

Shropshire County Council

Q3 2021

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 latest report from the Intergovernmental Panel on Climate Change (IPCC) has served as a stark reminder of the need for urgent and bold action on climate change. The landmark study, which the UN Secretary General called “a code red for humanity”, warns that we are at imminent risk of hitting the internationally-agreed threshold of 1.5 degrees above pre-industrial levels in the near term. Unless rapid and deep reductions in carbon and other greenhouse gas emissions occur in the coming decades, achieving the goals of the Paris Agreement will be beyond reach.

We continue to dedicate significant resources to our engagement efforts on climate change, particularly through investor collaborations, pushing companies to pursue the most ambitious emissions reduction paths. We remain hopeful that deep cuts in emissions could help stabilise rising temperatures.

Finally, we would like to remind our readers that we have been and will continue to be part of the collective investor voice calling on governments to be visionary and ambitious in the way they approach the upcoming Glasgow COP26 negotiations. Strong action now is essential to set the world on a trajectory to a more stable climate and a healthier planet.

Setting best practice in managing physical climate risks

Investor collaboration

BMO Global Asset Management joined investors representing US\$10 trillion in assets to contact 50 highly-exposed companies in industries including food, consumer goods and transportation, setting out our expectations on the management of physical climate risks. This was accompanied by a new report published by the Institutional Investors Group on Climate Change (IIGCC), ‘Building Resilience to a Changing Climate’, which sets out investor views on best practice in this area.

The four key areas for action highlighted in this publication are:

- Establishing a climate governance framework which considers physical risks and opportunities alongside transition risk;
- Undertaking physical climate risk and opportunity assessments;
- Developing and implementing a strategy for building climate resilience; and
- Identifying and reporting against risk, opportunity and impact metrics to demonstrate progress over time

Decarbonising the steel industry

Investor collaboration

Steelmaking is highly relevant to the decarbonisation agenda, due to its dual role of supporting the low carbon transition and being an emissions-intensive sector. The uncertainty of low carbon technology development and the high capital cost to deploy them are two pertaining issues often mentioned by companies in the industry.

Recognising these challenges, the Institutional Investors Group on Climate Change gathered a group of investors, including BMO GAM, to develop a net zero steel strategy. In a dedicated publication, Global Sector Strategies: Investor interventions to accelerate net zero steel, the investor group highlighted several key measures that should be taken by the steel companies in the future, including investing in low emission steelmaking capacity that utilises green hydrogen and/or carbon capture and storage technology. On the other hand, the strategy also calls for systematic investor engagement on the steel value chain, for example to engage downstream customers on “green” steel purchasing, to accelerate technological advancement.

Engaging on ‘net zero’

In the run-up to COP26, we are continuing to focus our climate change engagement on the objective of achieving net zero global greenhouse gas emissions by 2050, in line with the goal of limiting the average temperature rise to 1.5 degrees Celsius.

We expect that the analysis of net zero alignment will support the deeper integration of climate risks and opportunities into investment portfolios, through the use of new data sets and analytical techniques. The emphasis on engagement coming out of the methodologies so far developed will add further impetus to investor stewardship, particularly beyond the Climate Action 100+ companies already under intensive focus. Whilst encouraging companies to take on a ‘net zero’ ambition is important, this alone has little value without a robust implementation strategy. A key framework here is the Climate Action 100+ Net Zero Company Benchmark, which sets out best practice expectations – including setting net zero-aligned short and medium-term targets; implementation of strategy; and governance oversight of climate actions.

Finally, efforts to address data gaps, including through our participation in the CDP’s annual Non-Disclosure Campaign should support better company disclosure, also building on progress made by the Task Force on Climate-related Financial Disclosures.

China's oil majors join forces to tackle methane emissions

Investor collaboration

Methane emissions are the second-largest cause of global warming today. These emissions, which have a significant warming potential, come from a range of anthropogenic and natural sources, including from the energy sector – mainly from oil, natural gas, coal and biofuel combustion. Emissions remain high as implementing abatement options quickly and at scale remains a challenge. While methane tends to receive less attention than carbon dioxide, reducing methane emissions will be critical to avoid the worst effects of climate change.

In this context, we welcome the **China Oil and Gas Enterprises Methane Emissions Control Alliance**, jointly initiated by oil & gas exploration and production majors **PetroChina**, **Sinopec** and **CNOOC**, with four other companies in the industry, including **China Resources Gas**, as its founding members. The Alliance will help support China's efforts to meet its 2060 carbon neutral target.

New agreement to protect garment workers in Bangladesh

Multi-stakeholder collaboration

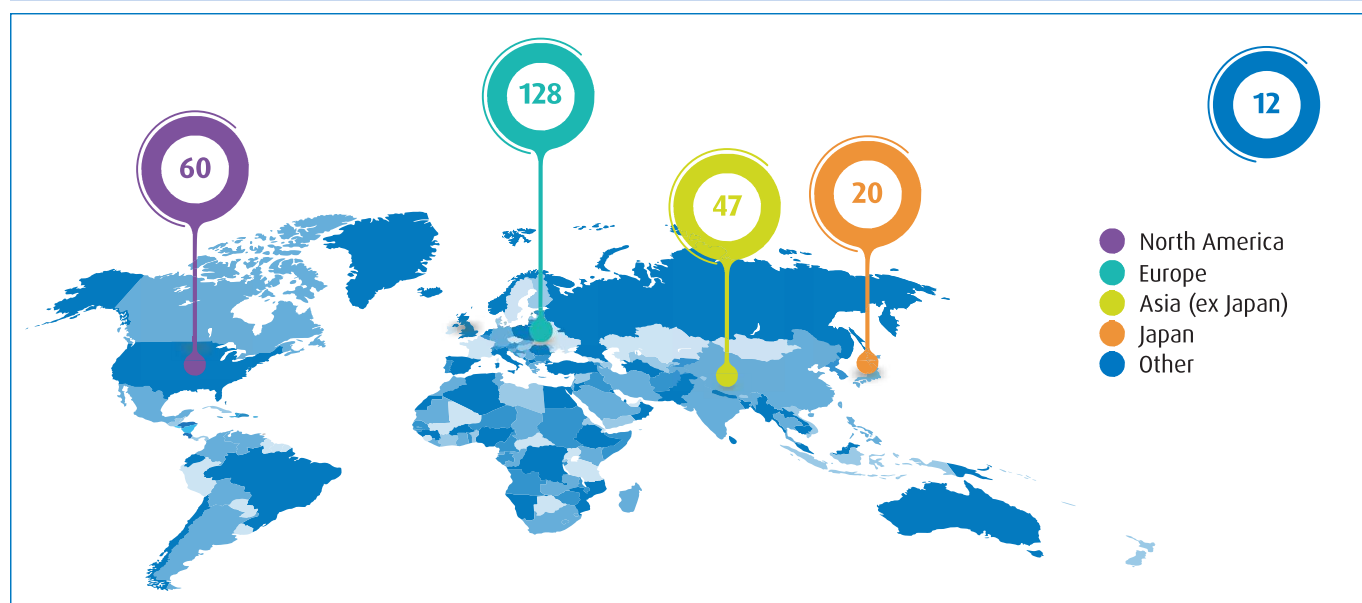
In August 2021, international brands, unions and the Bangladeshi garment industry came together to enact the **International Accord for Health and Safety in the Textile and Garment Industry** ("International Accord"). In the run up to the signing of this initiative, we wrote to nineteen companies that were signatories to the original **Bangladesh Accord on Fire and Building Safety** that was launched in 2013 right after the Rana Plaza factory collapse. We asked companies that they reaffirm their commitment to the Accord model.

The new agreement commits to focus on the health and safety program in Bangladesh, and to build a credible industry wide compliance and accountability mechanism. It also intends to extend the International Accord model to other regions, streamline the arbitration process that enforces the Accord's terms, and expand the scope of the agreement to address human rights due diligence.

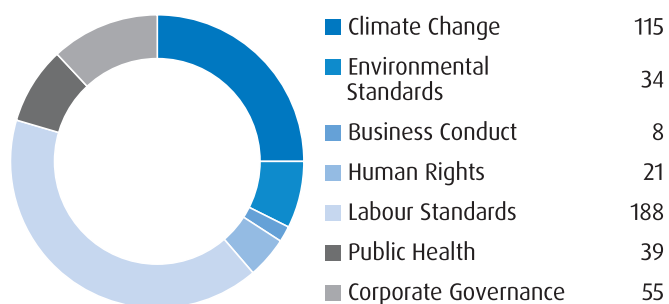
Companies engaged this quarter

Number of Engagements	Companies Engaged	Milestones achieved	Countries covered
361	267	75	33

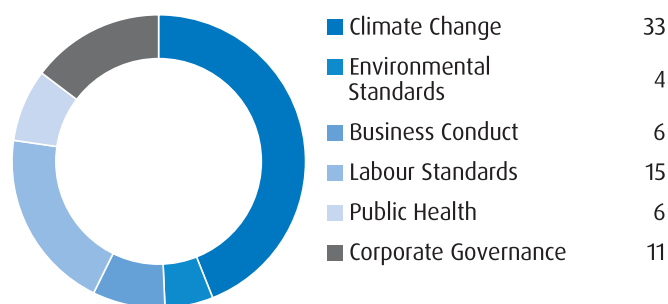
Companies engaged by region



Companies engaged by issue **



Milestones achieved by issue



* reo® is currently applied to €414.439bn / £355.671bn / US\$490.986bn* as at 30 June 2021.

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

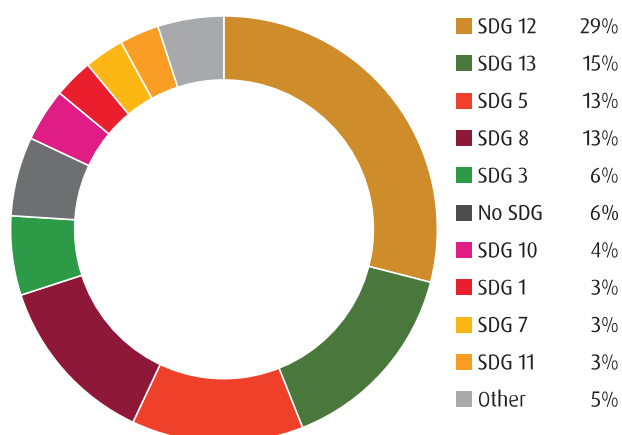
*** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where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

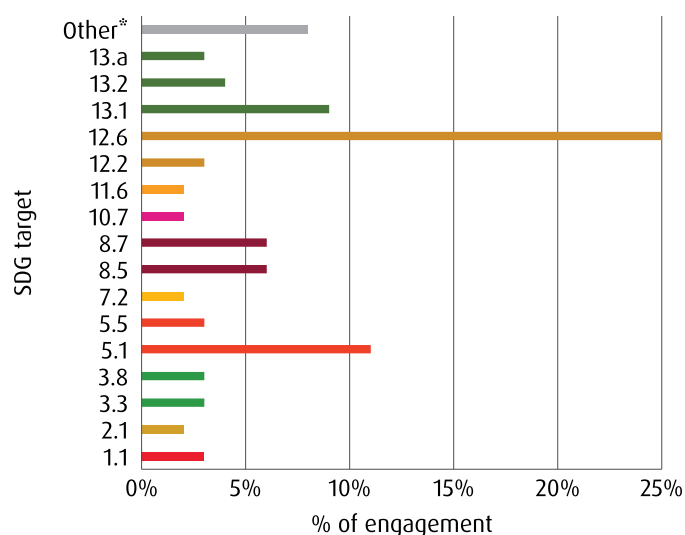
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

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.

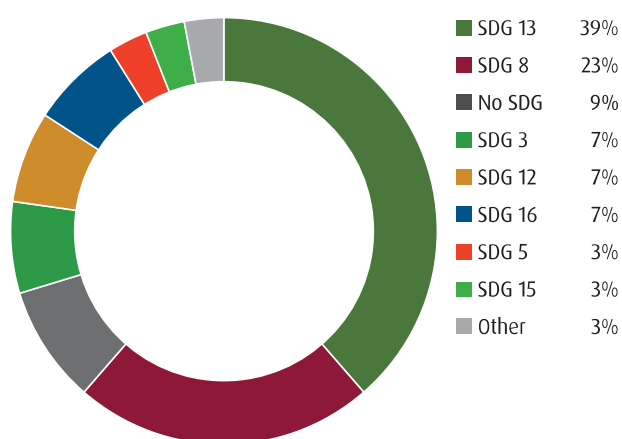
Engagement: SDG level



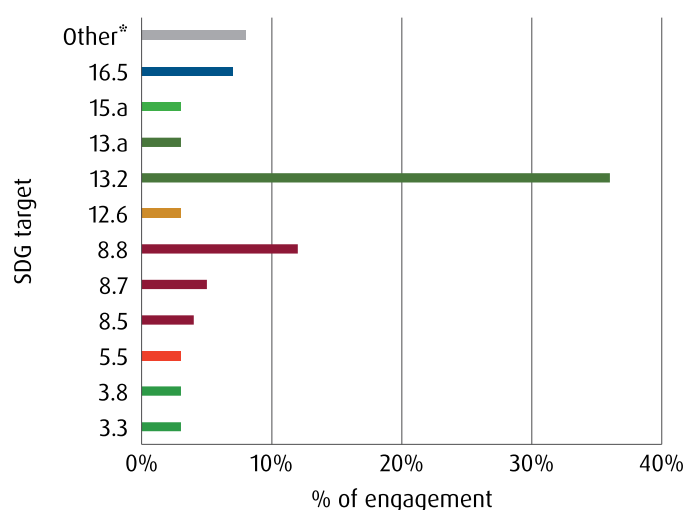
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



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