Invest in the Climate Transition

BMO MSCI ACWI Paris Aligned Climate Equity Index ETF (ZGRN)

Align your investments with a growing mega-trend.

Climate change is the key issue of our time and companies are setting carbon reduction goals, beginning to transition their businesses, and improve their reporting on emissions and targets. Investors understand the threat that climate change can have on a company and are demanding greater transparency around what is being done to confront these issues (2021 Elderman Trust Barometer report). With significant investment needed to confront the threat of climate change, comes investment opportunities and risks that demand our attention.

Manage exposure to **physical climate change risk and transition risk**

Diversified global equities is aligned to Paris Agreement goals and targets

Benefit from **opportunities** in the low carbon transition

ZGRN tracks the MSCI ACWI Climate Paris Aligned Index which aligns with a 1.5°C temperature change climate scenario by integrating climate data into the investment process. MSCI's methodology uses state-of-the-art MSCI Climate analytics data with models including forward looking metrics with the goal to:

Reduce the weight of companies that are high greenhouse gas emitters based on their complete carbon footprint (scope 1, 2, 3). **Reduce exposure to physical risk** arising from extreme weather events by at least 50%.

Shift from brown to green; move from fossil fuel related businesses with the goal to double green revenue exposure.

Shift towards companies exposed to climate transition opportunities, and underweights those exposed to climate transition risks. Selects and overweights companies with **credible carbon-reduction targets and track records**.

How to Use ZGRN in Your Portfolio:

- As a core sustainable equity allocation aligned to the low carbon transition
- As an environmental theme exposure
- As a satellite exposure to help reduce climate change risks and access opportunities to low carbon transition.

What does it mean to be Paris Aligned?

The European Union climate benchmarks include both Climate Transition benchmarks (CTB) and Paris Aligned Benchmarks (PAB) and were designed to align investors' portfolios with the Paris Agreement – a framework to limit global warming to below 2°C set the stage for climate-positive investing.

Both benchmarks require specific levels of "self-decarbonization" of the index year-on-year as well as ambitious carbon intensity reductions versus the parent index. PAB indices also require specific activity exclusions.

Together, the benchmarks offer a clear and transparent structure to enable widespread climate investing and help to fast-track the transition toward a low carbon economy.

Keeping Global Temperature Rise Below 2° - The Magic Number

	1.5°C	2°C	Impact of 2°C compared to 1.5°C
Loss of plant species	8% of plants will lose 1/2 their habitable area	16% of plants will lose 1/2 their habitable area	2x worse
Loss of insect species	6% of insects will lose 1/2 their habitable area	18% of insects will lose 1/2 their habitable area	3x worse
Further decline in coral reefs	70% to 90%	99%	up to 29% worse
Extreme heat	14% of the global population exposed to severe heat every 1 in 5 years	37% of the global population exposed to severe heat every 1 in 5 years	2.6x worse
Sea-ice-free summers in the arctic	at least once every 100 years	at least once every 10 years	10x worse

Source: climatecouncil.org.au

MSCI Climate Paris Aligned Indexes Methodology

The methodology removes companies involved in controversial businesses:

- ✘ Controversial Weapons
- ✘ Very Severe ESG Controversies
- ✘ Tobacco
- ✘ Environmental Harm
- ✘ Thermal Coal Mining
- ✘ Oil and Gas
- ✘ Power Generation (Thermal Coal, Liquid Fuel, Natural Gas)

Reduce Transition and physical risk

The optimizer targets a reduction of at least 50% in greenhouse gas (GHG) intensity (Scopes 1, 2 and 3) and potential emissions. The index is designed to reduce its GHG intensity by 10% every year; achieved through re-weighting and selection of companies during rebalancing. As required by the EU PAB standards, the weight of high-climate impact sector is set to equal its weight in the underlying index to avoid reducing carbon intensity purely through divestment. The indexes aim to achieve alignment with a 1.5°C temperature rise threshold via a decarbonization rate of 10% each year based on the forward-looking MSCI Climate Value-at-Risk (Climate VaR). The optimizer aims to reduce exposure to climate-related physical risk (extreme wealther) by at least 50%, based on Climate VaR.

What is Scope 1, 2, and 3?

Scope 1 – All Direct Emissions from the activities of an organization or under their control. Including fuel combustion on site such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 – Indirect Emissions from electricity purchased and used by the organization. Emissions are created during the production of the energy and eventually used by the organization.

Scope 3 – All Other Indirect Emissions from activities of the organization, occuring from sources that they do not own or control. These are usually the greatest share of the carbon footprint, covering emissions associated with business travel, procurement, waste and water

Increase exposure to climate transition opportunities

The optimization parameters target an increased weight for companies based on their Low Carbon Transition Score, emission reduction targets and green revenues. The MSCI Climate Paris Aligned indexes benefit from the use of proprietary climate metrics, including MSCI ESG Research's Climate VaR and Low Carbon Transition Score.

Prioritize investments based on a company's commitments and actions to transition and support a net zero strategy.

Portfolio Construction

Active Weight:	+/- 2% of parent
Security Max (as a multiple of its weight in parent):	20x
Active Sector Weights:	+/- 5% of parent (exception Energy GICs sector is unconstrained)
Active Country Weights:	+/- 5% of parent
Rebalanced:	Semi-Annual (May and November)

For more information, see MSCI Climate Paris Aligned Indexes Methodology

ESG & Climate Metrics

	MSCI ACWI Climate Paris Aligned Index	MSCI ACWI Index
Tracking Error	0.99%	0%
ESG Score	6.5	6.2
Environmental Pillar Score	6.5	6
Physical Risk Climate VaR %	-3.50%	-5.60%
Enterprise Carbon Intensity (t CO2e/$M EVIC)	103	319
Wtd Avg Carbon Intensity (t CO2e/$M Sales)	414	818

Source: MSCI Dec 15 2021, using data as of Nov 30 2021. For more information on MSCI's Climate Data Metrics, see Climate Data and Metrics on the MSCI Website. For more information on how MSCI's ESG Score is calculated, see the MSCI ESG Rating Methodology Executive Summary.

Physical Risk Climate VaR %: Based on various input, including issuers' information on the company's facilities (type of assets, size, location, etc.) collected by MSCI ESG Research, exposure maps for each physical hazard level (i.e., extreme heat, coastal flooding, extreme precipitation, etc.) coming from climate models (such as Re-Analysis and Climada) and then modelled cost functions developed by MSCI ESG Research and the Climate Risk Center assessing things like days of disruption or asset damages.

Enterprise Carbon Intensity (t CO2e / $m EVIC); Reported Emissions %; Estimated Emissions %; Wtd Avg Carbon Intensity (t CO2e / $m Sales): Emissions data as disclosed by companies. In instances of non-disclosure, emissions are estimated by MSCI ESG Research proprietary model (full methodology is available to MSCI ESG Research clients).

BMO Global Asset Management

Let's connect 1-800-361-1392 bmoetfs.com