

# Proxy Voting Report

Period: October 01, 2021 - December 31, 2021

Votes Cast	208	Number of meetings	17
For	196	With management	195
Withhold	0	Against management	13
Abstain	1		
Against	11		
Other	0		
<b>Total</b>	<b>208</b>	<b>Total</b>	<b>208</b>

In 47% of meetings we have cast one or more votes against management recommendation.

# General Highlights

## ESG & Compensation

Executive compensation has repeatedly been a topic of discussion among investors and companies. Shareholders, through voting and engagement, have an immense influence on executive remuneration matters, and are pushing companies to focus on long-term value creation and sustainable growth.

The trend we have seen over the recent years, is for investors to push companies to incorporate Environmental, Social, and Governance (ESG) metrics into their Short-term (STI) and Long-term (LTI) incentive plans. This trend is based on the idea that companies that promote sustainable business practices, and link executive pay to ESG metrics, are more likely to outperform those that do not. A study conducted by the Sustainable Insight Capital Management (SICM) and the Carbon Disclosure Project (CDP), showed that companies that are industry leaders with respect to climate, are generating superior profitability, cash flow stability and dividend growth for investors. But that hypothesis is not always confirmed, since there have been cases where shareholders experienced a significant hit due to ESG-related issues. The main challenge nowadays is for companies to determine the key sustainable metrics that are highly related to their sustainable business strategy, and how these should be linked to pay incentives.

One side of this challenge is that not all companies today are in a position to instantly change their business strategy and implement initiatives that are solely based on sustainable thinking. Nevertheless, executives and boards in those companies should recognise that sustainability will be one of the main drivers that will lead to a shift in the way their businesses operate over the next years. As such, they should find a way to implement small changes today while they work towards bolder transformations in the future. Compensation committees are too focused on trying to incorporate metrics in their remuneration schemes that are mostly related to mitigating ESG risk. Instead, they should aim to link executive bonuses to strategic opportunities related to sustainability that would create value. Metrics that reward executives' efforts to improve future performance by adopting sustainable practices, are welcomed by investors.

There is no one-size-fits-all solution on how to link executive compensation to sustainability and at the same time drive performance and successfully manage all stakeholders. That is why companies should look for those ESG metrics that are material for their industry. For example, a food company could link executive compensation to metrics that show the percentage revenue growth from the sales of healthy products. This metric would align executives with the societal goal of reducing junk food consumption to reduce dietary-related illnesses such as diabetes and obesity. A car manufacturer, on the other hand, might link compensation to the company's strategic shift to the sales of electric vehicles. Lastly, a financial services firm might reward its executives for successfully shifting the focus in capital allocation from fossil fuels, like coal, to sustainable projects and other sources of renewable energy.

Investors have increasingly supported the link of executive remuneration to sustainability. Over the last years many companies worldwide have adopted, based on their industry, ESG-related goals in their compensation packages. However, companies should clearly define those metrics that have a meaningful impact in their business strategy, by conducting a materiality assessment. The outcome of this assessment should be transparently disclosed, and the metrics used in the compensation scheme should have a measurable impact on stakeholders and a financial materiality for shareholders.

Addressing issues like climate change or social injustice might not have been the main priorities of management teams or supervisory boards a few years ago. However, the world we live in is rapidly changing, and as companies are part of our society, they need to find a way to address those issues too. Linking executives' pay to various sustainability metrics can be a useful tool and a good starting point that would help address multiple ESG opportunities and risks. In our voting approach we assess remuneration plans on incentive structure, transparency and total height. ESG components are an important part of the analysis on structure. If companies include relevant and adequate ESG metrics that are relevant to their business, the assessment gets a better result. Robeco also conducts an engagement program on executive remuneration, one key point of this engagement is to move companies to include the most relevant sustainability aspects in the variable pay for executive management.

# Market Highlights

## Corporate Governance Update: United Kingdom

The United Kingdom (UK) is known for being at the forefront of corporate governance and shareholder rights. The Companies Act provides shareholders, even those with relatively small positions, various instruments to ensure they can voice their opinion and draw the attention of the board of directors. Through the strong facilitation of the right to ask questions, submit proposals or present statements during the general meeting of listed companies, equity investors can share their views and act as a driver for specific courses of corporate action. The legal and regulatory framework in the UK lays out a strong fundamental environment for shareholder stewardship, which has been on the rise globally. Moreover, the country offers particular fertile conditions for shareholder activism to flourish, as it is in the midst of structural change, organising a post-Brexit economy, tackling a pandemic and mitigating climate change.

In recent years, the UK's Financial Reporting Council (FRC), has also raised the bar when it comes to approving signatories to their updated Stewardship Code. Stewardship codes set market expectations of how investors should behave themselves in relation to their investee companies and set a high standard of reporting on such activities. This year we have seen over one third of applications, including some major institutional investors, be rejected by the FRC after careful consideration.

The FRC recently published its annual review of corporate governance reporting in which they discuss the quality of disclosures against the UK Corporate Governance Code, setting out expectations of companies' reporting practices for 2022. The review focused on reporting around compliance with the code, the impact and outcomes of engagements, remuneration, and diversity and succession planning. Generally, the FRC recommends companies to enhance disclosure around their review processes, the link between their policies and strategy and around their interactions with stakeholders, using clear and consistent explanations supported by real life examples.

As reporting is key for shareholders to assess a company's performance and impact on all types of material matters, we fully agree with and support the recommendations of the FRC. The need for improvement around the coherence between a company's succession planning, diversity policies and strategy is also brought to light by the Parker Review, another great UK example of corporate governance leadership. This initiative is designed to address and improve racial and ethnic diversity in organisations. The Parker Review not only recommends a target for FTSE100 companies to include at least one director of colour as of January 1st 2022, it also takes a more holistic approach to diversity and inclusivity. For example, the Parker Review recommends companies to establish or revisit diversity and human capital policies in light of the corporate strategy and openly endorse the importance of diversity by leadership.

The UK continues to take a leading role in terms of spirit and legislative developments regarding corporate governance and shareholder rights. As a responsible investor, we will continue to closely monitor all (legislative) developments in areas of investment stewardship and corporate governance, to make sure we align with best practices.

# Voting Highlights

## **BHP Group Plc - 10/14/2021 - United Kingdom**

Proposal : Approval of the Climate Transition Action Plan and a Shareholder Proposal Regarding Disclosure Concerning Coal, Oil, Gas and Assets.

BHP Group engages in the natural resources business in Australia, Europe, China, Japan, India, South Korea, rest of Asia, North America, South America, and internationally. It operates through Petroleum, Copper, Iron Ore, and Coal segments.

This year's Annual General Meeting (AGM) of the BHP Group included some controversial proposals including a Say on Climate and several shareholder proposals. Especially interesting was the split in vote recommendations between the influential proxy advisors ISS and Glass Lewis, who disagreed on the credibility of BHP's climate plan. Despite the fact that BHP's Climate Transition Action Plan provides thorough discussion of its climate-related considerations and Capex spending, we have concerns regarding the level of ambition of the emissions reduction targets and their alignment with the goals of the Paris Agreement. In particular, the plan has limitations on how it will achieve, in full scope, its emissions reduction targets on scope 3 emissions. Besides that, the plan references the use of offsets to meet all of its targets while it remains uncertain of the quality and amount offsets that will be used. Therefore, we have decided not to support the company's Say on Climate at this point in time.

The shareholder proposal regarding disclosure concerning coal, oil, and gas assets, requested the company to disclose how its Capex will be managed consistently with a net zero by 2050 scenario. Generally, we support proposals that increase disclosure and transparency around sustainability and material ESG issues. While we are supportive of the spirit of this resolution, we judge it to be too demanding. The resolution was requesting information that cannot be determined with any level of accuracy and therefore adding little value to existing disclosures. We believe that voting against management's transition plan is a more effective way to encourage the company to enhance its decarbonisation strategy and the investments needed to implement it. For these reasons we also decided to not support the shareholder proposal in its current form.

The combined results for BHP's Australian and United Kingdom AGMs led to the adoption of the Climate Transition Action Plan by around 85% of the votes cast being in favor. The shareholder proposal regarding disclosure concerning coal, oil, and gas assets received only 14.2% support. Despite the adoption of the Climate Transition Action Plan in its current form, we hope the relatively low approval rate (compared to other Say on Climates) signals the company to further develop their decarbonisation strategy, something we will surely continue to closely monitor.

## **Royal Dutch Shell Plc - 12/10/2021 - United Kingdom**

Proposal: Adoption of new articles

Royal Dutch Shell plc operates as an energy and petrochemical company worldwide. The company operates through Integrated Gas, Upstream, Oil Products, Chemicals segments.

On November 15th Shell announced that it would change its share structure to establish a single line of shares, move its headquarters to London, and change their tax residence from the Netherlands to the United Kingdom. Shell explained that the unification of structure would make the company more agile in terms of M&A, disposals and their strategy in relation to the climate transition.

Shell's move triggered some debate around the Dutch dividend withholding tax and any impact on the appealed district court case vs Milieu defensie. Both are discussions of which the outcomes are not yet certain. We had several discussions with Shell on the various options for unification. Robeco attended the EGM via a video call and re-emphasised the expectations that the company further accelerate their climate strategy. On balance we believed that unification would enable Shell to better execute its strategy, and will benefit its shareholders. Therefore, we supported the proposal, which received over 99 percent support during the special meeting.

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