Operating Principles for Impact Management Disclosure Statement

May 2021

At BMO, our Purpose is to **Boldly Grow the Good *in business and life***. We have committed to deploy $300 billion in capital to clients pursuing sustainable outcomes. As part of this we established a $250 million BMO Impact Fund (the "Fund"), to find and scale solutions to sustainability challenges.

In May 2020, BMO became the first major bank in Canada to sign the Operating Principles for Impact Management ("the Principles"). The Principles set a market standard for investing in which investors seek to contribute to measurable positive social or environmental impacts alongside financial returns, in a transparent and accountable way.

This Disclosure Statement affirms that BMO has established procedures that ensure investments made through the BMO Impact Fund are managed in alignment with the Principles. The Disclosure Statement covers investments made during our first year as a signatory to the Principles (May 1, 2020 – April 30, 2021), in relation to the Fund. The total value of the covered assets in alignment with the Principles is US$23 million as of April 30, 2021. Future releases of this Disclosure Statement will be published annually as part of BMO's Sustainability Report.

Principle 1:

Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

BMO's impact investing strategy in relation to the Fund is set by BMO's Sustainable Finance team. The objective of BMO's $250 million Impact Fund is to find and scale impactful solutions that facilitate the achievement of our corporate clients' sustainability goals across three themes: decarbonization, circular economy, and sustainable food and agriculture. These themes can be further categorized into eight focus areas. Impact theses based on empirical evidence or well-established science have been developed for each of these focus areas. These theses and are set out in the table below and describe the role the solution can play in achieving sustainability goals as described in, for example, the United Nations Sustainable Development Goals and/or the Paris Climate Agreement. The Fund may also consider opportunities outside of these focus areas where a credible impact thesis can be developed.

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BMO Impact Fund Areas of Focus	Impact Thesis	SDG Contribution
Renewable Energy and Storage	To achieve the goals of the Paris Climate Agreement, increased electrification of energy and a rapid decline in the carbon intensity of electricity are required. Increasing the share of electricity generated from renewable sources and improving energy storage contribute to this outcome.	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Carbon Capture, Utilization, and Storage	Carbon dioxide capture, utilization and storage (CCUS) has the potential to contribute to the goals of the Paris Climate Agreement by abating fossil fuel emissions in electricity generation and industrial processes, in instances where they are difficult or expensive to avoid.	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION
Reforestation	Afforestation (planting new trees) and reforestation (replanting trees where they previously existed) are important nature-based solutions to climate change for the role they can play in absorbing and storing GHGs, regulating water levels, protecting shorelines from storm surges and erosion, increasing biodiversity, and lowering air temperatures.	13 CLIMATE ACTION; 15 LIFE ON LAND
Industrial and Supply Chain Efficiency	The reduced consumption of resources will have a significant contribution to achieving the goals of the Paris Climate Agreement. By increasing efficiency across their production processes and supply chains, businesses can meaningfully reduce their carbon footprint, above and beyond simply recycling their outputs.	7 AFFORDABLE AND CLEAN ENERGY; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
Waste Management and Circular Economy	The dominant economic model in which we use and dispose of resources puts pressure on our natural systems and results in environmental degradation. Recycling, repairing, reusing, repurposing or refurbishing products and materials reduces demand for raw materials and eliminates waste which can reduce greenhouse gas emissions associated with production and disposal.	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
Materials	Environmentally-sound disposal methods will be unable to keep up with the growing volumes of waste from material extraction, production and consumption. To achieve circular economy objectives, packaging, construction materials and manufacturing inputs that enable circular value retention and recovery strategies, contribute to circular economy objectives.	8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION
Food / Agtech	Improving the productivity of existing agricultural systems, including through technological innovation and biotechnology, can improve the sustainability of land management practices, enhance food security, contribute to rural economic development, improve human health and reduce the emissions and water intensity of food production. Impacts associated with agriculture can also be mitigated through innovations in food products that encourage shifts in dietary choices to food products with lower emissions and land requirements and reduce food loss and waste.	2 ZERO HUNGER; 3 GOOD HEALTH AND WELL-BEING; 8 DECENT WORK AND ECONOMIC GROWTH; 12 RESPONSIBLE CONSUMPTION AND PRODUCTION; 13 CLIMATE ACTION; 15 LIFE ON LAND
Risk Software	Climate change, and other environmental and social matters, pose significant risks to the global economy. Data tools and software solutions can help organizations develop robust, data-driven risk mitigation measures that strengthen long-term economic stability by enhancing understanding of the potential magnitude, time horizon and financial and non-financial impacts of such environmental and social risks and.	8 DECENT WORK AND ECONOMIC GROWTH; 9 INDUSTRY, INNOVATION AND INFRASTRUCTURE; 11 SUSTAINABLE CITIES AND COMMUNITIES; 13 CLIMATE ACTION

Principle 2:

Manage strategic impact on a portfolio basis.

The Manager shall have a process to manage impact achievement on a portfolio basis. The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

The Fund considers a diverse range of investment opportunities. Our impact assessment procedures include an analysis and tracking of impact using a bespoke impact assessment methodology leveraging standards including the Impact Management Project's (IMP) Impact Management Norms, the Global Impact Investing Network (GIIN)'s IRIS+ catalogue of metrics and resources from the United Nations Environment Programme Finance Initiative (UNEP-FI)'s Positive Impact Initiative.

Strategic impact is managed at a portfolio-level by directing investments toward 3 broad impact themes:

1. Decarbonization: through electrification, energy efficiency, energy storage, greenhouse gas emission sequestration, and other solutions.
2. Circular economy: through waste management, recycling, sustainable products/packaging/materials, and other solutions.
3. Sustainable food and agriculture: through production efficiency improvements, product innovations, and other solutions.

In managing impact at an individual investment level, the Fund works with investees to identify impact metrics that reflect their business and sustainability impact. Impact assessment is updated at least annually as part of ongoing investment reviews. To allow flexibility in how investee organizations identify, measure and track impact, it is not our intention to aggregate impact metrics at a portfolio level.

Principle 3:

Establish the Manager's contribution to the achievement of impact

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

The Fund contributes to the achievement of impact in the following ways:

1. Capital contribution: Capital provided by BMO will simultaneously scale the investee's business and resulting impacts.
2. Active engagement: the Fund actively engages with investee companies, using our expertise, networks and influence to proactively improve the investee's impact performance.
3. Access to BMO's network: Through investment, the Fund will help investee companies scale their business by providing access to BMO's extensive network of experts as well as corporate and governmental decision makers and investors.
4. Access to BMO's knowledge and market expertise: The impact themes targeted by the Fund have been selected based on the impact needs of sectors in which BMO has developed expertise across our Commercial Banking, Capital Markets, and Wealth Management lines of business. These include mining, energy, food and agriculture, consumer retail and others. Investing in companies that can create valuable positive impact across our broader base of clients will allow individual investees to gain insights, better position their offering, and expand their access to various potential markets.

Principle 4:

Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact. In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

The Fund's impact assessment methodology is applied and documented to assess the impact of investments before the investment is made and at regular intervals thereafter. We document our evaluation across the following dimensions of impact:

1. **WHAT is the goal?** Questions identify the outcomes the potential investee is contributing to, including possible negative outcomes, and establish performance monitoring metrics.
2. **WHO is affected?** Questions identify which stakeholders are experiencing the outcome, assess how important that outcome is to the stakeholders and the mechanisms the potential investee has in place to gather stakeholder input.
3. **HOW MUCH change is happening?** Questions evaluate whether impact is occurring as expected.
4. **What is BMO'S CONTRIBUTION?** Questions evaluate how the Fund's investment is expected to result in outcomes better than would have occurred otherwise.
5. **What is the impact RISK?** Questions identify impact risks, evaluate their severity and likelihood, and assess risk mitigation measures in place.
6. **Considering EXIT.** Questions evaluate how the Fund is or will ensure that impact is sustained beyond the investment.

Impact assessment is presented as part of an investment proposal to the Investment Committee. Impact assessment is documented and updated at least annually and tracked against selected impact indicators.

Principle 5:

Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

The Fund's impact assessment methodology includes identification of potential negative impacts associated with the investee organization's business activities. To assist with both positive and negative impact identification, we reference the sector-to-impact map developed by the UNEP-FI's Positive Impact Initiative. The sector-to-impact map seeks to capture impact associations between economic activities and impact areas defined in the UNEP-FI's Impact Radar[1].

Where potential negative impact associations exist, the Fund engages with the investee to understand and document how such impacts are being avoided, and if avoidance is not possible, how potential negative impacts are, or plan to be, mitigated.

Our methodology also includes a systematic assessment of the risk that impact does not occur as expected. In evaluating individual investments, we assess whether nine types of impact risk that may undermine the delivery of impact are present. For each of the impact risks present, we assess the severity and likelihood of the risk on a scale of 1-3, where 1 is low and 3 is high. Risks are plotted on a matrix and those classified as high and medium risk will require risk mitigation measures.

1 The Impact Radar offers a comprehensive set of impact categories that capture the core elements of the SDGs. It is anchored in international definitions and standards and is part of a suite of resources designed for holistic impact analysis. It is available on the UNEP-FI website.

Principle 6:

Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework (referenced in Principle 4) to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

The Fund sets impact expectations with each investee organization by agreeing which impact indicators the investee will track and report to the Fund. Where possible, baseline impact indicators are provided or calculated, and time-bound targets are set. The Fund monitors and documents progress in achieving impact against pre-established targets.

Principle 7:

Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

We seek to create sustained, positive impact through investments, even after exit, and are committed to exiting responsibly. To promote a responsible exit, exit considerations begin prior to investment and continue throughout the investment lifecycle. We consider and document the following questions in the impact assessment methodology:

- Is impact inherent to the organization's business model? Where impact and business success are linked, the risk that impact not be sustained after The Fund's investment is reduced.
- What is the Fund's investment exit plan and how might that affect the longevity of impact? The Fund evaluates multiple dimensions, including impact longevity, when considering exit.
- Can the organization's founders clearly articulate impact and have they embedded impact considerations into the organization's governance mechanisms, policies, and/or culture? Where founders are motivated by impact and have integrated impact considerations into the company's governance, the risk that impact will not be sustained after the Fund's investment is reduced.

Principle 8:

Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

We review and document impact performance at least annually. We will engage closely with companies that are not progressing against stated impact goals to improve performance.

The goal of the Fund is to continuously improve our impact management procedures and methodology. We are actively engaged in industry associations and working groups focused on impact identification, measurement and management and will review and update our impact management processes as needed to align with good market practice and to embed learnings as impact management methodologies, and BMO's own capabilities, mature.

Principle 9:

Publicly disclose alignment with the Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

This Disclosure Statement describes the alignment of BMO's Impact Fund to the Principles. This Statement will be updated and disclosed in our 2021 BMO Sustainability Report.

BMO is currently preparing for independent assurance of our Disclosure Statement and has engaged a third-party to conduct a limited assurance of our processes and disclosures. We plan to conduct independent verification of our practices for our next Disclosure Statement and at least every two years, unless there are significant changes to our practices that warrant a more frequent review.

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