Influencing for Good

Lessons from 20 years of engagement

BMO Global Asset Management

Contents

2000-2010

Entering the mainstream

8

2010-2020

Reaching maturity

12

2020-2030

Engaging for positive impact

22

Our engagement journey

This year we celebrate 20 years of running our investor engagement programme. The past two decades have seen us engage 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 positive change – 'milestones' – in the same time period.

The way investors conduct engagement has transformed. From a niche approach largely confined to mission-orientated investors, engagement is now a mainstream investor activity. The success of the Climate Action 100+ initiative in bringing together investors representing close to US$40 trillion in assets shows how far we have come.

Active ownership has proven its worth as a valuable and legitimate financial tool. At BMO, we view engagement not only as a tool to identify and manage risks, but also as a route to create positive impact for the environment and society. In the coming decade, we expect a focus on real-world outcomes of engagement, as we move towards the 2030 target date for the achievement of the Sustainable Development Goals (SDGs). 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, playing our part in the movement towards making finance a force for good.

Kristi Mitchem
CEO, BMO Global Asset Management

Key risks

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.

What does **good engagement look like?**

Strategic

Integrating ESG issues into business strategy

47%

BMO GAM engagements at Board or senior executive level*

Impactful

Delivering positive outcomes

3,763

instances of positive change in ESG practices recorded since BMO GAM engagement began

Bold

Backing up engagement with clear escalation strategies and a willingness to use voting power

25%

BMO GAM votes cast against management in 2019

Comprehensive

Engaging companies across asset classes and geographies

87

countries covered by BMO GAM engagement **

4.4%

outperformance from successful engagement[1]

72%

Current BMO GAM engagement linked to the Sustainable Development Goals***

Collaborative

Working with other investors and wider stakeholders

US$40 trillion

assets represented by the Climate Action 100+ initiative

* 2006-2019
** 2006-2019
*** 2019
[1] Active Ownership: Dimson, Karakas & Li (2012)

Defining approaches

Its wide-ranging nature means that responsible investment involves a host of associated language. Here we define some of the terms used in this document.

Stewardship

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[2].

Active Ownership

The use of the rights and position of ownership to influence the activities or behaviour of investee companies. Active ownership can be applied differently in each asset class. For listed equities, it includes engagement and voting activities[3].

Engagement

Discussing ESG issues with companies to improve their handling, including disclosure, of such issues. Can be done individually, or in collaboration with other investors[4].

Proxy Voting

Formally expressing approval or disapproval through voting on resolutions and proposing shareholder resolutions on specific ESG issues[5].

[2] The UK Stewardship Code 2020
[3] A practical guide to active ownership in listed equity, Principles for Responsible Investment
[4] What is responsible investment, Principles for Responsible Investment
[5] As above

Active Ownership – the early years

Early engagement and shareholder activism was largely driven by mission and faith-based investors. As concepts of shareholder rights and sustainable development grew in prominence, the momentum behind active ownership started to build amongst more mainstream investors, but through the 1990s it remained a relatively niche activity, and was often restricted to matters of corporate governance and voting.

Ethically-minded investors used their power as shareholders as a tool to pressure companies as far back as the 1970s, when a shareholder resolution was filed at Dow Chemical seeking to restrict their sale of napalm. At the time a rare approach, by the 1970s-1980s the shareholder resolutions had become more commonplace, with a number of anti-apartheid resolutions being filed at companies with links to South Africa, aimed at intensifying pressure alongside a divestment campaign.

A significant obstacle to scaling up these efforts was a lack of common definitions and standards for sustainability. This changed in the late 1980s, with the United Nations leading the way in founding some of the key institutions and concepts that have guided action on sustainability ever since.

The case of Dow and napalm

Napalm was used extensively by the US military in the Vietnam War. As images emerged of the human impact of this chemical weapon on ordinary civilians, there was widespread outrage, and activist groups sought ways to stop its use.

One group, the Medical Committee for Human Rights, obtained shares in Dow Chemical Company, the company involved in manufacturing napalm and selling it to the US government. The group first attempted to file a shareholder resolution in 1968, seeking to prohibit sales of napalm. A protracted legal battle ensued, with Dow rejecting the resolutions with the backing of the SEC. In 1970, however, a landmark legal decision by the Court of Appeal unanimously sided with the Medical Committee, citing the principle of shareholder democracy.

The resolution finally appeared on the ballot at the 1971 AGM. Although it was overwhelmingly defeated by the majority of shareholders, the case highlighted the possibility for shareholder action to support social goals, setting the stage for more to come.

Learn more

Early UN actions

1987 – "Our Common Future" report
Defines "Sustainable Development" as development that meets the needs of the present without compromising the ability of future generations to meet their own needs

1987 – Montreal Protocol
International agreement to protect the ozone layer

1992 – Rio Earth Summit
Founded the United Nations Framework Convention on Climate Change (UNFCCC)

1997 – Kyoto Protocol
The world's first attempt to set global targets for greenhouse gases

2000 – United Nations Global Compact
A pact to encourage businesses worldwide to adopt sustainable and socially responsible policies, and report on their implementation

2000 – Millennium Development Goals
Set global goals for a more sustainable world by 2015

With these building blocks in place, the stage was set for the **sustainability agenda to enter the mainstream**

2000-2010

Entering the mainstream

The 2000s saw momentum continue to build, with a pivotal moment being the launch of the UN Principles for Responsible Investment in 2006.

In 2000, Friends, Ivory & Sime – one of the predecessor companies to what is now BMO Global Asset Management – launched our flagship ***reo***® engagement service. ***reo***® was set up with the objective of encouraging companies to systematically identify and reduce their negative social and environmental impacts, and had an initial focus on:

- Climate change
- Environmental management
- Human rights
- Forestry
- Reporting of environmental and social issues

All remain relevant today, although the early focus on disclosure reflects the relatively nascent state of corporate sustainability reporting at the time.

> Given the widespread ignorance of the ethical, social and environmental aspects of good management, there is considerable scope for reo to make progress towards its objectives.
>
> **Internal proposal document for *reo*® service**

PRI Principles for Responsible Investment

Meanwhile, the United Nations, having established sustainability frameworks for governments and corporates, started to turn its attention to investors. In 2004 the intention to create a set of principles was announced, which culminated in the launch of the UN Principles for Responsible Investment (PRI) in 2006. F&C Investments, now a part of BMO Global Asset Management, was one of the founding signatories.

The Principles provided a helpful general investment stewardship framework. However, it was necessary for investors to improve their understanding of specific ESG issues and their impact on companies' performance for them to be able to fulfil their commitments as PRI signatories. Recognising this need, we led and participated in a number of investor and multi-stakeholder collaborations during the decade aimed at helping investors advance along their ESG learning curve whilst setting best practice standards.

Inset image: PRI opening at NYSE with UN Secretary General Kofi Annan, 2006

Our early **ESG collaborations**

Climate Change

- We were the only asset manager in the 13-member **UK Corporate Leaders Group on Climate Change**, convened in 2005 to advocate the development of new and longer-term policies for tackling climate change.
- We were one of two asset managers in the working group **ClimateWise**, which in 2007 set up the climate change principles for the insurance sector.
- We became the sole investor member of the **Climate Principles Group** in 2010, a group of six financial institutions committed to managing climate risks and opportunities across their full range of financial products and services.

Business conduct

- We had a leading role in shaping the governance of, and getting wide investor support for, the **Extractives Industries Transparency Initiative**, a global standard for the good governance of oil, gas and mineral resources.
- We led the development of the International Corporate Governance Network's 2009 **Guidelines on Anti-Corruption Practices**, and were members of Transparency International's **Steering Group on Business Principles for Combating Bribery**.

Environmental stewardship

- We were one of six investors that in 2008 participated in the development of the **Ecosystems Services Benchmark** (toolkit to enable investors to evaluate biodiversity impacts and ecosystem services dependency within the food & beverages and tobacco sectors), as part of the Natural Value Initiative (NVI).

Human rights

- We were one of two investors in the multi-stakeholder group convened to set up the **Global Network Initiative** to protect and advance freedom of expression and privacy in the Information and Communications Technology sector.

Investors regroup

Investor commitments to being active and engaged owners were thrown into question by the 2007-8 global financial crisis. In the aftermath, fingers were pointed at banks and regulators, but also at shareholders – why did investors not do more to challenge weak governance structures and excessive risk-taking?

Whilst investors may not have prevented the crisis, it made many of them revisit their approach to stewardship. Emboldened, they sought to play a key role afterwards by holding financial institutions to account and pressing for long-lasting improvements in governance and culture. This work continued well after the crisis had passed, as further breaches and scandals in areas such as money laundering and poor lending practices emerged.

> "These Principles grew out of the understanding that while finance fuels the global economy, investment decision-making does not sufficiently reflect environmental, social and corporate governance considerations – or put another way, the tenets of sustainable development.
>
> **Kofi Annan, UN Secretary-General, Press Release on the launch of the PRI, 2006**

Engaging to improve **governance at banks**

During 2007-8, we conducted in-depth engagement with over 20 global financial institutions to promote changes in culture and management behaviour. We called for appropriate capitalisation, robust audit and compliance mechanisms, alignment between pay and performance, improved management accountability, prudent risk management, sustainable banking practices and better transparency and reporting. We had extensive engagement with major banks, including:

5 meetings

with Board members at **Royal Bank of Scotland** to discuss the acquisition of **ABN Amro** and call for enhanced Board accountability and alignment between pay and performance.

5 meetings

with Board members at **Barclays** to ask for better transparency and protection of shareholder rights; plus a public statement at its extraordinary shareholders' meeting in November 2008 about capital raising and shareholder rights.

9 meetings

with Board members at **HSBC** to push for more transparency about its strategy, stronger Board oversight and alignment between pay and performance.

Parallel to engagement, the 2008 proxy season saw us actively exercise our voting rights on all bank holdings. We engaged with many of the UK, European and US banks most deeply involved in the crisis before the vote to explain our expectations and opposed poor governance practices where appropriate. We also supported all resolutions calling for a "say on pay" at the large US banks.

A number of important advances for active ownership came out of investors' activities during this challenging period.

- Engagement as an investor activity gained legitimacy, as we found an increasing number of companies starting to value the discussions with shareholders, rather than regarding the investor as yet another stakeholder to be managed.
- We gained access to companies at Board level more easily than had been the case previously.
- The crisis provided a highly visible example of how governance and pay structures are not just esoteric issues to be debated by specialists but can be critical to companies' long-term health and survival.
- Across the market, we saw shareholders start to become bolder in expressing their views through their votes, with a number of high-profile rebellions at banks that were demonstrably failing to learn the lessons of the crisis.

Seeking to avoid a repetition of the crisis, regulators looked for ways to encourage all investors to take their stewardship responsibilities seriously. In 2010 the UK's **Financial Reporting Council** (**FRC**) published the UK Stewardship Code – the first formal guidance from a major financial market regulator setting out good practice on matters including engagement and voting. This was to form a blueprint for similar codes in other markets in the decade to come, as stewardship practices expanded internationally.

2010-2020

Reaching maturity

Mounting evidence of the link between ESG factors and financial performance, as well as the increasing threat from environmental and social challenges to global prosperity, drove rapid growth in responsible investment approaches, engagement included.

Evolution in the understanding of **investor purpose**

Building on the perceived abrogation of duty by investors in the run-up to the financial crisis, the **2012 Kay Review of UK Equity Markets and Long-Term Decision-Making*** was a landmark document, influential in challenging investors to re-examine their purpose and value within the finance ecosystem. The 'Kay Review', as it became to be known, urged a transition away from short-term profits towards long-term value creation. Despite its focus on the UK market, the findings and recommendations of the Kay Review could be applied to capital markets worldwide. Ultimately, it made an important contribution to the mainstreaming of modern ownership practices that emerged from the ashes of the financial crisis.

> The consideration of ESG issues is an essential part of what it means to be an investor in the 21st century.
>
> **Kristi Mitchem, CEO, BMO Global Asset Management**

In addition to an increased focus on long-term sustainable value creation, the following drivers helped ESG engagement evolve throughout the 2010s:

- **Regulatory pressure** – investor stewardship codes consolidated or emerged around the world. At year-end 2019, a total of 21 countries had developed and implemented such codes. These included Brazil, Canada, the UK, the Netherlands, Germany, South Africa, India, Singapore, Hong Kong, South Korea, Japan and Australia.
- **Evolving consensus on industry best practice** – with a signatory base that grew from 734 institutions in 2010 to 2,372 at the end of 2019, the PRI consolidated its status as a key global player setting responsible investment standards, including on active ownership.
- **Increasing academic and practical evidence** – studies showed that strong ESG performance by companies can be supportive of long-term risk-adjusted returns.

From our vantage point and experience, the evolution of engagement during the decade can be described by changes across four areas: ambition, collaboration, scope and materiality.

* In this document, Professor John Kay sets out a clear vision and a set of principles to ensure that equity markets support their core purpose of enhancing the performance of UK companies, and providing returns to savers.

Engagement **gets teeth**

The 2010s saw greater attention being paid to the question: what happens if one-on-one engagement fails? Selling the holding was not always an attractive option, as it could mean losing influence and the opportunity for future dialogue. Investors have, therefore, become less wary of adopting a stronger stance by developing and using escalation strategies to trigger corporate reaction.

Collaboration: Expressing concerns collectively with other investors can help get companies' attention. After our requests for engagement on environmental and social issues remained unresponsive, we decided to bring together international investors with a total of $2.3 trillion in assets under management to engage with **Amazon.com**. This proved successful in opening the doors to a still-ongoing constructive dialogue with the company on issues like labour standards, human rights and emissions management.

Using our voice at the ballot box: Voting against management on key resolutions sends a clear signal to companies and might help with further engagement efforts. For example, we voted against four of **Mylan**'s directors after failure to recognise their role in/drive change after the Epipen pricing scandal; against **Hon Hai**'s 2011 annual report and accounts due to lack of progress in improving labour standards; and against **Glencore**'s interim chairman in 2013 when the company failed to disclose he was in the list of candidates to become chairman.

Attending Annual General Meetings (AGMs): AGMs offer the opportunity for direct, public dialogue with boards and top executives. Interventions at AGMs can also trigger further dialogue with a company, paving the way to more in-depth engagement on an issue. Since 2017, we have attended the AGMs of **Royal Dutch Shell**, **Total**, **Fiat Chrysler**, **Anglo American** and **BP** to raise questions – either directly or as part of an investor group, about their climate change management strategies.

Filing shareholder resolutions: These can be a key rallying point of an engagement campaign to change companies' behaviour. We will typically support requests to improve board accountability, executive pay practices, ESG-related disclosure and climate change action where we agree with both the issue highlighted as well as the implementation proposed. In 2019, 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.

Divestment: Selling a holding can be a powerful signal of dissatisfaction, though it removes some options for future interaction such as the use of the vote. It is often a measure of last resort.

Finding strength in **collaboration**

Collaborative engagement action came of age in the 2010s as investors recognised and experienced its benefits. Of the 20 most impactful investor coalitions each representing more than US$1 trillion in collective assets, 19 were launched since 2011. As per a recent study, collective assets under management (AuM) of investors supporting ESG collaborations grew by 74% between 2018 and 2020.

By speaking to companies with a unified voice, investors can more effectively communicate their concerns whilst gaining power and legitimacy from the perspective of corporate management. Furthermore, collaborations can help build knowledge and skills whilst enhancing engagement efficiency.

We are a member of several investor coalitions actively pursuing collaborative engagements, including the ones listed below. On average, about 20% of our engagement activities in a given year are as part of collaborative initiatives.

- Climate Action 100+
- Farm Animal Investment Risk and Return (FAIRR)
- Investor Alliance for Human Rights
- Investors for Opioid Accountability
- Investor Initiative for Sustainable Forests
- Investor Mining and Tailings Safety Initiative
- The 30% Club Investor Group
- Workforce Disclosure Initiative (WDI)

In addition to these coalitions, we have convened and led investor groups to engage with companies such as **Amazon.com**, **Petrobras** (board effectiveness and transparency, 2012-13) and **Total** (shareholder rights, 2012).

We have also led investor collaborations to engage several companies on a single issue. Between 2014 and 2017, for example, we co-led a group of 20 global investors to encourage 33 of Japan's leading companies, including **Toyota Motor**, **Sony Corporation** and **Mitsubishi UFJ Financial Group**, to improve independent representation at their boards.

> Collective engagement is the approach that has the greatest potential to combine critical success factors.
>
> **The Investor Forum, 2019**

Members of our Responsible Investment team on a joint investor visit to Drax power station, 2020

Crossing **boundaries**

Asset classes

Whilst equities remain the most common asset class to apply an engagement approach to, the past decade saw rapid development of engagement elsewhere.

Controversies such as the **Volkswagen AG** emissions scandal, which prompted downgrades in the company's credit rating, served as a reminder of the relevance of ESG factors to fixed income analysis. We engaged multiple times with company representatives, including the chairman and Head of Group Strategy, to call for governance reforms, stronger internal controls and a long-term emissions reduction strategy.

The experience of our corporate fixed income investment teams in engaging issuers has shown us that companies' need for continuous refinancing via bonds has played a key role in helping expand engagement to this asset class. The desire for debt issues to be successful, we have found, is a strong reason for companies to accept engagement on ESG matters.

> 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, Director, Responsible Investment**

Moreover, the impressive growth of sustainability-related bond issuances has further improved investor access to traditional bond-only issuers and, as a result, they have added ESG to their agenda.

Investors in other asset classes, such as private equity, real estate and infrastructure, have come to realise that responsible investment approaches, including engagement, are relevant to supporting long-term value creation.

Geographies

Factors such as insufficient ESG-related disclosure, differences in culture and regulatory environments and high levels of government and majority shareholder ownership, have historically made it challenging for active owners to engage with companies in emerging markets countries. Recognising that these countries are highly exposed to ESG-related issues, such as population growth, income inequality, climate change, corruption and forced labour, major investors have sought to overcome obstacles to engagement.

Since 2015, we have engaged with over 700 companies across 40+ countries, helping change attitudes towards discussing ESG issues with foreign shareholders whilst calling for better ESG practices. We have engaged giants such as **Samsung Electronics**, **Taiwan Semiconductor Manufacturing** and **Tencent** on board composition and effectiveness, **China Mobile** on data privacy, **Reliance Industries** on emissions management and reporting, and **Itau Unibanco** on management of environmental and social risks in lending transactions.

We have also engaged other actors in markets such as Hong Kong, Taiwan, Brazil, South Africa and India, including regulators and stock exchanges, to help raise the bar on shareholder rights, investor stewardship and ESG disclosure requirements. This also helps drive engagement action, including from local investors.

Focus on **materiality**

In the years since sustainability reporting standards such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB) codified materiality, a larger number of companies have conducted a materiality analysis – formally engaging with internal and external stakeholders to identify and refine those issues that are uniquely material to the company.

The evolution of the concept of materiality played a significant role in helping companies, investors and ESG data providers better understand and assess the links between ESG practices and financial performance. In our view, materiality was critical for mainstreaming the integration of ESG factors into investment processes.

Engagement followed suit. A greater understanding of financially-material ESG issues helped investors refine their engagement strategies and focus their resources and time to address those issues. Academic studies have started to tackle the question of whether engagement leads to stronger long-term financial returns. Whilst this remains a nascent area of research, the early signs are promising, with one study finding a 4.4% outperformance for companies where engagement succeeded compared with those where it did not[7].

If, as we believe, consideration of ESG factors can be supportive of long-term risk-adjusted returns, then it is in all of our interests for investors and companies to work together to raise the bar for better ESG management. Making progress together can help to support performance, as well as make a positive contribution to the world's sustainability goals.

As the depth and sophistication of active ownership has improved, best practice standards have moved forward. In the UK, the first major financial market to publish a Stewardship Code, the FRC published in late 2019 a new and **substantially revised version** with more stretching expectations. A key feature was an increased focus on the outcomes achieved via engagement, not just the policies or process followed. At BMO GAM we have endeavoured to measure the outcomes of engagement since the programme began in 2000, recording instances of change following engagement as 'milestones'.

> In our view, materiality was critical for mainstreaming the integration of ESG factors into investment processes.

[7] 'Active Ownership', ESG Viewpoint – Performance with principles: How can ESG investing support financial returns?, BMO GAM, 2012

20 years in focus

Our in-house data system records every instance of engagement with companies, with records going back to 2006. We have looked back to see what patterns have emerged over this period.

5,588
companies engaged

87
countries covered by engagement

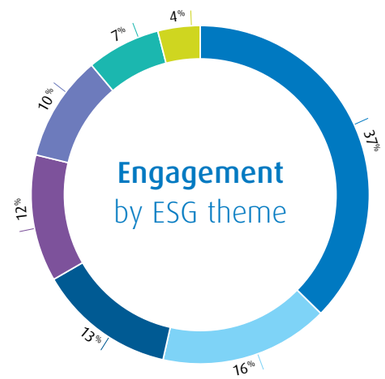
3,763
instances of positive change (milestones) recorded in ESG practices

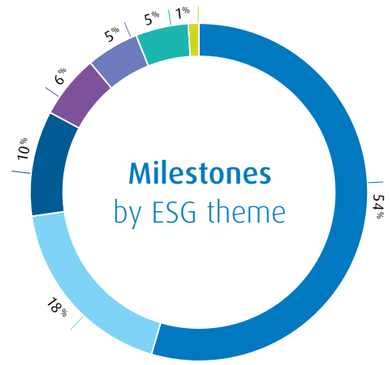
Top ten most-engaged sectors

Company	Number of engagements
Banks	2,691
Oil & Gas	2,067
Retail	1,313
Mining	1,258
Food	1,102
Pharmaceuticals	978
Electric Utilities	891
Chemicals	754
Telecommunications	698
Insurance	575

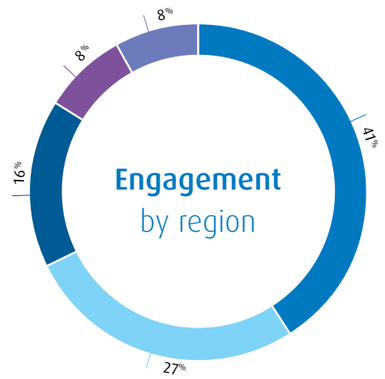
Top ten most-engaged companies

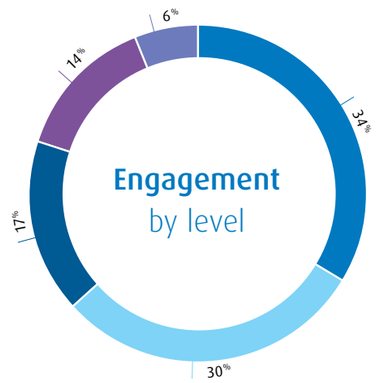
Company	Number of engagements
BP	191
HSBC Holdings	184
Tesco	177
Royal Dutch Shell	168
Total	116
GlaxoSmithKline	114
Pfizer	107
Royal Bank of Scotland	106
Standard Chartered	101
Chevron	100





ESG theme	Engagement		Milestones	
	No.	%	No.	%
Corporate Governance	14,584	37%	2,039	54%
Climate Change	6,395	16%	673	18%
Environmental Stewardship	5,142	13%	379	10%
Business Conduct	4,747	12%	226	6%
Labour Standards	3,868	10%	205	5%
Human Rights	2,834	7%	171	5%
Public Health	1,447	4%	52	1%





Region	Engagement	
	No.	%
Europe	10,185	41%
North America	6,810	27%
Asia (ex Japan)	4,085	16%
Japan	2,092	8%
Other	1,912	8%

Level	Engagement	
	No.	%
Investor Relations	3,635	34%
Board director(s), non-executive(s)	3,205	30%
Senior Executives	1,846	17%
Operational Specialist	1,490	14%
Other	619	6%

All data as at 31-Dec-19. Figures are subject to rounding and therefore may not equate to 100%.

20 years, 20 milestones

A showcase of engagement milestones we have achieved over the past 20 years.

"Across the financial sector, there is growing recognition that whilst of course delivering financial returns is our objective, we also need to analyse how our actions – or inactions – have an impact on meeting the world's needs."

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

- Environmental
- Social
- Governance

United States

Duke Energy Corp
Announced a target of net zero carbon emissions by 2050, with an interim target of a 50% cut by 2030.
Climate change – 2019

Citigroup Inc
Significantly reformed its approach to executive compensation to improve alignment between pay and performance and disclosure.
Executive remuneration – 2017

Apple Inc
Conducted social audits of all assembly suppliers and published audit results and steps it would take towards corrective action.
Labour standards – 2007

Facebook Inc
Halted plans to issue non-voting shares, which would have further entrenched the CEO and founder and decrease accountability to minority shareholders.
Shareholder rights – 2017

KraftHeinz
Committed to make all packaging recyclable by 2025, and is aiming to make the recyclable Heinz Tomato Ketchup plastic bottle fully circular by 2022.
Environmental stewardship – 2019

South America

Petroleo Brasileiro SA
Announced a sweeping organisational restructuring, involving the redistribution of activities, reduction in the number of business units, and a review of the decision-making model.
Strategy – 2016

United Kingdom

BP plc
Committed to become a net-zero operating company by 2050, including by neutralising its operational emissions and the emissions emitted during the use of its products.
Climate change – 2020

GlaxoSmithKline plc
Introduced major reforms to global sales and marketing practices aimed at enhancing compliance and business ethics.
Business conduct – 2013

Barclays plc
Launched an independent investigation of the culture of the bank following the Libor manipulation scandal.
Business conduct – 2012

EU

Nestle SA
Endorsed a business initiative for food security, committing to working with farmers to increase agricultural productivity and their income.
Food security – 2011

BASF SE
Set a 2030 target to increase the proportion of women in leadership positions to 30% worldwide.
Diversity – 2020

Novo Nordisk A/S
Launched a global access to medicines strategy accompanied by a high-level target to treat 40 million people for diabetes by 2020, from 23 million in 2012.
Access to medicines – 2013

ArcelorMittal SA
Improved water risk management by conducting mapping of operational sites against water-scarce areas and reviewing supplier requirements on water stewardship.
Environmental Stewardship – 2019

Japan

Canon Inc
Implemented major reforms to its corporate governance practices, particularly related to board composition.
Board effectiveness – 2016

Tokyo Electric Power Co Ltd.
Committed to publish the results of, and implementing remedial actions from, a fundamental safety review of all nuclear and non-nuclear assets after the Fukushima disaster.
Health & safety – 2011

South Africa

AngloGold Ashanti Ltd.
Implemented an analytical approach to identifying workplace hazards, as well as controls, outcomes and recovery measures associated with safety incidents at its mines.
Health & safety – 2015

China

China Mengniu Dairy Co Ltd
Implemented a comprehensive product monitoring system following material losses in 2008 linked to distributing tainted milk products in China.
Food safety – 2010

China Mobile Ltd
Unveiled a clear strategy and management system for protecting customer data security and privacy.
Human rights – 2016

Singapore

Wilmar International Ltd
Developed and published a no-deforestation, no-peat and no-exploitation sustainable palm oil production and sourcing policy.
Environmental supply chain – 2013

Australia

Rio Tinto Ltd
Sold its last remaining coal asset and in the process became the first major resource producer to exit the coal business.
Climate change – 2018

2020-2030

Engaging for positive impact

In the coming decade, we believe engagement will increasingly focus on both financial returns and sustainability outcomes. The achievement of the UN Sustainable Development Goals is critical not only for human development, but also for creating the right economic and social conditions for long-term prosperity.

The mainstreaming of responsible investment saw the focus on ethics shift to one of materiality, with engagement thus focused on persuading companies to see the benefits of strong ESG management for their long-term performance. As we enter the 2020s, we believe investors will increasingly recognise that both financial and sustainability returns matter.

We use the SDGs as a framework for our engagement, and are increasingly collaborating with other investors and policymakers to set strong sustainability frameworks. Our focus will continue to span the ESG spectrum, with the climate crisis being an urgent priority, alongside pressing for a more systematic approach to the management and disclosure of social issues, particularly as the COVID-19 pandemic highlights their critical importance both to companies and to society.

Working together **for systemic change**

A fundamental shift in perspective that we are already starting to see, and expect to accelerate in the coming decade, is from viewing stewardship as about the relationship between investors and individual companies towards looking more holistically at our responsibilities for shaping the market and economy as a whole. Climate change is perhaps the most obvious example of a systemic risk which investors can help to address, but it is not the only one. Critical issues such as ocean health, biodiversity and public health cannot be addressed by engagement with companies alone.

Implementing this practice means a sharper focus than in the past on public policy, but also widening our perspective to build relationships with other stakeholders including NGOs and academic experts. A collaborative approach between investors is key to making this a success, both to muster the resources necessary to make these changes and to present a unified voice which improves the chances of successful influence.

> Systemic issues require a deliberate focus on and prioritisation of outcomes at the economy – or society-wide scale. This means stewardship that is less focused on the risks and returns of individual holdings, and more on addressing systemic or 'beta' issues such as climate change and corruption.
>
> **Active Ownership 2.0: The Evolution Stewardship Urgently Needs, Principles for Responsible Investment**

Measuring **impact**

While we know what financial returns looks like, how can sustainability returns be measured?

SUSTAINABLE DEVELOPMENT GOALS

The Sustainable Development Goals (SDGs) are a key reference point being used by BMO Global Asset Management and other investors to try to measure impact. The SDGs set out 17 goals, with 169 detailed targets and associated KPIs, for a more sustainable future by 2030.

They were developed by the United Nations (UN) and endorsed by all 193 UN member states.

We believe the goals provide 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 have 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[8].

40.3mn

people in modern slavery globally, with 75% of these in the Asia-Pacific region[9]

113%

increase in the 'material footprint'* globally, since 1990[10]

3°C

global temperature rise predicted with the current policies in place[11]

8 DECENT WORK AND ECONOMIC GROWTH

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.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

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.

13 CLIMATE ACTION

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+.

[8] Sustainable Development Goals – A framework for investors, BMO Global Asset Management, 2019

[9] "What is modern slavery?", Anti-Slavery International

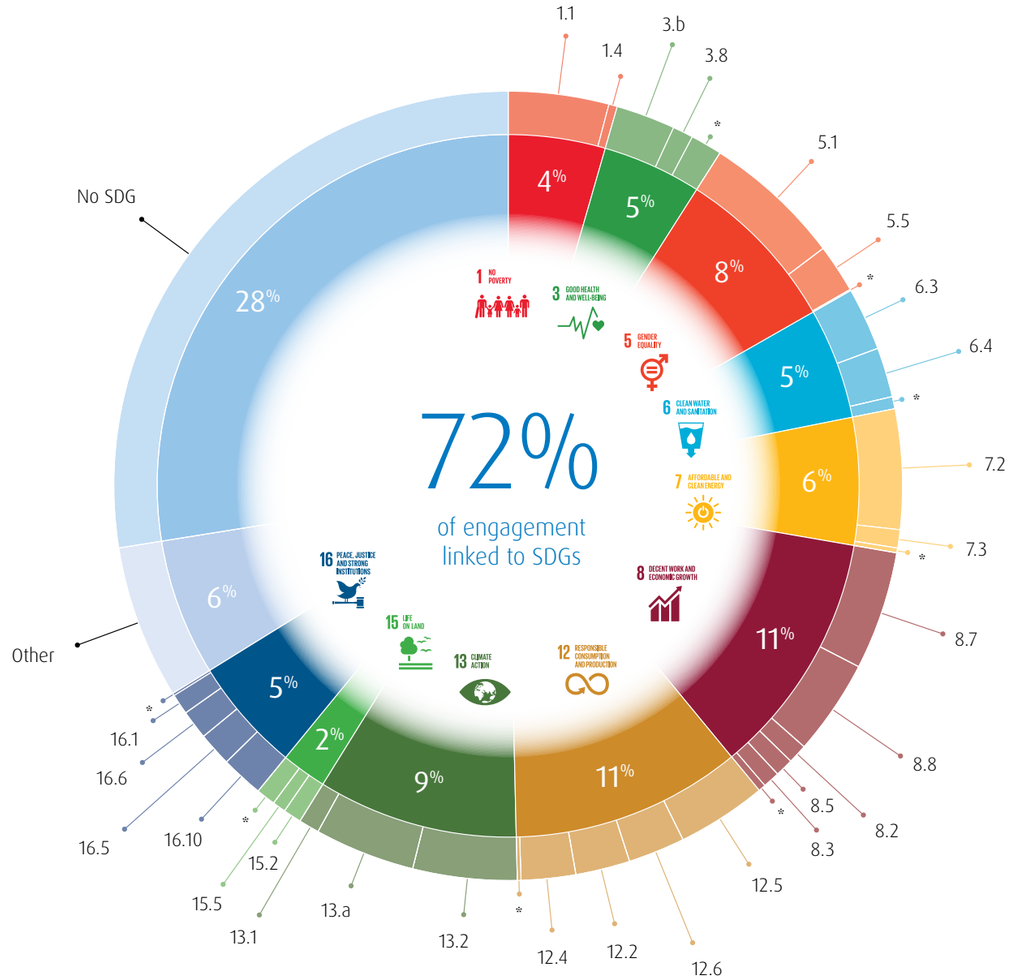
[10] "Responsible consumption and production", The Sustainable Development Goals Report 2019, United Nations

[11] 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

* "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 per cent since 2000, and 113 per cent since 1990.

** Task Force on Climate-related Financial Disclosures

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-19

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

The remaining 28% of our engagement focused on corporate governance, which we view as an essential building block in creating a more sustainable economy.

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

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

Vicki Bakhshi, Director, Analyst, Responsible Investment

Investors across **the world step up**

Although engagement with companies in Asia and other emerging markets has expanded over the past decade, it has been almost exclusively led by developed-market investors, primarily in Europe and the US. Given the increasing introduction of responsible investment regulations, guidelines and practices, we expect to see active ownership become a much stronger feature of the local investor agenda in other markets this decade.

Stewardship codes and similar initiatives have proliferated throughout Asia in the last five years. Japan, Hong Kong, Singapore, South Korea, Taiwan, Malaysia and Thailand have all adopted stewardship codes. China recently inserted provisions into its revised corporate governance code to promote shareholder stewardship among institutional investors. Outside Asia, South Africa, Kenya and Brazil have also developed codes. In addition, a large number of emerging markets have now adopted corporate governance codes, stock exchanges increasingly call for mandatory or voluntary ESG disclosure, and there has been an explosion of emerging-market ESG indices.

We acknowledge that investor adoption of these codes will take different paths due to each adopting country's distinctive cultural, institutional and legal context. However, we remain hopeful that they will help raise local investor awareness and action on engagement. As our own experience has taught us, investor collaboration can be a powerful way to progress engagement. We, therefore, intend to seek opportunities to partner with domestic investors to pursue engagement activities with companies in their jurisdictions.

The decade **of climate action**

Progress across the whole sustainable development agenda is important in the 2020s, but there is particular urgency to climate action. Although the COVID-19 pandemic has led to a short-term reduction in emissions, the transformation of underlying economic and energy systems remains far short of what is needed to achieve the Paris agreement goal of a well below 2°C world. Achieving net zero carbon emissions by 2050 will not happen if it is left to governments alone – robust action by investors and corporates is essential. The relentless rise in greenhouse gas emissions must be reversed this decade.

Whilst the scale of the issue is daunting, evolving forms of engagement are emerging to address it. Collaboration is taking place at an unprecedented scale through the Climate Action 100+ initiative. Through our role as engagement co-leads on companies including **Vistra**, the highest-emitting US electricity firm, and **China Shenhua**, the world's largest coal miner, we have seen first-hand how the weight of assets deployed behind a co-ordinated set of ambitious engagement expectations has facilitated access to management and led to a deeper and more impactful dialogue. Many companies in the programme have developed ambitious new targets as a result, and are taking steps such as improving lobbying transparency. Going forward, investors will strive to work in partnership with companies on the implementation of these pledges, including on sector-level pathways to a net zero carbon future.

In addition to supporting climate-related shareholder resolutions, a growing number of investors are expressing their dissatisfaction with those companies that lag in their actions to address climate issues by voting against management resolutions – such as opposing board directors. At BMO GAM, we systematically identify laggards in high-impact sectors using data such as emissions disclosure, and vote against one or more resolutions if we are dissatisfied with the company's approach. We also target companies that have been resistant to engagement. For example, in 2020 we voted against the board of **ExxonMobil** for the second year running. We developed a framework for our engagement on climate change to set out how we translate the ambitions of the Paris Agreement into expectations of companies. We expect companies in climate-exposed sectors to follow a clear trajectory of action to align their business objectives with the Paris goals.

"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

Learn more

The 'S' factor

The 'S' of ESG has been harder for investors to define and quantify than environmental and governance factors. Social issues are less tangible and there is less mature available data to show how they can impact company performance. Furthermore, their scope has increasingly widened over the past two decades as a reflection of the evolving business environment.

Besides human rights, labour issues, occupational health & safety and product safety and quality, 'S' factors have come to incorporate issues such as bribery and corruption, diversity, automation, data privacy and security, tax payments and access to finance, medicines and nutrition.

Enter 2020. The COVID-19 pandemic has brought unprecedented challenges to the global economy and profoundly impacted society and shaken our fundamental assumptions about the way we live. The crisis, which could erase development gains across many countries, has also painfully exposed existing and persisting social and economic inequalities. 2020 also saw public uprisings against racism following the death of George Floyd in the US, and as a result many companies were prompted to take a fresh look at the adequacy of their diversity policies.

Social issues are now among the most pressing issues for companies globally.

Against this backdrop, social issues are now among the most pressing issues for companies globally. Their license to operate hinges more than ever on their ability to engage and manage their stakeholders – not just through the coronavirus crisis, but in general. It has also become progressively clearer that all elements of ESG – 'S' included – are fundamentally linked and of equal importance. The **Just Transition** concept, which calls for the protection of workers' and communities' livelihoods as we shift to a low-carbon economy, is a case in point.

This decade, we expect investors and data providers to overcome the challenges that had prevented the analysis and integration of social factors, and step up their engagement towards social issues whilst carefully balancing interconnections with E and G issues. The **Workforce Disclosure Initiative**, which we have supported, is an example of how investor action can drive more consistent, reliable 'S' data.

Innovators with a focus **on the future**

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.

Pioneers in **responsible investment**

- **19 sustainability experts** within the Responsible Investment team
- **A+ Rated** for strategy and governance, and ESG incorporation and active ownership in listed equities by UN Principles for Responsible Investment
- **35 years** of investing responsibly
- **USD$4.4bn*** under management in ESG specialist funds

Award-winning

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.

Environmental Finance

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

Environmental Finance – Sustainable Investment Awards 2020 Winner – ESG research of the year (fixed income)

Investment Week

Investment Week – Sustainable & ESG Investment Awards 2019 – Winner – Best ESG Investment Fund

Investment Week – Sustainable & ESG Investment Awards 2019 – Winner – Best ESG/SRI/Impact Research Team

* as at Mar-20

Past performance should not be seen as an indication of future performance.

Contact us

Institutional business:

+44 (0)20 7011 4444

institutional.enquiries@bmogam.com

UK adviser sales:

0800 085 0383

sales.support@bmogam.com

bmogam.com/adviser

Discretionary sales:

+44 (0)20 7011 4444

client.service@bmogam.com

bmogam.com

European wholesale:

+44 (0)20 7011 4444

client.service@bmogam.com

bmogam.com

Telephone calls may be recorded.

Follow us on LinkedIn

Subscribe to our BrightTALK channel

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.

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

BMO Global Asset Management

Back to contents