Decoding **Responsible Investing**

At BMO Private Wealth, we believe that supporting our clients with their increasing focus on sustainability is a great demonstration of a truth that underpins our purpose: **Boldly Grow the Good in business and life**. We have a proud legacy of innovation and collaboration through the integration of environmental, social and governance ("ESG") issues into our investment processes, while ensuring that investment decisions are always made in the best interests of our clients. Supporting these decisions is a belief that incorporating a range of responsible investment techniques can have a meaningful impact on the creation of long-term investor value.

Five terms you need to know

For investors looking to improve their understanding of responsible investing, it's helpful to clarify some of the common terms. For example: What are ESG factors? How do they relate to sustainability? Laying out clear definitions for a few essential terms, and knowing how they intersect, can help bring clarity to the discussion.

1. **Responsible investing ("RI")** is the broad umbrella used to describe this space.
2. **Environmental, Social and Governance** factors provide a framework for breaking down the concept of sustainability into the three primary areas of responsible investing.

Environmental	Social	Governance
▪ Climate change ▪ Water management ▪ Pollution	▪ Labour standards ▪ Human rights ▪ Health and safety	▪ Executive pay ▪ Board structure ▪ Business ethics

3. **ESG integration** is a strategy that can be applied to any portfolio. It includes an understanding of the ESG issues affecting a company during the investment analysis to ensure that all applicable issues are fully reflected in the valuation.
4. **Sustainability** is the concept of meeting our current needs without compromising the ability of future generations to meet their needs.
5. **Sustainable Development Goals ("SDGs")** provide a framework for discussion and collaboration with companies regarding their specific sustainability issues. Established by the United Nations in 2015, the SDGs have become the gold standard for conducting progressive dialogue with large corporations.

Approaches to **responsible investment**

Traditionally, a common misconception associated with responsible investment is the assumption that it mainly involves negative screens to exclude stocks that investors don't want to invest in, such as alcohol or tobacco companies. In fact, negative exclusion is only one of many approaches that investors can utilize to take a more responsible approach with their investment portfolio. The following are additional responsible investment approaches that investors can follow to support the issues and outcomes that are important to them:

Integration	Integrating material ESG risks into analysis and portfolio construction
Negative Exclusion	Excluding companies from investment on the basis of their products or behaviour
Positive Inclusion	Selecting companies with positive ESG attributes
Thematic	Focusing on companies offering sustainability solutions
Impact	Targeting both a financial and social/ environmental return
Philanthropy	Delivering non-financial outcomes as the primary goal

Are there **performance headwinds?**

Empirical academic and commercial research shows that there is no systematic performance penalty associated with responsible investing. If anything, adding an RI component is more closely related to lower risk and volatility in investment portfolios. It makes sense that companies being the most proactive in managing key ESG-related risks may enjoy greater business model resilience and success.

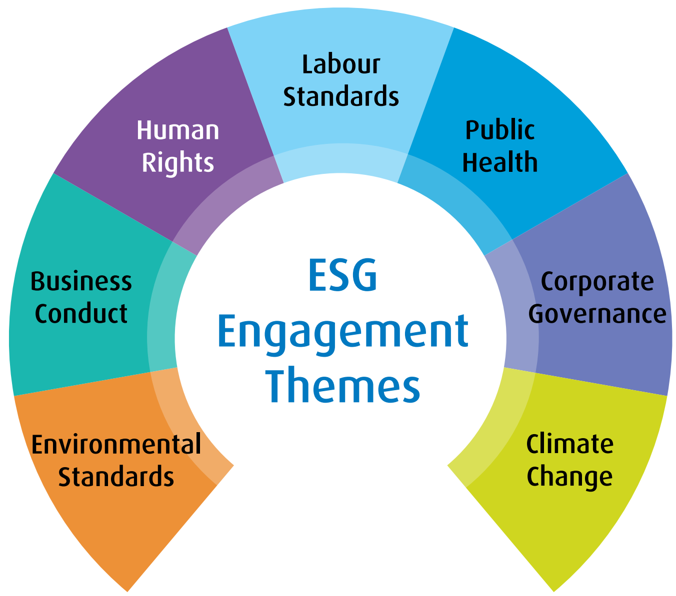
Mainstream perceptions of RI are often rooted in the past. The origin of the sector is in exclusionary investment products that are often framed as "socially responsible" or "mission-related," which are forms of ethical investing and centered on the idea of investing in companies that don't contradict your values. These investments still have an important place under the RI umbrella; however, responsible investing has moved foward, and ESG factors are becoming increasingly essential to sound financial analysis.

Structural changes to the global economy have also widened the opportunity set, and the RI landscape is developing rapidly now. In sectors from technology to industrials, to transportation and beyond; firms responding innovatively to the sustainability challenges that we face present an opportunity for investors to own a piece of a more sustainable economy.

Active ownership – Driving change through **engagement** and **proxy voting**

As the RI landscape evolves, investors are increasingly exercising their roles as shareholders to improve the practices of the companies they are invested in. This concept is known as active ownership. The two key components of being an active owner include engagement and proxy voting. Historically, investors focused on the governance risks of companies in both their voting decisions and company dialogues. Today, investors are also holding companies accountable to sustainability practices that include ESG considerations.

What is Engagement and Proxy Voting?



Engagement is the practice of working with investee companies to address material issues to affect change. This process involves collaboration between the investment manager ("investor") and investee company, by entering into a constructive and confidential dialogue to set sustainability engagement objectives and working towards achieving them. Investment managers are able to leverage their larger positions in investee companies to engage in meaningful dialogue on behalf of their end clients. Results of this engagement can often take anywhere from months to years to be realized.

Proxy voting is another key focus of active ownership. Shareholders of a company can exercise their right to vote on resolutions at shareholder meetings by way of proxy ballots. In the case of investment managers, the overall volume of shares held in a company increases the impact of that manager's vote.

Engagement case study

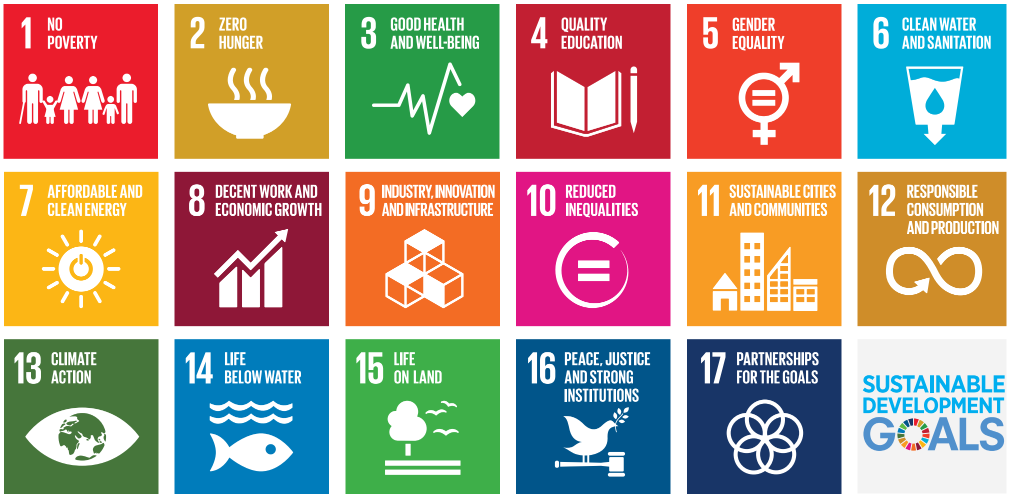
Scenario	As a large shareholder in a global mining corporation, an investment management company sought to engage with this mining company on specific environmental issues.
Engagement objectives	▪ Risk management, scenario planning and stress testing of mining assets. ▪ Review of mining company's strategy on climate risk and disclosure of their approach to mitigate those risks. ▪ Board oversight, appropriate skills and expertise. ▪ Engagement with government regulators to influence energy policy and align company strategy.
Results	After numerous interactions between the two parties, the mining company began taking concrete action to address the stated concerns: ▪ The investment management company supported a shareholder resolution asking for development of a clear strategy around climate change related risks, and to explain how the strategy is reflected in corporate investment decisions. ▪ Company published a clear report on climate change related risks and announced their intended exit from the coal industry, with the company subsequently divesting from all coal assets.

"We exist to convene, catalyze and empower change that sustains growth for good."

Darryl White
CEO, BMO Financial Group

Sustainable Development Goals

The 17 SDG goals were developed by the United Nations and cross-industry stakeholders to provide a roadmap towards a more sustainable world. They are ambitious, high-level goals that incorporate 169 specific targets, and were endorsed by all 193 UN member states. We believe the SDGs provide an ideal framework to analyze sustainability issues and impact, by providing a comprehensive taxonomy for describing sustainability objectives that can be commonly understood by investors, companies and governments.



The SDGs provide a shared blueprint for sustainability – for people and the planet – now, and in the future.