Appendix B

Responsible Ownership Activity Report | **For professional investors only**

Shropshire County Council

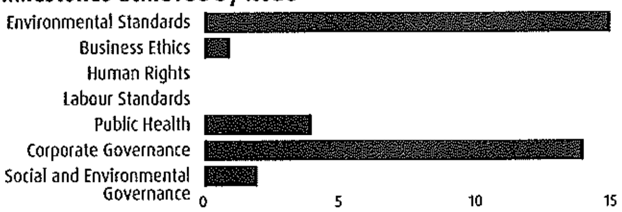
Q4 2017

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.

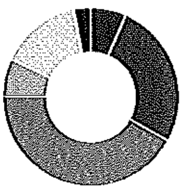
Companies engaged this quarter

Companies engaged	383
Milestones achieved	36
Countries covered	26

Milestones achieved by issue

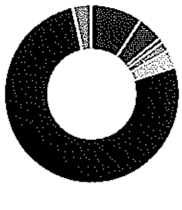


Companies engaged by country



United Kingdom	25
Continental Europe	102
North America	161
Asia (ex Japan)	26
Japan	57
Other	12

Companies engaged by issue **



Environmental Standards	52
Business Ethics	26
Human Rights	5
Labour Standards	10
Public Health	18
Corporate Governance	418
Social and Environmental Governance	19

BMO Global Asset Management

* ***reo***® is currently applied to £115.1bn ($154.4billion / €130.6billion) of assets as at 30th September 2017. ** Companies may have been engaged on more than one issue. *** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. This document is for professional advisors only and should not be circulated to other investors. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest. BMO Global Asset Management is a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority.

ESG Viewpoint

September 2017

PRI in Person Conference – Summary Impressions

25 – 27 September 2017

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Background

The Principles for Responsible Investment held a well-attended annual PRI in Person conference 25-27 September in Berlin, hosting close to a thousand responsible investment professionals from across the globe. The conclusion to the German election, which coincided with the kick-off of the conference, provided a stimulating backdrop to a dense program covering a wide spectrum of sustainability themes.

The number of attendees and quality of discussion was a good reflection of the increasing demand and strong momentum we currently see in the responsible investment space. However, the complexity and systemic nature of many of the issues, ranging from climate change to social inequality to the future of work, were also a sobering reminder of the enormous challenges ahead and the speedy progress required to address them.

Key takeaways from the conference

Systemic challenges require system-level solutions

In line with the PRI's broad strategic aim of supporting a sustainable global financial system, there was a focus on tackling big topics, such as growing inequality, social cohesion and the impact of populism, as well as the ever-present context of climate change. Mervyn King's, former Governor of the Bank of England, famous quote was invoked on more than one occasion: we are indeed 'entering a period of radical uncertainty'. However, whilst there was broad agreement that we are focusing on the right questions, there was a more mixed picture as to whether we are developing rapidly enough the concrete tools and guidance that will bring us to the answers.

Representatives from the European Commission's initiative, the High Level Expert Group on Sustainable Finance, provided updates focusing specifically on incorporating ESG considerations into the concept of fiduciary duty. The PRI's recently-released series of reports on *Fiduciary Duty in the 21st Century*[1] offers in this context a helpful overview, highlighting the need for further progress to amend the notion of fiduciary duty in order to promote the integration of long-term investment value drivers in investment practice.

[1] See https://www.unpri.org/page/fiduciary-duty-in-the-21st-century

SDGs and impact investment are in vogue

Much discussion revolved around the potential of the Sustainable Development Goals (SDGs) to provide a globally consistent framework for investors to capture key sustainability issues. While the comprehensiveness of the SDGs offers the potential of a single overarching framework, significant scepticism still exists as to how the 17 goals underpinned by 169 targets can be operationalised. Since their launch in 2015 many investors, BMO included, have begun to map SDGs against portfolios and started to report on how this could inform the development of investment strategies. A Dutch initiative led by pension managers APG and PGGM has published a taxonomy to provide guidance on what type of investments could qualify as sustainable development investments[2].

"The financial sector has yet to swallow the alarm clock."

Christiana Figueras, former Executive Secretary of the UNFCCC

Closely related to the SDG theme is the question of measuring the impact of responsible investment. Arguably this is one of the more fundamental challenges, as without comprehensive and credible methodologies to measure impact, the financial sector will be hard-pressed to demonstrate that it is able to allocate sufficient capital to address the systemic issues reflected in the SDG framework. While the demand for impact investment solutions is steadily increasing, the industry is still some time away from having developed concepts and tools that would help to accelerate a mainstreaming of this approach. On the point of impact and capital allocation, former Executive Secretary to the United Nations Climate Change Convention Christiana Figueres threw down a gauntlet to attendees by challenging them to commit to putting 1% of their assets into clean energy or clean tech by 2020.

ESG integration - solid progress but still waiting for real breakthroughs

Likewise, panel discussions on ESG integration indicated a mixed picture. On a positive note, asset managers and owners reported on real step changes in expanding ESG considerations into standard investment processes over the past years. There are also ample examples of ESG-driven capital reallocation - including green bonds, social impact investments as well as the exclusions of carbon-intensive assets like coal. Yet, despite these success stories, at a more fundamental level integration has yet to prove that it is effective in strengthening the resilience and ability of the financial system to shape the key sustainability challenges going forward. Evidence of true scale, speed and impact is still outstanding.

An update on the recommendations from the Financial Stability Board's Task Force for Climate-related Financial Disclosures (TCFD) provided a good case in point of possible approaches to overcome the disconnect between corporate issuers and capital markets when it comes to finding solutions to climate change. The next three years will show to what extent the TCFD guidelines will be established as a de facto reporting standard to enhance climate risk management among investors and companies in carbon-intensive sectors.

Conscious efforts to highlight the S in ESG

Given the intense focus in the responsible investment community on climate change, the conference also successfully tackled fundamental social questions, such as labour standards and human rights, as well as emerging themes like cybersecurity risks.

Discussions highlighted important interrelations between climate change and social questions reflected in the concept of a 'just energy transition'. While mitigating runaway climate change is certainly a priority, investors need to become more aware that any transition to a lower-carbon world is not only about identifying opportunities, but also about mitigating the negative consequences for people affected by the transition, particularly in energy-related sectors.

A fascinating session on technology and responsible labour practices broadened the scope to shine light on the likely transformations that automation will bring to the future of work. The panel involved the participation of a Tesla employee giving a candid assessment of labour-related challenges in a fast growing and disruptive technology company. Important questions were raised in relation to the possible job displacements affecting particularly lower-skilled labour. The responsible investment community is only just beginning to grapple with the question of how to mitigate the negative disruptions associated with automation, and how to close the skill gaps between sectors experiencing job losses and others that are yet to emerge as new technologies take hold.

[2] See https://www.apg.nl/en/publication/SDI%20Taxonomies/918

The clock is ticking...

All in all this year's PRI in Person provided plenty of encouragement, showing many areas of real progress in the responsible investment industry. There is evidence of increased resources, management attention and the momentum of travel has definitely picked up. Yet despite the air of optimism, the conference also offered a stark reminder that the real-world risks of climate change as well as social and political upheaval threaten to outrun this momentum. Christiana Figueres' warning that the financial sector "has yet to swallow the alarm clock" was well-taken during her keynote speech. Time is at a premium. The capital reallocation required to help address the most pressing systemic ESG issues underpinning the global economy needs to happen fast. They need to show real impact in a matter of years, not decades.

How can BMO help?

BMO has a range of approaches that can help clients to address climate change risks and opportunities in their portfolios.

- We offer an engagement service, **reo**, which can be applied as an overlay to any existing equities or bonds portfolios. Within this, we are running a multi-year engagement programme focused on climate risk, asking companies to develop and disclose strategies on climate transition, in line with the Taskforce recommendations.
- Our **Responsible Funds range** have a comprehensive strategy which sets out how they support the transition to a low-carbon global economy, including divestment of companies with fossil fuel reserves, positive investment in solutions, engagement, and carbon footprinting.
- We also run **green bonds mandates** for clients, investing in a carefully-screened selection of bonds where revenues are directed towards climate and environmental solutions, so allowing clients to direct capital directly toward the low-carbon transition.

Contact us to find out more.

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

November 2017

Restricted share awards – All carrot, no stick

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Summary

- The introduction of restricted share awards (RSAs) to reward executives at UK companies looks appealing in theory, with a promised reduction in the overall levels of pay (quantum), closer alignment with shareholders and simplification of remuneration policies.
- Yet proposed RSA schemes have received a mixed reception from investors, with several drawing high levels of dissent or being withdrawn altogether.
- Our assessment is that, in practice, the current implementation of RSAs has achieved few of its intended goals and made pay structures worse in some cases.
- However, we do not think that all is lost and suggest several elements that we believe would make a positive contribution to future RSA plans. This style of scheme is developing quickly and final conclusions remain to be drawn.

Background

For several years, the battle lines have been drawn between investors and companies on executive remuneration. For every well intentioned guideline that added to the increasing layers of existing pay guidance, concerns from companies regarding complexity and a cumbersome one-size-fits-all approach have grown louder and louder. Meanwhile, year-on-year, pay has continued to rise and both companies and investors have felt the wrath of the media and public sentiment.

The independent Executive Remuneration Working Group (ERWG) was established by the Investment Association (the trade body for UK investment managers) in late 2015 with the aim of assessing whether current pay structures are fit for purpose and what can be done to improve the situation. The ERWG produced several recommendations in its final report, including improvements to transparency and stakeholder engagement, but the most provocative was the endorsement in its report of RSAs.

This challenged decades of conventional thinking on pay in the UK, and came from a place of growing frustration with the status quo. Following these findings, several companies who were equally frustrated with their conventional pay schemes seized the opportunity to introduce the use of RSAs. But this enthusiasm bypassed many of their shareholders, unconvinced that such a dramatic shift from the norm was appropriate for all companies.

What are RSAs?

Since the 1995 Greenbury Report, which was set up to examine concerns over rapidly increasing executive pay, there has been an expectation amongst investors that share awards should be granted with performance conditions attached. These determine the level of award that vests. As institutional investor guidance on pay reinforced this view, this resulted in most UK companies having a long-term incentive plan (LTIP) structure, where share awards are granted with pre-set financial targets measured over a three-year period, which are then released to participants in proportion to the level of performance achieved. The resulting one-size-fits-all LTIP model, and efforts by companies to adapt it to their own business model, was criticised by the ERWG as making pay more complex and less aligned to shareholders' experience.

> The Working Group believes that there is a need to recognise that the current LTIP system does not accommodate the variety of needs of the broad range of companies which operate within it. There needs to be more acknowledgement that all companies are different and will need different remuneration structures to recognise their particular business context.
>
> **Executive Remuneration Working Group Final Report, 2016**

The report suggested that new models should be explored - first in line being RSAs. With RSAs no pre-set performance conditions are applied. Instead, a set number of shares are simply awarded that vest after a fixed period of time. The intention is that by using RSAs to reward executives, the total value (quantum) of awards will be reduced by increasing the certainty of pay-out; there will be closer alignment with shareholders by simply tracking the share price rather than a range of metrics; and the structure will be simpler and therefore better understood by all.

Sound in theory, mixed results in practice

Despite support from the respected ERWG, the implementation of RSAs has been far from smooth. This Viewpoint assesses the 'first wave' of RSA proposals in the UK since the formation of the ERWG until the summer of 2017. This includes eight UK companies that introduced, or attempted to introduce, RSAs into their pay structures in 2016 and 2017. The majority have received a high level of dissent at the shareholder meeting, with some having been withdrawn prior to the meeting.

Table 1. Vote results for companies proposing RSAs

Company	Date	Outcome*
AVEVA (AVV)	July 2017	Withdrawn
Aggreko (AGK)	April 2017	Withdrawn
Kenmare Resources (KMR)	May 2017	8% dissent
Kingfisher (KGF)	June 2016	5% dissent
Pets at Home (PETS)	July 2017	15% dissent
Premier Oil (PMO)	May 2017	31% dissent
Royal Bank of Scotland (RBS)	May 2017	4% dissent
Weir (WEIR)	April 2016	73% dissent (failed)

Note: "dissent" is defined as votes not in favour of a proposal (against & abstain)
Source: BMO Global Asset Management

Our view has long been that share awards with appropriate and challenging performance targets are the preferred way of rewarding executives in the long term. Whilst we are keen to address the current challenges faced in executive pay, some of the drivers and justification provided by companies in the examples have led to us to not support the RSA proposals at recent shareholder meetings.

Here we discuss our principal concerns with each argument proposed in favour of the RSA structure, and the criteria that we would like to see implemented in future proposals. We believe that whilst the initial introduction of RSAs had its challenges, all is not lost.

"RSAs lead to a reduction in quantum"

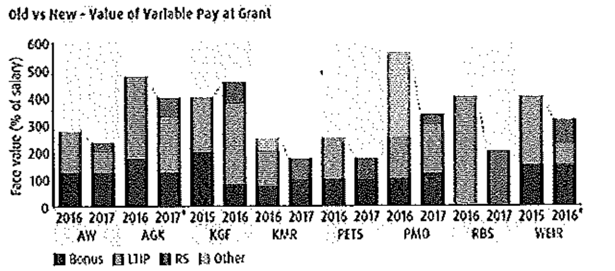
One of the main arguments put forward in favour of RSAs is that the size of granted awards can be substantially reduced, due to the increase in certainty that results from removal of multi-year financial targets.

Against a backdrop of continuing pressure to reduce the quantum of executive pay from a variety of stakeholders, the adoption of RSAs can be a more palatable method for companies to achieve this as it offers participants the quid-pro quo of reducing maximum potential pay-outs but also increasing the certainty of pay-out occurring.

> Introducing a restricted share plan addresses the continuing debate surrounding overall levels of Executive remuneration head on, as [it]... would reduce the maximum value of our Executive Directors' long-term incentive opportunity by 40% of salary in face value terms.
>
> **AVEVA plc, Annual Report 2017**

An examination across our sample confirms that in nearly every instance there was a decline in the face value of potential total variable pay. The average decrease was 23%. When examined on a like-for-like basis (the value of new RSAs against the value of sacrificed LTIP awards) this discount is 46%.

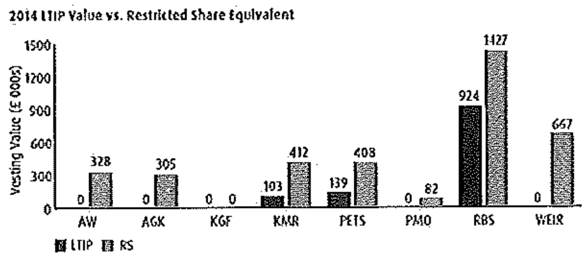
Graph 1. Old vs new – face value of variable pay at grant



* Either rejected or withdrawn
Source: BMO Global Asset Management

However, despite a decline in the headline rate of pay, the actual pay-out executives received would be higher under the RSA regime. To illustrate this point, we look at how a switch to RSAs influences the value of awards when they actually pay out, rather than their face value at grant which tells a different story. We have conducted a hypothetical exercise comparing the vesting of actual LTIP awards granted in 2014 for companies within our sample against simulated RSAs over the same three-year period. This was calculated by applying the applicable like-for-like discount on grant size to each case.

Graph 2. Value of actual 2014 LTIP vesting vs. simulated RSA



Note: KMR calculation not provided as awards are due to vest in October '17.
Source: BMO Global Asset Management

As demonstrated, even when the like-for-like discount is applied, there is a substantial increase in the resulting pay-out for companies in all instances. The lack of vesting under the actual 2014 LTIP awards was due to the companies not meeting set performance conditions. By comparison, the simulated RSA awards do not take performance into account outside of movements in the share price, hence the higher pay-outs.

Secondly, we note that when the realities of how participants value awards are considered, there is no real reduction in quantum to compensate for the significantly increased certainty of payout. It is well established that participants already apply a substantial discount to the present value of equity awards to at best half of their face value at grant due to the multi-year performance targets attached and the requirement to wait for up to five years before they are released.

> Executives typically discount at around 30% per annum – this is the economics of 'eat, drink and be merry, for tomorrow we may die'.
>
> **PwC, Making executive pay work. The psychology of incentives, 2012**

At most the current like-for-like average discount rate of 46% matches what participants were already assuming to be the case, meaning that no real reduction has been achieved.

Finally it is worth observing that, amongst our sample, the adoption of RSAs generally occurred at a time when the share price of the companies in question were relatively depressed. Our analysis has shown that the eight companies' share price all underperformed the

Continued

FTSE All-Share benchmark index since the start of 2014. In the case of Premier Oil and Kenmare Resources – by more than 80 percentage points.

Under the UK pay regime, the size of awards is calculated using an intended face value, normally expressed as a percentage of salary. At the time of grant this figure is then divided by the share price in order to determine the number of share awards allocated. When the share price is at historically low levels this can lead to a substantial increase in the number of awards actually being granted, all being at a time when the value of each share has substantial potential up-side.

Table 2. Illustration of share price influence on number of awards granted at Premier Oil

Date	Face Value	Share price	Number of awards
27 Feb 14	£442,000	£3.03	145,888
27 Feb 15	£442,000	£1.63 (-46%)	271,165 (+86%)

Source: BMO Global Asset Management.

Established best practice dictates that if there has been a substantial decrease in share price then companies should consider granting lower awards to reflect the increased number of awards; however, this logic does not appear to have been applied in any instances across our sample.

"RSAs create better alignment with shareholders"

An argument that companies often make when diverging from the traditional LTIP structure is that it frees them from the challenge of setting three-year targets.

> The restricted share alternative was seen as a helpful option by companies who, due to the nature of their business, find it difficult to set meaningful long-term targets under an LTIP structure.
>
> **Executive Remuneration Working Group Final Report, 2016**

This can be due to several different reasons: future uncertainty within the market, lack of internal projections or just an inability to distil complex company performance down into a few metrics. Companies argue that targets set prior to grant can become misaligned with the state of business by two years into the three-year life of awards, making them no longer effective at incentivising or rewarding the delivery of results. By contrast, the adoption of restricted shares is appealing as the challenge of setting such targets is avoided all together, with shareholder alignment achieved not through focusing on performance metrics but rather aligning with outcomes reflected in movements in the share price.

This begs the question, are the outcomes of using RSAs more aligned with shareholders' experience than conventional LTIPs? As already shown in Graph 2, the level of pay-out is substantially greater for RSAs across the board when compared to conventional LTIPs in case of lower than expected company performance. In the table below we put this with the context of the shareholder experience (measured by share price performance) and relative company performance (using industry index performance) over that period.

Table 3. Vesting values and shareholder alignment

	2014 LTIP Vested Value ('000s)	Simulated 2014 RSA value ('000s)	Share price performance over review period	FTSE Industry index performance
AVEVA	£0	£328	4.4%	80.9%
Aggreko	£0	£305	-45.6%	16.7%
Kenmare Resources	£103	£412	4.1%	-11.9%
Kingfisher	£139	£408	-21.7%	-11.9%
Pets at Home	£0	£82	-75.8%	-20.0%
Premier Oil	£924	£1,427	-5.6%	-26.6%
Royal Bank of Scotland	£0	£67	-27.1%	18.2%

Source: BMO Global Asset Management.

When compared to both absolute and relative share price performance, most of the companies in our sample have performed poorly over the three years examined. Under the basic principle that only performance should be rewarded, it therefore seems counter-intuitive that by switching to RSAs, and the substantial increase in pay-out that results, this is increasing alignment with shareholders, when they have experienced only pain.

It should also be noted that although RSAs are structured to have their value closely track movements in the share price, this does not mean that it necessarily tracks with the performance of management. A very substantial proportion of long-term share price performance is driven by overall market movement. RSAs will therefore reward or penalise executives for factors entirely outside their control. Confidence in management and the delivery of financial results do influence movements in the share price, but so do many other factors such as economic outlook, currency movements and M&A speculation, all of which are beyond the control of management. Likewise, there can be

Continued

instances in an economic down-cycle where the efforts and positive results of management do little to counter-act the overwhelming pessimism of the market.

"RSAs are simpler"

The final part of the case for restricted shares is that with no performance tests attached and only time restrictions applying, they are themselves simple and, in turn, have a simplifying effect on remuneration policies. There has been a call for greater simplification over recent years in response to the increasingly complex remuneration structures found at blue-chip companies. Following years of additions and tweaking the resulting arrangements are often so complicated that they are not clearly understood by either participants or investors, making them much less effective at incentivising performance.

Out of all of the arguments presented, we consider that this one is the strongest. However, as has been the case at a number of the companies considered, RSAs have been added into the basket of existing plans that make up total pay, alongside an annual bonus plan and conventional performance based LTIP, rather than in replacement. In turn, this made these policies more complicated, rather than less, which somewhat dilutes the impact that RSAs can offer.

Conclusion and next steps

The above analysis points to several potential pitfalls for companies introducing RSA awards, including increased complexity and higher pay for poor performance. We have generally not been supportive of the RSA awards introduced to date. However, we are keeping an open mind to future proposals from companies and as our thought process has developed, believe the following features will make the adoption of RSA awards more palatable:

- **A credible Remuneration Committee**

Before the details of the scheme are considered, given the nature of the awards we will consider if the behaviour of the committee can be clearly shown to benefit shareholders.

- **A tangible performance underpin**

Financial reward for failure must be avoided at listed companies to stop the reputation of the market worsening. The remuneration committee needs to avoid the situation where directors receive substantial pay-outs on RSA awards when shareholders have suffered losses over the same period. The addition of a performance underpin should be introduced to prevent this situation from occurring. We accept that this underpin is a form of performance condition and therefore counter to the philosophy of RSAs. However, we would expect participating directors to understand the potential reputational damage that could be inflicted by RSA awards paying out in full to board members that have not delivered share price growth. An underpin that uses a relative total shareholder return (TSR) performance comparator group could be a way of rewarding performance against peers and best capture true performance during economic cycles. With reference to Table 3, the payouts for RSAs in many of these situations where we argue they would be unjustified would be avoided with this feature in place. We would also consider underpins linked to the strategic direction or financial health of the company.

- **Remuneration Committee discretion**

We value the ability of the remuneration committees to reduce awards if the shareholder experience has been poor. This is all the more important given that share prices, and therefore the value of RSAs, can often be beyond the control of management.

- **Reduction in award size**

To take account of the increased certainty of vesting, we consider a minimum reduction of 50% in award size when compared to current long-term incentive awards to be appropriate. At the same time this should not be seen as a ceiling, with greater discounts encouraged to counter-balance less stringent requirements elsewhere.

- **Future award size**

To avoid a situation where the company's share price is significantly depressed and there is the possibility that this could result in an unusually large number of shares being awarded, the remuneration committee should be prepared to further reduce the award size where appropriate.

- **Holding periods of at least five years**

To encourage the long-term holding of company shares, we consider a five-year holding period to be an appropriate starting point. We believe that this will reduce temptation for short-term financial gain.

- **Post retirement holding**

To encourage a long-term values to be instilled in a director's minds, we are supportive of a percentage of the individual's shareholding to be held beyond retirement for at least two years.

- **Clawback/Malus**

We support the principle of clawback and malus as defined by the Investment Association and consider it appropriate for these provisions to potentially apply to RSA awards.

Continued

Many of the above features are already mainstream expectations for traditional long-term incentive plans and we are keen to see these continue being used. We will need to carefully consider the specifics of the situation for companies going forward so that directors can be sufficiently held to account for poor performance.

The debate continues to evolve and be relevant as we have already seen the next generation of RSA proposals coming through. From early indications of these we are supportive of the direction of travel (with some of our recommendations included in recent proposals at **Pets at Home** and **Hargreaves Lansdown**), but we remain wary of the unintended consequences and potential misuse of the structure as outlined in this paper.

How can BMO Global Asset Management help?

BMO Global Asset Management has a range of approaches that can help clients to address climate change risks and opportunities in their portfolios.

- We offer an engagement service, ***reo®***, which can be applied as an overlay to any existing equities or bonds portfolios. Within this, we are running a multi-year engagement programme focused on climate risk, asking companies to develop and disclose strategies on climate transition, in line with the Taskforce recommendations.
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Contact us to find out more.

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

November 2017

Performance with principles: How can ESG investing support financial returns?

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Summary

- We believe that considering environmental, social and governance (ESG) issues in investments makes sound financial sense, as well as being the right thing to do: this view is increasingly backed up by research and evidence.
- Numerous studies find a link between company-level environmental, social and governance (ESG) performance and their financial and operational performance; in particular, there is evidence that taking ESG into account can help to protect against volatility and downside risk.
- Companies with strong ESG credentials can also present opportunities. We find that strong ESG performance can be a signal for quality, which can support stock selection.
- Looking at the track record of socially responsible investing (SRI) funds in practice, although some market conditions may see them deviate from mainstream benchmarks, the evidence shows that SRI portfolios have performed in line with mainstream peers over the long term, and may have superior risk characteristics.
- ESG momentum matters; and promising new research shows how investor engagement can lead to positive ESG momentum and financial outperformance.

Background

When ethical funds were in their infancy, a common assumption was that funds which incorporate ESG characteristics, and in particular those with a strict ethical screen applied, must necessarily involve a trade-off with performance.

But over time, the debate about performance has turned on its head. Increasingly, investors recognise the potential financial materiality of issues such as corporate governance, labour management and environmental performance – and history is littered with examples of companies who have neglected these issues and paid the financial price. Furthermore, sustainability megatrends such as the low-carbon energy transition, demographic change and more informed consumerism offer opportunities for companies that can tap into these trends and provide solutions.

As this understanding has grown, the question more commonly now being asked is whether investors can generate 'ESG alpha': in other words, can looking at ESG factors as part of an integrated analysis of companies produce better-quality investment decisions that *enhance* long-term fund performance?

In this paper we provide a summary of what we view as some of the leading academic and industry research on these questions, and comment on how their findings fit with BMO Global Asset Management's three decades of experience in running ESG funds.

Research consensus points to a positive ESG / performance link at company level – with reduced risk and volatility a key driver

The relationship between company-level ESG and financial performance has been extensively researched, with several hundred studies on the subject. Whilst earlier research suffers particularly from the data issues outlined below, more recent studies have the benefit of a longer run of data covering a wider universe of companies.

Given the volume of evidence, meta-studies or literature reviews are a good starting point to identify where the current consensus lies. These point to a significant weight of evidence in favour of a positive relationship between ESG and company performance.

Data and methodological questions

The biggest challenge in this area of research is the availability of consistent, high-quality, long-term data on company ESG performance. ESG data providers such as MSCI, SustainAlytics, FTSE Russell and Vigeo Eiris have revised their methodologies over time, and have had to find ways to deal with patchy corporate disclosure, filling the gaps with various estimation techniques. There is little consistency between these providers, with low correlation between their ESG ratings of specific companies[1]. Coverage is also a problem area, particularly when it comes to small-cap, emerging markets, and bond-only issuers.

At the portfolio level, there are different definitions of SRI or ESG indices and funds, meaning that different approaches are not directly comparable.

The other variable is the definition of performance. Some studies focus on business performance metrics such as cashflow or revenues; others look at market performance indicators including share price performance, volatility, and credit risk.

Once data issues are understood, the question turns to the quality of the research methodology. Issues to be wary of include:

- **Mistaking correlation for causation:** Establishing that there is a relationship between ESG and performance does not necessarily prove that one causes the other. Company-level ESG performance may be linked to some other third factor that actually accounts for the performance differential. For instance, ESG data tends to favour large companies due to their better public disclosure; studies that fail to correct for this bias may produce misleading results. Another possibility is that companies with good financial performance may be able to afford better CSR teams and reporting, which would mean the causation is reversed.
- **Data-mining:** Researchers keen to prove – or disprove – a particular hypothesis on ESG and performance may keep testing the data in different ways until something apparently significant is found.
- **Publication bias:** Researchers who are allied with one particular point of view may simply decide not to publish results that fail to back up this view. This bias is, by definition, particularly hard to avoid.

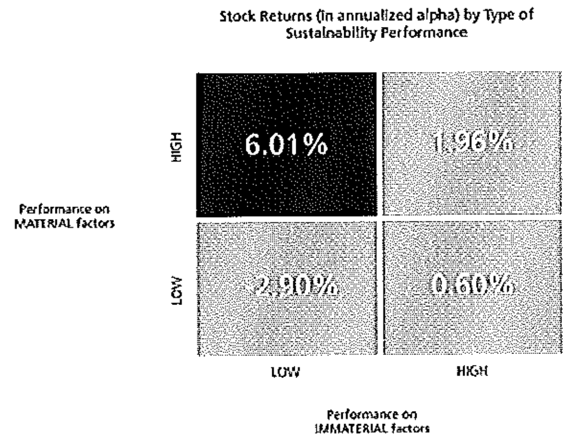
In this review, we highlight research we believe to have a robust underlying methodology, taking into account these potential pitfalls.

[1]See, for instance, 'Causeway's observations on environmental, social, governance investing and ratings' Causeway (2017).

- The most comprehensive meta-analysis we have identified is **Friede, Busch & Bassen** (2015)[2], which uses other meta-analysis papers to identify over 2,200 underlying empirical studies on the link between ESG and corporate financial performance. It finds that 90% show a non-negative relationship, with a large majority showing a positive relationship.
- **Deutsche Bank** (2012)[3] looked at over 100 academic studies on the links between ESG characteristics and financial performance. It found that 89% show that companies with high ratings for ESG factors exhibit market-based outperformance; while 85% show accounting-based outperformance; and 100% show a lower cost of capital in terms of debt (loans and bonds) and equity.
- A study by **University of Oxford and Arabesque** (2015)[4] finds a similar pattern. Looking at over 190 studies it found that 88% of reviewed sources show companies with strong sustainability practices demonstrate better operational performance, which ultimately translates into cashflows; and 80% show that strong sustainability practices have a positive influence on investment performance.
- The **University of Cambridge Institute for Sustainability Leadership** (2014)[5] is particularly worth noting as it points out many of the methodological pitfalls in this area of research outlined above. With that in mind, they select a small number of the most robust studies, citing four in particular that find that poor performance on ESG factors can be associated with higher volatility and/or higher cost of capital. They conclude that environmental and social factors have a stronger performance link than corporate governance indicators.

Turning from these meta-analyses to individual studies, **Khan, Serafeim & Yoon** (2015)[6] is notable for taking a systematic and robust approach to scoring company-level ESG performance. Rather than taking the ESG data provider ratings as given, they use methodology from the Sustainable Accounting Standards Board to identify only the most material ESG issues, defined on a industry-by-industry basis. They also control for a range of other variables such as size, profitability and ownership in order to make the ESG signal as pure as possible. They find that companies scoring well on these material risk factors generate up to a 6% annualised alpha performance. But they warn that focusing on immaterial factors – the "noise" of sustainability reporting – appears to detract from performance.

Individual study: Stock returns vs performance on material / immaterial factors



Source: Khan, Serafeim & Yoon (2015)

Hoepner et al (2011)[7] draws out the relationship between ESG and risk, with a focus on environmental management. The paper splits companies into hypothetical portfolios according to the quality of their environmental management and, looking at worst-case losses across these portfolios, finds that the portfolio of highly-rated companies protects the investor best against downside losses in value.

Bank of America Merrill Lynch (2017)[8] identifies a similar relationship. It ranks companies into five groups on the basis of their ESG score in the years 2005-2010, and finds that those in the top fifth experienced the lowest volatility in earnings per share of 32%[9] in the subsequent five years (2010-2015), whilst those in the lowest fifth experienced the highest volatility at 92%.

While many papers focus on equities, the link between ESG and downside risk is of great relevance to fixed income. **Barclays** (2016)[10] gives evidence on the links between credit and fixed income, with a particularly interesting finding being that issuers with strong governance performance have experienced less credit downgrades.

[2] Gunnar Friede, Timo Busch & Alexander Bassen (2015), 'ESG and financial performance: aggregated evidence from more than 2000 empirical studies', Journal of Sustainable Finance and Investment (2015)

[3] 'Sustainable Investing: Establishing long-term performance and value', Deutsche Bank Group (2012)

[4] 'From the stockholder to the stakeholder', University of Oxford and Arabesque Partners (2015)

5 The Value of Responsible Investment, Cambridge Institute for Sustainability Leadership (2014)

[6] Khan, Mozaffar N., George Serafeim and Aaron Yoon. "Corporate Sustainability: First Evidence on Materiality". Harvard

[7] Does Pension Funds' Fiduciary Duty Prohibit the Integration of Environmental Responsibility Criteria in Investment Processes?: A Realistic Prudent Investment Test, Hopener, Rezec & Siegl (2011)

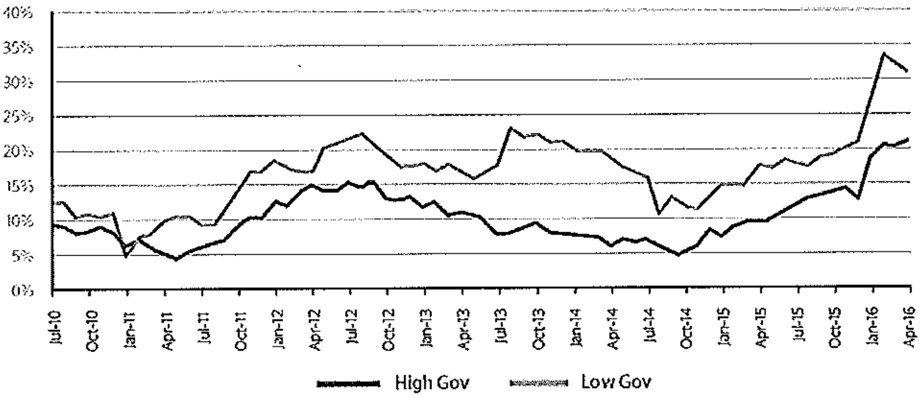
[8] 'ESG Part II: A Deeper Dive', Bank of America Merrill Lynch (2017)

[9] Median change in EPS (earnings per share) volatility in 2010-2015

[10] 'Sustainable Investing and Bond Returns', Barclays (2016)

Continued

12-month rolling downgrade notch rates for bonds with high and low Governance scores



Source: Barclays Research, MSCI ESG Research

Emphasising the positive – ESG as a source of alpha

The case for using ESG factors to support risk management looks strong. But can it also generate investment opportunities? We believe the answer is yes – and that there are two ways this can play out.

First, our own experience in analysing stocks for our Responsible Funds range is that, consistent with some of the evidence cited above, strong company-level ESG performance often acts as a signal of a good-quality company. In other words, companies that manage their environmental risks, look after their staff, and have solid corporate governance tend to deliver on traditional 'quality' indicators such as low earnings variability and high return on invested capital.

MSCI (2016)[11] analyse the relationship between ESG data and investment quality and find a statistically significant positive correlation. Where the underlying investment process involves the identification of quality companies, therefore, the process of ESG research should support this aim. Care of course has to be taken not to 'double-count' the ESG signal given the close correlations with other factors (multicollinearity), particularly where it is feeding into quantitative processes.

The second way in which ESG factors can support alpha generation is through identifying companies whose future revenue streams will benefit from providing solutions to sustainability challenges. We see the Sustainable Development Goals (SDGs), developed by the United Nations and supported by 193 governments, as a framework for describing these opportunities.

According to **the Business and Sustainable Development Commission** (2017)[12], achieving the SDGs could open up an estimated $12 trillion in market opportunities across food and agriculture, cities, energy and materials, and health and well-being. Funds with a positive thematic or impact focus are well-placed to identify companies that are positioned to move into these growth markets.

In understanding how these positive factors may link to performance, evidence from unlisted asset classes is useful as there is a longer history of impact-orientated funds to draw on. **The Global Impact Investing Network** (2017)[13] has published a review on the financial performance of impact investments. Within private equity, for instance, it cites the GIIN / Cambridge Associates benchmark, which tracks 71 funds; since inception these have delivered an aggregate net IRR of 5.8%. As is typical in this asset class there is a wide range, with those at the higher end comfortably competing with conventional private equity.

SRI funds hold their own on performance, even where there are exclusions

The performance of SRI or exclusion-based funds has also been the subject of significant research. These type of funds tend to exclude 'sin stocks' (tobacco, alcohol etc) as well as poor ESG performers, so reducing the overall investment universe. According to conventional asset management theory (**Markowitz** (1952)[14]), diversification reduces risk – meaning that anything which restricts the investable universe is, in theory, negative from a portfolio construction point of view.

[11] 'Factor investing and ESG integration', MSCI (2016)

[12] 'Better Business, Better World', Business & Sustainable Development Commission (2017)

[13] 'GIIN Perspectives: Evidence on the financial performance of impact investments', GIIN (2017)

[14] 'Portfolio Selection', Harry Markowitz, Journal of Finance (1952)

Continued

However, more recent studies such as **Garz et al** (2002)[15] have pointed out that in practice, all fundamental fund managers apply some form of screening – on factors such as size or liquidity – in order to get to a manageable shortlist of stocks to research. Additionally, the ESG screening process itself may add investment-relevant information which ultimately improves the stock selection decision, for all the reasons detailed above (see, for instance, **Renneboog et al** (2008)[16]).

Several papers look at how these potentially competing factors have played out in practice.

- **Morgan Stanley** (2015)[17] took over 10,000 US mutual funds and divided these into sustainable and mainstream funds. They found that sustainable equity mutual funds had equal or higher median returns, and equal or lower median volatility for 64% of the periods examined over the last seven years, compared with their mainstream peers.
- Similarly, **Carleton** (2015)[18] looks at Canadian mutual funds and splits them into SRI and mainstream. It finds no systematic performance difference, but superior risk performance for the SRI funds (measured by Sharpe and Sortino ratios).
- **Gil-Bazo et al** (2008)[19] consider a different angle – the characteristics of the fund management firms running SRI funds. It finds outperformance versus conventional funds for strategies run by firms with an SRI specialism, but underperformance for non-specialists. Although the sample size is relatively small, this could indicate that a high degree of expertise is required to successfully manage the constraints involved in running screened strategies.

The studies above look at performance over an extended time period. In our experience there are some important features of ESG investing to be aware of which can influence shorter-term performance.

One critical factor is the correlation with quality mentioned above. Most SRI funds have a quality bias, therefore they will face challenges when other styles of investing predominate. The post-Trump market was an example: there was a shift to value stocks, following which quality-orientated investment strategies (including many ESG funds) underperformed. However as this has unwound over the course of 2017, so performance has also corrected.

A second factor is that under-represented sectors, such as defence or tobacco, are favoured by the market in particular time periods.

Hvidkjær (2017)[20] identifies several studies on the performance of "sin stocks". Sectors such as tobacco can have attractive characteristics from an investment point of view, including their defensive characteristics in more difficult market conditions. In addition, as **Merton** (1987)[21] points out, stocks that are disliked by large sections of the market may become attractively valued versus fundamentals.

However, we would also argue that industries involved in controversial and high-risk activities can face threats to their long-term viability as government regulations tighten – with the bankruptcies in the coal sector being a case in point.

Engagement can be a powerful tool to drive ESG momentum

A final question is whether applying an engagement approach to a fund can help to support financial returns. The hypothesis here is that by being an active owner – through voting proxies, and communicating with the company on shortcomings in sustainability and governance – asset managers can improve the ESG profile of their portfolio, therefore improving the quality of companies they own.

There is evidence that creating positive ESG momentum can be supportive of financial performance. **MSCI** (2013)[22] constructs synthetic portfolios to illustrate how company ESG performance can relate to investment returns. They integrate data in three different ways – excluding companies with the worst ESG scores, overweighting strong ESG performers, and overweighting stocks whose ESG scores are showing positive momentum. All achieve positive active returns – but the third had the largest outperformance.

The key paper on the impact of engagement is **Dimson et al** (2012)[23], which is based on BMO Global Asset Management data. Based on analysis of engagement with US companies over the 1999-2009 period, they find that successful

[15] 'More Gain than Pain – SRI Sustainability pays off', Garz, Volk & Gilles (2002)

[16] 'The price of ethics and stakeholder governance: The performance of socially responsible mutual funds', Renneboog, Horst & Zhang (2008), cited in 'The performance of socially responsible investment funds: A meta-analysis', University of Salzburg (2012)

[17] 'Sustainable Reality', Morgan Stanley Institute for Sustainable Investing (2015)

[18] 'Canadian Responsible Investment Mutual Funds', Carleton Centre for Community Innovation (2015)

[19] 'The performance of socially responsible mutual funds: The role of fees and management companies", Gil-Bazo, Ruiz-Verdú & Santos (2008)

[20] 'ESG investing: a literature review', Søren Hvidkjær, Report prepared for Dansif (unpublished, 2017)

[21] 'A simple model of capital market equilibrium with incomplete information', Merton, The Journal of Finance (1987)

[22] 'Optimising environmental, social and governance factors into portfolio construction', MSCI (2013)

[23] 'Active Ownership', Dimson, Karakaş & Li (2012)

Continued

engagement is followed by positive abnormal investment returns averaging 4.4%, whereas unsuccessful engagement has no impact on returns.

More recently the UN Principles for Responsible Investment (UN PRI) commissioned two research teams to analyse the effectiveness of investor engagement.

- **Dimson et al** (2017)[24] reviewed 1,806 collaborative engagements co-ordinated by the UN PRI. They found evidence of an increased return on assets following successful investor engagement.
- **Gond** (2017)[25] takes a more qualitative approach to address the question of *why* investor engagement can have a positive effect. Alongside the perhaps obvious benefits of sharing information and building knowledge, he highlights the role of engagement in shifting the internal political dynamics within corporates, including elevating issues to Board level.

We see this as a nascent, but promising area of research. 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.

How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our *reo*® engagement service, through which we provide engagement and voting services covering global equities and credit.

Contact us to find out more.

Sustainable Investment Awards

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

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Past performance should not be seen as an indication of future performance. The value of investments and income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

The screening out of sectors or companies on ethical grounds may mean a fund is more sensitive to price swings than an equivalent unscreened fund.

[24] 'Local leads, backed by global scale: The drivers of successful engagement', Dimson, Karakaş & Li,, PRI Academic Network RI Quarterly Volume 12 (2017)
[25] 'How ESG Engagement Creates Value', Gond, PRI Academic Network RI Quarterly Volume 12 (2017)

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.

				Themes engaged						
Name	Sector	ESG Rating	Response to engagement	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Allergan PLC	Health Care	RED	Adequate					●	●	
American Airlines Group Inc	Industrials	RED	Adequate	●					●	
Andritz AG	Industrials	YELLOW	Poor						●	
Bayer AG	Health Care	YELLOW	Adequate						●	
BHP Billiton Ltd	Materials	ORANGE	Good	●	●	●			●	
BP PLC	Energy	ORANGE	Good	●			●			
BT Group PLC	Telecommunication Services	GREEN	Good		●				●	
Carnival PLC	Consumer Discretionary	RED	Good						●	
Chevron Corp	Energy	RED	Adequate	●					●	
Citigroup Inc	Financials	YELLOW	Good						●	
Costco Wholesale Corp	Consumer Staples	RED	Poor	●			●	●	●	●
Deutsche Bank AG	Financials	GREEN	Adequate						●	
Dollar Tree Inc	Consumer Discretionary	RED	Poor	●			●	●	●	
Duke Energy Corp	Utilities	ORANGE	Good	●					●	
Eni SpA	Energy	YELLOW	Good	●					●	
Fiat Chrysler Automobiles NV	Consumer Discretionary	RED	Good	●						
Fresenius SE & Co KGaA	Health Care	RED	Adequate						●	
Glencore PLC	Materials	ORANGE	Adequate		●				●	
Golden Agri-Resources Ltd	Consumer Staples	RED	Good	●		●		●	●	●
HSBC Holdings PLC	Financials	ORANGE	Adequate	●	●				●	
Intesa Sanpaolo SpA	Financials	GREEN	Good	●	●					●
Johnson & Johnson	Health Care	ORANGE	Adequate						●	
JPMorgan Chase & Co	Financials	ORANGE	Adequate						●	
McDonald's Corp	Consumer Discretionary	ORANGE	Adequate	●				●	●	
National Grid PLC	Utilities	GREEN	Adequate	●						
Novartis AG	Health Care	YELLOW	Good	●	●			●	●	●
Pfizer Inc	Health Care	RED	Adequate						●	
Royal Dutch Shell PLC	Energy	YELLOW	Good	●						
Steel Dynamics Inc	Materials	ORANGE	Poor						●	
Tesco PLC	Consumer Staples	YELLOW	Good	●				●		●

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.
Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

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
Toray Industries Inc	Materials	GREEN	Poor	●	●				●	●
UnitedHealth Group Inc	Health Care	RED	Adequate					●	●	
US Bancorp	Financials	RED	Adequate						●	
Vinci SA	Industrials	ORANGE	Good	●		●	●		●	
Volkswagen AG	Consumer Discretionary	RED	Adequate						●	
Wal-Mart Stores Inc	Consumer Staples	RED	Adequate				●		●	●
Wells Fargo & Co	Financials	RED	Poor		●				●	●
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.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Aetna Inc	United States	Health Care		RED						●	
Alleghany Corp	United States	Financials		RED						●	
Allergan PLC	United States	Health Care	✓	RED					●	●	
Altria Group Inc	United States	Consumer Staples		RED						●	
American Airlines Group Inc	United States	Industrials	✓	RED	●					●	
AMETEK Inc	United States	Industrials		RED						●	
Athene Holding Ltd	United States	Financials		RED						●	
BB&T Corp	United States	Financials		RED						●	
BioMerieux	France	Health Care		RED						●	
Bombardier Inc	Canada	Industrials		RED						●	
Canadian Natural Resources Ltd	Canada	Energy		RED						●	
Carnival Corp	United States	Consumer Discretionary		RED						●	
Carnival PLC	United States	Consumer Discretionary	✓	RED						●	
Chevron Corp	United States	Energy	✓	RED	●					●	
Cigna Corp	United States	Health Care		RED						●	
CIMIC Group Ltd	Australia	Industrials		RED						●	
CK Asset Holdings Ltd	Hong Kong	Real Estate		RED						●	
Costco Wholesale Corp	United States	Consumer Staples	✓	RED	●			●	●	●	●
Crown Castle International Corp	United States	Real Estate		RED						●	
CVS Health Corp	United States	Consumer Staples		RED					●	●	
DaVita Inc	United States	Health Care		RED						●	
Dollar Tree Inc	United States	Consumer Discretionary	✓	RED	●			●	●	●	
eBay Inc	United States	Information Technology		RED						●	
Express Scripts Holding Co	United States	Health Care		RED						●	
FANUC Corp	Japan	Industrials		RED						●	
Fiat Chrysler Automobiles NV	United Kingdom	Consumer Discretionary	✓	RED	●						
Fresenius SE & Co KGaA	Germany	Health Care	✓	RED						●	
Galaxy Entertainment Group Ltd	Hong Kong	Consumer Discretionary		RED						●	
Genting Singapore PLC	Singapore	Consumer Discretionary		RED						●	
Global Payments Inc	United States	Information Technology		RED						●	
Golden Agri-Resources Ltd	Singapore	Consumer Staples	✓	RED	●		●		●	●	●
Helmerich & Payne Inc	United States	Energy		RED						●	
Hongkong Land Holdings Ltd	Hong Kong	Real Estate		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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Intercontinental Exchange Inc	United States	Financials		RED						●	
Intuitive Surgical Inc	United States	Health Care		RED						●	
Jardine Matheson Holdings Ltd	Hong Kong	Industrials		RED						●	
L Brands Inc	United States	Consumer Discretionary		RED	●					●	
Laboratory Corp of America Holdings	United States	Health Care		RED		●				●	
Leucadia National Corp	United States	Financials		RED						●	
Lloyds Banking Group PLC	United Kingdom	Financials		RED						●	
Mitsubishi Corp	Japan	Industrials		RED						●	
Mitsubishi Motors Corp	Japan	Consumer Discretionary		RED						●	
Mitsui & Co Ltd	Japan	Industrials		RED	●					●	
Monsanto Co	United States	Materials		RED						●	
Mylan NV	United States	Health Care		RED						●	
Netflix Inc	United States	Consumer Discretionary		RED						●	
Nissan Motor Co Ltd	Japan	Consumer Discretionary		RED						●	
Pfizer Inc	United States	Health Care	✔	RED						●	
Philip Morris International Inc	United States	Consumer Staples		RED						●	
PulteGroup Inc	United States	Consumer Discretionary		RED						●	
QUALCOMM Inc	United States	Information Technology		RED						●	
Ricoh Co Ltd	Japan	Information Technology		RED						●	
SL Green Realty Corp	United States	Real Estate		RED						●	
SMC Corp/Japan	Japan	Industrials		RED						●	
Starbucks Corp	United States	Consumer Discretionary		RED						●	
Sumitomo Realty & Development Co Ltd	Japan	Real Estate		RED						●	
Suruga Bank Ltd	Japan	Financials		RED						●	
Suzuki Motor Corp	Japan	Consumer Discretionary		RED						●	
Teva Pharmaceutical Industries Ltd	Israel	Health Care		RED		●			●		
Tohoku Electric Power Co Inc	Japan	Utilities		RED						●	
Total System Services Inc	United States	Information Technology		RED						●	
Tyson Foods Inc	United States	Consumer Staples		RED						●	
UnitedHealth Group Inc	United States	Health Care	✔	RED					●	●	
US Bancorp	United States	Financials	✔	RED						●	
Valeant Pharmaceuticals International Inc	United States	Health Care		RED						●	
Volkswagen AG	Germany	Consumer Discretionary	✔	RED						●	
Wal-Mart Stores Inc	United States	Consumer Staples	✔	RED				●		●	●
Wells Fargo & Co	United States	Financials	✔	RED		●				●	●
WR Berkley Corp	United States	Financials		RED						●	
Yangzijiang Shipbuilding Holdings Ltd	China	Industrials		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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Yum! Brands Inc	United States	Consumer Discretionary		RED						●	
Zodiac Aerospace	France	Industrials		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.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
AmerisourceBergen Corp	United States	Health Care		ORANGE						●	
Annaly Capital Management Inc	United States	Financials		ORANGE						●	
AO Smith Corp	United States	Industrials		ORANGE						●	
Aon PLC	United Kingdom	Financials		ORANGE						●	
Arconic Inc	United States	Industrials		ORANGE						●	
Bank of America Corp	United States	Financials		ORANGE						●	
Barclays PLC	United Kingdom	Financials		ORANGE						●	
Berkshire Hathaway Inc	United States	Financials		ORANGE						●	
BHP Billiton Ltd	Australia	Materials	✓	ORANGE	●	●	●			●	
Bollore SA	France	Industrials		ORANGE						●	
BorgWarner Inc	United States	Consumer Discretionary		ORANGE						●	
BP PLC	United Kingdom	Energy	✓	ORANGE	●			●			
Bureau Veritas SA	France	Industrials		ORANGE						●	
Canon Inc	Japan	Information Technology		ORANGE						●	
Casio Computer Co Ltd	Japan	Consumer Discretionary		ORANGE						●	
CH Robinson Worldwide Inc	United States	Industrials		ORANGE						●	
Charles Schwab Corp/The	United States	Financials		ORANGE						●	
Chubu Electric Power Co Inc	Japan	Utilities		ORANGE						●	
CK Hutchison Holdings Ltd	Hong Kong	Industrials		ORANGE						●	
ComfortDelGro Corp Ltd	Singapore	Industrials		ORANGE						●	
Continental AG	Germany	Consumer Discretionary		ORANGE						●	
CSX Corp	United States	Industrials		ORANGE						●	
Daiichi Sankyo Co Ltd	Japan	Health Care		ORANGE						●	
Domino's Pizza Inc	United States	Consumer Discretionary		ORANGE						●	
Dr Pepper Snapple Group Inc	United States	Consumer Staples		ORANGE						●	
Duke Energy Corp	United States	Utilities	✓	ORANGE	●					●	
E*TRADE Financial Corp	United States	Financials		ORANGE						●	
Equity Residential	United States	Real Estate		ORANGE						●	
F5 Networks Inc	United States	Information Technology		ORANGE						●	
Facebook Inc	United States	Information Technology		ORANGE						●	
FamilyMart UNY Holdings Co Ltd	Japan	Consumer Staples		ORANGE						●	
FleetCor Technologies Inc	United States	Information Technology		ORANGE						●	
Fortive Corp	United States	Industrials		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
GGP Inc	United States	Real Estate		ORANGE						●	
Glencore PLC	Switzerland	Materials	✓	ORANGE		●				●	
HCA Healthcare Inc	United States	Health Care		ORANGE						●	
Hermes International	France	Consumer Discretionary		ORANGE						●	
HSBC Holdings PLC	United Kingdom	Financials	✓	ORANGE	●	●				●	
Humana Inc	United States	Health Care		ORANGE						●	
Jean Coutu Group PJC Inc/The	Canada	Consumer Staples		ORANGE						●	
Johnson & Johnson	United States	Health Care	✓	ORANGE						●	
JPMorgan Chase & Co	United States	Financials	✓	ORANGE						●	
Keyence Corp	Japan	Information Technology		ORANGE						●	
Keyera Corp	Canada	Energy		ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Kose Corp	Japan	Consumer Staples		ORANGE						●	
Kraft Heinz Co/The	United States	Consumer Staples		ORANGE						●	
Kroger Co/The	United States	Consumer Staples		ORANGE						●	
LKQ Corp	United States	Consumer Discretionary		ORANGE						●	
Marathon Petroleum Corp	United States	Energy		ORANGE						●	
Martin Marietta Materials Inc	United States	Materials		ORANGE						●	
Mazda Motor Corp	Japan	Consumer Discretionary		ORANGE						●	
McDonald's Corp	United States	Consumer Discretionary	✓	ORANGE	●				●	●	
Mitsui OSK Lines Ltd	Japan	Industrials		ORANGE						●	
PG&E Corp	United States	Utilities		ORANGE						●	
Pioneer Natural Resources Co	United States	Energy		ORANGE						●	●
Power Assets Holdings Ltd	Hong Kong	Utilities		ORANGE						●	
RTL Group SA	Luxembourg	Consumer Discretionary		ORANGE						●	
Sabre Corp	United States	Information Technology		ORANGE						●	
Safran SA	France	Industrials		ORANGE						●	
SEB SA	France	Consumer Discretionary		ORANGE						●	
Steel Dynamics Inc	United States	Materials	✓	ORANGE						●	
Subaru Corp	Japan	Consumer Discretionary		ORANGE						●	
Sumitomo Corp	Japan	Industrials		ORANGE						●	
Sumitomo Electric Industries Ltd	Japan	Consumer Discretionary		ORANGE						●	
Synopsys Inc	United States	Information Technology		ORANGE						●	
Techtronic Industries Co Ltd	Hong Kong	Consumer Discretionary		ORANGE						●	
TJX Cos Inc/The	United States	Consumer Discretionary		ORANGE						●	
Union Pacific Corp	United States	Industrials		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
Verizon Communications Inc	United States	Telecommunication Services		ORANGE						●	
Vinci SA	France	Industrials	✔	ORANGE	●		●	●		●	
WH Group Ltd	Hong Kong	Consumer Staples		ORANGE						●	
Wilmar International Ltd	Singapore	Consumer Staples		ORANGE						●	
Yamazaki Baking Co Ltd	Japan	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: 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.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
ABN AMRO Group NV	Netherlands	Financials		YELLOW						●	
Acuity Brands Inc	United States	Industrials		YELLOW		●					
AIA Group Ltd	Hong Kong	Financials		YELLOW						●	
Air Liquide SA	France	Materials		YELLOW						●	
Allstate Corp/The	United States	Financials		YELLOW						●	
Alphabet Inc	United States	Information Technology		YELLOW						●	
American Tower Corp	United States	Real Estate		YELLOW						●	
Andritz AG	Austria	Industrials	✔	YELLOW						●	
Antofagasta PLC	Chile	Materials		YELLOW						●	
Aptiv PLC	United Kingdom	Consumer Discretionary		YELLOW						●	
Archer-Daniels-Midland Co	United States	Consumer Staples		YELLOW						●	
Aristocrat Leisure Ltd	Australia	Consumer Discretionary		YELLOW						●	
Bayer AG	Germany	Health Care	✔	YELLOW						●	
Boeing Co/The	United States	Industrials		YELLOW						●	
Cameco Corp	Canada	Energy		YELLOW						●	
Canadian National Railway Co	Canada	Industrials		YELLOW						●	
Capita PLC	United Kingdom	Industrials		YELLOW						●	
Capital One Financial Corp	United States	Financials		YELLOW						●	
Carrefour SA	France	Consumer Staples		YELLOW	●	●			●	●	●
Celgene Corp	United States	Health Care		YELLOW						●	
Citigroup Inc	United States	Financials	✔	YELLOW						●	
Coca-Cola Co/The	United States	Consumer Staples		YELLOW						●	
Cognex Corp	United States	Information Technology		YELLOW						●	
Cognizant Technology Solutions Corp	United States	Information Technology		YELLOW						●	
Credit Agricole SA	France	Financials		YELLOW						●	
Credit Suisse Group AG	Switzerland	Financials		YELLOW		●				●	
Denso Corp	Japan	Consumer Discretionary		YELLOW						●	
East Japan Railway Co	Japan	Industrials		YELLOW						●	
Eni SpA	Italy	Energy	✔	YELLOW	●					●	
Exxon Mobil Corp	United States	Energy		YELLOW						●	
Franklin Resources Inc	United States	Financials		YELLOW						●	
Fresnillo PLC	Mexico	Materials		YELLOW						●	
Heineken NV	Netherlands	Consumer Staples		YELLOW						●	

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

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

Engagements and Your Fund: 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
HKT Trust & HKT Ltd	Hong Kong	Telecommunication Services		YELLOW						●	
Husky Energy Inc	Canada	Energy		YELLOW						●	
Industrial Alliance Insurance & Financial Services Inc	Canada	Financials		YELLOW						●	
Ipsen SA	France	Health Care		YELLOW						●	
Isuzu Motors Ltd	Japan	Consumer Discretionary		YELLOW						●	
Jardine Cycle & Carriage Ltd	Singapore	Consumer Discretionary		YELLOW						●	
JXTG Holdings Inc	Japan	Energy		YELLOW						●	
Kubota Corp	Japan	Industrials		YELLOW						●	
LafargeHolcim Ltd	Switzerland	Materials		YELLOW						●	
Liberty Global PLC	United Kingdom	Consumer Discretionary		YELLOW						●	
LVMH Moet Hennessy Louis Vuitton SE	France	Consumer Discretionary		YELLOW	●						●
Marriott International Inc/MD	United States	Consumer Discretionary		YELLOW						●	
Mastercard Inc	United States	Information Technology		YELLOW						●	
Merck & Co Inc	United States	Health Care		YELLOW						●	
Metro Inc	Canada	Consumer Staples		YELLOW						●	
Mitsubishi Electric Corp	Japan	Industrials		YELLOW						●	
Mitsubishi UFJ Financial Group Inc	Japan	Financials		YELLOW						●	
Mitsubishi UFJ Lease & Finance Co Ltd	Japan	Financials		YELLOW						●	
Mondelez International Inc	United States	Consumer Staples		YELLOW				●		●	●
Nikon Corp	Japan	Consumer Discretionary		YELLOW						●	
Novartis AG	Switzerland	Health Care	✔	YELLOW	●	●			●	●	●
NTT Data Corp	Japan	Information Technology		YELLOW						●	
Occidental Petroleum Corp	United States	Energy		YELLOW						●	
Ono Pharmaceutical Co Ltd	Japan	Health Care		YELLOW						●	
Otsuka Holdings Co Ltd	Japan	Health Care		YELLOW						●	
Oversea-Chinese Banking Corp Ltd	Singapore	Financials		YELLOW						●	
PayPal Holdings Inc	United States	Information Technology		YELLOW						●	
PCCW Ltd	Hong Kong	Telecommunication Services		YELLOW						●	
Poste Italiane SpA	Italy	Financials		YELLOW						●	
Praxair Inc	United States	Materials		YELLOW						●	
Priceline Group Inc/The	United States	Consumer Discretionary		YELLOW						●	
Publicis Groupe SA	France	Consumer Discretionary		YELLOW						●	
Reckitt Benckiser Group PLC	United Kingdom	Consumer Staples		YELLOW		●				●	
Resona Holdings Inc	Japan	Financials		YELLOW						●	
Roper Technologies Inc	United States	Industrials		YELLOW						●	
Royal Bank of Scotland Group PLC	United Kingdom	Financials		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
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW	●						
Schindler Holding AG	Switzerland	Industrials		YELLOW						●	
Seven Generations Energy Ltd	Canada	Energy		YELLOW						●	
Shire PLC	United States	Health Care		YELLOW						●	
Societe Generale SA	France	Financials		YELLOW						●	
Sumitomo Rubber Industries Ltd	Japan	Consumer Discretionary		YELLOW						●	
Suncor Energy Inc	Canada	Energy		YELLOW						●	
T Rowe Price Group Inc	United States	Financials		YELLOW						●	
Takeda Pharmaceutical Co Ltd	Japan	Health Care		YELLOW						●	
Telenet Group Holding NV	Belgium	Consumer Discretionary		YELLOW						●	
Tesco PLC	United Kingdom	Consumer Staples	✔	YELLOW	●				●		●
Tractor Supply Co	United States	Consumer Discretionary		YELLOW						●	
United Rentals Inc	United States	Industrials		YELLOW						●	
United Technologies Corp	United States	Industrials		YELLOW						●	
Valero Energy Corp	United States	Energy		YELLOW						●	
Vifor Pharma AG	Switzerland	Health Care		YELLOW						●	
Vonovia SE	Germany	Real Estate		YELLOW						●	
Welltower Inc	United States	Real Estate		YELLOW						●	
Willis Towers Watson PLC	United Kingdom	Financials		YELLOW						●	
Zalando SE	Germany	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.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
ABB Ltd	Switzerland	Industrials		GREEN		●				●	
Accenture PLC	Ireland	Information Technology		GREEN						●	
Accor SA	France	Consumer Discretionary		GREEN						●	
Akzo Nobel NV	Netherlands	Materials		GREEN						●	
Allianz SE	Germany	Financials		GREEN						●	
Alstom SA	France	Industrials		GREEN						●	
American Electric Power Co Inc	United States	Utilities		GREEN	●					●	
American Express Co	United States	Financials		GREEN						●	
Apple Inc	United States	Information Technology		GREEN						●	
Arkema SA	France	Materials		GREEN						●	
Ascendas Real Estate Investment Trust	Singapore	Real Estate		GREEN						●	
Asics Corp	Japan	Consumer Discretionary		GREEN	●						
ASML Holding NV	Netherlands	Information Technology		GREEN						●	
Assicurazioni Generali SpA	Italy	Financials		GREEN						●	
Associated British Foods PLC	United Kingdom	Consumer Staples		GREEN						●	
Atos SE	France	Information Technology		GREEN						●	
AXA SA	France	Financials		GREEN	●	●			●	●	
Bank of New York Mellon Corp/The	United States	Financials		GREEN						●	
BlackRock Inc	United States	Financials		GREEN						●	
BNP Paribas SA	France	Financials		GREEN	●	●				●	
BOC Hong Kong Holdings Ltd	Hong Kong	Financials		GREEN						●	
BT Group PLC	United Kingdom	Telecommunication Services	✔	GREEN		●				●	
Bunzl PLC	United Kingdom	Industrials		GREEN						●	
Caltex Australia Ltd	Australia	Energy		GREEN						●	
Canadian Imperial Bank of Commerce	Canada	Financials		GREEN						●	
Canadian Tire Corp Ltd	Canada	Consumer Discretionary		GREEN						●	
CapitaLand Ltd	Singapore	Real Estate		GREEN						●	
Carlsberg A/S	Denmark	Consumer Staples		GREEN						●	
Chocoladefabriken Lindt & Spruengli AG	Switzerland	Consumer Staples		GREEN						●	
Cie Generale des Etablissements Michelin	France	Consumer Discretionary		GREEN						●	
CNP Assurances	France	Financials		GREEN		●			●	●	
Compass Group PLC	United Kingdom	Consumer Discretionary		GREEN						●	
Cummins Inc	United States	Industrials		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
Daiwa House Industry Co Ltd	Japan	Real Estate		GREEN						●	
Danone SA	France	Consumer Staples		GREEN						●	
Dassault Systemes SE	France	Information Technology		GREEN						●	
Deutsche Bank AG	Germany	Financials	✓	GREEN						●	
Deutsche Boerse AG	Germany	Financials		GREEN						●	
Deutsche Post AG	Germany	Industrials		GREEN						●	
Devon Energy Corp	United States	Energy		GREEN						●	
E.ON SE	Germany	Utilities		GREEN						●	
Ecolab Inc	United States	Materials		GREEN						●	
Edenred	France	Industrials		GREEN						●	
Edwards Lifesciences Corp	United States	Health Care		GREEN						●	
Eisai Co Ltd	Japan	Health Care		GREEN						●	
Eli Lilly & Co	United States	Health Care		GREEN						●	
Enbridge Inc	Canada	Energy		GREEN						●	
Encana Corp	Canada	Energy		GREEN						●	
Endesa SA	Spain	Utilities		GREEN						●	
Enel SpA	Italy	Utilities		GREEN	●						
Engie SA	France	Utilities		GREEN						●	
Essilor International Cie Generale d'Optique SA	France	Health Care		GREEN						●	
Eurazeo SA	France	Financials		GREEN						●	
Exelon Corp	United States	Utilities		GREEN						●	
Fonciere Des Regions	France	Real Estate		GREEN						●	
Fuji Electric Co Ltd	Japan	Industrials		GREEN						●	
Galp Energia SGPS SA	Portugal	Energy		GREEN						●	
Gap Inc/The	United States	Consumer Discretionary		GREEN	●					●	
Gecina SA	France	Real Estate		GREEN						●	
General Electric Co	United States	Industrials		GREEN						●	
Gildan Activewear Inc	Canada	Consumer Discretionary		GREEN						●	
Givaudan SA	Switzerland	Materials		GREEN						●	
Hang Seng Bank Ltd	Hong Kong	Financials		GREEN						●	
Hennes & Mauritz AB	Sweden	Consumer Discretionary		GREEN	●						
Henry Schein Inc	United States	Health Care		GREEN						●	
Hysan Development Co Ltd	Hong Kong	Real Estate		GREEN						●	
ICADE	France	Real Estate		GREEN						●	
Imerys SA	France	Materials		GREEN						●	
Intesa Sanpaolo SpA	Italy	Financials	✓	GREEN	●	●					●
J Sainsbury PLC	United Kingdom	Consumer Staples		GREEN				●			●
JFE Holdings Inc	Japan	Materials		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	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Julius Baer Group Ltd	Switzerland	Financials		GREEN						●	
Kansai Paint Co Ltd	Japan	Materials		GREEN						●	
KDDI Corp	Japan	Telecommunication Services		GREEN						●	
Kinnevik AB	Sweden	Financials		GREEN						●	
Klepierre SA	France	Real Estate		GREEN						●	
Kobe Steel Ltd	Japan	Materials		GREEN		●				●	
Kyocera Corp	Japan	Information Technology		GREEN						●	
Legal & General Group PLC	United Kingdom	Financials		GREEN						●	
L'Oreal SA	France	Consumer Staples		GREEN						●	
Macquarie Group Ltd	Australia	Financials		GREEN						●	
Magna International Inc	Canada	Consumer Discretionary		GREEN						●	
Mediclinic International PLC	South Africa	Health Care		GREEN						●	
Merck KGaA	Germany	Health Care		GREEN						●	
Mettler-Toledo International Inc	United States	Health Care		GREEN						●	
Mizuho Financial Group Inc	Japan	Financials		GREEN						●	
Mondi PLC	South Africa	Materials		GREEN						●	
Motorola Solutions Inc	United States	Information Technology		GREEN						●	
MTR Corp Ltd	Hong Kong	Industrials		GREEN						●	
National Grid PLC	United Kingdom	Utilities	✔	GREEN	●						
Natixis SA	France	Financials		GREEN						●	
Nestle SA	Switzerland	Consumer Staples		GREEN	●	●		●	●		●
Nippon Steel & Sumitomo Metal Corp	Japan	Materials		GREEN						●	
Nippon Yusen KK	Japan	Industrials		GREEN	●					●	
Nomura Research Institute Ltd	Japan	Information Technology		GREEN						●	
Novo Nordisk A/S	Denmark	Health Care		GREEN						●	
NTT DOCOMO Inc	Japan	Telecommunication Services		GREEN						●	
Oil Search Ltd	Australia	Energy		GREEN						●	
Orange SA	France	Telecommunication Services		GREEN						●	
Osaka Gas Co Ltd	Japan	Utilities		GREEN						●	
Osram Licht AG	Germany	Industrials		GREEN						●	
Paddy Power Betfair PLC	Ireland	Consumer Discretionary		GREEN						●	
Pearson PLC	United Kingdom	Consumer Discretionary		GREEN						●	
PepsiCo Inc	United States	Consumer Staples		GREEN	●			●	●	●	●
Peugeot SA	France	Consumer Discretionary		GREEN						●	
Principal Financial Group Inc	United States	Financials		GREEN						●	
Prudential Financial Inc	United States	Financials		GREEN						●	
QBE Insurance Group Ltd	Australia	Financials		GREEN						●	

Themes engaged: Environmental Standards, Business Ethics, Human Rights, Labour Standards, Public Health, Corporate Governance, Social and Environmental Governance.

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
QIAGEN NV	Netherlands	Health Care		GREEN						●	
Red Electrica Corp SA	Spain	Utilities		GREEN						●	
Renault SA	France	Consumer Discretionary		GREEN						●	
Repsol SA	Spain	Energy		GREEN	●						
Royal Bank of Canada	Canada	Financials		GREEN						●	
Salesforce.com Inc	United States	Information Technology		GREEN						●	
Sandvik AB	Sweden	Industrials		GREEN						●	
Sanofi	France	Health Care		GREEN					●	●	
Santos Ltd	Australia	Energy		GREEN						●	
SAP SE	Germany	Information Technology		GREEN	●	●		●		●	
Schneider Electric SE	France	Industrials		GREEN						●	
Segro PLC	United Kingdom	Real Estate		GREEN						●	
SGS SA	Switzerland	Industrials		GREEN						●	
Solvay SA	Belgium	Materials		GREEN						●	
Statoil ASA	Norway	Energy		GREEN	●						
Suez	France	Utilities		GREEN						●	
Sumitomo Chemical Co Ltd	Japan	Materials		GREEN						●	
Sumitomo Mitsui Trust Holdings Inc	Japan	Financials		GREEN						●	
Swedbank AB	Sweden	Financials		GREEN	●						
TELUS Corp	Canada	Telecommunication Services		GREEN						●	
Terna Rete Elettrica Nazionale SpA	Italy	Utilities		GREEN						●	
Texas Instruments Inc	United States	Information Technology		GREEN						●	
Toray Industries Inc	Japan	Materials	✔	GREEN	●	●				●	●
Toronto-Dominion Bank/The	Canada	Financials		GREEN						●	
TOTAL SA	France	Energy		GREEN	●					●	
Travelers Cos Inc/The	United States	Financials		GREEN						●	
Umicore SA	Belgium	Materials		GREEN	●						●
Unibail-Rodamco SE	France	Real Estate		GREEN						●	
UOL Group Ltd	Singapore	Real Estate		GREEN						●	
Valeo SA	France	Consumer Discretionary		GREEN						●	
Vertex Pharmaceuticals Inc	United States	Health Care		GREEN						●	
VMware Inc	United States	Information Technology		GREEN						●	
Vodafone Group PLC	United Kingdom	Telecommunication Services		GREEN						●	
Volvo AB	Sweden	Industrials		GREEN						●	
Waters Corp	United States	Health Care		GREEN						●	
Western Union Co/The	United States	Information Technology		GREEN						●	
Westpac Banking Corp	Australia	Financials		GREEN	●						

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

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

Engagements and Your Fund: Green rated

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Wm Morrison Supermarkets PLC	United Kingdom	Consumer Staples		GREEN						●	
WPP PLC	United Kingdom	Consumer Discretionary	✔	GREEN						●	
Xylem Inc/NY	United States	Industrials		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.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
✪✪✪											
Exxon Mobil Corp	United States	Energy		YELLOW	●						
HSBC Holdings PLC	United Kingdom	Financials	✔	ORANGE		●					
Occidental Petroleum Corp	United States	Energy		YELLOW	●						
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW	●						
✪✪											
ArcelorMittal	Luxembourg	Materials	✔	ORANGE	●						
AstraZeneca PLC	United Kingdom	Health Care		GREEN						●	
Equity Residential	United States	Real Estate		ORANGE						●	
FUJIFILM Holdings Corp	Japan	Information Technology		ORANGE						●	
Hitachi Construction Machinery Co Ltd	Japan	Industrials		YELLOW						●	
Honda Motor Co Ltd	Japan	Consumer Discretionary		YELLOW						●	
Humana Inc	United States	Health Care		ORANGE						●	
JFE Holdings Inc	Japan	Materials		GREEN						●	
Johnson & Johnson	United States	Health Care	✔	ORANGE					●		
L Brands Inc	United States	Consumer Discretionary		RED						●	
Mitsubishi UFJ Financial Group Inc	Japan	Financials		YELLOW						●	
Novartis AG	Switzerland	Health Care	✔	YELLOW					●		
Pioneer Natural Resources Co	United States	Energy		ORANGE							●
US Bancorp	United States	Financials	✔	RED						●	
Zayo Group Holdings Inc	United States	Telecommunication Services		RED						●	
✪											
Barrick Gold Corp	Canada	Materials		RED	●						
BHP Billiton Ltd	Australia	Materials	✔	ORANGE	●						
BNP Paribas SA	France	Financials		GREEN					●		
Electricite de France SA	France	Utilities		YELLOW	●						
Enel SpA	Italy	Utilities		GREEN	●						
Engie SA	France	Utilities		GREEN	●						
Eni SpA	Italy	Energy	✔	YELLOW	●						
Glencore PLC	Switzerland	Materials	✔	ORANGE	●						
HSBC Holdings PLC	United Kingdom	Financials	✔	ORANGE	●						
Norsk Hydro ASA	Norway	Materials		GREEN	●						
Panasonic Corp	Japan	Consumer Discretionary		GREEN						●	

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

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

Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Themes engaged: Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
PepsiCo Inc	United States	Consumer Staples		GREEN					●		
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW	●						
Suez	France	Utilities		GREEN	●						
Wells Fargo & Co	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