

# ESG Frequently Asked Questions

## 1. Is ESG the same thing as responsible investing?

Environmental, social and governance (ESG) investing are labels for the key factors and considerations used by responsible investment decision makers. Responsible investment is similar to traditional investment except that it goes a step further in the investment decision-making process. In evaluating stocks or bonds as part of the investment process, responsible investment considers ESG factors in addition to traditional financial factors.

### EXAMPLES OF ESG FACTORS THAT AFFECT A COMPANY'S ESG PERFORMANCE:

	<b>Environmental</b>	<ul style="list-style-type: none"> <li>• Climate Change</li> <li>• Water Management</li> <li>• Pollution</li> </ul>
	<b>Social</b>	<ul style="list-style-type: none"> <li>• Labour Standards</li> <li>• Human Rights</li> <li>• Healthy and Safety</li> </ul>
	<b>Governance</b>	<ul style="list-style-type: none"> <li>• Executive Pay</li> <li>• Business Ethics</li> <li>• Corporate Governance</li> </ul>

### There are 6 approaches to of responsible investing:

**ESG Integration:** Integrates ESG factors within the investment decision process, along with traditional financial analysis.

**Negative Exclusion:** Uses negative screens as part of the investment process to avoid certain sectors/companies on the basis of their products/services (e.g. tobacco, weapons)

**Positive Inclusion:** Focuses on companies that are solving for sustainability challenges.

**Thematic:** Focuses on companies offering specific sustainability solutions, e.g. clean energy, women in leadership.

**Best in Class:** involves selecting companies that have higher ESG ratings relative to their peers

**Impact:** Aims to achieve ESG return as well as financial return

Responsible investment solutions are similar to traditional investments except they go a step further in the investment decision-making process. In evaluating stocks or bonds as part of the investment process, responsible investment considers environmental, social and governance factors in addition to traditional financial factors. For example, an investment might exclude certain companies or industries that have low ESG scores (negative exclusion), and/or it might focus on including companies or industries with high ESG scores (positive inclusion).

## 2. Why should I care about ESG when I'm investing for the returns?

Responsible investing offers investors the opportunity to better manage risks and potentially generate sustainable, long term returns. The responsible investment process is similar to the traditional investment decision making process except that it adds an additional layer of portfolio analysis to identify and manage ESG-related risks that can impact both short-term and long-term investment returns. That means aiming to minimize risk of losses and also looking for opportunities to add returns.

Several studies find there is evidence that considering ESG factors can help protect against volatility and downside risk, such as studies by University of Oxford<sup>1</sup>, Bank of America Merrill Lynch<sup>2</sup> and Morgan Stanley<sup>3</sup>.

### 3. What are the benefits of responsible investing?

There are many benefits of responsible investment solutions depending on your reasons for investing:

- I want to realize my financial goals while also investing in sustainable companies.
- I want to invest in companies with strong ESG ratings because this can mean lower risk over time.
- I want to invest in companies with strong ESG ratings because this can mean higher stock price performance over time.
- I want my investments to reflect what I care about.
- I want to avoid companies that have a negative impact.
- I want to invest in companies that have strong ESG practices.
- I plan to transfer my wealth to my children, and they are interested in ESG issues.

These benefits aren't mutually exclusive. So while you might appreciate the impact an investment has on improving gender diversity, for example, you might decide to invest after learning that companies with gender-balanced leadership have tended to outperform those without.

### 4. Is responsible investing a trend?

- There is considerable evidence indicating the responsible investment is here to stay:
- Industry standards have been rapidly evolving and quickening the pace of the adoption of responsible investment<sup>4</sup>;
- Consideration of ESG factors has proven to be prudent risk management<sup>1,2,3</sup>; and
- Demand is growing, as evidenced by global AUM growth. As of 2022, there was more than US \$40 trillion invested in sustainable assets around the world. This is expected to grow to US \$50 trillion in 2025<sup>5</sup>.

### 5. How can I use responsible investment solutions in my portfolio?

Responsible investment solutions give investors a range of options in terms of expected return, risk, income and diversification. You can choose to invest in just one fund or any combination, depending on your financial goals, risk tolerance and how you want to include responsible investment in your portfolio. For example,

- A balanced investment option often appeals to investors looking for an easy-to-use, diversified and sustainable portfolio for retirement, education savings or other medium- or long-term goals.
- A dividend-focused option can provide potential for growth and income, and is designed for long-term investment such as in a retirement portfolio or living trust.
- A global equity option can offer diversification across regions and industries.

### 6. Does BMO offer responsible investment solutions?

Yes, BMO has a wide range of options to in terms of expected return, risk level, income and diversification. Your BMO Investment Professional can help develop a portfolio focused on achieving your long-term goals.

#### **BMO ESG ETFs**

These are passively managed, index-tracking solutions designed to represent the performance of companies that have higher ESG ratings relative to their peers. They offer the opportunity to benefit from diversification, downside protection and risk control.

#### **BMO Responsible Investment Branded Funds**

These solutions offer the opportunity to benefit from active fund management, which can provide downside protection, risk control, and flexible mandates.

#### **BMO Sustainable Portfolios**

These are purpose-built, fund-of-fund total portfolio solutions that include BMO responsible investment branded funds and BMO ESG ETFs

Visit our website for more information:

[www.bmogam.com/ca-en/investors/responsible-investment](http://www.bmogam.com/ca-en/investors/responsible-investment)

## 7. What are some key terms I should know about responsible investment?

- **Stewardship:** this feature of responsible investment includes four components:
  - **Engagement** refers to working directly with companies to support and encourage corporate policies and procedures that are likely to generate positive change in key ESG issues.
  - **Proxy voting** uses the power of shareholders' right to vote to influence positive change in companies' ESG practices.
  - **Industry Collaboration** refers to the creation of strategic partnerships with industry groups to collectively affect positive change.
  - **Policy Advocacy** involves joining alliances and providing comment/feedback/opinions on emerging ESG policy.

- **United Nations Principles for Responsible Investment ('UN PRI'):** The UN PRI were established in 2006 and serve to guide the responsible investment process on a voluntary basis.
- **Sustainable Development Goals ('SDGs'):** The 17 SDGs (noted below) were developed in 2015 by the United Nations and various cross-industry stakeholders to provide a roadmap toward a more sustainable world. From a corporate perspective, they serve as a framework for engagement discussions with regarding specific sustainability issues. From an investor's perspective, they represent issues that investors can support with their financial capital, such as water management, labour standards and executive pay.

### Sustainable Development Goals (SDGs) Developed by the UN



Visit our website for more information about responsible investment:  
[www.bmogam.com/ca-en/investors/responsible-investment](http://www.bmogam.com/ca-en/investors/responsible-investment)



Visit our website to learn more about responsible investment and BMO's investment solutions, or talk to your advisor about how responsible investment might fit your goals.

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



- 1 [From the stockholder to the stakeholder', University of Oxford and Arabesque Partners](#) (2015)
- 2 [ESG Part II: A Deeper Dive', Bank of America Merrill Lynch](#) (2017)
- 3 [Sustainable Reality', Morgan Stanley Institute for Sustainable Investing](#) (2019)
- 4 [PRI Regulation Database](#) ([www.unpri.org](http://www.unpri.org))
- 5 [The Rise of ESG Investing - Insider Intelligence Trends, Forecasts & Statistics.](#) ([www.insiderintelligence.com](http://www.insiderintelligence.com))

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