

AGM Engagement Report 2019

Looking Forward





AGM Engagement Report 2019

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Dutch Association of Investors for Sustainable Development
Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO)



Foreword



Angélique Laskewitz
Executive Director VBDO

VBDO has been challenging the sustainability policy and practice of Dutch stock-listed companies for almost 25 years. Companies hold the key to sustainable development. To achieve a sustainable world, we believe it is imperative companies act responsibly and with integrity. With this in mind, we engage with companies to express and discuss sustainability concerns and priorities. Through dialogue, companies and investors can aim for long-term value creation. Sustainable development has been our goal since we first started engaging with companies all those years ago and we find it encouraging that more and more companies share this goal with us.

This report reveals the results of VBDO's engagement with 39 Dutch stock-listed companies on and around their 2019 Annual General Meetings (AGM). For the fourth consecutive year, we have engaged on living wages. Engagement shows this theme has been picked up by many companies over the years, with only a handful of companies not referring to the concept in 2019. Engagement on the Sustainable Development Goals (SDGs) shows that all companies embrace them, but struggle to formulate strategies and measure impact. 2019 was the first year VBDO engaged on climate adaptation. Dealing with the consequences of climate change is vital for companies if they are to manage risks and seize opportunities. This report concludes that while Dutch companies are leading the way when it comes to climate adaptation, risks are often not reported.

We also see many companies struggling to measure the real-world impact of their sustainability policy and practice. Companies are reducing their CO₂-footprint, pursuing living wages in their supply chain and adopting a circular approach. For us, the important question remains: How are the policies and practices of companies contributing to the SDGs being achieved by 2030? We encourage

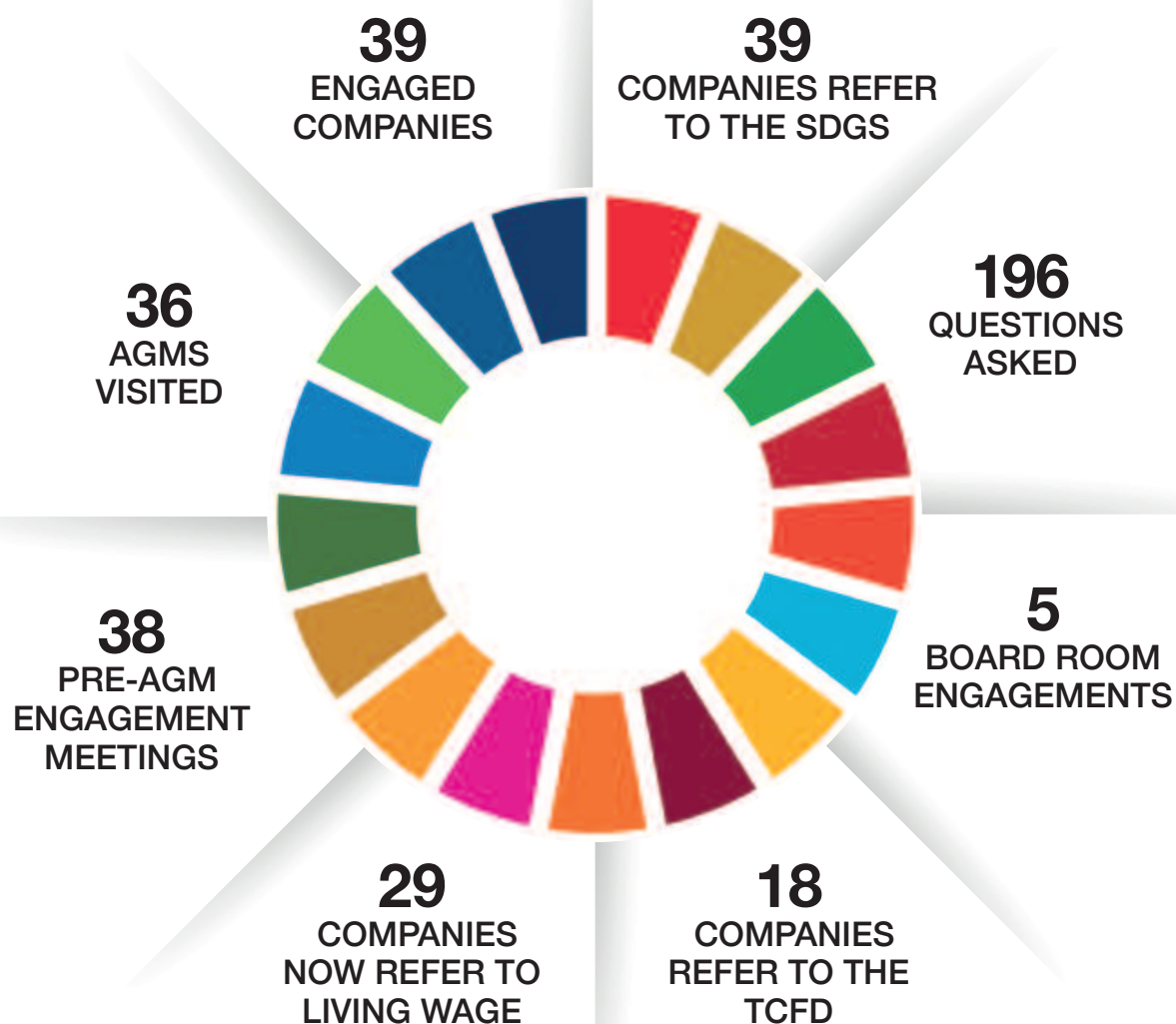
companies to work together with governments and investors to advance methodologies to measure impact. We are looking forward to reading new sustainability strategies in 2020 that reiterate this.

I would like to express my sincere appreciation for all those who conducted research, drafted questions, visited the AGMs and wrote this report. VBDO is thankful for the front-running companies who demonstrate their commitment to our priority themes and actively share their knowledge.

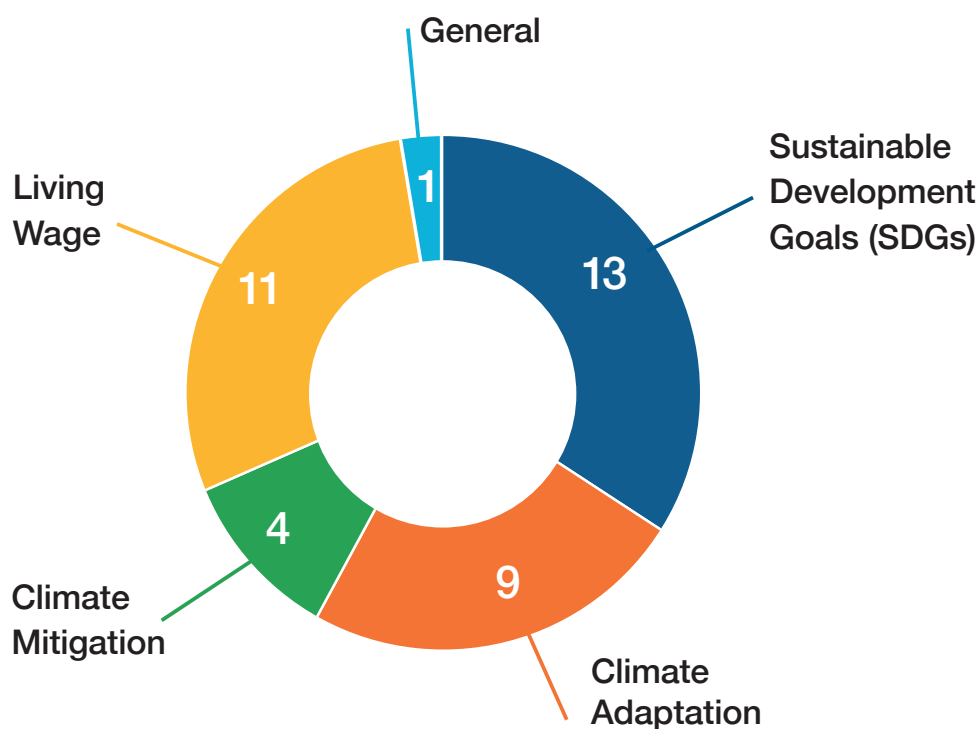
This publication is indebted to the financial support of our members, whose trust and support is invaluable to our organisation. This engagement report shows the positive impact that investors can have on companies. I would like to urge all institutional investors to intensify their engagement efforts and fully commit to sustainable development.



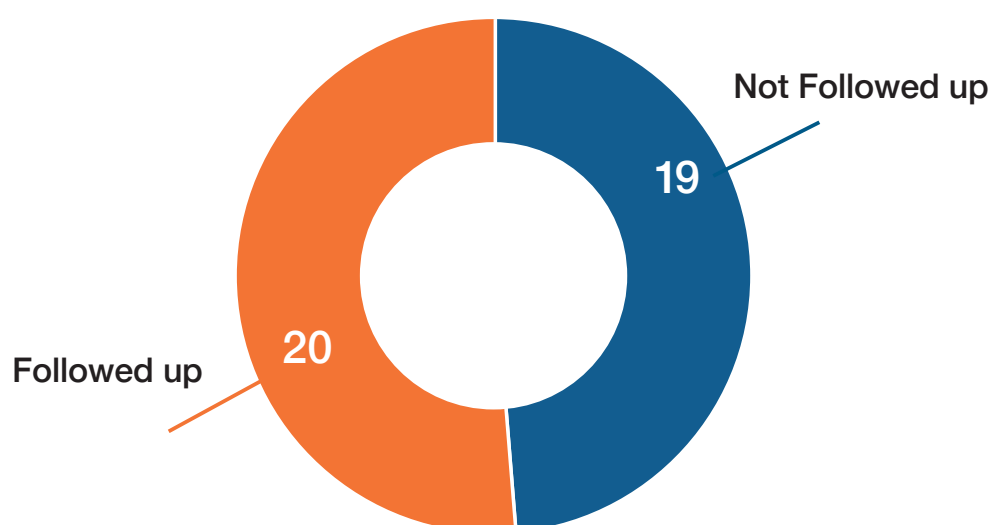
Highlights from VBDO's 2019 AGM engagement season



38 commitments to improve their sustainability efforts have been made by companies following questioning by VBDO in 2019.



Based on our questions in 2018, 20 commitments have been followed-up so far in 2019. Some may be followed up in 2020, others have not been followed up.



List of companies engaged with in 2019

Company	Sector	AGM visit	Pre-AGM meeting
ING Group	Financial	Yes	Yes
ABN AMRO	Financial	Yes	Yes
NIBC	Financial	Yes	Yes
Aegon	Financial	Yes	Yes
a.s.r.	Financial	Yes	Yes
Van Lanschot Kempen	Financial	Yes	Yes
NN Group	Financial	Yes	Yes
Heijmans	Industries	Yes	Yes
Aalberts	Industries	Yes	Yes
BAM Group	Industries	Yes	Yes
Vopak	Industries	Yes	Yes
VolkerWessels	Industries	Yes	Yes
AkzoNobel	Industries	Yes	Yes
ArcelorMittal	Industries	No	Yes
Boskalis	Industries	Yes	Yes
DSM	Industries	Yes	Yes
Corbion	Industries	Yes	Yes
Shell	Industries	Yes	Yes
OCI	Industries	Yes	Yes
ASML	T&E ¹	Yes	Yes
TKH Group	T&E ¹	Yes	Yes
Philips	T&E ¹	Yes	Yes
Signify	T&E ¹	Yes	Yes
ASM International	T&E ¹	Yes	Yes
Sligro	FBR ²	Yes	Yes
Ahold-Delhaize	FBR ²	Yes	Yes
Heineken	FBR ²	Yes	Yes
Wereldhave	FBR ²	Yes	Yes
Unibail-Rodamco-Westfield	FBR ²	No	Yes
Unilever	FBR ²	Yes	Yes
Randstad	Services	Yes	Yes
SBM Offshore	Services	Yes	Yes
KPN	Services	Yes	Yes
PostNL	Services	Yes	Yes
RELX	Services	No	Yes
Wolters Kluwer	Services	Yes	Yes
Arcadis	Services	Yes	Yes
Fugro	Services	Yes	Yes
Altice	Services	Yes	No
39 companies	5 sectors	36	38

¹ (Technology & Electronics)

² (Food, Beverage & Retail)

Management summary

2019 has been a successful engagement season for VBDO. Companies have proven eager to discuss their sustainability policies and practices with our association. While they run into frustrating methodological barriers when it comes to impact measurement, new frameworks such as the Taskforce on Climate-related Financial Disclosures (TCFD)', are being implemented. Of our three priority themes, Living Wage is now referred to by 29 out of 35 engaged companies in public information. We encourage all companies to determine the real-world impact of their sustainability efforts, measured against a global benchmark such as the SDGs.

Companies address the causes of climate change, but often forget the consequences

2019 is the first year climate adaptation has been addressed by VBDO at the AGMs of Dutch publicly-listed companies. Dealing with the consequences of climate change presents both risks and opportunities. From our analysis, it has become clear that companies recognise climate change is an important issue. While companies predominantly address the causes of climate change, only 14 have published physical climate risk assessments. Dutch companies do understand that rising sea levels and extreme weather events require innovative solutions. They are involved in the production of 3D coral reefs, use nature to improve water quality in urban areas and build dykes for flood protection. However, while they report climate adaptation opportunities and risks for their own business operations, companies often overlook supply chains. In 2019, Dutch publicly-listed companies have committed to VBDO to enhance reporting on this issue, in line with the recommendations from the TCFD. VBDO advises companies to assess physical climate risks in their supply chain and develop comprehensive climate adaptation strategies to address those risks. Lastly, our engagement efforts emphasise that companies should reflect on the public co-benefits of their adaptation solutions.

29 out of 35 engaged companies refer to Living Wage in their annual report in part to VBDO's engagement

VBDO has been engaging on living wages for the past four years. The issue is commonly referred to by Dutch companies in 2019. Only a handful of companies do not refer to the topic in public information. Many companies have followed up their commitments from 2018 to look into the living wage concept, include Living Wage in their supplier code of conduct or discuss living wages in industry fora. This year, many companies have committed to VBDO to analyse the difference between their salary standards and the living wage standard. Others have started to consult experts and partner up with other companies to establish living wage standards in countries where benchmarks are not available. A few companies have started to audit suppliers on this issue. VBDO encourages all companies to identify high-risk suppliers and audit them regularly. This is not yet general conduct. We strongly encourage financial institutions to involve Living Wage in their engagement efforts.

Companies struggle to measure their impact, but some will use the SDGs to formulate new sustainability strategies in 2020

The SDGs have become fully embedded in corporate reporting in the Netherlands. All 39 companies in VBDO's engagement scope refer to the SDGs in their annual report. Many companies are contributing to reaching the Goals through partnerships with governments, non-governmental organisations and other companies. VBDO's engagement focused mainly on encouraging companies to measure impact and formulate new sustainability strategies and targets relating to all selected SDGs in line with the targets and indicators provided by the United Nations. Three companies committed to considering the SDGs when updating their sustainability strategy in 2020. They commonly struggle with measuring their impact towards the goal of achieving the SDGs by 2030. VBDO's engagement shows that current methodologies to measure impact are insufficient. While two companies have started to measure their impact using their own methodology, a group of companies and investors are working together to develop a shared standard. To stimulate long-term sustainability strategies, VBDO has been

engaging on using the SDGs as a guideline for companies to formulate sustainability focus areas, metrics and targets. 2020 is the year that many new sustainability strategies will be presented. VBDO encourages companies to then shift horizons to 2030, in line with reaching the SDGs in that year.

VBDO's recommendations for further improvement



Climate adaptation

- Assess and publish physical climate risks and opportunities for own operations and the supply chain;
- Work together with governments, peers and local NGOs, ensuring the implementation of climate adaptation strategies is context specific;
- Report on the public co-benefits of adaptation efforts;
- Make use of nature-based solutions;
- Invest in and/or finance climate adaptation solutions in regions that will be most vulnerable to the impacts of climate change;
- Report in line with the recommendations from the TCFD.



Living Wage

- Use scientific indicators and benchmarks to determine living wage standards; consult experts to establish definitions and benchmarks where they are not already available;
- Make sure the living wage standard is applied as a minimum and not on average, to ensure a living wage is actually paid to every employee;
- Identify high-risk suppliers and audit regularly;
- Involve Living Wage in engagement efforts and in risk-screening processes.



Sustainable Development Goals

- Work together with financial institutions and governments and be transparent, in order to create common methodologies for impact measurement;
- Make use of the targets and indicators provided by the United Nations to track progress and formulate targets that are in line with reaching the SDGs by 2030;
- Make use of the targets and indicators as provided by the United Nations to formulate new sustainability strategies after 2020;
- Report on enhancing positive and mitigating negative impacts towards reaching the SDGs by 2030;
- Create metrics and report strategies and targets for regularly neglected SDGs, such as social (e.g. SDG 1, 2 and 3) and ecological (SDG 14 and 15).

About VBDO

VBDO is the Dutch Association of Investors for Sustainable Development and is established in 1995. Its mission is to create a sustainable capital market by benchmarking, organising seminars and conferences and by engaging companies and financial institutions.

Since its inception, VBDO has been actively engaging with the Board of Directors of publicly-listed companies in the Netherlands. VBDO attends AGMs to ask constructive, critical questions in order to improve the company's sustainability policy and practice. We engage during each three year period on progressive sustainability (ecological, social and governance) topics. The association does this with the financial support of its members, i.e. 80 institutional investors and more than 500 private investors.

We encourage companies to work together with governments and investors to advance methodologies to measure impact. We are looking forward to reading new sustainability strategies in 2020 that reiterate this.

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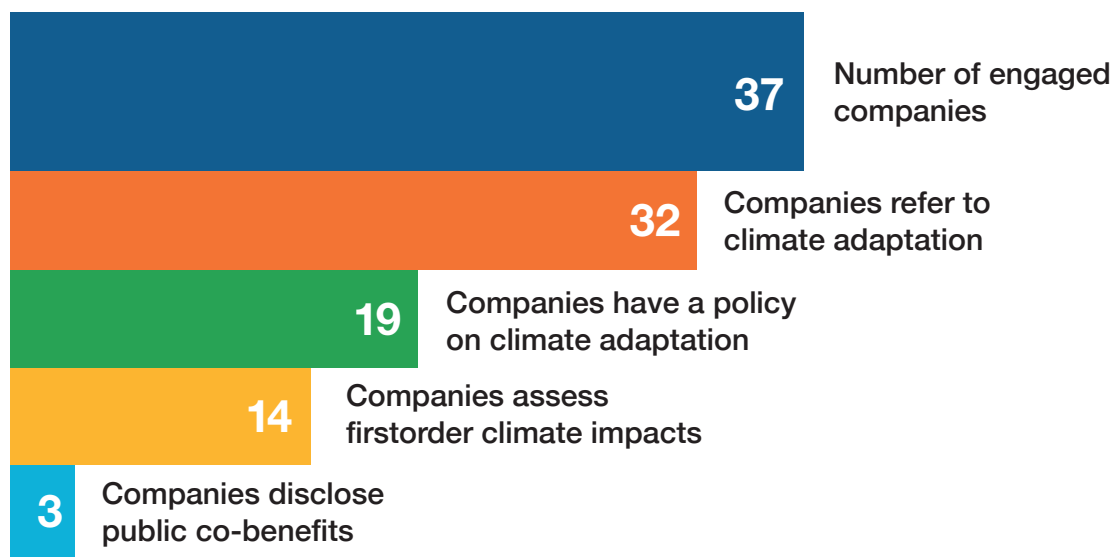


Results per theme



Climate Adaptation*

Most companies refer to climate adaptation, but only a few assess climate change impacts



Engagement highlights

- Seizing climate adaptation opportunities;
- Assessing climate change impacts;
- Disclosing in line with the TCFD recommendations.

Recommendations for companies and investors

- Assess and publish physical climate risks and opportunities for own operations and the supply chain;
- Work together with governments, peers and local NGOs, ensuring the implementation of climate adaptation strategies is context specific;
- Report on the public co-benefits of adaptation efforts;
- Make use of nature-based solutions;
- Invest in and/or finance climate adaptation solutions in regions that will be most vulnerable to the impacts of climate change;
- Report in line with the recommendations from the TCFD.

* On climate adaptation 37 companies were engaged in 2019. Only KPN and Randstad were excluded from engagement due to the scope of their business activities.

Introduction

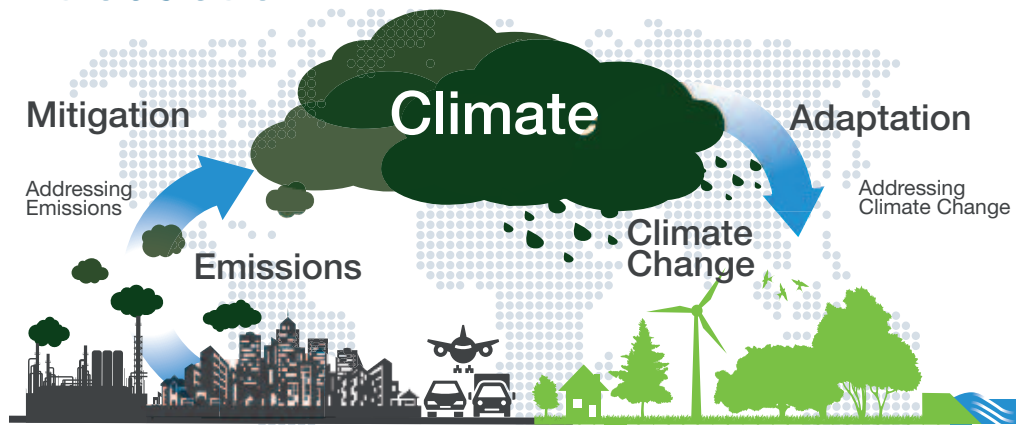


Figure 1: Climate change mitigation and adaptation

The term ‘climate adaptation’ is used to describe approaches that address the consequences of climate change. While companies hold the key to dealing with the causes of climate change, the physical effects of global warming are already here. Climate change is driving the occurrence of extreme weather events, such as hurricanes, droughts and floods. This impacts social development, economic activity and human health. In order to prevent these impacts from intensifying, it is essential that companies start adapting to the physical effects of climate change.

VBDO’s expectations from engagement

VBDO expects companies to identify risks and opportunities relating to the physical impacts of climate change, both for their own operations and in their supply chains. The financial sector is expected to identify these risks and opportunities for every asset class. Depending on the materiality for the company, companies should assess what risks production locations are facing, how extreme weather will influence the products they produce, and to what extent clients (portfolios) are exposed to physical climate change impacts. Subsequently, VBDO expects companies to develop a strategy in order to mitigate these risks in a socially and environmentally sound way. Companies should, when possible, opt for nature-based solutions. Finally, VBDO expects companies to report on physical climate change impacts and how they are being managed in an environmentally and socially sound manner, in line with the recommendations from the TCFD.

Highlights from VBDO's 2019 engagement season

Seizing climate adaptation opportunities

Climate adaptation is an opportunity for many companies in VBDO's scope of engagement. While the majority of companies purely focus on climate change risks, various companies also consider the opportunities presented by climate adaptation. To illustrate, Signify reported a climate adaptation opportunity whereby driving innovation in lighting will allow plants to grow inside and closer to cities. In addition, Heineken seized opportunities by restoring wetlands and investing in reforestation to ensure water availability in vulnerable regions. Arcadis disclosed that it involves nature-based solutions, similar to the above, in engineering designs. A next step, however, would be for all companies to disclose the public co-benefits of their climate adaptation strategies, as VBDO sees that this is not yet common place.

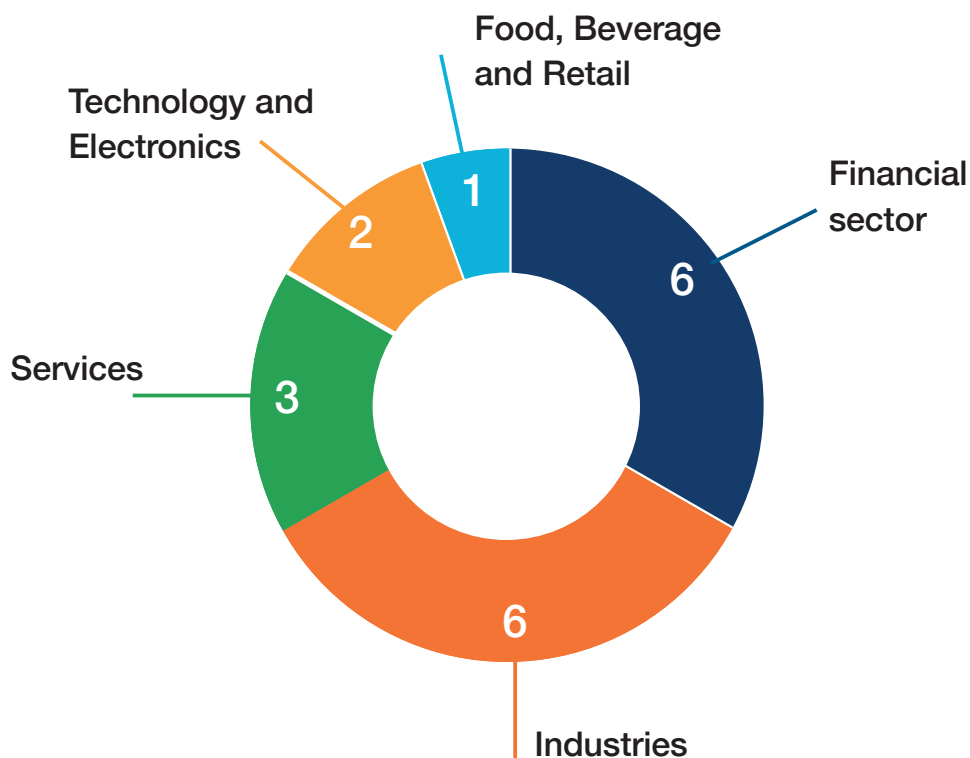
Assessing climate change impacts

VBDO asked 26 questions about assessing physical climate risks. Particularly companies in the Technology & Electronics sector were engaged on assessing risks in their supply chains. Companies in this sector are especially vulnerable to climate change impacts because their suppliers and production facilities are often located in areas facing considerable risks from physical climate impacts (e.g. East Asia). During VBDO's engagement activities, it was found that all companies in the Technology & Electronics sector acknowledge that extreme weather events potentially impact their chains and they indicated that they are already actively researching these risks. Only the frontrunners have, however, started to report on these risks. The remaining companies have indicated, in response to VBDO's questions, that they will start looking into the TCFD's recommendations, as well as options of reporting on physical climate risks in line with these recommendations.

Disclosing in line with the TCFD recommendations

The Financial Stability Board brought together a group of financial system experts to form the Taskforce on Climate-related Financial Disclosures (TCFD). This taskforce has published a report providing guidance for companies and their investors to disclose financially-material climate-related risks and opportunities. As of February 2019, 580 organisations support the TCFD recommendations and have started implementing them.ⁱ VBDO expects companies to disclose in line with the recommendations. VBDO representatives asked 43 TCFD-related questions at AGMs in 2019. 18 Dutch publicly-listed companies have referred to the recommendations of the TCFD in their annual report. Some of these have at least partly disclosed climate-related financial information; others are still in review.

18 out of 39 companies refer to the TCFD in their annual report



Good practices

Vopak Climate change scenario analysis

In 2018, Vopak conducted a stress test of its sustainability strategy. Vopak used scenario analyses (i.e. the possibility of average temperatures rising by 2°C, 3°C and 4.5°C) in order to investigate which physical climate-related risks the company could be facing. In their annual report, Vopak reports on these physical climate-related risks on asset level. Vopak subsequently concluded that it is confident that its current strategy is sufficient to deal with the risks and opportunities emerging from the physical effects of climate change. In addition, Vopak is committed to further improving its disclosure on climate-related risks and opportunities in line with the TCFD recommendations.

Unilever Commodity impact assessment

Unilever has developed and piloted an approach to assess the impact of climate change on its key commodities. Last year, Unilever used this approach to analyse the impact of climate change on soybean oil. Unilever forecasted future soybean oil yields and quantified climate change impact on the price of soybean oil and the effect this would have on the company. Furthermore, Unilever has committed to conducting additional climate change impact assessments on two other key commodities – palm oil and tea. The results of these assessments will be available later in 2019.

Boskalis Building with Nature

In 2018, Boskalis further invested in the 'Building with Nature' program. This program offers impressive, nature-based solutions to deal with the negative effects of climate change, by integrating natural systems into hydraulic engineering design. The program is carried out by the EcoShape consortium, of which Boskalis is a part. Other partners involved in the consortium range from consultancies, NGOs and academia to public actors. Boskalis is currently involved in seven Building with Nature projects. In the Netherlands, for example, Boskalis started working on the natural restoration of the Markermeer by constructing the Marker Wadden. The Marker Wadden will act as coastal protection for the Netherlands, as well as boosting the ecological value of the Markermeer as fish are given the opportunity to spawn and forage, and subsequently a large number of birds are expected to return to this area.

Wereldhave Enhancing resilience with green roofs

Wereldhave indicated last year that they will consider to quantify the green roofs in their portfolio. In this year's annual report, Wereldhave disclosed that it has more than 25,000 m² of green roofs on its shopping centres. Green roofs improve resilience to extreme precipitation, are beneficial for biodiversity, and improve water retention, air purification, insulation, and heat regulation. At the end of 2018, just over 60% of Wereldhave's shopping centres had implemented at least one biodiversity measure such as green roofs.

Signify Extensive TCFD Reporting

This year, Signify extensively reported on physical and transitional climate risks and opportunities in their Annual Report, a supplementary document and CDP report, following the recommendations of the TCFD. To identify physical climate risks and opportunities, Signify conducted a scenario analysis reflecting several degrees of global warming with a 2030 horizon. Signify, for example, found that increasing extreme weather events exposes Signify to risks that could cause direct damage (e.g. to assets) and indirect damage (e.g. supply chain disruption). Signify states, for example, that six of its production facilities are located in water scarce or water stressed regions. In case of extreme droughts, it might occur that ample fresh water is not readily available and production has to be reduced or comes to a halt. The same can be said for production in Signify's supply chain. Following the recommendations from the TCFD, Signify determined the financial impact of halted business activities could mount to 0.01% of its revenues (or € 1.000.000) and costs of € 25.000.000 to manage the risks.

Outcomes of VBDO's 2019 engagement season

Topic of questions		# of times asked
TCFD	Research risks/impact	26
	Implement the TCFD recommendations	17

Companies	Commitments on the TCFD recommendations
Vopak	Vopak will make progress regarding implementing the TCFD recommendations.
KPN	KPN will consider reporting on the TCFD recommendations.
ABN AMRO	ABN AMRO will conduct scenario analyses to look at climate-related effects.

Highlighted commitment

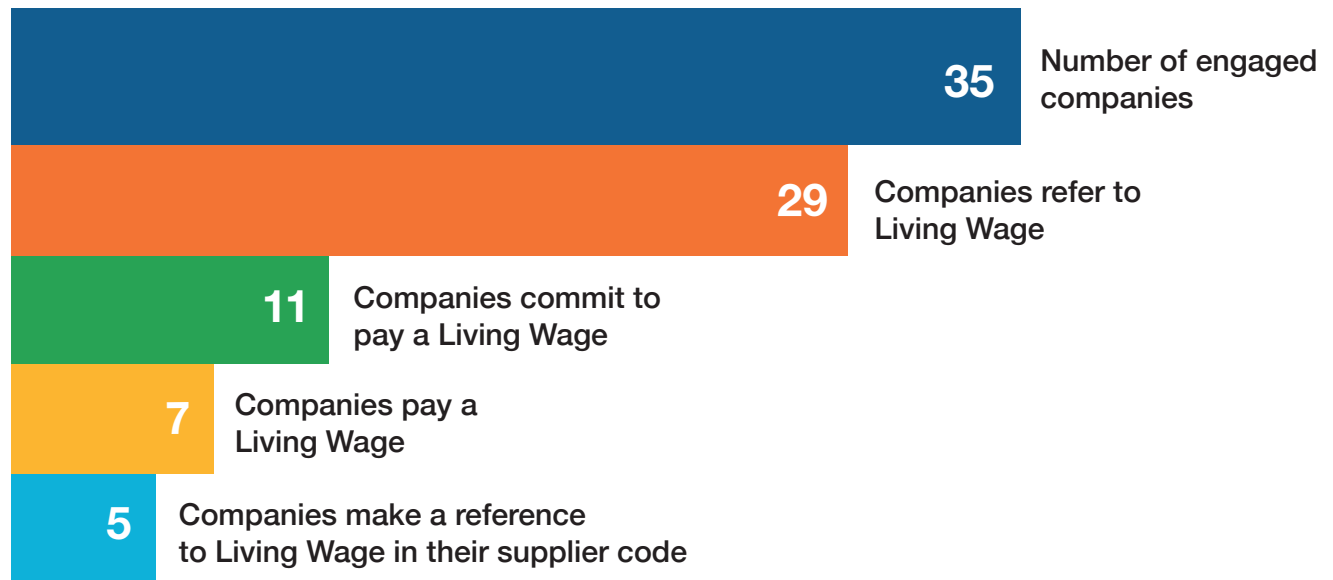
Unilever will make the results of the climate change impact assessments on palm oil and tea available in 2019.





Living Wage*

29 companies refer to Living Wage, but only seven actually pay a Living Wage to employees



Engagement highlights

- Companies have made important progress on the issue of Living Wage, including:
 - Partnering up on the issue of Living Wage;
 - Addressing living wages in the supply chain;
 - Discussing Living Wage in industry fora;
- However, there is still the challenge of putting Living Wage into practice.

Recommendations for companies and investors

- Use scientific indicators and benchmarks to determine living wage standards; consult experts to establish definitions and benchmarks where they are not already available;
- Make sure Living Wage is applied as a minimum and not on average, to ensure a living wage is actually paid to every employee;
- Identify high-risk suppliers and audit regularly;
- Involve Living Wage in engagement efforts and in risk-screening processes.

* On Living Wage 35 companies were engaged in 2019. Only Unibail-Rodamco-Westfield, Wereldhave, Heijmans and PostNL were excluded from engagement due to the scope of their business activities.

Introduction

The Universal Declaration of Human Rights recognises the right of every worker to “just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity” (Article 23).ⁱⁱ A living wage is a wage that provides employees with the necessary income to maintain a decent standard of living based on geographical location and cost of living (local context).ⁱⁱⁱ In many countries, wages earned during normal working hours are often too low to meet the basic needs (e.g. food, housing, clothing, education and health-care) of the workers and their families. In order to sustain their livelihoods, workers often have to work overtime, exceeding the norm of a maximum of 48 hours per week, as set by the International Labour Organization.^{iv} These work patterns may have adverse impacts on the workers’ physical and mental wellbeing, as well as wider implications for social development at the national/regional level. In addition, poverty wages may lead to other human rights violations, most notably child labour.

Note: Living wage is not to be confused with the legal minimum wage, as the latter is set by government mandate (law) and, in most cases, is lower than the former. Minimum wage has failed to protect workers sufficiently: in many developing countries, if a minimum wage exists, it equals the UN-defined poverty line of US\$2/day.^v Useful indicators are available from the Living Wage Indicator^{vi}, Living Wage Lab^{vii} and the Global Living Wage Coalition^{viii}.

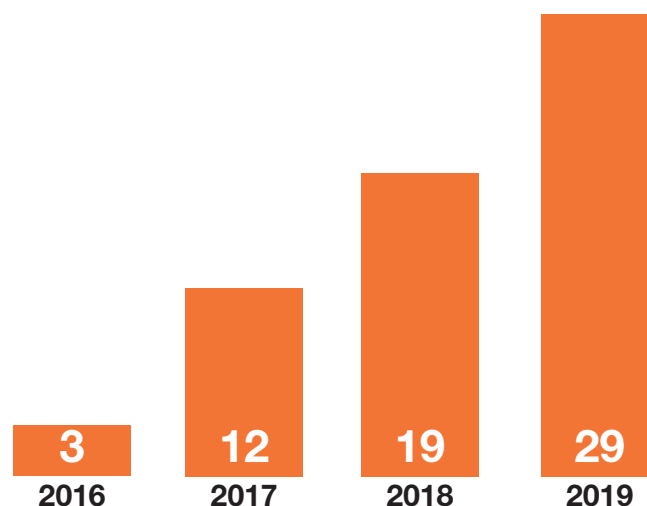
VBDO’s expectations from engagement

VBDO has developed various criteria that indicate what VBDO expects sectors to do when it comes to addressing Living Wage in their business strategy. First of all, VBDO expects companies to pay its employees a living wage. In order to validate companies’ commitment to Living Wage, VBDO expects companies to measure the difference between the salary structure that prevails within the company and externally provided living wage benchmarks, and to make corrections accordingly if necessary. Secondly, VBDO expects companies to go beyond meeting living wage standards for its own operations by developing requirements on Living Wage for its suppliers. Companies should include Living Wage in the supplier code and include it in their due diligence assessments.

Finally, VBDO expects companies to start partnerships in order to ensure the living wage standard is applied. Companies could, for example, partner and work closely with expert organisations and other companies to apply Living Wage across supply chains.

Highlights from VBDO's 2019 engagement season

Companies have made important progress on Living Wage: in 2016 only three companies referred to Living Wage; in 2019 only six do not.



Six companies did not refer to Living Wage in their annual reports. Of those six, three companies committed to VBDO on Living Wage.

Did not refer to Living Wage in 2018 annual report	Commitment to VBDO on Living Wage in 2019
Sligro	x
ArcelorMittal	x
Boskalis	✓
Shell	x
VolkerWessels	✓
Wolters Kluwer	✓

Discussing the living wage concept in industry fora

Companies often struggle to engage with suppliers on the issue of Living Wage. Therefore, companies have committed to discussing Living Wage within industry fora, such as the Responsible Business Alliance (RBA). The RBA, formerly the Electronic Industry Citizenship Coalition, is a non-profit comprised of (amongst other organisations) electronics companies that are committed to supporting the rights and wellbeing of workers affected by the global supply chain. Last year, ASM International committed to broaching the concept of Living Wage to the RBA. This year, the company indicated to VBDO that it has had valuable conversations with the RBA on the subject of Living Wage. Even though progress has been made, the RBA is currently still working on a workable definition of Living Wage.

Addressing living wages in the supply chain

Engagement on Living Wage with companies active in global agricultural supply chains has seen important developments this year. Unilever indicated it is ahead of schedule to ensure living wages for all employees. During VBDO's 2018 engagement season, some companies indicated that they would commit to taking steps to go beyond applying the living wage standard for their own employees only. This year, VBDO was pleased to find that Heineken, Unilever, Vopak, OCI and Corbion have included Living Wage as a requirement in their supplier code.

The challenge of putting Living Wage into practice

The use of the living wage concept is challenging, due to the lack of benchmarks and the definition leaving room for interpretation. This challenge was occasionally brought up as a topic of discussion during this year's engagement season. It became clear that, even though companies sometimes refer to Living Wage in their reports, different interpretations and uses of the concept still exist in practice. The aforementioned definition of the living wage concept emphasises that wages should provide enough income to cover decent living standards for both the worker and his or her family. Below two common misperceptions are explained:

Minimum wage does not equal a living wage

One of the challenges that VBDO came across during its engagement activities was that the living wage standard is sometimes still confused with the minimum wage standard by companies.

To illustrate, KPN referred to ILO standard C131, which requires countries to establish a minimum wage. This standard, unfortunately, does not ensure a living wage for workers, since minimum wages are often lower than living wages. KPN requires suppliers to follow the ILO C131 standard, while at the same time referring to Living Wage. In practice it only requires that national legal minimum wage standards are met by suppliers. The company subsequently committed to discussing the living wage concept with a group of peers.

TKH Group referred to Living Wage in its annual report and argued that Living Wage was now part of their supplier audits. After further engagement with this company, it became clear that it actually still uses minimum wage standards to measure whether the living wage standards are met by suppliers. The company argued that using minimum wage standards allows them to be more context-specific. During conversations, VBDO emphasised that this is a misperception, as Living Wage is actually a concept that very much focuses on and is determined by taking local living standards into account.

Living wage should be the minimum standard for all

Another challenge VBDO encountered is related to the living wage methodology that companies use. In some cases, companies actively investigated whether living wage standards were met by making use of averages. For example, Signify concluded that living wage standards were met on average for the lowest pay-grades. It would, however, be desirable for companies to be confident that living wage standards are met even for the lowest paid employees – not on average. The figure on page 25 shows that while 11 companies commit to pay a living wage to employees, only seven actually pay a living wage. This is a discrepancy that further engagement by investors has to overcome.

Good practices

Philips Developing Living Wage standards

This year, Philips has conducted research on the difference between salaries and living wage standards by using the Wage Indicator. The company found that salaries meet or exceed the living wage standard where such a standard is available. Philips, however, also operates in countries for which living wage standards are not yet available. Therefore, Philips has decided to partner with external stakeholders (Novartis and Valuing Nature) in order to develop these living wage standards.

Heineken Adding Living Wage to the supplier code of conduct

Last year, Heineken committed to updating its supplier code of conduct and making Living Wage a requirement for Heineken's suppliers. This year, VBDO was pleased to see that Heineken stuck to this commitment. Heineken refers to the definition of the living wage concept in its supplier code and made the code publicly available at the beginning of this year. What's more, during this year's AGM, Heineken emphasised that it made these efforts as a result of VBDO's questions on Living Wage at the AGMs in previous years.

AkzoNobel Assessing salary structures against the Living Wage benchmark

Last year, AkzoNobel conducted an initial assessment to analyse to what extent the salaries of the lowest paid employees differ from living wage standards. In addition, AkzoNobel partnered with two organisations that specialise in the field of living wages, in order to gain insight into the methodology behind comparing salaries with Living Wage standards. AkzoNobel is committed to continuing its efforts with regards to Living Wage this year.

Outcomes of VBDO's 2019 engagement season

Living Wage question topic	# of questions
Research difference between salary structures and Living Wage benchmarks	13
Research risks regarding Living Wage	9
Initiate partnerships and engagement	9
Update the supplier code	11

Companies	Commitments on Living Wage and the supplier code
Heineken	Heineken will roll out its updated supplier code of conduct to all current and new suppliers by the end of 2020. This requires suppliers to pay a living wage to their employees.
Boskalis	Boskalis committed to adjusting its code of conduct and including Living Wage in it.
Fugro	Fugro will include Living Wage in its supplier code of conduct in the future and will continue to ensure a living wage for its own employees.
KPN	KPN will consult the Joint Audit Cooperation about whether it can add the living wage concept to its supplier code of conduct.

Highlighted follow-up

This year, companies have followed up 11 out of the 14 commitments relating to Living Wage that were made to VBDO last year.

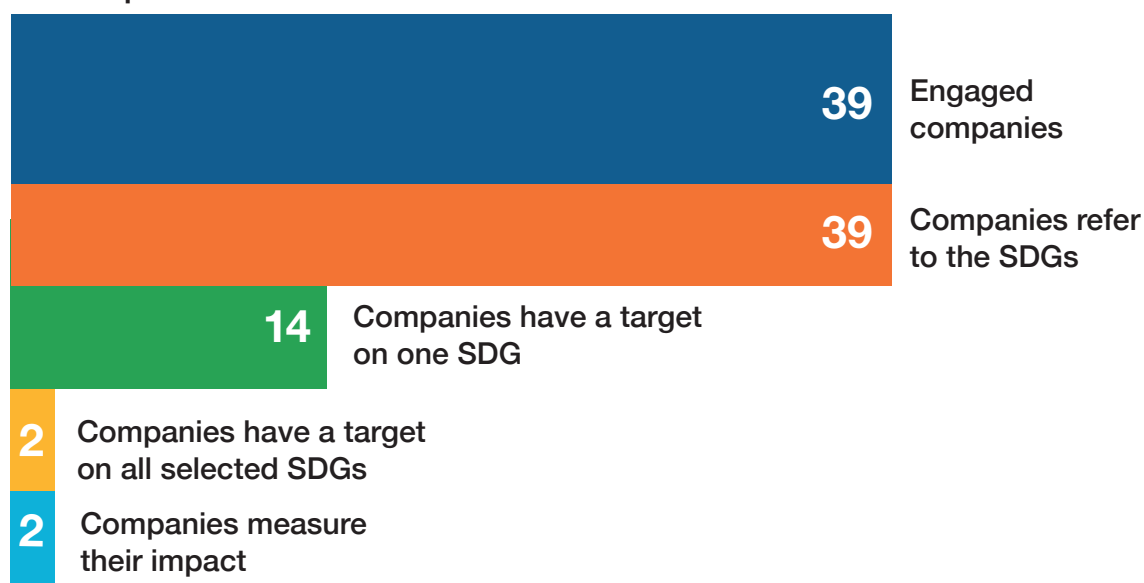


Photo by Mónica Suárez Galindo – UNDP Peru



Sustainable Development Goals

Although all companies refer to the SDGs, many struggle to measure their own impact



Engagement highlights

- Measuring impact;
- Involving SDGs in responsible investment/sustainable finance strategies;
- Looking forward to new sustainability strategies;
- Considering social SDGs;
- Considering ecological SDGs.

Recommendations for companies and investors

- Work together with financial institutions and governments and be transparent to create common methodologies for impact measurement;
- Make use of the targets and indicators as provided by the United Nations to track progress and formulate targets that are in line with reaching the SDGs by 2030;
- Make use of the targets and indicators as provided by the United Nations to formulate new (sustainability) strategies after 2020;
- Report on enhancing positive and mitigating negative impacts to work towards reaching the SDGs by 2030;
- Create metrics and report strategies and targets for regularly neglected SDGs, such as social (e.g. SDG 1, 2 and 3) and ecological (SDG 14 and 15).

Introduction

On September 25th 2015, all member states of the United Nations adopted the SDGs, which define the global sustainable development priorities and aspirations for 2030.^{ix} The sustainable development agenda contains 17 Goals with specific targets and commits countries to address the root causes of poverty, and increase economic growth and prosperity for all, within the boundaries of the planet.^x All 17 Goals interconnect, meaning success in one affects success for others. While the SDGs have been agreed upon by governments, their success relies heavily on action and collaboration by all actors, including governments, businesses and civil society.

VBDO's expectations from engagement

VBDO expects companies to develop a strategy that includes concrete targets for material SDGs in line with the targets and indicators of the SDG as developed by the UN. In addition, VBDO expects companies to have a long-term focus of achieving the goals by 2030. Finally, VBDO expects companies to measure the impact of their business activities on achieving material SDGs. In order to do so, companies should assess how business activities are both negatively and positively impacting the selected SDGs.

Highlights from VBDO's 2019 engagement season

Measuring impact

All Dutch publicly-listed companies refer to the SDGs in public information. While companies refer to the SDGs, communicate material contributions to a selection of SDGs and often form partnerships, they rarely report on their impact towards achieving the SDGs by 2030. Companies struggle to measure impact because methodologies are lacking. Engagement shows that even front-running companies refrain from claiming impact and merely mention that they engage with the SDGs. Some are however, forming partnerships to create methodologies with governments, investors and other companies. Others have progressed individually and published first steps towards impact measurement; Arcadis and ABN AMRO are mentioned as examples of good practice in this chapter.

Involving SDGs in responsible investment/sustainable finance strategies

VBDO visited seven AGMs of financial institutions in the Netherlands. In their annual reports, all financial institutions refer to the SDGs and provided an explanation for their selection of SDGs. Engagement shows that many financial institutions find it difficult to link the SDGs to already existing investment/ finance strategies. They find it hard to report impact for various asset classes, such as government bonds, public equity and real estate. Currently, the SDGs are mainly used as impact investments/finance.

Looking forward to new sustainability strategies

2019 is the third consecutive year that VBDO has asked questions on the SDGs. Companies in general have steadily improved reporting. For many, 2019 marks the year that existing sustainability strategies are coming to an end, meaning that in 2020 new focus areas and targets will have to be presented. This year, VBDO asked 20 questions to companies about whether they would consider formulating a new strategy aimed at contributing to the SDGs being achieved by 2030, in line with the targets and indicators provided by the UN. Boskalis, Fugro and Wereldhave explicitly committed to doing so.

Considering social SDGs

VBDO also challenged companies to consider social targets next to the more commonly mentioned environmental targets. Social metrics to measure performance are less developed, but progress on social themes is critical if the SDGs are to be achieved by 2030. For example, companies refer to SDG 11: Sustainable Cities and Communities, but only report on enhancing livelihoods through environmental solutions such as reducing pollution and contributing to nature in cities. VBDO asked companies to also report on and develop social impact measurement.

Considering ecological SDGs

VBDO notices that SDG 14 ‘Life below water’ and SDG 15 ‘Life on land’ are often not selected as material SDGs by Dutch stock-listed companies. This is particularly the case for companies in the financial sector, which often do not refer to SDG 14 and 15 at all, even though it has been argued by academia that it is precisely these goals that form the basis for all the other SDGs.^{xi} VBDO therefore asked companies to consider SDG 14 and 15.

Companies, for example, have a great role to play in reducing marine pollution by reducing waste in production processes (target 14.1) and understanding the social/economic value of ecosystems and their services by making risk- and opportunity assessments for projects related to biodiversity and ecosystem services (target 15.1).

Good practices

Arcadis High level analysis of contribution to the SDGs

In 2018, Arcadis analysed the contribution made by its project activities to the SDGs and found out that around 80% contributed in a positive way to the SDGs. It has elaborated on the specific positive impact for each SDG in its annual report and plans to create more visibility for these contributions in following years. While this is a high level analysis, Arcadis is working on a software based system that would allow project teams to report on contributions to the SDGs for every project.

ABN AMRO First impact report

ABN AMRO consulted the Impact Institute to provide an assessment of the impact of the majority of ABN AMRO's activities during 2018. This year for the first time, ABN AMRO published an impact report. In this report, ABN AMRO evaluated its positive and negative impact on the SDGs. It could only provide a baseline assessment, but in the coming years, ABN AMRO can look at how its contribution to the SDGs improves. It has, amongst other things, carried out impact assessments on its mortgage portfolio, human capital and the external costs of financing cocoa and diamonds.

Dutch Central Bank (DNB) Impact measurement working group

Various companies in VBDO's engagement scope are involved in a SDG-impact measurement working group under auspices of the Dutch Central Bank. The objective of this group was to design a methodology to measure the impact of investments on the SDGs, as this was found to be a challenge. This working group consists of ABN AMRO, a.s.r., ING, Philips, Van Lanschot Kempen, NN Group, Unilever and other organisations. It brings together investors and companies to advance impact measurement with the goal of achieving the SDGs by 2030. Together, they have developed a guide consisting of concrete indicators, allowing investors to determine and communicate to what extent loans and investments contribute to the SDGs.

Outcomes of VBDO's 2019 engagement season

SDG question topic	# of times asked
Targets in line with SDG targets and indicators	20
Measure impact on SDGs	26

Companies	Commitment to take the SDGs into account in a new strategy
Boskalis	Boskalis will take the SDGs into account in its corporate business plan.
Fugro	Fugro has expressed its intention to align its strategy and the renewed materiality matrix with the SDGs.
Wereldhave	Wereldhave will take the SDGs into account when reviewing its strategy.

Highlighted commitment

Arcadis will start measuring impact on project level basis.

Highlighted commitment

Signify will discuss the social impact it has on SDG 11 in its new 2020-2025 plan.

ASML will develop long-term targets on circularity and report these.



Other engagement topics

Climate mitigation

Topic of question	# of question	# of commitments
CO ₂ -emissions reduction target in line with Paris agreement	16	4

Companies	Commitment on CO ₂ targets
Arcelor Mittal	Will present a CO ₂ -reduction target in 2020 for the period to 2025/2030.
a.s.r.	Will report on science based targets for CO ₂ -emissions reduction on Scope 1, 2 and 3 emissions, in line with the Paris Agreement.
Corbion	Aspires to publish a CO ₂ -emissions reduction target validated by the Science-based Targets Initiative in 2020.
Wereldhave	Will communicate a CO ₂ -emissions reduction target in 2020.

Reducing CO₂-emissions is at the forefront of sustainability discussions with Dutch companies. CO₂-emissions are a primary cause of climate change and should be limited to prevent severe disruption of the global economy. In the Paris Climate Agreement of 2015, the world agreed to limit global warming to a maximum of well-below 2°C, with a preferred maximum of 1.5°C. Since only 100 companies emit 71% of global industrial CO₂-emissions between them, companies hold the key to ‘reach Paris’.^{xii}

VBDO asked questions on CO₂-emissions reduction targets in line with the Paris Climate Agreement, 16 times. It is not surprising that most companies in the ‘industries’ and ‘financial’ sectors were engaged on this issue, given their relatively large impact on global warming. Four companies committed to publishing targets.

The financial sector and CO₂-emissions reduction targets

CO₂-emissions reduction targets were an important topic for engagement with the financial sector. The sector can drive the transition to a low carbon economy by raising CO₂-emissions reduction with heavy-emitting companies in engagement conversations, by investing in low-carbon technologies and by divesting from heavy-emitting industries. If the financial sector sets CO₂-emissions reduction targets, the financial system commits to meeting Paris. All seven companies in the financial sector were asked questions relating to CO₂-emissions reduction. a.s.r. committed to publishing a science-based target in 2020. Others indicated that they are in the process of determining the CO₂-footprint of their portfolio, and need to do so before they will consider setting targets.

Integrated reporting

Engaged companies
ArcelorMittal
Boskalis
Sligro
Van Lanschot Kempen
VolkerWessels

In order to communicate that sustainability is fully integrated in business activities, companies often choose to integrate sustainability information throughout their annual report. It ensures that sustainability risks are reported according to their financial materiality, that the sustainability strategy and business strategy enforce each other and that sustainable performance is presented next to the financial performance of the company. Companies who do not currently integrate sustainability information in this way and who were asked to do so, responded that the necessary information is provided in separate documents in order to avoid the annual report from overflowing with information. Nevertheless, companies recognised efforts to report material information in the annual report and indicated that they will continue to review this year-by-year.

Remuneration in the financial sector

Engaged companies
AEGON
a.s.r.
NIBC
Van Lanschot Kempen

In 2019, trust in the financial sector is at a record low.^{xiii} This is a direct result of the financial crisis, money-laundering scandals and eccentric remuneration proposals. These issues have caused Dutch financial institutions to review their policy and practice and act more responsibly and with integrity.

One issue that raised particular attention in 2019 was the growing gap between executive compensation and the average employee salary.^{xiv} In VBDO's view, executive compensation should grow in line with the average employee's to limit inequality. In addition, financial institutions were asked in engagement conversations to disclose whether sustainability metrics are used to determine appropriate compensation for members of the board. In a study published in 2010, VBDO emphasised that linking sustainability performance to executive compensation stimulates sustainability within a company.^{xv}

Good practices

a.s.r. Bringing executive compensation increases in line with general salary increases

In light of rebuilding trust in the financial sector, a.s.r. proposed a new remuneration policy for the Board of Directors to shareholders, at the AGM in 2019. In 2018, a.s.r.'s remuneration proposal caused commotion in the Netherlands, since the Board of Directors saw their remuneration increase by 40% to 67% of the total compensation in 2020. This increase was unnerving for many people, because a.s.r. was saved by the Dutch government during the financial crisis in 2008. At the AGM, a.s.r. mentioned the new policy proposal was set up in line with expectations from representatives of the Dutch voter. It was accepted by a majority.

The new policy fixes the salary increase for the Board of Directors at a 0-6% maximum. The Supervisory Board expects this increase to be 3% on average, which is in line with the general salary increase for a.s.r. employees. The increase is dependent on a multitude of variables, including performance on sustainability. The policy does not include a variable bonus.

VBDO especially acknowledges a.s.r.'s extensive consultation of internal and external stakeholders to discuss the proposal. This resulted in a remuneration policy for the Board of Directors that increases in line with remuneration for other employees of the company. The salary gap between employees and executives has been growing steadily over the years. a.s.r. has committed to keep the difference limited. VBDO urges financial institutions and others to follow suit.

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Appendix 1: Engagement process

VBDO has been actively working to improve the sustainability performance of Dutch stock-listed companies for 24 years. Engagement at and around the Annual General Meetings (AGMs) of companies is one of VBDO's core activities.

VBDO pursues constructive dialogues with a selection of companies on material sustainability themes. Engagement at the AGM is preceded by in-depth research of each company's sustainability performance over the previous year, based on – amongst other information – the company's annual report, sustainability report(s), web research and consultation with experts.

Following this analysis, relevant issues are selected upon which questions are formulated. The questions are shared with the selected companies and VBDO takes the initiative to conduct meetings and calls prior to the AGM, to enhance the understanding of the questions. Based on these conversations, VBDO selects the most material questions to ask at the AGM to each company's Board of Directors.

In total, 38 out of 39 companies participated in pre-engagement meetings or calls with VBDO. A member of the Board of Directors was present at five of these meetings. VBDO strives to address companies positively. We aim to do our research critically and formulate our questions in a constructive manner.

VBDO attempts to create an open exchange of ideas around a company's sustainability policy and practice in order to improve its overall sustainability performance. Figure 2 shows VBDO's AGM engagement process.

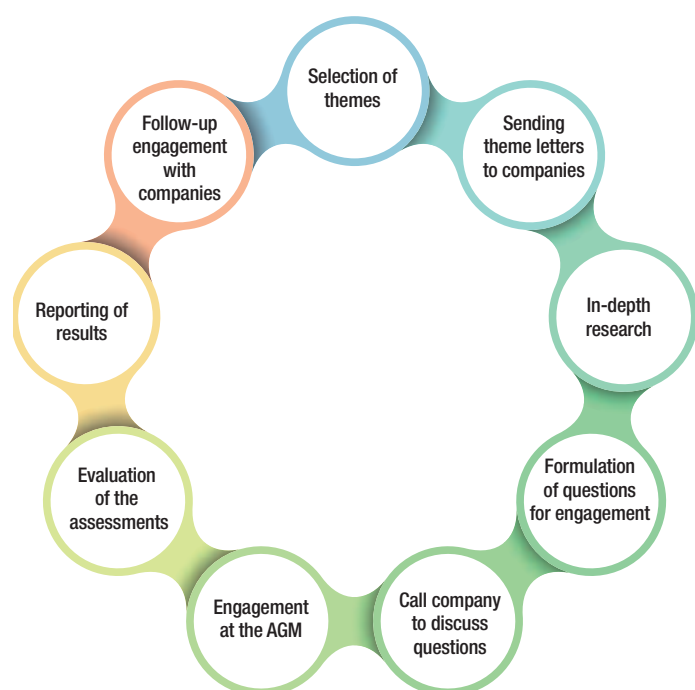


Figure 2: VBDO's engagement process around the AGM season 2019 (Source: VBDO)



Selected sustainability themes

Priority themes for AGM engagement in 2019

- Climate Adaptation
- Living Wage
- Sustainable Development Goals

VBDO selects three priority themes for AGM engagement on the basis of international sustainability trends, regulation and prominent issues. These are identified through consultation with companies in VBDO's scope, VBDO's members and sustainability experts. The selected priority themes for 2019 were shared with the companies VBDO engages with in a letter to each one's Board of Directors. For impactful and constructive engagement, VBDO assesses relevant issues per selected company for each theme. To measure progress, VBDO engages on the priority themes for a minimum of three consecutive years.

Company selection 2019

In 2019, VBDO conducted an overhaul of the scope for engagement. The sustainability performance of 39 companies were studied, compared to 35 companies in 2018. VBDO entered into direct engagement during the AGM period with 36 companies; the remaining three companies were engaged in writing.

New in 2019 scope	Companies engaged in writing/ reason	
NIBC	ArcelorMittal	AGM in Luxembourg
OCI	RELX	AGM in London
Van Lanschot Kempen	Unibail-Rodamco-Westfield	AGM in Paris
VolkerWessels		

Basis of selection for engagement

- Presence in the AEX index;
- At least one peer from different indices (AMX; ASX), if no peer is included in the AEX index; and/or
- Companies VBDO deemed necessary to engage with based on its sustainability performance.

Nature of questions

- Questions addressing VBDO's priority themes;
- Questions addressing transparency issues;
- Questions addressing themes of particular relevance to the company;
- Questions regarding commitments made in previous engagement seasons;
- Questions arising from the content of the companies' presentation or other relevant information stated during the AGM.

Appendix 2: **Commitments 2019**

a.s.r. (financials)

- a.s.r. expects to be able to report on the outcomes of the scenario analyses in the future.
- a.s.r. will report on science based targets for carbon emissions reduction for Scope 1, 2 and 3, in line with the Paris Agreement.

Aalberts (industries)

- Aalberts will research the difference between Living Wage standards and the salary structures of operational facilities in countries where collective labour agreements are less developed.

ABN AMRO (financials)

- ABN AMRO will conduct scenario analyses to look at climate related impacts.

Ahold Delhaize (food, beverage & retail)

- In the coming Annual Report (2019), more detailed information will be published in the risks analysis section on how Ahold Delhaize analyses and mitigates climate-related risks.

Arcadis (services)

- Arcadis will start measuring impact on a project level.
- Arcadis will measure the impact of its long-term strategy in the second half of the year.

ArcelorMittal (industries)

- Next year, ArcelorMittal will present a new CO₂-reduction target with a timeline for 2025/2030.

ASM International (technology & electronics)

- ASM International aims to make progress regarding reporting on the impact on material SDGs in coming years.
- ASM International will start an internal discussion within the company to see whether creating a definition for the Living Wage concept at a local level is possible.

ASML (technology & electronics)

- ASML will investigate the effects of climate change in the involved chain of companies.
- ASML will develop long-term targets on circularity and report on these.
- ASML will update its research on Living Wage standards and the lowest earning employee to see if there are changes in outcomes.

BAM Group (industries)

- BAM states that it is working on a target on circularity and will report on this in the future.

Boskalis (industries)

- Boskalis will take into account the SDGs in its corporate business plan.
- Boskalis will adjust its code of conduct and include Living Wage in the code of conduct.

Corbion (industries)

- Corbion will consider publishing the climate change survey of the Carbon Disclosure Project in order to provide transparency on Corbion's view on these topics to stakeholders.
- Corbion aspires to publish carbon emissions reduction targets next year, validated by the Science Based Targets Initiative.

DSM (industries)

- DSM will report on the outcomes of the Living Wage assessment in 2020, at the latest.

Fugro (services)

- Fugro has expressed the intention of aligning its strategy and the renewed materiality matrix with the SDGs.
- Fugro will review its impact on various relevant SDGs and develop further strategies for individual SDGs. This will include an update on its positive and negative contributions to the SDGs.
- Fugro will include Living Wage in its supplier code of conduct in the future and will continue to work on ensuring its own employees receive a living wage.

Heineken (food, beverage & retail)

- The company will roll out its updated supplier code of conduct (which references Living Wage) to all current and new suppliers by the end of 2020.

ING Group (financials)

- ING Group will consider talking to clients about physical climate risks as a next step.

KPN (services)

- KPN will consider reporting on the TCFD recommendations.
- KPN will review its pilot program to collect used telephones and consider reporting on this issue.
- KPN will consult with the Joint Audit Cooperation about adding the living wage concept to its supplier code of conduct.

Philips (technology & electronics)

- Philips expects to report on Living Wage more elaborately in its annual report next year.

SBM Offshore (services)

- SBM has the ambition of setting long-term targets on the SDGs in the coming year.

Shell (industries)

- Next year, Shell will further elaborate on what progress it is making regarding the SDGs.

Signify (technology & electronics)

- Signify will discuss the social impact it has on SDG 11, in its new 2020-2025 plan.

TKH Group (technology & electronics)

- TKH will report on its target regarding the SDGs at the 2021 AGM (at the latest).

Unilever (food, beverage & retail)

- Unilever will make the results of its climate change impact assessments on palm oil and tea available in 2019.

VolkerWessels (industries)

- VolkerWessels will research the difference between salary structures in the UK and Living Wage standards.

Vopak (industries)

- Vopak will make progress regarding implementing the TCFD recommendations.

Wereldhave (food, beverage & retail)

- Wereldhave will communicate a CO2-emissions reduction target in 2020.
- Wereldhave will take the SDGs into account when reviewing the strategy.

Wolters Kluwer (services)

- Wolters Kluwer will research Living Wage standards for its employees and most likely will report on this next year.



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