Stewardship Report 2020

ROBECO | 01.01.2020 - 12.31.2020

CONTENTS

The sustainable investing and stewardship landscape moved rapidly in 2020, building momentum and drawing unprecedented levels of attention from investors, companies, regulators, and society alike. At Robeco, we knew it was only a matter of time before sustainable investing went mainstream. Having accumulated over 20 years of experience in offering sustainable products, our vision and mission embody Robeco's core belief that sustainable investing is better investing.

Long-term environmental, social, and governance (ESG) megatrends once again showed their true colors in 2020, which equaled 2016's ignominious record as the hottest year since measurements began. Climate change took center stage as the most significant systemic ESG risk, and Robeco redoubled our efforts to meet the challenge. Through our commitment to achieving net-zero carbon emissions across all our assets under management by 2050, the further development of our Climate Change Policy, and significant engagement successes, we made a clear statement that investors cannot fall behind in the race to meet the goals of the Paris Agreement. Towards the end of the year, we even launched the world's first global Paris-aligned fixed income strategies. And Robeco intends to continue to lead by example through innovation grounded in research.

We know there are even bigger challenges on the horizon. Loss of biodiversity is a potentially more severe threat than climate change in the long term, and requires frontrunners in the investment community to step up now. That is why we signed the Finance for Biodiversity Pledge in 2020, committing to set timebound targets for managing biodiversity impacts. Our new internal biodiversity taskforce will lead the way, while our Active Ownership team continues the engagement on biodiversity we kicked off last year.

Nonetheless, the defining feature of the year, the Covid-19 pandemic, reminded our industry that the 'S' in ESG is there for a reason. Especially the impacts on workers called for renewed focus on resilient supply chains and respect for labor rights. Our engagement program will continue to tackle these topics head on, buoyed by new momentum from investors globally. There is no recovery without sustainability – but whether we ultimately emerge stronger remains to be seen. Robeco is committed to playing our part as sustainable investors.

In 2020, we invested in our ability to be responsible stewards by establishing a world-class SI Center of Expertise at Robeco. I believe this will stand us in good stead to continue to be at the forefront of sustainable investing, to help our clients meet their goals sustainably, and to achieve real-world impact.

I am proud of the strides we made last year, and look forward to continuing Robeco's ever-more integrated and impactful stewardship work in 2021.

Victor Verberk
Chief Investment Officer,
Fixed Income and Sustainability
On behalf of the Robeco
Executive Committee.

Robeco's vision

"Safeguarding economic, environmental and social assets is a prerequisite for a healthy economy and the generation of attractive returns in the future. The focus in the investment industry is, therefore, shifting from creating wealth to creating wealth and well-being. We are the leading sustainable asset manager and will continue to improve and innovate."

Robeco's mission

'To enable our clients to achieve their financial and sustainability goals by providing superior investment returns and solutions'.
The mission is supported by our key investment beliefs:

1. As an active asset manager with a long-term investment view, we create added value for our clients.
   a. Our investment strategies are research-driven and executed in a disciplined, risk-controlled way..
   b. Our key research pillars are fundamental research, quantitative research and sustainability research.
   c. We can create socioeconomic benefits in addition to competitive financial returns.
2. ESG integration leads to better-informed investment decisions and better risk-adjusted returns throughout an economic cycle.
   a. Sustainability is a driver of structural change in countries, companies and markets.
   b. Companies with sustainable business practices are more successful.
   c. Active ownership contributes to both investment results and society.

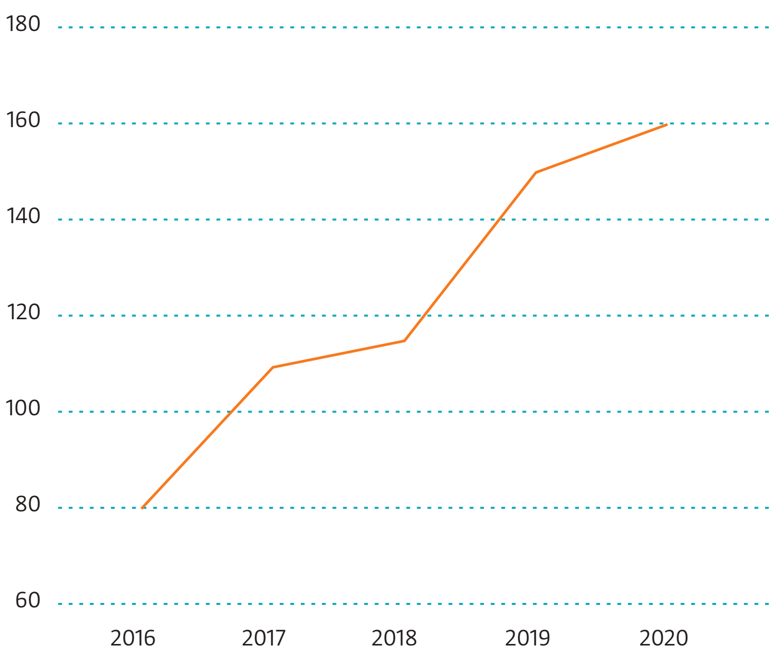
Sustainable Investing in 2020

We look back on what made 2020 a successful year for sustainable investing and stewardship at Robeco, and reflect on our clients' priorities for the future.

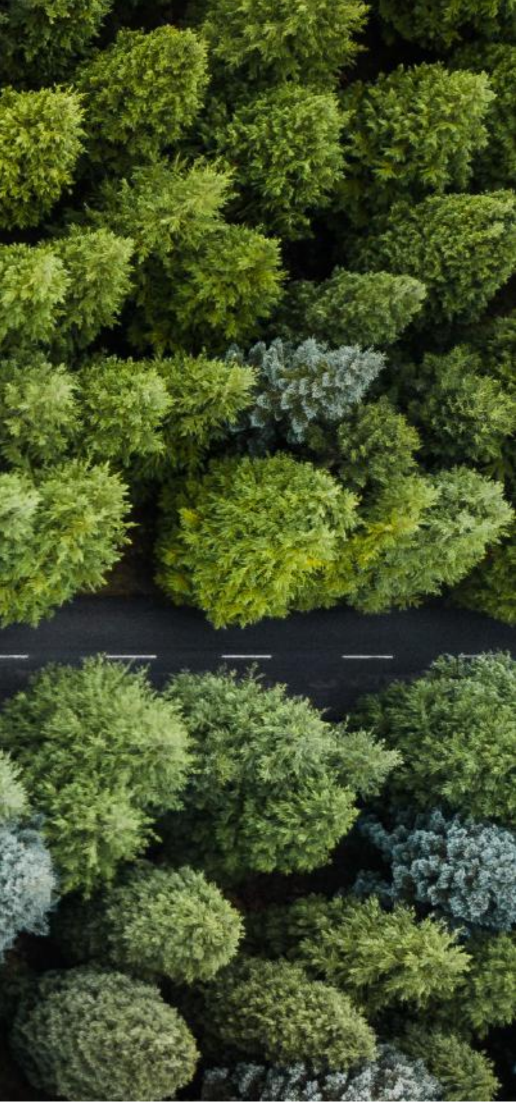
We firmly believe that 2020 was the year that the use of environmental, social, and governance (ESG) factors in investments went mainstream. As our industry's focus on sustainable investing took center stage, how has Robeco fared in 2020? We have notched up three notable developments:

- The total amount of sustainably managed assets has grown further
- Impact investing strategies have overtaken Sustainability Focused strategies in assets under management
- Client research shows climate change, the EU's Sustainable Finance Disclosure Requirement (SFDR) and reporting have taken center stage

Figure 1 | **ESG integrated assets under management (in bln. Euro)**



Source: Robeco



Double materiality: finance and impact

For 10 years already, Robeco has had the goal of increasing assets under management (AUM) that apply ESG integration. This has steadily risen over time, now covering more than 90% of total AUM. This is 100% of the assets where we can integrate ESG, as for some assets that are only invested in euro government bonds, are built up using derivatives, or for savings accounts, ESG integration is either not possible, or does not have added value.

So the largest part of our assets apply ESG integration. This is done so that we can make better-informed investment decisions. This means we focus on financially material ESG issues and only take a financial approach. We also have specific sustainable strategies, explained in the overview below.

And we are increasingly seeing that our clients want to make a positive impact, looking beyond financial materiality to social and ecological materiality. Combatting climate change and achieving the Sustainable Development Goals (SDGs) are two objectives that many clients have in mind. As a result, our assets in sustainability focused and impact investing (thematic and SDG-aligned) strategies are growing rapidly. At the end of 2020, impact investing assets under management overtook sustainability focused investing AUM for the first time.

This is due to the fact that we have seen a lot of client interest in our fixed income impact investing range, be it the various SDG-aligned credit strategies, the green bonds fund or the newly introduced Paris-aligned fixed income strategies. Another area of interest for our clients was the thematic strategies. At the beginning of 2020, we launched the RobecoSAM Circular Economy Equities fund. And following the announcement of the EU Commission to actively promote sustainable businesses via its Green Deal, and in anticipation of a government change in the US, we realized a surge in demand for thematic products addressing climate change via innovative solutions in the clean energy, infrastructure and transportation sector. RobecoSAM Smart Energy in particular attracted a number of large clients, lifting the strategy's AUM over EUR 2.3 billion.

What about financial performance?

The year 2020 brought with it many challenges, both socially and

Figure 2 | **The definitions of the different kinds of strategies.**

Sustainability Inside
The majority of Robeco strategies fall into this category, which includes full ESG intergration based on proprietary research, exclusions, and voting and engagement.

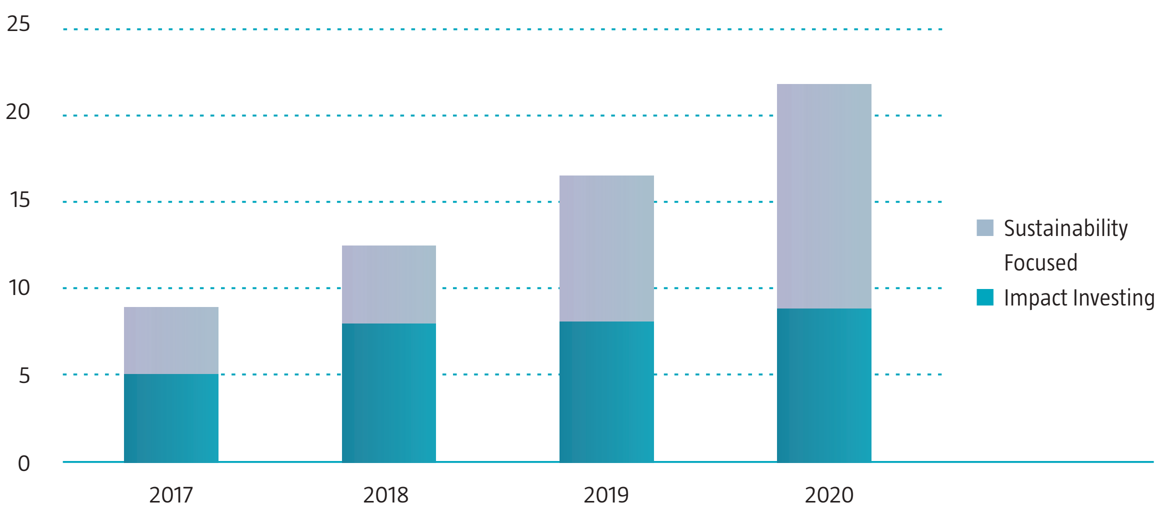
Sustainability Focused
In addition to Sustainability Inside, these strategies have an explicit sustainability policy, and targets for ESG profile and environmental footprint that are better than their benchmarks.

Other
For a few strategies ESG integration and engagement is not relevant (e.g. derivatives strategies). We olso work with our subadvisors in this category on the level of ESG integration and engagement.

Impact Investing
In addition to Sustainability inside, these strategies aim to contribute to specific sustainable themes such as energy or mobility, and/or the UN's Sustainable Development Goals
All impact strategies are named RobecoSAM

Source: Robeco

Figure 3 | **Asset under Management in bespoke sustainable strategies (in bln. Euro)**



Source: Robeco

economically. Sustainable funds and Sustainable Exchange-Traded Funds (ETFs) outperformed, specifically during the downturn. This was mainly driven by a size and sector effect – sustainable funds have less exposure to 'old' capital-intensive industries such as energy, and more exposure to technology, health care and the more innovative industries that profited during the Covid-19 lockdowns. And this can reverse quite quickly of course.

However, sustainable investing is about long-term investing, and the good news is that research from Morningstar shows that there is no performance trade-off associated with sustainable funds. In fact, a majority of them have outperformed their traditional peers over multiple time horizons of up to 10 years.

In our own investment funds, we have indeed seen that most of our thematic and fundamental sustainable strategies have done really well. The performance attribution of ESG integration in fundamental strategies is more difficult to calculate, but our emerging markets team found that the ESG impact from both the Robeco exclusion policy and ESG integration was strongly positive, contributing to more than 60% of the fund's excess return since inception (79 bps from exclusion and 155 bps from ESG integration)[1].

For our fundamental global equity strategy, the same contribution analysis (which has now been done for three years) again also pointed to a positive impact of ESG integration on outperformance, amounting to about 20% of alpha on average over four years. The impact of ESG on the investment cases in the research universe of our China team is substantial. In 2020, a country premium was added in 93% of cases, and the ESG analysis has an impact on one of the value drivers (growth, margins, cost of capital) in 76% of cases.

What about impact?

In 2020, Robeco kept on further developing and innovating its sustainability approach and its offerings for clients. Active ownership, which has been an important part of our sustainability approach for more than 15 years now, has paid off. In 2020, we had 941 engagement activities with 222 companies. We were able to close 67% of our engagements successfully.

For example, in 2020 we closed our auto engagement theme with nine car manufacturers in the US and Europe with a 66% success rate. The engagement aimed at encouraging companies to innovate for a low-carbon transportation future, ensure effective quality management and impeccable product quality, and increase transparency on lobbying activities. In addition to quarterly updates on our website, this Stewardship Report gives insight into our Active Ownership team's work in the past year.

The carbon intensity[2] of our investment strategies fell in 2020. Our climate data scientist has worked on developing a tool that shows the carbon emissions for all scopes over all of our strategies. This tool shows that the carbon footprint across our fund range has come down for all data providers and across almost all metrics. As Robeco has announced its ambition to achieve net-zero greenhouse gas emissions across all its assets under management by 2050, this is a trend that will continue in the future.

Lastly, for our thematic strategies that are part of our impact investing range, we are developing impact indicators to measure ESG performance of the companies that we invest in. For example, we estimate that the RobecoSAM Smart Energy strategy3 is associated with the generation of 109 gigawatt hours of renewable energy and the avoidance of 70,170 tons of CO_2, which is the equivalent of taking 26,000 cars off the road each year. It should be noted though that measuring companies' impacts and attributing these to the strategy is not an exact science and requires many assumptions. More about this can be read in our magazine SIX. and in the monthly portfolio manager's updates of our thematic strategies.

What's on our clients' minds?

At the end of 2020 and the beginning of 2021, we conducted a series of feedback sessions on sustainability with 10 global clients, talking to institutional clients and wholesale partners. ESG has been put firmly on the agenda of our clients' management boards. The fact that ESG has become mainstream has become clear, since most of our clients do have a specialized sustainability/ESG committee in place, to whom operational responsibility for implementation of ESG policies is delegated, while the ultimate responsibility for policy setting and oversight remains at executive board level.

The use of exclusions/negative screening to avoid doing harm is widely accepted and, next to regulation-driven exclusions such as controversial weapons, values-driven categories like tobacco and thermal coal have now been added to the list by many of our clients. The use of financially material environmental, social and governance criteria has become standard practice, and many of our clients now want to move beyond the mere adoption of relevant extra-financial ESG information in the investment due diligence process and set increasingly higher requirements on the portfolio composition in terms of sustainability metrics.

Given the lack of opportunities to get pure exposure to 'ESG solutions providers', impact investing for many of our clients is limited to relatively small, dedicated strategies (often in private equity). Nevertheless, a growing number are looking at ways to bring impact investing to the core of their portfolios, by investigating how exposures to (some of) the 17 SDGs could be integrated into their existing (liquid) investment strategies.

Looking ahead to the coming years, our clients' key ESG ambitions can be summarized in the following three items.

1. Climate change: help mitigate the negative effects of global warming through reduced carbon footprints. A number of our clients are explicitly committing to net-zero carbon emissions by 2050, and starting the process of devising Paris-aligned carbon pathways.
2. Further promote ESG integration by putting higher demands on taking financially material ESG criteria into account in investment strategies. Many clients mentioned the need for a higher quality and consistency of ESG data to allow more reliable monitoring of their portfolios.
3. Clients are increasingly embracing impact investing by seeking societal benefits alongside acceptable financial returns, with the 17 SDGs providing a useful framework for the alignment of their ambitions with potential investment solutions. Although climate change is by far the top priority, the Covid-19 crisis has driven higher interest in social issues such as labor rights and equal opportunity as well.

Onwards and upwards

Now that ESG has become mainstream, we can look forward to increasing knowledge, research, data and collaboration across many areas in SI. This is very much needed. We believe that Robeco is very well positioned for this, with the creation of the SI Center of Expertise in 2020, and the innovative strides made by our portfolio management teams to drive forward sustainable and impact investing. We look forward to working together with our clients to help them achieve both their financial and sustainability goals in 2021, as well, by delivering superior investment returns and solutions.

[1] These numbers are taken over the period since Inception of the fund in September 2019 to end 2020. The methodology used to calculate ESG attribution, is more of an art than a science. Well aware of this daunting task, the approach we took was quite simple. We attempted to quantify both the valuation impact of ESG on our investment cases as well as the attribution from the exclusion of controversial companies.

[2] carbon emissions scope 1 and 2 divided by revenue

[3] https://www.robeco.com/docm/pmup-smart-energy-general.pdf

Robeco's Approach to Stewardship

Carrying out stewardship responsibilities is an integral part of Robeco's Sustainable Investing approach. Here, we outline the framework behind our global program.

A central aspect of Robeco' s corporate mission statement is to fulfil its fiduciary duty to clients and beneficiaries. Robeco manages assets for a variety of clients with a variety of investment needs. In our activities we always strive to serve our clients' interests to the best of our capabilities. Robeco's stewardship policy is closely aligned with our investment mission, which is to use research-based, quality driven processes to produce the best possible long term results for our clients. Therefore our stewardship activities are aimed at long term value creation in our investments.

Resourcing Stewardship: Robeco's SI Center of Expertise

In 2020, Robeco united its Sustainable Investing (SI) focused investments professionals under one umbrella in

a single SI Center of Expertise. The SI Center of Expertise consists of four pillars: SI Thought Leadership, SI Client Portfolio Management, SI Research, and Active Ownership. The SI Center is led by Robeco's Head of Sustainable Investing, Carola van Lamoen.

Within the SI Thought Leadership pillar, specific expertise has been added in the areas of climate change and the Sustainable Development Goals (SDGs).

The Active Ownership team is responsible for all engagement and voting activities undertaken by Robeco, on behalf of our clients. This team was established as a centralized competence center in 2005 and consists of 13 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. This diversity provides an understanding of the financial, legal and cultural environment in which the companies we engage with operate.

The division of work within the team is based on the three ESG components: Environmental, Social and Governance. Robeco's Hong Kong-based governance engagement specialist is responsible for local market engagement, where we have found that having resources locally leads to a greater level of corporate access and engagement success.

The Active Ownership team is part of Robeco's Investment Division, and is headed by Carola van Lamoen, who reports directly to the Executive Committee.

SI Center of Expertise

Pillar	*Focus and Expertise*
SI Thought Leadership	The main function of the SI Thought Leadership team is to maintain and advance Robeco's thought leadership on sustainable investment. The team of SI Strategists focus on value-add research and publications, SI quality control and knowledge sharing, both with clients and internally. Key focus areas include climate change and the UN Sustainable Development Goals (SDGs). In addition, the team coordinates Robeco's connections with academia and to ensuring continual embedding of our SI work in academic research.
SI Research	The focus of the SI Research team is on the generation of high-quality sustainability research related to companies and sectors. To ensure a close connection between research and investment activities, an SI Research board consisting of senior members of both the research and investment teams, discusses and monitors focus, prioritization and quality of SI research.
Active Ownership	The Active Ownership team is responsible for voting and engagement activities. The team votes the equity positions for Robeco's equity funds and the equities of our clients. Robeco's voting policy is the leading document for instructing proxy votes on corporate governance related topics. The Active Ownership team consults with different investment teams to make a well-informed decision on investment related agenda items. The Active Ownership team takes the lead on Robeco's engagement program, covering equities and fixed income. Many engagements are done in collaboration with the different investment teams. On an annual basis the Active Ownership team collects the input from all stakeholders (including investment teams and clients) to prioritize engagement efforts and reports on progress made.
SI Client Portfolio Management (CPM)	The SI CPM team acts as the centralized source of information to support Robeco's commercial activities and to deliver first-class client sustainability services to clients. The team works closely together with Robeco's existing CPM's and sales teams on SI related matters, as well as providing masterclasses, workshops and presentations in support of our commercial activities.

Governance of Stewardship and Sustainable Investing

Different parts of the organization have responsibilities in executing and overseeing Robeco's stewardship efforts.

The responsibility for implementing SI is allocated to the most senior level within the investment department. The CIO Fixed Income and Sustainability is member of the Robeco Executive Committee and is ultimately responsible for Sustainable Investing. A dedicated committee called the Sustainability and Impact Strategy Committee (SISC) with members from various departments in our organization allows Robeco to oversee, coordinate, and drive sustainability matters from a company-wide perspective, and has the authority to approve policies, and set practical guidelines for the implementation of Robeco's Sustainable Investing strategy. The final responsibility for the exclusion policy lies with Robeco's Executive Committee. The SISC decides on the implementation of the exclusion policy and is advised by relevant specialists of Robeco.

Robeco's portfolio managers and investment analysts are responsible for adequate ESG integration into the investment process. Robeco offers clients a variety of investment solutions over various assets classes. Investment processes, risks, opportunities and investment exposures differ between these solutions related to this. As a logical consequence ESG analysis, type of data used and the impact of ESG matters on investment decisions and investment universe differs per investment process. The investment teams have developed and customized ESG integration processes that add value to their own investment processes, as outlined in Robeco's Sustainability Policy.

Even though assets are managed with different strategies and investment objectives to fit clients' needs, there is a companywide philosophy that companies (and countries) that act in a sustainable way towards the environment, society and all its stakeholders are likely to be more able to deal with a variety of issues in the future of their business or endeavors. As an asset manager we give shape to this philosophy via a set of policies that ensure our adherence to our stewardship responsibilities. These policies are documents outlining and guiding our behavior on ESG integration, Voting, Engagement with investee companies, and Exclusions, as well as our Code of Conduct.

Active Ownership

At Robeco, we believe that engagement and voting are critical elements of a successful Sustainable Investing strategy and can improve a portfolio's risk-return profile. We target a relevant subset of companies globally in our clients' equity and credit portfolios for a constructive dialogue on environmental, social and governance factors.

Resourcing Stewardship - Meet Robeco's SI Thought Leaders

Key focus areas for the SI Thought Leadership pillar of the SI Center of Expertise are climate change and the SDGs. Our SI and SDG Strategists aim to advance the state of sustainable investing and its contribution to the global goals.

Jan Anton van Zanten, SDG Strategist

Jan Anton is SDG Strategist in the Robeco Sustainable Investing Thought Leadership team. He contributes to Robeco's strategy and thought leadership on the SDGs and chairs the Robeco SDG Committee. Next to his work at Robeco, Jan Anton is a PhD researcher at Erasmus University Rotterdam.

What did you achieve in 2020 in your role?

"In 2020 the Sustainable Development Goals (SDGs) celebrated their fifth anniversary. The attention that the SDGs have gained in these five years is incredible. However, around the world progress towards their achievement remains to slow, and we must therefore ensure that we translate this momentum into real-world impact. To make this happen we conduct thorough research that informs our SDG investment strategies. For instance, in 2020 we published academic articles that inform our SDG framework (used as a backbone for our SDG Equity and SDG Credits strategies), created an SDG Essentials course that clients can use to learn all about the SDGs and their integration into investment processes, and we looked at the road ahead for the SDGs in our Annual Outlook for 2021."

Why is academic research important for Robeco's SI approach, and where is the key focus for the coming year?

"Academic research is important for us: a research-based approach that takes the latest evidence into account is critical for creating investment strategies that address some of the world's most complex challenges like those targeted by the SDGs. In turn, we also conduct research to share what we learn in practice with the broader world. Our

We distinguish two types of engagement:

Types of Engagement

Engagement Type	*Purpose and Process*
Value Engagement	**Purpose:** Value engagement is a proactive approach focusing on long-term, financially material ESG opportunities and risks that can affect companies' valuation and ability to create value. The primary objective is to create value for investors by improving sustainability conduct and corporate governance.
	Process: We identify potential areas for engagement using our knowledge of trends in the sustainability and corporate governance arenas, assisted by the SI Center of Expertise and service providers. The final selection of engagement areas focuses on financial materiality and engagement impact and is made following consultation with portfolio managers, analysts, and clients. Based on our research, we set SMART objectives for all engagement cases.
Enhanced Engagement	**Purpose:** Enhanced engagement focuses on companies that severely and structurally breach minimum behavioral norms in areas such as human rights, labor, environment and anti-corruption. The primary objective of enhanced engagement is to address reported shortfalls against internationally accepted codes of conduct for corporate governance, social responsibility, the environment and transparency.
	Process: The UN Global Compact and OECD Guidelines for Multinational Enterprises outline minimal behavioral standards that serve as the basis for the enhanced engagement program. The desired outcome is the identifiable elimination and remediation of any breach and enhancements in management processes aimed at avoiding any repeated breach. For each enhanced engagement, we address the same overarching objectives: Elimination of the breach, Policy, Stakeholder dialogue, Risk management systems, Transparency. Remediation is a key element of the elimination of breach in all enhanced engagement cases. An enhanced engagement may finally be escalated with a company's exclusion from Robeco's or our clients' investment universe, if it does not improve its ESG behavior after the engagement has concluded. The process for enhanced engagement is a formal part of Robeco's Exclusion Policy.

research agenda for 2021 will see us investigate the impact of investment strategies on the SDGs, while we will also survey how SDG (and ESG) investing strategies influence risk and returns, and we will study urgent challenges like climate change and biodiversity. "

Jacob Messina, Senior SI Strategist

Jacob Messina is Senior SI Strategist. In his role, he focuses on enhancing the ability of our investment teams to integrate sustainability into their investment decisions. Jacob is a member of the SASB Standards Advisory Group covering the Healthcare sector.

What is a key achievement in your role you are proud of in 2020?

"December 2020 marked the three year anniversary of the launch of Robeco's first SDG strategy, RobecoSAM Global SDG Equities, based on our proprietary SDG Framework. This was followed by several SDG credits strategies and in 2020 we grew our AUM in the SDG pillar meaningfully, all using this same methodology. We also developed a new technology platform to improve the efficiency of our processes and the Framework will be used for compliance with the SFDR Article 9 regulation. A tremendous amount of research across various teams has gone into development of the SDG Framework and it is very rewarding to see how well it has been received by clients."

What is your central focus for the coming year?

"In 2021, we will develop three research projects in collaboration with the investment teams. First, we want to build upon the ESG attribution work done by Chris Berkouwer for Global Stars, to answer the question of what real world contributions does ESG integration make to our equity funds. We then want to develop a similar attribution approach to understand the value added from ESG integration in credits. Finally, in our SDG Framework we deviate significantly from the benchmark because we avoid certain sectors and companies with significant controversial conduct. Clients frequently ask if we expect any long term impacts from this approach, so we plan to create a historical data set to help us better understand the specific impacts of the approach."

EUR 259 billion

Assets under engagement

EUR 115 billion

Assets under voting

246

Number of engagement cases

7,802

Number of shareholder meetings voted

222

Number of companies engaged

81

Number of markets voted

67%

Number of cases closed successfully

65%

% Meetings with votes against management

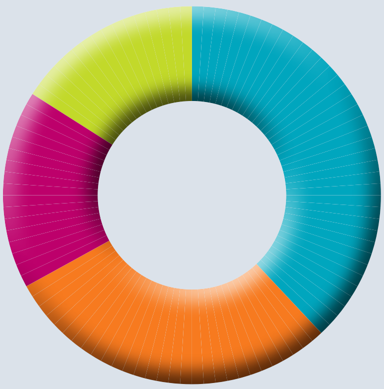
23

Number of engagement themes

76,781

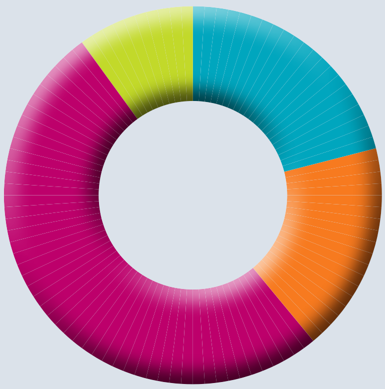
Number of proposals voted on

Engagement activities by region



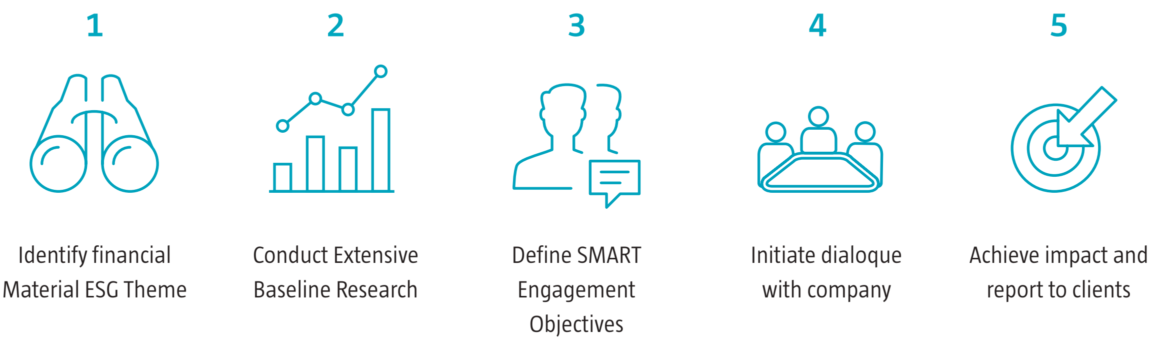
North America	38%
Europe	29%
Emerging Markets	17%
Pacific	16%

Shareholder meetings voted by region



North America	21%
Europe	18%
Emerging Markets	51%
Pacific	10%

Figure 4 | **Robeco's five steps for SMART engagement**



Building on our founding philosophy that every investment strategy should be research driven, we undertake extensive research for every engagement we undertake, always focusing on the most material ESG factors which drive long term company performance. We do this in the belief that engagement with companies in which we and our clients invest will have a positive impact on both long term investment results and on society.

For both types of engagement, we establish specific, measurable objectives. Our engagements typically run over a three-year period, during which we have regular contact with company representatives. We track progress against the engagement objectives set.

Our engagement approach is built on three building blocks:
1 The extensive engagement track record of the Active Ownership team;
2 Sustainability expertise of the SI Research team;
3 Robeco's asset management capabilities.

This integrated approach, focused on knowledge sharing and leveraging our financial and sustainable investing expertise, places us in a unique position within the asset management field.

Engagement Theme Selection

The Active Ownership team selects new engagement themes every year in a structured way, in close consultation with clients and Robeco's investment teams. The themes always focus on financially material topics that address environmental, social and governance (ESG) issues in a variety of investable arenas. The materiality analysis is conducted by Robeco's Sustainable Investing Research team. Each theme focuses on 10-15 companies, and typically runs over a three-year period during which our engagement specialists have regular contact with company representatives to discuss sustainability risks and opportunities. Sectors and client holdings are an important input in the selection of companies under engagement. Another informative strategy to

The role of our clients

We actively gather input from our clients on a structural basis to ensure the engagement themes we design are relevant for our clients and their beneficiaries. To ensure that our active ownership activities keep pace with the sometimes changing requirements of our clients, and therefore remain relevant to them on an ongoing basis, we utilize an annual client panel as part of our engagement theme selection process.

During the panel, a long list of potential engagement themes is presented, along with a high level engagement plan. The client panel plays a central role in setting our engagement agenda. An additional key input in the generation of the long list is the feedback of clients received during the year in individual client meetings. Client feedback is therefore actively sought at multiple points during the process.

In addition, throughout the year, Robeco organizes client events to share insights on our recent SI activities. Among other themes related to ESG Integration, these events feature presentations that give more insight in the engagement process, share the results of ongoing or closed engagement themes and provide updates on new sustainability trends. The feedback we receive following these events allow us to gain further input from clients on the current engagements we undertake on their behalf.

Figure 5 | **New Engagement Themes in 2020**

	Theme	*Outcomes Targeted*
Environmental Engagement	Biodiversity	In line with the Financie for Biodiversity Pledge, our aim is for companies to reduce their negative and increase their positive impacts on biodiversity.
Environmental Engagement	Lifecycle Management of Mining	We call on mining companies to improve disclosures on their performance on key environmental issues at the asset level, and urge them to take further action to mitigate adverse impacts.
Environmental Engagement	Net-Zero Carbon Emissions	We focus on smooth decarbonization journeys for the four key emitting industries: oil and gas, electric utilities, steel and cement by encouraging companies to take climate change mitigation actions and secure their long-term license to operate.
Governance Engagement	Corporate Governance in Emerging Markets	With targeted objectives for engagement in each market, we aim to improve governance standards to create value by reducing the risk premia for the equity markets and companies targeted.
Governance Engagement	Responsible Executive Remuneration	We aim to ensure that remuneration committees align executive incentives with shareholders' interests, regulatory requirements, and other stakeholders' expectations.

ensure relevant engagement case selection is through our work together with other institutional investors in joint initiatives, such as Climate Action 100+.

On a quarterly basis, we select cases for enhanced engagement. We screen news flows for breaches of the UN Global Compact principles and OECD Guidelines for Multinational Enterprises. These principles cover a broad variety of basic corporate behavior norms around Environmental, Social and Governance topics. Our portfolio holdings and investment universe are screened on 1) validation of a breach of the UN Global compact principles, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue.

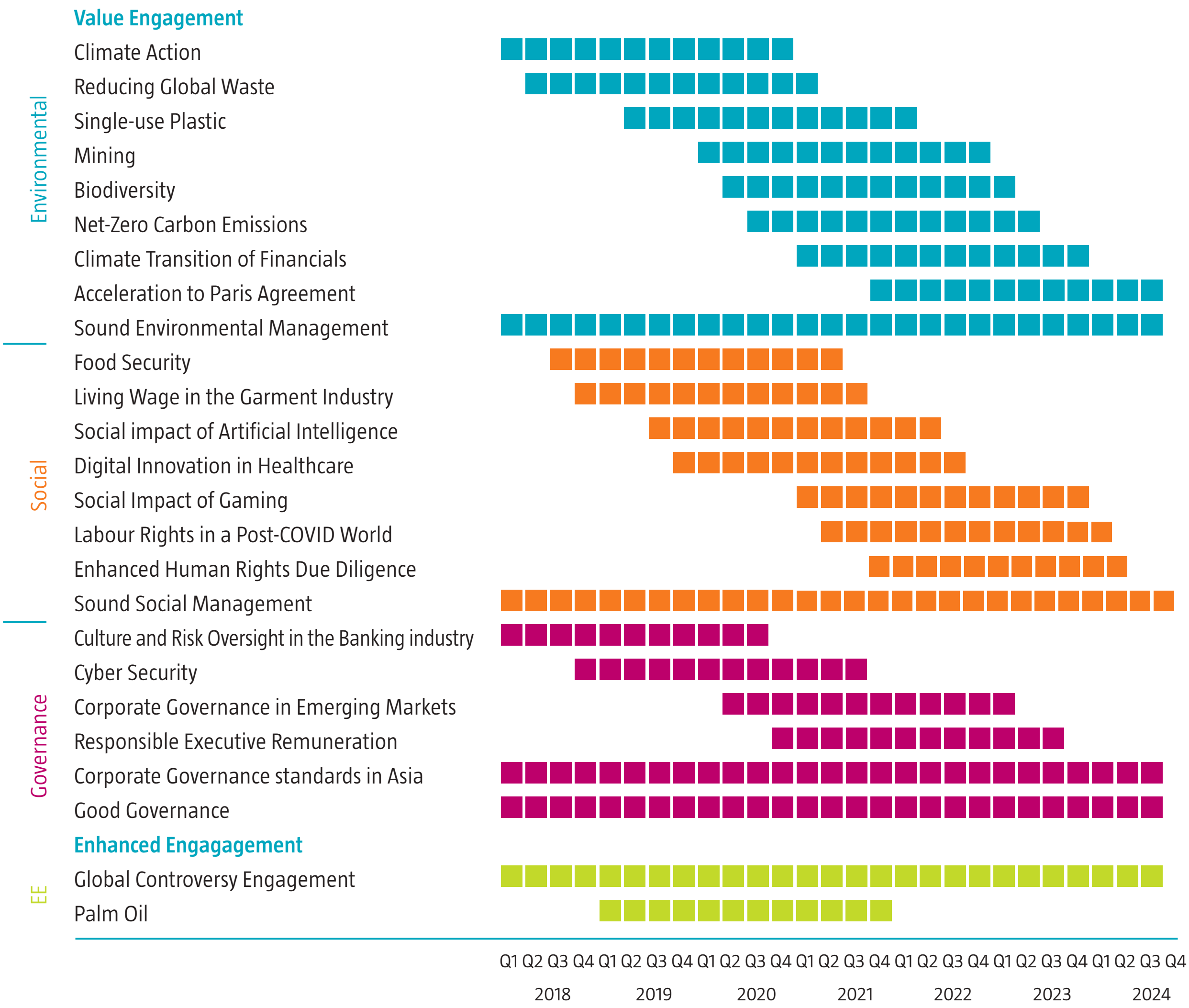
Outcome-oriented engagement objectives on Biodiversity

In 2020, Robeco signed the Finance for Biodiversity Pledge and launched a Biodiversity engagement theme. Rather than simply seeking more disclosure on impacts on biodiversity, we expect the companies under engagement to make concrete commitments to managing these impacts. At the core of our engagement program is our 'Zero Deforestation' objective, which asks companies to set policies towards 'Zero Deforestation' which should include a timebound commitment and a clear definition of what their definition of zero deforestation entails.

Objectives are set at the beginning of the engagement process. This forms a key part of the engagement theme research stage, and ensures that we begin engagement with a thorough understanding of the materiality of the ESG issue in question, the company's current performance on and exposure to the issue, and their baseline performance on the engagement objectives set. Each time we are in contact with a company, we discuss the progress towards the objectives.

Throughout our engagement across themes, the outcomes are shared with our investment teams and our clients,

Figure 6 | **Engagement Themes in 2020**



which contributes to better-informed investment decisions.

Effective engagement channels

Engagements usually start by explaining our engagement objectives to a company's 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. Senior management or non-executive board members are also involved in our discussions.

In 2020, the Active Ownership team was largely constrained to engaging through written correspondence and conference calls, due to Covid-19. Nonetheless, our engagement intensity (as measured by the number of engagement activities per case) increased during the year. That helped us achieve notable engagement successes by building up and maintaining constructive relationships with companies under engagement.

When and how we escalate

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 our clients can decide to exclude a company from its investment universe. 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.

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 and OECD Guidelines for Multinational Enterprises.

Do exclusions work?

Exlusion or divestment is a tool that is widely used by investors in taking a stand against an objectionable practice, such as producing tobacco or weapons. However, it simply transfers the problem from one owner to another and may have little effect on the firms in question, research by Robeco shows.

Many believe that investors can contribute to a more sustainable world by divesting from firms with the worst sustainability profiles, according to the research. But because exclusion is effectively a transfer of ownership from concerned to less-concerned investors, it is anything but obvious how this is supposed to lead to changes for the better in society. Using active ownership techniques may be much more effective in contributing to positive change.

Read more in our Insight Exclusions may simply be transferring a problem

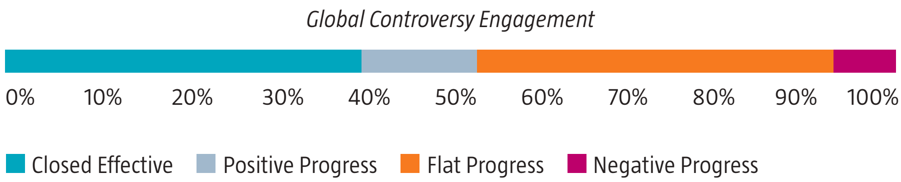
As an investor we have several rights that can be used for stewardship purposes. The right to voting and to engagement are preferred options for our activities. Other rights such as the right to file a shareholder resolution, to nominate a director, or to take legal action, are considered in the context of our engagement and only used in a secondary or escalated stage of the engagement.

Case Studies: Outcomes of escalation in 2020

In 2020, Robeco successfully closed an enhanced engagement with a mining company. The company was considered to be in breach of UN Global Compact principle 1 due to the exceptional loss of life among workers following a series of explosions at a mine and a history of similar fatal health and safety incidents.Through three years of engagement, the company set ambitious health and safety targets to be achieved by 2025, implemented various health and safety risk measures such as increased training and investment in technical safety system upgrades. Our engagement also focused on access to remedy for affected stakeholders. The company response included support to deceased workers' families and survivors, amongst others through compensation payments and professional retraining.

But not all escalated engagements prove effective. A manufacturer of pharmaceuticals was engaged for breaching OECD Guideline number 5 on consumer protection, due to its involvement in the opioid crisis. In late 2020, the company filed for bankruptcy. As the company's stock will be canceled, we will no longer be able to continue our dialogue.

Global Controversy Engagement progress in 2020



Engaging with policymakers

Engagement with governments, government related agencies, or regulators can add value to our engagement program. Therefore, we take part in consultations and provide feedback on regulations that facilitate a better or level playing for ESG issues.

In 2020, the importance of sovereign engagement in addressing systemic and market-wide risks grew, and materialized in several direct engagements with governments. For example, having identified biodiversity loss as a systemic threat to society and the economy, we engaged with the Brazilian government, including the Vice President, on deforestation in the Amazon.

Transparent policy framework

The policy framework guiding Robeco's stewardship activities is publicly available via our website. Our overarching Stewardship Policy covers our approach towards transparency in our stewardship activities, our policy for managing conflict of interests and ethical conduct, how we monitor investee companies, and the verification of our stewardship procedures and activities. The Stewardship Policy lives side by side with our Sustainability Policy, covering the processes for ESG integration in our investment strategies and positions on thematic sustainability issues, as well as internal sustainability.

Robeco's Engagement Policy is integrated within our Stewardship Policy and provides further information on what we expect from investee companies, how we engage with companies, and how we communicate on our progress. The Stewardship Policy also includes our Proxy Voting Policy, which sets out guidelines that ensure we vote proxies in the best interests of our clients. These guidelines apply to all proxies voted on behalf of Robeco funds and the majority of discretionary mandates. For some mandates, we implement a client's own voting policy.

Key updates during the past year

Our stewardship and sustainability policy framework, including all individual policies on engagement, proxy voting, thematic approaches, and organisational sustainability, is subject to a formalized annual review process. The aim is to evaluate whether our policies continue to meet best practice in the industry and reflect our internal processes accurately. The Active Ownership team coordinates the review within the SI Center of Expertise, monitoring any updates to signed stewardship codes or SI-related memberships that may imply certain commitments. In 2020, a notable development was the publication of the revised International Corporate Governance Network (ICGN) Global Stewardship Principles. The Japanese Stewardship Code and Taiwan Stewardship Principles for Institutional Investors were also updated.

The Sustainability and Impact Strategy Committee (SISC) verifies whether proposed updates to policies and reporting fully meet Robeco's stewardship responsibilities as signatory or member of codes and initiatives, and the Compliance department is informed of the results of the annual update cycle. The SISC formally approves the changes to be implemented.

As outlined in Robeco's 2019 Stewardship Report, we planned a consolidation of policy documents in the past year. This took place in December 2020 to bring together our Engagement and Proxy Voting policies in a single Stewardship Policy. Our ESG Integration, Climate Change, Human Rights, Diversity, and Palm Oil policies were consolidated into one Sustainability Policy.

It is important to us that clients and other external stakeholders have an accurate view of Robeco's stewardship and sustainable investing practices. We believe these amendments have further improved their ability to understand Robeco's stewardship approaches and how they have been put into practice by providing all our stewardship-related policies in a single place. Updates in the coming year will continue to be driven by compliance with EU regulation.

Stewardship in fixed income

Robeco's active ownership program spans across several asset classes, and in some circumstances, engagement approaches may differ for equity and fixed income portfolios. As stated in our Engagement Policy, 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.

An example of this differing approach in the past year has been our engagement with automakers on product quality. With strong interest in the topic from Robeco's fixed income team, and a history of product safety-related recalls in the industry, one of the objectives in our ESG Challenges in the Auto Industry theme was customized towards the priorities of our credits analysts.

Even though proxy voting, as elaborated on later in the report, is a more widely recognized form of stewardship, Robeco is also active in exercising our rights and responsibilities that result from holding fixed income assets.

As a global asset manager, we are familiar with the systemic difficulties in seeking amendments to terms and conditions in indentures or contracts. The lack of an organized and efficient channel to structurally engage issuers on these topics has led to the creation of the European Leveraged Finance Association (ELFA). Robeco holds a seat on ELFA's board, and is actively involved in setting the agenda for improved market transparency in the high yield and leveraged finance market. The aim is to organize buy-side parties to ensure we can make use of our rights.

Besides working with our peers to work towards a better functioning bond market, our day-to-day processes incorporate the need for close scrutiny of prospectuses and covenants. All fixed income analysts are trained in reading and interpreting covenant language, with senior analysts directly responsible for analyzing terms and conditions of transactions. Building expertise in this field is vital, and Robeco organizes regular trainings for analysts conducted by external experts from ratings agencies and law firms.

Robeco carefully evaluates the terms of any potential transaction. In addition to our in house legal expertise, we retain an external legal advisory firm for in-depth analysis where needed. Our one-on-one relationship with specialized lawyers gives us full access to their thorough analysis on weaknesses and strengths of proposed terms. Their recommendations provide a useful input for our assessment.

Incentivizing stewardship

Our investment teams are responsible for ESG integration, and their remuneration framework features related KPIs. The strategic importance of sustainability is made clear through internal and corporate communications and significant expansion of SI-related capacity. The launch of the SI Center of Expertise in May 2020 is a notable example of this expansion, demonstrating the importance of sustainability to Robeco's employees. As sustainable investment and stewardship continue to be front and center of Robeco's strategy, all employees will have at least one sustainability-related KPI included in their remuneration from 2021 onwards.

Building confidence through our audit framework

Robeco's stewardship activities are audited on a regular basis. As part of Robeco's annual ISAE report, the external auditor audits our active ownership controls. During this audit, it is assessed whether these processes are robust enough to mitigate potential risks and the effectiveness of the controls is tested.

In addition, our internal audit department is intensively involved in SI and stewardship activities due to these topics' strategic importance for Robeco. SI and stewardship themes are fixed elements of the annual internal audit plan. Internal audits are conducted on a risk-based approach through periodic departmental audits, such as on Active Ownership's voting and engagement processes, investment teams' integration of ESG factors, or Investment Restrictions' implementation of our exclusion policy. Project-based internal audits on SI-related projects, such as Robeco's implementation of the European Sustainable Finance Action Plan, are also conducted.

External recognition

Robeco participates in several governance and sustainability related investor platforms such as the UN Principles for Responsible Investing (PRI), the Asian Corporate Governance Association, the Eumedion Dutch Corporate Governance Platform and many others. Several of these organizations monitor our compliance to their principles or require Robeco to report on the implementation of their active ownership principles. Further, our annual PRI assessment response is audited by our internal audit department each year.

In 2020, Robeco received external recognition of its sustainable investing strength from various sources. Robeco's organisational commitment is underlined by our achievement of A+ scores in all applicable PRI modules and our recognition in the 2020 PRI Leaders' Group. The Leaders' Group 2020 showcases PRI signatories that demonstrate a breadth of responsible investment excellence, and that excel specifically in climate reporting. Robeco was also ranked 1st by ShareAction in their 2020 asset manager survey on Responsible Investment Performance. Finally, we were proud to receive the 2020 ICGN Global Stewardship Disclosure Award for asset managers with AUM in excess of GBP 60 bln.

Managing conflicts of interest

Robeco's Stewardship Policy outlines our approach to identifying and managing conflicts of interest. The approach is based on Robeco's 'Conflict of Interest procedure'.

SDG Credits: linking fixed income investing with the Sustainable Development Goals

Assessing a company's contribution to the SDGs can present challenges. Robeco has developed a comprehensive proprietary SDG measurement framework with clear, objective and consistent guidelines for dealing with these obstacles. Using this proprietary SDG Credits framework, we can construct credit portfolios that are diversified across issuers and sectors, and which make a clear positive contribution to the SDGs, while also delivering attractive financial returns for our investors. Furthermore, our SDG screening can help reduce downside risks in credit portfolios, as it separates the wheat from the chaff and prevents investors from investing in companies with outmoded business models that have come under severe pressure.

In 2020, we conducted an attribution analysis on our SDG Credit strategies to evaluate how the SDG measurement framework adds value in practice. In particular, the results were assessed in the wake of the Covid-19-related market and economic crisis. Our analysis found that a quarter of the RobecoSAM Global SDG Credits strategy's cumulative outperformance in the year to November 2020 was directly attributed to the SDG screening, through avoiding the bad names and favoring companies with a positive SDG contribution.

Read more in our Insight The link between ESG and performance: SDG Credits stands the test

In 2020, in the normal course of the Active Ownership team's stewardship activities, some potential conflicts of interest were identified and managed according to the stewardship policy. These involved, for example, executing proxy votes at the AGMs of (prospective) clients or affiliates of Robeco. In order to avoid the potential conflict of interests involved in electing directors on the board of Orix Corporation, Robeco's mother company, we refrained from voting at the Orix Corporation AGM on behalf of Robeco's and our clients' shares.

A further example was the Active Ownership team exercising proxy votes at the AGM of a new client during the year. After informing the Compliance department, we applied our standard voting procedure and voting policy, ultimately voting against an executive remuneration proposal. We were satisfied that the business relationship did not threaten the objectivity of our stewardship activities and vote decision-making.

In order to ensure ethical conduct in our engagement with companies, Robeco also follows a clearly defined process if material non-public information is obtained. For instance, members of our Active Ownership team who were involved in the process of nominating a board director at a Brazilian company followed our Stewardship Policy to avoid dissemination or abuse of non-public information. Robeco's Compliance department was informed, which established a Chinese wall around these individuals and issued a trading block for the relevant securities.

Data providers that support smart stewardship choices

Our Active Ownership team acts as Robeco's in house competence center on stewardship in the form of voting and engagement. RobecoSAM is our proprietary source of ESG research, supporting our ESG integration in investments and stewardship activities. In carrying out our responsibilities to meet clients' stewardship needs, we also take into account information received from various service providers.

Externally sourced data is only used as a starting point for further analysis within Robeco's investment and Active Ownership teams. This is the case, for example, for research and voting recommendations provided by our proxy voting advisor, Glass Lewis. Robeco has implemented a rule-based custom voting policy that drives recommendations in line with the guidelines set out in our Proxy Voting Policy. The Active Ownership team then reviews and validates these recommendations to ensure the incorporation of company-specific circumstances and accurate implementation of policy.

The SAM Corporate Sustainability Assessment (CSA) from S&P Global continues to be an important input in Robeco's investment strategies. Robeco maintains a voice in the further development of the CSA methodology, ensuring that the data we use meets our high standards by supporting good stewardship and investment decisions.

These high expectations are also embedded in our approach to monitoring our proxy voting advisor. Glass Lewis was selected to provide proxy voting services after a thorough benchmarking and RFP process that included the three major providers of proxy voting services. We perform annual due diligence to ensure operational integrity, quality of research and implementation of both Robeco's custom voting policy and our clients' voting policies.

Transparency towards our clients and the public

Transparency is a key element of Robeco's Active Ownership activities. Robeco's sustainable investing efforts including status updates on voting and engagement are reported publicly on a quarterly and annual basis. Robeco's voting decisions are disclosed on an ongoing basis on our website. With these reports, stakeholders are informed periodically on how Robeco meets its stewardship responsibilities.

Depending on each client's individual requirements, Robeco shares a wide variety of stewardship-related reporting. This includes reports featuring statistics and highlights, which can be publicly shared with clients' individual beneficiaries. We also provide more detailed reporting on individual engagement cases on a confidential basis. With this information, we support our clients in fulfilling their stewardship disclosure requirements through various channels.

Engagement: Climate Change

- **Key engagement themes in past year include Climate Action, Net-Zero Carbon Emissions, ESG Challenges in the Auto Industry, and Climate change and well-being in the office real estate industry**
- **Engagement efforts lead to tangible results**
- **Robeco advances Climate Stewardship beyond engagement through Net-Zero ambition and innovative fixed income strategies**

Climate Action

With the adoption of the Paris Agreement in 2015, the world has committed to curbing greenhouse gas emissions in order to contain rising global temperatures to well below 2°C by the end of the century. In the event that society fails to limit global warming, the world – and therefore industries – will be increasingly exposed to physical risks. This includes damage to land, buildings, stock or infrastructure as a result of climate factors such as heatwaves, drought, rising sea levels or flooding.

The energy transition entails a risk to some sectors of financial losses arising from volatile adjustments to asset values, or the higher costs of doing business. Companies that are able to adapt will be the winners of this transition.

Our Climate Action engagement theme with 13 companies in the oil and gas, electric utilities and chemical sectors entered its final stretch in 2020. Our engagement encourages companies to integrate climate-related issues into their organization's governance, strategy, risk management, metrics and targets.

We have aligned this engagement with the UN's Sustainable Development Goals, targeting SDG 7 on Affordable and Clean Energy, and SDG 13 on Climate Action. We assess companies' contribution to these SDGs by looking at their scores allotted by the Transition Pathway Initiative (TPI). In this analysis, companies' management quality and emissions performance are assessed to determine their incorporation of climate issues in their corporate strategy, emissions targets, strategic risk assessment and executive remuneration.

A key element of this engagement program is our collaboration with global investors through the Climate Action 100+ initiative (CA100+).

goals, or allocating climate change oversight responsibility to the board.

Another goal of our engagement is to ensure that our focus companies have aligned their business strategies with the Paris Agreement. We expect companies to set targets and implement strategies to achieve them. Around 75% of our companies under engagement have made positive progress in the alignment of their business strategies with the goals of the Paris Agreement. According to TPI's research, three companies are aligned with emissions reductions pledged by governments as part of the Paris Agreement via Nationally Determined Contributions. Two companies are aligned with the more ambitious climate scenario of 2°C.

Focus on corporate lobbying on climate

Research suggests that many companies in heavy-emitting sectors are pursuing lobbying practices that aim to block or significantly weaken effective climate policy, either directly or via industry association memberships. Research by InfluenceMap has found that only a few focus companies have clearly supported the development of climate policies.

Around 90% of companies assessed hold memberships in industry associations that have opposed climate policies.
In our engagement, we have focused on securing enhanced disclosures on climate lobbying practices, and have urged companies to align their

We continue to act as (co-)lead investor at Enel and Royal Dutch Shell, have taken the lead at CRH in early 2021, and collaboratively engage on the world's top emitters in the oil and gas, chemical and utilities sectors.

Our engagement achievements so far

One of our objectives is that we expect companies to implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities, and to explicitly show the management's role in assessing and managing these climate-related issues. Nine of the companies have shown clear board responsibility for climate change risks and opportunities and were able to demonstrate a sound climate change management system. Areas where the lagging companies could improve the most are linking their executive compensation to climate change

Engagement Case Study

As part of our Climate Action engagement program, in May 2020, Robeco played a role in getting a former wind power executive appointed to the board of the Italian energy company Enel. He will contribute to moving Enel away from its exposure to fossil fuels and towards renewables in an effort to make the company carbon neutral by 2050.

There is a need for board directors to build up their climate expertise. This can be done through training provided by company experts, accessing external advice or appointing board directors with expertise in areas that are key for the company to succeed in a low-carbon economy.

We are not looking for academics or scientists to sit on boards. On the contrary, we believe that industry knowledge and expertise is critical to understanding what an industry might look like in a low-carbon economy, and how the business models will need to change in order to adapt to new emerging needs.

Board self-assessment will be an important tool for them to identify potential gaps in skills or expertise among their members and update the profiles needed. So far, our engagement efforts have revealed that only a small minority of boards are assessing their composition from a climate-related expertise perspective.

Read more in our Insight Appointing directors of climate change lobbying positions with their own climate change policies. So far, one of the companies under engagement has reviewed its membership of industry associations following the publication of their corporate lobbying report, even dropping memberships if there were significant misalignments.

The challenge ahead is clear

Many investors continue to request that companies set targets that are compatible with, and can stress test their business against, a scenario limiting warming to 1.5°C by 2100, with limited or no temperature overshoot. In practice, this means aligning emissions reduction targets with scenarios that achieve carbon neutrality by 2050. It is encouraging to see that an increasing number of business leaders are committing to a low-carbon future and are setting net-zero targets by mid-century. But more action is needed.

As the move towards setting net zero targets by 2050 is imminent, our engagement activities going forward will be first and foremost focusing on achieving this net zero emissions objective with our target companies.

Net-Zero Carbon Emissions

In order to achieve carbon neutrality by 2050, total carbon emissions need to fall by around 45% from 2010 levels by 2030, according to the World Energy Outlook report published by the International Energy Agency. The Intergovernmental Panel on Climate Change (IPCC) confirms this outlook, saying that once this 45% reduction has been achieved, the world must then continue to reduce emissions to achieve net zero carbon by 2050.

As investors in high-emitting companies, engagement is a robust and critical tool to ensure that companies, key industries and the global economy are on a transition pathway that is aligned with the need to limit global warming to 1.5°C. In light of this ambition, in Q4 2020 we began our 'Net-Zero Carbon Emissions' engagement program that will run for three years.

A smooth decarbonization journey

The aim of the engagement program is to encourage companies to begin a smooth decarbonization journey and thereby ensure their long-term license to operate. Following the introduction of the new Net Zero Company Benchmark by Climate Action 100+, we have identified eight engagement objectives. We will seek to better understand how companies view the transition, and what their main challenges are.

At the same time, we will inform them of our expectation to have strategies in place to decarbonize their businesses and the products they sell. Lastly, we will call on them to make science-based commitments to climate action, ensure a just transition, and improve their disclosure on emissions-related topics, including their cost-benefit analyses of making the transition to net-zero.

We will focus on 13 companies in four key industries that account for a significant share of global carbon emissions at either end of the spectrum. On the one hand, we will focus on the energy producers, i.e. oil and gas, and utilities. On the other hand, we will focus on the high energy consuming industries such as cement and steel. We believe that focusing on both the energy producers and consumers is essential for the transition.

More action is needed in the form of engagement

The net-zero transition needs to be catalysed, especially within the hard-

Investor Spotlight
Thomas Guennegues: Equity Analyst, Robeco Trends and Thematic Equities

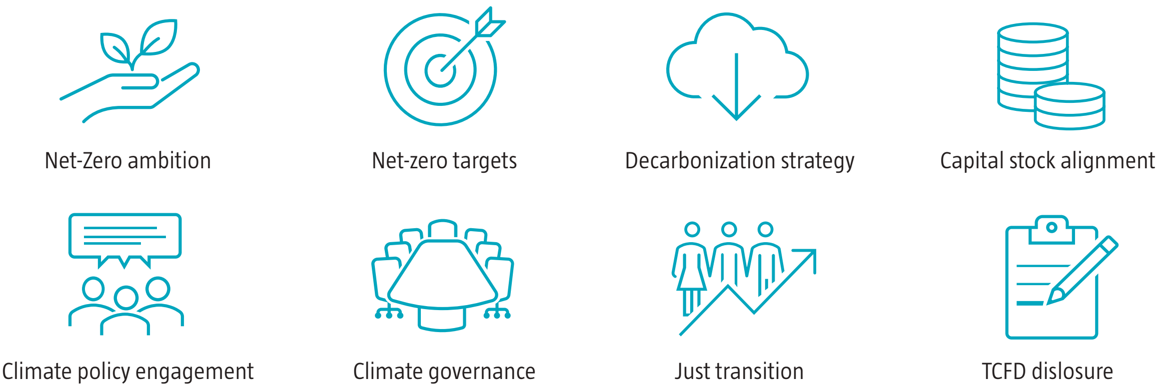
The EU has long had significant aspirations for the decarbonization of its economy. It was one of the first regions globally to implement a carbon trading mechanism. These ambitions were again revised materially higher in 2019 with the announcement of the European Green Deal.

The Covid-19 crisis has now accelerated this agenda even further as the decarbonization efforts will be used as a way to support the economy after the contraction. The EU Commission President Ursula von der Leyen presented the 2030 Climate Target Plan at the State of the Union on 16 September 2020. This states that the 2030 decarbonization targets are going to become even stricter, aiming to reduce greenhouse gas emissions by 55% to below 1990 levels by 2030 and net zero by 2050. This is a major increase compared to the former target of an "at least 40%" reduction by the same time. To achieve this target, the EU will be using a variety of levers and tools such as increasing the amount of renewable energy, promoting energy efficiency, and supporting and broadening carbon pricing. This new proposal, in line with the Paris Agreement objective to keep the global temperature increase to below 2°C above pre-industrial levels, will help allow a better planning for industrial participants.

To reach the EU's 2030 Climate Target Plan a large increase in the share of renewables in the energy mix is necessary, and we see investment opportunities in companies that develop products and solutions for renewable energy, energy efficiency, distribution, and management, as well as electrification.

Read more in our Insight Step change in climate ambitions in the EU

Figure 7 | **Net-Zero Carbon Emissions: Engagement objectives**



to-abate industries such as cement and steel. The main drivers are forecasted to be electrification, efficiency gains and behavioral changes. So, to encourage further responsible behavior by the companies we invest in, we are continuously stepping up our engagement activities. This is in the long-term interest of not only these companies, but also of our clients and society as a whole. To focus our engagement program on Net-Zero Carbon Emissions, we have articulated our expectations in eight engagement objectives.

Automotive Sector

In 2017, Robeco's Active Ownership team started an engagement program in the automotive industry. The industry is facing new pressures as well as huge opportunities. Carmakers have had to answer fundamental questions related to their future product offerings. This specifically relates to how quickly they are able to shift from the internal combustion engine to alternative powertrains such as electric vehicles, as climate concerns call for zero-emission fleets.

With the shift towards zero-emissions mobility, the automotive industry can play a role in making a positive contribution towards the Sustainable Development Goals (SDGs), in particular to SDG 11: Sustainable cities and communities. Electric vehicles and sustainable transport systems can create environmental and social benefits that can contribute to the SDGs.

As investors, it is important to understand how car manufacturers are dealing with these challenges, how they will address the huge risks, and how they plan to profit from the opportunities that will arise from the transition to automated, connected, electric and shared vehicles. In 2020, we concluded our dialogue with nine focus companies. We observed significant progress throughout our engagement, leading to the successful closure of 66% of the engagement cases.

Zero-emission transport: a treacherous road towards a clear goal

The International Energy Agency's analyses show that the passenger vehicle segment must be overhauled if the world is to achieve the goals of the Paris Agreement. When we launched our engagement, the idea of achieving zero-emission transport was not being seriously considered by any major car manufacturer. Yet, three years later, there is broad industry acknowledgement of this ambition. Policies setting ambitious fleet emissions targets, particularly in the EU and China, have been a critical driving force of change in the industry.

As investors, we have been calling on car makers for leadership in the transition to zero-emission vehicles. This entails taking action to align their business strategy with a net-zero ambition by 2050 or earlier. Robeco engaged with carmakers on this topic both individually and collectively under the Climate Action 100+ initiative. We also played a proactive role in developing engagement priorities as the automotive industry sector coordinator for the Institutional Investor Group on Climate Change (IIGCC).

All companies under our engagement have set targets around emission reduction or electrification of their fleets. However, we also acknowledge that this is a multi-decade transition, and what we are witnessing now is only the start of a long and uncertain road to zero-emission mobility.
Many uncertainties lie ahead for the industry, but carmakers now clearly recognize the need to progressively transform their product offerings into zero-emission vehicles. Meeting regulatory emissions requirements and

Figure 8 | **Driving changes at carmakers**

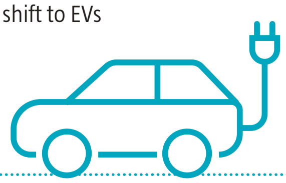
Reaching net-zero emissions by 2050: A multi-decade transition has begun at carmakers

Passenger cars directly account for approximately

7% of global CO_2 emissions

45% of oil demand

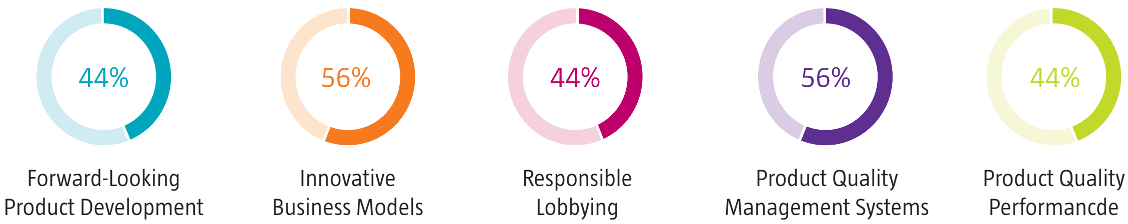
Compliance with emissions regulations requires shift to EVs



Engagement

From 2017 to 2020, Robeco engaged with nine car manufacturers in the United States and Europe. The engagement aimed at encouraging companies to innovate for a low-carbon transportation future, ensure effective quality management and impeccable product quality, and increase transparency on lobbying activities.

During the three years, we were successful with 66% of the companies overall, achieving the following success rates on each of our objectives:



Examples of success achieved through our engagement

Case 1

Two companies committed to net zero emissions by 2050 or earlier, one of them verified its targets against the Science Based Targets initiative. A third company set a science-based target by 2030.

Case 2

One company publicly opposed the roll-back of fleet emissions and fuel economy standards in the US, and demonstrated leadership in reaching agreement on voluntary standards with state of California.

Case 3

German carmaker BMW has committed to compliance with the 2020 EU fleet emissions standards, but can make further progress through net-zero emissions commitments.

maintaining product quality will remain important risks in the years to come. In order to retain investor confidence, carmakers will require timely strategic decisions and transparency on their planned course of action.

Climate change and well-being in the office real estate industry

Because the real estate sector has a large share of the annual global emissions of carbon and other greenhouse gases (over 30%), we have been engaging with this sector for the past five years. Since 2017, we have focused our efforts on the office real estate industry, and concluded this dialogue in 2020.

Having green and healthy office buildings can bring about various economic benefits for real estate companies. As investors, we value those companies that integrate sustainability into their business models to ensure the long-term value creation of the properties in their portfolios. For the real estate industry, we defined five engagement objectives to enhance policies and practices related to climate risks and employees' well-being, and transparency on these issues.

During our engagement, all companies have taken steps to improve their management of climate change issues. For example, one company undertook efforts to instill a net-zero carbon policy for its design construction modules. This means that new projects will decrease emissions by reducing the use of virgin materials and fossil fuels, and lowering the need for material replacements during the building life cycle. For existing projects, this means making buildings repurposable, and replacing energy derived from fossil fuels with renewables.

Engagement Case Study

The real estate sector accounts for nearly 40% of the world's energy consumption and 33% of global greenhouse gas (GHG) emissions. Decarbonizing the sector is not just important to combat global warming; environmentally friendly and healthy office buildings can bring various economic benefits to their owners. Therefore, we initiated a dialogue on climate change-related matters, including the need to promote tenants' health and well-being. A good example of a company that has made progress since 2017 is Boston Properties. The firm joined the Science Based Targets Initiative, committing to align its GHG reduction goals with the twodegree scenario of the Paris Agreement. During the engagement, we encouraged the company (and others) to engage in this initiative, and to aim to design new buildings that meet net-zero carbon and energy standards.

We encouraged companies to strengthen the efficient measurement and reduction of their overall environmental impact, mostly by using an Environmental Management System (EMS). The EMS should cover energy consumption and carbon reduction metrics, and ideally be externally certified according to international standards. Most of our companies showed a fair increase in the floor area covered by energy consumption monitoring, something that we had strongly pushed for within the EMS objective.

Closing the engagement theme with successful results

The research underpinning the successful closure comes from the Global Real Estate Sustainability Benchmark (GRESB). The GRESB is an industry-driven organization committed to assessing the sustainability performance of real estate assets globally. At the end of 2020, we used the GRESB annual assessment to successfully conclude our engagement with all companies in this program.

Climate stewardship beyond engagement

Robeco commits to Net-Zero Carbon by 2050

In 2020, Robeco committed to net zero ambition across all investments. Our carbon neutrality target aims to meet Paris Agreement goals, and followed our other efforts to decarbonize portfolios and engage on climate change.

Robeco's net-zero commitment forms part of moves to meet the goals of the Paris Agreement, which aims to limit global warming to a maximum of 2 degrees Celsius above pre-industrial levels, and more ideally to 1.5 degrees, by the end of this century. This requires the world to become carbon-neutral by 2050 at the latest.

As a pioneer of sustainable investing, the pledge is a logical next step by Robeco in taking sustainability to the next level. It follows earlier moves to expand the scope of Robeco's fossil fuel exclusion policy, and hire a climate strategist and a climate data scientist to further align investments with the Paris Agreement. An updated climate change policy was published in September 2020.

"It is clear from scientific reports about climate change and carbon emissions that society has to act now," says Gilbert Van Hassel, Chief Executive Officer of Robeco. "We cannot solve big problems such as climate change and the rapid decline of biodiversity on our own."

Engagement is also important

In addition to decarbonizing portfolios, Robeco will step up its efforts through active ownership to focus more heavily on engagement, targeting those companies that are falling behind in the transition.

Two out of five engagement themes to be launched by the Active Ownership team in 2021 will target high-carbon companies that are falling behind in their transition to lower-carbon business models, and the climate commitments of banks.

The new carbon-neutrality targets will therefore include a combination of reducing emissions, tailored solutions such as green bond strategies, and highly focused engagement. Robeco will also work together with and advise its clients on decarbonization goals that are in line with the ambition it has set for itself.

International groups

Robeco is a signatory to several international organizations that are committed to tackling climate change, including the Climate Action 100+

Resourcing Stewardship - Meet Robeco's SI Thought Leaders

In 2020, Robeco's new SI Center of Expertise added the SI Thought Leadership pillar to our arsenal, in order to maintain and advance our thought leadership on sustainable investment. A particular focus of our new additions to Robeco's SI resources is our work on climate.

Lucian Peppelenbos, PhD, Climate Strategist
Lucian is Climate Strategist within Robeco's SI Center of Expertise. The focus of his work is on Robeco's climate change strategy. Lucian has a professional background in commodity supply chains and corporate responsibility. He earned a PhD in social-economic sciences at Wageningen University, and has published various books.

What is a key achievement in your role you are proud of in 2020?
"My 2020 at Robeco was actually only a quarter, but I had a flying start with a number of immediate highlights. In December we announced our net zero ambition and we launched the fixed income Paris-aligned strategies. Less visible to the outside is that we restructured the Climate Change Committee and swiftly took a number of important decisions to migrate to a new carbon data system. Finally worth mentioning is the joy of meeting many new colleagues as well as a significant number of clients, all of this in a virtual reality, which worked out surprisingly well."

What is the central challenge of Robeco's climate work in the coming year?
"My top focus in 2021 is to deliver Robeco's Net Zero Roadmap with interim targets for 2025, ahead of the UN Climate Summit in November. How do we get to net zero emissions by 2050? The easy part is to set a carbon footprint reduction target for the portfolio. The challenging part is to do this in such way that we have real-world impact. This means that across our portfolio we assess the ability of companies to decarbonize and flourish in the transition, and we make that central in our investment decisions and engagement and voting. This is the central challenge of our climate work in 2021."

group; the Platform Carbon Accounting Financials; the Task Force for Climate-Related Financial Disclosures, and the Transition Pathway Initiative (TPI). In the Netherlands, Robeco is a signatory of the Dutch Climate Accord for financial institutions.

Our Sustainability Networks webpage elaborates further on our joint efforts.

Robeco launched two innovative climate-focused fixed income strategies
In the past year, Robeco's commitment to climate-oriented solutions was underpinned by the launch of RobecoSAM Climate Global Credits and RobecoSAM Climate Global Bonds. These actively managed strategies are the first global fixed income strategies to be fully compliant with the EU benchmark regulation for Paris-aligned investments.

RobecoSAM Climate Global Credits invests globally in corporate bonds with explicit climate targets that contribute to the goals of the Paris Agreement. The strategy starts with a 50% lower carbon footprint than the broader corporate bond market, and aims to decarbonize 7% per year while outperforming its Paris-aligned benchmark.

RobecoSAM Climate Global Bonds comprises a global aggregate portfolio of fixed income assets. The strategy aims for a lower carbon footprint relative to the global investment grade bond universe and an average of at least 7% decarbonization per annum, while outperforming its Paris-aware benchmark.

The strategies will be measured against newly created climate indexes, developed jointly by Robeco and Solactive using an innovative approach since these benchmarks are not yet available to the market. Climate change considerations are fully integrated into the investment process and portfolio construction, and engagement carried out by Robeco's Active Ownership team is also part of the strategy.

Engagement: Biodiversity

- **Biodiversity is the next big challenge besides climate change**
- **Robeco commits to play role in protecting biodiversity**
- **Engagement theme and task force support efforts**

Loss of biodiversity is a bigger threat than climate change

Biodiversity represents the knowledge learned by evolving species over millions of years. It reflects the ability of animals and plants to survive the vastly varying environmental conditions that Earth has experienced. It encompasses life in all forms, from genes to entire ecosystems. The interactions played by these different elements have ensured that the Earth has been habitable for millions of years. Yet biodiversity is declining faster than it has at any other time in human history: the current rate of extinction is tens to hundreds of times higher than the average over the past 10 million years.

Biodiversity loss is posing a systemic risk, of which investors should become aware. As we find ourselves at the doorstep of the sixth mass extinction, both businesses and regulators have a huge role to play in shifting paradigms about who pays for the externalities created by 'business-as-usual'.

Frontrunners in ESG are working together on this topic

Many investors are currently focusing on climate change and developing metrics to measure, manage and monitor climate risks and opportunities in their portfolios. However, given the growing body of evidence on the large impact that biodiversity loss will have globally, we believe more effort should be put into measuring the biodiversity impact of portfolios.

In the Netherlands, several investors are collaborating in the Partnership for Biodiversity Accounting Financials (PBAF) to develop such metrics. They aim to create a framework for financial institutions to consider and address the biodiversity impact of their portfolios across asset classes. We also actively participate in working groups organized by other financial market participants, such as the Dutch central bank.

Robeco is also one of the 26 financial institutions from around the globe that have signed the Finance for Biodiversity Pledge. In the Pledge the signatories call upon world leaders to reverse nature loss this decade and commit to collaborating, engaging, assessing their own biodiversity impact, setting targets and reporting on biodiversity matters by 2024 at the latest.

Robeco's Governance of Biodiversity

As signatories of the Finance for Biodiversity Pledge, we commit to several timebound, concrete actions to assess and manage our biodiversity impact. We believe it is vital for these actions to be overseen by robust internal governance. Our Sustainability Policy outlines the role of our Biodiversity Taskforce. The Biodiversity Taskforce forms part of Robeco's formal sustainability governance, and is responsible for developing Robeco's biodiversity policy and targets, and for developing our approach to integration of biodiversity metrics in the investment processes. The Taskforce is chaired by Robeco's Climate Strategist.

Biodiversity engagement theme launched

Recognizing the importance of active ownership in this area, Robeco started an engagement theme on biodiversity in 2020. Land use change is one of the major contributors to biodiversity loss, and much of this is driven by crop commodity production. Therefore, our engagement will focus on the impact on biodiversity of deforestation that is linked to five high-risk crop commodities – cocoa, natural rubber, soy, beef, and tropical timber and pulp.

Figure 9 | **Engagement spotlight: Biodiversity Loss Linked to Deforestation**

Biodiversity loss leads to economic loss and is thus a financial risk. Companies and investors are potentially exposed to transition, physical, litigation, regulatory and systemic risks.

Biodiversity is rapidly declining at an unprecedented rate in history

Biodiversity loss is one of the major global ecological threats impacting society in the coming decades. More than half of the world's GDP is dependent on nature and its services and the unprecedented loss of biodiversity places this value at risk.

Agricultural land use change is a key driver of biodiversity loss

Investors are exposed to risks stemming from biodiversity loss predominantly via land use change as a result of deforestation through clearing land for expansion of agricultural production.

High-risk commodities contributing to deforestation

Commodities such as beef, soybeans, timber, pulp, rubber and cocoa are major drivers of deforestation. They collectively account for more than half of tropical deforestation-related GHG emissions[4].

Focus

Our engagement program focuses on the impact on biodiversity from deforestation linked to five high-risk crop commodities. We expect companies to commit to zero deforestation, conduct biodiversity impact assessments, engage in biodiversity restoration, embrace a circular approach in their production, improve sustainability reporting and protect both human and land rights in the communities where commodities are sourced from. These are translated into five engagement objectives:

[4] https://www.ceres.org/sites/default/files/reports/2020-06/Ceres%20Investor%20Guide%20FINAL%20June%2029.pdf

Palm oil

Focus on structural improvements

In 2020, our palm oil engagement work focused on companies' involvement in the RSPO and how they are making progress in increasing their percentage of certified plantations. We paid specific attention to controversies, where Liberia stands out as particularly problematic production location. Several palm oil producers established subsidiaries in Liberia around 2009 and 2010. However, systemic risks such as extreme poverty and poor land governance have caused serious human rights and environmental issues, due to the lack of free, prior and informed consent (FPIC), customary rights of local communities that were not respected, and ultimately deforestation of high conservation value forest driving biodiversity loss. We continue to challenge the companies to develop structural solutions to the problems they encounter in Liberia.

Importance of collaboration

We also collaborate with the Dutch Responsible Investing Charter (IMVB) working group on palm oil where we have initiated a collaboration between Dutch pension funds, labor unions, development NGOs and the Dutch government. This program focuses on labor conditions in the palm oil industry in Indonesia and on the human rights issues in Liberia.

As member of the RSPO, Robeco has contributed to the Deforestation working group and actively contributes to the Financial Institutions Consultative Group, of which Robeco will assume chairmanship in 2021. In addition, we continue to be active in the PRI Investor Working Group on Sustainable Palm Oil as advisory committee member driving the engagement strategy of this collaborative engagement.

Policy engagement on biodiversity

Engagement with corporates that have material exposure to high-risk commodities is vital to overcoming the challenges of biodiversity loss. However, governments play an important role, too. Robeco has engaged with policymakers in Brazil and Indonesia on deforestation in 2020 in a bid to foster legislation that manages systemic biodiversity risks responsibly.

Read more in the chapter Engagement: Public Policy from page 52

Finally, we have joined a collaborative engagement using the deforestation monitoring reports from our partner Satelligence to challenge the companies on their risk management systems to discuss the identified cases of deforestation in their supply chain.

The collaboration enables us to identify instances where forests in Malaysia and Indonesia are being cleared to make way for new palm oil trees. The firm accesses data from satellites that can take high-quality pictures from orbit, allowing 'before-and-after' comparisons to be made on a continuous basis.

Building on the annual benchmark of palm oil companies as published by the Zoological Society of London's Sustainability Policy Transparency Toolkit (ZSL-SPOTT), this project now gives Robeco the ability to develop real-time monitoring of the palm oil companies' commitments to no deforestation. By collaborating for this pilot, Robeco can be at the forefront of integrating satellite-derived sustainability metrics into sustainability research to support our investment decisions. Together with Satelligence, we can build a system that can monitor the progress of companies towards 100% RSPO-certified plantations, and drive the transformation to a sustainable palm oil industry.

This is particularly important for the companies we invest in, as they are already producing a significant amount of crops that can be verified against the RSPO standard. One important area of engagement with palm oil producers is their exposure to deforestation and climate-related risks through their supply chain, as they might be sourcing large volumes of the commodity from non-RSPO certified producers. Being able to use the evidence from satellite monitoring in our conversations with companies will enable us to be more precise in our feedback on which parts of their supply chain we deem to be of high risk of breaching our palm oil policy.

Engagement: Responsible Production

- **Covid-19 highlights importance of responsible labor practices**
- **New engagement theme on Mining**
- **SI Center of Expertise Thought Leadership pillar draws attention to corporate contribution to SDGs**

Living Wages in the Garment Sector

The fashion industry has been severely affected by the Covid-19 pandemic due to its discretionary nature, impacting not only garment brands but also their supply chains. According to McKinsey, the average market capitalization of the sector dropped almost 40% in the first quarter of 2020, a much steeper decline than that of the overall stock market. This pandemic has also shifted investor focus on how companies treat their employees, customers and suppliers.

Livelihoods of millions of garment workers at stake

Apparel brands and retailers have been cancelling or postponing orders as the pandemic forced store closures globally and revenue streams shrunk drastically. Dire consequences stemming from this pandemic involve joblessness and financial hardship for people across the value chain. Yet, workers in low-cost manufacturing countries are expected to be hit hardest, given the lack of robust social protection systems in these markets.

Robeco is an active member of the Platform Living Wage Financials (PLWF) investor coalition which encourages investee companies to address the non-payment of living wage in global supply chains. In collaboration with the other members, our engagement has urged companies to respond to the challenges posed by Covid-19 in a responsible manner.

Key asks relate to upholding financial prudence whilst protecting labor and human rights standards in their own operations and across their supply chains. Collaboration with multi-stakeholder initiatives aiming to protect worker rights and offer support to overcome the pandemic is crucial to rebuilding a more resilient and inclusive supply chain.

An important sector-wide initiative was coordinated by the International Labor Organization (ILO) which outlines a 'Call to Action in the Garment Sector'. Global brands, manufacturers, labor unions and other stakeholders can publicly endorse this statement. It aims to catalyse action to support manufacturers to survive the economic disruption caused by the Covid-19 pandemic and to protect garment

workers' income, health and employment. This global action also calls for better systems of social protection to create a fairer and more resilient garment industry.

Industry shakeout

Company responses in our engagement peer group to the Covid-19 pandemic have been mixed. Apparel brands leading the PLWF assessment results have implemented measures to mitigate the impact of the pandemic across their supply chains. For instance, these companies committed to pay for all orders in process or completed, and they endorsed the ILO Call to Action. One company also supported its strategic suppliers in their efforts to secure financing from major banks to maintain their business operations and liquidity.

Yet, on the other end of the scale we noted that some brands in our engagement program have been in

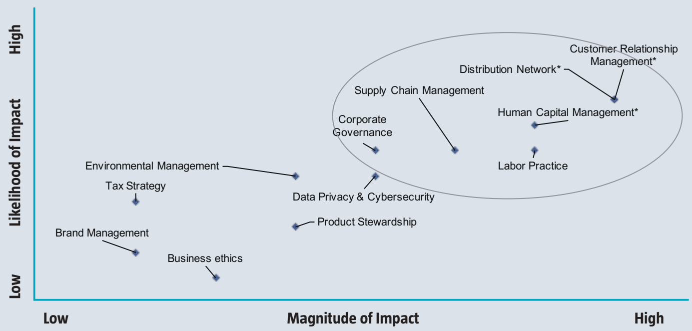
Key takeaways from our annual living wage assessment

Our results show that there is overall progress in embedding the relevance of living wages within the industry. The principal challenge is how to close the gap between commitments that are being put forward by brands, and the actual actions taking place on the ground. Despite widespread acceptance of the need to raise living wages, none of the companies assessed had sufficient processes in place to guarantee the full payment of living wages across its own operations and supply chain.

Financially material engagement

The research and the information gleaned from engagement on labor and supply chain issues are integrated into our in investment decision-making process for the apparel and retail sectors, as these are considered material issues. Robeco's SI Research team conducts materiality analyses to identify key ESG topics per industry.

Materiality Matrix Apparel, Accessoiries, Footwear & Textiles



The magnitude of impact versus its likelihood in the garment industry.
Source: Robeco SI Research

One example is the case of a large DIY retailer. Our discussion about labor practices across the company's operations was important for the portfolio manager of the RobecoSAM Global Gender Equality Impact Equities fund. Covid-19 had a positive impact on the company's sales, which increased significantly due to people spending more time doing improvement work on their houses. However, the company has a very large base of employees working in its stores, including many migrant workers and female employees, with high turnover rates. We discussed with the company how it manages its workforce so as to ensure equal opportunities for employees across different job levels – an important component of the RobecoSAM gender equality score.

Another example is our engagement with two apparel companies which are important holdings for our consumer trends funds. Both companies embody best practices in their business segments (sportswear/luxury), so this led to positive comments in the ESG integration component of the investment case, positively adding to the rationale for holding these companies in the portfolio.

severe financial distress. Several companies have cancelled or postponed their 2019 dividends, whilst others were not able to pay suppliers for completed orders. In more extreme situations, companies had to reduce their headcount across global corporate functions as a cost-cutting business strategy to mitigate liquidity constraints.

The role of SDGs in building more resilient supply chains

Our engagement work on living wages in the apparel sector contributes positively to SDG 1: No poverty and SDG 8: Decent work and economic growth. Working towards fair labor standards and the payment of living wages would achieve SDG target 8.8, aiming to protect labour rights and promote safe and secure working environments for all workers. Strengthening social protection systems, which is one of the key asks from the ILO Call to Action, would contribute to SDG target 1.3, which aims to implement nationally appropriate social protection systems and measures for all.

Preparing for the next assessment cycle

One of the main means of stimulating company progress on paying a living wage is by assessing our investee companies against a robust assessment methodology. This analysis is carried out by PLWF members on a yearly basis and the results are publicly disclosed. Company responses to the Covid-19 pandemic will feature heavily in the assessment.

Food security

Covid-19 is set to lead to a global food emergency that could have long-term impacts on hundreds of millions of people around the world. Disruptions to domestic food supply chains, shocks affecting food production, and the loss of incomes are creating strong tensions and food security risks globally, especially in low- and middle-income countries. According to a World Food Program (WFP) projection, the number of people facing acute food insecurity was projected to double to 265 million in 2020 from 2019.

In our engagement, we focus on companies across different stages of the food value chain, operating in four relevant industries – agrochemicals, food processing and commodity trading, agricultural mechanization, and irrigation.

Fundamentally, all four pillars of food security have been affected by this current pandemic: food availability, access, utilization and stability. To cope with the current crisis, it is of paramount importance to transform small -scale farming into highly productive and sustainable farming systems, taking into account the fact that in food insecure regions, such as Asia and sub-Saharan Africa, 80% of the food supply comes from smallholders.

Delayed progress towards SDG 2: Zero hunger

Our engagement dialogue becomes more relevant as the world is failing to

Linking economic activities with the SDGs

A research paper co-written by Robeco's SDG Strategist, Jan Anton van Zanten, has mapped the impact that economic activity has on achieving the UN's Sustainable Development Goals.

Different types of economic activities impact different SDGs. However, there is insufficient evidence on how individual economic activities interact with the SDGs. This lack of evidence complicates companies, governments, and investors in creating smart SDG strategies that steer towards net positive impacts. This research hopes to help fill this gap.

At an overarching level, the findings reveal that economic activities bring ample opportunities for advancing the SDGs. Most are sources of economic productivity, which directly benefits SDG 8 (decent work and economic growth) or SDG 9 (industry, innovation and infrastructure).

However, negative impacts are widespread, most prominently afflicting ecosystems reflected by SDG 14 (life below water) and SDG 15 (life on land).

Using the nexus approach

The findings can help to improve strategies for investing in, and contributing to, the goals. Scientists and policymakers increasingly recognize that progress on the SDGs can be accelerated through a 'nexus approach'.

Recognizing that progress on one SDG can promote, but also be detrimental to, progress on another SDG, a nexus approach aims to manage the interactions between SDGs in order to advance multiple SDGs simultaneously and reduce the risk that contributions to one SDG undermine progress on another.

Read more in our Insight Linking economic activities with the SDGs

Investor Spotlight - Chris Berkouwer, Portfolio Manager, Global Equity

Investors need to work with miners and not against them to cut carbon footprints. Metal producers remain vital for the transition to the low-carbon economy, supplying the raw materials for electric vehicles among other products, while the world will be reliant on fossil fuels for many years to come. It is therefore more effective to find solutions to decarbonize the much-maligned sector rather than treating it as the 'new tobacco'.

No miner is the same, but even those that have little coal exposure are greatly unloved by investors: they trade at half the valuation levels of other industrial companies, despite having a superior return on invested capital (ROIC), 35% higher dividends and generate one and a half times more free cash flow.

Our modern societies have been built on the shoulders of mining companies; they are the gateway to the wider economy, even in today's tech age. In contrast to a tobacco company, miners and their customers are often part of critical infrastructure, and even deemed to be of 'strategic interest'.

As with all sustainability topics, the issue is not that straightforward. We believe that simple screening or exclusion methodologies do not cut it. When you divest from a company, you transfer the 'problem' to another party that might not care, or might care less, about climate change. That is why we as Robeco apply a large range of strategies and tools, to be as effective as we can to help bring about change.

Read more in our Insight [The paradox of sustainable investing in mining]

turn the tide in the negative trend towards achieving SDG 2: Zero hunger. Even though most companies under engagement recognize their prominent role in strengthening food security systems, only a few embed this responsibility into their core business strategy.

We expect companies to formalize their responsibility to contribute to more resilient food supply systems through their products and services. This would allow companies to tackle a structural developmental issue such as food insecurity, while also tapping into business growth opportunities.

One of the best practices we identified in our engagement links to a business strategy that was redefined by one of the global leaders in precision irrigation solutions. This company has managed to shift its strategy from only servicing commercial farmers growing high-value crops in high-income countries, to also servicing smallholder farmers growing basic crops in middle- and low-income countries.

The key to success was to partner with local governments to roll out community-wide projects to reach the smallholder farmer consumer base. The company's drip irrigation technology helps farmers to double their yields with only half of the water. Systematic impact evaluations of these public-private partnerships were carried out: on top of the improvements around yields and usage of agricultural inputs (i.e. water, pesticides), the company identified an improvement in community capacity building as farmers moved from being smallholders to entrepreneurs. This represents a remarkable example of how companies operating in the food value chain can leverage their expertise to accelerate the SDG agenda.

Lifecycle Management of Mining

Mining companies are exposed to significant ESG issues, as their operations can have significant adverse impacts on the environment and society. There is no doubt that the world needs mining in order to satisfy growing demand for metals and minerals. As our dependency on mining activities increases, so does the need for companies to ensure their operations mitigate environmental and social harm.

In March 2020, we launched a three-year engagement program focusing on three critical environmental issues for the mining industry: water risk, tailings dam safety and asset retirement planning. We call on companies to improve disclosures on their performance at the asset level, and urge them to take further action to mitigate any adverse impacts.

Tailings dam safety in the spotlight

Recent dam collapses in Brazil have brought to light the devastating consequences of poor management of tailing storage facilities. These dam disasters are not only incredibly harmful to the local communities and the environment, but they also have a substantial financial impact on the mining companies involved.

For example, following the Mariana disaster in 2015, in which a tailings dam operated by Samarco collapsed, Moody's placed the debt of the company's co-owner Vale on review for a downgrade as a result of potential liabilities. Additionally, the risk of occurrence is high, as shown by several reports that have come out since these two major disasters. Research by the Church of England Pensions Board (CEPB) and other investors including Robeco has found that more than one-

Investor Spotlight -
David Kägi, Portfolio Manager, Robeco Trends and Thematic Equities
Elina Hokkanen, Analyst, Robeco SI Research
Michal Kulak, Analyst, Robeco SI Research

The boundless appetite for resources, fueled by linear production and consumption patterns, is exceeding the planet's regenerative capacity. Regulatory actions for higher circularity are amplified by consumers opting for circular products. With ongoing innovations and technological advancements, prospects for de-materialization look better than ever.

We have identified four investment clusters that are set to benefit from the transition to the circular economy: the redesign of production inputs, enabling technologies, circular use, and loop resources.

As innovative technologies are helping to unlock new value from the circular economy, the shift to higher circularity is becoming a matter of basic economics rather than a trend driven purely by environmental urgency. Companies pursuing circular business models are set to win from the structural changes ahead, with innovation leaders applying circular economy principles to differentiate their product offering. Forward-looking investors can benefit from this as yet largely untapped growth story by allocating capital to business models aligned with circular economy principles or to the enablers of this transition.

Read more in our Insight Investing in the Circular Economy

third of global tailings dams are at high risk of causing catastrophic damage to nearby communities if they break.

The investor community responded by collaborating under the Investor Mining & Tailings Safety Initiative, which is led by the CEPB and the Swedish National Pension Funds' Council on Ethics, and counts Robeco as one of its members. The initiative calls for enhanced disclosures from mining companies on where and how they have stored their waste.

Integrating the Sustainable Development Goals into our engagement

We aim to contribute to the advancement of the Sustainable Development Goals (SDGs) through our engagement, particularly SDG 6 on clean water and sanitation and SDG 12 on responsible consumption and production. The mining sector can play an important role in mitigating adverse impacts on the environment and can contribute positively to the SDGs by developing solutions for water efficiency and recycling and the management of (hazardous) waste.

The energy transition, and the increasing demand for metals that it creates, must be sustainable in our view. Companies can secure their viability in the long term by adopting responsible mining practices. We as investors call on companies to properly disclose their risks and liabilities, and to take further action if needed.

Reducing global waste

The amount of solid waste that the world produces is expected to rise from the current 2 billion tons a year to 3.4 billion tons by 2050. The rate of growth in waste is more than twice as high as the rate of growth in the world's population, which is expected to rise to 10 billion by the same year.

Tackling this issue will require a coordinated effort from countless stakeholders, and corporates have a significant role to play. Our Reducing Global Waste engagement program aims to encourage companies to fulfil their role in cutting levels of waste, or not producing it in the first place.

Our engagement over the past two years has sought formalized sustainability policies at all companies under engagement. These policies should detail a company's position on various social and environmental issues and the actions taken to address them, while demonstrating a commitment to more than just financial performance.

However, a formal sustainability policy is only as good as a company's governance practices. Poor corporate governance can compromise accountability, which in turn undermines any sustainable initiatives set by shareholders or external stakeholders. Therefore, corporate governance is a primary objective of this engagement program, because we recognize its importance in holding companies accountable to their own policies.

Another core aim of this engagement program is for companies to have a quantifiable contribution to the Sustainable Development Goals. One such goal is SDG 12, which seeks "to achieve the environmentally sound management of chemicals and all wastes throughout their life cycle". Attaining this goal requires an understanding of data collection methods that would allow companies to measure their waste management. We will continue to encourage progress on these objectives as we conclude our engagement in early 2021.

Engagement: Responsible Consumption

- **Plastics engagement progresses well**
- **Sugar engagement closes successfully**
- **Product portfolios must be aligned with SDGs**

Single-Use Plastic

Plastics have become a resource used in nearly every part of our modern economy, combining superior functional properties with low cost. Their use has increased twenty-fold since the 1970s and is expected to double again in the next two decades.

While delivering many benefits, the current use of plastic packaging has drawbacks that are becoming more apparent by the day. Apart from the many environmental problems that are caused by plastic waste, there are also many economic consequences of this kind of pollution. For example, marine litter is already affecting tourism by making certain areas less attractive to go to, and thus decreasing economic prosperity in coastal areas.

Aim of our engagements

To address these issues, in 2019 we started an engagement program that aims to encourage companies in the plastic packaging value chain to move to a circular economy model. We expect companies to collaborate with each other along the global plastic value chain, as well as with governments and NGOs, to achieve systemic change towards creating a more circular plastic packaging system. Furthermore, we aim to improve supply and demand for recycled plastic.

Good progress in our engagement

Our engagement targets 10 companies within the industry and covers the full plastic value chain, from four chemicals companies to six in consumer packaged goods. We discussed the companies' efforts and progress in relation to five engagement objectives: innovation, recycling, plastic harmonization, responsible lobbying, and industry collaboration and partnerships. We found that most companies were able to show good progress on three engagement objectives: innovation, responsible lobbying and industry collaboration and partnerships, but were lacking on recycling and plastic harmonization.

One example of positive progress regarding industry collaboration is a company that developed refillables for the Latin American and Caribbean market. It leverages this together with the Ellen Macarthur Foundation, an NGO which promotes the concept of a circular economy.

Sugar's role in coronavirus fatalities

The sugar content of food and drinks played an unseen role in the Covid-19 death toll. Food companies need to accelerate plans to take sugar out of their products, as it is a major cause of obesity and diabetes, which has made people more vulnerable to dying from the coronavirus.

Research by the UK's National Health Service shows that one-third of the people who died from Covid-19 had either Type 1 or Type 2 diabetes, a condition in which the body can't make its own insulin, requiring lifelong treatment. In the US, researchers found that people with diabetes who contracted Covid-19 were twice as likely to die within a week than non-diabetic patients.

Over the course of our program, all companies under engagement made good progress on product reformulation, which led to a 10% drop in the sugar content on average.

Read more in our Insight Sugar's role in coronavirus fatalities

An example of strong innovation is a company that is helping its customers to recycle. The company has developed a unique recycled content material called Sustane, a polymer which sets new standards in recycled plastics and is designed to deliver consistently high levels of technical performance across a wide spectrum of applications. Sustane polymers have already been successfully introduced into packaging applications such as shrink film for beverages and industrial bags.

Developments in recycling flexible packaging and SDGs

We have seen some improvement in the level of attention that our companies are paying to the SDGs. Following our engagement conversations, we are pleased to see that some companies are now mentioning the goals in their CSR reports, and that they continue to work on how to measure and report their contributions to the SDGs in more detail. We believe that more integration of the SDG goals by the plastic companies into their thinking will lead to clearer guidelines and policies, and will therefore make an impact.

Social risks of sugar

In July 2017, we began an engagement program with eight companies in the food and beverage industry to encourage them use less sugar in their products. The engagement called on them to speed up product reformulation and innovation to ensure a successful business model in the long run. We also discussed how these companies can provide more transparency around their lobbying activities and ensure that their marketing is responsible.

We have seen good progress by our companies under engagement on product reformulation, while our objectives on innovation management and labelling saw more limited results.

Contribution to the Sustainable Development Goals

The lack of a broad adoption of significant product renovation and substantial innovation towards healthier product portfolios is of concern to us. A lack of progress in these areas leads us to be very cautious when it comes to our SDG assessments in the food industry. We continue to see an over-reliance on highly processed foods with a high sugar content that runs the risk of significantly contributing to obesity.

Only a very small number of companies in our engagement peer group received a positive score in our SDG rating framework, as we assign a negative score to companies which derives more than 5% of its revenues from carbonated soft drinks, or companies that rely mainly on ultra-processed foods.

Figure 10 | **Decreasing the social risk of sugar**

Speeding up product reformulation and innovation to avoid sugar over-consumption is material.

Global sugar consumption growing 1.4% p.a. between 2020 and 2029

The global sugar consumption is expected to grow 1.4% p.a. towards 2029, primarily driven by increasing demand for packaged and sugar-rich products and population growth in developing countries[5].

Global obesity cases nearly tripled betweeen 1975 and 2016

Sugar over-consumption can lead to obesity and other health risks. From 1975 to 2016, global obesity cases nearly tripled. In 2016, 13% of the world's adults were obese and 39% were overweight[6].

More than 40 countries have introduced sugar taxes

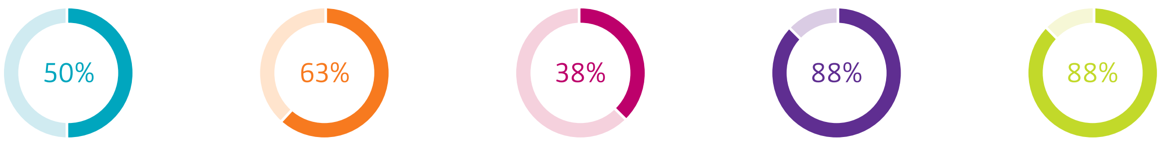
Since 2010, we have seen a steep increase in sugar taxes worldwide. Today, more than 40 countries, including the United Kingdom, have implemented sugar taxes on sugar sweetened beverages[7].

[5] OECD Agriculture statistics (database). dx.doi.org/10.1787/agr-outl-data-en
[6] https://www.who.int/news-room/fact-sheets/detail/obesity-and-overweight
[7] https://www.obesityevidencehub.org.au/collections/prevention/countries-that-have-implemented-taxes-on-sugar-sweetened-beverages-ssbs

Engagement

From 2017 to 2020, Robeco engaged with eight food and beverage manufacturers located in the United States and Europe. The engagement aimed at encouraging companies to speed up product reformulation and innovation, increase transparency on lobbying activities, and ensure responsible marketing and good labelling practices.

During the three years, we were successful with 75% of the companies overall, achieving the following success rates on each of our objectives:



Innovation management | Product reformulation | Product labelling | Responsible marketing | Responsible lobbying

Examples of success achieved through our engagement

Case 1

One company developed a new trademark recipe for its main product with 30% less added sugar.

The new recipe has removed approx. 280,000 tons of added sugar globally while increased sales by 2.2% in 2019.

Case 2

One company was limiting no direct advertising to only children under the age of six.

Now they comply with the new Children's Food & Beverage Advertising Initiative and have stopped marketing products disapproved for marketing to children under the age of 12.

Case 3

One company committed to actively participate in the establishment of the Sustainable Food Policy Alliance.

The alliance focuses on consumer transparency, nutrition, environment, food safety, and strong, diverse and healthy workplaces.

Engagement: Technology

- **Slow progress with Big Tech and increasing cybersecurity risks**
- **Digital human rights in the face of a global crisis gives rise to dilemmas**
- **Healthcare becomes priority for investors in 2020, digitalization is a long term trend**

Social impact of Artificial Intelligence

The benefits of artificial intelligence (AI) are promising and include increased efficiency, scale and the speed of decision-making. AI can also have applications for social good. However, various social issues have already surfaced showing that AI's ethical development and deployment cannot be guaranteed unless these concerns are appropriately addressed by users.

At the end of 2019, Robeco's Active Ownership team started to engage with companies on these issues, with the aim of promoting best practices in the evolution and use of AI systems. In our initial conversations, some companies challenged the relevance of the issue, or would not take accountability for it. That stance already seems to be changing somewhat, however.

Facial recognition moratorium in the US

Some of the companies in our engagement peer group are involved in the development and sale of facial recognition technology. In our conversations, we often hear that regulation should set clearer expectations around the use of such technology to avoid misuse.
One of our key engagement asks for these companies is to have in place 'acceptable use' policies to ensure that their products are used in a responsible way by their clients. In June 2020, following protests in the US over racism and biased policing, major US developers of facial recognition technologies announced a (one-year) moratorium on selling it to the police until the government passes federal legislation to regulate it. The moratorium might create additional urgency for regulation in this area. It certainly forces developers of this software to take a stance on the issue.

Outlook for 2021

A recent report by the Ranking Digital Rights (RDR) project – a key resource for investors – warns that 2021 will likely see increasing global threats to digital privacy, security and freedom of expression and information.
RDR expects that the materiality of digital rights-related risks will only

grow as geopolitical and regulatory pressures mount. We agree with this outlook and indeed note more support for regulation both in the US and the EU. The European Commission, for example, recently launched a consultation process for a new Digital Services Act, aimed at protecting users' rights and bolstering competition.

We will continue to engage with the companies in our peer group on accountability when developing or using AI. This includes the need for strong board-level oversight and due diligence to identify and mitigate social impacts. In the first quarter of 2021, an updated RDR ranking will be published with a specific focus on the digital human rights impacts of algorithms and advert-targeting technologies. This will be an important tool for the second year of our engagement under this theme.

Protecting digital human rights in post-Covid-19 era

In the Covid-19 crisis – as with many other material ESG topics, by the way – digital human rights are being put to the test. On the one hand, apps to track down infected people can save lives and help unlock societies, in turn helping the economy. On the other hand, if it is not done carefully, people's privacy is at risk.

At Robeco, we recognized many years ago that data privacy posed a material business risk for internet and telecom companies. Some business models are completely built around gathering, using or selling consumer data. Cybersecurity and the social risks of artificial intelligence (AI) are subsequently issues that we focus our attention on when it comes to digital human rights. Exposure to these issues can badly impact their business, so good management of them can set companies apart.

Therefore, in our fundamental investment processes, we systematically analyze how companies are managing these issues. To assess these risks, we examine not only the strength of the editorial and information security policies, but also the processes and outcomes when it comes to breaches and fines. Some companies are also more transparent on these outcomes than others.

In our investment analysis and engagement efforts, we focus on imminent risks or challenges, and we ask companies to build knowledge at board level, and to implement robust policies and processes that will respect human rights in this increasingly digitized world. We also ask them to be transparent if they encounter issues or breaches.

Read more in our SI Opener
Protecting digital human rights in the post-Covid-19 era

Engagement Case Study

The 2020 voting season showed an increasing number of shareholder proposals focused on digital human rights. Robeco co-led the filing of a shareholder proposal at Alphabet's AGM asking for a Human Rights Risk Oversight committee to be established, comprised of independent directors with relevant experience. Some 16% of shareholders voted in favor of our resolution, which is a substantial part of the non-controlling shareholder votes.

In November, 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, and is a first step towards getting this in place on specific sustainability related issues, such as human rights.

Cybersecurity

When we began to engage companies on their management of cybersecurity in 2018, we knew companies were facing a clear and present danger to their business models from lax cybersecurity practices. The risks grew in 2020. As companies scrambled to adjust to a new way of working under Covid-19, hackers and others with malicious intent sought to find vulnerabilities in their systems. During the year we spoke with the companies under engagement about how the pandemic affected their business.

Companies in the telecommunications sector were happy to share their experiences, having been able to match the steep increase in demand to accommodate the increase in digital working and benefited from their efforts to centralize their cybersecurity organization in recent years. Additionally, the companies had already started to adopt more flexible working agreements in recent years so they were well prepared to go from office to home work without compromising security. The companies expressed how they experienced the pandemic as much as a challenge as well as an opportunity to test their readiness and push their planned investments forward.

The telecommunications sector was by far the most optimistic about the influence of the pandemic on their business, but companies in the payments sector also saw opportunities. The pandemic catalyzed digital payments in many countries previously hesitant to adopt this new technology. As their digital operations grew so did their commitment to cybersecurity. Almost across the board payments companies reported growing their cybersecurity workforce to accommodate the growth of their business. Our engagement also found that various companies also appointed additional executives with explicit responsibility for cybersecurity and privacy. Additionally, investor engagement and client demand has led to an increase in disclosure on the topic of cybersecurity and broader ESG topics in general.

Covid-19 and Digital Innovation

During 2020, we spoke with 13 healthcare companies in our program, and an additional three companies on behalf of a group of investors that signed a call for international co-operation within the pharmaceutical industry to combat the coronavirus.

Next to addressing the asks outlined in the investor statement, in the light of digital innovation, we have particularly encouraged firms to:

- Engage in data-sharing partnerships with public partners while maintaining high safety standards
- Build virtual clinical trials with a focus on efficiency and higher inclusivity
- Collaborate with innovative partners, such as mobile payment providers, to enhance access to needed care in middle- and low-income countries

Digital innovation cannot singlehandedly solve the challenges we face in terms of combatting the virus. However, we believe that digitalization can aid in reducing ineffiiences, improve accessibility, and therefore contribute to SDG 3: Good health and well-being.

Digital Innovation in Healthcare

In 2019, Robeco launched the 'Digital Innovation in Healthcare' engagement program. The aim of this program is to gain perspectives on the current state of digitalization within the healthcare industry and to encourage companies to explore opportunities which mitigate related risks. In the three-year engagement period, the focus of our dialogues are centered around five objectives that focus on the implementation of a digital strategy, improving sector collaboration and ensuring the highest cybersecurity standards.

With the outbreak of the Covid-19 pandemic, this engagement theme has become even more relevant in 2020. Since the outbreak and societies closing, the healthcare sector has been struggling to conduct business as usual. As the virus continues to spread, laboratories of all sizes realize the importance of providing digital tools to manage their teams, clinical trials and to communicate with the healthcare professionals and monitor their patients.[8] The onset of the Covid-19 pandemic has not only fast-tracked the adoption of digital technologies in the healthcare sector but also forced companies to overcome their non-technological barriers to adapt to the new context and sustain themselves. Such changes are likely to continue to shape the industry in the post-pandemic era.[9]

Meanwhile, 2020 was also characterized by a large increase in cybersecurity attacks. Recent reports show that already in November and December 2020, there was a 45% increase in cyber-attacks on healthcare organizations globally, more than double the percentage rise in attacks on all industry sectors worldwide over the same period.[10]

Therefore, the main emphasis of engagements in 2020 has been on managing and mitgating the systemic risks related to cybersecurity and utilizing digital opportunities to improve business efficiency and outcomes. Leaders have shown to be at the forefront of driving progressive data standards in the industry, in collaboration with governments. In addition, the leaders are pro-actively supporting third parties to mitigate digital risks and maintain high levels of board awareness, and have dedicated experts committed to both digitalization and access.

[8] Euris, How COVID-19 crisis triggered digital innovation in pharma industry?, 2020 (Link)
[9] Xcub LABS, Accelerating innovation in healthcare: How COVID19 is shaping digital transformation in the healthcare industry, 2020 (Link)
[10] https://www.hipaajournal.com/healthcare-industry-cyberattacks-increase-by-45/

Engagement: Corporate Governance

- **New program addresses the unique corporate governance challenges in emerging markets**
- **Engagement on risk governance in banking sector extended**
- **Executive remuneration engagement theme builds on regulatory momentum**

Corporate Governance in Emerging Markets

In 2020, Robeco started a new engagement project focused on emerging markets. Engagement in these markets can be challenging for investors based in the US or Europe, for a variety of reasons. Engagement might be less institutionalized or common, local governance provisions are different, and are likely to provide investors with less-effective tools with which to hold management to account.

Yet, over the years we learned from experience that smart engagement can be effective in these markets. For our new project, we have chosen to engage with companies in three emerging markets: China, South Korea and Brazil. Besides corporate engagement in each market, in order to deal with more systemic issues in these markets, we will work through policy engagements. For our corporate and policy engagement, our work will focus on a selection of five issues, namely:

- The limited influence of minority shareholders
- Capital allocation practices
- Conflicts of interest in decision making
- Lack of independent oversight
- Poor disclosures for the international capital markets.

Engagement in China

Our engagement in China will focus on issues where we believe we can make a difference, instead of selecting issues which would oppose structural factors. For example, we are initially focusing on improving corporate disclosure rather than addressing how the state sets state-owned enterprise (SOE) strategy. Our broad policy engagement includes conversations with regulators and listing exchanges in Hong Kong, Shenzhen and Shanghai.

Engagement in South Korea

South Korea is one of the lowest-ranked countries for its corporate governance in the Asia-Pacific region. Our policy focus areas for South Korea include improving minority investors' rights, the issuance of dual-class shares, and mergers and acquisitions.

Engagement in Brazil

Brazil has many unique governance issues that minority investors need to consider. Many companies are

Spotlight: Transforming Corporate Governance in Asia engagement theme into a rolling program

Whereas our Corporate Governance in Emerging Markets theme targets three specific countries, the Active Ownership team's Corporate Governance in Asia theme has been part of the program since 2017, capturing in-depth engagements across the continent. In 2020, we transformed the existing Corporate Governance in Asia theme into an ongoing element of our program.

The decision to extend this theme indefinitely was made due to the specific governance challenges investors in Asian markets face, which have no natural end date or conclusion. Our experience has taught us that governance issues in Asia may arise rapidly and require highly tailored approaches. Creating a rolling 'basket theme' therefore affords Robeco the necessary flexibility to accommodate investment team and client requests and engagement needs as they arise.

controlled through shareholder groups, the government, or families/founders. Yet, in Brazil there are also opportunities for engagement. As majority shareholders control most of a company's board, minority investors often have the opportunity to nominate a member to the board. This is relatively common practice and is sometimes even welcomed by the board. A recent example is CCR, a Brazilian transport and infrastructure company which welcomed an investor-led nomination.

Remuneration

In the second half of 2020, Robeco's Active Ownership team conducted a research project into the current state of executive remuneration practices. Based on regulatory changes in Europe, and the momentum for engagement on remuneration in the US, we will engage with a set of our portfolio companies to further improve their remuneration practices.

The principles for the engagement project allow us to communicate clearer expectations for remuneration committees than just voting for or against a proposal or director at the AGM. The focus of our project will be solving the agency problem and aligning the interests of management with those of investors, without creating perverse incentives that encourage excessive risk taking or too much focus on the short term. We will encourage companies to introduce ESG criteria that are relevant and measurable and can be tracked by investors. Transparency and total pay quantum will feature in our engagement dialogues, as well.

What makes executive remuneration a hot topic?

During the 2020 AGM season in the Netherlands, a record number of remuneration policies were voted down by investors. One reason for this is that under the EU Shareholder Rights Directive II (SRD II), all listed companies must have their remuneration policies approved every four years, and the Netherlands requires a 75% pass rate. Meanwhile, for the public, executive remuneration is often a topic of social justice.

Engagement Case Study

In 2018, a new set of Brazilian corporate governance requirements entered into force, covering topics such as board composition and remuneration. In our three-year dialogue with a variety of firms, we discussed their strategies for compliance with the new requirements, and provided feedback. Among others, Brazilian transportation company CCR strengthened its decision-making processes and updated its policy on variable pay for executives. In addition, through an investor initiative led by Robeco, an independent non-executive director was elected at CCR's 2020 AGM. We believe this nomination will support the further improved functioning of the board. Similar conversations with firms in Brazil, China, and Korea will continue under this new engagement theme.

Figure 11 | **Responsible Executive Remuneration**

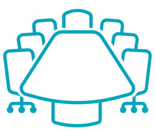
Executive remuneration should be linked to long-term value creation. Robust compensation structures are key for incentivizing the right priorities and rewarding sustainable performance.

Remuneration should align executive interests with those of investors
Executives' stock ownership is key. Equity grants can help align incentives, but unintended consequences like risk-inducing stock options or performance clustering at performance thresholds must be managed.

Material sustainability KPIs can help support long-term value creation
Tying at-risk pay to ESG metrics can cement the proper tone from the top on sustainability. KPIs must be based on materiality assessments and be concrete, measurable, and verifiable by investors.

Regulation in the US and EU provides renewed impetus for improvement
Say-on-pay votes have made headlines in the US for nearly a decade. SRD II has strengthened shareholder's voice on remuneration in the EU. Companies are increasingly open to investor engagement.

Focus
Our engagement program on executive remuneration focuses on companies in the US and EU, across six sectors. This engagement seeks to ensure independent oversight of executive remuneration, improved pay-for-performance alignment through smart use of equity compensation, and reasonable pay quantum and benchmarking. To this end, we are targeting the following four engagement objectives:


Structure and Oversight


Pay for Performance


Equity Compensation


Quantum and Pay Equity

Culture and Risk Oversight in the Banking industry

Over the past three years, Robeco has engaged with nine banks with the purpose of gaining a better understanding of their risk profiles. It entailed a thorough analysis of the most material governance issues of the banking system. This engagement has focused on culture, incentives and risk governance in banks. While our dialogue has provided insights into the internal controls in place and their governance, getting a grasp of their implementation and level of effectiveness remains challenging.

Boards oversee corporate culture, but is their oversight meaningful?
Boards play an important role in overseeing the setting of banks' risk appetite and the implementation of risk management systems. Conduct and operational risks are part of this exercise, and boards are increasingly paying attention to corporate culture.

Most of the banks in our engagement program have allocated the responsibility of overseeing corporate culture to the board of directors or a board committee, so that management sets the 'tone from the top'. What this means in practice varies from bank to bank, but the most common activities conducted by the board include assessing the outcomes of annual employee surveys, regularly reviewing the whistle-blower mechanism, and overseeing implementation of the code of conduct. The outcomes of these assessments are largely undisclosed by most banks.

This is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning
The last three years have given us a sense of making progress with the banks in our program on risk culture, incentives, and regulation. Yet, many of them are still going through a transformation. Regulation is getting stricter on preventing money laundering and many banks are still reshaping their risk approach. In most cases a three-year timeframe is too short to follow an entire improvement program. As a matter of fact, many banks mention that there is no natural end to their improvement program on compliance, risk management and corporate governance.
As we recognize the enormity of the changes that some organizations need

to go through, we will extend the engagement program for one year. Our expectation is that none of the banks will completely finalize their improvement programs. However, we will have a better understanding of how banks have prioritized their risk management programs, transaction monitoring, and compliance with the anti-money laundering directive when they come out of the disruptive Covid-19 crisis. We will continue to report our findings until the end of 2021.

Engaging on priorities for credit holders

Our engagement with the banking sector was a priority for credits investors, as they sought input to improve their understanding of risk management at investee companies. While also relevant for clients and investments teams holding banks' equities, our annual theme selection process for 2017 had shown particular interest for this theme from our fixed income team. The program's focus on risk and prudent governance structures has aligned well with credit investors' specific priorities over the last three years.

With the one-year extension of this theme, we hope to pick up on renewed momentum around these topics and achieve further engagement successes. Ultimately, a key outcome of this engagement is the additional comfort investors can gain from added disclosure and discussion on the challenging topics of risk and culture in the sector.

Engagement: Public Policy

- **Working with public bodies on sustainability issues forms an important part of Robeco's engagement work targeted at systemic risks.**
- **Main policy engagements in 2020 addressed biodiversity and climate risks, in addition to investor rights**

Proxy voting regulations in the US

We participated in a consultation launched by the SEC related to proposed regulatory changes that restrict the ability of shareholders to file resolutions over issues of concern at investee companies. The proposed legislation planned to raise thresholds for prior proposals that were rejected but are resubmitted over time. It also aimed to make proxy voting advisors share their vote recommendation with companies beforehand – potentially jeopardizing their independence – while limiting the time available between publishing the voting advice and the actual meeting. Our feedback pointed out that while some of the suggested amendments could create more focus and accountability towards the stewardship process in the US, other proposed changes could restrict shareholders' rights, and may not be in the long-term interest of minority shareholders.

We also participated in a consultation with the Department of Labor in relation to a newly proposed rule to regulate proxy voting behavior of managers that manage Employee Retirement Income Security Act (ERISA) funds. The proposed regulation would force managers to vote in the financial best interest of their beneficiaries, thereby putting direct pecuniary interests above ESG interests in relation to proxy voting. The rule was officially adopted in December and still includes concerning elements that we addressed in our consultation. The new Biden administration has already recognized the need for this regulation to be reviewed.

Investors Policy Dialogue on Deforestation

The Investors Policy Dialogue on Deforestation (IPDD) is a collaborative investor initiative set up in July 2020 to engage with public agencies and industry associations on the issue of deforestation. Robeco is actively participating in its two workstreams focused on Brazil and Indonesia.

In October, we sent an open letter to the Indonesian government expressing our concerns over the new job creation

law for deforestation activity in the country. So far, the group has received responses from the Vice Minister for Foreign Affairs of Indonesia, Coordinating Minister for Economic Affairs and the Ministry of Environment and Forestry. As part of the group's steering committee, we also participated in meetings with the Indonesian Embassy at the Hague and Tokyo, where the group has raised its concerns to Indonesian officials.

In June, as part of a group of investors representing USD 3.7 trillion in assets under management, we sent an open letter urging the Brazilian government to increase its efforts and commitments to act against rising deforestation rates. The engagement covered five areas ranging from the enforcement of Brazil's Forest Code to enabling public access to deforestation data. After its launch, this engagement has received the support of local investors and the CEOs of 38 corporations. In response, the Brazilian government temporarily banned fires in the Amazon rainforest and the Brazilian Central Bank has launched a 'Sustainability Dimension' in its new agenda. Our engagement with the Brazilian government in 2020 also involved a virtual meeting with the Vice President on the topic.

Improving corporate governance codes in Spain and Japan

We participated in a consultation launched by the Spanish National Securities Market Commission (CNMV in Spanish) on the proposed changes to the country's corporate governance code. We provided suggestions on enhance diversity level requirement beyond the supervisory board, guarantee a minimum level of independence in whistleblower mechanisms, and improve the structure of executive compensation plans.

In March, we provided feedback to Japan's Financial Services Agency on its proposed revision of Japan's Stewardship Code. We recommended that the code is applied by signatories not just to their Japanese equity holdings, but also to other asset classes such as fixed income. The concept and practice of stewardship globally is for investors to adopt an 'ownership' mindset. This does not only apply to domestic Japanese assets but to their entire assets that investors own or manage globally. We recommended that investors apply sustainability/ESG factors to asset classes if (a) their investment mandates specify that they should so, or (b) if their own investment beliefs support the view that including such factors helps them improve their assessment of investment risks and returns.

Environmental policy engagement through the IIGCC

Through our membership with the Institutional Investors Group on Climate Change (IIGCC), and as part of the seven investor networks who founded the Investor Agenda, we delivered a global statement to governments on a sustainable recovery from the pandemic. The statement was signed by the CEOs of the seven investor networks and sets out ways to ensure the economic response to the pandemic is sustainable and supports action to achieve net zero emissions. We also delivered a global statement to governments calling on the US to immediately re-join the Paris Agreement (which it did), and for all signatories to step up their climate ambition to secure a sustainable global economic recovery and net zero emissions future.

In June, we also sent a letter to EU leaders that calls for an economic recovery in the 28-nation bloc that includes maintaining momentum on the Green Deal and sustainable finance agenda, with at least 25% of the EU's long-term budget contributing to climate objectives. The letter was prepared by the IIGCC, in coordination with the Investor Agenda partners in the EU: the Principles for Responsible Investment (PRI) and Carbon Disclosure Project (CDP).

Promoting SI in Emerging Markets

In 2020 Robeco started a new engagement project to improve corporate governance in Emerging Markets. In additional to our dialogues with EM portfolio companies, we have started conversations with several stock exchanges. Our aim is to work together with these bodies to further improve governance practices, in terms of independence, capital allocation, and the position of minority shareholders in their respective markets. Another important topic is to improve ESG reporting and to align ESG reporting practices towards a global standard. In November, we spoke with representatives from the Shanghai

Stock Exchange (SSE) to help improve their oversight of corporate governance practices. Although the SSE is neither private nor listed, they have recognized the need to engage with international investors and internal policymakers to help improve these practices and further the field of sustainable investing in China. Our dialogue with the SSE is expected to continue as part of our broader engagement project on corporate governance in emerging markets.

Supporting human rights due diligence legislation

In April 2020, Robeco joined forces with a group of 105 international investors representing USD 5 trillion in assets under management to call on governments to put in place regulatory measures requiring companies to conduct ongoing risk management regarding risks to people associated with their business activities. The UN Guiding Principles on Business and Human Rights, the authoritative global framework on business and human rights, defines human rights due diligence as an ongoing and iterative process to identify, prevent, mitigate, and account for how a company addresses the most severe risks to people in connection to its business. We believe that all business actors have a responsibility to respect human rights and that the process of continuously conducting human rights due diligence is a core requirement for companies in fulfilling that responsibility. We also believe that governments have a duty to protect against human rights abuse by business through effective regulatory measures, particularly where voluntary corporate measures continue to leave significant gaps in human rights protections. Recognising the need for further action to ensure effectiveness of our approach, in 2021, Robeco will ramp up its human rights engagement in line with the above by engaging companies in high risk regions on their approach to human rights and the need for human rights due diligence.

Proxy Voting

Our Active Ownership team has been voting on behalf of Robeco's clients since 1998, when proxy voting emerged as an instrument for promoting responsible investing. Robeco currently votes on behalf of clients at nearly 8,000 meetings per year. All proxy voting activities are carried out by dedicated, in-house voting analysts in the Active Ownership team.

Voting Policy

The basis of any well informed proxy voting decision starts with a proxy voting policy designed to ensure that we vote in the best interest of our clients. The Robeco Proxy Voting Policy forms part of our Stewardship Policy, and is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provide a broad framework for assessing companies corporate governance practices. The ICGN principles offer scope for companies to be assessed according to local standards, national legislation and corporate-governance codes of conduct. We constantly monitor the consistency of our general voting policy with the ICGN principles, laws, governance codes and systems as well as client specific voting policies. Our voting policy is formally reviewed at least once a year.

We take into account company specific circumstances and best practices when casting our vote. Through our votes, we aim to encourage companies to implement good corporate governance, foster long-term shareholder value, and engage in responsible behavior.

With 20 years of experience in proxy voting on which to draw, Robeco's integrated approach to active ownership is widely recognized as best practice in the asset management industry. The quality of our approach was confirmed in the UN PRI assessment, where we attained the highest possible score (A+) for active ownership in 2020. Additionally, in the Asset Owners Disclosure Project (AODP), a project managed by the responsible investment organization ShareAction, Robeco ranked first amongst 75 of the world's largest asset managers according to their responsible investment practices.

Voting execution

Robeco is responsible for and carries out all proxy voting in house. There are several practical elements that need to be considered in the implementation of our voting policy. These include monitoring our voting rights, and the potential implications of securities

Spotlight: Securities Lending

In some markets, implementing the recall process is challenging due to record dates before the notices of shareholder meetings are published. Ahead of the 2020 proxy season, we pre-empted this practice in Korea, where the record date tends to fall on the last day of the preceding calendar year, but where AGM information is only published a few weeks before the meeting. We recalled at least 50% of all Korean securities on loan ahead of 31 December 2019 to ensure compliance with our stewardship responsibilities in that market during 2020.

Through this initiative and continuous monitoring, we are confident that our securities lending approach is consistent with robust stewardship.

lending, share blocking, and custom voting policies, amongst others.

Monitoring voting rights

The proxy voting process can be relatively opaque and requires systematic supervision. One element that Robeco and Glass Lewis monitor proactively is whether we have received voting ballots for all shareholder meetings where we are entitled to vote. This is a cornerstone of good stewardship for equity assets, and requires coordination of various parties in the proxy voting chain, such as custodians and ballot distributors. If necessary, we escalate the matter to ensure we are able to exercise our right to vote.

Securities Lending

Robeco has a securities lending program for several of our listed mutual funds. When shares are on loan, we are unable to exercise our voting rights for those shares. A daily process confirms whether any shares are on loan ahead of an upcoming AGM, and recalls at least half of the position. Our Proxy Voting Policy further highlights some of the circumstances that lead to recalling a higher percentage of shares.

Share blocking

Another impediment to voting can be share blocking, where securities are blocked from trading after sending a vote instruction. This can have implications for fund performance and may therefore not be in the best interests of the beneficial owner. As a result, Robeco only votes proxies in share blocking markets when the agenda contains a controversial item and/or our position could have a significant impact on the voting result. We infrequently refrained from voting due to share blocking in 2020, casting our vote in nearly 99% of cases.

Client voting policies

We apply custom voting policies for some clients in segregated mandates or for externally managed assets. In these cases, clients may override our voting decision under their policy. Clients who have applied the Robeco Proxy Voting Policy may also highlight specific shareholder meetings where their voting preference differs from ours. We will accommodate such client-directed voting for segregated mandates, but Robeco makes all voting decisions for pooled funds in-house, in line with the Robeco voting policy.

Activity in 2020

Much of the proxy voting activity is concentrated in the first half of the calendar year. We voted at more meetings than ever in 2020 – from January to June, we voted at nearly as many as throughout all of 2019. We summarized our voting approach and statistics for the first half year in our Proxy Season Overview. The following are our full year statistics, demonstrating how Robeco has implemented our voting policy throughout 2020.

Voting trends in 2020

Proxy system bends but does not break under Covid-19 pressure

At the beginning of proxy season, uncertainty around the impact of the Covid-19 pandemic was still widespread. As we look back on the proxy voting year now, we see that many of these concerns did not materialize. But there were undoubtedly some relatively significant changes.

The most obvious impact investors had to contend with was a contraction in the voting season due to AGM

Figure 12 | **Voting Activity per Topic in 2020**

% Votes in favor of shareholder resolutions

74% | **Environmental**

77% | **Social**

62% | **Corporate Governance**

postponements and cancellations. April and May saw fewer meetings compared to the previous year. This in turn meant that meetings in June, already one of the busiest months, increased by 13%. With over 1,000 meetings originally scheduled for April and May cancelled or postponed, the tail-end of proxy season was exceptionally demanding for investors.

What doesn't change, no matter the timing of AGMs, is the need to carefully analyze proposals up for vote. This year more than ever, though, it was vital to consider their merit within a broader societal and economic context. Dividend proposals and executive compensation were placed in the spotlight as a barometer for companies' responses to the pandemic. Investors, regulators, and the media all waded into the debate on what a conscientious and prudent distribution of remuneration and profits should look like.

We believe that the most important element of companies' chosen actions is transparency. For instance, whilst financial regulators in Germany issued guidance to companies in the sector to cut dividends, we still supported corporates that paid out dividends and were able to demonstrate a strong solvency and liquidity position in response to the regulator's opinion. Similarly, we expected convincing reporting on how boards came to executive remuneration decisions in light of the pandemic's effect on workforces and society. In most cases, we saw proactive choices from compensation committees.

It is worth noting that many compensation proposals up for vote this year were backward looking, covering the 2019 financial year. That means we will only be able to fully judge decisions made in 2020 at next year's AGMs. With that in mind, we know the Covid-19 pandemic will remain an important consideration for a long time. Over the next months and years, shareholders will gain more clarity on whether boards acted responsibly during this crisis. Where that has not been the case, we will hold boards accountable in future.

Anti-social Shareholder Proposals

Every year, shareholders vote on a handful of "antisocial" shareholder proposals. The most frequent proponents of these proposals are Burn More Coal, a special-interest group supportive of the coal industry, and the Free Enterprise Project, the conservative shareholder activist arm of the National Center for Public Policy Research (NCPPR). Generally, proponents of these proposals are critical of companies' progressive efforts with respect to environmental, social, and governance issues. As such, these proposals are generally aimed at curbing those efforts. At first glance, these proposals appear to be aimed at increasing disclosure and transparency – two aspects that typically garner widespread shareholder support. However, further investigation reveals that the proponent's intentions are usually much more subversive.

The Securities and Exchange Commission (SEC) in the US allows corporations to exclude any resolution from its proxy materials that is substantially similar to one it has already received. Proponents like the NCPPR utilize this rule to undermine shareholder proposals that would have been filed by ESG-minded shareholders. On several occasions during the 2020 US proxy voting season, sustainability-related shareholder proposals were rejected by the SEC for being too similar to their anti-social counterparts. And while resolution texts may be very similar, proposals' supporting statements offer management important background on how to implement requests, and these vary drastically between anti-social and ESG-supporting proposals. Supporting anti-social proposals would send a dangerous signal to management to avoid addressing material ESG risks proactively.

However, perhaps due to low shareholder support in 2019, these entities submitted significantly fewer proposals in 2020 than they did in previous years. Due to the broad range of issues addressed by shareholder proposals, they need to be assessed on a case-by-case basis. Nonetheless, shareholders proposals should not be used to undermine the material concerns raised by other shareholders.

Key votes

We voted on many proposals in 2020, but some are more important than others. Below we summarize our voting decisions on some of the most significant votes throughout the year. They are significant because of client interest, news flow, their salience to current market conditions or societal developments, or where shareholders showed significant opposition to management. Our Proxy Season Overview 2020 provides further insight into how we applied our voting policy at various shareholder meetings.

Figure 13 | **Significant Votes 2020**

Company	Meeting Date	Proposal	Vote Decision	Rationale	Vote outcome (% For)
Barclays plc	07/05/2020	29. Management Proposal Regarding Climate Change Strategy	For	The board put forward a strong ambition to be a net-zero bank by 2050.	99.9%
		30. Shareholder Proposal Regarding Climate Change Strategy	For	ShareAction supplemented a strong management proposal with a more concrete request, aligned with the same long-term goal.	23.9%
Equinor ASA	14/05/2020	9. Shareholder Proposal Regarding GHG Reduction Targets	For	The proposal is framed in a supportive manner, seeking to underpin the company's existing climate commitments with quantitative targets over various timeframes. This is a reasonable request that would bring Equinor in line with leading practice in the sector. The proposal refrains from imposing absolute targets on Scope 3 emissions, but rather focuses on intensity metrics, which is a constructive approach. This proposal is in shareholders' best long-term interests.	3.2%
Royal Dutch Shell plc	19/05/2020	21. Shareholder Proposal Regarding GHG Reduction Targets	Abstain	Our engagement is focused on increasing transparency and accountability regarding Shell's climate ambition. We share the spirit of the resolution, but recognize that the resolution puts additional practical constraints on meeting their ambition. Therefore we abstain from the climate resolution.	14.4%
Total SE	29/05/2020	A. Shareholder Proposal Regarding GHG Reduction Targets	Abstain	We believe that setting absolute emissions reductions targets limits Total's ability to determine how to provide the energy that customers need while contributing to decarbonization by also supplying lower-carbon energy products.	16.8%
Exxon Mobil Corp.	27/05/2020	1D. Elect Kenneth C. Frazier	Against	Nominee is the Lead Independent Director, and thereby responsible for the board's failure to address key climate-related issues raised by shareholders.	83.0%
		1J. Elect Darren W. Woods	Against	Nominee is the Chairman, and thereby responsible for the board's failure to address key climate-related issues raised by shareholders.	93.2%
Chevron Corp.	27/05/2020	4. Shareholder Proposal Regarding Lobbying Report	Against	Shareholder Proposal is anti-social.	29.0%
Unibail-Rodamco-Westfield	10/11/2020	1. Issuance of Shares with Preemptive Rights	For	Though it is not possible to accurately determine the level of potential dilution, we understand that the Covid-19 pandemic lockdown is an exceptional event, and the issuance will strengthen Company's balance sheet, will help maintain a strong investment-grade credit rating, and will secure access to debt markets.	61.6%
		3. Shareholder Proposal Regarding the Election of Leon Bressler	For	We are supporting only the election of Leon Bressler to strengthen the Supervisory Board. Mr. Bressler is the most experienced in real estate out of the 3 nominees, and has an extensive background with the Company.	63.3%
Unilever NV, Unilever plc	21/09/2020, 12/10/2020	Unification, Cross-Border Merger	For	The benefits of the unification outweigh the drawbacks. Despite our concerns, the net organizational and corporate governance improvements bring us to support the unification proposal.	99.4%, 99.5%

About Robeco

Robeco is an international asset manager offering an extensive range of active investments, from equities to bonds. Research lies at the heart of everything we do, with a 'pioneering but cautious' approach that has been in our DNA since our foundation in Rotterdam in 1929. We believe strongly in sustainable investing, quantitative techniques and constant innovation.

Robeco is a pure-play international asset manager founded in 1929 with headquarters in Rotterdam, the Netherlands, and 17 offices worldwide. A global leader in sustainable investing since 1995, its unique integration of sustainable as well as fundamental and quantitative research enables the company to offer institutional and private investors an extensive selection of active investment strategies, for a broad range of asset classes. As at 31 December 2020, Robeco had EUR 176 billion in assets under management, of which EUR 160 billion is committed to ESG integration. Robeco is a subsidiary of ORIX Corporation Europe N.V. More information is available at www.robeco.com.

Established in Rotterdam in 1929, Robeco offers investment management and advisory services to institutional and private investors, and manages UCITS and alternative investment funds. As such, Robeco acts as the manager of investment funds (and as director in case the funds have the form of legal entities) in the Netherlands, and also operates as the direct distribution channel in the Dutch retail market for all of the Robeco funds. More than half of Robeco's assets under management are listed equity assets, with the remainder in fixed income, and a small portion in balanced assets.

Sustainable 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.

We employ 930 people at 17 offices worldwide (as of December 2020). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America. To service institutional and business clients, Robeco has offices in Australia, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Italy, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney, the United Arab Emirates, the United Kingdom, and the United States.

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