

# Climate Change: BMO Global Asset Management Approach

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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.

**Kristi Mitchem, CEO, BMO Global Asset Management**

BMO Global Asset Management (BMO GAM)<sup>1</sup> 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. Working towards a climate secure future is something we see as an integral part of our business purpose to boldly grow the good in business and in life.

At BMO GAM we are already carbon neutral in our operations, as part of a wider commitment by BMO Financial Group. In December 2020 we built on this by committing to an ambition to reach net zero emissions by 2050 or sooner across all our assets under management<sup>2</sup>, and in March 2021, BMO Financial Group announced its Net Zero Ambition, which includes a commitment to net zero financed emissions in lending by 2050, and the creation of the new BMO Climate Institute<sup>3</sup>. These high-level commitments form the cornerstone of our approach.

#### **Our reporting framework**

BMO Financial Group (BMO FG) – comprising the Bank of Montreal and its subsidiaries – became a supporter of the Task Force on Climate-related Financial Disclosures (TCFD) in January 2018, and this commitment covers all business entities, including BMO GAM.

BMO FG publicly reports on its environmental and social performance and targets in its annual Sustainability Report and Public Accountability Statement (PAS), and also publishes a Climate Report, structured in line with the TCFD recommendations<sup>4</sup>. BMO FG also reports to the Carbon Disclosure Project and in 2020 received an A- rating.

Within this broader framework, this statement sets out BMO Global Asset Management's approach, using the structure recommended by the TCFD. Whilst it focuses on BMO GAM's policies and practices, it also references our parent company where relevant.

<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 statement does not cover Pyrford International, which has its own independent ESG policies.

<sup>2</sup> Read more [here](#).

<sup>3</sup> Climate Change – Our Impact (bmo.com)

<sup>4</sup> <https://our-impact.bmo.com/wp-content/uploads/2021/01/BMO-2020-Climate-Report.pdf>

# Governance

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

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## **Board Oversight**

Board-level oversight of sustainability, including climate change, is embedded within the charter of the Audit and Conduct Review Committee (ACRC) of BMO's Board of Directors. Additionally, the Risk Review Committee (RRC) assists the Board in fulfilling its risk management oversight responsibilities. In 2020 the RRC added a statement referencing climate change to the Risk Appetite Framework. In 2018, BMO FG developed and delivered online climate change risk and disclosure training for its whole Board of Directors, and made it available to all current and new Board members. Further details of the Board's responsibilities and actions can be found within the 2020 Climate Report, within the Sustainability Report and Public Accountability Statement.

## **Management Oversight**

Within BMO GAM, responsibility for oversight of the firm's responsible investment strategy lies with the Global Investment Committee (GIC), chaired by the Global CIO. The GIC approves all responsible investment policy statements.

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, to support company analysis, integration and product development.

# Strategy

Our corporate purpose is to Boldly Grow the Good in business and life. 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) 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 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 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)<sup>5</sup>.
- 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, which include exclusions related to companies' fossil fuel exposure; the Climate Opportunity Partners private equity fund, which is entirely invested in 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<sup>6</sup>.

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<sup>7</sup>. We will seek to achieve this ambition through close partnership both with our clients, and with the companies we invest in through continued engagement.

<sup>5</sup> For BMO GAM's EMEA business, further details will be provided as part of our obligations under the Sustainable Finance Disclosure Regulation (SFDR).

<sup>6</sup> For BMO GAM's EMEA business, such data will also form part of our SFDR disclosures.

<sup>7</sup> <https://www.netzeroassetmanagers.org/>

# Risk Management

This section describes how BMO GAM 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. In fixed income we have significant green bonds investments, both as a component part of wider strategies and as stand-alone specialist mandates.

## Scenario Analysis and Paris Alignment

BMO GAM has been active in industry efforts to develop methodologies for scenario analysis and Paris alignment. We co-chaired a working group set up by the Institutional Investors Group on Climate Change (IIGCC) to develop investor guidance on scenario analysis, and contributed to the IIGCC's Paris Aligned Investment Initiative, including co-chairing the working group on Strategic Asset Allocation.

Initiatives taken during 2020 included:

**Stress testing:** We have developed a climate stress-testing model, making use of a framework from the Dutch National Bank. We have been using this model with our Dutch fiduciary clients.

**Paris alignment:** We are building a model to understand the Paris alignment of listed equity and bond portfolios, drawing on the Net Zero Investment Framework launched by the Paris Aligned Investment Initiative<sup>8</sup>. This model brings in data from multiple sources (including MSCI ESG, the Transition Pathway Initiative and Science-based Targets Initiative) to assess alignment both from a 'top-down' basis, looking at portfolio carbon intensity versus a 1.5 degree-consistent trajectory, and a 'bottom-up' basis, looking at the alignment of company strategies with a net zero future.

In 2021 we will be refining our alignment model, drawing on industry initiatives including the IIGCC, as well as looking at methodologies to better understand and incorporate physical climate risk.

## Engagement and proxy voting

Our engagement programme for our global BMO GAM listed equity and fixed income assets is also made available to third-party clients through the Responsible Engagement Overlay (*reo*<sup>®</sup>) 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.

For listed asset classes, we set out our climate change engagement programme principles in '[Climate Change Engagement: A framework for the future](#)'.

<sup>8</sup> [Paris Aligned Investment Initiative – Investing for a net zero future](#)

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
- Alignment of capital expenditure and research & development expenditure
- Alignment of lobbying activities, including those of trade associations
- Acknowledgement of the social impacts of transition, where relevant, using a Just Transition framework
- Link between the achievement of climate-related objectives and executive remuneration
- Board-level expertise and oversight of climate risks and opportunities
- 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.

**Oil & gas, mining:** We are working with several industries, in particularly those as part of the primary industry, to clarify the concept of “green revenue”, which would help inform their capital expenditure and research & development expenditure.

**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 helped us to identify and promote best practices, including the systematic incorporation of climate risks into lending criteria and efforts to measure financed emissions across lending and underwriting.

In 2020, 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 has been an active participant in Climate Action 100+ since the start. We are currently involved in 26 individual company engagements, and participate 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.

Climate change and wider ESG issues are also considered when we make decisions on proxy voting<sup>9</sup>, 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<sup>10</sup>.

In 2020, we identified potential laggard companies in six key high-impact sectors: oil & gas, mining, materials, electric utilities, transportation and automotive, and financial institutions. We 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.

In 2021 we will expand this approach, in particular to incorporate deforestation concerns in the Consumer Discretionary and Consumer Staples sectors. We also plan to ratchet up our expectations, particularly for companies subject to intensive engagement via the Climate Action 100+ initiative.

<sup>9</sup> All our proxy voting decisions are publicly available [here](#).

<sup>10</sup> Learn more [here](#).

# Metrics and Targets

As stated above, BMO Global Asset Management produces internal carbon footprint reports for a number of its funds in both equity and fixed income. We have so far disclosed this within impact reports for Responsible and Sustainable fund ranges, as well as for key Investment Trusts.

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Our operational emissions are disclosed as part of BMO Financial Group's annual reporting and CDP response. BMO Financial Group has a target to reduce operational greenhouse gas emissions by 30% by 2030 versus a 2019 baseline using science-based approaches, building on BMO's Carbon Neutral operations (since 2010) and matching 100% of global electricity use with renewable energy purchases (since 2020).

Total greenhouse gas emissions for BMO Financial Group (including Scope 1 and 2, and Scope 3 categories 5 and 6) were 161,314 tonnes in 2019.

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

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**BMO**  **Global Asset Management**

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