Responsible Investment Solutions

Climate Change: BMO Global Asset Management Approach

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BMO Global Asset Management

Part of COLUMBIA THREADNEEDLE INVESTMENTS

Contents

Tackling the climate crisis is both a moral imperative and an economic necessity. We believe that investors can play a pivotal role in the journey to a decarbonised global economy.

> Asset managers have a unique and critical role to play in the transition to global net zero emissions. We look forward to building partnerships both with our asset owner clients, and with the companies we invest in, to move together on the journey to making this a long-term shared goal.

BMO Global Asset Management (BMO GAM EMEA)[1] considers climate change to be one of the defining issues of our generation, and fully supports the goals of the Paris agreement. We also recognise that, in line with the findings of the Intergovernmental Panel on Climate Change, global greenhouse gas emissions need to fall by 50% by 2030, and to net zero by 2050, in order to limit the ultimate temperature rise to 1.5°C. As a supporter of the United Nations Sustainable Development Goals (UN SDGs), we recognise that tackling climate change is also an essential foundation for achieving these, particularly SDG Goal 13 on Climate Action.

We are committed to playing our part in supporting the transition to a low-carbon global economy, recognising that climate change presents both risks and opportunities that can affect our business, and that unabated climate change will cause economic damage that will put at risk our ability to deliver long-term financial returns.

In December 2020 we stated our ambition to reach net zero emissions by 2050 or sooner across all our assets under management, as a signatory to the Net Zero Asset Managers Initiative[2]. This high-level commitment forms the cornerstone of our approach.

Our reporting framework

This statement refers to the activities of BMO GAM (EMEA), using the structure set out by the Task Force on Climate-related Financial Disclosures (TCFD).

BMO GAM (EMEA) became part of Columbia Threadneedle Investments in November 2021, and in July 2022 the BMO GAM (EMEA) business will rebrand to Columbia Threadneedle Investments, as part of the transition to become one integrated organisation. In the longer term, our climate change reporting will also become integrated, in line with this approach. Columbia Threadneedle Investments also became a signatory to the Net Zero Asset Managers Initiative in 2021.

[1] BMO Global Asset Management is a registered trading name for various affiliated entities of BMO Global Asset Management (EMEA) that provide investment management services, institutional client services and securities products. Financial promotions are issued for marketing and information purposes; in the United Kingdom by BMO Asset Management Limited, which is authorised and regulated by the Financial Conduct Authority; in the EU by BMO Asset Management Netherlands B.V., which is regulated by the Dutch Authority for the Financial Markets (AFM); and in Switzerland by BMO Global Asset Management (Swiss) GmbH, acting as representative office of BMO Asset Management Limited. These entities are all wholly owned subsidiaries of Columbia Threadneedle Investments UK International Limited, whose direct parent is Ameriprise Inc., a company incorporated in the United States. They were formerly part of BMO Financial Group and are currently using the "BMO" mark under licence. This statement does not cover Pyrford International, which has its own independent ESG policies.

[2] The Net Zero Asset Managers initiative – An international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions

Governance and Strategy

This section explains the governance within BMO GAM (EMEA) with regards to climate-related risks and opportunities.

Governance

- **Board**: BMO GAM (EMEA) is now a part of Ameriprise Financial Inc ("AMPF") and forms part of its asset management business trading as Columbia Threadneedle Investments. The AMPF Board of Directors has ultimate responsibility for risk management across the business, and in 2020 started considering climate change as a long-term strategic risk within the Enterprise Risk Management process[3].
- **Management**: At the time of the acquisition, Columbia Threadneedle Investments has made public its ambition to create a world-class Responsible Investment capability. Processes are underway to define management and governance structures to support this commitment.
- The BMO GAM (EMEA) Investment Committee provides support, approval, and oversight of the adoption and application of BMO GAM EMEA's responsible investment activities in ESG matters, including over how voting rights are exercised in, and engagement is undertaken with, investee companies including on issues related to climate change.

Our Responsible Investment specialists include several experts on climate change and climate-related issues. This team also provides data, training and research to portfolio managers and analysts throughout BMO GAM (EMEA), to support company analysis, integration and product development.

Strategy

We believe that financial prosperity and sustainability go hand in hand, and we seek to pursue our growth opportunities by balancing risk and opportunity to create value that is shared with the world around us.

As a founder signatory to the UN Principles for Responsible Investment (PRI), alongside Columbia Threadneedle Investments, we have for many years used an integrated approach to our assessment of sustainability risks. Our approach has evolved as markets have developed resulting in greater access to information to help identify, measure, and manage these risks. We apply a tailored approach to ESG integration by investment strategy and asset class, to ensure that our analysis of ESG factors is relevant and meaningful to each team's investment process.

We also offer specialist responsible investment strategies, where sustainability considerations or impact investing form a formal part of the mandate.

BMO GAM (EMEA) has engaged on the topic of climate change for two decades, calling on governments and regulators to put policies in place for an orderly transition to a low-carbon economy, and asking companies to implement strategies to incorporate climate risk into their business planning. Companies that are proactive in recognising the transition, and providing solutions, should see their business benefit as actions are taken to achieve the goals of the Paris agreement.

BMO GAM (EMEA) has taken a range of measures to address climate risk and provide solutions to clients. These include:

- Integrating financially material ESG risks, including climate change, into the investment analysis process (further detail below)[4].
- Considering adverse impacts on ESG factors, including climate change, as part of the investment analysis process for mandates that accommodate this approach (further detail below).
- Offering investment products that allow investors to direct capital towards climate solutions and/or avoid carbon-intensive investments. These include the Responsible and Sustainable fund ranges, with exclusions related to companies' fossil fuel exposure; the Climate Opportunity Partners private equity fund, which is entirely invested in

[3] 2021-responsible-business-report-ameriprise.pdf

[4] For BMO GAM's EMEA business, further details are provided as part of our obligations under the Sustainable Finance Disclosure Regulation (SFDR).

clean technology and green infrastructure; and green bond investments, which include two dedicated mandates for institutional investors.

- Implementing a comprehensive engagement and proxy voting approach aimed at encouraging investee companies to address climate risks (further detail below).
- Supporting public policy statements on climate change, including the Global Investor Statement to Governments on Climate Change.
- Taking a transparent approach, including the publication of portfolio-weighted carbon intensity data for selected fund strategies[5].

In December 2020, we adopted an ambition to reach net zero emissions by 2050 or sooner across all our assets under management, as one of the founder supporters of the Net Zero Asset Managers Initiative. We will seek to achieve this ambition through close partnership both with our clients, and with the companies we invest in through continued engagement.

[5] For BMO GAM's EMEA business, such data will also form part of our SFDR disclosures where relevant.

Risk Management

This section describes how BMO GAM (EMEA) assesses climate-related risks and opportunities.

ESG Integration

Research analysts and portfolio managers follow an investment process that considers the potential impact of ESG risks, including climate change, alongside the other factors that determine the prospects for any company in whose securities we might invest or any real estate to be acquired as a portfolio asset. They have access to a range of ESG data and research, including both third-party data and proprietary information, as well as support in analysing this information from our team of in-house responsible investment specialists. This analysis drives our asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

For listed equities and bonds, our ESG risk tool provides data on portfolio-weighted carbon intensity versus sector peers, and flags those that are significantly over the sector average. This data can then be used by fund managers to identify potentially high-risk companies for deeper analysis.

Some investment teams also seek opportunities to invest in companies that can contribute to solutions, either as part of the low-carbon energy transition or in addressing the physical impacts of climate change. Examples in our fundamental equity strategies have included water solutions companies, electric vehicle suppliers and renewable energy developers. Our fixed income strategies have significant green bonds investments, both as a component part of wider strategies and as stand-alone specialist mandates.

Net Zero Alignment

BMO GAM (EMEA) has been active in industry efforts to develop methodologies for Paris alignment.

We contributed to the IIGCC's Paris Aligned Investment Initiative, including co-chairing the working group on Strategic Asset Allocation, and co-chairing the Implementation Working Group, set up to support the Net Zero Investment Framework.

In 2021 we developed a Net Zero model for our equity and bond investments, aligned to the Net Zero Investment Framework. We published details of our methodology and approach in November 2021 . We also announced an initial target for AUM to be managed using this methodology, amounting to 12% of the total AUM of BMO GAM (EMEA), which represents 53% of our active equity exposure.

We have also published a methodology for net zero alignment in our direct real estate business.

During 2022 we will work to further expand the AUM covered by the net zero methodology, working with our new parent group Columbia Threadneedle Investments, which has also made a separate net zero commitment. We will look to develop and pursue an aligned approach across the entire group for implementing our net zero commitment. We will also be working to develop methodologies for more asset classes when industry standards are clearer, including in sovereign bonds and private equity.

Engagement and proxy voting

Our engagement programme for our global BMO GAM (EMEA) listed equity and fixed income assets is also made available to third-party clients through the Responsible Engagement Overlay (***reo***®) service. We also engage across other asset classes, where possible. These include, for instance, private equity, where we annually survey our GPs on their ESG management, including specific questions on climate change; and Liability Driven Investment, where we engage with counterparty banks on climate change and other ESG issues as a part of our credit risk analysis.

Our expectations for companies are aligned with those of key initiatives, particularly the Climate Action 100+ initiative. We expect companies in climate-exposed sectors to set a long-term ambition to achieve greenhouse gas emissions reductions consistent with net zero global greenhouse gas emissions by 2050. The statement of a long-term ambition is not sufficient on its own; we also look for robust strategies to implement this. These should include:

- Short and medium-term emissions targets, which include Scope 1 and 2 emissions, and Scope 3 for sectors where this is material. Targets should be in line with the global ambition to limit the temperature rise to 1.5 degrees C
- A credible strategy to achieve these targets
- Alignment of capital expenditure and research & development expenditure
- Alignment of lobbying activities, including those of trade associations
- Link between the achievement of climate-related objectives and executive remuneration
- Board-level expertise and oversight of climate risks and opportunities
- Acknowledgement of the social impacts of transition, where relevant, using a Just Transition framework
- Disclosure, in line with the recommendations of the Task Force on Climate-related Financial Disclosures
- Reflection of climate risk in financial accounts and audits where this is material

Whilst these expectations are universal, we also have some sector-specific recommendations in key industries, recognising their particular circumstances and their transition pathway. For instance:

Electric utilities: We are calling on electric utility companies to phase out unabated coal-fired power by 2030 for developed countries, and 2050 for developing countries, in line with the recommendations of the Powering Past Coal Alliance.

Extractives Industries: As major emitters we are urging these sectors to set absolute emissions targets across scope 1, 2 and 3 emissions that bring them in line with a 1.5C scenario as quickly as possible and achieve net zero emissions by 2050. Alongside decarbonising operations and products we engage these sectors on transition risks and how they are moving investment away from fossil fuels towards the technologies and resources that will be needed to power a low carbon world.

Finance: The concept of 'Paris alignment' is particularly challenging in the finance sector, given that climate impacts almost entirely arise through financed emissions; our engagement has help us to identify and promote best practices, including the systematic incorporation of climate risks, including deforestation, into strategy development, governance, lending and underwriting criteria and efforts to measure and report on financed emissions across multi-sector lending and underwriting.

In 2021, we engaged with 484 companies on climate change. Tracking the results of our engagement, we have identified 72 milestones or instances of change following engagement.

We have used both one-to-one and collaborative approaches.

Key collaborations include:

Climate Action 100+: This is a core part of our approach. BMO GAM (EMEA) has been an active participant in Climate Action 100+ since the start. We are currently involved in 45 individual company engagements, and participate in in the Advisory Group which oversees the European strategy for CA100+.

Asian banks and utilities: We joined a collaborative effort of engaging Asian banks and utilities companies on their climate strategies as facilitated by Asia Research and Engagement

Food: We have supported FAIRR's sustainable protein work which also factors into measuring and minimising scope 3 emissions of retailers

Finance: We are collaborating with the work of IIGCC's banks working group to encourage Paris Agreement alignment of financial institutions, and are working with Asia Research and Engagement's Energy Transition Platform to engage Asian banks on their approach to climate risks and opportunities.

Climate change and wider ESG issues are also considered when we make decisions on proxy voting, where this is permitted under our mandate with our client. We generally take a supportive stance on shareholder resolutions calling for stronger strategy and disclosure on climate change. In addition, our Guidelines also state that where companies in high-impact sectors fail to provide investment-relevant climate disclosure, we may vote against management resolutions, such as the report and accounts or election of directors.

In 2021, we identified potential laggard companies in key high-impact sectors, and used data points to identify the worst performers, including disclosure of Scope 1 and 2 emissions; whether the company was rated 0 or 1 by the Transition Pathway Initiative; and whether it has been resistant to engagement on climate change. As a result we raised concerns at 58 companies, either voting against or abstaining on management resolutions, or voting in favour but with a clear accompanying comment warning that we expect improvements.

Metrics and Targets

During 2021 we developed new metrics to assess how our portfolios align with a net zero future.

Our methodology for net zero alignment in equities and bonds combines a range of data sources to provide an alignment rating at portfolio company level – from Aligned for those meeting all our expectations, to Aligning or Committed for those making progress, to Not Aligned for those failing to meet minimum expectations.

For those funds in scope, we have also set reference pathways for Scope 1 & 2 portfolio company emissions, in line with a Paris-aligned benchmark trajectory, as well as targets for engagement with companies.

During 2022 we will publish information on performance against these metrics for funds so far in scope. We also are working to ensure we comply with relevant upcoming TCFD regulations, including those set out by the UK's Financial Conduct Authority.

Our key forward-looking target at BMO GAM is our ambition to align our investments with net zero emissions by 2050. We published an interim AUM target for Paris-aligned funds prior to the COP26 meeting in November 2021.

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