Responsible Investment
2019 Review

BMO Global Asset Management

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Protesters at the UK Student Climate Network's Global Climate Strike in London.

2019 saw more people marching in the name of climate change than ever before, with millions of people being involved across the world. The youth movement also gathered a lot of momentum, with Greta Thunberg continuing to lead the charge.

Growing the Good

Responsible investment is at the very heart of our business, and integral to our purpose as an asset manager. The consideration of environmental, social and governance (ESG) issues is no longer a nice-to-have option but an essential part of what it means to be an investor in the 21st century.

This year we celebrate 20 years of running our investor engagement programme. The past two decades have seen us engage with more than 5,500 companies on the most relevant and impactful ESG issues for their businesses, and we have recorded over 3,700 instances of change – milestones – in the same time period. Milestones that were particularly significant in 2019 included a number of major corporates adopting net zero carbon goals in response to investor engagement on climate change.

As our approach has evolved, we now view engagement not only as a tool to identify and manage risks, but also as a route to create positive impact in the environment and society, by supporting the achievement of the Sustainable Development Goals (SDGs). We use the SDGs to plan, implement and report on our engagement, and in this Review we show how BMO's engagement contributes to the achievement of specific SDG goals.

We are also not afraid to hold companies to account when they fall short of our expectations. Our voting record for 2019 shows that we voted against management on almost a quarter of all resolutions, and that we opposed over half of those on pay. We have been consistently supportive of shareholder resolutions calling for action on climate change and are willing to vote against boards who ignore investor efforts to engage on this critical issue.

Our corporate purpose is to Boldly Grow the Good in business and life. Through our commitment to responsible investing, we believe we are putting this purpose into action, and playing our part in the wider investor movement towards making finance a force for good.

I am proud to say that BMO Global Asset Management is not just a house that offers ESG, but a fully integrated ESG house.

Kristi Mitchem
CEO, BMO Global Asset Management

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

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any companies that may be mentioned.

Change over **20 years**

The past two decades have seen the confluence of global economic, environmental and social megatrends that are shaping our future. As active owners, we have been asking companies to implement robust ESG practices that can help them respond to the challenges from these megatrends and, by doing so, future-proof their businesses and protect the value of our clients' assets.

Engagement since 2000: 30% Environmental, 30% Social, 40% Governance

5,588
companies engaged

Through our engagement programme we have reached companies across all sectors and industry groups in close to 90 countries. We engage at different levels within companies depending on the nature of our objectives, including the board, executive management and operational specialists.

40%
of engagement has been with companies in the extractives, financial, and retail industries

The economic and development benefits from the oil & gas and mining industries can come at significant, very visible, environmental and social costs. We have therefore engaged with extractives the most, closely followed by banks on account of the governance and conduct issues that precipitated the Global Financial Crisis.

87
countries covered by engagement

Almost 70% of our engagement has been with companies in Europe and North America, reflecting their larger share of the world's total market capitalisation, and stricter ESG-related regulations. We have recently seen the proportion of emerging markets that we engage in rise, as companies become more responsive to investors' engagement efforts.

"There is an increasing urgency to the role that we play as investors in supporting the change needed for a sustainable future. We are working hard to cut through the noise to bring a thoughtful and impactful voice to our interactions with the companies we invest in."

Alice Evans, Managing Director, Co-Head, Responsible Investment

Juan Castro Blanco National Park, Costa Rica.

Milestones since 2000: 28% Environmental, 18% Social, 54% Governance

3,763

instances of positive change (milestones) recorded in ESG practices since 2000

We are proud to have played a role in the achievement of these milestones with 1,600 companies across industries on a wide range of ESG issues. We have achieved this through constructive, consistent and confidential dialogue with companies that we have carried out both individually and collaboratively.

54%

of milestones linked to improvements in governance standards

Boards and management are often receptive to requests to support and implement changes in governance practices, including on board effectiveness, executive pay and shareholders' rights. On the other hand, changes to environmental and social practices usually require executives to think of and set strategies for the long term.

468

companies have improved their approach to managing climate risk

Within the environmental and social spheres, climate change is the theme for which we have recorded the largest number of milestones, at over 670. This is a reflection of our continued focus on this important theme, as well as the growing urgency companies rightly feel to address material climate-related issues.

"The ability to evolve and adapt is vital for any business to survive and thrive in our increasingly uncertain and fast-paced world. We see our role as using our influence to help companies overcome resistance to change and effectively navigate it."

Juan Salazar, Director, Responsible Investment

2019 engagement

As ESG engagement enters the mainstream, we are proud of our 20-year heritage. Engagement to us is the ongoing, structured and constructive dialogue with companies on ESG issues that we perceive as vital to protect and enhance long-term value creation for our clients, companies, society and the planet.

Engagement is critical to our investment process

and to fulfilling our fiduciary duty as active stewards of capital

30%
of engagement linked to environmental issues

40%
of engagement linked to social issues

30%
of engagement linked to governance issues

2019 marks the end of a significant decade for responsible investment – for BMO GAM and the wider industry. Engagement came to be regarded as an effective mechanism to reduce risks, maximise returns and have a positive impact on society and the environment. For us, direct engagement with the companies we invest in has been, and continues to be, a significant underpin for long-term value creation.

We engaged with 765 companies across different sectors and countries in 2019, as follows:

Environmental: a significant proportion of our engagement addressed climate change risk management and disclosure at companies in highly exposed industries. We also discussed risks and opportunities linked to plastic pollution, waste and water stewardship.

Social: the largest proportion of our engagement was on social issues, particularly labour standards. We sought to drive change on how companies manage issues such as living wage, modern slavery, gender diversity and workforce-related disclosures. We also engaged on antimicrobial resistance, nutrition, product safety and cybersecurity, amongst other issues.

Governance: 30% of our engagement focused on corporate governance factors, mainly board composition and executive remuneration. We also addressed diversity at board and senior management levels.

We prefer to use constructive, confidential dialogue, typically working one-to-one with companies, but also collaborating where appropriate. In 2019, we participated in over 10 engagement collaborations on a range of issues, including climate change, deforestation, opioid oversight practices, workforce disclosure and meat sourcing.

Method	%
Correspondence	61%
Meeting (in person or teleconference)	39%

Leadership level	%
Investor relations	47%
Senior executives	20%
Board director(s), non-executive(s)	19%
Operational specialist	8%
Corporate secretary	5%
Company consultant	1%

Stewardship highlights

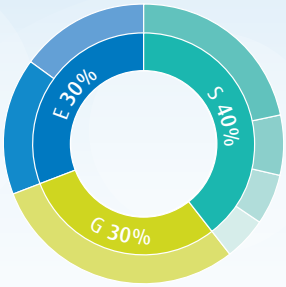
765 companies engaged

1,509 number of engagements

313 milestones achieved

11,131 company meetings voted

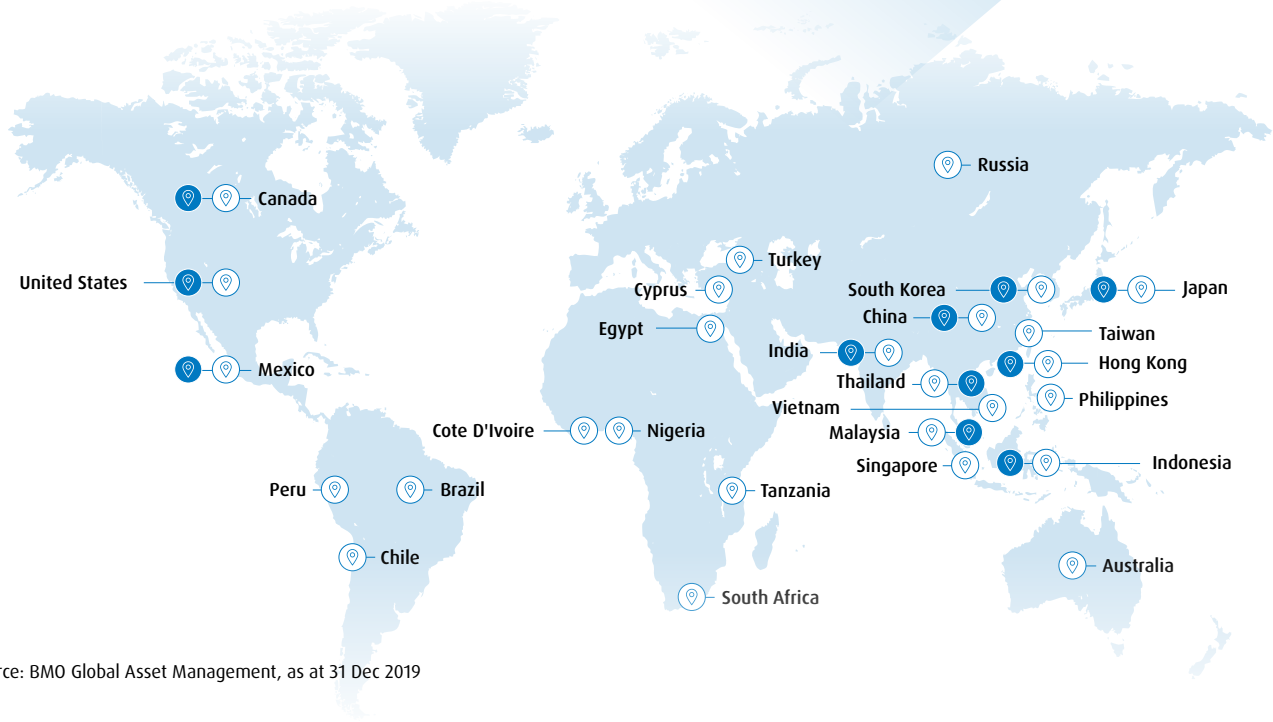
Companies engaged by issue



Environmental stewardship	16%
Climate change	14%
Labour standards	22%
Human rights	7%
Public health	6%
Business conduct	5%
Corporate governance	30%

44 countries covered by engagement

17 countries visited for engagement



Source: BMO Global Asset Management, as at 31 Dec 2019

SDGs and engagement

Since the 2030 Agenda for Sustainable Development was adopted by all UN Member States in 2015, much progress has been made to meet the Agenda's goals. With only 10 years left to 2030, all stakeholders must focus on decisive action. Whilst many companies now have sustainability strategies aligned with the Agenda, robust implementation and an acceleration towards meaningful and lasting change is now imperative.

"...let us make the 2020s the Decade of Action and let us make 2020 the year of urgency."
António Guterres, UN Secretary-General

40.3mn

people in modern slavery globally, with 75% of these in the Asia-Pacific region[1]

We engage around social issues consistently to ensure the application of labour management policies that provide a diverse, non-discriminatory and safe workplace, where workers are treated well and paid fairly. We encourage transparency and accountability within supply chains and direct operations to ensure best practice, supporting targets 8.8 and 8.7 in particular.

113%

increase in the 'material footprint'** globally, since 1990[2]

We engage with companies on the circular economy, the use of innovative materials, adopting product life-cycle assessments, improving recycling along the entire supply chain, and educating consumers on product use and disposal. These engagements support targets 12.2 and 12.5 particularly.

3°C

global temperature rise predicted with the current policies in place[3]

We engage with companies on the creation and implementation of business strategies that align with the Paris Agreement, to achieve net zero emissions and to accelerate finance towards climate solutions, supporting targets 13.2 and 13.a particularly. We support the recommendations of the TCFD*** and are active members of Climate Action 100+.

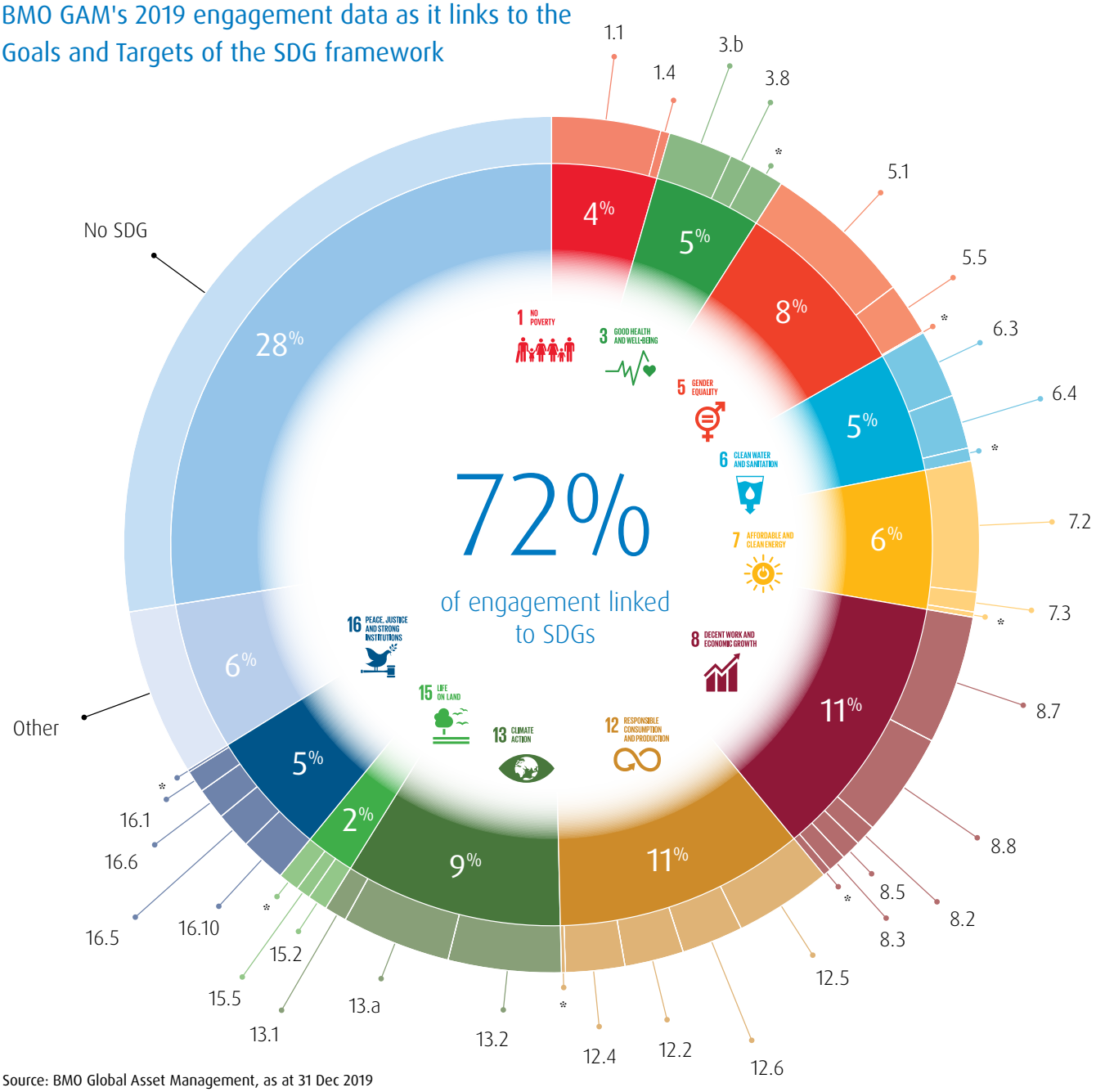
SDGs: a framework for investors

The SDG framework provides an ambitious roadmap towards a more sustainable world. We believe it is a useful tool for companies and investors to be able to contribute to achieving the objectives of the 2030 Agenda. The framework has created a common language between stakeholders, and we are seeing that having a positive impact within our engagement. We have developed our engagement database to include the 169 SDG targets, which allows us to log interactions, progress and results to this granular level where relevant.

No SDG link

28% of our engagement does not have a direct link to a specific SDG target. The majority of these engagement activities are on corporate governance, which we view as an essential building block in creating more sustainable, better run companies. The main exception is our engagement on board diversity, much of which has covered gender diversity issues, which we see as supportive of SDG 5 and targets 5.1 and 5.5 in particular, but has a wider application to the achievement of other goals such as SDG 8 and SDG 10.

BMO GAM's 2019 engagement data as it links to the Goals and Targets of the SDG framework



Source: BMO Global Asset Management, as at 31 Dec 2019

Other = SDGs less than 2%. * = SDG targets within the denoted goal that are less than 0.3%.

1.1 Eradicate poverty and ensure a living wage for all; **1.4** Ensure equal rights to resources and basic services; **3.b** Support research into vaccines and medicines for diseases primarily in developing countries; **3.8** Access to medicines and health-care; **5.1** End all forms of discrimination against women and girls; **5.5** Ensure full equality of opportunity for women, including at leadership levels; **6.3** Improve water quality by reducing pollution; **6.4** Increase water-use efficiency to address water scarcity; **7.2** Substantially increase the global share of renewable energy; **7.3** Double the global rate of improvement in energy efficiency; **8.7** Eradicate forced labour, modern slavery & human trafficking; **8.8** Protect and promote safe working environments for all workers; **8.2** Achieve greater productivity through innovation; **8.5** Achieve full and productive employment for all; **8.3** Promote development-oriented policies; **12.5** Reduce waste through prevention, reduction, recycling and reuse; **12.6** Encourage companies to adopt sustainable practices and enhance ESG reporting; **12.2** Sustainably manage and make efficient use of natural resources; **12.4** Manage chemical usage and waste throughout their life cycle; **13.2** Integrate climate change plans into policies and strategies; **13.a** Address climate change mitigation for developing countries; **13.1** Strengthen adaptive capacity to climate-related events; **15.2** Promote the implementation of sustainable management of forests; **15.5** Take urgent action to reduce degradation of natural habitats; **16.10** Ensure public access to information and protect fundamental freedoms; **16.5** Reduce corruption and bribery in all their forms; **16.6** Develop effective, accountable and transparent institutions; **16.1** Reduce all forms of violence-related death rates

1 "What is modern slavery?", Anti-Slavery International, https://www.antislavery.org/slavery-today/modern-slavery/

2 "Responsible consumption and production", The Sustainable Development Goals Report 2019, United Nations, https://unstats.un.org/sdgs/report/2019/The-Sustainable-Development-Goals-Report-2019.pdf

3 3°C global temperature rise over pre-industrial levels by 2100 with current polices. "Strengthening the Global Response in the Context of Sustainable Development and Efforts to Eradicate Poverty", Special Report: Global Warming of 1.5°C, Intergovernmental Panel on Climate Change (2018), https://www.ipcc.ch/sr15/chapter/spm/

** "Material footprint" refers to the total amount of raw materials extracted to meet final consumption demands. It rose from 43 billion metric tons in 1990 to 54 billion in 2000, and 92 billion in 2017; increases of 70% and 113% respectively.

*** Task Force on Climate-related Financial Disclosures

2019 milestones

Our constructive, strategic approach to engagement continues to help us achieve positive outcomes, which we call 'milestones', while helping to create value for our clients, our companies and the wider society.

In 2019, we recorded 313 milestones

where companies improved ESG policies and practices following our engagement

46%

of milestones linked to corporate governance

28%

of milestones linked to climate change

Volkswagen

Milestone: ★★★

Target: 13.2

Issue: Climate change

VOLKSWAGEN AKTIENGESELLSCHAFT

Announced net-zero emissions commitment

● Environmental

Outlined its plans to become net CO_2-neutral by 2050, in line with its "goTOzero" environmental mission statement. VW is focusing on the electrification of its fleet to reduce CO_2 emissions and has been developing the modular electric platform, MEB, since 2016. This is a major market-leading announcement, which follows both one-to-one and collaborative engagement via the Climate Action 100+ initiative.

Amazon.com

Milestone: ★★★

Target: 8.8

Issue: Labour standards

amazon.com

Published human rights principles

● Social

The company published its Global Human Rights Principles, in which it committed to embedding respect for human rights within its business, particularly workplace safety, diversity and inclusion, equal opportunity, forced labour and freedom of association. Over the last few years we have been encouraging the company to publish a human capital management strategy, with a focus on its workplace practices.

Samsung Electronics Co

Milestone: ★★★

Target: No target

Issue: Corporate governance

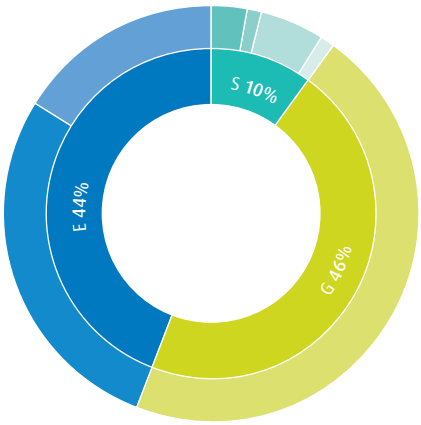
SAMSUNG ELECTRONICS

New independent outside directors

● Governance

Samsung Electronics appointed two additional independent outside directors and now has a majority of independent outside directors serving on the board. Together with a group of international investors, we had a meeting with the chairman in April 2018. We used this meeting to push for further change at the board level following significant corporate scandals.

Milestones achieved by issue



Climate change	28%
Environmental stewardship	16%
Business conduct	2%
Human rights	1%
Labour standards	6%
Public health	1%
Corporate governance	46%

Source: BMO Global Asset Management, as at 31 Dec 2019

- **Environmental** – investor and public pressure led to a significant number of companies improving their climate-related disclosures and/or committing to ambitious emissions targets: Amazon.com, Duke Energy and Volkswagen announced net zero pledges, and 87 global corporations committed to aligning their emissions reduction targets with the 1.5°C Paris climate target. Elsewhere, we noted progress on targeting plastic packaging in consumer goods companies such as Danone, Walmart and Coca-Cola, while mining giants such as Vale, Glencore and Anglo American disclosed critical information on their tailings facilities worldwide.
- **Social** – only 10% of our milestones in 2019 were on social themes, which indicates the challenges companies face in trying to improve their labour, conduct and human rights practices. We highlight companies like Bayer and Tesco that enhanced their reporting on labour issues via the Workforce Disclosure Initiative.
- **Governance** – during 2019, most of our governance milestones came from companies in North America advancing the protection of shareholders' rights. We saw companies in the US eliminate supermajority voting provisions and introduce annual director elections, while companies in Canada introduced advisory say-on-pay votes. Across the Pacific, we welcomed increasing board independence at corporations in Japan, including Mazda and Kubota, and South Korea, including Amorepacific and Hyundai Motor.

Nestlé

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Milestone: ★★

Target: 12.5

Issue: Environmental Stewardship

Nestlé

Further commitments made on plastic usage

● Environmental

Announced a set of actions to reduce environmental risks and impacts associated with plastic use, including signing the Ellen MacArthur Foundation's Global Commitment; creating the Nestlé Institute of Packaging Sciences; and committing to phase out all plastics that are not recyclable or hard to recycle globally by 2025. We have engaged the company to address the impacts of single-use plastic.

BHP Group

8 DECENT WORK AND ECONOMIC GROWTH

Milestone: ★★

Target: 8.5

Issue: Human rights

BHP

Adding social value as part of its business plans for all operations

● Social

BHP has included social value as part of its business purpose and strategy planning, and as a mandatory requirement in the asset planning cycle for all its operating assets. In our view, this goes beyond the concept of "license to operate" and will ensure that stakeholders' feedback (including communities and investors) is considered in the decision-making process at all levels going forward.

Bank Mandiri Pesero

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

Milestone: ★★

Target: 12.6

Issue: Corporate governance

mandiri

Developed ESG risk management framework

● Governance

Developed a five-year Sustainable Action Plan, focusing on improving the approach to addressing ESG risks in lending transactions to companies in four industries with high sustainability risks, including palm oil and energy. This plan will strengthen credit risk management practices and, therefore, protect the quality of the loan portfolio. Our engagement with the bank on this issue has included a meeting with the CEO at their headquarters.

Voting and corporate governance in 2019

Exercising the right to vote is a key part of our stewardship responsibilities, and an opportunity to influence change. We regularly engage companies before and after voting to explain our expectations and invite comment, and to explain our reasons for any votes against management. In 2019 we engaged with 496 companies on a range of corporate governance topics.

Our ongoing voting and engagement priorities include the promotion of empowered and effective boards and management teams across companies. We voted against management on approximately 25% of resolutions relating to director elections. This continues a slight downward trend from the previous two years but is still a disappointing outcome reflecting the slow pace of improvement in board composition and effectiveness across markets.

We advocate remuneration policies that reward the creation of long-term shareholder value through the achievement of corporate objectives. In 2019, executive remuneration remained the most contentious issue dividing investors and management; we voted against management at roughly 55% of resolutions relating to pay. Our main concerns with pay arrangements were: excessive payouts inconsistent with achieved performance levels demonstrating misalignment with investors, a weak link between corporate strategy and key performance indicators used in pay plans; and excessive focus on short-term outcomes.

We also use voting and engagement to encourage effective systems for internal control and risk management, and drive for a commitment to creating a culture of transparency and accountability that is grounded in sound business ethics.

Focus areas for 2020

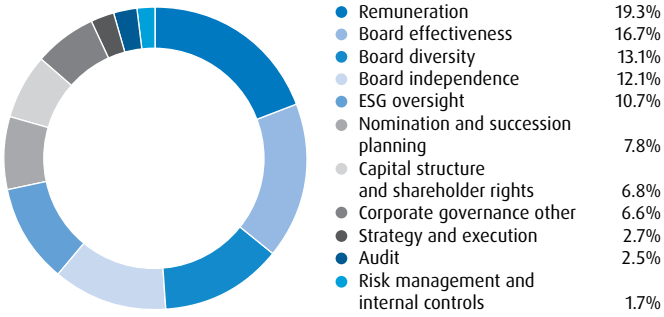
In 2020 we will extend our focus to poor performance and reporting by companies against key social and environmental risks, including climate change, in line with our overarching focus on this theme. We are implementing a systematic approach for identifying companies falling short of our expectations here, and reflecting our concerns through voting against management resolutions, such as the re-election of directors. We will initially focus on the most material sectors, including Energy, Utilities, Materials and Banks.

Public details of all our voting activity, including rationale for votes against management, become available on our website the day after each shareholder meeting. Our public vote record dates back to 2012. We also publish regular client reporting and annual public reporting, including case studies of notable votes and engagements. Our Conflict of Interest Policy, Responsible Investment Approach and UK Stewardship Code Compliance Statement are on our website.

> “Taking a robust voting stance reinforces the messages we deliver to companies though our engagement on a range of ESG issues.
>
> **Kalina Lazarova, Director, Responsible Investment**

We seek to promote the development of governance best practices through our membership of, and active participation in, influential bodies such as the International Corporate Governance Network (ICGN), UK Investment Association, 30% Club, UK Investor Forum, Eumedion, Asian Corporate Governance Association (ACGA), Council of Institutional Investors (CII), Investor Stewardship Group (ISG) and Quoted Companies Alliance (QCA).

Engagement by corporate governance sub-theme



Source: BMO Global Asset Management, as at 31 Dec 2019

Corporate governance highlights

113,241
resolutions voted

22%
of all resolutions where we voted against management

496
companies engaged on governance issues

145
governance-related milestones

55%

of all resolutions related to pay, where we voted against management

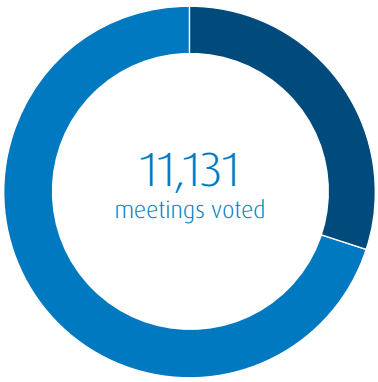
Executive remuneration continued to be the most contentious issue dividing investors and management. The most common reason relates to poor disclosure, misalignment with investors and excessive quantum.

25%

of resolutions related to director elections, where we voted against management

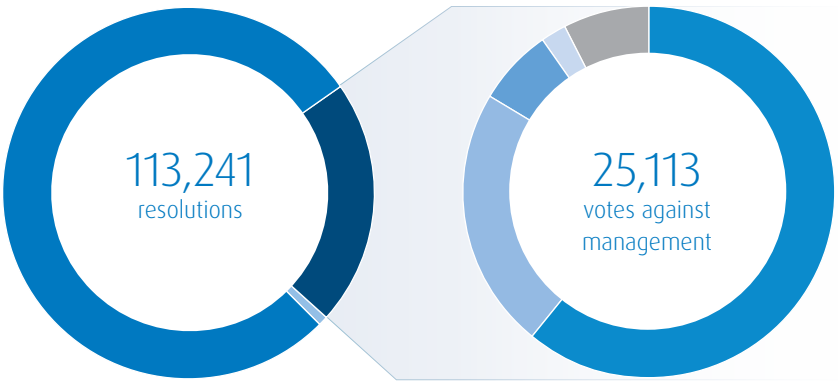
This continues a slight downward trend from 2017 and 2018, but is a disappointing outcome regarding the slow pace of improvement in board composition & effectiveness across markets.

Meetings with at least one vote against management



At least one vote against management	30%
All resolutions voted with management	70%

How we voted in 2019



With management	76.3%
Against management	22.2%
Other*	1.5%

Votes against management by issue

Directors & Board	61.0%
Remuneration	22.9%
Capital Related	6.6%
Shareholder Proposals	2.1%
Other	7.4%

* Other includes cases where we did not vote due to share blocking in a market or potentially a lack of POA (Power of Attorney).

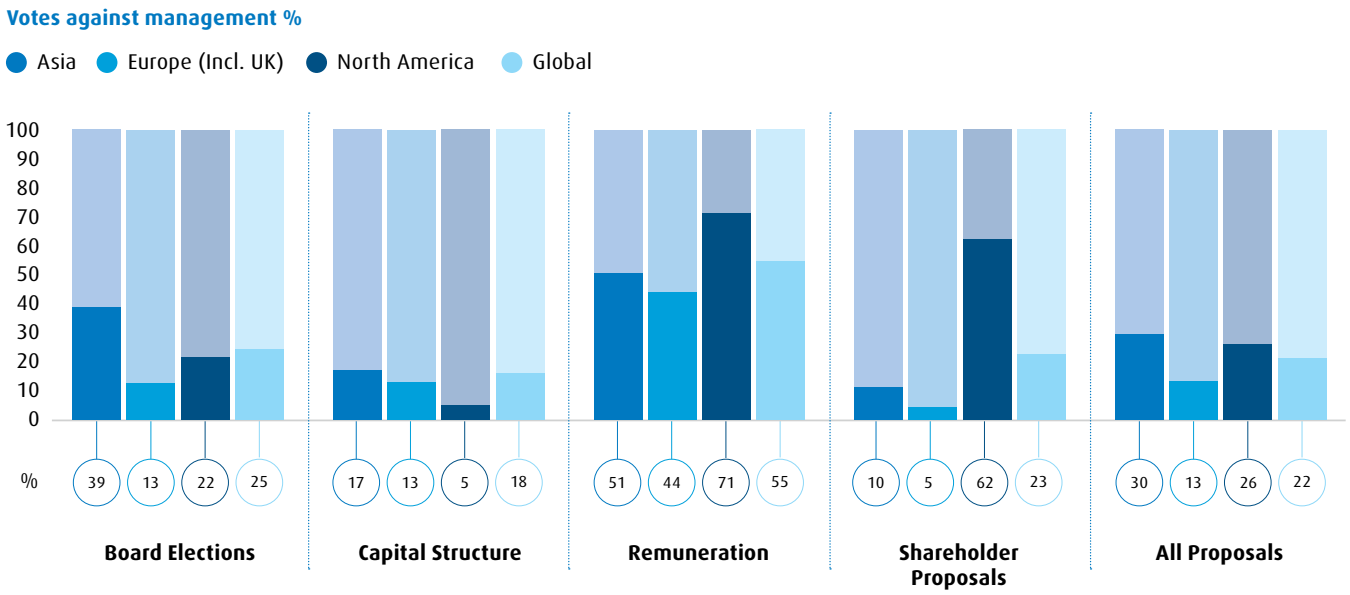
Source: BMO Global Asset Management, as at 31 Dec 2019

This report covers voting and engagement activity on behalf of our in-house BMO Global Asset Management holdings and those of our ***reo***® clients. For the first time, we report on our voting activity for in-house funds beyond those managed in EMEA. In 2019, our in-house voting universe of funds encompassed funds managed by BMO Global Asset Management across Asia, Canada, the US, EMEA, and BMO Private Bank.

Regional charts

Achieving best practice in corporate governance is a dynamic process between the board, management and shareholders. We encourage companies to engage in the process of shaping and meeting standards of best practice as these evolve across different regions.

Votes by region



Source: BMO Global Asset Management, as at 31 Dec 2019

In the US, we continued to be disappointed with the overall standards of executive remuneration packages proposed to shareholders. We voted overwhelmingly against pay plans without clearly disclosed and stretching performance targets, without sufficiently long performance periods and with excessive severance or termination provisions. Poor disclosure of performance metrics and targets driving payouts in variable incentive plans across many markets in Continental Europe and Asia remains an area of ongoing concern.

We supported almost 67% of all shareholder resolutions in the US and over 70% of shareholder resolutions relating to environmental and social issues across all regions, generally contrary to management recommendation.

Within Europe, we took a tough stance on proposals to discharge board members and top managers at companies with ongoing legal issues, such as Bayer AG (see case study), but also at companies with significant corporate governance concerns (such as Deutsche Bank).

> Investors are raising their expectations of companies and are more comfortable reflecting concerns in their voting.
>
> **David Sneyd, Vice President, Responsible Investment**

Votes against management – examples

Whitbread Plc

A significant vote against followed a change to executive remuneration plans which ignored investor concerns

At its December 2019 AGM, the company proposed introducing restricted share awards without additional performance conditions as an alternative to traditional performance-based long-term awards for executives in the UK. Investor guidance suggests an award of this type should be at least 50% lower compared to a traditional award as a trade-off for the lack of performance conditions. Whitbread only proposed a 30% reduction.

We engaged with the company prior to the AGM to discuss our concerns about moving away from a performance share model and the insufficient reduction in restricted share award size. We emphasised that the higher certainty of awards vesting could ultimately lead to higher pay-out levels than before.

We considered a vote against the remuneration proposals to be appropriate. Around 30% of shareholders did not support the proposals at the AGM. We will continue to engage with the company on the issue of pay and will seek to increase the level of discount to future awards.

Amdocs

Amdocs was a significant holding for BMO GAM and we had multiple corporate governance concerns

The software and services company is headquartered and listed in the US but is incorporated in the British crown dependency of Guernsey, which allows it to voluntarily disapply several requirements that US public companies would normally adhere to. We have been concerned by a lack of a say-on-pay resolution and extremely limited disclosure on the incentivisation of directors and other issues, as well as structural issues relating to long-serving non-executives.

At the January 2019 AGM, we abstained on members of the compensation committee standing for re-election and voted against the long-tenured non-executives. With investors globally expecting more disclosure on these issues, justification for Amdocs' current approach is fading. We will continue raising these issues in engagement with the company to keep it high on the agenda until we see improvement.

Bayer AG

Bayer AG is widely held across BMO GAM and in our clients' funds; the outcome of the 2019 AGM was a first in the German market

In 2018, the German multinational pharmaceutical and life sciences company acquired US agrochemical company Monsanto. In May 2019, a US jury found that Monsanto's Roundup herbicide containing the active ingredient glyphosate had been defectively designed, and that the company failed to warn of its alleged cancer risk. The jury awarded plaintiffs more than $2 billion, the largest US jury penalty ever, over Roundup cancer-related allegations, significantly affecting the company's reputation and share price. Bayer is appealing the decision. Following engagement with the company, we voted against the discharges of the management and supervisory boards at the April 2019 AGM due to concerns about how risks to the Bayer brand were evaluated by management ahead of the Monsanto acquisition. In a first for Germany's corporate history, a majority of Bayer's shareholders gave a vote of no confidence to management by defeating the discharge resolution.

Thematic **updates**

We engaged with companies on the key themes we selected as priority engagement areas for 2019.

Gender diversity

During 2019, we considered the representation of women at senior management level and below

Targets: 5.1, 5.5

Issue: Corporate governance

We continued our engagement on board diversity with companies in Canada, the US, the UK, Japan and Germany. In Germany, we also addressed issues around diversity below the board, e.g. senior and middle management, with all DAX30 companies.

Despite a 30% quota for Supervisory Board diversity, German corporations lag peers at senior management levels. We set out our best practice expectations on strategy and targets, flexible work arrangements, hiring procedures, gender pay gap assessments, employee surveys, and education and training. Our engagement revealed more awareness on the issues than had been apparent from their public disclosure – but practice varies widely. We will continue to engage German companies on our expectations, focusing on those that have either not responded to our engagement or remain laggards.

Our engagement in Japan also developed throughout the year. There are clear demographic challenges for the country that raise the importance of attracting and retaining the widest talent pool possible, regardless of gender. This market is clearly at an earlier stage of development culturally on the topic, but companies are establishing initiatives to capitalise on the benefits of a more diverse workforce.

Antimicrobial resistance (AMR)

Antimicrobial resistance is a natural phenomenon being accelerated due to poor stewardship of antibiotics in healthcare and farming

Target: 3.b

Issue: Public health

We engaged pharmaceutical companies, food producers and food retailers on their approach to AMR issues.

Drawing on the research of FAIRR Initiative* – a collaborative investor network that raises awareness of the material ESG risks and opportunities caused by intensive livestock production – we initially focused on food companies, which could be materially impacted by a decline in livestock production as a consequence of untreatable diseases. Our engagement highlighted the importance of robust antibiotic-focused policies and commitments, as well as clear timelines for phasing out the routine, non-therapeutic use of antibiotics.

Our discussions with pharmaceutical companies were informed by the research which underpins the Access to Medicine Foundation's AMR Benchmark. Significant economic and scientific barriers hinder the discovery and development of novel antibiotics; however, new business models may facilitate innovation. We also focused on environmental risk-management in manufacturing and appropriate stewardship, highlighting the importance of site audits and setting discharge limits, as well as education on appropriate antibiotic use.

Our engagement revealed that companies are well-informed about the risks of antibiotic overuse. It is now unusual for European food and pharmaceutical companies not to have an antibiotic policy. However, very few food producers have committed to phasing out the use of antibiotics that are important to human medicine, and transparency varies.

In 2020, we will build on our dialogue with companies, broadening the scope of our project to include animal health companies, and will continue to benchmark best practices and encourage more robust commitments on addressing AMR.

One of FAIRR's key engagement projects is improving antibiotics stewardship in livestock supply chains, and we joined BMO GAM at the 2019 PRI in Person conference to explain how engagement can make a meaningful difference.

Jo Raven, Engagement Manager, FAIRR Initiative

* Farm Animal Investment Risk and Return

Fast fashion

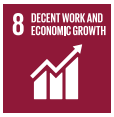
Targets: 8.8, 12.2

Issue: Labour standards

Shorter fashion cycles provide clothes cheaply and quickly to consumers, but negatively impact people and our planet

We engaged with 18 companies on issues around 'fast fashion' in 2019. The last ten years have seen significant changes in the ways that clothes are being manufactured, shipped, sold and used. Fast fashion is a result of mass-market retailers increasing the production of inexpensive fashion lines to meet the demands of quickly changing trends – with significant impacts on workers and the planet. A small number of the companies we spoke to have implemented robust practices to mitigate the environmental and social impacts linked to the production of apparel. These include holistic frameworks and systems to support circular economy principles that incorporate oversight of environmental and social supply chain risks, R&D efforts on innovative, more sustainable materials, consumer education efforts and accountability of senior management and the board. The majority of the companies we spoke to are aware of these issues, yet need to take more decisive action in terms of policy development and implementation. Going forward, we will continue our dialogue on some of the issues raised by this project, such as materials stewardship, waste management and supply chain labour standards.

Living wage



Target: 8.8

Issue: Labour standards

Companies that pay a living wage will reap the benefits of happier employees and a stronger bottom line

In 2019, we sought to engage 10 large retail companies from the US, the UK, Canada, Japan and Germany, employing in total 3.7 million workers, to start a dialogue with them on the business case for a living wage. Our engagement has improved our understanding of companies' approaches to setting wages and allowed for informed discussions on the obstacles to commit to paying a living wage. We have asked for enhanced disclosure on wage levels and plan to extend our asks to time-bound targets on wage level adjustments. We have taken steps to engage collaboratively on this issue – we started a collaboration with other investors to increase pressure, particularly on disclosure, and joined ShareAction's Living Wage coalition and reached out to 15 large UK companies to encourage them to pay their staff a living wage.

Sustainable banking in ASEAN banks

Target: 15.a

Issue: Corporate governance

The ASEAN region's high exposure to environmental and social megatrends calls for banks to strengthen credit risk management

We engaged with 16 banks from 5 countries on their governance structures and systems for environmental and social risk management, preparedness for sustainability-related regulatory developments, and steps to contribute to the transition to a low carbon economy. We had enhanced engagement and repeated dialogues or meetings with 9 banks from 4 countries.

While Singaporean banks seem comparably well prepared, banks in other ASEAN countries are still establishing dedicated sustainable finance and/or environmental and social risk teams, while their senior managers have mostly acknowledged the need for enhanced attention. None of the banks have a satisfactory level of disclosure of their ESG lending and underwriting policy, and none could show dedicated procedures for monitoring regulatory developments and climate risk management. Whilst some banks have launched sustainable/low carbon finance products, e.g. Bank Rakyat's issuance of a sustainability bond, this is not yet an established practice in the region.

We will monitor progress and plan to leverage on the relationships built to continue our conversations on sustainable and climate-related banking issues.

Palm oil factory, Sumatra, Indonesia.

Engaging towards zero deforestation

Deforestation received global media attention in September 2019 amid the extensive Amazon rainforest fires

Target: 15.1

Issue: Environmental stewardship

However, we began work on this theme long before, acknowledging deforestation as a key driver of climate change. Companies exposed to deforestation are vulnerable to operational, financial, regulatory and reputational risks. In 2019 we engaged on this matter extensively, covering:

- **Banks** on their lending and underwriting practices, to encourage proper environmental and social risk management systems, including zero deforestation commitments, and policies for key commodities such as dairy and cattle, soy, palm oil and timber.
- **A small group of fast-moving consumer goods (FMCG) companies in Asia** on sourcing standards for palm oil, soy, sugar, and paper and packaging.
- **Palm oil producers in Malaysia and Indonesia** on their readiness to adopt the new Principles and Criteria requirements of the Roundtable on Sustainable Palm Oil, specifically on deforestation, labour standards, and smallholder integration.
- Companies **with natural rubber in their value chain** on dedicated anti-deforestation and no exploitation policies.

Alongside our individual engagement, we participate in various collaborations. This includes two led by the UN Principles for Responsible Investment: one focusing on sustainable soy production, the other on palm oil.

We are also involved in collaborations led by the FAIRR Initiative, including one addressing the impacts of meat processing on forests; and another on the production of alternative proteins.

Together with other investor groups, we signed a broad set of expectations statements, covering:

- Deforestation in the soy supply chain.
- Palm oil value chain expectations including banks (no deforestation, no planting on peat, no exploitation policies).
- Amazon fires – clearer commitments from companies operating in the region.
- Cerrado Manifesto Statement of Support.
- SPOTT – Sustainability Policy Transparency Toolkit, which provides helpful insights for corporate analysis across various soft commodities including palm oil and rubber.

> Companies' zero net deforestation efforts are necessary for resilient supply chains, safeguarding the world's forests, and for sustainable portfolios.
>
> **Nina Roth, Director, Responsible Investment**

Company **case studies**

Our engagement approach varies by company and the ESG-related issues at hand, ranging from ongoing, constructive dialogue to dedicated site visits.

Amazon.com

We have been engaging Amazon since 2011 on its approach to sustainability

Targets: 8.8, 13.2

Issue: Labour standards

Towards the end of 2019, Amazon published its Global Human Rights Principles, committing to embedding respect for human rights within its business. The Principles address workplace safety, diversity and inclusion, equal opportunity, forced labour and freedom of association. We see the preparation and publication of these Principles as an indication of a more strategic, long-term focused approach to managing human capital.

However, few concrete commitments have been given on how this policy will be implemented in practice, what performance monitoring will look like, or whether any practices will change.

Our approach: In 2018, Amazon surpassed 600,000 employees, double that from two years prior, with many of these being low-skill and low-wage positions. Moreover, distribution activities are still highly reliant upon contract workers. Given the significant exposure to labour-related issues, we have expressed to the company our concerns that poor relevant disclosure hinders investors' ability to assess practices and performance. Our engagement with the company has included co-filing a shareholder resolution to push for improvements in sustainability disclosure; pushing for dialogue with their newly appointed Head of Sustainability; and coordinating with other investors on urging the company to disclose its oversight and performance of ESG issues. Despite increased dialogue with the company, we remained concerned that its culture remains inward-looking and resistant to public disclosure, with slow progress in developing sustainability programmes being fast outpaced by a rapidly growing operational footprint.

Outlook: Over the last year we noticed Amazon's attitude beginning to change, with two significant sustainability announcements – the Global Human Rights Principles and its ambitious goal to be net zero carbon by 2040. Our future engagement will be focusing on the implementation of both of these newly stated ambitions.

China Mengniu Dairy

Growth in China's dairy industry will contribute to increasing emissions if current farming methods are not adjusted

Targets: 12.2, 13.2

Issue: Climate change

China's dairy product consumption is predicted to grow by 15-20% in the next five years. If farming methods remain unchanged, global emissions from livestock farming could increase over 30% by 2050. We engaged with China Mengniu on its approach to managing greenhouse gas (GHG) emissions from its manufacturing operations and dairy farming supply chain.

Our approach: Since 2017 we have advocated a strategy to measure, mitigate and report on GHG emissions, and to set reduction targets. Management has promoted energy conservation across its 45 milk processing plants through energy-efficiency programmes, increasing the use of renewable energy and enhancing carbon-related disclosure, leading to around a 20% reduction in carbon emissions since 2015. The recent setup of a dedicated energy conservation and emissions reduction committee headed by the CEO should help. Elsewhere, Mengniu's responsiveness to our engagement on rearing livestock for dairy has improved over time.

Outlook: We are encouraged by Mengniu's actions but a stronger approach is necessary. Mengniu owns most of the shares in China Modern Dairy, both its main supplier and China's largest dairy farming operator and fresh raw milk producer. It has the necessary leverage to drive more sustainable farming practices – we will continue to engage the company.

We are encouraged by Mengniu's actions but a stronger approach is necessary.

McDonald's Corporation

Target: 3.b

Issue: Public health

As the largest fast-food chain globally, McDonald's exerts significant influence over its suppliers

We believe the company should use this influence to address antimicrobial resistance (AMR) by upholding responsible sourcing practices and adopting strong stewardship practices. We support the implementation of an antibiotic policy that includes clear timelines for phasing out the routine, non-therapeutic use of antibiotics across all species. If the misuse and overuse of antibiotics continues, livestock production may decline, which would negatively impact McDonald's business model.

Our approach: We arranged a call with operational specialists to discuss AMR. We began by discussing the company's progressive stance on responsible antibiotic use. We were encouraged to learn that McDonald's is partnering with its beef producers to measure and understand their use of antibiotics, and we commented positively on plans to establish reduction targets. Regarding poultry farming, the company representatives highlighted that the use of essential oils and enhanced biosecurity practices have resulted in a 70% reduction in antibiotic use in some markets. However, developing an antibiotic policy for pork poses challenges, due to fragmentation in the industry and a lack of regulatory oversight. We commended McDonald's for its commitment to responsible antibiotic use, and strongly encouraged the company to continue to be as transparent as possible on issues related to antimicrobial stewardship.

Outlook: Our call was positive and informative, confirming our view that McDonald's is a leader among peers on antimicrobial stewardship. We gained useful insights into all aspects of the company's approach to promoting responsible antibiotic use, and – given its high profile and global influence – we will closely monitor its progress in 2020. Important next steps will be the publication of an antibiotic policy for pork, and reduction targets for medically important antibiotics in the company's key beef sourcing markets.

Vistra Energy

Targets: 7.2, 13.2

Issue: Climate change

We co-led collaborative investor engagement to call for stretching long-term carbon prices

Vistra is a US electric utility, which listed in 2017 and whose assets have come from predecessor firms TXU, Luminant and Dynegy. Having grown rapidly, it is now the highest emitter of greenhouse gases of all US electric utilities, with around one-third of its generation from coal. We first spoke with company in 2018, and we are now co-leading the Climate Action 100+ engagement.

Our approach: As a relatively new company, strategy and disclosure on ESG issues including climate change was very limited. We asked for the company to conduct scenario analysis; provide clarity on the future timescale for coal-fired power retirements; and set medium and long-term emissions targets. We also recommended the company respond to the Carbon Disclosure Project (CDP) and support the TCFD.

Outlook: The company responded well to our engagement and in late 2019 announced a goal of achieving a greater than 80% reduction in CO_2 equivalent emissions by 2050, with aspirations of reaching net-zero carbon emissions over the same timeframe, and an interim 2030 goal of a 50% reduction. It has also responded to the CDP survey. We will continue to engage the company during 2020 to aim for the more ambitious net zero aspiration, and to set out a clear pathway to achieve its goals.

Vistra's goal is to achieve an 80% reduction in CO_2 equivalent emissions by 2050.

Ludwigshafen Verbund site, BASF, Germany.

"It was very inspiring to discuss specific diversity topics in great depth with our visitors from the financial markets who arrived very well prepared. As the discussion took place at our site in Ludwigshafen, we were able to ask BASF's experts on those topics to join, and to offer a site tour – an ideal setting for a fruitful engagement."

Dr. Tim Balensiefer, IR Manager Sustainability, BASF

Site visit: BASF

BASF
We create chemistry

We visited the world's biggest chemical plant to improve our understanding of ESG practices and performance

Targets: 8.8, 13.2
Issue: Labour standards

In November 2019 we organised a visit to BASF's Ludwigshafen site to learn about and assess the remediation measures taken following a tragic accident that killed five workers and injured scores more in 2016. We also took the opportunity to discuss various ESG risk factors with senior leadership. We extended the invitation to European-based clients of our ***reo***® engagement service, six of which joined us.

BASF's Verbundsystem site in Ludwigshafen is the biggest chemical plant globally. The site houses more than 200 plants. Our guided tour provided in-depth explanations about energy production and consumption, internal transport infrastructure and safety measures, and a visit to the site of the 2016 incident. We also held roundtable discussions on issues like diversity, pending litigation and carbon emissions management.

The tour was framed by a presentation and discussion with a management board member who is responsible for human capital management and health and safety at the Ludwigshafen site. We were pleased to learn that occupational and process safety and other sustainability issues are escalated to the supervisory board when required, and that these BASF's practices to mitigate ESG risks are discussed in each of six regular and two strategic board meetings per year.

We also discussed the 2018 Rhine drought, which created a loss of around $250mn for BASF as certain raw materials couldn't be shipped to the firm for production. Mitigation measures for the future include low-tide boats, enhanced forecasting, more storage on site and alternative transport routes.

Outlook

The company provided evidence that it has thoroughly investigated the causes of the 2016 accident and put effective remedial measures in place.

On the wider sustainability agenda, the company's carbon management practices are strong, but the reliance on standard scenarios for extreme weather prognosis was insufficient and resulted in financial losses. We urged the company to further prepare for statistical outliers and develop their own projections and enhanced business continuity measures.

Finally, we encouraged the company to further explore transparency initiatives for their oil and gas business and requested group-wide transparency and further details on BASF's diversity measures, along with more ambitious targets.

"Water stewardship is key to our Mission Sustainability 2025. We are committed to reducing operational water use and to helping secure access to water for our communities in areas of high water-risk. BMO GAM are investors with a deep ESG knowledge. The team feed back constructively to help resolve these issues of importance and materiality to us."

Michael Dickstein, Director Sustainability & Community, Coca-Cola HBC

Schimatari Mega Plant, Coca-Cola Hellenic Bottling Company, Greece.

Site visit: Coca-Cola Hellenic Bottling Company (CCHBC)

Coca-Cola Hellenic Bottling Company

We attended the CCHBC Stakeholder Forum in Athens and visited the company's manufacturing 'Megaplant'

6 CLEAN WATER AND SANITATION

Targets: 6.4, 6.6

Issue: Environmental stewardship

The forum was organised by Coca-Cola Hellenic Bottling Company and The Coca-Cola Company. We were the only investor amongst key stakeholders in the Central and Eastern European Region. The theme was water stewardship, primarily the implementation of strategies to manage water-related risks and opportunities and, in turn, promote the long-term sustainability of the business. With 89-99% of soft drinks' content being water and having a water-intesive agricultural supply chain, CCHBC is exposed to significant water-related risks.

Our approach

We shared recommendations with representatives from the two companies, including business unit leaders and senior management. We called for the analysis and disclosure of the full water footprint of key products, incorporation of the true value of water into business planning, and development and implementation of context-based water targets. We also encouraged the company to leverage its brand power and distribution network to educate consumers, and work with suppliers further to improve water management practices across the value chain. We visited the Schimateri plant, the largest Greek beverage manufacturing plant, which distributes over 400m litres of beverages per year and over 500m preform bottles. The site received the Gold Certification for responsible water management from the European Water Stewardship (EWS) organisation. We welcomed this achievement and encouraged management to put manufacturing sites in areas of high water risk through the same certification process. CCHBC also reported on a successful community initiative in Challawa, Nigeria, where it has provided a million people with access to water near its bottling plant, trained local managers on water and is helping the community control water quality.

Outlook

The forum and site visit were very encouraging. CCHBC is keen to improve its water stewardship practices and recognises it must involve key stakeholders. It has since made some laudable commitments, including setting context-based water targets, accelerating innovation in re-using wastewater, and further leveraging its partnership network to promote water management. This is a strong start, but there is ample room for improvement. We would like to see the company increase efforts to understand and manage water issues in its agricultural supply chains and implement measures to increase the resilience of manufacturing sites in areas of high water-related risks. More needs to be done to assess the possible impacts of climate change on water resources and the business in general. We will follow progress in these areas and continue our engagement going forward.

Wells Fargo

In 2016, Wells Fargo was fined $185m for unauthorised cross-selling within its retail bank

Target: No target
Issue: Business conduct

This was the result of poor company culture, misaligned sales incentives and a lack of compliance oversight. At the 2017 AGM, we voted against directors on the audit, risk and compensation committees on ineffective risk oversight, and supported a shareholder proposal for a report into the root causes of the fraudulent activity and steps taken to improve risk management and control processes.

Our approach: We have maintained regular dialogue with the company over the past two years, having met the Board Chair and certain executives on several occasions. In early 2019, the company delivered on the 2017 shareholder proposal and published its 'Business Standards Report'. In discussing the report with the company, we took note of the KPIs that are reported to the executive operating committee and the board, including metrics relating to attrition, training, compliance initiatives and issues escalation resolution.

Outlook: We are pleased to see these KPIs are monitored but believe that now management and the board should publish these metrics, in order to allow shareholders to properly monitor performance. In 2019 we also saw a new CEO being appointed from outside the business. Our hope is that the new CEO will be able to move the company forward.

Japan Exchange Group

Japan Exchange Group is in a strong position to drive change by promoting wider governance standards

Targets: 5.1, 5.5
Issue: Corporate governance

Japan Exchange Group is the operator of the Tokyo and Osaka Stock Exchanges. We have engaged with the company through its transformation and have welcomed the high quality of dialogue held with the board. Whilst concerns exist regarding governance standards in Japan in general, Japan Exchange is not a laggard and has often been used as a standard-bearer when engaging with other companies: it has strong governance practices and is one of the few Japanese companies with a majority independent board (64% independence). The company is in a strong position to drive change by promoting wider governance standards.

Our approach: Following our analysis of individual directors' core strengths, we questioned the chairman as to why Endo Nobuhiro, the only director with technological experience, was not a member of the risk or audit committees given the high-risk rating of cyber security to the business. We also discussed diversity on the board, and how the company promotes and supports a diverse workforce below board level. We encouraged the company to support the recently established Japanese chapter of the 30% Club. We also held a follow up call with operational leads on diversity within the company.

Outlook: Whilst many companies in the market have evolved their board structures in recent years, a stubbornly high percentage of laggards remains. Ensuring governance leaders receive recognition for improving governance standards is as important as engaging the laggards to seek change.

We welcomed the chairman's assurance that the inclusion of Endo Nobuhiro in the audit or risk committee was indeed part of the roadmap for board progression. On diversity, the chairman shared how progress has been made whilst recognising that the journey was far from complete.

Japan Exchange has often been used as a standard-bearer when engaging with other companies: it has strong governance practices and is one of the few Japanese companies with a majority independent board.

Climate change

We have engaged with companies for two decades with the aim of preventing the unmanageable effects of climate change. We expect companies to make a systematic assessment of the risks and opportunities that climate change presents to their business, and to align their business strategy with the goals of the Paris climate agreement.

Our climate change achievements in numbers

300
companies engaged on climate change

23
companies where we took an active lead or supporting role on Climate Action 100+

88
milestones recorded

We tackle climate change through company engagement, integration into investment analysis, public policy activities and providing specialist investment products. Our Climate Approach paper[1] details our strategy, following the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

What do we expect of companies?

We published our Climate Change Engagement Framework[2] in 2019 to set out our expectations of companies, drawing on both our own engagement experience and best practice standards set by key industry organisations and initiatives. We expect companies in climate-exposed sectors to follow a clear trajectory of action, with alignment to the Paris climate goals being the ultimate aim.

> A question for every company, every financial institution, every asset manager, pension fund or insurer: what's your plan?
>
> **Mark Carney, UN Special Envoy for Climate Action and Finance***

* Mark Carney, Governor of the Bank of England, 2013-2020

Our engagement highlights

- Took a lead or supporting role in 23 Climate Action 100+ companies, including major US electric utilities Vistra and Duke Energy; South Korean steel giant POSCO; and car companies Fiat Chrysler and GM.
- Spoke about the investor view on sustainable banking at a Bank of Thailand conference, and discussed lending practices with companies including Maybank, Malaysia's largest bank, and Thailand's second-largest bank, Kasikorn Bank.
- Travelled to Hong Kong, China, Indonesia and Thailand to discuss climate strategy with ten strategically important, high-emitting companies, including China's largest coal miner China Shenhua, and Hong Kong-based power firm CLP Group.

Outcomes achieved from prior engagement included

- Net zero carbon targets at companies including Duke Energy, Amazon.com, Repsol and Volkswagen.
- Commitments to reduce or exit thermal coal lending by several banks, including BNP Paribas, Goldman Sachs and Credit Suisse.
- Publication of climate lobbying reviews by BHP Billiton and Royal Dutch Shell.

"The world is facing a climate crisis. Waiting for action by governments is not enough – investors and corporates need to take bold and ambitious action."

Vicki Bakhshi, Director, Responsible Investment

Our engagement expectations

Basic awareness	Active emissions management	Strategic approach	Alignment
• Recognition of issue • Measurement and disclosure of emissions	• Actions to reduce emissions	• Integration of climate change risks and opportunities into business strategy • Consideration of supply chain, products and services (Scope 3)	• Alignment with Paris Agreement
• Recognise the materiality of climate risk in public reporting • Measure and report Scope 1 and 2 emissions	• Set emissions targets • Take steps to cut emissions • Monitor and report outcomes	• Develop Board level strategy • Align climate performance and executive pay • TCFD disclosure, including Scope 3 emissions • Assess resilience to physical climate risks • Identify opportunities • Join progressive industry groups; avoid negative lobbying	• Set Paris-aligned science-based targets across the value chain • Demonstrate how business strategy is Paris-aligned, i.e. via capital expenditure, asset mix and R&D

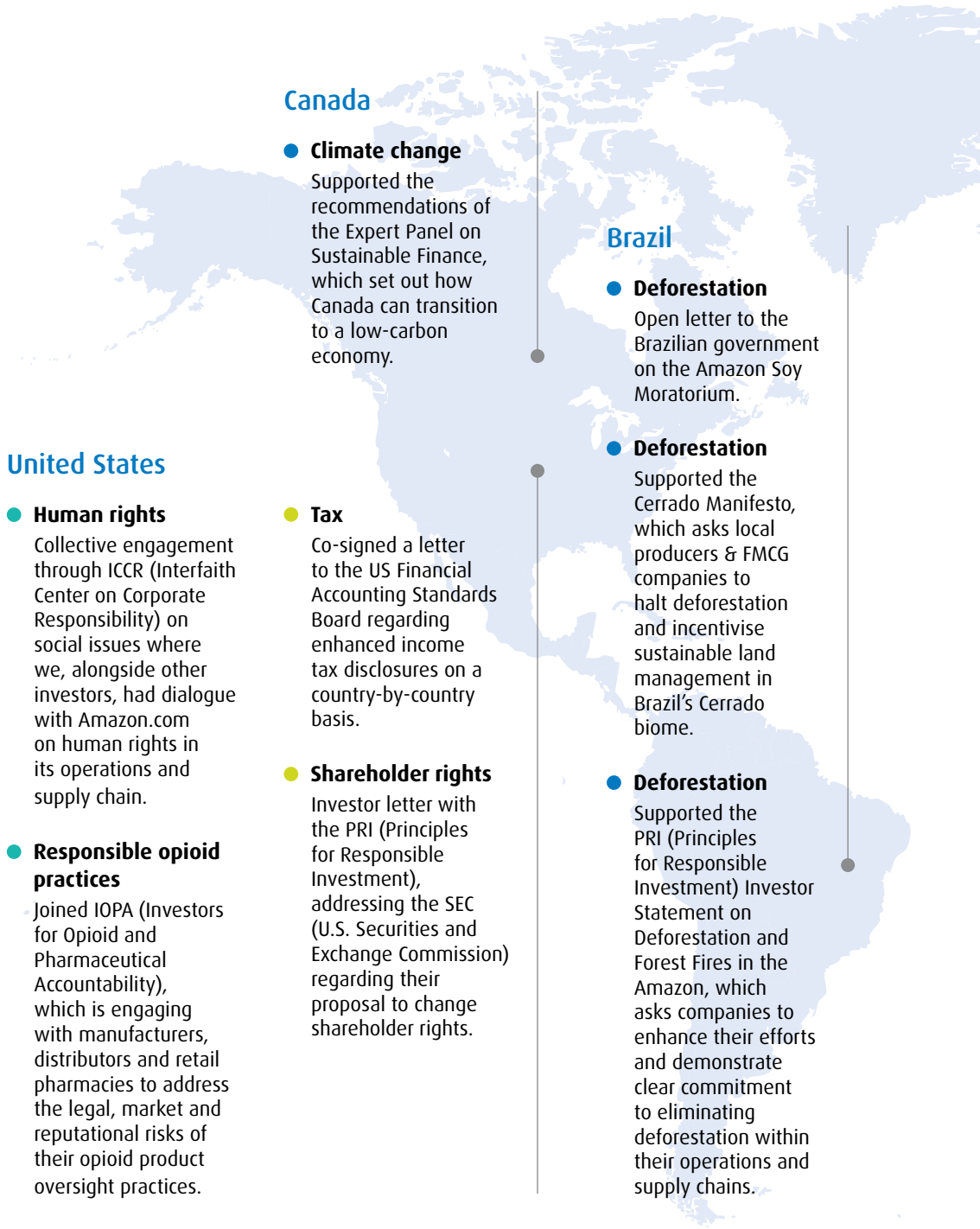
[1] Climate Change: BMO Global Asset Management Approach, BMO Global Asset Management (BMO GAM), https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2020/02/climate-change-approach.pdf

[2] Climate change engagement: a framework for the future, BMO GAM, https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2019/10/climate-change_esg-viewpoint.pdf

Public policy and investor initiatives

Our team plays an active role in public policy development through engagement with regulators, as we believe that policy and regulatory change are often the catalysts for improved corporate behaviour. We participate in collaborative investor engagements and initiatives, which can be key to improving ESG standards at a larger scale.

- **Environmental**
- **Social**
- **Governance**



Global

- **Deforestation**
  Supported the Public Investor Expectation Statement on Palm Oil, which addresses the expectations of companies operating across the palm oil value chain and highlights the continued need for a sustainable palm oil industry.
- **Deforestation**
  Supported SPOTT (Sustainability Policy Transparency Toolkit), which asks for transparency in commodity supply chains, with the aim of avoiding further deforestation and enhancing industries' sustainability efforts.
- **Climate change**
  Continued our support of the Climate Action 100+ initiative, which is engaging 161 high-emitting global companies to call for more ambitious climate strategies.

United States

- **Human rights**
  Collective engagement through ICCR (Interfaith Center on Corporate Responsibility) on social issues where we, alongside other investors, had dialogue with Amazon.com on human rights in its operations and supply chain.
- **Responsible opioid practices**
  Joined IOPA (Investors for Opioid and Pharmaceutical Accountability), which is engaging with manufacturers, distributors and retail pharmacies to address the legal, market and reputational risks of their opioid product oversight practices.

Canada

- **Climate change**
  Supported the recommendations of the Expert Panel on Sustainable Finance, which set out how Canada can transition to a low-carbon economy.
- **Tax**
  Co-signed a letter to the US Financial Accounting Standards Board regarding enhanced income tax disclosures on a country-by-country basis.
- **Shareholder rights**
  Investor letter with the PRI (Principles for Responsible Investment), addressing the SEC (U.S. Securities and Exchange Commission) regarding their proposal to change shareholder rights.

Brazil

- **Deforestation**
  Open letter to the Brazilian government on the Amazon Soy Moratorium.
- **Deforestation**
  Supported the Cerrado Manifesto, which asks local producers & FMCG companies to halt deforestation and incentivise sustainable land management in Brazil's Cerrado biome.
- **Deforestation**
  Supported the PRI (Principles for Responsible Investment) Investor Statement on Deforestation and Forest Fires in the Amazon, which asks companies to enhance their efforts and demonstrate clear commitment to eliminating deforestation within their operations and supply chains.

United Kingdom

- **Investor stewardship**
  Responded to the proposed revision to the UK Stewardship Code by the Financial Reporting Council.
- **Tailings safety**
  Participated in the Investor Mining & Tailings Safety Initiative's global review on tailings management standards.
- **Living wage**
  Letter to 15 labour-intense FTSE 100 companies on paying fair wages.
- **Nutrition**
  Signed ShareAction's Healthy Markets Investor Coalition asking UK food and drinks companies to produce healthier, more affordable products; limit advertising of sugary products to children; and encourage clear and accurate food labelling.
- **Responsible investment**
  Provided comments to the UK Investment Association on sustainability and responsible investment.

Germany

- **Investor stewardship**
  Provided comments on the proposed amendments to the German Corporate Governance Code.

Switzerland

- **Human rights**
  Signed the Investor Statement for Mandatory Human Rights Due Diligence Legislation in Switzerland, aimed at improving human rights and environmental standards of Swiss companies.

Spain

- **Shareholder rights**
  Responded to a consultation by the Ministry for Economy and Business in Spain, opposing proposals on awarding loyalty voting rights to long-term registered shareholders as unfriendly to international institutional investors.

Bangladesh

- **Labour standards**
  Supported a letter to the government of Bangladesh to advocate for the continued operation of the 2018 Transition Accord – having supported the Accord on Fire and Building Safety in Bangladesh since May 2013.

India

- **Corporate governance**
  Letter to the Indian regulator on the negative impacts of differential voting rights.

Hong Kong

- **Investor stewardship**
  Responded to the public consultation by the Stock Exchange of Hong Kong supporting the proposed amendments to the existing ESG Reporting Guide and Listing Rules, which would facilitate improved transparency on environmental and social issues of the listed companies.

The year of climate **action**

BMO's overriding engagement priority for 2020 will be climate change, focusing across sectors, and working collaboratively where we can.

The world is facing a climate crisis. Since the Paris Agreement, we have supported the ambition to limit global warming to well below 2ºC and pursue efforts to limit the rise to 1.5ºC. The next decade is absolutely critical to meeting this ambition. Global emissions need to peak and decline to keep the chances of meeting the Paris goals alive. We will use our influence to engage with investee companies; offer opportunities for our clients to invest in solutions; and encourage strong action by policymakers.

Financial institutions and climate risk

Climate change poses pronounced risks to the stability of the global financial system. We will work with selected systemically important global financial institutions that, through their loan and underwriting portfolios, are significantly exposed to climate change-related risks, to encourage them to adopt stronger mitigation strategies, and to report in line with the Task Force on Climate-related Financial Disclosures (TCFD).

Coal phase-out

Coal is the most carbon-intensive of the fossil fuels. We see a phase-out of unabated coal generation by 2030 for developed markets, and by 2050 for developing markets, as essential to achieving the Paris goals. Whilst some countries are phasing out coal-fired power for cleaner alternatives, elsewhere new coal-fired power is still being built. We will seek to engage companies to encourage them to commit to phasing out coal in line with these timescales.

Marine transport

Marine transport currently accounts for over 2% of global greenhouse gas emissions[1], and these could grow between 50% and 250% by 2050[2], mainly due to the expected growth of global maritime trade. We will reach out to companies in this industry to encourage the deployment of investment plans for cleaner vessels and equipment, emission reduction programmes, better disclosure of climate change-related risks, and positive public policy positioning.

Our stewardship work in 2020 will of course be impacted by the COVID-19 pandemic. We will continue to pursue our priorities, sensitive to the exceptional circumstances that companies find themselves in. Our Viewpoint 'ESG Implications of the COVID-19 pandemic' sets out our initial views on how the ESG agenda will be affected, and sets some principles for how companies should respond in areas including treatment of staff.

"Engagement helps to mitigate portfolio climate risk and drive enhanced value creation by asking companies to manage transition and adaptation risks and opportunities strategically."

Pieter van Stijn, Director, Responsible Investment

Strategically important high-emitting companies

Climate Action 100+ is a global five-year investor initiative that targets 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. We lead on a number of company engagements in sectors including automotives, utilities, oil & gas and steel production, and will continue to do so.

Sustainable food systems

Agriculture, forestry and other land use account for almost a quarter of global greenhouse gas emissions[3], much of this driven by the food production system. The food chain also has extensive, wider impacts beyond climate change on our natural environment.

We will seek to drive change in some of the world's largest food producers, traders and retailers to allow them to meet growing food demand whilst halting environmental degradation and curbing greenhouse gas emissions. We will also engage with food retailers to address issues related to food consumption, including marketing and waste.

[1] "Executive Summary", Third International Maritime Organisation (IMO) Greenhouse Gas Study 2014, IMO, http://www.imo.org/en/OurWork/Environment/PollutionPrevention/AirPollution/Documents/Third%20Greenhouse%20Gas%20Study/GHG3%20Executive%20Summary%20and%20Report.pdf

[2] Same as above

[3] "People, land and climate in a warming world", IPCC Special Report on Climate Change and Land 2019, IPCC, https://www.ipcc.ch/srccl/chapter/summary-for-policymakers/

Wider engagement

In addition to climate change, our Responsible Investment team continues to engage with companies across a wide range of projects on topics including:

Responsible drug pricing

US pharmaceutical companies face pressure from politicians and regulators to adjust prices. Concerns are growing in Europe, but publicly available information on companies' approaches is limited. We will encourage companies to address criticism on drug prices and, particularly in European pharma, improve transparency on pricing strategies.

Living wage

The living wage makes companies more competitive and allows employees to afford necessities, while potentially encouraging more spending and stimulating economies. We will examine companies' commitment in their respective regions/countries.

Antimicrobial resistance (AMR)

AMR is a natural biological phenomenon; however, misuse is accelerating this process, leading to the emergence of infections that are unresponsive to antimicrobial therapy. We will engage with pharmaceutical and animal health companies, companies involved in meat and/or dairy production, and food retailers.

Stewardship across our assets

Stewardship delivers the best outcomes when it focuses on the right issue, for the right company, at the right time.

We see responsible investing and broader investment stewardship activities as part of our duty as an investor acting in the best interests of our clients. It is our belief that these can both support the delivery of long-term financial returns to our clients and contribute towards a more sustainable future for people and the planet.

Our Responsible Investment Approach[1] outlines how we discharge our stewardship responsibilities to enhance sustainable, long-term investment performance. This policy covers:

- Voting in line with our Corporate Governance Guidelines[2] across global holdings;
- Communicating our concerns to companies if their votes do not support directors' recommendations;
- Engaging in ongoing dialogue with companies on strategy, performance, risk, capital structure and corporate governance etc. to encourage good practice;
- Integrating analysis of ESG factors into our investment processes;
- Reporting our votes and engagement to clients and, for our retail funds, to the wider public.

Our polices are reviewed and approved by our Global Investment Committee and are published on our website and provide a senior forum for escalation to review problematic cases with companies in our investment holdings.

The Responsible Investment team utilises MSCI and ISS data within our approach to ESG integration, which is tailored by investment strategy and asset class. We use ISS's proxy voting platform for vote execution, as well as custom research based on our own in-house corporate governance guidelines. In addition, we also subscribe to IVIS for UK specific research. We monitor the service provision on a regular basis. Regarding external assurance, we have obtained an independent opinion from KPMG Audit Plc on our proxy voting activities based on the standards of the AAF 01/06 Guidance issued by the Institute of Chartered Accountants in England and Wales.

Equities

Focusing on the right issue for the right company at the right time

Our engagement on equities encompasses a spectrum of ESG issues, across a range of sectors and geographies, covering both BMO GAM's assets and those of the clients of our engagement service, ***reo***®.

Stewardship delivers the best outcomes when it focuses on the right issue for the right company at the right time. Our approach to engagement can therefore take different forms. For example, in 2019, 51 of our engagements were collaborative engagements with other investors and stakeholders. Of all 1,509 engagements with companies, approximately 47% were held with board directors and senior executives, with the remaining interactions held with company representatives, including investor relations professionals, company secretaries or sustainability specialists.

Voting, engagement and public policy work is conducted in the best interest of our clients, independently of the wider BMO Financial Group. We seek to identify, prevent, and/or manage potential conflicts to serve our clients' best interests. Details of our Conflicts of Interest Policy are available on the website.[3]

Fixed Income

The relevance of ESG issues to credit quality is now widely acknowledged

An extensive insight into our approach to stewardship and ESG integration in Fixed Income is available on our website.[4]

Creditors tend to focus on the downside risks of investment returns, rather than the upside potential. The identification and management of material ESG risks is a form of enterprise risk management, protecting long-term credit quality. Establishing a balance of risk and reward that is needed to attract both creditors and shareholders to generate a sustainable capital mix is in the interests of both types of investor. The relevance of ESG issues to credit quality is now acknowledged by the major credit rating agencies, with Moody's and S&P Global both expanding their ESG capabilities to better integrate ESG factors in their credit rating methodologies.

Overall, bondholder engagement is a relatively new concept that has only recently gained widespread acceptance. However, we have had little difficulty in securing meetings. A key factor is the need for continuous refinancing: whereas companies only very rarely come to the market to issue additional equity, bond issuance is much more frequent. The desire for these issues to be successful, we have found, is a strong reason for bond issuers to accept engagement meetings and to discuss ESG issues. Moreover, the impressive growth of Green, Social and Sustainability bond issuances has further improved investor access to traditional bond-only issuers and, as a result, they have added ESG to their agenda

Liability Driven Investments (LDI)

We view engagement with counterparties as a key component of our activities

Liability Driven Investments (LDI) has not historically been seen as an asset class where stewardship activities have high relevance. We worked with our LDI team and identified that counterparty engagement is a matter of long-term business viability, and comes with a special responsibility for the relationship. Over the past two years, we have engaged LDI counterparties approximately 90 times on ESG issues, including corporate governance (including board accountability and effectiveness, as well as executive remuneration), risk & compliance systems (including anti-money laundering procedures) and business ethics & culture. In 2019, we explored the environmental and social risk management policies and practices of counterparty banks.

[1] Responsible Investment Approach, BMO GAM, https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2019/05/responsible-investment-approach.pdf
[2] Corporate Governance Guidelines, BMO GAM, https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2019/05/corporate-governance-guidelines.pdf
[3] Conflicts of Interest Policy – Proxy Voting, BMO GAM, https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2019/05/conflicts-of-interest-policy-%E2%80%93-proxy-voting.pdf
[4] ESG in Fixed Income, BMO GAM, https://www.bmogam.com/wp-content/uploads/2020/01/esg-in-fixed-income.pdf

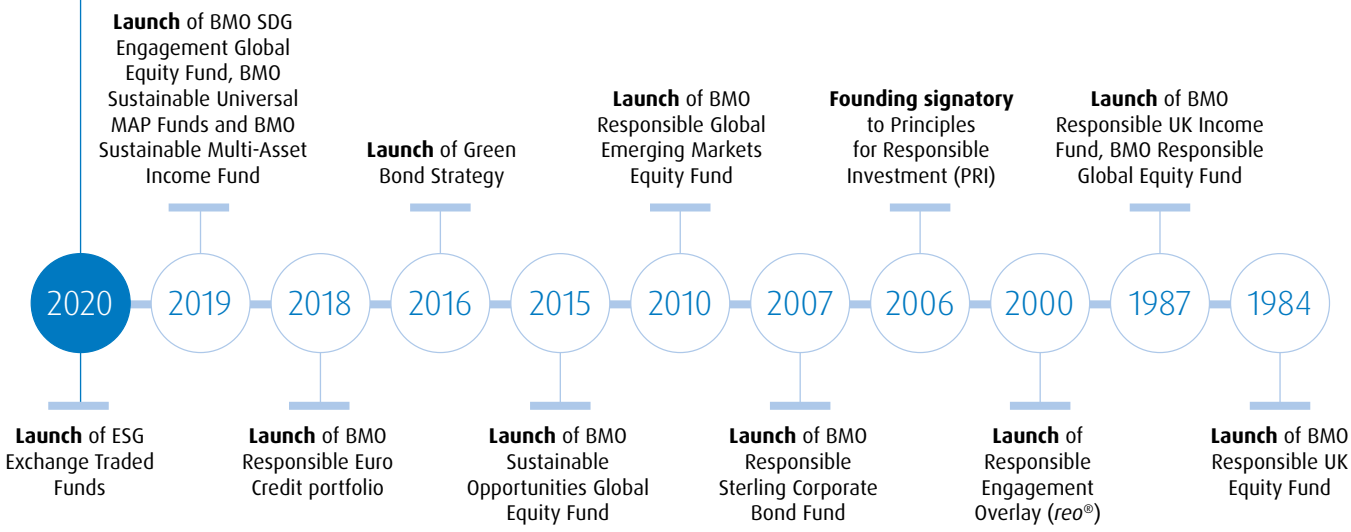
Leaders in responsible investment

From the launch of Europe's first ethically screened fund in 1984 and our position as a founding signatory of the UN PRI, to the comprehensive suite of ESG specialist funds and services available today, we have a strong heritage in responsible investment.

A history of innovation

A growing range of ESG orientated client focused solutions

- **19 sustainability experts** within the Responsible Investment team[1]
- **A+ Rated** for strategy and governance by UN Principles for Responsible Investment
- **35 years** of investing responsibly
- **USD$5.1bn**[2] under management in ESG specialist funds



Award winning

Environmental Finance Sustainable Investment Awards 2019 Winner Best ESG reporting by an asset or fund manager: large

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2019 WINNER Best ESG/SRI/Impact Research Team [3]

[1] As at March 2020. In December 2019 the RI team was made up of 17 people
[2] As at 31 January 2020
[3] This is the second consecutive year that we have won this award

"I am incredibly proud of our responsible heritage, the integrity of ESG products we offer and in co-leading our dedicated Responsible Investment team which is made up of inspiring, bright and motivated individuals"

Claudia Wearmouth, Managing Director, Co-Head, Responsible Investment

We believe that responsible investment is a mindset: as asset managers, we have a privileged and trusted position as stewards of capital, which gives us both influence and responsibility.

We take this responsibility seriously. We consider the impact of our investments on society and the environment, and the extent to which it affects long-term value creation. We work closely with the companies we invest in as active owners, to improve the management of environmental, social and governance (ESG) issues. We support this work with the thoughtful exercise of our voting rights. We strive to be thought leaders on these issues and their relevance to us as investors.

- **Thought leadership** – promoting and encouraging the development of responsible investment across the broader marketplace and industries.
- **Active ownership** – using our position as an asset owner to drive positive change through engagement and proxy voting.
- **ESG integration** – ensuring financially material ESG issues are considered within our active investment processes.
- **Funds and solutions** – offering a range of ESG orientated investment solutions built around a clear sustainability philosophy.

Photography: richardjohnson.ca

UK Stewardship Code 2020

We welcome the new UK Stewardship Code and its definition of stewardship as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." We are committed to becoming signatories and our Responsible Investment Annual Review in early 2021 will be used by the FRC to assess our compliance with the Code.

We believe that our approach to stewardship and our practices set out in this report are already substantially aligned with many of the expectations of the Code as referenced below:

1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

p 3 – 5

2

Signatories' governance, resources and incentives support stewardship

p 34

3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

p 12

4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

p 17 – 19, 30 – 31, 38

5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

p 32

6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to the society

p 12

7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

p 32 – 33

8

Signatories monitor and hold to account managers and/or service providers

p 32

9

Signatories engage with issuers to maintain or enhance the value of assets

p 7, 21 – 25

10

Signatories, where necessary, participate in collaborative engagement to influence issuers

p 28 – 29

11

Signatories, where necessary, escalate stewardship activities to influence issuers

p 33

12

Signatories actively exercise their rights and responsibilities

p 13 – 15

Research and policies

Our Responsible Investment team regularly produce in-depth insights on a wide range of ESG and sustainability themes.

Click on the titles below to access their research.

RI Team research

Environmental

Chemicals and biodiversity: We review our engagement on chemical safety and biodiversity with ten agrochemical companies.

Climate Change: An insight into how we are engaging with companies on the Paris agreement goals.

Energy Transition in developing Asia: Our trip to Asia to encourage energy companies to align their emissions to the Paris Agreement goals.

India Climate Change: A travel note from our trip to India to engage with companies on ESG issues.

Palm Oil: The Roundtable on Sustainable Palm Oil's approach to the environmental and social impacts of palm oil production.

Social

Antimicrobial resistance – an investor perspective on a pressing global threat: Details of our cross-sector engagement to address this pressing global threat.

Gender diversity: An overview of our gender diversity focus areas in 2019, and our engagement plans for the year.

Gender diversity – are German companies keeping up? We engaged major German companies on the lack of female representation at senior leadership levels.

Workforce disclosure: An overview of the Workforce Disclosure Initiative and our related engagement with companies.

Governance

Data Privacy: Our engagement with global companies to discover how they're implementing GDPR regulations.

India Access for growth: An insight on companies providing responsible access to healthcare and finance in India.

International Corporate Governance Network: A summary of the key themes discussed at the International Corporate Governance Network conference.

Mid-cap project: Our engagement with mid-cap companies on how to improve the quality of their ESG disclosure.

Sustainable banking practices: We visited Thailand and Malaysia to engage on sustainable finance and banking standards.

2019 voting season: Our views on the key trends arising at US and Canadian companies during the 2019 voting season.

Other

SDG framework: An overview of how we are using the SDGs to shape our investment decisions and engagement.

RI Policy documents

Expectations for social practices

Our expectations for how companies should manage the social aspects of their operations and supply chains.

RI Approach

Our approach to responsible investment across our global operations, including our engagement policy.

Corporate Governance Guidelines

Our expectations of investee companies in terms of good governance, as well as our voting policies.

Conflict of Interest

How we deal with potential conflicts of interest in equity proxy voting.

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

"The world works best when we work together."

Darryl White,
CEO of BMO Financial Group

Forest fire in Brazil

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