



Responsible
Investing
Annual Report
2018

Message from Our CEO

In 1970, Milton Friedman, one of the most influential economists of the twentieth century, wrote an article for the New York Times Magazine in which he said, “There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits”.¹

He went further in his book, “Capitalism and Freedom”, calling social responsibility a ‘*fundamentally subversive doctrine*’.

Even in 1970, this was a very controversial statement. In 2019, Friedman’s views seem almost quaint, and certainly highly outdated.

At a time when our society and our planet face enormous challenges, not least destructive climate change, it is inconceivable that the business sector can simply wash its hands of vital social and economic issues. Crucially, this is not only because of the moral issues that arise if such issues are ignored, but also because these issues are highly material to the business sector, and of course to investors.

Climate change is an excellent example of this – though far from the only one. If global temperatures are allowed to rise unchecked, this will result in enormous value destruction for investors.

The scientific community recently estimated, in a game-changing report, that the cost of a 2.7 degree rise in temperature (which is close to unavoidable at this stage) would be a stunning \$54 trillion.

Against this background, it’s essential for investors to take these issues into account in our investment decisions.

In this annual report, we outline our activities in this area. You can read how, when considering investments, we analyse environmental social and governance risks and opportunities in much the same way as we analyse ‘traditional’ financial metrics, such as valuations, earnings growth, or dividend policy.

We also detail how we have engaged with companies in which we invest. Of course we talk to them about the standard financial issues affecting them – but we also discuss and challenge on Environmental and Social and Governance (ESG) issues. We ask companies to change their behaviour, if they appear to be ignoring material ESG risks.

Finally we outline our approach to exercising proxy votes at the annual meetings of companies in which we invest and explain why we may vote against management if they don’t take a sensible approach to these matters.

KBIGI has a long standing, firm wide commitment to responsible investing.

It’s good business.



Sean Hawkshaw
Chief Executive
Officer

¹ The full Friedman article is available at this link: <https://nyti.ms/2l0pRDe>

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COMMITMENT AND GOVERNANCE

Long-standing firm-wide commitment to Responsible Investing

KBI Global Investors (KBIGI) has a strong commitment to Responsible Investing (RI) issues, and has managed Responsible Investment strategies for more than two decades. The firm was established in 1980 and is headquartered in Dublin (Ireland) with an office in Boston in the US.

Responsible Investing at this firm began in part because of our original Irish client base, which required a faith-based approach to investing. As such, we implemented negative screens into our process as far back as the mid 1980s, in order to incorporate various 'ethical' criteria such as humanitarian and animal welfare issues for our clients.

Today, our investment process has evolved from the simple negative screens utilised for our original faith-based clients to a fully integrated, decisive commitment to Responsible Investing, serving endowments, foundations, and institutional investors across the globe.

We incorporate RI factors into the investment process because we believe that companies with strong governance and whose products and services enhance social or environmental goals should meaningfully outperform over time. Such companies are more likely to have long, durable, sustainable business models.

Responsible Investing can be incorporated into the investment process in three ways.

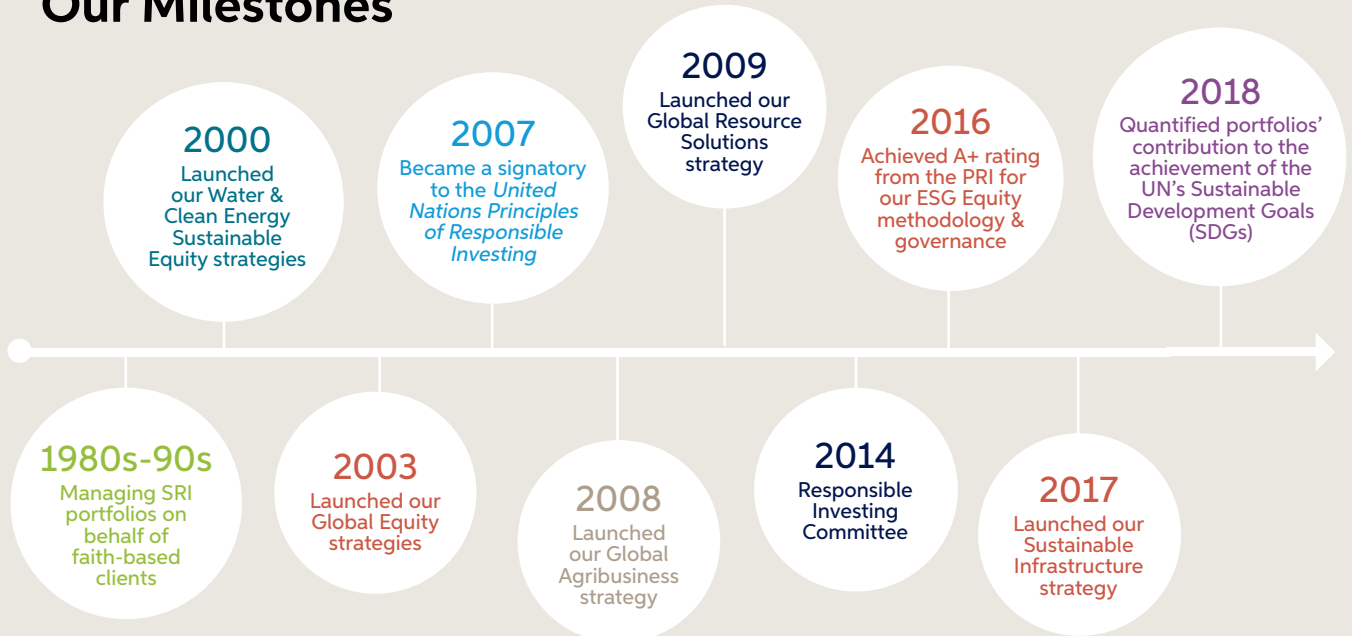
Screening involves excluding stocks that 'fail' ESG criteria.

A **Thematic** ESG approach means investing in certain industries or sectors that have strong ESG credentials throughout the sector.

Integration is where ESG information about a company is directly built into the investment process. Our two product suites – Natural Resources and Global Equities – both use Screening and Integration, while our Natural Resources strategies also use a Thematic approach.



Our Milestones



Responsible Investing Committee

Our Responsible Investing Committee has responsibility for all aspects of Responsible Investing, including philosophy, policies, operational issues relating to the implementation of RI factors across existing products, selection of relevant service providers, development of new RI products, Proxy Voting, Engagement, and liaison with external RI organisations and groups.

It is co-chaired by two executive directors of the firm, Chief Investment Officer, Noel O'Halloran and Head of Business Development, Geoff Blake. The Committee is made up of senior staff members including our Head of Responsible Investing, our Head of Compliance and various senior product specialists.

While the Committee and its co-chairs have ultimate responsibility within the terms of reference, we have designated ownership for tasks within the committee to ensure efficiency, compliance and ownership.

**Experienced
Highly
Specialist
Team**

**Oversees all
aspects of
Responsible
Investing and
Implementation**

**More than 23
years' Average
Industry
Experience**

Key Staff

	Experience - years	In firm - years
 <p>Noel O'Halloran Chief Investment Officer</p>	31	27
 <p>Geoff Blake Head of Business Development</p>	25	25
 <p>Eoin Fahy Head of Responsible Investing</p>	31	31
 <p>Derval Murray Head of Compliance & Risk</p>	21	19
 <p>Niall Murphy Senior Vice President – Business Development & Client Services, Europe</p>	27	27
 <p>Michael Gray Head of Middle Office</p>	29	29
 <p>William Boardman Senior Vice President – Business Development & Client Services, North America</p>	25	06
 <p>Peter Fox Senior Vice President – Business Development & Client Services, North America</p>	21	21
 <p>Jeanne Chow Collins Vice-President, Responsible Investing</p>	18	05
 <p>James Collery Senior Portfolio Manager – ESG Strategies</p>	18	18

UNPRI and other Responsible Investing organisations

We have been signatories to the United Nations Principles for Responsible Investment (UNPRI) since 2007.

As a signatory, we fully subscribe to the six Principles, as below. We submit a detailed Transparency Report to the UNPRI, annually, setting out our compliance with the principles and this report is publicly available via the UNPRI website.

01 We will incorporate ESG issues into investment analysis and decision making processes

02 We will be active owners and incorporate ESG issues into our ownership policies and practices

03 We will seek appropriate disclosure on ESG issues by the entities in which we invest

04 We will promote acceptance and implementation of the Principles within the investment industry

05 We will work together to enhance our effectiveness in implementing the Principles

06 We will each report on our activities and progress towards implementing the Principles



We also participate in or are signatories to several other responsible investment organisations and initiatives.

- CERES Investor Network on Climate Risk
- The Institutional Investors Group on Climate Change (IIGCC)
- CDP (Carbon Disclosure Project)
- Climate Action 100+
- Workforce Disclosure Initiative
- US SIF
- Building a Sustainable Investment Community (BASIC)
- SIF Ireland



ACTIVE OWNERSHIP



Proxy Voting

The firm has a strong commitment to Active Ownership, and our policy is to vote all securities that we are entitled to vote on behalf of our client portfolios. A Proxy Voting Policy is in place and is reviewed once a year. We employ the services of Institutional Shareholder Services (ISS), the leading provider of proxy voting services, who provide voting recommendations to us based on a pre-agreed set of principles. Those principles are formulated to align our corporate governance philosophies and investment objectives with our proxy voting activities. The RI committee formally reviews the Policy annually.

Recommendations are made using ESG risk indicators to identify moderate to severe ESG risk factors at public companies, and holding culpable board members accountable for failure to sufficiently oversee, manage, or guard against material ESG risks. Those risk indicators cover several topics including the environment, human rights and impacts of business activities on local communities, labour rights and supply chain risks, consumer product safety, bribery and corruption, and governance and risk oversight failures. The guidelines are generally supportive of shareholder proposals that promote greater disclosure and transparency with regard to corporate environmental and social policies, and reporting on sustainable business practices.

We disclose our full proxy voting record on our website with details of all votes, including our voting rationale.

In the 12 months to December 2018, as a firm, we voted at 995 meetings worldwide for all our strategies. We voted against management in 7.5% of all proposals, and we voted against management on 43% of shareholder proposals.

Shareholder proposals are initiatives put forward by shareholders, usually requesting management to take action on particular issues.

We voted against management recommendations and supported the shareholder proposals at the AGMs of 21 companies:

- Encouraging increased reporting on climate
- GHG emissions
- Environmental impact
- Board diversity and employment diversity
- Political lobbying and contributions

Those companies are listed opposite, → and further details on the rationale for these and other votes are available on our website.²

² Stocks mentioned in this document are a representative sample of stocks that may or may not be in the strategy. Size or profitability have not been used in determining the selection of stocks and their inclusion should not be construed as a stock recommendation. A complete list of all securities recommended for the immediately preceding year is available upon request.

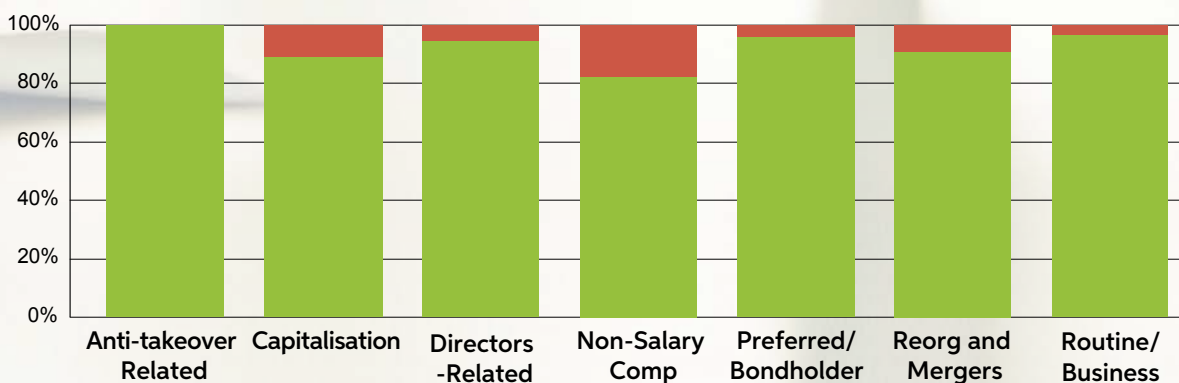
Sample votes against management recommendation

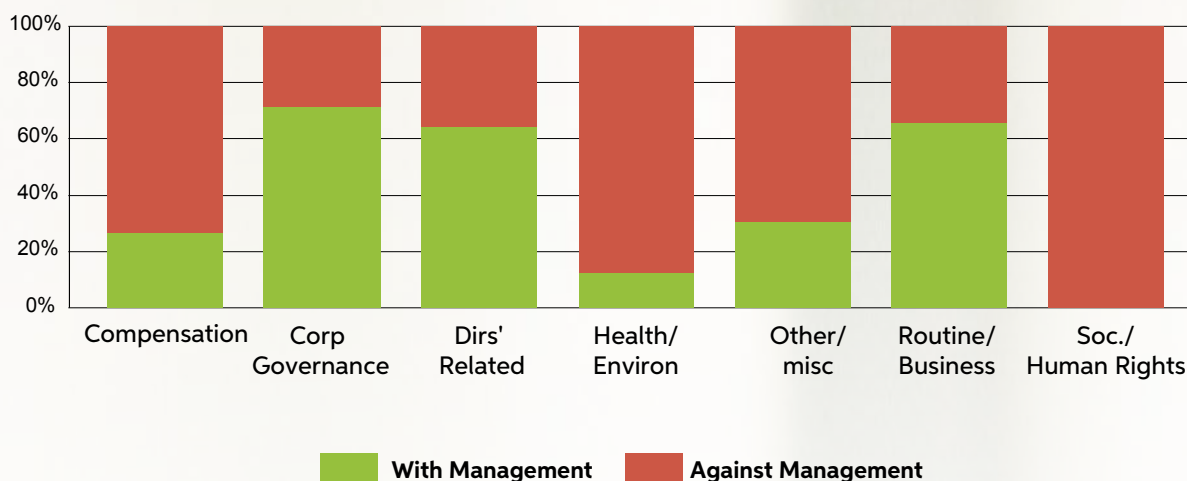


KBI Votes

On Management Proposals



On Shareholder Proposals



Engagement

There are many reasons for commencing Engagement, including but not limited to concerns re board structure and governance, excessive or inappropriately structured executive compensation, management's intention or ability to deliver shareholder expectations, disclosure of environmental information, and breaches of best practice with regard to stakeholder management.

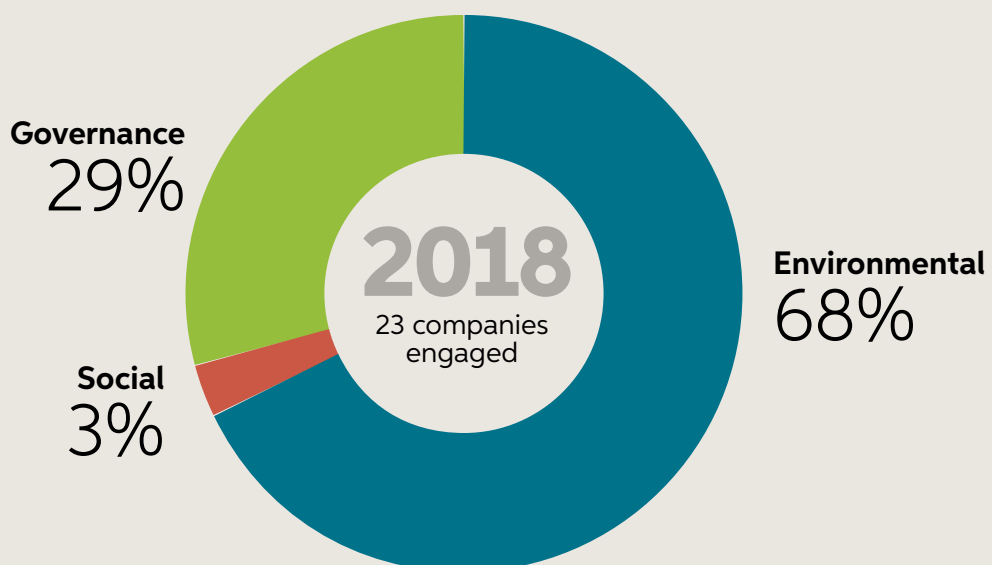
However, while any of these factors may lead to commencement of Engagement, we have decided to particularly focus on companies in relation to which we have particular ESG-related concerns, or which do not publish adequate environmental information, or which are 'laggards' with regard to a commitment to address climate change issues.

In addition, we participate in collaborative engagements at firm level based on materiality and items prioritised by the Responsible Investing Committee.

As a specialist boutique asset manager with focused resources, we endeavour to leverage relationships to engage in collective engagement when appropriate. We have decided to particularly focus on initiatives related to Climate Change and Carbon Risk and have been involved in a number of initiatives in this area. We are members of the Collaboration Platform (formerly the UNPRI Clearinghouse) which is a forum that allows PRI signatories to pool resources, share information and enhance influence on ESG issues.

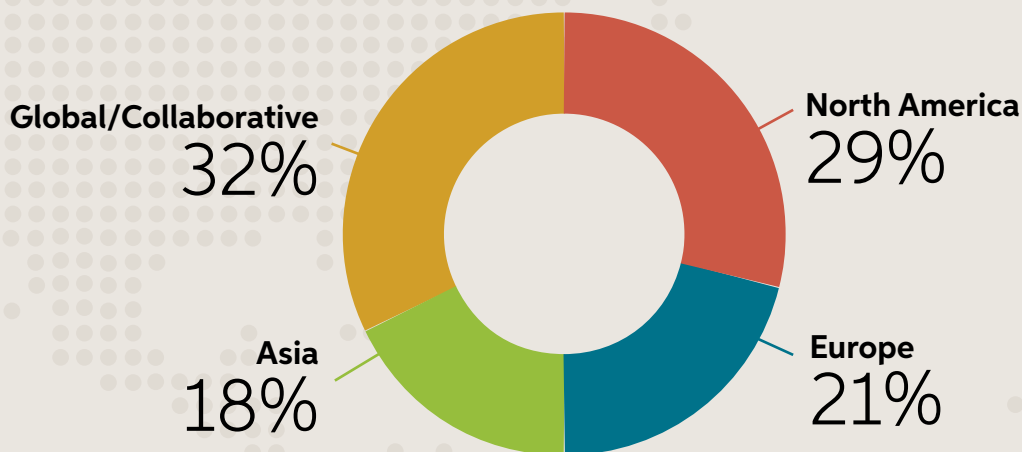
During 2018, we directly engaged with twenty three companies, and collaborated with various industry bodies on nine issues.

2018 Direct Engagement



Engagement

Regional Breakdown



Company Engagement Examples

BayWa AG

We engaged with this German company that operates in the agriculture, building materials and energy sectors. We requested that the company report carbon emissions data to the CDP, and we also urged the company to comply with the German corporate governance code regarding the independence of board directors. Due to our concerns on the latter issue in particular, we voted against all directors at the annual meeting of the company. The company has indicated that it will begin to report its emission data to the CDP during 2019.



Valero Energy Corp

We engaged with this large international manufacturer and marketer of transportation fuels, other petrochemical products and power. We requested that the company disclose information relating to climate change and carbon emissions to the CDP. Subsequent to our contact with the company, a collaborative engagement got under way with this company, under the auspices of Climate Action 100+, and investors met with the company to focus on its sustainability report.



Valmont Industries Inc.

We engaged with this US company that manufactures valley centre pivot and linear irrigation equipment, windmill support structures, lighting and traffic poles and steel utility poles. We proposed that the company should report on how its activities are aligned with the United Nations Sustainable Development Goals (SDGs) as well as provide quantified examples of water saved due to the use of its irrigation technologies. The company was amenable to the suggestions and indicated that it already has considerable data, internally, on this topic and so it may be able to aggregate and publish this data in future.



Pattern Energy Group Inc

We engaged with this independent power company in the US that owns and operates solar, wind and transmission renewable energy facilities. The company noted it has begun implementing an ESG program with the aim of attracting more ESG investors and capital. We met with the company and emphasised that we place a high level of importance on ESG issues and incorporate them into our decision making process. We encouraged the company to report to the CDP and to publish a sustainability report.



Enel SpA

We engaged with this Italian multinational manufacturer and distributor of electricity and gas. We requested that the company either sell its coal business or announce a date when it expects to divest. The company has not committed to closing its coal facility yet. We received further information from the company on their plans to reduce coal dependence.



Collaborative Engagement Examples

Our collaborative engagement efforts during 2018 were largely, though not exclusively, focussed on climate change issues.



We are members of the RE100 initiative, which seeks to influence companies to adopt a policy to move to sourcing 100% of their energy from renewable sources. On average, RE100 members are currently sourcing 32% of their electricity from renewables. 88% of responding members cite the economic case as an important driver for their RE100 commitment.



We were “lead” investors for a CDP collaborate engagement initiative to target particular companies who do not disclose their carbon emissions. The five companies in question are all companies that we invest in and which also are on the CDP’s priority list as they are believed to be significant emitters, but do not disclose their emissions.



We were a founding signatory of the Workforce Disclosure Initiative in 2016, which calls for transparency from companies on how they manage workers. Update: In 2018, 90 investee companies (up from 34 in 2017) disclosed information on their workforce. 56% of companies that were asked to provide workforce information did disclose to the WDI. 21 of the world’s top 100 companies by market cap have signed up (9 in 2017) to the WDI. Future engagements on key workforce issues include gender diversity and companies who were asked but chose not to disclose workforce data for the second year in a row.



We co-signed a submission, co-ordinated by CERES, to the Roundtable on Sustainable Palm Oil, calling for higher standards to be applied in the industry.



We signed the Euro 2050 vision statement in response to the EU’s strategy for long-term greenhouse gas emissions reduction in accordance with the Paris Agreement. We co-signed a letter to the Big 4 auditing firms on the subject of their assurance of climate risk. We also co-signed a letter to power companies setting out expectations for decarbonisation in line with the Paris Agreement.

Screening

As a house policy, we do not invest in any companies which are involved with the production or sale of anti-personnel mines and cluster bombs, or of chemical, biological and depleted uranium weapons, and we also exclude any company which violates, repeatedly and seriously, one or more of the ten principles of the Global Compact. We also exclude companies that generate more than 25% of its revenues from coal extraction (mining). This applies to all clients and all portfolios.

As at the end of December 2018, we screened out a total of 51 companies in all portfolios. The breakdown is as follows:

51 Companies Screened Out



**Controversial
Weapons**



**Global
Compact**



Coal

**All our Integris
range of
funds exclude
investments in
companies with
fossil fuel
reserves.**

Our Integris Global Equity portfolios exclude companies that have material connections to certain controversial industries, e.g. fossil fuels, tobacco and weapons. We also exclude companies that score the worst overall ESG score ('CCC') as calculated by an independent external ESG research company, MSCI ESG Research, and at the end of December 2018, there were 174 companies excluded from the portfolios as a result of this ESG screen.

It is our policy to facilitate clients who wish to exclude investment in certain companies or sectors, on a separate account basis, using either lists of securities supplied by the client or using negative screens based on MSCI ESG Research inputs.

Other Developments During 2018

- ▶ For the second year in a row, the UNPRI awarded us the maximum “A+” rating for all firm-wide and equity-related components (Strategy and Governance, Listed Equity – Integration, Listed Equity – Active Ownership) in their annual assessment of our Responsible Investment activities. The methodology and full report are available on request.

- ▶ In 2018 we extended our comprehensive direct engagement programme to our Global Equities strategies (for these strategies we had previously focussed only on collaborative engagement). This significantly ramped up our engagement programme, enabling us to further strengthen our ability to influence the ESG performance of companies in which we invest. This, we believe, also helps our investment performance.

- ▶ For the Integris Global, Eurozone and Emerging Markets funds, we decided to exclude fossil fuels from these portfolios to satisfy the concerns and requirements of a growing band of investors. We believe that we will likely see significant policy change, globally, making it increasingly uneconomic to burn coal, oil or gas, exposing investors in those companies to considerable loss, and many investors have no wish to see their funds being used to finance fossil fuel companies.

- ▶ KBI gave comments to Institutional Shareholder Services (ISS) and MSCI ESG Research on their annual consultation on their standard policies with regard to governance and other ESG issues.

- ▶ We participated in a number of collaborative engagements, usually on the topics of climate change and the disclosure of environmental information which have been identified by us as being our strategic areas of focus for engagement, both collaboratively and on a bilateral basis.

- ▶ KBI’s Head of Responsible Investing is a member of the steering committee of CDP (formerly known as the Carbon Disclosure Project) in Ireland, which is coordinating efforts by Irish institutional investors to encourage Irish companies to submit data to CDP.

- ▶ We measured the Impact of our Natural Resource strategies with the aim of quantifying how the portfolios’ revenues contribute to achieving the United Nations Sustainable Development Goals.

- ▶ We extended our house exclusion screen. All portfolios do not invest in companies manufacturing land mines, cluster bombs, depleted uranium, biological and chemical weapons. We also do not invest in companies with more than 25% of revenues from coal extraction (or in certain other coal companies which are large coal extractors), or in companies that repeatedly violate one or more of the ten principles of the UN Global Compact.

- ▶ We rebranded our Global, Eurozone and Emerging Market ESG strategies to ‘Integris’.

- ▶ We measured the carbon footprint of our Integris Global Equity Strategy and Integris Emerging Markets strategy, using the services of MSCI ESG Research Inc. The footprints were significantly lower than that of their respective indices.

Disclaimers

ALL MARKETS

KBI Global Investors Ltd is regulated by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority in the UK. Details about the extent of our regulation by the Financial Conduct Authority are available from us on request. KBI Global Investors (North America) Ltd is a registered investment adviser with the SEC and regulated by the Central Bank of Ireland. KBI Global Investors (North America) Ltd is a wholly-owned subsidiary of KBI Global Investors Ltd. 'KBI Global Investors' or 'KBIGI' refer to KBI Global Investors Ltd and KBI Global Investors (North America) Ltd.

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USA/CANADA SPECIFIC:

Information about indices is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indices. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account

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Principles for Responsible Investing 2018 Assessment:

Signatories of the PRI are assessed against a range of Responsible Investing indicators within each module. KBI Global Investors was awarded an A+ rating for all modules relevant to equity investors, i.e. Strategy and Governance, Listed Equity – Incorporation, and Listed Equity – Active Ownership. KBIGI's Transparency Report, reporting the data on which the Assessment was made, is published at this link: <https://reporting.unpri.org/surveys/PRI-reporting-framework-2018/FDE579E9-2BF7-436B-BB62-85F083F4B-8B4/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1> The methodology of assessment is detailed at this link: https://www.unpri.org/download_report/19935. The full Assessment Report is available to clients on request.

European SRI Transparency logo

The European SRI Transparency logo signifies that KBI Global Investors commits to provide accurate, adequate and timely information to enable stakeholders, in particular consumers, to understand the Sustainable Responsible Investment (SRI) policies and practices relating to the strategy. Detailed information about the European SRI Transparency Code can be found on www.eurosif.org, and information of the SRI policies and practices of the KBI Water Strategy can be found at www.kbiglobalinvestors.com. The Transparency Code are managed by Eurosif, an independent organisation. The European SRI Transparency Logo reflects the fund manager's commitment as detailed above and should not be taken as an endorsement of any particular company, organisation or individual.



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