

# Proxy Voting Report

Period: January 01, 2018 - March 31, 2018

<b>Votes Cast</b>	<b>2766</b>	<b>Number of meetings</b>	<b>306</b>
For	2376	With management	2371
Withhold	6	Against management	395
Abstain	2		
Against	371		
Other	11		
<b>Total</b>	<b>2766</b>	<b>Total</b>	<b>2766</b>

In 186 (61%) out of 306 meetings we have cast one or more votes against management recommendation.

# Market Highlights

## **Accounts in Korea**

According to international guidelines, South Korean companies are generally not sufficiently transparent in reporting their financial results. Annual reports are often not audited in time for shareholders when they must cast their vote by proxy at shareholders' meetings. Clearly, an audited annual report is an essential source of information for shareholders in order to be able to cast a well-considered vote at annual meetings.

As a matter of routine, Korean corporate law requires that shareholders approve the annual financial statements of the company within three months following the close of the fiscal year. Separately, the Korean Commercial act states that the notice of the annual meeting and the meeting materials must be published by the company at least 14 days prior to the meeting date, whilst the notice of its audited financial statements must be made available at least seven days prior to the annual general meeting. Yet many companies in Korea struggle to meet these deadlines, and it is therefore not uncommon to see unaudited financial statements in Korean companies' meeting disclosures. When considering that most institutional investors vote by proxy, implying that they must cast their votes often well in advance of the publication date of the companies audited accounts, this leads many investors, including Robeco, to vote against any accounts which are unaudited on the last date possible to vote.

Crucial to investors trust in the quality and accuracy of the financial statements is the auditor's opinion, which provides investors with reasonable assurance that the financial statements are presented correctly, and give a true and accurate view in accordance with the financial reporting framework used. Without this, shareholders cannot gain a reasonable level of comfort that no errors or omissions have been made in the preparation of the financial statements.

As a member of the Asian Corporate Governance Association (ACGA), Robeco has in the past been a signatory of letters addressing the failure of South Korean companies to have their annual reports audited in time. In supporting this initiative, Robeco called upon South Korean companies to be more transparent about their annual reporting, with special focus on timely auditing. However, out with the larger South Korean companies, where improvements in timely publication have been made, and audited accounts are now available before votes must be cast, the problem remains.

Robeco's policy therefore remains to oppose the approval of any accounts which have not been audited at the last possible moment when we are able to cast our votes by proxy. We therefore encourage all Korean companies to make every effort possible to ensure that the materials presented at their 2019 Annual General Meetings include audited financial statements, which in turn will allow for much higher levels of support from institutional investors than is currently the case.

## **Expanding good corporate governance practices: Revisions to the UK Corporate Governance Code**

Revisions to the UK Corporate Governance Code were suggested by the UK Financial Reporting Council (FRC) in December 2017. The proposed changes aim to enhance corporate accountability, unlock sustainable long-term growth, and to enhance the attractiveness of the UK capital market. After a consultation period, the final version of the revised Code will be published in summer 2018. The main changes involve the revision of a companies' leadership and purpose,

remuneration, internal controls, board composition, succession and evaluation.

More stringent criteria have been included in the new Code for assessing directors' independence. After a non-executive director, regardless of his function, serves for more than nine years on the board, the nominee can no longer be deemed as an independent board member. Although we agree that long tenures might compromise directors' independence, setting such a hard-rule threshold for directorship tenures can achieve unintended consequences as it neglects the specific roles held by the directors and might be over prescriptive.

Furthermore, responsibilities at the board level should be clear and made publicly available. Directors combining the roles of chairman and chief executive officer are no longer acceptable under the revised Code. Moreover, the Code provides for the chair to be independent at all times. Enhancing diversity both at the board and executive level became one of the key topics included in the proposed Code. Companies must disclose the actions they undertake to increase ethnic and gender diversity, specially at the executive level. These set of amendments are deemed a positive development as it improves the board composition guidelines and aligns the country's code to international best practices.

Changes have also been proposed to the topic of executive remuneration. The remuneration committee should demonstrate how pay and incentives are properly aligned across the company. Boards might be able to override remuneration outcomes if pay and measured performance are not aligned. Share awards provided to executives should have a holding period from three to five years to encourage companies to prioritize long-term decision making. Shareholders are better served if these changes are implemented, as it further aligns pay and performance while prioritizing long-term shareholder value creation.

After this revised version takes effect it has the potential to trigger significant changes in terms of corporate governance practices. We view these amendments as a positive step towards the long-term success of the companies' businesses, which in turn will contribute to generate value for shareholders and a wider set of stakeholders.

### **US makes great progress on boardroom diversity**

While the Netherlands is making hardly any progress on the topic of gender diversity, the US is making great strides. A recent Spencer Stuart survey found that in 2017, half of the incoming directors on S&P 500 boards were women or from minorities. Female representation among new directors rose from 26% in 2012 to 36% in 2017, while 20% of new independent directors were male and female minorities.

Gender diversity on boards has improved prominently in recent years across several market capitalizations and markets. Government intervention in this area has increased, as several countries (e.g. India, France) adopted legislative measures to promote gender diversity at board level through mandatory gender quotas. However, the debate around the topic moved from a discussion around equality and fairness, to a matter of superior corporate performance, evidenced by a wide range of literature.

So, what do these people do? Corporate boardrooms provide management and risk oversight while supervising the company's strategy on behalf of the shareholders. Diversity becomes a crucial factor to promote success at the boardroom when understood from a broader perspective, moving beyond solely gender equality and including diverse representation of tenures, ages, nationalities and professional backgrounds.

It's simple – diversity at the boardroom reflects the real world in which the

company operates. An appropriate variety of director profiles allows for a better understanding of the company's customer base, ensuring better adaptability to shifting consumer and market trends at an ever-increasing pace. A wide range of perspectives in the boardroom is critical to effective corporate governance and potential disruptive discussions.

Well-diversified boards add value to a company since people from different backgrounds are more likely to approach issues from differing perspectives, leading to more effective decision-making and efficient supervision. Therefore, institutional investors have been praising board diversity as a key to sound corporate governance practices.

As part of Robeco's Active Ownership approach, we have been addressing diversity in the boardrooms of our investee companies through our engagement and voting activities. In several markets, it is common to find director nominations to serve on the board included on the shareholder meeting's agenda. A thorough assessment of the overall board diversity in terms of tenure, skills, gender and external commitments is conducted and compared to local best practices. Our voting guidelines have been recently updated to reflect this assessment criteria.

In recent years, much of the focus on board diversity has focused solely on gender. However, if the argument for increased diversity is that it adds value to the board, then boards must strive to achieve diversity in the broadest sense in order to enhance business performance.

# Voting Highlights

## **Compass Group Plc - 02/08/2018 - United Kingdom**

Compass Group PLC, through its subsidiaries, operates as a food and support services company in North America, Europe, and internationally. It serves business and industry; healthcare and seniors; education; sports and leisure; and defense, offshore, and remote sectors. The company also offers support services, such as cleaning in hospitals; reception services at corporate headquarters; managing remote camps; grounds and facilities services at schools and universities; and others. Compass Group PLC was founded in 1941 and is based in Chertsey, the United Kingdom.

When assessing board nominations, Robeco considers each directors' external commitments to ensure that they can allocate sufficient time to fulfill the responsibilities attached to their role, while effectively representing shareholders' interests. At Compass Group's annual shareholder meeting we cast our votes against one board nominee due to our concerns regarding her ability to fulfill the commitments attached to her role, since she holds six additional public company directorships.

Responsibilities assigned to directors serving on corporate boardrooms from large companies are becoming increasingly complex, especially when serving on specialized committees. It is recommended by the UK Corporate Governance Code that non-executive directors should undertake only the number of external directorships that ensures they will have sufficient time to meet what is expected of them. In those instances, in which the non-executive directors hold more than four additional public company directorships, a thorough assessment needs to be conducted to determine if the nominee is able allocate sufficient time to the board to discharge their responsibilities effectively.

At the company's 2017 shareholder meeting the board members received about 45% of votes against from shareholders due to her potential over boarding. The nominee proactively carried out a review of her external commitments and stepped down from the board of a private Indian company. She also plans to relinquish her directorships of two further public Indian companies in the upcoming months. We acknowledge the positive steps taken by the non-executive director to address shareholders' concerns regarding her external commitments.

However, we still believe the nominees external commitments are excessive, given that they are serving as non-executive director in a total amount of seven boards of public listed companies. Even though the nominee has stated her determination to step down from two additional boards, we remain concern regarding the large workload involved in the positions she holds. We believe that holding such a large number of external commitments might preclude the director from dedicating sufficient time to each role, especially when unexpected material issues arise at one firm which require the directors' full attention.

We voted against the nomination of this board member for second consecutive year as we consider that her amount of external commitments does not aligned with corporate governance best practices. A balance needs to be achieved between the insights gained by directors' participation on different boards and the time required to adequately fulfill the responsibilities. We encourage the nomination committee to request more stringent guidelines in terms of external requirements.

**Tyson Foods, Inc. - 02/08/2018 - United States**

Tyson Foods, Inc. produces, distributes, and markets chicken, beef, pork, prepared foods, and related allied products. The Company's products are marketed and sold to national and regional grocery retailers, regional grocery wholesalers, meat distributors, warehouse club stores, military commissaries, and industrial food processing companies.

Water represents a critical resource for the meat production supply chain, yet its use has wide ranging material sustainability impacts for companies operating within the sector, and society at large. Impacts through direct company operations and via the supply chain include excessive wastewater discharges at slaughtering facilities, unmanaged livestock manure at animal facilities and excess fertilizer runoff associated with growing animal feed. It is therefore one aspect which we expect companies operating within the sector to pay particular attention to.

For these reasons, we supported a shareholder proposal at the 2018 Annual General Meeting of Tyson Foods Inc, requesting the company to adopt and implement a water stewardship policy designed to reduce risks of water contamination at Tyson-owned facilities, facilities under contract to Tyson and Tyson's feed suppliers. Robeco's approach to assessing shareholder proposals always includes an assessment of the merits of the proposal itself, as well as how the company's performance on the issue in questions relates to their peers. In this instance, the financial materiality of the proposal becomes clear as both the company's customers and direct peers continue to take action to improve their approach to water stewardship.

Walmart, the Company's largest customer, has strict supplier expectations on management of water, manure, nutrients, and fertilizer use, demonstrating the clear risks in the company failing to conform with the sustainability criteria set by their customers. Furthermore, the company lags behind many of their established peers in the area of water management. Amongst others, Hormel have adopted a Sustainable Agriculture Policy with commitments on water quality and supply chain management, Smithfield set a target for 75% of the grain they purchase to be grown with efficient fertilizer and soil health practices by 2018 (with associated reduction in nitrate pollution of water resources), whilst Perdue invested \$68 million to launch a large-scale poultry litter recycling operation to prevent nutrient pollution of local water resources.

As Tyson also continues to reposition its business model towards consumer sales, it must also stay in alignment with rising consumer expectations around sustainable business practices. Given that Tyson continues to be exposed to numerous investigations and lawsuits related to violations of the Clean Water Act, including pleading guilty to two criminal charges in 2017, resulting in a \$2 million criminal fine and additional \$500,000 for clean-up costs, the need for a more robust water stewardship policy is clear.

At the 2018 Annual General Meeting, approximately 63 percent of independent shareholder votes cast supported the proposal. However, due to the companies share class structure, whereby the Tyson Limited Partnership controls approximately 70.5% of the Company's total voting power, the proposal received the support of only 15% of all votes. Given that the majority of the company's independent shareholders supported this proposal at the companies last three shareholder meetings, we see this as a strong signal to the company to implement the proposal in the coming year.

**Apple Inc - 02/13/2018 - United States**

Apple Inc. designs, manufactures, and markets personal computers and related personal computing and mobile communication devices along with a variety of related software, services, peripherals, and networking solutions. Apple sells its products worldwide through its online stores, its retail stores, its direct sales force, third-party wholesalers, and resellers.

By the end of 2017, over 60% of S&P 500 companies had adopted some form of proxy access bylaws. Yet the criteria adopted by each company into their bylaws varies significantly. As a result, during 2018 a significant number of shareholder proposals were filed seeking amendments to proxy access bylaws, aimed at standardizing these provisions across companies. We supported one of these resolutions filed at the 2018 Annual General Meeting of Apple Inc requesting the board of directors to revise the current provision under its proxy access bylaws. The purpose of this resolution is to improve the ability of minority shareholders to nominate directors to the board.

Apple amended its bylaws and adopted proxy access in December 2015, following what at the time was emerging to be the market best practice. Currently, a maximum number of twenty shareholders collectively holding at least 3% of Apple's common stock continuously for a period of three years can nominate up to 20% of directors serving on the board. The shareholder resolution requests the Company to amend its proxy access bylaw to allow an unlimited group of shareholders to nominate 25% of the board or two members, whichever is greater.

We acknowledge the positive steps taken by the company in terms of strengthening shareholders' rights when implementing their original proxy access bylaws. However, we believe that an effective mechanism for proxy access should also look after the interests of minority shareholders by giving them a meaningful voice in board nominations. Input from shareholders throughout the nomination process is essential to enhance corporate democracy and represent the perspective of shareholders at the board level.

It is worth noting that this proposal has been filed at the company for several consecutive years. In the last couple of instances, it received the support of 32% of shareholders. Despite failing to achieve the support of majority of shareholders, we believe the relatively high level of support for investors should act as a signal to the company as to the importance of the issue.

We therefore supported this shareholder resolution in the expectation that it will contribute to improve board accountability and its composition, ultimately strengthening the Company's corporate governance regime. With an increasing number of companies adopting proxy access bylaws we believe it is important that companies aim to comply with what has become the emerging best practice for proxy access. At the 2018 shareholder meeting, the proposal received the support of 67.8% of shareholders.

**Deere & Co. - 02/28/2018 - United States**

Deere & Company manufactures and distributes a range of agricultural, construction, forestry, and commercial and consumer equipment. The Company supplies replacement parts for its own products and for those of other manufacturers. Deere also provides product and parts financing services. Deere and Company extends its services and products worldwide.

During 2017 proxy voting season, shareholder proposals filed in the U.S. requesting companies to adopt the right to call for special meeting in their bylaws received on average 47% votes in favor. Such amendments enhance shareholders' rights by enabling shareholders owning over a specific amount of stock to act on matters that arise between annual meetings by calling for a special meeting. At

Deere & Co.'s 2018 shareholder meeting we voted in favor of a shareholder resolution regarding lowering the ownership threshold to permit stockowners to call special meetings.

Many large companies have adopted in their bylaws the right to call for special meetings. It has been established as market standard in the U.S. to pose a minimum ownership restriction of 25% of common shares to enable shareholders to use this provision. In comparative terms, the Netherlands and France request 10% and 5% ownership thresholds respectively to allow shareholders to deploy this provision. Therefore, it comes as no surprise that a significant number of shareholder proposals have been filed in the U.S. seeking to reduce the ownership threshold to call a special meeting.

Since ordinary shareholder meetings tend to be organized annually, it becomes crucial to enable shareholders to call for a special meeting when urgent matters need to be discussed prior to next upcoming shareholder meeting. We believe that shareholders are best served when companies have a special meeting right that facilitate the participation of minority shareholders, as the timing of shareholder meetings becomes especially important when corporate events unfold quickly.

When considering Deere & Co.'s ownership structure, it is important to highlight that lowering the ownership threshold might allow individual shareholders to use this provision without seeking collaboration with others. No material concerns shall stem from this matter as the right to call for a special meeting constitutes a fundamental shareholder right that shall be accessible to all stock owners, including those instances when shareholders have a large stake at the company. Moreover, whenever this provision is deployed it will require the input from the wider base of stockowners through exercising their voting rights at the special meeting.

We consider that this resolution has the potential to ultimately benefit a wider range of shareholders by facilitating their ability to communicate with directors and promote the consideration of shareholder views when calling for a special meeting. Accordingly, we supported this agenda item at Deere & Co.'s 2018 annual shareholder meeting.

#### **Walt Disney Co - 03/08/2018 - United States**

The Walt Disney Company is an entertainment company that conducts operations in media networks, studio entertainment, theme parks and resorts, consumer products, and interactive media. The company produces motion pictures, television programs, and musical recordings, as well as books and magazines. Disney is a Dow 30 company and had annual revenues of \$55.1 billion in its fiscal year 2017.

At the 2018 AGM of Walt Disney Co, Robeco voted against the advisory vote on executive compensation due to our concerns over the structure of executive pay at the company. How company executives are financially incentivized can have significant and wide-ranging consequences on firm performance and the subsequent creation of long term shareholder value. We believe executive compensation plans should include a component which allows for reduction in rewards when firms underperform, ensuring that executive pay and the company's performance is properly aligned.

Whilst the company's Total Shareholder Return (TSR) over the last 5 years has consistently trailed the industry peer group median, CEO compensation has continued to rank amongst the highest when measured against the same peer group. Whilst the current CEO has a long track record of strong performance in his role, the link between pay and performance has not been maintained in years in which performance worsened.



In addition, we have concerns around the metrics used, particularly the overlap of metrics used in the short and long-term components of the plan. Having a narrowly focused plan based upon a single metric may fail to align long term pay for performance. Performance targets should therefore be set clearly, ensuring that these are aligned with the company's strategy and subsequently with long term shareholder value creation.

Given our concerns outlined above, we voted against the advisory vote on executive compensation, which was rejected by 52% of shareholders. In the coming months, we encourage the company to engage in constructive dialogue with its shareholders to address their concerns.

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### **Samsung Electronics - 03/23/2018 - South Korea**

Samsung Electronics Co., Ltd., together with its subsidiaries, engages in the consumer electronics, information technology and mobile communications, and device solutions businesses worldwide.

Diversity is one aspect we pay attention to when assessing the overall composition, and effectiveness, of a board of directors. We wish to see boards which are not only diverse across a range of metrics, but also reflect the diversity of the business, the challenges and the economic context within which it operates. Robeco believes that a diverse workforce at all levels of the organization with equality of opportunity for both should support business performance, and therefore financial performance, over time.

Concurrently, an ever-greater number of companies are convinced that a well-diversified board adds value to the company. A common argument is that boards with people from different backgrounds are more likely to approach issues from various perspectives, leading to more comprehensive decision-making and more effective supervision.

In recent years, much of the focus on board diversity has focused solely on gender. Boards must strive to also be diverse in the broadest sense, for example on nationality (to help in understanding the culture/geography of the organization), age (to balance new perspective vs understanding of business) and sector experience (to achieve a skill set which matches the underlying operations of the business).

We are therefore happy to see that the three new board members presented for election at Samsung Electronics 2018 AGM met the criteria outlined above, with backgrounds ranging from legal service to semiconductor experience. In addition, Samsung also recently took the step of splitting the function of Chair and CEO, which we view as a progressive step in the company's corporate governance regime.

Whilst the newly appointed chairman is not deemed as independent, due to his former role as CFO of the company, we still view this as a positive first step on the part of the company. In addition, during our pre-AGM conference call with the company's investor relations team, we were pleased to hear that in future the company would consider the instillation of a fully independent board chair.

At the AGM, all members were re-elected to the board. We will continue to engage with the company in the coming year to further improve corporate governance at the company, in collaboration with the company's current efforts.

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