Responsible Investment
2018 Review

BMO Global Asset Management

Contents

"We are less than two years away from being unable to undo our mistakes... The bigger the carbon footprint, the bigger the platform, the bigger responsibility to lead" **Greta Thunberg**

Christiana Figueres, Founding Partner, Global Optimism, United Kingdom. François Villeroy de Galhau, Governor of the Central Bank of France. Greta Thunberg, Climate Activist, Kringlaskolan Södertälje, Sweden. John J. Haley, Chief Executive Officer, Willis Towers Watson, USA.Ngozi Okonjo-Iweala, Chair, Gavi, the Vaccine Alliance, USA. Speaking at the Session "Preparing for Climate Disruption" at the Annual Meeting 2019 of the World Economic Forum in Davos, January 25, 2019. Copyright by World Economic Forum / Mattias Nutt

Making a positive impact

Asset management has been transformed recently by: the cultural changes that followed the financial crisis, the rise of technology, the growth in regulation and the expansion of emerging markets. The most profound however, and the most exciting, is the debate about purpose. Across the financial sector, there is growing recognition that whilst of course delivering financial returns is our objective, we also need to analyse how our actions – or inactions – have an impact on meeting the world's needs.

At BMO Global Asset Management, we recognise the Sustainable Development Goals (SDGs) as a complimentary framework for identifying key global challenges and their solutions. This report sets out how our engagement contributes to addressing the SDGs, at the same time as addressing financially-material risks. We are pleased to offer investment products that support our clients in directing capital towards sustainable solutions, including our newly launched BMO SDG Engagement Global Equity Fund.

We are proud to be part of BMO Global Asset Management's pioneering approach to responsible investment, and look forward to influencing change on our five key themes for 2019: protecting vulnerable workers, gender equality, climate change, biodiversity and water, and antimicrobial resistance.

Alice Evans
Director, Co-Head, Responsible Investment

Claudia Wearmouth
Director, Co-Head, Responsible Investment

"I am proud to lead a business in which ESG sits at the heart of its strategy. I look forward to making a difference through our responsible investment approach."
Kristi Mitchem, CEO, BMO Global Asset Management

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Our engagement in 2018

Engaging our companies on those ESG issues presenting the greatest threats or opportunities to long-term shareholder value is a cornerstone of our overall approach to investing.

2018 saw us engage with 665 companies across a range of **environmental, social and governance issues**

Environmental: 20% of our engagement was on environmental issues, and climate change remained firmly in the spotlight. Extreme weather events and calls for global action to curb emissions easily made climate change one of the top stories in 2018 worldwide. We engaged actively with companies across highly-exposed industries on issues such as emissions management, adaptation, innovation and climate-related disclosures. Besides climate change, we spent time talking to relevant companies about their approach to tackling plastic pollution, an issue for which public awareness and action, and hence business risks, snowballed last year.

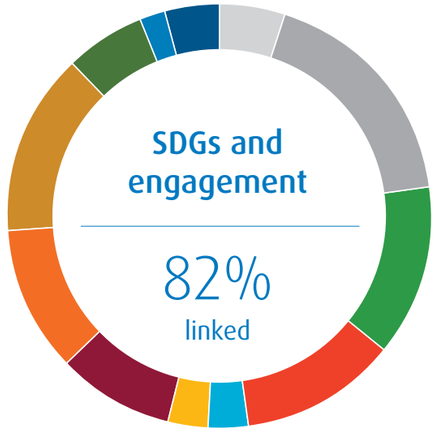
Social: 40% of our engagement was on social themes and we continued doing extensive work on labour practices. Areas of particular focus were modern slavery, freedom of association, and supply chains.

We also stepped up our efforts on health issues linked to sugar, as governments and the general public pay increasing attention to the consequences of high sugar consumption. We engaged food & beverage and restaurant companies around the world to encourage them to incorporate regulatory developments and changing consumer preferences as they work on their long-term business strategies.

Governance: 40% of our engagement was on corporate governance topics in 2018. Given that well-functioning boards are critical for long-term value creation, our governance engagement has continued to be focussed on board effectiveness. In addition, we discussed topics relating to director nomination, board composition, diversity, refreshment, evaluation, internal controls and executive remuneration.

Sustainable Development Goals: 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. The SDGs, which were endorsed by all 193 UN member states, are ambitious and high-level with 169 underlying targets.

In 2018, we advanced our work to understand how our engagement can support the SDGs. Whereas previously we considered this at a goal level, we now 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.



Engaged 26 times on improving corporate nutrition strategies – targets 2.1 and 2.2[1]
Focus areas included: encouraging increased reformulation, clear labelling and responsible marketing.

Engaged 224 times on board diversity[2] – target 5.5[3]
Focus areas included: board level gender diversity issues, alongside the wider labour management and cultural issues.

Engaged 57 times on improving water management – targets 6.3 and 6.4[4]
Focus areas included: water risk assessments, implementation of targets and strategies, and the governance of water-related issues.

Engaged 32 times on ending modern slavery – target 8.7[5]
Focus areas included: encouraging best practice and taking responsibility beyond Tier 1 suppliers.

Engaged 41 times on reducing marine pollution – targets 14.1 and 12.5[6]
Focus areas included: encouraging the reduction of single use plastic packaging, increasing recycled material in packaging, innovating materials and strategic implementation.

Our experience is that companies welcome this development in our engagement approach. Increasingly, there is pressure on companies to effectively disclose ESG information and we believe the SDGs provide a framework to streamline this for use by various stakeholders.

We are continuing to develop and deepen our work on applying the SDGs. In 2019 we are systematically capturing engagement at a target level, where applicable, to enable greater accuracy and achieve higher impact.

During 2018, the two most frequent links to SDGs were to SDG 12 (14%) relating mainly to environmental supply chain management, improving ESG disclosure, and the management of pollution impacts, and SDG 3 (13%), which included encouraging enhanced access to medicines and responsible drug pricing.

18% of our engagement didn't directly link to an SDG; mainly where corporate governance issues were discussed solely, not in conjunction with other themes. These extremely valuable engagements we see as a foundation for the achievement of all 17 Goals, with well-governed companies better able to manage ESG risks and opportunities.

> Investment without engagement is irresponsible investment.
>
> **The Most Reverend Justin Welby, Archbishop of Canterbury, President of the Responsible Investment Advisory Council**

[1] SDG 2.1 End hunger and ensure access to safe and nutritious food; SDG 2.2 End all forms of malnutrition, particularly for children and women
[2] In general this has been on gender diversity, but some other factors will be captured here
[3] SDG 5.5 Ensure full equality of opportunity for women, including at leadership levels
[4] SDG 6.3 Improve water quality by reducing pollution; SDG 6.4 Increase water-use efficiency to address water scarcity
[5] SDG 8.7 Eradicate forced labour, end modern slavery & human trafficking
[6] SDG 14.1 Prevent and reduce marine pollution of all kinds; SDG 12.5 Reduce waste through prevention, reduction, recycling and reuse

In 2018, additionally to our engagement, we had a further 2,067 communications, including on votes against management and the introduction of our new global voting policy, where we mainly wrote to the Chair updating them on our new approach.

Helping to make change happen

Our constructive and strategic approach to engagement has allowed us to achieve numerous positive outcomes, and in the process help create value for our companies and us. In 2018, we recorded 237 instances of change ('milestones'), where companies improved ESG policies and practices following our investor engagement. We have selected some of our highlights below.

"We monitor and evaluate the outcomes of our engagement to identify successes and possibilities for further change. This is made possible by thinking carefully about what we want to achieve and how, together with the company, we can get there."

Juan Salazar, Director Responsible Investment

E Environmental

Companies continue to make progress in their approach to managing climate-related risks. US power generation giants **Duke Energy** and **AES Corp** published for the first time detailed climate reports that include scenario analysis. **BP**, **ExxonMobil** and **Royal Dutch Shell** set reduction targets for methane emissions, a potent greenhouse gas, from natural gas production. A handful of banks, including **HSBC** and **Standard Chartered**, committed to limit or stop financing coal-fired power generation projects.

Examples

Duke Energy
The publication of a climate report, which we had called for during our engagement with the company, will allow investors to make an informed assessment of Duke Energy's approach to managing climate risks.

Royal Dutch Shell
By setting out specific methane emissions reduction targets, the company can help to enhance the role of natural gas in the transition to a lower carbon economy. We actively encouraged the company to tackle methane leakage across its operations.

S Social

In 2018, major apparel retailers, including **The Gap**, **Inditex** and **Marks & Spencer** joined forces with trade unions to create the ACT (Action, Collaboration, Transformation) initiative, which aims to achieve living wages for workers through collective bargaining at industry level. On the cybersecurity front, **Facebook**, **SAP** and **Microsoft**, among others, signed up to the Cybersecurity Tech Accord and committed to improve the security, stability and resilience of cyberspace.

Examples

Inditex
We engaged with the company to ask it to collaborate with peers to improve wages along apparel supply chains. We believe this can lead to addressing industry risks related to high employee turnover, reduced productivity and social unrest.

Microsoft
By joining the Cybersecurity Tech Accord, the company will play a part in improving collaboration on cyber threat detection and mitigation and, ultimately, improve its ability to manage evolving cybersecurity risks.

G Governance

Investor pressure following business ethics and governance failures precipitated changes at the top in companies such as **Danske Bank**, **ICICI Bank**, **Sports Direct** and **Victrex**. We also saw a significant number of US-based companies amend their bylaws to enhance shareholders' rights. Changes included providing proxy access and the introduction of annual director elections and majority voting standards.

Examples

Danske Bank
We engaged with the company on the recent money laundering scandal. The bank removed its CEO and Chair in a welcome move to draw a line under past governance shortcomings.

Victrex
The Carillion scandal seriously harmed public confidence in business in the UK. We engaged Victrex on the removal of a director who also served on the Carillion board and who subsequently resigned.

Milestones: corporate governance themes

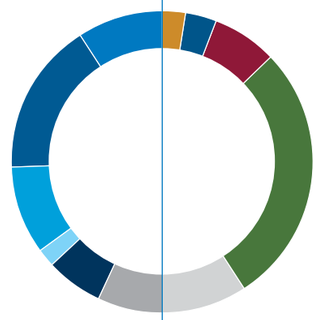
Capital structure: 2018 saw many companies remove provisions which were detrimental to shareholder rights.

Board effectiveness: we have seen issuers remove 'overboarded' directors and improve board evaluation processes, as well as appointing independent members with specific skill sets.

Milestones: linked to SDGs

2018 was a pivotal year for the advancement of development and implementation of climate strategies, a long-term focus area for us. Following the extensive engagement, we have seen significant inprovements.

Improving working conditions and workers' rights, and reducing corruption, are other areas where our longstanding engagement has made traction. We have seen improvements regarding data privacy and cyber security, and whilst these topics are not explicitly mentioned in the SDGs, in this context we believe these improvements help to achieve the protection of fundamental freedoms.



46% corporate governance

- Board effectiveness 18%
- Capital structure and shareholder rights 33%
- Remuneration 19%
- Strategy and execution 4%
- Board independence 12%
- Other 14%

54% SDG linked

- SDG 12, target 12.6 5%
- SDG 16, target 16.10 7%
- SDG 8, target 8.8 14%
- SDG 13, target 13.2 56%
- Other targets 18%

SDG 12.6 Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG 16.10 Ensure public access to information and protect fundamental freedoms
SDG 8.8 Protect and promote safe working environments for all worker
SDG 13.2 Integrate climate change plans into policies and strategies

"Climate change brings both risk and opportunity for investors. Keeping global warming to well below two degrees demands bold and urgent action from the world's largest greenhouse gas emitters."

Anne Simpson, Climate Action 100+ global Steering Committee chair, and CalPERS Director of Board Governance and Strategy

Climate Action 100+

Pieter van Stijn, Thomas Hassl and Derek Ip

Climate Action 100+ is a global collaborative investor engagement initiative, launched in December 2017 at the One Planet Summit. It co-ordinates engagement with 100 'systemically important' companies accounting for two-thirds of annual industrial greenhouse gas emissions, as well as over 60 others with the opportunity to drive the low-carbon transition.

Investors with assets under management of over US$32 trillion have so far signed up, making this perhaps the largest ever global investor engagement collaboration. 2018 saw 277 meetings take place, 32 at board level.

Engagement

The initiative asks companies take action in three areas:

- **Governance:** Implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities.
- **Emissions management:** Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting the global average temperature increase to well below 2-degrees Celsius.
- **Disclosure:** Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, when applicable, sector-specific guidance.

BMO GAM has been an active participant in Climate Action 100+, acting as lead or joint lead on 4 companies, and participating in engagement with a further 14 companies. 2018 highlights included:

- Speaking at the **AGM of Fiat Chrysler** to encourage a more proactive approach to the development of hybrid and electric vehicles
- Initiation of dialogue with South Korean steel giant **POSCO**, a company that has up to now been resistant to adopting climate management strategies such as scenario analysis
- Discussions with US utility **Duke Energy** after the publication of their Climate Report to shareholders, asking for further details on their coal retirement strategy
- Significant progress at **Royal Dutch Shell** following intensive engagement, with the company adopting strong ambitions to cut the net carbon footprint of both its operations and its products, committing to translate that ambition to medium-term targets to be integrated in the remuneration policy.

US$32 trillion AUM supporting Climate Action 100+

Goal

Task Force on Climate-related Financial Disclosures (TCFD)

Vicki Bakhshi

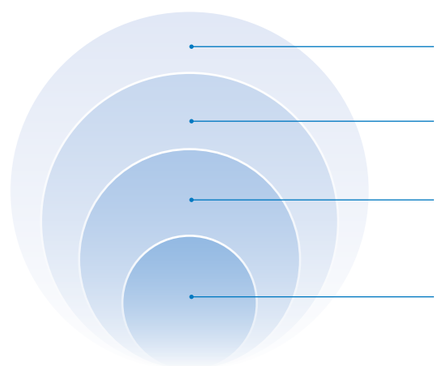
The TCFD was set up by the Financial Stability Board with the aim of establishing consistent, high quality climate risk reporting across sectors and regions. Its recommendations, published in 2017, are organised into four key areas: governance, strategy, risk management, and metrics and targets.

Our parent company, BMO Financial Group, is a supporter of these recommendations, and includes information on how it is implementing them within its 2018 Annual Report and ESG Report. Some of the recommendations are specific to asset managers, and BMO Global Asset Management will be publishing a separate statement on how it is applying these to its own activities.

A priority for us in 2018 was engaging with investee companies to encourage them to report in line with the TCFD, since good quality data from companies is essential in informing asset managers' assessment of risk and opportunity.

We also co-led a working group organised by the Institutional Investors Group on Climate Change on how investors can apply climate scenario analysis to their portfolios. This brought together leading European asset owners and managers to discuss the purpose of scenario analysis; the scenarios available to investors; and analytical techniques to apply these to portfolios. The group published a report in late 2018[1], and at BMO GAM, we will be working in 2019 to assess how we can implement its findings.

Core Elements of Recommended Climate-related Financial Disclosures



Governance	The organisation's governance around climate-related risks and opportunities
Strategy	The actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning
Risk Management	The processes used by the organisation to identify, assess, and manage climate-related risks
Metrics and Targets	The metrics and targets used to assess and manage relevant climate-related risks and opportunities

[1] Navigating climate scenario analysis – a guide for institutional investors, IIGCC (2018). In 2018 Vicki Bakhshi was an IIGCC board member and authored this report.

"The human race will regret it if we don't act on plastic now."

Sir David Attenborough[1], Broadcaster and Naturalist

Ocean plastics

Emma Lupton

The landscape

2018 saw a significant focus on the issue of ocean plastics, spurred by the airing of Sir David Attenborough's seminal documentary Blue Planet II and the awareness that more than 8mn tonnes of plastic reaches the oceans annually. Earth Day, World Environment Day, World Oceans Day and the United Nations Environment Programme all focused on the theme in 2018, further encouraging society, governments and companies to act. Progress in policy has been made, with a commitment from all 193 UN member states to be proactive around domestic solutions for plastic waste. Examples include: the G7 Ocean Plastics Charter (ex US and Japan) and the vote by the EU Parliament to ban a range of single-use plastics. These are steps forward, however, the scale of the issue is immense, and the hard work of implementation is yet to come to achieve the goals set.

Our work

In 2018, we engaged with 27 companies on the topic in the food & beverage, and food & staples retail sectors, including **The Coca-Cola Company** and subsidiaries, **Nestlé**, **Danone**, **Mondelēz**, **PepsiCo**, **Starbucks** and **YUM! Brands** (operator of **KFC**, **Pizza Hut** and **Taco Bell**). All companies we have spoken to have seen this issue rise quickly up the agenda and most have plans in place to reduce impacts. More companies are committing to global policy initiatives, such as the Ellen MacArthur Foundation's New Plastics Economy Global Commitment, supporters of which include the WWF, the World Economic Forum and The Consumer Goods Forum. We have aligned our engagement to this and asked companies to reduce the amount of unnecessary single-use plastic, improve the recyclability of plastic, be creative in packaging redesign, implement circular economy models and improve recycling infrastructure.

Our engagement also emphasises the opportunity present and we are excited to see innovative packaging materials and technologies emerging. With the rapidity of change in public attitudes towards plastics, manufacturers of alternatives and providers of infrastructure solutions could be examples of stakeholders that can realise a significant business opportunity. Going forward, we will continue engagement on this issue within these sectors, but will also broaden out to companies within the household and personal care sectors, as well as others that are exposed. We want to see commitments where they don't exist already, but now implementation is key. We will be looking for interim measures as well, to keep building the momentum to act, and will monitor progress.

New Plastics Economy Global Commitment[2]

350+ signatories **US$4 trillion** AUM endorsing the commitment

Goals

[1] Sarah-Jane Mee interviews Sir David Attenborough for Sky News, June 2018
[2] New Plastics Economy Global Commitment, March 2019

PT Bank Mandiri

Bank Mandiri is Indonesia's largest bank, and also is one of the largest lenders to the country's palm oil industry, which accounts for approximately 9% of its loan portfolio. Serious ongoing concerns about the sustainability of the industry present risks to these assets.

We have met the company several times to encourage it to move beyond a compliance-based approach to financing palm oil into one that considers risks more holistically. Specifically, we asked that a No Deforestation, No Peat and No Exploitation (NDPE) policy be adopted. This would require the bank's palm oil clients to end all deforestation, protect high conservation value areas and implement best plantation management practices.

Our view

Louder calls to curb Indonesia's rising carbon emissions put additional pressure on banks to improve the management of risks from financing high-impact customers. A stricter approach to palm oil financing would improve the ability of Mandiri to anticipate headwinds from regulatory developments while contributing to more sustainable agricultural practices. **Juan Salazar**

Goal

SAP SE

German software and technology company SAP faced a shareholder revolt in 2016 against its compensation system, receiving approval from less than 45% of votes cast. In 2017, nearly half of SAP's investors voted against the discharge of the supervisory board because the board had failed to put the compensation system for re-approval.

SAP's board has a large number of long-standing members, and lacks sufficient representation of genuinely independent directors. We believe this could impact effective decision-making by the board and responsiveness to shareholder concerns. We repeatedly engaged the company through 2017 and 2018 to reiterate our concerns.

Our view

2018 saw the company choose to include a resolution on executive compensation on the AGM agenda, which we welcomed. However, we were still unable to support the pay proposal itself, since in our view, despite a number of changes, SAP remains an outlier amongst European peers with a significant portion of long-term incentive awards not tied to performance. **Kalina Lazarova**

Goal

No Link

FEMSA

The company is the largest bottler of Coca-Cola beverages in the world by volume, operating across Latin America and in the Philippines. Mexico, FEMSA's main market, is one of the world's largest consumers of soft drinks per capita, and has high rates of obesity and diabetes.

We have engaged with the company since 2014 to encourage a strategic approach to address the risks and opportunities stemming from public health issues. We have seen management take notable measures over the past few years, including diversifying the portfolio, investing in product reformulation, and, critically, lowering the price point of lower sugar drinks compared to full sugar ones.

Our view

We welcome the positive response to our engagement so far, and expect FEMSA to continue addressing nutrition issues strategically going forward. Although soft drinks consumption habits in Mexico are not radically changing yet, stricter public health policies and evolving consumer preferences are likely to present further risks to the beverage industry. **Juan Salazar**

Goal

Governance of data protection

David Sneyd and Daniel Jarman

The collecting and processing of personal data is a critical component of modern business. But companies have not always used or protected personal data in a way that people expect, with highly publicised data breaches and privacy scandals continuing to hit the headlines.

In 2018, Europe's General Data Protection Regulation (GDPR) came into force, giving EU citizens more control over how their data is used, and requiring companies to take data privacy more seriously or else risk being handed substantial fines of up to 4% of global turnover. Not only does the GDPR have extra-territorial reach, making it the first ever piece of global data legislation, but many other regions including Brazil, Canada and California are using the GDPR model to introduce their own legislation.

To better understand how companies were facing the challenge of implementing the GDPR, we engaged with data protection officers, or equivalents, at a group of 28 global companies from data-heavy sectors such as technology, pharmaceuticals and finance. Given the sensitive nature of this topic, our expectations were exceeded in terms of the level of access we were given and the openness of conversations.

Findings and next steps

A key finding was that despite improvements in practice, disclosure on data privacy standards remains limited and inconsistent, making it challenging for investors to assess levels of risk. In order to move beyond this, we have formulated a high-level disclosure framework, which we think covers the most important areas of compliance:

- Acknowledgement of the importance of data privacy from top management
- Internal governance arrangements for data privacy
- Formal oversight by the board and senior management
- Relevant experience on the board
- Company culture

We have shared this with those companies within our sample and have encouraged them to consider adopting it in their future reporting.

Goal

* Dr. Mike McGuire (2018) Into the Web of Profit; Understanding the Growth of the Cybercrime Economy

Channing May, Global Financial Integrity (2017) Transnational Crime and the Developing World

Samsung Electronics

Electronics giant Samsung Electronics, the largest entity within the Samsung conglomerate, has enjoyed success as one of the world's leading smartphone developers. However, there are ongoing governance concerns as well as a legacy of previous corruption scandals.

We travelled to Seoul as part of an investor delegation to meet with the company's newly appointed Chair, formerly the CFO. Given the need for stronger controls and for protecting minority shareholder interests, our questions were focused on capital allocation and the effectiveness of the board. We particularly pressed for an additional independent director with global industry experience, in order to add greater diversity and challenge to management.

Our view

Governance issues at Samsung Electronics are symptomatic of challenges faced in the wider South Korean market. We were glad to learn that the Chair understood the benefits of strong outside directors, and look to his leadership to re-invigorate the existing board and management, as well as making strong appointments to the board in coming years. **Daniel Jarman**

Goal

Ryanair

Irish airline Ryanair has grown rapidly on the back of its low-cost business model, but concerns about the impact on employee relations have drawn investor attention.

We have engaged Ryanair on labour issues such as employee working conditions, wages and the right to freedom of association since 2013, including a meeting with the CEO. In 2017, under threat of industrial action, the company announced a reversal of its previous refusal to recognise trade unions. Implementation of collective labour agreements has, however, been blighted by disputes and strike action. We met with the CFO and Senior Independent Director in Dublin in 2018 to emphasise the importance of finding a less confrontational long-term approach.

Our view

Some progress has been made toward abating labour management risks, certainly since our initial engagement in 2013. However, ongoing controversies show that labour relations remain an inherently high-risk area for the company given its focus on low costs. **Tenisha Elliot**

Goal

Danske Bank

In early May 2018, the Danish FSA exposed money laundering in Danske's Estonian business. The bank publicly admitted failure to meet its own and societal expectations and forewent all profit from the suspicious transactions.

We engaged with the company on what actions were taken to strengthen compliance and controls across the bank. We stressed our preference for management and board overhaul to demonstrate to shareholders and stakeholders that the company is serious about drawing a line under the scandal. We supported the election to the board of new directors in December 2018.

Our view

We welcomed the contrition demonstrated and the initiative for reform, with AML training and cultural programmes set up. The CEO, the Chairman of the Board and the Audit Committee have stepped down. We plan to continue our dialogue with the bank through 2019. **Kalina Lazarova**

Goal

Voting and corporate governance in 2018

We view exercising the right to vote as a key part of being an equity owner, and an opportunity to influence change. We regularly engage companies before voting to explain our expectations, and afterwards to explain our reasons for votes against management.

"Given our long-standing commitment to the good stewardship of our assets though voting and engagement activities, as well as the integration of ESG factors, we are particularly pleased with the increased focus on stewardship in the market."

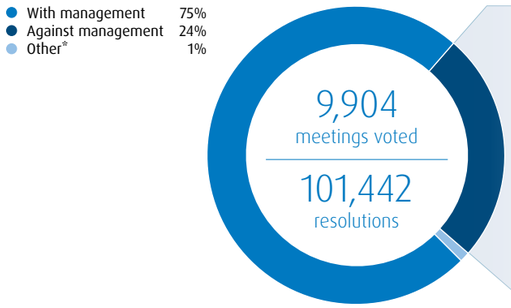
Kalina Lazarova, Director Responsible Investment

2018 active ownership and voting highlights

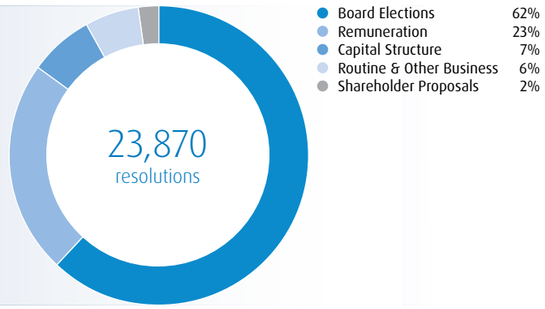
- **24% of all resolutions voted against management:** we voted against at least one resolution at 72% of meetings.
- **More votes against executive pay compared to 2017:** we voted against management at almost 56% of resolutions relating to pay (2017, 47.5%). Executive remuneration continued to be the most contentious issue dividing investors and management.
- **Voted against management on over 26% of resolutions relating to director elections:** a slight reduction from 2017, but a disappointing outcome in terms of the slow pace of improvement in board composition and effectiveness across markets.
- **Engaged around 700 times on corporate governance** during the year as part of our Stewardship responsibilities.
- **Continued to push for development of governance best practices** through our membership of and active participation in influential bodies such as ICGN, the UK Investment Association, 30% Club, UK Investor Forum, Eumedion, ACGA, CII, ISG, QCA.**
- **Published research and thought leadership papers** on corporate governance across Asia and on the General Data Protection Regulation.

110 improvements in governance at 101 companies.

How we voted in 2018



Votes against management by issue



* Other includes cases where we did not vote due to share blocking in a market or potentially a lack of POA (Power of Attorney). This report covers voting and engagement activity on behalf of our in-house BMO Global Asset Management (EMEA) holdings and those of our ***reo***® clients. ** International Corporate Governance Network, Asian Corporate Governance Association, Chartered Insurance Institute, Investor Stewardship Group, Quoted Companies Alliance

Major governance developments

Dual class shares and unequal voting rights: During the year, the introduction of dual-class share structures with unequal voting rights continued to advance, particularly in Asia. We advocate the principle of "one-share, one-vote" through responding to market consultations and in discussions with regulators.

Fragmentation of executive pay votes in France: We have become concerned that legal requirements for multiple resolutions on executive pay are potentially "splitting" investor discontent with a critical mass of votes against overall executive pay arrangements ever harder to achieve.

US Shareholder Resolutions: 2018 was a successful year for environmental and social shareholder proposals in the US, with median support increasing for the third year and more proposals being withdrawn than ever before, a sign of successful engagement. The picture of improved investor-company dialogue contrasts sharply with the SEC's push this year to make it more difficult to file shareholder proposals in the future. Popular topics remained unchanged this year, being climate change, human rights and workplace diversity. The opioid and gun violence crises gave rise to high levels of support for related resolutions.

Restricted share awards in the UK: We have a generally negative view on the introduction of non-performance-linked restricted share schemes (RSA) in the UK. 2018 saw the muted introduction of RSA schemes with only a handful of large companies adopting the practice. We continue to urge caution when engaging with companies on introducing an RSA scheme.

We continued to press companies to establish empowered and effective boards committed to a culture of transparency. Within the 700 engagements had on corporate governance, the following issues were raised over 1,000 times:

Board effectiveness	339
Board independence	273
Board diversity	224
Succession planning	173

US majority-supported environmental and social (E&S) shareholder resolutions

Company	2018 shareholder resolution	Overall support	BMO GAM EMEA vote
Rite Aid Corp.	Report on Sustainability	80%	FOR
Sturm Ruger & Company, Inc.	Report on Gun Safety	69%	FOR
Depomed Inc.	Governance Measures Related to Opioids	62%	FOR
Rite Aid Corp.	Report on Governance Measures related to Opioids	61%	FOR
Kinder Morgan	Report on Sustainability	60%	FOR
Kinder Morgan	Climate Risk – Two Degree Scenario	60%	FOR
Middleby Corporation	Report on Sustainability	57%	FOR
Genesee & Wyoming	Adopt GHG Emissions Reduction Goals	57%	FOR
Ameren Corporation	Report on Coal Ash Risks	53%	FOR
Anadarko Petroleum	Climate Risk – Two Degree Scenario	53%	FOR
American Outdoor Brands Corp.	Report on Gun Violence	52%	FOR

Corporate governance: focus areas for 2019

We are committed to protecting the rights and interests of all shareholders, and our ongoing voting and engagement priorities are aligned with this. We promote effective boards, management teams and internal risk management systems; a transparent and accountable culture grounded in business ethics; and remuneration policies that incentivise the creation of long-term shareholder value.

Emphasis on direct board member accountability	Votes to be cast against directors who have demonstrated poor oversight on other boards
Environmental and social factors and climate risk	Votes against management resolutions for inappropriate risk management or absence of investment-relevant climate disclosure in high-impact sectors
Diversity of boards and in the executive pipeline	Continue to engage with companies and vote against directors where our expectations on diversity are not met
The distribution of pay across the workforce	Continue to engage with companies on pay gaps identified and remedial action taken
Auditor accountability	Engage with boards on audit committee oversight of the audit process and improved disclosure

Our commitment to transparency

Public details of all our voting activity, including rationale for votes against management are available on our website the day after each shareholder meeting; our public vote record goes back to 2012

Regular client reporting and annual public reporting, including case studies of notable votes and engagements

Conflict of Interest Policy, Responsible Ownership Policy and UK Stewardship Code Compliance Statement published on our website

Gender diversity in leadership is improving:

12.5%

when the 30% Club campaign was launched in 2010*

30.6%

women on FTSE 100 boards 2019

BMO Global Asset Management is a signatory to the 30% Club UK and Canadian Investor Groups' Statements of Intent. The overarching goal of these is to achieve 30% female representation on corporate boards and management teams.

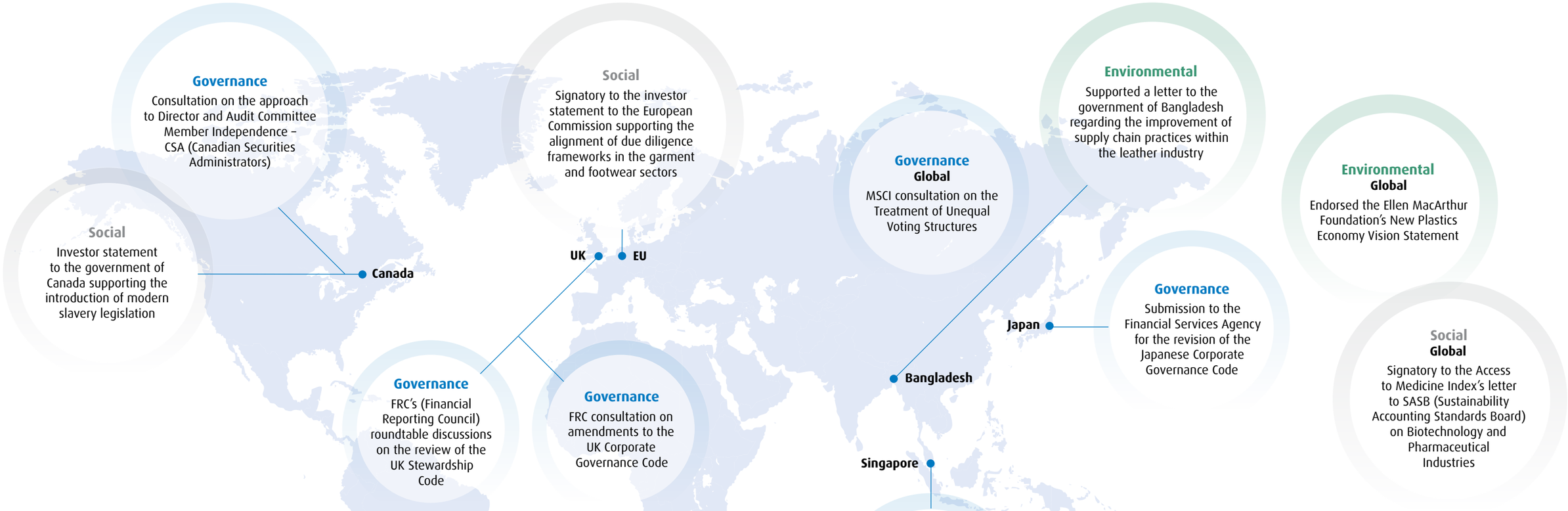
* BoardEx, March 2019, 30percentclub.org

Photo courtesy of London Stock Exchange Group

Public policy and advocacy

Engagement with policymakers is essential in raising standards of ESG management beyond what is possible through engaging with individual companies. In 2018, we focused particularly on governance as regulators worldwide consulted on proposals to improve practices.

A constructive investor voice can make a significant difference when regulators are weighing up their options.



Team research

We regularly produce research on responsible investment and engagement throughout the year, such as the examples listed here. For more information and our latest viewpoints visit: bmogam.com/responsible-investing

- GDPR
- Pharma Business Conduct
- Ocean Plastics
- Turkey
- India Corporate Governance
- SDGs and Engagement
- Blockchain Solutions to ESG Problems
- Modern Slavery
- Asian Corporate Governance Association conference report

Topics spoken on at events

Climate change
- London
- Global webinar

Gender
- Paris

SDGs
- Toronto
- London

Cybersecurity and data privacy
- San Francisco

Engagement and ESG
- Stockholm
- Zurich
- Geneva
- Dublin
- London

Five themes to watch in 2019

We have identified five key themes we expect to shape the responsible investment agenda for 2019 and offer insight into how our Responsible Investment team is engaging with companies on these issues.

"I am deeply convinced that there is no other way to deal with global challenges than with a smart, evidence-based global response."

António Guterres, UN Secretary-General

Gender equality

The world remains a long way from achieving the targets set under SDG5 – gender equality. One area where there has been intensive investor focus, with some degree of success, has been on board-level gender diversity. However, with equality issues still deeply entrenched throughout the labour force, board diversity is only the tip of a very large iceberg.

Building on our engagement at board level, in 2019 we will expand our focus to look more deeply at the representation of women at senior management level and below, linking to target 5.5[1]. Based on an identification of best practices in areas such as mentoring, flexible working and pay, we intend to work with companies to identify barriers and encourage the adoption of forward-looking approaches – which should ultimately benefit company performance through attracting and retaining high calibre employees.

Protecting vulnerable workers

Inadequate wages, weak safety practices and modern slavery all contribute to poverty and inequality and undermine the achievement of sustainable development and the targets of 1.1[2]. and 8.8[3], which call for an end to global poverty as well as safe working practices.

In 2019, we will continue to engage companies on how they are tackling modern slavery practices, such as forced and child labour, within their supply chains, linking to target 8.7[4]. New legislation is shining a spotlight on this issue by driving better disclosure. Based on the work we undertook in 2018, we have built an understanding of corporate best practice, and will use this to press companies to make improvements.

This year will also see us follow up on previous work on the payment of a living wage, with an emphasis on the retail sector, where corporate reputations are sensitive to allegations of poor staff treatment. We will also start a new strand of engagement around apparel sourcing practices and their impact on the environment and local populations, including the emerging risks arising from shifts toward sourcing from Africa as companies seek to diversify their supply chains.

[1] SDG 5.5: Ensure full equality of opportunity for women, including at leadership levels
[2] SDG 1.1: Eradicate poverty and ensure a living wage
[3] SDG 8.8: Protect and promote safe working environments for all workers
[4] SDG 8.7: Eradicate forced labour, modern slavery & human trafficking
[5] SDG 13 Climate Action
[6] SDG 14.1: Prevent and reduce marine pollution of all kinds
[7] SDG 6 Clean Water and Sanitation

Climate change

Climate change has been the subject of intensive investor focus over the past year, with the Climate Action 100+ initiative being one of the largest investor collaborations ever formed.

Engagement has particularly concentrated on the oil and gas and mining sectors, and to a lesser extent, the energy-intensive industries such as utilities and automobiles, although the impacts of climate change range much more widely. In 2019, we plan to widen our own perspective by focusing on the role of the finance sector, in line with the focus of SDG 13[5] – climate action, which sets targets for climate finance. Our engagement will target banks in Southeast Asia, which have generally been slow to act on climate change – but are highly exposed to the risks, and may be missing opportunities to finance solutions.

We also plan to initiate a dialogue with the marine transportation sector, which we believe so far has been under-engaged by investors, despite accounting for approximately 2% of global greenhouse gas emissions.

Biodiversity and water

2018 saw a huge rise in public awareness of the impacts of single-use plastics, and how plastic waste is impacting on ocean biodiversity, undermining the achievement of SDG14 – life below water and, in particular, target 14.1[6]. In 2019, we will continue to prioritise engagement with companies in the food and beverage sector, amongst others, on how they are responding, encouraging them to adopt a proactive approach to identifying more sustainable packaging, and to commit to phasing out single-use plastics.

This focus will sit alongside our ongoing engagement on companies' water use in line with SDG6[7], as the impacts of climate change exacerbate existing stresses from population growth and intensive agriculture. Companies can no longer view water as a free, non-exhaustible resource, and companies in water-intensive sectors need to factor in water planning as an integrated part of their business risk analysis.

Antimicrobial resistance

Antimicrobial resistance (AMR) jeopardises the effective prevention and treatment of infectious diseases and is widely recognised as an increasingly serious threat to global public health. AMR is a natural biological phenomenon resulting from genetic changes – however, the misuse of antibiotics is accelerating this process, and has led to the emergence of infections that do not respond to antimicrobial therapy. Given that AMR is a pressing and complex problem, governments and companies in multiple sectors need to take action in line with SDG 3, targets 3.3. and 3.b.

We intend to focus our engagement on pharmaceutical companies, meat and/or dairy producers and food retailers. These companies can play a pivotal role in slowing down the development and spread of AMR.

BMO Global Asset Management
– heritage and innovation

Over 35 years we have developed a range of specialist ESG products, ESG-integrated investment strategies, a deep commitment to active ownership, and our Responsible Engagement Overlay service, ***reo***®.

"We exist to convene, catalyze and empower change that sustains growth for good."

Darryl White, CEO, BMO Financial Group

Our credentials

- 16-strong Responsible Investment team supporting our group activities. 8 languages in the team, including Mandarin, Cantonese, German, Spanish, Dutch and Italian.
- Range of ESG expertise including climate change; corporate governance; human rights; water; supply chains; and sustainable finance
- Active member of international ESG networks and collaborations
- Supported by our independent Responsible Investment Advisory Council (RIAC)

US$3.7bn AUM in ESG specialist strategies

US$155bn assets under advice, 35 ***reo***® clients

As at 31st December 2018

Our approach to ESG integration and stewardship

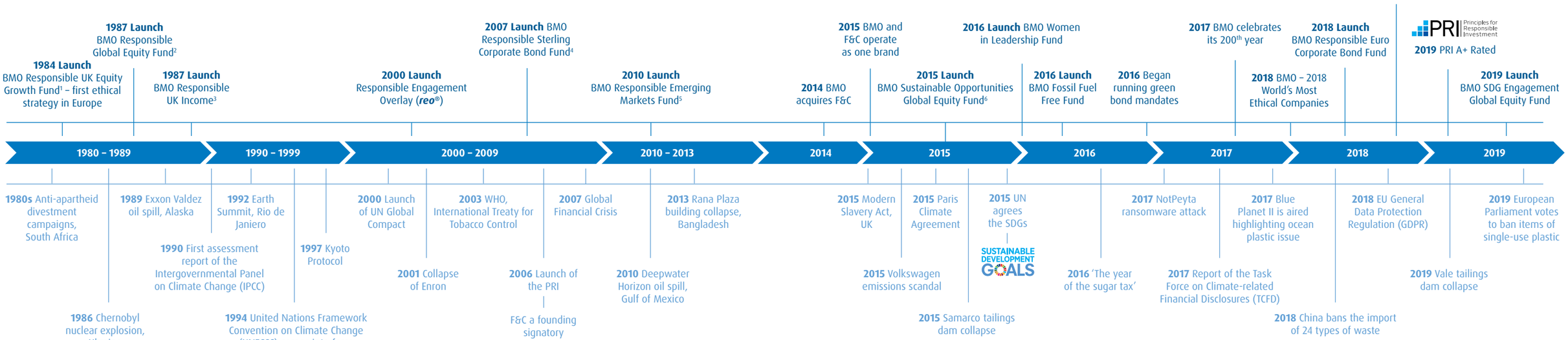
- ESG factors are systematically integrated into our investment processes, in a form appropriate to each strategy and asset class
- Fundamental belief in the value of being active and engaged owners
- Comprehensive global engagement programme covering over 600 companies in 2018 and an underlying online database for over 12,500 companies that allows us to record engagement interactions and progress
- Active use of voting based on in-house policy and expertise
- Constructive investor voice in public policy globally

Our corporate commitment

- BMO Financial Group is committed to four key Sustainability Principles: Social Change, Financial Resilience, Community-building and Environmental Impact
- UN SDGs inform sustainability strategy and reporting
- Supporter of the Taskforce on Climate-related Financial Disclosure (TCFD)

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2018 WINNER Best ESG Research Team

Macro and corporate events



[1] F&C Responsible UK Equity Growth fund, [2] Previously a North American strategy, it expanded its geographic remit in 1998, becoming F&C Responsible Global Equity Fund, [3] F&C Responsible UK Income Fund, [4] F&C Responsible Sterling Corporate Bond Fund, [5] F&C Portfolios Fund – BMO Responsible Global Emerging Markets Equity, [6] F&C Global Thematic Opportunities Fund.

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