

# BMO GAM Engagement policy

April 2021

BMO Global Asset Management (BMO GAM)<sup>1</sup> is committed to the good stewardship of our clients' investments through active share ownership, specifically engaging company management and exercising our right to vote on resolutions at company shareholder meetings.<sup>2</sup>

## Engagement

We define engagement as constructive dialogue with companies on environmental, social and governance (ESG) factors that can impact their businesses and, where necessary, encourage improvement in ESG management practices. Our primary driver for engagement is to support long-term returns by mitigating risk and capitalising on opportunities linked to ESG factors. We also believe that by encouraging companies to improve their ESG practices, which can help drive positive impacts for the environment and society that are in line with the achievement of the United Nations Sustainable Development Goals (SDGs), we can play a part in building a more sustainable and resilient global economy, which will enhance our clients' long-term prosperity and security.

Our engagement programme encompasses a spectrum of ESG aspects, across a range of sectors and geographies. The programme is structured around seven high level themes encompassing ESG issues of most relevance to investors:

- Climate change<sup>3</sup>
- Environmental stewardship, including biodiversity
- Labour standards
- Human rights
- Public health
- Business conduct
- Corporate governance

Underlying each theme is a range of more granular sub-themes to help focus our engagement.

We monitor the outcomes of our engagement and report on our progress to our clients and publicly. Engagement covers listed equities, corporate (financial and non-financial) credit, as well as Sovereign, Supranational and Agency (SSA) issuers, and is reinforced by the broader impact achieved through public policy engagement by BMO GAM.

## Underlying fundamentals: Codes and principles

In encouraging companies and SSAs 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 (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the UN Global Compact, the Paris Agreement, the Taskforce on Climate-related Financial Disclosures and national corporate governance principles and codes of business best practice.

Our key expectations on good practice are outlined in our [Corporate Governance Guidelines](#), and [Environmental](#) and [Social](#) Expectations Statements.

## Engagement process

Our engagement activities are led by members of BMO GAM's Responsible Investment team, in collaboration with portfolio managers, and fixed income and equity investment analysts.

<sup>1</sup> BMO Global Asset Management is the brand name for various affiliated entities of BMO Financial Group that provide investment management services across Asia, Canada, the U.S. and EMEA. This engagement policy does not cover Pymfords International, which has its own independent ESG policies.

<sup>2</sup> This Engagement policy applies to BMO Global Asset Management's management of all client accounts to the extent agreed upon or permissible. Individual client mandates or jurisdictional regulatory requirements may require a different approach to ESG issues.

<sup>3</sup> Please refer to our dedicated [Climate Change Engagement Approach](#) for additional information.

The Responsible Investment team comprises experienced engagement specialists with diverse backgrounds. We leverage the range of professional experiences, nationalities and languages in the team to strengthen the effectiveness of our company engagement by enhancing our understanding of the context and environment in which the companies operate and the challenges they face.

Engagement can be proactive, whereby we prioritise our efforts based on the analysis of companies' exposure to and management of material ESG issues, or reactive, whereby we initiate dialogue with companies to encourage them to take the appropriate action to address the consequences of human or labour rights violations, large scale environmental pollution or corruption and improve their business practices.

Proactive engagement is both top-down, through engagement on key issues that have broad relevance across companies and sectors, and bottom-up, based on identification of individual companies within our clients' portfolios presenting the highest ESG risks.

## Engagement prioritisation

### Top-down

On an annual basis, the Responsible Investment team conducts a high-level assessment of a wide range of current and emerging ESG issues and their potential impacts on the economy, environment and society. The results of this assessment determine the specific ESG issues on which we will focus our engagement activities going forward.

### Bottom-up

We identify and prioritise companies for engagement based on the following:

- Assessment of impact of ESG risk and opportunity factors now and in the future through a detailed analysis of the companies BMO GAM invests in based on:
  - Proprietary ESG risk tools, ESG portfolio analytics reports, third-party data providers
  - Investment teams' judgement and expertise, and
  - Previous engagement track record
- The significance and severity of adverse sustainability impacts, including scale (gravity), scope and character;
- Assessment of likelihood of success for engagement; and
- Level of exposure, typically based on size of holding

We set specific engagement objectives and track progress against these to assess achievements and determine next steps. When we open discussions with individual companies, we aim to clearly communicate our engagement objectives, expectations – including timelines – and desired outcomes.

## Conducting engagement

Our preferred approach to conducting engagement is to use constructive, confidential dialogue, typically interacting one-to-one with companies and building a relationship of trust over time as long-term investors.

When it is more effective to take a collaborative approach to bring about change, we form or join coalitions with other investors, non-governmental organisations (NGOs) or industry groups. Speaking with a unified voice can allow investors to communicate their concerns more effectively, whilst gaining power and legitimacy from the perspective of corporate management. Furthermore, collaborations can help build knowledge and skills whilst enhancing engagement efficiency. We are a member of several investor coalitions actively pursuing collaborative engagements.

We engage at different levels within companies depending on the nature of our objectives, including with the Board, executive management, investor relations, sustainability leadership, and operational specialists.

## Public policy engagement

We recognise that action by governments or regulatory intervention is also needed to create a level playing field and achieve meaningful results. To that end, we aspire to play an active role in public policy development through engagement with policymakers and regulators. We seek to bring a constructive investor voice to standard setting such as ESG-related listing rules for stock exchanges and the evolution of national stewardship codes, and we believe that policy and regulatory change are often the catalysts for improved corporate behaviour.

## Tracking engagement progress

We document all engagement activities in an online database managed by the Responsible Investment team. The database allows for the production of engagement activity reports that are shared with clients, the general public, and investment desks periodically to feed into stock selection and portfolio construction decisions.

We measure and report on the success of engagement through the assignment of "milestones", which recognise improvements in company ESG policy, management systems or practices against the objectives that were set. Milestones are ascribed using a three-star rating system, with three stars indicating the most significant impact of change and one star reflecting smaller, incremental change along a pathway for the company, or across a broader context, for the industry as a whole.

## Escalation strategies

In considering engagement escalation strategies, we will make a case-by-case assessment of progress against engagement objectives and responsiveness of companies to our engagement.

In addition to the aforementioned strategies of public policy engagement and joining forces with likeminded investors to strengthen our message to companies, we have at our disposal a number of different ways that we can use to escalate our engagement, which include:

**Attending Annual General Meetings (AGMs):** AGMs offer the opportunity for direct, public dialogue with boards and top executives. Interventions at AGMs can also trigger further dialogue with a company, paving the way to more in-depth engagement on an issue.

**Filing shareholder resolutions:** These can be a key rallying point of an engagement campaign to change companies' behaviour. Examples might include improving board accountability, executive pay practices, ESG-related disclosure, climate change action or employee welfare.

**Proxy voting:** Voting against management on key resolutions sends a clear signal to companies and can help with further engagement efforts.

**Partial or complete divestment:** Re-weighting a position to reflect the investment risk of poor ESG practices or selling outright a holding can be a powerful signal of dissatisfaction in response to inadequate progress against engagement objectives.

## Transparency

Clear accountability and transparent communication are key elements of our engagement programme. We report periodically on the number of engagements across the firm and the number of successful engagement outcomes, reflecting our full sphere of influence. We do this via quarterly stewardship reports and an Annual Responsible Investment Review that we make publicly available on our website at [www.bmogam.com/responsibleinvesting](http://www.bmogam.com/responsibleinvesting).

We also publish research and thought pieces on specific engagement activities and ESG topics ("ESG Viewpoints"); and ESG profile and impact reports for a number of our ESG funds that contain information on engagement. These are all available on our website.

## Conflicts of interest

We seek to act in the best interests of our clients (including retail and institutional investors, such as corporate pension funds) in our investment management business. We recognise conflicts of interest may arise in our investment and active ownership activities. Our approach to identify, prevent, and/or manage potential conflicts to ensure we serve our clients' best interests is guided by BMO GAM's [Conflicts of Interest Policy - Active Ownership](#).

## Governance of the Engagement policy

The Engagement Policy is reviewed annually by the Responsible Investment team. The Global Investment Committee (GIC), chaired by the Global CIO, approves any updates for publication.