

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 shifaction.ca/reportcard2022.



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+



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



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



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 Compañía Logística 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.

REFERENCES

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)