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ROBECO
The Investment Engineers

# Proxy Voting Report

Period: October 01, 2017 - December 31, 2017

| Votes Cast | 2035 | Number of meetings | 258 |
|---|---|---|---|
| For | 1792 | With management | 1829 |
| Withhold | 9 | Against management | 206 |
| Abstain | 3 | | |
| Against | 191 | | |
| Other | 40 | | |
| **Total** | **2035** | **Total** | **2035** |

In 109 (42%) out of 258 meetings we have cast one or more votes against management recommendation.

# General Highlights

**Vote Confirmation Initiative**

Most investors vote on resolutions at the shareholder meetings of their investee companies by proxy. In practice, this means that votes are delivered to shareholder meetings from a computer platform rather than by attending the shareholder meeting in person. This is positive, in that it allows investors to vote for all of their holdings, rather than just a small selection of companies who's shareholder meetings the investors are able to attend in person.

However, several agents are involved throughout the entire proxy voting chain, implying that when investors cast their votes, several parties must process these instructions before the vote reaches the company. To ensure a continually high quality and efficient voting process, Robeco carries out a vote confirmation audit on an annual basis to monitor the voting chain in a selection of markets where votes have been cast to identify potential issues. This involves tracing back votes starting at the issuer level moving all the way up to the proxy voting distributor.

Robeco is firmly committed to enhancing transparency and efficiency in the proxy voting chain. As a result, we contributed to a working group, together with the UN Principles for Responsible Investment (PRI), to assess the proxy voting chain in two developed markets, with the aim of confirming the voting instructions cast by the groups participants.

In 2017, we also joined a pilot project launched by Citibank, which aims to directly connect the issuer and investor, with the aim of bringing greater efficiency, accuracy and transparency to the voting process. A platform named Proximity Voting was developed, the aim of which was to ensure issuers received votes in real time while investors received better confirmation that their votes were received and counted at the meeting. Several key European investors and issuers were involved in the successful pilot.

After the conclusion of the pilot phase, the product will be rolled out initially in the UK market for the 2018 proxy season, with plans for additional market expansion later in 2018. This represents a potentially disruptive innovation to the voting chain, since the platform would directly connect investors to issuers, reducing the amount of intermediaries throughout the voting chain. This would in turn facilitate a better information flow amongst all parties involved. We believe that it is the responsibility of all investors to contribute to improvements in the voting chain, and will contribute to any such initiative where possible.

We believe that enhancing transparency and efficiency in the voting chain is of the upmost importance. Having the ability to easily verify the voting instructions cast by investors at shareholder meetings also further improves the overall quality of our activities, in that a more transparent voting chain can also enhance engagement between issuers and investors as both parties can exchange information at a faster pace.

We will therefore continue to proactively embrace initiatives such as Proximity Voting which we hope will in turn continue to create momentum for change at the industry level, which is in the best interest of both investors and issuers. We are aware that Citibank is only one player in a vast global industry, and that continual improvements will require the input and collaboration of all global custodians. We will therefore use the lessons and best practices learned in this project to encourage other custodians to continue to strive towards the creation of a more efficient and transparent voting chain.

# Voting Highlights

**Procter & Gamble Co. - 10/10/2017 - United States**
The Procter & Gamble Company manufactures and markets consumer products in countries throughout the world. The Company provides products in the laundry and cleaning, paper, beauty care, food and beverage, and health care segments. Procter & Gamble products are sold primarily through mass merchandisers, grocery stores, membership club stores, drug stores, and neighborhood stores.

In instances where a company's shareholder meeting involves a contested election, whereby more than one person is submitted as a candidate for a single board seat, Robeco will always aim to gain a holistic picture of the company's performance on both financial and corporate governance metrics, and where possible, engage with the parties involved.

One such example has been the 2017 Annual General Meeting (AGM) of Procter and Gamble (P&G) where Nelson Peltz, founder of the $14 billion hedge fund Trian Partners, stood for election to the company's board, in contest to one of the P&G boards nominees. As justification, he stated his concerns over P&G's laggard financial performance, lack of innovation and deficient corporate governance practices. Furthermore, he put forward a strategic plan aimed at increasing P&G's market share via a reorganization of the business, implementing a culture of innovation, as well as a focusing on acquiring and integrating small and mid-sized brands.

Prior to the AGM, in collaboration with our investment analysts, we spoke with P&Gs CEO to discuss these issues. During the call, we aimed to gain a clearer insight into the comparative merits of each sides strategic vision for the company. At present, P&G is in the middle of an aggressive transformation plan which has already begun to show encouraging results. The company highlighted their new corporate strategy, which has been recently rolled out, focused on P&G's ambition to drive organic growth through brand building, increased efficiency, promoting corporate accountability and to improve their digital focus.

In recent years, stronger financial results have also been delivered, successfully meeting the annual objectives defined for organic sales, core earnings per share and capital returns to shareholders. Innovation and R&D are considered to be core elements steering future growth, for which a wide range of resources have been allocated in the company's strategy. From a corporate governance standpoint, P&G's directors have significant experience in key material areas for the business (e.g. consumer products, digital technology) and a broad set of relevant skills.

Therefore, whilst we believe that many of the issues raised by Trian are legitimate areas of concern which P&G's executive team and board of directors should take seriously, we believe that an additional redesign of company strategy, as suggested by Trian, could be counterproductive at this time. Taking into account the positive progress the Company experienced after implementing its brand-new transformation plan, we supported the Company's proxy card and casted our votes in favor of all management nominations. Following an extensive count and recount of the votes following the AGM, where both sides challenged the results the company accounted that Nelson Peltz, would be appointed to its Board of Directors, effective March 1, 2018 having received a small majority of votes cast.

**Kla-Tencor Corp. - 11/01/2017 - United States**
KLA-Tencor Corporation manufactures yield management and process monitoring systems for the semiconductor industry. The Company's systems are used to

analyze product and process quality at critical steps in the manufacture of circuits and provide feedback so that fabrication problems can be identified. KLA-Tencor operates sales, service, and application centers worldwide.

Following the termination of a merger or acquisition (M&A) agreement, some compensation committees consider appropriate to grant the executive officers a supplemental award outside of the regular remuneration policy. They consider this pay practice enables them to retain talented employees and reward executives for pivoting and reorienting priorities following termination of merger agreement. However, discretionary payments outside of the regular incentive plan can undermine the integrity of the company's compensation package and create misalignment between pay and performance.

Kla-Tencor Corp last year pursued a merger agreement with Lam Research, yet the transaction was terminated following negative advice from the U.S. Department of Justice. Merger-related constraints to executive pay were applicable during that time period. As a result, executives' long-term incentive plan only awarded restricted stock units, as performance stock units were temporarily discarded by the compensation committee.

A vote against Kla-Tencor Corp's advisory vote on their executive compensation was therefore warranted as special supplemental long-term incentives equity awards were granted to executives during pendency of merger agreement and after its termination. One-time payments awarded as restricted stock units were granted to executive officers as a result of the merger-related restrictions, which would vest after four years. On average these payments represented 200% of the executives' base salary.

The company's compensation committee deemed it necessary to grant supplementary awards to executives in order to acknowledge the efforts they undertook to reorient the company's priorities following the merge agreement termination. However, executives do not have to be rewarded through special supplemental awards for fulfilling responsibilities intrinsically attached to their corporate roles. Bonus plans can instead contain an element of individual performance assessment to capture extraordinary corporate achievements and reward executives accordingly.

Altogether, we consider the compensation practices adopted by the company's compensation committee as not in line with good corporate governance practices, and further that they pose an excessive cost to shareholders. We therefore voted against the advisory vote on compensation at the company’s 2017 AGM, where the proposal passed with the support of a majority of votes. Although these special long-term awards are rather unusual following a termination of merger agreements, we closely monitor compensation practices occurring in similar contexts.

**Oracle Corp. - 11/15/2017 - United States**

Oracle Corporation supplies software for enterprise information management. The Company offers databases and relational servers, application development and decision support tools, and enterprise business applications. Oracle's software runs on network computers, personal digital assistants, set-top devices, PCs, workstations, minicomputers, mainframes, and massively parallel computers.

For a number of years, Robeco has opposed compensation practices at Oracle, primarily due to the existing disconnect between executive pay and performance, as well as the overall height of payments made to executives, including the companies two Chief Executive Officers, Chairman of the Board and Chief Technology Officer. Despite consistently high levels of shareholder opposition to executive pay at the company, limited changes have been put forth by the

remuneration committee. . At the 2017 Annual General Meeting (AGM), we again opposed the advisory vote on executive compensation, as well as the reelection of directors serving on the remuneration committee.

When assessing an executive compensation package we analyze, among other factors, the overall structure, transparency and height of the plan put up for vote by the company. Historically, Oracle's pay levels have outpaced those made at comparable peers, a trend that continued in 2017. Overall, three executives received total pay of over 40 million USD, one executive received over 35 million USD, whilst the lowest paid of the top five paid executives received payment of approximately 13 million USD. This places the company in the highest percentile for CEO compensation in its peer group, despite ranking in the 58th percentile by market cap, and 37th percentile by revenue.

In terms of overall structure, it is noticeable that the targets contained within the Long Term Incentive (LTI) plan are not being set at a level we would consider appropriate for such high levels of executive reward. In fact it is hard to ascertain the exact methodology used for calculating these awards, given that the company has failed to provide a clear description of target and maximum goals under the 2017 LTI plan.

We view this lack of disclosure as especially problematic given not only the size of the awards made under the plan, but also in view of the historically high levels of shareholder opposition to pay practices at the company. At the 2016 AGM for example, the advisory vote on the company's executive compensation received the support of just 45% of shareholders. Whilst the company does state that they canvased shareholders for feedback following the vote, we do not see evidence of the large scale changes such a low vote should prompt to the compensation plan. We expected to witness a more thorough company response aimed to address shareholders' discontent regarding its pay practices, yet Oracle failed to sufficiently engage in this matter.

For these reasons, we again opposed the advisory vote on compensation at the 2017 AGM . Additionally, we opposed the reelection of the three members of the companies compensation committee given their failure to implement a compensation plan which sufficiently aligns pay with performance for senior executives at the company. At the 2017 shareholder meeting, the companies compensation practices received the support of only 45,51% amount of shareholders, marking the sixth consecutive year the company has failed to gain the support of a majority of shareholders for their advisory vote on compensation. We encourage the company to embrace this signal, and to proactively consult with shareholders in the coming year in order to design a compensation plan that more appropriately links pay with performance and which shareholders can support.

**Sysco Corp. - 11/17/2017 - United States**

Sysco Corporation distributes food and related products primarily to the foodservice industry. The Company also distributes personal care guest amenities, housekeeping supplies, room accessories, and textiles to the lodging industry. Sysco serves customers in the United States.

Companies can provide accelerated vesting of equity previously granted to executive members in connection with a change in control of the company. According to a recent survey from Watson Wyatt, a global consulting firm, 64% of institutional investors believe that such change-in-control agreements for top executives are shareholder unfriendly. This type of provision is granted to provide financial protection for management to compensate for the additional work and uncertainty involved in these transactions. Yet it can also allow for large payments to executives regardless of their performance. It therefor becomes important to ensure that pay practices remain fully aligned with long-term shareholder value

creation, whilst not posing a significant cost for shareholders.

We supported a shareholder resolution filed at Sysco's AGM held on November 17th requesting the board of directors to adopt a policy that, in the event of a change in control, no acceleration of vesting of any equity award granted to any senior executive should take place. However, the proposal allows for the board's Compensation Committee to provide an applicable grant or purchase agreement that any unvested award will vest on a partial, pro rata basis up to the time of the senior executive's termination. Last year the same proposal was filled at the Company's AGM and received 36% of shareholders' votes in favor.

Sysco's 2013 Long-Term Incentive Plan includes double trigger provision and, as a consequence, executive's outstanding equity awards will fully and immediately vest if both a change in control occurs and the executives' employment is terminated without cause. Nonetheless, at the end of 2016 fiscal year, a change in control could have accelerated the vesting of USD 58 million worth of long-term equity to five senior executives.

Whilst acknowledging the need for attracting and retaining talented executives, we believe executive pay should be properly aligned with performance in all circumstances. Accelerating the vesting of unearned equity runs contrary to this principle in our view. It can also discourage potential takeovers as it forces the buyer to unnecessarily pay additional compensation to the seller's executive employees.

By supporting this shareholder resolution we expect to further strengthen pay and performance alignment at the Company. Large corporations such as Apple or Chevron are increasingly started to limit accelerated vesting of unearned equity through either requiring executives to forfeit unearned awards or granting them on a pro-rata basis.

**Yue Yuen Industrial (Holdings) Ltd. - 11/30/2017 - Bermuda**
Yue Yuen Industrial (Holdings) Limited, through its subsidiaries, manufactures and markets athletic, athletic-style leisure, casual, and outdoor footwear.

Performance based compensation, particularly when granted in equity, can help to align the interests of executives with those of shareholders. When used appropriately, it can provide a vehicle for linking employee pay to company performance, thereby aligning their interests with shareholders. However, maintaining a strong link between pay and performance very much depends on the nature and type of the grants made. For example, large short term awards with little downside risk to executives can over incentivize short term performance, at the expense of long term value creation. At the 2017 shareholder meeting of Yue Yuen Industrial, we voted against the four compensation related items on the agenda, due to our concerns over the structure and type of awards to be made to executives.

The company requested the approval of shareholders to adopt a stock option based compensation plan for employees of the Texas Clothing Holding Corp. (TCHC), an indirect non-wholly-owned subsidiary of the Company. We appreciate the need to sufficiently incentivize executives at TCHC, however we have a number of significant concerns with the plan as it is currently designed. Key amongst these is that there are no performance targets that must be achieved before the Share Options granted under the scheme can be exercised. Whilst there is an inherent incentive to boost the company's share price stemming from the granting of stock options, we believe the use of a wider range of performance targets would more appropriately tie pay to performance for key executives. Our concern is further compounded by the fact that there is no minimum vesting period for equity awards granted under TCHC's equity-based compensation plans.

Furthermore, we believe that the board has requested authority to grant stock option based compensation to a considerably wider range of participants than what would be considered appropriate and/or best practice. It is our belief that such compensation should be limited to those who have a direct and measurable impact on a company's performance, and in turn long term value creation for shareholders. Yet in this case, parties applicable to be included in this scheme include not only direct employees, but also consultants, or independent contractors to TCHC or its affiliates. Such a large range of participants could in theory allow the board to grant options to a party of the Company who has an affiliation with the board or the Company, thereby serving its own interests rather than those of shareholders.

Given our concerns outlined above, we were not in the position to support the adoption of the companies proposed share option plan as it is currently designed. We therefore voted against its adoption at the 2017 Special Meeting of Shareholders, where the plan received the support of 71.33% of shareholders.

**National Australia Bank Limited - 12/15/2017 - Australia**
National Australia Bank Limited is an international banking group which operates in Australia, New Zealand, Europe, Asia and the United States. The Group offers banking services, credit and access card facilities, leasing, housing and general finance, international and investment banking, wealth and funds management, life insurance and custodian, trustee and nominee services.

Over the past few years, total shareholder return (TSR) has continued to be the most widely used metric in executive long-term incentive plans (LTIP) in many markets, according to research by data provider Equilar, including in Australia, the UK and Canada. However, in some cases, over reliance on TSR as a performance metric can allow for vesting of awards when shareholder value was lost, should the company still outperform its peers.

The remuneration report included in the 2016 AGM held by National Australia Bank Limited (NAB) faced significant shareholder opposition with 12.6% of votes against. After these results, the company improved disclosure of both the short and long-term incentive package, and also readjusted the metrics and valuation methodology used under the LTIP. Despite these positive steps NAB has taken to address shareholder concerns, we still remain reluctant regarding the company's pay practices. As a result, we cast our votes against the remuneration report put forward at the 2017 AGM.

We believe that a balance between absolute and relative performance metrics is key to align pay with performance while adequately incentivizing management. When using relative metrics, it becomes important to disclose the rationale behind the selected peer groups. The company included two relative metrics under the LTIP, namely relative TSR and relative cash return on equity (ROE). Different peer groups are applicable for each metric and no information is provided to further clarify this selection.

The Board has absolute discretion to adjust the disclosed cash ROE for the ROE peer group to ensure a fair and reasonable comparison over time. Although we acknowledge the need for this discretion, we would prefer more explicit disclosure around its use. Moreover, the use of relative TSR can allow for vesting of awards despite a loss of shareholder value due to the relativeness of the performance in comparison to the benchmark. We would encourage the company to use either a positive absolute TSR metric or another similar mechanism as a gateway measure to prevent excessive awards for executives in years of poor shareholder experience.

A vote against this agenda item was warranted for a second year in a raw due to the overall lack of clarity and transparency involving the design and implementation of this compensation policy, however the policy was passed by a majority of shareholders at the AGM. Going forward, we would expect from the company to enhance the transparency of their compensation practices and better align executive compensation with shareholders' interests.

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