



A quarter dominated by war

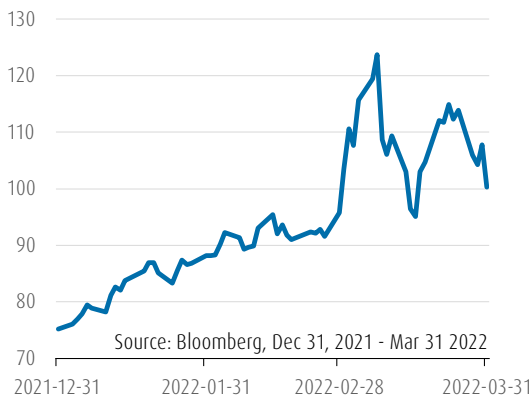
With the onset of the war in Ukraine in late February there has been a lot of discussion around ESG ETFs as investors values around geographic exposures (Russia), and sector exposures (weapons) are revealed. Bloomberg, FTSE and MSCI announced that Russian securities will be removed from their indexes and will move from emerging markets classification to “standalone” or “unclassified” proving that passive exposures can also make quick moves and take action from a values perspective as the market environment evolves. Many ESG products have taken steps to avoid indirectly contributing to the humanitarian disasters like we see today in Ukraine, by removing



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exposure to areas like cluster munitions and other weapons in their portfolios.

Price of Oil (WTI)



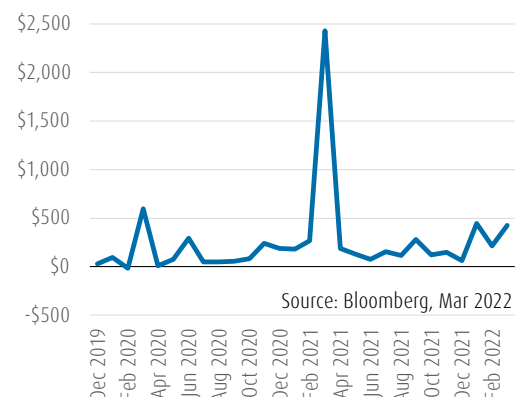
Rising energy prices and the move away from Russian oil may prove to be a bright spot for clean energy companies in the coming years. We saw Germany announce plans to accelerate their commitment to be net zero by 2035 as a direct result of wanting to be less reliant on Russian energy, and we can expect more from surrounding EU countries.

Continued pressure from activists and active owners is expected as investors are demanding companies take responsibility for their impacts both directly, and indirectly through their supply chains. A growing call on the telecom space, and social media companies in particular, as this war has uncovered the harsh realities and impact propaganda and misinformation can have on our societies.

Flows

Responsible Investment ETFs, including ESG ETFs and thematic exposures (eg. Climate, Clean Energy) had strong flows in Canada in Q1 2022 attracting \$1.08B.¹ The quarter saw strong flows in the clean energy space in particular, as investors re-focused their attention on the sector after a cool-off in 2021. Assets under management in ESG ETFs have reached over \$8.9B² as investors continue to recognize ESG issues can be important risk mitigation factors in their portfolios. BMO represents 29% of the market share in ESG ETFs with iShares at 19% of market share in Canada.¹

Flows: Dec 2019–Mar 2022 (\$MM)



BMO MSCI Canada ESG Leaders Index ETF

BMO MSCI Canada ESG Leaders Index ETF (ESGA) underperformed the broad market (MSCI Canada Index) over the first quarter by 4.98%, returning -1.10% and 3.59% respectively.¹

The portfolio's exposure to Enbridge was a top contributor to performance over the period. Enbridge (ENB) has a MSCI ESG rating of A,² rating very well from a governance perspective and leading its peers in business ethics initiatives. It also has an extensive anti-corruption policy and whistleblower protection program. Four of eleven directors on the board are women with diversity leading to the potential for better employee engagement and decision making. Enbridge has also established formal engagement initiatives to reduce potential risks related to community conflict.

ESGA's lack of exposure to carbon intensive unconventional oil and gas and thermal coal companies such as Suncor, Canadian Natural Resources, TC Energy and Cenovus hurt the performance of the portfolio as we saw traditional energy stocks soar over the period.

Bank of Montreal (BMO) was another top contributor to performance over the period with the banks benefiting from rising rates and continuing to raise their dividends. With a MSCI ESG rating of AA, BMO leads its global peers in data privacy measures. In addition, looking at a breakdown of BMO's loan portfolio, it has a low exposure to highly environmentally intensive industries and applies ESG risk management into its financing activities.²

BMO MSCI USA ESG Leaders Index ETF

BMO MSCI USA ESG Leaders Index ETF (ESGY) performed in line with the broad market (S&P 500 Index) over the first quarter, returning -6.43% and -6.46% respectively in Canadian dollar terms.¹ The story continues in the US with thermal coal and unconventional oil and gas producers posting strong gains. ESGY's lack of exposure to names like Exxon and Chevron impacted the relative performance.

Bristol-Myers Squibb Co (BMY), a pharmaceutical giant with a diverse range of top selling products, was the top contributor in the portfolio over the first quarter with a MSCI ESG Rating of A. Business ethics practices at BMY feature detailed anti-corruption policies and executive level oversight which is above the level of its peers. BMY is committed to providing better access to health care globally with efforts to address HIV/AIDS and Hepatitis C in low and middle-income countries by providing royalty-free licenses to the Medicines Patent Pool for their anti-HIV anti-hepatitis drugs.²

Microsoft Corp (MSFT) and Adobe Inc (ADBE) were top detractors from performance as the market shifted its focus from tech towards energy and defensive names. Adobe has a MSCI ESG rating of AAA, rating very highly on governance. Adobe follows the 'one share one vote' principle which aligns shareholder voting rights and economic exposure. Adobe is one of few companies to publicly disclose gender pay equity reporting. It has also set targets to increase gender and racial representation in its leadership by 2025.²

BMO MSCI EAFE ESG Leaders Index ETF

BMO MSCI EAFE ESG Leaders Index ETF (ESGE) underperformed the broad market (MSCI EAFE Index) in Canadian dollar terms by 1.63% in the first quarter, returning -8.64% and -7.01% respectively.¹ Astrazeneca (AZN) was a top performer over the period and has an MSCI ESG rating of AA. While still facing questions around safety of its COVID-19 vaccine, the company continues to outperform peers in talent management, and in its focus on finding opportunities to improve access to healthcare.²

SAP SE (SAP), a German software company transitioning to a cloud company, was the top detractor from performance over the period. With an MSCI ESG rating of AAA it continues to be a leader in robust talent management initiatives. They show evidence of extensive data protection policies and have a high level of revenues stemming from clean tech related business lines.²

BMO MSCI Global ESG Leaders Index ETF

BMO MSCI Global ESG Leaders Index (ESGG) underperformed the broad market (MSCI World Index) in Canadian dollar terms by 1.07% in the first quarter, returning -7.36% and -6.29% respectively.¹ ESGG provides exposure to the companies mentioned in the previous commentary on ESGA, ESGY, ESGE providing access to companies that are rated as leaders relative to their peers from an ESG perspective (as defined by MSCI). Over the quarter, Astrazeneca PLC, Bristol-Myers Squibb Co, Johnson & Johnson and Deere & Co were the top contributors to performance. Microsoft, Home Depot, Shopify and Adobe were the top detractors over the first quarter of 2022.

Crippling Putin with Clean Energy

Clean energy ETFs have seen a renewed interest with the strongest flows in over a year seen in March 2022.³ The war in Ukraine and sanctions against Russian oil are further spurring the need for European countries to find other sources. Germany is the first to take swift action, with its Renewable Energy Sources Act. Net zero targets have been adopted by countries and companies across the globe. In addition, with renewables typically produced domestically, and a move towards protectionist policies by many countries, this could be another headwind for renewables.

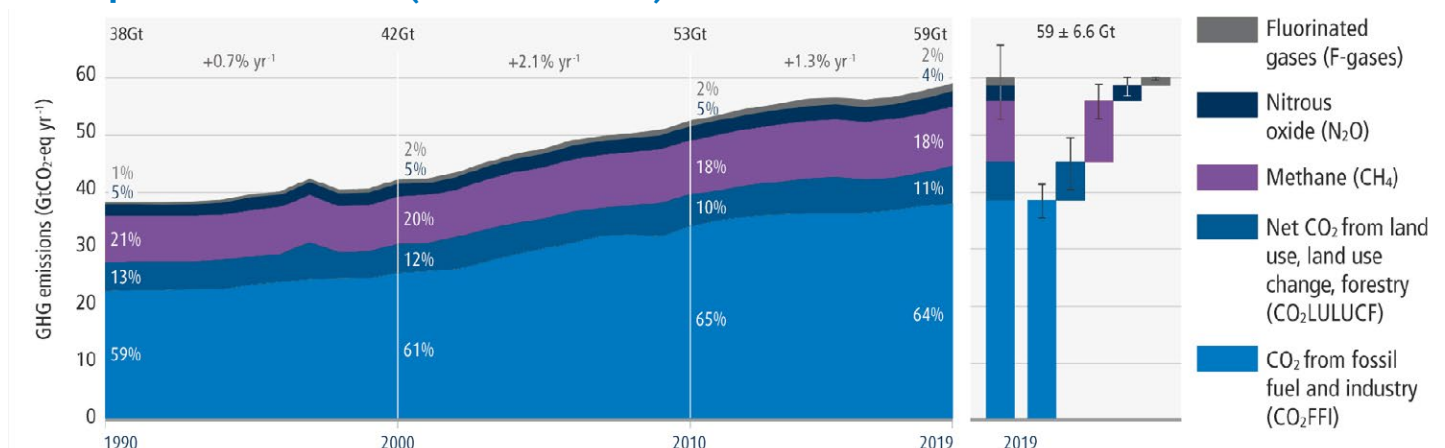
While not your traditional “ESG” ETF, [the BMO Clean Energy Index ETF \(ZCLN\)](#) is a thematic responsible investment solution focused on the transition to renewable energy sources. ZCLN invests in approximately 100 clean energy producers, and tech and equipment companies which are positioned to potentially benefit from the drivers we see in the market today.



Addressing Climate Values with ETFs

The most recent IPCC (United Nations Intergovernmental Panel on Climate Change) report admits that while we do have the right tools to move towards more sustainable practices, we must shift away from burning coal, oil and gas immediately, or we will not reach our 1.5 degree warming target. The report, while targeting the energy sector in particular pointed to 3 of the next most effective tools to reducing emissions; reducing the destruction of forests and other ecosystems, restoring them, and improving the management of working lands, such as farms.

IPCC Report: Global Net GHG (Green House Gas) Emissions 1990-2019



Source: IPCC_AR6_WGIII_FinalDraft_FullReport.pdf

With climate change comes winners and losers. Simply put climate ETFs, like **BMO MSCI ACWI Paris Aligned Climate Equity Index ETF (ZGRN)** look to invest in the companies that stand to benefit from opportunities arising as a result of climate change and avoid those at risk. The ETF looks to reduce the weight of companies that are considered by MSCI to be high greenhouse gas emitters based on scope 1, 2, and 3 emissions. The methodology shifts from brown to green revenues with the attempt to double green revenue exposure relative to the benchmark. Lastly, the ETF selects and over-weights companies that have credible carbon reduction targets and records and track records.



Performance

Performance is in line between our suite of BMO ESG Leaders ETFs, and our broad market index funds with slight underperformance for the ESG ETFs over Q1, resulting mostly from the lack of exposure to unconventional oil and gas stocks. These indexes are designed to invest in the ESG leaders in each sector while avoiding the laggards and maintain a comparable sector weight to the parent.

Fund Name	Ticker	YTD	3 mo	6 mo	1 Year	2 Year	3 Year	5 Year	10 Year	Since Inception
BMO MSCI Canada ESG Leaders Index ETF	ESGA	-1.42	-1.42	4.71	14.27	29.20	-	-	-	13.02
BMO S&P/TSX Capped Composite Index ETF	ZCN	3.80	3.80	10.49	20.1	31.61	14.16	10.33	8.99	8.43
BMO MSCI USA ESG Leaders Index ETF	ESGY	-7.05	-7.05	3.86	14.83	26.13	-	-	-	15.37
BMO S&P 500 Index ETF	ZSP	-5.79	-5.79	4.38	14.73	26.3	15.93	14.14	-	18.22
BMO MSCI EAFE ESG Leaders Index ETF	ESGE	-9.45	-9.45	-6.33	-1.27	12.19	-	-	-	2.11
BMO MSCI EAFE Index ETF	ZEA	-7.90	-7.90	-5.24	-0.51	13.10	4.99	5.20	-	6.12
BMO MSCI Global ESG Leaders Index ETF	ESGG	-7.52	-7.52	0.86	9.85	21.84	-	-	-	10.79

Source: BMO Global Asset Management, Mar 31 2022

BMO's Responsible Investment Solutions


BMO's range of ESG ETFs extends beyond those mentioned in this commentary to include fixed income, thematic and balanced solutions providing a full suite of solutions for portfolio construction that will help you align your investments with your values.

New Exposures

In December 2021 ZCH (BMO MSCI China ESG Leaders Index ETF) and ZID (BMO MSCI India ESG Leaders Index ETF) were transitioned to an ESG approach, now tracking the MSCI China ESG Leaders, and MSCI India ESG Leaders Indexes. In China, there has been growing interest in responsible investment with a strong government push to promote green finance, as well as the increasing globalization of its investment market. Recent studies have shown that an ESG approach can also help deliver alpha in this region.⁴ In India, increasing regulation around ESG disclosures means companies have to take action around ESG considerations in their businesses. India has faced backlash over human capital practices, is a highly water stressed region, and faces higher direct carbon emission risk than its EM counterparts.² Taking an ESG approach to investment in this region can help to potentially mitigate these risks.

Responsible Investing ETFs

Frequency of distribution: **M** Monthly **Q** Quarterly **A** Annually

Equity				
BMO MSCI ACWI Paris Aligned Climate Equity Index ETF ZGRN Distribution Yield: N/A Q Mgmt. Fee: 0.25% Risk Rating: Medium 	BMO MSCI Canada ESG Leaders Index ETF ESGA Distribution Yield: 2.8% Q Mgmt. Fee: 0.15% Risk Rating: Medium	BMO MSCI USA ESG Leaders Index ETF ESGY ESGY.F <small>hedged to CAD</small> Distribution Yield: 1.2% Q Mgmt. Fee: 0.20% Risk Rating: Medium	BMO MSCI EAFE ESG Leaders Index ETF ESGE Distribution Yield: 2.8% Q Mgmt. Fee: 0.25% Risk Rating: Medium	BMO MSCI Global ESG Leaders Index ETF ESGG Distribution Yield: 1.7% Q Mgmt. Fee: 0.25% Risk Rating: Medium
Asset Allocation		ESG Themes		
BMO MSCI India ESG Leaders Index ETF ZID Distribution Yield: 0.1% A Mgmt. Fee: 0.65% Risk Rating: High	BMO MSCI China ESG Leaders Equity ZCH Distribution Yield: 1.6% A Mgmt. Fee: 0.60% Risk Rating: Medium to High	BMO Clean Energy Index ETF ZCLN Distribution Yield: N/A A Mgmt. Fee: 0.35% Risk Rating: High	BMO Women In Leadership Fund WOMN Distribution Yield: 1.3% A Mgmt. Fee: 0.35%	
Asset Allocation		Fixed Income		
BMO Balanced ESG ETF ZESG Distribution Yield: 2.2% Q Mgmt. Fee: 0.18% Risk Rating: Low to Medium	BMO ESG Corporate Bond Index ETF ESGB Duration: 6.3 Distribution Yield: 3.1% Q Yield to Maturity: 3.0% Mgmt. Fee: 0.15% Risk Rating: Low	BMO ESG US Corporate Bond Index ETF ESGF <small>hedged to CAD</small> Duration: 8.1 Distribution Yield: 3.1% Q Yield to Maturity: 3.0% Mgmt. Fee: 0.20% Risk Rating: Low	BMO ESG High Yield US Corporate Bond Index ETF ESGH ESGH.F <small>unhedged hedged to CAD</small> Duration: 4.1 Distribution Yield: N/A M Yield to Maturity: 5.1% Mgmt. Fee: 0.45% Risk Rating: Low to Medium	



Let's connect

 Call us at 1-800-668-7327  [bmogam.com/megatrends](https://www.bmogam.com/megatrends)

- ¹ Bloomberg, Mar 31 2022, total return.
- ² MSCI ESG Research, rating as of Jan 20, 2022.
- ³ CIBC Capital Markets, Clean Energy ETFs turn a corner – [download \(factset.com\)](#)
- ⁴ Source: [UN PRI: ESG and alpha: the mainstream argument for ESG integration in China | Blog post | PRI \(unpri.org\)](#)

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MSCI ESG ratings are as of Mar 31 2022. ESG Metrics can be used alongside other traditional financial metrics and information, and enable investors to evaluate funds on environmental, social and governance characteristics. ESG metrics are not an indication of current or future performance and do they represent the potential risk and reward profile of a fund. They are provided for transparency and for information purposes only. ESG Ratings are as of Mar 31 2022 and may vary from time to time. The fund-level ESG rating or score on which the ranking is based does not evaluate the ESG-related investment objectives of, or any ESG strategies used by, the fund and is not indicative of how well ESG factors are integrated by the fund, please review the prospectus to confirm strategies used.

Review the MSCI methodology behind the ESG ratings here:

https://www.msci.com/documents/10199/1283513/MSCI_ESG_Metrics_Calc_Methodology_Dec2020.pdf/92a299cb-0dbc-63ba-debb-e821bd2e2b08;

ESG Ratings and percentage of securities covered are available publicly here: (<https://www.msci.com/esg-fund-ratings>);

Security level ESG ratings are available here: <https://www.msci.com/research-and-insights/esg-ratings-corporate-search-tool>

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