

# BMO Global Asset Management: Stewardship Policy

July 2022

## Introduction

BMO Global Asset Management (BMO GAM or we)<sup>1</sup> is committed to the responsible stewardship of our clients' investments by specifically engaging company management and exercising our right to vote on resolutions at company shareholder meetings.<sup>2</sup>

## Stewardship

We define stewardship as thoughtful proxy voting and constructive dialogue with companies on environmental, social and governance (ESG) factors that can impact their businesses and, where necessary, encourage improvement in ESG management practices. Our primary driver for engagement with companies is to support long-term returns by mitigating risk and capitalizing on opportunities linked to ESG factors. We also believe that by encouraging companies to improve their ESG practices, which can help drive positive impacts for the environment and society that are in line with the achievement of the United Nations Sustainable Development Goals, we can play a part in building a more sustainable and resilient global economy, which will enhance our clients' long-term prosperity and security.

Our engagement programme encompasses a spectrum of ESG aspects across a range of sectors and geographies. The programme addresses ESG risks at the company level and focuses on two high level themes of systemic risks that touch all sectors, markets and societies: Climate Action and Social Equality. Underlying each theme is a range of more granular sub-themes to help focus our engagement.

We monitor the outcomes of our engagement and report on our progress to our clients and publicly. Engagement covers listed equities, corporate (financial and non-financial) credit as well as government bonds, and is reinforced by the broader impact achieved through public policy engagement by BMO GAM:

## Underlying fundamentals: codes and principles

In encouraging companies to move towards best practices in managing ESG matters, we make reference to international codes and standards where relevant, such as the International Labour Organization Core Conventions, OECD Guidelines for Multinational

Enterprises, UN Guiding Principles on Business and Human Rights, the UN Global Compact, the UN Declaration on the Rights of Indigenous People, the Paris Agreement, the Taskforce on Climate-Related Financial Disclosures and national corporate governance principles and codes of business best practice.<sup>3</sup>

Our key expectations on good practice are outlined in our Corporate Governance Guidelines (CGG), and Environmental, Social and Governance Expectation Statements<sup>4</sup>.

## Stewardship process

Engagement activities are led by members of BMO GAM's Responsible Investment team who work alongside our fixed income and equity portfolio managers and investment analysts. The Responsible Investment team focuses on corporate engagement with North American investee companies and actively votes at company meetings for the Canadian market. BMO GAM has retained a third party engagement and voting service provider to provide us with proxy voting and responsible engagement overlay (*reo*®) services to ensure our coverage extends to international markets and to execute votes on our behalf and in line with our CGG. This enables us to affect a positive change at a global scale. The Responsible Investment team monitors and can override any vote instructions by *reo*® across all markets.

The Responsible Investment team is comprised of experienced specialists with diverse backgrounds. We leverage the range of professional experiences, nationalities and languages on the team to strengthen the effectiveness of our company engagement by enhancing our understanding of the context and environment in which such companies operate and the challenges they face.

Engagement can be *proactive*, whereby we prioritize our efforts based on the analysis of companies' exposure to and management of ESG matters, or *reactive*, whereby we initiate dialogue with companies to encourage them to take the appropriate action to address the consequences of adverse impacts to people from human or labour rights violations, large scale environmental pollution, or significantly lagging ESG performance and ESG-related controversies, and improve their business practices.

<sup>1</sup> BMO Global Asset Management is the brand name that comprises BMO Asset Management Inc. and BMO Investments Inc.

<sup>2</sup> This Stewardship Policy applies when BMO GAM has the exclusive authority to determine how to vote the securities of companies in our client portfolios (including investment funds and separately managed accounts we manage on a discretionary basis). For example, this policy does not apply to a third portfolio manager or sub-advisor to whom we have delegated portfolio management responsibilities for all or a portion of a client portfolio.

<sup>3</sup> <https://www.ilo.org/global/standards/lang-en/index.htm>, <https://mneguidelines.oecd.org/mneguidelines/>, [https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR\\_EN.pdf](https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf), <https://www.unglobalcompact.org/>, [https://www.un.org/development/desa/indigenouspeoples/wp-content/uploads/sites/19/2018/11/UNDRIP\\_E\\_web.pdf](https://www.un.org/development/desa/indigenouspeoples/wp-content/uploads/sites/19/2018/11/UNDRIP_E_web.pdf), <https://www.un.org/en/climatechange/paris-agreement>, <https://www.fsb-tcfd.org/>

<sup>4</sup> For our Corporate Governance Guidelines and Environmental, Social and Governance Expectation Statements please visit: [bmogam.com/ca-en/institutional/responsible-investing-policies-approaches-2](https://bmogam.com/ca-en/institutional/responsible-investing-policies-approaches-2)

Proactive engagement is both top-down, through engagement on key issues that have broad relevance across companies and sectors, and bottom-up, based on identification of individual companies within our clients' portfolios presenting the highest ESG risks.

## Engagement prioritization

### Top-down

The Responsible Investment team, in conducting a high-level assessment of a wide range of current systemic and emerging ESG issues and their potential impacts on the economy, environment and society, has determined two key thematic focus areas of Climate Action and Social Equality and relevant sub-themes as discussed above. Each sub-theme is assigned engagement asks, best practice indicators and expectations of companies, which may be updated annually as best practices and standards continue to evolve. Progress against these indicators is also measured on an annual basis. For more details, please see our Climate Action Approach and Social Equality Approach documents.<sup>5</sup>

Top-down engagement also includes governance issues: we have formulated good governance expectations for companies in our CGG which guide the way we vote and engage on governance. The CGG are updated annually and are shared with companies where BMO GAM has significant holdings to make them aware of how these updates might impact our vote at their annual shareholder meetings. We engage companies on our voting intentions prior to, during and after annual shareholder meetings.

### Bottom-up

We identify and prioritize companies for engagement based on the following:

- Assessment of impact of material and salient ESG risk and opportunity factors now and in the future through a detailed analysis of the companies BMO GAM invests in based on:
  - Third party or proprietary ESG risk tools, ESG portfolio analytics reports and third-party data providers
  - Responsible Investment teams' judgement and expertise, and
  - Previous engagement track record
- The significance and severity of adverse impacts, including scale (gravity), scope and character;
- Assessment of likelihood of success for engagement; and
- Level of exposure, typically based on size of holding

We set specific engagement objectives and track progress against these to assess achievements and determine next steps. When we open discussions with individual companies, we aim to clearly communicate our engagement objectives, expectations - including timelines - and desired outcomes.

## Conducting engagement

Our preferred approach to conducting engagement is to use constructive, confidential dialogue, typically interacting one-to-one with companies and building a relationship of trust over time as long-term investors.

When it is more effective to take a collaborative approach to bring about change, we form or join coalitions with other investors, civil society organizations or industry groups. Speaking with a unified voice can allow investors to communicate their concerns more effectively, while gaining power and legitimacy from the perspective of corporate management. Furthermore, collaborations can help build knowledge and skills, enhancing engagement efficiency. We are a member of several investor coalitions actively pursuing collaborative engagements.

We engage at different levels within companies depending on the nature of our objectives, including with a company's board of directors, executive management, investor relations, sustainability leadership, and operational specialists.

### Public policy engagement

We recognize that action by governments or regulatory intervention is also needed to create a level playing field and achieve meaningful results. To that end, we aspire to play an active role in public policy development through engagement with policymakers and regulators. We seek to bring a constructive investor voice to standard setting such as ESG-related listing rules for stock exchanges and the evolution of national stewardship codes, and we believe that policy and regulatory change are often the catalysts for improved corporate behaviour.

## Tracking engagement progress

We document all engagement activities in an online database managed by the Responsible Investment team. The database allows for the production of engagement activity reports that are shared with clients, the general public, and BMO GAM's investment teams periodically to feed into stock selection and portfolio construction decisions.

We measure and report on the success of engagement through the assignment of "milestones", which recognize improvements in company ESG policy, management systems or practices against the objectives that were set. Milestones are ascribed using a three-star rating system, with three stars indicating the most significant impact of change and one star reflecting smaller, incremental change along a pathway for the company, or across a broader context, for the industry as a whole

<sup>5</sup> <https://www.bmogam.com/ca-en/institutional/responsible-investing-policies-approaches/>

## Escalation strategies

In considering engagement escalation strategies, we will make a case-by-case assessment of progress against engagement objectives and responsiveness of companies to our engagement.

In addition to the aforementioned strategies of public policy engagement and joining forces with likeminded investors to strengthen our message to companies, we have at our disposal a number of different ways that we can use to escalate our engagement, which include:

- **Proxy voting:** Voting against management on key resolutions sends a clear signal to companies and can help with further engagement efforts.
- **Filing or co-filing shareholder resolutions:** These can be a key rallying point of an engagement campaign to change companies' behaviour. Examples might include improving board accountability, executive pay practices, ESG-related disclosure, climate change action or employee welfare.
- **Attending annual general meetings (AGMs):** AGMs offer the opportunity for direct, public dialogue with boards and top executives. Interventions at AGMs can also trigger further dialogue with a company, paving the way to more in-depth engagement on an issue.
- **Partial or complete divestment:** Re-weighting a position to reflect the investment risk of poor ESG practices or selling outright a holding of a particular company can be a powerful signal of dissatisfaction in response to inadequate progress against engagement objectives.

## Transparency

Clear accountability and transparent communication are key elements of our engagement programme. We report periodically on the number of engagements across BMO GAM and the number of successful engagement outcomes, reflecting our full sphere of influence. We do this via an Annual Responsible Investment Report that we make publicly available on our website.<sup>6</sup>

We also publish research and thought pieces on specific engagement activities and ESG topics (i.e. RI Insights and RI Deep Dives); and ESG profile and impact reports for a number of our ESG and sustainable-branded funds that contain information on engagement. These are all available on our website.<sup>7</sup>

## Conflicts of interest

We must act in the best interests of our clients (including investment funds and separately managed accounts we manage on a discretionary basis) in our investment management business. We recognize conflicts of interest may arise in our investment and stewardship activities. Our approach to identify, prevent and/or manage potential conflicts of interest to ensure we serve our clients' best interests is guided by BMO GAM's Conflicts of Interest Policy – Proxy Voting and Engagement.<sup>8</sup>

## Governance of the stewardship policy

This Stewardship Policy is reviewed annually by the Responsible Investment team. BMO GAM's Investment Committee, which is chaired by our Chief Investment Officer, approves any updates for publication.

<sup>6</sup> [https://www2.bmoam.com/ri\\_annual\\_review\\_canada\\_en](https://www2.bmoam.com/ri_annual_review_canada_en)

<sup>7</sup> <https://www.bmogam.com/ca-en/institutional/news-and-insights/>

<sup>8</sup> <https://www.bmogam.com/ca-en/institutional/responsible-investing-policies-approaches/>

Any statement that necessarily depends on future events may be a forward-looking statement. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Although such statements are based on assumptions that are believed to be reasonable, there can be no assurance that actual results will not differ materially from expectations. Investors are cautioned not to rely unduly on any forward-looking statements. In connection with any forward-looking statements, investors should carefully consider the areas of risk described in the most recent simplified prospectus.

This article is for information purposes. The information contained herein is not, and should not be construed as, investment, tax or legal advice to any party. Investments should be evaluated relative to the individual's investment objectives and professional advice should be obtained with respect to any circumstance.

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