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Confidential Reo® Report

4TH 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 148 companies covered by your ***reo***® service, and achieved 36 milestones. Please note that milestones identified this quarter will typically result from engagement in previous quarters.

Engagement in Review

As we approached the end of 2018, climate change continued to hold the spotlight firmly – and fairly, in our view. Global carbon emissions are expected to jump to a record high in 2018, setting off alarms that emissions have not plateaued as policymakers had hoped. Landmark reports by the UN Intergovernmental Panel on Climate Change (IPCC) and the US Government delivered dire warnings about climate change and its devastating environmental, social and economic impacts should it remain unchecked. The IPCC report calls for "urgent and unprecedented changes" for global warming to be kept to a maximum of 1.5C within the next 12 years, which the authors say is affordable and feasible.

The key outcomes agreed at the UN climate talks in Poland in early December offer a glimmer of hope. Nations agreed on a "rulebook", which is the operating manual needed for when the Paris Agreement enters into force in 2020. This effectively started a new international climate regime under which all countries will have to report their emissions – and progress in cutting them – every two years from 2024 onwards.

As we recognise further the need for urgent and collaborative action to tackle the impacts of climate change, we were involved this quarter in several high-profile climate initiatives. We were the lead authors on a guide for institutional investors to navigate climate scenario analysis, sponsored by the Institutional Investors Group on Climate Change. We also joined two industry initiatives – the **Transition Pathway Initiative**, which aims to provide independent benchmarking of companies' performance on implementing climate strategies; and the **Just Transition on Climate Change** investor declaration, which sets out how investors can pursue the goal of a just transition as part of their core operating practices. We expect climate change to be an increasingly significant part of our active ownership activities with companies across all sectors of the economy in 2019.

This quarter also saw us participating in a number of productive engagement trips that allowed to gain a deeper understanding of changes taking place in key jurisdictions worldwide, China and the US in particular.

Asia governance in focus

Engagement trip

We attended the Asian Corporate Governance Association's 18th annual conference in Beijing in November, the largest one to date with more than 300 delegates present. A significant majority of delegates came from Asia, particularly Greater China, which speaks volumes about the rising attention investors and companies in the region are paying to ESG issues. Discussions provided valuable insights into policymakers', companies' and investors' appetites to drive ESG-related reforms and practices. We left the conference confident that our ability to conduct ESG research and engagement activities with Asian companies will improve going forward. Please refer to our recently published "ACGA Conference Report" for further information.

Whilst in East Asia we met with a number of our investee companies, including insurer **AIA Group** to talk about cybersecurity and board diversity; **China Mengniu**, one of the world's largest dairy companies, to discuss sustainable farming practices; and sports apparel giant **Anta Sports** to discuss management of ESG risks in the supply chain. These meetings shed more light on how boards and management have started to embrace the financial and operational benefits of good ESG practices. Companies still have some ground to cover in terms of incorporating sustainability into the business strategy and reporting on performance, but it was clear that change is on the way.

US focus on regulatory environment

Engagement trip

We travelled to New York to attend the fall conference of the US Council of Institutional Investors. 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 committee provides input and feedback to the CII board on its campaigns and priorities.

Although the Financial CHOICE Act, which sought to the repeal the Dodd-Frank Act and with it much of the good governance bedrock in the US market, has not materialised this year, there continues to be a slow erosion of shareholder rights through routes other than legislation, such as SEC rule-making and the crackdown on proxy advisors. The latter will make their work more burdensome, thereby reducing the effectiveness of a valuable service for investors, and has continued to gain support with legislators. There was also discussion surrounding how to best tackle the newly established “Main Street Investors Coalition” lobby group, which is an “astroturf” group (presenting itself as grass-roots but actually corporate-funded) that looks to discourage ESG integration and stewardship activities by investors.

The conference also provided us with good opportunities to meet face-to-face with US companies. As in previous year’s the CII has continued to increase its membership including corporates, with the Fall Conference’s timing set half-way between proxy seasons making it a more natural time for more general shareholder consultation and dialogue. Over the course of the conference we engaged with six companies, including **Pfizer**, **Target** and **UnitedHealth**, as well as meetings with board directors from **Bank of America** and **Wells Fargo**.

The race is on to establish US best practice

Engagement trip

This quarter we attended the first in-person annual meeting of the Investor Stewardship Group (ISG), which despite only having been formed last year, now comprises a group of more than 50 investors with $22 trillion in assets. The aim of the group is to establish a framework of basic standards of investment stewardship and corporate governance for U.S. institutional investor and companies, respectively.

Unlike many other global financial markets, the U.S. continues to lack best practice codes for both parties that are nationally recognised and endorsed. Alongside the frameworks established by the ISG, we have seen similar initiatives by the corporate lobby group The Business Roundtable (BRT), as well as separate group of CEOs led by **JP Morgan**’s CEO Jamie Dimon, who are proposing the “Common Sense Governance Principles”. Although there is a mutual respect between these three contenders, the tone and philosophy between them is different, with the BRT being the most lenient on companies and aggressive on investors, with the ISG being the opposite, and the Common Sense Governance Principles sitting in the middle.

The current state of there being three different sets of frameworks in the market is not sustainable and going forward we will see them fight for supremacy. Recognising that the ISG’s frameworks most closely align with our existing stewardship commitments and our Corporate Governance Guidelines, BMO Global Asset Management became an endorser of the ISG earlier in 2018.

Access to Medicines

Impact engagement

We consider our long-running engagement efforts on access to healthcare issues in low- and middle-income countries to be particularly impactful in helping to achieve the United Nations Sustainable Development Goals, specifically Goal 3: Good health and well-being. Our engagement has been informed and supported by our involvement in initiatives coordinated by the Access to Medicine Foundation, an independent non-profit organisation that publishes an Index every two years ranking pharmaceutical companies’ efforts to improve access-related practices.

This quarter, we attended the investor launch event for the 2018 Index to gain an in-depth understanding of the rationale behind the final ranking. The pharmaceutical industry is continuing to evolve its approach to access to medicine, and it is positive that improvements are being made in areas such as strategy, differential pricing, and patent transparency. Although all twenty of the companies included in the Index are pursuing access initiatives to some extent, there is a considerable gulf between the leaders, which prioritise access-related strategies, and laggards. It therefore comes as no surprise that in many areas, including R&D and pricing, a small number of companies account for the lion’s share of the activity to address access to medicine in low- and middle-income countries.

Going forward, we will continue to encourage pharmaceutical companies to adopt the good practices highlighted in the Index. We also plan to continue our engagement on drug pricing given that this is a material issue relevant to all countries, regardless of income level.

Public policy submissions this quarter

Month	Issue	Initiative
October	Supply chain practices	We co-signed an investor letter calling on the Bangladesh government to act on its responsibilities related to the leather industry. The letter highlights some key investor concerns around labor/human rights and environmental practices in leather manufacturing areas.
November	Asset Stewardship	We actively contributed to two roundtable discussions hosted by the Financial Reporting Council on the review of the UK Stewardship Code.
December	Climate Change	We co-signed an investor letter organised by the Institutional Investors Group on Climate Change calling on utility companies to accelerate their decarbonisation measures

Why there may be slavery in investment portfolios...and what you can do about it

Slavery did not end in the 19th century. Instead it has evolved into more subtle and invisible forms, which are hard to detect but pervasive across many industries, and present in both developed and developing countries.

Forms of modern slavery include forced and 'bonded' (when a person is made to work to pay off a debt) labour, child labour and human trafficking, which present risks to companies across countries and sectors in their operations or extended supply chains.

According to the International Labour Organisation (ILO), an estimated 40.3 million people were victims of modern slavery in 2016[1]. Aimed at tackling this, the 2015 UK Modern Slavery Act requires any company operating in the UK with annual turnover above £36 million to publish a slavery and human trafficking statement each year, setting out what steps have been taken to ensure modern slavery is not taking place in their business or supply chains. The UK Modern Slavery Act is not the first of its kind. California's Transparency in Supply Chains Act (TISCA 2010) was one of the earliest efforts to combat modern slavery in supply chains; legislation has recently been introduced in Australia, and there is pressure to consider similar measures in other countries, including Canada.

As long-term investors, we encourage companies, particularly in high-risk sectors, to take steps to identify and manage modern slavery risks. Taking action can mitigate any reputational or regulatory risks that could adversely affect profits and, ultimately, our investments. In addition, working to tackle modern slavery directly supports the UN Sustainable Development Goals (SDGs) – specifically Target 8.7, which calls for "immediate and effective measures" to eradicate the various forms of forced labour and modern slavery[2].

Revenue from the illegal trade of human trafficking is estimated to range between **USD 840m** and **USD 1.7bn**

Source: https://www.globalslaveryindex.org/2018/findings/global-findings/

Engagement action

Our engagement on modern slavery in 2018 has focused on UK companies and international companies with UK operations in high-risk sectors for modern slavery such as food, construction, textiles, retail, and hotels, leisure and restaurants. These companies have been obliged to publish modern slavery statements as a result of the UK legislation, giving us an invaluable source of information on company practices.

Our engagement focused on asking companies to ensure that their modern slavery policies cover the following key elements:

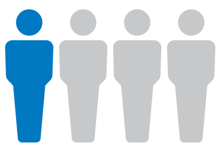
- Identify modern slavery risk areas, looking at operations, supply chain and business partners, and implement risk mitigation action plans
- Evaluate the effectiveness of these plans
- Educate all staff responsible for procuring services or products, and Human Resources teams
- Work with suppliers on mitigation of modern slavery risks down the value chain
- Educate staff and workers in supply chains and business partners on their rights

The Modern Slavery Act has been a catalyst for action...

Our engagement has confirmed that the Modern Slavery Act 2015 has acted as a catalyst for companies to tackle the risk of modern slavery to their businesses. The legislation has also done a good job at getting the topic of modern slavery to the attention of boards of directors and senior executives.

> THEY SAID
>
> **We have seen a good response to our engagement on this topic and enthusiasm from companies**

In addition, we have seen a good response to our engagement on this topic and enthusiasm from companies to get investors' perspectives on the issue. We found that they value the voice of investors on this issue, and say that they do not hear it enough on the topic of modern slavery.



1 in 4 victims of modern slavery are children

source: https://www.ilo.org/global/topics/forced-labour/lang--en/index.htm

...but implementation is patchy

Nevertheless, we were disappointed that many companies' modern slavery statements and disclosures do not provide sufficient detail of the risks nor the actions taken to mitigate them.

Much like the Californian act, the UK legislation focuses on disclosures as opposed to mitigative action, and standards around responsive action to modern slavery controversies,

1 http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/documents/publication/wcms_575479.pdf
2 SDG 8 Decent Work and Economic Growth, Target 8.7: Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms

and does not set any minimum quality standards for these disclosures. In practice, this has led to a wide variety of standards of the modern slavery statements. Our engagement has also revealed that some companies are sceptical about disclosing too much about their approach to modern slavery risks, as this puts them in the front-line for reputational damage should modern slavery be discovered within their business.

Stronger legislation would include benchmarking around the management of modern slavery risks, as well as financial penalties for not complying. Whilst there are leaders taking action now, it will take more robust legislation of this type to drive meaningful actions from the rest of the market to eliminate modern slavery in their operations and supply chains.

The prevalence of modern slavery in highly developed, high-income countries is higher than previously understood.

There are **5.4** victims of modern slavery

for every **1,000** people in the world

Source: https://www.globalslaveryindex.org/2018/findings/global-findings/
Source: https://www.ilo.org/global/topics/forced-labour/lang--en/index.htm

Conclusions

We support the introduction of the 2015 UK Modern Slavery Act and similar legislation in other regions, as these play a vital part in getting companies to address the issue. However, there is a risk that relying on disclosure alone may lead some companies to view it as a box-ticking exercise, that absolves them from addressing the underlying issues. We see it as our role, as investors, to hold companies to account for the commitments they are making, and encourage them to move from disclosure-only to the implementation of stronger policies to mitigate modern slavery risks.

Case study

Human trafficking hits UK retailers

In January 2016, the owner of Kozee Sleep, a UK-based supplier of furniture to major UK brands including Next and John Lewis, was found guilty of human trafficking. Workers were brought to the UK from Hungary on a promise of good wages, housing and food, but in reality were paid as little as £10 per day, with up to 42 men living in a two-bedroom house, working between 10 to 16 hours a day for five to seven days a week.

Subsequent BMO Global Asset Management engagement with Next has covered in detail the steps the company is taking to protect workers in its supply chain from exploitation. A key part of the company's approach is to employ its own local teams to oversee factories rather than just relying on third-party audits. Adding in this extra layer of checks, in our view, represents best practice in monitoring risk.

Modern slavery is a systemic issue in the apparel and retail industries, and despite strong mitigation systems, Next still fell foul of this. Companies must ensure they are constantly assessing the effectiveness of their modern slavery mitigation processes in order to find and eliminate previously undetected instances of modern slavery in their supply chains.

Asian Corporate Governance Association (ACGA) - Conference Report

Public pressure and the ability to attract foreign capital are driving progress in environmental, social and governance (ESG) practices across Asia. This became evident as governance experts gathered in Beijing for ACGA's 2018 annual conference. Expert navigation of these changes will contribute to our ability to conduct ESG research and engagement activities effectively.

Background

We attended the ACGA's 18th annual conference in Beijing, the largest one to date with more than 300 delegates present. A significant majority of delegates came from Asia, particularly Greater China, which speaks volumes about the rising attention investors and companies in the region are paying to environmental, social and governance (ESG) issues. This is hardly surprising – both the public and private sectors are under increasing pressure to respond to the consequences of extreme weather events, pollution problems and demographic change. Despite some setbacks, like the introduction of dual class share structures in Hong Kong and Singapore, the recognition that better governance standards will help attract foreign investment flows and open capital markets has started to take hold.

China catches up

The conference had a clear focus on China, with sessions structured around topics such as accounting and auditing developments, the state of tech innovation, state sector reform and governance reforms.

Compared to other markets in Asia, China had been moving rather slowly in implementing ESG-related reforms. The revision of its Code of Corporate Governance for Listed Companies earlier in 2018 is an indication that the pace of change is picking up. The revamped code includes greater emphasis on ESG disclosure, investor stewardship and director accountability. Furthermore, the China Securities Regulatory Commission introduced new requirements that, by 2020, will mandate all listed companies and bond issuers to disclose ESG risks associated with their operations.

Investors will need to develop a robust understanding of how to navigate these changes, considering that governance in China is a unique hybrid of local and global standards. The incorporation of Party Committees, required for all companies under the new Code, provides a striking example. The presence of Communist Party units has long been a fact of doing business in China, where they exist in nearly 70 percent of privately-owned companies. Executives had regarded these units as more symbolic than anything to worry about. Formalising their existence as committees has raised concerns that the Party might play a role in companies' operational decision-making – potentially leading to decisions made for political rather than business reasons. Investors should, therefore, seek greater clarity around the composition, mandate and role of Party Committees.

State-Owned-Enterprises

Trade frictions with the United States are likely to have led the Chinese government to step on the gas in its long-gestating attempts to improve the competitiveness of the country's sluggish state sector. State owned enterprise (SOE) reform has unequivocally moved up the policy agenda, with the government trying to capitalise on the progress achieved so far. SOEs across a range of industries have improved their performance by shedding excess capacity, optimising balance sheets through debt reduction, and introducing executive share incentive schemes. We believe the ultimate success of the reform process will be in part determined by the adoption of robust governance practices, particularly in the areas of board effectiveness, transparency and shareholder protection.

ESG – finally sweeping into Asia?

It will take time for policymakers to take decisive action to uncouple economic growth from resource consumption across Asian economies, or implement measures to enhance protection of minority shareholders. In the meantime, financial industry participants can and should play a part in accelerating this transition by helping move capital markets onto a more sustainable basis.

We left the conference encouraged that our ability to play this part, through our ESG research and engagement activities with Asian companies, will improve going forward. Two reasons support this view.

Firstly, regulators and stock exchanges across the region continue to develop and implement stronger ESG reporting standards and ESG practice guidelines. Secondly, there is growing appetite from local investors, including through minority investors associations, to lend their voices to foreign investors' calls for better ESG practices.

The two forces above, together with the drive to remain relevant as millennials and younger generations rise, are helping mark a turning point in the way Asian companies look at ESG. However, some challenges remain for this turning point to happen more quickly.

Board effectiveness: There is insufficient recognition that a board with a strong set of skills is critical for the long-term success of companies. Most non-executive directors are lawyers, accountants or academics that lack relevant expertise, fail to constructively challenge management, or are not tuned into governance or sustainability issues. Moreover, investors often lack access to directors.

Compliance-focused approach: Companies continue to see governance and sustainability management as a compliance requirement rather than a strategic imperative. This effectively means that board effectiveness is rarely a concern, materiality does not really inform their sustainability practices, and they have difficulty addressing questions about how their businesses are going to evolve in the face of long-term, ESG trends.

Next steps

A solid grasp of the different local contexts has significantly contributed to improving the depth and breadth of our active ownership activities with companies in Asia. Going forward, we will closely follow how ESG management and reporting practices evolve across the region to assess potential implications for our approach to engagement.

Our ability to drive positive change is largely shaped by the trust we can build with the people running the companies in our clients' portfolios. We will have a higher chance of building that trust by engaging in discussions informed by the history, culture and conditions within which companies across the region have evolved.

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**
AES Corp/VA	Utilities	YELLOW	Good						●	
Amazon.com Inc	Consumer Discretionary	RED	Poor				●		●	
Arconic Inc/PA	Industrials	ORANGE	Adequate					●	●	
AutoZone Inc	Consumer Discretionary	RED	Poor				●		●	
Becton Dickinson and Co	Health Care	YELLOW	Adequate		●			●		
BHP Group Ltd	Materials	YELLOW	Good	●						●
Big Lots Inc	Consumer Discretionary	YELLOW	Poor						●	
China Railway Construction Corp Ltd	Industrials	RED	Poor	●	●					
CVS Health Corp	Health Care	YELLOW	Adequate		●				●	
Fomento Economico Mexicano SAB de CV	Consumer Staples	ORANGE	Good	●				●	●	
Fortis Inc/Canada	Utilities	GREEN	Good						●	●
GlaxoSmithKline PLC	Health Care	YELLOW	Good		●					
International Consolidated Airlines Group SA	Industrials	RED	Adequate		●		●		●	
Johnson & Johnson	Health Care	YELLOW	Adequate						●	
L Brands Inc	Consumer Discretionary	RED	Good						●	
Mettler-Toledo International Inc	Health Care	GREEN	Adequate		●					
Nestle SA	Consumer Staples	GREEN	Good	●	●			●	●	
POSCO	Materials	YELLOW	Poor						●	●
Royal Dutch Shell PLC	Energy	YELLOW	Good		●		●		●	●
Sage Group PLC/The	Information Technology	YELLOW	Adequate		●					
UniCredit SpA	Financials	YELLOW	Good		●					
US Bancorp	Financials	ORANGE	Adequate						●	
Wells Fargo & Co	Financials	RED	Adequate		●				●	
Western Union Co/The	Information Technology	GREEN	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: Bank Mandiri Persero Tbk PT	**Country:** Indonesia		**Sector:** Financials
Priority Company: ✔	**ESG Risk Rating:**	YELLOW	**Response to engagement:** Good
Theme: Environmental Standards	**Issue:**	Environmental Finance	

Background

State-owned Bank Mandiri is one of the largest lenders to the oil palm plantation and processing industry in Indonesia. Approximately 9% of its total loan portfolio exposed to this industry, which has become critical to the country's economic development. Most customers are large plantation companies; however, the bank has accelerated the roll out of products and services specifically tailored to the needs of palm oil smallholders. This is in response to a push by the government to accelerate the development of small farming communities. Mandiri has in place some policies and systems to address the environmental impacts of oil palm cultivation; however, these fall short of adequately reflecting the level of credit and reputational risks it is exposed through its plantation financing activities

Action

Over the past few years we have met company representatives a number of times, including the CEO, to discuss the approach to addressing these risks. Credit risk units have made some strides in incorporating sustainability considerations into their analysis of loan applications for customers in industries with high environmental and social impacts, such as palm oil. For palm oil companies, considerations include full compliance with existing environmental regulations, stringent fire prevention and handling standards, and no development of new plantations on peatlands. We have welcomed progress, yet encouraged the company to move beyond a compliance-based approach into one that considers risks more holistically. Specifically, we asked that a No Deforestation, No Peat and No Exploitation (NDPE) policy be adopted and implemented. Such a policy would require palm oil customers to end all deforestation and protecting high conservation value and high carbon stock areas, implement best plantation management practices as defined by the Roundtable on Sustainable Palm Oil (RSPO), and recognise the right of local communities to give or withhold their Free, Prior and Informed Consent to any new developments.

Verdict

In recognition of the significant negative impacts runaway oil palm plantation development is having on the environment, Indonesia's President signed in September 2018 a three-year moratorium on all new oil palm plantation development. While this is not necessarily going to affect production or export levels, it sends a strong signal that the industry must improve its sustainability performance and contribute to curbing the country's rising greenhouse gas emissions. This puts additional pressure on national banks, including Mandiri, to improve management of environmental and social impacts from their financing activities to the industry. We believe that given its status as a leading bank in Indonesia, Mandiri can and should play a critical role in driving sustainable agricultural practices across the country. We will, therefore, continue to engage with the company on these issues, both on a one-on-one basis and via our participation in the PRI-led investor group on sustainable palm oil.

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: Becton Dickinson and Co **Country:** United States **Sector:** Health Care

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

Theme: Business Conduct **Issue:** Data privacy and security

Background

As a global medical technology company, Becton Dickinson's medical devices are highly exposed to cybersecurity risks. In January 2017, Becton Dickinson and independent security researchers identified a security vulnerability in certain versions of one of the company's infusion pumps. It was found that this could allow an unauthorised person to access a facility's wireless network authentication credentials and other sensitive technical data. This incident raised questions about Becton Dickinson's management of cybersecurity risks.

Action

We decided to engage Becton Dickinson because we wanted to establish what steps the company had taken to strengthen its devices' defences against cyber threats given the reputational damage and financial penalties that could result from the exploitation of vulnerabilities. Moreover, the U.S. Food and Drug Administration has publicly acknowledged that medical device cybersecurity is a key priority. In our call with Investor Relations representatives we discussed the company's collaborative and multi-faceted "Product Security Partnership Program", established in December 2017 to enhance medical technology's cybersecurity. We welcomed this initiative, whilst highlighting the importance of a robust governance and oversight framework to deal with cybersecurity risks and opportunities. Following our call, a company representative provided us with detailed information about the Director of Product Security and the Product Security Officer for Technology Solutions and Digital Health, both of whom directly report to top management and are evidently well qualified to lead Becton Dickinson's proactive approach to cybersecurity.

Verdict

We commend the company's willingness to collaborate on product-related security issues and commitment to improving security throughout the product lifecycle. Against a backdrop of growing concerns about cybersecurity threats in healthcare, our engagement with the company assured us that Becton Dickinson is taking sufficiently robust action to address the vulnerabilities currently associated with medical devices.

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: Coca-Cola HBC AG **Country:** Switzerland **Sector:** Consumer Staples

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

Theme: Environmental Standards **Issue:** Ocean Plastics

Background

The issue of plastic waste is current and has been brought to the front of consumer's minds for many reasons, including David Attenborough's seminal documentary Blue Planet II. For some companies, this is more relevant and a response more urgent; this is no truer than for Coca-Cola and its associated companies. The brand is very well established and widely known, and therefore the negative implications of 'branded litter' pose a significant reputational and business risk to the company. Last year Greenpeace further highlighted this issue and the company continues to come under pressure.

Action

Earlier in the year, we had a fruitful conversation with the Group Sustainability Director at Coca-Cola HBC during which we discussed plastic packaging and waste at length. Subsequently we were invited to their annual Stakeholder Forum which, this year, focused on The Coca-Cola Company's "World Without Waste" initiative. We travelled to Vienna for this event and were the only investor present amongst a relatively small gathering of key stakeholders in the Central European Region. Departmental and business leaders were present and part of the discussion. These discussions were very honest and open in nature, and we were able to share many recommendations with the company. These included utilising and leveraging the power of the brand to drive better industry waste management and sustainable packaging practices, as well as raise consumer awareness. We also pushed for management to further incorporate the principles of the circular economy when it comes to plastic.

Verdict

The trip to Vienna provided a very productive and valuable day of engagement. The company is acutely aware of the potential and actual brand damage regarding the issue of plastic. It is a brand that will always be thought of when images are shown of plastic bottles on a beach, even if they aren't actually Coca-Cola bottles. It is, therefore, cognisant of the significant challenge on its hands. If this company, its parent and affiliated companies, make the systemic changes required, its positioning means others will follow. We believe they are in a good position to make and drive change and recognise the commitment made. The company is also shifting how they see the plastic bottles produced – and are starting to see the need for a circular model, as well as the loss of economic value without one. We will however, be monitoring this closely going forward, with a particular focus on implementation and what interim progress is being made.

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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: Fomento Economico Mexicano SAB de CV

Country: Mexico

Sector: Consumer Staples

Priority Company: ✔

ESG Risk Rating: ORANGE

Response to engagement: Good

Theme: Public Health

Issue: Nutrition

Background

The company, through its 47%-owned subsidiary Coca-Cola FEMSA, is the largest franchise bottler of Coca-Cola beverages in the world by volume. It operates in most Latin American countries, as well as the Philippines. Mexico, FEMSA's main market by a wide margin, has one of the world's highest rates of obesity and sugar consumption, with children being particularly vulnerable. The effect on public health has been devastating – it is estimated that 14% of adults in the country live with type 2 diabetes. The public's great thirst for Coca-Cola, which holds a place in the national culture, and other sugary beverages, contributes to this national health crisis; more than 70% of the added sugar in Mexicans' diet comes from sugar-sweetened drinks. The government has been running an extensive campaign to encourage people to lead healthier lifestyles and in 2014 introduced a "soda tax". There has been some debate over how effective the reform has been, but studies have found sales of sodas were 7.6 per cent lower than would have been expected based on trends before the tax was introduced.

Action

We have engaged with the company on public health issues since 2014. The initial response to our concerns over the impacts fiscal policies, health campaigns and shifting consumer preferences could have on the business was somewhat muted. Over time, however, FEMSA has become more open to discussing these issues and more active at implementing strategic initiatives to manage potential impacts. These include diversifying its portfolio towards more nutritious options, e.g. milk, water, plant-based beverages; collaborating with the Coca-Cola Company in product reformulation to expand the range of low- and zero-sugar options; improving communication and marketing of lower sugar drinks; and, critically, lowering the price point of lower sugar drinks compared to full sugar ones. Currently, over 40% of the brands in the portfolio are low or no calorie beverages, and 31% of brands have vitamins, fibre, minerals, or nutritional supplements. The company also runs programmes targeted at children to promote healthy habits focused on nutrition and physical activity.

Verdict

Coca-Cola has become such an integral part of Mexican life that it intersects with politics and religion in certain regions. In the short- to medium-term, we do not expect the consumption of sugary drinks in Mexico to decrease in a way that would significantly impact FEMSA. In the longer-term, however, headwinds might be stronger if government policies to prevent obesity and diabetes become stricter and consumers increasingly understand the importance of a balanced diet. We have thus supported the strategic decisions taken by management to diversify the portfolio and improve the offering and accessibility of lower-sugar drinks. Mexico's public health crisis cannot be entirely attributed to Coca-Cola consumption. However, the company certainly has played and continues to play a major role in the country's fizzy drink addiction. Going forward, we will continue to encourage it to step up its efforts to shift its portfolio towards healthier alternatives. We will also ask for the development and publication of indicators to measure the impacts of its marketing and healthy habits initiatives.

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: Lloyds Bank PLC **Country:** United Kingdom **Sector:** Financials

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

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

Background

Lloyds Bank plc is a British retail and commercial bank. The bank grew in size and notoriety during the global financial crisis following the acquisition of HBOS in 2009. The bank has so far avoided high profile scandal regarding a data leak. However, give the frequency of leaks within industry, it's fair to view this as a 'when' not 'if' risk to the business. For Lloyds, ensuring the security and privacy of its clients' personal, and often sensitive, data is critical to the success of the business. We met with several members of the board, including the board chairman and the chairman of the risk committee in October 2018. During this meeting, the board stated that the number one risk to Lloyds at present was cyber security. We had organised a meeting with the bank regarding data privacy as part of the GDPR project, but in light of this discussion with the board, widened the follow-up meeting to not only cover data-privacy, but also to included cyber risk reporting within the business.

Action

Having spoken to board members during the October meeting, the follow-up meeting was with operational specialists, namely the chief security officer (CSO) and director of control environment and regulatory (who also served as the Data Protection Officer under GDPR legislation). We sought to gain a better understanding of the bank's approach to managing data privacy risks within its business along with wider cyber security considerations. Meeting with two senior individuals led to a deep and comprehensive conversation about the robust framework management has put in place to identify, evaluate, monitor and respond to increasing data-related risks. In terms of the GDPR legislation roll-out, the company is approaching the stage of closing the GDPR Steering Committee to continue in a business-as-usual mode.

Verdict

As noted in previous related case studies, the days of large public companies not having a credible story to tell on how they protect customers' personal data are ending. This does not mean that cyberattacks and data breaches will end, but that companies will be better prepared to spot them faster and react quicker. Having the opportunity to speak to senior management with the specific subject knowledge allowed us to ask more detailed questions than could realistically be asked of a board member. It was also evident that across the organisation, a significant number of employees had specific roles and responsibilities in this area. The company also appeared to have a particularly strong relationship with the UK's Information Commissioner's Office, which is welcome. Overall a strong story to tell from board involvement downwards through the organisation.

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:	Mondi PLC	**Country:**	United Kingdom	**Sector:**	Materials
Priority Company: ✖		**ESG Risk Rating:**	GREEN	**Response to engagement:**	
Theme:	Environmental Standards	**Issue:**	Product Sustainability; Waste and Recycling		

Background

Mondi, a global integrated packaging and paper group, has developed a robust framework for responding to sustainability challenges. One of the ten action areas – clearly linked to Sustainable Development Goal 12: Ensure Sustainable Consumption and Production Patterns – encourages sustainable, responsibly manufactured products, as well as closer collaboration with customers and partners. During our review of the company's disclosure on ESG issues, we identified reducing virgin plastic use, one of our engagement focus areas, as a key priority for the company in order to mitigate its environmental impact.

Action

We began a dialogue with the Group Head of Strategy & Investor Relations about packaging materials and waste and raw material sourcing, highlighting the importance of high quality disclosure on these topics. We asked specifically about targets relating to plastic recovery, reuse and recycling given that Mondi is growing its plastics-based packaging business.

Verdict

Subsequent to engaging Mondi on its approach to plastic, the company became one of the first signatories of The New Plastics Economy Global Commitment, which will work towards eliminating plastic pollution and creating 100% reusable, recyclable, or compostable plastic packaging by 2025. The company has pledged to increase investment in research and development, and build collaboration throughout its supply chain to move away from non-renewable and non-recyclable plastic. We commend Mondi for taking a very positive step forward on reducing virgin plastic use, and believe that the company stands to benefit from adopting a more ambitious stance on this material issue.

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: POSCO **Country:** Korea, Republic of (South) **Sector:** Materials

Priority Company: ✔ **ESG Risk Rating:** YELLOW **Response to engagement:** Poor

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

Background

POSCO, one of the world's largest steelmakers, employs state of the art sustainability standards and practices in some parts of its business, yet continues to be involved in controversies and lags its global peers regarding climate change management. The latter is of particular concern, as POSCO is considered one of the 100 most carbon intensive companies globally. As of 2018, its carbon footprint was 71 Million Metric Tons CO_2e, the equivalent of 17.5 coal fired power plants. Despite its systemic relevance with regard to climate change, POSCO applies a rather passive approach towards emissions management. The company met its 2020 target of reducing CO_2 emissions by 9% compared to 2008 levels three years in advance. However, this in the context of its strategy being mainly driven by national carbon reduction commitments of the South Korean Government, which have been assessed by climate experts as falling short to meet the 2-degree target agreed in Paris. South Korea has not submitted revised carbon reduction targets, which partly explains why POSCO has so far refrained from setting new goals itself.

Action

Action POSCO has been selected as a priority company for our active ownership programme in 2018. After repeated meeting requests that remained unacknowledged by the company, we decided to escalate this engagement and volunteered as lead-investors for the Climate Action 100 + initiative. The Climate Action 100+ initiative is a five-year global engagement imitative that currently represents USD 32 trillion that aims to engage with the world's largest corporate greenhouse gas emitters. Following this increased pressure, POSCO agreed to set up a meeting to discuss our concerns across a number of issues. These included (1) board level oversight of climate change issues, (2) updated emission reduction targets aligned with a 2-degree climate scenario and (3) increased transparency around internal scenario analysis used to assess climate related risks and opportunities.

Verdict

The investor relations team at POSCO acknowledged that the company lags its international peers in many aspects of sustainability management and noted that it needs to improve its practices to meet investor demand. The responses provided were not satisfactory and failed to convince us that the company considers carbon emissions management and climate change in general as critical to the long-term sustainability of the business. We requested a follow-up meeting with more senior members of the organisation to improve our understanding of the company's climate change strategy and communicate our message more effectively. Once we have established a relationship with the company, we plan to broaden our engagement with POSCO to also include concerns around corruption allegations and community relations.

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: Royal Dutch Shell PLC **Country:** Netherlands **Sector:** Energy

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

Theme: Climate Change **Issue:** Climate Change

Background

In 2017, Shell outlined its ambition to reduce the net carbon footprint (NCF) of its energy products by half by 2050, with 20% reduction in 2035 as an interim step. This ambition has been set to align with the commitments of the Paris Agreement of limiting global temperature rise to well below 2ºC. In addition, the scope of the operational emissions target, anchored in the remuneration scorecard, was expanded to cover 90% of operations. Shell also publicly committed to reporting in line with the recommendations of the Task Force on Climate Related Financial Reporting (TCFD). Despite this leadership, Shell received yet another shareholder resolution from Dutch NGO FollowThis requesting the company to set specific reduction targets for its operational carbon emissions (Scope 1+2), as well as for those associated with the use of its products (Scope 3). Although the resolution was widely perceived to be unnecessary given the NCF ambition outlined by Shell, receiving only 5.5% of shareholder support, several large Dutch asset owners supported the resolution.

Action

We had a number of meetings with senior Shell executives and non-executives to reiterate that despite our positive assessment of the NCF ambition, there is continued expectation that the company display more leadership in this area. We specifically addressed the limited accountability resulting from the informal nature of an ambition. Therefore, we asked for the company to translate the NCF ambition into a target for which it can be held accountable. In addition, we asked for more clarity around the variety of potential tools Shell plans to use to change the product mix and achieve the necessary reduction over time. Our ongoing engagement contributed to a joint statement published by Shell and Climate Action 100+ investors in which the company commits to developing public short-term NCF targets to be included in the remuneration policy subject to shareholder vote at the 2020 AGM. In addition, Shell will publish annual progress updates and it also committed to publish an enhanced review of its trade association memberships.

Verdict

With its commitments to increase accountability of its NCF ambition, Shell has addressed some of the remaining heat of the public debate on its responsibility to be more proactive in the face of climate change. This leaves the call for more leadership by committing to well below 2ºC, instead of 'just' following the ambition of the Paris agreement, as the remaining source of public debate. Shell's commitment to ensuring that its membership in relevant trade associations does not undermine its support for the objectives of the Paris Agreement is helpful in that respect. We will closely follow the publication of the memberships review. Shell acknowledges that much of the NCF ambition - as well as the governance around it - is work in progress, to be developed in the coming months. Therefore, we will continue our engagement with the company and collaborate on development of remuneration targets. We will also continue to monitor and support development of the tools and actions that will have to result in the required decarbonization of Shell's operations and products.

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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

Confidential

Company: Ted Baker PLC **Country:** United Kingdom **Sector:** Consumer Discretionary

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

Theme: Business Conduct **Issue:** Misconduct allegations

Background

Ted Baker is a British luxury retail company founded by Ray Kelvin in 1988. Mr Kelvin continues to serve as CEO and holds over 30 percent of the share capital. An online petition was launched at the beginning of December to protest about 'enforced hugging' within the company. This had been signed by a number of current and former employees describing the hugging as 'uncomfortable and unnecessary'. Mr Kelvin is at the centre of the accusations which also brought other related behavioural incidents to light. The #MeToo movement spread virally in October 2017 to denounce the widespread prevalence of sexual assault and harassment, especially in the workplace. The past 24 months has seen several dozen companies around the world have been involved in similar scandals, often with significantly more serious allegations than those currently publicly disclosed at Ted Baker. Mr Kelvin has taken a leave of absence whilst an independent investigation takes place. This investigation is led by an external law firm and reports into a committee made up of independent non-executive directors.

Action

We were promptly contacted by the board chairman, David Bernstein, offering the opportunity to discuss the issues following the allegations breaking in the news. On the call, the board chairman was joined by long-serving director, Lindsay Page, who is now serving as the interim CEO. Given that the investigation has just commenced, the company was naturally reluctant to say anything that could pre-empt this process. However, we did discuss the petition and what was known about its signatories. Whilst the number of petition signatories is in the thousands, the number of current or former employee that have signed is in the hundreds. With Mr Page playing an integral role in the day to day running of the company before this role-change, we also wanted to understand how senior management were adjusting to fill the gap created by the CEO's leave of absence. The governance of the investigation was discussed, with assurance sought that the law firm is free of any potentially conflicting relationship that could be seen to influence their independence.

Verdict

We were promptly contacted by the board chairman, David Bernstein, offering the opportunity to discuss the issues following the allegations breaking in the news. On the call, the board chairman was joined by long-serving director, Lindsay Page, who is now serving as the interim CEO. Given that the investigation has just commenced, the company was naturally reluctant to say anything that could pre-empt this process. However, we did discuss the petition and what was known about its signatories. Whilst the number of petition signatories is in the thousands, the number of current or former employee that have signed is in the hundreds. With Mr Page playing an integral role in the day to day running of the company before this role-change, we also wanted to understand how senior management were adjusting to fill the gap created by the CEO's leave of absence. The governance of the investigation was discussed, with assurance sought that the law firm is free of any potentially conflicting relationship that could be seen to influence their independence.

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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: Western Union Co/The **Country:** United States **Sector:** Information Technology

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

Theme: Business Conduct **Issue:** Bribery, Corruption and Transparency

Background

As the world's largest money-transfer agent, Western Union is exposed to significant risks relating to fraud and money laundering. In 2017, the company was required to pay a $586 million fine to US authorities, who claimed that between 2004 and 2012 Western Union had failed to implement and enforce effective anti-money laundering programme and that it was knowingly involved with wire fraud. The settlement included a three-year deferred prosecution agreement (DPA) to improve its anti-money laundering programme. Alongside this, we had identified issues concerning the board's succession planning, as several key board members that were in an oversight capacity during the period of lax controls were still on the board and due to become over-tenured this year, demonstrating the need for more refreshment.

Action

We have engaged with the company several times this year, including at board level, to get more details on the progress behind the scenes on improving its compliance procedures, as well as pushing for the governance reforms that we wish to see. Although fined in 2017, we got the impression that work to improve started several years earlier. The headcount for compliance has increased six-fold to more than 12,000 employees today, training for staff has increased, additional assurance procedures have been put in place and oversight has been improved with the introduction of a board-level compliance committee. The company considers that they have met the requirements of the DPA, but expect monitoring to continue through to 2020 when it is due to expire. Despite the progress made, we consider that their current disclosure does not provide the detail required to give comfort over the robustness of their on-going compliance program. During our engagement we asked for defined key performance indicators to be published, such as further programme enhancements and statistics on staff training, due diligence audits and ethics hotline incidents. To further support our case, we also shared with the company the reporting of telecommunications company Motorola Solutions that do report these statistics, who despite being in a separate sector, is subject to many of the same risks.

Verdict

Overall it seems that the company has successfully overhauled its internal compliance procedures with a level of robustness that is more aligned to the significant risks they face. On-going reporting of how well this system is functioning remains the missing piece of the puzzle and we will continue to push for this disclosure going forward. In addition, despite raising concerns over long-tenured directors on the board to the company, we are yet to see any refreshment, which we will review at their annual general meeting next year. If there are no further indications that succession planning is under way then we might escalate this to voting against the re-election of these directors.

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: XPO Logistics Inc **Country:** United States **Sector:** Industrials

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

Theme: Labour Standards **Issue:** Labour Standards, Diversity & Discrimination

Background

XPO Logistics provides supply chain management, freight and transportation solutions as part of its global logistics business. The company employs over 98,000 employees, approximately half of whom are unionised. This, coupled with past labour-related controversies and its current growth-through-acquisition strategy, raises a number of labour management concerns. Union representation is more broadly reflected in European operations, where relationships are mainly positive. Conversely, relationships with the unionised workforce in North America are strained and there is a persistent threat of increased discontent. Recently, the company has been subject to increased scrutiny from the US House of Representatives. Nearly 100 of its members signed a letter asking the House Committee on Education and the Workforce to look into allegations of pregnancy discrimination, worker misclassification and hazardous conditions at warehouses and trucking sites.

Action

Over the past couple of years, we have had several interactions with the company, including with the Chief Strategy Officer and Head of HR. We have noted concerns relating to the integration of acquired businesses and management's ability to effectively exercise oversight of labour practices across its vast operations. We encouraged North American operations step up efforts to improve relations with unions and ensure there be no impediments to freedom of association. We have also pressed the company for clarity on the potential misclassification of workers as self-employed, a practice that has led to persistent class actions and litigation. A rival firm was forced to pay $240 million in a misclassification settlement - similar material impacts could be imposed on XPO should litigation prove successful.

Verdict

We have welcomed some of the measures management has taken to improve labour management practices. These include developing and implementing policies to automatically accommodate the needs of pregnant women and no longer classify them as disabled, as well as conducting an internal review of working conditions across the business. We look forward to the findings of this review. Nonetheless, we see the risk of material impacts to the business from changing international sentiments on worker classification and the impending review, by Congress, of working practices. We intend to continue engaging XPO on 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

Confidential

Company: Fortis Inc/Canada **Country:** Canada **Sector:** Utilities

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

Theme: Labour Standards, Corporate Governance, Climate Change **Issue:** ESG Oversight

Background

Fortis is a Canadian-headquartered energy utility, with operations in Canada, the US and the Caribbean. 92% of its assets are in distribution (pylons, wire and gas pipelines) with the remainder in electricity generation, both fossil fuel and renewable. It has grown rapidly through acquisition, doubling its size in the last five years. The company has just published its first full sustainability report, following earlier reporting which had been more narrowly focused on environmental issues.

Action

BMO had the opportunity to participate in a call between a small number of investors and the Fortis board, including the chairman and chairs of the board committees. Whilst not specifically an ESG meeting, the company's approach to governance and sustainability was the dominant topic. The chairman spoke about the extensive board refreshment that has taken place, with the company now having 5 female directors out of 12 and an average tenure of only just over four years. They put forward a strong case as to how this has improved the board's effectiveness. The board also gave a convincing answer on how it oversees ESG issues, covering topics including respectful workplace behaviour and cybersecurity. On sustainability, BMO and other investors welcomed the extensive detail in the report but asked for more of a vision on how this feeds into the company's overall strategy. BMO specifically asked for more information on how the shift towards more renewable and decentralised energy production will impact on the company's distribution assets. Fortis told us that this is something they have had discussions on internally, and that they would consider how they report on this. Investors also asked how Fortis viewed the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD). The company told us that it is familiar with these, supports many aspects but is not yet ready to make a full commitment. Finally it told us it plans to produce its next sustainability report in two years; we gave strong feedback that they should consider an annual update.

Verdict

The company's recent history of rapid growth through acquisition, and its emphasis on retaining local leadership for its subsidiaries, presents challenges for the effective management of sustainability issues. The fact that it has published such a detailed sustainability report, and given a clear account of board attention to ESG issues, is in that context all the more impressive. The strategic link from sustainability policy to the company's core business is not yet fully formed, particularly in relation to distribution assets, where we pointed to National Grid as an example of best practice. The company also accepted that it may need to do more on linking pay to material sustainability issues (other than safety, which is already accounted for), and that it is not yet ready for more complex disclosure standards such as the TCFD. However overall, we see the company as having taken a significant step forward and are confident in the board's assurances that ESG is a priority.

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 Emissions Management in the Automotive Sector

Category Environmental

Project Objective

The automotive sector is entering a period of significant transformation with the emergence of alternative drives, such as electric vehicles, and advanced transport solutions, such as autonomous and shared vehicles. We would engage automakers to look beyond mere regulation and review their strategies for lowering fleet emissions against the potential of this radical change in the industry. We would encourage companies to set ambitious targets and to develop long-term business models that enable the emergence of a transport sector consistent with international carbon reduction commitments.

Progress Summary

In 2018, we continued discussions covering companies' approaches to lowering emissions in their current fleets while tackling larger transformative trends in the sector. These included: growth in the electric vehicles (EV) market, autonomous driving technology, and shared mobility. Under pressure from emission-related regulation and emerging consumer demand for lower emissions vehicles, most companies have woken up to the challenge of the transformation that is taking place. Many of them have started to set targets and ambitious commitments in relation to the roll-out of alternative powertrains, and have published some targets for fleet emissions. However, continuing pressure to protect the economic viability of current business models based on internal combustion engine technology have hindered the formulation of specific public targets on fleet transformation or fleet emissions. In addition, despite supportive statements for stricter emissions- and fuel efficiency standards by most companies in the sector, their industry groups continue lobbying against climate legislation. Therefore, alignment of public policy positioning was added to the discussion, with limited results unfortunately. We will, therefore, continue to engage with the three automotive companies of our 2018 project - Volkswagen, General Motors and Fiat Chrysler, with lobbying misalignment as one of the focus areas. This engagement will be included in the multi-sector Climate Action 100+ project.

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 its views on a responsible drug pricing model are and how they consider keeping price hikes on treatments to 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 engaged with over thirty companies in 2018 as part of this project. These included priority companies Bayer, GSK, Johnson & Johnson, Mylan, Novartis and Roche. We had in-depth discussions with several of the companies, which indicated that management teams are only slowly coming to terms with how to implement effective practices around this complex issue. We strongly encouraged them to address existing by improving practices in 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. We have now concluded this project.

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

In 2018, we wrote to the Chairmen of 25 US companies where, contrary to the vote recommendation of management, shareholder proposals had received majority support at the annual general shareholder meeting. We encouraged implementation of the wishes of shareholders in each case and we requested that companies provide us with their intended actions in response to shareholders' requests contained within these resolutions. We are now awaiting a response from these companies and will track these as well as public commitments made for any indication that the request of these proposals will be implemented. Our intention is to carry this project into 2019, in order to monitor progress, as well as reviewing the proxy materials at these companies' 2019 AGM to see if shareholder proposals from last year have been implemented. Finally, we will be taking this lack of responsiveness into account when voting on the re-election of directors at these companies' 2019 AGM.

Project Biodiversity in the agricultural sector

Category Environmental

Project Objective

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.

Progress Summary

In 2018, we reached out with 10 agrochemical companies to encourage them to develop or strengthen strategies on managing the risk of chemical and product safety, in order to stay ahead of potential future regulation. We engaged further with four of the companies, i.e. BASF, Nufarm, FMC Corp and CF Industries, all of which we consider to follow good industry practice. These companies put product and chemical safety as pillars of their business strategies, and work closely with regulatory agencies and customers to inform their approaches. On the issue of neonicotinoid pesticides, which studies have linked to declining bee populations, the EU Court of Justice (ECJ) backed in May 2018 an almost complete EU-wide ban on the use of three brands. This ban will directly impact Bayer and Syngenta, which had gone to great lengths to lobby the ECJ hoping to get the restrictions overturned. Unfortunately, both companies were unresponsive to our engagement efforts on this specific issue. We expect the ban to have some impact on the companies' bottom line. However, we don't expect the impact to be material given their diversified portfolios and the fact that the banned products did not account for a signification portion of revenues.

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 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

In 2018, we engaged with over 50 companies on how they had implemented or are implementing the requirements of GDPR legislation. We were able to get good access to individuals within a significant number of these companies that were internal subject experts directly responsible for data privacy. Therefore, the quality of content we were able to discuss was informed and detailed. At the same time, these conversations remained in stark contrast to the level of disclosure provided by these companies on the subject, which was far less detailed. We have collated the details of our engagement meetings using various data points and intend to present these findings in a publication due next quarter, highlighting where we have seen innovation and best practices emerge. We also intend to use these findings to set our expectations on disclosure requirements for companies, which we will circulate to those that we have engaged with over the course of the project.

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 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

In 2018, we contacted 43 companies in total, bringing to their attention the key issues we would welcome detailed disclosure on. Over half of these responded to our request for dialogue. The majority of the responders, particularly those adhering to internationally-recognised ESG reporting standards, were highly receptive to our advice. It became evident that companies are under pressure because they are having to meet rising expectations from stakeholders and regulators of how sustainability issues are incorporated into strategic planning. This reinforces our view that reporting on material issues – using a combination of quantitative and qualitative information – should be prioritised. We have asked companies to set and publish metrics or targets linked to the most material ESG issues they face, explain what action has been taken to achieve them, and what performance has been like. This transparent approach holds companies accountable and enables stakeholders to gauge a company's ability to implement appropriate measures to achieve targets. Overall, we were encouraged by our positive dialogue with companies, and we are planning to review the future reporting of the companies we engaged to find out to what extent our recommendations have been adopted. In addition, next year we will expand the scope of this project to include companies in the following sectors: consumer discretionary, energy, health care, information technology, telecommunication services, and utilities.

Project Ocean plastics | **Category** Environmental

Project Objective

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.

Progress Summary

In 2018, we engaged with 27 companies on the topic of ocean plastics. This issue has rapidly moved up the agenda for companies and consumers alike given the increased attention it has received in the media and at national and international policy levels. All 193 member states of the UN signed a resolution to assess domestic plastic footprints and committing to develop and implement legislative measures. The G7 Leaders, apart from the US and Japan, have also adopted the Ocean Plastics Charter in order to speed up change by governments and other stakeholders. The EU and China are taking a strong position on plastic waste and policy directions such as these will have a significant impact on companies. Whilst many companies have cited China’s ban on plastic waste imports as a key reason for concern, we think most of them are not well prepared to deal with the challenges this or other regulatory developments might bring. On a more positive note, we have seen encouraging work being done, such as the UK Plastic Pact to create a circular economy for plastic. We have also supported The New Plastics Economy Global Commitment, led by the Ellen MacArthur Foundation in collaboration with UN Environment. Aligned with this commitment, we have asked companies to reduce the amount of unnecessary single use plastic, improve the recyclability of plastic, be creative in redesign of packaging, implement a circular economy model and improve recycling infrastructure. All companies we have spoken to are aware of this issue and most have plans in place to reduce impacts, with some having set ambitious targets. Going forward, we will monitor implementation of packaging and plastic waste/use strategies. We recently joined the PRI Plastic Investor Working Group and look forward to work together with other investors to assess current and emerging practices and engage accordingly.

Project Climate Action 100+ collaborative initiative

Category Environmental

Project Objective

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 on-going 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).

Progress Summary

In 2018, the Climate Action 100+ engagement programme kicked off with collaborative engagement activities supported by 310 investors, targeting 161 of the world's largest corporate greenhouse gas emitters. The programme aims at achieving improvement of companies' responses to climate change and take action to develop transitions plan to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goals. It also aims to improve corporate disclosure in line with the final recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), as well as climate risk governance. Activities in the first half year focussed on raising awareness of companies. To that end, lead investors were encouraged to make public statements at the AGM of the companies. We made such statement at the AGM of Fiat Chrysler as lead. In addition, statements were made on our behalf at the AGMs of Volkswagen and Shell. We also had in-depth discussions with 11 companies in the utilities (Duke, Enel, Engie), energy (BP, Shell, Suncor), materials (POSCO, Norilsk Nickel, BHP and Glencore) and automobiles (FiatChrysler) industries. All companies acknowledge the importance of climate change for their business and have set some form of climate-related targets. However, only four companies committed to reporting in line with the recommendations of TCFD and only one company publicly committed to develop a transition plan in line with the goal of the Paris agreement. All companies still need to improve on one or more of the key asks of the project. As Climate Action 100+ is a five-year engagement programme, we will continue our active participation in this collaborative effort during 2019.

Project Improving corporate strategies to nutrition

Category Social

Project Objective

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 preference. There are also opportunities here for brands who are diversifying portfolios in line with, or beyond, market trends. We would be engaging companies over the adequacy of their health and nutrition strategies, and encourage best practice approaches. Food and beverage companies would be the initial targets, and likely moving on to restaurants and retail at a later stage. Our connection with the Access to Nutrition Index informs and supports this work.

Progress Summary

This year, we have engaged 14 companies to encourage them to improve corporate nutrition strategies. This is an important topic that relevant companies perceive as such, with an increasing number actively making positive changes in line with our recommendations. These include reformulation of existing products, the acquisition of alternative product categories in order to diversify portfolios, and consumer education. Two buyouts of market significance are PepsiCo buying Soda Stream and Coca-Cola buying Costa Coffee. Interestingly, companies we have spoken with this year have told us that there has been little impact of the increasingly global sugar taxes implemented by governments. However, we are seeing real evidence of strategic business decisions being made that support the direction of such taxes. We will continue to discuss these matters with companies and monitor the development of strategies that place them well for changing consumer trends and government actions. Our work on nutrition has included the continued support of the Access to Nutrition Index (ATNI) which released its 2018 Index earlier this year. Our participation in the collaborative engagement to support ATNI remains effective. We attended the investor launch event, where a new product profile section was also launched. This is a helpful new initiative as it provides a perspective into how different companies are managing the portfolio of products. November 2018 saw the launch of the first ATNI US Spotlight Index, following the similar approach taken for India last year. We expect to see similar constructive engagement on the back of this targeted approach and will be involved with dialogue as this materialises within the investor group. We will be continuing this engagement project into 2019.

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

In 2018, we engaged with 16 companies that either had substantial UK operations or were based in the UK on their approach to framing and managing risks related to modern slavery. We asked companies to ensure that their modern slavery policies cover the following key elements: identifying modern slavery risk areas, looking at operations, supply chain and business partners, and implementing risk mitigation action plans; evaluating the effectiveness of these plans; educating all staff responsible for procuring services or products, and human resources teams; working with suppliers on mitigating modern slavery risks down the value chain; and educating staff and workers in supply chains and business partners on their rights. Our engagement confirmed that the UK Modern Slavery Act has acted as a catalyst for companies to tackle the risks posed by modern slavery to their businesses, and it has brought this topic to the attention of boards of directors and senior executives. Overall, we were pleased with companies' responses to our engagement and enthusiasm to hear investors' perspectives. However, we were disappointed that many companies' modern slavery statements do not provide sufficient detail about the risks nor the actions taken to mitigate them. As investors, we see it as our role to hold companies accountable for their commitments, in addition to encouraging them to implement stronger policies to mitigate modern slavery risks and to improve disclosure to assure stakeholders that sufficiently robust action is being taken. In 2019 we plan to continue this project, focusing on companies in the automobiles, household goods, and tech hardware sectors, as well as some additional companies in the food, construction, and leisure sectors.

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**
Amazon.com Inc	United States	Consumer Discretionary	✔	RED				●		●	
Anadarko Petroleum Corp	United States	Energy		RED						●	
ANTA Sports Products Ltd	China	Consumer Discretionary		RED	●			●	●	●	
AutoZone Inc	United States	Consumer Discretionary	✔	RED				●		●	
Canadian Natural Resources Ltd	Canada	Energy		RED						●	
China Mengniu Dairy Co Ltd	Hong Kong	Consumer Staples		RED	●				●	●	●
China Railway Construction Corp Ltd	China	Industrials	✔	RED	●	●					
EVERTEC Inc	Puerto Rico	Information Technology		RED						●	
FleetCor Technologies Inc	United States	Information Technology		RED						●	
General Dynamics Corp	United States	Industrials		RED			●			●	
International Consolidated Airlines Group SA	United Kingdom	Industrials	✔	RED		●		●		●	
JPMorgan Chase & Co	United States	Financials		RED						●	
L Brands Inc	United States	Consumer Discretionary	✔	RED						●	
Lear Corp	United States	Consumer Discretionary		RED						●	
MMC Norilsk Nickel PJSC	Russia	Materials		RED	●						●
Netflix Inc	United States	Consumer Discretionary		RED						●	
Pfizer Inc	United States	Health Care		RED						●	
RioCan Real Estate Investment Trust	Canada	Real Estate		RED						●	
Tingyi Cayman Islands Holding Corp	China	Consumer Staples		RED	●				●	●	●
UnitedHealth Group Inc	United States	Health Care		RED		●				●	
Wells Fargo & Co	United States	Financials	✔	RED		●				●	
Yum China Holdings Inc	China	Consumer Discretionary		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
Air Canada	Canada	Industrials		ORANGE						●	
Alrosa PJSC	Russia	Materials		ORANGE						●	
Ameren Corp	United States	Utilities		ORANGE						●	
Arconic Inc/PA	United States	Industrials	✔	ORANGE					●	●	
Bank of America Corp	United States	Financials		ORANGE						●	
Bank Rakyat Indonesia Persero Tbk PT	Indonesia	Financials		ORANGE	●						
Barrick Gold Corp	Canada	Materials		ORANGE						●	
BCE Inc	Canada	Telecommunication Services		ORANGE						●	
Costco Wholesale Corp	United States	Consumer Staples		ORANGE						●	
Crombie Real Estate Investment Trust	Canada	Real Estate		ORANGE						●	
CTS Eventim AG & Co KGaA	Germany	Consumer Discretionary		ORANGE		●					
F5 Networks Inc	United States	Information Technology		ORANGE						●	
Fomento Economico Mexicano SAB de CV	Mexico	Consumer Staples	✔	ORANGE	●				●	●	
Hill-Rom Holdings Inc	United States	Health Care		ORANGE						●	
Hospitality Properties Trust	United States	Real Estate		ORANGE						●	
Illumina Inc	United States	Health Care		ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Marriott International Inc/MD	United States	Consumer Discretionary		ORANGE						●	
Methanex Corp	Canada	Materials		ORANGE						●	
Nuance Communications Inc	United States	Information Technology		ORANGE						●	
OPAP SA	Greece	Consumer Discretionary		ORANGE						●	
Restaurant Brands International Inc	Canada	Consumer Discretionary		ORANGE						●	
S&P Global Inc	United States	Financials		ORANGE						●	
Sealed Air Corp	United States	Materials		ORANGE	●						●
Senior Housing Properties Trust	United States	Real Estate		ORANGE						●	
Spirit AeroSystems Holdings Inc	United States	Industrials		ORANGE						●	
Transcontinental Inc	Canada	Industrials		ORANGE						●	
US Bancorp	United States	Financials	✔	ORANGE						●	
Vale SA	Brazil	Materials		ORANGE	●	●	●				
Walgreens Boots Alliance Inc	United States	Consumer Staples		ORANGE						●	
Wyndham Destinations Inc	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**
AES Corp/VA	United States	Utilities	✔	YELLOW						●	
BB&T Corp	United States	Financials		YELLOW						●	
Becton Dickinson and Co	United States	Health Care	✔	YELLOW		●			●		
BHP Group Ltd	Australia	Materials	✔	YELLOW	●						●
Big Lots Inc	United States	Consumer Discretionary	✔	YELLOW						●	
Canadian Apartment Properties REIT	Canada	Real Estate		YELLOW						●	
Canadian National Railway Co	Canada	Industrials		YELLOW						●	
Cigna Holding Co	United States	Health Care		YELLOW						●	
Commerzbank AG	Germany	Financials		YELLOW							●
CVS Health Corp	United States	Health Care	✔	YELLOW		●				●	
Discover Financial Services	United States	Financials		YELLOW						●	
Duke Energy Corp	United States	Utilities		YELLOW						●	●
First Republic Bank/CA	United States	Financials		YELLOW						●	
FirstService Corp	Canada	Real Estate		YELLOW						●	
GlaxoSmithKline PLC	United Kingdom	Health Care	✔	YELLOW		●					
Goldman Sachs Group Inc/The	United States	Financials		YELLOW						●	
Great-West Lifeco Inc	Canada	Financials		YELLOW						●	
Haemonetics Corp	United States	Health Care		YELLOW						●	
Housing Development Finance Corp Ltd	India	Financials		YELLOW						●	
Invesco Ltd	United States	Financials		YELLOW						●	
Johnson & Johnson	United States	Health Care	✔	YELLOW						●	
Killam Apartment Real Estate Investment Trust	Canada	Real Estate		YELLOW						●	
Kroger Co/The	United States	Consumer Staples		YELLOW	●						
Lincoln National Corp	United States	Financials		YELLOW						●	
Lloyds Banking Group PLC	United Kingdom	Financials		YELLOW		●				●	
Manpowergroup Inc	United States	Industrials		YELLOW						●	
Middleby Corp/The	United States	Industrials		YELLOW						●	
Naspers Ltd	South Africa	Consumer Discretionary		YELLOW		●					
Newell Brands Inc	United States	Consumer Discretionary		YELLOW						●	
North West Co Inc/The	Canada	Consumer Staples		YELLOW						●	
Omnicom Group Inc	United States	Consumer Discretionary		YELLOW						●	
Parkland Fuel Corp	Canada	Energy		YELLOW						●	
POSCO	South Korea	Materials	✔	YELLOW						●	●
Roper Technologies Inc	United States	Industrials		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
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW		●		●		●	●
Royal Mail PLC	United Kingdom	Industrials		YELLOW				●		●	
Sage Group PLC/The	United Kingdom	Information Technology	✔	YELLOW		●					
Sophos Group PLC	United Kingdom	Information Technology		YELLOW						●	
Target Corp	United States	Consumer Discretionary		YELLOW				●		●	
Tullow Oil PLC	United Kingdom	Energy		YELLOW						●	
UniCredit SpA	Italy	Financials	✔	YELLOW		●					
Unilever PLC	United Kingdom	Consumer Staples		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
AIA Group Ltd	Hong Kong	Financials		GREEN		●		●		●	
American Express Co	United States	Financials		GREEN		●				●	
Bank of Nova Scotia/The	Canada	Financials		GREEN						●	
BlackRock Inc	United States	Financials		GREEN						●	
Bovis Homes Group PLC	United Kingdom	Consumer Discretionary		GREEN						●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Cairn Energy PLC	United Kingdom	Energy		GREEN				●		●	
Canadian Imperial Bank of Commerce	Canada	Financials		GREEN						●	
CBRE Group Inc	United States	Real Estate		GREEN						●	
Coca-Cola Femsa SAB de CV	Mexico	Consumer Staples		GREEN	●				●	●	
Coca-Cola HBC AG	Switzerland	Consumer Staples		GREEN	●						
Cochlear Ltd	Australia	Health Care		GREEN						●	
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN						●	
Cummins Inc	United States	Industrials		GREEN						●	
Descartes Systems Group Inc/The	Canada	Information Technology		GREEN						●	
Domino's Pizza Group PLC	United Kingdom	Consumer Discretionary		GREEN		●			●	●	
easyJet PLC	United Kingdom	Industrials		GREEN		●					
Enel SpA	Italy	Utilities		GREEN							●
Fortis Inc/Canada	Canada	Utilities	✔	GREEN						●	●
George Weston Ltd	Canada	Consumer Staples		GREEN						●	
Gilead Sciences Inc	United States	Health Care		GREEN						●	
HP Inc	United States	Information Technology		GREEN						●	
Ingenico Group SA	France	Information Technology		GREEN		●					
Intact Financial Corp	Canada	Financials		GREEN						●	
Jupiter Fund Management PLC	United Kingdom	Financials		GREEN						●	
Kansas City Southern	United States	Industrials		GREEN						●	
Loblaw Cos Ltd	Canada	Consumer Staples		GREEN						●	
Metro Inc	Canada	Consumer Staples		GREEN						●	
Mettler-Toledo International Inc	United States	Health Care	✔	GREEN		●					
Microsoft Corp	United States	Information Technology		GREEN		●					
Moody's Corp	United States	Financials		GREEN						●	
Muenchener Hypothekenbank eG	Germany	Financials		GREEN							●
National Bank of Canada	Canada	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
Nestle SA	Switzerland	Consumer Staples	✔	GREEN	●	●			●	●	
Owens Corning	United States	Industrials		GREEN						●	
Pennon Group PLC	United Kingdom	Utilities		GREEN	●						●
Pinnacle West Capital Corp	United States	Utilities		GREEN						●	
Salesforce.com Inc	United States	Information Technology		GREEN						●	
Segro PLC	United Kingdom	Real Estate		GREEN						●	
Smurfit Kappa Group PLC	Ireland	Materials		GREEN	●						
Suncor Energy Inc	Canada	Energy		GREEN	●		●			●	●
Teck Resources Ltd	Canada	Materials		GREEN						●	
Telefonica SA	Spain	Telecommunication Services		GREEN			●				●
Toronto-Dominion Bank/The	Canada	Financials		GREEN						●	
UBS Group AG	Switzerland	Financials		GREEN		●				●	
UNITE Group PLC/The	United Kingdom	Real Estate		GREEN						●	
Vermilion Energy Inc	Canada	Energy		GREEN						●	
Vertex Pharmaceuticals Inc	United States	Health Care		GREEN						●	
Waters Corp	United States	Health Care		GREEN						●	
Western Union Co/The	United States	Information Technology	✔	GREEN		●				●	
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Yaskawa Electric Corp	Japan	Information Technology		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		●				●	

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**
★★★											
AES Corp/VA	United States	Utilities	✔	YELLOW							●
Danske Bank A/S	Denmark	Financials		RED						●	
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW							●
Victrex PLC	United Kingdom	Materials		ORANGE						●	
Waste Connections Inc	United States	Industrials	✔	RED						●	
★★											
Akzo Nobel NV	Netherlands	Materials		GREEN						●	
American Express Co	United States	Financials		GREEN						●	
Banco Santander SA	Spain	Financials		GREEN		●					
BTG PLC	United Kingdom	Health Care		GREEN						●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN				●			
Catalent Inc	United States	Health Care		YELLOW						●	
Chevron Corp	United States	Energy		ORANGE							●
Clinigen Group Plc	United Kingdom	Health Care		YELLOW						●	
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN						●	
Exxon Mobil Corp	United States	Energy		YELLOW							●
General Dynamics Corp	United States	Industrials		RED						●	
Hain Celestial Group Inc/The	United States	Consumer Staples		YELLOW						●	
Housing Development Finance Corp Ltd	India	Financials		YELLOW						●	
ICICI Bank Ltd	India	Financials		RED		●					
Li & Fung Ltd	Hong Kong	Consumer Discretionary		ORANGE				●			
McKesson Corp	United States	Health Care		RED						●	
Microsoft Corp	United States	Information Technology		GREEN						●	
Mondelez International Inc	United States	Consumer Staples		YELLOW	●						
Mondi PLC	United Kingdom	Materials		GREEN	●						
Occidental Petroleum Corp	United States	Energy		YELLOW							●
Palo Alto Networks Inc	United States	Information Technology		ORANGE				●		●	
Rio Tinto Ltd	United Kingdom	Materials		YELLOW	●						
Unilever NV	United Kingdom	Consumer Staples		YELLOW						●	
Union Pacific Corp	United States	Industrials		ORANGE						●	
WH Smith PLC	United Kingdom	Consumer Discretionary		GREEN				●			
Whitbread 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

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
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Performance Food Group Co	United States	Consumer Staples		YELLOW						●	
Reckitt Benckiser Group PLC	United Kingdom	Consumer Staples	✔	YELLOW							●
Vale SA	Brazil	Materials		ORANGE			●				

Themes engaged: Environmental Standards, Business Ethics, Human Rights, Labour Standards, Public Health, Corporate Governance, Climate Change

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: AES Corp/VA **Country:** United States **Sector:** Utilities

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

Milestone Theme:
Climate Change

Milestone Rating:
☆☆☆

Milestone Detail:
Published the AES Climate Scenarios Report. This report places AES as one of the global market leaders in the electric utility sector in terms of climate reporting. The scenarios used are based on credible third-party work (IEA and IPPC), and the company is clear in highlighting limitations of the analysis. It also set a new emissions target of a 70% cut from 2016 levels by 2030 (previously 50%).

Company: Danske Bank A/S **Country:** Denmark **Sector:** Financials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆☆

Milestone Detail:
Announced that the Chairman of the Board of Directors and the Chairman of the Audit Committee would step down from the board in December 2018. We had urged the company to make changes at the helm of the company in connection with the recent money laundering scandal.

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: Royal Dutch Shell PLC **Country:** Netherlands **Sector:** Energy

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

Milestone Theme:
Climate Change

Milestone Rating:
☆☆☆

Milestone Detail:
Announced it would set short-term targets as part of a long-term ambition to reduce the Net Carbon Footprint of its energy products, and include these in the remuneration policy to be put forward to shareholder approval at the AGM in 2020. With these steps, Shell has complied with two of the main demands we made at meetings we had with executive board members and with the chairman of the Remuneration committee. Furthermore, they increase transparency around the topic of climate change, and create clear benchmarks for performance.

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

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆☆

Milestone Detail:
The collapse of Carillion has raised many searching questions of the board and auditors at the company. Andrew Dougal was the chairman of the audit committee responsible for overseeing the audit process and financial rigour within Carillion. The FRC are currently investigating the collapse and the board role will be called into question. We were concerned that Andrew Dougal was also the chairman of Victrex's audit committee given his performance at Carillion. We raised these concerns with the company and expressed a desire that the board reconsider his suitability as a board member, particularly one chairing the audit committee. Following consideration, Andrew Dougal considered it appropriate to step down from the board to focus on the investigation and reputational damage to Victrex. We welcome this decision.

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: Waste Connections Inc **Country:** United States **Sector:** Industrials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆☆

Milestone Detail:
Published its first-ever sustainability report, which includes comprehensive disclosures on the company's strategy and approach to managing environmental, social and governance risks. The report includes key metrics on key material areas such as health and safety factors, employee turnover and fleet operations. We had explicitly asked the company to prepare and publish information on its ESG management practices and performance.

Company: Akzo Nobel NV **Country:** Netherlands **Sector:** Materials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Changed policy on capital increase authorities in line with our expectations and market best practice. The company will limit share issues without pre-emptive rights to no more than 10% of the issued capital.

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: American Express Co **Country:** United States **Sector:** Financials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Improved the pay for performance alignment within its compensation policy by committing to no longer issue 'portfolio grants', which we have previously criticised for being too opaque and lacking in rigour.

Company: Banco Santander SA **Country:** Spain **Sector:** Financials

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

Milestone Theme:
Business Conduct

Milestone Rating:
☆☆

Milestone Detail:
Set up an expert Technology Advisory Council that will advise the board on cybersecurity challenges facing the business. This will help strengthen the company's ability to identify, assess and react to evolving data privacy and security challenges. We had met with board members to encourage a stronger approach to managing cyber-related risks.

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: BTG PLC **Country:** United Kingdom **Sector:** Health Care

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Announced resignation of the chairman following a significant vote against his re-election, due primarily to the high number of directorships he held in other companies. Chairpersons with various other board commitments might experience difficulty discharging their responsibilities adequately and in a way that can support long-term performance. are likely to affect We voted against the chairman's re-election.

Company: Burberry Group PLC **Country:** United Kingdom **Sector:** Consumer Discretionary

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

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆

Milestone Detail:
The company joined the Ethical Trading Initiative (ETI), a program between companies, trade unions and NGO`s to promote fair working conditions without exploitation and discrimination around the globe. Companies joining the initiative adopt a code of labour practice that they expect all their suppliers to work towards. Such codes address issues like wages, hours of work, health and safety and the right to join free trade unions.

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: Catalent Inc **Country:** United States **Sector:** Health Care

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Asked shareholders to approve the board be declassified. The annual election of directors provides greater board accountability to shareholders. We pushed for declassification in our previous voting.

Company: Chevron Corp **Country:** United States **Sector:** Energy

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

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Joined the Oil & Gas Climate Initiative (OGCI), a collaborative organisation of 13 companies aiming to tackle the industry's greenhouse gas emissions. This membership is an important step as it increases the credibility of the company's commitment to managing risks and opportunities related to climate change. We have closely followed the work of the OGCI and encouraged companies, including Chevron, to join its efforts.

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: Clinigen Group Plc **Country:** United Kingdom **Sector:** Health Care

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Submitted for the first time its executive remuneration report for shareholder consideration and approval. We wrote to Clinigen last year to encourage it prepare and put forward a remuneration report for shareholders to assess alignment between pay and performance.

Company: Cognizant Technology Solutions Corp **Country:** United States **Sector:** Information Technology

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Enhanced shareholder rights by lowering the threshold level for shareholders to call a special meeting from 25% to 10% of share capital. We had supported a shareholder proposal requesting this change at the 2018 AGM, which was subsequently approved by the majority of shareholders.

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: Exxon Mobil Corp **Country:** United States **Sector:** Energy

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

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Joined the Oil & Gas Climate Initiative (OGCI), a collaborative organisation of 13 companies aiming to tackle the industry's greenhouse gas emissions. This membership is an important step as it increases the credibility of the company's commitment to managing risks and opportunities related to climate change. We have closely followed the work of the OGCI and encouraged companies, including Exxon, to join its efforts.

Company: General Dynamics Corp **Country:** United States **Sector:** Industrials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Stated its intention to increase the proportion of performance-based stock granted under its long-term equity incentive plans from 25% to 50%. This will create greater alignment between executive compensation outcomes and company performance. We have voted against the company's say on pay proposal for several years primarily for this reason.

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: Hain Celestial Group Inc/ The **Country:** United States **Sector:** Consumer Staples

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
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 supported a proposal at their 2017 AGM requesting that this amendment be made.

Company: Housing Development Finance Corp Ltd **Country:** India **Sector:** Financials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Increased board independence with the addition of 3 new non-executive directors and the resignation of 5 long-serving directors. We had asked the company consider refreshing its board by appointing additional independent directors that can contribute to enhancing board effectiveness.

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: ICICI Bank Ltd **Country:** India **Sector:** Financials

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

Milestone Theme:
Business Conduct

Milestone Rating:
☆☆

Milestone Detail:
Improved management of risks related to customer data privacy and security, including developing a governance framework for information security with oversight from a board-level committee chaired by an independent director. These improvements are critical to help protect the bank's operations and reputation against the evolving cyber security threat landscape for financial institutions. We previously engaged the company on these issues.

Company: Li & Fung Ltd **Country:** Hong Kong **Sector:** Consumer Discretionary

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

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆

Milestone Detail:
The company joined the ACT (Action, Collaboration, Transformation) initiative, a program between international brands and retailers, manufacturers, and trade unions, which aims to improve wages by establishing industry collective bargaining in key garment and textile sourcing countries. Factory workers often do not earn enough to meet the basic cost of living. This could lead to high employee turnover, reduced productivity, social unrest, and ultimately affect security of supply.

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: McKesson Corp **Country:** United States **Sector:** Health Care

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Announced that it will separate the role of Chairman and CEO. At the 2017 AGM we supported a shareholder proposal requesting the appointment of an independent Chairman, particularly given concerns over the company's involvement in the US opioid crisis.

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

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Improved the pay for performance alignment within its compensation policy through increasing the proportion of equity granted to executives that is subject to performance conditions. This will create greater alignment between executive compensation outcomes and company performance. We have voted against the company's say on pay proposal for several years primarily for this reason.

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: Mondelez International Inc **Country:** United States **Sector:** Consumer Staples

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

Milestone Theme:
Environmental Standards

Milestone Rating:
☆☆

Milestone Detail:
Committed to making all packaging recyclable by 2025. As part of this, the company committed to making all paper-based packaging sustainably sourced by 2020, eliminating 65,000 tonnes of packaging material worldwide by 2020, and providing recycling information in markets around the world by 2025. We have engaged with Mondelez on the issue of deforestation since 2010, and on the specific issue of plastic waste this year.

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

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

Milestone Theme:
Environmental Standards

Milestone Rating:
☆☆

Milestone Detail:
On 29/10/2018 the company announced that it is one of the first signatories of The New Plastics Economy Global Commitment which will work towards eliminating plastic pollution and creating 100% reusable, recyclable, or compostable plastic packaging by 2025. The company has pledged to increase investment in research and development, and build collaboration throughout its supply chain to move away from non-renewable and non-recyclable plastic.

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: Occidental Petroleum Corp **Country:** United States **Sector:** Energy

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

Milestone Theme:
Climate Change

Milestone Rating:
☆☆

Milestone Detail:
Joined the Oil & Gas Climate Initiative (OGCI), a collaborative organisation of 13 companies aiming to tackle the industry's greenhouse gas emissions. This membership is an important step as it increases the credibility of the company's commitment to managing risks and opportunities related to climate change. We have closely followed the work of the OGCI and encouraged companies, including Occidental, to join its efforts.

Company: Palo Alto Networks Inc **Country:** United States **Sector:** Information Technology

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

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆

Milestone Detail:
Released a report on its diversity strategy as well as statistics on gender and race diversity across all job categories, in line with the request of the shareholder proposal we supported at its 2017 AGM. Increased transparency around diversity can encourage better team performance and improve companies' ability to hire, among others.

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: Palo Alto Networks Inc **Country:** United States **Sector:** Information Technology

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
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.

Company: Rio Tinto Ltd **Country:** United Kingdom **Sector:** Materials

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

Milestone Theme:
Environmental Standards

Milestone Rating:
☆☆

Milestone Detail:
Completed the sale of its entire interest in the controversial Grasberg copper and gold mine in Indonesia for $3.5 billion. The mine's poor human rights and safety record and its use of a local river system to dispose of waste material have impacted Rio Tinto's reputation as a responsible miner. We had encouraged the company to consider its participation in this project given its significant geopolitical, environmental and social risks. The sale of this asset addresses reputational concerns whilst strengthening the portfolio and driving higher returns across the business.

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: Unilever NV **Country:** United Kingdom **Sector:** Consumer Staples

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Changed policy on capital increase authorities in line with our expectations and market best practice. The company will limit share issues without pre-emptive rights to no more than 10% of the issued capital.

Company: Union Pacific Corp **Country:** United States **Sector:** Industrials

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆☆

Milestone Detail:
Removed long tenured directors from board key committees and added an additional independent non-executive to the board. This will improve board effectiveness; greater independence may encourage directors to challenge management ideas and decision making.

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: WH Smith PLC **Country:** United Kingdom **Sector:** Consumer Discretionary

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

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆

Milestone Detail:
The company joined the ACT (Action, Collaboration, Transformation) initiative, a program between international brands and retailers, manufacturers, and trade unions, which aims to improve wages by establishing industry collective bargaining in key garment and textile sourcing countries. Factory workers often do not earn enough to meet the basic cost of living. This could lead to high employee turnover, reduced productivity, social unrest, and ultimately affect security of supply.

Company: Whitbread PLC **Country:** United Kingdom **Sector:** Consumer Discretionary

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

Milestone Theme:
Labour Standards

Milestone Rating:
☆☆

Milestone Detail:
The company joined the ACT (Action, Collaboration, Transformation) initiative, a program between international brands and retailers, manufacturers, and trade unions, which aims to improve wages by establishing industry collective bargaining in key garment and textile sourcing countries. Factory workers often do not earn enough to meet the basic cost of living. This could lead to high employee turnover, reduced productivity, social unrest, and ultimately affect security of supply.

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: Burberry Group PLC **Country:** United Kingdom **Sector:** Consumer Discretionary

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

Milestone Theme:
Environmental Standards

Milestone Rating:
☆

Milestone Detail:
Committed to stop the use of real animal fur in its products. This is an encouranging stance to take that we expect will contribute to enhancing the sustainability of its product offering as well as its supply chain. We had engaged the company on this topic.

Company: Performance Food Group Co **Country:** United States **Sector:** Consumer Staples

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

Milestone Theme:
Corporate Governance

Milestone Rating:
☆

Milestone Detail:
Declassified the board so that directors are elected annually rather than for multi-year terms. The annual election of directors increases board accountability and enhances investors' ability to communicate on director performance. Although we have not directly engaged with the company on this topic, we have been encouraging the declassification of boards in the US market through our voting policy for many 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: Reckitt Benckiser Group PLC **Country:** United Kingdom **Sector:** Consumer Staples

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

Milestone Theme:
Climate Change

Milestone Rating:
★

Milestone Detail:
The company joined the Science Based Targets Initiative and committed to set a greenhouse gas (GHG) reduction target in line with the level of decarbonization required to keep global temperature increase below 2 degrees Celsius compared to pre- industrial temperatures. We previously asked the company to develop approaches, including through setting emissions targets, that help adapt the business to a lower carbon energy transition.

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

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

Milestone Theme:
Human Rights

Milestone Rating:
★

Milestone Detail:
Developed and is in the process of implementing participatory income generation programmes to improve the subsistence levels of resettled communities from its main concession area in Mozambique. We had asked the company to address growing community discontent with a poorly executed resettlement program in order to prevent conflict that could lead to disruptions in the operation of the mine.

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?

June

- Breaking Bad: Business ethics in the pharmaceutical sector
- Corporate Governance in India
- A focus on plastic
- Turkey in focus – economic challenges and corporate optimism

August

- Advancing SDGs through engagement

September

- Blockchain solutions to ESG problems

November

- Why there may be slavery in investment portfolios...and what you can do about it

December

- Asian Corporate Governance Association (ACGA) - Conference Report

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 preference. There are also opportunities here for brands who are diversifying portfolios in line with, or beyond, market trends. We would be engaging companies over the adequacy of their health and nutrition strategies, and encourage best practice approaches. Food and beverage companies would be the initial targets, and likely moving on to restaurants and retail at a later stage. Our connection with the Access to Nutrition Index informs and supports this work.	New in 2018
Cross-sector (Europe)	Data Privacy and Security	Governance of data protection: In May 2018, the General Data Protection Regulation (GDPR) will come into effect in Europe, which will introduce heavy penalties 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.	New in 2018
Food and Beverage, Energy	Water, energy, sustainable agriculture	Water-Food-Energy Nexus: The UN predicts a global shortfall in water supply of 40% by 2030 and a 70% increase in food demand by 2050, at the same time the IEA expects a 48% increase in world energy consumption by 2040. Energy and food are critical for life, and both are very water intensive to produce. They are often produced in the same region, which places additional stress on water resources. Companies operating in key river basins are therefore exposed to possible water risk that could materially impact their businesses. However, there are also opportunities present for companies related to water. We would engage companies across food and energy producers within stressed river basins and ascertain how well they are prepared to manage water related risks, and identify opportunities for more stringent management and progress to be made. The project would be thematic, cross-sectorial and geographically focused. It would involve identifying the key basins most at risk and then engaging with companies operating in those basins that have the highest risk exposure.	Ongoing from 2017
Pharmaceutical Responsible	Responsible marketing and sales Corruption Responsible drug pricing	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 its views on a responsible drug pricing model are and how they consider keeping price hikes on treatments to 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.	Ongoing from 2017
Automotive	Emissions management	The automotive sector is entering a period of significant transformation with the emergence of alternative drives, such as electric vehicles, and advanced transport solutions, such as autonomous and shared vehicles. We would engage automakers to look beyond mere regulation and review their strategies for lowering fleet emissions against the potential of this radical change in the industry. We would encourage companies to set ambitious targets and to develop long-term business models that enable the emergence of a transport sector consistent with international carbon reduction commitments.	Ongoing from 2017
Cross-sector	US governance	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.	Ongoing from 2017

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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