



## Understanding BMO's ESG ETFs

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For more information on the topics in this booklet, or for additional information on BMO funds of ETFs, please visit our website at [www.bmo.com/gam/ca/advisor](http://www.bmo.com/gam/ca/advisor)

“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

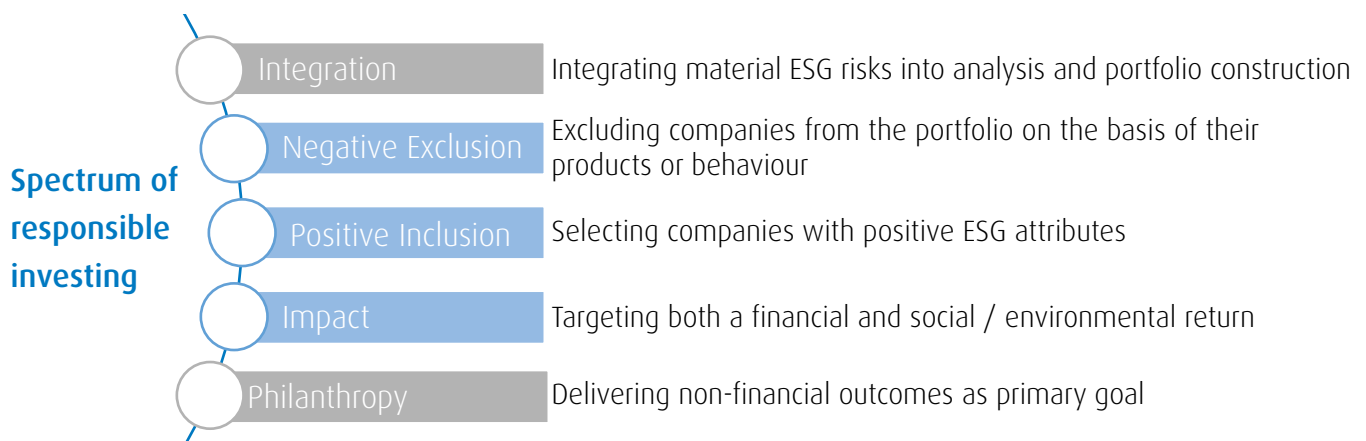


## Why ESG matters to you



## Re-introducing ESG

Both the values-driven and the valuation-driven approaches have been practiced by responsible investors. There is no one-size-fits all, and many strong cases exist to be a responsible investor: values-alignment as well as the materiality of ESG issues. There are numerous different strategies available to serve the diversity of responsible investors, including ESG integration, shareholder engagement, screening, thematic and impact investing.



In the early 2000's it was not necessarily about values, but valuation. Their mandates did not focus on exclusions; rather on using ESG analysis to identify risks and opportunities that may not be visible in traditional financial metrics. This led to the widespread adoption of inclusionary responsible investment strategies such as stewardship and ESG integration. Since then ESG investing has evolved to include more thematic approaches focusing on specific ESG issues by investing in solutions which address them. Examples include but are not limited to, funds related to women in leadership, cybersecurity, or renewable energy.

| <b>Pre "ESG"</b><br><b>Inception – Early 2000s</b>  | <b>Early ESG</b><br><b>2008 - 2015</b>   | <b>Maturing ESG</b><br><b>2015 - today</b>  |
|---|--|---|
| <ul style="list-style-type: none"> <li>• Aligning investments with beneficiary values</li> <li>• Example: religious mandates</li> <li>• Divest from segment regardless of performance</li> <li>• Commonly screened: tobacco, alcohol, gambling, firearms</li> </ul> | <ul style="list-style-type: none"> <li>• Post-financial crisis of 2008</li> <li>• Achieve sustainable performance</li> <li>• Reputational risk; new regulation, regulatory risk</li> <li>• Emerging global social norms</li> </ul> | <ul style="list-style-type: none"> <li>• ESG factor materiality</li> <li>• Credit analysis; quant research</li> <li>• Macro societal influence; millennials</li> <li>• Climate</li> </ul> |

There are many drivers to the evolution of ESG. Below are the four major drivers:

|   |   |
|---|---|
| <b>1. Investors have become less tolerant of corporate ESG incidents</b><br>More scrutiny, and emerging ESG risk factors may impact profitability | <b>2. Greater understanding of potential financial benefit</b><br>Increasing evidence that ESG data can improve risk-adjusted returns, and longer track records |
| <b>3. Investors demonstrating willingness to act</b><br>Institutional and retail investors are allocating to ESG strategies                       | <b>4. Improved ESG ratings to measure what was unmeasurable</b><br>Ratings make it possible to measure what was once unmeasurable                               |

# BMO's ESG ETFs – Built to align values and mitigate risk

We believe that responsible investment is a mindset: as asset managers, we have a privileged and trusted position as stewards of capital, which gives us both influence and responsibility.

BMO Global Asset Management's heritage and commitment to ESG investing runs deep. We take our responsibility seriously and that includes considering the impact of our investments on society and the environment.

Over 30+ years we've developed a range that includes specialist ESG products, investment strategies with ESG integration and engagement incorporated, our Responsible Engagement Overlay service, reo®, and now our ESG ETFs.

Active ownership is the cornerstone of our responsible investment approach. We believe that our responsibility as investors does not end when an investment is made. This is shown in our commitment to active ownership and engagement.



## Responsible Investment at BMO Global Asset Management by the numbers



46

countries where  
we engaged with  
companies in 2018



10,600

Voted 10,600 times  
in 2018



655

companies engaged  
on ESG issues in  
2018



237

company  
improvement  
Milestones achieved  
in 2018



12,500

Companies in  
our engagement  
database



CA3.3bn

AUM in Responsible  
Funds as at 30  
September 2019



82% engagements linked with an  
SDG in 2018

The Sustainable Development Goals provide an ideal framework to analyze wider impact of our investment decisions.

Integration of ESG (Environment, Social, and Governance) factors in the investment process enables a deeper understanding of a company's return and risk profile. A good ESG score implies that management is exerting positive influence, guiding its capital in a responsible manner to meet shareholder and stakeholder interests. ESG integration is a way to uphold an advisor's fiduciary duty and improve a client's risk adjusted returns. Investors are transforming the investment world from the bottom up through their growing interest in ESG investment solutions. With greater scrutiny on companies and emerging ESG risk factors that may impact a company's profitability, there is a greater understanding of the impacts of corporate ESG incidents.

\*PRI Assessment Report 2018





"BP set to pay largest environmental fine in US history for Gulf oil spill"

the guardian

2010



"Tokyo Electric executives to be charged over Fukushima nuclear disaster"

REUTERS

2011



"Volkswagen Earnings Take Another Hit From Emissions-Cheating Scandal"

THE WALL STREET JOURNAL

2014



"The sharing of 50M Facebook users' personal data led to the biggest ever one day drop in a company's market value"

FINANCIAL TIMES

2018



"Share price falls 14% following a SEC suit accusing Musk of fraud"

Bloomberg

2018

Investment professionals are recognizing that there is a potential financial benefit to investing in ESG, as evidence shows this data can help make better informed investment decisions and improve risk adjusted returns.

In addition, there have been immense improvements to the data available, allowing innovation in the tools used to measure what was once unmeasurable and to obtain higher quality ESG ratings.

## Why MSCI is a valued partner?



Source: SRI connect and Extel survey – 2015, 2016, 2017.

### An in-depth approach that focuses on:

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

## MSCI ESG Ratings by the numbers



37

Key Issues selected annually for each industry



1,600+

Media publications monitored



Data on  
65,000

individual directors



350,000

Securities rated and scored

## MSCI Rating Methodology

Evaluate Corporate Governance

Analysis begins with a **deep governance assessment**

Ownership, Board, Pay, Accounting, Corporate Behaviour

Identify Key Issues by Industry

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

Quantitative Approach + Annual Consultation

Score Key Issues 0-10

Focus on **risk exposure** not just disclosure

Scoring Models Assess Risk Exposure + Risk Management

Final ESG Ratings (AAA-CCC)

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

Industry-Relative ESG Ratings (AAA-CCC)

AAA

AA

A

BBB

BB

B

CCC

LEADER

AVERAGE

LAGGARD

Source: MSCI Inc.

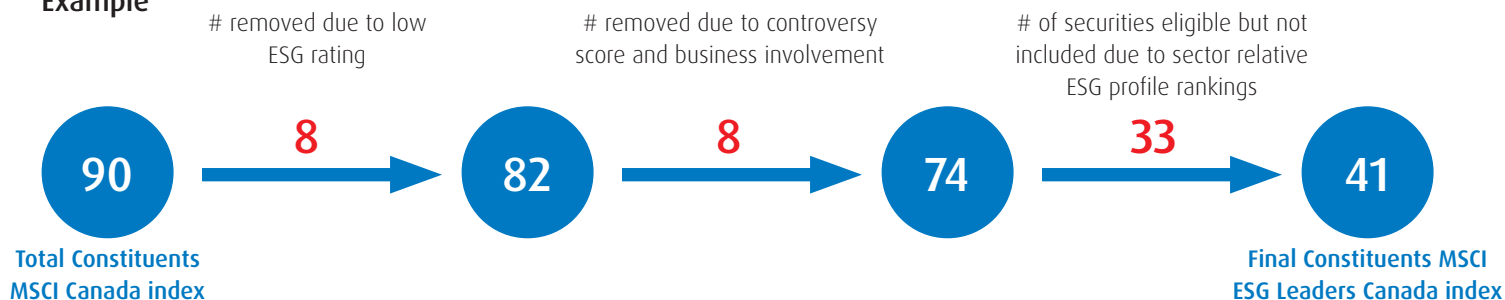
## MSCI's ESG Scoring Framework

MSCI's ESG rating framework monitors and evaluates companies on material environmental, social, and governance issues to generate an overall ESG rating from AAA to CCC. ESG data is gathered from government and NGO datasets, company disclosure documents such as proxy reports and sustainability reports, and public media sources on 37 key ESG issues selected annually for each industry to form an ESG risk assessment. Unlike bond ratings which are across the investable universe, these ratings are determined within sector and industry for a peer to peer approach. Once the Key Issues have been selected for a GICS Sub-Industry, weights are set that determine each Key Issue's contribution to the overall rating. Each Key Issue typically comprises 5-30% of the total ESG Rating. Issue scores and weights are combined to generate the overall ESG rating relative to industry peers.

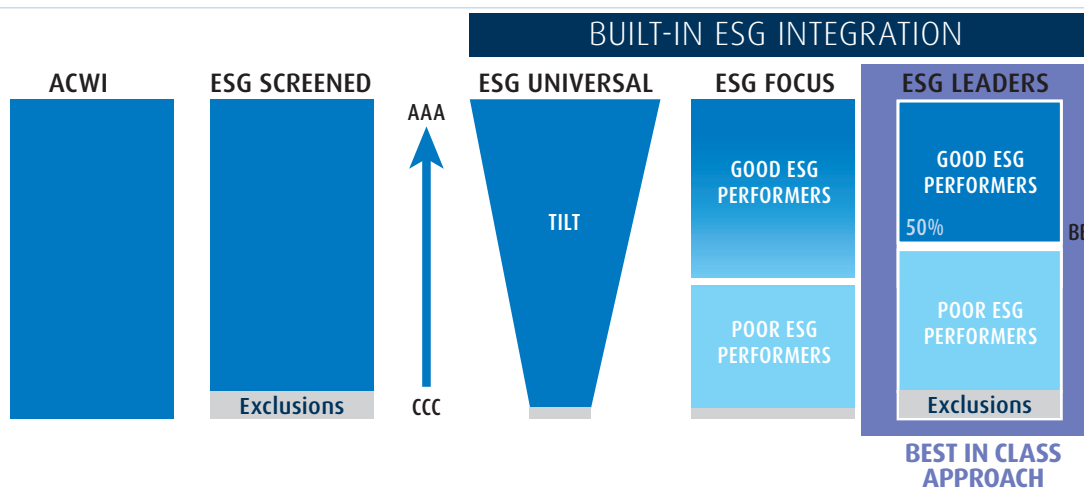
## MSCI's Controversy Scoring Framework

MSCI ESG Ratings review controversies, which may indicate structural problems with a company's risk management capabilities. MSCI defines a controversy case as an instance or ongoing situation in which company's operations and/or products allegedly have a negative environmental, social, and/or governance impact. A case is typically a single event such as a spill, accident, regulatory action, or a set of closely linked events or allegations such as health and safety fines at the same facility, multiple allegations of anti-competitive behavior related to the same product line, multiple community protests at the same company location, or multiple individual lawsuits alleging the same type of discrimination. Controversies are assigned ratings from "Minor" to "Very Severe", and are formed based on severity of their impact on society or the environment.

### Example



### MSCI's range of ESG Index Methodologies

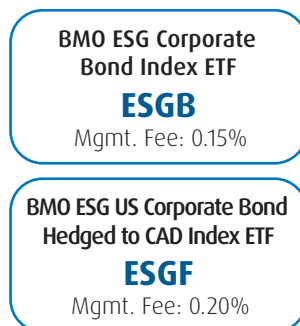


Source: MSCI. All of the above MSCI ESG Index methodologies apply certain exclusion screens (based on controversies and business-involvement screens) marked in gray. Light blue indicates companies that are not selected for the index due to low MSCI ESG ratings. Gradient fills denote indexes that use optimization techniques.

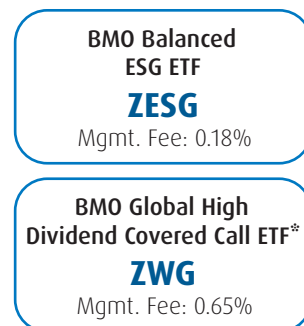
### Equity



### Fixed Income



### Specialty Solutions



\*ZWG is not index based but does integrate ESG screening in the investment selection process.



# BMO's MSCI ESG Leaders ETFs

## Access the highest ESG rated companies

- BMO MSCI Canada ESG Leaders Index ETF (**ESGA**)
- BMO MSCI USA ESG Leaders Index ETF (**ESGY**)
- BMO MSCI EAFE ESG Leaders Index ETF (**ESGE**)
- BMO MSCI Global ESG Leaders Index ETF (**ESGG**)

## Key Features

- Best-in class approach – the indexes select the highest rated companies in each sector
- Mitigate short- and long-term ESG risk – Designed to exclude companies involved in severe controversies
- Leverage MSCI's award winning<sup>1</sup> MSCI ESG Research and ESG Ratings to identify companies that have demonstrated an ability to manage their ESG risks and opportunities

## Strategy Implementation

The BMO MSCI ESG Leaders ETFs target companies that have the highest environmental, social and governance (ESG) rating in each sector of the parent index. The indexes use a best-in-class approach by only selecting companies that have the highest MSCI ESG Ratings.

|                                  |  |
|----------------------------------|--|
| <b>Sector Representation</b>     | • 50% target sector representation per GICs sector and Sub-Region (to avoid regional and sector biases) relative to parent index   |
| <b>Minimum ESG Rating</b>        | • Minimum ESG rating BB  |
| <b>Minimum Controversy Score</b> | • Excludes companies with on-going severe controversies  |
| <b>Weighting Scheme</b>          | • Market Cap Weighted<br>• Rebalanced quarterly with ongoing event-related maintenance   |
| <b>Exclusions</b>                | • ≥ 50% of revenues: <ul style="list-style-type: none"><li>– Alcohol</li><li>– Gambling</li><li>– Tobacco</li><li>– Civilian</li><li>– Firearms</li><li>– Conventional Weapons</li></ul> • Controversial Weapons (0%)<br>• Nuclear power (≥ 6000 MW) |

For more detailed methodology information regarding the ESG Leaders indices, ESG rating and controversy rating methodology, visit the MSCI ESG indices website: <https://www.msci.com/msci-esg-leaders-indices>

<sup>1</sup>Source: SRI connect and Extel survey – 2015, 2016, 2017.

# BMO ESG Fixed Income ETFs

## Best in class issuers

- BMO ESG Corporate Bond Index ETF ([ESGB](#))
- BMO ESG US Corporate Bond Hedged to CAD Index ETF ([ESGF](#))

## Key Features

- Best-in class approach – the indexes select the highest rated issuers
- Mitigate short- and long-term ESG risk - Designed to exclude issuers involved in severe controversies
- Leverages MSCI's award winning MSCI ESG Research and ESG Ratings to identify issuers that have demonstrated an ability to manage their ESG risks and opportunities

## Strategy Implementation

The BMO ESG Fixed Income ETFs target issuers that have the highest environmental, social and governance (ESG) ratings. The indexes use a best-in-class approach by only investing in issuers that have the highest MSCI ESG Ratings. BMO ESG Corporate Bond Index ETF invests in investment grade corporate bonds with greater than \$100 million outstanding. BMO ESG US Corporate Bond Hedged to CAD Index ETF invests in U.S. investment grade corporate bonds with greater than \$300 million outstanding.

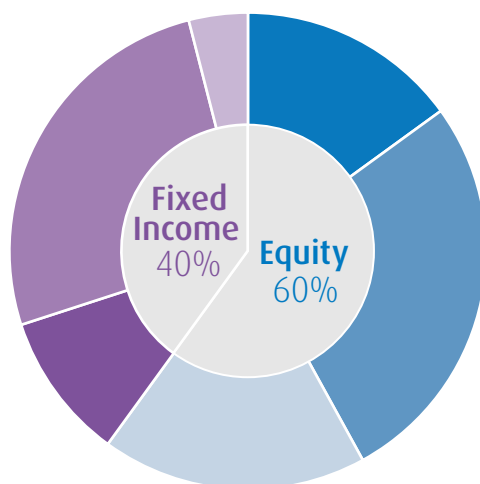
|                                  |   |
|----------------------------------|---|
| <b>Sector Representation</b>     | <ul style="list-style-type: none"><li>• No sector representation target (40-70% of the parent index typically eligible based on ESG Rating thresholds)</li></ul>  |
| <b>Minimum ESG Rating</b>        | <ul style="list-style-type: none"><li>• Minimum ESG rating BBB</li></ul>  |
| <b>Minimum Controversy Score</b> | <ul style="list-style-type: none"><li>• Excludes companies involved in very severe controversies</li></ul>  |
| <b>Weighting Scheme</b>          | <ul style="list-style-type: none"><li>• Market value weighted</li><li>• Rebalanced monthly</li></ul>  |
| <b>Exclusions</b>                | <ul style="list-style-type: none"><li>• <math>\geq 5\%</math> of revenues:<ul style="list-style-type: none"><li>– Alcohol</li><li>– Gambling</li><li>– Tobacco</li><li>– Civilian Firearms</li><li>– Conventional Weapons</li><li>– GMOs</li><li>– Adult Entertainment</li></ul></li><li>• Controversial Weapons (&gt;0%)</li><li>• Nuclear power (utility, mining, designer, supplier)</li></ul> |

For more detailed methodology information regarding the ESG Fixed Income indices, ESG rating and controversy rating methodology, visit the MSCI ESG indices website: <https://www.msci.com/bloomberg-barclays-msci-esg-fixed-income-indices>

<sup>1</sup> Source: SRI connect and Extel survey – 2015, 2016, 2017.

# BMO Balanced ESG ETF (ZESG)

For investors looking to align their investments with their social values using a best-in-class approach. ZESG is a balanced asset allocation ETF which offers moderate income and has potential for long-term growth.



- **Canadian Equity – 15%**  
BMO MSCI Canada ESG Leaders Index ETF (ESGA)
- **U.S. Equity – 27%**  
BMO MSCI USA ESG Leaders Index ETF (ESGY)
- **International Equity – 18%**  
BMO MSCI EAFE ESG Leaders Index ETF (ESGE)
- **Canadian Corporate Bonds – 10%**  
BMO ESG Corporate Bond Index ETF (ESGB)
- **Canadian Government Bonds – 26%**  
BMO Government Bond Index ETF (ZGB)
- **US Corporate Bonds – 4%**  
BMO ESG US Corporate Bond Hedged to CAD Index ETF (ESGF)

First  
balanced ESG  
mandate in  
Canada

| Name                 | Ticker | Management Fee (%) |
|----------------------|--------|--------------------|
| BMO Balanced ESG ETF | ZESG   | 0.18               |

# BMO Global High Dividend Covered Call ETF (ZWG)

Building on the success of our covered call suite we are adding a global solution which follows a similar methodology to our existing suite while integrating ESG ratings in the stock selection process.



| Name                                      | Ticker | Management Fee (%) |
|---|--------|--------------------|
| BMO Global High Dividend Covered Call ETF | ZWG    | 0.65               |

“We exist to convene,  
catalyze and empower  
change that sustains  
**growth for good.**”

Darryl White  
CEO, BMO Financial Group

## Let's connect



For more information on the topics in this booklet or for additional information on BMO ETFs, please visit our website at [bmoetfs.com](http://bmoetfs.com)



Contact Client Services at **1-800-361-1392**



Email us at [bmo.etfs@bmo.com](mailto:bmo.etfs@bmo.com)

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