Robeco's Engagement Policy

ROBECO INSTITUTIONAL ASSET MANAGEMENT

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Robeco's Engagement Policy

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society. Within Robeco investors, sustainability investing researchers and engagement specialists work closely together focusing on jointly determined financially material themes.

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long term performance of the company and ultimately the quality of investments for our clients.

The outcomes of our engagement efforts are communicated to analysts, portfolio managers, and clients, enabling them to incorporate this information into their investment decisions as part of Robeco's integrated sustainability investing framework.

Relevant codes, principles and best practices for engagement

Robeco's clients include institutional investors, high net worth individuals, and private investors of all sizes and from all regions of the world. As they represent a diverse set of values and preferences, Robeco cannot decide for all its clients what their values and preferences should be. Our first criteria is that engagement needs to be relevant in light of our investment exposure. We have developed a materiality framework that is used as starting point to prioritize our engagements. We use materiality insights to determine the most relevant sustainability risks and opportunities that need to be addressed for specific investment exposures.

Additionally, to acknowledge the diversity in our client base and the variety in our investee companies, Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. The most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

1. What do we expect from investee companies?

Robeco focuses its engagement activities with listed companies on material Environmental, Social and Governance issues which create long term shareholder value. Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, similar to the way we look at other drivers such as company financials or market momentum.

Both the management and board of listed companies are accountable for the company's long term strategy and management of ESG issues. Robeco believes that companies that have strong sustainability and governance policies in place are more likely to act in the best interest of all their stakeholders, and are better positioned to deal with a variety of issues, such as non-financial risks and changing regulation. Subsequently these companies are also better prepared to address long term trends such as climate change. On such issues we believe that a constructive dialogue can enhance accountability between stakeholders and improve the risk/return profile of investee companies.

We also understand that individual companies and industries differ in their business practices and how they deal with different problems. Therefore, we focus on the most material issues a company must address, meaning our engagement focus will differ between various investment exposures. In this section we explain the principles we follow in our engagement activities.

1.1 To have a coherent corporate sustainability strategy

We expect companies to have a coherent sustainability strategy, aligned with their corporate strategy. This should ideally be expressed in terms of target markets, the competitive advantage the company has, and the economic, environmental and social impacts caused by its everyday operations. A sustainability policy and strategy also presents the organization's values and governance model, and demonstrates the link between its corporate strategy and its commitment to a more sustainable economy.

Maximize Sustainability Operating Performance

We want companies to maximize the sustainable operating performance of their businesses, and to ensure that their investment plans have been critically tested in terms of environmental, social and governance impact and their ability to create long-term shareholder value.

Focus on Materiality

We expect companies to conduct a materiality assessment to identify key focus areas around ESG in order to optimize their efforts towards sustainability. Based on the output of this assessment, a sustainability policy and strategy should be developed to measure, understand and communicate their performance and progress. Measurable qualitative and quantitative goals and targets should be set to manage change more effectively. Companies should also publish a sustainability report that includes its progress towards addressing material topics, preferably as an integrated part of their annual report. A sustainability report should be a platform for communicating sustainability performance and impacts, both positive and negative.

1.2 To manage environmental issues effectively

We expect companies to address and manage the environmental factors that affect their operations and are material for their business. In addition, we expect companies to explain the procedures in place to manage related risks and demonstrate how they identify and benefit from related business opportunities. We use the OECD Guidelines for Multinational Enterprises as a starting point and encourage companies to implement these guidelines to the best of their ability.

Implement an Environmental Management System

We expect companies to establish and maintain an Environmental Management System (EMS) in order to collect relevant environmental data, set meaningful objectives and monitor progress. In most cases it adds value to verify the EMS through an international standard such as ISO 14001 or EMAS and opt for third party audits by specialized companies.

Assess and disclose environmental impact

Companies should systematically assess and address the potential environmental impact of their activities when making business decisions. In cases where the company's activities have a significant environmental impact and/or are under regulatory scrutiny we request an appropriate Environmental Impact Assessment (EIA) accompanied by a formal system to ensure that the EIA recommendations are implemented and followed up on.

We also want companies to be transparent about their environmental impact. Companies should report on the environmental impact of their activities in a measurable, comparable, verifiable and timely fashion. In addition, companies need to communicate and consult with the local stakeholders affected by these activities.

Prepare for environmental incidents and prevent or minimize environmental damages

We want companies to maintain contingency plans to prevent, mitigate and control serious environmental damage resulting from accidents and spills related to the company's activities, including immediate reporting to the relevant authorities.

Companies should take immediate action in case of serious environmental damage or threat in order to prevent or minimize such damage.

We want companies to systematically educate and train their employees on environmental health and safety matters such as the handling of hazardous substances and the prevention of environmental accidents.

Innovate to improve environmental performance

Companies should continually improve their environmental performance in areas such as emission reductions, resource efficiency, recycling, substitution or reduction of toxic substances and biodiversity. The main drivers entail the adoption of improved technologies and operating procedures, the development of eco-friendly products and services and raising customer awareness.

Contribute to environment-friendly public policy

We want companies to support the development of meaningful public policies focused at enhancing environmental awareness and protection.

Embrace climate change

A special subject within the management of environmental issues is the subject of climate change. We request that companies have a climate policy and strategy including a process to integrate climate change risks and opportunities into the company's centralized risk management framework and a governance structure which ensures sufficient oversight over the management of climate change related risks. An important aspect of this is water management, and companies should be aware of their exposure to water related risks and develop appropriate mitigation strategies.

Manage water risks

Water-related risks are an important issue with a number of environmental and social implications. Depending on the company's exposure to water stressed areas, we want companies to track fresh water use and quality, set ambitious reduction and recycling targets, and appropriately manage conflicts with local stakeholders concerning fresh water resources. Major water pollution issues are treated as UN Global Compact environmental breaches and we will engage accordingly.

1.3 To manage social relationships effectively

We expect companies to manage their social relationships with all stakeholders. We use the OECD Guidelines for Multinational Enterprises and the UN Global Compact principles as a starting point for our engagements. In line with these expectations, we request companies implement the guidelines below to the best of their ability.

Contribute to human rights

Human rights are described in the Universal Declaration of Human Rights (UDHR) and detailed in the Guiding Principles on Business and Human Rights (UNGP). We want companies to contribute to economic growth in the countries where they are active, and thus make a contribution to human rights in a broad sense.

Engage with stakeholders

Issues where companies show shortcomings with regard to social management receive much attention from stakeholders (i.e. clients, employees, suppliers and NGOs). Companies should therefore engage in a constructive dialogue with stakeholders regarding their social responsibility.

Respect labor rights

Companies should observe and abide by the conventions of the International Labour Organization (ILO) relating to child labor, forced labor, discrimination, freedom of association and collective bargaining, both within the company and in their supply chain.

Guarantee health and safe working environment for employees

Managing risks and maintaining safe working conditions is important for companies, as this can have direct consequences for the reputation of a company as well as improving efficiencies. Large-scale incidents involving fatalities can be a major cost factor as a result of claims filed by dependents and due to interruptions to production and supply chains. Companies should have effective rules in place in the field of health and safety and also guarantee a good working environment for their own employees and employees in their supply chains.

Develop human capital management policy to attract and retain employees

Companies whose employees are happy and healthy achieve stronger operational and financial performance in the long term. We want companies to develop a human capital management policy which should cover how they attract and retain talent, provide training and courses, and establish workforce diversity.

Stimulate innovation

Innovation is a key element for future growth and we want companies to provide guidance on how they foster a culture where innovation thrives. We analyze the systems that a company uses to obtain maximum return from developing new products. In this context, we consider Research & Development (R&D) expenditure of companies over the last year, staffing for R&D, and the product categories they focus on, together with the community needs that these innovations aim to meet. We want companies to focus their investments on developing innovative products.

Reduce environmental, health, and safety impacts of products

The effect that a companies' products can have on society is an important element of product stewardship. In this context, we consider product safety and recycling, but also the undesirable effects on society of products such as the risk of obesity for producers of products containing sugar. Product stewardship extends this responsibility to everyone involved in the life-cycle of a product. This includes not only manufacturers, but also the retailers, consumers and recyclers of the product as well. We want companies to have safe production methods and responsible product management.

Implement a supply chain management program

Many of the above mentioned risks in the field of human rights, employment standards and health and safety do not manifest within the companies themselves, but rather in their supply chains. Because suppliers are inextricably linked to the product that the company makes, and thus with the company's reputation, we want companies to have a comprehensive supply chain management program in place.

1.4 To manage corporate governance issues effectively

We expect companies to have a well-defined corporate governance system that balances the interests of all stakeholders. Corporate governance refers to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations. It can enhance the stability and performance of a company and support a company's long term strategy. Corporate governance provisions can differ strongly between regulatory markets. Our engagement policy is based on internationally accepted guidelines, such as the principles set by the International Corporate Governance Network (ICGN) and the UN Global Compact principles. We want companies to implement the guidelines below to the best of their ability and within the limits of any applicable local corporate governance framework.

Improve board quality and functioning of the board

Corporate boards have the task to monitor and guide the management of the company in the best interest of shareholders. In order to fulfill that task, the majority of the board should be independent, have sufficient knowledge of the industry and relevant supervisory skills. We want companies to have nomination processes in place that define core capabilities for new members and the required qualities for the board as a whole. Independent board members should have sufficient access to information about the daily activities of the company.
Shareholders should be able to judge if a nominated member possesses such qualities and if incumbent members have carried out their supervisory tasks adequately. We want companies to share sufficient information about these board members prior to an annual shareholder meeting.

Improve corporate culture

Companies should engender a corporate culture which ensures that employees understand their responsibility for appropriate behavior. We want companies to have a code of ethics and code of conduct, and select and train their employees accordingly.

Improve risk oversight and management

We want companies to have an adequate risk management policy, risk oversight and appropriate risk management systems in place. The board should report the main risks which have been identified and what policies and other measures have been implemented to minimize these risks.

Implement appropriate executive remuneration policy

A companies' executive remuneration policy is one of the main instruments to guide, evaluate and reward the behavior and achievements of executives. It is therefore in the interest of a company, its shareholders and other stakeholders to have an appropriate remuneration policy for executives. We want companies to be transparent about their remuneration policy, including the height of compensation, its structure and key performance targets. Remuneration policies should be structured in such a way that the interest of executives and shareholders are aligned towards the same end; value creation in the long term. The inclusion of non-financial targets (environmental, social and governance) is encouraged. We want companies to give shareholders a say on pay, for example by approving changes in the remuneration policy or via an annual vote on the remuneration report.

Improve audit function

We want companies to have robust and efficient audit processes in place. Companies should be transparent in how their financial statements have been constructed and if material weaknesses have been detected. In order to ensure auditor independence, companies should be clear on their auditor rotation and tendering procedures. In case of substantial payment of non-audit fees to the auditor, we want companies to provide sufficient information to assure shareholders that the auditor can be regarded as independent.

Improve disclosure and transparency

We want companies to be transparent and open about their aims, challenges, achievements and failures. This starts with clear financial accounting, including accounting and tax policies. This also includes transparency on the company's sustainability strategy via their sustainability report or integrated report. We want companies to publish their annual and sustainability reports on time and announce their shareholder meetings in a timely manner.

Allow shareholders to use their rights over companies and enhance those rights where necessary

Shareholders should have appropriate rights to ensure that boards are accountable for their actions. We want companies to treat shareholders fairly in terms of voting rights, dividend distribution and the allocation of other rights. We want companies to give shareholders a say in major decisions, significant transactions, mergers, and changes in company bylaws. Appropriate means should be available to shareholders to address issues within the company; for example the filing of shareholder resolutions. We want companies to clearly state all shareholder rights in their charter. When the company changes its capital structure, shareholder value and shareholder rights should not be negatively affected or diluted.

Prevent all forms of corruption

We want companies to work against all forms of corruption, including extortion and bribery. In case of significant exposure to bribery risk, we want companies to have a relevant code of conduct in place and a risk management system to prevent all forms of corruption. In case a company has experienced bribery related issues, we want companies to be transparent to its stakeholders on how it will prevent such issues in the future.

2 How we engage

Two types of engagement

Engagement consists of a constructive dialogue between institutional investors and investee companies to discuss how they manage ESG risks and seize business opportunities associated with sustainability challenges. We engage with companies on behalf of our clients to maximize the value of their investments, using two engagement approaches:

1. Value engagement is a proactive approach focusing on material sustainability themes that have the most potential to create value for shareholders. The focus is on long-term, financially material ESG factors that can affect companies' ability to create value.
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. In contrast with value engagement, enhanced engagement may result in excluding a company from the investment universe of Robeco or its clients.

This engagement policy is designed to provide an engagement guidance for any company we are invested in as a shareholder or a credit holder.

Our enhanced engagement program does not differentiate between investment styles or asset classes and is aimed to set minimal norms for expected behavior in relation to the UN Global Compact.

For our value engagement approach, our aim is to add value to improve the risk/return profile for our investments. In all cases, we take the approach of a long term investor, either from a shareholder or a credit perspective. The majority of our engagement objectives are intended to add value for a broad set of investment portfolios and stakeholders. Our focus areas for engagement as a long term shareholder and a bondholder are often aligned.

However in some instances there may be a difference in focus. For example, differences in engagement objectives between different investment styles or asset classes can be identified. At the start of new engagement themes/projects key stakeholders are identified, which include clients and portfolio managers. Depending on the relevant stakeholders, engagements may have a specific portfolio approach. Engagements for credit portfolios are likely to be focused on down side ESG risks whereas engagements for equity portfolios are more likely to focus on both ESG risks and opportunities and shareholder rights.

A constructive dialogue

We believe that a constructive dialogue with the companies in which we and our clients invest is more effective than excluding companies from our investment universe. If enhanced engagement does not lead to the desired change, Robeco or its clients can decide to exclude a company from its investment universe. However, Robeco considers exclusions from the investment universe to be an action of last resort, applicable only after engagement, our first and preferred option, has been undertaken. However, there are instances where escalation may be necessary.

Using enhanced engagement, we escalate our dialogue with companies on specific topics. Enhanced engagement follows a breach of minimal norms of behavior and can finally be escalated with an exclusion from the investment universe of a company that does not improve its ESG behavior after the engagement has concluded. In both value and enhanced engagements, a lack of responsiveness by the company can be addressed by seeking collective engagement, attending a shareholder meeting in person, or sharing written concerns with the board, and can lead to adverse proxy voting instructions on related agenda items at a shareholder meeting.

A focused, extensive engagement approach

Robeco focuses its engagement efforts on a select group of companies on the most material ESG factors and themes. This means we undertake multiple interactions with a company via e-mail, letter, phone call, meetings or shareholder meetings per year, with a view to changing the company's behavior. These engagements are systematic and begin with clear engagement objectives. We avoid engaging with too large a universe of companies at any one time as this allows us to undertake extensive, focused and in-depth engagement with the companies with which we do engage.

A thorough selection of themes and companies

Engagement themes and companies are selected in cooperation with Robeco analysts and portfolio managers, based on an analysis of financial materiality. This analysis is conducted by RobecoSAM's Sustainability Investing Research team. Before starting a theme, we also involve institutional clients in our thought process, selection and design of engagement themes. We select three new engagement themes every year, and for any given engagement theme, ten to fifteen companies are selected that have the most exposure to the engagement topic. Sectors and client holdings are a further important input at this stage of the process.

Each theme is refined using baseline research on the engagement topic. This is used to establish the starting point for individual companies, to keep the engagement focused, and to efficiently address the most material ESG factors. For each theme, SMART (Specific, Measurable, Attainable, Relevant, Time-bound) engagement objectives are defined. These are then shared with investee companies. We track progress against the engagement objectives set.

For the quarterly selection of enhanced engagement cases, we screen news flows for breaches of the UN Global Compact principles. We select approximately ten new enhanced engagement cases every year. For each enhanced engagement, SMART engagement objectives are defined.

Both value and enhanced engagements typically run over a three-year period, during which we have regular contact with company representatives. When more than half of the engagement objectives objectives have been achieved, we can close an engagement successfully. Whether we close an engagement case successfully or unsuccessfully, we share this information with the company.

Required organizational level of company engagement

Engagements usually start by explaining our engagement objectives to a companies' Investor Relations department via e-mail, letter or phone call, followed by conference calls or meetings with technical experts. Examples of such experts are the Head of Risk Management, Head of Sustainability, Head of Supply Chain Management and wide variety of operational experts.

Company roadshows are used when available, but in most cases we reach out to companies as opposed to the other way around. Depending on how important the issue is for the company, senior management (Board Secretary, CFO, COO, or CEO) may also be involved in our discussions. Finally, if Investor Relations are non-responsive to an engagement invitation, we approach senior management directly.

An experienced multi-disciplinary and multinational team

Effective engagement requires a range of skills, many of which are not traditionally found in asset managers. Robeco's Governance & Active Ownership team is comprised of experienced engagement specialists. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate.

In addition to an engagement specialist, portfolio managers and analysts may also participate in company engagements (conference calls, meetings).

Collaboration with other institutional investors when appropriate

Recognizing the value of different forms of engagement, Robeco carries out individual engagements as well as collaborative engagements with other investors or institutions. Robeco acts collectively in its engagements with other investors when this is appropriate. For instance, we believe that the best way to promote improved market practices is through active membership in collaborative platforms such as International Corporate Governance Network (ICGN), United Nations Principles for Responsible Investment (UN PRI), Eumedion, European Fund and Asset Management Association (EFAMA), and European Sustainable Investment Forum (Eurosif). For each of these platforms, we identify and prioritize our collaborative engagement activities within these memberships.

Policy engagements that are done via these collaborative platforms can be relevant from an equity investor perspective, from a bondholder perspective, or from both perspectives.

Most of our engagements are individual engagements. We know from experience, however, that specific collaborative engagements can be very effective. We look for collaborative engagements that are focused and well organized, and which add more power to our engagement approach. Where this is the case, we pursue collaborative engagement where it can add value within a certain engagement theme. This way, we combine our individual and collaborative engagement efforts to achieve the best possible engagement result. We prioritize collaborative engagement where we can combine these engagements with our individual engagements. Under these circumstances, we will take an active role in collaborative engagement in the form of (co)leadership, contribution to policy documents, and outreach. Whilst Robeco might use such platforms for collaborative engagement, Robeco will not outsource our engagement responsibilities to third parties for equity or credit investments.

Audited engagement process and controls

Robeco's engagement activities are audited regularly. An external auditor audits our engagement controls on an annual basis. In this audit, the auditor verifies if processes are robust enough to mitigate risks. This audit is part of the annual International Standard on Assurance Engagements (ISAE) control. In addition, Robeco's internal auditor audits the quality of our engagement process every three years.

3. Communicating our progress

Our clients receive full and detailed information on all our engagement activities which are treated as confidential. In addition, we provide public reports that are suitable for reporting to the client's own stakeholders, for example a pension fund's beneficiaries.

Robeco believes that good corporate governance and social responsibility enhance the long-term risk-return profiles of our investment portfolios. In our corporate responsibility report we are guided by the principle of materiality. The report focuses on those Robeco activities that impact the world around us, our clients and other stakeholders in terms of the environmental, social and governance aspects involved.

http://www.robeco.com/en/about-us/corporate-responsibility-report/report-2015.jsp

We disclose new engagement themes, specific trends and engagement showcases in our public magazine "Advance". Whilst this quarterly magazine is not as detailed and exhaustive as engagement reports to clients and investment teams, this is because some information in the engagement process needs to be kept confidential.

http://www.robeco.com/en/professionals/insights/sustainability-investing/insights/advance-magazine/

Every quarter, we publish examples of engagement cases on our website. In these showcases, we describe an issue, our engagement objectives and activities, and engagement results. Finally, Robeco regularly reports on its engagement activities through its dedicated sustainability website:

http://www.robeco.com/en/professionals/insights/sustainability-investing/index.jsp

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