

Shaping investing for a changing world



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Land acknowledgement

BMO Global Asset Management ('BMO GAM') acknowledges with gratitude and humility that our headquarters are based on Treaty 13 lands in Toronto, once known as Tkaronto by original inhabitants of these lands – the Mississaugas of the Credit First Nation, the Anishinabeg, the Haudenosaunee, and the Huron-Wendat Peoples. Today, there are many diverse First Nations, Inuit, and Métis peoples who call Toronto home. We recognize the distinct past, present, and future relationships that Indigenous peoples have to the land that is grounded in a long history and culture tied to stewardship and caretaking. We also wish to highlight the 'Dish with One Spoon' treaty covenant that once governed the Great Lakes Region where Toronto is situated. Established among the Anishnaabe Three Fires Confederacy and Haudenosaunee Confederacy, this treaty promise embodied a commitment to peacefully share the bountiful resources of the region (the 'Dish') through collaboration between nations ('One Spoon'). We reference this agreement as it serves as a powerful reminder of the importance of treaty promises and the harm Canadians have caused to First Nation, Métis, and Inuit peoples across the country in failing to uphold treaty commitments. At BMO GAM, we commit to renewed and active efforts to use our influence as asset managers to promote and uphold Indigenous rights and reconciliation which we firmly believe will lead to better and more sustainable socio-economic outcomes not only for Indigenous peoples but for all Canadians.

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FROM OUR CHIEF EXECUTIVE OFFICERS

Moving the ball forward

At BMO Global Asset Management (GAM), we recognize the inextricable links between the health of our planet, society and economy. That’s why we believe that environmental, social and governance (ESG) performance of business activities is a driver of long-term value creation and, alongside other factors, forms a part of our research and considerations for company selection.

Tackling sustainability challenges is a global effort that addresses the world’s most urgent issues. As an asset manager, we take our responsibility seriously through our comprehensive responsible investment (RI) approach, which involves considering ESG factors, thoughtfully engaging with investee companies, consistently exercising our shareholder rights to vote, producing new insights through our thought leadership, and building responsible investment solutions for our end clients. In recognition of the importance of transparency, we were proud to publish all our RI-related policies and approaches this year on our [website](#).

There’s no question that 2022 was a challenging year, both economically and geopolitically. In navigating this complex landscape, we maintained our commitment to address both emerging and systemic sustainability issues, allowing us to understand and manage these risks on behalf of our clients. Our involvement with Climate Engagement Canada (CEC) is just one example. As a founding member of CEC, we work closely with other investors to engage with the country’s largest emitting companies to help guide the transition to a net zero economy. Our other memberships and collaborative investor initiatives, such as the Net Zero Asset Managers Initiative (NZAM), Climate Action 100+, the Investor Alliance for Human Rights, and Farm Animal Investment Risk and Return (FAIRR), enable us to expand our reach and influence to act as powerful agents of change.



We continued to make progress on our two core ESG themes of climate action and social equality this year, reaching several milestones¹ in our engagement pursuits, adding key memberships and investor commitments, and publishing a number of thought leadership pieces on topics such as vaccine equity, carbon credits, hydrogen’s role in the net-zero transition and Indigenous rights. We look forward to expanding our research and outreach to advance progress on these important ESG themes.

This report provides highlights of global developments and acknowledges the achievements of our RI activities in 2022. As we look back on the year, we are proud of our contributions to progress on key sustainability challenges and our recognized leadership, including receiving top honours in the Stewardship category for the Responsible Investment Association (RIA)’s 2022 Leadership Awards.

As we move forward, we will continue to champion responsible investment principles to shape investing for a changing world.

Kristi Mitchem
Co-Chief Executive Officer

Bill Bamber
Co-Chief Executive Officer

¹ A milestone is considered when a company makes tangible improvements in its policies and practices that align with our voting and engagement activities.

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FROM OUR CHIEF INVESTMENT OFFICER

A holistic view of investing



As one of the largest asset managers in Canada, we have a fiduciary responsibility to analyze any material factors that may have implications for financial performance and investor returns. This is why ESG and other considerations form an important part of our investment research. By examining a company’s sustainability practices—or lack thereof—investors benefit from a more complete picture of its future outlook.

Responsible investment is an important element of our organizational structure at BMO GAM. The RI team oversees our ESG-related initiatives, working alongside our portfolio managers and analysts to review ESG considerations in the investment decision-making process for relevant mandates, and bolstering our understanding of both risks and opportunities. The RI team also works with investment teams on post-investment stewardship activities with issuers, ensuring that we are using our influence as shareholders to improve business practices over the lifespan of an investment. As investors, our voices and actions have power. By engaging investee companies, our RI team uses its expertise to help advance progress on complex sustainability issues, such as the transition to net zero and human rights due diligence. Our organization is committed to our RI capabilities as the trend toward greater investor interest in RI-oriented solutions continues.

“In building our RI expertise, we aim to help investors achieve their responsible investing goals through better risk management, which can potentially result in greater long-term returns and alignment with values.”

2022 turned out to be a cornerstone year for increased regulation and scrutiny of all things sustainable. Companies saw a wave of post-pandemic laws and regulations holding them accountable for committing to and acting on mitigating systemic ESG issues. Furthermore, the pipeline of regulations, including mandatory climate-related disclosures, is set to increase transparency and leave investors more informed on the sustainability issues that matter most. The investment industry has seen the same level of scrutiny, from high-profile fines at the U.S. Securities and Exchange Commission (SEC) to media-fuelled controversies surrounding responsible investment in some U.S. states. At BMO GAM, we too hold ourselves to the highest level of accountability, and our 2022 Responsible Investment Annual Report is an important step in fulfilling this duty to our investor clients. By offering greater transparency into our RI activities—including ESG integration, reporting, engagement and proxy voting—we take pride in holding ourselves, companies and entire industries accountable.

We are confident that our actions can help mitigate risk and identify growth opportunities, creating a better tomorrow for our investors.

Sadiq S. Adatia
Chief Investment Officer

A Look Back at 2022

"No one organization can become sustainable on its own. It's very much an interconnected web, and by working together, we can develop effective solutions to complex issues."

Bill Bamber,
Co-Chief Executive Officer

2022

2021

2 3

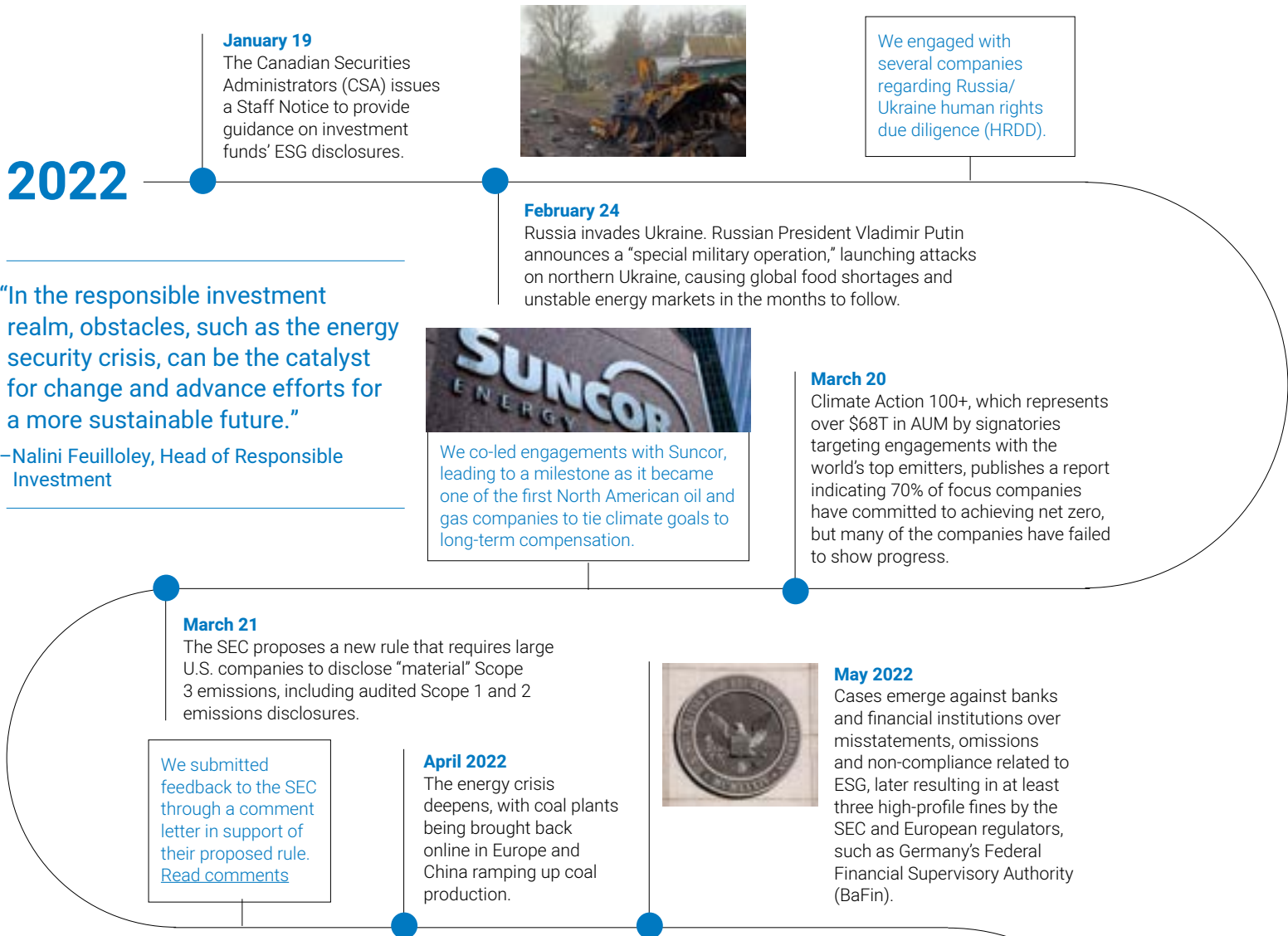
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TIMELINE

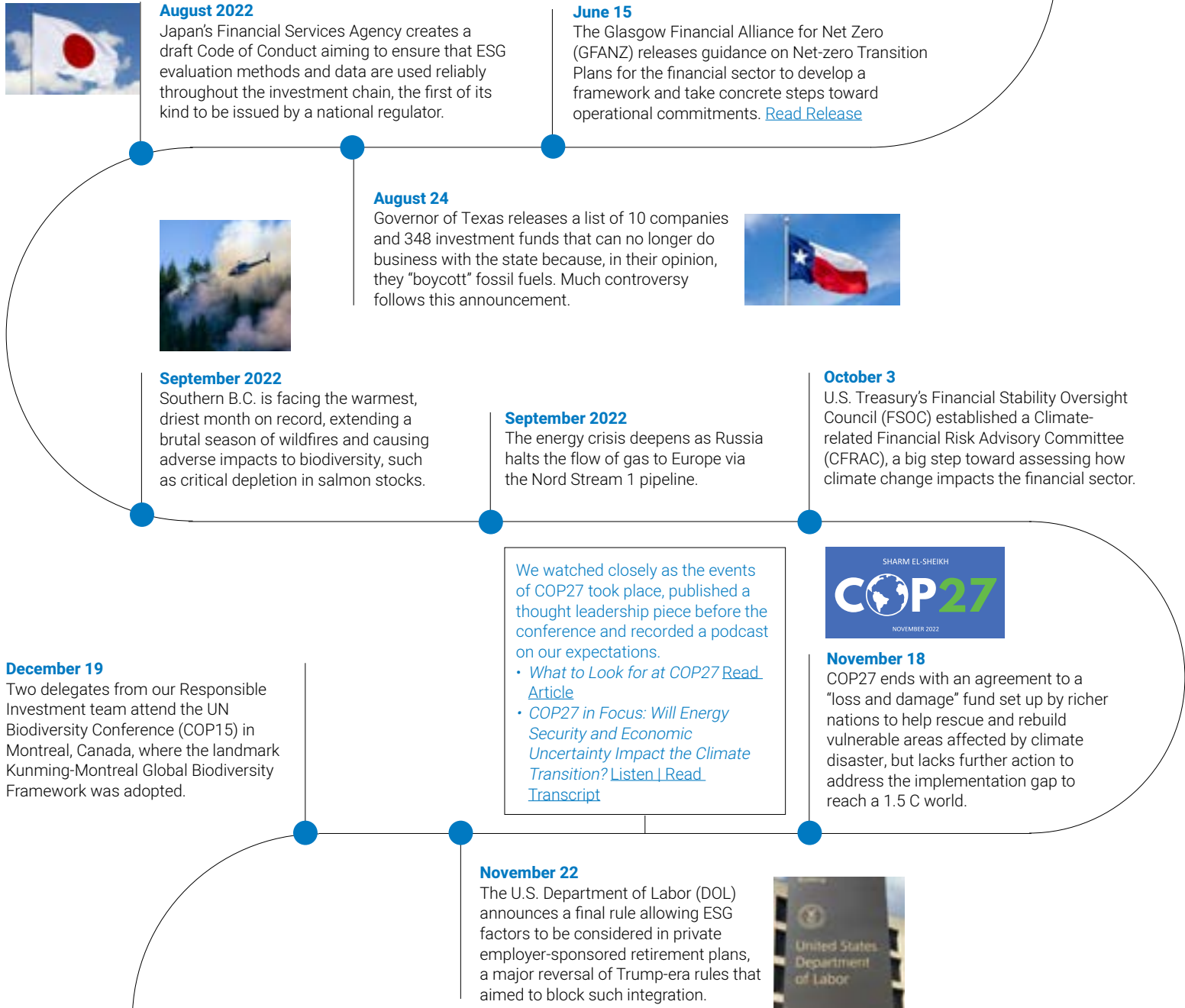
A look back at 2022

Here is a roundup of major world events, ESG initiatives and regulatory developments that transpired through 2022. BMO GAM did not waver from its efforts to support sustainable outcomes as these developments unfolded.



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A LOOK BACK AT 2022

Navigating the responsible investment landscape

2022 was a unique year in the world economy, marked by the Russia-Ukraine conflict, a crisis in energy supply and security, inflationary pressures, rising interest rates and threats of a looming recession. During the ongoing uncertainty, the philosophy of responsible investment was scrutinized in the media for a variety of reasons, including short-term performance dips, concern about greenwashing, polarizing political views of ESG issues in the U.S. and confusion about differences in ESG rating methodologies.

Despite this criticism, policy development and investor demand have signalled that the growth prospects for responsible investment remain strong. The U.S. *Inflation Reduction Act of 2022* (IRA) was signed into law in August 2022, marking the most significant legislation on climate action in U.S. history and initiating several directives to advance the development of the global clean energy industry.

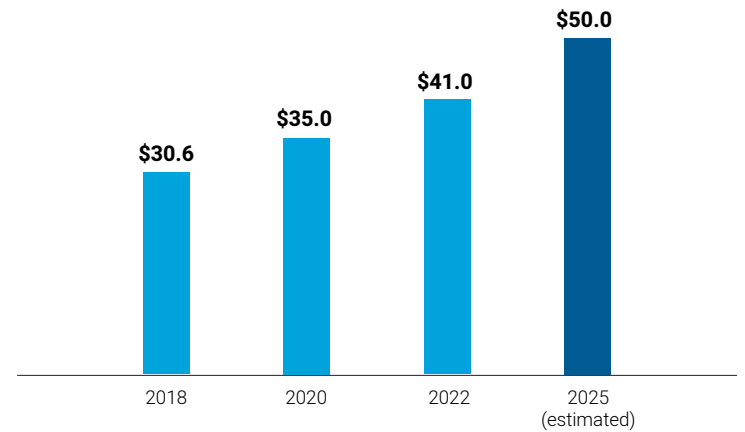
Global AUM for RI investment products is expected to rise from \$41 trillion in 2022 to \$50 trillion by 2025.

– Bloomberg, as cited in company blog, January 24, 2022

The energy security crisis brought on by the Russia-Ukraine conflict also highlighted the need for clean energy alternatives to fossil fuels. Discussion about the potential of hydrogen as a clean energy source received a large amount of media attention, particularly Canada’s strength in the development of this alternative fuel source.

Policy development and investor demand have signalled that the growth prospects for responsible investment remain strong.

ESG assets under management worldwide, 2018-2025 (\$ trillions)



Source: Bloomberg, as cited in company blog, January 24, 2022.

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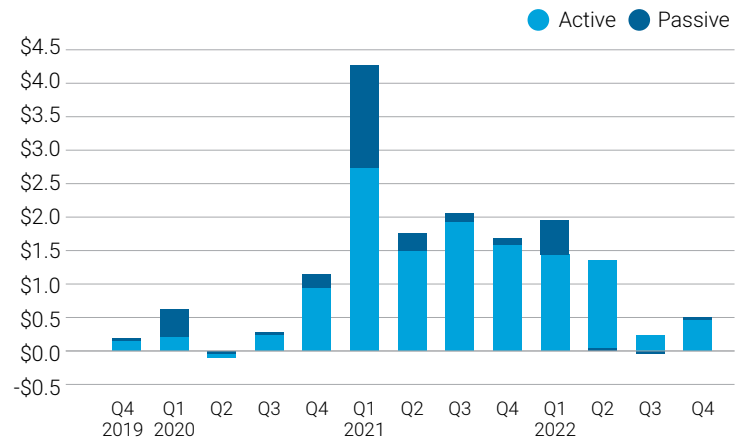


Global scrutiny of human rights has prompted the development of draft modern slavery legislation in Canada. Also, the United Nations General Assembly voted to declare the ability to live in “a clean, healthy and sustainable environment” a human right for all.² This ruling is well-poised to lay the foundation for future sustainability policy development.

Statistics regarding investor demand for RI investment solutions indicate that demand remains robust and growth prospects are favourable. Globally, investment flowing into RI funds held up better than the broader market, and in Canada, investment flows remained positive throughout 2022.³

Global AUM for RI investment products has continued its impressive growth trajectory, with assets valued at \$41 trillion in 2022 and expected to rise to \$50 trillion in 2025.

Canada sustainable fund flows (\$ billions)



Morningstar Direct, Manager Research. Data as of December 2022.

² Correia, Joel E. “The UN Just Declared a New Human Right.” *The World Economic Forum*, 9 Aug. 2022, <https://www.weforum.org/agenda/2022/08/the-un-just-declared-a-universal-human-right-to-a-healthy-sustainable-environment-here-s-where-resolutions-like-this-can-lead/>.

³ Global Sustainable Fund Flows: Q4 2022 in Review European investors show continued appetite for ESG products despite headwinds, while U.S. investors retreat.” *Morningstar*, 26 Jan. 2023. www.morningstar.com/lp/global-esg-flows

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OUR APPROACH

BMO GAM's responsible investment approach

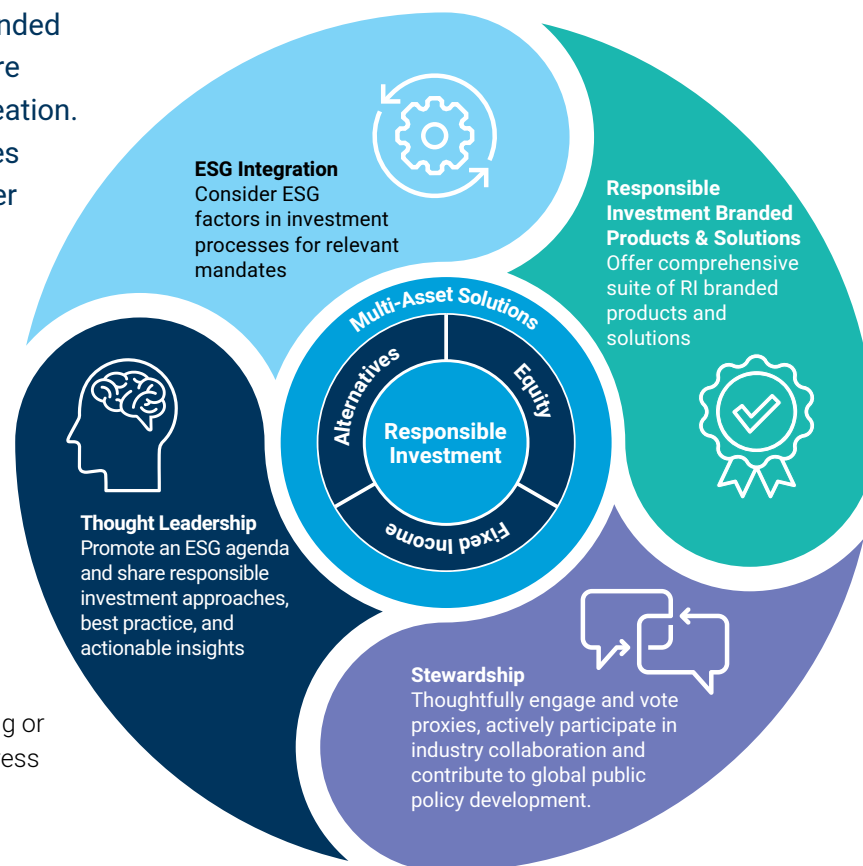


Nalini Feuilloley
Head of Responsible Investment

Our approach to responsible investment is grounded in our belief that sustainability considerations are key to long-term risk management and value creation. At BMO GAM, our dedicated RI team collaborates with portfolio managers and analysts to consider ESG factors in the investment process for relevant mandates.

We have reached a pivotal point for many global challenges, and our path forward depends heavily on our progress today. Our RI team, led by Nalini Feuilloley, aims to evaluate and mitigate ESG risks for relevant mandates, while also using our influence to drive real-world change. By engaging portfolio companies, developing solutions, providing data-informed thought leadership, and encouraging good governance and stewardship practices, we are supporting the transition to a more sustainable and just world. We take deliberate action to express our views, whether through proxy voting or participation in investor-led initiatives, and monitor progress with transparent reporting.

Our responsible investment approach



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In focus: Advancing climate action and social equality

Our RI approach is structured to advance particularly climate action and social equality practices to mitigate systemic risks. If unaddressed, climate change and growing social inequality can significantly impact our planet and our society. Focusing investor due diligence efforts to mitigate these risks and seize related opportunities, alongside more traditional asset management practices, is aligned with our fiduciary duty to act in the best interests of our underlying clients.



Climate action

Climate change is the greatest systemic threat to the global economy, society and prosperity for today's citizens and for generations to come. Bold action from all parts of society is needed to successfully transition to a net-zero carbon economy by 2050. We recognize that this transition will present both challenges and opportunities for investors. That is why, as part of our commitment to support the transition to a sustainable future, we have signed on to the NZAM Initiative with the goal of net-zero greenhouse gas emissions by 2050 across all AUM, in line with global efforts to limit warming to 1.5°C

Our climate action stewardship strategy supports this ambition by focusing on **accelerating decarbonization, advancing clean energy, building resiliency against a changing climate, protecting natural capital and advancing circular supply chains.**



Social equality

Persisting and deepening social and economic inequality can lead to civil unrest and the erosion of democracies. This is at a time when we need all hands on deck for the change required to achieve the energy transition. With the negative impacts of climate change anticipated to affect already marginalized populations the most, proactive efforts are required to ensure more equitable access to basic social determinants of health. As such, we challenge "business as usual" approaches that undermine social equality. To promote more equitable outcomes and, subsequently, more sustainable economies and societies, we conduct policy advocacy and engage with investee companies to promote the provision of social equality into business strategy and risk management.

Our social equality stewardship efforts are captured under five sub-themes: **Human Rights, Indigenous Reconciliation, Just Transition, Wealth Inequality and Diversity, Equity and Inclusion.**

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**We have an
unparalleled
opportunity to
shape the world
we live in.**

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We made our involvement count in 2022.

1,938

engagements⁴

282

milestones achieved⁵

6,441

company meetings voted

60%

of shareholder proposals supported

17

thought leadership pieces produced

8

policy submissions or statements

16

industry memberships or associations; 4 new memberships joined in 2022



296

engagements with Canadian companies

950

company meetings voted in Canada

30

milestones at Canadian companies

⁴ 261 engagements conducted by BMO GAM; 1,677 engagements conducted by **reo**[®]
⁵ A milestone is considered when a company makes tangible improvements in its policies and practices that align with our voting and engagement activities. 20 milestones achieved by BMO GAM; 262 milestones achieved by **reo**[®] that align with our voting and engagement activities.

Stewardship

“Through stewardship, we use our voice to influence positive change in support of better company practices and more sustainable, resilient economies.”

[Climate Action](#)

Rosa van den Beemt

Director, Stewardship,

Responsible Investment

Stronger collaborations for global challenges

2022 was an exciting year for Stewardship at BMO GAM—we rolled out new engagement approaches and formed new partnerships and alliances to collaborate on addressing systemic global sustainability challenges.

We continued to focus our efforts on climate action, social equality and encouraging corporate governance best practices. We also indicated our support for robust regulation and standard setting on ESG and sustainability reporting to address concerns that have contributed to skepticism and increasing anti-ESG sentiment.

Our stewardship efforts form the core of how we translate our expectations of best practices into real results. We have a comprehensive approach to voting proxies, engaging with investee companies, collaborating with industry peers and advocating on public policy and standards to address ESG risks and opportunities, advance positive sustainability outcomes and contribute to more equitable and resilient economies.

We are proud to be recognized for the second year in a row at the RIA’s Leadership Awards for our stewardship work on advancing the energy transition in Canada.

Increasing our efforts

Engagement enables us to better understand the companies we invest in, address ESG risks and opportunities and encourage positive change in support of long-term value creation.

We increased our engagement efforts this year, from 1,300 activities in 2021 to 1,938 activities in 2022. This encompasses



engagement done directly by our RI team and investment teams, as well as engagements conducted on behalf of BMO GAM by a third-party responsible engagement overlay (**reo**®) service, which is a pooled engagement service with global reach that helps us amplify our impact on behalf of our clients. Our team engaged with companies primarily in Canada and the United States, whereas **reo**® focused largely on international markets. As for our results: we collectively achieved 282 milestones and instances of positive change at companies engaged.

Our engagement focused on encouraging companies to enhance their climate strategies and to better demonstrate how they are advancing social equality within their workforce, business activities and services.

1,938

engagement activities

261 by BMO GAM in Canada and U.S.

1,677 by **reo**® in international markets

848

companies engaged

282

milestones achieved

28%

of engagements linked to climate action

19%

of engagements linked to social equality

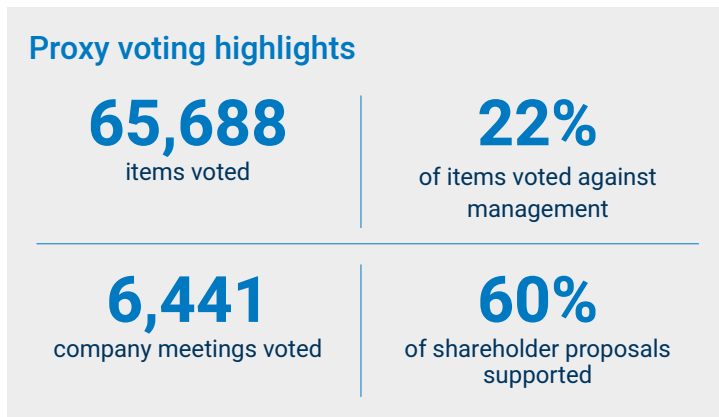
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2022 AT A GLANCE

Setting good governance expectations

Proxy voting is integral to fulfilling our fiduciary duty as active stewards of capital. Our voting guidelines encourage good governance practices, as well as robust management of environmental and social issues.



For voting, 2022 was an interesting year. We supported shareholder proposals that called for strong climate strategies in line with the *Paris Agreement* and that addressed social inequality aligned with stakeholder needs and international standards. Our votes against management increased slightly from 20% in 2021 to 22% in 2022.

Policy advocacy: A fast-evolving regulatory landscape

Through engagement with policymakers and standard setters, we can promote a high bar for corporate sectors and markets, including the asset management industry.



Over the past year, we saw a lot of regulatory and standards development that could influence companies and their investors for decades to come. In response, we submitted letters to regulators and signed investor statements to share our perspective and to continue raising the bar on ESG standards in support of sustainability in Canada, the U.S. and globally.

Industry collaboration: We are stronger together

Industry collaboration enables us to learn from and educate peers to address shared challenges and make a greater impact on company practices and markets in which we invest. We joined exciting new collaborations in lead engagement roles at CEC, FAIRR (to help promote more sustainable practices in animal agriculture) and the UN Principles for Responsible Investment (PRI)'s Advance collaboration on human rights. In 2022, we also continued to contribute to industry events, association roundtables, working groups and advisory panels to share our knowledge with and learn from peers and encourage high standard-setting in our RI industry.






Advancing an ambitious global agenda

Since the 2030 Agenda for Sustainable Development was adopted by all UN Member States in 2015, much progress has been made in meeting the Agenda’s goals. With less than seven years left to 2030, all stakeholders must focus on decisive action. While many companies now have strategies aligned with the UN Sustainable Development Goals (SDGs) framework, robust implementation and an acceleration toward meaningful and lasting change are now imperative. We believe our engagements, 78% of which are aligned with the SDGs, can help achieve the ambitious global agenda.

“I am more determined than ever to make 2023 a year for peace, and a year for action. We can’t accept things as they are. We owe it to people to find solutions, to fight back and to act.”

- António Guterres, UN Secretary-General, January 2023

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	<p>12% of our engagement linked to SDG 8 (Decent work and economic growth)</p>		<p>17% of our engagement linked to SDG 12 (Responsible consumption and production)</p>		<p>21% of our engagement linked to SDG 13 (Climate action)</p>
<p>We continued to engage companies on labour standards and human rights, which primarily focused on target 8.5, including fair wages, human capital management and the just transition. This also included engagements focused on the Russia-Ukraine crisis.</p>		<p>We encouraged companies to have responsible conduct and supply chains, and improve their transparency and disclosure on ESG issues, including human rights, net zero and diversity, equity and inclusion (DE&I).</p>		<p>Climate change was a key focus throughout the year, with our engagements on the topic primarily linked to target 13.2, which included topics such as climate risk management, biodiversity and decarbonization.</p>	
<p>More than 8 million Ukrainian refugees were registered across Europe.⁷</p>		<p>Only 30% of Canada’s top 250 publicly traded companies have a net zero target.⁸</p>		<p>Carbon dioxide is now more than 50% higher than pre-industrial levels.⁹</p>	

⁶ This includes engagement conducted on behalf of BMO GAM by a third-party responsible engagement overlay (**reo**[®]) service. BMO GAM and reo[®] were affiliates from 2014 until their sale in November 2021 and worked together on engagement activities during that time. **reo**[®] is no longer an affiliate of BMO GAM.
⁷ “Estimated Number of Refugees from Ukraine Recorded in Europe and Asia since February 2022 As of February 15, 2023, by Selected Country.” Statista, 15 Feb. 2023.
⁸ “PwC Canada Study Highlights Continued Shortcomings in ESG Reporting across Top 250 Public Companies.” PwC, 9 Dec. 2022.
⁹ “Carbon Dioxide Now More than 50% Higher than Pre-industrial Levels.” National Oceanic and Atmospheric Administration, 3 Jun. 2022.

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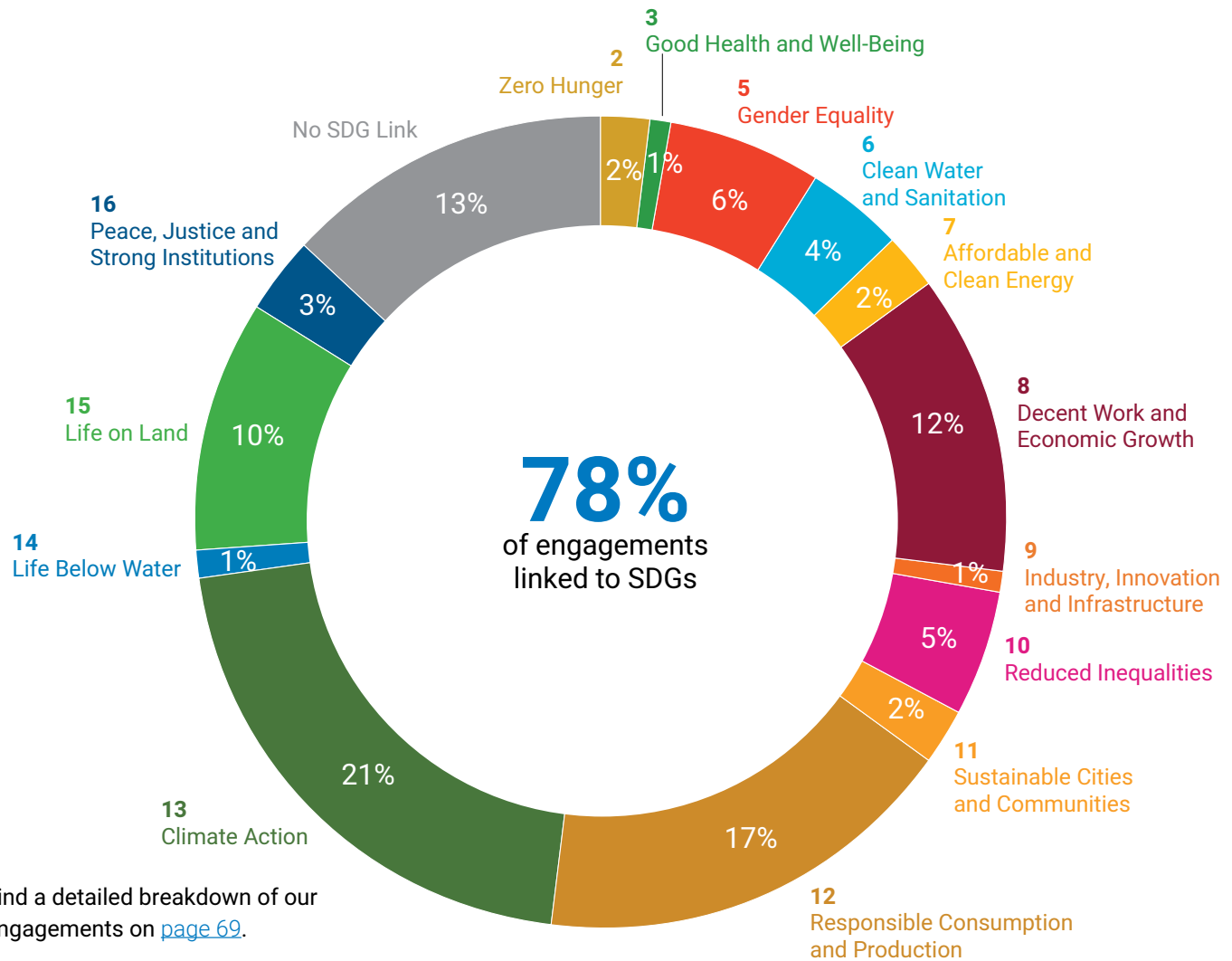
SDGs: A framework for investors

The SDG framework provides an ambitious roadmap toward 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 engagements.

No SDG link

Of the engagement topics, 13% did not have a direct link to a specific SDG target. Most of these engagement activities were on corporate governance, an essential building block in creating more sustainable, better run companies. For these particular engagements, we engaged with the companies on general ESG oversight, which has a broader application in achieving the SDG goals.

How BMO GAM's engagements link to UN SDGs and targets



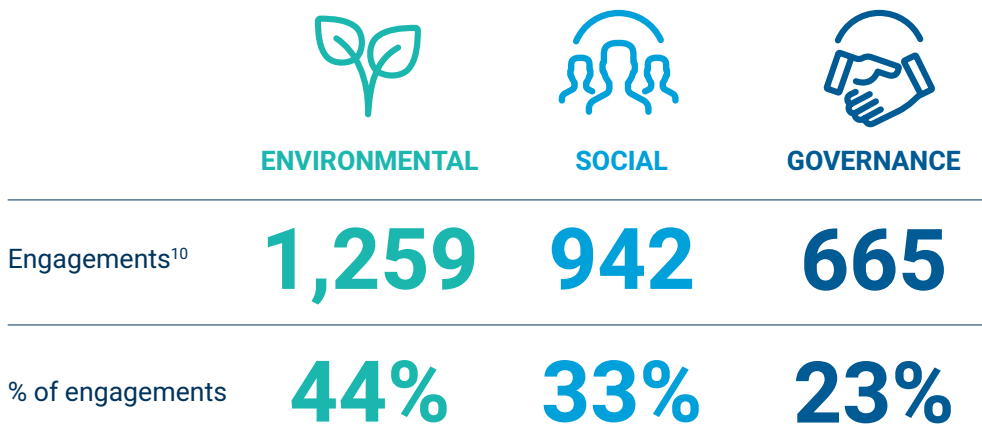
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ENGAGEMENT

Helping companies navigate ESG challenges

2022 presented many shared ESG challenges to companies. Geopolitical tensions rose, knock-on effects from COVID-19 and market downturns continued, regulatory pressures on corporate ESG practices increased, and strain on supply chains worsened. Once the darlings of the stock market, big tech firms lost tremendous market share; however, in turn, the sector might finally be more receptive to shareholder feedback.

Over the last year, our approach focused on encouraging companies to stay the course on ESG, navigating challenges by prioritizing systemic risks and the most pressing issues, and focusing on opportunities for long-term success in a changing world.



CLIMATE ACTION

998
engagements linked to Climate action

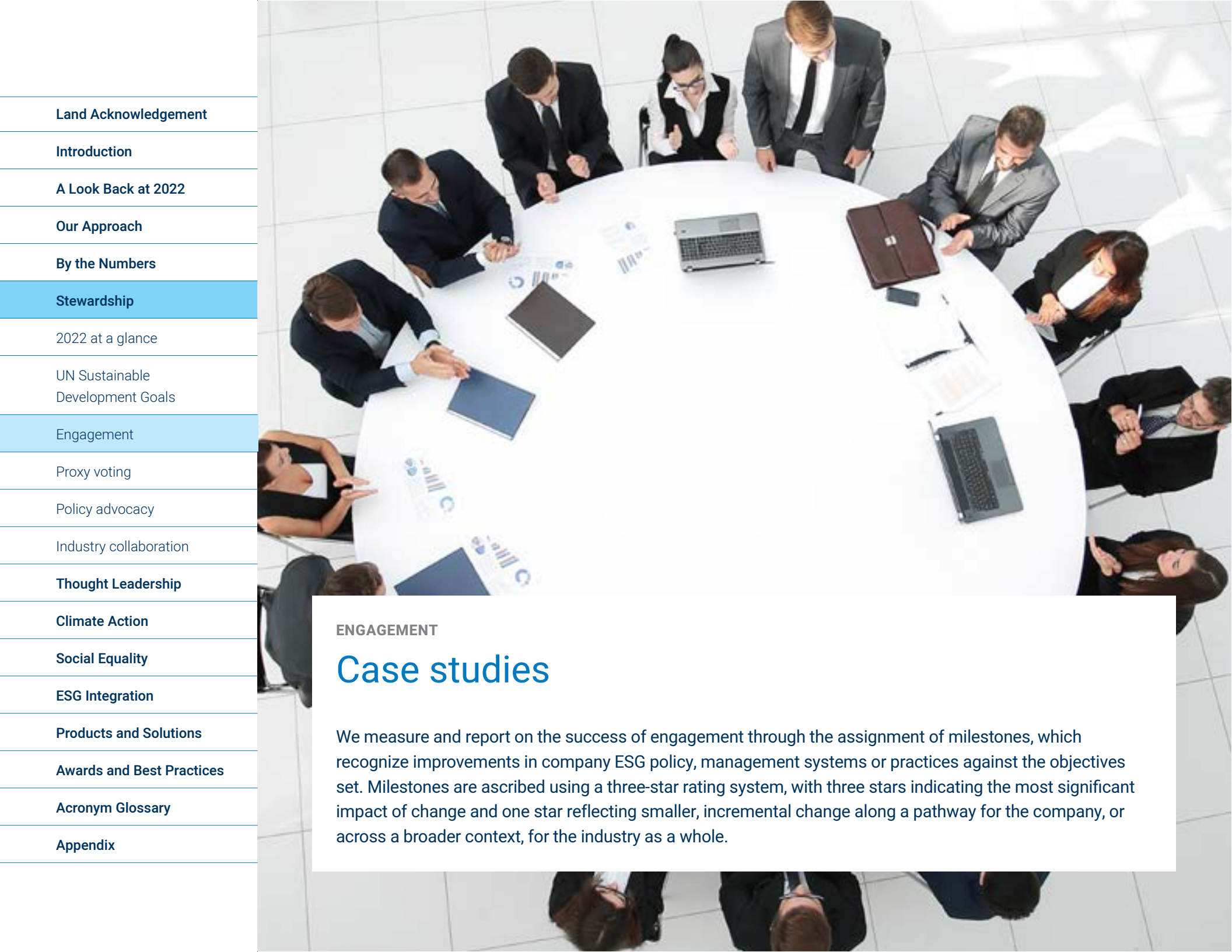
538
companies engaged on Climate action

SOCIAL EQUALITY

734
engagements linked to Social equality

364
companies engaged on Social equality

¹⁰ Some engagements cover multiple categories across environmental, social and governance.



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ENGAGEMENT

Case studies

We measure and report on the success of engagement through the assignment of milestones, which recognize improvements in company ESG policy, management systems or practices against the objectives set. Milestones are ascribed using a three-star rating system, with three stars indicating the most significant impact of change and one star reflecting smaller, incremental change along a pathway for the company, or across a broader context, for the industry as a whole.

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ENGAGEMENT

Engagement case studies

● Environmental



SUNCOR
Targets: 13.2
Milestones: ★★ ★

Incorporating climate goals into long-term executive compensation

As part of our participation in Climate Action 100+, the world’s largest collaborative shareholder engagement initiative, we continued to co-lead engagement with **Suncor**.



In 2021, the company announced a net-zero commitment and a renewed climate strategy. For several years, we had asked the company to make a more explicit link between its climate goals and executive compensation. We were pleased that in the 2022 Proxy Circular, Suncor announced the integration of climate goals into its long-term incentive plan—a best practice for linking prolonged climate goals to executive pay. Suncor is one of the first Canadian companies to take these proactive measures.

● Environmental



**WEST FRASER
TIMBER**
Targets: 15.2
Milestones: ★★ ★

Making climate and nature data better and more accessible

A third-party engagement partner, **reo**®, annually encourages companies to participate in the Carbon Disclosure Project (CDP).



**COSTCO WHOLESALE
CORPORATION**
Targets: 15.2
Milestones: ★★ ★

In 2022, at least 43 companies that **reo**® engaged on our behalf made CDP submissions. **West Fraser Timber, Costco Wholesale Corporation** and **Roper Technologies** were among those in our portfolios to submit their first-ever climate-related or forest-related data to the CDP, which makes corporate climate and nature disclosures comparable and accessible.



**ROPER
TECHNOLOGIES**
Targets: 13.2
Milestones: ★★ ★

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Social



JOHNSON & JOHNSON
Targets: 3.8

PFIZER
Targets: 3.8
Milestones: ★★

MODERNA
Targets: 3.8
Milestones: ★★

Reducing health inequalities through vaccine equity

The COVID-19 pandemic has shown that countries' access to vaccines is unequal.

We joined an informal investor collaboration to encourage vaccine producers to incorporate vaccine equity into their corporate strategies and executive compensation. As part of this collaboration, we engaged with **Johnson & Johnson**, **Pfizer** and **Moderna** and provided input for the annual evaluation of executive compensation policies.

Pfizer launched its Accord for a Healthier World, which aims to provide all of Pfizer's patent-protected medicines and vaccines available in the United States or the European Union on a not-for-profit basis to approximately 1.2 billion people in 45 lower-income countries. This significant development will reduce health inequities between lower- and higher-income countries. Moderna also considerably increased efforts to increase equal access to its COVID-19 vaccine in low- and middle-income countries. We will continue encouraging greater alignment between vaccine equity goals and executive compensation.



Governance

META
Milestones: ★★

Addressing trouble in tech and shareholder rights

In an informal investor collaboration, we wrote to and met with the lead independent director of **Meta Platforms (Facebook)**'s board to discuss shareholder concerns about board independence and minority shareholder rights, given the dual-class share structure.

Dual-class share structures have been under renewed scrutiny for two main reasons: the Tech sector's performance, which has lagged for the first time in many years, and the lack of impact voting has on Tech company boards. The investors in the collaboration asked for more insight into how Meta board's views remain independent from those of founder Mark Zuckerberg and encouraged consideration of a sunset policy related to the dual-class share structure. We consider the meeting itself an indication that the company is becoming more open to receiving shareholder feedback.



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PROXY VOTING

Advancing good governance of “E” and “S”

Our [Corporate Governance Guidelines](#) guide our proxy voting decisions. Public details of all our voting activity, including the rationale for votes against management, are available on our Proxy Voting Dashboard.¹¹ We continued to promote the development of governance best practices through our memberships of, and active participation in, influential bodies such as the Council of Institutional Investors (CII) and Canadian Coalition for Good Governance (CCGG).

This proxy season, we saw an increase in racial equity audit requests and a decrease in climate-related proposals. However, there were more requests for transparency on lobbying in line with the *Paris Agreement*. Anti-ESG shareholder proposals were also on the rise but failed to gather much support. In Canada, in particular, we saw progress on board diversity (gender and underrepresented groups) and shareholder proposals filed on climate finance and Indigenous reconciliation.

65,688

proposals voted

22%

of proposals voted against management

6,441

company meetings voted

60%

of shareholder proposals supported

¹¹ [Mutual Funds Proxy Voting Dashboard](#) and [Exchange Traded Funds Proxy Voting Dashboard](#).

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PROXY VOTING

Case studies

● Governance



NORTHLAND POWER
Targets: 10.2
Milestones: ★★

Making progress on board diversity

In 2022, we withheld our support for 108 chairs of nominating committees for lack of board diversity (gender and/or ethnicity) in Canada. However, we were able to support over half of the 55 boards we withheld support from in 2021 because of improvements in board diversity in 2022.



In May 2022, Northland Power announced that it amended its diversity policy to include a 2024 target for the recruitment and appointment of a board director who identifies as a member of one or more designated groups, including Indigenous peoples, persons with disabilities, persons belonging to visible minorities and members of the lesbian, gay, bisexual, transgender, queer or questioning and two-spirit (LGBTQ2S+) community. We had previously engaged with the company during the 2022 proxy voting season to discuss our expectations regarding diversity beyond gender.

● Governance



ONEX CORPORATION
Targets: 10.2
TOROMONT
Targets: 10.2
Milestones: ★★
CONSTELLATION SOFTWARE
Targets: 10.2
Milestones: ★★

Taking action on racial equity and Indigenous reconciliation

This year, the Canadian proxy season saw several interesting shareholder proposals regarding social issues that we supported with our vote.



A 2021 benchmarking report from the Reconciliation and Responsible Investment Initiative (RRII) on corporate Canada's progress in advancing reconciliation found considerable room for improvement. Consequently, SHARE, Canada's leading shareholder engagement program, filed shareholder proposals at **Onex Corporation** and **Toromont Industries**, asking for meaningful reconciliation action, including procurement from Indigenous-owned businesses and verification of such actions by Indigenous standards. Onex Corporation's board did not endorse the proposal, noting the ask did not align with its business model. While we voted in favour, the proposal did not pass, with 48.7% of independent shareholders voting in support.



In contrast, and like TMX Group did in 2021, Toromont Industries' board did endorse the proposal, which was subsequently supported by over 99% of shareholders, including BMO GAM.

The first racial equity proposal in Canada passed at **Constellation Software**, where 63% of shareholders, including BMO GAM, voted in favour of a proposal calling for a report on the company's racial equity plans and commitments, specifically in the context of its workforce.

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● Governance



IMPERIAL OIL
Targets: 13.2

EXXONMOBIL
Targets: 13.2
Milestones: ★ ★ ★

Advocating for climate commitments and net-zero alignment

We continued to withhold our support from directors at **Imperial Oil**, which is majority-owned by **ExxonMobil**, due to a lack of a robust climate strategy and commitments.

As the company recovered from 2021's proxy fight, during which shareholders voted in favour of placing new directors on the board put forward by activist Engine No.1, this year's climate-related shareholder proposals at ExxonMobil saw less support. However, BMO GAM supported a shareholder proposal calling for an audited report assessing how applying the assumptions of the International Energy Agency's Net Zero by 2050 pathway would affect the assumptions, costs, estimates and valuations underlying ExxonMobil's financial statements. The proposal passed with just over 51% shareholder support, showing that voting action for even a small amount of shares can really make a difference.



● Governance



NIPPON STEEL
Targets: 8.7



TATA CONSUMER PRODUCTS
Targets: 15.2

Voting against forced labour and biodiversity laggards

Our third-party engagement partner, *reo*[®], who votes international markets on our behalf, has implemented two new voting strategies that focus on significant laggards on biodiversity and forced labour.

In 2022, these new voting strategies resulted in us voting against or withholding our support from 21 board directors: 10 at international companies that did not explicitly prohibit forced and child labour in their supplier codes of conduct, and 11 at international companies with high exposure to biodiversity-related risks that did not have sufficient strategies for reducing contributions to nature loss. **Nippon Steel** and **Tata Consumer Products** were among those businesses.



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Using our voice in policy development

8

policy submissions or statements in 2022

Through policy advocacy, we provide our institutional investor perspective on proposed regulatory developments and industry standards to raise the bar across sectors and jurisdictions. In 2022, Canadian and U.S. securities regulators proposed mandatory climate-related disclosure frameworks for public corporate issuers. At the same time, the International Financial Reporting Standards (IFRS) established its International Sustainability Standards Board (ISSB), which came out with proposed climate and sustainability disclosure guidelines.

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CSA Climate-related Disclosures

We submitted a BMO GAM comment letter to the CSA's proposals on mandating climate-related disclosures for corporate issuers, encouraging stronger alignment with the Task Force on Climate-related Financial Disclosures (TCFD) pillars and international standards, including mandatory scope 3 reporting for companies operating in sectors where this is material.



PMAC Letter

We engaged in industry advocacy through the Portfolio Management Association of Canada (PMAC)'s comment letter submission outlining recommendations for a revised National Reporting Instrument 43-101 for mining issuers to enhance their disclosure on Indigenous reconciliation actions at the earliest stages of mineral exploration and mineral asset development.



IFRS Sustainability and Climate Disclosure (ISSB)

We promoted a double materiality approach in the development of ISSB standards to align with disclosure information investors need to understand corporate performance to advance sustainability versus only managing financial risks related to ESG issues.



2022 Global Investor Statement

As in previous years, we supported the *Global Investor Statement to Governments on the Climate Crisis*, calling on administrations to raise their climate ambition to limit global warming to 1.5 C.



DOL Prudence and Loyalty

We wrote to the U.S. DOL to express concerns about its Employee Retirement Income Security Act (ERISA) proposal on fiduciary duties and proxy voting. We were pleased when, in late 2022, the DOL recognized that the exercise of voting and other shareholder rights connected to shares of stock are, in fact, fiduciary acts.



FOREST Act Letter

We signed a letter to the U.S. Congress supporting the *Fostering Overseas Rule of Law and Environmentally Sound Trade* (FOREST) Act to prevent illegal deforestation in the U.S. supply chains.



SEC Climate Disclosure

We submitted a BMO GAM comment letter which supported the SEC's proposal on mandatory climate-related disclosures for corporate issuers.



Advance: A Stewardship Initiative for Human Rights and Social Issues

We signed the PRI's Advance investor statement to endorse the initiative, recognize our role as investors in advancing human rights globally and set out expectations of companies to align with the *UN Guiding Principles for Business and Human Rights* (UNGPs).

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POLICY ADVOCACY

A policy advocacy win

We were pleased when during COP15 in Montreal, the IFRS' ISSB clearly articulated the relationship between sustainability matters and financial value creation, with the definition of sustainability including [a company's ability to manage its impacts on resources and relationships](#). We believe this is a crucial development that can move corporate reporting on financially material sustainability issues beyond a risk-only-based ESG lens towards a more holistic focus on long-term value creation and sustainable outcomes. We previously advocated for corporate impacts to be included in baseline sustainability reporting in our submission to the ISSB in response to its initial 2022 consultation.

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INDUSTRY COLLABORATION

Collective influence for positive outcomes

Collaborating with other investors through joint initiatives, industry associations or engagements is key to accelerating positive change, learning from and sharing knowledge with peers, addressing shared challenges and communicating broadly held expectations from the investor community to companies or standard setters. We often collaborate with other institutional investors, non-governmental organizations (NGOs) and industry groups to collectively advocate for change. Some memberships allow access to in-depth expertise on more niche or emerging topics. We actively participate in many networks and support commitments made around the world, such as those listed below.



To enhance our collaborative efforts, we joined several new initiatives this year and recommitted to others after the divestiture of BMO’s Europe, Middle East and Africa asset management business in November 2021. We focused our attention on how we could represent those initiatives in our home market, Canada, and as such, became a lead engager for several Canadian investee companies through CEC. We also joined collaborative engagements on Canadian companies through FAIRR and the PRI’s Advance. In doing so, we became the first Canadian asset management firm to formally support the Workforce Disclosure Initiative (WDI), which gathers workforce-related data from companies—making it consistent and comparable for investors.

At the same time, we continued to represent BMO GAM’s perspective on boards, advisory councils and leadership committees at the RIA, CCGG, CEC and the Investor Alliance for Human Rights.

Sharing our perspective

Our RI team represents BMO GAM on the:

- Board and Leadership Council of the RIA
- Environmental and Social Committee of the CCGG
- Steering Committee of CEC
- Advisory Council of the Investor Alliance for Human Rights

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INDUSTRY COLLABORATION

New 2022 initiatives

FAIRR Initiative

FAIRR is an investor network focused on ESG risks in the global food sector. We joined the initiative to be able to educate ourselves on climate and biodiversity-related risks and opportunities in the sector and are involved in engagements with Loblaw Companies Ltd. and Maple Leaf Foods on sustainable proteins and manure management, respectively.



WDI

The WDI's annual survey on how companies address decent work and human rights in the workplace was designed with the input of investors, companies, trade unions and subject matter experts and is aligned with other reporting frameworks, including the Global Reporting Initiative (GRI), the UNGPs and the SDGs. We became the first Canadian investor member because, while corporate data on "S" issues is still not great, the WDI offers a comprehensive and comparable reporting database for investors and a good reporting framework for companies.



Institutional Investor Group on Climate Change (IIGCC)

We joined the IIGCC, a global investor membership body and the largest one focusing specifically on climate change. While its investor membership is primarily Europe-based, the IIGCC plays a leading role in standard-setting and developing guides such as the *Net Zero Investment Framework*, which we utilize to implement our net-zero commitment.



PRI Advance

We became investor supporters of the PRI's new global collaborative engagement initiative on human rights, Advance. It aims to engage companies in high-risk sectors on implementing the UNGPs. BMO GAM is an investor lead for Canadian companies Barrick Gold, Lundin Mining and First Quantum minerals—these engagements will officially kick off in the second half of 2023.



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All memberships and initiatives

INDUSTRY

- UN PRI
- RIA (Sustaining Member)

ENVIRONMENTAL

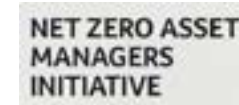
- Climate Action 100+
- CEC (Founding member)
- NZAM Initiative
- CDP (formerly the Carbon Disclosure Project)
- IGCC
- FAIRR

SOCIAL

- 30% Club
- Interfaith Center on Corporate Responsibility (ICCR)
- Investor Alliance for Human Rights (Advisory Council)
- Human Capital Management Coalition
- WDI
- PRI Advance

GOVERNANCE

- CCGG (Environmental and Social Committee)
- CII (Corporate Governance Council)



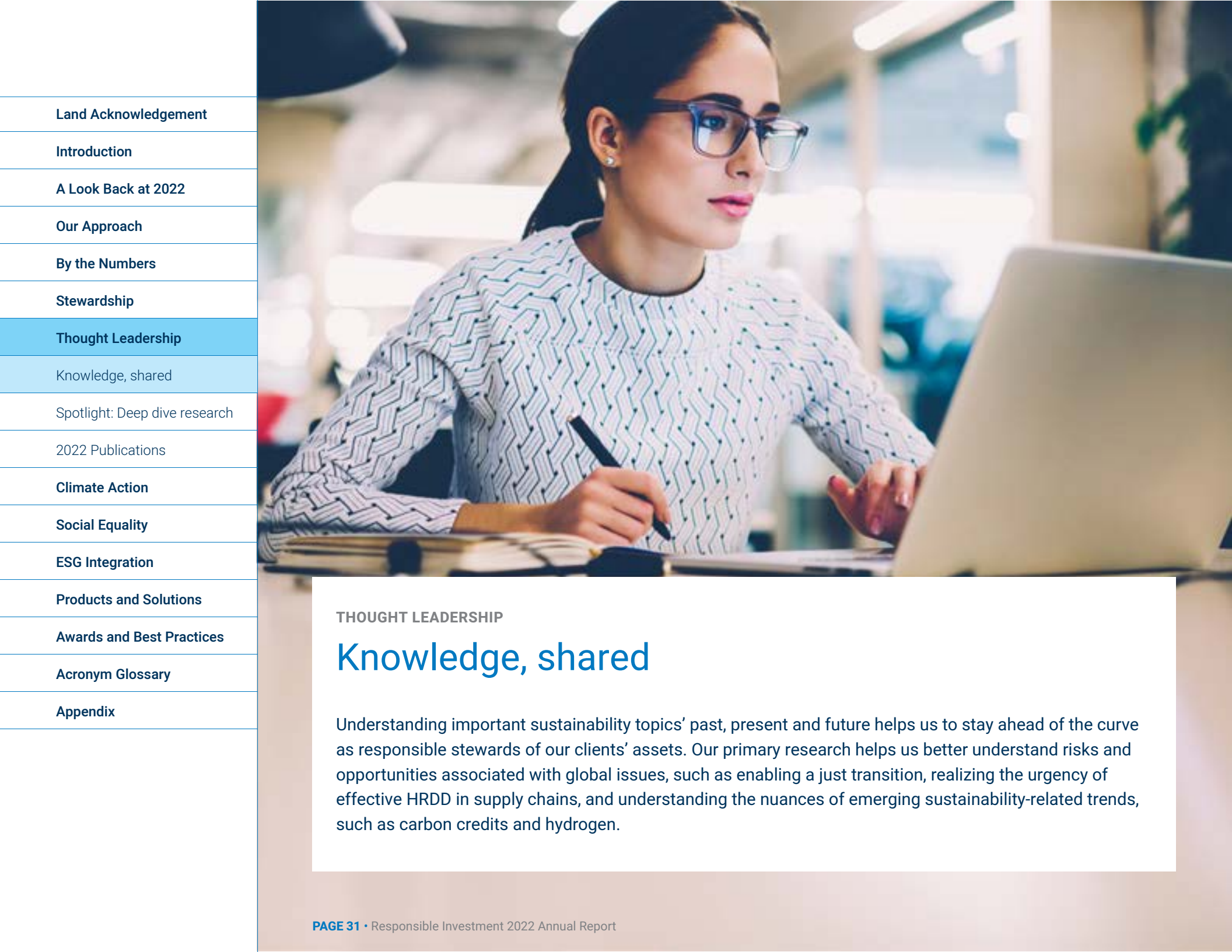
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Thought Leadership

“BMO GAM’s thought leaders delve into emerging and critical ESG themes to educate investors on ongoing risks and upcoming opportunities.”

Jeffrey Shell, MBA, MSc
Head of Alternatives,
Commercial ESG and Innovation



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THOUGHT LEADERSHIP

Knowledge, shared

Understanding important sustainability topics' past, present and future helps us to stay ahead of the curve as responsible stewards of our clients' assets. Our primary research helps us better understand risks and opportunities associated with global issues, such as enabling a just transition, realizing the urgency of effective HRDD in supply chains, and understanding the nuances of emerging sustainability-related trends, such as carbon credits and hydrogen.

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Our thought leadership allows us to share what we have learned with our stakeholders and is guided by our view of the most impactful risks and opportunities. This year, we highlighted three key themes in our thought leadership that were prominent in the market landscape throughout 2022:

1. Navigating global complexities

In summary, 2022 was a turbulent year around the world. Global markets were pulled in both directions as conflict broke out in Eastern Europe, leading to a crisis in energy supply and security and widespread social injustice. Meanwhile, the COVID-19 pandemic continued to cause societal and economic upheaval. System-level sustainability issues became the focus of headlines and were complemented by a wave of new international standards and policies for enhancing social and environmental due diligence disclosure practices. We were diligent about keeping up with global developments and synthesized the most important findings of our research in several thought leadership pieces:



Ukraine-Russia conflict through a responsible investors' lens

As long-term and responsible investors, we expressed our concern over the human impacts of the conflict in Ukraine, potential longer-term global consequences, and businesses' responsibility to conduct HRDD related to conflict regions. We underscored the need for companies to map their supply chains and the negative human rights impacts they may be directly or indirectly linked to, as per the UNGPs. [Read Article](#)



Double, sesqui, and "regular" materiality: Sustainability disclosures and different world views

The development of international standards for sustainability disclosures has inherently different interpretations of materiality. We provided a high-level outline of each concept, gave the Canadian context, and indicated what we could do as investors to weigh in on the debate.

[Read Article in RIA Magazine](#)



Vaccine equity

We outlined our concerns around vaccine equity and how "vaccine hoarding" by wealthier nations poses the risk of a longer pandemic, potentially causing longer-lasting human and economic consequences. We encouraged investors to do their part by calling upon investee pharmaceutical companies and governments to prioritize the advancement of global access to vaccines.

[Read Article](#)

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2. Enabling climate action

Climate action developments stole headlines around the world in 2022. Companies enhanced commitments to net zero, investors demanded more transparency on emissions, and governments convened to advance policy to help protect vulnerable nations from the effects of climate change. Solutions to facilitate the transition to a low-carbon economy need committed resources. We recognize it is increasingly important to advocate with our investee companies and governments to ramp up their investments in climate solutions. We captured our thoughts in key thought leadership pieces, including:



Big data and clean energy transformation

The road to net zero will have greater computational and power demands from companies deploying big data applications. We stated that investors could support long-term value creation and mitigate energy transition risks by calling on Information Communication Technology (ICT) investee companies to establish clean energy requirements for existing and future growth. [Read Article](#)



Introduction to carbon credits

Carbon credits play an important part in curbing the effects of climate change and enabling a sustainable future. Carbon markets have grown substantially worldwide in recent years as companies, individuals and investors purchase carbon credits. We explained in detail what carbon credits are and discussed the primary risks and opportunities. [Read Article](#)



Investing in the future of Canada: Hydrogen

Hydrogen can play a key role in the global race to net zero by tackling hard-to-abate emissions in energy, transportation, buildings and industrial sectors. In this piece, we explained why we see the hydrogen economy as an opportunity to advance the energy transition and support the adaptation of existing energy producers on the path to net zero. [Read Article](#)

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3. Closing the gap on social inequalities

The concepts of human rights, gender equality, Indigenous reconciliation and other social issues are nothing new. Recently, however, an increasing number of laws and regulations hold companies accountable for not only stating commitments to these ideals but demonstrating practices to operationalize them. As companies prepare for this new level of scrutiny and accountability for addressing these systemic issues, investors must also educate themselves on the best practices. Expectations for performance in this area have expanded post-COVID, as societal and economic disruption from the pandemic impacted already marginalized populations the most. As the global economy rebuilds, companies are under pressure to increase resilience in their operations and supply chains. Respect for human rights is central to this work. We shared our thoughts on best practices to address these risks this year through several thought leadership pieces:



The importance of HRDD in the renewable energy transition

The importance of HRDD has never been greater. We explored human rights risks in the transition to renewable energy and how investors can encourage robust HRDD in their investee companies.

[Read RIA Magazine Article](#)



Gender equality in Canada: Tapping into an underutilized talent pool

Corporate Canada needs the diversity of thought, leadership approaches and innovation that more female leaders and women of colour, in particular, can bring; however, progress on board and senior leadership diversity continue to disappoint—and COVID-19's lasting pressure on women is not helping. We outlined how investors can improve gender equality by enhancing their investment practices, advocating on policy on behalf of their investors and continuously increasing their expectations of investee companies.

[Read Article](#)



Learning from the past to inform our future

We summarized key concepts and events from Canada's history with Indigenous people relevant to investors and corporations to inform practices supporting reconciliation action. We explained how Indigenous reconciliation is central to our RI actions and provided information resources for further learning. [Read Article](#)

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Learnings and application

Our thought leadership publications aim to share our approach, research and insights with our clients and the broader RI industry, while also producing key lessons and takeaways that help inform and prioritize our work internally. We will continue to follow global developments in policy, standards and regulations related to ESG and sustainability disclosures, facilitate a transition to a low-carbon economy, and advance best practices on social equality issues. We will continue to apply our research first-hand, and we look forward to making a positive change over the next year.

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SPOTLIGHT: DEEP DIVE RESEARCH

Respect and protect: The state of corporate human rights due diligence in Canada

Several macro-level forces were at work in 2022, such as COVID-19, rising inflation, the clean energy transition and the disproportionate impacts of climate change on already vulnerable populations—increasing pressure on companies and investors to respect human rights. In response, we took a deep dive to understand how large Canadian companies across major sectors are performing on HRDD to inform our social equality engagement activities for 2023.

While investors have always held public issuers accountable for their financial, legal and operational due diligence, responsible investors are similarly demanding evidence of HRDD in line with the UNGPs. These principles are an international framework for businesses to implement practices to ensure respect for human rights, such as those upheld by the *Universal Declaration of Human Rights*, the International Labour Organization’s core

conventions on the rights of workers, and the United Nations’ *Declaration on the Rights of Indigenous Peoples*.

While the anticipated enactment of Bill S-211, the *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, will help spur action, we encourage Canadian companies to act now.

In many jurisdictions, expectations for greater accountability to protect and respect human rights are being operationalized through emerging hard law and enhanced mandatory corporate sustainability reporting based on the UNGPs. The European Council’s November 2022 approval of the Corporate Sustainability Reporting Directive (CSRD) will require many more European-based companies as of 2024 to disclose how they conduct HRDD within internal operations, throughout the supply chain and in relationships with other business partners.



HRDD SCORECARD



MINING



CONSUMER DISCRETIONARY

30%

average score

92%

highest score

0%

lowest score

61%

average – highest scoring sector

6%

average – lowest scoring sector

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Respect and protect:
The state of corporate
human rights due
diligence in Canada



Robert van Waarden
Survival Media

This new regulation is in addition to already enacted laws in the U.K., U.S., Australia and various European countries for mandatory public disclosure on company practices to prevent forced and child labour. Canadian companies are under pressure to catch up. While the anticipated enactment of Bill S-211, the *Fighting Against Forced Labour and Child Labour in Supply Chains Act*, will help spur action, we encourage Canadian companies to act now.

Based on this, we examined how disclosures of 34 Canadian companies across the Banking, Apparel, Consumer Discretionary, Consumer Staples, Oil and Gas, Mining and Telecommunications sectors perform on their implementation of HRDD using third-party benchmarks. We looked for key performance indicators related to policy and governance, implementation of respect for human rights and provision of grievance mechanisms (systems for affected stakeholders to report human rights concerns) and remedies for when human rights abuses occur.

Our findings showed that, Canadian companies make decent policy commitments to respect human rights overall; however, implementation practices are limited. Above a certain threshold, market capitalization appears to be less correlated with performance than stakeholder scrutiny.

As an asset manager widely invested in the Canadian public market, we have a vested interest in seeing Canadian issuers do well. In 2023, our research will inform our engagements with investee companies to enhance their implementation of practices that respect human rights and, subsequently, our own. Through our investments, we are also potentially linked to human rights impacts occurring within our portfolios and therefore have an obligation to conduct our own HRDD.

[Read the full research report](#) to learn more about Canadian company performance on HRDD, sector specific salient human rights risks and recommendations.

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THOUGHT LEADERSHIP



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- Double, sesqui, and “regular” materiality: Sustainability disclosures and different world views [Read Article in RIA Magazine](#)
- Why ESG and index investing are a perfect match [Read Article](#)

ENVIRONMENTAL ISSUES

- Big data and clean energy transformation [Read Article](#)
- Introduction to carbon credits [Read Article](#)
- Investing in the future of Canada: Hydrogen [Read Article](#)
- Why clean energy investors cheered Biden’s Inflation Reduction Act [Read Article in ETF Market Insights Blog](#)
- What to look for at COP27 [Read Article](#)

SOCIAL ISSUES

- Respect and protect: The state of corporate human rights due diligence in Canada [Read Report](#)
- Ukraine-Russia conflict through a responsible investors’ lens [Read Article](#)
- Double, sesqui, and “regular” materiality: Sustainability disclosures and different world views [Read Article in RIA Magazine](#)
- Vaccine equity [Read Article](#)
- The importance of human rights due diligence in the renewable energy transition [Read Article in RIA Magazine](#)
- Gender equality in Canada: Tapping into an underutilized talent pool [Read Article](#)
- Learning from the past to inform our future [Read Article](#)

GOVERNANCE ISSUES

- ESG in executive pay: A look at the big Canadian banks [Read Article in RIA Magazine](#)
- Propelling positive change: A recap of our 2021 proxy voting season in Canada [Read Article](#)
- A recap of our 2022 proxy voting in Canada [Read Article](#)

PODCASTS

Listen to the *Sustainability Leaders Podcast* or read the episode transcript.

- COP27 in focus: Will energy security and economic uncertainty impact the climate transition? [Listen](#) | [Read](#)
- RoadMap project: An Indigenous-led paradigm shift for economic reconciliation [Listen](#) | [Read](#)
- Hydrogen’s role in the energy transition: Matt Fairley in conversation [Listen](#) | [Read](#)



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Climate Action

"It's our ambition to support our clients in the transition to a net zero world; a world where economic growth and environmental prosperity go hand-in-hand."

Graham Takata

Director of Climate Change,
Responsible Investment



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CLIMATE ACTION

Our climate action approach

At BMO GAM, working toward a climate-secure future is integral to our purpose to **Boldly Grow the Good** in business and in life. As an asset manager, we recognize that climate change represents a systemic risk to the global financial system and that inaction can cause economic damage that will put our ability to deliver long-term financial returns at risk.

We believe that investors can play a pivotal role in the journey to a decarbonized global economy, which is why we consider the evaluation of climate risks an essential component of investor due diligence and our responsible investing strategy. We are committed to playing our part in supporting the transition, recognizing that climate change presents both risks to investors and opportunities to invest in a sustainable future.

Climate action highlights

998

climate action-focused engagements

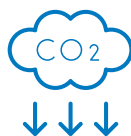
538

companies engaged on climate action

111

climate action-related milestones achieved

This commitment is manifested through our [Climate Action Approach](#). We regularly engage with investee companies, policymakers and standard setters to push forward an agenda that advances best practices and manages climate risks and opportunities. Our climate action work is structured around five key sub-themes, each of which addresses a class of underlying issues we believe to be material to us as investors. The following sub-themes help inform our ESG-related research and stewardship activities.



Attaining net zero emissions

Accelerating decarbonization of the economy toward net-zero emissions before 2050



Clean energy transformation

Transforming energy supply systems and use to power a sustainable future



Climate resiliency

Building capacity to adapt and thrive in current and future climate conditions



Protecting our natural capital

Being responsible stewards of natural capital and critical ecosystem services



Advancing a circular economy

Fostering supply chain innovation and efficiency to minimize waste and advance toward a circular economy

It was a defining year for climate action. We witnessed global consensus forming on mandatory climate-related disclosures, concrete actions taken to combat greenwashing in the financial sector, and the adoption of the Kunming-Montreal Global Biodiversity Framework at COP15. As we reflect on the events that unfolded, we are proud of our work to enable the transition to a more sustainable future.

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SPOTLIGHT

Net Zero Asset Managers Initiative

NET ZERO ASSET MANAGERS INITIATIVE As a founding signatory to the NZAM initiative, BMO GAM has committed to working with our investee companies to achieve net-zero emissions across all our AUM by 2050 or sooner.

In 2022, a portion of our funds were managed in line with the attainment of net zero. This proportion of assets, totalling 11.7% of our total AUM and valued at US\$12.5B (as of June 30, 2022), was selected from our actively managed equity and fixed income portfolios that could be assessed through the Paris Aligned Investor Initiative's *Net Zero Investment Framework* methodology.

We acknowledge that not all asset classes and fund mandates can be credibly measured for alignment with a net-zero pathway. As a result, BMO GAM is taking a methodical “fund-by-fund” approach to our net-zero ambition, focusing on our responsible investment branded funds based on their investment guidelines. We also work with global investors to develop best practices to advance net-zero investment and management strategies.

In time, we seek to expand our proportion of participating funds as mandates allow and are working with the IIGCC, CDP and other industry-leading organizations to accelerate the development of credible net-zero methodologies.

Climate action in Canada

CEC is a collaborative investor initiative representing ~\$4 trillion in assets to engage the country's largest emitters in promoting a just transition to a net-zero economy. As a founding signatory and member of the Steering Committee, BMO GAM welcomed the launch of CEC this year, given the imminent importance of driving Canada's business transition to net zero with our investee companies. We aligned with other investors to engage on 10 companies, of which we lead on five.



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Policy action and standards setting

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It was a strong year for climate policy, as governments and investors sought to set stronger targets, ensure the disclosure of relevant and meaningful data, and shift carbon disclosure from voluntary to mandatory.

This year, we engaged governments, regulators and standards setters in support of ambitious national emissions reduction targets, the adoption of Paris-aligned supporting policy and mandatory carbon disclosure, including scope 3 emissions, as part of corporate filings.

Government

The IIGCC's *2022 Global Investor Statement to Governments on the Climate Crisis*: 604 signatories, representing almost US\$42trn in AUM, signed on to this year's call to action, seeking stronger ambitions and supporting policy from governments on climate change.

Regulators

The SEC Proposed Rule File No. S7-10-22, *The Enhancement and Standardization of Climate-Related Disclosures*: seeking mandatory scope 3 disclosure with safe harbour provisions to elicit meaningful disclosures.

BMO GAM submitted a comment letter to the CSA's proposed National Instrument *51-107 Disclosure of Climate-related Matters*, which seeks to make disclosure of climate-related matters mandatory for Canadian listed issuers.

Office of the Superintendent of Financial Institutions (OSFI)'s Draft Guideline *B-15 Climate Risk Management*: seeking alignment with existing Canadian, U.S., and international disclosures, adopting of generally accepted standards including the Green House Gas (GHG) Protocol and advocating for mandatory scope 3 disclosure with safe harbour provisions.

In addition to the NZAM initiative, BMO GAM participated in a wide range of investor collaborations this year, including:

- CEC
- Ceres' Canadian Oil and Gas Working Group
- FAIRR's Sustainable Proteins Engagement
- IIGCC Net Zero Engagement Initiative

Policy proposals

BMO GAM supported the *U.S. FOREST Act*, a bipartisan bill which seeks to prohibit access to U.S. markets for covered commodities that originate from illegally deforested land. If enacted, the bill would require importers of palm oil, soybeans, beef, rubber, pulp and cocoa from areas where illegal deforestation occurs to provide evidence to the contrary. Greater transparency in supply chains supports investor due diligence while addressing global ESG challenges, domestically and abroad.

Standards setters

IFRS's *Sustainability Disclosure Standards*, Exposure Drafts S1 and S2: BMO GAM fully supported ISSB's direction to align their climate-related standards with the Sustainability Accounting Standards Board (SASB) and the TCFD frameworks. In addition, BMO GAM encouraged definitions that consider materiality beyond enterprise value, and recommended clearly defining avoided emissions and offsets.

Sustainable Finance Action Council's Taxonomy Technical Expert Group

We provided feedback on the proposed transition taxonomy for Canada, which seeks to support investors with clear criteria for "green" and "transitional" financed activities.

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CLIMATE ACTION

Engagement case studies

● Environmental



Encouraging climate action in the globally competitive oil and gas industry



Six member companies operate about 95% of Canada’s oil sands production and work together to address climate change.

As the industry association for the oil sands, **Pathways Alliance** has a unique opportunity to foster collaboration between member companies and the government to create a clear path forward that meets Canada’s climate goals while sustaining a globally competitive oil and gas industry.

To open a sector-level dialogue with the Pathways Alliance, BMO GAM led and chaired the Canadian Oil and Gas working group’s first collaborative engagement, bringing together nine investors with \$960B in AUM.

The purpose of this engagement was to discuss Pathway’s progress toward their net-zero ambitions and their position on the role of public policy, such as the Government of Canada’s Options to cap and cut oil and gas sector greenhouse gas emissions and U.S. IRA, in support of helping the sector to achieve their goals.



PATHWAYS ALLIANCE
Targets: 7.2, 13.2

● Environmental



Partnering in the transition to protein alternatives



With FAIRR, we engaged Loblaw on the growing consumer demand shifting toward protein alternatives and away from meat products with higher climate risk.

As **Loblaw Companies Ltd.** also announced a net-zero ambition, the engagement included scope 3 value chain emissions. The meeting was positive, with Loblaw committing to improving disclosures on protein alternatives and reporting back on research and product development (capital allocation) at a later date as they develop their net-zero strategy.



LOBLAW COMPANIES LIMITED
Targets: 12.2, 12.6, 13.2
Milestones: ★ ★ ★

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● Environmental



WASTE CONNECTIONS CANADA
Targets: 13.2

Transitioning to renewable natural gas systems and a low-carbon economy

Through CEC, we co-led an engagement with **Waste Connections Inc.**, a major waste management services company in North America.



As fugitive methane emissions from landfills contribute to global warming, we engaged with Waste Connections on their climate strategy and reporting, climate governance, carbon accounting, management, target-setting, methane monitoring and controls and expansion of their renewable natural gas systems, which is a lower carbon intensity fuel than conventional gas. Waste Connections was able to share greater detail on their TCFD disclosure and provided investors with further assurance on their environmental management systems and ongoing adoption of controls.

● Environmental



BHP
Targets: 15.5
Milestones: ★★★

Backing biodiversity in the mining sector to achieve nature-positive outcomes

Committing to nature-based targets, BHP has laid out an associated go-forward strategy.



Backing biodiversity in the mining sector to achieve nature-positive outcomes **reo**®, a third-party engagement service provider partner, has engaged mining and metals company **BHP** for many years, including on biodiversity. A significant milestone was reached when in 2022, BHP launched a goal to create nature-positive outcomes by having at least 30% of its land footprint under nature-positive management practices by 2030. This is backed up by a significant implementation strategy, metrics and an ambition to develop natural capital accounts. **reo**® defined this as a sector-leading target backed by technical methodologies and reporting, which should help push sector-wide ambition.

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CLIMATE ACTION

Engagement campaigns

BMO GAM considers the management of climate risks to be an essential component of corporate governance and critical to sustaining long-term financial returns. This year we launched two climate action campaigns, which focus on material climate risks and opportunities on a sector-specific basis.

● Environmental



Climate resiliency in real estate and construction

This year we launched a new climate resiliency engagement campaign focussed on the real estate and construction industry. As built infrastructure, such as roads and buildings, are vulnerable to physical climate risks, including fire, flooding and storm events, strong management practices are needed to prevent and mitigate damages. Conversely, opportunities exist in green building and construction that can reduce GHG emissions while concurrently adding to the asset value. Through this campaign, we are working with the real estate and construction industry to improve the management of their climate-related risks and opportunities.



Targets: 9.4, 11.6 13.2

● Environmental



Protecting natural capital in food and agriculture

This year we launched a new natural capital engagement campaign focussed on the food and agriculture sector. Through this initiative, we seek to have companies better understand their vulnerabilities to physical climate risks, increase the adoption of best practices for land and water conservation and improve the sustainability of products and supply chains.



Targets: 2.4, 6.3, 6.4, 12.4, 12.5, 13.2, 15.2, 15.5



Social Equality

‘While we are making progress, significant barriers to embedding true DE&I still exist today. Investors can improve outcomes through education on best practices informed by those most adversely impacted by exclusion and marginalization.’

Sarah Morris Lang,
Manager of Social Equality Initiatives,
Responsible Investment

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SOCIAL EQUALITY

Our social equality approach

Events in 2022 validated our view that inequality is a systemic risk that can negatively impact financial markets.

Still under strain from COVID-19, markets were turned upside down again as Russia launched an unprovoked war on Ukraine. Many investors around the globe scrambled to divest from Russia on a mass scale, driven by regulatory and human rights-related concerns. The ripple effects of this conflict further strained critical global supply chains already disrupted by the pandemic, leading to new food and energy crises, accelerating

rising inflation and interest rates, and the cost of living in regions all around the world.

Through promoting HRDD in business activities and investment decision-making to advance social equality, investors can help prevent and mitigate adverse impacts from events and dynamics like those described above. In 2022, we formulated and published our [Social Equality Approach](#) to outline how we view growing inequality as a systemic risk that will jeopardize long-term value creation and why we chose our five social equality sub-themes themes of focus.



Human rights

Respecting human rights in operations, products and services and throughout the entire value chain



Indigenous reconciliation

Aligning practices with the United Nations *Declaration on the Rights of Indigenous Peoples* and the Truth and Reconciliation Commission's recommendations on how to advance socio-economic outcomes for Indigenous peoples



Just transition

Advocating for strategic collaboration with workers, communities and rights holders to ensure that no one is left behind in the transition to a low-carbon economy



Wealth inequality

Ensuring fair wages and benefits, appropriate executive compensation, responsible tax practices and equitable access to products and services



Diversity, equity and inclusion

Promoting the inclusion of diverse perspectives and backgrounds across the workforce and at leadership levels to ensure more equitable opportunities and outcomes

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Advancing social equality

Collaborative initiatives

We renewed our membership with the ICCR, which convenes shareholder advocacy initiatives on behalf of over 300 global institutional investors. Through ICCR, we joined the Systemic Stewardship Working group to share best practices on systemic risk management of particular interest to Universal Owners. We also joined the ICCR's Workers' Rights Investor Collaboration which included engagements with apparel companies on forced labour and supply chain HRDD.

We renewed our membership with the WDI, a voluntary corporate disclosure framework for promoting worker and human rights within internal operations and supply chains. It has been likened to the CDP for carbon emissions, only for human capital management practices. Finally, we signed on to the UN PRI's Advance initiative to advocate for best practices on social issues and human rights.

The first phase of this investor collaboration will focus on mining and renewable energy companies—we look forward to leading engagements with some of Canada's largest mining issuers.

Market education

We participated in many public discussions about responsible investors' role in advancing social equality. These included two panel discussions hosted by the RIA. At the RIA's annual conference, we presented our approach to advancing social equality through stewardship and consideration of ESG factors.

In November 2022, we contributed to a discussion on the importance of corporate disclosures on Indigenous Rights and Reconciliation and what investors can do to help improve practices across all sectors, but within mining in particular. We also spoke on a Gowling WLG and Millani webinar about ESG disclosures related to forced and child labour in supply chains and engaged in discussions with university students interested in investor action on social issues at York University and Queen's University.

Social equality highlights

734

social equality-focused engagements

364

companies engaged on social equality

33

social equality-related milestones achieved

Additionally, we published articles to support investor due diligence on gender equality, Indigenous rights and reconciliation and to help investors make sense of different perspectives on materiality and subsequent impacts on companies' performance on social and environmental issues.

Policy actions

We were pleased to receive an invitation to participate in industry advocacy through PMAC's comment letter submission to the Canadian Securities Administrators' proposed revisions to the *National Instrument 43-101*. PMAC's submission supported enhanced disclosures on due diligence related to Indigenous rights and reconciliation and sound processes for assurance.

As a team, we made a direct submission to the ISSB's call for feedback on General Disclosures. In [our response](#), we emphasized the need for sustainability standards to take a double materiality approach to help drive corporate practices more in line with achieving sustainable outcomes, given the emphasis on reporting and managing the social and environmental impacts of business activities regardless of whether they are financial materiality in the near term.

We also engaged with MSCI's Canada division to share our views on enhancing disclosures related to business activity impacts on human rights and Indigenous rights and reconciliation.

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SOCIAL EQUALITY

Engagement case studies

Social



Targets: 16b

MAGNA INTERNATIONAL

Milestones: ★★

KINROSS GOLD CORPORATION

Milestones: ★★★

RESTAURANT BRANDS INTERNATIONAL

Milestones: ★★★

Providing guidance on human rights due diligence in conflict-affected regions

In March 2022, we engaged Canadian companies with operations in Russia on their implementation of HRDD in the region after the invasion of Ukraine.

We sent letters to several companies and participated in meetings to share expectations and guidance on HRDD in conflict-affected regions. Most of the companies we engaged ultimately ceased Russia operations or withdrew completely.

We were pleased to be able to log three milestones related to this engagement. In 2022, **Magna International** announced that it would conduct an HRDD gap analysis to improve its practices. **Kinross Gold Corporation** completed the sale of its Russian assets in June 2022 and actively took steps to prevent and mitigate contributing to human rights abuses related to the war while it worked on selling its Kupol and Udinsk mine sites.

Finally, **Restaurant Brands International** announced intentions to sell its stake in Russian franchises; however, it has yet to completely do so given stated binding legal contracts with Russian business partners. We are encouraged by the alignment of efforts by these companies in response to the war in Ukraine with our views on HRDD. We will continue to reach out to investee companies to promote the importance of HRDD integration into business strategy and operations.



Social



ARITZIA
GILDAN

Targets: 8.7, 12.6

Reducing regulatory and human rights risks in apparel supply chains

As part of an investor collaboration to address forced labour in supply chains through the International Association for Human Rights (IAHR), BMO GAM's RI team joined forces with other investment managers.

Through this collaboration, we supported engagements with **Artizia** and **Gildan** to discuss their human rights risk assessment, prevention, mitigation and disclosure approaches. Given Canada's proposed regulation on supply chain due diligence through the anticipated enactment of Bill S-211 and already enacted legislation on forced labour and HRDD in other jurisdictions, including the Uyghur Forced Labour Prevention Act (UFLPA), we will continue to engage with Canada's leading apparel companies around their practices to reduce regulatory and human rights risks in their supply chains. We appreciate these companies' openness to the discussion in this area and look forward to continued collaboration on enhancing supply chain due diligence practices.



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● Social



Advocating for human and Indigenous rights due diligence at mining companies



Mining raw materials to build renewable energy infrastructure is essential. Respect for human rights and Indigenous rights, in particular, must be prioritized in mining development and operations to achieve a just transition.



Targets: 12.6 , 16b

In 2022, we met with **Teck Resources Ltd.** board members to discuss their social and environmental risk management practices related to working with affected rights holders on wastewater management, mining impacts on Indigenous women and girls and incorporating Indigenous perspectives into board and senior-level decision-making.

TECK RESOURCES LTD.

Milestones: ★★ ★

We also participated in **Wheaton Precious Metals'** bi-annual materiality assessment through meeting with their sustainability team to provide our perspective on material and salient social and environmental issues. We advocated for HRDD and incorporation of affected rights holder perspectives in detecting, preventing and mitigating adverse impacts from the mining activities of its business partners. We were pleased to see that in 2022, Teck Resources and Wheaton Precious Metals made public commitments to taking a proactive "double materiality" approach to risk management and reporting.

WHEATON PRECIOUS METALS

Milestones: ★★ ★

While implementation of strategies to proactively assess and manage external impacts is the true test of leadership, we view publicly available policy commitment to "double materiality" as an indicator of good management. Pressure to meet these standards in a global marketplace is being triggered by the development of more proactive impact and sustainability standards being hardcoded into law in Europe. We anticipate that over the next few years, we will increasingly see other public issuers follow suit, despite impact reporting not yet being mandatory in North America.

● Social



Making progress on racial equity through enhanced social disclosures



Over the last couple of years, our engagement partner, **reo®**, has been engaging with **Amazon** to advocate for enhanced social disclosure.



In 2022, the company published its first gender diversity targets. It also set recruitment goals for underrepresented minorities (veterans and military spouses) and created racial diversity targets for Black and Latino employees.

AMAZON

Targets: 5.5 , 10.2

Milestones: ★★ ★

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Crystal Mercredi

SPOTLIGHT

Engaging with Indigenous thought leaders

Since the earliest arrival of settlers to Canada, there has been tension with Indigenous peoples over resource development and respect for Indigenous ways of being on the land and other Indigenous inherent rights and title.

Many Indigenous-led movements like [Idle No More](#), and formalized inquiries such as the [Royal Commission on Aboriginal Peoples](#) mandate, the [Truth and Reconciliation Commission Report](#) and [94 Calls to Action](#), and [Reclaiming Power and Place: The Final Report of the National Inquiry into Missing and Murdered Indigenous Women and Girls](#), have all helped create a path toward reconciliation. This includes the harmonization of the [United Nations Declaration on the Rights of Indigenous Peoples](#) into federal law and provincial law in British Columbia.

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Consistent with these developments are a growing number of court rulings in favour of Indigenous inherent and treaty rights and title in the context of resource development and other major infrastructure projects. Canada's economic past and future are intricately tied to relationships with Indigenous peoples, as they are important stewards of the land and biodiversity around the world.

Incorporating respect for Indigenous rights and traditional knowledge through formal partnerships and collaborative agreements can help ensure those affected have formal oversight and co-management responsibilities to benefit equitably from resource development on their traditional lands. Yet, many businesses still have considerable room for improvement in understanding the importance of developing respectful relationships with Indigenous peoples and the need for disclosure in this area.

In 2022, we engaged with Indigenous business leaders and rights advocates on best practices for companies in developing respectful relationships with affected rights holders that not only align with basic human rights standards but, importantly, align with Canada's unique calls to action for the business sector as outlined by the *Truth and Reconciliation Commission and the National Inquiry into Missing and Murdered Indigenous Women and Girls* reports.

Through our engagement with the Reconciliation and Responsible Investor Initiative, the First Nations Financial Management Board and BMO's own Indigenous Advisory Council and 30-years-strong Indigenous Banking Unit, we are developing best practice insights on working with investee companies to respect Indigenous rights and reconciliation. Also, to help broaden market awareness, policy advocacy and best practices more widely, we produced a podcast with the First Nations Financial Management Board on their RoadMap Project, *An Indigenous-led Paradigm Shift for Economic Reconciliation*. We also participated in a panel discussion on Indigenous rights and reconciliation disclosure best practices hosted by the RIA.



Finally, we published two thought leadership pieces specifically related to Indigenous rights and company best practices and devote specific attention to Indigenous rights in our HRDD deep-dive research that we conducted. Given the critical importance to respect for Indigenous rights to Canada's economic future in 2023 and beyond, we will continue our collaborative work in this area.

ESG Integration

"As part of our investment process, we go beyond table stakes to identify and understand the risks and long-term opportunities that ESG issues present."

Jennifer So CPA, CA, CFA,
Portfolio Manager, Fundamental Equity

ESG



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ESG INTEGRATION

An integral part of our process

Environmental Social Governance

ESG is a label that represents a broad set of characteristics measuring the sustainability attributes of a company or industry’s business activities.

These factors can have material implications for financial performance and investor returns. From the damaging effects of climate-related disasters to the innovation stemming from a diverse workforce, ESG considerations can both mitigate risk and generate long-term opportunities.

For our responsible investment branded funds (active strategies), we evaluate ESG risks and opportunities at every level. ESG considerations form a core part of our research and portfolio construction process for these funds. In addition to their own fundamental analysis, investment teams also leverage our resources and expertise to gain a more detailed understanding of ESG best practices when evaluating different investments. This allows them to apply principles that are the most meaningful to relevant asset classes and investment strategies for these funds.

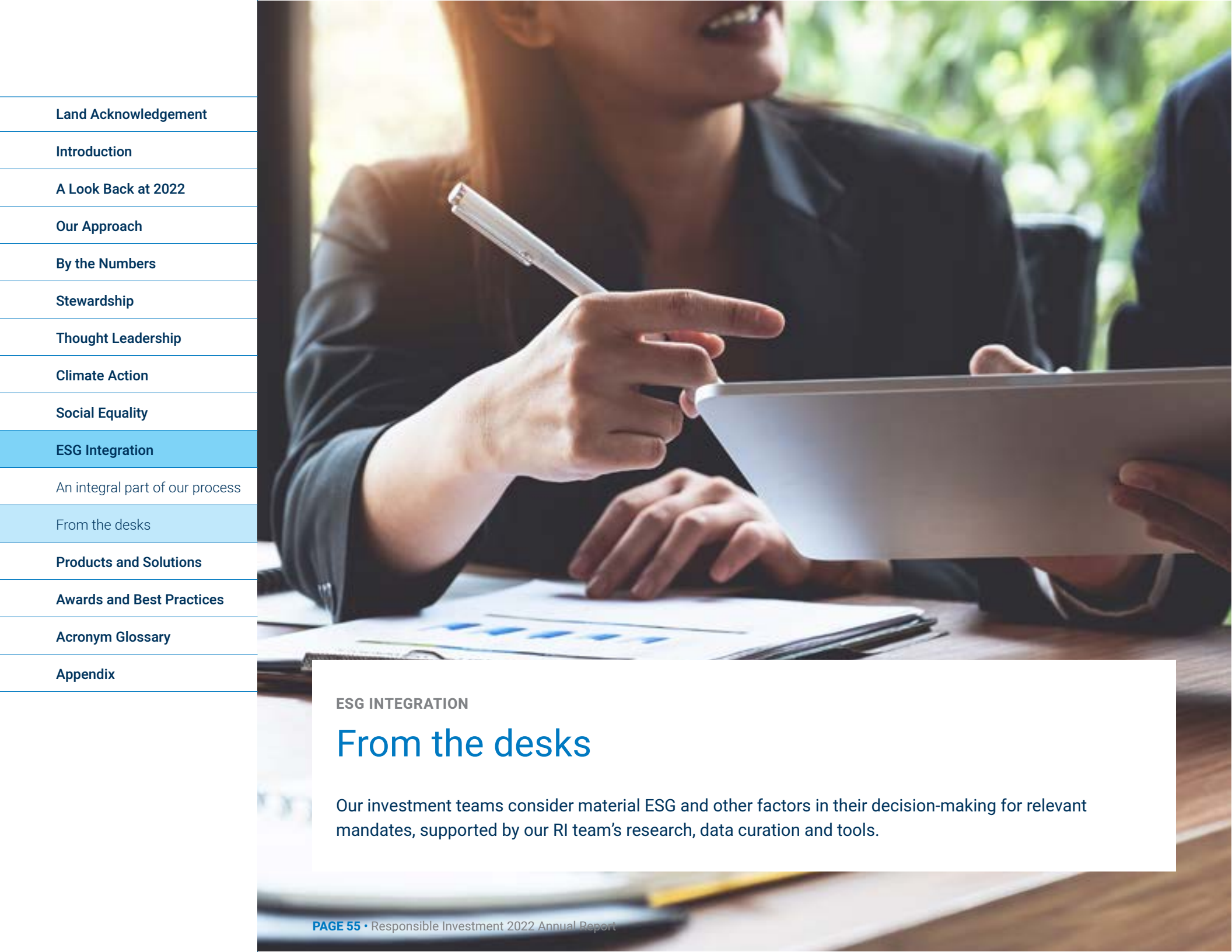
In building our ESG Index-based ETF business, we undertook a thorough due diligence of several leading index providers to find an ESG methodology with clear exclusions and very close tracking

At BMO GAM, we have a
35+ year
heritage of responsible investing.¹²

to the broad *beta* universe. Our decision was motivated by a need for rigorous ESG screening and ranking while meeting fiduciary standards. The ETF portfolio managers partner with our team to identify opportunities for engagement and proxy voting.

To support our portfolio managers and analysts, we develop tools and guidelines using trusted third-party service providers and proprietary in-house analysis to capture breadth and depth of insight. We also produce thought leadership pieces and host seminars on various ESG topics to educate investment teams further and facilitate idea generation. Post-investment, we lead BMO GAM’s stewardship activities, working with the companies in our portfolios to better manage ESG issues.

¹² BMO GAM has built upon and continues responsible investment practices first started by the F&C Asset Management plc group of companies in 1984. BMO GAM and F&C Asset Management plc group of companies were affiliates from May 2014 until their sale in November 2021. F&C Asset Management plc group of companies are no longer affiliates of BMO GAM.



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ESG INTEGRATION

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Our investment teams consider material ESG and other factors in their decision-making for relevant mandates, supported by our RI team's research, data curation and tools.

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FROM THE DESKS

BMO Fixed Income

“Due to its size, the global fixed income environment has the potential to make a significant impact and drive sustainability forward.”



Earl Davis, CFA, MBA,
Head of Fixed Income and Money Markets,
Active Fixed Income

ESG considerations

The BMO Fixed Income team considers material ESG and other factors when conducting investment research across portfolios. For relevant responsible investment branded funds, they utilize both the fundamental and sustainability frameworks detailed below.

Fundamental framework



Responsible investment branded products and solutions

- [Sustainable Bond Fund](#)

Holdings

On March 22, 2022, the [Government of Canada issued its inaugural green bond with BMO Capital Markets as the joint-lead underwriter](#), and the offering was met with strong demand from investors, especially ESG-focused investors who represented 72% of the final sale. Use of proceeds, according to the Canada Green Bond Framework, are for eligible green expenditures that include clean transportation, living natural resources, energy efficiency, terrestrial and aquatic biodiversity, renewable energy, climate change adaptation and more. The government considers green bonds to be an important contributor in growing the sustainable finance market in Canada.

Sustainability framework



Investing in the future

Companies that have vested interest in improving their sustainability practices and are willing to allocate capital to improve



Accountability

Management is incentivized to improve their sustainability performance, ESG score and reduce greenhouse gas emissions ideally with KPIs and target dates



Transparency

Disclosure around use of proceeds, approval process and third-party validation

Sculpting ESG policy

The **Manulife** board revised its director tenure policy to include a limit of 12 years of board service, aligned with our good governance expectations. We believe this is the best practice in Canada and are pleased to see such progress, as we had proactively communicated our views on tenure for several years. We are also encouraged by Manulife’s ongoing strengthening of board oversight of ESG matters and continuing director education, including by third-party experts, on emerging ESG issues.

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BMO Fundamental Equity

ESG considerations

The BMO Fundamental Equity team invests using both fundamental and sustainability frameworks. Their company research includes ESG and other considerations, as noted within both of these frameworks.

Fundamental framework: We invest in companies with five elements: good conduct, durable moat, growth in earnings per share, strong management teams and reasonable business value

5 key investment pillars



Sustainability framework: For our responsible investment-branded funds, we invest in companies whose products or services address a sustainability challenge and link it to either revenue growth or cost reduction.



Responsible investment branded funds and solutions

- [BMO Sustainable Opportunities Canadian Equity Fund](#)
- [BMO Women in Leadership Fund](#)

Holdings

WSP Global Inc. is a leading global engineering and design firm focused on transportation and infrastructure, earth and environmental, and property and buildings verticals. The company earns fees for its design and advisory work spanning over 150,000 global projects at any one time.

WSP supports sustainable cities and communities by designing sustainable and climate-resilient infrastructure, such as high-speed rail, energy-efficient buildings, transit, water infrastructure, hospitals and renewable power projects. Specifically, WSP designs incorporate future trends through four lenses: climate, society, technology and resources. This is important as many projects have multi-decade design lives, and in the future, society may have different needs, technologies may change, and climate change will bring more extreme weather events.

Boralex is a renewable power company. They are France's largest independent producer of onshore wind power, has projects in the United States and development projects in the United Kingdom. Over the past five years, Boralex's installed base has doubled. Looking forward, the company is developing a portfolio of 4GW in wind and solar projects and an additional 800 MW in storage projects.

Developing accountability on DE&I

In partnership with **reo**[®], a third-party engagement service provider, and the RI team, the Fundamental Equity team met with **The Walt Disney Company** to discuss DE&I matters, encouraging them to set quantitative diversity targets and enhance workforce reporting. The company has added DE&I as a performance metric in their executive compensation program: a best practice. We also encouraged the company to consider participating in the WDI; The Walt Disney Company found our feedback helpful.

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BMO Disciplined Equity

“ESG considerations have become an important driver in equity prices. Having a team to engage companies directly on ESG issues is a distinct advantage.”



Chris Heakes, CFA, M.Fin,
Head, Disciplined Equity and Portfolio Manager

ESG considerations

The BMO Disciplined Equity team believes that prudent management of material ESG issues can have a meaningful impact on creating long-term shareholder value and improve the portfolios’ risk/return profile. Accordingly, the team researches and considers material ESG factors alongside other factors in the stock selection, portfolio construction and monitoring processes. In addition, the team reviews broader ESG ratings of portfolio candidates relative to the standards and performance of industry peers. Candidates rated as the worst performers on ESG factors are generally excluded from the portfolio, and where the team’s views differ from the RI team, the two teams collaborate for further discussion.



Guiding Principle

The Disciplined Equity team believes that prudent management of ESG issues can have an important impact on the creation of long-term investor value.

Stock selection model

- Internal rating by Responsible Investing team
- Governance factor

Portfolio construction

- Global exclusion list
- ESG rankings considered in trade reports and portfolio review process

Portfolio monitoring

- Portfolio ESG exposure
- ESG contributors/detractors and score changes

Engagement

- Proxy voting centralized through Responsible Investing team
- Engagement executed jointly with Responsible Investing team

Holdings

Cameco is an ESG leader and a one-stop-shop in the nuclear fuel supply chain. Nuclear power generation emerged from the European energy crisis as a critical decarbonization and energy independence solution. As the world’s most liquid uranium stock, Cameco stood out as a reliable alternative to Russian-influenced uranium and nuclear service providers, with most of its assets in Canada, the U.S., Europe and Japan. It also demonstrated solid initiatives to manage critical ESG issues and boasted industry-leading safety performance and community relations.

The Disciplined Equity team’s holding in **Kinross Gold Corp.**, a gold producer with Russian operations, was eliminated following due diligence conducted in partnership with the Responsible Investment team concerning the Russia-Ukraine conflict. The team was unsatisfied with the company’s support for local employees and believed a heavily discounted sale of its Russian assets could weaken its financial outlook. Kinross Gold Corp. suspended its Russian operations in March and sold its Russian portfolio in June. Although the team’s exit from the position in Kinross Gold Corp. resulted in a loss, the stock declined much more significantly post-sale.

Forming due diligence practices

The Disciplined Equity and RI teams met **Bombardier Recreational Products (BRP)**’s general counsel to discuss their human rights practices after the Russian-Ukraine war. We gave BRP kudos for suspending exports to Russia and donating to Ukraine relief efforts while continuing to support local employees. We also encouraged BRP to perform due diligence on tier-two and three-level suppliers on human rights. Finally, we highlighted the regime shifts from maximizing shareholder value to increasing focus on stakeholders. The company appreciated our long-term partnership and promised to align BRP’s efforts with ESG best practices.

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BMO Exchange-Traded Funds (ETFs)

“Investors can use our wide range of passively and actively managed BMO ESG ETFs to align their financial views with the causes they care about the most.”



Alfred Lee, CFA, CMT, DMS,
Portfolio Manager and Investment Strategist

ESG considerations

BMO’s ESG Index ETFs employ a best-in-class approach benchmarked to indexes that select the top-rated companies in each sector, avoiding companies with controversial business practices that could pose short- and long-term ESG risks.

In choosing an ESG index provider, we take an in-depth approach that focuses on the following:

- 1** Identifying the most relevant risks by sector
- 2** Recording forward-looking management data
- 3** Incorporating unique alternative data sources beyond company-disclosed (or reported) data

The ESG considerations that are integrated during index construction are dependent on the asset class.

For BMO’s ESG ETFs that are based on MSCI ESG Leaders Indexes

Sector representation	<ul style="list-style-type: none"> • 50% target sector representations per GICs sector and sub-region (to avoid regional and sector biases) relative to the parent index
Minimum ESG rating	<ul style="list-style-type: none"> • Minimum ESG rating BB
Minimum controversy score	<ul style="list-style-type: none"> • Excludes companies involved in very severe controversies
Weighting scheme	<ul style="list-style-type: none"> • Market cap weighted • Rebalanced quarterly with ongoing event-related maintenance
Exclusions	<ul style="list-style-type: none"> • The following activities will use the “Least Restrictive” (as defined in the MSCI ESG Research framework) screen: Alcohol, Gambling, Nuclear Power and Conventional Weapons. • The following activities will use the “Moderately Restrictive” (as defined in the MSCI ESG Research framework) screen: Civilian Firearms, Tobacco. • Nuclear Weapons will use the “Highly Restrictive” (as defined in the ESG framework) screen. • Controversial Weapons will use the “Most Restrictive” (as defined in the MSCI ESG Research framework) screen. • Companies involved in the mining of thermal coal, unconventional oil extraction and thermal coal-based power generation are also excluded.

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BMO Exchange-Traded Funds (ETFs) (continued)

For BMO's ESG ETFs that are based on Fixed Income Indexes

Sector representation	<ul style="list-style-type: none"> No sector representation target (40-70% of the parent index typically eligible based on ESG rating thresholds)
Minimum ESG rating	<ul style="list-style-type: none"> Minimum ESG rating BBB
Minimum controversy score	<ul style="list-style-type: none"> Excludes companies involved in severe controversies
Weighting scheme	<ul style="list-style-type: none"> Market value weighted Rebalanced monthly
Exclusions	<ul style="list-style-type: none"> Excludes companies deriving a significant share of their revenues from: <ul style="list-style-type: none"> Alcohol Gambling Tobacco Controversial Weapons Conventional Weapons Nuclear Weapons Civilian Firearms GMOs Adult Entertainment Nuclear Power Companies involved in the mining of thermal coal, unconventional oil extraction and thermal coal-based power generation are also excluded.

Stewardship

Stewardship is a cornerstone of our responsible investment approach at BMO GAM. While the BMO ESG Index ETFs are passively managed, the ETF team regularly collaborates with the RI team on company engagements and proxy voting.

Modelling screening measures

The BMO Clean Energy Index ETF (ticker: ZCLN) tracks the S&P Global Clean Energy Index providing exposure to up to 100 companies from around the world involved in clean energy-related businesses. Investors get exposure to a diversified mix of companies ranging from clean energy producers to clean energy tech and equipment providers. This ETF also excludes controversial businesses and applies a carbon intensity screen to remove the highest emitters.

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BMO Exchange-Traded Funds (ETFs) (continued)

BMO ESG ETFs

- [BMO MSCI ACWI Paris Aligned Climate Equity Index ETF \(Ticker: ZGRN\)](#)
- [BMO MSCI Canada ESG Leaders Index ETF \(Ticker: ESGA\)](#)
- [BMO MSCI USA ESG Leaders Index ETF \(Ticker: ESGY\)](#)
- [BMO MSCI USA ESG Leaders Index ETF \(Hedged Units\) \(Ticker: ESGY.F\)](#)
- [BMO MSCI EAFE ESG Leaders Index ETF \(Ticker: ESGE\)](#)
- [BMO MSCI Global ESG Leaders Index ETF \(Ticker: ESGG\)](#)
- [BMO MSCI China ESG Leaders Index ETF \(Ticker: ZCH\)](#)
- [BMO MSCI India ESG Leaders Index ETF \(Ticker: ZID\)](#)
- [BMO Brookfield Global Renewables Infrastructure Fund ETF Series \(Ticker: GRNI\)](#)
- [BMO Clean Energy Index ETF \(Ticker: ZCLN\)](#)
- [BMO Women In Leadership Fund ETF \(Ticker: WOMN\)](#)
- [BMO Balanced ESG ETF \(Ticker: ZESG\)](#)
- [BMO ESG Corporate Bond Index ETF \(Ticker: ESGB\)](#)
- [BMO ESG US Corporate Bond Hedged to CAD Index ETF \(Ticker: ESGF\)](#)
- [BMO ESG High Yield US Corporate Bond Index ETF \(Ticker: ESGH\)](#)
- [BMO ESG High Yield US Corporate Bond Index ETF \(Hedged Units\) \(Ticker: ESGH.F\)](#)
- [BMO Sustainable Global Multi-Sector Bond Fund \(Ticker: ZMSB\)](#)



To learn more about BMO's ESG ETFs, visit [ETF Market Insights](#).



ETF Market Insights on YouTube

- [Making an Impact with your ETF Investment | Play Video](#)
- [Fall Into ETF Investing Ep 4: Your Guide to ESG ETF Investing | Play Video](#)

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BMO Multi-Asset Solutions

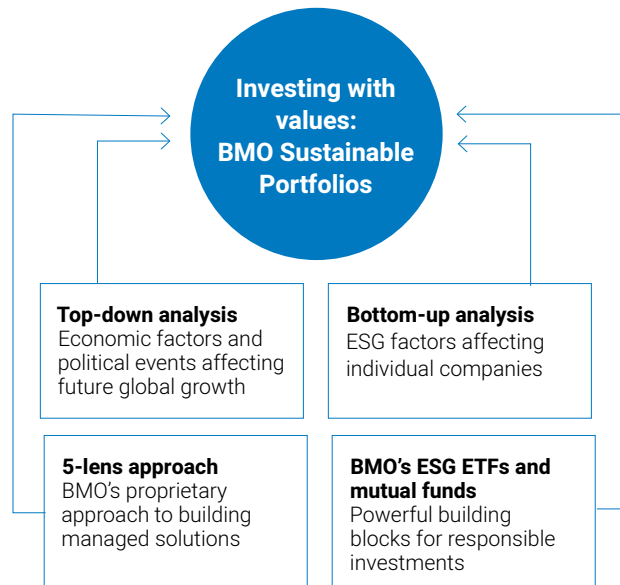
“Our strategic asset allocation is based on expected risk and return, accounting for long-term macro and market themes, including consideration of ESG issues.”



Irina Skrylev, MA, CIM,
Associate Portfolio Manager, Multi-Asset Solutions

ESG considerations

The BMO Multi-Asset Solutions Team (MAST) considers material ESG factors along with other relevant factors across their investment process. MAST analyzes a wide range of macroeconomic and geopolitical factors, including ESG mega trends, and identifies specific ESG factors that may affect individual companies held by these funds.



Holdings

The Sustainable Portfolios combine the best of MAST’s approach to asset allocation with a responsible investment approach. The portfolios generally invest in underlying funds

that meet certain ESG criteria used to evaluate sustainable performance of their investments.

Responsible investment branded products and solutions

- [BMO Sustainable Income Portfolio](#)
- [BMO Sustainable Conservative Portfolio](#)
- [BMO Sustainable Balanced Portfolio](#)
- [BMO Sustainable Growth Portfolio](#)

Building an ESG foundation

With interest rates having risen dramatically in 2022, businesses face a changing landscape for corporate financing and investment decisions. Recent events, including the global surge in inflation and the Russian invasion of Ukraine, serve as a reminder that underlying long-term risks can materialize unexpectedly. Consideration of ESG factors, alongside other factors, is a pillar of comprehensive risk management.

For corporate borrowers, we believe that when companies focus on sustainability and the successful management of ESG risks, they will lower their cost of capital over time. Consideration of ESG factors into credit analysis is intended to improve long-term portfolio performance by reducing idiosyncratic and systematic risk within a portfolio. In addition, thematic bonds relating to ESG considerations allow fixed income investors to allocate capital toward societal and environmental improvement and causes that are important to them.

The [BMO Sustainable Bond Fund](#), which is a holding in the Sustainable Portfolios managed by MAST, invests in high-quality companies that demonstrate a commitment to ESG considerations. The UN SDGs serve as a useful reference for incorporating sustainability themes. We consider ESG factors, alongside other factors, throughout our investment process, backed by our robust credit research, with critical input from BMO GAM’s RI team.

Products and Solutions

"Responsible investing is a spectrum, so there is no one-size-fits-all solution. From inclusion to exclusion to integration and thematic investing, there is a range of diverse ESG strategies in our BMO ESG ETFs and responsible investment branded products and solutions."

Peter Intraligi, MBA,
Head of Product and Sales Enablement



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PRODUCTS AND SOLUTIONS

Turning our depth of ESG expertise into real solutions

We believe investors need access to products and solutions that provide them with the returns they seek while considering and mitigating long-term material ESG risks. On the next page, we have provided an overview of our BMO ESG ETFs and actively managed responsible investment branded funds, which adhere to investment guidelines focused on one or more ESG factors.

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BMO ESG ETFs and actively managed responsible investment branded funds			
	Passive	Index	
Equity	BMO MSCI Canada ESG Leaders Index ETF (ESGA)	MSCI Canada ESG Leaders Index	
	BMO MSCI USA ESG Leaders Index ETF (ESGY/ESGY.F)	MSCI USA ESG Leaders Index	
	BMO MSCI EAFE ESG Leaders Index ETF (ESGE)	MSCI EAFE ESG Leaders Index	
	BMO MSCI Global ESG Leaders Index ETF (ESGG)	MSCI World ESG Leaders Index	
	BMO MSCI China ESG Leaders Index ETF (ZCH) ¹³	MSCI China ESG Leaders Index	
	BMO MSCI India ESG Leaders Index ETF (ZID) ¹³	MSCI India ESG Leaders Index	
Fixed Income	BMO MSCI ACWI Paris Aligned Climate Equity ETF (ZGRN)	MSCI ACWI Paris Aligned Climate Index	
	BMO ESG Corporate Bond Index ETF (ESGB)	Bloomberg MSCI Canada Corporate Sustainability SRI Index	
	BMO ESG US Corporate Bond Hedged to CAD Index ETF (ESGE)	Bloomberg MSCI US Corporate Sustainability SRI Index	
Thematic	BMO ESG High Yield US Corporate Bond Index ETF (ESGH/ESGH.F)	Bloomberg MSCI US High Yield Sustainability SRI Index	
Equity	Thematic	BMO Clean Energy Index ETF (ZCLN) / BMO Clean Energy ETF Fund	S&P Global Clean Energy Index
	Active	BMO Sustainable Opportunities Global Equity Fund	Sustainable global equity fund that excludes fossil-fuel related businesses
	Objective	BMO Sustainable Opportunities Canadian Equity Fund	Core ESG-focused Canadian equity fund
	BMO Sustainable Opportunities China Equity Fund	ESG-focused Chinese equity fund	
	BMO SDG Engagement Global Equity Fund	Global equity fund using a responsible investment approach to support sustainable development goals	
	Fixed Income	BMO Sustainable Bond Fund	Core ESG-focused Canadian fixed income fund
	BMO Sustainable Global Multi Sector Bond Fund (ETF Series: ZMSB) ¹³	Global multi-sector fixed income fund with a responsible investment approach	
	Balanced	BMO Sustainable Global Balanced Fund ¹³	Core balanced ESG-focused fund
	BMO Balanced ESG (ETF Series: ZESG)	Fund of Index Based ETFs	
	Thematic	BMO Women in Leadership Fund (ETF Series: WOMN)	North American equity fund that invests in companies with a gender diverse leadership environment
Managed	BMO Brookfield Global Renewables Infrastructure Fund (ETF Series: GRNI)	Global infrastructure equity fund that invests in companies that develop, own and operate renewable energy assets.	
	BMO Sustainable Income Portfolio	ESG-focused strategic asset allocation fund of funds	
	BMO Sustainable Conservative Portfolio	ESG-focused strategic asset allocation fund of funds	
	BMO Sustainable Balanced Portfolio	ESG-focused strategic asset allocation fund of funds	
Pooled Funds	BMO Sustainable Growth Portfolio	ESG-focused strategic asset allocation fund of funds	
	BMO AM Responsible Global Equity ESG Fund	ESG-focused global equity pooled fund (institutional use only)	

¹³ Objective changed on fund to incorporate ESG screens in 2021.

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AWARDS AND BEST PRACTICES

Recognition and transparency

BMO GAM was proud to be RIA’s 2022 Stewardship winner, being recognized for our comprehensive approach to advancing the energy transition in Canada.

Methodology for the 2022 RIA Leadership Awards

Stewardship: Recognizing Organizational RIA members who exemplify leading stewardship practices by leveraging their influence as investors to advance the widespread implementation of ESG practices, standards and policies/regulations that support RI objectives. [Read our scorecard](#) to see how we did.



Showcasing our transparency

We place great importance on transparency. As we undertake our RI activities on behalf of our clients, we believe it is important for them to know the guiding policies and approaches we have created. We make these documents publicly available and hope to encourage this as best practice for other investors. [Policy and approach documents.](#)



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- AUM:** Assets Under Management
- BaFin:** Germany's Federal Financial Supervisory Authority
- BMO GAM:** BMO Global Asset Management
- BRP:** Bombardier Recreational Products
- CCGG:** Canadian Coalition for Good Governance
- CEC:** Climate Engagement Canada
- CFRAC:** Climate-related Financial Risk Advisory Committee
- CII:** Council of Institutional Investors
- CDP:** Carbon Disclosure Project
- DE&I:** Diversity, Equity and Inclusion
- CSA:** Canadian Securities Administrators
- CSRD:** Corporate Sustainability Reporting Directive
- DOL:** U.S. Department of Labor
- ERISA:** Employee Retirement Income Security Act
- ESG:** Environmental, Social and Governance
- ETFs:** Exchange-Traded Funds
- FAIRR:** Farm Animal Investment Risk and Return
- FOREST ACT:** Fostering Overseas Rule of Law and Environmentally Sound Trade Act
- FSOC:** U.S. Treasury's Financial Stability Oversight Council
- GFANZ:** The Glasgow Financial Alliance for Net Zero
- GHG:** Green House Gas
- GRI:** Global Reporting Initiative
- HRDD:** Human Rights Due Diligence
- IAHR:** International Association for Human Rights
- ICCR:** Interfaith Centre for Corporate Responsibility
- ICT:** Information Communication Technology
- IFRS:** International Financial Reporting Standards
- IIGCC:** Institutional Investor Group on Climate Change
- IRA:** Inflation Reduction Act
- ISSB: International Sustainability Standards Board
- LGBTQ2S+:** Lesbian, Gay, Bisexual, Transgender, Queer or Questioning and Two-spirit
- MAST:** BMO Multi-Asset Solutions Team
- N/A:** Not Applicable
- NZAM:** Net Zero Asset Managers Initiative
- NGOs:** Non-Governmental Organizations
- OSFI:** Office of the Superintendent of Financial Institutions
- PMAC:** Portfolio Management Association of Canada
- PRI:** UN Principles for Responsible Investment
- reo®:** Responsible engagement overlay, a third-party service provider
- RI:** Responsible Investment
- RIA:** Responsible Investment Association
- RRI:** Reconciliation and Responsible Investment Initiative
- SASB:** Sustainability Accounting Standards Board
- SDGs:** Sustainable Development Goals
- SEC:** U.S. Securities and Exchange Commission
- TCFD:** Task Force on Climate-related Financial Disclosures
- UFLPA:** Uyghur Forced Labour Prevention Act
- UNGPs:** UN Guiding Principles for Business and Human Rights
- WDI:** Workforce Disclosure Initiative

APPENDIX

Percentage of engagements linked to SDGs¹⁴

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1. NO POVERTY	
1.1 Eradicate poverty and ensure a living wage for all	0.03%
1.3 Implement nationally appropriate social protection systems and measures for all	0.03%
2. ZERO HUNGER	
2.1 End hunger and ensure access to safe, nutritious and sufficient food all year round	0.85%
2.2 End all forms of malnutrition	0.85%
2.c Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information	0.03%
3. GOOD HEALTH AND WELL-BEING	
3. Good health and well-being	0.03%
3.3 End epidemics of AIDS, tuberculosis, malaria and other diseases, and combat hepatitis and other communicable diseases	0.30%
3.4 Reduce by one third premature mortality from non-communicable diseases	0.30%
3.5 Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol	0.03%
3.7 Ensure universal access to sexual and reproductive health-care services	0.03%
3.8 Access to medicines and health-care	0.61%
3.9 Substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination	0.06%
5. GENDER EQUALITY	
5.1 End all forms of discrimination against women and girls	0.82%
5.2 Eliminate all forms of violence against all women and girls in the public and private spheres	0.06%
5.5 Ensure full equality of opportunity for women, including at leadership levels	5.18%
6. CLEAN WATER AND SANITATION	
6.1 Achieve universal and equitable access to safe and affordable drinking water for all	0.15%
6.2 Achieve access to adequate and equitable sanitation and hygiene for all and end open defecation	0.06%
6.3 Improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials	0.48%
6.4 Substantially increase water-use efficiency across all sectors	3.60%
6.5 Implement integrated water resources management at all levels	0.09%
6.6 Protect and restore water-related ecosystems	0.06%

¹⁴ Source: BMO Global Asset Management, as at Dec 31, 2022.

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7. AFFORDABLE AND CLEAN ENERGY	
7. Affordable and clean energy	0.03%
7.1 Ensure universal access to affordable, reliable and modern energy services	0.09%
7.2 Substantially increase the global share of renewable energy	0.79%
7.3 Double the global rate of improvement in energy efficiency	1.18%
8. DECENT WORK AND ECONOMIC GROWTH	
8.2 Achieve greater productivity through innovation	0.45%
8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation	0.12%
8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation	0.06%
8.5 Achieve full and productive employment for all	4.24%
8.6 Substantially reduce the proportion of youth not in employment, education or training	0.03%
8.7 Eradicate forced labour, modern slavery and human trafficking	4.82%
8.8 Protect and promote safe working environments for all workers	2.42%
9. INDUSTRY, INNOVATION AND INFRASTRUCTURE	
9. Industry, innovation and infrastructure	0.06%
9.1 Develop quality, reliable, sustainable and resilient infrastructure	0.09%
9.4 Sustainable infrastructure and industries, with increased resource-use efficiency and adaptation of clean technologies	0.73%
9.a Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States	0.15%
10. REDUCED INEQUALITIES	
10.1 Progressively achieve and sustain income growth of the bottom 40% of the population at a rate higher than the national average	0.09%
10.2 Empower and promote the social, economic and political inclusion of all	2.97%
10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard	0.64%
10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality	0.18%
10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations	0.03%
10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people	0.73%
10.a Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organization agreements	0.15%

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11. SUSTAINABLE CITIES AND COMMUNITIES	
11. Sustainable cities and communities	0.03%
11.1 Ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums	0.06%
11.4 Strengthen efforts to protect and safeguard the world’s cultural and natural heritage	0.55%
11.5 Significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters	0.64%
11.6 Reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management	0.36%
12. RESPONSIBLE CONSUMPTION AND PRODUCTION	
12.2 Sustainably manage and make efficient use of natural resources	1.54%
12.3 Halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses	0.03%
12.4 Manage chemical usage and waste throughout their life cycle	2.73%
12.5 Reduce waste through prevention, reduction, recycling and reuse	1.45%
12.6 Encourage companies to adopt sustainable practices and enhance ESG reporting	10.97%
12.c Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption	0.03%
13. CLIMATE ACTION	
13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries	2.79%
13.2 Integrate climate change plans into policies and strategies	17.96%
13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning	0.03%
13.a Address climate change mitigation for developing countries	0.58%
14. LIFE BELOW WATER	
14.1 Prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution	0.48%
14.2 Sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts	0.21%
14.4 Effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices	0.03%
14.5 Conserve at least 10% of coastal and marine areas	0.03%

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15. LIFE ON LAND	
15.1 Ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services	1.48%
15.2 Promote the implementation of sustainable management of forests	3.42%
15.5 Take urgent and significant action to reduce the degradation of natural habitats	5.36%
15.8 Introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species	0.06%
15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems	0.09%
16. PEACE, JUSTICE AND STRONG INSTITUTIONS	
16.1 Significantly reduce all forms of violence and related death rates everywhere	0.45%
16.3 Promote the rule of law at the national and international levels and ensure equal access to justice for all	0.03%
16.5 Substantially reduce corruption and bribery in all their forms	0.03%
16.6 Develop effective, accountable and transparent institutions at all level	0.42%
16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements	0.39%
16.a Strengthen relevant national institutions	0.03%
16.b Promote and enforce non-discriminatory laws and policies for sustainable development	1.27%
17. PARTNERSHIPS FOR THE GOALS	
17.15 Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development	0.03%
No SDGs	12.69%

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