

# Sustainability and Engagement at Boston Partners

## Engagement Report

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The Sustainability and Engagement Team (the “Team”) undertook the following engagement actions during October 2019:

### **Calls, Meetings and Correspondence with Issuers:**

The Team engaged with the below issuers following research on the company.

1. **Valero Energy Corporation (ticker symbol VLO):** VLO is an independent petroleum refining and ethanol producing company. The Team emailed VLO following research on VLO. The Team noted governance concerns such as the combined CEO and Chairman and the Board’s authority to issue blank-check preferred stock. The Team asked if the Code of Conduct applies to contractors and inquired about policies such as those covering human rights and political contributions and lobbying. The Team also inquired if there is a qualification process for suppliers, if suppliers are audited and the process for supplier audits, why there are differences in the procurement process for various sites, and if VLO has a Conflict Minerals Policy. The Team asked if VLO’s GHG emissions and other environmental data are third-party verified. The Team also sought information on training and employee development and encouraged VLO to publish EEO-1 data on its website.
  2. **Expeditors International of Washington, Inc. (ticker symbol EXPD):** EXPD provides logistics services. The Team emailed EXPD following research on EXPD. The Team noted EXPD has a low Glassdoor rating and inquired if EXPD monitors Glassdoor and Indeed reviews. The Team inquired if EXPD has plans to increase gender diversity on the Board and in what way EXPD considers an employee’s sustainability efforts when determining compensation. The Team inquired about disclosure regarding Code of Ethics violations and whistleblower data, diversity of the workforce, supplier oversight, GHG emissions targets and third-party verification, and compliance processes for anti-bribery regulations. The Team also inquired if EXPD will be preparing SASB and TCFD reports.
  3. **NXP Semiconductors N.V. (ticker symbol NXPI):** NXPI is a semiconductor company. The Team emailed NXPI following research on NXPI. The Team encouraged NXPI to consider the SASB sustainability disclosure topics. The Team noted NXPI provides disclosure regarding whistleblowers and the percentage of allegations reported to the ethics committee that were substantiated and encouraged NXPI also to report how many allegations were received and provide disclosure about the types or categories of allegations. The Team inquired about the total number of suppliers NXPI has and how many suppliers are considered to be high-risk. The Team encouraged NXPI to disclose diversity data for various seniority levels within the company. The Team also inquired about policies and procedures for cybersecurity.
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4. **Flex Ltd. (ticker symbol FLEX):** FLEX provides design, engineering, manufacturing, and supply chain services and solutions to original equipment manufacturers. The Team emailed FLEX following research on FLEX. The Team encouraged FLEX to consider the SASB sustainability disclosure topics. The Team noted FLEX provides disclosure of the number of hotline reports received and encouraged FLEX to disclose the types or categories of reports received. FLEX reports data related to supplier oversight and the Team asked FLEX to disclose the total number of suppliers to give more context for the information. The Team also inquired about end-of-life products and e-waste, including how much is recovered or recycled.
5. **Loews Corporation (ticker symbol L):** L is a diversified company with businesses in the insurance, energy, hospitality, and packaging industries. The Team emailed L following research on L. The Team noted L published its inaugural sustainability report in 2019. The Team communicated Boston Partners' perspective regarding chairman independence. The Team inquired about a third party to receive whistleblower reports and encouraged L to disclose the number and type of Code of Ethics violations as well as the discipline administered. The Team inquired about diversity, safety statistics, and supplier oversight. The Team also communicated its expectation that issuers disclose GHG emissions and set future targets, preferably science-based targets, and that issuers have this information verified by a third party. In addition, Boston Partners expects to see issuers describing how climate change is being taken into account in the various businesses. The Team also inquired whether L will report in accordance with SASB and TCFD.
6. **Las Vegas Sands Corp. (ticker symbol LVS):** LVS develops, owns, and operates resorts in Asia and the US. The Team emailed LVS following research on LVS. The Team inquired about supplier oversight, safety statistics, and diversity of the workforce. The Team noted a trend of issuers providing two key statistics that help shareholders to gain a deeper perspective on an issuer: the number of substantiated whistleblower complaints and the number and type of infractions of an issuer's Code of Conduct; the Team encouraged LVS disclose these. The Team also asked if LVS will consider any changes to its corporate governance structure in the near future as there are several elements that are not considered to be consistent with the operation of a sustainable issuer: lack of an independent Chairman, lack of a substantial majority of directors that are independent, and no right for shareholders to call a special meeting or act by written consent.
7. **Tractor Supply Company (ticker symbol TSCO):** TSCO operates rural lifestyle retail stores in the US. The Team contacted TSCO following research on TSCO and set up a call with Investor Relations. TSCO expressed it is working on improving the reporting and recognizes ESG is a focus for investors. The Team noted the information that is on the website is good and it is clear the company has a sustainability focus, but the disclosure is lacking. TSCO explained it is focused on the environmental side because that is important for TSCO customers and the TSCO team. The representative also felt TSCO does well on the governance side. TSCO has received feedback about incorporating the UN SDGs, SASB, etc. into its reporting. TSCO has some level of supplier requirements, but it is unclear what the oversight program entails. TSCO pointed to the Vendor Compliance Policy on the website. TSCO also noted diversity efforts at the company. The representative offered to set up a call with TSCO's General Counsel, who oversees the sustainability program.

The Team engaged with the below issuers following shareholder outreach by the company.

1. **Noble Energy, Inc. (ticker symbol NBL):** NBL is an oil and gas exploration and production company. NBL initiated the call as part of its shareholder engagement program. NBL noted changes it has made to its governance structure in terms of safety, sustainability, and corporate responsibility. NBL also described its latest Sustainability report, which discusses the long-term impact of climate on the business and aligns with the core elements of TCFD. NBL has reduced its emissions year-over-year, though the company has not set specific emissions reduction targets. The report focuses on NBL's progress to date. The Team inquired about third-party verification of the Sustainability Report. NBL noted the company works with third-party consultants to verify some data, especially environmental information. The Team noticed that safety incident rates were higher for contractors than for employees, and NBL described the safety program for employees and contractors. The Team also expressed concerns about the lack of independence on NBL's Board and the combined CEO and Chair position.

2. **DTE Energy Company (ticker symbol DTE):** DTE is a utilities company. DTE reached out to Boston Partners as part of its fall shareholder engagement calls. DTE recently released its 2019 ESG and Sustainability Report, and DTE has been improving the website. DTE has announced a new goal to achieve net zero carbon emissions in its electric business by 2050. DTE has also established target dates for retiring its coal facilities. DTE recalled Boston Partners' preference for a separate CEO and independent Chairman and noted it split the roles of CEO and Chairman in July. The prior CEO continues to serve as Chairman, and there is a Lead Independent Director. The Team inquired about third-party verification for scope 2 & 3 GHG emissions, indicated Boston Partners' preferences regarding shareholder rights, and recommended DTE consider incorporating the SASB standards into its disclosure.
3. **Reinsurance Group of America, Incorporated (ticker symbol RGA):** RGA is a reinsurance company. RGA contacted Boston Partners as part of its regular governance outreach to shareholders. RGA provided a brief history of the company to explain some of its governance characteristics, such as the classified board and 85% supermajority vote requirements. RGA is in the midst of a three-year board declassification process, and the entire Board will be elected annually beginning in May 2021. The 85% supermajority vote requirement has been eliminated and replaced with a simple majority. RGA also highlighted shareholder access to amend the bylaws; previously, only the Board could amend the bylaws. Additionally, RGA adopted proxy access in April 2018. The Team commended RGA for having an independent Chairman, independence on the Board, and diversity on the Board. The Team communicated our preferred thresholds for the shareholder right to call a special meeting and to act by written consent. RGA explained that Missouri business law mandates written consent must be at the unanimous threshold. RGA noted that as reinsurance company, its ability to make environmental change is limited; however, RGA is a signatory to the PRI. RGA noted it is working on improving its disclosure. RGA also highlighted unconscious bias training for staff. The Team suggested disclosing EEO-1 data and inquired about parental leave policies.
4. **The Travelers Companies, Inc. (ticker symbol TRV):** TRV is an insurance company. TRV reached out to Boston Partners to discuss TRV's approach to sustainability, among other things. The Team commended TRV for providing a SASB report, TCFD report, GRI Content Index, ESG Analyst Data; however, the website still lacks EEO-1 data. The Team communicated that this data is important and Boston Partners voted in favor of the shareholder proposal requesting it. The Team also recommended including injury rate data, whistleblower data, and supplier oversight information on the website. TRV noted there were no major changes to the compensation structure. TRV recalled Boston Partners' preference for an independent Chairman and noted there is a Lead Independent Director and TRV reviews the leadership structure regularly.
5. **BankUnited, Inc. (ticker symbol BKU):** BKU is a bank holding company and provides banking services. BKU reached out to Boston Partners as part of a shareholder engagement program to discuss corporate governance practices and disclosures as well as executive compensation. BKU described the compensation committee. The Team noted ISS found misalignment between BKU's pay and performance, citing concerns regarding long-term incentive goal rigor and the program providing target rewards for below-median performance. BKU is evaluating ways to address the concerns for 2020. The compensation committee and Board are looking at all factors, including peer group, trends, etc. The Board aims for CEO pay to be in alignment with performance. The Team commented on the combined CEO and Chairman and expressed Boston Partners' preference for an independent Chairman and separate CEO. The Team also inquired about ESG disclosure, and BKU indicated it is paying attention to this and considering it.
6. **CVS Health Corporation (ticker symbol CVS):** CVS is a retail pharmacy company. CVS contacted Boston Partners as part of its shareholder outreach program. CVS provided a business update. CVS described an engaged Board with four directors from Aetna. CVS highlighted the range of tenure and the large number of directors who would be considered audit committee financial experts. CVS noted it didn't make many changes to compensation and doesn't plan to make any major changes this year. CVS highlighted its CSR efforts and initiatives to combat opioid abuse. The Team inquired about product safety. CVS explained there is a quality review process for each product or vendor. CVS also has the purchase history for relevant customers, especially for loyalty cardholders, and can contact customers affected by a recall. Store brand products are tested by a third party. Recalls are reported to the Board and taken seriously.

7. **Parker-Hannifin Corporation (ticker symbol PH):** PH manufactures motion and control technologies, among other products. The VP, General Counsel and Secretary reached out to the Team ahead of the annual meeting regarding the voting items in the proxy statement. The Team responded via email informing PH that Boston Partners intended to vote in line with management recommendation on all proposals, except for the proposal to require an independent Board Chairman. It is Boston Partners' policy to vote for shareholder proposals requiring that the Chairman's position be filled by an independent director and separation of the offices of CEO and Chair. The Team discussed PH's structure and approach to this topic—as well as Boston Partners' preference for an independent Chairman—during the call in June.
8. **FTI Consulting, Inc. (ticker symbol FCN):** FCN provides business advisory services. FCN reached out to Boston Partners to discuss corporate governance trends, as well as FCN's executive compensation program, self-selected peer group, and use of equity compensation. FCN noted it is not contemplating any major changes in compensation and described the compensation plan. The Team commended FCN for having an independent Board Chairman and communicated our preferences for the thresholds for the shareholder right to call special meetings and right to act by written consent. The Team also offered feedback on FCN's CSR report and suggested disclosing diversity data, GHG emissions, supplier oversight information, Code of Ethics and anti-bribery policies, and data and cyber security information. The Team also encouraged FCN to adopt a form of standardization for its reporting, such as SASB.
9. **Dover Corporation (ticker symbol DOV):** DOV is an American conglomerate of industrial products. DOV reached out to Boston Partners as part of its shareholder engagement program. DOV offered an update on the business and described the compensation plan. DOV is considering incorporating ESG oversight responsibility into the annual incentive plan structure. DOV discussed governance and noted it may add directors to the Board. The Team encouraged DOV to consider diverse candidates and to be mindful of overboarding; the Team explained Boston Partners' overboarding policy. DOV described the sustainability program and noted it is working to improve disclosure.
10. **ASGN Incorporated (ticker symbol ASGN):** ASGN offers staffing and IT services. ASGN reached out to Boston Partners seeking input regarding executive compensation. ASGN recalled the Team's feedback from the June discussion regarding the grant given to the CEO, STI & LTI criteria, lack of a long-term target, and lack of ESG disclosure. ASGN highlighted two core issues with the compensation plan: the lack of a three-year (or more) plan and paying out the max or near the max. ASGN indicated it is incorporating a longer cycle in the plan, noting the cyclical nature of the business makes this challenging. ASGN also explained the company is growing faster than the industry, and the plan targets reflect above-industry performance. The Team communicated that ultimately Boston Partners wants to see a compensation program that provides the appropriate incentive for employees.
11. **Pfizer Inc. (ticker symbol PFE):** PFE is a pharmaceuticals company. PFE reached out post-proxy season to discuss the Board of Directors, executive compensation, and human capital. PFE acknowledged the letter Boston Partners sent regarding votes against management recommendation at the annual meeting. PFE noted it appreciated the letter, found it to be helpful, and shared it with the Board. PFE indicated it has a diverse and engaged Board committed to refreshment. PFE considers diversity in terms of gender, ethnicity, and skillset, though PFE is seeking more gender diversity. PFE briefly discussed executive compensation as well as the joint venture with GSK. PFE discussed human capital management and corporate culture. PFE recently completed a global pay equity study, which had positive results. PFE noted it is focusing on opportunity parity. The Team inquired if PFE follows its Glassdoor and Indeed reviews, and PFE indicated that it does. The Team inquired about disclosure of turnover rates, and PFE noted that one number may not adequately represent the diverse roles and positions within the company, but they will pass the feedback on. The Team also inquired if PFE has considered SASB; PFE communicated it is considering the framework.
12. **Mondelez International, Inc. (ticker symbol MDLZ):** MDLZ is a snack food and beverage company. MDLZ reached out to Boston Partners as part of its ongoing engagement program. MDLZ highlighted its diverse, global leadership team, which reflects the business, and that the majority of CEO and NEO compensation is at risk. MDLZ pointed to the changes it is considering for the compensation plan in response to shareholder comments. MDLZ discussed the Board, which has a continuous refreshment process, and expressed it is looking to add additional women and people of color.

MDLZ also noted women in management positions is a metric considered in compensation and it is working to get women in the door and rise within the ranks. As a food company, MDLZ is focused on safety. MDLZ is also focused on responsible cocoa, palm oil, and packaging. The Team inquired about contract labor. MDLZ noted it follows the same process and commitments to keep contractors and employees safe. The Team noted the issue of child labor and inquired if it is a concern in relation to cocoa suppliers and small family farms since there is a tradition of children working on family farms. MDLZ made the distinction between legitimate child work and harmful child labor. MDLZ appears to have considered and addressed the concern. The Team commented on reviews and systems to address due diligence and MDLZ communicated efforts to enhance and renew due diligence processes. The Team inquired about SASB, and MDLZ noted it is looking at the standards and is reviewing integration into the reporting. The Team also noted the level of employee training was not in the report and recommended including whistleblower claims or Code of Ethic violations in the reporting as well.

13. **Ciena Corporation (ticker symbol CIEN):** CIEN is a networking systems, services, and software company. CIEN reached out to Boston Partners as part of its stockholder outreach activities. CIEN provided an overview of the company. The Chairman of the Board is a founder of the company and is salaried, thus he is considered an Executive Chairman. CIEN noted refreshment and a history of diversity on the Board. CIEN described the executive compensation plan. CIEN published an inaugural sustainability report and commented sustainability is a key part of the company's strategy because customers seek efficiency and want to be able to do more with less. CIEN discussed human capital, including the holistic well-being of employees and retirement readiness. The Team suggested CIEN include information about training programs and hours in the sustainability report. Other recommendations included adding EEO-1 type diversity data, supplier audits and results, whistleblower reports, and contractor safety data. The Team noted CIEN has a classified board and communicated Boston Partners' preference to declassify. The Team also explained Boston Partners' overboarding policy and communicated Boston Partners did not support a director at the 2019 annual meeting due to overboarding. Further, the Team commented on director independence.
14. **American International Group, Inc. (ticker symbol AIG):** AIG is an insurance company. AIG reached out to Boston Partners as part of its shareholder engagement program. AIG described the board composition. AIG added four new directors and AIG has boosted diversity on the Board. The average tenure is less than six years. AIG discussed the compensation program. The new CEO drove some changes—like the emphasis on insurance metrics. AIG is focusing on a return to profitability and feedback from shareholders. AIG appointed a Chief Sustainability Officer who is focused on telling AIG's story, and AIG recently published a TCFD report. The Team noted the TCFD report looked good, but disclosure regarding supplier oversight, safety, and whistleblower data was lacking.

The Team received the following responses from issuers, as well as participated in the following discussions, regarding Boston Partners' proxy vote against management.

1. **Pfizer Inc. (ticker symbol PFE):** PFE is a pharmaceuticals company. In August, PFE's Senior Vice President and Corporate Secretary, Chief Governance Counsel responded to Boston Partners' letter of May 20, 2019 regarding votes against management recommendation at the annual meeting. PFE responded to each concern, including overboarding, the right to act by written consent, and an independent Board Chair. PFE provided the company's perspective and/or policy for each matter.
2. **The Goldman Sachs Group, Inc. (ticker symbol GS):** GS is a global investment banking, securities, and investment management firm. A representative from GS's Investor Relations team responded via email to Boston Partners' letter of June 6, 2019 regarding votes against management recommendation. GS noted it appreciated Boston Partners sharing its concerns and offered to set up a call to discuss further.
3. **NetScout Systems, Inc. (ticker symbol NICT):** NICT provides service assurance and security solutions to assure digital business services against disruption. The Chairman, Nominating and Corporate Governance Committee responded to Boston Partners' letter of August 29, 2019 regarding votes against management recommendation. Boston Partners voted

against a proposal to approve the omnibus stock plan because the company's three-year average burn rate exceeds three and a half percent, which Boston Partners deems excessive. NTCT noted it appreciated understanding the views of Boston Partners and offered to arrange a discussion.

4. **Ennis, Inc. (ticker symbol EBF):** EBF prints and manufactures business forms and other business products. The Executive Vice President & Secretary of EBF responded to Boston Partners' letter of July 8, 2019 regarding votes against management recommendation. Boston Partners voted against the advisory vote to ratify named executive officers' compensation. EBF stated it disagreed with the recommendation of ISS, particularly the peer group selected by ISS. EBF noted it appreciates hearing from its shareholders.
5. **Verizon Communications Inc. (ticker symbol VZ):** VZ is a telecommunications company. VZ received Boston Partners' letter of June 6, 2019 regarding votes at the 2019 shareholder meeting and offered to have a call to discuss further. VZ noted Boston Partners' overboarding policy and mentioned it is reviewing its overboarding policy. VZ communicated that the nominating committee is thoughtful about the level of engagement and the level of commitment of directors. The Team took advantage of the opportunity to ask about other matters and noted VZ has comprehensive disclosure. The Team inquired about turnover of employees, and VZ explained this was a difficult topic to report this year due to a large voluntary separation offer. VZ noted it is conducting a comprehensive internal review of how to enhance the ESG reporting. The Team inquired if there is a retention program and VZ described the workforce strategy development program and employee engagement survey. The Team inquired if the Code of Conduct applies to contractors, and VZ explained the Supplier Code of Conduct covers contractors. The Team inquired about environmental goals, and VZ noted it recently joined the UN Global Compact. The Team inquired about data centers, and VZ indicated it is cognizant of the importance of efficiency. VZ has a target to reduce the carbon intensity of its operations, which involves the use of power in data centers. The Team inquired about legal proceedings related to the sale of location data, and VZ explained it stopped selling location data long before competitors did and does not deem the matter to be material. The Team also discussed the response process for issues with suppliers.

### Proxy Voting:

The Team sent a letter to the following issuers informing the issuers of Boston Partners' proxy vote against management:

1. **Distell Group Holdings Ltd. (ticker symbol DGH SJ):** Voted against two special resolutions because the proposed fee for the lead independent director exceeded those received by peers from similarly sized companies. Additionally, payments to non-executive directors can function as a de facto consultancy agreement, undermining the independent judgement that non-executive directors should bring to the Board.
2. **Eastern Co. (Egypt) (ticker symbol EAST EY):** Voted against the acceptance of financial statements and statutory reports because the company's auditor issued a qualified opinion; there were discrepancies in the registered amounts in customs certificates and feasibility studies regarding accounts of its projects under construction were not provided. Voted against discharging the Chairman and directors given the concerns raised by auditors. Voted against director remuneration because the payment amount increased by EGP 9 million when compared to the previous year without explanation.
3. **Parker-Hannifin Corporation (ticker symbol PH):** Voted for the requirement that the Chairman of the Board be independent.
4. **PLAY Communications SA (ticker symbol PLY PW):** Voted against one director nominee due to independence concerns and voted against the performance incentive plan because the vesting period of awards was shorter than three years, which diminishes board focus on long-term shareholder value and returns. Further, individual award levels were not disclosed.
5. **Tupy SA (ticker symbol TUPY3 BZ):** Voted against the re-ratification of the company's long-term incentive plan because Boston Partners believes performance hurdles should be challenging and not based solely on one metric. Voted

against the signing of indemnity contracts between the company, management, Board of Directors, fiscal councils and committee members. The terms appear to include the possibility of indemnification payments in the context of judicial or extrajudicial agreements, which can potentially include plea deals in the context of eventual corruption investigations.

### **Boston Partners voted the following number of proxies:**

Number of meetings: 24

Number of issues: 153

### **Disclosure**

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