Impact report

BMO Responsible UK Equity Fund

BMO Global Asset Management

Measuring Impact

Understanding impact is a central part of the philosophy of our BMO Responsible UK Equity Fund. We use a range of metrics to capture key Environmental, Social and Governance (ESG) characteristics of the fund.

The BMO Responsible UK Equity Fund aims to provide capital growth with some income, investing mainly in UK equities. Screening criteria are applied to exclude companies involved in damaging or unsustainable business practices.

This impact report includes:

Detailed SDG alignment
Analysis of how the products and services provided by companies we invest in align with the Sustainable Development Goals

Impact metrics
Key portfolio impact metrics on environmental stewardship, fairness and equality, and economic development

Stewardship activities
A summary of stewardship (engagement and voting) activities with portfolio companies together with case studies

Key risks

Values may fall as well as rise and investors may not get back the full amount invested. Income from investments may fluctuate.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

Measuring our Impact

Our Impact report analyses the social and environmental impact of the companies held in the portfolios together with our active ownership (engagement and voting) activities.

Sustainable Development Goals (SDGs)

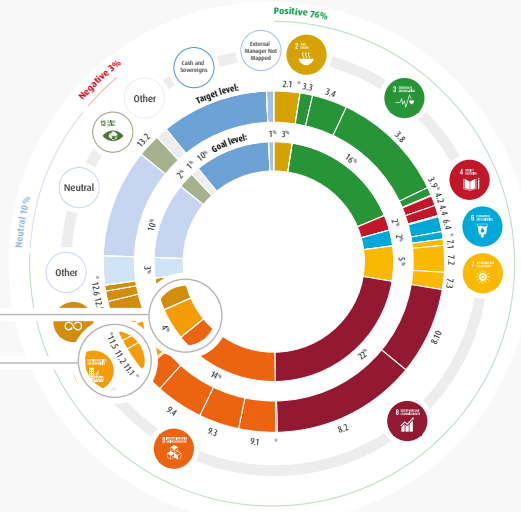
An important framework for understanding impact is the Sustainable Development Goals (SDGs) – 17 high-level goals which set out a roadmap for a more sustainable world by 2030.

Deeper assessment

Our SDG Alignment charts show the connection between a fund and the SDGs and are based on an analysis of the sources of revenue for each company we invest in. Specifically, we measure how the sources of revenue for each company correspond to the 169 targets that underlie the goals.

The analysis does not capture all the ways the companies contribute to the SDGs and is not an indicator of conduct or how well the company is managing a certain issue, but an assessment of whether the product or service produced or provided contribute positively, neutrally or negatively to achieving the SDG targets.

1. Aligning companies we invest in, and their underlying business segments, to an SDG
2. Aligning companies we invest in, and their underlying business segments, to an SDG target



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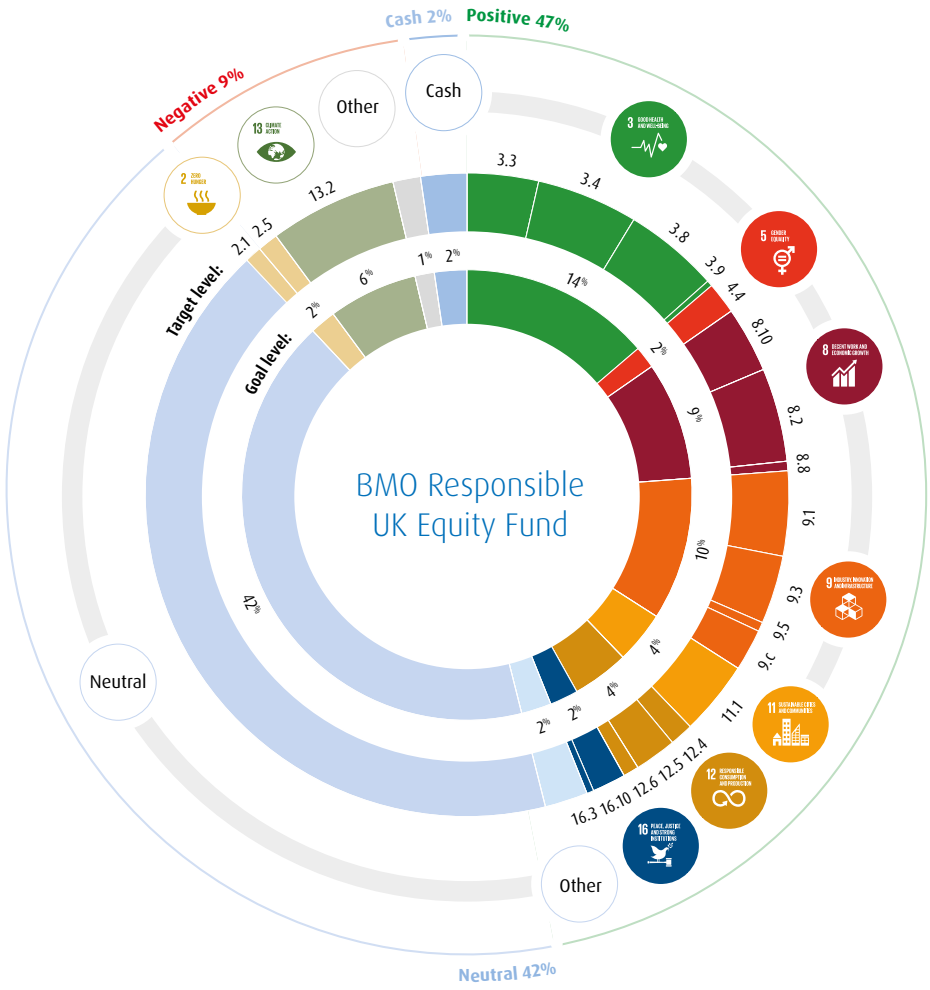
Investment:
SDG Alignment

We look at how the companies in this fund support the achievement of the SDGs through their products and services.

The SDGs most represented remain SDG3 – Good Health and Well-being and SDG9 – Industry, Innovation and Infrastructure. Examples of companies linked to SDG3 include **Clinigen**, which facilitates access to new medicines across over 100 countries worldwide, and surgical device firm **Smith & Nephew**. Companies providing innovative solutions aligned with SDG9 include **Johnson Matthey**, which provides technologies that reduce air pollution, and **Polypipe**, whose products include components for plumbing and sanitation.

42% of business activities undertaken by the companies in the portfolio have no specific SDG link. This includes, for instance, some of the wealth management divisions of the banks we invest in.

Some of the activities of our portfolio companies may conflict with certain SDGs, with these negative links also shown in the chart. One example is **National Grid**, which alongside its electricity grid business is also involved in the distribution of natural gas.



Source: BMO Global Asset Management, as at 31st December 2020, designed for illustrative purposes. Other = SDGs less than 1.5%.

2.1 End hunger and ensure access to safe and nutritious food; **2.5** Maintain the genetic diversity of plants and animals; **3.3** End AIDS, TB, malaria and other water-borne and communicable diseases; **3.4** Reduce mortality from non-communicable diseases and promote mental health; **3.8** Access to medicines and health-care; **3.9** Reduce deaths and illnesses from pollution and contamination; **4.4** Increase the number of technically and vocational trained individuals; **8.2** Achieve greater productivity through innovation; **8.8** Protect and promote safe working environments for all workers; **8.10** Increase access to finance; **9.1** Develop resilient and sustainable infrastructure; **9.3** Increase access to finance for SME's; **9.5** Encourage technological innovation and scientific research; **9.c** Ensure universal and affordable access to ICT; **11.1** Ensure universal access to safe and affordable housing; **12.4** Manage chemical usage and waste throughout their life cycle; **12.5** Reduce waste through prevention, reduction, recycling and reuse; **12.6** Encourage companies to adopt sustainable practices and enhance ESG reporting; **13.2** Integrate climate change plans into policies and strategies; **16.3** Promote the rule of law and access to justice at all levels; **16.10** Ensure public access to information and protect fundamental freedoms.

Sustainability leaders

Global sustainability challenges create opportunities for long-term investors, including renewable energy technologies, products to mitigate the inefficient use of global resources, and education for financial inclusion.

This does not constitute a recommendation to buy or sell any particular security

AstraZeneca

AstraZeneca's COVID-19 vaccine is playing a central role in the fight against the pandemic. It also has strong policies on making drugs accessible to underserved countries and communities.

Smurfit Kappa

As one of the largest paper-based packaging companies in the world, Smurfit Kappa is providing a sustainable alternative to plastics. It uses 75% recycled raw materials, and its products are recyclable, contributing to a circular economy.

UDG Healthcare

This company provides a range of products services to the healthcare industry, including advisory services, and in the past year has provided data and advisory support for a number of COVID-19 projects.

Biffa

Waste processor Biffa has invested in new specialist plastics recycling plants, able to process a wide range of plastic types, and sell the outputs to customers, helping them meet their own environmental targets.

Gym Group

Gym Group specialises in affordable, easy-to-access gyms, operating in 100 locations in the UK, aimed at enabling everyone to access fitness.

Example holdings held within the BMO Responsible UK Equity Fund.

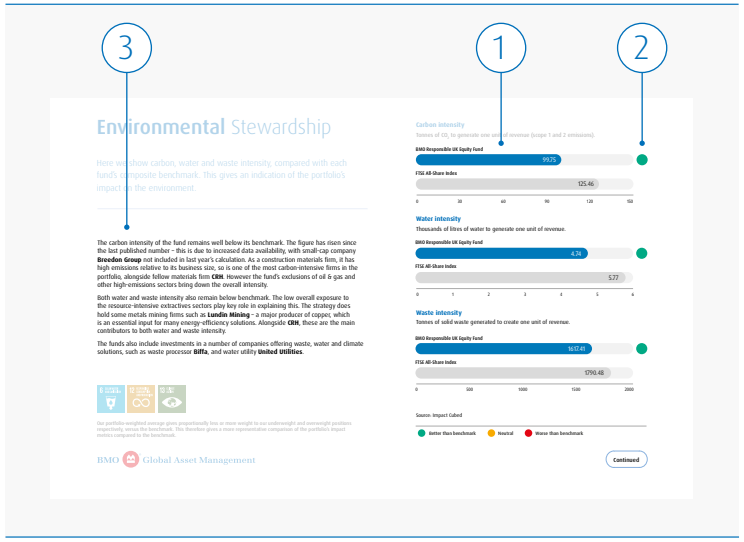
Continued

Understanding
our impact metrics

Over the following pages we show how the portfolio ranks relative to various sustainability-orientated metrics. These relate to **environmental stewardship**, **fairness and equality**, and **economic development**.

Assessing our impact

1. Using these metrics, we aim to show the fund's sustainability performance, in comparison with its benchmark – in this case the FTSE All-Share Index.
2. A 'positive' performance, indicated by a green circle, shows that the companies in the fund have stronger sustainability characteristics than the benchmark; with a 'negative' performance, represented by a red circle, indicates weaker sustainability characteristics. A rank in line with the benchmark results in a neutral ranking.
3. For each metric we explain the key reasons for the portfolio's sustainability performance, discuss notably contributing companies and highlight where we will be seeking to drive improvement over time.



> We want demonstrate the positive impact of our investment choices **but also highlight where the companies we invest in can do better.**
>
> **Vicki Bakhshi, Director, Responsible Investment**

Continued

Environmental Stewardship

Here we show carbon, water and waste intensity, compared with each fund's composite benchmark. This gives an indication of the portfolio's impact on the environment.

The carbon intensity of the fund remains well below its benchmark. The figure has risen since the last published number – this is due to increased data availability, with small-cap company **Breedon Group** not included in last year's calculation. As a construction materials firm, it has high emissions relative to its business size, so is one of the most carbon-intensive firms in the portfolio, alongside fellow materials firm **CRH**. However the fund's exclusions of oil & gas and other high-emissions sectors bring down the overall intensity.

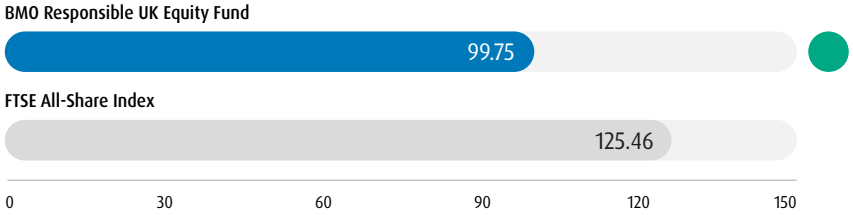
Both water and waste intensity also remain below benchmark. The low overall exposure to the resource-intensive extractives sectors play key role in explaining this. The strategy does hold some metals mining firms such as **Lundin Mining** – a major producer of copper, which is an essential input for many energy-efficiency solutions. Alongside **CRH**, these are the main contributors to both water and waste intensity.

The funds also include investments in a number of companies offering waste, water and climate solutions, such as waste processor **Biffa**, and water utility **United Utilities**.

Our portfolio-weighted average gives proportionally less or more weight to our underweight and overweight positions respectively, versus the benchmark. This therefore gives a more representative comparison of the portfolio's impact metrics compared to the benchmark.

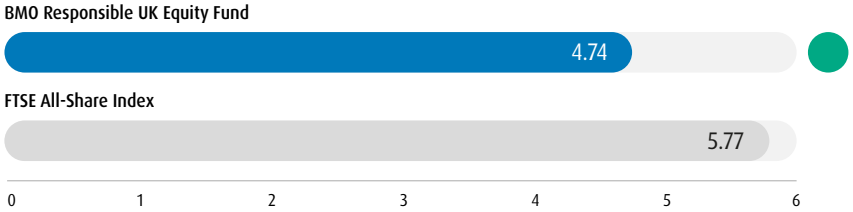
Carbon intensity

Tonnes of CO_2 to generate one unit of revenue (scope 1 and 2 emissions).



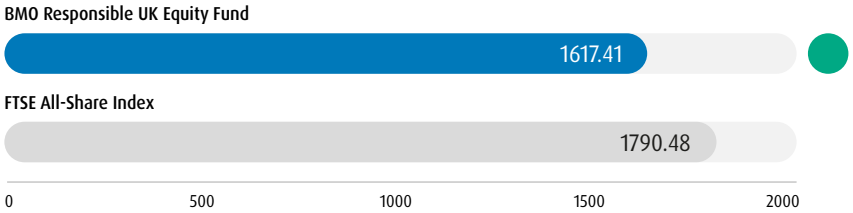
Water intensity

Thousands cubic metres of fresh water used per $1 million revenue.



Waste intensity

Tonnes of waste generated per $1 million revenue.



Source: Impact Cubed

Better than benchmark Neutral Worse than benchmark

Continued

Fairness and Equality

Here we provide two metrics to give an indication of the portfolios' performance in relation to aspects of fairness and equality: gender equality at Board level, and the ratio of top executive pay to the average employee's salary.

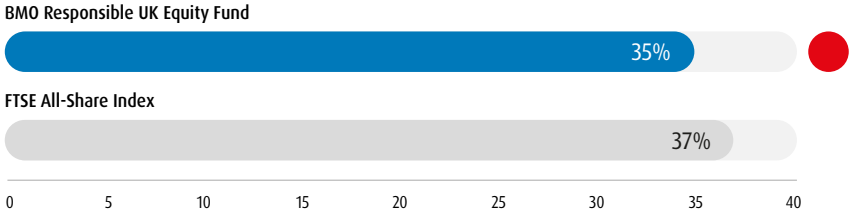
On Board-level gender equality, we are pleased to see significant improvements both in the UK market overall, and for this strategy, which we believe are in part a result of intensive engagement by BMO GAM and peers in recent years. Our fund has several companies with women representing half or more of their board, such as financial firms **Moneysupermarket.com** and **OSB**. At the timing of writing, no companies had an all-male board, though there remains room for improvement notably in companies in sectors such as construction.

On pay, companies with a high pay ratio include several companies in the typically high-paying banking and technology sectors, as well as retailers, such as **Tesco**, where the high ratio is a consequence of low average employee pay levels. The fund overall shows a lower gap between executive and average pay than the benchmark.

Both executive pay and Board diversity are fully integrated into our voting policy. We will vote against management where companies fail to meet our standards, and we regularly engage to achieve improvements in practice.

Gender

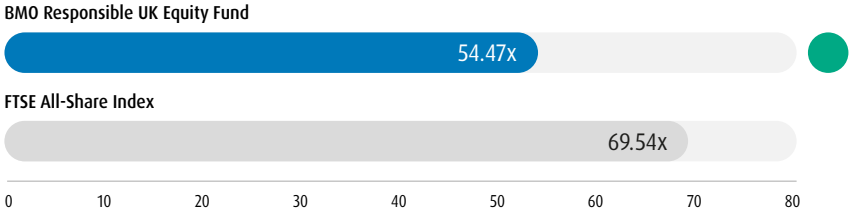
% female executives and board members.



Source: MSCI ESG

Executive pay

Ratio of chief executive to median employee pay.



Source: Impact Cubed

Better than benchmark Neutral Worse than benchmark

Continued

Economic Development

To gain a fuller understanding of impact, we consider here the effect of our investments on global inequality, by looking at how companies support economic growth in parts of the world with the greatest needs.

The data in this area reflect the fact that this is a UK-orientated fund, with a UK benchmark, so economic development indicators are of more limited relevance than for global strategies. However the fund does include some corporates with large emerging market operations, such as **Unilever**, which is UK-headquartered but operates in over 190 countries. Similarly, **Associated British Foods** has an international employee base including some workers in countries where unemployment rates are high.

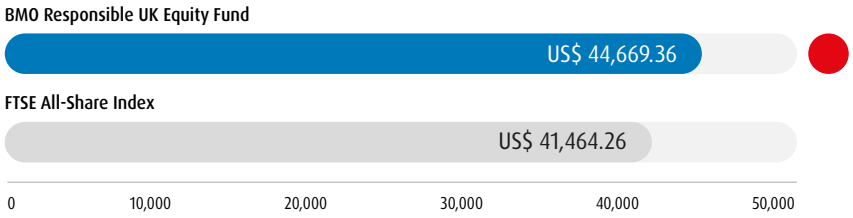
FOOTNOTES

Economic development: Company geographical spread of operations matched against GDP per capita. A higher figure indicates that the companies in the portfolio register less economic activity in low GDP/capita countries, in aggregate, than the benchmark, and hence has a lower impact on development. Source: Impact Cubed

Employment: company geographical spread of employment against unemployment rates provided by the ILO. A higher figure indicates that the companies in the portfolio register more activity in high unemployment countries, in aggregate, than the benchmark, and hence has a higher impact on employment. Source: Impact Cubed

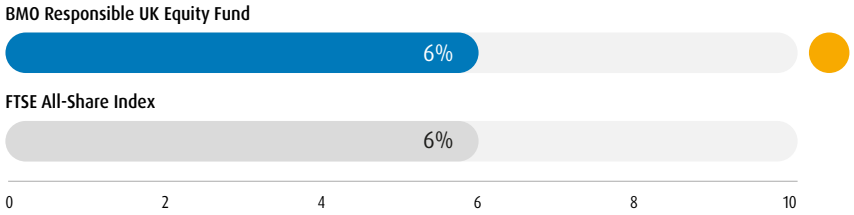
Economic development

Company geographical spread of operations matched against GDP per capita.*



Employment

Company geographical spread of employment against unemployment rates provided by the ILO.**



Source: Impact Cubed

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** A higher figure indicates that the companies in the portfolio register more activity in high unemployment countries, in aggregate, than the benchmark, and hence has a higher impact on employment.

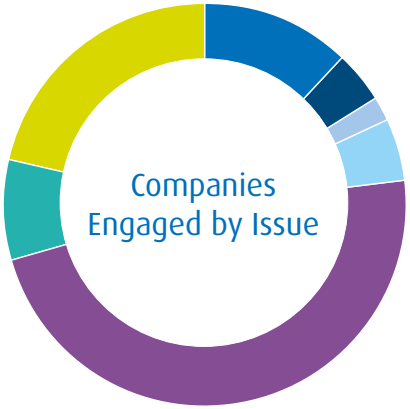
Better than benchmark Neutral Worse than benchmark

Continued

Stewardship overview

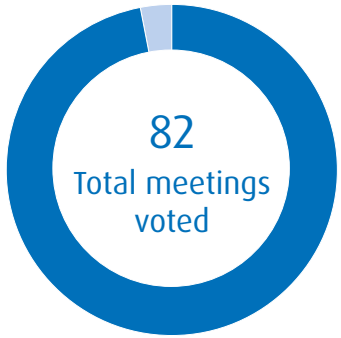
We engage with companies held in the fund to encourage them to improve their management of environmental, social and governance issues.

In 2020 we engaged with 46 companies held in the fund, with the aim of improving their management of environmental, social and governance issues. Key topics included engagement on labour standards, including in particular company responses to protecting staff in the COVID-19 pandemic; corporate governance, including pay and diversity; and climate change, where we called on companies to adopt strategies aligned with net zero emissions by 2050. We recorded 31 milestones, or instances of change in policies or practice following engagement.



Climate Change	12%
Environmental Standards	4%
Business Conduct	2%
Human Rights	5%
Labour Standards	47%
Public Health	8%
Corporate Governance	21%

Source: BMO Global Asset Management



With management	97%
Against management	3%

46 companies engaged

31 milestones

Continued

Engagement in Practice

Here we highlight two of our 2020 engagements with companies held in the fund, and the outcomes achieved.

This does not constitute a recommendation to buy or sell any particular security

GlaxoSmithKline

No SDG goal

GlaxoSmithKline plc (GSK) has received negative attention on its approach to executive remuneration, mainly due to the alignment of executive pay to that of GSK's global peers, most of which are large US pharmaceutical companies that are used to setting high pay levels. The company reached out to its shareholders as it was preparing to renew its policy.

We met the company, and provided detailed feedback to the remuneration committee. We encouraged pension contributions for serving executives to be reduced to a maximum of 15% of salary, which is more closely aligned to the contribution level of the wider workforce. Following the consultation process, the company informed us that the pension contribution level had been reconsidered – by 2023, it will be brought down to 7% of salary, the same as the company offers to its ordinary employees.

Our view: UK-listed companies have been under pressure to reduce pension contributions for executives. The high contributions are partly a legacy of the switch from generous defined-benefit to defined-contribution pension schemes. Due to investor pressure, companies have implemented plans similar to GSK in many cases. Whilst we still have some concerns on relatively generous long-term pay incentives, the changes led us to support the new remuneration policy.

Tesco

8 DECENT WORK AND ECONOMIC GROWTH

Comparable and consistent data are needed by investors to judge how companies are performing versus peers – yet on social issues, we frequently lack such data. We have encouraged several large employers, including Tesco, to disclose to the Workforce Disclosure Initiative (WDI), which aims to improve the availability and quality of social data.

This was part of a wider engagement agenda – encompassing a variety of labour standards issues – with Tesco, including the payment of living wages to UK-based shop workers. Although the company theoretically supports this, it has reservations about the calculation methodology and prefers to factor broader social benefits into its accounting, which means that it is not yet an Accredited Living Wage employer. We have also spoken to Tesco about its approach to protecting supermarket workers and handling suppliers potentially facing financial difficulties during the pandemic.

Our view: We welcomed Tesco's decision to respond to the WDI survey in both 2019 and 2020, one of only 141 companies globally to do so. We are continuing our dialogue on living wages and employee engagement, and are encouraged by the company's responsiveness to investor dialogue.

Continued

Our Responsible Strategies range is built on a philosophy of:

Avoid

Avoid companies with damaging or unsustainable business practices

Invest

Invest in companies making a positive contribution to society and the environment

Improve

Use our influence as an investor to encourage best practice management of environmental, social and governance issues through engagement and voting

How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria.

INVESTMENT WEEK
SUSTAINABLE & ESG INVESTMENT AWARDS 2020
WINNER
Best Sustainable & ESG Research Team

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