

Integrated Governance Conference 2018

Kalina Lazarova, Vice President, Governance and Sustainable Investment

Investment risks

The value of investments and 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.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

A heritage of responsible investment

Leadership

- Launched Europe's first social and environmental-screened strategy in 1984. One of the largest Responsible Investment teams in Europe

In-house expertise

- Separate expert teams focus on sustainable screening and portfolio management with extensive research capabilities and risk management

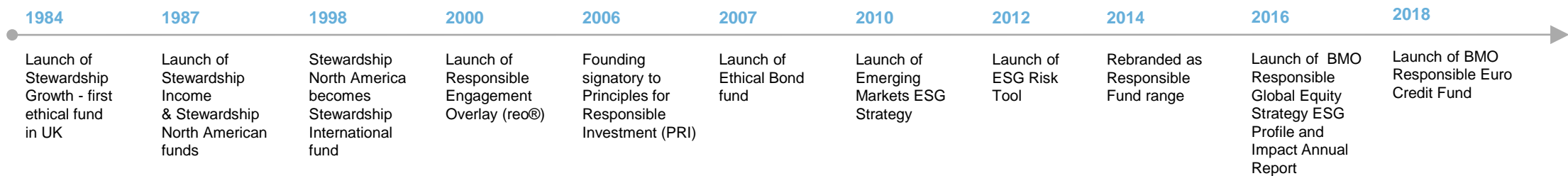
Global coverage

- Environmental, social and governance (ESG) analysis on hundreds of global companies to support Responsible Investment strategies

Engagement

- Responsible engagement and voting program led by our in-house analysts

A history of innovation in Responsible Investment...



Source: BMO Global Asset Management as at 31.03.2018.

Responsible investment in the Italian market

Assogestioni guidelines have set expectations for asset managers...

“Regular interaction with investee listed issuers can help to protect and guarantee value in the long term... Investment Management Companies may want to intervene, for example, when they have significant worries regarding the strategy and performance of investee listed issuers, or in regards to their governance or approach to environmental and social issues’

– Italian Stewardship Principles (2016)

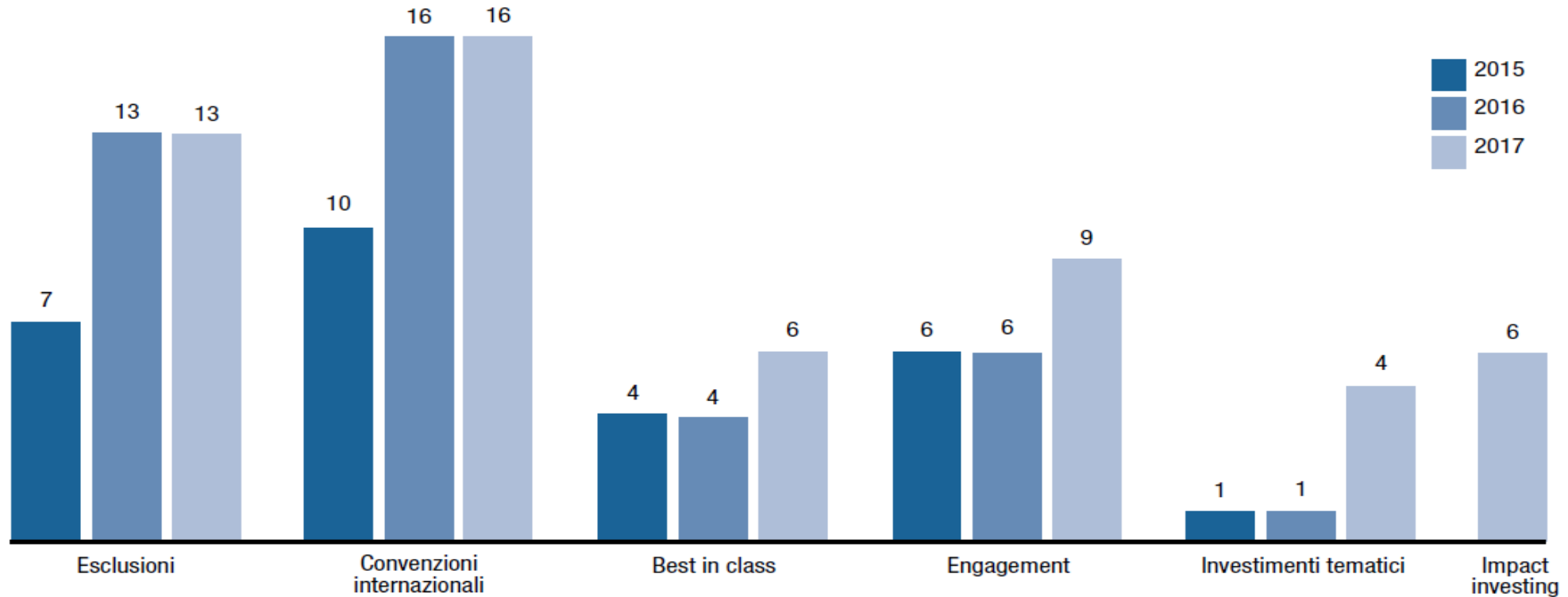
...European policy is shifting the focus towards pension funds

“Member States should require IORPs to explicitly disclose where such factors are considered in investment decisions and how they form part of their risk management system”

- European Directive 2016/2341

Responsible investment in the Italian market

... but recent studies show engagement and impact becoming more widely used



Source: The sustainable and responsible investment policies of social security investors, Mefop / Forum for Sustainable Finance, 2017 - Le politiche di investimento sostenibile e responsabile degli investitori previdenziali, Mefop / Forum per la Finanze Sostenibile, 2017.

Drivers behind engagement adoption



Risk Management

Identification and management of ESG factors
Portfolio and fund manager monitoring



Stakeholder Expectation

Beneficiaries
Public stakeholders

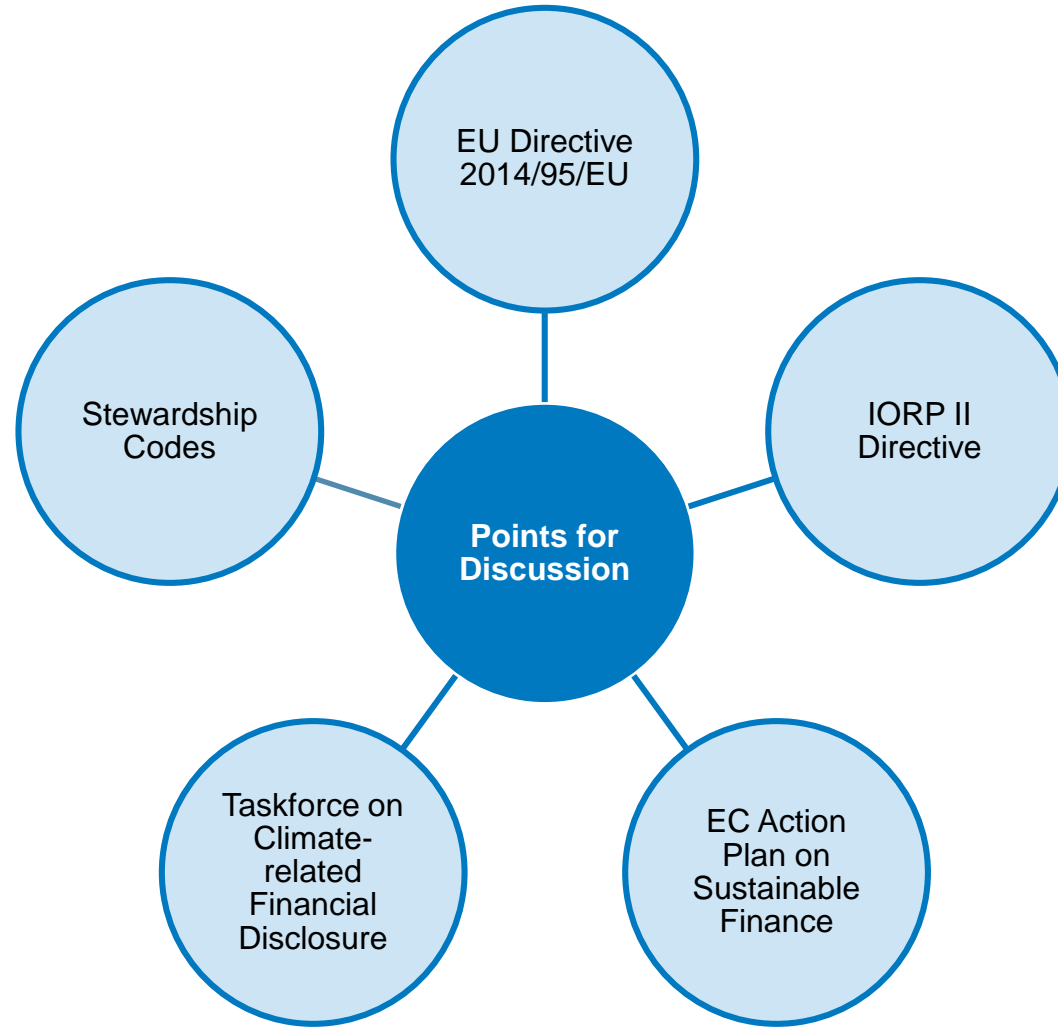


Compliance

Regulatory requirements (e.g. IORP II)
Industry standards (PRI)

ESG = Environmental, Social and Governance; PRI = Principles for Responsible Investment; IORP = The Directive on Institutions for Occupational Retirement Provision.

ESG regulation



EC = European Commission. ESG = Environmental, Social and Governance. IORP = The Directive on Institutions for Occupational Retirement Provision.

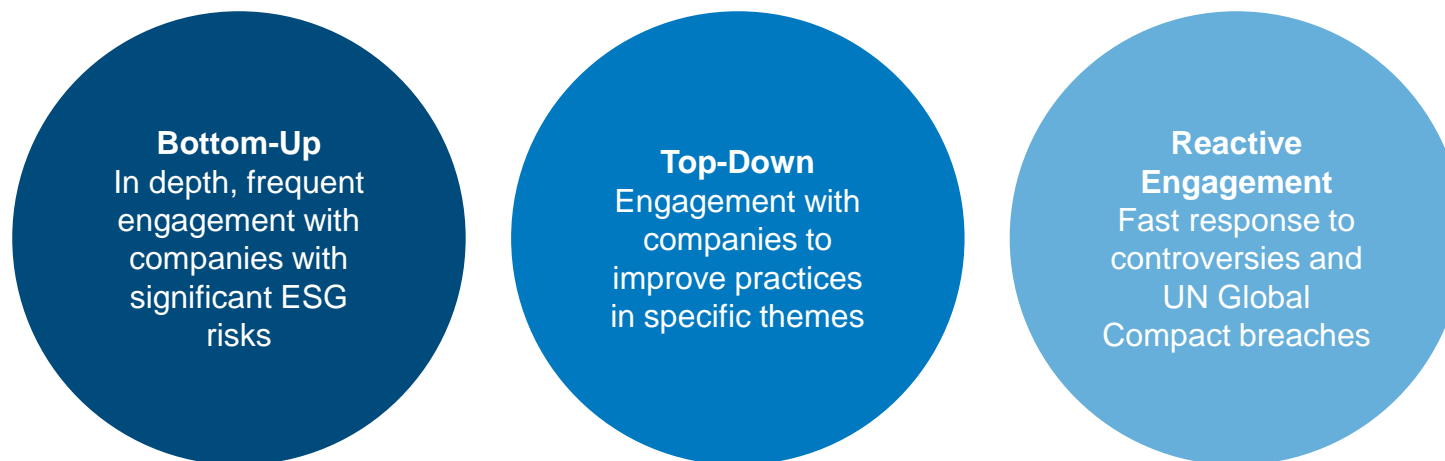
Responsible investment: options available to investors

Negative screening	ESG integration	Positive screening	Impact investing
Excluding companies from the portfolio on the basis of their products (eg cluster munitions, tobacco) or behaviour (global norms such as UN Global Compact)	Including ESG factors in stock selection and portfolio construction processes Can be applied to active or passive investments, and across asset classes	Selecting best-in-class companies Thematic funds focused on sustainability solutions (e.g. water, clean tech)	Investments that target both a financial and social / environmental return
Active Ownership			
Engaging investee companies and exercising voting rights			

ESG = Environmental, Social and Governance.

BMO Global Asset Management's approach to engagement

- Engagement focuses on encouraging companies to address material environmental, social and governance issues, with a view to reducing risk and supporting long-term performance
- We use constructive confidential dialogue, typically working one-to-one with companies, but taking a collaborative approach where this has more impact. We do not take an aggressive “activist” approach



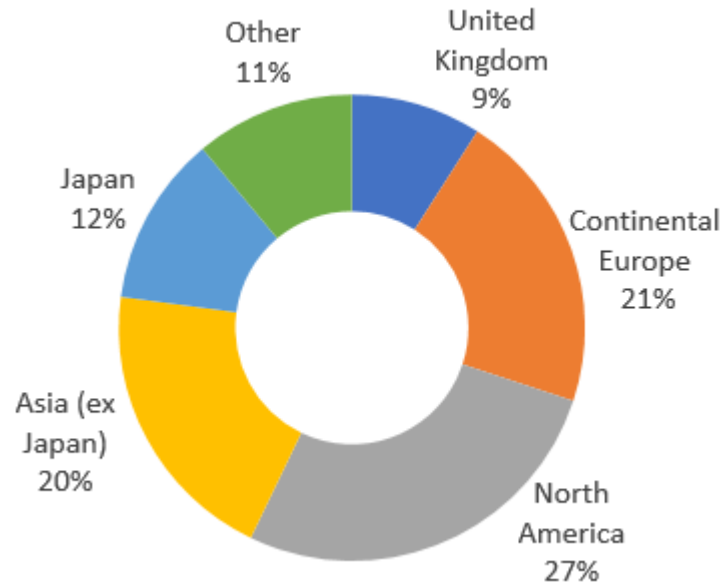
- Where engagement is not effective, we may use a range of escalation strategies:
 - Escalating from management to Board level
 - Bringing collaborative investor pressure to bear

ESG = Environmental, Social and Governance.

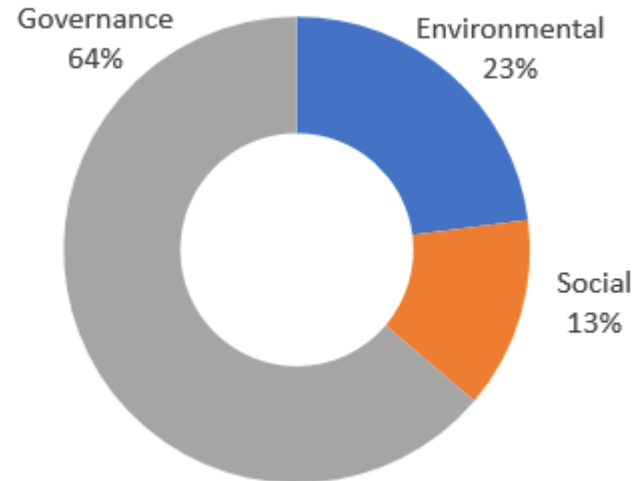
BMO Global Asset Management global engagement in 2017

- Targeted engagement with 1,363 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

Engagement by region



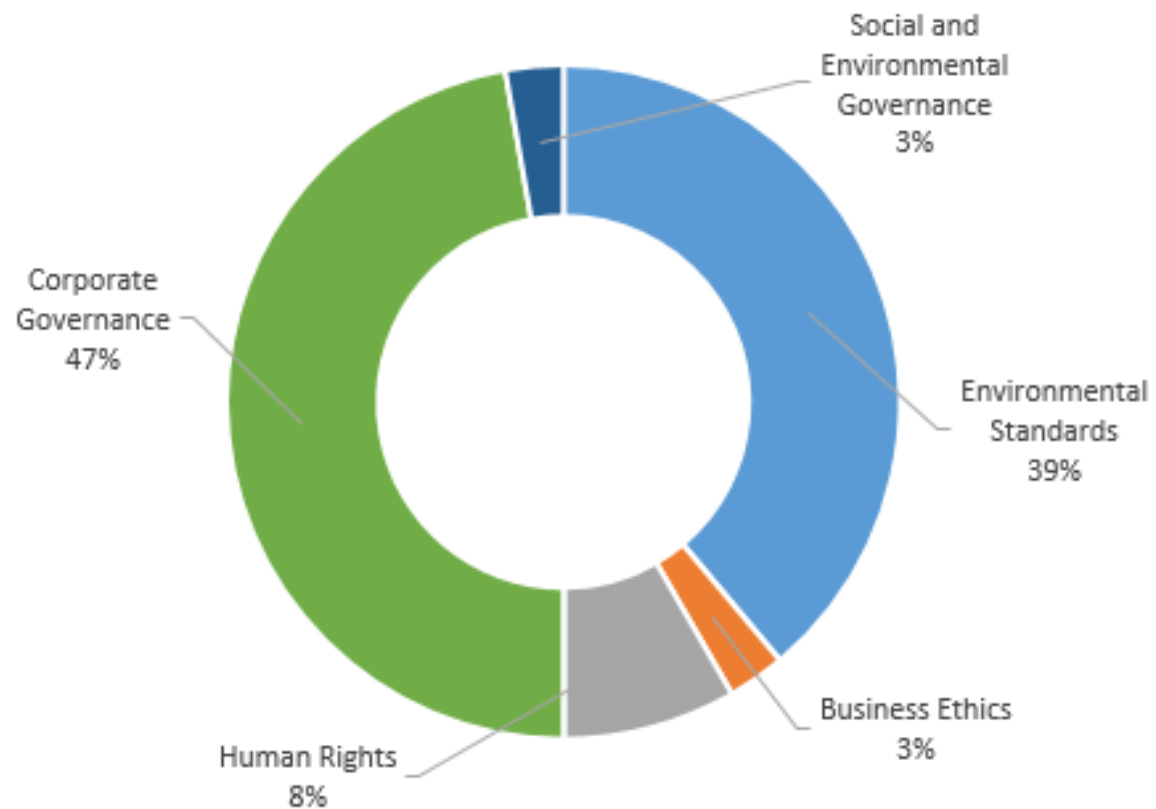
Engagement by theme



Environmental	
Environmental Standards	520
Social	
Business Ethics	83
Human Rights	46
Labour Standards	90
Public Health	82
Governance	
Corporate Governance	1318
Social and Environmental Governance	127

Source: BMO Global Asset Management as at 18.01.2018. TR = Total Return. For illustrative purposes only.

BMO Global Asset Management engagement in 2017: Italy

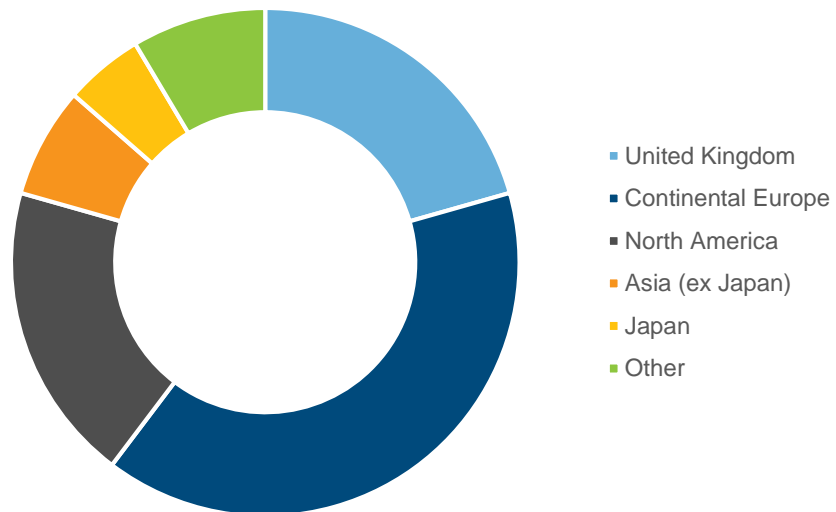


Source: BMO Global Asset Management as at 31.12.2017.

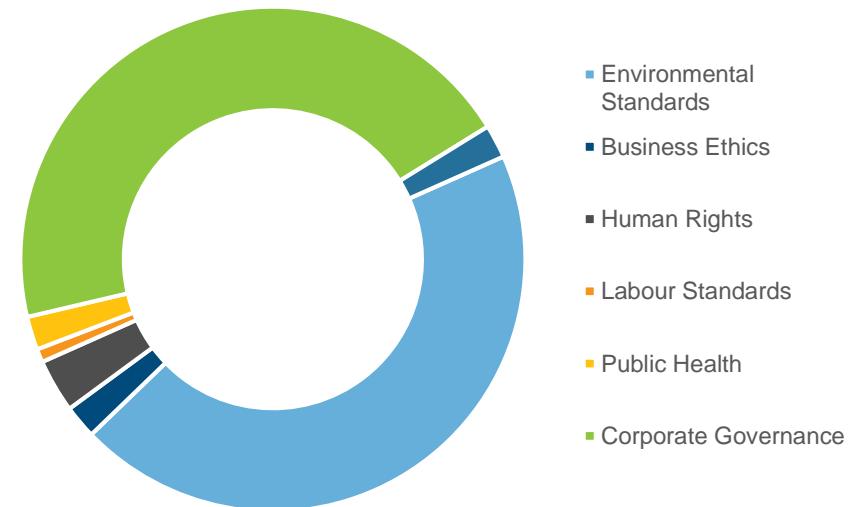
Milestones: Measurable outcomes from engagement

- Engagement outcomes are identified and reported each quarter as ‘milestones’: each milestone is rated on the extent to which it protects investor value
- We achieved 234 milestones for our clients in 2017
- Independent academic research based on BMO Global Asset Management data indicated a positive correlation between successful engagement and financial performance

Milestones in 2017 by region



Milestones in 2017 by theme



Source: BMO Global Asset Management as at 31.12.2017.

Engaging on the Protection of Shareholder Rights in Italy

Growth Decree of the Italian government in 2014 introducing loyalty shares

- Distorts the market by enhancing the controlling influence of significant shareholders without the corresponding economic stake and associated risk
- Entrenches management and skews strategic decision-making
- Undermines the democratic principle of “one share-one vote”
- Dilutes the voting power of institutional shareholders

Engagement Actions

- We wrote to the largest 100 Italian companies to urge them to refrain from multiple voting rights
- Our letters were co-signed by eleven other institutional investors with a collective AUM of ca. EUR 2 trillion
- Held one-to-one discussions and group meetings with Italian companies to highlight the investor perspective on these issues

Outcomes

- The majority of large Italian companies have so far refrained from introducing multiple voting rights

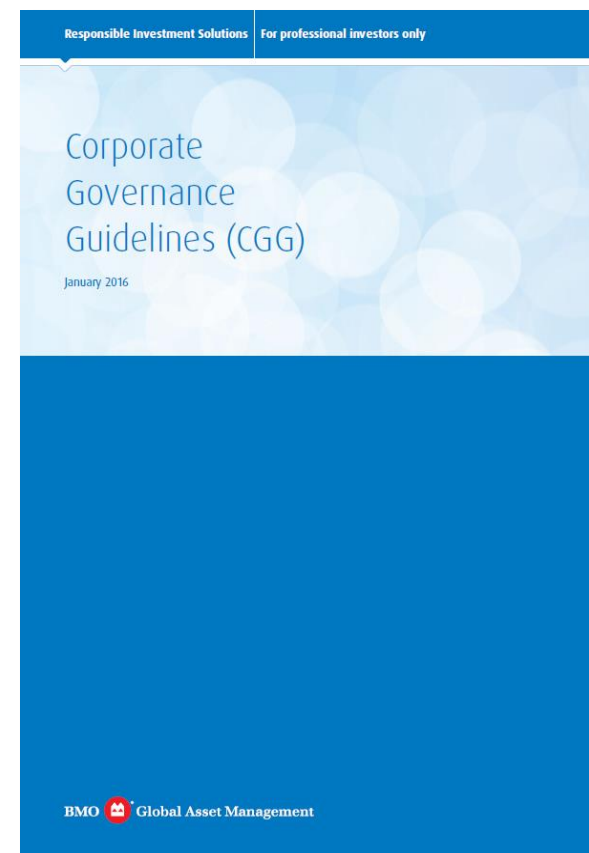
Next steps

- Maintain a robust voting stance where relevant resolutions are presented on company agendas

Considered and consistent approach to voting

Voting based on BMO Global Asset Management Corporate Governance guidelines

- Partnership with ISS for routine votes, based on implementing BMO Global Asset Management policies (using our detailed voting rules)
- Regional governance experts oversee votes and quality control ISS
- Votes cast at 9,400 shareholder meetings in around 70 countries across global portfolios (2017)
- Detailed vote analysis for large holdings and controversies (ca. 20% of voting universe)
- A transparent approach
 - Clients receive detailed vote reports including vote comments
 - Full vote reports are online, including reasons for our decisions
- Proxy Working Group with regional representatives
- Responsible Investment Committee
 - Members include Global CIO, COO, regional CIOs
 - Remit includes approval of CGG documents, our application of the UK Stewardship Code, and review of key regulatory developments



Source: BMO Global Asset Management. ISS = Institutional Shareholder Services, GSI = Governance and Sustainable Investment, CGG = Corporate Governance Guidelines.

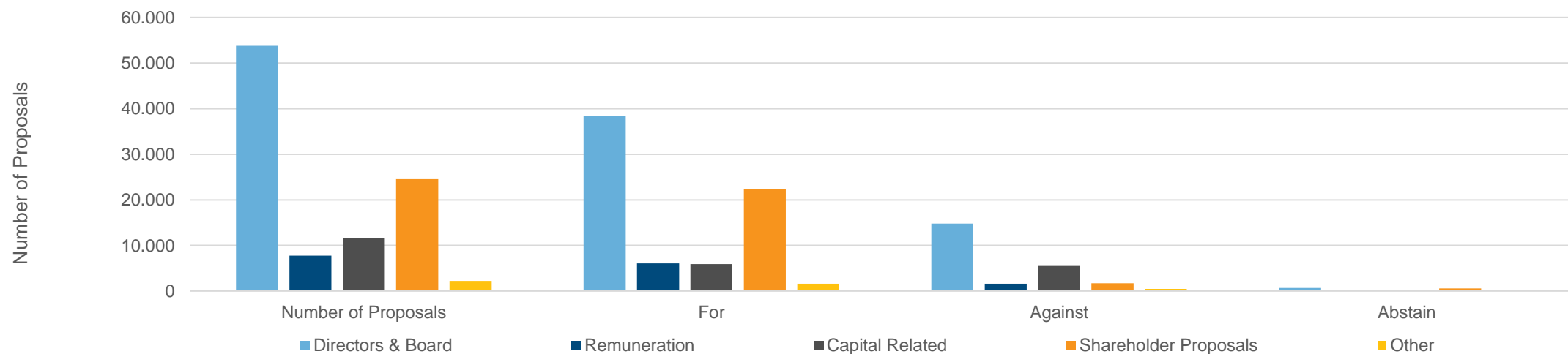
Vote Overview 2017

How we voted at Italian company meetings in 2017

	Number of Proposals	With management	Against management
Proposals	776	74.1%	26.16%

	Directors & Board	Remuneration	Capitalisation	Other
Did not support management	35	109	50	5

Global GSI voting statistics 2017



Source: BMO Global Asset Management as at 31.12.2017.

Disclaimer

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned.

Contatti

BMO Global Asset Management (EMEA) – Sede principale

Exchange House
Primrose Street
London EC2A 2NY
Tel: +44 (0) 20 7628 8000

bmogam.com

BMO Global Asset Management (EMEA) – Sede di Milano

Regus Milano Carrobbio
Via Santa Maria Valle, 3
20123 Milano
Tel: +39 0200 681 639

bmogam.it

Ampie capacità d'investimento a livello mondiale

- Dedizione totale ai clienti
- Gamma completa di prodotti e soluzioni
- Competenze definite che includono un ventaglio di boutique d'investimento specializzate



© 2018 BMO Global Asset Management. Tutti i diritti riservati. BMO Global Asset Management è un nome commerciale di F&C Management Limited, società regolamentata e autorizzata dalla Financial Conduct Authority. Le telefonate potrebbero essere registrate.