

# Responsible About Fixed Income

## BMO's Fixed Income ESG ETFs

Investors are looking at ESG with equity exposures; it's time to extend that thinking to fixed income.

<p><b>BMO ESG US Corporate Bond Index ETF</b>  <b>ESGF</b>                  hedged to CAD                  Duration: 8.3                  Distribution Yield: 2.8%   Q                  Yield to Maturity: 1.5% Mgmt. Fee: 0.20%  <b>Risk Rating: Low</b></p>	<p><b>BMO ESG Corporate Bond Index ETF</b>  <b>ESGB</b>                  Duration: 6.9                  Distribution Yield: 2.8%   Q                  Yield to Maturity: 1.4%                  Mgmt. Fee: 0.15%  <b>Risk Rating: Low</b></p>	<p><b>BMO ESG US High Yield Corporate Bond Index ETF</b>  <b>ESGH/ESGH.F</b>                  hedged to CAD                  Duration: 3.5 Distribution Yield: N/A   M                  Yield to Maturity: 3.6% Mgmt. Fee: 0.45%  <b>Risk Rating: Low to Medium</b> <span style="float: right;">new</span></p>
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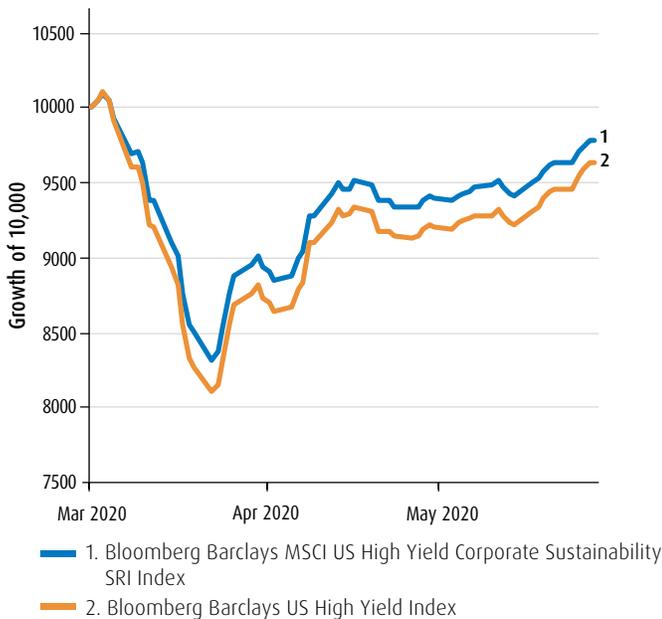
### A Quality Tilt on Fixed Income

Taking ESG factors into account could be a good way of reducing exposure to future risks which could lead to default for fixed income issuers. In addition, companies with lower ESG scores tend to have a higher chance of a rating downgrade than firms with better ESG scores, according to Bloomberg Barclays data. According to UN PRI, many ESG factors have traditionally featured in credit rating methodologies, but the role they play is often not well communicated. ESG metrics are a way to uncover new risk factors in the fixed income market.

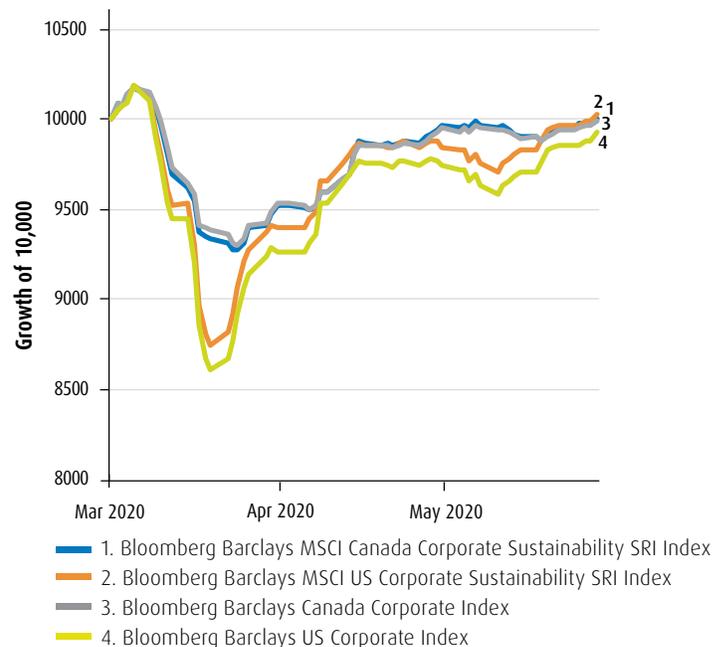
The charts below show two different market downturns and how the ESG indexes performed relative to their broad based parent indexes.

### March 2020 – June 2020 Market Downturn

**ESG US High Yield Bond Performance vs Broad Market**



**CAD and US ESG Corporate Bond Performance vs Broad Market**



## Why are ESG issues relevant in Fixed Income investing?

Financial, operational and reputational risks linked to ESG factors can materially affect a company's ability to generate stable cash flows to honour its financial obligations.

Compared to equity investors, creditors have limited upside potential in investment returns, and tend to be more focused on the downside risks. In this regard, the identification and management of material ESG risks is a form of enterprise risk management, protecting long-term credit quality. That being said, companies cannot, and should not, avoid taking well-calculated risks to generate adequate returns for equity investors. Establishing a balance of risk and reward that is needed to attract both creditors and shareholders to generate a sustainable capital mix is in the interests of both types of investor.



The relevance of ESG issues to credit quality is now acknowledged by the major credit rating agencies, with Moody's and S&P Global both expanding their ESG capabilities to better integrate ESG factors in their credit rating methodologies.

## BMO ETFs offers three ways to add ESG fixed income exposures to your portfolio tracking MSCI and Bloomberg Barclays Indexes providing you with exposure to issuers that have received an ESG rating above their peers.

ESGB	BMO ESG Corporate Bond Index ETF	Bloomberg Barclays MSCI Canadian Corporate Sustainability SRI Index
ESGF	BMO ESG US Corporate Bond Index ETF	Bloomberg Barclays MSCI US Corporate Sustainability SRI Index
ESGH/ESGH.F	BMO ESG US High Yield Corporate Bond Index ETF	Bloomberg Barclays MSCI US High Yield Liquid Corporate Sustainability SRI Index

## Methodology

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.

Time Lapse	BMO Fixed Income ETF Portfolio A
Sector Representation	• No sector representation target (40 - 70% of the parent index typically eligible based on ESG rating thresholds)
Minimum ESG Rating	• Minimum ESG rating BBB
Minimum Controversy Score	• Excludes companies involved in very severe controversies
Weighting Scheme	• Market Value Weighted, Rebalanced Monthly

Time Lapse	BMO Fixed Income ETF Portfolio A
Minimum Amount Outstanding	<ul style="list-style-type: none"> <li>• \$150 MM (ESGB)</li> <li>• \$300 MM (ESGF)</li> <li>• \$500 MM (ESGH/ESGH.F)</li> </ul>
Issuer Cap	<ul style="list-style-type: none"> <li>• None for ESGB or ESGF</li> <li>• 2% max issuer weight in ESGH/ESGH.F</li> </ul>
Exclusions	<ul style="list-style-type: none"> <li>• Excludes companies deriving a significant share of their revenues from: <ul style="list-style-type: none"> <li>- Alcohol</li> <li>- Gambling</li> <li>- Tobacco</li> <li>- Controversial Weapons</li> <li>- Conventional Weapons</li> <li>- Nuclear Weapons</li> <li>- Civilian Firearms</li> <li>- GMOs</li> <li>- Adult Entertainment</li> <li>- Nuclear power</li> </ul> </li> <li>• Companies involved in the mining of thermal coal, unconventional oil extraction, thermal coal-based power generation are also excluded</li> </ul>



## Let's connect



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