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.

ENDNOTES

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

Reports

- 2021-2022 Corporate Annual Report (2022)
- 2021 ESG Annual Report (2022)
- 2021 ESG Annual Report. Supplementary Case Studies (2022)
- 2020 ESG Annual Report (2021)

Documents

- 2022 Climate Action Plan (November 2022)
- Forward Together. F2023-2025 Three-year Business Plan (2022)
- BCI's Climate Action Plan and Approach to the TCFD Recommendations (2018)
- Proxy Voting Guidelines. Tenth Edition (2021)
- ESG Governance Policy (2020)
- ESG Engagement in Public Markets. Our Priorities, Objectives & Processes (2019)
- ESG Strategy (2020)
- Investment Inventory (to March 31, 2022)
- Investment Inventory (to March 31, 2021)

Webpages and press releases

- BCI Managing Risk - Culture & Framework (webpage) (accessed July 2022)
- BCI Climate Action Plan & Approach to TCFD Recommendations (webpage) (accessed July 2022)
- Board Members (webpage) (accessed July 2022)
- Proxy Voting (webpage) (accessed July 2022)
- Policy Advocacy (webpage) (accessed July 2022)
- 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)