





ESG Viewpoint

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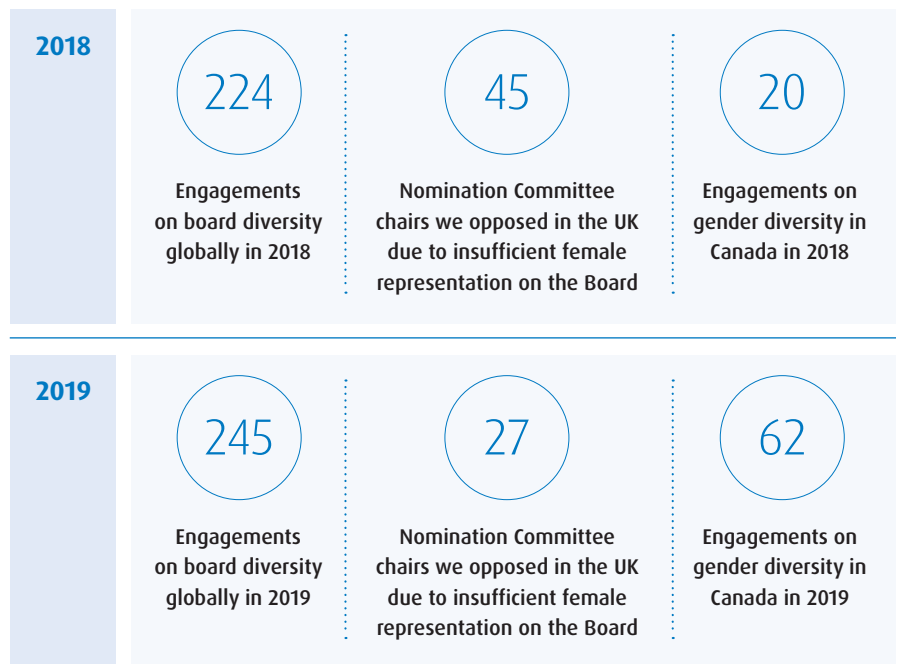
Key risks

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.

Gender Diversity – a decade of progress, but it must continue

We recognise the value that diversity in the boardroom and senior management can bring to an organisation. A relevant and suitably diverse mix of skills and perspectives is critical. Companies should therefore increase the level of diversity at the board, management and all levels of the organisation to ensure that they draw on the richest possible combination of competencies, experience and outlooks.

For several years, BMO Global Asset Management has placed great emphasis on gender diversity via multiple avenues, including: internal initiatives and targets; engaging and voting to support diversity; and supporting industry groups such as Catalyst and the 30% Club. In fact, it is a decade since the first 30% Club chapter was founded in the UK. We were founding members of the group and continue to support its efforts today, in the UK and in further chapters that have been established internationally. We are also members of the Diversity Project. The aim of this group is to accelerate progress towards an inclusive culture in the investment and savings profession.





Our focus is not only on board-level gender diversity. We also engage companies on diversity and equal opportunities within organisations. Dialogue with companies around the world on diversity remains a focus area for the coming years. Despite what has been achieved over the past decade, there is still a long way to go globally before genuine diversity within industry is achieved.

Diversity and equal employment opportunity

Recruiting and hiring from the widest possible talent pool is in the best interests of companies, as is maintaining a diverse workforce. We support efforts to strengthen non-discrimination policies, achieve diversity objectives and address “glass ceilings” and “the broken rung of the ladder” at all levels within organisations. We welcome disclosure of specific diversity targets and reporting on performance against these targets, as well as reporting on gender and ethnicity pay gaps within companies and plans to address these. We will look for disclosure of how measures to increase diversity have been applied and the take up of these measures. In an environment where many industries and companies are facing shortages of skilled workers and, therefore, increasing competition for talent, it is advisable and appropriate for company policies and practices to exceed legal requirements in order to attract and retain employees. Where there is cause for concern, we may support resolutions calling for the introduction of practices to this effect.

Specifically, through our engagement we will press companies to:

- Make a public commitment at leadership level to a diverse workforce and explain links to company strategy;
- Provide disclosure on diversity within the organisation, as well as goals and measures for increases in staff diversity;
- Develop policies and measures on hiring procedures, such as specific objectives, and shortlists with balanced numbers of male and female candidates;
- Establish professional development programmes for women at all levels such as mentor and sponsorship programmes, family-friendly policies and job-sharing models;

“

Companies that are within the top quartile for gender diversity on their executive teams are 15%-24% more likely to achieve above-average profitability than companies in the fourth quartile.

McKinsey 2019

- Disclose how measures to increase diversity have been applied and the take up of these measures; and
- Disclose results of gender pay gap assessments across the company, and what actions will be taken as a result.

A focus on Germany

Germany has seen significant legal developments regarding diversity (including beyond gender) in the last few years. During 2019 we carried out a root and branch analysis of DAX 30 companies to understand how why they continue to lag peers on gender diversity at senior levels. We evaluated the policies in place and measures already being implemented to address the gender gap. Our engagement revealed more awareness on the issues than had been apparent from their public disclosure – but practice varies widely. As a follow-up to the project, we communicated our expectation to all companies involved as noted above.

A focus on US & Canada

2019 saw investors raise the bar for US and Canadian company directors, particularly on diversity, with female board appointees reaching a record high of 45% in the US. In July, we saw the last remaining all-male board in the S&P500 at Copart Inc. announce the appointment of a female executive to the board. However, hundreds of smaller Russell 3000 companies continue to lack diversity. In the TSX Composite, the proportion of companies that

had all-male boards declined slightly to 2%, although almost half of all Canadian companies outside of this core index lack female board representation.

Many investors also ramped up pressure on laggards by targeting the election of individual directors who had responsibility for board policies, most commonly the Chair of the Nomination Committee. In some instances, votes against reached over 25% of total votes cast on those in this role at companies with all-male boards.

We continue to engage and encourage companies to meet the 30% Club's target. We will use our voting power to drive change at board level where we consider not enough has yet been achieved. We will not support the election of Nomination Committee chairs or other relevant directors onto the board without requisite female representation and where there is unwillingness to fully address the issue.

For 2020, we have expanded the coverage of our voting policy on diversity from the S&P500 to the entire US market. In Canada, we now expect all TSX Composite companies to put in place a policy that aims to increase gender diversity on

the board. Our expectation is that there be at least two female directors on the board for a company within this index.

For a second year running, we have written to US and Canadian investee companies to highlight our expectations for improved board diversity across these markets.

2020 Voting Rule Changes

We seek to set sensible, market-appropriate thresholds based on evolving markets practice, investor good practice expectations and actual board diversity data across main markets. As touched on above in relation to the US and Canada, we have further developed our voting stance on companies around the world for 2020. Changes to the US and Canadian policies seek to address the "one and done" phenomenon of appointing one female director at a wider range of companies. In addition, we have now introduced a baseline diversity voting policy that will apply to all markets¹ and companies regardless of size, referred to below as the global minimum standard.

The table below shows the voting policy for 2020 and the 2019 policy as applied.

Voting policy for 2020 and the 2019 policy

| | Large Cap | Smaller Cap |
|--------------------------------|---|--|
| US | <p>2020: Russell1000 – Vote against Chairman of Nomination Committee where there are less than two females on the board.</p> <p>2019: S&P 500 – Consider voting against the Chairman of Nomination Committee where there are less than two females on the board.</p> | All other US companies – Vote against the Chairman of Nomination Committee where there is less than one female on the board. |
| Canada | <p>2020: TSX Composite – Consider voting against the Chairman of Nomination Committee where there are less than two females on the board.</p> <p>2019: TSX 100 – Consider voting against the Chairman of Nomination Committee where there are less than two females on the board; TSX Composite – Consider voting against the Chairman of Nomination Committee where there are no females on the board.</p> | |
| UK | <p>2020: FTSE 350 – Vote against the Chairman of Nomination Committee where there is less than 30% female representation.</p> <p>2019: FTSE 100 – Vote against <30% female representation; FTSE350 – <15% females on board.</p> | |
| Continental Europe | Companies are largely subject to legal quotas of 30%-40% female representation. | Our approach to follow the provisions for larger companies. |
| Global minimum standard | At least 1 female director to serve on the board. | |

¹ Excluding frontier markets

As part of our engagement and analysis of the company, we will consider mitigating factors such as a commitment to appoint additional female directors.

Our parent company, BMO Financial Group, is a corporate signatory to the 30% Club, and 40% of its senior leader roles and more than one-third of its independent board seats are occupied by women. Diversity is one of BMO's core values, and we made two important commitments in 2019 that support and strengthen our diversity and inclusion programs. BMO became the first Canadian bank to sign the United Nations Women's Empowerment Principles – a commitment to promote female leadership in our workplace, in the marketplace and in the community. We also pledged our support for the United Nations LGBTI Standards of Conduct, which guide us on fully respecting the human rights of LGBTI people.²

As momentum for more diverse management structures becomes better understood around the world, we will continue to ensure our voice is heard and that companies in which we invest challenge themselves to progress.

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How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our **reo**[®] engagement service, through which we provide engagement and voting services covering global equities and credit.



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² <https://corporate-responsibility.bmo.com/reports/>