ESG Viewpoint

Voting for climate action

January 2021

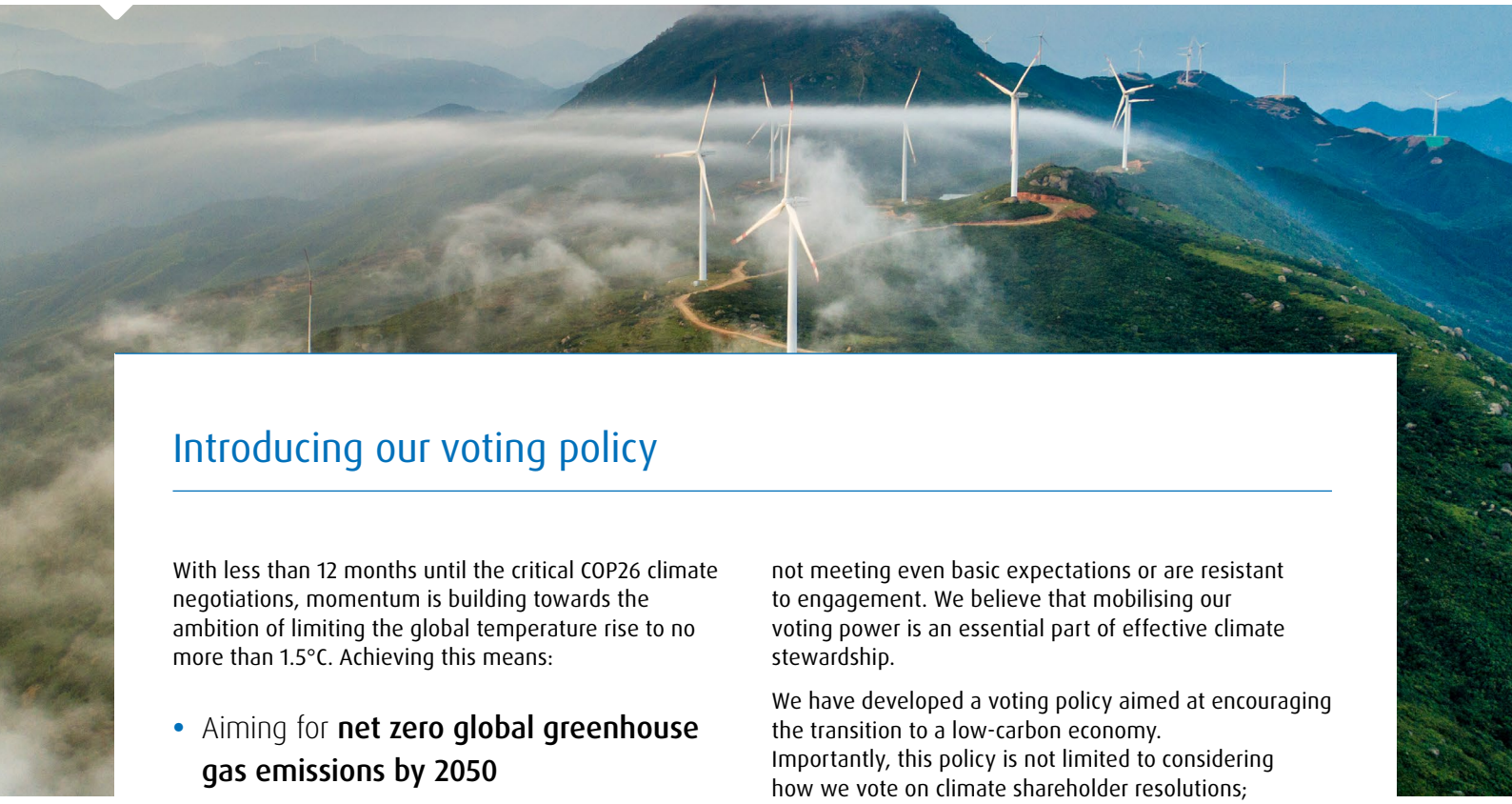
Our Approach to Fostering Climate Action through Proxy Voting

- Our 2020 systematic voting policy aimed to encourage the transition to a low-carbon economy – we raised concerns via 61 management proposals across 58 company meetings.
- Our focus was on the Financial, Oil & Gas, Utilities and Mining sectors, which are all systemically important to economic growth but face significant challenges in defining and reducing their value chain emissions.
- We also remain supportive of reasonable and practicable shareholder resolutions urging companies to take action on climate.
- The criteria we use to judge company climate change management practices will continue to evolve, and 2021 will see us widen our focus on more issues and sectors.

Derek Ip
Vice President, Analyst, Responsible Investment

Kalina Lazarova
Director, Responsible Investment

Vicki Bakhshi
Director, Responsible Investment



Introducing our voting policy

With less than 12 months until the critical COP26 climate negotiations, momentum is building towards the ambition of limiting the global temperature rise to no more than 1.5°C. Achieving this means:

- Aiming for **net zero global greenhouse gas emissions by 2050**
- A 50% cut in emissions **between now and 2030**

The need for urgent action is clear. BMO Global Asset Management has itself committed to an ambition of net zero emissions in our investments by 2050, as part of the Net Zero Asset Managers Initiative.

As part of our stewardship approach, we have been working with other investors to urge companies to align with these goals, as set out in our Climate Change Investment Stewardship Framework. However, dialogue alone is not enough, particularly where companies are not meeting even basic expectations or are resistant to engagement. We believe that mobilising our voting power is an essential part of effective climate stewardship.

We have developed a voting policy aimed at encouraging the transition to a low-carbon economy. Importantly, this policy is not limited to considering how we vote on climate shareholder resolutions; we also consider how we exercise our votes on management resolutions. During the 2020 voting season, we implemented a systematic process for identifying investee companies that have fallen behind in climate risk management based on a set of criteria. Where we judged these companies to be climate laggards, we voted against relevant management resolutions, such as the re-election of directors.

We expect our approach to evolve as emerging best practices become better known and adopted across different markets. This evolution will include setting tougher expectations of a greater number of companies and sectors.

Interested in learning more? Keep on scrolling or click the quick links.

Voting against laggards

Implementing our policy

Case study: ExxonMobil Corporation

Thoughts for 2021

Click here for an extract from our **Corporate Governance Guidelines: Climate change**

Voting against laggards in 2020

In 2020 we aimed to send a strong signal to our investee companies across six of the most material sectors that inaction on climate change is not an option. These sectors were selected based on criteria including:

- **The magnitude of necessary low-carbon transition if the world is to limit global warming to 1.5°C**
- **Whether investor expectations for low-carbon transition have been well socialised in the sector, either through our engagement or market discussions**

The Six Sectors Covered in 2020:

Oil & Gas	Mining & Metals	Materials	Electric Utilities	Transportation & Autos	Financial Institutions

All companies in our voting universe meeting a market capitalisation threshold across these sectors were assessed against **minimum standards** for climate disclosure and strategy (see box below).

Apart from relying on disclosure by our investee companies, our minimum standards are also informed by the assessment results of the Transition Pathway Initiative (TPI) methodology. Any companies with a score below Level 2 (i.e. not explicitly recognising climate change as a relevant risk, or not committing to action on climate change) were automatically included in the assessment. The TPI covers high-emitting companies across real economic sectors, which are expected to have been well informed on the climate change agenda throughout the past years of investor engagement. We also used our own insights from engaging with companies to arrive at our final assessment universe.

Companies in these categories were then analysed by our Responsible Investment team to check the most recent company disclosures, and make a judgement on whether to exercise a vote against.

Minimum Climate Risks Management Standards Applied in 2020 Voting Season

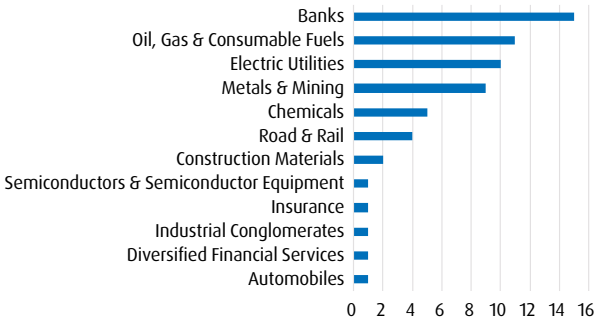
	Real Economic Sectors	Financial Institutions
Disclosure	Publish carbon footprint (scope 1 & scope 2)	Acknowledge climate change as a risk factor and discuss mitigation in company reports
Management Action	Set a reduction target, disclose timeframe of achieving it	
Disclosure	Describe climate-related risks material to the business, in either CSR report or annual financial filings, or, adequate disclosure on third party platforms, e.g. CDP or other TCFD-equivalents	
TPI Assessment	Flagged by the Transition Pathway Initiative as below "Level 2" - not explicitly recognising climate change as a relevant risk or not committing to action on climate change.	

Implementing our policy in 2020

At the time of writing, we had raised our concerns via 61 management proposals across 58 company meetings. On these, we either voted against management resolutions, abstained, or supported but with communication on the specific conditions for supporting next year's vote. This dynamic treatment reflected the fact that companies were falling short of our expectations to varying degrees.

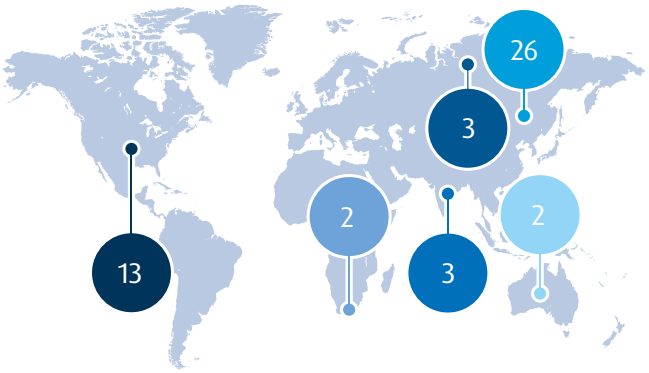
It is, perhaps, not surprising to see that the affected votes were concentrated in the Financial, Oil & Gas, Utilities and Mining sectors. All are systemically important to economic growth but face significant challenges in defining and reducing their value chain emissions. We targeted those companies that demonstrated a lack of urgency on climate change.

Companies Affected by Our Climate Voting Policy by sector



Source: BMO GAM, as at 9 December 2020

Number of Companies in Each Country Affected by Our Climate Change Integrated Voting Policy



Source: BMO GAM, as at 9 December 2020

Most companies were from the two largest economies – China and the United States. We expect that, with China's latest pledge to reach net zero emissions by 2060 and the US election result which provides a much clearer policy direction, more companies will start managing their climate impact soon. This also means that the financial risks for laggard companies will be more significant, as policy makers are likely to implement new regulations to promote decarbonisation in both countries.

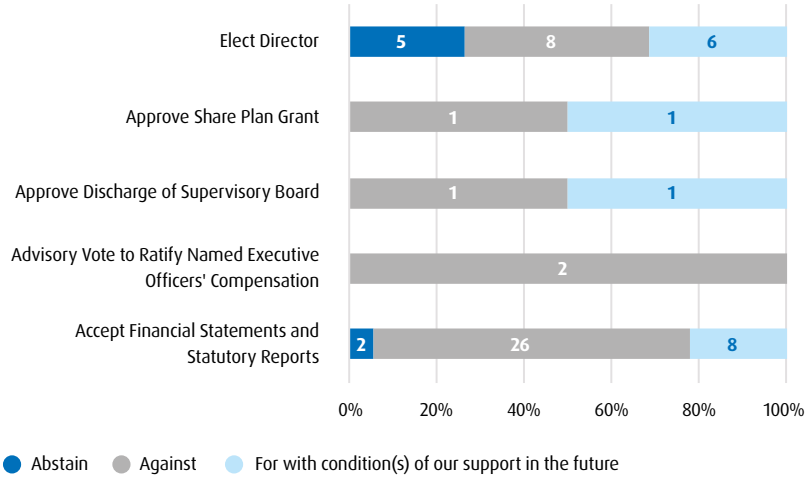
- North America
- Russia
- India
- China
- South Africa
- Australia

Given that ultimate accountability for climate action resides with the Board, in 2020 we voted against:

- Individual directors
- Financial and statutory reports
- Other management resolutions

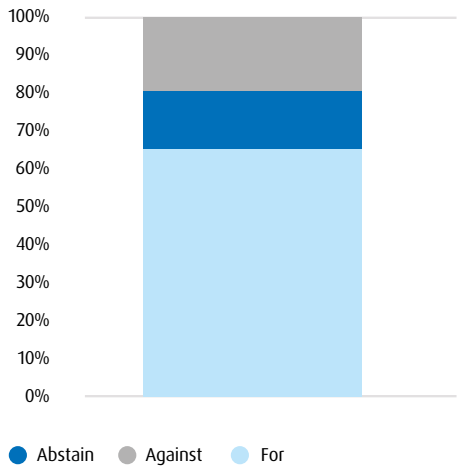
We also voted against executive pay arrangements at certain companies that did not incorporate targets to support improvements in their climate ambition.

Number of Management Proposals Affected by Our Climate Change Integrated Voting Policy



Source: BMO GAM, as at 9 December 2020

Our voting decisions on shareholder proposals directly related to climate change in 2020

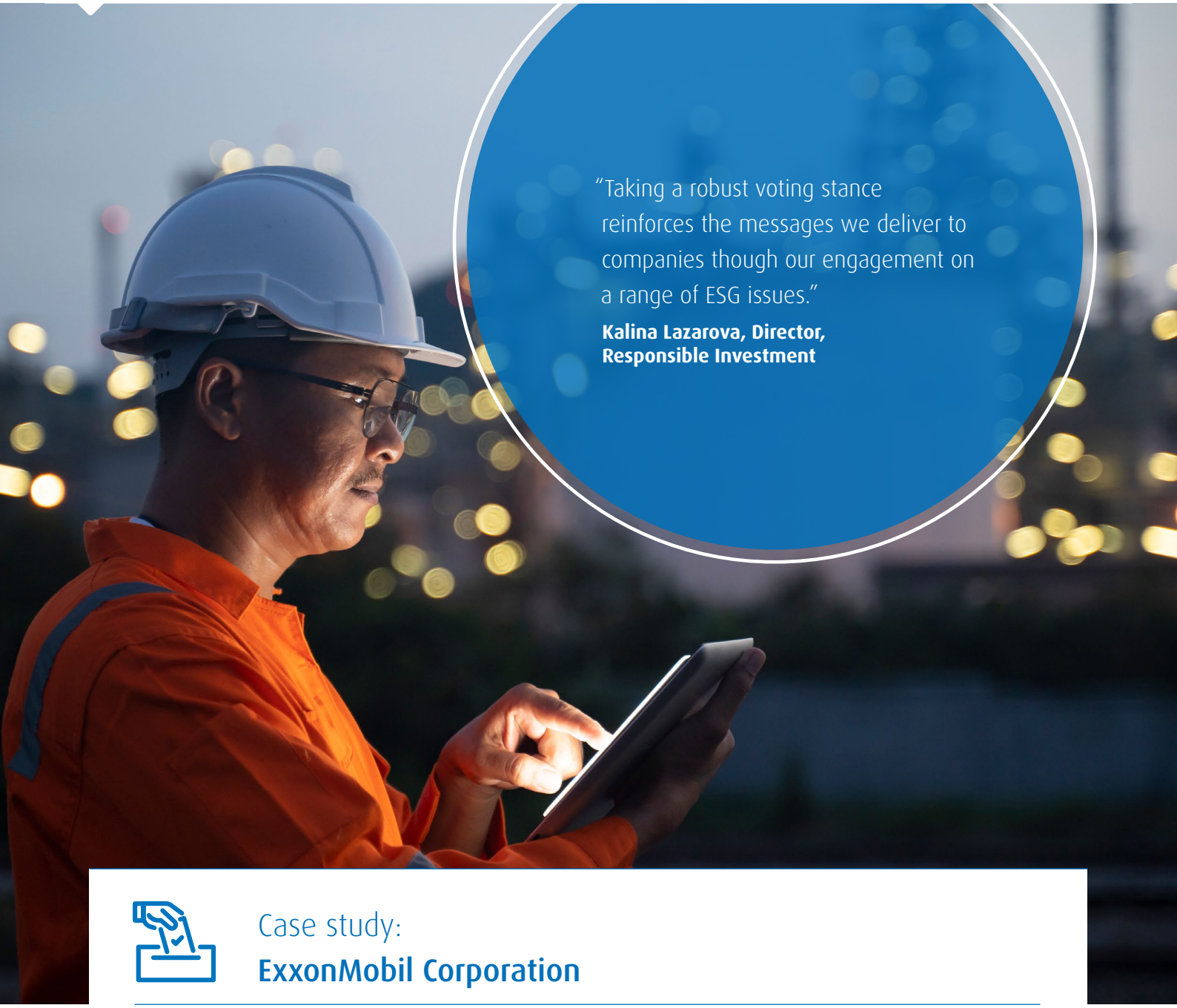


Source: BMO GAM, as at 9 December 2020

Apart from management proposals, we also consider those raised by shareholders to be effective in encouraging improvement and will typically support requests to set long term reduction targets in line with the 1.5°C or 2°C scenarios, to align lobbying activities to the ambitions of the Paris Agreement, and to improve climate change disclosure and risk analysis.

In 2020, we supported around 65% of the shareholder resolutions directly related to climate change. Each resolution was assessed in terms of its relevance and practicability. Our engagement also informed our voting decisions, particularly where this demonstrated that companies were actively working on improving their climate strategy. In some cases, although we agreed with the spirit of those requests, we had to abstain or vote against the proposals as the specific requests of the resolution were too prescriptive, and we took a view that management needed more discretion to identify the most suitable decarbonisation approach.

We are engaging with the companies impacted by our climate change voting approach to help them further understand our rationale and expectations. As investors, we expect to see adequate knowledge and responsibilities defined at the top level of the business. This enables companies to properly manage their decarbonisation journeys, and to provide high-quality disclosure of climate-related risks in the annual outputs.



"Taking a robust voting stance reinforces the messages we deliver to companies though our engagement on a range of ESG issues."

Kalina Lazarova, Director, Responsible Investment

Case study:
ExxonMobil Corporation

Our engagement on climate change with ExxonMobil dates back to 2013, with some of our early asks including calling for disclosure on the risks of a future decline in demand for fossil fuels. It is also one of the companies targeted by the $52 trillion Climate Action 100+ initiative, which BMO GAM supports.

Whilst ExxonMobil publicly accepts the need for action on climate change, and has undertaken steps to reduce its own operational footprint, its strategy falls short of the standards we now expect of companies, particularly the lack of a long-term Paris-aligned ambition and a strategy to get there. Engagement through CA100+ has not yet achieved sufficient progress.

At the company's AGM in May 2020, we therefore **voted against all non-executive directors**, on the basis that the board was failing to provide sufficient oversight of climate risks. This was the second year we have taken action, following our votes against the non-executive board members in 2019.

Our expectations for 2021

In 2021, we will expand the sectors covered by our voting approach. A key additional issue on our radar is deforestation. We plan to target those companies in the downstream economic sectors, for example, Consumer Discretionary and Consumer Staples, that have failed to acknowledge and to mitigate their impact on forestry. Automobiles will also be covered as a high-emitting sector in 2021.

In parallel, we will further tighten the criteria we use to judge company climate change management practices, focusing on measurable climate actions. We expect companies to set ambitious reduction targets and to disclose the timeframe for achieving those.

Higher expectations will be applied to companies covered by the Transition Pathway Initiative and the Climate Action 100+ Initiative. Both company groups have been well engaged by the participating investors in the past 3 years and, by now, we expect them to be able to demonstrate their capabilities in managing climate risks. With the urgency of action undeniable, we believe that investor stewardship needs to be forceful – and where basic expectations are not being met, and dialogue is not producing progress, the use of the shareholder vote is an essential tool to achieve change.

"The world is facing a climate crisis. Waiting for action by governments is not enough – investors and corporates need to take bold and ambitious action."

Vicki Bakhshi, Director, Responsible Investment

Responsible Investment – a glossary of terms

Its wide-ranging nature means that responsible investment involves a host of associated language and jargon. Here we explain some of the most commonly used terms.

Active ownership

Discharging responsibilities as investors and owners in a company through engagement and voting to influence the management of environmental, social and governance (ESG) issues.

Stewardship

The responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.*

Environmental, Social and Governance (ESG)

A framework that breaks the broad concept of sustainability down into these 3 key issues.

Engagement

Entering dialogue with companies after investment, to support and encourage positive change in the management of key ESG issues.

Proxy voting

Exercising the right to vote on resolutions at company shareholder meetings. It compliments engagement as a key tool for influencing change.

Sustainable Development Goals (SDGs)

The 17 goals set by the United Nations in 2015 are a global framework for achieving a better and more sustainable future. They address the global challenges we face, including those related to poverty, inequality, climate, environmental degradation, prosperity and peace and justice. The UN is targeting completion of all 17 interconnecting goals by 2030.

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bmogam.com

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* https://www.frc.org.uk/getattachment/5aae591d-d9d3-4cf4-814a-d14e156a1d87/Stewardship Code_Final2.pdf, p. 4. The Investment Association reserves the right to review its alignment with the FRC definition at any time.

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