ESG Frequently Asked Questions

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

Environmental, social and governance (ESG) investing are labels for the key factors and considerations used by investment decision makers. There are 5 types of responsible investing:

Integration: Integrate environmental, social and governance factors within the investment decision process, along with traditional financial analysis.

Negative Exclusion: Use negative screens as part of the investment process to avoid certain companies and sectors deemed unethical (such as tobacco manufacturers, gambling businesses).

Positive Inclusion: Focus on companies that make a positive contribution to social and environmental challenges; for example, renewable energy.

Thematic: Target specific ESG issues by investing in solutions that address them (including improved gender diversity, lower hunger rates). Note: There are also investment funds that are not considered responsible investing but are focused on particular sectors or trends, such as financial technology funds.

Impact: Aim to achieve certain measurable positive outcomes, such as human rights conditions, in addition to positive investment returns.

2. What are ESG investments?

ESG investments 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, ESG investments consider the impact of environmental, social and governance factors in addition to traditional financial factors. An investment might exclude certain companies or industries that have low ESG scores (negative exclusion), or it might focus on including companies or industries with high ESG scores (positive inclusion). They are available in exchange-traded funds (ETFs) or mutual funds, similar to traditional investment funds.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS THAT AFFECT A COMPANY'S ESG SCORE

Environmental	• Climate Change • Water Management • Pollution
Social	• Labour Standards • Human Rights • Healthy and Safety
Governance	• Executive Pay • Business Ethics • Corporate Governance

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

ESG investments allow investors to better manage risks to generate sustainable, long term returns. ESG investments are similar to traditional investments except that they add 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 the risk of losses and it can also mean looking for opportunities to add returns.

Industry and academic studies by the University of Oxford, Mercer and Morningstar (among others) show that, compared with traditional mutual funds and ETFs, ESG mutual funds and ETFs can reduce risk and provide the potential for greater long-term returns.

4. What are the benefits of ESG investing?

Investors may be interested in ESG investments for a variety of reasons:

- Because investing in companies with good ESG ratings can mean **lower risk over time**.
- Because investing in companies with good ESG ratings can mean **more growth over time**.
- Because your **kids are interested in ESG issues**, and you want them to focus more on saving and investing.
- To invest in sustainable companies while **meeting your financial goals**.
- So that your investments **reflect your values**.
- To avoid **companies that have a negative impact**.
- To invest in **companies that have a positive impact**.

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.

5. Is ESG investing a trend?

Investors have been using ESG factors to invest for decades. More recently, ESG investing began to gain significant traction when many research studies showed favorable performance for these investments and the options for ESG investing expanded.

There are more than US$30 trillion invested in sustainable assets around the world as of 2018, a 34% increase over the previous two years.[1] Investments are expected to grow, along with investors' interest in avoiding ESG risks and finding ESG opportunities.

6. Does BMO offer ESG investments?

ESG ETFs
Equity and Fixed Income ETFs that are designed to represent the performance of companies that have high ESG ratings relative to their peers.

ESG Mutual Funds
The opportunity to benefit from active fund management, which can provide downside protection, risk control, flexible mandates and the potential to outperform the market.

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7. How can I use ESG investments in my portfolio?

ESG investments 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 ESG 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, college 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 industries and more than 20 developed countries.

8. What are some key terms I should know about ESG investing?

- **Active ownership:** This feature of ESG investing includes two main 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 shareholder rights to vote on shareholder proposals in support of ESG issues.

- **Best in class:** Approach to ESG investing based on positive inclusion rather than negative exclusion. For example, MSCI uses this approach to select companies for its leaders indexes that have the highest ESG ratings.

- **Integration:** This approach to ESG investing can be applied to any portfolio. Portfolio managers include ESG analysis as part of the overall investment decision process, as opposed to conducting ESG analysis separately.

- **Negative exclusion:** Funds can exclude companies on the basis of their products, policies or procedures.

- **Positive inclusion:** Funds can proactively select companies with positive ESG attributes, including reducing risks or seeking out ESG opportunities.

- **Sustainable Development Goals (SDGs):** The 17 SDG goals (below) were developed in 2015 by the United Nations and cross-industry stakeholders, to provide a roadmap toward a more sustainable world. They are a framework for discussion and collaboration with companies regarding specific sustainability issues.

- **UN Principles for Responsible Investing (PRI):** The United Nations PRI were established in 2006. It lists 6 core principles for responsible investing, which guide investors on a voluntary basis.

Sustainable Development Goals (SDGs) Developed by the UN

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

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1. Global Sustainable Investment Alliance, "The Global sustainable Investment Review 2018."

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