

Shropshire County Council

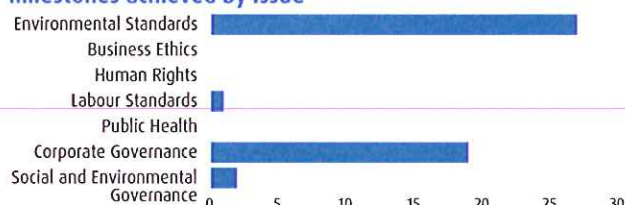
Q2 2017

The purpose of the **reo**[®] (responsible engagement overlay)* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The **reo**[®] approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities. Through a combination of constructive dialogue and active share voting, **reo**[®] works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

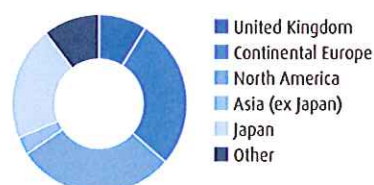
Companies engaged this quarter

Companies engaged	182
Milestones achieved	49
Countries covered	21

Milestones achieved by issue



Companies engaged by country



Companies engaged by issue**



ESG Viewpoint

April 2017

US Utilities – Will the energy transition be Trumped?

➤ **Goal:** Managing the risks and opportunities stemming from climate change trends and regulation

➤ **Engagement since:** 2016

➤ **Sectors involved:** Utilities



Matthias Beer

Associate Director
Governance and Sustainable Investment

Key summary

- President Trump's calls to reverse climate policy raises uncertainty about the speed of decarbonisation amongst US electric utilities.
- Economic factors, like low gas prices and falling costs of renewables, are already driving the shift toward lower carbon energy, yet further policy support will be needed to ensure meeting global climate commitments.
- Our engagement focused on improving disclosure gaps amongst utilities that would enable better assessment of companies' strategic alignment with potential lower carbon energy pathways.

Background

President Trump has just announced his plans to roll back the Clean Power Plan (CPP), the centrepiece of President Barack Obama's climate policy legacy, whilst also reversing other policies aimed at reducing carbon emissions. The CPP would have set a target to reduce US power sector carbon emissions by 32% from 2005 levels by 2030. The plan was designed to be a key component for the US to deliver on its commitment to meeting the 2015 Paris COP21 Agreement on climate change.

The current administration has been intent on rolling back climate regulations. In some areas, Trump has the authority to translate this into policy, which includes lifting a moratorium on new coal mining leases or cutting the budget for the Environmental Protection Agency (EPA) by 31%. However, undoing other key pieces of existing or proposed legislation, like the CPP, will require a lengthy legal process that could take many years and is likely to end up before the Supreme Court.

Contact Us

- +44 (0)20 7011 4444
- institutional.enquiries@bmogam.com
- client.service@bmogam.com
- bmogam.com/responsible-investing

While the expectation is that the EPA will be less active during the Trump administration, existing environmental regulation that has withstood past legal challenges is likely to remain in place. Hampered by the proposed budget cuts, the agency's ability to enforce regulation will most certainly shrink. Yet history has also shown that, in such cases, federal enforcement has often been supplanted by legal challenges, mostly brought about by NGOs.

In terms of climate policy and regulation, we are therefore heading into a period of prolonged uncertainty. Questions have been raised as to what extent these political dynamics will affect the underlying economic factors that are already driving the transition to lower carbon power in the energy sector.

US power sector trends

The carbon intensity of US power production has declined in recent years as a result of a number of factors, including coal power plant retirements, economics-driven fuel switching from coal to gas and buildup of renewables. These trends in decarbonisation are likely to exceed the 32% reduction targets originally set by the CPP. This shift is further supported by various state-level initiatives promoting low carbon generation, such as the emission trading schemes in California and some states in the northeast.

- **Carbon pricing:** The impact of carbon pricing on earnings per share for US utilities is, somewhat surprisingly, relatively limited. Research suggests that a \$10/ton carbon price would drive mostly positive single digit earnings sensitivity.¹ The main reason for this situation is that many companies have already made use of opportunities to switch plants from coal to gas fuel, with many of the remaining coal assets having low utilisation rates. Many coal heavy providers already derive most of their cash flow not from energy revenues (that could be penalised by a carbon price) but from capacity payments for maintaining low utilization peaking units. In addition, the diversified generation mix of these companies means that the positive impact derived from lower carbon assets, particularly nuclear, often offsets the negative impact a carbon price would have on earnings from coal plants.
- **Coal:** Since 2010, coal generation in the US has declined 10% and a further 8% is expected to retire by 2020 as existing plants come to the end of their useful life and are not replaced. Much of the country's coal fleet is old and inefficient and, even without further

environmental regulation, has already unfavourable economics against low gas prices and declining costs of renewables. As many commentators have highlighted, a 'pro-coal' Trump policy is unlikely to reverse this trend. That said, federal legislation like the CPP would drive positive investment opportunities for some carbon intensive regulated utilities, particularly in the south-eastern states, where significant shifts in generation mix are needed if states were to meet more aggressive decarbonisation targets.

Case Study – Duke Energy

Despite moves to diversify, **Duke Energy** still holds a substantial power generation portfolio which is focused on carbon-intensive coal. It has faced pressure to transform its power generation mix significantly away from coal and towards lower carbon alternatives such as gas, nuclear and renewables. In 2016, we initiated dialogue with the company on the back of having sent an investor expectations guide we developed in collaboration with other asset managers participating in the Institutional Investor Group on Climate Change.

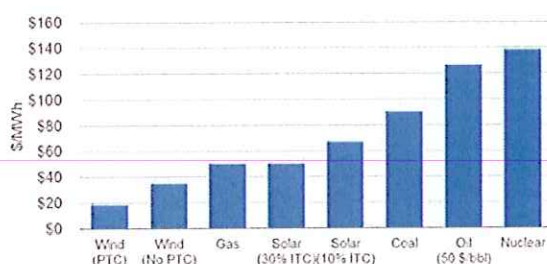
Having spoken with the company a number of times in 2016, we followed up this year to get its reaction to the US policy environment. The company confirmed its long-term target to reduce carbon emission in its portfolio by 35% from 2005 levels by 2026. This target is set independently of the implementation of the CPP. Duke claims that, with these changes, it is well positioned to meet potential regulatory reduction requirements.

We encouraged the company to provide more clarity on the gap between its current greenhouse gas emissions targets and market-wide lower carbon pathways, including a 2 degree centigrade (2°C) scenario. A shareholder proposal requesting such a report has also been filed in this year's proxy with the company. While Duke is open to constructive dialogue on these issues, its long-term planning on carbon reduction and generation mix changes appear to be largely reactive to wider market and regulatory trends. Given Duke's continued significant exposure to coal-based power generation and its less prominent exposure to transmission and generation businesses, the company is likely to face more challenges navigating a lower carbon energy transition than some of its similar-sized peers.

¹ See "Introducing our ESG Analysis for Diversified Utilities/IPPs", Morgan Stanley (January 2017).

- **Gas and renewables (REN):** Despite the significant shifts from coal to gas power in many regions in the US, renewables are already competitive against gas plants based on the Levelised Cost of Energy (LCOE), the all-in cost model across the life-cycle of a plant. [See Exhibit 1] While gas prices are expected to stay lower in the longer term, LCOE advantages exist already for onshore wind in many central states and for solar in sunny states in the south-east and south-west. Even on an unsubsidised basis, this cost advantage is likely to carry forward, driving investment growth in utility scale solar and wind assets. Depending on the region, and independent of policy support, these are indications of attractive growth prospects in the medium term for renewables from the current relatively low base of ~1% wind and ~5% solar in US power generation.

Exhibit 1: Levelised Cost of Energy (LCOE) by Generation Type (US market)



Source: Morgan Stanley Research. Gas LCOE assumes \$3.50/mmBTU gas price. PTC = Production Tax Credits; ITC = Investment Tax Credits.

However, it is important to note that in regions where renewables have started to outmuscle conventional power, this typically has led to depressed wholesale energy prices. Higher renewables penetration undermines wholesale prices as the spot price for electricity is determined by the most expensive producer in the market. To the extent to which lower cost renewables are displacing higher cost conventional plants (coal, gas, and nuclear), as is already happening in e.g. California (and other markets like Germany and some areas of China), the wholesale electricity price decreases. This effect has not set in across most markets in the US given the mostly low renewables penetration. Yet, further down the line, it may pose some unintended headwinds that could undermine the potential attractiveness of private investments in the unregulated power market and complicate the transition toward a low carbon energy system.

As renewable penetration picks up, a key factor for conventional generation plants (coal, gas, nuclear) to maintain their competitiveness will be their level of flexibility of adjusting energy production in response to

wind and solar output. Plants with high flexibility, like modern gas plants, are typically better able to capitalise on spot market peak prices as renewables come on or off stream.

- **Grid infrastructure:** Finally, aside from building up new generation assets, enormous investments are needed over the next decades on grid modernisation. Balancing the intermittency of renewables and integrating distributed energy resources (rooftop solar, electric vehicles, onsite energy storage systems, etc.) will require grid infrastructure that can manage complex two-way flows of electricity. Such a 'smarting-up' of the grid includes building out fibre optic networks and sensors for real-time data collection and establishing an enhanced management system to control the new distributed grid.

Beneficiaries of such new technology deployment are particularly regulated utilities, for whom this spend is additive to rate base, as well as companies that sell energy and services on a retail basis. Recent trends have shown this to be a popular capital expenditure. However, depending on the region, it is unclear if the incentives for grid investments are sufficient to drive further build-up of low carbon generation assets or whether too slow a pace of grid modernisation will act as a bottleneck for shifting the energy mix to more lower carbon generation.

Engagement action

Building on the research and engagement we have conducted on the stranded assets theme in the energy sector over the past years, we started an engagement project in 2016 to better understand and encourage climate compatible strategies among utility companies. We reached out to 52 utilities companies globally, which were widely held across our client base and where our analysis flagged potential carbon risks. The biggest subset of companies (22) were based in the US and – in conjunction with the policy uncertainties introduced by the 2016 election – we concentrated our engagement on this market. We received responses from 15 US utilities and had further meetings with 11 of those. The key questions we posed include:

- **Emissions targets:** To what extent are companies' targets for energy efficiency and greenhouse gas (GHG) emission reductions aligned with national and international political commitments? What are the implications of policy uncertainty on planned changes in the companies' power generation mix?
- **Low carbon scenarios:** How do companies assess the impacts of various energy transition scenarios (including a 2°C global climate policy scenario) on their full

portfolio of power generation assets and planned capital expenditures? How does such scenario assessment inform strategic decision-making?

- **New energy opportunities:** How are companies preparing for potential demand side changes such as an increase in distributed energy generation, energy storage solutions and power grid transformations? What kind of opportunities have been identified and to what extent do these form part of future strategy?

While the initial round of our engagements occurred before the inauguration of the new US administration, we followed up with a number of companies after President Trump's more recent policy announcement. We were particularly interested in understanding the effect the administration's commitment to repeal the CPP would have on companies' plans to accelerate the decarbonisation of their generation mix.

“”

"We're not spending money on that anymore. We consider that to be a waste of your money."

Mick Mulvaney, White House Office of Management and Budget Director (in reference to proposed budget cuts for climate-change related programmes)

Engagement Findings

We had originally identified the 22 US utilities for our target list based on screening the following indicators: carbon intensity of the power generation portfolio; the past three years combined annual growth rate of their carbon intensity; and a carbon emissions management score based on the level of disclosure and emissions target setting. Following our analysis and dialogue with the companies, we then assessed their risk exposure and opportunities management based on the following factors (see client confidential appendix for more details on the companies):

- Assessment of companies' emission reduction targets, including to what extent targets would be in line with / or outperform CPP requirements
- Level of exposure to coal based power generation²
- Level of exposure to renewables generation³

An assessment of companies' exposure to new energy opportunities (such as energy services, distributed energy resources, and grid transformations) involves many factors

and does not lend itself to the simple segmentation we ran in this analysis.

High-level findings of this assessment include:

- Out of the 12 companies with high coal exposure, eight exhibited weak emission reduction targets.
- Three companies with high coal exposure also have medium to high renewables exposure, showing the diversified nature of some portfolios and build-up of renewables as coal exposure declines.
- Most companies (20) have a significant exposure to gas in their generation mix, reflecting potential opportunities companies are seeking for gas plants to provide peak base load electricity, even in a decarbonised power system.
- Four companies have a low to medium exposure to coal, with strong targets and high exposure to renewables.

In terms of emission targets, we found that companies generally confirmed that their strategy is aligned with the 32% emission reduction requirement by 2030 as set by the CPP. Companies typically also did not expect their long-term targets to change significantly because of revisions to federal legislations on carbon. This is a reflection of the fact that fundamental economic factors (such as low gas prices and falling renewables costs) are driving trends in the power sectors, independent of high-level carbon legislation.

However, the degree to which the CPP target would have affected individual companies depends hugely on the states they operate in and the specific carbon intensity of companies' generation portfolios. We often heard that the 32% reduction target would be within reach without getting clarity on the extent to which some coal-heavy utilities in carbon intensive states could become subject to much more aggressive state-level imposed decarbonisation requirements.

In terms of disclosure on forward looking scenario analysis, there is still little evidence on how utility companies model the gap between their current long-term strategy and various low emission pathways. Compared to other sectors where we have seen more willingness to report such scenario analysis (like among the oil & gas and mining majors), utility companies by and large refer to emerging regulatory requirements, such as the CPP, as guidelines for their long-term planning.

² Definition coal exposure (in % of generation capacity): Low = <5%; Med = 5-15%; High = >15%.

³ Definition renewables exposure (in % of generation capacity): high=>25%; med=10-25%; low = <5%.

Regulated utilities in the US are required to publish an Integrated Power Plan, which provides detailed information on business planning assumptions, including options for complying with greenhouse gas reduction targets. However, these are detailed technical documents that do not produce clear disclosure on what climate change pathway their power generation mix is optimised for.

Transparency around scenario analysis is an area where more progress is needed in order to inform policy-making and to help accelerate the transitioning of the power sector to climate compatible levels. The forthcoming publication of the Financial Stability Board's Task Force for Climate Related Financial Disclosure (TCFD)⁴ may provide an important stepping-stone to raise the bar for climate disclosure in the utilities sector.

Conclusion and next steps

Our engagement with US utilities revealed a complex picture of a sector whose transition to lower carbon energy is already well underway and strongly driven by economic fundamentals that federal policy is unlikely to alter significantly in the short term. That said, policy still matters. On a state-level, many initiatives to decarbonise the power sector are already being implemented, which will continue to provide opportunities for low carbon investment independent of the eventual fate of the CPP.

In light of the Trump administration's stated aim to reverse climate policy, it still raises the question whether the economic fundamentals in the power sector are sufficiently strong and lasting to support the country's ability to decarbonise in line with the Paris Agreement. Whether Trump will opt to keep the US as a participant in the Paris climate agreement is another question altogether. If he chooses to, and there are indications that he may, the country would not be able to meet its commitment without decarbonising the power sector. If he decides to opt out, then the onus will be even more on the private sector, investors included, to see past political barriers and seek out opportunities that are aligned with global climate goals.

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.

⁴ For more, please refer to article on TCFD in BMO Global Asset Management 2016 Responsible Investment Annual Report.

Investment Week Sustainable Investment Awards

Best Ethical Investment Fund
Management Group 2016



Best Sustainable Investment
Fund Management Group 2016



Outstanding Contribution 2014



Fair Pensions 2014



ESG Viewpoint

May 2017

BMO Responsible Funds and the transition to a low-carbon global economy

Vicki Bakhshi

Director, Governance and Sustainable Investment

Howard Pearce

Chair, Responsible Investment Advisory Council

Key summary

- The transition to a low-carbon economy is one of the greatest challenges of our times.
- The BMO Responsible Funds Range is committed to making its contribution to this challenge, and this paper sets out a new, ambitious policy approach.
- The Funds will be divesting from all companies with fossil fuel reserves.
- The Global and Emerging Markets funds are implementing this policy with immediate effect. Our UK funds allow for a transition period, with the full range compliant by 2020¹.
- We will continue to have a strong focus on both investing in companies that offer solutions and on investor engagement, as we aim for the funds to support the transition to a low-carbon global economy.

Contact us

Institutional business:

+44 (0)20 7011 4444

institutional.enquiries@bmogam.com

bmogam.com/responsible-investing

¹ The strategies covered by this policy are: Responsible UK Equity Growth Fund, Responsible UK Income Fund, Responsible Global Equity Fund, Responsible Sterling Bond Fund, Responsible Global Emerging Markets Equity Fund.

Acceleration of the low-carbon transition

The past 18 months have seen a remarkable pace of change in relation to global developments in climate change.

- The 193 members of the United Nations adopted the Sustainable Development Goals, which came into effect in January 2016, and include goals on climate action, as well as related issues including water and clean energy.
- The Paris climate change deal, with its commitment to limit global temperature rise to 2 degrees Celcius, came into force in November 2016.
- Innovation and scale continue to drive down renewable energy costs and make it increasingly competitive, with new investment in capacity now outpacing that in fossil fuels.
- Climate change is increasingly recognised by regulators as a key global risk factor, with the Financial Stability Board commissioning its Task Force on Climate-related Financial Disclosures, which published recommendations for consultation in December 2016.
- Confirming scientists' predictions, global temperatures continue to rise, with data from NASA and the National Oceanic and Atmospheric Administration showing that 2016 was the warmest year ever recorded².
- Investor attitudes have continued to shift, with over 700 institutions with \$5.45 trillion in assets having some form of divestment policy in place³, and an unprecedented scale of investor engagement, including moves to track progress such as the Transition Pathway Initiative.

Whilst the political stance of individual countries on the issue of climate change will be subject to the vicissitudes of the electoral cycle – with the US, at least at the federal level, retrenching in dramatic fashion – we believe that at a global level, the scientific, technological, economic and social drivers in favour of tackling climate change are unstoppable.

BMO Global Asset Management last reviewed our policy in relation to fossil fuels in our Responsible Funds range in 2015. Given the rapid changes that have taken place since then, we have analysed our approach, with a focus not only on our exclusionary criteria, but more broadly on how the Funds can support the transition to a low-carbon global economy.

The global energy market context

Fossil fuels have underpinned the development of the modern global economy. Cheap, abundant and efficient in their energy conversion properties, they enabled growing prosperity and improved human wellbeing. But over time, the costs of this progress have become more apparent, in terms of risks associated with air quality, safety, social impacts, and most fundamentally, climate change.

Meanwhile, energy demand is set to grow over the coming decades, as the world population continues to grow, and access to electricity expands amongst people in lower-income countries. There has not been a single year in the last 50 where there has been a decline in primary energy demand; growing populations and rising GDP levels will continue to provide two powerful tailwinds to higher energy consumption. Alongside the shift in energy production, energy consumption will therefore also need to be addressed to meet the goals. Energy efficiency measures have the dual benefit of cutting emissions and saving money, and have the potential to stem the growth in global consumption. Energy use per unit of global GDP is already declining – by 1.8% in 2015 alone – but there remains huge untapped potential⁴.

² 'NASA, NOAA Data Show 2016 Warmest Year On Record Globally', Press release, January 2017.

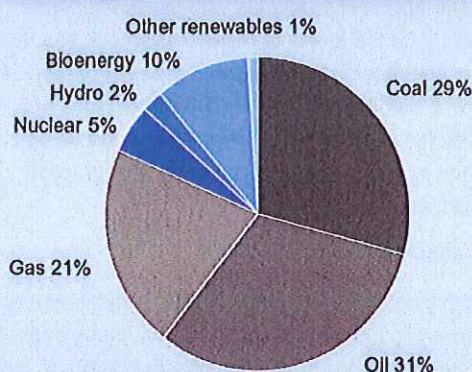
³ As at April 2017. Source: gofossilfree.org.

⁴ See, for instance, Energy Efficiency Market Report, International Energy Agency (2016).

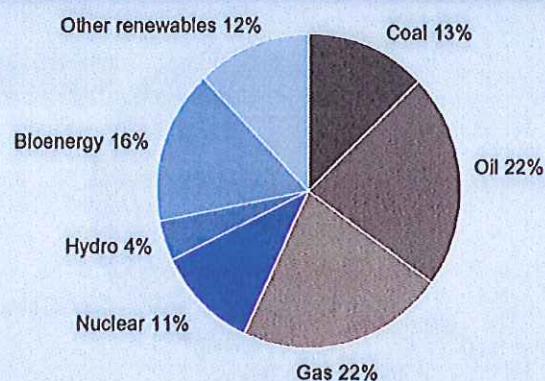
Fossil fuels – is divestment premature?

Despite the changes underway, given the timescales involved in transforming energy infrastructure, it is an unavoidable reality that fossil fuels will remain a part of the energy mix for many years to come. Even under the International Energy Agency's ambitious 450 Scenario, designed to be consistent with the 2 degrees goal, fossil fuels will still make up over half of the global energy mix in 2040.

**Global Total Primary Energy Demand
2014**



**Global Total Primary Energy Demand
IEA 2040 450 Scenario**



Based on IEA data from World Energy Outlook 2016 © OECD/IEA 2016, www.iea.org/statistics, Licence: www.iea.org/t&c; as modified by BMO Global Asset Management.

In this context, a key question is whether divesting from fossil fuels now or in the near future is premature – and in particular, whether there is a risk of undermining economic and human development in developing markets, with over 1 billion people still lacking access to electricity, and 3 billion reliant on polluting fuels such as biomass for cooking and heat⁵.

However, the debate is shifting away from the idea of a simple trade-off between climate change and development, and towards looking at lower-carbon development as a better-quality growth model which is more *economically*, as well as environmentally, viable in the long term⁶. Particularly when we take into account the significant subsidies supporting the fossil fuels industry (estimated at up to 6.5% of global GDP⁷), the air quality and health impacts of their use (estimated at up to 10% of GDP in China⁸), and, increasingly, the job and growth opportunities offered by the wave of innovation needed to re-tool the global energy industry, the economic benefits of a greener development model start to add up. This has been recognised by a growing number of the major emerging economies. India, for instance, is targeting 60% electricity capacity from renewables by 2027, and has an ambition to achieve a 100% electric vehicle fleet by 2030; China's coal consumption has fallen for three consecutive years⁹ and it is adding renewable energy sources at a faster pace than coal; the country is on track to peak its overall CO2 emissions between 2025 and 2030.

Whilst fossil fuels will remain part of the mix – with the least-polluting, gas, being an important transition fuel – there is a pressing need to shift the balance of new investment towards the infrastructure needed to support cleaner development pathways, which is where we believe our funds should focus.

⁵ Progress and Information section, Goal 7 (Affordable and Clean Energy), sustainabledevelopment.un.org.

⁶ See in particular The New Climate Economy (2014).

⁷ IMF Working Paper 15/105, Coady *et al.*

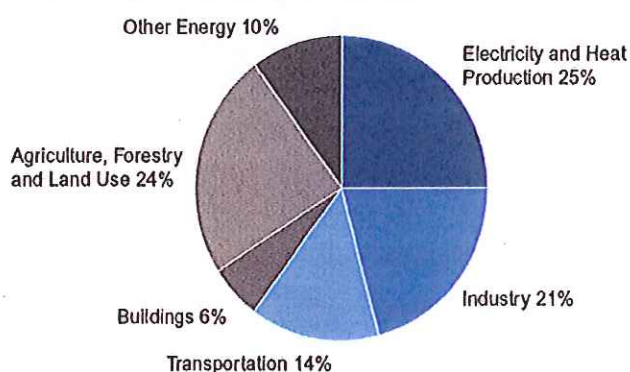
⁸ New Climate Economy, 2014.

⁹ Statistical Communiqué of the People's Republic of China.

BMO Responsible Funds policy approach

Whilst the focus of much of the investor debate to date has been on the ownership of companies with fossil fuel reserves (mainly in the extractives sectors), the transition to a low-carbon economy has impacts across many industrial sectors that we as investors may be exposed to, as shown below.

Global Greenhouse Gas Emissions by Economic Sector



Intergovernmental Panel on Climate Change, Fifth Assessment Report (2014).

For responsible funds, constructing a policy on fossil fuels therefore should consider not just extractives companies, but also other key sectors including energy utilities, transportation, buildings, and industrials such as chemicals, cement and steel. Many of these companies are starting to transform themselves, investing in solutions as the growth opportunities present themselves whilst still supporting legacy products over the transition period. We believe that as investors we should positively encourage these changes.

Critically, therefore, we believe that our approach should consider not just what our funds exclude, but also the opportunities to seek investment in companies providing climate change solutions, as well to engage with investee companies – and policymakers – to promote robust climate change policies.

As the outcome of our previous review, we set criteria in March 2016 which included avoiding companies with the most harmful activities: specifically, the exclusion of companies with over 10% of revenues from thermal coal, and those involved in oil sands¹⁰ or drilling in the polar regions or other areas of high environmental sensitivity.

We still believe a nuanced approach is needed, taking into account the complexities of the fossil fuel supply chain and the necessity of a transition process over time. However, as compared with our previous review, we have concluded that a stronger approach particularly in relation to the

extractives industries is justified, and will be excluding companies with ownership of fossil fuel reserves, which we believe are no longer in line with the ethos of the Responsible Funds range. We are also mindful of the potential financial risk associated with 'stranded assets', with the valuation of extractives companies based in part on the future ability to exploit the reserves they own.

Our full climate change policy, shown on page 5, covers the key sectors involved in the production and usage of fossil fuels. Our approach is aligned with our fundamental philosophy for the funds: to **Invest** in companies making a positive contribution to society and the environment, **Avoid** those with damaging or unsustainable business practices, and **Improve** the companies we invest in through using our influence as an investor to encourage best practice management of ESG issues.

From commitment to action

Whilst this policy is new, BMO GAM's commitment to taking measures around climate change is not. Our extensive work to date relates both to our Responsible Funds range, and to our wider engagement and ownership approach.

Investing in opportunities

Our Funds are already seeking opportunities to positively **invest in companies providing sustainability solutions**, including in the area of climate change. In our Responsible Sterling Bond fund and UK Income fund, this has included investments in green bonds such as those of Enel and FMO, where we apply our own in-house rigorous standards to ensure the credibility of their green credentials. In our Global fund, one focus area has been water – particularly with a concentration on companies involved in infrastructure and water treatment, such as Xylem, as solution providers to the physical impacts of climate change. The fund also invests in industrial gases, such as Praxair, who are focused on improving their customers' environmental performance whilst developing innovative technologies using technologies such as hydrogen fuel cells that consume less energy. In the Responsible Emerging Markets strategy, within the Financing the Future theme we are invested in companies providing capital to cleaner energy, such as YES Bank in India which has committed to financing 5GW of renewable energy by 2020.

¹⁰ Companies with over 1% of revenues from oil sands are excluded.

Sector	Criteria
Extractives	<p>The future business growth of companies with reserves of fossil fuels is based on their ability to extract and sell these, mainly for energy production; yet we know that if all current known reserves of coal, oil and gas are exploited¹¹, the world could not meet the agreed 2 degrees C temperature limit¹².</p> <p>It is true that many extractives companies are investing in alternatives, and diversifying themselves into new areas – such as mining companies expanding copper operations, essential for energy efficient technologies, and oil and gas companies scaling up renewable energy investments.</p> <p>But even where extraction of coal, oil or gas may be a falling or relatively small proportion of <i>current</i> revenues, the carbon embedded in the reserves these companies own can still be substantial in terms of its potential <i>future</i> impact on the climate.</p> <p>We therefore believe that companies with ownership stakes in oil, gas or thermal coal reserves are no longer aligned with the ethos of our funds. Therefore we propose to tighten our existing criteria by excluding these companies¹³. This will take effect immediately for our Global and Emerging Market strategies, and from 1 January 2020 for the entire range.</p> <p>Service providers to these industries will be assessed on a case-by-case basis, with a focus on whether these companies are supporting more efficient and/or safe operations.</p>
Energy utilities	<p>Energy utilities are key to the energy transition, and in many countries are under increasing regulatory pressure to switch from fossil fuels to alternative sources of energy. Those that take a proactive approach can be part of the solution to climate change. We believe these companies have to be assessed on a case-by-case basis. We will only invest in companies that have comprehensive climate change strategies that seek to measure and control their greenhouse gas emissions, and demonstrate an understanding of the impact of climate change on their business strategy. Specific metrics we will assess include the level of investment in renewable energy technologies; their carbon intensity relative to regional peers; the provision of services to help their customers improve their own energy efficiency; and their transparency and reporting. We will engage companies we choose to invest in, if we see potential for them to further develop their strategies¹⁴. We will also seek opportunities to invest in alternative energies.</p>
Energy-intensive industries	<p>Examples of energy-intensive industries include chemicals, iron and steel, mining, energy services and paper. These may be heavy users of electricity (and often other resources such as water); use fossil fuels directly; and emit a range of greenhouse gases as a result of their production processes.</p> <p>We assess these companies on a case-by-case basis, looking for emissions management, measurement and reporting, and robust forward-looking energy efficiency strategies. As with utilities, we will engage where we see room for improvement¹⁵.</p>
Transportation	<p>Major emissions sources include road, shipping and aviation, with the largest share coming from road transport¹⁶. In considering automotive companies and their suppliers the key issue is not their direct emissions, but the energy efficiency of the products they sell and the extent to which they are prepared for the shift towards the electrification of the vehicle fleet. We will look case-by-case at companies in this sector and consider metrics including allocation of R&D and capex budget to carbon-efficient technologies, and engage where appropriate.</p> <p>We will also seek to invest in companies providing more sustainable mobility solutions, such as those involved in fuel efficiency technologies, electrification of the vehicle fleet, as well as in public transportation, such as rail and bus travel.</p>
Buildings	<p>With, typically, an asset life of many decades, changes in the building sector are often slow to come through – but essential to improve economy-wide energy efficiency. Policies in this area are ratcheting up as governments realise the potential for relatively low-cost energy demand reductions. Within this space companies with a focus on smart buildings, insulation, energy-efficient lighting and intelligent controls will play a major part in reducing both emissions and energy demand.</p> <p>We will seek to invest where we see opportunities in companies involved in products and services to make existing buildings more energy-efficient, or building greener new housing, and assess case-by-case companies' sustainability policies.</p>
Agriculture and land use	<p>Accounting for almost 20% of global greenhouse gas emissions, agriculture and land use is one of the most challenging areas to achieve improvements. In agriculture, efficient crop management can achieve higher yields, reducing emissions from tillage and fertiliser use, and we will seek to invest in companies who enable such improvements. However, we will assess case-by-case chemicals companies involved in the manufacture of fertilisers to ensure they have strategies on the greenhouse gas impacts.</p> <p>Major advances have been made in the control of deforestation, particularly in Brazil, but it remains a large source of greenhouse gas emissions as well as a threat to biodiversity. We will assess case-by-case companies in sectors which may be exposed to risk, including food companies that are large users of palm oil, pulp and paper companies, and companies operating in tropical regions.</p>

¹¹ We do not currently see Carbon Capture and Storage as having the potential to allow this damage to be mitigated.

¹² See for instance <http://www.nature.com/nclimatejournal/v6/n9/full/nclimate3036.html>.

¹³ We define reserves as proved and probable reserves of oil, natural gas or coal.

¹⁴ See US Utilities – Will the energy transition be Trumped?, BMO Global Asset Management (2017).

¹⁵ See 'Viewpoint: Emission Management in Carbon-Intensive Sectors', BMO Global Asset Management, 2016.

¹⁶ Aviation is a smaller share of total emissions, although research suggests the effects may be amplified through the impact of emissions at altitude. For our UK and Global funds, we currently exclude companies whose primary business is aviation or airports. This exclusion is not in place for our Emerging Markets fund where we believe the extensive safety and air quality issues with road transport give greater justification for investment in aviation.

Using our voice as Investors

Our **corporate engagement** has been extensive. We have engaged companies on the topic for over a decade, with an intensification from 2015 onwards as the political momentum accelerated. Our engagement has encompassed all aspects of climate change, including emissions management, energy transition strategies, and adaptation to the physical impacts of climate change, including in land and water use. On the energy transition specifically, we have had focused engagement programmes with companies in key sectors, including oil & gas, mining, utilities and industrials.

Our engagement has included:

- Almost 180 one-to-one or joint investor meetings with companies on climate change since 2015, including 45 at Board or senior management level.
- Engagement on the energy transition with 58 companies in the oil and gas sector, 15 mining companies, 37 chemicals and materials and 52 power utilities, with automotives a focus for 2017.
- Consistent support for shareholder resolutions, filed with energy and materials companies, asking for 2 degree climate scenario resilience testing 76 instances of change recorded at companies.

We continue to be a strong supporter of **public policy supporting a low-carbon transition**, with activities in 2016 including a submission to the World Bank on green finance; a joint investor letter to G20 leaders on ratification of the Paris climate deal; and input to the Green Bond Principles. We also contributed our views to the **Financial Stability Board's Task Force on Climate-Related Disclosure**, and plan to use this going forward as a key reference point for our engagement with investee companies.

Transparency about our approach

For investors in these strategies, transparency is important to ensure that the ethical approach continues to align with their evolving needs. Our communication includes:

- A **summary criteria** document sets out how our exclusionary screens are implemented.
- Regular updates from our **Responsible Investment Advisory Council** highlight changes to these criteria.

- For our Global and Emerging Markets strategies, we have published **Impact Reports** which profile the portfolios including analysis of the positive impact through investing in sustainable opportunities.
- Our **Responsible Ownership Policy and Corporate Governance guidelines** set out our approach to stewardship, both for these funds and more widely; our **Responsible Investment Annual Report** highlights the outcomes.
- In line with the provisional recommendations of the Task Force for asset managers, going forward we will publish **carbon footprints** for our Responsible Funds range on a regular basis.

Next steps: Further momentum toward a low-carbon transition

We are committed to continuous monitoring of our ethical and sustainability standards to keep them aligned with emerging issues and market norms, and will continue to watch developments in this and other areas to further develop our approach, using our Governance and Sustainable Investment team, our Responsible Investment Advisory Council and our market networks.

We will also look to respond to client needs in climate change through developing our wider product range. In particular, as well as including green bonds in our Responsible Funds range, we are also already running dedicated green bond mandates for individual clients seeking more focused exposure in this area, and have a Responsible Property Investment strategy for our direct property investments.

More important than anything we do alone is how we act in partnership with others in the investment industry. A coherent, robust investor response to the challenges presented by climate change is only possible if we share experience and work together. Through collaborative groups such as the Institutional Investors Group on Climate Change and Carbon Disclosure Project, through our informal networks and through making our own policies and approach transparent – such as through this paper – we aim to be part of the collective effort to make investors part of the solution to this global challenge.

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.

Investment Week Sustainable Investment Awards

Best Ethical Investment Fund
Management Group 2016

INVESTMENT
WEEK
SUSTAINABLE INVESTMENT
AWARDS 2016
WINNER
Best Ethical Investment
Fund Management Group

Best Sustainable Investment
Fund Management Group 2016

INVESTMENT
WEEK
SUSTAINABLE INVESTMENT
AWARDS 2016
WINNER
Best Sustainable Investment
Fund Management Group

ESG Viewpoint

June 2017

Securing human rights in extractives industries

> **Goal:** Improve management of human rights risks in extractives industries

> **Engagement since:** 2015

> **Sectors involved:** Metals & Mining, Oil & Gas



Juan Salazar

Associate Director
Governance and Sustainable Investment



Matthias Beer

Associate Director
Governance and Sustainable Investment

Contact Us

Institutional business:



+44 (0)20 7011 4444



institutional.enquiries@bmogam.com



bmogam.com/responsible-investing

Key summary

- BMO Global Asset Management joined an investor collaborative initiative to engage with 50 companies in the extractives industries to drive stronger human rights risk management practices to enhance value creation.
- Companies listed in developed markets are generally more advanced in how they understand and manage human rights issues than their peers in emerging markets
- Biggest areas for improvement are disclosure of human rights practices and performance in the case of leading companies, and embedding human rights commitments into corporate practice in the case of laggards

Background

The oil, mining and gas industries are essential to the economies of many developing countries. At the same time, mineral and energy developments profoundly transform environments, communities and economies – and can often generate social conflict. There is increasing evidence that violations of human rights, or even perceived violations of human rights, can be causes, consequences and potentially forecasters of social unrest and conflict.

Costs to extractives companies from social unrest or conflict can significantly impact their ability to meet production and sales forecasts and hence deliver sustainable growth. Costs usually arise from lost productivity due to temporary shutdowns or delays; or staff, including senior management, being diverted to managing conflict. Furthermore, companies involved in social conflict can bear opportunity costs in terms of the lost value linked to future projects or expansion plans that did not materialise.

Poorly managed human rights risks can therefore pose a significant source of operational, legal and reputational risk to companies and, ultimately, affect their ability to retain their social license to operate and deliver growth.

The launch of the United Nations Guiding Principles for Business and Human Rights ("the Guiding Principles") in 2011 marked a major turning point as they signaled broad-based acceptance of the fundamental principle that business should be responsible for actively managing the risks of human rights abuses linked to their activities. As a result, expectations of business with respect to human rights became much clearer.

Engagement action

Recognising this, and aiming to address risks to our clients' portfolios, BMO GAM joined in 2015 a two-year collaborative engagement initiative facilitated by the Principles for Responsible Investment (PRI). Using the Guiding Principles as a key reference point, the initiative identified six areas for engagement, including human rights commitment, embedding it into corporate practice, human rights due diligence, and grievance mechanisms.

Investors contributed to selecting a list of 50 large global extractive companies considered to be particularly exposed to human rights risks. The list included companies such as **Glencore, Anglo American, Southern Copper, BHP Billiton, PetroChina, ExxonMobil, Total, and Royal Dutch Shell**. We led engagement on behalf of the group with three companies, and closely supported dialogue with an additional five.

Key findings

Engagement revealed that human rights related issues receive management attention across all companies in the list, albeit to varying degrees. With only a few exceptions, all companies have a human rights commitment. This can be in the form of a standalone policy or incorporated into other documents, e.g. sustainable development/corporate social responsibility policy, code of ethics. Differences in company practices and the level of management attention became clearly evident beyond those initial commitments.

Companies domiciled in Europe and North America are, unsurprisingly, more advanced than their peers in emerging markets in their approach to managing human rights risks by:

- Having board oversight and management accountability mechanisms, and taking steps to embed human rights into existing risk management systems and budget planning processes;
- Developing consistent approaches to human rights due diligence as evidenced by ongoing risk management processes to identify, mitigate and account for how they address their adverse human rights impacts;
- Implementing robust stakeholder engagement and consultation practices aimed at building sustainable relationships with local communities;

- Tackling challenges linked to setting up accessible and effective grievance mechanisms; and
- Taking a strategic approach to community investment.

The main areas for which we identified need for improvement were grievance management, transparency and disclosure, as well as linking human rights performance to executive pay. In particular, companies should work on improving the extent to which existing grievance mechanisms effectively capture information about social risks, including human rights risks, and on providing material and meaningful information about their human rights processes and performance.

Companies based in emerging markets generally failed to demonstrate sufficient recognition of the risks to the sustainability of their businesses from poor management of issues related to human rights, particularly those concerning communities directly affected by their extractive activities. This despite mounting evidence pointing to the contrary. For example, battles over the exploitation of natural resources have become common throughout Latin America. The Observatory of Mining Conflicts in Latin America, a coalition of NGOs, logged 215 of them in 19 countries in 2014, led by Mexico, Peru and Chile.

We encountered a number of cultural and contextual barriers that prevent companies from fully understanding and addressing human rights risks and, ultimately, the potential costs to their businesses. These include: narrowing the attention of human rights management to labor rights only, instead of all potentially affected stakeholders; resisting engagement with local communities to understand and manage expectations; misconceiving that local communities are powerless in the face of large corporations and governments; and limiting transparency and accountability in the governance of countries' natural resources.

Conclusions and next steps

This collaborative engagement effort revealed that despite companies' policy commitments to respect human rights, many continue to struggle with supporting the effective implementation of such commitments. This is particularly the case for those companies based in and operating in emerging markets.

Faced with increasing pressure from civil society, governments and investors and other financial actors, companies will have no choice but to act. Guidelines such as the UN Guiding Principles and the OECD Guidelines for Multinational Enterprises have become de-facto standards for defining corporate responsibility for human rights. This effectively means that the kinds of policies and processes

that extractive companies need to put in place to prevent and address negative social and human rights impacts and their associated costs are clear and increasingly well understood.

Companies like Anglo American, BHP Billiton and Rio Tinto increasingly understand the connections between key systems – for identifying human rights impacts, responding to grievances, and tracking performance – and are taking steps to refine them to better manage their risks and mitigate their impacts. Moreover, they have highlighted the benefits of operating in partnership with communities to achieve mutual value creation.

We firmly believe in the importance of robust approaches to human rights risk management for sustainable value creation. By preventing negative human rights impacts and maximising positive ones, extractives companies will reduce operational costs, improve stakeholder relations, and secure their social license to operate. Therefore, we will continue engaging with both leading and lagging companies to help drive stronger practices across the extractives industries.

The Corporate Human Rights Benchmark (CHRB)

With extractive companies still struggling to disclose material and meaningful information on their human rights practices and performance, we welcomed the launch of the results of the Corporate Human Rights Benchmark (CHRB) initiative earlier this year. The CHRB's objective is to rank companies across the extractives, apparel and agricultural products industries on human rights performance based on publicly available information. We are somewhat concerned about the risks of implying human rights performance can be determined solely by what companies report in their public documentation. However, and given the competitive nature of the market alongside the increasing significance and commercial relevance of effectively managing human rights, we fully recognise the role the CHRB can play in driving change.

Investment Week Sustainable Investment Awards

Best Ethical Investment Fund
Management Group 2016



Best Sustainable Investment
Fund Management Group 2016



Outstanding Contribution 2014



Fair Pensions 2014



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.

© 2017 BMO Global Asset Management. All rights reserved. BMO Global Asset Management is a trading name of F&C Management Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. UK, AT, BE, DK, FI, FR, DE, IE, IT, LU, NL, NO, PT, ES, SE. FRN:119230. CM13336 (06/17)

Priority Companies and Your Fund

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

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Albemarle Corp	Materials	ORANGE	Good	●						●
Anglo American PLC	Materials	YELLOW	Good	●						●
ArcelorMittal	Materials	ORANGE	Adequate	●		●			●	●
Bayer AG	Health Care	YELLOW	Adequate	●				●	●	
BP PLC	Energy	ORANGE	Good	●						
Citigroup Inc	Financials	YELLOW	Good						●	
Eni SpA	Energy	YELLOW	Good	●						
FMC Corp	Materials	ORANGE	Adequate	●				●	●	
Fresenius SE & Co KGaA	Health Care	RED	Adequate					●	●	●
Glencore PLC	Materials	RED	Good	●			●			●
Golden Agri-Resources Ltd	Consumer Staples	RED	Good	●		●			●	
Goldman Sachs Group Inc/The	Financials	YELLOW	Good						●	
Hershey Co/The	Consumer Staples	ORANGE	Poor	●	●			●		
HSBC Holdings PLC	Financials	RED	Good						●	
HUGO BOSS AG	Consumer Discretionary	YELLOW	Adequate	●						
Intesa Sanpaolo SpA	Financials	GREEN	Good						●	
Johnson & Johnson	Health Care	YELLOW	Adequate					●		
JPMorgan Chase & Co	Financials	ORANGE	Adequate		●				●	
Kerry Group PLC	Consumer Staples	GREEN	Adequate	●					●	●
Li & Fung Ltd	Consumer Discretionary	ORANGE	Adequate							●
Michael Kors Holdings Ltd	Consumer Discretionary	RED	Good							●
Novartis AG	Health Care	GREEN	Good	●	●			●	●	
Pfizer Inc	Health Care	RED	Adequate		●			●	●	
Roche Holding AG	Health Care	GREEN	Adequate					●		
Royal Dutch Shell PLC	Energy	YELLOW	Good	●	●		●		●	
Sherwin-Williams Co/The	Materials	YELLOW	Adequate	●						
Steel Dynamics Inc	Materials	ORANGE	Poor	●						
Sysco Corp	Consumer Staples	RED	Poor				●			
Tesco PLC	Consumer Staples	GREEN	Good	●						●
Toray Industries Inc	Materials	GREEN	Poor						●	

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

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

Priority Companies and Your Fund

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Toyota Motor Corp	Consumer Discretionary	YELLOW	Adequate						●	
UBS Group AG	Financials	GREEN	Good		●				●	
UnitedHealth Group Inc	Health Care	RED	Adequate					●	●	
US Bancorp	Financials	RED	Adequate		●				●	
Volkswagen AG	Consumer Discretionary	RED	Adequate	●					●	
Wal-Mart Stores Inc	Consumer Staples	ORANGE	Adequate						●	
WPP PLC	Consumer Discretionary	GREEN	Adequate						●	

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

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

Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Alimentation Couche-Tard Inc	Canada	Consumer Staples		RED	●						
Alleghany Corp	United States	Financials		RED						●	
Bank of America Corp	United States	Financials		RED	●	●		●		●	
Bank of Queensland Ltd	Australia	Financials		RED	●						
Bed Bath & Beyond Inc	United States	Consumer Discretionary		RED	●						
Canon Inc	Japan	Information Technology		RED						●	
CDW Corp/DE	United States	Information Technology		RED	●						
CenterPoint Energy Inc	United States	Utilities		RED	●						
ComfortDelGro Corp Ltd	Singapore	Industrials		RED	●			●			
Domino's Pizza Enterprises Ltd	Australia	Consumer Discretionary		RED	●						
FANUC Corp	Japan	Industrials		RED						●	
Fresenius SE & Co KGaA	Germany	Health Care	✓	RED					●	●	●
Glencore PLC	Switzerland	Materials	✓	RED	●			●			●
Golden Agri-Resources Ltd	Singapore	Consumer Staples	✓	RED	●		●			●	
HSBC Holdings PLC	United Kingdom	Financials	✓	RED						●	
Intercontinental Exchange Inc	United States	Financials		RED				●		●	
Kinder Morgan Inc/DE	United States	Energy		RED	●						
Lear Corp	United States	Consumer Discretionary		RED	●						
Michael Kors Holdings Ltd	United Kingdom	Consumer Discretionary	✓	RED							●
Mylan NV	United States	Health Care		RED					●	●	●
Nissan Motor Co Ltd	Japan	Consumer Discretionary		RED						●	
Pfizer Inc	United States	Health Care	✓	RED		●			●	●	
Ryanair Holdings PLC	Ireland	Industrials		RED	●						
Shire PLC	United States	Health Care		RED	●						
SMC Corp/Japan	Japan	Industrials		RED						●	
Sumitomo Realty & Development Co Ltd	Japan	Real Estate		RED						●	
Sysco Corp	United States	Consumer Staples	✓	RED				●			
Teva Pharmaceutical Industries Ltd	Israel	Health Care		RED	●						
Tohoku Electric Power Co Inc	Japan	Utilities		RED	●						
TPG Telecom Ltd	Australia	Telecommunication Services		RED	●						
UnitedHealth Group Inc	United States	Health Care	✓	RED					●	●	
US Bancorp	United States	Financials	✓	RED		●				●	
Volkswagen AG	Germany	Consumer Discretionary	✓	RED	●					●	

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

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

Engagements and Your Fund: Red rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
WR Berkley Corp	United States	Financials		RED							

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

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

Engagements and Your Fund: Orange rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Albemarle Corp	United States	Materials	✓	ORANGE	●						●
Alliant Energy Corp	United States	Utilities		ORANGE	●						
ArcelorMittal	Luxembourg	Materials	✓	ORANGE	●		●			●	●
AutoNation Inc	United States	Consumer Discretionary		ORANGE	●						
Avery Dennison Corp	United States	Materials		ORANGE	●						
Barclays PLC	United Kingdom	Financials		ORANGE		●					●
BP PLC	United Kingdom	Energy	✓	ORANGE	●						
Chubu Electric Power Co Inc	Japan	Utilities		ORANGE	●						
Colruyt SA	Belgium	Consumer Staples		ORANGE	●						
Dentsu Inc	Japan	Consumer Discretionary		ORANGE						●	
Electric Power Development Co Ltd	Japan	Utilities		ORANGE	●						
Ferrari NV	Italy	Consumer Discretionary		ORANGE	●						
FMC Corp	United States	Materials	✓	ORANGE	●				●	●	
Fortis Inc/Canada	Canada	Utilities		ORANGE	●						
Harvey Norman Holdings Ltd	Australia	Consumer Discretionary		ORANGE	●						
Hermes International	France	Consumer Discretionary		ORANGE	●						
Hershey Co/The	United States	Consumer Staples	✓	ORANGE	●	●			●		
HKT Trust & HKT Ltd	Hong Kong	Telecommunication Services		ORANGE	●						
Japan Tobacco Inc	Japan	Consumer Staples		ORANGE						●	
JPMorgan Chase & Co	United States	Financials	✓	ORANGE		●				●	
Kansas City Southern	United States	Industrials		ORANGE	●						
Kyushu Electric Power Co Inc	Japan	Utilities		ORANGE	●						
Li & Fung Ltd	Hong Kong	Consumer Discretionary	✓	ORANGE							●
LyondellBasell Industries NV	United States	Materials		ORANGE	●						
Mitsubishi UFJ Financial Group Inc	Japan	Financials		ORANGE						●	
Otsuka Holdings Co Ltd	Japan	Health Care		ORANGE						●	
PPL Corp	United States	Utilities		ORANGE	●						
Royal Bank of Scotland Group PLC	United Kingdom	Financials		ORANGE						●	●
Steel Dynamics Inc	United States	Materials	✓	ORANGE	●						
Sumitomo Electric Industries Ltd	Japan	Consumer Discretionary		ORANGE						●	
Sumitomo Mitsui Financial Group Inc	Japan	Financials		ORANGE						●	
Tenaris SA	Luxembourg	Energy		ORANGE	●						
Treasury Wine Estates Ltd	Australia	Consumer Staples		ORANGE	●						

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

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

Engagements and Your Fund: Orange rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Wal-Mart Stores Inc	United States	Consumer Staples	✓	ORANGE						●	
Zayo Group Holdings Inc	United States	Telecommunication Services		ORANGE						●	

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

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

Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Alstom SA	France	Industrials		YELLOW	●						
Anglo American PLC	United Kingdom	Materials	✓	YELLOW	●						●
Apple Inc	United States	Information Technology		YELLOW	●						●
Aristocrat Leisure Ltd	Australia	Consumer Discretionary		YELLOW	●						
AusNet Services	Australia	Utilities		YELLOW	●						
Autoliv Inc	Sweden	Consumer Discretionary		YELLOW	●						
Bayer AG	Germany	Health Care	✓	YELLOW	●				●	●	
Citigroup Inc	United States	Financials	✓	YELLOW						●	
East Japan Railway Co	Japan	Industrials		YELLOW						●	
Eni SpA	Italy	Energy	✓	YELLOW	●						
EQT Corp	United States	Energy		YELLOW	●						
Estee Lauder Cos Inc/The	United States	Consumer Staples		YELLOW	●						
FleetCor Technologies Inc	United States	Information Technology		YELLOW	●						
Flight Centre Travel Group Ltd	Australia	Consumer Discretionary		YELLOW	●						
Fuchs Petrolub SE	Germany	Materials		YELLOW	●						
FUJIFILM Holdings Corp	Japan	Information Technology		YELLOW						●	
Goldman Sachs Group Inc/The	United States	Financials	✓	YELLOW						●	
Harley-Davidson Inc	United States	Consumer Discretionary		YELLOW	●						
HUGO BOSS AG	Germany	Consumer Discretionary	✓	YELLOW	●						
James Hardie Industries PLC	Ireland	Materials		YELLOW	●						
Japan Airlines Co Ltd	Japan	Industrials		YELLOW	●						
Japan Exchange Group Inc	Japan	Financials		YELLOW						●	
JFE Holdings Inc	Japan	Materials		YELLOW						●	
Johnson & Johnson	United States	Health Care	✓	YELLOW					●		
Keyence Corp	Japan	Information Technology		YELLOW						●	
Medibank Pvt Ltd	Australia	Financials		YELLOW	●						
MEDNAX Inc	United States	Health Care		YELLOW						●	
Nippon Steel & Sumitomo Metal Corp	Japan	Materials		YELLOW						●	
Nordea Bank AB	Sweden	Financials		YELLOW	●						
Nucor Corp	United States	Materials		YELLOW	●						
Ono Pharmaceutical Co Ltd	Japan	Health Care		YELLOW						●	
Panasonic Corp	Japan	Consumer Discretionary		YELLOW						●	
Public Service Enterprise Group Inc	United States	Utilities		YELLOW	●						

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

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

Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Restaurant Brands International Inc	Canada	Consumer Discretionary		YELLOW	●						
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW	●	●		●		●	
Sampo Oyj	Finland	Financials		YELLOW	●						
Seven & i Holdings Co Ltd	Japan	Consumer Staples		YELLOW						●	
Sherwin-Williams Co/The	United States	Materials	✓	YELLOW	●						
Skyworks Solutions Inc	United States	Information Technology		YELLOW	●						
Southern Co/The	United States	Utilities		YELLOW	●						
Subaru Corp	Japan	Consumer Discretionary		YELLOW						●	
Takeda Pharmaceutical Co Ltd	Japan	Health Care		YELLOW					●	●	
TOTAL SA	France	Energy		YELLOW	●					●	
Toyota Motor Corp	Japan	Consumer Discretionary	✓	YELLOW						●	
Valero Energy Corp	United States	Energy		YELLOW	●						
VF Corp	United States	Consumer Discretionary		YELLOW	●						

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

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

Engagements and Your Fund: Green rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
3M Co	United States	Industrials		GREEN	●						
Adidas AG	Germany	Consumer Discretionary		GREEN	●					●	
Ascendas Real Estate Investment Trust	Singapore	Real Estate		GREEN	●						
AstraZeneca PLC	United Kingdom	Health Care		GREEN					●		
Atlas Copco AB	Sweden	Industrials		GREEN	●						
Barratt Developments PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Beiersdorf AG	Germany	Consumer Staples		GREEN	●						
BlueScope Steel Ltd	Australia	Materials		GREEN	●						
Brenntag AG	Germany	Industrials		GREEN	●						
Bunzl PLC	United Kingdom	Industrials		GREEN						●	
Campbell Soup Co	United States	Consumer Staples		GREEN	●						
Cardinal Health Inc	United States	Health Care		GREEN						●	
Casino Guichard Perrachon SA	France	Consumer Staples		GREEN	●						
Coca-Cola Amatil Ltd	Australia	Consumer Staples		GREEN	●						
Cochlear Ltd	Australia	Health Care		GREEN	●						
Compass Group PLC	United Kingdom	Consumer Discretionary		GREEN			●	●			●
Consolidated Edison Inc	United States	Utilities		GREEN	●						
Denso Corp	Japan	Consumer Discretionary		GREEN						●	
Deutsche Post AG	Germany	Industrials		GREEN						●	
Deutsche Wohnen AG	Germany	Real Estate		GREEN	●						
DONG Energy A/S	Denmark	Utilities		GREEN	●						
Edison International	United States	Utilities		GREEN	●						
Healthscope Ltd	Australia	Health Care		GREEN	●						
Hennes & Mauritz AB	Sweden	Consumer Discretionary		GREEN	●						
Honda Motor Co Ltd	Japan	Consumer Discretionary		GREEN						●	
Industria de Diseno Textil SA	Spain	Consumer Discretionary		GREEN	●						
Intertek Group PLC	United Kingdom	Industrials		GREEN	●					●	
Intesa Sanpaolo SpA	Italy	Financials	✓	GREEN						●	
Kansai Paint Co Ltd	Japan	Materials		GREEN	●						●
KDDI Corp	Japan	Telecommunication Services		GREEN						●	
Kering	France	Consumer Discretionary		GREEN	●						
Kerry Group PLC	Ireland	Consumer Staples	✓	GREEN	●					●	●
Kyocera Corp	Japan	Information Technology		GREEN						●	

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

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

Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Lagardere SCA	France	Consumer Discretionary		GREEN	●						
Lend Lease Group	Australia	Real Estate		GREEN	●						
Merck KGaA	Germany	Health Care		GREEN					●		
Mitsubishi Electric Corp	Japan	Industrials		GREEN						●	
Mitsubishi Estate Co Ltd	Japan	Real Estate		GREEN						●	
Mitsui Fudosan Co Ltd	Japan	Real Estate		GREEN						●	
Neste Oyj	Finland	Energy		GREEN	●						
Next PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Nintendo Co Ltd	Japan	Information Technology		GREEN						●	
Novartis AG	Switzerland	Health Care	✓	GREEN	●	●			●	●	
Orion Oyj	Finland	Health Care		GREEN	●						
Osram Licht AG	Germany	Industrials		GREEN	●						
Pandora A/S	Denmark	Consumer Discretionary		GREEN	●						
Procter & Gamble Co/The	United States	Consumer Staples		GREEN	●						
Ramsay Health Care Ltd	Australia	Health Care		GREEN	●						
Repsol SA	Spain	Energy		GREEN	●						
Roche Holding AG	Switzerland	Health Care	✓	GREEN					●		
Seek Ltd	Australia	Industrials		GREEN	●						
Stora Enso Oyj	Finland	Materials		GREEN	●						
Swiss Prime Site AG	Switzerland	Real Estate		GREEN	●						
Swiss Re AG	Switzerland	Financials		GREEN						●	
Sydney Airport	Australia	Industrials		GREEN	●						
Tabcorp Holdings Ltd	Australia	Consumer Discretionary		GREEN	●						
Tesco PLC	United Kingdom	Consumer Staples	✓	GREEN	●						●
Toray Industries Inc	Japan	Materials	✓	GREEN						●	
Transurban Group	Australia	Industrials		GREEN	●						
TUI AG	Germany	Consumer Discretionary		GREEN	●						●
UBS Group AG	Switzerland	Financials	✓	GREEN		●				●	
Umicore SA	Belgium	Materials		GREEN	●						●
Vestas Wind Systems A/S	Denmark	Industrials		GREEN	●					●	
Voestalpine AG	Austria	Materials		GREEN	●						
Wm Morrison Supermarkets PLC	United Kingdom	Consumer Staples		GREEN	●						
WPP PLC	United Kingdom	Consumer Discretionary	✓	GREEN						●	

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

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

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects investor value. For full details of our engagements which led to these milestones please refer to the online *reo*® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
☆☆☆											
BP PLC	United Kingdom	Energy	✓	ORANGE							●
Citigroup Inc	United States	Financials	✓	YELLOW							●
Essilor International SA	France	Health Care		GREEN							●
☆☆											
AbbVie Inc	United States	Health Care		YELLOW							●
Adidas AG	Germany	Consumer Discretionary		GREEN							●
Akzo Nobel NV	Netherlands	Materials		GREEN	●						
Anglo American PLC	United Kingdom	Materials	✓	YELLOW	●						●
Banco Bilbao Vizcaya Argentaria SA	Spain	Financials		GREEN							●
Coca-Cola Co/The	United States	Consumer Staples		GREEN	●						
Diageo PLC	United Kingdom	Consumer Staples		GREEN	●						
Eni SpA	Italy	Energy	✓	YELLOW	●						●
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	GREEN							●
Glencore PLC	Switzerland	Materials	✓	RED							●
Goldman Sachs Group Inc/The	United States	Financials	✓	YELLOW							●
HSBC Holdings PLC	United Kingdom	Financials	✓	RED							●
HUGO BOSS AG	Germany	Consumer Discretionary	✓	YELLOW				●			
Kerry Group PLC	Ireland	Consumer Staples	✓	GREEN							●
Nestle SA	Switzerland	Consumer Staples		GREEN	●						
PepsiCo Inc	United States	Consumer Staples		GREEN	●						
Procter & Gamble Co/The	United States	Consumer Staples		GREEN	●						
Renault SA	France	Consumer Discretionary		GREEN							●
Tesco PLC	United Kingdom	Consumer Staples	✓	GREEN	●						
☆☆											
Avery Dennison Corp	United States	Materials		ORANGE	●						
CLP Holdings Ltd	Hong Kong	Utilities		YELLOW	●						
Daimler AG	Germany	Consumer Discretionary		GREEN	●						
Deutsche Post AG	Germany	Industrials		GREEN	●						
Fortive Corp	United States	Industrials		ORANGE							●
Gas Natural SDG SA	Spain	Utilities		GREEN	●						
Givaudan SA	Switzerland	Materials		GREEN	●						
Glencore PLC	Switzerland	Materials	✓	RED	●						

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

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

Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Themes engaged					
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
HSBC Holdings PLC	United Kingdom	Financials	✓	RED						●
Iberdrola SA	Spain	Utilities		GREEN	●					
ICA Gruppen AB	Sweden	Consumer Staples		GREEN	●					
Intesa Sanpaolo SpA	Italy	Financials	✓	GREEN						●
National Grid PLC	United Kingdom	Utilities	✓	GREEN	●					
Novo Nordisk A/S	Denmark	Health Care		GREEN	●					
Origin Energy Ltd	Australia	Energy		GREEN	●					
Prudential PLC	United Kingdom	Financials		GREEN						●
Renault SA	France	Consumer Discretionary		GREEN	●					
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW	●					
Sealed Air Corp	United States	Materials		RED	●					
Smith & Nephew PLC	United Kingdom	Health Care		ORANGE						●
SSE PLC	United Kingdom	Utilities		GREEN	●					
Stora Enso OYJ	Finland	Materials		GREEN	●					
Symrise AG	Germany	Materials		GREEN	●					
UniCredit SpA	Italy	Financials		YELLOW						●
Unilever PLC	United Kingdom	Consumer Staples		YELLOW						●

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

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