

Social Equality: BMO Global Asset Management Approach

June 2022

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Addressing growing inequalities is both a moral imperative and a societal and economic necessity. We believe that portfolio managers have a responsibility to ensure clients' interests are served through investments that contribute to more equitable societies in which everyone can thrive.

BMO Global Asset Management (BMO GAM)¹ considers social inequality to be a systemic risk that can negatively affect investments, financial systems, democracies and societies. Research shows that social inequality contributes to greater negative physical and mental health outcomes, increased healthcare costs, higher demands on social and community services, diminished educational attainment, reduced productivity, and slower economic growth.²

Unless actively mitigated, such unequal patterns will only deepen in the years ahead, which might also erode our ability to work together towards the energy transition required to achieve Net Zero by 2050. Investors have a key role to play in promoting the kind of systemic change required to address social inequalities. Through active stewardship, BMO GAM uses its influence to enhance social equality while simultaneously reducing systemic risk in support of long-term stable returns.

This statement sets out BMO GAM's approach to Social Equality, mirroring the Task Force for Climate-related Financial Disclosures (TCFD) framework³ related to governance, strategy, risk management and metrics and targets, recognizing recent efforts to launch a Task Force on Inequality-related Financial Disclosure (TIFD)⁴ which is still under development. While this document focuses on BMO GAM's policies and practices, it also references our parent company (Bank of Montreal) where relevant.

Our reporting framework

BMO Financial Group (BMO FG) publicly reports on its social performance and targets in its annual Sustainability Report,⁵ and on its website. Furthermore, BMO FG publicly reports under the United Kingdom Modern Slavery Act 2015⁶, and BMO FG's Statement on Human Rights⁷ outlines the measures it has taken to uphold BMO FG's human rights commitments. Lastly, an annual report⁸ outlines BMO FG's progress on Indigenous reconciliation, responding to the 92nd Call to Action of the Truth and Reconciliation Commission of Canada. BMO FG's strategy and reporting centers around three pillars: education, employment, and economic empowerment.

BMO GAM provides information on sustainability and responsible investment activities for inclusion in BMO FG's annual sustainability reporting. On its own, BMO GAM reports information on responsible investment activities in our annual reporting to the UN Principles for Responsible Investment⁹ a framework that encourages sustainable investing through the integration of environmental, social and governance (ESG) considerations into investment decision-making and ownership practices. We also publicly track our social equality stewardship activities in BMO GAM's Responsible Investment Annual Report.¹⁰

¹ BMO Global Asset Management is the brand name that comprises BMO Asset Management Inc. and BMO Investments Inc.

² <https://dignityforall.ca/resources/>

³ <https://www.fsb-tcfid.org/>

⁴ <https://thetifd.org/>

⁵ https://our-impact.bmo.com/us/wp-content/uploads/sites/4/2022/03/BMO_2021_Sustainability-Report_EN_FINAL.pdf

⁶ <https://www.legislation.gov.uk/ukpga/2015/30/contents/enacted>

⁷ <https://our-impact.bmo.com/wp-content/uploads/2021/05/Statement-on-Human-Rights-May-2021-EN-ACC.pdf>

⁸ https://our-impact.bmo.com/wp-content/uploads/2021/09/BMO_Indigenous_Report2021en.pdf

⁹ <https://www.unpri.org/>

¹⁰ <https://www.bmogam.com/ca-en/institutional/capabilities/responsible-investing/>

Governance

Board Oversight

Board-level oversight of sustainability, including social equality and inclusion, is embedded within the charter of the Audit and Conduct Review Committee (ACRC) of BMO FG's Board of Directors. Additionally, the Risk Review Committee (RRC) assists BMO FG's Board of Directors in fulfilling its risk management oversight responsibilities.

During the 2021 fiscal year, BMO FG's Board of Directors received educational materials and participated in many educational and round-table sessions on a wide array of subjects. Some of the social equality related themes included diversity beyond gender, systemic racism, and racial justice, LGBTQ2+ compensation, and modern slavery legislation, among others.¹¹

Indigenous Advisory Council

In January 2020, BMO FG established an Indigenous Advisory Council (IAC) composed of First Nations, Métis and Inuit representation from across the country. The IAC provides guidance to BMO FG on the creation of new policies and practices that respond to the 92nd Call to Action of the Truth and Reconciliation Commission of Canada. The IAC's focus is to shape training on Indigenous history and cultural awareness; promote jobs and training for Indigenous People; help achieve long-term, sustainable economic growth for Indigenous communities; and advise BMO FG on ongoing relationship development with Indigenous Peoples.

Management Oversight

Within BMO GAM, oversight of the firm's responsible investment strategy lies with the Investment Committee (IC), chaired by BMO GAM's Chief Investment Officer. The IC approves all responsible investment policy statements.

Our responsible investment specialists include experts on stewardship, ESG integration, climate change and social equality issues. A specific social equality role is dedicated to leading related stewardship, thought leadership and investment analysis activities at BMO GAM. The Responsible Investment team coordinates with BMO GAM's portfolio managers and analysts to provide ESG and sustainability data, training, and research in support of company analysis, responsible investment integration, and product development.

¹¹ https://www.bmo.com/ir/files/F21%20Files/BMOProxy_March2021.pdf
https://www.bmo.com/ir/files/F22%20Files/BMOProxy_March2022.pdf

Strategy

Advancing positive social change is a central tenet of BMO FG's purpose to boldly grow the good in business and in life. BMO FG's commitment to social equality is demonstrated through its Zero Barriers to Inclusion 2025 strategy¹² for increasing gender, race, and other minority representation throughout the organization¹³. BMO FG was an early signatory to the BlackNorth Initiative¹⁴, and the Catalyst Accord 2022¹⁵ to drive gender parity and over the last year has made considerable progress in accelerating Indigenous¹⁶ and LGBTQ2+¹⁷ representation across our organization. Recent substantive investments¹⁸ in affordable housing as well Indigenous, Black, and Women entrepreneurs are further examples of BMO FG's strategy to promote positive social change through action in support of economic and social inclusion.

As a subsidiary of Bank of Montreal, BMO GAM embodies these same values. BMO GAM is widely invested globally through both actively managed and passive indexed funds. We take a progressive approach to investment stewardship, positively influencing corporate behaviour, standard setting and public policy to help mitigate systemic risks related to social inequality.

BMO GAM has engaged on the topic of social equality by calling on governments and regulators to advance mandatory human rights due diligence, forced labour legislation and mandatory corporate diversity and inclusion reporting and target-setting. We ask companies to implement strategies to assess and incorporate social equality matters in their business planning, human capital management approaches and reporting. Companies that are proactive in maintaining good stakeholder relationships may see their business benefit over the long-term, mitigate reputational risks, retain their social licence to operate, ensure continuity in business operations and supply chains, avoid legal and regulatory fines, enhance employee productivity, and improve both employee and customer satisfaction. For more information about our expectations of companies, please visit our Social Expectations Statement¹⁹.

BMO GAM has taken a range of measures to address social equality risk and provides solutions to clients. These include:

- Integrating financially material ESG risks, including social risks, into the investment analysis process.
- Considering salient adverse impacts to people, as part of the investment analysis process for active mandates that accommodate this approach.
- Offering investment products that allow investors to direct capital towards solutions advancing social equality, such as BMO Women in Leadership Fund.
- Implementing a comprehensive engagement and proxy voting approach aimed at encouraging investee companies to address social equality risks.
- Supporting domestic and international public policy advancements on social equality, including various co-developing and signing investor statements calling for governments to implement mandatory human rights due diligence or mandatory corporate diversity and inclusion reporting.
- Taking a transparent approach, including the publication of our methodologies.

¹² <https://our-impact.bmo.com/our-practices/diversity-and-inclusion/>

¹³ <https://our-impact.bmo.com/wp-content/uploads/2022/01/BMO-EENR2020-EN-ACC.pdf>

¹⁴ <https://jobs.bmo.com/ca/en/black-inclusion>

¹⁵ <https://www.catalyst.org/solution/catalyst-accord-2022-accelerating-the-advancement-of-women/>

¹⁶ https://our-impact.bmo.com/wp-content/uploads/2021/09/BMO_Indigenous_Report_EN_AODA_210925.pdf

¹⁷ <https://about-us.bmo.com/blog/bmo-harris-bank-earns-top-score-in-human-rights-campaign-foundations-2022-corporate-equality-index/>

¹⁸ <https://capitalmarkets.bmo.com/en/news-insights/news-releases/sustainable-finance/bmo-announces-12-billion-financing-commitment-towards-affordable-housing-canada/>; https://our-impact.bmo.com/wp-content/uploads/2021/09/BMO_Indigenous_Report_EN_AODA_210925.pdf; <https://capitalmarkets.bmo.com/en/news-insights/news-releases/sustainable-finance/bmo-launches-business-within-reach-bmo-black-entrepreneurs-and-commits-100-million-loans-help-black-led-businesses-start-scale-and-grow/>

¹⁹ <https://www.bmogam.com/ca-en/institutional/responsible-investing-policies-approaches/>

Risk Management

ESG Integration

BMO GAM research analysts and portfolio managers follow an investment process that considers the potential impact of ESG risks, including social equality, alongside other factors that determine the prospects for any company in whose securities we might invest. They have access to a range of ESG data and research, including both third-party data and proprietary information, as well as support in analyzing 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 listed equities and bonds, our Responsible Investment team provides data on human rights, workforce make-up and adverse impacts versus sector peers using the Sustainability Accounting Standards Board's materiality framework²⁰ as well as controversy flags. This data, in conjunction with a broader analysis of material ESG issues, can then be used by BMO GAM's individual portfolio managers to identify potentially high-risk companies for deeper analysis.

Some BMO GAM investment teams also seek opportunities to invest in companies that can contribute to solutions. Examples in our fundamental equity strategies have included companies that prioritize women representation on their boards and in management ESG Integration

Engagement and Proxy Voting

At BMO GAM, we are committed to using our influence as shareholders to improve investee companies' ESG performance, with a focus on our two key themes, Climate Action and Social Equality.

Engagement activities are led by members of BMO GAM's Responsible Investment team who work alongside, but independently from, 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. This enables us to affect a positive change at a global scale.

Our expectations for companies are aligned with those of global standards including the UN Guiding Principles on Business and Human Rights²¹ and key investor initiatives including the Corporate Human Rights Benchmark²² and the Canadian Investor Statement on Diversity and Inclusion²³. We recognize that initiatives related to social inequalities are issue-specific and efforts to launch a more coordinated investor response are underway.

We have used both one-to-one and collaborative approaches. Key collaborations include:

- **Investor Alliance for Human Rights:** BMO GAM has been an active participant and Advisory Council member of the Investor Alliance for Human Rights since 2020. We take part in various collaborative engagements and initiatives coming out of this investor platform.
- **30% Club Canada:** We have been a long-standing investor supporter of the 30% Club Canada²⁴ which aims to advance gender diversity at boards and executive management in Canada through voting and engagement.

²⁰ <https://www.sasb.org/>

²¹ https://www.ohchr.org/sites/default/files/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf

²² <https://www.worldbenchmarkingalliance.org/corporate-human-rights-benchmark/>

²³ <https://www.riacanada.ca/investor-statement-diversity-inclusion/>

²⁴ <https://30percentclub.org/chapters/canada/>

Five social-equality sub-themes guide the Responsible Investment team’s stewardship and systemic risk and opportunities management work in this area.

Social Equality Sub-themes

Wealth Inequality

SDG 1 – End poverty, SDG 2 – No hunger
SDG 3 – Good health & wellbeing
SDG 10 – Reduced inequalities
SDG 11 – Sustainable & inclusive cities



Ensuring fair wages and benefits, appropriate executive compensation, responsible tax practices, and equitable access to products and services.

Diversity, Equity and Inclusion (DEI)

SDG 5 – Gender equality
SDG 10 – Reduced inequalities



Promoting inclusion of diverse perspectives and backgrounds across the workforce and at leadership levels to ensure more equitable opportunities and outcomes.

Indigenous Reconciliation

SDG 1 – End poverty, SDG 6 – Clean water and sanitation
SDG 7 – Clean and affordable energy
SDG 8 – Decent work and economic growth
SDG 10 – Reduced inequalities



Aligning practices with the United Nations Declaration on the Rights of Indigenous Peoples and the Truth and Reconciliation Commission’s recommendations on how to advance socio-economic outcomes for Indigenous peoples.

Human Rights

SDG 1 – End poverty, SDG 10 – Reduced inequalities
SDG 12 – Responsible consumption and production



Respecting human rights in operations, products and services, and throughout supply chains.

Just Transition

SDG 3 – Good health & wellbeing
SDG 10 – Reduced inequalities



Advocating for strategic collaboration with governments, workers, communities, and rights holders to ensure that no one is left behind in the transition to a low-carbon economy.

These five sub-themes were determined through consideration of how each respective social equality issue has over-riding systems-level relevance and substantial long-term financial implications. Best practice guidelines²⁶ used to inform the selection of social equality sub-themes include:

- The high degree of consensus about negative or positive impact from the issue across a wide range of stakeholders, including international standard setters for frameworks such as the International Labour Organization²⁷, the United Nations Declaration on the Rights of Indigenous People²⁸, and the United Nations Guiding Principles for Business and Human Rights²⁹, among others
- Potential for the issue and its ripple effects to become material risks across investment mandates and especially as it relates to financial and impact materiality within the Canadian context
- Extent to which the Responsible Investment team can leverage its influence to positively impact the issue and people or systems affected by it
- The level of uncertainty about large-scale systemic risk that could be caused if the issue is not managed

Stewardship activities tied to these sub-themes aim to mitigate risk and amplify opportunities through driving company and industry performance in these areas while supporting our collective progress towards solving global sustainability challenges.

Social equality and wider ESG issues are also considered when we make decisions on proxy voting . We generally take a supportive stance on shareholder resolutions calling for stronger strategy and disclosure on human rights, workforce diversity, pay equity, indigenous rights and other social equality matters. In addition, BMO GAM’s Corporate Governance Guidelines also state that where companies fail to provide basic human rights and supply chain reporting, we may vote against management resolutions, such as the report and accounts or election of directors³¹.

²⁵ SDG is an acronym for Sustainable Development Goals. The United Nations General Assembly defined 17 SDGs in 2015 as a “blueprint to achieve a better and more sustainable future for all” by 2030

²⁶ <https://www.tiiproject.com/systems-level-considerations-long-term-investor/>

²⁷ <https://www.ilo.org/global/lang-en/index.htm>

²⁸ <https://www.un.org/development/desa/indigenouspeoples/declaration-on-the-rights-of-indigenous-peoples.html>

²⁹ https://www.ohchr.org/sites/default/files/documents/publications/guidingprinciplesbusinesshr_en.pdf

³⁰ All our proxy voting decisions are publicly available here: <https://vds.issgovernance.com/vds/#/MjA5NTAw/>

³¹ https://www2.bmoam.com/corporate_governance_guidelines_en

Company Expectations, Metrics and Targets

BMO GAM supports investee companies in adapting policies and practices to enhance social equality through the following activities:

- Engaging in conversations with board directors and executive leadership to ensure common understanding of the social issue, why it is important to investors, what investors’ expectations are regarding company performance in that area, barriers to achieving targets, supports available and strategy for improving performance.
- Encouraging enhanced disclosures and transparency on social equality metrics and efforts, including workforce data, stakeholder relations, grievance mechanisms, board diversity, strategies to enhance access to affordable products and services, and other relevant social equality matters.
- Monitoring companies’ efforts, reporting and performance on the issue relative to established benchmarks and emerging best practices.
- Providing resource information to support corporate performance and disclosure, including examples of best practices by companies demonstrating leadership related to the social issue.
- Assessing the use of our voting rights when investee firms fall short of our expectations.

We are currently developing metrics and targets related to each of the five social equality sub-themes to: 1) assess and monitor company and industry performance across our investment mandates; 2) identify opportunities for company engagement; and 3) track progress over time. We will publish these metrics and targets once finalized.

Our general expectations of companies across all five sub-themes and the various stages of development companies might be at is shown in Figure 1 below. These may evolve over time as our approach continues to develop.

Basic awareness	Active management of social equality related business practices	Strategic approach	Alignment
<ul style="list-style-type: none"> • Recognition of issue - acknowledge the material risks in public reporting related to stakeholder relations and growing social inequality risks • Using stakeholder input for materiality mapping • Basic reporting in ESG disclosures of ie. workforce metrics 	<ul style="list-style-type: none"> • Formal policies in place to address social equality risks in business practices • Actions to reduce social inequality • Set transparent targets for e.g. DEI, fair wages and benefits, ensuring equitable access to products and services. • Lay out steps to achieve targets and report on progress. 	<ul style="list-style-type: none"> • Integration of social equality risks and opportunities into business strategy (consideration of supply chain and products and services) • Oversight at Board level • Align performance on social equality issues with executive pay • Analyse and disclose risks in line with best practice metrics and targets • Assess resilience to social inequality risks (e.g. reputational damage, mass resignation, strikes, legal action, low economic growth, regulatory barriers) • Include external social equality impacts on people from products and services throughout supply chain • Identify opportunities for stakeholder collaboration and partnerships • Join progressive industry groups; avoid negative lobbying 	<ul style="list-style-type: none"> • United Nations General Principles for Business and Human Rights • International Labour Organization • United Nations Declaration on the Rights of Indigenous People and Truth and Reconciliation Commission’s Call to Action #92 • 50:30 Challenge for DEI • United Nations Sustainable Development Goals • Proactive measurement and disclosure <ul style="list-style-type: none"> - eg. Human rights due diligence throughout value and supply chains, grievance mechanisms and remediation, DEI at all levels of the firm, meeting recommendations for Indigenous reconciliation including FPIC, closed race and gender pay gaps etc.

Climate and Social Equality

In further developing our framework we recognize the link between social equality and fighting climate change, including the opportunities that addressing inequalities bring to a successful transition to a low-carbon economy. In Canada First Nations, Inuit, and Métis peoples still rely closely on the land for food, shelter, culture and spiritual sustenance – as such developing equitable partnerships with Indigenous peoples to mitigate the effects of climate change through land conservation, clean energy and infrastructure development can help build Canada’s resilience, lower greenhouse gas emissions, and contribute to Indigenous reconciliation by improving the socio-economic outcomes for Indigenous peoples. Additionally, strategic corporate diversity and inclusion practices can mitigate race and gender income disparities and leverage the rich and diverse perspectives that women and racialized and other marginalized groups bring to enhance innovation, worker engagement and problem-solving capacity.³²

³² <https://www.bmogam.com/ca-en/institutional/news-and-insights/gender-equality-in-canada-tapping-into-an-underutilized-talent-pool/>

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