# 2017 Responsible Investment Review

BMO Global Asset Management

# Contents




The One Planet Summit in December 2017 brought politicians and civil society together to support and accelerate global efforts to fight climate change. Investors launched the Climate Action 100+ initiative, designed to drive engagement with the world's largest greenhouse gas emitters.

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

# Making a positive impact

As a pioneer in responsible investing for over three decades, it is rewarding for us at BMO Global Asset Management to see this approach having entered mainstream investment management. The UN Principles for Responsible Investment – to which we were a founder signatory – now represents more than 1,750 signatories with assets of US$70 trillion.

The growing body of evidence on the materiality to investors of environmental, social and governance (ESG) factors has undoubtedly been a major driver of this progress. But it is not the full picture.

The trend also reflects the reality that the financial sector cannot be a passive bystander to the sustainability challenges the world faces. Asset managers have a privileged and trusted position as stewards of capital, which gives us both influence and responsibility. Through using these effectively I believe the industry can – and should – make its own contribution towards achieving the world's sustainability needs, as set out in the United Nations Sustainable Development Goals (SDGs).

In this annual review of our responsible investment activities, our sixteenth, we highlight how our global engagement and voting activities relate directly to one or more of the 17 SDGs. During 2017 we engaged with over 1,300 companies in our own portfolios and those of our ***reo***® engagement service clients. This engagement spanned a wide variety of themes, crossing ESG issues. We also worked with policymakers worldwide to deliver market-wide improvements in standards and regulations.

Our clients, rightly, have high expectations when entrusting their money to us. In my view, fulfilling those expectations is not just about the quarterly financial returns we deliver to them. It is also, I believe, about being a responsible member of the investor community, and supporting the development of a sustainable global economy – which, ultimately, will underpin our own and our clients' long-term prosperity and security.

**Richard Wilson**
Chief Executive Officer,
BMO Global Asset Management

# Investor engagement in 2017

Investor engagement can be a powerful tool for tackling ESG risks at the companies we invest in, and achieving wider societal change. Here we report on our engagements, including how these relate to the Sustainable Development Goals (SDGs).

## Engagement activities and areas of focus

In 2017, we had 1,063 engagements with 676 companies, of which 37% were on environmental standards, 21% were on social issues and 42% were on corporate governance topics. We used a wide range of engagement methods including 303 meetings – over a quarter of which were at senior executive or board level. Most were one-to-one interactions, with the remainder being through collaborative initiatives where we judged this to be the most effective way to achieve our objectives. In addition, we wrote to over 800 companies following their AGMs, explaining the reasons behind our voting decisions. Including these interactions, our activity in 2017 totalled 1,906 engagements with 1,363 companies.

Much of our environmental engagement continued to focus on climate change. This engagement was shaped by the guidelines published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which aim to bring greater consistency to the way companies and investors report climate-relevant analysis. We were also actively involved in setting up a global investor collaboration to scale up engagement on this theme via an initiative called the Climate Action 100+.

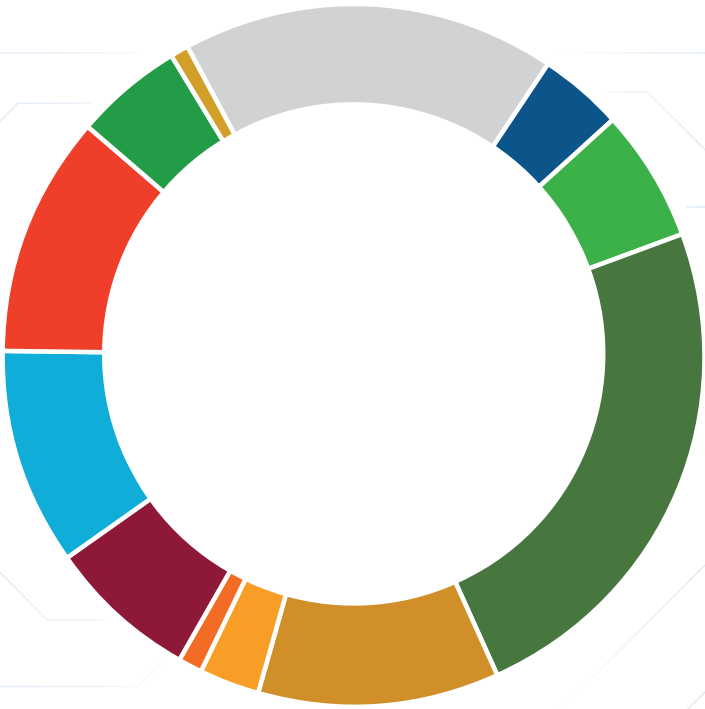
In relation to social themes, key engagement areas included two projects in the pharmaceutical sector: one on approaches to corporate drug pricing in the US market and the second on access to medicine. Furthermore, we continued engagement on labour standards with a focus on supply chains. As part of this work we visited UK clothing factories and warehouses to get a better understanding of worker conditions following allegations of bad labour practices.


Excludes post-AGM letters

We also engaged companies on a wide variety of corporate governance topics. In addition to engagement based around company-specific issues that arose at shareholder meetings, we completed a number of other engagement projects, including on the responsiveness of US companies to majority-supported shareholder resolutions; on executive remuneration in the UK; and on board effectiveness at Indian companies. This last project included a research trip to the region to engage with industry regulators and other market participants.

"Finance could be, should be and will be the decisive factor – the difference between winning and losing the war. Finance in its very nature is forward-looking. We must make sure that it works not only for profit but for the future of people and the planet."

**United Nations Secretary-General, António Guterres**



| | |
|---|---|
| No SDG | 17% |
| Peace, Justice and Strong Institutions | 4% |
| Life on Land | 6% |
| Climate Action | 24% |
| Responsible Consumption and Production | 11% |
| Sustainable Cities and Communities | 3% |

## Engagement and SDGs

Historically we have categorised our engagement into ESG issues. However, the SDGs are fast emerging as a common language for governments, corporates and investors to talk about positive sustainability impacts. For a second year, we have therefore mapped our engagement against the SDGs in order to better understand the overlap.

Since 2016 we have further developed our methodology. Whereas in 2016 our analysis was primarily based on matching our seven engagement themes to SDGs, we have now mapped all 43 of our more granular engagement sub-themes to their corresponding SDGs.

17% of our engagement activities do not directly support a specific SDG; these correspond to where we engaged on corporate governance issues alone. Although we see good governance as an essential building block in creating a more sustainable economy, we do not see this as being a direct link to a specific SDG. The main exception is our engagement on board diversity, much of which has covered gender diversity issues, which we see as supportive of SDG5 – Gender Equality.

# 2017 engagement outcomes

The greatest success area for 2017 was our engagement on climate change – where investor pressure is leading companies to rethink their business models and assumptions.

Our engagement targeted companies in all major markets, covering 62 countries in total. Members of our team travelled to 12 countries over the year to engage, including Brazil, India, Japan, the US, and Malaysia.

In 2017, we recorded 199 instances of change ('milestones') by companies, where businesses have improved policies or practices following engagement.

The most significant changes have been in relation to climate change. Momentum in 2017 was driven by the publication of the guidelines by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), coupled with the climate-related shareholder resolutions increasingly winning majority shareholder support, even in the US. Specific engagement results have included companies committing to improve their public reporting in line with the TCFD, as well as changes in business strategy.

The other significant area of progress was on promoting good corporate governance standards, with 47% of milestones falling within this category. Examples included companies unbundling director elections and establishing minimum standards for board independence. Pay was also an area where we saw marked improvements in markets like the UK, where binding resolutions on pay put pressure on companies to be more accountable – see the Governance section in this report for more detail.

Progress on social issues was, overall, somewhat tougher to achieve. No single dominant theme emerged in 2017, but there were instances of improved practices, ranging from improved strategies on nutrition in the food sector, greater transparency on drug pricing in the pharmaceutical sector, telecoms companies strengthening their approach to free expression and privacy, to technology companies adopting formal policies relating to migrant workers in their supply chain.

### Companies engaged by country


We use our international expertise to determine what approaches work best in different national markets – and tailor our engagement accordingly to maximise our impact.

**Claudia Wearmouth, Responsible Team**

13 CLIMATE ACTION

## Industrial and Commercial Bank of China

### Background

ICBC plays an influential role in shaping the Chinese economy. For the past three decades, it has financed heavy industries which powered the rise of China in the world economy. Now, the government is pushing for cleaner economic development.

### Action

We have engaged ICBC on environmental finance since 2008. In 2017, we had a rare opportunity to meet its senior executives. The most striking revelation was that ICBC had made $8 billion of new loans to environmental projects in 2016. This dwarfs the amount provided to coal-related industries.

### Our view

ICBC has transitioned to play a key role in financing China's efforts to mitigate environmental damage and reduce greenhouse gas emissions. The bank has further steps to take to improve its environmental reporting – but it is significantly better than when we first engaged the bank a decade ago. Following the meeting, the bank issued its first green bond to finance renewable energy and electric railway projects. We invested in the green bond.

**Yo Takatsuki, Responsible Team**

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

## Tesco

### Background

Food waste is a financially material and ethically sensitive issue for Tesco; the company has set ambitious targets and is on track to achieve these. Tesco supports SDG12.3, which is to halve global food waste by 2030 at the retail and consumer levels, and within production and supply chains.

### Action

We began engaging Tesco on this subject in 2012, encouraging food waste to be quantified and systems to be implemented to reduce it throughout the value chain. Over the years Tesco has detailed the challenges to us and through our engagement in 2017 we have seen the extent of progress made by the company.

### Our view

We are encouraged by the work Tesco are undertaking in this area, and see positive momentum for further progress. Key achievements to date include: published, independently assured food waste data; the Tesco CEO chairing 'Champions 12.3', a coalition of leaders dedicated to accelerating progress on food waste; and no food waste going to land fill. In 2017, 39,000 tonnes of food waste was generated; this was used for energy recovery, animal feed and anaerobic digestion.

**Emma Lupton, Responsible Team**

## HSBC

### Background

Over the past few years, serious questions have been raised regarding the bank's corporate culture and compliance processes following a series of high-profile misconduct-related controversies. This peaked in 2012 with US regulators enforcing a Deferred Prosecution Agreement (DPA) that required the bank to overhaul its compliance framework and business practices over the next five years.

### Action

Although we have a long engagement history with HSBC, in recent years this has intensified to monitor its progress in complying with the DPA, putting pressure on the board and management to demonstrate improvements around ongoing challenges in embedding compliance processes.

### Our view

Overall we were pleased with HSBC's proactive approach to engagement with investors over recent years and with the apparent progress the company has made in a number of areas. This includes updating its internal compliance procedures, as confirmed by the US regulators approving the expiration of the DPA in December 2017, introducing an enhanced enterprise-wide risk assessment, as well as it showing real leadership on topics such as cyber risk management and environmental financing.

**David Sneyd, Responsible Team**

# BHP – Brazil Samarco mine field trip

6 CLEAN WATER AND SANITATION

BHP Billiton and Vale's remediation efforts to address the 2015 Samarco mining accident have been complicated by political and economic crises in Brazil. Corporations, especially those in sectors with strong links to government, will continue to find it difficult in this challenging operating environment.

## Background and action

In June 2017, we participated in a field trip to Brazil organised by the mining company BHP. The purpose was to get a first-hand insight into developments in relation to the 2015 Samarco accident, when the collapse of a major dam at the site of the Samarco mine resulted in at least 17 deaths and is one of Brazil's biggest environmental disasters.

We spent three days with BHP in the Samarco region and met with representatives from the Renova Foundation, which is tasked with overseeing remediation efforts. We also spoke with Samarco employees and representatives of communities affected by the accident.

Since the accident, the two joint-venture companies, BHP and Vale, have made concerted efforts to remediate the damage while aiming to mitigate the financial impacts and rebuild their own reputations. A preliminary date for a possible restart of Samarco's operations has been set for 2018, with BHP apparently in talks with Vale to sell its stake fully to the Brazilian miner.

"Over the two decades we have run an ESG engagement programme, we have seen more and more companies come to the realisation that if they work together with investors, both sides can reap the benefits in terms of long-term performance."

**Juan Salazar, Responsible Team**

December 2016, showing bio-engineering in progress. Image reproduced with the permission of BHP. (Source: BHP)

We highlighted our concern that the companies' efforts continue to face legitimacy challenges among the wider population since they are seen as having colluded with the government to arrive at a settlement that falls short of popular expectations. We encouraged the companies to consider options for doing more to elevate the role of local stakeholder perspectives within the process. To alleviate scepticism around long-term river pollution impacts, we also asked that remediation plans are independently verified by the IUCN and made public[1]. Although we did not see any obvious concerns regarding compliance controls, there is still a need for the companies to clarify the nature of disclosure around remediation payments and the impact on end beneficiaries.

During the entire trip – whether we talked to mining employees or residents in the Samarco region, or corporate employees in offices in Sao Paolo and Rio de Janeiro – discussions typically referred to the wider political context: the ongoing political fallout from the corruption investigation dubbed "Operation Car Wash". With many political and corporate leaders being implicated by these investigations, including two former presidents (Lula and Dilma Rousseff) and the current president, Michel Temer, the country's political and corporate institutions are facing a fundamental crisis of legitimacy.

[1] International Union for Conservation of Nature (IUCN)

## Our view

It is unfortunate, but perhaps unsurprising, that the wider political and economic climate has had a bearing on the process, which requires considerable skill for the companies to navigate. Although we are satisfied with progress so far, risks remain and we will continue to monitor the situation as it draws to its conclusion. Whilst it is impossible to fully compensate for the loss of life and of homes that resulted from this disaster, our view is that Vale and BHP have so far shown both high-level management commitment and hard financial assistance in remediating the damage, which will eventually help the affected communities and the environment to recover.

"

Good governance is critical to the success of any environmental remediation programme. By setting up Renova, an independent foundation with a robust governance framework, BHP and Vale have increased the likelihood that rehabilitation efforts will be more effective long term.

8 DECENT WORK AND ECONOMIC GROWTH

## JD Sports

### Background

In 2016, an undercover documentary about JD Sports' UK warehouse in Kingsway revealed poor labour practices such as zero hours contracts with below minimum wages, extreme surveillance and security checks, and staff being threatened to be fired for sitting down during long shifts. Due to poor disclosure, our initial assessment showed that JD Sports had poor systems for effectively managing labour risks.

### Action

We visited the company's Kingsway distribution centre for a tour of the facility, and met with the CFO and logistics director. Our conversations focused on the monitoring of labour agencies that the company uses, and staff satisfaction at the site.

### Our view

Our initial view of inadequate labour management changed during our engagement with the company. We were assured that the company is taking the issue seriously and employs practices to mitigate labour-related risks. Examples include: offering agency staff permanent contracts, enabling career progression, auditing labour agencies, and formal staff feedback procedures. Nevertheless, warehouse operations pose difficult labour-related challenges and companies such as JD Sports need to be more proactive and transparent in their approach.

**Liat Piazza, Responsible Team**

## Credicorp

### Background

The founding family and main shareholder of Credicorp, Peru's largest financial services group, continues to exert significant influence over the group. This, alongside a board that is almost entirely comprised of former company executives and family representatives, raises concerns linked to board entrenchment and can put the interests of minority shareholders at risk.

### Action

Through voting and one-to-one engagement, we expressed our concerns and strongly encouraged a review of board composition to include non-executive directors without previous or existing ties to the company. We welcomed the appointment at the 2017 AGM of an independent, non-executive director (INED) with strong financial sector experience.

### Our view

The board would benefit from a more comprehensive review of its current composition. As it stands, we think it runs the risk of 'group-think' tendencies from directors' common views and close involvement in past managerial decisions. This threatens board dynamics and can ultimately hinder its effectiveness. We will continue to engage on this issue.

**Juan Salazar, Responsible Team**

13 CLIMATE ACTION

## Fiat Chrysler Automobiles

### Background

Fiat Chrysler Automobile's (FCA) investment in the electric vehicle (EV) space has been lacking to date. With a focus on Sports Utility Vehicles (SUVs), FCA's fleet emissions performance has been lagging behind that of peers, raising questions about regulatory compliance costs as well as long-term strategic implications at a time when the shift towards the electrification of transport gathers pace.

### Action

We asked the company to set clear forward-looking objectives related to low-emission vehicles and to play a more active role to overcome demand barriers such as insufficient charging infrastructure.

### Our view

Given its short-term focus on potential merger options and its SUV-concentrated fleet mix, FCA is likely to remain a laggard in the EV market. Despite the industry shift and investor engagement, the company remains of the view that this is not a strategic priority at this time. On the positive side, due to the relatively low diesel mix in its fleet, the company is somewhat less affected by the implications of the diesel scandal.

**Thomas Hassl, Responsible Team**

"Investors are losing patience with companies that fail to respond to shareholder concerns. We believe in positive and pragmatic engagement – but if we don't see progress, we are prepared to use our vote to press for change."

**Kalina Lazarova, Responsible Team**

3 GOOD HEALTH AND WELL-BEING

# Mylan

## Background

Pharmaceutical companies have been in the spotlight in the US following controversies over increases in drug prices, leading to a highly-politicised debate. US generics drug maker Mylan was one company singled out for criticism, after increasing the price of its product EpiPen – an injection of adrenaline to counter anaphylactic shock – five-fold in less than a decade. Fuelled by such disputes, there are continuing calls to regulate and limit drug prices, which could materially impact the wider industry.

## Action

Ahead of its annual shareholder meeting (AGM), a group led by the New York City Comptroller launched a public campaign calling for investors to vote against the re-election of key board directors. Our proxy adviser, ISS, took the unusual step of recommending voting against almost the entire board, citing collective accountability for material failures of risk management. Wanting to ensure that the company had an opportunity to explain its side of the story, we had an in-depth discussion with them ahead of the AGM. The company was defensive and said that the EpiPen controversy had become overblown. It argued that it was not doing anything worse than what many other companies were doing, and placed the blame on the complexities of the broader US healthcare system, which results in a large number of middle men in the supply chain. It also claimed that Congress and the media focused more on Mylan than larger companies with big lobbying and legal budgets – an assessment we dispute.

## Our view

We were disappointed by Mylan's reluctance to accept responsibility for poor practices and governance. We took away the impression that it saw itself as the victim of the political debate over the high cost of healthcare provision in the US. In our view, the experienced board-level compliance committee should have done more to ensure the company addressed the issue proactively. We were also critical of the remuneration committee, which had paid $43.6 million in front-loaded equity to a former chief executive, and had failed to respond to high levels of shareholder dissent over pay in prior years. We voted against the re-election of seven of the nine non-executive directors, including members of the compliance and remuneration committees. We also voted against the pay plan, as did many others, with the resolution failing to pass at the AGM. However, despite this very public and widespread show of shareholder concern, we remain concerned that Mylan has yet to implement sufficient reforms to its broader practices on these issues.

**Yo Takatsuki, Responsible Team**

# Voting and corporate governance in 2017

We view exercising the right to vote as a key part of being an equity owner, and as an opportunity to influence change. We regularly engage companies before voting to explain our expectations, and afterwards to explain our reasons for any votes against management.

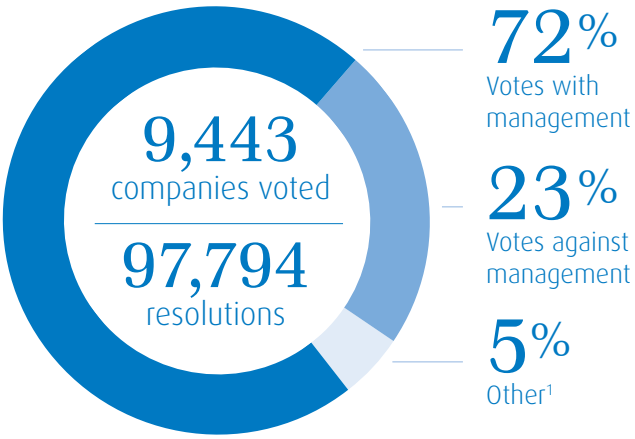
In 2017, we voted on more than 97,000 resolutions at nearly 9,500 company meetings worldwide, on behalf of our in-house BMO Global Asset Management (EMEA) holdings and those of our ***reo***® clients. These votes are based on our own in-house Corporate Governance Guidelines, which are updated annually.

We supported management in 72% of all proposals, which was slightly lower than in 2016 (75%). As in previous years, executive remuneration continued to be the most contentious issue dividing investors and management. We voted against management on 47% of resolutions relating to pay – a slight reduction from 2016, but still a disappointing outcome in terms of the slow pace of improvement in the way pay is structured, particularly in certain markets such as the US.

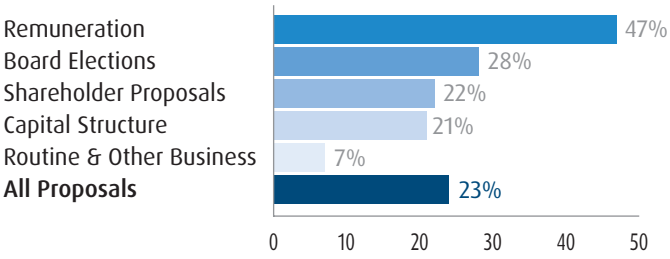
More widely we have been pleased to see positive developments in market-specific governance guidelines over the past year, and have contributed our views to several consultations. The focus on topics such as diversity and director accountability fits well with our own views as a global investor that these are critical issues which underpin effective governance.

As disclosure and legislative requirements evolve in markets around the world, new challenges and opportunities will present themselves. Ensuring that clear and structured views are presented to boards has never been more important and we strongly believe that using our vote effectively forms part of this dialogue.

## How we voted in 2017




## Votes against management by issue




[1] Other includes abstentions, withheld votes and cases where we did not vote due to share blocking in a market or potentially a lack of POA (Power of Attorney)

Globally, diversity is now recognised as a key factor of board effectiveness and has featured heavily in engagement and policy discussions. Additionally, a notable increase in support for climate-related shareholder resolutions has been seen in the past few years.

**Daniel Jarman, Responsible Team**

## US

The US market was a mixed bag in 2017. Climate change shareholder proposals gathered momentum, with the passing of proposals at three oil & gas companies. More widely though, multi-class share structures with unequal voting rights came under scrutiny as Snap Inc's IPO drew particular criticism. Also, the Financial CHOICE Act, which looks to roll back the governance reforms of the Dodd-Frank Act, now sits before the Senate.

## Japan

Domestic institutional investors finally started to engage with local companies more proactively, pushed by a revision to the Stewardship Code which called for improved voting disclosure and increased participation in collaborative engagement. We continued to be active with our governance engagement in Japan, concluding a high-profile three-year project which we co-led. This urged major Japanese corporations to establish one-third independence on boards.

## UK

The 2017 season commenced with significant political and regulatory uncertainty, as the snap general election put regulatory changes on ice, and Brexit negotiations dominated the political landscape. However, the focus on governance reform has since accelerated, with the review of the governance code and related legislation. Investors' appetite for holding directors to account continues to grow, particularly when individual director performance is considered to be lacking.

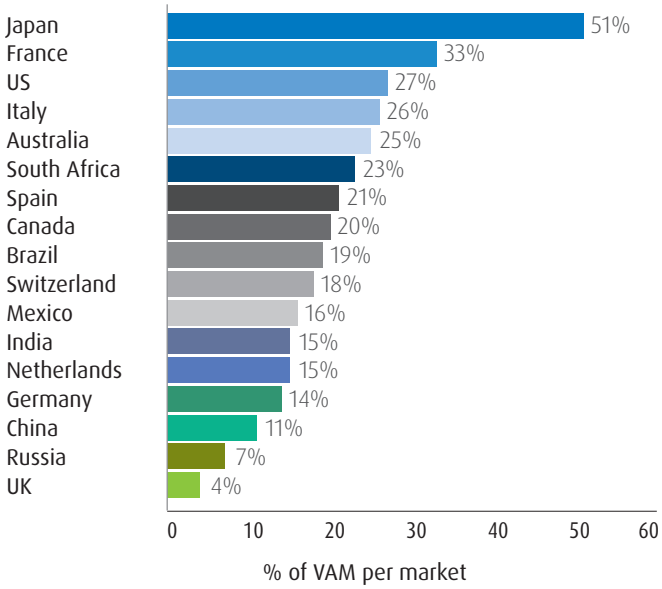
## India

Recognising the need for increased shareholder protections, the Securities Exchange Board of India is reforming regulation around shareholder rights and board effectiveness. Regulators continue to operate against a backdrop of perceived corruption, which results in both local and international investors being reluctant to diverge from the existing rules-driven approach. Based on current market sentiment, a move towards a more principles-based system is unlikely in the near future.

## Votes against management (VAM) by market on a resolution basis

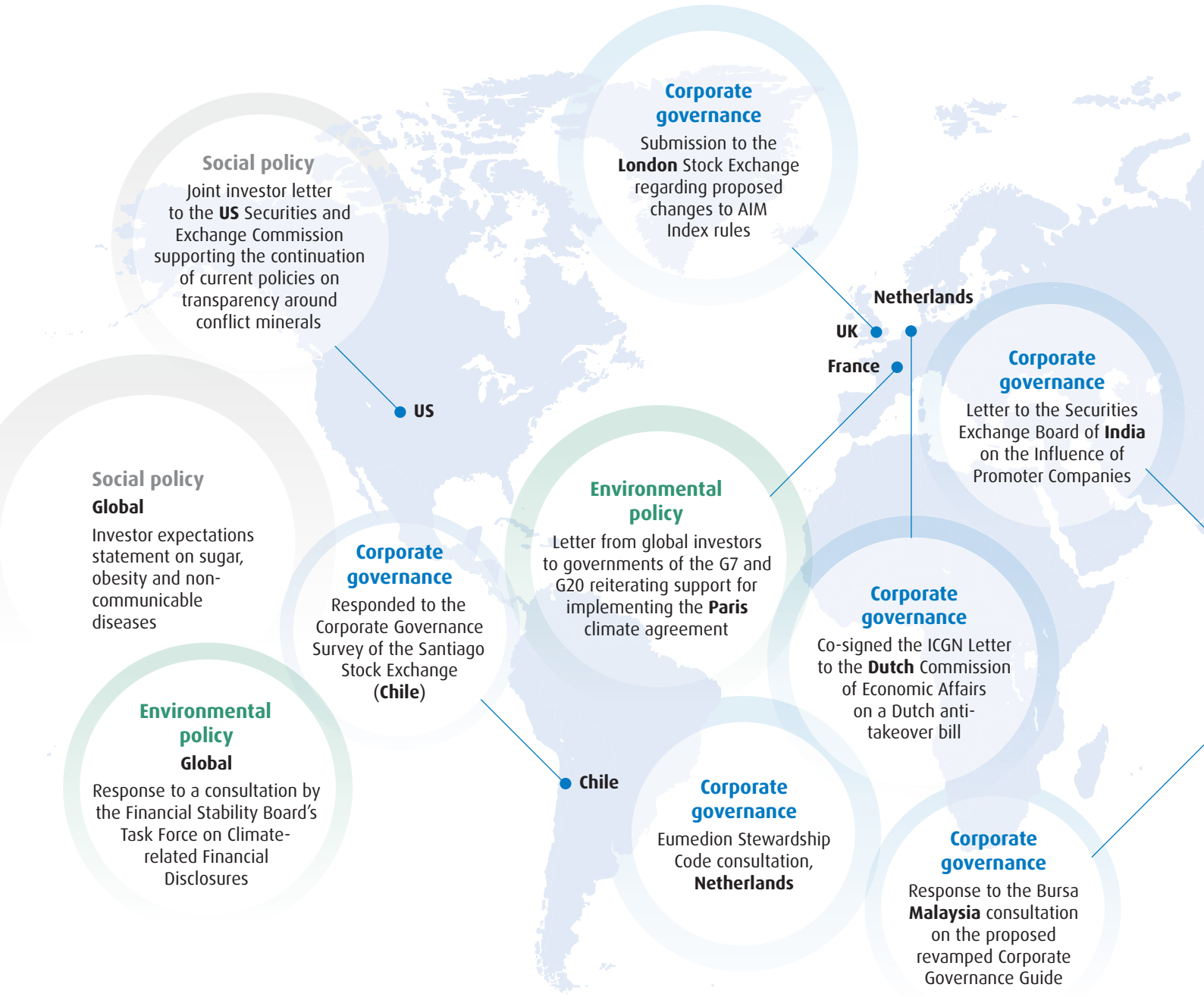
We have a global outlook to stewardship, voting in 84 countries worldwide, based on our global governance principles combined with our market-specific knowledge.

This chart illustrates the global diversity in shareholder meeting agendas. In some markets, such as the UK, Russia and China, the volume of administrative proposals dilutes the final statistics. For instance, in the UK market, we voted against at least one resolution at over 30% of all meetings, but due to the large total number of resolutions voted, this only results in 4% of total votes being cast against management. Whilst there is regional convergence on a basic level in relation to the construction of agendas, globally the items that shareholders are able to vote on differs significantly from market to market.



# Public policy interactions

Engagement with policymakers is essential in raising standards of ESG management beyond what is possible through engaging with individual companies. In 2017 we focused particularly on governance as regulators worldwide consulted on proposals to improve practices; other issues we addressed included climate change and labour standards.



**Corporate governance**

**Global**

FTSE and MSCI consultations on dual-class share structures with differential voting rights

Signed up as a signatory of the Workforce Disclosure Initiative (WDI)

Submitted our Statement of Intent to the 30% Club with regard to board diversity

**Corporate governance**

**Hong Kong** Stock Exchange consultation on changes to the Corporate Governance Code

Japan

Hong Kong

India

Malaysia

Singapore

**Corporate governance**

Submission to the **Tokyo** Stock Exchange views on disclosures in English

Australia

**Corporate governance**

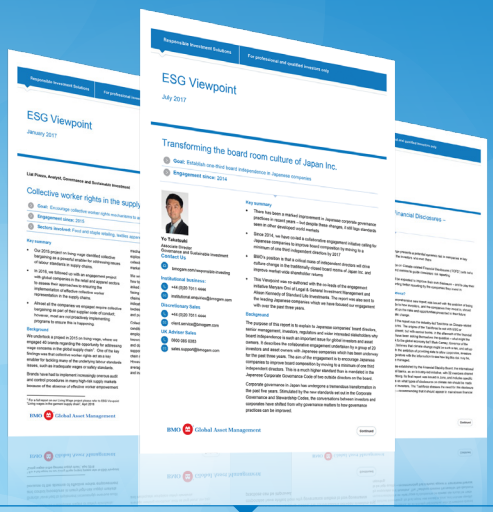
Letter to the **Singapore** Stock Exchange on a possible listing Framework for Dual Class Share (DCS) structures

**Social policy**

Investor statement in favour of the **Australian** Modern Slavery Act

# Team research

We regularly produce research on topics relating to responsible investment and our engagement throughout the year.




- Collective worker rights in the supply chain
- 2017 governance outlook
- UK remuneration: the 2017 voting season preview*
- US utilities – will the energy transition be Trumped?
- BMO Responsible Funds and the transition to a low-carbon global economy
- Securing human rights in extractives industries
- Transforming the board room culture of Japan Inc
- The Task Force on Climate-related Financial Disclosures – what does it mean for investors?
- Brazil corruption – many ways to wash a car*
- PRI in Person conference – summary impressions
- Restricted share awards – all carrot, no stick
- Performance with principles: how can ESG investing support financial returns?

For more information and our latest viewpoints visit: bmogam.com/responsible-investing/

* Client confidential piece distributed to ***reo***® clients

# Five themes to watch in 2018

What does 2018 hold in store? We take a look at some of the trends we believe will shape the responsible investment agenda for the year ahead.


## **#metoo –** a watershed for working culture?

Popularised after the allegations against Harvey Weinstein, the #metoo hashtag quickly went viral and became a global movement empowering individuals to speak up against sexual harassment.

Whilst the allegations continue to emerge, the morphing of #metoo to its successor movement Time's Up reflects how the initial outrage and anger is now being mobilised towards action to tackle the root causes. This is where #metoo converges with existing investor action on issues including board diversity and gender wage inequality.

In 2018 we believe there will be heightened focus on workplace culture – particularly in male-dominated industries, the technology sector being one example – and on women's representation not just on boards, but in senior management.

## **Challenging the throwaway society –** ocean plastics highlight wasteful consumption habits

After years of campaigning by NGOs, it took a seminal wildlife documentary – Blue Planet II – to get politicians to pay attention to the devastation being wrought by the disposal of plastics. More than eight million tonnes of plastic are discarded into the oceans every year, equivalent to 16 full shopping bags for every metre of the world's coastline.

Policy experiments have proven remarkably effective. The UK's plastic bag charge cut usage by 85%[1]. We expect to see similar policy initiatives developed in 2018. Single-use plastic bottles are a likely target, given that a million plastic bottles are sold every minute, but only a small percentage of which are made from recycled materials. There is a potential cost here for companies which have to change their production processes – but it also opens up opportunities for those developing innovative new packaging solutions.

> More than eight million tonnes of plastic are discarded into the oceans every year, equivalent to 16 full shopping bags for every metre of the world's coastline.
>
> **World Economic Forum (2016) How much plastic is there in the ocean?**

[1] BBC (2016) Plastic bag use plummets in England since 5p charge

"The debate on ESG has moved beyond risk and opportunity. The more fundamental question now being asked – what is the role of the financial sector in creating a fairer and more sustainable society?"

**Vicki Bakhshi, Responsible Team**

## **A-commerce and privacy –** as technology enables our buying decisions to become ever more automated, what about privacy?

E-commerce may be surpassing bricks and mortar, but it is no longer at the cutting edge of retail technology. Automated commerce – a-commerce – holds the promise of making purchasing decisions simpler, with algorithms replacing time-intensive browsing and research.

Despite the undoubted convenience advantages, we see new risks arising from this increased reliance on consumer data within retail business models. Regulations on data use, such as the EU's General Data Protection Regulation (GDPR), are becoming far more stringent, with high penalties for misuse. Where retailers are obliged to ask their customers if they really want their personal data used to predict their future purchases, they may get a less than enthusiastic response.

## **Candy crushed –** regulatory and consumer pressure on sugar use rises as health evidence mounts up

Sugar is cheap, but its public health impacts are considerable. Obesity, formerly seen as a rich-world problem, is increasingly rife in many emerging markets, with rates of diabetes in countries like Mexico at epidemic levels. As waistlines grow, so do the public health costs to the taxpayer.

Growing frustrated that their healthy eating messages are not getting through, governments are getting tougher, looking at measures including labelling schemes and taxation. Food and beverage companies are going back to the drawing board to re-formulate much-loved recipes where brand loyalty is a key differentiator. Those who mismanage the process may lose customers – but those slow to act are vulnerable to longer-term risks of diminished sales and reputation.

## **Entering the impact zone –** investors reconsider their purpose

The 17 Sustainable Development Goals (SDGs) are a blueprint for a better world. Covering issues from poverty, inequality, the environment, to education and public health, the SDGs identify 169 targets to track progress towards the 2030 target date.

Responsibility for achieving progress was once seen very clearly as the duty of governments, perhaps with the help of charities and NGOs to fill the gaps. But times have changed. We are shifting to a new paradigm where both companies, and investors in them, are expected to recognise that their actions have wider consequences on the economy and society, and to think deeply about how they can square their duties to deliver risk-adjusted returns with the imperative to manage these consequences.

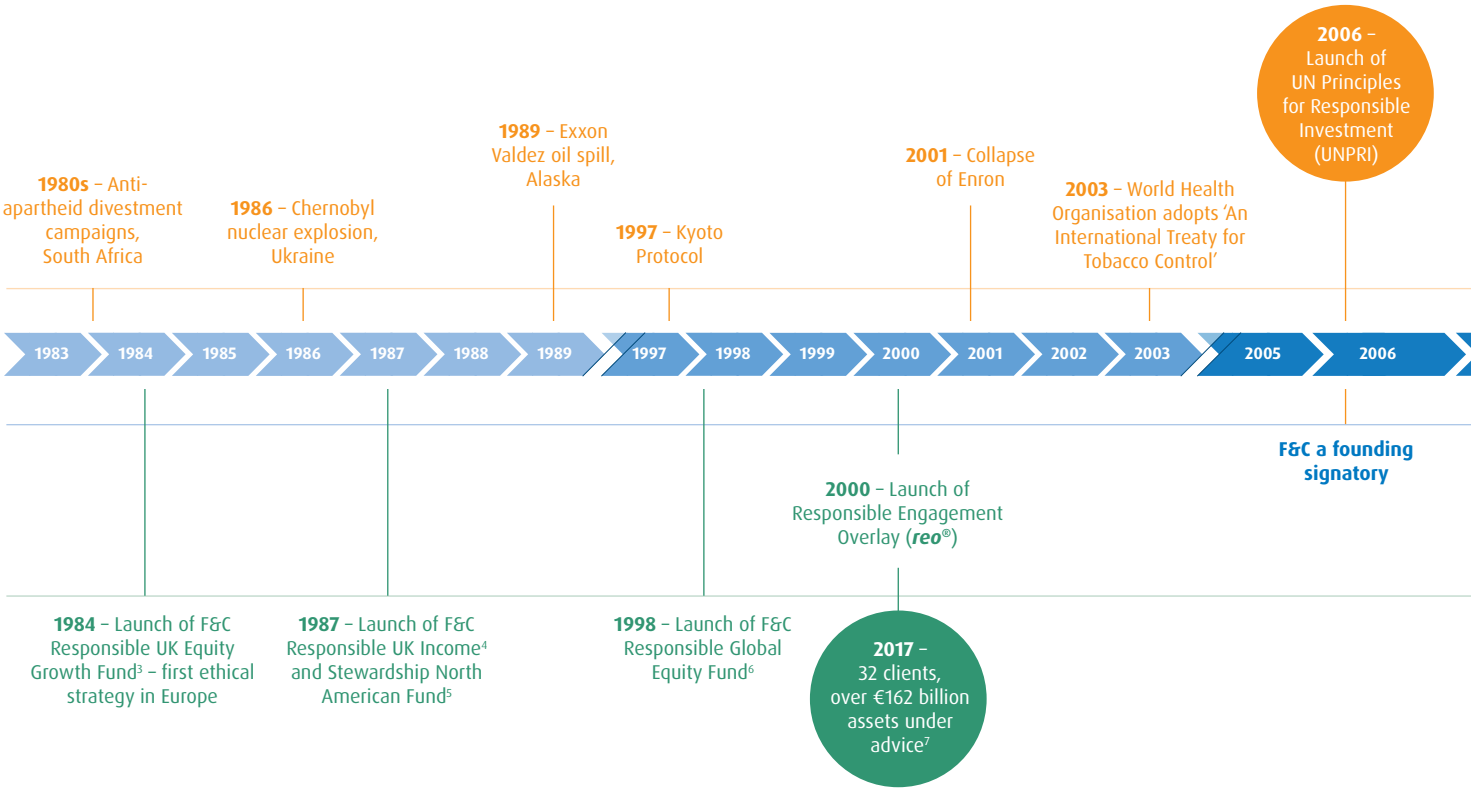
What does that mean in practice for investors? As well as further growth in the rapidly-expanding impact investing industry, we also anticipate further momentum behind efforts to measure portfolio-wide sustainability impacts, as investors seek to demonstrate their understanding of their alignment with the SDGs.

# Our ESG credentials

We provide a range of solutions including specialist ESG strategies, investment strategies with ESG integration and engagement incorporated, and our Responsible Engagement Overlay service, ***reo***®, where we vote and engage on behalf of clients.

At BMO Global Asset Management, we are committed to being a responsible investor and our Responsible Team (Responsible) team is one of the largest specialist teams in Europe, with 14 ESG experts. The team has a wide and diverse range of backgrounds with a long track record of effective engagement with companies across the globe. In addition, we have an independent Responsible Investment Advisory Council, which provides input on key ESG trends and engagement priorities.

We have been pioneers in the industry since launching Europe's first ethical strategy, the Responsible UK Equity Growth Fund (formerly Stewardship Growth) in 1984 and believe that companies successfully managing ESG risks and proactively applying best practice systems can enhance and protect long-term investment returns.




[1] End of Q4 2017, [2] End of Q4 2017, [3] Previously called Stewardship Growth Fund, [4] Previously called Stewardship Income Fund, [5] Expanded its geographic remit in 1998, becoming Stewardship International, [6] Previously called Stewardship International Fund, [7] End of Q4 2017, [8] Previously called Ethical Bond Fund, [9] End of Q4 2017.

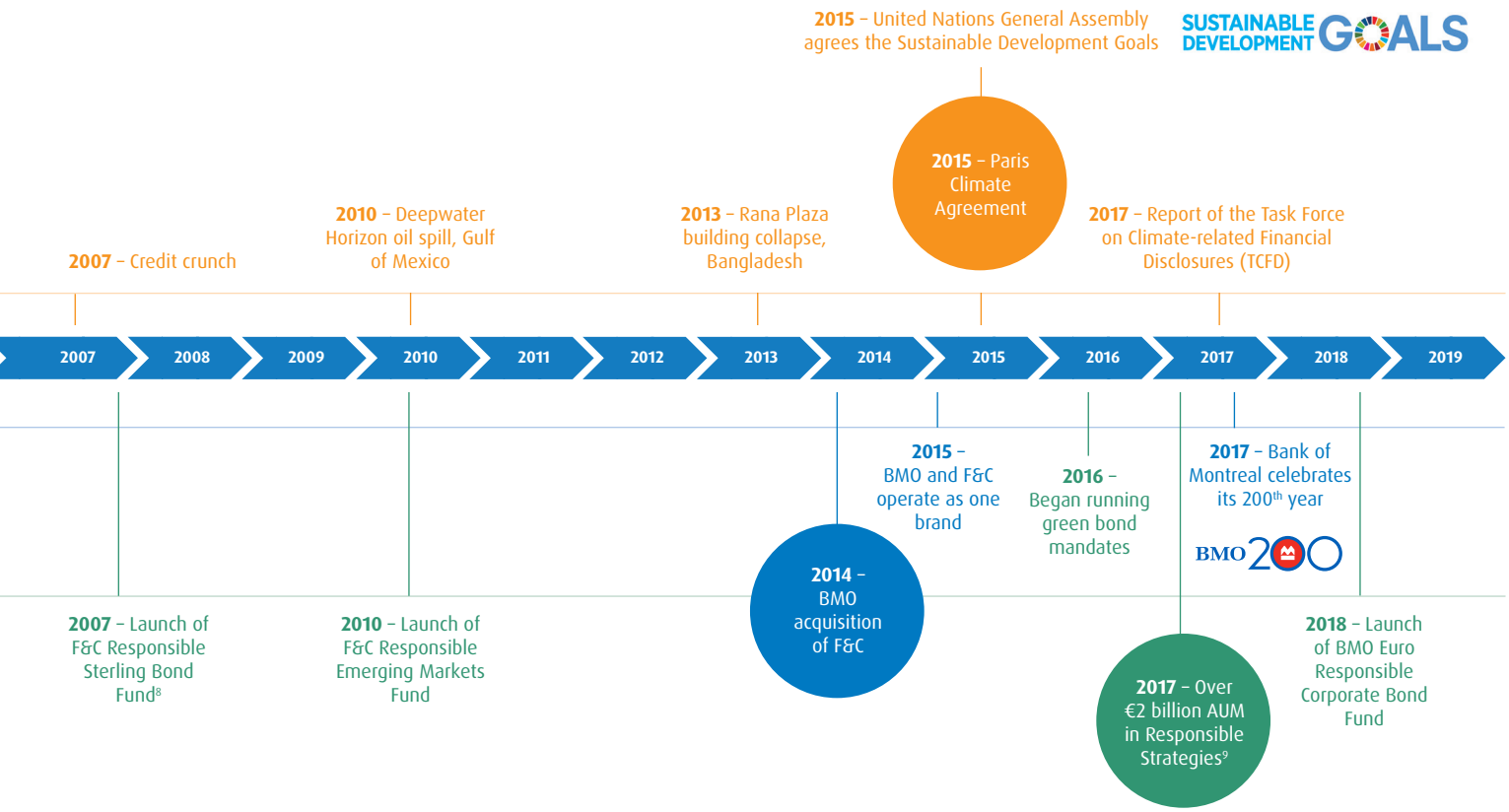
"We are incredibly proud of our large and experienced Governance and Sustainable Investment team – made up of experts with a wealth of experience who enable us to deliver high-quality solutions to our clients."

**Richard Wilson, Chief Executive Officer, BMO Global Asset Management**

Our Responsible Fund range, over €2 billion AUM[1], with products covering global, UK and emerging markets, offers clients a way to invest in the shares and bonds of companies that adhere to certain values and standards. Our philosophy for these funds is based on three pillars: invest in companies that are making a positive contribution to society and the environment; avoid investment in companies with damaging or unsustainable business practices; and improve, using our influence as investors to encourage best practice of ESG issues through engagement and voting.

As well as supporting the Responsible Fund range closely, the Responsible Team also provides engagement and voting services for 32 clients with €162 billion of assets under advice[2]. This is available for equity and fixed income portfolios.

Our approach is overseen by a global Responsible Investment Committee, which has ultimate responsibility for signing off the responsible investment policies followed by BMO Global Asset Management, highlighting the importance we place on ESG factors. This is chaired by our CEO, Richard Wilson.



BMO Global Asset Management

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