

Hon Hai pressed for better governance and labor standards

As a sustainable investor, Robeco is convinced that engaging with companies on the most material sustainability issues enhances their competitiveness and profitability. In addition, it generates measurable benefits for investors and society as a whole. A good example is our current engagement with Taiwanese electronics company Hon Hai.

Hon Hai Precision Industry, trading as Foxconn Technology Group, is a Taiwanese multinational electronics company and a major supplier to many electronics companies, including Apple.

Making our concerns heard

A group of more than 30 institutional investors from all over the world, including Robeco, spoke at Hon Hai's shareholders meeting, which was held in Taiwan on June 25, 2014. At the meeting we expressed our concerns about the company's transparency, board composition and human capital management.

Urging the company to increase transparency

First, we addressed Hon Hai's limited communication about its long-term objectives, strategy and business model. After all, our portfolio managers need this information to make investment decisions. Apart from that, the company needs to improve its financial reporting to comply with regulatory requirements

that apply to many responsible institutional investors.

Ensuring an effective Board composition

Second, we asked the Chairman to explain how the Board of Directors assesses its experience, skills and performance. We want to know how the Board ensures it is well positioned to lead and independently oversee the company's increasingly complex and diversified businesses.

Addressing working conditions

The third issue concerned Hon Hai's working conditions and employee relations. Serious questions about this issue have been raised following a series of severe incidents related to labor standards at the company's sites. Although the company has made progress following the assessment by the Fair Labor Association in 2012, we do believe the adequate management of human capital across all operations remains a key sustainability challenge.

Commitment to dialogue

Overall this was a very worthwhile intervention. We noted that the Chairman was committed to dialogue and already gave some reassurance on the issues we raised. He appeared to be passionate about the human capital topic and seemed to be on top of it. This confirmed our view on the company's approach to improving labor conditions from previous conversations we had with company representatives.

Keeping the lines of communication open

To keep the dialogue going, we sent a follow-up letter with the investor group to clarify our concerns and provide more guidance on what we would need. In early November, we had a conference call with the company to further discuss labor standards and corporate governance. Hon Hai answered that they would take our suggestions back home and discuss them internally to provide feedback at a later moment. We followed this meeting up with an investor group letter signed by Robeco CEO Roderick Munsters to the chairman of Hon Hai with more concrete suggestions for improvement.

Our emerging markets analyst for

Engagement impacts companies, investors and society

- Enhances a company's competitiveness and profitability
- Reduces ESG risk for the company and its shareholders
- Enables more accurate analysis of the company

Our engagement aims to benefit companies' profitability and our clients' investment returns

Taiwan consistently addresses our sustainability issues whenever he visits Hon Hai. He also participates in the conference calls we have with the company.

Patience

In our experience, engagement requires patience, especially in the beginning when the relationship with the company is yet to be established. After all, a truly open and effective dialogue requires trust. In many of our dialogues however we have seen companies make significant progress towards our objectives. Not only do these improvements impact the company, they are also beneficial to us as investors. After all, a company's benefits tend to be an investor's benefits. If Hon Hai does become more open, this will allow portfolio managers and analysts to make a more accurate investment decision. If they have all the information they need, they will be more comfortable in assessing the company's risks and opportunities as an investment candidate.

If the company improves its financial reporting to comply with regulatory requirements, this will increase its chances to attract capital from responsible institutional investors. Finally, a well-diversified Board will be truly able to lead the company and assess the risks in its increasingly complex and diversified businesses.

Improvement in working conditions and employee relations will prevent more serious reputation risk for the company. This, too, benefits investors, especially credit investors, who focus on avoiding downside risk.

It works both ways

Recently, companies have started to invite us to participate in informal investor fora, to give feedback on

sustainability issues they are facing and how they plan to deal with them. This illustrates the effectiveness of our constructive stance. Our aim is for the company to see us as a reliable, long-term partner. This way we become part of the company's change towards greater sustainability, which will have a positive impact on the company, its shareholders and, ultimately, society at large.



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The engagement process in a nutshell

Engagement focuses on sustainability themes that have most potential to create value. Selection of these themes is based on financial materiality analysis conducted by RobecoSAM's SI research team, in cooperation with Robeco's analysts and portfolio managers. We select a research provider to conduct a baseline study and develop engagement profiles for the companies to be engaged.

We then establish concrete, measurable objectives and begin a dialogue with companies. We use a wide range of public sources to research a company's ESG performance and speak to company representatives to track their progress towards meeting our engagement objectives over a three-year period.

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