

## Investment Stewardship

# Vote Bulletin: Bank of Montreal

Company	Bank of Montreal (TSX: BMO)
Market and Sector	Canada, Financials
Meeting Date	13 April 2022
Key Resolutions <sup>1</sup>	<b>Item 7:</b> Proposal No. 4: Adopt a Policy to Ensure the Bank's Financing is Consistent with the International Energy Agency's Net Zero Emissions by 2050 Scenario
Key Topics	Climate risk
Board Recommendation	The board recommended shareholders vote AGAINST this shareholder proposal
BlackRockVote	BlackRockvoted AGAINST this shareholder proposal

### Overview

Bank of Montreal (BMO) provides banking and financial services to individuals and institutions, principally in North America.

BlackRock Investment Stewardship (BIS) has engaged regularly with BMO over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to the durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included discussions on material climate risks and opportunities, which BlackRock believes can be a defining factor in companies' long-term prospects.

In order to assess companies' strategies to navigate the energy transition, BIS engages with companies and, where we have authority to do so, votes proxies in the economic interests of our clients.<sup>2</sup> As discussed in our commentary, "[Climate risk and the global energy transition](#)," BlackRock's stewardship approach is based on our fundamental role as a fiduciary to our clients. As the world transitions over decades to a low-carbon economy, we are interested in hearing from the companies in which our clients are invested how they are assessing and managing the risks and opportunities arising from the global energy transition, while also managing for a reliable energy supply and a just transition. We look for companies to demonstrate they have plans that are

<sup>1</sup> Bank of Montreal, "[Notice of Annual Meeting of Shareholders and Management Proxy Circular](#)". Page 98.

<sup>2</sup> Voting on our clients' behalf, when authorized to do so, is one of our core Stewardship responsibilities. Without exception, our decisions are guided by our role as a fiduciary to act in our clients' long-term financial interests. We aim to be a supportive, long-term focused shareholder who takes the context in which a company operates into consideration and makes voting decisions to advance our clients' interests. Climate-related voting decisions carefully assess companies' risk oversight and mitigation, alongside their disclosures detailing how climate risk and opportunity are integrated into their strategy and plans.

resilient under likely decarbonization pathways well below 2°C, as well as the global ambition to limit warming to 1.5°C.

As investors, we understand that net zero pathways will not be linear or streamlined; the macroeconomic environment, including energy markets, is complex and volatile, and there is a great deal of regulatory and geopolitical uncertainty.<sup>3</sup> In this context, we believe the board and management are best positioned to determine what approach will best equip the company to navigate risks and opportunities in the context of the company's business model and sector. Thorough company disclosures allow investors to understand corporate climate action plans, track progress, and assess the strategic changes that a company may undertake to adapt their business models to respond to different energy transition scenarios.<sup>4</sup>

## **Rationale for BlackRock's vote**

### **Item 7: Proposal No. 4: Adopt a Policy to Ensure the Bank's Financing is Consistent with the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario (AGAINST)**

**BIS did not support this shareholder proposal because it is overly prescriptive, unduly constraining on management and board decision-making, and would limit the company's ability to support an orderly energy transition. Further, we consider the company to have made a clear commitment to align their business model with the transition to a net zero economy, which includes greenhouse gas (GHG) emissions reductions targets.**

At the 2022 annual general meeting (AGM), BMO had on the agenda a shareholder proposal requesting that the bank "adopt a policy by the end of 2022 in which the company takes available actions to help ensure that its financing does not contribute to new fossil fuel supplies that would be inconsistent with the IEA's Net Zero Emissions by 2050 Scenario."<sup>5</sup>

Upon analysis of the proposal, we believe that the text is overly prescriptive and unduly constraining on management and board decision-making. It is not BIS' position to tell companies what their strategies should entail,<sup>6</sup> as this proposal prescribes. Rather, we assess, based on their disclosures, their climate action plan, board oversight and business model alignment with a transition to net zero by 2050. Notwithstanding the shareholder proposal being overly prescriptive, based on their disclosures and our engagement with BMO, we consider the company to have made a clear commitment to align their business model with the transition to a net zero economy, as set out in their Net Zero Climate Ambition, announced in March 2021.<sup>7</sup> BMO's commitment includes targeting net-zero financed emissions in their lending by 2050. In support of that goal, the company has disclosed an initial set of targets by sector that will be achieved through BMO's efforts to support their clients in their respective climate transitions. In relation to the oil and gas sector, BMO's initial

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<sup>3</sup> BlackRock Inc., "[Managing the Net-Zero Transition](#)", February 2022.

<sup>4</sup> We recognize that companies cannot deliver the energy transition in isolation. A range of stakeholders, including policy makers and consumers, have a role to play to ensure a better equilibrium between supply and demand, given the global economy's current dependence on traditional energy sources and the parallel need to invest in cleaner energy alternatives and other technologies. In our engagements we may also discuss how companies see their role in achieving that equilibrium.

<sup>5</sup> Bank of Montreal, "[Notice of Annual Meeting of Shareholders and Management Proxy Circular](#)". Page 98.

<sup>6</sup> BlackRock engages on long-term corporate strategy, purpose and financial resilience to understand how companies are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans to address the risks and opportunities of their operations to deliver long-term value for their shareholders. We are not in the position, nor do we seek, to dictate a company's strategy or its implementation.

<sup>7</sup> Bank of Montreal. "[News Releases - BMO declares climate ambition](#)," 10 March 2021.

targets align with certain net zero models published by the IEA.<sup>8</sup> The company also committed, as part of its ambition, to report on progress annually from 2021 onwards.

BMO's 2021 Climate Report covers all four pillars of the framework developed by the Task Force on Climate-related Financial Disclosures (TCFD) – governance, strategy, risk management, and targets – which BIS welcomes. In line with TCFD recommendations, BMO is developing a climate scenario analysis program to explore climate-specific vulnerabilities. This program includes the evaluation of transition risks and/or physical risks, where relevant and potentially significant, across a selection of climate-sensitive portfolios. The results of the pilots conducted in 2019 and 2020 were published in the company's 2021 report.<sup>9</sup>

We also note that BMO is contributing to the development of climate action frameworks and standards in the context of their sector, which we believe should help accelerate progress across the market. Amongst others, BMO, or its subsidiaries, has joined industry and other private sector initiatives including the Partnership for Carbon Accounting Financials (PCAF), Net Zero Banking Alliance (NZBA), and Net Zero Asset Managers Alliance (NZAM) (part of the Glasgow Finance Alliance for Net Zero, GFANZ).<sup>10</sup>

In addition to our view that the company is actively addressing the risks and opportunities stemming from the net zero energy transition, we are concerned that this proposal's goal of preventing the financing of new fossil fuel would undermine an orderly, just transition, contributing to potential dislocations in energy, supply chain, and labor markets.<sup>11</sup> The IEA has been clear that it is important to ensure that the energy transition is people-centered.<sup>12</sup> BMO discusses in their Net-Zero Ambition statement how they plan to contribute to a just net-zero transition and note that financial regulators are similarly focused on that goal.<sup>13</sup>

We also note that companies face particular challenges in the near term, given under-investment in both traditional and renewable energy, exacerbated by the current geopolitical environment. In recent [research](#), the BlackRock Investment Institute (BII) viewed that reducing reliance on Russian energy in the wake of the invasion of Ukraine will impact the net zero transition that is already underway. Net exporters of energy are likely to be required to increase production, while net importers are expected to accelerate efforts to increase the mix of renewable energy in their systems. This set of dynamics will – at least in the short- and medium term – drive a need for investment in both traditional and renewable sources of energy.

To conclude, BIS did not support this shareholder proposal because it is overly prescriptive, unduly constraining on management and board decision-making, and would limit the company's ability to support an orderly energy transition. Further, based on their disclosures and our engagement with BMO, we consider the company to have made clear commitment to climate action, and are concerned that this proposal's goal of preventing the financing of new fossil fuel would undermine an orderly, just transition.

Consistent with BIS' long-term focus, we will continue to engage with BMO and monitor how the company is delivering on the commitments made in the Net Zero Climate Ambition. We note that the vast majority of shareholders supported management, with approximately 92% voting against the proposal that the company adopt a policy to not finance new fossil fuel supplies.<sup>14</sup>

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<sup>8</sup> Bank of Montreal. "[2021 Climate Report](#)." See pages 32-35.

<sup>9</sup> Bank of Montreal. "[2021 Climate Report](#)." See pages 25-26.

<sup>10</sup> For more information on these initiatives see pages 19-20 of Bank of Montreal's "[2021 Climate Report](#)."

<sup>11</sup> BlackRock, "How to invest in the net zero transition", February 2022.

<sup>12</sup> International Energy Agency (IEA), "[Global Commission of government leaders and prominent figures announces key recommendations for putting people at the centre of clean energy transitions](#)" October 2021.

<sup>13</sup> Bank of Montreal. "[2021 Climate Report](#)." See pages 13-14.

<sup>14</sup> Bank of Montreal. "[Report under National Instrument 51-102 – Report of Voting Results](#)."

## About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.<sup>15</sup>

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

**Want to know more?** [blackrock.com/stewardship](https://blackrock.com/stewardship)

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<sup>15</sup> As detailed in our [Global Principles](#), proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.