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

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

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

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

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Engagement activity for **Ocidental Pensões**
31/12/2017 – 30/09/2018

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<td>Companies engaged</td>
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<td>Milestones achieved</td>
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<td>Countries covered</td>
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**Milestones** are engagement outcomes which we have identified.

### Milestones achieved by issue

- Corporate Governance: 35%
- Climate Change: 5%
- Business Conduct: 23%
- Labour Standards: 9%
- Environmental Standards: 11%
- Public Health: 15%
- Human Rights: 2%

### Companies engaged by issue

- Business Conduct: 23%
- Corporate Governance: 35%
- Public Health: 15%
- Environmental Standards: 11%
- Labour Standards: 9%
- Climate Change: 5%
- Human Rights: 2%

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.
Case study: Duke Energy

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.
Case study: Amazon
Labour standards

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