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Confidential Reo® Report

1ST QUARTER 2018

Contents

Introduction

This report sets out detailed information about how we have engaged with companies on your behalf over the past quarter, and engagement results achieved. It brings together our ***reo***® research over the past quarter in the form of Viewpoints – which includes both public and client confidential pieces – with confidential details of our dialogue with individual companies, as well as outcomes from engagement, recorded as milestones. Where these companies have been prioritised as targets for intensive one-to-one engagement, a summary is also included of our assessment of the key risks facing the company, and our engagement objectives.

In the past quarter, we have engaged with 234 companies covered by your ***reo***® service, and achieved 59 milestones. Please note that milestones identified this quarter will typically result from engagement in previous quarters.

Engagement in Review

First quarter is a critical time in our engagement programme. On environmental and social engagements, it is a period for us to prepare our engagement initiatives and conduct the first key steps. For corporate governance engagements, this is a valuable period for us to ensure in-depth discussions are taking place with investee companies and at the policy level ahead of the peak of the voting season in the second quarter.

We travelled to Washington D.C. in March for the Council of Institutional Investors (CII) spring conference. We have recently become a member of the CII's Governance Advisory Committee. This is a critical position with which we can have influence on a wide range of issues in the US market. We also used this as an opportunity to have access to the board directors of major US corporations.

Data privacy is increasingly becoming a major public issue. The social media company **Facebook** became involved in a major controversy with the way it mishandled users' data. We wrote to the Chief Executive Mark Zuckerberg calling for key reforms to the way it conducts business. Separately, we spoke at a major conference on cybersecurity which was attended by representatives of more than 70 listed companies. We provided the investor's views on what investee companies should be doing to assure us that adequate risk management practices are in place. This is also a key engagement topic for us in 2018 as we will be conducting an engagement project on the Governance of Data Security.

Finally, we contributed to a number of important public policy related engagements. One of these was on the latest updates for the UK Corporate Governance Code. This continues to be the original and the gold-standard that other Codes internationally consider the benchmark of good governance practices. We welcomed the emphasis on corporate culture and diversity (including disclosing executive committee gender balance).

Spring time for US governance

Engagement trip

We travelled to Washington D.C. to attend the spring conference of the US Council of Institutional Investors in March. We participated in a multi-stakeholder discussion regarding investor engagement priorities in the US market, as well as updates on the current regulatory environment. We also contributed to the work of the CII's Corporate Governance Advisory Committee, for which a member of our team was recently elected. This provides input and feedback to the CII board on its campaigns and priorities.

Over a year into Donald Trump's presidency we are starting to see his agenda on regulatory reform manifest into proposed legislation, including the rolling back of positive governance reforms introduced in the Dodd-Frank Act. We took comfort from recent reports that a bi-partisan approach is currently being adopting on the law formulation, which will remove the most egregious provisions. At the same time, the proposed legislation on proxy advisers that will make their work more burdensome remains alive and well. There was also much discussion on the proliferation of companies adopting non-equal voting rights and the role of index providers, rather than stock exchanges, in enforcing minimum governance standards.

Compared to the CII's fall conference, fewer companies attend the spring conference given its proximity to US voting season and that most are yet to publish proxy statements. Nonetheless we did have an opportunity to meet one-on-one with board directors from two companies, **Bank of America** and **Wells Fargo**. In addition we met several investor groups and campaigners who have filed shareholder proposals to be voted on in the next few months to better understand their concerns.

Impact on access to medicines

Impact engagement

We consider our long running engagements on access to healthcare issues in low income countries to be one of the most impactful in helping society achieve the United Nations Sustainable Development Goals (specifically Goal 3 – Good Health and Well-Being). This quarter we have been involved in a number of initiatives with the Access to Medicine Foundation which is the leading not-for-profit research institution ranking pharmaceutical companies' access-related practices.

In January, we co-signed a letter written by the Foundation to the Sustainability Accounting Standards Board (SASB) which provided our comments on the draft standards for the Biotechnology and Pharmaceuticals Industry. This standard is being developed to improve industry corporate disclosures on material sustainability issues.

As the sole investor representative on the Foundation's Expert Review Committee, we also were invited to hold discussions with one of its main funders the Bill & Melinda Gates Foundation. We provided our opinions on the successes and strengths of the Access to Medicine Index and its increasing collaboration and relevance for institutional investors. Ahead of the upcoming publication of the 2018 version of the biennial index later this year, we are co-leading an engagement initiative to urge all of the ranked companies to fully participate in the Index's data collection process. This was particularly important in light of a major change to the Index methodology – to which we contributed – to include oncology treatments in the scope of the assessment. Three companies **AbbVie**, **Eli Lilly** and **Merck & Co.** have thus far refused to participate and engage with the process. We are sending collaborative engagement letters in early Q2 to all of the companies involved with particular focus on the companies which are not co-operating with the Index.

Brussels moves on sustainable finance

Public policy

The European Commission published an Action Plan on Financing Sustainable Growth. The plan closely follows the recommendations of the industry-led High-Level Expert Group on sustainable finance, which reported in January. The Action Plan sets an ambitious agenda, aimed at re-orientating capital flows towards a more sustainable economy. Key points include:

- Establishing a common language for sustainable finance (taxonomy) to define what investments will be classified as 'sustainable';
- Creating EU labels for green financial products on the basis of the above classification system, with an initial focus on green bonds and an eco-label for retail funds;
- Clarifying the duty of asset managers and institutional investors to take sustainability into account in the investment process and enhance disclosure requirements;
- Requiring insurance and investment firms to advise clients on the basis of their preferences on sustainability;
- Considering including sustainability in prudential requirements for banks;
- Enhancing transparency in corporate reporting: including aligning the guidelines on non-financial information with the Taskforce on Climate-related Financial Disclosures (TCFD).

Implementation has already begun, with a consultation having taken place on fiduciary duty, which will feed into a proposal in Q2. Whilst there will be challenges in implementing some of these recommendations, they leave little doubt that this is a priority area for the Commission. This is complemented by the political momentum including the high-profile stance taken by President Macron on climate change.

Cybersecurity as an investment risk

Conference speaker

We presented at an e-crime and cybersecurity conference, which was attended by the Chief Information Security Officers (CISO) or equivalent of public companies and other organisations, highlighting the importance of this emerging risk to investors. Having seen the number of cyber-attacks dramatically increase in size and scale over the last few years, it is widely accepted that for companies it is now a matter of when, not if, they will be attacked. This is in the context of increasing costs to companies, as demonstrated by the disruption caused by the ransomware NotPeyta in 2017,which led to a number of high-profile profit warnings, as well as the significant regulatory penalties due to be introduced in 2018 by the EU's General Data Protection Regulation (GDPR).

Aside from setting out what we considered to be best practice governance oversight and procedures on managing cyber risk, we made the case that companies needed to disclose more detailed information and engage shareholders more regularly on the subject. From our experience of engaging companies on this subject, they often have a much more comprehensive and robust risk management programme in place than what they present to investors within their public reporting, which presents a challenge when assessing a company's cyber resilience. This often stems from fears that in doing so they will make themselves more vulnerable, which we consider to not necessarily be the case, with the increased interest from investors making this position no longer sustainable.

In total more than 70 companies were in attendance at the presentation, seven of which were priority companies, including **Anglo American**, **BP**, **GlaxoSmithKline**, **McDonald's Corporation** and **The Western Union Company**.

U.S. Tax Reform and Executive Compensation

Reactive engagement

The Tax Cuts and Jobs Act of 2017 came into effect on 1 January 2018, with a wide variety of implications on the executive compensation arrangements in the US market for FY2017 and beyond, many of which we do not regard as positive. In particular, a number of significant changes were made to the Internal Revenue Code, which had previously allowed for performance-based pay that met certain qualifying conditions to be tax deductible for companies. These conditions included having variable pay based upon objectively measured performance targets that are disclosed to shareholders, putting maximum award limits in place and disallowing the application of discretion to increase pay outs.

Given the lack of established best practice guidance on pay within the US market, we have seen this tax code as effective in eliminating poor compensation practices and setting a firm foundation upon which companies can create incentive structures that are better aligned with shareholder interests. In response to these recent developments, we wrote to the Chair of the Compensation Committee of our top US holdings to express the view that, despite the fact that the requirements or economic benefits of the tax code no longer apply, we consider that such features remain relevant and should remain in place, in order that we do not see a degradation of compensation practices. This included setting out expectations on compensation, as reflected in our Corporate Governance Guidelines.

Given the rising stock market over 2017, partially fuelled by the prospect of cuts in the corporate tax rate, we also cautioned against pay outcomes reflecting these circumstances rather than underlying financial performance, with the former considered to be completely out of the control or influence of executive management. Likewise we warned that, for those companies that have taken substantial write-downs of deferred tax assets, that where it has been substantially detrimental to this year's financial results or stock price valuation then compensation committees should ensure that compensation outcomes match the experience of shareholders for that year. As we approach the 2018 AGM season, we will be keeping a close eye on pay outcomes at the companies that we will be voting next quarter. In total 50 companies were engaged through this outreach take out with, six of which were priority companies, including **Amazon.com**, **Johnson & Johnson** and **Walmart**.

UK governance code update

Public policy

In Q1, we responded to the Financial Reporting Council's (FRC) consultation on reviewing the UK Corporate Governance Code and participated in investor discussions on the topic with the Investment Association.

We welcomed the FRC's emphasis on corporate culture and diversity (including disclosing executive committee gender balance). We were supportive of focusing executive pay on longer-term outcomes and welcomed proposals that non-executives be deemed not independent due to prolonged tenure.

Finally, we did not support proposals for workforce representatives on boards because this could potentially disrupt the one-tier board model. However, we proposed enhanced provisions for companies to take account of the views of all material stakeholders.

Public policy submissions this quarter

Month	Issue	Initiative
January	Corporate governance	Submitted our response to the consultation by the Canadian Securities Administrators on the approach to director and audit committee member independence
January	Public health	Co-signed Access to Medicine Index letter to the Sustainability Accounting Standard Board on Biotechnology and Pharmaceutical Industries
March	Corporate governance	Submitted our comments to the consultation by the Financial Reporting Council's proposed revision to the UK Corporate Governance Code
March	Corporate governance	Submitted our comments to the consultation by the Corporate Governance Council in Singapore on its recommendations paper

Is the Circular Economy treading water?

Liat Piazza - Analyst, Associate, Governance and Sustainable Investment

Goal: Identify and promote best practice of natural resource management in the textile sector

Summary

- Demand growth in the textile sector has led to increasing stress on natural resources used in textile production
- Apparel companies are under pressure to drive innovation in their manufacturing processes and life-cycle management to mitigate the risk of raw material shortages and rising sourcing and production costs.
- In 2017 we reached out to 19 companies in the sector including fast fashion, luxury and outdoor and sportswear companies to discuss their approaches to managing this risk.
- Companies are aware that they cannot ignore this issue and are starting to implement initiatives in this area, however most initiatives are still working on a pilot scheme basis.

Background

The apparel industry is well known for its linear economic model i.e. make, use and dispose. A circular economy model is an alternative to this whereby attempts are made to keep resources in circulation for as long as possible and yield the maximum value out of each resource. The creation of long lasting garments with recyclable qualities, and having the supporting manufacturing systems in place is key to implementing a successful circular economy model.

Extensive research has shown that natural resources used in textile production such as land and water are coming under increasing stress. According to the Pulse of The Fashion Industry Report written by the Boston Consulting Group (BCG) and the Global Fashion Agenda (GFA), apparel and footwear consumption will rise from 62 million tons in 2015 to 102 million tons in 2030. The report predicts a 50% increase in water consumption, 63% increase in energy emissions and 63% increase in waste creation from the apparel sector between 2015 and 2030.

With the continued growth in consumption and demand for products it is likely that textile manufacturers will face increasing raw material shortages and rising sourcing and production costs. These stresses will require innovation in manufacturing processes and life-cycle management. The implementation of a comprehensive circular economy business model will allow brands to maximise their use of raw materials and natural resources in their manufacturing processes; and importantly, reduce their reliance on new raw materials.

Key raw materials for the sector include cotton, which according to the World Resources Institute (WRI) is the most widely used material in the sector accounting for 33% of all fibres used. Leather is widely used in the luxury and footwear segments of the sector, and polyester is used in the outdoor-wear and sportswear industries. Rubber is also an important raw material for the footwear industry. All these have different environmental impacts and consequently create challenges that brands need to consider.

Resource requirements and reuse challenges for raw materials and manufacturing

Cotton	• Around 3% of water used in agriculture is for growing cotton • Cotton accounts for around 48% of textile production • 1kg of cotton requires 20,000 litres of water; this makes roughly one t-shirt and a pair of jeans • Cotton does not retain its quality well when recycled therefore it is currently not possible to create products from 100% recycled cotton[1]
Leather	• The leather industry is one of the top 10 most toxic polluters • In China the leather industry is one of the top 20 wastewater dischargers • 400 tanneries are within the Ganges river basin in India, and the industry is one of the most polluting with around two thirds of the wastewater not being treated before returning to the river • Cattle farming is a key driver of deforestation • Leather can be recycled into lower quality leather however it is difficult for leather to retain its quality during the recycling process[2]
Polyester	• Five times more energy intensive to produce than cotton • Made from petroleum which has a negative environmental impact during the extraction process • Has a long useful life - retains quality when recycled and can be recycled a number of times
Rubber	• 90% of rubber comes from India, Vietnam, Southern China and Indonesia in some of the most biodiverse forest habitats, home to many endangered species • Growing demand for rubber drives deforestation to serve production of this crop.

	• Rubber can be produced without clearing natural forests, a process that should be encouraged • Rubber is a recyclable material[3]
Garment manufact-uring	• Water heavily used in production process e.g. during fabric dyeing • Water pollution from garment manufacturing comprises 20% of industrial water pollution • Five trillion litres of water used in fabric dyeing a year[4]

1 WWF
2 China Water Risk, WWF, CDP
3 WWF
4 WRI

Innovative solutions for apparel companies exist, and there are new technologies and businesses emerging to support apparel companies on their journeys to implementing a circular economy business model. For example, Lenzing is an Austrian, man-made fibre producer that is working on a range of "specialty fibres", such as Refibra, which is made out of cotton scraps from factories. In addition, Dyecoo has developed and supplied water and chemical free textile dyeing systems to garment manufacturers.

Engagement action

Following research on the challenges associated with key raw materials, we looked to understand what sustainable and innovative materials and processes are being developed. This allowed us to identify a best-practice framework for a circular economy:

Risk management

- Mapping emerging natural resource scarcity in manufacturing processes and the supply chain.
- Raw material scarcity mapping is an important risk assessment for apparel companies in addition to conventional cost mapping exercises.
- Risk mapping is key for companies to have a clear understanding of long-term risks and cost impacts, which in turn can incentivise the development of circular economy solutions.

Design phase

- Re-designing garments to increase their potential for recyclability, such as creating garments from single materials as these are easier to recycle than garments made from a mix of materials and/or focusing on the research, development and innovation of fabrics.
- Ensuring minimal fabric waste at factories.

Post sales

- Take-back schemes that re-use and recycle material from garments that have been brought back, into new products.
- Repair services aimed at extending the useful life of garments whilst giving brands the image of quality and durability.

We reached out to 19 apparel companies requesting a dialogue on their approach to developing circular economy models that use the best practice elements we had identified.

Findings

Of the 19 companies, we had discussions with 12, written responses from two companies and no response from the remaining five. We classified responsive companies as either front-runners, followers or laggards.

Seven of the 14 companies that responded were classified as front-runners. These companies are already actively working on circular economy initiatives such as pilot schemes using recycled materials to make garments, launching sustainable clothing lines, small scale recycling of waste at manufacturing sites, and research projects. Many companies have also launched or are piloting garment takeback schemes where consumers can bring old and unwanted garments back to the store and these are either re-sold, donated to charity, recycled or disposed of. Nevertheless, these companies are not yet in a position to clearly map-out the scalability of these initiatives. We have specifically chosen to classify these companies as "front-runners" and not "leaders", as despite being the most advanced of the companies we engaged with in developing circular economy strategies, they still have a long way to go in implementing comprehensive circular business models that would reduce their reliance on natural resources and increase control of volatile raw material prices.

Although the "front runners" showed an understanding of the need to implement circular economy models, we have seen little indication as to the eventual objectives and scope of their efforts to inject circular models into their overall business. Our engagement found that the main driver for companies to implement circular models is due to the customer demand for more sustainable products. Our conversations further revealed that many companies are aware of increasing raw material scarcity but have not developed a risk-assessment for sustainable, long-term material sourcing. Only three of the companies we engaged with have implemented leading risk management practices, including identification of key raw materials, development of a sustainable sourcing policy for these, targets and implementation programmes on sustainable sourcing.

As a result, we found that companies were satisfied with small projects such as a sustainable fashion line, as opposed to working on scalable projects to convert business models from a linear one to a circular one.

Three of the companies that responded were classified as "followers". These companies have started to work on circular economy initiatives but these are still in an early design phase.

And lastly we classified four of the companies that responded as laggards. These companies are either unwilling to engage on the topic and/or do not show any evidence on working on this through their disclosures.

Case Study – Hennes and Mauritz Background

The Swedish clothing brand is considered an industry leader for implementing sustainable business practices, and particularly for implementing a circular economy business model.

The company has a take-back system whereby consumers have the opportunity to dispose of their old garments from any brand. Whilst the garments that are still in a good condition are either donated to charity or re-sold as vintage products, other garments are turned into scraps to be used in the manufacturing process, or used for fibre to fibre recycling. We were, however, disappointed to discover that a small percentage of these clothes along with some unsold garments are incinerated. We encouraged the company to work on initiatives in order to reduce this, such as designing clothing with a higher recyclable life to make better use of the fibres in unsold garments as well as those brought back through take-back schemes.

Despite its robust commitment on sustainability issues, the company, like most of its peers, has a long way to go to implement circular economy processes that would reduce its own supply chain waste, capitalise on its own waste to produce garments from recycled materials, and innovate its products to scale up the use of recycled content.

Conclusion and next steps

The textile sector shows a range of approaches to implementing circular economy business models. The majority of companies have started to work on and trial circular economy opportunities, however the scalability of these initiatives is still unclear. In addition, it became clear during our engagement that companies have not fully considered and understood the rate at which their businesses could begin to be affected by increasing scarcity and price volatility of raw materials, as well as scarcity of natural resources used in the manufacturing process. Developing enhanced risk mapping will be key for the industry to wake up to this eventual challenge, however the company approaches we have seen to date still fall short in making significant headway in this area.

Circular economy in the apparel industry is a concept being widely spoken about. Investor engagement on this issue is slowly ramping up. In addition, there are a number of organisations addressing circularity questions, including the Sustainable Apparel Coalition, Wrap, Circular Fashion, The Ellen McArthur Foundation, and it was a big topic on the agenda for the Copenhagen Fashion Summit in 2017. More needs to be done, however, to build momentum and encourage apparel companies to develop effective risk mapping tools in order to inform circular business models.

Appendix: Is the Circular Economy treading water?

The table below lists the companies that responded to our engagement during the "Circular Economy in the Apparel Sector" project. It summarises whether companies were classified as front-runners, followers or laggards during our engagement.

Front-runners: We have specifically chosen to classify these companies as "front-runners" and not "leaders", as despite being the most advanced of the companies we engaged in developing circular economy strategies they still have a long way to go in implementing a fully circular business model. **Followers**: These companies have started to work on circular economy initiatives but are still working on the best way to implement these. **Laggards**: These companies are either unwilling to engage on the topic and/or do not show any evidence on working on this through their disclosures.

Company Name	Country	Assessment	Risk mapping	Design	Post-sales
Adidas AG	DE	Front-runner	✓✓✓	✓✓	✓✓
Industria de Diseno Textil, S.A.	ES	Front-runner	✓✓	✓✓✓	✓✓
Nike Inc	US	Front-runner	✓✓	✓✓✓	✓✓✓
Burberry Group Plc	GB	Front-runner	✓✓	✓✓✓	✓✓
Asics Corporation	JP	Front-runner	✖	✓✓	✓✓✓
Marks and Spencer Group Plc	GB	Front-runner	✓✓✓	✓✓	✓✓
Kering SA	FR	Front-runner	✓✓✓	✓✓✓	✓
Hennes & Mauritz AB	SE	Front-runner	✓✓	✓✓✓	✓✓
LVMH Moet Hennessy Louis Vuitton SE	FR	Follower	✓	✓✓	✓
Hugo Boss AG	DE	Follower	✓	✓✓	✓
Amer Sports	FI	Follower	✓	✓✓	✖
L Brands Inc	US	Laggard	✖	✓	✖
The Gap Inc	US	Laggard	✓✓	✖	✖
Michael Kors Holdings Limited	US	Laggard	✖	✖	✖

Keys

Risk mapping

✖ = Does not disclose any information and would not engage on this

✓= Identifies key raw materials

✓✓= Identifies key raw materials, has developed a sustainable sourcing policy for key raw materials, including targets

✓✓✓ = Identifies key raw materials, has developed a sustainable sourcing policy for key raw materials, has a programme in order to reach sustainable sourcing targets

Design

✖ = Does not disclose any information and would not engage on this

✓ = Does not know how best to address the design of more sustainable

✓✓= Is mapping out how best to do this, is working on one pilot initiative

✓✓✓ = Is working on a number of initiatives such as starting to create garments that are easier to recycle, uses recycled materials to make garments

Post-sales

✖ = Does not disclose any information and would not engage on this

✓ = Is exploring the idea of a take-back scheme or repair service

✓✓ = Is piloting a take-back scheme/has established a take-back scheme but most garments donated to charity/has established repair services for small range of products

✓✓✓ = Has established a take-back scheme and uses this to recycle or re-sell most garments/ has established repair services for most products

General Data Protection Regulation (GDPR) – What does it mean for companies?

David Sneyd - Senior Associate, Analyst, Governance and Sustainable Investment

Summary

- The General Data Protection Regulation (GDPR) comes into effect on 25 May 2018 with the aim of strengthening cybersecurity, increasing privacy for EU citizens and unifying data legislation from across the European Union. It replaces the Data Protection Directive (1995). Unlike its predecessor, it has extra territorial reach, which effectively makes it the first global data law.
- Since that time there have been vast technological advances impacting all parts of our lives, affecting the way that personal data is collected, processed and stored. In parallel, modern day businesses have never been more reliant on using data in all aspects of what they do.
- Within this context, GDPR aims to enshrine EU citizens' right to privacy by giving them back control of who holds their personal data, how it is used and how well it is protected. This is alongside a backdrop of escalating threats of cyber-attacks, as personal information is valuable for criminals.
- Although GDPR will benefit companies through streamlining the data regulatory landscape, we foresee it capturing a broader range of global companies than present, increasing the cost of compliance and requiring widespread governance and cultural reform to ensure that data protection and privacy is a priority. Few businesses are fully prepared, but we think that an initial period of grace from regulators will reduce compliance risk.

Background

Over the past two decades there has been a dramatic gear-change in how society uses technology, with your average business now more reliant on the processing of data than ever before. This applies to not only how their business operates, but for some of today's most highly valued companies it sits at the core of their product offering. Meanwhile, consumers in both developed and emerging markets are integrating digital services into their lives at an unprecedented rate, with the resulting data being both personal and increasingly valuable in nature.

Somewhat inevitably this has led to a similar increase in cybercrime, as hackers look to take advantage of personal information being inadvertently accessible through company systems being put online without the required security provisions to keep them out. In addition to this, with companies so reliant upon technology for their day-to-day operations, there are increased disruption risks as criminals look to profit by holding companies for ransom. Finally, the use of hacking by nation states means that those companies that can be considered as part of a country's critical infrastructure or of strategic importance, such as utilities, banks and telecommunications being at particular risk.

THEY SAID

"Cybersecurity risks are growing, both in their prevalence and in their disruptive potential. Attacks against businesses have almost doubled in five years, and incidents that would once have been considered extraordinary are becoming more and more commonplace."

The Global Risks Report 2018, World Economic Forum

Within this context, the European Union has updated its rules on data protection that were first introduced in 1995. Originally this process focused on looking to enshrine the right to privacy as a universal human right for its citizens; however during the drafting process this remit was broadened to also include the security of data as the threat level increased over that time.

Although the new data rules are much more far reaching and demanding than those that came before them, the EU has put forward GDPR as more beneficial to business than burdensome. This is primarily due to it streamlining the compliance process by putting an end to the patchwork of overlapping data protection rules that currently exist within individual member states, as well as introducing a "one stop shop" principle where companies can work with one local data authority, with the understanding that any agreements will passport to all others. Given its expanded territorial reach (detailed below), it will also offer a more balanced treatment between EU and non-EU companies on how they handle personal data.

THEY SAID

"These new pan-European rules are good for citizens and good for businesses. Citizens and businesses will profit from clear rules that are fit for the digital age, that give strong protection and at the same time create opportunities and encourage innovation in a European Digital Single Market"

Věra Jourová, Commissioner for Justice, Consumers and Gender Equality

That being said, despite these advantages there are still substantial challenges for companies to comply with GDPR. In this viewpoint we will examine what is new under this legislation and what the implications will be for companies.

How is GDPR different from existing data regulation?

- **Potentially applies to all companies globally:** Unlike the rather ambiguous regulation that went before it, the scope of GDPR is not defined by where companies that use personal data are located, but rather where their current or potential customers are based. The new regulation will apply to any company that handles personal data of a European Union citizen, irrespective of whether this activity takes place inside the EU, making it the first global data protection law.

- **Widens the definition of personal data:** Whilst the definition of personal data is pretty broad under existing data laws, it will be further extended under GDPR to include any data that can be used to identify an individual. This includes information that might seem quite generic or mundane in isolation, but could become unique and personal when viewed in combination. New types of information will include the geographical, physiological, genetic, economic, cultural or social identity of someone. In addition to this, under certain circumstances, personal data now includes online identifiers such as IP addresses and mobile device IDs.

- **More significant penalties:** The most severe breach of GDPR, such as having insufficient consent to process customer data or a data leak resulting from inadequate security provisions, can be fined by up to 4% of annual global turnover or €20 million (whichever is higher). This is substantially higher than what is possible under current legislation, i.e. £500,000 in the UK or €900,000 in the Netherlands. Overall, there is a tiered approach for fines, with a fine of up to 2% of annual global revenue possible for minor breaches such as not having records in order or not notifying a data subject about a breach.

- **Gives less control to companies and more rights to data subjects:** Unlike the current consent regime for companies to use customers' personal data (which is implicit and opt-out in nature), individual customers will need to explicitly opt-in for how their data will be used going forward. Companies will no longer be able to use long illegible terms and conditions full of legalese to attain consent. In addition it introduces the right to be forgotten, for data subjects to see what data is held on them in an easy and free manner, alongside an overall restriction on using personal data for anything other than what it is originally collected for.

- **Mandates the appointment of a Data Protection Officer (DPO):** Companies that either systematically "monitor data subjects on a large scale" or "process on a large scale specific categories of data" will have to appoint a DPO. The DPO must have expert knowledge of data protection laws, must report to the highest level of management and can either be a staff member or outsourced to an external service provider.

- **Introduces a common data breach notification requirement:** Companies can no longer hide data breaches and inform customers or the market when they are ready to do so, but rather will be required to notify both supervisory bodies and the individual who is the subject of the data within 72 hours of any breach that is likely to 'result in a risk for the rights and freedoms of individuals'. This is more specifically defined as where a breach could (rather than has) lead to, amongst other things, an individual being subject to discrimination, identify theft or fraud, financial loss or reputational damage.

- **Extends liability beyond companies to third-party providers:** Under current regulations the responsibility for keeping data safe and private sits with the "data controller", which is the company that wishes to use the data somehow and decides how it is processed. By comparison, "data processors" are those that actually process the data on behalf of the company, such as third-party software vendors or a cloud-computing provider. Responsibility for data protection currently sits wholly with these "data controllers", but under GDPR this liability will also be extended to all third-party organisations that touch personal data.

- **Allows any European data authority to take action:** By means of example, Ireland is currently popular with US corporations as a residence for their data controllers because it has a relatively lenient local data protection authority, but under GDPR any European authority can take action against an organisation. The benefit for companies is that they will have to deal with only one supervisory body as compliance/agreements with them passports to all others, but at the same time there is a stronger enforcement regime, as data subjects in any member state can approach their locally based regulator with any concerns.

- **Requires companies to be pro-active and intentional on data protection:** The new legislation will mandate the principle of 'privacy by design', which requires that data protection be an integrated part of how systems are designed, rather than an additional feature or afterthought. Before projects are even started, companies will also be required to conduct a privacy impact assessment (PIA), which sets out what data points will be collected, how it is maintained, how it will be protected and how this data will be shared. The DPO will be responsible for ensuring that the PIA is complied with throughout the build and use of such systems.

What are the consequences for companies?

With modern day businesses having never been more reliant on processing personal data, few will escape the implications of GDPR requirements. We think that the main consequences of this new data legislation can be summarised into three different areas:

- **Wider scope of data compliance**

At present those companies who are based outside of the EU and process data of its citizens in their home territory are not required to comply with EU data protection laws. GDPR extends its qualifying criteria to also include not just how data is processed, but who the data concerns, meaning that a wide variety of companies based outside the EU will now be subject to this new standard that is much more stringent than what is seen in some other regions. For example, a Chinese flower delivery company allowing EU citizens to make orders for fulfilment only in China is currently not in scope, but under GDPR it will be.

Scope has also been increased to include a wider range of data uses through either direct reference, such as profiling through big data algorithms, or through the broadening of the definition of personal data to include location data or online identifiers. Any business that is reliant upon profiling its customers will now be subject to further procedural checks, which will reduce the efficiency of these processes. In addition, individuals will have the right to refuse to be subject to these processes all together, meaning that companies need to have a contingency operation in place to accommodate these requests.

Finally the new data regulation extends responsibility from just data controllers (i.e. the company who uses the data for its business) to those who only process data. Given the recent move towards 'cloud computing' and the out-sourcing of technology infrastructures provided to third parties, those companies that provide such services will now be exposed to high regulatory risk across their client base. In addition, data controllers will need to ensure that everyone who interacts their customers' data on their behalf, be that transferring, storing or processing, handles the data appropriately and securely. This introduces the concept of data supply chain management, which similar to conventional supply chain management, sets in place due diligence procedures to ensure that all those involved are robust and do not expose them to undue compliance risks.

- **Increase in cost of data compliance**

The most obvious potential cost from GDPR is the substantially increased penalties for non-compliance, where companies can be fined by up to 4% of annual global turnover or €20 million (whichever is higher). Given GDPR's extended territorial reach, it is also foreseen that EU data authorities will be able to enforce penalties through local authorities, including many regions where it already has history of co-operation.

This was seen when the UK telecommunications company TalkTalk was fined just £400,000 in 2016 for a poor cybersecurity controls that allowed the leaking of personal data on 21,000 customers the year before, being near the maximum permissible under current UK data laws. By comparison, this fine could have been up to £72 million (4% of its global annual turnover for that year) under GDPR. The risk here is only made worse by the increased difficulty in complying with GDPR and the large penalties for not doing so.

THEY SAID

"If a business can't show that good data protection is a cornerstone of their practices, they're leaving themselves open to a fine or other enforcement action that could damage bank balance or business reputation."

Elizabeth Denham, UK Information Commissioner

Alongside this, there is the substantial compliance costs that will be associated with the new requirements of GDPR. The systems and procedures that companies use to process data will need to be upgraded to be able to meet new requirements, including audit procedures that prove proper consent or facilitating requests by data subjects to see what data is held or exercise their right to be forgotten. For those companies that have not already invested in good data governance or robust processing procedures, there will be a substantial amount of capital investment required to catch up with the standards now expected of them. In addition, there will be a slowing down of productivity as resource is allocated to dealing with these requests as part of business-as-usual processes.

- **Revenue impact on data-reliant products and services**

The other main cost will come in the form of loss of revenue from existing business practices either being frustrated through new provisions or prohibited together. For years, companies have used customer data in an unrestricted way through obtaining implicit consent from users on an opt-out basis.

THEY SAID

"More than 8 in 10 firms falling under the scope of GDPR say they'll need to adapt products to comply"

IAPP-EY Annual Privacy Governance Report 2017

Some sectors, such as retail, have become dependent upon this to curate the online experience of their customers based on personal data and their purchase history. Under GDPR individuals will not only have to opt-in for their data to be collected, but also what it can specifically be used for. Given that consumers are becoming more aware of keeping their personal data private and protected, the expectation is that many will not provide the consent needed for retailers to maximise customer spend under their current established business practices. By further means of example, a 2017 survey by PageFair discovered that only a very small proportion (3%) of those asked believed that the average user would explicitly consent to "web-wide" tracking for the purposes of advertising (tracking by any party, anywhere on the web). By comparison, under current legislation this practice is permissible without consent and widely adopted.

- **Cultural/governance reform on data compliance**

An underlying principle of the new legislation is that companies should work to create a culture of privacy within their organisations. Like any successful effort to shape corporate culture, it needs to be led by those in a position of authority by 'setting the tone from the top'. However, anecdotal evidence has suggested that senior ranks getting a proper grasp of the issue has proven to be a challenge for companies, as data privacy and security has historically been viewed more of an operational issue rather than of strategic importance for consideration at board level. "

THEY SAID

"The survey of almost 900 members of the Institute of Directors... shows that nearly a third of company directors have not heard of GDPR, while four in 10 don't know if their company will be affected by the new regulations."

UK Institute of Directors, October 2017

In addition to this, there is the requirement for certain companies that are data processing intensive to appoint a Data Protection Officer (DPO) who must report to the highest level of management. For those companies that do not already have governance procedures in place for considering data privacy and security issues, work will be needed to fully establish this new role and ensure that it has the internal authority and correct reporting-line to be effective.

The same is true for having procedures in place for reporting data breaches, which under GDPR companies will need to do within 72 hours of discovery. Those companies that already have reporting lines establishing and procedures in place for doing so will be at an advantage, such as banks who go as far as playing 'cyber war games' to rehearse the process. However, recent incidents at Equifax and Uber have demonstrated that in practice some companies prefer to conduct a full investigation that can take several months before informing those outside the company. Such action will be impermissible under GDPR. For those companies for which this is a new concept will have to face a steep learning curve.

Finally, this cultural shift will need to manifest in GDPR's privacy by design principle. In practice, this will require companies to take such considerations into account early on within their strategic planning or product development process rather than as a factor to take into account after the fact.

Conclusions and next steps

Although GDPR provides an opportunity for global companies to have a simpler and more productive relationship with data regulators in Europe, in an area that is increasingly relevant for all businesses, it does pose challenges. EU lawmakers have established a high watermark for global data protection regulation, and the cost companies face of getting to a point of full compliance and ensuring that they stay there will be substantial. At the same time, for those companies that embrace the challenge and implement the requirements effectively, we consider that they will be more secure, have a better understanding of the cyber-risk exposure and be able to leverage brand loyalty through taking customer privacy seriously giving them a competitive advantage.

Initially, the primary winners of GDPR will be consumers rather than business, but in the long-run there is an opportunity that it will incentivise increased transparency and competition in the market. Those companies that operate across several different jurisdictions will also benefit for the streamlined compliance process. By fully embracing such a high standard of practice on data governance, international companies can be confident that their compliance will passport to all of their global operations, thereby avoiding the headache of patchwork regulatory requirements that are currently in place.

It has been reported that a minority of companies will be ready for GDPR on 25 May 2018, but similarly data regulators have said that they will not be conducting a witch-hunt come "G-day", but rather giving an initial grace period to accommodate for this. At the same time, given the scale of change that may be required for those companies that have not taken data protection seriously up until now, the time it will take to reform practices and become fully compliant may extend beyond this grace period.

Top engagement questions for companies:

- Will you be fully GDPR compliant by 25 May 2018?
- If not, where is there still work to do? When will this work be completed?

Governance/Oversight

- How does the Board monitor data privacy / cybersecurity issues?
- Is there sufficient Board expertise on data issues to be able to provide effective oversight?
- Have you appointed a Data Protection Officer? Who do they report to?
- Do you have a breach notification procedure established? Have you rehearsed it?

Products/Operations

- Do you foresee any product lines being adversely affected by new restrictions on data use?
- Are you able to meet potential demands to report on data use to customers or delete data altogether?
- Do you have a policy of 'privacy by design'?

Cybersecurity

- Who is responsible for cybersecurity? Is it included within your Enterprise Risk Management system?
- Have you adopted any industry standards for cyber risk management, i.e. ISO 27001?
- Do you stress-test your data security systems?

What due diligence do you undertake on third-party data processors / technology vendors?

Given the stakes involved, a key question as far as we are concerned is how companies, and in particular their boards, will effectively oversee their GDPR compliance and data protection procedures. In particular, explicit provisions regarding the introduction of a DPO role need to be tailored by each company into its existing management reporting lines. Other requirements, such as injecting data privacy into company culture and the 72 hour breach reporting requirement, also have immediate corporate governance implications on its cyber-risk management.

Cyber risk is an important and emerging consideration across all sectors, with GDPR drawing a clear line in the sand on what is expected from companies to navigate these waters. Therefore, we will continue engaging with both leading and lagging companies to help drive stronger practices across in this area.

Priority Companies and Your Fund

The table below highlights the companies on BMO's annual priority engagement list with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. Priority companies are selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the BMO Governance and Sustainable Investment team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for companies where we engage more reactively. We provide reporting on our engagement with priority companies in the form of case studies which follows the table below. For full list of priority companies please refer to the Appendix at the end of this report.

				Themes engaged						
Name	Sector	ESG Rating	Response to engagement	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Albemarle Corp	Materials	ORANGE	Good	●	●		●			●
Amazon.com Inc	Consumer Discretionary	RED	Poor						●	
Anglo American PLC	Materials	YELLOW	Good		●					
AutoZone Inc	Consumer Discretionary	RED					●			
Bayer AG	Health Care	YELLOW	Adequate		●			●	●	
Big Lots Inc	Consumer Discretionary	ORANGE					●			
BP PLC	Energy	YELLOW	Good		●					
British American Tobacco PLC	Consumer Staples	YELLOW	Good	●	●		●	●	●	●
Cemex SAB de CV	Materials	ORANGE	Poor				●			●
Fomento Economico Mexicano SAB de CV	Consumer Staples	ORANGE	Good						●	
General Electric Co	Industrials	GREEN	Poor						●	
GlaxoSmithKline PLC	Health Care	YELLOW	Good		●			●	●	
HSBC Holdings PLC	Financials	ORANGE	Good		●				●	
International Consolidated Airlines Group SA	Industrials	RED	Adequate		●					
Johnson & Johnson	Health Care	YELLOW	Adequate					●	●	
Keyence Corp	Information Technology	ORANGE	Poor						●	
L Brands Inc	Consumer Discretionary	RED	Good	●			●			
Martin Marietta Materials Inc	Materials	ORANGE	Adequate	●					●	●
McDonald's Corp	Consumer Discretionary	ORANGE	Adequate		●				●	
Mylan NV	Health Care	RED	Adequate					●		
Novartis AG	Health Care	ORANGE	Good	●	●			●		
Roche Holding AG	Health Care	GREEN	Adequate		●			●	●	
Ryanair Holdings PLC	Industrials	ORANGE	Good		●		●		●	
Sage Group PLC/The	Information Technology	YELLOW	Adequate		●				●	
Samsung Electronics Co Ltd	Information Technology	ORANGE	Adequate		●					
SAP SE	Information Technology	GREEN	Good		●				●	
Solvay SA	Materials	GREEN	Good							●
UniCredit SpA	Financials	YELLOW	Good		●				●	
US Bancorp	Financials	ORANGE	Adequate						●	
Walmart Inc	Consumer Staples	RED	Adequate						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Priority Companies and Your Fund

Name	Sector	ESG Rating	Response to engagement	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Wells Fargo & Co	Financials	RED	Adequate		●				●	
Western Union Co/The	Information Technology	YELLOW	Good		●				●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagement case studies

Public

Company: Duke Energy Corp

Country: United States

Sector: Utilities

Priority Company: ✖

ESG Risk Rating: ORANGE

Response to engagement: Good

Theme: Climate Change

Issue: Emissions management

Background

As the largest electricity generator in the United States, the stance taken by Duke Energy on climate change is of critical importance to the future trajectory of US greenhouse gas emissions. Despite the policy uncertainty, the company has been consistent in its position that there is an inevitable energy transition ahead, and that it needs to shift its generation portfolio towards lower-carbon energy. The share of coal in its energy mix has already fallen from 58% in 2005 to 33% today. Investors, however, have been pressing Duke to reveal more about the speed and magnitude of this shift, with a 2017 shareholder resolution requesting the development of a 2 degree Centigrade scenario receiving 46.4% support. In 2017 the company set out a new 2030 emissions reduction target and now in 2018, it has published a stand-alone Climate Report to Shareholders.

Action

BMO has held several engagement calls with the company as well as joining collaborative engagement dating back to 2013. Focus areas included clarity on the future generation mix; the consistency of the company's plans with the Clean Power Plan; and stress-testing and scenario analysis. More widely we also engaged on water exposure and on risks arising from air emissions from coal. In our most recent call late in 2017, we gave the company feedback on the content of its proposed climate report, including our views on what should be included, and which specific scenarios would be most credible to shareholders. The company published its Climate Report in March. This marks an important milestone not just for Duke Energy, but for the US utility sector as a whole. It establishes the precedent that conducting long-term scenario analysis is a viable option for energy companies, going well beyond the backward-looking reporting that is more typical of the sector.

Verdict

The report provides the company's views on the consistency of its strategy with a 2 degree future. Duke sees its target of a 40% reduction in emissions from 2005 levels by 2030 as being in line with this objective. Looking further forward, it states that in order to stay consistent, it would need to phase out coal completely by 2050. Whilst this sounds ambitious, closer examination shows a conservative approach. The 2 degree scenario chosen assumes all sectors make an equal percentage reduction in emissions – yet many other 2 degree scenarios assume that electricity will be decarbonised faster than sectors where cuts are harder to achieve, such as aviation. Furthermore, the company's trajectory for renewables is cautious. Even in its 2050 scenario, the company still sees renewable energy being less than a quarter of the portfolio. The great benefit of the report, though, is enabling a debate between shareholders and companies. We will speak with other utilities this year to ask when they plan to publish similar work, in line with the Taskforce on Climate-related Financial Disclosures.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Fresenius SE & Co KGaA

Country: Germany

Sector: Health Care

Priority Company: ✖

ESG Risk Rating: RED

Response to engagement: Good

Theme: Business Conduct

Issue: Bribery, corruption and transparency

Background

The German healthcare company has been involved in a number of litigation and settlements over the years, which placed questions over the robustness of its approach to managing business conduct and compliance related risks. We consider this to be the most material ESG risk facing companies in this sector and we had concerns about the relative lack of information and reporting Fresenius SE provided on its approach to managing these issues. For example, our analysis showed that the company's Code of Conduct compares unfavourably to peers. This is one indicator reflecting a potentially weaker approach to managing business ethics than other industry peers.

Action

We engaged the company intensively on this issue in 2016 and 2017 when it was a priority company for our engagement programme. From relatively early on our engagement, it became apparent that the company had wide ranging programmes to mitigate these risks but this was not being adequately communicated externally. The company said that it was working to overcome issues from the wide range of businesses within the entity, which made it tricky to report in a coherent manner at the holding company level. This was also partly in response to a new EU directive making better corporate reporting a requirement. In early 2018, the company informed us that it will be introducing a section on sustainability risk management in its upcoming new annual report. We reviewed the document when it was published in March and provided feedback that it was a significant improvement on before. We welcomed the report's materiality analysis-based approach, which highlights patient outcomes and business conduct as the two most important sustainability related risks. We agreed with this view. We wrote to the company welcoming the report and provided specific recommendations of further improvements in future reports. This included performance reporting on business conduct and compliance related issues.

Verdict

We have been impressed with the quality and quantity of information provided by Fresenius SE on its first serious attempt at sustainability reporting. This provides significantly more insight to investors and other stakeholders on its approach – much of which is adequate to manage the key ESG risks it faces. The company has responded well to our engagement over the past two years. We will monitor the quality of its reporting in the coming years.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Novartis AG **Country:** Switzerland **Sector:** Health Care

Priority Company: ✔ **ESG Risk Rating:** ORANGE **Response to engagement:** Good

Theme: Environmental Standards **Issue:** Water management

Background

Whilst not the most water intensive sector, good quality freshwater is vital for the production of pharmaceuticals. Therefore a consistent supply of it is critical to businesses in this sector. Where the supplied water quality isn't as required, additional water treatment and purification is often undertaken. Water dependent processes include initial chemical synthesis, production, cleaning of equipment and supply chain elements. Water is required also for cooling within production and for data centres, and in these cases the issue revolves around quantity as opposed to quality – therefore both are factors companies need to consider and manage appropriately.

Action

In 2009, as part of a collaborative Principles for Responsible Investment led investor group, we encouraged the company to endorse the CEO Water Mandate, an initiative of the UN Global Compact. Whilst Novartis are not an endorsing company of this, they achieved the water A List in 2017 within the CDP Water program, meaning that the company has introduced measures aligned with good water management, and is carrying out best practices in water stewardship. We met with the company in 2017 and started to discuss water, particularly in the supply chain, which it acknowledged as a big risk factor; 35% of Novartis's total water consumption is within it, according to the company's CDP water response. Following this, we had an in-depth conversation purely on water with the Global Head of Environment and Head of Water Resources. The company is clearly managing the risks well, and is undertaking best practice water risk assessments, however it did acknowledge that the work in the supply chain is less developed than that of direct operations, with less than 1% of suppliers being requested to report on water use, risks and or management of water issues.

Verdict

In 2016, Novartis participated in a pilot application of the Natural Capital Protocol which allowed the company to determine a monetary value for environmental externalities. Carbon emissions and supply chain water use were the major external environmental costs, valued at $1.2 billion. Whilst the company flags imperfections in this 'impact valuation', we are encouraged by this analysis and will monitor progress here. Novartis are managing water risks well, have advanced levels of disclosure and are implementing strategies to realise water related opportunities within the business, including the installation of a reverse osmosis-ultra filtration system in Turkey to reduce water consumption and increase the effluent quality. There is Board level oversight of water management, with water policies being integrated into business strategy. We are encouraged by achievement of leadership status within the CDP water program and its reporting against the SDGs. We will follow its progress on water management within the supply chain and will also monitor its water management work to see that the CDP water leadership status is maintained; in 2018 we have engaged on this.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Solvay SA **Country:** Belgium **Sector:** Materials

Priority Company: ✔ **ESG Risk Rating:** GREEN **Response to engagement:** Good

Theme: Climate Change **Issue:** Emissions Management

Background

The Belgian chemical solutions producer is the most greenhouse gas (GHG) intensive company in its industry according to our research. This, coupled with its ambitious commitment to reduce GHG emissions intensity by 40% by 2025 sparked our interest in the company. We wanted to investigate how it plans to achieve this. In addition, the company was unresponsive to our engagement in 2016 on carbon management and we therefore decided to prioritise engagement with Solvay in 2018.

Action

We had a call with Solvay in March to understand how it plans to reach its target to reduce GHG intensity. Solvay is in the process of doing this through changes in its product portfolio, as well as energy efficiency programs. Solvay is already well on its way to reaching the emissions intensity reduction target. It is in fact on track to reach this by 2020. The company accredits this to its active approach to managing its product portfolio. In addition the company reported 49% of revenues from sustainable solutions in 2017, meaning it will achieve its target of 50% of revenues well before 2025. This has been possible due to Solvay's leading and active approach to managing its product portfolio. The company has developed a Sustainable Portfolio Management (SPM) tool that considers the entire lifecycle assessments of the company's products in order to make business decisions. The tool considers the environmental impacts of producing the product, the environmental footprint of the product itself, as well as the sustainability needs and gaps in the marketplace. This process allows Solvay to sort products into five categories related to their growth opportunities.

Verdict

Our engagement with Solvay revealed that despite high GHG emissions intensity it has a best in class approach to management of ESG issues. In particular Solvay has a strong and leading approach to the life cycle assessment of its products, and uses this to make business decisions that reduce its environmental footprint as well as reducing its clients' environmental footprints. This is done whilst identifying gaps in the market for sustainable solutions.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Tesco PLC **Country:** United Kingdom **Sector:** Consumer Staples

Priority Company: ✖ **ESG Risk Rating:** GREEN **Response to engagement:** Adequate

Theme: Business Conduct **Issue:** Data Privacy and Security

Background

Tesco is not only the UK's largest supermarket chain but has also expanded into providing financial services to its customers in recent years. This has resulted it in handling an increasingly large quantity of sensitive customer data. Given the competitive market in which it operates and the upcoming introduction of stronger European data protection laws, it is imperative for Tesco that this data is kept safe. In November 2016 it was revealed that 9,000 of its banking customers had money stolen from its accounts by hackers through weakness in its mobile application, raising concerns over the effectiveness of its cybersecurity efforts. More recently the company launched its sustainability strategy for the next few years. As part of this, cybersecurity was recognised as a key component; however, specific details on this area continued to be undisclosed.

Action

For this reason it was short-listed for engagement by the United Nations Principles for Responsible Investment's collaborative project on cybersecurity. We are a participant. We had a discussion in order to better understand how it oversees and manages cyber risk at the company. We spoke with the Head of Technology for the company's retail division to learn about the different initiatives management has implemented to manage cyber risk in its operations. This included increased automation to scan customer behaviour, mandatory training to relevant staff, collaboration with other retailers on emerging risks, and extra due diligence on the robustness of suppliers. Although it does now handle more sensitive data, the largest threat that it sees to its business is disruption risk, with them concentrating their efforts in this area. The company also described in detail its risk oversight framework. Internal heads of technology for each business report to the Chief Technical Officer, who in turn reports to the Chief Executive. In addition the board, in particular the audit committee, is regularly briefed on developments in this area.

Verdict

Overall, we got a positive impression from Tesco on how its addresses these issues. In particular we took comfort from the fact that we were given unfettered access to an internal operational specialist who spoke candidly about the challenges involved. At the same time, there continues to be a large discrepancy between what the company discussed with us and the details of what it discloses to investors. Alongside encouraging the company to be more open with investors on this issue, we intend to provide them with a specific set of areas where we think that it could expand its disclosure. This includes more details on the specific risks faced by the company, the governance structure in place to oversee cyber risk, details on the training provided to staff and the due diligence programme it has for its supply chain. Going forward we will continue to engage Tesco on this issue and monitor how it expands its disclosure.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Toray Industries Inc	**Country:** Japan	**Sector:** Materials
Priority Company: ✔	**ESG Risk Rating:** GREEN	**Response to engagement:** Adequate
Theme: Business Conduct	**Issue:** Data falsification	

Background

Advanced materials company Toray is one of Japan's most influential companies. It has a long-standing leadership position within the powerful Keidanren business lobby, which for many years was the front for resisting corporate governance reform in the closed board rooms of Japan Inc. Despite sweeping changes in recent years – especially since the introduction of the Corporate Governance Code in 2015 – Toray continues to persist with outdated board practices. The ineffectiveness of the ability of the board to adequately oversee its management was placed into sharp focus when the company became involved in a scandal that shook customers' and investors' trust. Toray revealed in November 2017 that it had been falsifying product quality data for more than eight years. The stock fell sharply in the aftermath and remains more than ten percent down.

Action

We have been engaging the company intensively since 2013. This included multiple meetings in Tokyo and it was also a company we targeted in a high profile collaborative investor engagement calling for one-third board independence in Japanese companies. It has been a priority company for a number of years. In the past year, we had increasingly given up hope of meaningful change at Toray but then the severe revelations about the product quality data falsification emerged. In the immediate aftermath, we wrote to the President calling for a series of reforms and an independent investigation. We questioned how the corporate culture will change, especially in light of the damaging information that the company did not disclose the information for 16 months. The company responded immediately and offered us a discussion with an executive board director. We had never had this senior level of access with the company. This was also followed by an in-person meeting in London in March 2018 with the director. This was an open and in-depth discussion. We reiterated our desire to see genuine change in the company especially around board structure and practices.

Verdict

After years of making little progress, the scandal has proven to be the catalyst with which Toray has finally had to accept the need for change. We have been impressed with the manner in which Toray has engaged its investor base – including opening access to its board of directors for a frank discussion. This is still all too rare in Japan. We have been given assurances that the company is seriously considering making changes to its governance practices. We are now awaiting exactly what changes will be made and to what timeline they will be delivered. We will continue to monitor how Toray implements its various reforms and how it reports on performance with regards to these issues.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Universal Robina Corp **Country:** Philippines **Sector:** Consumer Staples

Priority Company: ✔ **ESG Risk Rating:** RED **Response to engagement:** Good

Theme: Corporate Governance **Issue:** ESG oversight

Background

As one of the largest branded food & beverage product companies in Southeast Asia, URC is exposed to significant risks in areas such as product quality and safety, supply chain labour standards, and public health and nutrition. This exposure painfully materialised in 2016, when two of the Vietnamese unit's beverage brands were found to have exceeded that country's lead content standards, triggering a sizable recall as competitors launched online campaigns to disparage the brands. The food safety scandal sent sales plunging and shares dipping. To this day, the company has not been able to fully recover its market share in Vietnam despite it having been cleared by the food safety authorities.

Action

We first engaged the company, including key executives, on its approach to ESG management back in 2014. At the time, we expressed our concern over the absence of a clear strategy to manage the key ESG risks and opportunities from its operations. The company was responsive to our engagement, which paved the way for regular, constructive conversations with management and operational specialists, as well as with external consultants it hired to help it develop a sustainability strategy. We welcomed the company's announcement early in 2018 that it was launching a long-term sustainability programme as part of its core business strategy. This included the publication of its first-ever sustainability report, which was prepared following Global Reporting Initiative guidelines.

Verdict

The time and resources dedicated to the development of a robust sustainability strategy evidence the strong commitment from the top to enhance URC's business proposition. The initial five-year strategy blueprint, framed within the commitment to achieve a "purposeful transformation" of the business by 2030, has been greatly enhanced by the input sought from key stakeholders, including suppliers, employees, consumers and shareholders, and the use of international standards such as the UN Sustainable Development Goals to guide practices. There is room for improvement going forward, which the company fully acknowledges. We will, therefore, continue our engagement and encourage management set specific goals for each of the focus areas, increase the sustainability report's geographical scope, and work on building capacity on ESG management along its raw materials supply chain.

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Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Public

Company: Victrex PLC **Country:** United Kingdom **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** ORANGE **Response to engagement:** Good

Theme: Corporate Governance **Issue:** Board accountability

Background

It is commonplace around the world for experienced board directors to hold more than one position, often holding up to three or four at a time. When considering the suitability of a director for a position on a board, it is important to consider their prior performance at other companies in a similar way an employer would consider the résumé of a potential employee. In this case, we had serious concerns over the suitability of Andrew Dougal as audit committee chairman of Victrex due to his performance on the board of Carillion plc, a UK services company that went into liquidation earlier this year and resulted in public furore at the poor financial management. Mr Dougal also served as the audit committee chairman during this period of trouble at Carillion. The collapse of Carillion was in part attributed to aggressive tendering on big public contracts. These left little margin for error and when profit fell, Carillion loaded up on debt whilst juggling its obligations to customers and suppliers. Investigations are ongoing into the company's collapse.

Action

With the annual shareholder meeting of Victrex approaching and the opportunity to vote against Mr Dougal's re-election, we began dialogue with the Victrex board. We expressed our concern over Mr Dougal's prior performance at Carillion and that given the ongoing investigations, his presence could serve as a distraction to the wider Victrex board. It was also made clear that we did not want to see the Victrex board's reputation damaged. We engaged directly with the company and offered support to an industry body representing several shareholders who engaged with the company on the same topic. Whilst the board of Victrex was supportive of Mr Dougal, it was made clear that they were listening to concerns and were mindful of the risk of reputational damage. Whilst this engagement was taking place we lodged our votes against his re-election. Following consideration of the growing dissent regarding Mr Dougal's re-election, an announcement was made prior to the AGM announcing his resignation from the board. The board considered this to be in the best interests of the company.

Verdict

Situations of this nature are amongst the most testing for investors to negotiate due to the personal nature of the engagement regarding a specific individual. However, they are also of the upmost importance to ensure board effectiveness and that directors are held to account for past performance. The company's responsiveness to our concerns were welcomed and whilst the response was not immediate, we believe that the resignation of Mr Dougal prior to the AGM was the right outcome in this situation, particularly as he served as the chairman of the audit committee of Victrex. Ensuring directors around the world recognise that investors can and will hold them to account where necessary is essential to the good stewardship of investee companies.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement case studies

Confidential

Company: Wells Fargo & Co **Country:** United States **Sector:** Financials

Priority Company: ✔ **ESG Risk Rating:** RED **Response to engagement:** Adequate

Theme: Business Conduct **Issue:** Post-scandal reform

Background

In 2016, Wells Fargo announced that it had incurred $185 million in regulatory fines in connection to widespread unauthorised cross-selling within its retail bank operations, resulting from a combination of poor company culture, misaligned sales incentives and a lack of compliance oversight. Following a long period of silence from the company, our persistence in requesting dialogue led us finally to a meeting with company representatives at the Council of Institutional Investor's (CII) Fall Conference in San Diego in Q3 2017. Over the course of this meeting and various follow-ups it explained to us the steps it had taken to review its practices, improve oversight through the centralisation of its key risk functions and bringing refreshment to the board. Overall we were pleased with the company's willingness to engage with shareholders again, although we felt that the pace of change was at the lower end of what we expected.

Action

In February, the Federal Reserve imposed an unusually harsh punishment on the bank by restricting it from growing any larger than its total asset size as of the end of 2017. In order to lift the penalty, sufficient improvements will need to be made by September. This unprecedented move came as a shock to the company and the market. It resulted in a sudden 10% fall in the company's share price. On the back of the announcement, the company immediately reached out to us to offer a call with the Board Chair, who was appointed in late 2017, to discuss this development. On this call she expressed the company's disappointment on the scale of the penalty issued by the Federal Reserve, particularly in light of the progress it considered it had made in reforming its culture and business practices. At the same time, given its current momentum on this issue it considered itself well placed to meet requirements. We became aware that she was due to speak at the CII's Spring conference in Washington D.C. We were due to attend and requested an additional meeting. The company was eager to accept this invitation and we met with her to express our views on the situation in-person and further improve our engagement relationship with the company.

Verdict

Although it is disappointing that the company has received another penalty for issues already addressed by other regulators, it is not too surprising given the severity of the initial mis-selling scandal. We took comfort from the company's initiative in wanting to speak with us, confirming our view that it is working to restore relationships with investors. We also welcomed the consistent message given by the Board Chair in line with what the company had previously told us. Overall we got a positive impression of the new Board Chair upon meeting her in-person. In particular, she seems to understand the importance of reforming company culture in supporting the introduction of its strengthened governance and compliance regime. The September deadline gives renewed focus to our engagement this year as we look to track the company's progress in meeting its requirements.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Response to engagement: Our assessment of how constructively the company is responding to our engagement. The ratings are Good/Adequate/Poor.

Engagement projects

This section reports on priority engagement projects where BMO has made progress in the past quarter. For full list of priority engagement projects please refer to the Appendix at the end of this report.

Project: Responsible drug pricing models | Category: Social

Project Objective

Responsible drug pricing models: Pharmaceutical companies have been in the spotlight in the US following a series of controversial incidents where drug companies have exorbitantly raised the price of treatments. This has led to companies such as Valeant and Turing being hauled before Congress and being harshly criticised for their practices. We will push the industry's leading players to respond to the public backlash by implementing strong, responsible drug pricing models. In this project, we will reach out to major global pharmaceutical companies to 1) understand what their views on a responsible drug pricing model are and how they consider keeping price hikes on treatments at acceptable levels; 2) identify strong and sustainable pricing practices which balance the profit motive with legitimate R&D that could yield life saving drugs and minimise further societal and political backlash; and 3) engage and encourage laggards to adopt transparent, responsible pricing for products.

Progress Summary

We analysed and reflected on the extensive engagement we conducted on this issue in 2017. Our main findings were that pharmaceutical companies were increasingly adopting a wide range of practices around responsible drug pricing. We identified emerging good practices around the following areas: board expertise and oversight; company policy and commitments; voluntary price rise limits; adoption of alternative drug pricing models; disclosure on lobbying and political expenses; internal controls; and transparent reporting. Not one company that we have researched and engaged thus far has yet incorporated every aspect of the good practices we have identified. We wrote to the Chief Executives of leading global pharmaceutical companies to share our knowledge and asked the company to respond to us with how its current practices compare with our list of good practices. 30 companies were engaged this quarter including the following priority companies: Bayer, GlaxoSmithKline, Johnson & Johnson, Mylan, Novartis, Roche.

Project: Labour Practices in the Agricultural Supply Chain | Category: Social

Project Objective

As investors we believe that companies should implement the UN Guiding Principles on Business and Human Rights, and should manage supply chain labour related risks and opportunities in alignment with relevant international standards. With a view toward protecting long-term value and mitigating risks, we will seek to engage relevant investee companies on supply chain labour practices.

Progress Summary

We joined the collaborative investor group led by the Principles for Responsible Investment on labour practices in the agricultural supply chain at the beginning of 2017. We led engagement with McDonald's and Compass Group. We co-led on Sysco. The engagement focused on the identification and assessment of corporate practices, whilst encouraging improved performance and disclosure. An investor statement was created as a reference for the group and for the companies targeted, which we supported. This covered supplier codes of conducts, governance of the issues, traceability and risk assessments, sourcing and supplier relationships, collaboration on systemic issues, monitoring and corrective action, as well as target setting and disclosure. Through 2017, the group engaged 34 companies - 89% of the initial target list. Key focus areas have been: supplier audits, disclosure, embedding labour policies into procurement contracts, enhanced supply chain mapping and governance of supply chain labour management. As the engagement initiative has achieved many of its initial objectives we will no longer play an active and leading role in the engagement group. We continue to support the investor statement and will monitor engagement on this issue.

Project Company responsiveness to shareholder resolutions receiving majority support

Category Governance

Project Objective

Company responsiveness to shareholder resolutions receiving majority support: Consistent with our ongoing efforts to promote greater accountability and responsiveness to shareholders at US issuers, we would identify companies where certain resolutions have received majority support at the most recent shareholder meeting and no changes have been implemented to date. We would seek to engage with companies to commit to implement a plan to respond to shareholders' concerns around those resolutions and encourage greater responsiveness going forward.

Progress Summary

Following on from our efforts in 2017, we continued to engage with certain US companies in Q1 where, contrary to the against vote recommendation of management, shareholder proposals had received majority support at the 2017 annual general shareholder meeting. Last year we wrote to 26 companies where this was the case, encouraging them to implement the wishes of shareholders and requesting that companies provide us with their intended actions in response to these resolutions. Out of the companies originally contacted, we received a response from 14, as well as two further which separately announced plans to implement the proposal's request. This left 10 companies which we considered to be unresponsive at that time. This quarter we escalated our engagement with these companies by extending an invitation to other institutional investors to co-sign a follow-up letter. As a result we sent a further letter to these companies co-signed by up to nine other institutional investors, representing a total aggregate of assets under management worth more than $3 trillion. This led to us receiving a response from four further companies that we had previously considered to be unresponsive. In the case of each of these, the companies confirmed to us that they had implemented the changes requested from the respective shareholder proposals. For the remaining six companies, we intend to review the proxy materials at their 2018 AGM to see if the shareholder proposal from last year has been implemented, with the intention to take any lack of responsiveness into account when voting on the re-election of directors at these companies' 2018 AGM. Ten companies engaged. This did not include a priority company.

Project ESG disclosure at mid-cap companies | **Category** Environmental; Social; Governance

Project Objective

Corporate approaches to ESG issues are increasingly analysed by investors to assess quality as well as the ongoing and long-term viability of companies. Key to all ESG analysis is the availability and consistency of relevant information tailored to the individual ESG profile of a company. While international organisations such as SASB, GRI, CDP and more recently the TCFD have made significant progress on providing guidance documents on ESG reporting, many – especially younger and smaller – companies still struggle to understand stakeholder needs and face trade-offs between costs and comprehensiveness of ESG reporting. The aim of this project is to assist high-risk mid-cap companies with disclosure gaps to identify and develop adequate ESG reporting frameworks. We would combine BMO's proprietary subindustry materiality assessments with quantitative data available via ESG research providers to identify companies whose ESG disclosure fails to meet minimum standards and encourage them to close critical gaps. We would focus on industries with high ESG risks (e.g. Industrials, Materials and Consumer Staples), focusing on material issues such as climate change, water scarcity and human capital indicators.

Progress Summary

We performed a set of quantitative and qualitative analysis in order to identify mid-cap companies (defined as those with a market cap of less than $10 billion) where ESG disclosure fails to meet adequate standards for their respective industries. We focused on the Industrials, Consumer Staples and Materials sectors as we considered these to be high risk and most worthy of engagement within the framework of this project. As a first step, we combined BMO's proprietary sub-industry ESG issue materiality assessments with quantitative data supplied by our third-party ESG research provider. This process enabled us to shortlist companies with low ESG scores on the issues flagged by our team as most material for the companies' respective sub-industries. In the second quarter, we will use this analysis as the basis for engagement with the shortlisted companies. We will bring to their attention the gaps in their reporting, and support them in developing adequate ESG reporting frameworks.

Project Governance of data protection | **Category** Social; Governance

Project Objective

In May 2018, the General Data Protection Regulation (GDPR) will come into effect in Europe, which will introduce heavy penalties for non-compliance and the requirement for many companies to appoint a data protection officer (DPO). Ensuring constant compliance with this regulation will require constant monitoring and use of a DPO can best mitigate risks. But there are questions over how this is implemented in practice, with different governance structures offering a variety of risks and opportunities. This project will look to engage key European holdings to access how they intend to adapt their governance and risk management system to reflect this new legislation.

Progress Summary

The General Data Protection Regulation (GDPR) will come into effect in May. With the introduction of potentially heavy penalties and the need for many companies to introduce a Data Protection Officer (DPO) we have started the process of understanding the risks and opportunities for companies and the adoption of governance and risk management systems to reflect this new legislation. During Q1, we have met with industry professionals from within companies but also with external experts to ensure that we have sufficient background knowledge to inform our conversations with companies. In addition, a Viewpoint covering the GDPR legislation was published by the team in February providing a useful primer and grounding on the wider topic. We have quantitively analysed and chosen 50 companies that are appropriate for participating in this project. The majority are European based although several are from Asia and the US that are also covered by the legislation due to the location of their clients and operations. This quarter we contacted these companies to request a meeting with either the DPO directly or a senior executive who is well placed to discuss the role in terms of governance and oversight. We expect the meetings to take place in Q2 and Q3. 50 companies engaged including the following priority companies: ASOS, GlaxoSmithKline, Roche, Ryanair, Sage, SAP and Unicredit.

Project Water – Management of site-level and supply chain risks

Category Environmental

Project Objective

We are participating, and acting as a lead investor for some companies, in this Principles for Responsible Investment (PRI) coordinated initiative focusing on the management of water-related risks in agricultural supply chains. We are targeting primarily global listed companies in the food, beverage and apparel sectors that are most exposed to agricultural water risks via their supply chains.

Progress Summary

We have been an active member of the collaborative investor engagement group led by the Principles for Responsible Investment on water risks in agricultural supply chains since inception in 2015. In 2017 the project's first phase was wrapped up, with a report released this quarter authored by the PRI and WWF. We reviewed and contributed to the report. We also led on engagement over a two-year time frame with The Kroger Co and PepsiCo. 84% of companies engaged disclosed to the CDP water program in 2017 compared to 66% in 2015. Awareness and acknowledgement of agricultural supply chain water risks increased by half on average; and the number of companies undertaking water risk assessments through direct operations and supply chains went up from 3% of companies to 25% in the two years to 2017. These are encouraging results. We are supporting the second phase of this collaborative engagement group which will be focusing on the laggard companies, with the aim of improving their performance. Similarly to the first phase, food, beverage, apparel, retail and agricultural products companies will be encouraged to implement effective water management strategies and procedures, as well as enhance disclosure.

Project Implementation of the Modern Slavery Act

Category Social

Project Objective

According to the International Labour Organisation (ILO), 21 million workers throughout the world across supply chains of large businesses are subject to modern slavery; this includes forced labour, child labour, and trafficking. Following the introduction of the 2015 UK Modern Slavery Act, many companies have started to publish modern slavery statements. These statements are varying in standard, which we believe to be a reflection on how well companies are managing this issue. We plan to engage companies to encourage best practice management of this issue and understand how companies are placed to mitigate risks in this area. We will focus our engagement on international companies with UK operations in high-risk sectors for modern slavery such as food, construction, textile, and hotels/ restaurants.

Progress Summary

We conducted analysis and scoped the target companies for this project in Q1. We have identified 25 companies to focus our engagement on. Research during the quarter has included understanding the questions to consider when evaluating modern slavery statements beyond standard disclosures. Our research included a meeting with Impactt, a UK based ethical trade consultancy, to understand where the biggest modern slavery risks lie for companies and what best practice management of the issue looks like. In the second quarter, we will be engaging the companies on an individual and tailored basis.

Project Access to Nutrition Index 2016 | **Category** Social

Project Objective

Nutrition policies and practices are becoming increasingly material for the food and beverage industry in light of increasing regulation across markets and changing consumer trends towards healthier living. While some companies have taken positive steps since the last Access to Nutrition Index ranking (ATNI) in 2013, the industry as a whole is still moving far too slowly. We are reaching out to companies covered in the ATNI ranking asking about specific performance gaps highlighted in the 2016 Index review and focusing on how the recommendations put forward by the Index are integrated to improve performance on nutrition practices and how this process is governed. ATNI aims to encourage companies to: - Increase consumers' access to nutritious and affordable foods and beverages through appropriate product formulation, pricing and distribution. - Responsibly exercise their influence on consumers' choice and behavior by improving marketing, labeling and the use of claims that promote healthy diets and active lifestyles. - Seeks to stimulate dialogue among stakeholders and drive action from companies to improve their nutrition practices by: - Enabling companies to benchmark their own performance on nutrition against international standards and best practice, and compare themselves to their peers. - Providing an objective source of information for all stakeholders to evaluate companies' contribution to addressing global nutrition challenges. The overarching goal of the ATNI is to help facilitate better diets and to help reduce instances of obesity and under-nutrition around the world.

Progress Summary

We have been an active part of the Access to Nutrition Index' (ATNI) collaborative investor engagement since inception, run by the Access to Nutrition Foundation (ATNF). The purpose of ATNI is to push the contribution of food and beverage manufacturers in improving diets and nutrition globally. The 2016 ATNI engagement phase ended in 2017. 13 companies, 60% of the 2016 Index ranked companies, were engaged by a group of 21 investor signatories. We participated in investor meetings with five companies: Kellogg's, General Mills, PepsiCo, Nestle and Coca-Cola. In 2018 ATNF is releasing a Product Profile for the first time, as well as a US Spotlight index, similar to the India Spotlight index. This quarter, we signed up to support the 2018 ATNI investor engagement group which we will report more on once it has launched. We are also undertaking our own individual engagement project on nutrition.

Project Sustainable seafood and responsible investment

Category Environmental; Social

Project Objective

Sustainability is central to the business success of companies that produce, process, or retail seafood because of the significant risks inherent in the supply chain. This engagement will target 10 companies on their management of seafood supply chains. Fish farming – aquaculture – has experienced massive growth in the past two decades and now provides half the seafood consumed worldwide. This represents a very positive trend for food production but will not take pressure off wild stocks, because the growth in demand consistently exceeds the growth of supply. Aquaculture can also have significant sustainability issues through the use of wild fish to make feed, the environmental impacts of farms, and the vulnerability of the industry to rampant disease outbreaks. Sustainability is central to the business success of companies that produce, process, or retail seafood because of the significant risks inherent in the supply chain. Companies engaged in the seafood sector have to manage risk factors, such as:
-Risk of supply chain disruption
-Risk to reputation
-Risks associated with production factors
-Risks associated with using illegal product
-Risks associated with human rights abuses

Progress Summary

We joined a collaborative investor engagement project in 2016 where ten companies were encouraged to adopt effective management systems of seafood supply chains. These focused on in particular risks of supply chain disruption and to reputation associated with using illegal products and those associated with human rights abuses. We have concluded our work with this group in Q1 due to lack of recent progress within it. The lead investor has paused collaborative engagement due to policy developments, Bank of England Governor Mark Carney highlighting the issue and the creation of the Seafood Stewardship Index. We will reflect on the issue and our engagement. We will consider doing engagement on this issue as opportunities and controversies arise.

Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating.

					Themes engaged						
Name	**Country**	**Sector**	**Priority company**	**ESG Rating**	**Environmental Standards**	**Business Ethics**	**Human Rights**	**Labour Standards**	**Public Health**	**Corporate Governance**	**Climate Change**
Abbott Laboratories	United States	Health Care		RED						●	
Alibaba Group Holding Ltd	China	Information Technology		RED		●				●	
Allergan PLC	United States	Health Care		RED					●		
Altria Group Inc	United States	Consumer Staples		RED						●	
Amazon.com Inc	United States	Consumer Discretionary	✔	RED						●	
America Movil SAB de CV	Mexico	Telecommunication Services		RED		●				●	
Auto Trader Group PLC	United Kingdom	Information Technology		RED		●					
AutoZone Inc	United States	Consumer Discretionary	✔	RED				●			
Bank of Ireland	Ireland	Financials		RED		●					
Berkshire Hathaway Inc	United States	Financials		RED						●	
Cigna Corp	United States	Health Care		RED						●	
Comcast Corp	United States	Consumer Discretionary		RED						●	
eBay Inc	United States	Information Technology		RED		●				●	
Facebook Inc	United States	Information Technology		RED		●				●	
Fresenius SE & Co KGaA	Germany	Health Care		RED	●	●		●	●	●	
Hospitality Properties Trust	United States	Real Estate		RED						●	
International Consolidated Airlines Group SA	United Kingdom	Industrials	✔	RED		●					
Jafco Co Ltd	Japan	Financials		RED						●	
JD.com Inc	China	Consumer Discretionary		RED		●				●	
Kose Corp	Japan	Consumer Staples		RED						●	
L Brands Inc	United States	Consumer Discretionary	✔	RED	●			●			
Mylan NV	United States	Health Care	✔	RED					●		
Pfizer Inc	United States	Health Care		RED					●	●	
Philip Morris International Inc	United States	Consumer Staples		RED						●	
Senior Housing Properties Trust	United States	Real Estate		RED						●	
Shimano Inc	Japan	Consumer Discretionary		RED						●	
Suzuki Motor Corp	Japan	Consumer Discretionary		RED						●	
Teva Pharmaceutical Industries Ltd	Israel	Health Care		RED					●		
UnitedHealth Group Inc	United States	Health Care		RED						●	
Valeant Pharmaceuticals International Inc	United States	Health Care		RED					●		
Vedanta Resources PLC	India	Materials		RED			●				
Walmart Inc	United States	Consumer Staples	✔	RED						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Red rated

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Wells Fargo & Co	United States	Financials	✔	RED		●				●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Orange rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Albemarle Corp	United States	Materials	✔	ORANGE	●	●		●			●
AT&T Inc	United States	Telecommunication Services		ORANGE						●	
Barclays PLC	United Kingdom	Financials		ORANGE		●					
BHP Billiton PLC	Australia	Materials		ORANGE	●	●		●		●	●
Big Lots Inc	United States	Consumer Discretionary	✔	ORANGE				●			
CCR SA	Brazil	Industrials		ORANGE						●	
Cemex SAB de CV	Mexico	Materials	✔	ORANGE				●			●
Chevron Corp	United States	Energy		ORANGE						●	
China Construction Bank Corp	China	Financials		ORANGE		●					
Computacenter PLC	United Kingdom	Information Technology		ORANGE		●				●	
Daiichi Sankyo Co Ltd	Japan	Health Care		ORANGE					●	●	
Fomento Economico Mexicano SAB de CV	Mexico	Consumer Staples	✔	ORANGE						●	
GAM Holding AG	Switzerland	Financials		ORANGE		●					
Glenmark Pharmaceuticals Ltd	India	Health Care		ORANGE					●		
Grupo Aeroportuario del Sureste SAB de CV	Mexico	Industrials		ORANGE		●		●			●
Halma PLC	United Kingdom	Information Technology		ORANGE		●					
HSBC Holdings PLC	United Kingdom	Financials	✔	ORANGE		●				●	
JPMorgan Chase & Co	United States	Financials		ORANGE		●				●	
Keyence Corp	Japan	Information Technology	✔	ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Lloyds Banking Group PLC	United Kingdom	Financials		ORANGE		●				●	
Martin Marietta Materials Inc	United States	Materials	✔	ORANGE	●					●	●
Marubeni Corp	Japan	Industrials		ORANGE						●	
Mazda Motor Corp	Japan	Consumer Discretionary		ORANGE						●	
McDonald's Corp	United States	Consumer Discretionary	✔	ORANGE		●				●	
Mitsubishi Corp	Japan	Industrials		ORANGE	●					●	●
Naspers Ltd	South Africa	Consumer Discretionary		ORANGE		●				●	
National Express Group PLC	United Kingdom	Industrials		ORANGE		●				●	
Netflix Inc	United States	Consumer Discretionary		ORANGE						●	
Novartis AG	Switzerland	Health Care	✔	ORANGE	●	●			●		
Ryanair Holdings PLC	Ireland	Industrials	✔	ORANGE		●		●		●	
Samsung Electronics Co Ltd	South Korea	Information Technology	✔	ORANGE		●					
Smith & Nephew PLC	United Kingdom	Health Care		ORANGE		●				●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Orange rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Smurfit Kappa Group PLC	Ireland	Materials		ORANGE						●	
Taisei Corp	Japan	Industrials		ORANGE						●	
Tencent Holdings Ltd	China	Information Technology		ORANGE		●				●	
Thomas Cook Group PLC	United Kingdom	Consumer Discretionary		ORANGE					●		
Toyota Motor Corp	Japan	Consumer Discretionary		ORANGE	●			●		●	●
TP ICAP PLC	United Kingdom	Financials		ORANGE		●					
Tullow Oil PLC	United Kingdom	Energy		ORANGE		●					
Unicharm Corp	Japan	Consumer Staples		ORANGE						●	
US Bancorp	United States	Financials	✔	ORANGE						●	
Verizon Communications Inc	United States	Telecommunication Services		ORANGE						●	
Victrex PLC	United Kingdom	Materials		ORANGE						●	
Wal-Mart de Mexico SAB de CV	Mexico	Consumer Staples		ORANGE				●			
Walt Disney Co/The	United States	Consumer Discretionary		ORANGE						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating.

					Themes engaged						
Name	**Country**	**Sector**	**Priority company**	**ESG Rating**	**Environmental Standards**	**Business Ethics**	**Human Rights**	**Labour Standards**	**Public Health**	**Corporate Governance**	**Climate Change**
ABN AMRO Group NV	Netherlands	Financials		YELLOW	●						●
AIA Group Ltd	Hong Kong	Financials		YELLOW		●				●	
Anglo American PLC	United Kingdom	Materials	✔	YELLOW		●					
AP Moller - Maersk A/S	Denmark	Industrials		YELLOW		●					
AVEVA Group PLC	United Kingdom	Information Technology		YELLOW		●					
Bank of America Corp	United States	Financials		YELLOW		●				●	
Bank Rakyat Indonesia Persero Tbk PT	Indonesia	Financials		YELLOW						●	
Bayer AG	Germany	Health Care	✔	YELLOW		●			●	●	
BB&T Corp	United States	Financials		YELLOW						●	
Booking Holdings Inc	United States	Consumer Discretionary		YELLOW		●				●	
BP PLC	United Kingdom	Energy	✔	YELLOW		●					
British American Tobacco PLC	United Kingdom	Consumer Staples	✔	YELLOW	●	●		●	●	●	●
Charles Schwab Corp/The	United States	Financials		YELLOW						●	
Citigroup Inc	United States	Financials		YELLOW						●	
Coca-Cola Co/The	United States	Consumer Staples		YELLOW						●	
Council Of Europe Development Bank	France	Government		YELLOW	●		●		●		●
Covanta Holding Corp	United States	Industrials		YELLOW	●					●	
Deutsche Bank AG	Germany	Financials		YELLOW		●					
Disco Corp	Japan	Information Technology		YELLOW						●	
DNB ASA	Norway	Financials		YELLOW		●				●	
Eni SpA	Italy	Energy		YELLOW							●
Experian PLC	United Kingdom	Industrials		YELLOW		●				●	
Exxon Mobil Corp	United States	Energy		YELLOW						●	
Fidessa Group PLC	United Kingdom	Information Technology		YELLOW		●					
GlaxoSmithKline PLC	United Kingdom	Health Care	✔	YELLOW		●			●	●	
Inmarsat PLC	United Kingdom	Telecommunication Services		YELLOW		●					
ITOCHU Corp	Japan	Industrials		YELLOW						●	
Johnson & Johnson	United States	Health Care	✔	YELLOW					●	●	
Kajima Corp	Japan	Industrials		YELLOW						●	
Mastercard Inc	United States	Information Technology		YELLOW		●				●	
Mitsubishi Chemical Holdings Corp	Japan	Materials		YELLOW						●	
Mitsubishi UFJ Lease & Finance Co Ltd	Japan	Financials		YELLOW						●	
Nordea Bank AB	Sweden	Financials		YELLOW	●	●		●		●	●

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Resona Holdings Inc	Japan	Financials		YELLOW						●	
Royal Bank of Scotland Group PLC	United Kingdom	Financials		YELLOW		●					
Royal Mail PLC	United Kingdom	Industrials		YELLOW		●					
Sage Group PLC/The	United Kingdom	Information Technology	✔	YELLOW		●				●	
Shire PLC	United States	Health Care		YELLOW					●		
Societe Generale SA	France	Financials		YELLOW		●					
Sumitomo Corp	Japan	Industrials		YELLOW						●	
Ube Industries Ltd	Japan	Materials		YELLOW						●	
UniCredit SpA	Italy	Financials	✔	YELLOW		●				●	
Western Union Co/The	United States	Information Technology	✔	YELLOW		●				●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
3M Co	United States	Industrials		GREEN						●	
AbbVie Inc	United States	Health Care		GREEN					●	●	
Allianz SE	Germany	Financials		GREEN		●				●	
Allied Irish Banks PLC	Ireland	Financials		GREEN		●					
Alphabet Inc	United States	Information Technology		GREEN						●	
Amadeus IT Group SA	Spain	Information Technology		GREEN		●				●	
American Express Co	United States	Financials		GREEN		●					
Amgen Inc	United States	Health Care		GREEN					●	●	
Apple Inc	United States	Information Technology		GREEN	●	●				●	
Assicurazioni Generali SpA	Italy	Financials		GREEN	●	●		●		●	●
Astellas Pharma Inc	Japan	Health Care		GREEN					●	●	
AstraZeneca PLC	United Kingdom	Health Care		GREEN		●			●	●	
AXA SA	France	Financials		GREEN		●					
Banco Santander SA	Spain	Financials		GREEN		●					
Bayerische Motoren Werke AG	Germany	Consumer Discretionary		GREEN							●
Berkeley Group Holdings PLC	United Kingdom	Consumer Discretionary		GREEN		●					
BlackRock Inc	United States	Financials		GREEN		●					
BNP Paribas SA	France	Financials		GREEN		●				●	
Boeing Co/The	United States	Industrials		GREEN						●	
Bristol-Myers Squibb Co	United States	Health Care		GREEN					●	●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Canadian Imperial Bank of Commerce	Canada	Financials		GREEN		●				●	
Capita PLC	United Kingdom	Industrials		GREEN		●					
CBRE Group Inc	United States	Real Estate		GREEN		●					
Cisco Systems Inc	United States	Information Technology		GREEN						●	
Close Brothers Group PLC	United Kingdom	Financials		GREEN		●					
Commonwealth Bank of Australia	Australia	Financials		GREEN		●					
Compass Group PLC	United Kingdom	Consumer Discretionary		GREEN						●	
Credit Suisse Group AG	Switzerland	Financials		GREEN	●	●					●
Crest Nicholson Holdings plc	United Kingdom	Consumer Discretionary		GREEN						●	
Daifuku Co Ltd	Japan	Industrials		GREEN						●	
Daiwa House Industry Co Ltd	Japan	Real Estate		GREEN						●	
Direct Line Insurance Group PLC	United Kingdom	Financials		GREEN		●					

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
easyJet PLC	United Kingdom	Industrials		GREEN		●		●		●	
Eli Lilly & Co	United States	Health Care		GREEN					●		
Ferguson PLC	Switzerland	Industrials		GREEN		●				●	
Ferrovial SA	Spain	Industrials		GREEN			●				
Fujitsu Ltd	Japan	Information Technology		GREEN						●	
General Electric Co	United States	Industrials	✔	GREEN						●	
Gilead Sciences Inc	United States	Health Care		GREEN					●		
Greene King PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Greggs PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Henkel AG & Co KGaA	Germany	Consumer Staples		GREEN		●				●	
Hiscox Ltd	Bermuda	Financials		GREEN		●					
Home Depot Inc/The	United States	Consumer Discretionary		GREEN						●	
Honeywell International Inc	United States	Industrials		GREEN						●	
Inchcape PLC	United Kingdom	Consumer Discretionary		GREEN		●					
ING Groep NV	Netherlands	Financials		GREEN		●				●	
Intel Corp	United States	Information Technology		GREEN						●	
InterContinental Hotels Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
International Business Machines Corp	United States	Information Technology		GREEN						●	
Intu Properties PLC	United Kingdom	Real Estate		GREEN		●					
ITV PLC	United Kingdom	Consumer Discretionary		GREEN		●					
J Sainsbury PLC	United Kingdom	Consumer Staples		GREEN		●		●		●	
Julius Baer Group Ltd	Switzerland	Financials		GREEN		●				●	
Jupiter Fund Management PLC	United Kingdom	Financials		GREEN		●				●	
JXTG Holdings Inc	Japan	Energy		GREEN						●	
Kansai Paint Co Ltd	Japan	Materials		GREEN						●	
Ladbrokes Coral Group PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Land Securities Group PLC	United Kingdom	Real Estate		GREEN		●					
Legal & General Group PLC	United Kingdom	Financials		GREEN		●				●	
Man Group PLC	United Kingdom	Financials		GREEN		●					
Merck & Co Inc	United States	Health Care		GREEN					●	●	
Merck KGaA	Germany	Health Care		GREEN		●			●	●	
Microsoft Corp	United States	Information Technology		GREEN		●				●	
National Grid PLC	United Kingdom	Utilities		GREEN		●				●	
Nokia OYJ	Finland	Information Technology		GREEN		●				●	
Nomura Real Estate Holdings Inc	Japan	Real Estate		GREEN						●	
Novo Nordisk A/S	Denmark	Health Care		GREEN		●			●	●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
NVIDIA Corp	United States	Information Technology		GREEN						●	
Oracle Corp	United States	Information Technology		GREEN						●	
Osaka Gas Co Ltd	Japan	Utilities		GREEN						●	
Paragon Banking Group PLC	United Kingdom	Financials		GREEN		●					
PepsiCo Inc	United States	Consumer Staples		GREEN						●	
Procter & Gamble Co/The	United States	Consumer Staples		GREEN						●	
Prudential PLC	United Kingdom	Financials		GREEN		●				●	
QIAGEN NV	Netherlands	Health Care		GREEN		●				●	
RELX PLC	United Kingdom	Industrials		GREEN		●				●	
Rentokil Initial PLC	United Kingdom	Industrials		GREEN		●				●	
Roche Holding AG	Switzerland	Health Care	✔	GREEN		●			●	●	
Royal Bank of Canada	Canada	Financials		GREEN						●	
Saga PLC	United Kingdom	Financials		GREEN		●				●	
Salesforce.com Inc	United States	Information Technology		GREEN						●	
Sanofi	France	Health Care		GREEN					●		
SAP SE	Germany	Information Technology	✔	GREEN		●				●	
Savills PLC	United Kingdom	Real Estate		GREEN		●					
Schroders PLC	United Kingdom	Financials		GREEN		●					
SGS SA	Switzerland	Industrials		GREEN						●	
Solvay SA	Belgium	Materials	✔	GREEN							●
Swiss Re AG	Switzerland	Financials		GREEN		●				●	●
Takeda Pharmaceutical Co Ltd	Japan	Health Care		GREEN					●		
Teijin Ltd	Japan	Materials		GREEN						●	
Telefonica SA	Spain	Telecommunication Services		GREEN		●					
Tesco PLC	United Kingdom	Consumer Staples		GREEN		●				●	
Texas Instruments Inc	United States	Information Technology		GREEN						●	
Toronto-Dominion Bank/The	Canada	Financials		GREEN						●	●
TOTAL SA	France	Energy		GREEN		●				●	●
Travelers Cos Inc/The	United States	Financials		GREEN	●	●		●		●	●
Travis Perkins PLC	United Kingdom	Industrials		GREEN		●					
UBS Group AG	Switzerland	Financials		GREEN		●				●	
Vertex Pharmaceuticals Inc	United States	Health Care		GREEN						●	
Visa Inc	United States	Information Technology		GREEN						●	
Vodafone Group PLC	United Kingdom	Telecommunication Services		GREEN		●				●	
Waters Corp	United States	Health Care		GREEN						●	
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN		●					
William Hill PLC	United Kingdom	Consumer Discretionary		GREEN		●					

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
WPP PLC	United Kingdom	Consumer Discretionary		GREEN		●					
Zurich Insurance Group AG	Switzerland	Financials		GREEN		●					

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Unrated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating.

					Themes engaged						
Name	**Country**	**Sector**	**Priority company**	**ESG Rating**	**Environmental Standards**	**Business Ethics**	**Human Rights**	**Labour Standards**	**Public Health**	**Corporate Governance**	**Climate Change**
Amdocs Ltd	United States	Information Technology		NONE		●				●	
Ebiquity PLC	United Kingdom	Consumer Discretionary		NONE						●	
Premier Asset Management Group PLC	United Kingdom	Financials		NONE						●	
Sakata Seed Corp	Japan	Consumer Staples		NONE						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects investor value.

					Themes engaged						
Name	**Country**	**Sector**	**Priority company**	**ESG Rating**	**Environmental Standards**	**Business Ethics**	**Human Rights**	**Labour Standards**	**Public Health**	**Corporate Governance**	**Climate Change**
☆☆☆											
Duke Energy Corp	United States	Utilities		ORANGE							●
Kobe Steel Ltd	Japan	Materials		GREEN		●					
Ryanair Holdings PLC	Ireland	Industrials	✔	ORANGE				●			
SAP SE	Germany	Information Technology	✔	GREEN						●	
Tencent Holdings Ltd	China	Information Technology		ORANGE		●					
☆☆											
ABN AMRO Group NV	Netherlands	Financials		YELLOW							●
AGL Energy Ltd	Australia	Utilities		ORANGE							●
Apple Inc	United States	Information Technology		GREEN		●				●	
AXA SA	France	Financials		GREEN							●
Bank of America Corp	United States	Financials		YELLOW							●
Barclays PLC	United Kingdom	Financials		ORANGE							●
BNP Paribas SA	France	Financials		GREEN							●
Cigna Corp	United States	Health Care		RED						●	
Credicorp Ltd	Peru	Financials		ORANGE						●	
Credit Agricole SA	France	Financials		YELLOW							●
Credit Suisse Group AG	Switzerland	Financials		GREEN							●
Daimler AG	Germany	Consumer Discretionary		YELLOW							●
DBS Group Holdings Ltd	Singapore	Financials		GREEN							●
Diageo PLC	United Kingdom	Consumer Staples		GREEN							●
Dow Chemical Co/The	United States	Materials		ORANGE							●
Fresenius SE & Co KGaA	Germany	Health Care		RED						●	
Gas Natural SDG SA	Spain	Utilities		GREEN							●
Hermes International	France	Consumer Discretionary		ORANGE							●
Iberdrola SA	Spain	Utilities		GREEN							●
Industrial & Commercial Bank of China Ltd	China	Financials		ORANGE							●
Jafco Co Ltd	Japan	Financials		RED						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Kobe Steel Ltd	Japan	Materials		GREEN						●	
LafargeHolcim Ltd	Switzerland	Materials		YELLOW							●
Lloyds Banking Group PLC	United Kingdom	Financials		ORANGE							●
Man Group PLC	United Kingdom	Financials		GREEN						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
					Themes engaged						
Mitsubishi Corp	Japan	Industrials		ORANGE	●						
National Australia Bank Ltd	Australia	Financials		GREEN							●
National Grid PLC	United Kingdom	Utilities		GREEN							●
Newmont Mining Corp	United States	Materials		GREEN			●				
Nordea Bank AB	Sweden	Financials		YELLOW							●
Novartis AG	Switzerland	Health Care	✔	ORANGE						●	
NRG Energy Inc	United States	Utilities		RED							●
Qantas Airways Ltd	Australia	Industrials		YELLOW							●
Smurfit Kappa Group PLC	Ireland	Materials		ORANGE						●	
Societe Generale SA	France	Financials		YELLOW							●
Solvay SA	Belgium	Materials	✔	GREEN							●
Statoil ASA	Norway	Energy		GREEN							●
Sumitomo Mitsui Financial Group Inc	Japan	Financials		GREEN							●
Swiss Re AG	Switzerland	Financials		GREEN							●
Tesco PLC	United Kingdom	Consumer Staples		GREEN							●
TOTAL SA	France	Energy		GREEN							●
UniCredit SpA	Italy	Financials	✔	YELLOW						●	
Vale SA	Brazil	Materials		ORANGE						●	
Waters Corp	United States	Health Care		GREEN						●	
Westpac Banking Corp	Australia	Financials		GREEN							●

Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
EMCORE Corp	United States	Information Technology		NONE						●	
Grupo Financiero Banorte SAB de CV	Mexico	Financials		YELLOW						●	
Kroger Co/The	United States	Consumer Staples		ORANGE	●						
Roche Holding AG	Switzerland	Health Care	✔	GREEN					●		
Vale SA	Brazil	Materials		ORANGE						●	
Wal-Mart de Mexico SAB de CV	Mexico	Consumer Staples		ORANGE						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Duke Energy Corp **Country:** United States **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
☆☆☆

Milestone Detail:
Published a Climate Report to shareholders, in direct response to shareholder engagement. The report includes a 2 degree scenario analysis, one of the actions recommended by the Taskforce on Climate-related Financial Disclosures. This report will allow investors to make an informed assessment of the company's approach to managing climate risks.

Company: Kobe Steel Ltd **Country:** Japan **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Business Conduct

Milestone Rating:
☆☆☆

Milestone Detail:
Announced that its Chief Executive is stepping down following the product quality data falsification scandal in 2017. We engaged the company in the immediate aftermath of the scandal emerging. We questioned whether existing leadership needed to be replaced as it had overseen the period in which the data falsification had taken place. The company also announced another executive director would be leaving the company. We believe that these changes are essential for the company to regain the trust and confidence of customers and investors.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Ryanair Holdings PLC **Country:** Ireland **Sector:** Industrials

Priority Company: ✔ **ESG Risk Rating:** ORANGE

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆☆

Milestone Detail:
Agreed to recognise a trade union for British pilots. This followed years of hostility towards collective representation and bargaining. We have engaged Ryanair for a number of years on its labour management practices. Following years of poor labour practices, we are encouraged to see the recognition Ryanair has given to trade unions. A deal has been struck with the British Airline Pilots' Association (BALPA) to represent all of the airline's 600 employed pilots based in the UK. These actions are likely to a lower chance of industrial action and further disruption to flight schedules as seen by thousands of cancellations due to pilot shortages in late 2017 which ultimately forced Ryanair to change its position.

Company: SAP SE **Country:** Germany **Sector:** Information Technology

Priority Company: ✔ **ESG Risk Rating:** GREEN

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆☆

Milestone Detail:
The company will allow a vote on its compensation system in 2018 and put three new board members to shareholder approval. At the 2017 AGM we voted against the discharge of the supervisory board in light of the company's failure to react to significant shareholder dissent to its compensation system in 2016 and because of failure to provide meaningful board refreshment. We had written to the company to express these concerns.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Tencent Holdings Ltd **Country:** China **Sector:** Information Technology

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Business Conduct

Milestone Rating:
☆☆☆

Milestone Detail:
We engaged the company on this issue in 2016 including an in-person meeting in Hong Kong. Tencent Holdings has significantly improved its data privacy and security management systems, including achieving the TRUSTe privacy certification for WeChat; introducing a dedicated privacy team responsible for handling data protection matters; publishing customer policies regarding data collection and disclosure; employee training on privacy issues; regular evaluation of the privacy protection of specific products; and privacy risk assessments ahead of the launch of new products. Data privacy is an area of increasing importance as a result of tightening regulatory action as well as Chinese customers' growing desire for privacy.

Company: ABN AMRO Group NV **Country:** Netherlands **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company’s ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: AGL Energy Ltd **Country:** Australia **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Apple Inc **Country:** United States **Sector:** Information Technology

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Business Conduct

Milestone Rating:
☆☆

Milestone Detail:
The Company announced that it would repatriate its US$250 billion cash pile generated from profits outside the US, most of which had been harboured within Ireland using aggressive tax avoidance schemes. We had been engaging with the company to encourage them to adopt more responsible tax practices for a number of years.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Apple Inc **Country:** United States **Sector:** Information Technology

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Increased the proportion of equity based on performance targets to 50%. We voted against pay at the company in previous years due to the fact that only a minority of equity awards were tied to specific performance conditions, thus bringing incentives out of line with shareholders.

Company: AXA SA **Country:** France **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Bank of America Corp **Country:** United States **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Barclays PLC **Country:** United Kingdom **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: BNP Paribas SA **Country:** France **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Cigna Corp **Country:** United States **Sector:** Health Care

Priority Company: ✖ **ESG Risk Rating:** RED

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company has amended its bylaws to provide proxy access. Shareholders who meet certain ownership criteria now have the opportunity to nominate directors for election to the company's board. This is a fundamental governance provision that exists in most developed markets but which has historically encountered resistance in the US. We have actively encouraged the implementation of proxy access as US companies and have consistently supported this through our votes.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Credicorp Ltd **Country:** Peru **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Split the roles of Chairman and CEO, which should allow for a greater balance of responsibilities and a more robust governance structure. We had called for separation of roles at the 2017 annual meeting, noting its importance for securing a proper balance of power and preserving accountability.

Company: Credit Agricole SA **Country:** France **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Credit Suisse Group AG **Country:** Switzerland **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Daimler AG **Country:** Germany **Sector:** Consumer Discretionary

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: DBS Group Holdings Ltd **Country:** Singapore **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
✩✩

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Diageo PLC **Country:** United Kingdom **Sector:** Consumer Staples

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
✩✩

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ✩✩✩ High potential impact on investor value ✩✩ Medium impact ✩ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Dow Chemical Co/The **Country:** United States **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Fresenius SE & Co KGaA **Country:** Germany **Sector:** Health Care

Priority Company: ✖ **ESG Risk Rating:** RED

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Improved its sustainability reporting significantly. The company had provided very little narrative and disclosures regarding managing key sustainability risks. The new report - which is integrated into the latest annual report - provides in-depth detail into its approach, especially on the material issues of product quality and business conduct. We have been engaging the company intensively over the past two years and focused in particular on improving transparency around ESG issues.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Gas Natural SDG SA **Country:** Spain **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Hermes International **Country:** France **Sector:** Consumer Discretionary

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Iberdrola SA **Country:** Spain **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
✪✪

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Industrial & Commercial Bank of China Ltd **Country:** China **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
✪✪

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ✪✪✪ High potential impact on investor value ✪✪ Medium impact ✪ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Jafco Co Ltd **Country:** Japan **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** RED

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Increased the number of independent board directors and established one-third board independence. We have been pressing the company to establish this standard through our engagement and voting in recent years. We expect large Japanese companies to achieve this level of board independence to ensure that there is sufficient external representation on the board which will represent the views of minority shareholders.

Company: Kinder Morgan Inc/DE **Country:** United States **Sector:** Energy

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company has amended its bylaws to provide proxy access. Shareholders who meet certain ownership criteria now have the opportunity to nominate directors for election to the company's board. This is a fundamental governance provision that exists in most developed markets but which has historically encountered resistance in the US. We have actively encouraged the implementation of proxy access as US companies and have consistently supported this through our votes.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Kobe Steel Ltd **Country:** Japan **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Corporate Governance

Milestone Rating:
✪✪

Milestone Detail:
Announced major corporate governance reforms following the product quality data falsification scandal. The reforms include establishing one-third board independence and ensuring a majority independent nomination and remuneration committees. We have been calling on the company to establish one-third independence in our votes and we had urged an overhaul of governance in engagement following the scandal. We believe that these are key components to reforming the company.

Company: LafargeHolcim Ltd **Country:** Switzerland **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
✪✪

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ✪✪✪ High potential impact on investor value ✪✪ Medium impact ✪ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Lloyds Banking Group PLC **Country:** United Kingdom **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Climate Change

Milestone Rating:
★★

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Man Group PLC **Country:** United Kingdom **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Corporate Governance

Milestone Rating:
★★

Milestone Detail:
Became a signatory to the United Nations Principles for Responsible Investment (PRI), committing to incorporate environmental, social and governance (ESG) analysis into investment decision-making and ownership practices. We had asked the company to improve its approach to ESG incorporation by adhering to the PRI.

Milestone Rating: ★★★ High potential impact on investor value ★★ Medium impact ★ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Mitsubishi Corp **Country:** Japan **Sector:** Industrials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Environmental Standards

Milestone Rating:
☆☆

Milestone Detail:
Established a significantly improved approach to environmental risk related reporting. There is far more transparency in both quality and quantity of relevant and material performance data. The Japanese general trading conglomerate has business operations in a wide range of sectors with high environmental risks such as coal and metals mining, energy, industrials and electric utilities. We have been pressing the company to improve its ESG related practices and reporting for many years. We have met the company on a number of times in Tokyo. We believe that this is a signal of the major step change in its approach to considering business material environmental issues.

Company: National Australia Bank Ltd **Country:** Australia **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: National Grid PLC **Country:** United Kingdom **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Newmont Mining Corp **Country:** United States **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Human Rights

Milestone Rating:
☆☆

Milestone Detail:
Implemented measures to improve its overall approach to human rights management and reporting. These include completion of human rights risk assessments for all global operations, incorporation of human rights considerations into enterprise management systems, and a new supplier code of conduct. Furthermore, the company enhanced transparency of human rights-related performance. These changes will help the company maintain and enhance its social license to operate.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Nordea Bank AB **Country:** Sweden **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Novartis AG **Country:** Switzerland **Sector:** Health Care

Priority Company: ✔ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Improved the executive pay structure and level of disclosure. We have urged the company to improve disclosure of performance metrics and remove full vesting of awards on termination for a number of years. We are pleased that the company has implemented or committed to implementing positive changes for 2019 which will largely address our concerns.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: NRG Energy Inc **Country:** United States **Sector:** Utilities

Priority Company: ✖ **ESG Risk Rating:** RED

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Qantas Airways Ltd **Country:** Australia **Sector:** Industrials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Smurfit Kappa Group PLC **Country:** Ireland **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company has concluded its remuneration consultation and in line with our recommendations, not gone ahead with the increase to annual bonus opportunity. Given the sensitivities around executive pay and the current levels of pay within the company we welcome this decision taken by the remuneration committee.

Company: Societe Generale SA **Country:** France **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Solvay SA **Country:** Belgium **Sector:** Materials

Priority Company: ✔ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Statoil ASA **Country:** Norway **Sector:** Energy

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Sumitomo Mitsui Financial Group Inc **Country:** Japan **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: Swiss Re AG **Country:** Switzerland **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Tesco PLC **Country:** United Kingdom **Sector:** Consumer Staples

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: TOTAL SA **Country:** France **Sector:** Energy

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: UniCredit SpA **Country:** Italy **Sector:** Financials

Priority Company: ✔ **ESG Risk Rating:** YELLOW

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company introduced a unitary capital structure, supporting the "one-share, one-vote" system which we have pressed it to adopt. This system also allows for lower costs than those associated with the maintenance of double share classes as the company would no longer pay privileged dividends to holders of saving shares.

Company: UniCredit SpA **Country:** Italy **Sector:** Financials

Priority Company: ✔ **ESG Risk Rating:** YELLOW

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company removed the anti-takeover provision which did not allow shareholders to vote more than five present of their holding. The removal of the voting cap will allow shareholder to vote their full economic interest. This change supports the "one-share, one-vote" system which we have pressed the company to adopt.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Vale SA **Country:** Brazil **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Amended its bylaws as part of a concerted effort to improve corporate governance practices. The new bylaws call for the appointment of at least 2 independent board members and the extension of tag-along rights to all shareholders in case of a public offering. We have engaged with the company for over ten years to encourage it strengthen its governance practices. These changes are significant as they allow for better protection to the interests of minority shareholders.

Company: Waters Corp **Country:** United States **Sector:** Health Care

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
The company has amended its bylaws to provide proxy access. Shareholders who meet certain ownership criteria now have the opportunity to nominate directors for election to the company's board. This is a fundamental governance provision that exists in most developed markets but which has historically encountered resistance in the US. We have actively encouraged the implementation of proxy access as US companies and have consistently supported this through our votes.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Westpac Banking Corp **Country:** Australia **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** GREEN

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Committed to align its reporting on climate change with the guidelines published by the Task Force for Climate Related Financial Disclosure (TCFD). The TCFD guidelines ask for systematic reporting on how the business impact of climate change is measured and the extent to which strategic planning aligns with the low carbon energy transition objectives reflected in the Paris Climate Agreement. This commitment is a good first step that will help increase the adoption of the TCFD disclosure framework.

Company: EMCORE Corp **Country:** United States **Sector:** Information Technology

Priority Company: ✖ **ESG Risk Rating:**

Milestone Theme:
Corporate Governance

Milestone Rating:
☆

Milestone Detail:
Eliminated the super majority vote requirement to amend the company's articles of incorporation at the company's 2018 annual shareholder meeting. This will enable shareholders to have more control over the company's governance arrangements.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Grupo Financiero Banorte SAB de CV **Country:** Mexico **Sector:** Financials

Priority Company: ✖ **ESG Risk Rating:** YELLOW

Milestone Theme:
Corporate Governance

Milestone Rating:
☆

Milestone Detail:
Became a signatory to the United Nations Principles for Responsible Investment (PRI), committing to incorporate environmental, social and governance (ESG) analysis into investment decision-making and ownership practices. We had asked the company to improve its approach to ESG risk management across its activities.

Company: Kroger Co/The **Country:** United States **Sector:** Consumer Staples

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Environmental Standards

Milestone Rating:
☆

Milestone Detail:
Improved its sustainability disclosure and have 2020 targets publically in place, with current progress towards them on waste, packaging, transport efficiency, energy and refrigerant leaks. We have engaged the company on this issue in engagement meetings since 2011.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones in detail

Company: Roche Holding AG **Country:** Switzerland **Sector:** Health Care

Priority Company: ✔ **ESG Risk Rating:** GREEN

Milestone Theme:
Public Health

Milestone Rating:
✪

Milestone Detail:
Participated in the 2018 Access to Medicine Index. The company had refused to do so in the 2016 Index which resulted in their ranking collapsing to 19th out of 20th despite having adequate approach to access to healthcare in low income countries. We engaged the company extensively on the issue in 2016 and we are pleased that the company has responded positively.

Company: Vale SA **Country:** Brazil **Sector:** Materials

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
✪

Milestone Detail:
Disclosed to shareholders, for the first time, executive remuneration figures as well as performance conditions and targets used to determine the vesting of awards under short and long-term incentive plans. Disclosure will allow investors to assess links between executive pay and performance. We have not supported remuneration report proposals in previous years' annual general meetings citing the lack of sufficient disclosure.

Milestones in detail

Company: Wal-Mart de Mexico SAB de CV **Country:** Mexico **Sector:** Consumer Staples

Priority Company: ✖ **ESG Risk Rating:** ORANGE

Milestone Theme:
Corporate Governance

Milestone Rating:
☆

Milestone Detail:
The board took the decision to submit directors for re-election individually, rather than as a single slate. This is a very positive development, which enables shareholders to hold directors individually accountable for their performance.

Milestone Rating: ☆☆☆ High potential impact on investor value ☆☆ Medium impact ☆ Lower impact

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

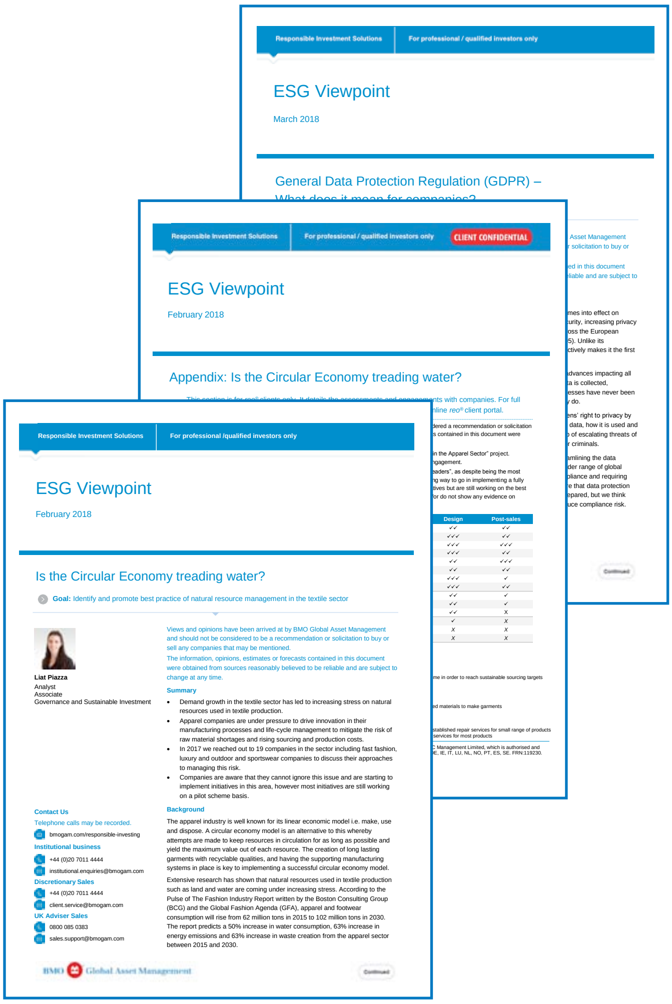
Appendix: Viewpoints 2018

February

- Is the Circular Economy treading water?

March

- General Data Protection Regulation (GDPR) – What does it mean for companies?



Appendix: 2018 Engagement Priorities

Following our client consultation, please find below a summary of the ***reo***® 2018 Engagement Priorities. These include:

- Focus sectors
- Engagement projects (including projects that will not be undertaken)
- Priority companies

Our engagement programme strives to continually build on long-term fundamental challenges that companies face in the Environmental, Social and Governance (ESG) space as well as to identify and address new, emerging risks. We have identified the priority projects and companies through quantitative analysis, using BMO's ESG risk tool, and through an assessment by Governance & Sustainable Investment (GSI) specialists.

Key factors that have been considered in this analysis include:

- E, S, and G risk scores
- Sector and Country risks
- Controversies (e.g. United Nations Global Compact (UNCG) breaches)
- Client portfolio weightings & security type (Equity vs. Bond)
- Assessment of impact of ESG risk factors now and in the future
- Assessment of likelihood of success for engagement

In 2016, we began to map our thematic engagement programme against the Sustainable Development Goals (SDGs). As a global asset manager, we view the Sustainable Development Goals to be a valuable reference point in framing our engagement with companies. In the list of projects below, a separate column indicates the main corresponding SDG goal for each project. We consider the exercise of matching SDGs with responsible investment activities to be the first step in driving change in the asset management industry and the companies we are invested in. In the course of 2017, we have seen the SDGs gather broader awareness within the investment community, with an increasing focus on understanding how engagement with companies can help deliver the goals. As part of our project engagement, we will therefore aim to report on the outcomes and findings also in terms of the primary SDG sub-goal to show more specifically what progress can and needs to be achieved.

Focus sectors:

The ***reo***® programme actively covers the following sectors, both via priority company engagement and projects:

- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Telecommunication Services
- Utilities

Engagement Projects

Our priority ***reo***® Engagement Projects for 2018 are outlined below. This list reflects feedback from clients to ensure our engagement activities are aligned with client priorities.

Sector	Project ESG Issue	Project Description	Status
Energy, Materials, Transport	Climate change	Carbon Action 100+ collaborative initiative: This project aims to build on our long-running engagement on climate change issues. We will lead on company engagement in a new global five-year investor initiative known as Carbon Action 100+. The initiative will target the world's largest corporate greenhouse gas emitters asking them to develop low carbon business strategies and strengthen climate-related governance as well as financial disclosures. As part of this initiative, we will continue our ongoing collaboration with the Institutional Investor Group on Climate Change (IIGCC), where we have contributed to the development of sector-specific frameworks that set best practice investor expectations for companies to manage climate change risks. The Carbon Action 100+ initiative brings together investors from the Global Investor Coalition on Climate Change. It will help us broaden the scope of our engagement on climate change issues and push for the widespread adoption of the recommendations published by the Task Force for Climate Related Disclosures on Climate Change (TCFD).	New in 2018
Construction, Textile, Food and Beverage, Hotels/ Restaurants	Labour standards	Implementation of the Modern Slavery Act: According to the International Labour Organisation (ILO), 21 million workers throughout the world across supply chains of large businesses are subject to modern slavery; this includes forced labour, child labour, and trafficking. Following the introduction of the 2015 UK Modern Slavery Act, many companies have started to publish modern slavery statements. These statements are varying in standard, which we believe to be a reflection on how well companies are managing this issue. We plan to engage companies to encourage best practice management of this issue and understand how companies are placed to mitigate risks in this area. We will focus our engagement on international companies with UK operations in high-risk sectors for modern slavery such as food, construction, textile, and hotels/ restaurants.	New in 2018
Food and Beverage, Household and Personal Care	Waste and Recycling	Ocean plastics: More than 8 million tonnes of plastic is discarded into the oceans each year; by 2050 it is estimated that there could be more plastic than fish. One major contributor are single serve plastic bottles, where more than 480 billion are sold per year, with only a small proportion being made from recycled materials. Other plastic litter is also getting into the oceans. Companies are feeling the impact as 'branded litter' becomes increasingly problematic. The objectives of this project would be to engage with the relevant food and beverage companies to encourage the sale of drinks within bottles made from recycled materials, get commitments to phase out single serve plastic, incentivise value creation from the waste and find alternatives to plastic packaging. We are also considering including a select number of relevant Household and Personal Care companies.	New in 2018
Cross-sector (mid-caps)	ESG disclosure at mid-cap companies	ESG disclosure at mid-cap companies: Corporate approaches to ESG issues are increasingly analysed by investors to assess quality as well as ongoing and long-term viability of companies. Key to all ESG analysis is the availability and consistency of relevant information tailored to the individual ESG profile of a company. While international organisations such as SASB, GRI, CDP and more recently the TCFD have made significant progress on providing guidance documents on ESG reporting, many – especially younger and smaller – companies still struggle to understand stakeholder needs and face trade-offs between costs and comprehensiveness of ESG reporting. The aim of this project is to assist high-risk mid-cap companies with disclosure gaps to identify and develop adequate ESG reporting frameworks. We would combine BMO's proprietary subindustry materiality assessments with quantitative data available via ESG research providers to identify companies whose ESG disclosure fails to meet minimum standards and encourage them to close critical gaps. We would focus on industries with high ESG risks (e.g. Industrials, Materials and Consumer Staples), focusing on material issues such as climate change, water scarcity and human capital indicators.	New in 2018
Chemicals	Chemical safety regulation	Biodiversity in the agricultural sector: Industry response to regulation on hazardous chemicals (incl. on neonics). The dramatic decline of European honeybees, an important pollinator for agricultural crops, continues to be a key environmental and economic concern shaking the agricultural chemicals and agricultural producers industries. Regulatory reviews in the EU by the European Food Safety Authority (EFSA) and the US (EPA) of pesticides linked to bee declines revitalized the public debate about the environmental compatibility of pesticides and put companies producing these in the spotlight. The European commission is working on passing a bill to ban the use of these products outside of greenhouses and with the current change in the UK's stance on the matter this is likely to pass. We will ask companies how they prepare for potential bans and the threat of product substitution from alternative products. We will also press agricultural chemical and agricultural producer companies to develop programmes to monitor and enhance bee welfare.	New in 2018
Food and Beverage	Nutrition	Improving corporate strategies to nutrition: The issue of nutrition has become increasingly prominent. Obesity rates continue to rise rapidly, particularly in low and middle-income countries. The fiscal costs of obesity and nutrition-related diseases are increasing, with diseases such as diabetes placing a heavy burden on healthcare services. In response, governments are implementing new policy measures to address the issue, such as the sugar tax in Mexico and the UK. Companies with revenue linked to calorie-dense, high-sugar and high fat foods are seen to be at risk, due to the direction of regulation and consumer	New in 2018

reo® 2018 priority companies

These companies were selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the GSI team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for other companies where we engage more reactively. Likewise, reporting on our engagement is more comprehensive, including in the form of regular summary case studies.

Company name	Country	Sector	Company Summary
AES Corp/VA	US	Utilities	US utility AES has shown meaningful strides toward diversifying its business toward alternative energies including the acquisition of the largest independent solar distributor in the US. However, its fuel mix remains predominantly fossil-fuel based, with 40% of generation from coal. The company has so far rejected shareholder proposals calling on the company to develop a 2 degree scenario analysis despite the 40% support this resolution received in 2017. We would like the company to take a less legalistic and more strategic approach to this issue, and to consider how it can develop its analysis and reporting in line with the recommendations of the Taskforce on Climate-related Financial Disclosures.
Albemarle Corp	US	Materials	While Albemarle, a global specialty chemicals company, faces significant opportunities in clean tech (particularly in energy storage), it also has exposure to risks including chemical safety, toxic emissions and waste, energy use and greenhouse gas (GHG) emissions and water management. The company produces several chemicals that might come under pressure as chemicals safety regulation in the US and EU continue to tighten, posing compliance and reformulation costs to the company. Besides having relatively high intensity of SOx, NOx and GHG emissions compared to peers in the industry, Albemarle currently does not disclose information on waste and pollutant mitigation efforts nor does the company commit to any reduction targets. During our 2017 engagement with Albemarle on these issues the company struggled to give details about a proactive chemicals safety risks assessment procedure. Similarly, the company had problems answering questions targeting its supply chain management approach towards Cobalt, a mineral that has repeatedly been linked to human rights violations in the DRC. We have therefore decided to keep Albemarle on the priority company list for 2018.
Amazon.com Inc	US	Consumer Discretionary	Amazon's key ESG risks continue to revolve around the management of labour standards, data privacy, tax as well as its carbon footprint. While there are signs that the company has begun addressing some of these areas, we remain concerned by Amazon's overall inward looking corporate culture, its general lack of transparency, and unwillingness to engage in open dialogue on ESG matters. On climate change, we received reassurance from the company about plans to enhance transparency in the near future. Labour standards remain a key area of concern, which despite some progress in transparency, the company has yet to present a comprehensive human capital management strategy. In addition, governance practices remain weak with an entrenched board that potentially lacks the commitment to challenge a dominant CEO/Chairman. Although we did have a first call with the company's Head of Sustainability, progress in establishing a constructive dialogue has been slow overall. We therefore decided to escalate our engagement and approached the company in collaboration with other investors. This outreach is ongoing and we will continue to keep the company on the 2018 priority list.
Andritz AG	AT	Industrials	Andritz has been dealing with controversies over its involvement in hydropower projects in Brazil's Amazon region as well as South East Asia. Such projects have often face challenges around biodiversity impacts, environmental pollution as well as community relations and violation of human rights. With its strong position in the hydropower business (28% of 2015 sales), Andritz is considered a key supplier for hydropower projects around the globe, providing "from water-to-wire" solutions. Andritz disclosure on the issues and environmental and social impact assessments in general appear to be regulatory-driven and are not considered commensurate with the implied risk. Also with regard to carbon emission and water, we see potential for improved disclosure and management practices. In 2017, we engaged the company on these issues with limited success. Andritz appeared reluctant to organize a meeting before having completed its ongoing sustainability review. As a result, our interactions with the company were limited to written exchanges and our participation in Andritz`s stakeholder survey. Given these restrictions, we decided to retain the company on the 2018 priority list.
Anglo American PLC	GB	Materials	Engagement on climate change risks culminated in us speaking at the company's annual general meeting to commend management on recent efforts to improve its approach to addressing the risks and opportunities linked to the energy transition. We also asked more detail be provided on the results of the climate change scenario work led by the Technical Director. Specifically, we noted reporting should contain information on the scenario parameters used, and the likely financial implications for the business, including those for capital allocation and research and development. Going forward, we are planning to discuss the results of the company's scenario work as per the latest guidance from the FSB Task Force on Climate-related Financial Disclosures. Given the positive momentum of our engagement and outstanding questions, we will keep the company on the 2018 priority list.
Arconic Inc/PA	US	Industrials	2017 was a turbulent year for Arconic. In April, the company's CEO Klaus Kleinfeld resigned over a letter he sent to a senior executive of Elliott Management, an activist hedge fund that launched a proxy against the company at the beginning of the year. According to Elliott Management, the letter sent by Kleinfield made "veiled suggestions that he might intimidate or extort Mr. Singer" (CEO of Elliott Management). Only two months later, in June 2017 an inquiry into the Grenfell Tower fire in London revealed that Arconic supplied the building's exterior cladding (Reynobond PE), which played a critical role in the rapid spread of the fire that resulted in 71 fatalities. While building codes did not prohibit the use of non-flame retardant cladding, Arconic faces accusations of knowingly failing to disclose the dangers of Reynobond PE. Lastly, engine maker CFM International recalled 30 engines to remove the turbine discs forged by Arconic, which were found to be prone to cracks. Our engagement with the company will centre around corporate governance and product quality and safety practices at the company.

Company name	Country	Sector	Company Summary
ASOS PLC	GB	Consumer Discretionary	The UK online fashion and beauty retailer sells third party brands and also gains around 40% of revenues from its own brand products. Effective labour management in its own operations such as distribution centres and in its supply chain is important to mitigate labour stoppages, address human capital concerns and mitigate reputational risks. Asos has strong processes in place to manage supply chain labour standards, however, it does not disclose information on how it manages labour standards at its warehouses. This is of particular concern as Asos uses labour agencies to employ workers in its distribution centres. During 2018, we plan to engage Asos on how it manages labour issues at its warehouses and distribution centres globally, including how it manages relationships with labour agencies.
Associated British Foods PLC	GB	Consumer Staples	We are prioritising ABF for engagement in 2018 for a number of reasons. Firstly, we will revisit labour management within the supply chain, in particular within Primark's Indian supply chain. There are currently allegations of forced labour being linked to brands who are sourcing from Southern India. Whilst Primark was called out in these, it hasn't confirmed whether the supplier in question is part of its supplier base, but did say that they are seeking to improve employee conditions in Southern India. Consumers are demanding greater transparency within supply chains, as are governments, with the UK pledging $53.7million towards tackling modern slavery. Secondly, we want to discuss the trajectory of the company's sugar business given the volatile nature of the commodity, also in terms of customers reducing sugar in their diets. Therefore, we are interested to know how the company see this trend playing out within its businesses. We will discuss nutrition in relation it the grocery arm.
AutoZone Inc	US	Consumer Discretionary	The US automotive parts and accessories retailer has been the subject of a number of labour related controversies such as discrimination based on race and disability, and controversies around rest during working hours. The company's disclosures in this area are poor and our 2018 engagement with Autozone will focus on labour management in its stores and warehouses. We will particularly encourage the company to implement stronger strategies to manage issues related to diversity and inclusion, professional development and working conditions across the entire workforce.
Bank Mandiri Persero Tbk PT	ID	Financials	Mandiri is one of the largest providers of finance to the massive expansion of the palm oil sector in Indonesia. As such, its loan portfolio is significantly exposed to the sustainability risks related to palm cultivation. We will engage with the company to encourage it improves its approach to managing credit risks from its loans to palm oil businesses, as well as others in sectors with high environmental and social impacts.
Bayer AG	DE	Health Care	We engaged Bayer multiple times during the year. Our engagement focused on three key areas, (1) the ESG implications of a potential merger with Monsanto, (2) chemical safety and (3) corporate governance. Generally, Bayer was open to our engagement but adopted a rather defensive attitude towards our concerns. Bayer has not yet published a joined ESG strategy for the potential merger with Monsanto, explaining that it does not anticipate any problems in merging their ESG strategy. With regard to ongoing ban of the neonicotinoid-based pesticides in the EU, Bayer explained the issue is highly politicized and refers to scientific studies substantiating the safety of its products, refraining to acknowledge the substantial counter evidence. Finally, the company justified the presence of certain long-tenured and over-boarded members of the supervisory board by referring to compliance with prevailing legislation and standards. Given the lack of progress on the above issues and ongoing developments with regard to the Monsanto merger we will keep the company on the 2018
Becton Dickinson and Co	US	Health Care	Anti-corruption systems of companies in the healthcare sector continue to be under the spotlight following a series of high profile incidents. We plan to encourage this US medical technology company to improve its commitment to ensuring responsible sales and marketing by publicly disclosing its approach and ensuring employees receive training on how to sell and market products responsibly given its plans to further expand in emerging markets.
BHP Billiton Ltd	AU	Materials	Our engagement focused on participation in a site visit to Brazil organized by the BHP to get a better understanding of the progress and outstanding challenges associated with the Samarco mining accident from 2015. The trip confirmed our expectation that BHP is exhibiting strong leadership to address the fallout from the accident as well as the underlying causes. However, in light of the political and economic crisis in Brazil, we do see ongoing risks in terms of litigation costs and implementation of effective long-term environmental and social remediation. We therefore decided to keep the company on the 2018 priority list to monitor progress for another year.
Big Lots Inc	US	Consumer Discretionary	The US discount retailer is a margins driven business. Effective labour management, particularly at warehouses and in stores, is important for the company to control its cost of human capital. Poor management of this issue can cause the company increased costs as a result of high turnover and the associated training costs, as well as lack of continuity. We find the high percentage of part-time and seasonal workers concerning and Big Lots does not disclose information and how its labour force is managed. Our 2018 engagement will focus on encouraging the company to implement a labour management policy in order to improve the retention of its workers and reduce retention and turnover costs.
BIM Birlesik Magazalar AS	TR	Consumer Staples	As the biggest purchaser of most of the products it sells Turkey, BIM is in a position to positively influence its suppliers' management of environmental and social risks in their operations. We will, therefore, engage with the company to discuss ways to strengthen its approach to incorporating sustainable sourcing considerations into its procurement practices. We will also seek to encourage the board implement measures to allow for effective director nomination and board performance evaluation.

Company name	Country	Sector	Company Summary
BP PLC	GB	Energy	As part of our long-term collaboration with a small group of investors, we had numerous discussions with BP senior executives. We also presented a statement at the company's Annual General Meeting. Climate change has remained a focal area and BP showed positive steps in developing their strategic framework, aiming to reposition the company to align with a low carbon energy transition. We are encouraged that this framework now covers all relevant aspects, including carbon risks associated with its core products and operations as well as new energy opportunities. However, the company has yet to set a firm commitment to publicize operational emissions reduction targets. There are indications that this is being considered for the next reporting season. We will therefore continue to push this request for public target setting and reiterate our encouragement for greater leadership to develop corporate reporting frameworks that comply with the recommendations put forward by the Task Force for Climate Related Financial Disclosure (TCFD). On the topic of remuneration, where BP has received extensive negative publicity in 2016, we noted that it has responded very constructively to shareholder concerns, to the point where it announced significant reductions to its remuneration policy. We have seen overall positive momentum on key points such as climate change and remuneration, however, we will continue to keep BP on the priority list for 2018 due to its market prominence and signal value that improvements have on peer companies.
Britannia Industries Ltd	IN	Consumer Staples	We are prioritising Britannia Industries for engagement in 2018 due to significant concerns regarding the nutritional profile of its product portfolio. We are also interested in the sales and marketing strategies of these products.
British American Tobacco PLC	GB	Consumer Staples	Historically our engagement with British American Tobacco (BAT) has been focused on supply chain risks stemming from poor working conditions in tobacco farming, more recently we discussed the health impact of alternative tobacco products which are gaining in popularity and are threatening to disrupt the traditional business model of tobacco companies. For 2018, we have decided to gear up our engagement with BAT to deepen our understanding of the company's long-term strategy and product stewardship measures around its global product portfolio. We will also probe on the effectiveness of its bribery and corruption systems and culture given the recent announcement that the UK Serious Fraud Office is investigating the company over suspicions of bribery payments to benefits its Africa business.
Cemex SAB de CV	MX	Materials	As a vertically integrated company, whose operations cover a large part of the construction materials value chain, CEMEX has elevated exposure to a series of E&S risks, many of which we consider insufficiently managed. Total CO_2 emissions (scope 1&2) of the company in 2016 were 47,7700,209mt CO_2e, an amount equivalent to the emissions of 11.8 coal fired power plants or 12,100 wind turbines running a year. Besides its significant absolute scale, CEMEX struggles to reduce its carbon footprint and was forced to adjust its carbon reduction target as carbon intensity figures continue to trend upwards. A second area of concern is health and safety, were – according to MSCI – CEMEX reports the highest fatality rate in the construction materials industry between 2013 and 2016. Our engagement with the company in 2018 will focus on the above areas, but will address several corporate governance related issues we have identified. These latter include such issues as board independence, executive pay as well as issues identified in the report of the independent auditor and evidence of material internal control weaknesses.
China Railway Construction Corp Ltd	CN	Industrials	As a construction company predominantly focused on large scale infrastructure projects in emerging market, CRCC is heavily exposed to risks related bribery and corruption as well as community relation. The scrapping of its high-speed railway tender in Mexico in 2014 following alleged conflicts of interest between the Mexican officials and the bidding consortium, and the local protests at its Ecuador El Mirador copper mine for the displacement of indigenous communities in Tundayme in October 2017, are two recent examples that underpin the significance of these risks to the company. We plan to engage the company on its efforts to prevent and detect corruption as well as its community management standards, including environmental and social impact assessments of high-risk projects. These include railways, highways, water conservancy and hydropower, bridges, tunnels, airports and wharfs.
CVS Health Corp	US	Consumer Staples	We are prioritising CVS for engagement in 2018 as there are topical issues the company is exposed to. In 2017 President Trump declared a public health emergency in response to the US opioid crisis. According to the Centres for Disease Control and Prevention, in 2016 more than 46 people died daily from overdoses involving prescription opioids, overdose deaths involving prescription opioids were five times higher in 2016 than 1999 and sales of these prescription drugs have increased fourfold. CVS have committed to an enhanced management programme within its pharmacies to ensure appropriate use and prescription of opioids, as well as educating patients, supporting community health centres and increasing disposal options. Rising drug prices are another key concern for the customers of CVS and the company is aware of this, and is therefore employing strategies in order to manage the issue. With both of these topics CVS is being proactive and we will monitor progress through engagement in 2018. We will also discuss executive remuneration.
Dominion Energy Inc	US	Utilities	Our prior engagement with Dominion showed the company to be well-informed on how US regulations at the time would impact on their business, but there was little indication of its longer-term direction of travel. Whilst its status as a largely regulated generator cushions it to some extent from the potential impacts of the energy transition we would still like to see a more proactive approach particularly given that coal is still a meaningful part of the energy mix. Specifically our engagement objective will be to encourage 2 degree scenario planning, in line with the recommendations of the Taskforce on Climate-related Financial Disclosure.
Dynegy Inc	US	Utilities	As a relatively small utility compared with US peers, Dynegy has so far not been the target of intensive investor engagement. However we see the company as having a high potential exposure to energy transition risks, given that its generating capacity is entirely fossil-fuel based, with 36% coming from coal. In terms of managing risk, whilst the company shows awareness of climate legislation, a long-term vision for energy transition is so far absent. Our objective will be to discuss with the company how it can use the recommendations of the Taskforce on Climate-related Financial Disclosures to analyse and report on its risk management in this critical area.

Company name	Country	Sector	Company Summary
Emaar Properties PJSC	AE	Real Estate	Emaar Properties is a global property developer with a strong footprint in the Middle East and North Africa. It focuses on real estate, leasing and related activities including technology and has ambitious growth prospects. We have concerns with the reasonably low level of disclosure offered by the company on ESG issues. This overlies a sector that has faced controversies in the areas of labour management, corruption and health and safety in recent years. We are also keen to understand their approach to building green developments along with understanding corporate governance structure within the company.
Fiat Chrysler Automobiles NV	GB	Consumer Discretionary	Our engagement with FCA this year occurred as part of a wider auto sector collaborative engagement initiative on emissions in the auto sector, which involved the development of a common investor expectations framework. Although the company has disclosed some targets, these are fragmented and beg the question to what extent current performance and reduction progress will mitigate the risk of regulatory non-compliance and fines. It also does not report comprehensive forward-looking objectives related to low emission vehicle sales or indicators such as electric vehicle (EV) related research & development investments. Compared to peers that have started to lay out clearer ambitions regarding EV adoption and fleet emissions management, FCA remains a laggard. Given its short-term focus on potential merger options and its SUV heavy fleet mix, it is for the time being likely to remain on the sideline of the emerging industry push into developing an EV market. On the positive side, due to the relatively low diesel mix in its fleet, the company has been somewhat less affected by the implications of the diesel scandal, which complicates the achievement of fleet level emissions reduction objectives. Outstanding questions we continue to engage the company on related to improvement in its transparency around fleet emission targets and greater clarity on possible costs associated with non-compliance vis-à-vis tightening regulatory emission standards. Furthermore, we also pushed for more information as to how its investments in autonomous technology will offer further opportunities to develop EV options going forward. We will keep FCA on the 2018 priority company list to push for progress on these issues.
Fomento Economico Mexicano SAB de CV	MX	Consumer Staples	We are prioritising FEMSA for engagement in 2018 due to significant concerns regarding the nutritional profile of its products and those it manufactures for. We are also interested in the sales and marketing strategies of these products in relation to nutrition. We will also engage the company on its strategies in relation to single serve plastic.
Fortis Inc/ Canada	CA	Utilities	Fortis is a Canadian utility company with over 3 million customers in the US and Canada, with assets focused on transmission and distribution but also including generation, some of which is coal-based. Reporting by the company indicates awareness of the structural changes in the energy system but we see there being further potential to map out the longer-term strategic direction in relation to the energy transition, with reference to the recommendations of the Taskforce on Climate-related Financial Disclosure.
General Electric Co	US	Industrials	General Electric`s (GE) employees constitute the company's key strategic assets, critical for its long-term success. GE currently goes through a prolonged period of corporate restructuring and layoffs (12,000 recently announced in GE Power) and faces ongoing class action lawsuits over the company's repeal of Medicare plans and drug benefits affecting approximately 130,000 retirees and their spouses. In addition, General Electric has been dealing with controversies over its involvement in hydropower projects in Brazil's Amazon region as well as South East Asia. Such projects have often face challenges around biodiversity impacts, environmental pollution as well as community relations and violation of human rights. GE disclosure on the issues and environmental and social impact assessments in general appear to be regulatory driven. We will ask the company to strengthen its approach by enhancing disclosure around its environmental and social risk management practices of its project portfolio.
Gerresheimer AG	DE	Health Care	We have engaged with this German healthcare equipment company on corporate governance, supply chain as well as environmental management in the past. Gerresheimer plans to expand its operations in Asia – including India and China – and South America , this brings more contact with public officials, increasing the risk of corruption and irresponsible sales. The company has some policies and systems to mitigate these risks but it lags peers. We will encourage Gerresheimer to roll out a global approach to anti-corruption to include suppliers and contractors as well as employees.
GlaxoSmithKline PLC	GB	Health Care	We continued to have in-depth engagement with GlaxoSmithKline in 2017 on a range of material issues namely: 1) business ethics and 2) drug pricing practices. A notable improvement that was implemented at the company - which we had been pressing since 2016 – was on its approach to executive compensation. The board took on our feedback and removed the performance multiplier in the annual bonus scheme which led to the ratcheting up of awards. We were able to support the executive remuneration proposal at the 2017 annual shareholder meeting and as a result, we supported the management on every proposal. The company has continued to take key strides in implementing practices to limit business ethics and compliance breach related controversies which has dogged it in the past. However, we are still yet to be convinced on how performance in these areas are transparently linked to pay related outcomes for executives and employees. Also, GSK is trailing other major global pharmaceutical companies around its approach to pricing of drugs. For these reasons, we will continue our intensive engagement with the company in 2018.
HSBC Holdings PLC	GB	Financials	We engaged the bank 10 times in 2017 regarding its compliance oversight functions, cybersecurity and environmental financing. We have continued to be pleased with HSBC's proactive approach to engagement with investors over recent years and the progress the company has made in a number of areas. The bank has shown real leadership on some topics, such as cyber risk management and governance procedures, as well as recent commitments given to support environmental financing. Despite the bank meeting the requirements of its Deferred Prosecution Agreement set by US regulators in 2012, we consider that the bank's overhaul of its compliance framework and business practices continues to be a work in progress, as seen with recent allegations surrounding its involvement with corruption in South Africa. This serves as a reminder of the global scale of the bank's operations and the resulting high level of financial crime risk. Accordingly, we will keep the company on the priority list for next year and continue to monitor it closely.

Company name	Country	Sector	Company Summary
International Consolidated Airlines Group SA	GB	Industrials	As holding company to four UK and European airlines, IAG faces labour management risks during the integration of its new businesses. Having recently purchased a fifth airline, continued programs to cut operational costs and the labour disputes we have seen over recent years, we will engage with the company to understand how it mitigates these risks. Additionally, flight disruptions at British Airways earlier in the year on the back of a systems outage, we would like to understand the programs put in place since the incident. Finally, we plan to encourage the board to ensure that its members are not over-stretched and have sufficient time and energy to fulfil their responsibilities.
ITC Ltd	IN	Consumer Staples	The company procures the bulk of its natural raw materials (i.e. agricultural commodities) from state-controlled trading platforms and the open market. This hinders the ability to identify and assess potential ESG risks in the supply chain, including child and/or forced labour and water use. We plan to engage ITC on how it meets this challenge. We will also speak to the company about its strategy to mitigate the risks and capitalise on the opportunities presented by healthier eating trends on its foods business.
Johnson & Johnson	US	Health Care	Following a change to investor-facing representatives in recent years, US healthcare giant Johnson & Johnson has become less receptive to hosting in-depth discussions on a wide range of ESG issues as it was in the past. The key areas which we focused our engagements in 2017 were: 1) product quality; 2) corporate governance; and 3) drug pricing. We travelled the United States and were able to have an insightful discussion on product recalls which had fallen sharply in the past year. Also, the company became one of a very few pharmaceutical companies to publish a detailed report on to its drug pricing practices which we welcomed. There has, however, been far too little progress in reforming its executive pay practices and the long term incentive plan falls far short of our expectations – especially in light of improvements seen at other major US companies in the past year. Due to the high ESG risk exposure the company faces due to its global footprint, wide ranging products and services, size and position in the market – we still remain concerned about the lack of transparency it provides around performance on a range of ESG issues. We will continue our intensive engagement with the company in 2018.
Kerry Group PLC	IE	Consumer Staples	We had four engagements in 2017 with the company predominantly on supply chain and water management, on the back of governance engagement with the company in relation to Board structure. In 2017 a milestone a was achieved where there was a reduction in majority shareholder board representatives in line with holdings. The company undertook a supplier risk mapping exercise in 2016 and identified its top ten strategic raw materials; the Supplier Code of Conduct was also updated. The supply chain and water management are both are areas that the company is focusing on currently. Specifically, the company is aware it needs to be doing more with regards to water management in its direct operations and its supply chain and are putting more resource towards this. They responded to the CDP water programme in 2017 for the first time. We will continue to include the company on the 2018 priority list in order to monitor progress in these areas.
Keyence Corp	JP	Information Technology	The highly successful Japanese technology company has been reluctant to adopt any meaningful reforms to its governance practices despite our multi-year repeated engagement efforts. As a result of the lack of engagement response in past years, we prioritised other major Japanese companies on this same issue. Since then, we have seen widespread improvements in governance practices elsewhere in Japan. This means that Keyence is now firmly a laggard in the market in this area and only just complies with the Japanese Corporate Governance Code in areas such as board independence. Other areas relate to concerns that the company has shown little interest in reflecting the views of minority shareholders in board decisions. Regarding capital efficiency, the company chooses to hoard excessive levels of cash on its balance sheet. It has also provided little rationale for this, especially as it has not made any real moves for significant M&A or returned cash to investors. We have voted against this resolution on low dividend payouts for many years, which have attracted quite large levels of votes against in recent years (31% in 2016) – but the company does not show signs of making reforms. For these reasons, we are going to prioritise engagement with Keyence in 2018.
L Brands Inc	US	Consumer Discretionary	Management of environmental and social issues at the American brand owner and retailer is relatively poor. L Brands sources goods from companies all over the world including Sri Lanka, India, and China and although the company has a supplier code of conduct it does not disclose any evidence of the implementation of the code. In addition the company does not disclose information on sustainable raw material sourcing. We also note that the average director tenure on the board of directors is 20 years, and the CEO has been in his position since 1963. Our engagement in 2018 will focus on encouraging the company to improve the management of environmental and social risks in its supply chain as well as board refreshment and CEO succession planning.
Martin Marietta Materials Inc	US	Materials	Compared to many of its peers in the construction materials industry, Martin Marietta`s exposure to ESG risks is somewhat reduced. This is due to the company`s limited involvement in cement production, one of the most resource and energy intensive construction materials. Nevertheless, Martin Marietta Materials' approach to mitigating the adverse impacts of its quarrying operations on biodiversity and existing land use remains modest. Moreover, its environmental management appears to be largely compliance-driven and lacks transparency on key metrics such as water use, greenhouse gas emissions and hazardous waste. Finally, we will build upon our engagement in 2017 and continue to encourage the company to introduce proxy access following the majority support of a shareholder proposal at its 2017 AGM requesting that it do so.
McDonald's Corp	US	Consumer Discretionary	We engaged McDonald's on the issue of supply chain labour management alongside other investors. The company was happy to discuss the operational workings of its supply chains. McDonald's has a small number of suppliers with whom it fosters long-term relationships, and we encouraged the application of this influence to enhance sustainably practices. The company recognises it has a disclosure issue and advised us that they are working to improve this. We have requested a meeting to also discuss environmental supply chain management and will also discuss plastics and packaging. We will therefore keep the company on the priority list in 2018.

Company name	Country	Sector	Company Summary
Mettler-Toledo International Inc	US	Health Care	Anti-corruption systems of companies in the healthcare sector continue to be under the spotlight following a series of high profile incidents. With over a third of Mettler-Toledo employees in emerging markets this brings more contact with public officials, increasing the risk of corruption and irresponsible sales. The company has some policies and systems to mitigate these risks but they lag peers. We will encourage Mettler-Toledo to roll out a global approach to anti-corruption and improve pay structures to incentivise responsible sales of its products as well as performance-related pay at board level.
Mylan NV	US	Health Care	Pharmaceutical companies have been in the spotlight in the US following a series of controversial incidents where drug companies have exorbitantly raised the price of treatments. This has led to companies being hauled before Congress and being harshly criticised for their practices. US generics drug maker Mylan was the focus of much of the furore as it had increased the price of its branded generic product EpiPen - an injection of adrenaline to counter anaphylactic shock - five-fold in less than a decade. The company suffered from highly publicised investor-led and proxy advisor campaigns calling for the ousting of directors for material failure of risk oversight and problematic pay practices. Our engagement with the company highlighted that it was not willing to accept any responsibility for the criticism levelled at it and blamed others in the medical industry. The company lost its say-on-pay vote at the AGM. Due to major concerns about the quality of the company's response to the issues highlighted, we have decided to prioritise engagement with Mylan in 2018.
Nestle SA	CH	Consumer Staples	We are prioritising Nestle for engagement in 2018 in relation to the nutritional profile of its product portfolio, along with the sales and marketing strategies of these products. We will also engage the company on its strategies in relation to single serve plastic and the expansion of its water business.
Novartis AG	CH	Health Care	We continued to engage the Swiss pharmaceutical giant intensively on a wide range of material ESG issues including: 1) business ethics and corporate culture; 2) drug pricing; 3) tax practices and reporting; and 4) corporate governance. We also discussed emerging issues such as water risk management. The company is highly responsive to engagement and actively seeks the view of its key investor base. We consider Novartis to be the leader amongst its industry peers on this field. The company became one of a very few pharmaceutical companies to publish a detailed report on to its drug pricing practices which we welcomed. There has, however, been not enough progress in reforming its executive pay practices and there is insufficient alignment between pay and performance for it to merit support at the AGM. Despite, improvements in its ESG risk management practices and reporting, Novartis faces high ESG risk exposure due to its global footprint, wide ranging products and services, size and position in the market. We are not fully convinced yet that it has overcome the many ESG controversies it has encountered in recent years and will continue our intensive engagement in 2018.
POSCO	KR	Materials	Posco has double-edged ESG profile. While the company employs state of the art sustainability standards and practices, it continuous to be involved in controversies. Particularly with regard to corruption and community relations, the company faces ongoing criticism. These range from child labour accusations at POSCO Daewoo`s cotton activities in Uzbekistan, to human rights violations related to the Shwe gas pipeline project in Burma to forced evictions and human rights abuses related to a USD 12bn steel plant project in India's Odisha state. Our engagement with the company will address the above issues and include requests for best-practice management standards and practices.
Reckitt Benckiser Group PLC	GB	Consumer Staples	We are prioritising Reckitt Benckiser (RB) for engagement in 2018 due mainly to the acquisition in 2017 of one of the largest manufactures of breast milk substitutes (BMS) – Mead Johnson (MJ). MJ is involved with an ongoing controversy over contaminated Enfamil Infant formula and ranked poorly on the Access To Nutrition Index BMS methodology. This assessed the 6 largest BMS manufacturers on its policies, management systems and compliance with The Code and national regulations. The poor score here makes RB now susceptible to potential risks relating to product quality and safety and reputational damage, if new systems are not implemented. We will engage to ascertain how RB plans to improve polices and management systems throughout MJ and how it will prevent future product quality issues. In addition to this, we will focus on animal welfare and corporate governance. The company has not been forthcoming in response to previous engagement so we hope to achieve dialogue in 2018.
Roche Holding AG	CH	Health Care	We focused our engagement with Roche in 2017 on its approach to access to medicine. The company's commitment to sustainability and transparency was seriously questioned when it refused to participate in the past Access to Medicine Index. This was due to the fact that oncology treatments were not part of the assessment framework. It did not change its decision despite repeated requests from a large group of investors to do so. We found this highly disappointing but, since then the company has slowly taken on our feedback and has become more receptive to becoming involved in access-related issues. We hosted the company at our offices for a full-day workshop with ten other global pharmaceutical companies. Roche gave a detailed and interesting presentation of its plans in this area. We will continue to engage the company on this issue ahead of the next Index publication in late 2018. Also, we remain unconvinced about its thinking and current approach to drug pricing in the United States. For these reasons, Roche will remain one of our 2018 engagement priorities.

Company name	Country	Sector	Company Summary
Royal Dutch Shell PLC	NL	Energy	At the end of 2017, Shell disclosed objectives to reduce the net carbon footprint of its energy products by around half by 2050, with an interim goal of achieving a 20% reduction in 2035. These targets have been set to align with the broader political commitments of the Paris Climate Agreement of limiting climate change to well below 2 degrees centigrade. Extending the scope of corporate emission targets to emissions associated with combusting oil and gas (so called scope 3 emissions) answers a core request we have put to Shell over the years. It will take some of the heat out of what could otherwise have become another round of an increasingly public debate on its responsibility to be more proactive in the face of climate change. In comparison to industry peers, this attempt at defining emission targets around product sold sets a precedent and certainly stands out as a significant and positive step-change in climate-related reporting. There are a number of open questions we have started to address with Shell, primarily around the extent to which its net carbon footprint methodology can be used to test alignment with a 2 degree energy trajectory. However, despite these outstanding issues, we recognize Shell's announcement as a crucial step that will help accelerate our dialogue with companies across sectors around the possibilities of setting realistic and ambitious business targets in relation to climate change. Given Shell's leadership on the issue of climate risk management, we will keep the company on the 2018 priority list.
Ryanair Holdings PLC	IE	Industrials	Ryanair has been embroiled in controversies surrounding its labour practices for some time now. Following the outcomes of the European Court ruling on the appropriate jurisdiction for labour disputes and the recent recognition Ryanair has given to labour unions, we would like to understand the risks identified and how the company plans to mitigate them. We have additional concerns relating to corporate governance. We would like to encourage the company to formulate and disclose a succession plan and discuss matters of best practice in relation to board effectiveness. Additionally, we have been unable to support management proposals relating to remuneration for a number of years. Here there could be better disclosure on the performance measures used to derive executive pay amongst other issues.
Sage Group PLC/The	GB	Information Technology	While Sage Group, a global software and services company, faces opportunities in business management solutions (particularly in cloud services), it also has exposure to risks including cybersecurity and human capital development. We will also engage with the company on it tax arrangements following analysis of the company's apparent 'tax gap' and on the skill set of the board given the fast moving environment in which it operates.
Samsung Electronics Co Ltd	KR	Information Technology	Rarely a month passed in 2017 without Samsung making international news headlines in relation to the ongoing board challenges. We had an informative call with the company in early 2017 to discuss board effectiveness along with supply chain management policies established by the company focusing on migrant workers. The company was reasonably open to discussing the challenges faced in this area and noted that the ongoing oversight of the policy would be essential to successful implementation. Given the concerns in the market, we have chosen to join a group of investors to collectively engage the company on the management and board changes, board effectiveness issues and succession plans. This is ongoing and as a result, we will keep the company on the priority company list for 2018. We will also be engaging Samsung on its cybersecurity policies and procedures in 2018.
SAP SE	DE	Information Technology	Although the German software company appears to have robust ESG policies in place, it was hit by a bribery scandal in late 2017 in connection with its South African operations, which is now being investigated by US authorities. SAP has taken initial actions to replace management in the region and paying sales commissions on public-sector deals, but it still needs to overhaul its internal compliance policies and processes over the course of this year to reduce future risks. In addition to this, we continue to have long-standing concerns over the company's executive compensation arrangements, with the company failing to acknowledge any need for improvement despite large shareholder protects at its 2016 and 2017 AGMs. Finally, our engagement will also focus on refreshment of the board, with three of the board's eight non-executive directors considered to be non-independent due to their substantial length of tenure.
Solvay SA	BE	Materials	The Belgian chemical solutions producer is the most greenhouse gas (GHG) intensive company in its industry. It is in the process of reducing its GHG intensity through changes in its product portfolio, as well as energy efficiency programs. The company has committed to ambitious GHG emission reduction targets and our engagement in 2018 will focus on the implementation of programmes in order to achieve these targets. We will also engage with the company on the regulatory risks related to products it provides to the heavily regulated food and airlines sectors.
Toray Industries Inc	JP	Materials	We have been intensively engaging the Japanese advanced materials company on governance for many years. It is one of Japan's most influential companies and has a long-standing leadership position within the powerful Keidanren business lobby, which for many years was the front for resisting corporate governance reform in the closed board rooms of Japan Inc. Despite sweeping market-wide changes in recent years – especially since the introduction of the Corporate Governance Code in 2015 – Toray continues to persist with outdated and ineffectual board practices. We have met the company in Tokyo on multiple occasions but it has steadfastly refused to change from the Toray way of corporate governance. The board reflects the complex structure of the company and has 25 directors, which is too large for efficient decision-making. It only has two independent directors and the rest are internal executives representing different business units. In light of the lack of meaningful progress in dialogue, we were initially planning to de-prioritise our engagement with Toray in 2018. The company, however, became embroiled in a data falsification controversy in late 2017. We made recommendations to the company for key reforms to its governance and oversight of these practices. Toray has responded positively to it and has offered us to have an in-depth discussion with a senior executive on the board in early 2018. We believe that finally, we are seeing signs of potential change and now will continue intensive engagement in 2018.

Company name	Country	Sector	Company Summary
UniCredit SpA	IT	Financials	We have been engaging with Italy's largest bank in the past on corporate governance, executive remuneration, human capital management and cybersecurity related issues. However, during 2017 the bank fell victim to a security breach with the details of 400,000 customers being stolen through a third-party, demonstrating that this is still work in progress for the company. Given the importance of the issue within the banking sector, our engagement will focus on the bank's cyber risk governance, particularly board oversight and reporting, as well as tracking its progress in upgrading its IT systems as part of its announced "Transform 2019" programme.
Universal Robina Corp	PH	Consumer Staples	URC is the largest company in one of Southeast Asia's largest conglomerates, JG Summit Holdings. URC's CEO is also the CEO of three other companies in the conglomerate, all in different industries. With URC performing below market and management expectations for almost two years, robust leadership is critical to turn performance around. We will, therefore, actively engage with the company to discuss our concerns about the CEO having sufficient time and energy to discharge his role properly. We will also seek to engage on practices to address material sustainability issues, including nutrition, raw material sourcing and reporting.
US Bancorp	US	Financials	We engaged with the bank eight times during the year, with the main topics discussed being the continued presence of long-tenured directors on the board, as well as concerns over their executive pay arrangements. On board refreshment the company is planning for succession around the mandatory retirement of certain directors in two years' time, which is a slower pace than what we would like. On compensation the company has made a series of positive changes this year, including extending it's the performance period for equity awards and more closely aligning targets with their announced business plan. That being said, we continue to think that their annual bonus is too reliant upon profit-based metrics, which contrary to their peers does not take into account the financial health of the bank. Given that we have outstanding concerns, we intend to keep the company on next year's priority list as we continue engaging on these topics.
VF Corp	US	Consumer Discretionary	The American apparel and footwear company owns over 20 apparel, footwear and accessories brands. Good environmental management is material for a business such as VF Corp that relies heavily on natural resources such as water and produces a lot of waste. The company does not disclose any company-wide performance data or targets on its water and waste management. In addition, whilst we appreciate that there has been recent refreshment on the board of directors, with the addition of four independent directors in the last couple of years, we would like to see the abolition of the company's mandatory board retirement age and the implementation of a 12 year cap on board tenure. We feel that beyond this point long tenured directors may hamper the independence and objectivity of the board and its key committees. Our 2018 engagement will focus on encouraging the company to disclose group-wide data on its environmental performance, as well as board refreshment.
Volkswagen AG	DE	Consumer Discretionary	The focus of our engagement since the diesel scandal has been on governance reforms and the strengthening of internal controls. The headline announcements VW, and other carmakers, made in the second half of 2017 regarding their ambitions to roll out alternative drives and reduce fleet emissions sound promising. Not least prompted by the diesel scandal, a potential shift towards an electric vehicle mass-market appears to be accelerating. While we welcome this overall momentum towards producing lower emissions vehicles, significant uncertainties remain regarding the necessary levels of ambition for emissions targets and implementation risks. We will therefore keep the company on the 2018 priority list, focusing on following issues: how new emission testing regimes will affect the company's current fleet emission performance and review of future targets; and the extent which those targets are sufficiently robust to keep the transport sector's emission footprint in line with two degrees centigrade climate change commitments. A further question concerns VW's ability to scale down its legacy internal combustion engine business over the long-term and at what social and financial costs.
Walmart Inc	US	Consumer Staples	We had a good meeting with Wal-Mart discussing governance factors and the progress being made on the $2.7billion invested in 2015 into staff training and technology. We requested benchmarking metrics to be disclosed to shareholders and we will continue to follow this into 2018, whilst keeping it as a priority company.
Waste Connections Inc	US	Industrials	Following a number of health and safety incidents the most recent resulting in a fatality, we will engage the company on its health and safety practices and aim to get a better understanding of how management are incentivised to mitigate health and safety risks. In addition, whilst the company provides some disclosure on environmental risk management, we aim to encourage the disclosure of a waste management policy and for a company of this size, we would also expect better disclosure on the company's carbon emissions reduction target and strategy.
Wells Fargo & Co	US	Financials	Having been disappointed with the company's lack of dialogue in the first half of the year, we saw a welcoming change in attitude by the end of the period, with the bank being more humble tone and more open about the progress it had made in reforming its business. Despite the initial lack of engagement, we can now see that it had been busy behind-the-scenes centralising all of its risk management, human resources and communications departments, increasing the level of oversight of its operations and reforming its corporate culture. Over that time the company has announced two rounds of board refreshment, which will remove many of the long-tenured directors from the board whilst retaining the skills needed on the board. That all being said, the company warned us that throughout its current review process, they cannot rule out that further issues from legacy cross-selling practices will not arise. Therefore we intend to keep this company on the 2018 priority company list and remain in dialogue with the company in order to stay informed of progress in all of the above areas.
Western Union Co/The	US	Information Technology	In 2017, the US software company paid a $586 million fine to US authorities and entered into a three-year deferred prosecution agreement (DPA) over allegations of consumer fraud facilitating by its failure to implement and enforce anti-money laundering policies. Our engagement with the company will focus on the company's progress in fulfilling the requirements of the DPA to further enhance its oversight of agents and its protection of customers. We will also focus on the board's succession planning as several key board members are due to become over-tenured this year, demonstrating the need for board refreshment.

Company name	Country	Sector	Company Summary
XPO Logistics Inc	US	Industrials	XPO logistics completed two major acquisitions during 2016, as such, we plan to engage the company on its labour management practices and the progress it has made to integrate its workforces. There are a number of ESG risk mitigation factors the company described in relation to European operations, but it is not clear how these apply in other regions, especially the US where the company's largest revenues are derived. We would like to encourage the company to improve ESG related disclosures for global operations. Further, we have a number of corporate governance concerns relating to the companies remuneration practices and board structure.

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