

Impact report

BMO Responsible UK Income Fund



Measuring Impact

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



The BMO Responsible UK Income Fund aims to provide income and long-term capital growth, investing in a diverse portfolio of mainly 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 across the portfolios 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.

The income and capital due from bonds is dependent upon the issuing company's ability to pay and any default will adversely affect the value of your investment.

Investment: SDG Alignment

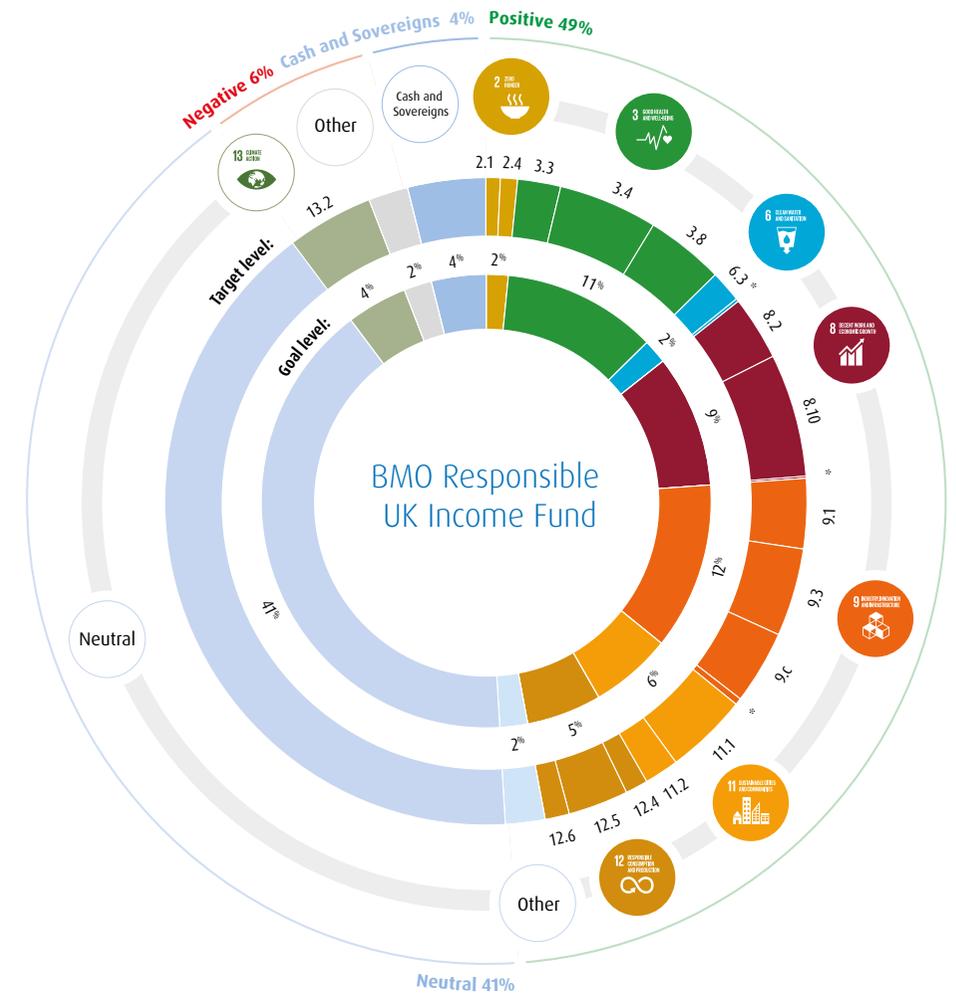
We look at how the companies in this fund support the achievement of the SDGs through their products and services.

The SDGs most represented remain SDG3 – Good Health and Well-being; SDG8 – Decent Work and Economic Growth; and SDG9 – Industry, Innovation and Infrastructure. Examples of companies linked to SDG3 include **CareTech Holdings**, which provides residential care for adults and children with health challenges; whilst companies aligned with SDG9 include **Nationwide Building Society**, which provides finance for housing.

The fund holds a number of green bonds, many of which support SDG7 – Affordable and Clean Energy. These include bonds issued by electric utility companies in order to finance an expansion of their renewable energy capacity.

41% 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.

6% of the activities of our portfolio companies may conflict with certain SDGs. 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%. * = SDG targets within the denoted goal that are less than 0.5%.

2.1 End hunger and ensure access to safe and nutritious food; **2.4** Implement climate-resilient and sustainable food production; **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; **6.3** Improve water quality by reducing pollution; **8.2** Achieve greater productivity through innovation; **8.10** Increase access to finance; **9.1** Develop resilient and sustainable infrastructure; **9.3** Increase access to finance for SME's; **9.c** Ensure universal and affordable access to ICT; **11.1** Ensure universal access to safe and affordable housing; **11.2** Provide access to safe and affordable transport systems; **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.

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



Severn Trent



Go-ahead Group



Smurfit Kappa



Biffa

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.

Supplies 2 billion litres of drinking water, and processes 3.2 billion litres of waste water, for communities in central England

Provides both rail and bus public transport services, and has a target for a zero-emission bus fleet by 2035

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.

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.

Example holdings held across our BMO Responsible UK Income Fund

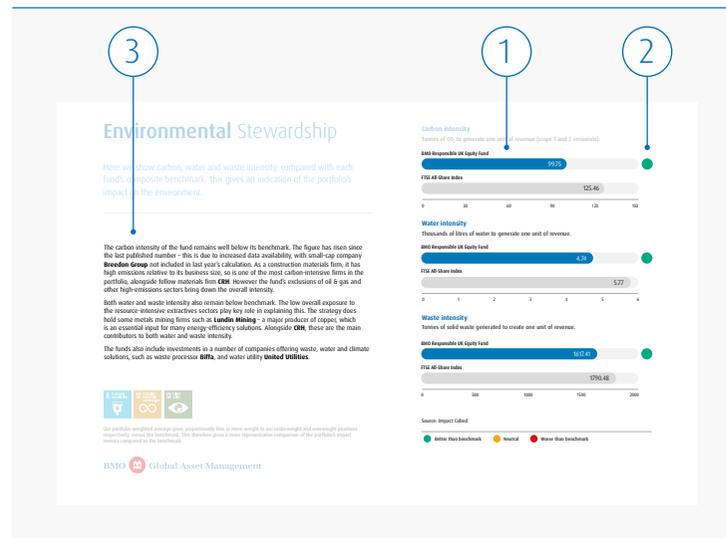
Understanding our impact metrics

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

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, and is almost unchanged since last year. The fund’s exclusions of oil & gas and other high-emissions sectors are a significant factor here, and bring down the overall intensity compared with the benchmark. The most significant contributors to the portfolio carbon intensity include energy infrastructure firm **National Grid** and packaging group **Mondi**. Both have ambitious targets to cut emissions – National Grid has a net zero emissions target, and Mondi has 2030 and 2050 targets accredited by the Science-based Targets Initiative.

Waste and water efficiency also fall well below the benchmark, with the exclusion of some key highly resource-intensive companies and sectors again an important factor. Gold mining specialist **Yamana Gold** is the single largest contributor to waste intensity, with **Mondi** and water firm **United Utilities** significant for water intensity.

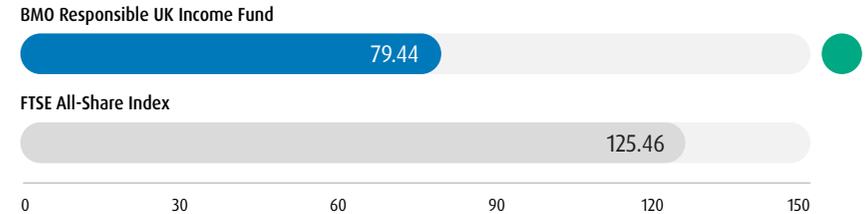
The funds also include investments in a number of companies offering waste, water and climate solutions, such as waste processor **Biffa**, and water utility **United Utilities**.



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.

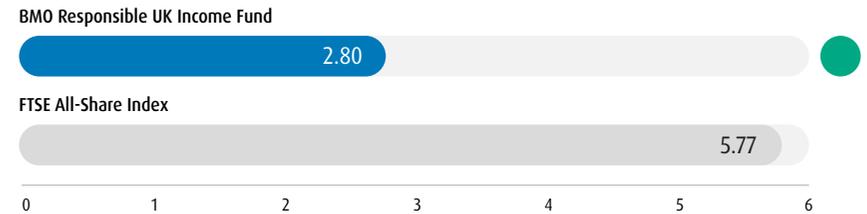
Carbon intensity

Tonnes of CO₂ to generate one unit of revenue (scope 1 and 2 emissions).



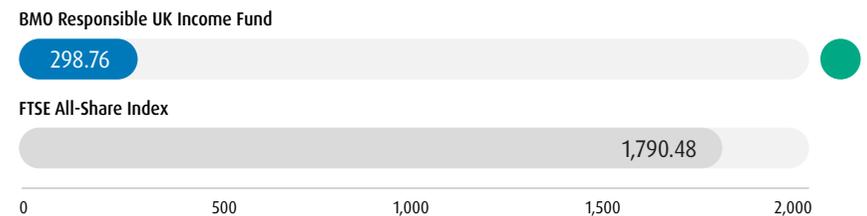
Water intensity

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

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.

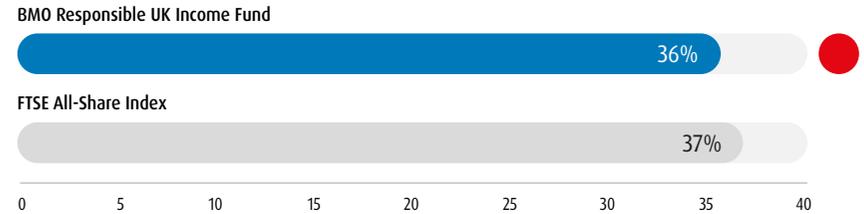
On Board-level gender equality, we are pleased to see significant improvements both in the UK market overall, and for this strategy, which we believe are in part a result of intensive engagement by BMO GAM and peers in recent years. Our fund has several companies with women representing half or more of their board, such as **Moneysupermarket.com** and infrastructure firm **Keller Group**.

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

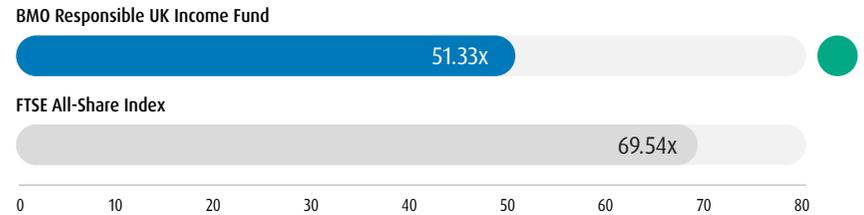
% female executives and board members.



Source: MSCI ESG

Executive pay

Ratio of chief executive to median employee pay.



Source: Impact Cubed

● Better than benchmark ● Neutral ● Worse than benchmark



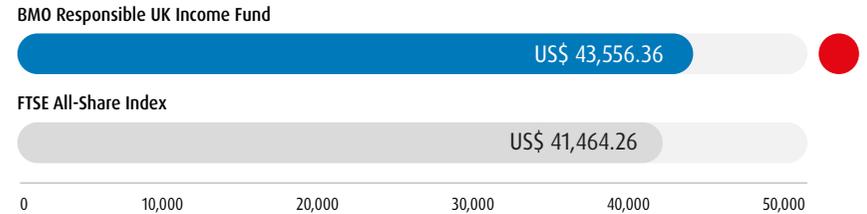
Economic Development

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, as well as some non-UK holdings in countries with higher unemployment rates, such as **Energias de Portugal** and global telecommunications operator **Telefonica**.

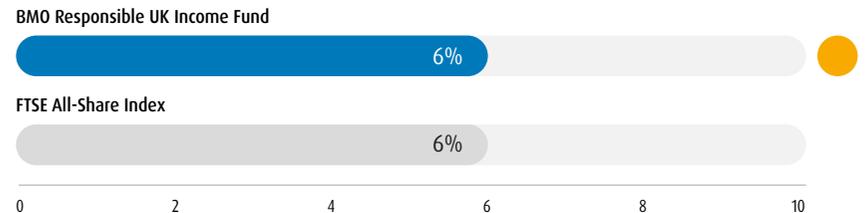
Economic development

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

* 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.

** 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

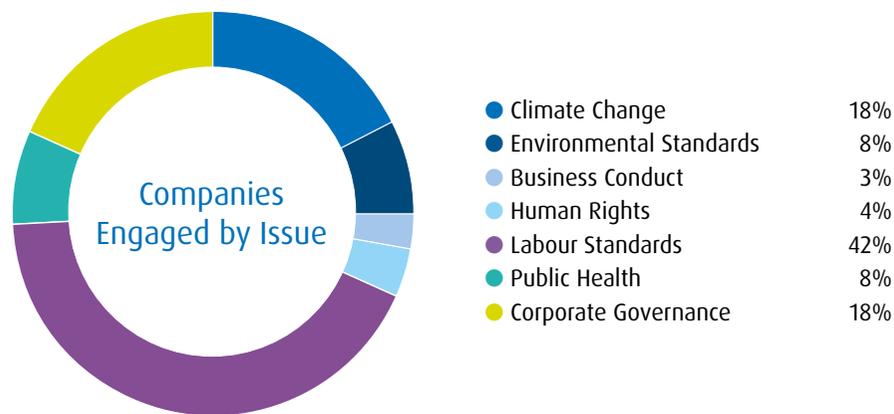




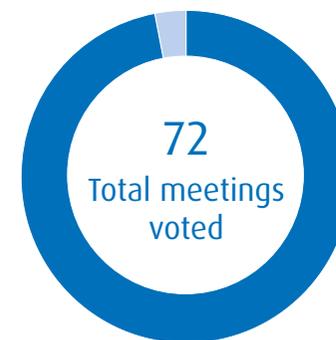
Stewardship overview

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 64 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 37 milestones, or instances of change in policies or practice following engagement.



Source: BMO Global Asset Management



With management	97%
Against management	3%



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.

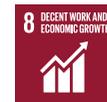
We met the company, and provided detailed feedback to the remuneration committee. We encouraged pension contributions for serving executives to be reduced to a maximum of 15% of salary, which is more closely aligned to the contribution level of the wider workforce. Following the consultation process,

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



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.

Our Responsible Strategies range is built on a philosophy of:



Avoid companies with damaging or unsustainable business practices



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



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.



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Telephone calls may be recorded.



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BMO Global Asset Management

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English language copies of the Fund's Prospectus and English language copies of the key investor information document (KIID) can be obtained from BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, telephone: Client Services on 0044 (0)20 7011 4444, email: client.service@bmogam.com or electronically at www.bmogam.com. Please read the Prospectus before taking any investment decision.

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