

Shropshire County Council

Q2 2019

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.

Engagement in review

During the quarter, team members travelled to India for company engagement, to Thailand and Malaysia to speak at a panel on sustainable banking and engage with selected banks and to Hong Kong to learn more about green finance initiatives. We also attended annual gatherings of two sustainability initiatives we have been long engaged with – the Roundtable on Sustainable Palm Oil and the Workforce Disclosure Initiative.

India rising

We spent one week in Mumbai and Bangalore engaging with over 15 companies on a wide range of issues. Our assessment of companies' preparedness to tackle the potential impacts of a changing climate and social shifts was generally positive, yet there is ample room for improvement.

Most of the companies we engaged have taken a proactive approach to increasing energy efficiency, whilst looking to shift towards renewable sources of energy. Companies like Ultratech Cement, Titan Company and Marico have partnered up with third parties to increase the proportion of renewable energy in their energy mix and drive down energy costs. We supported such a strategic approach and called for improved transparency on energy use and carbon emissions.

Finally, we engaged on governance issues, board composition and diversity and director attendance. Director attendance continues to be an issue across corporate India. We encouraged companies to implement measures to ensure directors attend all board meetings, e.g. by making attendance records more prominent in director evaluation.

Sustainable banking in ASEAN

We shared the investor perspective on sustainable banking at a Bank of Thailand conference. We also met with several banks in both Bangkok and Kuala Lumpur (Malaysia).

The level of awareness around the importance of robust management of environment and social risks in lending transactions is generally high, but comparably high are worries that implementation of stronger sustainability standards could negatively impact competitiveness. We will therefore continue to push for the development of thorough environmental and social risk management frameworks, including policies for high-risk industries such as palm oil and coal-fired power, along with more detailed reporting and disclosure.

As banks play a crucial role in mobilising capital for the investment needs that are required for the shift towards a low-carbon economy, we will also continue to encourage ASEAN banks to become more active in this area.

Green Finance in Hong Kong

We also spent a week in Hong Kong to engage with several key initiatives promoting the green finance agenda. We are particularly encouraged by the newly set-up Hong Kong Green Finance Association, which is supported and chaired by the Hong Kong Financial Services Development Council and takes an integrated approach to include both investors and locally listed companies to discuss ESG integration and best practices.

We also met the Asian secretariat and fellow investors of the Climate Action 100+, an investor initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We exchanged views on Asian companies and discussed future strategy for the investor group to deepen our engagements with Chinese companies on energy transition. We are leading and supporting several Asian company engagements on the Climate Action 100+ list.

Roundtable on Sustainable Palm Oil (RSPO)

The RSPO hosted its annual European Roundtable in Utrecht (Netherlands), which we attended along with producers, traders, smallholders, government representatives, civil society and banks. Discussions covered sharing responsibility among different stakeholders to improve implementation of the RSPO principles, and measures to support demand for sustainable palm oil. The role of small farmers played an important role during the roundtable following up on the new RSPO Principles & Criteria, which are more stringent. We are encouraged by the willingness of stakeholders to continue pushing for a stronger, more sustainable industry. However, we share concerns about big players leaving the RSPO because of criticism related to their unsustainable practices, as well as consumer companies' failure to better articulate the positive sustainable palm oil message.

We advocated for a push to increase membership of ASEAN banks, some of which are amongst the largest financiers of palm oil development, in the organisation.

Corporate Governance

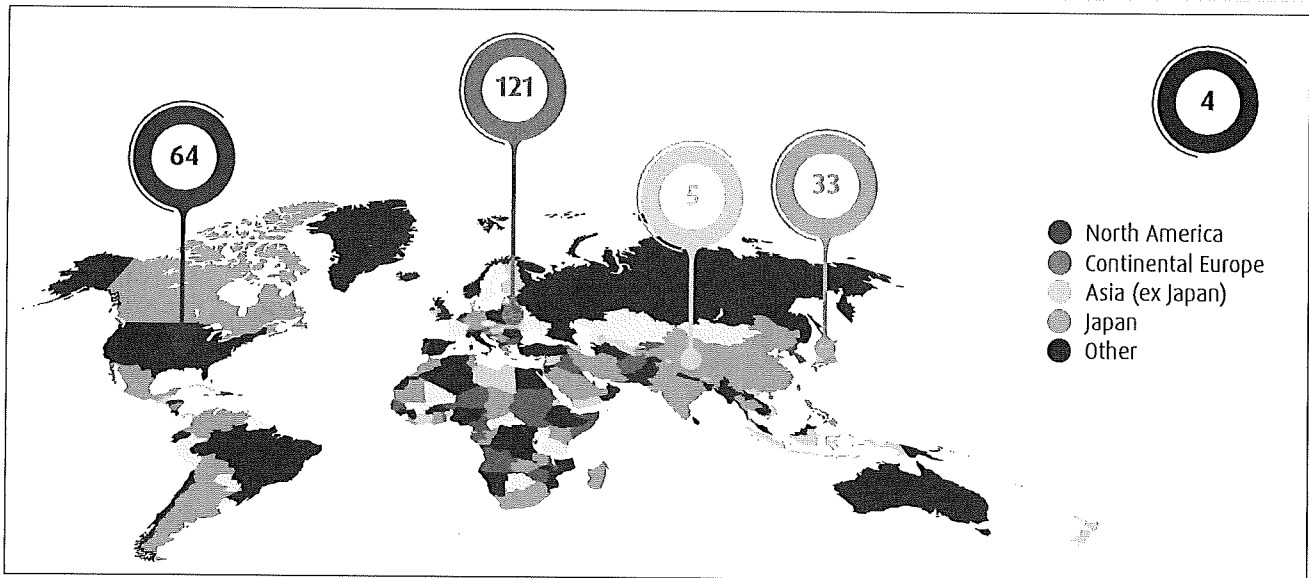
We saw a flurry of shareholder proposals on climate change as concerns about its impacts on long-term company performance continue to move up global investors' agendas. We supported resolutions asking energy and utility companies to set greenhouse gas reduction targets and disclose their plans for meeting those goals.

This season our focus across most markets remained firmly on board composition and effectiveness, with particular attention to diversity. We use our right to vote to elect directors to hold them accountable and, importantly, to encourage boards to be better balanced, more diverse, and better equipped to oversee and advise management.

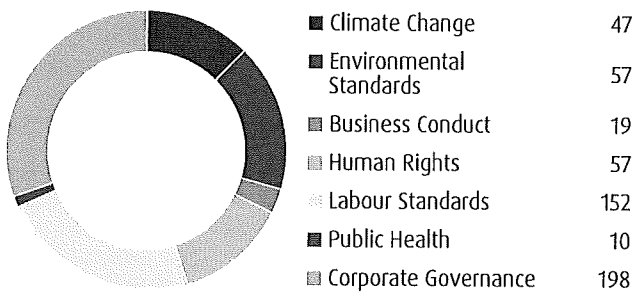
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
227	59	20

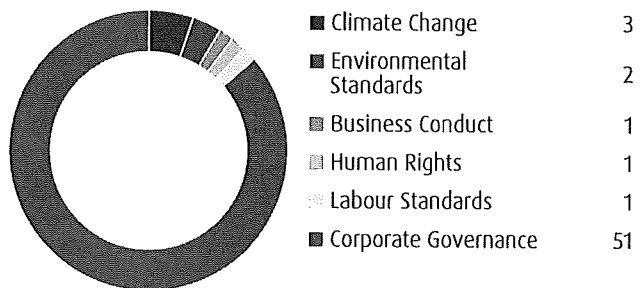
Companies engaged by region



Companies engaged by issue ^{***}



Milestones achieved by issue



* *reo* is currently applied to £127bn (\$166billion / €148billion) of assets as at 31st March 2019.

** Companies may have been engaged on more than one issue.

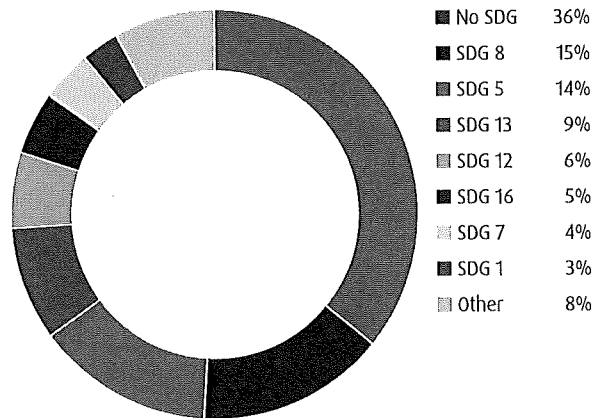
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where 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.

Engagements and Sustainable Development Goals (SDGs)

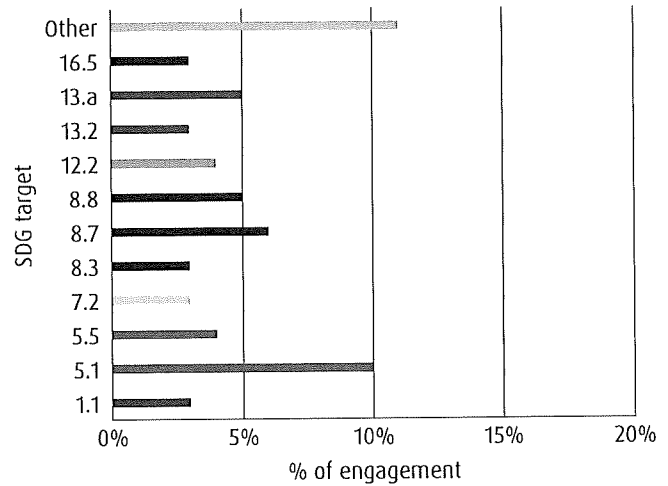
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.

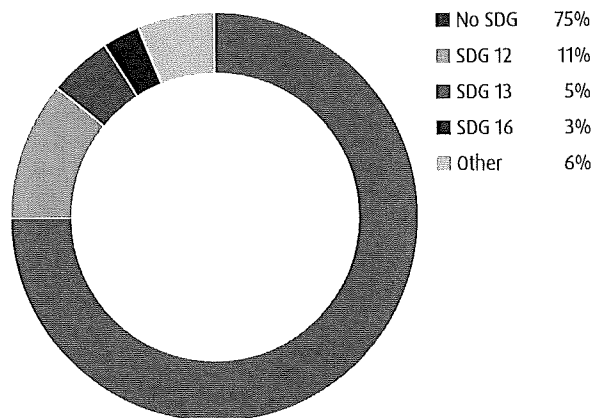
Engagement: SDG level



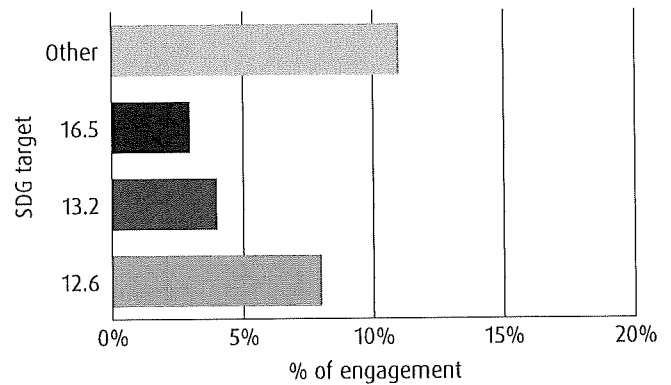
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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 details of our engagements with companies please refer to the online *reo*® client portal.

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Amazon.com Inc	Consumer Discretionary	RED	Poor	●				●		●
Anglo American PLC	Materials	YELLOW	Good	●	●		●	●		
AO Smith Corp	Industrials	RED		●				●		
BASF SE	Materials	GREEN	Good		●			●		●
Bayer AG	Health Care	ORANGE	Adequate			●		●	●	●
BP PLC	Energy	YELLOW	Good	●						●
Chevron Corp	Energy	ORANGE	Adequate	●	●		●			●
Chubu Electric Power Co Inc	Utilities	ORANGE	Adequate	●						●
CK Asset Holdings Ltd	Real Estate	ORANGE								●
Danske Bank A/S	Financials	RED	Good			●				●
DBS Group Holdings Ltd	Financials	GREEN		●	●		●	●		●
Duke Energy Corp	Utilities	YELLOW	Good		●					
GlaxoSmithKline PLC	Health Care	ORANGE	Good	●						●
HOCHTIEF AG	Industrials	GREEN		●	●		●			●
HSBC Holdings PLC	Financials	ORANGE	Good	●	●					●
ING Groep NV	Financials	YELLOW	Adequate	●	●	●				●
Intuitive Surgical Inc	Health Care	RED							●	
Japan Tobacco Inc	Consumer Staples	ORANGE		●	●			●		
Johnson & Johnson	Health Care	YELLOW	Adequate	●	●			●	●	●
Keyence Corp	Information Technology	ORANGE	Poor				●	●		●
Lear Corp	Consumer Discretionary	RED			●			●		
Mastercard Inc	Information Technology	GREEN						●		●
Philip Morris International Inc	Consumer Staples	RED	Good	●	●		●	●		
Renault SA	Consumer Discretionary	GREEN				●				●
Royal Dutch Shell PLC	Energy	YELLOW	Good	●	●					●
Royal Mail PLC	Industrials	YELLOW								●
SAP SE	Information Technology	GREEN	Adequate			●		●		●
Suncor Energy Inc	Energy	GREEN								●
SVB Financial Group	Financials	GREEN			●					●
Tesla Inc	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

Priority Companies and Your Fund

Name	Sector	ESG Rating	Response to engagement	Themes engaged							
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
Tokyo Electric Power Co Holdings Inc	Utilities	RED	Adequate	●							
Unilever PLC	Consumer Staples	YELLOW									●
Vistra Energy Corp	Utilities	RED		●							
Volkswagen AG	Consumer Discretionary	RED	Adequate					●			●
Wells Fargo & Co	Financials	RED	Adequate			●		●			●
XPO Logistics Inc	Industrials	RED	Adequate					●			●

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

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

Engagements and Your Fund: Red rated

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

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
1&1 Drillisch AG	Germany	Communication Services		RED								
Amazon.com Inc	United States	Consumer Discretionary	✓	RED	●					●		●
AO Smith Corp	United States	Industrials	✓	RED	●					●		
Bank of America Corp	United States	Financials		RED		●		●		●		●
Calbee Inc	Japan	Consumer Staples		RED								●
Danske Bank A/S	Denmark	Financials	✓	RED			●					●
Dollar General Corp	United States	Consumer Discretionary		RED						●		
Dollar Tree Inc	United States	Consumer Discretionary		RED						●		
Dollarama Inc	Canada	Consumer Discretionary		RED						●		●
Fresenius SE & Co KGaA	Germany	Health Care		RED								●
General Motors Co	United States	Consumer Discretionary		RED	●		●					●
Intuitive Surgical Inc	United States	Health Care	✓	RED							●	
JPMorgan Chase & Co	United States	Financials		RED		●		●				
Kose Corp	Japan	Consumer Staples		RED								●
Lear Corp	United States	Consumer Discretionary	✓	RED		●				●		
M3 Inc	Japan	Health Care		RED								●
MISUMI Group Inc	Japan	Industrials		RED								●
Olympus Corp	Japan	Health Care		RED								●
Phillip Morris International Inc	United States	Consumer Staples	✓	RED	●	●		●		●		
Pigeon Corp	Japan	Consumer Staples		RED						●		●
Pola Orbis Holdings Inc	Japan	Consumer Staples		RED						●		●
Siemens Healthineers AG	Germany	Health Care		RED								●
Tokyo Electric Power Co Holdings Inc	Japan	Utilities	✓	RED	●							
Uniper SE	Germany	Utilities		RED								●
United Internet AG	Germany	Information Technology		RED								●
US Bancorp	United States	Financials		RED								●
Vistra Energy Corp	United States	Utilities	✓	RED	●							
Volkswagen AG	Germany	Consumer Discretionary	✓	RED						●		●
Waste Connections Inc	United States	Industrials		RED						●		●
Wells Fargo & Co	United States	Financials	✓	RED			●			●		●
Western Digital Corp	United States	Information Technology		RED				●		●		
XPO Logistics Inc	United States	Industrials	✓	RED						●		●
Yamato Holdings Co Ltd	Japan	Industrials		RED								●

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

Engagements and Your Fund: Orange rated

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Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
Airbus SE	France	Industrials		ORANGE								
Aroundtown SA	Luxembourg	Real Estate		ORANGE								
Bayer AG	Germany	Health Care	✓	ORANGE			●		●	●		●
BCE Inc	Canada	Communication Services		ORANGE								●
Carl Zeiss Meditec AG	Germany	Health Care		ORANGE								●
Chevron Corp	United States	Energy	✓	ORANGE	●	●		●				●
Chubu Electric Power Co Inc	Japan	Utilities	✓	ORANGE	●							●
Citigroup Inc	United States	Financials		ORANGE		●		●				
CK Asset Holdings Ltd	Hong Kong	Real Estate	✓	ORANGE								●
Costco Wholesale Corp	United States	Consumer Staples		ORANGE					●			
Delivery Hero SE	Germany	Information Technology		ORANGE								●
Freeport-McMoRan Inc	United States	Materials		ORANGE		●	●	●	●			
Fresenius Medical Care AG & Co KGaA	Germany	Health Care		ORANGE					●			
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	ORANGE	●							●
Glencore PLC	Switzerland	Materials		ORANGE	●	●	●	●	●			●
GMO Payment Gateway Inc	Japan	Information Technology		ORANGE								●
Halma PLC	United Kingdom	Information Technology		ORANGE	●				●	●		
Hoya Corp	Japan	Health Care		ORANGE	●			●	●			●
HSBC Holdings PLC	United Kingdom	Financials	✓	ORANGE	●	●						●
International Consolidated Airlines Group SA	United Kingdom	Industrials		ORANGE								●
Japan Exchange Group Inc	Japan	Financials		ORANGE								●
Japan Tobacco Inc	Japan	Consumer Staples	✓	ORANGE	●	●			●			
Keyence Corp	Japan	Information Technology	✓	ORANGE				●	●			●
Kobayashi Pharmaceutical Co Ltd	Japan	Consumer Staples		ORANGE					●			
LANXESS AG	Germany	Materials		ORANGE								●
Microchip Technology Inc	United States	Information Technology		ORANGE				●	●			
Motorola Solutions Inc	United States	Information Technology		ORANGE				●				
Nidec Corp	Japan	Industrials		ORANGE								●
Restaurant Brands International Inc	Canada	Consumer Discretionary		ORANGE		●			●			●
RTL Group SA	Luxembourg	Consumer Discretionary		ORANGE								●
Serco Group PLC	United Kingdom	Industrials		ORANGE				●				
TUI AG	Germany	Consumer Discretionary		ORANGE								●
Wirecard AG	Germany	Information Technology		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							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
Yakult Honsha Co Ltd	Japan	Consumer Staples		ORANGE								●

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Engagements and Your Fund: Yellow rated

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Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
Analog Devices Inc	United States	Information Technology		YELLOW				●	●			
Anglo American PLC	United Kingdom	Materials	✓	YELLOW	●	●		●	●			
Banco Santander SA	Spain	Financials		YELLOW								●
Barrick Gold Corp	Canada	Materials		YELLOW								●
Bayerische Motoren Werke AG	Germany	Consumer Discretionary		YELLOW					●			●
BHP Group Ltd	Australia	Materials		YELLOW	●	●		●	●			●
BP PLC	United Kingdom	Energy	✓	YELLOW	●							●
British American Tobacco PLC	United Kingdom	Consumer Staples		YELLOW								●
Canadian National Railway Co	Canada	Industrials		YELLOW								●
Commerzbank AG	Germany	Financials		YELLOW								●
Corning Inc	United States	Information Technology		YELLOW				●	●			
Daimler AG	Germany	Consumer Discretionary		YELLOW					●			●
Deutsche Bank AG	Germany	Financials		YELLOW			●		●			●
Deutsche Lufthansa AG	Germany	Industrials		YELLOW					●			●
Deutsche Post AG	Germany	Industrials		YELLOW					●			●
Deutsche Telekom AG	Germany	Communication Services		YELLOW					●			●
Domino's Pizza Group PLC	United Kingdom	Consumer Discretionary		YELLOW								●
Duke Energy Corp	United States	Utilities	✓	YELLOW		●						●
DuPont de Nemours Inc	United States	Materials		YELLOW		●			●			
Evonik industries AG	Germany	Materials		YELLOW								●
Facebook Inc	United States	Information Technology		YELLOW			●					
Fortis Inc/Canada	Canada	Utilities		YELLOW								●
Foxtons Group PLC	United Kingdom	Real Estate		YELLOW								●
FUCHS PETROLUB SE	Germany	Materials		YELLOW								●
Goldman Sachs Group Inc/The	United States	Financials		YELLOW		●		●				
Hannover Rueck SE	Germany	Financials		YELLOW								●
Huntsworth PLC	United Kingdom	Consumer Discretionary		YELLOW								●
ING Groep NV	Netherlands	Financials	✓	YELLOW	●	●	●					●
ITOCHU Corp	Japan	Industrials		YELLOW	●							
Johnson & Johnson	United States	Health Care	✓	YELLOW	●	●			●	●		●
Kajima Corp	Japan	Industrials		YELLOW								●
Kingspan Group PLC	Ireland	Industrials		YELLOW								●
Kinross Gold Corp	Canada	Materials		YELLOW	●	●			●			●

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Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
KION Group AG	Germany	Industrials		YELLOW								●
Koninklijke Ahold Delhaize NV	Netherlands	Consumer Staples		YELLOW	●	●				●		
Koninklijke Philips NV	Netherlands	Health Care		YELLOW		●						
Kyocera Corp	Japan	Information Technology		YELLOW				●	●			●
Linde PLC	United Kingdom	Materials		YELLOW								●
Lloyds Banking Group PLC	United Kingdom	Financials		YELLOW					●			●
Magna International Inc	Canada	Consumer Discretionary		YELLOW	●	●	●			●		●
Melrose Industries PLC	United Kingdom	Industrials		YELLOW								●
Methanex Corp	Canada	Materials		YELLOW								●
Mitsubishi Materials Corp	Japan	Materials		YELLOW	●	●			●			
National Express Group PLC	United Kingdom	Industrials		YELLOW								●
NIKE Inc	United States	Consumer Discretionary		YELLOW		●			●			
Nintendo Co Ltd	Japan	Information Technology		YELLOW				●	●			
Onex Corp	Canada	Financials		YELLOW								●
Oversea-Chinese Banking Corp Ltd	Singapore	Financials		YELLOW		●		●				
Park24 Co Ltd	Japan	Industrials		YELLOW								●
PayPal Holdings Inc	United States	Information Technology		YELLOW								●
Persimmon PLC	United Kingdom	Consumer Discretionary		YELLOW								●
Polymetal International PLC	Russian Federation	Materials		YELLOW								●
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW	●	●						●
Royal Mail PLC	United Kingdom	Industrials	✓	YELLOW								●
Sabre Corp	United States	Information Technology		YELLOW								●
Shimadzu Corp	Japan	Information Technology		YELLOW								●
SNC-Lavalin Group Inc	Canada	Industrials		YELLOW				●				●
Softbank Corp	Japan	Communication Services		YELLOW								●
Sophos Group PLC	United Kingdom	Information Technology		YELLOW								●
South32 Ltd	Australia	Materials		YELLOW	●	●			●			
Sysco Corp	United States	Consumer Staples		YELLOW					●			
Tesco PLC	United Kingdom	Consumer Staples		YELLOW		●		●	●			●
Tokyo Electron Ltd	Japan	Information Technology		YELLOW								●
Unilever PLC	United Kingdom	Consumer Staples	✓	YELLOW								●
United Overseas Bank Ltd	Singapore	Financials		YELLOW	●	●		●	●			●
Vonovia SE	Germany	Real Estate		YELLOW					●			●
West Fraser Timber Co Ltd	Canada	Materials		YELLOW								●
Westpac Banking Corp	Australia	Financials		YELLOW	●	●						
Wolters Kluwer NV	Netherlands	Industrials		YELLOW								●

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Engagements and Your Fund: Green rated

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Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
adidas AG	Germany	Consumer Discretionary		GREEN	●	●		●	●		●
Allianz SE	Germany	Financials		GREEN					●		●
American Express Co	United States	Financials		GREEN					●		●
Applied Materials Inc	United States	Information Technology		GREEN				●	●		
Australia & New Zealand Banking Group Ltd	Australia	Financials		GREEN		●		●			
Axel Springer SE	Germany	Consumer Discretionary		GREEN							●
Bank of Nova Scotia	Canada	Financials		GREEN			●				●
Barratt Developments PLC	United Kingdom	Consumer Discretionary		GREEN							●
BASF SE	Germany	Materials	✓	GREEN		●			●		●
Beiersdorf AG	Germany	Consumer Staples		GREEN					●		●
BNP Paribas SA	France	Financials		GREEN	●	●		●			
Brenntag AG	Germany	Industrials		GREEN							●
British Land Co PLC/The	United Kingdom	Real Estate		GREEN	●						●
Brookfield Asset Management Inc	Canada	Financials		GREEN					●		●
Capital & Counties Properties PLC	United Kingdom	Real Estate		GREEN							●
Centamin PLC	Jersey, Channel Islands	Materials		GREEN							●
Clariant AG	Switzerland	Materials		GREEN		●			●		
CLS Holdings PLC	United Kingdom	Real Estate		GREEN							●
Coca-Cola HBC AG	Switzerland	Consumer Staples		GREEN		●					
Continental AG	Germany	Consumer Discretionary		GREEN					●		●
Covestro AG	Germany	Materials		GREEN					●		●
CRH PLC	Ireland	Materials		GREEN					●		●
Croda International PLC	United Kingdom	Materials		GREEN							●
Daiwa House Industry Co Ltd	Japan	Real Estate		GREEN							●
Danone SA	France	Consumer Staples		GREEN							●
DBS Group Holdings Ltd	Singapore	Financials	✓	GREEN	●	●		●	●		●
Deutsche Boerse AG	Germany	Financials		GREEN					●		●
Deutsche Wohnen SE	Germany	Real Estate		GREEN							●
E.ON SE	Germany	Utilities		GREEN					●		●
Enel SpA	Italy	Utilities		GREEN	●						●
Fast Retailing Co Ltd	Japan	Consumer Discretionary		GREEN					●		
Franco-Nevada Corp	Canada	Materials		GREEN							●
Fraport AG Frankfurt Airport Services Worldwide	Germany	Industrials		GREEN							●

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Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
GEA Group AG	Germany	Industrials		GREEN								●
George Weston Ltd	Canada	Consumer Staples		GREEN					●			●
HeidelbergCement AG	Germany	Materials		GREEN					●			●
Henkel AG & Co KGaA	Germany	Consumer Staples		GREEN					●			●
HOCHTIEF AG	Germany	Industrials	✓	GREEN	●	●		●				●
HUGO BOSS AG	Germany	Consumer Discretionary		GREEN								●
Infineon Technologies AG	Germany	Information Technology		GREEN				●	●			●
Innogy SE	Germany	Utilities		GREEN								●
J Sainsbury PLC	United Kingdom	Consumer Staples		GREEN						●		●
Jeronimo Martins SGPS SA	Portugal	Consumer Staples		GREEN								●
Johnson Matthey PLC	United Kingdom	Materials		GREEN								●
Kerry Group PLC	Ireland	Consumer Staples		GREEN								●
Lam Research Corp	United States	Information Technology		GREEN				●	●			●
Lawson Inc	Japan	Consumer Staples		GREEN								●
Loblaw Cos Ltd	Canada	Consumer Staples		GREEN					●			●
Manulife Financial Corp	Canada	Financials		GREEN								●
Mastercard Inc	United States	Information Technology	✓	GREEN					●			●
Merck KGaA	Germany	Health Care		GREEN					●			●
METRO AG	Germany	Consumer Staples		GREEN								●
MTU Aero Engines AG	Germany	Industrials		GREEN								●
Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen	Germany	Financials		GREEN					●			●
Nabtesco Corp	Japan	Industrials		GREEN								●
National Bank of Canada	Canada	Financials		GREEN				●				●
NVIDIA Corp	United States	Information Technology		GREEN				●		●		●
Principal Financial Group Inc	United States	Financials		GREEN		●			●			●
Prudential PLC	United Kingdom	Financials		GREEN						●		●
Purma SE	Germany	Consumer Discretionary		GREEN								●
QIAGEN NV	Netherlands	Health Care		GREEN								●
Rakuten Inc	Japan	Consumer Discretionary		GREEN								●
Renault SA	France	Consumer Discretionary	✓	GREEN				●				●
Rio Tinto PLC	United Kingdom	Materials		GREEN	●							●
Rotork PLC	United Kingdom	Industrials		GREEN								●
RWE AG	Germany	Utilities		GREEN						●		●
SAP SE	Germany	Information Technology	✓	GREEN				●		●		●
Sartorius AG	Germany	Health Care		GREEN								●
Segro PLC	United Kingdom	Real Estate		GREEN								●
Senior PLC	United Kingdom	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						
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Siemens AG	Germany	Industrials		GREEN					●		●
Skyworks Solutions Inc	United States	Information Technology		GREEN				●	●		
Smurfit Kappa Group PLC	Ireland	Materials		GREEN							●
Spirax-Sarco Engineering PLC	United Kingdom	Industrials		GREEN							●
Standard Chartered PLC	United Kingdom	Financials		GREEN	●	●		●			
Suncor Energy Inc	Canada	Energy	✓	GREEN							●
SVB Financial Group	United States	Financials	✓	GREEN		●					●
Swedbank AB	Sweden	Financials		GREEN			●				●
Symrise AG	Germany	Materials		GREEN					●		●
TE Connectivity Ltd	Switzerland	Information Technology		GREEN				●	●		
Teck Resources Ltd	Canada	Materials		GREEN							●
Telefonica Deutschland Holding AG	Germany	Communication Services		GREEN							●
Tesla Inc	United States	Consumer Discretionary	✓	GREEN		●			●	●	
thyssenkrupp AG	Germany	Materials		GREEN					●		●
TOTAL SA	France	Energy		GREEN	●						●
UBS Group AG	Switzerland	Financials		GREEN	●	●	●	●			●
Vermilion Energy Inc	Canada	Energy		GREEN							●
Vivendi SA	France	Consumer Discretionary		GREEN							●
Zalando SE	Germany	Consumer Discretionary		GREEN							●
ZOZO Inc	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

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

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Anglo American PLC	United Kingdom	Materials	✓	YELLOW		●					
ArcelorMittal	Luxembourg	Materials		YELLOW	●						
Glencore PLC	Switzerland	Materials		ORANGE		●					
Vivendi SA	France	Consumer Discretionary		GREEN						●	
AIA Group Ltd	Hong Kong	Financials		YELLOW						●	
Allianz SE	Germany	Financials		GREEN						●	
Ameriprise Financial Inc	United States	Financials		YELLOW						●	
Anadarko Petroleum Corp	United States	Energy		RED	●					●	
BlackBerry Ltd	Canada	Information Technology		ORANGE						●	
Danske Bank A/S	Denmark	Financials	✓	RED						●	
eBay Inc	United States	Information Technology	✓	ORANGE						●	
Eli Lilly & Co	United States	Health Care		YELLOW						●	
FleetCor Technologies Inc	United States	Information Technology		RED						●	
Fresenius SE & Co KGaA	Germany	Health Care		RED						●	
George Weston Ltd	Canada	Consumer Staples		GREEN						●	
Illumina Inc	United States	Health Care		ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		YELLOW						●	
Kirkland Lake Gold Ltd	Canada	Materials		ORANGE						●	
Loblaw Cos Ltd	Canada	Consumer Staples		GREEN						●	
Mazda Motor Corp	Japan	Consumer Discretionary		ORANGE						●	
Middleby Corp/The	United States	Industrials		YELLOW						●	
Netflix Inc	United States	Consumer Discretionary		RED						●	
Rio Tinto Ltd	United Kingdom	Materials		GREEN			●			●	
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW	●					●	
Teva Pharmaceutical Industries Ltd	Israel	Health Care		RED						●	
West Fraser Timber Co Ltd	Canada	Materials		YELLOW						●	
Yahoo Japan Corp	Japan	Information Technology		YELLOW						●	
Amadeus IT Group SA	Spain	Information Technology		GREEN						●	
Anthem Inc	United States	Health Care		RED						●	
Balfour Beatty PLC	United Kingdom	Industrials		GREEN						●	

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Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
Bank of America Corp	United States	Financials		RED								●
Boston Scientific Corp	United States	Health Care	✓	RED								●
Cognizant Technology Solutions Corp	United States	Information Technology		YELLOW								●
Cummins Inc	United States	Industrials		GREEN								●
Discover Financial Services	United States	Financials		ORANGE								●
Eli Lilly & Co	United States	Health Care		YELLOW								●
FirstEnergy Corp	United States	Utilities		ORANGE								●
Fortive Corp	United States	Industrials		YELLOW								●
Gecina SA	France	Real Estate		GREEN								●
Glencore PLC	Switzerland	Materials		ORANGE				●				●
HP Inc	United States	Information Technology		GREEN								●
Invesco Ltd	United States	Financials		GREEN								●
IPG Photonics Corp	United States	Information Technology		RED								●
Kansas City Southern	United States	Industrials		GREEN								●
Lincoln National Corp	United States	Financials		YELLOW								●
Marriott International Inc/MD	United States	Consumer Discretionary		RED								●
Newell Brands Inc	United States	Consumer Discretionary		YELLOW								●
Omnicom Group Inc	United States	Consumer Discretionary		YELLOW								●
PepsiCo Inc	United States	Consumer Staples		GREEN								●
Repsol SA	Spain	Energy		GREEN								●
Sabre Corp	United States	Information Technology		YELLOW								●
salesforce.com Inc	United States	Information Technology		GREEN								●
Schroders PLC	United Kingdom	Financials		GREEN								●
Southern Co/The	United States	Utilities		GREEN								●
Spirit AeroSystems Holdings Inc	United States	Industrials		ORANGE								●
Tesco PLC	United Kingdom	Consumer Staples		YELLOW							●	●
Xerox Corp	United States	Information Technology		YELLOW								●

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ESG Viewpoint

April 2019



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International Corporate Governance Network

We attended the International Corporate Governance Network "ICGN" conference in Amsterdam, a two-day event attended by over 300 delegates from 23 regions all participating in intriguing discussions.

- The ICGN is an international leader in promoting corporate governance best practice and investor stewardship. Members, representing in excess of \$US 34 trillion in assets, come together to pursue good governance in order to promote long-term value creation and uphold shareholder rights.
- Whilst there was a clear Dutch focus, discussions also covered the global corporate governance landscape. Most of the panels discussed forward-thinking concepts around the impact of technology on our decision-making and the way stakeholders interact with each other.
- The potential for big data science to bring greater transparency to company operations, and the ability for this to feed in to management and board decision-making, was also a key theme.
- Ultimately, there will be challenges to the widespread use of artificial intelligence, but some asset management houses are already utilising this at the operational level. It may only be a matter of time before the use of these tools becomes more prevalent.

Shareholders and stakeholders: promoting dialogue

The conference opened with a panel discussion on how to improve shareholder and other stakeholder communication. This included calls for increased regulation in the form of a requirement for companies and asset owners to disclose who they engage with, through to softer approaches promoting non-combative engagement styles, such as hosting roundtables on substantive issues and collaborative engagement. Cognisant that groups may have differing drivers, it is important to view engagement as a mechanism to relay concerns but also to gain perspective on the point of view of the other party.

Additionally, speakers highlighted the importance of regional and global engagement initiatives in amplifying the concerns of minority groups; it is then the responsibility of board supervisory bodies to ensure management act swiftly to mitigate prevailing risks. The consensus was that poor dialogue often results in more

stringent regulation, but conversely, increased transparency, as a result of regulation, could result in a reluctance for companies to engage on issues outside of the disclosure.

The future of AGMs

Company shareholder meetings have traditionally been held in a physical setting, and often used by investors as a time to speak to company management face to face. In recent years there has been growing sentiment, led by the US, toward virtual-only meetings.

There are clear merits to virtual meetings, including inclusivity for international investors and cost savings for the company, but this does not outweigh the need and importance for investors to have an avenue to speak directly with company management. Additionally, one clear obstacle to the effective utilisation of virtual meetings is the currently fragmented proxy chain. In a world where proxy voting may be outsourced to third parties, it may be difficult for meeting access details to get to those exercising voting rights. Delegates concluded, and we agree, that the optimal solution is for companies to offer both, but where this is not possible, physical meetings should prevail.

“Robots on the board”

Technology also featured in discussions on the effectiveness of boardroom decision-making. The ability to analyse vast quantities of data offers possibilities for “augmented decision-making”, where artificial intelligence (AI) is used to predict outcomes and guide decisions. Some investment houses are already making use of big data science at the operational level, but applications in the boardroom are currently limited.

Whilst welcoming the opportunities this could bring, panellists also spoke to the risks. AI is only as good as the data that is entered, and faults in algorithms can lead to poor outcomes.



One panellist pointed out that in a test conducted in to using AI to recommend investments, negative outcomes were predicted 99% of the time.

More speculatively, panellists spoke of the idea that as AI gets ever more advanced, we could see “robots on the board” – where AI does not just inform human decision-making but actively takes part in the decision process itself. Delegates questioned what would happen if things went wrong – if the robot made the wrong decision, where does the accountability lie?

Humans still have one big advantage over AI: our ability to take a holistic view accounting for quantitative, qualitative and ethical factors. Ultimately, directors are accountable for decisions undertaken by the board, but in a world where their decisions would be heavily influenced by the outputs of algorithms, the need for independent thought processes becomes even more important.

Audit

Given some very public audit failings globally, there has been increased scrutiny of the role of external auditors. A key factor is the ability of auditors to identify and report material issues arising from the audit – defined in the UK and some other European markets as key audit matters (KAMs), and now in the US as critical audit matters (CAMs). The panel discussed the appetite of auditors to highlight CAMs, takeaways from the KAMs framework utilised in the UK, the difference between the two standards and how investors plan to utilise the information.

The new US CAM disclosures are due in 2020, but big audit firms are conducting dry runs and we will see a small number of disclosures this year. Stakeholders of US companies currently awaiting these disclosures have raised similar concerns, as seen during the implementation of KAMs in the UK, such as:

- a stifling of dialogue between management and the audit committee
- a prevalence of boilerplate disclosures
- a propensity to think that ongoing KAMs signal company failure

The panel agreed that, in the UK, these concerns did not manifest. There was initial apprehension around the public nature of the disclosures, and this resulted in more conservative responses; but over time, auditors have grown more confident in the process and now view these disclosures as a way to explain their decision-making, thus prompting additional diligence in their reviews and better dialogue with stakeholders.

Whilst the sentiment around the disclosure of KAMs and CAMs was positive, there is a clear expectation gap between auditors and investors. In the UK, the most prevalent KAMs relate to goodwill impairment, income taxes and hard-to-value financial instruments, but investors are looking for more qualitative assessments. For example, KAMs on the quality of internal controls are considered useful. With this being a relatively new process, it is essential that there is dialogue between auditors and investors to improve alignment on what type of disclosures are most valuable.



Netherlands and shareholder rights

In recent years, there has been a global trajectory toward protectionism. Populism has gained traction and we have seen rising discontent amongst citizens from countries that have been traditionally viewed as the most progressive.

The pervasiveness of dual-class share structures from New York to Hong Kong also demonstrates that corporate protectionism presents a very real threat to minority shareholder rights.

In keeping with the Dutch focus, the fundamental question put to the panel, and by far the most polarising of the conference, was do Dutch boards really need more anti-takeover protections? The debate was centred around the Dutch government's proposal to allow company management 250 days of "thinking time" on the back of public company takeover bids. Against a backdrop of some very robust anti-takeover mechanisms, some question the need for further protection. Arguments against relate to board entrenchment and the protection of poor management. Those in favour claim protections are against hostile takeovers, and point to a shareholder's ability to appeal to the courts on a company's abuse of the 250-day period. However, in reality, the available safeguards could be onerous or expensive to implement.

A recent high-profile example that served as a catalyst for the debate in the Netherlands was the attempted takeover of Akzo Nobel by PPG, as promoted by activist investors Elliott. This was a potentially hostile takeover that was not successful under the mechanisms already in place. Another example is the recent attempt by Kraft Heinz to take over Unilever. Investors were engaged and encouraged the board to ward off the takeover attempt, which failed, but many stakeholders felt aggrieved when their loyalty to the Unilever board was rewarded by an attempt to consolidate the company's dual listing to the Netherlands and thus diminish shareholder rights.

Summary

Overall, the main theme of the conference was how to make stewardship more effective: by improving communication between an investee company and its stakeholders; bridging the gap between audits and investor expectations; protecting shareholder rights in the face of ever-increasing protectionism; and applying artificial intelligence. Investors are becoming more engaged and require more transparency from companies and stakeholders, such as audit firms. We came out of the conference encouraged that progress can be made on all these fronts and will continue to collaborate with other investors to improve how we bridge the gap between shareholders and companies.

Key risks

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INVESTMENT
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INVESTMENT AWARDS 2018

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ESG Viewpoint

May 2019



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Palm oil – can it ever be sustainable?

Concerns about the sustainability of palm oil production are nothing new. For many years now, investors have contributed their voice to political and public pressure to bring stronger environmental and social standards to the production of this commonly used food ingredient.

But heightened attention to climate change and biodiversity, political pressure in the EU and the US, and concerns about the effectiveness of existing initiatives are further increasing the pressure. One recent indication of this was the move by 2020 presidential candidates Elizabeth Warren and Bernie Sanders with six of their senator colleagues to send a letter to fund managers¹ requesting them to address companies that are responsible for palm oil related deforestation in their portfolios and financial supply chains.

The Roundtable on Sustainable Palm Oil (RSPO) has been a key initiative to improve the sustainability of the industry, but has not been without its critics. Here we recap some of the challenges it faces, and recent developments in the RSPO's remit that seek to address these.

Palm oil impacts

Around 66 million tonnes of palm oil are produced annually, with more than 50% coming from Indonesia and more than 30% from Malaysia². Its production has a range of serious social and environmental impacts:

Local air pollution: this was particularly severe when the haze of the Indonesian forest fires reached the financial centre of Singapore, closing schools and discouraging outdoor activities for weeks in 2015.

Deforestation: due to clearings for palm oil plantations losing tropical rainforests, biodiversity, habitat and flood protection.

Peat: effectively storing carbon, the draining and converting of peat lands into plantations has severely fostered climate change.

Endangered species: loss of habitat due to deforestation further endangered various species, among them rare orangutans and tigers.

Human and labour rights: neglect of rights for migrant labourers, infringement of the rights of indigenous peoples, as well as displacement of local communities.

¹ See <https://www.ft.com/content/44f2d30a-1276-3068-b995-a4c8076d40c1> and <https://www.schatz.senate.gov/press-releases/schatz-senators-push-financial-firms-to-help-stop-global-deforestation>

² In the mid-1990s the number was at around 15 million tonnes per year

Pressured by activist groups, some food producers are starting to look for alternatives to palm oil, but other oil crops such as rapeseed, soy, sunflower seeds and coconut have their own sustainability issues and substitution could actually worsen the net environmental footprint.

Role of the Roundtable on Sustainable Palm Oil

In 2004, the RSPO was formed as a multi-stakeholder initiative,

with NGOs as co-founders, to address the severe sustainability issues along the palm oil supply chain. Around 21%³ of the globally produced palm oil is now RSPO-certified, and it has had some important positive impacts on sustainability practices, as highlighted in research by The Zoological Society of London (ZSL) via their Sustainability Policy Transparency Tool (SPOTT), which shows that companies which are members in good standing of the RSPO and produce certified palm oil are more transparent and perform better across all sustainability-relevant categories.

Sustainability performance and RSPO certification

	Sustainability policy and leadership	71.0%		Sustainability policy and leadership	29.5%
	Landbank, maps and traceability	65.3%		Landbank, maps and traceability	31.3%
	Deforestation and biodiversity	65.2%		Deforestation and biodiversity	25.0%
	HCV, HCS and impact assessment	63.1%		HCV, HCS and impact assessment	16.3%
	Peat, fire and GHG emissions	53.6%		Peat, fire and GHG emissions	20.9%
	Water, chemical and pest management	48.0%		Water, chemical and pest management	20.6%
	Community, land and labour rights	67.9%		Community, land and labour rights	29.3%
	Certification standards	50.7%		Certification standards	5.3%
	Smallholders and suppliers	47.8%		Smallholders and suppliers	14.3%
	Governance and grievances	62.0%		Governance and grievances	30.3%

Average scores for RSPO (left) versus non-RSPO (right) companies. Overall score for RSPO companies is 60%, whereas overall score for non-RSPO companies is 20%.

Source: SPOTT ZSL, February 2019

However, the RSPO has also been criticised for not being effective enough, not penalising those that break its rules, and for reacting too slowly to major human or labour rights breaches or activities harming endangered species. With accusations of its

Complaints Panel and grievance mechanisms being too business-friendly/sided, the organisation’s accountability suffered. An auditing and certification procedure that did not guarantee the independence of the auditors also added to concerns.

³ <https://rspo.org/about/goodbadpalmoil>



“The reforms set RSPO in the right direction. But expanding its reach beyond the current 21% of global certified production and ensuring implementation remain huge challenges”.

RSPO responds

In 2017 and throughout 2018 the RSPO reviewed its Principles & Criteria (P&C), which form the bylaws of the organisation and outline the requirements of its members. It is a process that is repeated every five years. Without doubt, the latest review has been the most comprehensive one, specifically highlighting human and labour rights aspects.

A Review Taskforce with balanced representation from palm oil producers, supply chain actors, financial institutions and NGOs was formed. Two 60-day public consultation periods were launched, and ten face-to-face meetings across the globe were held. The documents were translated into five languages, and the new standard was field-tested in Africa and Southeast Asia for practicality and auditability, which in turn informed further adaptations. The new P&C were voted upon, and accepted with a big majority, during the RSPO's 2018 annual Roundtable.

The main additions and amendments include:

No deforestation: new planting should not cause any deforestation, with potential exceptions for local communities on High Forest Cover countries.

No new planting on peat: all peat areas – which store millions of tonnes of carbon and are susceptible to fire if drained – need to be conserved.

Human & labour rights: extended criteria including measures around the implementation of grievance mechanisms, whistle-blowers, protection of indigenous peoples' rights, migrant labour rights, no forced labour and no child labour. An overall better

alignment with International Labour Organisation standards, with gender aspects being newly covered.

Living wage: the Global Living Wage Coalition's method for calculating what would amount to a decent Living Wage for its workforce needs to be applied.

Smallholder standard: increased access to RSPO certification and procedures tailored to smallholder conditions.

Third party suppliers: stronger criteria asking for geolocations of fresh fruit origins and demonstrating valid planting and trading licences.

Certification Bodies of the RSPO were included in the consultation procedure and will be trained on the new P&C as well. To increase accountability further, the RSPO needs to ensure that annual assessments for compliance are rigorously performed and audit items, if critical, highlighted accordingly.

These are welcome developments, which broaden the remit of RSPO on some key issues. However, there remain tensions around the overall level of ambition, and the balance between social and environmental objectives. One the one hand, RSPO must be sensitive to the needs of smallholders, as well as to local community development priorities; but on the other hand, it also needs to respond to demands for zero-deforestation/no loss of primary forest at all costs in all regions.

The one-year grace period for implementation of the P&C by November 2019, which is accompanied with roadshows and trainings, might also be too ambitious for the industry and for some of the aspects to be implemented (e.g. implementation of High Carbon Stock Approach or living wage concepts). This may particularly be the case for new production areas with low penetration of RSPO certification, such as Papua New Guinea, Nigeria, Liberia and Colombia.

The reforms set RSPO in the right direction. But expanding its reach beyond the current 21% of global certified production and ensuring implementation remain huge challenges, and investor involvement will continue to be critical.



RSPO has gained in financial power and capacity in recent years and has been working to address these concerns.

BMO engagement

Over the past decade, BMO Global Asset Management, on its own and in collaboration with others⁴, has been engaging with investee companies that are either directly or through its supply chains – including financial institutions – exposed to palm oil risks to encourage them to:

- develop, publish and implement a deforestation policy, covering the supply chain;
- develop, publish and implement a human and labour rights policy, covering the supply chain; as well as
- overall align their standards with the RSPO and consider membership.

Going forward, and in the context of ever-increasing risks linked to deforestation in our investee companies and clients' portfolios, we will continue our active engagement with the palm oil industry. We have recently spoken with senior management of two major palm oil producers in Malaysia, specifically aiming to understand their ability to successfully implement the new P&C. Whilst one of these companies seems to be ahead of the curve with comparably strong policies and procedures, the other is mostly treading water, highlighting the gap between leaders and laggards.

We are also engaging with banks exposed to this industry through their loan portfolios, as they are potentially powerful in leveraging change through their lending conditions. One key engagement is with PT Bank Mandiri, Indonesia's largest bank.



We will continue our active engagement with the palm oil industry.

Case study

PT Bank Mandiri

Bank Mandiri is Indonesia's largest bank and is one of the largest lenders to the country's palm oil industry, which accounts for approximately 9% of its loan portfolio. Serious ongoing concerns about the sustainability of the industry present risks to these assets.

We have met the company several times to encourage it to move beyond a compliance-based approach to financing palm oil into one that considers risks more holistically. Specifically, we asked that a No Deforestation, No Peat and No Exploitation (NDPE) policy be adopted. This would require the bank's palm oil clients to end all deforestation, protect high conservation value areas and implement best plantation management practices.

Louder calls to curb Indonesia's rising carbon emissions put additional pressure on banks to improve the management of risks from financing high-impact customers. A stricter approach to palm oil financing would improve the ability of Bank Mandiri to anticipate headwinds from regulatory developments, while contributing to more sustainable agricultural practices.

Conclusion

Investor pressure has been influential in making progress in this industry, but with new areas of palm oil production emerging and demand ever increasing, the road ahead remains unclear, despite the improvements in the RSPO's rules. We will continue to seek efforts to engage and hope that our work with banks provides a new angle to achieve change.

⁴ E.g. the PRI's Investor Working Group on Sustainable Palm Oil

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ESG Viewpoint

June 2019



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Responsible Investment

Sustainable banking practices – visit to Thailand and Malaysia

One of BMO's engagement priorities for 2019 is to broaden our environmental and social engagement to encompass banks' lending practices. We are focusing this year on banks in the ASEAN region, which are exposed to a range of risks associated with industries including coal power and palm oil.

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Engaging in Thailand and Malaysia

We travelled to Bangkok to give the investor perspective on sustainable banking standards at a well-attended Bank of Thailand (BoT) conference on sustainable finance. We also met one-to-one with several banks and engaged a small set of corporations in both Bangkok and Kuala Lumpur (Malaysia).

The level of awareness around sustainable banking, and around expectations from investors and civil society organisations, was high. Comparably high were worries that implementation of stronger environmental and social standards could negatively impact competitiveness. At the same time there was a reluctant acknowledgement that the banks' practices still lag Singaporean banks, the clear leaders of the ASEAN pack when it comes to sustainable banking.

Companies we met included: **Kasikornbank, SCB, Muangthai Capital, and PTT Exploration and Production** in Thailand. In Malaysia we met **Maybank, CIMB, AmBank** and **Public Bank**, as well as the palm oil producer **Sime Darby Plantation**.

Thailand – regulatory pressure starts to drive change

The conference was convened by BoT and facilitated by the Worldwide Fund for Nature's (WWF) South East Asia Sustainable Finance team. The partners developed a wide-ranging agenda covering issues such as international regulatory developments and investor expectations regarding sustainable banking. It also offered practical sessions on how to implement effective environmental and social risk (ESR) frameworks, including engagement and due diligence on sustainability issues with potential borrowers.



“Next to managing their own climate risk exposure in balance sheets, banks play a crucial role in mobilising capital for the investment needs that are required by the shift towards a low-carbon economy.”

Our presentation focused on explaining our approach to engagement, which aims at addressing material environmental, social and governance risks through constructive dialogue. We also outlined the focus of our ASEAN sustainable banking initiative, through which we aim to enhance banks’ risk management processes, sustainability-related product development, as well as disclosure practices. We made clear that the implementation is a long journey, with a clear ‘tone from the top’ with senior management commitment and support being essential for success.

Takeaways from bank meetings included:

- The Thai Bankers’ Association is currently developing guidelines for the country’s banks to develop and implement ESR frameworks, particularly for their lending activities. The effort is supported by the BoT.
- This has driven banks to start establishing policies and due diligence procedures for environmental and social criteria. Leaders in the field have disclosed the number of transactions reviewed under the umbrella of their ESR policies, but also report that their procedures only apply to a very small part of their business.
- With risk procedures still lacking depth and breadth around climate risk management, all banks have highlighted climate change as a major risk and a strategic topic to watch. Two banks have started to investigate responding to the Task Force on Climate-related Financial Disclosure recommendations. Both confirmed that they are at the very beginning and that execution has proven to be challenging.

- With regulatory requirements around data protection and data security expected soon, Thai banks are actively – to varying degrees – preparing to meet demands. The more advanced are hiring international experts, appointing data protection officers, and overhauling internal security measures.

Malaysia – slower progress, so far

Malaysian banks and industry associations seem to look enviously to the North, yet movement around sustainability seems to be slower overall. In our view, this has been mainly driven by the lack of regulatory pressure and, importantly, widely-held competitiveness concerns. The perception that requesting higher environmental and social risk management standards from borrowers can push them away to more ‘lenient’ banks is very much ingrained among bankers and relationship managers.

There are exceptions, however. We met one of the largest banks in the country, who fully acknowledged that failure to address environmental and social issues as part of overall credit risk management can impact the quality of loan portfolios. It is therefore further strengthening its ESR management policies and systems.

Outlook

All in all, both markets show positive movement either from some of the banks or, as in Thailand, from the determined regulator. However, there are still significant gaps that need to be addressed. We will continue to push for the development of thorough ESR frameworks, including dedicated policies for high environmental and social risk areas – such as palm oil and coal financing, along with a more detailed reporting and disclosure.

Next to managing their own climate risk exposure in balance sheets, banks play a crucial role in mobilising capital for the investment needs that are required by the shift towards a low-carbon economy. These business opportunities shouldn’t be missed, and we will further encourage ASEAN banks to become more active in this area.



We will continue to push for the development of thorough ESR frameworks

Key risks

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

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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.

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