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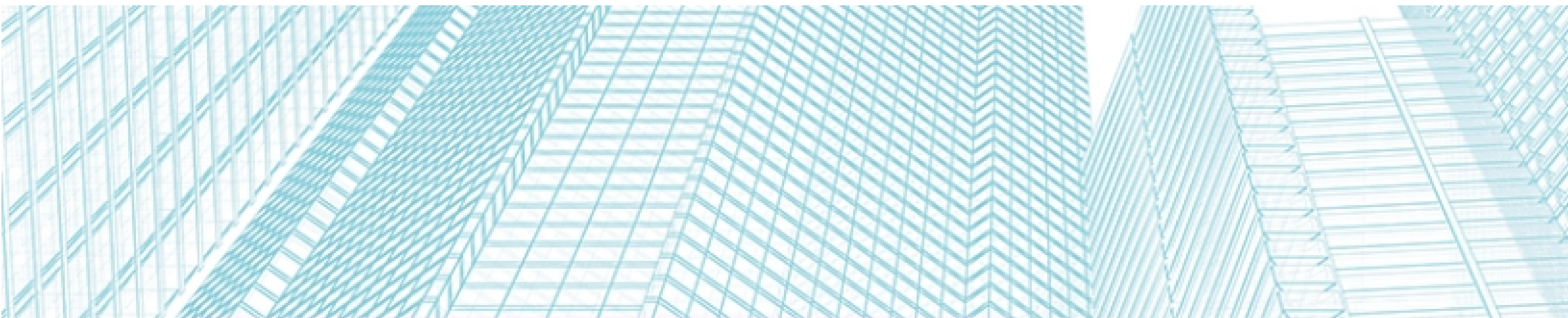
ROBECO
The Investment Engineers



Proxy Voting Report

Period: July 01, 2016 - September 30, 2016

Votes Cast	2670	Number of meetings	274
For	2355	With management	2344
Withhold	15	Against management	326
Abstain	7		
Against	290		
Other	3		
Total	**2670**	**Total**	**2670**

In 141 (51%) out of 274 meetings we have cast one or more votes against management recommendation.

General Highlights

Special Issue – Executive Pay
Executive remuneration practices have received considerable attention in the past year from the media, shareholders and society as a whole. In the United Kingdom, substantial media scrutiny was cast on a number of FTSE 350 companies as investors voiced their concerns about company pay practices in large numbers at their respective shareholder meetings. The average FTSE100 CEO pay package in 2015 was £5.48 million, up from £4.96 million in 2014. This rise generated significant shareholder discontent with four FTSE 350 issuers having pay proposals voted down, and a number of companies receiving less than 90% support from voting shareholders. Overall, average support levels for remuneration packages fell from 92.7% of shareholders casting votes for executive compensation in 2015, to 89.8% in 2016. This was most apparent in the FTSE 100 where over 30% of companies failed to secure the support of more than 90% of shareholders.

Yet whilst pay rose in the UK, the highest levels of executive pay were still seen in the US. A recent study by Equilar found that median reported total compensation for CEOs at large U.S. companies totaled $14.9 million, compared to $5.3 million for non-U.S. companies, showing the generally high executive pay on offer at US companies. In addition, US CEO's also received a higher proportion and value of compensation in equity awards during the year.

Even though pay levels in the US are much higher than in Europe, US listed companies experiences less scrutiny from shareholders than their UK counterparts. According to data compiled by Bloomberg, in 2016 the average support for US company pay practices was 93%, and only 1% of companies failed to get majority support. In addition, proxy season in the US saw shareholders asked to approve significant discretionary awards for executives totaling more than $4 billion.

Shareholder discontent with executive pay practice is not solely a developed market phenomenon. Good disclosure is key for investors to understand how management is being incentivized and in developing markets this cannot always be said to be the case. For these reasons Robeco has focused heavily on the theme of executive pay during the 2016 proxy season. Below is a summary of the key developments during the year so far and the guidelines Robeco uses for analyzing the quality of remuneration policies when voting shareholder meetings.

Aligning Executive Compensation with Long Term Shareholder Value Creation
An appropriately structured remuneration policy should align executive pay with company strategy, by incentivizing executives to create long term, sustainable shareholder value. 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. Beginning in 2016, Robeco rolled out a new executive compensation analysis model to guide our voting instructions where executive compensation is concerned. The framework focuses on four areas we believe are key to formulating an acceptable pay package for executives: 1) Pay structure, 2) Transparency and Accountability, 3) Cost and excessiveness and the 4) use of Non-financial Metrics.

Pay structure; aligning pay with performance

When assessing compensation plan structure, we believe it is essential that an appropriate balance is struck between fixed and variable compensation, and short and long term performance. Performance must be measured over a sufficiently long period to capture the creation, or lack of, long term shareholder value, and a portion of this compensation must be truly 'at risk' to appropriately align pay with performance, including reduced payouts when company performance is poor. It is also important that a reasonable mix of relevant targets are used to determine overall compensation, rather than a limited number of absolute metrics which could reward executives solely based upon macro-economic trends rather than company performance. For example, a policy based on one metric such as Earnings Per Share (EPS), coupled with a short performance period, could fail to appropriately capture long term performance and might lead to ambiguous priorities at management.

It is also important to understand the context of the market when assessing the key performance indicators for variable pay. For example, return metrics and cost savings are becoming more common in the oil & gas, utilities and bank sectors. In contrast, the pharmaceutical sector has a strong focus on growth. 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.

Transparency and accountability; no informed voting instruction is possible without disclosure

In order to come to an informed assessment of compensation structure, it is therefore important that companies disclose the metrics, thresholds, targets and vesting conditions of equity based compensation in an accurate and transparent manner. The company must also coherently report on the guidance behind the philosophy of the remuneration policy. In addition, we expect remuneration committees to be respondent to shareholders, by taking into account the levels of votes against at previous shareholder meetings, and engaging with shareholders where discontent exists.

Robeco believes that appropriate levels of disclosure are critical in formulating informed voting instructions on executive pay practices. We therefore support in principle government efforts to mandate companies into releasing greater levels of information, and will factor any newly disclosed information into our overall analysis of compensation plans where the data is available and if it adds value.

Cost and excessiveness; importance of retaining top quality management, but not at unlimited cost

Executive compensation should also appropriately reward executives without imposing too significant a cost to shareholders. For this reason, we also consider the overall height of compensation levels in relation to annual earnings. Furthermore, we take into account the split between short and long term compensation, whereby executives should never be rewarded at greater levels for short term performance than long term.

Non financials elements; as additional risk mitigation

An increasing number of issuers are also beginning to build sustainability performance into their remuneration policies, a step which Robeco wholly supports. We use RobecoSAM materiality frameworks to assess the most relevant sustainability factors for a company, and support the inclusion of these into

executive pay metrics. This is in the belief that rewarding executives for superior performance on financially material environmental, social and governance metrics will enhance overall company financial performance, can reduce risk and lead to greater value creation for shareholders in the long term.

Executive compensation in emerging markets – the challenge of enhancing disclosure

Shareholders rely on publicly disclosed information to assess the policies and performance of companies in which they invest. Assessing executive compensation plans is no exception, and good disclosure is key for investors to understand how management is being incentivized. While regulation in many developed markets usually requires clear, concise and understandable disclosure about compensation paid to CEOs, CFOs and certain other high-ranking executive officers of public companies, disclosure levels required in emerging markets are diverse and often less stringent. Lower or inconsistent disclosure requirements make assessment of executive compensation plans challenging.

As mentioned above, Robeco believes that pay structure, transparency, height and use of non-financial metrics are key to assess the alignment between executive pay and performance. While this information is usually available in developed markets, this is not the case in emerging markets. Whereas some countries – like Brazil and South Africa – require companies to disclose information that allows investors gain an understanding of individual or average pay levels and the metrics used in setting variable remuneration, a significant number of developing countries fail to do so.

Using local market standards

As part of Robeco's voting policy, we strive to integrate local standards and practices in our analysis. This also means that we identify local best practices and expect companies to align their policies to them as much as possible. Yet, emerging markets are a mixed bag in terms of disclosure requirements on executive pay and, in some cases, identifying country-specific best practices can also be difficult.

Because of the significant difference in disclosure, our assessment of executive compensation in emerging markets is somewhat different to that used in developed markets. The assessment framework includes the same four criteria used in developed markets, namely 1) Pay structure, 2) Transparency and Accountability, 3) Height Cost and excessiveness and the 4) use of Non-financial Metrics. However, the analysis made on these criteria is different in two ways.

Assessment of remuneration policies based on local requirements and best practice

The four criteria used in the assessment framework are analyzed taking in consideration local requirements and, when possible, local best practice. By focusing on the minimum standards that companies should abide to, this approach allows us to identify reasonable remuneration policies in low-disclosure contexts. At the same time, our assessment framework triggers an against vote recommendation on remuneration policies that consistently fall below a minimum set of standards.

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In some emerging markets, it is common that companies disclose only an aggregate amount of fees paid to all executive and non-executive directors. These

limitations in information make it difficult to assess alignment between pay and performance and general the structure of a plan. Despite that this often is in line with local market practices, we will only allow plans with limited disclosures, in case we feel the possible payout is reasonable. In these cases, our assessment consists of determining the reasonability of the amounts being paid.

Our analysis takes in consideration the amount of fees paid as percentage of the net income available to common shareholders, alignment of fee fluctuations relative to previous years with financial performance, and the reasonableness of pay with the company's size. Robeco believes this approach to assessing executive remuneration in emerging markets helps balancing local practices with shareholders' need to make informed voting decisions while encouraging companies to increase disclosure on this topic.

Policy Developments – new pay ratio legislation ahead

Public discontent over executive pay, has placed pressure on politicians to make companies more accountable to shareholders, especially around the transparency and of executive pay packages. In the US for example, a recent study by Stanford University addressed found an overall negative sentiment amongst society regarding CEO pay, with 74% of Americans believing differentials between employees and top executives are too high. The same survey also found that, on the whole, the general public also vastly underestimated the levels of CEO pay at large American companies. According to the AFL-CIO, the CEOs of 350 Standard & Poor's 500 companies made 373 times more than their employees in 2014, up from a ratio of 46-to-1 in 1983.

In the U.S., the Securities and Exchange Commission approved in 2015 a rule requiring companies to reveal the pay difference between their CEO and the average remuneration of employees. Under current SEC rules, companies are required to provide extensive information about the compensation of its CEO and other named executive officers. Currently companies are not required to disclose the same compensation information for other employees. The new rule, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, obligates companies to disclose the median compensation of all its employees, with the exception of the CEO, and further disclose a ratio showing that figure in comparison to the CEO's total pay.

The new rule will provide shareholders with information they can use to evaluate a CEO's compensation, and will require disclosure of the pay ratio in registration statements, proxy and information statements, and annual reports that call for executive compensation disclosure. The aim of the new legislation is to aide shareholders in deciding how to vote on executive pay packages. However, in the face of significant opposition from a number of US companies, the U.S. Chamber of Commerce as well as the US Republican Party, the ratio is only required to be published every three years, as well as allowing for companies to exclude up to 5% of their foreign workers from the calculation. Companies will be required to provide this disclosure of their pay ratios for their first fiscal year beginning on or after January 1, 2017. In addition, the new EU shareholder Rights Directive gives shareholders the right to approve a company's directors remuneration policy and implementation and requires that companies only pay remuneration in accordance with the approved policy.

In the United Kingdom, the election of Theresa May as the new British Prime Minister in July 2016 could potentially lead to new legislation on executive pay and

board accountability. Since her election, Mrs. May has floated proposals for shareholder votes on remuneration to become binding, in light of the significant level of shareholder opposition to executive pay during 2016, as well as for boards to release more data on pay gaps within their companies, similar to the recent developments in the US. This is partly in reaction to increases in average pay of up to a third at large UK companies since 2010, with a pay ratio of approximately 140 times employees' average wages to CEO pay in 2015. This could potentially lead to similar disclosure requirements being set in the UK to those that are currently being implemented in the US.

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