BVV
FY 2019

*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

In November, the U.S. Securities and Exchange Commission (SEC) proposed additional rules for regulation of the proxy voting process, including tighter rules for proxy advisory firms and higher thresholds for re-submission of shareholder resolutions. If finalised, the new rules would weaken shareholder access to independent proxy voting advice, potentially impede discussion of emerging ESG issues. The PRIsent a letter to the SEC opposing the proposed changes, which we signed.

On a more positive note, the UK's Financial Reporting Council (FRC) published in October an ambitious new UK Stewardship Code that seeks to set a higher standard for effective stewardship. We actively participated in the Code's consultation process and we aim to be early adopters and plan to integrate many of the requirements of the new Stewardship Code in our Responsible Investment reporting in early 2020, one year ahead of required reporting cycle.

As evidenced by the outcome of this year's annual UN climate conference, governments struggle to bridge the gap between what science demands and the world's current emissions. Despite the disappointment, actions by investors and companies signal important indicators of progress. Investors are mobilizing on climate action at a dizzying speed. A global investor statement to governments on climate change, drafted by IIGCC was endorsed by 631 investors. And Climate Action 100+ has played a key role driving many companies, including some of the world's largest, to publicly declare their support for the Paris Agreement and/or announce zero net emissions commitments. We continue to be active participants in both initiatives.

Environmental challenges of Indonesia's natural bounty
Engagement trip

We travelled to Indonesia to meet some of the country's largest companies, as well as other actors helping to advance ESG practices Most of our discussions touched on environmental challenges linked to the exploitation and use of natural resources.

We met with palm oil giant **Indofood** to discuss challenges resulting from its withdrawal from the Roundtable on Sustainable Palm Oil (RSPO) earlier in 2019, prompted by allegations of labour violations and meaning itspalm oil can no longer be RSPO-certified. We shared our concerns that this can lead to lower environmental and social practices across Indofood's planted area and supply chain. We also had a meeting with **Bank Mandiri**, during which we continued our discussion on the financing of palm oil and other agricultural commodities. Our meetings with **Adaro Energy** and **United Tractors (UT)**, both in the coal mining industry, focused on the long-term risks to their businesses. Both companies confirmed that conversations on business diversification feature heavily during board meetings. But ultimately, they remain bullish on coal as the preferred fuel to cover Asia's growing energy needs.

Finally, we met with the financial services regulator, OJK, and the Indonesian chapter of the World Wildlife Fund (WWF).

BASF SE – a look into the world's largest chemical plant
Engagement field trip

In November we organized a site visit for reo clients to BASF's plant in Ludwigshafen, Germany - the largest chemical complex in the world. We had a tour of the site, with in-depth explanations about energy production and consumption, internal transport infrastructure and workplace safety measures. We were particularly interested in discussing progress on safety practices after the 2016 explosion that killed five workers. The accident led to stronger safety oversight and more stringent performance goals.

We also spoke about efforts to address potential physical impacts from climate change,like the drought on the Rhine river in 2016, Mitigation measures include options for low-tide boats, enhanced forecasting, more storage on site, and alternative transport routes. Finally, we discussed initiatives around diversity, carbon management and litigation risks.

Navigating the social costs of sourcing cobalt for the green revolution
Engagement collaboration

We attended a roundtable on responsible cobalt sourcing hosted by the PRI as part of our involvement in their project on the theme. The event brought together companies, investors, intergovernmental bodies and NGOs to discuss the issues surrounding sourcing from the Democratic Republic of Congo (DRC).

Despite the boom in demand, the social issues around DRC-based large-scale mining (LSM) and artisanal or small-scale mining (ASM) remain, such as bribery and corruption, pollution, the use of child and slave labour, unsafe working conditions and funding local militia.

The political and operating environment in the DRC remains complex. Any solution must, therefore, involve multistakeholder co-operation. Although LSM is less exposed to many of the issues seen with ASM, in practice ASM cobalt continues to enter the mix that large miners distribute, and it contributes more economic benefits to local communities than LSM.

A technological solution currently being explored is blockchain, although there were mixed messages on how well this could work in practice, particularly with ASM. Our expectation is to continue exploring the issue alongside other investors in the collaborative engagement project.

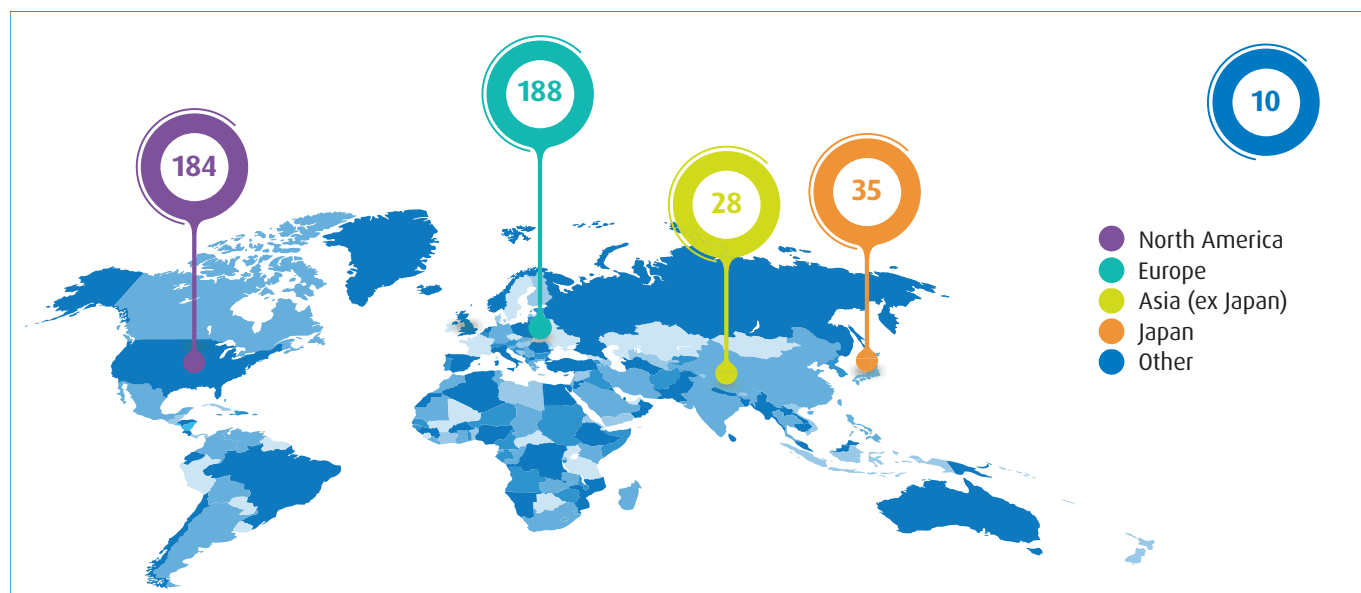## Targeting the opioid epidemic
Engagement collaboration

We decided to joined IOPA (Investors for Opioid Accountability), which was established in response to the opioid crisis. The U.S. Centers for Disease Control and Prevention reported that in 2017, opioid overdoses caused 47,600 deaths in the U.S. Companies in the opioid supply chain have come under intense legislative and regulatory scrutiny for their role in contributing to the crisis.

The IOPA has focused on manufacturers, distributors, and retail pharmacies, asking them to employ governance tools to improve corporate practices, culture, board accountability, compensation incentives, and risk mitigation.

In 2020 we are committed to engaging other key companies in the opioid supply chain and will use the platform provided by the IOPA to encourage the implementation of practices to strengthen governance through Board oversight.
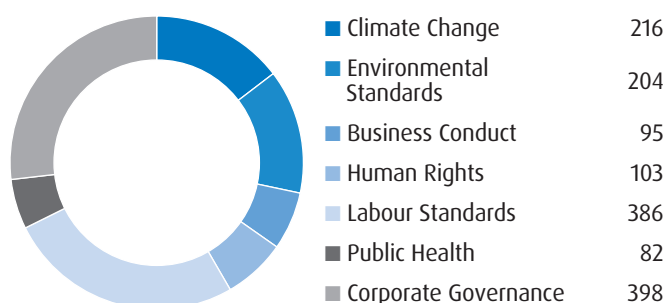
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Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
445	210	28

Companies engaged by region

- 184 North America
- 188 Europe
- 28 Asia (ex Japan)
- 35 Japan
- 10 Other

●	North America
●	Europe
●	Asia (ex Japan)
●	Japan
●	Other

Companies engaged by issue **

Issue	
■ Climate Change	216
■ Environmental Standards	204
■ Business Conduct	95
■ Human Rights	103
■ Labour Standards	386
■ Public Health	82
■ Corporate Governance	398

Milestones achieved by issue

Issue	
■ Climate Change	62
■ Environmental Standards	34
■ Business Conduct	3
■ Human Rights	2
■ Labour Standards	18
■ Public Health	2
■ Corporate Governance	89
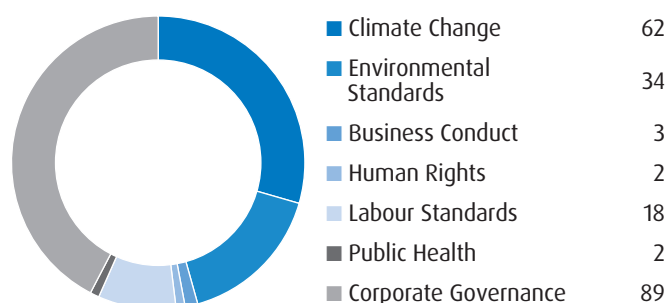
Share voting results ***

Company meetings voted	569
Items voted	3836

■ For	77.3%
■ Against	21.2%
■ Abstain	0.1%
■ Withhold	1.3%
■ Do Not Vote	0.1%
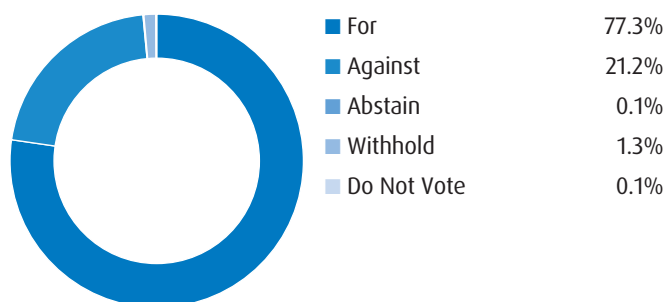
Votes against and abstentions by category

■ Directors & Board	46.8%
■ Remuneration	36.4%
■ Capital Raising	8.2%
■ Shareholder Proposals	3.4%
■ Other	5.2%

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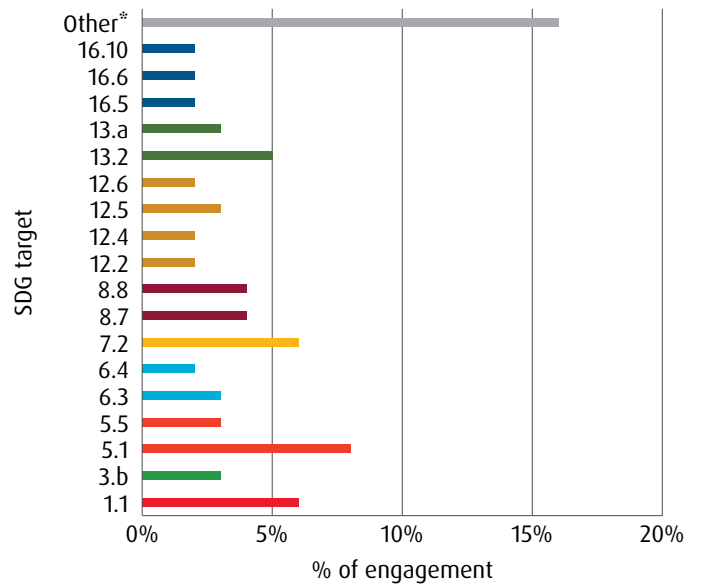## Engagements and Sustainable Development Goals (SDGs)

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

■	No SDG	23%
■	SDG 5	11%
■	SDG 8	11%
■	SDG 12	10%
■	SDG 13	9%
■	SDG 7	7%
■	SDG 16	6%
■	SDG 1	6%
■	SDG 6	5%
■	SDG 3	5%
■	Other	8%
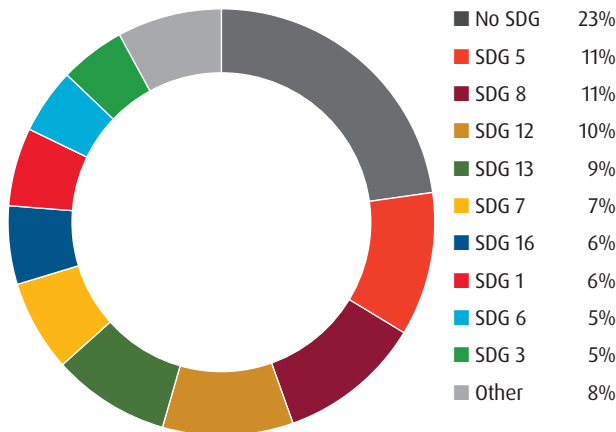
Engagement: SDG target level

Milestone: SDG level

■	No SDG	37%
■	SDG 12	19%
■	SDG 13	18%
■	SDG 7	7%
■	SDG 1	5%
■	SDG 5	3%
■	SDG 8	3%
■	Other	8%
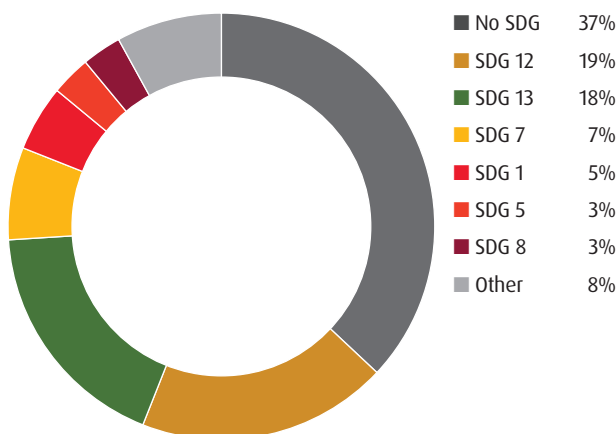
Milestone: SDG target level
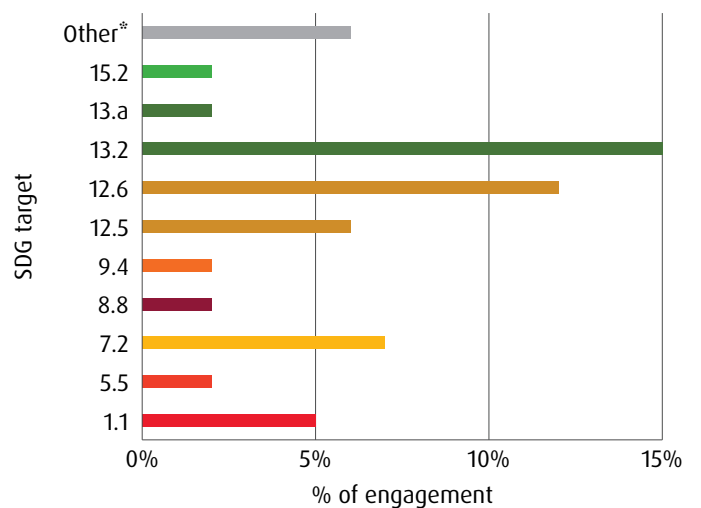
*Other represents SDG targets less than 2% of the relevant SDG Goal.

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Engagement case studies

Company: McDonald's Corp	Country: United States	Sector: Consumer Discretionary
Priority Company: -	ESG Risk Rating: ████	Response to engagement: Adequate
Theme: Corporate Governance	Issue: Antimicrobial resistance (AMR)	

Background

McDonald's is the largest fast-food restaurant chain in the world, and therefore exerts significant influence over its suppliers. We believe that the company can play an important role in addressing AMR by upholding responsible sourcing practices and adopting strong stewardship practices. As such, we support the implementation of an antibiotic policy that includes clear timelines for phasing out the routine, non-therapeutic use of antibiotics across all species. If the spread of AMR – fuelled by misuse and overuse – continues, livestock production may decline, a scenario which would have a materially negative impact on McDonald's business model.

Action

We arranged a call with operational specialists at McDonald's about AMR. We began by discussing the company's progressive stance on responsible antibiotic use. In 2015, the company announced its Vision for Antimicrobial Stewardship targeting producers and suppliers, and has since introduced species-specific policies for chicken (2017) and beef (2018). We were very encouraged to learn that McDonald's is partnering with its beef producers to measure and understand their use of antibiotics, and we commented positively on plans to establish reduction targets. We then asked about the company's recent efforts to reduce antibiotic use in poultry farms. The company representatives highlighted that the use of essential oils and enhanced biosecurity practices have resulted in a 70% reduction in use in some markets. We concluded that it is possible for the company to markedly improve antibiotic stewardship in chicken and beef production, but there are significant barriers to overcome in the development of an antibiotic policy for pork, due to fragmentation in the pork industry and a lack of regulatory oversight. We commended McDonald's for its commitment to responsible antibiotic use, based on the recognition that AMR is a critical public health issue, and strongly encouraged the company to continue to be as transparent as possible on issues related to antimicrobial stewardship.

Verdict

Our call with McDonald's was positive and informative, and confirmed our view that the company is a leader among peers on antimicrobial stewardship. The company representatives provided us with useful insights into all aspects of McDonald's approach to promoting responsible antibiotic use, and – given its high profile and global influence – we will closely monitor its progress in 2020. Important next steps will be the publication of an antibiotic policy for pork, and reduction targets for medically important antibiotics in the company's key beef sourcing markets.

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN   Second quartile: YELLOW   Third quartile: ORANGE   Bottom quartile: RED

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Appendix

SDG	Target	Target Summary
■ SDG1	1.1	Eradicate poverty and ensure a living wage for all
■ SDG1	1.4	Ensure equal rights to resources and basic services
■ SDG2	2.1	End hunger and ensure access to safe and nutritious food
■ SDG2	2.2	End all forms of malnutrition, particularly for children and women
■ SDG2	2.c	Reduce food price volatility from commodity markets
■ SDG3	3.1	Substantially reduce maternity mortality rates
■ SDG3	3.3	End AIDS, TB, malaria and other water-borne and communicable diseases
■ SDG3	3.4	Reduce mortality from non-communicable diseases and promote mental health
■ SDG3	3.5	Increase the prevention and treatment of substance abuse
■ SDG3	3.6	Halve deaths and injuries from road traffic accidents
■ SDG3	3.8	Access to medicines and health-care
■ SDG3	3.9	Reduce deaths and illnesses from pollution and contamination
■ SDG3	3.b	Support research into vaccines and medicines for diseases primarily in developing countries
■ SDG3	3.d	Increase the capacity to identify and manage health risks
■ SDG4	4.6	Increase youth and adult literacy and numeracy rates
■ SDG5	5.1	End all forms of discrimination against women and girls
■ SDG5	5.5	Ensure full equality of opportunity for women, including at leadership levels
■ SDG6	6.1	Achieve universal access to safe & affordable drinking water
■ SDG6	6.2	Achieve access to adequate & equitable sanitation and hygiene
■ SDG6	6.3	Improve water quality by reducing pollution
■ SDG6	6.4	Increase water-use efficiency to address water scarcity
■ SDG7	7.1	Ensure universal access to modern energy services
■ SDG7	7.2	Substantially increase the global share of renewable energy
■ SDG7	7.3	Double the global rate of improvement in energy efficiency
■ SDG8	8.1	Sustain GDP growth in developing countries
■ SDG8	8.2	Achieve greater productivity through innovation.
■ SDG8	8.3	Promote development-oriented policies
■ SDG8	8.4	Improve resource efficiency and prevent environmental degradation
■ SDG8	8.5	Achieve full and productive employment for all
■ SDG8	8.6	Reduce the proportion of youth not in employment or education
■ SDG8	8.7	Eradicate forced labour, modern slavery & human trafficking
■ SDG8	8.8	Protect and promote safe working environments for all workers
■ SDG9	9.1	Develop resilient and sustainable infrastructure
■ SDG9	9.4	Upgrade and retrofit industries to increase sustainability

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Appendix (continued)

SDG	Target	Target Summary
SDG10	10.2	Empower and promote inclusivity for all
SDG10	10.4	Adopt policies to progressively achieve greater equality
SDG10	10.5	Improve the regulation and monitoring of financial markets
SDG11	11.2	Provide access to safe and affordable transport systems
SDG11	11.5	Reduce social and economic losses caused by disasters
SDG11	11.6	Reduce the negative environmental externalities of cities
SDG12	12.1	Implement framework on sustainable consumption and production
SDG12	12.2	Sustainably manage and make efficient use of natural resources
SDG12	12.3	Halve global food waste at the production and consumer level.
SDG12	12.4	Manage chemical usage and waste throughout their life cycle
SDG12	12.5	Reduce waste through prevention, reduction, recycling and reuse
SDG12	12.6	Encourage companies to adopt sustainable practices and enhance ESG reporting
SDG13	13.1	Strengthen adaptive capacity to climate-related events
SDG13	13.2	Integrate climate change plans into policies and strategies
SDG13	13.a	Address climate change mitigation for developing countries
SDG14	14.1	Prevent and reduce marine pollution of all kinds
SDG15	15.1	Ensure sustainable usage of terrestrial freshwater ecosystems
SDG15	15.2	Promote the implementation of sustainable management of forests
SDG15	15.5	Take urgent action to reduce degradation of natural habitats
SDG15	15.a	Increase financial resources to conserve ecosystems
SDG16	16.1	Reduce all forms of violent-related death rates
SDG16	16.5	Reduce corruption and bribery in all their forms
SDG16	16.6	Develop effective, accountable and transparent institutions
SDG16	16.7	Ensure responsive and inclusive decision-making at all levels
SDG16	16.10	Ensure public access to information and protect fundamental freedoms

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