. As part of its cost-cutting strategy, in 2016 the company cut 15,000 jobs and slashed contractors by 19 per cent, down to 65,263 from 80,368 in 2015. On top of that, in November 2015 a tailings dam at its Samarco joint venture in Brazil collapsed, causing 19 casualties, damaging the environment and destroying nearby communities and their livelihoods. The dam collapse has brought several fines and legal charges against the company and individual executives of Samarco, BHP Billiton and its joint venture partner, the Brazilian miner Vale.

As a result of the dam collapse and the ongoing decline in commodity markets, the remuneration committee of the company's board decided to cut off the annual bonus. Also, the remuneration committee acknowledged that shareholders have perceived the impact of these degrading performance results in the past years. Total shareholder return was -15.2% in the past five years, well below peers' performance. According to the remuneration committee's report, such performance falls below the thresholds required to grant performance-based payments under the remuneration policy.

Robeco recognizes that the company has experienced a challenging environment that has affected its financial performance. Moreover, the dam collapse has had severe consequences to the affected communities. While we acknowledge that the company's response to the disaster has been adequate, the social, environmental and financial impacts to

communities, the company and its joint venture partners, will continue to be felt in the years to come. We often see that plans allow for bonus upside in times of good performance, but very rarely does declining performance translate into a cut in annual bonus. In the case of BHP Billiton, we appreciate that the company is committed to linking pay with performance, also related to environmental and social issues, by reflecting declining performance in the executive pay. We believe the company's approach to executive remuneration is reasonable and for this reason we supported the remuneration proposal.

The executive remuneration proposal was approved by a large majority of shareholders.

Oracle Corp

Oracle Corporation supplies software for enterprise information management. The Company offers databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, minicomputers, mainframes, and massively parallel computers.

Meeting date: 16 November 2016

At this year's annual general meeting, shareholders were asked to approve the advisory vote on executive compensation at the company. At the 2015 shareholder meeting, the plan had received the support of approximately 48.1% of shareholders. As 27.21% of all shares are owned by co-founder and current Chief Technology Officer Larry Ellison, the investor support for this proposal is considerably low. This triggered the company to implement a number of changes surrounding executive compensation practices, including adding a new director to its compensation committee and changing the chair and vice chair of the committee, changing the principal partner at its compensation consultant, and performing an overall revaluating compensation practices at the company. However, following an extensive review of this year's compensation practices, Robeco continues to oppose compensation practices at the company as we do not believe that the company's response to the sustained opposition of shareholders to its compensation practices has been extensive enough.

The company's lack of disclosure around the targets and maximum goals of the long term plan make it difficult for investors to sufficiently quantify whether the current levels of executive pay are appropriate when considering performance.   When considering the overall amounts paid under the plan to senior executives, CEO compensation remains the highest in the sector, despite the company falling into the 65th percentile by market cap, and 37th percentile by revenue. We therefore question the ambitiousness of the targets set under the long term incentive plan. This is illustrated by the provision of the long term incentive plan that makes executives eligible to receive awards if Oracle underperforms the company's self-designed peer group. Almost half of the time vesting awards made under the long term incentive plan have also been granted in the form of stock options, which limit the downside for executives should performance suffer as the awards vest.

Robeco has consistently opposed compensation practices at the company, and we believe that the compensation committee have been deficient in their duty to shareholders in responding the significant opposition by shareholders to compensation practices in recent years. For this reason, we also voted against the re-election three directors to the board, due to their stewardship of the compensation committee in the period concerned. In addition, we also voted against the re-election of two additional directors due to our concerns about the overall independence of the board. Both board members received significant compensation of the course of the year. Combined with their relatively long tenures on the board, we classify them as affiliated to the company, leading to an overall board independence level of 46%, below the majority requirement and significantly below established best practice. We also note the relatively long average tenure of board members at Oracle (14 years) as well as the relatively high average age (67 years) and will monitor these at the company going forward.

At the shareholder meeting, 49,23% of shareholders voted against the advisory vote on compensation. The nominees which we voted against were also all re-elected to board.

Estee Lauder Cos., Inc.

The Estee Lauder Companies Inc. manufactures and markets a wide range of skin care, makeup, fragrance, and hair care products. The Company's products are sold globally.

Meeting date: 11 November 2016

Robeco voted against the advisory vote on executive compensation at the 2016 annual general meeting of Estee Lauder, due to the significant one off awards with unchallenging performance conditions granted to the chief executive officer during the year. When voting on remuneration plans, Robeco pays close attention to their structure. It is essential that executives are being incentivized with the adequate award structures and metrics that are most appropriate for the company, based on their sector and strategy. However, when assessing the awards submitted for approval at the company's shareholder meeting, we see a number of significant issues, specifically around the granting of one off awards to the CEO.

Shareholders were asked to approve a payment of USD 30 million, in addition to the amount of USD 18 million due to the CEO under the agreed remuneration policy. In this case, we are extremely concerned that the USD 30 million award made to the CEO comes with extremely

low performance conditions attached. Specifically, the awards vest based upon simple hurdles, with significant pay outs occurring simply for maintaining a positive net profit.

It is therefore possible that the majority of the one off award made to the CEO would continue to vest, even in light of significantly decreased company financial performance, so long as overall net profit stayed above zero. We therefore question whether such a sizeable award should be made without significantly more stringent performance conditions attached.

When considering the existing remuneration policy in place at the company, we also have some significant concerns. One such concern is the sole use of absolute metrics in the LTI plan which rather than rewarding executives for outperformance, can simply reflect economic factors or industry-wide trends beyond the control of executives, rather than the performance of management. In addition, the significant overlapping of performance conditions could lead to a high level of pay-out (or lack thereof) for performance against similar targets. We encourage the company to implement a compensation policy based upon a broader range of metrics, including some relative metrics, to more adequately align pay levels to company and individual performance. For these reasons, we voted against the advisory vote of compensation at the 2016 shareholder meeting.

At the shareholder meeting, the advisory vote on executive compensation received the approval of 92% of shareholder.

4. Deepwater drilling

In April 2010, the BP-operated Gulf of Mexico deepwater drilling platform Deepwater Horizon caught fire as a result of a well blowout, killing 11 employees and causing an estimated 4.9 million barrels of oil to spill into the sea. Since then, the risks of deepwater drilling have become more tangible. The relevance for investors is clear given the prominent part of deepwater drilling in the asset portfolio of oil operators.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact Principles 7-9
- SDG 14: Life below Water

Environmental Management:
Environmental Policy & Performance
An environmental management policy is a set of restrictions or standards designed to protect and conserve environmental resources. An effective environmental policy clearly outlines rules and expectations for companies to follow regarding preventing negative impact on the environment. Furthermore it should be equipped to calculate the environmental performance of a company as well.

Recent developments

Macondo boosts risk management in deepwater drilling
Since this major incident, investors in companies holding deepwater assets need to know whether their investee companies are doing the best they can to manage the financial, environmental and social risks linked to deepwater hydrocarbon extraction. After the Macondo oil spill in 2010, we started engaging with ten companies in the deepwater drilling industry. The companies we engaged with were PTT EP, Statoil, Total, Tullow, Chevron, Petrobras, ConocoPhillips, Repsol, Anadarko, and CNOOC.

Robeco's approach to deepwater drilling risks
Within Robeco we set up a deepwater drilling risk assessment project group to take a closer look at the risks and manageability of deepwater exploration and development. The group's aim was to determine the risks and investment opportunities associated with deepwater drilling. To this end, it targeted a deeper understanding of the operational, regulatory and technical risks, as well as the integration of these risks into company policies, procedures and monitoring systems.

The findings were presented in a white paper. One of the identified next steps was to start an engagement process with targeted companies to monitor and identify the improvements (if any) in deepwater drilling risk control. With this aim we conducted, together with Sustainalytics, a baseline research containing a list of concrete engagement goals for companies, allowing them to identify possible improvements.
Our goal was to be able to identify the companies that were most advanced in the field of deepwater operations management and risk control, as well as the companies that were clearly lagging behind. For this reason we visited BP's Monitoring Center in Houston in 2013 to witness the way BP manages the well risks, how BP trains its people and the response efforts that were being prepared in case of disasters. It became clear that incident prevention, intervention and response were crucial areas of management for deepwater operators. By taking BP as an industry example, a company that has learned its lessons the most, we were better able to ask the right questions to other deepwater drilling companies.

Encouraging results
In 2015 we presented the interim results of our engagements with the ten companies with deepwater drilling activities all over the globe. We assessed the overall progress per company and we were able to see which companies were showing excellent progress, which companies were big improvers, which ones showed good progress and which companies were slow improvers. Most importantly we knew which company was showing a red flag for not showing any improvements at all. We regarded this as a clear warning signal for investing in this company.

The interim results were used in a Best Practice Report which was then used in our engagement process to drive change at the companies we identified as laggards for the remaining engagement period. At the end of the full engagement period we were able to present the final results. All ten engagements were closed successfully. Our engagement with the lagging companies proved particularly successful.

Positively surprised after three years of engagement
Just as oil companies cannot rule out the risk of a well accident altogether, we as investors cannot fully protect our portfolios from such an incident if we choose to invest in the energy sector. What is in our power is assessing whether individual companies have proper safety standards.

As investors we are happy to see that the companies now disclose a lot of information, on websites and in annual reporting. For example, many companies now publish a clear list of where the deepwater assets are located, at what depth companies are drilling for oil, as well as the challenges at each site and how these are being addressed. Companies also disclose the most important information on the safety systems, including how the company designs, trains, monitors and collaborates on deepwater projects as well as an explanation of the use of cutting-edge technologies. This way we can better assess the deepwater risks per company.

In the Gulf of Mexico operators have joined forces in two groups, the Marine Well Containment Company and the Helix Well Containment Group. These groups have mutual aid contracts to share people, knowledge and equipment when spills or accidents occur. In other areas in the world companies show a clear trend towards globally accepted recommendations for emergency response and good operating practices. Many deepwater drilling companies are well underway in moving in the direction of adopting and implementing global drilling and safety standards for all their operations.

In our engagement period, we found that spending time discussing these issues with management and operational officers has been of great value in understanding a company's exposure to the risks involved in deepwater operations. And vice-versa: by asking the right questions on practices to maintain well control, emergency management, contractor management and regulatory risk disclosure, we have encouraged the companies to become most advanced in the field of deepwater operations management and risk control.

In general, we are positively surprised by the substantial improvements the deepwater drilling sector has made in a relatively short period of time. There has been a clear shift away from the traditional method of merely keeping oil away from the coastline and scraping it off the sea surface towards the adoption of tools, techniques and plans to control the subsea source of oil, for example by capping the well. Apparently the Macondo incident provided the sector with a sense of urgency.

Theme progress

5. Environmental challenges in the oil and gas sector

The business model of oil and gas companies is being eroded by rising capital intensity and diminishing returns. This effect is amplified by technology dynamics such as the rise of renewable energy, the promise of energy storage and the potential of electrified transportation. At the same time, the threat of tighter environmental and climate change legislation on a global, regional, and national level is looming in the background and pressure for more concerted climate-policy coordination has increased with the COP21 agreement reached in Paris in 2015. As a result energy resources might become stranded, i.e. assets that at some time prior to the end of their economic life, are no longer able to earn an economic return as a result of changes in the market and regulatory environment associated with the transition to a low-carbon economy. Therefore, additional factors need to be integrated into analysis of fossil fuel assets to ensure climate risk is priced properly, and capital is allocated to align with the transition to a low carbon future.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact Principles 7-9
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises Chapter VI
- SDG 13: Climate Action

Environmental Management: Environmental Policy & Performance
An environmental management policy is a set of restrictions or standards designed to protect and conserve environmental resources. An effective environmental policy clearly outlines rules and expectations for companies to follow regarding preventing negative impact on the environment. Furthermore it should be equipped to calculate the environmental performance of a company as well.

Recent developments

Environmental Challenges in the Oil and Gas Sector– start of a new engagement theme

The business model of oil and gas companies is being eroded by rising capital intensity and diminishing returns. This effect is amplified by technology dynamics such as the rise of renewable energy, the promise of energy storage and the potential of electrified transportation. At the same time, the threat of tighter environmental and climate change legislation on a global, regional, and national level is looming in the background and pressure for more concerted climate-policy coordination has increased with the COP21 agreement reached in Paris in 2015. As a result energy resources might become stranded, i.e. assets that at some time prior to the end of their economic life, are no longer able to earn an economic return as a result of changes in the market and regulatory environment associated with the transition to a low-carbon economy. Therefore, additional factors need to be integrated into analysis of fossil fuel assets to ensure climate risk is priced properly, and capital is allocated to align with the transition to a low carbon future.

Start of a 3 year engagement theme

In the beginning of 2016, Robeco commissioned a research report by the UK research think tank Carbon Tracker Initiative (CTI). Based on our outline of the issue and definition of engagement objectives, the report analyzed a large number of key performance indicators which will form the basis for our engagement dialogues. We will engage with 6 international oil and gas companies (IOC's) and 6 national oil and gas companies (NOC's); together these companies account for one-quarter of current global oil supply, over one-fifth of current global gas supply, and 1.6 trillion US dollars in enterprise value. The theme is in a starting phase and first activities and contact points with the companies have recently been established.

Five engagement objectives

Our engagement objectives are based on the drivers that shape the new energy world. We have divided the objectives into having a future-proof business strategy, striving for operational carbon-efficiency, assessing asset portfolio resilience and working on product stewardship. We also added public policy as an objective as we believe that companies should, at the very least, not lobby against stricter climate change regulation.

Operational Carbon Efficiency

We expect oil & gas companies to actively minimize their operational carbon footprint and bring down the carbon intensity of their operations. This includes having efficient operations, deploying new technologies, minimizing methane emissions and a commitment to zero routine flaring.

Product Stewardship

We expect oil & gas companies to focus on innovation and on making sure their products can be used with minimal harm to the environment. The goal is to decarbonize the entire value chain. For example by working with the automotive industry to make cars more fuel efficient or collaborating with airports to offer jet biofuel.

Future-proof business strategy

We expect oil & gas companies to adjust their business models. We acknowledge that there is no "one size fits all" approach as strategy adjustments depend on circumstances, starting positions and skill sets of the companies. As a rule of thumb we expect companies to be on a clear trajectory to decarbonize their assets, moving from oil to gas to renewables.

Asset portfolio resilience

We expect oil & gas companies to understand and calculate the effects of climate change on their business and how climate change might affect the future value of their investments and assets.

Public Policy

We expect oil & gas companies to be transparent on their lobbying

activities at the national and international level and on their positions on relevant environmental legislation (i.e. fixing the ETS, or carbon tax). This includes ensuring consistency between the companies' views on climate change and those which are advocated for on their behalf by their respective trade associations.

Relevance for investors

Oil and gas companies have to reconsider their business strategies either by increasing dividends or directing future capital investments towards renewable projects instead of high cost high emissions fossil fuels that might become unburnable in the future. As investors, we need to know how the oil & gas companies will deal with these changes in their industry, how they will address the huge risks and how they plan to profit from the opportunities that arise. This will allow us to pick the winners of this transformation.

Theme progress

6. Carbon Management in the retail real estate trusts

Climate change may lead to significant investment challenges. Therefore, the CO2 management at companies is a recurring theme that we give attention in our engagement program. We select companies particularly in CO2-intensive sectors such as the utilities sector in 2008 and the car industry in 2010. Because the real estate sector has a large share in the annual global emissions of CO2 and other greenhouse gasses (over 10%) we are going to focus in the coming years on the retail REITS (real estate investment trusts). This includes shops and malls.

Codes of conduct and Sustainable Development Goals (SDGs)

- UN Global Compact principles 7-9
- Rio Declaration on Environment and Development
- SDG 11 - Sustainable cities and communities
- SDG 13: Climate Action

Environmental Impact: Climate Change

Together with the limited availability of natural resources such as water, climate change is the biggest environmental issue affecting companies. Climate change currently affects both government policy and consumer behavior. Climate change increases the risk to companies and sectors but also offers opportunities. This impact can be indirect, for example through regulatory change, but can also be direct resulting from changes in the natural environment. In order to address the risks arising from climate change, companies will have to develop strategies to manage the financial, operational and organisational impact. It is also important that companies set targets, measure performance and report progress. Opportunities will arise in new and existing markets, through process improvements and technological innovation from companies at the cutting edge.

Recent developments

Carbon management in Real Estate Investment Trusts

Buildings represent a major opportunity for environmental improvements as the sector as a whole accounted for nearly 40% of the world's energy consumption, 30% of raw material use, 25% of solid waste, 25% of water use, 12% of land use, and 33% of the related global greenhouse gas emissions. Because the real estate sector represents such a large share of annual global emissions of CO2 and other greenhouse gasses, we have, over the last 3 years, focused on Real Estate Investment Trusts (REITS).

Besides environmental advantages, having a solid climate change strategy has various economic benefits for real estate companies. First, proactively managing their carbon emissions provides real estate companies, with the ability to lower their energy costs through energy efficiency measures. Second, they can charge higher rents for environmentally friendly buildings because of tenants' lower energy costs. Third, it is also easier to market environmentally friendly buildings as their occupancy rates are higher on average. Fourth, a climate change strategy reduces the risk related to the potential implementation of stricter environmental legislation by governments.

The research underpinning this engagement program comes from the research group Global Real Estate Sustainability Benchmark (GRESB). GRESB is an industry-driven organization committed to assessing the sustainability performance of real assets globally such as real estate.

Based on GRESB research, we began our engagement program in 2013 with seven companies (CapitaLand Ltd., Corio NV, Hammerson Plc., Link Real Estate Investment, Macerich Co., Simon Property Group and Unibail-Rodamco) before adding another five in 2014 (Eurocommercial NV, Federal Realty Investment, Frontier Real Estate Investment Corp., Scentre Group and Sun Hung Kai Properties). In 2015, Corio NV dropped out due its acquisition by Klépierre.

Substantial progress

Robeco does not publically disclose the full results, but as a broad summary, two companies met all five engagement objectives; four companies met four of them; three companies met three of them; one company met two, and one company reached one of the objectives. While these results could be seen to be mixed, it does mean all 11 companies under engagement met at least one of the engagement objectives, while two companies met all of them. Based on a success threshold of reaching at least 3 out of 5 objectives, we successfully closed our dialogue with 9 out of 11 companies. While there is always room for improvement, the majority of the companies made substantial progress and we are pleased with how this engagement program turned out.
Below we briefly outline some of the progress made in the five engagement objectives defined to guide and structure our engagement program.

Climate change management and legislation

We believe companies should strive to embed climate change and sustainability considerations in their overall corporate strategy. One measure that reflects such strategic climate change thinking is the push for renewable energy use across portfolios. We see strong links between renewable energy use, long term cost savings and the ascertaining of LEED and BREEAM certifications. BREEAM and LEED are the two most widely recognized environmental assessment methodologies used globally in the construction industry today. Any sustainability strategy must also have significant commitment from the top, including buy in from the very highest levels of the organization, and be linked back to the overall corporate strategy of the company.

Spotlight: Hammerson has been a big improver in this engagement objective. The company's commitment for all new developments to meet the highest BREEAM certifications is reflected in excellent or very

good ratings for all new developments. It is clear that the company systematically started to take climate change into account in all their strategic decisions. Strong buy in at the senior management level is mirrored in significant awareness at the site level, with sustainability considerations reflected in the day to day operation of their assets.

License to operate

In order to strengthen the business case for sustainability, we believe it is important for companies to link sustainability initiatives such as efforts to reduce energy consumption, implement environmental management systems, gain sustainable building certifications with associated cost savings. We think the best way to achieve this is through increasing the quality and quantity of meaningful quantitative data in corporate reporting. This may be best possible in a fully integrated report, but sometimes a traditional annual report complemented with a dedicated section with sufficient material information on the company's website may be adequate as well.

Spotlight: During our engagement, Simon Property Group has shown constant improvements, first by publishing its initial stand-alone sustainability report, then by aligning it with the Global Reporting Initiative (GRI) guidelines GRI G4 core reporting requirements and finally by greatly expanding the sustainability information available on the company's website. We see this as a major positive development for the company.

Environmental Management Systems

Efficient environmental management should result in improved operational efficiency and subsequently in lower costs. Thus, directly affecting financial metrics such as operating margins.

Therefore, we deem it essential for companies to have a comprehensive environmental management system (EMS) in place. This allows them to efficiently manage the overall environmental impact of their operations, and to focus on continuous improvement when it comes to reducing these impacts. Overall, we see positive trends both in companies moving towards certifying their EMS's against the ISO 14'001 standard, and moving from asset level certifications to group wide certifications.

Spotlight: We view CapitaLand Ltd. as being one of the sector leaders with regards to environmental management systems. We value their comprehensive approach to certification, reflected in their commitment to achieve both ISO 14001 and OHSAS 18001 certifications in all key markets and at group level. CapitaLand Ltd.'s EMS is externally audited by a third-party accredited certification body on a yearly basis. In addition, all appointed main contractors must be ISO 14001 and OHSAS 18001 certified or equivalent. They also demonstrate a clear understanding of the importance of climate change for the real estate industry. Echoed for example in the target to operate only Green Buildings (certified by a green rating system administered by a national government agency or a World Green Building Council (WGBC) recognized Green Building Council) by 2030, in addition to all existing properties owned by the company in Singapore targeting the Green Mark certification, a Singapore specific certification run by the government, by 2020.

Occupiers engagement

We see effective tenant engagement as the 'holy grail' for retail real estate companies aiming to incorporate sustainability considerations in their operations, as they typically only have direct operational responsibility for the communal areas, which typically cause only a relatively small part of the environmental impact, 20% to 40% depending on the design of the asset. By getting tenants to also 'green' their own operations, the magnitude of improvements which can be achieved is substantially increased.

One meaningful tool to engage tenants are concept known as 'Green leases'. Encouragingly, over the course of the engagement, we have seen an increase in the amount of companies that incorporate some form of green criteria into their standard lease agreements (i.e. a Green lease). It is all very well for large property companies to green their own operations, but without attaining buy in from their tenants and subsequently bringing them on board, an unnecessary ceiling is placed on the level of improvements which can be achieved.

Spotlight: We see Unibail-Rodamco as displaying best practices for the sector with regards to occupier's engagement. Unibail-Rodamco's commitment to roll out green leases as standard lease agreements with all their tenants, as well as the continued promotion of sustainability topics coupled with comprehensive training options for their tenants is a valuable way of embedding sustainability across the value chain.

Energy and carbon reductions

Whilst initial investments by companies in energy-efficiency and associated environmental strategies have substantially driven down overall GHG emissions and energy consumption, we have observed an overall slowing down of reductions for these two metrics during the final phase of the engagement program. However, we believe that leading companies are now willing to make longer term investments, with longer pay back periods, to achieve further reductions. We view this as a very encouraging development.

Spotlight: In this area, we see Macerich Co. as one of the sector leaders. Its USD 120 million investment in energy-efficiency projects since 2008 is paying off. In fact, their actual energy consumption and carbon emissions reductions often outperform their targets. In addition, their reporting on respective targets is clear, especially in the 2015 sustainability report, which provided for the first provided comprehensive breakdowns in relation to carbon footprint, energy efficiency projects and additional key environmental metrics.

Conclusion

In general, we are positively surprised by the substantial progress the real estate sector has made in a relatively short period of time. In particular, 2 out of 3 US REITs made substantial progress. After 3 years of engagement, we successfully closed our dialogue with 9 out of 11 REITS.

Simon Property's sustainability journey

Simon Property Group ('Simon') is a US real estate company that develops and operates shopping centers. The company has remarkably improved its sustainability performance since we started to engage with them in 2013. Besides environmental advantages, having a solid climate change strategy has various economic benefits for real estate companies. First, energy efficiency measures allow them to lower their direct energy costs. Second, they can charge higher rents for environmentally friendly buildings because of tenants' lower energy costs. Third, it is also easier to market environmentally friendly buildings as their occupancy rates are higher on average. Fourth, a climate change strategy reduces the risk related to the potential implementation of stricter environmental legislation by governments.

Carbon management in retail real estate

As investors we are looking for companies that integrate climate change and sustainability considerations into their business models to ensure long-term value creation. Our engagement with Simon was part of our engagement theme 'Carbon management in the retail real estate industry'. Our engagement objectives with Simon were:

- Climate change management and legislation
  Having a climate change strategy, taking a proactive approach on environmental legislation and integrating sustainability into the overall business strategy.
- License to operate
  Being transparent by participating in disclosure initiatives (such as the Global Real Estate Sustainabilty Benchmark (GRESB) and the Carbon Disclosure Project(CDP)) and reporting on sustainability.
- Environmental Management System (EMS)
  Implementing an EMS aimed at managing environmental performance, ideally externally certified based on international standards such as ISO14'000.
- Occupiers engagement
  Actively engaging tenants to implement joint sustainability programs.
- Energy consumption and carbon reductions
  Reducing energy consumption and carbon emissions.

Interaction

Robeco uses data of research initiative GRESB. This investor initiative compiles a benchmark to analyse the sustainability performance of real estate companies across the globe annually. Based on this research, we started to engage Simon in the fall of 2013 and had several conference calls with senior Simon representatives from its Sustainability and Investor Relations departments. These calls were followed up by e-mail correspondence during which Simon provided supporting documentation. We reviewed the 2013, 2014 and 2015 GRESB submissions of Simon and discussed the results in detail with the company, encouraging improvements year on year. We also provided feedback on Simon's two sustainability reports and highlighted concrete areas for improvements.

Impressive progress: from compliance requirement to business driver

Over the course of the engagement, Simon's overall GRESB score showed a remarkable rise. This reflects the significant improvement in Simon's overall sustainability approach, which evolved from being compliance driven to driving the business. The company showed particular improvement in the following four areas:

Climate change management and legislation

The company has aligned its sustainability objectives with its overall business strategy. Based on a comprehensive materiality assessment, the 2015 Sustainability report includes an extensive set of sustainability goals, such as improving portfolio-wide energy efficiency by 5%-10% by 2020 (base year 2013). In addition, Simon hired its first Director of Sustainability, who directly reports to senior management. This reflects the integration of sustainability and climate change considerations into the overall corporate strategy.

License to operate

Simon published its first publically available sustainability report at the end of 2014, followed by the second report at the end of 2015. The 2015 report is based on the Global Reporting Initiative (GRI) guidelines and in accordance with GRI G4 core reporting requirements. The regular publication of a sustainability report and the alignment with GRI is a big step forward. Combined with the improved web disclosure we see this as a major improvement in the company's transparency on sustainability and climate change.

Occupiers engagement

Simon has made significant progress in a short period of time with regard to sustainability tenant interactions, with an official sustainability goal being to 'Engage with top 10 tenants on sustainability issues relevant to our shoppers to improve the overall sustainability performance of properties by 2018'. During our conversations we consistently stressed the relevance of this subject and are happy to see that the concept of occupiers engagement is being embraced and embedded into the regular business approach.

Energy consumption and carbon reductions

Simon set its first long-term reduction targets for energy consumption and carbon emissions in the fall of 2015, thus providing investors with extra accountability. Over the last three years, Simon substantially reduced like-for-like energy consumption and carbon emissions in both absolute terms and against the peer group. We also think the 32% reduction in electricity consumption since 2003 is proof of the company's substantial efforts in this area.

Given Simon's substantial progress on almost all relevant aspects, we have successfully closed the engagement with Simon Property Group. We will use the example of Simon to motivate the other companies under engagement to follow suit.

Theme progress

7. Environmental challenges in the European electric utilities sector

Power generation requires substantial investments and long-term planning, at the same time it is heavily affected by regulatory decisions. The right balance between security of supply, environmental impact and costs must be found for the power system - and hence electric utilities - to be sustainable. Due to the very long lifecycles of power generation assets, utilities should take measures to future-proof their strategies. For this reason, we encourage companies to implement proactive and ambitious environmental strategies and focus on de-carbonizing their assets. This means moving from coal to gas to renewables and using meaningful internal carbon prices in their planning. Beyond renewables and gas, this also means striving for operational excellence in the existing coal-fired power plants by working towards higher thermal efficiency, ability to burn biomass, cogeneration, carbon capture and storage readiness and responsible coal sourcing. Finally, as centralized generation becomes less important due to competition from renewables and the advent of distributed generation and storage, we encourage companies to innovate their business models, diversify their revenue streams and leverage their huge customer base.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact principles 7-9
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises Chapter IV
- SDG 13: Climate Action

Environmental Impact: Climate Change
Together with the limited availability of natural resources such as water, climate change is the biggest environmental issue affecting companies. Climate change currently affects both government policy and consumer behavior. Climate change increases the risk to companies and sectors but also offers opportunities. This impact can be indirect, for example through regulatory change, but can also be direct resulting from changes in the natural environment. In order to address the risks arising from climate change, companies will have to develop strategies to manage the financial, operational and organisational impact. It is also important that companies set targets, measure performance and report progress. Opportunities will arise in new and existing markets, through process improvements and technological innovation from companies at the cutting edge.

Recent developments

How do investors expect utilities to deal with COP21?

A group of over 270 institutional investors representing assets of more than EUR 20 trillion recently published a guide for the electric utilities sector. In this guide, they explain how they expect utilities to align their strategies with the low-carbon economy required to keep global warming below 2°C. Engagement Specialist Matthias Narr is the lead author.

The guide, titled 'Investor Expectations of Electric Utilities Companies - Looking down the line at carbon asset risk' , was published by the Institutional Investors Group on Climate Change (IIGCC). In this document, we outline the threats and opportunities facing utilities and explain how we as investors expect them to adapt their business strategies. With over 170 countries now clearly committed to the implementation of the Paris Agreement, institutional investors are concerned that some electric utility companies may not be adequately prepared for the transition to a lower carbon economy.

The guide is a good example of how we leverage our engagement expertise and bring it into a global collaboration platform to multiply our impact. With this document we want to shape a constructive dialogue between investors and electric utilities about the long-term risks and opportunities these companies face from climate change. Investors need to know whether utility companies are prepared for the changing market dynamics that are likely to arise from the policies and actions put in place to limit global warming. Business strategy and capital allocation decisions made now and over the coming years will determine the sustainability and profitability of electric utilities for decades ahead. Investors therefore have a clear need to establish that capital allocation decisions made by the boards of these utilities give due weight to the low carbon transition in order to protect the sector's sustainability and profitability.

During the 2016 proxy season investors clearly showed, for example in a shareholder resolution at the Annual General Meeting of shareholders of AES and Entergy, that they expect electric power companies to address carbon asset risk by assessing the impact of a 2°C scenario on their future resilience. Asset owners and fund managers need to know how power companies see the future impact of climate change on energy demand and pricing, and how they plan to align their business models with the required greenhouse gas reductions.

In addition to questions about policy, technology and demand changes the guide encourages investors to ask electric utility companies about the management of legacy assets, such as power generation plants that are no longer economical to use either due to a shift away from thermal coal or as a consequence of increased water scarcity.

These risks are not theoretical, they are today's reality for utility companies and their investors across all markets. Climate change is already driving structural transformation in the energy sector. It is essential for utility companies to undertake comprehensive 2°C stress testing of their business activities and to disclose to investors how their business model will fare in the face of climate change.

Theme progress

8. Health and safety in the clothing sector

Consumers increasingly regard sustainability as one of the factors that determines in which shop they will purchase their clothing. They use social media and the information that is shared by consumers and other stakeholders such as NGO's to determine their opinion regarding a clothing brand. Preventing health and safety risks in the clothing sector is therefore important for companies in the clothing industry. Their reputation is at risk and brand loyalty can be lost quickly due to the impact of social media, leading consumers to choose a competitor. Preventing health and safety risks in the clothing sector is important for investors. When the reputation of companies is in danger due to incidents such as the Rana Plaza disaster in Bangladesh in 2013, brand loyalty can be lost quickly and sales will decrease subsequently, which results directly in a negative impact on shareholder value. Therefore preventing health and safety risks contributes to a better risk-return profile for investments in this sector.

Codes of conduct and Sustainable Development Goals (SDGs)

- UN Global Compact
- SDG 8: Decent Work and Economic Growth

Human Rights: Social Supply Chain Standards

Companies are increasingly being held accountable for poor labor conditions in their operations and that of their supply chains. This is the result of a number of different trends. The first of these is the transfer of production to low-wage countries, resulting in companies being faced with non-Western labor standards and conditions in their supply chain. Then there is a trend towards the more rapid and wider dissemination of information on the external effects of corporate activities. Furthermore, non-governmental organizations (NGOs) are playing an increasingly important role as social watchdogs and, finally, consumers are becoming more aware and more demanding in terms of corporate social responsibility. It is very important for companies, especially those that operate internationally and have well-known brand names, that generally accepted labor standards are followed throughout the supply chain.

Recent developments

Procurement teams increasingly using advanced systems to manage risks in the supply chain

Tracking and managing supply chain risks could be a daunting task given the quantum of the trade in the big clothing companies. For assessing and mitigating the ESG risks in the supply chains, companies in the fashion industry are moving towards advanced IT systems. For example, Inditex has strived to establish an in-house IT-based supplier monitoring system. Since the system was first introduced into the company in 2012, it has kept evolving fast to enable more sophisticated functions and encompass an increasing number of geographical locations. The system maps the entire supply chain of Inditex and the flow of materials alongside. It enables the company to identify where the most risky operations lie in its supply chain. All the subcontractors and second-tier suppliers are also monitored and mapped by this system. Moreover, the system is also overseen by the commercial team to match the supplier capacities. Kering also uses an IT based system that is built on the Maplecroft supply chain risk tool which is currently expanded with Fair Labour Association (FLA) criteria. The tool enables Kering to do a risk scoring of all of its business units. Maplecroft supports Kering in assessing political risk by providing a human rights risk index. When Kering combines this information with the audit history, it enables the company to rank suppliers differently and also provides insight in the differences in Health and Safety risks between a worker in Vietnam, Cambodia or Thailand.

Companies increase local representation to better monitor supply chain risks

During our engagement, Primark stated that as a result of the expected growth in volume and after an evaluation of the quality of external auditors, they plan to increase the number of people working in the supplier chain from 50 to 80. Similarly, Burberry is aware of the risk of labor standard breaches in Italy. To mitigate this risk and carry out more effective controls, the company has a team of three people in Florence whose work focuses on quality control and audits. Before a subcontractor may carry out work, an audit must always be carried out and the subcontractor must commit to Burberry's code of conduct. The company also has long relationships, many of which go back over 30 years, which ensures interest on both sides in resolving any issue. H&M is another case in point. The company has a very strong local presence in Bangladesh with nearly 500 people, of whom 30 are solely responsible for sustainability. This local presence enables them to mitigate many of the issues that are identified as high-risk factors, such as limitations of the audit system, short-term supplier relationships or the risk of subcontracting.

Increasing transparency remains high on the agenda

Whilst companies in the clothing sector are increasingly aware of the ESG risks in their supply chain and its detrimental impacts if not managed well, increasing transparency to gain stakeholders confidence is also recognised. For example, H&M's CEO noted that transparency is the starting point for all change. The company is working with other brands in the Sustainable Apparel Coalition on the HiGG Index, a tool to measure apparel and footwear products, brands or suppli¬ers on their sustainability performance. It takes the entire value chain into account, from raw materials to end-of-life solutions. This result in advanced consumer labelling that further allows customers to compare products, even from different brands, based on the same standards in an easily accessible way. Inditex is another company that is advanced in the area of transparency. The company publishes a sustainability balance sheet since 2014. By adopting the sustainability balance sheet approach, the company learns the way of integrated thinking and prepares the internal expertise that is required to implement integrated reporting. Inditex generally remains at a high level of transparency on its sustainability issues to the external stakeholders.

M&S leading the way in transparency

In 2015, M&S informed us about their new initiative to publish an annual list of active clothing manufacturers. As promised, in the first quarter of 2016, the company completed the listing of all its suppliers on its website. At present, it includes number of factories, address of each factory and number of male and female employees for each of its clothing and footwear suppliers. In the coming years, the company plans to enrich the website with other ESG indicators of each of its suppliers. M&S plans to expand the suppliers transparency initiative in the future it to its other businesses like food and retail. With this initiative we rank M&S as an advanced clothing retailer in terms of transparency.

Ensuring building safety at Primark

To ensure that all the suppliers' buildings are in compliance with Primark's H&S standards, the company has incorporated structural building surveys. It has hired an engineer who conducts these surveys on its behalf. The survey by the expert is completed in all the suppliers' buildings in Bangladesh and Pakistan. In 2016, the company plans to expand the survey to its suppliers in India and Sri Lanka. Another key finding from this dialogue with Primark was that the company confirmed that none of their suppliers globally are in a shared building which was the cause of Rana Plaza disaster. We consider this approach to be very important as risk mitigation to create better oversight.

Managing risks while sub-contracting

Companies under engagement recognize the inherent risks while sub-contracting. It is indeed a challenge to ensure the companies' values and standards are maintained at the sub-contractors' factories. To manage sub-contracting risks, M&S confirmed that they have a list of pre-approved sub-contractors. They never source from any sub-contractor who is not known to them. The company is confident about its suppliers that they would not engage in any sub-contracting without M&S approval. The company noted the suppliers' audit processes are very robust. They involve accounting of production capacity, high penalties and even cancellation of contract in case of a breach, which prohibits its suppliers to engage into any un-approved sub-contracting.

Final conclusion of this theme

We completed our last round of dialogues with companies within this theme in the first quarter of 2016. In last three years we have had multiple dialogues with our eight companies under engagement and we believe that most of these companies are aware of H&S risks in their supply chain. The companies have refined their H&S management strategies at their suppliers in many ways. For example, most of the companies are focusing on one of the following risk management strategies such as reducing their supply base, working with long-term suppliers, ensuring independent suppliers building than shared ones, using advanced IT systems to track and manage suppliers ESG commitment, stricter audits, and high control on sub-contracting. Increasing local representatives in the high risk countries, improving traceability and transparency are also adopted by the companies to mitigate supply chain risks. As an investor, we applaud the companies on their ongoing efforts around improving sustainability in their clothing business.

Theme progress

9. Social issues in the food and agri supply chain

Companies in the food supply chain are under pressure to provide better insight into where they source their raw materials and how these are produced. Scandals relating to human rights, labor standards or deforestation in their supply chain can easily affect food producers or supermarket chains. Parties in the food supply chain chain will often decide to suspend their purchases until the scandals have blown over, with major consequences for the companies' shareholder value. As investors, we want businesses to be sufficiently prepared to withstand these risks.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact
- SDG 12: Responsible Production and Consumption
- SDG 15: Life on Land

Human Rights: Social Supply Chain Standards
Companies are increasingly being held accountable for poor labor conditions in their operations and that of their supply chains. This is the result of a number of different trends. The first of these is the transfer of production to low-wage countries, resulting in companies being faced with non-Western labor standards and conditions in their supply chain. Then there is a trend towards the more rapid and wider dissemination of information on the external effects of corporate activities. Furthermore, non-governmental organizations (NGOs) are playing an increasingly important role as social watchdogs and, finally, consumers are becoming more aware and more demanding in terms of corporate social responsibility. It is very important for companies, especially those that operate internationally and have well-known brand names, that generally accepted labor standards are followed throughout the supply chain.

Recent developments

Improving traceability in the supply chain gains momentum

Traceability is important for companies sourcing soft commodities. During the first 18 months of our engagement we recognized a growing trend among the companies in the Food & Agri value chain to improve traceability of their main commodities, especially palm, soy, cotton, coffee, sugar, and cocoa.

Palm oil sourcing, which is categorized as one of the main commodities connected to human rights violation and abuse, companies are being increasingly aware of the inherited risks. For instance, Wilmar has been leading the way for other palm oil companies with their landmark No Deforestation, No Peat, No Exploitation policy first published in December 2013. We have engaged with Wilmar to track implementation of the policy and discussed this topic with Unilever. They created a 'level playing field' in talks with Wilmar and other supply chain partners and authorities, so that all palm oil imported from Europe can be traced back to a sustainable site. We strongly recommended other companies under our engagement to adopt such policies and improve traceability in key commodities. By doing so, companies can mitigate social issues that could damage their reputation and therefore performance.

Our engagement with Carrefour has been very insightful as well. Carrefour takes a strong position regarding their supplier management of its key commodities. Every supplier is made accountable for sustainability practices at their own factories. The company operates solely with unannounced audits; where at minimum 10 employees are interviewed. Carrefour is organised with a local team in every country where they source. Labor standards risk management is a bottom up process, managed between the quality manager and the human rights manager for every supplier relationship. Carrefour has been able to establish a direct link with its suppliers and better protect labor standards in the production process. The program is called 'Direct Sourcing' and it aims to buy directly from groups of farmers to gain greater control of both, the quality of the products and the labor condition during production. Carrefour's practice to have a direct influence on its suppliers and also an indirect influence on its tier II and tier III suppliers, is seen as the best practice in the industry. In their social charter, Carrefour states that the social dialogue is the best way to manage social risks. Tesco is another case in point; in order to improve traceability of its suppliers, the company plans to centralize procurement department with a focus on long-term supplier relationships.

Water management is crucial for both food and beverages companies

During our engagement with the companies, we highlighted severe risks associated with water crisis and the importance of participating in CDP water to understand their own performance in managing the risk. Companies in the sector acknowledged the importance of water as a critical and scarce natural resource. Coca Cola is an exemplary example of a company that works with a Source Water Protection Plan (SWPP) in its factories, to ensure efficient management of its water footprint. The company has been working with the WWF for many years and it aims to replenish 100% water that it withdraws for the production of its soft drinks, by 2020. By 2015, the company already achieved 94% and expects to meet the target in 2016. The company foresees financial consequences resulting from water scarcity in certain regions however its comprehensive water management risk inventory, management plans, including investments in water recycling, together with its sound relationship with the government, has helped the company to maintain its license to buy water in these areas.

Another example of good water management is Heineken. During our discussions with them we understood that they focus on water risks as they consider it to be key driver of their licence to operate in many regions. A water model developed by WWF is used by the company to calculate its

water footprint. The company sets ambitious targets to replenish water in their production process. It aims to establish Source Water Protection Plan for 100% of its production units in water-scarce and water distressed areas. By the end of 2014, the company had achieved 70% of this target. They further aim to reduce their overall water consumption by 25% by 2020.

Smallholder capacity building initiatives

Smallholder capacity building is another area that needs attention. Olam International is a leader, when it comes to smallholder capacity building. The company has committed to an ambitious plan to develop 30,000 hectares for smallholder palm oil production. This will have a major impact on the agricultural sector in Gabon, which represents just 5% of GDP. Olam develops a large area and enables small-scale farmers to obtain ownership of a plot in the land where they can build a house and grow food crops as a source of income, in addition to palm oil. Similarly, Unilever aims to involve 500,000 smallholders in the supply chain. To this end, the purchasing department works with many farmers' cooperatives/groups, as it is very labor intensive to build a relationship with each farmer individually. Furthermore, it is also crucial to work together with NGOs to support smallholders with training. The company has a concrete pilot project for training smallholders that produce vanilla in Madagascar.

Ensuring living wage - another tricky issue for companies

It is always challenging for companies to ensure adequate wages, as it is based on living wage, which is set by the government and is seldom sufficient to make both ends meet in the developing countries. Unilever is working on a project, in Malawi, that examines whether the wage for tea production can be increased beyond the minimum wage to cover the cost of living for employees. The company does indicate that this is a difficult exercise that still requires a lot of research. Metro is working on living wage calculation with Novartis, Bayer, and Business for Social Responsibility (BSR) and other NGOs. At present, the scope is Germany however once successful they plan to roll it out for other countries as well. Living wage has been one of the issues at the forefront of sustainability for companies operating in the food & agri supply chain and based on our discussions with various companies we see there is still a lot of room for improvement.

Engaging for sustainable palm oil

Palm oil is used in many products including food and cosmetics. It is faced with several environmental and social issues that have become a reputational risk. We are engaging with companies in this industry to improve their performance on issues such as human rights, deforestation and labor standards.

Palm oil is an edible oil, which yields more oil per hectare of land than any other crop and is therefore more profitable. It accounts for almost 30% of the total edible oil market. In the last years, production and demand have increased manifold, bringing economic prosperity to the countries producing and trading it, most notably Indonesia and Malaysia. The two countries together account for around 85 to 90% of total global palm oil production.

Issues in palm oil cultivation

The growth of palm oil production is challenged by a number of significant environmental and social issues that have become a reputational risk and potentially undermine the industry's growth model. The main risks are deforestation, fire and haze and human rights.

Deforestation

According to the World Wildlife Fund, an area the size of 300 football fields of rainforest is cleared each hour to make way for palm oil production. This has an indirect impact in the shape of greenhouse gas (GHG) emissions as the removal of forest releases carbon into the atmosphere, speeding up global warming. Further, the removal of acres of rainforest threatens the rich biodiversity in these finely balanced ecosystems, along with the habitat of species such as the orangutan.

Fire and haze

Peat is soil that contains more than 65% of organic matter. Peatland degradation starts with clearing and draining, often through burning. Once started, fires can burn three to four meters underground, continuing for months or even years. Fire and the resultant haze are common in Indonesia. In 2015, haze was declared an emergency in multiple provinces, causing more than half a million cases of acute respiratory illness.

Human rights

When huge areas of forests are cleared, the local communities are displaced without consent. Land grabbing is common in palm oil plantations, which poses huge reputational risks for the companies down the value chain. The palm oil industry has been linked to major human rights violations, including child labor and poor working conditions.

Companies in the palm oil industry are exposed to severe environmental and social risks. When these risks are not managed properly, they may result in both financial and reputational risk for investors. For example, violation of regulations regarding palm oil cultivation could lead to suspension of the certification status of a plantation, with a loss of the certification premium as a result. Similarly, conflicts with local communities and laborers could lead to industrial stoppages and operating losses. Pressure from NGOs may also cost the company's license to operate and result in loss of clients.

Engagement

We identified companies such as traders, processors, food producers and retailers which are involved in various stages of the palm oil value chain. We believe together these companies can influence various parts of the chain to deliver and use more sustainable palm oil. We started

our engagement on this topic in 2014 and the dialogues in this theme are now mid-way. We identified five objectives for our engagement with companies on palm oil:

1. **Human rights**
   We encourage the companies under engagement to publish and respect commitments with regard to indigenous peoples' rights and abide by local and international laws.

2. **Labor standards**
   Labor issues are largely found upstream in the value chain and we would like to understand how these companies enforce better labor conditions at their suppliers.

3. **Sustainable agricultural practices**
   We encourage companies to make commitments to control deforestation and peat land conversion. They can also play a key role in asking farmers to adopt better agricultural practices like crop rotation, efficient water use and better fertilizers.

4. **Living wage**
   We work with the investee companies to encourage involvement in any industry/country level initiative to improve minimum wages so that they reflect living wages.

5. **Smallholder capacity building**
   About 40% of global palm oil is produced by smallholders who are living under or close to the poverty line. Main issues remain access to finance, low bargaining power, poor yields etc. Empowering smallholders by bringing them easy access to market, improving yield by providing better agricultural production techniques, fertilizers, seeds and know-how, can help sustained supply of palm oil. Our engagement with the companies focuses on how they can participate in various programs and build smallholders capacity.

Highlights of our engagement

During the last few years, we have seen the largest traders and processors develop palm oil policies, aimed to ensure palm oil is not derived from any form of exploitation.

Traceability is becoming increasingly important for companies that are seeking to demonstrate deforestation-free supply chains. Companies that cannot trace back to the source of their products may increasingly find that access to market is closed for them or that they have less favorable pricing terms. Buyers like Carrefour are actively encouraging their palm oil suppliers to work with a separate supply chain for sustainable palm oil.

Nestlé sources 50% of its palm oil from smallholders, for Wilmar this is 40%. Olam has committed to an ambitious plan to develop 30,000 hectares for smallholder palm oil production in Gabon.

In 2015, ADM began calculating its palm oil footprint and mill traceability scores. The company has achieved around 92% mill traceability until the third quarter of 2015. Golden Agri Resources (GAR) has achieved 95% RSPO certified purchases. GAR discontinues deliveries from mills that cannot supply the required traceability information as of January 2016. Bunge is also working on a system to ensure complete transparency in the palm oil supply chain. By the end of 2015, the company had achieved 67% traceability back to the mill. While we value traceability advancements, we will continue to ask for further traceability back to the fields, which is an even more daunting task.

Conclusion

As most companies under engagement have shown intent to increase sustainability in their palm oil sourcing and have established a palm oil policy, the next step for them is to track and monitor progress. Companies like Wilmar, ADM, and Bunge have also gone a step further by updating stakeholders on their progress through regular communication on their website. We believe that the industry needs to progress on these lines.

We will continue to engage with the largest growers, actively monitoring progress and pushing for more advanced tools and monitoring systems. As they are at the start of the value chain and most exposed to the risks on the ground, we urge them to ensure that no more land and peat is cleared and food security is addressed by adopting better agricultural practices like improving yield, water management, and pest control methods. Ensuring land rights are being respected is also important to ensure the license to operate.

We will endorse improving traceability and certification systems for processors and traders to increase customer confidence in exploitation-free palm oil. We will push for better supply chain management systems at the processors in order to set clear expectations to the growers and refiners on the sustainability aspects of palm oil.

Despite the important progress made, there is a long way to go. We sincerely hope that the much needed industry transformation continues and efforts are scaled up to affect real change on the ground for smallholders, communities and workers while securing Indonesia's greatest natural treasure – its rainforests and peatlands. This would lead to a sustainable palm oil trade that benefits the companies, investors and society at large.

Theme progress

10. Data privacy

In the onset of the constantly digitalizing world telecommunications and internet companies are ever more associated with the collection of customer data and subsequent data privacy breaches. Furthermore, such companies often have control over the information availability and communication accessibility in their countries of operations which exposes them to freedom of expression related perils. As a result internet and telecommunications companies are exposed to reputational, legal, and operational risks.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact
- UN Guiding Principles on Business and Human Rights
- SDG 16: Peace, Justice and Strong Institutions

Human Rights: Privacy and Freedom of Expression
The first and second principles of the UN Global Compact provide a framework for companies to operate responsibly to prevent breaches of human rights. Human rights are basic standards aimed at securing dignity and equality for all. Systematic breaches of such human rights could have a negative effect on a company, its immediate surroundings, and other stakeholders. Article 12 of the Universal Declaration on Human Rights specifically draws on the right to privacy as one of the human rights which is described as "the protection against arbitrary, unreasonable or unlawful interference with a person's privacy, family, home or correspondence, as well as attacks on their honor or reputation". Additionally, Article 19 defines freedom of expression as "the right… to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers".

Recent developments

In 2015, we started an engagement theme related to data privacy and freedom of expression in the ICT sector. We noted an increasing amount of scandals in the news revealing the risks involved with data privacy. The topic of data privacy was however under-researched in the investment industry. As the risks can impact companies' earnings, we felt it was important to create more transparency in this respect. We have researched the topic in-house, organized a roundtable event for companies and started a three year dialogue with a group of 13 internet and telecom companies around four engagement objectives: policy, risk management, transparency and partnerships & collaboration.

In the first 1.5 years of the engagement, we have seen increasing attention for data privacy both in general news sources and in broker research. Companies are improving their transparency on the topic in their sustainability reports and increasingly publish transparency or law enforcement disclosure reports detailing their process around government requests and number of requests received.

We explained the importance of the topic to the companies in our engagement peer group and had in-depth discussions with companies to further elaborate on our expectations. With these conversations we have also increased our understanding of their approaches and identified best practices that we share across the engagement peer group. We have for example shared the comprehensive Vodafone law enforcement disclosure report with Telefonica and discussed the added value we see in the publication of such a report. We got confirmation earlier this year that Telefonica is working on their first report of this type.

Increasing number of government requests on network and service shutdowns

In 2016, there was a lot of attention on the increasing number of government requests to shut down communications networks and related services around the world. We attended two multi-stakeholder meetings that focused on how multi stakeholder collaboration can help companies manage complex freedom of expression and privacy risks, and advance human rights in the ICT sector. Participating companies included AT&T, Telenor Group, Facebook, Telia Company, Google, Vodafone, Yahoo and Telefonica.

We learned that technology companies are increasingly confronted with government requests and demands to take down content, hand over user data, or shut down entire networks and communications services. With more than 20 confirmed shutdowns documented around the world during the first six months of 2016, government attempts to control the flow of online information rise. The companies stressed that pushback options are limited, but that they try to be more transparent about the reason for the shutdowns. They are also asking governments for more targeted requests of shutdowns to lower the impact.

Joint statement on network and service shutdowns

The Global Network Initiative and the Telecommunications Industry Dialogue recently issued a joint statement that recognizes the role of governments in protecting national security, and at the same time highlights the harm to human rights, democracy and public safety, as well as the adverse impact on economic activity that result from shutdowns.

The protection of national security and public safety are important government concerns. Network shutdowns, and the wholesale blocking of internet services, however, are drastic measures that often risk being disproportionate in their impact. Governments who employ these measures often do so without justifying them as necessary and proportionate under international human rights standards.

The statement urges governments to be more transparent about their requests with the public. This comes after a recent landmark resolution of the United Nations Human Rights Council that calls on all member states to refrain from network disruptions and shutdowns as violations of international human rights law.

WWe welcome the joint statement and see value in companies collaborating through the Global Network Initiative and the Telecommunications Industry Dialogue, especially in their engagement with governments. This links to our engagement objective around 'Partnerships and collaboration'. We will continue to engage with the individual companies in our engagement program to gain better insights into the companies procedures and actions around these type of requests and encourage them to adopt best practices.

Theme progress

11. Improving sustainability in the meat and fish supply chain

Companies operating in primary meat and fish production or directly servicing this sector need to work towards a sustainable business model to cater the ever increasing demand for animal protein. Increased demand has been accompanied by large-scale industrial production, suppressing traditional farming methods and enabling lower prices at the expense of product quality, environment and animal welfare.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact
- SDG 12: Responsible Production and Consumption
- SDG 14: Life below Water

Healthy Living: Product Safety
Trends such as the liberalization of global trade and the shifting demands of consumers towards more healthy, tasty and safe options, are changing the quantity oriented food production. Therefore, food safety issues may become non-tariff trade barriers that prevent national meat industries from getting access to international markets. There is increased consumption of food that is not or less processed than branded products. There are many opportunities for companies to respond to this trend. Certification (i.e. Organic and Fair Trade) and good animal husbandry might enable companies to enter a premium market segment and charge a premium price. These options are available for both processors, retailers and restaurants.

Recent developments

The growing demand for meat and fish will put large pressure on natural resources in the coming decades. Robeco identified this as a financial material topic and engages to improve sustainability in the meat supply chain.

We see opportunities for companies at the early stages of the chain to reap the benefits of a move away from antibiotics where feed enzymes, probiotics and other innovative animal feed products are expected to grow as a category. For aquaculture companies we see similar issues such as use of antibiotics in their production of animal protein at sea and the sustainable production challenges connected to this model. The companies that process chicken, pork and beef all are exposed to animal welfare, labour standards and product quality and safety risks which are material to their business.

We will address how to best manage these risks with the companies in this crucial part of the supply chain. Finally, consumer facing companies such as restaurants and retailers are faced with increasing demands for more sustainable meat and fish. In this regard the consumer trend towards other consumption patterns of protein for health and environmental footprint reasons is important feature. Protein diversification with these companies is an important instrument to that end.

From the investor's perspective, failing to upgrade policies, standards and processes will lead to major risks to four key drivers of financial outcomes: production and price, market access, reputation, and legal and regulatory. The correlation between ESG issues and their impact on financial performance is strong and the negative impact on the performance of companies can be significant.

The objective of this engagement theme is to improve sustainability in the meat and fish supply chain with a specific focus on animal welfare, aquaculture practices, labour standards, product quality & safety management, and innovation management. Below we demonstrate the importance of each objective and explain where Robeco's focus lies. We allow three years for the dialogue. The dialogue is deemed to be successful if it achieves the success threshold for each company. The success thresholds for each company can be found in the summary table below.

Over the next three years we will engage with 11 companies in the meat and fish supply chain, covering animal feed producers, meat processors, restaurants and retailers. These companies include: Chipotle Mexican Grill, Inc., Christian Hansen, Con Agra Foods Inc., DSM, JBS, Hormel, Kroger, Novozymes, Marine Harvest, McDonald's, and Tyson Foods.

Animal welfare

Millions of animals, raised for food, experience poor living conditions on industrialized or factory farms. These farms, with large operations, consider animals as units of production, solely focusing on efficiency expose animals to poor living conditions conflicting with their health and welfare. Poor animal welfare practices include routine mutilation, high stock densities, pre-slaughter stunning, long-distance live transportation and the usage of antibiotics during growth phase. Furthermore, scientists have linked animal stress to problems with food quality and safety.

As societal expectations on animal welfare standards are likely to rise in the near future, failing to upgrade policy, standards and processes will lead to serious reputational, legal and financial risks for companies. Hence, animal welfare represent a financial material issue for investors and we expect companies to have policies and standards, and a proper operational system in place in order to respect animal welfare in their/ suppliers' business processes.

In our company analysis we evaluate animal welfare policies, board level

commitment, animal welfare innovations and disclosure quality.

Aquaculture practices

Developing countries are the major exporters of fish products, with most production taking place in Asia and the Pacific. The main features of the current intensive farmed fish business model included farm management issues such as overuse of antibiotics and chemicals in order to treat diseases arising from overcrowded production sites and lack of hygiene. Consumers, especially in developed countries, are becoming more aware of the health and environmental issues related to the fish farming industry.

Antibiotic resistance is recognized as a global and public risks and certain antimicrobial agents have already been banned in certain jurisdictions. Certification is an important instrument, but has several limitations. There is limited coverage of countries' and regional standards and structural issues in industry planning and management are not addressed. Furthermore, there is no active engagement with smallholder producers who are responsible for a great share of the production in developing countries. Additionally, there is a lack of uniformity among the different certification.

We expect companies to formulate improved supply chain policies to ensure better fish welfare and product quality. Furthermore, we may encourage companies to become certified.

Labour standards

Labour standards are an integral part of human rights as laid down in international human rights standards such as the UN International Labour Organisation (ILO). These standards are developed to protect the basic worker's rights, enhance worker's job security and improve employment. Factory farms often have weak labour standards, problematic hiring practices and below living wages .
The industry has been accused of treating these conditions as a natural part of the production process instead of considering these as repeated violations of human rights

We expect companies to respect the ILO conventions on child labour, forced labour, discrimination, freedom of association and collective bargaining. This enables companies to provide a decent Health and Safety standard and safeguard a proper working environment for both its own employees and for workers at suppliers through enforcement of their supplier code of conduct. Furthermore, we expect companies to have processes in place to ensure compliance to the policy and to allow grievance mechanisms for workers at their farms and factories.

In addition, we support companies to join a multi-stakeholder initiative that has set its own standards such as the Ethical Trading Initiative or the Fair Labour Association. These globally recognized initiatives hold its members accountable and support them with compliance to labour standards.

Product quality and safety management

Trends such as liberalization of global trade and shifting consumer demands towards more healthy, tasty and safe options, are changing food production practices. Increased consumption of unprocessed rather than branded products creates many opportunities for companies. Certification (i.e. bio-label, Organic, and Fair Trade) and good animal husbandry might enable companies to enter premium market segments and charge premium prices. These options are available for both processors and retailers as well as restaurants.

We expect meat and fish processors and retailers to ensure their products meet high quality and safety standards expected by their customers. Improved traceability system and detailed food labelling can be a vector. We encourage companies to have a portfolio of certified/organic products, a risk assessment diagnoses and to follow Good Manufacturing Practices or any other relevant process standards throughout the entire supply chain. Finally, we encourage companies to undertake activities concerning consumer education on the health impact of eating meat and reducing meat intake.

Innovation management

As the meat and fish industry faces considerable challenges such as constraints on natural resources, environmental large-scale production and human health impact, an innovative approach is required to remain competitive in the long run. The challenges differ depending on the position in the meat supply chain, leading to different expectations for innovations.

We expect different innovations among the different part of the meat supply chain. For chemical companies, we expect insight into their R&D budget spent on animal feed products as part of the overall production. For meat processors, we expect companies to be transparent about their technical specifications of different varieties of animals to be used in production. In addition, in order to reduce operational and health and safety risks, we want to discuss with the companies which activities could potentially be fully automated.

At last, we expect consumer facing companies to adopt to the change in consumer behaviour in meat and fish consumption globally, by actively working on diversification of their product portfolio and by providing consumer awareness programs in their stores and franchises.

Theme progress

12. ESG risks and opportunities in the biopharmaceutical industry

Biopharmaceutical companies operate in an environment of increasing chronic diseases, aging populations and growing needs in emerging markets. From the investor perspective, factors such as a company's ability to innovate, attract and retain talent, or anticipate regulatory developments are significant, as they do not only determine a company's ability to tackle these ESG issues, but also its competitive position and long-term financial performance.

Codes of conduct and Sustainable Development Goals (SDGs)
- UN Global Compact
- SDG 3: Good Health and Well-Being
- SDG 9: Industry, Innovation and Infrastructure

Healthy Living: Access to Healthcare
Access to healthcare is very important for society. In addition to the state and insurers, the biopharmaceutical industry plays a major role in improving access to healthcare. The biopharmaceutical industry develops innovative medicines, provides access to medicines in developing countries or for socio-economically disadvantaged groups, and improves the quality of medicines. Various biopharmaceutical companies have been getting negative publicity of late owing to corruption scandals and the omission of key information from clinical studies. Improvements in these areas would lead to greater confidence in the healthcare system.

Recent developments

Innovation Management

Biopharmaceutical industry's commitment to R&D for new treatments and cures for patients is vital, in particular for those who have serious unmet medical needs. Innovative medicines and therapies have had a dramatic positive impact on society over the past decades, through increasing life expectancy and better quality of care. Innovative medicines help to increase childhood cancer survival, reduce death rates for patients battling diseases such as HIV/AIDS, heart diseases and cancer. A number of deadly illnesses have been turned into chronic conditions.

Nonetheless, the investor community is worried that the output of biomedical R&D has been too low over the past decade, certainly when weighing in the growth in research and development costs. There is substantial debate whether or not such high investments in biomedical research are warranted, and if these means could not be better invested elsewhere. However, we should acknowledge the long lead times in drug development and understand that it easily takes 10 years to bring new therapies to market. Today we witness more approvals again, which is promising in light of this debate around capital allocation. What is particularly fascinating is that many therapies are substantially better than what we have had before.

As a result of these discoveries, the outlook for the biopharmaceutical industry has improved. Companies tend to invest much more than before, when they believe the new project potentially can disrupt existing treatment paradigms. There are a series of new mechanisms of action that lead to better drug efficacy, and new hope for patients. Predominantly these investments are done in specialty fields, such as cancer or orphan drug diseases. Many of these conditions are highly complex and costly to treat. Moreover the absolute number of clinical trials, the required procedures and the longer duration of trials all imply a higher spend in R&D.

Consequently, R&D costs continue to trend much higher. With budgetary constraints, payers struggle to pay for these new medicines and the discussion around pricing is increasingly relevant. We see the added value of these new medicines and deem them necessary. They avoid future healthcare costs and complications and can carry a higher price tag, but these benefits need to be well proven.

Business Ethics

In the current economic circumstances, businesses need an even stronger corporate culture to monitor compliance and fight the risks of fraud, bribery, and corruption. Companies operating in large infrastructure projects are particularly vulnerable to such illegal activities, as individual bribes and the gains obtained thereon can be quite significant.

Pharmaceuticals and medical devices sector grow at a significant rate, thereby increasing the potential for bribery and corruption allegations. The risk is heightened with the expansion of pharmaceutical firms into emerging markets – many of which rank poorly on the corruption indexes. The major global firms are building up their operations in China and revenue growth in developing markets is expected to continue to outpace the developed markets. This has weakened their risk profiles and revelations of major foreign corporate bribery scandals on the Chinese market have been particularly damaging.

As significant fines and damaged reputation erodes brand value of the companies to a considerable extent, the need has arisen for proactive response and control of bribery and corruption risks in the pharmaceutical industry. Indeed, in the recent years, this has been a major concern of the US and European legislators as they attempt to ensure effective compliance of companies' practices with their national anti-bribery laws and increased extraterritorial enforcement. Despite the enhanced regulatory action, pharmaceutical companies struggle to implement and monitor their anti-bribery policies on a global scale, as evidenced by a

number of breaches committed in the past years.

Indeed, in our research, we firstly observe the major recent incidents experienced by companies on an individual basis, and then we proceed to evaluate their ability to prevent future occurrence of bribery and corruption activities by means of their policy initiatives. In this regard, we scrutinize companies' internal anti-bribery mechanisms through the lens of three indicators, namely anti-bribery policy, anti-bribery systems, and disciplinary actions taken in case of a non-compliance.

Anti-bribery policy: Companies should develop group-wide anti-corruption policies that are publicly available. In addition to bribery guidelines, we also expect companies to include incentives to their anti-bribery policies. Moreover, they should regularly review their policies and implement additions if needed.

Anti-bribery systems: Companies are expected to demonstrate that they have systems in place for enforcing and monitoring their anti-bribery policies. This should include accountability and reporting structures. Companies should also be transparent on the process of handling a bribery case once it is reported.

Disciplinary actions: Companies should specify in their anti-bribery policies the type of disciplinary actions that will be taken against those employees who are proven to be engaging in bribery or corruption related activities.

Reporting: Companies should report annually on breaches of their Codes of Conduct, including the number of allegations, the number of cases that are determined to be valid (e.g., founded or substantiated), unsubstantiated, still under investigation etc., and the sanctions that were taken for those concluded (e.g., number of terminations).

Moreover, where possible, we assess each company's assistance in the investigations against it and its disclosure and policy changes implemented in response to bribery allegations. Lastly, we inquire as to whether disciplinary actions were taken against employees involved in corporate bribery scandals.

On the basis of our findings, the relation between the reported corrupt practices and effectiveness of companies' anti-bribery policies and systems in particular, we formulate company-specific engagement objectives with a view of receiving a company's perspective on its bribery prevention practices and encouraging compliance with the existing systems.

Access to medicine

Providing access to high quality medicines is one of the biopharmaceutical industry's main priorities. These companies have the capability to bring modern medicine to everyone, playing a major role in providing life-saving products for the two billion people that still lack access to them. Due to their expertise in the sector, they are able to strengthen supply chains, support development of healthcare infrastructures, and ensure widespread distribution of their products.

In the recent years drug spending in emerging markets has grown at a faster pace than in North America, Europe and Japan. Therefore, it has become business critical to build a reputation as a positive contributor to the development of emerging markets. The underlying purposes are not only ensuring that their products reach as wide a base of people as possible, but also that they do so efficiently with an eye toward long term value creation for shareholders.

To analyze how the industry evolved in this matter, it is used the information gathered in the Access to Medicine Index (ATMI) reports published in November 2014 and November 2016. It provides a comprehensive overview of the top 20 research-based pharmaceutical companies' efforts to make medicines, vaccines and diagnostics more accessible in low- and middle-income countries.

Progress reported in the 2016 ATMI report

Overall, a larger amount of companies have implemented strategies for increasing access to medicine, many of them approaching it as a way of developing business in emerging markets. More than 100 products for high-burden diseases entered the pipeline since 2014, being R&D one of the areas where there is evidence that the industry responds to externally identified needs.

The proportion of collaborative research models for high-priority, low-incentive products increased in the last two years. R&D conducted in partnership includes access plans more often and earlier than in-house R&D, highlighting that collaborative models are an effective mechanism for engaging the biopharmaceutical sector in R&D oriented to the needs of populations in low- and middle-income countries.

Modest improvements were achieved in terms of product deployment. Voluntary licensing have been expanding the last two years, more compounds have been covered by voluntary license agreements, and for the first time moving beyond HIV/AIDS and extending them to hepatitis C. Even though steps are promising, large middle-income countries (MICs) are often excluded from licenses despite the fact that they are home to the majority of the world's poor. Efforts for moving the product from the pipeline to the patient differ across companies, but a persistent trend of limited registration of new products in countries where they are particularly needed dominates the industry.

Most of the companies analyzed by the ATMI have now engaged in equitable pricing strategies, tailoring prices to different population segments. Although companies are considering affordability for more

products than they did in 2014, the proportion of the industry portfolio covered by such pricing strategies remains static at one-third.

Industry's performance

Roche proves to have a strong innovation pipeline

We visited Roche at their headquarters in Basel, Switzerland, on 8 March 2016 and the company provided a full update on their innovation pipeline with many breakthrough therapies in oncology. Roche scores a higher then average pipeline success percentage for innovative drugs that make it to the market. We also discussed how they ensure to cultivate a culture in the company that looks for continuous improvement also on environmental management, supply chain management etc. Roche has based on our guidance now included tangible examples of such innovations in their annual report and has monetized the benefits to show shareholders how innovation management adds to the bottom line. One of the factors in play is their choice to keep innovative research centers operate independently, such as Genentech in the US and Chugai in Japan. Even their research units in Basel are organized as such that they all operate indepedent from each other, with pharma and diagnostics reporting into different management lines. In contrast to other companies Roche does not have a Global Head of R&D.

Novartis has the largest budget for R&D

During our meeting with the Global Head of Sustainability at Novartis' office in Basel, Switzerland, on 9 March 2016 we discussed their approach to innovation management. Compared to Roche, Novartis takes a different approach in structuring it's research unit. The company aims to create more synergies between their Novartis Institute for Biomedical Research (NIBR) and the complex generics research conducted at Sandoz, the generics part of the Novartis business. They expect that both organisations can leverage on each others knowledge when they more closely cooperate. We have expressed our concerns that they need to manage the delicate balance between collaboration synergies of increasing scale for a culture of innovation in smaller individual research units. We will closely monitor how these plans will work out for Novartis. We also raised concerns on several promising R&D projects that came out of the Novartis pipeline but due to execution issues didn't fulfil their expected value to shareholders. We are positive on the recent strategic shift to focus the Novartis business by selling of parts of the business to GSK and regard further pipeline success optimization as an important area for improvement for Novartis in the coming years.

GlaxoSmithKline is taking its lessons from China fall-out

We held a conference call with the Head of Risk Management of GlaxoSmithKline (GSK) on 14 April 2016. The company provided a full update on their improvement program that was launched after the major bribery incidents in China were found. The company noted that they have redesigned their compliance model as a corrective action in China. They have abandoned using travel agencies and also have stopped engaging with healthcare professionals to speak on GSK's behalf. Instead, it has recruited a number of professors on their direct payroll to speak about its products. GSK mentioned that they have also reshuffled a lot of first line and middle level management positions to ensure that the right people with a good track record of values and ethics within the company take up positions in China. The company also changed the incentive system for its sales force from being linked to sales targets to their product knowledge and communication skills. The company hopes that this would help it tackle the corruption and bribery in that region.

On managing its suppliers' risks, the company is running a two years global program to evaluate all the 3rd parties it works with. Due diligence is being carried out to ensure that the relationship is sound and policies are being implemented. This is done with the help of EcoVadis and an external consultant. We believe these measures would help the company to address further potential corruptions in China and we also encouraged GSK to implement such measures in other high-risk countries with respect to corruption.

Industry's performance on access to medicine

The biopharmaceutical industry is very diverse and this is reflected in the way companies approach access to medicine, which access challenges they choose to address and how, and which products they prioritize. Evidence shows the industry is continuing to step up its efforts to improve access to medicine in developing countries. It is analyzed below the performance of biopharmaceutical companies in four key industry-levels:

Research & Development. Johnson & Johnson presents one of the largest relevant pipeline, with a significant share of development targeting high-priority product gaps with low commercial incentives. Together with GSK, Novartis, Sanofi, Merck KGaA and AbbVie, these companies account for over half (55%) the total industry pipeline. On top of that, they lead in the field of developing products for the poor, developing almost three quarters (72%) of products targeting high-priority, low-incentive product gaps. In 2014, tropical diseases and maternal and neonatal health were identified by the ATMI as disease areas with least attention. GSK and Novartis reported new projects for both maternal and neonatal health, thus addressing this area of need.

Product Deployment. AstraZeneca has done a considerable improvement in terms of product deployment through the implementation of a new affordability-based pricing strategy and expanded it to more products than in 2014. Currently it conducts an in-depth ability-to-pay analysis in certain countries, and it also extensively updates and expands its access strategy. Even though Novo Nordisk have filed to register most of their newest products where they are needed, it has equitable pricing strategies only for a small proportion of its portfolio as well as a small pipeline of products addressed for people in low and middle-income countries.

Governance and Compliance. In general all companies have comprehensive compliance systems, yet misconduct continues to some extent. Novartis Access business model shows a preparedness to take calculated risks in reaching more people, while its access management approach is more closely aligned with stakeholder expectations than that of any other company. Roche has strong enforcement processes for ensuring compliance, yet its approach to intellectual property *(IP-management) remains static lacking back in product deployment.*

Capacity Building. AstraZeneca, GSK, Johnson & Johnson, Merck & Co., Inc. and Novartis are key leaders in addressing local needs when engaging in capacity building. For instance, Merck& Co., Inc. has a system for continually improving quality standards in manufacturing, including at 53 third-party manufacturing sites on four continents. Novartis took a comprehensive approach to partnering with in-country research organizations to identify local skills gaps and design partnerships to target identified need, while continuing its innovative, research-based capacity building strategy in two disease-specific areas.

Theme progress

13. Corporate governance in Japan

Over recent years various changes to Japanese corporate governance have been proposed by several Japanese institutions. Compared to international corporate governance standards and best practices, Japanese corporate governance practices are considered sub-optimal and often difficult to understand. Recent changes such as the amendments to the Japanese corporate law, the introduction of a Japanese stewardship code and the introduction of a Japanese Corporate Governance Code have created momentum for improvement of corporate governance in Japanese companies. Improvements in corporate governance practices can improve transparency, effective oversight and further alignment with minority shareholders. Such changes would protect our investments in Japanese companies, and could contribute to stronger financial results.

Codes of conduct and Sustainable Development Goals (SDGs)
- Japanese Stewardship Code
- ICGN Global Governance Principles
- SDG 16: Peace, Justice and Strong Institutions

Corporate Governance: Accountability & Transparency
A company's corporate governance structure specifies the rights and responsibilities of the various stakeholders such as the management, supervisory directors, shareholders and other stakeholders. An effective corporate governance system focuses on a company's long term business continuity and protects shareholders' interests. A well-functioning corporate governance system can contribute to long term shareholder value. International and national principles and codes provide guidelines for good corporate governance. Corporate governance covers a number of important issues. Relevant subjects are: remuneration policy, shareholder rights, transparency, effective supervision of management, independent audit and risk management.

Recent developments

The road to shareholder value in the land of the rising sun

A wind of change in Japan
During the last quarter of 2015, Robeco conducted an extensive research to prepare for an engagement program with Japanese companies to enhance their corporate governance. Over recent years the Japanese government under leadership of Shinzo Abe has implemented several policies to strengthen the Japanese economy. One of the aims of the government has been boosting the Japanese stock market by making Japanese equities more appealing to international institutional investors. Return on equity for Japanese companies has been relatively low compared to their US and European counterparts.

To make the Japanese stock market more interesting for investors, several efforts have been made to improve the corporate governance of companies in Japan. Examples of such efforts are the Japanese stewardship code, encouraging institutional investors to engage with their investee companies and the Japanese corporate governance code, setting "comply-or-explain" guidelines for sound corporate governance practices for corporates. As these principles are largely of voluntary nature and broad in their guidance, there is a lot of freedom for companies in their implementation of these policies.

We believe that improvements in corporate governance practices can improve transparency, effective oversight and further alignment with interests of minority shareholders. Such changes would protect our investments in Japanese companies, and could contribute to stronger financial results. Therefore we have started an engagement project to improve governance practices for some of our investments. After a year of engagement, we report some of our first findings of this project.

Board structure as a focus
Much of the corporate governance reform is focused on having more independent directors on the board. Indeed, we have noticed an increase in the number of independent members in Japanese corporate boards, or outside directors as they are often referred to in Japan. Whereas prior to the corporate governance reform, companies would usually have one outsider or even none, over 80 per cent of Japanese listed companies have at two or more outside directors, as recommended by the Tokyo Stock Exchange.

We support the trend for more independent directors, but at the same time we are unsure if the independent directors being nominated are always suited for their role. When the board of 7&I opposed the previous CEO on the strategic plan for the company, the CEO stepped down and the company reviewed its strategy. In our view, the role of outside directors includes being the leading voice in challenging management when top executives are underperforming, or when the business strategy management carried out is not leading to long term value creation. With many companies in our program we hear similar examples. Therefore it is of key importance that the independent board members have sufficient understanding of the business, the economic environment the company is operating in and financial knowledge to determine which decisions add value for shareholders and which decisions do not.

For shareholders it is very difficult to grasp the actual dynamics in a board. One of the provisions in the corporate governance code asks companies to do a self-evaluation and report to shareholders on this process. If done correctly such evaluations might help shareholders understand better the quality and the changes in the board of their investee companies and have a more fruitful conversation on the topic.

During our conversations with corporates we also note that many boards are slowly changing their way of working. Japanese boards are known to have weekly meetings and making decisions on a large degree of operational, day-to-day management issues. However, we start to see a

shift towards monthly meetings that focus on strategic issues and their oversight duties. However, for most companies there still is a long way to go before they become well adapted to this new approach to corporate board roles. From our discussions, it is clear that this transition is an ongoing struggle for many companies.

A one size fits all corporate governance report

Over the last year we have seen many Japanese corporates provide so-called corporate governance reports that help companies report on their compliance with the corporate governance code. The corporate governance code suggests that companies should be disclosing how companies deal with a range of issues relevant for shareholders, including dividend policies, capital management, cross holdings, anti-takeover measures and remuneration structures. In our analysis of these policies we often find that many companies publish documents that provide little concrete information and the text of the policies between companies are suspiciously similar. Often we find texts like: "The management might hold cross holdings in a range of companies, if management deems the holdings beneficial to all stakeholders. Cross holdings are reviewed annually." This might lead one to think that corporates are publishing corporate governance policies as a compliance exercise, but from our engagement we know that most companies are thinking how to address these issues and just need more time to understand what policies are appropriate.

Communication with investors is improving, ...slowly

Many international investors face troubles in getting all relevant information of Japanese corporates. Often this has to do with language issues, leading to nuances getting lost in translations. Additionally, Japanese companies often do not have Investor Relations departments. The perception of many investors is that communication with investors are not a priority for Japanese companies compared to other stakeholders such as customers, clients or suppliers. At the same time, Japanese corporates often complain that their investors do not sufficiently understand the business and are too short sighted to engage in a constructive dialogue.

In our engagement work we note that communication between Japanese corporates and their investors is improving. However, it is of key importance for investors to prove that they are long term oriented, have a constructive attitude and take the effort to understand the cultural context of how companies are run. Once such a relation is established, engagement can be very productive. One great example is our engagement with Asics. We have been able to grow a constructive exchange of ideas on corporate governance reporting, remuneration and anti-takeover provisions. Another example is Mizuho Financial, who proactively asked shareholders for feedback on their capital management policies after seeing a shareholder proposal from an activist investor on the company's dividend policy gain 49% of shareholder support.

Japanese companies appear to be opening up to shareholders and are becoming more willing than before to discuss governance reform. Even though many shareholders are impatient with the speed of governance reform, things are slowly changing in corporate Japan.

Theme progress

14. Good governance

Corporate Governance refers to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations.
A well-defined corporate governance system can be used to balance or align interests between stakeholders and can work as a tool to support a company's long term strategy. Improvements in a company's corporate governance can therefore enhance the stability and performance of a company.

Codes of conduct and Sustainable Development Goals (SDGs)
- The ICGN Global Governance Princples (ICGN, revised 2014)
- Local corporate governance codes
- ICGN Corporate Risk Oversight Guidelines
- SDG 16: Peace, Justice and Strong Institutions

Corporate Governance: Accountability & Transparency
A company's corporate governance structure specifies the rights and responsibilities of the various stakeholders such as the management, supervisory directors, shareholders and other stakeholders. An effective corporate governance system focuses on a company's long term business continuity and protects shareholders' interests. A well-functioning corporate governance system can contribute to long term shareholder value. International and national principles and codes provide guidelines for good corporate governance. Corporate governance covers a number of important issues. Relevant subjects are: remuneration policy, shareholder rights, transparency, effective supervision of management, independent audit and risk management.

Recent developments

Good corporate governance
The principles of the International Corporate Governance Network are used to improve governance practices at listed companies as part of the good corporate governance theme. These principles have been designed so that they can be harmonized with specific local regulation and governance codes. They provide a reference point for engagement with Dutch listed companies during the shareholder-meeting season. But they are also used as a touchstone for discussing shareholder rights in Asia, or improvement plans for companies embroiled in corruption scandals in South America.

2016 AGM season in the Netherlands
During shareholder meetings, a company's board requests its shareholders to approve a number of proposals. Subjects that regularly arise at shareholder meetings include the appointment of members to the Board of Directors and the Supervisory Board, authorizing directors to buy back or issue new shares, and requests for the approval of remuneration policies and financial statements. Over the last few years, Robeco and other institutional investors have built up good relationships with many listed companies in the Netherlands. The agenda points are always assessed prior to a shareholder meeting. They are sometimes amended or even scrapped after this assessment. An agenda proposal where the company's directors wanted to extend for at least 5 years the fixed rate of return on preferential shares was withdrawn this year at DSM. This extension was contrary to the company's Articles of Association. Since there was insufficient support among 'ordinary' shareholders, who don't hold preferential shares, the proposal was withdrawn after various meetings, attended by various company representatives including the CFO.

At the shareholder meeting of AkzoNobel, various matters were discussed, including the degree of transparency at the company in relation to its tax policy and a change to the performance indicators in its remuneration policy.

Room to maneuver for companies and compliance with the principles
Among listed companies in the Netherlands, compliance with the Dutch Corporate Governance code is quite high. Generally speaking, the Code is implemented quickly. One good example is IMCD, a chemicals distributor in Rotterdam. Shortly after the company's flotation, IMCD implemented the principles of the Dutch governance code. At the first public meeting of shareholders in 2015, IMCD reported only four exceptions to the implementation of this corporate governance code. At the second public shareholder meeting in 2016, the company reported just one exception.

Despite the strict compliance with the Dutch Corporate Governance Code in the past, there seems to have been a trend in recent years for directors to demand greater decision-making powers without first asking shareholders for approval. One example of this is the use of so-called 'executive committees'. These 'excos' have become very popular among listed companies in the Netherlands over the last few years. An executive committee comprises executive management members, appointed directly by the CEO or the management. The appointment of these management members is not subject to shareholder approval. Another example is the demand for more extensive mandates for share issuance by directors. In the Netherlands, it was always customary for directors to issue no more than 20% of the company's authorized share capital in shares. Since this percentage is much higher in many other European countries, many listed companies requested a bigger mandate this year.

The interpretation of governance principles necessitates communication and is not static.
Listed companies in the Netherlands are obliged to report on the

exceptions they make to the implementation of the Dutch Corporate Governance Code. What's more, they have to engage with shareholders if they require approval for changes to their company's governance. This process makes the corporate governance of companies a dynamic one. Where communication between a company and its shareholders is good, there is room for exceptions to the 'best practice' provisions, and strict regulatory compliance is not necessary. Corporate governance codes themselves are also subject to change. Over the course of 2015, the Dutch Corporate Governance Monitoring Committee started consultations for a new version of the corporate governance code. The key changes they have in mind relate to reporting on long-term strategy, risk management and the corporate culture. A further goal of the updated proposal is to simplify and clarify remuneration structures. Once the revised code takes force, these changes will form the basis of fresh discussions between Robeco as a shareholder and the Dutch companies it invests in. We expect the impact of the new Dutch Corporate Governance Code on companies to be discussed in the 2017 shareholder-meeting season.

Theme progress

15. Corporate risk oversight in the mining sector

Engaging with mining companies is a whole different ball game. Mining is the most ESG-sensitive sector, dealing with a broad set of challenges in areas such as risk management, pollution, human rights, bribery and corruption. This led us to approach our engagement with companies in this sector in a new way.

Codes of conduct and Sustainable Development Goals (SDGs)
- ICGN Corporate Risk Oversight Guidelines
- SDG 12: Responsible Production and Consumption

Corporate Governance: Board Practices
The Supervisory Board has the task to monitor and the guide the management of the company. In order to carry out this task properly, the majority of the board should be sufficiently independent and should have relevant industry knowledge and supervisory skills. The boards' supervisory tasks cover various aspects of the company's policies. Board members should make sure that such policies are implemented correctly and work effectively. A company's strategy, the audit process, control framework, risk management, but also mergers and acquisitions should be reviewed by the board.

Recent developments

Mining activities can have severe negative impacts on employees, the environment and wider society. This is mainly due to the high number of fatalities and to the countries in which mining companies operate and where, for example, bribery is a deeply engrained way of doing things.

We started an engagement on corporate risk oversight in the mining sector in 2013. First we conducted a baseline research that focused on how corporate boards could identify and mitigate ESG risks. The study identified nine key risks, including health and safety for workers, the impact on local communities and the potential environmental impact. We selected eleven mining companies, reflecting a diversity in geographical scope of operations and commodities.

Three engagement objectives

We focused on three areas for improvement: 'policy and governance', 'risk management', and 'performance and monitoring'.

Improving risk oversight policy and governance

As mining involves a risk of severe environmental and social impacts, boards of directors should integrate oversight on sustainability into their responsibilities to ensure companies' long-term resilience. We believe that boards that have a majority of independent members with expertise in the sector and its key ESG risks, are better positioned to maintain oversight on material sustainability issues. In general, at the beginning of the three-year engagement, the companies had boards with insufficient independence and experience in relation to ESG risks in the mining sector. During our engagement, we found that Newcrest improved the most by launching a board renewal process that would upgrade the board's ESG skill set. At the end of the engagement nine out of eleven companies had provided evidence of adopting an independent and competent board with responsibility for ESG oversight.

Also key in improving risk oversight governance is that compensation packages for board members include conditions related to ESG risks. These targets should be measurable and relevant to company risks. At the end of the engagement, ten out of eleven companies had linked executive remuneration to ESG metrics.

Improving risk oversight and management

In our initial research, we found that two companies had poor risk management and board assessment procedures, and two companies appeared to have poor communication channels between management and the board. During our engagement we found that risk management varied greatly. Some companies had a centralized approach, with the board overseeing and taking action on ESG risks, incidents and near-misses. Others opted for a de-centralized approach where local management monitors location-specific ESG risks. At the end of the engagement, nine out of eleven companies had made significant progress in improving their risk management systems. In our view Anglo-American is ahead of its peers. Some of the key features of the company's ESG risk management system are a strong risk assessment process led by a Safety & ESG team that is reviewed annually by the Board of Directors, and increased efforts to conduct externally verified human rights due diligence.

Improving risk management performance and monitoring

If companies have had serious ESG incidents over the last years, we expect them to change the relevant risk management systems to minimize the risk of reoccurrence. At the start of our engagement, nine out of eleven companies disclosed past breaches and corrective and preventive actions. Out of the two companies lagging the peer group, one significantly improved its disclosure on ESG incidents during our engagement with them.

Case study: Risk management in Eldorado Gold

We had an open and constructive engagement with Eldorado Gold. We visited the company in Vancouver, where we spoke to the Chief Risk Officer. We discussed issues such as the Board's ESG expertise and linking Board remuneration to ESG issues.

The company was very open and showed us the risk matrix they used for corporate, country and operation risks. It also has a Sustainability Committee, which handles major ESG risks. In 2016, the company published a high-quality CSR 2015 report. Health, safety and environmental key performance indicators are now linked to compensation. Eldorado Gold completed International Cyanide Management Code (ICMC) certifications at their two gold mines in China. These are the first gold mines in China to be ICMC certified, and we regard this as a big achievement, setting a good example for other gold mine operators in China. Eldorado Gold aims to become a signatory of the UN Global Compact.

Pilot engagement program

During our engagements we realized that combining our top-down engagement approach with bottom-up ESG risk identification would increase the focus of our dialogue with companies. In mid-2015, we started a pilot focused engagement with Vale. Under this pilot, we focused on the ultimate financial impact of the ESG risks by mapping the company's operations per commodity, region, and profitability and production levels. This mapping exercise helped us identify the most financially material ESG risks in Vale, namely corporate governance and the relationship with the Brazilian government, social license to operate, joint venture control issues, and bribery and corruption.

Due to the useful insights this pilot brought, we decided to expand it to other major global mining operations, i.e. BHP Billiton, Anglo-American and Rio Tinto. Moreover, following the Brazilian Samarco mine dam burst at the end of 2015, the engagement with Vale and BHP Billiton continued under the enhanced engagement theme and still continues. In addition to these focused engagements, we continue our active dialogues with the seven other companies.

Theme closed

In the fourth quarter of 2016, we closed the engagement theme. The pilot engagement with four companies was closed successfully, as was the dialogue with four other companies. Of the remaining three companies, engagement was closed unsuccessfully for two of them. The third company was dropped off the engagement program due to filing for chapter 11 on bankruptcy.

Lessons learned: focused engagement deepens the dialogue

A key lesson learned from this engagement process is that mining activities have a broad range of ESG risks that vary from one operation to another. Even though the engagement objectives focused on risk oversight processes and policies, we learned that deep-diving into management systems of key risks significantly enhanced our understanding of how robust risk management systems really were. This is why we set up the focused engagement pilot, which allowed us to thoroughly assess how well the company was equipped to identify the most material risks.

16. Codes of conducts

International Corporate Governance Network

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). The ICGN principles have been revised in June 2014. The proxy voting policy is the standard policy for Robeco. For discretionary mandates Robeco can implement any proxy voting policy a client prefers.

The UN Global Compact

The principal code of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and there are now approximately 9,000 participating companies. It is the most endorsed code of conduct in this field.

The Global Compact requires companies to embrace, support and adopt a number of core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

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.

Other relevant codes of conduct

- Robeco's engagement process is also based on the following internationally accepted codes of conduct:
- The Universal Declaration of Human Rights
- The Declaration on Fundamental Principles and Rights at Work of the International Labor Organization (ILO)
- The Rio Declaration on Environment and Development
- The UN Convention against Corruption
- The Global Reporting Initiative (GRI)

About Robeco

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Robeco employs about 1,200 people in 15 countries (December 2016). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America.

Robeco strongly advocates responsible investing. Environmental, social and governance factors are integrated into the investment processes, and there is an exclusion policy is in place. Robeco also makes active use of its voting right and enters into dialogue with the companies in which it invests.

To service institutional and business clients, Robeco has offices in Bahrain, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney and the United States.

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