Colofon

Vereniging van Beleggers voor Duurzame Ontwikkeling (VBDO)
Pieterstraat 11, 3512 JT Utrecht
+31 (0) 30 234 00 31 | info@vbdo.nl

AGM Engagement Report 2021

Setting the pace

Accelerating and decelerating sustainability in times of crisis

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Accelerating or decelerating sustainability in times of crisis

Lead
Mart van Kuijk

Research
Mattia van der Laan | Leonora Verveld

Contributions from
Paul Polman | Frank Altena | Ilonka de Beer | Dieuwertje Bosma | Erik van Buuren Stefanie Claessens-Jansen | Pieter Fortuin | Miriam van Gool | Liesbet Hanekroot Hugo van Hees | Sara Heinsbroek | Edwin Janssen | Angélique Laskewitz | Noortje Magis Dylan McNeal | Rishma Moennasing | Jelmer Mulder | Denise Reike | Karin Roeleveld | Marjan Staal | Mathieu Sueters | Robert Takken | Jonna Tjapkes | Martijn Visser

Interviews with
Anne Lafarre | Diana Visser | Jan-Willem Vosmeer | Michael Weber

For information please contact
Mart van Kuijk | Project Manager
Mart.vankuijk@vbdo.nl | + 31 (0) 30 234 00 31

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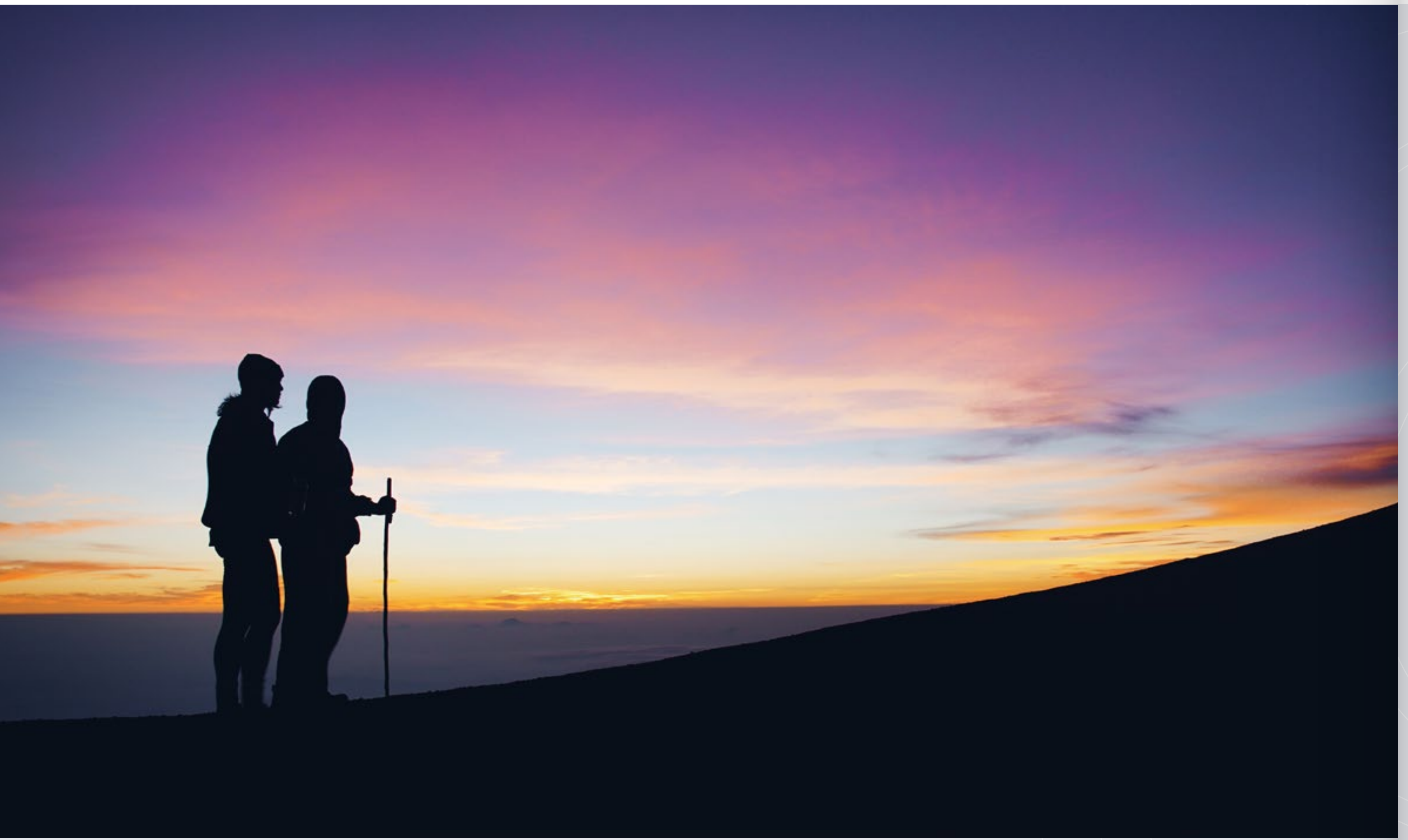
About VBDO

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 26 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



The coronavirus pandemic is a health and economic crisis like no other, which is dramatically impacting lives and livelihoods. Regrettably, it comes on top of multiple unnerving challenges facing humanity, the most urgent being gross inequality and runaway climate change. It is imperative, therefore, that we build back better by constructing a fairer and greener economy that works for both our people and our planet.

Every sector of society needs to be fully engaged, but the private sector and financial markets can play a crucial role, given their considerable resources, innovation, connectivity and know-how.

Top of the agenda must be shifting to a new model of moral capitalism that prioritises inclusive and sustainable growth above growth at any cost. This means abandoning the broken doctrine of shareholder primacy and focusing instead on stakeholder primacy.

Fortunately, many corporates are now putting purpose at the heart of their operations and embracing long-term, multi-stakeholder models. This includes taking bold climate action, improving energy efficiency and the use of renewables, deploying circular and regenerative value chains, embracing 'nature-based solutions' to protect biodiversity and accelerating the transformation of food systems. All of this needs to be done in close partnership with others in order to move at speed and scale.

This is exactly the kind of enlightened approach to business now expected by regulators, employees and consumers. It also happens to present the biggest opportunity for success, as there is now mounting evidence that purpose fuels profits by helping firms to build greater customer loyalty, attract and retain top talent and incubate more innovations. And those companies most intent on unlocking their full potential are using the UN Sustainable Development Goals as the foundation for their business plans. Worth $12 trillion and 380 million jobs a year by 2030, this could be the growth story of the century.

Shifting capital markets to a long-term focus must also be a priority. More than ten years after the financial crisis, short-termism still too often prevails.

> "VBDO deserves huge credit for the enormous contribution it makes in promoting responsible business"

The average holding for shares in a public company is now just four months; the average lifespan of a company listed in the S&P 500 is just 15 years; and the average tenure of CEOs is only four and a half years. This ecosystem simply doesn't enable us to address long-term challenges and opportunities.

It would be wrong, however, to lose faith because of this economic diagnosis, as it's still perfectly feasible to reverse this endemic short-termism. The prescription includes ensuring that companies reinforce their net-zero pledges with science-based targets, otherwise known as 'business NDCs', shifting from voluntary to mandatory corporate climate disclosures, aligning investment and lending portfolios with the Paris Agreement and establishing a global 'taxonomy' to unlock trillions of dollars of investments in the most sustainable firms.

VBDO deserves huge credit for the enormous contribution it makes in promoting responsible business as the new normal and long-term, sustainable investing as the baseline for improved financial returns. Thank you for your unwavering commitment to this crucial agenda, and I hope to see many more years of continued success in driving positive change through your highly respected benchmarking and knowledge-sharing activities.

Paul Polman
Co-Founder of IMAGINE

Preface

Dear reader,

We will not easily forget the last 18 months, but we will all remember them differently. Some of us will look back at this year with a feeling of success and others will remember waiting for better times as state funding kept their employees on board. It has been a year of winners and less fortunates. What has really surprised me is the way that companies and CEOs have dealt with their organisation's specific situation. Each step taken has been closely followed by the public, a sign that society demands responsibility from the private sector.
This year confronted us with unforeseen problems, which have required us to be resilient. At the time of writing this report, EU economies are opening up again after a long period of restrictions. Now, we need to ask ourselves the question: "How will this crisis influence the way we move forward? Are we setting the right pace?"

We believe it to be vital that VBDO, after 26 years, continues to engage with the largest Dutch stock-listed companies on how they are, or why they aren't, making progress on sustainability.
We are glad that the companies in our investment scope have listened to our shared AGM statement advocating for more interaction at general meetings.[1] Almost all companies provided an opportunity to ask follow-up questions, compared to just over half last year. This provided room for dialogues instead of monologues.

"We believe it to be vital that VBDO, after 26 years, continues to engage with the largest Dutch stock-listed companies on how they are, or why they aren't, making progress on sustainability"

We do see the advantages of digital AGMs and we find it likely that hybrid meetings will continue to be the standard going forward. Nonetheless, we've found that digital AGMs are not as well attended as pre-COVID physical meetings. We are curious how companies will tackle this decreased interaction with their shareholders. What we do know is that there is still room for innovation, and we have seen several interesting examples this year, such as live call-ins through video connection. It felt good having 'real' interactions. All in all, VBDO does prefer to be present physically to maximise engagement and therefore impact.

The changed structure of AGMs is far from the only change due to COVID-19. What has become increasingly clear through the current health crisis is that our economic and social systems are easily disrupted. The global response to COVID-19 is shifting the focus of the international community away from making progress on our shared Sustainable Development Goals, such as advancing inequality, safeguarding biodiversity and reducing poverty. Nonetheless, it is apparent that companies are becoming more aware of salient issues, such as water accessibility, plastic pollution and child labour, and that they are increasingly integrating transition and physical risks, especially those related to climate change, into their risk management processes.

In a year that many net-zero strategies saw daylight, VBDO has engaged on the topic of climate adaptation for the third consecutive year. It is very clear that companies have become much more aware of the physical climate risks, as 75% now report on these (compared to 30% in 2019). This fits within a bigger trend of becoming more aware of what is happening outside of the company.

Adopting a broader perspective can also be observed in the mechanisms that companies are developing to identify human and labour rights risks in the supply chain. As VBDO is eager to follow the outcomes of these mechanisms, we continue to ask for more transparency in reporting on labour conditions.

Personally, I am very excited about the new phase that the diversity and inclusion debate has entered into. Last year, we experienced several external events that really moved the needle on this topic. Companies seem to have finally become aware of the advantages of a diverse and inclusive organisation, in addition to recognising the ethical duty they have to treat everyone equally.

Over the coming years, we expect that the expectations for companies on sustainability will be raised. The EU Taxonomy will lift the bar on sustainable activities; the Corporate Sustainability Reporting Directive (CSRD) will ensure alignment in reporting; the Netherlands will set a quota for women in Board positions and due diligence will become mandatory. VBDO has been engaging on these topics for years. You can trust that we will stay at the forefront of the debate and keep on pushing the bar up.

This report would not have been possible without our members and partners in the Netherlands and in other parts of the world. VBDO will continue to deliver on both the premise and promise of making the capital markets more sustainable. I would like to thank, in particular, our sector commission members, who provide expert knowledge throughout the engagement season, and our employees for their hard and passionate work.

Angélique Laskewitz
Executive Director of VBDO

[1] het Financieele Dagblad-Belangenclubs: tweede digital vergadering moet beter. (https://fd.nl/beurs/1372450/belangenclubs-tweede-digitale-aandeelhoudersvergadering-moet-beter)

Highlights from VBDO's 2021 AGM engagement season

139 QUESTIONS ASKED

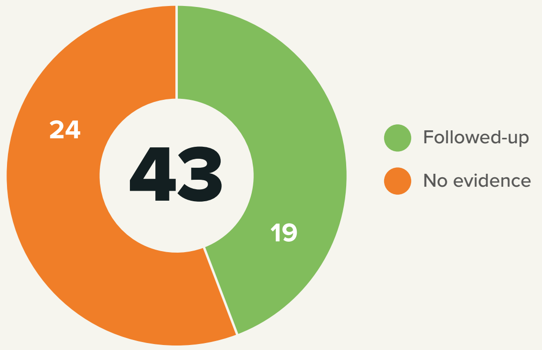
37 COMPANIES ENGAGED

59 COMMITMENTS

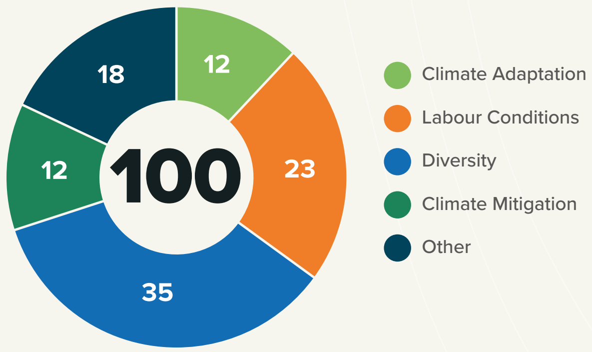
35 AGMS VISITED

3 BOARD ROOM VISITS

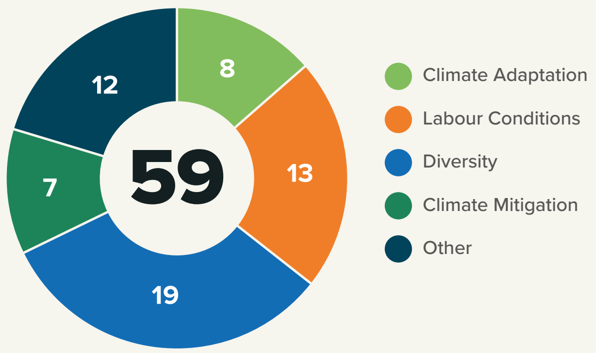
Graph 1: **Commitments 2020**



Graph 2: **Questions 2021**

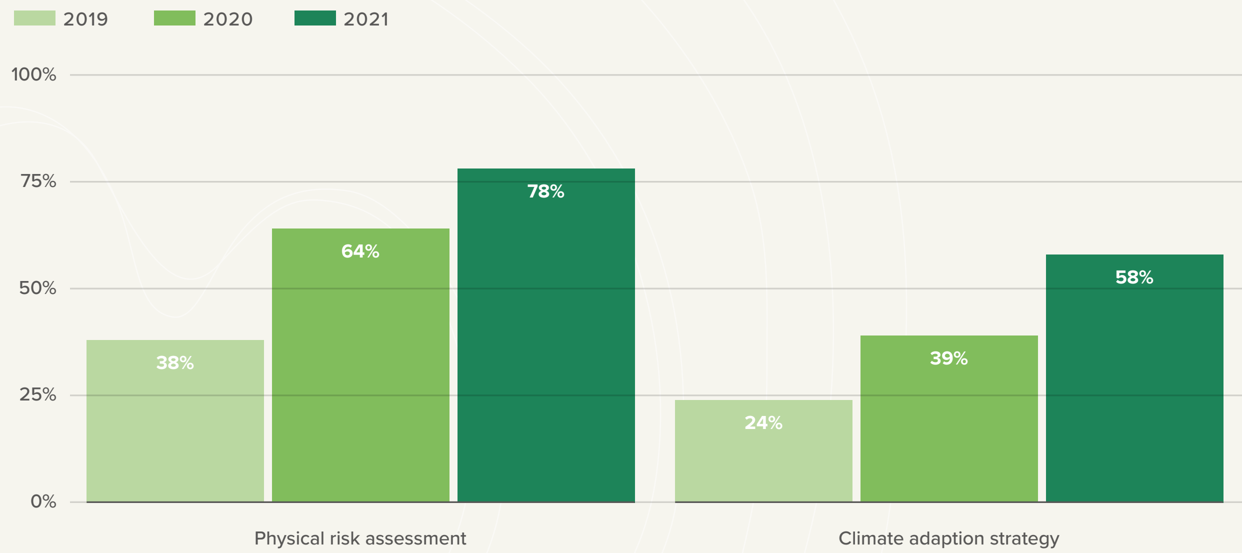


Graph 3: **Commitments 2021**

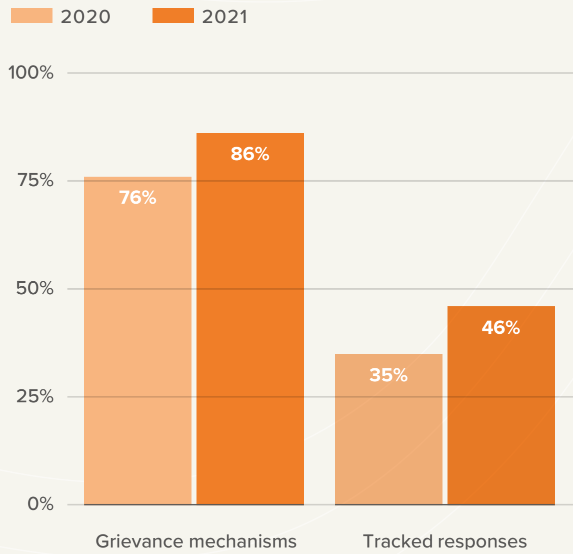


Impact Highlights from VBDO's 2021 AGM engagement season

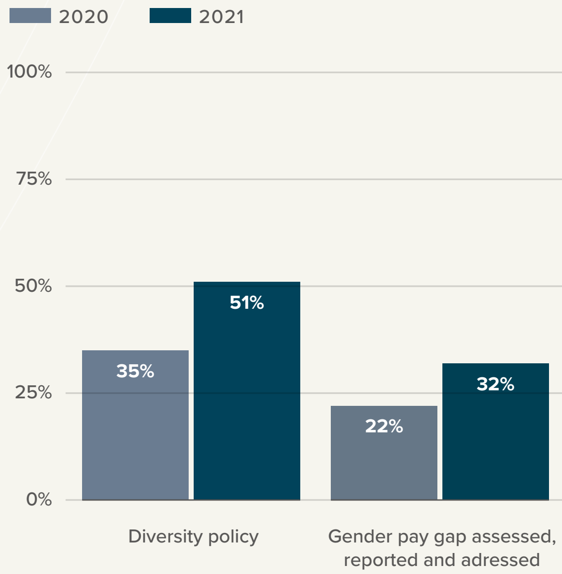
Graph 4: **Climate adaptation – impact highlights**



Graph 5: **Labour conditions in the supply chain – impact highlights**



Graph 6 : **Diversity – impact highlights**



1. Executive Summary

For the second consecutive year, our engagement activities have been fully digital. The 38 companies within our investment scope, all impacted in different ways by the global pandemic, had a full year to prepare for their annual general meetings of shareholders. Overall, 2021 was a successful engagement season, with 59 commitments made and nine companies moving from the Learning to Leading category in all three focus themes. Key results include:

Climate adaptation | Progress has been made regarding climate adaptation strategies; however, the assessment of second-order risks and public co-benefits is still lagging.

Labour conditions in the supply chain | Progress has been made regarding passive human rights due diligence; however there's still a long way to go before active due diligence is the norm.

Diversity | Steady progress has been made on diversity policies, but too few diversity and inclusion implementation plans are based on robust data and analysis.

Compared to last year, we have seen the discussion shift from a mostly reactionary stance, due to COVID-19, to a more proactive stance looking at the road ahead. As also mentioned by Paul Polman in the foreword of this report, we hope that this dialogue will continue to move the narrative towards prioritising inclusive and sustainable growth and away from shareholder value at any cost.

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 company commitments can be found in appendix II.

CLIMATE ADAPTATION: PROGRESS HAS BEEN MADE REGARDING CLIMATE ADAPTATION STRATEGIES; HOWEVER, THE ASSESSMENT OF SECOND-ORDER RISKS AND PUBLIC CO-BENEFITS IS STILL LAGGING.

In the last 30 years, roughly the existence of VBDO, the average temperature in the Netherlands has increased by 1.1°C.[2] This change of the local temperature, which is twice as significant as the global temperature increase, results in current and foreseen physical effects. VBDO has engaged for three years on companies' aproaches to address these effects: climate adaptation. Overall, we can see that there has been an improvement in performance of companies on this theme. In 2021, seven companies in our investment scope moved up a category in our division of Lagging, Learning and Leading companies, but four companies moved down a category.

Photo credits: Saikiran Kesari

The most significant progress has been made on the percentage of companies assessing their exposure to all material first-order physical climate change impacts (from 64% in 2020 to 78% in 2021). Second, progress has been made on the percentage of companies describing their implementation of climate adaptation strategies (such as the adjustment of business strategies), related to physical climate change impacts and opportunities (from 39% in 2020 to 58% in 2021).

Despite our engagement efforts, in 2021 just 17% of the companies in our scope assess their exposure to any material second-order, or indirect, physical climate change impacts. We believe this score is a result of unavailability of data, the inherent complexity of assessing second-order impacts and a limited understanding of the concept. Still, the score is an improvement compared to the 3% of companies assessing second-order impacts at the start of our engagement on climate adaptation in 2019. Furthermore, only a small percentage of those 17% disclose the public co-benefits of their climate adaptation strategies.

Climate adaptation is a particularly company-specific issue. Differing materiality, impacts and operational regions require tailored strategies. Whatever a company's individual risks, we encourage all organisations to take a proactive, rather than a reactive, approach towards physical climate change effects. Furthermore, we continue to stress the importance of implementing the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD) in order for companies to improve and increase reporting. Indeed, a forward-looking and comprehensive climate adaptation strategy is beneficial both to the individual company and to society at large.

Direct me to Chapter 3 – Climate adaptation

LABOUR CONDITIONS IN THE SUPPLY CHAIN: PROGRESS HAS BEEN MADE REGARDING PASSIVE HUMAN RIGHTS DUE DILIGENCE; HOWEVER THERE'S STILL A LONG WAY TO GO BEFORE ACTIVE DUE DILIGENCE IS THE NORM

In 2021, VBDO engaged on the topic of labour conditions in the supply chain for the second consecutive year. This year, two companies progressed from Lagging to Learning and four companies have progressed from Learning to Leading. While four companies have moved down a category, overall there has been progress.

Photo credits: Vitolda Klein

In 2021, we've seen significant progress on several aspects of this issue. Notable is the increase of companies offering grievance mechanisms, from 76% in 2020 to 86% in 2021. In 2020, 35% of companies tracked labour conditions directly, rising to 46% in 2021. The percentage of companies setting Key Performance Indicators (KPIs) and targets to track their progress has doubled from 11% in 2020 to 22% in 2021. However, there is still a long way to go before it is seen as the norm for companies to take full responsibility for labour conditions in the supply chain. In many cases, the human rights systems in place are not focused on detecting human rights violations and subsequently improving these, but rather at legally binding suppliers to a Code of Conduct with minimal due diligence carried out to check compliance.

This is clear from the fact that only 23% of suppliers in our scope transparently report on the outcomes of their human rights due diligence processes, although this is still an improvement over 2020 (19%). Another sign of progress is that a significant number of companies have made a commitment this year to improve their transparency (in total: eight).

In addition to the lack of transparency, a significant challenge for companies is due diligence beyond the first tier of the supply chain. This is specifically a problem for companies with deep supply chains: often the labour conditions in the first layer are not in need of improvement and therefore the company is not actually improving lives with their due diligence.

VBDO accepts that thorough due diligence requires significant financial investment, but we would like to stress the significant co-benefits of high-quality due diligence, such as increased resilience to external shocks, preparedness towards upcoming legislation and the reduced risk of reputation damage. Considering all these factors, we believe in the continued importance of raising awareness on the need for due diligence. Taking responsibility on this issue is part of fulfilling the duty of care that companies have towards all employees involved in creating value for the company.

Direct me to Chapter 4 – Labour conditions in the supply chain

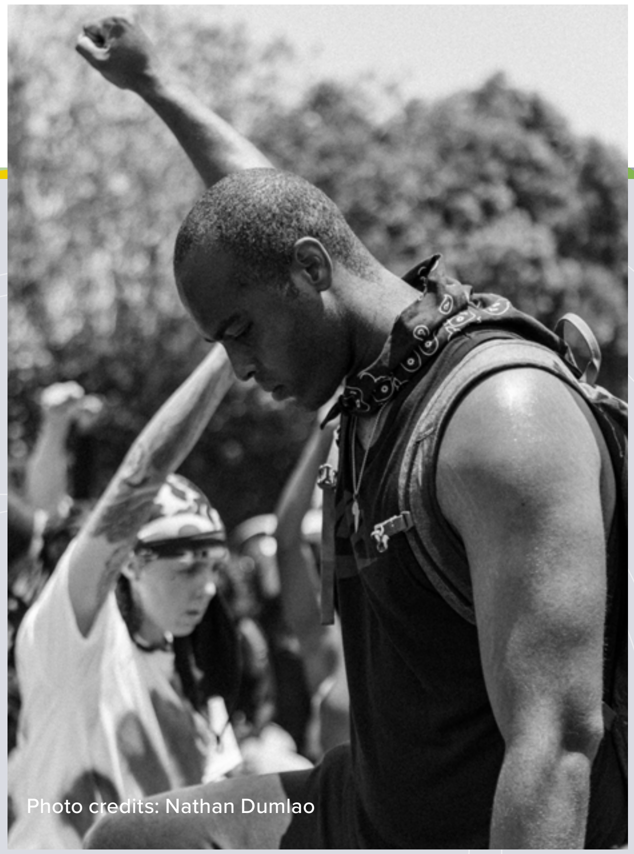


Photo credits: Nathan Dumlao

DIVERSITY: STEADY PROGRESS HAS BEEN MADE ON DIVERSITY POLICIES, BUT TOO FEW DIVERSITY AND INCLUSION IMPLEMENTATION PLANS ARE BASED ON ROBUST DATA AND ANALYSIS.

In 2020 and 2021, events such as Black Lives Matter shook up the debate on equality in society and many companies responded to this through new or improved diversity and inclusion strategies. VBDO has indeed noted the changed approach to this topic, from one seen as a merely 'mandatory' CSR issue, to a driver for success and innovation. However, some companies have a long way to go and must therefore start at the beginning: understanding the diversity profile of their organisation. Currently, only 35% of companies in scope have a clear overview of their diversity profile. In 2021, four companies in our investment scope moved up a category in our division of Lagging, Learning and Leading companies, but four companies moved down a category. Despite the lack of improvement this result seems to show, the overall score of companies improved significantly.

One of the first steps towards embedding diversity in an organisation is to build a diversity policy that matches your employees' and society's needs at large. The number of companies with a comprehensive diversity policy has increased from 35% in 2020 to 51% in 2021. A comprehensive diversity and inclusion policy should be focused on all forms of diversity, not just gender; however, too many companies still focus solely on gender.

As diversity is not yet considered an important issue by all, it is essential that companies increase awareness among employees and managers through, for example, unconscious-bias training, diversity weeks and cross-department buddy systems. These kinds of systems and programmes can lead to more inclusive environments and more widespread support for further actions. In total, 54% of companies in our current scope have such measures in place, a significant increase compared to 2020 (43%).

In 2020, VBDO received seven commitments relating to transparency on the gender pay gap. A year later, only two of those seven companies have followed up on their commitments. Nonetheless, overall, we have seen an increase in the actual reporting of the gender pay gap in 2021 (32%) compared to 2020 (22%).

We are curious when we will see the first pay gap analysis in the Netherlands on a topic other than gender. Perhaps this will happen in 2022, the third year of our engagement on this topic.

Direct me to Chapter 5 – Diversity

2. VBDO's engagement

VBDO

2.1. 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. VBDO's pressure eventually resulted in a steady increase in those reports and, thereby, increased transparency on non-financial information.

This increase in reports allowed VBDO to start carrying out our primary role: scrutinising results and entering 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. When we look back over the last 26 years, we can see similar themes popping up multiple times, but in different guises. However, in terms of content, much has changed. Twenty years ago, the focus was on motivating companies to create a Code of Conduct. Now, we expect companies to apply and reinforce human rights guidelines across their entire supply chains. We also expect them to cooperate 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 over many years to include benchmarks, research and knowledge sharing.

Anne Lafarre, Assistant Professor from Tilburg University – research on shareholder engagement

How can shareholders influence the sustainability of an organisation? And does the current AGM framework allow shareholders to engage with companies to pursue sustainability goals?

These are questions that Assistant Professor Anne Lafarre, from Tilburg University, has taken on in her doctorate's degree and current research. Over the next few years, Anne will research active shareholder engagement, aiming to understand how investors and investor alliances such as VBDO are able to make an impact on publicly listed companies.

Rigorous data collection and analysis are required before Anne can publish the results, but she was able to expand on her current view of VBDO's role in advancing sustainability: "Engagement of institutional investors is hugely important for steering an organisation's (sustainability) strategy. This is, for example, clearly shown in the United States, where the share of influence of institutional investors has increased in recent years. This has consequently been reflected in the increased power of their engagement and the regulatory focus on these investors." However, Anne notes, the total portion of shares owned by each institutional investor is still small and passive investments might decelerate change.

The function of VBDO in this space of investors and investees is, therefore, to build and communicate a shared strategy, highlighting undervalued topics as well as advocating for concrete guidelines. This space for dialogue and discussion as well as critical reflection allows for a streamlining of the sustainability conversation in the Netherlands and beyond, with partners sharing a language and a conceptualisation of the scope of risks, issues and opportunities.

26 years of VBDO Engagement

Climate adaptation means adjusting to new environmental conditions

2003: First environmental questions asked during AGM

E

- **Biodiversity:** the variety and variability of life on Earth (2003-2005).
- **CO_2 emissions:** release of carbon in the atmosphere causing climate change (2006-2009).
- **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-

2001: First social questions asked during AGM

S

- **Certification and Code of Conduct**: reducing exploitation of workers (2001-2005).
- **AGM voting** was advocated alongside other social policies to increase pressure on corporations (2006-2010).
- **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).
- **Labour conditions in the supply chain** 2020

G

- 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).
- **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).
- **Diversity** 2020

1995
Start of VBDO

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.

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.

2021
The themes for this year are diversity for governance, labour conditions in the supply chain for social and climate adaptation for environmental.

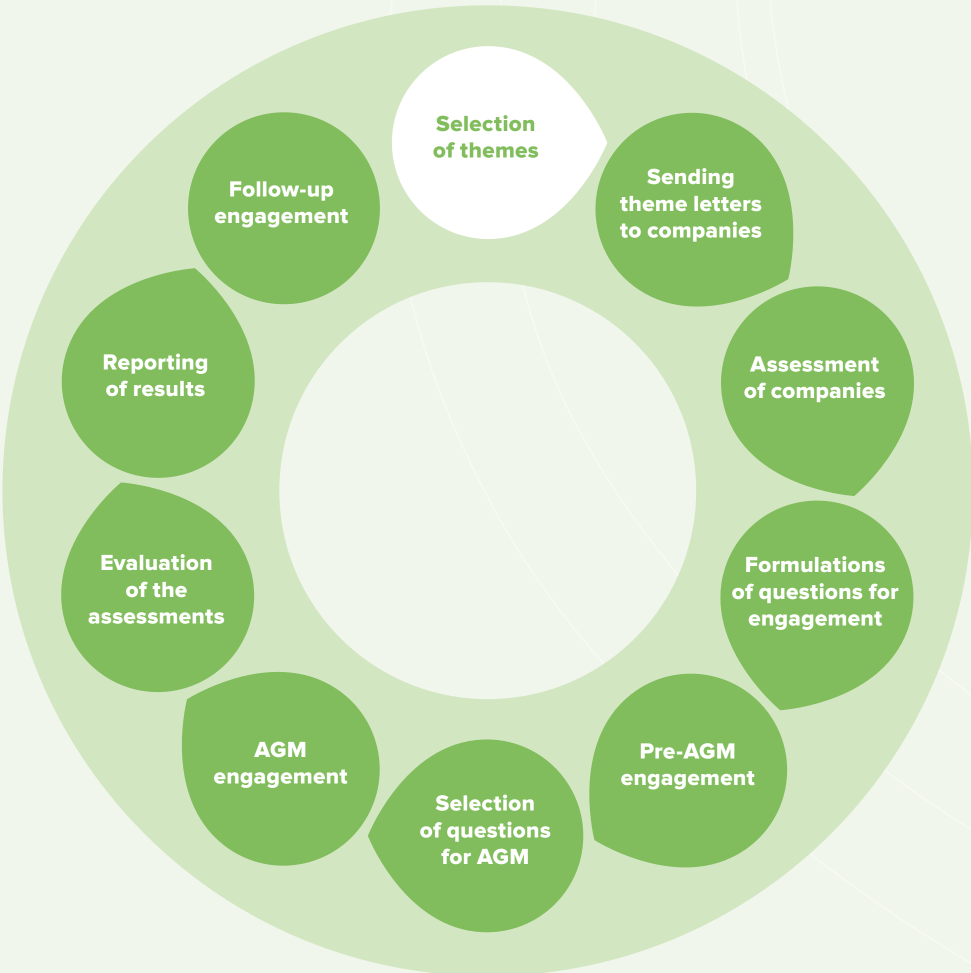
2. VBDO's engagement

2.2 VBDO'S ENGAGEMENT PROCESS

In 2021, 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 and NGOs. 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 in order to enhance our understanding of each company's strategies and performance. Based on these conversations, VBDO then selected the most material questions to ask each company's Board of Directors at its AGM.

VBDO aims to create an open exchange of ideas around a company's sustainability policy and practice to improve its overall sustainability performance. Figure 1 shows VBDO's AGM engagement process. Our process has been updated and developed over the last 26 years to ensure that we make as great an impact as possible.

Figure 1: **VBDO's engagement process**



2.3 INTRODUCTION OF ENGAGEMENT TOPICS FOR 2021

FIGURE 2 - **ESG THEMES**

Three topics have been chosen to engage on in 2021 – Climate adaptation (Environmental), Labour conditions in the supply chain (Social) and Diversity (Governance). In addition, VBDO engaged on several other topics due to their materiality to one or more companies in our scope. These are outlined in chapter 6.

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.

3. Environmental – climate adaptation

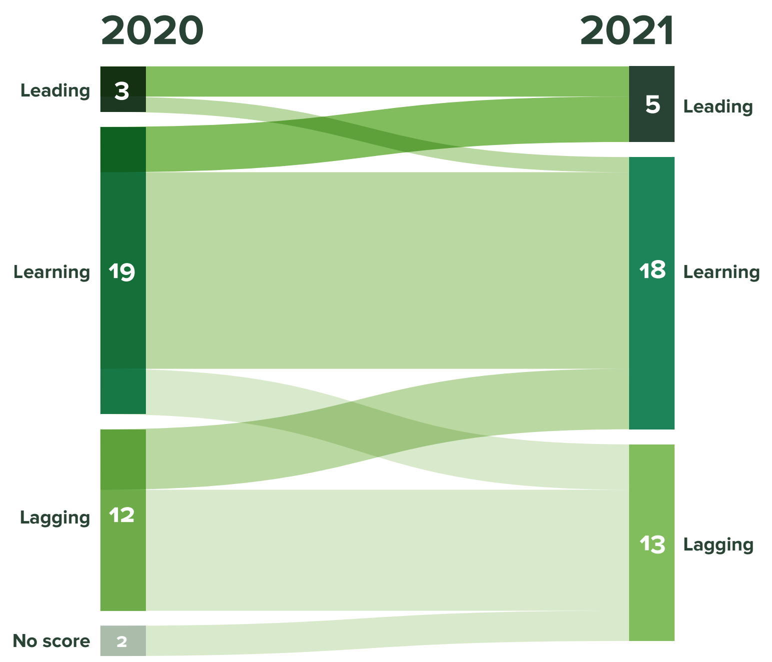
3.1 OVERVIEW OF ENGAGEMENT

LAGGING	LEARNING	LEADING
ING group Aegon Van Lanschot Kempen Aalberts AkzoNobel ASML TKH Group ASM International Adyen Sligro Ahold-Delhaize Wolters Kluwer Takeaway.com	ABN Amro a.s.r. NN group Heijmans Royal BAM Group Corbion DSM ArcelorMittal Boskalis Shell Vopak Philips Wereldhave Unibail-Rodamco-Westfield SBM Offshore PostNL Fugro Arcadis	Signify HEINEKEN Unilever RELX N.V. KPN

N.B. – This report is not to be read as a benchmark. VBDO aims to quantify the qualitative process of engagement for clarity of communication; however, it should be noted that the engagement process is nuanced and differs with each company in our investment scope.

Note: VBDO has not included Randstad in its engagement on climate adaptation, as we found this topic to be non-material.

Graph 7: **Movements between maturity categories 2020/2021 – climate adaptation**



We have noticed an overall increase in performance of companies on the theme of climate adaptation. Notably, Signify and Unilever moved from the Learning to the Leading category. However, it should be noted that the performance of a significant number of companies has actually declined. This is partially due to stricter implementation of certain criteria by VBDO. Nevertheless, Wereldhave, SBM Offshore and Fugro progressed from the Lagging to the Learning category. When comparing sectors, we can see that the Technology & Electronics and the Financial sector are, on the whole, lagging behind. This can be partially explained by a lower materiality for the two digital companies that were added to our investment scope in 2021.

3.2 THEME INTRODUCTION

For the third consecutive year and most likely the final year, VBDO has engaged on the environmental theme of climate adaptation. This topic encompasses approaches that address the current and foreseen effects of climate change. Climate adaptation is complementary to climate mitigation, which is the collection of efforts to limit climate change. Companies are a primary cause of climate change due to the CO_2 and other greenhouse gas emissions resulting from business activities in direct operations and the value chain (e.g. fossil fuel use, land conversion and livestock production).

Companies are also increasingly subject to the effects of climate change. Changes in the climate (will) result in acute and chronic direct impacts, including extreme weather events, periods of both heavy rainfall and droughts, flooding, and sea level rise. In turn, these so-called first-order impacts lead to second-order impacts, which include migration, threats to human health, decrease in social development, ecosystem collapse and stagnating economic growth. In order to manage these impacts, it is essential that companies start adapting to the physical effects of climate change. Which physical effects of climate change constitute material risks differs considerably per sector. The impact of weather extremes on agricultural yield is a rather visible example of effects in the Food, Beverage & Retail sector. However, companies with long supply chains in general will suffer from climate-related risks. Supply shortages of rare earth materials caused by extreme rainfall and landslides, for example, can impact the Technology & Electronics sector.[3]

Attention should be paid to the unequal distribution of impact caused by the physical effects of climate change. It is often those groups that are already vulnerable that feel the impact the hardest, because they rely on natural resources, deal with poor housing and healthcare infrastructure and cannot rely on insurance. Thus, climate change exacerbates social inequality.[4] VBDO considers it the responsibility of companies to make absolutely sure they do not aggravate negative climate-related impacts. Leaving a region because the risks have grown too substantial is a clearly inappropriate response. Rather, we encourage companies to collaborate with local communities in finding solutions.

3.3 VBDO'S BEST PRACTICE GUIDELINES

In assessing the maturity of a company's climate adaptation policy, VBDO has set the following four expectations:

Scenario analysis and risk assessment: First, companies are expected to acknowledge the fact that climate change induces physical impacts and to assess how these effects constitute risks and opportunities, both for their own operations and in their supply chain. The materiality of these risks and opportunities differs depending on the specific situation of each company. Subsequently, the risk assessment may include which risks production locations are facing, how extreme weather will influence the products the company makes or services it provides and to what extent clients are exposed to physical climate change impacts. As for the Financial sector, VBDO expects companies to identify these risks and opportunities for relevant asset classes.

Climate adaptation strategy: VBDO expects companies to develop and implement a research-based climate adaptation strategy to mitigate identified material risks and opportunities. This strategy should enhance risk management processes and inform the business strategy. We explicitly expect companies to act upon information leading from their scenario analysis.

Public co-benefits: Companies are additionally expected to assess whether their climate adaptation strategy has resulted in any benefits for local communities or society at large (i.e. public co-benefits).

Implementing TCFD recommendations: Lastly, VBDO expects companies to fully implement the TCFD recommendations when reporting on both climate adaptation and climate mitigation. This exercise will support companies and stakeholders to understand the effects of climate change and how they need to deal with it in the short, medium, and long term.

3.4 FINDINGS

In 2021, we have noticed a maintained focus on climate mitigation through limiting and offsetting emissions. Prevalent climate-related risks mentioned in risk assessments are often transition risks, including carbon pricing, the introduction of environmental legislation and liability risks. VBDO values the attention paid to climate-related risks in the risk assessments of companies. For the last three years, we have encouraged companies to include physical risks alongside transition risks in their company-wide risk assessments.

We have seen structural improvements over the three years that we have been engaging companies on this topic. This means that we have been able to shift our approach in line with the improvements made by the companies in our investment scope. In 2019, we focused on the importance of reporting physical risks, mainly for companies' own business operations. We encouraged companies to follow reporting guidelines set out by , for example, the Carbon Disclosure Project (CDP) and TCFD. This resulted in an increase in the number of companies implementing the TCFD recommendations. In 2020, we asked companies to broaden their scope to take into account stakeholders (such as local communities) in the wider regions in which they operate when assessing these risks. Communities should benefit from climate adaptation strategies, and people's livelihoods should be preserved in the wake of climate change.

In this third year of engagement on climate adaptation, we directed our attention first to risks – both first-order physical risks in the supply chains of companies and second-order physical risks generally – and second, to the opportunities that a sound climate adaptation strategy can bring. Through our assessment, it became clear that fewer than half (47%) of the companies in our scope had assessed the exposure of their suppliers to any material first-order physical impacts, meaning that no improvement in this matter has been achieved since 2020. VBDO finds this concerning, as the effects of supply chain disruptions on a company can be enormous. However, we have seen a slight increase in companies identifying second-order risks, from 14% to 17%.

A significant gap remains between the identification of first-order and second-order impacts, as is illustrated in graph 8.

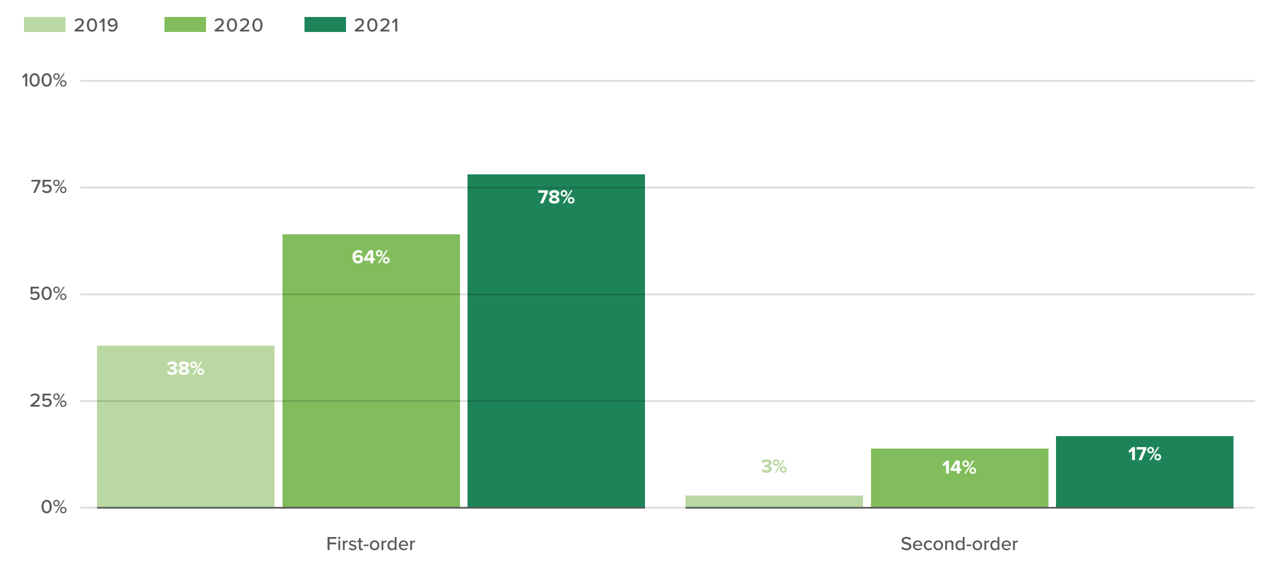
Furthermore, VBDO has continuously stressed the business opportunities that result from an extensive and proactive climate adaptation strategy. These opportunities to increase competitiveness are diverse and include, for example, coatings that prevent heat islands, new agricultural methods that withstand drought, marine structures able to withstand extreme weather and network services that can detect the strength of dykes to prevent flooding. For the Financial sector, a climate adaptation opportunity would be to proactively help clients prepare for the future, while simultaneously reducing costs for both parties.

Scenario analysis and risk assessment

A sound climate adaptation strategy is grounded in a comprehensive, science-based risk assessment. In 2021, we found that 78% of the companies in our scope assess their exposure to material first-order physical climate change impacts. Common identified risks are extreme weather events causing damage to property or disrupting supply chains, and water stress. As the Financial sector is not significantly exposed to physical climate change impacts itself, we also look at the impact to their (clients) portfolio in all relevant asset classes. At the same time, we acknowledge that this is time-consuming, and that good quality data is not widely available, which could partially explain the slight underperformance of this sector on the climate adaptation theme. Indeed, most financial institutions have started assessing at least one asset class.

As mentioned, 47% of the companies engaged with have assessed the exposure of their suppliers to at least one material first-order physical climate change impact, and 17% of the companies have assessed their exposure to any material second-order physical climate change impacts. This last percentage has only increased slightly compared to last year, despite indications that the remaining companies are at least exploring how to follow the TCFD recommendations. The recommendations do indeed include an assessment of second-order impacts.

Graph 8: **Climate adaptation – first and second order impacts**



VBDO was pleased to learn that almost half (47%) of the companies in our scope have been able to identify climate adaptation opportunities for their business strategy. The Food, Beverage & Retail sector and the Services sector have been especially successful in this, followed by the Industry sector. One-third (33%) of the companies in the Financial sector identify climate opportunities, compared to one-fifth (17%) of the Technology & Electronics companies.

50% of the companies in our scope not only describe identified risks, they also explain how research was conducted in order to determine these risks. Often, this research includes analysis of multiple scenarios in line with the Intergovernmental Panel on Climate Change (IPCC) emission pathways. While the outcomes of this analysis often do form the basis for climate mitigation strategies, they do not yet always translate into appropriate climate adaptation strategies.

Climate adaptation opportunities illustrated – Corbion and Signify

Signify does manage to identify climate adaptation opportunities with its Philips GreenPower LED for horticulture. This light technology enables year-round indoor growing with efficient use of surface, water and energy and without the need for pesticides. Signify's product is a response to the shrinking proportion of arable land, partly due to desertification, and extreme, hard to predict, weather patterns.

Rising sea water temperature is expected to disrupt fishery supplies and aquaculture. Corbion is adjusting its business strategy to this climate change impact by focusing on resilient algae-based solutions, which will be able to fill the gaps in the market.

Table 1: **Highlighted commitments on climate adaptation**

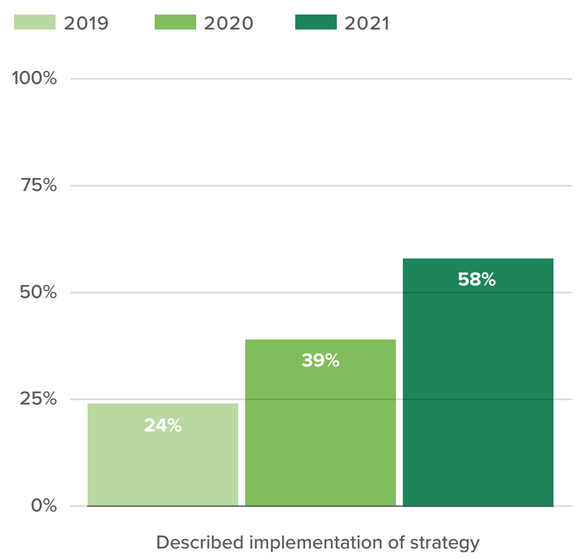
Companies	Commitments on climate adaptation
a.s.r.	a.s.r. will report more transparently on the material transition and physical climate change risks it has identified.
ArcelorMittal	ArcelorMittal aims to share more information in future disclosures about water risks within its portfolio.
PostNL	PostNL commits to conduct stakeholder dialogues in 2021 on climate change and human rights related issues. Additionally PostNL will report on the groups included and the outcomes.
Unilever	Unilever commits to measure and report on the sustainability impact of the Climate & Nature fund.
Wolters Kluwer	Wolters Kluwer has indicated it will evaluate TCFD reporting in the context of current EU legislative developments.

Climate adaptation strategy

After having determined physical climate change risks and opportunities, companies are expected to describe how they translate these impacts into climate adaptation strategies, such as adjusted business strategies. These strategies should go beyond ad hoc business continuity programmes that retroactively manage climate change-related damage. Rather, the strategy should contribute to the resilience of a company, taking into consideration different climate-related scenarios.

VBDO is pleased to see a significant increase in companies describing the implementation of their climate adaptation strategies; 58% of the companies in our investment scope elaborated on their strategy, compared to 39% in 2020. A similar trend could be observed from 2019 to 2020, when the percentage of companies describing the implementation of their climate adaptation strategies increased by 15%. The Industry and the Services sectors stand out positively in this regard, with respective scores of 80% and 75%.

Graph 9: **Climate adaptation – strategies**



What if physical climate change risks and opportunities are absent?

Reporting clearly on the assessment of physical climate change risks does provide relevant information for VBDO and other stakeholders, regardless of whether the outcomes are material. Indeed, when a company concludes, on the basis of a thorough analysis, that physical risks are insubstantial, it still should demonstrate that it has taken precautions and is unlikely to cause or suffer unexpected damage.

Photo credits: Jonathan Ford

Public co-benefits

VBDO reviews whether companies have followed our recommendation of assessing and identifying any benefits for society at large resulting from their climate adaptation strategy. Public co-benefits are numerous and can include investments in nature-based solutions, climate-smart infrastructure and sustainable land use that is resilient to extreme weather events. HEINEKEN, for example, describes how communities living around breweries benefit from HEINEKEN's climate adaptation strategy. This strategy includes water balancing projects in water-stressed areas, with the result that ten sites have replenished more water in the respective watersheds than HEINEKEN's annual beverage production volume. Sadly, many of the companies in scope did not report on public co-benefits, even though in some cases it was clear that these types of benefits would occur.

Implementing TCFD recommendations

The last step VBDO expects companies to take is to report in line with the TCFD. TCFD's recommendations include reporting on the implementation of climate change using four core elements: metrics & targets, risk management, strategy and governance. In 2021, VBDO found that just 11% of the companies in our investment

Climate adaptation strategy illustrated – RELX's paper supply chain

An example of implementing risk assessment in the business strategy can be found in RELX's paper supply chain management. As increased weather volatility forms a risk of disrupting the supply chain, RELX has put controls in place. These include the diversity of printers and paper suppliers, the ability to switch between different types of papers, and the declining percentage of revenue generated through printed products as the business moves more content online.

The importance of dialogue

VBDO considers dialogue with stakeholders to be an essential part of a sound climate adaptation strategy. Not only is this necessary for mutual understanding and raising awareness, but also to make society more climate resilient. Instead of avoiding risks, companies should take responsibility by understanding their role in the problem of climate change and becoming part of the solution. Active dialogue with a wide group of stakeholders, including sector partners, allows for the sharing of experiences and solutions in order to gather information, data and ideas, thereby broadening perspective.
Examples can be found in the interview with HEINEKEN and Wereldhave's good practice.

scope have fully implemented TCFD's recommendations. Nevertheless, we do recognise that a number of companies are in the process of implementing the recommendations. Since the previous engagement season of 2020, we saw ASML publishing its first TCFD report, as well as ING basing its first climate risk report on the TCFD recommendations. We have specifically asked three companies to make further progress on their implementation of the TCFD recommendations, resulting in one commitment from Wolters Kluwer.

Good practices

Wereldhave – discussing public co-benefit creation with stakeholders

Oftentimes, municipalities own the parking spaces around Wereldhave's shopping centers or outside areas, as well as the roads for cars and bicycles to our centers. Wereldhave always works with municipalities on the surroundings of its centers. For instance, in redevelopments, heat island effects are increasingly a topic that arises, and the use of greenery to counter further temperature rise. Since Werelhave often only owns the roofs that it can green, or the entrances, it depends on municipalities to create a welcoming entry to its centers. For one of its shopping malls, some form of water capture was required by law. After discussions with local stakeholders Wereldhave proposed to construct a wadi instead of a tank, for functional and greenery reasons.

Boskalis – Nature-based solutions in Romania

Nature-based solutions – solutions inspired by the processes and functions of nature – increase resilience and produce societal, environmental and economic benefits. Boskalis provides an excellent example of a company offering nature-based solutions as business activity. At the Romanian coast, Boskalis has dredged four million cubic metres of sand and replenished the beach to reduce coastal erosion and maintain a safe coastline. As the project manager explains: "In addition to providing strong and flexible coastal protection, the use of sand creates a favourable habitat for local ecosystems, such as birds, shells and flora."

Unilever – Climate & Nature Fund

Unilever has launched a €1 billion Climate & Nature Fund. This fund aligns with the 'Climate Action' and 'Protect and Regenerate Nature' pillars in Unilever's Compass sustainability strategy and should help to accelerate sustainable innovation and the scaling of projects. In the context of this fund, Unilever's brands will be partnering and competing for the next ten years to remove carbon emissions from the environment, production process and use of Unilever's products. The fund represents Unilever's commitment to invest in positive climate/nature impact. As a result of VBDO's engagement during the AGM, Unilever has committed to disclose additional information on the Climate & Nature Fund (see highlighted commitment).

Highlighted commitment – Wolters Kluwer

Wolters Kluwer has indicated it will evaluate TCFD reporting in the context of current EU legislative developments.

Highlighted commitment – Unilever

Unilever commits to measure and report on the sustainability impact of the Climate & Nature Fund.

The importance of the TCFD recommendations

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.

Jan-Willem Vosmeer, Global Manager Sustainable Development & Stakeholder Engagement at HEINEKEN

Involving local communities in climate adaptation strategies

As water stress risks increase, it becomes increasingly important for companies to have a sound water management strategy that goes beyond merely reducing water use within facilities. The unique character of every watershed dictates the integration of the local context. Jan-Willem Vosmeer, Global Manager Sustainable Development & Stakeholder Engagement at HEINEKEN, explains how the company takes responsibility beyond its own breweries by working towards healthy watersheds in water-stressed areas.

In line with HEINEKEN's 2030 Brew a Better World Strategy target to fully balance used water in water-stressed areas, every brewery develops a ten-year roadmap of action. Jan-Willem emphasises the utmost importance of data collection for the success of any sound water management strategy.

HEINEKEN makes use of satellite data and uses internal and external tools (including WWF's Water Risk Filter) to assess source vulnerability and accessibility, and the quality of groundwater. Another source of input is the stakeholder analysis of active players in the region, including companies, farmers, governments and waterboards.

HEINEKEN selects partners and water balancing solutions depending on the local economic and political context. Projects range from nature-based solutions, such as reforestation and wetland restoration, to improving water infrastructure and enabling farmers to use less water. So far, HEINEKEN has replenished six billion litres of water through these projects. The weight of local input is illustrated by HEINEKEN implementing a water balancing solution downstream to protect biodiversity on advice of the local government, rather than placing it upstream to optimise risk mitigation for the brewery.

Jan-Willem notes that whereas investors usually focus on a company's water use, the real impact can be made outside the company's domain. Many different users tap into shared water resources. Thus, collective action is needed for maintaining the health of watersheds and to overcome system incentives to exploit. HEINEKEN takes responsibility beyond financial assistance through offering platforms for stakeholder conversations, supporting collective action, and being a member of the UN's Water Resilience Coalition.

As water stress moves up the global agenda, Jan-Willem hopes all companies, including those with less visible water usage, grow increasingly aware of water risks. His tip for developing a sound water management strategy is to start where you can achieve the biggest impact.

Jan-Willem Vosmeer

4. Social – labour conditions in the supply chain

4.1 OVERVIEW OF ENGAGEMENT

LAGGING	LEARNING	LEADING
Heijmans, Royal BAM Group, Aalberts, TKH Group, Adyen, Sligro, Unibail-Rodamco-Westfield, PostNL, Fugro	ING Group, Aegon, Van Lanschot Kempen, DSM, ArcelorMittal, Boskalis, Shell, Vopak, AkzoNobel, ASML, ASM International, Ahold-Delhaize, HEINEKEN, Wereldhave, Randstad, SBM Offshore, Wolters Kluwer, Arcadis, Takeaway.com	ABN AMRO, NN group, a.s.r., Corbion, Philips, Signify, Unilever, RELX N.V., KPN

N.B. – This report is not to be read as a benchmark. VBDO aims to quantify the qualitative process of engagement for clarity of communication; however, it should be noted that the engagement process is nuanced and differs with each company in our investment scope.

4.2 THEME INTRODUCTION

For the second consecutive year, VBDO has engaged on the social theme of labour conditions in the supply chain. This comprehensive topic, covering issues ranging from the auditing of direct contractors to raw mineral mining in the lowest levels of the supply chain, remains a significant challenge for multinational companies with large supply chains. This is clear from the results of the 2020 Corporate Human Rights Benchmark, which indicates that companies need to move from commitments and processes to actual impacts on the ground.[5] There are several significant challenges relating to this topic, including a lack of oversight, the depth of supply chains and the sheer number of suppliers for a single company. Therefore, we strongly advocate in our engagement for companies to have proper systems and due diligence processes in place in order for them to understand, manage and proactively assist with improving human rights risks in their supply chains.

The nature of supply chains and the most material risks can be vastly different for different companies. Some of these differences relate to the differences between sectors. Companies in the Technology & Electronics sector, for example, often have the challenge of deep supply chains and several risks specific to the sector, such as conflict minerals, while companies in the Food, Beverage & Retail sector have relatively shallow supply chains but vast numbers of suppliers in high-risk countries. Different sectors or companies can, therefore, require very different due diligence measures, which we have taken into account throughout our engagement.

Labour conditions in the supply chain are often discussed in a matter-of-fact manner, with due diligence lingo typified by concepts such as 'human rights risks' and 'Supplier Code of Conduct compliance'. It is, however, paramount that we look beyond the abstract language of these systems and focus on the indubitable human rights violations which are still occurring in global supply chains. This June 2021, UNICEF announced the first rise in child labour in two decades, an increase of 8.4 million over the last four years, showing the continued salience of this engagement topic.[6] Therefore, each improvement of a due diligence process, each grievance resolved and each systematic change achieved will have a real world impact to the 94% of workers who are situated in the supply chain.[7]

4.3 VBDO'S BEST PRACTICE GUIDELINES

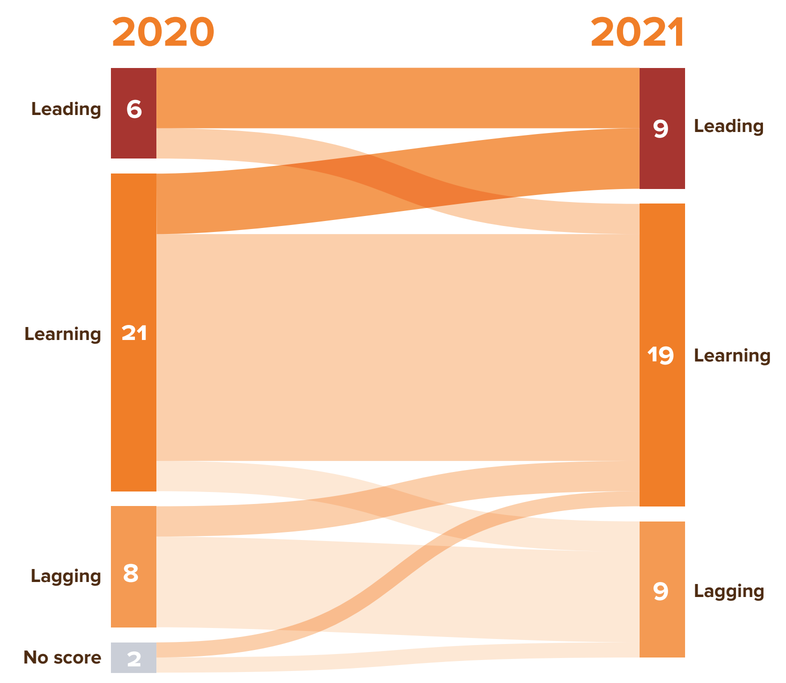
In assessing the maturity of a company's approach towards labour conditions in the supply chain, VBDO has set the following four expectations:

Recognition of responsibility: Companies should recognise that they have a responsibility to all workers in their supply chain.

Risk assessment and passive due diligence: The first step towards improving the labour conditions of workers in supply chains is understanding which issues are most salient and most prevalent. These assessments should include general understanding, for example of salient risks and vulnerable groups in the supply chain, as well as specific understanding, for example of the detailed sustainability performance of high-risk suppliers. This

In 2021, we've seen a significant number of Learning organisations move to the Leading category. This result is indicative of the increasing attention paid to the subject of labour conditions, which is likely to be accelerated by current debates on national and international due diligence legislation. It should, however, also be noted that the performance of a significant number of companies has declined. This is partially due to companies decreasing the transparency of their reporting and partially due to stricter implementation of certain criteria by VBDO. Despite stricter scoring, each sector independently and the entirety of our engagement scope saw progress on the topic of labour conditions in the supply chain in 2021. Notably, ABN AMRO, NN Group, Corbion and RELX have progressed from Learning to Leading and Vopak and SBM Offshore progressed from Lagging to Learning. It should also be noted that Just Eat Takeaway.com, though only introduced to the scope this year, immediately obtained a position in the Learning category. If we look at sectors individually, we find that the Financial sector is very active in identifying risks and negative impacts related to labour conditions. This is because of the nature of their supply chain, of which VBDO considers their portfolio companies the most salient part. Beyond the Financial sector we do not see large differences in scores between sectors.

Graph 10: **Movements between maturity categories 2020/2021 – labour conditions in the supply chain**



detailed information can, for example, be acquired through services like EcoVadis, through supplier self-assessments or through human rights audits. The company is additionally expected to have grievance mechanisms for workers in the supply chain.

Active due diligence: As soon as a company has insight into the human rights risks and violations in its supply chain, it can work to mitigate these risks. This step usually has a significant impact on workers by improving safety standards, requiring a living wage and reducing under-age labour for, in some cases, hundreds of thousands of workers.

Proactive improvement: Companies often encounter systematic challenges to improving human rights risks in their supply chains, such as the depth and opacity of their supply chains. The next step in improving conditions for workers is, therefore, to proactively engage suppliers, while working collaboratively with local governments, NGOs and sector-wide initiatives in order to achieve systematic change.

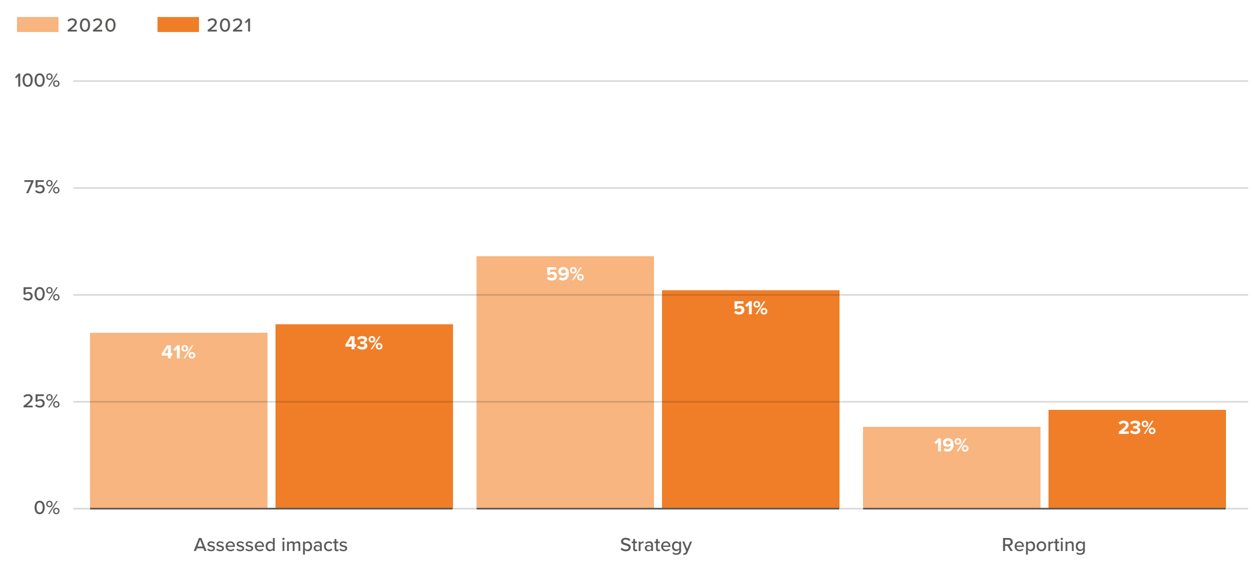
4.4 FINDINGS

Human rights due diligence in 2021 is characterised by slow but steady progress. The slow speed of progress is to be expected, considering that the cost of continuous due diligence can be high. However, there is still a large number of companies hesitant to take responsibility for what occurs in (all levels of) their supply chains. On the other hand, VBDO notes that companies which already have high-quality due diligence processes in place are making significant advancements each year, challenging themselves, providing novel best practice examples and setting the pace of progress. In addition to these clear leaders and laggards, VBDO has identified several companies with distinctly growing ambition, which translates into year-on-year improvements.

In 2020, we mainly focused on basic due diligence processes, such as risk assessments, grievance mechanisms and risk mitigation strategies. In 2021, we have indeed seen progress on these issues, as the percentage of companies which perform risk assessments increased from 57% to 62% and the percentage of companies which have grievance mechanisms available to all levels of the supply chain increased from 76% to 86%. Despite this progress, we noted that many companies are still not sufficiently focusing on the quality of these processes. This attitude is commonly typified by abstract disclosure regarding policy and processes without including details on the actual measures that have been taken to improve the labour conditions in the supply chain. Therefore, we decided to increase the focus on impacts in 2021.

A remarkably positive development has been the results of in-depth due diligence for leading companies on this issue. More frequent, more intense and more forthright dialogue with suppliers has indeed significantly increased collaboration with the supply chain, allowing leading companies to streamline their production processes further and, in addition, become more resilient to supply chain disruptions.

Graph 11: **Labour conditions in the supply chain – impacts, strategy and reporting**



Recognition of responsibility

In 2021, 92% of the evaluated companies (in total: 37) have made a formal commitment to improve labour conditions in the supply chain (2020: 95%). VBDO strongly recommends that companies utilise internationally-recognised human rights risks conventions, such as the United Nations Guiding Principles on Business and Human Rights (UNGP) or the International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work. These declarations convey the company's aim to protect supply chain workers' human rights, such as the worker's right to freedom from forced labour, freedom from child labour, the right to equal treatment and freedom of association. Almost all the companies in VBDO's scope that made a commitment to

Supplier Code of Conduct Illustrated – RELX's awareness building

Formulating a compulsory Supplier Code of Conduct is an important step towards improving labour conditions in the supply chain. However, compliance with this code is not necessarily a given. Therefore, RELX has come up with a creative method to increase awareness of the code: RELX asks suppliers to display the signed code prominently in the workplace. This communicates clearly to supply chain workers that their rights are, at least in theory, protected. This is likely to increase compliance with the code in addition to potentially increasing the use of grievance mechanisms.

Effective grievance mechanisms

The UNGP sets out, in principle 31, eight criteria to ensure the effectiveness of grievance mechanisms. A grievance mechanism should be the following: legitimate, accessible, predictable, equitable, transparent, rights-compatible, a source of continuous learning and based on dialogue with the intended users.[8] These criteria are aimed at making the grievance process fair and equitable while also, importantly, making it accessible and understandable to users. VBDO hence advises companies to take these eight criteria seriously when evaluating the effectiveness of their grievance mechanisms for workers in the supply chain.

Best practice - NN's Engagement themes

NN Group uses its power as an investor mainly through engagement, pushing for change in the real economy. In order to achieve this, NN Group has defined a responsible investment policy, setting out all the ESG topics which are relevant to its engagement with investors. Furthermore, in order to increase NN Group's impact, several engagement topics have been chosen. Among these topics are oil and gas, deforestation, living wage and child labour. VBDO indeed encourages companies to single out several salient topics, thereby building expertise and maximising impact. NN Group additionally reports clearly on its progress with ESG engagement generally and on the chosen topics specifically.

Beyond tier 1,2,3

Most companies still exclusively engage with suppliers in the first tier of the supply chain. There are, however, a significant number of companies pushing this topic forward by engaging, directly or indirectly, with suppliers in deeper tiers. One of these companies is KPN. KPN performs human rights audits up to the fourth tier of their supply chain, which is especially valuable due to the multitude of supply chain tiers typical for the Technology & Electronics sector. VBDO is aware that achieving multi-tier transparency is challenging, but leading businesses are using data deeper in the chain to tackle critical and salient issues and lower their risks. Companies that monitor and comprehend supply chain data can also identify positive trends, exchange best practices and build a web of long-term supply partners.

human rights in the supply chain have indeed formulated a Supplier Code of Conduct consistent with the UNGP or the ILO Declaration (2021: 89%; 2020: 92%).

It should be noted that VBDO introduced several companies to the scope in 2021 that currently have a low maturity on human rights in the supply chain, which has resulted in an overall decrease of performance on some issues.

Risk assessment and passive due diligence

VBDO notes that over half of the companies in the engagement scope are currently identifying risks and marginalised groups (2021: 62%; 2020: 57%) and facilitating grievance mechanisms (2021: 86%; 2020: 76%) for their supply chains. VBDO is satisfied with the improvements made on these topics but notes that these are still passive forms of due diligence. The facilitation of grievance mechanisms for workers in the supply chain is an incredibly important and effective due diligence measure, often providing a unique means to workers in the supply chain suffering from human rights violations. Considering this importance, VBDO is content that a majority of companies have made this service available. However, transparency on whether this mechanism is (regularly) used and on the measures the company takes to improve access for workers is often lacking. This leads VBDO to call for increased attention on this subject and increased recognition that the simple existence of such a mechanism should not be considered sufficient.

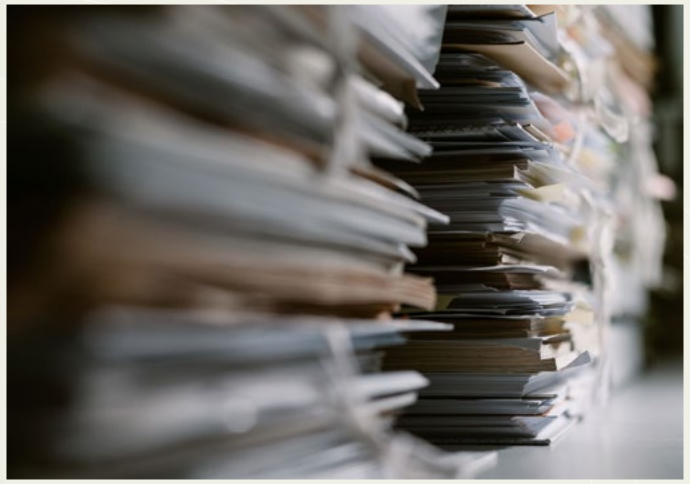
Active due diligence

The implementation of active due diligence systems is still lagging behind the implementation of passive due diligence. Less than half of the scope systematically assess (2021: 43%; 2020: 41%) and have a strategy to improve (2021: 51%; 2020: 59%) labour conditions in the supply chain. Only 23% of companies report transparently on the measures taken and progress made. More details on reporting can be found in the Transparency section.

It should be noted that these criteria were assessed more strictly in 2021 than 2020, giving rise to the limited increase and decrease respectively. The reason for this is that VBDO took note of the difference in the nature of supply chains of companies in various sectors. For example, companies in the Technology & Electronics sector regularly have first-tier suppliers with no significant human rights risks, as these suppliers are also technologically advanced companies in countries with a strong rule of law. This year, therefore, companies were assessed on whether they implement strategies to improve human rights on a tier of the supply chain where salient human rights risks occur. Companies are therefore assessed on the impact that they make, not simply on whether they have the correct procedures in place.

Best practice - Incentives for suppliers - Signify

When moving from a compliance system to a continuous due diligence system, companies at times face the challenge of truly motivating and engaging their suppliers. The ethical and business case of labour rights and sustainability is strong, but suppliers can at times benefit from an additional incentive to fully participate in these programmes. To that end, Signify has a supplier dedicated programme, called Tritium, which rewards suppliers based on their performance against criteria linked to Signify's strategic priorities, including the labour conditions for workers. The better the supplier's performance, the higher it scores and the more beneficial the relationship becomes for the supplier. Examples of incentives offered as part of the programme are recognition through the Supplier Awards, a preferred business relationship and a higher level of engagement with Signify through, for example, the innovations workshops or a joint management agenda. This communicates clearly to suppliers that Signify is truly committed to sustainability and is fully willing to do its part in helping the supplier to improve.



However, even considering this tightening of criteria, companies largely stagnated on these issues in 2021. For example, many companies barely audit suppliers regarding the salient risks. This means that due diligence is often not executed to such a degree that it is improving lives in the real world. Due diligence cannot simply be having suppliers sign a Code of Conduct without actively reviewing compliance or helping to improve the actual labour conditions. We therefore invite companies to look further and to truly take responsibility for the labour conditions of their supply chain workers.

VBDO is eagerly anticipating the upcoming EU regulations concerning due diligence requirements. This will hopefully raise the bar on due diligence and incentivise companies to expand their programmes significantly.

Due diligence beyond tier 1

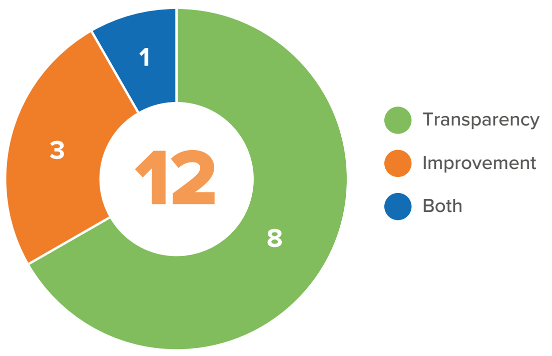
Supply chains can have more than ten layers, from high-end technology manufacturers and fabricators in the first layer to conflict mineral mines in the deepest layer. VBDO notes that a majority of companies are indeed performing due diligence in the first layer and that a significant number of companies are additionally engaging through sector initiatives to improve labour conditions in the deepest levels of the supply chain, for example through the Responsible Minerals Initiative or Fair Cobalt Alliance. Directly evaluating and engaging with suppliers beyond the first tier is, however, very rare, despite the salience of human rights issues occurring in these levels of the supply chain. VBDO, sadly, too often encounters the belief that a company is only directly responsible for its own first-tier suppliers. VBDO therefore strongly advocates for an improvement-based approach. If no significant human rights improvement is possible at the first layer of the supply chain, the company should seek to make improvements at a deeper level of the supply chain, either through individual, direct action or through sector initiatives.

Best practice on this issue is to engage directly with tier 2 suppliers and beyond. This can, however, not be expected for all suppliers beyond tier 1 due to the total number of suppliers in the supply chain. Therefore, VBDO advises companies to at least ensure that their Supplier Code of Conduct is passed on. It is also essential that the company assesses, improves and reports on the quality of its suppliers' due diligence processes.

Transparency

An important step in improving labour conditions in the supply chain is communicating the progress. This allows stakeholders, such as supply chain workers, investors and NGOs, to assess what progress the company is making. Consequently, a constructive dialogue can take place, allowing the company to optimise its strategy through input from stakeholders, thereby enabling it to develop best practice examples for the sector. Currently, less than a quarter of the companies in the scope are transparently reporting in this manner (2021: 23%; 2020: 19%). Transparency is naturally not a goal in itself; the goal is the real-world improvement of workers' lives. However, transparency is necessary for stakeholders to understand whether real progress is being made. It is, therefore, worrisome that a significant number of companies in our engagement scope report exclusively on the amount of suppliers that have filled in or comply with the Supplier Code of Conduct, without reporting on mitigation efforts or the overall improvements made to labour conditions. However, as stated in the section on active due diligence, most companies are simply not yet sufficiently improving labour conditions in the supply chain to be able to report as fully on this as VBDO expects.

Graph 12: **Labour conditions in the supply chain – share of commitments**



Graph 12 shows the breakdown of commitments made on the topic of labour conditions. In total, 67% of commitments were made regarding transparency alone, while only 33% contained commitments towards actual improvements of due diligence processes. VBDO would prefer increased attention towards impact over attention towards process and transparency but also celebrates this result, as increase in transparency will allow future engagement to be significantly more productive.

Setting KPIs and targets

In order to push for continuous improvement in the supply chain, defining a KPI with a target can be an immensely useful motivator. Therefore, VBDO is glad to say that, this year, 22% of companies have defined multiple KPIs with targets on the topic of labour conditions in the supply chain. This is double the percentage (11%) of companies that did so last year. The exact definition of such a KPI has a large effect on the direction of the due diligence improvements. For example, a KPI focused on a single topic may improve that specific issue in the supply chain but have little general benefits for human rights due diligence. On the other hand, a KPI may be focused on including more suppliers into the programme, which does not guarantee that these suppliers will improve their performance. Therefore, VBDO recommends utilising multiple KPIs and targets so that these are able to comprehensively cover the due diligence process and progress.

Continuous, proactive due diligence

Human rights risks and violations are often caused by systematic issues and therefore cannot easily be solved following a recommendation from an audit or self-assessment. It will likely require continuous, proactive engagement in order to invoke significant change at such a supplier. Such engagement will still address non-compliances but will additionally help to improve underlying systems and attitudes. A long-term view thereby prevents the same issues from arising again and again and creates closer lines of communication between supplier and client, both strong arguments for the business case of continuous, proactive due diligence. A best practice example can be found in Lessons learned from Philips' Beyond Audit programme, an example of continuous, proactive due diligence.

Working together

Almost half of the companies in the 2021 scope (2021: 49%; 2020: 49%) are working together with a wide variety of stakeholders towards improving the labour conditions in the supply chain. This work is essential for long-term improvements of labour conditions in the supply chain, as human rights risks are often caused by a multitude of interacting factors, such as lack of governmental oversight, lack of expertise or means and other structural factors. Such issues can only be resolved through multi-stakeholder efforts. Companies' actions on these issues differ greatly. Some are deeply involved in a multitude of efforts, thereby raising the bar for other organisations. Other companies are attendees rather than the takers of initiative and therefore mainly learn instead of teach in these collaborative efforts.

Lessons learned from Philips' Beyond Audit programme

Philips transitioned from compliance-based to impact-based supplier sustainability management in 2016 by introducing its well-known Beyond Auditing programme. Philips' programme, partly fuelled by machine learning and algorithms predicting supplier performance, focuses on actively assisting suppliers with improving their sustainability performance. This is in contrast to the more traditional approach of requesting or requiring a certain standard, without providing a roadmap or assistance to achieve this standard. An impact-based approach such as this transforms a pass/fail mentality into a culture of continuous, collaborative improvement. This increases trust in the relationship of suppliers with Philips and encourages suppliers to be frank about challenges they face.

Through this more honest dialogue, suppliers are encouraged to improve the health and well-being of their employees, to reduce their energy consumption and thereby to protect themselves against negative outcomes of audits by other organisations or local governments. Especially in times of crisis like the COVID-19 pandemic, open dialogues with suppliers assist Philips to make its supply chain more resilient.
The Beyond Auditing programme is therefore a mutually beneficial programme, where both partners are directly incentivised to work together and improve together. This collaborative effort has indeed resulted in significant year-on-year progress of the sustainability of Philips' suppliers, improving the working conditions of 302,000 workers in the supply chain so far. Therefore, Philips is taking the natural next step: advocating for this approach to be adopted as the new industry standard at the Responsible Business Alliance (RBA).

> "The old pass/fail audit mindset really takes away from the business case of sustainability, as change is demanded instead of rationalised. Through open dialogue, partnering and a continuous improvement mindset, the willingness to change will be much higher and the impacts much greater."
>
> Dylan McNeill, Director of Supplier Sustainability at Philips

Table 2: **Highlighted commitments on labour conditions in the supply chain**

Companies	**Highlighted commitments** (see Appendix II for full list of commitments)
Vopak	Vopak will expand its human rights due diligence programme and report transparently on its progress.
AkzoNobel	AkzoNobel will aim to report more transparently on its due diligence work with critical or high-risk suppliers to improve labour conditions.
Philips	Philips will consider increasing its transparency with regards to supply chain due diligence, specifically focusing on how improvements are achieved, for example through anonymous case studies of zero tolerances or year-on-year tracking of specific suppliers.
KPN	KPN will increase its minimum EcoVadis score for suppliers on ESG-performance.
Randstad	Randstad will report as much as possible on human rights related risks in the 2021 annual report.

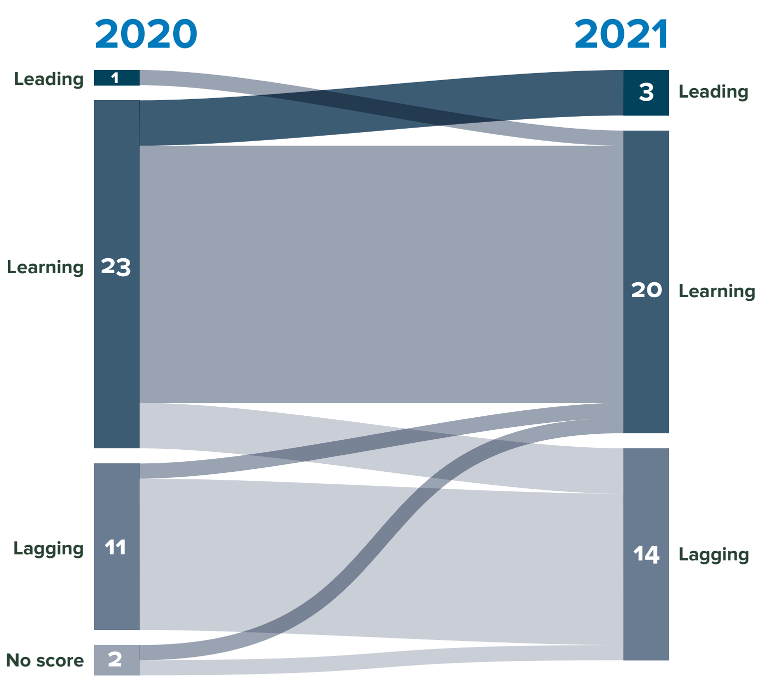
5. Governance – Diversity

5.1 OVERVIEW OF ENGAGEMENT

LAGGING		LEARNING		LEADING
Van Lanschot Kempen	TKH Group	ABN AMRO	Signify	a.s.r.
Heijmans	Sligro	ING Group	Adyen	PostNL
Royal BAM Group	Wereldhave	Aegon	Ahold-Delhaize	RELX N.V.
Aalberts	Randstad	NN group	HEINEKEN	
ArcelorMittal	SBM Offshore	Corbion	Unilever	
Boskalis	Wolters Kluwer	DSM	Unibail-Rodamco-Westfield	
Philips	Takeaway.com	Shell	Fugro	
		Vopak	Arcadis	
		AkzoNobel	KPN	
		ASML		
		ASM International		

N.B. – This report is not to be read as a benchmark. VBDO aims to quantify the qualitative process of engagement for clarity of communication; however, it should be noted that the engagement process is nuanced and differs with each company in our investment scope.

Graph 13: **Movements between maturity categories 2020/2021 – diversity**



Diversity and inclusion was a very significant topic in 2020 and continues to be so in 2021, considering recent Black Lives Matter protests and protests against (sexual and domestic) violence against women across the world. VBDO has consequently noted an increased awareness of the salience of this topic. This awareness does not yet always translate to concrete action and measures towards improving diversity and inclusion. However, VBDO does acknowledge that companies are increasingly building knowledge of diversity and inclusion within the company as well as knowledge of the most effective measures that can be taken thereby accelerating awareness and policy regarding diversity and inclusion. This is reflected in the fact that PostNL and RELX proceeded from Learning to Leading this year and Vopak proceeded from Lagging to Learning. It should also be noted that, in its first year in our scope, Adyen immediately ranked in the Learning category. The Industry sector and the Technology & Electronics sector are still lagging behind regarding diversity, as may be expected from the historical underrepresentation of women in these sectors.

Photo credits: Nicholas Swatz

5.2 THEME INTRODUCTION

Diversity and inclusion are paramount to a healthy organisation. Yet, understanding of the concept, and which relevant elements are included, differs. VBDO uses a broad definition of diversity, which goes beyond a simple head count of men and women within a company. To us, diversity has many dimensions, including diversity of age, ethnicity, cultural background, nationality, being part of the LGBTIQ+ community, education, experience and abilities. A diverse company does not only value these dimensions; it actively also protects and promotes all forms of diversity, making sure every employee is treated fairly and feels fully included.

A diverse organisation is the first step towards a more inclusive organisation. We understand an inclusive company as one that makes sure all employees feel accepted and valued, regardless of, or precisely because of, their differences. Diversity and inclusion are closely related, as inclusive companies attract diverse employees.[9]

While the foundations of a diverse organisation are clear, companies might have different interpretations of diversity. These interpretations understandably depend on size, region, operating sector or having either a predominantly high-skilled or low-skilled workforce. VBDO takes these factors into account when assessing individual diversity policies.

Much can still be achieved on the diversity front. The gender pay gap at the EU level has barely changed in the last decade and still stands at 14.1%.[10] Existing research rarely indicates that more than 2% of people in management positions have a minority cultural background.[11] And, in early 2020, there were fewer CEOs who were female than CEOs who were named Peter.[12]

This is concerning for many reasons. Not only do imbalances at businesses reflect inequality of opportunities in society, but non-diverse organisations are also underperforming compared to diverse companies.[13] Diverse teams generate more creativity and better decision-making and avoid silo thinking. Indeed, companies with more diverse Boards tend to have higher returns and lower risk profiles. Additionally, diverse companies attract talent, and inclusive work cultures are more likely to be innovative and achieve better results.

5.3 VBDO'S BEST PRACTICE GUIDANCE

In assessing the maturity of a company's approach towards diversity, VBDO has set the following five expectations:

Recognition of responsibility: First of all, VBDO expects Boards of companies to make a formal commitment to enhance diversity and inclusiveness. This ambition can be included in the annual report, the diversity policy or a separate statement, as long as it is clearly visible. Companies can emphasise their ambitions concerning diversity by signing pledges, such as the UN Women Empowerment Principles and the Dutch charter "Talent naar de Top (Talent to the Top)".

Diversity policy: We expect the formal commitment to result in a comprehensive diversity policy to improve all forms of diversity and inclusiveness of the company and its suppliers. The policy should go beyond stand-alone initiatives, but rather link ambitions to measures.

Identifying diversity profile and issues: Companies are also expected to assess and identify the diversity profile of the organisation. Metrics should include gender and at least two additional metrics for other marginalised groups. These should be measured across the entire workforce and on all management levels.

Strategy and measures: VBDO expects companies to develop a recruitment and promotion strategy that ensures non-discrimination against any demographic group, to assess, communicate and address the gender pay gap and to perform audits on the implementation and execution of the diversity strategy. In addition, VBDO assesses whether systems are in place to report and prevent internal ethical and safety issues and whether companies offer specific knowledge and training methods to develop an understanding of diversity in the workplace. A variety of different programs and action should be included to ensure that the diversity and inclusion strategy is sufficiently robust. These measures must be based on knowledge and research into the diversity profile of the organisation and existing issues on this topic.

Tracking and reporting progress: Finally, VBDO expects companies to report on progress and outcomes of the diversity policy through relevant targets and KPIs for different levels of the organisation.

5.4 FINDINGS

In 2021, we are pleased to note that the topic of diversity, and the importance thereof, is increasingly being embedded into companies through diversity policies. These policies and strategies, however, are generally not a direct consequence of a thorough assessment of issues and challenges. Instead, strategies are often more generic and stand alone, without contributing to a company-specific strategy. It should additionally be noted that gender diversity is still a very dominant topic in relation to the diversity of other marginalised groups.

Statement to increase diversity illustrated – Aegon

"Aegon's purpose of helping people achieve a lifetime of financial security can only be delivered in an environment where its people and stakeholders share personal accountability for building an inclusive and diverse organisation.
"
VBDO values this commitment, as the cruciality of diversity and inclusion is emphasised in reaching the company's aim.

Identifying diversity profile illustrated – DSM's Inclusion Index

DSM has made its diversity and inclusion strategy concrete and trackable through introducing several KPIs and targets, such as the minimum percentage of women and minority ethnic groups that should be employed at the executive level. In addition to this, DSM measures the level of inclusion experienced each year through an engagement survey. As a result, DSM is able to quantify this complex topic using their Inclusion Index, track year-on-year progress and identify specific issues.

In 2020, we directed our engagement focus on the development of comprehensive diversity policies to improve the diversity and inclusiveness of the company and its suppliers. Progress has been made on this matter, as the percentage of companies with a comprehensive diversity policy increased from 35% in 2020 to 51% this year. In addition, we asked companies to implement concrete actions to increase diversity and inclusion. Third, as equality and fair treatment is a crucial component of a diverse organisation, VBDO dedicated efforts to encouraging companies to assess, communicate and address the gender pay gap. Transparent reporting on the gender pay gap increased from 22% to 32%. We consider this to be under par and thus have continued engagement on this matter in 2021, often referring to commitments made in 2020.

A significant difference in our 2021 engagement is that we have increasingly stressed the importance of other diversity dimensions alongside gender. Companies are expected to broadly define diversity and to find an effective way to measure multiple diversity aspects within the legal framework. Furthermore, this includes encouraging that those companies already reporting on the gender pay gap should consider also reporting on other pay gaps. To tackle the issue of stand-alone actions without clear causation, we have advocated that companies expand their data collection and thereby identify the diversity profile of the organisation. As such, a diversity profile is incredibly useful when evaluating issues of specific groups or in specific parts of the organisation, which can then be efficiently addressed by concrete measures. A third topic that received increased attention was measuring inclusion in addition to diversity.

Recognition of responsibility: commitments and pledges

Currently, 97% of companies in our scope have made a formal commitment to enhance diversity and inclusion (2020: 95%). This means that only one company has not made such a commitment.

Another way to demonstrate an organisation's commitment to diversity and inclusion is by signing diversity pledges. Such pledges have significant benefits beyond making a formal commitment, as they can also offer valuable frameworks to further mature on the topic. In 2021, 54% of companies in our scope were signatories to one or more relevant pledges (2020: 43%). It should be noted, however, that the Technology & Electronics sector is a clear laggard on this issue: none of the companies in this sector have signed such pledges. This is an especially salient issue considering the historical and current underrepresentation of women in this sector and therefore we strongly recommend that companies take this step.

Diversity policies

It is incredibly important to note that making a commitment to diversity and inclusion does not always translate into the formulation of a comprehensive diversity

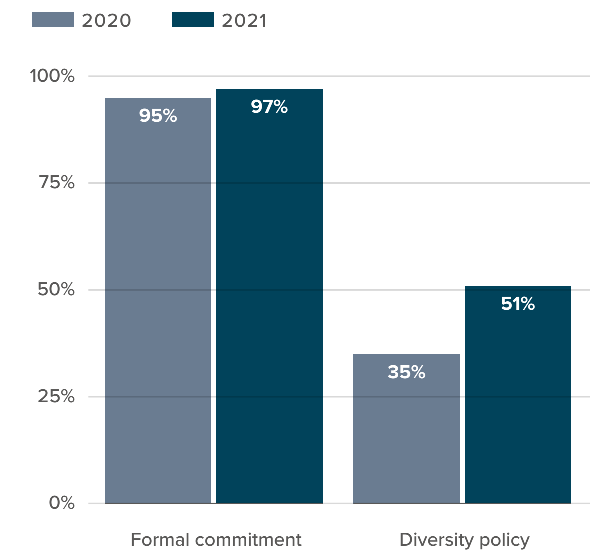
Photo credits: Jon Tyson

Identifying diversity profile illustrated – AkzoNobel's diversity networks

VBDO encountered significant hurdles regarding building knowledge of diversity and inclusion within the company, most commonly related to the perceived inability to collect data for diversity dimensions beyond gender, nationality and age. Nevertheless, VBDO would like to highlight AkzoNobel's sound approach. In addition to measuring the organisational health index for the entire company, AkzoNobel also regularly surveys diversity networks in order to understand how certain marginalised groups are experiencing inclusion and a sense of belonging. This valuable and practical research allows AkzoNobel to target any specific issues which may arise.

policy; only 51% of companies in our scope have such a policy. This figure is, nonetheless, a significant improvement over 2020, when it was just 35%. The difference between the number of formal commitments and formal policies can partially be explained by the fact that VBDO uses relatively stringent criteria for diversity policies. A pdf document with 'diversity and inclusion policy' written at the top does not suffice as an actual policy. Instead, a policy should include all potentially relevant aspects of diversity, formally protect the rights of marginalised groups and include specific and concrete statements in order to improve the representation and inclusion of these groups. The lack of diversity policies must, however, also be due in part to a minority of companies still holding the belief that no further action beyond a formal commitment is necessary to improve current inequalities. By engaging on this topic, we hope to create significant change in these attitudes.

Graph 14: **Diversity – formal commitment and policy**

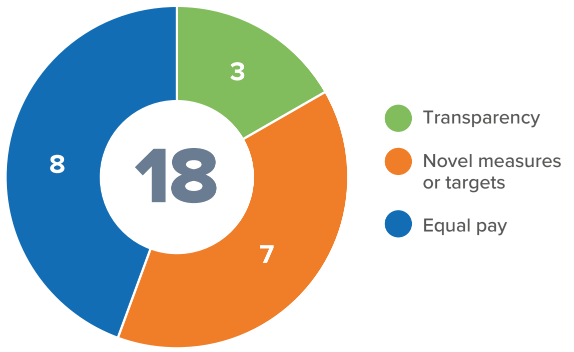


Identifying the diversity profile and relevant issues

Before a company is able to take meaningful measures, it must first understand which marginalised groups and which specific issues are particularly salient to the organisation. For example, for companies in the Technology & Electronic sector and the Industry sector, a key issue may be gender diversity. For the Services sector, one goal may be achieving diversity of thought by recruiting diverse talent across all diversity dimensions.

Such understanding can be achieved through in-depth engagement surveys, thereby mapping the diversity profile of the organisation and measuring the level of inclusion experienced by different groups in an anonymous manner. Regular engagement with representatives of marginalised groups can add detail to this quantitative understanding. PostNL is an example of a company with an extensive diversity profile (see interview). Currently, only 35% of companies display a robust understanding of the diversity profile of their organisations. This appears to be a significant improvement from 2020 (19%); however as this aspect was assessed differently in 2020, we withhold from stating whether or not significant improvements have actually been made. In addition to quantitative understanding, it is also important to identify issues that may arise in the workforce qualitatively; a good practice example from AkzoNobel on this issue is detailed in this chapter.

Graph 15: **Diversity – share of commitments**



Strategy and measures

By putting in place concrete diversity programmes and measures, companies are able to create real impact on employees' lives, especially those belonging to marginalised groups. Therefore, VBDO is glad to ascertain that 39% of diversity commitments made in 2021 are on implementing new measures or targets and 44% of commitments made are on equal pay, while only 17% are exclusively aimed at increasing transparency.

Grievance mechanisms

Social stigma regarding unequal treatment, harassment and discrimination can be a contributing factor to the reporting barrier, alongside the fear of job loss or other punishment. It is, therefore, immensely important that companies have appropriate grievance mechanisms in place, to ensure that reporting is both anonymous and accessible. Currently, 95% of companies have active grievance mechanisms (2020: 92%). This is, however, no guarantee that employees indeed feel comfortable using such services or that a report of improper behaviour is followed-up. Therefore, VBDO advises companies to include questions on this topic in their employee engagement surveys or to actively engage stakeholders on this topic and subsequently report on the results.

Identifying diversity profile illustrated – AkzoNobel's diversity networks

VBDO encountered significant hurdles regarding building knowledge of diversity and inclusion within the company, most commonly related to the perceived inability to collect data for diversity dimensions beyond gender, nationality and age. Nevertheless, VBDO would like to highlight AkzoNobel's sound approach. In addition to measuring the organisational health index for the entire company, AkzoNobel also regularly surveys diversity networks in order to understand how certain marginalised groups are experiencing inclusion and a sense of belonging. This valuable and practical research allows AkzoNobel to target any specific issues which may arise.

Pipelines for diverse talent illustrated – ASML and Unibail-Rodamco-Westfield

One of the main challenges to increasing diversity is the lack of pipeline for diverse talent. This issue is salient for the Technology & Electronics industry, where diverse talent can be especially rare. ASML has therefore started a programme aimed at interesting and retaining women in STEM (Science, Technology, Engineering and Mathematics) fields.

URW has long been attracting diverse talent through the group's International Graduate Programme (IGP) partnership with Historically Black Colleges & Universities (HBCU) in the US and partnership with Sponsors for Educational Opportunity (SEO) London.

Diversity networks illustrated – BAM Group UK, HEINEKEN, Shell and KPN

Setting up or participating in diversity networks can be an accessible and effective way to increase diversity and inclusion from the bottom-up. Some examples of companies using networks in this way include:

BAM Group UK is part of Building Equality, an alliance of construction and construction-related companies working together to drive LGBTIQ+ inclusion in the construction industry.

HEINEKEN has launched HEINEKEN Open & Proud (HOP), a global employee community, to foster an open and inclusive workplace that values the contribution of all employees, including members of the LGBT+ community.

Shell has launched the Women's Network at Shell (WN@S), the enABLE Network for employees with disabilities, the Shell African Network and the LGBT Network, all four have the aim of fostering a company-wide culture of acceptance and mutual respect.

KPN has introduced the Colourful KPN (Kleurrijk KPN) network, to talk about different backgrounds and their rituals, preferences, interests and customs. This leads to mutual understanding and respect.

Knowledge building and actions to develop understanding of diversity

Attitudes towards diversity and inclusion can differ greatly: some people have personally experienced the importance of such policies, while others do not fully grasp the benefit or necessity. It is, therefore, vital that companies build awareness and knowledge of these topics among the entire workforce. This will help to create a more inclusive environment and also create more wide-spread support for any diversity and inclusion measures that the company decides to take. Knowledge-building measures could, for example, include unconscious bias training, the introduction of an annual diversity week or the CEO promoting diversity and inclusion at regional meetings. Another example would be the buddy system of PostNL, which links employees from different backgrounds, ages and levels of the organisation so that they can learn from each other's viewpoints and experiences. In total, 54% of companies in our current scope have such measures in place, a significant increase from 2020, when only 43% of companies had such measures.

Diversity programmes and networks

In addition to fostering the understanding of diversity among the entire workforce, companies are also encouraged to implement programmes that target specific marginalised groups. This is an efficient way to improve the position of groups that the diversity profile has indicated as being excluded or underrepresented. These programmes should form a combination of top-down approaches, such as mentoring programmes that link diverse, upcoming talent with people in higher positions, and also bottom-up approaches, such as diversity networks. With the latter, caution is advised and anonymity may need to be a prerequisite, especially when companies operate in regions where some forms of diversity are not accepted.

Table 3: **Results from 2020 gender pay gap commitments**

Results	
Followed-up	- SBM Offshore reported on the pay gap - Philips will roll out its pay gap programme to other markets
Progress made	- HEINEKEN will have ongoing assessments and actions in place to close any gaps, by 2023 - Van Lanschot Kempen will make further analyses in 2021
No progress	- Randstad does not communicate the result of pay gap analyses - Arcadis does not communicate on assessing the pay gap

Followed-up Diversity and Inclusion commitments

NN Group committed to publishing an updated statement on Diversity & Inclusion and to going beyond the topic of gender (early 2021).

Philips committed to scaling up and harmonising its gender pay ratio analysis in the coming years. The company committed to subsequently review public disclosure.

Signify committed to increasing its efforts to improve the number of women in leadership roles within the company.

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

SBM Offshore committed to considering reporting on the gender pay ratio and to consulting its auditors on how to

Recruitment and promotion

A recruitment and promotion strategy that aims to ensure non-discrimination against any demographic group is vital in increasing diversity and inclusion. As every new employee is subjected to the recruitment and promotion procedure, a robust strategy is a necessary condition of fair and equal treatment in the company. Notably, the percentage of companies which have a recruitment and promotion strategy is significantly lower in 2021: 49%, compared to 65% in 2020. This decrease can be explained by our scoring method: while a commitment to equal hiring was sufficient for a company to receive a point in 2020, this year VBDO has been looking for concrete measures that prove efforts are being made to avoid discrimination in the recruitment and promotion strategy. Examples of such measures are having balanced slates of candidates, building diverse succession pools, having diverse selection committees, ranking answers and anonymising résumés. Companies are, furthermore, encouraged to look beyond internal candidates and direct applicants and make an effort to create opportunities for diverse talent in society (see the diversity networks illustrated section on the previous page).

Gender pay gap reporting

The gender pay gap remains a salient topic in 2021. As well as VBDO, we also saw other investors tuning in to the issue of equal pay. Only 32% of companies in our scope have so far assessed, transparently communicated and addressed the gender pay gap (2020: 22%). Though the increase is promising, attitudes towards the gender pay gap are at times concerning. We encountered several companies that stated a gender pay gap was not possible at their organisation, as gender was not a factor explicitly considered in the hiring process. Most companies that report on their gender pay gap show that the adjusted gap is negligible. This is, of course, good news overall, but a lack of transparency on which factors are used to calculate the adjusted gap and overall method of calculation, makes it difficult for stakeholders to scrutinise companies on this issue. It is additionally notable that the Industry sector is lagging behind other sectors significantly on this issue, with only 10% of companies assessing, transparently communicating and addressing the gender pay gap.

Setting relevant KPIs and targets

KPIs with ambitious targets are essential in order to remain on track with diversity and inclusion. Therefore, VBDO stresses the importance of these targets covering the relevant aspects of diversity and all levels of the organisation. This means that targets exclusively on gender diversity or solely focusing on the executive and senior management levels are not sufficient. The more stringent application of these criteria has led to a significant decrease in the percentage of companies we award a score to for setting relevant KPIs and targets on diversity, from 14% in 2020 to 8% this year.

Best practices

SBM Offshore – local hiring

SBM Offshore values the engagement and development of the local workforce in its fleet operations. Therefore, SBM Offshore aims to increase the representation of local individuals in the workforce, as measured in percentage of nationalisation per region. For example, training for nationals is offered to facilitate them in entering the workforce. Currently, SBM Offshore's direct hire workforce in Brazil and Angola consists of 88% and 81% of nationals respectively.

Unilever – supplier diversity

Unilever has committed to spending €2 billion annually with diverse businesses worldwide by 2025. Diverse businesses, according to Unilever, are at least 51% owned, managed and controlled by minority groups, women, LGBTIQ+ people, people with disabilities or veterans. To live up to this commitment, Unilever is investing in a new supplier development programme to address the barriers that have held diverse partners back in the past. This programme will include the provision of access to skills and networking opportunities to build the capacity of diverse business owners.

Shell – Shell D&I Council for Race

One outcome of Shell's conversations on race and equity, has been the company's creation of the D&I Council for Race. This council will contribute to improving inclusion and experience of black employees and other underrepresented racial and ethnic groups within the company, within the supply chains and within the wider communities where Shell works. The council is sponsored by CEO Van Beurden and has two independent, external members.

Measuring diversity at PostNL

It is widely known that diversity and inclusion (D&I) can not only increase employee wellbeing, but can also boost financial performance. Consequently, companies are committing to increase D&I within their organizations. These concepts, however, can be abstract and difficult to measure, not to mention bound-up in legislation. PostNL is one of the largest employers of the Netherlands with an accurate representation of society. As this topic is vital to PostNL's success, the company has found an innovative and effective way of assessing D&I through its diversity index.

This diversity index constitutes the outcome of an extensive employee survey centered around the themes of acceptance, inclusivity, and diversity. Questions address employees' experience of belonging, freedom to express differences, and perspectives on the role of diversity in decision-making processes. Eventually scores of all themes are averaged to result in the final diversity index.

In addition, PostNL measures cultural diversity, which can be a particularly delicate matter in the Dutch legal framework. PostNL prevents privacy and legal issues by utilising the Barometer Cultural Diversity, provided by Statics Netherlands (CBS). This Barometer provides insight into the Western and non-Western migration background distribution of its workforce, without individuals being recognizable in the figures.

The collected D&I knowledge supports PostNL in accurately identifying areas in need of attention, including more objective indicators of age, gender, and multicultural diversity, but also more subjective ones such as acceptance, variety of brain power and distance to the labor market. Subsequently, each of these areas can be targeted with concrete measures, such as the reinforcement of internal networks, mentor programmes, specific training programs, and a proactive communication style.

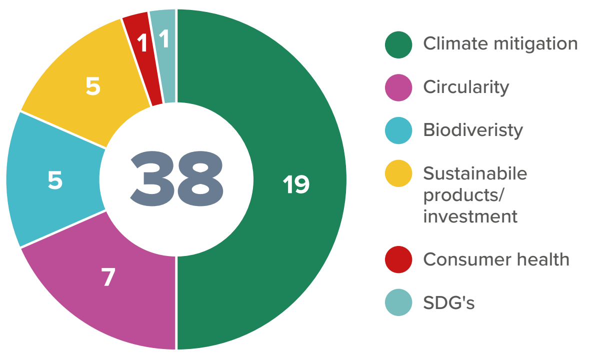
PostNL's excellent D&I performance demonstrates the cruciality of measuring D&I before implementing targeted solutions.

6. Other engagement topics

INTRODUCTION

As well as engaging on our three ESG focus 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.
We will expand on several of these topics in this section of the report. The topics discussed here do not constitute a comprehensive overview of all topics engaged on but are selected on relevance to society, such as the topic of climate mitigation, or on the lack of awareness regarding an issue, such as discrimination in software. For a full overview of questions asked beyond our three engagement topics, see graph 16.

Graph 16: **Questions beyond focus themes**



6.1 CLIMATE MITIGATION

Reducing CO_2 emissions (climate mitigation) 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 ecosystems and the global economy and a severe reduction in the standard of living globally. VBDO continuously engages on climate mitigation to encourage companies to reduce emissions from their own operations and from their value chains. In 2021, we focused, in particular, on offsetting emissions through carbon credits and science-based targets.

In total, nineteen questions were asked at AGMs in 2021 on the topic of climate mitigation. Seven commitments were made. Of these questions, five concerned setting Science-Based Targets and one concerned carbon credits.

6.1.1 SCIENCE-BASED TARGETS

In the context of reducing CO_2 and other greenhouse gas emissions, setting science-based targets remains an important engagement topic. The rationale for linking emissions reduction targets of companies to existing international agreements or scientific research is that this places the efforts of a company in perspective. In turn, this helps stakeholders to make a judgement on whether these efforts are sufficient or should be increased. In the previous year, our engagement on aligning CO_2 reduction targets with the Paris Agreement proved to be successful. In 2021, we have concentrated our questions on the alignment and approval of reduction targets with the Science-Based Target Initiative (SBTi). This initiative, a partnership between CDP, the UN Global Compact, World Resources Institute and the WWF, supports companies in setting science-based targets After SBTi's validation, companies can report on progress against their intermediate targets on an annual basis.

In 2021, VBDO has asked five AGM questions related to setting science-based targets. In three instances, we requested the companies in question to have their targets verified by the Science Based Targets initiative. Our other two questions concerned the alignment of a financial institution with the 1.5°C scenario, as recommended by the SBTi, and reporting on developments related to the Science Based Targets Network (SBTN) program respectively. Our engagement resulted in two commitments on Science Based Targets.

6.1.2 CARBON CREDITS

Carbon credits, or investments in climate action projects, are regularly used by companies to offset their emissions. Carbon offsets are integral to companies' climate mitigation strategy, as some emissions are very challenging or impossible to prevent. However, offsetting should only be utilized if no further avoidance and reduction of emissions can be achieved. In addition to the impact of carbon offsets on climate mitigation strategies, carbon offsetting has other sustainability risks and opportunities associated with it. These for example include the impact on local communities and the question of whether all emissions are indeed offset as reported. In 2021, we chose to engage specifically on these other risks and opportunities, as they are very rarely reported on or actively managed by companies.

VBDO asked four questions during pre-AGM engagement concerning carbon emission offsetting. Two questions were focused on increased transparency of the companies offsetting strategy and output, one was related to due diligence and impacts of offsetting projects and one focused on customer information in buying offsets. One of these questions was asked during the AGM, resulting in a commitment by Shell.

(Net) Zero, by Mart van Kuijk, Engagement lead at VBDO

VBDO has a long history of engagement on climate mitigation, and between 2006 and 2009 it was our main engagement theme. A large share of the companies within our investment scope, and also internationally, are setting 2050 net zero targets. In 2020, the world has experienced an astonishing, unparalleled, 7% drop in global CO_2 emissions. This is close to the yearly drop in emissions that we need to keep on track for net zero. Nonetheless, by the end of 2020, emissions were again back to pre-COVID levels and in 2021 global emissions have risen to almost the same trend as peak year 2019.[14]

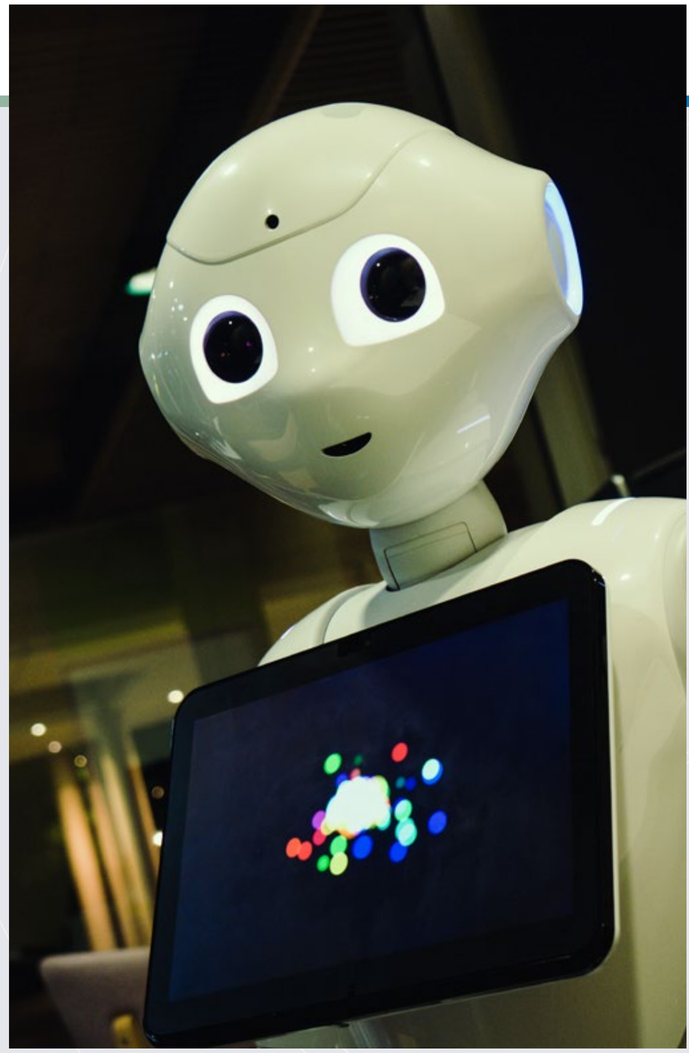
An important point of net zero commitments is the first word: net. This means that companies, governments and financial institutions are able to compensate for their emissions, e.g. through carbon offsetting and carbon capture and storage. These strategies are not perfect, but necessary if we are to achieve net zero. Carbon offsetting, e.g. through protecting forests to capture carbon, can potentially threaten the livelihoods of local communities and moreover do not always achieve the envisioned impact. Carbon capture is promising but not yet a commercial option and has not been broadly utilised. Additionally, offsetting can slow down actual investments in emissions reductions and enables companies to continue the status quo.

Greta Thunberg tweeted: *"If you can't see that "net zero targets" risk leading to these things, then you either don't understand the problem or you have a very clear agenda. The problem is of course not the "net zero targets" themselves, but that they're being used as excuses to postpone real action."*

VBDO is fully supportive of net zero targets and advocates for them on different levels and on multiple platforms. However, we feel that it is extremely important to emphasise that action is needed right now, at this very moment. This requires a high-level commitment, a clear and step-based approach with clear and intermediate targets, urgent and immediate measures to cut emissions and the comprehensive annual disclosure of progress. Commitments should include all attributable emissions, and the 'net' part should only be used if no other option is available, and be achieved through high-quality, verified and permanent removals. Actual and honest net zero strategies offer the most viable route to implementing the Paris Agreement and thereby preventing the most dangerous impacts of climate change.

6.2 DISCRIMINATION IN SOFTWARE

Bias and discrimination have historically taken root in the minds of individuals, in the law and even in science. As a consequence of the advancement and increased application of artificial intelligence and machine-learning algorithms, a new frontier must be confronted in order to prevent further institutionalisation of bias and discrimination.[15] Software is often created by using existing data: for example, for fraud-detection software, existing data of financial transactions is used. In this data, experts have marked which transactions are fraudulent. From this information, the software learns to recognise patterns of fraud. Any biases held by the experts will therefore be transferred to the software. This is a clear problem: all people subjected to this software will be impacted by this bias. This has already led to some troublesome examples, such as the recruiting software developed by Amazon, which was found to significantly discriminate against women.[16]



Considering the increased salience of this issue due to increased adoption of artificial intelligence in a variety of different situations, VBDO chose to engage several companies on this issue in 2021. Engagement took place in the pre-AGM dialogues, where we discussed this issue with three companies in our scope. The results of this engagement varied. Some companies displayed a thorough understanding of the problem combined with a comprehensive approach. While, in some cases, awareness of the issue was lacking. VBDO will continue to evaluate the salience of this issue for the companies within our investment scope.

Highlighted commitments on Science-Based Targets

Corbion will provide an update on the materiality assessment and value chain mapping performed as part of the SBTN in the next annual report.

Fugro will look into its scope 3 emissions and will take steps in aligning its emission targets with the Science Based Targets this year.

Highlighted commitment

Shell will report more transparently on its usage of carbon credits, at least including the type of credit and the certification of the credit. and

Michael Weber, Director of Corporate Climate Neutrality at South Pole on Climate Action Credits

Investor scrutiny, consumer pressure and regulatory requirements are all contributing to the avalanche of corporate net zero commitments. Climate solutions provider and project developer, South Pole, assists companies to set and achieve decarbonization goals. Michael Weber, Director of Corporate Climate Neutrality, sees carbon credits, or as he prefers, climate action credits, as a vital tool for financing urgent climate action and sustainable development (e.g. through protecting forests, clean water access and increasing renewable energy infrastructure) while driving the transition to global net zero. To be most effective, companies must integrate offsetting as part of a wider climate journey.

We discussed with Michael how companies can successfully use climate action credits in their climate strategy. First, to show the right intention, companies need to act today by taking responsibility for the emissions that cannot be avoided. Companies should continuously raise ambition and reduce their footprint over time. Secondly, it is important to purchase credits from projects that have been certified under an ICROA-approved standard, as this ensures credits are rigorously verified and have their own unique serial number to avoid double counting. Projects can be complex endeavors, so South Pole carries out regular and thorough due diligence on all its projects and those it procures on behalf of clients.

Contrary to the trend of reporting minimally on the risks to avoid scrutiny, South Pole advises companies to report openly their climate strategy, including carbon credits. A transparent and clear plan avoids accusations of greenwashing. Reporting can include listing invested-in projects, outlining the certifications and safeguards as well as positive impacts and any challenges that project has faced.

When deciding on a climate action credit procurement strategy, South Pole suggests taking up a long-term perspective. Creating a new climate action project, rather than buying credits from existing projects, requires a bigger upfront investment, yet it demonstrates long-term commitment to investors, and also hedges against expected carbon market price increases. Investments in new projects, potentially bundled in carbon funds, are essential to scale the carbon market and with-it cutting-edge technologies, to ensure we can keep global warming from overshooting the 1.5°C climate target of the Paris Agreement.

Michael Weber

6.3 CIRCULARITY

The circular economy was an engagement theme between 2014 and 2016. At that time, it was mostly about introducing the topic, but since then a lot has changed. Companies can now use reliable methods of calculating impacts and science is becoming more and more clear on how circular, plastics or other packaging strategies should look like. However, many companies are still thinking in a take-make-waste narrative, motivating us to engage significantly on this topic in 2021.

This year, for the first time, we analysed which companies are exposed to risks related to waste management, mainly in the Industry, Technology & Electronics, Food, Beverage & Retail sectors. Our questions were mainly focused on the first two (of three) principles of the Ellen McArthur Foundation: 'design out waste and pollution' and 'keep products and materials in use'. VBDO has advocated for targets on circularity and asked for a prioritisation of the circular value of waste processes: reduce, reuse and recycle, as this cascading approach seems to still be lacking. The two construction companies within our scope are actively working on this topic but could increase transparency. Food companies and retailers are working on targets, but we expect more from them in the years to come, especially because consumer behaviour requires change and adaptation. We have filed seven questions regarding circularity at seven companies, which all have significant resource streams in their supply chain. KPN and Just Eat Takeaway.com are planning to take big steps next year through their commitments (as found below).

6.4 BIODIVERSITY

VBDO has been engaging on the topic of biodiversity in the period 2003-2005 and it was again addressed at AGMs in the period from 2017-2018 through the topic of Natural Capital. VBDO experienced great attention for this topic in the past two years. In 2020, biodiversity moved from a niche ESG topic to a focus theme for several large investors, including VBDO's members. Safeguarding biological diversity is essential for healthy ecosystem services, such as crop pollination, water purification, flood protection and carbon sequestration, which are vital to our economies and more importantly human well-being. Despite the gravity of this issue, the reporting transparency is generally decidedly low. This is most likely due to the inherent complexity of tracking biodiversity, the novelty of the issue for companies and the lack of clear reporting standards. However, VBDO is happy to note that this topic is on the radar of companies. We expect to see more companies taking on this topic in next year's engagement season.

VBDO engaged with eight companies on the topic of biodiversity and filed four questions at AGMs. Most questions were directed at financial institutions and related to their contribution to the Finance for Biodiversity Pledge and Partnership for Biodiversity Accounting, but we have also engaged with producers of industrial products on how they integrate biodiversity risks and follow the developments of the SBTi. We have found that this topic is definitely on the radar of companies, but due to the novelty and no clear reporting standards, transparency is low. We expect to see more in next year's engagement season and will continue to report on this topic in 2022.

Ellen McArthur Foundation - three principles[17]

1. **Design out waste and pollution**
2. **Keep products and materials in use**
3. **Regenerate Natural systems**

Highlighted commitments - Just Eat Takeaway.com & KPN

Just Eat Takeaway.com aims to set targets related to sustainability of packaging/circularity.

KPN will look into requesting additional information from suppliers on raw material composition.

Highlighted commitment - Corbion's actions on Science Based Targets for Nature

Corbion will provide an update on the materiality assessment and value chain mapping performed as part of the Science Based Targets Network (SBTN) in the next annual report.

Diana Visser, senior sustainability director at Corbion and 2020 SDG pioneer

On integrating SDGs

The Sustainable Development Goals (SDGs) are commonly used to express value creation. The SDGs can however be used to advance sustainability performance next to serving as a reporting tool alone. Diana Visser explains how Corbion uses the SDGs to determine its strategic focus.

The process of integrating the SDGs into the strategy started with assessing Corbion's product portfolio and value chain and establishing positive and negative impacts on each SDG. The SDG impact assessment is based on the underlying targets defined for each SDG and on the report 'Business Reporting on the SDGs: An analysis of the goals and targets' from UN Global Compact and GRI.

Based on these assessments, Corbion has chosen to focus its strategy on SDG 2 (Zero hunger), SDG 3 (Good health and well-being) and SDG 12 (Responsible consumption and production) as the goals on which it believes it can make the most significant positive impact, given its business activities. To make a credible and meaningful impact on the Sustainable Development Goals, Corbion aims to minimize any negative impacts while maximizing positive impact. Currently 61% of its revenue contributes to one or more of these goals and the aim is to increase this to 80% in 2030. In practice, activities that make a significant contribution to the SDGs are scaled up, while investments and R&D proposals are scaled down for activities contributing less to relevant SDGs.

Key to maximizing impact, according to Diana, is to continuously re-evaluate where your company's strengths lay and how these can be used to create more impact. Indeed, Corbion directs its focus to the three chosen SDGs, rather than trying to make connections between all SDGs and every business activity. This way, the SDGs are not just a reporting tool, but a strategic tool.

Corbion is still in the process of further quantifying its impact on the SDGs, as this will increase clarity and concreteness. The confidence gained from Diana's 2020 SDG Pioneer title is expected to catalyze Corbion's SDG impact.

Diana Visser

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 three 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.

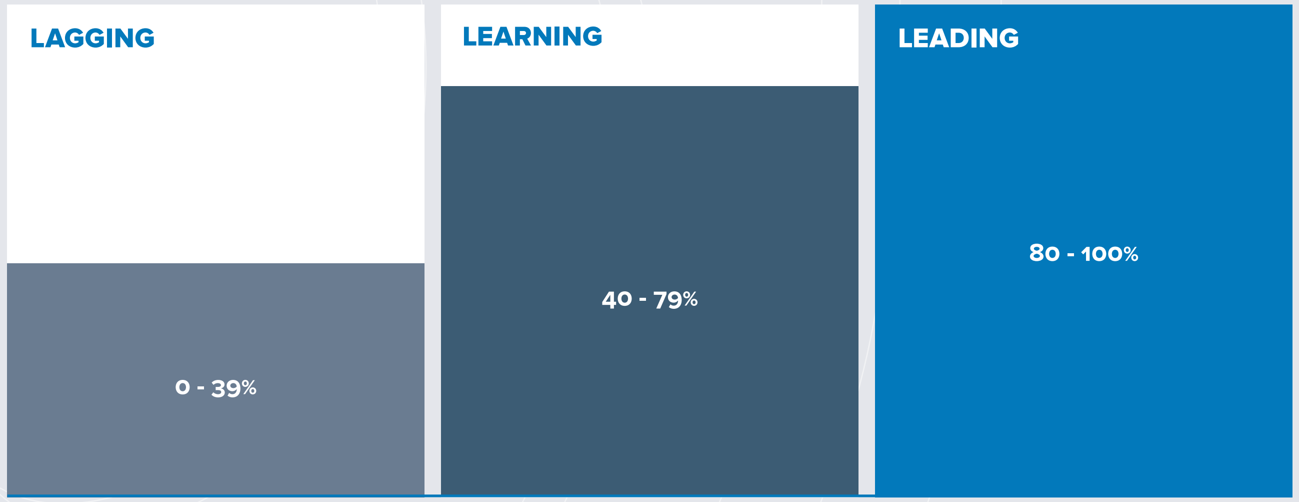
Figure 1: **VBDO's engagement process**

VBDO selects three priority themes for AGM engagement. These are chosen on the basis of international sustainability trends, regulations 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 2021 were shared in autumn 2020 with the companies that VBDO engages with, in a letter to the Board of Directors of each company. VBDO assesses ten relevant criteria per focus theme for each company in order to ensure that engagement is comparable, 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 number 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. During this process, companies are given the opportunity to provide feedback on their scores. 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 the three categories we place them in:



Company selection for 2021 engagement season

Companies are selected based on the selection criteria, in consultation with the concerned sector committee. In 2021, VBDO selected three additional companies to be included in its engagement scope (Adyen, Just Eat Takeaway.com and PROSUS). Two companies were excluded from our scope (OCI and Altice). In total, VBDO engaged with 38 companies in 2021, compared to 37 companies in 2019 and 2020.

Due to the COVID-19 crisis, it was not possible for us to attend AGMs in person. Fortunately, all the companies held a virtual AGM, which in most cases we were able to attend.

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;
- → 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 focus 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.


Photo credits: Robert Aardenburg

Appendix I – Engagement process

Table 4 – **List of companies engaged with in 2021**

Sector	COMPANY	Pre-AGM meeting	Digital AGM presence
Financial	ING Group	Yes	Yes
Financial	ABN AMRO	Yes	Yes
Financial	Aegon	Yes	No
Financial	a.s.r.	Yes	Yes
Financial	Van Lanschot Kempen	Yes	Yes
Financial	NN Group	Yes	Yes
Industries	Heijmans	Yes	Yes
Industries	Aalberts	Yes	Yes
Industries	BAM Group	Yes	Yes
Industries	Vopak	Yes	Yes
Industries	AkzoNobel	Yes	Yes
Industries	ArcelorMittal	Yes	No
Industries	Boskalis	Yes	No
Industries	DSM	Yes	Yes
Industries	Corbion	Yes	Yes
Industries	Shell	Yes	Yes
T&E (Technology & Electronics)	ASML	Yes	Yes
T&E (Technology & Electronics)	TKH Group	Yes	Yes
T&E (Technology & Electronics)	Philips	Yes	Yes
T&E (Technology & Electronics)	Signify	Yes	Yes
T&E (Technology & Electronics)	PROSUS	Not yet	Not yet
T&E (Technology & Electronics)	Adyen	Yes	Yes
T&E (Technology & Electronics)	ASM International	Yes	No
FBR (Food, Beverage & Retail)	Sligro	Yes	Yes
FBR (Food, Beverage & Retail)	Ahold-Delhaize	Yes	Yes
FBR (Food, Beverage & Retail)	HEINEKEN	Yes	Yes
FBR (Food, Beverage & Retail)	Wereldhave	Yes	Yes
FBR (Food, Beverage & Retail)	Unibail-Rodamco-Westfield	Yes	Yes
FBR (Food, Beverage & Retail)	Unilever	Yes	Yes
Services	Randstad	Yes	Yes
Services	SBM Offshore	Yes	Yes
Services	KPN	Yes	Yes
Services	Just Eat Takeaway.com	Yes	Yes
Services	PostNL	Yes	Yes
Services	RELX	Yes	No
Services	Wolters Kluwer	Yes	Yes
Services	Arcadis	Yes	Yes
Services	Fugro	Yes	Yes
	38 companies	37	32

Appendix 2 – List of 2021 engagement season commitments

ABN AMRO (Financial Sector)
→ No commitments were made in 2021.

ING group (Financial Sector)
→ ING Group will continue implementing its global job architecture in order to identify pay gaps.

Aegon (Financial Sector)
→ Aegon will discuss the progress on its group-wide sustainability approach in 2022.

a.s.r. (Financial Sector)
→ a.s.r. aims to report more transparently on the amount of sustainable insurance products.
→ a.s.r. will report more transparently on the material transition and physical climate change risks it has identified.

NN Group (Financial Sector)
→ NN Group will publish a Paris Alignment Roadmap (2050) next year, including intermediate targets and specific actions.
→ NN Group aims to expand its gender pay gap analysis to regions beyond the Netherlands. Based on the results of this analysis, NN will develop follow-up actions, and determine what is relevant to report in the 2021 Annual Report.

Van Lanschot Kempen (Financial Sector)
→ No commitments were made in 2021.

Heijmans (Industry Sector)
→ In 2021, Heijmans expects to set quantitative KPIs on topics related to climate adaptation.

BAM Group (Industry Sector)
→ BAM Group will consider disclosing more results of the supplier assessments in the 2021 annual report.
→ BAM Group will work on a pay gap analysis for the Netherlands and Ireland and will consider increasing transparency on this issue.

Aalberts (Industry Sector)
→ Aalberts will increase the representation of labour conditions due diligence in its multidisciplinary audits.
→ Aalberts will consider aligning its materiality analysis with the principles of double materiality in the next re-evaluation cycle.

Corbion (Industry Sector)
→ Corbion will provide an update on the materiality assessment and value chain mapping performed as part of the SBTN in the next annual report.
→ Corbion commits to include qualitative information on the results of its responsible sourcing efforts in the next annual report.
→ In its next code of business conduct update, Corbion will make its commitment to fair and equal remuneration more specific.
→ Corbion will report on the gender pay gap in due time.

DSM (Industry Sector)
→ No commitments were made in 2021.

ArcelorMittal (Industry Sector)
→ ArcelorMittal aims to share more information in future disclosures about water risks within its portfolio.
→ ArcelorMittal will further strengthen its D&I governance by forming a D&I council and disclosing new KPIs related to female talent.

Boskalis (Industry Sector)
→ Boskalis will test novel biodiversity indicators on a number of projects and will report on the results and next steps as soon as possible.

Shell (Industry Sector)
→ Shell will report more transparently on its usage of carbon credits, at least including the type of credit and the certification of the credit.
→ Shell will consider disclosing more of the internal information regarding diversity and inclusion publically.

Vopak (Industry Sector)
→ Vopak will clearly report on its progress on creating infrastructure for the energy transition.
→ Vopak will expand its human rights due diligence programme and report transparently on its progress.

AkzoNobel (Industry Sector)
→ AkzoNobel will aim to report more transparently on its due diligence work with critical or high-risk suppliers to improve labour conditions.

ASML (Technology & Electronics Sector)
→ ASML will publish a novel, global diversity and inclusion strategy with relevant KPIs next year.

Philips (Technology & Electronics Sector)
→ Philips aims to investigate critical raw materials usage in its products and will consider introducing this as a relevant theme in the EcoDesign program.
→ Philips will consider increasing its transparency with regards to supply chain due diligence, specifically focussing on how improvements are achieved, for example through anonymous case studies of zero tolerances or year-on-year tracking of specific suppliers.

TKH Group (Technology & Electronics Sector)
→ TKH will perform a further climate mitigation analysis next year, towards the aim of publishing a concrete and comprehensive set of climate mitigation targets.
→ TKH will further advance its climate adaptation analysis through stakeholder dialogue and follow-up plans and additionally report on this transparently.
→ TKH will perform an evaluation on whether it will further increase or improve its human rights due diligence.
→ TKH will publish novel plans and objectives with regards to Diversity and Inclusion in the next year.

ASM International (Technology & Electronics Sector)
→ ASMI aims to maximise its usage of renewable energy.

Signify (Technology & Electronics Sector)
→ No commitments were made in 2021.

PROSUS (Technology & Electronics Sector)
→ No commitments were made in 2021, as the engagement will take place after the publishing of this report.

Adyen (Technology & Electronics Sector)
→ Adyen will publish the results from the research of Adyen's climate strategy working group in 2021.

Sligro (Food, Beverage & Retail Sector)
→ Sligro is planning to further assess the gender pay gap until the second half of 2022 and will address any resulting gaps.

Ahold-Delhaize (Food, Beverage & Retail Sector)
→ Ahold Delhaize will report on the 100/100/100 progress made by brands each year in its annual report.
→ Ahold Delhaize will report on the progress made on equal pay next year.

HEINEKEN (Food, Beverage & Retail Sector)
→ HEINEKEN has committed to a balanced growth strategy, which reflects sustainability and responsibility next to organic growth, profit and efficient capital location.
→ HEINEKEN will contribute approx. 10% of the 55 million euros industry initiative on alcohol misuse and wider societal consequences in South Africa (over a period of 5 years).
→ HEINEKEN has committed to start reporting on their progress towards equal pay for equal work between female and male colleagues in the organization, but the form has yet to be decided.

Wereldhave (Food, Beverage & Retail Sector)
→ Wereldhave commits to finalize the roadmaps to mitigate physical climate change impacts on its buildings by 2025.
→ Wereldhave commits to report specifically on the 2021 assessment of its most important suppliers on social and environmental themes and commits to continue doing so periodically.

Unilever (Food, Beverage & Retail Sector)
→ Unilever commits to measure and report on the sustainability impact of the Climate & Nature fund.

Unibail-Rodamco-Westfield (Food, Beverage & Retail Sector)
→ No commitments were made in 2021.

Randstad (Services Sector)
→ Randstad will report as much as possible on human rights related risks in the 2021 annual report.
→ Randstad will introduce KPIs and targets on fostering inclusive employment.

SBM Offshore (Services Sector)
→ SBM Offshore intends to report more details on human rights in the supply chain.

PostNL (Services Sector)
→ PostNL commits to conduct stakeholder dialogues in 2021 on climate change and human rights related issues. Additionally PostNL will report on the groups included and the outcomes.
→ PostNL commits to address the outcomes of dialogues with suppliers on Human Rights themes as well as other outcomes of stakeholder dialogues in the annual report.
→ PostNL commits to provide insight into measures taken to increase the diversity index in the annual report.

Wolters Kluwer (Services Sector)
→ Wolters Kluwer will disclose the 2020 baseline and 2021 targets and achievements for the six ESG measures that form part of Executive Board remuneration in its 2021 annual report.
→ Wolters Kluwer will also report on progress and goals of its ENGAGE sustainability strategy in its 2021 annual report.
→ Wolters Kluwer has indicated it will evaluate TCFD reporting in the context of current EU legislative developments.

RELX N.V. (Services Sector)
→ No commitments were made in 2021.

Fugro (Services Sector)
→ Fugro will look into its scope 3 emissions and will take steps in aligning its emission targets with the Science Based Targets this year.
→ Fugro will continue to report on all the initiatives and progress made in the context of its D&I efforts.

Arcadis (Services Sector)
→ Arcadis will develop a plan, actions and key performance indicators to improve representation of five key affinity groups.

KPN (Services Sector)
→ KPN will look into requesting additional information from suppliers on raw material composition.
→ KPN will increase its minimum EcoVadis score for suppliers on ESG-performance.
→ KPN will consider more specific reporting on the gender pay gap.

Takeaway.com (Services Sector)
→ Just Eat Takeaway.com aims to set targets related to sustainability of packaging/circularity.
→ Just Eat Takeaway.com will check if it can disclose results of the employee engagement survey in the next annual report.
→ Just Eat Takeaway.com will share more about the D&I strategy later this year.

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