Rabobank Pensioenfonds

ROBECO
The Investment Engineers

Proxy Voting Report

Period: July 01, 2017 - September 30, 2017

Votes Cast	**1474**	**Number of meetings**	**128**
For	1310	With management	1326
Withhold	6	Against management	148
Abstain	1		
Against	122		
Other	35		
Total	**1474**	**Total**	**1474**

In 72 (56%) out of 128 meetings we have cast one or more votes against management recommendation.

General Highlights

How Many is Too Many? Assessing Director Over Commitment
Board quality and corporate performance are inextricably linked and, as sustainable investors, we aim to ensure that the companies in which we invest take a proactive approach to building independent, knowledgeable and diverse boards. It is also important that once directors are elected, they have the time to fully dedicate themselves to the important work of the board. In turn, whether directors have enough time to sufficiently fulfil the duties entrusted to them by shareholders should be of key concern to all investors.

However this is not always the case, and in many instances it is clear, either by examining attendance rates or counting outside commitments, that directors may be overstretched. There are of course advantages to directors holding more than one board seat or executive position. Indeed sharing of best practices, networking and education gained by a director at one company can also be used at another company where he sits. However, balance is key, in that too many outside board seats can lead to negative effects.

One recent study conducted by the University of Michigan focused specifically on the US financial sector, arguing that directors of the country's largest financial institutions are too busy to execute their governance roles effectively. They found that outside board seats held by a director could limit the time that a director spends assessing the firm's strategy and risk or contribute to cognitive overload, using the examples of JP Morgan and Wells Fargo to strengthen their case. Overcommitted directors, they posit, may "consciously or subconsciously shirk their advising and monitoring responsibilities" as a result of holding too many board seats.

A second study, conducted by Rotterdam School of Management, drew similar conclusions when exploring the link between 'director attention' and firm value. They argue that when directors hold a greater number of board seats, the chance of an issue arising at one firm which will absorb all of their attention is greater, and example of which include mergers and acquisitions. When such events happen, it is possible that the director no longer has the ability to dedicate sufficient time to their other board roles. The study therefore concludes that "distracted directors spend less time and energy to monitor and advise managers and leave room for managers to shirk at the expense of shareholders, leading to significant declines in firm value."

These studies are particularly interesting in that they come at a time when companies in the S&P 500 are hiring fewer actively employed executives joining from outside boards than in the past. In fact, the 2016 Spencer Stuart Board Index shows that only 19% of new independent directors are active CEOs, chairs, presidents and chief operating officers, compared with 24% in 2011, 29% in 2006 and 49% in 1998. Furthermore, in 2016 nearly one-third (32%) of the new independent directors on S&P 500 boards are serving on their first outside corporate board.

Therefore, the potential over boarding of directors is something which must be considered by investors when casting their voting decisions. The expertise and other qualities brought to the board by a director must be balanced against their ability to dedicate a sufficient amount of time to the role. It is therefore our policy to assess if non-executive directors are holding an adequate number of board seats taking into account local market practices, as well as the overall duties and responsibilities held by the nominee in each board room. For this reason, we voted against the election or reelection of over 300 board members during the first half of 2017, due to concerns that they would not have sufficient time available to them to appropriately fulfil their duties.

Task Force on Climate-related Financial Disclosures: Voting for Change

When assessing shareholder proposal on environmental, social and governance topics, we make use of many different and varied sources of information, including the extensive sustainability expertise possessed by Robeco's Active Ownership Team, RobecoSAM SI Research Team, and a wider range of outside sources. However, when factoring the risks presented by climate change into our voting instructions, it has long been the case that company disclosures on this issue lack standardization, scope, and consistency. We are therefore supportive of any measures aimed at addressing these issues, in the belief that it will lead to better-informed voting instructions.

In recent years, this has taken on additional importance due to the rise in climate change related shareholder proposals filed at investee companies. In fact, the number of shareholder proposals filed on topics related to climate change has risen significantly as both the immense physical and transitional risks presented by climate change to companies are better understood. These include increased pricing of carbon, shifting consumer preferences, increased raw materials costs as well as number environmental impacts, to name but a few. However, many opportunities also exist for companies who innovate their business models to adapt to the aforementioned risks. As investors, understanding how companies are positioned to meet these challenges and opportunities is of key importance. Climate related shareholder proposals also give investors the opportunity to alter company behavior on these issues in a positive way. Better quality reporting on these issues is therefore extremely valuable.

Standardized and easily comparable data, which allows us to accurately benchmark company performance on climate change related metrics is therefore crucial in formulating our voting decision. One such initiative, which aims to provide a "voluntary, consistent disclosure framework that improves the ease of both producing and using climate-related financial disclosures" is the Task Force on Climate-related Financial Disclosures. At the request of G20 Finance Ministers, The Financial Stability Board established the Task Force to develop recommendations for more effective climate-related disclosures.

The intention of the initiative is to help companies understand what financial markets expect from company disclosures, in order to measure and respond to climate change risks, and to encourage firms to align their disclosures with investors' needs. Amongst the signatories are large asset owners, asset managers, and corporate leaders. In August of 2017, Robeco also signed the statement of support for the TCFD, together with our sister company RobecoSAM. We see huge potential for the recommendations of the TCFD to be factored in to our voting decision on climate change related shareholder proposals.

Increasing the quality of company disclosures on carbon and environmental disclosures will allow us to better benchmark and identify company performance and subsequent areas of improvement. This will in turn allow us not only to better make the case for supporting climate change related shareholder proposals, but also to inform our engagement with these same companies. In short, engagement and voting, conducted hand in hand with more easily comparable data, will allow us to conduct a smart, targeted voting process on issues of climate change.

Market Highlights

Corporate Governance Reform in the UK: Pay Ratios on the Horizon

In recent years, executive pay has received significant attention from investors, politicians and wider society alike. The range and severity of criticism has varied greatly, much like the vast range of proposals that have been put forward to remedy what is perceived by many to be a lack of linkage pay for performance for many CEO's. Yet one recurring theme which has come to the fore has been the debate around the disclosure of pay ratios and their usefulness in helping to come to an informed assessment on executive compensation.

Proposals to disclose the pay of CEO's relative to a benchmark of their workforce are already in place in the US, and in August of 2017 the UK government announced a series of corporate governance reforms amongst which requested companies to begin disclosing the pay ratio between CEOs and their average UK based worker, as well as a justification behind the ratio. It is the government's current intention to bring the reforms into effect by June 2018, and for the rule to apply to companies from the following reporting year.

The focus on pay ratios has to some extent been prompted by the rise in CEO compensation relative to average workers compensation, and the creation of an ever growing gap between the two levels of pay. This varies significantly by both industry and company size, however a recent report by a British think tank in August of 2017 found that the average pay ratio between FTSE 100 CEOs and the average pay package of their employees was 129:1. The highest ratio existed in the Consumer Services sector (248:1), followed by Consumer Goods (166:1) and Telecommunications (132:1). The lowest ratio was found to be in the Technology sector (27:1). On a company level, the highest ratios were 1,264:1 and 1,134:1, both of which were companies from the consumer services sector.

When voting on issues of executive compensation, an analysis of pay ratios may prove insightful. The executive remuneration policy is one of the key instruments companies use to guide, evaluate and reward the behavior and achievements of executives and can have significant and wide ranging consequences on firm performance and the subsequent creation of long term shareholder value. Transparency and disclosure in how pay is set is once key element in setting an appropriate executive compensation policy.

We are therefore in principle supportive of increased disclosure on executive pay, of which the publication of pay ratios is one part. This is particularly valuable as the data is standardized and comparable, which allows us to benchmark companies, for example by sector, and identify any outliers which may indicate a lack of pay for performance. We believe constructing appropriate company peer groups, for example by sector and company size, is one useful way in which pay ratio data can be used. However, we are also cognizant that in some cases deviations from a pre-defined benchmark may be explainable, therefore we are just as interested in the companies stated explanation, as to the ratio itself.

We await with interest the publication of pay ratio data in the UK, currently scheduled to take place from the 2019 proxy season onwards, and will factor into our voting instructions where we believe it is relevant and adds value to our overall assessment of executive pay at UK listed companies.

Voting Highlights

Experian Plc - 07/20/2017 - Jersey
Experian PLC offers credit and marketing services. The Company manages large databases that enable credit granting and monitoring, and help minimize fraud and credit risk, offers specialist analytical solutions for credit scoring, risk management, and processing applications, processes checks and credit cards, and offers consumers credit reports and scores.

When considering the appropriateness of payouts under a company's executive compensation plan, it is important to construct a relevant benchmark of similar companies with which to asses company performance, and subsequent executive reward, in order to ensure an alignment between pay and performance. Robeco uses a number of information sources when considering executive pay at investee companies, and constructs benchmarks to asses pay levels against a company's peers in terms of market cap, industry positioning and geography. Those companies positioning their remuneration pay outs significantly above the average level of their peers for comparable performance should have proper justification for doing so.

When assessing executive compensation prior to the annual general meeting of Experian PLC, we identified a number of issues with the overall payouts made to senior executives, under the compensation policy for the year in review. Using the aforementioned benchmarking approach, we determined that the company paid more to its CEO than a comparable group of UK companies (based on an average market capitalization of £9.45 billion), more than a group of UK based companies in the Industrials sector, whilst also paying more than a group of European Commercial and Professional Services companies. Even though company performance for the period in review was also notably good, we do not believe that this fully justifies the significantly higher pay than the benchmark group.

We see a number of reasons for the high payouts made under the plan, mainly the use of two separate long term incentive plans, as well as the relative narrow performance conditions attached to each plan. Indeed, the company is somewhat unusual in that it maintains two forms of long term compensation for senior executives; a co-investment plan and a performance share plan. Whereas the trend in developed markets recent years has been to consolidate multiple long term award plans into a sole long term incentive plan, the company state their belief that maintain both plans encourages the company to invest their own money into Experian Shares.

Whilst we agree entirely that executives should hold significant equity stakes in their companies as a means of aligning their interests with shareholders, we also believe that there are better ways in which this can be achieved. One of the ways to achieve this objective could be by making awards directly in shares, and including shareholder requirements in the compensation policy, which ensures that these interests are aligned.

Furthermore, both the companies long term incentive plans, as well as its short term incentive plan, are heavily focused on the same metric. In fact, the recurring use of Profit before Tax (PBT) Growth as a metric to reward executives is a significant factor in the high payouts received by executives. In fact, 100% of the short term incentive, 50% of the co investment plan, and 75% of the Performance Share plan relate to either PBT, or PBT growth. We view this significant performance metric overlap as one factor which contributes strongly to the high remuneration at the company relative to its peers. As is often seen, having a narrowly focused plan based upon a single metric may fail to align long term pay for performance, and we encourage the company to broaden the scope of metrics made under the plan, as well as unifying their multiple long term incentive plans into a sole, transparent and easily understood version.

For these reasons, we voted against both the compensation related proposals at the company's 2017 annual general meeting. The proposal received the support of 84% of shareholders.

SATS Ltd. - 07/21/2017 - Singapore

SATS Ltd. provides gateway services and food solutions. The Company specializes in airfreight, ramp and baggage handling, passenger services, aviation security services, aircraft cleaning, and cruise center management. It also provides airline catering, institutional catering, aviation laundry, and food distribution and logistics. SATS has presence across Asia and the Middle East.

How company executives are incentivized financially can have significant and wide ranging consequences on firm performance and the subsequent creation of long term shareholder value. One way in which this can be achieved, if implemented properly, is to issue and grant shares to employees via an equity compensation plan. At the 2017 annual general meeting of SATS Ltd., one such plan was proposed for approval by shareholders. Here, the company requested authority to offer and grant awards and issue shares under the SATS Employee Share Option Plan ("ESOP"), Restricted Share Plan (the "RSP") and Performance Share Plan (the "PSP").

When assessing such plans, one key element to be considered are the targets against which such awards are made. It is of key importance to utilize the right metrics which reward executives for performance against the companies' long term strategy. Misalignment between reward metrics and company strategy can lead to substantial disconnect between pay and performance.

In this sense, good disclosure is key to allow investors to ascertain for what each executive is being awarded, and how stretching such targets truly are. The company stated that the awards granted under the PSP plan are principally performance-based, with performance targets based on criteria such as total shareholders' return, economic value added, market share, market ranking or return on sales. For awards granted in FY 2014-15 to FY 2016-17, performance was based on absolute and relative total shareholder return.

However, whilst such disclosure gives a broad overview of the performance conditions attached to the plan, it is still difficult to assess the link between pay and performance when the compensation committee would appear at first glance to enjoy significant discretion in target setting. Indeed, no information can be found on the weightings, threshold or target levels for each metric.
It is of critical important that targets are set at an appropriately stretching level as to sufficiently incentivize executive management to outperform. For example, when considering the pay-outs made under a compensation plan, a structurally high degree of actual pay out vs maximum total pay-out indicates that the targets set may be too easy for management to achieve. However, when that information is not made available to shareholders, such an assessment is significantly more difficult to make.

Furthermore, the granting of long term awards, such as those made under this plan, should be made over a sufficiently long time period as to fully capture long term shareholder value creation, or the lack thereof. For this reason, we believe awards should be made with a minimum performance period of 3 years. Yet in this case, the companies states that awards vest after a period of only two years, which cannot be considered best practice.

For this reason, we voted against the approval of authority to grant awards and issue shares under equity incentive plans at the 2017 annual general meeting. However, the proposal was passed at the AGM by 90% of shareholders.

Tate & Lyle plc - 07/27/2017 - United Kingdom

Tate & Lyle PLC is the holding company for an international group of companies which produces and markets ingredients and solutions for the food, beverage, industrials and agriculture industries around the world. The Company's range of products includes nutritive sweeteners, industrial starches, ethanol, acidulants and animal feed.

The executive remuneration policy is one of the main instruments companies use to guide, evaluate and reward the behavior and achievements of executives. It is therefore in the interest of a company, its shareholders and other stakeholders to have an appropriate remuneration policy in place for executives, which aligns their interests with that of shareholders. We therefore believe that it is appropriate that when companies are designing their remuneration policy, they consult with shareholders to canvas their opinions before submitting it to a vote. Such a proactive approach ensures that the policy is better aligned with shareholders' interests and reduces the chances of the policy facing defeat at the annual shareholder meeting.

Prior to their 2017 annual shareholder meeting, where shareholders were given a vote on the new remuneration, the company reach out to us in order to get our assessment of the proposed changes to their remuneration plan at the companies invitation. Whilst the company proposed no material changes to its remuneration policy, we were happy to provide our input on a number of areas which we believed could be improved, the first of which was the metrics used under the plan.

When considering the metrics used in the policy, it is usually our preference to see a strong emphasis on Free Cash Flow and Return on invested capital or similar and, in the case of Tate & Lyle, we believe that adjusted return on capital employed is a reasonable metric to target. However, our main concern on the targets used under the long term incentive was the lack of any relative performance metric. In some cases, absolute metrics may largely reflect economic factors beyond the control of executives rather than on individual performance, and therefore whilst we are still supportive of the use of absolute metrics, these should be mixed with relative performance measurements.

However, in response to our concern, the company stated their difficulty in finding a reasonable comparator group against which to measure themselves using a relative metric, such as Total Shareholder Return (TSR). In particular, they stated their difficultly in establishing a relevant comparator group that reflected their UK listing but global operating model (a significant weighting of their people and sales are in the US), and their industry sector, particularly as their business mix between bulk and specialty ingredients evolves. Despite this, the companies compensation committee will continue to keep the issues under review.

Therefore, whilst we still see a number of smaller issues with the compensation policy, we are encouraged that the company remains available to hear our feedback and suggestions. Overall, we also believe that this remuneration policy should achieve its overall goal of aligning pay with performance. For these reasons, we voted for the compensation policy at the company's annual general meeting, which was subsequently passed with the support of 97% amount of shareholders.

Saputo Inc - 08/01/2017 - Canada

Saputo Inc. manufactures dairy and grocery products. The Company manufactures

Italian cheeses, European cheeses, and North American cheeses. Saputo also operates a distribution network through which it markets a variety of imported cheeses and non-dairy products to complement its cheese offerings. The Company also produces and distributes snack cakes, cookies, breads, and soups.

One recent trend in executive compensation, of which Robeco is wholly supportive, is the inclusion of financially material ESG factors into the performance assessment and reward of senior executives. We support this trend in the belief that that rewarding executives for superior performance on the most financially material environmental, social and governance metrics enhances overall company financial performance, can reduce risk and also lead to greater value creation for shareholders in the long term. It also represents a powerful mechanism to ensure the fulfillment of the company's long-term sustainability strategy. An ever greater number of companies are therefore beginning to include such metrics when designing their executive compensation plans.

We therefore supported a shareholder proposal filed at the annual general meeting of Saputo Inc., requesting that the Company disclose how it incorporates environmental objectives in the evaluation of the performance of its executive officers. Whilst the companies ESG performance to date has presented no significant controversies, we believe adoption of this proposal would further incentivize executives to continually focus on sustainable, long term value creation, whilst placing further focus on risk management.

The proposal itself does not stipulate specific ESG criteria which should be included in the company's executive compensation plan, nor in which part of the plan (short term or long term) such metrics should be included. Instead, the proposals gives appropriate discretion to the companies compensation committee to include such metrics as they see fit. However, an analysis of the company's business model, and market, combined with examples of best practice, provide some insight into how this should be achieved.

When assessing the use of ESG metrics in compensation plans, we use RobecoSAM materiality frameworks to assess the most relevant sustainability factors for a company. Considering the sector in which the company operates, as well as its business model, this would suggest that metrics related to Product Quality and Safety, as well as the sustainability of its supply chain, would be most appropriate for inclusion in a compensation plan for the company.

Additionally, in order to be value adding, and to further enhance the link between pay and long term performance, companies should include material ESG factors in the long term component of executive pay. When an investee company has identified appropriate material non ESG metrics, the weighting of these metrics should be significant (5 – 10% of total performance measurement). It is important to ensure that performance in these areas is also measurable and disclosed to ensure that shareholders can sufficiently judge the link between pay and (out) performance.

However, it is important to note that when sustainability or other non-financial metrics are used in a remuneration program, such metrics should add value for stakeholders and should not create extra bonus pay-outs for normal managerial responsibilities. For example, executives should not receive additional awards for simply maintaining their license to operate, such as preventing significant environmental damage as a result of their operations. Non-financial targets should therefore be designed to enhance performance, rather than additionally rewarding management for normal expected business practices.

For these reasons, we supported the shareholder proposal at the company's 2017 annual general meeting, where it received the support of 24% of shareholders.

DXC Technology Co - 08/10/2017 - United States
DXC Technology Company provides information technology services. The Company offers analytics, applications, business process, cloud and workload, consulting, and security services and solutions. DXC Technology serves customers worldwide.

Many of the compensation plans which we asses include room for the compensation committee to exercise discretion based upon extenuating factors not reflected by the policy. Such payments are typically made as a result of significant transactions undertaken by the company in the past fiscal year, to reward executives for their completion. We are generally wary of such discretionary payments made by companies whereby the company acts to grant awards outside of the compensation plan agreed upon by shareholders, as such awards have the potential to undermine the integrity of a company's regular incentive plans, the link between pay and performance, or both.

On April 1, 2017, the merger of CSC with the Enterprise Services business of Hewlett Packard Enterprise Company was completed, resulting in the creation of a new company, DXC Technology Company. At the 2017 Annual General Meeting, shareholders were asked to approve the executive compensation practices of the company, which contained a number of one off transaction payments made to executives at the new company. These included approximately USD 4 million granted to the CEO, and USD 1.5 million to the CFO. When considering such payments, it is important not to view them in isolation, and instead to consider their effect on executive compensation practices and pay for performance as a whole.

With regards to the USD 4 million payment to the CEO, this was in addition to the performance based incentive plan already in place at the company, taking his total compensation to over USD18 million. Of particular concern is that the payment was made against a set of objectives which we would consider as intrinsic to their duties as executives of the company. We therefore view these payments as additional bonus for work which has already been rewarded as part of the company’s existing compensation plan. Subsequently, it is our belief that these awards have the potential to undermine both the integrity of the company's existing incentive plans, as well as potentially undermining the link between pay and performance.

Instead, if it is accepted that the companies existing compensation plan has failed to sufficiently incentivize executives, it is our preference that the existing compensation plan be re designed and voted upon by shareholders, instead of making additional ad hoc and discretionary grants to executives. This is also applicable to the additional one off payments made to other executives at the company. In view of the lack of payouts from the companies short term incentive scheme, the company granted time vesting retention awards to a number of executives to mitigate the lack of bonus due to below target performance.

Such payments critically undermine the integrity of the companies compensation plan. In effect, by making such payments, executives are rewarded for underperforming the targets set by the compensation committee, and agreed upon by shareholders. Most concerning is that similar payments have been made frequently in recent years, further undermining the link between pay and performance in executive compensation and providing what appears to be a guaranteed bonus for key executives regardless of performance.

We therefore took the decision to vote against the companies advisory vote on compensation at the company’s 2017 annual general meeting. The proposal was opposed by 42% of shareholders.

Darden Restaurants, Inc. - 09/21/2017 - United States
Darden Restaurants, Inc. owns and operates full service restaurants. The Company

operates a variety of seafood and Italian restaurants under a multitude of brand names. Darden Restaurants owns restaurants through North America.

One notable theme of the 2017 proxy season has been the increasing number of shareholder proposals filed at US food and restaurant companies, targeting the use of medically important antibiotic use in their respective supply chains. A notable case was at the shareholder meeting of McDonalds Corp, where Robeco co-filed a proposal requesting the company phase out use of medically important antibiotics in their supply chain. However, we believe this is an issue which must be tackled by the industry as a whole, rather than just by a single company. When a similar shareholder proposal was filed at the annual shareholder meeting of Darden Restaurants, Inc. we were also highly supportive of the proposals aims.

A number of companies within the industry have made positive moves with regards to antibiotics in recent months. Panera Bread and Chipotle Mexican Grill now prohibit most antibiotic use in all livestock supply chains, whilst McDonald's has successfully phased out all medically important antibiotics from its U.S. chicken supply chain following an extensive shareholder campaign. Furthermore, Perdue Farms, Tyson Foods, Subway, and Chick-fil-A have committed to eliminate all antibiotics in chicken. Finally, Wendy's, KFC, Taco Bell, Starbucks, and Jack in the Box have committed to phasing out routine uses, including disease prevention, of medically important antibiotics in chicken. We therefore believe that Darden's performance on this issue now lags behind many of its direct peers.

A recent study by a group of US NGO's also ranked Darden Restaurants, Inc. amongst the lowest companies within their selected peer group, giving them an F grade on their overall Antibiotics Policies and Sourcing Practices, of which the lack of a time bound commitment to phasing out use, overarching policy commitments, and transparency featured heavily in their resulting low score.

One key issue here is the companies current level of transparency with regards to their practices and policies on supply chain antibiotic use, which does not presently allow shareholders to conduct an informed risk assessment of these same practices. We also believe that the proposal itself is not over prescriptive as to make its implementation overly complex, instead asking that the company "adopt an enterprise-wide policy to phase out routine uses, including disease prevention, of medically important antibiotics in meat and poultry sources" including a manageable timetable for achieving this.

We also believe changing consumer preferences as well as future brand growth should play an important role in assessing the merits of this proposal. In this regard, so called 'antibiotic free' foods as a segment are growing significantly faster than the companies company current product range. In a recent (2016) study by Nielsen, the authors found that between 2011 and 2015, products labeled 'antibiotic-free' posted sales growth of 28.7% versus 4.6% for conventionally raised meat, demonstrating the material nature of the requests of this proposal.

Finally, we believe that adopting of this proposal falls in line with the aims of Goal 3 of the UN sustainable Development goals, which aims to achieve good health and wellbeing for all. For these reasons, we supported the proposal at the 2017 annual general meeting, where I gained the support of 11% of shareholders.

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