Principal adverse sustainability impacts statement

1. Summary

BMO Global Asset Management ("BMO GAM") believes in the importance of taking a responsible approach to investment. Part of this approach includes considering how the investment decisions we make for our end clients might have material negative effects on environmental, social and governance factors ("Sustainability Factors" or just "ESG"). We also refer to these negative effects as the "principle adverse impacts" resulting from our investment decisions on these Sustainability Factors. This document describes how we evaluate these negative effects as part of our investment processes.

This statement covers all investment activities directly executed by the members of BMO Global Asset Management EMEA, other than Pyrford International Limited, which has adopted its own separate statement.

This Principal Adverse Impacts statement covers the period from January 28, 2021 to 31 December 2021.

Across BMO GAM, we are fully committed to integrating consideration of Sustainability Factors into our overall investment processes. This includes reviewing how any investment decision we make will or is likely to have a material adverse impact on these factors. Depending on the type of investment strategy followed, we will also consider how an investment decision might have a positive impact on them.

We take Sustainability Factors seriously, both as part of our responsibility as an investor for our clients and a participant in the global financial system; and because we see an opportunity to identify Sustainability Factors and mitigate these where possible as part of a robust investment process. We believe this supports long-term returns and increases the resilience of the economy and stability of the financial system.

We tailor our approach to reviewing how our investment decisions might be impacted by Sustainability Factors by investment strategy and asset class to ensure that the analysis is relevant and meaningful to each team's investment process. 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 (1) the potential impact of ESG risks on the value of investments alongside the other factors that determine the prospects for a company such as financial data, and (2) how decisions to purchase particular assets might have an adverse impact on Sustainability Factors. They have access to a range of ESG data and research, including research and analysis from our team of in-house responsible investment specialists. This includes:

- absolute environmental, social and governance scores
- environmental, social and governance rankings within sectors
- total sustainability ranking within sectors,
- relative CO2 intensity (weighted average carbon intensity)
- Involvement with severe and very severe controversies including fraud, corruption, product safety, access to healthcare, labour management, data security, biodiversity and land use and toxic emissions.

We expect to significantly increase the range and granularity of the data considered during the course of 2021 to meet upcoming regulatory requirements.

2. Description of policies to identify and prioritise principal adverse sustainability impacts

The BMO Global Asset Management Responsible Investment Approach describes the policies and assessment process used to identify and prioritise principal adverse impacts on sustainability factors.

The approach was approved on January 28 and will be updated annually. All updates are conducted by the Global Investment Committee (GIC), the members of which include our Global CIO, CIO North America and other senior investment representatives from across BMO GAM representing our respective regulated entities. Our Executive Committee reviews the documents prior to publication.

Our approach to assessing principal adverse impacts is based on identifying investee companies1 with poor ESG practices and performance, such as large scale and persistent human rights violations, labour rights violations, environmental pollution or corruption.

We use external ESG-data, company disclosures, public information and our in-house analysis carried out by responsible investment specialists and investment teams, informed by our long history of direct engagement with investee companies, to assess the likelihood of occurrence, scope, and severity of adverse impacts, quality of sustainability management of companies, as well as whether and how adverse impacts can be alleviated. The analysis is a combination of an absolute assessment of the severity of adverse impact and a relative assessment of quality of mitigation management, informed by sector and regional best practice. For companies and other investments not covered by any of the data providers, which might be the case for small- or mid-cap emerging markets companies, as well as direct property investments and underlying companies within private equity funds, our in-house responsible investment specialists carry out additional research on potential adverse impacts. This way we aim to overcome some of the main limitations of our methodology, which is caused by availability of objective data relating to principle adverse impacts.

In some instances, we may also be limited in our ability to identify and mitigate adverse impacts of assets invested in non-BMO managed investment funds or assets managed by third party managers outside BMO GAM on a delegated basis.

3. Description of actions to address principal adverse sustainability impacts

When prioritizing our efforts to remediate adverse impacts through engagement, we assess among other things the materiality of the issue and the likelihood of success, which is based on our engagement history and the size of our holdings. For high risk or severe cases of adverse impact identified, a mitigation strategy is defined and executed through active engagement with investee companies to exert leverage. Our engagement activities can include contacting companies by letter, email and/or telephone, meetings with companies at operational, senior management and/or board level and joining initiatives that seek to prevent and mitigate adverse impacts.

In the case of private equity investments where an adverse sustainability impact has been identified, we, often working with other investors, would seek to agree with the investee company a detailed plan of mitigation or elimination of the adverse sustainability impact, which should cover the initial few months of investment with arrangements for ongoing monitoring thereafter. For example, implementation of living wage into employment contracts.

In cases where mitigation fails, potential escalation measures include collaboration with other investors and votes against management, including votes against individual directors.

In 2020, we engaged with 760 listed companies across different sectors and countries about management of sustainability risks and opportunities, with a special focus on climate change, governance, labour standards and health. More information about our engagement activities and results can be found in our Responsible Investment Annual Review on our website.

[1] Throughout this document this always includes companies involved in direct real estate investments as well as underlying companies within private equity funds.

In the year ahead, we continue to prioritise our engagement with companies in high climate impact industries, driving action towards a net zero emissions global economy, while increasing engagement efforts to encourage positive biodiversity outcomes and address issues of inequality and social justice.

4. Engagement policies

We are committed to supporting good stewardship through our engagement activities. Our primary purposes in engagement are to support long-term value creation and to mitigate risk. We believe that by encouraging better management of ESG issues by investee companies, we contribute to a more resilient global economy and stable financial system, which will ultimately have a positive impact on our clients' long-term performance and risk profile.

Having identified the 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 practice in managing those issues. Our engagement encompasses a spectrum of ESG issues, across a range of sectors and geographies. We monitor the outcomes of our engagement and report on our progress to our clients.

In encouraging companies to move towards best practice in managing ESG issues, we refer to international codes and standards where relevant (see below), and national corporate governance principles and codes of best practice.

Engagement is performed across the assets we manage, including equities and fixed income, as well as in other alternative asset classes.

Engagement delivers the best outcomes when it focuses on the right issue for the right company or right asset at the right time.

5. Adherence to international standards

In addition to national corporate governance principles and codes of best practice, BMO GAM adheres to many broadly accepted codes of conduct, statements and best practices[2] and is a signatory to many of them. Currently the most important codes and principles are:

- United Nations Guiding Principles on Business and Human Rights
- United Nations Global Compact
- United Nations Sustainable Development Goals
- OECD Guidelines for Multinational Enterprises
- Responsible Business Conduct for Institutional Investors (OECD)
- International Labour Organization Core Conventions
- The Paris Agreement[3]

[2] Including EPRA sustainability, INREV sustainability, ISO14001 and GRESB in respect of real estate

[3] We are a founder signatory of the Net Zero Asset Managers Initiative and are committed to a long-term ambition of aligning all our portfolios with the goal of the Paris Agreement of net zero emissions by 2050, working in partnership both with our clients and with our investee companies.