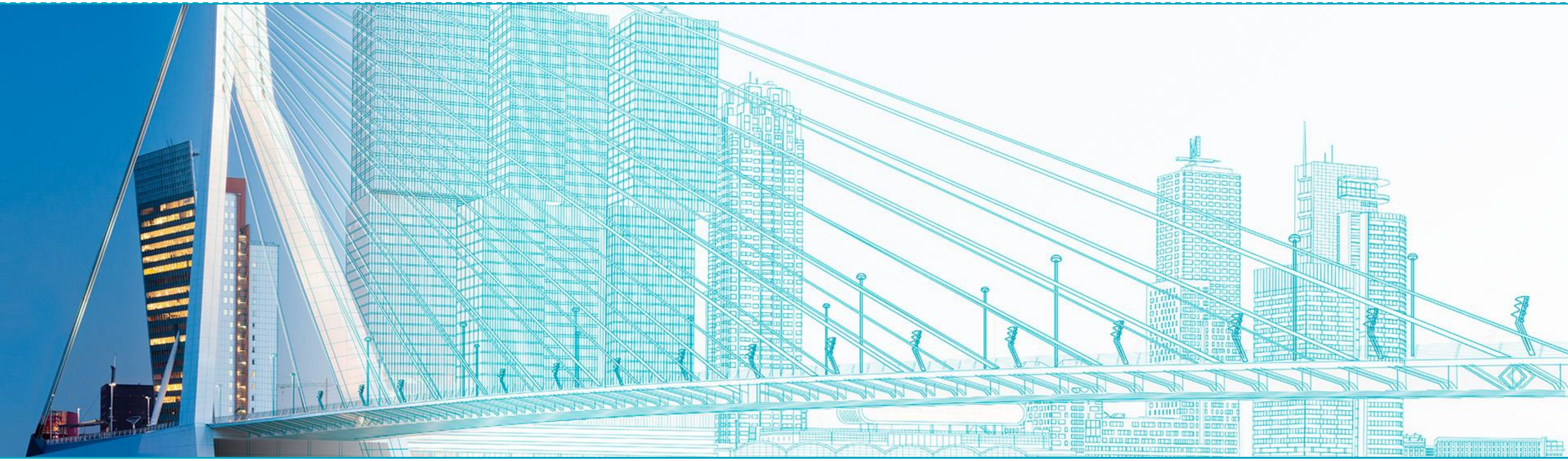

Engagement
Stewardship and Governance Code
Practical experience at Robeco

November 2017

Arnout van Rijn

Robeco Asia Pacific

For professional investors

ROBECO

I am a Man with a Mission

Equity market valuation by region

	APAC	World	USA	Japan	Korea	APAC vs world
P/E 2017	**15.1**	17.7	20.4	15.4	10.2	-15%
P/CF 2017	**9.9**	11.8	14.0	9.3	5.9	-16%
P/B 2017	**1.6**	2.3	3.2	1.4	1.2	-30%
Div. yield 2017	**2.4%**	2.4%	1.9%	1.9%	1.6%	

In Asian equity markets
- Valuation is at a 15% discount to global averages
- Korea is the most serious case

Why
- Due to weak corporate governance in general and weak shareholder returns in particular

My mission
- Better governance leads to more focus on shareholder returns which lifts equity valuations and means better pensions for Asians

Source: MSCI, IBES, Morgan Stanley, Oct 31, 2017

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Asset owners:- The stewardship problem

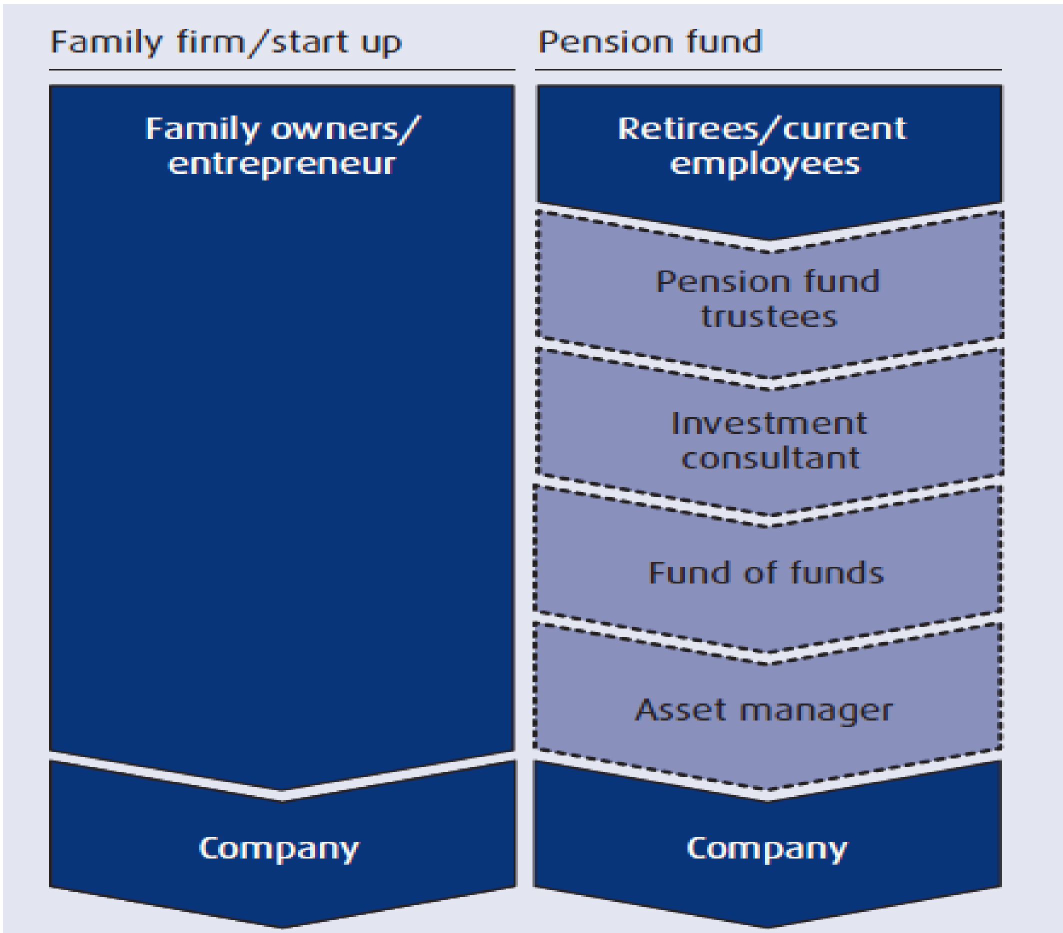
Why is it difficult to become an active, long-term owner?

1. In-appropriate performance metrics → short-termism by asset managers
2. Excessive emphasis of quantitative data → at expense of qualitative factors
3. Excessive diversification → makes monitoring difficult
4. Long ownership chain → weakens an "owner" mindset

"We need to end short-termism... at least until next week"

Source: "Why stewardship is proving elusive for institutional investors", Wong, S.,Butterworths Journal of International Banking and Financial Law, 2010

Long ownership chain → weakens an "owner" mindset



Source: "Why stewardship is proving elusive for institutional investors", Wong, S.,Butterworths Journal of International Banking and Financial Law, 2010

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Practical experience: Exercise shareholder rights

Stewardship issues

→ The rise of the passive manager

Low fees cannot include serious engagement, just (automated) voting

→ Engagement is “capital intensive”

Remuneration to active managers for stewardship services are limited.

Why ask for engagement if you don’t believe in the added value?

→ Integrated engagement

Better results when PM is involved. Like an activist: “This really matters to us”

→ Governance is closest to the heart of a fundamental investor.

Environmental and social engagement are more distant

Some companies hard to engage on G but can have useful E and S debate

→ I have a benchmark to beat and clients to please. I cannot promise to stick around

Passive investors actually can!

Practical experience: Challenging the corporates

Corporate Governance Code issues

→ Cultural (in)sensitivity: Capitalism with Confucian Characteristics

It is MY company not YOURS

Can investors really make a contribution from afar?

→ The CG code as a box ticking compliance exercise

"Why does your PM join a meeting that is *only* about Governance?"

Lame uninformed Independent Directors

Weak uninformed Audit Committees

→ INEDs don't get paid and liability/reputational risk is high and rising.

Are we asking too much?

→ Lead Independent Director: the go-between investors and the Board

Anybody want to try?

Engagement – some challenges for investors

1. Lack of proper incentives
   - Perceived regulatory barriers
   - Fragmented share ownership
   - Active investors are assessed on investment return (measureable!)
   - Conflicts of interest (lack of independence, compromised corporate access)

2. “Free-rider” effect
   - Active owners/engagers have to do all the work; extra costs
   - Engagement success & benefits enjoyed by ALL investors

Sources:
Improving Corporate Governance & Sharholder Engagement, Association of British Insurers, 2012
Robeco research, 2015

Engagement – overcoming challenges

1. Engagement is often uncomfortable
   - Desire to maintain good corporate relationships
   - “Activist” approaches vs. “Active Ownership
   - Language & cultural factors (Confucian vs. Anglo-Saxon)

2. Corporate Japan
   - Dis-trustful of (foreign) institutional investors intentions
   - Skeptical of their knowledge and competence

3. Some solutions
   - Deep research, non-financial
   - Constructive; use “Active Ownership”, NOT “Activism”
   - Collaborate

Source: Keys to success of Japanese Stewardship Code, Sadakazu Osaki, NRI lakyara vo.199, 2014

What matters in engagement

Being there

- Vote your shares and explain why if you vote “No”
- Engage with portfolio companies regularly about ESG topics

Patience and persistence

- Do you rent or do you buy?
- Shareholders need to be seen as reliable partners: low portfolio turnover helps
- Lately there is much more fertile soil in Japan
- In Korea governance has become top of mind after forceful criticism

Bottom up but also top-down

- Make regulators aware of your concerns

Active but not activist

- To get media involved is counterproductive

Active Ownership with a "long-term horizon"

FROM

Information requested:

Mostly financial and short-term

(e.g. Quarterly earnings updates)

Frequency and nature of interaction:
From short and frequent
(e.g., quarterly analyst calls)

Level of interaction:

From mostly investor relations

TO THIS:

Information requested:

Longer-term and more strategic

(e.g. market share goals, 5Y capex

plans)

Frequency and nature of interaction:
Longer and more in-depth
(for example, annual half-day
management meetings)

Level of interaction:
Broader set of stakeholders (e.g.
management, board members,

clients)

Source: FCLT, Straight talk for the long term, March 2015

END

Investors' views on stewardship and activism

Global survey of institutional investors:

- 76% had a favourable view of shareholder activism.
- 84% thought that it added value to targeted companies

Institutions believed the benefits result in three outcomes:-.

i. providing a catalyst for change.

ii. aligning the interests of board and management with those of shareholders.

iii. forcing companies and boards to sharpen their strategic focus.

Source:- 2015 Shareholder Activist Landscape: An Institutional Investor Perspective, FTI Consulting, January 2015

Response from investment managers

Mainstream investment managers (inc. Robeco)

- Managers not incentivised to influence corporate behaviour
- Easy to sell under-performing stocks (except passive funds)
- Conflicts of interests (e.g. compromised corporate access, business development)
- Engagement activity – mostly confined to voting, not influencing financial & strategic issues
- Governance teams do not make investment decisions.

Activism is dominated by US (hedge) funds (AuM 244bn)

- Massive gap in market as mainstream managers do little
- Incentives for success

Good models of active managers using constructive engagement

- Ownership Capital (Global equities, based in Amsterdam)
- Taiyo Pacific (Japan equities, based in Maryland)

Source:-2015 Shareholder Activist Landscape: An Institutional Investor Perspective, FTI Consulting, January 2015

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