

Responsible Investing and ESG: What's right for your portfolio?



What comes to mind when you think about responsible investing?

I'm just not sure.

If I knew there were investments with good performance, I'd feel more comfortable investing.

It makes sense to me.

I think about where my money's going and I expect to get good returns without compromising my values.

Prove it.

Show me comparable risk and return, because these are my investments — not my donations.

I like the idea of it

I'd need to know more about how I could stick with my overall investment strategy and invest in more sustainable companies.

There's no right or wrong answer to the question. We each have our own set of goals, based on our views and our life experiences. So while some people may want to prioritize certain environmental, social and governance issues, it's the combination of financial benefits plus non-financial benefits that often drives the decision to pursue responsible investment.

Is ESG the same as responsible investing?

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

Examples of ESG Factors that Could Affect a Company's ESG

Environmental

- Climate Change
- Water Management
- Pollution

Social

- Labour Standards
- Human Rights
- Healthy and Safety

Governance

- Executive Pay
- Business Ethics
- Corporate Governance

Why should I consider Responsible Investing?

Responsible investing offers investors the opportunity to better manage risks and potentially generate sustainable, long term returns. That means aiming to minimize the risk of losses and it can also mean looking for opportunities to add returns. Identifying ESG-related risks and opportunities can improve investment returns by:

- Identifying and limiting exposure to longer-term and systematic risks, such as climate change;
- Identifying and limiting exposure to nearer-term and company-specific risks, such as data security, and;
- Adding exposure to companies with a strong track record of managing ESG-related issues, which can lead to better investment returns.



There are many benefits of responsible investing 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 poor ESG practices.
- 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 go hand in hand. So while you might appreciate the impact an investment has on improving gender diversity, for example, you could be motivated to invest by learning that companies with gender-balanced leadership have tended to outperform those without.

Case in point

“A year before Equifax Inc. disclosed a breach that compromised the private information of 145.5 million consumers, a big financial company warned of signs that the credit reporting firm was failing to protect its data.

Index provider MSCI Inc. cautioned in an August 2016 report that Equifax was ill-prepared to face the increasing frequency and sophistication of data breaches.” After examining company records, MSCI analysts said they found no evidence of regular cybersecurity audits, employee training to recognize risks, or emergency plans to respond to an intrusion. On privacy and data security, Equifax scored zero.

As a result, Equifax was booted from a family of MSCI indexes that pick stocks based on how well companies perform on environmental, social and governance criteria, known by the shorthand ESG. “If you’re an investor or asset manager and you see these rock-bottom evaluations of Equifax, it had to have given you pause,” said Jon Hale, head of sustainability research at Morningstar Inc. “This is an instance where ESG analysis was really ahead of the curve.”

– *The Wall Street Journal*¹

Values and valuations

Considering ESG investments may reduce risk and offer the potential for greater long-term returns compared to similar funds that do not include ESG considerations.

Also, responsible investing could help protect portfolio returns from risks associated with the next data security breach, environmental catastrophe or management crisis.

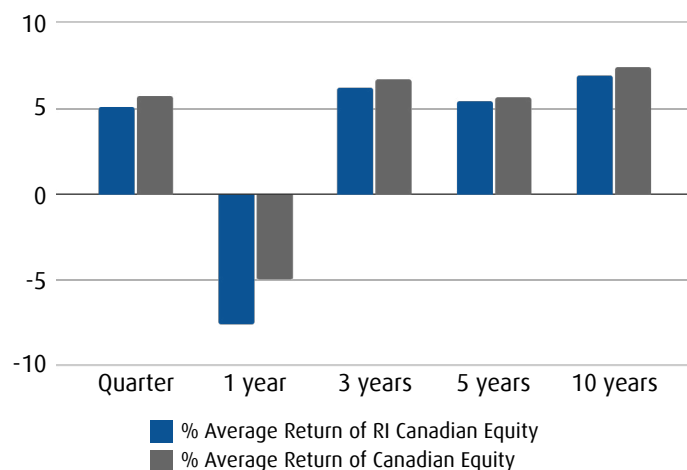


A smart approach to responsible investing

BMO responsible investment branded funds can be useful tools for building diversified portfolios with the potential for sustainable long-term returns. We believe that considering ESG factors can help investors realize long-term risk mitigation and value creation, which is why it plays an important role in the investment process for these funds.

By encouraging better risk management and more sustainable growth, we aim for a more consistent approach to responsible investing while continuing to act in our clients' best interests. This is how we boldly grow the good with BMO responsible investment branded funds.

Comparable Historical Performance of Responsible Investment Canadian Equity Funds



Source: RIA Canada, December 31, 2022.

BMO GAM's Responsible Investment Branded Funds

Deep Expertise

Dedicated Responsible Investment Team with deep subject matter expertise

Comprehensive Strategy

Thoughtful and thorough approach to responsible investment, including ESG Integration, Stewardship and Reporting.

Wide Breadth of Solutions

Range of active and passive responsible investment solutions across asset classes

What are my financial goals?



“I want to balance risk and reward.”

You want your money to work for you, but not keep you up at night. 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.



“I need a reliable source of income.”

You want to keep your money invested but need to draw income on a monthly basis. A dividend-focused option is designed to provide potential for growth and income for the long term.



“I’m looking for global growth.”

You want to cast a wide net to grow your money over time. A global equity option can offer diversification across regions and industries.

How do I choose the responsible investment solutions that are right for me?

Investors have a range of responsible investment branded funds options 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

1. *The Wall Street Journal*, “A Warning Shot on Equifax: Index Provider Flagged Security Issues Last Year,” October 6, 2017

Visit our website to learn more about responsible investment and BMO’s responsible investment-branded funds, or talk to your advisor about how responsible investment might fit your goals.



www.bmogam.com/ca-en/investors/responsible-investment

BMO Global Asset Management is a brand name under which BMO Asset Management Inc. and BMO Investments Inc. operate. Certain of the products and services offered under the brand name, BMO Global Asset Management, are designed specifically for various categories of investors in Canada and may not be available to all investors. Products and services are only offered to investors in Canada in accordance with applicable laws and regulatory requirements.

Commissions, management fees and expenses (if applicable) may be associated with investments in mutual funds and exchange traded funds (ETFs). Trailing commissions may be associated with investments in mutual funds. Please read the fund facts, ETF Facts or prospectus of the relevant mutual fund or ETF before investing. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

For a summary of the risks of an investment in BMO Mutual Funds or BMO ETFs, please see the specific risks set out in the prospectus of the relevant mutual fund or ETF. BMO ETFs trade like stocks, fluctuate in market value and may trade at a discount to their net asset value, which may increase the risk of loss. Distributions are not guaranteed and are subject to change and/or elimination.

BMO Mutual Funds are offered by BMO Investments Inc., a financial services firm and separate entity from Bank of Montreal. BMO ETFs are managed and administered by BMO Asset Management Inc., an investment fund manager and portfolio manager and separate legal entity from Bank of Montreal.

®/™Registered trademarks/trademark of Bank of Montreal, used under licence.

This information is for educational purposes only and does not constitute investment, legal, accounting, tax advice or a recommendation to buy, sell or hold a security. It is only intended for the audience to whom it has been distributed and may not be reproduced or redistributed without the consent of BMO Global Asset Management.