

# re<sup>o</sup>® Engagement policy

April 2021

This policy sets out BMO Global Asset Management's<sup>1</sup> ("BMO GAM") approach to engagement on behalf of re<sup>o</sup>® clients<sup>2</sup>. It describes how re<sup>o</sup>® plays a key role in the stewardship activities of our clients by facilitating the use of their rights and position of ownership to influence the activities or behaviour of investee companies.

re<sup>o</sup>® mobilises the combined weight of our clients' assets to support long term value creation and solve sustainability challenges. We do this through engaging with investee companies and voting proxies on behalf of our clients. We also work with the wider investment and policy community to address the systemic sustainability risks facing the economy and financial system.

## Engagement

We define engagement as constructive dialogue with companies on environmental, social and governance (ESG) factors that can impact their businesses and, where necessary, encourage improvement in ESG management practices. Our primary driver for engagement is to support long-term returns by mitigating risk and capitalising on opportunities linked to ESG factors.

Our engagement programme for re<sup>o</sup>® clients encompasses a spectrum of ESG aspects, across a range of sectors and geographies. The programme is structured around seven high level themes encompassing ESG issues of most relevance to investors:

- Climate change<sup>3</sup>
- Environmental stewardship, including biodiversity
- Labour standards
- Human rights
- Public health
- Business conduct
- Corporate governance

Underlying each theme is a range of more granular sub-themes to help focus our engagement. More information on our approach within the seven engagement themes can be found in our annual re<sup>o</sup>® Outlook document.

The aims of re<sup>o</sup>® engagement are closely aligned with the United Nations' Sustainable Development Goals (SDGs). We track and report on how the engagement supports each of the 17 goals, as well as the underlying 169 targets as relevant. The SDGs inform and help frame our engagement priorities and asks. The use of the SDG framework also provides a language for communicating the impact of engagement on wider social and environmental outcomes.

We monitor the outcomes of our engagement and report on our progress to our re<sup>o</sup>® clients and publicly. Engagement covers listed equities, corporate (financial and non-financial) credit, and is reinforced by the broader public policy engagement.

## Underlying fundamentals: Codes and principles

In encouraging companies to move towards best practice in managing ESG issues, we make reference to international codes and standards where relevant, such as the International Labour Organization (ILO) Core Conventions, OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the UN Global Compact, the Paris Agreement, the Taskforce on Climate-related Financial Disclosures and national corporate governance principles and codes of business best practice.

Our key expectations on good practice are outlined in our [Corporate Governance Guidelines](#), and [Environmental](#) and [Social Expectations Statements](#).

<sup>1</sup> BMO Global Asset Management is the brand name for various affiliated entities of BMO Financial Group that provide re<sup>o</sup>® (responsible engagement overlay) services across Asia, Canada, the U.S. and EMEA.

<sup>2</sup> This re<sup>o</sup>® Engagement Approach only applies to BMO Global Asset Management's re<sup>o</sup>® services. Individual client agreements or jurisdictional regulatory requirements may require a different approach. Any such differences in approach override this document. A separate Engagement Policy applies to client assets in respect of which BMO Global Asset Management provides investment management services.

<sup>3</sup> Please refer to our dedicated [Climate Change Engagement Approach](#) for additional information.

## Planning engagement

Engagement can be proactive, prioritizing our efforts based on the analysis of exposure to material ESG issues and their approach to managing them, or reactive, initiating dialogue with companies to remediate adverse impacts such as large scale and persistent human rights violations, labour rights violations, environmental pollution or corruption. Proactive engagement is both top down through project-based engagement on key issues cutting across companies and sectors, and bottom up based on identification of individual companies within our clients' portfolios presenting the highest ESG risks. Project-based engagements on specific issues normally run for two to three years and are concluded by a final assessment of progress. Engagement with individual priority companies is based on long-term relationships. These engagements normally do not have pre-set end dates.

To identify those companies that are most exposed to material ESG risks and adverse impacts through weak ESG management and performance and involvement in ESG-related controversies, we use BMO Global Asset Management's ESG Risk Tool. The risk tool combines external ESG data, company disclosures, public information and our in-house analysis, informed by our long history of direct engagement with investee companies.

**reo**® engagement is prioritised based on the following:

- Assessment of impact of ESG risk factors now and in the future
- The significance and severity of adverse impacts – scale (gravity), scope and character.
- Assessment of likelihood of success for engagement
- **reo**® client portfolio exposure
- Annual client consultation on company and thematic priorities

Setting specific engagement objectives and tracking results is necessary to assess achievements and determine next steps. We aim to clearly communicate engagement objectives, expectations and desired form of success to companies upfront.

## Conducting engagement

Our preferred approach to conducting engagement is to use constructive, confidential dialogue, typically interacting one-to-one with companies and building a relationship of trust over time.

When it is more effective to take a collaborative approach to bring about change, we form or join coalitions with other

investors, non-governmental organisations (NGOs) or industry groups. Speaking with a unified voice can allow investors to communicate their concerns more effectively, whilst gaining power and legitimacy from the perspective of corporate management. Furthermore, collaborations can help build knowledge and skills whilst enhancing engagement efficiency. We are a member of several investor coalitions actively pursuing collaborative engagements.

We engage at different levels within companies depending on the nature of our objectives, including with the Board, executive management, investor relations, sustainability leadership, and operational specialists.

## Public policy engagement

We recognise that action by governments or regulatory intervention is also needed to create a level playing field and achieve meaningful results. To that end, **reo**® aspires to play an active role in public policy development, through engagement with policymakers and regulators. We seek to bring a constructive investor voice to standard setting such as ESG related listing rules for stock exchanges and the evolution of national stewardship codes, and we believe that policy and regulatory change are often the catalysts for improved corporate behaviour.

## Engagement with other stakeholders

Our engagement activities may include discussions and consultation with stakeholders, such as NGOs, labour unions, industry bodies, and civil society organisations.

## Tracking engagement progress

We document all engagement we have with companies in an online database managed by the BMO Global Asset Management's Responsible Investment team. We measure and report on the success of engagement through the assignment of "milestones", which recognise improvements in company ESG policy, management systems or practices against the objectives that were 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.

## Escalation strategies

In considering engagement escalation strategies, we will make a case-by-case assessment of progress against engagement objectives and responsiveness of companies to our engagement.

In addition to these strategies of public policy engagement and joining forces with likeminded investors to strengthen our

message to companies, we have at our disposal a number of different ways that we can use to escalate our engagement, which include:

**Attending Annual General Meetings (AGMs):** AGMs offer the opportunity for direct, public dialogue with boards and top executives. Interventions at AGMs can also trigger further dialogue with a company, paving the way to more in-depth engagement on an issue.

**Filing shareholder resolutions:** These can be a key rallying point of an engagement campaign to change companies' behaviour. Examples might include improving board accountability, executive pay practices, ESG-related disclosure, climate change action or employee welfare.

**Proxy voting:** Voting against management on key resolutions sends a clear signal to companies and might help with further engagement efforts.

**Partial or complete divestment:** Re-weighting a position to reflect the investment risk of poor ESG practices or selling outright a holding can be a powerful signal of dissatisfaction in response to inadequate progress against engagement objectives. It can be a measure of last resort that our **reo**<sup>®</sup> clients may wish to take. We do not make specific divestment recommendations, but **reo**<sup>®</sup> clients may choose to take this path in response to our assessment of inadequate progress against engagement objectives.

## Transparency

Clear accountability and transparent communication are key elements of the **reo**<sup>®</sup> engagement programme. In addition to our online engagement portal that is accessible to our clients, we provide extensive reporting on a quarterly and annual basis.

## Conflicts of interest

We seek to act in the best interests of our **reo**<sup>®</sup> clients. We recognise conflicts of interest may arise in our active ownership activities. We seek to identify, prevent, and/or manage potential conflicts of interests between any **reo**<sup>®</sup> client and BMO GAM and/or any other BMO GAM client.

Our approach to identify, prevent, and/or manage potential conflicts to ensure we serve our clients' best interests is guided by BMO GAM's [Conflicts of Interest Policy - Active Ownership](#).

BMO GAM treats all companies equally in engagement and voting activities, irrespective of any business relationship that may exist between the company and any part of BMO Financial Group.

## Governance of the **reo**<sup>®</sup> Engagement Policy

The **reo**<sup>®</sup> Engagement Policy is reviewed annually by the Responsible Investment team. The Global Investment Committee (GIC), chaired by the Global CIO, approves any updates for publication.