Algemeen Pensioenfonds KLM

ROBECO
The Investment Engineers

Proxy Voting Report

Period: October 01, 2018 - December 31, 2018

Votes Cast	**1794**	**Number of meetings**	**235**
For	1568	With management	1560
Withhold	16	Against management	234
Abstain	2		
Against	205		
Other	3		
Total	**1794**	**Total**	**1794**

In 108 (46%) out of 235 meetings we have cast one or more votes against management recommendation.

General Highlights

The Rise of Non-Financial Performance Metrics
One of the greatest challenges of any remuneration policy is to ensure that executive pay and performance are firmly aligned. This measurement involves the use of performance metrics that strike a balance between short and long-term variable pay, reflecting the interests of both management and shareholders. Corporate performance is being scrutinized beyond solely financial achievements, also taking into account the company's environmental and societal impact. As companies are increasingly asked to respond to a wider approach to shareholder value creation, remuneration packages are gradually changing to reflect such trends.

In the last couple of years there has been a growing trend in companies incorporating non-financial criteria into remuneration packages across Europe and the US according to Morgan Stanley. Investors are increasingly asking companies to demonstrate how financially material environmental and social topics are embedded into their corporate strategy and how management is being incentivized to deliver on such topics. As a result, remuneration committees have been including non-financial metrics such as employee satisfaction, carbon reduction targets and gender diversity targets within their compensation schemes.

These non-financial metrics are capable of capturing less traditional performance criteria, such as a company's societal or environmental impact. This allows shareholders to hold executives accountable on the execution of a strategy that incorporates ESG considerations and encourages companies to take a broader perspective on shareholder value creation.

The efficacy of a non-financial metric largely depends on its implementation. One aspect of this implementation is the relevance of the ESG criteria to the business and whether it contributes to enhanced shareholder value in the long run. Another factor is the level of measurability and transparency provided to shareholders. Investors benefit from having access to disclosures related to the assessment of the performance metric, key targets and thresholds included in the compensation plan.

The remuneration framework developed by Robeco gives a score to executive compensation plans. Companies that use non-financial performance metrics can attain a higher score in framework, which would lead to a vote in favor of the compensation plan.

If implemented correctly, non-financial measures can improve compensation plans while playing a pivotal role in enhancing ESG integration in companies' strategies. For shareholders, they serve as a means to hold management accountable for shareholder value creation. For companies, they can be used to better reflect the performance and value of their executives.

The Link Between SDGs and Voting on Shareholder Resolutions
As sustainability-minded investors, we are concerned not only with economic returns to shareholders and good corporate governance practices of our investee companies, but also with ensuring that their business activities and practices are aligned with the broader objectives of society. We actively use our shareholder rights to influence the behavior of our investee companies when it comes to their environmental, social and governance impact. Through our proxy voting activities we aim to address key governance and sustainability matters while protecting

long-term shareholder value.

The Sustainable Development Goals (SDGs) define global sustainable development priorities for 2030 and seek to mobilize global efforts to achieve these goals, contributing to connecting business strategies with global priorities. The SDGs can be a business opportunity for listed companies, providing them with a future competitive advantage by being a source of innovation, process improvements and operational efficiencies.

The SDG framework constitutes a useful tool when assessing shareholder proposals involving environmental and social (E&S) matters. When assessing shareholder resolutions we take into account the merits of the proposal, how the company is currently tackling the issue and the overall impact of the proposal on shareholder value in the long run. Moreover we review the overall materiality of the resolution and determine whether the objectives included in the proposal fall within the scope of the company management's influence and control.

Impact assessment of climate change and emission reduction targets are the most common subjects among environmental shareholder resolutions filed in 2018. Proponents mainly target companies operating in the utilities, oil and gas sectors. The scope of these resolutions range from requesting concrete greenhouse or methane emission target reductions, to asking the board to evaluate the long-term portfolio impacts of scenarios consistent with the goal of limiting the global increase in temperature to two degrees Celsius. Supporting these resolutions would positively contribute to SDG 13 'Climate Action' as it calls for integrating climate change measures into corporate strategies and planning, while fostering climate resilience by lowering emissions. However, some proposals call for drastic emission reductions, which would come at the expense of value creation. In these instances, the shareholder proposal is likely voted against.

Board and employee diversity-related shareholder proposals were the most common resolutions filed on the social front in 2018. We recognize the importance of corporate diversity and inclusiveness as it adds value to the business whilst improving human capital management. Shareholder support on this resolutions increased from 24.5% in 2017 to 36.6% in 2018 due to amplified governance focus and media attention on the topic. By supporting these resolutions investors are contributing to achieve SDG 5 'Gender Equality', as these support women's full and effective participation and equal opportunities for leadership at different levels of corporate decision-making roles, while advocating to end gender discrimination in the workplace.

While the number of E&S proposals decreased in 2018 compared to last year, the average level of votes in favor rose in many E&S categories. Few of the resolutions discussed in this article received majority support from shareholders, however companies are becoming more aware of investors' scrutiny regarding their non-financial impact on society and the environment. In turn, this trend contributes to enhancing the relevance of positive contributions from corporations to achieve the SDGs.

Voting Highlights

Procter & Gamble Co. - 10/09/2018 - United States
Proposal: Board Nomination

The Procter & Gamble Company provides branded consumer packaged goods to consumers in North America, Europe, Asia Pacific, Greater China, Latin America, India, the Middle East, and Africa. The company operates in five segments: Beauty, Grooming, Health Care, Fabric & Home Care, and Baby, Feminine & Family Care. The company sells its products through mass merchandisers, e-commerce, grocery stores, membership club stores, drug stores, department stores, distributors, wholesalers, baby stores, specialty beauty stores, high-frequency stores, and pharmacies. The Procter & Gamble Company was founded in 1837 and is headquartered in Cincinnati, Ohio.

According to internationally recognized corporate governance practices, several key board committees should consist entirely of independent board members to ensure their full objectivity. During the 2018 Annual Shareholder Meeting of P&G, the proposed board composition of fiscal year 2019 classified 12 out of 13 board nominees as independent. However, we disagreed with the independence classification of one of the board nominees.

The board nominee in question is the stepfather of an employee of P&G who received compensation of USD 127,000 from P&G in fiscal year 2018. Such family ties makes it unclear whether the director would be able to exercise sufficient independent judgement to protect shareholders' interests when serving on the board. Given this member's proposed appointment to several board committees, we voted against the nominee.

Appointing this board member to the audit committee would jeopardize overall committee independence. For this reason, a vote against the nominee was warranted. It should be noted that this different classification of independence does not necessarily mean that the nominee could not be appointed to the board in general, yet we believe that he should not be part of crucial committees that should solely consist of independent board members according to the International Corporate Governance Network (ICGN) principles.

Going forward, we will continue to encourage the company to structure the board committees in a way that complies with international corporate governance standards.

Alibaba Group Holding Ltd - 10/31/2018 - United States
Proposal: Election of Directors

Alibaba Group Holding Limited, through its subsidiaries, operates as an online and mobile commerce company in the People's Republic of China and internationally. The company operates in four segments: Core Commerce, Cloud Computing, Digital Media and Entertainment, and Innovation Initiatives and Others. Two famous websites the company runs are Alibaba.com, an online wholesale marketplace, and AliExpress, a retail marketplace. The company was founded in 1999 and is based in Hangzhou, the People's Republic of China.

Alibaba's board is controlled by a combination of its top managers and partners. It registers a board independence level of 45%, slightly below the guidelines outlined by the New York Stock Exchange listing rules requiring a majority of independent directors. During the 2018 AGM of Alibaba we voted against the re-election of

Alibaba's executive vice chair, who also serves on the compensation committee.

The director was nominated by Alibaba Partnership, a group of Alibaba's co-founders and executives contributing to the group's business, therefore being classified as a non-independent executive board nominee. We believe members of the compensation committee should all be non-executive directors in order to come to a reliable and trustworthy judgement of how executives of the board should be compensated.

In July 2010, multiple founders of Alibaba (including executive chair Jack Yun Ma) entered into the Alibaba Partnership. The Partnership currently consists of 36 member, of which 6 are appointed by Alibaba's affiliate Ant Small and Micro Financial Service Group Co. Ltd. and 30 are members of Alibaba's management. The Alibaba Partnership has the exclusive right to nominate and appoint up to a simple majority of the company's board. During the 2018 AGM of Alibaba the Partnership nominated 5 board members, including the executive vice chair. Additionally, members of Partnership are involved in a voting agreement through which all parties intend to vote in favor of each other's board nominees.

We understand that companies with shareholders possessing majority voting rights will often have a board that resembles the preference of the controlling parties, even though in this case the Partnership already has full control over the company. Moreover, it is also understandable for controlling parties to place affiliated directors on important board committees. However, in this case the executive vice chair is an affiliated executive director and simultaneously a member of the compensation committee, making him responsible for defining his own remuneration package.

As we oppose executives deciding over their own pay package, we have voted against this board nominee. The nominee was elected as board member for fiscal year 2019, receiving 86% of votes in favor from shareholders. Yet significant opposition to nominate this director is observed when only taking into account votes cast by minority shareholders,. We encourage the company to increase their board committee independence in the future.

Kla-Tencor Corp. - 11/07/2018 - United States
Proposal: Executive Compensation

KLA-Tencor Corporation designs, manufactures, and markets process control and yield management solutions for the semiconductor and related nanoelectronics industries worldwide. The company offers chip and wafer manufacturing products, including defect inspection and review systems, metrology solutions, in situ process monitoring products, computational lithography software, and data analytics systems for chip manufacturers to manage yield throughout the semiconductor fabrication process. KLA-Tencor Corporation was founded in 1975 and is headquartered in Milpitas, California.

KLA-Tencor's proposed executive compensation plan in 2019 included many best-practices, but there were a few areas of concern related to the structure and accountability of the pay package. In particular, there was only one performance metrics used in the long-term incentive plan (LTIP). As a result, the pay package was deemed to not be in the best interest of minority shareholders.

The only performance metric used to calculate the payout of the LTIP was free cash flow (FCF). Compared to metrics such as 'net income', FCF is a good measure of a company's profitability. However, a company's profitability does not provide an indication of dividend payouts. We endorse compensation plans that include a wide range of relevant performance metrics in variable pay, aiming to capture executive performance in a holistic manner.

In the past year, two non-executive directors received one-off awards for their promotions. These one-off payments were in the form of restricted-stock units (RSUs) that were not subject to any performance criteria. RSUs help to align management and shareholders, but should not be granted without conditions. One-off payments run the risk of jeopardizing the purpose of the executive compensation plan approved by shareholders due to their discretionary nature, which is why they are heavily scrutinized by shareholders.

Altogether, we consider the compensation practices adopted by the company's compensation committee are not in line with good corporate governance practices, and further that they pose an excessive cost to shareholders.

Maxim Integrated Products, Inc. - 11/08/2018 - United States
Proposal: Election of Director

Maxim Integrated Products Inc makes high-performance analog and mixed-signal integrated circuits. The company offers a wide range of products serving a host of analog-intensive applications, including power management, audio conversion, and sensors. Maxim supplies its diverse product portfolio to a broad base of customers in the communications, computing, industrial, automotive, and consumer-related end markets.

Maxim Integrated Products (MIP) held a shareholder meeting in November 2018, in which all directors stood for re-election. Due to our concerns regarding the lack of independence on board committees, a vote against the affiliated director Mr. Bergman was warranted. This director already received 13.23% of votes against his re-election in 2017, showcasing investors' disapproval regarding his role at the board level.

Independence classifications of board directors may vary across markets and listing requirements due to different national regulatory provisions. We follow the International Corporate Governance Network (ICGN) principles regarding independence criteria when carrying out this assessment.

Mr. Bergman's son is a former employee of the company and current employee of a subsidiary, receiving about USD 270,000 as compensation in fiscal year 2018. Moreover, the director has been serving on the board for 30 years, which can compromise his independence and objectivity. As a consequence, we classify him as an affiliate director whereas the company considers him to be independent.

According to the ICGN, the audit committee shall be comprised entirely of independent non-executive directors. This is crucial to ensure the objectivity of this committee when overseeing the financial statements of the company and challenging management if required. We extend this independence requirement to the compensation committee, as non-independent directors might face significant conflicts of interest when designing a compensation plan for executives.

Taking into account that Mr. Bergman serves as the chairman of the compensation committee and is member of the audit committee, we believe that a vote against this director shall be warranted. We will continue to address this matter through our voting activities should there be no change in the board composition going forward.

Sun Hung Kai Properties Ltd. - 11/08/2018 - Hong Kong
Proposal: Authority to issue shares

Sun Hung Kai Properties Limited develops, sells, and rents real estate properties in

Hong Kong, mainland China, and Singapore. The company primarily develops and sells properties, including residential estates, industrial buildings, offices, and shopping centers. As of 30 June 2018, its land bank comprised 64.5 million square feet of gross floor area, primarily consists of 50.7 million square feet of properties under development and rest properties for rental purpose. The company also operates in a wide range of other business, such as the operation of hotels and the provision of property management services. The company was incorporated in 1972 and is based in Wan Chai, Hong Kong.

During the 2018 AGM of Sun Hung Kai Properties Limited, we voted against two proposals requesting the authorization of the board to issue shares. One proposal requested the authorization of the board to issue additional shares up to 10% of the company's existing share capital without pre-emptive rights, and the second proposal requested authorization to issue repurchased shares, provided that it would not count against the general issuance limit.

According to Hong Kong law, a listed company may issue shares up to 20% of the outstanding share capital without pre-emptive rights, and additionally issue repurchased shares up to 10% of outstanding share capital. Moreover, these issuances may be executed with a discount up to 20% of the market price. Both the additional issuance and the discount on the price have a diluting effect on the value of shareholders' stock. Therefore, shareholders should be cautious when approving these proposals as it must be ensured that these increase shareholder value in the long run.

In order to come to an informed decision, we review the number of newly issued shares in relation to the outstanding shares, the appropriateness of the discount offered to new buyers, and the process of deciding how the company comes to these decisions. We also take into account the track record of the companies with respect to share issuances and whether there are any concerns involved.

In the case of Sun Hung Kai Properties Limited we did not find any concerns related to their track record and the overall number of shares to be issued remained within boundaries. Yet the company failed to disclose the appropriate discount rates applicable to the share issuance. Consequently, we were unable to determine the potential risks the issuances poses to shareholders and voted against both proposals.

Both proposals passed with 71% of shareholders voting in favor of the resolution. Taking into account that the strategic owners hold around 70% of outstanding shares, it can be concluded that almost all minority shareholders opposed these resolutions.

Estee Lauder Cos., Inc. - 11/13/2018 - United States
Proposal: Executive Compensation

Estée Lauder is a leading global manufacturer of skin care (41% of fiscal 2018 sales), makeup (41%), fragrance (13%), and hair care (4%) products. In addition to its namesake brand, its portfolio includes Clinique, Origins, MAC, Bobbi Brown, La Mer, and Aveda. The firm also licenses fragrances and cosmetics sold under designer brand names, like Tommy Hilfiger, Michael Kors, and Tom Ford. In fiscal 2018, Estée Lauder generated 41% of sales and over two thirds of its operating income in Europe, the Middle East, and Africa and 37% of sales in the Americas.

In the US, the difference in pay between CEOs and the median employee is known to be relatively high. Though disclosure of executive compensation has increased over the last years, the effects have been mixed. On the one hand, transparent compensation packages can increase the accountability of executives to their shareholders as they become privy to new information. On the other hand, competing companies now have the incentive to increase their compensation plans to attract new talent, driving up executive pay even further. This duality should be considered when evaluating executive compensation packages at shareholder meetings.

In 2018, the total salary of Estee Lauder's CEO, Fabrizio Freda, was over USD 45 million , of which 60% was granted through a one-off equity payment. The company stated that these awards were granted to further align the CEO's interests with those of shareholders, and that no relative performance metrics were used due to a rapidly changing and competitive environment. Therefore, the company used a cumulative operating income hurdle, which meant that yearly net earnings must be positive for any awards to be granted. If the performance hurdle is met, then the awards will vest in four years and are subject to delivery in 2024.

In the case of such excessive executive compensation, the company is exposed to a variety of problems down the line. For example, inequity between the pay of the CEO and other executives can jeopardize succession plans by demoralizing the executive team. This increases the risk that potential CEO replacements might leave the company. Another problem is the reliance on one-off payments. At Estee Lauder there has been a history of one-off payments granted outside of the normal executive package, undermining the integrity of the formal compensation plan designed by the compensation committee and approved by shareholders.

The discretionary nature of these payments demonstrates the misalignment between shareholder interests and management. Unfortunately, the company’s current solution of granting additional equity awards does not address the underlying issue. True re-alignment would require a change in the structure of the compensation plan, such as reducing the portion of short-term incentives or using different performance metrics that align with shareholder interests.

Oracle Corp. - 11/14/2018 - United States
Proposal: Shareholder Proposal Regarding Independent Board Chair

Oracle sells a wide range of enterprise IT solutions, including databases, middleware, applications, and hardware. While software licenses, support, and maintenance continue to represent roughly 70% of revenue, the firm is undergoing a mix shift toward cloud-based subscriptions that should necessitate continued heavy investment in the business model transition. Oracle offers software-as-a-service, platform-as-a-service, and infrastructure-as-a-service offerings. Legacy offerings include Oracle Database software and Oracle Fusion Middleware.

Merely 29% of S&P 500 companies have an independent chair at the board level according to report published by EY. Independent board leadership is fundamental to monitor the management of the company and set a pro-shareholder agenda. A shareholder resolution was filed at Oracle’s shareholder meeting held in November 2018 requesting to the board of directors to appoint an independent chair whenever possible. A vote in favor of this resolution was warranted as it is aligned with shareholders’ interests.

Oracle has separated the roles of chair and CEO and appointed lead independent director to the board, following international best practices in corporate governance. The board is chaired by the founder of the company, who has been serving on the board for more than 20 years and holds 30% of Oracle’s outstanding stock. Although we acknowledge Oracle’s unique leadership structure, adopting a policy to appoint an independent chair may contribute to protect shareholder interests while promoting independent oversight of the Company.

This resolution gains relevance when taking into account the overall governance challenges being faced by the company. Oracle has been facing robust shareholder opposition regarding its executive compensation practices, failing to gain majority support for its say-on-pay proposal already six years in a row. Board members serving on the compensation committee, which is being chaired by the current lead independent director, received significant withhold votes from shareholders in the last shareholder meeting. This suggests that the committee is failing to fulfill its fiduciary duty, jeopardizing at the same time the reliability of the board leadership when it comes to protect shareholders' interests.

A similar shareholder resolution was filed at the company's shareholder meeting held in 2013 and received almost 44% of votes in favor from shareholders. It is becoming increasingly urgent for the company to regain support from shareholders by improving its corporate governance practices. Adopting this resolution could contribute to strengthen the confidence among shareholders regarding the company's commitment towards this purpose. We will continue monitoring Oracle's overall corporate governance practices going forward.

Cisco Systems, Inc. - 12/12/2018 - United States
Proposal: Executive Compensation

Company description: Cisco Systems, Inc. designs, manufactures, and sells Internet Protocol based networking and other products related to the communications and information technology industry worldwide. The company serves businesses of various sizes, public institutions, governments, and service providers. It sells its products directly, as well as through channel partners, such as systems integrators, service providers, other resellers, and distributors. The company was founded in 1984 and is headquartered in San Jose, California.

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. The structure of Cisco's compensation policy is poor due to an unalignment between pay and performance in addition to a series of one-off payments without performance criteria. For these reasons, we voted against the advisory vote on executive compensation at Cisco's annual shareholder meeting held in December 2018.

The disconnect between executive pay and performance at Cisco has been an ongoing point of shareholder concern. The performance-based awards granted under the Company's long-term incentive plan have a performance period of less than three years. With such a short performance period, it is unlikely that management is being incentivized to deliver on long-term business strategy. Moreover 50% of performance awards are based on a TSR multiplier relative to the S&P 500 group. It can be questioned whether the peer group is appropriate to truly reflect the target company. Failure to define an appropriate peer group could cause awards to be granted in spite of poor performance.

The structure of the Company's compensation plan is also compromised by the frequent one-off payments granted to both executives and non-executive directors. A sign-on bonus of over 25 million USD was paid to the Vice President who had to forfeit compensation from their previous employer. Nonetheless, the size of this one-off payment and the lack of performance criteria warrant concern over the structure of the normal compensation plan.

An improved structure of the compensation package is necessary to ensure that management is properly incentivized to act in the best interest of both the company and shareholders. At Cisco, there is room to improve this alignment and we continue to monitor this going forward.

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