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).

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. Downloaded from www.shiftaction.ca/climateconflicted.

2 Moore, D. (2022, July 7). *Sustainable pay incentives are a growing trend in corporate Canada*. The Globe and Mail. www.theglobeandmail.com/business/article-sustainable-pay-incentives-are-a-growing-trend-in-corporate-canada/.

3 Reclaim Finance. (2022). *Coal Policy Tool*. See: CDPQ. Retrieved November 2, 2022 from coalpolicytool.org/.

4 Greenpeace, International Institute for Sustainable Development, and Oil Change International. (February 2022). *Zeroing In: A guide for the finance sector on the IEA's Net Zero Emissions scenario and its implications for oil and gas finance*. P. 8. https://www.greenpeace.org.uk/wp-content/uploads/2022/02/zeroing_in_investor_briefing.pdf.

5 Caisse de dépôt et placement du Québec. (2022). *CDPQ increases its stake in Énergir, making the company entirely Québec-owned*. www.cdpq.com/en/news/pressreleases/cdpq-increases-its-stake-energir-making-company-entirely-quebec-owned.

6 Caisse de dépôt et placement du Québec. (2015, May 1). *La Caisse enters partnership to acquire Southern Star Central Corp*. www.cdpq.com/en/news/pressreleases/la-caisse-enters-partnership-to-acquire-southern-star-central-corp.

7 Caisse de dépôt et placement du Québec. (2020, July 21). *ENGIE and CDPQ to acquire remaining 10% of TAG in Brazil*. [Press release]. www.cdpq.com/en/news/pressreleases/engie-cdpq-acquire-remaining-10-tag-brazil.

8 Sovereign Wealth Fund Institute. (2021, May 12.) *Koch Family and Some Foreign Pensions Control Colonial Pipeline*. www.swfinstitute.org/news/86302/koch-family-and-some-foreign-pensions-control-colonial-pipeline.

9 Caisse de dépôt et placement du Québec. (2022). *Investing in a sustainable future. 2021 Annual Report.* P.72. https://www.cdpq.com/sites/default/files/medias/pdf/en/ra/2021_annual_report.pdf.

10 Caisse de dépôt et placement du Québec. (2022). *Investing in a sustainable future. 2021 Annual Report.* P.188. https://www.cdpq.com/sites/default/files/medias/pdf/en/ra/2021_annual_report.pdf.
See also: Caisse de dépôt et placement du Québec. (2015, May 1). *La Caisse enters partnership to acquire Southern Star Central Corp*. [Press release]. https://www.cdpq.com/en/news/pressreleases/la-caisse-enters-partnership-to-acquire-southern-star-central-corp.

REFERENCES

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

Reports

- 2021 Annual Report (2022)
- 2021 Annual Report Additional Information (2022)
- 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)