

# BMO Global Asset Management: Responsible Investment Approach

April 2020

BMO Global Asset Management believes in the importance of taking a responsible approach to investment. This document describes our approach to responsible investment across our global operations<sup>1</sup>.

## Our approach

We take responsible investment seriously. The identification of financially material environmental, social and governance (ESG) issues forms part of our investment process, helping us to manage risk and support long-term returns. We also see responsible investing and broader investment stewardship activities as part of our duty as an investor acting in the best interest of our clients. It is our belief that these can both support the delivery of long-term financial returns to our clients and contribute towards a more sustainable future for people and the planet.

Our approach is aligned with the core values and corporate Purpose the wider BMO Financial Group (BMO FG) to 'Boldly Grow the Good in Business and in Life'. It draws on national and international codes and standards for responsible investment and ownership, including the United Nations Principles for Responsible Investment, to which we are a founder signatory.

## What does responsible investment mean in practice?

Responsible investment is an umbrella term that incorporates a range of practices and approaches in considering the key environmental, social and governance (ESG) risks, opportunities and impacts of the investments we make. For us it means a commitment to:

- integrating analysis of relevant ESG issues into investment processes, as appropriate
- engaging in dialogue with companies on significant matters related to ESG issues, so as to reduce risk, improve performance, encourage best practice and underpin long-term financial, social and environmental value creation
- voting in line with our corporate governance guidelines across global holdings
- taking a transparent approach to our responsible investment activities, both to clients and the wider public.

We have over three decades of experience in offering ESG products and services to satisfy those clients with requirements for specific ESG solutions.

Whilst our Responsible Investment approach covers a wide range of ESG issues, we recognise that climate change presents potential systemic risks to our business and our investments, which require a different scale and nature of response. We discuss our approach to climate change in depth in a separate [document](#) in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

## Integration of ESG issues in our investment processes

ESG integration is the consideration of financially material ESG issues in the course of investment analysis and decision-making, with a view to gaining a more comprehensive understanding of risk and long-term opportunity.

We apply a tailored approach to ESG integration by investment strategy and asset class, to ensure that the additional analysis is relevant and meaningful to each investment process.

## Engagement and public policy

We are committed to the good stewardship of our clients' investments through our engagement, voting and public policy activities. Our primary purposes in engagement are to support long-term returns and to mitigate risk. We also believe that by encouraging better management of ESG issues by our investee companies we contribute to a more resilient global economy, which will ultimately enhance our clients' long-term prosperity and security.

Having identified the ESG issues we consider material to the creation and protection of long-term financial, social and environmental value, we use in-depth dialogue to encourage investee companies to improve performance and move towards best practice in managing those issues. Our engagement encompasses a spectrum of ESG issues, across a range of sectors and geographies. We monitor the outcomes of our engagement and report on our progress.

<sup>1</sup> This document does not apply to Pyrford International Limited, BMO Global Asset Management Portugal S.A., and BMO Global Asset Management REIT Property Asset Management plc.

Our global engagement programme is structured around seven themes:

- environmental stewardship
- climate change
- human rights
- labour standards
- business conduct
- public health
- corporate governance

In encouraging companies to move towards best practice in managing ESG issues, we make reference to international codes and standards where relevant, such as the International Labour Organization Core Conventions, UN Guiding Principles on Business and Human Rights, the UN Global Compact, and national corporate governance principles and codes of best practice. However, any such standards are often only a starting point, as we tailor our engagement to individual companies and to how the ESG issues under discussion apply to their specific circumstances.

Our preferred approach is to use constructive, confidential dialogue, typically working one-to-one with companies, but also taking a collaborative approach where this has more impact and is in line with our objectives. We engage at different levels within companies depending on the nature of our objectives, including the board, executive management and operational specialists.

We believe dialogue with companies is essential, but also recognise that action by governments or regulatory intervention is needed to create a level playing field and achieve meaningful results. We contribute to standard-setting in public policy, where we seek to be a constructive investor voice. Recent examples include consultations on responsible investment policies, codes and regulations, working with global stock exchanges on listing standards, and advocating policies that raise the bar for the management of ESG risks faced by the companies in which we invest.

### Voting and corporate governance

Corporate governance is the system by which businesses are directed, controlled by shareholders, and held accountable to their stakeholders.

It is our policy to vote at all shareholder meetings on behalf of our discretionary investment mandates and reo® clients for whom we provide voting services. We apply a consistent philosophy and approach to corporate governance and the exercising of voting rights. This approach is embodied in our Global Corporate Governance Guidelines, approved by our Executive Committee and published on our website. The guidelines are reviewed annually to address developments in international governance practices, and are based on the following overarching principles that we believe constitute good corporate governance practice:

- an empowered and effective board and management team
- appropriate checks and balances in company management structures and Board oversight
- effective systems of internal control and risk management covering relevant financial, operational and reputational risks, including material ESG risks
- a commitment to promoting a “governance culture” of transparency and accountability that is grounded in sound business ethics
- remuneration policies that reward the creation of long-term value through the achievement of corporate objectives
- a commitment to protecting the rights and interests of all investors in the company

We use our vote, combined with engagement, to encourage companies to live up to these principles as we believe this is in the best interests of our clients who hold investments in those companies.

We also recognise that such principles may be expressed differently in different markets. Therefore, our voting policies take account of local practices and are applied in a pragmatic fashion that reflects an understanding of both local and international good practice. Where companies put forward a strong case for not complying with our Guidelines, we will consider this and (where relevant) adjust our vote if we believe the company is acting in the best interests of shareholders. Overall, we strive to make pragmatic suggestions that would help advance our investee companies’ understanding of investor concerns.

### Conflicts of interest

We seek to act in the best interests of our clients (retail and institutional investors, including corporate pension funds) in our investment management business. We recognise conflicts of interest may arise in our investment activities. We seek to identify, prevent, and/or manage potential conflicts to serve our clients’ best interests.

We have a company-wide conflicts of interest policy. In our investment activities, the following additional principles are applied:

- Voting, engagement and public policy work is conducted in the best interest of our clients, independently of the wider BMO Financial Group. Positions taken by BMO Global Asset Management may not be representative of the views of the BMO Financial Group as a whole or of the other lines of business within it.
- Our voting service provider, Institutional Shareholder Services Inc. (ISS), will apply its proprietary voting policy in the following circumstances: votes at BMO Financial Group company meetings; votes relating to funds managed by

BMO Global Asset Management or an **affiliate**; where BMO is a party; and meetings where a BMO Global Asset Management officer, director or employee is nominated for election to a company board.

BMO Global Asset Management treats all companies equally in engagement and voting activities, irrespective of any business relationship that may exist between the company and any part of BMO Financial Group.

### Transparency and reporting

We believe that it is important to be transparent in how we vote. We disclose all our proxy voting activity publicly, including explanations for any votes that do not support management on specific resolutions.

We also produce regular publications on our responsible investment activities, including through our ESG Viewpoint research pieces. Our annual Responsible Investment Review summarises our activity throughout the year.

### Governance of our responsible investment approach

All updates to this responsible investment approach and related policies are conducted by the Global Investment Committee (GIC), the members of which include our Global CIO, CIO North America and other senior investment representatives from across BMO Global Asset Management representing our respective regulated entities.

Our Executive Committee reviews these documents prior to publication.