AGM Engagement Report 2020

# Momentum
# 25 years of engagement

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# About VBDO

VBDO stands for Vereniging van Beleggers voor Duurzame Ontwikkeling, which translates to the Dutch Association of Investors for Sustainable Development. It was established in 1995 to help create a sustainable capital market. With this goal in mind, VBDO undertakes benchmarking exercises, organises seminars and conferences, and engages with companies and financial institutions.

VBDO has been actively engaging with the Boards of Directors of publicly-listed companies in the Netherlands for 25 years. We attend AGMs to ask constructive, critical questions in order to encourage companies to improve their sustainability policies and practices.

VBDO is funded by our members: 80 institutional investors and more than 500 private investors.

# Foreword

This year, VBDO celebrates our 25th anniversary. We are proud that our association has promoted sustainability for all these years and that we've helped to increase society's awareness of issues such as responsible investment, climate change and many more. Together with our broad membership base of private members and institutional organisations, we strive for a sustainable and socially responsible capital market.

We focus our activities on listed companies, financial institutions and private investors. We've seen many themes returning over the years, including biodiversity and natural capital. This year, the world has been confronted by the COVID-19 pandemic, and all the many repercussions that have resulted from it. Lockdowns in response to COVID-19 have had serious consequences worldwide. The most vulnerable groups have been hardest hit, both here in the Netherlands and elsewhere in the world. Support measures are not widely available, particularly in developing countries, and inequality seems to be increasing.

We believe it is vital that VBDO continues our current activities, including asking questions at shareholders' meetings. We have titled this engagement report 'Momentum' for two reasons.

First of all, we want to celebrate our 25th anniversary and the positive changes we have helped to bring about since our launch. Secondly, the name reflects how the world is changing due to the coronavirus. The lockdowns have made a major economic and social impact; many organisations and individuals have suffered as a result. It is not only crucial to keep up the momentum of moving towards a more sustainable, fairer world; we need to up the pace. There has perhaps never been a better time to 'reset' the world.

COVID-19 is one of the many challenges VBDO has faced over our 25 year history. While governments and organisations need to tackle the immediate impacts of the pandemic, it's also vital to have a long-term perspective. This long-term view is something that VBDO has advocated for since our inception.

Piet Sprengers founded VBDO because he recognised that an independent association was needed to guide companies in a more sustainable direction and make them aware of the importance of other goals, in addition to financial ones. VBDO was the first association of shareholders in the world to discuss sustainability with companies. It was (and is) a challenge, but VBDO has remained true to our original mission.

A lot has changed over the last 25 years. Sustainability reports and policies are now much more common. A greater proportion of companies now understand why topics such as climate change are relevant to businesses and investors, so they expect to be challenged on these topics. Early on, when we asked one of the companies in scope about sustainability practices 20+ years ago, the response was that they recycled their paper. At the time, that was considered to be sufficient. Not only were these types of questions new to companies, they were also new to VBDO.

One of the first things VBDO had to do was build a network and gain access to general shareholders' meetings. We started by buying one share of one company and figuring out how to attend its general shareholders' meeting and how to make an impact. Then we started buying shares in other companies. You can imagine how difficult it was to hit the right sustainability chord when no information was available to draw from. Since most companies were not transparent about sustainability issues, 'transparency' became VBDO's first theme. Good reporting is crucial to transparency and standards are needed if companies are to be benchmarked for their performance, so to begin with we focused on encouraging companies to report on environmental issues. This took some patience and perseverance, but in the end we got what we asked for.

As time went on, we received more support from outside our organisation, through new sustainability guidelines and frameworks such as the GRI, CDP, Integrated Reporting and later the SDGs and TCFD. In fact, our call for reporting standards was a major reason that GRI decided to base itself in Amsterdam. Piet Sprengers was a great advocate of this.

Looking back in time (see timeline), VBDO has always tried to ensure our themes are salient and, in many cases, ground breaking. In 2006, we started categorising themes according to ESG (environment, social and governance) principles. Everything we do supports our key goals of raising the sustainability bar and creating awareness.

We have engaged on a significant number of topics over the years, including codes of conduct (2001-2005), biodiversity (2009-2013) and the SDGs (2017-2019). In 2020, we are introducing two new themes. 'Diversity' is a new governance theme and 'labour conditions in the supply chain' is a new social theme.

We are very proud of the mature engagement process we have developed over the years, and also of our passionate project managers. The VBDO engagement process has grown stronger and stronger over the years, and has led to tangible improvements by numerous companies.

The Netherlands is now leading the way in so many sustainability areas. Engagement works. We encourage other European countries to follow our lead over the next ten years, and contribute to the EU's sustainability ambitions. The world is facing significant challenges, the greatest of which is climate change. Countries, companies and investors must play their role in tackling the crisis.

**Angélique Laskewitz**
Executive Director of VBDO

**Piet Sprengers**
Founder of VBDO, now Manager Sustainability Strategy and Policy at ASN Bank

# Highlights from VBDO's 2020 AGM engagement season

**37**
ENGAGED COMPANIES

**191**
QUESTIONS ASKED

**37**
PRE-AGM ENGAGEMENT MEETINGS

**34**
VIRTUAL AGMS VISITED

**51**
SUSTAINABILITY COMMITMENTS

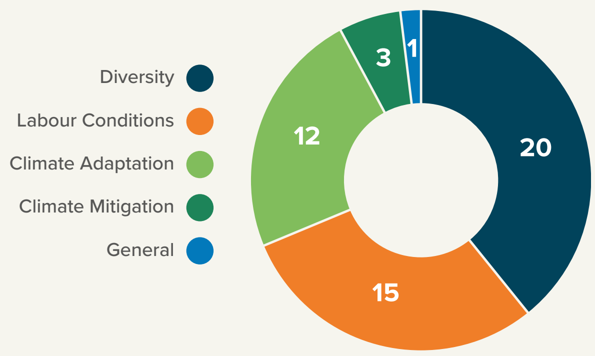
**4**
BOARD ROOM ENGAGEMENTS

**8**
COMPANIES DISCLOSED THEIR GENDER PAY GAP

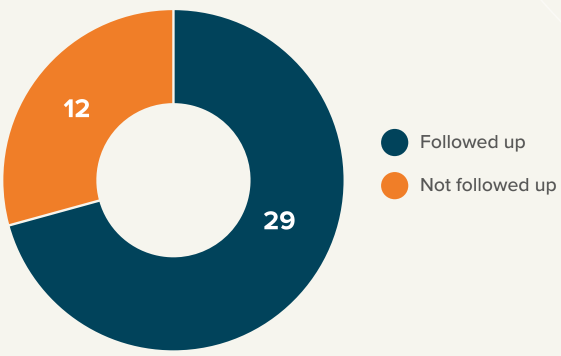
**17**
COMPANIES HAVE A STRATEGY TO IMPROVE LABOUR CONDITIONS

**23**
COMPANIES REFERRING TO THE TCFDS

Graph 1: **Commitments 2020**




Graph 2: **Commitments 2019**



# List of companies engaged with in 2020

| COMPANY | SECTOR | PRE-AGM MEETING | AGM VISIT | DIGITAL AGM PRESENCE |
|---|---|---|---|---|
| ING Group | Financial | Yes | No | Yes |
| ABN AMRO | Financial | Yes | No | Yes |
| Aegon | Financial | Yes | No | Yes |
| a.s.r. | Financial | Yes | No | Yes |
| Van Lanschot Kempen | Financial | Yes | No | Yes |
| NN Group | Financial | Yes | No | Yes |
| Heijmans | Industries | Yes | No | Yes |
| Aalberts | Industries | Yes | No | Yes |
| BAM Group | Industries | Yes | No | Yes |
| Vopak | Industries | Yes* | No | Yes |
| AkzoNobel | Industries | Yes | No | Yes |
| ArcelorMittal | Industries | Yes | No | No |
| Boskalis | Industries | Yes | No | Yes |
| DSM | Industries | Yes | No | Yes |
| Corbion | Industries | Yes | No | Yes |
| Shell | Industries | Yes | No | No |
| OCI | Industries | Yes | No | Yes |
| ASML | T&E (Technology & Electronics) | Yes | No | Yes |
| TKH Group | T&E | Yes | No | Yes |
| Philips | T&E | Yes | No | Yes |
| Signify | T&E | Yes | No | Yes |
| ASM International | T&E | Yes | No | Yes |
| Sligro | FBR (Food, Beverage & Retail) | Yes | No | Yes |
| Ahold-Delhaize | FBR | Yes | No | Yes |
| Heineken | FBR | Yes | No | Yes |
| Wereldhave | FBR | Yes | No | Yes |
| Unibail-Rodamco-Westfield | FBR | Yes | No | No |
| Unilever | FBR | Yes | No | Yes |
| Randstad | Services | Yes | No | Yes |
| SBM Offshore | Services | Yes | No | Yes |
| KPN | Services | Yes | No | Yes |
| PostNL | Services | Yes | No | Yes |
| RELX | Services | Yes | No | Yes |
| Wolters Kluwer | Services | Yes | No | Yes |
| Arcadis | Services | Yes | No | Yes |
| Fugro | Services | Yes | No | Yes |
| Altice | Services | Yes | No | Yes |
| 37 companies | 5 sectors | 37 | 0 | 34 |

*VBDO had a post-AGM meeting instead of a pre-AGM meeting

# Executive Summary

We have never before experienced an engagement season like 2020's. On the one hand, it has been successful. We have seen a good number of companies improving their performance, including:

- Companies stepping up from disclosing climate-related information to actually integrating climate change policies;
- Manufacturing companies aiming for additional transparency on labour conditions in the supply chain;
- Ten companies committing to report on their gender pay ratio.

On the other hand, COVID-19 has affected corporate decision-making, our engagement process and the AGMs we usually attend. For a full understanding of the impact of the pandemic on our work, please read our COVID-19 statement.

The rest of this report will first outline our recommendations for companies on each engagement theme, and then look at the most important results in greater detail. The full list of commitments can be found in the second appendix.

### VBDO'S RECOMMENDATIONS FOR FURTHER IMPROVEMENT

#### ENVIRONMENTAL – 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;
→ Aim to meet the Taskforce for Climate Related Financial Disclosures recommendations and respond to CDP (Carbon Disclosure Project).

All companies now have climate adaptation on the agenda; now it's time to implement strategies
This is the second year that we've addressed climate adaptation, and we can now see many stock-listed companies moving up the ladder in terms of their approach. We are pleased to report that we have seen an improvement for all of the criteria that we analyse to evaluate a company's maturity.

Another achievement is the fact that all companies now reference climate adaptation in their publicly disclosed information; this is four more companies than last year. This is an important milestone in just one year of engagement. Dutch companies are becoming increasingly aware of the physical risks of climate change and are increasingly looking at how first-order effects (heat stress, extreme rainfall, drought, cyclones, sea-level rise and wildfires), relate to, for example, the company's operational facilities. 23 companies, compared to 14 last year, have publicly disclosed this information. By disclosing, they are providing material information to shareholders and other stakeholders to scrutinise performance and engage in further discussions.

Almost one third of the companies are now executing specific scenario analyses on different global warming temperature paths relating to e.g. their fleet, specific

agricultural production regions, strategic assets or their supply chain. Most of these companies collaborate with specialised firms to assess these impacts. This year, we have also seen many companies committing to expand their climate approach and develop comprehensive climate adaptation strategies that fit with their specific sector, situation and locations.

We would like to stress that a climate adaptation strategy is not a one-size-fits all solution. It should be developed specifically for the company in question, implement sector or region-specific issues and should follow the recommendations of the Taskforce for Climate-Related Financial Disclosures. In 2020, five more companies in scope stated that they would enhance reporting using this framework, taking the total number doing so to 23. Next year will be the third year that VBDO engages on this topic. Considering the progress made this year, we are positive that even more improvements will have been made by this time next year.

### SOCIAL – LABOUR CONDITIONS IN THE SUPPLY CHAIN

→ Develop a Supplier Code of Conduct that follows the United Nations Guiding Principles on Business and Human Rights (UNGP);
→ Proactively identify salient issues and assess negative impacts on labour conditions in the supply chain through a comprehensive due diligence process;
→ Track responses of suppliers on labour conditions through qualitative and quantitative indicators;
→ Communicate how salient issues and actual impacts on labour conditions in the supply chain were addressed;
→ Set relevant targets and KPIs, and report outcomes transparently to stakeholders;
→ Collaborate within the sector to obtain transparency and share knowledge.

Supply chains remain a blind spot for many companies and transparency is in many cases lacking. Over the next few years, VBDO will therefore engage with companies on labour conditions in the supply chain. 95% of the companies in our scope have made a formal commitment to improve labour conditions in their supply chains. Many companies have developed a Supplier Code of Conduct, which provides guidelines for suppliers and requires compliance. Half of the companies have a strategy in place to address and mitigate impacts on labour conditions.

However, only ten companies actually identified and assessed impacts in the supply chain. Seven companies reported on the execution and outcomes of activities after conducting supplier assessments.

Some companies instruct third parties, such as Eco-Vadis and the Responsible Business Alliance (RBA), to carry out supplier assessments on their behalf. Although the standards and requirements between those parties may differ, VBDO observed that sectoral collaborations can lead to more transparency. This could in turn lead to more concentrated efforts to improve labour conditions in supply chains worldwide. Although companies that collaborate through these initiatives tend to perform better, VBDO would like to stress that transparency remains crucial. This will enable stakeholders to scrutinise results, and also prevents suppliers from remaining under the radar when controversies arise.

In addition, the financial institutions in scope did not regularly report on the progress of improving labour conditions at portfolio companies and other assets. This may be due to a lack of data from the portfolio companies. However, VBDO does advise financial institutions to proactively assess the supply chains of portfolio companies, as well as to address salient human rights issues and corresponding vulnerable groups.


### GOVERNANCE – DIVERSITY

→ Identify the diversity profile of the organisation, using indicators and voluntary measurement methods;
→ Publish a comprehensive diversity policy that includes references to (but should not be constricted to) the following aspects: age, gender, culture, disability, faith and sexual orientation;
→ Research, disclose and correct the gender pay gap for at least three levels: workforce, management and executives;
→ Start discussions inside and outside of the company, learn from each other and build upon findings.

The will to enhance (gender) diversity within companies is on the rise, but creating and maintaining an overall diverse talent pool and workforce remains a challenge. Diversity as a topic has been relevant for a long time, but it has gained momentum over the last year and this increased awareness is likely to expand further. VBDO's engagement showed that the companies in scope are already aware of the importance of diversity, as 35 out of 37 have made a formal commitment to enhance diversity and inclusion within the company. 92% of companies in scope have systems and policies in place to report and prevent internal ethical and/or discrimination complaints. 16 of the companies in scope have training methods in place to enhance the understanding of diversity within the company. However, only a third of the companies actually have a comprehensive diversity and inclusion policy that includes all marginalised groups.

Just three of the companies in scope have set relevant targets and KPIs on different aspects of diversity and for different levels within the organisation. In part this is due to the challenge of encouraging diversity within the talent pool. Some sectors tend to attract certain candidates. Companies in industrial and technology related sectors may find it more difficult to attract women, for example.

Efforts and initiatives relating to diversity are mainly still focused on gender. We encountered this frequently during this engagement season, as most of the companies tend to report on diversity only in terms of gender, age and type of contract. VBDO wants to emphasise that companies must not limit diversity efforts to gender alone; they should also seek to ensure that they are not discriminating against employees or candidates based on ethnicity, sexual orientation and so on. Despite the focus on gender, companies often did not assess the internal remuneration differences between men and women. Only eight of the companies assessed, communicated and addressed the gender pay gap. In order to help to increase awareness of this specific topic, VBDO questioned all of the companies in scope on their possible gender pay gaps. We expect a significant development on this topic in the coming year, with ten companies committing to report on the gender pay ratio.

# COVID-19 Statement

The coronavirus, besides its evident economic, social and health impacts, has changed this year's AGM season and might impact it for years to come. Engagement with Dutch stock-listed companies has been at the heart of VBDO throughout our 25 year history. AGMs are the formal vehicle for shareholders to exercise their right to ask questions to the Board of Directors of a company, so are a vital opportunity for us to ask questions about sustainability.

Normally, companies, investors and other stakeholders gather physically to confirm and discuss a company's strategic and financial performance. In 2020, AGMs have had to be held digitally. Importantly, the reporting cycle and voting on agenda items has not changed for the AGMs of the institutions in scope, neither has the sustainability dialogue with management.

These are uncertain times. The COVID-19 outbreak could help to speed up companies' sustainability improvements. Conversely, companies may have to delay some of their proposed projects and ambitions. For this year's AGM season, many companies decided to make use of the venues they had already agreed to rent. For Ahold Delhaize, this meant holding its virtual AGM in a concert hall in Amsterdam. Due to the venue being mainly empty, every statement from the CEO, Frans Muller, was accompanied by an echo. Let us hope that Frans Muller's words in NRC[1] a few weeks after the AGM will echo with other companies as well: 'The coronavirus can speed up the sustainability transition of Ahold Delhaize.'

For VBDO, being physically present at an AGM is important. It helps when we want to ask a direct question to the Board of Directors of a company, when we react to what has been said in earlier statements, and when we follow-up on our own questions. It also makes it easier to interact on a human level. Similarly, we learned from a CEO that it is difficult for him to present results and future outlooks without receiving any response from the room.

It seems that both engager and engaged would like to see AGMs return to their normal physical state when it is safe for them to do so. We would especially like to thank the companies that have provided sophisticated digital solutions that have enabled attendees to ask follow-up questions. However, some learnings may be carried forward that benefit all parties, such as using live video streams to reduce the need for cross-border travel.

Also, we're pleased to say that the companies in our scope are responding more than ever to the call from stakeholders to implement more advanced management and control systems to better confront crises. The pandemic has enhanced the importance of scenario-analyses. It has also highlighted the need for investment in sustainable development to enable communities to adapt to future human-induced catastrophes.

VBDO is looking forward to next year's AGM season and our 26th consecutive year of engagement.

# 1. VBDO Engagement

### 1.1 VBDO'S ENGAGEMENT TIMELINE

Our history is one of persistence. When VBDO commenced our first corporate engagements, our questions were often seen as unimportant or nonsensical. This did not, however, stop us from pressuring companies to release environmental and social reports. This pressure eventually resulted in a steady increase in those reports and, more importantly, increased transparency on non-financial information.

This increase in reports allowed VBDO to start carrying out our primary role: scrutinising results and entering into dialogue with companies based on their social and environmental performance. With the introduction of ESG themes at VBDO in 2006, we no longer had to advocate for environmental or social reporting as it had become the norm.

Together with our members, VBDO made it our mission to put urgent and salient themes on the agenda. If we take a look back over the last 25 years, we can see similar themes popping up multiple times, but in different guises. The 2020 topic of 'labour conditions in the supply chain' is similar to 2001's 'Code of Conduct', as they both address labour conditions. However, in terms of content, much has changed. In 2001 the focus was on motivating companies to create a Code

## 25 years of VBDO Engagement

**2003**: First environmental questions asked during AGM

**Biodiversity:** the variety and variability of life on Earth (2003-2005).

**CO2 emissions:** release of in the atmosphere causing change (2006-2009).

**2001**: First social questions asked during AGM

**Certification and Code of Conduct**: reducing exploitation of workers (2001-2005).

**AGM voting** was advocated other social policies to incre corporations (2006-2010).

The first engagement theme for VBDO focused on asking companies to **report** more than just financial results (CSR), according to the **GRI-standard**. During this period (1995-2003), the VBDO also built our network

**The modern balance (2004)**

**Supply chain management:** improving co-operation with suppliers (2005 -2008).

**1995** VBDO founded

Initially, companies treated VBDO's questions at AGMs as unimportant, responding to questions about environmental reports with: 'we don't have time for that' or 'such a report is unneccesary'.

**2000**

**2004:** The modern balance (or integrated reporting) means that environmental, social and financial performance should all be part of the 'balance'; i.e. a company should not solely focus on financial performance.

**2005**

**2006:** ESG themes are established, giving further legitimacy and structure to the VBDO's efforts. From here on, it has been seen as poor practice for a company not to have social or environmental reports.

of Conduct. Now, we expect companies to apply and reinforce human rights guidelines across their entire supply chains. We also expect them to co-operate with suppliers, improve due diligence practices and disclose progress on targets and KPIs. This contrast is an example of the steady shift in our expectations. These changes are also reflected in our other work, which has expanded since many years to include benchmarks, research and knowledge sharing.


Climate adaptation means adjusting to new environmental conditions

**E**

carbon climate

**Biodiversity** continues to be a key theme (2010-2013).

**Circular economy:** the importance of recycling and reusing consumer goods (2014-2016).

**Natural capital** alongside **circular economy** (2014-2016). **Natural capital** the sole focus (2017-2018).

**Climate Adaptation** 2019-

**S**

alongside ase pressure on

**Human rights**: proper treatment of workers in the supply chain, valuing their human rights (2011-2014).

**Grievance mechanisms** (2015)

**Living wage:** sufficient wage to sustain worker and family (2016-2019).

**See 2020**

**G**

**Remuneration:** applying a sustainability criteria to renumerations (2009-2012).

**Responsible tax:** transparent tax strategy and payments (2013-2016).

**SDGs:** integrating Sustainable Development Goals in governance (2017-2019).

**See 2020**

**2010**

**2013:** All companies that brushed aside VBDO's questions in the previous century now have fully-formed CSR reports.

**2015**

**Introduction of the SDGs, providing VBDO with a new framework.**

**2020**

**The themes for this year are diversity for governance, labour conditions in the supply chain for social and climate adaptation for environmental.**

# 1. VBDO Engagement

## 1.2 ANECDOTES OF FORMER AGM SEASON PROJECT MANAGERS

Over the years, many motivated VBDO project managers have led the AGM engagement season.
We have asked several of them to provide insight into what they remembered. Three anecdotes were selected.

**Liesbet Hanekroot**
**Sector Commission Chair (now) and project manager for the 2014 AGM Season**

In February 2013, I picked up the challenge to lead and organise the AGM season together with Ingmar Schuurmans. We introduced, amongst other initiatives, the Theme Handbooks. These Handbooks describe the three ESG themes of that year in more detail, and also the objectives of the VBDO in regards to these three themes. At the evaluation session of that AGM season, the VBDO researchers and spokespersons informed us that these Handbooks had been very helpful for the quality of their dialogues with the representatives of the companies. Nowadays, I observe a trend that representatives of the companies consult with the VBDO spokespersons for their knowledge and for inspiring examples of solutions. I am very grateful for being able to contribute to such uplifting ways of working towards positive impact!

**Jeroom Remmers**
**Project manager for the 2012-2013 AGM seasons**

I am proud that, thanks to our questions, around 80% of companies made commitments to improve CSR KPIs on climate, biodiversity, human rights and remuneration, and most of them kept their promises. During two Shell AGMs, I represented VBDO and I was the first to raise the issue of stranded assets (carbon bubble). Human rights issues, low investments in renewables and Nigeria oil spills were hot issues too. Stakeholder dialogues with TMG (Telegraaf), KPN, Ordina, Beter Bed and USG People resulted in new sustainability initiatives.

**Ingmar Schuurmans**
**Project manager for the 2015 AGM season**

It is 2014 and with a former VBDO colleague, I'm visiting more than 20 headquarters of stock-listed firms in the Netherlands, United Kingdom and Germany. On a sunny afternoon, I arrived at the headquarters of a large defence specialist and weapon producer in central London. We were well-prepared and covered topics such as human rights, responsible tax and the circular economy. My conversation partner appeared interested in all the topics but reverted back with a binary question: “When our soldiers are at the frontline, do you want them to have a) functioning or b) non-functioning guns?”. Our ESG-based investment advice was negative.

## 1.3 ENGAGEMENT PROCESS 2020

VBDO has pursued constructive dialogues with companies on material sustainability themes. Engagement at each AGM was preceded by in-depth research of the company's sustainability performance over the previous year. This research included analysing the company's annual report and sustainability report(s), as well as undertaking web-based research and consulting with relevant experts. Following these analyses, relevant issues were selected and questions were formulated. The questions were shared with the selected companies and VBDO conducted meetings and calls prior to the AGMs, to enhance each company's understanding of the questions. Based on these conversations, VBDO then selected the most material questions to ask the company's Board of Directors at the AGM.

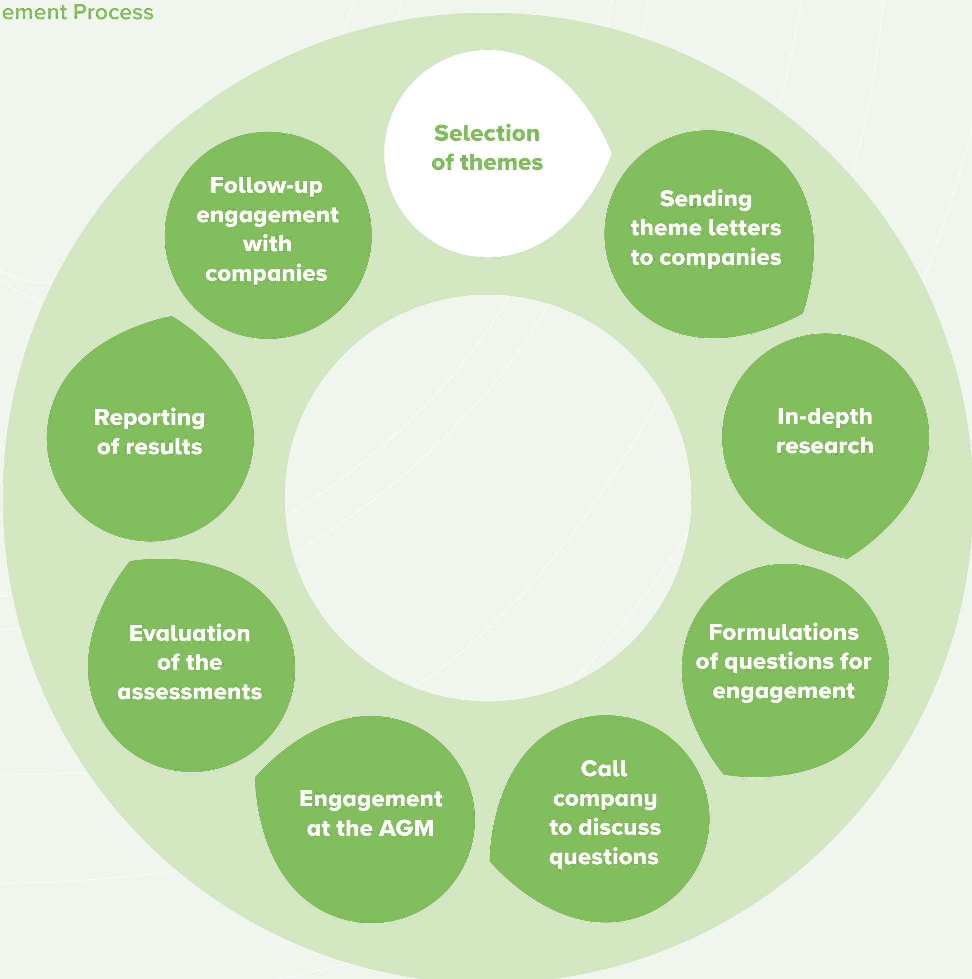
VBDO aims to create an open exchange of ideas around a company's sustainability policy and practice, in order to improve its overall sustainability performance. Figure 1 shows VBDO's AGM engagement process. Our process has been updated and developed over the last 25 years, to ensure that we make an impact as great as possible.

### Selected sustainability themes for AGM engagement in 2020

→ Environmental – Climate adaptation
→ Social – Labour conditions in the supply chain
→ Governance – Diversity

A more detailed explanation of how we select our sustainability themes, measure the impact of our engagement, select companies to engage with and decide questions, can be found in Appendix I.

Figure 1: Engagement Process



# 2. Results per engagement theme

FIGURE 2 - **ESG THEMES**

| ENVIRONMENTAL | SOCIAL | GOVERNANCE |
|---|---|---|
| Climate adaptation | Labour conditions in the supply chain | Diversity |

### 2.1 ENVIRONMENTAL — CLIMATE ADAPTATION

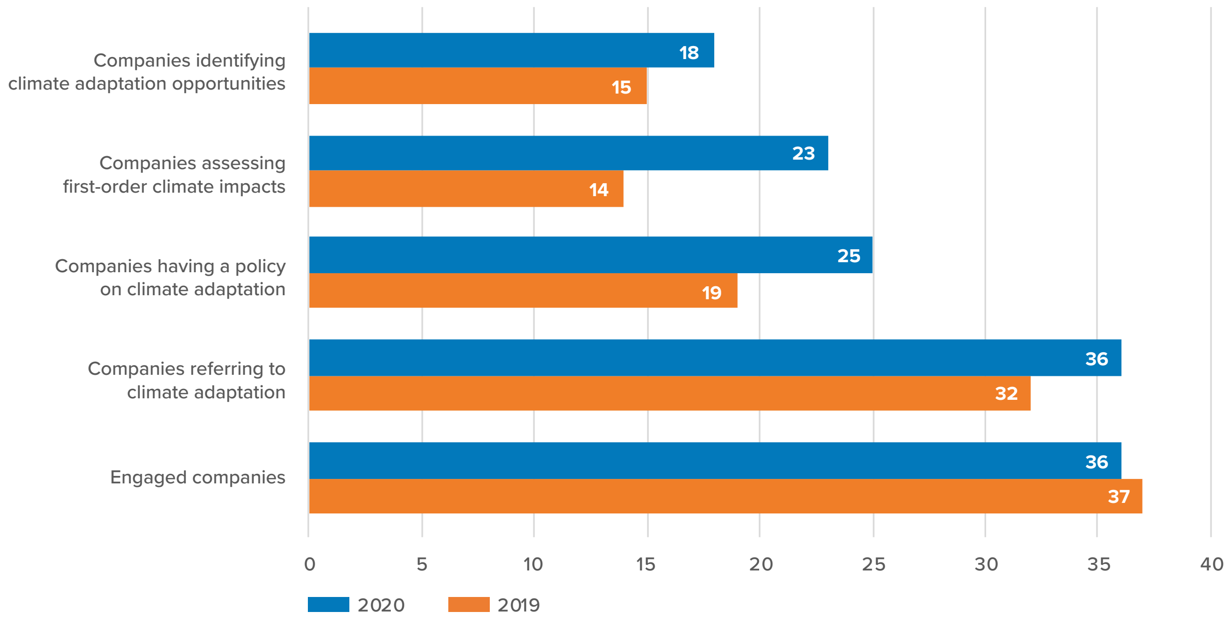
#### 2.1.1 IMPACT AND RESULTS

| LAGGING | | LEARNING | | LEADING |
|---|---|---|---|---|
| ABN Amro | Van Lanschot Kempen | PostNL | RELX Group | Heineken |
| ING Group | OCI | Unilever | Vopak | DSM |
| Ahold Delhaize | SBM Offshore | ArcelorMittal | Arcadis | KPN |
| Sligro | Wolters Kluwer | BAM Group | ASM International | |
| Wereldhave | TKH Group | Heijmans | ASML | |
| Aalberts | Altice | Shell | Philips | |
| AkzoNobel | Fugro | Corbion | Signify | |
| | | Aegon | a.s.r. | |
| | | Uniball-Rodamco-Westfield | NN Group | |
| | | Boskalis | | |

**Disclaimer:** This report is not to be read as a benchmark. The scores and results demonstrate the impact of VBDO's engagement process over the last few years. VBDO will continue to improve how we visualise the work that has been done and seek to make our engagement impact more tangible.

2020 is the second year that VBDO has engaged on the topic of climate adaptation. We are pleased with the steps that companies have taken over the last year. Graph 3 shows that companies have improved on all criteria that are mentioned below. More than half of all companies in scope now have a policy on climate adaptation. Another key point to note is that there has been a surge in physical risk assessments related to the exposure of suppliers.

Graph 3: **Progress on Climate Adaptation**




Companies excluded from engagement on topic of climate adaptation

| Randstad |
| --- |

### 2.1.2 THEME INTRODUCTION

The term 'climate adaptation' is used to describe approaches that address the consequences of climate change. Companies are a primary cause of climate change due to the CO2 emissions that result from their business activities (for example, using fossil fuels, clearing forests and engaging in livestock production). While companies hold the key to dealing with the causes of climate change, the physical effects of global warming are already here and growing. Climate change is driving the occurrence of extreme weather events, such as hurricanes, droughts and floods. These first-order effects lead to second-order impacts, such as a decrease in 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.

### 2.1.3 VBDO'S EXPECTATIONS

In order to deal with the consequences of climate change, companies need to identify risks and opportunities that result from the physical impacts of climate change, both for their own operations and in their supply chain. For the financial sector specifically, VBDO expects companies to identify these risks and opportunities for every asset class. Depending on the materiality for the company, it could assess what risks production locations are facing, how extreme weather will influence the products it produces, 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. Finally, companies should report on physical climate change impacts (if they are material to the organisation) and how to manage these impacts in an environmentally and socially sound manner, in line with the recommendations of the TCFD. Climate change, and more specifically physical climate change impacts, do not just affect companies. Therefore, for every step that companies take, they should include local communities, and take wider society into consideration in decision-making around this topic.

# 2.1.4 Maxfield Weiss From CDP on the topic of climate mitigation and adaptation

CDP
DISCLOSURE INSIGHT ACTION

Since CDP began in 2000, the idea of disclosing environmental data has moved from unknown concept to business norm. This year, 515 major investors like Robeco, NN Group and Triodos, with € 95 trillion in assets, backed the request we sent to companies. Our partnership with VBDO is important and flows in two directions. We collaborate to support and inform Dutch investors about how to take environmental issues into account, and VBDO uses CDP data to research Dutch companies' environmental stewardship.

Companies and investors know that climate change presents huge risks. CDP disclosers reported nearly €1 trillion in climate risks last year. Dutch firms reported €8 billion of that, based on expected physical impacts and the effects of market and regulatory changes. But this historic transition to a low-carbon and resilient economy is also an opportunity. Dutch companies, for example, see over €100 billion in opportunities, much of which is a result of the financial services sector identifying areas of new investment.

Companies must show their shareholders that they have clear plans to thrive and be on the right side of this transition. But how do companies get there and deliver on their climate ambitions? It starts by closely integrating climate change into governance and business strategy. 95% of Dutch companies have done so, according to our latest data. Companies must also take effective adaptation actions. This is where Dutch companies can improve: less than 40% of them use an internal carbon price to build resilience, and just half have mapped and tested against different climate scenarios. Putting in place these actions will help companies to communicate their future trajectory to investors.

To help investors pick the winners and encourage laggards to do more, CDP scores companies' annual progress across these key climate actions. For an 'A' score, companies must disclose publicly, show that they're aware of their climate risks, and demonstrate market-leading adaptation and environmental stewardship practices. But a third of listed Dutch companies that have been asked to disclose climate data still don't. That's why we need more investors in the Netherlands to engage companies and request this transparency. Last year, VBDO's Pension Funds report[2] found that too few Dutch pension funds are doing this, so things need to improve.

As we look towards our recovery from the coronavirus crisis, we must ensure that we build back better and do not prop up an old economy with increasing and impending climate hazards.

**In the Netherlands, there are five companies on CDP's 'A' List of climate leaders: ING Group, KPN, Philips, BAM and Signify.**

Companies must not lock themselves into a pathway of greater risk. Those that disclose their environmental information, measure and manage their risks, invest in climate adaptive solutions and set robust science-based targets will increase their resilience and thrive in the future. It is down to investors to support them.

**Maxfield Weiss**
Director Corporate Engagement, Europe.

### 2.1.5 WHAT HAVE WE ENCOUNTERED?

Companies regularly focus on mitigating the causes of climate change (e.g. reducing CO2 emissions) and assess the risks of a swift transition to a low-carbon economy (e.g. the risk of a price on carbon). VBDO expects companies to also report on how they intend to manage the consequences of climate change. In 2019 and 2020, we asked companies to assess the physical risks of climate change for their business operations. We've seen an increase in the number of companies that use the TCFD recommendations as guidance and learn from these recommendations. Last year, we focused on the importance of reporting physical risks. This year, we asked companies to take into account stakeholders in the wider regions in which they operate, such as local communities, when assessing these risks. Communities should benefit from climate adaptation strategies and people's livelihoods should be preserved in the wake of climate change. We've had discussions relating to the availability of water in the Food & Beverage and Technology and Electronics sector, as well as the public co-benefits of climate-resilient real estate, and how to protect customers and wider society from the effects of climate change without making them pay the price.

**Scenario analysis and risk assessment**

If we look at climate change scenarios and risk assessments, we can see that some of the companies in scope primarily consider short-term risks or have a limited timeline for long-term risks (e.g. 10 years).

Both first- and second-order impacts can affect companies. First-order impacts comprise sea level rise and extreme weather events, such as hurricanes, droughts and floods. The resulting second-order impacts affect humans, the economy and ecosystems. These may include changes in the availability of natural resources, agricultural productivity, the geographic distribution of species, migration and macroeconomic indicators, such as GDP. These effects can have major impacts on companies and should therefore be factored into their regular scenario analysis.

The companies in the Industry and Technology sector that VBDO engage with are generally well informed about first-order climate risks for their own organisation and their suppliers. This is important because of the complicated supply chains that are necessary for business continuity. However, the majority of these companies still need to assess the second-order impacts.

Table 1: **Assessment of climate change impacts**

| | Assessment on supplier's exposure to first-order impacts |
|---|---|
| 2019 | 10% of companies |
| 2020 | 50% of companies |
| Change | + 40% |
| N= | 30 (without financials) |

Financial institutions were specifically asked if they have assessed the physical risks of their portfolio. At this point in time, only a.s.r. and NN Group have made an assessment of first-order impacts. Second-order impacts were not assessed by the financial sector yet. Next year, we expect more financial institutions to start or further develop both exercises in 2020.

17% of the companies in scope (without financials) currently assess second-order impacts. The remaining companies have indicated, in response to VBDO's questions, that they will look into TCFD's recommendations, and consider how to report on physical climate risks in line with these recommendations.

Table 2: **Assessment of climate change impacts**

| Companies | Commitments on climate scenario analysis |
|---|---|
| ASM International | ASM International will include its operations, communities where the company operates and the supply chain in the scope of its climate scenario analysis. |
| SBM Offshore | SBM Offshore will further develop climate change scenarios and aims to further expand its long-term horizon. |
| PostNL | PostNL will take climate adaptation into consideration when engaging with clients and partners, possibly leading to an additional assessment of physical climate risks. |
| Sligro | Sligro aims to report on climate scenario analysis relating to the most material product groups. |

## Climate adaptation strategy

The companies that we have engaged with are taking different approaches when integrating climate adaptation into their corporate strategy. According to the TCFD recommendations, companies should describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios. Some companies within our scope explicitly mentioned climate adaptation within their corporate strategy (see box-out on Unibail-Rodamco-Westfield). The financial sector, in particular, has made progress when it comes to disclosing both actual and potential impacts of climate-related risks and opportunities, and detailing how these considerations have been further integrated into management practices. There are several leading companies within our universe that have started years ago with integrating climate change in their governance, strategy, risk management and targets and are using TCFD as a journey, not an end goal, to continuously improve their comprehensive approach. This year we discussed this journey in more detail with DSM, a company that mentions the importance of commitment from the top (see box-out on DSM).

## Climate change opportunities

Terrible things can create opportunities. While climate change will cause suffering and tragedy, it will also create a new status quo, opening space for new discussions and positive change. VBDO is very pleased to report that a growing number of companies are disclosing climate adaptation solutions (18 out of 37). This is especially the case in the Technology and Industry sectors, (10 out of 16). AkzoNobel sets an example by developing products (such as fire-, heat-, weather- and corrosion resistance products) to protect buildings, infrastructure and windmills against increased climate impacts. AkzoNobel also supports building developers by supplying heat reflective products that reduce heat islands in cities and limit the use of energy.
Companies in the service industry have also demonstrated that they are seeking to build upon their strengths. KPN, for example, is experimenting with a network that helps organisations to adapt to the increasing droughts that we are experiencing in the Netherlands. Being aware of the potential opportunities created by climate-related instability will become increasingly important in the future when we experience further extremes as predicted by different climate paths.

## GOOD PRACTICE – Unibail-Rodamco-Westfield (URW) – considering multiple scenarios and time scales

Unibail-Rodamco-Westfield has firmly integrated climate adaptation and biodiversity in its newly developed Better Places 2030 strategy. The company will include long-term climate risks in all newly development projects and create a climate change risk plan and biodiversity action plan for all of its assets by 2022. The company sees an opportunity in the need for enhancing the resilience of buildings that are facing climate change impacts, and has performed extensive research in line with the TCFD recommendations. This study covered both transitional (policy and legal, technology, and market) and physical risks (precipitation, temperature, drought and sea level rise) and was based upon IPCC scenarios RCP4.5 and RCP8.5[3], with different time horizons: short term (2030), medium term (2050) and long term (2100).

## GOOD PRACTICE – DSM – TCFD is a journey and not the end goal

DSM has one of the most comprehensive climate change approaches, which dates back many years before the arrival of the TCFD recommendations in 2017. Through a continuous process and senior management buy-in, the company has been able to turn climate-related risks into climate-related opportunities. It focuses its strategy on providing products and services that enable clients to limit their own carbon footprints and provide solutions for people and customers to the direct and indirect physical effects of climate change, such as hunger and malnutrition, public health, food loss and humanitarian disasters. In particular, the company's internal carbon price and the CFO's climate advocacy have contributed to the comprehensive integration of climate-related financial disclosures.

### Simon Gobert, Sustainability Performance and Reporting Manager at DSM

"Senior management commitment is crucial for a comprehensive climate change approach. Without commitment from the top, implementation will be more challenging. It takes a team of people from different departments within the organisation who support the mission and want to put it on the agenda. However, integrating climate change in financial disclosures should make sense for your organisation. It's not just reporting through TCFD because it's a tick box. It needs to be a material and relevant issue for your organisation."

## GOOD PRACTICE – KPN – using intelligent information to help companies and society to become more climate resilient

Through its newly developed LoRa network, KPN aims to respond to opportunities that it has identified which relate to climate adaptation. LoRa stands for Long Range, Low Power. It has been specially developed to facilitate the exchange of small amounts of information between objects and systems. One LoRa module can transmit data for more than 10 years on only two batteries.

The company is working on two pilots. The first of these relates to dyke monitoring and is being worked on in collaboration with Rijkswaterstaat. One of the physical effects of climate change in the Netherlands is the drought that increasingly now occurs during the spring and summer period. During this drought, the Dutch water boards spray the dykes to prevent cracks. Using soil moisture sensors that are connected by KPN to the LoRa network, means that the correct amount of water can be sprayed, so that cracks in the dyke and subsidence can be prevented. As a result, the safety of people in times of drought is further guaranteed.

The second pilot supports farmers to measure and calculate detailed information about soil and weather, using sensors and the LoRa network. Farmers can then use this information to determine exactly how much water and pesticides their crops need, and maximise their yields.

## Why dialogue is important

Dialogue is not only necessary for mutual understanding and raising awareness; it is crucial if organisations are to collaborate to make society more climate resilient. Adapting to the effects of climate change (both transitional and physical) should never be looked at from a single perspective. A company can conveniently move a factory from one place to another if water resources run out. However, this does not solve the increasing water scarcity that the company might have caused or contributed to, nor does this help the community that relies on the water basin. Companies should take responsibility and aim to solve the problem, instead of passing it along to someone else or even a next generation. Additionally, VBDO believes that the costs of climate adaptation should not be passed on to communities, customers or wider society.

### HIGHLIGHTED COMMITMENT

- **ABN AMRO will start a dialogue with other banks on how they can protect customers from the effects of climate change and find a joint solution.**

Through an active dialogue, companies can learn from a wider group of stakeholders, including other companies. Climate change is a shared problem, therefore VBDO believes it is vital for companies and stakeholders to share experiences and solutions in order to gather information, data and ideas. Collaborative action is also needed in order for companies to take responsibility for their actions and to be held accountable as a sector.

## TCFD

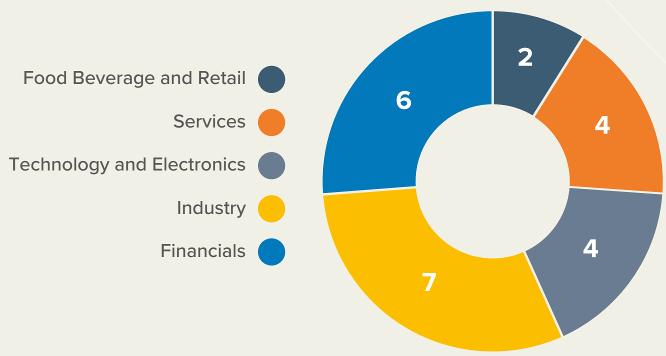
As of February 2020, 1027 (compared to 580 in February 2019) organisations support the TCFD recommendations and have started to implement them[4]. VBDO expects companies to disclose their performance in line with these recommendations. In 2020, VBDO asked seven questions related to TCFD disclosure at AGMs. 23 of the Dutch publicly-listed companies within our scope have referred to the recommendations of the TCFD. Some have partly disclosed climate-related financial information; others are still in review.

This year, the value of disclosing climate-related information is recognised by OCI and TKH Group. Those companies may not have fully implemented the TCFD recommendations yet and nor do they disclose their climate-related information in detail, but they do recognise the importance of doing so. VBDO would like to stress that TCFD disclosure is not only related to transparency, as transparency is not the only reason to communicate a company's sustainability performance to external stakeholders. Disclosure can also open up opportunities for the company's own operations, its supply chains and the surrounding communities.

### HIGHLIGHTED COMMITMENTS

- **TKH will organise a stakeholder dialogue in which, amongst other topics, the TCFD recommendations will be discussed.**
- **OCI aims to broaden its climate-related disclosure next year and report in line with either SASB or TCFD recommendations.**

Graph 4: **23 out of 37 listed companies report following the TCFD recommendations**



## GOOD PRACTICE – Aegon, NN Group & a.s.r. – publicly disclose TCFD reports

NN Group and a.s.r. both dedicated a full chapter in their annual report on how the company responded to the TCFD recommendations. Aegon included a detailed report in its appendices. The Executive Boards of all three companies are clearly committed to ensuring that the company has adequate internal risk management and control systems in place.

NN Group's risk policy framework aims to ensure that all risks are managed consistently and that the Group operates within set risk tolerances. It has established a climate change dialogue group to support implementation of the TCFD recommendations. This multi-disciplinary working group advises the Management Board on climate risks and opportunities.

In 2019, a.s.r. established a group-wide TCFD project team focused on climate change, in order to align its various businesses, ensure consistent and coherent reporting and drive a.s.r.'s climate change programme going forward. Aegon has a similar working group called the Climate Change Working Group, which has representatives from different areas across the company.

## 2.2 SOCIAL – LABOUR CONDITIONS IN THE SUPPLY CHAIN

### 2.2.1 IMPACT AND RESULTS

**LAGGING**

Sligro
Aalberts
Heijmans
BAM Group
Vopak
PostNL
SBM Offshore
TKH Group

**LEARNING**

a.s.r.
Ahold Delhaize
ABN AMRO
NN Group
ING Group
Corbion
DSM
Shell
Fugro
Wereldhave
Boskalis
Arcadis
Heineken
Randstad
RELX Group
Wolters Kluwer
ASM International
ASML
OCI
Altice
Aegon
Unibail Rodamco Westfield
Van Lanschot Kempen

**LEADING**

Unilever
KPN
Philips
Signify
AkzoNobel
ArcelorMittal

**Disclaimer:** This report is not to be read as a benchmark. The scores and results demonstrate the impact of VBDO's engagement process over the last few years. VBDO will continue to improve how we visualise the work that has been done and seek to make our engagement impact more tangible.

Graph 5: **Results on Labour Conditions**

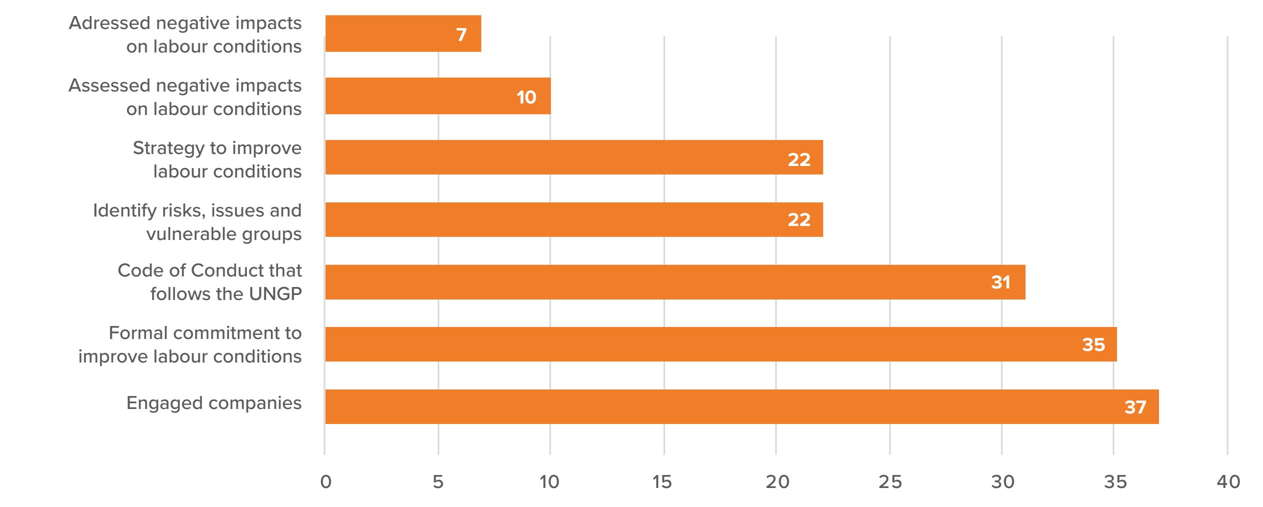



Table 3: **Questions on Labour Conditions**

| Labour conditions in the supply chain question topic | # of questions |
|---|---|
| Addressing impacts and reporting progress | 15 |
| Compliance of suppliers | 5 |
| Collaborative efforts (in sector context) | 4 |
| Identifying and assessing risks | 13 |

## 2.2.2 THEME INTRODUCTION

Labour conditions in the supply chain is one of VBDO's new themes for the 2020 AGM season. While 2020 is certainly not the first year that VBDO has asked questions relating to labour conditions, we are now taking a much more comprehensive approach. From 2009 to 2011, VBDO engaged on social policies concerning employees and suppliers. The initial focus on social policies shifted towards human rights from 2012 to 2014, while responsible supply chain management received special attention in 2013. From 2016 to 2019, we focused on the living wage. All of these previous topics have now been brought together in our new engagement theme: labour conditions in the supply chain.

The results from the 2019 Corporate Human Rights Benchmark indicate that companies are reactive regarding human rights violations, rather than proactively preventing issues[5]. Supply chains remain a blind spot for many companies. Therefore, we feel it is important to increase our scrutiny, because experience shows that pressure can lead to change, and we believe that engagement can help companies to enhance their policies and practices.

Companies can use the United Nations Guiding Principles on Business and Human Rights (UNGP) to improve labour conditions within their supply chains. As part of the 'due diligence' process, it is important for a company to have an overview of the possible risks and salient issues regarding labour conditions in supply chains. These issues include human rights, such as the right to non-discriminatory treatment, freedom from child labour, the right not to be subjected to slavery, and freedom of association. Some groups are particularly vulnerable to human rights abuses or poor labour conditions. These groups include women, children, LGBTI people, ethnic minorities, disabled people, indigenous people, temporary employees and employees with uncommon working hours.

One particularly salient issue is subcontracting in different tiers of supply chains. Subcontractors can be seen as a vulnerable group in some instances as they are often not granted the same rights as employees and are not subjected to regular labour contracts. In an analysis of 50 multinational companies, The International Trade Union Confederation found that 94% of the total supplier workforce comprised so-called 'hidden workers'; workers that are not classed as employees[6]. Companies do not always take full responsibility for the subcontractors and other workers in their supply chains.

## 2.2.3 VBDO'S EXPECTATIONS

VBDO has developed various criteria relating to how we expect sectors to address labour conditions in the supply chain. VBDO expects companies to formally commit to improving labour conditions, enhancing due diligence strategies, tracking progress and being transparent about all of this. Companies should have an overarching goal of ensuring that the labour conditions of workers in their supply chain adhere to the UNGP.

In order to increase transparency, companies should identify relevant issues and vulnerable groups. It is also vital that companies put in place grievance mechanisms and collective bargaining provisions for the entire workforce, including (sub)contractors, in order to ensure that the company is made aware of, and can work to resolve, any concerns. Companies need to be able to identify and assess negative impacts on labour conditions across every tier of the supply chain. To this end, it is important that companies engage with stakeholders to gain a detailed overview of the supply chain.

Strategies can then be developed to improve these labour conditions. Such strategies can be refined by tracking responses of suppliers, asking questions relating to labour conditions, and using both qualitative and quantitative indicators. Companies can then set relevant targets and KPIs in order to maintain progress and make tangible improvements. Additionally, it is crucial to communicate the progress that has been made on labour conditions, e.g. in a separate report or as a specific section in the company's annual report.

# 2.2.4 Rob Lederer, Executive Director of the RBA on the topic of labour conditions

Responsible Business Alliance
Advancing Sustainability Globally

In today's globalised world, supply chains are a highly complex web of business relationships. They're often spread across numerous countries, and rely on resources that come from diverse regions with varying cultures, standards and regulations. Most companies have thousands of customers and suppliers, and these suppliers typically provide services to more than one industry. This reality also applies to Dutch companies, who as a result face a complex undertaking when it comes to conducting due diligence across their global supply chains.

International well-recognized policy frameworks (such as the OECD Guidelines and the UN Guiding Principles) guide companies on the steps of due diligence: embed due diligence policies into company management systems; assessing actual and potential human rights impacts involved with the company's business operations or products; prevent and mitigate potential and actual adverse impacts; track due diligence implementation actions and effectiveness; and to cooperate for remediation. Remediation is key to ensuring that due diligence actually benefits the very people that it is designed to protect. Let's look how this works in practice.

One pressing issue in the space of labour rights, is that of forced labour. The ILO estimates that 25 million people worldwide are in forced labour[7]. This creates a risk in global supply chains, including those of Dutch companies. The RBA has been piloting a unique and robust set of tools over the last several years to identify and eradicate issues that can lead to forced labour. These issues are extremely complex; each case is different and requires a unique set of solutions, including the use of collaborative supply chain leverage. This leverage is a key tool that has been successfully applied by RBA and its membership.

RBA's Code of Conduct requires that no worker should pay recruitment fees or costs for employment, as that can lead to conditions of forced labour. When allegations of non-conformance at manufacturing sites in Thailand were brought to our attention, we organised a sustained effort to verify conditions on the ground and develop appropriate remediation plans for workers. This included rigorous, independent factory and field assessments with significant worker engagement.

As a result, at the end of 2019, the RBA reported that (with the help of some of its members) it had facilitated the return of nearly US$5 million to 10,570 migrant factory workers in Thailand to repay recruitment fees and other costs the workers had paid during their recruitment. This is just one example of success in our fight against forced labour, as efforts by RBA and our members had already led to the return of more than $40 million of recruitment fees and tens of thousands of passports.

Wherever companies are on the spectrum of maturity, the increasing expectations from a wide array of stakeholders, including Dutch policy makers, consumers, investors and public buyers mean that it is vital to at least make a start on addressing labour rights in the supply chain.

Collective action is a prerequisite to effective due diligence. Companies that are engaged in industry or multi-stakeholder supply chain sustainability initiatives are therefore better positioned to tackle issues such as poor working conditions. For companies, responsible business is a long journey of continuous improvement. RBA is proud to see Dutch member companies contributing significantly to advancing collective efforts and industry collaboration.

Cases such as the one cited above demonstrate the power that collaboration and shared leverage can have, and it is rewarding to see growing collaboration among companies result in meaningful impacts for workers.

**Rob Lederer**
Executive Director of the Responsible Business Alliance (RBA)

### 2.2.5 WHAT HAVE WE ENCOUNTERED?

**From theory to practice**

During this year's engagement season, VBDO encountered many companies that were still relying on their old-fashioned due diligence processes. Such due diligence does not go beyond the traditional annual auditing of production sites and self-assessments, whereby suppliers receive advance notification that they are going to be assessed. This approach is not adequate; the relationship between companies and suppliers should be proactive as well as continuously interactive. Proper due diligence consists of multiple steps but should at least start with assessing and mitigating negative impacts in the supply chain. Some of the financial institutions in VBDO's scope already demonstrate this kind of approach, as detailed below.

After ABN AMRO published its second human rights report, Kees van Dijkhuizen, former CEO of ABN AMRO, commented: "I'm proud of the steps we are taking, but mindful of the fact that the path from theory to practice is long and not without setbacks. While so much more needs to be done to protect human rights, I am hopeful."

VBDO agrees that progressing from theory to practice is difficult, especially when an organisation is taking a pioneering stance. ABN AMRO's recognition of how much work there is to be done paves the way for further improvements, which involves working together with and educating employees, clients, peers, governments and NGOs.

ING has stated that its human rights report will help to assess whether its approach is successfully reducing the most severe impacts on people. Although transparency is not the goal in itself, it does support an organisation to track progress and achieve its mission. Multiple companies, in almost all sectors, now share progress on their human rights strategy through their human rights reports. We have not seen many examples of companies reporting on all negative impacts related to working conditions, however. We look forward to further developments in this area.

**Assessing suppliers beyond tier one remains a challenge**

70% (26 out of 37) of the companies within our scope only assess and directly engage with the first-tier suppliers, because those are critical for business continuity. This means a lack of transparency internally, as well as externally, on the deeper tiers, resulting in problems emerging further down the chain more frequently.

We found that only 18 (49%) companies have assessed risks relating to working conditions and that only nine companies communicated transparently towards external stakeholders about assessed negative impacts on working conditions. Only 11 (30%) of these companies have a comprehensive overview of what happens further down the chain than tier 1 and publish their findings in their annual report.

However, it must be said that mapping and keeping track of supply chains before a serious problem arises is easier than mitigating controversies after the event. During this year of engagement, VBDO found such proactivity at multiple companies, including Corbion and KPN, which tracked and addressed negative impacts on labour conditions in their supply chains. Corbion disclosed all levels of control and risk management procedures regarding all raw materials that are crucial for production. KPN mapped all different tiers of the company's supply chain and published its expectations of suppliers in its Supplier Code of Conduct, in order to ensure that it has a clear overview of the origin of raw materials.

**Collaborating with suppliers**

The Organisation for Economic Co-operation and Development (OECD) estimates that more than half of the world's manufactured imports are intermediate goods. These are goods that are used in the production of other goods. Supply chains have grown more complex, making them less transparent and more difficult to get a grip on.

Our research shows that 35 of the 37 companies in scope have made a formal commitment towards improving labour conditions through their Code of Conduct, but that only nine companies actually assess negative impacts in their supply chain. We believe that this is partly due to companies seeing the issue as not being material, due to a fairly safe and short supply chain. For those companies where the issue is material, a key problem may lie in the view that extensive work and expertise is required to build an extensive approach. Many companies, for example, have self-assessments, but are not actively engaging with suppliers or identifying actual impacts on the ground. In some sectors, there are examples of specific sectoral approaches; one of these is the Technology and Electronics sector, where Philips and Signify are leaders on this topic.

### Engaging with stakeholders is crucial to achieve improvement

Positive impact is not achieved by only rolling out a policy that sums up possible salient risks and vulnerable groups. The real positive impact is made when actual issues are assessed, discussed and addressed in order to mitigate or stop abuses from occurring in the future.

We have found several examples of companies engaging with stakeholders on specific topics. In the past few years, companies and sectors have focused on child labour, conflict materials and living wage, amongst other topics, and these focuses have provided new insights and, in some cases, significantly improved the situation in a sector or region.

### Topical and comprehensive approach

Clearly, topical approaches can be very effective in solving specific problems. However, companies taking

ABN·AMRO ING PHILIPS Signify

### GOOD PRACTICE – ABN AMRO and ING's human rights reports

ABN AMRO uses three indicators to calculate its impact on human rights. ING uses five. Amongst other areas, both reports look at child labour, discrimination and underpayment (living wage).

For both organisations, the development and public disclosure of indicators is still a work in progress. This is partially because results are not always shared with stakeholders and relevant data is frequently focused on specific cases instead of overall improvement. However, ABN AMRO and ING are at the forefront of working to improve labour conditions and human rights within the financial sector.

These financial institutions both have tools in place to help them to identify country-specific human rights issues. ABN AMRO uses the Sustainability Country Risk Tool, and ING uses the ESR Transaction Assessment. For transactions in high-risk countries and conflict areas, ABN AMRO and ING always apply enhanced human rights due diligence. As signatories to the Dutch Banking Sector Agreement, ABN AMRO and ING are two of the driving forces behind a value chain study into cocoa, which led to a report by the Dutch Social and Economic Council (SER).

The financial institutions both prefer inclusion and engagement, rather than excluding companies. This means that they undertake long-term engagement processes with clients in order to facilitate structural improvements relating to human rights issues.

### GOOD PRACTICE – Philips and Signify – proactive, continuous engagement

Philips and Signify both developed and published a sustainable supplier declaration that follows the UNGP, OECD's guidelines and the conventions of the International Labour Organization (ILO). The companies proactively and continuously engage with stakeholders to manage and improve labour conditions in the supply chain.

These types of engagement includes, for example, supplier development, including topical training sessions, procurement engineering and a supplier sustainability stakeholder day. Both companies are active within industry working groups, such as the Responsible Business Alliance (RBA).

Information concerning the efforts of Philips and Signify to improve labour conditions in their supply chains is disclosed both within each company's annual report and through separate reports.

As Philips and Signify are clearly demonstrating, responsible supply chain management goes beyond traditional audits and box ticking. Annual assessments or visits to production sites are not sufficient by themselves. Business cases need to be built together with suppliers, (sub)contractors and other relevant stakeholders. This year, VBDO is pleased to see Philips and Signify building such business cases with their suppliers.

a topical approach on labour conditions in the supply chain should not neglect other relevant issues. When companies solely focus on one specific issue in their supply chain, for instance child labour, other issues may be overlooked. VBDO suggests that companies take a comprehensive or multi-topical approach towards both human rights and labour conditions, as obviously, one cannot exist without the other.

### Setting the standard in supply chains with coordinated strategies

If companies want to improve labour conditions or make a significant operational difference, they need to roll out specific strategies that tackle the salient issues relating to conditions in their specific supply chains. Without a concrete plan, the goal of improving labour conditions will remain just an ambition. Therefore, VBDO was pleased to see that some of the companies in scope made tangible progress on setting standards and rolling out strategies.

ArcelorMittal aims to audit all of its production sites and mines according to the most extensive standards within the industry. The company has taken a leading role in developing ResponsibleSteel™ since 2015. Last year, ResponsibleSteel™ launched its first site certification standard. This standard sets out 12 principles, which are underpinned by more than 50 criteria and more than 200 auditable requirements. Together, these address, amongst other issues, health and safety, human rights and local communities. ArcelorMittal has started a dialogue with the company's key raw material suppliers to gain their commitment towards this certification. As a member of the Initiative for Responsible Mining Assurance (IRMA) steering committee, ArcelorMittal participates in the multi-stakeholder expert panels shaping IRMA's standards. Discussion and collaboration between all stakeholders within the steel supply chain, as well as with customers and other relevant parties, is crucial for achieving improvements to labour conditions.

Similar to ArcelorMittal, Unilever has a Responsible Sourcing Policy that sets a threshold for minimum requirements as well as defining best practices, with the goal of helping suppliers to further improve. Unilever procured 70% of its products in line with its responsible sourcing policy. Both companies mentioned here aim to source their materials in a responsible manner, but different issues in different sectors result in different measures. Therefore, it is key that companies aim to develop their own standards or policies, working together with a wide variety of stakeholders, in order to tackle the issues that are present in a specific sector or region.

Table 4: **Highlighted commitments impacts**

| Companies | Highlighted commitments on labour conditions in the supply chain (see Appendix II for full list of commitments) |
|---|---|
| AkzoNobel | In 2020, AkzoNobel aims to accelerate its supplier programme by requesting improvements from the suppliers under development and inviting more suppliers to take part in the assessment. |
| DSM | DSM will engage with EcoVadis and its peers in Together for Sustainability to improve transparency about the assessment and the performance of its supply chain. |
| Signify | Signify states that it will keep a target for supplier sustainability in the company's next five-year programme (2021-2025). |
| a.s.r. | a.s.r. commits to improving its due diligence processes and further aligning them with the UNGP. |
| Wereldhave | Next year, Wereldhave will review and update its Supplier Code of Conduct. |

## 2.3 GOVERNANCE – DIVERSITY

### 2.3.1 IMPACT AND RESULTS

**LAGGING**

Sligro
Wereldhave
BAM Group
Heijmans
Vopak
Randstad
SBM Offshore
Wolters Kluwer
TKH Group
Van Lanschot Kempen
Boskalis

**LEARNING**

Ahold Delhaize
Heineken
Unibail Rodamco Westfield
AkzoNobel
ArcelorMittal
Corbion
DSM
OCI
ABN AMRO
ING Group
Fugro
PostNL
Aalberts
Shell
Altice
Arcadis
KPN
RELX Group
ASM International
ASML
Philips
Signify
Aegon
a.s.r.
NN Group

**LEADING**

Unilever

**Disclaimer:** This report is not to be read as a benchmark. The scores and results demonstrate the impact of VBDO's engagement process over the last few years. VBDO will continue to improve how we visualise the work that has been done and seek to make our engagement impact more tangible.

**Graph 6:** Results on Diversity

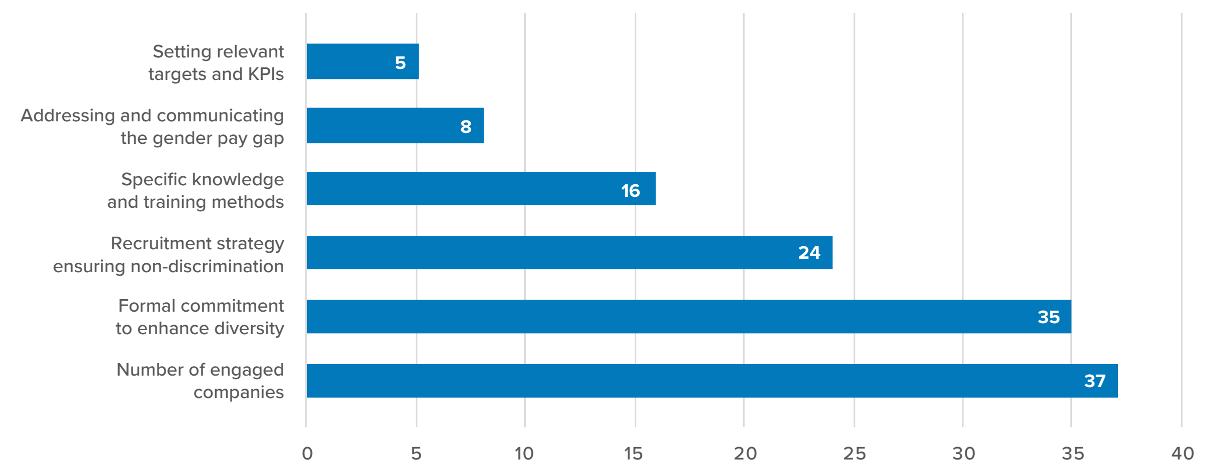


Table 5: **Questions on Diversity**

| Diversity question topic | # of questions |
|---|---|
| Rolling out a diversity and inclusion (D&I) policy/profile for the organisation | 13 |
| Setting relevant KPIs and targets | 6 |
| Gender pay gap analysis | 23 |

### 2.3.2 INTRODUCTION

In these times of societal turmoil caused by institutional and systemic racism, diversity as an engagement theme helps to address the inequalities in our society. Since companies reflect our society, VBDO believes they should make sure every employee is treated fairly and feels fully included. Inclusive societies are created through equal access to information, equal pay for equal work and involvement in decision-making for all, especially for marginalised groups.

According to the Dutch Constitution, all persons in the Netherlands should be treated equally in equal circumstances, so discrimination is prohibited. Companies must not discriminate against someone, either intentionally or unintentionally, on the grounds of any of the diversity aspects mentioned above. It's important to note that inclusion is crucial to diversity: an employee may not be discriminated against in employment decisions, and should also be and feel included. Additionally, an inclusive workplace allows for fair and respectful treatment of all individuals.

The Netherlands has a lot to win regarding gender equality. Women work part-time more often, are less represented in high management positions, and earn less than men (which can be partly, but not completely explained by the preceding factors). The difference in labour force participation between men (73%; 2018) and women (63%; 2018)[8] became smaller in last decades but is still ten percentage points. In 2014 the adjusted pay gap was 7% for the private sector and 5% for the public sector. Since 2013, there is a voluntary quota for 30% women both in the Executive and Supervisory Boards in listed companies. In 2019, it is decided that the quota for the supervisory board will be binding instead of voluntary (yet remains to be enforced). There is an information asymmetry regarding disclosure about gender composition at different levels in the workforce. Disclosure of the gender composition at the board level is legally obliged, and most companies publish about the gender composition of the entire workforce. However, few companies disclose the gender composition at management levels below the board. Additionally, few companies disclose information about their supplier diversity.

Almost a quarter of the Dutch population (4 million out of 17 million), are first- or second-generation migrants. People with this type of background are more likely to be unemployed (Western background: 6%; non-Western background: 11%) than people with a Dutch background (4%)[9]. There are currently no benchmarks or data available on cultural diversity in top positions in Dutch companies, but case studies show that a relatively small percentage of leaders have non-Western backgrounds. At the top in high management, only up to 5% of leaders are from non-Western backgrounds. This rises to 12% for the sub top[10]. A pilot project, 'Talent naar de Top', found that five out of the 16 participating companies have a target figure for cultural diversity (its definition is people from a non-Western background) at the top management level[11].

VBDO believes that there are many benefits to diverse (leadership) teams. Diverse teams generate more creativity and better decision-making, for example. Therefore, companies with more diverse Boards tend to have higher returns and lower risk profiles[12]. High performing teams tend to be both cognitively and demographically diverse[13]. Additionally, diverse companies attract talent[14], and inclusive work cultures are more likely to be innovative and achieve better results. With all this in mind, we asked companies several diversity-related questions during this year's engagement season.

### 2.3.3 VBDO'S EXPECTATION FROM ENGAGEMENT

VBDO encourages companies to commit to enhancing diversity. Companies should develop a comprehensive diversity (and inclusion) policy and/or strategy to improve the diversity of the company's workforce, activities and suppliers. The next step for companies is to assess the organisation's own diversity profile, leading to more transparency about diversity.

Companies should also ensure that they have robust systems and policies in place so that employees are able to report any issues, e.g. sexual harassment, and to mitigate the risk of such issues arising in the first place Additionally, companies that provide detailed information about the topic and training methods in place are more likely to foster a proper understanding of diversity throughout the company.

Once a company has a clear overview of the topic and knows whether there are any issues that need to be tackled within the organisation, it can then roll out a recruitment and promotion strategy that ensures non-discrimination against any demographic group. VBDO expects companies to carry out audits on the implementation and execution of their diversity strategies, for instance by assessing, communicating and addressing the gender pay gap within the company. Conducting audits enables companies to see where there is still room for improvement. This should result in companies setting relevant diversity targets and KPIs for different levels of the organisation.

Finally, companies can emphasise their ambitions concerning diversity by signing pledges, such as the UN Women Empowerment Principles and the charter Talent naar de Top.

### 2.3.5 WHAT HAVE WE ENCOUNTERED?

#### A comprehensive policy does not necessarily mean effective implementation

VBDO found that many companies have updated their diversity policy this year or are planning to do so next year. Additionally, of course, every company must abide by the Dutch constitution and so prohibit discriminatory conduct. However, prohibiting discrimination does not address the obvious inequalities in society. If a company does not have specific actions in place when it comes to actually implementing a policy, then it will likely have little effect. Therefore, as well as designing a diversity policy, companies need to know how they're going to implement it. This policy should work to address all main inequalities, including (but not limited to) race, religion, gender, disability and sexual orientation. A recent example of a company implementing its diversity policy successfully is ING, which introduced a 70% principle striving for a 30% difference in team composition. By introducing this principle, ING is acknowledging that the company needs to do more, e.g. to make the gender, age and nationality balance more representative, in teams across all layers of the organisation.

Table 6: **Commitments on D&I Policy**

| Commitments on the further development of a comprehensive D&I policy/strategy |
|---|
| Fugro |
| KPN |
| ASML |
| Unibail-Rodamco-Westfield |
| NN Group |

# 2.3.4 Diana van Maasdijk of Equileap on Gender Diversity

Gender diversity is an area where Dutch companies have room for improvement. There have been some recent developments in Dutch legislation that may support this transition. Firstly, the parliament voted last December in favour of legislation that requires listed companies to have at least 30% of women on their supervisory boards. Secondly, following an increase of paid paternity leave from two days to five in 2019, as of July 2020, fathers will be entitled to six weeks of paid paternity leave - a significant improvement.

Interestingly, the leading company on this VBDO theme, Unilever, is also the top Dutch company in our 2019 global ranking. Unilever stands out for its policies on living wage, global parental leave and anti-sexual harassment. It is very telling that 93% of the companies in VBDO's survey have a formal commitment to enhance diversity but, when it comes to having actual targets and objectives for gender diversity, that number drops to 13%.

You cannot change what you cannot measure. The first step in reaching gender equality is to assess where we stand. That is exactly why we launched Equileap, and are now thoroughly assessing the 3,500 biggest companies globally on gender equality, using 19 criteria.

A first step for Dutch companies willing to improve would be to set gender balance targets for each level of the company. Our data shows particularly low percentages of women in senior management and at the executive level. A second step would be to measure and report the company's gender pay gap, as very few companies in the Netherlands currently do so. Only one, KPN, had no pay gap in 2019 (i.e. it published a mean overall gender pay gap of less than 3%).

Lastly, implementing and promoting policies that support gender equality in the workplace, such as flexible work hours/locations and anti-sexual harassment policies, help to attract diverse talents and retain them, ultimately building a stronger, more diverse company.

The coronavirus situation has created a huge shift in how we work and what the workplace looks like. Will employers recognise the triple burden that some women are facing at the moment? Or will women face a higher unemployment rate?

As companies adapt and restructure, this could be a chance to pay greater attention to diversity and inclusion, adding a gender lens to workforce strategies and policies.

**Diana van Maasdijk**
Co-Founder and
Executive Director at Equileap

**About Equileap**

Headquartered in Amsterdam, Equileap is the leading provider of data and insights on gender equality in the corporate sector. Equileap researches and ranks over 3,000 public companies around the world using a unique and comprehensive Gender Equality Scorecard™ with 19 criteria, including the gender balance of the workforce, senior management and board of directors, as well as the pay gap, parental leave, and sexual harassment.

Companies should also strive to learn from each other and listen to their employees and the communities that they operate in. This year, VBDO had dialogues with companies about launching programmes that foster conversations, mutual understanding and learning between all employees throughout the organisation. A logistics employee can learn from the CFO; a marketing manager can learn from a factory worker and so on. VBDO encourages companies to have interaction methods in place to enhance the internal understanding of diversity. For this reason, we were pleased that PostNL expanded its onboarding process by including a mentoring programme. The mentor, who may be from another department, layer or background, introduces the job and answers any questions or concerns the new employee may have.

### If you're aware of the gender pay ratio (gap), be honest about it

Generally speaking, women are often still disadvantaged compared to men. On average, women in the European Union earn approximately 16% less than men. Organisations that treat their employees fairly may see an increase in productivity due to higher morale and employee commitment. Such companies can also find it easier to recruit and retain a skilled workforce as well as to sustain or improve their reputation. During this year's engagement season, VBDO discussed this topic with all 37 companies and asked a total of 23 questions relating to the gender pay gap at the AGM's. As a result, ten companies committed to researching and/or publishing their (possible) gender pay gap (mean and adjusted) for three different levels of the entire workforce (general workforce, senior management and executives). Some of these companies also mentioned correcting a possible gap in pay, when imparity is found. VBDO will continue engagement on this topic and hopes to find improvements in closing the possible gender pay gap.

### Diversity beyond gender

In 2017, 26% of the management positions in companies were occupied by woman[15], putting the Netherlands in the 24th position within the EU (out of a total of 28). Clearly then, gender inequality is still an issue and companies need to step up their efforts to close this representation gap. The gender pay gap also needs addressing, as it is currently 15% in the Netherlands. Almost all of the companies within our scope have been making an effort over the last year to have fairer and more equitable gender representation.

However, diversity and inclusion need to extend beyond gender alone. Companies need to ensure that all people are represented and heard. 54% (20 out of 37) of the companies in our scope currently have specific systems and or projects in place beyond gender. The last couple of years we've seen LGBTI networks, diverse talent campaigns and buddy systems really taking off and gaining ground amongst employees. One of those organisations successfully advocating for LGBTI equality within the workforce is Workplace Pride.

Table 7: **Commitments on gender pay gap**

| Companies committing to report on the gender pay gap | |
|---|---|
| Arcadis | Van Lanschot Kempen |
| RELX Group | OCI |
| SBM Offshore | Altice |
| Philips | Randstad |
| ING Group | |

Workplace Pride THE INTERNATIONAL PLATFORM FOR LGBTI INCLUSION AT WORK

**LGBTI network: Workplace Pride**

**Based in Amsterdam, Workplace Pride's activities include both the Netherlands and many countries around the world. The organisation strives, using over a decade's experience and accumulated knowledge to push the boundaries of LGBTI inclusion in the workplace. It supports companies by awareness raising, measurement, research, training and network building through targeted events.**

### Setting relevant KPIs and targets

We recognise that companies often struggle to define and communicate their performance on diversity using common indicators and targets. As a stakeholder, we believe it is important for companies to identify the diversity profile of their organisation; however, we appreciate that this is often difficult due to cultural and legal constraints. We are fully aware of these barriers and different approaches between countries. We encourage companies to record and disclose diversity in two ways: voluntary documentation through surveying employees, and/or coupling databases with information about employees and jobs. Measuring employee engagement will allow companies to determine their points of improvement concerning diversity. VBDO was pleased to find that Unilever, Fugro and RELX Group, among others, are already setting relevant targets and KPIs for multiple aspects of diversity throughout different levels of their respective organisations.

Measure the degree of inclusion – make people belong
Diversity and inclusion... While many organisations are measuring the first one, the second one may still cause confusion. Diversity and inclusion are distinct terms for different concepts. Yet, both are critical to developing a healthy workforce. Many companies still question how to measure inclusion. Simply put, inclusion is about belonging. Therefore, companies can use multiple questions in engagement surveys to gain an understanding of whether employees feel that they belong. Statements can also be given for employees to respond to. These could include: "My ideas and suggestions are heard", "This organisation values my work and input", "My boss treats me with dignity and respect" and "I can be myself".

Table 8: **Highlighted commitments on Diversity**

| Companies | Highlighted commitments on labour conditions in the supply chain (see Appendix II for full list of commitments) |
|---|---|
| Unibail-Rodamco-Westfield | Unibail-Rodamco-Westfield will communicate internally and externally on its new Diversity and Inclusion Framework (which focuses on all forms of diversity) in 2020. |
| Van Lanschot Kempen | Van Lanschot Kempen will report on the company's analysis of the gender pay gap (for three levels) in 2020. |
| OCI | OCI will work on diversity and inclusion targets and communicate about progress made in due course. |
| ASML | ASML aims to develop additional activities related to diversity and roll out its updated diversity, integrity and gender strategy at the end of 2020. |
| RELX Group | RELX Group will start to provide manager training on pay principles and equal pay and consider expanding commitments in this area. |
| KPN | KPN will broaden its diversity scope towards gender, LGBTI, cultural diversity and disabilities and report on this in next year's annual report. |

Every organisation is in a different stage of its maturity, but engaging with employees is an ongoing process. Having specific goals for inclusion, and regularly measuring progress, is key. 78% (29 out of 37) of the companies within our scope have measured their inclusion rate. We expect this number to increase in the years to come as more companies begin to understand the value of an inclusive workforce.

### Diversity in responsible investment (RI) instruments

The financial institutions within our scope are, in most cases, relatively active on the topic of diversity, and we are pleased to see companies committing to enhancing diversity and inclusion within the organisation itself. Although most of these organisations are relatively large, the biggest impact most can make relates to their portfolio. By integrating the topic of diversity within their RI, active ownership and/or ESG policies, financial institutions can make a much larger impact, as they finance and invest in a multitude of companies around the world. Shareholders, like VBDO, and the financial institutions themselves should take responsibility on the topic of diversity and ensure it is integrated into their RI strategy.

This engagement season, we have seen diversity included in the RI policies of three financial institutions. However, policies are still not very comprehensive and mostly cover gender. VBDO advises financial institutions to start discussions aimed at integrating all aspects of diversity within RI policies and instruments.

## 2.4 OTHER ENGAGEMENT TOPICS

### Introduction

As well as engaging on our three ESG themes, VBDO also engages on other topics that are material to the companies within our universe. To do this, we work to develop a solid understanding of the different companies we engage with and their current situations, as well as their previous commitments. We also strive to keep abreast of new developments and innovations by, for example, monitoring relevant news items and external reports. We use this research to identify key topics to discuss with companies.

VBDO scrutinises the strategic performance of every company in scope. If needs be, we aim to ask any performance-related questions during the pre-AGM call. Usually, this means there is no need to address this at the actual AGM.
Additionally, VBDO has engaged with companies on climate mitigation for the past few years. Therefore, we expect progress to have been made on this specific topic. To ensure that this is the case, we asked several

Table 9: **Questions on other engagement topics**

| Topic of question | # of questions | # of commitments |
|---|---|---|
| Targets in line with Paris Climate Agreement | 7 | 2 |
| Strategic company performance | 2 | N/A |

Table 10: **Commitments on climate mitigation**

| Companies | Highlighted commitments on labour conditions in the supply chain (see Appendix II for full list of commitments) |
|---|---|
| Wereldhave | Wereldhave aspires to report on its 2030 science-based target in the next annual report. |
| Van Lanschot Kempen | Van Lanschot Kempen has committed to align the company's climate mitigation targets with the Paris Climate Agreement, when science-based targets and $CO_2$ data are available. |

questions this year to ensure that companies are aligning their emission reduction targets with the Paris Climate Agreement, and participating in climate-related benchmarks.

Reducing $CO_2$ emissions is at the forefront of sustainability discussions with Dutch companies. $CO_2$ 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 100 of the largest companies emit 71% of global industrial $CO_2$ emissions between them, companies hold the key to 'reach Paris'. VBDO asked questions about aligning $CO_2$ reduction targets with the Paris Climate Agreement seven times. Not surprisingly, we have engaged with companies in the 'Industries' and 'Financial' sectors, given their relatively large impact on global warming and opportunities to mitigate it. We followed up on seven out of 12 of last year's commitments on this topic, and are pleased to report that two companies made new commitments to publish targets for emissions reduction.

### The financial sector and $CO_2$ emissions reduction targets

The financial sector has an important role to fulfil in the transition to a low carbon economy. It is ideally placed to raise the subject with heavy-emitting companies in engagement conversations. It can also assist the transition by investing in low-carbon technologies and by divesting from heavy-emitting industries.

This work is already demonstrated in the Partnership for Carbon Accounting Financials (PCAF), a global partnership of financial institutions. The institutions are collaborating in order to develop and implement a harmonised approach to assessing and disclosing the greenhouse gas (GHG) emissions related to their investments. This approach should provide financial institutions with the starting point required to set science-based targets and align their portfolio with the Paris Climate Agreement. PCAF enables transparency and accountability and will develop an open-source global carbon accounting standard for financial institutions.

The initiative was launched via a Dutch Carbon Pledge, which called on the negotiators at the Paris Climate Summit in 2015 to take ambitious steps in tackling carbon emissions. At the same time, the financial institutions that signed the pledge committed to play their part in supporting the transition to a low carbon economy, starting with measuring and disclosing the GHG emissions of their loans and investments.

### Participation in the CDP benchmark and implementing the TCFD recommendations

VBDO encourages companies to participate in climate-related benchmarks, such as the CDP, in order to provide transparency to stakeholders. TCFD has designed guidelines to support companies with integrating climate-related risks and opportunities into strategies. Some companies have made a formal commitment to reach climate neutrality by 2050. Such an ambition should be accompanied by publicly disclosing climate-related information in annual benchmarks, such as the CDP's. VBDO considers it a sign of a company's maturity to participate in climate-related benchmarks as it provides insight in the performance of a company for its management, employees, stakeholders and shareholders.

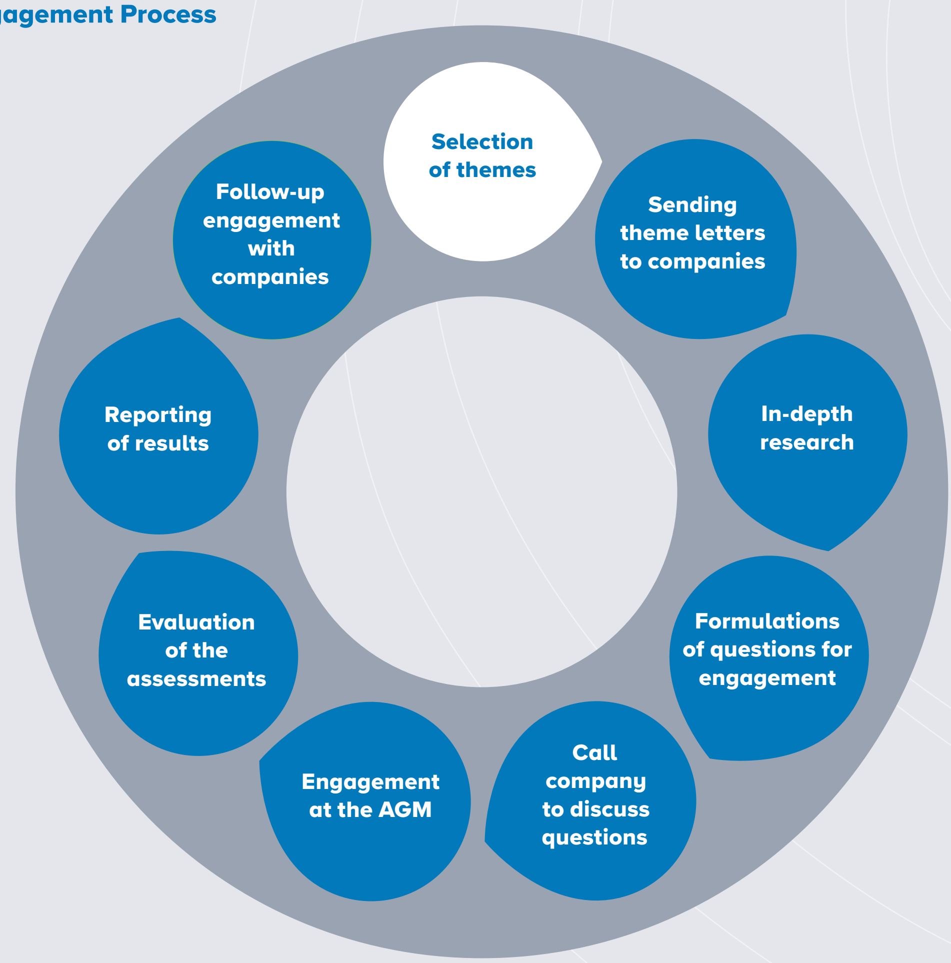
Table 11: **Disclosure of climate-related information**

| Disclosure of climate-related information | # of companies | # of questions |
|---|---|---|
| Participation in CDP benchmark | 30 | 5 |
| Reference to the TCFD recommendations | 23 | 8 |

# Appendix I - Engagement process

In total, 37 out of 37 companies participated in (pre-) engagement meetings or calls with VBDO. A member of the Board of Directors was present four times during these calls or meetings. VBDO strives to enter into a positive dialogue with companies, so we aim to do rigorous research beforehand and formulate our questions in a constructive manner.

Figure 3: **Engagement Process**

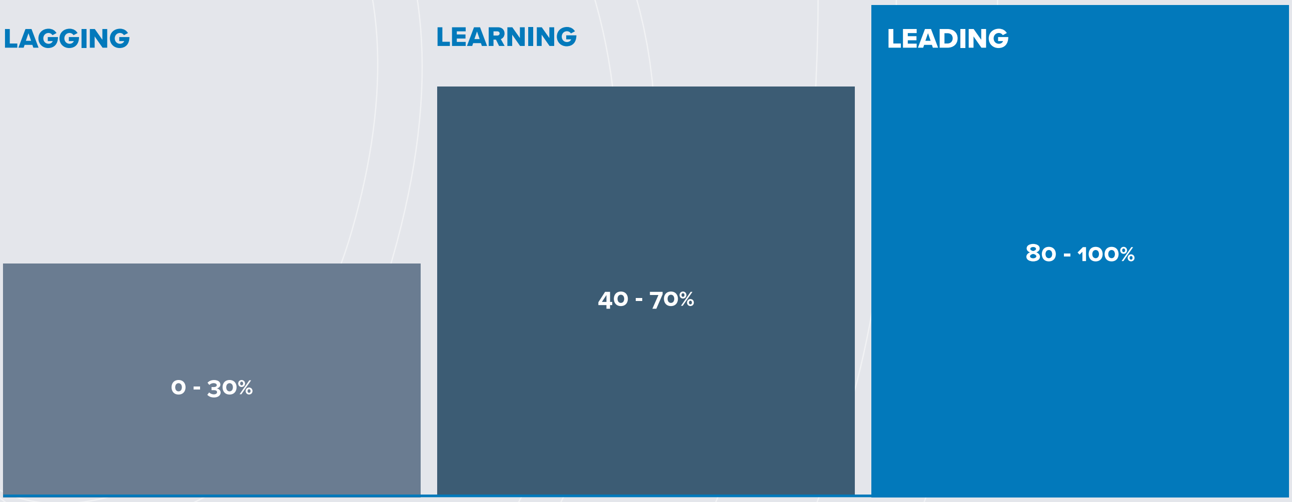



VBDO selects three priority themes for AGM engagement. These are chosen on the basis of international sustainability trends, regulation and prominent issues, following consultations with the companies in VBDO's scope, as well as discussions with VBDO's members and sustainability experts.

The selected priority themes for 2020 were shared with the companies that VBDO engages with, in a letter to the Board of Directors of each company. VBDO assesses relevant issues per selected company for each theme, in order to ensure that engagement is constructive and impactful. We engage on our priority themes for a minimum of three consecutive years, in order to measure progress.

**Impact of engagement**

We track our impact in several ways. An obvious point of measurement is the amount of relevant commitments that companies make each year following our engagement. This year VBDO took a further step, by introducing a categorisation system to publicly keep track of the impact of our engagement. Before we engage with a company, we score it per theme based on its maturity level. In this process. companies are given the opportunity to provide feedback on their score. This enables us to ask the right questions and track the impact of our engagement over the years that we engage on a specific topic. A company's score dictates which of three categories we place them in:




**Company selection for 2020 engagement season**
VBDO did not add any additional companies to its scope for engagement in 2020. In both 2019 and 2020 37 companies were engaged, compared to 39 companies in 2018.

Due to the COVID-19 crisis, it was not possible for us to attend AGMs in person. Fortunately, 35 of the companies held a virtual AGM, which we were able to attend. Two AGMs (RELX & Unibail-Rodamco-Westfield) that we could not previously attend in person were accessible to us this year due to them being held virtually. Two companies (Shell & ArcelorMittal) did not allow stakeholders to attend their AGMs virtually.

**Basis of selection for engagement**
- → Presence in the AEX index;
- → If no relevant peer is included in the AEX index, at least one peer in the AMX or AScX indices (AMX, AScX);
- → and/or companies VBDO deemed necessary to engage with based on their sustainability performance.

**Nature of questions**
We ask a number of questions to companies. On the whole, these relate to:
- → VBDO's priority themes;
- → transparency issues;
- → themes of particular relevance to the company;
- → commitments made in previous engagement seasons;
- → the company's presentation or other relevant information revealed during the AGM.

# Appendix II – List of 2020 engagement season commitments

**Aalberts (Industries)**
- → Aalberts will expand its initiatives to enhance (gender)diversity within the company in 2020.

**ABN AMRO (Financials)**
- → ABN AMRO will start a dialogue with other banks on how they can protect customers from the effects of climate change and find a joint solution.

**Aegon (Financials)**
- → Aegon commits to disclose specific engagement case studies related to labour rights and conditions when these have reached sufficient progress.

**AkzoNobel (Industries)**
- → In 2020, AkzoNobel aims to accelerate its supplier programme by requesting improvements from the suppliers under development and inviting more suppliers to take part in the assessment.
- → AkzoNobel will request EcoVadis to provide more transparency on their data and assessment to external stakeholders.

**Altice (Services)**
- → In 2020, Altice will participate in the CDP-benchmark and report on the company implementing the TCFD-recommendations.
- → Altice will consider publishing relevant results and targets on labour conditions in the supply chain for 2020.
- → Altice will consider reporting on the gender pay gap in the company's Annual Report of 2020.

**Arcadis (Services)**
- → Arcadis will provide more transparency about male/female pay ratios within the organisation.

**Arcelor Mittal (Industries)**
- → ArcelorMittal intends to increase the implementation of the IRMA-standards at its mine sites and will seek commitment for certification with its raw material suppliers.

**ASM International (Technology & Electronics)**
- → ASM International will include its operations, communities where the company operates and the supply chain in the scope of its climate scenario analysis.
- → ASM International will further collaborate with peers, in RBA-member capacity, to achieve greater transparency on labour conditions in the supply chain.

**ASML (Technology & Electronics)**
- → ASML aims to develop additional activities related to diversity and roll out an updated diversity, integrity and gender strategy at the end of 2020.

**a.s.r. (Financials)**
- → a.s.r. commits to improving its due diligence processes and further aligning them with the UNGP.

**Boskalis (Industries)**
- → In 2020 Boskalis will update its Code of Conduct and include the topic of Living Wage
- → Boskalis aims to intensify the dialogue with the financial sector (with VBDO as a facilitator) on financing climate adaptive solutions.
- → In 2020 Boskalis will update and publicly disclose its diversity policy.

**Corbion (Industries)**
- → Corbion will include the outcomes of the in-depth climate-related risk & opportunity assessments in the company's response to the CDP Climate Change survey and in the Annual Report of 2020.
- → Corbion aims to implement additional tools to further integrate its D&I strategy, e.g. D&I workshops on global scale.

**DSM (Industries)**
- → DSM will engage with EcoVadis and its peers in Together for Sustainability to improve transparency about the assessment and the performance of its supply chain.

**Fugro (Services)**
- → Fugro will report on the progress and outcomes of its diversity roadmap in next year's annual report.

**Heineken (Food, Beverage & Retail)**
- → Heineken will report on progress and results of its new water strategy in the coming years.
- → Heineken hopes to have a first overview of the gender pay ratio in this year or the next.

**ING Group (Financials)**
- → ING will update the market on its climate-related actions and results in 2020
- → ING will aim to create a global overview of job levels in order to begin to asses and compare salaries of men and women in like-for-like jobs.

**KPN (Services)**
- → KPN will broaden its diversity scope towards gender, LGBTI, cultural diversity and disabilities and report on this in next year's annual report.

**NN Group (Financials)**
- → NN Group will publish an updated statement on Diversity & Inclusion and go beyond the topic of gender (early 2021).

**OCI (Industries)**

- → OCI aims to broaden its climate related disclosure next year and either report according to SASB or TCFD.
- → OCI will work on diversity and inclusion targets and communicate about progress made in due course.
- → OCI will analyse the potential gender pay gap within the company and provide further information on this to its stakeholders in due course.

**Philips (Technology & Electronics)**

- → Philips will scale up and harmonise its gender pay ratio analysis in the coming years. After that, the company commits to review public disclosure.

**PostNL (Services)**

- → PostNL will take climate adaptation in consideration when engaging with clients and partners, possibly leading to an additional assessment of physical climate risks.
- → PostNL will engage with stakeholders on labour conditions risks and PostNL's role in this as well as to determine possible next steps.

**Randstad (Services)**

- → Randstad will measure its impact on the value chain and share auditable results with the company's stakeholders in the coming years.
- → Randstad aims to report on the gender pay gap in 2020.

**RELX Group (Services)**

- → RELX Group will create an ethical supplier channel on the company's training portal, concentrating on suppliers located in high risk areas.
- → RELX Group will start to provide manager training on pay principles and equal pay as well as to consider expanding the company's commitments on this topic.

**SBM Offshore (Services)**

- → SBM Offshore will further develop climate change scenarios and the company aims to further expand its long-term horizon.
- → SBM Offshore will consider consulting with local authorities and/or NGO's in relation to the company's physical climate risk analysis.
- → SBM Offshore considers reporting on the gender pay ratio and will consult its auditors on how to move forward on this topic.

**Signify (Technology & Electronics)**

- → Signify states that it will keep a target for supplier sustainability in the company's next five-year programme (2021-2025).
- → Signify will increase its efforts to improve the number of women in leadership roles within the company.

**Sligro (Food, Beverage & Retail)**

- → Sligro aims to report on climate scenario analysis relating to the most material product groups.
- → Sligro will consider reporting in more detail on progress related to the implementation of the company's supplier requirements.

**TKH Group (Technology & Electronics)**

- → TKH will organize a stakeholder dialogue in which, among other topics, the TCFD-recommendations will be discussed.
- → TKH will review how the company can improve transparency on its due diligence process.

**Unibail-Rodamco-Westfield (Food, Beverage & Retail)**

- → Unibail-Rodamco-Westfield will communicate internally and externally on its new Diversity and Inclusion Framework (which focuses on all forms of diversity) in 2020.

**Van Lanschot Kempen (Financials)**

- → Van Lanschot Kempen has committed to align the company's climate mitigation targets with the Paris Climate Agreement, when science-based targets and $CO_2$ data are available.
- → Van Lanschot Kempen will report on the internal analysis of the gender pay gap (for three levels within the company) in 2020.

**Wereldhave (Food, Beverage & Retail)**

- → Wereldhave aspires to report on its 2030 science-based target in the next annual report.
- → Wereldhave will review and update its Supplier Code of Conduct next year.

# Abbreviations and references

| | Abbreviations |
|---|---|
| AEX | Amsterdam Exchange Index |
| AGM | Annual General Meeting |
| AMX | Amsterdam Midkap Index |
| AScX | Amsterdam Small Cap Index |
| CBS | Centraal Bureau voor de Statistiek (Central Bureau of Statistics) |
| CDP | Carbon Disclosure Project |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| COVID-19 | Coronavirus Disease 2019 |
| CSR | Corporate Social Responsibility |
| D&I | Diversity & Inclusion |
| ESG | Environmental, Social & Governance |
| ESR | Environmental and Social Risk |
| EU | European Union |
| FBR | Food, Beverage & Retail |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GRI | Global Reporting Initiative |
| ILO | International Labour Organization |
| IPCC | Intergovernmental Panel on Climate Change |
| IRMA | Initiative for Responsible Mining Assurance |
| ITUC | International Trade Union Confederation |
| KPI | Key Performance Indicator |
| LGBTI | Lesbian, Gay, Bisexual, Transgender or Intersex |
| NGO | Non-governmental organization |
| OECD | Organisation for Economic Co-operation and Development |
| RBA | Responsible Business Alliance |
| RCP | Representative Concentration Pathways |
| RI | Responsible Investment |
| SASB | Sustainability Accounting Standards Board |
| SDGs | Sustainable Development Goals |
| SER | Sociaal-Economische Raad (Dutch Social and Economic Council) |
| T&E | Technology & Electronics |
| TCFD | Taskforce on Climate-related Financial Disclosure |
| UNGP | United Nations Guiding Principles on Business and Human Rights |
| US$ | United States Dollars |
| VBDO | Vereniging van Beleggers voor Duurzame Ontwikkeling (Association of Investors for Sustainable Development) |

## References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