



Responsible Investing:  
Investments you can  
feel good about in  
every way



Exchange Traded Funds

# Agenda

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**Evolution of Responsible Investing (RI)**

**RI Approaches**

**Drivers of Adoption**

**Backing It Up with Data**

**RI Heritage & Commitment @ BMO**

**BMO ESG ETFs**

# At BMO, We Know ETFs

**Top 15**

WSJ Ranks BMO in the top 15 most sustainably managed companies in the world<sup>2</sup>

**Boldly Growing the Good**

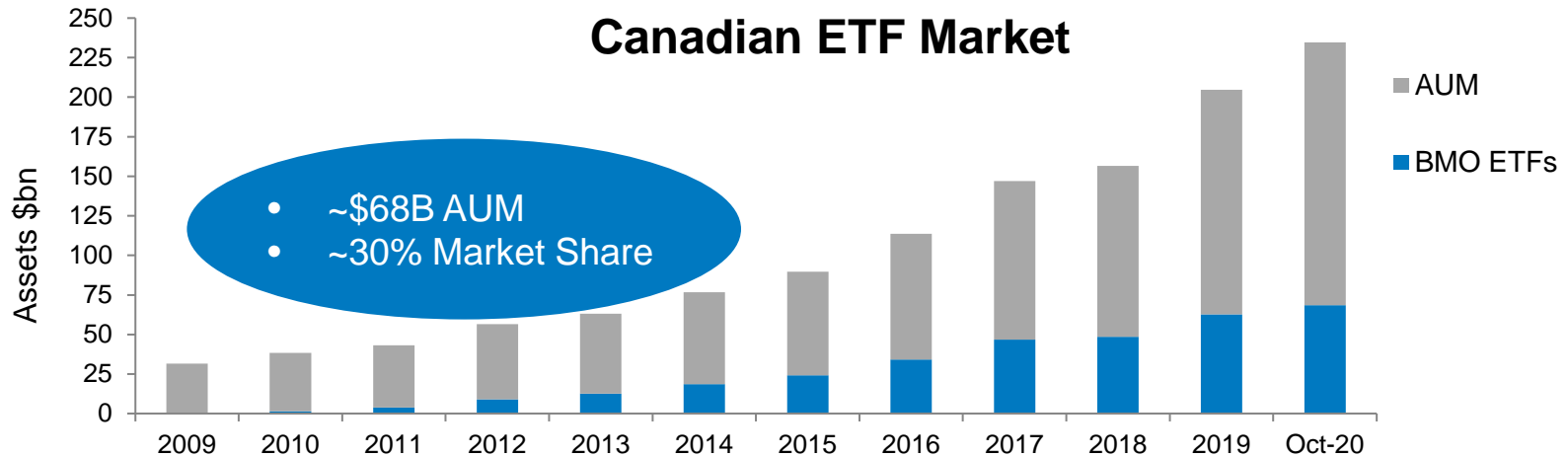
PRI has rated BMO GAM an A+ on our active ownership for listed equity, as well as our strategy and governance.<sup>3</sup>

**#1**

In Canadian net new assets 9 years in a row<sup>1</sup>

**#1**

Fixed income ETF provider in Canada based on AUM<sup>1</sup>



# What Can No Longer Be Ignored...

Sustainability challenges the world is facing are **real, huge and multifaceted**

**BBC THIS WORLD:** Clothes To Die For. Rana Plaza Factory Collapse



**New York:** UN Says Climate Genocide is Coming. It's Actually Worse Than That.



# Debunking Common Myths


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**“Doesn't Responsible Investment = Ethical Investment?”**



**“ESG is a Niche Style of Investing.”**



**“Responsible Investment is a Breach of My Fiduciary Duty.”**



**“ESG is a Passing Trend”**



**I Don't Want to Sacrifice Returns to be a Responsible Investor**

# What is responsible investment?

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“Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns”

- *UN Principles for Responsible Investment*



## Environmental

- Climate Change
- Water Management
- Pollution



## Social

- Labour Standards
- Human Rights
- Health and Safety

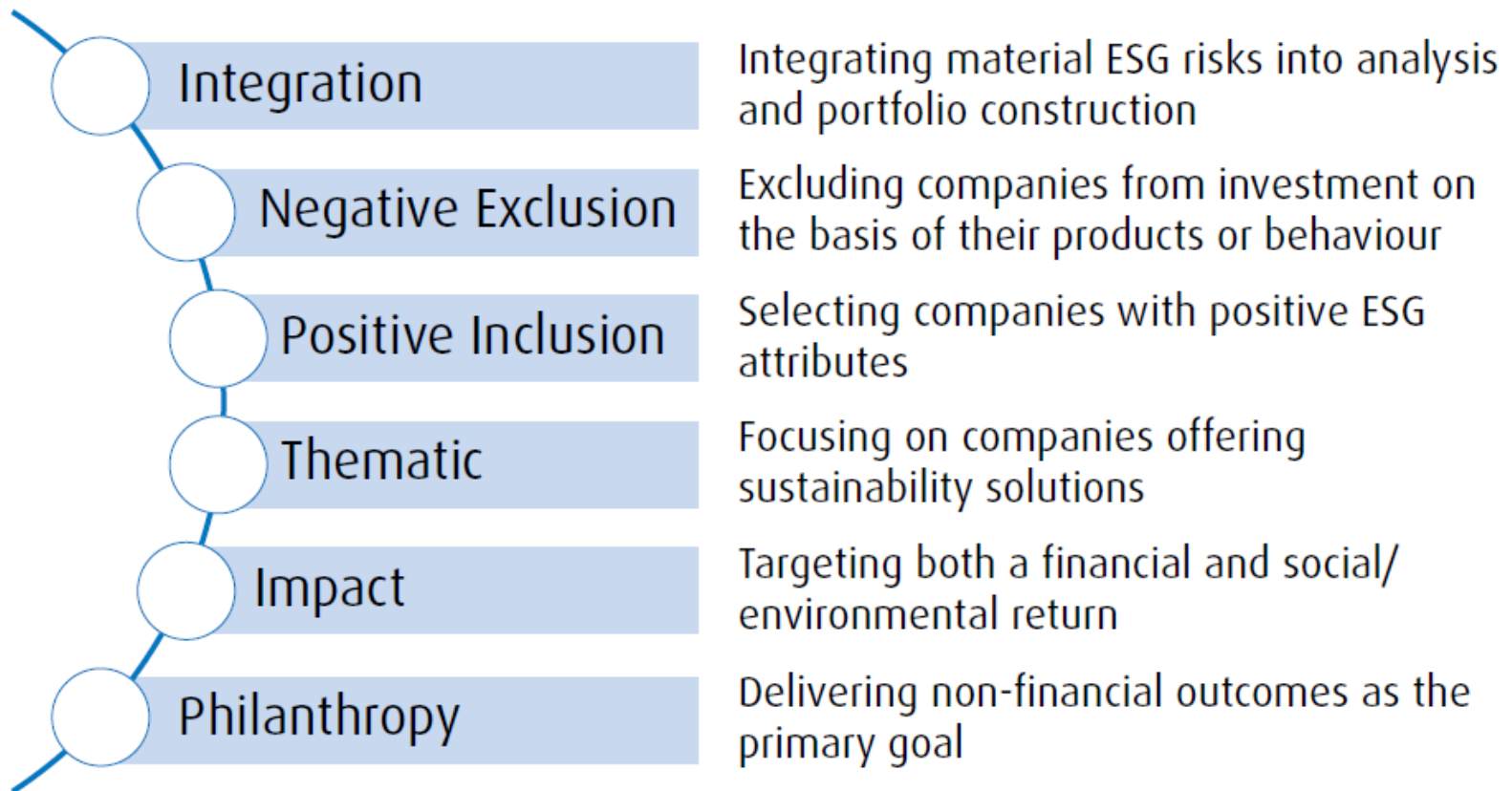


## Governance

- Executive Pay
- Business Ethics
- Corporate Governance

# Approaches to Responsible Investing

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- What do you own or avoid owning?;
- Do you act as a Steward in guiding Capital?

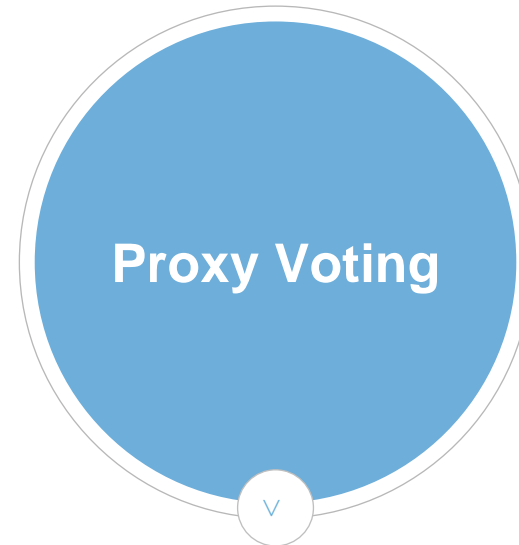
# What is Active Ownership?

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**Exercising your stewardship responsibilities to influence change through:**



**Encouraging companies to address material ESG issues, to reduce risk and support long-term performance**



**Exercising the right to vote on resolutions at company shareholder meetings**

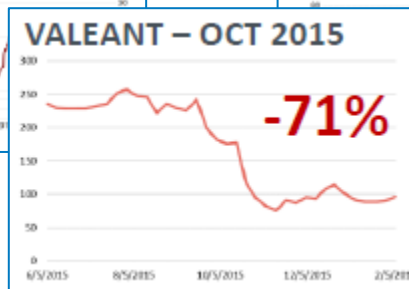


# Why ESG Now? - Corporate ESG Incident

Investors have become less tolerant of corporate ESG incidents

More scrutiny, and emerging ESG risk factors may impact profitability

Investors are making companies accountable for their actions.



\*Source: <https://www.fool.com/investing/general/2014/03/24/25-years-on-from-exxon-valdez-what-weve-learned-wh.aspx>; Examples only. Past performance is not indicative of future results, which may differ materially.

# Why ESG Now? - The Rise of ESG Investing

## Greater understanding of potential financial benefit

Increasing evidence that ESG data can improve risk-adjusted returns, and longer track records

“Numerous studies find a link between company-level ESG performance and their financial and operational performance; in particular, there is evidence that taking ESG into account can help to **protect against volatility and downside risk**”

### University of Oxford (2015)<sup>1</sup>

Reviewed over 190 studies; 88% show a positive relationship between company-level sustainability practices and operational performance

### Bank of America Merrill Lynch (2017)<sup>2</sup>

Companies with poor ESG standards have higher volatility in earnings per share than peers

### Morgan Stanley (2015)<sup>3</sup>

US sustainable equity mutual funds had equal or higher returns, and equal or lower volatility, than mainstream peers for 64% of the periods studied

ESG = Environmental, Social and Governance.

Sources: <sup>1</sup> 'From the stockholder to the stakeholder', University of Oxford and Arabesque Partners (2015)

<sup>2</sup> 'ESG Part II: A Deeper Dive', Bank of America Merrill Lynch (2017) <sup>3</sup> 'Sustainable Reality', Morgan Stanley Institute for Sustainable Investing (2015)

# Why ESG Now? - ESG Data Improvements

Improved ESG ratings to measure what was unmeasurable

Ratings make it possible to measure what was once unmeasurable



Voted best firm for SRI research, corporate governance research and Indexes for the **fourth consecutive year**



Analysis begins with a **deep governance assessment**

Ownership, Board, Pay, Accounting, Corporate Behaviour



Focus on **most relevant ESG factors** by industry

Quantitative Approach + Annual Consultation



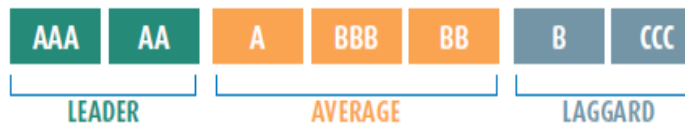
Focus on **risk exposure** not just disclosure

Scoring Models Assess Risk Exposure + Risk Management



Identify **leaders and laggards**, not business type exclusion

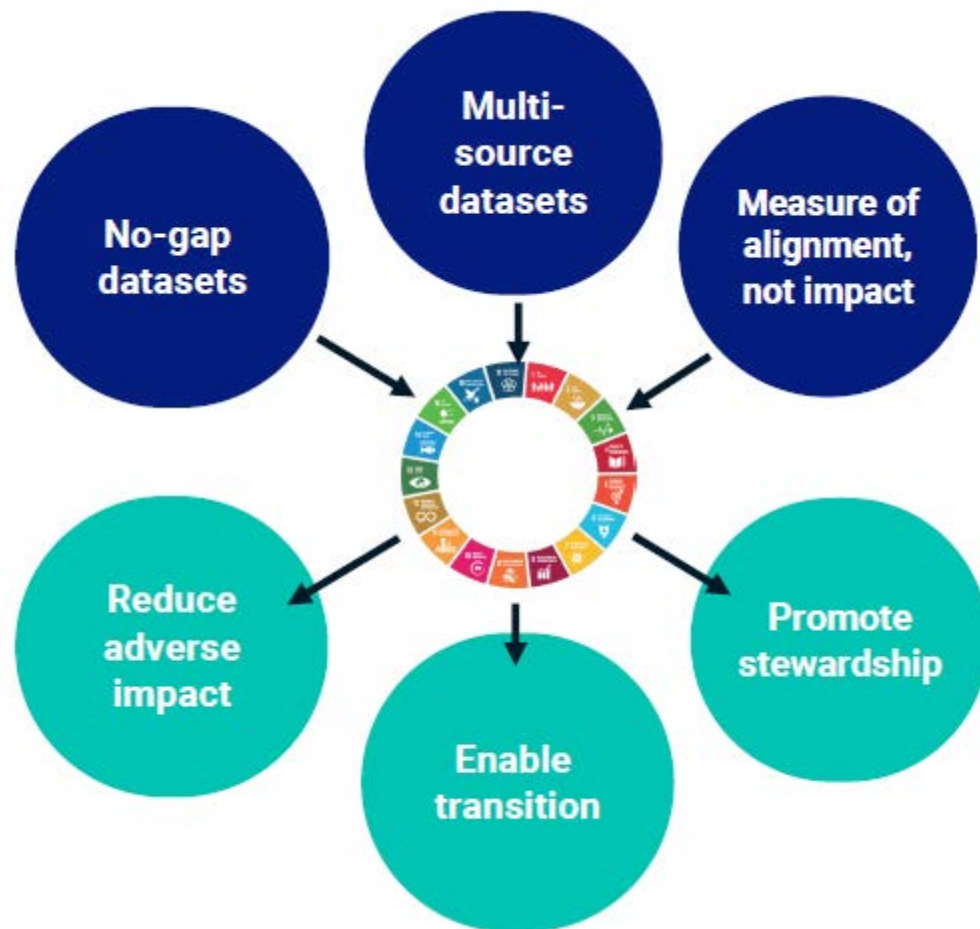
Industry-Relative ESG Ratings (AAA-CCC)



Source: MSCI Inc.

Source: MSCI & SRI connect and Extel survey – 2015, 2016, 2017, 2018

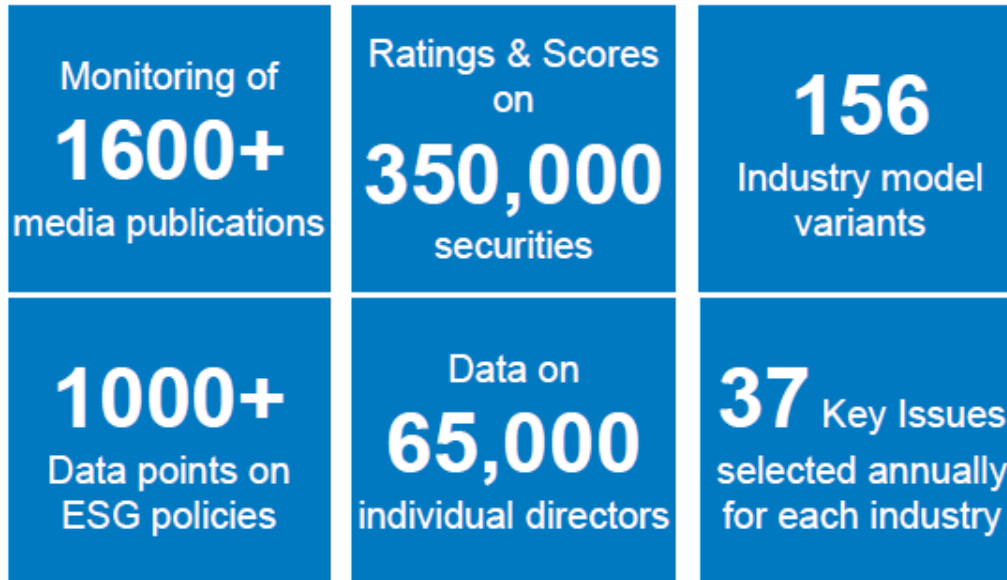
# MSCI & SDG Alignment



Source: MSCI Inc.

# MSCI's Accurate Industry Segmentation

- **Daily updates: Continuous evaluation of ESG risks**
- **Access to unique alternative data – Using technology and AI**



Source: MCSI Ratings Brochure

MSCI ranks companies against their **sub-industry peers** to provide the highest accuracy and most meaningful comparisons



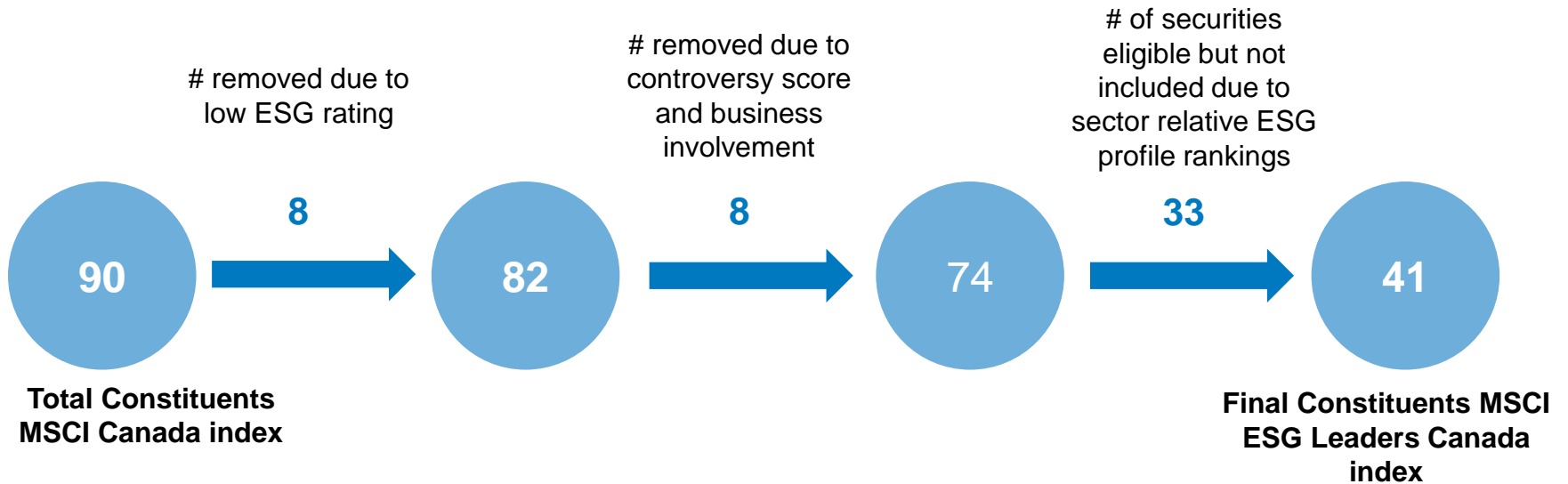
# MSCI's Key ESG Issues

- Unique combination selected for each GICs sub-industry
- Weights (5-30%) are set to determine a contribution to the overall ESG rating

ENVIRONMENT PILLAR				SOCIAL PILLAR				GOVERNANCE PILLAR	
Climate Change	Natural Capital	Pollution & Waste	Env. Opportunities	Human Capital	Product Liability	Stakeholder Opposition	Social Opportunities	Corporate Governance	Corporate Behavior
Carbon Emissions	Water Stress	Toxic Emissions & Waste	Clean Tech	Labor Management	Product Safety & Quality	Controversial Sourcing	Access to Communication	Board	Business Ethics
Product Carbon Footprint	Biodiversity & Land Use	Packaging Material & Waste	Green Building	Health & Safety	Chemical Safety		Access to Finance	Pay	Anti-Competitive Practices
Financing Environmental Impact	Raw Material Sourcing	Electronic Waste	Renewable Energy	Human Capital Development	Financial Product Safety		Access to Health Care	Ownership	Corruption & Instability
Climate Change Vulnerability				Supply Chain Labor Standards	Privacy & Data Security		Opportunities in Nutrition & Health	Accounting	Financial System Instability
					Responsible Investment				Tax Transparency
					Insuring Health & Demographic Risk				

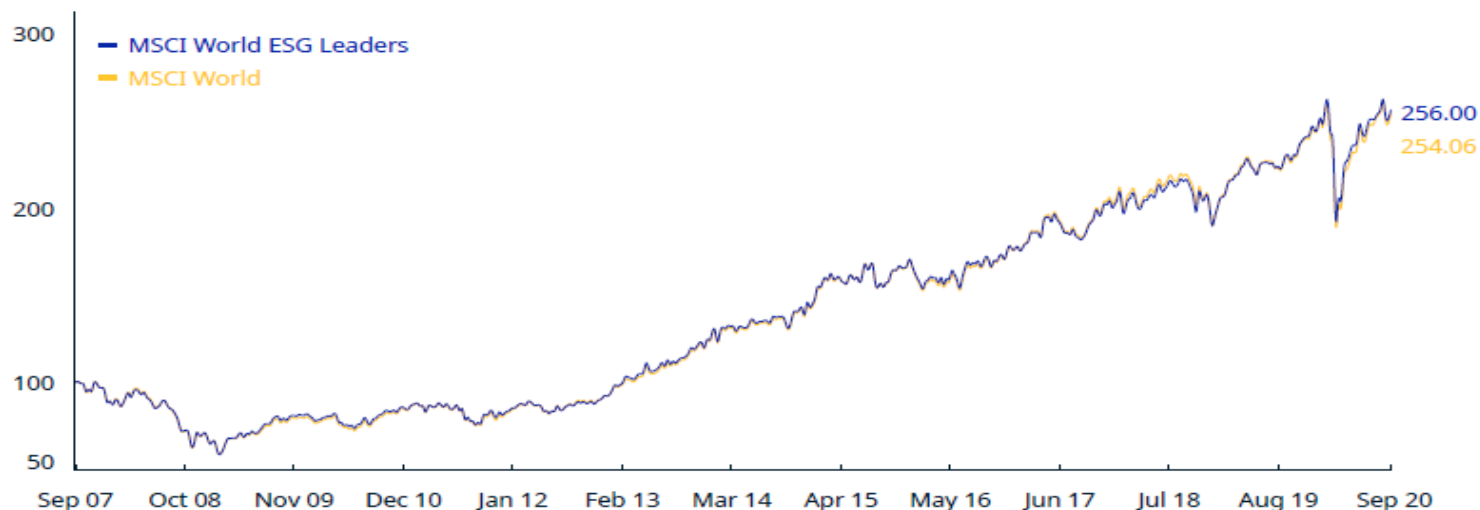
Soft Drink Sub-Industry: e.g. Coca-Cola  
[Search by company or ticker](#)

# Example of MSCI Leaders Process



# So, why not?... MSCI World ESG Leaders Index

## CUMULATIVE INDEX PERFORMANCE – NET RETURNS (CAD) (SEP 2007 – SEP 2020)



## INDEX RISK AND RETURN CHARACTERISTICS (SEP 28, 2007 – SEP 30, 2020)

	Beta	Tracking Error (%)	Turnover (%) <sup>1</sup>	ANNUALIZED STD DEV (%) <sup>2</sup>			SHARPE RATIO <sup>2, 3</sup>			Since Sep 28, 2007	MAXIMUM DRAWDOWN (%)	Period YYYY-MM-DD
				3 Yr	5 Yr	10 Yr	3 Yr	5 Yr	10 Yr			
<b>MSCI World ESG Leaders</b>	0.99	1.17	7.43	11.66	10.81	9.95	0.93	0.98	1.18	0.62	27.41	2020-02-14–2020-03-23
<b>MSCI World</b>	1.00	0.00	3.08	12.18	11.19	10.20	0.86	0.94	1.16	0.61	27.67	2020-02-12–2020-03-23

<sup>1</sup> Last 12 months

<sup>2</sup> Based on monthly net returns data

<sup>3</sup> Based on ICE LIBOR 1M

Source: MSCI Inc. Sept 2020



# Committed to Responsible Investing – no “Greenwashing”



Over 30+ years BMO has developed a range of products that includes specialist ESG products and more recently ESG ETFs

**Table 1: Canadian ETF sponsors — proxy voting**  
Self-reported votes against management and abstentions

Sponsor	Market share (2019)	Proxy voting
		■ Against Management ■ Abstained
BlackRock	33.6%	9.0% Against Management, 1.0% Abstained
BMO Asset Management	30.6%	26.0% Against Management, 2.0% Abstained
Vanguard Canada	12.2%	5.0% Against Management
Horizons ETFs	5.1%	Not available
CI Financial	4.2%	8.0% Against Management, 2.0% Abstained
Mackenzie Investments	2.3%	8.0% Against Management
Invesco	2.1%	11.2% Against Management, 1.0% Abstained
Purpose Investments	2.0%	Not available
RBC Global Asset Mgt.	1.8%	11.0% Against Management
Franklin Templeton	1.0%	9.0% Against Management, 1.0% Abstained

WSJ Ranks BMO in the top 15 most sustainably managed companies in the world<sup>2</sup>

Source: PRI Transparency Reports, 2019; PÜR Investing Inc. Horizons and Purpose are not PRI signatories.



BMO Global Asset Management has been a UN PRI signatory since 2006. PRI has rated BMO GAM an A+ on our active ownership for listed equity, as well as our strategy and governance.<sup>1</sup>

<sup>1</sup>PRI 2019 Assessment Report <sup>2</sup> [list of the top sustainably managed companies](#)

# Climate Voting

## 1. Priority companies for engagement

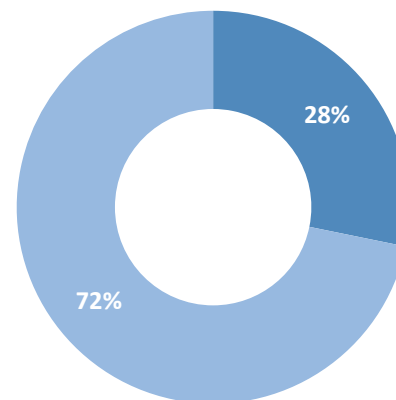
## 2. Voting on climate-related shareholder proposals

## 3. Climate laggards voting strategy

- Integrated into our guidelines
- High-risk sector coverage
- Multi-year timeframe
- Minimum standards of good practice in climate change management, targeting laggards



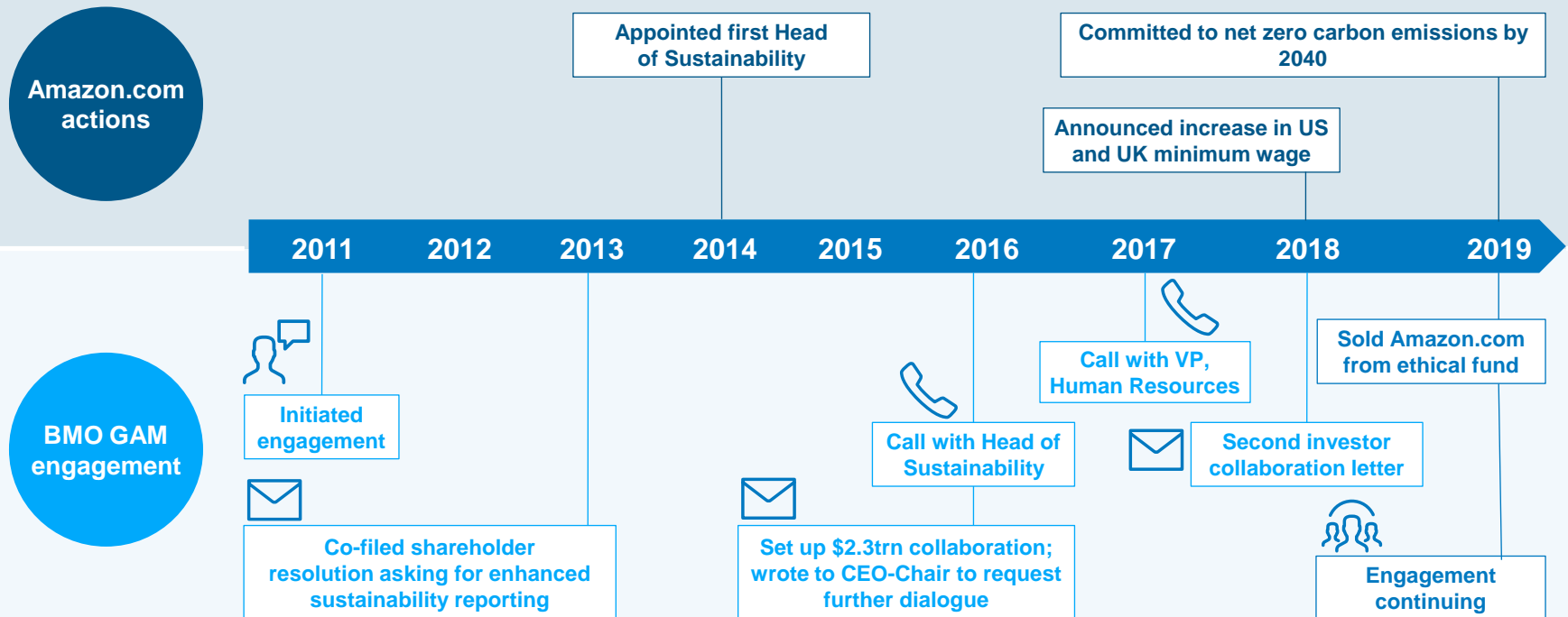
## Climate/Environment Proposals



■ Votes with Management   ■ Votes Against Management

Source: BMO GAM data Jan 1, 2020 – May 31, 2020

# Firm's Engagement in practice: Amazon.com



Source: BMO Global Asset Management. For illustrative purposes only. This is not a recommendation to buy or sell the mentioned security.

## Equity

### ESGA

BMO MSCI Canada ESG  
Leaders Index ETF

Mgmt Fee: 0.15%

### ESGY

BMO MSCI USA ESG  
Leaders Index ETF

Mgmt Fee: 0.20%

### ESGE

BMO MSCI EAFE ESG  
Leaders Index ETF

Mgmt Fee: 0.25%

### ESGG

BMO MSCI Global ESG  
Leaders Index ETF

Mgmt Fee: 0.25%

## Fixed Income

### ESGB

BMO ESG Corporate Bond  
Index ETF

Mgmt Fee: 0.15%

### ESGF

BMO ESG US Corporate  
Bond Index Hedged to  
CAD ETF

Mgmt Fee: 0.20%

## Specialty Solutions

### ZESG

BMO Balanced ESG ETF

Mgmt Fee: 0.18%

### ZWG

BMO Global High  
Dividend Covered Call  
ETF

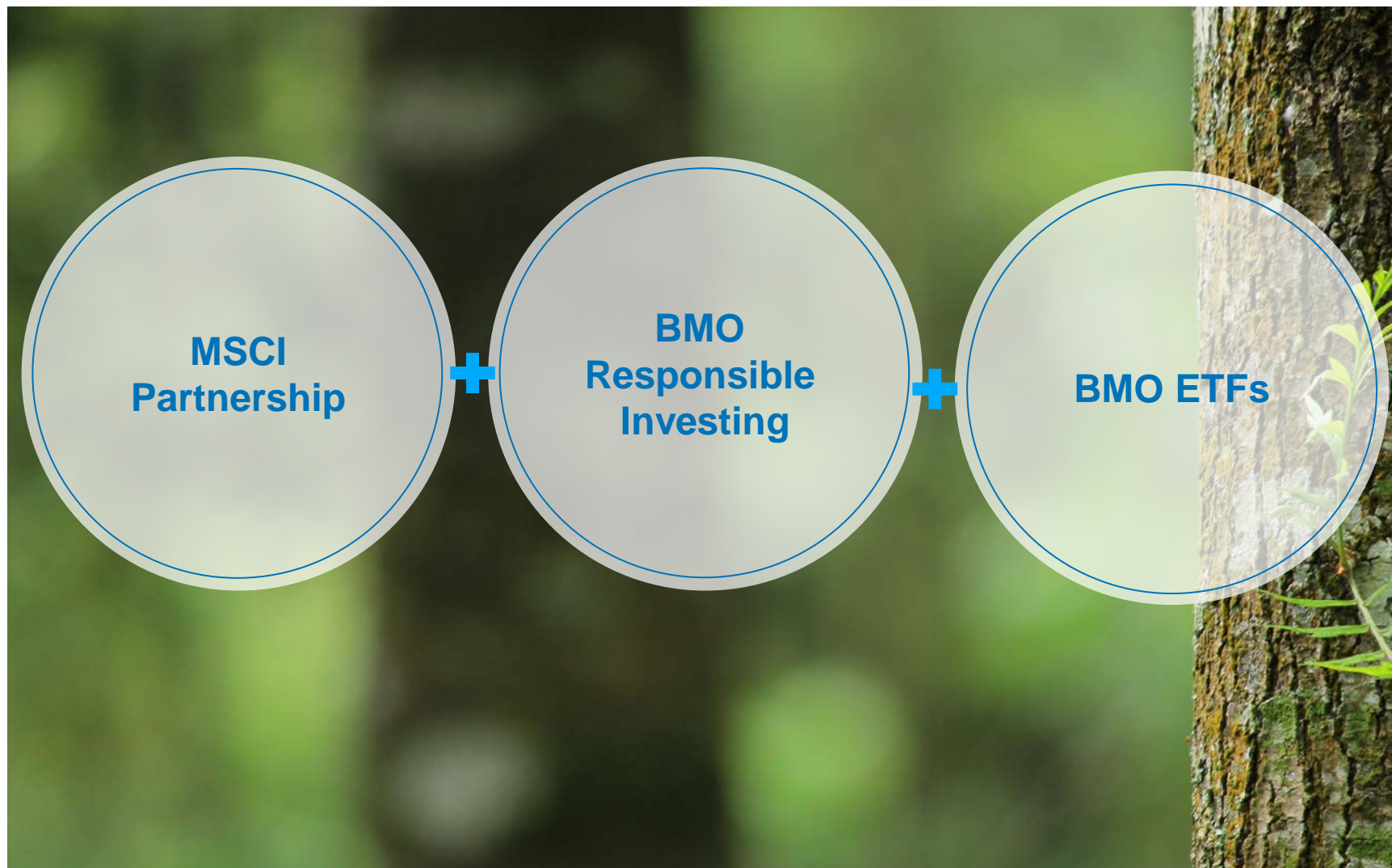
Mgmt Fee: 0.65%

## Examples of other ESG ETFs – US Listed

- **SUSL** – iShares ESG Leaders USA ETF, 0.10%
- **ESGD** – iShares ESG Aware EAFE ETF, 0.20%
- **BGRN** – iShares Global Green Bond ETF, 0.25%

\*ZWG is not index based but selects Sustainable Dividend Growers from a universe using ESG screening in the investment selection

# The BMO Differentiator



# Disclaimer

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