Responsible Investment Report – Q2 2020

Introduction

This report on Responsible Investment (RI) is a companion to the LPPI RI Dashboard (Appendix 1) and the Quarterly Active Ownership Report (Appendix 2).
It covers stewardship in the period 1 April to 30 June 2020 plus insights on current and emerging issues for client pension funds.

Key takeaways for the period:

- LPPI has adopted a clear public stance on Covid 19 and joined other investors publicly calling on government for recovery planning which builds a more sustainable, inclusive, and resilient economy for the future.
- LPP's second annual reporting to the Principles for Responsible Investment has been assessed and delivered high scores.
- As a supplement to the LPP Annual Report and Accounts 2019/20, LPPI will publish a first Annual Report on Responsible Investment in September 2020
- Investments in brown sectors (extraction, transportation, storage, supply, and generation of energy from fossil fuels) are 3% of the portfolio.
  Investments in green sectors (renewable energy generation, clean technology, and decarbonising activities) are 4% of the portfolio.

1. RI Dashboard – portfolio characteristics

This section of the report shares key takeaways from the RI Dashboard at Appendix 1.

Asset class metrics offer insights on the composition of the portfolio and its general characteristics. There has been minimal change compared with the position at Q1 2020.

Listed equities
Microsoft was added to the Global Equities Fund (GEF) in Q2 and now features in the top 10 positions.
The largest sectors are information technology (20%) and consumer staples (17%).
Comparing the GEF with the benchmark (MSCI ACWI) indicates how sector exposures differ from a global market index as the outcome of stock selection decisions by asset managers (active portfolio management).
The GEF is noticeably underweight energy (0.5% versus 3.6% for MSCI ACWI) indicating low exposure to companies extracting, transporting, storing, and supplying fossil fuels.

Only 12.5% of listed equities are under assessment by the Transition Pathway Initiative (TPI) which indicates of a relatively low exposure to carbon intensive activities.
Of the companies which are TPI assessed:

- by value, 97% are rated TPI 3 and above – demonstrably integrating climate change into their operational planning (TPI3) and strategic planning (TPI 4).
- all extractive fossil fuel companies are TPI 3 or above (100% compliance with LPPI's target for this sector).

Private Equity
Sector and geographical exposures are largely unchanged from Q1. The portfolio has a strong US presence (45%) and largest sector exposure is to Information Technology (32%).

Infrastructure
Sector and geographical exposures are largely unchanged from Q1. The portfolio is predominantly focussed within the UK/Europe (43% / 37%) and is 61% utilities (supply of power and water).

Real Estate
Sector and geographical exposures are unchanged from Q1.
The portfolio is 79% UK assets and has a 37% weighting to industrial uses (logistics).
Real World Outcomes feature the Real Estate portfolio this quarter, with additional information giving a flavour of the way in which real estate investments are making a positive social contribution in addition to achieving returns for the Fund

Green & Brown Exposures
Focussing specifically on direct assets (listed equity, private equity, and infrastructure) we have begun to calculate the Fund's exposure to Green and Brown activities. The resulting numbers give an indication, rather than a precise measure, as an assistance to reviewing the overall position.

Green activities are those directly contributing to decarbonisation, principally through renewable energy generation, but we include other activities supporting lower emissions including district heating, and waste management. Brown activities are those directly involved with extracting, transporting, storing, and otherwise supplying fossil fuels, or using them to generate energy.

This is a new form of analysis, and our methodology is still developing, particularly as we work to improve look-through to underlying assets held by pooled vehicles and fund of funds. Multiple factors affect the % exposure. The size of the fund (as the denominator) and of individual assets values within it (cumulatively the numerator) change continually, reflecting that individual assets are being revalued (upwards and downwards) existing assets are being sold, and new assets are being acquired continually and simultaneously across multiple funds and mandates.

Overall levels of Green and Brown exposures show minimal change compared to Q1 2020. Brown activities remain at 3%. Green activities at 4%.
Brown exposure is principally arising from infrastructure and reflects indirect investments in midstream oil and gas as part of infrastructure pooled funds (44% of Brown).
Green exposure is 99% infrastructure and reflects renewable energy generation from wind, solar, hydro, and waste (collectively 84% of total green exposure).

2. Core Stewardship

This section of the report gives an overview of stewardship activities in the period.
Client pension funds delegate day to day implementation of the Partnership's approach to RI to Local Pensions Partnership Investments Ltd (LPPI). Ongoing stewardship activities by LPPI

include portfolio and manager monitoring and the exercise of ownership responsibilities via shareholder voting, and engagement.

Shareholder Voting - LPPI Global Equity Fund (GEF)

Shareholder voting is overseen centrally by LPPI rather than by individual asset managers. LPPI receives analysis and recommendations from an external provider of proxy voting and governance research. We follow Sustainability Voting Guidelines focussed on material ESG considerations and liaise with providers and asset managers as needed to reach final voting decisions.

Full details of all shareholder voting by LPPI is publicly available from the LPP website within quarterly shareholder voting reports.

Shareholder voting headlines for 2020 Q2 appear on page 3 of the RI Dashboard. The period April to June encompasses peak voting season which is evident from the number of meetings (338) and proposals voted (4,558).

a) Company Proposals

LPPI supported 93% of company proposals in the period.
Opposition voting concentrated on

- the election of directors (addressing individual director issues, overall board independence, inadequate board diversity)
- non-salary compensation (addressing inadequate disclosure of underlying performance criteria, quantum of proposed rewards)

Insights – Director related

LPPI voted against 11 directors across nine company meetings regarding a lack of gender diversity on the Board. The companies concerned currently have no female directors.
At Perficient, Inc (USA: IT Consulting & Other Services) 58.6% of votes opposed the re-election of the Chair of the Nominating Committee. At the three other company meetings where results are disclosed, opposition votes against ranged from 7.6% to 23.3%.

LPPI voted against or withheld support for

- eight directors across nine meetings due to nominee directors being over-boarded. (Results: 8.1% - 35.6% Against)
- individual directors at six meetings due to poor attendance. These parties had failed to attend at least 75% of meetings in 12 months with no satisfactory reason for their absence. (Results:10.7% - 33.5% against).

The significant challenges posed by Covid 19 highlight the importance of strong governance and agile management strategy, both are reliant on engaged and able Board members devoting sufficient time to their role and duties.

Insights – Non-salary compensation

LPPI opposed management in 39 “say on pay” votes across 28 meetings. Common reasons included poor transparency around short-term and long-term incentive programmes, the granting of discretionary pay awards or increases without sufficient justification, and excessive total pay packages.

A majority of shareholders (including LPPI) voted against proposals on compensation at the following company meetings:
Sanofi (France: Pharmaceuticals),
Altria Group (USA: Tobacco),
Investors Bancorp (USA: Regional Banks)
Fidelity National Information Services (USA: Data Processing & Outsourced Services)
At the other companies, shareholder dissent ranged from 3.2% to 34.3%.

At the McDonalds AGM, LPPI's voting supported issues raised by a delegate manager's direct engagement with the company regarding the alignment of executive pay with long-term shareholder interests. This involved voting against the Remuneration Report and the re-election of members of the Remuneration Committee. This represented an escalation for the manager following limited progress made. The same manager has also recently closed a similar engagement with Mastercard successfully, following consistent and targeted long-term engagement.

b) Shareholder Proposals

LPPI voted on a total of 181 shareholder proposals, supporting 65%.

Of the shareholder resolutions LPPI supported, 14 related to improving the disclosure of political lobbying by companies including Pfizer (USA: Pharmaceuticals) and Motorola Solutions (USA: Communications Equipment). One resolution passed. At Western Union (USA: Data Processing & Outsourced Services) 53% of shareholders voted in support. At the remaining 13 meetings, shareholder support ranged from 12.7%-47.5%, averaging 36.3%.

At Alphabet (USA: Interactive Media & Services) LPPI supported a resolution co-filed by delegate manager Robeco on establishing a Human Rights Risk Oversight Committee within the Board of Directors. The resolution forms part of an engagement by the Robeco Active Ownership Team on the Social Impact of Artificial Intelligence (AI) which is featured in more detail below. The resolution followed a coordinated investor letter to Alphabet seeking constructive dialogue around the company's human rights approach. As the company was unresponsive, Robeco co-filed the resolution as an escalation. 16% of shareholders voted in favour of the resolution which, Robeco note, represents 45% of non-controlling shareholder votes.

LPPI supported five shareholder resolutions related to climate change at 4 meetings. Proposals included target setting for greenhouse gas emissions reduction and greater transparency through better corporate reporting on the mitigation of climate change risk. (Votes in favour ranged from 14.9% to 48.6%).

Shareholder Engagement

Company and manager engagements are underway on an ongoing basis, directly through board seats and Limited Partner Advisory Committees (LPAC) for private market assets, and more conventionally through shareholder engagement with listed companies.

LPPI's engagement partner Robeco has now completed a first full quarter of activity under the new contract for engagement services. The Active Ownership Report at Appendix 2 provides narrative on thematic engagements underway with listed companies (representing shares held by the Global Equities Fund, or corporate bonds held by the LPPI Fixed Income Fund).

Headlines for the period are summarised in the RI dashboard (at Appendix 1). The Robeco Active Ownership Team engaged with 66 companies, the predominant focus of these interactions was corporate governance (29%) and environmental management (24%). The current status of each engagement theme (as it stood at the end of the quarter) is summarised in the table “Engagement Results per Theme”.

Of 17 themes, four (Sound Environmental Management, Sound Social Management, Good Governance, and Global Controversy Engagement) are evergreen. The remaining 13 are thematic and reflect priorities identified through a combination of Robeco research and client input. Each theme is scheduled to last approximately three years, with progress continually tracked against clear objectives.

The first theme listed (ESG challenges in the auto industry) concluded at the end of June 2020 with an 80% success rate (Four of the five companies engaged have met the target outcomes in full, the fifth has met 4 out of 5 target outcomes.
Dialogue with companies focussed on commitments and outcomes around the following issues

- effective product quality management systems
- innovative business models
- forward looking product development
- impeccable product quality performance
- responsible lobbying

Each quarter, we will provide further insights into one of the live themes underway by the Robeco Active Ownership Team.

Case study - Social Impact of Artificial Intelligence (AI)

The Social Impact of AI theme commenced in 2019. It is focussed on the Information and Communication sector (companies either directly developing or using AI within the core of their business model). It addresses the position that

- the technological development and application of AI outpaces the evolution of principles (soft law, company principles, sector principles) and the implementation of legislation on the responsible use of the technology
- a lack of proper oversight and accountability in the development and deployment of AI applications may have negative consequences for society and for the companies involved.

The objectives of the engagement are to promote strong governance and human rights practices which mitigate negative social impacts from AI. Companies with clear policies, risk management systems and strong structures of accountability are less likely to be adversely impacted by incoming regulations or by reputational risks arising from association with mass surveillance, civil rights abuse, automation of the workforce, and content moderation and safety. The engagement will establish how well-placed companies are to manage the social impacts of AI judged against the following criteria:

- policy & guidelines
- governance
- due diligence

- design, development, and implementation
- stakeholder engagement

There is an expectation companies will adopt a socially conscious approach to machine learning from an early stage and maintain adequate knowledge of human rights and ethics within their development teams.

8 companies held by LPPIs GEF are being engaged under the theme

Accenture	Facebook
Alphabet	Hangzhou Hikvision
Apple	Microsoft
Booking Holdings	Visa

The status of the theme is reported as flat progress at the end of Q2.
This reflects the theme is relatively new and at preliminary stages of communication following initial dialogue around the concerns and investor asks of each company.
Under the AI theme, Robeco took the opportunity to co-file a shareholder resolution at the Alphabet AGM in April 2020, supporting a call by a wider coalition of investors for the company to establish a Human Rights Risk Oversight Committee composed of independent directors. https://www.ft.com/content/02f38575-1050-4f18-a49d-52bd054a5d51
LPPI voted in support of the shareholder resolution at the Alphabet AGM.

3. Collaborations and Partnerships

LPPI participates in a range of investor groups and partnerships which are opportunities for shared learning and a platform for collective action.
The following are headlines for 2020 Q1.

Coronavirus Response

As reported last quarter, LPPI has taken steps to publicly communicate a clear and responsible stance on Covid 19 by signing an Investor Statement on Coronavirus Response focussed on safeguarding employees and prioritising resilience and recovery.
https://www.localpensionspartnership.org.uk/News-and-views/details/LPP-signs-investor-statement-on-Coronavirus-response-

Subsequently, we are one of more than 200 businesses and investors to call on the UK government to deliver a recovery from the pandemic which builds a more sustainable, inclusive, and resilient UK economy for the future. We have signed a letter to the Prime Minister conveying strong support for a plan from the UK Government which:

- drives investment in low carbon innovation, infrastructure, and industry
- supports sustainable growth and increased job creation
- includes financial support package measures for businesses that are aligned with national climate goals.

LPPI has also signed an open letter to EU leaders urging planning for a sustainable recovery from COVID-19 which.

- prioritises human relief and job creation without locking in high carbon pathways.
- supports the Green Deal and upholds the Paris Agreement.
- ensures COVID-19 support addresses climate risk.

- prioritises climate resiliency and net zero emissions within economic solutions.
- embeds investor participation in recovery planning.

Institutional Investor Group on Climate Change (IIGCC)

LPPI has recently become a full member of the IIGCC. This confirms our commitment to working collaboratively with other investors to develop

- the tools, insights, and agreed best practice needed to assess and manage the risks our portfolios face
- the critical mass to positively influence companies and key actors to align their strategy, actions, and influence with meeting global targets for emissions reduction under the Paris Agreement.

In practice, LPPI has been working with the IIGCC for some time, most recently as a member of the Real Estate Working Group of the Paris Aligned Investment Initiative. Here we contributed our observations on the data challenges associated with being able to model portfolio carbon intensity and 1.5°alignment.
https://www.iigcc.org/news/european-investors-launch-project-to-support-alignment-of-portfolios-to-the-paris-agreement/

LGPS Scheme Advisory Board (SAB) / LGPS Cross Pool RI Group

As the Chair of the Cross-Pool RI Group, LPPI's Head of RI has been involved in preliminary discussions around to the Scheme Advisory Board's plan to support the development of an online A to Z of RI.

This is intended to be a useful and practical tool which will assist funds to make sense of the jargon and fit together the multiple pieces which make up the jigsaw of Responsible Investment and stewardship. LPPI has welcomed the initiative, offered practical advice on design and content, and will seek to support the ongoing development of a useful tool for LGPS pension funds.

Further details on the initiative are available from the SAB website:
https://lgpsboard.org/images/PDF/IGECJuly2020/Item4PaperCResponsibleinvestmentGuidanceUpdate.pdf

4. Other News and Insights

Principles for Responsible Investment

LPP became a signatory to the Principles for Responsible Investment in July 2018 and completed a first round of detailed reporting in 2019 – the first LPGS Pool to do so.
LPP's second set of annual reporting to the PRI was submitted in March 2020.
Our 2020 Assessment Report received in August 2020 confirms we have achieved the highest possible grade (A+) for our Strategy and Governance.

PRI Assessment Reports give us objective external assurance that our RI approach is well aligned with high standards.

Our rating for Strategy and Governance has improved from A to A+ between 2019 and 2020 and we continue to be rated A for our Selection Appointment and Monitoring of Managers. The steps we have taken to capture better data on our activities have been recognised in an improved assessment of our Direct Active Ownership, where we have progressed from a C to B. We continue to work on and evolve our approach and practices and to increase our transparency on RI and Stewardship issues in general

Annual Report on Responsible Investment

LPPI will publish a first Annual Report on Responsible Investment this autumn, as a dedicated supplement to the LPP Annual Report and Accounts 2019/20. The report will incorporate disclosure in line with the approach recommended by the Taskforce on Climate related Financial Disclosure (TCFD). Our first TCFD report was published last year.

This is a new approach which reflects our focus on improving communication about our RI and Stewardship activities; we recognise that this is an area of growing interest for our stakeholders.

In addition to increasing our commentary on RI and Stewardship through an Annual Report, we are making more information available from the RI section of the LPP website where visitors can view our RI Policy and its annexes in full, read more about our approach and see examples of our ongoing activities and partnerships.
(www.localpensionspartnership.org.uk/)

Responsible Investment Dashboard Q2 2020

1. Portfolio Insights

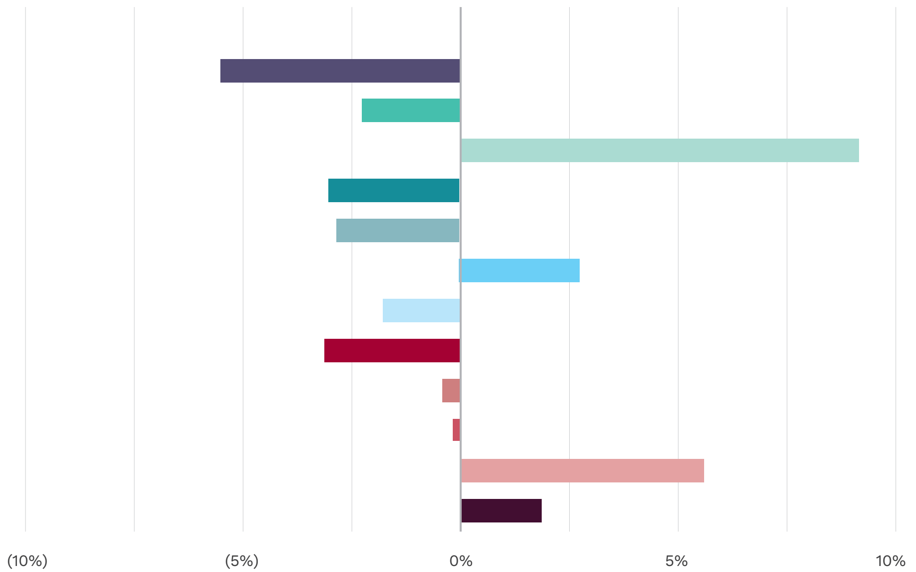
Appendix 1

Listed Equities (LPPI Global Equity Fund)

Sector breakdown (%)

Information Technology	20.7
Health Care	7.3
Consumer Discretionary	9.5
Consumer Staples	17.3
Energy	0.5
Materials	1.7
Industrials	12.2
Financials	11.6
Communication Services	6.2
Utilities	2.8
Real Estate	2.7
Cash	5.6
Others	1.8

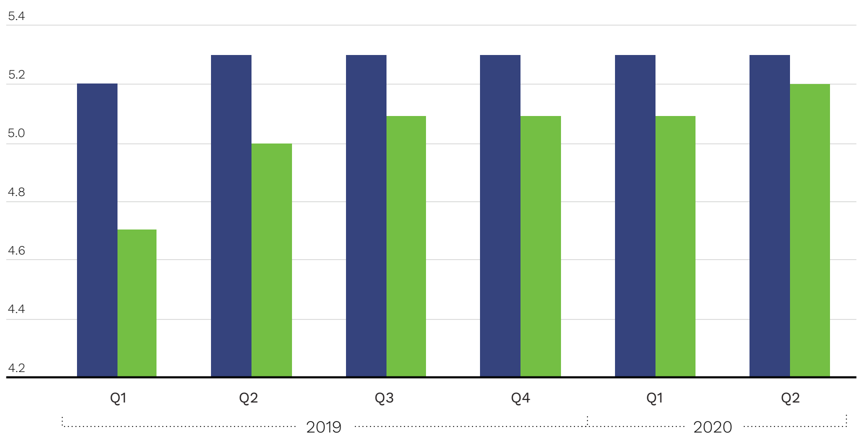
LPPI Global Equities Fund sector weights VS MSCI ACWI ND



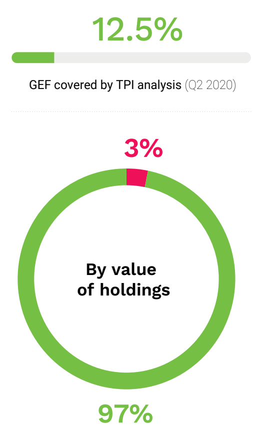
Top 10 positions

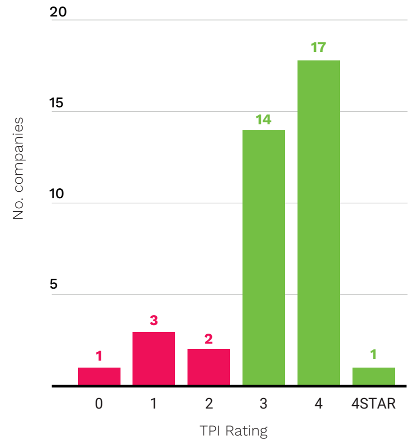
	Portfolio (%)
1. Nestle	3.1
2. Visa	2.7
3. Colgate - Palmolive	2.5
4. Accenture	2.4
5. British American Tobacco	2.3
6. Starbucks Corp	2.2
7. Pepsico	1.7
8. Starbucks	1.7
9. SPDR Gold Shares	1.6
10. Apple	1.5

Portfolio ESG Score (MSCI ESG Metrics)



Transition Pathway Initiative – Management Quality Headlines





TPI Management Quality Rankings

- **0** - Unaware
- **1** - Aware
- **2** - Building capacity
- **3** - Integrated into operational decisions
- **4** - Strategic assessment

Responsible Investment Dashboard Q2 2020

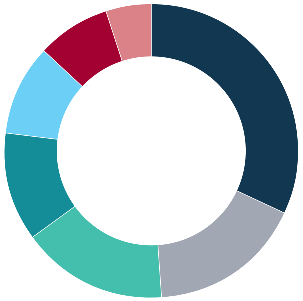
1. Portfolio Insights

Lancashire County Pension Fund | LPP Local Pensions Partnership

Other asset classes

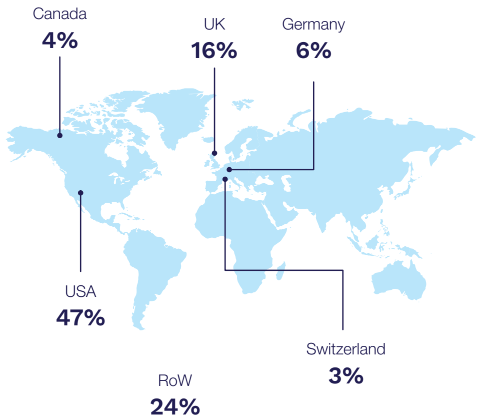
Private Equity

Industry Breakdown (%)



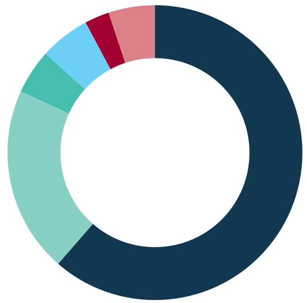
- I.T. **32**
- Other 17
- Industrials 16
- Healthcare 12
- Consumer Discretionary 10
- Financials 8
- Consumer Staples 5

Region Breakdown (%)



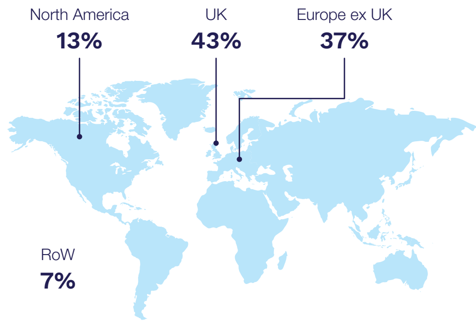
Infrastructure (LPPI Global Infrastructure Fund)

Industry Breakdown (%)



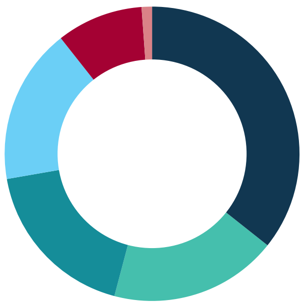
- Utilities **61**
- Industrials 20
- Energy 6
- Healthcare 5
- Other 5
- PPP 3

Region Breakdown (%)



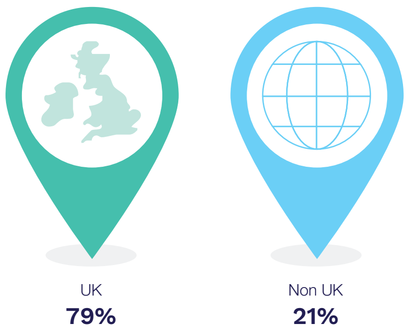
Real Estate (LPPI Real Estate Fund)

Sector Breakdown (NAV %)



- Industrial **36**
- Office 18
- Other 18
- Retail 17
- Residential 10
- Agriculture 1

Geographical Exposure (NAV %)



Green & Brown Exposure

Green

Investments in businesses directly contributing to the global transition to a lower carbon economy, expressed as a % of the total value of the Pension Fund.

4.02% of portfolio
- Public Markets 0.04%
- Private Markets 3.98%

3.39% Renewable Energy Generation
- Solar 0.14%
- Wind 2.24%
- Hydro 0.07%
- Other 0.95%

0.63% Other "Green"
- Activities Reducing Carbon 0.63%

Brown

Investments in traditional energy (based on fossil fuels) expressed as a % of the total value of the Pension Fund.

3.15% of portfolio
- Public Markets 0.23%
- Private Markets 2.93%

2.61% Energy
- Upstream 0.18%
- Midstream 1.39%
- Downstream 0.73%
- Integrated 0.30%

0.54% Generation
- Power from fossil fuels 0.54%

Responsible Investment Dashboard Q2 2020

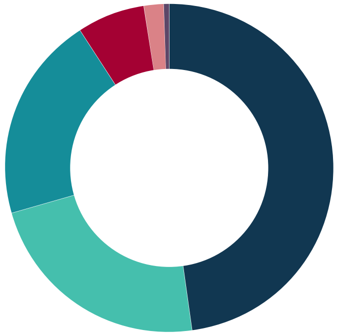
2. Stewardship Headlines

Shareholder Voting

Shareholder Voting Statistics (LPPI Global Equity Fund)

Headlines

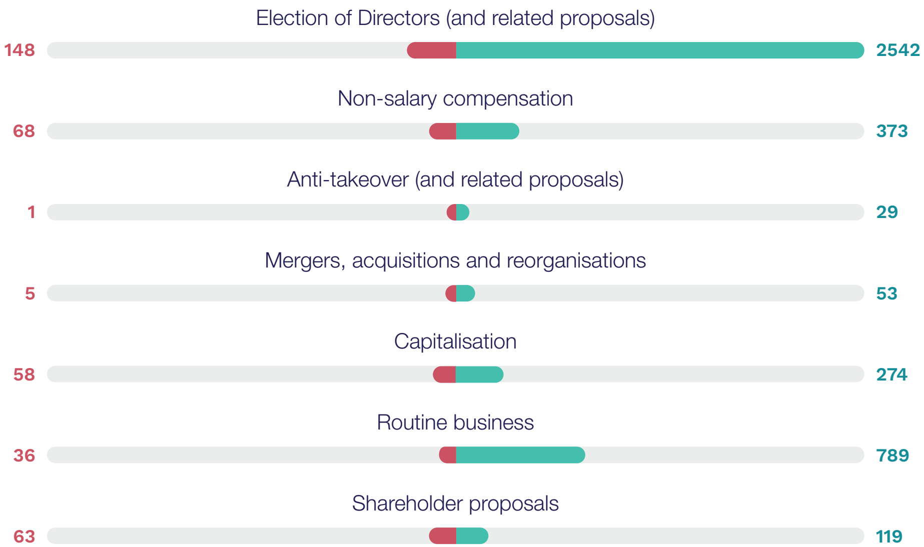
Meetings Voted	Proposals Voted	Company Proposals	Shareholders Proposals	Meetings with a vote against Management
338	4,558	4,377 (Supported 93%)	181 (Supported 65%)	41%



Votes Against Management (By Theme)

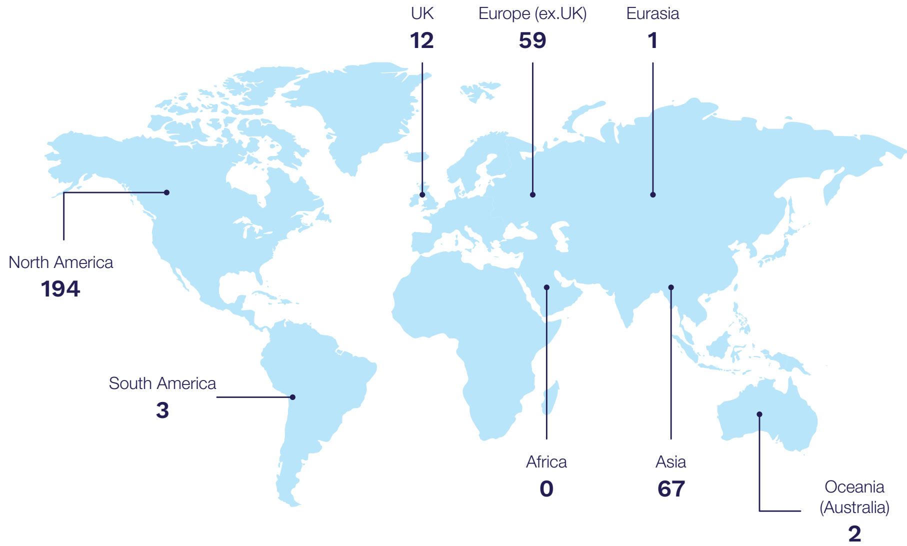
- Election of Directors (and related proposals) **128**
- Non-salary compensation **61**
- Capitalisation **54**
- Routine business **18**
- Mergers, acquisitions and reorganisations **5**
- Anti-takeover (and related proposals) **1**

Voting (By Theme)



Theme	Against	For
Election of Directors (and related proposals)	148	2542
Non-salary compensation	68	373
Anti-takeover (and related proposals)	1	29
Mergers, acquisitions and reorganisations	5	53
Capitalisation	58	274
Routine business	36	789
Shareholder proposals	63	119

Voting (By Region)



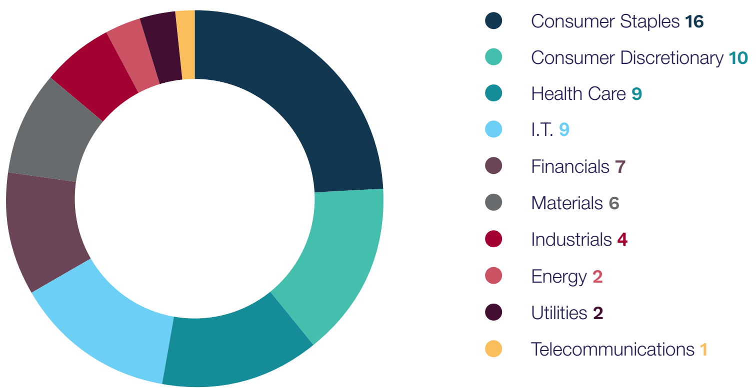
Responsible Investment Dashboard Q2 2020

2. Stewardship Headlines

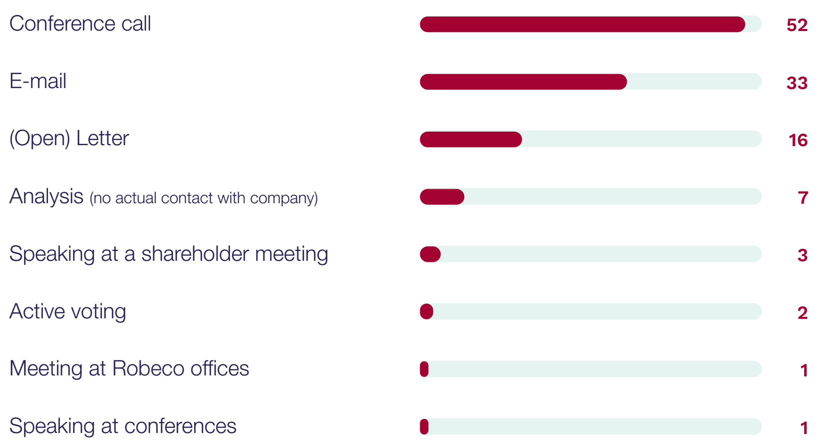
Engagement (Public Markets)

Activity (by Topic)

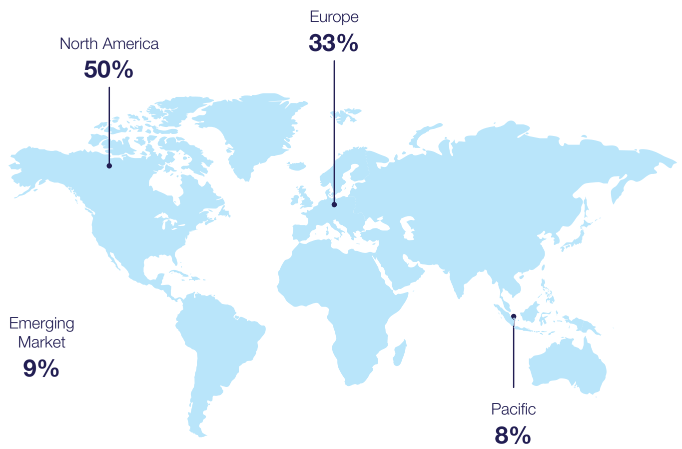
Activity (by Sector)



Activity (by Method)



Activity (by Region)



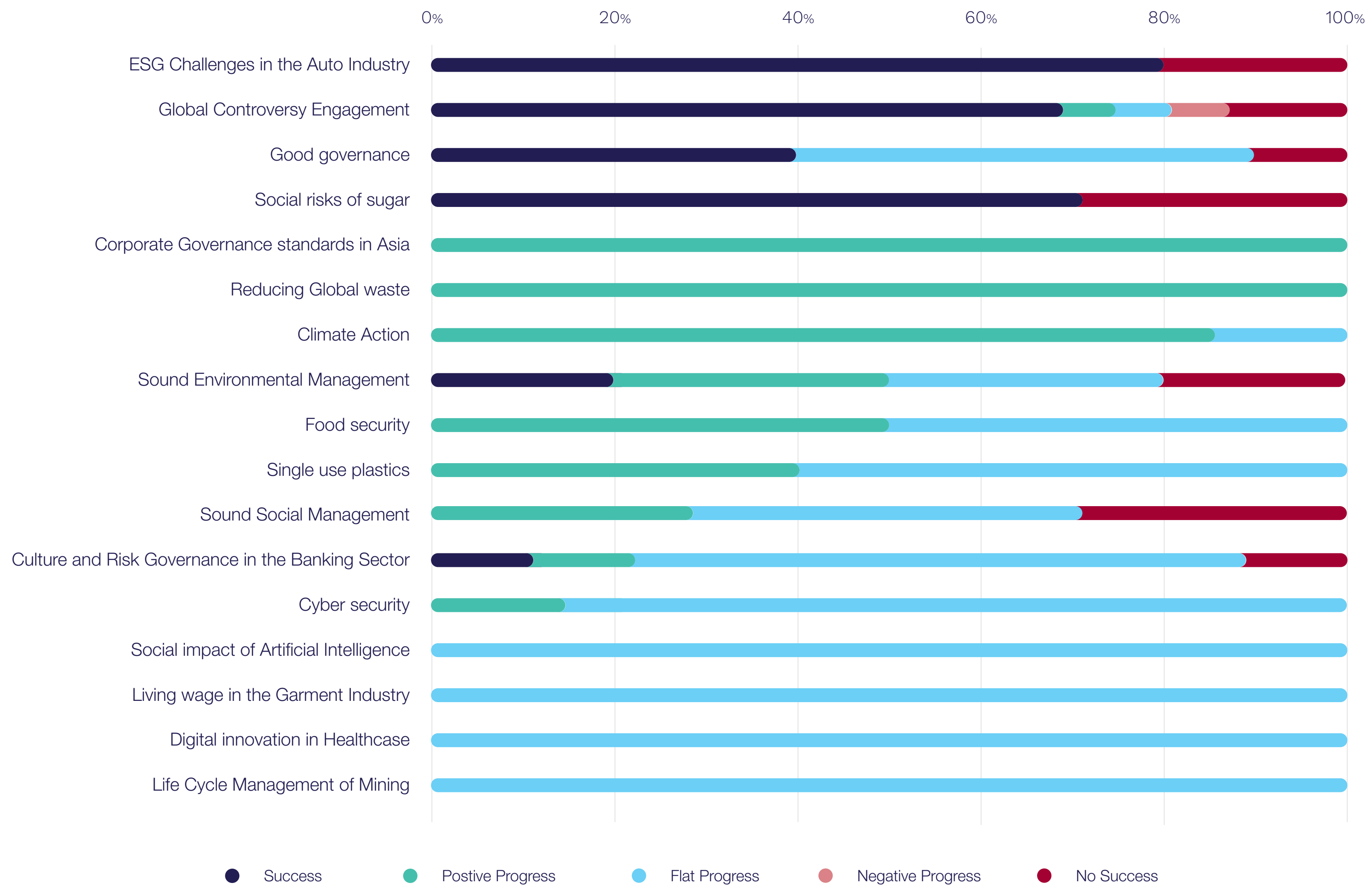
Source: Robeco Active Ownership Report Q2 2020

Responsible Investment Dashboard Q2 2020

2. Stewardship Headlines

Engagement (Public Markets)

Engagement Results (by Theme)



Source: Robeco Active Ownership Report Q2 2020

Responsible Investment Dashboard

3. Real World Outcomes - Real Estate

Examples

Direct investments

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

Real estate funds with assets in the UK and ex-UK

50 direct commercial properties in the UK (industrial, office, and retail). Tenant businesses provide goods, services, and employment opportunities.

High Standards for sustainablity

- Minimum standards for construction and refurbishment (BREEAM very good or excellent) (Building Research Establishment Environmental Assessment Method)
- A flood risk threshold below 0.1% (a 1 in 1000 chance of flooding each year as assessed by the Environment Agency).
- Properties are assessed for their suitability for the installation of photovoltaic panels.
- A rolling program of works to increase the Energy Performance Ratings of buildings to a minimum of EPC B by 2030.

18 sites have roof mounted solar PV installations currently

1,196,500
A generation capacity (at peak) (kW)

1,075,384
Energy generated annually (kWh)

Sufficient to power
371
UK households for a year.

Direct investments include some substantial properties in North West England:

Logistics Hub
Multiply Logistics North, Bolton

Redevelopment of former open cast coal mine between Preston and Manchester into one of the North West's premier logistics hubs, totalling 800 acres. The development consists of 10 distribution units ranging in size from 20,000 to 150,000 sq ft delivering modern facilities to local businesses and creating employment opportunities. The site is already home to Aldi's North West Regional Distribution Centre.

Responsible Investment Dashboard

3. Real World Outcomes - Real Estate

Examples

Direct investments

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

Real estate funds with assets in the UK and ex-UK

The Fund's County Portfolio invests exclusively in the County of Lancashire.

Student Accommodation
St Leonards House, Lancaster

Redevelopment of disused listed building, former factory of renowned furniture manufacturer Waring & Gillow, into 180-bed student accommodation, situated in Lancaster city centre. There are circa 13k students studying at the University of Lancaster, 66.4% are from the UK, 9.7% are from other EU countries, and 23.9% are from non-EU countries.

Supermarket
Booths, Lytham St Annes

Part of the redevelopment of a former Department for Work and Pensions site, the building opened as a Booths store in 2015. The site (38,000 sq. ft) was acquired for the County Portfolio in May 2020 and houses a North-west company which provides employment, supports local businesses, supplies regional produce, and directly serves the local community.

4* Hotel
Park Hotel, East Cliff, Preston

The conversion of a landmark property back to its former use as a luxury hotel comprising 70 bedrooms, a ground floor restaurant and function rooms and high-quality office accommodation. The rejuvenation, construction, and operation of the hotel will create jobs and bring direct economic benefit to Preston.

Responsible Investment Dashboard

3. Real World Outcomes - Real Estate

Examples

Real Estate Funds

The Fund's real estate portfolio includes:

Direct investments in residential and commercial property in the UK

Real estate funds with assets in the UK and ex-UK

Specialist accommodation

Healthcare Property Fund
UK care home facilities

A Healthcare Property Fund supporting best in class UK care home facilities through buildings let to tenant operators providing elderly, nursing, and dementia care to vulnerable residents.

18 homes

1,247 beds

100% ensuite rooms

96% full wetroom facilities,

+1,000 jobs

High satisfaction ratings

Residential accommodation

Shared ownership housing
Real Estate Investment Trust (REIT)

Facilitating the development of shared ownership residential properties in the UK through Heylo Housing. 3,095 homes in shared ownership across the UK.

3,095
homes in shared ownership across the UK through Heylo Housing

Private Rented Sector
Gatefold, Hayes (Middlesex)

A development of 119 quality new build apartments (1, 2 and 3 bedroom) for private rental in Hayes, Middx, incorporating affordable housing let to a local housing association.

Positive tenant feedback, particularly in relation to lockdown (Covid 19)

119
quality new build apartments

ROBECO
The Investment Engineers

Appendix 2

Active Ownership Report Q2-2020

ROBECO | 01.04.2020 - 30.06.2020

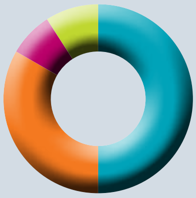
LPP
Local Pensions Partnership

LPPI became a client of Robeco Active Ownership in Q1 2020.
The engagement services provided by Robeco encompass the LPPI Global Equity Fund and LPPI Fixed Income Fund.
This Active Ownership Report is the first of a quarterly series providing information and insights.

Sustainable Investing Expertise by ROBECOSAM

Engagement activities by region

North America	50%
Europe	33%
Pacific	8%
Emerging Markets	9%



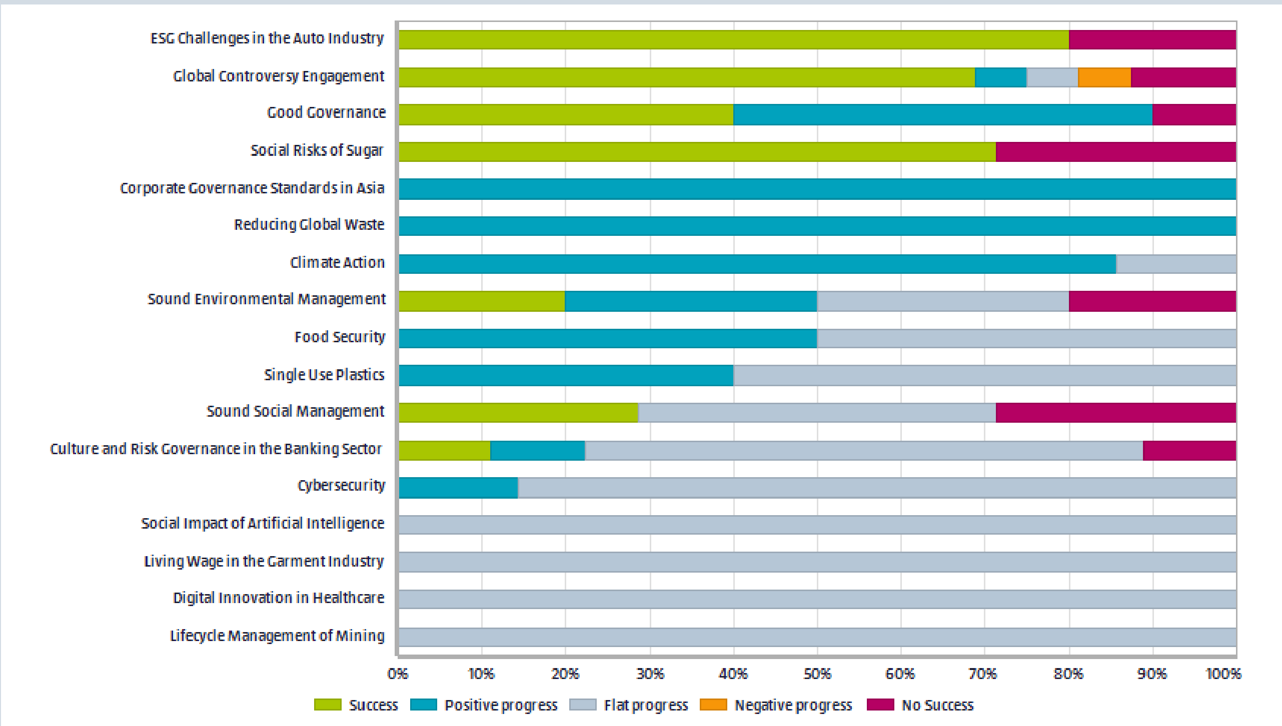
Engagement overview by topic

Environmental Management	16
Environmental Impact	5
Human Rights	11
Healthy Living	10
Social Management	3
Corporate Governance	19
Global Controversy	2

Engagement by contact type

Analysis (no actual contact with company)	7
(Open) Letter	16
Meeting at company offices	1
E-mail	33
Active voting	2
Shareholder resolution	0
Conference call	52
Speaking at a shareholder meeting	3
Meeting at Robeco offices	0
Speaking at conferences	1
Issue press release	0

Engagement results per theme



Contents

Introduction

The second quarter of the year is always a busy time for Robeco's Active Ownership team, since the majority of shareholder meetings take place. Although the Covid-19 pandemic caused some meetings to be postponed, the overall proxy voting system proved to be sufficiently resilient. Given the challenging circumstances around the world, it was especially important that we made our shareholder voices heard and encouraged companies to take action on material ESG issues.

Climate change was once again a central theme throughout the voting season, and we played an active role in bringing this issue front and center. In May, we successfully nominated a sustainability expert to the board of directors at Enel to enhance the climate expertise of the board. This accomplishment comes after a long standing engagement with the company surrounding its climate approach.

For this voting season, we also filed several shareholder resolutions on a variety of topics. On the social side, the potential for human rights abuse in the tech industry remains relatively unaddressed by some companies. Therefore, at Alphabet's recent annual meeting, we filed a resolution requesting the board to establish a Human Right Oversight Committee.

We are pleased to announce the official launch of our new engagement theme on the lifecycle management of mining. The aim of this engagement theme ranges from improving disclosure of tailing dam risks to encouraging best practices for water management.

Lastly, due to the important role of governments in our active ownership activities, we sent a letter to EU leaders calling for an economic recovery that maintains 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 IIGCC, in coordination with the Principles for Responsible Investment (PRI) and Carbon Disclosure Project (CDP).

Carola van Lamoen
Head of Active Ownership

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. In this article, Engagement Specialist Peter van der Werf shares our conclusions after three years of engagement.

Peter van der Werf

Global impact of sugar during the Covid-19 pandemic

Sugar contributes strongly to the current global obesity pandemic, and to the onset of diabetes, given its presence in almost all packaged food or drinks. The economic costs of this pandemic are clear; USD 2 trillion annually, or nearly 3% of global GDP. It is estimated that obesity, along with smoking and armed violence, is one of the top three social burdens induced by humans.

Sugar has a direct link with one-third of the Covid-19 fatalities as these were associated with diabetes, according to a study by the National Health Service (NHS) in the UK. 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.

Product reformulation continues in 'stealth mode'

Companies across the engagement peer group have made good progress with product reformulation. We expect them to continuously review their product ingredients and reduce sugar content where feasible.

All eight companies agreed with the need for reformulation and are reporting progress on their metrics of product portfolio renovation in their sustainability reports. When it comes to communicating this to their clients, many companies initially opted for 'stealth reformulation', i.e. only mentioning on the back of the packet that the product's sugar content has been reduced. This is due to the negative reaction that their consumers often give to prominent announcements of sugar reduction, resulting in a sharp drop in sales.

We are satisfied with the product reformulation activity in the industry which in many cases has led to a drop of 10% of the sugar content on average. However, we remain concerned about the large volumes of sugar that are still sold to consumers as part of processed foods, especially

as this pertains to some of the flagship legacy products that remain a very important cornerstone of their product portfolios.

Innovation focuses on acquisition of healthy brands

Not all companies under engagement have made the level of progress on innovation management that we expect from the food industry. The leading companies have made larger shifts in strategy towards healthy product categories, which we think provides the best future-proof strategy when it comes to minimizing the social risk of sugar. Examples include focusing on dairy products or moving away from higher sugar content beverages into lower sugar categories.

Other companies indicated that in general, having healthy attributes are an important consideration for any new product launch. However, some companies remain heavily vested in high-sugar carbonated soft drinks, or are expanding into energy drinks with a high sugar content. Or they are continuing to focus on highly processed food products which in most cases need sugar to make them palatable for consumers.

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 Sustainable Development Goal (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 when it is not consumed in moderation.

Marketing efforts have slightly improved but are still geared towards maximizing consumption of all products, including those with a high sugar content. They are therefore not focused sufficiently on promoting healthy consumption among consumers.

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.

Obesity risk continues to be an overhang for the industry

We have asked all eight companies to improve their product reformulation and labeling; to engage in responsible marketing and responsible lobbying; and to make substantial innovation in both individual products and their overall product portfolio.

Ultimately, we want companies to make a positive contribution to SDG3 on Good Health and Well-being. The Covid-19 pandemic has further strengthened our view that obesity is an important global health risk with a significant economic impact.

The food industry will be held accountable for its future role in marketing high-sugar products for consumers who are not able to make dietary choices that prevent obesity. This obesity risk therefore continues to be a long-term overhang for the industry.

Living wage in the garment industry

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 the year, a much steeper decline than that of the overall stock market. This epidemic has also shifted investor focus on how companies treat their employees, customers and suppliers.

Laura Bosch

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. Factories in producing countries face major challenges to keep their business running whilst experiencing a decline in the volume of orders. In Bangladesh alone, the second-largest exporter of garments in the world, manufacturers lost more than EUR 2.7 billion in payments for orders already produced or sourced. 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. They are more exposed to sudden termination, lack of severance pay, inadequate social security and little or no health insurance.

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, we have sent letters to the companies in our engagement program urging them to respond to the challenges posed by Covid-19 in a responsible manner.

Key asks highlighted in the letter 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 has been 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 to the Covid-19 pandemic have been diverse. 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 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

The Covid-19 pandemic has highlighted vulnerabilities in the garment industry supply chain. Global apparel brands and retailers need to ensure that suppliers pay workers living wages and social benefits as a viable means to substantially reduce the pressure on garment workers and transition to a more resilient system.

Our engagement work on living wages in the apparel sector contributes positively to SDGs 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 l assessment methodology. This analysis is carried out by PLWF members on a yearly basis and the results are publicly disclosed. The assessment is conducted in the second and third quarter of the year, and will this year include a separate section on how companies responded to the challenges posed by the Covid-19 pandemic.

The methodology has also been adjusted to provide higher scores to companies moving beyond policy disclosures and showcasing their work with more granular reporting on their performance on the ground. After publishing the updated assessment, we will continue the engagement work with our investee companies to ensure they deem responsible labor practices and fair wages as being an integral part of their business model, and implement them across their supply chains.

Lifecycle management of mining

Cristina Cedillo & Sylvia van Waveren

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.

The energy transition is an important driver for future demand enabling commodities such as copper, lithium, cobalt and nickel. For example, research by Bloomberg New Energy Finance estimates that the number of electric vehicles on the road will increase from 5 million today to 530 million globally by 2040. A battery-electric vehicle requires four times as much copper as a conventional vehicle. 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. Our engagement program aims to gain a better understanding of how companies are addressing these three key issues at the group and operational levels. We will 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.

Water: An everlasting industry concern

Mining activities rely significantly on water availability. Water challenges are likely to intensify due to climate change. For example, mineral-rich regions like Chile and Australia have been experiencing more frequent and prolonged droughts, a trend that is expected to be further exacerbated by climate change.

Freshwater scarcity requires expensive solutions, such as power-intensive seawater infrastructure. As a result, companies exposed to water scarcity are likely to experience changes in their asset risk profiles, with higher operating risks and costs. Moreover, water scarcity and pollution add extra layers of risk, as they could undermine a miner's social license to operate. Prolonged droughts or polluted sources of fresh water can lead to stiffer competition for water resources

among stakeholders (agriculture, households, other miners) and lead to conflicts that have significant drawbacks for their operations.

Water risks are not particularly new for the mining industry. This topic has received significant attention from shareholders, as it has often impacted local communities and the mining industry itself. The International Council on Mining and Metals (ICMM) has developed water stewardship principles to set general minimum standards for the industry. Still, research by the Carbon Disclosure Project (CDP) shows that the mining industry is the one with the largest financial impacts from water issues, and only a small minority of companies have set targets related to water.

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-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. The initiative calls for enhanced disclosures from mining companies on where and how they have stored their waste. In total, the initiative reached out to 727 publicly listed mining companies for detailed information on their tailings storage facilities. By the end of 2019, a little less than half of the companies had responded. Robeco leads the engagement collaboration of investors aimed at the non-responding mining companies to disclose information about their tailings dams.

End-of-life of mines: Growing environmental liabilities

Mining companies are obliged to make provisions for the restoration and decommissioning of their assets. These provisions are liabilities to restore the environmental disturbance that was caused by the operations of the mining sites, and to rehabilitate the environment when the asset is depleted and closed. Examples of remedial work are removing industrial facilities and waste rock storage, building tailings dams and cleaning contaminated land.

Remediation sometimes costs hundreds of millions of dollars per site, and often requires costly annual monitoring and maintenance. The amount of environmental provisions is not a static number; it reflects the current expected future cash outlays and risks in the life cycle plans of a mining company's portfolio of assets. According to research by the Centre for Environmental Rights, the public disclosures of 11 listed South African mining companies about their rehabilitation costs, and their ability to cover these costs, were inconsistent, unclear and sometimes unreliable. At Robeco, we share this opinion, and advocate for a more detailed disclosure of this sizeable and material liability.

Moreover, mining companies can mitigate restoration and decommissioning costs through holistic strategic planning. For example, they may choose not to mine lower grade areas to avoid an escalation of rehabilitation costs in the future. They can also apply new mining technologies to limit environmental impacts and therefore costs.

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 aim to call on companies to properly disclose their risks and liabilities, and to take further action if needed.

Single Use Plastics

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. Today nearly everyone, everywhere, comes into contact with plastic packaging every day, and it is mostly only used once. Reducing single-use plastic is now a priority for tackling the tsunami of waste that it is causing.

Sylvia van Waveren

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 the second quarter of 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 shed more light on the materiality of the plastic waste problem, whilst at the same time urging companies to improve their management of the plastic value chains towards a more sustainable circular model. In doing so, we plan to improve supply and demand for recycled plastic.

Progress after one year

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. In our first year of engagement, 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.

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.

Another company has developed an innovative technology that enables black plastic to be recognized by recycling machines for sorting. This is important for two reasons. First, black plastic continues to be an important differentiator in marketing personal care products such as shampoo, and is therefore widely used by the industry. Secondly, black plastic is cheaper to make, since it contains more 'grey PCR'. This chemical has to be removed in a costly process when producing white or transparent packaging.

Another company informed us that their managers use NGOs and public authorities for their lobbying activities. They explained that with the increasing adoption of national legislation to counter plastic being dumped in the ocean, they expect that this will lead to a snowball effect that will contribute to solving the issue.

Still early days on recycling and harmonization

It is still early days to report solid progress on our engagement objectives in relation to plastic recycling and plastic harmonization. We found here that the development of responsible packaging sometimes conflicts with other solutions. For example, the development of bioplastics is seen as a major solution to waste, as they degrade more easily than regular plastics, but this then complicates the recycling system even further. Bioplastics are also made of non-fossil fuel-based feedstock, which, is great for reducing the impact on climate change, but these compostable materials are in general not of sufficient quality to be used to package food. Another example is a company that has significantly invested in scaling up waste collection in Egypt, which provides economic opportunities for unemployed local people and educates the consumer about the value of recycling.. However, this type of fully traceable plastic comes at a much higher cost than virgin plastic.

Developments in recycling flexible packaging and SDGs

There is also some good news in relation to recyclability. Flexible packaging is one of the most difficult types of plastic to recycle using regular mechanical recycling methods. One company in the adhesive business is actively driving innovation in the recycling of CEFLEX flexible film. We see this as a crucial development in this field.

In relation to the Sustainable Development Goals (SDGs), there has been some improvement in the level of attention that our companies are paying to them. After our earlier requests, 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. Others inform us that they will start reporting on their SDG approach in next update of their impact reports. 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.

Next steps

As investors, we are able to get more insights into the materiality of the plastic waste problem through our discussions with companies. This also gives us the chance to urge them to improve their management of the plastic value chains towards adopting a more sustainable and circular model. More time is needed though to improve the supply and demand situation for recycled plastic. We will step up our engagement efforts on these topics.

Lifecycle Management of Mining
Newcrest Mining
Barrick Gold Corp.
Fortescue Metals Group Ltd.
Grupo Mexico SAB de CV

Reducing Global Waste
Waste Management, Inc.
Parker Hannifin Corp.

Climate Action
Chevron
Cummins, Inc.
Duke Energy Corp.
Enel
Royal Dutch Shell
Southern Co.

ESG Challenges in the Auto Industry
Bayerische Motoren Werke
Ford Motor
Honda Motor
Daimler

Sound Environmental Management
Kinder Morgan, Inc.
Royal Ahold Delhaize N.V.
Colgate-Palmolive Co.
Danone
Grupo Bimbo SAB de CV
McDonalds
Mondelez International
Nestlé
Tesco Plc
Wal-Mart Stores

Single Use Plastics
Henkel AG & Co. KGaA
Nestlé
PepsiCo, Inc.
Procter & Gamble Co.
Danone

Food Security
CNH Industrial NV
Deere & Co.
Mexichem SAB de CV
Syngenta AG

Living Wage in the Garment Industry
The Home Depot
NIKE

Social Impact of Artificial Intelligence
Alphabet, Inc.
Microsoft
Apple
Facebook, Inc.
Booking Holdings, Inc.
Visa, Inc.
Hangzhou Hikvision Digital Technology Co. Ltd.
Accenture Plc

Digital Innovation in Healthcare
AbbVie, Inc.
Fresenius SE
Roche
Sinopharm Group Co., Ltd.
HCA Holdings, Inc.
Anthem, Inc.

Social Risks of Sugar
Coca-Cola
Danone
General Mills
Nestlé
PepsiCo, Inc.
The Kraft Heinz Co.
Unilever

Sound Social Management
Henkel AG & Co. KGaA
Teva Pharmaceutical Industries Ltd.
Syngenta AG
InterContinental Hotels Group Plc
Procter & Gamble Co.
Thermo Fisher Scientific, Inc.

Corporate Governance Standards in Asia
Hyundai Motor
Samsung Electronics

Good Governance
Heineken Holding
Unilever
Royal Dutch Shell
Samsung Electronics
Persimmon Plc
Sumitomo Mitsui Financial Group, Inc.

Culture and Risk Governance in the Banking Sector
Wells Fargo & Co.
HSBC
ING Groep NV
De Volksbank NV

Barclays Plc
JPMorgan Chase & Co., Inc.
Citigroup, Inc.
Bank of America Corp.
BNP Paribas SA

Cybersecurity

Reckitt Benckiser Group Plc
Booking Holdings, Inc.
Visa, Inc.
Altice NV
Vodafone
Fidelity National Information Services, Inc.

Global Controversy Engagement

During the quarter, 11 companies were engaged based on potential breaches in the UN Global Compact.

AbbVie, Inc.	Credit
Accenture Plc	Equity
Alphabet, Inc.	Equity
Altice NV	Credit
Anthem, Inc.	Equity
Apple	Equity
Atlantia SpA	Credit
Barclays Plc	Credit
Barrick Gold Corp.	Equity
Bayerische Motoren Werke	Credit
BNP Paribas SA	Credit
Booking Holdings, Inc.	Equity
Citigroup, Inc.	Equity/Credit
CNH Industrial NV	Credit
Coca-Cola	Equity
Cummins, Inc.	Equity
Danone	Equity/Credit
DSM	Equity
Duke Energy Corp.	Equity/Credit
Enel	Equity/Credit
Facebook, Inc.	Equity
Fidelity National Information Services, Inc.	Equity/Credit
Ford Motor	Credit
Fortescue Metals Group Ltd.	Equity/Credit
Fresenius SE	Credit
General Mills	Equity/Credit
Grupo Bimbo SAB de CV	Credit
Grupo Mexico SAB de CV	Equity
Hangzhou Hikvision Digital Technology Co. Ltd.	Equity
Heineken Holding	Equity
Henkel AG & Co. KGaA	Equity
Honda Motor	Credit
HSBC	Equity/Credit
Hyundai Motor	Credit
ING Groep NV	Credit
JPMorgan Chase & Co., Inc.	Equity/Credit
McDonalds	Equity
Mexichem SAB de CV	Credit
Microsoft	Equity
NestlÃ©	Equity
Newcrest Mining	Equity
NIKE	Equity
Novartis	Equity
PepsiCo, Inc.	Equity
Procter & Gamble Co.	Equity/Credit
Reckitt Benckiser Group Plc	Equity
Roche	Equity
Royal Dutch Shell	Credit
Samsung Electronics	Equity
Sinopharm Group Co., Ltd.	Equity
Teva Pharmaceutical Industries Ltd.	Credit

The Home Depot	Equity
The Kraft Heinz Co.	Equity
Thermo Fisher Scientific, Inc.	Credit
Unilever	Equity
Visa, Inc.	Equity
Vodafone	Equity
Wal-Mart Stores	Equity
Waste Management, Inc.	Equity
Wells Fargo & Co.	Equity/Credit

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 two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

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 is available at: https://www.robeco.com/docm/docu-robeco-engagement-policy.pdf

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 CO2 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 team is headed by Carola van Lamoen who reports to Victor Verberk, Deputy Head of Investments at Robeco and member of the Executive Committee. The broad expertise of the Active Ownership team is complemented by access to, and input from, investment professionals based in local offices of the Robeco Group 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.

About 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 at: https://www.robeco.com

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1318-07'20