Shropshire County Council

Q4 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

The last three months of 2020 gave us reasons for despair as many countries in the Western Hemisphere were forced to impose new restrictions after a tidal wave of new COVID-19 cases washed over parts of Europe and the Americas. At the same time, we found reasons for hope as the global scientific community successfully developed a vaccine in record time. New virus variants and logistical challenges in administering the vaccine mean, however, that companies will continue to face uncertainty well into 2021.

This quarter, we continued our engagement on issues related to companies' responses to the challenges brought upon by the pandemic. In November, we participated in the World Antimicrobial Resistance Awareness Week 2020, spearheaded by the World Health Organization and convened to help avoid the further emergence and spread of drug-resistant infections. The reported misuse of antibiotics during the COVID-19 pandemic means that antibiotic stewardship needs to be emphasised now more than ever. We also wrote to boards at UK and US companies in sectors disproportionally affected by the pandemic to set out our expectations on executive remuneration practices that reflect the experience of employees, investors and other stakeholders this difficult year.

Raising awareness on antimicrobial resistance

Engagement progress update

2020 was the Investor Year of Action on Antimicrobial Resistance (AMR) – a collaboration between the Farm Animal Investment Risk & Return Initiative (FAIRR), the Access to Medicine Foundation, the United Nations Principles for Responsible Investment (PRI), and the UK Government – to galvanise investor efforts to address AMR. BMO GAM is participating as an Investor Partner because we believe that AMR is a serious threat to global public health that investors need to take urgent action against, particularly as the COVID-19 pandemic risks affecting antimicrobial stewardship activities and accelerating the spread of AMR. We began our cross-sector engagement project on AMR in 2019, and plan to continue it in 2021.

November 18 marked the beginning of World Antimicrobial Awareness Week 2020. As an Investor Partner, we committed to two initiatives during this week: 1) publishing an in-depth Viewpoint[1] explaining how major food and pharmaceutical companies are overcoming the myriad challenges posed by AMR; and 2) releasing a podcast[2] to further raise awareness about AMR[3].

[1] Viewpoint – https://www.bmogam.com/wp-content/uploads/2020/11/esg-viewpoint-anitmicrobial-resistance-nov-2020.pdf
[2] Podcast – https://sustainabilityleaders.bmo.com/en/news-insights/sustainability-leaders/sustainable-finance/episode-27-preventing-the-antimicrobial-resistance-health-crisis/
[3] AMR Industry Alliance – https://www.amrindustryalliance.org/

Guiding companies on how they should pay executives after an extraordinary year

Engagement initiative

The COVID-19 pandemic has introduced an unprecedented level of uncertainty into the global economy, with sectors such as industrials, oil & gas and consumer discretionary disproportionally affected. The operational disruption resulting from the pandemic has caused companies to miss their strategic targets set within their pre-pandemic business plans, with some needing to cut costs, cancel dividends or even seek emergency funding from investors or governments. Meanwhile other company stakeholders, such as employees, suppliers and customers, have been met with extraordinary hardship due to cost-cutting and layoffs. Amongst all of this, remuneration committees have a difficult task at hand as they try to find a balance between ensuring that executives continue to be incentivised, retained and rewarded for their efforts, whilst also reflecting the experience of investors and other stakeholders this year.

Against this backdrop, we wrote to the chairs of remuneration committee at UK and US companies within those most affected sectors to set out our expectations, suggest principles that should guide their decision-making and invite further dialogue if they consider it useful. Accepting that committees might need to exercise discretion to override pre-set formulas and policies, we encouraged detailed disclosure to be provided that explained the company specific circumstances to that justified any action taken. We also emphasised that when determining pay outcomes full consideration needs to be given for how their stakeholders have fared during the year under review, especially its employees, and not just the company's share price performance.

Workforce-related disclosures continue to make strides

Reporting standards

We have been actively engaging companies across a wide range of industries to disclose to the Workforce Disclosure Initiative's (WDI) annual survey since its inception in 2016. 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.

We engaged 81 companies on their participation in the WDI and enhanced labour related disclosure. Of these engaged companies, 21 (up from 17 in 2019) disclosed their efforts. The information – or lack thereof – disclosed will inform our engagement efforts going forward.

Banks up the ante on climate risk management

Engagement update

In the world of banking, this quarter was dominated by a handful of 2050 net-zero pledges and communication around respective implementation plans. Banks such as **JPMorganChase**, **Morgan Stanley**, **HSBC** and **NatWest** all announced net zero financed emissions plans and provided additional detail on their implementation during dedicated investor meetings. Barclays publicly outlined its progress in implementing the net zero commitment that shareholders had requested at its annual general meeting this past April.

An important element of a robust net-zero strategy is a well-anchored climate risk management system. To strengthen our own engagement efforts in this regard, we have joined a working group under the umbrella of the Institutional Investors Group on Climate Change (IIGCC) created to help align the banking sector with the goals of the Paris Agreement. We also teamed up with engagement consultants Asia Research and Engagement (ARE) and a small set of other investors to jointly reach out to the five biggest banks in China to enter a dialogue on climate risk and opportunities management, and related transparency.

Collaborating to address deforestation issues in Brazil’s Cerrado biome

Engagement collaboration

In Q4, the Cerrado Manifesto Statement of Support (SoS) group, of which BMO GAM is a leading investor, made a joint effort to re-energise engagement with a group of global soft commodities traders sourcing soy from the Cerrado region of Brazil. Joint letters were sent in October to affected companies to request the setting of time-bound deforestation and traceability targets, clear reporting on volumes of soy sourced from recently deforested land, and a clear and time-bound response to non-compliant suppliers.

While the traders’ responses varied in terms of addressing the key points, we were overall disappointed by the long timeframes and lack of time-bound targets for achieving a deforestation-free supply chain, and the absence of traceability and transparency metrics, especially for indirect suppliers. We also undersigned a second SoS letter to focus the traders’ attention on two key requests: commit to and announce a deforestation- and conversion-free (DCF) cut-off date for soy sourced directly or indirectly from within the Cerrado biome, and to adopt more robust traceability and transparency processes to ensure that the soy supply chain can be effectively monitored to combat deforestation.

2020 ends on a positive note for ESG from US regulators

Regulatory update

The U.S. Securities and Exchange Commission (SEC) and Department of Labor (DOL) formalised their pushback on the responsible investment industry through a series of proposals and rules in 2020.

This quarter we saw the DOL finalise its two main rules regarding the inclusion of ESG products in ERISA pension plans and requiring a deep cost-benefit analysis for active proxy voting. The investment community responded strongly, with the overwhelming response raising serious concerns over the underlying reasons motivating the rulemaking, as well as the impracticality of applying what is being asked of plan fiduciaries and the broader institutional investment industry.

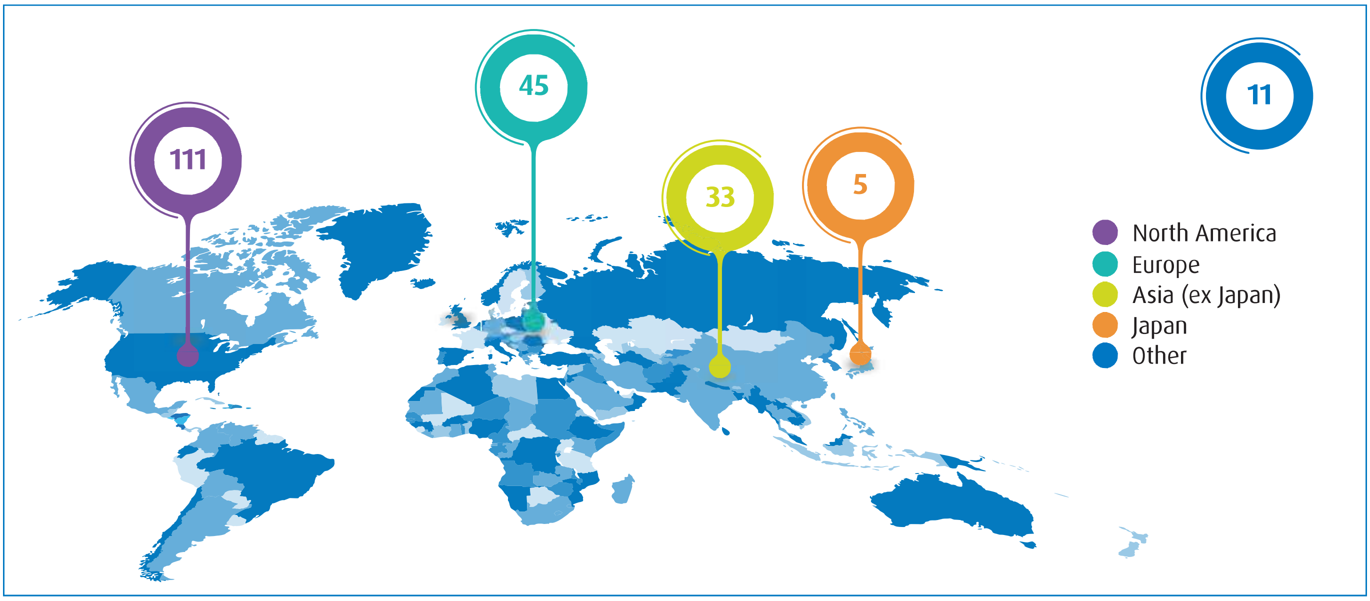
On the first proposal concerning ‘ESG investing’ products, the DOL shifted its focus in the final rule away from the term ‘ESG’ to the use of pecuniary and non-pecuniary factors. This has been interpreted as a victory by many, with the DOL conceding that ESG factors can in fact be pecuniary, in that they can impact the risk/return profile of an investment or portfolio. Similarly, the second rule regarding proxy voting was also reframed in this way, arguing that fiduciaries must not pursue non-pecuniary objectives through their voting if at the expense of the financial interest of their plans.

On a more positive note, in December the Nasdaq Stock Exchange submitted to the SEC its proposal that it require those companies that it lists have, or explain why they do not have, at least two diverse directors, and to provide statistical information on the company’s board of directors related to a director’s self-identified gender, race and self-identification as LGBTQ+. We wrote to the SEC in support of the proposal.

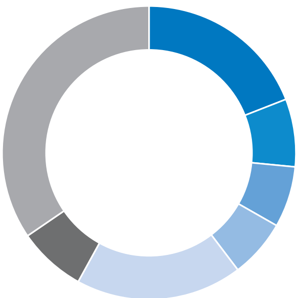
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
205	66	33

Companies engaged by region

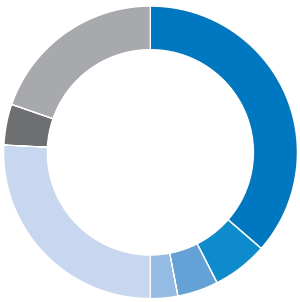


Companies engaged by issue **



Climate Change	74
Environmental Standards	29
Business Conduct	26
Human Rights	25
Labour Standards	71
Public Health	29
Corporate Governance	134

Milestones achieved by issue



Climate Change	24
Environmental Standards	4
Business Conduct	3
Human Rights	2
Labour Standards	17
Public Health	3
Corporate Governance	13

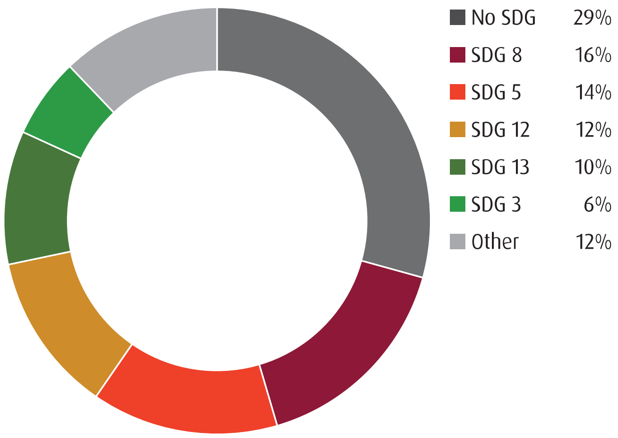
* *reo*® is currently applied to £252bn / €277bn / $325bn / CAD$433bn of assets as at 30 September 2020.
** Companies may have been engaged on more than one issue.
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots 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. 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)

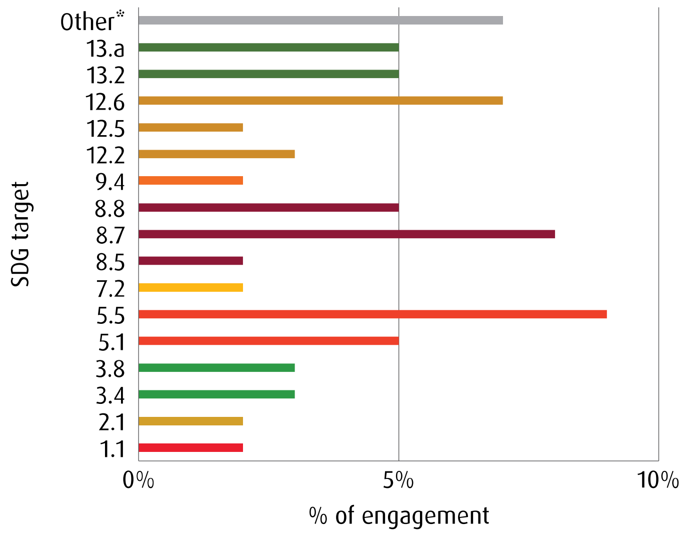
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

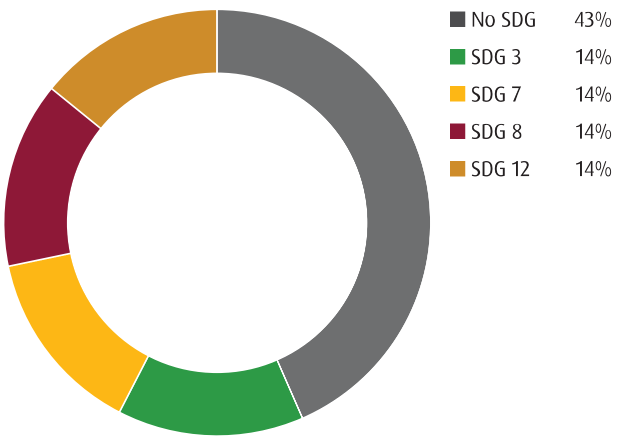
Engagement: SDG level



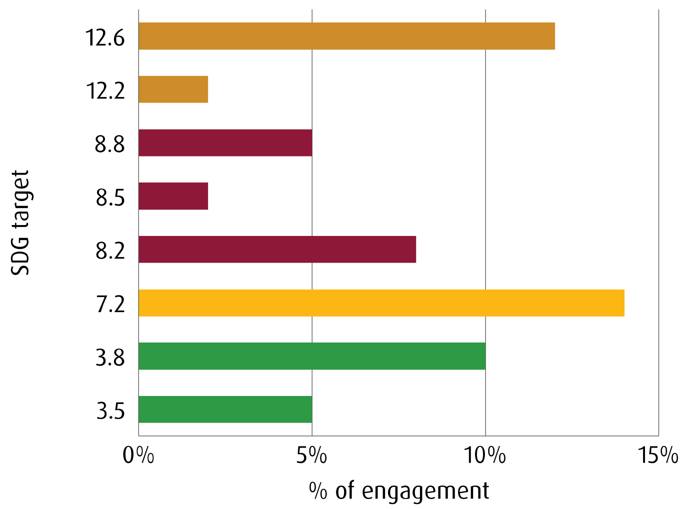
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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