



## **European SRI Transparency Code**

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: [www.eurosif.org](http://www.eurosif.org). The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif in February 2018.

### **REVISION OF THE CODE**

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

### **TWO KEY MOTIVATIONS UNDERPIN THIS CODE**

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

### **GUIDING PRINCIPLE**

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

### **COMMITMENTS BY SIGNATORIES**

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;



- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
- Signatories are solely responsible for the answers to the questions, and should state this in their response.

#### Statement of Commitment

*Complete/modify the below section accordingly*

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of BMO Global Asset Management. We have been involved in SRI since 1984 and welcome the European SRI Transparency Code.

This is our third statement of commitment and covers the period 12 months from approval. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our website.

#### Compliance with the Transparency Code

BMO Global Asset Management is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. BMO Global Asset Management meets the full recommendations of the European SRI Transparency Code.

**May 2020**

#### Eurosif classification of Sustainable and Responsible Investment<sup>1</sup> strategies

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

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<sup>1</sup> Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016



**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

**Integration of ESG Factors into Financial Analysis:** the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

**Engagement and Voting on Sustainability Matters:** engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

**Impact Investing:** impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances<sup>2</sup>. Investments are often project- specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French *fonds solidaires*.

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<sup>2</sup> Global Impact Investing Network (GIIN), "What is Impact Investing?", <http://www.thegiin.org/cgi-bin/iowa/investing/index.html>, 2012

## 1. List of funds covered by the Code

Name of the fund(s): BMO Sustainable Opportunities European Equity Fund					
Dominant/preferred SRI strategy (Please choose a maximum of 2 strategies)	Asset class	Exclusions standards and norms	Fund capital as at 31 December	Other labels	Links to relevant documents
<input type="checkbox"/> Best-in-Class Investment section <input checked="" type="checkbox"/> Engagement & Voting <input type="checkbox"/> ESG Integration <input type="checkbox"/> Exclusions <input type="checkbox"/> Impact Investing <input type="checkbox"/> Norms-Based Screening <ul style="list-style-type: none"> <li>✓ Leading to exclusions</li> <li>✓ Leading to risk management analysis/engagement</li> </ul> <input checked="" type="checkbox"/> Sustainability Themed	<b>Passively managed</b> <input type="checkbox"/> Passive investing - core benchmark: specify the index tracking <input type="checkbox"/> Passive investing - ESG/SRI benchmark: specify the index tracking <b>Actively managed</b> <input type="checkbox"/> Shares in a euro area country <input checked="" type="checkbox"/> Shares in an EU country <input type="checkbox"/> International shares <input type="checkbox"/> Bonds and other debt securities denominated in euro <input type="checkbox"/> International bonds and other debt securities <input type="checkbox"/> Monetary assets <input type="checkbox"/> Short-term monetary assets <input type="checkbox"/> Structured funds	<input checked="" type="checkbox"/> Controversial weapons <input type="checkbox"/> Alcohol <input checked="" type="checkbox"/> Tobacco <input checked="" type="checkbox"/> Arms <input checked="" type="checkbox"/> Nuclear power <input type="checkbox"/> Human rights <input type="checkbox"/> Labour rights <input type="checkbox"/> Gambling <input type="checkbox"/> Pornography <input type="checkbox"/> Animal testing <input type="checkbox"/> Conflict minerals <input type="checkbox"/> Biodiversity <input type="checkbox"/> Deforestation <input checked="" type="checkbox"/> CO2 intensive (including coal) <input type="checkbox"/> Genetic Engineering <input checked="" type="checkbox"/> Global Compact <input type="checkbox"/> OECD Guidelines for MNCs <input type="checkbox"/> ILO Conventions <input type="checkbox"/> Other	€29.9mn	<input type="checkbox"/> French SRI <input type="checkbox"/> label <input type="checkbox"/> French TEEC label <input type="checkbox"/> French CIES label <input type="checkbox"/> Luxflag Label <input type="checkbox"/> FNG Label <input type="checkbox"/> Austrian Ecolabel <input type="checkbox"/> Other (please specify)	- (KIID) - Prospectus - Management report - Financial and non-financial reporting - Corporate presentations - Other (please specify)  Please refer to Key Documents and Literature via the following link: <a href="https://www.bmogam.com/gb-en/intermediary/capabilities/responsible-investing/">https://www.bmogam.com/gb-en/intermediary/capabilities/responsible-investing/</a>



## *2. General information about the fund management company*

### **2.1. Name of the fund management company that manages the applicant fund(s)**

BMO Global Asset Management.

### **2.2. What are the company's track record and principles when it comes to integrating SRI into its processes?**

Please provide a hyperlink to any of the company's sustainable investment webpages. <https://www.bmogam.com/gb-en/intermediary/capabilities/responsible-investing/>

BMO Global Asset Management has been a pioneer and leader in responsible investment for more than three decades. Responsible investment is central to our corporate identity and integral to our overall investment philosophy. We are, therefore, fully committed to integrating ESG factors into our investment processes. We take ESG issues seriously, both as part of our responsibility as an investor and a participant in the global financial system. Importantly, we see the identification and, where possible, mitigation of ESG risks as part of a robust investment process underpinning long-term returns.

Our 19-strong Responsible Investment team is an in-house source of experience and expertise on the implications of ESG issues for investment. Responsible Investment team members and fund managers collaborate closely, including through joint company meetings and regular internal seminars discussing key ESG trends, such as climate change, bribery and corruption, and tax policies, and their relevance to company valuation and active ownership activities.

With regards to integrating ESG factors into our investment analysis across asset classes, including equities, corporate credit, sovereign credit, private equity, and real estate, we take a tailored approach depending on the nuances of each asset class. Our approach to integration is fund manager-led and based on identifying material ESG issues as part of the standard investment process.

Our research analysts and portfolio managers follow a process that considers the potential impact of ESG issues related to investments. They have access to a range of ESG data and research, including both third-party data and proprietary information, as well as support in interpreting this information, provided by the specialist Responsible Investment team. This analysis informs our asset allocation, stock selection, portfolio construction, and shareholder engagement and voting.

Our obligations as investors do not end at the point where an investment decision is made. Having identified the issues presenting the greatest threats to long-term investor value, we use in-depth dialogue to encourage investee companies to improve performance and move towards best practice in the management of ESG issues. Our engagement encompasses a broad spectrum of ESG issues, covering companies across sectors and geographies.

We use a range of engagement tools and methods, including in-person and phone meetings, and written correspondence and e-mails. We engage at different levels within our investee companies, including board directors, executive management, investor relations, and operational specialists. Typically, our engagement is one-to-one with companies, but where we see scope to collaborate with other investors or through stakeholder

groups, we may do so if this is in line with our objectives and will be more effective in achieving the desired outcome. Our approach is based on constructive and confidential dialogue, and on building a relationship of trust, so that over time we gain a sound understanding of how key ESG issues fit into companies' business strategies.

### **2.3. How does the company formalise its sustainable investment process?**

*Please provide a link to the sustainable investment policy.*

*Please provide a link to the voting rights policy.*

*Please provide a link to the engagement policy<sup>3</sup>.*

Our approach towards responsible ownership and integrating ESG-criteria in our investment process is described in our [Responsible Ownership Approach](#). These guidelines set out **the approach to responsible ownership taken in relation to holdings in funds** managed in the Europe, Middle East and Africa (EMEA) region by BMO Global Asset Management. The guidelines cover:

- integrating analysis of relevant ESG issues into investment processes, as appropriate
- 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
- voting in line with our corporate governance guidelines across global holdings
- taking a transparent approach to our responsible investment activities, both to clients and the wider public.

Our [Global Corporate Governance Guidelines](#) establish a consistent philosophy on what we expect of our investee companies in terms of their own corporate governance structure. The document also details guidelines for the exercising of voting rights in line with this philosophy.

All updates to our responsible investment approach and related policies 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 Global Asset Management representing our respective regulated entities.

### **2.4. How are ESG risks and opportunities - including those linked to climate change - understood/taken into account by company?<sup>4</sup>**

As a long-term investor, we aim to build an understanding of the fundamental factors shaping the risks and opportunities of the companies we invest in. We believe that ESG issues can have a material impact on company performance and on the economy as a whole, and that robust ESG management by companies is an integral part of good risk management.

Companies that neglect ESG issues such as fraud, bribery and corruption, environmental compliance, human rights, labour standards, and public health, may suffer litigation and operational costs, damage to their reputation and brand value, and sometimes even a threat to their license to operate. Conversely, companies managing these issues well may be better placed to identify and act on ESG trends and turn these into business opportunities.

Portfolio managers, with the support of members of the Responsible Investment team, lead the integration of ESG factors into the investment process

#### **BMO Global Asset Management's response to climate change risks**

BMO Global Asset Management, a founder signatory to the UN Principles for Responsible Investment, has a commitment to take financially-material ESG issues – including climate change – into account in all relevant investment strategies.

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<sup>3</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on INVESTOR DUTIES

<sup>4</sup> Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)

BMO Global Asset Management has responded by taking specific steps to address climate risk. These include:

- Publishing our [strategy document](#) at the start of 2020, summarising our approach to tackling climate change.
- Integrating ESG factors, including climate change, into the **investment analysis process** for all relevant asset classes.
- Support for the **Task Force on Climate-related Financial Disclosure**. Our parent company BMO Financial Group, has formally supported the TCFD recommendations, and this commitment covers BMO Global Asset Management as a subsidiary. BMO Global Asset Management is currently co-chairing a project by the Institutional Investors Group on Climate Change to develop a user guide to scenario analysis for investors, aimed at supporting the implementation of TCFD recommendations.
- Developing **investment products which allow investors to avoid exposure to companies with fossil fuel reserves** – for example our Responsible Funds range, which includes products in equity and fixed income.
- Developing **investment products which allow investors to direct capital towards climate solutions**. These include the Climate Opportunity Partners private equity fund, which is entirely invested in solution providers, and two dedicated Green Bond mandates for institutional investors.
- **Engagement and proxy voting** approach aimed at encouraging investee companies to address climate risks. BMO Global Asset Management is an active participant in the US\$40trn Climate Action 100+ initiative, which aims to improve companies' governance, strategy and disclosure in relation to climate change.
- Support for **public policy statements** on climate change as well as interventions on specific policies such as European emissions trading reforms.
- **Transparency**, including the publication of carbon footprints for two of our Responsible Funds as part of wider impact reporting. BMO Global Asset Management has published its own TCFD statement.

## **2.5. How many employees are directly involved in the company's sustainable investment activity?**

The Responsible Investment team is responsible for planning and implementing the firm's sustainable investment activity, with oversight from the Executive Committee.

Our dedicated in-house Responsible Investment (RI) team is one of the largest and most experienced teams of its kind in Europe. The 19-member team manages our dedicated engagement and voting service **reo®** and has been instrumental in the integration of ESG-related considerations across a wide range of our investment processes. The team is co-led by Claudia Wearmouth and Alice Evans, and is the 2018 and 2019 Investment Week Sustainable & ESG Investment Awards winner for Best ESG Research Team.

The team has extensive experience gained in financial services, charities, the media, consultancy, public policy, and industry, and is responsible for all ESG research, engagement, and voting activities. The Responsible Investment team forms part of the Investment Management department because we believe that the monitoring and analysis of ESG data is a core part of investment processes across our business. The heads of each investment desk, together with their analysts, are responsible for the ultimate implementation of ESG research and data into portfolio construction.

We organise the Responsible Investment team on a matrix structure which includes:

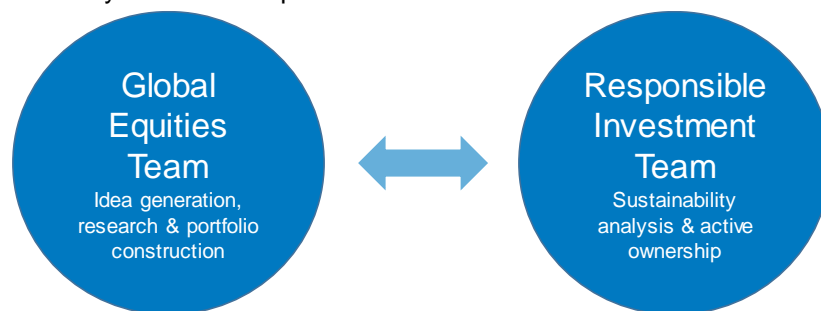
- Experienced **sector specialists** for the highest-risk sectors (including oil & gas, mining, food & beverage, retail, pharmaceuticals and financial services);



- **Regional specialists**; including team members originally from Hong Kong, Continental Europe, Colombia and North America with multiple language capabilities to effectively engage companies internationally.
- **Issue specialists**, covering in particular corporate governance, climate change, human rights, business ethics and labour standards;
- Six members of the team conduct both **governance and voting** – with voting split by regional responsibility.

#### *BMO Sustainable Opportunities European Equity Fund*

The BMO Sustainable Opportunities European Equity strategy gains input from two distinct teams, with investment philosophy and process led by the Global Equities team:



Source: BMO Global Asset Management. For illustrative purposes only.

1. The **Global Equities** team manages the strategy using fundamental, bottom-up research to construct a portfolio of companies that we view as proactively addressing sustainability challenges. Regardless of portfolio management duties, all members of the team are responsible for idea generation and contributing ideas across the funds managed by the team. Once a company is identified for possible inclusion within the Strategy, the team will collaborate and work with the Responsible Investment team to assess Environmental, Social and Governance opportunities and risks. The individual team member is then responsible for deeper investment analysis and the production of a research stock note. Portfolio construction and ongoing monitoring of stocks sits with the Global Equities team.
2. The **Responsible Investment** team (described above) undertakes extensive research on ethical and environmental, and social and governance issues for each company proposed for inclusion or actively held within the strategy as outlined above. Further, they work with the Global Equities team to fully integrate these risks and opportunities into the fundamental valuation of each business. The Responsible Investment team is then responsible for managing ongoing engagement and proxy voting for all companies owned in the strategy, with input from the Global Equities team.

#### **Global Equities Team**

The Global Equities team is based in our head office in London and led by co-Heads Jamie Jenkins and David Moss. Sacha El Khoury is Lead Portfolio Manager of the BMO Sustainable Opportunities European Equity Fund with responsibility for ultimate decision making and portfolio construction. She is supported by Portfolio Manager Nick Henderson who is the Alternate Portfolio Manager on the fund. The wider Global Equities team is outlined in the table below:

Name	Title	Region	Years in Industry	Years at the Firm
David Moss	Managing Director, co-Head of Global Equities	Global	23	23
Jamie Jenkins	Managing Director, co-Head of Global Equities	Global	23	20
Sacha El Khoury	Director, Portfolio Manager	Global	11	11
Nick Henderson	Director, Portfolio Manager	Global	12	12



Philip Webster	Director, Portfolio Manager	Europe/UK	17	4
Harry Waight	Senior Associate, Portfolio Manager	Global	7	7
Julian Cane	Director, Portfolio Manager	UK	29	27
Matthew Parker	Vice President, Portfolio Manager	UK	19	14
Stephen Hollis	Director, Analyst	Global	34	23
Andy Penman	Director, Analyst	Global	27	9
Steven Minturn	Vice President, Analyst	Global	12	5
Laura Wood	Associate, Analyst	Global	8	5
Nitisha Bosamia	Associate, Analyst	Global	6	5
Marc Denney	Equity Fund Manager's Assistant	Global	14	6
Rhys Watkins	Equity Fund Manager's Assistant	Europe	7	2
<b>Average</b>			<b>15</b>	<b>10</b>

Source: BMO Global Asset Management (EMEA). As at 31 March 2020.

## 2.6. Is the company involved in any RI initiatives?

General Initiatives	Environmental/Climate Initiatives	Social Initiatives	Governance Initiatives
<input type="checkbox"/> ECCR - Ecumenical Council for Corporate Responsibility <input type="checkbox"/> EFAMA RI WG <input type="checkbox"/> European Commission's High-Level Expert Group on Sustainable Finance <input checked="" type="checkbox"/> ICCR - Interfaith Center on Corporate Responsibility <input type="checkbox"/> National Asset Manager Association (RI Group) <input checked="" type="checkbox"/> PRI - Principles For Responsible Investment <input checked="" type="checkbox"/> SIFs - Sustainable Investment Fora <input type="checkbox"/> Other (please specify)	<input checked="" type="checkbox"/> CDP - Carbon Disclosure Project (please specify carbon, forest, water etc.) <input type="checkbox"/> Climate Bond Initiative <input checked="" type="checkbox"/> Green Bond Principles <input checked="" type="checkbox"/> IIGCC - Institutional Investors Group on Climate Change <input type="checkbox"/> Montreal Carbon pledge <input type="checkbox"/> Paris Pledge for Action <input type="checkbox"/> Portfolio Decarbonization Coalition <input type="checkbox"/> Other (please specify)	<input checked="" type="checkbox"/> Access to Medicine Foundation <input checked="" type="checkbox"/> Access to Nutrition Foundation <input checked="" type="checkbox"/> Accord on Fire and Building Safety in Bangladesh <input type="checkbox"/> Other (please specify)	<input checked="" type="checkbox"/> ICGN - International Corporate Governance Network <input type="checkbox"/> Other (please specify)

We are currently members of the organisations in the table below. In addition, we also work collaboratively with other investors and with NGOs on an issue-by-issue basis.

Organization / Initiative	Key Areas of Focus	Start date
ICCR - Interfaith Center on Corporate Responsibility	Coalition of over 300 global institutional investors currently represents more than \$500 billion in managed assets focusing on shareholder advocacy.	Summer 2020
Investor Alliance on Human Rights	Investor initiative with the focus on development of tools for investors on human and labour rights aspects of investments, as well as engagement working groups	May 2020
Platform Living Wage Financials	Coalition of financial institutions that encourages and monitors investee companies to address the non-payment of living wage in	April 2020

	global supply chains.	
UN Principles for Responsible Investment (UN PRI)	The world's leading organization for responsible investors. We were a founder signatory.	2006
Carbon Disclosure Project (CDP)	Global disclosure system for companies, cities, states and regions to manage their environmental impacts and for investors or purchasers to access environmental information for use in financial decisions.	2000
Institutional Investors Group on Climate Change (IIGCC)	Provides investors with a collaborative platform to encourage public policies, investment practices, and corporate behaviour that addresses long-term risks and opportunities associated with climate change. Vicki Bakhshi, RI team member, serves on the Board.	2001
Global Network Initiative (GNI)	GNI seeks to safeguard freedom of expression and personal privacy against government restrictions. The protections are facilitated by a coalition of companies, investors, civil society organizations, academics, and other stakeholders.	2008
Eumedion	Eumedion is an independent foundation, whose objective is to maintain and further develop good corporate governance in the area of the responsibility of asset owners and asset managers established in the Netherlands.	2009
International Corporate Governance Network (ICGN)	Key network for monitoring global policy developments and best practice.	2007
Asian Corporate Governance Association (ACGA)	Essential source of information on Asian corporate governance.	2004
Global Investor Governance Network (GIGN)	Key network for monitoring global policy developments and best practice.	2006
Council of Institutional Investors (CII)	Focused on US governance. David Sneyd, RI team member, sits on the CII Corporate Governance Advisory Council.	1996
The UK Sustainable Investment & Finance Association (UKSIF)	Network focused on the UK sustainable investment market. Vicki Bakhshi, RI team member, chairs the Policy Committee.	2000
Investor Forum	Facilitates comprehensive, proactive engagement between companies and investors. The intention is to address mid- to long-term issues at an earlier stage and to identify solutions that enhance value.	2005
Responsible Investment Association (RIA)	Canada's membership association for Responsible Investment (RI). Members include mutual fund companies, financial institutions, asset management firms, advisors, consultants, investment research firms, asset owners, individual investors and others interested in RI.	2016
Corporate Governance Advisory Committee (QCA)	Independent membership organization comprising corporates and investors that champions the interests of small to mid-size quoted companies.	
30% Club	Campaigns for greater representation of women on company boards.	
Investment Association	Member of the Remuneration and Share Schemes Committee.	

Source: BMO Global Asset Management, 31 March 2020.

## **2.7. What is the total number of SRI assets under the company's management?**

€4,073 million as at 31.03.2020 (based on AuM in the Responsible Fund range and other dedicated ESG strategies).

Within the Responsible Fund range, we currently manage €2,980 million (as at 31.03.2020) in the following strategies:

- BMO Responsible Global Equity
- BMO Responsible Global Emerging Market Equity

- BMO Responsible UK Equity Growth
- BMO Responsible UK Income
- BMO Responsible Sterling Corporate Bond
- BMO Responsible Euro Corporate Bond

We also offer the following dedicated ESG strategies:

- BMO Sustainable Opportunities Global Equity
- BMO Sustainable Opportunities European Equity
- BMO Green Bond
- BMO Emerging Market Debt – screened
- BMO Women in Leadership
- BMO SDG Engagement Global Equity
- BMO Sustainable Multi Asset

3. *General information about the SRI fund(s) that come under the scope of the Code*



**3.1. What is (are) the fund(s) aiming to achieve by integrating ESG factors?**

Sustainable investing is gaining increasing relevance and prominence as investors understand that environmental, social and governance issues can have a material impact on the long-term performance of the companies they invest in. There is a growing awareness of the potential effects of issues such as climate change on companies and markets. While there are increasing risks to be avoided, there are also new opportunities to be captured for those who are more forward thinking in responding to sustainability challenges.

More and more investors want to align financial decisions with their values, as adopting a more sustainable approach makes sense from an investment perspective too. Investors want both positive investments and positive change for the world we all live in. At BMO Global Asset Management, our expertise enables us to offer the best of both worlds.

The investment objective of the BMO Sustainable Opportunities European Equity Fund is to achieve long term capital appreciation through investment in companies that make a positive contribution to broader sustainability issues and contribute positively to society and the environment.

The Global Equities team works together with the dedicated environmental, social and governance (ESG) experts on the Responsible Investment team to identify appropriate stocks for the strategy and uses a robust investment process which has helped generate a track record of strong long-term performance.

**3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?**

Our in-house Responsible Investment team conducts in-depth research into every company considered for the Fund.

We also use ESG research providers to complement the in-house research. These include:

- MSCI – MSCI ESG is our primary source for ESG data. We use ESG research providers as a starting point in our analysis, but make sure that our investment desks – in collaboration with our ESG experts in the Responsible Investment team – verify and complete the data with additional information gathered through in-house research, engagement, participation in industry groups, and multiple research providers.
- Institutional Shareholder Services (ISS) - ISS supplies us with custom research based on our own in-house corporate governance guidelines (which are updated annually based on country-specific best practice standards). Research provided by ISS is used to inform our vote execution as well as company engagement.
- Broker Research – The team uses this content to stay on top of market trends, identify companies for engagement and to inform company-, market- or topic-specific research.
- Sustainalytics – We use Sustainalytics for controversial weapons screening.
- Bloomberg – Bloomberg terminals are used to perform qualitative as well as quantitative analysis on a multitude of topics. For example, Bloomberg has proved useful for linking ESG issues with financial data to determine the materiality of key issues.
- Non-Governmental Organisations (NGOs) – Examples include Transparency International (anti-corruption), Oxfam, CERES, and Human Rights Watch.
- Other – Our research is also informed by our networks that may provide briefings and publications, including the UN PRI, International Corporate Governance Network (ICGN), and Asian Corporate Governance Association (ACGA).

The Responsible Investment team also draws on an independent Responsible Investment Advisory Council, a group of experts who are leaders in their fields, bringing international experience across responsible investment, environmental, social and ethical issues.

### **3.3. What ESG criteria are taken into account by the fund(s)?**

The identification of financially material environmental, social, and governance (ESG) issues forms part of our routine investment analysis (“ESG integration”), helping us to manage risk and support long-term returns. In addition to this, we will also seek to make a positive impact on society and the environment while at least meeting the criteria specified below.

The overarching sustainability philosophy of the fund is to “Avoid; Invest; Improve”:

- **Avoid** – we have a set of exclusion criteria setting threshold standards to avoid investment in socially or environmentally damaging products or unsustainable business practices.
- **Invest** – we invest in companies providing sustainability solutions and/or companies making a positive contribution to society and/or the environment.
- **Improve** – we engage with companies we invest in on significant ESG issues with most relevance to their business, so as to reduce risk, improve performance, encourage best practice and underpin long-term investor value. We believe that this active ownership is part of our duty as an investor acting in the best interests of our clients, and as a participant in the global financial system.

#### **‘Avoid’ (exclusions policy)**

Consistent with the fund goal to seek to make a positive impact on society and the environment, we have developed an exclusion policy to set threshold standards. The policy applies to all listed assets under management from the funds over which we have full discretion. We will monitor the universe of holdings every quarter, and any position held by the fund that no longer qualifies must be sold within the following six months.

## Product-based exclusions<sup>5</sup>

- **Weapons<sup>6</sup>** – we will not invest in companies that manufacture weapons or weapons system<sup>7</sup>
- **Tobacco<sup>8</sup>** – we will not invest in companies producing tobacco or companies with 10+% revenues from distributing tobacco.
- **Fossil fuels**
  - o We will not invest in companies with fossil fuel reserves, covering metallurgical coal, thermal coal, conventional oil, shale oil, oil sands, natural gas and shale gas
  - o We will exclude electricity utilities with power generation from highly carbon-intensive sources:
    - 1) Exclude electricity utilities where **>10% of the power production is based on coal**
    - 2) Exclude electricity utilities where **>30% of the power production is based on oil & gas**
    - 3) Exclude electricity utilities where **>5% of the power production is based on nuclear sources**

If there is a breach, exclude electricity utilities with a carbon intensity of **>408 gCO2/kWh**
  - o Exclude electricity utilities with **expansion plans that would increase their negative environmental impact or that are contrary to a below 2 degrees scenario** and electricity utilities **constructing new coal-fired power stations and/or nuclear power stations**
  - o Operators of nuclear power plants are excluded
  - o Companies with revenues above 5% from production of essential parts for nuclear power plants are excluded.
- **Uranium mining:** all companies operating active uranium mines are excluded.
- **Forward contracts on agricultural commodities** – these are not considered in scope for investment

## Conduct-based exclusions

- **UNGC breaches** – we exclude companies with severe breaches of the UN Global Compact principles<sup>9</sup>.

Further aspects considered:

- **Biodiversity:** we expect companies to minimise negative impact on biodiversity.
- **Water Use:** we expect companies to comply with national regulations and international agreements regarding managing water consumption.
- **Taxation:** we expect companies to pay fair and appropriate taxes, and transparently report their taxes.

### 3.4. What principles and criteria linked to climate change are taken into account in the fund(s)?<sup>10</sup>

The Global Equities team and Responsible Investment team work together to assess the true sustainable development impact of each business; both positive and negative. The products and services provided to customers are crucial to that assessment but understanding a business's impact on society and the environment goes beyond the products and services. We ensure that we look at contribution to all stakeholders, from their supply chain and direct employees, through to the business' involvement in the industry around them, and the extent to which they are actively progressing ESG issues within the industry.

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<sup>5</sup> Product-based exclusions are hard exclusions.

<sup>6</sup> Revenue threshold for controversial weapons is set at 0%, threshold for conventional weapons is 1%, for components 5%.

<sup>7</sup> Companies that manufacture weapons, components of weapons, or weapons system, i.e. conventional weapons, biological/chemical weapons systems, blinding laser weapons, depleted uranium weapons, incendiary weapons, non-detectable fragments and nuclear weapons.

<sup>8</sup> Revenue threshold set at 1%

<sup>9</sup> The UN Global Compact are 10 principles businesses should follow and incorporate in order to meet their basic responsibilities to people and planet, which fall under 4 broad headings (Human Rights, Labour, Environment and Anti-Corruption). See [here](#) for full details

<sup>10</sup> Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code):

<https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697>

Within this sustainability analysis we also consider the company's contribution towards the Sustainable Development Goals (SDGs) regarding both product and conduct. The SDGs, developed by the United Nations in 2015 provide a clear framework through which governments, businesses and other stakeholders can view sustainability challenges and how they may be addressed. With these goals, SDG13 is focussed on climate action.

The fund is screened for its carbon intensity, and it is at the fund managers discretion to adjust stock selection outperform the carbon benchmark.

**3.5. What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

Our benchmark includes over 400 stocks but we consider our relevant investment universe to include around 1,250 stocks. It is not however, our objective to provide research coverage of the entire benchmark. Our investment philosophy, as well as the exclusions outlined in previous sections, dramatically narrows the possible investment universe to an exclusive pool of opportunities. This approach reduces the active research coverage of our team from over 1,250 possible investments to a range of 100 to 200. We have been successfully implementing this investment process since 2009.

We find a rich source of ideas comes from considering long-term social and environmental themes, and we believe companies that are contributing to solutions to key sustainability challenges and building successful business models around this will see a long-term tailwind to their growth opportunities. The identification of themes helps to focus our analytical efforts rather than imposing a strict thematic structure on the portfolio. Additionally, we try to look for companies that have the potential to show meaningful improvement in how they manage key ESG issues.

Following idea generation, the Global Equities team and Responsible Investment team work together to assess the true sustainable development impact of the business; both positive and negative. The products and services provided to customers are crucial to that assessment but understanding a business's impact on society and the environment goes beyond the products and services. We ensure that we look at contribution to all stakeholders, from their supply chain and direct employees, through to the business' involvement in the industry around them, and the extent to which they are actively progressing ESG issues within the industry.

Within this sustainability analysis we also consider the company's contribution towards the Sustainable Development Goals (SDGs) regarding both product and conduct. The SDGs, developed by the United Nations in 2015 provide a clear framework through which governments, businesses and other stakeholders can view sustainability challenges and how they may be addressed.

To flag key ESG risks and opportunities, the Global Equities team works with the RI team, and an important data source that we use is Morgan Stanley Capital International (MSCI) ESG Research ratings and analysis. The MSCI ESG approach identifies key issues by industry for each company and rates companies on social, environmental and governance performance both in absolute terms and relative to their specific industry. We also review a list of what we consider to be 20 key governance indicators and also any significant controversies a company may have been involved in. However, whilst ESG data quality has improved over time, it is still not perfect. We therefore also make our own assessments through the RI team's own analysis of ESG considerations and engagement efforts, in order to establish our own views of all material ESG risks and opportunities facing a company. This analysis is compiled within an "ESG Tear Sheet", with insights directly integrated into the fundamental analysis.

The input from the Responsible Investment team, whether through informal conversations or periodical publications such as their 'ESG Viewpoint', provides an additional independent oversight and an objective assessment of the ESG credentials of the company and the industry it operates in.

Stocks researched by the team are then rated 1 (most positive), 2, 3 or 4 (most negative). The ratings are active with no neutral rating, determined by the combination of margin of safety and upside to their 'intrinsic value' and the level of confidence we have in the quality of the business. Our active universe consists of the stocks rated by the team and portfolios are constructed bottom up from this rated universe.

In terms of valuation, we appreciate that different measures may be necessary for different sectors. However, we place particular emphasis on cash flows as we believe these provide the most rigorous base for analysis of the underlying financial strength of any company. Our belief is that long term cash generation is an important attribute for a high-quality company and is it therefore important that we value a business on this basis. Therefore, discounted cash flow models (DCF's) are a key component of our valuation work. We spend considerable time using these tools to determine a 'conservative assessment of the intrinsic value' of a share price (CAIV), taking into account factors such as sales growth or margin progression. DCF's are also an important tool to help us determine the margin of safety in a stock by looking at what is implied in the current share price. The resulting CAIV is then sense-checked across several valuation multiples in order to ascertain whether the DCF value is supported by other techniques or not. This is a disciplined and rigorous approach to analysis and also results in the creation of explicit upside or downside review targets.

Here, ESG factors are directly considered in the analysis of the business model and in the assessment of management quality and flex assumptions and discount rates based on these factors where appropriate. This might come through flexing revenue and profitability assumptions across different outcomes, or it will be incorporated through our proprietary "alternate weighted average cost of capital" (ALT-WACC) used as a discount rate within our DCF analysis. Within the ALT-WACC, we assess various factors, both operational and ESG, and this provides an aggregate assessment of quality, where higher quality companies warrant a lower discount rate applied to the DCF, which ceteris paribus drives a higher intrinsic valuation. Similarly, within relative valuation work, ESG leaders and improvers will deserve a premium valuation relative to peers, which again will be reflected in the generated valuation assessment.

### **3.6. How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

Each quarter we review whether companies continue to meet the criteria, any involvement in recent controversies that might indicate systematic or poor ESG practices; and any merger and acquisition activity that might change our ratings. Furthermore, companies held are monitored quarterly for new or ongoing UN Global Compact breaches. Breaches are assessed on a case-by-case basis, and any security found to be in breach will be engaged as appropriate. Adjustments to the approval status of a security will be made as necessary.

## ***4. Investment process***

### **4.1. How are the results of the ESG research integrated into portfolio construction?**

The output of the fundamental analysis forms the basis of portfolio construction. The Global Equities team considers ESG factors directly in the analysis of the business model and in the assessment of management quality, and flex assumptions and discount rates based on these factors where appropriate.



The Responsible Investment team and the Global Equities team work together to fully incorporate ESG risks and opportunities into the fundamental valuation of each company. This might come through flexing revenue and profitability assumptions across different “bull/bear” scenario outcomes, or it will be incorporated through our proprietary “alternate weighted average cost of capital” (ALT-WACC) used as a discount rate within our DCF analysis. Within the ALT-WACC, we assess various factors, both operational and ESG, and this provides an aggregate assessment of quality, where higher quality companies warrant a lower discount rate applied to the DCF which ceteris paribus drives a higher intrinsic valuation. Similarly, within relative valuation work, ESG leaders and improvers will deserve a premium valuation relative to peers, which again will be reflected in the generated valuation assessment.

We consider that higher quality companies with stronger sustainability characteristics will justify a larger active position in the portfolio.

We also utilise risk tools to monitor aggregate exposures and risk at the portfolio level including total risk, beta, active risk and sources of active risk. This prevents unintended and/or overly concentrated exposures. We also monitor portfolio risk and characteristics through time to protect against style drift.

#### **4.2. How are criteria specific to climate change integrated into portfolio construction?<sup>11</sup>**

We will assess the climate change-related risk and opportunity exposures of each company that we research on a case-by-case basis. This will involve assessing the level to which a company might be exposed to carbon emissions and the potential long-term costs of those carbon emissions relating to regulatory outlook and carbon pricing. Equally, we will also look at how that company might be positively positioned to evolutions in energy production. The range of potential outcomes for these companies will then be imbedded into fundamental valuation work through the “bull/bear” scenario analysis and ALT-WACC as per question 4.1.

As above, this is then integrated into portfolio construction through the risk adjusted intrinsic fair values built up through the bottom up stock selection process, and this is combined with conviction around the sustainability and visibility of earnings of each business in order to build the portfolio.

As highlighted in 3.3, we do apply certain exclusions, and a regular carbon intensity screening is performed to allow for portfolio construction alignments.

#### **4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?<sup>12</sup>**

*Please specify how much the funds can hold.*

Not applicable. All stocks considered for inclusion in the portfolio are subject to ESG analysis and evaluation.

#### **4.4. Has the ESG evaluation or investment process changed in the last 12 months?**

There have been no material changes to the investment process in the last 12 months, however it continuously evolves to adapt to changes and adopt better practices that we aim to constantly refine. The only change has been the formal inclusion of exclusions, as described in 3.3.

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<sup>11</sup>Reference to Article 173 of the French TECV Act and HLEG recommendations on DISCLOSURE

<sup>12</sup>Reference to Article 173 of the French TECV Act and the TCFD recommendations (delivering on investor and stakeholder demands for climate-related information)

#### **4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?**

Yes. The fund ultimately seeks to invest in companies making a positive contribution to society and the environment, while avoiding investment in companies with damaging or unsustainable business practices. We apply a disciplined valuation process to determine attractive entry points to take long-term positions, favouring companies with proven business models, stable cash flow and high standards of sustainability management.

We find a rich source of ideas comes from considering long term social and environmental themes, looking across industries and along value chains. We believe companies that are contributing to solutions to key sustainability challenges and building successful business models around this will see a long-term tailwind to their growth opportunities. We identify key themes such as resource efficiency, water management, waste and recycling, health and wellness and responsible finance. The identification of themes helps to focus our analytical efforts rather than imposing a strict thematic structure on the portfolio.

We additionally try to look for companies who are leaders, or have the potential to show meaningful improvement, in how they manage key ESG issues, whether or not their business fits a particular theme. Additional input into idea generation comes from the experience available through other internal equity teams. Research and company meetings are shared across all equity desks. External input includes sell-side research, conferences, industry experts and macro considerations. Any companies not already in the acceptable universe are then put forward to the Responsible Investment team for screening against the Fund acceptability criteria.

#### **4.6. Does (do) the fund(s) engage in securities lending activities?**

Yes, the fund is permitted to lend securities. Below is a summary of our collateral parameters:

- Non- Cash Collateral Only
- Governments and Sovereign Debt versus equity loans -105%
- Equity Indices -105% minimum for six main indices (can request a minimum of 108%).
- Fixed income loans versus fixed income collateral (sovereign and corporate debt) – 102% same currency 105% cross currency margin
- All collateral indemnified
- Collateral received against Fixed Income consists of Sovereign debt as per SLAA, Corporate Bonds rated at least Investment Grade (BBB-) and UK Equity FTSE 250 DBV's.

***If so,***

***(i) is there a policy in place to recall the securities so as to exercise the voting rights?***

Yes. Given sufficient notice (usually 5 days), we can recall the securities in time to exercise voting rights. This timescale is flexible and can be narrowed in times of urgency (AGM / EGM) etc

***(ii) does the process for selecting the counterparty(ies) integrate ESG criteria?***

We have been integrating Responsible Investment into the counterparty risk management process for over 5 years. All new counterparties are subject to a due diligence process in which the counterparties' legal and regulatory status, financial strength, operational capability and anti-money laundering bona fides are verified. The counterparties' credit scores (as assigned by our Credit Analysts) are also considered.

Additionally, our Responsible Investment team engages with key counterparties on a regular basis. Topics and themes covered include: governance, culture and business ethics, risk and compliance, and AML. Outcomes have included: executive compensation reform, changes in board composition, and improvements in risk and compliance mechanisms.



**4.7. Does(do) the fund(s) use derivative instruments?**

*If so, please describe*

- (i) *their nature;*
- (ii) *their objectives;*
- (iii) *the potential limits in terms of exposure;*
- (iv) *if appropriate, their impact on the SRI nature of the fund(s).*

No.

**4.8. Does (do) the fund(s) invest in mutual funds?**

*If so, how do you ensure compatibility between the policy for selecting mutual funds and the SRI policy of the fund(s)? How many funds can be held?*

No.

**5. ESG controls**

**5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?<sup>13</sup>**

Each quarter we review whether companies continue to meet the criteria, any involvement in recent controversies that might indicate systematic or poor ESG practices; and any merger and acquisition activity that might change our ratings. Furthermore, companies held are monitored quarterly for new or ongoing UN Global Compact breaches. Breaches are assessed on a case-by-case basis, and any security found to be in breach will be engaged as appropriate. Adjustments to the approval status of a security will be made as necessary.

**6. Impact measures and ESG reporting**

**6.1. How is the ESG quality of the fund(s) assessed?**

- The Responsible Investment team maintains a list of the companies which are acceptable for the fund (i.e. meet the screening criteria) and those which are not.
- We can use a proprietary system to generate an ESG portfolio analytics report. This report contains information about:
  - The companies with the highest and lowest ESG scores in the universe

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<sup>13</sup>Reference to Article 173 of the French TECV Act

- The largest upward and downward momentum shifts over the previous quarter, including new controversies
- We map the activities of the companies we invest into the underlying targets of the Sustainable Development Goals (SDGs), using an in-house methodology. Considerations such as revenue and strategy determine whether or not we link specific business segments to SDG targets.

## **6.2. What ESG indicators are used by the fund(s)?<sup>14</sup>**

ESG Scores (a bespoke analysis method based on third party ESG data) provide industry-specific and relevant environmental, social and governance ratings, that are considered material. See 3.5. regarding their integration into the stock valuation process. In addition, exclusionary screens are applied, such as controversial weapons, tobacco, and fossil fuels.

## **6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?**

As well as regular interactions with our client base, the following documentation is available through our company website (<https://www.bmogam.com/gb-en/intermediary/capabilities/responsible-investing/>):

**Annual Responsible Investment Review:** This is an annual report (<https://www.bmogam.com/wp-content/uploads/2020/04/ri-2019-review-.pdf>) which reviews our responsible investment activities and achievements over the year. Topics include:

- Investor engagement and engagement outcomes for the year;
- Voting and corporate governance activity over the year;
- Public policy interactions;
- A discussion of themes to watch in the upcoming year.

**Responsible Funds Summary Criteria:** Each company considered for the portfolio is screened by the Responsible Investment team to ensure it meets our criteria. This document (<https://www.bmogam.com/gb-en/intermediary/wp-content/uploads/2020/02/responsible-investment-strategies-summary-criteria.pdf>) outlines our exclusion criteria including revenue thresholds and guidance on the positive and negative screens for this strategy.

**ESG Profile and Impact Report:** We see a key current trend as identifying and reporting on impact. We will be publishing our first ESG Profile and Impact report for this Fund this year. It is intended as a contribution to the debate on how we can apply some of the lessons from impact investing to listed equities. It provides investors with more information on the ESG performance of this strategy, highlighting leaders and laggards, as well as the impact its holdings are having on the world.

**Webinars:** ESG issues, including engagement insights, are also discussed and tackled during regular webinars. Available via our website (<https://www.bmogam.com/gb-en/intermediary/webinars/>), recent webinars include 'COVID-19 - what's next for sustainable investment?' and 'Climate Change Engagement – is it working?'

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<sup>14</sup>Reference to Article 173 of the French TECV Act

**6.4. Does the fund management company publish the results of its voting and engagement policies?<sup>15</sup>**

*If so, please include links to the relevant activity reports.*

**Voting:** We believe in a transparent approach to responsible investment and publish all our voting decisions, as well as the rationale for these. We have been publishing statistics of our annual voting activities for the past 16 years. All of our votes are publicly disclosed on the following webpage the day after the shareholder meeting with voting records available back to 2012:

<http://vds-staging.issproxy.com/SearchPage.php?CustomerID=3660&StagingPassword=TRiTenpXpo>

**Engagement:** In support of our engagement activity we publish an annual [Responsible Investment Review](#). The report contains an overview of our engagement activities, outcomes during the year and upcoming themes.

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<sup>15</sup> Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE