

# BMO Global Asset Management: Responsible Investment Policy

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BMO Global Asset Management<sup>1,2</sup>(BMO GAM or we) believes in the importance of investing responsibly. This document describes our responsible investment policy.

## Our Approach and Purpose

We take responsible investment seriously. The identification of financially material environmental, social and governance (ESG) issues forms part of our investment process, helping us to manage risk and support long-term returns. We also see responsible investing and broader investment stewardship activities as part of our duty as an investor acting in the best interests of our clients. It is our belief that these can both support the delivery of long-term financial returns to our clients and contribute towards a more sustainable future for people and the planet.

Our approach is aligned with the core values and corporate purpose of BMO Financial Group (BMO FG) to 'Boldly Grow the Good in Business and in Life'. It draws on national and international codes and standards for responsible investment and ownership, including the United Nations Principles for Responsible Investment, to which we are an A+ rated signatory<sup>3</sup>.

## Responsible Investment: Our Policy

Responsible investment is an umbrella term that incorporates a range of practices and approaches in considering key ESG risks, opportunities and impacts of the investments we make. For us, it means a commitment to:

- i. **ESG Integration:** Integrating analysis of relevant ESG issues into investment processes, as appropriate;
- ii. **Engagement:** Engaging in dialogue with companies on significant matters related to ESG issues, so as to reduce risk, improve performance, encourage best practice and underpin long-term financial, social and environmental value creation;
- iii. **Public Policy Advocacy:** Engaging policymakers and standard-setters to promote best practices and increase the bar for all companies across sectors, regions, markets and exchanges.
- iv. **Market Education:** Sharing research and insights with our clients and the broader industry to promote a responsible approach to investment.
- v. **Proxy Voting and Corporate Governance:** Proxy voting in line with our corporate governance guidelines across global holdings;
- vi. **Industry Collaboration:** Collaborating with other institutional investors, civil society organizations and industry groups to collectively affect change; and
- vii. **Reporting:** Taking a transparent approach to our responsible investment activities by reporting to both our clients and the wider public

While our approach to responsible investment covers a wide range of ESG issues, we recognize that there are large systemic issues which require specific focus. For this reason, we have two key themes of focus:

- i. **Climate Action:** Climate change presents potential systemic risks to our business and our investments, which require a different scale and nature of response. We discuss our approach to climate change in depth in a separate document in line with recommendations of the Task Force on Climate-related Financial Disclosures.<sup>4</sup>
- ii. **Social Equality:** Growing inequality arising from lack of fair wages, inequitable access to products, services and opportunities; and systemic violations of human and Indigenous rights is increasingly threatening social stability and our economic future. In a separate document, we discuss our approach to combatting social inequalities.<sup>5</sup>

We hold ourselves accountable to our responsible investment policy by virtue of our strong **Responsible Investment Governance** structure, which is underpinned by our approach to dealing with **Conflicts of Interest**.

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

<sup>2</sup> BMO GAM has built upon and continues responsible investment practices first started by the F&C Asset Management plc group of companies in 1984. BMO GAM and F&C Asset Management plc group of companies were affiliates from May 2014 until their sale in November 2021. F&C Asset Management plc group of companies are no longer affiliates of BMO GAM.

<sup>3</sup> BMO GAM, together with its former asset management affiliates in Europe, Asia and the United States, was awarded an A+ rating in the Stewardship and Governance categories for 5 years from 2016-2020 by the United Nations Principles for Responsible Investment (UN PRI). The UN PRI is an investor initiative in partnership with UNEP Finance Initiative and UN Global Compact (see [www.unpri.org](http://www.unpri.org)). This rating is based on objective criteria that placed BMO GAM together with its affiliates at the time for each of the above-noted years in the top 25% of high performing UN PRI signatories globally as well as in North America. UN PRI does an independent assessment of all global signatories annually through an extensive questionnaire. A+ is the highest rating from the UN PRI.

<sup>4,5</sup> <https://www.bmogam.com/ca-en/institutional/responsible-investing-policies-approaches/>

## Responsible Investment Governance

BMO GAM has a dedicated in-house Responsible Investment (RI) team which reports to the firm's Chief Investment Officer (CIO). BMO GAM has integrated responsible investment activities under the governance structure applied to all investment activities which are overseen by the firm's CIO.

The CIO chairs the firm's Investment Committee (IC), which governs the investment functions at BMO GAM, and also chairs the Responsible Investment Working Group (RIWG). The RIWG supports, approves and oversees the adoption and application of BMO GAM's responsible investment activities in ESG matters including all responsible investment-related policies and approaches.

All updates to this responsible investment policy and related policies are conducted by the IC, the members of which include our CIO and the heads of investment teams across BMO GAM.

## Conflicts of Interest

We recognize conflicts of interest may arise in our investment management activities. We seek to identify, prevent and/or manage potential conflicts of interest to serve our clients' best interests.

Voting, engagement and public policy work is also conducted in the best interests of our clients. Positions taken by BMO GAM may not be representative of the views of BMO FG as a whole or of the other lines of business within it.

BMO GAM treats all companies equally in engagement and voting activities, irrespective of any business relationship that may exist between the company and any part of BMO FG. We make public our Stewardship Policy and Conflicts of Interest Policy – Stewardship.<sup>6</sup>

### I. ESG Integration

ESG integration is the consideration of financially material ESG issues in the course of investment analysis and decision-making, with a view to gaining a more comprehensive understanding of risk and long-term opportunity. We see how these factors can have material implications for financial performance and investor returns. From the damaging effects of climate-related disasters to the innovation stemming from a diverse workforce, ESG considerations can both mitigate risk and generate opportunities.

We apply a tailored approach to ESG integration, by investment strategy and asset class, to ensure that the additional analysis is relevant and meaningful to each investment process.

Across our investment mandates, we approach ESG from both a top-down and bottom-up perspective so that we can evaluate risk and opportunity at every level. ESG considerations form a core part of our research and portfolio construction processes across several asset classes including equities, fixed income, and multi-asset solutions. Investment teams understand how ESG factors relate to their investment case, and are supported by the RI team in doing so.

To support our individual portfolio managers and analysts, the RI team develops tools and guidelines using trusted third-party service providers as well as proprietary in-house analysis to capture both breadth and depth of insight. The RI team regularly produces thought leadership pieces and hosts seminars on key ESG topics to further facilitate idea generation and provides significant post-investment support by working with the companies in our portfolios to better manage ESG issues. These tools allow our investment teams to integrate ESG factors in ways that are most meaningful to their asset class and investment strategy. Investment teams are also equipped to offer products and services which satisfy those clients with specific ESG requirements.

### II. Engagement

We are committed to the good stewardship of our clients' investments through our engagement and proxy voting activities.

Our primary purposes in engagement are to support long-term returns and to mitigate risk. We also believe that by encouraging better management of ESG issues by the companies we invest in we contribute to a more resilient global economy, which will ultimately enhance our clients' long-term prosperity and security. We have a separate Stewardship Policy.<sup>7</sup>

Having identified ESG issues 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 practices in managing those issues. Our engagement program addresses material ESG risks at the company and industry level, and also 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 with engagement objectives to help focus our efforts and track outcomes. We have also formulated good governance expectations from companies through our Corporate Governance Guidelines (CGG)<sup>8</sup> which guide the way we vote and engage on governance. We engage companies on our voting intentions based on these expectations prior to, during and after annual shareholder meeting season. We monitor the outcomes of our engagement and report on our progress.

In encouraging companies to move towards best practices in managing ESG issues, we make reference 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, the UN Declaration on the Rights of Indigenous Peoples and national corporate governance principles and codes of best practice.<sup>9</sup> However, any such codes and standards are often only a starting point, as we tailor our engagement to individual companies and how ESG issues under discussion apply to their specific circumstances.

<sup>6,7,8</sup> <https://www.bmogam.com/ca-en/institutional/responsible-investing-policies-approaches/>

<sup>9</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/>

Our preferred approach is to use constructive, confidential dialogue, typically working one-to-one with companies, but also taking a collaborative approach where this has more impact and is in line with our objectives. We engage at different levels within companies depending on the nature of our objectives, including the board of directors, executive management and operational specialists. We publicly share our ESG expectations of companies.<sup>10</sup>

Engagement activities are led by members of BMO GAM's RI team who work alongside, but independently from, our fixed income and equity portfolio managers and investment analysts. The RI 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 RI team monitors and can override any vote instructions by *reo*® across all markets.

### III. Public Policy Advocacy

Policy advocacy is a key component of BMO GAM's RI approach. By engaging policymakers and standard-setters, BMO GAM can promote best practices and increase the bar for all companies across sectors, regions, markets and exchanges. We believe dialogue with companies is essential, but also recognize that action by governments or regulatory intervention is needed to create a level playing field and achieve meaningful results. We commit to contribute to standard-setting in public policy, where we seek to be a constructive investor voice.

Recent examples include consultations on responsible investment policies, codes and regulations, working with global stock exchanges on listing standards, and advocating policies that raise the bar for the management of ESG risks faced by the companies in which we invest.

We report on our public policy advocacy efforts annually in our Responsible Investment Annual Report.<sup>11</sup>

### IV. Market Education

As active participants in the responsible investment space, BMO GAM regularly publishes research and insights related to a variety of ESG topics. Leveraging our expertise to focus on market education is a key part of our responsible investment strategy, helping clients understand the connection of sustainability issues with investments.

### V. Proxy Voting and Corporate Governance

Corporate governance is the system by which businesses are directed, controlled by shareholders, and held accountable to their stakeholders. Good corporate governance also serves as the foundation to sound environmental and social practices.

It is our policy to vote at all shareholder meetings of investee companies on behalf of our discretionary investment mandates. We apply a consistent philosophy and approach to corporate governance and the exercise of voting rights. This approach is embodied in our CGG, approved by our IC and published on our website. The CGG are reviewed annually to address developments in international governance practices, and are based on the following overarching principles that we believe constitute good corporate governance practice:

- an empowered and effective board and management team
- appropriate checks and balances in company management structures and board oversight
- effective systems of internal control and risk management covering relevant financial, operational and reputational risks, including material ESG risks
- a commitment to promoting a "governance culture" of transparency and accountability that is grounded in sound business ethics
- remuneration policies that reward the creation of long-term value through the achievement of corporate objectives
- a commitment to protecting the rights and interests of all investors in the company

We use our vote, combined with engagement, to encourage companies to live up to these principles as we believe this is in the best interests of our clients who hold investments in those companies.

We also recognize that such principles may be expressed differently in different markets. Therefore, our voting policies take into account local practices and are applied 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 CGG, we will consider this and (where relevant) adjust our vote if we believe the company is acting in the best interests of shareholders. Overall, we strive to make pragmatic suggestions that would help advance our investee companies' understanding of investor concerns.

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

<sup>11</sup> [https://www2.bmoam.com/ri\\_annual\\_review\\_canada\\_en](https://www2.bmoam.com/ri_annual_review_canada_en)

Our engagement and voting approaches are closely aligned and integrated. Where engagement on ESG matters might not be progressing, we have the ability to escalate through voting against management. Our CGG also guide how we vote at meetings of companies that have been identified as global laggards on systemic ESG issues, in particular climate change. This approach is closely informed by investor expectations of well-established collaborative investor engagement initiatives in which we participate.

The RI 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*<sup>®</sup>) 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 RI team monitors and can override any vote instructions by *reo*<sup>®</sup> across all markets.

## VI. Industry Collaboration

BMO GAM publicly supports and endorses responsible investing through active industry collaboration and memberships, contributing to responsible investment standard-setting and engaging in policy advocacy.

BMO GAM's dedicated in-house RI team serves on various responsible investment-related industry bodies and committees aimed at furthering the responsible investment and stewardship agenda locally and globally, including the Responsible Investment Association (RIA) Board and Leadership Council, the Environmental & Social Committee of the Canadian Coalition for Good Governance (CCGG), the Steering Committee of Climate Engagement Canada (CEC) and the Investor Alliance for Human Rights Advisory Council.<sup>12</sup>

As part of our commitment to industry collaboration, we develop, support and sign collaborative statements with other investors that include public commitments to furthering specific responsible investment objectives. Our participation in these collaborations vary, from participant to active member. Members of our team actively sit on boards, committees and councils of various industry organizations and collaborations. This allows the team to both represent BMO GAM's views on behalf of its clients as well as deepen our expertise on specific emerging ESG issues and standards, and apply that knowledge to inform our own responsible investment activities.

## VII. Reporting

BMO GAM believes that it is important to be transparent in how we approach responsible investing, including voting, engagement, industry collaboration, ESG integration and thought leadership.

As such, all proxy voting activity on behalf of our investment funds is publicly disclosed.<sup>13</sup> Regular publications are also published on BMO GAM's website, outlining responsible investment activities, as well as thought leadership pieces. The Responsible Investment Annual Report summarizes the RI team's activity throughout the year, providing transparency on our stewardship, voting, and policy advocacy. Impact reports are also published annually for select investment funds which adhere to more strict sustainable investment guidelines.<sup>14</sup>

As part of the broader BMO FG, BMO GAM actively contributes to climate and sustainability-related reports. Please refer to the most recent BMO Climate Report to learn more about how we deliver on sustainable objectives throughout the organization.<sup>15</sup>

<sup>12</sup> <https://www.riacanada.ca/about/>, <https://ccgg.ca/>, <https://climateengagement.ca/>, <https://investorsforhumanrights.org/>

<sup>13</sup> <https://vds.issgovernance.com/vds/#/MjASNTAw/>

<sup>14</sup> [https://bmogamhub.com/system/files/bmo\\_women\\_in\\_leadership\\_gender\\_diversity\\_report.pdf](https://bmogamhub.com/system/files/bmo_women_in_leadership_gender_diversity_report.pdf)

<sup>15</sup> [https://our-impact.bmo.com/wp-content/uploads/2022/03/BMO\\_2021\\_Climate-Report\\_EN\\_FINAL.pdf](https://our-impact.bmo.com/wp-content/uploads/2022/03/BMO_2021_Climate-Report_EN_FINAL.pdf)

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.

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