BMO Green Bond Strategy
Impact Report

BMO Global Asset Management

Part of COLUMBIA THREADNEEDLE INVESTMENTS

Contents

This document does not constitute, and should not be construed as, investment advice or a recommendation to buy, sell or otherwise transact in the strategy. Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any companies that may be mentioned.

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

Changes in interest rates can affect the value of fixed interest holdings and may adversely affect the value of your investment. The income and capital due from bonds is dependent upon the issuing company's ability to pay and any default will adversely affect the value of your investment.

Making a positive impact

Responsible Investment is central to our corporate identity and is embedded in our investment philosophy. In the past 36 years we have developed a range of Responsible Investment products and services, covering both equities and fixed income strategies.

We recognise that the financial industry can play an important role in supporting the global transition to a lower carbon economy. Tackling climate change is essential to meeting globally recognised initiatives, including the Paris Agreement and the Sustainable Development Goals (SDGs), especially SDG 13 on Climate Action.

As asset managers, we have a privileged and trusted position as stewards of capital, which gives us both influence and responsibility to encourage sustainable investment practices. The BMO Green Bond strategy helps to fulfil this responsibility, by creating a quality investment product with measurable impact.

Our Green Bond strategy is underpinned by a robust screening process, which has enabled us to create an investment universe upholding high ESG and Green Bond standards, while meeting the investment criteria pioneered by our specialist Fund Managers and team of Responsible Investment specialists. Our obligations as a responsible investor then continue beyond the point of investment, and we are committed to using our influence as investors to continue to develop the quality of the Green Bond market and to discourage "green-washing" through engagement.

In this Impact report, the third for this strategy, we highlight our work over the past year, and demonstrate how we are identifying and measuring the impact it has in relation to global environmental challenges. This impact report follows the SDG framework, which is of growing importance in the investment community as a structured way to think about how we could contribute to the global community. Some examples of the impact indicators applied in this report include annual avoided emissions, energy savings, water that's sustainably managed and clean energy production.

The green bond market is ever evolving, as new types of instruments and market participants continued to debut the market in 2020. Therefore, we have also included a green bond market commentary in this impact report to help you understand the latest market trends.

Responsible Investment team

Our Green Bond Strategy is built on a philosophy of:

Avoid: Avoid companies with damaging or unsustainable business practices

Invest: Invest in companies making a positive contribution to society and the environment

Improve: Use our influence as an investor to encourage best practice management of environmental, social and governance issues through engagement and voting

Report: Yearly impact reporting

Achieving a positive impact through our investments

The proceeds of the Green Bonds we invest in are allocated to eligible projects which have a positive environmental impact. Here we provide an overview of some of these projects, and quantify how they are having a positive effect.

Reporting on impact

As part of our assessment of each Green Bond issuance we carefully consider the issuer's alignment with the Green Bond Principles (GBP), which are internationally-recognised voluntary process guidelines. In 2020, we also saw the consultation of the EU Green Bond Standard, which we believe would improve the existing market practices in its current form. We expect EU issuers, at the very least, to follow the Standard and to put in place better asset selection approaches, proceed management frameworks and more comprehensive impact reporting.

Reporting is already one of the core components of the GBP; issuers should ideally disclose on an annual basis the expected impact of the projects to which the proceeds of their Green Bonds have been allocated. This information can either be provided on a project-by-project basis or, if this is not possible, on an aggregated basis.

Regardless of sector, we highly value and encourage transparency in issuers' reporting, because this assures us that the proceeds of the Green Bonds we invest in have been allocated to projects in alignment with the GBP, in addition to enabling us to evaluate their positive impact. On these pages we provide an overview of four Green Bond projects linked to issuances we have invested in.

VF Corp

Recycled Materials, Sustainable Cotton and Energy Efficiency

Over 970,500 m3 of water saved annually, 16,000 tonnes of CO2 emissions avoided, 2 million trees being planted by over 9,700 farmers being trained on reforestation

Background: The apparel and footwear industry can generate a lot of waste that has significant upstream environmental and social impacts if not properly managed. VF has been improving its sourcing strategy and product design in the past decade to address these issues. This green bond finances 13 projects that would help further reduce the impact across its value chain.

Impact: The green bond financed the procurement of over 37,000 metric tonnes of preferred materials and sustainable cotton, and contributed to the green buildings and energy efficiency improvements of VF's operations. In total, over 15million kWh of renewable energy was used at VF's EMEA facilities in the first year. VF also trained 9,719 farmers to help with its reforestation projects, resulting in 2 million trees being planted with significant CO2 sequestration.

National Grid

Improving Renewable Energy Connectivity in the UK

A series of green bonds financing 3,553 MW of renewable energy connection, enabling the avoidance of over 8 million tonnes of CO2 emissions

Background: The UK has committed to reach net zero emission by 2050 since passing the law in 2019. To achieve this target, there needs to be additional renewable energy installation capacity, alongside better coverage and stability of transmission networks throughout the country. As one of the key grid operators, National Grid has committed to issue a series of green bonds to fund renewable energy-related grid expansion and improvement projects. The company has already issued 4 green bonds and successfully raised £646.2 million during 2020.

Impact: The 4 bonds funded close to 40 projects to add an additional 3,553 MW of renewable energy to the grid. These green bonds also financed some clean operation projects, resulting in over 3,000 tonnes of avoided emissions and 83 km of rail being electrified.

> "As the green bond market continues to grow, we expect issuers to apply credible assessment methodologies to reflect on the genuine environmental benefits of the green bond projects."
>
> **Derek Ip, Responsible Investment**

Banco Santander

Renewable Energy Projects
across EU and America

Financing 2.8 million MWh of renewable energy generation,
resulting in over 900,000 tonnes of CO2 avoidance

Background: Banco Santander issued its first green bond for EUR 1 bn back in Oct 2019, focusing on 16 solar and 16 wind power generation projects mainly in the EU, US and Chile.

Impact: The proceeds from the green bond have financed the installation of capacity totalling 1,230 MW. In 2019 alone, Banco Santander's share of renewable energy production from these projects amounted to over 2.8 million MWh, achieving over 900,000 tonnes of CO2e avoidance.

ESB Finance

Wind Farms, Smart Meters, EV Infrastructure
and Green Buildings in Ireland and the UK

Financing 5 new wind farms, over 15,000 smart meters and 138 EV fast chargers
resulting in close to 200,000 tonnes of CO2 emissions being avoided

Background: ESB, the state owned utility company in Ireland, issued a green bond in 2019 to finance its onshore and offshore wind power generation investments. The green bond also targeted smart meter roll-out and EV infrastructure in Ireland.

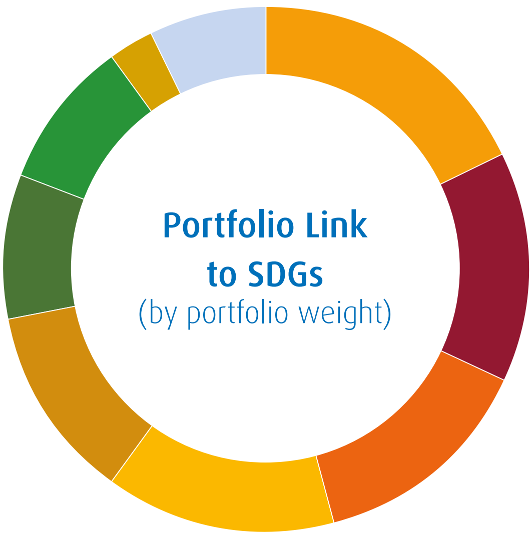
Impact: Over EUR498.5 million was allocated by March 2020. The green bond has financed a total of 468 MW of new onshore and offshore capacity across 5 wind farms. These are expected to avoid close to 200,000 tonnes of CO2e per year. The bond has also financed over 15,000 new smart meters, which help with managing household electricity demand. Over 138 fast chargers for electric vehicles have also been installed to accelerate demand side decarbonisation.

Alignment with the Sustainable Development Goals

The Sustainable Development Goals (the "SDGs"), consisting of 17 goals to be reached by 2030, were launched in September 2015 with 193 countries as signatories. These 17 goals address the most important economic, social and environmental challenges facing the world today.

We believe that environmental health is key to achieving the SDGs. Not only are 5 of the 17 SDGs – namely SDG 6, SDG 7, SDG 13, SDG 14 and SDG 15 – inextricably linked to overcoming environmental challenges, the progress made towards these goals will have a direct impact on whether other SDGs can be achieved, in particular SDG 1 (No Poverty), SDG 2 (Food Security), and SDG 3 (Good Health and Well-Being).

Ultimately, the quality of our environment affects all countries and companies, and therefore action taken to improve it contributes to achieving every SDG.



With direct impacts in mind, we mapped the Green Bonds we are invested in to the SDGs: we mapped the "eligible green project categories" to the high-level mapping provided by the International Capital Market Association (ICMA). The outcome of this exercise is shown below:

11	8	9	7	12	13	3
18%	14%	14%	14%	12%	9%	9%

2	Other
3%	7%

Source: BMO Global Asset Management; HSBC Green, Social, Sustainability Bond database – based on Dealogic, CBI, Bloomberg – including Green Bonds and their Use of Proceeds. For Green Bonds with multiple projects that link to different SDGs, we assumed an equal allocation of proceeds to those projects.

The Green Bond Fund's projects are most strongly linked to SDG 11 (Sustainable Cities and Communities), connected to projects in categories including clean transportation, green buildings, pollution prevention and control as well as sustainable water and waste water management, which contribute towards making human settlements more inclusive, resilient, safe, and sustainable. SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure) and SDG 7 (Affordable and Clean Energy), which principally includes renewable energy projects, such as wind farms, solar farms, and biomass plants, also feature prominently in the fund. SDG 12 includes bonds which finance eco-efficient and/or circular economy adapted products and production processes, while SDG 13 (Climate Action) covers projects which build adaptive capacity and resilience to climate change, such as the restoration of the River Emscher in Germany.

> The next three years will determine the course of the next 30 years and beyond. If we do not [take action] we will surely see a rebound in emissions. If emissions rebound, it is very difficult to see how they will be brought down in future.
>
> **Dr Fatih Birol, International Energy Agency**

Source: https://www.theguardian.com/environment/2020/jun/18/world-has-six-months-to-avert-climate-crisis-says-energy-expert

Making an impact through our engagement

We strive to use our voice as investors to further improve the quality of the green bond market over time, through active engagement with issuers and industry groups. With 20 years of experience running an investor engagement programme, we strongly believe that investors can be a powerful and positive force for change.

The quality of the Green Bond market, including issuers' processes and reporting, has dramatically improved over time, particularly since the launch of the Green Bond Principles (GBPs) in 2014. However, because these are voluntary in nature, investors are still presented with challenges which could potentially undermine the integrity of Green Bond funds. One such challenge is "greenwashing", which is when an issuer attempts to mislead the market about its commitment to being a responsible corporate stakeholder. To protect our clients from greenwashing, our Responsible Investment (RI) specialists screen issuers and issuances to determine whether or not they are compliant with our internal standards for Green Bonds.

In addition, we see green bond issuances as an opportunity to help issuers in further improving their overall ESG performances through increasing the proportion of green assets in their portfolios. We encourage issuers to improve their long-term management of ESG risks and, where applicable, to strengthen their adherence to the GBPs, alongside active dialogue with investment banks, regulators, auditing firms, and other stakeholders.

In our experience, the following factors all contribute to engagement success:

- Establishing the business case. Whether discussing Green Bond-specific or wider ESG issues, we strive to explain to companies how managing these issues well can help to attract capital, reduce risk, and support long-term financial returns.
- Building long-term relationships. A single meeting with an issuer rarely results in change. We aim to build long-term relationships – a strategy which includes, where possible, meeting issuers in person.
- Leveraging the expertise of a specialist Responsible Investment team. Our engagement is led by our in-house RI team, in collaboration with our portfolio managers. The RI team has deep expertise in ESG issues across sectors and regions, as well as a range of language skills to facilitate impactful engagement.
- Working with multiple stakeholders. BMO Global Asset Management became a GBP member in 2015, and supports many other initiatives that aim to improve the quality and integrity of the Green Bond market.

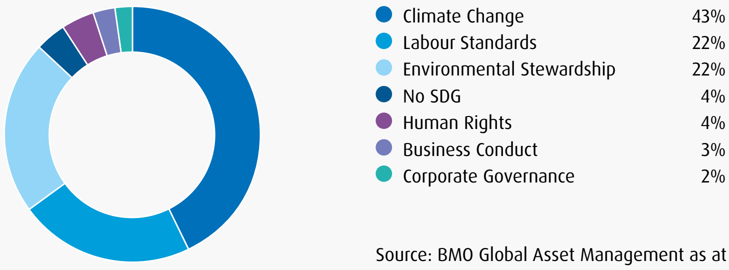
Since the inception of the strategy in 2016, we have engaged 66% of portfolio issuers. We have used a wide range of engagement methods, including 273 meetings, half of which were with senior executive or board members.

It should come as no surprise that most of our engagement revolved around environmental issues (66%), with climate change remaining a key priority area (43%). Going forward, we will continue to engage on Green Bond issuers' project evaluation and selection processes, impact reporting, and development of robust climate strategies. Regarding the last of these engagement areas, our focus is primarily on decarbonisation strategies and companies' alignment with the guidelines published by the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD), which aim to bring greater consistency to companies' and investors' reporting on climate relevant analysis. We have also engaged companies on issues such as water conservation and biodiversity, and addressed corporate governance-related concerns.

> We focus on using investor influence to develop a high-quality and sustainable market that can genuinely solve financing challenges of mitigating climate change globally.
>
> **Tim Bonds, Sustainable Bond Specialist**

Engagements by Category (Jan 2016 – Dec 2020)

We engaged 66% of portfolio issuers from 21 countries



Source: BMO Global Asset Management as at Dec-20.

Engagement case studies

Barclays on portfolio decarbonisation

Engagement on sustainability strategy, focusing on climate change

We've been engaging with major international banks to encourage commitments to the Paris Agreement and to put in place proper climate risk management framework to help achieve so. Ahead of its May 2020 AGM, Barclays received a shareholder resolution by UK charity ShareAction, urging it to phase out the provision of financial services to companies in the energy and gas & electric utilities sectors that were not aligned with the Paris Agreement. We met with the board chair to discuss this shareholder proposal which we were supportive of. Whilst the board chair tried to convince us not to support the resolution, the company later submitted a counter management proposal which stated their version of a net zero ambition. This will involve transitioning its portfolio in line with the goals of the Paris Agreement over the next 30 years. The management proposal was supported by almost all of its shareholders.

Our view

We believe that Barclay's commitment is a very positive development. Meanwhile, we think that there are still unanswered questions that need to be addressed, for example, its existing fossil fuel exposures that are seemingly not aligned to the ambition of the Paris Agreement. We will continue our engagement with Barclays, focusing on the transparency of progress made to this ambition, and the pace of portfolio transition in future years.

Engie

Engagement on 2050 Net Zero Commitment

We co-signed an investor statement made to the 2020 Engie AGM, and had a meeting with Engie's management team on their energy transition plan as part of the Climate Action 100+ Initiative. The company signed up to the Powering Past Coal Alliance back in 2018, which signalled their intention to divest from coal and replace the fuel with renewable energies. We asked for details of its business plan to achieve this 2050 ambition, while encouraging the company to set clear short- & medium-term targets to deliver the ambition on a step by step basis. We also encouraged the company to set a 2050 carbon neutrality ambition. The company re-illustrated their current focus on all the possible power generation alternatives to coal and gas, rather than negative emission technologies like Carbon Capture & Storage (CCS) to maintain its existing fuel mix. This doesn't preclude the possibility of setting a carbon neutral commitment at a later date.

Our view

We feel comfortable with this argument as the company has been actively looking into options to divest or retire its thermal coal fleets. We also believe that the green bond will help Engie to scale renewable energies and to accelerate in making real progress in the next decades in parallel to its coal and gas divestment schedule. We will continue to engage with the company to reflect these in the remuneration metrics and to align its public policy lobbying position to the Paris Agreement

Growing Green: the rise of green and sustainable corporate bonds

The Green Bond market has grown rapidly in recent years, and Green Bonds have emerged as an effective investment tool to finance the transition to a low-carbon economy.

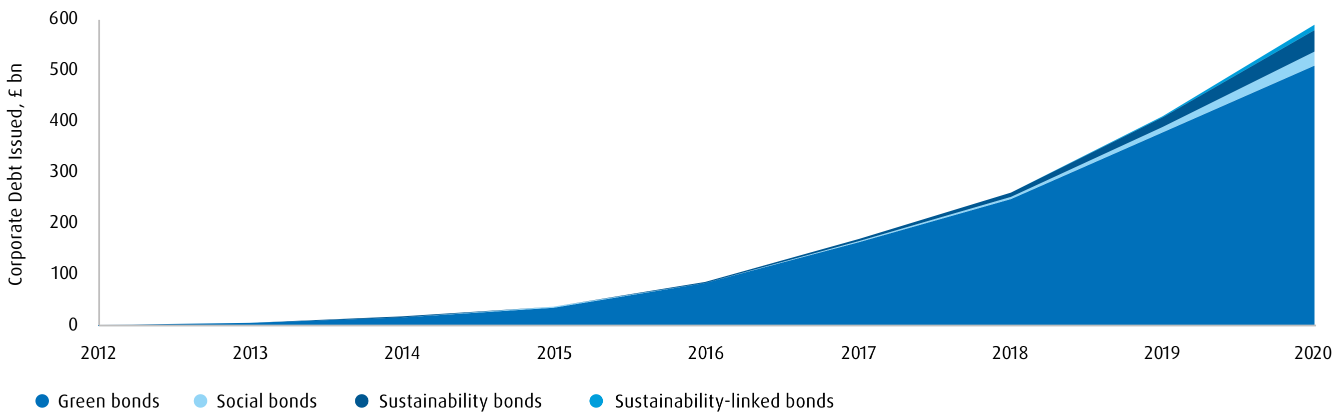
2020 saw an increase in the volume of green and sustainable-linked bonds issued and in the breadth of industries issuing: a growth trend set to continue into 2021. Green bonds finance projects meeting a specific set of environmental criteria, while sustainable-linked bonds have financial penalties (usually a coupon step) if a company misses a set of sustainability targets over a set period.

The green and sustainable corporate bond market has risen in size from below £70bn of debt outstanding in 2014 to above £600bn in 2020. Approximately £140bn of green or sustainable corporate bonds were issued in 2020 globally, 12.5% more than 2019. The largest corporate green issuers in 2020 remained within the utilities sector, but companies in the real estate, industrial and auto sectors have also begun issuing large sums. Forecasts vary, but we expect another £140-£160bn of green and sustainable corporate bond issuance in 2021.

The breadth of industries issuing green and sustainable bonds will continue to widen. Sustainability-linked bonds are more accessible to many companies looking to issue ESG-friendly bonds, who would be ineligible to issue green-bonds. Particularly sectors that have difficulty in abating emissions. Cement manufacture, for example is a necessary activity, without a substitute, but also a heavy polluter. A new cement plant would be unlikely to qualify for a green bond, but a cement company could issue a sustainable-linked bond to demonstrate its commitment to emissions reduction (through plant upgrades, new technology and research into different feedstock), biodiversity preservation, as well as other sustainability targets. In 2018, sustainability-linked debt made up 10% of green and sustainable issuance. This rose to 28% in 2020 and is likely to only increase further, particularly as regulatory pressure continues to intensify.

Assessing the credentials of eligible green projects and the feasibility and meaningfulness of ESG targets, as well as corresponding penalties, is hence valuable when deciding to invest in these instruments. It is also key in deciding whether to favour a green or sustainable bond over the rest of a company's debt structure, particularly while there is a green-premium.

Corporate Green, Social and Sustainability Bonds Issued, £ bn



Source: BMO Global Asset Management, Bloomberg. 31st December 2020.

The teams behind the strategy

Our Green Bond team is comprised of experts in responsible investment, credit analysis, portfolio construction and interest rate management. These experts draw on the wider resources of our Responsible Investment, Credit & Interest rate teams at BMO Global Asset Management.

The Green Bond analysts define the investable universe by following a robust screening process. They protect the integrity of the strategy and screen out issuers which do not meet minimum ESG criteria, as well as issuances which fail to meet the Green Bond Principles. The investment specialists in the team then create a portfolio from the screened investment universe that balances the optimal blend of credit risk and interest rate risk in line with other similar fixed income portfolios.

Issuers approved for inclusion in the Green Bond strategy are engaged by the Responsible Investment team to improve adherence to the Green Bond Principles and to encourage best corporate practice in this regard.

Effective Green Bond management requires a blend of different skills

Responsible Analysis & Engagement

Alice Evans
Co-Head of Responsible Investment

Claudia Wearmouth
Co-Head of Responsible Investment

Rates analysis and portfolio management

Keith Patton
Global Head of Unconstrained Fixed Income

Credit analysis and portfolio management

Ian Robinson
Global Co-Head of Income and Head of Credit EMEA, Fixed Income, EMEA

Day-to-day portfolio management

Tim Bonds
Sustainable Bond Specialist

Derek Ip
Sustainable Bond Specialist

17 additional responsible specialists

James Lindley
Lead Rates

8 additional rate specialists

Andrew Brown
Lead Credit

Rebecca Seabrook
Alternate Credit

25 additional credit specialists

Contact us

Institutional business:

+44 (0)20 7011 4444

institutional.enquiries@bmogam.com

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