

March 20, 2023

Subject: **Proxy Alert Regarding the Racial Equity Audit Proposals at RBC and BMO**

Ahead of the upcoming annual meetings, SHARE and BC General Employee Union (BCGEU) recommend shareholders to vote FOR the shareholder [Proposal No. 3](#) at Royal Bank of Canada (RBC) and [Proposal No. 3](#) at Bank of Montreal (BMO).

The proposals specifically ask both banks to oversee and publish a third-party racial equity audit analysing their adverse impacts on non-white stakeholders and communities of colour. In other words, the proponents ask RBC and BMO to initiate an independent assessment of their employment and business practices to identify where the banks activities may contribute to perpetuating the racial wealth gap and what can be done to mitigate the negative impacts on communities of colour and Indigenous people.

1. Canadian Banks Must Play a Key Role in Addressing the Racial Wealth Gap

Banks are gatekeepers of economic opportunities for all Canadians

Wealth is a key component to economic security as it enables households to navigate economic downturns, facilitates individual economic mobility and drives economic growth more generally. The benefits of wealth accumulation for families extend to other opportunities that contribute to a more equitable and healthy economy including access to education, health, employment, and business opportunities.

The term 'racial wealth gap' refers to the difference in assets owned by different racial or ethnic groups, and this gap results from a range of economic factors that affect the overall economic well-being of these different groups. The term reflects disparities in access to opportunities, means of support, and resources.

Large wealth disparities among racial and ethnic demographic groups have been identified in both the U.S. and Canada.¹ A recent study from RBC reveals that despite a record surge

¹<https://www.federalreserve.gov/econres/notes/feds-notes/disparities-in-wealth-by-race-and-ethnicity-in-the-2019-survey-of-consumer-finances-20200928.html>

in household wealth, visible minorities in Canada are less likely to own homes, businesses and wealth-generating assets.² The contrast is stark: while non-visible minority households report a net financial wealth of CAD \$577,485, visible minority households are left behind with a net financial wealth of CAD \$249,484. The study recognizes that “had visible minorities owned homes at a similar rate to white Canadians during the pandemic, their collective net wealth would be CAD \$100B higher.”³

As critical intermediaries, financial institutions play a key role in society as they allow businesses and individuals to access economic opportunities through financial products and services, including facilitating transactions, providing credit and loan services, savings accounts, and investment management.

Despite this, access to financial services in Canada is an endemic problem for ‘low-income communities of colour.’⁴ Public reports indicate that racialized groups are more often subjected to poor service and grapple with cultural bias at Canadian financial institutions.⁵ In addition, Canadians who identify as visible minorities don’t have the same access to investments and other sources of wealth as white people.⁶ Furthermore, a 2020 academic review commissioned by the British Columbia Securities Commission estimates “unbanked” Canadians ranged from 3percent-6percent, and underbanked Canadians ranged from 15percent-28percent⁷. The review found that lack of access to banking services has disproportionate effect on Indigenous peoples⁸.

Research also shows that in the U.S., where both BMO and RBC have substantial operations, banks continue to play an integral role in reinforcing racial segregation and blocking the potential for the economic advancement of racialized communities by creating disparities in mortgage loans, credit system, and undercapitalization of historically marginalized groups, including communities of colour.^{9,10}

Canadian banks have a responsibility to ensure their business operations, practices, policies, products, and services do not cause adverse impacts on non-white stakeholders and communities of colour.

²<https://ca.rbcwealthmanagement.com/36.branch/blog/3219842-Unleashing-Opportunity-The-economic-gains-in-narrowing-Canadas-racial-wealth-gap>

³<https://thoughtleadership.rbc.com/unleashing-opportunity-the-economic-gains-in-narrowing-canadas-racial-wealth-gap/>

⁴https://bcbasicincomepanel.ca/wp-content/uploads/2021/01/Financial_Inclusion_in_British_Columbia_Evaluating_the_Role_of_Fintech.pdf

⁵<https://www.canada.ca/en/financial-consumer-agency/programs/research/mystery-shopping-domestic-retail-banks.html>;

⁶<https://www.cbc.ca/radio/costofliving/banking-while-black-1.5780927>; <https://www.retailbankerinternational.com/news/canadian-banks-should-report-borrowers-race-ethnicity-gender-groups-urge/>

⁷ <https://policyalternatives.ca/publications/reports/canadas-colour-coded-income-inequality>

⁸ https://bcbasicincomepanel.ca/wp-content/uploads/2021/01/Financial_Inclusion_in_British_Columbia_Evaluating_the_Role_of_Fintech.pdf

⁹ https://bcbasicincomepanel.ca/wp-content/uploads/2021/01/Financial_Inclusion_in_British_Columbia_Evaluating_the_Role_of_Fintech.pdf

¹⁰ <https://ncrc.org/holc/>

¹⁰ <https://www.npr.org/2020/07/16/891735316/how-racial-inequality-manifests-in-the-u-s-banking-system>

Public reports indicate that Canadians do not have an equitable access to banking and financial products and services

In recent years, RBC and BMO have both been the subject of negative media coverage regarding discrimination against customers and employees.

In June 2022, a Royal Bank of Canada (RBC) customer said he was pressured into signing up for a chequing account he didn't need. He also objected to a remark made by the agent about his accent. This experience mirrors the findings of the report from the Financial Consumer Agency of Canada (FCAC), which suggests that racialized customers at banks are more likely to be pitched inappropriate financial products compared to non-racialized customers. Also, the report found recurring issues with bank employees' conduct, including unclear communication and pressure on undecided clients¹¹.

In another incident, a couple from Quebec alleged they had been racially profiled by RBC after their bank account was blocked without any explanation. The couple, who own a joint account at the Bank, said they experienced unwarranted treatment by the Branch Manager because of the colour of their skin.¹² An Indigenous elder and his 12-year-old granddaughter were handcuffed and arrested in January 2020 while attempting to open a bank account at a BMO branch in Vancouver. Neither the customer nor his granddaughter's official Indian Status cards were recognized by the BMO bank employee.¹³

Each of these anecdotal instances are indicative of the wider scale of systemic concerns at the banks. These reports justify strong concerns from investors, as **corporate conduct that exacerbates systemic racism can also translate into risks for companies and negatively impact long-term shareholder value.**¹⁴

2. Failure to Address Racial Inequities Exposes Institutional Investors to Systemic and Company-Specific Risks

Exposure to Systemic Risks

Systemic racism is a global problem with broad economic repercussions threatening the long-term performance of diversified asset owners' portfolios. A 2019 report from McKinsey shows that the persistent racial wealth gap burdens the overall U.S. economy and estimates it may cost the U.S. economy 4 to 6 percent of the projected GDP, or US\$1 to

¹¹ <https://www.cbc.ca/news/business/banks-racial-discrimination-report-1.6473715>

¹² <https://montreal.citynews.ca/2021/12/13/couple-say-they-were-racially-profiled-by-rbc-after-bank-account-was-blocked-without-explanation/>

¹³ <https://www.cbc.ca/news/canada/british-columbia/indigenous-girl-grandfather-handcuffed-bank-1.5419519#:~:text=Canada,Indigenous%20grandfather%20and%2012%2Dyear%20old%20handcuffed%20in%20front%20of,at%20the%20Bank%20of%20Montreal>

¹⁴ https://www.majorityaction.us/s/MA_EquityintheBoardroom_2022REPORT.pdf

2 trillion by 2028.¹⁵ A report from Citi GPS published in 2020 suggests that the racial wealth gap between Black and white Americans has cost the U.S. economy up to \$16 trillion over the past 20 years.¹⁶ Since GDP growth is a key driver of portfolio returns across asset classes, the economic cost of systemic racial inequalities exposes universal asset owners to lower returns across portfolios.¹⁷

In addition to the systemic risk of racial inequalities, institutional investors are also exposed to company-specific risks including reputational, operational, legal, and regulatory risks, as articulated below.

Exposure to reputational, Operational, Legal and Regulatory Risks

Corporate action – or lack thereof – that is detrimental to communities of colour and Indigenous people represents material risks to companies and their shareholders.

Reputational and Operational Risks

Trust is essential for financial institutions to build customer engagement and retention and is a driver of reputation.¹⁸ A study from J.D. Power shows that customers' overall satisfaction substantially increases when their bank provides targeted and personalized financial advice.¹⁹ In contrast, the failure to provide adequate advice to customers and respond to their needs equitably may deteriorate a company's brand. Canada's banks could face greater reputational and regulatory risks if it is perceived that they are not sufficiently meeting the needs of all Canadians.

A 2019 report from the Financial Consumer Agency of Canada ("FCAC") studying frontline practices of Canadian banks, including RBC and BMO, suggests that racialized and Indigenous customers are subjected to discriminatory practices. Compared to other customers, these customers were more likely to be recommended products that were not appropriate for their needs, were not presented information in a clear and appropriate manner, and were more likely to be offered optional products, such as overdraft protection and balance protection insurance.²⁰

According to the FCAC,

¹⁵<https://www.mckinsey.com/industries/public-and-social-sector/our-insights/the-economic-impact-of-closing-the-racial-wealth-gap>

¹⁶https://ir.citi.com/NvIUkHPilz14Hwd3oxqZBLMn1_XPqo5FrxsZD0x6hhil84ZxaxEujUWmak51UHvYk75VKeHCMl%3D

¹⁷https://www.majorityaction.us/s/MA_EquityintheBoardroom_2022REPORT.pdf

¹⁸<https://internationalbanker.com/banking/customer-trust-without-youre-just-another-bank/>

¹⁹<https://www.jdpower.com/business/press-releases/2022-canada-retail-banking-advice-satisfaction-study>

²⁰<https://www.canada.ca/en/financial-consumer-agency/programs/research/mystery-shopping-domestic-retail-banks.html>

“inappropriate recommendations can lead consumers to sign up for products or services that they do not understand or need, are more expensive than appropriate alternatives, and may contribute to over-indebtedness. Inappropriate recommendations may also indicate a poor sales culture where processes, procedures, controls, or training are not in place to provide consumers with appropriate recommendations.”

The report concludes that, “banks can do more to ensure that the demographic groups at higher risk are protected from experiencing concerning sales practices.”

In addition, studies show that a bank’s positive societal influence is increasingly becoming a driver of reputation. According to PwC, 83 percent of consumers think companies should be actively shaping ESG best practices, and 86 percent of employees prefer to support or work for companies that care about the same issues they do.²¹ Another study shows that 14 percent of people in “Gen Z” and 12 percent of “millennials” think “their primary bank is the one that acts in the best interest for the environment and society”.²² A study from PwC indicates that “banks are facing intense public scrutiny over the impact of their lending practices” including on human rights, social cohesion and other ESG topics.²³

A report from Sustainalytics concludes that the financial services sector is “highly exposed to societal incidents due to institutional financing of projects affecting Indigenous communities and other underrepresented ethnic groups.” The findings also suggest that “firms need to be more proactive in managing the initiatives they have in place to mitigate controversies related to race and ethnicity.”²⁴ BMO and RBC have both been subjected to negative media coverage regarding treatment that racialized customers and employees received (see examples listed page 3). Furthermore, both banks have been exposed to controversy related to their lending practices.²⁵

Without the proper human rights safeguards in place, fossil fuel lending and underwriting contribute to adverse human rights abuses, “particularly in Indigenous, Black, and Brown communities”²⁶. In Canada, the involvement of BMO and RBC in the funding of research and development of two major pipeline projects has been particularly criticized in the media by human rights groups.²⁷ The Line 3 and Line 5 pipelines led by Enbridge and the Coastal GasLink pipeline received considerable opposition by Indigenous groups and human rights experts over allegations of violations of Indigenous rights.²⁸ The Coastal

²¹<https://www.pwc.com/us/en/services/consulting/library/consumer-intelligence-series/consumer-and-employee-esg-expectations.html>

²²<https://www.pwc.com/us/en/industries/financial-services/library/digital-banking-consumer-survey.html>

²³<https://www.strategyand.pwc.com/de/en/industries/financial-services/transforming-eu-banks/esg.html>

²⁴<https://connect.sustainalytics.com/hubfs/INV/Reports/SustainalyticsESGSpotlight-Race-Ethnicity-and-Public-Equity-14July2021.pdf>

²⁵<https://www.rollingstone.com/politics/political-commentary/royal-bank-of-canada-to-mark-ruffalo-coastal-gaslink-pipeline-1343197/>;

²⁶https://www.bankingonclimatechaos.org/wp-content/themes/bocc-2021/inc/bcc-data-2022/BOCC_2022_vSPREAD.pdf

²⁷<https://yellowheadinstitute.org/wp-content/uploads/2022/08/Redwashing-Extraction-YI-Special-Report-8.22-1.pdf>

²⁸<https://www.thestar.com/news/canada/2022/03/16/hollywood-a-listers-crusade-to-get-rbc-to-stop-financing-coastal-gaslink-pipeline-in-northern-bc.html>

GasLink has been described by Amnesty International as a “destructive, rights-violating” project.²⁹

Legal and Regulatory Risks

As government and public scrutiny increases on racial equity issues, companies that perpetuate racial injustice through their employment or business practices are exposed to material legal and regulatory risks. Employees and customers alleging discriminatory practices because of their race or ethnicity may seek legal recourse, making companies vulnerable to potential investigations, litigation, and back-pay liability.

Additionally, as public authorities deploy more efforts to tackle systemic and institutional racism, companies are exposed to regulatory pressure and by extension legal risk. In 2023, the U.S. Justice Department announced a US\$31 million settlement with City National Bank, an RBC subsidiary acquired in 2015, over allegations of lending discrimination by “redlining” in Los Angeles, a racist practice that is prohibited under the Fair Housing Act and the Equal Credit Opportunity Act.³⁰ The complaint filed in federal court in January alleged that between 2017 and 2020:

“City National avoided providing mortgage lending services to majority-Black and Hispanic neighborhoods in Los Angeles County and discouraged residents in these neighborhoods from obtaining mortgage loans. The complaint also alleges that during that time period other banks received more than six times as many applications in majority-Black and Hispanic neighborhoods in Los Angeles County than City National each year. In addition, City National only opened one branch in a majority-Black and Hispanic neighborhood in the past 20 years, despite having opened or acquired 11 branches during that time period. And unlike at its branches in majority-white areas, City National did not assign any employee to generate mortgage loan applications at that branch.”³¹

This settlement is part of a broader initiative from the Justice Department and is considered the “most aggressive and coordinated enforcement effort to address redlining” in the U.S.³² In addition to the risks that poor marketing practices and strategy represent, the growing reliance of the financial services on artificial intelligence (“AI”) further exposes banks to emerging risks.

²⁹https://www.bankingonclimatechaos.org/wp-content/themes/bocc-2021/inc/bcc-data-2022/BOCC_2022_vSPREAD.pdf

³⁰<https://www.justice.gov/opa/pr/justice-department-secures-over-31-million-city-national-bank-address-lending-discrimination>

³¹<https://www.justice.gov/opa/pr/justice-department-secures-over-31-million-city-national-bank-address-lending-discrimination>

³²<https://www.justice.gov/opa/pr/justice-department-announces-new-initiative-combat-redlining>

Research shows that the use of AI can exacerbate existing historical social inequities. Human rights and tech experts have warned against the use of artificial intelligence in the banking sector without proper human rights safeguards in place.³³ A 2019 working paper from the National Bureau of Economic Research found that discriminatory lending practices occur in both configurations: face-to-face decisions and algorithmic scoring. The research also shows that Black and LatinX applicants receive higher rejection rates and are offered higher mortgage interest rates compared to other applicants.³⁴ As disparities in homeownership rates are a key contributor of the racial wealth gap, it is crucial for lenders to ensure that the use of such technologies is not detrimental to historically marginalized communities. The underlying human rights risks of AI prompt a number of governments to adopt regulations aiming at protecting the rights of consumers including in regards to credit assessment.³⁵ The specific impacts of AI on communities of colour also led human rights experts to advocate for better AI policy that prioritizes equity for people of colour.³⁶ Accrued due diligence by the banks on the use of AI would help financial services to be better positioned in the face of increasing regulations.

As Canadian companies are facing increasing risks stemming from their employment and business practices, it is essential for BMO, RBC and Canadian banks in general to adopt a more rigorous risk mitigation framework and process to ensure their racial equity approach has merit.

3. A RACIAL EQUITY AUDIT S AN EFFECTIVE RISK MITIGATION TOOL FOR COMPANIES AND THEIR SHAREHOLDERS

As explained above, banks that fail to identify, prevent and address the discriminatory practices associated with their employment or business practices, including from their products and services, are exposed to material company-specific risks. By extension, investors are exposed to the same risks and additionally, universal asset owners' portfolio performance may be impacted by the systemic risk of racial inequalities in the long-run.

A racial equity audit is an **independent examination of a company's employment and business practices intended to identify and remediate potential and actual disparate outcomes for Indigenous people and communities of colour**. Through such audits, companies can establish an effective analytical framework to evaluate their practices through a racial equity lens and develop tailor-made processes to address the policies and

³³ <https://mitibmwatsonailab.mit.edu/research/blog/black-loans-matter-fighting-bias-for-ai-fairness-in-lending/>

³⁴ <https://www.nber.org/papers/w25943>

³⁵ <https://www.cliffordchance.com/briefings/2021/09/impact-of-the-new-eu-ai-regulation-on-financial-sector-firms.html>

³⁶ <https://www.aclu.org/legal-document/letter-white-house-ostp-centering-civil-rights-ai-policy>

practices that may be discriminatory to racialized groups of stakeholders. If done in line with best practices and if it prioritizes stakeholders' feedback, an independent third-party racial equity audit can be a powerful risk mitigation tool for a company and its shareholders. In addition, we believe the wide adoption of racial equity audits in the banking sector and across key sectors of the economy would have a positive impact on the economy more broadly, thus enhancing diversified portfolio long-term performance.

In their 2023 Proxy Circular, BMO³⁷ and RBC's³⁸ boards of directors recommend shareholders to vote against the racial equity audit proposals based on a number of arguments. We have addressed these arguments below.

The Proponents' response to BMO's Board of directors

Although the Board reiterates BMO "Purpose-driven commitment to grow the good for an inclusive society – one with zero barriers to inclusion", it believes a third-party racial equity audit wouldn't be "additive or necessary at this time". According to the Proxy Circular, the bank is currently focusing its efforts on *Zero Barriers to Inclusion*, which encompasses several recently launched and ongoing initiatives, including through investments, products, services and partnerships, and is committed to track progress against this goal. Then a list of initiatives is provided in the Circular, along with the associated dollar amount that such efforts represent.

Contrary to the Bank's view, we believe an independent third-party racial equity audit would be complementary to its current racial equity efforts. As explained above, a racial equity audit is a risk mitigation tool for both companies, and their shareholders, that translates a genuine intention to eradicate systemic racism into meaningful outcomes. BMO's initiatives primarily aim at "expanding financial inclusion for diverse customers through inclusive banking products, services and resources". While this approach is laudable, **it is insufficient to assessing, preventing and mitigating the potential risks and harms that its current policies, practices, products and services may have on people of colour and Indigenous communities.**

BMO argues that a number of its Zero Barriers to Inclusion initiatives are in progress and will involve stakeholder consultation. Firstly, we believe that the number of initiatives implemented by the bank and the related investment justifies the establishment of a more robust system of accountability for the benefit of its shareholders, employees and customers. As scrutiny on corporate action to tackle systemic racism continues to increase,

³⁷ https://www.bmo.com/ir/files/F23%20Files/BMOProxy_March2023.pdf

³⁸ https://www.rbc.com/investor-relations/_assets-custom/pdf/2023englishproxy.pdf

companies are expected to hold themselves accountable for the racial equity commitments and goals they set. The failure to drive meaningful and tangible impact may cast a negative light on companies' commitment and threaten long-term shareholder value. In this specific instance, a racial equity audit would allow BMO and its shareholders to understand whether its initiatives are impactful and identify potential areas of improvement. Secondly, although BMO intends to engage in stakeholder consultation on its own, **it does not substitute the value of an independent and third-party assessment** would represent. Independent auditors can perform an objective and credible assessment of a company's policies and practices. It is not uncommon for banks to organize their own stakeholder consultation to develop their racial justice initiatives and financial commitments. However, while these stakeholders are experts in their field, they are not the functional equivalent of an independent outside auditor and do not have sufficient resources to evaluate the breadth and depth of a large-scale company's actions. Additionally, because many of these stakeholders are in partnership with companies, and receive funding or contributions, negative criticism may compromise their relationship with the company.³⁹

The Proponents' response to RBC's Board of directors

RBC's Board of Directors states that "diversity and inclusion is a cornerstone of [its] values and core to [its] purpose of helping clients thrive and communities prosper". It further asserts that it "take[s] seriously our obligation to ensure that all consumers have an equal opportunity to apply for and obtain credit and we have an unwavering commitment to fair and responsible lending and to helping communities gain equal access to credit, regardless of race."

However, similarly to BMO, RBC's approach appears primarily focused on the deployment of racial equity related initiatives to "advance diversity, strengthen inclusion, and help enable economic inclusion". To date, the bank has not engaged in efforts to evaluate the potential impacts of its current business practices, thus failing to ensure it lives up to its commitment to "not tolerate discrimination in any form, including in the way [it] conduct[s] business, [its] relationships with clients".

Although the Board recommends shareholders to vote against the proposal, it is not fundamentally opposed to conducting a third-party racial equity audit. In fact, it argues that "further exploration of such a third-party racial equity audit through the Canadian Bankers Association is needed so that a robust and cross-sector assessment and approach can be established. In the absence of well-defined standards to audit against,

³⁹ https://www.socinvestmentgroup.com/s/Racial-Equity-Audit-QA_CtW_SEIU-002.pdf

disparities and inconsistencies in such a third-party audit could further exacerbate potential gaps and/or unintentionally create new ones". We disagree with the Board's view and believe that **letting the Canadian Bankers Association (the "CBA") to set industry standards for racial equity audits would be counterproductive.**

The U.S. experience of racial equity audits and the most recent commitments from Canadian banks suggest that the CBA intervention is not necessary. In the past few years, growing investor support led a number of U.S. companies to adopt racial equity audits to reinforce their racial justice commitments, including major U.S. banks. In Canada, Canadian Imperial Bank of Commerce (CIBC) and National Bank of Canada (NBC) announced in March 2023 that they will conduct and disclose the results of third-party racial equity audits including a review of their employment and business practices. They join Toronto-Dominion Bank, which made a similar announcement in April 2022. Notably, neither the U.S. banks nor the three banks mentioned above felt the need to seek guidance from the CBA or its U.S. equivalent before acting. There **is sufficient precedent and resources available for banks and their auditors to conduct racial equity audits in line with best practices.**

Additionally, the CBA is not a regulatory body, it is an industry association "that works to advocate for and promote banking in Canada."⁴⁰ As an industry-driven organization, the CBA represents primarily the needs and interests of its membership, including BMO and RBC. **The CBA has neither the authority, the legitimacy nor the expertise to define racial equity quality standards.** The process of such audits must be guided by experts in racial equity issues with a good understanding of the Canadian legal context and in consultation with key stakeholders. If a racial equity audit does not prioritize the interests of the relevant rights holders, the auditor may fail to identify the key risks and opportunities, making this operation a futile exercise.

4. Conclusion

In the aftermath of George Floyd's murder, U.S. and Canadian companies made commitments towards racial justice and pledged to become vectors of change. Three years later, several analysts suggest that corporate actions have had limited impacts on historically marginalized communities and sometimes even accused of having adverse consequences on these same communities.⁴¹

⁴⁰ <https://cba.ca/cba-today>

⁴¹ <https://www.washingtonpost.com/business/interactive/2021/george-floyd-corporate-america-racial-justice/>

BMO and RBC are among the many Canadian companies that made racial equity commitments and announced related investments and initiatives. But despite the benefits of racial equity audits, they have not committed to conduct such an assessment. Their opposition contrasts with their U.S. and Canadian peers' decision to conduct racial equity audits and exposes shareholders to material risks.

The requested audit would enable BMO and RBC to mitigate the racial equity related risks stemming from their employment and business practices, including the products and services. Furthermore, the audit would ensure that the policies and initiatives aiming at tackling system racism are effective and the related investments have merits while protecting long-term shareholder value.

We therefore urge you to vote FOR Proposal No. 3 in RBC 2023 Proxy Circular (page 105) and Proposal No. 3 in BMO 2023 Proxy Circular (page 98).

For questions regarding both proposals, please contact: Sarah Couturier-Tanoh, Associate Director, Corporate Engagement at SHARE, at scouturier-tanoh@share.ca.

Sincerely,

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