For professional investors

CHALLENGE ACCEPTED

Our commitment to active ownership

APRIL 2022

Sustainable Investing Expertise by ROBECOSAM

ROBECO
The Investment Engineers

CONTENTS

‘Engagement, climate and biodiversity will be central in investment processes between now and your retirement, as well as long thereafter’

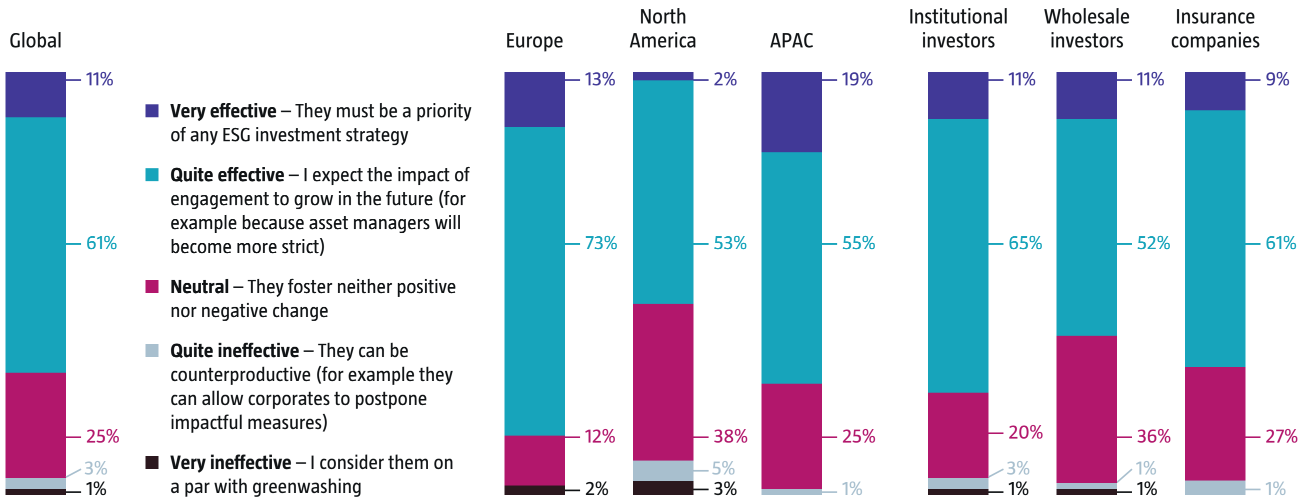
Victor Verberk
CIO Fixed Income & Sustainability

ENGAGEMENT CONSIDERED IMPORTANT
BY FOUR IN FIVE INVESTORS

Some 80% of investors say engagement will be a significant factor in their investment policy in the next two years, the second annual Robeco Global Climate Survey, conducted by CoreData Research in January 2022, has found.

The survey also showed that 61% of investors thought engagement was "quite effective" in fostering change and progress on ESG policies at the investee companies and they expect their impact to grow in the future. Some 11% thought it was "very effective" while 25% were neutral. →

How investors view engagement



Data may not sum to 100% due to rounding. Source: Robeco, CoreData

Three quarters of investors said net-zero emissions will become the biggest engagement theme over the next two to three years in the drive to achieve carbon neutrality by 2050.

And active ownership is the favored approach to dealing with contentious sectors such as oil and gas, where voting and engaging to secure decarbonization commitments have proved particularly effective. Some 28% say they will be an active owner in oil and gas companies in the next two years.

Some of the other key findings of the survey were:

- Active ownership and engagement is now a key part of investment policies for almost 73% of investors, while 80% said its importance will increase in the next two years.
- 73% of European investors and 61% of investors globally say engagement strategies are quite effective as a successful tool to foster change and progress on ESG policies at investee companies.
- 60% of investors say that they have a very good or reasonable level of knowledge and understanding of engagement with companies in order to drive change on carbon emissions.
- 66% of investors say they are motivated to use active ownership/engagement to ensure that governance standards comply with good practices.
- While investors generally want better data on ESG issues, corporate governance data is currently used by only just over half of investors. Lack of data is consistently cited as one of the biggest obstacles to sustainability. ●

VIEWS OF 300 INVESTORS

The results are contained in the 2022 Robeco Climate Survey, which gathered the views of 300 global investors on their approaches to decarbonization, climate change, biodiversity and engagement. It is the second survey of its kind following the success of the 2021 report.

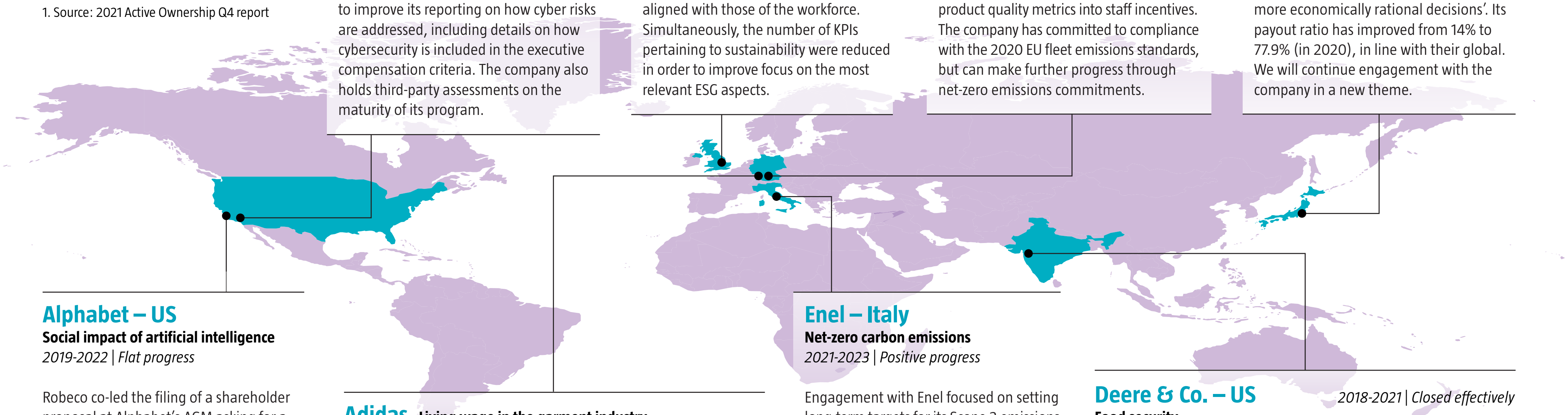
The research was carried out via an extensive global online survey conducted by CoreData Research during January 2022. Collectively the investors questioned have assets under management of USD 23.7 trillion, ranging from under USD 1 billion for the smallest to over USD 1 trillion for the largest.

Respondents were asked about their attitudes towards active ownership and engagement, which is not practised by all. Robeco has operated an Active Ownership and Engagement team since 2005, and sometimes engages or votes on behalf of others.

ENGAGEMENT AROUND THE GLOBE

This page showcases only a small number of Robeco's engagement activities. In 2021 we conducted 270 engagement cases and 942 engagement activities[1] on six continents and across a wide range of companies and themes.

1. Source: 2021 Active Ownership Q4 report



Visa – US

Cybersecurity

2018-2021 | *Closed effectively*

Visa scored well on most engagement objectives. An exemplary approach to cyber governance & oversight is embodied in the Audit & Risk committee overseeing related risks and the significant technology experience on the board. Visa committed to improve its reporting on how cyber risks are addressed, including details on how cybersecurity is included in the executive compensation criteria. The company also holds third-party assessments on the maturity of its program.

Royal Mail plc – UK

Good governance

2018-2021 | *Closed effectively*

At Royal Mail, salary increases in 2018 initially triggered a shareholder revolt. But this then led to a consultation process in which financial metrics were better focused on the current strategy, and pension provisions were better aligned with those of the workforce. Simultaneously, the number of KPIs pertaining to sustainability were reduced in order to improve focus on the most relevant ESG aspects.

BMW – Germany

ESG challenges in the auto industry

2017-2020 | *Closed effectively*

Passenger cars directly account for around 7% of global CO_2 emissions and 45% of oil demand. During our engagement, BMW demonstrated low annual safety recalls and defects, the incorporation of cross-functional targets and the integration of product quality metrics into staff incentives. The company has committed to compliance with the 2020 EU fleet emissions standards, but can make further progress through net-zero emissions commitments.

Ebara – Japan

Corporate governance standards in Asia

2018-2021 | *Closed effectively*

The leadership of the company has attracted controversy, but its operations continued to perform well. The company's returns were below its global peers when we began engagement. The company accepted our recommendations to make more economically rational decisions'. Its payout ratio has improved from 14% to 77.9% (in 2020), in line with their global. We will continue engagement with the company in a new theme.

Alphabet – US

Social impact of artificial intelligence

2019-2022 | *Flat progress*

Robeco co-led the filing of a shareholder proposal at Alphabet's AGM asking for a Human Rights Risk Oversight committee to be established. Some 16% of shareholders voted in favor. Alphabet announced an update of its Audit Committee Charter, which now includes the review of major risk exposures around sustainability and civil and human rights. This is in line with our request to formalize board oversight. We will continue with our engagement.

Adidas

Living wage in the garment industry

2018-2021 | *Closed effectively*

Adidas has integrated living wages into its purchasing practices. Factories representing 85% of the company's sourcing volume are unionized and 56% of them have specific collective bargaining agreements in place. Its human rights grievance channel, which is accessible to stakeholders across the supply chain, publicly reports the status of complaints, indicating the region and the types of organizations that have reported the complaints.

Enel – Italy

Net-zero carbon emissions

2021-2023 | *Positive progress*

Engagement with Enel focused on setting long-term targets for its Scope 3 emissions from natural gas sales to customers (23% of total emissions), and a decarbonization strategy for its natural gas generation activities. Enel committed to fully decarbonizing by 2040, bringing forward its previous net-zero target by a decade. In order to meet this target, Enel has committed to generate and sell energy exclusively from renewable sources.

Deere & Co. – US

2018-2021 | *Closed effectively*

Food security

A significant proportion of **India**'s 1.4 billion inhabitants are under-nourished. Robeco engaged with Deere & Co. to prioritize R&D into tractor innovation to improve farm productivity in low and middle-income countries. Deere & Co. managed to adapt its conventional tractors to service the needs of smallholder farmers. Our engagement objective focused on 'innovation management' was successfully closed due to evidence of the company's efforts to support farmer productivity and incomes in food-insecure regions.

HOW CONSTRUCTIVE DIALOGUE SUPPORTS PROGRESSIVELY AMBITIOUS CLIMATE STRATEGIES

INVESTORS' ENGAGEMENT AND ENEL: A SUCCESS STORY

Utilities lie at the proverbial coal face of reducing the world's reliance on fossil fuels. As suppliers of electricity, they have for decades burned coal, gas and oil to meet the growing needs of society. But they can also become part of the solution – as Enel has shown.

SPEED READ

- **Engagement supported acceleration of Enel's decarbonization plan**
- **First utility to commit to stop using gas power generation by 2040**
- **Enel is tackling Scope 3 emissions, aims to end all gas sales**

Robeco has been engaging with the Italy-based multinational power producer for more than six years to encourage the utility – the largest in Europe – to accelerate its move away from the fossil fuel model. This has helped produce some spectacular change, led by commitments to phase out coal and reduce Scope 3 emissions, and putting a wind power expert on Enel's board.

Now the utility is talking about becoming one of the first in the world to source its energy entirely from renewables, thereby generating absolute zero rather than just net-zero direct emissions, while following a clear net-zero target by 2040 across all scopes.

So, how did this all happen? Many utilities are highly reluctant to change, citing the need to secure power supplies and the unreliability of renewables, which won't work if the wind isn't blowing or the sun doesn't shine. Carola van Lamoen, Head of Sustainable Investing and the founder of Robeco's engagement capability in 2005, takes up the story.

LOOKBACK TO 2015 The trend of transition

"Our focus on utilities started in 2015 when we saw the trend of transition to a lower-carbon future and that the utilities sector was going to be impacted by this the most in the near term," she says.

"At the time we were focusing on European utilities to see where we could assist in their transition away from coal. Enel was an obvious candidate for engagement because they are the largest utility in Europe, and they had significant exposure to coal at the time."

The Active Ownership team began research to see exactly where Enel was with their own decarbonization plans. Most engagement does not start from scratch; a company usually already has some kind of policy in place to become more sustainable. Investor feedback can then help highlight what areas are of most concern.

Building on the basics

Enel had already seen which way the wind was blowing – literally in its case – in starting to swap coal for wind and other clean energies. In 2015, coal-fired plants accounted for around 20% of Enel's total installed capacity. This has been more than halved to less than 8% in December 2021, and partly thanks to the engagement, the company has committed to a full coal phase out by 2027.

"Enel was maybe one of the earliest companies to realize the seismic shift that was taking place in the industry," says Van Lamoen. "Some of the basics were already there. In 2015, they had already committed to net-zero emissions and had set a science-based target for cutting emissions by 2020." ↓

'Enel was one of the earlier companies to realize the seismic shift that was taking place in the industry'

Carola van Lamoen
Head of Sustainable Investing at Robeco

"They had also committed to no new coal development and had started closing down some of their coal-fired power plants. They didn't have everything ironed out, but they had already seen the direction of travel that they needed to go, and that was really helpful."

"What they lacked was a disclosed climate strategy to deliver on their net-zero emissions ambition. Much of our role has been communicating what our priorities are as an investor, outlining our expectations in what we wanted to see, and always trying to help them take the next step."

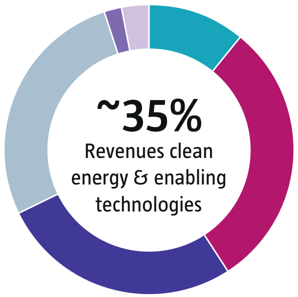
GOING GREEN IN '16 Green energy goes mainstream

It didn't take long to see results, as Enel was quick to show that it was serious about renewables. They say that true sustainable investing is not possible unless it comes from the very top, and Enel had just the right man at the helm.

Francesco Starace was chief executive officer of Enel Green Power from 2008-2014, listing it on the Milan and Madrid Stock Exchanges in a celebrated EUR 8 billion IPO in 2010. He became CEO of the whole group in 2014 and put renewables at the heart of the company's strategy. In 2016, the company delisted Enel Green Power and incorporated it fully into the group. →

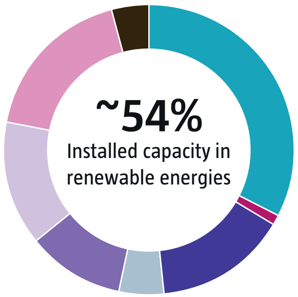
Enel in a nutshell

Revenue by business segment



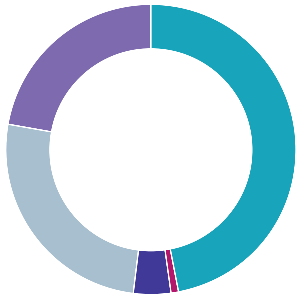
Green power	11%
Thermal generation & trading	30%
Infrastructure & networks	27%
End-user markets	27%
Enel X	2%
Other services	3%

Installed capacity by source



Hydroelectric	33%
Geothermal	1%
Wind	15%
Solar	5%
Coal-fired	11%
Fuel-oil & turbo-gas	14%
Combined cycle	18%
Nuclear	4%

Emissions breakdown



Scope 1 (direct GHG emissions)	47%
Scope 2 (purchase of electricity)	1%
Scope 2 (distribution grid losses)	4%
Scope 3 (sale of electricity)	26%
Scope 3 (sale of gas)	22%

The figures refer to eligible activities according to the EU's Technical Expert Group (TEG) recommendations. Source: Enel, Robeco

EXPLAINED IN 150 WORDS

A **stewardship code** is a set of principles requiring investors to be transparent about their investment processes, engage with investee companies, and vote at shareholders' meetings. The first code was introduced in the UK in 2010, with the objective of enhancing the quality of engagement between asset managers and companies to help improve long-term risk-adjusted returns. In 2014, Japan was the first country in Asia to introduce one. In 2020, the International Corporate Governance Network introduced a Global Stewardship Code which many countries and investors now follow.

Although stewardship codes are not compulsory, they are increasingly viewed as a condition of business. Japan's largest pension fund GPIF, for example, requires its asset managers to be a signatory to the Japanese Stewardship Code. Robeco believes that an active approach to the stewardship of assets is an important part of its sustainable investing approach and has put in place several robust policies to adhere to its responsibilities in this respect.

"So the fact that the CEO of the renewables business became the group's CEO really set the tone," says Van Lamoen. "He has been very important in the transition, and he's still driving that today."

"If you already have top management with that conviction, then that really helps our engagement, because you have a company that is open to discuss these topics."

Phasing out coal

With the commitment to renewables firmly in place, the attention turned back to Enel's reliance on fossil fuels. A large part of its installed capacity comes from legacy thermal plants, including combined cycle gas turbines (CCGT) and oil and gas installations, together with a few remaining coal-fired plants.

"For the first years of the engagement, the main task we had for them was getting a plan in place to phase out coal," says Van Lamoen. "We were critical about some of the investments they were making because they were still investing in upgrading fossil fuel plants that were at risk of a shortened life."

"The problem they had was that you can't just shut down power plants – they needed regulatory approval in order to secure the energy supply. So, at first, the company was not very confident about communicating anything until they had more certainty from the regulators on what they could and could not do."

"They started with phasing out the less efficient coal-fired plants and were asked to convert some of the others to natural gas to maintain adequate energy supplies. In later years, they committed to phasing out their coal-fired plants by 2030, and then brought that forward to 2027 – all with the blessing of the regulators." ↓

Enel green power & conventional generation – Installed capacity & production at group level

Installed capacity (MW)

Group	FY 2021	% Weight	FY 2020	% Weight	YOY	2021 add. capacity
Hydro	27,847	32	27,820	33.1	0.1	33
Wind	14,903	17.1	12,412	14.8	20.1	2,596
Solar & others	6,401	7.4	3,903	4.6	64	2,514
Geothermal	915	1.1	882	1.1	3.7	33
Total renewables	**50,066**	**57.5**	**45,016**	**53.6**	**11.2**	**5,176**
Nuclear	3,328	3.8	3,328	4	0	-
Coal	6,910	7.9	8,903	10.6	-22.4	1
CCGT	15,039	17.3	15,009	17.9	0.2	32
Oil & gas	11,715	13.5	11,711	13.9	0	5
Total conventional generation	**36,992**	**42.5**	**38,951**	**46.4**	**-5**	**38**
Total consolidated capacity	**87,058**	**100**	**83,967**	**100**	**3.7**	**5,214**
Managed capacity	**3,322**	-	**3,600**	-	**-7.7**	-
Total capacity	**90,380**	-	**87,567**	-	**3.2**	-

Production (GWh)

Group	FY 2021	% Weight	FY 2020	% Weight	YOY	Quarter production
Hydro	57,001	25.6	62,437	30.1	-8.7	13,576
Wind	37,791	17	30,992	15	21.9	10,687
Solar & others	7,940	3.6	5,803	2.8	36.8	2,157
Geothermal	6,086	2.7	6,127	3	-0.7	1,544
Total renewables	**108,817**	**48.9**	**105,360**	**50.9**	**3,3**	**27,964**
Nuclear	25,504	11.5	25,839	12.5	-1.3	5,609
Coal	13,858	6.2	13,155	6.4	5.3	4,605
CCGT	51,718	23.2	43,353	20.9	19.3	14,242
Oil & gas	22,709	10.2	19,401	9.4	17.1	5,963
Total conventional generation	**113,789**	**51.1**	**101,749**	**49.1**	**11.8**	**30,419**
Total consolidated production	**222,605**	**100**	**207,108**	**100**	**7.5**	**58,383**
Managed production	**9,632**	-	**9,894**	-	**-2.6**	-
Total production	**232,237**	-	**217,002**	-	**7**	-

Enel's installed capacity and electricity production at 31 December 2021: around 40% of its consolidated production still comes from fossil fuels led by combined cycle gas turbines (CCGT). Source: Enel.

From informal to formal

After the initial few years of establishing the basics, the Active Ownership team member handling utilities left Robeco, and a new person was needed to take charge of it. The team chose Cristina Cedillo Torres, who had joined Robeco three years earlier in 2014, was a specialist in transition pathways, and was looking for a challenge.

As she explains, engagement usually starts off informally with talks with staff from the company's sustainability and investor relations departments, which was already in place. It then graduates to more formal talks with top management to obtain binding commitments. This brought a change of emphasis that would prove fruitful in the following four years.

"When we started the engagement, it was mostly having calls with members of Enel's Investor Relations team to gain an understanding of what their thinking was, and to introduce ideas about what we wanted to do as a shareholder," says Cedillo Torres.

"Once we had established a relationship with the company and were getting to know them better, we started sending them letters with more formal requests. We had – and still have – very open lines of communication with Investor Relations, who have been very, very helpful in giving us access to top management."

"There has also been a lot of interaction more informally between myself and Investor Relations throughout the past years."

A NEW COLLABORATION IN 2018 Climate Action 100+

A new chapter opened in 2018 with the launch of Climate Action 100+, a collaboration of investors targeting the world's highest carbon emitters for engagement. Not surprisingly, most of the largest emitters are companies involved in the energy industry, including utilities.

"When the Climate Action 100+ initiative was launched, we were asked if we wanted to lead engagement for the coalition as we were already engaging with Enel and other utilities, and so we became the lead investor for them on this collaborative engagement," says Van Lamoen.

"Enel has always been very open to dialogue, and having the support of these investors has further strengthened our engagement. Acting as a coalition of investors has helped amplify our message and deliver it at board level."

"Engaging under the initiative means that all signatory investors are pursuing a common set of objectives across all companies. Communicating a concrete set of expectations to all companies has been an important success factor of the initiative."

NOVEMBER 2019 Meeting face to face

But after almost four years of engagement, now as part of a major international investor collaboration, the personal touch was still missing. No one from Robeco's Active Ownership team had actually met anyone from Enel in person. That was to change in 2019 with the realization that both sides were attending the same conference with the Principles for Responsible Investment (PRI). ↓

'There has also been a lot of interaction more informally between myself and Investor Relations throughout the past years'

Cristina Cedillo Torres
Engagement specialist

"November 2019 was the first time that I met the CFO in person," says Cedillo Torres. "We met in Paris because we were both attending the PRI in Person conference. It was so nice to actually meet him face to face after doing so much by email or over the phone."

"It worked well, because in the following month, the CFO visited Robeco's office in Rotterdam and presented Enel's new strategy. So several colleagues in investment teams here were able to personally meet him. But then the lockdown happened and it was no longer possible to meet anyone face to face."

MAY 2020 Nominating a board member

Covid proved no obstacle, however, in furthering the engagement, as another milestone was reached when Robeco successfully nominated a renewable energy expert as independent director to Enel's board. In May 2020, Samuel Leupold, the former CEO of Wind Power at DONG Energy, was appointed as a non-executive director. He had played an important role in transforming the Danish company from a fossil-fuel player into the world's largest offshore wind developer.

"Corporate governance over climate was one of the areas that we wanted to enhance at Enel, as indeed we do at other companies," says Cedillo Torres. "With the CEO coming from the renewables business, clearly he has a lot of expertise."

"But when we looked at the board composition, we were missing the expertise on climate and the energy transition among independent directors somewhat. So we asked ourselves what can we do to help enhance the skills-set of the board?" ↓

ITALY'S NATIONAL ELECTRICITY BOARD

Enel is Italy's principal electricity utility, the largest in Europe by market capitalization, and the second largest in the world by revenue after China's state power company. It is an acronym for Ente Nazionale per l'Energia Elettrica (National Electricity Board). The company was first listed on the Italian stock market in 1992 and fully privatized in 1999, following the liberalization of the Italian electricity market.

The company made a profit of EUR 3.6 billion in 2020, the last year for which full-year figures are available, on revenue of EUR 62.6 billion. It has 84,000 megaWatts of capacity in its operations around the world in 2020, including 26,400 MW in its home market of Italy. The majority of its power is generated by hydroelectric plants (a capacity of 27,800 MW) with a substantial amount from wind and smaller amounts from solar power and geothermal.

However, much of its electricity still comes from fossil fuels, including 15,000 MW of capacity from combined cycle gas turbines (CCGT), coal, oil and gas. CCGT turbines have the advantage in that they can use other forms of power to generate steam, including solar and biomass, but remain reliant on gas as the primary fuel source.

Coal still accounts for 10% of Enel's power generation; the company sources much of it from lignite mines which are the most pollutive form of all fossil fuels, producing high amounts of greenhouse gases.

EXPLAINED
IN 150 WORDS

divesting is the practice of selling shares or bonds in a company due to a fundamental disagreement with its business practices that cannot be resolved by negotiation or engagement. Such divestments have typically involved a view being taken on the unacceptability of the company's product(s) due to sustainability factors. While divestment removes the company's capital from an asset manager's strategies, it is not the same as exclusion, which bars the company from the investment decision-making process.

The practice of divestment often involves exiting holdings in fossil fuel companies to meet net-zero emissions targets, which are increasingly becoming part of asset managers' strategies. The problem here is that divestment does not resolve the core problem – it simply transfers ownership of the fossil fuel assets from one investor to another. Investors such as Robeco therefore prefer engaging as a means of decarbonizing energy companies over divesting or excluding.

A great system in Italy

This led to a fabulous opportunity that the Active Ownership team was quick to embrace. Independent directors at listed Italian companies are nominated by shareholders, including the government where the state retains a stake. The company gets two lists of nominees – one from the government and the other from minority shareholders. The process to submit the list from minority shareholders is coordinated by Assogestioni, the association of Italian asset managers.

"Italy actually has a great system because it allows minority shareholders like us to nominate members of the board," says Cedillo Torres. "That's where I really saw an opportunity for us to get involved and exercise this legal right."

"Every year Assogestioni searches for potential candidates across Italian listed companies, so I asked them if we could work together to get someone with climate expertise on Enel's board. They were pretty excited about it, and so I joined their nomination committee."

A team effort

The Active Ownership team's corporate governance expert, Michiel van Esch, was drafted in to assist with the nomination process. "Michiel has a lot of experience with the nominations of directors, so he advised us on how to pursue the nomination, and helped Cristina with how to go about it," says Van Lamoen.

"Our collaboration with Assogestioni also made the nomination possible, as they facilitated the entire process, helped reach the number of shares needed to file the nominee list thanks to its investor network, and provided legal advice."

"Finding the right person was the most challenging problem because the nominee needed to be an Italian speaker, and that narrowed down the pool really quickly. We were lucky to find that this former wind energy executive actually spoke Italian, even though he's not Italian (Leupold is Swiss), so I think that was indeed one of the great outcomes that we had."

SEPTEMBER 2020 The Net-Zero Benchmark

Another progressive step was the use of Climate Action 100+'s Net-Zero Benchmark, which assesses companies' transition readiness across ten indicators. The benchmark clarifies investor expectations on what elements a corporate climate strategy should address, and provides concrete goals that companies can work towards.

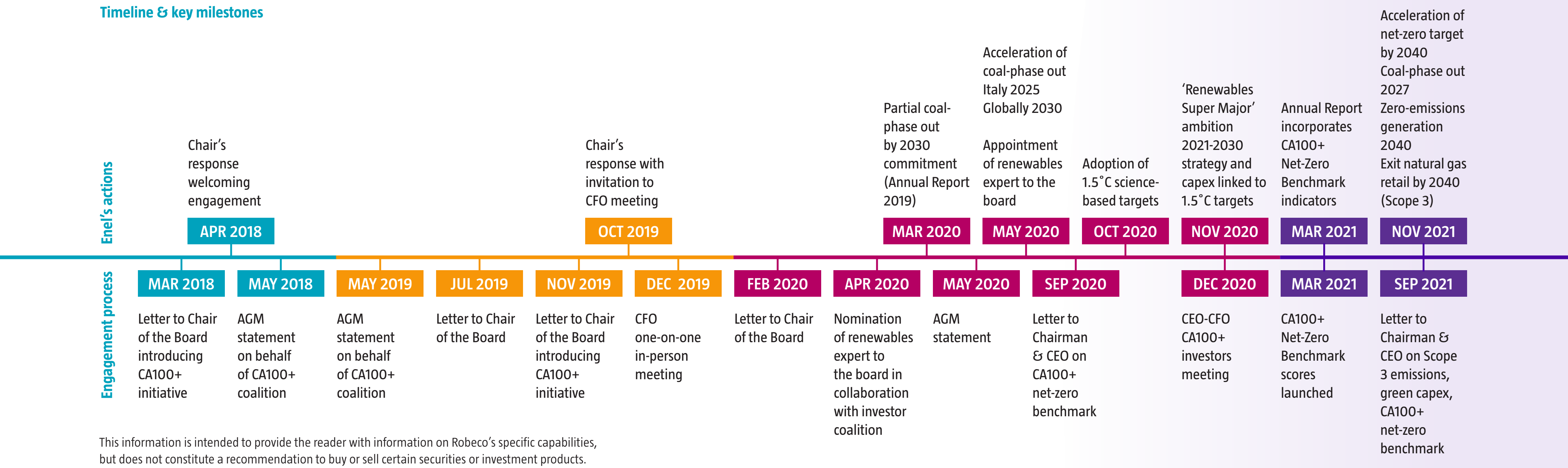
"The benchmark helped our engagement tremendously," says Cedillo Torres. "We received very positive feedback from Enel on the use of it, and they genuinely engaged with it right from the start."

"By using the Net-Zero Benchmark, our engagement also became more formal. It enabled us to approach the board and top management with a concrete set of requests. This has been mostly in the form of written correspondence, which provides investors with confidence that the company is taking it seriously." ↓

'Italy actually has a great system because it allows minority shareholders like us to nominate members of the board'

Cristina Cedillo Torres
Engagement specialist

The engagement timeline from 2018 when Climate Action 100+ launched, with Robeco as the lead investor



This information is intended to provide the reader with information on Robeco's specific capabilities, but does not constitute a recommendation to buy or sell certain securities or investment products.

Source: Robeco

NOVEMBER 2021 Expanding the scope

Another accomplishment came from noticing that Enel was very good at reducing emissions for Scope 1 and 2 but less so for Scope 3. Scope 1 emissions are generated by the company, while Scope 2 are caused by the energy used to make the electricity. Scope 3 are generated by end-users of the product – in Enel's case, the sale of gas to customers for heating – and are much harder to mitigate.

Engagement on this issue set in motion a chain of events that would lead to an historic pledge in November 2021. "One of the gaps in their reporting when working towards the net-zero benchmark with them was related to Scope 3 emissions target – I remember flagging this to them when we met them personally in 2019," says Cedillo Torres. "They had a net-zero target for 2050 but it explicitly only covered Scope 1 emissions; for a utility like Enel, Scope 3 is also important." ↓

Phasing out gas

"These emissions are derived from the sale of gas to customers for heating and cooking. They are significant – probably around 20% of their total footprint. Enel only had set an intermediate target for 2030 but had not yet disclosed its strategy for net-zero emissions by 2050, and had not made a clear commitment to achieving it."

"So, we asked the management and the board to consider setting a Scope 3 target and to explain how they're going to address Scope 3 if they truly want to become carbon neutral, since they could not do so without it."

"That became one of the major areas of attention for them in 2021. And they did listen. In November 2021, the company brought forward its net-zero target to 2040 from 2050 across all scopes, setting intermediate 1.5°C aligned targets for both Scope 1 and the main Scope 3 emissions in gas and power retail. They also confirmed their commitment to be coal-free globally by 2027, while keeping a pledge to become coal-free in Italy by 2025."

Creating a world leader

It has all led to Enel finally setting the most ambitious target of all – something that had not been thought possible back in 2015. And perhaps this is the greatest achievement of all after six years of hard work.

"A really important feature of the 2040 strategy is to only generate electricity from renewable energy sources – they plan to rely fully on renewables and batteries – to fully decarbonize Scope 1," says Cedillo Torres.

"In that sense, this is not so much about achieving net-zero emissions, but actually having absolute zero emissions from energy generation. In order to achieve this, they have a target to reach 154 gigawatts of renewable energy capacity by 2030."

"That is the most ambitious target seen so far – if they do indeed install that amount of renewable energy capacity, they will strengthen their global leadership position in the renewables space."

Leaving a legacy

It has left a significant legacy. "Enel's wider plan to become carbon neutral by 2040 by stopping selling gas to customers as energy production is electrified is perhaps the biggest triumph of all," says Van Lamoen. "Enel is the first utility to make this commitment, so it's very, very significant."

"It's been an amazing journey with Enel over the past six years, and it proves that engagement works. We're really pleased about what we have achieved, and how far they have come." ●

EXPLAINED
IN 150 WORDS

A **shareholder resolution** is a proposal on an issue of concern that is submitted by investors at a company's annual general meeting (AGM). It requires the company to address the issue, even if its management opposes the subject matter. Common resolutions in recent years have asked companies to clarify their exposure to climate change and whether they are aligned with the Paris Agreement on limiting global warming.

Most resolutions do not pass if the company opposes them, and they are not legally binding if they ask a question rather than demand a solution. However, the level of support for a resolution can act as a 'shot across the bows' for a company with an ESG issue that is being questioned by its shareholders. And some do get through: a resolution in 2021 at an oil major won 61% support, thus forcing the company to cut its carbon emissions.

CASE STUDY

SINGLE-USE PLASTIC: NOT SO FANTASTIC

Why engage on plastics? Single-use plastic products are made within seconds, used just minutes but remain for centuries.

Collaborative action is needed

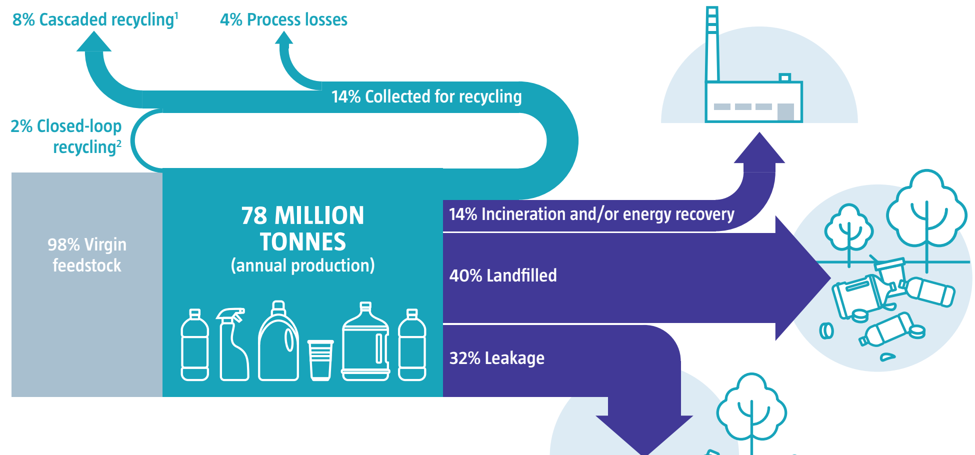
To contribute to an industry wide effort, Robeco has joined the Plastic Solutions Investor Alliance, signed the Ellen MacArthur's Foundation New Plastics Economy Global Commitment and is part of the PRI Plastic Investor Working Group. Robeco signed the call of a UN Global Treaty on plastic pollution.

Plastic has many positive characteristics

- Superior functional qualities
- Light weight and low cost
- Packaging stability extends shelf life of products

Current use results in negative impacts

- Short life cycle with single use plastic packaging
- 95% of plastic packaging (USD 80-120 billion) lost annually
- Ends up in Landfill, Incineration or pollutes the Environment - not recycled



1. Cascaded recycling: Recycling of plastics into other, lower value applications.
2. Closed-loop recycling: Recycling of plastics into the same or similar-quality applications.

Source: Project Mainstream analysis – for details please refer to Appendix A.

Results

SDG 11 SUSTAINABLE CITIES AND COMMUNITIES

SDG 12 RESPONSIBLE CONSUMPTION AND PRODUCTION

SDG 14 LIFE BELOW WATER

Examples of successes achieved

CASE 1 The company has set a long-term goal of using 100% reusable, recyclable, or compostable packaging for its brands' products by 2025. By September 2020, this initiative has helped eliminate 1100 tons of plastic used within 440 own-brand products.

CASE 2 The company has a new target to use 30% circular plastics across its fast-moving consumer goods packaging by 2030. It has developed a recycling technology that leads to virgin-quality recycled plastic. This will achieve a circular economy, as it recovers waste that would otherwise be landfilled.

CASE 3 The company is on track to achieve their 2025 target: 100% of its packaging recyclable or reusable. It also aims to reduce virgin plastic packaging use by 50%. It was the first company to conclude a plastic waste reduction bond, with volume of USD 70 million.

Focus

The objective of this engagement theme is to drive the global plastic packaging value chain towards a more circular model and improve supply and demand for recycled plastic.

Company*	Overall engagement result	Innovation management	Plastic recycling	Plastic harmonization	Responsible lobbying for regulatory change	Industry collaboration and Public-Private Partnership
Amcor	✗	● Positive	● Positive	● Positive	● Flat	✓
Berry Plastics Group	✓	✓	✓	● Flat	● Negative	✓
Carrefour	✓	● Positive	✓	● Positive	✓	✓
Danone	✗	● Flat	● Positive	● Positive	✓	● Flat
Henkel AG & Co.	✓	✓	✓		✓	✓
Nestle	✓	✓	✓	✓	● Positive	✓
PepsiCo	✓	✓	✓	✓	✓	● Positive
Sealed Air Corp.	✗	✓	✓	● Positive	● Flat	✓

● Positive progress ● Flat progress ● Negative progress ✓ Closed effectively ✗ Closed non-effectively

* The single-use plastic engagement theme included two more companies, but at the time of publication the engagement with these companies was not yet finalized.

TO DIVEST OR NOT TO DIVEST THAT'S NOT THE QUESTION

Peter van der Werf, senior manager engagement
Nick Spooner, climate change engagement specialist

One of the most fierce debates when it comes to sustainable investing today is surely the engage-or-divest topic. For some stakeholders such as NGOs or environmental activist groups, the picture is crystal clear. They want investors to divest from companies and whole industries that threaten the future of our planet, and move their money towards climate-positive sectors. The time for talking, they argue, is over, because change is happening too slowly if at all. For asset managers, however, the picture is complex. The question is not: to divest or not to divest. The question is: at what point does an unsuccessful engagement result in divestment?

Our core belief is that by engaging with companies – fossil fuel companies, petrochemical companies and the like – asset managers can help steer them towards a more sustainable future, whereas if you divest from those companies, you lose any kind of say in the matter and other shareholders who care less about sustainability will jump in and take your place. It's a thin line indeed, especially for Peter van der Werf, senior manager engagement, and Nick Spooner, climate change engagement specialist, as they also have to handle client demands and cooperate with investment teams. In November 2021, they introduced the Acceleration to Paris program (see textbox).

Spooner: "There's certainly a need for both engagement and divestment. And this is what we're trying to bring through in our Acceleration to Paris program. We want to avoid the false dichotomy of engagement and divestment, and instead ask the question: how do you use these tools together?" In contrast to NGOs and activist groups, an asset manager engaging with companies is, by the nature of the industry, both trying to change the world for the better – and meet a clear financial objective.

ACCELERATION TO PARIS

This engagement program focuses on triggering climate action at 200 companies that have a large carbon footprint and are lagging in their efforts to transition towards a low-carbon business model. The active engagement element concentrates on around 15 of those companies, enabling the engagement team to aim for maximum impact. They encourage the companies to take climate action, and secure their long-term license to operate. Eight engagement objectives have been articulated, which are aligned with the Net-Zero Benchmark of the Climate Action 100+ initiative. In addition, for those companies identified to be developing new coal power generation plants, a ninth engagement objective will prioritize the transition to clean energy sources.

Two types of engagement

So, how does engagement start? First of all, it's important to realize that there are basically two types of engagement at Robeco, says Van der Werf. "Most of our engagement is what we call *value engagement*, where the engagement specialists try to add value to the investment approach by either reducing sustainability risk at companies and therefore reducing risk of the securities in portfolio, or by capturing more information that leads us to better-assessed investment decisions."

"In some cases, engagement lays bare issues that the financial analyst hadn't incorporated, so that might affect their view," Van der Werf explains. "When we close a value engagement case unsuccessfully, the portfolio managers review our conclusions and evaluate this negative signal in their ESG integration process. However, this is one of many factors that play a role in the decision of the portfolio manager to hold, buy or sell the position. The majority of our engagement program is scoped in that way."

But there's also another type of engagement, *enhanced engagement*. And that's where there is a consequence if it's unsuccessful. Van der Werf: "For the majority of the last sixteen years our team has done engagement that was mainly connected to global controversies, breaches of the UN Global Compact or OECD guidelines. More recently, we have expanded that scope, for instance, to palm oil, where we've identified a higher risk of companies not meeting our minimum standards on sustainability. So, we've made meeting our explicit minimum standards consequential to engagement. And now we have added climate as our latest topic where we have connected specific consequences to companies not meeting our enhanced engagement objectives." ↓

'In some cases, engagement lays bare issues that the financial analyst hadn't incorporated, so that might affect their view'

Peter van der Werf
Senior manager engagement

Multiple stakeholders

The number of stakeholders pushing for change is increasing, with regulatory powers being the main driving force. Does this help engagement processes, or does it cause conflicts, because some stakeholders want to move faster than others?

Spooner: "I think across the asset owner and asset manager landscape, there has been an increasing focus on stewardship activities over the last three years. Partly, this is indeed driven by progress from a regulatory perspective, with the Shareholder Rights Directive within the EU and stewardship code in the UK as well. And we do see those markets where stewardship codes are available to be more stringent in terms of the practices of asset managers and asset owners."

"We try to educate and bring the quality of engagement across the investor universe to a higher level. Because as more asset managers and asset owners enter the market, there's a lot of organizations that don't have the history and experience that Robeco has. And so by being able to work collaboratively with these investors, we can improve the quality of engagement and challenge the status quo around engagement activities by being innovative and advancing new practices within the engagement sphere."

Having more stakeholders also helps to address environmental and social issues, Spooner thinks. "That is only going to be a good thing. We do learn a lot from working with them and these perspectives can be really helpful in terms of understanding and building our own views as well. We benefit a lot from the research that NGOs do. We also benefit from the regulatory development as well. So I think that pluralism is really important, also in achieving net zero in 2050. Clearly, there are sometimes tensions between the ambitions and goals of the NGO community and the investment community. Those need to be worked out. I think it is not a tension around what our ultimate outcome is. It's just a tension around what is the means or what is the journey in terms of how we get to that end goal."

Spooner says the engagement versus divestment question is a good example of the potential tension in terms of the methods that investors want to deploy versus what NGOs want. And this is due to an oversimplification around what needs to be done to get to net zero. The transition isn't going to happen overnight and divesting doesn't necessarily have a large-scale impact on the actions of oil and gas companies. "We can have the greatest real-world impact through our engagement activities. And we do have a duty to do that engagement and to drive these real-world outcomes. We are among a small set of investors currently doing this sort of time-bound engagement but it ought to be the norm. So the debate should be: how do we create more conditions and accountability around our engagement to achieve the outcomes that we want to achieve? And so the pressure that has been coming from the NGOs on investors to divest, has both pressured companies to make these conditions, and also has increased the quality and stringency of the engagement activities as well. I don't think we would see as active a stewardship community without some of the pressure that's been coming from the NGOs to divest as well."

The fossil fuel industry is undoubtedly the most prominent example of that, with a number of big Dutch pension schemes deciding to divest in the past year. Robeco has decided to stick to its guns and continue engagement with the industry. Van der Werf follows the debate carefully. "It's a very lively debate among asset owners. And the decision to divest was a response to the pressure from their pension fund beneficiaries, which were informed and mobilized by pressure groups and NGOs for some years already, calling upon the pension fund boards to make these type of decisions as their preferred instrument in ↓

EXPLAINED
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engagement is a long-term active dialogue between investors and companies on environmental, social and governance (ESG) issues. This offers investors the opportunity to discuss sustainability risks and opportunities with companies and provides them with insights into investors' expectations of corporate behavior. In this way, investors encourage companies to adopt more sustainable practices so that they can create a competitive advantage and are more likely to be successful over the long run. Ultimately, this improves the risk-return profile of their securities. Effective engagement can therefore benefit companies, investors and society at large.

Engagement typically runs over a three-year period, during which engagement specialists have regular contact with company representatives and track progress against engagement objectives. Often they combine their efforts in collaborative engagement initiatives with other institutional investors. The outcome of the engagement efforts is communicated to analysts, portfolio managers and clients, enabling them to incorporate this information into their investment decisions.

decarbonizing portfolios. But obviously those portfolios also are still reliant on the real economy, where that need and demand for energy still exists. So I think those are all very realistic parts of the whole puzzle that every decision-making body needs to assess. As a global asset manager we have a very different group of stakeholders that we are accountable for. I think that it is very clear that for us the way to create real-world impact is by engaging."

At least to a certain point, because Van der Werf agrees that talking for the sake of talking makes no sense. "We do realize that if you keep on talking for three, four years and you're not seeing any results, then obviously that instrument loses its effectiveness and credibility if you say, 'We're going to add another five years of talking and maybe by 2030, we'll getting somewhere'. So somewhere you need to draw a line." And that is precisely the process upon which Robeco is now embarking more clearly, Van der Werf says. "Drawing that line then becomes a restriction in our investment policy. That obviously has implications for a large range of investment strategies."

Net zero

This is where Robeco's recently published Roadmap to Net Zero plays a role. Van der Werf: "This roadmap lays out the long-term strategy for Robeco and shows how engagement plays a role in decarbonizing our portfolios. We have top-down decarbonization targets for Robeco strategies, but there's also bottom-up objectives based on engagement. We focus our engagement on high carbon-emitting companies that are very important constituents of relevant benchmarks for our investment strategies. We want to continue to be able to invest in these companies if they are able to decarbonize. In the end, it is the ultimate win-win if the majority of our enhanced engagements are successful and we continue to be able to invest in these companies, which will give us the most opportunities to generate alpha while also decarbonizing our portfolios. The risk is that as an asset manager at a certain point in time, some of these companies will disappear from your investment universe because your decarbonization targets do not give you sufficient carbon budget to still hold some of those high carbon-emitting companies. So I think that's why that two-pronged approach will support us over time to maximize the investment opportunities while also achieving our decarbonization goals."

This tension between maximizing investment opportunities while executing our sustainable investing strategy will continue to build in the future. Spooner: "The first divestment decisions are due to come after two years of engagement. The way in which we've selected companies is based on a formulaic methodology. We work with a traffic light score which is going to be updated over time, so a year or 18 months in advance of that first divestment decision, the portfolio managers will be able to see how well the companies are performing and from a more objective, more quantitative perspective, see whether they meet the criteria for divestment or inclusion over time. This should give the basis for a quite robust discussion between the portfolio managers and the engagement team members." This decision should be based on facts and risks, not a subjective one, Spooner says. "And this is acting in the best interests of the portfolio managers as well. Because if we're getting to a point where we are going to have to divest a company, these are serious concerns that we have with the management of climate-related risks. And so if we have such severe concerns, we see the potential that that's going to have a negative impact on the share price and on profitability going forward."

Traffic light

Now, how does the traffic light approach work, in the enhanced engagement program? It's basically focusing on the worst performers and trying to get them to improve their score. Spooner explains: "We started off with the top 200 emitters ↓

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enhanced engagement is used to address concerns with companies regarding conduct that does not adhere to global norms. It typically involves a breach of the UN Global Compact or OECD guidelines on an environmental, social or governance (ESG) issue. Recent cases of enhanced engagement have involved companies that are heavily polluting the environment, are embroiled in socially unacceptable issues such as the use of child labor, or are involved in corporate governance scandals like bribery or corruption.

An enhanced engagement program usually takes place over three years , during which the company must meet certain pre-arranged targets for improvement. This could be steps to remove pollutive practices, eradicate labor abuse in supply chains, or resolve exposure to corruption. Failure to do so will lead to the company being put on Robeco's exclusion list. Exclusion is however used as a last resort, as in many cases companies under enhanced engagement successfully meet the targets.

based on the Trucost investment universe, looking at the full scope of emissions, not just the emissions that the company has generated themselves, but also throughout the full value chain as well. Most of these companies are active in high-emitting sectors: the petrochemical sector, the chemical sector, steel is highly represented as well. And there is a high degree of oil and gas exposure. And we analyzed that top 200, giving companies a score of one to four."

The engagement specialists looked at a number of considerations that form our analytical framework: greenhouse gas targets, whether companies have 1.5°C targets, a company's capital expenditure, issues around governance and whether the right frameworks are in place for oversight and management of climate-related risks. To do this, a range of third party datasets such as the Climate Action 100+ benchmark was used, as well as the Transition Pathway Initiative and other third party data providers.

By using this framework, they were able to score companies from one to four, or in traffic light terms: dark green, light green, amber and red. And this methodology was used to select companies for engagement programs where we focus on the worst performing companies. Spooner: "We wrote a letter to all 200 of the companies in January 2022 to inform them of our expectations around managing climate-related risks and their emissions going forward."

Van der Werf: "So we then look into what the drivers are for companies to move from red to amber and ultimately promote amber to a light green. We want to see them move along that type of trajectory. So we will do a reiteration of the traffic light snapshot every year, to monitor progress over time. In 18 months' or two years' time, we should have a clear view in every specific case if a company is about to move from red to amber, or from amber to light green, or perhaps not improved at all."

Consequences will then follow, Spooner confirms. "Our intention is to develop the methodology and broaden its scope so that we can use it to report on the alignment of our portfolios over time. We initiated this Acceleration to Paris program at the end of last year by sending them a letter informing them that they've been included within our engagement program, why they've been included, and that they're potentially exposed to divestment if we don't see significant progress during the engagement."

What will such an engagement process look like? Spooner thinks he will be in contact with the companies at least three to four times a year. "Keep in mind that these are companies that potentially aren't directly incentivized to talk to investors about ESG and climate. And so it may take a few attempts knocking on the door to get those initial meetings set up. But within a few weeks we've had positive responses from around half of companies."

For most of these companies the engagement team has nine objectives in place, ranging from greenhouse gas targets to looking at the climate transition, climate governance and capital expenditure. Spooner: "The main outcomes we want to see are around the management and the reduction of greenhouse gas emissions in line with the goals of the Paris Agreement: Scope 1, 2 and 3 emissions. And for chemical or petrochemical companies those Scope 3 emissions are incredibly important, both with regard to the upstream emissions related to the extraction of oil and gas, but also with regard to the downstream emissions related to waste and recyclability. This would be for instance a chemical company moving towards bio-based materials or the use of hydrogen as a feedstock or within energy generation. So these are large expenditures that these companies are going to have to bear. And so that capex would demonstrate that they are serious about meeting those emissions targets rather than just sort of setting and forgetting them, or setting a net-zero target that is going to be a future CEO's responsibility." ↓

'In two years' time, we should have a clear view if a company is about to move from red to amber'

Nick Spooner
Climate change engagement specialist

Better world?

Now, how ambitious are these goals? Will these carbon-intensive industries be able and willing to change in the coming three years? Spooner remains realistic. "Perhaps my hopes and ambitions are very different from what will actually happen. My ambition would be for these companies to become climate leaders as a result of our engagement, but I have to manage my expectations in terms of how much change we could see over a limited period of time, particularly for some of these companies that currently lack a clear awareness around climate risks. I would hope after the first two years, we would see an acceleration, such as we've seen over the past few years in terms of more net-zero targets being set."

Van der Werf: "Active ownership is a long-term game. You don't achieve results overnight, but I think asking the right type of questions persistently and consistently and driving companies in the right direction will help us to show there are real-world outcomes. I hope that the traffic light approach makes progress measurable and quantifiable, and makes it easier for us to show that what we began in 2021 will start to yield results in 2024 and beyond." Spooner adds: "Divestment is typically the tool we have in our toolbox as investors, but which we don't want to use. So we want to use up all the other tools before we let go of our ability to exercise our shareholder rights to effect change as shareholders when we divest. And so part of this enhanced engagement is to use those tools quite actively to drive change at these companies."

EXPLAINED
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An **exclusion** is the act of barring a company's securities from being purchased for a portfolio due to business activities that are not in line with an asset manager's investment policy. This could be based on unacceptable behavior or controversial products made by the company, or non-compliance with laws or regulations. ESG criteria is used to determine whether a company complies with the desired level of standards, using the principles laid down by the UN Global Compact as a benchmark. If not, it can be removed from consideration in the investment process.

Exclusions typically involve the makers of controversial weapons such as cluster bombs or nuclear warheads and those making indisputably harmful products such as tobacco and firearms, along with companies engaged in human rights abuses such as child labor. Companies engaged in serious corporate governance breaches such as bribery or corruption that show no willingness to resolve these issues are also typically excluded.

Drive the change to electric cars?

With more than one billion vehicles on the road, traffic is a major contributor to global warming. The transport sector accounts for one-fifth of all emissions, of which almost half comes from passenger cars. Indeed, cars account for four times the amount of greenhouse gases as aviation did before the pandemic. So, electrifying the car industry is an obvious solution.[1]

Much progress has already been made in switching to electric cars, driven partly by regulation which aims to phase out the internal combustion engine, and the commitment of countries to achieving net-zero emissions by 2050. As most major car makers have pledged to make their fleets all-electric by 2035, the days of petrol-driven vehicles will be numbered by the middle of this century.[2]

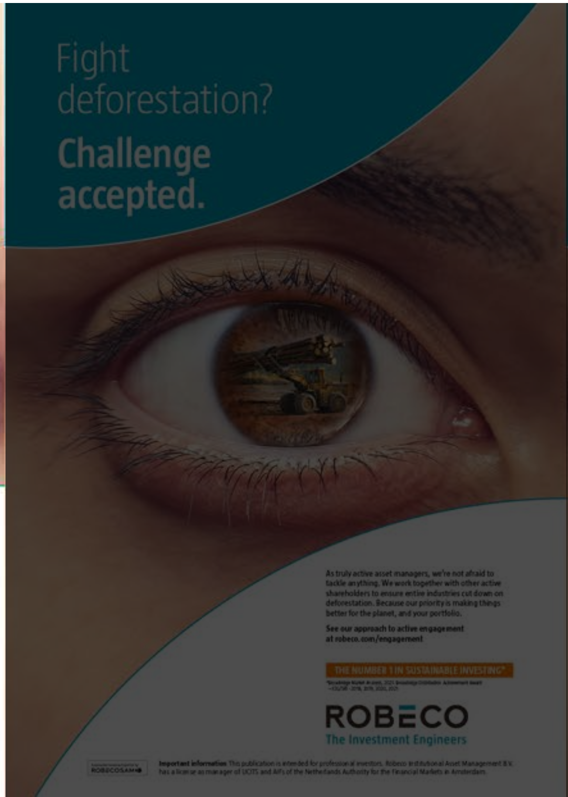
Robeco promotes the adoption of electric cars in two main ways. Firstly, we invest directly in the companies making electric cars and the components needed for them, such as battery technology. We have Smart Energy and Smart Mobility strategies that tackle this head on, looking for innovative ways to switch from petrol-driven to hybrid and fully electric models.

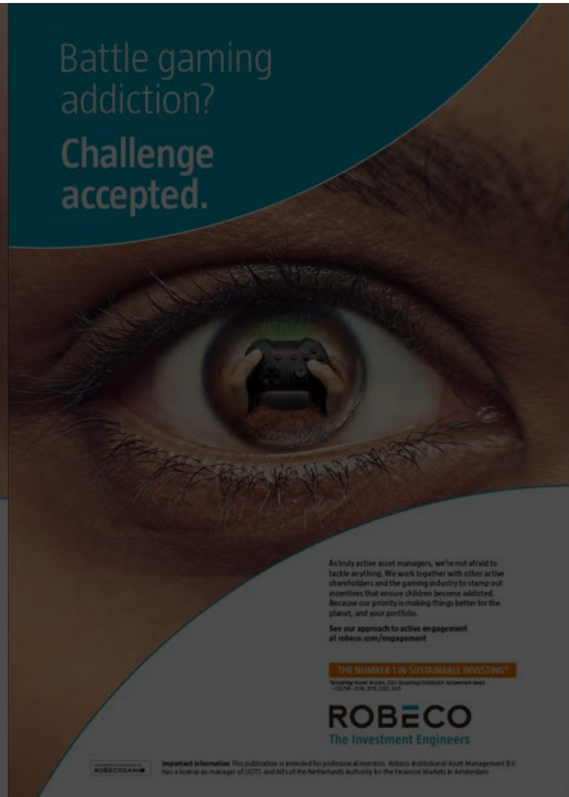
Second, we have been engaging with the auto industry, both individually and as part of investor collaborations, for many years now. This has helped make the case for an accelerated transition to the electrification of their fleets.

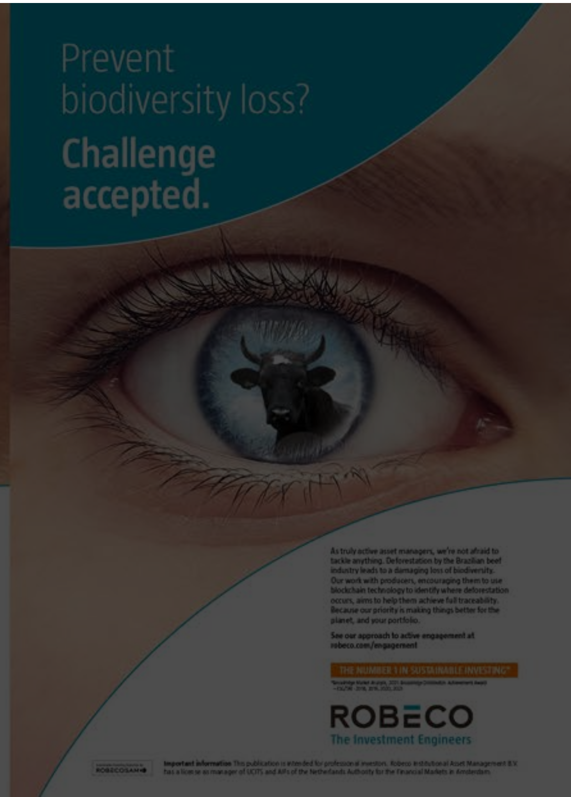
There are always Smart ways to become more sustainable. You just have to be in the driving seat and have a clear view. Challenge accepted.

Challenge accepted

1. https://ourworldindata.org/co₂-emissions-from-transport
2. https://about.bnef.com/electric-vehicle-outlook/







Fight deforestation?

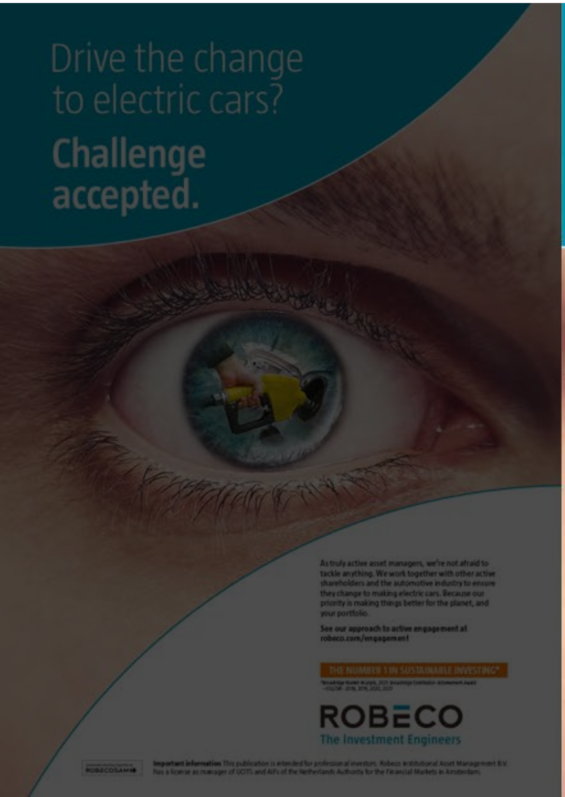
Challenge accepted

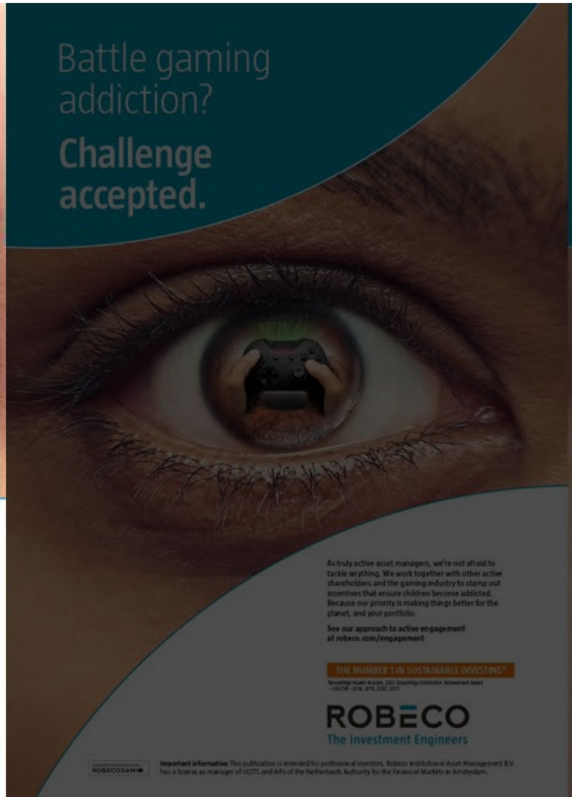
Deforestation is one of the greatest threats of our time. Rainforests are home to many endangered species, while indigenous communities rely on them for their livelihoods. Yet, deforestation continues at an alarming rate, with a net loss of around six billion trees each year, mostly due to the imbalance between those cut down and those replanted. More than 300,000 square kilometers of forest and woodland – an area the size of Germany – is cut down or burned every year, and one-quarter of the Amazon rainforest has already been cleared for mining and pasture.

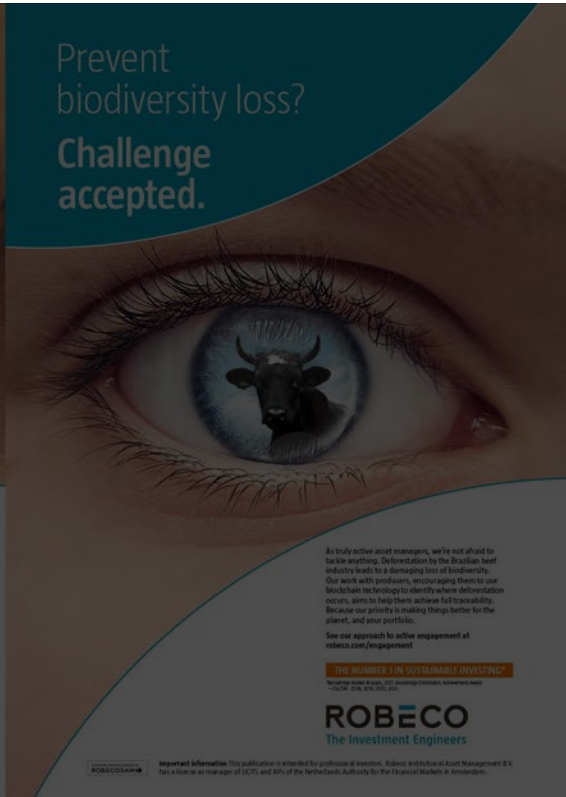
Robeco has been engaging with companies – and now governments – to stop deforestation at source. Companies must show they can source timber or other land-based products such as beef sustainably, or potentially face exclusion from portfolios. This is now backed by satellite tracking which can spot deforestation from orbit, allowing us to present evidence of wrongdoing.

We have also begun ground-breaking engagements with countries, starting with the government of Brazil, to prevent the destruction of precious tropical forests that have a global value for climate resilience. The Amazon remains the lungs of the world, producing 20% of the Earth's oxygen, but it is disappearing fast.

It's hard work – but we have too much to lose not to try. Challenge accepted.







Battle gaming addiction?

Challenge accepted

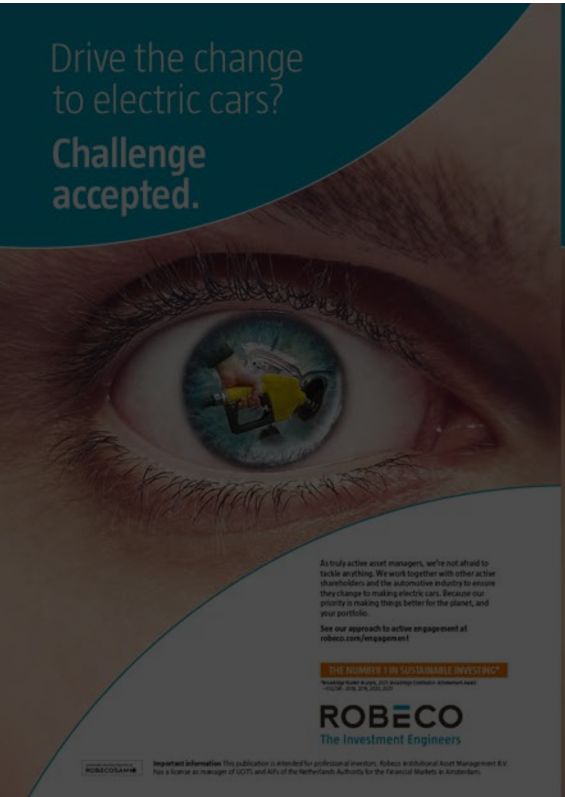
Gaming boomed during Covid-19 as people confined to their homes took to their consoles to pass the time. The time spent on video games soared by 40% over the pandemic, and there are now around 250 million consoles being played around the world.[1] Since so many new players were attracted to games as something to do, gaming hours are expected to stay at 21% above pre-crisis levels in future years.

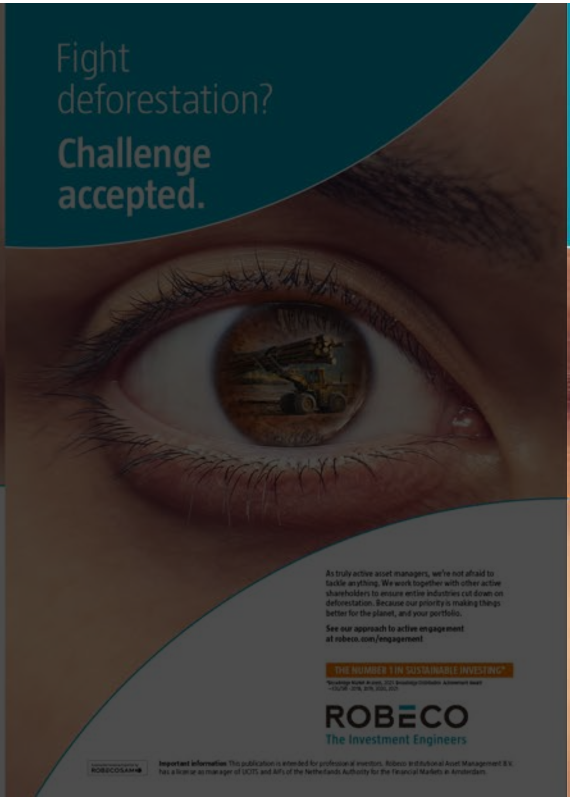
Yet shooting down aliens in fantasy games, chasing chickens for points or playing soccer with strangers is not harmless fun if it becomes addictive or abusive. There is also the danger of exposure to violent content, along with the chances of being trolled. Children cooped up for hours at home are often the most vulnerable to addictive games that override all other play activities.

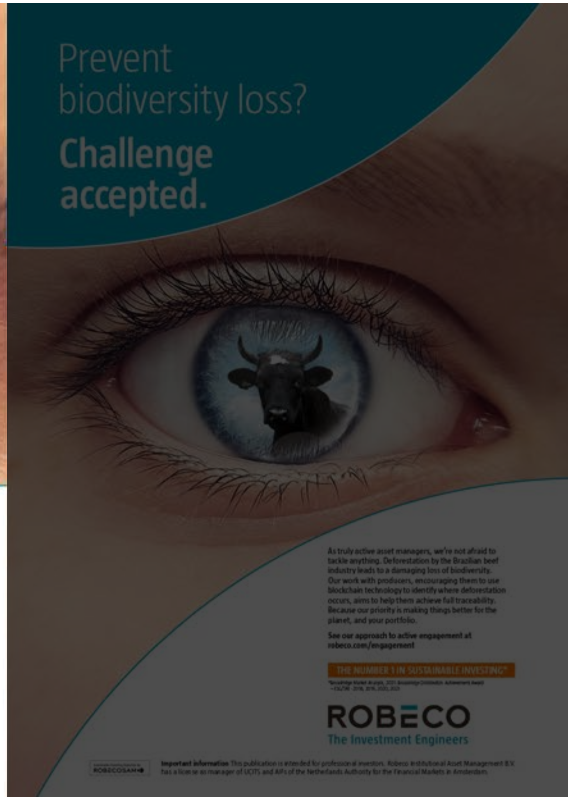
Robeco's Active Ownership team runs an engagement program focused on the social risks for companies operating in the video game industry. It aims to make gaming suppliers aware of how game structures can become addictive, such as through the provision of easily available incentives to keep playing. In addition, game developers are often exposed to excessive working hours.

We want gaming to be fun, not fearful. So we're working to ensure that it is. Challenge accepted.

1. https://www.statista.com/statistics/271260/consumer-gamers-region/#:~:text=As%20of%20 2021%2C%20North%20America,99.6%20million%20console%20gaming%20users.







Prevent biodiversity loss?

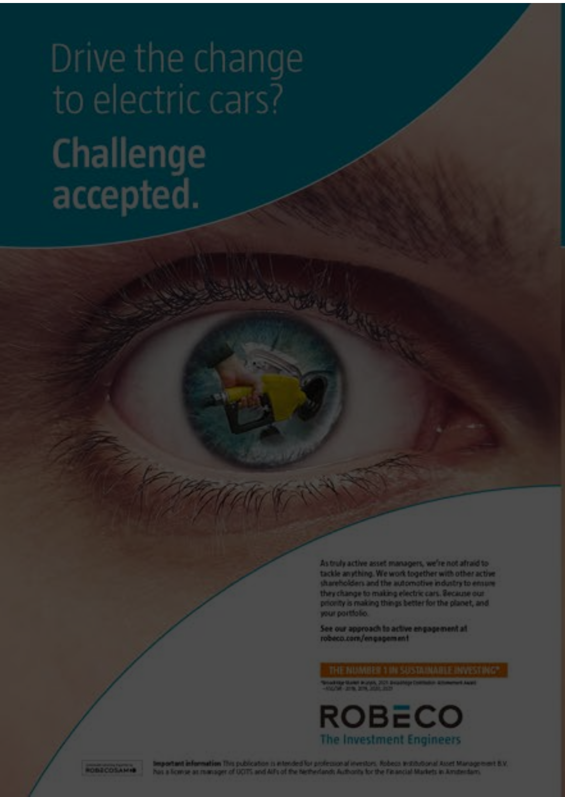
The loss of biodiversity is seen as a threat that is as big as climate change itself. Some experts believe that the destruction of rainforests and the loss of animal and plant species is now so great the Earth is heading for its Sixth Mass Extinction. Up to one million species are at risk of becoming extinct in the coming decades due to unsustainable human activities.

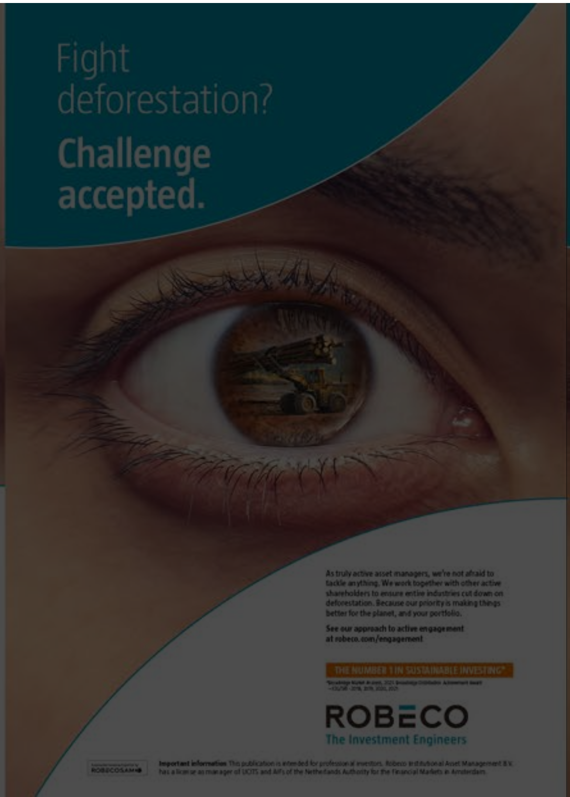
Much of the problem is a result of uncontrolled deforestation, where land is cleared – often by burning – to make way for farm animals. The destruction of the Amazon to clear land for cattle raised for beef for export is a particular problem. In addition, unsustainable fishing practices are threatening marine ecosystems as fish stocks dwindle globally. Biodiversity is paying a terrible price for the eating habits of consumers in the West – but this can be curtailed.

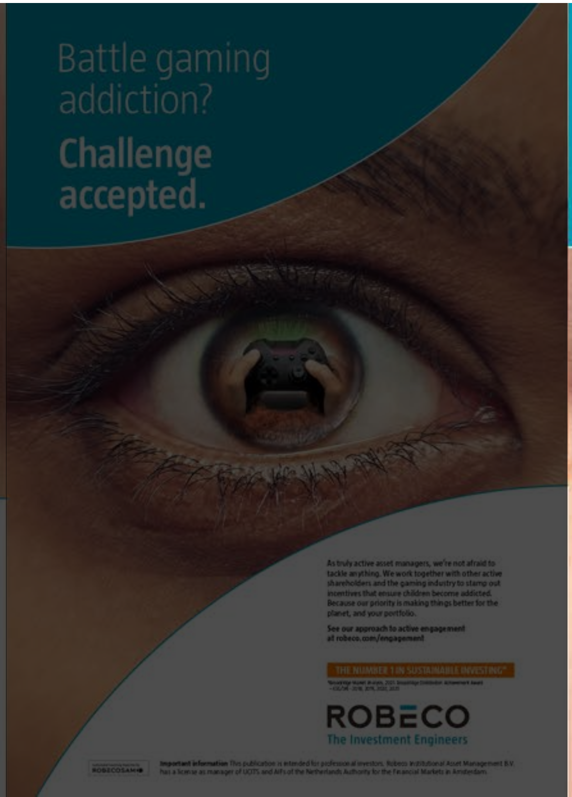
Robeco now engages with companies to make sure they do not source beef from deforested land, and that other products such as cocoa, soy, rubber and timber come from sustainable plantations and smallholder farms. Blockchain technology can now be used to check the traceability of several of these products, while satellites can check for deforestation from above.

Meanwhile, Robeco has published a positioning paper outlining its approach to biodiversity and launched a partnership with the World Wide Fund for Nature Netherlands. This aims to build knowledge on how to integrate biodiversity into financial decision making, co-develop biodiversity investment strategies, and share good examples to inspire others in the financial sector to act. Reduce biodiversity loss due to the overexploitation of natural resources? Challenge accepted.

Challenge accepted







Antonia Sariyska works in the Sustainable and Impact Investing team at UBS Global Wealth Management's Chief Investment Office. The team establishes portfolio and asset class frameworks and guidance that drive the sustainable and impact investing offering for the firm's private clients around the world. We spoke to her to find out her views on various issues that investors thinking about an allocation to an engagement strategy might be considering.

'If you engage with companies on meaningful issues, there should be financial and investment performance benefits as a result'

Antonia Sariyska
UBS Global Wealth Management

'We view engagement as a way for investors to drive incremental positive impact'

What's your view on engagement as part of a broader sustainable investing strategy?

"We've long believed that company exclusions may align a portfolio with its investors' values, but they don't necessarily result in companies improving their practices. We think it's better to invest in and engage with these firms instead, and to build on their resources and capabilities to achieve meaningful real-world change. We view engagement as a way for investors to drive incremental positive impact with their strategy, where the environmental and social outcomes are measurable and verifiable."

What's the main aim of an engagement strategy: to produce good investment returns or improve companies' behavior?

"At UBS, we believe the two goals should go hand-in-hand. If you engage with companies on meaningful issues, there should be financial and investment performance benefits as a result. The key word here is 'meaningful' or, as we often call it, 'material'. These are issues that can affect companies' business models and potentially the wider industry. So we expect to see both environmental and social outcomes and good financial performance."

What's the prime merit of a dedicated engagement strategy?

"First, from the private investor's perspective, they provide the opportunity to contribute to environmental and social change by allocating capital to effect positive change via the fund manager's engagement efforts."

"Second, they can provide diversification benefits. An increasing proportion of private investors want to allocate all of their capital in a sustainable way. That might sound straightforward, but it requires them to think about sustainability in a portfolio context, considering issues like diversification, factor exposures and risk-return requirements. Engagement strategies tend to focus on companies you wouldn't necessarily think of as sustainable, such as industrials or materials firms. These companies need to be transformed because they're important to our economies, are often resource-intensive and need change for us to make progress – they can't just be left behind. These companies probably offer the most potential for change, which is what many investors focused on sustainability are looking for. As such, by investing in companies that wouldn't necessarily be included in more standard best-in-class ESG approaches, an engagement strategy can provide differentiated exposure to benefit sustainable portfolios."

"Similarly, on the credit side, engagement strategies generally invest in high yield bonds, whereas other sustainable credit investments typically allocate to the quality, investment grade segment."

What constitutes a powerful engagement?

"We think engagements are most powerful when they consider two sets of factors. The first is how material the issues in question are to the company's business model – for instance, if you're engaging with a bank, it's probably not that relevant to talk about reducing water consumption in its buildings, even though this is certainly an ESG issue. Engagement managers need to be able to identify critical issues for companies, industries and regions."

"The second is the role of the company at large. Some of the most powerful engagements we've seen have been on issues like health and safety with firms that are big employers in certain regions. The engagements can not only improve conditions at ↓

the company, but can have a spillover effect into best practices in an entire region. Another good example is engagement with fossil fuel companies on diversifying and developing renewable energy capacity. Such outcomes beyond the company itself are difficult to quantify from an impact investment perspective, but they show the true power of engagement."

What skills do those undertaking engagements require?

"It's vital to be able to pinpoint the critical ESG issues a company faces. Sometimes such issues are easy to identify and measure, but they don't always have the broader spillover effects we'd like to see. Engagement specialists need to understand a company, what it stands for and the industry it operates in – similar to what is required from conventional investment specialists – but also have a strong understanding of the relevant sustainability issues. Longstanding management relationships clearly help, as does knowledge of best practice and developments in the world of engagement."

"On the soft side, they would need to be good mediators and collaborators. Engagement should be a win-win for investors and companies. Some private investors might choose to steer away from activist approaches that use the stick rather than the carrot, instead preferring more constructive engagement, but still expect their engagement managers to recognize when engagement is not working and it is time to switch gears."

Do engagements focus too much on environmental issues rather than social factors?

"In our view, social engagement is no less important than engagements about climate-related issues. The challenge is that climate outcomes tend to be perceived as easier to measure – it's more straightforward to assess how much you've reduced your carbon emissions or where you source energy from than social factors, which are often more qualitative in nature."

"There's been a lot of progress on social issues – companies in many different industries are seeing the need to become social role models and set the standards for others. And we're definitely seeing more engagements on social issues than a few years ago. There's also been a spike in proxy voting on social issues in the past year."

Is there any proof that engagement strategies work?

"There are some academic studies out there to suggest they do, but one of the challenges with analysis is that even though engagement strategies have been around for a while, engagement focused on sustainability outcomes has only become more formalized in recent times and it takes several years for meaningful outcomes and actual impact to be achieved. So, it's work in progress. From our observation of the market, we see increasing success with intermediate milestones, which makes us optimistic, but we're still to find out the final results. On our end, we aim to support academic research in the field as well, by partnering with doctoral students on analysis of what drives sustainability-focused engagement success on a case-by-case basis." ●

EXPLAINED
IN 150 WORDS

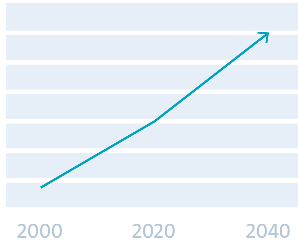
voting is where investors approve or oppose company policies at annual general meetings. Votes can be cast on routine matters such as authorizing accounts or the reappointment of directors, and on special resolutions to address specific topics. This right is often exercised through proxy voting, where a representative votes on behalf of the investor, so that the asset manager does not have to attend hundreds of meetings in person.

Voting, like engagement, is a way for active owners to influence companies. If there are important issues and a company is not willing to listen to shareholders or other stakeholders, voting at the AGM can be a powerful tool – particularly in opposing director appointments. The results of decisions made at AGMs are made public. When shareholders vote against a proposal, a company has to address the issue.

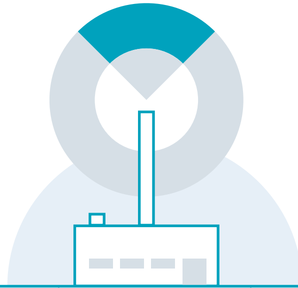
IMPROVING SUSTAINABILITY IN THE MEAT AND FISH SUPPLY CHAINS

The meat and fish supply chains are relevant to investors.

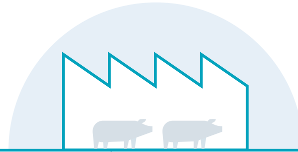
Global total meat consumption has quadrupled over the last two decades and will double in the next two.



Food production produces one-quarter of the world's GHGs.

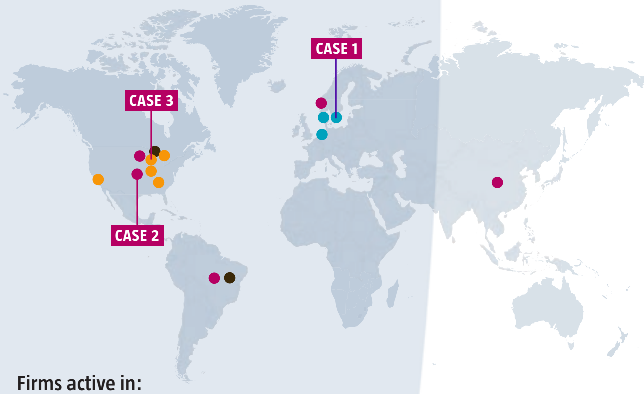


Factory farming was largely responsible for the swine flu outbreak, which killed thousands of people and caused huge revenue losses.



Engagement

In the period 2016-2019, Robeco engaged with 16 companies across 4 continents.



Firms active in:

- Specialty chemicals
- Meat processor
- Fast food and grocery chain
- Food manufacturer

Focus

The engagement was structured around five key engagement objectives.

Results

During the three years, we successfully closed 55% of our engagement dialogues.

Labor standards	Animal welfare	Innovation	Aquaculture practices	Product quality
44%	50%	63%	50%	44%

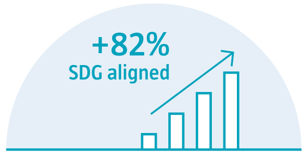
Examples

of success achieved

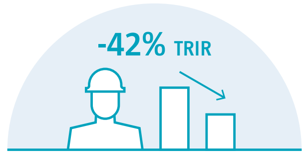
SDG 2 ZERO HUNGER

SDG 3 GOOD HEALTH AND WELL-BEING

SDG 12 RESPONSIBLE CONSUMPTION AND PRODUCTION



CASE 1 One firm boosted the commercialization of probiotics and animal health products (12% across all quarters). The company improved sustainability requirements for suppliers and reported 82% of its sales were aligned with one of three Sustainable Development Goals.



CASE 2 One firm was dealing with wage controversies and health & safety execution issues. Our engagement helped the company implement robust policy changes/ audits and reduce health risks. This resulted in a drop of Total Recordable Incidents Rates to below industry average.

CASE 3 One company improved animal welfare practices (now a second-tier score on Farm Animal Welfare) and sources 100% Marine Stewardship Council certified fish.

MOVING FROM WORDS TO ACTION

We sound out three of Robeco's engagement experts on motivating change in corporate behavior. Here are some soundbites from our podcast with the team.

Daniëlle Essink
Why social issues have historically received less attention among investors

"In the realm of engagement, the 'S' in 'ESG' is very important for investors. But what you've seen historically is that investors have tended to focus on the 'E' and the 'G' – the environmental and the governance parts – most likely because there's just more data available. And investors love data. It's an easy way to understand a topic. By contrast, with the 'S' of social it can sometimes be much more about impact on people, which could be more difficult to measure, or it could be in the places very far away from where our desks are, making it a much more challenging undertaking. The data challenge is improving, though. I think SFDR will play a role here, because companies and investors will need to report more on this topic. We therefore expect to see a drive for transparency on social topics as well."

Robert Dykstra
The trap of treating increased disclosure as the end goal of engagement

"Disclosure has always been an integral part of engagement. But one of the biggest failings I've seen in engagement is being too quick to jump the gun on disclosure and transparency. The old trope is that you can't manage what you can't measure. It therefore follows that the starting point is always to add to the disclosure and transparency that many of these companies have regarding their ESG performance or operations. But you have to be careful to avoid the trap of treating that as the end goal. Disclosure is supposed to be just a means to get to some kind of engagement outcome, but you don't want to stop there. And oftentimes, the risk is that engagement dialogues can indeed stop at that point, before reaching meaningful results."

Laura Bosch
On the role of engagement in active management

"Engagement helps us to improve the risk-return profile of the companies that we select for our portfolios. This is specifically important from an active management approach, because we can also use the insights that we get through engagement to inform our investment valuation cases. It helps us to allocate capital to those companies that are truly more sustainable. But it's also a tool that we can use to decide if we want to remain invested in a company or not, by looking at the practices that they have and how they respond to engagement."

Daniëlle Essink
Investors need to shift from being reactive on social issues, to being proactive

"A recent report by Share Action highlighted that the investment community tends to be very reactive. If for example an incident with a local community around a mining project hits the headlines investors would get involved. We're aiming to change the approach to a more proactive one. We talk to companies about considering human rights throughout their business operations, and preferably before the issues arise. Although many companies are working on these issues and they're not new when we come to the table, we share with them the frameworks that we find important, to make sure they are implemented."

Robert Dykstra
On the process of selecting engagement themes

"Beyond touching base with a wide variety of stakeholders, including clients, investment teams and external experts, we look at a range of topics that might evolve on the thematic side of engagement for which the timing is right to pick up a new engagement topic. As an example, we've been engaging on climate change for many years now, in a variety of forms and in different sectors. But one of the newly evolving angles around climate change is biodiversity. Therefore, in addition to our biodiversity-oriented engagement program, we're also looking at the Nature Action 100+ engagement program, which one could say is mimicking the existing Climate Action 100+ collaborative engagement effort."

Laura Bosch
Viewing engagement as a risk-mitigation tool

"As investors, we aim to influence our investee companies through dialogue, encouraging them to embed more sustainable business practices. The idea is to help them mitigate risks or to seize opportunities. Once companies become more sustainable, there are also spillover benefits for society in general, because they have an impact on local communities and the environment where they operate. And we invest in companies that actually achieve impact through their business practices and the way that they sell their products in the market."

CASE STUDY

LIVING WAGE IN THE GARMENT INDUSTRY

Payment of living wages can improve workers' lives whilst having a positive business impact.

An interwoven industry

The global apparel industry is estimated to be worth USD 2.5 trillion and employs over 60 million workers globally. Its fragmented supply chain is exposed to labor-related risks given its labor- and manual-intensive production process.

Poverty pay

Workers in the garment sector are often subject to excessive overtime, sexual harassment, unsafe working conditions and poverty wages. Promoting a living wage would improve the livelihoods of workers and their families whilst building a more resilient industry.

Business case

Payment of living wages is a proxy to how a brand manages its global supply chain and minimizes reputational risks. This is materialized by the responsibility the company takes for direct and indirect employees.

Collaboration

This was a collaborative engagement together with the Platform Living Wage Financials (PLWF), representing EUR 4.8 trillion AuM.

Engagement

In the period 2018-2021, Robeco engaged with 9 companies located in Europe, Asia, and North America.

Number of activities

108 interactions with companies

Activity by contact point

Executives	5%
IR	37%
ESG experts	44%

Activity by contact type

Email	39%
Conference call	32%
Open letter	16%
Shareholder resolution	2%

Focus

The engagement was structured around six key engagement objectives.

Results

During the three years, we successfully closed 56% of our engagement dialogues.

Policy	Transparency	Stakeholder engagement	Purchasing practices	Remediation mechanisms	Monitor performance
56%	44%	22%	56%	22%	56%

Company	Overall engagement	Policy	Transparency	Stakeholder engagement	Purchasing practices	Remediation mechanisms	Monitor performance
Adidas	Closed effectively	In place prior engagement	Closed effectively	Closed effectively	Closed effectively	Closed effectively	Closed effectively
Asics Corp.	Closed non-effectively	Closed non-effectively	Closed non-effectively	Positive progress	Closed non-effectively	Closed non-effectively	Closed non-effectively
Burberry Group	Closed effectively	Closed effectively	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed effectively	Closed effectively
Gap	Closed non-effectively	Closed non-effectively	Closed effectively	Positive progress	Closed effectively	Positive progress	Closed non-effectively
Hanesbrands, Inc.	Closed effectively	Closed non-effectively	Closed effectively	Closed non-effectively	Closed effectively	Flat progress	Closed effectively
Inditex	Closed effectively	Closed effectively	Closed non-effectively	Closed effectively	Closed effectively	Positive progress	Closed non-effectively
Nike	Closed non-effectively	Closed effectively	Flat progress	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed effectively
Philips-Van Heusen Corp.	Closed effectively	In place prior engagement	Closed effectively	Positive progress	Closed effectively	Closed non-effectively	Closed effectively
The Home Depot	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed non-effectively	Closed non-effectively

● Positive progress ● Flat progress ● Negative progress ✓ Closed effectively ✗ Closed non-effectively – In place prior engagement

Examples of successes achieved

CASE 1 One company committed to ACT's Global Purchasing Practices, established targets towards the payment of living wages, and disclosed supplier wage data in its key sourcing countries.

CASE 2 One company publicly disclosed their supplier list, which includes risk assessments to identify social and environmental risks in sourcing locations.

CASE 3 Several companies began collecting wage data across their supply chain and benchmarked this against internationally recognized living wage estimates.

PROTECTING THE PLANET HEADS 2022 ENGAGEMENT THEMES

Preserving natural resources amid the drive for net-zero emissions leads Robeco's four new engagement themes for 2022.

There is a heavy emphasis on protecting the finite resources of our planet through decarbonization and resource management along with promoting human development through greater diversity in the workplace. This year's topics are 'Net-zero emissions'; 'Natural resource management: water and waste'; 'Diversity and inclusion'; and 'Nature Action 100'.

Every year the Robeco Active Ownership team chooses new engagement themes to focus on over the coming three years. Engagement is conducted with investee companies in which Robeco owns equities or bonds. It has proved highly successful in improving their metrics on environmental, social and governance (ESG) metrics on the relevant issues over many years. ↓

1. Net-zero emissions

The net-zero emissions theme follows on from an existing commitment to make all Robeco's assets under management carbon neutral by 2050. This forms part of wider international pledges to meet the Paris Agreement, which aims to limit global warming to 2 degrees Celsius or less by 2100, which in turn requires the world to become carbon neutral by 2050.

"The COP26 climate summit has again stressed the need to further increase engagement on net-zero emissions for investors," says Carola van Lamoen, Head of Sustainable Investing at Robeco. "This engagement theme will be an expansion of the one launched in 2020, focusing on high carbon-emitting companies that have made some progress but are still lagging in their transition to net zero."

"In scope are companies that score amber on the traffic light system, compared to companies that are at red and at risk of failing in the transition, and are then selected for enhanced climate engagement in the 'Acceleration to Paris' theme that was launched in 2021."

2. Natural resource management

The natural resource management engagement will focus on companies for whom the management of both water use and water waste is a material issue. Investors need to account for the amount of fresh water that is needed to make certain products – often drawn from places where water is already scarce – while the discharge of toxic waste remains problematic.

"Creating a theme that combines the issues of water and waste from both an input and output perspective provides the flexibility to engage on other incident driven events around natural resource use," says Peter van der Werf, Senior Manager for Engagement.

"Water and waste are critical factors that influence planetary boundaries. Environmental regulation is rapidly increasing for both corporates and investors. So, this engagement theme will focus on companies that face environmental issues such as seabed and land mining, emissions of PFA chemicals, water scarcity, agrochemical waste and plastic waste."

3. Diversity and inclusion

Human development is also vital to a more sustainable and prosperous world, particularly in reaping the rewards that greater inclusion can bring. This theme builds on prior work in promoting great diversity in the workplace, trying to achieve equal rights – particularly for female participation in more senior roles, including at board level – and making sure that every voice is heard.

"Companies play a crucial role in creating diverse and inclusive (D&I) workplaces through their human capital strategy," says Engagement Specialist Laura Bosch. "Evidence is mounting to show how considering a range of views, backgrounds and experience can help achieve long-term sustainable returns, as well as stay in line with the direction in which business is heading." "Our engagement will aim to improve embedding D&I in companies' human capital strategies, setting clear targets to strengthen D&I practices and outcomes. We also expect companies to measure and disclose meaningful data and outcomes related to workforce composition, promotion, recruitment, retention rates and equity pay practices."

4. Nature Action 100

The final theme is a new collaboration to protect the natural environment and the millions of species of animals, plants and sea life that live within it – many of which are threatened by human development. It builds on prior biodiversity work and is modeled on the existing ClimateAction 100+ partnership with other investors. Robeco is one of the lead investors driving development of the new collaborative engagement.

"The IPBES Global Assessment Report on Biodiversity and Ecosystem Services reported that approximately 25% of all species on Earth is at risk of extinction by 2050, representing roughly one million species of plants and animals," says Van Der Werf. "By the end of the century, 50% or more of all species will be at risk."

"This engagement will be part of a global collaborative engagement program, building on the lessons learned from Climate Action 100. The focus of the engagement will be on terrestrial, fresh water and marine biomes. We will address their dependencies and potential impact on biodiversity, such as deforestation, overfishing and pollution."

18 YEARS OF SUCCESS THROUGH ACTIVE ENGAGEMENT

2004 Robeco starts proxy voting for 70% of investments in its equity strategies – the first Dutch asset manager to do so

2005 Robeco launches its engagement service

2006 Robeco becomes one of the first signatories to the United Nations-supported Principles for Responsible Investment (PRI), which was founded in 2006, and acquires RobecoSAM

2007 We assess the environmental and carbon impact of around 80% of our listed equity portfolios, with the help of Trucost

2008 We co-organize Stemmend Nederland, a collaborative initiative aimed at creating a well-functioning voting chain

2009 Robeco actively supports collaborative engagements such as the Carbon Disclosure Project (CDP), the Forst Footprint Disclosure Initiative and the CEO Water Mandate

2010 Robeco joins the Asian Corporate Governance Association (ACGA) as an active member

2011 Following publications from the United Nations Environment Program, Robeco engages with energy companies on oil spills in Nigeria

2012 We complete a collaborative-engagement CDP project, in which we engaged with 44 companies on behalf of a large group of investors, with a 46% success rate. With the support from companies with which we engaged, the collaboration results in investors receiving pertinent information in a consistent way

2013 Following the Rana Plaza disaster in Bangladesh in which more than 1,000 workers died, we begin engagement on health and safety in the clothing industry

2014 Inspired by the new Ranking Digital Rights Index, we begin engagement on data privacy. We also commence successful engagements on food and health, with a focus on tackling obesity and irresponsible marketing

2015 We become a Tier 1-rated signatory of the UK Stewardship Code

2016 Significant progress is seen in reporting by energy companies on deep water drilling, after three years of engagement following the Deepwater Horizon accident in the Gulf of Mexico

2017 Shareholder proposals are filed to reduce antibiotics use in McDonalds' supply chain, leading to corporate action

2018 A stunning success is achieved when Shell agrees to set short-term targets for carbon reduction and link executive pay to these targets. It follows engagement jointly led by Robeco and the Church of England on behalf of Climate Action 100+

2019 Robeco publishes a unique position paper on palm oil, setting strict standards for the industry, and becomes the first investor to join the Roundtable on Sustainable Palm Oil

2020 In a major engagement success, the Italian energy company Enel agrees to appoint a wind power executive to its board to accelerate the utility's net-zero plans. And Shell also steps up its prior decarbonization plans with a pledge to also become net zero by 2050

2021 A roadmap is published outlining how Robeco aims to achieve net zero across assets by 2050, based on three principles: decarbonization, accelerating the transition, and an increase in Paris-aligned investing

Robeco continues to step up its active ownership activities, with increasing emphasis on:

1. climate, as part of Robeco's net-zero roadmap;
2. biodiversity, by signing a deforestation committment and driving the development of Nature Action 100 and
3. human rights, by joining the PRI's advicory committee for the stewardship initiative on human rights.

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Fund(s) may be obtained from the representative or via the website.

Additional Information for investors with residence or seat in Malaysia

Generally, no offer or sale of the Shares is permitted in Malaysia unless where a Recognition Exemption or the Prospectus Exemption applies: NO ACTION HAS BEEN, OR WILL BE, TAKEN TO COMPLY WITH MALAYSIAN LAWS FOR MAKING AVAILABLE, OFFERING FOR SUBSCRIPTION OR PURCHASE, OR ISSUING ANY INVITATION TO SUBSCRIBE FOR OR PURCHASE OR SALE OF THE SHARES IN MALAYSIA OR TO PERSONS IN MALAYSIA AS THE SHARES ARE NOT INTENDED BY THE ISSUER TO BE MADE AVAILABLE, OR MADE THE SUBJECT OF ANY OFFER OR INVITATION TO SUBSCRIBE OR PURCHASE, IN MALAYSIA. NEITHER THIS DOCUMENT NOR ANY DOCUMENT OR OTHER MATERIAL IN CONNECTION WITH THE SHARES SHOULD BE DISTRIBUTED, CAUSED TO BE DISTRIBUTED OR CIRCULATED IN MALAYSIA. NO PERSON SHOULD MAKE AVAILABLE OR MAKE ANY INVITATION OR OFFER OR INVITATION TO SELL OR PURCHASE THE SHARES IN MALAYSIA UNLESS SUCH PERSON TAKES THE NECESSARY ACTION TO COMPLY WITH MALAYSIAN LAWS.

Additional Information for investors with residence or seat in Mexico

The funds have not been and will not be registered with the National Registry of Securities, maintained by the Mexican National Banking and Securities Commission and, as a result, may not be offered or sold publicly in Mexico. Robeco and any underwriter or purchaser may offer and sell the funds in Mexico on a private placement basis to Institutional and Accredited Investors, pursuant to Article 8 of the Mexican Securities Market Law.

Additional Information for investors with residence or seat in Peru

The Fund has not been registered with the Superintendencia del Mercado de Valores (SMV) and is being placed by means of a private offer. SMV has not reviewed the information provided to the investor. This document is only for the exclusive use of institutional investors in Peru and is not for public distribution.

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Additional Information for investors with residence or seat in Spain

Robeco Institutional Asset Management B.V., Sucursal en España with identification number W0032687F and having its registered office in Madrid at Calle Serrano 47-14º, is registered with the Spanish Commercial Registry in Madrid, in volume 19.957, page 190, section 8, sheet M-351927 and with the National Securities Market Commission (CNMV) in the Official Register of branches of European investment services companies, under number 24. The investment funds or SICAV mentioned in this document are regulated by the corresponding authorities of their country of origin and are registered in the Special Registry of the CNMV of Foreign Collective Investment Institutions marketed in Spain.

Additional Information for investors with residence or seat in South Africa

Robeco Institutional Asset Management B.V. is registered and regulated by the Financial Sector Conduct Authority in South Africa.

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Additional Information relating to RobecoSAM-branded funds/services

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Some Funds referred to in this marketing material have been registered with the UAE Securities and Commodities Authority (the Authority). Details of all Registered Funds can be found on the Authority's website. The Authority assumes no liability for the accuracy of the information set out in this material/document, nor for the failure of any persons engaged in the investment Fund in performing their duties and responsibilities.

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Robeco is temporarily deemed authorized and regulated by the Financial Conduct Authority. Details of the Temporary Permissions Regime, which allows EEA-based firms to operate in the UK for a limited period while seeking full authorization, are available on the Financial Conduct Authority's website.

Additional Information for investors with residence or seat in Uruguay
The sale of the Fund qualifies as a private placement pursuant to section 2 of Uruguayan law 18,627. The Fund must not be offered or sold to the public in Uruguay, except under circumstances which do not constitute a public offering or distribution under Uruguayan laws and regulations. The Fund is not and will not be registered with the Financial Services Superintendency of the Central Bank of Uruguay. The Fund corresponds to investment funds that are not investment funds regulated by Uruguayan law 16,774 dated September 27, 1996, as amended.

ROBECO

The Investment Engineers