BMO Responsible Global Equity Strategy

ESG Profile and Impact Report 2021

BMO Global Asset Management

The Responsible Global Equity Strategy is part of a wider range of BMO sustainability-focused global equity products which follow our **Avoid – Invest – Improve** framework

Investment Philosophy

Avoid
Exclusions

Explicitly exclude companies based on clearly defined product & conduct ethical criteria

Invest
Sustainability-focused

Invest in companies providing sustainability solutions and/or companies making a positive contribution to society and/or the environment

Improve
Driving change

Engage to encourage companies to improve both their product and conduct, including supporting the ambitious UN Sustainable Development Goals

BMO Responsible Global Equity

BMO Sustainable Opportunities Global Equity

BMO SDG Engagement Global Equity

Active ownership – engagement and voting
ESG integration
Impact reporting

Investing with **impact in mind**

In last year's executive summary we acknowledged a turbulent global backdrop, one already threatened by the spectre of surging COVID-19 cases, but little did we imagine quite how far-reaching and disruptive this global pandemic would prove to be to the very fabric of our global community. The human toll has been shocking, the financial and mental impact immense, and the collective scars will take a very long time to heal.

However, despite the debilitating strains of the past year, we stand by our conviction that we should be optimistic about the future, because we believe in the enduring ability and ingenuity of individuals, companies and society to come up with sustainable products and solutions to meet challenges and create opportunity from adversity. And there is no finer example of this than the fast-tracked vaccine development programmes that are currently lighting the path out of this crisis.

Moreover, the events of the last year have also accelerated a broader understanding of just how unsustainable many aspects of modern life had become – from the under investment in public health and disease prevention systems, to the excessive degree of carbon-intensive global travel, to the growing social inequalities that the past few decades of economic growth have papered over. Prolonged periods of lockdown have presented an opportunity to pause, reflect and consider how to restart life in a better, more sustainable manner, and we will continue to use the Sustainable Development Goals (SDGs) as our North Star for enabling this to happen.

Our Responsible Global Equity Strategy, which is now well into its third decade, strives to play its part in mobilising private capital towards securing a more sustainable future for all. We are committed to our task. It is entirely valid to explore what kind of impact can be achieved by investing in listed equities, and our experience leaves us more convinced than ever that it is possible to deliver on our twin ambitions of generating attractive risk-adjusted investment returns and achieving positive non-financial impact.

This is now our sixth annual report for the Strategy, and this year we are pleased to introduce our updated sustainability themes – we have expanded to seven, from the previous six – and in the year that the UK finally plans to host the 2021 United Nations Climate Change Conference (COP26) we provide more granular insight around our approach to climate change reporting, including company-level data on net zero alignment, and what we think this means at a strategy level.

After what has been an extraordinary year, we hope that this report is an enjoyable, enlightening read, and continues to deepen your understanding of our Strategy. As ever, we welcome all feedback, and we thank you for the trust that you place in our Strategy and our team.

Jamie Jenkins & Nick Henderson

Jamie Jenkins
Managing Director,
Co-Head of Global Equities

Nick Henderson
Director, Portfolio Manager,
Global Equities

Key risks

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

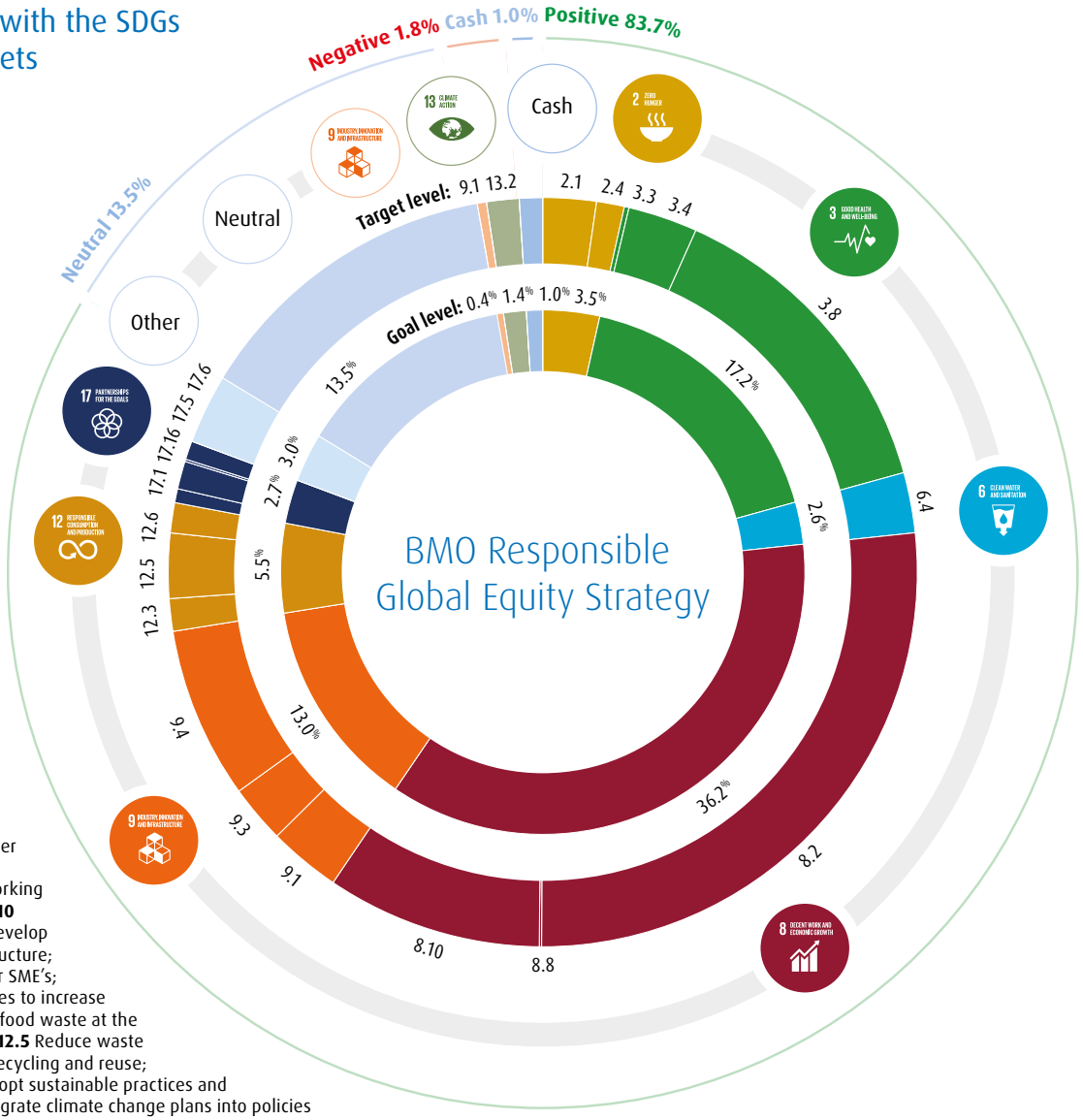
The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any stocks or products that may be mentioned.

Investing for a **better future**

The products and services that the companies held in our Responsible Global Equity Strategy provide can lead to positive impacts on the environment and/or society. We use the UN Sustainable Development Goals (SDGs) as our starting point to map such impacts.

Strategy alignment with the SDGs and underlying targets



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; **6.4** Increase water-use efficiency to address water scarcity; **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; **9.4** Upgrade and retrofit industries to increase sustainability; **12.3** Halve global food waste at the production and consumer level; **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; **17.16** Leverage multi-stakeholder partnerships to share resources; **17.5** Implement investment promotion regimes for developing countries; **17.6** Enhance international cooperation and access to knowledge.

Source: BMO Global Asset Management, as at 31st December 2020, designed for illustrative purposes, subject to change.
Other = SDGs less than 2%.

As in past reports, we have assessed the connection between our Strategy and the SDGs, based on an analysis of the main sources of revenue for each of the companies in the Strategy. Specifically, we measure how the individual sources of revenue for each company correspond to the 169 targets that underlie the goals – so that one company, depending on its mix of goods and services, may have links to more than one goal. The results of this analysis are summarised here, with a full breakdown of the Strategy and relevant SDG links provided in the following pages.

Our analysis found that 84% of the activities of the companies we invest in are linked to one of the Sustainable Development Goals – a rise from 77% last year.

The strongest connections we have found remain with SDG3 – Good Health and Well-being, and SDG8 – Decent Work and Economic Growth. The Strategy has a number of healthcare and pharmaceutical companies that support targets within SDG3, including target 3.8, which sets an ambition of access to affordable healthcare for all.

Our investments in technology and industrial companies providing sustainability solutions align with target 8.2, which calls for technological innovation to support increased productivity and economic growth. This includes companies providing, for instance, testing and measurement services; energy-efficient electronic components; and software designed to improve business efficiency. Several companies also support SDG9 – Industry, Innovation and Infrastructure, including banks providing finance to small and medium-sized enterprises, supporting target 9.3 on improving access to finance for such companies.

Negative links

Our analysis also identifies some of our companies' negative contributions to the SDGs. That is, those products or services that companies in our Strategy offer which might hinder the achievement of some of the SDGs.

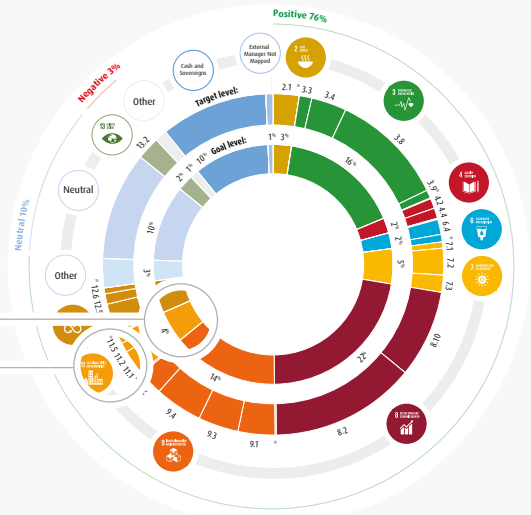
Whilst the Strategy screens remove many such companies (such as tobacco or weapons producers), we did still identify some negative links. Accounting for just under 2% of underlying company revenues, these comprised vehicle production by **Toyota Motor**, where in the absence of data on how revenues are split between conventional and hybrid/electric vehicles, we have classified all revenues as negative; and business lines at chemicals firm **Linde** and quality assurance firm **Intertek** which provide services to the energy sector.

Since our methodology is based on the analysis of revenue streams, it does not recognise all the ways that companies in the Strategy contribute to the SDGs. Companies also have an impact – either positive or negative – on the SDGs through the way they treat their staff and wider stakeholders, and how they manage their own environmental footprint. We aim to capture this through the Impact Metrics on p24-27, as well as through our engagement.

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

Sustainability **themes**

"The COVID-19 pandemic has demonstrated that meaningful digital access is indispensable to global resilience and prosperity."

International Chamber of Commerce

Connect & **protect**

Technological advances create huge opportunities to accelerate our collective connectivity, as well as bringing in a swathe of technologies to progress social well-being, supply chain efficiencies and sustainable cities. We look for those companies that are promoting public 'good' and doing so in a safe, secure, and customer-centric way.

The power of technology is phenomenal, touching almost all aspects of our lives. However, in order to drive improvements within society it must be used in the right way; with customers' rights at the fore. Indeed, there are numerous examples of the misuse of customer data, which can lead to both financial and reputational damage. Within the Responsible Global Equity Strategy, we champion those companies that are progressing connectivity, enabling a safer environment for us all, but doing so in a way that benefits all stakeholders, not simply leveraging customer data to enhance the bottom line.

Businesses such as **Keyence** and **Crown Castle International** embody this focus on delivering critical infrastructure upon which connectivity can be built; such as that to deliver safer, smarter factories, and providing cities with mission-critical digital infrastructure.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Apple Information Technology United States	Apple aims to have a carbon-neutral supply chain by 2030 by constantly improving its manufacturing supply chain and products lifecycle. We also welcome their strong line on data privacy	⊕ **Target 8.2; Share of company revenue 73%** Enables gains in economic productivity through the use of technology and payment services	0	0
Crown Castle International Real Estate United States	Provider of critical telecommunications infrastructure, from macro towers to local small cells, enabling greater connectivity including 5G, IoT and connected vehicles	⊕ **Target 9.1; Share of company revenue 100%** Provides digital infrastructure through the installation of fibre networks	0	0
KDDI Communication Services Japan	One of Japan's largest telecom companies with a phenomenal track record of consistent operating profit growth. A leading driver of connectivity, IoT, and the ever-expanding data economy	⊕ **Target 8.2; Share of company revenue 99%** Supports economic productivity and connectivity with its telecommunications services ⊕ **Target 9.1; Share of company revenue 1%** Provides resilient communciations infrastructure	0	0
Keyence Information Technology Japan	With a proven ability to remain highly profitable even in a downturn, Keyence fits into our Connect & protect theme in making production lines safer, and more efficient	⊕ **Target 8.2; Share of company revenue 100%** Supports economic efficiency by producing sensors, lasers and measuring equipment to make manufacturing and research processes more effective	0	Milestone – Significantly increased dividend payout
Roper Technologies Industrials United States	Diversified technology business providing innovative engineering solutions ranging from industrial (water efficiency) to healthcare (diagnostics) end markets	⊕ **Target 8.2; Share of company revenue 42%** Enables greater economic productivity by providing communications and software solutions ⊕ **Target 9.1; Share of company revenue 48%** Supports more resilient infrastructure by providing water meters and related technologies	0	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Digital **empowerment**

The explosion of data in recent years has been nothing short of mind-blowing, especially when we consider that 90% of all data created was in the last two years alone. There is a huge opportunity for this data to be harnessed for good; better informing our climate change efforts, enabling better healthcare, and empowering smaller businesses, leading to broader competition and employment opportunities.

Emerging technologies such as blockchain bring opportunities to aggregate vast data sets which offer improved insights into applications spanning ESG issues, from enabling a circular economy, to safer, more secure cross border transactions, and storing medical data. Central to this digital progress is the design and manufacture of low-power consumption, advanced semiconductors, such as those produced by **Taiwan Semiconductor Manufacturing Company (TSMC)**, the world's leading chip foundry.

Similarly, we firmly believe in the power of small and medium-sized enterprises (SMEs) to enhance competition to bring greater choice and better price to consumers. In their own ways, **eBay** and **PayPal** embody the promotion of SMEs, providing a platform on which to trade and interact with millions of customers, and a safe, secure and reliable payment processing platform.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Accenture Information Technology Ireland	High quality global consultancy, with incredible brand strength, helping drive enterprise level efficiency. Sustainable consultancy also a growing part of the business	N/A	2: Corporate Governance	0
eBay Consumer Discretionary United States	Enabling entrepreneurs and small-medium sized companies to grow their businesses and reach a global audience through the eBay ecosystem, now reinforced by their managed payments service	N/A	1: Business Conduct, Corporate Governance	0
Mastercard Information Technology United States	Strong market position and brand strength; growth underpinned by accelerating cashless and mobile transactions. Provides access to finance for under-developed markets and communities whilst also providing education to boost financial literacy	⊕ **Target 8.2; Share of company revenue 100%** Supports economic efficiency through the provision of payment services	0	Milestone – Reduced external appointments of overboarded director
Microsoft Information Technology United States	Delivering enterprise level efficiency through Office 365 products, as well as IT flexibility and emissions reduction through Azure hosting. Also market leading commitments to GHG reductions	⊕ **Target 8.2; Share of company revenue 85%** Offers cloud computing storage enabling more energy efficiency in IT systems, and information and communications technology supporting economic productivity	3: Climate Change, Labour Standards, Corporate Governance	Milestone – Committed to be carbon negative by 2030
PayPal Holdings Information Technology United States	Leading provider of safe and secure payment services as e-commerce accelerates. PayPal also places a strong emphasis on financial inclusion around the globe with a strong environmental commitment	⊕ **Target 8.2; Share of company revenue 100%** Supports economic efficiency through the provision of payment services	1: Business Conduct, Labour Standards	Milestone – Improved impact reporting

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
SAP Information Technology Germany	Multi-national software provider enabling enterprise efficiency through ERP and CRM capabilities, as well as improved IT mobility through cloud based applications	**Target 8.2; Share of company revenue 100%** Produces a wide range of software solutions designed to support business efficiency	4: Labour Standards	0
SCSK Information Technology Japan	Progressive IT solutions player in Japan seeing steady demand from structural growth in IT capex. SCSK is a highly attractive employer for graduates thanks to its advanced, flexible working practices	**Target 8.2; Share of company revenue 99%** Supports economic productivity by providing a wide range of IT systems and solutions **Target 8.10; Share of company revenue 1%** Provides access to a range of financial services such as insurance	0	0
Taiwan Semiconductor Manufacturing Co. Information Technology Taiwan	TSMC is the world's leading semiconductor manufacturer. Its leading edge technology enables their clients to create innovative products using more powerful processors that consume less energy	**Target 8.2; Share of company revenue 100%** Supports greater energy efficiency in a wide range of technologies through the production of semiconductors	1: Corporate Governance	Milestone – Announced significant renewable energy deal, Milestone – Appointed new independent directors
Wolters Kluwer Industrials Netherlands	Wolters Kluwer provide their clients in the health, tax & accounting, governance, risk & compliance and legal & regulatory with expert solutions and productivity tools, which empower customers to make better decisions when it matters most	**Target 17.1; Share of company revenue 31%** Provides a range of tax and accounting service to help companies with compliance and regulatory requirements **Target 4.4; Share of company revenue 69%** Supports access to health, governmental and legal education through the provision of consulting services and educational materials	6: Corporate Governance	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Energy **transition**

The energy transition is the pathway towards transforming the global energy sector from one dominated by fossil fuel-based systems of energy production and consumption – including oil, natural gas, and coal – to a system of zero-carbon and renewable energy sources, such as solar, wind and hydropower.

A transformation is required across all types of energy use, not just the more obvious areas like power generation. Transport is another key area, where the falling cost of rechargeable batteries and the increasing cost competitiveness of electric vehicles are driving up demand, and battery materials are an investible area for us through companies such as **Umicore**. Whilst improving economics are helping the energy transition take place, until we reach a carbon-neutral electricity generation system, it remains crucial to maximise opportunities to increase energy efficiency whilst better managing energy demand. This is an essential part of achieving the goals of the Paris climate agreement. There are a range of opportunities here, with one example being industrial gas companies, such as **Linde**, who play a crucial role in helping their industrial customers reduce emissions.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Linde Materials Britain	High quality industrial gases business operating in consolidated sector with strong moat. Provides gases allowing customers to reduce carbon emissions and has boosted hydrogen investments as part of its decarbonisation focus	⊕ **Target 9.4; Share of company revenue 83%** Produces a range of industrial gases which are used to make industrial processes more efficient ⊖ **Target 9.1; Share of company revenue 10%** Provides services to the energy and aerospace industries	1: Human Rights, Labour Standards	Milestone – Improved alignment of executive compensation
Schneider Electric Industrials France	Schneider Electric is a global leader in energy management and automation solutions, selling into end markets like Buildings, Industrials, and Data Centers. They are at the heart of the transition to a more energy efficient world	⊕ **Target 9.4; Share of company revenue 77%** Provides energy management products and services that enable companies to improve their energy efficiency ⊕ **Target 8.2; Share of company revenue 23%** Supports economic productivity through the provision of industrial automation and software solutions	1: Corporate Governance	0
Toyota Motor Consumer Discretionary Japan	One of the world leaders in passenger cars and trucks, pushing development of hybrids, hydrogen and sustainable fuel technology and connected driving	⊕ **Target 11.1; Share of company revenue 1%** Provides durable, energy efficient housing ⊖ **Target 3.2; Share of company revenue 76%** Negative climate impact through the continued prodution of internal combustion energy vehicles. Hybrid and electric cars should have a positive SDG link but the revenue split is not publicly available	0	0
Umicore Materials Belgium	From manufacturing automotive catalysts that deliver emission reductions, to the complex recycling of precious metals and the chemistry behind cathode materials required for EV batteries, Umicore is a sustainability leader	⊕ **Target 9.4; Share of company revenue 42%** Produces catalysts and filters to reduce local air pollution from transportation, and electric vehicle batteries which support the transition towards electrified transport systems ⊕ **Target 12.5; Share of company revenue 58%** Recycles precious metals, supporting a circular economy	2: Climate Change, Environmental Stewardship, Labour Standards	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

"Until we reach a carbon-neutral electricity generation system, it remains crucial to maximise opportunities to increase energy efficiency."

Jamie Jenkins, Managing Director, Co-Head of Global Equities

Health & **well-being**

No one could have anticipated the scope and scale of impact caused by COVID-19. Now more than ever, we appreciate the requirement for robust and efficient healthcare systems around the world. The demand for health and healthcare access equality is rising – and opportunities created from the change must not be ignored.

With increased globalisation and urbanisation, communicable disease rates are increasing. Together with ageing demographics, rising obesity, and the increasing prevalence of non-communicable diseases, the picture is clear: the demand for healthcare is rising. However, the supply of healthcare remains constrained, particularly in emerging markets. According to the World Health Organization, as many as five billion people will still lack access to healthcare in 2030 if current global trends persist[1].

We invest in companies seeking to tackle these issues through a range of products and services. These include companies innovating through next-generation sequencing equipment; roll-outs of coronavirus tests. They also include companies working on healthcare data digitalisation;delivering key medical supplies to the world's hospitals; providing dependable eye care; innovating on next-generation DNA sequencing; and providing health insurance for senior citizens. 2020 also saw many portfolio companies, such as **Thermo Fisher Scientific**, providing critical COVID-19 supplies, such as reliable testing.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Becton, Dickinson & Co. Health Care United States	A global provider of medical equipment, devices and consumable supplies to various healthcare facilities, serving more than 90% of healthcare patients worldwide	**Target 3.8; Share of company revenue 100%** Provides access to healthcare through the production of essential medical supplies such as needles, syringes and surgical products	5: Environmental Stewardship, Labour Standards, Public Health, Corporate Governance	0
CSL Health Care Australia	The science of CSL saves lives. They develop and deliver innovative medicines that help people with serious and life-threatening conditions live full lives, and protect communities around the world	**Target 3.3; Share of company revenue 14%** Produces vaccines for influenza and other communicable diseases **Target 3.4; Share of company revenue 86%** Supports the treatment of non-communicable diseases through the development of a range of innovative biotheraphy treatments	0	0
CVS Health Health Care United States	An integrated health insurer, pharmacy benefit manager and retail pharmacy, providing services which are core to day-to-day life for millions of Americans	**Target 3.8; Share of company revenue 98%** Provides access to healthcare through its retail pharmacy stores and clinics	0	0
Fresenius SE & Co. Health Care Germany	A diversified healthcare services provider focused in dialysis, hospital care and generic intravenous medicines, delivering life-saving care to patients worldwide	**Target 3.4; Share of company revenue 49%** Provides products and services for patients with chronic kidney failure **Target 3.8; Share of company revenue 51%** Supports access to healthcare through the provision of private hospital and care centres, pharmaceutical products and service provision for healthcare providers	4: Labour Standards	Milestone – enhanced workforce data disclosure (WDI)

[1] Source: World Health Organization, Universal Health Coverage Monitoring Report, 22 September 2019.

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Hoya Health Care Japan	Supporting the vision of people around the world through production of eyeglass lenses, contact lenses and intraocular lenses used for cataract operations, combatting the leading cause of blindness worldwide	⊕ **Target 3.8; Share of company revenue 65%** Provides access to healthcare through the production of eyeglass and lens products, and of medical endoscopes ⊕ **Target 8.2; Share of company revenue 34%** Enables gains in economic productivity through technologies used in a range of digital products such as phones	4: Corporate Governance	0
Humana Health Care United States	A leading United States health insurer providing senior citizens with quality medical coverage, as well as various value-based care programmes to support both mental and physical well-being	⊕ **Target 3.8; Share of company revenue 100%** Provides access to healthcare through its medical insurance products	0	0
Illumina Health Care United States	An innovative diagnostics equipment provider focused in next generation sequencing of DNA, enabling critical diagnoses of multiple health conditions and illnesses	⊕ **Target 3.8; Share of company revenue 100%** Supports access to healthcare through the development of novel sequencing technologies	0	0
International Flavors & Fragrances Materials United States	Following the merger with Dow Dupont's Nutrition & Biosciences business, IFF is now the largest specialist ingredient provider to the food, beverage, home care and personal care end markets with unparalleled portfolio breadth	⊕ **Target 2.1; Share of company revenue 63%** Delivers innovative ingredients formulations to enable better nutritional profiles	1: Environmental Stewardship, Human Rights, Labour Standards, Public Health	0
Kerry Group Consumer Staples Ireland	Kerry Group is a specialist ingredient provider to the food and beverage markets, where clients depend on their innovative solutions to drive better nutrition, clean up labels and lower their ingredients' environmental footprint	⊕ **Target 2.1; Share of company revenue 82%** Produces ingredients which contribute to the provision of safe, nutritious food	10: Public Health	Milestone – Improvement in health and safety practices, Milestone – Improvements in water management, Milestone – Improvements in waste management and packaging, Milestone – Strengthened management of supply chain ESG risks
Mettler-Toledo International Health Care United States	Manufacturer of laboratory and industrial equipment driving better healthcare and enabling precision manufacturing. Good sustainability practices, including a recent commitment to reduce water intensity by 20%, and achieve zero waste to landfill	⊕ **Target 3.8; Share of company revenue 52%** Helps access to safe and high-quality medicines through its laboratory testing services and analytical instruments ⊕ **Target 8.2; Share of company revenue 41%** Contributes to economic efficiency through its range of testing products and services	5: Environmental Stewardship, Labour Standards, Corporate Governance	Milestone – Announced waste reduction targets
Thermo Fisher Scientific Health Care United States	Global provider of high-quality, innovative life sciences equipment and services which enhance accuracy and safety in clinical research, drug development, and diagnostics testing	⊕ **Target 3.4; Share of company revenue 39%** Produces a range of products and services aimed at the treatment of noncommunicable diseases ⊕ **Target 3.8; Share of company revenue 61%** Supports access to healthcare via its range of analytical and data tools	0	0
VF Corp Consumer Discretionary United States	Active lifestyle brand owner (Vans, The North Face) with a real focus on supply chain sustainability, from raw material procurement and resource efficiency, to labour standards	N/A	1: Corporate Governance	Milestone – Reduced external appointments of overboarded director

"Demand for healthcare was rising fast even before the Covid-19 pandemic, and we see this as an investment area offering strong financial and social returns."

Jamie Jenkins, Managing Director, Co-Head of Global Equities

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Resource **efficiency**

Resource efficiency is the art of using the Earth's limited resources in a more sustainable way, whilst minimising the impact that we have on the environment – doing more with less. Resource inefficiency, as we are all too aware, is distressingly common.

Only half of the edible food we produce is ever actually eaten. Meanwhile, despite being the most abundant compound on the planet, one in nine people do not have access to clean, safe water.

Corporations can and must be at the forefront of driving a more efficient use of natural resources, such as water and minerals. In our Responsible Global Equity Strategy, we are invested in some of the most innovative companies whose products and services are driving resource efficiency and encouraging companies to think about their role in the circular economy, such as **Americold Realty Trust**, whose temperature-controlled storage and distribution products help to cut food waste. The result is not only bringing about a more sustainable planet; it is also enabling businesses to be less wasteful and more profitable.

Several of these companies have a relatively heavy environmental footprint in terms of their direct operations, such as their factories and production plants, even as they produce environmental solutions as their core business. We have been pleased to see some of our Strategy companies taking important steps to address this, such as paper packaging firm **Smurfit Kappa**, which has committed to set science-based targets for its greenhouse gas emissions.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
A. O. Smith Industrials United States	Water heaters and boilers play into energy efficiency and water conservation thematics. Water filtration systems replace the need for single-use plastic bottles. Also attractive linkage to rising Chinese middle class	⊕ **Target 6.4; Share of company revenue100%** Enables greater water efficiency through the provision of water filtration products	2: Corporate Governance	0
Americold Realty Trust Real Estate United States	Largest listed cold and frozen food storage and logistics firm, structured as a REIT. Sustainability focused on reducing global food waste and switching facilities to use renewable power	⊕ **Target 12.3; Share of company revenue 99%** Provides cold storage and logistics infrastrucuture to help reduce food waste and spoilage	4: Corporate Governance	0
Intertek Group Industrials Britain	Testing, inspection, certification and assurance provider, enabling product and conduct supply chain compliance with safety, environmental and social requirements	⊕ **Target 12.6; Share of company revenue 83%** Enables companies to better monitor and manage their sustainability impact with services including sustainability analysis and supply chain audits ⊖ **Target 13.2; Share of company revenue 17%** Provides services to the energy resources industry	3: Corporate Governance	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

"Corporations can and must be at the forefront of driving a more efficient use of natural resources, such as water and minerals."

Jamie Jenkins, Managing Director, Co-Head of Global Equities

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Kubota Industrials Japan	Leading manufacturer of agricultural and industrial machinery, with a lead market share in sub 40hp tractors in the U.S. and a key player in the mechanisation of agriculture in South East Asia	⊕ **Target 2.4; Share of company revenue 82%** Supports sustainable food production through the sale of agricultural machinery ⊕ **Target 9.1; Share of company revenue 16%** Promotes sustainable infrastructure, particularly in water where it has a range of engineering solutions and products	4: Corporate Governance	0
Smurfit Kappa Group Materials Ireland	Smurfit is exposed to a number of megatrends, such as eCommerce, and is leading the way in the shift from plastic packaging to paper, with a management that is committed to sustainability	⊕ **Target 12.5; Share of company revenue 100%** Provides environmentally sustainable paper-based packaging, reducing waste generation	10. Climate Change, Labour Standards	Milestone – Aligned climate goals with SBTI, Milestone – Departure of overboarded director, Milestone – Improved climate change management practices
Xylem Industrials United States	Strong and diverse portfolio addressing global water challenges, such as improving water efficiency and accessibility in local communities. Structural growth driven by the need to address scarcity by delivering operational efficiencies	⊕ **Target 6.4; Share of company revenue 85%** Enables greater water efficiency through its comprehensive range of water solutions ⊕ **Target 9.4; Share of company revenue 15%** Supports greater water resource efficiency by producing measurement and control systems	3: Environmental Stewardship, Labour Standards	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Sustainable **cities**

A growing global population coupled with urban migration is putting cities under increasing stress, from social issues such as the provision of reliable healthcare and education, to environmental challenges like global warming. This creates compelling opportunities for companies who can address these challenges head on and create sustainable urban environments for humanity to thrive in.

Cities account for less than 2% of the Earth's surface, yet they epitomise human progress and have been an enormously disproportionate growth engine, generating 85% of global GDP[1]. The world has seen mass urbanisation as people have steadily moved to cities in search of better economic prospects and opportunities. With higher population density and energy-hungry infrastructure, however, it has become clear that in order to tackle some of the world's most pressing issues such as climate change, cities need to be an integral part of the discussion: according to the United Nations, they now account for 80% of energy consumption and 60% of greenhouse gas emissions. To meet the Paris Agreement goal of limiting global warming to below 2°C, all buildings must be net zero carbon by 2050 – but less than 1% are today.

That creates long-term opportunities for companies such as **Autodesk**, whose Smart Cities solutions are enabling the use of real-time data to enhance the liveability of cities through more sustainable architecture. Equally, we need to move about cities more safely and with a lower footprint. **Aptiv's** market-leading autonomous driving solutions for the automotive industry and **Shimano's** strong market position in bicycle componentry puts them both in a great position to benefit from these underlying trends.

> In order to tackle some of the world's most pressing issues such as climate change, cities need to be an integral part of the discussion.
>
> **Nick Henderson, Director, Global Equities**

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Acuity Brands Industrials United States	Distributor of energy efficient indoor and outdoor lighting and control systems delivering energy savings through higher efficiencies, longer source life and smaller form factors	**Target 7.3; Share of company revenue 100%** Supports improvements in energy efficiency by providing efficient lighting solutions	3: Labour Standards, Corporate Governance	Milestone – Improved independence of the board and key committee, Milestone – Improved alignment of executive compensation
Aptiv Consumer Discretionary Ireland	With a mission of Safe, Green and Connected, Aptiv provide sustainable mobility solutions globally including automated driving hardware and software, as well as EV architecture	**Target 8.2; Share of company revenue 28%** Supports economic productivity through the provision of safety systems **Target 9.4; Share of company revenue 72%** Manufactures a range of vehicle powertrain solutions which can help improve transport energy efficiency	1: Corporate Governance	Milestone – Reduced external appointments of overboarded director, Milestone – Published first standalone sustainability report

[1] The New Climate Economy, Seizing the Global Opportunity, 2015.

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Autodesk Information Technology United States	Autodesk is a global leader in software to improve efficiency in the Architectural, Engineering, Construction, Manufacturing and Media industries. The growing move to digital solutions should drive demand	**Target 8.2; Share of company revenue 93%** Provides architects with the technological tools to improve energy and material efficiency within real estate	0	0
Shimano Consumer Discretionary Japan	World leader in gears and brakes for bicycles, with expert metal-working skills, supporting sustainable cities and mobility, and facilitating healthy lifestyles	**Target 3.4; Share of company revenue 80%** Produces bicycle components, contributing to good health and the reduction in non-communicable diseases	0	0
Tractor Supply Co. Consumer Discretionary United States	US rural life retailer, with a clear focus on being a responsible operator, both for customers and employees alike, as evidenced by lower employee attrition rates	N/A	1: Corporate Governance	0

Sustainable **finance**

The financial sector is uniquely positioned to adapt and promote innovation to address global sustainability challenges — including climate change, population growth and resource scarcity. The provision of training to improve financial literacy can not only serve to improve standards of personal finances, but also has an important role in addressing the needs of the most vulnerable in society, including closing the gender gap and lifting people out of the poverty trap.

By integrating sustainability into their business strategies and decision-making, financial institutions can play a significant role in promoting activities that support goals such as financial inclusion, environmental stewardship and respect for human rights. Importantly, financial institutions also have a significant role to play in accelerating the transition to a low carbon economy.

We aim to invest in financial institutions that have strong sustainability and governance practices to manage ESG risks and opportunities and maintain their social license to operate. We are particularly interested in financial inclusion for our Strategy. Over 1.5 billion people and countless businesses remain excluded from traditional banking systems, particularly across emerging markets. By increasing efforts to reach the unbanked and underbanked, the finance sector can help eliminate poverty, create jobs and promote gender equality. Access to finance is core to the business strategy of **HDFC Bank** in India, which provides financial services to millions of individuals, including in remote rural communities.

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Allianz Financials Germany	Provision of financial services to individuals and corporates, incorporating ESG and climate risks into sustainable solutions offerings	⊕ **Target 8.10; Share of company revenue 95%** Provides access to financial services through its range of insurance and savings products, including in emerging markets ⊕ **Target 12.6; Share of company revenue 5%** Promotes responsible investment through providing asset management services with ESG integration, and specialist SRI funds	2: Labour Standards	0
DNB Financials Norway	Largest financial services provider in Norway, DNB is at the forefront of digital banking (Norway leads the world) making it one of the most efficient global banks. Low risk and highly capitalised	⊕ **Target 8.10; Share of company revenue 34%** Promotes access to financial services for all through its retail banking operations ⊕ **Target 9.3; Share of company revenue 24%** Promotes socioeconomic growth by enabling access to financial services for small, medium and large enterprises	2: Business Conduct, Corporate Governance	0
HDFC Bank Financials India	High quality Indian bank with strong market position; addressing the almost 190mn unbanked adults in India, providing financial education along the way	⊕ **Target 9.3; Share of company revenue 22%** Promotes socioeconomic growth by enabling access to financial services for small, medium and large enterprises, including affordable credit ⊕ **Target 8.10; Share of company revenue 40%** Promotes access to financial services for all through its retail banking operations, including a particular focus on rural customers	1: Climate Change, Corporate Governance	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

"There's no government in the world that has enough in their budgets to be able to provide what we need to make the [net zero] transition. Ultimately, how governments, international financial institutions and private providers of capital work together is really going to determine the outcome of this challenge."

John Kerry, US Special Presidential Envoy for Climate

Company	Company description	SDG Alignment	Number and subject of engagement(s) in 2020	Milestones
Intercontinental Exchange Financials United States	One of the world's leading financial exchanges allowing efficient capital raising and risk management for global businesses. Has been at forefront of development of environmental markets	⊕ **Target 17.6; Share of company revenue 41%** Provides data and technology services that support international information-sharing ⊕ **Target 17.16; Share of company revenue 59%** Facilitates the sharing of financial knowledge and information through the operation of exchanges	0	0
Japan Exchange Group Financials Japan	Provides stable backdrop facilitating efficient capital raising for Japanese corporates whilst also in a strong position to promote sustainability practices and bridge the gap between governance standards in Japan and the West	N/A	3: Corporate Governance	0
Principal Financial Group Financials United States	Provides broad range of financial services globally with focus on health and savings products to underserved small businesses in North America and pension products to Latin America. Developing suite of ESG offerings	⊕ **Target 3.8; Share of company revenue 15%** Provides access to healthcare through its medical insurance products ⊕ **Target 8.10; Share of company revenue 12%** Provides access to financial services through its range of insurance products ⊕ **Target 17.5; Share of company revenue 9%** Offers financial services products in emerging markets, including least developed markets	1: Corporate Governance	0
Prudential Financials Britain	Provision of health and savings products to increasingly affluent Asian market, but one with less social security programmes offering protection to meet requirements of the growing middle classes	⊕ **Target 8.10; Share of company revenue 99%** Provides access to financial services through its range of insurance and savings products, including in emerging markets	2: Labour Standards	0
SVB Financial Group Financials United States	Specialist lender to the innovation economy is the key attraction whilst the company's impressive track record on delivering growth without meaningful loan losses speaks to its underwriting and relationship management skills	⊕ **Target 9.3; Share of company revenue 75%** Promotes socioeconomic growth by enabling access to financial services for small, medium and large enterprises	1: Corporate Governance	0

Where company revenues do not add to 100%, then there is no SDG link for the remainder of the business revenues. N/As equate to neutral alignment.

Measuring **real-world impact**

Expectations of companies' measuring and reporting on the environmental and social impacts of their businesses continue to grow. While significant progress has been made, challenges remain.

Impact metrics differ from other ESG performance indicators mainly because they are built to track the outcomes that a company's operations, products or services have for the environment or on the lives of stakeholders, such as workers, suppliers, and customers. In practice, many companies focus on their own actions as a proxy for impact (e.g. 5,000 new microloans disbursed), rather than diving deeper and using metrics to demonstrate these actions have had a positive effect (e.g. new microloans improved borrowers' income by x%).

Ideally, impact metrics should also address the multiple dimensions of impact, as set out by the Impact Management Project. We would like companies to consider not just **what** type of impact they have but also **how much**; **who** is affected (e.g. marginalised groups, low-income countries); the **contribution** their actions have beyond what would have happened anyway; and, where they are forecasting future impacts, the **risk** that these may not materialise as planned.

We fully acknowledge the significant challenges companies face when trying to develop environmental or social impact metrics that they can effectively track and measure. We have been engaging with companies in the Strategy to discuss these challenges and offer our support in identifying best practice. Examples in 2020 included a discussion with **Schneider Electric** on its sustainability KPIs (Key Performance Indicators), and how these relate to the SDGs; and with **Xylem's** CEO and CFO on the company's Access to Water goals.

We have selected some examples from companies in the Strategy that report impact-related outputs or outcomes to illustrate some of the different metrics being used.

100 million units of medicine

to patients with bleeding disorders in 48 countries[1]

CSL

211,000 fewer days

as hospital inpatients and 8.6% fewer visits to the emergency room, when comparing Humana's Medicare Advantage members to those using alternative services

Humana

1.3 million tonnes

of carbon removal contracted for in 2020, and $1 billion allocated to climate innovation, including new carbon removal techniques

Microsoft

15 million Covid-19 tests

administered to customers

CVS Health

1st hydrogen station

Built the world's 1st hydrogen station for fuel cell-powered passenger trains

Linde

11,700 jobs created

through loans to 11,094 women totalling $124 million by Grameen America's San Francisco Bay Area offices since 2012

SVB Financial Group

12,900,000 people

reached through the bank's financial literacy program[2]

HDFC Bank

475,000 farmers

in East Africa registered for Mastercard Farmer Network, which digitalizes marketplaces, payments, and other transactions for farmers

Mastercard

20 million Covid-19 test kits

Developed production capacity for over 20 million Covid-19 test kits per week

Thermo Fisher Scientific

[1] Units donated in 2019
[2] During 2019-20

"Companies should consider what type of impact they have. They should also assess how much and who is affected."

Vicki Bakhshi, Director, Responsible Investment

Climate **change**

Tackling the climate crisis is one of the great challenges of our modern age. We fully support the Paris climate agreement, and the objective of limiting the global temperature rise to 1.5 degrees celcius. Our Strategy seeks both to invest in climate solutions, and to ensure that the companies we invest in are managing their own emissions in line with a net zero future.

Our approach

We have a comprehensive climate change policy for the Responsible Global Equity Strategy, formalised in 2017, which includes full divestment from companies with fossil fuel reserves, investment in solutions and engagement.

December 2020 saw an important further development, as BMO Global Asset Management committed to an ambition of reaching net zero emissions by 2050 or sooner across all assets under management, as a founder member of the Net Zero Asset Managers Initiative. In March 2021, our parent company BMO Financial Group announced a net zero climate ambition for the whole organisation, including the creation of an innovative new Climate Institute.

Specific actions supporting BMO GAM's goals have included:

- Continuing to contribute to industry standards through our work on the Net Zero Investment Framework, which will form the basis for our approach
- Discussing progress with our Responsible Investment Advisory Council, including newly-appointed member Dr Ben Caldecott, a climate expert from the University of Oxford
- Establishing guiding principles for our approach to net zero.

We expect to set out further details during the course of 2021.

How our portfolio companies are **supporting emissions reductions by their customers**

Several of our Strategy companies now estimate 'avoided emissions'. This refers to emissions savings enabled by their products or services, compared to a baseline where these products or services did not exist.

Estimation techniques for this measure are still emerging[1], and it is important that companies do not 'net off' these theoretical emissions savings against their actual greenhouse gas emissions. However, the data give an important insight into the scale of emissions savings that are being generated by the solutions provided by companies in our fund.

511,900 tonnes

of GHG emissions were offset by sales of high efficiency water heaters and boilers in North America during 2019

AO Smith

100 million tonnes

in CO2 savings enabled by Linde products, including gases for efficient double glazing, and oxygen for more efficient steelmaking

Linde

720,000 tonnes

of CO2 emissions conserved in 2020 through people selling their pre-owned electronics and apparel on eBay

eBay

134 million tonnes

of CO2 savings enabled through customer use of EcoStruxure's energy management systems

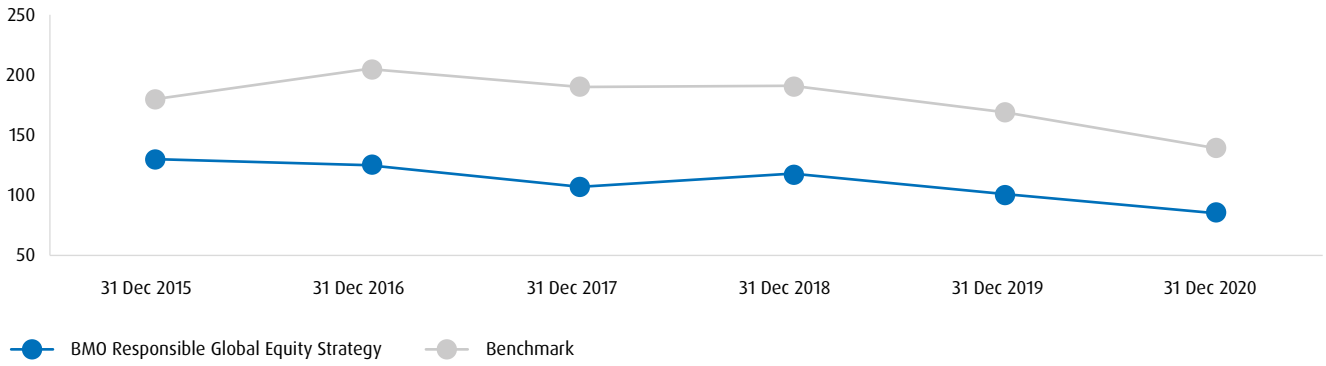
Schneider Electric

2020 Performance

The Responsible Global Equity Strategy remains well below its benchmark in terms of portfolio-weighted carbon intensity. As the chart shows, this measure of climate risk exposure has decreased 35% since we started publishing data in 2015, and was 85 tCO2e/USD million sales at the end of 2020. The largest contributor by far to Strategy carbon intensity remains industrial gases company **Linde**, which by itself accounts for over half of Strategy carbon intensity. The company has set emissions intensity targets, and has committed to setting a science-based target. We will be engaging during 2021 on its climate strategy, with a focus on alignment with global net zero emissions.

As investor focus shifts towards net zero alignment, increased attention is being paid to measuring and monitoring metrics which capture Strategy 'ownership' of investee company emissions. This year, therefore we also report the Strategy carbon footprint, which is based on a calculation of the Strategy's share of each company's emissions (so, for instance, if we own 1% of a company, we 'own' for 1% of that company's emissions). This is then normalised by the Strategy size. At the end of 2020, this was 23.4 tCO2e/$m invested, compared with 64.1 tCO2e/$m invested for the benchmark.

Scope 1 + 2 Intensity (tCO2e/USD million sales)



Source: Impact Cubed

Net zero alignment

We will lay out details in due course of our full net zero alignment approach, which will incorporate both Strategy-level targets and analysis of underlying investee companies' alignment.

16 of our investee companies, making up 36% of the Strategy and 69% of Strategy-weighted carbon intensity, have committed to set targets in line with the Paris climate agreement through the Science-based Targets Initiative (SBTI). Of these, 8 have set approved targets, with 6 assessed as being compliant with a 1.5 degree global temperature pathway – **Accenture**, **CVS Health**, **Mastercard**, **Microsoft**, **SAP** and **Schneider Electric**. Some other Strategy companies, such as **Apple**, have made net zero commitments, but have not validated these through the SBTI.

The Transition Pathway Initiative and Climate Action 100+ (CA100+) Benchmark give a fuller analysis of company net zero alignment, which also takes into account factors such as governance, strategy and lobbying. However, they cover a smaller number of Strategy companies, due to our limited exposure to high emitters. **Toyota Motor** is the only company included in the CA100+ programme, and we have exited our position since the end-2020 cut-off date for this report.

7.1% of revenues at our investee companies are taxonomy-aligned.

Alignment with the EU Taxonomy

As well as the SDG mapping featured earlier in this report, we have also looked this year at the portfolio alignment to the EU Taxonomy, a classification system which aims to define environmentally sustainable economic activities. So far the Taxonomy only applies to a subset of sustainability solutions, focused on climate mitigation and adaptation.

According to our data provider MSCI ESG, 7.1% of revenues at our investee companies are taxonomy-aligned – around 50% higher than the benchmark (4.7%). This includes revenues from many of our solutions providers such as **Acuity Brands**, **Schneider Electric**, **Thermo Fisher Scientific** and **Umicore**.

[1] See, for instance, 'Estimating and reporting the comparative emissions impacts of products' – World Resources Institute (2019)

Impact **metrics**

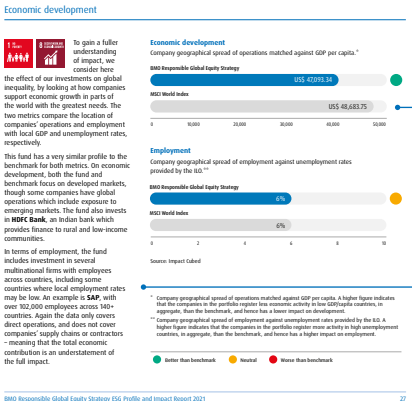
Over the following pages we show how the Strategy ranks relative to various sustainability-orientated metrics. These relate to environmental stewardship, fairness and equality, and economic development.

Assessing our impact

1. Using these metrics, we aim to show the Strategy's sustainability performance in comparison with its benchmark, the MSCI World Index.

2. A 'positive' performance, indicated by a green circle, shows that the companies in the fund have stronger sustainability characteristics than the benchmark; meanwhile 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 Strategy's sustainability performance, discuss notably contributing companies and highlight where we will be seeking to drive improvement over time.



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 two metrics compare the location of companies' operations and employment with local GDP and unemployment rates, respectively.

This fund has a very similar profile to the benchmark for both metrics. On economic development, both the fund and benchmark focus on developed markets, though some companies have global operations which include exposure to emerging markets. The fund also invests in **HDFC Bank**, an Indian bank which provides finance to rural and low-income communities.

In terms of employment, the fund includes investment in several multinational firms with employees across countries, including some countries where local employment rates may be low. An example is **SAP**, with over 102,000 employees across 140+ countries. Again the data only covers direct operations, and does not cover companies' supply chains or contractors – meaning that the total economic contribution is an understatement of the full impact.

Economic development

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

BMO Responsible Global Equity Strategy: US$ 47,093.34

MSCI World Index: US$ 48,683.75

0 | 10,000 | 20,000 | 30,000 | 40,000 | 50,000

Employment

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

BMO Responsible Global Equity Strategy: 6%

MSCI World Index: 6%

0 | 2 | 4 | 6 | 8 | 10

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.

Better than benchmark | Neutral | Worse than benchmark

BMO Responsible Global Equity Strategy ESG Profile and Impact Report 2021 27

1

2

3

- Better than benchmark
- Neutral
- Worse than benchmark

"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

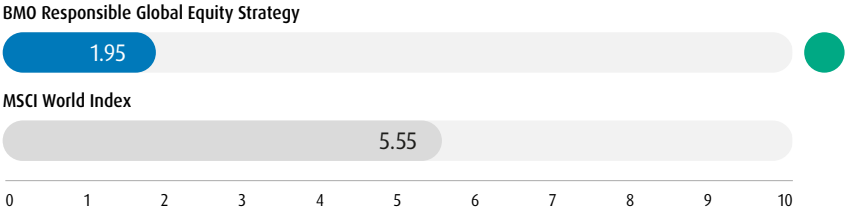
Waste and water

The water and waste profile of the Strategy is very low compared with the benchmark, largely due to the sector composition, which itself is a product both of the exclusion of resource-intensive sectors such as oil & gas, as well as the focus on sustainability solution providers.

The largest contributor to the Strategy's water intensity was previously the water and waste utility **Suez**, but this position had been sold by the end of 2020. The chemicals firm **Linde** now is the most water-intensive in the portfolio – though the data is for direct operations only, with some firms such as food producer **Kerry Group** having a very significant water footprint through their supply chains. Looking at waste, paper packaging specialist **Smurfit Kappa** is the most intensive per unit of revenue. This is a company whose whole business is orientated toward the production of recycled and recyclable packaging; through our engagement, we are satisfied that it is managing its operational impacts well.

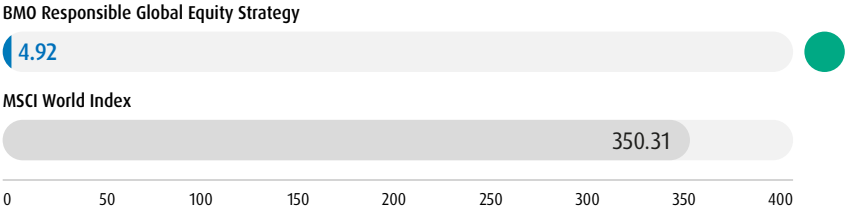
Water intensity

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



Waste intensity

Tonnes of waste generated per $1 million revenue.



Source: Impact Cubed

> An emphasis on sustainability solution providers – and exclusion of resource intensive sectors – means the portfolio has a water and waste profile way below the benchmark.

Better than benchmark · Neutral · Worse than benchmark

Fairness and equality

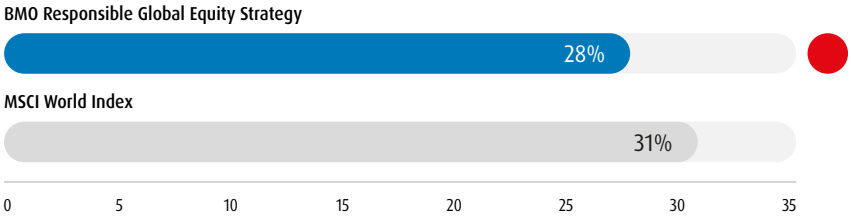
There is still significant room for improvement on Board-level gender equality, where this Strategy performs slightly below the benchmark, reflecting in part the holdings in Japanese equities, a market where the board gender balance remains poor. Companies performing strongly include software firm **Autodesk**, which has a 50% female board. We have engaged with laggards such as Japanese equipment manufacturer **Kubota**, which appointed its first female director early in 2021.

On pay, companies with a high pay ratio include several companies in the typically high-paying banking and technology sectors, such as **eBay** and **Microsoft**, as well as manufacturers, such as **Toyota Motor**, where the high ratio is a consequence of low average employee pay levels. The Strategy 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. We voted against several pay policies in 2020 at companies in this Strategy, such as **eBay**, where we judged there to be insufficient links between CEO pay and corporate performance.

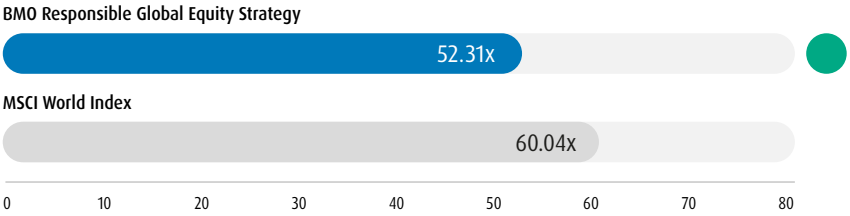
Gender

% female executives and board members.



Executive pay

Ratio of chief executive to median employee pay.



Source: Impact Cubed

> Both executive pay and Board diversity are fully integrated into our voting policy.

Better than benchmark · Neutral · Worse than benchmark

"We recognise the value that diversity in the boardroom and senior management can bring to an organisation. A relevant and suitably diverse mix of skills and perspectives is critical."

Daniel Jarman, Vice President, Responsible Investment

Economic development

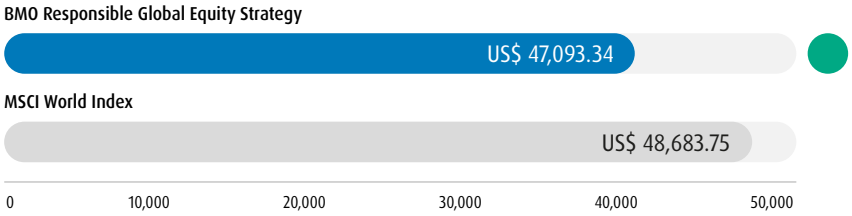
To gain a fuller understanding of impact, we consider here the effect of our investments on global inequality, by looking at how companies support economic growth in parts of the world with the greatest needs. The two metrics compare the location of companies' operations and employment with local GDP and unemployment rates, respectively.

This Strategy has a very similar profile to the benchmark for both metrics. On economic development, both the Strategy and benchmark focus on developed markets, though some companies have global operations which include exposure to emerging markets. The Strategy also invests in **HDFC Bank**, an Indian bank which provides finance to rural and low-income communities.

In terms of employment, the Strategy includes investment in several multinational firms with employees across countries, including some countries where local employment rates may be low. An example is **SAP**, with over 102,000 employees across 140+ countries. Again the data only covers direct operations, and does not cover companies' supply chains or contractors – meaning that the total economic contribution is an understatement of the full impact.

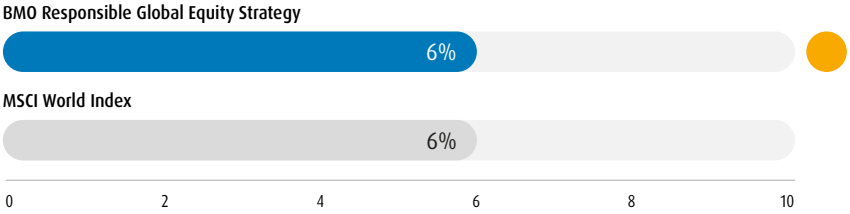
Economic development

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

* 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.

Better than benchmark · Neutral · Worse than benchmark

Impact through **our engagement**

Through engagement and voting, we seek to drive targeted improvement on how companies address ESG risks, opportunities and impacts. Our aim is to enhance long-term performance, reduce risk and encourage a positive contribution to broader environmental and social issues.

In 2020, we engaged with 33 companies representing 65% of our Strategy by value,

with the aim of improving their management of ESG issues.

Netherlands

- **Wolters Kluwer**
  Asked for more detailed reporting on how the company's products support the achievement of the Sustainable Development Goals

Ireland

- **Kerry Group**
  Achieved its water intensity target, and completed a water risk mapping assessment
- **Smurfit Kappa**
  Adopted a science-based target for cutting greenhouse gas emissions

Belgium

- **Umicore**
  Discussed the sustainable sourcing policies for cobalt

US

- **Acuity Brands**
  Called for a more ambitious approach to diversity and inclusion, at board level and below
- **Becton Dickinson and Co**
  Asked the company how it was protecting employee health and safety during the COVID pandemic
- **Xylem**
  Engaged on providing access to water for underserved markets
- **Microsoft**
  Committed to be carbon negative by 2030

India

- **HDFC**
  Called for the company to enhance its climate risk management, in line with the Task Force on Climate-related Financial Disclosures

UK

- **Linde**
  Increased the proportion of long-term executive awards that is linked to company performance

- **Engagement**
- **Milestones**

Taiwan

- **TSMC**
  Encouraged the company to disclose the performance metrics used for its remuneration policies, including sustainability metrics

Japan

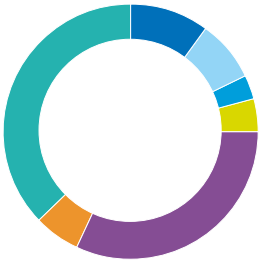
- **Hoya**
  Continued our engagement on modern slavery risks in the supply chain
- **Japan Exchange Group**
  Met the company to discuss their ESG guidance document for Japanese companies
- **Kubota**
  Discussed board-level diversity policies

Engagement

Labour standards were an important focus for our engagement in 2020. As well as continuing previous engagement on topics including modern slavery and living wages, we also had discussions with several companies on how they were protecting their workforce during the COVID-19 pandemic. Our governance engagement encompassed a range of topics including pay and board diversity. On climate change, we called on companies to align their business strategies with the transition to net zero global emissions by 2050.

We recorded 21 milestones – instances of positive change following engagement – ranging across all environmental, social and governance (ESG) pillars. We noted significant improvements in disclosure and reporting on ESG and climate change at many of our Strategy companies.

Where we have persistent concerns on an ESG issue, but a company is not sufficiently responsive to our engagement, we may decide to sell our holding, as we did with **Amazon.com** in 2019.



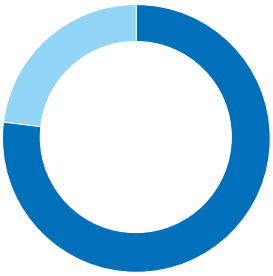
Companies Engaged by Issue

Climate Change	10%
Environmental Standards	8%
Business Conduct	3%
Human Rights	4%
Labour Standards	32%
Public Health	6%
Corporate Governance	37%

Voting

Our voting policies take account of local practices and are applied in a pragmatic fashion that reflects an integrated understanding of local and international good practice. In all cases, we aim to achieve the same result: the preservation and enhancement of long-term shareholder value through management accountability and transparency.

Our voting activity in 2020 again saw us opposing management on around 20% of resolutions. We opposed almost 50% of remuneration votes, due to concerns including poor alignment with company performance, excessive payouts and poor disclosure.



Voting

With Management	77%
Against Management	23%

Source: BMO Global Asset Management

Company **case studies**

Kubota

The Japanese market remains a laggard on board-level diversity, but engagement – backed by the power of the vote – is making a difference.

Background: The Japanese market has long been characterised by poor board diversity, in terms of gender, race and international experience. This is changing, in large part due to investor engagement, but progress remains slow with many companies still insistent that they cannot find suitably qualified candidates.

Engagement Approach: At its 2020 Annual General Meeting, Japanese tractor and equipment manufacturer **Kubota** still had an all-male board, leading us to vote against the appointment of the board President. We followed up on this with an engagement meeting with the company, where we emphasised the strategic importance of a strong diversity strategy, not just at board level but throughout the workforce. As well as the inherent benefits of a diverse workforce, Japan's changing demographic profile and potential future labour supply shortage makes it even more important that companies in this market are able to access the broadest possible pool of talent. We also stressed the importance of considering diversity in its widest sense, including not only gender but also cultural diversity, including bringing in different nationalities.

Outlook: In early 2021, the company appointed its first woman to the board. We welcomed this move and were able to support all resolutions at the AGM. We recognise, though, that there is a risk of a 'one and done' approach, where the appointment of a single female director is seen as sufficient. We will continue to monitor diversity – both at board level and across the workforce – and press for continued progress.

PayPal

Reliable ESG disclosure from companies is essential for investors to assess whether issues are being properly addressed. We aim to work collaboratively with companies to support them in moving toward best practice.

Background: The demands on companies for better ESG reporting have ramped up significantly in recent years. With standards, regulations and expectations evolving fast, companies are facing multiple demands. Through engagement with receptive companies such as **PayPal**, we can provide a constructive and practical investor viewpoint on our expectations and priorities.

Engagement Approach: We had several interactions with PayPal over the course of 2019 and 2020, discussing ESG strategy and disclosure. A particular area of focus was on the use of the Sustainable Development Goals as a reporting framework, where we are able to share our own practical experience of linking our investments and our engagements to specific SDG targets.

Our engagement also focused on labour standards disclosure related to the company's workforce of over 20,000 employees. With reporting on social issues often lagging disclosure on environmental and governance, BMO has been an active supporter of the Workforce Disclosure Initiative (WDI), which aims to improve transparency and accountability on workforce issues. PayPal was one of 80 companies we contacted across our strategies to encourage them to respond to the survey.

Outlook: We have been pleased to see significant developments in PayPal's reporting. The company's impact reporting now includes specific links not only to SDG goals, but also to targets, and includes qualitative and quantitative information on their contribution. An example is on target 9.3, which relates to access to finance for small-scale enterprises. PayPal's latest report includes data on capital provided to small businesses, as well as on how its services have been used for programmes to help US businesses struggling during the Covid-19 pandemic.

2021 also saw PayPal participate in the WDI survey for the first time, providing detailed information on its labour standards and human capital management.

Also in 2021, building on their position at the forefront of the digital payments revolution, PayPal announced it was exploring how it could leverage its business model to participate in the rapidly expanding cryptocurrency market. Given some of the environmental concerns we have around cryptocurrencies, this is a potential future area for engagement.

Umicore

One of the biggest potential headwinds to the electric vehicle revolution is the availability of battery materials – with the International Energy Agency forecasting that the energy sector's need for critical minerals could rise sixfold by 2040.

Background: As well as the potential cost implications of mineral shortages, there are also potentially severe environmental and social impacts. These are particularly acute in cobalt, with around two-thirds of global supply of cobalt coming from the Democratic Republic of Congo, where worker protection is weak and informal artisanal mining is rife.

Engagement Approach: We raised cobalt sourcing at meetings with both the CEO and CFO of **Umicore**, a materials company focused on supplying the clean mobility and recycling sectors. Both gave us a clear message that ethical cobalt sourcing is a high priority for the company, which has had a sustainable cobalt sourcing plan in place since 2004. We welcomed the company's commitment, and were impressed by its human rights due diligence, but called for more proactive direct engagement with the DRC supply chain.

Umicore also aims to be a world leader in battery recycling, which holds out the promise of reducing demand for newly-mined cobalt.

In our meetings, we also asked the company to set a long-term decarbonisation goal; to further develop its approach on gender and racial diversity; and to deepen its understanding of the public health impacts of its operations.

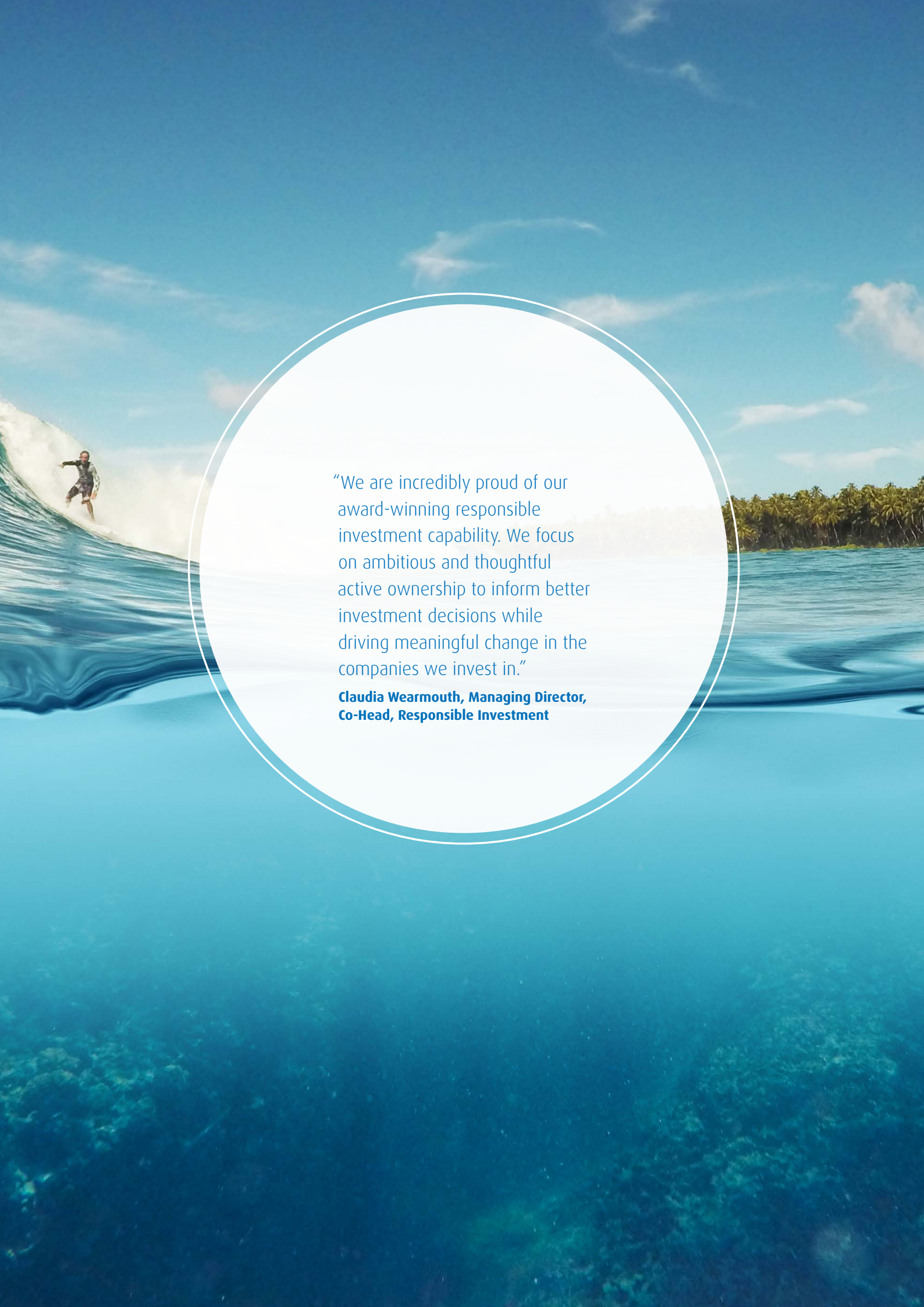
Outlook: At the time of writing, we are waiting for Umicore to set out its new sustainability goals, which it will be releasing in early June. We will review these to see how they meet with our expectations on cobalt sourcing and other ESG issues, and feed back our views to the company.

Strategy **at a glance**

	Strategy weight
Microsoft Corp.	5.4%
Apple Inc.	5.3%
Linde Plc	3.6%
Thermo Fisher Scientific Inc.	3.3%
Mastercard Inc.	3.2%
Taiwan Semiconductor Manufacturing Co., Ltd.	3.1%
Accenture	2.9%
PayPal Holdings	2.9%
Hoya Corp.	2.5%
Schneider Electric SE	2.4%
Keyence Corp.	2.4%
Roper Technologies	2.4%
Humana	2.2%
Mettler-Toledo International	2.2%
Prudential	2.1%
Xylem	2.1%
Autodesk	2.1%
HDFC Bank	2.0%
Intercontinental Exchange	2.0%
Wolters Kluwer N.V.	2.0%
Smurfit Kappa Group	2.0%
SAP	1.9%
Aptiv	1.9%
Kerry Group	1.8%
Crown Castle International	1.8%
Illumina	1.8%
SVB Financial Group	1.7%
Acuity Brands	1.7%
DNB	1.6%

	Strategy weight
Fresenius SE & Co	1.6%
Allianz	1.6%
Toyota Motor Corp.	1.6%
V.F. Corp.	1.5%
CSL	1.5%
Umicore	1.5%
KDDI	1.5%
Kubota	1.5%
eBay	1.5%
Becton, Dickinson And Company	1.4%
Americold Realty Trust	1.4%
Intertek Group Plc	1.4%
International Flavors & Fragrances	1.3%
Tractor Supply Company	1.3%
CVS Health Corp.	1.3%
Shimano	1.1%
A. O. Smith	1.1%
SCSK Corp.	1.1%
Principal Financial Group	1.1%
Japan Exchange Group	0.9%

Source: BMO Global Asset Management. Data as at 31 December 2020.



"We are incredibly proud of our award-winning responsible investment capability. We focus on ambitious and thoughtful active ownership to inform better investment decisions while driving meaningful change in the companies we invest in."

Claudia Wearmouth, Managing Director, Co-Head, Responsible Investment

Pioneers in **responsible investment**

At BMO GAM, responsible investing is at our core – from the launch of Europe's first ethically screened fund in 1984 and our position as a founding signatory of the UN PRI, to the comprehensive suite of ESG specialist strategies and services available today.

A leading voice on a vital conversation

35+ years
of investing responsibly

20+ years
of driving positive change through ESG engagement

21 sustainability experts
within the Responsible Investment team

275+ combined years of experience

A+ Rated
for strategy and governance, and ESG incorporation and active ownership in listed equities by UN Principles for Responsible Investment

Co-heads

Alice Evans
Managing Director, Co-Head of Responsible Investment

Claudia Wearmouth
Managing Director, Co-Head of Responsible Investment

Recent awards

Investment Week – Sustainable & ESG Investment Awards 2020 – Winner: Best Sustainable & ESG Equity Fund

Investment Week – Sustainable & ESG Investment Awards 2020 – Winner: Best Sustainable & ESG Research Team

Investment Week – Sustainable & ESG Investment Awards 2019 – Winner: Best ESG/SRI/Impact Research Team

Investment Week – Sustainable & ESG Investment Awards 2019 – Winner: Best ESG Investment Fund

Investment Week – Sustainable & ESG Investment Awards 2018 – Winner: Best ESG Research Team

Environmental Finance – Sustainable Investment Awards 2020 Winner: ESG research of the year (fixed income)

Environmental Finance – Sustainable Investment Awards 2019 Winner: Best ESG reporting by an asset or fund manager: large

Winner ESG Investing Awards 2020

Winner ESG Investing Awards 2021

Best ESG Investment Fund: Equities – ESG Investing Winner: Awards 2021

Past performance is not a guide to future performance. All information as at 31 Dec 2020

Investing responsibly is at our core

Our experienced Responsible Investment capability is structured to cover:

- Responsible investing skills such as ESG analysis, engagement, screening and proxy voting
- Responsible investing themes across E, S and G
- Industry and sector knowledge

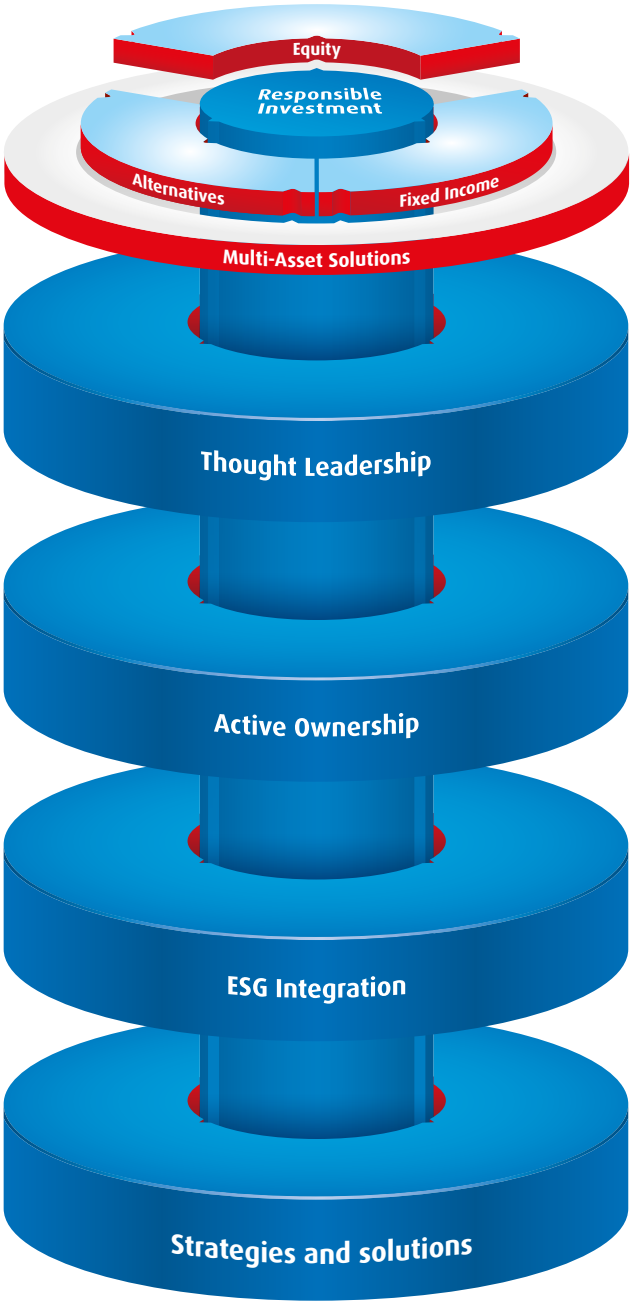
How we drive positive change

We use our experience, expertise and influence to have a positive impact on investments and the wider world, sharing actionable insights with our clients.

We use our sector knowledge, ESG data and recognised influence to engage thoughtfully with the companies that we, or our clients, are invested in to bring about positive change.

We ensure that all relevant ESG factors are considered in our investment analysis to provide a more comprehensive and rounded risk perspective.

We offer a comprehensive suite of responsible products and solutions that are constantly evolving to meet the needs of our investors and our world.



Contact us

Institutional business

+44 (0)20 7011 4444

institutional.enquiries@bmogam.com

UK intermediary:

0800 085 0383

sales.support@bmogam.com

bmogam.com/adviser

European intermediary:

+44 (0)20 7011 4444

client.service@bmogam.com

bmogam.com

Telephone calls may be recorded.

Follow us on LinkedIn

Subscribe to our BrightTALK channel

Follow us on Twitter

BMO Global Asset Management