

Sustainability Risk Policy

Introduction

BMO Global Asset Management (“BMO GAM”) believes in the importance of taking a responsible approach to investment.

This document describes our approach to integrating sustainability risks into our investment processes. A sustainability risk is any environmental, social or governance (“ESG”) event that, if it occurs, could or will have a material negative impact on the value of investments we make for our clients. We refer in the rest of this document to sustainability risk as “ESG risk” and to integration of sustainability risk as “ESG integration”.

As a founder signatory to the UN Principles for Responsible Investment (PRI) we have for many years used an integrated approach to our assessment of sustainability risks. Our approach has evolved as markets have developed resulting in greater access to information to help identify, measure, and manage these risks. We tailor our approach for different asset classes and investment strategies.

Scope

The policy covers all investment activities directly executed by BMO Global Asset Management EMEA, other than Pymfords International Limited, which has adopted its own sustainability risk policy.

Sustainability risk identification and integration

ESG integration is the consideration of financially material ESG factors in the course of investment analysis and decision making to gain a more comprehensive understanding of both the risks and the long-term opportunities arising from these factors. These factors vary by industry, corporate size, regulatory regime, and regional footprint.

We outline in our Environmental and Social Practices Expectations Statements, as well as in our Corporate Governance Guidelines those risks we consider material from an ESG perspective.

We apply a tailored approach to ESG integration by investment strategy and asset class, to ensure that our analysis of ESG factors is relevant and meaningful to each team’s investment process.

To identify material ESG risks across our holdings, our responsible investment specialists regularly assess investee companies across equities and fixed income portfolios. For high risk companies, we develop and implement a mitigation strategy. This will consist of such actions as direct engagement with a company’s management and/or voting on shareholder resolutions in a targeted way. We may pursue these actions either alone or jointly with other interested shareholders. In cases where mitigation fails, the Proxy Voting Working Group, which is a subcommittee of the Global Investment Committee (GIC) decides on potential escalation measures, which may ultimately involve disposal of investments.

We also tailor our approach to consider the investment guidelines and any legal or regulatory restrictions on ESG integration that apply to particular investment portfolios.

Research analysts and portfolio managers follow an investment process that considers the potential impact of ESG risks, alongside the other factors that determine the prospects for any company in whose securities we might invest or any real estate to be acquired as a portfolio asset. They have access to a range of ESG data and research, including both third-party data and proprietary information, as well as support in analysing this information from our team of in-house responsible investment specialists. This analysis drives our asset allocation, stock selection, portfolio construction, shareholder engagement and voting.

For companies and other investments not covered by any of our ESG data providers, which might be the case for some small, mid-cap, emerging markets holdings, real estate or other alternative assets (e.g. private equity), our in-house responsible investment specialists provide additional research on sustainability risks and opportunities.

Asset class specific integration

Listed Equity:

For direct investment in shares of publicly listed companies, tailored to each teams' own investment process, material ESG risks and opportunities are identified, reviewed and their investment implications are integrated into investment research and subsequent security selection decisions.

For passive strategies that seek to replicate index returns, ESG risks are not considered.

Fixed income:

For credit analysis and research, tailored to each teams' own investment process, material ESG risks and opportunities are identified, reviewed and their investment implications are integrated into that credit research, and subsequent security selection decisions.

Third-party ESG data from research providers and broker reports is used to supplement our in-house ESG capabilities in the research and analysis of companies. Our credit teams receive ESG data on a regular basis to incorporate into their research process and credit analysis.

This credit analysis and research is used by multiple teams within BMO GAM. In particular, this research is used by the money market team in BMO GAM (EMEA) as part of their internal credit quality assessment process required under the European Money Market Funds Regulation.

Sovereign debt:

Sovereign fixed income analysts will seek to identify a country's exposure to and management of ESG risks to assess how these might impact its ability and/or willingness to repay outstanding debt and, ultimately, the long-term sustainability of its economy. Factors such as corruption, institutional strength, social indicators and management of natural resources and climate change will be considered.

The ESG analysis is reviewed as part of our dynamic government bond investment process, evaluating ESG risks relative to credit rating and spread levels.

Real estate:

BMO Real Estate Partners ("BMO REP") has a sustainability team which has developed a Responsible Property Investment Framework and appraisal methodology to capture and integrate ESG risks and opportunities into the individual business plan for each directly held property asset. In addition, real estate portfolio managers engage external specialist consultants to consider sustainability risks and opportunities as part of acquisition due diligence. This enables BMO REP to manage asset risk, protect income yields and support long term returns produced by real estate assets.

The combination of the team, the framework and the methodology allow all asset and property management functions in BMO REP to consider ESG risks and opportunities holistically during the acquisition, construction, management, leasing, refurbishment and disposal stages of the property investment cycle. Comprehensive reporting of ESG profile and performance is through entity specific annual ESG reports produced to recognised industry standards.

Private Equity:

The identification of material ESG risks forms part of our private equity investment process, helping us to manage risk and support long-term returns. In encouraging managers to move towards best practice in managing ESG issues, we refer to international codes and standards where relevant.

Our private equity program includes primary fund investments, secondary investments and co-investments. We therefore tailor our approach as appropriate, focusing on both the ESG policies and practices of our investment partners (particularly for fund investments) and of companies (particularly for co-investments). Assessment of ESG parameters is a compulsory element in the private equity investment process and is explicitly addressed in each investment paper.

Multi-Asset:

ESG integration efforts are executed by underlying asset class teams as described above and below.

For processes and procedures in relation to dedicated sustainable multi-asset strategies see below “Responsible, Sustainable and SDG fund ranges”.

Liability Driven Investment:

For liability-driven investments (LDI), ESG aspects are considered for selecting and monitoring of counterparties. When building our list of approved counterparties our Credit Counterparty Committee includes ESG scores, as determined by the responsible investment specialists.

LDI investments in non-derivative asset classes are covered in the individual asset class sections of this policy.

Fiduciary Management:

We work with our pension fund clients to develop ESG policies that reflect the ambitions of the plan and to ensure regulatory compliance.

ESG is integrated in the investment frameworks, capital market assumptions (CMA), asset and liability management (ALM), as well as in manager selection and monitoring. ESG criteria can be integrated in benchmarks as well. ESG risk analysis is performed to understand the ESG characteristics of various investment categories and the overall portfolio.

Deterministic climate scenarios are used to visualize the impact on the portfolio.

Responsible, Sustainable and SDG fund ranges:

We have tailored screening and investment criteria for our Responsible, Sustainable and SDG named investment funds.

These criteria are laid out in separate investment policies that are available on each of the funds’ websites.

Provision of investment advice:

Some of our investment teams provide investment advice to clients on which investment strategy or fund to invest in, whether managed in-house or by third party managers, and may then oversee the management of these investments if clients approve them. Whilst each team has its own approach, they each include consideration of ESG risks in the selection and monitoring of these investments regardless of each client’s sustainability preferences.

Third party manager due diligence:

Some of our investment teams invest in funds or delegate assets to third party managers. Whilst each team has its own approach, they each include consideration of ESG risks in the selection and monitoring of these external managers or their funds.

They range from including ESG-specific questions in RFPs and basing the selection process on certain ESG requirements, to working with manager scorecards that incorporate ESG risks and annual monitoring of ESG performance.

Assets invested in third party managed investment funds will not be managed in line with BMO’s Sustainability Risk Policy. Delegated third party sub-managers will not have already agreed to manage assets in line with BMO GAM EMEA’s Sustainability Risk Policy. Managers in jurisdictions outside the EEA may not be subject to the same requirement to have policies in place to address ESG risks. BMO GAM EMEA intends to seek the agreement of new and existing sub-managers to manage assets in line with this Sustainability Risk Policy unless they are prohibited from doing so under applicable law and/or already have equivalent arrangements in place.

Active Ownership

Engagement

We are committed to the responsible stewardship of our clients' investments through our engagement, voting and public policy activities. Our primary purpose in engagement is to support long-term returns and to mitigate ESG risks. We also believe that, by encouraging our investee companies (and any underlying fund managers) to better manage ESG risks, we contribute to a more resilient global economy, which will ultimately enhance our clients' long-term prosperity and security. Having identified the ESG risks we consider material to the creation and protection of long-term financial, social and environmental value, we use in-depth dialogue to encourage investee companies to improve performance and move towards best practice in managing those risks. Our engagement encompasses a spectrum of ESG risks, across a range of sectors and geographies. We monitor the outcomes of our engagement and report on our progress.

Our global engagement programme is structured around seven themes:

- environmental stewardship
- climate change
- human rights
- labour standards
- business conduct
- public health
- corporate governance.

In encouraging companies to move towards best practice in managing ESG risks, we refer to international codes and standards where relevant, such as the International Labour Organization Core Conventions, UN Guiding Principles on Business and Human Rights, the UN Global Compact, and national corporate governance principles and codes of best practice.

Engagement is performed across holdings in equities, fixed income, and real estate.

Proxy voting

Corporate governance is the system by which companies are directed and controlled by their shareholders and held accountable to their stakeholders. It is our policy to vote at all shareholder meetings for the discretionary investment portfolios we manage for our clients. We apply a consistent philosophy and approach to corporate governance and the exercise of voting rights as reflected in our Global Corporate Governance Guidelines ("Guidelines").

We use our vote, combined with engagement, to encourage companies to live up to the established principles and good practice reflected in our Guidelines as we believe this is in the best interests of our clients who hold investments in those companies. We also recognise that such principles and practices may be expressed differently in different markets. Therefore, we apply our Guidelines when voting in a pragmatic fashion that reflects an understanding of both local and international good practice. Where companies put forward a strong case for not complying with our Guidelines, we will consider this and, where appropriate, adjust our vote if we believe the company is acting in the best interests of shareholders.

Oversight of the proxy voting process is provided by the Proxy Voting Working Group of our GIC. Our Guidelines are reviewed annually and approved by the GIC.

Exclusions

We will not invest in any company that develops, manufactures, provides maintenance or sells cluster munitions or antipersonnel mines. This exclusion applies to both equity and corporate credit holdings but does not apply to derivatives or investments in third-party funds. For our own investment funds where we control the investment policy, we apply the above-noted exclusion policy.

We also apply these exclusions to any fiduciary management or multi-asset portfolio that invests in third party investment funds or appoints third party investment managers.

Monitoring

On a regular basis the Responsible Investment team monitors client holdings against portfolio or region-specific exclusion criteria.

An independent team within BMO GAM EMEA monitors the application of exclusions on both a pre & post trade basis. Furthermore, ESG related due diligence is carried out by an independent team to evidence the level of ESG integration for ESG focused funds.

In addition to qualitative oversight the Investment Risk function performs quantitative oversight by monitoring the ESG profile and ESG risks of funds in relation to their benchmarks (or peers). Climate stress tests are conducted, and climate value-at-risk is monitored alongside various other ESG exposure drilldowns and risk metrics. Quantitative data is combined with expert judgement including dialogue with the fund manager to determine whether remedial action is appropriate.

Governance and Oversight

Within BMO GAM, responsibility for oversight of the firm's responsible investment strategy, ESG integration, and ESG risk management lies with the GIC.

In addition, the regional Performance Review and Risk Oversight Committees' (PRROC) responsibilities include confirming that each portfolio's risk measures are in line with its defined investment objectives, ESG requirements, consistent with market comparators, and any applicable regulatory limits.

Reporting

We regularly disclose our responsible investment and ESG/sustainability risk management activities. These disclosures include:

- Annual Review: Responsible Investment
- Quarterly or monthly fund level reports on ESG integration, holdings, responsible investment initiatives
- Quarterly updates on engagement and voting activities across BMO GAM
- Proxy voting results including a rationale for against votes, which are available online
- Regular ESG Viewpoints
- Annual ESG profile and impact report for most of our Responsible, Sustainable, and SDG funds

Review

This Policy will be reviewed and approved on an annual basis by the GIC.