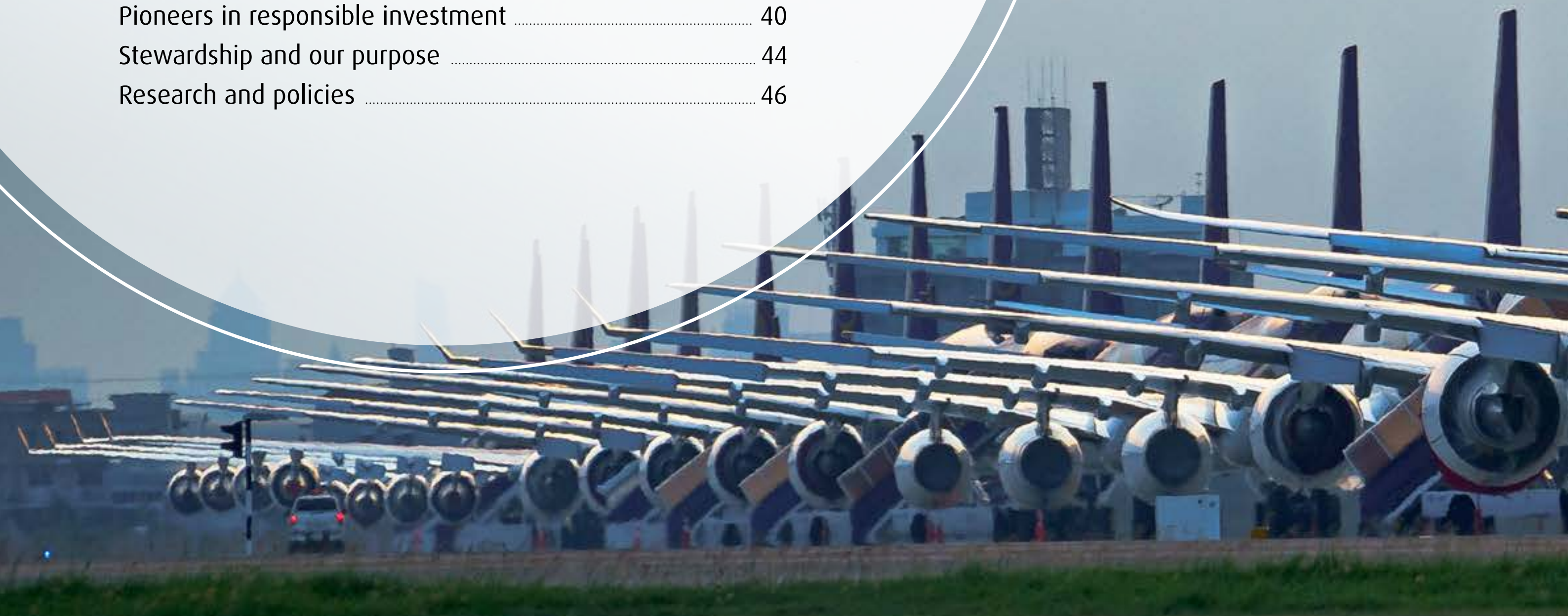
Responsible Investment
2020 Review

Advancing the ESG agenda through a global pandemic

BMO Global Asset Management

Contents



There was a 60% fall in international passenger travel in 2020, with air travel falling to 2003 levels. This has had environmental benefits due to a significant reduction in emissions, but there have also been significant economic impacts, with the airline industry alone losing over $370 billion as a result of the COVID-19 pandemic.[1]

[1] ICAO, January 2021.

Key risks

The value of investments and any income derived from them can go down as well as up and investors may not get back the original amount invested.

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any companies that may be mentioned.

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

Growing the Good

The COVID-19 pandemic has changed much about the way we live and work; it has been a year none of us could have expected. Yet through it our commitment to responsible investment at BMO is as clear as ever.

The economic turmoil and social upheaval of the pandemic has helped to put long-term sustainability challenges at the heart of the global agenda. Heightened public consciousness of social inequality, climate change and loss of biodiversity are putting pressure on global leaders to adopt immediate, integrated action. As investors, we also have a central role to play in driving this action, through the responsible allocation of capital and engagement with companies to encourage positive change.

In this review, we detail highlights and successes of our active ownership activities in 2020. As we look forward to what we can expect in the next decade, we see the nature of engagement evolving. While our one-on-one dialogue with companies remains essential, wider partnership and collaboration will be crucial to achieving ambitious goals. To deliver on the Sustainable Development Goals, the roadmap to a more sustainable future by 2030, we must leverage the skills and experience of all stakeholder groups, strengthening our collective voice.

We continue to contribute our thought leadership, regularly sharing perspectives on a broad range of topics from climate action to modern slavery to cybersecurity. 2020 also saw us publish social and environmental expectations statements, articulating best practice management of key issues we encourage companies to work towards.

While the pandemic has drawn near term focus on finding solutions to tackle its impacts, the urgency of addressing climate change is unchanged. In 2020 we further strengthened our approach to voting by developing a voting policy aimed at encouraging the transition to a low-carbon economy. In 2021, it is imperative that the global community intensifies efforts to tackle climate change and the push towards net zero emissions, and we are fully committed to playing our part. In December, we set out our ambition to transition all our managed assets to net zero emissions by 2050 or earlier, as a founder signatory to the Net Zero Asset Managers initiative. Asset managers have a unique and critical role to play in the transition to global net zero emissions. We look forward to building partnerships both with our asset-owner clients and, through continuing engagement, with the companies we invest in, in order to achieve this goal.

As positive momentum builds around tackling the challenges our societies face, I am excited for what the future can hold, and proud of the opportunity we have at BMO to make a difference.

Kristi Mitchem
CEO, BMO Global Asset Management

2020 engagement

This year we celebrated 20 years of running our investor engagement programme. The ongoing and constructive dialogue with companies on ESG issues enhances our ability to manage our clients' portfolios while serving as a route to create positive impact for the environment and society.

Engagement is critical to our investment process
and to fulfilling our fiduciary duty as active stewards of capital

31%
of engagement linked to environmental issues

43%
of engagement linked to social issues

26%
of engagement linked to governance issues

The crises of 2020 – the pandemic, economic turmoil and social upheaval and, running through them all, climate change and biodiversity loss – have forced a reckoning among governments, businesses and civil society. Our engagement this year and the announcements made by a significant number of global, influential companies have shown us that these crises have elevated the need for action on sustainability risk and opportunity in boardrooms globally. As we navigate the next phase of the pandemic, we will strive to help companies meet the challenge of making the recovery from COVID-19 an environmentally, economically and socially sustainable one.

We engaged with 760 companies across a wide range of environmental, social and governance issues, as follows:

Environmental: almost a third of our total engagement activities this year addressed climate-change-related issues, including emissions management, energy transition, adaptation and resilience, and deforestation. Key environmental projects we focused on included continued engagement with mining companies on tailings management, and with food companies on environmental risks and impacts linked to the sourcing of agricultural raw materials.

Social: in the context of the pandemic, the largest proportion of our engagements this year was on social issues. We called for companies to take the necessary measures to protect the health and safety of their employees and customers, while ensuring actions did not contribute to exacerbating inequalities exposed by the pandemic.

Governance: besides the governance issues that we traditionally engage on, e.g. board effectiveness, executive remuneration and board diversity, we stepped up our efforts this year to engage on ESG oversight & strategy – particularly around climate change issues. We also shared our expectations with companies on how the impacts of COVID-19 should be reflected in approaches to executive compensation for FY20 and beyond.

In 2020, almost 40% of our engagement was done in collaboration with other investors and stakeholders. This represents a significant increase from previous years and is aligned with our expectation that ESG engagement collaboration is on the rise – a rise that we fully embrace. By speaking to companies with a unified voice, investors can more effectively communicate their concerns while gaining power and legitimacy from the perspective of corporate management. In addition to enhancing engagement success, collaborations can help build knowledge and skills, which is critical given the growing complexity posed by emerging and intersecting ESG risks and megatrends.

Leadership level	2019	2020
Investor relations	47%	30%
Senior executives	20%	27%
Board director (s); non-executive (s)	19%	25%
Operational specialists	8%	11%
Other	6%	7%

Stewardship highlights

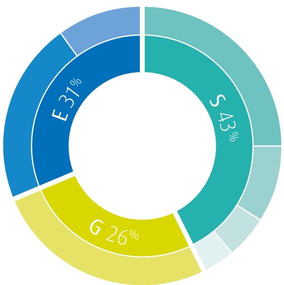
760 companies engaged

1,541 number of engagements

343 milestones achieved

11,848 company meetings voted

Companies engaged by issue



Climate change	21%
Environmental stewardship	10%
Labour standards	25%
Public health	9%
Business conduct	5%
Human rights	4%
Corporate governance	26%

50 countries covered by engagement

Owing to pandemic-related travel restrictions, we did not visit countries in person.

Source: BMO Global Asset Management, as at 31 Dec 2020

SDGs and engagement

Since the 2030 Agenda for Sustainable Development was adopted by all UN Member States in 2015, much progress has been made to meet the Agenda's goals. With under 10 years left to 2030, all stakeholders must focus on decisive action. While many companies now have sustainability strategies aligned with the SDG framework, robust implementation and an acceleration towards meaningful and lasting change is now imperative. We believe our engagement, 79% of which is aligned with the SDGs, can help towards achieving the ambitious global agenda.

"The Sustainable Development Goals are more important now than ever. Now is the time to secure the well-being of people, economies, societies and our planet. It is possible. So we must make it happen. Together." **António Guterres, UN Secretary-General, January 2021**

81 million jobs lost in Asia-Pacific due to COVID-19[1]

19% of our engagement linked to SDG 8

We engaged lots on workplace safety, specifically around target 8.8. Worker protection throughout supply chains is paramount, especially in the current pandemic conditions. We also continued our work with the Workforce Disclosure Initiative, which aims at enhancing relevant and material workforce related disclosure.

2020 was one of the warmest years on record[2]

16% of our engagement linked to SDG 13

We continued to engage on climate change, specifically on target 13.2, on topics such as climate risk mitigation, sustainable protein supply chains, deforestation, coal producers, the financing of emissions-heavy industry and climate voting agendas. We also continued to be active within the Climate Action 100+ initiative.

80% of companies now report on sustainability[3]; quality of disclosure varies[4]

12% of our engagement linked to SDG 12

We continued to demand better reporting, transparency and disclosure on ESG issues, which links directly into target 12.6. Focus areas included green bond reporting, improving disclosure on nutrition, and surveying companies on the effectiveness of some of our engagement activities.

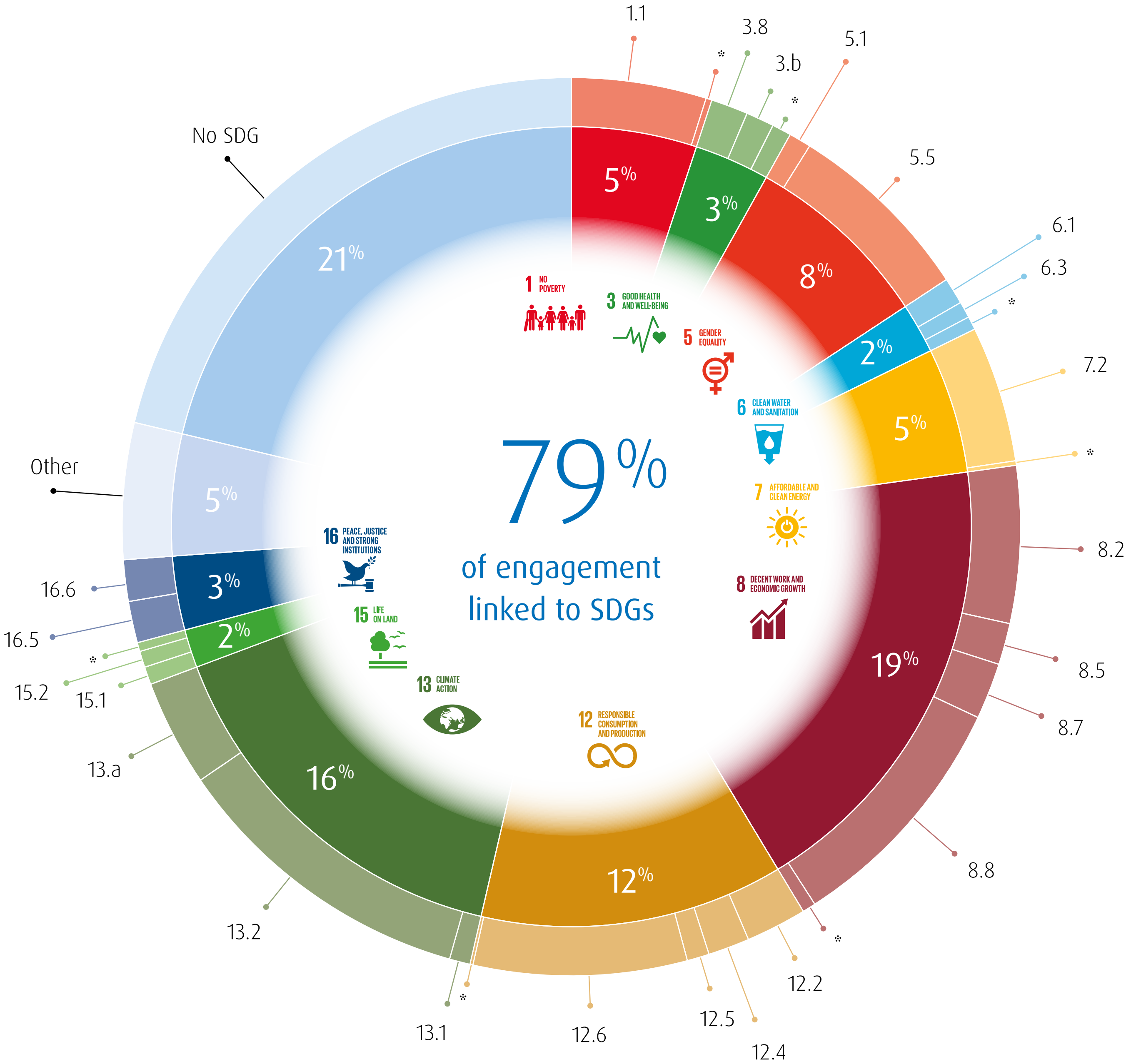
SDGs: a framework for investors

The SDG framework provides an ambitious roadmap towards a more sustainable world. We believe it is a useful tool for companies and investors to be able to contribute to achieving the objectives of the 2030 Agenda. The framework has created a common language between stakeholders, and we are seeing that having a positive impact within our engagement. We have developed our engagement database to include the 169 SDG targets, which allows us to log interactions, progress and results to this granular level where relevant.

No SDG link

21% of our engagement did not have a direct link to a specific SDG target. Most of these engagement activities are on corporate governance, an essential building block in creating more sustainable, better run companies. The main exception is our engagement on board diversity, much of which has covered gender diversity issues, which we see as supportive of SDG 5 and targets 5.1 and 5.5 in particular, but which also has a wider application to the achievement of other goals such as SDG 8 and SDG 10.

How BMO GAM's engagement links to SDG goals and targets



Source: BMO Global Asset Management, as at 31 Dec 2020

Other = SDGs less than 2%. * = SDG targets within the denoted goal that are less than 0.5%.

1.1 Eradicate poverty and ensure a living wage for all; **3.8** Access to medicines and health-care; **3.b** Support research into vaccines and medicines for diseases primarily in developing countries; **5.1** End all forms of discrimination against women and girls; **5.5** Ensure full equality of opportunity for women, including at leadership levels; **6.1** Achieve universal access to safe & affordable drinking water; **6.3** Improve water quality by reducing pollution; **6.4** Increase water-use efficiency to address water scarcity; **7.2** Substantially increase the global share of renewable energy; **8.2** Achieve greater productivity through innovation; **8.5** Achieve full and productive employment for all; **8.7** Eradicate forced labour, modern slavery & human trafficking; **8.8** Protect and promote safe working environments for all workers; **12.2** Sustainably manage and make efficient use of natural resources; **12.4** Manage chemical usage and waste throughout their life cycle; **12.5** Reduce waste through prevention, reduction, recycling and reuse; **12.6** Encourage companies to adopt sustainable practices and enhance ESG reporting; **13.1** Strengthen adaptive capacity to climate-related events; **13.2** Integrate climate change plans into policies and strategies; **13.a** Address climate change mitigation for developing countries; **15.1** Ensure sustainable usage of terrestrial freshwater ecosystems **15.2** Promote the implementation of sustainable management of forests; **16.5** Reduce corruption and bribery in all their forms; **16.6** Develop effective, accountable and transparent institution. Source: BMO Global Asset Management, as at 31 Dec 2020

[1] ILO, December 2020, [2] World Meteorological Organization, January 2021, [3] KPMG, December 2020. Worldwide sample size of 5,200 companies –'N100',
[4] UN, 2020.

2020 milestones

Our constructive, strategic approach to engagement continues to help us achieve positive outcomes, which we call 'milestones', while helping to create value for our clients, our companies and the wider society. We record milestones where companies make tangible improvement in their policies and practices in alignment with our engagement and voting asks. We rank these milestones as one, two or three stars to reflect the significance of the change for the company, the market and/or our engagement objectives.

In 2020, we recorded 343 milestones
where companies improved ESG policies and practices following our engagement

55%
of milestones linked to corporate governance

21%
of milestones linked to climate change

12%
of milestones linked to labour standards

Facebook, Inc.

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Milestone: ★★★

Target: 16.6

Issue: Business Conduct

FACEBOOK

Introduced Content Oversight Board

Set up a board to function as an independent body to oversee content moderation activities and make decisions that will be binding on the company. We consider this will help improve Facebook's overall content moderation programme. We met with the company as part of a dedicated consultation process and made various recommendations on how this board should operate and be reported on.

JPMorgan Chase & Co

13 CLIMATE ACTION

Milestone: ★★★

Target: 13.a

Issue: Climate Change

JPMorgan Chase & Co.

Pledged to align its activities with the Paris Agreement

Committed to align its entire financing portfolio to the goals of the Paris Agreement, and regularly report on progress. As JP Morgan Chase is the largest US bank, and one with a significant fossil fuel exposure, this commitment shows leadership and, importantly, will help better manage portfolio risk. We have actively encouraged the bank to improve its overall approach to manging environmental and climate risks.

Keyence Corp

No SDG

Milestone: ★★★

Target: No SDG target

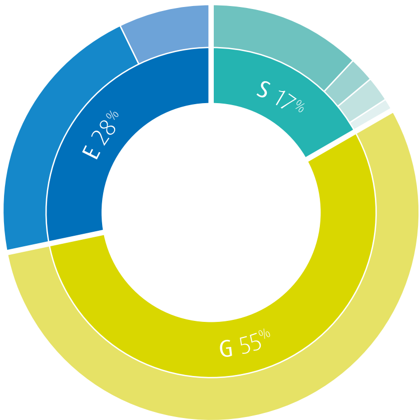
Issue: Corporate governance

KEYENCE

Improved capital efficiency practices

Increased the level of dividend pay-out per share following a share split. We encouraged the company for several years to improve its approach to capital efficiency, including by returning a higher proportion of its excess cash to shareholders. We welcomed this change and will continue to engage the company to push for improvement in other areas of governance.

Milestones achieved by issue



Climate Change	21%
Environmental Stewardship	7%
Labour Standards	12%
Business Conduct	2%
Public Health	2%
Human Rights	1%
Corporate Governance	55%

Source: BMO Global Asset Management, as at 31 Dec 2020

- **Environmental** – climate-related milestones accounted for over 75% of the total number of environmental milestones we logged in 2020. Some of the world's leading energy companies, including **BP**, **BHP**, **Glencore**, **Occidental Petroleum** and **Royal Dutch Shell**, plus regional giants such as **Dominion Energy** in the US and **Reliance Industries** in India, announced major commitments to significantly cut their carbon emissions, promising to reach net zero in the coming years. Influential companies in other industries, such as **Barclays**, **Ford Motor** and **Tesco**, made similar commitments.

- **Social** – the disclosure of human capital indicators via sustainability reporting frameworks, including the Workforce Disclosure Initiative, continues apace. This year, we identified over 20 companies, including **Bank of America**, **Covestro** and **Waste Connections**, that enhanced their workforce-related reporting. As for other social-related reporting, two of Greater China's internet giants, **Baidu** and **Tencent**, made improvements to disclosures of policies and practices affecting users' data privacy and security.

- **Governance** – the trend towards stronger protection of shareholders' rights in North America continued in 2020. An increasing number of companies in the US and Canada introduced annual director elections and advisory votes on executive compensation, respectively. Across the Pacific, Japan's 2020 AGM season saw over 30 companies reach one-third board independence. These include giants such as **Nippon Telegraph & Telephone**, **SoftBank** and **Mitsubishi Corp**.

BP PLC

7 AFFORDABLE AND CLEAN ENERGY

Milestone: ★★★

Target: 7.2

Issue: Climate Change

bp

Committed to become a net-zero company by 2050

Announced a commitment to neutralise operational emissions and the emissions from the use of its products by 2050. BP also signalled that it will increase investments into non-fossil fuel businesses over time. We have engaged with the company on carbon management topics for over a decade. This commitment can help better manage risks and opportunities related to the energy transition.

Novartis AG

3 GOOD HEALTH AND WELL-BEING

Milestone: ★★

Target: 3.8

Issue: Public Health

NOVARTIS

Introduced new targets to increase access to medicines

Set a 2025 target to increase patient reach in low- and middle-income countries by 200%. In addition, Novartis plans to increase patient reach of its global health flagship programmes in leprosy, malaria, chagas disease and sickle cell disease by at least 50% over the same time period. We have repeatedly engaged Novartis on improving access to its products.

Vale SA

No SDG

Milestone: ★★

Target: No SDG target

Issue: Corporate governance

VALE

Incorporated ESG metrics into executive remuneration plans

Improved oversight and accountability of ESG practices and performance by incorporating relevant ESG metrics to represent 30% and 20% of short- and long-term executive remuneration plans, respectively. We have engaged with company management on sustainability governance and oversight for a number of years.

Voting and corporate governance in 2020

Exercising the right to vote is a key part of our stewardship responsibilities, and an opportunity to influence change. We regularly engage companies before and after voting to explain our expectations and invite comment, and to explain our reasons for any votes against management.

Our global voting universe is made up of holdings in BMO GAM managed portfolios[1] and the portfolios of ***reo***® clients who have delegated to us the responsibility to exercise voting rights on their behalf. Most of our votes are exercised in the same way under BMO GAM voting policy,[2] with some votes cast under client-specific polices.[3] This is reflected in our public voting record through additional vote entries for the relevant meetings. The vote statistics in this report reflect the aggregate voting activity across all BMO GAM portfolios and ***reo***® client accounts. The proportion of votes against management resolutions would be slightly higher if certain client-specific policies were removed.

Public details of all our voting activity, including rationale for votes against management, become available on our website the day after each shareholder meeting. Our vote record is available publicly.

We publish regular client reporting and annual public reporting, including case studies of notable votes and engagements. Our Conflict of Interest Policy and Responsible Investment Approach are on our website. We continued to promote the development of governance best practices through our membership of, and active participation in, influential bodies such as the International Corporate Governance Network (ICGN), UK Investment Association, 30% Club, UK Investor Forum, Eumedion, Asian Corporate Governance Association (ACGA), Council of Institutional Investors (CII), Investor Stewardship Group (ISG) and Quoted Companies Alliance (QCA).

Ongoing trends

Our ongoing voting and engagement priorities include the promotion of empowered and effective boards and management teams across companies. We voted against management on approximately **25%** of resolutions relating to director elections. This is on a par with last year, but is still a disappointing outcome, reflecting the slow pace of improvement in board composition (including independence and diversity) and effectiveness across markets. We advocate remuneration policies that reward the creation of long-term shareholder value through the achievement of corporate objectives. In 2020, we saw many compensation committees struggling to reflect the impact of COVID-19 on their business in incentive structures. Executive remuneration remained the most contentious issue dividing investors and management; we voted against management at roughly **52%** of resolutions relating to pay. Our main concerns with pay arrangements were: excessive payouts inconsistent with achieved performance levels, demonstrating misalignment with investors and stakeholders; a weak link between corporate strategy and key performance indicators used in pay plans; and excessive focus on short-term outcomes.

Voting for climate action

Mobilising our voting power is an essential part of effective climate stewardship, and we have developed a systematic voting policy aimed at encouraging the transition to a low-carbon economy. Importantly, this policy is not limited to considering how we vote on climate shareholder resolutions. During 2020, we identified investee companies that have fallen behind in climate risk management based on a set of criteria. We voted against 92 management resolutions, such as the re-election of directors, at laggard companies in the financials, oil & gas, utilities and mining sectors, which are systemically important to economic growth but face significant challenges in defining and reducing their value chain emissions.[4]

[1] This report covers voting and engagement activity on behalf of our in-house BMO Global Asset Management holdings and those of our ***reo***® clients. In 2020, our in-house voting universe of funds encompassed funds managed by BMO Global Asset Management across Asia, Canada, the US, EMEA, and BMO Private Bank.

[2] Our Corporate Governance Guidelines establish a consistent philosophy and approach to corporate governance and the exercising of voting rights. They also explain our use for proxy advisors and approach to stocklending. The Guidelines and our full voting record are available here.

[3] BMO GAM is not at present able to provide directed voting in pooled funds to vote a proportion of shares in line with specific instructions from the client.

[4] BMO GAM, ESG Viewpoint: Voting for climate action, January 2021

Corporate governance highlights

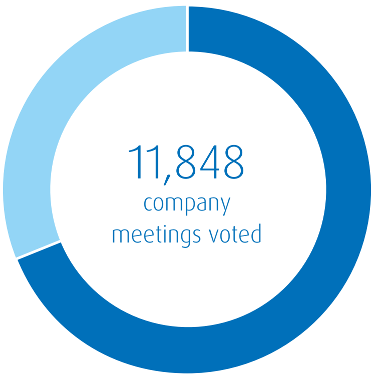
117,820
resolutions voted

23.4%
of all resolutions where we voted against management

584
companies engaged on governance issues

188
governance-related milestones

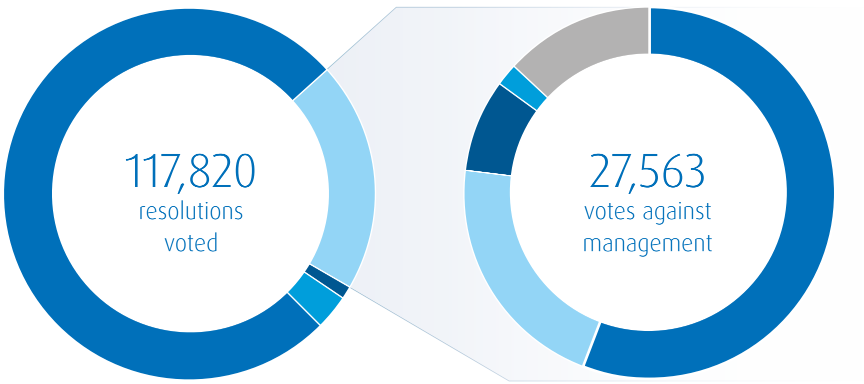
Meetings with at least one vote against management



At least one vote against management	69%
Voted with management	31%

How we voted in 2020

Votes against management by issue



With management	76%
Against management	20%
Abstain	1%
Withhold	3%

Directors & Board	56%
Remuneration	21%
Capital Related	8%
Shareholder Proposals	2%
Other	13%

On **52%**
of all resolutions related to pay we voted against management

Executive remuneration continued to be the most contentious issue dividing investors and management. The most common reasons relate to poor disclosure, misalignment with investors and excessive quantum.

On **25%**
of resolutions related to director elections we voted against management

This is consistent with 2019, but is a disappointing outcome reflecting the slow pace of improvement in board composition & effectiveness across markets.

Click the hyperlinks to access our Corporate Governance Guidelines and full voting record.

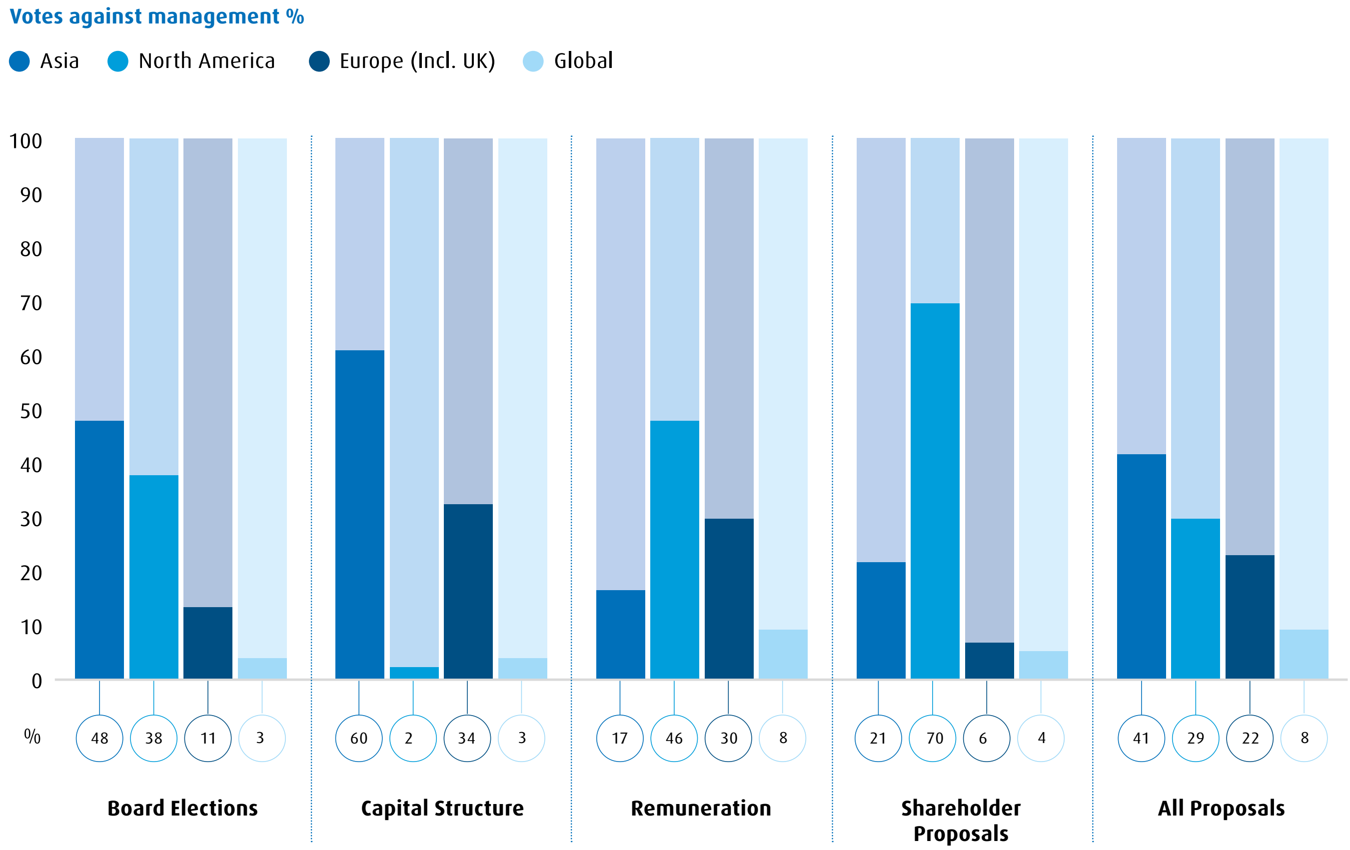
Source: BMO Global Asset Management, as at 31 Dec 2020

Votes against management

Achieving best practice in corporate governance is a dynamic process between the board, management and shareholders. We encourage companies to engage in the process of shaping and meeting standards of best practice as these evolve across different regions.

Regional charts

Votes by region



Source: BMO Global Asset Management, as at 31 Dec 2020

In the US, we continued to be disappointed with the overall standards of executive remuneration packages proposed to shareholders. We voted overwhelmingly against pay plans without clearly disclosed and stretching performance targets, without sufficiently long performance periods and with excessive severance or termination provisions. Poor disclosure of performance metrics and targets driving pay-outs in variable incentive plans across many markets in Continental Europe and Asia remains an area of ongoing concern. We supported almost 70% of all shareholder resolutions in the US. Within Europe, we continued to take a tough stance on proposals to discharge board members and top managers at companies with ongoing significant corporate governance concerns.

Significant votes
and the Shareholder Rights Directive II

We are committed to transparency in our voting activity. We publish our full voting record with rationales for proposals where we did not support management, among others. Our votes become available on our website on the day after a company's shareholder meeting.

We have selected significant votes from our voting record, consistent with the Shareholder Rights Directive II. Our methodology for selection is based on characteristics of our global voting universe, including aggregate size of holdings in the company, significance of the voting issue for a company or in the relevant market, impact on shareholder value and materiality of the vote to engagement outcomes.

Barclays plc (UK)

Barclays was widely held across BMO GAM and ***reo***® client funds and saw a shareholder resolution that received significant support.

At the bank's 2020 AGM, we supported a shareholder resolution proposing measures that sought to phase out the bank's financing of the fossil fuel industry. Climate change presents ongoing and serious long-term risks that can impact shareholder value, and we consider that companies should improve their public disclosure and strategy stetting in relation to climate change. Approximately 24% of shareholders that voted supported the shareholder proposal, which is a significant level of support. BMO GAM also voted for the company's own commitment to tackling climate change.

Informa plc (UK)

A significant vote against followed a problematic change to the executive remuneration plan.

In December 2020, Informa called a special meeting to seek shareholder approval of a new executive long-term incentive pay plan. The company has been severely affected by COVID-19 and raised capital from shareholders earlier in the year. The proposed meeting was initially postponed due to shareholder concerns and amendments were made to the scheme. However, the size of the share awards of the pay plan continued to cause concern. Over 40% of shareholders that voted did not support the amended proposals, including BMO GAM.

SinoPharm Group Co. Ltd. (China)

SinoPharm Group was a significant holding across BMO GAM and ***reo***® client funds, and we had multiple corporate governance concerns.

We voted against several directors at the SinoPharm general meeting. We considered the board to lack independent representation due to an excessive number of shareholder representatives on the board. During a meeting with the company, we encouraged board refreshment and for consideration to be given to appointing an independent Vice-Chair. We also discussed the role of its party committee in the business decision-making process. We consider board composition to be of utmost importance with meaningful representation of both executive and non-executive directors. Non-executives should normally be wholly independent of the company.

"Now more than ever, compensation committees need to reflect on the impact of the COVID-19 pandemic on their workforce and other stakeholders and show restraint when considering 2020 executive pay-outs or planned future increases in quantum."

Kalina Lazarova, Director, Responsible Investment

Stenprop Ltd (South Africa)

BMO GAM was the largest shareholder in the company and supported the remuneration policy after engagement.

We informed the company that we intended to vote against its remuneration policy as one of the long-term incentive plans for executives allowed them to receive equity awards that had a short vesting period and vague targets attached. In response the company committed to no longer use this equity award structure for executives and therefore we supported the proposal.

Wizz Air Holdings (UK)

Wizz Air was a significant holding across BMO GAM and ***reo***® client funds, and a resolution failed following a problematic executive remuneration payout.

We voted against the Wizz Air remuneration report. This resolution was ultimately voted down by shareholders (51.6% against). A discretionary bonus was awarded to the CEO, where, based on the normal outcomes of the scheme, no bonus would have been payable. The decision was particularly concerning given the shareholder experience this year, the announcement of c.1,000 job redundancies and the issuance of £300m in paper under the UK government's Covid-19 Corporate Financing Facility.

Wolters Kluwer NV (Netherlands)

This was a significant holding across BMO GAM and ***reo***® client funds.

We voted against the remuneration report and policy at the 2020 AGM. These resolutions were ultimately voted down by shareholders (approx. 47% against). We had concerns over the potential overall quantum, pay benchmarking, non-disclosure on the actual performance relative to the targets and the use of discretionary bonuses by the company.

Escalation in voting and engagement

We believe that voting and engagement should reinforce each other.

Insights from our engagements have led us to mitigate votes, as in the example with Stenprop Ltd on p14. At the same time, failure by companies to recognise or act on our concerns can lead us to use our vote. In 2020, we voted against the board of Exxon because the company lagged behind peers on climate change strategy and was resisting engagement with a well-established and respected investor collaboration group of which we are part. We voted against all incumbent non-executive directors for this reason.

We will also consider co-filing shareholder resolutions as an ultimate escalation mechanism, as we illustrated with Tyson Foods (p27).

Selling a holding can be a powerful signal of dissatisfaction, though it removes some options for future interaction, such as use of the vote. It can be a measure of last resort that our clients may wish to take. We do not make specific divestment recommendations, but clients may choose to take this path in response to inadequate progress against engagement objectives.

Our primary approach to conducting engagement is to use constructive, confidential dialogue, typically working one-to-one with companies and building a relationship of trust over time. However, sometimes collaboration is more effective to effect change, including through coalitions with other asset managers and industry groups. Speaking with a unified voice can allow investors to communicate their concerns more effectively, and can also represent an escalation mechanism when insufficient progress is being made or management access made available in a one-to-one forum. For example, we are active participants in a wide range of investor coalitions that align with our objectives, such as the Climate Action 100+ (CA 100+), the Workforce Disclosure Initiative (WDI) and various working groups of the Principles for Responsible Investment (PRI).

Failure by companies to recognise or act on our concerns can lead us to use our vote.

Thematic updates

Cattle ranching is the leading cause of deforestation in the Amazon, accounting for around 80%. This is responsible for approximately 340m tons of carbon emissions to the atmosphere every year, equivalent to roughly 3.4% of global emissions.[1]

Sustainable food systems

Targets: 3.4, 13.2, 15.2

Issue: Alternative proteins, emissions management, climate adaptation, deforestation

3 GOOD HEALTH AND WELL-BEING | 13 CLIMATE ACTION | 15 LIFE ON LAND

Marcus Wilert, Vice President, Responsible Investment

In the context of the climate and biodiversity crises, and with agriculture as the leading driver of deforestation globally, our work on sustainable food systems this year had a clear focus on deforestation in 2020, as reducing it is crucial to slowing global warming and biodiversity loss.

We focused our engagement with companies involved in the production and sourcing of soy and beef and their impacts on the Amazon and the Cerrado biomes in Brazil. We spoke with some of the world's largest traders of agricultural commodities, including **ADM**, **Bunge** and **Cargill**, as well as three of the largest beef producing companies – Brazil's **JBS**, **Marfrig** and **Minerva**. The first two made significant announcements to launch traceability actions plans and join collaborative initiatives to address deforestation. However, gaps in transparency and traceability to indirect suppliers remain significant and we believe timeframes for action need to be drastically shortened.

We also highlight our continuing work as members of the PRI-led palm oil investor working group, through which we engage with palm oil producers and banks in South East Asia that finance the industry to drive environmentally sustainable oil palm cultivation practices.

The production and distribution of sustainable proteins is another issue we engaged on this year. We saw influential companies like **Tesco** and **Unilever** set sales targets for plant-based meat alternatives to drive consumer uptake while helping address environmental impacts of animal-based proteins. While a transition to plant-based proteins would help address climate change and water stress, risks from the loss of biodiversity need to be forcefully addressed.

Overall, our engagement indicates that food producers and retailers generally recognise the risks to their business from climate change and biodiversity loss, among other environmental factors, as well as the impact of their operations. However, most companies still struggle to implement changes to significantly curb runaway environmental degradation along their value chains.

2021 looks to be a pivotal year as world leaders meet to advance the global agenda on climate (COP 26) and biodiversity (COP 15).[2] Given its impacts on the environment and its reliance on it, the food industry is set to be particularly impacted by agreements and commitments resulting from those meetings, as well as by increasing investors' and public expectations. Consolidating reporting frameworks like TCFD and emerging ones like the Taskforce for Nature-related Financial Disclosures (TNFD) will put additional pressure. We will, therefore, continue to actively seek to drive more sustainable practices in the industry.

[1] WWF, 2020
[2] The 15th meeting of the Conference of the Parties (COP 15) to the Convention on Biological Diversity (CBD) is expected to take place in May 2021 in Kunming, China.

Racial justice

Targets: 8.8, 10.2

Issue: Diversity & discrimination, human rights, labour management

Rosa van den Beemt, Vice President, Responsible Investment

George Floyd's death in the US sparked anti-racism protests around the globe.

Protests and calls for action forced corporations to re-examine their hiring, pay and promotions practices, workplace cultures, product branding and consumer discrimination. Public debate about systemic racism is set against the backdrop of the stark realities of the COVID-19 crisis, which has a disproportionate effect on Black people and other vulnerable communities, underscoring the need for companies to prioritise issues around racial inclusion, worker protections and pay equity.
In August 2020 we published a Viewpoint on the imperative for investor action on racial justice. We supported public policy initiatives and investor statements aimed at enhancing increased representation of Black, Indigenous and People of Colour, including the US Investor Statement of Solidarity to Address Systemic Racism and the Canadian Investor Statement for Diversity & Inclusion. We had 40 engagements with companies on the need for better data on workforce and board diversity beyond gender, pay equity and D&I strategies, including with **Bank of America**, **Microsoft**, **Amazon**, **BASF**, **Barrick Gold**, **Manulife Financial**, **Encompass Health** and **Becton Dickinson**. Lastly, given that the higher chronic health risks Black, Latinx and Indigenous people in the US face make them more vulnerable to COVID-19, we sent joint engagement letters to 20 food companies including **Kraft Heinz**, **McDonald's** and **Restaurant Brands**, asking them to address systemic inequities by developing and marketing healthier products, ensuring affordability and accessibility of nutritious foods, and advocating for public policies that promote health.

COVID-19 and the proxy season

Targets: No SDG

Issue: Executive remuneration

No SDG

David Sneyd, Vice President, Responsible Investment

Daniel Jarman, Vice President, Responsible Investment

Prior to the 2020 spring proxy voting season, ESG themes considered on the agenda of annual general meetings (AGMs) were relatively predictable.

The significant impact of the COVID-19 pandemic changed this perspective. Companies and regulators took unprecedented measures to adapt both the content of meeting agendas and the format of shareholder meetings. As we voted globally, we made several observations:

The global switch to virtual shareholder meetings (VSMs) saw mixed success – Country-wide lockdowns forced most companies to hold a VSM. Advantages included some reporting participation levels exceeding those of typical physical meetings. Disappointingly, some companies provided no means to participate virtually and used the format to selectively filter the questions put to management, blocking shareholder proponents from presenting their proposals on the ballot.

UK companies were most forthcoming on executive pay cuts – Against a backdrop of missed targets, poor share price performance and dilutive capital raisings, and widespread workforce cuts or furloughs, the spotlight was on how management were paid. Although most companies will not disclose outcomes until 2021, UK companies were the most forthcoming, with 122 companies in the FTSE 350 disclosing some form of temporary pay reduction for executives. After the season, we reached out to companies to encourage them to be mindful of all stakeholders and exercise restraint on pay.

Resurgence of poison pills in the US while proxy fights reduced – Recently, takeover defence mechanisms have fallen out of favour, but that all changed this season, with 59 poison pills adopted in the run-up to the 2020 proxy season compared with just 21 in all of 2019, as companies worried about their vulnerability to opportunistic acquirers. We also saw a substantial 41% drop in year-on-year activist campaign activity,[1] with the lowest number of proxy fights in decades, as such activity during a crisis would have been seen as tone-deaf.

Delayed audits in Japan – Japanese companies generally have a 31 March financial year end. The pandemic's timing caused a unique level of disruption to the audit process for these companies. Although deadlines for publishing preliminary (and unaudited) results were extended, the AGM deadline to report audited financial statements was not, leaving shareholders often having to vote on the AGM without audited results.

What will the impact be on the 2021 proxy voting season? Our expectation is that 2021 will be just as impacted as 2020, but in a different way. With logistics improved, we expect to see investors making vote decisions based on how companies and their management fared during the crisis.

[1] Lazard, Review of Shareholder Activism, H1 2020

Antimicrobial resistance (AMR)

Targets: 3.b

Issue: Public health

Catherine McCabe, Senior Associate, Responsible Investment

AMR is a natural phenomenon being accelerated by poor stewardship of antibiotics in healthcare and farming.

Against a backdrop of a high proportion of patients admitted to hospital with COVID-19 being given antibiotics to treat or prevent secondary bacterial infections, potentially exacerbating AMR, we recognise the need to continue our engagement on this serious threat to public health. In 2020, the Investor Year of Action on AMR, we raised awareness via a podcast and an in-depth Viewpoint.

In 2020, we engaged the major pharmaceutical companies included in the Access to Medicine Foundation's AMR Benchmark. We commended best practices, and highlighted areas of improvement in manufacturing and responsible antimicrobial use ("stewardship"). We also initiated dialogue with animal health companies that sell antibiotics. We stressed the importance of addressing AMR, and flagged our focus areas, including marketing and distribution.

Overall, despite the pandemic, we are encouraged by the progress being made. A key development was the launch of the AMR Action Fund, supported by several pharmaceutical companies, which aims to bring new antibiotics to market.

In 2021, in addition to continuing our engagement with animal health companies, we will initiate dialogue with diagnostic companies manufacturing tests to distinguish between bacterial and viral infections, and water utility companies purifying wastewater to remove antibiotics.

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AMR is like dropping a lobster into a pan of cold water and heating it up slowly. It doesn't recognise it's in trouble until the water starts to boil and it's too late. We're currently sitting in a pan of very warm water, but it isn't too late to cool it down. Let's rescue our antibiotics, and treat infections effectively.

Dame Sally Davies, UK Special Envoy on Antimicrobial Resistance

Engagement on social themes

Targets: 1.1, 5.5, 8.8, 10.2

Issue: Diversity, labour management, human rights

Nina Roth, Director, Responsible Investment

Daniel Jarman, Vice President, Responsible Investment

Rosa van den Beemt, Vice President, Responsible Investment

Catherine McCabe, Senior Associate, Responsible Investment

Over 40% of our engagement across ESG themes included a social angle. Our social engagements took centre stage in 2020 in response to the COVID-19 pandemic, and its drastic consequences for workers and corporations across all industries worldwide.

In 2020, we launched our first policy statement on Expectations for social practices for investee companies. This document outlines BMO Global Asset Management's commitment to respecting human and labour rights through our investment practices and guides our engagement and voting. Framed by this statement, we frequently engaged on the following issues: sustainable supply chain management with a particular focus on forced labour; wage gaps; diversity and inclusion; health and safety practices; and the need for enhanced transparency and workforce-related disclosures. The COVID-19 pandemic sparked a number of new engagement threads, including:

- We discussed the provision of paid sick leave, and concerns around staff wellbeing, economic security, and business continuity with North American retail companies. We co-filed a shareholder proposal at Walmart asking for a report on the feasibility of providing employees with paid sick leave as a standard benefit, outside of COVID-19 emergency policies.
- With global retailers and apparel companies we highlighted the need for sustainable supply chain management, with a focus on social aspects. We worked with the Ethical Trading Initiative and ShareAction's Head of Good Work to identify multinational companies that are active in or sourcing from North Indian states that suspended labour laws. We subsequently reached out to companies such as **M&S**, **The Gap**, **Walmart** and **Esprit**, to better understand their approaches to protecting labour standards in their supply chains.
- Together with a group of investors, supported by the CCLA, we signed a letter to FTSE 100 companies urging them to protect the mental health of their workforces during the unprecedented working environment caused by the pandemic.

In addition to these pandemic-centric engagement initiatives, we continued engaging on our dedicated engagement project topics and overarching themes:

1 **Fair wages:**
Having newly joined the Platform Living Wage Financials investor group in 2020, we supported its assessment of and engagement with retailers on living wage issues. Besides the four North American companies we covered for the Platform, we engaged six other multinational retailers on increasing base pay and enhancing social benefits.

In collaboration with ShareAction's Good Work Coalition, we encouraged UK FTSE 100 companies to become living wage employers, to commit to a guaranteed number of hours that allow for making a living ("living hours"), and where the pandemic made it necessary, handle redundancies carefully.

2 **Forced labour and modern slavery:**
We joined CCLA's "Find it, Fix it, Prevent It" initiative, which focuses on modern slavery, encouraging more effective corporate action. The investor coalition has initially focused on the hospitality industry due to its comparatively high modern slavery risks.

Forced labour allegations across various industries fuelled our reactive engagement in 2020. Particularly in focus were: the garment sector – from South East Asia to the UK; rubber and palm oil companies; cotton supply chains; and the information and communications technology (ICT) sector.

"BMO GAM's work to build understanding of workers' rights to freedom of association and collective bargaining is a much-needed step for investment stewardship."

Christy Hoffman, General Secretary of the UNI Global Union

3 **Transparency:** The continuation of our support for the Workforce Disclosure Initiative (WDI) led us to engage approximately 80 companies on enhanced disclosure. BMO Global Asset Management completed the WDI questionnaire for the first time in 2020. We will endeavour to further improve our disclosure score and workforce management.

4 **Public health:** Pharmaceutical companies came under intense scrutiny when COVID-19 began to spread rapidly around the world, with the result that one-to-one engagement become increasingly challenging. We resolved to continue engaging major pharmaceutical companies by joining two collaborative engagement initiatives: one co-ordinated by Achmea Investment Management, and the other by the IOPA (Investors for Opioid & Pharmaceutical Accountability). Both engagement initiatives emphasised the importance of responsible business practices during the pandemic, with overlapping focus areas including human capital management, health & safety, and measures to ensure supply chain continuity. The Achmea-led initiative also focused on equitable global access to health products.

5 **Diversity:** COVID-19 exacerbated gender diversity challenges in the workplace, which, if unaddressed, are likely to have a long-term knock-on effect on progress towards career advancement and equal pay for women. In this context, we continued gender diversity and equality engagement initiatives globally with a specific focus on Japan, the UK, Canada and the US. We conducted 165 engagement activities with 141 companies spanning 19 different markets. We also implemented a global voting policy with minimum board gender diversity requirements for all markets, and increased expectations in the US and Canada. Finally, we expanded our collaborative efforts by joining the French 30% Club and the US 30 Percent Coalition.

We broadened our focus to diversity beyond gender, engaging companies on reporting better workforce diversity data, including at board level, and enhancing diversity and inclusion (D&I) efforts. More details on our approach can be found in the Racial Justice section in this report.

Beyond the initiatives we joined and our collaborative engagement, we also coordinated with other stakeholders. We hosted two public webinars: one on workers' rights with experts from UNI Global Union, and another on sustainable supply chain management in South East Asia with Footprints CSR. We also collaborated with UNI Global Union on an investor training session about Freedom of Association and Collective Bargaining, a key element of international labour standards that we will continue to address in coming years.

A topic that has accompanied our work related to public policy, and will remain important for the foreseeable future, is the legal requirements for mandatory human rights assessments. We supported a global investor statement on mandatory human rights due diligence, coordinated by the Investor Alliance on Human Rights, where we serve on the advisory committee, and campaigned for the same in Germany and Switzerland, where legislative decisions were imminent.

"

Looking ahead, pharmaceutical companies must continue prioritising access to medicine, not only to ensure a full recovery from COVID-19 but also to salvage progress in other critical disease areas.

Mara Lilley, Investor Engagement Manager, The Access to Medicine Foundation

Climate change

Net zero transition

Targets: 7.2, 13.2

Issue: Climate change strategy

Vicki Bakhshi, Director, Responsible Investment

Pieter van Stijn, Director, Responsible Investment

Nina Roth, Director, Responsible Investment

Derek Ip, Vice President, Responsible Investment

We believe that investors should play a central role in tackling the climate crisis, and we are committed to playing our part.

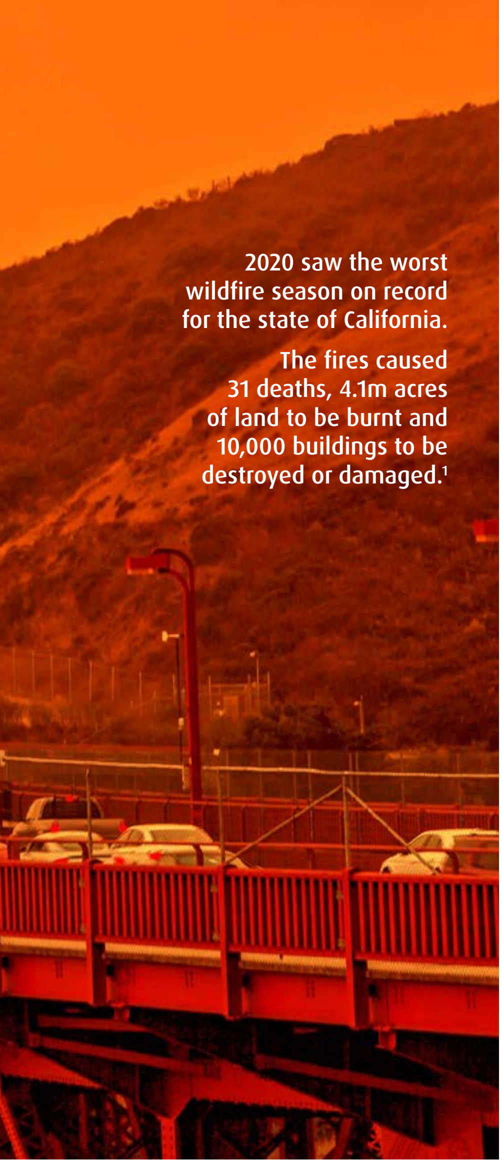
Climate change has been on our engagement agenda for two decades, and was our top priority for 2020. The postponement of the critical COP26 climate negotiations due to COVID-19 appeared to be a setback at the time – but actually provided more opportunity for us and other investors to build momentum. We also embedded climate change into our voting policies, backing up our words with actions. 2020 culminated our adoption of a net zero ambition for our investment portfolios,[2] as a founder signatory to the Net Zero Asset Managers Alliance.

Our core engagement asks of companies are drawn from our own experience, as well as from key collaborative investor initiatives. We believe a credible climate strategy should include:

- A long-term ambition to cut emissions to net zero by 2050 at the latest, with interim short and medium-term targets
- A credible business strategy to implement this, including alignment of capital expenditure
- Strong governance framework to oversee climate strategy, and a link to executive remuneration
- Dealing with the social aspects of transition, using a Just Transition approach
- Risk analysis and disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures
- Lobbying and public policy practices consistent with this approach

Beyond these overall strategic expectations, we also have specific areas we focus on, depending on the sector. In electric utilities, for instance, we look for coal phase-out commitments by 2030 for developed markets, and 2050 for emerging economies, in line with the Powering Past Coal Alliance.

Our engagement strategy is implemented both collaboratively and one-to-one. We are an active participant in the Climate Action 100+ (CA100+) initiative, which now represents over US$50 trillion in



assets under management, and is targeting 167 companies responsible for over 80% of global industrial greenhouse gas emissions. We also support initiatives on specific aspects of climate change, in areas such as deforestation. Our one-on-one engagement covers sectors and regions that are less well-represented in collaborative work, including in particular the banking sector, both in emerging and developed markets, and mid-cap companies.

2020 saw significant progress in terms of companies adopting net-zero-aligned strategies. However, progress varied by region and sector, and some of these strategies had more credibility than others in terms of our confidence that they will translate into concrete actions. Keep reading to discover our assessment by sector.

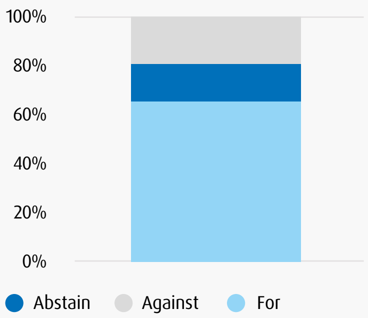
Voting for climate action

During the 2020 voting season, we implemented a systematic process for identifying investee companies that have fallen behind in climate risk management. Where we judged these companies to be climate laggards, using tools including the Transition Pathway Initiative as well as our own engagement and analysis, we voted against relevant management resolutions, such as the re-election of directors.

In 2020 we raised our concerns via 61 management proposals across 58 company meetings. On these, we either voted against management resolutions, abstained, or supported but with communication on the specific conditions for supporting next year's vote. Out of the total of 58 companies, 39 were based in either the US or China.

We also supported 65% of all shareholder resolutions on climate change in 2020. Our engagement informed these voting decisions, particularly where this demonstrated that companies were actively working on improving their climate strategy; in these cases, or where resolutions were too prescriptive, we chose to either abstain or vote against.

Our voting decisions on shareholder proposals directly related to climate change in 2020



Source: BMO GAM, as at 9 December 2020

Engaging on climate resilience

Targets: 13.1

Issue: Climate change adaptation

Vicki Bakhshi, Director, Responsible Investment

The increasingly intense wildfires in the western US have had devastating effects on human life, property and the environment.

Electric utilities are in the front line, with some of the worst fires having been caused by sparks from electric grid infrastructure. For example, **PG&E Corp**. last year pleaded guilty to 84 counts of manslaughter resulting from the 2018 Camp Fire, which was triggered by its equipment. It had also filed for bankruptcy protection in 2019, faced with tens of billions in potential fines.

We engaged three Californian utilities on wildfire risk management – **PG&E**, **Southern California Edison** (owned by **Edison International**) and **San Diego Gas & Electric** (**SDG&E** – owned by **Sempra Energy**) – to better understand their wildfire mitigation plans. Our call with Sempra Energy demonstrated a proactive approach, dating back well before the recent spate of wildfires. The company hired a meteorologist in 2009, and now has a team that includes a former San Diego fire chief. Its risk tool includes data from 220 weather stations, and on 500,000 trees, allowing it to calculate a Fire Potential Index to flag high risk levels, and to predict the course of any fire given a starting point. Wildfire metrics also link to executive pay at **SDG&E.**

Within the utilities sector, wildfire risk is likely to spread to areas that had not previously experienced it – the 2020 US wildfire season, for instance, affected the state of Oregon much more than in recent years. The different experiences of the Californian utilities show that the process of building resilience takes time and investment, and that early and proactive action is essential in avoiding severe risk later for companies elsewhere exposed to growing climate risk.

[1] The Guardian, December 2020
[2] Excludes Pyrford International Limited

Is climate change engagement **having an impact?**

Our 2020 engagement on climate change covered companies throughout the value chain – extractives companies that produce fossil fuels; heavy-emitting power generation and industrials firms; the transportation sector; and financial institutions, which play a key role in determining the flow of capital to brown versus green industries. Rates of progress have varied both by industry, as well as by region.

Oil and gas

The divergence in climate action between firms headquartered in Europe and the rest of the world grew even larger in 2020. All major European oil and gas companies now have a stated net zero emissions ambition, and targets for reducing CO2 emissions associated with their operations and the use of their products. There remains a wide variation in the credibility of plans to implement this ambition, and this was the focus of our 2020 engagement. Some, such as **BP**, have now disclosed their medium-term strategy to achieve their targets.

We were encouraged to see progress among Chinese oil and gas firms too, which have historically been resistant to engagement. Helped by the progressive stance taken by the government, several of the largest firms, such as **PetroChina**, have set a net zero or 'near-net zero' ambition.

Little progress was achieved in our engagement with companies in the US and Middle East. While US companies now accept the need to have climate strategies, and are investing in low-carbon R&D, the scale of action falls far short of the transition needed. However, some are starting to listen to investor engagement calling for targets covering their complete value chain (including products sold), and we expect the political change to make the scope for engagement success far greater in 2021.

Mining

The mining sector is diverse, and we have engaged with both the largest multinational diversified miners, as well as specialist miners focused on commodities such as coal and gold.

Overall, the large diversified miners are the furthest ahead in terms of formal commitments to a net zero transition. **BHP Billiton**, **Anglo American** and **Glencore** all now have coal exit strategies, with **BHP** and **Anglo** aiming to sell their stakes, and Glencore running them to the end of life. One key focus area for these companies was on how they use their considerable political influence; as co-lead of the Climate Action 100+ engagement with **BHP Billiton**, we led intensive engagement on its lobbying and trade association memberships, and 2020 saw the company announce a market-leading lobbying framework.

The picture among more specialist and regional miners was mixed. Gold miner **Newmont** was one example of leadership, with its net zero target. Miners in Asia and South America have so far been less responsive to engagement. Companies in this sector tend to be strongly influenced by national government policies; with more net zero government commitments likely to emerge in the run-up to COP26, we anticipate scope for engagement to progress.

Electric utilities

Firms in power production are heavily influenced by local and national policies. They are typically highly regulated, and many are partly or wholly state-owned.

It is unsurprising, therefore, that the most progressive policies are in Europe, where climate policies are longest-established.

One example is UK electric utility **SSE**, which has now entirely phased out coal-fired power production and was one of the first firms to publish a Just Transition strategy. Perhaps more surprising was the shift among US utilities to adopt net zero targets, such as **Vistra Corp** in 2020, a company we co-lead on in Climate Action 100+. These targets focus on 2050, though, and most companies plan to run gas, and some coal, well into the 2030s and 2040s – which is now at odds with President Biden's ambition of net zero electricity by 2035.

We continue to have concerns about Japan, where the slow restart in nuclear power and relative scarcity of natural resources is leading to a high reliance on coal. We engaged with **TEPCO** and **Chubu Electric Power** on plans by their joint venture, Jera, to build new coal-fired power stations.

High-emitting industrial companies

Industrial sectors such as steel, cement, aluminium and chemicals present real and significant challenges in terms of replacing existing production technologies with low-emissions alternatives.

Firms in these sectors often face both challenges and opportunities. In the chemicals industry, for instance, a challenge is that many of the emissions companies are responsible for are Scope 3 emissions outside of their direct control, resulting from the use of their products. But the low-carbon transition presents opportunities too, with rising demand for chemicals and gases that are essential to new industrial processes.

Some firms have already made solid progress in setting out their future trajectory, such as **Bayer**, which has a 42% emissions reduction target for 2029, as well as a target for the hard-to-reach Scope 3 emissions. Other companies may not have targets in place yet but are improving their governance and oversight, such as **Albermarle Corp**, a company we engaged in 2020 that has now set up a C-suite level steering team on sustainability.

Transportation

Our 2020 engagement focused on automotive manufacturers and shipping companies. With further policy measures from governments to phase out internal combustion engine vehicles, most automotive firms now see an electric vehicle (EV) strategy as essential to maintaining their competitive edge. Two leaders in terms of ambition include **Volkswagen**, which has committed to 70 all-EV models by 2030, and **Daimler**, aiming for a net zero emissions fleet by 2039.

Our engagement focused on companies whose ambition lags the leading group, particularly **Fiat Chrysler** (now part of **Stellantis**), where we lead the Climate Action 100+ engagement and had two meetings with their sustainability director.

In order to directly address the Board, we made a statement at the AGM, asking for medium-term climate-related targets and transparency around climate lobbying.

In shipping, the International Maritime Organization set out a pathway to a low-emissions transition in 2018 – but driving this through to implementation has seen mixed success. **Maersk** was the first major firm to set a net zero target, in 2018.

Financial institutions

Financial institutions such as banks, insurers and asset managers present a more complex picture than other sectors in terms of assessing 'Paris alignment' – their impact comes primarily through activities they finance, rather than directly. In 2020 we followed up on previous engagement with South East Asian banks, and were pleased to see some positive progress on integrating deforestation criteria, such as **Maybank** requiring sustainable certification schemes in lending, or **CIMB**, which has introduced enhanced due diligence for palm oil and forestry clients.

We also looked at European and North American banks, particularly their implementation of the recommendations of the Task Force on Climate-related Financial Disclosures. Analysis and disclosure accelerated in 2020, particularly in Europe where financial regulators made clear their expectation that this should be part of risk management practices.

The shareholder resolution at **Barclays** – which we supported – calling for a phase-out of fossil fuel financing prompted the bank to adopt a net zero target, making it one of the first international banks to do so. Others have followed, although the industry remains at a relatively early stage in terms of implementation plans. Some of the issues to address include integrating climate change across their business lines, not just lending.

Company
case studies

Tyson Foods

Targets: 8.8

Issue: Human rights

8 DECENT WORK AND ECONOMIC GROWTH

Juan Salazar, Director, Responsible Investment

We engaged to discuss concerns regarding the company's response to the pandemic.

The meatpacking industry proved to be particularly susceptible to coronavirus infections because of the nature of the work: intense physical labour, conducted indoors at close proximity to other workers. Meat-processing plants around the world became COVID-19 infection hotspots. In the US, the rapid growth of confirmed COVID-19 cases in rural counties with 20% or more employment in meatpacking drew attention to the role of the industry in the pandemic. Tyson Foods, one of the largest in the industry and one with significant presence in rural America, has seen over 10% of its workforce contract COVID-19. This has contributed to plant shutdowns, production delays, and reduced productivity.

We joined other investors in engaging executives at Tyson Foods to discuss concerns regarding the company's response to the pandemic. Management described in detail measures taken, some of which went above and beyond voluntary industry guidelines, to protect the health and safety of workers and communities in the vicinity of its plants. Measures included setting up ongoing, data-driven testing of workers on-site; implementing robust tracing mechanisms; working with outside health experts; and expanding its health services staff, including appointing a chief medical officer. In the absence of mandatory COVID-19 safety regulations, we welcomed Tyson's strategic and scientific approach to addressing the risks to its workers and its business. At the same time, we noted the absence of a sufficiently robust approach to human rights due diligence and how that might have helped delay the response to the pandemic and, in the process, allowed for Tyson to have the highest rate of COVID-19 infections in the industry.

Given its size and the industry it operates in, Tyson's human rights impacts require heightened due diligence and enhanced disclosure. However, the company has not acted on investors' requests for management to report on a due diligence process to assess, identify, prevent, mitigate, and remedy actual and potential human rights. This has become even more urgent considering the company's failure to act timely to protect its workers' health and safety during the pandemic. We, therefore, decided to join 22 organisations and investors to co-file a shareholder proposal asking for enhanced human rights reporting at this year's AGM. The proposal received 78.7% support from independent investors (excluding the Tyson Limited Partnership, the company's controlling shareholder). This level of independent support is remarkable and represents a 19% increase compared to last year's vote on the proposal. We are hopeful it will encourage the company to prepare and publish a human rights due diligence report.

Proactive and regular engagement with the board of directors enhances our evaluation of a company's culture, purpose and sustainability strategy.

Juan Salazar, Director, Responsible Investment

Barclays

Targets: 12.6, 13.a

Issue: Climate finance, energy transition

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Kalina Lazarova, Director, Responsible Investment

We engaged on the need for a more robust climate change management strategy.

As the biggest European financier of fossil fuel companies, Barclays is exposed to significant climate-related and, increasingly, reputational risks. Ahead of its May 2020 AGM, the bank received a shareholder resolution asking it to set clear targets to phase out financial services to energy companies that fail to align with climate goals under the Paris Agreement.

In this context, we actively engaged with directors and senior executives at the bank, both through one-to-one meetings and alongside other investors, to stress the need for the board to adopt a more robust climate change management strategy. We specifically urged an ambitious approach to managing the risks, opportunities and impacts from climate change, especially those stemming from or affecting the bank's financing activities. We also called for tangible steps to meet the commitments made under the Principles for Responsible Banking and to proactively engage with shareholders and stakeholders on climate-related issues.

We supported the company's subsequent publication of a net zero ambition that was put forward for shareholder approval under a binding resolution at the AGM, the first resolution of its kind for a listed UK bank. Overall, we felt that this and the shareholder resolution were complementary, rather than in conflict with each other, and supported both. We also welcomed the appointment of a Group Head of Climate Risk to lead the bank's work on delivering its net zero ambition, as well as the publication of a detailed implementation strategy. We aim to continue our dialogue with the bank in this area in 2021.

BHP

Targets: 7.2

Issue: Energy transition

7 AFFORDABLE AND CLEAN ENERGY

Derek Ip, Vice President, Responsible Investment

We are the engagement co-lead for BHP within the Climate Action 100+ initiative.

As is the case with many companies in the mining industry, BHP faces a particular challenge in addressing its climate impacts. Some of the commodities it extracts, such as coal and oil, directly contribute to global warming, while others like copper and nickel are essential to the transition to a low carbon economy.

As engagement co-leads for BHP within the Climate Action 100+ initiative, and as the public debate on climate change intensified, we actively engaged with the company in 2020. Unique among its peers, BHP's management team diligently took into account and balanced the expectations from a wide range of stakeholders, investors included, as it set out to forecast its long-term business development trajectory in the context of a changing climate.

Throughout the year, we provided constructive and sometimes challenging feedback to the new climate strategy, which sets out a long-term ambition of becoming an operational net-zero company and a range of solutions to address the emissions that result from the use of its products.

The current version of the strategy compares favourably in the industry. It consists of a pledge to become an operational net zero emissions company by 2050, a USD 400 million fund to develop critical abatement technologies, and a Scope 3 reduction initiative to help decarbonise its downstream supply chain. Some other details, however, need to be ironed out, including alignment of the long-term capital allocation framework to the well below 2-degree scenario, and the effectiveness of Scope 3 decarbonisation initiatives. We plan to continue our active engagement with the company in 2021.

Alexandra Township with Sandton City, South Africa, in the background.

Clicks Group

Targets: 3.8, 10.2

Issue: Public health

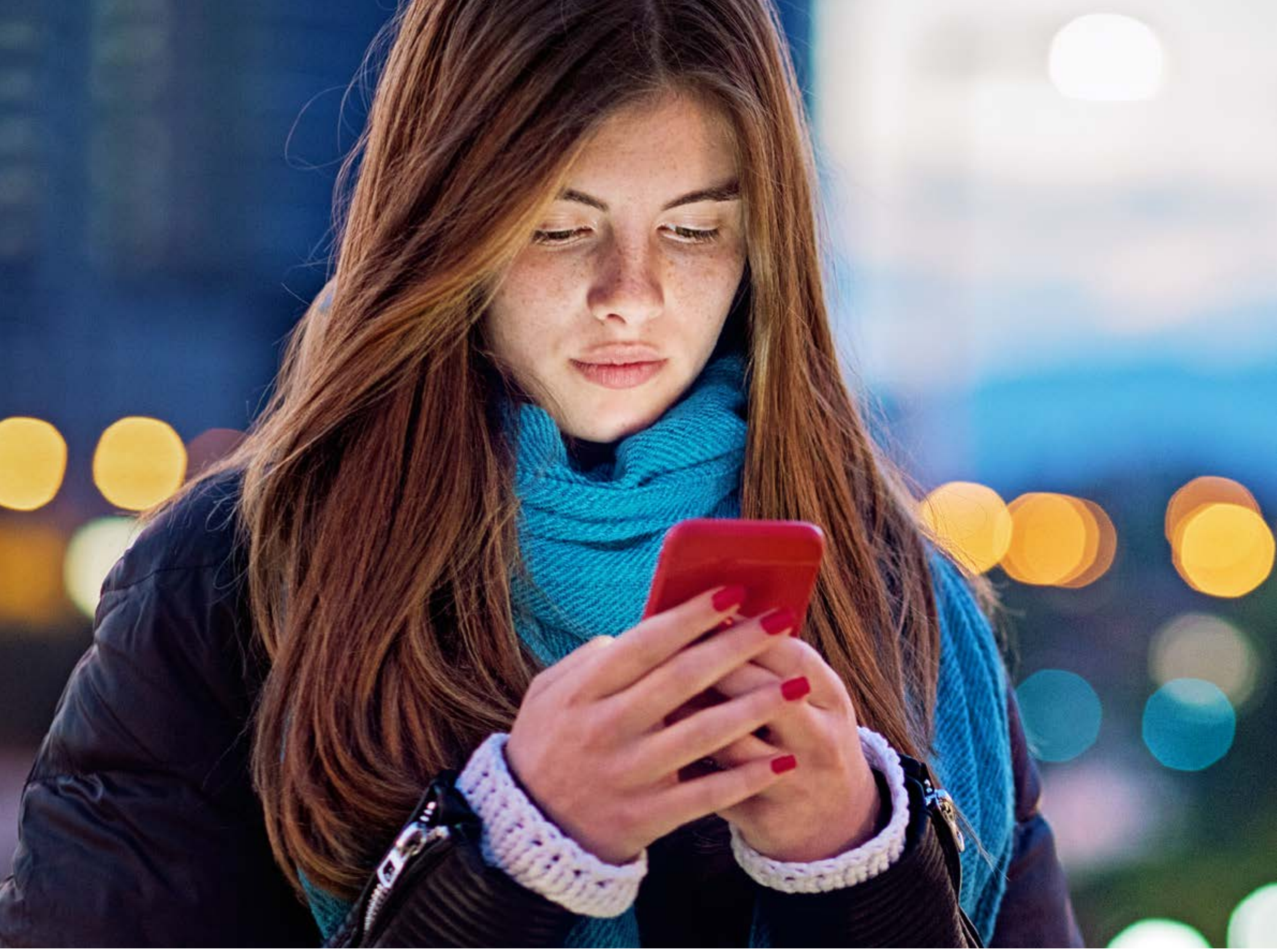
Juan Salazar, Director, Responsible Investment

We had several meetings to discuss its access to medicines and healthcare strategy.

South Africa has among the highest levels of inequality in the world when measured by the commonly used Gini index. Inequality reveals itself through a skewed income distribution, and unequal access to opportunities in education, finance and healthcare. As the largest drug and healthcare retail chain in the country, we believe Clicks Group is well-placed to help address some of the prevailing inequalities.

We had several meetings with executives at the company to discuss its access to medicines and healthcare strategy. We encouraged management to leverage Clicks' extensive network to become a key player in combatting communicable diseases, including sexually transmitted diseases, expand its offer of lower-priced generic medicines, and manage the impacts of the pandemic to employees and customers so as to avoid exacerbating existing inequalities. We also urged the company to review and improve its approach to ensuring effective equality, empowerment and transformation of its workforce, Black South Africans in particular, in the wake of a significant reputational backlash surrounding a racially insensitive advert put up by a vendor on Clicks' website.

While Clicks mostly targets consumers in the growing middle to upper income markets, it has taken steps to serve a growing number of lower income customers. These include switching patients to generic medications and opening stores in townships across the Western Cape. In response to the pandemic, the company ensured prices on essential hygiene products and personal protective equipment were not increased, paid bonuses to customer-facing store staff, and extended free clinic services for customers with no medical cover. Management is working to restore the company's reputation and improve existing employee and supplier diversity practices and, in the process, assure stakeholders of its commitment to the principles of racial diversity and transformation. We see the aforementioned actions helping Clicks build a trusted, accessible healthcare network that can enhance long-term value creation while aiding the addressment of South Africa's persistent socio-economic inequalities.



GlaxoSmithKline (GSK)

Targets: No SDG

Issue: Executive remuneration

No SDG

Daniel Jarman, Vice President, Responsible Investment

GSK has historically received negative attention due to its approach to executive remuneration.

This is mainly due to the remuneration committee having to align executive pay to that of GSK's global peers, most of which are large US pharmaceutical companies that are used to setting high pay levels. The company reached out to its shareholders as it was preparing to renew its tri-annual remuneration policy that would set the parameters of executive pay for the next three years.

We participated in the annual ESG investor meeting at which changes to the remuneration policy were discussed. Following this meeting, we provided detailed feedback to the remuneration committee. The details set out in the consultation document included a pension contribution for executives above what we were willing to accept. We encouraged pension contributions for serving executives to be reduced to a maximum of 15% of salary, which is generally more closely aligned to the contribution level of the wider workforce. In addition, we raised concerns regarding the proposed increase to long-term incentives. Following the consultation process, the company informed us that the pension contribution level had been reconsidered. By 2023, this will be brought down to 7% of salary, the same as the company offers to its ordinary employees. While this is not an immediate decrease, it is acceptable from our perspective.

UK-listed companies have been under increasing pressure to reduce pension contributions for serving executives. The high contributions are partly a legacy issue of the switch from generous defined-benefit to defined-contribution pension schemes. Due to investor pressure, companies have implemented reduction plans similar to GSK in many cases. While we still have some concerns regarding the increased long-term pay element, the reduction in pension contributions and other positive changes to the policy led us to support the new remuneration policy.

2.8 billion monthly active Facebook users globally.[1]

70% of adults from countries including South Africa, Greece and Argentina use social media as a source of news; **around 40%** from countries including France, the UK, the Netherlands, Germany, and Japan.[2]

Many social media users acknowledge a lack of trust in using these platforms as a news source, but they continue to access them daily.[3]

1 Statista, February 2021
2 Statista, June 2020. Results are from a 2020 survey.
3 As above

Facebook

FACEBOOK

Targets: No SDG

Issue: Content moderation

No SDG

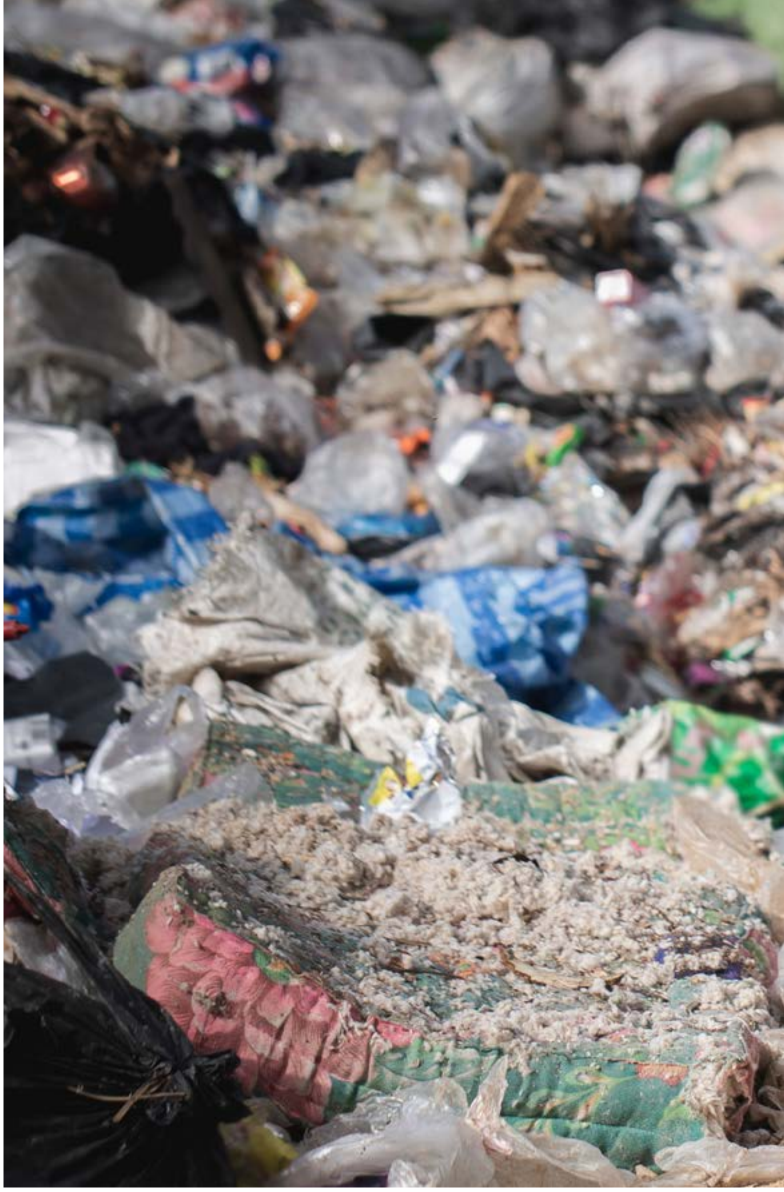
David Sneyd, Vice President, Responsible Investment

Across a group of social media platforms with 2.8 billion[2] monthly active users, the content Facebook hosts can have massive influence.

Following the Cambridge Analytica scandal in 2018, there has been growing distrust over the company's role in society and concerns with spreading disinformation on its platforms, as well as facilitating the broadcasting of extremist material. This is all in the context of poor corporate governance and a company culture that shields its founder and CEO Mark Zuckerberg from accountability to minority shareholders and broader society.

We met the company to discuss the introduction of a 'Content Oversight Board' ('COB') that would act as a supreme court to moderate the platform. We expressed overall support but pushed for better transparency so that stakeholders can actively monitor progress. We also joined an investor coalition looking to engage social media companies, including Facebook, on introducing better moderation of livestreams on their platforms. In a follow-up meeting, we discussed the latest developments on content moderation, as well as how the board oversees this issue. With responsibility formally allocated to the Audit Committee, we suggested that this committee enhance its terms of reference to include this duty more explicitly.

Although the company is improving its approach to moderating content, it has yet to prove that it can move from reactive moderation to proactive prevention, which is what is needed given the scale of its operations and reach. The set-up of the COB and the transparency around its decision-making and reporting processes is a welcome development. However, its roll-out remains too slow, with its first few cases only announced in December. Like other social media companies, there continues to be few clear lines of accountability on content moderation, insufficient resources to tackle the issue and little public reporting.



Investor **initiatives**

We participate in collaborative investor engagements and initiatives, which can be key to improving ESG standards at a larger scale.

Modern Slavery

We signed up to the "Find it, Fix it, Prevent it" multi-stakeholder coalition led by CCLA, one of the UK's largest charity fund managers, on addressing modern slavery risks.

Living Wage

We joined the Platform Living Wage Financials (PLWF), an alliance of 13 primarily Dutch financial institutions. As part of this, we signed an investor statement calling for increase transparency around the identification and management of material ESG issues in the luxury fashion industry.

Racial Justice

We joined the Racial Justice Investing coalition, a group of investors primarily based in the US focused on integrating a racial justice lens into their investment and engagement activities.

Health & Safety (meatpacking industry)

We co-signed a public investor statement that highlights risks to workers in the meatpacking industry due to the pandemic along with recommendations to safeguard their and their families' health and safety. It was endorsed by 118 investors with $2.3 trillion in combined assets.

Environmental Social Governance

The first year of the pandemic has shown – like never before – the necessity, power and impact of investor collaboration.

Nina Roth, Director, Responsible Investment

Human Rights

We joined the the Advisory Council for the Investor Alliance for Human Rights, signing its statement asking all governments to develop, implement and enforce mandatory human rights due diligence requirements for companies headquartered or operating within their own jurisdictions.

Mental health & wellbeing

As part of a collaborative effort, we co-signed a letter to the constituents of the FTSE 100 (100 largest UK-listed companies) urging them to protect the mental health of their employees during the unprecedented working environment caused by the pandemic.

Deforestation

We endorsed the Statement of Support for the Cerrado Manifesto, which sends a clear message of widespread industry support to halt deforestation in the Cerrado, adopt sustainable land management practices and mitigate financial risks associated with deforestation and climate change.

Public policy

Our team plays an active role in public policy development through engagement with regulators, as we believe that this activity ultimately helps promote well-functioning financial markets.

United States

- **Investor Stewardship**

  Issue: Proxy adviser regulation and shareholder proposal at SEC

  Our position: Raised concerns to SEC that proxy adviser regulation would make their valuable work more difficult to deliver and that shareholder proposal rules would limit a mechanism that has been effective at improving ESG standards.

- **Investor Stewardship**

  Issue: Role of ESG funds within US private pension plans

  Our position: Reached out to the US Department of Labor, urging it to reconsider its proposal to amend regulations for private pension plans that risk limiting the ability for plan fiduciaries to grow assets and manage risk effectively over the long term by preventing the incorporation of ESG factors in investment analysis.

- **Shareholder Rights**

  Issue: New regulatory requirements for proxy voting by US private pension plans

  Our position: Wrote to the US Department of Labor, asking it to reconsider its proposal for new regulatory requirements for proxy voting by US private pension plans that effectively discourage voting.

- **Board Diversity**

  Issue: NASDAQ Listing rules to introduce diversity requirements for board directors and improve diversity data disclosure

  Our position: Submitted comments to the SEC in support of NASDAQ's proposal to introduce diversity requirements for board directors and improve diversity data disclosure.

Canada

- **Investor Stewardship**

  Issue: ESG disclosure requirements for TSX-listed companies

  Our position: Signed a private collaborative investor letter to TMX Group to encourage the adoption of robust and comparable material ESG disclosure by Canadian issuers.

- **Investor Stewardship**

  Issue: ESG Disclosure requirements, advancing ethnic and gender board diversity and shareholder rights

  Our position: Joined a collaborative investor submission to the Ontario Capital Markets Modernization Taskforce consultation on various ESG issues. We encouraged corporate reporting using the TCFD and SASB frameworks, supported mandatory target-setting related to board diversity of underrepresented groups, and discouraged implementation of policy proposals that could negatively affect proxy voting.

EU

- **Climate Change**

  Issue: Use the COVID-19 recovery plans to support the EU Green Deal

  Our position: Signed an open letter to EU leaders on a sustainable recovery from COVID-19 and to use the recovery plans to support the EU Green Deal.

- Environmental
- Social
- Governance

Global

Tax

Issue: OECD/G20 BEPS (Inclusive Framework)

Our position: Responded to the OECD/G20 Inclusive Framework's consultation on base erosion and profit sharing. The response focused on the various risks of aggressive tax planning. We also requested country-by-country reporting to be made public.

Health and Safety

Issue: Enabling crew changes to protect seafarers' health and safety

Our position: Signed an investor statement to the UN Secretary General to express support for measures to enable critical crew changes on sea transportation to protect global supply chains and seafarers' health and safety.

> By building relationships with their shareholders during the "calm times," companies may find that having that existing connection is more important than ever, as they [were] put to the test in 2020.
>
> **2020 Annual Corporate Directors Survey, PwC**

UK

Energy transition

Issue: UK energy transition

Our position: Initiated and co-signed a letter to the UK electricity regulator, Ofgem, urging it to agree with electricity producers on the necessary rates of return to achieve a net-zero electricity system.

South Korea

Climate change

Issue: Climate change and Korea's oversea thermal coal investments

Our position: Signed a private letter to the Ministry of Economy and Finance of South Korea, emphasising the importance of limiting overseas thermal coal power generation investments by state-owned companies.

Japan

Investor Stewardship

Issue: Japanese Stewardship Code consultation

Our position: Responded to Japan's FSA as part of a public consultation on the Japanese Stewardship Code, emphasising the importance of applying the code across all asset classes.

Switzerland / EU

Human rights

Issue: Mandatory human rights due diligence

Our position: Responded to consultations on election campaigns from an investor perspective through public speaking, opinion articles and media outreach.

Indonesia

Deforestation / Human Rights

Issue: Indonesian omnibus government bill weakening protection for deforestation and human rights

Our position: Signed on to a joint investor letter to Indonesian government to express our concerns that incoming legislation risks undermining long-term sustainability by weakening protections for the environment and human rights.

Hong Kong

Shareholder rights

Issue: Corporate Weighted Voting Rights

Our position: Responded to a public consultation by the Hong Kong Stock Exchange on corporate weighted voting rights whereby we expressed our views that multiple voting rights, whether held by a corporate or an individual, are incompatible with the principle of fair and equitable treatment of all shareholders.

Engagement themes for **2021**

BMO's overriding engagement priority for 2021 will be climate change, focusing across sectors, and working collaboratively where we can.

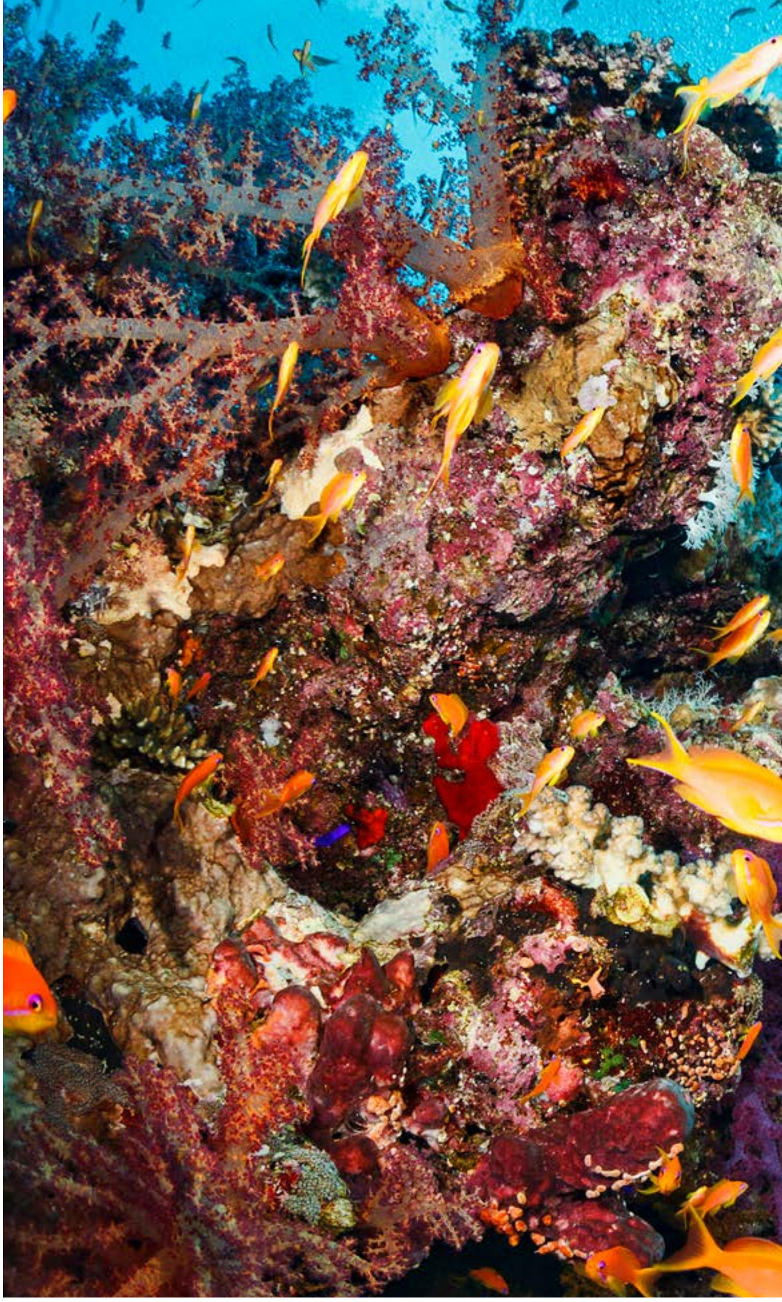
Our approach to active ownership in 2021 and beyond will be shaped by our commitment to support an inclusive and green recovery from the global pandemic. A recovery in which markets and companies are truly aligned with the natural, social and economic systems upon which they depend.

In this context, we have decided to set three areas of focus for our active ownership efforts in 2021. We will continue to prioritise our longstanding engagement and voting activities with companies on issues related to climate change, focusing on driving action towards a net zero emissions global economy. We will also develop our efforts to encourage positive biodiversity outcomes in companies operating in high-impact industries, and drive actions to address the deep systemic socio-economic inequalities the pandemic has aggravated.

[2021] could be a year for positive change, for ourselves, for our planet and for the wonderful creatures with which we share it. A year the world could remember proudly and say, 'we made a difference'.

Sir David Attenborough

[1] IUCN, March 2021.



The race to net zero

In a continuation of its 2020 commitment, BMO GAM remains focused on climate change. This year, we will push companies in high-emissions sectors including the oil & gas, mining and transportation industries for the adoption of targets consistent with net zero emissions globally by 2050, and for robust strategies to implement these. We will continue our work with financial institutions, pressing for climate change to be fully integrated into lending and investment policies, and for the adoption of net zero aligned strategies – as BMO GAM itself has adopted as a founding member of the Net Zero Asset Managers Alliance. We will also engage with companies in the food industry to drive climate-smart agricultural practices that curb carbon emissions while helping build supply chain resilience, and with the real estate industry to develop quality, accessible and energy-efficient buildings.

Coral reefs have the highest level of biodiversity of any ecosystem globally and directly support over 500 million people worldwide. They are also one of the most threatened. For the coral reefs to survive, the global average temperature must stay well below 2ºC, in line with the Paris Agreement.[1]

Addressing biodiversity loss

The current scale of biodiversity loss globally poses an existential threat to the ecosystems that support global economic and social wellbeing. In 2021, BMO GAM will seek to drive positive biodiversity outcomes, through a continued and expanded engagement programme with companies to curb deforestation, manage soil and freshwater resources and address ocean pollution. Engagement will focus on the most critical sectors to reducing negative biodiversity outcomes, including the food and beverage, extractives and financial sectors. We will also seek to contribute to the development and adoption of metrics and indicators to help companies measure and assess their impacts and dependencies on biodiversity.

Supporting social justice and reducing inequality

BMO GAM has a longstanding and successful history of engaging on issues related to inequality, from living wage and gender diversity to access to finance, healthcare and nutrition. This year, we will continue to engage on these topics, while developing our efforts to encourage companies to improve management of racial and ethnic diversity, contribute to a just transition in response to climate change, and tackle emerging issues in human rights in industries like IT, power generation and metals & mining. We will seek to drive enhanced human rights due diligence practices across industries and will particularly focus on issues inherent in the energy transition, including longstanding challenges in the fossil fuel extractives chain and new issues arising in the renewable energy sector.

Corporate governance **focus areas for 2021**

Achieving best practice in corporate governance is a dynamic process between the board, management and shareholders. We encourage companies to engage in the process of shaping and meeting standards of best practice as these evolve across different regions.

Climate change

We seek to encourage the transition to a low-carbon economy. In addition to the sectors discussed above, in 2021 we will extend our focus to poor performance and reporting by companies on climate change – in the transportation and automobiles, consumer discretionary and consumer staples and real estate sectors. We will also focus on companies responsible for deforestation, as a key contributor to climate change.

COVID-19 and executive pay

The task of many compensation committees will be particularly tough in the coming months as they seek to address the impact of COVID-19 on their businesses in incentive structures. As companies seek shareholder approval for executive compensation payments for a full year under the strain of the pandemic at their 2021 AGMs, we expect compensation committees to balance the executive experience with that of not just shareholders, but also employees and other stakeholders. Where a company has raised additional capital from shareholders, or has required government support, we will expect this to be clearly reflected in the executives' pay outcomes.

Board diversity

For several years, we have placed a great emphasis on gender diversity via multiple avenues. We have extensively engaged with companies and have developed voting policies to reject the election of nomination committee chairs where boards do not meet our expectations of female representation. In 2021, we have strengthened our explanations in a number of markets. Our engagement and voting efforts will also focus on increasing the level of diversity beyond gender across organisations.

We will engage investee companies to understand how they address systemic racism and the lack of inclusion in the workforce of under-represented groups. We expect companies to collect and disclose relevant data on the ethnic composition of the workforce, report on associated pay gaps and set and disclose targets and timelines for improvement. We may not support the re-election of nomination committee chairs or other relevant directors or management resolutions at companies that are laggards in this area and plan to make this approach systematic in 2022 as more data becomes available.

Pioneers in responsible investment

At BMO GAM, responsible investing is at our core – from the launch of Europe's first ethically screened fund in 1984 and our position as a founding signatory of the UN PRI, to the comprehensive suite of ESG specialist funds and services available today.

A leading voice on a vital conversation

35+ years
of investing responsibly

20+ years
of driving positive change through ESG engagement

21 sustainability experts
within the Responsible Investment team

275+ combined years of experience

A+ Rated
for strategy and governance, and ESG incorporation and active ownership in listed equities by UN Principles for Responsible Investment

Co-heads

Alice Evans
Managing Director, Co-Head of Responsible Investment

Claudia Wearmouth
Managing Director, Co-Head of Responsible Investment

Recent awards

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2020 WINNER Best Sustainable & ESG Equity Fund

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2020 WINNER Best Sustainable & ESG Research Team

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2019 WINNER Best ESG/SRI/Impact Research Team

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2019 WINNER Best ESG Investment Fund

INVESTMENT WEEK SUSTAINABLE & ESG INVESTMENT AWARDS 2018 WINNER Best ESG Research Team

Environmental Finance Sustainable Investment Awards 2020 Winner ESG research of the year (fixed income)

Environmental Finance Sustainable Investment Awards 2019 Winner Best ESG reporting by an asset or fund manager: large

WINNER ESG Investing Awards 2020

WINNER ESG Investing Awards 2021

BEST ESG INVESTMENT FUND: EQUITIES ESG Investing Winner: Awards 2021

Past performance is not a guide to future performance. All information as at 31 Dec 2020

Investing responsibly is at our core

Our experienced Responsible Investment capability is structured to cover:

- Responsible investing skills such as ESG analysis, engagement, screening and proxy voting
- Responsible investing themes across E, S and G
- Industry sector knowledge

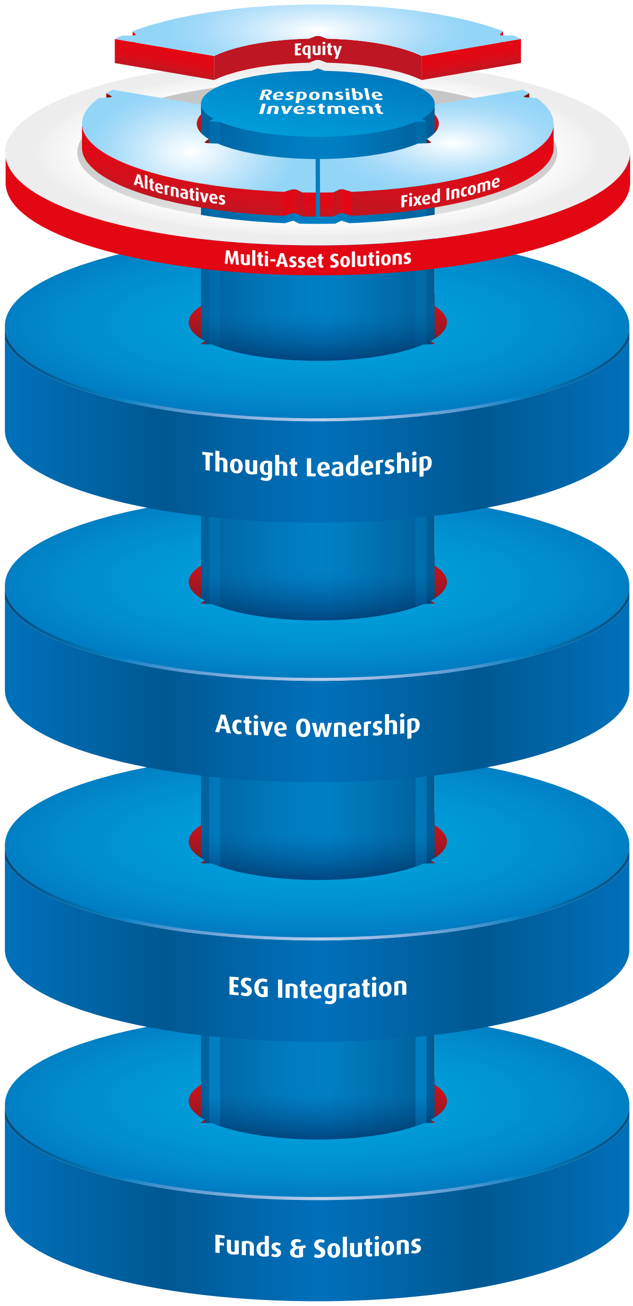
How we drive positive change

We use our experience, expertise and influence to have a positive impact on investments and the wider world, sharing actionable insights with our clients.

We use our sector knowledge, ESG data and recognised influence to engage thoughtfully with the companies that we, or our clients, are invested in to bring about positive change.

We ensure that all relevant ESG factors are considered in our investment analysis to provide a more comprehensive and rounded risk perspective.

We offer a comprehensive suite of responsible products and solutions that are constantly evolving to meet the needs of our investors and our world.



Responsible about investment

Every BMO GAM fund is a responsible fund. We integrate material ESG factors into all investment processes. This ensures that responsible investing comes as standard across all our strategies, products, funds and investment solutions. However, we also have a dedicated range of ESG focused funds and solutions that are designed for investors that wish to set the bar even higher for responsible investment.

The extra factor in our dedicated ranges of responsible investment solutions

In 1984 we launched Europe's first social and environmentally screened fund. We have been innovating ever since, creating award-winning strategies that embrace different investment themes and priorities, covering a range of asset classes and regions, including multi-asset solutions. Our range of responsible investment solutions use and strengthen our three-pillar framework:

Avoid
Additional exclusions over and above those we provide as standard across our entire range.

Invest
A higher proportion of companies exhibiting or on the path to sustainability leadership. They may offer comprehensive client reporting on milestones and progress.

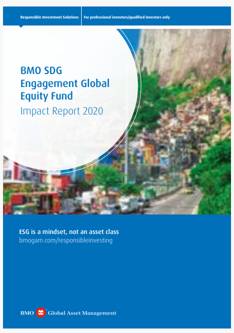
Improve
A more demanding engagement agenda focusing on objectives beyond financial performance, encouraging companies to have an ongoing focus on improving their ESG credentials.

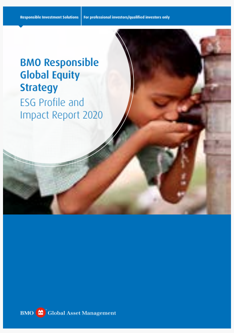
Independent oversight

Our Responsible Investment Advisory Council consists of five external sustainability experts and an internal member. They help us maintain the integrity of the standards by which the Responsible funds are run, providing advice on ethical and sustainability criteria. The five experts are leaders in their fields and bring international experience across responsible investment, environmental, social and ethical issues. Their expertise also helps inform our approach to responsible investment issues and engagement.

Impact reports

For every responsible investment fund, we publish an annual impact report which communicates with investors on the progress we are making and measures the impact we have through the companies we invest in and the way we act as investors.





"We are incredibly proud of our award winning responsible investment capability. We focus on ambitious and thoughtful active ownership to inform better investment decisions while driving meaningful change in the companies we invest in."

Claudia Wearmouth, Managing Director, Co-Head, Responsible Investment

Vicki Bakhshi, Director, Responsible Investing, presenting at the 2020 F&C Investment Trust Lecture

reo® our stewardship service

Our Responsible Engagement Overlay service (***reo***®) is widely sought by a global client base of asset owners including pension funds, insurers, asset managers, fiduciary managers, charities, family offices and discretionary managers.

These clients trust our award winning ***reo***® service to engage investee companies on ESG issues and sustainability risks and opportunities related to investments. ***reo***® reporting is aligned to the SDGs, enabling them to report on the impact of our engagement.

Through ***reo***® clients can access the full suite of stewardship expertise including research, screening, engagement and proxy voting. They enjoy greater influence to effect positive change by pooling assets to create one single, powerful voice.

reo® provides global cross-sector coverage across the market cap spectrum and systematic analysis of ESG risks in client portfolios, to inform engagement priorities.

Responsibly managed AUM and AUA engaged

£8.3bn (€9.3bn)
Assets managed in responsible funds and mandates

+

£105bn (€117bn)
BMO Global Asset Management assets engaged on

+

£272bn (€303bn)
Assets engaged for clients in **reo**®

= £377bn (€420bn) Total combined AUM + AUA

AUA = assets under advice. All figures as at 31 Dec 2020

Stewardship
and our purpose

We discharge our stewardship responsibilities with the aim to enhance sustainable, long-term investment performance. We take responsible investment seriously across asset classes.

The identification of financially material ESG issues forms part of our investment processes, 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 interest of our clients.

We believe that responsible investment and broader stewardship activities 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 the wider BMO Financial Group 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 a founder signatory.

Stewardship across our assets

We have prepared a stand-alone document available here, which sets out our approach to stewardship, how this relates to our corporate purpose, our stewardship oversight and relevant processes.

1

Signatories' purpose, investment beliefs, strategy and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society

2

Signatories' governance, resources and incentives support stewardship

3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

5

Signatories review their policies, assure their processes and assess the effectiveness of their activities

6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to society

UK Stewardship Code

We welcome the new UK Stewardship Code and its definition of stewardship as the "responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society." We are committed to becoming signatories and this Responsible Investment Annual Review may be used by the FRC to assess our compliance with the Code.

We believe that our approach to stewardship and our practices set out in this report are already substantially aligned with many of the expectations of the Code.

7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

8

Signatories monitor and hold to account managers and/or service providers

9

Signatories engage with issuers to maintain or enhance the value of assets

10

Signatories, where necessary, participate in collaborative engagement to influence issuers

11

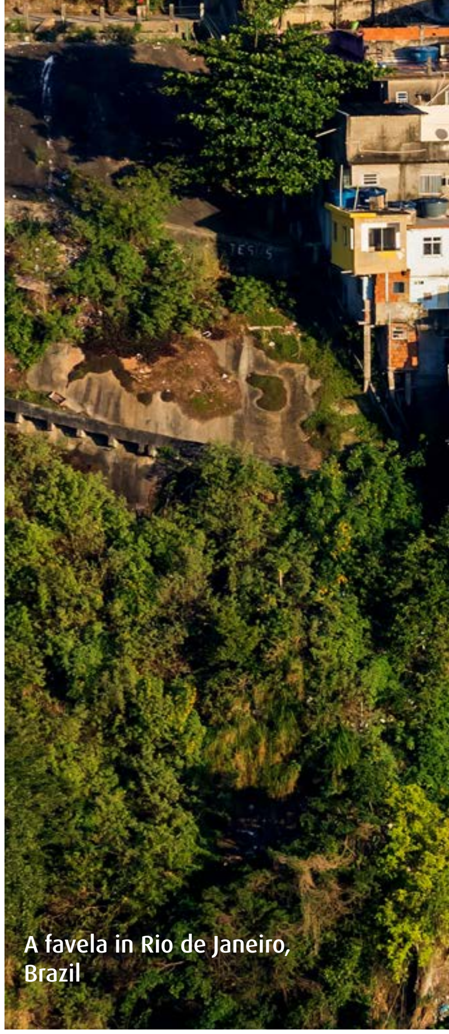
Signatories, where necessary, escalate stewardship activities to influence issuers

12

Signatories actively exercise their rights and responsibilities

Research and policies

Our Responsible Investment team regularly produce in-depth insights on a wide range of ESG and sustainability themes.
Click on the titles below to access their research.


A favela in Rio de Janeiro, Brazil

COVID-19

Early ESG implications of the pandemic: When the pandemic began to unfold, we worked to understand how it might affect the global ESG agenda.

Cybersecurity and data privacy: COVID-19 has caused us to rely more on technology amid the mass migration to home working. We considered the pandemic's effect on cybersecurity and data privacy – and how we as investors can help.

Proxy voting: Abandoning proxy voting season in 2020 was legally not an option for most companies. Discover what measures were taken to adapt AGMs to suite the pandemic environment, and how we adjusted our related engagement.

Executive pay: The severe economic impact of COVID-19 further heightened investor and public scrutiny of executive pay levels. Discover how top UK companies adjusted executive pay during the pandemic.

The pharmaceutical industry: Public trust in the pharmaceutical industry has eroded in recent years. We used research and engagement to explore how the industry is responding to COVID-19, and whether the pandemic has provided a chance to restore faith in pharmaceuticals.

Labour-related impacts: Labour issues are likely the biggest corporate theme to emerge from the pandemic, with the impact on workers not being felt evenly. Discover how we engaged companies on their responses to workforce issues that arose during the pandemic.

Ocean health: Our ocean ecosystem is in crisis thanks to human activity – a problem being exacerbated by COVID-19 and the resultant rise of single-use plastic. Discover these effects in detail and why we believe momentum to clean our oceans will resume after the pandemic.

Food production: The pandemic is having a huge impact on global food chains. We set out our plans to engage relevant companies to understand their challenges and encourage them to make the protection of worker wellbeing an immediate and ongoing priority.

Environmental

BP sets a course for net zero: BP has committed to become net zero carbon by 2050. Having engaged with the company for two decades, we set out the steps we recommend BP takes to achieve its goal.

A new life for coal power? In early 2020, Drax, the UK's largest power station, announced its plan to end its coal generation by March 2021 in a bid to become carbon negative by 2030, and transition to biomass instead. Discover what we learned from a visit to the site, and how sustainable this plan really is.

The meaty realities of food production: Food production and consumption practices are depleting natural resources at unsustainable levels and contributing significantly to climate change. Discover our ongoing engagement on sustainable food systems.

Coal's uncertain future: With a growing number of governments setting paths to net zero emissions, the future of coal is in question. We engaged coal mining and electric utility companies to understand how they are managing this transition.

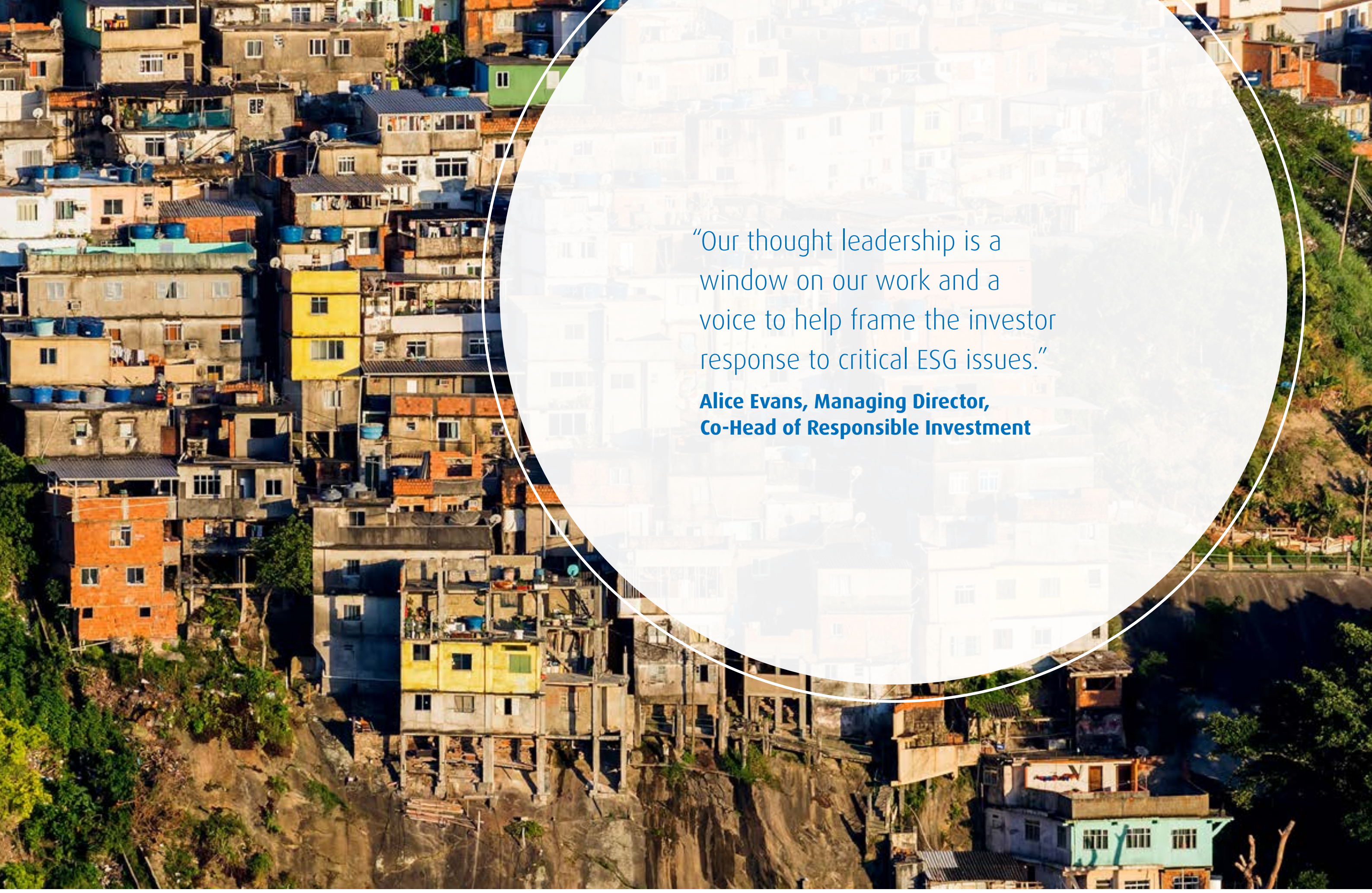
Climate voting 2020: With less than 12 months until the COP26 climate negotiations, momentum is building to curb emissions and limit global warming. Investors have a key role to play here – discover how we fostered climate action through proxy voting in 2020.

Sustainable banking in the ASEAN region: Discover how we stepped up our engagement efforts with the largest and most influential banks in the ASEAN region to encourage them to improve the integration of environmental and social issues into credit and other risk management systems.

Are Indonesian companies waking up to climate risk? Indonesia is one of the world's biggest emitters of greenhouse gases, driven by deforestation and land-use change. Discover our findings from a trip in 2019 to meet major palm oil and coal industry companies and press them for stronger climate change strategies.

Social

Modern slavery – engagement update: Modern slavery legislation is progressing globally, and companies may face material consequences if they fail to



identify, address and report on related risks. Engagement is therefore growing in importance – discover our approach and findings.

Living wage in the retail sector: To stay in business amid the move to online shopping, many high street retailers have cut wages to stay afloat. This can have negative effects in the long term – discover our engagement with retailers to encourage a progressive, long-term approach to human capital management.

Racial justice – the imperative for investor action: The Black Lives Matter movement inspired global anti-racism protests. We recognise the importance of this critical issue, and the value diversity and equality have to our business and those we invest in. Discover the role of investors in addressing this issue.

Governance

Gender diversity: Gender diversity at all levels of an organisation is extremely valuable. Discover our reflections on a decade of progress here, and the work that still must be done.

Other

Antimicrobial Resistance – overcoming challenges: AMR is a naturally occurring phenomenon being accelerated by the misuse and overuse of antibiotics in farming and healthcare. Discover our engagement with food and pharmaceutical companies to ensure antibiotics are used more responsibly.

US Responsible Investment Regulatory Update: The US Securities and Exchange Commission raised investor fears that it plans to rein in the growth of responsible investment by releasing two proposed sets of regulation amendments – discover our views.

RI Policy documents

RI Approach: A comprehensive suite of documents encompassing our approach to responsible investment across our global operations

Our corporate governance guidelines: Our expectations of investee companies in terms of good governance, as well as our voting policies.

Conflicts of interest policy – proxy voting: Our policy for managing conflicts of interest within our proxy voting activities.

Expectations for social practices: Our expectations on how companies should manage the social aspects of their operations and supply chains.

Our expectations on environmental practices: Our expectations on how companies should manage the environmental risks and opportunities of their operations and supply chains.

Interested in accessing more of our content?
Visit our website

Contact us

bmogam.com

Follow us on LinkedIn

Responsible investing – a glossary of terms

Its wide-ranging nature means that responsible investment involves a host of associated language and jargon. Click the link to explore the most commonly used terms.

Explore glossary

BMO Global Asset Management

cover