

Shropshire County Council

Q3 2020

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

In stark contrast to the regulatory endorsement of responsible investment practices across Europe, the current US administration continues to seek to unwind decades of progress made in this area.

After proposing a rule at the end of last quarter to clamp down on asset managers offering sustainable investments to retirement savers, the US Department of Labor (DOL) struck again last month. It is now seeking to impose additional, and unnecessary in our view, hurdles to proxy voting that could seriously impair the ability of pension funds to exercise their shareholder rights. We are very concerned about this concerted campaign to disenfranchise investors as it would weaken portfolio oversight and ultimately harm the pension plan participants it is meant to protect. We have, therefore, joined calls by US and international institutional investors for the DOL to change course by withdrawing or significantly amending the proposals.

US regulatory pushback on responsible investment gains pace

Regulatory developments

In response to an Executive Order signed by Donald Trump last year that looked to provide additional support for the US fossil fuels industry, the U.S. Department of Labour (DOL) opened a comment period on two separate rules that impact private pension plans regulated under the Employee Retirement Income Security Act (ERISA). The first of these rules looked to block the inclusion of any investment fund that partakes in "ESG investing" as a default option to beneficiaries as part of their ERISA plan. In our response to the consultation we pointed out that the integration of ESG considerations is an integral part of prudent investment analysis, meaning that the rule risked limiting the ability for plan fiduciaries to grow assets and manage risk effectively over the long-term.

The second rule looked to address concerns over how ERISA plans vote their proxies, in relation to environmental and social shareholder proposals. In our response to the DOL we argued that this proposal significantly undervalues the benefits of proxy voting by effectively encouraging ERISA plans not to vote, as well as the impractical and costly nature of implementing the new rules.

This quarter we also saw the SEC publish its final conclusions on two key pieces of rulemaking following a period of comment earlier in the year. For details on how we responded to these consultations, please see our Q1 reo reporting.

Under the second set of proposed regulations, the SEC intends to revise the terms by which investors can file shareholder proposals by increasing share ownership and re-submission thresholds and introducing mandatory obligations for filers to engage companies on the proposal. Given the positive impact that the shareholder proposal process has had on improving ESG and specifically corporate governance practices at U.S. companies, this outcome is disappointing.

Advancing climate change management and reporting standards

Engagement collaboration

There are two important developments to report this quarter on investor collaboration on climate change.

The **Climate Action 100+ initiative**, which now represents assets of US\$47 trillion, has written to all 161 companies asking for disclosure against a set of common climate change criteria and metrics, including targets, governance and strategy. Company responses will be used to create a public benchmarking report, due in the first quarter of 2021.

BMO Global Asset Management signed up to the **CDP Science-Based Targets Campaign**. The campaign aligns with the asks we are making to companies within the more focused Climate Action 100+ campaign as well as BMO GAM's own engagement approach.

Regulation on climate change disclosure also continues to tighten, with latest developments including the UK government consulting on mandatory climate risk reporting in line with the **Task Force on Climate-related Financial Disclosures (TCFD)** by large domestic pension funds, and a proposal by the New Zealand government of mandatory TCFD reporting for large corporates and financial institutions.

Workforce Disclosure Initiative update

Reporting standards

BMO GAM has been an investor signatory to the Workforce Disclosure Initiative (WDI) since its inception in 2016. We have been actively engaging companies to disclose to the WDI's annual survey since the beginning, and in turn have engaged the WDI to make their survey meaningful and manageable for investors and corporates at the same time! Key findings from the evaluation of the submissions by 118 companies to 2019's survey include that companies are generally reluctant to provide data on staff turnover as well as on internal accountability mechanisms to support workforce governance structures, and that they are willing to submit more data against

workforce metrics for permanent employees than their temporary counterparts. Another finding is that the concept of a Living Wage is not universally understood by companies, which we are not entirely surprised about.

This quarter we reached out to 62 companies to respond to the 2020 annual survey, which launched on September 1st.

Countering the decline of Indian labour laws

Engagement collaboration

In Q2 2020, two Northern India states announced that as a reaction to reductions in production demand due to COVID-19 they would suspend labour laws for three years. The impacts for workers would include wages well below regional minimum wage, no right to accrued social or pension benefits, and no protection in case of layoffs.

To better understand the regional landscape and investigate potential engagement angles, we reached out to the Indian office and the CEO of the Ethical Trading Initiative as well as the NGO ShareAction. We decided with ShareAction to jointly approach seven multinational brands for which we could find evidence of sourcing from the affected states.

Pushing for a healthier product offering

Engagement collaboration

As a member of ShareAction's **Healthy Markets initiative**, we signed joint letters to seven UK supermarkets to ask them to support efforts against obesity by promoting healthier eating habits and setting ambitious targets to increase their offering of low-calorie and low-sugar products. The initiative is supported by investors representing over \$1 trillion in assets under management.

The Covid-19 pandemic has struck those with underlying health conditions especially hard, with the risk of death being 33% higher for obese people.

Stronger farm animal welfare practices is good for business

Engagement collaboration

In July 2020, BMO GAM signed the **Business Benchmark on Farm Animal Welfare's (BBFAW)** Global Investor Statement on Farm Animal Welfare. The Investor Statement is now supported by 33 institutional investors, representing £2.5 trillion in assets under management.

As a signatory to this Investor Statement, we are publicly affirming our view that farm animal welfare is a material investment risk. We are, therefore, asking companies to raise farm animal welfare standards not only in their own operations, but also in their supply chains. Furthermore, we welcome clear and transparent reporting on this issue. We will incorporate the findings of the BBFAW in our engagement with the food industry to hone in on the key issues we want companies to address.

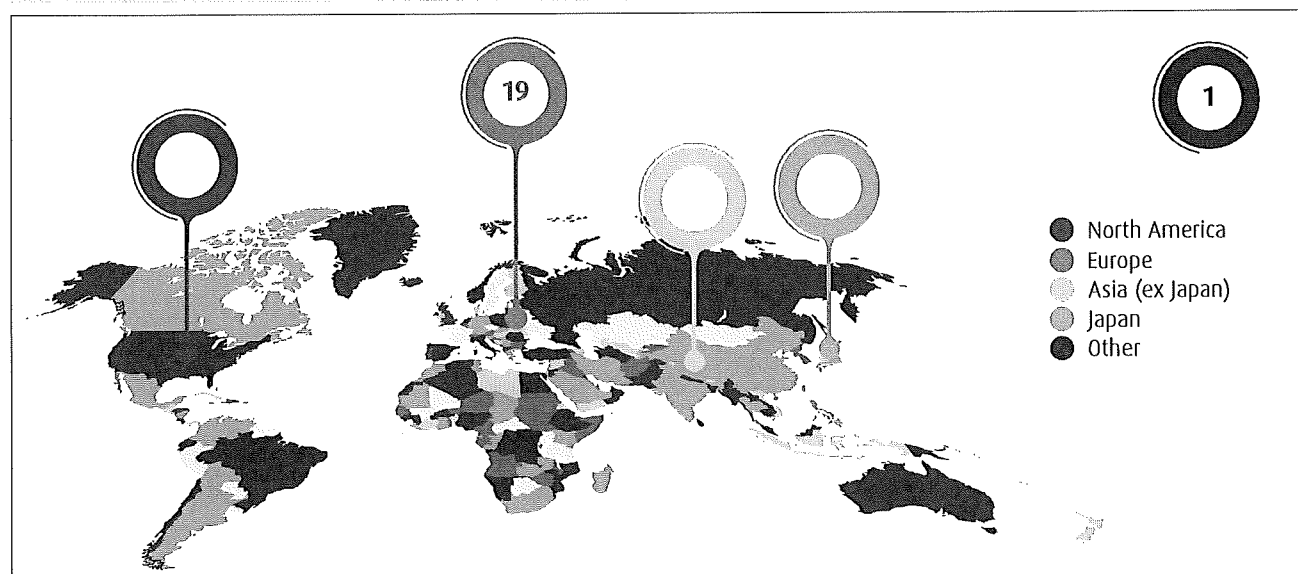
¹See also our Viewpoint from Nov 2019: "The workforce data quest: why we need it and why it helps companies as well".

²<https://shareaction.org/workforce-disclosure-initiative/why-disclose-to-the-wdi/wdi-2019-findings/>

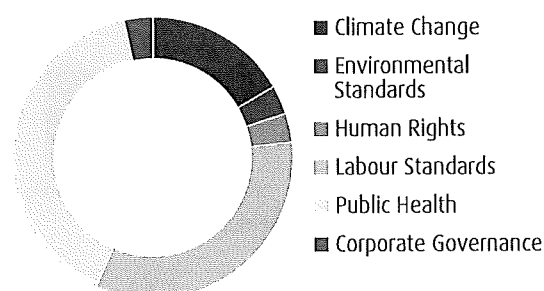
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
20	2	3

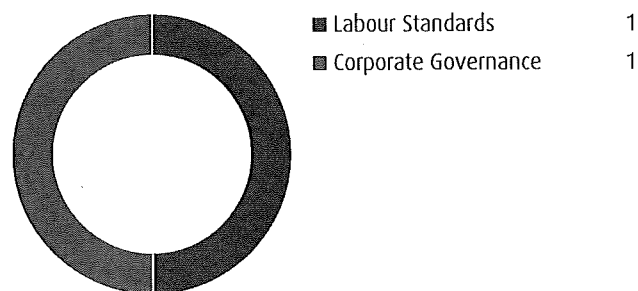
Companies engaged by region



Companies engaged by issue ***



Milestones achieved by issue



* *reo* is currently applied to £170bn/\$211bn/€188bn/CAD\$287bn of assets as at 30 June 2020.

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

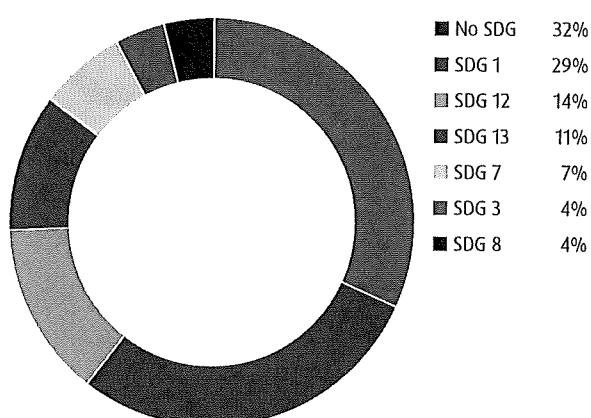
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if; ballots have been rejected by voting intermediaries (e.g. where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

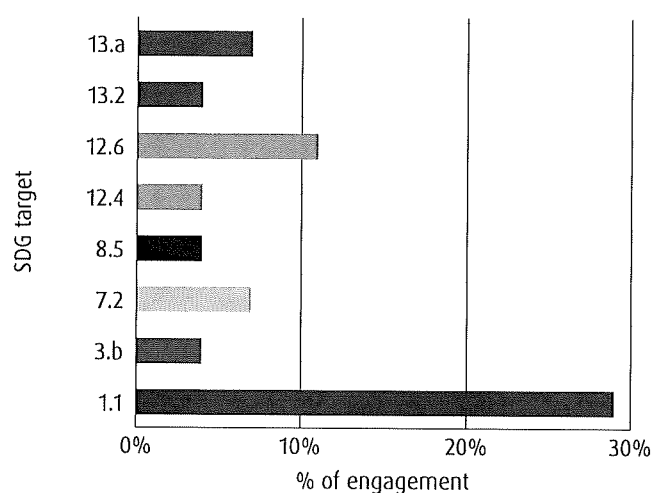
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

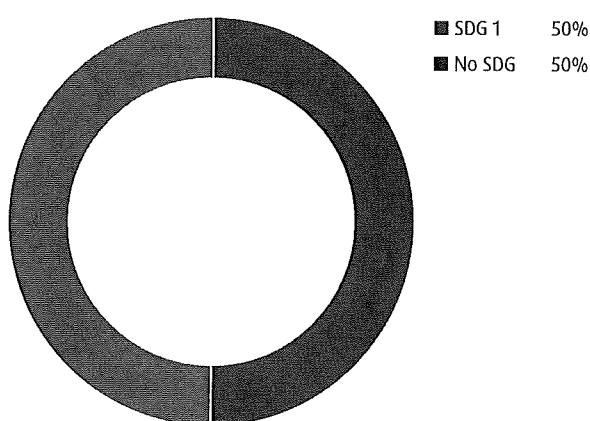
Engagement: SDG level



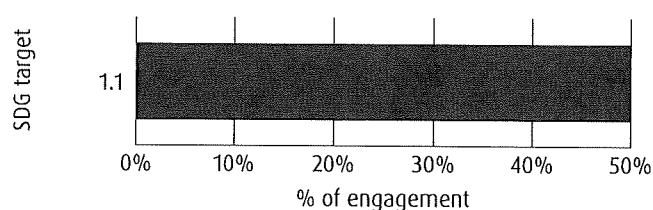
Engagement: SDG target level



Milestone: SDG level



















Milestone: SDG target level



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

				Themes engaged						
				Climate Change	Environmental Stewardship	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Name	Sector	ESG Rating	Response to engagement							
Barclays PLC	Financials		Good							
Royal Dutch Shell PLC	Energy		Good							

ESG Risk Rating:

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

Top quartile:  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 Stewardship	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Dixons Carphone PLC	United Kingdom	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

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 Stewardship	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Barclays PLC	United Kingdom	Financials	✓	●						
BHP Group PLC	Australia	Materials		●						
BP PLC	United Kingdom	Energy		●						
Hargreaves Lansdown PLC	United Kingdom	Financials								
Royal Dutch Shell PLC	Netherlands	Energy	✓	●						
SSP Group Plc	United Kingdom	Consumer Discretionary							●	
Unilever 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: ●

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 Stewardship	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Anglo American PLC	United Kingdom	Materials			●		●			
Associated British Foods PLC	United Kingdom	Consumer Staples							●	
AstraZeneca PLC	United Kingdom	Health Care								
BAE Systems PLC	United Kingdom	Industrials								
Compass Group PLC	United Kingdom	Consumer Discretionary							●	
Dunelm Group PLC	United Kingdom	Consumer Discretionary								
Firstgroup PLC	United Kingdom	Industrials								●
GlaxoSmithKline PLC	United Kingdom	Health Care								
Greggs PLC	United Kingdom	Consumer Discretionary							●	
Marks & Spencer Group PLC	United Kingdom	Consumer Discretionary							●	
Tesco PLC	United Kingdom	Consumer Staples							●	
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 or enhances investor value. For full details of our engagements which led to one star milestones please refer to the online **reo**® client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Climate Change	Environmental Stewardship	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
★ ★ BP PLC	United Kingdom	Energy									

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: ●

