

# Shropshire County Council

Q4 2019

The purpose of the **reo**<sup>®</sup> (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**<sup>®</sup> 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

In November, the U.S. Securities and Exchange Commission (SEC) proposed additional rules for regulation of the proxy voting process, including tighter rules for proxy advisory firms and higher thresholds for re-submission of shareholder resolutions. If finalised, the new rules would weaken shareholder access to independent proxy voting advice, potentially impede discussion of emerging ESG issues. The PRI sent a letter to the SEC opposing the proposed changes, which we signed.

On a more positive note, the UK's Financial Reporting Council (FRC) published in October an ambitious new UK Stewardship Code that seeks to set a higher standard for effective stewardship. We actively participated in the Code's consultation process and we aim to be early adopters and plan to integrate many of the requirements of the new Stewardship Code in our Responsible Investment reporting in early 2020, one year ahead of required reporting cycle.

As evidenced by the outcome of this year's annual UN climate conference, governments struggle to bridge the gap between what science demands and the world's current emissions. Despite the disappointment, actions by investors and companies signal important indicators of progress. Investors are mobilizing on climate action at a dizzying speed. A global investor statement to governments on climate change, drafted by IIGCC was endorsed by 631 investors. And Climate Action 100+ has played a key role driving many companies, including some of the world's largest, to publicly declare their support for the Paris Agreement and/or announce zero net emissions commitments. We continue to be active participants in both initiatives.

## Environmental challenges of Indonesia's natural bounty

### Engagement trip

We travelled to Indonesia to meet some of the country's largest companies, as well as other actors helping to advance ESG practices. Most of our discussions touched on environmental challenges linked to the exploitation and use of natural resources.

We met with palm oil giant **Indofood** to discuss challenges resulting from its withdrawal from the Roundtable on Sustainable Palm Oil (RSPO) earlier in 2019, prompted by allegations of labour violations and meaning its palm oil can no longer be RSPO-certified. We shared our concerns that this can lead to lower environmental and social practices across Indofood's planted area and supply chain. We also had a meeting with **Bank Mandiri**, during which we continued our discussion on the financing of palm oil and other agricultural commodities. Our meetings with **Adaro Energy** and **United Tractors (UT)**, both in the coal mining industry, focused on the long-term risks to their businesses. Both companies confirmed that conversations on business diversification feature heavily during board meetings. But ultimately, they remain bullish on coal as the preferred fuel to cover Asia's growing energy needs.

Finally, we met with the financial services regulator, OJK, and the Indonesian chapter of the World Wildlife Fund (WWF).

## BASF SE – a look into the world's largest chemical plant

### Engagement field trip

In November we organized a site visit for reo clients to BASF's plant in Ludwigshafen, Germany - the largest chemical complex in the world. We had a tour of the site, with in-depth explanations about energy production and consumption, internal transport infrastructure and workplace safety measures. We were particularly interested in discussing progress on safety practices after the 2016 explosion that killed five workers. The accident led to stronger safety oversight and more stringent performance goals.

We also spoke about efforts to address potential physical impacts from climate change, like the drought on the Rhine river in 2016. Mitigation measures include options for low-tide boats, enhanced forecasting, more storage on site, and alternative transport routes. Finally, we discussed initiatives around diversity, carbon management and litigation risks.

## Navigating the social costs of sourcing cobalt for the green revolution

### Engagement collaboration

We attended a roundtable on responsible cobalt sourcing hosted by the PRI as part of our involvement in their project on the theme. The event brought together companies, investors, intergovernmental bodies and NGOs to discuss the issues surrounding sourcing from the Democratic Republic of Congo (DRC).

Despite the boom in demand, the social issues around DRC-based large-scale mining (LSM) and artisanal or small-scale mining (ASM) remain, such as bribery and corruption, pollution, the use of child and slave labour, unsafe working conditions and funding local militia.

The political and operating environment in the DRC remains complex. Any solution must, therefore, involve multistakeholder co-operation. Although LSM is less exposed to many of the issues seen with ASM, in practice ASM cobalt continues to enter the mix that large miners distribute, and it contributes more economic benefits to local communities than LSM.

A technological solution currently being explored is blockchain, although there were mixed messages on how well this could work in practice, particularly with ASM. Our expectation is to continue exploring the issue alongside other investors in the collaborative engagement project.

## Targeting the opioid epidemic

### Engagement collaboration

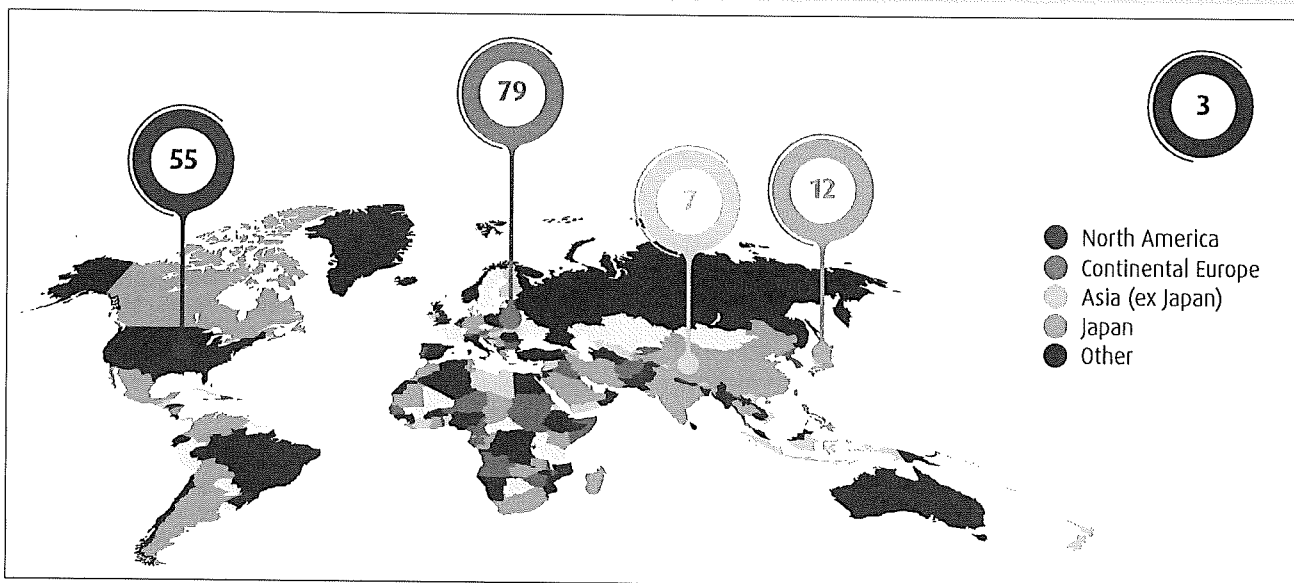
We decided to join IOPA (Investors for Opioid Accountability), which was established in response to the opioid crisis. The U.S. Centers for Disease Control and Prevention reported that in 2017, opioid overdoses caused 47,600 deaths in the U.S. Companies in the opioid supply chain have come under intense legislative and regulatory scrutiny for their role in contributing to the crisis.

The IOPA has focused on manufacturers, distributors, and retail pharmacies, asking them to employ governance tools to improve corporate practices, culture, board accountability, compensation incentives, and risk mitigation. In 2020 we are committed to engaging other key companies in the opioid supply chain and will use the platform provided by the IOPA to encourage the implementation of practices to strengthen governance through Board oversight.

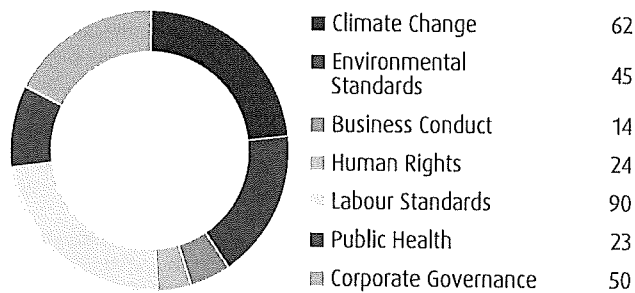
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
156	49	15

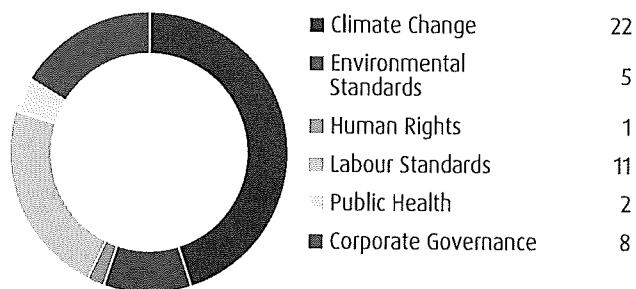
Companies engaged by region



Companies engaged by issue <sup>\*\*\*</sup>



Milestones achieved by issue



<sup>\*</sup> reo<sup>®</sup> is currently applied to £131bn (\$161billion / €147billion) of assets as at 30th September 2019.

<sup>\*\*</sup> Companies may have been engaged on more than one issue.

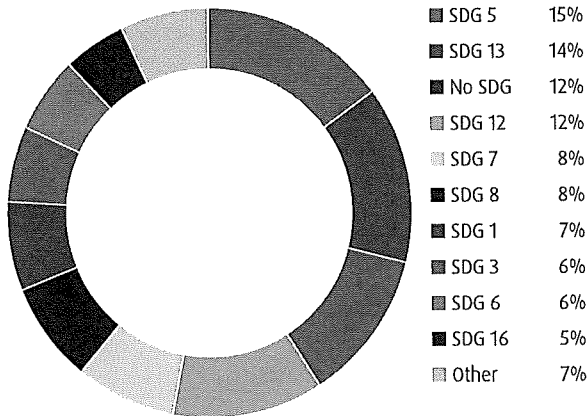
<sup>\*\*\*</sup> This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries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

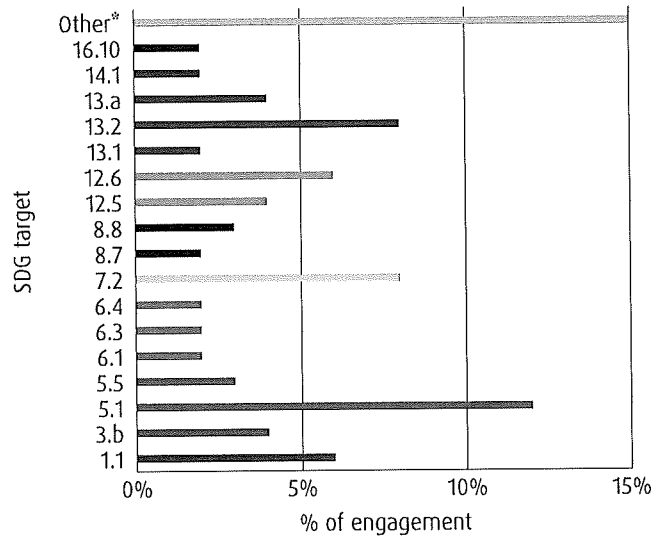
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

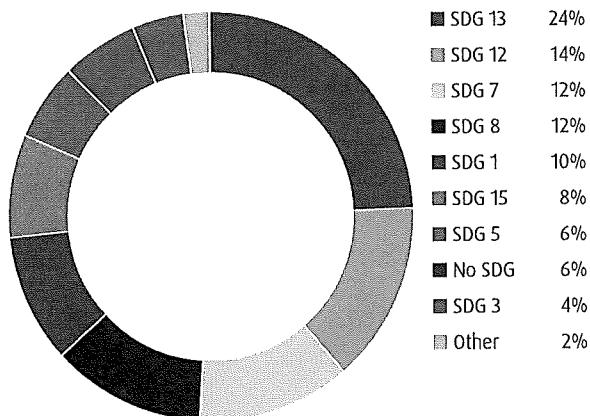
Engagement: SDG level



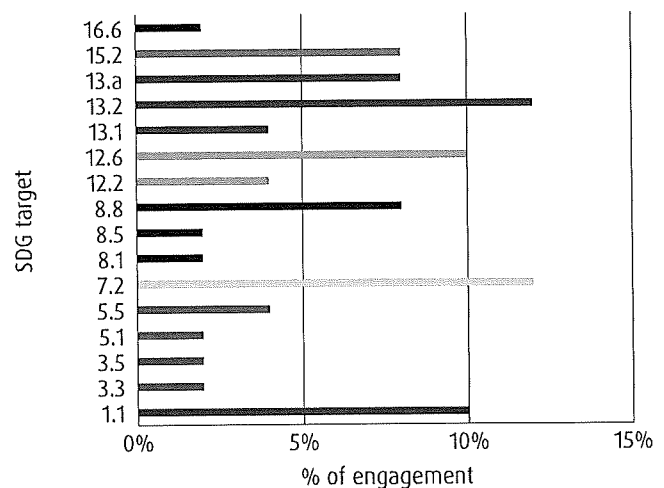
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



\*Other represents SDG targets less than 2% of the relevant SDG Goal.



# 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 Responsible 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		Poor	●			●	●		
AutoZone Inc	Consumer Discretionary		Poor							●
BASF SE	Materials		Good	●	●	●		●		●
Bayer AG	Health Care		Adequate					●		
BP PLC	Energy		Good	●						●
CK Asset Holdings Ltd	Real Estate			●	●			●		
Crown Holdings Inc	Materials									
Dominion Energy Inc	Utilities		Good	●				●		●
G4S PLC	Industrials						●	●		
GlaxoSmithKline PLC	Health Care		Good						●	●
HSBC Holdings PLC	Financials		Good	●						●
Japan Tobacco Inc	Consumer Staples			●			●			
Johnson & Johnson	Health Care		Adequate						●	
Novartis AG	Health Care		Good			●			●	
Philip Morris International Inc	Consumer Staples		Good	●	●		●	●		
Renault SA	Consumer Discretionary									●
Royal Dutch Shell PLC	Energy		Good	●			●			●
SAP SE	Information Technology		Adequate					●		
Suncor Energy Inc	Energy			●						
Tesla Inc	Consumer Discretionary				●		●	●		
Tyson Foods Inc	Consumer Staples								●	
Vistra Energy Corp	Utilities			●						●
Volkswagen AG	Consumer Discretionary		Adequate					●		
Wells Fargo & Co	Financials		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: Second quartile: Third quartile: Bottom quartile:



# 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*<sup>®</sup> client portal.

Name	Country	Sector	Priority company	Themes engaged							
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	
AutoZone Inc	United States	Consumer Discretionary	✓								
CK Infrastructure Holdings Ltd	Hong Kong	Utilities		●	●		●	●			●
Dollar General Corp	United States	Consumer Discretionary									
G4S PLC	United Kingdom	Industrials	✓				●	●			
Japan Tobacco Inc	Japan	Consumer Staples	✓	●			●	●			
JPMorgan Chase & Co	United States	Financials		●	●						
NRG Energy Inc	United States	Utilities			●						
Pfizer Inc	United States	Health Care			●				●		●
Tyson Foods Inc	United States	Consumer Staples	✓						●		
US Bancorp	United States	Financials						●			●
Vistra Energy Corp	United States	Utilities	✓	●							●
Volkswagen AG	Germany	Consumer Discretionary	✓					●			
Waste Connections Inc	United States	Industrials									●
Wells Fargo & Co	United States	Financials	✓			●					●
Whirlpool Corp	United States	Consumer Discretionary			●		●				
Zayo Group Holdings Inc	United States	Communication Services				●	●				





**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:  Second quartile:  Third quartile:  Bottom quartile:

# Engagements and Your Fund: Orange rated

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

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Albermarle Corp	United States	Materials		●	●		●			
Alleghany Corp	United States	Financials		●						
Amazon.com Inc	United States	Consumer Discretionary	✓	●			●	●		
Arconic Inc/PA	United States	Industrials		●					●	
AVEVA Group PLC	United Kingdom	Information Technology						●		
Bank of America Corp	United States	Financials		●	●					
Bayer AG	Germany	Health Care	✓							
Cellnex Telecom SA	Spain	Communication Services				●	●	●		
CK Asset Holdings Ltd	Hong Kong	Real Estate	✓	●	●					
Costco Wholesale Corp	United States	Consumer Staples								
Crown Holdings Inc	United States	Materials	✓							
Daimler AG	Germany	Consumer Discretionary								
F5 Networks Inc	United States	Information Technology			●		●	●		
Fresenius Medical Care AG & Co KGaA	Germany	Health Care								
General Dynamics Corp	United States	Industrials		●						●
Halma PLC	United Kingdom	Information Technology				●		●		●
Hargreaves Lansdown PLC	United Kingdom	Financials								
Hoya Corp	Japan	Health Care							●	
Japan Exchange Group Inc	Japan	Financials								●
Mondelez International Inc	United States	Consumer Staples			●					●
Power Assets Holdings Ltd	Hong Kong	Utilities		●	●		●	●		●
Seven & i Holdings Co Ltd	Japan	Consumer Staples				●				●
Sumitomo Corp	Japan	Industrials								●
Vitasoy International Holdings Ltd	Hong Kong	Consumer Staples		●						●
Walgreens Boots Alliance Inc	United States	Consumer Staples			●					
Wirecard AG	Germany	Information Technology								

**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:  Second quartile:  Third quartile:  Bottom quartile: 

# Engagements and Your Fund: Yellow rated

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

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
AIA Group Ltd	Hong Kong	Financials							●	
Ameriprise Financial Inc	United States	Financials								●
Apple Inc	United States	Information Technology				●				
Barrick Gold Corp	Canada	Materials		●	●		●			●
BHP Group Ltd	Australia	Materials		●	●	●	●			●
BP PLC	United Kingdom	Energy	✓	●						●
British American Tobacco PLC	United Kingdom	Consumer Staples			●					
Continental AG	Germany	Consumer Discretionary								
CVS Health Corp	United States	Health Care							●	●
Deutsche Lufthansa AG	Germany	Industrials								
Deutsche Telekom AG	Germany	Communication Services								
Devon Energy Corp	United States	Energy		●						●
DNB ASA	Norway	Financials				●				●
Dominion Energy Inc	United States	Utilities	✓	●						●
Eni SpA	Italy	Energy		●						
Goldman Sachs Group Inc/The	United States	Financials		●	●					
HSBC Holdings PLC	United Kingdom	Financials	✓	●						●
Johnson & Johnson	United States	Health Care	✓						●	
Koninklijke Ahold Delhaize NV	Netherlands	Consumer Staples							●	
Linde PLC	United Kingdom	Materials								
Lloyds Banking Group PLC	United Kingdom	Financials								●
Lululemon Athletica Inc	Canada	Consumer Discretionary					●			
McDonald's Corp	United States	Consumer Discretionary							●	
Mitsubishi Corp	Japan	Industrials								●
Newell Brands Inc	United States	Consumer Discretionary								
Novartis AG	Switzerland	Health Care	✓			●			●	
Ocado Group PLC	United Kingdom	Consumer Discretionary		●						
Philip Morris International Inc	United States	Consumer Staples	✓	●	●		●			
RWE AG	Germany	Utilities		●						●
Shimadzu Corp	Japan	Information Technology			●				●	
Smith & Nephew PLC	United Kingdom	Health Care								●
STERIS PLC	United States	Health Care			●				●	
Suez	France	Utilities			●				●	●
Sysco Corp	United States	Consumer Staples								●
Tesla Inc	United States	Consumer Discretionary	✓		●		●			

**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: Second quartile: Third quartile: Bottom quartile:

# Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Tractor Supply Co	United States	Consumer Discretionary								
Under Armour Inc	United States	Consumer Discretionary			●					
United Utilities Group PLC	United Kingdom	Utilities								
Zalando SE	Germany	Consumer Discretionary								●

**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: [ ] Second quartile: [ ] Third quartile: [ ] Bottom quartile: [ ]

# Engagements and Your Fund: Green rated

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

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
adidas AG	Germany	Consumer Discretionary								
AES Corp/VA	United States	Utilities			●					
Allianz SE	Germany	Financials								
Alphabet Inc	United States	Information Technology				●	●			
American Express Co	United States	Financials								●
Associated British Foods PLC	United Kingdom	Consumer Staples			●					
Australia & New Zealand Banking Group Ltd	Australia	Financials		●						
BASF SE	Germany	Materials	✓	●	●	●				●
Bayerische Motoren Werke AG	Germany	Consumer Discretionary								
Beiersdorf AG	Germany	Consumer Staples								
BNP Paribas SA	France	Financials		●	●					
Boliden AB	Sweden	Materials			●	●				
British Land Co PLC/The	United Kingdom	Real Estate								
CaixaBank SA	Spain	Financials		●	●					●
Cameco Corp	Canada	Energy		●						
CLP Holdings Ltd	Hong Kong	Utilities		●						
Coca-Cola HBC AG	Switzerland	Consumer Staples			●					●
Compass Group PLC	United Kingdom	Consumer Discretionary		●						
ConocoPhillips	United States	Energy		●						
Covestro AG	Germany	Materials								
Covivio	France	Real Estate								●
Credit Suisse Group AG	Switzerland	Financials		●	●					
DCC PLC	Ireland	Industrials								
Deutsche Bank AG	Germany	Financials								
Deutsche Boerse AG	Germany	Financials								
Deutsche Post AG	Germany	Industrials								
E.ON SE	Germany	Utilities								
Enel SpA	Italy	Utilities		●						
Fast Retailing Co Ltd	Japan	Consumer Discretionary								
Flutter Entertainment PLC	Ireland	Consumer Discretionary								
GlaxoSmithKline PLC	United Kingdom	Health Care	✓							●
HeidelbergCement AG	Germany	Materials								
Henkel AG & Co KGaA	Germany	Consumer Staples								
Hennes & Mauritz AB	Sweden	Consumer Discretionary								
Hormel Foods Corp	United States	Consumer Staples								●

**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: Second quartile: Third quartile: Bottom quartile:

# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Infiniteon Technologies AG	Germany	Information Technology								
Ingenico Group SA	France	Information Technology								
Intel Corp	United States	Information Technology		●						●
JD Sports Fashion PLC	United Kingdom	Consumer Discretionary		●	●					
Jeronimo Martins SGPS SA	Portugal	Consumer Staples							●	
JFE Holdings Inc	Japan	Materials		●						●
Merck KGaA	Germany	Health Care								
Mettler-Toledo International Inc	United States	Health Care			●					
Microsoft Corp	United States	Information Technology								●
Mitsubishi Materials Corp	Japan	Materials		●						
Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen	Germany	Financials								
National Grid PLC	United Kingdom	Utilities		●						
Newcrest Mining Ltd	Australia	Materials		●	●					
Nippon Yusen KK	Japan	Industrials		●						
Oversea-Chinese Banking Corp Ltd	Singapore	Financials		●	●					
PepsiCo Inc	United States	Consumer Staples		●						
Procter & Gamble Co/The	United States	Consumer Staples			●					
Prudential Financial Inc	United States	Financials			●					●
Renault SA	France	Consumer Discretionary	✓							●
Rentokil Initial PLC	United Kingdom	Industrials								
Repsol SA	Spain	Energy		●	●					●
Roche Holding AG	Switzerland	Health Care							●	
Royal Dutch Shell PLC	Netherlands	Energy	✓	●						●
Sanofi	France	Health Care							●	
SAP SE	Germany	Information Technology	✓							
Shionogi & Co Ltd	Japan	Health Care							●	
Siemens AG	Germany	Industrials								
Smurfit Kappa Group PLC	Ireland	Materials								
Societe Generale SA	France	Financials		●						●
Standard Chartered PLC	United Kingdom	Financials								●
Suncor Energy Inc	Canada	Energy	✓	●						
Tesco PLC	United Kingdom	Consumer Staples		●						
thyssenkrupp AG	Germany	Materials								
TOTAL SA	France	Energy		●						●
Travelers Cos Inc/The	United States	Financials								●
UBS Group AG	Switzerland	Financials								●
VF Corp	United States	Consumer Discretionary			●					
Vonovia SE	Germany	Real Estate								●

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: [light grey box] Second quartile: [medium grey box] Third quartile: [dark grey box] Bottom quartile: [black box]

# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	Themes engaged								
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance		
Whitbread PLC	United Kingdom	Consumer Discretionary										
Wm Morrison Supermarkets PLC	United Kingdom	Consumer Staples										

**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:  Second quartile:  Third quartile:  Bottom quartile: 

# 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
Amazon.com Inc	United States	Consumer Discretionary	✓	[Rating bar]	●					
CLP Holdings Ltd	Hong Kong	Utilities		[Rating bar]	●					
Dominion Energy Inc	United States	Utilities	✓	[Rating bar]	●					
National Grid PLC	United Kingdom	Utilities		[Rating bar]	●					
Vistra Energy Corp	United States	Utilities	✓	[Rating bar]	●					
Volkswagen AG	Germany	Consumer Discretionary	✓	[Rating bar]	●					
Anglo American PLC	United Kingdom	Materials	✓	[Rating bar]	●					
ArcelorMittal SA	Luxembourg	Materials		[Rating bar]	●					
Bayer AG	Germany	Health Care	✓	[Rating bar]	●				●	
BHP Group Ltd	Australia	Materials		[Rating bar]	●			●		
Boeing Co/The	United States	Industrials		[Rating bar]					●	
Chubu Electric Power Co Inc	Japan	Utilities	✓	[Rating bar]	●					
Credit Suisse Group AG	Switzerland	Financials		[Rating bar]	●					
Guidewire Software Inc	United States	Information Technology		[Rating bar]					●	
Iberdrola SA	Spain	Utilities		[Rating bar]	●					
Intel Corp	United States	Information Technology		[Rating bar]	●					
Repsol SA	Spain	Energy		[Rating bar]	●					
VF Corp	United States	Consumer Discretionary		[Rating bar]	●					
Vistra Energy Corp	United States	Utilities	✓	[Rating bar]						●
Walgreens Boots Alliance Inc	United States	Consumer Staples		[Rating bar]						●
Amazon.com Inc	United States	Consumer Discretionary	✓	[Rating bar]						
Bayer AG	Germany	Health Care	✓	[Rating bar]						●
BNP Paribas SA	France	Financials		[Rating bar]	●					
Bunge Ltd	United States	Consumer Staples		[Rating bar]		●				
Clorox Co/The	United States	Consumer Staples		[Rating bar]						●
Copart Inc	United States	Industrials		[Rating bar]						●
Deutsche Lufthansa AG	Germany	Industrials		[Rating bar]						●
Dominion Energy Inc	United States	Utilities	✓	[Rating bar]	●					
Goldman Sachs Group Inc/The	United States	Financials		[Rating bar]	●					
Hermes International	France	Consumer Discretionary		[Rating bar]	●					

**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: [Lightest grey bar] Second quartile: [Light grey bar] Third quartile: [Medium grey bar] Bottom quartile: [Darkest grey bar]

# 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
JPMorgan Chase & Co	United States	Financials									
Mondelez International Inc	United States	Consumer Staples				●					
PepsiCo Inc	United States	Consumer Staples				●					
RPM International Inc	United States	Materials			●						
RWE AG	Germany	Utilities									
SAP SE	Germany	Information Technology	✓								
Smurfit Kappa Group PLC	Ireland	Materials				●					
SSE PLC	United Kingdom	Utilities									
Standard Chartered PLC	United Kingdom	Financials			●						
Steel Dynamics Inc	United States	Materials			●						
UniCredit SpA	Italy	Financials			●						
Vistra Energy Corp	United States	Utilities	✓		●						●
Volkswagen AG	Germany	Consumer Discretionary	✓								
Waste Connections Inc	United States	Industrials									
Wilmar International Ltd	Singapore	Consumer Staples				●					

**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:  Second quartile:  Third quartile:  Bottom quartile: 



# ESG Viewpoint

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**Catherine McCabe**  
Analyst, Responsible  
Investment




**Alice Evans**  
Co-Head of Responsible  
Investment

## Antimicrobial resistance – an investor perspective on a pressing global threat

At BMO Global Asset Management, one of our key corporate engagement topics is antimicrobial resistance (AMR), which is a pressing global challenge. During September's PRI in Person conference in Paris, we took the opportunity to co-host a side event with FAIRR to shed light on the issues facing companies, and how our engagement can make a meaningful difference.

We were very encouraged by investors' high level of interest in AMR and understanding of the need to raise awareness of this material risk. Although AMR is a major challenge, there are clear pathways to reducing its development and spread, and in our experience, investor engagement can be a powerful force for positive change.

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### What is AMR?

AMR is a natural phenomenon in which microorganisms develop resistance to antimicrobial agents. However, it is being accelerated by poor stewardship of antibiotics in healthcare and farming: antimicrobial resistant microbes can spread between people and animals, and from person to person. As a result, a growing number of common bacterial infections – including urinary tract infections, gonorrhoea, tuberculosis and pneumonia – are becoming more difficult to treat.

The **FAIRR Initiative** is a collaborative investor network that raises awareness of the ESG risks and opportunities caused by intensive livestock production. FAIRR's research into antibiotic use in global supply chains has been the cornerstone of our engagement with food companies, and we were delighted that Maria Lettini, Executive Director, was able to join our event to share her insights into FAIRR's engagement programme on antibiotic stewardship.



A continued rise in resistance could lead to the number of deaths from drug-resistant infections rising from approximately 700,000 today to 10 million by 2050, potentially reducing global GDP by 2-3.5%<sup>1</sup>. Moreover, routine operations, such as hip replacements, could become high-risk procedures. In short, AMR presents a major risk to public health and the global economy.

**Our engagement**

We support the World Health Organization’s “One Health” philosophy: stakeholders in human, animal, food and environmental health need to collectively take action. Our engagement on AMR therefore takes a cross-sector approach, encompassing food producers and purchasers, and pharmaceutical companies pursuing antimicrobial research & development.

**Engagement with food producers and purchasers**

Drawing on FAIRR’s research into antibiotic use in global protein supply chains, we have initially focused on engaging food producers and purchasers. The WHO estimates that 80% of all antibiotics sold are used in food-producing animals, and we believe that investors have a key role to play in raising awareness of the issues associated with the routine use of antibiotics in animal agriculture – from the consumer-facing retailer all the way up the supply chain – and in communicating best practices in antimicrobial stewardship.

**Our aim is to encourage companies to adopt best practices.**

**Animal protein producers**

- Antibiotics policy
- Phasing out all routine uses of antibiotics
- Supervision of antibiotic use
- Reducing the use of “medically important” antibiotics
- Animal welfare practices and management
- Auditing and monitoring
- Transparency

**Restaurants and supermarket chains**

Clear communication of these best practices to suppliers – closer collaboration is needed

We recognise that there are significant challenges facing food producers and purchasers in addressing AMR, not least because the intensification of animal production has led to greater dependence on antimicrobials<sup>2</sup>.

**Engagement with pharmaceutical companies**

The challenges which pharmaceutical companies are striving to overcome are no less acute, and economic, regulatory and scientific barriers are hindering the discovery and development of novel antibiotics<sup>3</sup>. Leveraging the Access to Medicine Foundation’s research for its AMR Benchmark, our engagement with pharmaceutical companies is focused on:

● **Research & Development**

- Economic challenges

● **Manufacturing & production**

- Environmental risk management to minimise the risk of antibiotic manufacturing discharge contaminating local water sources
- Transparency on environmental risk management policies and procedures
- Good manufacturing practices, to ensure high-quality antibiotic production

● **Appropriate Product Stewardship**

- Educational programmes
- Brochure and/or packaging adaptations
- AMR surveillance

**Initial progress**

The majority of the 38 companies we contacted have been very receptive, and we have had in-depth calls with companies based in North America, Europe, and Japan, including major international companies such as GlaxoSmithKline and McDonald’s.

In our experience, companies are well-informed about the risks associated with antibiotic overuse, and it is now unusual for food and pharmaceutical companies not to have an antibiotic policy (or equivalent). This shift is reflected in FAIRR’s project on the restaurant industry: the number of companies with a publicly available antibiotic policy increased from 1 in 2016 to 17 in 2019. However, very few food companies have committed to phase out all routine uses of antibiotics, and there is a widespread lack of transparency.

<sup>1</sup> [https://amr-review.org/sites/default/files/AMR%20Review%20Paper%20-%20Tackling%20a%20crisis%20for%20the%20health%20and%20wealth%20of%20nations\\_1.pdf](https://amr-review.org/sites/default/files/AMR%20Review%20Paper%20-%20Tackling%20a%20crisis%20for%20the%20health%20and%20wealth%20of%20nations_1.pdf)

<sup>2</sup> <http://www.fao.org/antimicrobial-resistance/key-sectors/animal-production/en/>

<sup>3</sup> <https://www.tandfonline.com/doi/full/10.1080/17460441.2018.1515908>



In contrast, pharmaceutical companies' transparency on AMR-related issues is comparatively good, and in our dialogue they have been open about how new economic models could stimulate antibiotic development. Collaboration on environmental risk management has increased, enabled via the Pharmaceutical Supply Chain Initiative (PSCI) Audit Sharing Platform, on which supplier audits can be viewed by PSCI members. The AMR Industry Alliance is also having an important impact, including the publication of detailed guidance on how to manage the risk of contamination arising from waste resulting from antibiotic manufacturing processes.

#### Next steps

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

In our next Viewpoint on this topic, we plan to delve into the findings and outcomes of our engagement with both food and pharmaceutical companies, and explain in detail how our collaboration with FAIRR and the Access to Medicine Foundation have informed our approach to engagement with individual companies.

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Antimicrobial resistance poses a formidable challenge to achieving Universal Health Coverage and threatens progress against many of the Sustainable Development Goals, including in health, food security, clean water and sanitation, responsible consumption and production, and poverty and inequality<sup>4</sup>.

<sup>4</sup>[https://www.who.int/docs/default-source/documents/no-time-to-wait-securing-the-future-from-drug-resistant-infections-en.pdf?sfvrsn=5b424d7\\_6](https://www.who.int/docs/default-source/documents/no-time-to-wait-securing-the-future-from-drug-resistant-infections-en.pdf?sfvrsn=5b424d7_6)

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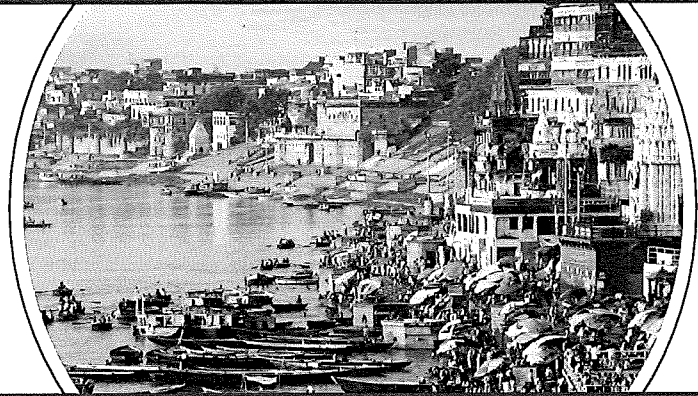
BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our *reo*<sup>®</sup> engagement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

#### Best ESG Research Team 2018



# ESG Viewpoint



October 2019






**Juan Salazar**  
Director, Analyst,  
Responsible Investment

## Contact us

### Institutional business:

-  +44 (0)20 7011 4444
-  institutional.enquiries@bmogam.com

### UK intermediary sales:

-  0800 085 0383
-  sales.support@bmogam.com
-  [bmogam.com/adviser](http://bmogam.com/adviser)

Telephone calls may be recorded.

## Access for Growth – promoting responsible access to healthcare and finance in India

India's vast untapped market for healthcare and financial services offers significant growth prospects for companies looking to serve it. We believe that beyond reaping the financial benefits of increasing revenues, companies can and should play an active role in improving people's livelihoods by making these services affordable and inclusive. Our research and engagement trip to the country earlier in the summer allowed us to gain valuable insights into companies' efforts in these areas.


India's economic success over the past three decades has helped lift millions of its citizens out of poverty. However, access to basic services such as healthcare and finance remains elusive for millions more, particularly those living in rural areas. In this viewpoint, the second related to our recent engagement trip to India, we highlight the initiatives some companies are taking to provide access to healthcare and finance, as well as some of the gaps that need to be bridged to enhance long-term shared value creation.

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### The healthcare dilemma in India

India is often known as being the pharmacy of the global South. A significantly low-cost base that supports a large talent pool of scientists and engineers, and a favourable regulatory environment, have helped the country become a hub for pharmaceutical research and development. The industry has focused on producing cheap generic drugs to improve access to medicines, both in India and across the world. Yet the chronically low share of public funds spent on healthcare as a percentage of GDP – just over 1% – is a key reason why universal access to affordable healthcare, including medicines, continues to elude the country.



A study by the Public Health Foundation of India estimated that about 55 million Indians were pushed into poverty in a single year because of having to fund their own healthcare.

### Affordable healthcare

Increasing levels of non-communicable diseases (NCD) such as heart disease and diabetes have led to a significant rise in the cost of healthcare in India. This has had negative impacts on the livelihoods of households as the lack of comprehensive health schemes, either public or private, means that healthcare expenses are usually incurred by people from their own pockets. Within the context of a public health system hampered by weak infrastructure, poor healthcare delivery mechanisms and serious quality issues, people have little choice but to seek healthcare in more expensive private institutions.

Out-of-pocket healthcare payments on medicines and treatments can lead to catastrophic expenditures that push patients and their families into the medical poverty trap. A study by the Public Health Foundation of India estimated that about 55 million Indians were pushed into poverty in a single year because of having to fund their own healthcare<sup>1</sup>.

Many Indian pharmaceutical companies have made great strides in adopting innovative practices to deliver cost-effective and affordable medicines, in line with Sustainable Development Goal (SDG) 3 – ‘ensure healthy lives and promote well-being for all’. **Cipla** and **Biocon**, two of the companies we met, stand out. Cipla’s access to medicines strategy is not only premised on pricing, but also on high-profile awareness campaigns, patient and doctor education, and optimised distribution logistics to reach lower-tier cities and rural India. Biocon’s innovation strategy involves the development of affordable follow-on versions of biologic drugs, or biosimilars, to provide cost-effective alternatives.

We also met two growing healthcare service providers whose ethos is treatment affordability. **Narayana Health** and **Healthcare Global Enterprises (HGE)** have successfully leveraged technology, efficient delivery systems and economies of scale to make high-quality cardiology and oncology treatments, respectively, accessible and affordable. Importantly, both companies have developed

pricing structures that set the cost of treatments according to patients’ income levels.

We were encouraged by companies’ efforts to help bridge the healthcare gap for India’s poorest. Going forward, we called for increased collaboration with government to expand affordable access by cutting supply chain inefficiencies, improving the sharing of drug price information among hospitals, introducing stricter drug pricing controls and furthering investments in research and innovation.

### Quality standards

Several major Indian generics companies have been found to adjust their manufacturing standards depending on the country buying their drugs, which translates into lower-quality medicines being sold to low-income countries with lax regulatory oversight. These practices can easily wipe out the benefits of increased access to affordable medicines.

We spoke at length to **Cipla** and **Alkem Laboratories** about these issues. We were impressed by Cipla’s commitment to quality and safety – all plants meet exacting standards, i.e. those required by EU and US regulators, regardless of which market drugs are sold to. Moreover, quality indicators are part of the compensation structure/scorecard for executives.

We plan to continue engaging with major Indian pharma companies to implement similar practices, focusing on quality governance, manufacturing standards and data integrity. We will also press for improved transparency on findings from regulatory



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<sup>1</sup> Sakthivel Selvaraj, Habib Hasan Farooqui, Anup Karan, “Quantifying the financial burden of households’ out-of-pocket payments on medicines in India: a repeated cross-sectional analysis of National Sample Survey data, 1994-2014”, January, 2018



inspections as well as the nature of any letters or warnings and, importantly, on remedial actions taken by management to address the concerns raised.

### Financial inclusion 2.0

India has achieved significant progress towards financial inclusion this decade. When the first Global Findex Database was released by the World Bank in 2011, it stated that only 40% of adult Indians had a bank account. The second version of the database<sup>2</sup>, released in 2018, indicated that almost 80% of adult Indians have bank accounts – a noteworthy addition of approximately 300 million accounts in just a few years.

Importantly, groups that are traditionally excluded shared in these gains. Women saw a 30% increase in account ownership, and the poorest households saw a 40% increase. This remarkable progress was driven by a number of financial inclusion measures launched by the government, coupled with successful efforts from public and private financial institutions to capitalise on opportunities resulting from these measures. However, India has been less successful in usage of financial services, as only an estimated 20% of the population actually use the accounts. People continue to rely on the informal sector, which could explain the mainly dormant bank accounts.

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We share the belief that financial inclusion can and should play a significant role in attaining many SDGs, including eliminating poverty (SDG 1), promoting gender equality (SDG 5) and creating jobs (SDG 8).

During our trip, we met two financial institutions – **Housing Development Finance Corporation (HDFC)** and **HDFC Bank** (in which the former holds a 21% stake) to discuss their financial inclusion initiatives.

HDFC, the country's largest mortgage lender, has actively participated in a government subsidy scheme to provide affordable housing to homebuyers in middle to low income groups. In 2018-19, the company approved 37% of home loans in volume terms and 18% in value terms to customers from the lower income segments, i.e. those with annual household incomes of up to \$8,700. HDFC also partnered with the International Finance Corporation (IFC) to set up a fund for on-lending to developers of affordable housing projects across India.

Given the potential for shared value creation, we expressed our support for these efforts. Going forward, we plan to engage with HDFC to enhance its approach to incorporating sustainable construction considerations into its mortgage lending activities.

Our conversation with HDFC Bank focused on social impact measurement, and specifically how to better capture the outcomes and impact for customers and the bank, as well as for broader society, of financial inclusion efforts. This will require a shift from metrics on access, such as the number of individuals opening accounts for the first time, towards metrics that focus on account usage and financial health. The bank confirmed it has retained specialist third parties to improve its understanding of how financial products and services are consumed and their effect on living standards. We expect this to help identify and address challenges that prevent new users to fully shift away from the informal financial sector.

We will closely monitor progress and outputs of this work, whilst continuing to engage on areas of financial inclusion, including the delivery of financial literacy programmes and digital banking strategies. We share the belief that financial inclusion can and should play a significant role in attaining many SDGs, including eliminating poverty (SDG 1), promoting gender equality (SDG 5) and creating jobs (SDG 8).

<sup>2</sup> <https://globalfindex.worldbank.org/>

### Concluding remarks

Companies in the healthcare and financial industries in India, and across emerging markets in general, that incorporate access and inclusion considerations into their business strategies are well positioned to take advantage of the growth opportunities an expanding customer base can present. Capturing new, previously underserved customers in an accountable, transparent and ethical way will have lasting effects beyond the potentially positive impacts on companies' bottom line and shareholder value. Access to basic services linked to healthcare and finance empower people, promote gender equality and increase consumption – all critical enablers for socioeconomic development. As active owners, we can wield powerful influence to promote change that not only addresses material ESG risks but also supports sustainable and equitable development.

### Key risks

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Investing in emerging markets is generally considered to involve more risk than developed markets.

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### Best ESG Research Team 2018

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