The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

ALBERTA INVESTMENT MANAGEMENT CORPORATION (AIMCo)

AIMCo is the investment manager for Alberta government, endowment, and specialty funds, and for the province's public pension plans, including the Alberta Teachers' Retirement Fund, the Local Authorities Pension Plan, Public Service Pension Plan and pension funds for provincial management employees, judges, and special forces.

Assets Under Management (AUM): $168.3 billion (December 31, 2021)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
AIMCo	D–	F	F	D+	D–	D	F

OVERALL CLIMATE SCORE D–

The good

AIMCo outlines an ESG engagement and escalation process, which includes the possibility of divestment. However, it is not clear what would lead AIMCo to escalate its engagements, as the pension manager has articulated no goals, expectations or timelines for its climate engagements.

What AIMCo should improve in 2023:

- [ ] Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- [ ] Communicate the urgency of the climate crisis and the necessity to act to mitigate its worst impacts, and acknowledge that AIMCo's investment decisions affect the climate.
- [ ] Set a Paris-aligned emissions target backed by a credible climate strategy.
- [ ] Set credible science-based interim emissions reduction targets (including targets to reduce absolute emissions).
- [ ] Conduct scenario analysis using a credible Paris-aligned 1.5°C outlook and disclose both assumptions used and the results of the analysis. Describe how the results will inform strategy.
- [ ] Set targets for investments in climate solutions and for the proportion of AUM covered by a credible net-zero plan.

- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.
- Divest from fossil fuel producers.
- Place an exclusion on any new investments in coal, oil, gas and pipelines.
- Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	F

None.

Although AIMCo acknowledges the risks and opportunities posed by climate change, describes it as a systemic risk and expresses support for the goals of the Paris Agreement, AIMCo has not set a target to reach net-zero financed emissions. In September 2022, AIMCo explicitly ruled out setting a net-zero emissions target, with CEO Evan Siddall saying that “concentrating on a specific net-zero goal would be a distraction from what’s needed to balance energy supply and emissions reduction.”[1]

Interim Targets	F

None.

Climate Urgency	D+

AIMCo’s public communications downplay the urgency and severity of the climate crisis and tend to refer instead to “climate change” and the “transition to a low-carbon economy.” Discussion of the climate crisis is absent in key materials; for example, the word “climate” is not mentioned in the Board Chair’s message in AIMCo’s *2021 Annual Report*, and mentioned only incidentally in the Message from the CEO. While AIMCo acknowledges that “[c]limate change is one of the most pressing systemic risks of our time” (*2022 Task Force for Climate-Related Financial Disclosures*, p.1) and cites its support for the goals of the Paris Agreement, the investment manager’s language tends to be reactive rather than proactive. AIMCo does not yet seem to grasp the urgency and severity of the climate crisis, has not identified a role for itself in addressing the systemic risks posed by climate change, and has not centred the climate crisis in its investment strategy.

Sample language from AIMCo's *2022 Task Force for Climate-Related Financial Disclosures* (p.1):

"Climate risk is non-diversifiable and can impact the revenues, expenditures, assets and liabilities, and capital and financing of the companies we are invested in on behalf of our clients. AIMCo recognizes the business imperative of integrating climate considerations into our investment strategies. We view the physical, regulatory and reputational risks associated with climate change — along with opportunities to earn a return on investments that support the transition to the low-carbon economy — as material to delivering superior, risk-adjusted returns to our clients."

Climate Engagement	D–

SUMMARY

AIMCo's *Responsible Engagement Guidelines* outline its process for engagement on ESG issues (up to and including exiting an investment). But AIMCo explicitly says it will not commit itself to a Paris-aligned portfolio and has no stated timebound Paris-aligned goals for its engagement of owned companies, rendering its climate engagement process essentially meaningless.

DETAILS

Expectations for owned companies

AIMCo has itself made no commitment to net-zero emissions, and has not signalled to its owned companies that they must have credible net-zero pathways.

There is no indication that AIMCo prohibits owned companies from lobbying against climate action or from directing capital expenditure toward fossil fuel expansion. AIMCo does not require owned companies to tie executive compensation to the achievement of climate targets.

Proxy voting

AIMCo's *Proxy Voting Guidelines* express an expectation for companies to disclose how they are handling climate risk, and for investee companies to have "board oversight and appropriate expertise to adequately manage climate change-related risks" (p.14). The guidelines do not include a definition for "adequately managing" these risks, nor do the guidelines set the expectation that companies have net-zero targets and net-zero-aligned transition pathways.

AIMCo "may" vote against directors "where the issuer has failed to provide relevant climate-related disclosures, and/or insufficient action is being taken to address climate-related risks & opportunities" (p.14).

Collaborative engagement

AIMCo is a member of Climate Action 100+ and Climate Engagement Canada. But Shift could not identify any examples of AIMCo leading climate engagements through either of these initiatives.

Direction given to external managers

According to its *2021 Responsible Investing Report*, AIMCo completed "ESG due diligence" on external managers and monitors their ESG performance (p.8). But it is unclear what, if any, direction is given to external managers regarding climate.

Climate Integration — D

Accountable Paris-aligned membership

AIMCo is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

AIMCo's website provides a list of direct private equity investments, but otherwise provides only "featured investments" in its different asset classes.

Transparency and disclosure of climate risk

When asked in writing by beneficiaries to disclose its handling of climate-related risks (including questions about its high-carbon assets, its 1.5°C-aligned assets, examples of engagement with fossil fuel companies, and results of its climate scenario analysis), AIMCo responded eleven months later with a four-sentence response which did not address any of the questions posed.[2]

AIMCo's *2022 Task Force for Climate-Related Financial Disclosures* report included discussion of climate scenario analysis, assessing the impacts of 1.5°C, 2°C, and 3°C global temperature increases on AIMCo's portfolio. It concluded that the 1.5°C scenario presented the greatest risk to the portfolio due to the speed of the transition required to achieve 1.5°C (p.10), which suggests that AIMCo's portfolio is overexposed to carbon-intensive industries that lack credible net-zero transition plans. AIMCo's scenario analysis also determined the physical risk to the portfolio to be constant whether global temperature rise is 1.5°C, 2°C, or 3°C. This appears to underestimate the physical climate impacts and other financial risks associated with greater temperature increases and could lead beneficiaries to believe their long-term financial interests are aligned with catastrophic levels of global heating. Scenario analyses by other Canadian funds lead to the opposite conclusion, finding that the cost of climate inaction far exceeds the cost of action and that their portfolios perform better in a 1.5°C scenario.

Board climate expertise and/or fossil fuel entanglement

AIMCo's *Board Experience and Competencies* are published, but climate expertise is not a required Board competency. AIMCo's 2020 *Strategic Response to Climate Change* notes that the "Board of Directors and Responsible Investment Committee are kept appraised of key climate trends, emerging best practices and related investment applications" (p.2). The *2022 TCFD Report* states that "The AIMCo Board Education Program shares education materials and external learning opportunities on climate change" (p.4). The *2021 Responsible Investing Report* makes no mention of Board, executive, or staff education or professional development related to climate.

Two AIMCo Directors, composing 18% of its board, have fossil fuel entanglements. Jackie Sheppard sits on the boards of ARC Resources, Emera Energy (Board Chair) and Suncor. Lorraine Mitchelmore sits on the boards of Suncor and Cheniere Energy.[3]

Executive compensation and climate

Disclosed information provides no indication that AIMCo links its executive or staff compensation to the achievement of climate-related targets.

Fossil Fuel Exclusions — F

None.

In September 2022, AIMCo reiterated an explicit intent to *further* invest in fossil fuel companies.[4] It has no exclusions on new investments in coal, oil, gas or pipelines, and has implemented no requirement for its owned fossil fuel investments to demonstrate how their business models are aligned with the goals of the Paris Agreement.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	No policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	None
Collaborations and memberships	• Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Action 100+ • Climate Engagement Canada • International Corporate Governance Network • Investor Leadership Network • Partnership for Carbon Accounting Financials • Task Force on Climate-Related Financial Disclosures • Principles for Responsible Investment • Responsible Investment Association • Sustainable Finance Action Council
Self-reported assets linked to climate solutions*	$14 billion, or 8.3% of AUM (December 31, 2021)**
Estimated investments in fossil fuels	At least $8 billion, or 4.8% of AUM (December 31, 2021)***
Notable fossil fuel holdings (not a comprehensive list)	• A joint 65% stake in the Coastal GasLink pipeline.[5] • An 85% stake in the Northern Courier pipeline.[6] • An 87% stake[7] in Howard Midstream Energy (one of AIMCo's top five infrastructure holdings as of December 31, 2021).[8]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** AIMCo reported in its 2022 *TCFD Report* (p.2) $14 billion in green investments, "defined based on generally accepted definitions of 'green investments', such as the OECD's Annual Survey of Large Pension Funds and Public Pension Reserve Funds and includ[ing]: equity investments in pure play green companies, labelled green bonds, investments in renewable energy in private infrastructure, private renewable resources investments which includes forestry and agriculture, and Canadian and U.S. commercial real estate investments with green building certifications."

*** AIMCo does not disclose a list of total investments in fossil fuels. This estimate is drawn from numbers provided in AIMCo's *2021 Annual Report* related to utilities, integrated utilities, energy, pipelines and midstream.

ENDNOTES

1 Jones, J. (2022, September 21). *AIMCo not divesting from fossil fuels, chief executive Siddall says*. The Globe and Mail. https://www.theglobeandmail.com/business/article-aimco-evan-siddall-interview/.

2 AIMCo. (2022, August 31). *AIMCo Response Letter August 2022*. Shared at https://drive.google.com/file/d/1p_cTVCyK-I1JKVrTOKV1GpkuYpoui3eN/view. See also: Shift Action for Pension Wealth and Planet Health. (2021, September 29). *Beneficiaries warn Canada's largest pensions of legal duty to manage climate-related financial risks*. www.shiftaction.ca/news/2021/9/29/beneficiaries-warn-canadas-largest-pensions-of-legal-duty-to-manage-climate-related-financial-risks.

3 DeRochie, P. (2022, May 5). *Climate-conflicted pension managers: The oil & gas insiders overseeing Canadians' retirement savings*. Shift Action for Pension Wealth and Planet Health. P.17. Downloaded from https://www.shiftaction.ca/climateconflicted.
See also: Jones, J. (2022, July 18). *Suncor to explore Petro-Canada sale as part of corporate shakeup triggered by activist investor Elliott Investment*. The Globe and Mail. https://www.theglobeandmail.com/business/article-suncor-elliott-investment-management-deal/.

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5 Alberta Investment Management Corporation. (2019, December 26). *AIMCo Announces Investment in TC Energy Coastal GasLink Pipeline Project*. [Press release]. www.newswire.ca/news-releases/aimco-announces-investment-in-tc-energy-coastal-gaslink-pipeline-project-848394253.html.

6 Alberta Investment Management Corporation. (2019, May 28). *AIMCo Announces Investment in Northern Courier Pipelin*e. [Press release]. www.newswire.ca/news-releases/aimco-announces-investment-in-northern-courier-pipeline-867917539.html.

7 AIMCo. (2022, November 8). *Alberta Investment Management Corporation Expands Its Ownership of Howard Energy Partners*. [Press release]. www.aimco.ca/insights/expanded-ownership-howard-energy-partners.

8 Alberta Investment Management Corporation. (2022, June 30). *Performance for a Purpose. 2021 Annual Report*. P.21. annualreports.aimco.ca/2021/.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021 Annual Report (June 2022)
- 2020 Annual Report (June 2021)
- 2021 Responsible Investment Report (Nov 2021)
- TCFD 2022 Report (December 2022)
- TCFD 2021 Report (Nov 2021)
- Stewardship Report (October 2022)

Documents

- AIMCo Strategic Response to Climate Change (approved April 30, 2020)
- Responsible Investment Policy (effective January 29, 2020)
- AIMCo. (2022, April). *Board Experience & Competencies*.
- Proxy Voting Guidelines (January 2022)
- Responsible Investment Engagement Guidelines (April 2021)
- AIMCo Realty Green Financing Framework (September 2021)
- Investment Exclusion Guidelines (February 2021)
- Our Strategy - 2022 and Beyond (accessed July 2022)

Webpages and press releases

- Governance (webpage) (accessed July 2022)
- Responsible Investing Highlights (webpage) (accessed July 2022)
- Responsible Investing (webpage) (accessed July 2022)
- Q4 & Year-End 2021 Investment Performance (April 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION (BCI)

BCI is the investment manager for over 715,000 members of British Columbia's public pension plans, including the Municipal Pension Plan, Public Service Pension Plan, Teachers' Pension Plan, College Pension Plan, BC Railway Company Pension Plan, WorkSafeBC Pension Plan, BC Hydro Pension Plan and staff and faculty pension plans at the University of Victoria and University of British Columbia. BCI also manages insurance and benefit funds for over 2.5 million workers and retirees in British Columbia.

Assets Under Management (AUM): $211.1 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
BCI	D+	F	D+	C+	C	C+	F

OVERALL CLIMATE SCORE	D+

The good

BCI's disclosure of its investment inventory, ESG engagements and the directorships/trusteeships held by its Directors within the last five years are indicative of the investment manager's overall higher level of disclosure compared to other large Canadian pension managers. BCI's 2021 ESG Report also provided more extensive details of how it is handling climate-related financial risks. BCI strengthened its climate-related proxy voting guidelines in 2021, leading to more votes in support of shareholder proposals on climate change and votes against directors for lack of climate disclosure.

What BCI should improve in 2023:

- [ ] Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- [ ] Enhance communication of climate urgency.
- [ ] Set a Paris-aligned emissions target backed by a credible climate strategy.
- [ ] Set mid-term portfolio-wide emissions reduction targets (including targets to reduce absolute emissions) and align short- and mid-term targets with Paris goals.
- [ ] Set targets for investments in climate solutions.
- [ ] Publicly state expectation that owned companies have credible science-based net-zero pathways, with escalation up to and including divestment for those that do not meet timebound engagement milestones.

- ☐ Set an expectation that owned companies:
  - ☐ tie executive compensation to the achievement of climate targets
  - ☐ refrain from lobbying against climate action, directly or through industry associations
  - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- ☐ Divest from fossil fuel producers.
- ☐ Place an exclusion on any new investments in coal, oil, gas and pipelines.
- ☐ Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors.
- ☐ Tie executive and staff compensation to the achievement of climate targets.
- ☐ Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	F

None.

Although BCI recognizes decarbonization as an "immense challenge" (*2021 ESG Annual Report*, p.5) and climate change as a systemic risk to its clients' portfolios, BCI has not made a commitment to align its portfolio with the goals of the Paris Agreement. BCI's *2022 Climate Action Plan* missed an opportunity to set a net-zero emissions target for the portfolio, instead expressing the intention to "[use] our influence to drive actions aligned with the global goal of achieving net-zero greenhouse gas emissions by 2050" (p.4).

Interim Targets	D+

In the absence of a long-term target for Paris alignment, BCI's interim targets lack consistency, contain loopholes and make it difficult to hold BCI accountable.

These targets include:

- investing $5 billion in sustainable bonds by 2025;
- reducing the carbon intensity of its public equities portfolio (representing 30.5% of BCI's AUM as of March 31, 2022) by 30% by 2025, using a 2019 baseline; and
- a weak commitment (announced in BCI's 2022 Climate Action Plan) to ensure that 80% of its carbon-intensive investments (defined as the approximately 90 companies that make up over 80% of BCI's portfolio carbon footprint) have "set mature net-zero aligned commitments by 2030, or are the subject of direct or collaborative climate engagement by BCI."

BCI's real estate portfolio, representing 15.9% of AUM and independently managed by BCI's real estate subsidiary QuadReal, has an interim target to reduce the emissions of its global real estate holdings 50% by 2030 on the way to net-zero by 2050. QuadReal's webpage *Our Net Zero Commitment* does not specify the baseline year for this interim target, or whether it is absolute or intensity-based.

Climate Urgency	C+

BCI speaks about climate change in financial terms, as a risk to its clients' portfolios, rather than an existential risk to fulfilling its mandate. BCI tends to describe its own position as reactive, emphasizing that climate change will impact the portfolio rather than foregrounding the portfolio's potential to impact the trajectory of the climate crisis.

The language in BCI's "Our Net-Zero Statement" (*2022 Climate Action Plan*, p.4) is typical of BCI's climate messaging:

"Climate change will have a systemic impact on the global economy, and may impair the ability of long-term investors to meet their financial requirements over a longer time horizon. The negative financial impacts to the economy increase with every tonne of GHG emitted, which is why we support actions that limit GHG emissions wherever possible. Climate change is recognized as a key financial risk by governments and regulators, who will influence how the financial system accounts for climate-related risks going forward. It is imperative to BCI acting in our clients' best financial interest to consider this systemic financial risk across all time horizons, and ensure we are working to achieve the best possible financial outcomes for our clients."

Climate Engagement	C

SUMMARY

BCI discloses more details of its climate engagements than most Canadian pension managers, is an active participant in Climate Action 100+, and has strengthened its proxy voting guidelines on climate. However, BCI needs to strengthen expectations that its owned companies have a credible net-zero pathway (including by setting its own net-zero target), needs to be willing to escalate on climate-related engagement up to and including divestment, and needs to strengthen its climate-related guidelines for external managers.

DETAILS

Expectations for owned companies

BCI's weak commitment to having 80% of its "carbon-intensive" investments either set net-zero aligned commitments by 2030 or be the subjects of climate engagement does signal some expectations to owned companies. However, these expectations lack teeth, as companies have until 2030 to comply, and even then face no consequences other than continued engagement if they have failed to progress.

BCI has no prohibition on its companies directing capital expenditure toward fossil fuel expansion, and no prohibition on its owned companies lobbying against climate action. However, some of these criteria may be incorporated in BCI's Climate Action 100+ engagements (more detail below).

Proxy voting

While BCI's *Proxy Voting Guidelines* do not state that the investment manager expects companies to have credible net-zero pathways, BCI did strengthen these guidelines in 2021 to introduce consideration of supporting proposals that "ask companies to align emissions targets with best practices" (p.24) and to vote against directors if a company has been asked to provide climate risk information but neglected to do so (p.10). As a result, BCI supported 80% of climate change shareholder proposals in 2021, and voted against 51 directors at 34 companies for a lack of climate disclosure or poor climate risk performance (*2021 ESG Annual Report*, p.5).

BCI leads or co-leads engagement with some of the world's biggest carbon emitters via its membership in Climate Action 100+. BCI reported details on two of these engagements, with Marathon Petroleum and Canadian Natural Resources Ltd., in its *2021 ESG Annual Report*. While BCI itemized clear expectations for both companies and saw some of its expectations met, BCI has limited options to escalate these engagements because it has ruled out divestment.

Meanwhile, Climate Action 100+ itself assessed Marathon Petroleum (as of December 31, 2021) and Canadian Natural Resources (as of May 13, 2022) as failing to meet or only partially meeting most criteria in its Net-Zero Company Benchmark, suggesting that five years of engagement has had limited impact at best.[1]

BCI notes in its *2021 ESG Annual Report* that it "set expectation" (sic) for Marathon Petroleum to direct over 40% of growth capital to "lower-carbon products" (by no specified date) (p.25). Even if Marathon met this "expectation", 60% of its capital expenditure presumably continues to flow to fossil fuels, and "lower-carbon" does not mean net-zero aligned. Similarly, BCI pressured Marathon to "increase transparency" around its "trade association participation and alignment with the Paris Agreement" (i.e. anti-climate lobbying) (p.25), but BCI has not set the expectation that companies it owns do not lobby against climate action or participate in organizations or associations that do.

Direction given to external managers

While BCI assesses its private equity partners and external managers on ESG, BCI's own assessment results indicate that just 34% of partners have "strong" ESG practices, and 62% have "average" practices (*2021 ESG Annual Report*, p.18). BCI discloses no details about the specifics of screening related to ESG and climate. Other than providing their external managers with "feedback" and requiring that they report on ESG (p.18), it is unclear how BCI is directing its external managers to handle climate-related risks.

Climate Integration	C+

Accountable Paris-aligned membership

BCI is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

No pension fund or investment manager examined in this analysis provides both a list of its high-carbon assets and their associated value. BCI, however, does provide an Investment Inventory, which lists all of its investments and private equity partners, as well as the value of its investments in public markets. BCI also provides better-than-average disclosure of its public company engagements and discussion of select engagements via Climate Action 100+, and provides accessible and searchable disclosure of its regulatory submissions and comments.

Transparency and disclosure of climate risk

- BCI's *ESG Governance Policy* mentions climate as an element of ESG but otherwise contains no unique mention of how climate risk is handled (p.5).
- BCI's *ESG Materiality Assessment* (in its *2020 ESG Strategy*) identifies Climate Change as a top priority for engagement because it has the greatest potential reputational impact and greatest potential financial impact on the portfolio of all ESG factors considered (p.8-9).
- BCI's *Managing Risk* webpage names "Systemic ESG risks, especially climate change" as an element in its investment risk management framework.
- In its 2021 ESG Annual Report, BCI provided increased disclosure of how it incorporates climate risk into its investment analysis through its climate-focused *ESG Risk and Opportunity Framework* (p.17).
- BCI has assessed its portfolio's performance against climate scenarios of 1.5°C, 2°C, 3°C, and 4°C of warming (*2021 ESG Annual Report*, p.49). The investment manager's discussion of the different scenarios and their impacts on different sectors is more detailed than what many other pension managers have disclosed.

- BCI uses its scenario analysis and its *ESG Risk and Opportunity Framework* to help its client funds understand climate science and the economic impacts of the climate crisis, and to inform Asset-Liability Modelling reviews with BCI's client funds (*2021 ESG Annual Report*, p.9).
- BCI's most recent update to its *Climate Action Plan* was in November 2022.

Board climate expertise and/or fossil fuel entanglement

BCI has not disclosed a Board competencies and experience matrix. None of BCI's Board members are identified as having climate expertise. BCI's *2021 ESG Report* indicates that the Board received education on climate-specific issues in 2021, as well as a briefing of how BCI is integrating climate change into its decision-making processes (p.46). The *2021 ESG Report* also notes ongoing education and training opportunities provided to BCI staff. Specifically, some BCI staff received training in 2021 on climate governance, with BCI disclosing the training providers and modules/certificates pursued (p.40).

None of BCI's Board members appear to have fossil fuel entanglements. In its *2021-2022 Corporate Annual Report*, BCI disclosed directorships or trusteeships directors had held within the last five years (p.83-89).

Executive compensation and climate

There is no evidence that BCI has linked its executive and staff compensation to the achievement of climate-related targets, although BCI's submissions to the United Nations Principles for Responsible Investment indicate that at least some staff have variable compensation linked to responsible investment performance.[2]

Other

Climate Finance Project with UVic and Pacific Institute for Climate Solutions

BCI is a partner in a three-year research project to "develop decision-making tools and frameworks for integrating climate change risk evaluation and climate mitigation opportunities into clients' investment portfolios" (*2021 ESG Annual Report*, p.42).

Sustainable Development Investments Asset Owner Platform (SDI AOP)

BCI has partnered with international institutional investors to set a global standard to classify investments that contribute to the UN Sustainable Development Goals, including Goal 13: Climate Action (*2021 ESG Annual Report*, p.12).

Fossil Fuel Exclusions	F

None.

BCI has placed no exclusions on new investments in coal, oil, gas or pipelines and has announced no intention to divest of fossil fuel companies.

While BCI takes direction from its client funds, BCI states publicly that it believes divestment is not an effective strategy.[3] BCI's public statements likely have the effect of discouraging its client pension funds from considering divestment.

BCI's position on fossil fuel divestment seems to contradict its decision to rapidly divest Russian securities shortly after the war in Ukraine began. In announcing its attempts to sell its Russian securities, the investment manager referenced its organizational values, saying, "BCI recognizes that holding Russian securities in our portfolio is not aligned with our values as an organization nor that of our clients and our hearts go out to the people of Ukraine."[4] BCI's *ESG Governance Policy*, however, states that "In BCI's case, its fiduciary duty does not permit the selection or exclusion of investments predominately on values-based considerations" (p.5).

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	BCI has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them. In its 2021 *ESG Annual Report*, BCI highlighted its financing of the First Nations Finance Authority (p.36) and included a portfolio company case study entitled "Prioritizing Indigenous Relations" (*2021 ESG Annual Report Supplementary Case Studies*, p.11). In 2021, BCI voted in support of a shareholder proposal for TMX Group to report on its policies and work related to Indigenous reconciliation and inclusion (*2021 ESG Annual Report*, p.30). BCI staff, clients, and board members also received education in 2021 on Indigenous reconciliation (*2021 ESG Annual Report*, p.40).
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • Canadian Investor Statement on Climate Change • Carbon Disclosure Project • Climate Action 100+ • Coalition for Inclusive Capitalism • ESG Data Convergence Project • International Corporate Governance Network • Principles for Responsible Investment • Responsible Investment Association • Sustainable Finance Action Council • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$2.8 billion (December 31, 2021), or 1.3% of AUM (using AUM as of March 31, 2022)**
Estimated investments in fossil fuels	At minimum $8.3 billion, or 4% of AUM (March 31, 2022)***

Notable fossil fuel holdings (not a comprehensive list)

- A 32% stake in Open Grid Europe.[5]
- An undisclosed stake in Czech Gas Networks.[6]
- Partial ownership of Nova Transportadora do Sudeste SA (NTS).[7]
- A joint 60% stake in National Grid's gas transmission and net metering business.[8]
- A 37% stake in Cleco Corporation.[9]
- An undisclosed stake in Connaught Oil and Gas.[10]
- An undisclosed stake in Corex Resources.[11]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** According to BCI's *2021 ESG Report*, BCI's methodology calculates "the climate-related opportunity exposure of the portfolio using the Sustainable Development Investments Asset Owners Platform (SDI AOP), which provides consistent and accurate measurements of climate-related opportunity investments. We mapped our portfolio to the SDI AOP definitions for companies with products and services that contribute to Goal 7: Affordable and Clean Energy and Goal 13: Climate Action" (p.51). According to BCI's *2022 Climate Action Plan* (p.10), investments count toward the SDI AOP metric as follows: "50 per cent of BCI's exposure to companies that generate over 10 per cent of their revenue from aligned products and services, and 100 per cent of exposure for companies with over 50 per cent of their revenue meeting the criteria." This appears to mean that a coal-fired electric utility or oil and gas producer that happens to generate 10% of its revenue from renewable energy would be considered a climate solution by BCI.

*** This estimate is drawn from BCI's regulatory filings[12] and media articles providing details about the value, purchase price, and selling prices for BCI's major stakes in fossil fuel companies, but information is not available for all holdings and this number is almost certainly an underestimate.

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- 2020 ESG Annual Report (2021)

Documents

- 2022 Climate Action Plan (November 2022)
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- Proxy Voting Guidelines. Tenth Edition (2021)
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Webpages and press releases

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- Our Net Zero Commitment (Quadreal webpage) (accessed November 14, 2022)
- Press release - BCI Releases 2021 ESG Annual Report (August 3, 2022)
- Press release - British Columbia Investment Management Corporation Sets Climate-Related Targets for Public Markets (Feb 19, 2021)
- QuadReal Press release - Quadreal Targeting Net Zero For Entire Portfolio By 2050 (October 17, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (CDPQ)

CDPQ is the investment manager for more than 45 public pension and insurance plans on behalf of 6 million Quebecers, including the Quebec Pension Plan.

Assets Under Management (AUM): $392 billion (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
CDPQ	B+	A–	B	A	B–	B	B–

OVERALL CLIMATE SCORE B+

The good

CDPQ clearly communicates climate urgency, acknowledges the role it can play as an investor in addressing the climate crisis, and centres its climate commitments in its investment strategy. It has demonstrated a willingness and ability to follow through on its commitments by:

- divesting of oil producers by the end of 2022, prohibiting investments in new crude oil pipelines, and committing to "largely" eliminate coal from its portfolio by 2040
- setting interim targets in multiple areas and reporting on progress achieved
- tying executive and staff compensation to the achievement of climate targets
- updating its climate strategy to remain current
- joining the Net Zero Asset Owner Alliance.

What CDPQ should improve in 2023:

- ☐ Pair emissions intensity targets with absolute emissions reduction targets.
- ☐ Disclose scope 3 emissions measurement and establish scope 3 emissions reduction targets.
- ☐ Engage owned companies using time-bound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- ☐ Set an expectation that owned companies:
  - ☐ tie executive compensation to the achievement of climate targets
  - ☐ refrain from lobbying against climate action, directly or through industry associations

- refrain from directing capital toward fossil gas expansion.

- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Strengthen coal exclusion policy.
- Divest from fossil gas producers.
- Exclude any new investments in fossil gas or pipelines.
- Release a timeline and plan for the managed phase-out of existing fossil gas assets.
- Require climate expertise on the Board of Directors.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	A–

CDPQ has committed to reach net-zero emissions by 2050 or sooner and has set ambitious interim targets to reduce emissions intensity. CDPQ is a member of the Net Zero Asset Owner Alliance (NZAOA), publicly committing to Paris alignment. While CDPQ is not yet accounting for the scope 3 emissions of its assets, its NZAOA membership will require CDPQ to incorporate scope 3 into its climate strategy and net-zero emissions commitment.

Interim Targets	B

CDPQ has set interim targets in a number of areas, reports progress against them, and has increased the ambition of some targets since they were first set. CDPQ has not yet paired its targets to reduce emissions intensity with targets to reduce absolute emissions.

Emissions reduction

Commitment to reduce the total portfolio's carbon intensity by 60% by 2030, against a 2017 baseline. CDPQ does not include a short-term target (2025) to track progress to 2030. Like nearly all Canadian pension managers, CDPQ has not yet incorporated scope 3 emissions into its portfolio footprint and interim targets, although its NZAOA membership will require CDPQ to account for scope 3.

Investment in low-carbon assets

Achieve $54 billion invested in low-carbon assets by 2025, using the Climate Bonds Initiative criteria.

Avoid contributing to growth of the global oil supply

Exit investments in oil production and in the production of oil pipelines by the end of 2022.

Investment in decarbonization

Create a $10 billion transition envelope to decarbonize the heaviest carbon-emitting sectors. CDPQ specifies investment in "companies committed to a net-zero objective" and will "target sectors essential to the transition but which still need to reduce their emissions" (*2021 Climate Strategy*, p.8).

AUM covered by a science-based decarbonization target

While CDPQ has not yet set a target in this area, it is tracking what portion of its AUM is currently covered by a science-based decarbonization target ($35 billion of AUM is covered by such a target as of CDPQ's *2021 Sustainable Investing Report*, p.22).

Climate Urgency	A

CDPQ acknowledges the existential emergency of the climate crisis and embraces its responsibility as an institutional investor to influence the likelihood of achieving the 1.5°C goal.

Sample language: Message from the President and CEO in CDPQ's *2021 Climate Strategy* (p.3):

"As a long-term global investor, we have a key role to play in limiting the impacts of climate change. We need to go further, innovate and enable our companies to move faster in responding to this issue… We know that global greenhouse gas emissions can only be reduced significantly by acting directly at the source, which is why we have provided specialized tools—across the organization—to reduce the carbon intensity of our assets. This firmly places the fight against climate change at the heart of our approach and priorities. Our teams work with carbon budgets to limit the environmental impact of all our portfolios. In addition, variable compensation for all our employees is tied to the achievement of our climate targets… We are also raising our portfolio's carbon intensity reduction target to 60% by 2030… Today, we believe it is essential to go further and faster. The climate crisis demands that we do so. We must act concretely, on multiple fronts, and move to the next stage in climate investing."

Climate Engagement	B–

SUMMARY

CDPQ's engagement process, including expectation setting and escalation, could be strengthened with explicit targets for the success of its climate-related engagements, the addition of timebound milestones for companies to achieve and strengthened direction for external managers.

DETAILS

Expectations for owned companies

CDPQ's exclusion on oil producers and willingness to use divestment sends a strong signal to owned companies that the pension manager expects them to have a credible plan to transition to a net-zero economy. CDPQ's proxy voting guidelines (see below) similarly set the expectation that owned companies disclose and manage climate risk such that CDPQ can align its portfolio with net-zero emissions by 2050.

CDPQ has placed firm requirements on which companies can be part of its $10 billion decarbonization transition envelope: these companies must "hold a robust decarbonization plan aligned with the Paris Agreement goals or a net-zero target", have the plan independently certified, and report (annually, rigorously and transparently) on their decarbonization progress (*2021 Sustainable Investing Report*, p.23).

CDPQ does not prohibit owned companies from directing capital expenditure toward fossil fuel expansion. CDPQ does not require owned companies to tie executive compensation to the achievement of climate targets.

Proxy voting

CDPQ's *Policy Governing the Exercise of Voting Rights of Public Companies* (p.19-20) reiterates its climate commitments and states that it will generally support proposals that call for TCFD disclosure, the adoption of greenhouse gas reduction targets and accountability to achieve them, climate scenario analysis, and disclosure of lobbying activities, "especially with regard to climate lobbying carried out by companies and their professional associations." CDPQ states that it may vote against a Committee or Board Chair "if no progress has been made after a process of commitment concerning the lack of climate change initiatives and measures" (p.20).

Collaborative engagement

CDPQ is a member of Climate Action 100+, although few details of its CA100+ engagements are provided in CDPQ's publications.

Direction given to external managers

CDPQ "expects" its external managers to comply with CDPQ's exclusions policy (including its exclusion on oil producers) (*Policy - Sustainable Investing*, p.5). CDPQ states that in selecting external managers it uses "a rigorous selection process, including a review of their sustainable investing priorities," but further details are not provided (*2021 Sustainable Investing Report*, p.11).

Climate Integration	B

Accountable Paris-aligned membership

CDPQ is a member of the Net Zero Asset Owner Alliance. CDPQ, the Investment Management Corporation of Ontario and the University Pension Plan are the only investment managers in this report to be members of an accountable and credible Paris-aligned body.

Transparency and disclosure of holdings

CDPQ discloses its investments and their valuations in an "Additional Information" report which accompanies its annual report and financial statements. While the format makes the information difficult to use and interpret, the report provides significantly more disclosure than most Canadian pension funds.

Transparency and disclosure of climate risk

CDPQ's 2021 TCFD disclosure (included in its *2021 Sustainable Investing Report*) is surprisingly brief given the fund's commitment to managing climate-related risks. The fund could provide more detailed disclosure of its approach to assessing transition and physical risks, and the conclusions it is drawing from its analyses. Based on CDPQ's 2021 TCFD submission, it is unclear if CDPQ is stress-testing its portfolio against a climate scenario of 1.5°C.

Board climate expertise and/or fossil fuel entanglement

Climate expertise is not listed as an area in which the Board must have experience and knowledge. No Board members are identified as having climate expertise. 7% of the Board (or 1 of 14 Directors) has a fossil fuel entanglement: Maria S. Jelescu Dreyfus sits on the Board of Directors of Pioneer Natural Resources.[1]

Executive compensation and climate

The CDPQ sets annual carbon reduction targets for each of its portfolios and links the compensation of senior staff to achieving those targets. According to Bertrand Millot, CDPQ's Head of Sustainability, "It has proven to be an efficient measure, as shown by the fact we have met and even surpassed our carbon reduction targets since it was implemented. Our results have shown that you can reach climate targets, and achieve the returns needed to meet our clients' needs at the same time."[2]

Fossil Fuel Exclusions	B–

Excludes oil producers and the construction of oil pipelines

CDPQ was the first institutional investor in Canada— and thus far the only one— to commit to and implement an exclusion on oil producers, stating that "We believe that the risk/return outlook for oil producers and their climate impact are not aligned with our long-term objectives. That's why we will stop contributing to the growth of global oil supply. By the end of 2022, we intend to complete our exit from oil production. These assets will be sold in an orderly fashion with the goal of protecting returns for our depositors and building a more sustainable portfolio. Our capital will continue to be available to energy companies that wish to develop transition projects based on clean technologies" (*2021 Sustainable Investing Report*, p. 24). "To avoid contributing to the growth in global oil supply," CDPQ will also no longer invest in the construction of oil pipelines by the end of 2022 (*2021 Climate Strategy*, p. 3, 9).

Weak coal exclusion policy

CDPQ excludes any investment in new thermal coal projects, commits to eliminate "most" assets fuelled by thermal coal in industrialized countries by 2030, and commits to "largely" eliminate coal from its portfolio by 2040. Reclaim Finance's *Coal Policy Tool* was unable to score CDPQ's coal exclusion policy, saying that it excludes some coal companies based on their revenues from thermal coal, but "lacks precise information to be properly analysed."[3] While its coal exclusion policy is not strong enough, CDPQ is one of only three Canadian pension funds (alongside IMCO and UPP) examined in this report who have placed any limits on coal investment.

CDPQ has no exclusion policy on fossil gas but does note its rationale on remaining invested "for the time being": "Fossil fuels account for more than 80% of the world's energy balance and natural gas is still a necessary energy source. It is used as an alternative to oil and coal in several regions. In some cases and for some industrial processes, it is currently the only viable option. Thus, for the time being, we will maintain our positions in this sector" (*2021 Sustainable Investing Report*, p. 24). CDPQ's rationale for continuing to invest in fossil gas does not stand up to the imperatives of climate science. IPCC scenarios in which global heating is limited to 1.5°C require gas use to fall 3-4% per year, starting immediately.[4] In contrast to its position on pipelines and oil supply, CDPQ is implicitly saying that its investments will contribute to the growth of global gas supply. CDPQ owns Énergir, Quebec's fossil gas distribution company,[5] and jointly owns the Southern Star Central Gas Pipeline, a fossil gas transmission system with nearly 10,000 km of pipelines in the midwestern United States.[6]

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	CDPQ has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	Net Zero Asset Owner Alliance
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • 2022 Global Investor Statement to Governments on the Climate Crisis • Accounting for Sustainability - CFO Leadership Network • Asia Investor Group on Climate Change • Canada's Net-Zero Advisory Body • Canadian Coalition for Good Governance • Canadian Investor Statement on Climate Change • Carbon Disclosure Project • Ceres Investor Network • Climate Action 100+ • International Corporate Governance Network • Investor Leadership Network • Powering Past Coal Alliance • Principles for Responsible Investment • Responsible Investment Association Member • Sustainable Finance Action Council • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Task Force on Climate-Related Financial Disclosures • Taskforce on Nature-Related Financial Disclosures • Terra Carta signatory
Self-reported assets linked to climate solutions*	$39 billion, or 9% of AUM (December 31, 2021)**
Estimated investments in fossil fuels	$25.2 billion, or 6% of AUM (December 31, 2021)***
Notable fossil fuel holdings (not a comprehensive list)	• A 35% stake in Transportadora Associada de Gás S.A.[7] • A 16.6% ownership interest in the Colonial pipeline.[8] • CDPQ has an 80.9% ownership stake in Énergir.[9] • CDPQ owns 79.9% of Southern Star Acquisition Corporation, the owner and operator of the Southern Star Central Gas Pipeline.[10]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** CDPQ's self-reported "low-carbon assets" in its *Highlights - 2021 Sustainable Investing Report* (p.1); as per CDPQ's *Climate Strategy*, these assets are identified using the Climate Bonds Initiative taxonomy (p.5).

*** CDPQ's *2021 Sustainable Investing Report* noted 3% of AUM in "non-renewable electricity" and 3% AUM in "energy" (p.22).

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- 2021 Sustainable Investing Report (2022)
- Highlights - 2021 Sustainable Investing Report (2022)

Documents

- Climate Strategy (2021)
- Policy - Sustainable Investing (October 2021)
- Policy Governing the Exercise of Voting Rights of Public Companies (October 2020)
- Profils de compétence et d'expérience pour la nomination des membres du conseil d'administration de la Caisse de dépôt et placement du Québec (August 12, 2022)
- Mandate of the Investment and Risk Committee (February 22, 2022)
- Green Bond Framework (April 2021)

Webpages and press releases

- Climate Innovation Fund (webpage) (accessed July 2022)
- Executive Committee (webpage) (accessed July 2022)
- Board of Directors (webpage) (accessed July 2022)
- Sustainable Investing - Governance (webpage) (accessed July 2022)
- Press release - CDPQ posts -7.9% six-month return and 6.1% five-year return, outperforming its benchmark portfolio over all periods (August 17, 2022)
- Press release - CDPQ posts a 13.5% return in 2021, 8.9% over five years (February 24, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

CANADA PENSION PLAN INVESTMENT BOARD (CPP INVESTMENTS, OR CPPIB)

CPPIB is the manager of the Canada Pension Plan (CPP). On behalf of over 21 million Canadians, CPPIB manages one of the largest investment funds in the world. All Canadians outside of Quebec are members of the CPP.

Assets Under Management (AUM): $529 billion (September 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
CPPIB	C–	C	F	B	C+	C+	F

OVERALL CLIMATE SCORE	C–

The good

CPPIB is taking positive steps to understand and implement an effective response to the climate crisis, including its Abatement Capacity Framework and "decarbonization investment strategy". It has set a net-zero by 2050 emissions target which includes scopes 1, 2 and 3 emissions and has developed a climate plan and several think pieces on the energy transition and decarbonization. CPPIB's communication of climate urgency has become stronger year over year, but its significant ownership of fossil fuel companies and infrastructure and the activities of owned companies do not reflect the urgency of the climate crisis.

What CPPIB should improve in 2023:

- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- ☐ Set credible Paris-aligned interim emissions reduction targets (including targets to reduce absolute emissions).
- ☐ Engage owned companies using time-bound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- ☐ Set an expectation that owned companies:
  - ☐ tie executive compensation to the achievement of climate targets
  - ☐ refrain from lobbying against climate action, directly or through industry associations
  - ☐ refrain from directing capital toward fossil fuel expansion.

- Divest from fossil fuel producers.
- Exclude any new investments in coal, oil, gas or pipelines.
- Release a timeline and plan for the managed phase-out of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Tie executive and staff compensation to the achievement of climate targets.
- Stop greenwashing: Ensure the operations and activities of CPPIB and its owned companies are consistent with climate commitments.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	C

CPPIB's net-zero emissions by 2050 target is unusual among Canadian pension fund targets because it explicitly includes scope 3 emissions (although CPPIB has not measured its current scope 3 emissions or laid out a plan to reduce them). CPPIB's definition of net-zero (in its document *Investing in the path to net-zero*, p.2) specifies reducing human-caused emissions "to as close to zero as possible" in addition to technological or nature-based solutions to remove carbon from the atmosphere.

CPPIB does not have interim targets, has not specified the role of offsets in achieving net-zero and has not joined a credible and accountable Paris-aligned investor body.

Interim Targets	F

CPPIB's net-zero commitment did not include interim targets and stated that the pension manager did not expect a linear decline in emissions (*Investing in the path to net zero document*, p.3). A CPPIB webpage, *FAQs about our net-zero commitment* (accessed in September 2022 but which appears to no longer be available) stated that it would be "imprudent" to set a short-term emissions reduction target.[1] This lack of interim targets is at odds with the Paris Agreement, as it neglects to account for the significant drop in emissions that must be achieved by 2030 and makes it virtually impossible to hold CPPIB accountable for progress.

CPPIB does not have targets for the proportion of AUM covered by a profitable and credible science-based decarbonization plan, nor does it have targets for successful climate engagement of owned companies.

CPPIB's 2030 target for investments in climate solutions is notable ($130 billion in "green and transition assets" by 2030, as described on CPPIB's *Investing in the path to net-zero* webpage). However, "green and transition assets" are lumped together, obfuscating this category. Additionally, it is unclear what would be included under "transition assets" (defined on this webpage as an asset that "has announced its commitment to net zero with a credible target and plan and is making meaningful contributions to global emissions reduction"). Finally, this target looks less impressive considering CPPIB's projected AUM in 2030: CPPIB's investment in green and transition assets amounts to 13% of AUM currently; the projected $130 billion investment in green and transition assets would amount to 15% of AUM in 2030 (projected at $879 billion)[2] — just two additional per cent.

Climate Urgency	B

CPPIB acknowledges the risks that the climate crisis poses to its portfolio and the role of investors in addressing the climate crisis. The fund frames its communication of climate urgency as a prudent decision for safeguarding the financial sustainability of the fund. While CPPIB does acknowledge the urgency of the crisis and that investors have agency to influence the trajectory of the crisis, these elements are downplayed in CPPIB's communication and media statements.

Sample language from CPPIB's *2022 Annual Report* (p.10):

"Navigating the risks and opportunities presented by the whole economy transition required by climate change will be a defining challenge of the 21st century. We believe stewarding the portfolio to net zero is in the best interests of contributors and beneficiaries of the Canada Pension Plan, and in line with our mandate of maximizing returns without undue risk of loss."

Climate Engagement	C+

SUMMARY

CPPIB's *2022 Report on Sustainable Investing* claims, "make no mistake, we have clear expectations of directors when it comes to ensuring businesses are sustainably run" (p.6). These clear expectations do not explicitly include a requirement that companies have net-zero strategies.

According to CPPIB's *2022 Report on Sustainable Investing*, "Where sustainability-related factors, including climate change, are material to the company, we expect boards to ensure they are considered and integrated into the company's strategy," and the fund "expect[s] disclosure of financially relevant, potentially material sustainability-related factors" (p.10). In its public equities portfolio, the fund focuses on disclosure and board oversight of climate-related risk and strategy; in its direct investments, CPPIB has a director training and engagement program which has included sessions on "matters related to long-term value creation including climate change" (p.17).

However, CPPIB does not publicly signal to its owned companies or potential investees the urgency of the necessary transition off fossil fuels and the end of increased fossil fuel production. CPPIB instead uses regular media interviews to recommit to oil and gas (see Special Mention box on page 8).

Nevertheless, CPPIB has instituted a number of tools to direct how it engages on climate. The *Climate Change Security Selection Framework* is used for screening and due diligence, and is beginning to be used to determine risk mitigation and value creation opportunities for existing assets. The *Abatement Capacity Framework* provides a methodology for determining cost-effective emissions opportunities and identifying investment or technological gaps on a company's pathway to net-zero. The *Decarbonization investment approach* and attention to carbon-intensive sectors is worthwhile; patient capital should take a long view to support the decarbonization of hard-to-abate industries. However, CPPIB does not draw a distinction between high-carbon sectors that *do* have credible, profitable, technologically-scalable paths to decarbonization, such as cement, steel and utilities, and high-carbon sectors that do *not* have paths to decarbonization, such as fossil fuel producers.

CPPIB could be using its significant leverage as one of the largest funds in the world to require strong corporate climate plans and corporate executive compensation tied to climate targets. The New York State Common Retirement Fund (NYSCRF), for example, states in its *Proxy Voting Guidelines* that it evaluates company climate performance on factors including net-zero transition goals, strategies and capital expenditures in line with the Paris Agreement goals; public policy advocacy on climate change and energy; and executive compensation linked to net-zero transition strategies and targets.[3] NYSCRF in April 2022 also publicly called for shareholders to back resolutions demanding stricter fossil fuel financing policies at big banks, stating "To ensure that those [Net-Zero Banking Alliance] commitments are credible, they need to adopt policies that eliminate financing of new fossil fuel exploration and development."[4]

DETAILS

Expectations for owned companies

CPPIB's *Investing in the path to net zero* document states that "We communicate the clear expectation that it is the responsibility of company boards to identify and oversee climate risk and move their companies along an appropriate transition pathway" (p.8). CPPIB's paper The *Decarbonization Imperative* contains similarly strong language, saying that "Failure to focus on decarbonization as a core function of management and business strategy means boards and management are not acting in the best interests of their companies, shareholders, and other stakeholders" (p.5).

However, CPPIB has not yet enshrined in its policies and proxy voting guidelines an expectation that companies have science-based net-zero targets and credible plans to achieve them. Additionally, without setting interim targets itself, CPPIB has not signalled to owned companies that it expects significant emissions reductions this decade.

CPPIB signals in its *Message from our Inaugural Chief Sustainability Officer* that its patient capital "has limits" and according to a June 2022 *Toronto Star* article it "may sell"[5] if a company doesn't have a viable emissions reduction pathway. However, it is impossible to determine where or when CPPIB draws the line, particularly as CPPIB's leadership consistently makes public statements expressing its intention to continue investing in fossil fuel producers (see Special Mention box on page 8). According to CICERO Shades of Green, "[CPPIB] *has not set specific climate-related thresholds for divestment* but will instead continue its active engagement approach until net zero commitment and other transition plan progress can be more clearly determined" (emphasis added).[6]

Furthermore, CPPIB has set no expectation for its portfolio companies to stop directing capital expenditure toward increasing fossil fuel production, and no expectation that its portfolio companies end lobbying (either individually or through industry associations) against climate action. Notably, the new president and CEO of the Canadian Association of Petroleum Producers, the oil and gas lobbying group with a long and well-documented record of undermining robust climate policy in Canada[7], was most recently the head of global public affairs at CPPIB.[8]

Proxy voting

CPPIB's *Proxy Voting Principles and Guidelines* state the expectation that companies will integrate climate risks and opportunities into their strategy and operations and disclose this information. CPPIB is clear that it will escalate to voting against directors (e.g. Chair of the Risk Committee) "where boards have failed to demonstrate *adequate consideration* of physical and transition-related impacts from climate change," (emphasis added) and defines what would constitute failure to do so (p.21). However, CPPIB does not set the expectation that "adequate consideration" of climate-related risks must include a profitable and credible net-zero transition plan.

In its *Summary Report - 2022 Report on Sustainable Investing*, CPPIB reported that for the year ended June 30, 2022, its guidelines resulted in votes against 65 directors and that its engagements at 35 companies "contributed to material commitments and improvements on climate-related disclosures and practices" (p.16). The *Proxy Voting Principles and Guidelines* note that CPPIB may in future years consider escalating to votes against the entire risk committee, the board chair and the entire board "where we see inaction in addressing this area" (p.21).

Collaborative engagement

CPPIB is not a member of Climate Action 100+ or Climate Engagement Canada. While the fund is a member or contributor to various bodies (e.g. ESG Data Convergence Project, Investor Leadership Network) it is not clear if CPPIB is collaborating with other institutional investors on targeted climate-related engagement of owned companies.

Direction given to external managers

It is unclear what, if any, direction CPPIB gives to its General Partners and external managers on oversight of climate-related risk at owned companies. CPPIB's *Sustainable Investing Reports* allude to an ESG due diligence questionnaire (*2022 Report on Sustainable Investing*, p.5; *2021 Report on Sustainable Investing*, p.16) completed by General Partners and external managers which includes questions related to climate change, but no information is provided regarding what these questions are or what guidance CPPIB subsequently provides to these partners.

Climate Integration	C+

Accountable Paris-aligned membership

CPPIB is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

CPPIB discloses its investments and their valuation across asset classes through its website. Caisse de dépôt et placement du Québec and British Columbia Investment Management Corporation are the only other pension investment managers with investment disclosure that approaches CPPIB's.

Transparency and disclosure of climate risk

When asked by beneficiaries, CPPIB did not provide a list of high-carbon assets or assets that are aligned with 1.5°C.[9]

CPPIB tests performance of the portfolio against climate outlooks including a 1.5°C global heating scenario. While CPPIB's *2022 Task Force on Climate-related Financial Disclosures* reporting on scenario analysis is high-level, the disclosure is blunt in describing potential losses to the fund, and demonstrates that both a business-as-usual scenario (i.e. regulatory inaction on climate) and delayed regulatory action scenario result in an annualized negative impact in the double digits (p.4). CPPIB's continued investments in fossil fuel expansion, which amount to delayed action on climate, do not seem to be reflective of its own scenario analysis.

CPPIB has a current (February 2022) dedicated climate plan, *Investing in the Path to Net Zero*.

CPPIB's *Insights Institute* provides analysis and updates on how the fund is conceptualizing its climate response, and includes reports and articles on CPPIB's "Abatement Capacity Framework", its "decarbonization investment approach", the carbon credit market and the "Decarbonization Imperative".

Board climate expertise and/or fossil fuel entanglement

No directors on the CPPIB board are identified as having climate expertise. CPPIB's *2022 Annual Report* notes that Board professional development sessions included climate change in fiscal 2022 (p.79).

Four of 12 Board members, or 33% of the board, have current ties to fossil fuel companies:

- Judith Athaide sits on the board of directors of Kiwetinohk Energy.[10] Kiwetinohk Energy produces and processes fossil gas in the Montney and Duvernay formations, and operates two gas-fired power plants and three renewable energy projects in Alberta.[11] Ms. Athaide also sits on the board of New Brunswick Power, which owns and operates 13 hydro, coal, oil and diesel-powered generation stations.[12]
- Sylvia Chrominska sits on the boards of directors of Wajax Corp. and Emera Inc.[13] Wajax is an industrial supplier of equipment for mining and oil extraction (among other industries). Emera Inc. is a Nova Scotia-based energy company with fossil fuel utility subsidiaries in Canada, the United States and the Caribbean.
- Ashleigh Everett is the current president of Royal Canadian Securities Ltd., which owns Domo Gasoline Corp.[14] Domo Gasoline Corp. is a gasoline retailer with over 80 outlets throughout Central and Western Canada.
- Barry Perry sits on the board of Capital Power and is also the former president and CEO of Fortis Inc. Capital Power owns and operates a fleet of eleven fossil gas power plants. Fortis Inc. is a "North American leader in the regulated [fossil] gas and electric utility industry".[15]

Executive and staff compensation and climate

CPPIB provides no specific information regarding whether or not executive or staff compensation is tied to the achievement of climate-related targets. CPPIB's *2022 Report on Sustainable Investing* states that "Sustainability-related considerations are incorporated into employee objectives and compensation structures, where relevant" (p.11). The report names specific roles in the C-suite that are tasked with delivering on CPPIB's net-zero commitment: the Chief Sustainability Officer is to work closely with the CEO, Chief Investment Officer, and Chief Finance and Risk Officer to ensure CPPIB "deliver[s] on our commitment to reach net zero across the Fund and our operations by 2050" (p.10).

Fossil Fuel Exclusions	F

None. CPPIB has frequently and consistently made public statements saying that it rejects "blanket divestment" and that it will continue to invest in the oil and gas industry.

CPPIB's *Green Bond Framework*, however, does exclude direct investment in fossil fuel infrastructure, including hydrogen generated from fossil fuels, "renewable energy that expands the capacity of oil and gas", and fuel switching from oil to gas (e.g. in heating systems) (p.7-8).

Greenwashing Award	

As part of the 2022 Canadian Pension Climate Report Card, Shift has assigned CPPIB a gold star for greenwashing for its alarming and ongoing pattern of communications, investment decisions and stewardship approaches that misrepresent the potential for the oil and gas industry to align with CPPIB's stated climate obligations. This includes the obfuscation of its investments in fossil fuels and climate solutions, the actions of its privately-owned companies to greenwash their operations and prolong the use of fossil fuels, and an over-reliance on unrealistic assumptions for carbon capture utilization and storage (CCUS) and offsets in achieving climate objectives. Learn more at shiftaction.ca/reportcard2022/greenwashingawards.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	CPPIB has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	None
Collaborations and memberships	• Canadian Coalition for Good Governance • ESG Data Convergence Project • International Corporate Governance Network • Investor Leadership Network • Principles for Responsible Investment • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures • Taskforce on Nature-related Financial Disclosures • Taskforce on Scaling Voluntary Carbon Markets
Self-reported assets linked to climate solutions*	$66 billion (March 31, 2022) or 12% of AUM (September 30, 2022)**
Estimated investments in fossil fuels	$21.72 billion or 4% of AUM (September 30, 2022)***
Notable fossil fuel holdings (not a comprehensive list)	• A 26% stake in Civitas Resources.[16] • 99% ownership of Wolf Infrastructure.[17] • A 10% ownership stake in Nedgia.[18] • A 36.8% stake in Transportadora de Gas del Perú S.A[19] • A 43.5% stake in the Corrib fossil gas field off the coast of Ireland[20] • A 35% ownership stake in Williams Ohio Valley Midstream JV.[21]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** Includes "green and transition assets" identified by CPPIB and described in its *Summary Report - 2022 Report on Sustainable Investing* (p.13):

- "We consider an asset to be green when at least 95% of its revenue can be classified as being derived from green activities, as defined by the International Capital Market Association (ICMA). We adopt the highest end of the 75%-95% range that the E.U. Taxonomy uses to consider assets 'strongly climate-aligned.'
- "We consider an asset to be in transition if the company is in a high-emitting sector and has announced a commitment to net zero with a credible target and transition plan, and is making meaningful contributions to global emissions reductions. Assets are eligible if they obtain certification from a credible third-party. Companies which have substantial green revenues that currently fall short of the green asset threshold (i.e., 95% minimum) may also be considered for inclusion as transition assets, provided they have a credible plan to grow their green revenue share over time."[22]

*** $21.72 billion in "fossil fuel producers" was cited by Frank Switzer, the managing director of investor relations at CPP Investments, in a July 2022 media article.[23]

SPECIAL MENTION

CPPIB spends considerable effort making public statements signaling that it will continue to prolong and prop up the fossil fuel industry, and painting the industry (which must be phased out in order to limit global heating to 1.5°C) as a critical part of the energy transition.

While CPPIB CEO John Graham said in November 2022 that CPPIB would sell companies that weren't taking net-zero commitments seriously and didn't respond to climate engagement,[24] this statement was a marked departure from the norm.

An abbreviated and select history of CPPIB public statements:

- "In a question-and-answer session following his speech Friday, [CPPIB CEO John Graham] received applause when he said CPPIB remains committed to continue investing in extractive industries including oil and gas companies." - October 2022, *Financial Post*[25]
- "'We're already seeing Big Oil become Big Energy. We could also see Big Oil become Big Energy, but also no-carbon oil over time,' [Richard Manley, CPPIB's then-head of sustainable investing, now Chief Sustainability Officer] said." - September 2022, *The Globe and Mail*[26]
- "The investing arm of the Canada Pension Plan is sticking by its decision not to sell off assets tied to fossil fuels, even as a growing number of other large pension managers and institutional investors say they will... But the fund (which manages the Canada Pension Plan money that is not needed to pay immediate benefits to beneficiaries) said it would not take a 'blanket divestment' approach as part of its climate change policy and CEO John Graham defended that position this week in a meeting with the Toronto Star's editorial board." - June 2022, *The Toronto Star*[27]
- "[Frank Switzer, CPPIB's managing director of investor relations] adds the CPPIB 'disagrees with any simple conclusion' that says it can't invest in a variety of energy companies and work to lower emissions at the same time. 'There's a more encouraging path to achieving a lower-carbon economy,' he says, 'by leveraging the know-how, innovation and capacity of leading energy firms, compared to not having them as part of an overall solution.'" - August 2021, *Pique News Magazine*[28]
- "Leduc argued the Canada Pension Plan can use its financial heft to encourage oil and gas companies to get cleaner, and that the sector's 'ingenuity' and 'technological know-how' are needed to help transition to net-zero." - October 2021, *The Toronto Star*[29]
- "'Simple divestment is essentially a short on human ingenuity,' John Graham told the Financial Post in a recent interview, adding that there are 'incredibly bright, talented' scientists and engineers in the oil and gas industry." - April 2021, *Financial Post*[30]
- "Under its new leader, the CPPIB will also continue to invest in energy projects, including Alberta oil and gas businesses, and attempt to profit as these companies shift towards sustainable business models." - March 2021, *The Globe and Mail*[31]
- "According to James [James Jackson, CPPIB Managing Director who "spent his career in the energy industry"], conventional oil and gas players will continue to participate in the energy evolution and will be leaders in the space." - CPPIB *2021 Report on Sustainable Investing*[32]
- "[O]il and gas will play a significant role for many more years and the potential for human ingenuity in the industry's evolution should not be underestimated... We are confident that major investments supporting the shift over time to lower-carbon energy sources will come from companies that currently derive most of their revenue from hydrocarbons." - CPPIB *2020 Report on Sustainable Investing*, Message from President & CEO[33]

- "Working with energy companies to accelerate the transition to cleaner energy sources is productive. Divesting from companies that are making a real difference in how we generate energy is counterproductive, akin to betting against human ingenuity and innovation." - October 2020 op-ed from Michel Leduc, CPPIB's senior managing director and global head of public affairs and communications, *The Toronto Star*[34]
- "To be abundantly clear, there are attractive opportunities in the oil and gas sector that remain today, and, we believe, into the future... While other investors are abandoning the energy industry altogether or establishing unmovable targets to sell down, we swim against the current because the industry is an integral part of the evolution taking place now. History will no doubt fairly judge investor strategies that helped the transition – perhaps less generous on those walking away at delicate junctures." Michel Leduc, CPPIB's senior managing director and global head of public affairs and communications, quoted in *The Globe and Mail*, September 2020[35]

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Full text:

"Why are you not setting an interim net-zero target?

Inconsistent emissions data and limited disclosure on the feasibility of corporate transition plans make it imprudent to set a short-term GHG emissions reduction target for CPP Investments. As data availability improves and tools emerge to diligence transition plans (such as our proposed Abatement Capacity Assessment framework) we may decide to introduce short-term targets. Our commitment is made on the basis of, and with the expectation that, the global community will continue to advance towards the goal of achieving net-zero GHG emissions by 2050. These advancements include the acceleration and fulfilment of commitments made by governments, technological progress, realization of corporate targets, changes in consumer and corporate behaviours, and development of global reporting standards and carbon markets, all of which will be necessary to help enable us to meet our commitment. CPP Investments is dedicated to staying ahead of these developments that will impact our portfolio's path to net zero. We are not picking an arbitrary net-zero date before 2050 because we believe our path to net zero will be non-linear. We have however set a target to invest at least $130 billion in green and transition assets by 2030."

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- Message from our Inaugural Chief Sustainability Officer (November 2021)
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- FAQs about our net-zero commitment (webpage) (accessed September 2022; appears to no longer be available)

- Board of Directors (webpage) (accessed September 2022)
- Sustainable Investing | How We Invest (webpage) (accessed September 2022)
- The Fund (webpage) (accessed September 2022)
- Green Bond Program (webpage) (accessed September 2022)
- Holdings and Relationships (webpage) (accessed September 2022)
- Real Assets Investments (webpage) (accessed September 2022)
- Our Investments (webpage) (accessed September 2022)
- Press release - CPP Investments Net Assets Total $529 Billion at Second Quarter Fiscal 2023 (November 10, 2022)
- Press release - CPP Investments Publishes 2022 Report on Sustainable Investing (September 28, 2022)
- Press release - CPP Investments Net Assets Total $523 Billion at First Quarter Fiscal 2023 (August 11, 2022)
- Press release - CPP Investments Net Assets Total $539 Billion at 2022 Fiscal Year-End (May 19, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP)

HOOPP is a defined benefit pension plan for over 400,000 Ontario healthcare sector workers, with nearly 600 participating employers including hospitals, family health teams, foundations, community health centres and other organizations and service providers.

Assets Under Management (AUM): $114.4 billion (December 31, 2021)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
HOOPP	D	C–	D	C	F	F	F

OVERALL CLIMATE SCORE	D

The good

HOOPP has set a net-zero emissions by 2050 target and has set an interim absolute emissions target in its real estate portfolio.

What HOOPP should improve in 2023:

- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- Improve transparency and disclosure of approach to climate risks and investments in high-risk, high-carbon assets.
- Complete total portfolio carbon footprint.
- Complete 1.5°C scenario analysis and disclose results.
- Release a credible Paris-aligned climate strategy with interim emissions reduction targets (including targets to reduce absolute emissions).
- Set targets for investments in climate solutions and for the proportion of AUM covered by a credible net-zero plan.
- Develop an escalatory and timebound climate engagement strategy. Set targets to measure the success of climate engagements.
- Strengthen Proxy Voting Guidelines to require companies to have science-based decarbonization plans. Begin publishing proxy voting record.

- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.
- Divest from fossil fuel producers.
- Place an exclusion on any new investments in coal, oil, gas and pipelines.
- Develop a Board competencies framework and include climate expertise as a required competency.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	C–

HOOPP has announced a net-zero emissions by 2050 target, but has not set portfolio-wide interim emissions reduction targets; has not defined net-zero or the role, if any, that offsets will play in achieving its goal; has not accounted for scope 3 emissions; and has not announced a plan to achieve real world emission reductions.

Interim Targets	D

HOOPP has not yet completed a total portfolio carbon footprint and has no portfolio-wide interim targets.

The fund has one interim emissions reduction target: to reduce the Scope 1 and 2 absolute emissions of its real estate portfolio, for assets over which HOOPP has operational control, 50% below 2019 levels by 2030 (*2021 Real Estate Sustainability Report*).

HOOPP does not yet have targets for investments in climate solutions or targets for the proportion of its AUM covered by a credible science-based net-zero plan.

Climate Urgency	C

HOOPP mentions climate change minimally in a number of documents. The fund's most urgent statement on climate to date is on its *Climate Change* webpage:

"Climate change poses one of the most urgent and pressing systemic challenges of our time. It presents a unique risk that requires coordinated action from governments, corporations, individuals and institutional investors like HOOPP."

While HOOPP acknowledges climate change as a systemic challenge, it does not articulate the urgency or existential threat of the climate crisis; does not articulate that HOOPP's investments affect the climate; and does not include the ambition to centre climate in its investment strategy.

Climate Engagement	F

SUMMARY

HOOPP has no publicly stated climate expectations for owned companies and no disclosed climate engagement and escalation process. To date, HOOPP has never released a portfolio-wide sustainable investing report. A review of HOOPP's website and recent Annual Reports provides no examples of successful climate-related engagement. HOOPP does not disclose its proxy votes to the public or to its members.

DETAILS

Expectations for owned companies

No expectations stated.

Proxy voting

HOOPP's *Proxy Voting Guidelines* (p.12) mention climate change in passing as an ESG factor. The pension fund does not mention the climate crisis, the necessity of net-zero transition plans, or the importance of climate-literate board oversight. HOOPP's voting guidelines support "reasonable disclosure of policies and practices related to relevant environmental and social issues" and state HOOPP may "consider" votes against the committee Chair/members "if a company is not adequately managing the risks of material environmental and social issues" ("adequately managing" is not defined).

HOOPP's *Proxy Voting Guidelines* state that "HOOPP believes that the way HOOPP votes on proxy issues should be confidential unless HOOPP decides to make its votes public" (p.7). HOOPP does not publicly disclose its votes, making it impossible for beneficiaries and stakeholders to ascertain how HOOPP voted on climate-related shareholder resolutions.

Collaborative engagement

HOOPP is a founding member of Climate Engagement Canada.

Direction given to external managers

It is unclear what direction if any HOOPP gives to external managers regarding the handling of climate-related risk. HOOPP's *Sustainable Investing Policy* states that "HOOPP examines the investment fund manager's approach to ESG integration, including relevant policies, practices and resources," and "regularly evaluat[es] how external investment managers are integrating ESG factors into their organizations" (p.3).

Climate Integration	F

Accountable Paris-aligned membership

HOOPP is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

HOOPP provides an exceptionally low level of disclosure regarding its investments. HOOPP does not announce new investments via press release or list direct investments, external managers or investment managers on its website. It is difficult to find even basic information about HOOPP's investments, such as the composition of its portfolio by asset class. HOOPP's website and 2021 Annual Report provide no data on the portfolio's exposure to any sector other than real estate.

Transparency and disclosure of climate risk

HOOPP has no publicly available climate plan explaining its exposure to climate risks or strategy to mitigate those risks. HOOPP's *2021 TCFD reporting* briefly describes the climate scenarios used in its first ever scenario analysis, but provides no details about the results or implications of the analysis.

HOOPP's *2021 TCFD reporting* also states that climate change is incorporated in the fund's *Investment Risk Framework*, but this framework does not appear to be publicly available.

Board climate expertise and/or fossil fuel entanglement

HOOPP does not publish biographies of its Board members, has no public Board competencies framework and identifies no Board members as having climate expertise. One HOOPP board member has a current fossil fuel entanglement: Trustee Nicholas Zelenczuk simultaneously sits on the Board of Directors of Teine Energy.[1]

Executive and staff compensation and climate

HOOPP's *2021 Annual Report* provides no discussion of executive or staff compensation. There is no indication that compensation is tied to climate targets.

Fossil Fuel Exclusions	F

On its *Climate Change* webpage, under the heading *Our Approach to Divestment*, HOOPP states that "addressing climate change requires real-world results, and that simply reducing the carbon footprint of our investment portfolio does not necessarily translate into lower emissions in the real economy." HOOPP does not provide any examples of reducing emissions in the real economy, nor does it articulate a strategy to do so. The webpage goes on to say that HOOPP "urg[es] and encourag[es] corporations to develop credible decarbonization plans". No examples are provided.

Notably, HOOPP is a signatory of the Tobacco-Free Finance Pledge, stating that it is making "a public commitment to sustainable finance and global health."[2] HOOPP does not mention the meticulously-documented and devastating global health impacts of the climate crisis.[3]

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	HOOPP has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Engagement Canada • Principles for Responsible Investment • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$2.4 billion, or 2% of AUM**
Estimated investments in fossil fuels	At minimum, nearly $2 billion, or 1.7% AUM, but lack of disclosure makes an estimate impossible.***
Notable fossil fuel holdings (not a comprehensive list)	• HOOPP provides no disclosure of its investments beyond regulatory filings to the Securities & Exchange Commission. • Regulatory filings to June 30, 2022 show that HOOPP holds nearly $2 billion in shares in publicly-traded fossil fuel companies including Arch Resources, Chevron, Equinor, ExxonMobil, Phillips 66, Southern, Suncor, Xcel, and others.[4]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** As per HOOPP's *Climate Change* webpage, this includes "carbon-efficient companies, clean energy and other climate change solutions;" "green and sustainable development bonds, which provide funding for projects such as clean transportation, clean energy and technology, energy efficiency and conservation, and others;" "climate-resilient and clean energy infrastructure;" and "climate solutions and the transition to a net-zero future."

*** HOOPP discloses no information regarding its private investments. Regulatory filings to June 30, 2022 show HOOPP holds nearly $2 billion worth of shares in publicly-traded fossil fuel companies including companies that produce, refine and extract fossil fuels, as well as integrated utilities.[5]

ENDNOTES

1 DeRochie, P. (2022, May 5). *Climate-conflicted pension managers: The oil & gas insiders overseeing Canadians' retirement savings*. Shift Action for Pension Wealth and Planet Health. P.23. Downloaded from www.shiftaction.ca/climateconflicted.

2 Healthcare of Ontario Pension Plan. (2022). *Sustainable Investing at HOOPP*. Retrieved October 27, 2022 from hoopp.com/investments/sustainable-investing.

3 Romanello et al. (5 November, 2022). *The 2022 report of the Lancet Countdown on health and climate change: health at the mercy of fossil fuels*. The Lancet. www.thelancet.com/journals/lancet/article/PIIS0140-6736(22)01540-9/fulltext.

4 Healthcare of Ontario Pension Plan. (2022, August 11). *SEC filing. 13F-HR (Institutional investment manager holdings report) INFORMATION TABLE. U.S. Securities and Exchange Commission*. To June 30, 2022. www.sec.gov/Archives/edgar/data/1535845/000153584522000006/0001535845-22-000006-index.html.

See analysis at drive.google.com/file/d/111LSvaN1FeNWnAksriMKbFRgSV2Uqx_u/view.

5 Healthcare of Ontario Pension Plan. (2022, August 11). *SEC filing. 13F-HR (Institutional investment manager holdings report) INFORMATION TABLE. U.S. Securities and Exchange Commission*. To June 30, 2022. Retrieved from www.sec.gov/Archives/edgar/data/1535845/000153584522000006/0001535845-22-000006-index.html.

See analysis at drive.google.com/file/d/111LSvaN1FeNWnAksriMKbFRgSV2Uqx_u/view.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021 Annual Report (2022)
- 2020 Annual Report (2021)
- HOOPP 2021 Real Estate Sustainability Report (2022)

Documents

- HOOPP Sustainable Investing Policy (effective January 1, 2022)
- HOOPP Statement of Guidelines and Procedures on Proxy Voting (effective January 1, 2022)
- Statement of Investment Policies & Procedures (effective January 31, 2022)
- Real Estate Sustainability Policy (2018)

Webpages and press releases

- TCFD disclosures (webpage) (accessed June 2022)
- Climate Change (webpage) (accessed October 27, 2022)
- HOOPP Board of Trustees (webpage) (accessed June 2022)
- A message to our members. HOOPP's action on climate change (blog post) (February 3, 2022)
- Sustainable Investing at HOOPP (webpage) (accessed June 2022)
- Press release - Strong returns keep Plan secure for long-term benefit of Ontario's healthcare workers (March 16, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

INVESTMENT MANAGEMENT CORPORATION OF ONTARIO (IMCO)

IMCO is the investment manager for the Ontario Pension Board (OPB), the administrator of Ontario's $33.7 billion Public Service Pension Plan (PSPP), which is the pension fund for over 93,000 active and retired Ontario public servants. IMCO's clients also include the Provincial Judges' Pension Board and the insurance and benefit funds of Ontario's Workplace Safety and Insurance Board.

Assets Under Management (AUM): $79 billion (December 31, 2021)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
IMCO	B–	B	B–	B+	C+	C+	D+

OVERALL CLIMATE SCORE B–

The good

IMCO has set its climate ambition high by committing to the Paris Aligned Investment Initiative. It has set an interim target to reduce the emissions intensity of its portfolio by 50% by 2030 below a 2019 baseline. IMCO has committed by 2030 to invest 20% of AUM in climate solutions, making it the only Canadian fund to set a climate solutions target as a percentage of AUM. IMCO's *Proxy Voting Guideline* sets strong expectations for companies to achieve net-zero alignment. IMCO and its largest client fund, OPB, showed a willingness to be transparent and open about their handling of climate-related risks by publishing to OPB's website a beneficiary letter with detailed questions on climate along with IMCO and OPB's response.

What IMCO should improve in 2023:

- Pair its emissions intensity reduction targets with absolute emissions reduction targets for 2030.
- Disclose scope 3 emissions measurement and establish scope 3 emissions reduction targets.
- Set targets for the proportion of AUM covered by a credible net-zero plan.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations

- refrain from directing capital toward fossil fuel expansion.

- Strengthen coal exclusion policy.
- Clarify commitment to "phase out new investment commitments in development of new unabated fossil fuel assets": commit to exclude any new investments in coal, oil, gas and pipelines.
- Divest from fossil fuel producers.
- Commit to a timebound and managed phaseout of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS	
Paris-Aligned Target	B

IMCO has committed to reach net-zero emissions by 2050 or sooner and has set interim targets for reducing its portfolio's emissions intensity and investing in climate solutions. IMCO's commitment to the Paris Aligned Investment Initiative signals that additional elements are forthcoming, including accounting for scope 3 emissions, limiting the role of offsets, and a strategy to navigate to net-zero portfolio emissions while bringing down emissions in the real economy.

Interim Targets	B–

Emissions reduction

In November 2022, IMCO announced a commitment to reduce the emissions intensity of its portfolio by 50% by 2030 (against a 2019 baseline). IMCO should pair this ambitious intensity target with a 2030 target for a reduction in absolute emissions.

Investment in climate solutions

IMCO has committed to invest 20% of AUM in climate solutions by 2030. IMCO clearly defines climate solutions using the International Capital Markets Association Green Bond Principles, and is the only Canadian fund to set a climate solutions target as a percentage of AUM.

AUM covered by a science-based decarbonization target

No commitment.

Climate Urgency	B+

IMCO acknowledges that the climate crisis poses risks to the portfolio, that investors have a role in addressing the climate crisis, and that investors have agency to influence the trajectory of the climate crisis. While IMCO's statements could be stronger, IMCO does acknowledge the climate crisis as urgent and existential, and is beginning to articulate an ambition and determination to centre climate in its investment strategy.

Sample language: *Climate Action - Responsible Investing* webpage:

"IMCO is proud to embrace the targets and pledges of the 2015 Paris Climate Accord which outlines the goals and commitments required to reach net-zero greenhouse gas (GHG) emissions by 2050."

Sample language: *OPB and IMCO's commitment to ESG and Climate Risk* blog post:

"IMCO, on behalf of its clients, including OPB, is committed to using its influence, scale, and strengths to engage with managers and partners to advocate for net-zero aligned investments, policies, and regulations."

Climate Engagement	C+

SUMMARY

IMCO's *Proxy Voting Guideline*, along with the proxy voting guidelines of the Ontario Teachers' Pension Plan, is among the strongest in the Canadian pension sector. The *Guideline* spells out specific net-zero-aligned requirements for management-sponsored proposals on climate change.

IMCO's climate engagement could be strengthened with more details on how it is engaging direct investments, and with time-bound targets for net-zero alignment and timebound escalation up to and including divestment if targets are not met.

DETAILS

Expectations for owned companies

IMCO's *2021 Annual Report* states, "We expect companies to commit to net zero carbon emissions by 2050 or sooner, set science-based emission reduction targets, and disclose climate information in line with Task Force on Climate-Related Financial Disclosures (TCFD)" (p.51).

Proxy voting

IMCO's *Proxy Voting Guideline* sets expectations that management proposals on climate change include TCFD disclosure, a commitment to a net-zero target by 2050 or sooner, the setting of science-based interim reduction targets and a commitment to report progress on targets (p.10). IMCO will "generally" vote for shareholder proposals calling for climate-related disclosure, the adoption of GHG reduction targets, development of scenario analysis and disclosure of lobbying activities. If IMCO's expectations are not met, it "may" vote against or abstain from voting on management proposals, and "may" vote against or withhold votes from the Chair or the relevant committee, committee members, or the Board Chair. The pension manager "may consider" co-filing of climate resolutions (*2022 Climate Action Plan*, p.7).

According to IMCO's *2021 ESG Report*, these guidelines resulted in IMCO withholding support from all management-sponsored proposals on climate in 2021, as none met IMCO's criteria, and voting in favour of 85% of shareholder proposals on climate (p.32).

Collaborative engagement

IMCO is an investor supporter of Climate Action 100+, meaning it is a signatory to the initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies. IMCO is also a member of Climate Engagement Canada.

Direction given to external managers

In a press release accompanying the pension manager's *2022 Climate Action Plan*, IMCO stated that it will prioritize partnerships with external managers that have existing or intended net zero commitments.

IMCO's *2021 ESG Report* provides more detail than is typical of other funds on the process it uses to conduct due diligence and screening of external managers and on its ongoing engagement of external managers (p.24). IMCO's due diligence questionnaire includes questions related to net-zero commitment, portfolio alignment with net-zero, climate risk and opportunities, carbon footprinting including scope 3 "if appropriate", and climate-related targets and metrics. Contractual agreements with external managers include language on IMCO's ESG expectations.

Climate Integration	C+

Accountable Paris-aligned membership

IMCO is a member of the Paris Aligned Investment Initiative.

Transparency and disclosure of holdings

IMCO does not provide a list of its investments or their valuations.

Transparency and disclosure of climate risk

IMCO and OPB provided more transparency than other funds when asked by beneficiaries to disclose their handling of climate-related risks. The OPB posted on its website a letter they had received from beneficiaries regarding handling of climate risk, and OPB and IMCO's joint response in full.[1]

IMCO has not yet conducted climate scenario analysis on its total portfolio. It currently conducts quarterly analysis on its public portfolio, using 1.5°C, 2°C and 3°C scenarios. Discussion of scenario analysis in IMCO's *2021 ESG Report* was limited, noting that since the initial analysis the IPCC has released new information which would affect subsequent analyses. In its *2022 Climate Action Plan* (p.12), IMCO referenced four different 1.5°C outlooks to demonstrate the alignment of its interim targets with a net-zero by 2050 goal. It is unclear if these outlooks are being used to conduct scenario analysis.

Board climate expertise and/or fossil fuel entanglement

IMCO does not identify any Board members as having climate expertise. IMCO's Board skills matrix (*2021 Annual Report*, p.66) requires the board to have "ESG management" experience, but climate-related expertise is not specified. Both IMCO's *2021 ESG Report* (p.11) and OPB's *2021 Annual Report* (p.20, 52) noted Board education on topics including climate change.

1 of 9 IMCO Directors, or 11% of the Board, has a current fossil fuel entanglement. Brian Gibson, Chair of IMCO's Board, is concurrently on the board of Precision Drilling Corporation.[2]

Executive and staff compensation and climate

According to IMCO's *2021 ESG Report*, "firm-wide ESG objectives are considered, among other factors, in determining senior executive compensation" (p.10), but no direct link between compensation and climate targets is established. Notably, two committees (the Management Investment Committee and the Investment Department Committee) are specifically named as being charged with the responsibility to ensure IMCO is investing in line with achievement of its Paris-aligned target (*2021 ESG Report*, p.50).

Fossil Fuel Exclusions	D+

While IMCO has taken steps to limit fossil fuel exposure, its exclusions need to be strengthened and clarified.

IMCO's *2022 Climate Action Plan* includes a section on "climate guardrails" (p.9), which commit IMCO to:

- phase out new investment commitments in development of new unabated fossil fuel assets, in line with appropriate global, science-based scenarios, and
- limit exposure to investments in thermal coal mining and arctic drilling.

IMCO cites credible, global, science-based net-zero scenarios (p.12), all of which are unambiguous about ending fossil fuel expansion, as the basis for its climate guardrails. IMCO should exclude *any* new investment in fossil fuel assets and make a clear and timebound commitment to phase out existing investments. It should also clarify what is meant by "unabated" fossil fuel assets and explain why it plans to only limit exposure to thermal coal and arctic drilling and not other fossil fuels.

While IMCO expresses a preference for engagement over divestment, its *2021 ESG Report* recognizes "that certain products, production methods and business activities harm humans as well as our environment" (p.37). According to IMCO's *2022 Climate Action Plan*, "When prior extensive engagement on climate has not proved successful and there is a clear risk to shareholder value, divestment may be carefully considered by the investment teams as a measure of last resort" (p.7).

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	IMCO does not appear to have a policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them. The OPB states in its *2021 Annual Report*: "We also support a transition to a net-zero economy informed by Indigenous perspectives that supports Indigenous economic opportunities and encourages business practices that align with the principles of the United Nations Declaration on the Rights of Indigenous Peoples."
Accountable Paris-aligned memberships	Paris Aligned Investment Initiative
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • Canadian Coalition for Good Governance • Canadian Investor Statement on Climate Change • Carbon Disclosure Project • Ceres Investor Network • Climate Action 100+ (investor supporter) • Climate Engagement Canada • ESG Data Convergence Project • International Corporate Governance Network • Partnership for Carbon Accounting Financials • Principles for Responsible Investment • Responsible Investment Association • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	No data available.**
Estimated investments in fossil fuels	Estimate between \$3-\$6 billion, or 4-7% of AUM (December 31, 2021)***
Notable fossil fuel holdings (not a comprehensive list)	• 5% co-ownership interest in Compaña Logistica de Hidrocarburos.[3] • Co-ownership of Calon Energy.[4] • 4% of IMCO's portfolio, or \$3.16 billion, invested in "Energy", as of December 31, 2021.[5]***

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** IMCO has not yet reported total investments in climate solutions, although it has set a climate solutions investment target.

*** IMCO's *2021 Annual Report* notes 4% of AUM in "energy" and 3% in "utilities". In a December 2021 letter to OPB members, IMCO said that "Energy" refers to "energy equipment and services and oil, gas & consumable fuels."[6]

ENDNOTES

1 Ontario Pension Board. (2021, December 22). *OPB and IMCO's commitment to ESG and Climate Risk*. Blog post. www.opb.ca/news/opb-and-imco-commitment-to-esg-and-climate-risk.

2 DeRochie, P. (2022, May 5). *Climate-conflicted pension managers: The oil & gas insiders overseeing Canadians' retirement savings*. Shift Action for Pension Wealth and Planet Health. P.31. Downloaded from www.shiftaction.ca/climateconflicted.

3 Ontario Pension Board. (2019). *Ontario Pension Board 2018 Annual Report*. P.23. reports.opb.ca/2018/_doc/OPB_2018_Annual_Report_MDA_FS.pdf.

4 Ontario Pension Board. (2019). *Ontario Pension Board 2018 Annual Report*. P.24. reports.opb.ca/2018/_doc/OPB_2018_Annual_Report_MDA_FS.pdf

5 Investment Management Corporation of Ontario. (April 2022). *2021 Annual Report - Delivering Solutions, Driving Value*. P.10. www.imcoinvest.com/wp-content/uploads/2022/04/31117%20IMCO%20Annual%20Report%202021_v17_ACC.pdf.

6 Ontario Pension Board. (2021, December 22). *OPB and IMCO's commitment to ESG and Climate Risk*. Blog post. www.opb.ca/news/opb-and-imco-commitment-to-esg-and-climate-risk.

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The following publicly available information was reviewed in the preparation of this analysis.

Reports

- Ontario Pension Board 2021 Annual Report (2022)
- Ontario Pension Board 2020 Annual Report (2021)
- IMCO 2021 ESG Report (2022)
- IMCO 2021 Annual Report (2022)
- IMCO 2020 Annual Report (2021)

Documents

- 2022 Climate Action Plan (November 2022)
- Stewardship Guideline (2022)
- IMCO Environment, Social, and Governance Screening Guideline (2021)
- IMCO Responsible Investing Policy (effective January 1, 2022)
- IMCO Proxy Voting Guideline (August 2021)
- Ontario Pension Board Statement of Investment Policies and Procedures for the Ontario Pension Board as Administrator of the Public Service Pension Plan (effective Dec 2, 2021)

Webpages and press releases

- Ontario Pension Board blog post - OPB and IMCO's commitment to ESG and Climate Risk (December 22, 2021)
- Responsible Investing - Investments (IMCO webpage) (accessed November 22, 2022)
- Proxy Voting - IMCO Investments (IMCO webpage) (accessed July 2022)
- Climate Action - Responsible Investing (IMCO webpage) (accessed November 22, 2022)
- Case Studies - IMCO Investments (IMCO webpage) (accessed July 2022)
- IMCO press release - IMCO releases interim net zero targets (November 21, 2022)
- IMCO press release - IMCO releases inaugural Environment, Social and Governance Report (June 29, 2022)
- IMCO press release - IMCO posts 2021 net return of 9.6%, outperforms benchmark (April 25, 2022)
- IMCO press release - IMCO joins the Paris Aligned Investment Initiative (PAII) on Climate Action (November 8, 2021)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

OMERS

OMERS is the investment manager for the pension fund of Ontario's municipal workers, with 541,000 members and 1,000 participating employers (ranging from large cities to local agencies). Members include union and non-union employees of municipalities, school boards, transit systems, electrical utilities, emergency services and children's aid societies across Ontario.

Assets Under Management (AUM): $119.5 billion (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
OMERS	D+	C	C	C+	D–	D+	F

OVERALL CLIMATE SCORE	D+

The good

OMERS has announced a commitment to net-zero emissions by 2050 and committed to set interim emissions reduction targets every five years. In 2021 and 2022 it made a number of investments in energy storage and renewable energy, and at the end of 2021 quantified its investments in climate solutions.

What OMERS should improve in 2023:

- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- Release a credible Paris-aligned climate strategy.
- Pair emissions intensity reduction targets with absolute emission targets.
- Set targets for investments in climate solutions and for the proportion of AUM covered by a credible net-zero plan.
- Complete scenario analysis using a credible 1.5°C, Paris-aligned outlook and disclose results.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations

- refrain from directing capital toward fossil fuel expansion.

- Strengthen Proxy Voting Guidelines to require companies to have science-based decarbonization plans. Begin publishing voting rationale along with voting record.
- Divest from fossil fuel producers.
- Place an exclusion on any new investments in coal, oil, gas and pipelines.
- Commit to a timebound and managed phaseout of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	C

OMERS committed in November 2021 to achieve net-zero emissions by 2050. The commitment did not define net-zero or specify what role if any would be played by offsets. OMERS has committed to setting interim five-year targets and has set a 2025 emissions reduction target. OMERS has stated that its path to net-zero will be informed by its annual total portfolio carbon footprint. To date, the total portfolio carbon footprint does not include or account for scope 3 emissions.

Interim Targets	C

Emissions reduction

Prior to setting a net-zero by 2050 target, OMERS announced a target to reduce the emissions intensity of its portfolio (scope 1 and 2) by 2025 by 25% below 2019 levels. OMERS has committed to setting interim targets every five years, and a case study in the Investor Leadership Network's *Net Zero Investor Playbook* describes OMERS' five-phase process, as yet incomplete, for setting a 2030 target.[1] OMERS has not set any absolute emissions reduction targets.

OMERS' real estate subsidiary, Oxford Properties, has a target to reduce the real estate portfolio's scope 1 and 2 emissions, on a per square foot basis, by 30% by 2025, using a 2015 baseline.

Investment in climate solutions

To date, OMERS has no targets for investments in climate solutions, although in 2021 it quantified its current investments according to the International Capital Market Association's (ICMA) Green Bond Principles (*2021 Annual Report*, p.55).

AUM covered by a science-based decarbonization target

OMERS has no targets for its climate-related engagements with owned companies, and no targets for the proportion of AUM or proportion of owned companies covered by science-based targets.

Climate Urgency	C+

A Letter from our CIO on the OMERS website recognizes climate change as a "pressing issue" that poses risks to its portfolio and acknowledges that investors have a role in supporting and accelerating a transition to a "lower-carbon economy." However, OMERS does not communicate the urgency of the crisis or articulate a determination to place the climate crisis as a central part of its investment strategy.

Sample language from OMERS' webpage *A Letter from our CIO*:

"Climate change is one of the most pressing issues of our time, and we see the world transitioning to a lower-carbon economy. The pace and scope of this transition will largely be determined by governments and communities, as well as by innovation and technology. As investors, we play a role in supporting accelerators of this change and are partnering with our portfolio to find opportunities to evolve business practices and grow sustainably."

Climate Engagement	D–

SUMMARY

OMERS states no expectations that owned companies have credible net-zero pathways and provides no timelines or targets for ensuring its assets are covered by credible net-zero plans. OMERS' *2021 Annual Report* provided descriptive commentary on "ESG integration" but included no examples or results pertaining to its engagements (p.50-51).

DETAILS

Expectations for owned companies

According to its *ESG at OMERS* webpage, "(OMERS) expects our investee companies to have a good understanding of the environmental risks they face and have appropriate practices to address such issues in their businesses."

With no further stated expectations, the fund claims in its *Sustainable Bond Framework* to "promote sustainable business practices and long-term perspectives through direct engagement with management and boards of directors", and in private assets "typically acquire[s] governance rights, including board seats. We exert our board-level influence to encourage the investee company to maintain and build on sustainable business practices" (p.3).

Proxy voting

OMERS' *Proxy Voting Guidelines* express an expectation for disclosure of climate-related risks but do not specify an expectation that owned companies demonstrate credible net-zero Paris-aligned pathways: "We expect companies to disclose how their operations will be impacted by climate change, as well as the policies and procedures that have been implemented to address the risks and/or opportunities. We also expect companies to disclose their governance structure around the management of climate risks and/or opportunities, and how they ensure that they have the relevant expertise in place to underpin this" (p.30). OMERS will consider withholding votes from directors (e.g. committee chairs) if a company is not taking "appropriate steps" (not defined) to mitigate risks from climate change and to disclose relevant information, including GHG emissions.

Collaborative engagement

OMERS is a member of Climate Engagement Canada (CEC).

Direction given to external managers

A review of OMERS' *2021 Annual Report*, *Sustainable Investing Policy*, and website found no mention of how OMERS assesses its external managers on ESG practices, or what direction OMERS gives to its external managers regarding handling of climate-related risk.

Climate Integration	D+

Accountable Paris-aligned membership

OMERS is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

OMERS provides limited but incomplete disclosure of its investments, for example by announcing major investments or sales of assets via press release.

Transparency and disclosure of climate risk

OMERS' 2021 *TCFD Reporting* provides little disclosure of which global heating scenarios were used to assess climate-related risk, and little disclosure of the results of the scenario analysis.

OMERS has a stated net-zero emissions by 2050 target but no public climate strategy or path to attain this target.

Board climate expertise and/or fossil fuel entanglement

OMERS' *Board Competencies* (Administration Corporation) requires having at least one director who meets at least one ESG criterion, but climate expertise is not a specified requirement. OMERS does not identify any Board members as having climate expertise, although Board member Yung Wu sits on Canada's Net-Zero Advisory Body.[2]

OMERS' 2020 and 2021 *Annual Reports* mention Board education sessions on climate, including presentations from external experts and topics including carbon accounting, the transition to net zero and climate-related investment opportunities (*2020*: p.29, 52; *2021*: p.28, 53).

No OMERS Board members appear to have fossil fuel entanglements.

Executive and staff compensation and climate

There is no indication that OMERS ties executive and staff compensation to climate targets. However, the *2021 Annual Report* discussion of the achievements that contributed to OMERS CEO Blake Hutcheson's variable compensation includes mention of OMERS setting its net-zero by 2050 commitment (p.91-92).

Fossil Fuel Exclusions	F

None.

OMERS' *Sustainable Investing FAQ* (webpage) states: "We believe that as the world transitions to a lower-carbon economy, there is a vital role for responsible, long-term investors such as OMERS to provide leadership on the cleaner and safer production and transportation of traditional energy. Today, we believe that traditional energy assets still form part of a balanced and diverse energy portfolio, and that to divest completely from traditional energy would mean that we lose our voice, and influence, in a very significant portion of the energy market. We use our influence as investors to help ensure that the traditional energy companies we have ownership positions in adopt a proactive approach to creating long-term, effective, relevant and transparent

ESG strategies." In contrast, OMERS' *Sustainable Bond Framework* explicitly excludes "investments related to the exploration, production and transportation of fossil fuels… even where such investments are intended to support the sector's transition" (p.9).

A series of recent divestitures of OMERS' stakes in fossil gas assets has led some plan members to speculate that OMERS is quietly reducing its exposure to risky fossil fuels, absent a formal fossil fuel exclusion policy.[3]

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	OMERS has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	None
Collaborations and memberships	• Accounting For Sustainability - CFO Leadership Network • Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Engagement Canada • International Corporate Governance Network • Investor Leadership Network • Sustainable Finance Action Council • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$18 billion, or 15% of AUM (December 31, 2022)**
Estimated investments in fossil fuels	Estimated $7-8 billion, or 5-6% of AUM (December 31, 2022)***
Notable fossil fuel holdings (not a comprehensive list)	• A 50% stake in NET4GAS.[4] • A 50% stake in BridgeTex.[5] • A 25% stake in Exolum.[6]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** As reported in OMERS' *2021 Annual Report* (p.55). Assets identified by OMERS using the International Capital Market Association's (ICMA) Green Bond Principles and June 2021 Guidance Handbook, which includes "green buildings, renewable energy, and energy efficiency assets."[7]

*** OMERS does not disclose a list of total investments in fossil fuels. This conservative estimate comes from regulatory filings and press releases regarding the value of disclosed investments in companies including Net4Gas (gas distribution network), BridgeTex (crude oil pipeline), and Puget Sound Energy (an electric and fossil gas utility).

ENDNOTES

1 Investor Leadership Network. (2022). *The Net Zero Investor Playbook*. P.14. investorleadershipnetwork.org/wp-content/uploads/ILN-Net-Zero-Investor-Playbook_2022.pdf.

2 OMERS. (2022). *Yung Wu*. Webpage. Retrieved June 3, 2022 from www.omers.com/yung-wu.

3 P. Burns, A. Clancy and M. Rosato. (9 August 2022). *Is one of Canada's largest pension funds quietly divesting from fossil fuels?* Corporate Knights. www.corporateknights.com/responsible-investing/is-omers-divesting-from-fossil-fuels/.

4 Borealis Infrastructure; Allianz Capital Partners. (2013, August 2). *Allianz and Borealis Infrastructure Complete the Acquisition of Czech Gas Transmission Operator NET4GAS*. [Press release]. www.globenewswire.com/news-release/2013/08/02/1341217/0/en/Allianz-and-Borealis-Infrastructure-Complete-the-Acquisition-of-Czech-Gas-Transmission-Operator-NET4GAS.html.

See also OMERS Infrastructure. (2022). *NET4GAS*. Webpage. Retrieved September 27, 2022 from omersinfrastructure.com/portfolios/net4gas/.

5 OMERS. (2018, August 21). *OMERS Infrastructure Announces Investment in BridgeTex*. [Press release]. www.globenewswire.com/news-release/2018/08/21/1554479/0/en/OMERS-Infrastructure-Announces-Investment-in-BridgeTex.html.

See also OMERS Infrastructure. (2022). *BridgeTex*. Webpage. Retrieved September 27, 2022 from omersinfrastructure.com/portfolios/bridgetex/.

6 Exolum. (2022). *Shareholders and investors*. Webpage. Retrieved September 27, 2022 from exolum.com/en/shareholders-and-investors/.

See also OMERS Infrastructure. (2022). *Exolum*. Webpage. Retrieved September 27, 2022 from omersinfrastructure.com/portfolios/exolum/.

7 OMERS. (2022). *OMERS 2021 Annual Report. Building Tomorrow Together*. Pg 55. Downloaded from www.omers.com/annual-reporting.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021 Annual Report (2022)
- 2020 Annual Report (2021)
- Oxford Properties 2021 Global Sustainability Report (2021)

Documents

- Statement of Investment Policies and Procedures (SIP&P) - Primary Plan (effective March 1, 2022)
- Sustainable Investing Policy (effective January 1, 2022)
- Proxy Voting Guidelines (effective March 01, 2022)
- Board and Director Competencies. Governance Manual (effective January 1, 2022)
- OMERS Sponsor Corporation Board Competency Framework. SC Governance Manual (effective date January 1, 2020)
- Our Approach to Climate Change (November 24, 2021)
- OMERS Sustainable Bond Framework (March 2022)

Webpages and press releases

- Administration Corporation (webpage) (accessed June 2022)
- Board of Directors (webpage) (accessed June 2022)
- A Letter from our CIO (webpage) (accessed June 2022)
- Climate change (webpage) (accessed September 2022)
- Sustainable investing (webpage) (accessed September 2022)
- ESG at OMERS (webpage) (accessed September 2022)
- Proxy Voting Record (webpage) (accessed June 2022)
- Our Targets. Sustainability at Oxford (webpage) (accessed June 2022)
- Press release and letter from Blake Hutcheson - OMERS commits to Net Zero 2050 emissions goal, building on its Sustainable Investing program (November 24, 2021)
- Press release - OMERS successfully completes first sustainable bond offering (April 21, 2022)
- Press release - OMERS investments steady in a difficult market environment (August 18, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

OPTrust

OPTrust is the OPSEU Pension Plan for over 100,000 active and retired Ontario public servants, most of whom work for the Ontario Public Service, municipal governments and service providers, and Ontario's public college system, as well as OPSEU members who work for private companies or organizations that are contracted to deliver public services, such as hospitals and medical laboratories. OPTrust is also the manager for retirement savings of employees of non-profit organizations through OPTrust Select.

Assets Under Management (AUM): $25.9 billion (December 31, 2021)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
OPTrust	D+	C–	D	C+	D	D	F

OVERALL CLIMATE SCORE	D+

The good

OPTrust's most recent TCFD report indicates that the fund is putting processes in place to embed climate across its governance and investment decision-making structures, but the results are not yet apparent. In October 2022, OPTrust announced a commitment to net-zero emissions by 2050.

What OMERS should improve in 2023:

- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- Improve disclosure of investments and high-risk, high-carbon assets.
- Complete total portfolio footprint.
- Set interim emissions reduction targets, including targets for absolute emissions, and release a strategy to achieve them.
- Set targets for investments in climate solutions and for the proportion of AUM covered by a credible net-zero plan.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.

- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.
- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Divest from fossil fuel producers.
- Place an exclusion on any new investments in coal, oil, gas and pipelines.
- Commit to a timebound and managed phaseout of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Tie executive and staff compensation to the achievement of climate targets.

SCORING DETAILS	
Paris-Aligned Target	C–

OPTrust committed in its October 2022 *Climate Change Strategy* to achieve net-zero emissions by 2050. The commitment did not include a definition of net-zero, a limit on the role of offsets, a goal to reduce real world emissions, or interim portfolio emissions reduction targets.

Interim Targets	D

While interim targets are not yet announced, OPTrust's 2021 TCFD Report indicates that targets will be announced in 2023 and will include targets on process, engagement, climate solutions investment and climate metrics (e.g. emissions) (p.17-18).

Climate Urgency	C+

OPTrust acknowledges the existential risks of the climate crisis and its role in addressing it. But OPTrust does not convey a sense of urgency or acknowledge that its investment, engagement and stewardship activities can impact the trajectory of the climate crisis.

Sample language from OPTrust's October 2022 *Climate Change Strategy*, Message from the President and CEO (p.4):

"Every organization must play a role in advancing global progress, including OPTrust. As the world grapples with the growing challenge of climate change, investing sustainably for the long-term health of our pension plan demands addressing climate sustainability. Our climate change strategy commits to a net-zero portfolio by 2050 and to building the foundation that enables us to embed climate considerations into the way we invest – a commitment we make to our members' pension security."

Climate Engagement	D

SUMMARY

OPTrust has not set the expectation that companies in its portfolio have credible net-zero transition plans. It does not yet have time-bound targets for successful climate engagements, or an escalation process should engagement be unsuccessful.

DETAILS

Expectations for owned companies

For direct investments, OPTrust "advocates for the importance of managing climate-related risks" (*2021 Responsible Investing Report*, p.15). Specific expectations, requirements or a process for escalation are not provided.

Proxy voting

OPTrust has some climate-related details in its *Proxy Voting Guidelines*. In general the fund supports TCFD disclosure, will encourage "climate-competent boards" and "may support" asking companies to set Paris-aligned targets (p.22-23). However, OPTrust's proxy votes are not posted publicly, making it challenging for members and stakeholders to assess its voting record.

Collaborative engagement

OPTrust is an investor supporter of Climate Action 100+, meaning it is a signatory to the engagement initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.

Direction given to external managers

According to OPTrust's *2021 Responsible Investing Report* (p.6, 10), third-party managers complete a Responsible Investing Partner Evaluation, which includes information on the manager's approach to climate change. A climate change due diligence toolkit is mentioned as being in development. But being at an "earlier stage" in responsible investing practices does not preclude the manager from working with OPTrust.

Climate Integration	D

Accountable Paris-aligned membership

OPTrust is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

OPTrust does not disclose its holdings or their valuation.

Transparency and disclosure of climate risk

OPTrust's *2021 TCFD report* provided a detailed discussion of climate-related risks and opportunities. However, it is difficult to assess the degree to which these risks threaten the fund without disclosure of the fund's assets. The fund does not yet have a carbon footprint, climate metrics or targets (beyond its net-zero by 2050 commitment) and has not yet disclosed the percent of the portfolio allocated to high-carbon assets or its investments in sustainable solutions.

In 2021 the fund undertook climate scenario analysis, including orderly and disorderly transition pathways to achieve 1.5°C and a 4°C failed transition outlook. Details of the analysis were shared with stakeholders in

OPTrust's 2022 paper *Preparing our Portfolio for the Future: Integrating Climate Scenarios into Asset-Liability Management*.

OPTrust prepared a climate action plan in 2018 and issued an updated version in 2022, announcing a net-zero emissions by 2050 commitment.

Board climate expertise and/or fossil fuel entanglement

No OPTrust Board members are identified as having climate expertise. OPTrust's *2021 Responsible Investing Report* (p.16) and *2021 TCFD Report* (p.6) mention Board education and awareness sessions on climate and the fund's climate strategy.

No OPTrust Board members appear to have current fossil fuel entanglements.

Executive and staff compensation and climate

OPTrust provides no indication that executive or staff compensation is linked to climate targets.

Additional notes

OPTrust's *2021 Responsible Investing Report* and *2021 TCFD Report* outline considerable behind-the-scenes work to integrate climate analysis into the fund's operations. For example, a cross-departmental 30-person Climate Response Working Group was involved in renewing OPTrust's *2018 Climate Change Action Plan*, and the group facilitated Board and management working sessions on priority areas in 2021. While it seems that process is being put in place, OPTrust has not yet shown that climate has been integrated across the fund.

Fossil Fuel Exclusions	F

None.

OPTrust's *Statement of Responsible Investing Principles* says that "we may choose to exclude, based on RI considerations, entities from the investment portfolio where … the likelihood of effectively mitigating associated ESG risks through active ownership avenues, such as engagement, is low" (p.4).

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	OPTrust's *Proxy Voting Guidelines* state it supports the "spirit and intent" of UNDRIP and that "We encourage corporations to adopt best practices to respect and incorporate these internationally recognized standards and support proposals that ask companies to adopt and/or comply with these frameworks" (p.22).
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • 2022 Global Investor Statement to Governments on the Climate Crisis • Canadian Coalition for Good Governance • Carbon Disclosure Project • Ceres Investor Network • Climate Action 100+ (investor supporter) • ESG Data Convergence Project • Principles for Responsible Investment • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	Not disclosed**
Estimated investments in fossil fuels	Not disclosed***
Notable fossil fuel holdings (not a comprehensive list)	• OPTrust joined a consortium of investors in August 2020 to provide $1.5 billion in financing to Kineticor to construct the Cascade gas plant.[1] • OPTrust is a private co-owner of Zenith Energy.[2] • OPTrust is a private co-owner of Superior Pipeline Company.[3]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** To date, OPTrust has provided no estimate of its investments in climate solutions.

*** OPTrust's public equities portfolio held $39 million in integrated utilities and fossil fuel companies as of June 30, 2022.[4] OPTrust has privately acquired stakes in Kineticor,[5] Zenith Energy,[6] and Superior Pipeline Company.[7] OPTrust's *2021 Funded Status Report* stated that the fund sold two oil and gas midstream investments in 2021 (p.25) but did not specify the companies.

ENDNOTES

1 Kineticor Resource Corp. (2020, August 28). *900 MW Cascade Power Project in Alberta Closes Financing and Commences Construction*. www.businesswire.com/news/home/20200828005159/en/900-MW-Cascade-Power-Project-Alberta-Closes.

See also Scott, A. and Vipond, J. (2020, December 16). *Why are Ontario pensioners investing in future Alberta stranded assets?* Corporate Knights. www.corporateknights.com/responsible-investing/why-are-ontario-pensioners-investing-in-future-alberta-stranded-assets/.

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5 Kineticor Resource Corp. (2020, August 28). *900 MW Cascade Power Project in Alberta Closes Financing and Commences Construction*. [Press release]. www.businesswire.com/news/home/20200828005159/en/900-MW-Cascade-Power-Project-Alberta-Closes.

See also Scott, A. and Vipond, J. (2020, December 16). *Why are Ontario pensioners investing in future Alberta stranded assets?* Corporate Knights. www.corporateknights.com/responsible-investing/why-are-ontario-pensioners-investing-in-future-alberta-stranded-assets/.

6 Thompson, S., Macdonald, A., and Boyd, T. (2020, May 13). *OPTrust, ICG reassemble team for Zenith, but not everyone's happy* (afr.com).Australian Financial Review. www.afr.com/street-talk/optrust-icg-reassemble-team-for-zenith-but-not-everyone-s-happy-20200513-p54skg.

7 Superior Pipeline Company. (2022). *About | Superior Pipeline Company*. Webpage. Retrieved October 25, 2022 from superiorpipeline.com/about/.

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The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021 Responsible Investing Report (2022)
- 2021 TCFD Report (2022)
- 2021 Funded Status Report (2022)

Documents

- Aligning our portfolio with the global path to net zero. Climate Change Strategy (October 2022)
- Preparing our Portfolio for the Future: Integrating Climate Scenarios into Asset-Liability Management. An OPTrust Case Study (October 2022)
- Statement of Investment Policies and Procedures (effective Dec 15, 2021)
- Statement of Responsible Investing Principles (effective October 7, 2021)
- Proxy Voting Guidelines (effective October 7, 2021)
- Climate Change Action Plan. A Thousand Mile Journey (2018)

Webpages and press releases

- Responsible Investing at OPTrust (webpage) (accessed June 2022)
- Climate Change (webpage) (accessed October 2022)
- Board of Trustees (webpage) (accessed June 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

ONTARIO TEACHERS' PENSION PLAN (OTPP)

The OTPP is Canada's largest single-profession pension plan. It administers a defined benefit pension plan for 333,000 active and retired teachers across 170 public school boards and private schools throughout Ontario.

Assets Under Management (AUM): $242.5 billion (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
OTPP	B	A–	B	A	B+	B–	F

OVERALL CLIMATE SCORE B

The good

The OTPP has committed to net-zero emissions by 2050 and set strong interim targets for reducing emissions intensity, ensuring portfolio company emissions are covered by credible net-zero plans, and investing in climate solutions. The fund has set net-zero aligned expectations for public companies, and expresses a willingness to escalate if it deems climate action to be inadequate. As of 2022, the OTPP is beginning to support the transition of privately owned companies using its "decarbonization playbook", and the fund has announced a $5 billion allocation to support the decarbonization of "High Carbon Transition Assets."

What OTPP should improve in 2023:

- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- Pair interim targets to reduce emissions intensity with targets to reduce absolute emissions.
- Disclose investments in high-risk, high-carbon assets.
- Make public a climate engagement and escalation process specifically for fossil fuel assets, including a timeline for phaseout for companies without a credible, profitable decarbonization pathway.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.

- Divest from fossil fuel producers.
- Put in place an exclusion on investments in coal, oil, gas and pipelines.
- Commit to a timebound and managed phaseout of existing fossil fuel assets.
- Begin reporting scope 3 emissions.
- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- Enhance and disclose the weighting of climate targets in executive and staff compensation.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	A–

The OTPP has set a target for net-zero emissions from its portfolio by 2050 with strong interim targets. While the OTPP provides a broad definition of "net-zero" in its *Climate Change FAQ*, the pension manager does not specify what role, if any, offsets will play. The OTPP has not joined an accountable and credible Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative, and has not yet fully incorporated scope 3 emissions into its metrics.

Interim Targets	B

The OTPP (along with Caisse de dépôt et placement du Québec) has some of the strongest interim targets among Canadian pension funds, but still needs to pair its emissions intensity targets with targets for absolute emissions reduction. As described in the OTPP's *2022 Annual Responsible Investing and Climate Strategy Report*, the OTPP's targets include:

Emissions reduction

Reducing the carbon intensity of the portfolio by 45% by 2025 and 67% by 2030, using a 2019 baseline (p.12).

Proportion of portfolio emissions covered by science-based net-zero plans and targets

Ensuring two-thirds of the portfolio's carbon emissions are covered by credible, science-based net-zero plans and targets (including scope 3 when material) by 2025, and 90% are covered by such plans by 2030 (p.15).

"Green investments"

Increasing "green investments" to $50 billion, although the OTPP does not provide a target date (p.4).

Decarbonizing high carbon transition assets

Investing $5 billion in "high carbon transition assets", defined as "very high-emitting companies with credible decarbonization plans that we believe we can accelerate through our capital and expertise," with a focus on power generation, heavy industry, mining and transportation, with the intention of accelerating their path to decarbonization (p.16).

Climate Urgency	A

The OTPP acknowledges the urgency of the climate crisis, embraces its role as an investor to influence the trajectory of decarbonization, and centres climate in its investment strategy.

Sample language (Message from OTPP's Chief Investment Officer, *2021 Annual Responsible Investing and Climate Change Report*, p.3):

"The commitment we made earlier this year to achieve net-zero greenhouse gas emissions by 2050 aligns our organization with the Paris Agreement. It also demonstrates the scale of the impact we want to have. Our plan isn't only about bringing Ontario Teachers' to net zero; it's about helping the world around us get to net zero, too. As a leading global investor, we have an important role to play - we need to use our capital and influence to accelerate the transition to a net zero world."

Climate Engagement	B+

SUMMARY

The OTPP's interim targets signal the fund's expectation that its owned companies move toward Paris alignment. The OTPP is committed to having two-thirds of portfolio emissions covered by credible, science-based net-zero plans and targets by 2025, and 90% covered by such plans by 2030. The fund specifies that targets should include scope 3 emissions when material (*2022 Responsible Investing and Climate Strategy Report*, p.15).

The OTPP's reports and guidelines show that the fund has an engagement process supported by tools and resources, and that the OTPP is willing to escalate if companies are unresponsive. Its *Responsible Investing Guidelines* say that ESG engagement in general (not climate specifically) includes specific, measurable, achievable, relevant and timebound objectives, with progress monitored regularly. For owned companies at which OTPP has board representation, a designated director is responsible for escalating ESG issues to the OTPP (p.6). To support climate engagement, the OTPP has created a "decarbonization playbook" to guide portfolio companies through the process of Paris alignment. The decarbonization playbook, described in the *2022 Responsible Investing and Climate Strategy Report* (p.15), includes sections on board and management education, carbon footprinting, decarbonization levers, target-setting, and guidance on what to include in a credible net-zero plan.

On the escalation side, new investments without targets have a two-year grace period within which they must set emissions reduction targets (*2022 Responsible Investing and Climate Strategy Report*, p.15). The Responsible Investing Guidelines state that the OTPP's ESG escalation process (general, not climate-specific) for public companies "includes voting against directors, executive participation in engagements, potential to use shareholder proposals and legal action, and finally divestiture" (p.6).

The OTPP's engagement process could be stronger if it were more willing to publicly use its significant clout. The fund's *Responsible Investing Guidelines* state, "A public approach to company engagement can be viewed as confrontational and be counter-productive, however, *we will make our views known if a company is unresponsive or the situation is such that a public response is appropriate and/or more effective*" (p.6, emphasis added). To Shift's knowledge, the OTPP has not yet used this tactic to drive company action on climate change. In its *2021 Annual Responsible Investing and Climate Change Report*, the OTPP highlights a case study in which it engaged a "downstream energy company" over the course of two years to adopt scope 1 and 2 emissions reduction targets supported by carbon capture and storage (CCS) projects and adopt a climate risk reporting framework, with next steps including aligning company targets with the Paris Agreement and disclosing scope 3 emissions. But the OTPP has thus far failed to explain how this company has aligned its business model with a safe climate or why it should rely on an expensive, unscalable, unproven technology like CCS that does not account for scope 3 emissions. Further, the OTPP's climate change report says nothing about its significant private investments in oil, gas, pipelines and related infrastructure.

DETAILS

Expectations for owned companies

The OTPP's expectations for portfolio companies are expressed via its interim targets to have portfolio emissions covered by credible net-zero plans. Companies in which the OTPP has significant stakes may be provided with resources (e.g. decarbonization playbook, High Carbon Transition Assets decarbonization allocation) to achieve this.

For public companies, the OTPP's *2022 Responsible Investing and Climate Strategy Report* sets out strong expectations, including "implementation of credible net-zero transition plans that include a commitment to achieve net zero on or before 2050, near-term and science-based emissions reduction targets, and details on how they will achieve their targets," as well as board accountability for climate change oversight (p.25).

Proxy voting

The OTPP's strengthened *2022 Proxy Voting Guidelines* express that companies should understand their contribution to climate change, aim toward net-zero greenhouse gas emissions by 2050 or sooner, and set interim short-, medium-, and long-term goals to achieve this (p.11).

In addition to expecting disclosure aligned with the TCFD (including metrics, targets, and performance) and credible scenario analysis (including a net-zero aligned scenario), the OTPP specifies that company boards should have a "readily evident and easily understood" role in oversight of climate risk (*2022 Proxy Voting Guidelines*, p.10-11). The fund expresses a willingness to "consider" withholding support from individual directors, chairs, or committees if the board "has not taken appropriate action to effectively oversee a company's relevant climate change related risks" (p.13).

The OTPP provided examples of climate-related shareholder proposals it "may" support, including "additional action by the company to better align their business with the transition to a low-carbon economy aligned with the Paris Agreement including net zero initiatives," improved climate change governance, completion of a materiality assessment for the purposes of understanding climate exposure and climate risk, stronger climate-related disclosure, and TCFD alignment (p.29).

It is notable that the OTPP's *Proxy Voting Guidelines* address corporate political activities and participation in trade associations, noting that "If there is a misalignment between the company's actions and their commitments, we expect a cogent explanation as to why the misalignment exists and the plan for remedying the contradiction" (p.30). This section of the *Guidelines* is especially important for industry associations such as the Canadian Association of Petroleum Producers, which works to delay and obstruct climate action on behalf of members who at face value may have made climate commitments.[1] However, the OTPP's *Guidelines* should go further by expressing an expectation that companies should depart from obstructive industry associations or face shareholder resolutions, votes against directors or divestment.

Collaborative engagement

The OTPP is a member of Climate Action 100+. In its *2021 Responsible Investing and Climate Change Report*, the fund reports that Climate Action 100+ engagements resulted in 35 companies committing to "enhance their climate change practices" and 26 companies to making "commitments on net-zero targets" in 2020 (p.20).

Direction given to external managers

The OTPP's *2022 Responsible Investment Guidelines* state that external managers and general partners undergo an ESG policy and practice review against proprietary frameworks. While the OTPP states it has "ongoing dialogue and sharing of leading practices" (p.5) with these partners, it is unclear what specific direction the OTPP provides them on climate-related targets and expectations.

In the OTPP's *2022 Responsible Investing and Climate Strategy Report*, the fund noted it has targeted partnerships with funds that have "climate-driven mandates" and added two new such managers in 2022 (p.17).

"High Carbon Transition Assets"

In its *2022 Responsible Investing and Climate Strategy Report*, the OTPP announced an allocation of $5 billion toward decarbonization of High Carbon Transition assets, defined as "businesses with significant carbon intensity (~10x the average of our portfolio carbon footprint, or around 300 tCO2e/CAD MM) that have, or where we can implement, a credible science-based decarbonization pathway to significantly reduce emissions" (p.16). This decarbonization allocation will focus on sectors including power generation, heavy industry, mining and transportation.

Climate Integration	B–

Accountable Paris-aligned membership

The OTPP is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

The OTPP issues press releases regarding major investments or sales of assets and provides a full list of privately owned companies (without valuation) on its website. Its annual reports list investments over $200 million.

Transparency and disclosure of climate risk

When asked by beneficiaries, the OTPP did not provide an inventory of fossil fuel investments.[2] The OTPP's most recent Annual Report categorizes investments as "energy", "energy and power" and "power generation" without distinguishing between fossil fuels and renewables. This makes it impossible to track and compare with OTPP's annual reports from previous years, which explicitly broke down portfolios by sectors that included "oil and gas" and "gas transmission and distribution."

The OTPP's *2022 TCFD report* does not provide a more up-to-date climate scenario analysis than the one conducted in 2018 (referenced in 2022's report). The scenario framework used that year did not include a 1.5°C aligned scenario. The *2022 TCFD report* states that, "We view the bigger risk to the resilience of our strategy as a scenario in which the world takes a divergent pathway – one that is not moving towards net zero" (p.3).

Board climate expertise and/or fossil fuel entanglement

The OTPP identifies four Board members in its *2021 Annual Report* Board Skills Matrix as having climate-related experience, qualifications, or expertise (p.68).[3] Board member Monika Federau sits on the Advisory Board of the Intact Centre for Climate Adaptation.[4] Board member Cindy Forbes "laid the foundation for meaningful advances in sustainability reporting and carbon reduction targets" at a large life insurance company.[5] It is unclear from their OTPP bios what climate-related experience or qualifications Gene Lewis and George Lewis bring to their roles.[6] The *2021 Annual Report* also notes that the Board attended "several board education sessions with a focus on climate" in 2021 (p.64).

As of December 31, 2022, no members of the OTPP board appeared to have current fossil fuel entanglements. One member of the Board, Kathleen O'Neill, recently retired from 13 years on the board of ARC Resources.[7] One appointee to the Board, Deborah Stein, whose term began on January 1, 2023, is currently a director at four different fossil fuel companies.[8]

Executive and staff compensation and climate

According to the OTPP's *2022 TCFD report*, climate-related objectives are part of the annual scorecard used to measure performance and calculate compensation for all employees (p.4). Further details are not provided.

Fossil Fuel Exclusions	F

None.

The OTPP's *Green Bond Framework* excludes investments that would increase the use of fossil fuels, although it includes carbon sequestration technologies or products, leaving the door open to financing of fossil fuel companies relying on this false climate solution.

Greenwashing Award	

As part of the 2022 Canadian Pension Climate Report Card, Shift has assigned OTPP a silver star for greenwashing for overstating the realistic potential for fossil gas distribution pipelines it owns to be repurposed to transport hydrogen and inaccurate claims about its "net-zero" or "carbon-neutral" airports. Learn more at shiftaction.ca/reportcard2022/greenwashingawards.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	The OTPP has no policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them.
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2021 Global Investor Statement to Governments on the Climate Crisis • Accounting for Sustainability - CFO Leadership Network • Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Action 100+ • Extractive Industries Transparency Initiative • International Corporate Governance Association • Investor Leadership Network • Principles for Responsible Investing • Sustainable Finance Action Council • Value Reporting Foundation (now part of IFRS Foundation)
Self-reported assets linked to climate solutions*	$33 billion (December 31, 2021), or 13.6% of AUM (using June 30, 2022 AUM)**
Estimated investments in fossil fuels	At minimum $7.3 billion (December 31, 2021) or 3% of AUM, but could be as high as $24 billion or 10% of AUM (using June 30, 2022 AUM)***
Notable fossil fuel holdings (not a comprehensive list)	• At least $200 million in Aethon Energy.[9] • At least $200 million in Aspenleaf Energy.[10] • An undisclosed stake in the state-owned Abu Dhabi National Oil Company's fossil gas pipelines.[11] • A 37.5% stake in SGN (Scotia Gas Networks).[12] • A joint 69.4% stake in Società Gasdotti Italia S.p.A (SGI).[13] • Ownership of HRG Royalty.[14] • Ownership of GRP Energy Capital.[15]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** The OTPP definition in its *2022 Responsible Investing and Climate Strategy Report* is "green investments are companies that generate clean energy, reduce demand for fossil fuels and build a sustainable economy" (p.17).

*** The OTPP does not disclose a list of total investments in fossil fuels. In March 2022, a Globe and Mail interview with the OTPP's CEO reported that oil and gas **exploration** alone amounts to 3% of the plan's assets.[16] This is the OTPP's minimum known investment in fossil fuels. The OTPP's *2022 Responsible Investing and Climate Strategy Report* shows that Energy investments make up 5% of AUM and Utilities investments make up 8% of AUM (p.13). These numbers do not indicate what proportion of the Energy and Utilities investments are fossil fuels. We've estimated the higher limit on fossil fuels as 10% of AUM to account for some share of the Energy and Utilities portfolios.

ENDNOTES

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14 Ontario Teachers' Pension Plan. (2022). *Our robust, resilient portfolio*. See: Natural Resources, Heritage Royalty. Webpage. Retrieved September 27, 2022 from www.otpp.com/en-ca/investments/our-advantage/our-portfolio.

15 Ontario Teachers' Pension Plan. (2022). *Our robust, resilient portfolio*. See: Infrastructure, GRP Energy Capital. Webpage. Retrieved September 27, 2022 www.otpp.com/en-ca/investments/our-advantage/our-portfolio.

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REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- Annual Responsible Investing and Climate Strategy Report (2022)
- Annual Responsible Investing and Climate Change Report (2021)
- 2019 Climate Change Report (2020)
- 2021 Annual Report (2022)
- Our responses to the Task Force on Climate-related Financial Disclosures (2022)
- 2022 Ontario Teachers' Finance Trust Green Bond Report (2022)

Documents

- Ontario Teachers' Green Bond Framework (2020)
- Climate Change FAQ (undated)
- 2022 Proxy Voting Guidelines (2022)
- Responsible Investing Guidelines (2022)
- Ontario Teachers' 2021 Corporate Governance Principles & Proxy Voting Guidelines updates (2021)
- Power Shift. Investing in electric grids to accelerate the energy transition (2022)

Webpages and press releases

- Our leadership (webpage) (accessed September 2022)
- Our robust, resilient portfolio (webpage) (accessed September 2022)
- Press release - Ontario Teachers' delivers positive return in first half of 2022 (August 15, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

PUBLIC SERVICE PENSION INVESTMENT BOARD (PSP INVESTMENTS, OR PSP)

PSP Investments is the pension manager for over 900,000 active and retired employees of Canada's federal government, including federal public servants, the RCMP, and the Canadian Armed Forces and Reserve Force. PSP Investments is a Crown corporation sponsored by the Government of Canada.

Assets Under Management (AUM): $230.5 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
PSP	C	F	B–	B+	C	C+	F

OVERALL CLIMATE SCORE C

The good

PSP is beginning to articulate the urgency of the climate crisis and PSP's role in addressing it. The pension manager has relatively strong interim targets, despite having made no Paris-aligned commitment to achieving net-zero financed emissions. PSP plans to engage owned companies to develop science-based transition plans, and has signaled a willingness to consider divesting from high-carbon assets without transition plans.

What PSP should improve in 2023:

- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- Pair interim emissions intensity targets with interim targets to reduce absolute emissions.
- Continue efforts to measure and disclose scope 3 emissions data and set interim emissions reduction targets beyond 2026.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.
- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.

- ☐ Divest from fossil fuel producers.
- ☐ Place an exclusion on any new investments in coal, oil, gas and pipelines.
- ☐ Commit to a timebound and managed phaseout of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors.
- ☐ Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- ☐ Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- ☐ Tie executive and staff compensation to the achievement of climate targets.

SCORING DETAILS

Paris-Aligned Target	F

PSP Investments intends to "use our capital and influence to support the transition to global net-zero emissions by 2050," (*Climate Strategy Roadmap*, p.6) but has not made a Paris-aligned net-zero commitment.

PSP's *2022 Annual Report* states that "Heading into fiscal 2023, we intend to make a new climate change commitment," but no details are provided (p.27).

Interim Targets	B–

PSP's interim targets are relatively strong, although weaker than Canadian leaders. The fund's interim targets would be strengthened if they were situated as part of a strategy to achieve net-zero financed emissions by 2050 or sooner.

PSP's interim targets for 2026 (using a 2021 baseline), outlined in the *Climate Strategy Roadmap*, are:

Emissions reduction

Reduce portfolio GHG emissions intensity by 20-25% by 2026 (2021 baseline) (p.6). PSP has not set a target for absolute emissions reduction.

Proportion of portfolio footprint covered by a mature science-based transition plan

Ensure 50% of the portfolio's footprint is covered by a mature science-based transition plan by 2026 (p.8).

Investment in green assets

Increase investment in "green assets" (defined as "investments in low carbon activities that lead to positive environmental impacts" (including "dark green", "light green" and "enabling") from $40.3 billion (2021) to $70.0 billion (2026) (p.8).

Investment in transition assets

Increase investment in "transition assets", (defined as "investments that have committed to make a substantial contribution to the low-carbon transition through the establishment of public targets and disclosure practices" (including "early" and "mature") from $5.1 billion (2021) to $7.5 billion (2026) (p.8).

Reduce high-carbon exposure

Reduce a $7.8 billion exposure (2021) to "carbon-intensive assets", defined as "investments in sensitive high-carbon sectors or that fail to show quantifiable low emission performance" (including "High Carbon" and "Hard to Abate") to a $3.9 billion exposure (2026) (p.5, 8). As of March 31, 2022, this exposure had risen to $13.1 billion (*2022 Responsible Investment Report 2022*, p.13).

Other

- Obtain GHG data for 80% of in-scope portfolio by 2026 (from 56% in 2021). Additionally, PSP notes that it intends to add portfolio companies' scope 3 data to its methodology (*Climate Strategy Roadmap*, p.12).
- Commit 10% of financing to Sustainable Bonds by 2026 (from 4.2% to Green Bonds in 2021) (*Investing Responsibly* webpage).

The Roadmap commits to annual monitoring and disclosure against targets, and states that additional targets and plans will be developed for 2027 through to 2050 (p.14).

Climate Urgency	B+

PSP acknowledges the urgency of the climate crisis but falls short of setting its own Paris-aligned target and centering climate in its investment strategy. Some of PSP's statements indicate that the fund is beginning to acknowledge double materiality– that the climate crisis both affects its portfolio and that its investments affect the climate. PSP's *Corporate View on Climate Change* and *Climate Strategy Roadmap* are significant steps forward in the investment manager's communication of climate urgency.

Sample language (*Investing Responsibly* webpage):

"PSP Investments believes that climate change is one of the most critical social, economic and environmental challenges of our time. We acknowledge that climate change will have significant physical and economic impacts on the economy, communities and the environment. We are committed to using our capital and influence to drive Paris-aligned decarbonization outcomes across our investment portfolio. We are also committed to supporting the transition to global net-zero greenhouse gas (GHG) emissions by 2050."

Climate Engagement	C

SUMMARY

PSP's climate engagement has some strengths. PSP intends to engage on science-based, Paris-aligned decarbonization, it will be motivated to achieve some engagement wins in order to achieve its own interim targets, and it has signalled a willingness to consider divestment if decarbonization progress is "unsatisfactory" (*Climate Strategy Roadmap*, p.8-9).

PSP's climate engagement will be strengthened if PSP publicly sets higher climate-related expectations for its owned companies, strengthens its proxy voting guidelines, publishes an escalation policy (promised for 2023, according to its *Climate Strategy Roadmap*, p.8) and commits itself to net-zero emissions.

DETAILS

Expectations for owned companies

PSP's *Corporate View on Climate Change* does not set climate expectations high enough, stating that PSP expects companies in which it invests to "assess risks faced as a result of climate change, to report on the results of this assessment, and to comment on mitigation plans when such risk is material" (p.4). To its credit, PSP does indirectly set expectations higher than its *Corporate View on Climate Change* would suggest, for example:

- by stating in its *Green Asset Taxonomy Whitepaper* that engagement milestones include, in the near-term, the development of a Paris-aligned strategy and science-based emissions reduction targets, and in the long-term include "ensuring companies have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050" (p.8);
- by its commitment to develop in 2023 a climate escalation policy that can be applied to public issuers and private portfolio companies (p.8);
- by signalling in its *Climate Strategy Roadmap* a willingness to escalate (up to and including divestment) if decarbonization progress is not made (p.9). Furthermore, PSP shows its willingness to divest on climate-related grounds through its goal to reduce by 50% by 2026 its exposure to carbon-intensive assets without transition plans (p.8).

Proxy voting

PSP's *Proxy Voting Principles* (last updated in 2020) need to be strengthened on climate. Currently the *Principles* call for disclosure only, and do not address science-based targets, governance of climate-related risks or political and advocacy activities and memberships that undermine government climate action.

According to PSP's *2022 Annual Report*, the investment manager had 346 climate-related engagements with public companies in fiscal year 2022, with 190 resulting in undefined "positive change" (p.33).

Collaborative engagement

PSP does not provide examples of collaborative engagement on climate, although according to its *Investing Responsibly* webpage the investment manager "may participate in investor-led initiatives on climate change-related matters." PSP is not a member of Climate Action 100+ or Climate Engagement Canada.

Direction given to external managers

PSP's *2022 Responsible Investment Report* provided some disclosure regarding external managers and general partners. In 2021, PSP added climate change to its ESG assessment framework for these partners, and identified that the assessment framework included climate strategy, identifications of climate-related risks and opportunities, TCFD disclosure, and tracking of portfolio carbon footprint. While these elements form an important baseline, they do not go far enough in ensuring external managers and general partners are adequately managing climate-related risk, nor do they express an expectation that external partners align with PSP's commitment to "support the transition to global net-zero emissions by 2050" (*Climate Strategy Roadmap*, p.6).

Climate Integration	C+

Accountable Paris-aligned membership

PSP Investments is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

PSP does not disclose its investments and their valuations, apart from listing "sample investments" on its website.

Transparency and disclosure of climate risk

When asked in a letter from beneficiaries to disclose assets allocated towards companies involved in fossil fuel exploration, extraction, transportation, refining and combustion, PSP Investments' response did not address the question.[1] The fund's *Green Asset Taxonomy Whitepaper*, released in November 2022, provided laudable details on how the fund is classifying assets based on their emissions intensity and the maturity of the asset's transition plan. The *Whitepaper* gave examples of how different hypothetical companies would be classified and how they might move from one classification category to another. However, PSP stopped short of naming individual assets and disclosing how they are classified. Furthermore, the bar to move from "no transition plan" to "early transition asset" does not seem sufficiently rigorous.

PSP's *2022 TCFD Report* significantly improved the fund's disclosure of its climate scenario analysis. Three outlooks were included, including a failed transition, an orderly net-zero by 2050 outlook, and a disorderly net-zero by 2050 outlook. Discussion of the findings was detailed, with some acknowledgment that an orderly net-zero by 2050 transition would be the best outcome. However, PSP's conclusion that "this independent, external scenario analysis has confirmed the resilience of PSP Investments' Total Fund Strategy under many different future climate scenarios, including an orderly or disorderly, and failed net-zero scenario by 2050" (p.7) is a red flag: failed net-zero scenarios represent catastrophic risk to the financial system and human society and PSP should be investing to avoid them.[2] PSP itself said in December 2021 correspondence to beneficiaries that "We are deeply concerned that risks posed by climate change, if unchecked, would not be conducive to sustainable investment performance for our stakeholders."[3]

PSP's *2022 TCFD Report* also showed progress in the fund's disclosure of GHG metrics: PSP disclosed a Weighted Average Carbon Intensity metric, a carbon footprint (equity-only approach), and for the first time disclosed a Financed Emissions metric (p.11).

PSP has a recent *Climate Strategy Roadmap*, published in April 2022.

Board climate expertise and/or fossil fuel entanglement

PSP does not provide a Board skills matrix or identify directors with climate expertise. Five directors are identified in PSP's *2022 Annual Report* as having "Corporate social responsibility / sustainability" competency (p.89-94).

One of 11 Directors, or 11% of the Board, has a current fossil fuel entanglement. Miranda C. Hubbs is a Director of Imperial Oil.[4]

Executive and staff compensation and climate

While compensation is "aligned with PSP Investments' objectives and strategic plan" (*2022 Annual Report*, p.71), there is no indication that executive or staff compensation is linked to climate targets.

Fossil Fuel Exclusions	F

None.

The investment manager's *Climate Strategy Roadmap* expresses a willingness to consider exclusion or divestment "where the Board or management of portfolio companies are unwilling to adopt appropriate mitigation plans to reduce their operational carbon footprint" (p.8) and states that if "[decarbonization] progress is not made, we will escalate our engagement and consider divestment if progress remains unsatisfactory" (p.9).

PSP stated in its *2022 Annual Report* that it aimed to reduce by 50% by 2026 its exposure (as of September 30, 2021) to "$7.8 billion of carbon-intensive assets without credible transition plans" (p.29). However, as of March 30, 2022 PSP's exposure to carbon-intensive assets had risen to $13.1 billion (*2022 Responsible Investment Report*, p.13).

PSP's *Green Bond Framework* states that "Any investment that increases the use of fossil fuels— including exploration, processing and/or transportation— would not be considered a green investment under our Green Bond Pillars" (p.7).

As of PSP's *2022 Responsible Investment Report*, the fund reported that it was beginning to use its *Green Asset Taxonomy* (which maps investments by their carbon intensity and the credibility of their transition plan) to screen investments and inform investment decision-making (p.12).

Greenwashing Awards

As part of the 2022 Canadian Pension Climate Report Card, Shift has assigned PSP a bronze star for its purchase of Alaskan fossil gas assets a month after releasing its inaugural climate strategy, failure to disclose how its own assets fit into its Green Asset Taxonomy, and risky investments in questionable carbon offset markets. Learn more at shiftaction.ca/reportcard2022/greenwashingawards.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	PSP's *2022 Annual Report* states that going forward, the investment manager "will support shareholder proposals requesting that a company uphold the UN Declaration on the Rights of Indigenous Peoples or create a policy or program to do so. We will also support proposals that ask companies to obtain and maintain free, prior and informed consent of Indigenous people (FPIC); develop, strengthen or implement an FPIC policy or guideline; or assess and report on the adoption of FPIC policies" (p.24).
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2022 Global Investor Statement to Governments on the Climate Crisis • Canadian Coalition for Good Governance • Carbon Disclosure Project • Coalition for Inclusive Capitalism • ESG Data Convergence Project • International Corporate Governance Network • Investor Leadership Network • Principles for Responsible Investment • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$46.5 billion, or 20.2% of March 31, 2022 AUM**
Estimated investments in fossil fuels	No disclosure. PSP's *2022 Responsible Investment Report* (p.13) noted that as of March 31, 2022 the fund had exposure to $13.1 billion of carbon-intensive assets (or 5.7% of March 31, 2022 AUM). Carbon-intensive assets are identified in PSP's *Green Asset Taxonomy Whitepaper* as high carbon or hard to abate assets with no evidence of a transition plan (p.10).***
Notable fossil fuel holdings (not a comprehensive list)	• Joint ownership of TriSummit Utilities.[5] • An undisclosed joint stake in EG Group.[6] • Information from the Thomson Reuters Eikon database to June 30, 2022 shows that PSP holds nearly US$459 million in shares in publicly-traded fossil fuel companies.[7]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** PSP's *2022 Responsible Investment Report* notes $46.5 billion in "green assets". These green assets include "approximately $17 billion of assets that meet green bond eligible categories, $25 billion of assets that outperform sector benchmarks by 30%, and $3 billion of assets in sectors that enable lower emissions" (p.13).

*** PSP Investments does not disclose a list of total investments in fossil fuels, and its *2022 Annual Report* does not distinguish between fossil fuels and renewables when reporting on its $23.5 billion Infrastructure portfolio exposure to "energy" and "utilities" (p.58).

ENDNOTES

1 PSP Investments. (2021, December 29). *PSP Response to SHIFT Letter_Dec 29-2021*. Posted at drive.google.com/file/d/10u8qX88pG3jeLyPaspnJXTJiG33ZRy_B/view.

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2 Greg Gelzinis and Graham Steele. (2021, November 21). *Climate Change Threatens the Stability of the Financial System.* Center for American Progress. www.americanprogress.org/wp-content/uploads/2019/11/Climate-Change-Financial-Stability-brief.pdf.

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6 Kleinman, M. (2020, November 12). *£15bn petrol station giant EG woos global investors with stake sale*. Sky News. news.sky.com/story/15bn-petrol-station-giant-eg-woos-global-investors-with-stake-sale-12130703.

7 Shift: Action for Pension Wealth and Planet Health. (2022, September 26). *PSP Investments' Fossil Fuel Public Equity Holdings (USD, June 30, 2022)*. Data from the Thomson Reuters database. https://drive.google.com/file/d/1wQzRREXOgOb_tE3IGYh8gJumbwV1JynF/view.

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- 2022 Annual Report (2022)
- 2021 Annual Report (2021)
- 2022 TCFD Report (2022)
- 2022 Responsible Investment Report (2022)
- 2021 Responsible Investment Report (2021)

Documents

- PSP Investments Green Asset Taxonomy. Advancing Climate-Aligned Portfolio Management (2022)
- Climate Strategy - Roadmap (2022)
- Green Bond Framework (2022)
- Corporate View on Climate Change (April 21, 2022)
- Risk Appetite Overview (November 2021) (accessed in July 2022 but appears to no longer be available on PSP's website)
- Statement of investment policies, standards and procedures for assets managed by the Public Sector Pension Investment Board (November 2021)
- Responsible Investment Policy (February 2020)
- Proxy Voting Principles (February 2020)

Webpages and press releases

- Annual Report 2022 (webpage) (accessed July 2022)
- Responsible Investment Report 2022 (webpage) (accessed November 10, 2022)
- Board of Directors (webpage) (accessed June 2022)
- Investing responsibly (webpage) (accessed October 7, 2022)
- Press release - PSP Investments' 2022 Responsible Investment Report demonstrates continued momentum on climate change commitments, data integration and active ownership (November 10, 2022)
- Press release - PSP Investments launches inaugural Climate Strategy with targets to guide climate action and emissions reduction (April 21, 2022)
- Press release - PSP Investments Posts 10.9% Return in Fiscal Year 2022 as Net Assets under Management Grow by 12.7% to $230.5 Billion (June 9, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

UNIVERSITY PENSION PLAN ONTARIO (UPP)

UPP is a newly created pension fund, launched in 2021 and formed from combining the pension funds for faculty and staff at Ontario universities (Queen's, Toronto and Guelph, with Trent added later) into a multi-university jointly sponsored pension plan.

Assets Under Management (AUM): $11.8 billion (December 31, 2021)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
UPP	B	A–	B–	A	B	B–	D+

OVERALL CLIMATE SCORE B

The good

UPP is the only Canadian fund examined in this report to have set a *2040* net-zero emissions target- ten years earlier than other funds. This target is backed by strong interim emissions reduction targets, indications that UPP will have strong climate disclosure (such as having reported in 2021 the scope 3 emissions of oil, gas and mining investments), and a commitment to climate engagement with at least 20 companies. UPP's communication of climate urgency and double materiality is clear and science-based. The fund formalized its membership in the Net Zero Asset Owner Alliance in November 2022.

What UPP should improve in 2023:

- Pair emissions intensity targets with interim targets to reduce absolute emissions.
- Fulfill commitment to set target for investment in climate solutions.
- Set short- and mid-term targets for proportion of AUM covered by a credible net-zero plan.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets
  - refrain from lobbying against climate action, directly or through industry associations
  - refrain from directing capital toward fossil fuel expansion.

- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Divest from fossil fuel producers.
- Strengthen coal exclusion policy.
- Place an exclusion on any new investments in oil, gas and pipelines.
- Require climate expertise on the Board of Directors.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target	A–

UPP is the only Canadian fund examined in this report to have committed to net-zero emissions *by 2040.* As described in its *Climate Action Plan*, UPP has set scope 1 and 2 interim targets, will focus on driving down real world emissions while aiming to achieve its targets, and has joined a credible and accountable Paris-aligned investor body, the Net Zero Asset Owner Alliance.

While UPP plans to address scope 3 emissions, these are not yet covered by its portfolio footprint. UPP has not yet set a limit on the use of offsets to achieve its net-zero goal.

Interim Targets	B–

UPP has strong 2025 and 2030 targets to reduce the emissions intensity of the total portfolio (by 16.5% by 2025 and 60% by 2030, using a 2021 baseline). The 2021 baseline included scope 1 and 2 emissions for 70% of the portfolio (*Climate Action Plan*, p.11). UPP has no interim targets for reducing absolute emissions.

UPP does not yet have a target for investments in climate solutions, although the fund has committed to set such a target (p.8). UPP has set a target to engage the 20 highest emitting companies in its portfolio (p.13), but has not set a target to measure the success of these engagements, and does not yet have a target for the percentage of its portfolio covered by credible net-zero plans.

Climate Urgency	A

UPP acknowledges that the climate crisis poses risks to its portfolio, that investors have a role in addressing the crisis and that the crisis is urgent and existential. UPP clearly articulates double materiality: that the climate affects its investments and that how UPP invests affects the climate. UPP has articulated an ambition, determination, and responsibility to centre climate in its investment strategy.

Sample language (*Climate Action Plan*, p.3):

"The University Pension Plan Ontario ('UPP') recognizes that climate change continues to present risks and opportunities for our investment portfolio. We also recognize that climate change presents a systemic and material risk to the ecological, societal, and financial stability of the economy as a whole. We believe that our approach to addressing climate change should be grounded in science and supportive of international agreements like the Paris Agreement of the Parties to the United Nations Framework Convention on Climate Change. We also believe that addressing climate change, as outlined below, reflects our fiduciary duty and is in the best interest of our members.

The materiality of climate change for UPP is twofold:

- UPP's ability to realize adequate investment returns and provide retirement benefits depends on a stable climate; and
- UPP's investments affect the stability of the climate."

Climate Engagement	B

SUMMARY

UPP committed in its *Climate Action Plan* to climate engagement with at least 20 owned companies, either bilaterally or collaboratively, with engagement "informed by science and common investor requests" (e.g. Net Zero Asset Owner Alliance or Climate Action 100+) and focused on companies with the largest contributions to UPP's carbon footprint (p.13). This engagement comes within the context of UPP having set a 2040 net-zero emissions goal for its portfolio.

This engagement target, combined with the 2040 goal, signals strong expectations of portfolio companies and a commitment to results. However, as UPP's engagement matures it needs to be strengthened with: a) a time-bound and escalatory engagement process; b) a distinction between engagement with fossil fuel companies (which do not have a credible and profitable pathway to net-zero other than phase-out) and other high carbon assets (such as cement or steel, which do have a net-zero pathway); and c) more specifics and rigour applied to the screening of and direction given to external managers.

DETAILS

Expectations for owned companies

UPP's *Climate Action Plan* states that the fund is developing a Climate Transition Investment Framework, and that once this is developed the fund will "only [invest] in new mandates that align with the transition to a net-zero world" (p.10).

UPP's *Climate Action Plan* states the fund will undertake engagements with the goal of "encourag[ing] a transition to a resilient, low carbon, net-zero world, and sufficient climate-related disclosure" (p.8). While the direction of engagement is clear, UPP has not yet spelled out specific time-bound milestones that must be achieved by owned companies.

UPP outlines when it will vote against directors and states that "if a company is resistant to change and other measures are not encouraging improvements, we believe selling or excluding assets can be appropriate" (*Frequently Asked Questions - My UPP* webpage). But the fund's expectations and engagement would be strengthened with a clear timebound escalatory process.

Proxy voting

UPP's *Proxy Voting Policy* includes a stand-alone section on climate and includes climate risk in the section on governance. According to the *Policy*, UPP will not support director re-elections "if there appears to be inadequate oversight of climate change" (p.6) and will "not support the election of the chair of the committee responsible for overseeing disclosures if the company does not report on its climate-related governance and risks and opportunities and does not have a plan to do so in a reasonable timeframe" (p.9). This proxy voting policy is stronger than those of a number of Canadian funds, which, if they mention voting against directors at all, usually mention it in a "may consider" capacity rather than "will not support".

The Policy states UPP will "support proposals calling for initiatives and/or targets aligned with the goals of the Paris Agreement, including trying to hold the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels" (p.9).

UPP posts a proxy voting report to its website on a quarterly basis. This could be improved to be published in real-time or ahead of votes, as some funds already do. The report includes rationale for votes against board or management recommendations, shareholder resolutions and votes against UPP's third-party voting vendor's recommendations.

Collaborative engagement

UPP is a founding member of Climate Engagement Canada. It is also an investor supporter of Climate Action 100+, meaning it is a signatory to the initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.

Direction given to external managers

UPP's direction to external managers is not yet sufficient to ensure strong climate engagement. This direction on climate is crucial, because as of UPP's *2021 Annual Report* the portfolio was primarily invested through external managers, with $8.6 billion (or 73% AUM) managed through external partnerships and private market fund investments (p.34, 41).

The *Climate Action Plan* states UPP will engage external managers "in a dialogue" to "encourage" these managers' engagement on behalf of their clients, and to "encourage" external managers to set emissions reduction targets for their portfolios (p.13). The *Responsible Investment Policy* (June 2021) states that "We recognize that different managers will have made varying degrees of progress on their approach to responsible investment. Therefore, we are committed to supporting managers seeking to develop their practices over time" (p.7).

As UPP is a newly formed fund that acquired pre-existing relationships with external managers, it is a positive step that "[m]uch of 2021 and early 2022 focused on external manager due diligence and dialogue" (*2021 Annual Report*, p.34). UPP committed to "work with managers whose approach fundamentally aligns with our Investment Beliefs and those ready and willing to evolve with our ambitions and portfolio needs" (p.34). UPP must now follow through on this commitment with a rigorous approach to external manager partnerships and engagement.

Climate Integration	B–

Accountable Paris-aligned membership

UPP is a member of the Net Zero Asset Owner Alliance.

Transparency and disclosure of holdings

UPP's *2021 Annual Report* provided a list of external managers with $50 million or more under management (for those managers that consented to disclosure) (p.72). An accompanying *Top single name public equity holdings* document provided a list of UPP public equity holdings of $5 million or greater.

Transparency and disclosure of climate risk

As a newly launched fund, UPP has not yet completed a TCFD report, but its *2021 Annual Report* provided good disclosure of the fund's carbon footprint (p.68-71). Scope 1 and 2 emissions were reported for 70% of the portfolio, along with scope 3 emissions from oil, gas and mining, and were presented alongside financial statements in the Annual Report. The carbon footprint for public equity had limited assurance conducted by a third party.

UPP's *Climate Action Plan* clearly explains the risks associated with not limiting global heating to 1.5°C, noting that "Efforts to stabilize the climate at as low a temperature rise as possible will result in better outcomes for the environmental and social systems on which the economy relies. Indeed, it is unlikely that there will be any long-term economic winners in a climate-changed world and more change will make things worse" (p.5). UPP has committed to undertake its "first systematic scenario analysis" in 2023, according to its Update on Climate Action Plan implementation website post.

Based on UPP's first annual report and *Climate Action Plan*, Shift anticipates that the fund will likely develop strong disclosure practices.

Board climate expertise and/or fossil fuel entanglement

No Board members are identified as having climate expertise and a Board competency framework is not publicly available.

No Board members appear to have fossil fuel entanglements.

Executive and staff compensation and climate

UPP's compensation structure is evolving as the fund transitions from the start-up period to the operational period. UPP's *2021 Annual Report* notes that a Long-Term Incentive Program is in development for 2023 (p.48). This plan should include a link between the achievement of climate targets and executive and staff compensation.

Fossil Fuel Exclusions	D+

UPP has excluded some investments in coal (*Investment Exclusion Policy*, p.7), but the threshold for exclusion is not strict enough. Reclaim Finance's *Coal Policy Tool* scores UPP's coal exclusion policy with just 12 out of 50 points, noting that the policy is incomplete without a phase-out commitment, an exclusion on coal developers, and a production exclusion threshold.[1] UPP's *Investment Exclusion Policy* notes its exclusion list is informed by considerations which include the Paris Agreement (p.4).

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	While UPP does not yet appear to have a policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them, the *Strategy* page of UPP's website prominently includes the Truth and Reconciliation Commission's Call to Action #92 ("We call upon the corporate sector in Canada to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and to apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources"). The UPP's *Frequently Asked Questions* webpage includes the question *How is UPP considering the human rights of Indigenous peoples?*, and provides this answer: "As an organization, we are committed to taking action respectfully and intentionally as outlined in Call to Action #92 from the Truth and Reconciliation Commission of Canada. As we learn, we continue to seek ways we can help address the barriers faced by Indigenous peoples and support a more positive chapter in the relations between Indigenous peoples and non-Indigenous Canadians. Through our association with the Shareholder Association for Research and Education (SHARE), companies in UPP's investment portfolio are being engaged in outcome-focused dialogues to make tangible commitments to reconciliation, including the adaption of Indigenous rights policies, employment targets and procurement from Indigenous-owned businesses."
Accountable Paris-aligned memberships	Net Zero Asset Owner Alliance
Collaborations and memberships	• Accounting For Sustainability - Asset Owners Network • Canadian Coalition for Good Governance • Carbon Disclosure Project • Ceres Investor Network • Climate Action 100+ (investor supporter) • Climate Engagement Canada • ESG Data Convergence Project • Institutional Investors Group on Climate Change • International Corporate Governance Network • 2022 Global Investor Statement to Governments on the Climate Crisis • Principles for Responsible Investment • Sustainable Finance Action Council • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Task Force on Climate-Related Financial Disclosures

Self-reported assets linked to climate solutions*	No data available.**
Estimated investments in fossil fuels	Limited data available. Estimated $40 million - $85 million in public equities as of December 31, 2021.***
Notable fossil fuel holdings (not a comprehensive list)	Public equity holdings include Suncor, BHP Group, Enbridge, Enel SpA, Gazprom PJSC, Petroleo Brasileiro SA, and TC Energy.

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** UPP has committed to setting a target for investments in climate solutions, but to date has not quantified these investments or set a target (*Climate Action Plan*, p.8).

*** Along with its *2021 Annual Report*, UPP reported the December 31, 2021 value of the top single name public equity holdings assumed by UPP on July 1, 2021, but noted the summary "does not reflect subsequent modifications to the portfolio" (p.1). The list of top single name public equity holdings includes Suncor Energy ($10-$25 million range); and BHP Group, Enbridge, Enel SpA, Gazprom PJSC, Petroleo Brasileiro SA, and TC Energy (all in the $5-$10 million range) (p.2-6). Based on this list, UPP would have had $40 million - $85 million invested in fossil fuels in its public equities portfolio alone, assuming no changes to the portfolio between July 1, 2021 and December 31, 2021.

ENDNOTES

1 Reclaim Finance. (2022). *Coal Policy Tool*. See: UPP - University Pension Plan. Webpage. Retrieved October 12, 2022 from https://coalpolicytool.org/.

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- Top single name public equity holdings (2022)
- Quick Guide to Responsible Investing (2022)
- Statement of Investment Policies and Procedures (April 27, 2022)
- Proxy Voting Policy (October 2021)
- Responsible Investment Policy (June 10, 2021)
- Investment Exclusion Policy (April 27, 2022)

Webpages and press releases

- Member Engagement - My UPP (webpage) (accessed September 2022)
- Frequently Asked Questions - My UPP (webpage) (accessed October 27, 2022)
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- News post (webpage) - Update on Climate Action Plan implementation (December 13, 2022)".
- News post (webpage) - UPP joins the UN-convened Net-Zero Asset Owner Alliance (November 9, 2022)
- News post (webpage) - UPP launches roadmap to net zero portfolio emissions by 2040, reports on 2021 Year (July 21, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada's largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

ANDRA AP-FONDEN (AP2)

AP2 is one of five AP funds in the Swedish national pension system which invest pension contributions toward the income-based and "premium" portion of national pension disbursements.

Assets Under Management (AUM): SEK 411.7 billion (CA$50.46 billion) (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
AP2	B+	A–	C+	A–	B–	B	A

OVERALL CLIMATE SCORE — B+

AP2 has committed to a net-zero portfolio by 2045, is a member of the Net Zero Asset Owner Alliance (NZAOA), and reports on its climate progress twice annually– in an annual Climate Report and in a half year sustainability report. AP2 has implemented the EU Paris-aligned benchmark (PAB) in its public equities and corporate bonds portfolios. These portfolios target a 7% reduction in emissions intensity each year and exclude investments in coal, oil and gas. AP2 also reports scope 3 emissions for the energy, chemicals, and mining sectors within these portfolios.

AP2 should strengthen its climate guidance for external managers and spell out a timebound and escalatory process for its climate engagements.

SCORING DETAILS

Paris-Aligned Target — A–

AP2 is a member of the NZAOA and has committed to achieve a net-zero emissions portfolio by 2045, including scopes 1, 2 and 3. AP2 states that it will use offsets "only where it is no longer possible to reduce actual emissions" (*2021 Sustainability Report*, p.19).

Interim Targets — C+

AP2 has implemented the EU PAB for its internally-managed global equities and corporate bonds (which comprise 53% of AUM as per AP2's *2021 TCFD Report*, p.6). Initial implementation of the PAB generally results in an emissions reduction of at least 50% in the portfolios where it is introduced (*2021 Sustainability Report*, p.19). The PAB then requires AP2 to reduce the portfolios' carbon intensity by 7% per year until reaching net zero by 2050. For 2021, AP2 reported a reduction of 9% in the footprint for its global equities and corporate bonds, including scope 3 emissions (*2021 Annual Report*, p.43).

AP2 has not yet set 2030 targets for emissions reductions in its other asset classes or targets for investment in climate solutions (*2021 Sustainability Report*, p.19).

Recognizing that portfolio emissions reductions must be accompanied by reductions in real world emissions, in 2019 AP2 began reporting the proportion of change to its portfolio carbon footprint stemming from changes in company holdings, as well as the proportion stemming from changes in companies' actual emissions (*2021 Annual Report*, p.44, 55).

Climate Urgency	A–

AP2 acknowledges the climate crisis poses risks both to its portfolio and the financial system as a whole, states that AP2 has an important role to play in limiting global heating to 1.5°C, and acknowledges the urgency of the crisis (including discussion of tipping points and domino effects). AP2 states that "the world must stop relying on coal, oil and other fossil fuels and switch to wind, solar and other renewable sources in order to achieve sustainable global development in line with the Paris Agreement" (*2021 Sustainability Report*, p.36).

AP2's communication of double materiality (that the fund's investments are both *impacted* by and *can impact* the trajectory of the climate crisis) could be clearer.

Climate Engagement	B–

SUMMARY

AP2 signals strong expectations for emissions reduction through its own commitment to Paris alignment but has not set out an escalatory engagement program. AP2 has relatively strong proxy voting guidelines, but could provide more disclosure on how it evaluates external managers and what climate-related guidance it gives them.

DETAILS

Expectations for owned companies

AP2's Paris-aligned target, NZAOA membership, and inclusion of Paris alignment in its *Sustainability Policy* all provide signals to owned companies regarding its climate-related expectations. It is unclear where or how AP2 specifically sets expectations for privately-owned companies. Expectations for publicly traded companies are set out in AP2's *Voting Guidelines*.

Proxy voting

AP2's *Voting Guidelines* state the fund "advocates that companies express their support for, and draw up a strategy to be in line with, the Paris Agreement" in addition to reporting in accordance with the TCFD framework (p.9).

Further, the *Voting Guidelines* say that companies "shall specify explicit goals, means and action plans for how the sustainability policy is implemented and maintained. Companies shall prepare a report on this work at least once a year" (p.9).

In 2022, AP2 (along with other investors) formulated a shareholder proposal for Volkswagen calling for "clarifications on how the company's lobbying contributes to driving the climate issue forward" (*2022 Half Year Sustainability Report*, p.12).

Collaborative engagement

AP2 is a member of Climate Action 100+ and is leading engagement with Volvo. In its *2021 Annual Report*, AP2 reported that its engagement had focused on the company's goals and action plan to reach net zero by 2050. Volvo's climate targets were subsequently verified by the Science Based Targets Initiative (p.45).

Direction given to external managers

AP2 evaluates the sustainability work of external managers using 25 different assessment points. In 2021, 21% of its external managers were rated as "good", 42% as "very good", and 36% as "excellent". No managers received the lowest rating of "cautious".

It is unclear what direction, if any, AP2 gives to its external managers regarding climate.

Climate Integration	B

Accountable Paris-aligned membership

AP2 is a member of the Net Zero Asset Owner Alliance.

Transparency and disclosure of holdings

AP2 discloses its public equity and fixed income holdings and their valuations twice per year, and its non-listed equity, participations and loans once per year. This information is posted on the *Holdings* section of AP2's website.

Transparency and disclosure of climate risk

AP2 provides a detailed account of its exposure to fossil fuels in public equities, specifying the number of companies it holds with coal reserves, the number of companies it holds with oil and gas reserves, AP2's shares of the holdings' reserves and AP2's shares of the holdings' reserves' potential carbon dioxide emissions (*2021 Sustainability Report*, p.38).

AP2 states "Climate change is a systemic risk" as one of the fund's ten investment beliefs (*2021 Sustainability Report*, p.36).

AP2 reports on its climate progress twice annually, in an annual Climate Report and in a half year sustainability report, because "the Fund strives to be as transparent as possible and a lot is happening in the field of sustainability" (*Half-Year Sustainability Report, to June 2022*, p.2).

AP2's carbon footprint covers 66% of AUM (*2021 TCFD Report*, p.17) and includes scope 1 and 2 emissions; scope 3 is also calculated for the energy, chemical and mining sector companies for those parts of the portfolio aligned to the EU PAB (p.14).

AP2's annual *Sustainability Report* provides a list of its commitments under NZAOA and an explanation of how it is fulfilling them (*2021 Sustainability Report*, p.19).

AP2 uses IPCC-informed outlooks for climate scenario analysis and "reports the development of the portfolio relative to the most conservative of IPCC's 1.5 degree scenarios" (*2021 TCFD Report*, p.7).

Board climate expertise and/or fossil fuel entanglement

AP2 does not appear to have a public board competency framework and has identified no Board members as having climate expertise. No Board members appear to have fossil fuel entanglements. According to AP2's *2021 Sustainability Report*, Board and staff members receive training in sustainability topics including climate (p.14).

Executive and staff compensation and climate

There is no indication that AP2's executive and staff compensation is tied to the achievement of climate targets, although the *2021 TCFD Report* states that "All of the Fund's employees have a responsibility to take climate into consideration in their various roles" (p.4).

Fossil Fuel Exclusions	A

AP2 has aligned its internally managed global equities and corporate bonds portfolios (53% of AUM according to AP2's *2021 TCFD Report*, p.6) to the EU PAB.

These portfolios:

- exclude investment in companies that receive more than 1% of revenue from coal
- exclude investment in companies that receive more than 10% of revenue from oil
- exclude investment in companies that receive more than 50% of revenue from gas.

These exclusions have resulted in the divestment of 250 coal, oil, gas and utility companies (*2021 Annual Report*, p.43).

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- Climate Report 2021 in accordance with the TCFD's recommendations (2022)

Documents

- Voting Guidelines (March 2021)

Webpages and press releases

- A unique pension system (webpage) (accessed November 4, 2022)
- Our mission (webpage) (accessed November 4, 2022)
- About AP2 (webpage) (accessed November 4, 2022)
- Holdings (webpage) (accessed November 4, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada's largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

NATIONAL EMPLOYMENT SAVINGS TRUST (NEST)

Nest is the largest workplace pension scheme in the UK, with more than 10 million members. Nest Corporation is the Trustee for the Nest scheme, and is accountable to the UK Parliament.

Assets Under Management (AUM): £24.4 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
Nest	A–	B–	C+	A+	A	A–	B

OVERALL CLIMATE SCORE — A–

Nest communicates about climate urgency prominently and extensively, and acknowledges the role it must play to help achieve the Paris goal of limiting global heating to 1.5°C. Nest's proxy voting guidelines are the strongest on climate of any of those analyzed in this report. The fund sets high expectations for its external managers to align with its net-zero emissions commitment. Nest has divested from companies with more than 20% of revenues from thermal coal, oil sands and Arctic drilling, and will progressively restrict investment in companies with any involvement in these activities.

Nest's interim targets could be more comprehensive and stated more clearly. To date these targets account only for emissions intensity rather than absolute emissions reductions.

SCORING DETAILS

Paris-Aligned Target — B–

Nest has committed to achieve net-zero emissions across its portfolio by 2050. It is reporting scope 1 and 2 emissions within its individual portfolios, and scope 3 emissions where available. Nest is a member of the Paris Aligned Investment Initiative (PAII).

Interim Targets — C+

Nest is in the process of setting short- and mid-term interim targets but already states it "expect[s] that emissions in our fund will need to be halved by 2030 from reported and estimated levels as at 31 March 2020" (*2021 TCFD Report*, p.32).

As described in Nest's *2021 TCFD Report* (p.32), existing targets include:

- Developed market equities: targets to reduce emissions intensity by 50% for scope 1, 20% for scope 2 and 10% for scope 3 GHG emissions relative to the benchmark index, by 2050 at the latest; increase exposure to renewable energy by 30%; decrease exposure to fossil fuel reserves and coal by 30% relative to the benchmark.
- Investment-grade bonds: target to maintain carbon intensity at least 30% below the carbon intensity of the benchmark, and to decrease fund carbon intensity by 7% per year starting from its 2020 baseline level.
- Property: net-zero by 2050 or sooner, including a 60% reduction in scope 1 and 2 emissions by 2030, with scope 3 targets to be developed.

Climate Urgency	A+

Nest recognizes the climate crisis as a significant threat to social and economic stability, acknowledges its agency as an investor to influence the trajectory of the climate crisis, and has aligned its strategy to the goal of limiting global heating to 1.5°C.

Sample language (*Climate Change Risk Policy*, p.4):

"Climate change is one of the world's biggest challenges, posing a significant threat not just to the environment but to social and economic stability. Scientists agree that the world faces an existential threat if global warming continues on its current trajectory. If we do not change course now, humanity risks missing the point where we can avoid runaway climate change, with disastrous consequences for the world's people and economies as well as all the natural systems that sustain us. Nest Corporation supports this view of the risks and threat of climate change and believes that limiting global warming to 1.5°C could help curb the catastrophic consequences of climate change. Our ambition is to align our whole investment portfolio with limiting global warming to 1.5°C above pre-industrial levels by reaching net zero carbon emissions by 2050 or earlier. We expect that emissions in our portfolio will have to halve by 2030 in order to be on course to meet this ambition."

Climate Engagement	A

Nest sets high expectations for owned companies in its voting guidelines, which are the strongest among those examined in this analysis.

Nest's *Global Voting Guidelines* (p.8-12) state that TCFD disclosure should include an explanation of how the business model is aligned with the goals of the Paris Agreement. Nest will not vote to accept a company's annual statements and will vote against the company Chair if scope 1 and 2 emissions are not reported. Nest will also vote against directors if progress is not made toward a "coherent and robust strategy on climate risk mitigation." If this does not have the desired result, Nest "may" escalate to filing a shareholder resolution or divesting. Nest clearly states its goal of engagement with fossil fuel companies: "We will engage with companies in carbon intensive industries with the goal of having them commit to stop developing new oil and gas fields that do not fall within the IEA's net zero by 2050 scenario." Nest encourages the linking of climate targets to executives' variable compensation and will vote against remuneration-related proposals when "concerned that companies are failing to appropriately incentivise their executives to meet their climate change goals". Nest also states an expectation that companies' lobbying activities and industry associations align with their public position on climate, and may vote against directors if they believe such activities to be misaligned. Finally, Nest expects auditors to take into account material climate change risks and opportunities in their review of the financial statements, and may vote against the re-appointment of auditors if this is not the case.

Nest's *Voting and Engagement Standards – UK* specifies further that banks should align all financing activities with the goal of achieving net zero emissions by 2050 or sooner and says that Nest will vote against re-election of directors should banks finance new coal, oil sands or Arctic drilling projects (p.25).

Collaborative engagement

Nest provides details of select engagements, including its goals for engagement, the process of engagement, the result, and Nest's analysis. Its *Responsible Investment Outcomes Report 2020/2021*, for example, reported that Nest announced in advance that it would be supporting a shareholder resolution calling on Barclays to become net-zero by 2050, then met with the Chair of Barclays to discuss the resolution and Barclays' response. Barclays subsequently put forward a resolution for shareholders to approve its net-zero commitment (p.16).

Nest also supported a shareholder resolution calling on oil and gas company Total to set Paris-aligned targets and met with Total ahead of the AGM. While Total subsequently announced a commitment to become carbon neutral by 2050, Nest still voted in favour of the shareholder resolution as Total's commitment did not include scope 3 emissions (p.16). According to Climate Action 100+'s Net-Zero Company Benchmark, as of May 13, 2022, Total met four of ten criteria in the investor engagement group's disclosure framework, while the Alignment Assessment shows little to no alignment with net-zero.[1]

Nest is a member of Climate Action 100+.

Direction given to external managers

Nest's *Climate Change Risk Policy* demonstrates the strongest guidance Shift has seen when it comes to external managers. This includes an expectation that all fund managers work toward aligning the portfolio to meeting the goal of limiting global heating to 1.5°C, with this being a "requirement" for all new external manager mandates from July 2020. Existing managers must demonstrate by 2030 "meaningful progress against defined benchmarks" (p.4). Managers must also by 2023 prepare an analysis of how they could halve their managed portfolio's emissions by 2030, and report on the portfolio's carbon intensity and climate scenario analysis (p.8). Nest is clear that these expectations are not a matter of "encouragement" nor are managers being given unlimited timeframes to implement these directions: "These expectations have become a requirement of our standard tender process for new mandates, and managers that cannot demonstrate their commitment to meeting these expectations will not be selected. We expect all incumbent managers to deliver on our expectations by the end of 2023" (p.8).

Climate Integration	A–

Accountable Paris-aligned membership

Nest is a member of the Paris Aligned Investment Initiative (PAII).

Transparency and disclosure of holdings

Nest's annual report includes its top 100 holdings. Its quarterly investment reports include a breakdown of asset classes, the top 10 holdings in each fund, asset allocation and overall exposure to underlying funds.

Transparency and disclosure of climate risk

Nest has tested its portfolio against a base case scenario, a "no transition" (4°C) and "disorderly transition" (less than 3°C) scenario, and an abrupt (1.5°-2°C), orderly (1.3°-2°C) and smooth (less than 1.5°C) transition outlook. Nest provides a three-page description and analysis of results in its *2022 TCFD Report* (p.15-17). Nest's scenario analysis went to the extent of showing to what degree a younger member of the fund would be exposed to climate-related risks, based on Nest's strategy for target-date funds (members have a different make-up of funds depending on how close or far they are to retirement). The analysis found the young member's "pension pot could be worth £11,000 to £12,000 less if the transition to a low-carbon economy is disorderly, or no transition is made. On the upside, in an orderly or smooth transition, the member could be £6,000 better off compared to the base case scenario" (p.17).

Nest reports scope 1 and 2 emissions with inclusion of scope 3 where possible.

Nest has a current climate strategy, first crafted in July 2020 and updated in December 2021 and December 2022.

Board climate expertise and/or fossil fuel entanglement

A Board competency framework is not published and no Directors are identified as having climate expertise. Nest's *2022 TCFD Report* states that in 2021 the Board undertook "training on the Trustee's new statutory duties in relation to climate-related risks and opportunities" (p.9).

One of 10 Directors, or 10% of the Board, has a fossil fuel entanglement: Clive Elphick is an independent director of National Grid Gas and of National Grid Electricity Transmission.[2]

Executive and staff compensation and climate

There is no indication that Nest ties compensation to the achievement of climate targets.

Fossil Fuel Exclusions	B

Nest states in its *Climate Change Risk Policy*, "There are some business activities that we do not believe can be aligned with the goals of the Paris Agreement" (p.7). Accordingly, Nest divested by the end of 2020 from all companies with more than 20% of revenues from thermal coal, oil sands and Arctic drilling, and continues to exclude all companies making new developments in those areas. The 20% revenue threshold will be lowered to 10% in 2023. By 2025, all companies with any involvement in those areas will be divested unless they have a commitment to fully phase-out those activities by 2030 (*Climate Change Risk Policy*, p.7).

ENDNOTES

1 Climate Action 100+. (2022). *Total Energies SE*. Retrieved November 10, 2022 from https://www.climateaction100.org/company/total/.

2 Nest. (2022). *Board Members | About Nest Corporation | Nest Pensions*. See: Clive Elphick. www.nestpensions.org.uk/schemeweb/nest/nestcorporation/who-runs-nest/trustee-members.html.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2021-2022 Annual Report (2022)
- Investing for a better future. Our responsible investment outcomes over 2020/21 (2021)
- Nest quarterly investment report. At end September 2022 (2022)
- Climate change progress for Nest's investments 2021/2022 (2022)
- Climate change progress for Nest's investments 2020/21 (2021)

Documents

- Climate Change Risk Policy (December 2022)
- Climate Change Risk Policy (December 2021)
- Nest's global voting guidelines (2022)
- Nest's voting and engagement standards - UK (2022)

Webpages and press releases

- How climate change could impact your pension (webpage) (accessed November 7, 2022)
- Working for Change together (webpage) (accessed November 7, 2022)
- Members' Panel | About Nest Corporation | Nest Pensions (webpage) (accessed November 7, 2022)
- Board Members | About Nest Corporation | Nest Pensions (webpage) (accessed November 7, 2022)
- Growing your money (webpage) (accessed November 7, 2022)
- How we're investing responsibly (webpage) (accessed November 7, 2022)

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by Canada's largest pension managers and four international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. The international funds examined are AP2 (Sweden), National Employment Savings Trust (Nest) (United Kingdom), NGS Super (Australia) and New York State Common Retirement Fund (NYSCRF) (United States). View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

NEW YORK STATE COMMON RETIREMENT FUND (NYSCRF)

NYSCRF is the pension fund for more than one million New York State and local government employees and retirees.

Assets Under Management (AUM): US$272.1 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
NYSCRF	B	B–	C	B	A	B–	C+

OVERALL CLIMATE SCORE — B

NYSCRF is committed to net-zero financed emissions by 2040. The fund is notable for the public approach it has taken to putting forward climate-related shareholder resolutions, evaluating fossil fuel investments for their transition readiness, and listing fossil fuel companies from which it is divesting for their lack of transition readiness.

NYSCRF has strong proxy voting guidelines and climate engagement but needs to strengthen its interim targets and internal climate risk metrics, including beginning to measure and report on scope 3 emissions.

SCORING DETAILS

Paris-Aligned Target — B–

NYSCRF is committed to net-zero financed emissions by 2040 and is a member of the Paris Aligned Investment Initiative (PAII). While NYSCRF's PAII commitment will require it to fill in some of the missing details, to date the pension manager's interim targets are incomplete, as is its plan to achieve net-zero while also reducing real world emissions. Additionally, the fund has not articulated what role, if any, carbon offsets might play in achieving its target.

Interim Targets — C

NYSCRF has committed to 50% alignment with a 1.5°C scenario by 2030. The metric for assessing alignment is the percentage of public equity and corporate bonds determined to be aligned with 1.5°C. The fund has also set a target to engage "50% of the Fund's publicly traded assets in high-impact sectors on net-zero by 2040" and has set a target for investment in climate solutions.[1] It is unclear how the fund is accounting for scope 3 emissions or why it is using only public equity and corporate bonds to determine its alignment with 1.5°C.

Climate Urgency	B

NYSCRF acknowledges the climate crisis is urgent, that it poses risks to its portfolio, that investors including NYSCRF have a role to play in addressing the climate crisis, and that how NYSCRF invests affects the climate crisis.

Sample language, from NYSCRF's *2022 Progress Report*, p.6:

"The Special Report on Global Warming of 1.5°C, issued in 2018 by the Intergovernmental Panel on Climate Change, found that if the world reaches net-zero emissions by 2040, the chance of limiting warming to 1.5 degrees by 2100 is considerably higher than if net zero is not achieved until 2050. As world governments begin taking serious action on climate change, it is becoming increasingly clear that net-zero alignment for the Fund is necessary to mitigate investment risk."

Climate Engagement	A

NYSCRF publicly calls on companies and shareholders to address climate change, signals its expectations to portfolio companies via its own net-zero emissions by 2040 target, has strong proxy voting guidelines, files climate-related shareholder resolutions, communicates key proxy votes loudly and publicly, and evaluates external managers on climate-related KPI's.

NYSCRF has undertaken a series of reviews of fossil fuel investments to determine "if they are prepared for the transition to a low-carbon economy"; as of August 2022 these reviews had resulted in NYSCRF publicly divesting from 55 shale oil and gas, oil sands and coal companies.[2]

Expectations for owned companies

In undertaking reviews of fossil fuel investments, NYSCRF established "Transition Assessment KPIs" against which the companies would be evaluated. For shale oil and gas, for example, KPIs included (*2022 Progress Report on Climate Action Plan*, p.11):

- "Strategies to transition business models towards a trajectory consistent with the goals of the Paris Agreement"
- "Capital spending supports transition strategies consistent with the goals of the Paris Agreement", and
- "Targets to reduce GHG emissions from the entire value chain (scope 1, 2, and 3) in line with the Paris goals."

NYSCRF's 2019 Climate Action Plan states that companies with poor climate transition performance would be placed on a watch list for engagement, with potential escalatory actions of underweighting, restricting new investments, or divestment.

Proxy voting

NYSCRF's *Proxy Voting Guidelines* spell out detailed expectations for board oversight of climate risks for companies operating in sectors categorized as high-impact by the Task Force on Climate-Related Financial Disclosures (TCFD), including naming specific committees and directors responsible for climate risks, detailing skills and expertise of director nominees, building board climate competence, and board engagement on climate issues. The fund withholds support from individual directors or the entire board if these issues are not managed (p.14).

The *Guidelines* list the factors NYSCRF will use to evaluate a company's climate performance. These include governance (including "directors' skills and expertise to manage climate risks"), public policy advocacy, linking of executive compensation to climate targets, Paris-aligned strategies (including capital expenditures), TCFD disclosure, and responsiveness to shareholder engagement (p.26). NYSCRF may withhold support from directors, committee members, the board chair, or the entire board for climate performance failures including a lack of climate competency on the board, support of public policies "that adversely affect the net-zero transition", failure to demonstrate Paris-aligned transition strategies, and "refus[ing] to engage constructively with shareholders on climate risks and opportunities" (p.27).

The *Guidelines* encourage specific, measurable, and comprehensively disclosed ESG metrics to be part of company compensation packages (p.20). NYSCRF also will support proposals for companies to issue "audited reports on the financial impacts of a significant reduction in fossil fuel demand scenario such as a net-zero emissions scenario and the underlying assumptions" (p.27).

In 2021, NYSCRF's *Proxy Voting Guidelines* led to the fund withholding support or voting against 404 directors at 88 companies (*2022 Progress Report on Climate Action Plan*, p.19). Since 2007, NYSCRF has filed over 160 climate-change-related shareholder proposals.[3]

Collaborative engagement

NYSCRF is a participant in Climate Action 100+ and leads engagement with American Electric Power (AEP). AEP is failing to meet or only partially meeting the vast majority of criteria in Climate Action 100+'s Net-Zero Company Benchmark, but as an electric utility has a credible pathway to decarbonization.[4]

NYSCRF files climate-related shareholder resolutions and publicizes them,[5] and in at least one case publicly urged other shareholders to back climate resolutions.[6]

Direction given to external managers

NYSCRF evaluates existing and prospective external managers using an ESG scorecard. The scorecard contains climate-related KPIs in the categories of governance, assessment, active ownership and stewardship, and TCFD reporting (*2022 Progress Report on Climate Action Plan*, p.7-8). While the fund provided some details of climate topics on which it engaged with external managers in 2021 (p.20), it is unclear what direction NYSCRF is giving its external managers regarding the handling of climate-related risk.

Climate Integration	B–

Accountable Paris-aligned membership

NYSCRF is a member of the Paris Aligned Investment Initiative (PAII).

Transparency and disclosure of holdings

NYSCRF provides detailed disclosure of its investments and valuations. A comprehensive asset listing is published annually. Financial updates are provided quarterly. Changes to external managers are provided monthly.

Transparency and disclosure of climate risk

NYSCRF provides good disclosure of its high-carbon exposure through the lists of fossil fuel companies it is reviewing for transition readiness, and lists of companies from which it is divesting.

The fund's discussion of scenario analysis is limited.

The fund has reported scope 1 and 2 emissions for 70% of the portfolio. Scope 3 emissions have not been reported.

The fund has a current climate action plan and provides an annual climate progress report.

Board climate expertise and/or fossil fuel entanglement

The State Comptroller and the members of the *Climate Action Plan* implementation team are not identified as having climate expertise.

The State Comptroller is the sole trustee of the fund, which also has five advisory committees and a decarbonization panel. Based on a review of public biographies, none of these members appear to have fossil fuel entanglements.

Executive and staff compensation and climate

There is no indication that NYSCRF ties executive or staff compensation to climate targets.

Fossil Fuel Exclusions	C+

NYSCRF has restricted investments in specific companies in fossil fuel sectors after undertaking reviews of their transition readiness. As of August 2022, these reviews have resulted in NYSCRF divesting from 55 shale oil and gas, oil sands and coal companies, and undertaking a review of 28 integrated oil and gas companies.[7]

NYSCRF states that "Divestment is utilized only when consistent with our fiduciary duty and where the specific risk posed by a company's failure to develop any meaningful climate transition plan is extreme" (*2022 Progress Report on Climate Action Plan*, p.9).

ENDNOTES

1 Office of the New York State Comptroller. (2021, December 9). *NYS Pension Fund Commits $2 Billion to Climate Transition Index.* [Press release]. www.osc.state.ny.us/press/releases/2021/12/nys-pension-fund-commits-2-billion-climate-transition-index.

2 Office of the New York State Comptroller. (2022, August 12). *NYS Pension Fund Launches Review of Integrated Oil & Gas Companies.* [Press release]. www.osc.state.ny.us/press/releases/2022/08/nys-pension-fund-launches-review-integrated-oil-gas-companies.

3 Office of the New York State Comptroller. (2022, April 20). *DiNapoli: State Pension Fund Calls on Corporations to Address Environmental and Climate Risks*. [Press release]. www.osc.state.ny.us/press/releases/2022/04/dinapoli-state-pension-fund-calls-corporations-address-environmental-and-climate-risks.

4 Climate Action 100+. (2022). A*merican Electric Power Company Inc.* Webpage. Retrieved November 14, 2022 from www.climateaction100.org/company/american-electric-power-company-inc/.

5 Office of the New York State Comptroller. (2022, April 20). *DiNapoli: State Pension Fund Calls on Corporations to Address Environmental and Climate Risks.* [Press release]. www.osc.state.ny.us/press/releases/2022/04/dinapoli-state-pension-fund-calls-corporations-address-environmental-and-climate-risks.

6 Hodgson, C. (2022, April 12). *New York State pension fund urges bank shareholders to back climate resolutions*. Financial Times. www.ft.com/content/acb01465-4305-4bea-b5a2-499f93707267.

7 Office of the New York State Comptroller. (2022, August 12). *NYS Pension Fund Launches Review of Integrated Oil & Gas Companies*. [Press release]. www.osc.state.ny.us/press/releases/2022/08/nys-pension-fund-launches-review-integrated-oil-gas-companies.

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- Progress Report on the New York State Common Retirement Fund's Climate Action Plan (April 2021)

Documents

- New York State Common Retirement Fund Proxy Voting Guidelines (2022)
- New York State Common Retirement Fund Asset Listing as of March 31, 2021

Webpages and press releases

- Press release - DiNapoli: State Pension Fund Posts 9.5% Annual Investment Return (August 1, 2022)
- Press release - NYS Pension Fund Launches Review of Integrated Oil & Gas Companies (August 12, 2022)
- Press release - DiNapoli: State Pension Fund Calls on Corporations to Address Environmental and Climate Risks (April 20, 2022)
- Press release - NYS Pension Fund Commits $2 Billion to Climate Transition Index (December 9, 2021)

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NGS SUPER

NGS Super is an industry superannuation fund in Australia primarily for those in the community and education sectors, but open to any Australian. It has over 100,000 members.

Assets Under Management (AUM): AU$13.1 billion (June 30, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
NGS Super	B	B–	C	A	B+	B–	B

OVERALL CLIMATE SCORE	B

NGS Super has committed to carbon neutrality by 2030. The fund needs to strengthen its short-term targets and engagement but has already excluded investment in oil and gas exploration and production and has a weak coal exclusion policy. The fund's climate integration could be improved by requiring climate expertise on its Board and linking staff compensation to climate targets. The fund's discussion of how it is approaching its carbon-neutral target, its scenario analysis and its disclosure of investments are excellent.

SCORING DETAILS

Paris-Aligned Target	B–

While NGS Super has set an ambitious target to be carbon-neutral by 2030, it has not spelled out the details for how it will get there. The fund has chosen "carbon neutral" rather than "net zero emissions", with the explanation that "carbon neutral is defined in terms of carbon dioxide (CO_2). CO_2 is by far the largest contributor to greenhouse gases — in 2018 approximately 81% of the total greenhouse gases emitted were carbon dioxide, hence a 'carbon neutral' goal as opposed to a 'net zero emissions' goal."[1]

NGS Super plans that by 2030 it will hold carbon-neutral investments, carbon-positive investments, and investments with "low or justifiable scope 1 and 2 emissions", with these emissions offset by the fund's carbon-positive investments. Investments in climate solutions should not be used to offset emissions-intensive holdings, which helps to explain NGS' mediocre score in this category. The fund notes that use of purchased carbon offsets "would not be in members' best financial interests, as the cost of those offsets would be deducted from investment returns," but has not ruled out their use (*Carbon neutral by 2030: Member update*).

Interim Targets	C

According to its *2022 TCFD Report*, NGS Super has set a target to reduce its scope 1 and 2 emissions intensity by 35% by 2025, using a 2021 baseline (p.34). By 2025, the fund will have divested of "scope 3 stranded assets" (p.5).

The fund does not have a target for investments in climate solutions or for the proportion of AUM covered by a credible net-zero transition plan.

Climate Urgency	A

NGS Super acknowledges the urgency of the climate crisis, the risks the climate crisis poses to its portfolio and to the financial system as a whole, and its responsibility to use its financial power to influence the trajectory of the climate crisis.

Sample language from NGS Super's *Responsible Investment Policy* (p.5):

"We have entered a decisive decade for humanity, with the warnings about the impact of inaction on climate being evidenced around the world. Economic systems will face major disruption and therefore we need to make a paradigm shift in our economic models to protect our members' retirement savings. The Fund has taken a bold step and in 2021, announced our ambitious target to transition the portfolio to carbon neutral by 2030. The Fund believes that drastic action is required to contribute to change. By using the collective capital of committed NGS members, the Fund will support companies building sustainable, lower carbon businesses, while aiming to improve on current average long-term investment returns for members."

Climate Engagement	B+

NGS Super determines that it will engage with a company if it has "a sound and realistic business plan to transition to the low-carbon economy within a timeframe deemed acceptable to the fund" (*Carbon neutral by 2030: Member update*).

NGS Super states on its website (*NGS Super divests from Woodside, Santos and more*) that it will engage with companies with high scope 1, 2 and 3 emissions to:

- "set science-based targets and commit to meaningful scope 1, 2 and 3 emission reductions
- assess and challenge the plans they have in place to meet the science-based targets
- ensure they have contemplated appropriate adjustments to their business model as we head towards the low-carbon economy."

NGS Super places a limit on its engagement: "Engagement will be key to our transition plan, but where it is clear that a company or asset doesn't have a sound strategy or business plan to transition to the low carbon economy, we will plan to divest these assets over time" (*2030 target: a carbon neutral investment portfolio* [webpage]).

Proxy voting

NGS Super discloses all of its proxy voting decisions in real time and has supported 70% of climate-related shareholder resolutions from 2017 to 2020, according to research from Australian sustainable finance NGO *Market Forces*.[2] The Fund's *Active Ownership and Engagement Policy* states that it delegates its proxy voting to

Glass Lewis and asks the advisory firm to add an "ESG Overlay" to the Glass Lewis guidelines. This ESG overlay does not appear to include specific reference to climate. NGS Super's *2022 TCFD Report* does say, however, that the fund will vote in support of sustainability reporting and disclosure, developing greenhouse gas reduction goals, and policies for guidelines that mitigate climate risks (p.30).

Collaborative engagement

NGS Super is an investor supporter of Climate Action 100+, meaning it is a signatory to the initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.

While NGS Super states it participates in collaborative engagements, examples were not provided in the *2020/2021 Annual Report*. According to the September 2022 *Active Ownership and Engagement Policy*, NGS Super will provide members with a summary of engagement activities annually (p.4).

Direction given to external managers

External managers must comply with the Fund's exclusion list (*Active Ownership and Engagement Policy*, p.3) and are "required" to "demonstrate alignment with [NGS Super's] ESG position" (*2022 TCFD Report*, p.8). NGS Super examines carbon intensity per investment manager (p.8). No details are provided as to the specific direction given on climate-related risk.

Additional information

According to the September 2022 *Active Ownership and Engagement Policy*, the Fund "endeavours to investigate and respond" when members provide feedback about ESG issues or proxy voting (p.4).

Climate Integration	B–

Accountable Paris-aligned membership

NYSCRF is a member of the Paris Aligned Investment Initiative (PAII).

Transparency and disclosure of holdings

NGS Super provides twice a year a full list of asset classes and investments in searchable tables and downloadable csv format.

Transparency and disclosure of climate risk

NGS Super has plain language and detailed communication for its members regarding how the fund is conceptualizing and managing climate-related risks. See for example its *Statement on Climate Change* and website posts *2030 super target: a carbon neutral investment portfolio*, *Carbon neutral by 2030: Member update*, and *NGS Super divests from Woodside, Santos and more*.

The fund's discussion of climate scenario analysis in its *2022 TCFD Report* is the most detailed of all TCFD reports examined in this analysis, including 12 pages of discussion and a further five-page Appendix. NGS Super considered its listed assets under six scenarios and its unlisted assets under three scenarios, with a discussion of how each scenario affects different asset classes. It notes transition risks particularly for investments in airports, marine logistics and fossil fuels, with "transition profitability" for renewables. Physical risks assessed by NGS Super include the impacts of water stress, riverine flooding, extreme precipitation, extreme heat, and the amount of energy needed to keep buildings at a livable temperature.

Board climate expertise and/or fossil fuel entanglement

No Board members are identified as having climate expertise.

No Board members appear to currently hold directorships at fossil fuel companies.

Executive and staff compensation and climate

There is no indication that NGS Super ties compensation to climate targets, although NGS Super's *Active Ownership and Engagement Policy* states that each member of the internal investments team has responsible investment/ESG key performance indicator(s) (p.2).

Fossil Fuel Exclusions	B

NGS Super excludes companies that generate more than 30% of their revenue from the distribution, power generation or extraction of thermal coal (*Responsible Investment Policy*, p.4). The 30% threshold is too high, and this exclusion should be strengthened.

NGS Super excludes companies engaged in oil and gas production and exploration, with some caveats: the exclusion applies to listed investments, as defined by the GICS Energy sub-industry, but for unlisted investments, NGS Super makes an internal assessment (*Responsible Investment Policy*, p.4).

NGS Super may apply exemptions to exclusions (p.4). For example, as of August 2022 thermal coal company AGL Energy was exempted from NGS' exclusion policy in order to provide AGL an opportunity to reset its leadership and climate strategy after a failed demerger.[3]

ENDNOTES

1 NGS Super. (2022, August 4). *Super Fund Divests From Major Fossil Fuel Companies On Path To Carbon Neutral*. [Press release]. P.2. www.ngssuper.com.au/files/forms/download/divestment-media-release.pdf.

2 Market Forces. (2022). *NGS Diversified MySuper - Market Forces*. Webpage. Retrieved November 11, 2022 from www.marketforces.org.au/superfunds/ngs-diversified-mysuper/?superfund=NGS%20Super.

3 NGS Super. (2022, August 5). *NGS Super divests from Woodside, Santos and more*. Blog post. www.ngssuper.com.au/articles/sustainability/ngs-divests-major-fossil-fuel-companies. See also NGS Super. (2022, July 8). *AGL's failed demerger plan and what it means*. Blog post. www.ngssuper.com.au/articles/sustainability/agl-demerger-plan.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2020-2021 Annual Report
- 2022 Task Force on Climate-related Financial Disclosures Report

Documents

- Statement on Climate Change (June 2022)
- Active Ownership and Engagement Policy (September 2022)
- Responsible Investment Policy (September 2022)
- Trustee Board (July 1, 2022)

Webpages and press releases

- Diversified - MySuper - Investment Options (website list of holdings)
- NGS Super divests from Woodside, Santos and more (website post August 5, 2022)
- Press release: Super Fund Divests From Major Fossil Fuel Companies On Path To Carbon Neutral (August 4, 2022)
- AGL's failed demerger plan and what it means (website post July 8, 2022)
- Carbon neutral by 2030: Member update (website post May 2, 2022)
- 2030 target: a carbon neutral investment portfolio (website post March 16, 2021)