Active Ownership

USING SHAREHOLDER RIGHTS TO MAXIMIZE SHAREHOLDER VALUE
Sustainability investing is integral to Robeco’s overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors in our investment process results in better-informed investment decisions. Further we believe that engagement with companies in which we and our clients invest will have a positive impact on investment results and on society. Portfolio managers, sustainability investing researchers and engagement specialists work closely together focusing on jointly determined financially material themes.

Investors increasingly wish to have a say in how companies in their investment portfolios are managed – particularly when it comes to ESG issues. Robeco’s Active Ownership team enables institutional investors to become active owners of listed companies. The team engages with companies and votes on behalf of clients to maximize the value of their investments. The quality of the team’s active ownership practices was confirmed in the UN PRI 2016 assessment, where it attained the highest possible score (A+) for active ownership.
Active ownership is about exercising your rights and using your influence as an investor. Moreover, institutional investors have a fiduciary responsibility to address ESG-related issues associated with their investments. A constructive and effective active ownership program consisting of voting and engagement can encourage companies to improve their ESG behavior, which in turn helps decrease costs, enhancing competitiveness and profitability. As a result, active ownership helps to maximize shareholder value and enhance long-term returns.

Carola van Lamoen
Head of Active Ownership

"We are convinced that engaging with companies on the most material sustainability issues enhances their competitiveness and profitability, as well as generating measurable benefits for investors, companies and society as a whole. In short, we aim to continuously raise the bar for corporate sustainability practices"
Why be an active owner?

Engagement and voting on ESG topics offers institutional investors a range of benefits. First of all, financially material ESG issues are important drivers of shareholder value and active ownership contributes to an improved risk/return profile. In a research paper exploring active ownership (Dimson, Karakas and Li, 2015), the authors show enhanced performance (about 2% yearly abnormal returns) followed by engagement activity.

Secondly, active ownership enables investors to use their investments to generate a positive environmental and social impact and thus protect reputation. Half of the UK population thinks investors have stewardship responsibilities (UKSIF, 2014), while as much as 70% of Dutch beneficiaries want their pension fund to invest more sustainable (Motivation, 2014). In 2015, 193 countries adopted the UN Sustainable Development Goals (SDGs) to end poverty, protect the planet, and ensure prosperity for all. The UN have called on the private sector to support the SDGs.”

Thirdly, it helps investors comply with regulatory requirements (hard law) and commitments to industry codes and initiatives (soft law). The European Commission is preparing a shareholder rights directive that require both asset owners and asset managers to have an engagement and voting policy. Complying with the UN Principles for Responsible Investment, “we will be active owners and incorporate ESG issues into our ownership policies and practices.”

Reasons for active ownership

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<thead>
<tr>
<th>Push Factors</th>
<th>Institutional Investor</th>
<th>Pull Factors</th>
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<tbody>
<tr>
<td>Hard law</td>
<td>Performance</td>
<td>Benefitsaries</td>
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<tr>
<td>Soft law</td>
<td>Impact</td>
<td>Society</td>
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<td></td>
<td>Reputation</td>
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How does engagement work?

**Engagement: a constructive dialogue with investee companies**

Robeco has been engaging with companies since 2005, both individually and in collaboration with other investors. Engagement consists of a constructive dialogue between institutional investors and investee companies to discuss how to improve ESG behavior and performance. We engage with companies on behalf of institutional investors using two overlay options:

1. **Value engagement**: a proactive approach focusing on material sustainability themes that have the most potential to create value for shareholders by decreasing risks and enhancing investment returns.

2. **Enhanced engagement** focuses on companies that severely and structurally breach principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption.

**Value engagement, focus on financial material themes**

We focus value engagement on a limited number of sustainability themes that have most potential to create value for investee companies. These themes are selected by engagement specialists in close cooperation with analysts and portfolio managers. The starting point of this selection is financial materiality analysis conducted by RobecoSAM’s Sustainability Investing Research team. Subsequently, we conduct a baseline study and develop engagement profiles for the companies to be engaged. Based on the baseline study, we establish SMART (Specific, Measurable, Achievable, Relevant, Time-bound) objectives and begin a dialogue to encourage companies to address the issues identified. We prioritize companies in our portfolios and our client portfolios that have most exposure to the respective engagement theme. We select 5–15 companies per engagement theme.

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**Value engagement process**

- **Preparation**
  - Select financially material value engagement theme

- **Define SMART engagement objectives**
  - Define SMART engagement objectives with financial and sustainability investing analysts

- **Select companies**
  - Select companies based on exposure, awareness and portfolio holdings

- **Analyze case**
  - Establish contact with company

- **Ongoing dialogue**
  - Measure progress of company

- **Feedback**
  - Feedback to clients & portfolio managers

- **Close successfully or unsuccessfully**
  - Report to clients
We have regular meetings and conference calls with company representatives to discuss their progress towards our engagement objectives over a three-year period. By discussing sustainability risks and opportunities with companies, and providing them with insights into investors’ expectations of corporate behavior, we encourage these companies to adopt better practices. Companies with sustainable business practices can create a competitive advantage and are likely to improve the risk/return profile of their shares. Value engagement is thus aimed at improving the risk/return profile of the company’s stock and ultimately of our clients’ portfolios.

We provide detailed confidential engagement reports directly to the client, as well as reports that are suitable for distribution/reporting to the client’s own stakeholders (i.e. pension fund beneficiaries).
**Engagement focus areas**

Engagement themes run typically for three years (see the chart above). Every year, we start three or more new engagement themes. For 2017, ESG challenges in the automotive industry, risk oversight in the (banking sector industry, corporate governance standards in Asia, sugar and climate change strategies in the real estate office industry were selected as themes.

**Enhanced engagement, focus on UN Global Compact breaches**

Our enhanced engagement program focuses on companies that severely and structurally breach the principles of United Nations Global Compact (UNGC) in the areas of human rights, labor, environment and anti-corruption. The process is based on a systematic analysis of alleged breaches of UNGC principles for which we continuously monitor the news flow of publicly available information from media, consumer organizations and NGOs. In order to measure progress, we use five objectives focused on elimination of the breach, policy, stakeholder dialogue, risk management systems and transparency. The engagement typically runs over a three-year period, during which we have regular meetings and conference calls with company representatives to track their progress against our engagement objectives.

If an enhanced engagement dialogue does not lead to the desired result, Robeco may decide to exclude the company from Robeco’s investment universe. The process for enhanced engagement is a formal part of Robeco’s exclusion policy.

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**Case study: Petrobras improves corporate governance**

Petrobras is a semi-public, multinational energy corporation in Brazil. Petrobras has historically been controlled by the Brazilian government, leading to issues over the company’s pricing policies. In 2013, it was revealed that Petrobras was involved in a widespread bribery scheme. The uncovering of the scheme and the arrests following are best known as operation Lava Jato (Car Wash) and is widely regarded as one of the biggest corruption scandals in recent years. Shortly after, Robeco commenced its dialogue with Petrobras’ CFO, Investor Relations, risk management experts, and minority representatives in the board on the company’s corporate governance, risk management and compliance systems. Robeco’s aim was to improve the composition and independence of board members, to reevaluate of risk management systems, and implement of a clear coherent pricing strategy. An important step was the implementation of a more elaborate committee structure for major business decisions. In 2016, Petrobras published a pricing policy with objective guidelines, putting an end on the full discretion of the board to set prices at any level of choice, and guarantees a structure that follows market prices. Many investors, including Robeco, have been pushing for a more objective price setting policy for a long time. In 2016, Petrobras published a website with all of the improvements that it has made so far. We are content with most of this progress on the compliance and risk management structure. We also see that the composition of the board has improved significantly. In 2016, Petrobras introduced a new nomination policy for the board, with more stringent nomination criteria and is likely to reduce the scope of ease of purely political nominations. The remainder of Robeco’s dialogue will be focused on putting sufficient measures in place to protect these improvements, when a next government in Brazil takes office.
Robeco has been voting since 1998 for its investment funds and on behalf of institutional clients. Voting is carried out by dedicated voting analysts in the Active Ownership team. Currently, the team votes at almost 5,000 shareholder meetings. We visit several shareholder meetings in person, but casts most of our votes electronically. Robeco publically reports about its voting activity on its website.

Our voting policy and analysis is based on the internationally-accepted principles of the International Corporate Governance Network (ICGN). These principles provide a broad framework for assessing companies’ corporate governance practices. They provide enough scope for companies to be assessed according to local standards, national legislation and corporate governance codes of conduct. Our assessment also takes into account company-specific circumstances. High profile voting decisions are made in collaboration with investment teams and engagement specialists. Information captured from shareholder meetings is taken into account in the forthcoming engagement activities.

Highly structured voting process
Our voting process consists of the following steps and responsibilities (see the chart below):

- **Research phase**: For every meeting and agenda item, we analyze voting research.
- **Voting analysis**:
  - Based on our extensive screening off important agenda items, the voting analyst reviews all relevant material such as sustainability reports, annual report and news items.
  - Input from equity/credits analysts and portfolio managers. In case of high-profile cases, such as mergers & acquisitions, significant holdings, companies under engagement, and other special instances, we gather input from investment analysts and portfolio managers.
  - Input engagement specialists. In case the company is under engagement we discuss the agenda with the engagement specialist responsible for the case.
  - For remuneration and shareholder proposals we use proprietary assessment frameworks.
- **Vote instruction**: The voting decision is made on an electronic voting platform.
- **Online disclosure voting results**: Robeco publishes voting results of its own funds soon after the shareholder meeting on a dedicated proxy voting disclosure website. This is a fully automated process. Such web disclosure may also be set up for clients to disclose vote decisions for their own portfolios.

Matching clients’ specific voting policies
We ensure that we vote in the best interest of long-term shareholders. When there are specific wishes by our clients, we first analyze whether they are in line with our guidelines and policies. In general, we see that our voting policy does not differ significantly from guidelines of institutional investors. In case clients have very specific rule-based voting criteria that differ from our own, we will implement a custom voting policy. Some clients have generic principle-based policies and would like to be notified in case of specific events. In these cases we can set up watch lists and vote in line with clients’ philosophy or notify clients.

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**Voting process**

- **Input voting research, Engagement specialists, Portfolio managers, and Analysts**
- **Voting analysis**
- **Vote instructions**
- **Online voting disclosure**
Robeco votes and engages with companies for its investment funds and on behalf of institutional clients. This is carried out by the Active Ownership team. This team was established as a centralized competence center in 2005. The team consists of 10 qualified voting and engagement professionals based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. The team is headed by Carola van Lamoen.

The team cooperates closely with the Sustainability Investing Research team of RobecoSAM in Zurich, Switzerland, and with portfolio managers around the globe by sharing a wide variety of information, including engagement results, the latest thematic research, as well as the governance trends observed. Portfolio managers are consulted and involved in voting and engagement activities.
### Engagement

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<th>2016</th>
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<tbody>
<tr>
<td>Companies engaged</td>
<td>188</td>
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<tr>
<td>Engagement cases</td>
<td>210</td>
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<tr>
<td>Engagement activities</td>
<td>787</td>
</tr>
<tr>
<td>Closed cases</td>
<td>52</td>
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<tr>
<td>Cases closed successfully</td>
<td>45 (87%)</td>
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<tr>
<td>Assets under engagement</td>
<td>Euro 231 bln</td>
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### Voting

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<th>2016</th>
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<tr>
<td>Shareholder meetings</td>
<td>4,800 in 70 countries</td>
</tr>
<tr>
<td>Assets under voting</td>
<td>Euro 55.5 bln</td>
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</tbody>
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VOTES at about 5,000 shareholder meetings in 70 countries

ENGAGES with more than 180 companies in 35 countries

87% of engagement closed successfully
Summary

**High-quality services**
The quality of our active ownership practices was confirmed in the UN PRI assessment, where we attained the highest possible score (A+) for active ownership.

**Structured process**
We offer a structured process based on clear engagement objectives, intense dialogues and transparent reporting, which ensures quality and high-impact engagement cases. For voting, we offer high quality voting analysis using assessment frameworks for remuneration and shareholder proposals.

**Integrated approach backed by strong resources**
While voting and engagement are the responsibility of Robeco’s Active Ownership team in Rotterdam, the team works closely with sustainability investing analysts and portfolio managers in Robeco offices around the world. This gives us a truly global approach for truly global issues.

**Successful approach**
In 2016, 87% of (value and enhanced) engagement cases that we closed were successful.