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]

ENDNOTES

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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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- 2021 Report on Sustainable Investing (2021)
- 2020 Report on Sustainable Investing (2020)
- Annual Report 2022 (May 2022, for fiscal year ended March 31, 2022)
- Reporting in accordance with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) for Fiscal Year 2022 (May 2022)

Documents

- Proxy Voting Principles and Guidelines (February 2021)
- Policy on Sustainable Investing (November 2021)
- Thinking ahead. Investing in the path to net-zero (February 2022)
- Message from our Inaugural Chief Sustainability Officer (November 2021)
- Green Bond Framework (June 2022)
- Cicero: CPP Investments Green Bond Second Opinion (June 2022)
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- Investing in the Potential of Carbon Credits (March 2022)
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Webpages and press releases

- Investing in the path to net-zero (webpage) (accessed September 2022)
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- Board of Directors (webpage) (accessed September 2022)
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