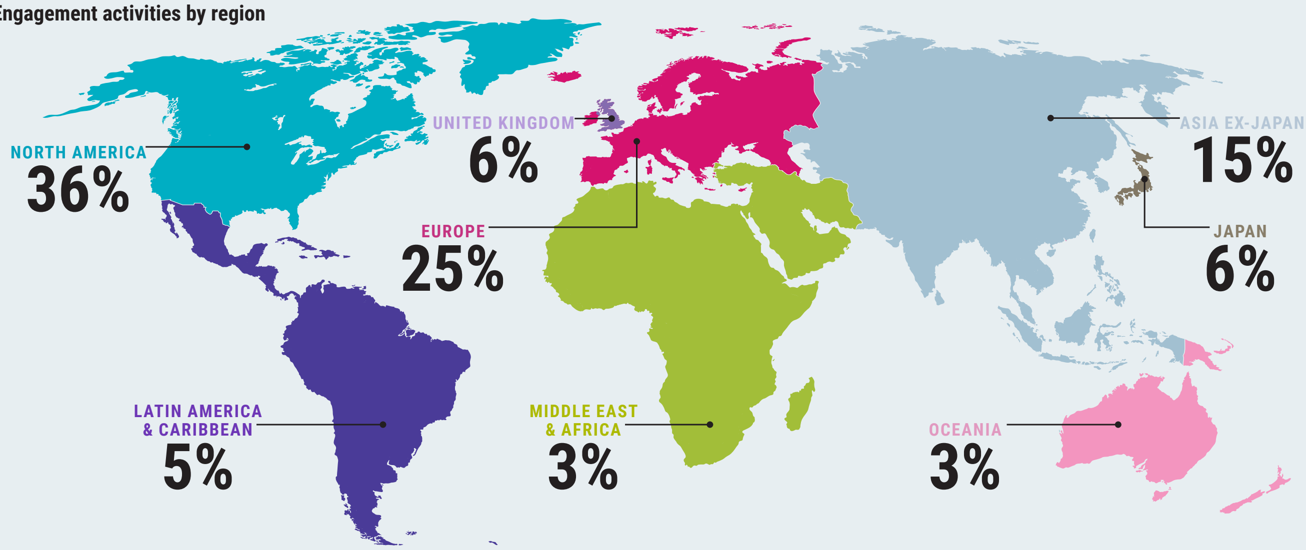
ROBECO I 01.10.2023-31.12.2023

Active ownership report

Q4|23 figures engagement

Engagement activities by region



Number of engagement cases by topic*

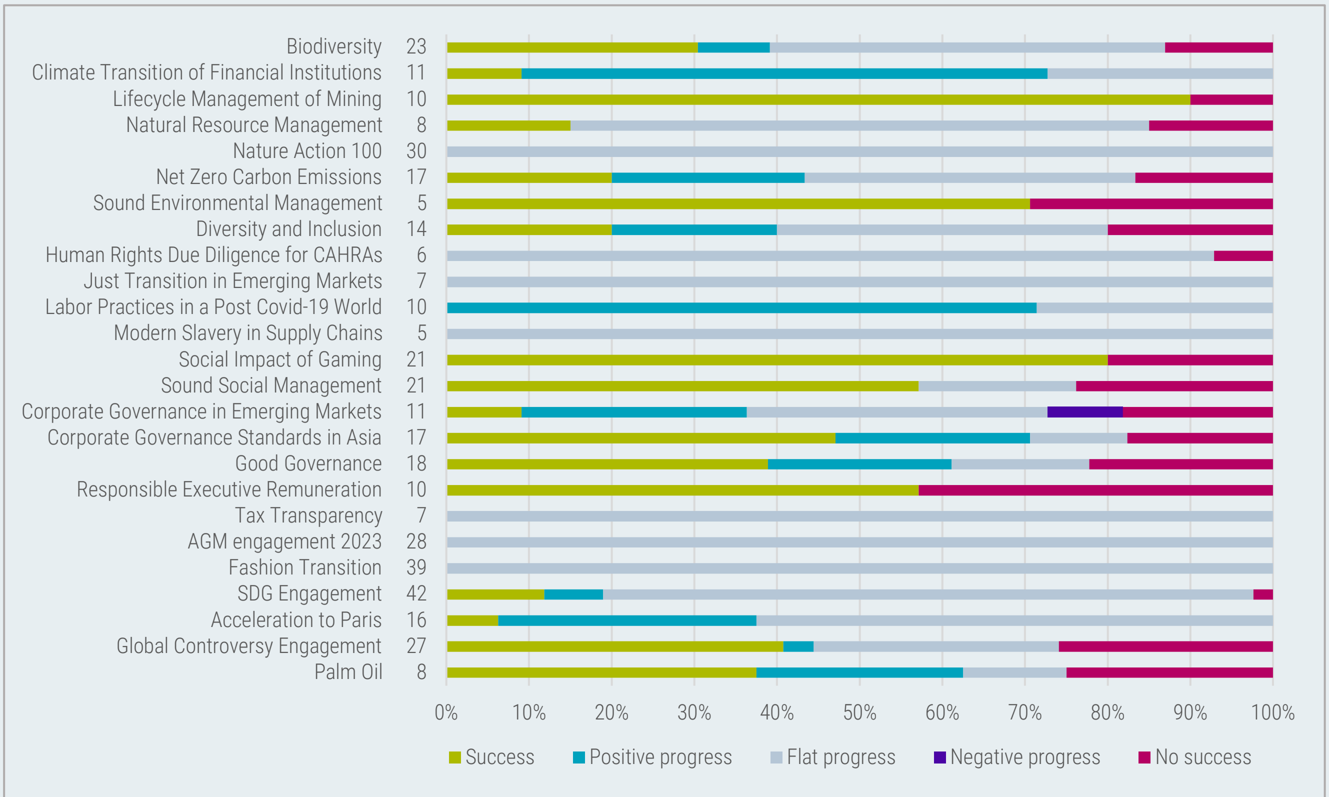
	Q1	Q2	Q3	Q4
Environment	51	62	41	61
Social	19	27	16	41
Corporate Governance	21	21	12	29
Voting Related	14	5	7	5
SDGs	24	25	26	67
Global Controversy	20	19	8	23
Total	**149**	**159**	**110**	**226**

Number of engagement activities per contact type

	Q1	Q2	Q3	Q4	YTD
Meeting	5	9	6	15	35
Conference call	98	103	58	125	384
Written correspondence	131	80	71	98	380
Shareholder resolution	0	0	1	1	2
Analysis	18	50	20	109	197
Other	1	6	0	1	8
Total	**253**	**248**	**156**	**349**	**1,006**

Progress per theme

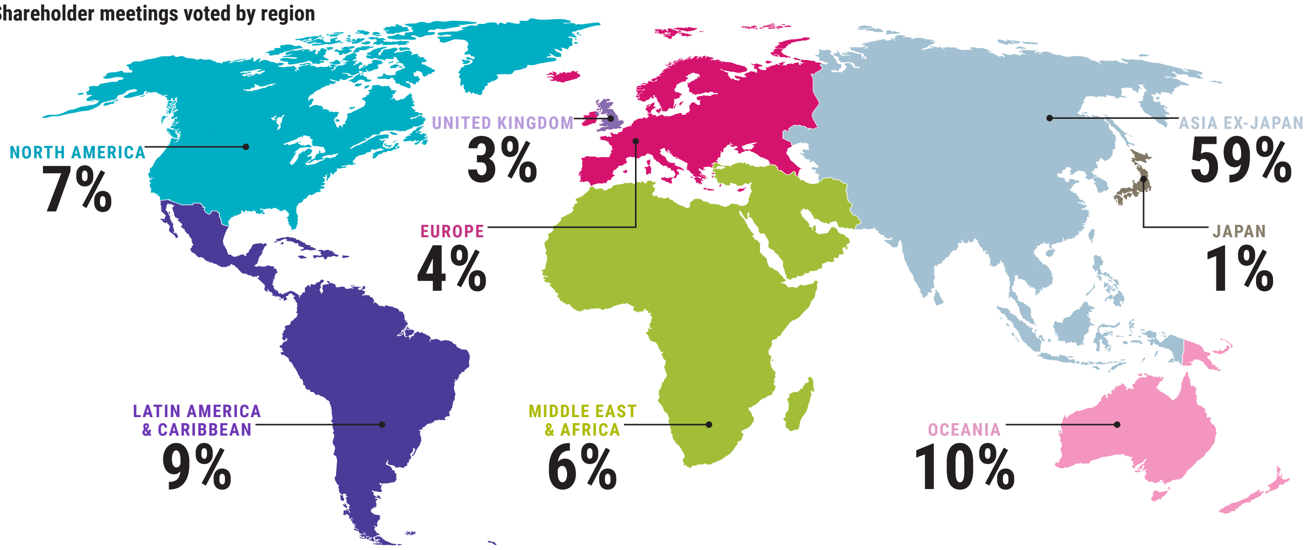
Themes and number of companies under engagement



* For more information on Robeco's approach to engagement please refer to the appendix at the end of the report.

Q4|23 figures voting

Shareholder meetings voted by region



Voting overview

	Q1	Q2	Q3	Q4	YTD
Total number of meetings voted	1,067	4,109	983	882	7,041
Total number of agenda items voted	9,465	50,452	7,110	5,401	72,428
% Meetings with at least one vote against management	59%	66%	49%	38%	59%

Votes cast per proposal category

Contents

Introduction

From the social implications of the energy transition, as presented in the third quarter, to the social risks hidden behind the growingly complex and obscure supply chain models, the concept of social justice has emerged as a guiding principle when speaking about sustainability.

Focusing on the social risks associated with increasingly intricate supply chain structures, we present our new engagement theme ‘Modern slavery in supply chains’. The complex web of today’s global supply chains makes it extremely difficult for companies to see and address not only environmental concerns, such as biodiversity loss, but also human rights. Our new theme looks at these complexities. It engages with companies across the food and retailing, mining, technology and automotive sectors to try to enhance their effectiveness in identifying and addressing modern slavery risks.

We also remained active on the environmental side. After months of intense collaboration, the Nature Action 100 initiative was formally launched in September 2023 representing more than 200 investors collectively with USD 26.6 trillion of assets under management and advice. As a first step. the 100 companies targeted under what is the world’s largest collaborative engagement effort on biodiversity so far have received a letter outlining six actions needed to protect and restore nature. Building on these common asks, we look forward to starting the engagements that we will be leading on behalf of the collaboration.

Meanwhile, we reflect on the achievements made under the ‘Net-zero emissions’ theme. The evergreen theme, which engages with some of the highest emitting companies in our portfolio, has concluded the first batch of engagements initiated in 2020, closing 62.5% of the initial companies successfully. Our report highlights the key progress made across the steel and cement sectors, such as seeing increasingly detailed decarbonization plans and aligned capital expenditure strategies, along with some disappointments across other sectors.

In corporate governance, we have closed our engagements on ‘Responsible executive remuneration’, which over the last three years has focused on aligning executive incentives with shareholder interests. Our key challenges related to aligning pay for management performance in a period of economic volatility, prioritizing relevant ESG metrics and creating more accountability for pay practices. We saw some successes, such as companies linking executive pay with equity to align incentives with long-term shareholder creation. We also welcomed companies incorporating ESG metrics in compensation, showcasing the importance of directly tying executive remuneration to sustainability when it comes to the future of companies.

However, in some instances, corporate governance can be a tricky topic to discuss, as our article on engaging with state-owned enterprises (SOEs) reveals. The core problem here is that large stakes are held by a government, and minority shareholder interests are often neglected. Delving into the complexities, we aim to lay out mechanisms that can lead to wider stakeholder value, such as supermajority voting provisions for certain decisions (i.e., requiring more than 75% support hence including minority shareholders votes) or a requirement for independent special committee approval of any conflict of interest matters.

Moving into 2024, we aim to deepen our focus on key topics including human rights, climate change, biodiversity and corporate governance, and hope for another year of successful Active Ownership.

Carola van Lamoen
Head of Sustainable Investing

MODERN SLAVERY IN SUPPLY CHAINS

An estimated 50 million people are trapped in modern slavery

Yumi Fujita – Engagement specialist

Modern slavery refers to situations of exploitation that a person cannot leave because of threats, violence, coercion, deception, or the abuse of power. It is crucial for companies to identify and address modern slavery conditions – which can be hidden deep within their supply chains – to meet their obligation to respect human rights, avoid reputational risks and prevent disruptions. Failing to comply with an increasing number of regulations over modern slavery and human rights issues also poses direct consequences to companies' operations.

Engagement summary

10 engagements initiated across five high-risk sectors

What is the engagement about and why is it relevant for investors?

An estimated 50 million people are trapped in modern slavery, of which over 28 million are in forced labor, where a person's freedom to accept or refuse a job, or to leave one employer for another, is non-existent. Common elements of modern slavery and forced labor include threats, debt bondage, deceptive contracts, the withholding of wages, and abusive working or living conditions. Over 85% of cases are found in the private sector, and they are often linked to industries such as manufacturing, construction and agriculture.

It is so deeply embedded in our economic activities – from raw material sourcing to manufacturing, assembling, packaging and transportation – that the goods and services we consume every day are often tainted with forced labor somewhere along the supply chain. Moreover, crises in recent years such as the Covid-19 pandemic, armed conflicts and structural damage from climate change have exacerbated the situation. Such events have disrupted labor markets and access to education, and have increased extreme poverty and forced migration, as well as leading to an upsurge in gender-based violence.

The situation is difficult to monitor because supply chains are often highly complex, spanning multiple countries and involving several layers of business relationships. Aside from companies' and investors' obligations to avoid human rights violations, it is essential that they identify and address modern slavery conditions in order to avoid reputational risks and operational disruptions.

Furthermore, regulations that aim to address modern slavery and broader human rights issues are becoming more prevalent and stringent across various jurisdictions. Breaching them – even unknowingly – would have direct consequences and could lead to import bans, and fines or business closures, not to mention the reputational damage. This means companies must not only disclose information about modern slavery that they become aware of, but also effectively address the risks and prevent recurrence.

What are the engagement expectations?

As modern slavery issues are often hidden behind formal processes of social audits, contractual stipulations, and information gaps, we aim to enhance companies' effectiveness in identifying and addressing the risks, going beyond formal human rights policies and processes. The engagement will also focus on how companies provide impacted stakeholders with effective remediation measures and prevent future recurrence by working closely with suppliers and establishing the right accountability structures within the organization.

For any company, developing appropriate management oversight and policies is an essential first step to tackling modern slavery as well as addressing wider human rights risks in their operations and supply chains. One of the most important actions is to conduct human rights due diligence. We expect companies to identify risks according to aspects like sourcing from conflict regions, workplace characteristics and the types of raw materials sourced, and to take appropriate actions.

Our engagement objectives also emphasize whether remediations to affected workers are carried out effectively, and if corrective measures are taken to prevent future recurrence, in collaboration with suppliers, workers and other stakeholders. Collaboration with various players is crucial in understanding the different contexts of each case, and is necessary for creating solutions for the workers at risk, while providing them with alternative means for decent work.

Remediation and corrective actions are areas where we believe companies are the least advanced in adhering to the United Nations General Principles (UNGPs) of human rights. In all of the above aspects, transparent reporting to investors and stakeholders is critical, not to mention also being a requirement under most modern slavery or human rights due diligence legislations.

How did we choose the companies to engage with?

Modern slavery is present in almost every country in the globalized world economy. The Middle East shows the highest prevalence of it, while the Asia-Pacific region has the largest absolute number of forced labor cases, at over 15 million cases. On the other hand, the main beneficiaries of modern slavery are the major developed economies. It is estimated that around USD 468 billion of products that are linked with modern slavery were consumed by G20 countries in 2023. The agriculture, garment, technology, mining and manufacturing sectors are often highlighted as those industries at the highest risk of modern slavery.

With this in mind, we selected a list of companies to engage with based on their multi-layered supply chains, the nature of operations for raw materials production, and the geographical areas in which they and their suppliers operate. We analyzed publicly available documents and research pieces from international organizations, NGOs and news sources to gain a good understanding of sectors and commodities that face a higher risk.

We also looked into companies' involvement in related controversies, sourced from our data providers such as Sustainalytics. Moreover, we consulted research findings from organizations such as the World Benchmarking Alliance and KnowTheChain in order to assess companies' current performance specific to the human rights and modern slavery aspects.

What are the anticipated challenges?

One of the challenges we expect to face is lack of quality information regarding lower-tier suppliers. These are needed to assess whether the companies under engagement are well positioned to identify and remediate modern slavery risks and impacts. Although companies often have a supplier code of conduct, certification and social audits in place, these may be limited in scope, and are often mere box-ticking exercises applying only to direct suppliers.

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>
> Yumi Fujita

Companies may fear that disclosing too much information about suppliers or outcomes from the supplier audits would undermine their competitive advantage, or expose them to criticism, especially in countries with weak labor laws. Moreover, implementing effective mechanisms to meaningfully identify, remediate and prevent modern slavery can take time and resources.

For example, dedicated resources are required in order to identify high-risk regions and populations, track raw material sourcing, and compensate wages for affected workers, as well as to develop responsible recruitment policy and procurement practices. Companies also require close collaborations with suppliers' workers and management teams, civil society, and multiple departments within the company, which can be time consuming and costly to set up. However, these short-term costs will be outweighed by the long-term benefits of strong supply chain management and risk oversight, supplier resilience and efficiency, as well as reputational goodwill.

NATURE ACTION 100

Coming into bloom

Laura Bosch – Engagement specialist

More than half of the world's gross domestic product (USD 44 trillion) is moderately or highly dependent on nature and its services – such as the provision of food, fiber and fuel – and the unprecedented loss of biodiversity places this value at risk. By threatening these key ecosystem services, biodiversity loss and any company practices associated with it can expose both them and their shareholders to significant financially material risks. These include the physical and transition risks, the threat of litigation and regulatory action, as well as the wider systemic risks that come from harming nature.

Engagement summary

Initiating 10 engagements with chemical, consumer staples and discretionary companies

The interconnection of climate change and nature means that action taken on one directly influences the other. Global warming, triggered by greenhouse gas emissions, influences the stability of the climate, which prevents Earth's natural systems from functioning as expected. Changes in climatic conditions can threaten nature's provision of ecosystem services, affecting the goods and services that societies, companies and subsequently financial institutions rely on.

At the same time, nature is key to help fighting climate change. Around half of the emissions released remain in the atmosphere whilst nature absorbs the rest, holding it within carbon sinks such as soil, oceans and vegetation. These natural storage solutions slow climate change far more effectively than any human technology.

Increased momentum for action

The current need for economic transformation, underpinned by the climate and nature crises, presents significant risks and opportunities for financial institutions and corporations alike. Hence biodiversity loss is moving up the agenda of governments, companies, financial institutions, and more broadly across civil society.

Adopted at COP15, the Kunming-Montreal Global Biodiversity Framework (GBF) provides a blueprint for bold action and policy alignment across economic sectors to halt and then reverse biodiversity loss by 2030. Private sector companies, including financial institutions, must play a key part in realizing this goal by aligning their portfolios with the GBF targets, and rapidly shifting financial flows towards a sustainable and just biodiversity transition.

Purpose of the initiative

Nature Action 100 was launched against the backdrop of aligning investor action to contribute to the GBF. It mobilizes institutional investors to establish a common high-level agenda for engagements, and a clear set of expectations to drive greater corporate ambition and action to stem biodiversity loss.

The initiative targets 100 companies in eight key sectors that are deemed to be systemically important in reversing biodiversity loss by 2030, such as chemicals, food, and metals and mining. These sectors are major drivers of damage to nature due to their large impacts on habitat loss and the overexploitation of resources, as well as their contribution to water and land pollution.

Nature Action 100 was formally launched in September 2023 with more than 200 investors representing collectively USD 26.6 trillion assets under management and advice. As a first step, the 100 companies targeted for engagement have received a letter from the group outlining six timely and necessary corporate actions needed to protect and restore nature. Dialogues will be held from 2024 onwards.

Engagement objectives

In terms of engagement expectations, companies are encouraged to set a public commitment to minimize biodiversity impacts and to conserve and restore ecosystems by 2030. They should set time-bound, science-based targets that are based on assessments of their nature-related dependencies, impacts, risks and opportunities. These should be followed by an inclusive implementation plan taking into account any local communities that are affected.

External stakeholder engagement with entities such as trade associations and policy makers are crucial to create an enabling environment for achieving those targets. Finally, clear governance structures should be in place, formalizing the board's oversight and management's role in assessing and managing nature action.

Sectors under scope

We reviewed our investment exposure to biodiversity risks across sectors and markets, as well as took into account our clients investment exposure, before selecting sectors and companies that we wanted to engage with under Nature Action 100. Our results suggested that biodiversity risks are concentrated in three sectors in our portfolios, which are exacerbated in our investment strategies with allocations to emerging markets.

> *“ The initiative targets 100 companies in eight key sectors that are deemed to be systemically important in reversing biodiversity loss by 2030.*
>
> Laura Bosch

As a result, we prioritized our engagement coverage with eleven companies across these three sectors: Materials (chemicals), Consumer Staples (retail, food and beverage, household and personal products) and Consumer Discretionary (retail). More than half of these companies are based in emerging markets.

When it comes to the chemicals sector, most of the impacts on nature in their operations and value chains are linked to water use, pollution and greenhouse gas emissions. Chemical companies generate an estimated 7% of global and 20% of industrial emissions. Most of the sector's impacts and dependencies, however, are embedded in its supply chains, with more than half of them highly or moderately dependent on nature, led by the use of fresh water, minerals and biomass.

The Consumer Staples and Discretionary sectors are linked to numerous impacts throughout their value chain. Agriculture, which is a key concern for Consumer Staples, has been a material topic for many years as it drives 70% of terrestrial and 50% of freshwater biodiversity loss. Impacts stem mainly from the soft commodities produced and consumed, whilst the sector is at the same time highly dependent on the environmental assets used during the production process, such as water and soil quality.

Risks related to the business practices in the sector, such as water over-use and pollution by pesticides, are threatening the quality and availability of the natural assets that these companies fundamentally depend on. Our engagement approach aims to be holistic and targeted to each company's footprint and sets of impacts and dependencies.

Tailored to each company, the engagements will push for a better understanding and strategy to address corporates' biodiversity footprints, including the establishment of meaningful targets and reporting frameworks, such as adopting the Taskforce for Nature-Related Financial Disclosures.

CASE STUDY

Archer Daniels Midland
We have engaged with the US commodity trader ADM for several years under different themes. Now we are carrying this dialogue over to the Nature Action 100 program to collaborate with a broader group of investors.

ADM is one of the five largest soy exporters from Brazil, an industry that is directly linked to the destruction of the country's most biodiversity-rich savanna, the Cerrado, a biome critical for local flora and fauna, as well as water security.

While ADM has had a zero-deforestation commitment for a while, this did not include non-forest biomes such as the Cerrado. Three years and two withdrawn shareholder proposals later, the company has not only brought forward its zero-deforestation commitment from 2030 to 2025, but has also extended this to include the elimination of primary native vegetation conversion in high-risk areas including the Cerrado.

NET-ZERO CARBON EMISSIONS

The 1.5°C goal

Sylvia van Waveren – Engagement specialist

Investor engagement is a critical tool to ensure that companies are on a transition pathway that limits global warming to 1.5°C. In order to more effectively achieve this, in 2020 we grouped all our ongoing climate change engagement efforts under our consolidated 'Net-Zero Carbon Emissions' engagement program.

Engagement summary

Of the 12 engagements initiated in 2020, 5 were closed successfully and 3 unsuccessfully

Since the start of this journey three years ago, several governments have made pledges to achieve net-zero carbon emissions by 2050 or 2060. Companies have also acted accordingly. While it has been encouraging to see an increasing number of business leaders committing to a low carbon future and setting targets to achieve net-zero by mid-century, more immediate action and urgency is certainly needed. Many sectors have postponed emission reductions until after 2030, locking in short-term emissions that would push us past the 1.5°C threshold.

In March 2022, we expanded the Net-Zero Carbon Emissions theme, adding 15 new companies, bringing our total to 27. These companies have been selected following an assessment of the transition readiness of the top-200 emitters in our investment universe.

Aims of the Net-zero theme

The engagement theme encourages companies to embrace a decarbonization strategy and thereby ensure their long-term viability, competitiveness and license to operate. Research by the Intergovernmental Panel on Climate Change (IPCC) has warned of the devastating impacts of not meeting the Paris Agreement goals, with significantly higher levels of physical and economic damage occurring at 2°C of warming compared to pre-industrial levels, versus the lower goal of 1.5°C.

Our engagement activities set the expectation for companies to set long-term net-zero targets, and to substantiate them with credible short- and medium-term emissions reduction strategies, implementing transition plans that ensure a reduction in real-world emissions over the next decade.

A credible climate strategy is difficult to define as each company will have its own challenges and approaches to decarbonization. Nevertheless, we leverage external means of measurement such as the Climate Action 100+ Net Zero Benchmark when defining our objectives. We consider this approach to be well-rounded and thoughtful in terms of driving credible transition strategies. Moreover, we are closely involved in the evolution of the Climate Action 100+ process, co-leading engagements with 11 companies during 2023, and will continue to contribute to the development of metrics and indicators within the benchmark.

Relevance for investors

The relevance of our engagement program hinges on the systemic risks that climate change poses to the global economy and financial system. Companies face significant transition risks encompassing legal and regulatory issues and technology and market changes, which weaken the viability of existing technologies and practices.

Companies also face physical risks from more frequent extreme weather events such as hurricanes, droughts and floods, and the longer-term issue of rising sea levels. This may cause damage to assets or bring cost increases and supply chain disruptions.

Besides these risks, there are also opportunities for companies. Indeed, they can spur growth by pursuing efforts to mitigate or adapt to climate change, using the consequences of the transition to their advantage. This includes exploiting opportunities for resource efficiency and cost savings, switching to lower-emission energy sources, seeking product and service developments, and pursuing new lower-carbon markets.

The International Energy Agency's updated net zero pathway has recently reinforced the message that the cost savings from achieving net zero emissions far outweigh the expense of delivering decarbonization goals. There are corresponding benefits to society as well, such as increased employment, lower energy costs and improved air quality.

In short, the financial benefits of mitigating climate risk and seizing the opportunities from decarbonizing in line with a 1.5°C pathway will be felt at the enterprise, portfolio and societal levels, and are firmly in line with our goals as an investor.

Our results after three years of engagement

It is still too early in the process to comment on the success of our engagement with the companies that we added in March 2022. However, of the original 12 companies that we began engaging with in 2020, we closed five engagements successfully and three unsuccessfully by the end of 2023. The remaining four were extended, with the

> *"The International Energy Agency reinforced the message that the cost savings from achieving net zero emissions far outweigh the expense of delivering decarbonization goals.*
>
> Sylvia van Waveren

aim of capturing some expected improvements.

Overall, we registered positive progress for almost all the companies under engagement. The industries which registered the highest level of progress were the steel and cement sectors. Considered to be the hard-to-abate industries, these companies showed meaningful improvements, especially in disclosing detailed capital alignment and decarbonization strategies.

Although the oil and gas industry has taken several initiatives to address the net-zero transition, we feel that there is room for improvement, especially in outlining reduction targets for Scope 3 emissions, and reallocating capex away from potentially stranded fossil fuel assets. Indeed, as we witnessed in the last three years, setting targets for Scope 3 emissions has been one of the main challenges on the net zero pathway for oil and gas companies.

Having originally witnessed early progress coming from this sector, some companies unfortunately have reached a standstill at best in their decarbonization pathways after the global energy crisis. Therefore, we plan to intensify and escalate our engagement efforts with them in the next year to seek more improvements.

CASE STUDY

Heidelberg Materials
German building materials company Heidelberg Materials has historically had a large climate footprint due to its activities in the hard-to-abate cement sector. Having engaged with the company both individually and as a supporting investor under the Climate Action 100+ initiative, the company has showcased not only good awareness of climate-related risks, bit also a very pro-active approach to addressing them.

Over the course of the engagement, the company’s emissions reduction targets were validated by the Science-Based Targets initiative against a 1.5°C pathway, and the company presented a detailed decarbonization strategy to meet its medium- and long-term targets. Among this were the in July 2023 announced plans to open its first fully decarbonized cement plant in Germany. The company furthermore included climate change performance elements it its executive remuneration and appointed a sustainability officer to the Executive Board. We successfully closed the engagement in the fourth quarter of 2023.

RESPONSIBLE EXECUTIVE REMUNERATION

Incentivizing sustainable value

Michiel van Esch – Engagement specialist

Discussions on executive remuneration are as old as the first publicly listed company and the separation of management and ownership. Whenever management gets a mandate to lead a company on behalf of its shareholders, incentive structures are put in place to make sure the leadership keeps track with the key priorities of its owners. How the alignment of these incentives takes shape has been a recurring debate throughout the 'Responsible executive remuneration' engagements.

Engagement summary

7 engagements out of 10 were closed successfully

The financial crisis of 2008 made regulators realize that institutional investors, with their long-term investment horizon, could play a role in providing stability and long termism in the economy. It was believed that if they were provided the right tools, they would be able to start making use of their potential influence.

In Europe, amendments to the EU's Shareholder Rights Directive (SRD2) aimed to give institutional shareholders a set of responsibilities and rights across the 27-nation bloc. One of these rights gave shareholders a binding vote on the remuneration policy at least every four years, and an advisory vote on the implementation report of the policy on an annual basis. This followed common practice in the US, where non-binding 'Say on Pay' votes had been in place for several years.

The EU regulations were introduced in a Zeitgeist in which institutional investors and regulators increasingly favored compensation structures that incentivized management for the long run, instead of maximizing short-term gains. It also encouraged them to look beyond financial priorities only, for example by also considering relevant non-financial (environmental, social and governance - ESG) metrics.

In 2020, Robeco launched its 'Responsible executive remuneration' engagement theme which is now coming to a close. Throughout the three years of engagement, we reviewed the remuneration policies and disclosures, relevant key performance indicators (KPIs), and incentive structures at a set of European and American companies. Our project focused on four broad objectives: equity compensation; pay for performance; quantum (i.e., height of pay) and the link to equity; as well as structure and oversight.

Equity compensation

One of our priorities was to align incentive structures with those of shareholders. This means that we expected a certain degree of remuneration to be paid in equity, and that adequate shareholding requirements were in place for executives, requiring them to retain holdings over a longer term. We have been able to close this objective successfully in the majority of cases.

Shareholding requirements are becoming commonplace, and the use of shares in remuneration schemes is becoming more straightforward. Although options and multiplier schemes are becoming less common, small-cap or younger companies often have legacy option plans in place from before their initial public offering. However, as companies mature, they gradually look for different incentive structures.

We also urged companies to maintain a different pay structure for supervisory board members, specifically to refrain from option structures, and to make sure that no incentive structures could jeopardize their independence.

Pay for performance

Another engagement objective addressed the relationship between pay and performance. In our view, variable pay should be aligned with long-term value creation and reward management, meaning that companies use KPIs (both financial and non-financial) that create value for stakeholders and align with corporate strategy.

The fact that our engagement was started at the onset of the Covid-19 pandemic led to several problems in the relationship between pay and performance. Many companies had either fully cancelled their variable salary schemes, or had dismissed poor performance as a result of market conditions and decided to be lenient and pay out annual bonuses nonetheless. In several cases, low share prices and the start of the pandemic created windfall gains when stock prices picked up again once vaccines started to be rolled out in 2021.

We also asked companies to set relevant ESG targets for their variable pay. In recent years, many investors have become cynical on the use of ESG metrics, claiming that their measurement is not clear, and that they are often used as a cushion to make up for poor performance on the financial KPIs. We continue to be in favor of using ESG-related KPIs, but the problem often is that they do not stand to the same scrutiny as financial indicators. Yet, if concrete measures are used that make a difference to a company's stakeholders and stand up to scrutiny by the auditor, pay for ESG-related performance can provide additional safeguards ensuring that management focuses on financially material ESG issues.

> " *Executive pay levels have spiraled up [but] this trend has been less apparent across the average workforce, hence not necessarily reflecting an increase in productivity.*
>
> Michiel van Esch

Quantum and pay equity

Another topic of heated debate tends to be the overall size of remuneration for executive management, including CEOs. Generally, executive pay levels have spiraled up – an effect that has been most prevalent in the US – partially driven by the fact that most companies want to pay executives attractive (above median) packages in order to retain and attract talent. This trend has been less apparent across the average workforce, hence not necessarily reflecting an increase in productivity.

We therefore asked companies to take disparities in pay ratios into account when they set remuneration, and to use pay benchmarks that reflect the size and complexity of the company, rather than focusing on much bigger or higher-paying competitors in the same industry. Generally, European companies were more receptive to suggestions for moderation than those in the US. In some cases, we have been able to convince remuneration committees to lower total payouts and apply moderation going forward.

CASE STUDY

Nike

In response to the effects of the pandemic, US athletic footwear company Nike implemented a "more flexible" short-term incentive structure based on two equally weighted, six-month performance periods. We flagged our concern regarding the lack of transparency on certain adjusted performance goals, and were satisfied that the company has since transitioned back to the historical design whereby short-term incentive payouts are earned based on year-long targets.

Tesco

One of the aims of our recently concluded engagement with UK food retailer Tesco was the inclusion of ESG metrics in their executive remuneration. The company has done this by including quantifiable, financially material pre-set ESG metrics in the compensation plan, which links executive pay to three of the sustainability areas assessed as being the most material. For Tesco's 2023 Performance Share Plan awards, the areas identified were carbon and food waste reduction, and enhancements to diversity and inclusion.

Structure and oversight

Our final objective is concerned with securing an appropriate level of independent oversight, and incorporating consideration for shareholder feedback. Many companies in our engagement program had seen significant shareholder opposition to their pay for performance plans, often because they had not anticipated shareholder concern on their pay practices at the first required vote, and because of discretion applied during the Covid-19 pandemic. Almost all companies followed up very constructively and conducted consultations with key shareholders to get a sense of what they wanted to see improved. For most of the engagement cases, we saw meaningful improvements on the inclusion of relevant KPIs, better accountability on the use of discretion, and even some cases where target pay levels were brought down.

Even though we bring 'Responsible executive remuneration' to a close as a dedicated engagement topic, we will continue to work on remuneration more generally. For instance, the inclusion of ESG metrics in executive remuneration is a common part of most of our conversations with companies. Remuneration and incentive structures remain a critical tool for shareholders and a key discussion in the field of corporate governance. It has been so for decades, and will probably continue to be so for the decades to come.

PROXY VOTING – MARKET INSIGHT

Corporate Governance in State-Owned Enterprises

Diana Trif – Engagement specialist

Many people think that corporate governance is an abstract concept and that its impact on our everyday lives is difficult to grasp. Think again. Only a few months ago, in March 2023, financial stability was tested by a crisis attributed to a large extent to poor corporate governance at US private sector banks. And the crucial importance of good governance becomes even more apparent when we look at State-Owned Enterprises (SOEs).

Working to improve corporate governance at state-owned enterprises

SOEs are amongst the largest corporations in many countries and account for a growing share of the corporate landscape. The OECD reports a staggering statistic – the ratio of SOEs in the list of top 500 global companies has tripled over the last two decades. The public sector held almost 11% of the listed companies' global market capitalization at the end of 2022. On top of that, in many countries, SOEs are the sole or main providers of essential services such as water or electricity.

Given their size and positioning in high-impact sectors, SOEs play a significant role in achieving the Sustainable Development Goals (SDGs). The consequences of poor corporate governance in SOEs will therefore extend far beyond the boardroom. The figures speak for themselves – the International Monetary Fund highlighted in a 2020 publication that the maximum annual support provided by governments to financial and nonfinancial SOEs reached 18% and 16% of GDP, respectively, with the debt of SOEs exceeding 20% in some countries.

Far from a simple matter

Good governance in SOEs is, however, far from being a simple matter. If an SOE is run well and sufficient checks and balance are in place, state control can provide stability. If not, political involvement may also have downsides. State ownership adds to the known corporate governance challenges faced by listed firms for a number of reasons. For one, as noted by the OECD, "the accountability for an SOE's performance is often dispersed across the public administration and among different state bodies with inherently different policy interests". Secondly, SOEs have the hard task of walking a fine line when balancing different – and sometimes conflicting – objectives.

Listed SOEs have the advantage of being subject to the much stricter requirements applicable to publicly listed firms, as well as monitoring from external investors. However, minority shareholders often have limited rights and therefore little power to hold management to account. Governance challenges are very present – and some argue, even exacerbated – in these firms.

Recent scandals stand testament to this. Telecoms giant Telia, which is partly-owned by the Swedish state, agreed to pay nearly USD 1 billion in 2017 to settle allegations that it paid major bribes in Uzbekistan in a case labeled as "one of the largest criminal corporate bribery and corruption resolutions ever" at the time.

Brazilian oil giant Petrobras was embroiled in the major 'lava jato' (car wash) scandal that triggered an SOE reform in the country. While Petrobras rolled out significant corporate governance improvements following the scandal, the company has recently come under intense scrutiny over proposed bylaw changes that are perceived to increase the risk of undue government interference.

OECD guidelines can help

The growing awareness of the importance of SOEs to our economies and the governance challenges that they face have prompted many countries around the world to roll out reforms. These initiatives point out the fact that there is no one-size-fits-all recipe for reform. Nonetheless, the OECD Guidelines on Corporate Governance of State-Owned Enterprises, which are currently undergoing a review expected to be completed in 2024, are widely regarded as the golden standard for SOE reform.

The guidelines provide a multitude of tailored recommendations for SOEs, from encouraging governments to evaluate and disclose the policy rationale that motivates state ownership, to clearly identifying which part of the public administration is responsible for exercising the state ownership function. That said, the guidelines also say that:

> *" The state should strive toward full implementation of the OECD Principles of Corporate Governance when it is not the sole owner of SOEs, and of all relevant sections when it is the sole owner of SOEs.*

Concerning shareholder protection this includes:

1. The state and SOEs should ensure that all shareholders are treated equally.
2. SOEs should observe a high degree of transparency, including as a general rule, equal and simultaneous disclosure of information towards all shareholders.
3. SOEs should develop an active policy of communication and consultation with all shareholders.
4. The participation of minority shareholders in shareholder meetings should be facilitated so they can take part in fundamental corporate decisions such as board elections.
5. Transactions between the state and SOEs, and between SOEs themselves, should take place on market-consistent terms.

Investors can use their voting rights to push for these companies to adopt good governance and sustainable corporate practices. At Robeco, votes are guided by a robust policy which sets out our approach to a wide variety of issues ranging from director elections and remuneration to capital management and shareholder rights.

We expect SOEs to have proper safeguards in place, such as the establishment of committees comprising independent members to oversee conflicts of interest, super-majorities or 'majority of minority' voting provisions, and a transparent process for board nominations. If we see that insufficient safeguards are in place, we will hold companies accountable. For example, we would oppose article amendments that would lead to a negative impact on minority shareholder rights or to a deterioration in the process for director nominations. Similarly, we would oppose related party transactions that are not subject to an adequate oversight process that ensures minority shareholder rights are protected. Where we conclude that a company has not ensured adequate minority shareholder protections, we will consider escalation via a vote against the most accountable board member or via engagement. Because poor corporate governance does make a difference – even in our day-to-day lives.

Companies under engagement in 2023

ENVIRONMENT

Biodiversity
Arcadis NV
Archer Daniels Midland
Axfood AB
Barry Callebaut AG
Bridgestone
Bunge Ltd.
Cal-Maine Foods Inc
Compagnie Generale des Etablissements Michelin SCA
Cranswick PLC
JBS SA
Kimberly-Clark Corp
Leroy Seafood Group ASA
Marfrig Foods SA
Mondelez International
Procter & Gamble Co.
Ryohin Keikaku Co Ltd
Sappi Ltd.
Signify NV
Suzano Papel e Celulose SA
The Hershey Corporation
Top Glove Corp. Bhd.
Unilever
VF Corp

Climate Transition of Financial Institutions
Australia & New Zealand Banking Group Ltd.
Bank of America Corp.
Barclays Plc
BNP Paribas SA
Citigroup, Inc.
DBS Group Holdings
HSBC
ICICI Bank Ltd
ING Groep NV
JPMorgan Chase & Co., Inc.
Sumitomo Mitsui Financial Group, Inc.

Lifecycle Management of Mining
Anglo American
Barrick Gold Corp.
BHP Billiton
First Quantum Minerals Ltd.
Fortescue Metals Group Ltd.
Gerdau SA
Sibanye Stillwater Ltd.

Natural Resource Management
Ambev SA
Callon Petroleum Co.
CF Industries Holdings, Inc.
Continental Resources, Inc.
Diageo
OCI NV
PepsiCo, Inc.
Sappi Ltd.
Severn Trent PLC
Tronox Holdings Plc
United Utilities Group PLC

Nature Action 100
Ahold
Alibaba Group Holding Ltd.
Archer Daniels Midland
Britannia Industries Ltd
Corteva, Inc.
LG Chem
Sociedad Quimica y Minera SA
Wens Foodstuffs Group Co Ltd

Net Zero Carbon Emissions
Anglo American
ArcelorMittal
Berkshire Hathaway
BHP Billiton
BlueScope Steel Ltd.
BP
CEZ as
Chevron
China National Building Material Co. Ltd.
CRH Plc
Ecopetrol SA
Enel
ExxonMobil
HeidelbergCement AG
Hyundai Motor
JFE Holdings, Inc.
LyondellBasell Industries NV
Marathon Petroleum Corp.
Petroleo Brasileiro
Phillips 66
PTT Exploration & Production
Repsol
Rio Tinto
Royal Dutch Shell
Saudi Arabian Oil Co.
Valero Energy Corp.
Vistra Energy Corp.
WEC Energy Group Inc

Sound Environmental Management
Alexandria Real Estate Equities, Inc.
Guangdong Investment Ltd.
Hangzhou First Applied Material Co Ltd
LONGi Green Energy Technology Co Ltd
Quanta Service Inc

SOCIAL

Diversity and Inclusion
Eli Lilly & Co.
Netflix Inc
Oracle Corp
Taiwan Semiconductor Manufacturing Co. Ltd.
Thermo Fisher Scientific, Inc.

Human Rights Due Diligence for Conflict-Affected and High-Risk Areas
Bharat Electronics Ltd.
Booking Holdings, Inc.
Cemex SAB de CV
Fast Retailing
HeidelbergCement AG
Hon Hai Precision Industry Co. Ltd.
Inditex
International Paper Co
IPG Photonics Corp
PTT Exploration & Production
Sinotruk Hong Kong Ltd.
SolarEdge Technologies, Inc.
Volkswagen
Wacker Chemie AG

Just Transition in Emerging Markets
Ganfeng Lithium Group Co Ltd
Impala Platinum Holdings Ltd
Pertamina Persero PT
Reliance Industries Ltd
SK Innovation Co Ltd
Tenaga Nasional Bhd

Labor Practices in a Post Covid-19 World
Accor SA
Delivery Hero AG
InterContinental Hotels Group Plc
Marriott International, Inc.
Meituan Dianping
Uber Technologies, Inc.
Wal-Mart Stores

Modern Slavery in Supply Chains
Associated British Foods Plc
Canon
General Mills
Glencore Plc
Kia Motors Corp.
Mondelez International
Tesla Motors, Inc.
The Kroger
Wal-Mart Stores
Wesfarmers Ltd

Social Impact of Gaming
Activision Blizzard Inc
NCSoft Corp
NetEase Inc
Take-Two Interactive Software Inc
Tencent Holdings Ltd

Sound Social Management
Baidu Inc
Post Holdings Inc
Tencent Holdings Ltd
Tesco PLC
Weibo Corp

CORPORATE GOVERNANCE

Corporate Governance in Emerging Markets
Companhia de Concessoes Rodoviarias SA
Cosan SA
CPFL Energia SA
ENN Energy Holdings
Haier Smart Home Co., Ltd.
Hyundai Motor
Midea Group Co. Ltd.
Samsung Electronics
Woongjin Coway Co. Ltd.

Corporate Governance Standards in Asia
Hynix Semiconductor, Inc.
INPEX Corp.
Panasonic Corp.
Resonac Holdings Corp
ROHM Co. Ltd.
Shin-Etsu Chemical Co. Ltd.

Good Governance
Adyen NV
Ahold
Arcadis NV
DSM-Firmenich AG
Heineken Holding
Signify NV
Unilever

Responsible Executive Remuneration
Aspen Technology Inc
Avantium NV
Booking Holdings, Inc.
Henkel AG & Co. KGaA
Linde Plc
NIKE
Schneider Electric SA
Tesco Plc
Walt Disney
Wolters Kluwer

Tax Transparency
AbbVie, Inc.
Amgen
Apple
McDonalds
Microsoft
Stellantis NV
Thermo Fisher Scientific, Inc.

VOTING RELATED ENGAGEMENTS

AGM engagement 2023
Aegon NV
Agilent Technologies Inc
Airbus SE
Avantor Inc
BAWAG Group AG
BFF Bank SpA
Boeing Co/The
Brighthouse Financial Inc
CB Richard Ellis Group, Inc.
Cheniere Energy Inc
Compagnie de Saint-Gobain
Deutsche Bank
Hana Financial Group Inc
Irish Residential Properties REIT PLC
Johnson & Johnson
Masco Corp
Monex Group Inc
Morgan Stanley
NextEra Energy Inc
Ovintiv Inc
Plug Power Inc
Prosus NV
Prysmian SpA
Quest Diagnostics, Inc.
Semen Indonesia Persero Tbk PT
Sendas Distribuidora S/A
Sociedad Quimica y Minera SA
VEF AB
Wells Fargo & Co.
Xylem, Inc.

SUSTAINABLE DEVELOPMENT GOALS

Fashion Transition
Beiersdorf AG
Birkenstock Holding Plc
Brunello Cucinelli SpA
Bureau Veritas SA
Cintas Corp.
Compagnie Financiere Richemont
Crocs Inc
Deckers Outdoor Corp
Eclat Textile Co Ltd
Ermenegildo Zegna NV
EssilorLuxottica SA
Estee Lauder Cos Inc/The
Etsy Inc
Hermes International SCA
HUGO BOSS AG
JD Sports Fashion PLC
Kering
L Oréal
Levi Strauss & Co
L'Occitane International SA
Lojas Renner SA
Lululemon Athletica Inc
LVMH Moet Hennessy Louis Vuitton
Marimekko Oyj
MercadoLibre Inc
Moncler SpA
NIKE
On Holding AG
Pandora A/S
PRADA SpA
Proya Cosmetics Co Ltd
Puma
Ross Stores Inc
Shiseido Co Ltd
Shopify Inc
Silgan Holdings Inc
Symrise AG
Watches of Switzerland Group PLC
Zebra Technologies Corp

SDG Engagement
AbbVie, Inc.
Adobe Systems, Inc.
Alphabet, Inc.
Amazon.com, Inc.
Amgen
Apple
AutoZone Inc
Banco BTG Pactual S.A.
Bank of Montreal
Capital One Financial Corp.
CB Richard Ellis Group, Inc.
Companhia de Concessoes Rodoviarias SA
Deutsche Boerse
eBay
Elanco Animal Health, Inc.
Electronic Arts, Inc.
Elevance Health Inc
F5 Networks, Inc.

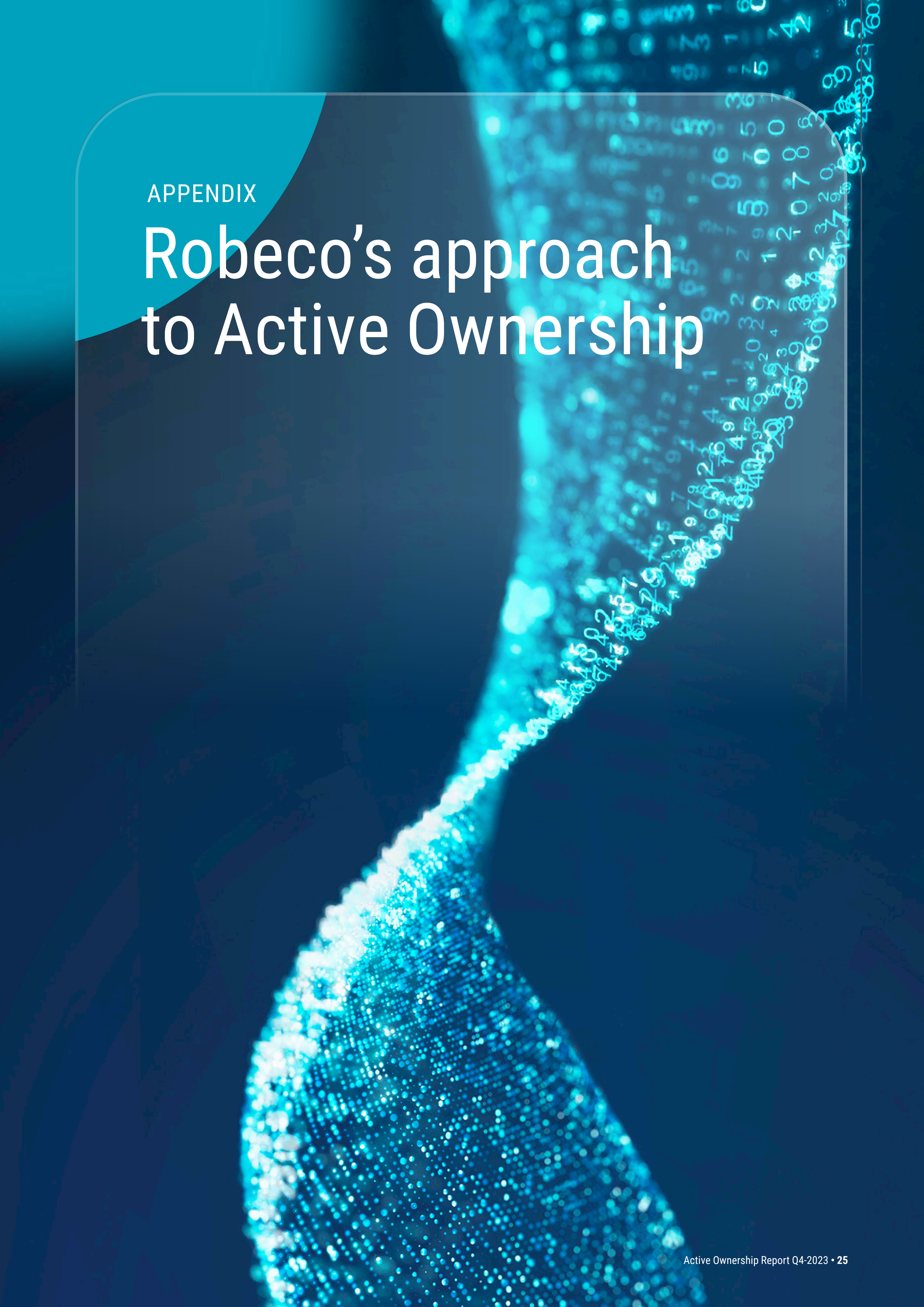
Grupo Bimbo SAB de CV
Hitachi Ltd.
Jeronimo Martins
L Oréal
LyondellBasell Industries NV
Meta Platforms Inc
Mr. Price Group Ltd.
NASDAQ OMX Group, Inc.
Neste Oil Oyj
Novartis
OTP Bank Nyrt
Rio Tinto
Salesforce.com, Inc.
SalMar ASA
Samsung Electronics
Sandvik AB
Sony
STMicroelectronics NV
Total
Trane Technologies PLC
Union Pacific
United Parcel Service, Inc.
Volvo Group

GLOBAL CONTROVERSY ENGAGEMENT

Acceleration to Paris
African Rainbow Minerals Ltd
Anhui Conch Cement Co. Ltd.
Berkshire Hathaway
Caterpillar, Inc.
Formosa Plastics Corp.
ITOCHU Corp.
Marubeni Corp.
Mitsubishi
Mitsui & Co Ltd
Nippon Steel & Sumitomo Metal Corp.
POSCO
SAIC Motor Corp Ltd
Sumitomo Corp.
Toyota Industries Corp
WH Group Ltd. (HK)

Global Controversy Engagement
Adani Enterprises Ltd.
Adani Ports & Special Economic Zone Ltd.
China Northern Rare Earth Group High-Tech Co Ltd
Elswedy Cables Holding Co.
Indivior Plc
Inner Mongolia Baotou Steel Union Co. Ltd.
Lockheed Martin Corp
Mattel
Metallurgical Corp. of China Ltd.
Raytheon Technologies Corp
United Phosphorus Ltd.
Zijin Mining Group Co. Ltd.

Palm Oil
MP Evans Group PLC
REA Holdings PLC
Wilmar International Ltd



APPENDIX

Robeco's approach to Active Ownership

ROBECO'S ENGAGEMENT POLICY

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out three different types of corporate engagement with the companies in which we invest;

Value engagement

a proactive engagement approach focusing on long-term environmental, social or corporate governance issues that are financially material or are causing adverse sustainability impacts. Engagements typically last for three years, after which progress against initially set objectives are evaluated, with unsuccessful closures being communicated to clients and investment teams but no divestment decision to follow.

Voting Related AGM engagement: Voting at the Annual General Meetings (AGM) of shareholders offers shareholders the opportunity to provide direct feedback to a company - either in advance or after a company's AGM. These dialogues are not recurring long-term engagements, but unique opportunities to amplify the impact of our voting decisions. Corporate governance as well as other sustainability topics that may arise during a shareholder meeting are covered under this section, if they are not covered in other parts of the engagement program.

SDG engagement

a proactive engagement approach focusing on driving clear and measurables improvements in a company's contribution to one or multiple of the Sustainable Development Goals. The engagement, lasting for three to five years, has its starting point within Robeco's SDG framework, identifying companies with the potential to meet key societal needs and works with timebound milestones to fulfil this potential.

Enhanced engagement

a reactive engagement approach, focusing on companies that severely and structurally breach minimum behavioral norms in areas such as human rights, labor, environment, biodiversity and business ethics, as defined by the UN Global Compact Principles or the OECD Guidelines for Multinational Enterprises. If after two to three years, the enhanced engagement does not lead to the desired change, exclusion from the investment universe may be a potential option. Clients may use their own discretion on whether to exclude a company from their investment universe. In all three types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

More information can be found on our website.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, like the way we look at other drivers such as company financials or market momentum.

More information can be found on our website.

THE UN GLOBAL COMPACT

One of the principal codes of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt several core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

More information can be found at:
https://www.unglobalcompact.org/

OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

The OECD Guidelines for Multinational Enterprises are recommendations addressed by governments to multinational enterprises operating in or from adhering countries, and are another important framework used in Robeco's engagement process. They provide non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognized standards.

The Guidelines' recommendations express the shared values of the governments of countries from which a large share of international direct investment originates and which are home to many of the largest multinational enterprises. The Guidelines aim to promote positive contributions by enterprises to economic, environmental and social progress worldwide.

More information can be found at: http://mneguidelines.oecd.org/

INTERNATIONAL CODES OF CONDUCT

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. Next to the UN Global Compact, the most important codes, principles, and best practices for engagement followed by Robeco are:

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

- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)

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

ROBECO'S VOTING POLICY

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International Corporate Governance Network (ICGN). By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

COLLABORATION

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO_2 emissions from companies, and the ICCR. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

ROBECO'S ACTIVE OWNERSHIP TEAM

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team. This team was established as a centralized competence center in 2005. The team is 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 Active Ownership team is part of Robeco's Sustainable Investing Center of Expertise headed by Carola van Lamoen. The SI Center of Expertise combines our knowledge and experience on sustainability within the investment domain and drives SI leadership by delivering SI expertise and insights to our clients, our investment teams, the company and the broader market. Furthermore, the Active Ownership team gains input from investment professionals based in local offices of the Robeco around the world. Together with our global client base we are able leverage this network to achieve the maximum possible impact from our Active Ownership activities.

ROBECO

Robeco Institutional Asset Management B.V. (Robeco) is a pure play international asset manager founded in 1929. It currently has offices in 15 countries worldwide and is headquartered in Rotterdam, the Netherlands. Through its integration of fundamental, sustainability and quantitative research, Robeco is able to offer institutional and private investors a selection of active investment strategies, covering a range of asset classes.

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

More information can be found on our website.

Important information

ROBECO

The Investment Engineers