



## Getting Engaged The impact of active ownership

July 2019

Kenneth Robertson

## Increasing pressure on investors to drive climate action

### BlackRock under renewed pressure to support climate action

'The world's leading investor in climate destruction can no longer evade responsibility'



Environmental campaigners urged BlackRock CEO Larry Fink to do more to tackle climate change

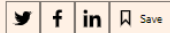
A coalition of groups led by Majority Action has delivered over 129,000 petition signatures to BlackRock in an effort to force the world's largest asset manager to use its voting powers to force companies to climate.

The petition calls on BlackRock, Vanguard and Fidelity to use their voting powers respectively to support key climate-related shareholder resolutions and voting against directors of companies that do not support climate action.

The Big Read Climate change + Add to myFT

### Money managers: the new warriors of climate change

Spreadsheet-analysing investors in control of trillion-dollar funds are forcing polluters to change



Anjli Raval and Attracta Mooney in London DECEMBER 27, 2018

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When an activist shareholder group last year launched a campaign to force Royal Dutch Shell to set hard targets for cutting carbon emissions, just 6 per cent of those eligible to vote backed the plan.

Yet within months Shell had announced an "ambition" to halve its carbon footprint by 2050, with the goal including a reduction in pollution from cars that burn the company's petrol and diesel. This December it pledged to set firm short-term emissions targets from 2020 that will be tied to executive pay.

### World's biggest investor accused of dragging feet on climate crisis



Protest installation in front of the brown coal-fired power plant operated by RWE in Neuruppin, Germany. Photo: EPA

Advertisement

World's biggest investor, BlackRock, with \$6.5tn in assets, urged to use its powers to force polluters to change

BlackRock's foundation landed in inboxes in January. The world's biggest investor would not be compliant with the Paris Agreement, and the media jumped on the era of finance facing up to climate change.

### Campaign group calls out BlackRock

The letter from SSGA came shortly after a group of NGOs and investors wrote to Larry Fink, the CEO of BlackRock, urging his company to support more shareholder resolutions on climate change-related matters.

Although BlackRock voted for some shareholder resolutions focused on climate disclosure and 2°C scenario stress tests, the letter stated, the asset manager "consistently votes against shareholder climate proposals and has a worse track record than other large global asset managers in this regard".



Larry Fink, CEO, BlackRock

## What it means to be an active owner

### The duty of investors towards the companies they invest in



#### Voting

To **encourage good governance** and sustainable corporate practices, and safeguard shareholder value through voting and (co-)filing shareholder proposals.



#### Engagement

To **create value** by improving the ESG conduct of companies one invests in, by means of a proactive engagement program.

To **react to misconduct** of companies, in response to breaches of globally accepted principles.

## Why Active Ownership

Whilst research into engagement is still in its infancy, studies have begun to find a link between engagement and stock performance



+1.8%

Market-adjusted abnormal return over one year post engagement



+2.3%

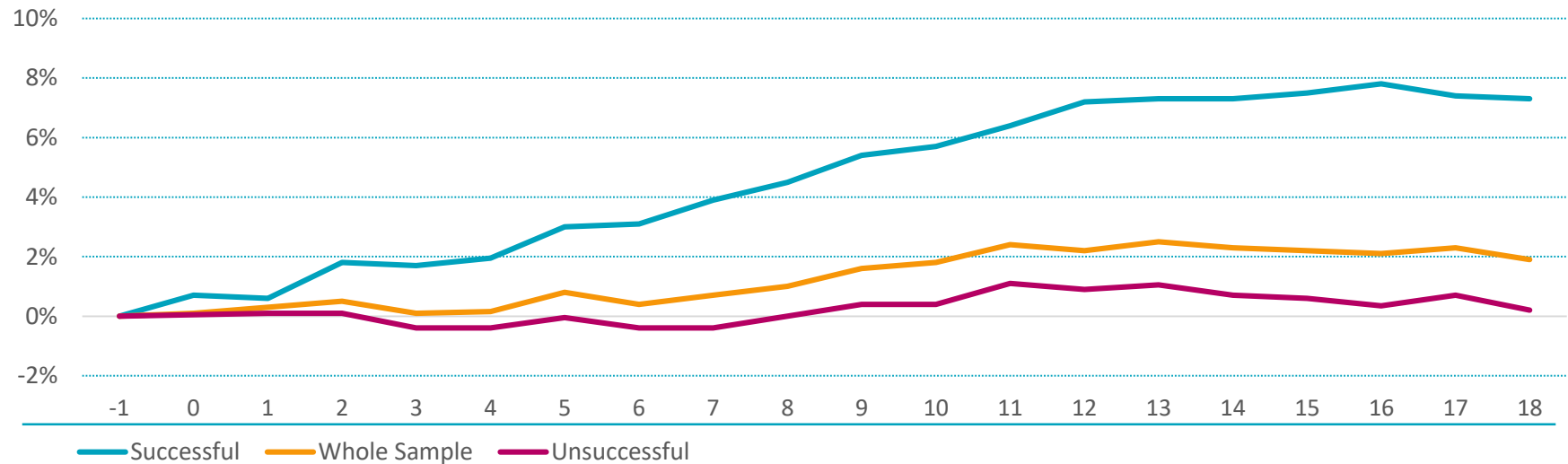
Cumulative abnormal return over one year post engagement



+7.1%

Cumulative abnormal returns are much higher for successful engagements

### Cumulative abnormal returns around initial engagements (Dimson, 2015)



## How: The Five Steps of Engagement

Robeco was founded on the belief that every investment strategy should be research driven. The same holds for our voting and engagement activities

1



Identify Financial  
Material ESG Theme

2



Conduct Extensive  
Baseline Research

3



Define SMART  
Engagement  
Objectives

4



Initiate Dialogue  
with company

5

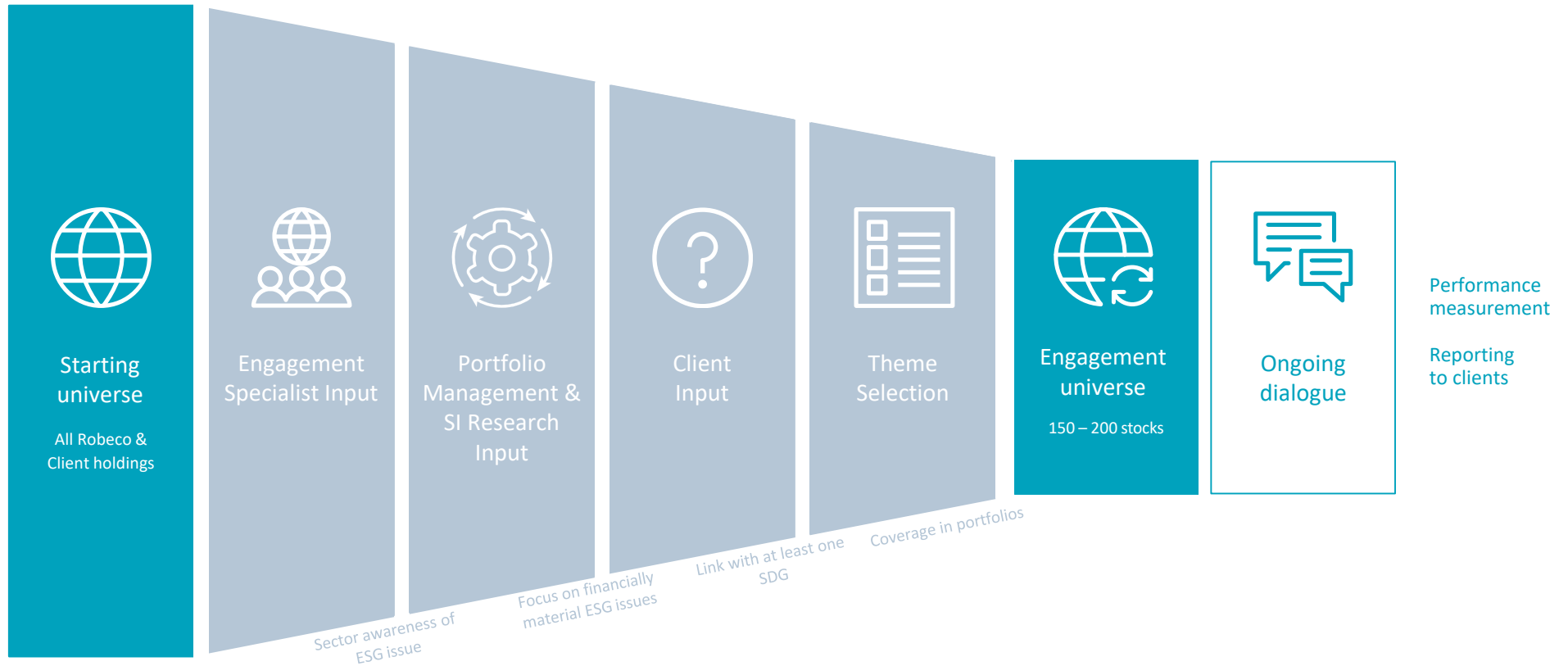


Achieve impact and  
report to clients

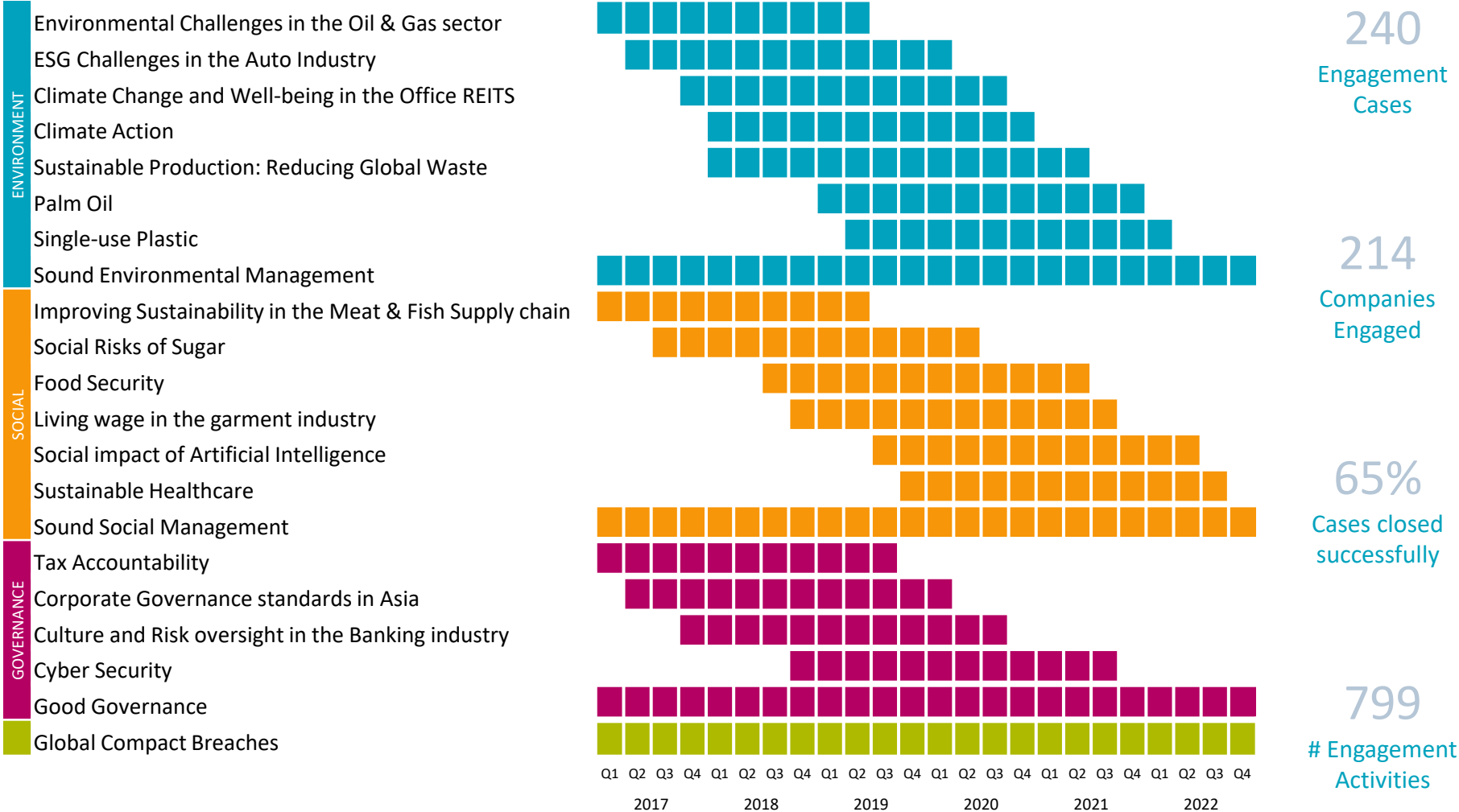


**Determining what to engage on**

## How to define financially material engagement themes? Selection process with focus on materiality and impact



## Engagement Themes 2019: A Thematic approach to engagement





## New Engagement Themes: 2019

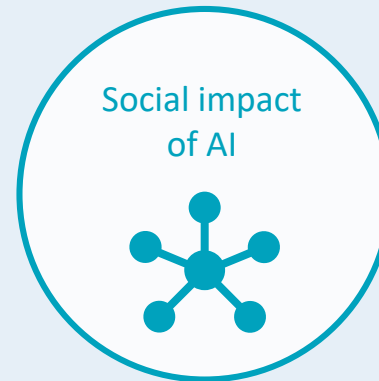
In the selection of these new themes we have assessed engageability, financial materiality and ESG impact of the topics



We will engage with palm oil companies to address inherent controversies and require mitigation and remediation to stakeholders.



The engagement will focus on companies that use single-use plastic packaging, with the aim to stimulate the transition to recyclable, reusable and/or compostable packaging



The main objective will be to safeguard human rights considerations in relation to the applications of AI. Additionally we will require companies to implement proper governance around AI, including sufficient board oversight and risk management



We will encourage companies to become more efficient using digital innovation. Such innovations can contribute to reduced healthcare costs and increased access to healthcare.



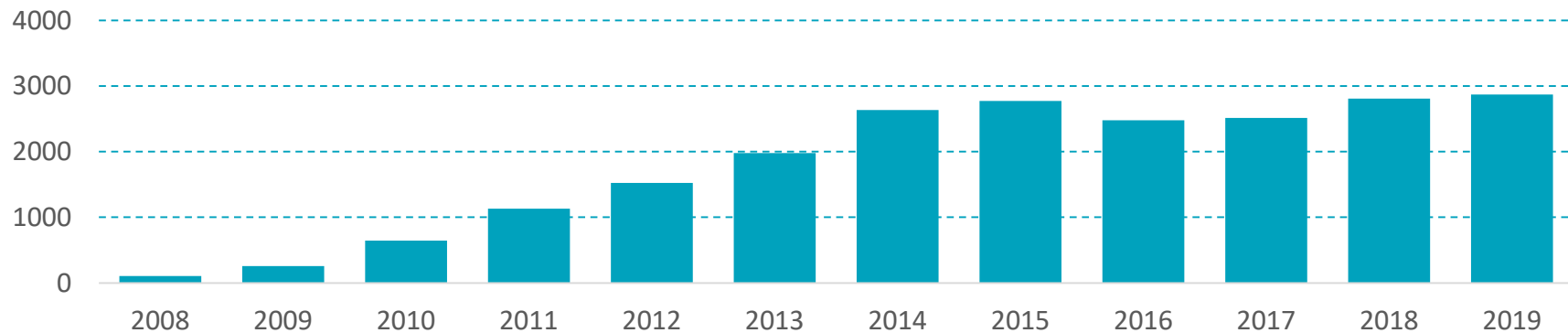
## Case Study – Palm Oil

## Engagement Case Study: Palm Oil

**As an efficient and profitable crop, palm oil is widely used in consumer products globally. However, demand for the oil has incentivized irresponsible cultivation practices, with significant implications for human rights and the environment.**

- > Companies involved in the production, trade, processing, and raw material usage of palm oil are exposed to severe environmental and social risks
- > When these risks are not managed properly, they will also result in financial and reputational risk for investors in these companies. For example, violation of regulations regarding palm oil cultivation could lead to the suspension of a plantation owner’s certification status, with a loss of the certification premium as a result.
- > Similarly, conflicts with local communities and laborers could lead to industrial stoppages and operating losses. Pressure from NGOs may also impact the company’s license to operate, and result in the loss of customers.

**Certified Sustainable Palm Oil production area**



■ Hectare (Thousands)

## Engagement Case Study: Palm Oil

Robeco's approach to palm oil is a combination of enhanced engagement and sustainability investing methodology. With enhanced engagement, we formulate minimum standards that companies need to meet after three years of engagement, to ensure eligibility in our investment universe.



**RSPO membership:** Robeco joined the RSPO in January 2019 to support the growth of RSPO certification. Furthermore, Robeco became a member of the RSPO Financial Institutions Task Force (FITF). The FITF enables conversations with peers to exchange best-practice examples and align efforts



**Exclusion of laggards:** Robeco has identified palm oil-producing companies in its investment universe who are not an RSPO member or who have not achieved 20% of land to be RSPO certified. Robeco has engaged with the affected companies in previous programs, but this dialogue has not led to the required improvements.



**Enhanced engagement:** Robeco focuses the enhanced engagement program on those companies in the investable universe that can benefit most from it; namely palm oil producers that have 20%-80% of land RSPO certified. The main goal of the three-year enhanced engagement program is to support companies in improving material sustainability issues.

## Engagement Case Study: Palm Oil

Interim results



### AAL is excluded from investment after non-effective dialogues

During a meeting in Jakarta, AAL presented their NDPE policy, meeting the objective 'assess environmental impact'

However, as AAL does not commit to becoming a RSPO member, the objectives 'report on environmental impact' and 'prevent or minimize environmental damage' were not met

As a consequence of a closed, non-effective dialogue and a new approach towards palm oil companies, AAL is now placed on Robeco's Exclusion list

Astra Agro Lestari (AAL), subsidiary of Jardine Matheson, engages in palm oil and rubber plantations as well as industrial activities.

- > Palm oil is a vital commodity that is an essential ingredient in many consumer goods, from chocolates to shampoo. However, the industry continues to face significant problems related to deforestation, its large carbon footprint, and labor standards in emerging markets.

### Course of action (2016-present)

- > Over the last two years, we have engaged multiple times with AAL's Head of Sustainability and supporting consultants, during two visits to Jakarta and multiple conference calls and letters being exchanged.
- > In our view, AAL made insufficient progress regardless of increased disclosure, amongst other on their No Deforestation, No Peat, No exploitation (NDPE) policy.
- > A major issue concerns the continued lack of commitment to become a member of the Roundtable of Sustainable Palm Oil (RSPO) that has also led two international banks to decline credit applications AAL made. It is expected that Indonesian banks will move in this direction too in due time, leading to lack of finance



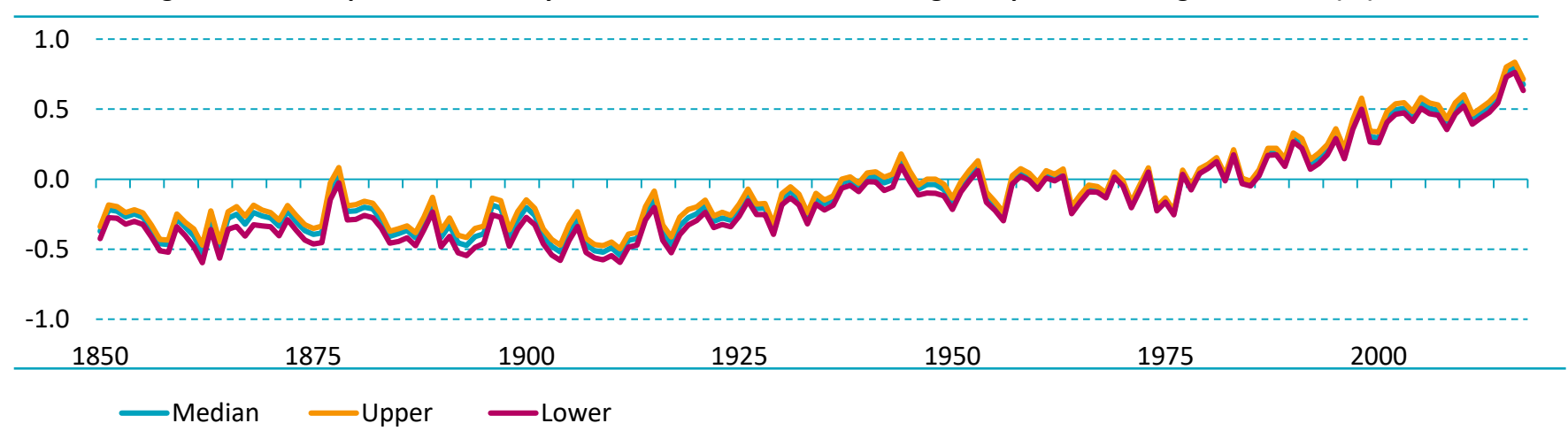
## Case Study – Royal Dutch Shell

## Value Engagement: Case Study on Climate Action

**Fossil fuels and high energy-intensity industries still account for about 70 percent of greenhouse gas emissions.**

- > A shift in technology and investments can reduce emissions, while creating huge social, economic and environmental opportunities. Companies in high-emitting sectors such as oil & gas, electric utilities and chemicals, are key actors in the energy transition.
- > Using the TCFD recommendations as a framework, our engagement focuses on sector-specific transition and physical risks.
- > At a company level, we assess whether companies have integrated climate-related issues in the organization's governance, strategy, risk management, metrics and targets.

**Global average land-sea temperature anomaly relative to the 1961-1990 average temperature in degrees Celsius (°C)**



## Value Engagement: Case Study on Climate Action

### Engagement Objectives



**Governance framework on climate-related issues:** We expect companies to implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities, and management's role in assessing and managing climate-related issues.



**Climate risk management :** We expect companies to integrate climate risks in its risk management framework in order to identify, assess and manage transition and physical risks. This includes conducting cost-benefit analyses of the energy transition and assessing the robustness of companies' business plans against a range of climate scenarios, including a well-below 2 degrees Celsius scenario.



**Actions to reduce greenhouse gas emissions:** We expect companies to implement measures and take action to reduce greenhouse gas emissions. This includes investments in clean technologies and emissions reduction targets. .



**Enhanced disclosures :** We expect companies to implement the TCFD recommendations in order to provide climate-related financial disclosures in their mainstream annual financial filings.



## Value Engagement: Case Study on Climate Action

Interim results



### Royal Dutch Shell takes leap forward

Shell aims to reduce the Net Carbon Footprint of its energy products by around half by 2050, and by around 20% by 2035

Beginning 2020, Shell will start setting specific Net Carbon Footprint targets for shorter-term periods. The target will be set each year for the next three- or five-years

Shell will link these targets and other measures to its executive remuneration policy, which will be voted upon at the 2020 AGM

We believe Shell now leads the sector in terms of their planning and positioning

Royal Dutch Shell PLC, through subsidiaries, explores, produces, and refines petroleum.

- > In the event that the world fails to limit global warming to well below 2 degrees Celsius, the world – and therefore industries – will be increasingly exposed to significant physical risks, as well as the potentially for stranded assets.

### Course of action (2016-present)

- > Over the last year, we have spoken numerous times with the companies Chairman, CEO, other Exco members, Head of Carbon Management, and Chair of Remuneration Committee.
- > In 2017, Shell announced a climate ambition, aiming to half its Net Carbon Footprint by 2050. Whilst we supported this step, we continued to push the company to set short term targets, and to link these to executive remuneration.
- > In 2018, we agreed a joint statement with Shell, committing the company to 1) Set climate targets; 2) Link these targets to executive remuneration; 3) Frequently review progress; 4) Align with the TCFD Recommendations, and; 5) Review the companies lobbying positions.

## Press coverage on Joint Climate Change Statement of Shell with investors – 3 December 2018



### Royal Dutch Shell ties executive pay to carbon reduction

The Anglo-Dutch company has made the move after pressure from investors, led by asset manager Robeco and the Church of England Pensions Board



### Shell yields to investors by setting target on carbon footprint

Investors such as the Church of England and Robeco have pushed Shell to make firm commitments to cut its carbon footprint, saying last year's announcement of a long-term "ambition" to halve carbon emissions by 2050 did not go far enough



### Shell is first energy company to link executive pay and carbon emissions

Major shareholders including the Church of England and Robeco have demanded that Shell do more to tackle emissions



### Shell koppelt concrete klimaatdoelen aan beloning van de top

Dutch Financiële Dagblad reports on the group of investors that engaged with Shell on climate change targets: ABP, Robeco, Church of England and Eumedion



### Shell sets emissions targets, plans to link them to executive pay

Investor engagement with Shell was led by the Church of England and Robeco



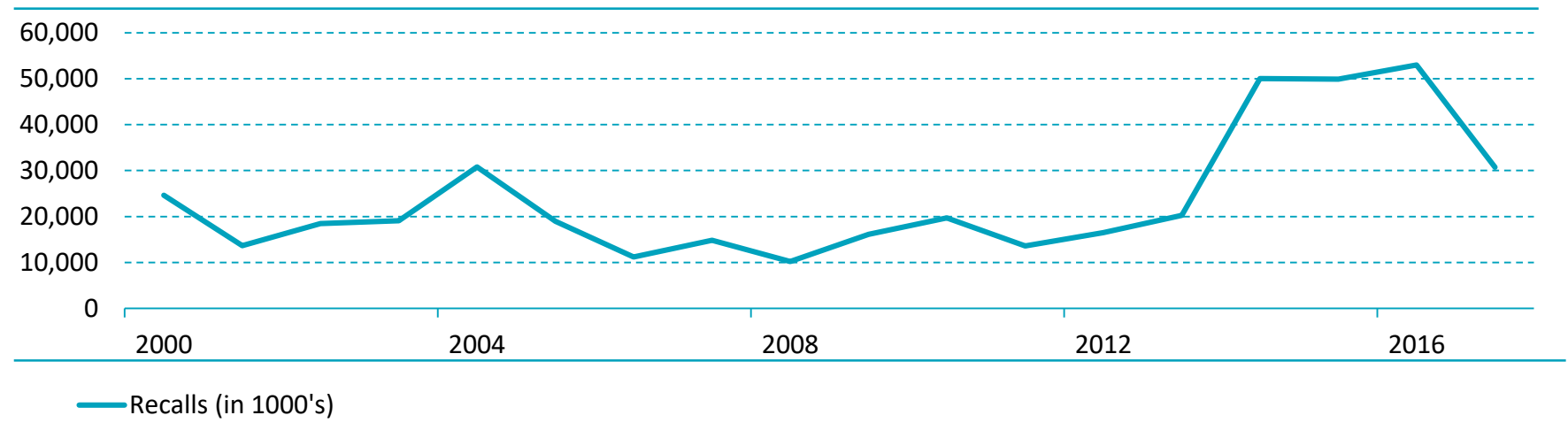
## Case Study – Auto Industry

## Value Engagement: Case Study on ESG Challenges in the Auto Industry

**The automotive sector is currently undergoing major change, driven by the megatrends of electrification of the powertrain, autonomous driving and shared mobility, topics which gain significant attention from investors**

- > Short-term operational challenges such as ever rising fuel efficiency requirements and costly recalls raises questions about the industry efforts in ensuring the highest product quality
- > At the same time the automotive industry has to answer fundamental questions related to their future product offering
- > We believe that the business models of car makers will significantly change over the next decade due to mobility becoming a service
- > It is important to not forget that product quality is key to the longer term success of any car manufacturer.

**Number of vehicles recalled in the United States from 2000 to 2017 (in 1,000s)**



## Value Engagement: Case Study on ESG Challenges in the Auto Industry

### Engagement Objectives



**Effective Product Quality Management Systems:** We expect automotive companies to continuously improve the management systems used to manage product quality, including having clear management systems for product quality



**Impeccable Product Quality Performance:** As a function of sound product quality management, we expect the track record of automotive companies to be spotless.



**Forward Looking Product Development:** Automotive companies should focus on innovation fine-tuning product development to make sure their future products meet client and regulatory requirements, including the reduction of the environmental footprint, during production as well as during the use of the product.



**Innovative Business Model:** We expect automotive companies to develop business models that takes into account the possibility of mobility becoming a service, the rise of shared mobility, digitalization (Smart Cars) and the potential non-automotive related use of EV batteries (e.g. as grid stabilizer).



**Responsible Lobbying:** We expect automotive companies to be responsible and transparent on their lobbying activities on the national and regional (e.g. EU) level and on their positions on relevant environmental legislation

## Value Engagement: Case Study on ESG Challenges in the Automotive Industry

Interim results



### BMW shows EV ambition but remains firm on lobbying

BMW set an industry-leading target for EV's to account for 15% to 25% of total sales by 2025

The company aims to focus on integrated mobility services in urban environments – a compelling future-proof business model

BMW maintains reservations around government fuel efficiency and fleet emissions regulations

Whilst we recognize BMW's progress on fleet electrification, our concerns around contradictory lobbying activities will inform our collaborative engagement with other investors going forward

Bayerische Motoren Werke AG, together with its subsidiaries, develops, manufactures, and sells automobiles and motorcycles worldwide.

- The industry faces fundamental challenges related to future product offerings, including the shift to electric vehicles and new business models. Meanwhile, rising fuel efficiency requirements and costly recalls raise questions about product quality.

### Course of action (2017-present)

- Over the last two years, we have conducted dialogues with company representatives on product development and quality, business model innovation, and responsible lobbying.
- In 2018, BMW announced an ambitious electric vehicle sales target of 15% to 25% of total sales by 2025. Despite this positive development, we challenged the company on its continued reliance on diesel vehicles.
- Following discussions on BMW's public policy approach, Robeco and other investors sent a letter to the chairman of the board asking for increased transparency on lobbying, and to refrain from working with organizations that lobby for less stringent environmental regulation.



Leading the industry

## Active Ownership at Robeco

*“Robeco was founded on the belief that every investment strategy should be research driven. The same holds for our voting and engagement activities”*



### Highlights

- > We believe that being active owners of the companies in which we and our clients invest, contributes to both investment results and society.
- > Being part of the investment department of a global active asset manager allows us unparalleled corporate access, as well as benefiting from the knowledge and insight of our fundamental investment teams and sustainability investing research teams.
- > Robeco’s Active Ownership proposition is built upon our 23 years of experience in sustainability investing, during which time we have been a leading advocate for developments within the field.



## Active Ownership Team

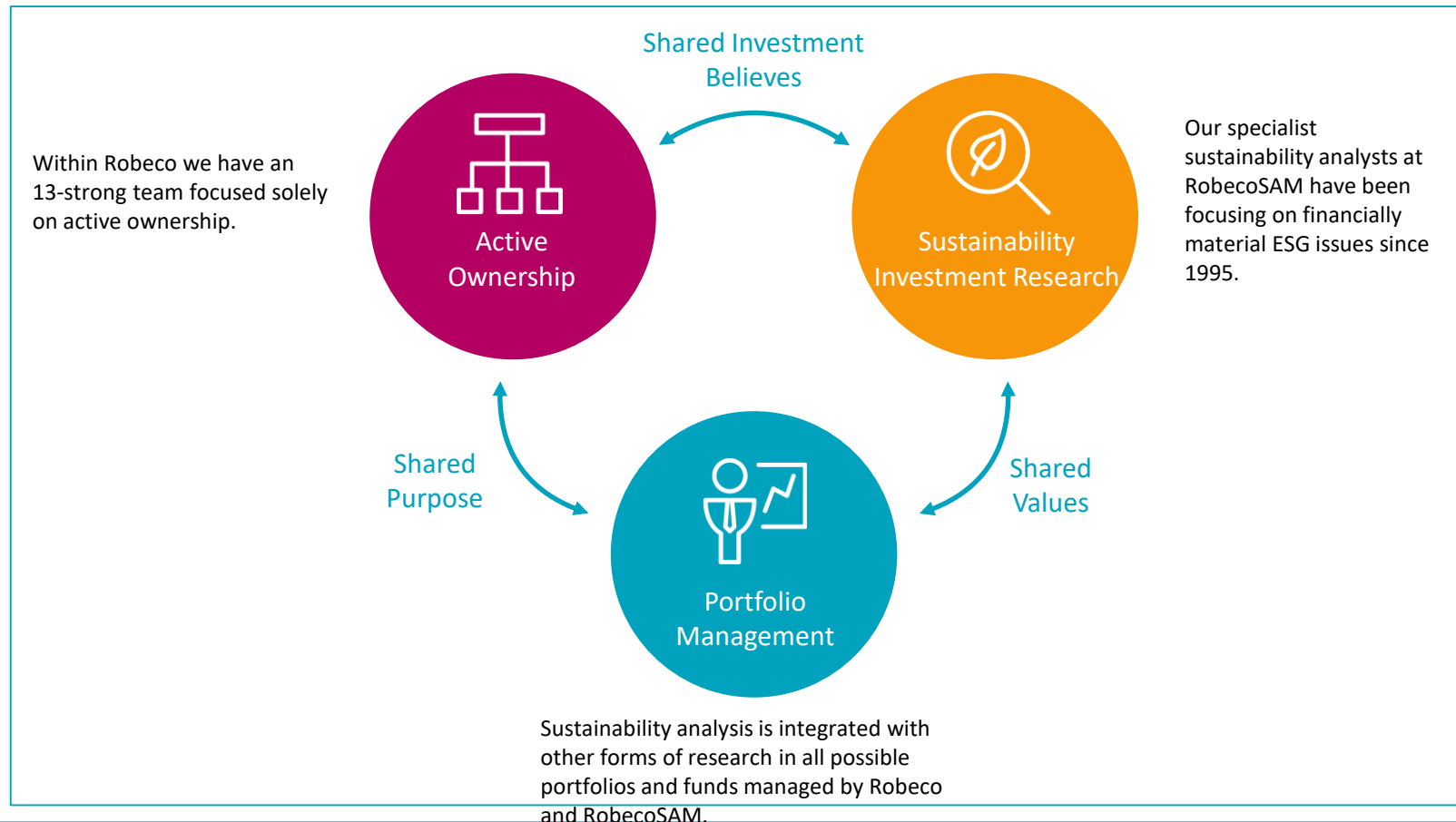
Highly qualified professionals with a diverse range of cultural and academic backgrounds

Team Lead	<p><b>Carola van Lamoen</b> Head of Active Ownership</p> <p>Industry: 18 years</p> 	<p><b>Masja Zandbergen</b> Head of ESG integration</p> <p>Industry: 21 years</p> 		
	<p><b>Sylvia van Waveren, CEFA</b> Senior Environmental Engagement Specialist</p> <p>Industry: 32 years</p> 	<p><b>Cristina Cedillo</b> Environmental Engagement Specialist</p> <p>Industry: 5 years</p> 	<p><b>Laura Bosch</b> Active Ownership Analyst</p> <p>Industry: 3 years</p> 	<p><b>Kenneth Robertson</b> Active Ownership Specialist</p> <p>Industry: 5 years</p> 
Active Ownership Team	<p><b>Michiel van Esch, CFA</b> Senior Governance Engagement Specialist</p> <p>Industry: 11 years</p> 	<p><b>Ronnie Lim</b> Senior Governance Engagement Specialist</p> <p>Industry: 33 years</p> 	<p><b>Cedric Hille</b> Active Ownership Analyst</p> <p>Industry: 1 year</p> 	<p><b>Anouk in 't Veld</b> Active Ownership Specialist</p> <p>Industry: 5 years</p> 
	<p><b>Danielle Essink</b> Senior Social Engagement Specialist</p> <p>Industry: 18 years</p> 	<p><b>Peter van der Werf</b> Senior Social Engagement Specialist</p> <p>Industry: 9 years</p> 	<p><b>Robert Dykstra</b> Active Ownership Analyst</p> <p>Industry: 2 years</p> 	<p><b>Liezette van Maarel</b> Team Assistant</p> 
	RobecoSAM SI Research		Portfolio Management Teams	

## Sustainability is not the responsibility of just one team

### Close cooperation between dedicated, expert teams

Our research teams, portfolio management teams and active ownership team share the same beliefs, values and purpose which enables us to leverage their expertise across the organization.



## Why Robeco?

### The Active Ownership team is one of the leaders in the area of voting & engagement services



unique  
Sustainability  
Culture

- > In our engagement program, we focus on quality and impact of engagement
- > Robeco has over 10 years of experience in providing voting & engagement services to clients



world-class  
Sustainability Research

- > We use a sophisticated proprietary corporate governance analysis methodology in our voting process
- > The active ownership team is supported by research of RobecoSAM



integrated  
Financial &  
Sustainability analysis

- > The active ownership team is strategically positioned in the investment department
- > Portfolio managers and analysts integrate our findings and analyses in the investment process



solution  
Flexibility

- > Our sustainability building blocks can be assembled according to client requirements
- > Our active ownership activities are tailored to our three sustainability investing approaches: exclusion, integration and impact