

Impact report

BMO Sustainable Opportunities European Equity Fund



Measuring Impact

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



The objective of the BMO Sustainable Opportunities European Equity Fund is to achieve long term capital growth by investing in equities of European companies. We seek to avoid investments in companies with damaging or unsustainable practices; invest in high quality companies that make a positive contribution to the environment/society and that derive a majority of their revenues from activities that are positively linked to sustainability themes; and improve companies' conduct through constructive engagement and voting to encourage best practice management of ESG issues.



Detailed SDG alignment

Analysis of how the products and services provided by companies we invest in across the portfolio 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 portfolio 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.

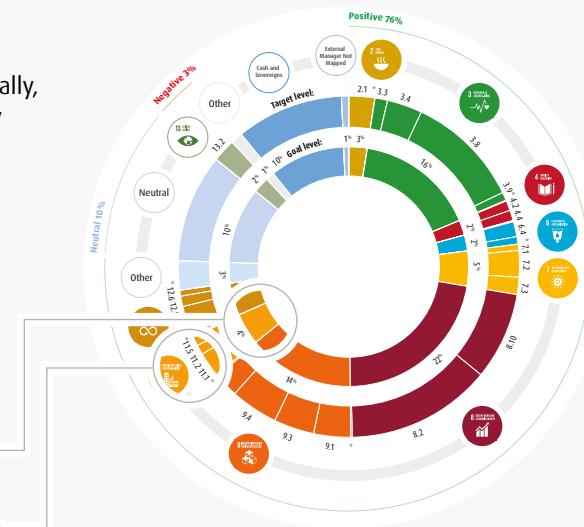


Deeper assessment

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



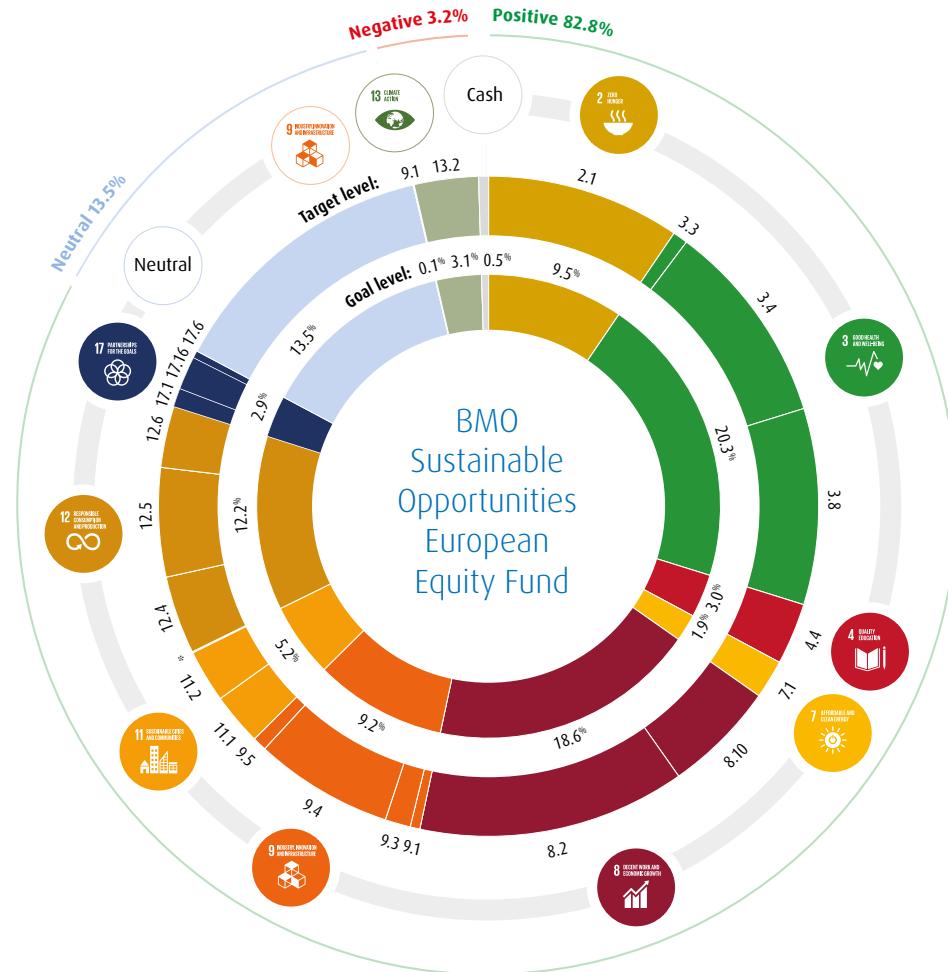
Investment: SDG Alignment

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 SDG8 – Decent Work and Economic Growth. Examples of companies linked to SDG3 include Covid-19 vaccine developer **AstraZeneca**, and Swedish firm **Elekt**a, which specialises in radiotherapy equipment for cancer treatment. Companies providing innovative solutions aligned with SDG8 include **Prudential**, provider of a range of insurance services including health insurance, supporting Target 8.10 which calls for an expansion in access to financial services.

13.5% 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 financial services firms 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 **Melrose Industries**, which has some investments in companies in the aerospace and automotive sectors that we have judged to make a negative contribution to SDG13 – Climate Action.



* = SDG targets within the denoted goal that are less than 0.3%

Source: BMO Global Asset Management, as at 31st December 2020, designed for illustrative purposes, subject to change.

2.1 End hunger and ensure access to safe and nutritious food; **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; **4.4** Increase the number of technically and vocational trained individuals; **7.1** Ensure universal access to modern energy services; **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; **9.4** Upgrade and retrofit industries to increase sustainability; **9.5** Encourage technological innovation and scientific research; **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; **17.1** Allow developing countries to utilise domestic resources; **17.6** Enhance international cooperation and access to knowledge; **17.16** Leverage multi-stakeholder partnerships to share resources.

Sustainability leaders

Global sustainability challenges create opportunities for long-term investors, including technologies that help mitigate greenhouse gas emissions, hospital equipment that deliver better treatment at a lower cost, and software that enables financial inclusion.



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



This Dutch company is one of the leading European manufacturers of EV* charge points. They have an enviable first-mover advantage in key countries and a wealth of knowledge in their legacy smart grid business.



Speciality ingredient company DSM is allocating capital towards solving some of the world's most pressing sustainability challenges. Their pipeline is full of innovative solutions, such as their enzyme Bovaer which suppresses methane production in cow guts.



National Express

This company is an operator of affordable public transport services in cities across Europe and the US. National Express has pledged it wouldn't buy another diesel bus in the UK, and it has set an ambitious plan to transition its fleet to net zero.



Philips

Philips is the global leader in ultrasound and image guided therapy. They provide hospitals with equipment like their image guided cardiovascular therapy, which allows early intervention, enables minimally invasive surgery and reduces time in hospital.



Wolters Kluwer

This company develops a range of software solutions, including in healthcare, where their UpToDate package puts the latest science and evidence into the hands of doctors and physicians to get the best outcomes and improve patient care and quality.

*Electric Vehicle

Example holdings from portfolio.

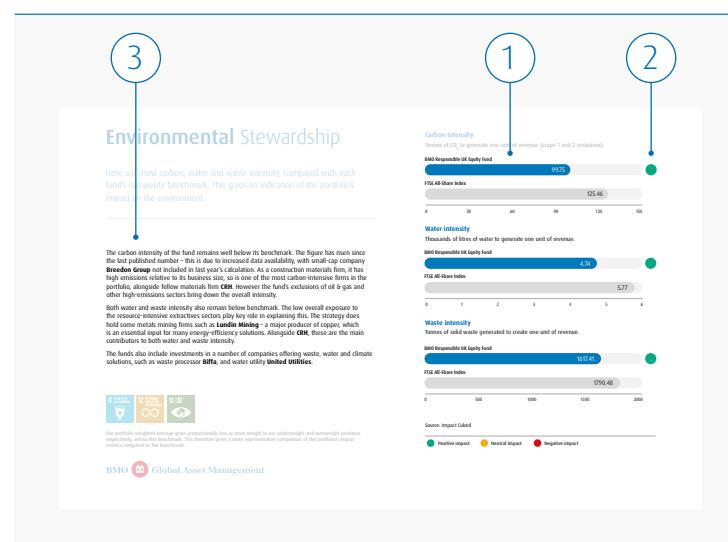
Understanding our impact metrics

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. For details of the fund's benchmark - the MSCI Europe NR 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.

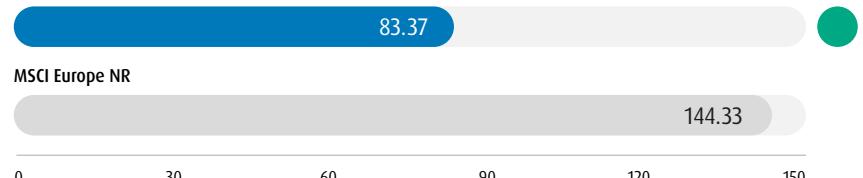
The portfolio-weighted carbon intensity of the fund is over 40% lower than its benchmark. The fund's exclusions of companies with fossil fuel reserves bring down the overall intensity, as well as its focus on investing in positive sustainability leaders. The biggest single contributor to the carbon intensity is gases and technology specialist **Air Liquide**, which has relatively high greenhouse gas emissions as a consequence of the industrial production processes it uses. The company has a strong climate strategy, with a net zero target for 2050, a 2035 target of a 33% cut, and a range of climate solutions, such as investments in green hydrogen development. The Transition Pathway Initiative, a global corporate climate action benchmark, gives the company its highest rating of 4 for management quality.

Both water and waste intensity are well below benchmark. Again, the low overall exposure to the resource-intensive extractives sectors play key role in explaining this. One of the more waste and water-intensive companies in the fund is paper packaging specialist **Smurfit Kappa**. We have engaged extensively with this company, including on its water management, and see it as having a strong commitment to sustainability. **Royal DSM** is another of the higher contributors to water intensity, as a consequence of its nutrition businesses.

Carbon intensity

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

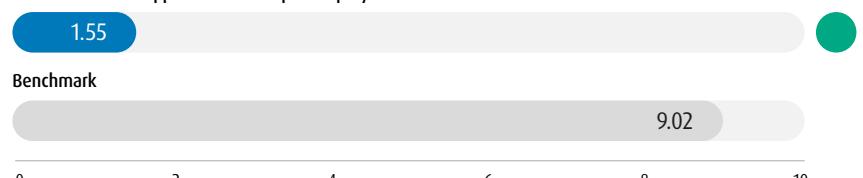
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Water intensity

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

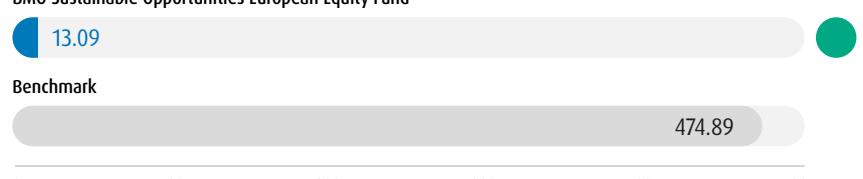
BMO Sustainable Opportunities European Equity Fund



Waste intensity

Tonnes of waste generated per \$1 million revenue.

BMO Sustainable Opportunities European Equity Fund



Source: Impact Cubed

Positive impact Neutral impact Negative impact



Fairness and Equality

Here we provide two metrics to give an indication of the portfolio's 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 have seen significant improvements across many European markets, which we believe are in part a result of intensive engagement by BMO GAM and peers in recent years. On this metric, fund performance is similar to the benchmark. **GSK** is an example of a company with a good gender Board balance, with five female directors out of 12, as well as – more unusually – having a female chief executive. 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 real estate.

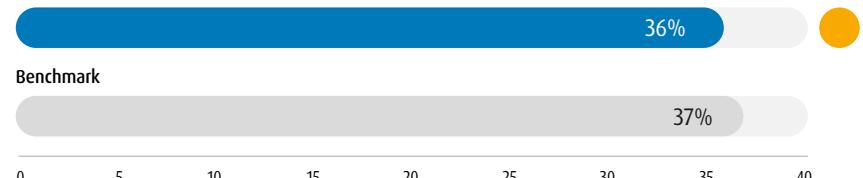
The pay metric estimates the multiplier between average and CEO pay, which is somewhat lower for this fund than for the benchmark. An example of a company with a relatively flat pay structure is **DNB**, the Norwegian financial services company, which has relatively modest CEO pay compared with other companies in the financial sector.

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.

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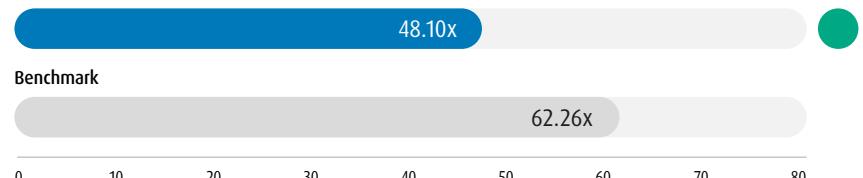


Source: MSCI ESG

Executive pay

Ratio of chief executive to median employee pay.

BMO Sustainable Opportunities European Equity Fund



Source: Impact Cubed



Positive impact Neutral impact Negative impact

Economic Development

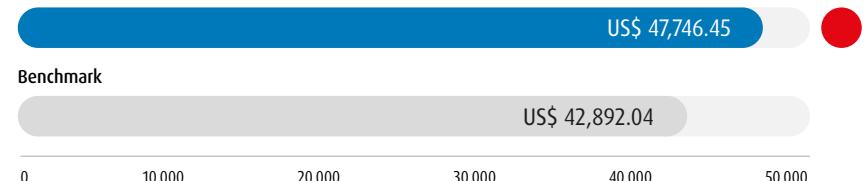
To gain a fuller understanding of impact, we consider here the effect of our investments on global inequality, by looking at how companies support economic growth in parts of the world with the greatest needs.

The data in this area reflect the fact that this is a European-orientated fund, so economic development indicators are of more limited relevance than for global strategies. Overall, the fund invests in companies with operations in slightly wealthier countries with lower unemployment compared with the benchmark. Companies such as **UBS**, headquartered in Switzerland, contribute to this outcome – but the data does not capture the impact they have through their lending and investment activities, where we see them as taking a leadership position on issues such as climate change.

Economic development

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

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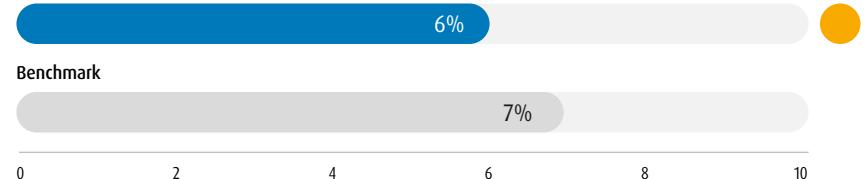


Benchmark

Employment

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

BMO Sustainable Opportunities European Equity Fund



Source: Impact Cubed

* 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.

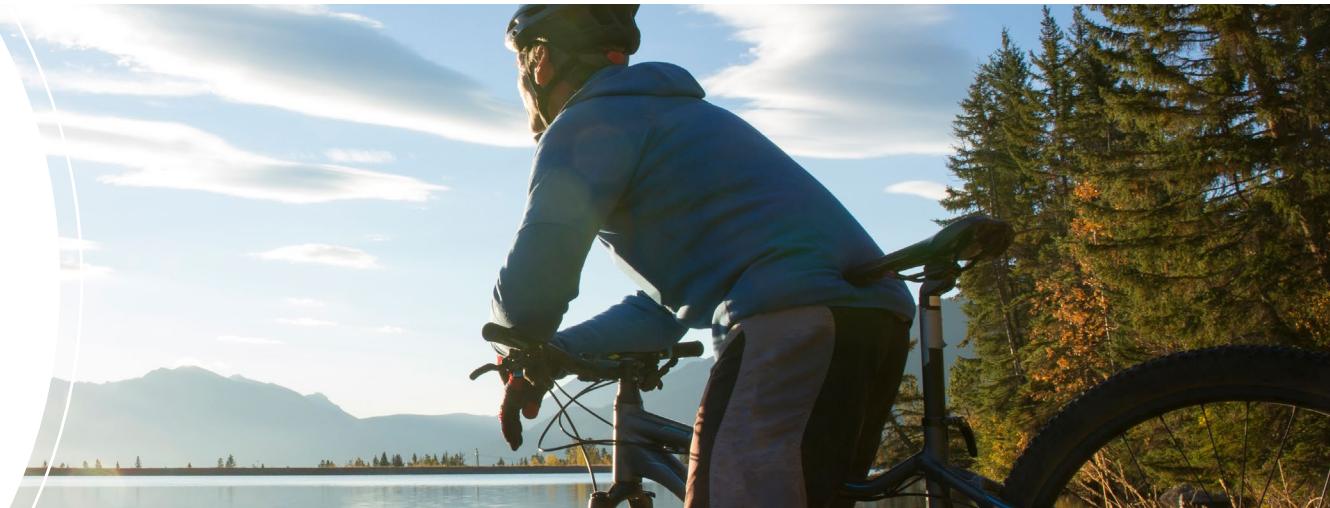
** Company geographical spread of employment against unemployment rates provided by the ILO. A higher figure indicates that the companies in the portfolio register more activity in high unemployment countries, in aggregate, than the benchmark, and hence has a higher impact on employment.

Positive impact Neutral impact Negative impact



Stewardship overview

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

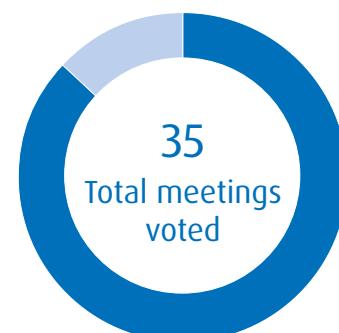


In 2020 we engaged with 19 companies held in the fund, representing 59% of the portfolio by value, with the aim of improving their management of environmental, social and governance issues. Key topics included engagement on labour standards, including in particular company responses to protecting staff 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.



Source: BMO Global Asset Management

Issue Category	Percentage
Climate Change	10%
Environmental Standards	6%
Business Conduct	1%
Human Rights	3%
Labour Standards	39%
Public Health	11%
Corporate Governance	30%



With management	87%
Against management	13%



Engagement in Practice

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



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MOWI®



Mowi

In the search to find more sustainable sources of animal protein, some have pointed to farmed fish production as potentially less damaging than wild fishing. However, controversies still mar the industry, from the excessive application of antibiotics, to the use of vast quantities of wild fish which are used for farmed fish food.

As the largest and most vertically integrated salmon farmer globally, our engagement with Mowi has allowed us to build our knowledge about their practices, such as how salmon farming avoids the use of antibiotics by using

vaccinations and technology in pens. Over the course of 2020, we met with the company's chief sustainability officer and management team, and exchanged information on issues including animal welfare and disclosure.

Our view: Mowi has made good progress developing its sustainability strategy. We are encouraged to see it using technologies to address some outstanding challenges, including a partnership with Google to gather real time intelligence on salmon growth, feeding, and pest control. On fish feed, we have discussed alternatives to fish oils like algae oil – which DSM, another holding in the fund, produces. We see the company as being on an upward trajectory and having the potential to set best practices in the market.

KERRY



Kerry Group

Food producers have a wide range of ESG impacts, including the sustainability of their agricultural supply chain; through to workforce protection in production facilities; and to the nutritional impact of the goods they sell. Our engagement with ingredients firm Kerry Group sought to encourage a strategic and wide-ranging approach to these issues, in order to help it maintain a strong market position.

Our dialogue on sustainability with Kerry dates back to 2017, where our initial focus

was on water management. We have found the company open to ideas on how to improve its strategy, which we discussed both with the CEO and other senior executives, and with their sustainability team. Over time we have expanded the engagement to cover wider issues, and in 2020 welcomed a new, comprehensive sustainability strategy.

Our view: The company's commitment to sustainability has already seen it over-achieve on some of its targets in areas including water and waste, and win Green Gold membership from the Irish Food Board. We are continuing to engage on topics including nutrition, and on linking sustainability to executive pay.

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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