

For professional / qualified investors only

# ESG Advice Integration

**Presenters:**  
Eddie Barstow &  
Graham Finlay

# Investment risks

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

The income and capital due from bonds is dependent upon the issuing company's ability to pay and any default will adversely affect the value of your investment.

Changes in interest rates can affect the value of fixed interest holdings and may adversely affect the value of your investment.

Investments in smaller companies carry a higher degree of risk as their shares may be less liquid and investment values can be volatile.

Investing in emerging markets is generally considered to involve more risk than developed markets due to the possibility of low liquidity, high currency fluctuation, the adverse effect of social, political and economic security, weak supervisory structures and weak accounting standards.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

## A strong parent company – BMO Financial Group



**\$852 billion**

total assets



**45000+**

employees



**12+**

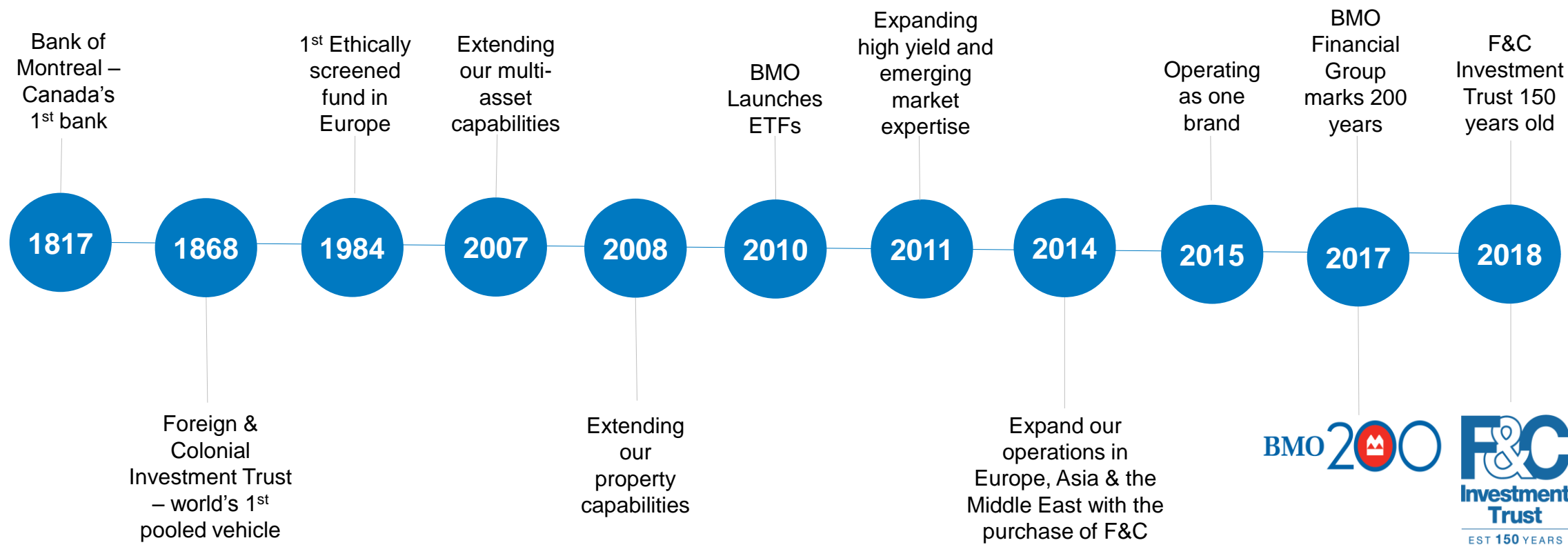
million customers

**BMO Financial Group has the longest-running dividend payout record of any company in Canada, at 189 years.**

Established in 1817, BMO Financial Group is a diversified financial services provider based in North America. BMO provides a broad range of personal and commercial banking, wealth management and investment banking products and services.

Source: BMO Financial Group Annual Report 2019, total assets in CA\$.

# Becoming a worldwide asset manager



BMO Global Asset Management

**At BMO Global Asset Management, we believe that our role is to successfully connect our clients with the outcomes they want to achieve. Our aim is to understand your objectives, appreciate the challenges you face and help you grasp the right investment opportunities through our worldwide capabilities.**

# Learning objectives


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**By the end of the session attendees will be able to:**

- **Understand the impact of proposed responsible investment regulation on the advice process**
- **Explain how ESG criteria are factored into stock selection**
- **Describe how active engagement works and how it can add value to a company**

# Agenda

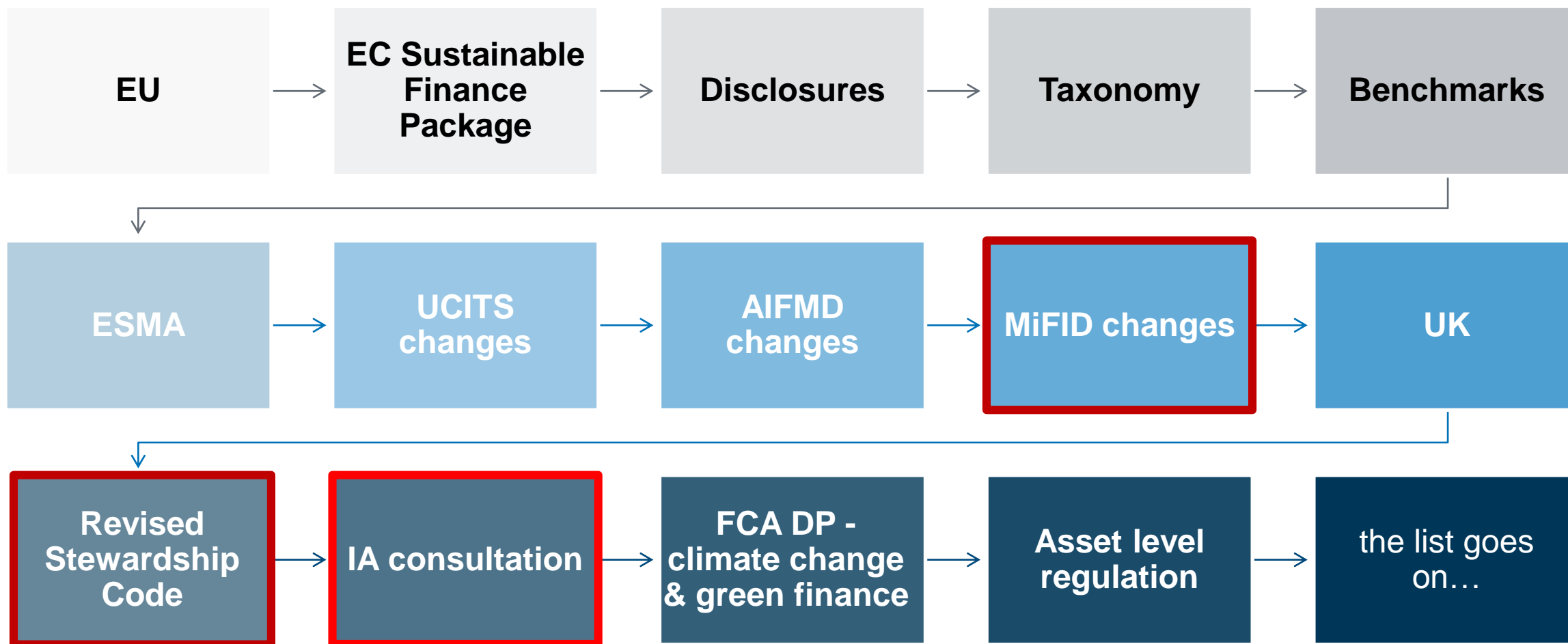
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1. **What has/will change for advisers?**
  2. **What is responsible investment?**
  3. **Understanding client requirements?**
  4. **Understanding Responsible portfolios?**

# 1. What has/will change for advisers?

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# ESG integration: regulation is driving change



Source: Sustainable Finance and Responsible Investment



Sustainable Finance  
and Responsible Investment



# Fast-changing UK regulatory landscape

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## Pension & Institutional

- Department of Work & Pensions regulations requiring trustees to provide ESG statement within Statement of Investment Principles and annual disclosure on implementation
- Change to Fiduciary duties



## Advisory

- MIFID II to ensure sustainability preferences are taken into account in the suitability assessment. At the moment non-financial objectives are left out

# UK retail advice regulation

## Rules on mandatory ESG integration proposed advice



‘For retail clients, this should include the wider interests and **ethical preferences on sustainability** that the individual would wish to have taken into account. This should form part of **‘know your client’** assessments and the consideration of suitability required by MiFID II. This is taken up in the retail investment recommendation.’

**Application of the legislation will be updated and will likely enter into force in the UK in 2021**

[https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report\\_en.pdf](https://ec.europa.eu/info/sites/info/files/180131-sustainable-finance-final-report_en.pdf)

# Responsible investment – client thoughts

2 in 3

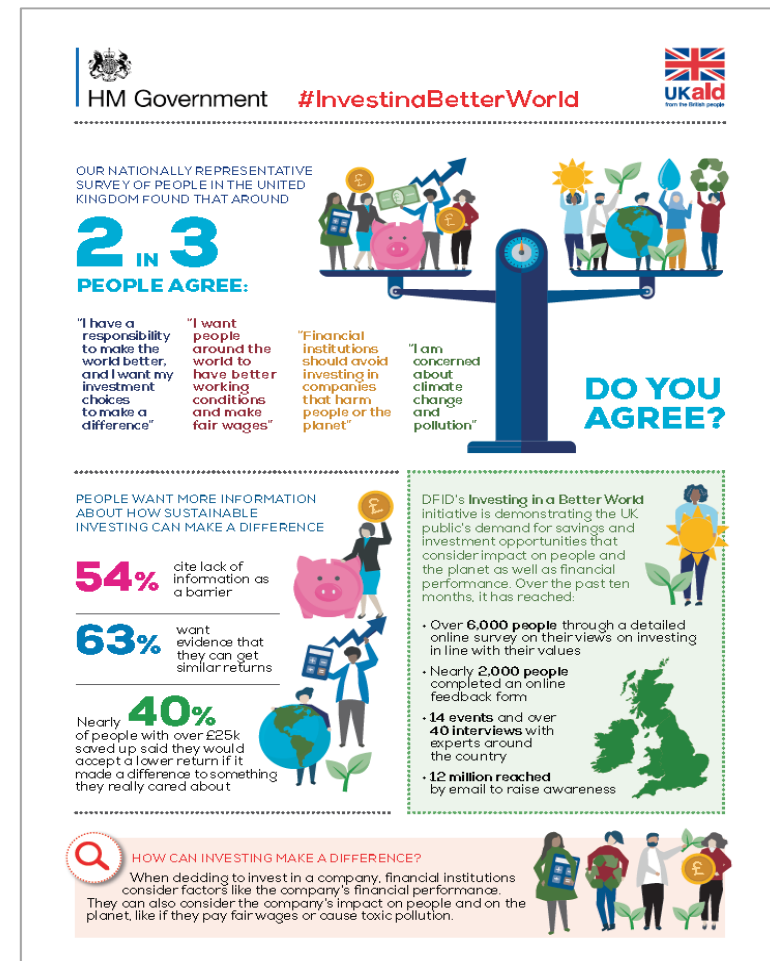
‘Financial institutions should avoid investing in companies that harm people or the planet’<sup>1</sup>

40%

Of people with over £25k saved, said they would accept a lower return if it made a difference to something they really cared about.<sup>2</sup>

2x

**Millennials** are **twice as likely** to think they have a social responsibility to ensure their pension is invested ethically<sup>3</sup>



Source: 1, & 2 plus - HM Government, #InvestInABetterWorld, InvestingInSDGs@dfid.gov.uk 3. UK Sustainable Investment and Finance Association, 2017. <http://uksif.org/wp-content/uploads/2017/10/Millennials.pdf>.

# ESG implication of Covid-19

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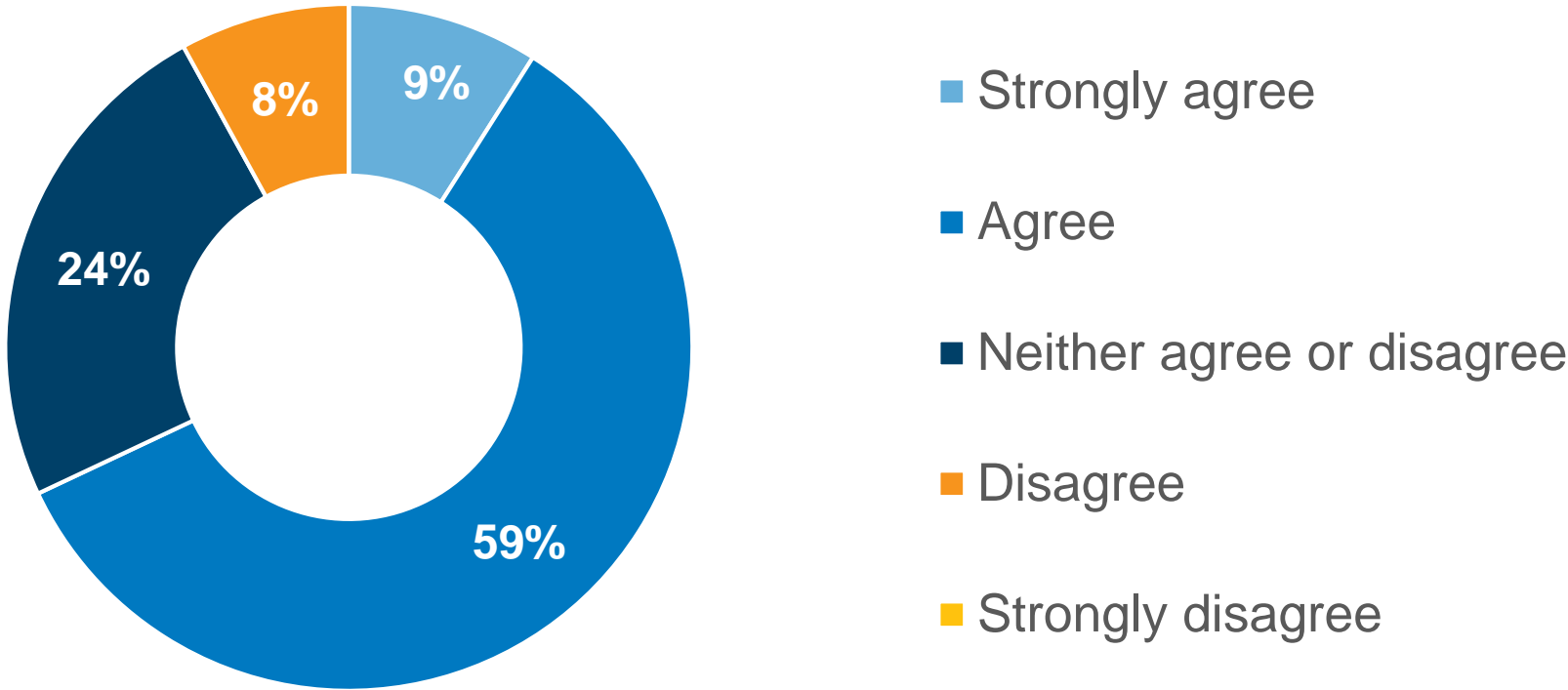
- **Company attention to sustainability issues**
- **Impact on staff & wider stakeholders**
- **Company AGM's**
- **Executive pay**
- **Capital allocation**
- **Climate change**
- **Public Health**



<https://www.localinstitutes.cii.co.uk/media/17717/bmo-esg-implications-of-the-covid-19-pandemic.pdf>

# Biggest trends in Investment

## Adviser results - More emphasis on sustainable investments

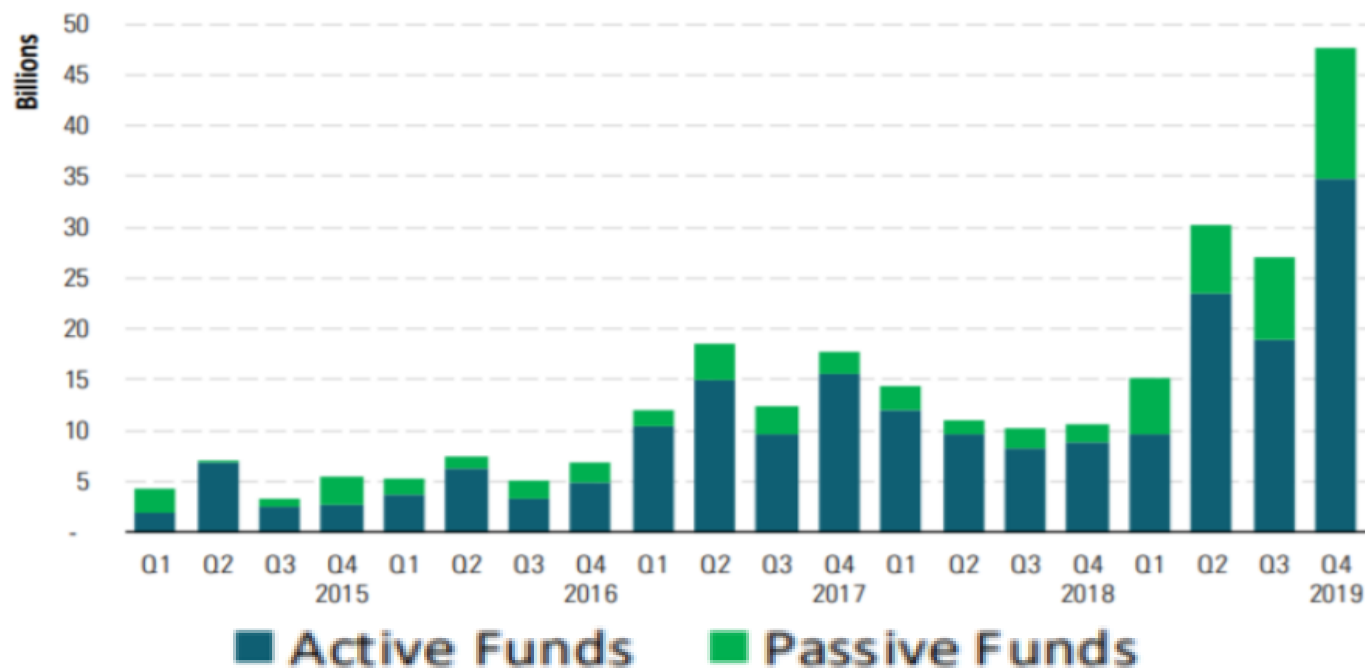


144 advisers surveyed

Source : Adviser Home Insight Report – Investment Advice 2020

# Sustainable flows

## Morningstar quarterly sustainable fund flows (€bn)



By the end of 2019 European sustainable funds amounted to **€668bn**, a **56%** increase from 2018

[https://www.investmentweek.co.uk/analysis/4009648/esg-blog-standard-chartered-enters-climate-partnership-with-imperial-college?utm\\_medium=email&utm\\_content=&utm\\_campaign=IW.Daily\\_RL.EU.A.U&utm\\_source=IW.DCM.Editors\\_Updates&utm\\_term=BANK%20OF%20MONTREAL&utm\\_medium=email&utm\\_term](https://www.investmentweek.co.uk/analysis/4009648/esg-blog-standard-chartered-enters-climate-partnership-with-imperial-college?utm_medium=email&utm_content=&utm_campaign=IW.Daily_RL.EU.A.U&utm_source=IW.DCM.Editors_Updates&utm_term=BANK%20OF%20MONTREAL&utm_medium=email&utm_term)

## 2. What is Responsible investment?

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# What is responsible investment?

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

*UN Principles for Responsible Investment*



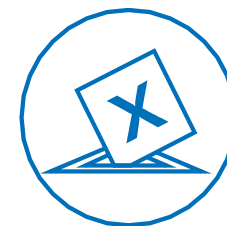
## Environmental

- Climate Change
- Water Management
- Pollution



## Social

- Labour Standards
- Human Rights
- Health and Safety



## Governance

- Executive Pay
- Business Ethics
- Corporate Governance



# IA Definitions : Defining responsible investment approaches



**Funds may include multiple approaches**

## **ESG integration**

The systematic and explicit inclusion of material environmental, social and governance (ESG) factors into investment analysis and investment decisions

## **Exclusions**

Prohibitions of certain investments from a firm, fund or portfolio

## **Stewardship**

The responsible allocation, management and oversight of capital to create long-term value leading to sustainable benefits for the economy, the environment and society

## **Impact investing**

Investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return

## **Sustainability focus**

Approaches that select investments on the basis of their fulfilling certain sustainability criteria and/or delivering on specific and measurable sustainability outcome

Source: Investment Association and BMO Global Asset Management

# UN Sustainable Development Goals

## Sustainable Development Goals (SDGs) an engagement framework

**17 goals** developed by the United Nations (UN) and cross-industry stakeholders to provide a roadmap towards a more sustainable world. They are ambitious, high-level goals with **169 granular targets** endorsed by **all 193 UN member states**.

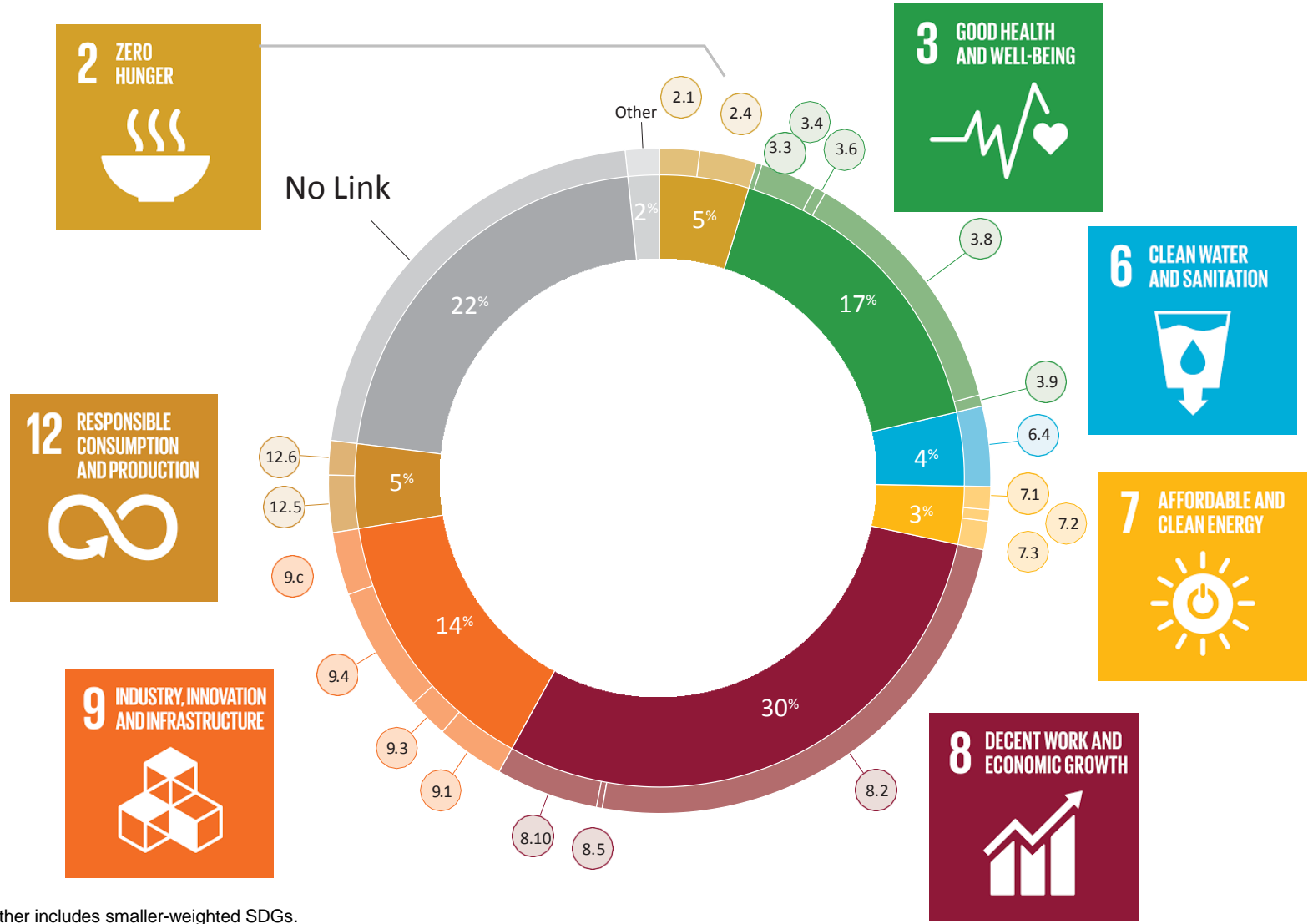
The SDG's provide a shared blueprint for peace and prosperity for people and the planet, now and in the future

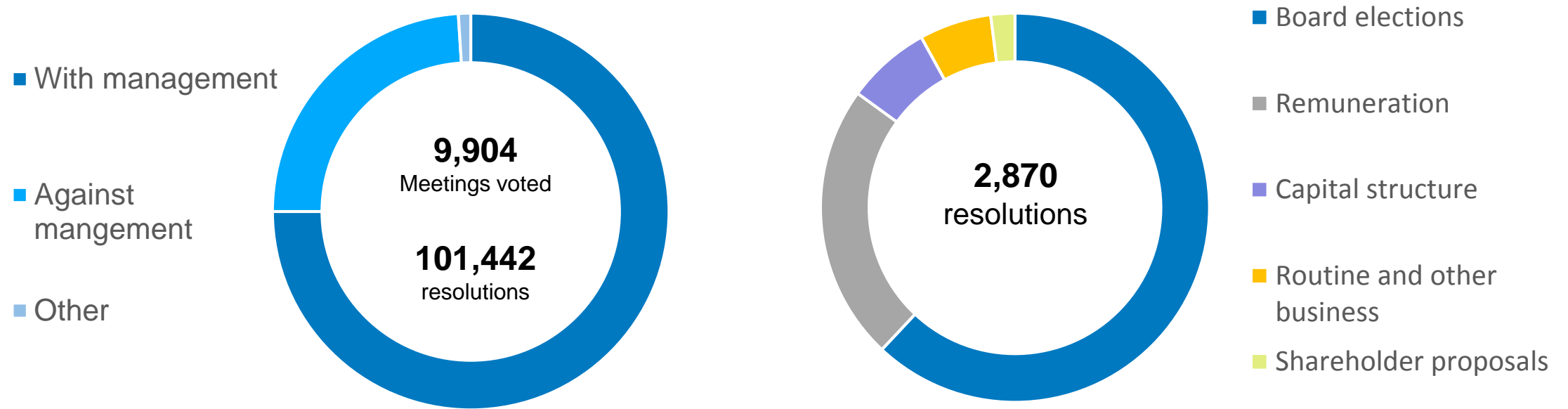


Source: [https://en.wikipedia.org/wiki/Sustainable\\_Development\\_Goals](https://en.wikipedia.org/wiki/Sustainable_Development_Goals) as at Jul-19.

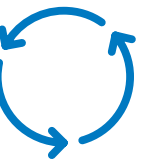
# Alignment with the SDGs and underlying targets

ILLUSTRATIVE





# Engagement example – Banking



## PT Bank Mandiri

Bank Mandiri is Indonesia's largest bank

One of the largest lenders to the country's palm oil industry, which accounts for approximately 9% of its loan portfolio.

### **Serious ongoing concerns about the sustainability of the industry present risks to these assets**

- We have encouraged the bank to move beyond a compliance based approach to financing palm oil into one that considers risks more holistically.
- We asked that a No Deforestation, No Peat and No Exploitation (NDPE) policy be adopted.
- Requires the bank's palm oil clients to end all deforestation, protect high conservation value areas and implement best plantation management practices.

## Goal



Source: BMO Responsible Investment Report 2018

### 3. Understanding client requirements

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# Meeting investors' responsible investment objectives



Attitudes to investing are evolving. As consumers, there is a growing desire to align our investment decisions with our values in several ways:



Not profiting at the expense of the environment or society



Seeking to make a positive impact



Driving improvement in the world around us





# KYC – Sample questionnaires – [www.fundecomarket.co.uk](http://www.fundecomarket.co.uk)



## SRI StyleFinder Tool

Welcome to 'SRI StyleFinder' Questionnaire. This tool helps you identify your preferred 'sustainable and responsible' or 'ethical' investment Style(s) and helps you to prepare for discussing this area with your financial adviser.

### Your Details

Date:

Name

### Your aims

Select one or more SRI Aim:

- 1 ☐ I would like to ensure that investment risks relating to poor management of environmental, social and/or governance issues are not ignored by fund managers.
- 2 ☐ I am looking to invest in a fund which favours forward looking, sustainable companies that manage issues such as the efficient use of resources, stakeholder relations, carbon emissions and social impacts well.

3 ☐ I want to invest in a 'conventional' - ie not 'ethical' - investment where my money is used to encourage companies to improve their environmental and social standards.

4 ☐ My main area of interest is environmental issues such as climate change. I am keen to invest in a fund which prioritises this area and invests in companies that are helping to solve related issues.

5 ☐ I don't mind where I invest but I want to find a fund manager who uses the fact that they are part owners of companies to encourage better management of environmental, social and governance issues.

6 ☐ There are a number of 'unethical' business behaviours that I would like to avoid. The fact a company may also 'do good things' does not outweigh my wish to avoid areas like tobacco, armaments manufacture or gambling.

7 ☐ My main 'ethical' area of interest is people - both in the UK and overseas. Areas of interest include employment, health and the provision of necessary services.

8 ☐ I want to invest in a way that is consistent with my faith and faith related personal values.

9 ☐ I do not mind where I invest but expect a fund manager to think longer term and encourage more responsible, sustainable business strategies as 'part owners' of the companies it invests in.

10 ☐ I want to invest in 'decent', 'more ethical' companies with sound environmental, social and governance policies and practices - but understand that for some larger companies there may be areas where some compromises have to be made.

11 ☐ I want to avoid investing in armaments and tobacco companies. I would also like to avoid other areas that I believe are 'unethical' for example gambling, poor animal welfare, pornography, nuclear power.

12 ☐ My main aim is to encourage progress by investing in ethically sound companies. There are also industries I would like to avoid but I am comfortable making allowances in some areas if necessary.

13 ☐ I am interested in a wide range of issues but my main area of interest is the environment. I would like to find investment options that focus on finding companies with strong environmental practices.

14 ☐ I want to invest in line with the values that form the basis of my faith.

15 ☐ I am keen to invest in companies with strong environmental policies and practices particularly if they are involved in developing solutions to environmental challenges.

16 ☐ I am keen to invest in a fund that researches what companies do across a wide range of ethical, environmental and social issues and only invests in those where their positive practices strongly outweigh any negative attributes.

17 ☐ I would like to invest in a fund which focuses on social issues such as job creation, essential services and employment practices.

18 ☐ I want to find a fund that invests in line with my religious views, where there are experts in place who can interpret how company activity relates to religious standards.

19 ☐ I am keen to invest in companies that are leaders in the management of longer term sustainability related (eg environmental and social) issues - and understand the changing business landscape.

20 ☐ I wish to invest with a fund manager that thinks about environmental, social and governance issues for all investments - but I do not want to invest in an ethical or themed fund.

Source: FundEcoMarket [www.fundecomarket.co.uk](http://www.fundecomarket.co.uk).



# Investing in Fossil fuel



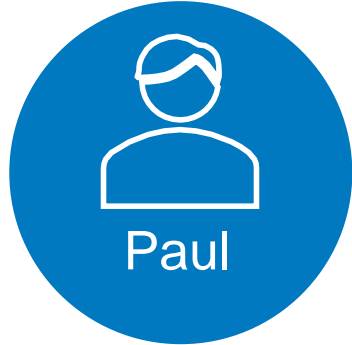
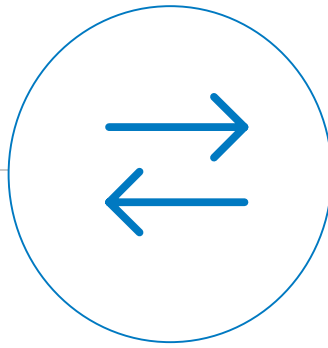
Fiona

- States she cares about climate change
- Concerned about investing in fossil fuels

## Considerations

- Most ethical funds will have a policy around fossil fuels
  - Varies widely from those just excluding, for instance, tar sand
  - Excluding companies with any fossil fuel reserves at all.
- Combine an exclusion approach with investment in companies with strong sustainability attributes, for example, renewable energy or water technology companies.

[https://www.google.com/search?q=human+profile+silhouette+free&tbm=isch&hl=en-US&chips=q:human+profile+silhouette+free,online\\_chips:woman+face&hl=en-US&ved=2ahUKEwicidKsIN\\_kAhUH4hoKHUuGCOIQ4IZ6BAgBEDc&biw=1903&bih=1094#imgrc=DMReVLdZmsl-AM](https://www.google.com/search?q=human+profile+silhouette+free&tbm=isch&hl=en-US&chips=q:human+profile+silhouette+free,online_chips:woman+face&hl=en-US&ved=2ahUKEwicidKsIN_kAhUH4hoKHUuGCOIQ4IZ6BAgBEDc&biw=1903&bih=1094#imgrc=DMReVLdZmsl-AM)



- Paul has is a long term investor but has never looked towards responsible investing, always put off by performance cost
- Looking at investing on behalf of grandchildren

## Considerations

- Does Paul fully understand all the different opportunities and types of funds available?
  - Funds with impact or sustainability considerations?
  - Evidence showing that there is not a performance cost of investing Responsibly?
- **Is this just going to be for investment on behalf of grandchildren or will he now consider this for his own investments?**

[https://www.google.com/search?q=human+profile+silhouette+free&tbm=isch&hl=en-US&chips=q:human+profile+silhouette+free,online\\_chips:woman+face&hl=enUS&ved=2ahUKEwcidKsIN\\_kAhUH4hoKHUuGCOIQ4lZ6BAgBEDc&biw=1903&bih=1094#imgrc=DMReVLdZmsl-AM](https://www.google.com/search?q=human+profile+silhouette+free&tbm=isch&hl=en-US&chips=q:human+profile+silhouette+free,online_chips:woman+face&hl=enUS&ved=2ahUKEwcidKsIN_kAhUH4hoKHUuGCOIQ4lZ6BAgBEDc&biw=1903&bih=1094#imgrc=DMReVLdZmsl-AM)

# Is everyone Green?

***green· wash· ing** / \ grēn- wo-shin\:* Behaviour or activities that make people believe that a company is doing more to protect the environment than it really is – Cambridge Dictionary



**#GREENWASHING**

**FCA - Carry out further policy analysis on greenwashing and take action if appropriate**

Source : Feedback Statement FS19/6 Climate Change and Green Finance : Summary of response and next steps – Feedback to DP18/8 – OCTOBER 2019

# Finding Asset Managers with ESG credentials

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## Questions that you might want to ask

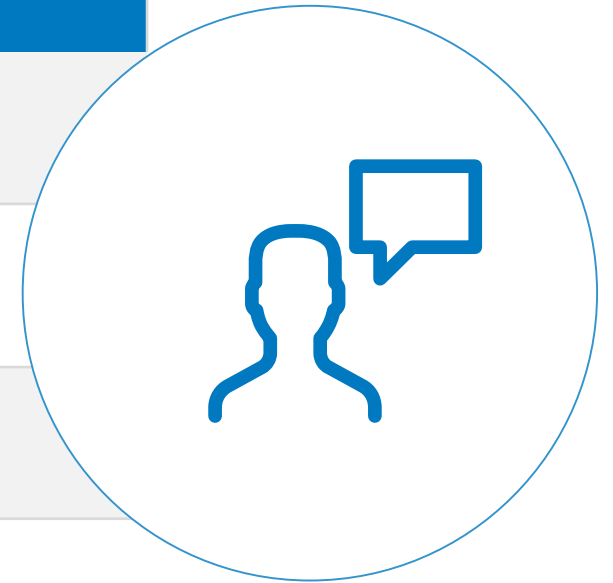
What is your organisation's commitment to Responsible Investing (RI) / ESG?

What expertise in RI / ESG do you have?

How do you integrate RI / ESG factors into your investment processes?

What is your approach to Engagement?

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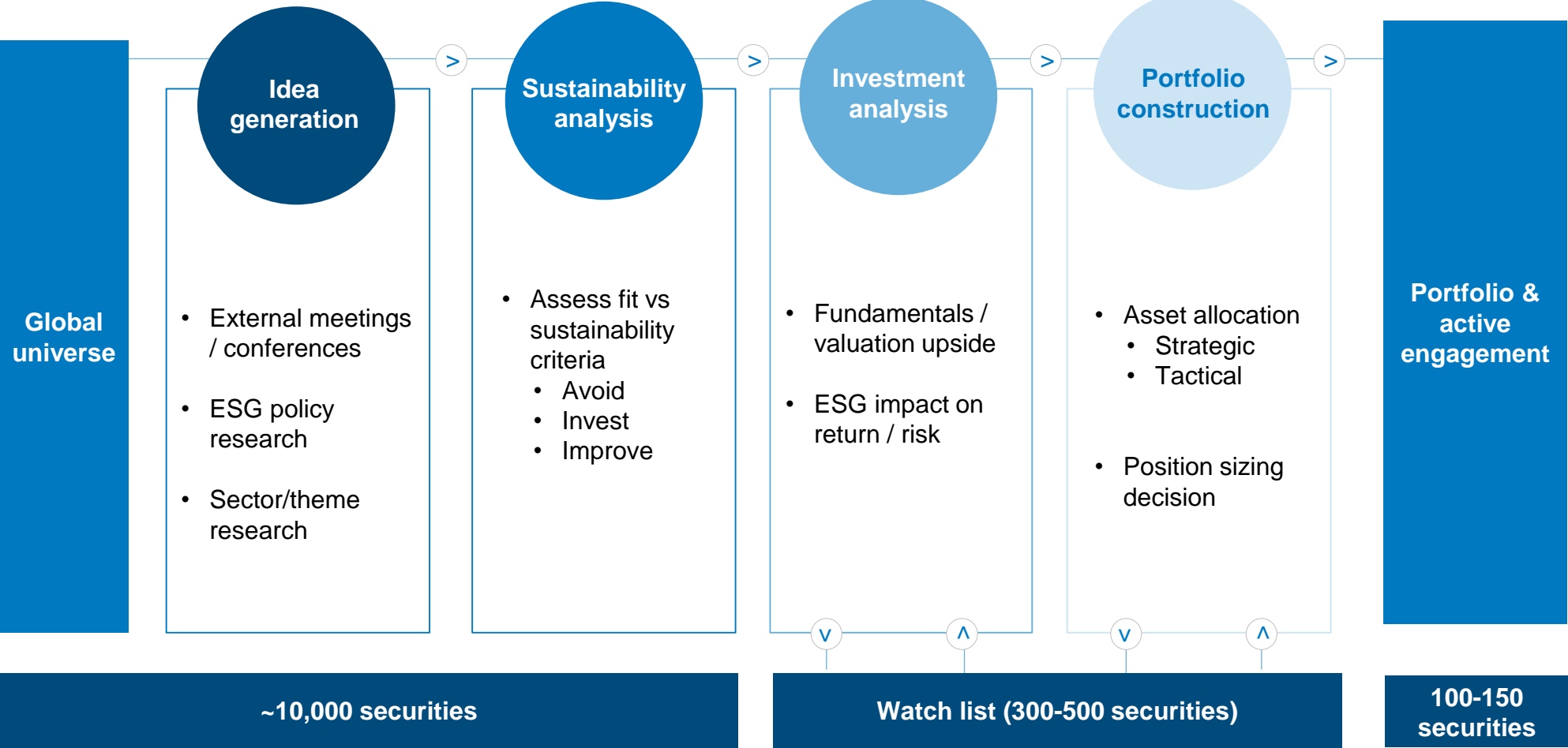
ESG = Environmental, Social and Governance.

## 4. Understanding responsible portfolios?

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# ESG considerations embedded throughout investment process

## Security selection








ESG = Environmental, Social & Governance

# Sustainability challenges create opportunities



This does not constitute a recommendation to buy or sell any particular security

To address...	... and grow	
Inefficient use of global resources	by providing mitigating products/services	
Global healthcare challenges	through innovative testing and diagnostics solutions	
Unhealthy lifestyles	by addressing nutritional needs and providing food solutions	
Polluting energy production	by providing alternative energy infrastructure	
A lack of access to finance	by education for financial inclusion	

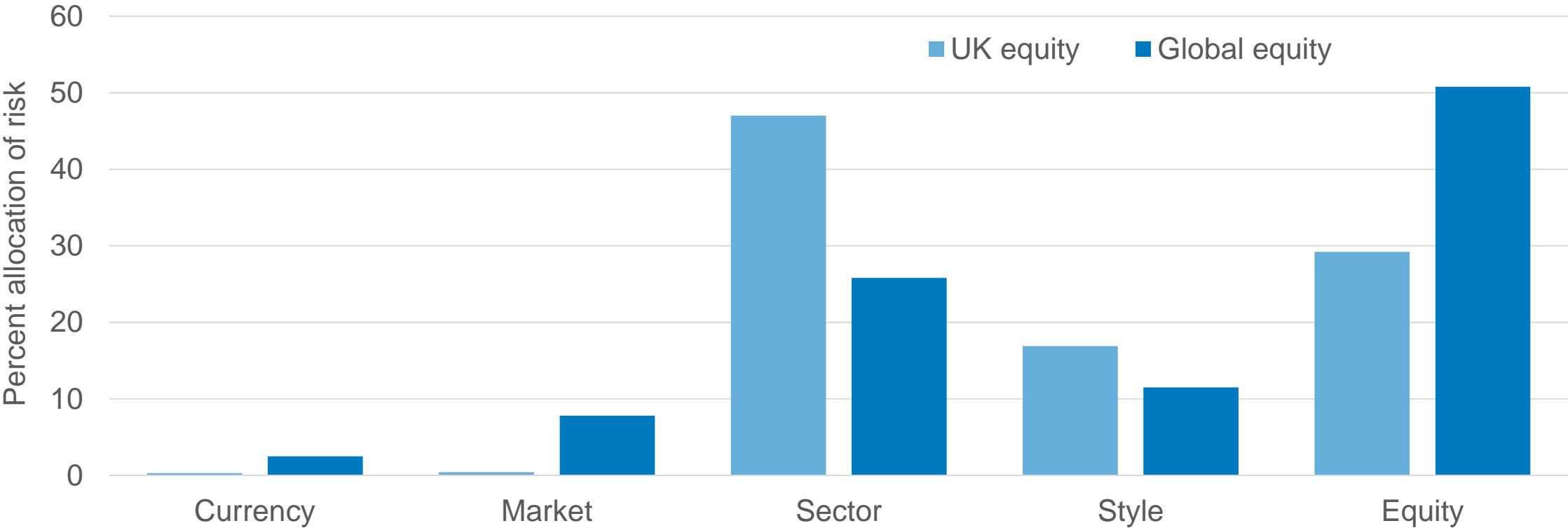
# 10 Ten holdings in the S&P 500 – Changing ESG?

S&P Rank	1989	1999	2009	2019
1	Exxon	Microsoft	Exxon	Microsoft
2	General Electric	General Electric	Microsoft	Apple
3	IBM	Cisco	JPMorgan Chase	Amazon
4	AT&T	Walmart	Johnson & Johnson	Facebook
5	Shell	Exxon	IBM	Berkshire Hathaway
6	Phillip Morris	Intel	Bank of America	Alphabet (c)
7	Merck	Lucent Tech	Proctor & Gamble	Alphabet (a) } Google
8	Bristol- Myers Squibb	IBM	AT&T	JPMorgan Chase
9	DuPont	Citigroup	Apple	Johnson & Johnson
10	Amoco	America Online	General Electric	Visa

Source : <https://www.bloomberg.com/news/articles/2019-08-30/exxon-poised-to-drop-from-s-p-500-s-top-10-for-first-time-ever> : <https://etfdb.com/history-of-the-s-and-p-500/#1989>

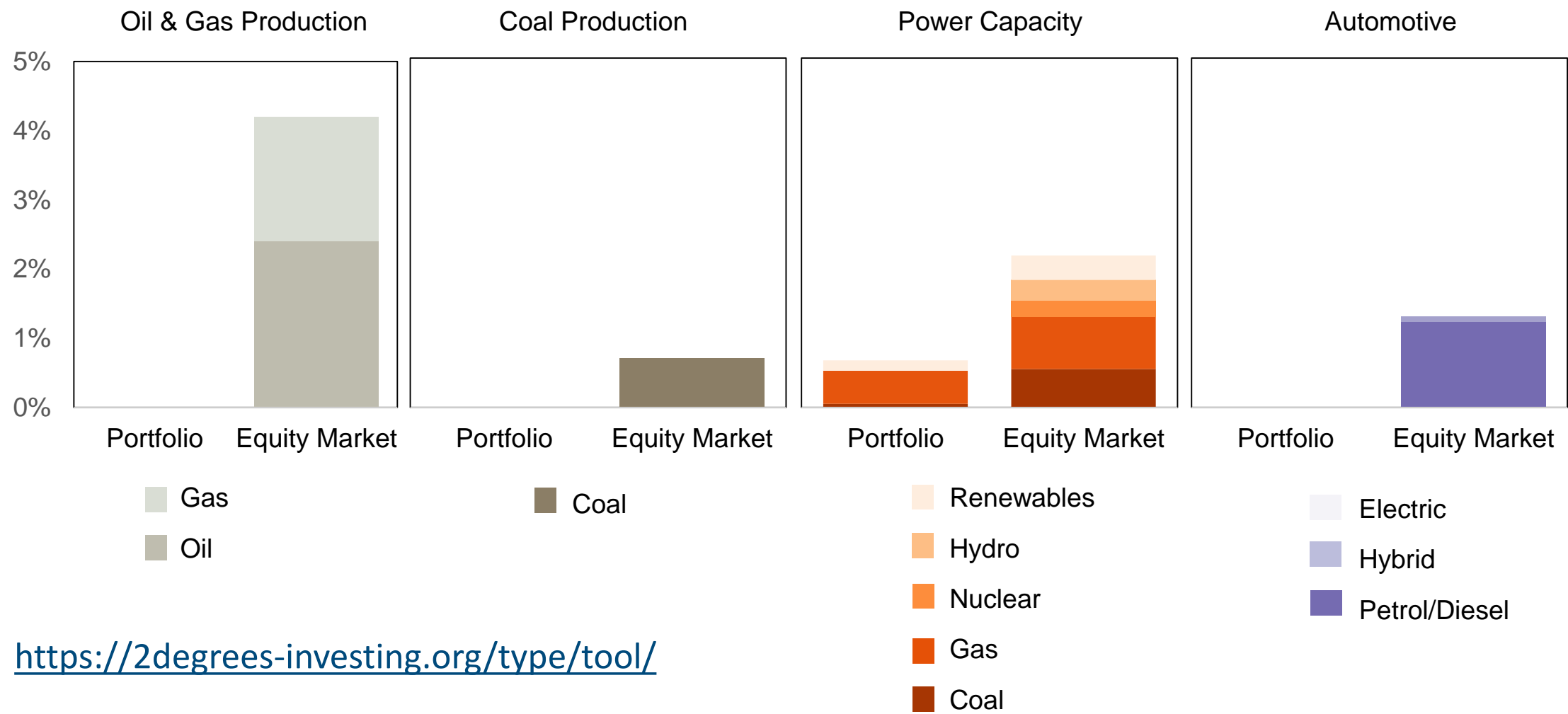


# Analysing risk - In the portfolios



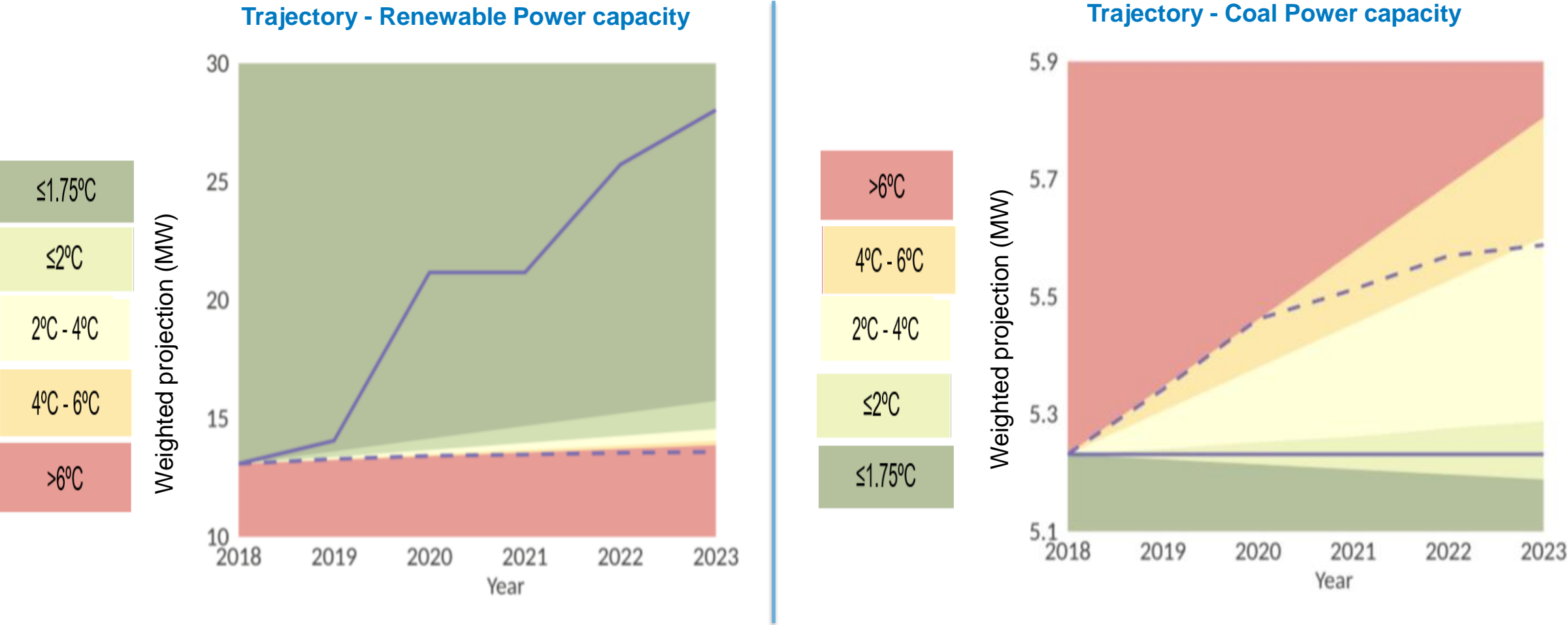
Source: BMO Global Asset Management as at 29/2/2020

# Exposure - Equity allocation to high carbon and low carbon activities



<https://2degrees-investing.org/type/tool/>

# Exposure - Future exposure of the portfolio



Source: 2 degree Investment Institute

# Business Statements on ESG

## Statements from Business

"For the first time since WWII we sense a shift in which climate and the environment - not growth - will become the priority of governments and their citizens, as shortages of food, clean water and air become existential questions."

Steen Jakobsen, chief economist and CIO at Saxo Bank,

*Top CEOs Pledge to Consider Stakeholders Besides Shareholders – The Business Roundtable (180 CEO's S&P 500)*

**BlackRock's - Fink embraces sustainability as 'new standard' for investing - Larry Fink - Annual Letter to CEO'S**

**Microsoft - Carbon Negative by 2030, Remove historical carbon emissions by 2050 – 15<sup>th</sup> January 2020**

Source : <https://news.bloomberglaw.com/corporate-law/top-ceos-pledge-to-consider-stakeholders-besides-shareholders>: <https://blogs.microsoft.com/blog/2020/01/16/microsoft-will-be-carbon-negative-by-2030/>: <https://www.investmentweek.co.uk/news/4009046/blackrock-fink-embraces-sustainability-standard-investing>: [https://www.investmentweek.co.uk/news/4009455/saxo-bank-predicts-green-megatrend-equities-amid-growing-climate-awareness?utm\\_medium=email&utm\\_content=&utm\\_campaign=IW.SP\\_03.Daily\\_RL.EU.A.U&utm\\_source=IW.DCM.Editors\\_Updates&utm\\_term=BANK%20OF%20MONTREAL&im\\_company=BANK%20OF%20MONTREAL&utm\\_medium=email&utm\\_term=&im\\_edp=7018551-d2a06a4c634ffaf9%26campaignname%3DIW.SP\\_03.Daily\\_RL.EU.A.U](https://www.investmentweek.co.uk/news/4009455/saxo-bank-predicts-green-megatrend-equities-amid-growing-climate-awareness?utm_medium=email&utm_content=&utm_campaign=IW.SP_03.Daily_RL.EU.A.U&utm_source=IW.DCM.Editors_Updates&utm_term=BANK%20OF%20MONTREAL&im_company=BANK%20OF%20MONTREAL&utm_medium=email&utm_term=&im_edp=7018551-d2a06a4c634ffaf9%26campaignname%3DIW.SP_03.Daily_RL.EU.A.U)

# Learning objectives

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- **Describe how active engagement works and how it can add value to a company**

# BMO Global Asset Management

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# Client suitability: Why BMO Global Asset Management



100+ people across  
9 investment teams managing  
€3.6bn AUM across<sup>1</sup>  
17 ESG strategies and  
€147bn in responsible engagement overlay<sup>2</sup>



ESG policy reviewed by independent  
Responsible Investment Advisory Council



Award winning reporting of engagements and  
links to UN Sustainable Development Goals  
(SDGs)



35 years of responsible investing

Being a responsible investor lies at the heart of everything we do, from integrating ESG factors within our investment process to driving improvement through engagement

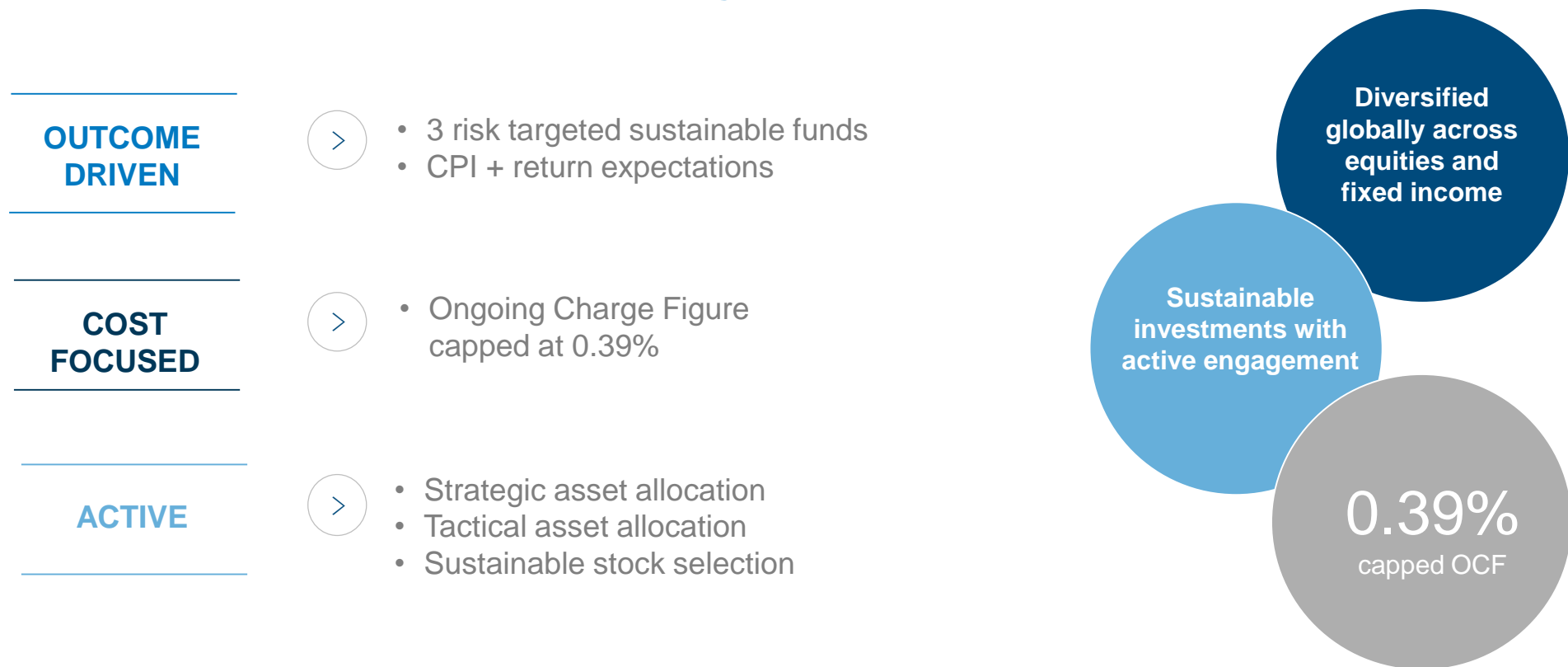


Source: <http://events.investmentweek.co.uk/sustainableinvestmentawards/static/finaists>., BMO Global Asset Management <sup>1</sup> As at Q3 2019

<sup>2</sup> As at Q3 2019

# BMO Sustainable Universal MAP fund range

Extending our solutions offering through a market leading range of funds building on our proven institutional capabilities in multi-asset and sustainable investing



CPI = Consumer Price Index. OCF= Ongoing Charge Figure

**More for less – sustainable active benefits at a passive price point**



# Responsible investment - performance cost (?)



Fund name	01.01.2020 to 30.04.2020 %	1 Year to 31.12.2019 %	2 Years 31.12.2019 %	3 Years 31.12.2019 %	4 Years 31.12.2019 %	5 Years 31.12.2019 %
<b>BMO Responsible Global Equity*</b>	<b>-3.92</b>	<b>29.43</b>	<b>24.7</b>	<b>46.72</b>	<b>80.8</b>	<b>97.64</b>
IA Global sector	-7.36	22.11	15.29	31.2	63.27	69.93
Quartile Ranking	2	1	1	1	1	1
<b>BMO Responsible UK Equity*</b>	<b>-17.47</b>	<b>23.2</b>	<b>14.67</b>	<b>37.76</b>	<b>48.93</b>	<b>59.89</b>
IA UK All Companies Sector	-20.59	22.5	8.81	24.13	38.01	44.77
Quartile Ranking	1	2	1	1	1	1
<b>BMO Responsible UK Income</b>	<b>-17.8</b>	<b>21.28</b>	<b>11.46</b>	<b>27.56</b>	<b>33.2</b>	<b>48.34</b>
IA UK Equity Income sector	-22.04	19.9	7.3	19.53	30.1	38.43
Quartile Ranking	1	2	1	1	2	1
FTSE 100	-20.87	17.32	7.07	19.87	42.73	40.84
FTSE All Share	-21.45	19.17	7.88	22.01	42.45	43.84

\* RSMR SRI Rated funds.

Lipper - % growth TR 30.04.2020.

# Meeting investors' responsible investment objectives

## BMO Sustainable Universal MAP fund range

**3**  
risk targeted  
sustainable funds



- OUTCOME DRIVEN
- COST FOCUSED
- ACTIVE



# Disclaimer

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## **For professional investors and qualified investors only**

This financial promotion is issued for marketing and information purposes only by BMO Global Asset Management in and the UK.

The Fund is a sub fund of BMO Investment Funds (UK) ICVC III, an open ended investment company (OEIC), registered in the UK and authorised by the Financial Conduct Authority (FCA).

English language copies of the Fund's Prospectus and English language copies of the key investor information document (KIID) can be obtained from BMO Global Asset Management, Exchange House, Primrose Street, London EC2A 2NY, telephone: Client Services on 0044 (0)20 7011 4444, email: [client.service@bmogam.com](mailto:client.service@bmogam.com) or electronically at [www.bmogam.com](http://www.bmogam.com).

**Please read the Prospectus before taking any investment decision.**

The information provided does not constitute, and should not be construed as, investment advice or a recommendation to buy, sell or otherwise transact in the fund.

# Contact us

## BMO Global Asset Management (EMEA) – Head Office

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Telephone calls may be recorded.

[bmogam.com](http://bmogam.com)

## Extensive worldwide investment capabilities

- Total focus on clients
- Comprehensive range of products and solutions
- Defined expertise – including a suite of specialist investment boutiques



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