

reo[®]

Responsible Engagement
Overlay

Three decades of
expertise

Section I

An introduction to Responsible Engagement Overlay: **reo**®

What is Responsible Engagement Overlay: *reo*®?

Defining BMO Global Asset Management's *reo*® service

- An overlay service launched in 2000 providing **engagement** and **voting**
- We identify, manage and report on environmental, social and governance (ESG) risks in our clients' portfolios
- Engagement (dialogue with companies) and voting are targeted to improve the management of ESG risks, which should in turn underpin long-term corporate outperformance



In total
reo® covers
€139.5bn in third
party assets
under advice

Key benefits:

- A consistent and transparent approach across all holdings
- Greater influence through joining a pool of assets
- Alignment of ownership practices with clients' responsible investment commitments and international standards
- Access to the expertise of BMO Global Asset Management's team members

Ocidental Pensões became a *reo*® client in March 2018

Source: BMO Global Asset Management as at Q2 2018.

Why engage companies?



Performance and risk management

Improve business model resilience
Support long-term strategic planning



Stakeholder Expectations

Support sustainable development
Limit negative social and environmental impact



Compliance

Regulatory requirements
Industry standards

A systematic and comprehensive methodology



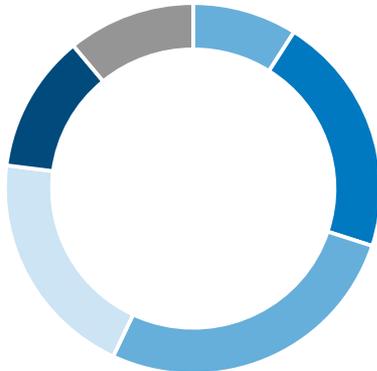
- Annual analysis of our clients' portfolios to identify material holdings in companies with weak ESG performance
- Research by BMO Global Asset Management's **Responsible Investment team** to select priority companies where we see significant ESG weaknesses and potential for engagement success
- Identification of ESG issues which impact across regions or sectors to be taken forward as projects
- Annual client consultation on companies and projects
- Ongoing monitoring of controversies, including UN Global Compact breaches

ESG = Environmental, social and governance; UN = United Nations.

Global coverage for *reo*® clients

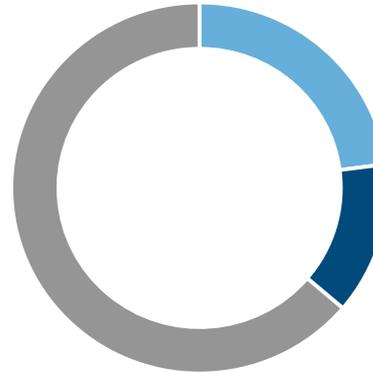
- Targeted engagement with **1363 companies** across **62 countries** in 2017 in equities and bonds
- In 2017, we covered **53%** of MSCI World Index by value and **42%** of MSCI Emerging Markets Index
- In 2017, we had a large governance project which skewed the balance to governance engagement; in a typical year – the split is roughly one-third each in Environment, Social and Governance

Engagement by region



- United Kingdom 9%
- North America 27%
- Japan 12%
- Continental Europe 21%
- Asia (ex Japan) 20%
- Other 11%

Engagement by theme



- Environmental 22.95%
- Social 13.28%
- Governance 63.77%

Environmental	
Environmental standards	520
Social	
Business ethics	83
Human rights	46
Labour standards	90
Public health	82
Governance	
Corporate governance	1318
Social & environmental governance	127

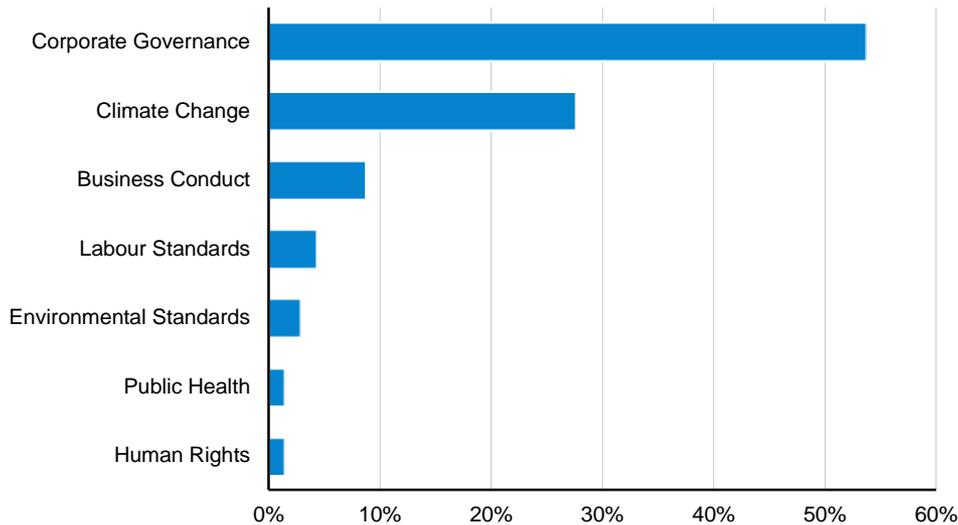
Engagement activity for Ocidental Pensões

31/12/2017 – 30/09/2018

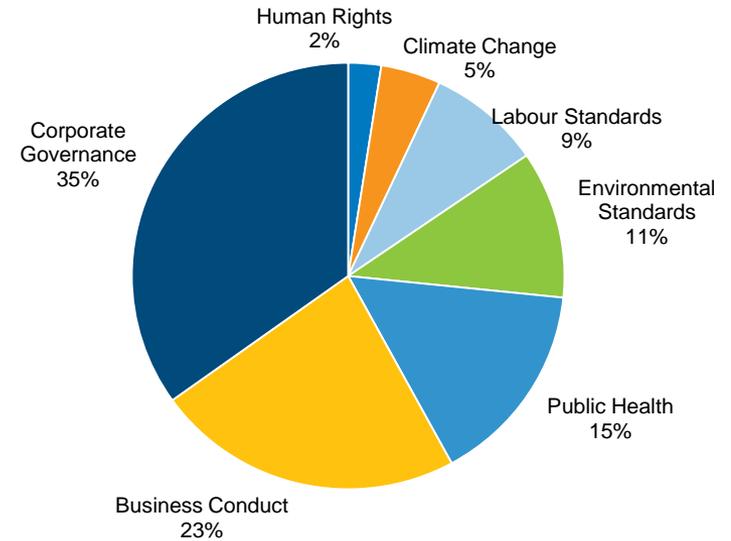
Companies engaged	145
Milestones achieved	69
Countries covered	19

Milestones are engagement outcomes which we have identified

Milestones achieved by issue



Companies engaged by issue



Source: BMO Global Asset Management. As at 30/09/2018.

Section II

Engagement case studies

Climate Action 100+

Five-year global engagement initiative to engage with the world's largest corporate GHG emitters

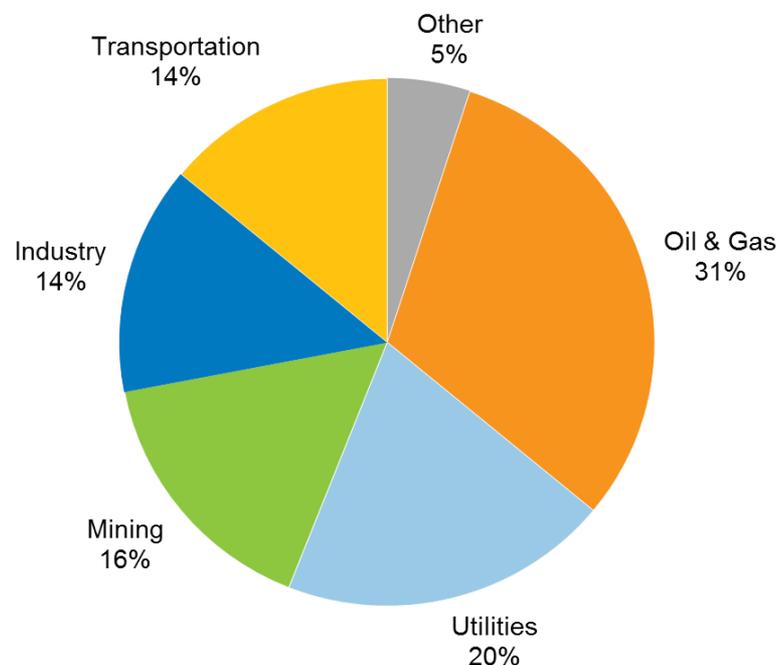
- Supported by 279 investors, with a combined **US\$30 trillion** in assets
- Initial focus on **100 companies**, selected on the basis of their total emissions
- Further companies will be added as a “+” list
- Engagement asks are closely aligned with the **Taskforce on Climate-related Financial Disclosures** – focus is disclosure of long-term climate risk

BMO co-lead on:

Posco; GM; Suncor; FCA; VW; Duke Energy

BMO support on:

China Shenhua; Anglo American; BHP Billiton; BP; Eni; Glencore; Royal Dutch Shell; Total; Norilsk Nickel; National Grid; Enel; Engie



GHG = Greenhouse gas.

Background

- Duke Energy has the largest electricity generation capacity in the US market. The company has already moved away from coal generation (58% in 2005 to 33% in 2017), but there was a lack of clarity about the scale and ambition of the company's future decarbonisation strategy

Engagement Action

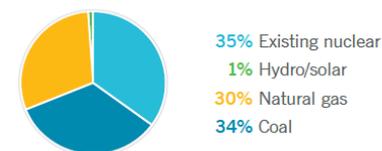
- Duke Energy has been open to shareholder dialogue: BMO Global Asset Management engagement included three in-depth, 1 to 1 calls with company specialists. The 2017 shareholder resolution requesting a 2 degree scenario analysis received over 46% support: BMO Global Asset Management voted in favour.

Milestone: Duke Energy published a Shareholder Climate Report in March 2018

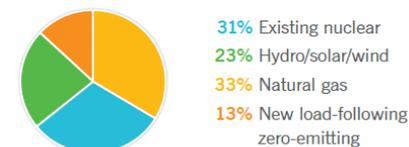
Outcomes and assessment

- This sets out the 2050 energy mix the company believes is consistent with a 2 degree future – coal is completely phased out in this scenario, but renewables still make up less than one-quarter of the mix. The report gives investors the transparency we need to have a better quality debate. We will encourage other North American utility companies to produce similar analysis. **Next steps:** Engage the company on the findings of the report, via Climate Action 100+ initiative.

2017 Regulated Utility Generation (MWh)



2050 Regulated Utility Generation – Pro-Rata Reductions (MWh)



Background

- Amazon.com's operational footprint and employee base has undergone rapid growth – sustainability management has not kept pace
- First Head of Sustainability was only appointed in 2014

Engagement activities

- BMO had engaged since 2011 but we were dissatisfied with the level of access and quality of dialogue
- First call with Head of Sustainability in 2016 – good responses on environmental management but reticence on labour issues
- We escalated engagement by organising a collaboration of investors representing assets under management of US\$2.3 trillion, who co-signed a letter to the CEO-Chairman
- Following this we had further calls, including with the VP, HR for worldwide operations

Outcomes and assessment

- We are working to assemble a wider investor coalition to send a letter requesting further dialogue
- Our priority is labour management, but we are also looking for improvements in governance and climate strategy

Milestone: Amazon raised minimum wage for US workers to \$15

Case study: Circular economy in the textile sector

Circular economy definition

An alternative to the linear make-use-dispose model, whereby attempts are made to keep resources in circulation for as long as possible and yield the maximum value out of each resource.

Background

- Continued growth in consumption and demand for products has led to increasing risk of natural resource scarcity in textile production
- Innovation required in the manufacturing process and life-cycle management

2017 Engagement Project

- Outreach to 19 major apparel and garment factories
- Main industries covered: fast fashion, luxury, sports wear, outdoor wear

Key Asks:

1. **Risk management:** Map emerging natural resource scarcity
2. **Sustainable design:** Design garments that will be easier to recycle at the end of their lives
3. **Post-sales initiatives:** Take-back schemes and repair services

